

**BEFORE THE TENNESSEE REGULATORY AUTHORITY AT
NASHVILLE, TENNESSEE**

JULY 2, 1999

IN RE:)	
CITIZENS TELECOMMUNICATIONS)	DOCKET NO. 98-00687
COMPANY OF TENNESSEE TARIFF TO)	
RESTRUCTURE DIGITAL CENTREX SERVICE)	

ORDER DENYING TARIFF

This matter came before the Tennessee Regulatory Authority ("Authority") at the regularly scheduled Authority Conference held on April 20, 1999, for consideration of Citizens Telecommunications Company of Tennessee ("Citizens of Tennessee") Tariff to Restructure Digital Centrex Service. This Tariff was originally filed with the Authority on October 1, 1998, with the proposed effective date of October 30, 1998.

BACKGROUND

On November 4, 1997, the TRA opened Docket 97-07506 for the purpose of addressing the improper assessment by Citizens Telecommunications Company of Tennessee and Citizens of the Volunteer State (jointly "Citizens") of its existing Centrex tariffs.¹ In advance of the issuance of a show cause order the Consumer Services Division and Citizens submitted a settlement agreement that was approved by the Authority on June 30, 1998. In addition to providing for the forward-looking procedures for implementation of the existing Centrex tariff and monetary penalties, the settlement agreement set forth the following requirements:

¹ Centrex service is an alternative to PBX or key systems. With Centrex, all of the switching features and functions needed for a customer's internal telecommunications are located in the telephone company's central office instead of located at the customer's premise as is the case with a PBX or key system. Centrex service typically consist of three elements: 1) the Centrex line or intercom component that provides station-to-station

Existing Centrex customers would be notified of the billing errors which resulted in under billing. This notice was to be provided within ninety (90) days of the approved settlement agreement.

Centrex customers would be notified of the financial impact of correcting their bill.

On or before October 1, 1998, Citizens would file revised Centrex tariffs to "simplify the Centrex service offering to eliminate the problems currently encountered with selling, provisioning, billing and overall administration, all of which contribute to customer confusion."

For those customers discontinuing Centrex service, (a) Citizens would purchase the customer owned equipment (CPE), (b) if Citizens owned the equipment, the customer would not incur any termination costs or penalties, or (c) for CPE owned by other entities, Citizens would pay all lease termination cost including penalties.

Citizens of Tennessee was directed to remove the \$19.30 monthly charge for each Centrex line terminating on a PBX/Key system.²

On October 1, 1998, Citizens filed revised Centrex tariffs proposing to implement the above requirements for Citizens of Tennessee and Citizens of the Volunteer State. The proposed tariffs would remove the network access register (NAR) and allow access to the outside world on all intercom lines. However, Citizens also proposed to increase the charges for intercom lines by approximately 300% (from \$11/month to \$35/month). In addition, if the customer wished to terminate Centrex service in a PBX or key system, the line rate would be increased to \$60 per month.

These tariffs were placed on the Authority Agenda for consideration at the December 15, 1998 Conference. Prior to that Conference, Citizens requested that the tariffs be removed and that Authority Staff be allowed to work with Citizens to resolve any issues arising from the tariffs. TRA Staff members David Foster and Joe Shirley, with subsequent legal review by Edward Phillips (hereafter, "TRA Staff"), were designated as parties to this proceeding for the purpose of working with the company to eliminate these concerns. The tariff was suspended through February 1, 1999.

calling; 2) the network access register that permits calls to be made to and received from the outside world; and 3) features.

² Citizens of Tennessee removed the \$19.30 charge for Centrex lines terminating on a PBX/Key system on February 3, 1999, Tariff 99-00053.

As a result of the on-going negotiations between the parties, the tariff was suspended at the January 19, 1999 Authority Conference, the March 2, 1999 Authority Conference and again at the April 6, 1999 Authority Conference. Upon a breakdown in negotiations, Citizens and the TRA Staff were directed to file briefs with the Authority for the purpose of determining approval or denial of the proposed tariffs. In accordance with the schedule agreed to by the parties, briefs were submitted on March 11, 1999, with reply briefs submitted on March 17, 1999.

Both parties agree that approval of this tariff will result in rate increases to seventeen (17) Citizens of Tennessee customers. The largest customer increase, as estimated by Citizens of Tennessee, would be 92%. The increases are in addition to the increases that many customers will experience when Citizens of Tennessee begins applying its tariff correctly.

Therefore, this tariff violates Tenn. Code Ann. § 65-5-209(f) of the price regulation statute which states “Notwithstanding the annual adjustments permitted in subsection (e), the initial basic local exchange telephone service rates of an incumbent local exchange telephone company subject to price regulation shall not increase for a period of four (4) years from the date the incumbent local exchange telephone company becomes subject to such regulations.” Centrex was determined to be a basic exchange service in Docket 96-01423 (United Telephone Southeast’s 1996 Annual Price Cap Filing).

Citizens of Tennessee argues that since the tariff results in an overall revenue reduction, it complies with Tenn. Code Ann. § 65-5-209(f) even though some customers receive rate increases. Such conclusion would be inconsistent with the Authority’s decision in Sprint Docket 97-01388. That docket involved a request from Sprint to restructure long distance rates by changing the time of day rate bands. While the overall affect to the company was revenue neutrality, it would have resulted in some customers receiving rate increases. Chairman Malone and Director Greer stated during deliberations that while the filing may be revenue neutral to the company, it would result in a rate increase in violation of the TRA’s rules. Rule 1220-4-2-.55 prohibits rate increases of long distance

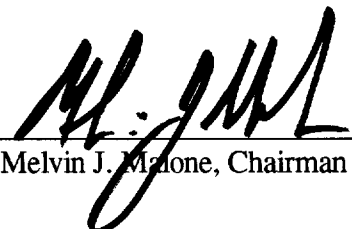
rates while Tenn. Code Ann. § 65-5-209 prohibits rate increases in basic services. Consistency dictates that the Citizens of Tennessee Tariff be denied.

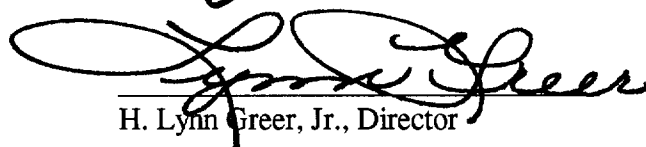
Finally, the proposed tariff results in higher rates to customers terminating Centrex lines on PBX/Key systems. This contradicts the settlement agreement whereby Citizens of Tennessee agreed to and removed the \$19.30 additional charge for Centrex lines terminating on to a PBX/Key system.

After consideration of the record in this matter, the Directors voted unanimously to deny the proposed Tariff, and find that the proposed increases are in addition to the increases that many customers will experience when Citizens of Tennessee begins applying its current tariff correctly. Therefore, the proposed tariff would violate Tenn. Code Ann. § 65-5-209(f) and is hereby denied by the Authority.

IT IS THEREFORE ORDERED THAT:

Citizens Telecommunications Company of Tennessee Tariff to Restructure Digital Centrex Service is denied.


Melvin J. Malone, Chairman


H. Lynn Greer, Jr., Director


Sara Kyle, Director

ATTEST:


K. David Waddell, Executive Secretary