

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

SOUTH CENTRAL BELL TELEPHONE)
COMPANY'S USE OF A PROJECTED)
TEST YEAR IN CONNECTION WITH) ADMINISTRATIVE
SOUTH CENTRAL BELL TELEPHONE) CASE NO. 264
COMPANY'S 1983 APPLICATION)
TO ADJUST RATES)

O R D E R

On February 24, 1983, South Central Bell Telephone Company ("South Central") filed a memorandum with the Commission in support of the use of a projected, or future, test year in a 1983 rate case. The next day, on February 25, 1983, South Central filed a motion asking the Commission to "use the calendar year 1984 as a test year for fixing the rates to be charged by the Company on and after January 1, 1984."

South Central has not filed its application to adjust rates beginning in 1984 nor has it filed its notice of intent to file pursuant to 807 KAR 5:011(8). Therefore, the Commission will consider the motion and supporting memorandum as an administrative case.

On February 28, 1983, South Central was ordered to serve copies of its motion and memorandum upon each intervenor of record in its two most recent general rate cases (Case Nos. 8150 and 8467). On March 2, 1983, South Central certified to the Commission that all parties in those cases had been served.

The Commission, having considered South Central's motion and memorandum, and being advised, has determined that it is premature to set the test year in a rate case that has yet to be filed and will, therefore, deny the motion. In support of this determination, the Commission makes the following findings:

(1) South Central's memorandum presented only legal arguments for the use of a projected test year and gave no practical reasons why a properly adjusted historical test year would be inappropriate. The Commission agrees with South Central that the changes now occurring in the telecommunications industry will affect its services and operating structure. These changes are the result of decisions made by the Federal Communications Commission and the agreed Modified Final Judgment ("MFJ") between South Central's parent, American Telephone and Telegraph Company ("AT&T"), and the United States Department of Justice which provided for the divestiture of the local Bell operating companies by March, 1984. The Commission is of the opinion, however, that the effect of these changes can be properly determined using South Central's existing operations presented in a rate case using a historical test year.

(2) The Division of Consumer Protection of the Attorney General's Office ("AG") was one of three parties responding to South Central's motion. The AG objected to the motion and recommended in part that the "decision on the appropriate test year be deferred until...following evidentiary hearings."¹ South Central's response to the AG indicated that the absence of a ruling before it filed its rate application would cause it to file two types of cases, one on a historical test year, the other on a

¹AG's Response to Motion of South Central, dated March 2, 1983, page 3.

projected test year. South Central further stated that the AG's proposal would "not only lengthen the rate case, but would also complicate the already complex hearings, further monopolizing this Commission's already scarce time."² The Commission agrees with the AG that this issue would be better decided in an actual rate proceeding.

The Kentucky Finance and Administration Cabinet ("Finance") responded on March 31, 1983, objecting to South Central's motion on the ground that it would deprive the Commission of its fact-finding responsibilities and of actual and objective cost and operating data. South Central disagreed with Finance's position, stating that the Commission would maintain regulatory review over current operations during 1984, and could "take appropriate action if returns produced by the new tariffs are not within the range found reasonable."³ The Commission agrees with Finance, since it is apparent that actual operating results would not be available under South Central's proposal until after a decision is rendered.

The City of Louisville and Jefferson County filed a joint response on April 22, 1983, in support of South Central's motion. Their response indicated that the 1984 Operating Budget, adjusted to reflect at least four separate alternatives, could be used as a test year. The Commission is concerned that not only these alternative courses of actions, but others

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Reply of South Central to the AG's Response, dated March 18, 1983, page 3.

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Response of South Central to Memorandum of Finance, dated March 11, 1983, page 2.

yet to be decided, will cause the test year projections to fluctuate widely, and thereby become uncertain. We would, to a large extent, be "crystal-balling" the operations of South Central.

(3) The Commission is not convinced that South Central is in a position to know much more than the broad outline of its new operating structure. Management will continue to resolve issues resulting from the MFJ through the end of 1983. Decisions on such issues as the Local Access and Transport Areas configurations, toll settlements and access charges, and the services to be provided by the new centralized staff and regional companies in place of the current license contract arrangements have not yet been finalized. Even AT&T admits that the assignment of assets, liabilities and personnel has yet to be completed and will not be until September, 1983.⁴ Thus, South Central would have to file a projected test year which would be premised on a projected organizational structure. Regardless of the test year used by South Central in its next rate case, the Commission foresees considerable problems in dealing with the changes now occurring and which will occur on January 1, 1984. Despite these difficulties, the Commission is of the opinion that a historical test year will provide a useful starting point for analysis. We expect the rate case to have novel features as a result of the divestiture which will require innovative planning by South Central as well as deliberate rate-making procedures by this Commission. Resolution of these issues will be

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AT&T's Plan of Reorganization dated December 16, 1982, filed in Civil Action No. 82-0192 before the United States District Court for the District of Columbia, page 468.

difficult enough without injecting an additional "unknown"--the future test year. Although we are cognizant that certain assumptions will be based on business judgments and opinions, we expect the majority of South Central's request to be documented according to "known and measurable" and "fair, just and reasonable" criteria.


To help South Central better plan its next rate case, the Commission serves notice that it must meet its burden of proof pursuant to KRS 278.190; that any assumptions made must be supported by detailed documentation including alternatives to the assumptions chosen; and that the start-up costs, both direct and allocated, for the new southern region holding company and the centralized service organization will not be allowed for rate-making purposes unless sufficient cost-benefit justification and documentation has been provided for each expenditure.

The Commission therefore ORDERS that the motion of South Central to use the calendar year 1984 as the projected test year be and it hereby is denied.

Done at Frankfort, Kentucky, this 2nd day of May, 1983.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commission

ATTEST:

Secretary