

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

NOTICE OF SOUTH CENTRAL)
BELL TELEPHONE COMPANY)
OF AN ADJUSTMENT IN ITS) CASE NO. 8150
INTRASTATE RATES AND)
CHARGES)

O R D E R

Procedural Background

On December 10, 1982, South Central Bell Telephone Company ("Bell") filed notice with the Commission proposing to increase its intrastate telephone rates and charges to produce an increase in revenue of approximately \$3,462,000 annually, effective January 1, 1983. On December 29, 1982, the Commission suspended the proposed rates to investigate their reasonableness. Also, on December 29, 1982, the Commission ordered Bell to file additional information relating to its application. On January 20, 1983, a conference was held concerning the application, with Bell officials, members of the Commission staff, and representatives of the Attorney General's office attending.

Absorption

Bell's filing represents the third phase of the 4-year phase-in authorized for the expensing of station connections and is in accordance with procedures approved in the Commission's Order entered August 11, 1981. Those procedures allowed Bell to file tariffs to recover the additional expenses incurred through the phasing-in of the expensing of station connections. The Commission further required that to be eligible for the full revenue recovery from the additional expensing of station connections, Bell had to meet a strict absorption test as follows:

Bell must, moreover, demonstrate, based on actual results, adjusted solely for the effect of rate increases, that absorption of these increased costs would result in Bell not achieving the¹ return on equity allowed in this Order.

Subsequently, on May 5, 1982, the Commission entered an Order further defining the absorption criteria for this test. Bell's filing for the third phase meets the criteria set forth in the Commission's Order of May 5, 1982. Based on these criteria Bell cannot absorb any of the proposed increase.

¹ Order entered August 11, 1981, page 20.

Rate Design

Bell proposed to recover increased expenses from phase 3 expensing of station connections through basic exchange and related services, and service charges, as follows:

Basic Exchange and Related Services	\$1,590,000
Service Charges	<u>1,872,000</u>
Total	\$3,462,000

The Commission is of the opinion that Bell's allocation of revenue requirement to basic exchange and related services is reasonable. Basic exchange rates have not increased in 15 months and the increase authorized in this Order will have a minimal impact on most customers. However, the Commission does not agree with Bell's distribution of the revenue requirement.

Bell proposed to increase residence 1-party basic exchange rates a uniform \$0.14 and business 1-party basic exchange rates a uniform \$0.28. In response to Staff Request No. 1, Item 11, Bell stated that uniform adjustments were made based on "cost data provided in Case 8467" and the "unequal effect" of a percentage adjustment between rate groups. The Commission reminds Bell that it rejected the cost data furnished in Case No. 8467, "Notice of South Central Bell Telephone Company Of An Adjustment In Its Intrastate Rates And Charges," as a basis for rate design. Also, the Commission has consistently rejected uniform adjustments to basic exchange rates in other cases, including phase 1 and phase 2 of this case.

The Commission is of the opinion that a percentage adjustment to basic exchange rates equitably distributes the burden of increased revenue requirement, while maintaining established rate group differentials and the value of service implicit in the rate structure. Moreover, the Commission has not been presented sufficient evidence to substantiate a departure from past practice. Therefore, the basic exchange rates stated in Appendices A and B are based on a percentage adjustment.

In the area of service charges, the Commission does not agree with Bell's allocation of revenue requirement. The Commission is of the opinion that the proposed rates produce revenue in excess of the amount necessary from phase 3 service charges, based on cost information furnished in the case. Therefore, the Commission has reduced the revenue allocation to service charges to produce revenue at approximately 75 percent of overall cost, which is the appropriate phase 3 level of revenue recovery.

The Commission has long advocated and gradually introduced compensatory service charges. The Commission does not intend to change this position and, in fact, has priced service charges at compensatory levels in this case, except central office line connections.

In addition, the Commission has advocated service charges that correspond to discrete functions. In the case of the central office line connection, three functions associated with service connection are combined: the central office line connection itself, local loop activity other than pole and line construction, and standard network interface installation. A service connection usually does not involve all three functions and may involve only the actual central office line connection. Separate charges would give customers the opportunity to avoid service connection expense. Therefore, the Commission requests that Bell develop a plan to disaggregate the central office line connection charge and to file its plan as part of its next general rate application, or no later than its phase 4 application in this case.

As a result of reducing the revenue allocation to service charges, the Commission must adjust other rates to produce the additional revenue found reasonable in this Order. In Bell's last general rate case, Case No. 8467, the Commission increased the charges for virtually all of Bell's general subscriber, equipment, and private line rates. Basic exchange and toll rates were exceptions. The Commission has increased basic exchange rates in this case and is of the opinion that toll rates should also be increased in the amount of the reduced revenue allocation to service charges.

The Commission takes this position because the last rate action involving toll resulted in a net revenue decrease of \$761,000 in phase 1 of this case and because toll rates have not been increased since Case No. 7774, "Notice of South Central Bell Telephone Company of An Adjustment In Its Intrastate Rates and Charges." Moreover, despite Bell's arguments, the Commission is of the opinion that the increase in this case will not substantially affect Bell's competitive position in the toll market.

The rates authorized in this Order produce the following additional revenue on an annual basis:

Basic Exchange and Related Services	\$1,592,000
Service Charges	226,000
Toll	<u>1,644,000</u>
Total	<u>\$3,462,000</u>

The rates in Appendix A include an annualization adjustment to allow uncollected revenue during the period January 1, 1983, through March 31, 1983. The adjustment was made necessary by the Commission's decision on December 29, 1982, to suspend rates and not allow them to become effective on January 1, 1983. Therefore, Bell must recover additional revenue of \$3,462,000 over a 9-month period rather than a 12-month period, requiring an adjustment of \$1,133,000,² which has been applied to basic exchange rates. The rates will be effective during the period April 1, 1983, through

²

$$\begin{array}{r}
 \$3,462,000 \times \frac{365}{275} - \$3,462,000 = \$1,133,018.
 \end{array}$$

December 31, 1983, and will produce the additional revenue authorized in this Order.³

The rates in Appendix B reflect discontinuance of the annualization adjustment. The rates will be effective on and after January 1, 1984, and will produce the additional revenue authorized in this Order.

The Commission is concerned that an annualization adjustment was necessary in this case. However, Bell did not allow adequate time between the filing date of the application and the effective date of the rates for the Commission to consider thoroughly the question of absorption and the issue of revenue allocation. In fact, Bell gave the Commission a mere 21 days' notice, which was insufficient time to obtain information and create a record for decision-making. Therefore, the Commission is of the opinion that Bell should file its phase 4 application in this case no later than October 1, 1983, to allow sufficient time for investigation and possible hearing.

Findings and Orders

The Commission, after consideration of the evidence of record and being advised, is of the opinion and finds that:

1. The tariffs filed by Bell to recover increased expenses resulting from the third phase of expensing station connections meet the procedures established by the Commission in its Orders in Case No. 8150.

³

$\$4,595,018 \times 275 \text{ days} \div 365 \text{ days} = \$3,462,000.$

2. Absorption of any portion of the increased operating costs caused by the expensing of station connections would materially impair Bell's ability to earn its authorized return on equity.

3. The rates and charges proposed by Bell in its application insofar as they differ from those rates and charges found reasonable by the Commission should be denied.

4. The rates and charges in Appendices A and B will produce additional operating revenues of approximately \$3,462,000 and are the fair, just and reasonable rates and charges for Bell to charge its customers on and after April 1, 1983, and January 1, 1984, respectively.

5. Bell should file a plan to disaggregate its central office line connection charge, which plan should be filed as part of its next general rate case, or no later than its phase 4 application in this case.

6. Bell should file its phase 4 application in this case no later than October 1, 1983, to allow sufficient time for investigation and possible hearing.

IT IS THEREFORE ORDERED that Bell be and it hereby is authorized to increase its rates and charges to produce additional revenues of approximately \$3,462,000.

IT IS FURTHER ORDERED that the rates and charges in Appendices A and B of this Order be and they hereby are approved for service rendered on and after April 1, 1983, and January 1, 1984, respectively.

IT IS FURTHER ORDERED that Bell shall file a plan to disaggregate its central office line connection charge no later than its general rate case, or no later than its phase 4 application in this case whichever occurs first.

IT IS FURTHER ORDERED that Bell shall file its phase 4 application no later than October 1, 1983.

IT IS FURTHER ORDERED that Bell shall file with this Commission, within 30 days of the date of this Order, its revised tariff sheets setting out the rates and charges stated in Appendix A.

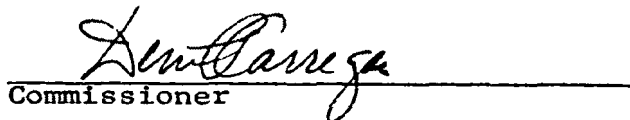
IT IS FURTHER ORDERED that Bell shall file with the Commission revised tariff sheets setting out the rates and charges in Appendix B on or before December 11, 1983.

Done at Frankfort, Kentucky, this 28th day of March, 1983.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 8150 DATED MARCH 28, 1983

The following rates and charges are prescribed for customers served by South Central Bell Telephone Company, effective April 1, 1983, through December 31, 1983. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the date of this Order.

GENERAL SUBSCRIBER SERVICES TARIFF

A3 BASIC LOCAL EXCHANGE SERVICE

A3.2 Statewide Rate Schedules

A3.2.1 Flat Rate Schedule

Group	Total Main Station lines and PBX Trunks		<u>RATES PER MONTH</u>			
			RESIDENCE		BUSINESS	
			Ind.	2-Pty.	Ind.	2-Pty.†
1	0-	10300	\$11.10	\$ 8.19	\$27.80	\$20.75
2	10301-	13800	11.45	8.48	29.00	21.64
3	13801-	18600	11.80	8.74	30.25	22.58
4	18601-	25100	12.19	9.02	31.57	23.54
5	25101-	33800	12.55	9.33	32.91	24.56
6	33801-	45500	12.97	9.62	34.32	25.62
7	45501-	61200	13.35	9.90	35.80	26.74
8	61201-	82400	13.77	10.22	37.33	27.90
9	82401-	110900	14.19	10.55	38.92	29.05
10	110901-	149200	14.64	10.86	40.54	30.32
11	149201-	200800	15.12	11.21	42.23	31.58
12	200801-	270200	15.56	11.58	43.98	32.88
13	270201-	363500	16.04	11.94	45.85	34.28
14	363501-	489200	16.53	12.31	47.73	35.67
15	489201-	658200	17.07	12.69	49.66	37.12
16	658201-	885700	17.60	13.08	51.60	38.59
17	885701-	1191800	18.11	13.49	53.59	40.10

A3.2.2 Measured Rate Schedule

Group	Total Main Station Lines and PBX Trunks	Residence Individual Line Low-Use	Residence Individual Line Standard	Business Individual Line
1	0- 10300	\$ 5.55	\$ 8.33	\$20.85
2	10301- 13800	5.72	8.59	21.75
3	13801- 18600	5.90	8.85	22.69
4	18601- 25100	6.09	9.14	23.68
5	25101- 33800	6.27	9.41	24.68
6	33801- 45500	6.48	9.73	25.74
7	45501- 61200	6.67	10.01	26.85
8	61201- 82400	6.88	10.33	28.00
9	82401- 110900	7.09	10.64	29.19
10	110901- 149200	7.32	10.98	30.41
11	149201- 200800	7.56	11.34	31.67
12	200801- 270200	7.78	11.67	32.99
13	270201- 363500	8.02	12.03	34.39
14	363501- 489200	8.26	12.40	35.80
15	489201- 658200	8.53	12.80	37.25
16	658201- 885700	8.80	13.20	38.70
17	885701- 1191800	9.05	13.58	40.19

A3.5 Joint User Service

A3.5.2 Rates

	Monthly Rate
(1) Business Individual Line	
a. Flat Rate	
(1) Exchanges in Louisville Local Calling Area	\$11.93
(2) All other exchanges	7.56
b. Measured Rate	
(1) Exchanges in Louisville Local Calling Area	8.95
(2) All other exchanges	5.67
c. Message Rate	
(1) Louisville exchange	7.76
d. Semipublic	
(1) Exchanges in Louisville Local Calling Area	7.16
(2) All other exchanges	4.53
(2) PBX Service	
a. Commercial Flat Rate	
(1) Exchanges in Louisville Local Calling Area	11.93
(2) All other exchanges	7.56

(2) PBX Service (Cont'd)		
b. Measured Rate		
(1) Exchanges in Louisville Local Calling Area		8.95
(2) All other exchanges		5.67
(3) Hotel PBX Service		
a. Message Rate		
(1) Exchanges in Louisville Local Calling Area		7.76
(2) All other exchanges		5.13
b. Permanent Guest or Tenant Maintaining a Residence in the Hotel (Message Rate)		
(1) Exchanges in Louisville Local Calling Area		3.10
(2) All other exchanges		2.05
c. Measured Rate		
(1) Exchanges in Louisville Local Calling Area		8.95
(2) All other exchanges		5.67
d. Permanent Guest or Tenant Maintaining a Residence in the Hotel (Measured Rate)		
(1) Exchanges in Louisville Local Calling Area		3.58
(2) All other exchanges		2.37

A3.7 Monthly Exchange Rates

3. Message Rate Service

<u>Exchange</u>	<u>Individual Line Monthly Charge Each Line</u>
Louisville	\$31.02

A3.15 Trunk Lines

C. Hotel PBX Service

	<u>Monthly Rate</u>
1. Message Rate Service	
a. Trunks (Both-way or Outward Only), each	
(1) First Trunk with an allowance of 50 outward local messages Exchanges in Louisville Local Calling Area	\$ 31.02
All other exchanges	20.52

C. Hotel PBX Service (Cont'd)

(2) Additional truck without message allowance	26.02
Exchanges in Louisville Local Calling Area	15.52
All other exchanges	

A4 SERVICE CHARGES

A4.2 Schedule of Charges for Connecting, Moving, or Changing Service

	<u>Res.</u>	<u>Business Nonkey</u>	<u>Key</u>	<u>PBX, CTX & ESSX-1</u>
A4.2.1 For connecting, moving, or changing service				
a. Service Ordering Charge per customer request				
(2) Premises visit not required	\$17.50			
(3) Record type orders only	12.50			
b. Central Office Line Connection Charge, per central office line	25.25	\$28.25	\$28.25	\$28.25
A4.2.2 Number Changes	10.00	10.00	10.00	10.00

A17 MOBILE TELEPHONE SERVICE

A17.4 Rates

A17.4.1 Service Charges

a. Measured Rate Mobile Service

(1) Local Service

(1) Local Service (Cont'd)

<u>Base Station</u>	<u>Mo. Rate for Svc. Incl. 1 Hr. of Use of the Radio Link on a Dial Basis</u>
Bowling Green	\$33.45
Frankfort	33.45
Louisville	43.87
Owensboro	33.45
Paducah	33.45
Pikeville	33.45
Prestonsburg	33.45
Winchester	33.45

A100 OBSOLETE SERVICE OFFERINGS

A100.64 Centrex Service

A100.64.6 Rates

A100.64.6.2 Station Lines

<u>Schedule 1 Monthly Rate</u>	<u>Schedule 2 Monthly Rate</u>
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(1) Centrex I

(a) Main Centrex Station
Number Access, at the
location with the
largest number of
main stations.

(1) Exchange Access Charge

First 100 station lines, each	\$ 8.06	\$ 12.00
Next 200 station lines, each	5.60	8.32
Next 600 station lines, each	4.36	6.54
Over 900 station lines, each	4.36	6.54

(b) Main Centrex Station
Number Access, at each
additional location.

(1) Exchange Access Charge

First 100 station lines, each	6.43	9.59
Next 200 station lines, each	6.43	9.59
Next 600 station lines, each	4.36	6.54
Over 900 station lines, each	4.36	6.54

A18. LONG DISTANCE MESSAGE TELECOMMUNICATIONS SERVICE

A18.3 Two-Point Service

A18.3.1 Service Between Land Wire Telephones

b. Rates

(1) Basic Rate Schedule

<u>Rate Mileage</u>	<u>First Minute</u>
0 - 10	\$.20
11 - 16	.26
17 - 22	.31

**(3) Operator-Handling Differentials
Station-to-Station**

Operator	1.40
Person-to-Person	2.25

APPENDIX B

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 8150 DATED MARCH 28, 1983

The following rates and charges are prescribed for customers served by South Central Bell Telephone Company, effective on and after January 1, 1984. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the date of this Order.

GENERAL SUBSCRIBER SERVICES TARIFF

A3 BASIC LOCAL EXCHANGE SERVICE

A3.2 Statewide Rate Schedules

A3.2.1 Flat Rate Schedule

Group	Total Main Station lines and PBX Trunks		<u>RATES PER MONTH</u>			
			<u>RESIDENCE</u>		<u>BUSINESS</u>	
			<u>Ind.</u>	<u>2-Pty.</u>	<u>Ind.</u>	<u>2-Pty.†</u>
1	0-	10300	\$11.02	\$ 8.14	\$27.61	\$20.61
2	10301-	13800	11.37	8.42	28.80	21.49
3	13801-	18600	11.72	8.68	30.05	22.42
4	18601-	25100	12.11	8.96	31.36	23.38
5	25101-	33800	12.47	9.27	32.69	24.39
6	33801-	45500	12.88	9.55	34.08	25.44
7	45501-	61200	13.26	9.83	35.56	26.56
8	61201-	82400	13.68	10.15	37.07	27.71
9	82401-	110900	14.09	10.48	38.56	28.85
10	110901-	149200	14.54	10.78	40.26	30.12
11	149201-	200800	15.01	11.14	41.94	31.37
12	200801-	270200	15.46	11.50	43.69	32.66
13	270201-	363500	15.93	11.86	45.54	34.04
14	363501-	489200	16.42	12.23	47.41	35.43
15	489201-	658200	16.95	12.60	49.32	36.87
16	658201-	885700	17.48	12.99	51.25	38.32
17	885701-	1191800	17.99	13.40	53.23	39.83

A3.2.2 Measured Rate Schedule

Group	Total Main Station Lines and PBX Trunks	Residence Individual Line Low-Use	Residence Individual Line Standard	Business Individual Line
1	0- 10300	\$ 5.51	\$ 8.27	\$20.71
2	10301- 13800	5.68	8.53	21.60
3	13801- 18600	5.86	8.79	22.54
4	18601- 25100	6.05	9.08	23.52
5	25101- 33800	6.23	9.35	24.52
6	33801- 45500	6.44	9.66	25.56
7	45501- 61200	6.63	9.95	26.67
8	61201- 82400	6.84	10.26	27.80
9	82401- 110900	7.04	10.57	29.00
10	110901- 149200	7.27	10.91	30.20
11	149201- 200800	7.50	11.26	31.46
12	200801- 270200	7.73	11.60	32.77
13	270201- 363500	7.96	11.95	34.16
14	363501- 489200	8.21	12.32	35.56
15	489201- 658200	8.47	12.71	36.99
16	658201- 885700	8.74	13.11	38.44
17	885701- 1191800	8.99	13.49	39.92

A3.5 Joint User Service

A3.5.2 Rates

	Monthly Rate
(1) Business Individual Line	
a. Flat Rate	
(1) Exchanges in Louisville Local Calling Area	\$11.85
(2) All other exchanges	7.51
b. Measured Rate	
(1) Exchanges in Louisville Local Calling Area	8.89
(2) All other exchanges	5.63
c. Message Rate	
(1) Louisville exchange	7.71
d. Semipublic	
(1) Exchanges in Louisville Local Calling Area	7.11
(2) All other exchanges	4.50
(2) PBX Service	
a. Commercial Flat Rate	
(1) Exchanges in Louisville Local Calling Area	11.85
(2) All other exchanges	7.51

(2) PBX Service (Cont'd)		
b. Measured Rate		
(1) Exchanges in Louisville Local Calling Area		8.89
(2) All other exchanges		5.63
(3) Hotel PBX Service		
a. Message Rate		
(1) Exchanges in Louisville Local Calling Area		7.71
(2) All other exchanges		5.10
b. Permanent Guest or Tenant Maintaining a Residence in the Hotel (Message Rate)		
(1) Exchanges in Louisville Local Calling Area		3.08
(2) All other exchanges		2.04
c. Measured Rate		
(1) Exchanges in Louisville Local Calling Area		8.89
(2) All other exchanges		5.63
d. Permanent Guest or Tenant Maintaining a Residence in the Hotel (Measured Rate)		
(1) Exchanges in Louisville Local Calling Area		3.56
(2) All other exchanges		2.35

A3.7 Monthly Exchange Rates

3. Message Rate Service

<u>Exchange</u>	<u>Individual Line Monthly Charge Each Line</u>
Louisville	\$30.82

A3.15 Trunk Lines

C. Hotel PBX Service

	<u>Monthly Rate</u>
1. Message Rate Service	
a. Trunks (Both-way or Outward Only), each	
(1) First Trunk with an allowance of 50 outward local messages Exchanges in Louisville Local Calling Area	\$ 30.82
All other exchanges	20.38

C. Hotel PBX Service (Cont'd)

(2) Additional truck without message allowance	25.82
Exchanges in Louisville Local Calling Area	15.38
All other exchanges	

A4 SERVICE CHARGES

A4.2 Schedule of Charges for Connecting, Moving, or Changing Service

	<u>Res.</u>	<u>Business Nonkey</u>	<u>Key</u>	<u>PBX, CTX & ESSX-1</u>
A4.2.1 For connecting, moving, or changing service				
a. Service Ordering Charge per customer request				
(2) Premises visit not required	\$17.50			
(3) Record type orders only	12.50			
b. Central Office Line Connection Charge, per central office line	25.25	\$28.25	\$28.25	\$28.25
A4.2.2 Number Changes	10.00	10.00	10.00	10.00

A17 MOBILE TELEPHONE SERVICE

A17.4 Rates

A17.4.1 Service Charges

a. Measured Rate Mobile Service

(1) Local Service

(1) Local Service (Cont'd)

<u>Base Station</u>	<u>Mo. Rate for Svc. Incl. 1 Hr. of Use of the Radio Link on a Dial Basis</u>
Bowling Green	\$33.31
Frankfort	33.31
Louisville	43.67
Owensboro	33.31
Paducah	33.31
Pikeville	33.31
Prestonsburg	33.31
Winchester	33.31

A100 OBSOLETE SERVICE OFFERINGS

A100.64 Centrex Service

A100.64.6 Rates

A100.64.6.2 Station Lines

	<u>Schedule 1 Monthly Rate</u>	<u>Schedule 2 Monthly Rate</u>
(1) Centrex I		
(a) Main Centrex Station Number Access, at the location with the largest number of main stations.		
(1) Exchange Access Charge		
First 100 station lines, each	\$ 8.01	\$ 11.92
Next 200 station lines, each	5.56	8.27
Next 600 station lines, each	4.33	6.49
Over 900 station lines, each	4.33	6.49
(b) Main Centrex Station Number Access, at each additional location.		
(1) Exchange Access Charge		
First 100 station lines, each	6.39	9.53
Next 200 station lines, each	6.39	9.53
Next 600 station lines, each	4.33	6.49
Over 900 station lines, each	4.33	6.49

A18. LONG DISTANCE MESSAGE TELECOMMUNICATIONS SERVICE

A18.3 Two-Point Service

A18.3.1 Service Between Land Wire Telephones

b. Rates

(1) Basic Rate Schedule

<u>Rate Mileage</u>	<u>First Minute</u>
0 - 10	\$.20
11 - 16	.26
17 - 22	.31

(3) Operator-Handling Differentials

Station-to-Station	
Operator	1.40
Person-to-Person	2.25