

**BEFORE THE
PUBLIC SERVICE
COMMISSION
OF THE STATE OF
MISSOURI**

In the Matter of the Tariff Filing of ALLTEL)
Missouri, Inc., to Consolidate Its Access Rate)
Tariffs.)
)

Case No. TR-97-567

REPORT AND ORDER

Issue Date:

August 27, 1998

Effective Date: September 1, 1998

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OF THE STATE OF MISSOURI

In the Matter of the Tariff Filing of ALLTEL)
Missouri, Inc., to Consolidate Its Access Rate) **Case No. TR-97-567**
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APPEARANCES

W.R. England, III, Brydon, Swearngen & England, P.C., 312 East Capitol Avenue, Post Office Box 456, Jefferson City, Missouri 65102, for ALLTEL Missouri, Inc.

Leo J. Bub, Senior Counsel, Southwestern Bell Telephone Company, One Bell Center, Room 3518, St. Louis, Missouri 63101, for Southwestern Bell Telephone Company.

Leland B. Curtis, Curtis, Oetting, Heinz, Garrett & Soule, P.C., 130 South Bemiston, Suite 200, Clayton, Missouri 63105, for MCI Telecommunications Corporation.

Rick Zucker, Attorney, GTE Service Corporation, 225 Madison Street, 2nd Floor, Jefferson City, Missouri 65101, for GTE Midwest Incorporated.

Linda K. Gardner, Senior Attorney, Sprint, Inc., 5454 West 110th Street, Overland Park, Kansas 66211, for Sprint Missouri, Inc. (formerly known as United Telephone Company of Missouri, d/b/a Sprint).

Paul S. DeFord, Lathrop & Gage, 2345 Grand Boulevard, Suite 2500, Kansas City, Missouri 64108, for AT&T Communications of the Southwest, Inc.

Michael F. Dandino, Senior Public Counsel, Office of the Public Counsel, Post Office Box 7800, Jefferson City, Missouri 65102, for the Office of the Public Counsel and the public.

Cherlyn D. McGowan, Assistant General Counsel, Missouri Public Service Commission, Post Office Box 360, Jefferson City, Missouri 65102, for the Staff of the Missouri Public Service Commission.

REGULATORY LAW JUDGE: **L. Anne Wickliffe, Deputy Chief.**

REPORT AND ORDER

Procedural History

On June 30, 1997, ALLTEL Missouri, Inc. (Alltel) filed tariff sheets with the Commission on June 30, 1997, designed to consolidate its intrastate access rates. The Commission approved a merger between Eastern Missouri Telephone Company, Missouri Telephone Company, and Alltel, with Alltel as the surviving entity in Case No. TM-95-87, on December 12, 1995. In a related case, Case No. TO-96-147, the Commission approved an agreement of the parties that called for Alltel to file a set of consolidated access tariffs no later than 18 months after the effective date of the Commission's order approving the merger in TM-95-87, i.e. June 30, 1997. The tariffs at issue here were filed in compliance with that order.

Southwestern Bell Telephone Company (SWBT) filed an Application to Intervene and Motion to Suspend and Investigate on July 22, 1997. Alltel voluntarily extended the effective date of its proposed tariff until November 1, 1997, and the Commission issued an order granting SWBT's application to intervene, denying its motion to suspend the tariff sheets, and setting a prehearing conference on August 22. The Commission conducted a prehearing conference on September 10 and granted intervention on the record to MCI Telecommunications Corporation (MCI) and GTE Midwest Incorporated (GTE). United Telephone Company of Missouri d/b/a Sprint¹ (Sprint) filed an Application to Intervene on September 17 which was granted on October 7.

The Staff of the Missouri Public Service Commission (Staff) filed a Motion to Establish Procedural Schedule on September 16. The

¹ United Telephone Company of Missouri is now Sprint Missouri, Inc.

Commission issued an order suspending the tariff sheets until September 1, 1998 and adopting the proposed procedural schedule on October 7. The Commission directed parties wishing to intervene to do so by October 27, 1997, and set a prehearing conference for April 1, 1998, and an evidentiary hearing for April 15-16.

AT&T Communications of the Southwest, Inc. (AT&T) filed an Application to Intervene on October 27, 1997, which was granted on November 12.

The parties submitted prefiled testimony, met in a prehearing conference on April 1, 1998, and filed a Hearing Memorandum on April 7. The Commission conducted an evidentiary hearing on April 15-16. Alltel submitted late-filed exhibit number 18, consisting of Alltel's responses to Data Requests 1 and 2 propounded by SWBT. No objections were filed to this late-filed exhibit. The parties filed initial briefs on June 12 and reply briefs on July 8.

Discussion

Alltel provides telecommunications services in various exchanges throughout the state of Missouri. In the Order Approving Stipulation and Agreement issued by the Commission December 21, 1995 in Case No. TO-96-147, Alltel was directed to file consolidated access rate tariffs. The contested issues in the hearing revolved around the method Alltel has used to consolidate the tariffs of the three pre-merger companies into a single tariff filing. The Commission will discuss below the issues presented for decision as reflected in the Hearing Memorandum.

A. Are the traffic sensitive rates contained in Alltel's proposed tariff appropriate?

Alltel's proposal would establish certain intrastate traffic sensitive access rates at the same level as its interstate rates.

Specifically, Alltel proposes to: 1) apply its existing interstate access rates to 800 Data Base Query, Information Surcharge and Local Switching; 2) use existing interstate access rates for Local Transport, but maintain the existing intrastate local transport structure of one rate per minute, rather than moving to a mileage-sensitive element; and 3) eliminate the existing intrastate line termination access element. Alltel's witness, Mr. Beurer, testified that the company's current interstate rates are based on company-specific costs using Federal Communications Commission (FCC) rules. He stated that the cost of switching and transporting an interstate call is no different from the cost of switching and transporting an intrastate call. On cross-examination Mr. Beurer stated that the rates were not based on forward-looking cost studies but on FCC Part 36 and 69 rules designed to allocate costs between interstate and intrastate jurisdictions, and to allocate interstate costs among rate elements. Mr. Beurer testified that he had not conducted a study to determine the Missouri state costs for the rate elements addressed by Alltel's proposed access rate design.

Mr. Beurer testified that the proposal was designed to be revenue neutral to Alltel but would have disparate impacts on the company's access customers. Schedule LB-5 HC to his direct testimony sets out the company's calculations of the expected impacts on its primary access customers and shows a range from large decreases in access expense for some carriers to large increases for others. Mr. Beurer stated on cross-examination that he was aware of other methods of consolidating Alltel's rates that would minimize the disparate impacts on access customers but still permit elimination of the CCL cap. In particular Mr. Beurer stated that one of the scenarios Alltel considered would have

significantly reduced the negative impact on SWBT and still have resulted in a decrease in AT&T's access expense. See Exhibit 15-HC.

AT&T's witness, however, testified on cross-examination that the scenario set out in Exhibit 15-HC is unacceptable to AT&T because interLATA and intraLATA rates are not priced the same though the costs or providing the service are the same and the proposal is, therefore, not competitively neutral. AT&T and MCI were not opposed to the traffic sensitive rates in Alltel's filed proposal. Both of these companies would experience a decrease in access expense according to Mr. Beurer's calculations.

Staff objects to the traffic sensitive rates Alltel proposed because the company was not consistent in applying its interstate rate elements to the corresponding intrastate rate elements. Staff's position is that Alltel's proposal results in a disproportionate skewing of the rates because of this inconsistency. Staff's witness, Ms. Anson, objected particularly to the proposal to set the interstate and intrastate originating CCL rates at the same level while maintaining a disparity between the interstate and intrastate terminating CCL rates. The result is a terminating to originating ratio (T/O Ratio) of approximately 12.62 to 1, which Ms. Anson testified would be significantly higher than the ratio for any other local exchange company in Missouri. Ms. Anson testified that Alltel's proposal goes beyond consolidation of three rate structures into one and attempts a complete access rate rebalancing. Staff proposed an alternative rate design in Schedule E to Ms. Anson's Rebuttal Testimony.

SWBT's position is that Alltel's proposal is inappropriate because the Commission's order in TO-96-147 was for the company to consolidate the three sets of pre-merger access tariffs into one set of

access rates. Instead, Alltel has filed a proposal that would increase its revenues and significantly affect the access expense of SWBT and other Alltel access customers. SWBT's witness, Mr. Taylor, testified that the proposal is discriminatory because Southwestern Bell would experience a significant access rate increase while other carriers would experience lesser increases or even decreases, and Alltel would remain revenue neutral. Mr. Taylor set out his calculation of the expected impact of Alltel's proposal on SWBT in the highly confidential Schedule 2-1 to his rebuttal testimony. According to SWBT, Alltel could consolidate its access rates without such a large effect on the expenses of its access customers. SWBT proposed retaining the company's three sets of access rates until a more equitable approach could be developed.

SWBT also opposed the rate design proposed by Staff as discriminatory because it would also result in a large increase to SWBT's access expense while reducing the access expenses of some other carriers. In addition, Staff's proposal includes the elimination of the CCL cap which SWBT opposes as a de facto rate increase. In addition, Mr. Cowdrey testified on behalf of Sprint that it would be more equitable to retain the three existing access rates until a rate design with a less significant impact on access customers could be developed.

GTE's position is that establishing parity between rates would be appropriate, but not when it creates an adverse financial impact on other carriers as Alltel's proposal does. Mr. Shannon testified that the Commission should consider removing at least some of the subsidies residing in Alltel's access rates.

B. Issues Related to Appropriate Carrier Common Line (“CCL”) Rates

1. Is Alltel’s proposed tariff appropriate in that it removes the existing rate cap on CCL Rates in the pre-merger Alltel and Eastern Missouri Telephone Exchange Company exchanges?

Alltel’s proposal includes the elimination of the CCL (carrier common line) cap which currently exists in the exchanges served by the pre-merger companies of Eastern Missouri Telephone Company and Alltel. The pre-merger Missouri Telephone Company does not have a CCL cap. Alltel’s witness stated that the application of the CCL rate cap has resulted in “reduction in intraLATA CCL revenues far in excess of the 20% reduction the PTCs [primary toll carriers] have” made. Mr. Beurer also complained about the administrative time and money required for Alltel to manually monitor each month’s total intraLATA usage and properly apply the cap. In response to questions from the bench Mr. Beurer stated that he did not know what the administrative costs are to administer the CCL cap. Mr. Beurer pointed out that approximately 15 Missouri LECs no longer have a CCL cap. He also testified that the cap was put into place with the Primary Toll Carrier Plan in 1988 and that no adjustments were ever made for the increased minutes of use that have occurred since then.

Staff agrees with Alltel that elimination of the CCL cap is appropriate as a way to eliminate disparities and achieve similar rates for similar services. AT&T and MCI also do not oppose eliminating the CCL cap but they argue that, if the cap is retained, it should be applied to both interLATA and intraLATA minutes of use.

GTE and Sprint do not oppose the elimination of the CCL cap in principle. However, both object to elimination of the cap if it would result in adverse economic impacts on access customers.

SWBT opposes the elimination of Alltel's CCL cap on the grounds that its elimination would not be revenue neutral to Alltel but would actually result in a rate increase of approximately 6.9 percent because Alltel used 1996 usage levels in its calculations. SWBT argued that the base data should have been trued up to a more recent period and that the existing proposal would result in a rate increase that is not supported by evidence. Mr. Taylor testified that if Alltel proposes consolidated rates that are revenue neutral to Alltel, they should also be expense neutral to its access customers. Mr. Taylor testified that the CCL rate cap was implemented when the PTC Plan was developed in 1988. Secondary carriers under the Plan were permitted to either implement an intraLATA CCL cap or shift a portion of their non-traffic sensitive costs to local service rates.

2. Is Alltel's proposed tariff appropriate in that it establishes a 1:12 ratio between originating and terminating CCL rates per minute?

Alltel is proposing to establish its intrastate originating carrier common line rate at one cent (the same as its interstate originating CCL rate) and residually price its intrastate terminating CCL. This proposal would result in a T/O Ratio of approximately 12:1.

Mr. Beurer testified that high originating CCL rates can create bypass situations, where long distance providers use special access service circuits to connect a customer directly to their toll switch. Bypass scenarios result in a loss to Alltel of originating CCL minutes which, according to Mr. Beurer, could force the company to increase its access rates or local rates. Mr. Beurer also argued that CCL revenues are non-traffic sensitive and therefore serve to support basic local telecommunications service. Alltel wants to establish the 12:1 T/O Ratio

to avoid bypass and help the company maintain current local rates until Missouri's Universal Service Fund is operational. Mr. Beurer testified in response to questions from the bench that Alltel generates more originating minutes of use (in 1996 96.2 million) than terminating minutes (in 1996 76.97 million). He stated further that Alltel is subject to losing originating minutes through special access bypass but its terminating minutes of use (MOU) have continued to grow and at a faster rate than originating MOU.

Staff's position is that Alltel's proposal of a T/O Ratio of 12.62 to 1 is inappropriate. Ms. Anson testified that approval of this ratio would result in Alltel generating only 19 percent of its revenues from originating CCL minutes, and approximately 81 percent from terminating minutes. She stated that Alltel's proposed CCL ratio is significantly higher than that of any other local exchange company (LEC) in the state. Ms. Anson included in her rebuttal testimony a schedule demonstrating that the majority of LECs have a CCL T/O Ratio of 2 to 1, or lower, and the highest CCL T/O Ratio currently in effect in Missouri is 5.85 to 1. Staff argues that this proposed ratio is not appropriate given that the cost of originating and terminating such traffic is virtually identical. Ms. Anson stated that Staff is concerned with creating a level playing field for purposes of encouraging competition and that establishing parity between originating and terminating CCL rates is a first step in that direction.

SWBT, GTE, Sprint, AT&T, and MCI all oppose Alltel's proposed T/O Ratio. Mr. Taylor testified on behalf of SWBT that Alltel has offered no justification for the dramatic differential between terminating and originating rates, and that the proposed T/O Ratio would place approximately 70 percent of Alltel's total access revenue on the

terminating access rate element. Mr. Taylor testified that this proposed rate design would shift expense away from Alltel-originated toll traffic and place that burden unfairly on carriers whose traffic terminates in Alltel's exchanges.

GTE argues that, in addition to the T/O Ratio being a distortion of rates for what is basically the same service, the proposal would cause losses to other carriers. Mr. Shannon testified that Alltel's proposal would result in a loss of approximately \$440,000 to GTE. For purposes of this case Mr. Shannon supports AT&T's proposal described below. However, he stated on cross-examination that his support of that proposal was limited to the facts of this case and GTE would prefer the establishment of a generic docket to take up access and toll rate reform.

Sprint points out that Alltel's proposed 12:1 T/O Ratio is outside the norm for Missouri, referencing Schedule D to Ms. Anson's rebuttal testimony. The current range for companies in Missouri is approximately 1.7:1 to 5.8:1, with many companies in the 1.7:1 range. Alltel's proposal is more than twice the most extreme ratio currently existing for Missouri local exchange carriers and would result in an increase of more than 250 percent to the terminating CCL rate. Mr. Cowdrey testified that he was not aware of any cost basis that would support the proposed disparity between terminating and originating access. He proposes that, should the Commission determine that an originating CCL rate of approximately \$.01 per minute is appropriate for the industry, then all access providers should move to this rate structure simultaneously.

AT&T and MCI oppose Alltel's proposed T/O Ratio on the grounds that it is anti-competitive. Mr. Pauls testified for AT&T that originating and terminating CCL access service rates should be set at the

same level, at a T/O Ratio of 1:1, in order to more equitably apportion the CCL cost/contribution recovery among Alltel's intrastate access customers. Mr. Pauls proposed that intrastate traffic sensitive rates be set at parity with interstate rates, and that both interLATA and intraLATA originating and terminating CCL rates be set at \$0.064825 per minute. He stated that his proposal would be revenue neutral to Alltel, and that there is no economic or physical reason for an originating CCL access service minute of use to be priced differently than a terminating CCL access service minute of use.

3. Is Alltel's proposed tariff appropriate in that it establishes interLATA/intraLATA parity among its CCL rates?

Alltel's position is that it is appropriate to establish parity between its interLATA and intraLATA intrastate CCL rates. Mr. Beurer testified that there is no difference in the cost of handling intraLATA versus interLATA toll calls. Mr. Beurer testified that there are currently fourteen different rates for the CCL service element. Alltel argues that consolidating its CCL rates into one originating and one terminating rate will streamline the billing and bill verification process.

Staff, AT&T, and MCI all agree with Alltel's proposal to establish interLATA/intraLATA parity in rates. Ms. Anson testified that she supports elimination of disparities and the establishment of similar rates for similar services. AT&T's witness, Mr. Pauls, argued that the clear intent of the Stipulation and Agreement approved in TO-96-147 was to consolidate all interLATA and intraLATA CCL rates into a single set of intrastate (originating and terminating) CCL rates. Mr. Pauls testified that Alltel's intraLATA customers have been enjoying lower

CCL rates than its interLATA access customers and the proposed consolidated rates would remedy past disparate treatment.

GTE and Sprint take the position that, though there is nothing inappropriate in establishing parity between interLATA and intraLATA rates, establishing parity should not create an adverse financial impact on other carriers. They argue that Alltel's proposal would cause losses to other carriers, including GTE and Sprint. Sprint argues that Alltel's flash cut proposal to remove the disparity between interLATA and intraLATA CCLs is unwarranted because it would force large access expense increases on carriers who carry primarily intraLATA access traffic. Sprint's position is that parity for all carriers should be considered in an industry-wide access reform docket. Absent such a docket, a reasonable transition to interLATA and intraLATA CCL parity to minimize the adverse effect on customers is preferable to Alltel's proposal.

SWBT opposes Alltel's attempt to achieve parity between interLATA and intraLATA access rates. SWBT characterizes the proposal as increasing intraLATA access to fund a decrease in interLATA access and argues that Alltel has offered no justification to support such an increase. Mr. Taylor testified that none of the parties has claimed that Alltel's intraLATA access rates are priced unreasonably low, that they produce inadequate revenue for Alltel, or that they fail to recover costs plus significant contribution. Therefore, there is no basis for increasing intraLATA access rates in this case.

C. Is Alltel's proposed tariff appropriate given that it would not maintain revenue neutrality among the local exchange companies and interexchange telecommunications companies operating in Alltel's exchanges?

Alltel's witness testified that the company's proposed tariff filing would be "revenue neutral" to Alltel, with the exception of the

removal of approximately \$90,000 as a result of federal deregulation of payphones. Alltel argues that it is not possible to develop a single set of access rates that would have a revenue neutral impact on all of the company's access customers. Mr. Beurer stated that because of the variations in the exchanges in which different long distance providers do business, and the variations in pre-merger company rates, some companies would experience reductions in access expense under Alltel's proposals and others would experience increases. He testified that, using 1996 billed information, only two companies would have annual increases in access expense of more than \$100,000; six companies would have increases of from one dollar to \$669; and eighteen would see a decrease in access expense.

Staff's position is that the failure of Alltel's proposal to maintain revenue neutrality among the LECs and IXCs operating in its exchanges should not be a basis upon which to reject the proposed tariff. However, Staff did point out that the revenue impact upon these access customers could be significant and suggested that the Commission direct Alltel to file a revised tariff that would minimize these impacts. Staff also proposed an alternative rate design in Schedule E to Ms. Anson's rebuttal testimony.

AT&T and MCI support Alltel's proposal. They argue that the company's intraLATA access customers have been enjoying lower CCL rates than interLATA customers for some time and that the disparity should be eliminated.

SWBT, Sprint, and GTE all oppose Alltel's proposal for interLATA/intraLATA parity because of the increase in expenses to some of its access customers. SWBT argues that the Commission's order in

TO-96-147 did not authorize the company to increase or decrease its revenues, or to increase or decrease carriers' access expense.

GTE also takes the position that it is not equitable for other carriers to suffer a loss to enable Alltel to have consolidated access tariffs. Sprint agrees with SWBT that the Commission's order in TO-96-147 does not require the extensive access rate structure changes Alltel has proposed. Mr. Cowdrey testified that the most equitable treatment would be to combine the revenues and minutes of the three companies under the current rate structure, reduce the revenues by the required \$90,000 amount (because of deregulation of payphones), calculate the resulting rates and file those same rates in the consolidated tariff. This approach would preserve Alltel's revenue neutrality without the dramatic swings between "winners" and "losers" that would result from Alltel's proposal.

D. What discernable impact, if any, would Alltel's becoming a toll carrier and thus relieving the primary toll carriers of responsibility for toll in Alltel exchanges have upon Alltel's filing in this docket?

The Commission ordered the phasing out of the Primary Toll Carrier Plan in March in Case No. TO-97-217. As a result, Alltel will become an intraLATA toll carrier for its own customers. Alltel's position is that there will be some impact upon future access expenses of the parties to this case who are currently serving as PTCS. However, Alltel has not been able to quantify this impact and merely alleges that the overall impact would mitigate any adverse impact its proposed consolidated access rates will have on those companies.

Staff agrees that the information necessary to quantify the impact of Alltel becoming a toll provider is not presently available. Staff concurs with Alltel's allegation that the impact would be to reduce

the increase in access expenses to the companies currently serving as PTCs.

SWBT and Sprint take the position that Alltel's becoming a toll provider would actually increase the negative impact on the companies currently serving as PTCs in Alltel exchanges. SWBT argues that the impact of the PTC case decision should be considered in this case. Mr. Taylor testified that Alltel's proposed rates would place a dramatically higher access burden on carriers terminating traffic to Alltel than Alltel would incur itself in an ORP environment because of the 12:1 T/O Ratio. Mr. Taylor argued that Alltel's proposed rates were designed with the move to an Originating Responsibility Plan (ORP) in mind to advantage Alltel to the detriment of other carriers.

Sprint also believes the impact of Alltel's proposed rate restructuring on the current PTCs, i.e. Sprint, Southwestern Bell, GTE and Fidelity, may actually be worse in an ORP situation. If Alltel becomes the toll carrier of last resort for its customers, Sprint and other toll carriers would pay Alltel's higher \$.12 terminating CCL rate but receive no expense relief as a result of the lower \$.01 CCL originating rate. Sprint argues that the rate impact reflected in Beurer Schedule LB-5 is understated since it reflects the net of the originating CCL rate savings and the terminating CCL rate increase. Mr. Cowdrey pointed out that there may be other cost savings to the current PTCs associated with Alltel's assumption of the toll carrier responsibility, such as billing and collection expenses, that are unrelated to the access rate consolidation. Mr. Cowdrey stated that, at this point, Sprint has been unable to calculate the effect of Alltel becoming a toll provider.

Findings of Fact

The Missouri Public Service Commission, having considered all the competent and substantial evidence upon the whole record, makes the following findings of fact. The positions and arguments of all the parties have been considered by the Commission in making this decision. Failure to specifically address a piece of evidence, position or argument of any party does not indicate that the Commission has failed to consider relevant evidence, but indicates rather that the omitted material was not dispositive of this decision.

_____A. The Commission finds that the proposed consolidated access rate tariff submitted by Alltel is not just, reasonable, nor in the public interest because it restructures the company's access rates in a manner that would shift significant and unreasonable amounts of revenue from originating to terminating minutes of use, and is not supported by substantial and competent evidence.

B. The Commission finds that Alltel should be permitted to eliminate the existing CCL rate cap in the context of access tariffs that are revenue neutral to Alltel and otherwise found reasonable by the Commission. When the PTC Plan was implemented each secondary carrier had the option of implementing a cap on CCL rates or shifting a portion of its non-traffic sensitive revenue requirement from access rates to local rates. The Commission ordered the phasing out of the PTC Plan in Case No. TO-97-217 on the grounds that the plan is inconsistent with intraLATA presubscription and the establishment of a competitive environment. The CCL cap, as an accoutrement of the PTC Plan, is an unnecessary complication to access rate structures. Although the Commission does not find the cap to be so anti-competitive as to require its immediate elimination in every exchange, the Commission finds that companies with

access rate changes pending for approval may eliminate the cap where appropriate. Although the parties to this case did not specifically quantify the administrative costs associated with implementing the cap, there is no dispute that there are such costs. Simplifying access rates and reducing administrative costs are positive steps in leveling the playing field for all telecommunications companies operating in Missouri.

C. The Commission finds that the terminating to originating ratio of 12.62:1 proposed by Alltel is anti-competitive, far greater than any ratio previously approved in Missouri, and unreasonable. Approval of Alltel's T/O Ratio proposal would shift a disproportionate share of the company's revenue requirement from originating to terminating minutes and act to discourage the development of intraLATA competition in Alltel exchanges.

D. The Commission finds that Alltel should be permitted to set its interLATA and intraLATA CCL rates at parity to the extent that it can be achieved without an inordinate adverse impact on the company's access customers. The parties uniformly testified that there is no cost differential between providing interLATA and intraLATA access and, therefore, parity between these rates is more competitively neutral than the existing disparities. Although the Commission makes this finding in favor of parity between rates for similar services, the Commission also finds that the impact on the company's access customers must be mitigated where possible during this period of transition to a competitive environment.

E. The Commission finds that, although revenue neutrality among the local exchange companies and interexchange telecommunications companies operating in Alltel's exchanges may not be possible, Alltel's

proposal unreasonably shifts the company's revenue requirements onto the terminating access element at the expense of access customers.

F. The Commission finds that the evidence on the record is insufficient to determine what effect Alltel's becoming a toll carrier would have on the expenses of its access customers. Furthermore, since the Commission has found that Alltel's proposed access tariff is unjust, unreasonable, and not in the public interest, this question is moot.

G. The Commission finds that Staff's proposal, which set a T/O Ratio of 1.96:1 is more reasonable than Alltel's proposal but that Staff failed to support its rate design with sufficient evidence to permit wholesale approval. The Commission also finds that AT&T's proposal of a 1:1 T/O Ratio is more reasonable than Alltel's proposal and has appeal as pro-competitive. However, AT&T's support of its rate proposal consisted of policy arguments and there is insufficient evidence on the record to permit the Commission to adopt its resolution of the issues.

H. The Commission finds that Alltel should submit a new consolidated access tariff which incorporates the preferences expressed by this Commission in its findings and conclusions of law, to the extent that it is possible to do so without placing a disproportionate financial burden on the company's access customers.

Conclusions of Law

The Missouri Public Service Commission has arrived at the following conclusions of law:

The Commission has jurisdiction over the operations of, and the rates charged by, Alltel Missouri, Inc. pursuant to Chapters 386 and 392 of the Revised Statutes of Missouri 1994. This law also gives the

Commission authority to review all tariffs filed with the Commission and to reject or suspend tariffs that fail to comply with state law, Commission rule or order, if they include unjust or unreasonable rates, or are not in the public interest. §§ 386.250, 386.310, 386.320, and 392.200.12, RSMo Supp. 1997.

Missouri law generally prohibits the charging of different rates for the same service based upon the geographic area in which the service is offered, unless the geographic distinction is reasonably necessary to promote the public interest. § 392.200, RSMo Supp. 1997. For that reason the Commission directed the post-merger company, Alltel, to file access tariffs consolidating the rates of the three pre-merger companies.

Alltel complied with that direction but the burden of proof to show that proposed rates are just and reasonable is upon the telecommunications company. § 392.230.6, RSMo 1994. Based upon its findings of fact, the Commission concludes that Alltel has failed to meet this burden of proof. However, § 392.200, RSMo Supp. 1997 requires Alltel to replace its pre-merger tariffs with a single set of access tariffs. Therefore, based upon this statutory mandate and its findings of fact, the Commission will reject the proposed tariff sheets and direct Alltel to file tariff sheets in conformance with this Report and Order.

IT IS THEREFORE ORDERED:

1. That late-filed Exhibit 18 submitted by ALLTEL Missouri, Inc. is received into evidence.

2. That the following tariff sheets filed by ALLTEL Missouri, Inc. On June 30, 1997 are rejected:

Mo. P.S.C. No. 3 – Intrastate Access Tariff

1st Revised Page 45, Replacing Original Page 45
1st Revised Page 134, Replacing Original Page 134
1st Revised Page 136, Replacing Original Page 136
1st Revised Page 138, Replacing Original Page 138

1st Revised Page 139, Replacing Original Page 139
1st Revised Page 164, Replacing Original Page 164
1st Revised Page 165, Replacing Original Page 165
1st Revised Page 166, Replacing Original Page 166
1st Revised Page 167, Replacing Original Page 167
1st Revised Page 408, Replacing Original Page 408
1st Revised Page 411, Replacing Original Page 411
3rd Revised Page 412, Replacing 2nd Revised Page 412
1st Revised Page 413, Replacing Original Page 413
1st Revised Page 414, Replacing Original Page 414

3. That ALLTEL Missouri, Inc. shall file tariff sheets in conformance with the preferences expressed by the Commission in this Report and Order no later than September 28, 1998. Alltel shall endeavor to develop a proposal that does not impose a disproportionate financial burden on its access customers.

4. That this Report and Order shall become effective on September 1, 1998.

BY THE COMMISSION

Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge

(S E A L)

Lumpe, Ch., Crumpton, Drainer,
Murray and Schemenauer, CC.,
concur and certify compliance
with the provisions of
Section 536.080, RSMo 1994.

Dated at Jefferson City, Missouri,
on this 27th day of August, 1998.