

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the matter of the investigation for the)
purpose of determining the classification)
of the services provided by interexchange)
telecommunication companies within the)
State of Missouri.)

CASE NO. TO-88-142

REPORT AND ORDER

Date Issued: September 15, 1989

Date Effective: October 16, 1989

INDEX

	<u>Page No.</u>
Appearances.....	ii
Procedural Aspects.....	1
FINDINGS OF FACT.....	3
I. Introduction.....	3
II. Classification Factors.....	4
A. Availability of Equal Access.....	6
B. Market Share, Name Recognition and Financial Strength of IXC's.....	9
C. Conditions of Entry, Pricing Policies, and Availability of Competitive Alternatives.....	10
III. Interexchange Service and Company Classification	13
IV. Statute/Rule Modification or Waiver.....	16
V. Rate Regulation of AT&T.....	18
CONCLUSIONS OF LAW.....	19
ORDERED SECTIONS.....	20
Appendices A, B and C.....	Attachments

APPEARANCES: W. R. England, III, Attorney at Law, and Paul A. Boudreau, Attorney at Law, Hawkins, Brydon, Swearingen & England, P.C., P. O. Box 456, Jefferson City, Missouri 65102, for Contel of Missouri, Inc., Contel System of Missouri, Inc., Eastern Missouri Telephone Company, Fidelity Telephone Company and Missouri Telephone Company.

Richard S. Brownlee, III, Attorney at Law, and Donald C. Otto, Jr., Attorney at Law, Hendren and Andrae, P. O. Box 1069, Jefferson City, Missouri 65102, for Allnet Communication Services, Inc., American Communications, Inc., Columbia-Tel, Inc., Com-Link 21 Inc., The CommuniGroup of K.C., Comptel, Compute-A-Call, Inc., Eddie D. Robertson, d/b/a Contact America, Dial USA, directline Austin, Inc., Econo-Call, Inc., Hedges Communications Co. and Dial US, Inter-Comm Telephone, Inc., International Telecharge, Inc., LDD, Inc., LTS, Inc., MidAmerican Long Distance Company, Midwest Fibernet, Inc., Satelco, Inc., Tel-Central of Jefferson City, Teleconnect Company, Transcall America, Inc., US Transmission Systems, Valu-Line of St. Joseph, Inc., The Western Union Telegraph Company and Wiltel Network, Inc.

C. K. Casteel, Jr., Senior Attorney, Edward J. Cadieux, Regulatory Attorney, 100 South Fourth Street, Suite 1200, St. Louis, Missouri 63102, Leland B. Curtis, Attorney at Law, Carl J. Lumley, Attorney at Law, Curtis, Bamburg, Oetting, Brackman & Crossen, P.C., 130 South Bemiston, Suite 200, St. Louis, Missouri 63105, for MCI Telecommunications Corporation.

William H. Keating, Associate General Counsel, 19845 North U.S. 31, P. O. Box 407, Westfield, Indiana 46074 and Carol L. Bjelland, Attorney at Law, 428 East Capitol, Jefferson City, Missouri 65101, for GTE North Incorporated.

David K. Knowles, General Attorney, 5454 West 110th Street, Overland Park, Kansas 66211, for United Telephone Company of Missouri.

Mark P. Royer, Attorney at Law, 1100 Walnut Street, Room 2432, Kansas City, Missouri 64106, and Paul S. DeFord, Attorney at Law, Lathrop, Koontz, Righter, Clagett & Norquist, 2345 Grand Avenue, 2600 Mutual Benefit Life Building, Kansas City, Missouri 64108, for AT&T Communications of the Southwest, Inc.

Donald Low, Attorney at Law, 8140 Ward Parkway, 5th Floor, Kansas City, Missouri 64114, for US Sprint.

Theodore Whitehouse, Attorney at Law, Three Lafayette Centre, 1155 21st Street, N.W., Washington, D.C. 20036, for Cable & Wireless.

Mark Johnson, Attorney at Law, 1400 Commerce Bank Building, 1000 Walnut Street, Kansas City, Missouri 64106, for KC Cable Partners.

Joni K. Pitt, Assistant Public Counsel, P. O. Box 7800, Jefferson City, Missouri 65102, for the Office of the Public Counsel and the Public.

Linda K. Ohlemeyer, Deputy General Counsel, P. O. Box 360, Jefferson City, Missouri 65102, for the Staff of the Missouri Public Service Commission.

HEARING

EXAMINERS: Michael F. Pfaff

REPORT AND ORDER

PROCEDURAL ASPECTS

This case began as a series of individual applications by providers of interexchange services under HB 360. These providers seek both service and company classification under Section 392.361, RSMo Supp. 1988.

On November 18, 1987, Staff moved to consolidate both pending and future classification applications (except AT&T), into one docket, Case No. TO-88-142. For AT&T Staff proposed a separate classification docket, TO-88-143. On November 24, 1987, the Commission suspended pending and future actions on individual classification cases, but did not rule on the proposed severance of AT&T. On January 15, 1988, following many applications to intervene, and comments and responses to Staff's motion, the Commission consolidated TO-88-142 (IXCs other than AT&T) and TO-88-143 (AT&T). The same order set a prehearing conference for January 25 and 26, 1988, at which time the parties were unable to agree on a hearing or issue schedule. On February 2, 1988, Staff proposed a two-phase schedule: Phase I to address IXC classification other than AT&T and Phase II to examine AT&T.

On February 24, 1988, the Commission partially adopted Staff's proposal, ordering that Phase I hearings initially focus on the competitive status of services most common to all IXCs, beginning with MTS service. On March 15, 1988, following a motion by Staff, the Commission extended the procedural schedule, preserving the two-phase format. Shortly thereafter, the Commission broadened the scope of Phase I

to include WATS and private line services, but specifically excluded principles of ratemaking or rate banding.

Following a series of motions for more time, and AT&T's motion for a Phase II schedule, the Commission's order of April 8, 1988, again broadened the scope of the hearings by merging Phase II into Phase I, and by granting Staff's request to include therein all IXC services. By the same order, the hearing was rescheduled to begin on August 15, 1988.

A protracted discovery process began in April, marked by many objections, waivers of same, suggestions in support of and opposition to, and further requests for more time to both conduct discovery and to file direct testimony. By the end of June, with most direct testimony on file, some parties sought, and were granted, protective orders. Others sought leave to late file testimony, and on July 19, 1988, the Commission again extended the schedule for filing rebuttal and surrebuttal, moving the hearing back to September 26-30, 1988.

By August 12, 1988, rebuttal testimony, much of it designated proprietary, was on file. Surrebuttal was filed by September 6, 1988. Following motions to both reschedule and expand the hearing to include principles of ratemaking, the Commission reset the case to November 28, 1988, but denied the motion to include ratemaking.

On November 16, 1988, after considering additional motions to both reschedule and enlarge the scope to include ratemaking, the Commission reset the hearing to February 14, 1989. The order also expanded the case to include: "...the issues of rate base regulation, alternatives to rate base regulation and the principles and methods to be employed when fixing maximum and minimum rates in the presence of competition." To accommodate the enlarged scope, the Commission extended the dates for filing the additional required testimony.

On January 27, 1989, after the filing of direct testimony, AT&T, Public Counsel and the Commission Staff submitted a Joint Recommendation purporting to settle all outstanding issues. Responses to the Joint Recommendation by nonsignatory

parties were then filed, rebuttal testimony submitted, requests for more extensions and objections thereto were made, were overruled, and, on February 24, 1989, this case came to hearing. After 50 exhibits were marked and received, the parties waived cross-examination and agreed to a briefing schedule. Simultaneous initial briefs were filed by March 31, 1989; reply briefs by April 28, 1989. This matter is, therefore, duly before the Commission.

Findings of Fact

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

I. Introduction

This matter is before the Commission as a result of the divestiture of AT&T. Once the sole provider of Missouri's interexchange telecommunication services, AT&T is now subject to a form of competition from a number of other carriers, most of which are participants in this docket. In 1987, to facilitate an orderly change in telecommunications in Missouri, and to provide for competition in what had been a monopoly, the legislature enacted a series of revisions to Chapter 392, RSMo known collectively as H.B. 360. Section 392.361(2), RSMo Supp. 1988¹ authorizes the Commission "to determine whether a telecommunications company or service may be subject to sufficient competition to justify a lesser degree of regulation." 392.361(2) also authorizes the Commission to consider "all relevant factors" in determining whether sufficient competition exists; it also requires findings of fact which identify the factors selected.

On February 14, 1989, the parties met in prehearing and subsequently signed a Hearing Memorandum containing a statement of issues and stipulations. The

¹All citations hereafter are to RSMo Supp., 1988.

Commission adopts this statement in part as a fair presentation of both the issues and the order in which they will be decided.

The Commission has also considered, and will accept, the Joint Recommendation between AT&T, Public Counsel and Staff. Inasmuch as the Joint Recommendation binds only three of the many parties in this docket, the classification recommendations made therein, and the Commission's findings in support thereof, must enjoy evidentiary support. As demonstrated infra, the Commission finds that the Joint Recommendation is supported by the record and hereby attaches same, in its entirety, as Appendix C, making it a part hereof by reference.

The Hearing Memorandum, signed by all active parties and marked Exhibit 1, poses the question: "Applying the relevant factors to the services of each IXC, how should each service be classified?" The signatories agreed that: "...all services currently offered under tariff in Missouri by IXCs which are parties to this case, other than AT&T, should be classified as competitive interexchange telecommunications services." Public Counsel's agreement is subject to a caveat: that the Commission accept the joint recommendation in its entirety.

Even if unanimous, neither the Hearing Memorandum nor the Joint Recommendation relieve the Commission of the requirements found in 392.361. In order to find "sufficient" competition to justify a "lesser degree of regulation," the Commission is to consider, and then identify in findings, "all relevant factors" upon which the Commission relies in determining Company and service classification.

II. Classification Factors

The parties agreed that the following are "relevant factors" for consideration in assessing the competitive aspects of both IXC services and carriers.

- a. Availability of Competitive Alternatives;
- b. Availability of Equal Access;
- c. Market Share;

- d. Name Recognition;
- e. Financial Strength of IXCs;
- f. Additional Benefits/New Services for End Users;
- g. Ratemaking/Pricing Policies; and
- h. Condition of entry for firms outside the industry and expansion and exit of existing firms in the interLATA market.

The Commission finds a lack of probative evidence on factor f. (additional benefits/new services), and portions of h. (expansion and exits of existing firms). As a result, the Commission will not adopt the proposed factors in their entirety. In addition, owing to either a paucity or similarity of evidence, the factors remaining will be grouped as follows:

- A. Availability of equal access.
- B. Market share, name recognition, and financial strength of IXCs.
- C. Conditions of entry, pricing policies and availability of competitive alternatives.

At the time this case was submitted, twenty-eight (28) alternative (non-AT&T) interexchange companies offered an array of telecommunication services to Missouri customers. These carriers and their services are displayed on pages 2-5 of Appendix C, attached hereto and made a part of these findings by reference. Page one of Appendix C lists AT&T's interexchange services. Collectively, all such services can be grouped into the following classes:

1. Message Toll Service (MTS):

Traditionally regarded as simply long distance service, whether residential or business, MTS uses access switched through the local exchange company, at both the originating and terminating end of the call. MTS comprises the bulk of all IXC offerings in Missouri.

2. Outbound and Inbound WATS:

Regarded as a business, or high volume, long distance service, WATS differs from MTS in that switched access is used on either the incoming call (in WATS) or the outgoing (outWATS). Access on

the closed end is primarily by a special access, or dedicated, line.

3. Private Line; Custom Network Services:

Private line services are for high volume users; they are not "switched" through the local exchange carriers. They use special dedicated access on both ends. Custom Network Services, such as AT&T's Software Defined Network (SDN), MCI's VNet, and U.S. Sprint's Virtual Private Network, are primarily specialty business services combining voice, data, and other computer assisted services.

4. Ancillary or complementary MTS services:

Directory assistance, operator and calling card services.

The Commission finds there is a single statewide market for interLATA MTS, WATS, private line and complementary MTS services. Although subject to separate tariffs, these interexchange services are largely inter-changeable, differing primarily in user volumes and price. AT&T offers these services in greater variety than alternative carriers. The 28 companies shown on Appendix C offer some or all of the services shown but no carrier offers the same services as AT&T. Thus, 26 offer MTS; 21 offer outWATS; 16 provide inWATS; 10 have private line service and 18 offer operator or directory assistance.

Given the homogeneous aspect of these interexchange services, the Commission finds that separately classifying every service offered by every participating carrier is unnecessary and duplicative. Also, the evidence in this case, particularly evidence addressing circuit capacity, equal access, equal access balloting and market and revenue share has application to all interLATA interexchange services.

A. Availability of Equal Access

From the time HB 360 was signed into law, Missouri long distance customers have experienced a steady increase in equal interLATA access (1+ dialing) to non-AT&T carriers. Statewide, equal access obtains in 72 percent of all subscriber lines. As

of March, 1988, the combined equal access conversions in subscriber lines in four of Missouri's local exchange companies (LECs) were as follows:² (a) 78 percent converted to equal access in Kansas City; (b) 50 percent converted to equal access in Springfield; (c) 79 percent converted in St. Louis; and (d) 48 percent converted in Westphalia.

Alternative carriers have taken advantage of equal access, particularly in areas of high population. In March, 1988, as many as 10 such carriers originated traffic in 46 of SWB's equal access offices. These are large offices, near metropolitan centers; but in the same period up to five alternative carriers provided service through SWB's rural offices in Richmond, Chillicothe, Eldon, Nevada, Kennett and St. Clair. Alternative carrier entry to equal access offices of United and GTE as of April 1, 1988, indicates that entry is not confined to large central offices.

In every equal access end office served by these LECs, at least four alternative carriers purchase switched access. In some instances as many as nine alternative carriers purchased switched access. This is true even for end offices serving as few as 284 subscriber lines.³

While areas of nonequal access are served primarily by AT&T, significant intrusions have been made by other IXCs. Of 290 nonequal access offices of Contel, United and GTE, 29 of the larger offices are served by alternative IXCs. Although the absence of equal access statewide for MTS service is a significant impediment to both market entry and fully competitive status with AT&T, the Commission finds that it is neither an insurmountable barrier to entry nor a substantial bar to competition.

²Same as Footnote 3.

³In conformity with prior Commission actions, the Commission will abide by "confidential" designations unless, as here and following, such information is necessary to make findings of fact.

Volume or business type services, (WATS, private lines and custom network) have enjoyed statewide equal access since 1984; In-WATS service has experienced statewide equal access since October, 1987. As a result, these services may be offered statewide by any of the carriers offering same. In this respect, the Commission finds an essential difference between ordinary MTS service, where 28 percent of Missouri subscribers have no equal access, and WATS, private lines and custom network services, where statewide equal access prevails.

B. Market Share, Name Recognition, and Financial Strength of IXCs.

The Commission finds that AT&T enjoys the highest degree of name recognition of any IXC provider. Given AT&T's long status as a monopoly provider of an essential service, and its post divestiture image enhancing activities, this is not an unexpected result. The Commission cannot, however, conclude that name recognition alone accounts for AT&T's share of the interexchange market. AT&T's billed revenue share of the Missouri intrastate market, combining both business and residential, is 75.2 percent. AT&T's combined inter and intrastate share is 71 percent. The Commission finds that even taking into account AT&T's 100 percent predivestiture market share, AT&T retains a large portion of the present market.

Another index to market share is interLATA minutes of usage. Although evidence on this point was contradictory, (AT&T showing a 70.9 percent of use in the second quarter of 1987), other evidence indicates 1987 interLATA usage as follows:

AT&T	77.8%
MCI	10.5%
U.S. Sprint	6.5%
Others	5.8%

Another comparison of AT&T and its smaller rivals, as measured by share of access circuit capacity in Missouri's four LATAs, reveals that AT&T has more than 75 percent of the available access capacity in all four Missouri LATAs combined. Its closest rival has 11 percent, the next closest has 3.5 percent. Twenty-one other

interexchange carriers have from 2 percent to less than .1/10 of 1 percent of said capacity.⁴

AT&T's market share, and whatever market power can be attributed to it, may continue to erode as rivals and equal access proliferate. However, the following results in equal access balloting, whereby IXC customers choose their 1+ carrier, show that AT&T is by far the carrier of choice.

In Southwestern Bell Telephone Company's equal access balloting, AT&T was selected by nearly 3/4 of those casting votes. Its two nearest rivals received 10.5 percent and 7.5 percent, respectively. Other IXCs got from 3.0 percent to a fractional vote share. In GTE balloting, AT&T received eight votes in 10. Two of its closest rivals got 10 percent and 5.5 percent of the vote. Voting in equal access exchanges in United Telephone Company's offices resulted in AT&T receiving an even larger share of the vote, with its next closest rival getting 6 percent.⁵

The Commission finds in these results an indication that AT&T's market share and concomitant influence, although subject to competitive pressures, may persist for a long time.

Regarding the relative financial strength of the IXCs, AT&T enjoys a clear advantage. MCI, a large rival with 20 years of telecommunications experience, has company-wide annual revenues seven times smaller than AT&T's telephone revenues. AT&T has nearly 70 percent of the intrastate MTS interLATA revenue among the top 12 IXCs. MCI has 14 percent, and U.S. Sprint 10 percent. AT&T's revenues are two and one-half times greater than the combined revenues of 11 of its closest competitors.⁶

⁴See Footnote 3.

⁵See Footnote 3.

⁶See Footnote 3.

C. Conditions of Entry, Pricing Policies and Availability of Competitive Alternatives

As remarked above, there are 28 alternative IXCs providing interexchange service in this state. The majority of these lease switching and transmission facilities and, in effect, sell services to subscribers which may otherwise have been obtained from or through other providers. Known as "resellers", these carriers have entered portions of the Missouri market with relatively low capital investment. The remainder of the carriers are "facilities based", those who, like MCI and U.S. Sprint, have substantial capital investment and debt/equity structures to support same. Without more, the proliferation of alternative carriers, whether resellers or facilities based, indicates that under the present regulatory framework conditions of entry into significant portions of the Missouri interexchange market are not onerous.

This is not to say that entry barriers to all segments of the market do not exist. A significant barrier still remaining, discussed above, is the lack of statewide MTS equal access. Another barrier to alternative IXC entry, although obviously surmountable, is the financial strength, market share, name recognition, and equal access balloting successes of AT&T.

Evidence of AT&T's loss of up to 30 percent of its WATS business, and significant losses in daytime MTS and private lines, demonstrate competitive market entry in these service categories. Data showing the use of switched and special access associated with WATS and private lines indicates: (a) that AT&T has three times more switched access than the alternative IXCs, and (b) AT&T enjoys a similar advantage in special access and bypass circuit capacity.⁷

Thus, while clearly subject to emerging competition, AT&T remains the primary interLATA purveyor of WATS, private line and custom-network services.

⁷See Footnote 3.

A carrier's pricing policies are not barriers to entry unless a clearly dominant price leader prices below cost, an activity prohibited by statute. If below cost pricing occurs, very few competitors are likely to enter the market or, for that matter, remain. In determining whether IXC services are competitive, pricing policies are significant and AT&T is the de facto price leader and price setter. Excepting one reseller (Tel-Central), most rival IXCs price their MTS product at, or only slightly below, AT&T. When AT&T changes a rate, the others follow. In one direct comparison of customer cost for a five-minute daytime call, the charges (after rounding) for AT&T and 4 alternative IXCs are:

AT&T	\$1.95
MCI	\$1.94
U.S. Sprint	\$1.94
Allnet	\$1.94
Tel-Central	\$1.56

The present similarity in MTS pricing, if examined apart from other factors, does not suggest a thriving competitive marketplace. Neither does it mandate a conclusion that there is no effective competition. For whatever reason, it indicates either an unwillingness or an inability of most carriers to price MTS meaningfully below AT&T. Given AT&T's role as a price leader, and the alternative carriers as close followers, the Commission must exercise particular caution in evaluating AT&T's recommended classification status for MTS service.

WATS, private lines and custom network services, although regarded as high volume "business" services, represent a small, albeit profitable, percentage of the total interexchange market. More than three-fourths of AT&T's revenues are generated by MTS services. Alternative carriers derive as little as 55 percent from MTS service, up to 100 percent, the latter typically from resellers.⁸

⁸See Footnote 3.

The Commission finds that for most carriers, business service revenues are a relatively small portion of overall interexchange revenues. However, WATS, private line and custom network services are more profitable and subject to greater competitive pressures than ordinary MTS service. In addition, corporate or large business users of WATS or private lines tend to be more discerning and sophisticated than residential or small business users. Many employ communication consultants or designate key personnel to determine their communication needs and how to get the best value for their dollar. These volume users are subject to intensive advertising and marketing campaigns to "switch" them from one carrier to another. This portion of the Missouri market has been highly contested by some of the parties in this case. Over 40 pages of this record contain facsimiles of such advertising from publications as diverse as the Wall Street Journal and Communications Weekly. Touting better rates, service, or both, alternative carriers urge businesses to switch carriers and offer substantial inducements to those who do.

AT&T's interstate market share of switched access minutes, although including MTS, has decreased accordingly. In the third quarter of 1984, it was 84.3%; in the third quarter of 1987, it was 70.9%.

At the time of hearing, the fixed monthly In-WATS charges of AT&T, MCI and U.S. Sprint were: AT&T - 870.00; MCI - 850.00; U.S. Sprint - 495.00. The per-minute charges were: AT&T - \$0.22; MCI - \$0.1435; U.S. Sprint - \$0.1495. For Out-WATS, the differential was not as great: MCI was 6.3% less than AT&T, U.S. Sprint was 15.9% less.

As of June 1, 1988, Missouri data indicates that for 10 to 650 hours of WATS service, MCI's rates are 9.7% to 20.7% below AT&T's. U.S. Sprint's rates are from 11.1% to 7.1% less than AT&T's. The Commission finds in these rate differentials an indication of a competitive market, and of competitive alternatives.

The decrease in AT&T's volume services has been especially marked among Missouri's banks and state agencies, where AT&T has lost multi-million dollar

contracts to MCI and U.S. Sprint. Prior to the hearing in this case, AT&T received 2% of state agency contracted payments for outWATS, 33% of state private lines payments, and 5% of In-WATS payments. The balance went to AT&T's competitors.

AT&T's share of the Missouri banking industry's communications contracts, \$340,000 in the first quarter of 1987, slipped to \$210,000 by the first quarter of 1988. Forty-one percent of Missouri banks' payments for volume message services are paid to one competing carrier, 34% to AT&T, 14% to another competitor and a total of 11% to two others.⁹

AT&T's market share has slipped in daytime MTS business as well, the evidence showing a 15% reduction in this profitable sector in the two years preceding the hearing. In the same period, AT&T's less profitable evening and nighttime residential MTS share increased by 9.7% and 10.6%.

Regarding private lines, the Commission finds that in 1986 alone, AT&T lost 25% of its then existing private lines customer base, causing a reduction in AT&T's private line circuits from 600 to 340. In and following 1986, AT&T's competitors increased their private line circuit capacity.

The Commission finds in these data an indication of a competitive marketplace, a market more contested, at least for the time being, than the MTS market. The Commission finds as well that AT&T's share of the WATS, private lines and custom network market has decreased owing to competition.

III. Interexchange Service and Company Classification

Applying the factors to the service categories of the alternative carriers, the Commission finds that each service category is clearly subject to competition from AT&T's services and, to a lesser extent, from those of other alternative

⁹See footnote 3.

carriers. The Commission therefore finds that all authorized services of alternative carriers are competitive services.

The Commission finds as well that both the Joint Recommendation (Appendix A) and the Hearing Memorandum correctly designate the services of all alternative carriers as "competitive", as again addressed infra. However, operator services, if offered or provided contrary to this Commission's holding in Case No. TA-88-218, are not authorized telecommunication services; as such, they require no classification.

Applying the factors to AT&T's provision of MTS service, the Commission finds that AT&T, while subject to emerging competition from the alternative IXCs, retains an extremely large share of the interLATA MTS market, enjoys financial resources and name recognition exceeding its rivals and, to the extent that equal access balloting results are an index to the future, is likely to retain a substantial portion of the MTS market.

These factors, in combination with the lack of statewide MTS equal access, and the observed similarity in MTS pricing by nearly all participants in this docket, lead the Commission to find that AT&T's MTS and ancillary/complimentary MTS services are transitionally competitive services. The Commission also finds that the Joint Recommendation, which so designates AT&T's MTS and ancillary/complimentary services, is supported by the competent and substantial evidence on the whole record.

Viewing AT&T's business services, the Commission finds that WATS, private lines and custom network are subject to more competition than MTS. Unlike MTS, these services enjoy statewide equal access and are more likely to be purchased by knowledgeable buyers, which tends to foster competition. Although contributing a modest percentage to AT&T's revenue, WATS, private line and custom network customers are easily targeted by competitors, and, compared to MTS, are more profitable. AT&T's continuing market share losses in this volume market leads the Commission to

find that competitive alternatives exist, and that AT&T is subject to sufficient competition to justify a lesser degree of regulation.

AT&T's software defined network (SDN) is one of special custom network features offered by other participants in this docket. AT&T offers SDN as an interstate service with an optional intrastate application, should a customer so desire. SDN is similar to MCI's VNet and U.S. Sprint's virtual private network services, explained above, and is not available to intrastate only customers.

For the reasons expressed in this and the preceding sections of this Report and Order, the Commission finds that AT&T's WATS, private lines and custom network services are competitive services and that the Joint Recommendation characterizing these services as competitive is supported by competent and substantial evidence on the whole record.

Having stated and applied the relevant factors for determining if sufficient competition exists, the Commission finds that sufficient competition does exist to justify a lesser degree of regulation of all interexchange services and all interexchange carriers. The Commission further finds that such lesser degree of regulation is consistent with the protection of ratepayers and promotes the public interest.

The Commission finds that AT&T's MTS and ancillary/complementary MTS services, as described in Appendix C and its filed tariffs are, pursuant to Section 392.361(4)(4), transitionally competitive services.

The Commission finds that AT&T's WATS, private lines and custom network services, as described in Appendix C and on pages 9 and 10 of the Joint Recommendation (See Appendix C) are, pursuant to Section 392.361(4)(1), competitive services.

Having found that all services of alternative IXCs are competitive, the Commission hereby classifies the interexchange carriers offering said services, as

described above and pursuant to 392.361(3)[3], as competitive telecommunications companies.

Having found that a portion of the above-described interexchange services offered by AT&T are transitionally competitive, the Commission hereby classifies AT&T, pursuant to 392.361(4)[4] as a transitionally competitive telecommunications company.

IV. Statute/Rule Modification or Waiver

Section 392.361(5) authorizes the Commission to suspend or modify the application of Commission rules and certain statutes to competitive and transitionally competitive companies and their services.

Without prejudice to carrier application for different or additional exemptions, the Commission finds that the following statutes and rules merit suspension, subject to the caveats contained therein. The Commission adopts herein the provisions of the Joint Recommendation, found at pages 10, 11, and 12 of Appendix C.

Statutory Provisions

Section 392.340(1): Authorizes the Commission, after hearing, to set just and reasonable rates with due regard, among other things, "to a reasonable average return upon the value of property actually used in the public service." The quoted language should be suspended and should not be applied with respect to AT&T and other IXCs for the duration of their status as, respectively, transitionally competitive and competitive.

Section 392.270: Provides that the Commission shall have the power to ascertain the value of the property of every telecommunications company. This provision should be suspended for AT&T and other IXCs for the duration of their status as, respectively, transitionally competitive and competitive.

Section 392.280: Empowers the Commission to establish proper and adequate depreciation accounts, etc. This provision should be suspended for AT&T and the other IXCs for the duration of their status as, respectively, transitionally competitive and competitive.

Commission Rules

4 CSR 240-30.010(2)(C): Deals with keeping a copy of schedules of rates for long distance service at the company's central office in exchange areas where no business office is maintained. The rule should be waived for AT&T and the other IXC's because they do not have central offices in each exchange.

4 CSR 240-30.060(5):

- (5)(B): General Information
- (5)(C): Deals with minimum filing requirements and information provided such as test year rate base, return on equity, etc.
- (5)(D): Rate Base
- (5)(E): Plant Investment
- (5)(F): Accumulated Provision for Depreciation, Amortization and Depletion
- (5)(G): Working Capital
- (5)(H): Financial Information
- (5)(I): Comparative Financial Operating Data
- (5)(J): Test Year Utility Operating Income Statements and Adjustments
- (5)(K): Depreciation
- (5)(L): Taxes
- (5)(M): Allocation or Separation Basis
- (5)(N): Proposed Rate Schedule
- (5)(O): Budget Data

All provisions of the foregoing relate to or are for rate base/rate of return regulated companies and, for reasons previously stated, should be suspended for AT&T and other IXC's for the duration of their status as, respectively, transitionally competitive and competitive.

4 CSR 240-32.030(1)(C): Records regarding application for access line and grade of service changes. This rule does not apply to AT&T and other IXC's and therefore it should be waived.

4 CSR 240-32.050(3): List of information available for inspection at the public business office. As a general rule, the IXC's do not have and do not need local business offices. Therefore, this rule should be waived for AT&T and other IXC's.

4 CSR 240-32.050(4): Telephone Directories. This rule should not apply to the IXC's because they do not provide local directories. Therefore, it should be waived for AT&T and other IXC's.

4 CSR 240-32.050(5): Intercepting calls after change of number. This rule does not involve services provided by the IXC's and therefore it should be waived for AT&T and other IXC's.

4 CSR 240-32.050(6): Deals with telephone number changes resulting from additions or changes in plant. This rule does not

apply to services provided by the IXCs and should be waived for AT&T and other IXCs.

4 CSR 240-32.070(4): Requires a coin telephone available to the public. This rule does not involve a service provided by the IXCs and should be waived for AT&T and other IXCs.

V. Rate Regulation of AT&T

Having adopted the Joint Recommendation between AT&T, the Commission Staff, and the Office of Public Counsel, and having found that AT&T is a transitionally competitive telecommunications carrier, and that AT&T is subject to sufficient competition to justify a lesser degree of regulation, the Commission now determines that in lieu of rate base/rate-of-return ratemaking, AT&T may file proposed tariffs for all transitionally competitive services pursuant to Section 392.510 which provides for a range or band setting forth maximum and minimum rates within said range or band.

In adopting the provisions of the Joint Recommendation, the Commission approves the general methodology and limitations on AT&T agreed upon at pages 5 through 9 of Appendix C. These provisions relate, in part, to the banding of AT&T's MTS rates.

However, Sections 392.370, 392.490 and 392.510 provide the mechanism by which the Commission is authorized to approve banded rates. On receipt of proposed tariffs for AT&T's transitionally competitive services, and incremental cost studies to support same, the Commission will discharge its duties as promptly as circumstances permit, giving credence to the Joint Recommendation.

By adopting the Joint Recommendation, the Commission approves as well the proposed ratemaking mechanisms for AT&T's WATS, 800, private line, SDN and new services found on pages 9 and 10 of Appendix C. Notwithstanding the designation of this class of services as competitive, AT&T has agreed not to increase rates for the

services indicated for two years and to submit cost studies to establish floors for designated services.

The Commission has also determined that all interexchange carriers affected by this classification Report and Order shall file new or revised tariffs properly reflecting their classification status.

Conclusions of Law

The Missouri Public Service Commission has jurisdiction over this matter, and the authority to classify the interexchange carriers and services herein, pursuant to Section 392.361, RSMo, Supp., 1988.

The Commission is authorized by 392.361 to determine whether a telecommunications company or service may be subject to sufficient competition to justify a lesser degree of regulation; the Commission is likewise authorized to consider all relevant factors in determining whether sufficient competition exists and, pursuant to 392.361(2), is required to make findings of fact which identify the factors selected.

Having made the required findings of fact, the Missouri Public Service Commission concludes as follows:

All interexchange telecommunications services offered under tariff by the alternative IXCs above described are, pursuant to 392.361(2)(4)[1], subject to sufficient competition to justify a lesser degree of regulation. The Commission further concludes that such lesser degree of regulation is consistent with the protection of the ratepayers and promotes the public interest. Said services are therefore classified as competitive interexchange telecommunications services.

Having been found to provide only competitive interexchange services, the alternative IXCs are, pursuant to 392.361(3)[3], hereby classified as competitive interexchange telecommunications companies.

All of the interexchange telecommunications services offered under tariff by AT&T as above described, are, pursuant to 392.361(2)(4)[1] and [2], subject to

sufficient competition to justify a lesser degree of regulation. The Commission further concludes that such lesser degree of regulation is consistent with the protection of the ratepayers and promotes the public interest.

Pursuant to Section 392.361(2)(4)(2), AT&T's MTS and ancillary or complementary MTS services (directory assistance, operator assistance and calling card services) are therefore classified as transitionally competitive interexchange telecommunications services.

Pursuant to Section 392.361(2)(4)(1), AT&T's WATS, private lines and custom network services are therefore classified as competitive interexchange telecommunications services.

Having been found to provide transitionally competitive interexchange telecommunications services, AT&T, pursuant to 392.361(4)(4), is hereby classified as a transitionally competitive interexchange telecommunications company.

The Commission further concludes that it is in the public interest that, pursuant to 392.361(2), all interexchange carriers, whether competitive or transitionally competitive, be subject to the lesser degree of regulation as provided in section IV of this Report and Order.

It is, therefore,

ORDERED: 1. That excepting unauthorized operator services as described in Case No. TA-88-218, all tariffed interexchange interLATA telecommunications services offered by the interexchange carriers below listed are hereby classified as competitive services; that the following individually docketed cases of said carriers, wherein they seek a competitive service or company classification, or both, be, and hereby are, dismissed.

TO-88-89	Econo-Call, Inc.
TO-88-90	Tel-Central of Jefferson City
TO-88-92	MidAmerican Long Distance Company
TO-88-93	Compute-A-Call, Inc.
TO-88-94	The CommuniGroup of K.C.
TO-88-95	Western Union Telegraph Company

TO-88-96	Valu-Line of St. Joseph, Mo.
TO-88-104	Teleconnect Company
TO-88-105	directline Austin, Inc.
TO-88-106	Transcall America, Inc.
TO-88-110	Eddie D. Robertson, d/b/a Contact America
TO-88-117	Satelco, Inc.
TO-88-123	US Transmission Systems
TO-88-125	Inter-Comm Telephone, Inc.
TO-88-127	Allnet Communication Services, Inc.
TO-88-136	LDD, Inc.
TO-88-145	LTS, Inc.
TO-88-146	American Communications, Inc.
TO-88-150	Cable-Laying Company, Inc., d/b/a Dial U.S.A.
TO-88-151	International Telecharge, Inc.
TO-88-152	Hedges & Associates, Inc., d/b/a Hedges Communications and Dial U.S.
TO-88-166	Com-Link 21
TO-88-172	Cable & Wireless Communications, Inc.
TO-88-176	MCI Telecommunications Corporation
TO-88-177	Kansas City Cable Partners
TO-88-187	US Sprint Communications Company
TO-88-198	WilTel Network, Inc.
TO-88-222	Midwest Fibernet Inc.
TO-88-225	Columbia-Tel, Inc.

ORDERED: 2. That the interexchange telecommunications companies identified in Ordered: 1, above, are hereby classified as competitive interexchange telecommunication companies.

ORDERED: 3. That AT&T Communications of the Southwest, Inc.'s MTS and ancillary or complementary MTS services are hereby classified as transitionally competitive interexchange telecommunications services.

ORDERED: 4. That AT&T Communications of the Southwest, Inc.'s WATS, private lines and custom network services are hereby classified as competitive interexchange telecommunications services.

ORDERED: 5. That AT&T Communications of the Southwest, Inc., is hereby classified as a transitionally competitive interexchange telecommunications company.

ORDERED: 6. That the Missouri Public Service Commission adopts the Joint Recommendation executed by the Commission Staff, the Office of Public Counsel and AT&T Communications of the Southwest Inc., and incorporates said recommendation, marked Appendix C, as part of this Report and Order by reference.

ORDERED: 7. That this Report and Order shall become effective on the
16th day of October, 1989.

BY THE COMMISSION



Harvey G. Hubbs
Secretary

(S E A L)

Steinmeier, Chm., Mueller, Fischer,
and Rauch, CC., Concur and certify
compliance with the provisions of
Section 536.080, RSMo 1986.

Dated at Jefferson City, Missouri,
this 15th day of September, 1989.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

FILED
 JAN 27 1989
 PUBLIC SERVICE COMMISSION

In the matter of the investigation)
 for the purpose of determining the)
 classification of the services) Case No. TO-88-142
 provided by interexchange tele-)
 communications companies within)
 the State of Missouri.)

JOINT RECOMMENDATION

Representatives of the following parties met on September 12, 1988, September 26-28, 1988, and October 26, 1988, for prehearing conferences as directed by the Commission: Missouri Telephone Company, Eastern Missouri Telephone Company, Webster County Telephone Company, Fidelity Telephone Company, Contel of Missouri, Inc., Contel System of Missouri, Inc. (collectively "Independent Telephone Company Group"); Competitive Telecommunications Association of Missouri (CompTel); Com-Link 21; Dial USA; Hedges Communications; Dial US; WilTel Network (WTG Network); International Telecharge, Inc.; Midwest Fibernet, Inc.; Columbia-Tel; Allnet Communications Services; American Communications; CommuniGroup of Kansas City; Compute-A-Call; Contact America; direct line Austin; Econo-Call; Inter-Com Telephone; LDD; LTS; MidAmerican Long Distance; Satelco; Tel-Central of Jefferson City; Teleconnect; Transcall America; US Transmission Systems (ITT); Valu-Line of St. Joseph; Western Union; MCI Telecommunications Corporation (MCI); AT&T Communications of the Southwest, Inc. (AT&T); Southwestern Bell Telephone Company (SWBT); GTE North Incorporated (GTE); United Telephone Company of Missouri (United); US Sprint Communications Company (US Sprint); KC Cable Partners; the Staff of the

Missouri Public Service Commission (Staff); and the Office of the Public Counsel of the State of Missouri (Public Counsel). A representative of Cable and Wireless did not appear. As a result of negotiations during the prehearing conferences and a number of subsequent negotiations, Staff, Public Counsel and AT&T (collectively, "Signatory Parties") have reached an agreement and propose the following Joint Recommendation for the settlement of all issues concerning the classification and regulation of interexchange telecommunications companies (IXCs).

I. RELEVANT FACTORS

The Signatory Parties have considered the following factors in arriving at their Joint Recommendation concerning the classification of IXCs and their services:

- A. Availability of Competitive Alternatives;
- B. Availability of Equal Access;
- C. Market Share;
- D. Name Recognition;
- E. Financial Strength of IXCs;
- F. Additional Benefits/New Services for End Users;
- G. Ratemaking/Pricing Policies; and
- H. Condition of entry for firms outside the industry and expansion and exit of existing firms in the interLata market.

A list of the IXCs and their tariffed services is attached as Appendix A hereto.

The Signatory Parties have provided the foregoing only as a list of some of the factors which they considered in arriving at their Joint Recommendation. The Signatory Parties recognize that the foregoing do not comprise an exhaustive list of the factors which may be considered in classifying other companies and services pursuant to Section 392.361, .S.Mo Supp. 1988. The Signatory Parties also recognize that they do not agree on the weight which should be given to each individual factor. Rather, the factors are listed solely to assist the Commission in its deliberations concerning the reasonableness of the Signatory Parties' Joint Recommendation and to provide some of the factual background upon which those parties base their Joint Recommendation concerning the classification and regulation of IXCs and their services.

II. CLASSIFICATION OF COMPANIES AND SERVICES

Each of the following four classes of service will be declared "competitive" for all interexchange carriers except AT&T:

- A. Message Toll Service (MTS);
- B. Outbound WATS and Inbound WATS;
- C. Private Line; and
- D. Ancillary or Complementary MTS Services (specifically, directory assistance, operator assistance, and calling card services).

The Signatory Parties agree and, as a result of their negotiated settlement, jointly recommend that the following categories of AT&T services be classified as competitive telecommunications services:

- A. Outbound WATS and Inbound WATS; and
- B. Private Line and Custom Network Services (including Software Defined Network, or SDN).

The Signatory Parties agree and, as a result of their negotiated settlement, jointly recommend that the following categories of AT&T's services be classified as transitionally competitive:

- A. MTS; and
- B. Ancillary or Complementary MTS Services (specifically, directory assistance, operator assistance, and calling card services).

Based on the foregoing, the Signatory Parties recommend that AT&T be classified as a transitionally competitive telecommunications company.

As part of this agreement, AT&T agrees to forego the first opportunity under Section 392.370, RSMo Supp. 1988 to contest continued classification of its MTS and its Directory Assistance Service (DA) as transitionally competitive services (i.e., such shall continue to be classified as transitionally competitive for at least four years). At the second opportunity, AT&T may contest any proposal to continue the transitionally competitive classification of its MTS and DA service and any further annual reduction not specifically agreed to herein of its MTS rates.

Except for DA, AT&T may challenge any proposal to continue the transitionally competitive classification of its Ancillary or Complementary MTS services at the first opportunity under Section 392.370, RSMo Supp. 1988 (i.e., AT&T can challenge any proposal to continue the transitionally competitive classification for those

services in two years). If AT&T proposes tariffs which increase the rates for its ancillary or complementary MTS services after the initial two-year period, it agrees to do so on a revenue neutral basis by applying an offset to its MTS rates.

III. DEGREE OF REGULATION OF AT&T AND ITS SERVICES

The Signatory Parties agree that neither AT&T nor any of its services shall be subject to rate base/rate of return regulation. Rather, as a substitute for such regulation, the Signatory Parties agree and jointly recommend that AT&T and its services should be regulated in the manner hereinafter set forth. Further, for purposes of implementing this agreement, AT&T's currently effective rates, as of the date of execution of this document, shall constitute the starting point from which the adjustments provided for herein shall be made.

A. MTS

1. AT&T's MTS rates will be subject to a rate band. The ceiling of the band will be AT&T's current MTS rate(s). The floor of the band, with certain exceptions, will be determined based upon AT&T's incremental unit costs including access costs for its MTS. Each mileage band will be individually banded with floor and ceiling rates. Pricing flexibility will be allowed within the rate band(s).

2. Nothing in this agreement (either in this Section III.A. or in Section III.B., infra) shall prevent AT&T from seeking proprietary treatment of its cost information pursuant to Section 392.370, RSMo Supp. 1988, nor is this agreement intended to modify the Commission's complaint jurisdiction under Section 392.400, RSMo Supp. 1988;

provided, however, that such complaints shall not be brought by any of the undersigned parties, their successors, or assigns concerning the lawfulness or reasonableness of: (A) any rates within the MTS rate bands agreed to herein, or (B) any of the ceilings or floors established herein. However, the Staff or Public Counsel shall not be precluded by this paragraph from complying with a lawful and reasonable Commission order nor shall AT&T be precluded from challenging any such order on the ground that it is inconsistent with the Commission's approval of this Joint Recommendation.

3. Notwithstanding the above, the Signatory Parties recognize that some of AT&T's MTS rates are currently below its cost of access. As a general rule, those rates shall not be reduced further. However, AT&T shall be allowed to reduce them when necessary to implement minor changes in its rate schedules (e.g., weekend and evening discounts) provided that in no event shall reductions for those rates exceed 1¢ in any time period or rate band. The mileage bands and time periods to which this limited exception is applicable are identified in Appendix B hereto. This exception is created in recognition of the historical treatment of such bands and time periods and is not an endorsement by any party of below cost pricing or an acknowledgment that access costs alone should be the floor.

4. AT&T agrees to reduce its MTS rates to reflect a reduction of 1½% in MTS revenues annually each year for the next four years. The reduction provided for by this paragraph of the Joint Recommendation and agreement must be made within the MTS category. The reduction need not, however, be implemented through an across-the-board equal percentage reduction for each MTS rate element and/or

time of day. No call stimulation or repression will be taken into account when implementing this reduction.

5. The Signatory Parties agree that the annual reduction provided for in Section III.A.4, supra, shall be subject to renegotiation or renewal after the fourth year (i.e., for the fifth and sixth years), if the transitionally competitive classification of AT&T's MTS is continued for an additional two year period by a lawful and reasonable Commission order.

6. AT&T agrees to flow through any ordered or Commission approved permanent reduction in the switched access costs applicable to MTS, including any such reduction that may be ordered in Missouri PSC Case No. TC-89-14, et al., dollar for dollar to MTS in proportion to the amount of the reduction which applies to MTS volumes. The dollar for dollar reduction must be reflected in actual MTS prices as a whole, but need not be reflected in an across-the-board equal percentage reduction for each rate element and/or time of day. The exception of Section III.A.3, supra, shall also apply to the flow through of switched access charge decreases (i.e., with certain limited exceptions, rates below access costs currently shall not as a general rule be reduced).

7. AT&T shall be allowed at its option to flow through dollar for dollar increases in its switched access costs and federal income tax expense through changes in its MTS rates and may do so with the same flexibility as in the case of access charge decreases. However, to effect a flow through of increased AT&T federal income taxes, AT&T must submit sufficient information to show that the increases are based upon actual increased federal income tax expense and not just changes

in the federal income tax rate. Furthermore, the flow through permitted by this paragraph to MTS shall be in proportion to only those increases that apply to MTS. AT&T shall flow through any decrease in its federal income tax expenses in proportion to the amount applicable to MTS.

8. Except as provided in Section III.A.3, supra, the MTS ceiling(s) referenced in this section shall be adjusted to reflect the 1½% annual reductions, the switched access charge flow throughs, and the federal income tax flow throughs. In addition, except as provided in Section III.A.3, supra, AT&T shall reduce the floors referenced in this section to reflect the switched access charge flow throughs. Those adjustments shall be in accordance with the terms of the preceding paragraphs.

9. Staff and Public Counsel agree not to take any action inconsistent with this Joint Recommendation, including specifically actions which pertain to rate base/rate of return regulation of AT&T, except as provided in Section III.A.2, supra, or as may be necessary in the third quarter of the third calendar year after implementation of this Joint Recommendation so as to allow them to determine whether or not to propose the continuation of the Joint Recommendation classification of AT&T and its services.

10. The Signatory Parties agree that this Joint Recommendation and the provisions and requirements contained herein, including but not limited to the Staff and Public Counsel agreements in Section III.A.9, supra, shall be subject to renegotiation and modification in the event of any court order or legislative action that materially

affects the interexchange telecommunications market and the reasonableness of the requirements agreed to herein.

B. WATS, 800, Private Line, SDN, and New Services

1. AT&T agrees not to increase its current rates for WATS, 800, Private Line, and SDN for a two year period. This agreement shall not apply to the rates for AT&T MEGACOM 800^R, AT&T 800 READYLINE^R, new AT&T services, or to increases as a result of the flow throughs specified in Section III.A.7, supra, which are applicable to the services referenced in this section in addition to MTS.

2. AT&T agrees to submit a cost study to establish floors for the rates of its current WATS, 800, Private Line, SDN, AT&T MEGACOM 800^R, and AT&T 800 READYLINE^R services and for each of its new services. The cost studies shall be similar to those previously filed with the Commission and shall specifically show that the proposed floor and/or rate is above AT&T's incremental unit costs including access costs, or that there is a reasonable justification under Section 392.400.5, RSMo Supp. 1988, for a rate which is below AT&T's incremental costs including access costs.

3. AT&T agrees to flow through access reductions dollar for dollar, where applicable, to each of the above services in proportion to the amount applicable to those services' volumes for a two year period. The dollar for dollar reduction, where applicable, must be reflected in

^R Registered Mark of AT&T

actual service prices, but need not be reflected in an across-the-board equal percentage reduction for each service and/or rate element.

4. AT&T shall be allowed at its option to flow through dollar for dollar increases in its access costs and federal income taxes through increases in the rates for the services referenced in this section. Any flow through of increases in federal income tax expense shall be subject to the same submission and requirements as specified in Section III.A.7, supra.

IV. SUSPENSION OR WAIVER OF STATUTORY PROVISIONS AND COMMISSION RULES

Pursuant to Section 392.361(5), RSMo Supp. 1988, the Commission may by its order classifying a company as competitive or transitionally competitive, suspend or modify the application of its rules or the application of any statutory provision contained in Sections 392.200 to 392.340, RSMo Supp. 1988, except as provided in Section 392.390, RSMo Supp. 1988. The Signatory Parties recommend that the following statutory provisions and Commission rules be suspended, waived or applied only in modified form as to all IXCs and their service offerings.

Statutory Provisions

Section 392.340(1): Authorizes the Commission, after hearing, to set just and reasonable rates with due regard, among other things, "to a reasonable average return upon the value of property actually used in the public service." The quoted language should be suspended and should not be applied with respect to AT&T and other IXCs for the duration of this agreement or any renewal period under Section III.A.5, supra.

Section 392.270: Provides that the Commission shall have the power to ascertain the value of the property of every telecommunications company. This provision should be suspended for AT&T and the other IXCs for the duration of

this agreement or any renewal period under Section III.A.5, supra, because it relates to the rate base/rate of return regulation.

Section 392.280: Empowers the Commission to establish proper and adequate depreciation accounts, etc. This provision should be suspended for AT&T and the other IXC's for the duration of this agreement or any renewal period under Section III.A.5, supra, because it relates to rate base/rate of return regulation.

Commission Rules

4 CSR 240-30.010(2)(C): Deals with keeping a copy of schedules of rates for long distance service at the company's central office in exchange areas where no business office is maintained. The rule should be waived for AT&T and the other IXC's because they do not have central offices in each exchange.

4 CSR 240-30.060(5):

- (5)(B): General Information
- (5)(C): Deals with minimum filing requirements and information provided such as test year rate base, return on equity, etc.
- (5)(D): Rate Base
- (5)(E): Plant Investment
- (5)(F): Accumulated Provision for Depreciation, Amortization & Depletion
- (5)(G): Working Capital
- (5)(H): Financial Information
- (5)(I): Comparative Financial Operating Data
- (5)(J): Test Year Utility Operating Income Statements & Adjustments
- (5)(K): Depreciation
- (5)(L): Taxes
- (5)(M): Allocation or Separation Basis
- (5)(N): Proposed Rate Schedule
- (5)(O): Budget Data

All provisions of the foregoing relate to or are for rate base/rate of return regulated companies and, for reasons previously stated, should be suspended for AT&T and other IXC's for the duration of this agreement or any renewal period under Section III.A.5, supra.

4 CSR 240-32.030(1)(C): Records regarding application for access line and grade of service changes. This rule does not apply to AT&T and other IXC's and therefore it should be waived.

4 CSR 240-32.050(3): List of information available for inspection at the public business office. As a general rule,

the IXC's do not have and do not need local business offices. Therefore, this rule should be waived for AT&T and other IXC's.

4 CSR 240-32.050(4): Tele Directories. This rule should not apply to the IXC's because they do not provide local directories. Therefore, it should be waived for AT&T and other IXC's.

4 CSR 240-32.050(5): Intercepting calls after change of number. This rule does not involve services provided by the IXC's and therefore it should be waived for AT&T and other IXC's.

4 CSR 240-32.050(6): Deals with telephone number changes resulting from additions or changes in plant. This rule does not apply to services provided by the IXC's and should be waived for AT&T and other IXC's.

4 CSR 240-32.070(4): Requires a coin telephone available to the public. This rule does not involve a service provided by the IXC's and should be waived for AT&T and other IXC's.

The Signatory Parties recognize that the foregoing list of statutory provisions and rules is not all inclusive, and agree that AT&T and other IXC's may seek additional waivers and/or modifications as circumstances warrant. In other words, the Signatory Parties do not mean to imply that no other provisions can or should be waived and/or modified. The foregoing is simply a list of the suspensions and/or modifications that the signatories have been able to agree upon at this time.

V. ADDITIONAL TERMS AND CONDITIONS

The Joint Recommendation represents a negotiated agreement for the sole purpose of disposing of all issues between the Signatory Parties in Case No. TO-88-142. Except as specifically provided herein, none of the Signatory Parties to this Joint Recommendation shall be prejudiced by or bound by the stipulations contained herein in

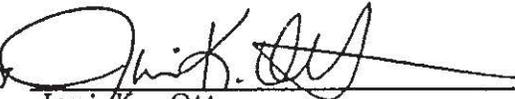
any future proceeding, or in any proceeding currently pending under a separate docket, in this or any other jurisdiction.

The agreements in this Joint Recommendation are interdependent. In the event that the Commission does not approve and adopt the Joint Recommendation in its entirety, it shall be void at the option of any Signatory Party and no party shall be bound by any of the agreements or provisions hereof.

Respectfully submitted,

OFFICE OF THE PUBLIC
COUNSEL OF THE STATE OF
MISSOURI

STAFF OF THE MISSOURI
PUBLIC SERVICE COMMISSION

By 

Joni K. Ott
Office of the Public Counsel
P.O. Box 7800
Jefferson City, Missouri 65102
314/751-5563

Attorney for the Office of the
Public Counsel

By 

Linda K. Ohlemeyer
Staff of the Missouri
Public Service Commission
P.O. Box 360
Jefferson City, Missouri 65102
314/751-8703

Attorney for the Staff of the
Missouri Public Service Commission

AT&T COMMUNICATIONS OF THE
SOUTHWEST, INC.

By Mark P. Royer
Mark P. Royer
AT&T
1100 Walnut, Suite 2432
Kansas City, Missouri 64106
816/654-7893

Paul S. DeFord
Lathrop Koontz & Norquist
2345 Grand Avenue, Suite 2600
Kansas City, Missouri 64108
816/842-0820

Attorneys for AT&T Communications
of the Southwest, Inc.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing has been mailed or
hand-delivered to all counsel for parties of record on this 27th day of
January, 1989.

Linda E. Ehlert

MISSOURI MTS RATE TABLES

Mileage	Day Initial 1 Minute	Evening Initial 1 Minute	Night Initial 1 Minute
-----	-----	-----	-----
1-10	\$0.1100	\$0.0880	\$0.0715
11-14	\$0.1500	\$0.1200	\$0.0975
15-18	\$0.1800	\$0.1440	\$0.1170
19-23	\$0.2300	\$0.1840	\$0.1495
24-28	\$0.3600	\$0.2880	\$0.2340
29-33	\$0.3900	\$0.3120	\$0.2535
34-40	\$0.4000	\$0.3200	\$0.2600
41-50	\$0.4200	\$0.3360	\$0.2730
51-60	\$0.4600	\$0.3680	\$0.2990
61-80	\$0.4700	\$0.3760	\$0.3055
81-100	\$0.4800	\$0.3840	\$0.3120
101-125	\$0.4800	\$0.3840	\$0.3120
126-150	\$0.5100	\$0.4080	\$0.3315
151-190	\$0.5400	\$0.4320	\$0.3510
191-300	\$0.5700	\$0.4560	\$0.3705
301-430	\$0.5900	\$0.4720	\$0.3835
Over-430	\$0.6000	\$0.4800	\$0.3900

Mileage	Day Each Add'l Minute	Evening Each Add'l Minute	Night Each Add'l Minute
-----	-----	-----	-----
1-10	\$0.0900	\$0.0720	\$0.0585
11-14	\$0.1300	\$0.1040	\$0.0845
15-18	\$0.1600	\$0.1280	\$0.1040
19-23	\$0.1700	\$0.1360	\$0.1105
24-28	\$0.2000	\$0.1600	\$0.1300
29-33	\$0.2200	\$0.1760	\$0.1430
34-40	\$0.2400	\$0.1920	\$0.1560
41-50	\$0.2500	\$0.2000	\$0.1625
51-60	\$0.2700	\$0.2160	\$0.1755
61-80	\$0.3000	\$0.2400	\$0.1950
81-100	\$0.3100	\$0.2480	\$0.2015
101-125	\$0.3400	\$0.2720	\$0.2210
126-150	\$0.3600	\$0.2880	\$0.2340
151-190	\$0.3600	\$0.2880	\$0.2340
191-300	\$0.4000	\$0.3200	\$0.2600
301-430	\$0.4200	\$0.3360	\$0.2730
Over-430	\$0.4300	\$0.3440	\$0.2795

NOTE: Rates above the solid line are below AT&T's composite cost of access.

SERVICES OF AT&T COMMUNICATIONS OF THE SOUTHWEST, INC.

MESSAGE TOLL SERVICE

Message Telecommunications Service - PSC MO No. 1

REACHOUT® Missouri
AT&T PRO® Missouri
Operator Services
Calling Card Services
Conference Service
Special Residence Service
Directory Assistance Service (not tariffed)

OUTBOUND WATS AND INBOUND WATS

Wide Area Telecommunications Service

Outward WATS Service (PSC MO No. 5)
800 Service (PSC MO No. 5)
AT&T MEGACOM® (PSC MO No. 6)
AT&T MEGACOM® 800 (PSC MO No. 6)
AT&T 800 READYLINE® (PSC MO No. 6)

PRIVATE LINE AND CUSTOM NETWORK SERVICES

Channel Services Tariff (PSC MO No. 2)

200 Series Sub-Voice grade service (Low speed data 75 to 150
baud)
400 Series Voice grade (voice and data)

Data Phone® Digital Service (PSC MO No. 4)

Digital transmission from 2.4 to 56 kilobits per second.

1.544 Mbps Digital Service (PSC MO NO.3)

ACCUNET T1.5 1.544 MBPS Service
BASELINE T1.5
ACCUNET Reserved 1.5

Software Defined Network Service (PSC MO No. 6)

ARRAY OF INTEREXCHANGE COMPANIES AND THEIR SERVICES

Company	MTS		WATS		Private Lines				Directory Assistance	Credit/Travel Card	Misc. Services
	Ordinary MTS	Volume Discount	Out Bound	In-Bound ¹	Voice ²	Data ³	Tele-Printer ⁴	Operator Services ⁵			
1. Allnet Communications	X	0	X	0	0	0	0	0	X	0	0
2. American Communications	X	X	X	X	0	0	0	X	0	TS	0
3. Cable & Wireless	X	X	X	X	X	X	0	0	X	TS	X ⁶
4. Columbia-Tel, Inc.	X	X	0	0	0	0	0	0	0	TS	0
5. Com-Link 21	X	0	X	X	0	0	0	0	0	TS	0
6. ComuniGroup of K.C.	X	0	X	X	0	0	0	0	0	TS	0
7. Compute-A-Call	X	X	X	0	0	0	0	0	X	TS	0
8. Contact America, Inc.	X	X	X	X	0	0	0	0	0	TS	0
9. Dial US	X	0	X	X	X	X	0	0	X	TS	X ⁷
10. Dial USA	X	0	X	X	X	X	0	0	X	TS	X ⁷
11. Directline Austin, Inc.	X	0	X	X	0	0	0	0	X	TS	0
12. Econo-Call, Inc.	X	0	X	X	0	0	0	0	0	TS	0
13. Inter-Comm Telephone, Inc.	X	0	X	X	0	0	0	0	0	TS	0
14. International ⁸	X	0	0	0	0	0	0	X	0	X	0

ARRAY OF INTEREXCHANGE COMPANIES AND THEIR SERVICES

Company	MTS		WATS		Private Lines				Operator ⁵ Services	Directory Assistance	Credit/ Travel Card	Misc. Services
	Ordinary MTS	Volume Discount	Out Bound	In-Bound ¹	Voice ²	Data ³	Tele-Printer ⁴					
15. LDD, Inc.	X	X	X	0	0	0	0	0	0	TS	0	
16. LTS, Inc.	X	X	X	X	0	0	0	X ⁹	X	X	0	
17. MCI	X	X	X	0	X	X	X	0	X	X	X ¹⁰	
18. MidAmerican Long Distance	X	0	X	X	0	0	0	X ¹¹	0	TS	X ¹²	
19. Midwest Fibernet, Inc.	0	0	0	0	X	X	0	0	0	0	0	
20. Satelco, Inc.	X	0	X	X	0	0	0	0	X ¹³	TS	0	
21. Tel-Central of Jefferson City	X	0	0	X	0	0	0	0	X	TS	0	
22. Teleconnect Company	X	X	X	X	0	0	0	X ¹⁴	0	X	X ^{15,16}	
23. Transcall America, Inc.	X	0	X	X	0	0	0	0	X	TS	0	
24. US Sprint	X	X	X	X	X	X	0	X	X	X	X ¹⁷	
25. ITT, Inc.	X	X	X	0	X	X	0	0	X	0	X ¹⁸	
26. Valu-Line of St. Joseph	X	X	X	X	0	0	0	0	0	TS	0	
27. Western Union Telegraph	X	X	X	0	0	0	0	0	X	0	X ¹⁹	
28. WTC Network, Inc	0	0	0	0	X	X	0	0	0	0	0	

Notes:

X = Yes, company offers indicated service.

0 = No, company does not offer indicated service.

TS = The company offers a "Travel Service" which is an "800" number and an authorization code that subscribers can use to gain access to the company's switch when they are traveling.

- ¹ Inbound WATS is also know as "800" service or "INWATS".
- ² Voice grade private lines represent a voice frequency service suitable for transmission of analog voice and/or analog data, including facsimile.
- ³ Data private lines include circuits capable of synchronous digital transmission suitable for data, facsimile or video and/or isochronous digital transmission suitable for voice, data, facsimile, video and graphics.
- ⁴ Teleprinter service is an analog transmission service conducted at relatively low speeds. It is not suitable for voice transmission. This type of private line service is also referred to as telegraph or sub-voice grade service.
- ⁵ Operator services provide the capacity to place person-to-person, collect, and third-party calls.
- ⁶ Optional Features: Cable & Wireless offers optional features such as speed dialing, super saver number and call detail.
- ⁷ Springfield Connection Service: Dial US and Dial USA provide a foreign exchange service for subscribers who are located outside of Springfield, but who wish to have a local Springfield number.
- ⁸ Tariff is pending.
- ⁹ LTS provides operator services for person-to-person calls only. LTS operators also complete credit card calls between the hours of 7:00am and 11:00pm.

- 10 Common Control Switching Arrangement (CCSA) Service: CCSA is a least-cost routing arrangement. It does not involve the provision of intercity communications channels, but rather is offered as a switching service interconnecting network trunks, including circuits and services provided either by MCI or by other participating carriers.
- 11 MidAmerican Long Distance Company uses operator services to provide "Responsability 800 Service". Responsability 800 Service is an inbound WATS type of service.
- 12 Net Link and Super Link: MidAmerican Long Distance describes these services as a family of "user defined network services that provides the advantages of private networks and leased line". These services represent a "virtual private network" that combine switched network services with user defined network system features.
- 13 Tel-Central provides an "information" service.
- 14 Teleconnect provides operator services for the provision of credit card and inbound WATS calls.
- 15 Secure-Call: Teleconnect describes this as a service which provides for the screening of account codes. If an invalid code is used in an attempt to place a call, the call will not be completed.
- 16 Speed Codes: Teleconnect defines speed codes to be "3-digit codes representing frequently called long distance numbers".
- 17 Credit Card Reader Phone Service: This service allows a subscriber to use Sprint's network through a credit card phone by employing a personal credit/charge card issued by a financial institution.
- 18 Optional Features: ITT offers it's subscribers optional features such as Abbreviated Dialing, Hot Line Services, Conference Calls, Project Billing, and I-Plus Screening.
- 19 Optional Features: Western Union offers it's subscribers optional features such as Automatic Dial and Abbreviated Dialing.