STATE OF ALABAMA
ALABAMA PUBLIC SERVICE COMMISSION
STATE OFFICE BUILDING
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JIM SULLIVAN, PRESIDENT
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WALLACE TIDMORE
SECRETARY

SOUTH CENTRAL BELL,

Petitioner

RE: Aproval of Revisions to introduce customer-provided public telephone access line service.

DOCKET 19225

RE: All telephone companies operating in the State of Alabama for the purpose of establishing rules, regulations, and guidelines governing provision of customer owned coin operated telephone service.

DOCKET 19278

REPORT AND ORDER UPON RECONSIDERATION

BY THE COMMISSION:

On February 4, 1985, the Commission issued its Report and Order under these dockets approving the resale of local service by individually owned pay telephones and setting forth guidelines under which such service may be offered. Subsequently, Petitions were filed requesting reconsideration of certain guidelines, as well as access to the facilities of South Central Bell being provided on a measured service rate.

By Order issued April 1, 1985, the Commission granted the Petitions for Reconsideration and set same for hearing on April 19, 1985. The guidelines subject to reconsideration are:

> 8. Non-chargeable Operator, 911, 800 numbers and Directory Assistance must be able to be made without a coin deposit with no time limitation.
>
> 12. All instruments must be capable of accepting nickels, dimes and quarters.
>
> 13. All local calls shall be prepaid.
>
> 15. If a time limitation is placed on a phone, proper notice must be posted and the tone must sound 30 seconds before disconnection. The minimum time limit shall be no less than 3 minutes.

On April 19, 1985, the following parties and individuals appeared and participated in this proceeding: Mr. Bradford Nicholson, President of Gladwin, Inc.; Mr. Brynley King, President of National Payphone Corporation; Mr. William Tucker, an independent consultant in the area of rate design and tariff matters of operating telephone companies; Mr. Les Greer, President of Payphones Unlimited, Inc.; Ms. Memory Lewis and Mr. Wayne Lewis, of Lewis International Communications; Mr. John Dorsch, Manager of Rates and Economic Administration with South Central Bell, Mr. L. M. Miller, of the Alabama Telephone Association and Mr. Jerry Renfroe, Director of the Commission's Rates and Tariff Division.

Mr. King of National Payphone and Mr. Greer of Payphones Unlimited testified concerning the guideline 8 requirement that directory assistance be made without coin deposit, stating that this requires free directory assistance although the owner of the telephone must pay South Central Bell for a directory assistance call and should, therefore, be able to pass on the charge to the user. No testimony was received in favor of directory assistance calls being made without charge. The Commission, upon consideration of this testimony, is of the opinion that individual owners of pay telephones should be allowed to charge a rate not to exceed that charged by the local exchange company for a directory assistance call from coin operated phones rather than absorbing this cost with no means for recovery. Therefore, we find modification of guideline 8 to be in the best interest of the provision of this service.

Mr. Nicholson of Gladwin and Mr. Greer of Payphones Unlimited, expressed their concern over guideline 12 requiring instruments to have the capability of accepting multiple coins. Mr. Nicholson states he opposes multiple coin instruments from an economic standpoint as such instruments costs in excess of $2,000.00, rather than $700.00 for a single coin instrument and that multiple coin instruments are not an economic necessity as the great majority of these instruments are located in places of business. Single coin instruments are anti-inflationary and, in his view, would help keep the cost of pay telephone calls at $.25. Another objection to multiple coin phones expressed by both of these parties is that they require AC power in order to recognize the different coins, which is an added cost.

It is the Commission's opinion that guideline 12 is justified. In arriving at this opinion we take into consideration the fact that pay telephone instruments provided by local operating companies are capable of receiving multiple coins and such companies have incurred the expense of these instruments in order to provide the most convenient type of service to their customers and, therefore, to provide instruments without this capability would amount to a deterioration of the service to the customers in this state.

Another consideration is that charges for telephone calls from pay telephones do not,in all instances, and may not in the future, amount to a rate that is a multiple of $.25. Contrary to testimony that single coin instruments are anti-inflationary, it is our finding that such instruments may, indeed, be inflationary in nature by causing users to insert coins in amounts that are above the set charge for a call.

The paramount importance of maintaining the requirements of guideline 12 is related to the public health and safety. It is easy to visualize situations of an emergency nature, including life-threatening situations, where the caller may indeed have nickels and dimes but no quarters to insert into the instrument, thus preventing the completion of such a call. Therefore, we do not find guideline 12 unreasonable and deny the request for modification of this guideline.

Several parties advocate postpaid rather than prepaid local calls citing as reason therefor that prepaid phones are not dependent upon themselves in that they require AC power which is an added cost, and that, therefore, a decision between postpaid or prepaid should be the consumer's choice. With our finding related to the multiple coin requirement, AC power would be necessitated in any event. Therefore, this requirement for prepaid instruments would not create any additional expense. It is our opinion that guideline 13 should remain as stated in the February 4 order. To allow the introduction of postpaid instruments for the consumers use would, in our opinion, create confusion among those users and this is the very underlying concern which prompted this Commission to require all local operating companies to convert to prepaid telephones in the State. This conversion has been accomplished in the majority of locations in Alabama and should be 100% converted in the near future. To allow individually owned pay telephones at this time to introduce postpaid telephones would be counter productive and unjustifiable in light of the expenses incurred by the local operating companies.

It appears that some of the parties testifying concerning guideline 13 have already purchased and, in fact, have placed into operation instruments which are postpaid in nature and the concern these parties have with guideline 13 relates to the investment already made in postpaid instruments. Whether or not these expenses can be avoided is a matter beyond this proceeding. However, clearly, the exercise of patience on the part of such parties would have avoided this situation and we are not responsible for actions taken prior to the February 4 order or since then in contradiction thereto.

It is, therefore, the Commission's finding that guideline 13 requiring that all local calls be prepaid is justified and in the interest of the using public of the State, as well as being equitable with past requirements of this Commission placed upon local operating companies.

We would also point out that according to testimony given by Mr. Nicholson, there are available escrow telephones which give the choice between prepaid and postpaid operation which are instrument implemented, which may be a viable option to those businesses selling coin telephones in different regulatory environments.

Reconsideration was also sought of guideline 15 requiring a tone to be sounded 30 seconds before disconnection in the event of a time limitation being placed on a phone. The only party offering any testimony concerning this guideline was Mr. Greer, who stated that the 30 second warning is arbitrary and should be changed to a warning tone given at least 15 to 30 seconds before disconnection. Mr. Greer stated it is an unnecessary economic burden to make manufacturers change their softwear to comply with this 30 second rule. No one expressed opposition to this change, nor is the Commission opposed if this will allow flexibility and relieve any economic burden imposed by a 30 second rule. We will require, however, that the warning period be posted where users will be readily made aware of the time lapse between warning tone and disconnection. Accordingly, we find it reasonable to modify guideline 15 to read "a tone must sound 15-30 seconds before disconnection." We also point out that time limitations placed on these instruments are not mandated by the Commission order, but are optional for the owner of the instrument.

Mr. Tucker presented a measured service rate based on number of calls rather than the length of any call, which he refers to as message rate, which he states is a fair middle ground between measured usage rate and a flat rate which does not take into account actual usages. It is cost based and would recover the local cost of a call. However, it is the Commission's opinion that this proposal does not take into account that the longer a call lasts on a pay telephone, whether it be a local operating company phone or a privately owned phone, the higher the cost is for that call to the local operating company. As stated in the February 4, 1985 order, local operating companies must be compensated for the provision of the access lines and recover revenues lost by the replacement of their own instruments, especially in high revenue production locations. We found therein that the measured service rate as approved and the comparable flat rate also approved would most fairly and adequately produce those revenues. Our opinion remains unchanged at this time and we note that implementing the measured service rate at the rate group level existing in each local exchange rather than the highest rate group level in the State reduced the revenues received by South Central Bell considerably.

The Commission stated at that time since there was no historical data by which to gauge this market, that we should review the access line charges, as well as other aspects of customer owned telephones, after one year's operation. We still find this a reasonable course of action, to be taken at the end of said year.

Mr. King, of National Payphone Corporation, also presented testimony concerning the present South Central Bell rate structure stating that such structure is excessive and, in fact, discourages the provision of this service.

Mr. King testified that his company has two ways of doing business. In the first instance, they sell the instruments outright whereby the owner thereof keeps the profits and pays all expenses. In the second, they lease the instrument whereby his company pays the expenses and the lessee gets a commission for having the phone in his establishment. Mr. King introduced a cash flow study showing that under the lease plan, based on the assumptions made in his study, that his company would have a negative cash flow of $73.43 per instrument per month. This study also shows, based on his assumptions, that where the customer owns the telephone his expenses equal 74% of the total income derived therefrom.

One of the assumptions included in this study is that they would average 30 directory assisted calls per month for which revenues would not be received. However, the impact here will no longer be as great in light of the findings contained herein concerning charges for directory assisted calls. Another assumption used is that 75% of all calls would be Band B calls which are charged at a higher rate than Band A. Although it may be true that there are more Band B calls in certain areas of the state, there is no evidence to convince the Commission that this is true in the majority of locations and certainly in those locations with a preponderance of Band A calls the total cost to provide this service will be reduced.

A third assumption made in this cash flow study is that the average call would last 3 minutes and 2 seconds. No reason was given for this assumption, although it adds the cost of an extra minute because of the 2 seconds over the minimum time limit allowable by Commission guidelines. To make this assumption in light of the 3 minute minimum time guideline appears only to increase the cost for the purposes of this study. Were the assumption made on 3 minutes, this one factor alone would reduce the total cost from 74% of the total income to 56% of the total income according to the study, still with the assumption that 75% of the calls would be Band B. In locations where the majority are Band A, the 56% figure would be even considerably lower even on calls with a duration in excess of 3 minutes.

It is the opinion of the Commission that any business enterprise which is able to cover its expenses with 56% or less of its total revenues and, in fact, even with 74% of its total revenues should be a profitable enterprise, much more so than other regulated utilities. A lease plan such as that envisioned by Mr. King introduces an additional profit market and one which is not regulated by this Commission. We stated in our prior order that although the ownership or lease of privately owned pay telephones could result in an economic advantage, we did not guarantee such an advantage and we do not at this time, especially where an additional market as proposed by Mr. King is concerned, although it certainly seems feasible that a profit could be made somewhere in the range of 56% to 100% of cost versus revenue under the other scheme.

It is, therefore, the finding of the Commission that the rate structure approved in the February 4, 1985 order is reasonable and justified at this time and comports with the directives of the FCC in that it does not interfere with the customer's right to interconnect customer owned pay telephones to the network. As stated previously, the Commission will review these rates at the proper time and make any adjustments that appear warranted based on approximately one year's operation under this rate structure.

IT IS, THEREFORE, ORDERED BY THE COMMISSION, That guideline 8 be modified as follows:

> 8. Non-chargeable Operator, 911, and 800 numbers must be able to be made without a coin deposit with no time limitation. Directory Assistance calls will be charged at a rate not to exceed the local exchange company charge for such calls from coin operated instruments.

IT IS FURTHER ORDERED BY THE COMMISSION, That guideline 15 be modified as follows:

> 15. If a time limitation is placed on a phone, proper notice must be posted and a tone must sound 15-30 seconds before disconnection, the exact interval of which shall be clearly stated on the instrument. The minimum time limit shall be no less than 3 minutes.

IT IS FURTHER ORDERED BY THE COMMISSION, That Modification Upon Reconsideration of guidelines 12 and 13 and the Measured Service Rate approved prior hereto is hereby denied.

IT IS FURTHER ORDERED, That this order shall be effective as of the date heeof.

DATED at Montgomery, Alabama, this 6th day of June, 1985.

ALABAMA PUBLIC SERVICE COMMISSION

Jim Sullivan

Jim Sullivan, President

Lynn Greer

Lynn Greer, Commissioner

Jim Folsom, Jr., Commissioner

ATTEST: A True Copy

Wallace Tidmore

Wallace Tidmore, Secretary