COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

NOTICE OF SOUTH CENTRAL BELL TELEPHONE COMPANY OF AN ADJUSTMENT IN ITS INTRASTATE RATES AND CHARGES	)	CASE NO. 8847

and

THE VOLUME USAGE MEASURED RATE SERVICE AND MULTILINE SERVICE TARIFF FILING OF SOUTH CENTRAL BELL TELEPHONE COMPANY	)	CASE NO. 8879

O R D E R

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PROCEDURAL BACKGROUND

INTRODUCTION

On May 24, 1983, South Central Bell Telephone Company ("SCB") filed its 4-week notice of intent to file for a rate increase with the Commission pursuant to 807 KAR 5:011, Section 8. At SCB's request the Commission agreed to hold the case open,[1/] permitting a deviation from its 45-day policy.[2/] On July 29, 1983, SCB filed its rate case and testimony, giving notice that it proposed to increase its rates and charges effective August 18, 1983, to produce an annual increase in revenue of $163,238,000, an increase of 36.7 percent in its total intrastate revenues.

In order to determine the reasonableness of the request, the Commission suspended the proposed rates and charges for 5 months after the effective date and scheduled public hearings to begin November 29, 1983. On November 7, 1983, a public meeting was held in the Fiscal Courtroom of the Jefferson County Courthouse, Louisville, Kentucky, to receive public comments and testimony regarding the proposed increase.

Motions to intervene in this matter were filed by the Attorney General's Consumer Protection Division ("AG"), the Finance and Administration Cabinet ("Finance"), the City of Louisville ("Louisville"), Jefferson County, the Honorable Benjamin J. Lookofsky, the Kentuckiana Burglar and Fire Alarm Association, Inc. ("KBFAA"), the Federal Executive Agencies ("DOD"), the Kentucky T.A.S. Committee ("TAS"), the Kentucky Association of Radio Common Carriers, General Telephone Company of Kentucky, the Utility Rate-Cutters of Kentucky, Beep-Alert, REO-CAP, Inc., Citizens Utility Board of Kentucky, and Mr. Dudley Powell, Jr., and Mr. Frank Cofer Jr., on behalf of The Cause. These motions were granted with the exception of that filed by The Cause which was denied by an Order issued October 18, 1983.

The hearings for the purpose of cross-examination of the witnesses of SCB, the intervenors and staff were held in the Commission's offices in Frankfort, Kentucky, on November 29 through December 7 and December 9, 1983, and SCB has filed responses to most information requests made during the hearings. Briefs were filed through January 6, 1983. The discovery problems, chronic and extensive revisions initiated by SCB to its case and other extraordinary circumstances which permeated this rate case, as well as the Commission's efforts to cope with this case as it evolved, are discussed in greater detail in subsequent sections.

This Order addresses the Commission's findings and determinations on issues presented and disclosed in the hearings and investigation of SCB's revenue requirements and rate designs. Rates and charges that will produce an increase in annual revenues of $56,798,000 are being allowed as a result of this Order and the Commission's Interim Order in Case No. 8838, An Investigation of Toll and Access Charge Pricing and Toll Settlement Agreements for Telephone Utilities Pursuant to Changes to be Effective January 1, 1984. In the December 29, 1983, Interim Order in Case No. 8838, The Commission has already permitted SCB to institute access charges to be paid by intrastate long distance carriers and related tariffs that will generate approximately $37.2 million and thus replace the lost toll contribution for which SCB was seeking an adjustment in this case. This Order includes rates and charges which will increase annual revenues by $19,598,000, the remainder of the increase, for a total increase granted of $56,798,000.

As this case has progressed, it has become increasingly apparent to the Commission that SCB does not have a clear idea of the effect on its operations of the massive divestiture of AT&T that took place on January 1, 1984. Much of the data supplied by SCB consisted of projections that were unsupported by assumptions and information that could be challenged and tested. In fairness, the difficulty that SCB has experienced is understandable. The break-up of an enterprise the size of the Bell system is unprecedented in American history and presents uncertainties that are not yet fully grasped by anyone in the telecommunications field.

Despite these difficulties, the statutes place the burden of proof for demonstrating that proposed rate increases are just and reasonable squarely on SCB. Unprecedented rate increases for SCB ratepayers cannot be justified by uncertain projections and questionable assumptions. In deciding this case, the Commission has paid particular attention to the need to preserve universal telephone service in Kentucky. Thus the Commission has attempted to minimize the effect on ratepayers of the revenue increases that it has found to be absolutely necessary.

DIVESTITURE

By a stipulation filed January 8, 1982, by the United States Department of Justice ("DOJ") and American Telephone and Telegraph Company ("AT&T"), DOJ proposed to dismiss its pending antitrust suit and in return AT&T would divest itself of the Bell operating companies ("BOCs"), among other things. As a consequence, SCB is free to purchase telephone equipment from any vendor it selects.

A series of hearings and public interest proceedings, in which this Commission actively participated, all reviewed by U.S. District Judge Harold Greene, culminated in the Court's acceptance of the proposed Consent Decree on August 11, 1982.[3] The Modified Final Judgment ("MFJ"), including new provisions required by the Court, was filed on August 24, 1982. The U.S. Supreme Court subsequently upheld the district court's decision.[4]

The MFJ provided, inter alia, that BOCs, such as SCB, would be prohibited from offering inter-LATA services beginning January 1, 1984. Consequently, LATAs (Local Access and Transport Areas) were formed and approved by the Court on April 20, 1983. Kentucky was originally divided into two LATAs; however, Judge Greene reconsidered that decision at the request of DOJ and on June 7, 1983, ordered the institution of three LATAs in Kentucky - known as the Louisville, Winchester and Owensboro LATAs. This Commission's request that the original two LATAs be reinstituted was subsequently denied.

The MFJ further required that AT&T submit to the Court and DOJ a Plan of Reorganization ("POR"). The POR was filed on December 16, 1982, and was given conditional approval by the Court on July 8, 1983.

As a consequence of the MFJ and/or the POR, SCB has transferred its investment in embedded Customer Premises Equipment ("CPE") and inter-LATA toll facilities to AT&T on January 1, 1984. The embedded CPE is now owned by AT&T Information Systems ("ATTIS") and the inter-LATA facilities are now held by AT&T Communications of the South Central States, Inc. ("ATTCOM"). By Order of December 29, 1983, in Case No. 8935, The Application of AT&T Communications of the South Central States, Inc., For a Certificate of Public Convenience and Necessity To Provide Telephone Common Carrier Service, the Commission granted a certificate of public convenience and necessity authorizing ATTCOM to provide inter-LATA services within Kentucky. The Commission notes that, although SCB is undergoing major changes in its corporate structure, it did not make applications seeking authority to transfer major components of its utility business, embedded CPE and interLATA toll, and to restructure its remaining operations through the establishment of the holding company structure, including BellSouth Corporation ("BellSouth"), a service corporation and other subsidiaries of the holding company. BellSouth will contain both the operating companies comprising South Central Bell Telephone Company and Southern Bell Telephone Company.

Another consequence of the divestiture was the required termination of services from AT&T to its BOCs through the license contract. The POR provided that a Central Services Organization ("CSO") would be organized and Judge Greene approved this portion of the POR largely due to the MFJ mandate that a single point of contact for national security and emergency preparedness be maintained.

DISCOVERY DIFFICULTIES AND SCB'S REVISIONS TO THE CASE

In Administrative Case No. 264, South Central Bell Telephone Company's Use Of A Projected Test Year In Connection With South Central Bell Telephone Company's 1983 Application To Adjust Rates, the Commission denied SCB's request to use a future test year in what ultimately became this rate case.[5] Noting the changes occurring in the telecommunications industry resulting from recent decisions of the Federal Communications Commission ("FCC") and the impending divestiture pursuant to the MFJ, the Commission observed:

> . . .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.[6/]

Aside from the merits of the use of a "future" vis-a-vis "historical" test year, the Commission expressed concern about the state of SCB's information, noting that the POR stated that the asset and liability assignment and personnel assignments would not be known until September.[7/] The Commission's fears were indeed justified when SCB filed its rate case a full month before the date when assignments were to be specified.

Through its Order the Commission advised SCB of the standards by which any rate case it filed would be judged. The Commission reminded SCB of its burden of proof obligation under KRS 278.190, that "known and measurable" and "fair, just and reasonable" criteria would be applied in evaluating SCB's documentation and "that any assumptions made must be supported by detailed documentation including alternatives to the assumptions chosen."[8/]

SCB's July 29, 1983, rate case request contains substantial failures to properly document its filing through prefiled testimony and exhibits. For example, SCB's Assistant Chief Accountant, Mr. D. M. Ballard, devoted only four sentences to the subject of his adjustment for five major expense accounts which comprised $185,850,000, or 61.5 percent of SCB's projected expenses post-divestiture.[9/] Neither the forecast nor the assumptions behind the forecast utilized by Mr. Ballard were filed. The Commission logically considered this documentation as critical to SCB's proof on this adjustment particularly in light of

Judge Greene's April 20, 1983, Opinion at pages 13-14 in which he stated that:

> . . .there is no legitimate basis for using the reorganization of the Bell System as a means for undermining the universal service objective or as an excuse for raising local rates.

Of equal concern was the lack of testimony of Ms. Joan D. Mezzell, Operations Staff Manager-Tariffs and Regulatory Support, concerning the supposed effects of repression/stimulation. When it was filed, SCB's rate case did not even contain a specific dollar adjustment related to these issues. Ms. Mezzell obliquely referred to the issue in the following three sentences of her testimony:

> Some additional customer reaction may occur. However, our evaluation of other customer responses to the proposed basic exchange and long distance rates is not complete. This data will be provided as soon as it becomes available.[10]

This omission was not cured immediately; rather it was 2-1/2 months into the case before SCB's elasticity studies were first offered and even then they were filed in another case (Case No. 8838). Indeed, the first quantification of the effects of these elasticity studies came on October 31, 1983, in an offhand statement made by counsel for SCB during an oral argument. The Commission is surprised that SCB would expect this Commission to entertain such an adjustment, especially considering the interests of the intervenors who had all prefiled their testimony by October 25, 1983. SCB could not blame its incomplete filing and lack of studies on the vagaries of the upcoming divestiture since SCB had previously performed repression studies.

SCB compounded the difficulties imposed by its failure to provide full documentation for its filing by providing inadequate responses to Commission Orders seeking that information. In Appendix 1, Part B, of his testimony, Dr. Lee L. Selwyn, President, Economics and Technology, Inc., and witness for the Commission Staff, provides a useful survey of the difficult discovery process encountered in trying to ascertain the basis for Mr. Ballard's divestiture adjustments. Dr. Selwyn's eight page Appendix 1 fairly documents the Staff's efforts to obtain this information during discovery in this case. Moreover, the testimony of the AG's witness, Mr. Allen G. Buckalew, confirms the insufficiency of SCB responses despite numerous requests.[11/]

On September 30, 1983, with most intervenors' testimony due to be filed in approximately 2 weeks and being advised of the unsatisfied data requests, the Commission ordered a Formal Conference be held to facilitate the provision of adequate responses from SCB.[12/] The Order cited the troubling experience involving discovery in SCB's immediately preceding case, Case No. 8467, and the resulting impact upon the parties' ability to effectively cross-examine. The September 30, 1983, Order cited specific instances where responses in the rate case were deemed inadequate in Appendix B. The KBPAA and the AG documented their discovery problems in filings made October 4, 1983, and October 6, 1983, respectively. The Formal Conference held on October 10, 1983, resulted in commitments by SCB to provide responses to many of the outstanding data requests by October 17, 1983, although SCB admitted "there are a number of items where we simply don't have the information."[13/]

When filing some of those responses, SCB opted to attempt to alter its original filing, further compounding the problems in this case. Several parties filed Motions to Dismiss and the Commission scheduled a hearing for October 31, 1983, to allow an opportunity for oral argument of the matter.[14/] The Commission's October 24, 1983, Order specified that the rates for Wide Area Telecommunications Service ("WATS"), Message Telecommunications Service ("MTS") and foreign exchange service had been altered by the October 17, 1983, filing. The Order also noted the statement of SCB regarding Centrex and ESSX Multi-Line Service which indicated that those tariffs would not be in final form until SCB's analyses were complete, tentatively to occur in November. The Commission further cited the delayed filing of the repression adjustment as possible grounds for dismissal. Another major area of concern involved the previously discussed lack of support for the divestiture adjustment and the fact that issues raised by the information filed October 17, 1983, could not be fully explored since the discovery period in the case had already elapsed and the deadline for intervenor testimony had passed, raising due process concerns.

At the October 31, 1983, hearing on the Motions to Dismiss, Mr. Lookofsky, Finance, KBFAA and DOD supported the concept of dismissing the case. The AG remarked upon the violations of 807 KAR 5:011, Section 9(2), resulting from the revisions SCB had recently filed to its case and objected to the consideration of those items on due process grounds, citing URC v. Kentucky Water Service, Ky. App., 642 S.W.2d 591 (1982), and the Commission's Order of Procedure under which discovery had already been concluded and the AG had been required to pre-file its testimony some 2 weeks prior. The Staff noted that responses to some of the previously unsatisfied data requests, which SCB had agreed at the October 10, 1983, Formal Conference it would file by October 17, 1983, had still not been received.[15/] The magnitude of the revenue shifts involved with the recent SCB revisions was calculated to be approximately $40 million.[16/]

Despite the considerable uncertainties surrounding the rate case, SCB urged the Commission to proceed to decide the case on the merits, utilizing the Commission's informed judgment and expertise, and even suggested to the Commission that in resolving a doubtful area the Commission should "pick a number".[17/] As an alternative, SCB offered to waive the suspension period, permitting further discovery, but only upon the condition that it be permitted to place $96 million of its total proposed increase of $163 million into effect during the interim.

On November 7, 1983, the Commission denied the Motions to Dismiss and ordered that the case would proceed to the merits. The Commission cited the AG's strong opposition to the imposition of an interim increase and the AG's arguments regarding SCB's burden of proof as overriding considerations. Thus, the merits of the legal and substantive issues regarding dismissal were not reached. Finally, the Commission modified its August 10, 1983, Order of Procedure to permit further discovery, in an effort to ameliorate the due process concerns that had been raised.

The extent of the uncertainty which pervaded this rate case did not wane as the conclusion of the case approached and SCB's witnesses were cross-examined during the period November 29-December 9, 1983. Many questions were posed for which the witnesses still had no answer, resulting in 72 information requests which SCB was to answer following the hearing and file by December 16, 1983. Even then, many requests went unanswered. For example, the contract between the CSO and seven regional companies was not yet final and has still not been filed.[18/] In response to a hearing request concerning the most up-to-date figures for official services, SCB replied that the studies on this topic to which SCB had previously alluded would not be completed until the end of the first quarter of 1984.[19/]

The minutes of the CSO Board of Directors meeting held November 8, 1983, regarding the decisions the Board made to fund CSO projects were not made available at the hearings held some 3 weeks later, thus preventing cross-examination. In fact, the initial response of SCB to the November 21, 1983, Order seeking that information stated that there were no minutes of the meeting, even though the request indicated that if minutes had not yet been transcribed, they should be provided immediately upon their transcription.[20/] Mr. Ken Looloian, Vice President of the CSO for Finance and Administration, testified in contradiction to the response of Mr. E. W. Parish, Operations Manager-Affiliated Interests, to Item 4 stating that he was present at the meeting and that minutes were taken.[21/] Upon being subsequently cross-examined, Mr. Parish insisted he did not want to modify his earlier written response, although he admitted he had talked with Mr. Looloian in formulating his response and had been told of the existence of draft typed minutes, which Mr. John Clendenin, Chief Operating Officer of BellSouth and a member of the CSO Board of Directors, had been provided.[22/] The two-page minutes of the Board's November 8, 1983, meeting were finally filed on December 27, 1983.[23/]

OUTSTANDING MOTIONS

Following an oral argument and the filing of a memorandum by SCB, on November 28, 1983, the Commission entered an Order which compelled SCB to file responses to an August 12, 1983, Order seeking information concerning AMPS and CPE by December 1, 1983. During the hearings, SCB requested the Commission to reconsider its decision, but presented no arguments which the Commission had not already considered. The Commission will, therefore, deny SCB's request for reconsideration; however, due to the pre-divestiture approach adopted in deciding this case, the Commission finds that the information will not be required to be filed in this proceeding.

All other pending motions not specifically discussed elsewhere in this Order should be denied.

ANALYSIS AND DETERMINATION

Test Period

SCB proposed and the Commission has accepted the 12 months ending April 30, 1983, as the test period in this matter.

The Commission in the subsequent two sections of this Order has segregated SCB's proposed request into an analysis of SCB's historical pre-divestiture operations and an analysis of its proposed changes in operations resulting from divestiture.

PRE-DIVESTITURE

Valuation Methods

Net Investment

SCB provided a Kentucky intrastate pre-divestiture net investment rate base at April 30, 1983, under its methodology of \$979,830,000.[24/] The Commission has accepted this rate base with several exceptions. Accumulated deferred income taxes of \$141,283,000[25/] and 3 percent unamortized investment tax credits of \$799,000[26/] have been deducted from SCB's rate base as both items represent income taxes which have previously been included in SCB's cost of service, but will not be paid to the taxing authorities until some future time. Depreciation reserve has been increased by \$4,184,000 to reflect the Commission's adjustment to depreciation expense explained in a later portion of this Order. SCB's proposed rate base has been increased by \$574,000[27/] to reflect the amortization of the first year's surplus accumulated deferred federal income taxes which will be discussed in a subsequent section of this Order. The Commission has rejected SCB's inclusion of "cash requirements" of \$2,539,000[28/] and has reduced SCB's rate base by that amount, as local service is billed in advance of service rendered and SCB has provided no substantive evidence to demonstrate its investment or capital needs for funds to support its daily operations.

All of these adjustments are based on Commission policies that have been consistently applied to SCB in past rate cases.

The Commission has, therefore, determined SCB's Kentucky intrastate net investment rate base at April 30, 1983, to be as follows:

Total Plant in Service	$1,170,344,000
Telephone Plant Under Construction	221,258,000
Property Held for Future Use	137,000
Materials and Supplies	11,331,000
	$1,203,070,000
Less:	
Depreciation Reserve	$ 229,963,000
Accumulated Deferred Income Taxes	140,709,000
Unamortized Investment Credit -	
Pre JDIC	799,000
Subtotal	$ 371,471,000
Net Investment Rate Base	$ 831,599,000

Capital

At April 30, 1983, SCB had total company investor-supplied capital of $7,837,423,000 comprised of $3,106,211,000[29/] debt and $4,731,212,000[30/] equity. The Commission has determined that the appropriate assignment of investor-supplied capital to SCB's Kentucky intrastate operations is $771,203,000. This calculation is based on the ratio of SCB total company net investment to SCB Kentucky intrastate net investment of 9.84 percent following the Commission's rate-making adjustments to net investment.

Further, at April 30, 1983, SCB had Kentucky-Combined Job Development Investment Tax Credits ("JDIC") of $83,013,000[31/] which has been added to SCB capital structure in the same proportion as its investor-supplied capital as is required by federal statute and regulation. The Kentucky intrastate assignment of JDIC is $62,452,000.[32/] Therefore, the Commission has determined that the appropriate assignment of capital, including JDIC, to SCB's intrastate operations is $833,655,000.

Revenues and Expenses

SCB's witness, Mr. Ballard, provided his analysis of SCB's operations in his Revised Exhibit 3, Part 2. Mr. Ballard did not attempt to segregate the effects of divestiture and other changes in SCB's operations on an intrastate basis. The exhibit consisted of Kentucky combined results of test period operations from Columns A through U. As will be discussed in further detail in a later section of this Order, divested combined results were provided in Column Q. In Column V of this exhibit, Mr. Ballard arrived at "Total Divested Intrastate Results" and it is described as, "the product of forecasted post-divestiture separation factors applied to the post-divestiture combined expenses."[33/] In response to an information request to provide Column P on an intrastate basis with an explanation of separation factors, Mr. Ballard provided the requested information and stated that, "The separation factors were calculated by dividing combined by intrastate revenues and expenses for the 12 months ending April 30, 1983, as shown on Ballard Exhibit 2."[34/] (Ballard Exhibit 2 is the historical combined and intrastate operating income statement for the 12 months ending April 30, 1983.) Under the pre-divestiture analysis in this section of the Order, the Kentucky intrastate separation factors supplied in Mr. Ballard's response,[35] or the historical separation factors for the test period have been applied.

For the test period ending April 30, 1983, SCB had Kentucky intrastate net operating income of $85,193,000.[36] SCB proposed numerous adjustments to bring this income level to an end of test period basis. These adjustments on an intrastate basis reduced SCB's net operating income to $81,881,000. The Commission has determined that under its pre-divestiture analysis the appropriate level of net operating income is $93,457,000. The Commission has considered the following issues in its analysis of SCB's proposed net operating income; moreover, each adjustment is calculated showing the income tax expense effect already included:

End-of-Period Methodology

In accordance with past practice, SCB proposed to adjust its test-period income to an end-of-period level to match the level of income it could expect to earn on capital investment at April 30, 1983. SCB applied a factor to income which assumed that the number of income-producing units at April 30, 1983, was in service during the entire year and that these units earned at the same rate as those actually in existence during the period. SCB considers the total number of access lines to be the number of income-producing units. The factor applied to income represents the end-of-period number of units divided by the average test period number of units.[37]

The Commission found this method inappropriate and rejected its use in Case No. 8467. Although Mr. Ballard, during cross-examination in this case, defended this method and indicated it produced reliable results, the Commission remains of the opinion that no direct relationship between SCB's access lines and toll revenue, wages or depreciation is apparent. Therefore, the Commission has decreased SCB's adjusted net operating income by $707,000.[38] In place of this adjustment, the Commission has reflected actual volumes at April 30, 1983, in SCB's primary revenue and expense categories.

End-of-Period Salaries, Wages and Wage-Related Expenses

During the test period, SCB expensed approximately $162,294,000[39] on a combined basis in wages and salaries; $30,880,000[40] on an intrastate basis in Relief and Pensions; and $11,778,000[41] on a combined basis in payroll taxes. Based on end-of-period expenses, wages and salaries on a combined basis were $159,672,000;[42] Relief and Pensions on an intrastate basis were $35,103,000;[43] and payroll taxes on a combined basis were $12,132,000.[44] The Commission has decreased SCB's adjusted net operating income by $1,365,000[45] to reflect wage and wage-related expenses on an end-of-period basis.

Moreover, SCB proposed numerous wage and wage-related adjustments to normalize increases occurring during the test period. These adjustments are reflected on a combined basis in Mr. Ballard's Revised Exhibit 3, Part 2, Sheet 1, Columns B, C, H, I and K. As the Commission has already made end-of-period adjustments to these expenses, it has eliminated the effects of these normalization adjustments and has thus increased SCB's adjusted net operating income by $2,663,000.[46] The net effect of the end-of-period adjustments to salaries, wages, and wage-related expenses is to increase SCB's adjusted net operating income by $1,298,000.

End-of-Period Depreciation Expense

SCB's intrastate depreciation expense based on plant in service at April 30, 1983, was $72,974,000.[47/] Intrastate depreciation expense booked during the test period was $68,800,000.[48/] Therefore, the Commission has decreased SCB's adjusted intrastate net operating income by $2,124,000 to reflect depreciation applicable to plant in service at April 30, 1983.

End-of-Period Local Service Revenue

SCB reported adjusted intrastate local service revenue of $316,924,000[49/] for the normalized test period. Local service revenue on an intrastate basis based on units in service at April 30, 1983, was $315,007,000.[50/] This reflects only an end-of-period change in subscriber station revenue; the remaining local service revenues are reflected at actual levels for the test period. Therefore, the Commission has decreased SCB's adjusted net operating income by $973,000 to reflect expected revenue to be derived from the number of revenue-producing units in service at April 30, 1983.

End-of-Period Interest During Construction

At April 30, 1983, SCB had combined construction work in progress ("CWIP") of $29,355,000,[51/] approximately $21,396,000[52/] of which was long-term CWIP on which interest during construction ("IDC") is applied. As the purpose of IDC is to match cost and benefit, it is unfair to require SCB's ratepayers to pay a current cash return on plant not used and useful. Therefore, the Commission has adjusted SCB's actual combined IDC capitalized during the test period of $1,426,000[53/] by $1,029,000 for total IDC of $2,455,000[54/] which reflects the application of the overall cost of capital found fair, just and reasonable herein to the April 30, 1983, balance in long-term CWIP. This adjustment on an intrastate basis increases SCB's adjusted net operating income by $743,000.

Tax Effect of Increased Debt Charges

SCB had Kentucky intrastate debt charges for the test period of approximately $27,305,000.[55/] The amount of debt charges provided for herein is $33,763,000, a difference of $6,458,000. The income tax reduction of this differential is approximately $3,180,000, which the Commission finds is the appropriate adjustment to increase SCB's adjusted net operating income.

The Commission is aware that SCB has disagreed with its treatment of interest on JDIC; however, the Commission is of the opinion that this treatment is proper and consistent with Internal Revenue Service regulations. However, as this issue is currently before the Kentucky Court of Appeals (Continental Telephone Company v. Public Service Commission, 82-CA-2657-Mr) and a final decision is imminent, the Commission finds it reasonable to adopt, in this proceeding, its recent decision regarding this issue in Case No. 8734, Adjustment of Rates of Kentucky Power Company, in its Order of October 31, 1983. In that proceeding, at the request of Kentucky Power Company to avoid additional judicial review of this issue, the Commission stated that if a final decision should be adverse to the Commission's position, it would consider a rate adjustment to generate the revenues associated with JDIC. As in Case No. 8734, this Order should eliminate the need for appeal of this matter at the judicial level.

Institutional Advertising

Under the Commission's regulation (807 KAR 5:016), institutional advertising expenses or expenses for advertising made to strengthen corporate image are not valid expenses for the ratepayer to bear. Although SCB argued in its brief that these expenses are a province of management and are of benefit to the ratepayers, it presented no solid evidence whatsoever that its institutional advertising provided direct benefit to its ratepayers and thus the Commission has made an adjustment to eliminate these expenses of $42,000[56/] which increases SCB's adjusted net operating income by $21,000.

Lobbying Expenses

In prior cases, the Commission has established its policy regarding lobbying expenses. It is the Commission's opinion that lobbying expenses are of no benefit to a company's ratepayers. SCB reported lobbying expenses for the test period of approximately $116,000.[57/] The Commission has therefore increased SCB's adjusted net operating income by $59,000.

Miscellaneous Income Charges

SCB proposed to reduce its net operating income by approximately $127,000 to reflect miscellaneous income charges as an operating expense for rate-making purposes. Charitable contributions are included in this account. SCB in its brief argued that not only were contributions a necessary part of doing business but that apparently the Commission is inhibiting the management's prerogatives to spend as it wishes by disallowing contributions for rate-making purposes. The Commission is in no way limiting management options, but instead is simply finding that these contributions do not benefit the captive ratepayers of the monopoly phone company. Management can spend as it wishes, but, as the Commission has consistently determined, it is the stockholders who should bear this cost. Therefore, this adjustment is denied and SCB's adjusted net operating income has been increased by $127,000.

Accelerated Recovery of Excess Tax Deferrals

Effective January 1, 1979, the maximum corporate tax rate was reduced from 48 to 46 percent. This tax rate reduction poses the question of proper accounting of the taxes deferred prior to 1979 at 48 percent which are no longer a future liability.

As it did in Case No. 8467, the Commission will amortize excess deferred taxes over 5 years for rate-making purposes to better insure that the surplus is credited to the ratepayers who originally paid the taxes at 48 percent.

SCB reported intrastate surplus deferred federal income taxes at April 30, 1983, of $2,868,000.[58/] Amortizing this difference over 5 years results in an annual reduction in income tax expense of approximately $574,000. Rather than adjust capital for the second year's amortization of excess deferred taxes, the

Commission has increased net operating income requirements by approximately $66,000 to reflect the overall cost of capital found reasonable in this Order. Thus, the net effect of this rate-making treatment for surplus deferred taxes is an increase to SCB's adjusted net operating income of $508,000.

Employee Concession Service

In accordance with its findings in SCB's last three rate cases, and other cases, the Commission finds it appropriate to adjust SCB's operating revenues to include the effect of estimated additional revenues available to SCB in the absence of employee discounts on local and intrastate toll service of $1,879,000.[59/] Furthermore, SCB did not include concessions of approximately $167,000[60/] provided employees of other telephone companies for local and intrastate toll service accounted for in test period operating expenses. It is the Commission's opinion that similar to concessions granted its own employees, concessions granted to employees of other telephone companies are improper for the ratepayers to bear.

SCB has consistently maintained in its recent rate cases that these concessions amount to benefits to its employees that cannot be discontinued. The Commission in its Order entered October 13, 1982, in Case No. 8467 countered this argument by stating on page 16:

> Even though employee concession service may be regarded as an employee benefit by Bell and its employees, Bell has not demonstrated that the concession service is considered in its wage negotiations with its employees' union nor that it is a factor in management's determination of non-union wages.

On page 33 of its brief in this case SCB stated that:

> The Commission has previously refused to recognize this cost on the ground that the provision was not part of the labor contract. Any such misconception in the instant proceeding is dispelled by the August 24, 1983 letter from F. T. Smith, South Central Bell, to Mr. T. J. Volk, Vice President of the Communications Workers of America, which was introduced as Company Exhibit 7. That letter makes it clear that employee concessions are an implicit part of the labor agreement, and that both sides recognize them as such. Indeed, employees perceive concession services as a part of their compensation. As further testified by Mr. Dickson on rebuttal employee concessions were part of the local bargaining process in August 1983. (T.E. Vol IX at 144).

This letter from Mr. Smith to Mr. Volk was simply a statement of management's policy decisions regarding continued employee concessions following divestiture. In the Commission's opinion, it can in no way be construed to clarify that concessions are an implicit part of the labor agreement. The agreement between the Communication Workers of America ("CWA") and SCB, effective August 27, 1983, made no mention of concession service except one brief reference on page 35 regarding the continuation of concession service for an employee on military leave. It is also worth noting that employee concessions will be reduced following divestiture.

In addition, following the testimony of SCB's witness, Mr. Stanley Dickson, Vice President for Bell operations in Kentucky, that employee concessions were part of the local bargaining process in August 1983 as asserted in SCB's brief, Mr. Dickson was asked and responded as follows:[61]

Crutcher Q 37, "Do you have any correspondence or any documentation of the local bargaining as it took place for these concessions?"

Dickson A, "No."

Thus, nothing in the record of evidence has changed the Commission's opinion that the ratepayers should not bear the cost of concessions granted employees. The Commission has therefore increased SCB's adjusted net operating income by $1,039,000.

Corporate and Community Affairs

In its Order in Case No. 8150, Notice of South Central Bell Telephone Company of an Adjustment in its Intrastate Rates and Charges, the Commission found that the level of expenses of the Corporate and Community Affairs Department had nearly doubled in size from 1979 to 1980. This increase in Corporate and Community Affairs expenses happened concurrently with the centralization of branch offices with many of the managers of these discontinued offices joining the Corporate and Community Affairs Department as what SCB called "community advisors."

The Commission questioned the necessity of the functions of this department and specified that it appeared from the record in that case that some portion of the department's activities constituted "institutional enhancement" or the presentation of a good corporate image to the public, clearly of primary benefit to SCB's stockholders. Thus, the Commission determined that an adjustment to reduce this department's expenses to the 1979 level adjusted for changes in inflation was appropriate. The Commission, moreover, put SCB on notice that in future rate proceedings a detailed analysis of the account specifying cost and benefit would be required.62/

In Case No. 8467 the Commission found that SCB had not provided sufficient documentation of the expenses and the resulting benefit to the ratepayers for this department and adjusted the department's test period expenses to allow only the growth in inflation above the amount found reasonable in Case No. 8150. The Commission again put SCB on notice that a detailed analysis of the account specifying cost and benefit would be required.63/

In this case, Mr. Dickson gave a broad description of three functions of the Corporate and Community Affairs Department and provided further testimony that the total expenses of the department were virtually at the same level as in 1981 and that the department's employee total had dropped from 36 to 31 in 1982.64/

The Commission, as was pointed out on page 21 of SCB's brief, worked with this department to educate telephone customers about divestiture and is of the opinion that many of the functional activities performed by the Corporate and Community Affairs Department are legitimate expenses of benefit to SCB's ratepayers. However, the Commission still remains unconvinced by SCB's arguments that the total level of expense in this department is justified or that the doubling of the department's size in 1980 proportionately enhanced the value to the Kentucky ratepayers. This is the evidence the Commission has sought from SCB in the past two cases to no avail. The Commission cannot, as page 32 of SCB's brief would indicate, find the evidence that would demonstrate that the essential services provided could not have been provided equally as efficiently and far more prudently had the size of the department's expenses remained at the 1979 level adjusted for normal inflation.

Therefore, the Commission has increased SCB's adjusted operating income by $182,000[65/] to reflect the reduction in the test period level of expense to expense level for the Corporate and Community Affairs Department in its Order in Case No. 8150 adjusted for inflation.

Out-of-Period Salaries, Wages and Wage-Related Expenses

SCB proposed numerous out-of-period adjustments for salaries, wages and wage-related expenses. These adjustments are reflected in Ballard's Revised Exhibit 3, Part 2, Sheet 2 of 2, in Columns M, N, R, S and T.

The adjustments in Columns R, S and T are for changes in wages, salaries and fringe benefits occurring in April, July and August, 1984. Not only are these expense changes not measurable, but they are to take effect months beyond the date of this Order, and well over a year after the end of the test period. Thus, if the Commission allowed these adjustments SCB's ratepayers would be required to pay for the increases as much as 7 months before SCB would actually incur the increase. In short, the Commission finds these adjustments totally inappropriate for rate-making purposes and has disallowed these adjustments entirely, thus increasing adjusted operating income by $2,599,000.

In Columns N and M of Ballard's Revised Exhibit 3, Part 32, Sheet 2 of 2, SCB proposed adjustments to reflect salary and benefit changes for its management employees and wage increases granted its CWA employees pursuant to the contract agreement effective in August 1983.

The wage increase granted CWA employees is in the Commission's opinion in line with current inflationary trends and occurred within 4 months of the end of the test period in this case. The Commission, moreover, required SCB to recalculate this adjustment based on the employee level at the end of the test period and finds no material discrepancy in these calculations which was a concern expressed by the AG in its brief. Thus, the Commission has accepted the August 1983 CWA adjustment as proposed.

The benefit and salary changes to management employees occurred in August and October 1983, respectively. The Commission has reluctantly accepted the adjustment for the change in management benefits. However, the Commission is of the opinion that the adjustment for the increases in management salaries, which occurred 6 months beyond the end of the test period and ranged from 0 to 15 percent,[66] should be denied for rate-making purposes. This adjustment increases SCB's proposed operating income by $1,433,000. This adjustment was later than the CWA increase, was larger and was discretionary.

The Commission is further of the opinion that this adjustment, as well as the adjustments for the 1984 wage and wage-related increases, shows the need for the test year concept. The

Commission has on appropriate occasions allowed wage increases up to several months after the end of the test year on the basis that there would not be substantial changes in the number of employees or the basic relationship of employees to investment, revenues and expenses. However, aside from changes associated with divestiture, SCB's witnesses have stressed that SCB is undergoing major changes in the modernization of its plant and utilizing less employees. Therefore, it is the Commission's opinion that when a company is undergoing numerous structural changes, a selective adjustment made for an expense increase long beyond the end of the test period is naturally uncertain in outcome and if accepted may produce earnings greater then the return found fair in this Order.

For some time the Commission has been especially concerned about the level of employee compensation in the utilities which are subject to its jurisdiction. For instance, on pages 13-14 in its final Order in Case No. 8528, Notice of Adjustment of Rates of Delta Natural Gas Company, dated December 14, 1982, the Commission discussed that issue at some length:

> The charge given a regulatory agency like this Commission takes two forms. On the one hand there are the specific statutory provisions, such as are found in KRS Chapter 278. On the other hand, and no less important for being cited infrequently, is the following simple admonition:
>
> > . . .the single most widely accepted rule for the governance of the regulated industries is regulate them in such a way as to produce the same results as would be produced by effective competition, if it were feasible.
>
> Clearly, in the presence of "effective competition," though excessive executive compensation

> might exist temporarily it could not continue indefinitely. This Commission is designed to be a surrogate for that effective competition, and though it is but an imperfect surrogate, nevertheless it takes very seriously its role in that regard, and thus its obligation to see that Delta's customers do not bear the consequences of improvident decisions by Delta's senior management.
>
> The Commission notes that in selecting George Stigler to recieve the 1982 Nobel Memorial Prize in Economic Science, the Royal Swedish Academy of Sciences cited his 'seminal studies of industrial structure, functioning of markets and the causes and effects of public regulations,' including regulation on the part of state entities such as the Commission. As a result of his studies, it is Stigler's conclusion that regulation 'is designed and operated primarily for its [the regulated firm's or industry's] benefit.'
>
> The present case has that color to it. Surely any firm would desire an arrangement in which it is well-insulated from the forces of competition; is thus able to compensate a select group of employees (or even all employees) with little or no regard for what would be the competition-determined level of compensation for them; and finally is able to have the arrangement ratified by the official seal--the rate order--of the very public agency created to protect captive consumers from such abuse. This Commission does not intend to participate in such an arrangement. (Footnotes omitted.)

Moreover, although in Case No. 8528 the Commission confined its comments on wage levels principally to the salaries of that utility's executives, more recently, on pages 15-16 in its final Order in Case No. 8859, Adjustment of Rates of General Telephone Company of Kentucky, dated January 4, 1984, discussing its decision to disallow a portion of a wage increase granted a utility's craft employees, the Commission made the following comments:

> The Commission has noted with considerable interest the dramatic deceleration in wage and benefit growth among industries such as trucking, airlines

> and busing that have been subject to substantial deregulation. Within these industries there are many examples of actual wage and benefit reductions. A similar pattern has been evident throughout the economy in industries that have experienced intense competition. Given present economic trends, it is essential that compensation policies for utility employees reflect their counterparts in competitive industries. As a surrogate for the marketplace, the Commission must insure that the utilities under its jurisdiction are not insulated from economic conditions at the expense of Kentucky ratepayers. The Commission realizes that General's increase to its CWA union employees was set by contract; however, when the need arises, negotiations should be reopened. Therefore, the Commission concludes that 5 percent is the maximum increase that should be passed on to General's customers for the annualized wage increase granted CWA employees in June 1983. In addition, the Commission places General on notice that its first step in future rate proceedings will be to determine whether General's <u>current</u> wage and benefit levels are out of line with similar compensation levels dictated by the marketplace. Only then will the Commission consider proposed increases in these levels. This policy will be applied to all utilities within the Commission's jurisdiction. (Footnotes omitted.)

The Commission is especially concerned about the level of wages and benefits paid by SCB, and notes with particular interest that the <u>average</u> salary paid during the test year by SCB was $28,502. Moreover, with the addition of fringe benefits and payroll taxes, which totaled $7,852, average total compensation during the test year was $36,354. The following data, which are average salaries exclusive of fringe benefits for the years indicated, allow comparison between wages paid by SCB and those paid by selected other utilities falling under Commission jurisdiction.

	General Telephone	Continental Telephone	SCB
	Average Salary per Employee	Average Salary per Employee	Average Salary per Employee
1982	$18,835	$21,699	$27,485
1981	17,052	19,889	24,286
1980	15,516	17,328	21,369
1979	14,509	15,846	19,548
1978	13,284	14,200	17,942

The Commission has decided that the issue of SCB wages and benefits merits further attention, and for that reason will order a thorough evaluation of this and related issues, to be undertaken by a firm of the Commission's selection, which will transmit its findings in a report to the Commission.

License Contract Expenses

In Case No. 8150, the Commission put SCB on notice that in future rate proceedings it expected to see studies and analyses of the specific contract costs that show tangible evidence of both the necessity to the Kentucky ratepayer of the services provided under the license contract and the reasonableness and tangible-cost benefit relationship of those individual expenses.67/ In Case No. 8467, the Commission reviewed SCB's testimony and exhibits filed to comply with the notice and found that SCB had failed to meet the requirements established in Case No. 8150 and denied all license contract expenses for rate-making purposes.68/ The record in Case No. 8467 regarding the license contract has been incorporated in the record in this case.69/

During the hearing in this case, Mr. Parish was asked if SCB had performed any further review or analyses of the more than

600 services in the license contract to develop a tangible cost benefit relationship for Kentucky ratepayers other than the review and analyses provided in Case No. 8467. Mr. Parish responded that SCB had not.[70/] Moreover, Mr. Parish stated that during the test period, SCB's internal controls and review of the license contract had not changed from those identified in Case No. 8467.[71/]

Therefore, under the pre-divestiture concept, the Commission has disallowed the full license contract expenses for the reasons cited in its Order in Case No. 8467. This adjustment increases SCB's adjusted operating income by $4,191,000.[72/]

DIVESTITURE

Divestiture Adjustments

On January 1, 1984, approximately 3 weeks prior to the date of this Order, the monumental event, "divestiture," occurred. AT&T and SCB are no longer parent and subsidiary. This event represents the largest corporate reorganization in history and has taken place in less than 2 years from the date the DOJ and AT&T entered their Consent Decree. Recognizing that a massive transfer of assets, employees and other related items representing the separation of major segments of business in this short time frame would require the provision of additional information and the correction of numerous errors following the split, the POR specified that a 1-year true-up procedure was necessary.

On July 29, 1983, SCB filed this case with the Commission seeking approval of various rates and charges which reflected its expected operations after divestiture. Not only were these operations based largely upon forecasts but the details of divestiture at the date of filing had not even been ruled upon by the Federal District Court.

Moreover, the Commission had previously ruled upon SCB's motion in Administrative Case No. 264 stating that a future test year would not be allowed due to uncertainties surrounding projections and that this rate case was to be based on actual test period operating conditions. The Commission did, however, recognize that divestiture-related changes would occur and granted SCB the opportunity to adjust historical operations on the condition that the majority of SCB's request be supported by "known and measurable" and "fair, just and reasonable" criteria and further that all assumptions used in the development of adjustments to historical results were thoroughly explained and supported by detailed documentation in the evidence of record. Thus, the Commission made it clear to SCB from the start in its Order in Administrative Case No. 264, entered May 2, 1983, that SCB should review its historical test period operations and add or subtract known and measurable and fair, just and reasonable changes due to impending divestiture and document this information with its filing.

SCB has virtually ignored the Commission's directive in Administrative Case No. 264 and filed this case with approximately 60 percent[73/] or the majority of its expenses (Maintenance, Traffic, Commercial and Marketing, Accounting and General Expenses), based on ratios derived from a comparison of its 1984 pre- and post-divestiture forecasted budgets, (the latter budget being the same budget SCB had already developed in the hope that the future test year would be granted).[74] On cross-examination Mr. Ballard stated that SCB did consider making adjustments to the test year as ordered in Administrative Case No. 264, but decided--to paraphrase his testimony--that this would be too difficulat and that it was his opinion that the method SCB adopted was equally valid.[75] The Commission, however, has found otherwise. Applying ratios derived from these budgets to test year amounts, in the Commission's opinion, constitutes a method based on forecasted data subject to the same uncertainties and unsupported assumptions prohibited in its May 2, 1983, Order. Moreover, this method, used for the majority of SCB's expenses, produces results that are neither known nor measurable and cannot, in the Commission's opinion, be accepted as fair, just and reasonable for rate-making purposes.

Not only did SCB ignore the Commission's directive in its Order in Administrative Case No. 264 by using forecasted data, but it also failed to comply with the directive to support its filing by providing detailed documentation of its assumptions used in making its adjustments.

In numerous information requests, 15 sets in all, the Commission's staff made every effort to assist SCB in meeting its burden of proof.

In his prefiled testimony in this case, Mr. Ballard described his adjustments related to the effects of divestiture in a brief five pages.[76] The extent of his description of the adjustments for the majority (approximately 60 percent) of his expenses consisted of one paragraph on page 18, as follows:

> <u>Assignment Based on Relationships Derived From Forecasted Data.</u>
> I have included maintenance, traffic, commercial and marketing, accounting, general and miscellaneous income charges in this category. It is my conclusion that forecasted relationships are valid for purposes of separating the historical amounts as to pre and post-divestiture. Significant resources were devoted to obtaining forecasted relationships, including specific assessment of work to be done after divestiture. In many instances employee and asset transfers previously determined were utilized in assessing the expense levels for the several entities.

Dr. Selwyn, in Appendix 1, Part B of his prefiled testimony in this case, listed the attempts the Staff made to gain information prior to the Formal Conference held in this case on October 10, 1983. The Commission is of the opinion that Dr. Selwyn's description of the numerous unsuccessful attempts the Staff made to derive information regarding SCB's divestiture adjustments is an accurate summary of the Staff's efforts to meet SCB's burden of proof, and has attached Dr. Selwyn's Appendix 1, Part B, as Appendix B to this Order.

At the Formal Conference, nearly 3 months after the filing of this case, the Commission learned for the first time that the ratios applied to the majority of SCB's expenses were, in fact, based solely on the pre- and post-divestiture budgets for the accounts maintenance, traffic, commercial and marketing, accounting and general expenses. Following the Formal Conference, on October 17, 1983, SCB produced information showing its pre- and post-divestiture ratios by detailed sub-account applied to the test period levels of the majority of its expenses. Until this filing, SCB had maintained that this information was unavailable in this detail or in SCB's words, "granularity". No narrative description was included with this response.

The Commission's Staff again tried unsuccessfully in an information request to determine the assumptions and calculations used to determine the pre- and post-divestiture budgets.[77] SCB's response consisted of two narrative pages which referenced the MFJ, the POR Detailed Work Plan prescribing asset assignment, and AT&T's Divestiture Implementation Guidelines. The response included excerpts from these documents outlining broad-based assumptions not specific to SCB's Kentucky operations and further stated that:

> These work plans and guidelines were placed in the hands of individuals responsible for all segments of the business, including local operations managers who are responsible for the actual task work required to provide telephone service. These same managers are responsible for segment input to the forecast process. In short, the people doing the work were vital to planning for MFJ implementation and the preparation of the 1984 forecast.
>
> Control of the above described managers and their input is the next element to be discussed. Beginning in June of 1982 our internal auditors have conducted over 25 separate audits programmed to measure the effectiveness of divestiture implementation processes and quantifications. Regional Task Forces have conducted numerous reviews and follow-ups also designed to assure compliance. A Budget Analysis Task Force was organized by the Company to review the adequacy of the 1984 forecast. AT&T has issued an Information Statement and Prospectus to its shareowners which includes 1984 estimated financial data for AT&T and each of the seven regional holding companies. Coopers and Lybrand, Independent Certified Public Accountants, reported that financial results in the prospectus were '. . .presented in conformity with applicable guidelines for presentation of a financial forecast

established by the American Institute of Certified Public Accountants. We believe that the underlying assumptions provide a reasonable basis for management's financial forecast.'

In addition to the above described forecast preparation, managers were asked to prepare a forecast of 1984 as if divestiture would not occur. Implicit in such a forecast is the removal of the multitude of items which were quantified in accordance with the Detailed Work Plan and the Divestiture Implementation Guidelines. This forecast was prepared by the same managers who prepared the post-divestiture view. The relationship of these two forecasts provided the percent to be retained by South Central Bell after divestiture for Maintenance, Traffic, Commercial and Marketing, Accounting, General and Miscellaneous Income Charges.

The provision '. . .of all assumptions and all calculations used to develop pre- and post-divestiture amounts. . .' is clearly an enormous undertaking. It is the company's belief that recognition of the planning, implementation and control of the forecast function demonstrated in this response, represents sufficient assurance that reasonable quantifications have been provided to the Commission.[78]

Thus, the Commission was never made aware of the specific assumptions underlying the forecasts of each expense account upon which the ratios were determined and then applied to the majority of SCB's expenses to determine its divestiture adjustments. A review of the extensive transcript of the cross-examination of Mr. Ballard in this case reveals no further enlightenment.

In fact, it appears that there were no assumptions. Mr. Ballard simply took two projected budgets for 1984, one with divestiture and one without, and calculated a ratio which he then applied to the figures for these accounts for the test period. The assumptions underlying the two proposed budgets were never presented to the Commission. In fact, one of the budgets itself was never presented to the Commission in its entirety. Accepting this approach would mean that the vast majority of the expenses would be projections solely within the province of SCB management and beyond examination by the Commission. The Commission has never accepted forecasted test years because of the inherent problems in projecting expenses and revenues for an enterprise of this size. Some commissions do use projected test years. But if such a method is to function properly, the company must provide extremely detailed data so the commission can carefully scrutinize each element of the projected test year. In this case, SCB avoided that issue altogether. SCB never provided any data on the details underlying its projected test year budget. It simply supplied a ratio, and until very late in the case failed to answer data requests, stating that it did not have adequate information.

The fact that this information is satisfactory for SCB's internal purposes, or that an outside independent auditor has accepted one of these budgets for another purpose (although even the acceptance by the auditor had reservations)[79] does not make these figures acceptable for rate-making purposes.

Dr. Selwyn, after making adjustments to SCB's results, in his prefiled testimony stated in regard to SCB's method of determining its ratios for maintenance, traffic, commercial and marketing, accounting and general expenses,

> Although there also appear to be some subaccounts which are reduced in this budget by an amount less than one would expect for the divested Company, the general result of the forecast process would still be a reasonable approximation of the direct effect

of divestiture on expense levels if only the increases to subaccounts were removed.[80]

SCB seems to take this as full endorsement of its methods. However, Dr. Selwyn had previously stated in his prefiled testimony which was submitted October 25, 1983, or 8 days after receipt of the budget subaccounts, that,

> Prior to October 17, 1983, the Company had not produced sufficient information for me to evaluate those expenses beyond a highly general level. It should be noted that to some extent, this statement still remains the case.[81]

Moreover, Dr. Selwyn emphatically took issue with the methodology employed by SCB calling it a direct violation of the Commission's Order in Administrative Case No. 264.[82] Furthermore, in his direct examination during the hearing in this case Dr. Selwyn further stated,

> I have made what I believe is an extremely conservative adjustment in this expense retentions forecast by South Central Bell. And in that context, I believe that the adjustments I am proposing are the absolute minimum that should be adopted in order to reflect the reduced scope and scale of the company's operations on its operating expenses after divestiture.[83]

As previously discussed in a prior section of this Order, SCB, in Mr. Ballard's Exhibit 3, Part 2, separated its combined operating results including divestiture (Columns A-U) in Column V of that statement. These intrastate separation factors were never separately identified nor set out in an exhibit but had to be calculated by dividing Mr. Ballard's Column V by his Column U. The results of these calculations produce intrastate separation factors significantly higher than those factors based on the historical test period which, if accepted, would result in significantly higher expenses being assigned the intrastate jurisdiction. On page 19 of his pre-filed testimony, Mr. Ballard stated in SCB's characteristically brief manner,

> Column V is the product of forecasted post-divestiture separation factors applied to the post-divestiture combined expenses. These factors were determined as provided in the Separations Manual, including recent rulings regarding Customer Premises Equipment and the Subscriber Plant Factor.

During the hearing in this case, Mr. Ballard was cross-examined regarding the separations factors used to derive Column V. In response to a question regarding changes in the factors, Mr. Ballard responded,

> Yeah, we made this. . .query to the people who do the separation factors and. . .we were presented with. . .with their quantification of those factors and. . .and the resulting Column B (sic) V. I don't have all the detail of what considerations were given in there.84/

After several additional questions, Mr. Ballard agreed to provide the study and the date of the study and to further explain the changes in the factors.85/ His response, "I'm going to need that truck after all, I guess,"86/ seemed to anticipate that this information would be voluminous.

The response consisted of one typewritten page.87/ It stated that, ". . .there was no specific study made as of a certain date to determine the separation of data for Column U," and summarized in the last sentence that:

> The main reason for higher intrastate amounts is due to the fact that the remaining operations in the divested mode are predominately intrastate as a significant portion of the investment assigned to the interstate operation has been transferred to AT&T.88/

Again, the Commission is of the opinion that the assumptions underlying these factors have not been made clear. No study was either made or submitted in the evidence of record. Thus SCB has failed to support its burden of proof on the specific divestiture adjustments.

Both of the AG's witnesses, Dr. J. W. Wilson, President of J. W. Wilson & Associates, Inc., and Mr. Buckalew, presented testimony proposing that the Commission totally disallow divestiture adjustments. The AG supported its witnesses' position in its brief filed in this case. SCB in response to the AG's witnesses' testimony pointed to errors in calculation and concluded from this that their testimony had no merit.

SCB in its brief in this case stated that no fault was found in the divested assets, nor the divested revenues and that,

> It would be nice if the problem of projecting the effect of divestiture did not exist, but it does, and in the absence of absolute certainty, the method used by Mr. Ballard for calculating 1984 expenses is a conservative and reasonable one. Fine-tuning is inevitable but the Company must be in a position on January 1, 1984 to recoup its legitimate business expenses. Mr. Ballard's testimony and exhibits provide the only authoritative benchmark as to what those expenses will be.[89]

The Commission is, as previously stated and explained at length herein, in disagreement with the results of Mr. Ballard's divestiture expenses, and finds that these expenses are largely forecasts, the bases for which remain unknown and thus are not in compliance with the Commission's Order in Administrative Case No. 264, and that SCB has failed to meet its burden of proof under KRS 278.190. Therefore, regardless of whether divested assets and revenues have been challenged, the overall divested results of Mr. Ballard's Exhibit 3 are of no value and are hereby denied.

The Commission, however, does recognize that two major segments of SCB's operations--CPE and inter-lata toll--have been transferred to AT&T. Thus, the revenue contribution from those operations will be lost. SCB's witness, Mr. J. D. Matheson, Vice President of Revenue Requirements, in his pre-filed testimony in this case stated that the losses of revenue contribution from CPE and inter-lata toll were $24,000,000 and $38,000,000, respectively.[90/]

During the hearing in this case, it was established that Mr. Matheson's figures were based on SCB's 1981 Embedded Direct Analysis ("EDA"). The EDA although subject to some criticism regarding the distribution of cost is a standard document prepared annually by SCB, its primary purpose being to review its service costs and revenue relationships of its products and services. Therefore, in the Commission's opinion Mr. Matheson's divestiture figures more realistically comport to the criteria established in the Commission's Order in Administrative Case No. 264 of being "known and measurable and fair, just and reasonable."

Mr. Matheson updated his figures during the hearing to reflect the 1982 EDA and determined his revenue contribution loss from CPE to be $20,800,000[91/] and his revenue contribution loss from inter-lata toll to be $37,200,000.[92/] He further stated that he considered these figures to be the reasonable level of lost contribution from those services.[93/]

The Commission will accept Mr. Matheson's revenue contribution losses from CPE and inter-lata toll.

Access charges to cover the revenue contribution loss from inter-lata toll have been placed in effect on an interim basis in Case No. 8838 and will be dealt with further in the proceedings in that case.

Although the investment and expenses associated with CPE have been transferred to AT&T, the investment and expenses in intrasystem wiring to connect portions of the CPE remain with SCB. In a later section of this Order, the Commission is requiring SCB to establish tariffs to recover the lost revenue associated with intrasystem wiring. These tariffs are to be designed to recover $6,303,000[94/] on the test period basis. Therefore, Mr. Matheson's revenue contribution loss from CPE has been reduced to reflect this recovery.

The Commission is cognizant of the fact that contract charging between AT&T and SCB for multifunction facilities and other service arrangements have not been dealt with in this Order. However, a rate of return has been found appropriate and applied on the entire pre-divestiture test period level of assets. The results of contract charges are not at this point measurable and under SCB's estimates filed in Mr. Ballard's responses to information requests, SCB would be the net receiver of this dual system of charging. Therefore, it is the Commission's opinion that SCB has not been harmed in this omission.

Centralized Services

The pre-divestiture provision of certain services to SCB by AT&T was covered by a variety of affiliated agreements, the largest of which was known as the license contract, the test period cost of which has been disallowed in a previous section of this Order. Under the license contract AT&T provided the BOCs with technical assistance and services in areas such as network planning, marketing, personnel, and financial management, with the BOCs being allocated a share of the expenses. In recent years, increasing levels of license contract costs and the apparent inability of the BOCs to control license contract expenditures have been questioned.

Under the terms of the MFJ all affiliated agreements with AT&T, including the license contract, and the contract with Bell Telephone Laboratories for the development of Business Information Systems ("BIS") were terminated on January 1, 1984. However, the MFJ required the BOCs to provide through a centralized organization a single point of contact for coordination of all BOCs to meet requirements for national security and emergency preparedness, and further allowed the BOCs to support and share costs for the "provision of engineering, administrative, and other services which can most efficiently be provided on a centralized basis."[95/] Therefore, a task force of BOC presidents decided that a Central Services Organization should be formed to comply with Judge Greene's national security requirements and also to provide many of the services previously obtained through the provisions of the license contract. In this rate case, SCB proposed to recover the estimated cost of CSO operations allocated to Kentucky of $6,212,000. In addition, SCB will also receive certain centralized services from BellSouth's Regional Holding Company ("RHC") and Regional Services Company ("RSC"). SCB proposed to recover the estimated cost of these services allocated to Kentucky intrastate operations in the amounts of $3,080,000 and $<2,537,000>, respectively. The Commission herein discusses SCB's proposals to recover the cost of these affiliated centralized services, the total cost of which, proposed by SCB, would be $6,755,000 to Kentucky ratepayers.

Central Services Organization

Mr. Parish testified that the CSO will provide technical services to the BOCs including network planning, information systems (including BIS), technology systems support, engineering and operations support, and applied research; and also nontechnical support in areas such as legal, government affairs, market research and other support services.[96/] Mr. Parish stated that the services to be performed by the CSO in addition to Judge Greene's requirements for national security are better performed at the national level to eliminate duplication of expenses by each of the seven regional BOCs and to provide the technical expertise necessary for all of the regional BOCs to remain viable.[97/] Mr. Parish further testified that of the Kentucky allocated share of the $6,212,000 estimated to be spent on the CSO in 1984, $1,911,000 of the costs are for "core-funded" projects which are deemed by the seven regional BOC Holding Companies to be of substantial benefit and are funded by each region on an equal, oneseventh basis.[98/] The additional expenses to Kentucky of $4,301,000 are for non-core projects which are not deemed to be "universally accepted" as core projects but which are viewed as worthwhile projects by some of the regional BOC Holding Companies and are billed only to those regional BOCs based on various allocation factors.[99/]

Numerous parties at the hearing opposed the proposal by SCB to include the level of CSO costs. The AG proposed that the CSO expense be denied or limited for several reasons.[100/] Specifically, the AG noted the uncertainty of the information provided about the CSO because much of the planning regarding the CSO had not been finalized until shortly before the hearings.[101/] The AG also noted that some of the projects such as research directed toward the providing of video games through telephone service and the Integrated Service Digital Network ("ISDN"), planned by the CSO, are not needed to provide basic local exchange service.[102/] The AG further noted that the CSO organization has grown far in excess of its original purposes of providing national security, because less than 1 percent of the estimated costs are related to national defense.

Louisville and Jefferson County argued that CSO costs should be disallowed in full on the basis that insufficient justification was presented for the budgeted CSO costs. They also claimed that no adequate breakdown of costs by activity or work package was presented.[103/]

Dr. Selwyn testified that the Commission should completely disallow all CSO and other centralized services expenses until

SCB makes a "complete accounting and allocation of these costs between ratepayers and stockholders."[104] Dr. Selwyn noted several problems with the CSO activities which should be of concern to the Commission including questioning the value to Kentucky ratepayers of individual CSO activities, the problems of ensuring that common overheads not be charged to the ratepayers, and the difficulty, based on the evidence presented, in determining whether the ratepayer or the stockholder is the ultimate beneficiary of any and all projects performed by the CSO.[105] Dr. Selwyn noted the Commission's concern in Administrative Case No. 264 in which the Commission stated that:

> To help SCB better plan its next rate case, the Commission serves notice that it must meet its burden of proof pursuant to KRS 278.190. . .and that the start-up costs, both direct and allocated, for the new southern regional 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.[106]

Dr. Selwyn concluded that:

> . . .in this case, South Central Bell has certainly not provided evidence that the CSO expense that it seeks to recover, to pay its share of all CSO costs, is reasonable and necessary to the provision of service to the public.[107]

The Commission in evaluating the CSO is dealing with an organization with no history of operations whatsoever but which would, if it were an independent corporation, immediately assume a prominent place in the Fortune 500 companies based on the budgeted 1984 revenues.[108] Upon considering the evidence of record and the viewpoints of all interested parties, the Commission finds several problems with SCB's proposal related to the CSO.

The Commission, as well as other parties, agrees with SCB in principal that certain services can be provided more efficiently on a centralized basis for a group of similar companies, due to economies of scale and elimination of unnecessary duplication; however, based on the evidence provided by SCB, it is impossible to determine the appropriateness to the Kentucky ratepayers of the level of CSO services proposed. As Dr. Selwyn has stated:

> . . .the relevant issue is not whether the BOCs should be allowed to have some services provided on a centralized basis, but rather, which particular services or activities are appropriately provided on a centralized basis.[109]

SCB in its brief has argued that it has demonstrated the wisdom of its affiliated "structure" but the question of critical importance to the Commission is not only of structure but also of the control and justification of these costs. The Commission found several problems with both the information provided regarding the CSO and the CSO services as proposed, including but not limited to the lack of certainty inherent in the information provided, the questionable value of the information provided, the prudence of charging the Kentucky ratepayer for certain services, the possibility of shareholder benefit from ratepayer funded services, the possibility of duplication of services, and the level of total CSO costs and the ability of SCB to control these costs.

The Commission in Administrative Case No. 264 denied SCB's motion to use a projected test period and noted that:

> . . .although we are cognizant that certain assumptions will be based on business judgments and opinion, we expect the majority of SCB's request to be documented according to known and measurable and fair, just and reasonable criteria.[110]

The Commission is of the opinion that the evidence regarding CSO costs is not of sufficient foundation to be considered known and measurable and/or fair, just and reasonable. Mr. Parish testified that as recently as November 8, 1983, the total cost of the CSO was revised, that this amount would not be exceeded, but that it "sure could" be something less.[111/] Mr. Looloian testified at the hearing that "we're in the process right now of, in effect, finalizing a specific dollar number for each project"[112/] and that:

> . . .the numbers that you're dealing with are budgeted. . .. Hopefully there will be fairly close similarity between budgeted and actual and certainly in the aggregate there's going to be, but on each individual project there could be some deviations.[113/]

The Commission is of the opinion that SCB's testimony indicates the uncertainty of the numbers provided and the ongoing nature of the planning process even as of the date of this Order.

The Commission also expresses serious concern with the prudence of charging the ratepayer for certain services which appear to be unnecessary in providing basic local exchange service. The Commission has noted the AG's concern regarding CSO projects related to research in developing ISDN and video game technology. Mr. Parish testified under cross-examination that video text capability is another project to be explored by the CSO and:

> . . .is certainly not plain old telephone service but. . . offers the opportunity for the regulated network to provide additional revenues to its operations.[114/]

Mr. Parish agreed that some of the CSO work "will be towards redefining or revamping the network so that new services can be provided."115/ Mr. Parish further agreed that there are no guarantees that each of these services will be offered through the local exchange as opposed to a separate subsidiary if declared to be enhanced services in the future.116/ The testimony of SCB's witnesses certainly indicates that some of the CSO projects are designed to explore luxury telephone items and possibly enhanced services. The Commission is not opposed to the development of such items but questions the propriety of SCB's proposal to have the ratepayers fund such projects, particularly at a time when widespread fears exist regarding the availability of universal service. The Commission reminds SCB of the statement presented by recently elected Governor Martha Layne Collins in Case No. 8873117/ on August 30, 1983, regarding universal service. In part, Governor Collins said to the Commission:

> I ask you today that, when you consider individual rate structures and hearings to come, you do so with resolve to preserve the affordability of basic telephone service for individual residential households. . . .. As you're challenged by information and proposals submitted to you by Kentucky's telephone companies, great and small alike, do not lose sight of the concept of making available, as far as possible, to all the people, a rapid efficient communications service with adequate facilities at reasonable charges.118/

At this time, when the concept of universal telephone service is being seriously threatened by rising costs, the Commission is of the opinion that SCB's proposal to have the captive ratepayers fund projects for luxury services such as video game technology is unreasonable and improper. However, given the limited information provided by SCB, the Commission is unable to determine the amount of cost devoted to projects such as these.

The Commission is also of the opinion that SCB's stockholders could benefit at the expense of the ratepayers in the provision of CSO services to outside interests. Mr. Parish stated that the CSO will perform services for outside interests in addition to providing services for the seven regional companies which will own the CSO.[119/] Not only does this add additional uncertainty to the ongoing expenses for the CSO, but it further presents difficulties in the proper allocation of costs. The Commission finds it interesting to note that the provision of CSO service to outside interests has evidently received high priority at the CSO, as the minutes of the CSO Board of Directors meeting on November 8, 1983, indicate that one of the first items to be reviewed was the potential agreement to provide services to non-affiliates and particularly to Cincinnati Bell, Inc., and Southern New England Telephone.[120/] Dr. Selwyn noted concerns similar to those of the Commission in his testimony regarding the provision of nonregulated activities in stating that "BellSouth Corporation will have the incentive to subsidize nonregulated services through centralized activities."[121/] This statement is equally true of regulated CSO services provided to non-affiliates.

The Commission also questions SCB's ability to control the expenses of the CSO. Mr. Parish stated that:

> . . .since the BOCs will be the owners of the CSO, they will be in control of its work functions and

> the ultimate authority for the costs incurred by the CSO to provide the services desired by the BOCs.122/

However, additional testimony reveals that the BOC control over CSO expenses is less than ideal. For instance, the core projects will be funded equally by all regions, regardless of whether the region wishes to be provided the service, if at least five of the seven regions wish to participate in the project. Thus, if BellSouth does not wish to avail itself of a particular core project, the costs of such a project will still be allocated to them because "the benefits cannot be assigned in advance nor denied to an owner."123/ Non-core project funding provides an additional control problem as the total cost of such projects will only be borne by those regions wishing to participate. Thus, as Mr. Parish agreed under cross-examination, the cost to BellSouth of non-core projects will be determined to an extent upon the level of participation by other regions.124/ It should be noted that BellSouth's non-core project costs will be particularly sensitive to the level of participation by other regions because BellSouth chose to participate in 95.6 percent of the non-core projects, more than any other BOC.125/ Mr. Parish further testified that SCB assigned no value, in its value studies provided as justification for centralized provision of services, to the lack of flexibility arising from the provisions of CSO funding which insure that BellSouth is charged regardless of the amount of usage of the service,126/ although such lack of control obviously has a cost if the project is of little value to the region. The

Commission notes that the value studies provided by SCB contained numerous other flaws, as is discussed by the AG in its brief.[127]

The Commission is of the opinion that the proposed CSO expenses allocated to Kentucky ratepayers of $6,212,000 have not been shown by SCB to meet the criteria of "known and measurable," that the potential for allocation of improper costs to the ratepayers through CSO activities is evident, and that SCB has failed to meet its burden of proof regarding these expenditures and in compliance with the Commission's intent as evidenced in the Order in Administrative Case No. 264. The Commission is of the opinion that adequate support exists for the total disallowance of CSO expenses based on the evidence of record. However, the Commission is concerned with meeting the intent of the MFJ which mandated centralized national security and emergency preparedness. The Commission has previously noted that the activities of the CSO related to national security are almost insignificant in relation to the total activities of the CSO, although SCB testified that other activities of the CSO will also support the security requirement.[128] Mr. Buckalew proposed that the Commission, as a "transition mechanism only. . .limit the allowed expenses to 1 percent of revenues minus uncollectibles."[129] The Commission is of the opinion, given the uncertainties associated with divestiture, that a "transition mechanism" is appropriate in dealing with the proposed costs of the CSO, and that allowance of the cost of core projects identified of $1,911,000 is preferable to Mr. Buckalew's suggested method because SCB has identified the core projects as those that are "expected to provide universal benefits and are continuing in nature."[130] However, the Commission emphasizes that its adoption of this level of expenditures as a transition mechanism is in no way indicative of the Commission's approval or disapproval of the proposed core or non-core projects or endorsement of the CSO. The Commission, absent the information necessary to fully evaluate the proposed projects, adopts this position as fair, just and reasonable to both SCB and its ratepayers. Moreover, these costs are approximately equal to the level of BIS expenses previously allowed in the pre-divestiture test year cost of services. The Commission will allow for divestiture purposes the estimated core expenses of the CSO but will deny the actual intrastate BIS expenses in the test year of $1,697,000. Therefore, the net expense increase allowed for rate-making purposes is $214,000 representing the estimated core expenses less the actual intrastate BIS expenses during the test period.

The Commission advises SCB that, as the operations in 1984 of the CSO will provide actual costs and more detailed information regarding the CSO projects, the Commission expects SCB to provide sufficient justification and documentation for each project and each major expenditure in such a manner as to show both the necessity and the tangible benefits to the Kentucky ratepayer of the services in question. The Commission further expects SCB to provide evidence regarding CSO expenditures in such a manner as to allow the Commission to determine which of these services, if any, are necessary in order to maintain the local loop as opposed to enhancing or redefining the network. The Commission in its Findings and Orders details specific requirements which it expects SCB to meet in this regard. The Commission advises SCB that failure to justify the CSO proposal may result in disallowance of all CSO expenses in SCB's next rate case.

Regional Service Company

The RSC, also known as BellSouth Service Incorporated ("BSS"), was jointly formed by South Central Bell and Southern Bell in October 1983.[131] According to SCB the BSS was formed to provide more localized services and to:

> . . .translate the generic CSO outputs into specific practices, methods, etc., for use in South Central Bell's and Southern Bell's network operations.[132]

Specifically the BSS will oversee the activities of the CSO, manage support facilities such as land, buildings, and vehicles, and provide services such as purchasing which were previously performed by other organizations.[133] SCB indicated that the BSS will have approximately 8,000 South Central Bell and Southern Bell employees who will perform state-specific work amounting to about 80 percent of the BSS managed expenses,[134] and will share the remainder of BSS managed expenses resulting from consolidation of services benefiting all states within the BellSouth region. Mr. Parish testified that payments will flow back and forth between South Central Bell and Southern Bell, and that the majority of the BSS-shared employees are in the South Central Bell organization.[135]

The total aggregate of BSS expenses to South Central Bell has never been specified. Essentially, had the BSS not been formed, certain expenses during the test period, including employee costs, materials, and other overheads might have no longer been necessary to South Central Bell's operations. Although through the intercompany agreement SCB is the beneficiary of and is receiving $2,537,000 to offset Kentucky intrastate expenses, which the Commission accepts, the Commission is still concerned that the services provided through the RSC may be duplicative of other services, may be unnecessary to the Kentucky ratepayer, or may not be cost effective. Therefore, although these divestiture adjustments are accepted herein, the Commission advises SCB to provide additional information in its next rate case regarding the specific services provided by the BSS, the allocation methods and factors used in determining payments between South Central Bell and Southern Bell, and the rationale of the structure of the BSS in concert with the CSO and the RHC. The Commission advises SCB that failure to fully justify BSS may result in disallowance of all BSS expenses in SCB's next rate case.

Regional Holding Company

The RHC will own 100 percent of the stock in South Central Bell and Southern Bell, will have a staff of 470 employees, and will provide management and administrative services such as long-term corporate planning, financial management, legal, accounting, and personnel functions to the BellSouth region and its subsidiaries.[136/] SCB has indicated that expenses for the financial management services include the cost of shareholder services provided to the RHC externally by American Transtech, Inc. ("American"), a newly formed wholly-owned subsidiary of AT&T. The AG questioned this continued affiliation between AT&T and SCB and noted that the study used by SCB to support this decision was made in 1983 although the decision to contract with American was made in 1982.[137]

Dr. Selwyn suggested that services provided by the RHC could be duplicated by the CSO, particularly in the areas of marketing and personnel.[138] Dr. Selwyn further noted that the RHC will perform services in strategic planning areas related to new services, creating the potential for cross-subsidization.[139] Dr. Selwyn also questioned the replacement cost studies used to evaluate the cost of the RHC, particularly because the RHC study:

> . . .assumed that approximately the same number of people and the same amount of other costs would be required to provide the holding company services just to South Central Bell as would be required to provide those services to the entire region.[140]

The Commission shares the concerns of the AG and Dr. Selwyn. Moreover, the Commission notes that approximately 30 percent of the estimated RHC expenses are for shareholder services provided by American, and that no competitive bidding process was undertaken in advance of awarding the contract to American.[141] The Commission is concerned with SCB's ability to control RHC costs given the significance of the expense to American. The Commission will include SCB's proposed RHC expenses in revenue requirements in this case, but stresses that this inclusion does not constitute endorsement of the RHC or its proposed expenses. The Commission advises SCB to provide additional evidence in its next rate case to demonstrate that the RHC structure and RHC expenses, particularly those to American, are of specific benefit to Kentucky ratepayers, are non-duplicative in relation to the CSO and RSC services, and are cost effective. The Commission further advises SCB that failure to justify the RHC may result in disallowance of all RHC expenses in SCB's next rate case.

Capital Structure

SCB proposed a capital structure containing 45 percent debt and 55 percent equity.142/ Mr. Matheson stated that the 45 percent debt ratio was the prudent upper limit of debt.143/ Mr. Mark Langsam, of the General Service Administration and witness for the DOD proposed a capital structure containing 50 percent debt and 50 percent equity.144/ He stated that the lower equity ratio produced a lower cost capital structure that would also allow Bell to attract capital at a reasonable cost.145/ Dr. Wilson proposed a capital structure containing 48.19 percent debt and 51.81 percent common equity.146/ He stated that the capital structure should be adjusted to reflect the risk differences associated with SCB's competitive and monopoly operations.147/

The Commission is of the opinion that a capital structure for rate-making purposes containing 45 percent debt and 55 percent equity is reasonable. This capital structure reflects the mandate of Judge Greene's order that the BOCs be spun off from AT&T with no more than a 45 percent debt ratio. Moreover, it is the capital structure ratio used by this Commission in previous cases and there has been no evidence presented which would cause a change. However, the Commission will take into consideration the highly conservative nature of SCB's capital structure when determining the appropriate rate of return on equity.

Rate of Return

Cost of Debt

SCB proposed a 9 percent cost of debt that included an 8.93 percent embedded cost of long-term debt and short-term debt costs between 8 and 13 percent and currently above 9 percent.[148/] Mr. Langsam proposed an 8.85 percent cost of debt which was the embedded cost of senior securities for the Bell Telephone System as of February, 1983.[149/] Dr. Wilson accepted the 9 percent cost of debt proposed by SCB. The Commission is of the opinion that a 9 percent cost of debt is reasonable.

Cost of Equity

Mr. Matheson proposed a return on equity in the range of 16 to 18 percent, based on a Discounted Cash Flow ("DCF") analysis and a comparison of earnings of unregulated firms over the past 10 years.[150/] He determined that AT&T's total investor required return, based on eight variations of the DCF analysis, was on average greater than the total investor required return for Standard & Poor's ("S&P's") 400 industrials.[151/] Mr. Matheson thought that SCB needed a 16 to 18 percent return on equity to be able to compete for capital with businesses of comparable risk and to adequately compensate existing stockholders.[152/] Dr. Richard W. Furst, Professor of Finance and Dean of the College of Business and Economics at the University of Kentucky and witness for SCB, recommended a 16.5 percent return on equity based on a DCF analysis and a risk premium analysis.[153/] Dr. Furst selected a group of comparable risk utilities and a group of comparable risk industrials. He performed a DCF analysis for these two groups and also for AT&T and a group of telephone companies. Dr. Furst incorporated both historical and projected growth rates in dividends and earnings per share, when determining the required return on equity. The required return, based on his DCF analysis, was in the range of 15.8 to 17.3 percent.[154/] The required return, based on his risk premium analysis, was in the range of 16.4 to 16.6 percent.[155/] Dr. Furst adjusted his recommended return of 16.3 percent by 3 to 4 percent to allow for flotation costs associated with the issuance of new stock.[156/] The adjustment produced his recommended return on equity for SCB of 16.5 percent. Mr. Eugene W. Meyer, Vice President and Director of Kidder, Peabody & Co. Inc., and witness for SCB, did not specifically recommend a return on equity but stated that SCB would need a higher return on equity to achieve and maintain its bond rating at the AAA or AA level.[157/]

The Commission has certain reservations regarding the rate of return testimony sponsored by SCB. Mr. Matheson determined from his DCF analysis of AT&T and S&P's 400 industrials that SCB should not have earnings allowances set below those of the average corporation.[158/] The Commission is not convinced that SCB is comparable to S&P's 400 industrials because SCB's primary line of business is regulated whereas S&P's 400 industrials are primarily unregulated. Mr. Matheson also looked at the returns earned by several groups of companies.[159/] However, very few of those companies were regulated utilities.[160/] The Commission is not convinced that a regulated utility is comparable, in terms of risk and required return, to a firm in a competitive market.

Dr. Furst used a multitude of growth rates in his DCF analysis, including the growth rate projections of five brokerage firms and Value Line.161/ Brokerage firms provide investment advice to help customers select securities and portfolios that outperform the market and earn returns in excess of the investor's required return. Dr. Wilson pointed out in his testimony that analysts recognize that their growth forecasts are higher than actual investor requirements.162/ Therefore, using the growth rate forecasts of brokerage firms might overstate the actual investor required return on equity for SCB.

Dr. Furst applied the DCF analysis to what he considered to be a group of comparable risk utilities and a group of comparable risk industrials. However, none of the comparable risk utilities were telephone utilities and many of them were electric utilities, some of which have nuclear generators under construction or preparing to go on line.163/ Dr. Furst had not considered the impact of a nuclear generator on the risk of an electric utility.164/ The Commission is not convinced that a DCF analysis of a composite of electric utilities is a good proxy for the investor required return for SCB. At the hearing, Dr. Furst agreed that public utilities generally have more stable earnings than unregulated firms and that more stable earnings imply relatively less risk.165/ Again, the Commission is not convinced that a DCF analysis of a composite of unregulated and unrelated firms is a good proxy for the investor required return for SCB.

Dr. Furst also performed a DCF analysis for a group of telephone companies as a proxy for SCB. His best estimate of 16 percent was on the high side of his DCF determined range of 14 to 16.2 percent and was based primarily on growth rates projected by brokerage firms.[166] According to the October 28, 1983, issue of Value Line, the average expected dividend growth rate for Dr. Furst's telephone companies was 5.4 percent.[167] Using the Value Line growth rate would substantially reduce the DCF determined return on equity for Dr. Furst's telephone companies. The Commission is of the opinion that using a composite of telephone utilities as a proxy for SCB is more reasonable than using a composite of electric utilities or unregulated firms. Using a composite of electrics or unregulated firms along with growth rates projected by brokerage firms might overstate the investor required return on equity for SCB.

Finally, Dr. Furst performed a risk premium analysis to determine the cost of equity to SCB. At the hearing, Dr. Furst agreed that the risk premium fluctuated a great deal over time. The Commission has serious reservations as to the validity and usefulness of the risk premium analysis in determining an appropriate return on equity as we have previously described in past orders.

Mr. Meyer thought that SCB's return on equity should be great enough to insure that the market price was a minimum of 120 percent of book value.[168] That margin would protect stockholders from a dilution of earnings, resulting from issuance expenses and market pressure, when new common stock is issued. However, SCB has no publicly traded stock. Dr. Furst only made a 3 to 4 percent adjustment to reflect issuance expenses rather than the

20 percent Mr. Meyer advocated. Also, market fluctuations resulting from the sale of common stock can be positive as well as negative. Finally, Dr. Wilson stated that there was no need to authorize a return on equity sufficient to ensure a market price equal to or greater than book value because it is not the Commission's role to support any particular stock price.[169/] The Commission is of the opinion that authorizing a return on equity sufficient to maintain a market to book ratio of at least 1.2 would overstate the actual required return on equity for SCB.

Mr. Langsam proposed a cost of equity for SCB in the range of 13 to 14 percent.[170/] He based his recommendation on a DCF analysis and a comparable earnings analysis. Dr. Wilson proposed a cost of equity for SCB of 13.23 percent based on a DCF analysis. Both Mr. Langsam and Dr. Wilson agreed that no adjustment for market pressure was necessary when determining the appropriate return on equity.[171/] Dr. Wilson pointed out that money costs are considerably lower now than when SCB last filed a rate case.[172/]

The breakup of AT&T makes the Commission's job of determining the appropriate return on equity even more difficult. While capital costs have generally declined since SCB's last rate case, the Commission recognizes that divestiture has increased the risk and uncertainty associated with the telecommunications industry in general and SCB in particular. Almost no market history exists for BellSouth to guide the Commission in determining a return on equity. The recent market activity, however, of

BellSouth, along with the generally favorable outlooks from financial analysts, leads us to conclude that SCB is part of one of the soundest holding companies spun off from AT&T and should be able to compete with others on an equal basis in the capital markets. Moreover, SCB has had in the past and expects to maintain in the future a solid and conservative capital structure which, along with its service offerings, should allow it to remain attractive to investors. The Commission also expects BellSouth to provide SCB many of the same financial and shareholder services previously provided by AT&T.

Therefore, after considering all of the evidence, including current economic conditions, the Commission is of the opinion that a range of returns on equity of 13 to 14 percent is fair, just and reasonable. A return on equity in this range would not only allow SCB to attract capital at reasonable costs to insure continued service and provide for necessary expansion to meet future requirements, but also would result in the lowest reasonable cost to the ratepayer. A return on common equity of 13.5 percent will allow SCB to attain the above objectives and is the return authorized by the Commission.

Rate of Return Summary

Applying rates of 9 percent for debt and 13.5 percent for common equity to the capital structure approved herein produces an overall cost of capital of 11.48 percent. The additional revenue granted herein will provide a rate of return on net investment of 11.5 percent. The Commission finds this overall cost of capital to be fair, just, and reasonable.

AUTHORIZED INCREASE

Pre-Divestiture

The additional revenue required, under pre-divestiture based on the rate of return found fair herein, is determined as follows:

Adjusted Net Operating Income	$ 93,457,000
Net Operating Income Found Reasonable	$ 95,662,000
Deficiency	$ 2,205,000
Deficiency Adjusted for Taxes	$ 4,344,000

Divestiture

The additional revenue required under divestiture is determined as follows:

Revenue Contribution Loss from CPE less Revenue From Intrasystem Wiring	$ 14,497,000
Revenue Contribution Loss from Inter-lata Toll	37,200,000
Centralized Services Revenues Allowed Less BIS Expenses	757,000
Total Divestiture Revenue Requirement	$ 52,454,000

Total Authorized Increase

The total additional revenue required under both pre-divestiture and divestiture is as follows:

Revenue Requirements for Pre-Divestiture	$ 4,344,000
Divestiture Revenue Requirements	52,454,000
Additional Revenue Required	$ 56,798,000
Less: Revenues Collected from Access Charges in Case No. 8838	37,200,000
Additional Revenues Granted in this Case	$ 19,598,000

REPRESSION

In the course of this proceeding, SCB proposed access line repression and toll stimulation adjustments to test year results. The stimulation adjustment will not be considered herein due to SCB's withdrawal of the proposed toll rate reductions. The repression adjustment is based on SCB's estimates of demand elasticity, and is intended to adjust for customer response to the proposed changes in basic exchange rates. Through oral testimony of Ms. Mezzell, rebuttal testimony of Mr. David Laurent, Associate Manager-Econometrics and witness for SCB, cross-examination and responses to information requests, SCB presented and defended the econometric demand models used to obtain the price elasticity estimates. The Commission Staff's witness addressing these adjustments, Ms. Patricia Kravtin, recommended total disallowance on several theoretical and practical grounds.

Questions concerning the specification of SCB's econometric models were raised by intervenors and the Commission staff. Although SCB attempted to address the concerns expressed, the Commission finds sufficient problems exist with the proposed models to warrant disapproval of the adjustments. The most visible example of specification error is the use of nominal price and income variables in the business access line equation. The failure to use properly deflated "real" variables is inconsistent with economic theory and econometric practice. This specification error alone renders the proposed repression adjustment invalid.

The standard for allowable adjustments to test year results is that they be known and measurable. By their very nature, repression adjustments are not known and measurable. SCB's adjustments are based wholly on statistical estimates, and as such are vulnerable to all the criticisms that can be leveled against the particular estimating techniques employed. SCB acknowledges that these are purely and simply estimates when it states, ". . .repression can be quantified to approximate known and measurable amounts." [Emphasis added.][173/] The degree of approximation involved is illustrated by the response to Item 3 of Staff Information Request No. 12. Statistical confidence intervals supplied therein indicate a range of $1,882,664 to $6,376,481 is needed to obtain 95 percent certainty that the true repression adjustment is captured. Indeed, there exists a positive probability that the true repression amount lies outside this range. Further, this range itself is not an absolute: it is only valid if the rather restrictive assumptions of linear regression methodology are met, and would undoubtedly be different if alternative estimating models or estimating techniques were employed. Taken together, the preceding points demonstrate the proposed repression adjustment is neither known nor precisely or even approximately measurable.

It was established by the AG's cross-examination of Ms. Mezzell that while the impact of the repression adjustment on this rate case would be as if the number of access lines had declined, SCB has projected that this number will actually increase.[174/] Repression will be experienced simply as a reduction in the rate of this growth, rather than an absolute decline in access lines.175/

If allowed, this repression adjustment would constitute an improper transfer of risk from shareholders to ratepayers. Decreases in customer demand due to price increases are a normal business risk borne by regulated and unregulated firms alike. Investors are aware of this risk, as well as other business risks. The cost of equity capital to a firm or industry fully reflects all such risk. Since the rate of return authorized by this Commission is SCB's cost of capital, shareholders have been adequately compensated for business risk. If some of this risk were to be shifted to ratepayers via a repression adjustment, it would be necessary to adjust the authorized rate of return downward to reflect the diminished risk faced by shareholders.

In past rate cases where SCB did not propose a repression adjustment, the return granted by the Commission compensated shareholders for all elements of risk, including the risk of demand repression resulting from rate increases. The return granted herein continues to compensate shareholders for all risk borne by them. SCB has not proposed an explicit adjustment to the rate of return in recognition of its requested repression adjustment in this case. Therefore, if granted, the repression adjustment would have the effect of compensating shareholders twice for this particular business risk. Such an action is unnecessary and untenable.

In prior rate cases of SCB and other public utilities in Kentucky, this Commission has enunciated a clear and consistent policy regarding repression adjustments. There is no evidence in the record of this case to cause the Commission to alter this policy. The proposed repression adjustment will be rejected.

Rate Design

SCB proposed additional revenue from its rates and charges as follows: 176/

Basic Local Exchange and Related Services	$ 112,510,000
Service Connection Charges	2,470,000
Private Line Services	3,685,000
Long Distance Message and Wide Area Telecommunications Services	1,150,000
Miscellaneous Services	6,600,000
Independent Company Settlements	(370,000)
Carrier Access Charges	37,200,000
	$ 163,245,000

In addition to rate adjustments, SCB proposed to restructure the basic local exchange service flat rate schedule, restructure rate relationships between the flat rate schedule and other exchange related services, and introduce new rates, rules, and regulations in the areas of basic local exchange service and service charges.

Basic Local Exchange Service

SCB proposed to allocate approximately 69 percent of its proposed additional revenue requirement to basic local exchange and related services, which would cause basic local exchange and related services to increase approximately 74 percent. The Commission is of the opinion that an additional revenue requirement less than that proposed by SCB is reasonable and, therefore, has substantially reduced the allocation of additional revenue requirement to basic local exchange and related services, consistent with the concept of residual pricing. The authorized increase to basic local exchange and related services is approximately 7 percent.

In addition to rate adjustments, SCB proposed to consolidate the basic local exchange service flat rate schedule from 17 rate groups to a uniform statewide flat rate. Under SCB's proposal, the smallest active rate group would experience an increase in residential and business individual line rates of approximately 173 percent and 138 percent, respectively, while the largest active rate group would increase approximately 83 percent and 39 percent, respectively. At the present time, only 7 of SCB's 17 rate groups apply to any customers, leaving 10 rate groups unused. The Commission is of the opinion that eliminating vacant rate groups and consolidating rate groups of similar characteristics is at least conceptually reasonable.

However, the Commission is also of the opinion that SCB's proposed consolidation of the flat rate schedule from 17 rate groups to a uniform statewide flat rate is too drastic, abrupt, and is, therefore, unreasonable. The Commission recognizes that regrouping is always somewhat arbitrary and any change will be based largely on opinion. SCB's proposed consolidation was based largely on judgment and fails to recognize any variation between rate groups, whether in value-of-service, cost of service, or other terms, and would impose an extraordinary share of the additional revenue on its small community and rural customers.

Ms. Mezzell stated that alternative consolidations involving 2 and 5 rate groups were also considered.[177/] Since SCB selected the uniform statewide flat rate alternative, as opposed to the other alternatives considered, the Commission is concerned that SCB intends to abandon the value-of-service pricing concept as it relates to local exchange rates, without an adequate cost of service information basis.

Historically, the additional revenue requirement allocated to basic local exchange and related services has been determined on a residual basis and rate groups in the flat rate schedule have been assigned rates based on value-of-service relationships rather than cost of service relationships. That is, in value-of-service terms, the greater the number of access lines in a rate group, the greater the rate assigned to the rate group relative to other groups. In the absence of solid cost data, the Commission will not totally deviate from the traditional practice of value-of-service relationships in this case.

Value-of-service relationships have been traditionally used in the telecommunications industry and among regulators because neither the telecommunications industry nor regulators have been, until recent years, concerned about the cost of basic local exchange and related services, and, indeed, to this time, undisputed information concerning the cost of basic local exchange and related services is unavailable. The lack of reliable cost of service information is evidenced in the Commission's criticism of SCB's cost of service methodology in Case No. 8467. It is also evidenced by the controversy in the present case between SCB and the intervenors and among intervenors concerning cost of service methodology. The Commission is of the opinion that in the absence of reliable cost of service information, it should continue to consider value-of-service relationships.

Therefore, the Commission will deny SCB's proposed uniform statewide flat rate, but will authorize a consolidation of the flat rate schedule from 17 to 5 rate groups. The Commission's authorized consolidation of the flat rate schedule combines rate groups of similar characteristics and, at the same time, recognizes variation between rate groups and supports the value-of-service pricing concept. Also, the Commission is of the opinion that it will facilitate flat rate schedule administration and will not unduly prejudice any customer.

In addition to consolidating the flat rate schedule, SCB proposed to bifurcate the flat rate schedule in order to distinguish between exchanges where local measured service is available and exchanges where it is not available. Essentially, SCB proposed to allocate the additional revenue requirement resulting from the flow of subsidy from flat rate service to local measured service to exchanges where local measured service is available. Under proposed rates SCB estimated the flow of subsidy to be $21,976,000.[178] In effect, flat rate service would be more expensive in exchanges where local measured service is available than in exchanges where it is not available. Moreover, exchanges where local measured service is not available would not be required to share in the burden of the flat rate subsidy to local measured service. Therefore, flat rate service in exchanges where local measured service is not available would not be required to subsidize the availability of local measured service in other exchanges.

Although the Commission is of the opinion that SCB's proposed bifurcated flat rate schedule is a novel approach to solving the local measured service subsidy issue, the Commission will not authorize a bifurcated flat rate schedule at this time, pending the outcome of a generic case concerning local measured service as discussed elsewhere in this Order.

In other areas of basic local exchange and related services, SCB proposed to restructure the relationship between the flat rate schedule and local measured service, grouping service, semipublic coin telephone service, and announcement line service.

The Commission will not authorize a restructuring of the rate relationship between the flat rate schedule and local measured service. Likewise, the Commission will not authorize a restructuring of the rate relationship between the flat rate schedule and announcement line service. The Commission is of the opinion that no restructuring of the local measured service rate relationship nor any new local measured service options should be authorized at this time, pending the outcome of a generic case concerning local measured service, as discussed elsewhere in this Order.

Also, the Commission will not authorize a restructuring of the rate relationship between the flat rate schedule and grouping service. SCB proposed a uniform statewide grouping rate consistent with the proposed uniform statewide flat rate. The

Commission will, instead, authorize grouping rates consistent with the authorized five rate group flat rate schedule, at 55 percent of the applicable indiviudal line rate.

The Commission will authorize the proposed restructuring of the rate relationship between the flat rate schedule and semipublic coin telephone service. SCB proposed to increase semipublic coin telephone charges from 65 percent to 75 percent of the applicable exchange 1-party business rate. Semipublic coin telephone service is an increasingly competitive sector of the telecommunications market and the Commission is of the opinion that the proposed restructuring is a reasonable response to the competitive pressures of the marketplace. Indeed, the Commission will encourage SCB to continue to position itself to respond to competition in the semipublic coin telephone service market, and references its treatment of semipublic coin telephone service in Case No. 8859.[179]

Service Charges

SCB proposed to increase basic service charges, disaggregate the central office line connection charge, increase time and materials charges, revise rates, rules and regulations governing the installation and maintenance of customer premises inside wire, and discontinue rates and charges associated with intrasystem wire.

The Commission will not authorize an increase to basic service charges on the basis that the pricing of basic service charges should be linked to the expensing of station connections, which the Commission has authorized under a 4-year phase-in plan.

SCB was authorized rates to recover phase-3 expensing of station connections revenue requirement in Case No. 8150, and at this time has not filed to recover phase-4 expensing of station connections revenue requirement. Therefore, SCB is not entitled to additional revenue from basic service charges at this time.

Also, in Case No. 8150, the Commission ordered SCB to file a plan to disaggregate the central office line connection charge in its next general rate case. SCB complied with the Order in the present case and proposed to disaggregate the central office line connection charge, creating three discrete charges: access line charge, central office charge, and network interface charge. At the present time, the central office line connection charge is averaged and assumes that each disaggregated function occurs when telephone service is connected, which is not the case. All service connections involve the central office function; however, according to SCB's billing analysis,[180/] only about 55 percent involve the access line function and only about 10 percent involve a network interface function. Therefore, the Commission is of the opinion that although an averaged central office line connection charge would be somewhat less than the sum of the disaggregated charges,[181/] the disaggregated charges are more appropriate to the objective of gradually introducing cost based charges and will authorize SCB's proposal, but at charges consistent with phase-3 expensing of station connections levels.

In addition to basic service charges, SCB proposed to increase time and materials charges associated with the installation and maintenance of customer premises inside wire. The

Commission is of the opinion that SCB's proposed time and materials charges are appropriate and, based on cost information filed in the case,[182] will authorize the charges proposed by SCB.

In addition to an increase in time and materials charges, SCB proposed new rates, rules, and regulations governing the installation and maintenance of simple and complex customer premises inside wire. Essentially, SCB proposed to apply time and materials charges in all cases of installation. Time and materials charges would also apply to the maintenance of complex customer premises inside wire. However, in lieu of time and materials charges, SCB proposed an optional maintenance plan for the maintenance of simple customer premises inside wire on a monthly service charge basis. SCB proposed a charge of $.60 per month.

The Commission is of the opinion that SCB's proposed rates, rules, and regulations governing the installation of simple and complex customer premises inside wire are reasonable and should be authorized. However, the Commission is of the opinion that SCB's proposed rates, rules, and regulations governing the maintenance of customer premises inside wire are unreasonable and should not be authorized. The cost of maintenance of customer premises inside wire has been traditionally included in the cost of basic local exchange and related services. The Commission can find no compelling reason to alter the traditional practice at this time. Moreover, the Commission is concerned with the ultimate impact on the customer as a result of the massive changes in the industry. It is widely known that customers are confused as to whom to contact for maintenance of service, and to begin charging for maintenance, at this point, in the opinion of the Commission, would only serve to increase customer confusion.[183]

Lastly, in the area of service charges, SCB proposed to discontinue rates and charges associated with intrasystem wire.

On January 1, 1984, SCB's embedded CPE was detariffed and transferred to AT&T consistent with the requirements of the MFJ in the United States vs. AT&T and FCC action in Docket 81-893, Procedures for Implementing Services (Second Computer Inquiry), and related FCC cases. However, intrasystem wire associated with complex CPE was not detariffed and transferred to AT&T. SCB retained ownership of intrasystem wire and an associated embedded investment of approximately $44,200,000,[184] the annual revenue value of which is approximately $6,303,000.[185]

SCB's proposal to discontinue rates and charges associated with embedded intrasystem wire effectively shifts the burden of recovering the investment in intrasystem wire from the specific user to the general body of basic local exchange service customers. The Commission strongly disagrees with SCB's proposal and, consistent with the recommendation of Dr. Selwyn,[186] will require SCB to disaggregate rates and charges associated with intrasystem wire in its Customer Premises Products Tariff and file an intrasystem wire tariff to effect continuation of rates and charges associated with intrasystem wire. The intrasystem wire tariff should reflect rates and charges associated with intrasystem wire in effect as of December 31, 1983, and yield revenue of approximately $6,303,000.

In Docket No. 79-105, Amendment of Part 31, Uniform System of Accounts, for Class A and Class B Telephone Companies, of the Commission's Rules and Regulations, With Respect to Accounting for Station Connections, Optional Payment Plan Revenues, and Customer Provided Equipment and Sale of Terminal Equipment (Expensing of Inside Wire) the FCC authorized a 10-year amortization period for the expensing of inside wire. The Commission has previously concurred in the FCC's amortization plan in various cases involving all telephone utilities under its jurisdiction. Therefore, the Commission is of the opinion that rates and charges associated with intrasystem wire should continue in effect at least until the end of the FCC's authorized amortization period, subject to discontinuance in the event a customer relocates to another premises, agrees to purchase the intrasystem wire at its net book value, or requests disconnection or removal of the intrasystem wire. In the event a customer requests disconnection or removal of intrastate wire, the Commission is of the opinion that SCB should apply time and materials charges to recover the cost of disconnection or removal.

On January 6, 1984, SCB requested to adjust its billing analysis to deduct $654,000 in time and materials revenue.[187/] The adjustment was the result of an FCC Order issued on November 2, 1983, in Docket No. 82-681, Detariffing of Customer Premises Equipment and Customer Provided Cable/Wiring, which, according to SCB, had the effect of detariffing the installation of new intrasystem wire.[188/] The Commission is of the opinion that it must disregard the proposed adjustment to SCB's billing analysis on the basis of its untimely filing and the fact that neither the Commission nor any intervenor has had the opportunity to review the FCC's Order and evaluate its impact on SCB's operations through the discovery of information or the cross-examination of the sponsor of the adjustment. Upon a preliminary review of the FCC's Order, the Commission can find no ordering paragraph or discussion that explicitly requires or authorizes the detariffing of the installation of new intrasystem wire. Rather, the FCC's Order focuses on revisions to the Uniform System of Accounts.

Private Line Services

SCB proposed 25 percent across-the-board rate adjustments to private line services. The intervenor KBFAA opposed the rate adjustments to private line services, insofar as the rate adjustments affected the alarm industry.

In Case No. 7314, Notice of South Central Bell Telephone Company of An Adjustment In Its Intrastate Rates and Charges For Private Line Channel Services, SCB proposed to restructure its Private Line Services Tariff and reprice private line services based on current cost methodology. The Commission did not authorize either the restructuring of the Private Line Services Tariff or the repricing of private line services, but ordered SCB to file another case based on embedded cost methodology. In Case No. 7774, Notice of South Central Bell Telephone Company of An Adjustment In Its Intrastate Rates and Charges, SCB proposed to restructure its Private Line Services Tariff and reprice private line services based on embedded cost methodology. The Commission authorized both the restructuring of the Private Line Services

Tariff and the repricing of private line services based on embedded cost methodology.

Although the Commission has authorized rate adjustments to private line services since Case No. 7774, SCB's 1982 Embedded Direct Analysis (EDA), the most recent EDA available, shows a private line services revenue deficiency of $11,830,000. Therefore, the Commission will authorize SCB's proposed private line services rates.[189/]

Long Distance Message Telecommunications Service and Wide Area Telecommunications Services

SCB proposed to continue statewide MTS and WATS rate schedules. Under the provisions of the MFJ, SCB is restricted to the intralata MTS and WATS market, and in a strict sense, should not be the sponsor of statewide MTS and WATS rate schedules applicable to both the intralata and interlata MTS and WATS markets. However, statewide MTS and WATS rate schedules are an administrative convenience as the telecommunications industry and regulators adapt to the impact of the MFJ and resolve telecommunications issues concerning access charges, universal service, common carrier certification, and competition. Indeed, in Case No. 8935 the Commission, as an administrative convenience and in view of various unresolved telecommunications issues, authorized ATTCOM to adopt SCB's statewide MTS and WATS rate schedules. Therefore, the Commission will authorize SCB to continue to reflect in its tariffs statewide MTS and WATS rate schedules.

SCB originally proposed to reduce MTS rates in the amount of $10,939,000 on an intralata basis and in the amount of

$12,939,000 on an interlata basis. Also, SCB originally proposed to reduce WATS rates in the amount of $1,051,000 on an intralata basis and in the amount of $1,192,000 on an interlata basis.[190] On October 17, 1983, SCB revised its application to reflect a proposed reduction in MTS rates in the amount of $3,458,000 on an intralata basis and in WATS rates in the amount of $383,000 on an intralata basis. Both of these reductions were in place of the proposed rates originally filed with the application. SCB did not file revised information on an interlata basis.[191]

Subsequently, during a hearing on November 22, 1983, in Case No. 8838, SCB proposed an interim settlement agreement between itself and independent telephone companies contingent on no reduction in MTS and WATS rates. The interim settlement agreement was authorized in an Order dated December 29, 1983. Therefore, the Commission will not authorize a reduction in either MTS or WATS rates in the present case.

In addition to reducing MTS and WATS rates, SCB proposed to increase rates and charges for long distance operator services, in order to recover costs it will incur from ATTCOM. The Commission is of the opinion that SCB's proposed rate adjustments to long distance operator services are reasonable and will authorize the proposed rates.

Miscellaneous Services

SCB proposed miscellaneous rate adjustments in the areas of directory charges applicable under special conditions, directory listings, telephone answering service, foreign exchange service, ESSX-1 service, auxiliary equipment, obsolete services, dataphone digital services, and central office services such as touch-tone service, emergency reporting service, and custom-calling service. The Commission is of the opinion that SCB's proposed rate adjustments in these areas are reasonable and will authorize the rates as filed.

On July 26, 1983, SCB filed tariffs to introduce volume usage measured rate service and multiline service. The tariffs were suspended on August 24, 1983, in Case No. 8879, The Volume Usage Measured Rate Service and Multiline Service Tariff Filing of South Central Bell Telephone Company, and consolidated with Case No. 8847, which is under discussion in this Order, and in which SCB filed a similar ESSX-1 multiline service option. On October 17, 1983, SCB withdrew the ESSX-1 multiline service option, along with certain Centrex rate adjustments, but did not withdraw the volume usage measured rate service and multiline service proposals. The Commission is of the opinion that SCB's volume usage measured rate service and multiline service proposals should not be authorized, pending the outcome of a generic case concerning local measured service, as discussed elsewhere in this Order.

Also, SCB proposed the restructuring of direct-inward-dialing rates and charges. The proposed restructuring is not cost based[192/] and the Commission can determine no benefit to any class of customer. Therefore, the Commission is of the opinion that the proposed restructuring of direct-inward-dialing rates and charges should not be approved.

Independent Company Settlements and Carrier Access Charges

SCB's proposed change in independent company settlements is a result of the implementation of carrier access charges. The proposed revenue from carrier access charges is a result of a loss in interlata MTS and WATS contribution. Carrier access charges were authorized in Case No. 8838 on December 29, 1983, on an interim basis, pending a final Order in the matter.

Authorized Rates

The rates in Appendix A are designed to yield the additional revenue requirement authorized in this Order as follows:

Basic Local Exchange and Related Services	$ 9,821,000
Service Connection Charges	1,708,000
Private Line Services	4,094,000
Long Distance Message and Wide Area Telecommunications Services	1,500,000
Miscellaneous Services	3,195,000
Independent Company Settlements	(370,000)
Carrier Access Charges	37,200,000
Total Additional Revenue	56,798,000
Less: Carrier Access Charges	37,200,000
Net Additional Revenue	$19,598,000

OTHER MATTERS

CENTRAL OFFICE SWITCHING EQUIPMENT RETIREMENTS

Considerable testimony was presented on the subject of central office switching equipment retirements. SCB uses discounted cash flow analyses when determining whether a central office switch should be replaced.

Discounted cash flow analyses are performed to estimate as closely as possible the cash flow which will occur in a specific plan of operation over a given period of time. When considering whether to replace a central office, several plans are studied, including the present method of operation, and the plan with the lowest total net present value of cash outflows over the study period is considered the most economical. The actual period of time that the new equipment remains in place is essential in determining the accuracy of the cash flow analysis. If the equipment does not remain in place for the duration of the study period, then the results of the analysis which showed that its placement was economical did not reflect the true situation, and thus the analysis was inaccurate in its determination of actual savings in total net cash outflows.

If a switching facility remains in operation for a substantially shorter period of time than its cash flow analysis provided for, then it is possible that it could have had a greater total net cash outflow over its life than its predecessor would have had over the same period. In this case the previous equipment should have never been replaced.

The Commission is very concerned that SCB may have proceeded with its central office modernization program without adequate consideration of the interests of its ratepayers. Therefore, at least 6 months prior to the requisition date of any central office switching equipment, SCB shall provide the Commission with documentation to support the proposed replacement. This information should include, at a minimum, the demand forecast for the exchange involved, the discounted cash flow analysis for all alternatives considered, a comparison of alternatives in terms of

Cumulative Present Worth of Expenditures, as described on pages 415-418 of AT&T Engineering Economy, McGraw Hill, Third Edition, and all assumptions made shall be explicitly identified. This comparison should include the data in a similar format to table 16-1 on page 416 and the same type of graph as Figure 16-3 on page 417 of the given reference. SCB should likewise file sensitivity analyses, such as the type depicted in Figures 16-1 on page 415 of the previously given reference, and results and graphs of sensitivity tests on factors such as the inflation rate, discount rate, study lives, salvage values, maintenance levels and any incremental revenues considered. Breakeven analyses should also be filed resulting from varying the sensitive parameters, one at a time, and holding all other factors constant, as described on pages 412-413 of the given reference. SCB's plans for tracking sensitive parameters should be described in specific detail. The Commission may require other information in specific instances when necessary.

The Commission has the same concerns with SCB's outside plant construction program as it has with the central office modernization program. Therefore, at least 6 months prior to the requisition date of any equipment required for an outside plant project which has a total cost of $150,000 or greater, SCB shall provide the same type of documentation as required for the central office replacements. The burden of proof shall rest with SCB to demonstrate that the best interests of its ratepayers are served by the proposed outside plant construction projects and central office replacements.

CONSTRUCTION BUDGET

In Case No. 8666, Statewide Planning for the Efficient Provision of Electric Generation and Transmission Facilities, the Commission expressed its concern with load forecasts and capacity expansion activities of the electric utilities in Kentucky. Several of the same general concerns prompting the initiation of that case exist in the regulation of Kentucky's telephone utilities. In order for the Commission to properly discharge its responsibilities, it must examine telephone utility construction budgets to determine if they represent prudent and reasonable expenditures, designed to meet the telecommunications needs of Kentucky's citizens at the lowest cost. Recent events in the telephone industry--many of them cited by SCB in this rate case--have increased the need for such examination. Accordingly, the Commission intends to subject this area to more intense scrutiny than has been excercised in the past.

Dramatic changes in telephone technology, coupled with the introduction of competition in the industry, have resulted in significant construction activity by SCB aimed at modernizing its facilities. It is incumbent upon SCB to demonstrate that equipment replacement and modernization programs are being performed in a manner that ensures they are beneficial not only to the company, but to its customers as well.

The Commission questions whether general rate case proceedings provide adequate opportunity for effective and thorough examination of telephone utility construction budgets. It is anticipated that a generic proceeding will be established to investigate whether a more systematic method of evaluating these total construction budgets would enable the Commission to better meet its obligations in this regard.

DEPRECIATION

On October 6, 1983, SCB filed its 1984 depreciation study with the Commission. SCB's depreciation rates and methods are subject to the joint jurisdiction of the FCC and this Commission, and the study was therefore also filed with the FCC. As amended in December, 1983, SCB has requested changes in depreciation rates which would increase depreciation expense on a combined basis of $28,454,000 in remaining life and $7,218,000 in equal life group rates, or $35,672,000 total.

In its rate application, SCB did not request recovery of this proposed increased expense. However, Mr. Matheson requested that the Commission keep this case open and allow SCB to file tariffs to recover any expense increase which may result from changes in depreciation rates.[193/]

SCB's depreciation rates, under FCC rules, are reviewed every 3 years. The process is similar to that prescribed by the Commission's regulation (807 KAR 5:064), except that a "Three-Way" meeting consisting of the utility, the FCC staff, and the Commission staff, is held to determine appropriate rates. Following the meeting, the FCC issues the Order which authorizes the approved rates. SCB's Three-Way meeting is being held from January 17-20, 1984.

Since the results of that meeting are not yet known or measurable, did not occur during the test year, and will not be definitely known until the FCC issues its interim booking Order, the Commission has determined that this proceeding is not the appropriate forum for resolution of any expense recovery which may result from depreciation rate represcription. Additionally, the Commission is concerned that the rate design of any resulting tariffs will need to be closely scrutinized to insure that rates are fair and equitable to all of SCB's customers. Therefore, this case will not be kept open for resolution of this matter.

LIFELINE

During the hearing Mr. Dickson proposed that the Commission consider implementation of a targeted subsidy ("lifeline") for low income telephone consumers. Mr. Dickson stated that:

> . . .we would get together with the Commission and decide what group this is, and that there be some criteria of poverty, if you will, and that this be established by a government agency.[194]

Though SCB did not file a tariff or any formal proposal it did provide a general framework to consider a lifeline tariff. SCB proposed that where LMS is available lifeline should include an access portion "between the regular and the low use and would provide $7.50 worth of usage allowance."[195] Further in exchanges where LMS was not available SCB would propose a $13 flat rate for low income qualified customers. SCB proposed that the revenue deficiencies be recovered by "an adjustment of the premium flat rate" in this proceeding but in the "longer pull we would think it should come from general tax revenues and not from special taxes on the industry."[196]

Dr. Selwyn strongly supported the concept of a targeted subsidy to insure continued basic telephone service for low income families. Dr. Selwyn stated:

> . . .a targeted subsidy is less costly to the economy as a whole because it delivers the subsidy funds to the desired group of customers.197/

To minimize the cost of such a subsidy Dr. Selwyn proposed that the Commission use a system of "self certification" and "restricted features package"198/ for lifeline recipients. The AG proposed that the Commission:

> . . .restrict the availability of low use LMS to those people able to demonstrate financial need because of the non-compensatory nature of this service.199/

Neither Dr. Selwyn nor the AG addressed the revenue deficiencies resulting from the implementation of a lifeline program.

It is the opinion of the Commission that the informality and indefiniteness of the SCB proposal for lifeline service would create immense implementation and administrative problems in this proceeding. Furthermore, the increase in local service rates from this proceeding will not create massive disconnect problems for SCB in the immediate future. However, the Commission commends SCB for its proposal and does wish to reiterate its concern with the threat that large rate increases pose to universal telephone service in Kentucky. The Commission is firmly of the opinion that the appropriate way to solve this problem is through a properly designed targeted subsidy. Therefore, the Commission strongly encourages SCB and all other telephone companies to propose lifeline tariffs in their next rate case.

BYPASS

The extent of existing or potential bypass of SCB facilities has been a contentious issue in this case. SCB has offered evidence concerning bypass in support of flat rate end user charges, some aspects of basic exchange rate design, and the proposed toll rate reduction which ultimately was withdrawn from the case. The evidence presented by SCB consists of statements interspersed through the testimony and cross-examination of several witnesses, responses to data requests, and the southeast region study entitled Strategic Assessment of Bypass.[200/]

Upon consideration of this evidence, and that presented by other parties in this case, the Commission remains unconvinced that bypass is a significant threat to SCB in the Commonwealth of Kentucky at this time. Further, the Commission concurs with the judgment of Dr. Selwyn who states:

> . . .there is strong evidence that South Central Bell is relatively unconcerned about bypass; if such a concern were really present and important, the rate plan which South Central Bell is seeking to implement here would certainly not go very far in forestalling moves by customers to install bypass arrangements.[201/]

Based upon an examination of the overall impact of rate proposals affecting large users, there exists sufficient grounds for considerable skepticism regarding the degree of SCB's true concern with bypass.[202/]

SCB has emphasized the possibility of stranded investment due to bypass of its facilities, and the benefits to basic telephone service subscribers of retaining large users provided the rates such users pay cover the variable costs of service. However, SCB fails to recognize that the costs of network enhancements intended primarily to increase the attractiveness of SCB's service offerings to large users with sophisticated telecommunications needs will be largely underwritten by basic exchange subscribers. SCB's intra-state network is clearly capable of providing basic subscribers with high quality voice transmission. If SCB chooses to enhance this network in a manner that will primarily benefit large users with specialized needs, and users of enhanced competitive services, the Commission urges SCB to apply its own professed cost causer-cost payer principle. As a rational profit-seeking firm, SCB has every incentive to exploit the less elastic demand of basic service subscribers in order to accommodate the more elastic demand of large sophisticated users. However, the Commission has the obligation to determine if such actions are or would be in the public interest.

In principle, SCB has differentiated between economic, uneconomic, and technological bypass. Unfortunately, SCB has proceeded to treat the bypass issue as if all bypass or potential bypass is uneconomic in nature. In practice, economic bypass cannot be distinguished from uneconomic bypass without knowledge of SCB's and the competing vendor's long-run marginal costs. With minor exceptions, no such evidence exists in this record. This lack of data on marginal costs constitutes a fundamental flaw in the southeast region bypass study. This study compares the cost of alternative technologies available to SCB's competitors with southeast region BOC prices in order to identify "bypass thresholds."203/ However, any such study should also compare SCB's own costs with those of competitors to be able to distinguish between any possible uneconomic and economic bypass. Further, since the bypass argument involves questions of economic efficiency, the costs examined should be marginal costs. While SCB may be concerned with the possibility of any type of bypass, the Commission is primarily concerned with the question of the existence of uneconomic bypass.

The fundamental point to be made in any discussion of bypass--one which cannot be over-emphasized--is that bypass is simply competition.204/ Bypass occurs when former or potential users of SCB service offerings elect to utilize the services of an SCB competitor. Viewed in this light, the issue of bypass is seen as nothing more than the question of how SCB should respond to competition. The Commission's role must be to oversee SCB's response to ensure that it is consistent with the interest of Kentucky's citizens and ratepayers.

Thus far, SCB's response appears to consist largely of efforts to persuade regulators to eliminate the alleged subsidy from toll to basic exchange service. The Commission considers this to be an inadequate response. The Commission feels that the experience of newly deregulated industries, such as the airline industry, contains lessons that can be applied to the telephone industry. For example, upon deregulation, existing airline carriers were "bypassed" by passengers flying new, primarily low-cost, carriers. The evolving response of the large trunk carriers has been a massive effort to cut costs, particularly labor costs. The current financial health of each of the large trunk carriers appears to be directly related to the degree of success achieved in controlling costs. The Commission realizes that the telephone and airline industries are not fully comparable; the telephone industry is only partially deregulated, and airline carriers do not have the universal service obligation of telephone utilities. Nevertheless, the comparison is instructive, and the Commission urges SCB not to lose sight of the fact that competition can best be met by lowering costs, and thus prices, rather than raising them.

SCB obviously recognizes that rate design can be employed to lower prices for selected services where competition exists; however, the foregone revenue must be made up elsewhere, and the inelastic demand of basic service monopoly ratepayers can only be exploited so far. Ultimately, SCB must look to its aggregate revenue requirements, and if not decrease them, at least control the rate of increase of overall costs. As noted elsewhere in this Order, the Commission is extremely concerned with SCB's level of labor costs. SCB's efforts to control costs in other areas appear to be more energetic than its efforts to control labor costs. The Commission is of the opinion that as competition expands, increasingly more strenuous cost containment measures will be necessary, just as has been the case in other newly deregulated or partially deregulated industries.

A reading of the record in this case indicates the evidence presented concerning bypass does not warrant Commission approval of any of the proposals supported by the bypass argument. Consequently, bypass has not been accorded any weight in the decisions of this case. If SCB desires this Commission to consider bypass arguments in any future decision, it must present evidence of more systematic and rigorous investigation of the issue: anecdotal evidence, or evidence from other jurisdictions will not be sufficient. The Commission encourages SCB to investigate alternatives to the end user access charge methodology. One such alternative might be a declining block intrastate toll rate structure.

LOCAL MEASURED SERVICE

In Case No. 7871, The Measured Service Rate Tariff of South Central Bell Telephone Company, SCB proposed an optional Local Measured Service ("LMS") rate for business and residential consumers in the Frankfort exchange. The Commission approved the proposed optional LMS tariff as an experimental tariff on October 29, 1980. Since that proceeding SCB, In Case No. 8467, proposed and the Commission adopted a low-use LMS tariff. In each case SCB was required to provide the Commission with quarterly reports detailing the number of consumers selecting one of the LMS options. SCB has continued to expand the number of exchanges with the technological capability for LMS and has expanded the optional LMS accordingly. At the end of September 1983, 50,578 residential and 4,161 business consumers had selected an LMS option.[205/] What was proposed as an experiment has moved far beyond that point without a clear decision by the Commission to do so.

In this proceeding SCB has proposed to restructure its local exchange offerings. The differential between both standard measured local service and low usage measured service and flat rate service would be increased substantially. In addition, SCB proposes that a bifurcated schedule be incorporated in the offering so that in exchanges where LMS is not available, the flat rates ("FR") will be equal to the average of the FR and measured service options where LMS is available. SCB has proposed to increase both the access and usage elements on the low-use and standard LMS tariffs. To the extent that the bifurcated schedule leads to a revenue deficiency, SCB proposes to increase the FR where LMS is available to make up for that loss of revenue. In other words, basic flat rates would be increased so that measured local service can be offered at lower rates. SCB contends that LMS is an economic alternative to flat rate service and proposes to expand LMS services to additional exchanges as technology permits. It is SCB's position that the expansion of optional LMS provides benefits to both its consumers and the company. SCB alleges that optional LMS promotes economic efficiency, equitable rates, universal service and provides consumers the opportunity to control their telephone costs. Dr. Selwyn specifically disputes these assertions in pages 63-70 of his pre-filed testimony. In addition SCB contends it provides the company the opportunity to sell usage, a property of the telephone network which is growing rapidly and a potential source of contribution or subsidy to the local exchange.[206/]

The AG is opposed to the rate restructuring of local exchange service. The AG's witness, Mr. Buckalew, testified that SCB is using a pricing stategy to "force" customers to optional LMS. Mr. Buckalew stated, "SCB has shown its intention to overprice flat rates in order to encourage subscribers to choose measured services."207/ Conceptually Mr. Buckalew agrees with LMS pricing; however, he also testified that the increased investment and costs associated with offering measured service have to be offset by gains in efficiency through repression of usage on peak resulting in deferred central office construction.208/ The AG's witness recommended that the Commission maintain the current rate relationships and permit no further expansion of LMS until SCB can demonstrate that the benefits from LMS exceed the costs.

Dr. Selwyn testified that SCB's proposed bifurcated local exchange schedule is an effort by SCB to implement a strategy to migrate customers from flat rate to optional LMS and ultimately to mandatory LMS. Dr. Selwyn stated, "the Company's proposal must be viewed as a major step toward its ultimate goal of mandatory LMS for all customers in the Commonwealth."209/ This was substantiated by SCB internal memoranda and correspondence contained in Dr. Selwyn's Exhibit, Part A, Table 9. The "system goal" stated therein provides "By 1985 nearly all business customers and a preponderance of residential customers will be charged for exchange service on a measured service basis."210/ The documents in Dr. Selwyn's Exhibit all contained directives and/or status reports concerning public relations activities which were stressed as being critical to the successful implementation of the system's LMS goals.

Although SCB promoted LMS as providing customers with an optional service, the Commission questions whether consumers are being fully informed about the future availability (or viability) of both LMS and flat rate options. The following excerpt from Dr. Selwyn's testimony raised considerable doubt that both options would remain available:

> [A]s LMS becomes more widely accepted, the revenue "loss" will increase and, at the same time, the flat-rate customer base will erode, such that each successive incease in LMS demand will engender successively larger offsetting rate increases for the remaining flat-rate customers. This process, of course, must lead ultimately to the elimination of all flat-rate service because it will be effectively priced out of the market.211/

Furthermore, Dr. Selwyn contends that SCB has not provided sufficient information to permit adequate evaluation of the relative costs and benefits of LMS. For example, while SCB has proposed a time-of-day discount for the usage element of LMS, SCB has provided no basis for the time-of-day discount which is to be offered since it has not studied its system peak and more importantly, each individual exchange's peak. In response to requests for information, SCB has stated, "There have been no studies which would address potential cost savings attributable to reduced usage levels,"212/ and "There have been no studies done which would compare projected capacity needs of LMS compared to retaining all flat rate service.213/ In addition, Dr. Selwyn contends that SCB has seriously understated the additional cost to the system of providing LMS. Using cost estimates based on studies performed in other jurisdictions and assuming mandatory LMS Dr. Selwyn estimates that the aggregate additional cost would range from $19.9 to $29 million in Kentucky.214/ Therefore prior to accepting SCB's proposal Dr. Selwyn recommends that the Commission require "an affirmative demonstration that the benefits to ratepayers of any LMS expansion exceed its costs"215/ unless the Commission intends to implement a policy of statewide mandatory LMS.

One of the major benefits cited by SCB for LMS is that the unbundling of the access and usage elements provides the consumer the opportunity to control telephone costs. This ability to control consumer cost through reduced usage is alleged to provide opportunity for consumers of limited means to remain on the telephone system. The Commission does not question that the potential exists for individual customers to control their costs; however, unless a telephone utility's costs decrease as a consequence of the customers' reduced usage, no benefits will accrue to the system. Rather, the resulting revenue deficiency will have to be made up by subsidies provided by another group of customers. SCB estimated that a $22 million deficiency would result from its proposed rate design.216/ Ms. Mezzell testified earnings attrition or "reallocation" would result from customers shifting from flat rate to LMS.217/ In fact, if everyone opted for measured service, the price of LMS would have to be increased substantially, i.e., to the level of flat rates plus some additional increase due to the costs of measuring. Therefore, though SCB contends that sale of usage is "one of the few opportunities to provide a subsidy to the residental access line,"[218] the Commission is not convinced that a system of subsidies based on usage would be an efficient mechanism for achieving universal service. In this proceeding, no party provided evidence which indicated a correlation between usage and income. It is entirely conceivable that low income heavy users could be subsidizing higher income light users.

SCB has emphasized that it intends to follow a "cost causation" philosophy for designing rates in both this proceeding and in future rate proceedings.[219] Cost causation implies that the consumers whose service demand causes SCB to incur additional investment expenditures and expenses should pay these costs through higher rates for their services. By providing rates which track costs SCB would provide proper pricing signals to its consumers resulting in an efficient telephone system. It is the opinion of the Commission that costs are the appropriate basis for designing LMS rates. However, the Commission is deeply concerned that in proposing the local exchange service rate restructuring SCB has failed to provide evidence which indicates that the proposed rates are based on costs.[220] The overwhelming weight of the evidence presented indicates that the primary impetus for restructuring of rates is not to move toward a cost based pricing system, but instead to migrate customers from FR to LMS. The Commission can only conclude that SCB is less interested in promoting efficiency than it is in achieving usage based rates.

In Case No. 8838 SCB has stated its position that the local loop costs are non-traffic sensitive ("NTS") and the appropriate method for recovering these costs is a flat rate end-user access charge. SCB contends that a usage-sensitive rate for recovering these costs will result in "uneconomic by-pass" with the unacceptable consequences of stranded investment, lost contribution and skyrocketing local rates. However in this proceeding rather than proposing a restructuring of tariffs to reflect SCB's position on recovering local loop costs, SCB is providing a positive incentive to move local exchange customers to usage sensitive rates. The Commission is fully aware that SCB's position in Case No. 8838 is related to the alleged subsidy provided by toll. However, in this proceeding SCB has raised the spectre of local by-pass (i.e., cable t.v.). The Commission is concerned that the position adopted by SCB on optional LMS in this proceeding is in complete contradiction to its position in Case No. 8838 on recovering NTS local loop costs. If NTS costs recovered by a usage sensitive rate encourages by-pass in the competitive toll market the Commission fails to see why it will not encourage by-pass in what SCB characterizes as the increasingly competitive local exchange market.

The Commission is concerned that the proposed local exchange rate restructuring may increase the volatility of SCB's revenue stream and hence, unnecessarily increase its business risk. Though Ms. Mezzell stated, "we do not anticipate the volatility and no study has been prepared;"[221] however, it appears more likely to the Commission that there is a strong relationship between usage and the business cycle. The Commission is aware that additional revenue volatility has occurred in other utilities (i.e., electric) when rates have become more usage sensitive. The Commission is of the opinion that SCB should have given serious consideration to this potential effect from LMS prior to the proposed restructuring of local exchange service.

The Commission, in considering the proposed bifurcated local exchange rate schedule and the proposed LMS rate changes, is of the opinion and finds that SCB has failed to demonstrate that LMS leads to a more efficient pricing system, equitable rates or is an appropriate tool for guaranteeing universal service. Therefore, the Commission will reject the proposed local exchange schedule and will require SCB to maintain the current rate relationships for FR and LMS. Furthermore the Commission will require a moratorium on the offering of the LMS options to new customers in the exchanges where LMS now exists. In addition the Commission will not permit expansion of the LMS offerings into additional exchanges until there has been an adequate demonstration that the benefits of LMS exceed the costs. The Commission intends to address LMS in a more general forum in the near future.

FINDINGS AND ORDERS

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

1. The rates proposed by SCB would produce revenues in excess of those found reasonable herein and should be denied upon application of KRS 278.030.

2. SCB's proposed uniform statewide flat rate is unreasonable and should be denied.

3. SCB's proposed bifurcated flat rate schedule is unreasonable and should be denied.

4. SCB's proposed restructuring of the relationship between the flat rate schedule and local measured service, grouping service, and announcement line service is unreasonable and should be denied.

5. SCB's proposed restructuring of the relationship between the flat rate schedule and semipublic coin telephone service is reasonable and should be authorized.

6. SCB's proposed disaggregation of the central office line connection charge is reasonable and should be authorized.

7. SCB's proposed rate, rules, and regulations governing the installation of customer premises inside wire are reasonable and should be authorized.

8. SCB's proposed rates, rules, and regulations governing the maintenance of customer premises inside wire are unreasonable and should be denied.

9. SCB's proposed discontinuance of rates and charges associated with intrasystem wire is unreasonable and should be denied, and SCB should disaggregate rates and charges associated with intrasystem wire in the Customer Premises Products Tariff and file an intrasystem wire tariff to effect the continuance of associated rates and charges.

10. SCB's proposed adjustments in the area of private line services are reasonable and should be authorized.

11. SCB's proposed adjustment in the area of MTS and WATS are unreasonable and should be denied.

12. SCB's proposed adjustments to long distance operator services are reasonable and should be authorized.

13. SCB's proposed adjustments to miscellaneous services, except volume usage measured rate service, multiline service, and direct-inward-dialing service, are reasonable and should be authorized.

14. The rates and charges in Appendix A are the fair, just and reasonable rates and charges for SCB to charge its customers for telephone service.

15. In all future rate cases in which SCB seeks an allowance of CSO expense, the application, and the claim for such expense, should be accompanied by the following:

a. A listing of each core and non-core project in which SCB will participate, along with a common language description of every project, and the particular service, activity or function which the project will support or benefit, and how this support or benefit will be accomplished.

b. As to each service, activity or function identified in response to requirement (a), SCB shall state whether the same is classified as local exchange, toll, mobile radio or private line services, activities or functions, or a combination thereof; and, further, SCB should describe the extent to which each such service, activity or function is subject to present and projected competition.

c. SCB should further identify any CSO project in which it participates that will directly or indirectly benefit the services offered by, or the operations of, other affiliated subsidiaries. In such cases the subsidiary and the benefited services and operations should be identified in common language along with a common sense common language statement as to the nature and extent of the benefit.

d. The costs incurred by the CSO for each non-core and core project in which SCB participates should be set forth and should include the following: return on investment; the amount of common overhead incorporated in the costs; and the manner in which such common overhead was calculated and allocated.

e. The presentation of data and information in response to the above requirements should be categorized by core and non-core projects, and by whether the related services and activities fall within the local exchange, toll, private line, or mobile radio classifications.

f. SCB should develop a system of CSO accounts that will reasonably insure compliance with the above requirements, and which will also reasonably assure that all CSO costs incurred for a particular CSO project are accurately charged or allocated to the appropriate service, function, or activity. A current accounting should also be filed in each rate case in which SCB seeks to recover an allowance of CSO expense.

g. SCB is additionally directed to consult with the Director of Rates and Tariffs or his designate, concerning the development of a system of CSO accounts and, if necessary, compliance with any other requirements of the Commission.

IT IS THEREFORE ORDERED that the proposed rates and charges in SCB's notice of July 29, 1983, be and they hereby are denied upon application of KRS 278.030.

IT IS FURTHER ORDERED that SCB's proposed uniform statewide flat rate be and it hereby is denied.

IT IS FURTHER ORDERED that SCB's proposed bifurcated flat rate schedule be and it hereby is denied.

IT IS FURTHER ORDERED that SCB's proposed restructuring of the relationships between the flat rate schedule and local measured service, grouping service, and announcement line service be and it hereby is denied.

IT IS FURTHER ORDERED that SCB's proposed restructuring of the relationship between the flat rate schedule and semipublic coin telephone service be and it hereby is authorized.

IT IS FURTHER ORDERED that SCB's proposed disaggregation of the central office line connection charge be and it hereby is authorized.

IT IS FURTHER ORDERED that SCB's proposed rates, rules, and regulations governing the installation of customer premises inside wire be and they hereby are authorized.

IT IS FURTHER ORDERED that SCB's proposed rates, rules, and regulations governing the maintenance of customer premises inside wire be and they hereby are denied.

IT IS FURTHER ORDERED that SCB's proposed discontinuance of rates and charges associated with intrasystem wire be and it hereby is denied, and, within 30 days from the date of this Order, SCB shall disaggregate rates and charges associated with intrasystem wire in the Customer Premises Products Tariff and file an intrasystem wire tariff to effect the continuance of associated rates and charges.

IT IS FURTHER ORDERED that SCB's proposed adjustments in the area of private line services be and they hereby are authorized.

IT IS FURTHER ORDERED that SCB's proposed adjustments in the area of MTS and WATS be and they hereby are denied.

IT IS FURTHER ORDERED that SCB's proposed adjustments to long distance operator services be and they hereby are authorized.

IT IS FURTHER ORDERED that SCB's proposed adjustments to miscellaneous services, except volume usage measured rate service, multiline service, and direct-inward-dialing service, be and they hereby are authorized.

IT IS FURTHER ORDERED that SCB be and it hereby is authorized to place into effect the rates and charges in Appendix A for all service rendered effective on and after the 18th day of January, 1984.

IT IS FURTHER ORDERED that a thorough study of the appropriateness of SCB's employee compensation (including but not limited to wages, salaries, pensions and benefits, and number of employees) shall be made by an independent consulting firm which will be selected by the Commission and compensated by SCB and that the results of that study shall be made a part of the record in its next general rate proceeding.

IT IS FURTHER ORDERED that a meeting shall be held with SCB and the Commission, to be scheduled at a later date, to discuss the selection of the independent consulting firm and details of the procedures for making the study concerning SCB's employee compensation.

IT IS FURTHER ORDERED that SCB shall provide the information detailed in finding number 15 in all future rate cases, in which SCB seeks an allowance of CSO expense.

IT IS FURTHER ORDERED that, within 30 days of the date of this Order, SCB shall file its tariff sheets setting out the rates approved herein.

IT IS FURTHER ORDERED that SCB shall file the information and analyses regarding central office equipment and outside plant projects as previously specified herein at least 6 months prior to the requisition date of any equipment required therefor.

Done at Frankfort, Kentucky, this 18th day of January, 1984.

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

ATTEST:

Commissioner

Secretary

FOOTNOTES TO AN ORDER OF THE PUBLIC
SERVICE COMMISSION IN CASE NO. 8847

1. Letter dated June 24, 1983, from SCB's attorney to the Secretary.

2. Ibid.

3. United States v. Amer. Tel. & Tel. Co., 552 F. Supp. 131 (D.C. 1983).

4. Maryland et al. v. U.S. 103 S. Ct. 1240 (1983).

5. Order of May 2, 1983.

6. Ibid., p. 2.

7. POR, p. 468.

8. Order of May 2, 1983, p. 5.

9. Ballard Pre-Filed Testimony, p. 18.

10. Mezzell Pre-Filed Testimony, p. 14.

11. Buckalew Pre-Filed Testimony, p. 57.

12. Order of September 30, 1983.

13. Transcript of Evidence ("T.E."), October 10, 1983, p. 74.

14. Order of October 24, 1983.

15. T.E., October 31, 1983, p. 75.

16. Ibid.

17. Ibid., p. 89.

18. Response to Hearing request, Item 35.

19. Response to Hearing request, Item 15.

20. 11/28/83 Response to Item 4 of Staff Request No. 13.

21. T.E., December 1, 1983, p. 86.

22. Ibid., p. 266.

23. Response to Item 30 of hearing requests.

24. Response to Staff Request No. 2, Item 11a, Sheet 2.

25. *Ibid*.

26. *Ibid*.

27. *Ibid*.

28. *Ibid*.

29. Response to Staff Request No. 9, Item 12, Sheet 1.

30. *Ibid*.

31. *Ibid*.

32. $83,013,000 X 75.23% = $62,452,000.

33. Ballard Pre-Filed Testimony, p. 19.

34. Response to Staff Request No. 9, Item 1, Sheet 1.

35. *Ibid*., Sheet 2.

36. Ballard Pre-Filed Testimony, Exhibit 2.

37. Ballard Pre-Filed Testimony, Revised Exhibit 4.

38. Calculation: $(000)
$81,174 X 1.008713 = $81,881
$81,881 - $81,174 = $707.

39. Response to Staff Request No. 1, Item 18c, p. 2.

40. Response to Staff Request No. 9, Item 5, Sheet 2.

41. Ballard Pre-Filed Testimony, Exhibit 2.

42. Response to Staff Request No. 9, Item 4, Sheet 2.

43. *Ibid*., Item 5, Sheet 2.

44. Response to Oral Requests During the Hearing, Item 20.

45. Calculated based on SCB's wage distribution and intrastate factors supplied in Response to Staff Request No. 9, Item 1, p. 2.

46. Calculated using intrastate factors supplied in Response to Staff Request No. 9, Item 1, p. 2.

47. Response to Staff Request No. 9, Revised Item 2; Calculation: ($000) ($97,729 X .746795 = $72,984).

48. Ballard Pre-Filed Testimony, Exhibit 2.

49. Response to Staff Request No. 9, Item 1, Sheet 2.

50. Calculated from Response to Staff Request No. 1, Item 17, Sheets 9 and 10.

51. Response to Staff Request No. 2, Item 11a, Sheet 2.

52. Response to Staff Request No. 9. Item 6.

53. Ballard Pre-Filed Testimony, Exhibit 2.

54. Calculation: ($000) ($21,396 X 11.975% = $2,455).

55. SCB's Kentucky Intrastate Monthly Report for the month of April 1983.

56. Response to Staff Request No. 1, Item 25a; (Intrastate Factor used: .792725).

57. Response to Staff Request No. 1, Item 28.

58. <u>Ibid</u>., Item 19.

59. <u>Ibid</u>., Item 12.

60. <u>Ibid</u>.

61. T.E., Vol. IX, p. 145.

62. Case No. 8150, Order entered August 11, 1981, pp. 13-15.

63. Case No. 8467, Order entered October 13, 1982, pp. 14-15.

64. Dickson Pre-Filed Testimony, pp. 24-26.

65. Calculation:

$ 769,500	Per Order in Case No. 8150
X 13.99%	CPI-W (December 1980 - April 1983)
$ 107,653	
+ 769,500	
$ 877,153	
-1,236,100	Response to Staff Request No. 9, Item 7
$ 358,947	
X 50.76%	
$ 182,000	Rounded

66. Response to Oral Requests During the Hearing November 29 - December 9, 1983, Item 19, Sheet 1.

67. Case No. 8150, Order entered August 11, 1981, p. 10.

68. Case No. 8467, Order entered October 13, 1982, pp. 17-19.

69. T.E., Vol. III, p. 261.

70. Ibid., pp. 261-262.

71. Ibid., pp. 255-256.

72. Calculation: ($000)
$11,194 X .737639 = $8,257 X 50.76% = $4,191.

73. Ballard Revised Exhibit 3, Part 2, Sheet 2 of 2, Column Q. Calculation:

		Combined
	Maintenance	$113,295,000
	Traffic	20,113,000
	Commercial and Marketing	43,450,000
	Accounting	11,269,000
	General	30,294,000
	Subtotal	$218,421,000
÷	Total Expenses	$328,844,000
=		66.4%

74. Response to Staff Request No. 4, Item No. 7.

75. T.E., Vol. IV, pp. 48-52.

76. Ballard Pre-Filed Testimony, pp. 11, 16-19.

77. Response to Staff Request No. 9, Item No. 11.

78. Ibid., Sheet 1.

79. T.E., Vol. II, pp. 246, 247.

80. Selwyn Testimony, p. 194.

81. Ibid., p. 185.

82. Ibid., p. 189.

83. T.E. Vol. VIII, pp. 151-152.

84. T.E., Vol. II, p. 100.

85. Ibid., p. 105.

86. Ibid.

87. Response to Hearing Request, Item 22.

88. Ibid.

89. SCB's Brief, p. 9.

90. Matheson Pre-Filed Testimony, p. 41.

91. Responses to Oral Requests During the Hearing, Item 8.

92. T.E., Vol. I, p. 150.

93. Ibid., p. 151.

94. Responses to Oral Requests During the Hearing, November 29-December 9, 1983, Item 64.

95. Parish Pre-Filed Testimony, p. 5.

96. Ibid., pp. 8-12.

97. Ibid., p. 6.

98. Additional Information on Affiliated Services, filed November 22, 1983, p. 1.

99. Ibid.

100. Brief of the AG, p. 38.

101. Ibid., pp. 32-33.

102. Ibid., p. 37.

103. Brief of the City of Louisville and Jefferson County.

104. Selwyn Pre-Filed Testimony, p. 147.

105. Ibid., pp. 130-138.

106. Administrative Case No. 264, Order entered May 2, 1983, p. 5.

107. Selwyn Pre-Filed Testimony, p. 142.

108. *Ibid.*, p. 135.

109. *Ibid.*, p. 130.

110. Administrative Case No. 264, Order entered May 2, 1983, p. 5.

111. T.E., Vol. III, p. 117.

112. *Ibid.*, p. 89.

113. *Ibid.*, p. 93.

114. *Ibid.*, p. 214.

115. *Ibid.*, p. 209.

116. *Ibid.*, p. 277.

117. Case No. 8873, An Investigation Into The Effects of Competition Upon Local and Toll Exchange Service Including The Issues of Intra and Inter-LATA Competition, Access Charges and Bypass, and Methods of Regulatory Competitive Markets.

118. Case No. 8873, T.E., October 30, 1983, pp. 31-36.

119. T.E., Vol. III, p. 197.

120. Response to Hearing Request, Item 30 Supplemental, filed December 27, 1983.

121. Selwyn Pre-Filed Testimony, p. 137.

122. T.E., Vol. III, p. 106.

123. Parish Pre-Filed Testimony, p. 15.

124. T.E., Vol. III, pp. 215-216.

125. *Ibid.*, pp. 171, 273.

126. *Ibid.*, pp. 153-154.

127. Brief of the AG, p. 34.

128. Staff Request #6, Vol. I, Item 3.

129. Buckalew Pre-Filed Testimony, p. 78.

130. Parish Pre-Filed Testimony, p. 14.

131. _Additional Information on Affiliated Services_, filed November 22, 1983.

132. Parish Pre-Filed Testimony, p. 28.

133. Brief of SCB, p. 29.

134. _Additional Information on Affiliated Services_, filed November 22, 1983.

135. T.E., Vol. III, pp. 129-131.

136. Glass Pre-Filed Testimony, pp. 16-22.

137. Brief of the AG, p. 39.

138. Selwyn Pre-Filed Testimony, p. 127.

139. _Ibid_., p. 138.

140. _Ibid_., p. 141.

141. T.E., Vol. III, p. 25.

142. Matheson Pre-Filed Testimony, p. 39.

143. _Ibid_., p. 28.

144. Langsam Pre-Filed Testimony, Table A, p. 14a.

145. _Ibid_., p. 12.

146. Wilson Schedule J.W.-2, p. 1.

147. Wilson Pre-Filed Testimony, p. 65.

148. Matheson Pre-Filed Testimony, pp. 31-32.

149. Langsam Pre-Filed Testimony, Table B, p. 24a.

150. Matheson Pre-Filed Testimony, pp. 35-37.

151. Matheson Pre-Filed Exhibit, p. 3.

152. Matheson Pre-Filed Testimony, p. 38.

153. Furst Pre-Filed Testimony, p. 4.

154. Furst Pre-Filed Exhibit F&A 2.25.

155. _Ibid_.

156. Furst Pre-Filed Testimony, p. 18.

157. Meyer Pre-Filed Testimony, p. 23.

158. Matheson Pre-Filed Testimony, p. 35.

159. Matheson Pre-Filed Exhibit, pp. 12-19.

160. Staff Information Request dated July 25, 1983, Items 2-4.

161. Furst Pre-Filed Exhibit F&A 2.4.

162. Wilson Pre-Filed Testimony, p. 39.

163. T.E., Vol. II, November 30, 1983, p. 169.

164. Ibid., p. 170.

165. Ibid., p. 164.

166. Furst Pre-Filed Testimony, p. 14 and Pre-Filed Exhibit F&A 2.18.

167. T.E., Vol. II, November 30, 1983, p. 169.

168. Meyer Pre-Filed Testimony, p. 14.

169. Wilson Pre-Filed Testimony, p. 21.

170. Langsam Pre-Filed Testimony, p. 6.

171. Langsam Pre-Filed Testimony, p. 53 and Wilson Pre-Filed Testimony, p. 63.

172. Wilson Pre-Filed Testimony, p. 16.

173. Brief of SCB, p. 53.

174. Response to Hearing Requests, filed November 29 - December 9, 1983, Item 44.

175. T.E., December 6, 1983, pp. 29-30.

176. Response to Hearing Request, filed December 16, 1983, Item 72.

177. Mezzell Pre-Filed Testimony, p. 7 and Pre-Filed Exhibit 2.

178. Response to Hearing Request, filed December 16, 1983, Item 60.

179. Case No. 8859, Order entered January 4, 1984, p. 38.

180. Kentucky Priceout, Section A4, filed July 29, 1983.

181. Cost Support Information filed July 29, 1983, Kentucky Additional Cost for Administration of Disaggregated COLC and Staff Information Request dated August 12, 1983, Item 79.

182. Cost Support Information filed July 29, 1983, Service Connection Costs.

183. Appendix A states time and materials rates in Sections A4.8 and A4.12 of the General Subscribers Tariff. The Appendix does not address rules and regulations SCB proposed to implement time and materials charges for the installation and maintenance of customer premises inside wire in Sections A4.8, A4.10, A4.11, A4.12, A4.13, A4.14, and A4.15. However, SCB may file rules and regulations governing the installation of customer premises inside wire, consistent with the Commission's findings, and subject to Commission approval.

184. Response to Hearing Request, filed December 16, 1983, Item 70.

185. Ibid., Item 64.

186. Selwyn Pre-Filed Testimony, pp. 196-199.

187. Kentucky Priceout, Section A4, filed January 6, 1984.

188. The Commission is aware that if SCB's analysis of the FCC's Order is correct, the revenue impact would affect both the General Subscriber Services Tariff and the Customer Premises Products Tariff.

189. Cf. Brief of SCB, p. 41, and Brief of the AG, pp. 47-48.

190. Kentucky Priceout, MTS/WATS Revenue Change, filed July 29, 1983.

191. Kentucky Priceout, MTS/WATS Revenue Change, filed October 17, 1983.

192. SCB has acknowledged this at several points in this case. For example, Brief of SCB, p. 40.

193. Matheson Pre-Filed Testimony, pp. 42-43.

194. T.E., Vol. I, p. 47.

195. Ibid., p. 48.

196. <u>Ibid</u>.

197. Selwyn Pre-Filed Testimony, p. 83.

198. <u>Ibid</u>., p. 89.

199. AG Brief, p. 55.

200. See, for example, Pre-Filed Testimony of SCB witnesses Mezzell, pp. 8-9; Roberts, p. 6; Dickson, p. 23; Matheson, p. 26. Also see T.E., November 29, 1983, pp. 85-87, and 164-171.

201. Selwyn Pre-Filed Testimony, p. 48.

202. <u>Ibid</u>., pp. 48-56.

203. <u>Strategic Assessment of Bypass</u> - Southeast Region Technical Information Release, Section IV. 4.

204. T.E., November 29, 1983, pp. 182-183.

205. Quarterly Report on Local Measured Service Subscriptions and Revenues, September 1983.

206. T.E., Vol. VIII, p. 44.

207. Buckalew Pre-Filed Testimony, p. 48.

208. <u>Ibid</u>., p. 55.

209. Selwyn Pre-Filed Testimony, p. 59.

210. Selwyn Exhibit, Part A, Table 9, p. 3.

211. Selwyn Pre-Filed Testimony, p. 61.

212. Commission Data Request No. 2, Item 61.

213. <u>Ibid</u>., Item 53.

214. Selwyn Pre-Filed Testimony, p. 76.

215. <u>Ibid</u>., p. 62.

216. T.E., Vol. VI, p. 23.

217. T.E., Vol. VIII, p. 48.

218. <u>Ibid</u>., p. 44.

219. Mezzell Pre-Filed Testimony, p. 3.

220. Commission Data Request No. 2, Items 49-51.

221. T.E., Vol. VIII, p. 55.

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASES NO. 8847 AND 8879 DATED JANUARY 18, 1984

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

GENERAL SUBSCRIBER SERVICES TARIFF

A1. DEFINITION OF TERMS

LOCAL ACCESS AND TRANSPORT AREA (LATA)
A geographic area established for the administration of communications service. It encompasses designated exchanges which are grouped to serve common social, economic and other purposes.

A3. BASIC LOCAL EXCHANGE SERVICE

A3.1 General

a. Rates for basic local exchange service are related to the total number of main station lines (including Centrex main station lines, except as provided following, and ESSX-1 main station lines) and PBX trunks (including trunks providing Centrex service to U.S. Government-owned systems serving certified military bases) in the local calling area.

A3.2 STATEWIDE RATE SCHEDULES

A3.2.1 FLAT RATE SCHEDULES

A. The following schedule of monthly rates is applicable to flat rate main station line service:

Group	Total Main Station Lines and PBX Trunks	RATES PER MONTH			
		RESIDENCE		BUSINESS	
		Ind.	2-Pty.	Ind.	2-Pty.#
1	0 - 13800	$11.93	$8.95	$29.99	$22.49
2	13801 - 25100	12.83	9.62	33.11	24.84
3	25101 - 45500	13.54	10.16	35.59	26.69
4	45501 - 200800	14.25	10.69	38.22	28.66
5	200801 - 1191800	17.65	13.24	50.96	38.22

Obsolete Service Offering - See paragraph A2.3.3

A3.2.2 MEASURED RATE SCHEDULE

a. The following schedule of monthly rates is applicable to measured rate main station line service:

Group	Total Main Station Lines and PBX Trunks	Residence Individual Line Low-Use	Residence Individual Line Standard	Business Individual Line
1	0 - 13800	$5.96	$8.95	$22.49
2	13801 - 25100	6.41	9.62	24.84
3	25101 - 45500	6.77	10.16	26.69
4	45501 - 200800	7.12	10.69	28.66
5	200801 - 1191800	8.82	13.24	38.22

b. The rates stated above include the following monthly local usage allowances for dialed sent paid local calls:

Low-Use Residence Measured Service	None
Standard Residence Measured Service	$5.00
Business Measured Service	7.50

c. The following rates apply for all local usage. . .

Band	Usage Rates: Initial (1) Minute	Usage Rates: Ea. Add'l (1) Minute
A	$.04	$.02
B	.06	.04

d. Lower rates for the Evening and Night and Weekend rate periods are expressed as a percentage reduction of the usage rates stated in paragraph c. preceding. The rate is applied to the total summarized usage charge for those portions of all messages occurrring within the reduced rate period. When application of the reduced rate results in a fractional charge, the amount will be rounded to the nearer whole cent.

When messages span more than one rate period, total charges for the minutes in each rate period are summarized, any reduced rate applied and the results for each rate period are totaled to obtain the total message charge.

e. On Christmas Day (December 25), New Year's Day (January 1), Independence Day (July 4), Thanksgiving Day and Labor Day, the holiday rate applicable is the Evening rate, unless a lower rate would normally apply.

A3.2.4 Regrouping

Rates for local exchange service are set out in this tariff for each exchange and Locality Rate Area and vary depending upon the number of main station lines (including Centrex main station lines, except as provided following, and ESSX-1 main station lines) and PBX trunks (including trunks providing Centrex service to U.S. Government-owned systems serving certified military bases) included in the local calling scope of each exchange or LRA. When an exchange or LRA changes from one group to another because of increase or decrease in station lines and trunks, the rates for the appropriate higher or lower group will become effective, after a waiting period of four months, upon the filing of a revised tariff in accordance with statutory provisions and the Rules and Regulations of the Commission.

A3.5 JOINT USER SERVICE

A3.5.2 RATES

A. Joint user service associated with the following classes of service are furnished at the rates indicated:

	Monthly Rate
(1) Business Individual Line	
a. Flat Rate	
(1) Exchanges in Louisville Local Calling Area	$12.74
(2) All other exchanges	8.53
b. Measured Rate	
(1) Exchanges in Louisville Local Calling Area	9.56
(2) All other exchanges	6.39
c. Message Rate	
(1) Louisville exchange	8.28
d. Semipublic	
(1) Exchanges in Louisville Local Calling Area	9.56
(2) All other exchanges	6.39
(2) PBX Service	
a. Commercial Flat Rate	
(1) Exchanges in Louisville Local Calling Area	12.74
(2) All other exchanges	8.53
b. Measured Rate	
(1) Exchanges in Louisville Local Calling Area	9.56
(2) All other exchanges	6.39

A3. BASIC LOCAL EXCHANGE SERVICE

	Monthly Rate
(3) Hotel PBX Service	
a. Message Rate	
(1) Exchanges in Louisville Local Calling Area	$8.28
(2) All other exchanges	5.54
b. Permanent Guest or Tenant Maintaining a Residence in the Hotel (Message Rate)	
(1) Exchanges in Louisville Local Calling Area	3.31
(2) All other exchanges	2.22
c. Measured Rate	
(1) Exchanges in Louisville Local Calling Area	9.56
(2) All other exchanges	6.39
d. Permanent Guest or Tenant Maintaining a Residence in the Hotel (Measured Rate)	
(1) Exchanges in Louisville Local Calling Area	3.82
(2) All other exchanges	2.56
(4) Centrex and ESSX-1 Service (excluding Dormitory Centrex)	
Joint User, each	Same rates apply as for Commercial flat rate PBX service

A3. BASIC LOCAL EXCHANGE SERVICE

A3.7 MONTHLY EXCHANGE RATES

3. Message Rate Service

   a. Business individual line message rate service is offered only in the exchanges shown herein. . .

Exchange	Business Ind. Line Monthly Charge Each Line	Monthly Message Allowance Each Line	Additional Local Message Charge Each Message
Louisville	$33.12	50	$0.10

A3.11 GROUPING SERVICE

A. General

Grouping service is a combination of two or more trunks or individual lines connected to the central office so that incoming calls overflow to the next available trunk or line if that trunk or line is busy.

B. Rates

Monthly rates for grouping service on individual lines or trunks are as follows:

	Individual Line	Monthly Rate
1.	Business Flat Rate, each	55% x Bus. Ind. Line Flat Rate
2.	Business Measured Rate, each	55% x Bus. Ind. Line Measured Rate
3.	Business Message Rate, each	55% x Bus. Ind. Line Message Rate
4.	Residence Flat Rate, each	55% x Res. Ind. Line Flat Rate
5.	Residence Measured Rate, each	55% x Res. Ind. Line Measured Rate

A3.12 LOCAL DIRECTORY ASSISTANCE SERVICE

C. Rates

1. A charge of $.30 will apply for each Local Directory Assistance call in excess of the allowance.

2. A surcharge of $.30 will be applicable to all calls connected to Local Directory Assistance by the "0" operator, provided that the "0" operator is not the only source for Local Directory Assistance.

A3.13 OPERATOR ASSISTED LOCAL CALLS AND LOCAL CALLING CARD SERVICE CALLS

A. Operator Assisted Local Calls

1. A surcharge of $.60 will apply when the caller requests operator assistance and the call is completed within the local service area. The call may be billed to the originating station line, calling card, third number, collect or any other special identification number.

2. Application of Charges

   a. The $.60 surcharge will be applied to each completed call except . . .

B. Local Calling Card Service Calls

1. A surcharge of $.60 will apply to all calling card service calls wherein the caller dials both the called number and the calling card service number and the call is completed within the local service area.

A3.14 LOCAL OPERATOR VERIFICATION/INTERRUPTION SERVICE

C. Rates

1. Verification: A charge of $.95 applies each time the operator verifies a called line and hears voice communication.

2. Interruption: A charge of $1.40 applies each time the operator interrupts a conversation that is in progress on the called line. The charge is for the interrupt service and does not depend on whether the called party agrees to release the line and accept the call.

A3.15 TRUNK LINES

A3.15.1 GENERAL

A. Except as provided hereinafter, flat rate PBX service is offered to both business and residence subscribers. On or after August 4, 1976, message rate PBX service is offered to new subscribers only for hotel and hospital PBX service (See A100.48). Measured rate PBX service is offered to both business and residence subscribers in those central offices offering individual line measured rate service. The provision of all of the above services is subject to any other restrictions in this and any other applicable tariff.

B. Hotel PBX service is the only class of service available at hotels and motels for the joint use of the management and guests. Other classes of business service may be provided separately for management use only, subject to restrictions in this and any other applicable tariff. Guests may individually subscribe to separate residence service.

C. Hospital PBX service is available for the joint use of management and patients of hospitals, rest homes, and nursing homes, in addition to other classes of business service available, subject to restrictions in this and any other applicable tariff. Patients may individually subscribe to separate residence service.

D. PBX trunk line charges apply to all central office lines terminated in private branch exchange switching equipment, automatic call distributors, and a common group of switched lines (pooled) connected to equipment whether provided by the Company or the customer and to other services as specifically covered in this and any other applicable tariff.

A3.15.4 HOTEL PBX SERVICE

A. Business Message Rate Service
(Furnished with dial or manual systems
for guest and management use)

1. Trunks (Both-way or Outward Only), each

	Monthly Rate
(a) First trunk with an allowance of 50 outward local messages	
Exchanges in Louisville Local Calling Area	$33.12
All other exchanges	22.17
(b) Additional trunk without message allowance	
Exchanges in Louisville Local Calling Area	28.12
All other exchanges	17.17

A4. SERVICE CHARGES

A4.1 DEFINITIONS

A. Service Charge for Connection, Move or Change of Service

2. Service Ordering Charge

a. The Service Ordering Charge is separated into two categories.

(1) The initial increment of the Premises Work Charge includes a service ordering charge and applies per customer request for work performed by the Company in connection with the receiving, recording and processing of the customer's request for service to be completed at one time and a visit to the customer's premises is required to complete the requested work.

b. Per Customer Request

(2) When more than one service ordering charge thus associated applies at the same time on the same premises, only one initial increment of the Premises Work Charge is applicable, except as stated in A4.1.A.2.b.(3) and A4.8.A.2. following. The remaining service ordering charges will be without premises visit.

3. Central Office Line Connection Charge

a. Central Office Work

b. Access Line Work

c. Network Interface

Initial establishment of a Network Interface jack at the point of minimum penetration (see A15.1.3d.) of a customer's premises.

G. Number Change Charge

A Number Change Charge is a charge which applies for a customer-originated request for a change of basic exchange telephone number and as provided in A4.3.C.2.g. for station number changes.

H. Network Interface (Simple Services)

The Network Interface for Simple Services is that point on the customer's premises where all premises services are connected to the telecommunications network. The typical Network Interface is a non-tariffed standard registration-program jack or its equivalent installed for the purpose of interfacing with Customer Premises Inside Wire.

I. Customer Premises Inside Wire (Simple Services)

Customer Premises Inside Wire for Simple Services is that wire that runs between the Network Interface where the Exchange Access Lines terminate and those standard jack terminations or equivalent, including the standard jack or equivalent, on the customer's premises to which terminal equipment can be connected for access to the Exchange Access Line. Customer Premises Inside Wire may be provided by the customer subject to the provisions of Part 68 of the Federal Communications Commissions Rules and Regulations, applicable electrical codes, and related Company practices.

L. Simple Residence

The term Simple Residence as specified herein is defined as non-Complex, residence individual or party line basic exchange service which does not terminate in a communications system.

M. Simple Service

The term Simple Service as specified herein is defined as Simple Business and Simple Residence service as defined in A4.1.K and A4.1.L preceding.

N. Complex Service

The term Complex Service as specified herein is defined as service terminating in a communications system such as Key, PBX, ESSX, or Centrex. The term Complex Service may apply as well to special services specifically noted as Complex Services in other sections of this tariff.

O. Network Interface (Complex Service)

The Company-provided Network Interface for Complex Services is the point of termination of the telecommunications network on the customer's premises. The normal location of the interface is at the point of minimum penetration of the customer's premises as defined in A15.1.3.d.

A4. SERVICE CHARGES

A4.2 SCHEDULE OF CHARGES FOR CONNECTING, MOVING OR CHANGING SERVICE

	Residence Service	Simple Business Service	Complex Service
(a) Service Ordering Charge, per customer request			
Premises visit required	#	#	##
Premises visit not required	$17.50	$23.50	$23.50
Record type orders only	12.50	19.00	19.00
(b) Central Office Line Connection Charges:			
Central Office Work*	21.50	24.00	24.00
Access Line Work*	28.50	32.50	32.50
Network Interface	14.00	14.00	**
(c) Premises Wiring Charge	#	#	##
(d) Station Handling Charge	#	#	##
(e) Jack Charge	See Section A14		
(f) Number Changes+	10.00++	10.00++	10.00++

\# See Section A4.8 of this tariff for applicable Simple Premises Work Charges.

\## See Section A4.12 of this tariff for applicable Complex Premises Work Charges.

* Applies per central office line, trunk, or Centrex main station line or ESSX-1 Network Access Register.

** See Section A14. for applicable Network Interface jack charges by type of jack required.

\+ Appropriate Service Ordering Charge applies in addition to Number Change Charge but Central Office Line Connection Charges do not apply.

++ See A4.3C.2.g for application of charges.

A4.3 APPLICATION OF CHARGES

B. Service Charges for Connection of New Service

3. Service charges are not applicable to orders establishing toll credit cards.

4. When service is reestablished at a location which has been destroyed or made untenantable by fire, wind or flood, service charges for connection, move or change do not apply, except for premises work which is defined as the appropriate service ordering, inside wiring, jack installation and equipment handling charges that are billable for Simple Service per A4.8 and for Complex Service per A4.12. If the subscriber desires service at a new location for a temporary period, service charges for connection will apply for the establishment of service at the temporary location. Change in the location of existing stations to points outside the premises occupied by the subscriber are considered new service connections at the new location.

13. The applicable service charges for the establishment of ESSX-1 service are the service charges shown in A4.2 preceding for Complex Service (as appropriate). The charges for Central Office Work and Access line work apply per ESSX-1 Network Access Register. The appropriate charge for a network interface may be applicable.

16. Work performed by Company personnel located at an on-premises work station is subject to the initial increment of the Premises Work Charge (plus subsequent increments as appropriate).

C. Service Charges for Adding New or Additional Service and Equipment Other Than Central Office Lines or Moving or changing Existing Service and Equipment

1. Adding New or Additional Service and Equipment Other Than Central Office Lines

a. When new or additional service or equipment is connected on subsequent orders for Simple Residence or Simple Business service, the appropriate charges for service ordering will apply if no premises work is required or the appropriate Simple Premises Work Charges if premises work is required. When new or additional service or equipment is connected on subsequent orders for Key, PBX, ESSX-1, Centrex Systems or any other Complex Service, the appropriate charges for service ordering will apply if no premises work is required or the Complex Premises Work Charges if premises work is required; Simple Business Premises Work Charges apply for billable wiring work before the Network Interface for Complex Services. Station sets are subject to the appropriate charge for station handling as indicated in A4.2.(d) and A4.8.B.

2. Moving or Changing Existing Service or Equipment

b. Charges for Inside Moves

(1) In moving a Centrex System covered by a termination liability of minimum service period the move charges are computed as follows: . . .

e. Charges for rearrangement of inside wiring apply as follows:

(2) For Key, PBX, ESSX-1, Centrex or other services classified as Complex Services, the Complex Premises Work Charges apply. For rearrangement of inside wiring before systems, Simple Business Premises Work Charges would apply. Any nonrecurring charges as covered in other sections of this tariff may also apply.

f. For changing to an ESSX-1 system, the following applies:

When suitable space is not available on the customer's premises to install ESSX-1 equipment and, in order to maintain continuous service it is necessary to temporarily move existing equipment or to install equipment for temporary use, then charges apply based on the estimated costs involved for moving existing equipment or providing the temporary equipment.

g. . . . The Number Change Charge does not apply for systems which are charged the Complex Premises Work Charge as stated in A4.12.A.12 for station number changes.

A4.7 MAINTENANCE OF SERVICE CHARGE

The customer shall be responsible for the payment of charges for visits by the Company to the customer's premises where a service difficulty or trouble report results from customer-provided equipment or communications system which is arranged for connection to Company facilities, or from customer provided or maintained inside wiring as specified in Section A4.9 and A4.14.

Charge

Simple Residence and Simple Business	Key PBX, CTX, ESSX-1 and Other Complex Services
Appropriate Premises Work Charge in Section A4.8 of this tariff.	Complex Premises Work Charge in Section A4.12 of this tariff.

A4.8 SIMPLE PREMISES WORK CHARGE

B. Charges

	Schedule 1	Schedule 2	Schedule 3
(a) First 15-minute increment or fraction thereof			
Residence	$40.00	$40.00	$40.00
Business	43.25	43.25	43.25
(b) Each additional 15-minute increment or fraction thereof			
Residence	10.50	15.75	21.00
Business	10.50	15.75	21.00

Schedule 1 is applicable to work performed Monday through Friday, between 8:00 AM and 5:00 PM.

Schedule 2 is applicable to work performed Monday through Friday at hours other than Schedule 1 and all day Saturday.

Schedule 3 is applicable to work performed on Sundays and holidays (per A4.8.A.12)

A4. SERVICE CHARGES

A4.12 COMPLEX PREMISES WORK CHARGE

C. Charges	Schedule 1	Schedule 2	Schedule 3
(a) First 15 minute increment or fraction thereof	$50.00	$50.00	$50.00
(b) Each additional 15 minute increment or fraction thereof	10.50	15.75	21.00
(c) Material	Based on Cost		

Schedule 1 is applicable to work performed Monday through Friday, between 8:00 AM and 5:00 PM.

Schedule 2 is applicable to work performed Monday through Friday at hours other than Schedule 1 and all day Saturday.

Schedule 3 is applicable to work performed on Sundays and holidays (per A4.12.A.11).

A5. CHARGES APPLICABLE UNDER SPECIAL CONDITIONS

A5.2 CHARGES FOR UNUSUAL INSTALLATIONS

A5.2.1 INSTALLATION OF INTERIOR WIRE AND CABLE

c. Nonresidential Buildings

(7) The following charges apply for cable connections in excess of the normal allowance between the attendant's positions and the associated dial switching equipment or distributing frame.

(a) Within the same building:

If more than one hundred feet of regular switchboard cable is required, the customer will be charged 3-1/4 % per month of the estimated in-plant cost in excess of the maximum allowance stated above.

If lead covered or other than regular switchboard cable is required, regardless of distance, the customer will be charged 3-1/4 % per month of the estimated in-plant cost in excess of the maximum allowance stated above.

(b) Between buildings on the same continuous property:

The customer will be charged an amount equal to 3-1/4 % per month of the estimated in-plant cost of the cable from the point where the cable leaves the building where the attendant positions are located to its termination at the dial switching equipment or distribution frame.

A6. DIRECTORY LISTINGS

A6.4 PRIVATE (NONPUBLISHED) TELEPHONE NUMBER

A6.4.1 RATE APPLICATION

A monthly rate of $2.50 applies for each private telephone number . . .

A6.5 SEMIPRIVATE (NONLISTED) TELEPHONE NUMBER

A6.5.1 RATE APPLICATION

A monthly rate of $1.30 applies for each semiprivate telephone number. . .

A6.6 ADDITIONAL LISTING CHARGES

a. Additional name listings in excess of those permitted without extra charge are furnished at $1.55 per month in connection with business service and $1.05 per month in connection with residence service and Centrex Dormitory Stations. Additional line matter and directional calling information, where permitted, except alternate (directive) listings, are furnished at $1.55 per line per month in connection with business service and $1.05 per line per month in connection with residence service and Centrex Dormitory Stations.

A6.7 MISCELLANEOUS LISTINGS

A6.7.7 ALTERNATE (DIRECTIVE) LISTINGS

a. Nights, Sundays, and Holidays

(1) This type of alternate listing refers calling parties to an alternate telephone number to be used after business hours and on Sundays and holidays. The monthly rate for such listing is $1.55 per month in connection with business and residence service. . .

b. If no answer dial

Alternate listings which refer calling parties to other telephone numbers in case no answer is received at the preceding listed telephone may indicate the telephone numbers of subscribers who are agreeable to the use of their numbers in such listings. This type of alternate listing is charged for at a rate of $1.55 per month in connection with business and residence service. . .

A7. COIN TELEPHONE SERVICE

A7.2 SEMIPUBLIC TELEPHONE SERVICE

A7.2.3 RATES AND CHARGES

a. Semipublic telephone service is furnished at a flat monthly rate equal to 75 percent of the business individual line flat rate in effect in the same central office.

A8. TELEPHONE ANSWERING SERVICE FACILITIES

A8.2 RATES AND CHARGES

A8.2.4 CONCENTRATOR-IDENTIFIER ARRANGEMENTS

	Nonrecurring Charge	Monthly Rate
a. Intraexchange		
(1) Concentrator-identifier unit equipped for from 40 lines and 2 trunks to 100 lines and 6 trunks - Concentrator	$ 385.00	$390.00
Identifier	1355.00	150.00
b. Interexchange		
(1) Concentrator-identifier unit equipped for from 40 lines and 2 trunks to 100 lines and 6 trunks - Concentrator	385.00	390.00
Identifier	1355.00	150.00

d. Channels

Interexchange	Installation Charge	Monthly Rate
(1) Interexchange channel, including channel terminals measured between the concentrator rate center and the identifier rate center, per channel		
1st mile	-	$57.00**
each additional mile or fraction thereof	-	2.75

A8. TELEPHONE ANSWERING SERVICE FACILITIES

	Installation Charge	Monthly Rate
(2) Interoffice channel including channel terminals measured between the primary wire center and the wire center serving either a concentrator or identifier, per channel		
1st 1/4 mile	-	$12.50
each additional 1/4 mile or fraction thereof	-	0.55
(3) Local Channel, each Type 2007	$415.00	24.50

** When furnished jointly with another company that does not concur in this company's charges, the charge for the first mile is $30.00. Mileage measurements are those set out in the Private Line Service Tariff for Voice Grade Channels.

Intraexchange	Installation Charge	Monthly Rate
(4) Interoffice channel including channel terminals measured between the wire centers serving the concentrator and identifier, per channel		
1st 1/4 mile	-	$26.50
each additional 1/4 mile or fraction thereof	-	0.95
(5) Local Channel, each Type 2107	$120.00	12.75

A8.2.5 THE FOLLOWING RATES AND CHARGES ARE BILLED DIRECTLY BY THE COMPANY TO THE CLIENT OF THE TELEPHONE ANSWERING BUREAU:

	Installation Charge	Monthly Rate
a. Patron Secretarial Line Service for lines terminating directly from the Central Office or through Concentrator-Identifiers, each		
- Business	-	$2.25
- Residence	-	1.20
b. Secretarial Line Channel:		
(1) Between terminations located in the same wire center serving area		
(b) Where the client is located in a building other than that in which the telephone answering firm is located and the service is bridged in the wire center.		
Local Channel, each - Type 2106	$21.25	5.20
(2) Between terminations located in different wire centers		
(a) Where the client is directly connected to the Telephone Answering firm;		

A8. TELEPHONE ANSWERING SERVICE FACILITIES

	Installation Charge	Monthly Rate
Interoffice channel including channel terminals measured between the client's wire center and the wire center of the Telephone Answering firm, per channel		
1st 1/4 mile	-	$26.50
Each additional 1/4 mile or fraction thereof	-	0.95
Local Channel, each Type 2106	$21.25	5.20
(3) Where the client's service is connected to a concentrator located in the client's wire center;		
Concentrator line termination, each	21.25	5.20
(4) Where the client is connected to a Telephone Answering firm through a concentrator located in a different wire center from which he is being served		
(a) Interoffice, channel including channel terminals measured between the serving wire centers, per channel,		
1st 1/4 mile	-	26.50
Each additional 1/4 mile or fraction thereof	-	0.95
Concentrator Line termination, each	21.25	5.20

A8. TELEPHONE ANSWERING SERVICE FACILITIES

A8.2.6 The following rates and charges apply in conjunction with rates specified in A8.2.5.b.(1) and (2) preceding for terminating a patron's line in a Telephone Answering bureau. These rates and charges are billed to the Telephone Answering bureau.

	Monthly Rate
Local Channel Type 2106 Rate Differential	$6.30

A8.2.7 CUSTOMER OPERATING CENTER SERVICE

e. Monthly Rates

Per Complement of Cable Pairs

DISTANCE IN 1/4 MILE OR FRACTION THEREOF	COC SERVICE CABLE SIZE							
	50 Pairs	100 Pairs	200 Pairs	300 Pairs	400 Pairs	600 Pairs	900 Pairs	1200 Pairs
1/4 Mile	0	0	0	0	0	0	0	0
1/2 Mile	$220	$225	$280	$ 330	$ 390	$ 525	$ 680	$ 890
3/4 Mile	465	475	595	695	820	1100	1425	1825
4/4 Mile	730	750	970	1140	1340	1800	2340	2990
5/4 Mile	940	970	1205	1415	1675	2245	2905	3720

A8. TELEPHONE ANSWERING SERVICE FACILITIES

Per Local Channel Activated

LOCAL CHANNEL PROVIDED WITHIN A CABLE WHOSE AIRLINE DISTANCE IS:	TYPE OF LOCAL CHANNEL ACTIVATED	
	2106	2107
1/4 Mile	$5.20	$4.75
1/2 Mile	5.20	4.75
3/4 Mile	5.20	4.75
4/4 Mile	5.20	4.75
5/4 Mile	5.20	6.90

f. Nonrecurring Charges

(1) Service Charge Per Local Channel Activated

An installation charge of $21.25 applies to each Type 2106 local channel activated in addition to the nonrecurring charges specified in A4. These charges are billed to the client.

e. Schedule of Charges

Service Ordering Charge Per customer request

Type 2107	$115.00
Visit Charge	
Type 2107	12.50
Channel Connecting Charge	
Type 2107	93.00

A9. FOREIGN EXCHANGE SERVICE
AND
FOREIGN CENTRAL OFFICE SERVICE

A9.1 FOREIGN EXCHANGE SERVICE

A9.1.1 REGULATIONS

c. Foreign exchange service is offered in connection with feature Group A Access.

A9.1.2 METHODS OF APPLYING RATES

a. The rate for foreign exchange service is the nonrecurring and monthly rate and usage for feature group A and special charges as follows for each circuit. Interexchange mileage measurements and the allowance for interruptions on interexchange channels are those specified for voice grade channels in the Private Line Service Tariff.

A9.1.3 RATES AND CHARGES

	Installation Charge	Monthly Rate
Type 2045		
Interexchange Channel including the Channel Terminals, per channel		
1st Mile	$545.00	$95.00
Each additional mile or fraction thereof	-	2.75
Interoffice channel including the Channel Terminals, per channel		
1st 1/4 mile	-	12.50
Each additional 1/4 mile or fraction thereof	-	0.55

A9 FOREIGN EXCHANGE SERVICE
AND
FOREIGN CENTRAL OFFICE SERVICE

*An installation charge of $270.00 and a charge for the first mile of $49.00 applies if one of the exchanges, either the serving exchange (open end) or the foreign exchange (closed end), is served by another company that does not concur in our tariff charges.

A9.2 FOREIGN CENTRAL OFFICE

A9.2.3 RATES AND CHARGES

	Installation Charge	Monthly Rate
Type 2145		
Interoffice channel including the Channel Terminals, per channel		
1st 1/4 mile	$66.00	$32.00
Each additional 1/4 mile or fraction thereof	-	0.95

*An installation charge of $33.00 and Monthly Rate of $16.50 apply if one of the central offices is located in the territory of another company which does not concur in this Company's tariff.

A12. ESSX-1 SERVICE

A12.2 REGULATIONS

P. Rates and Charges

2. Nonrecurring Charges

a. ESSX-1 nonrecurring charges are in addition to appropriate Service Charges (including Complex Premises Work Charges) outlined in Section A4. of this tariff.

R. When connecting ESSX-1 lines to facilities of other Interexchange Carriers not under the Company's jurisdiction, all ESSX-1 rates and charges associated with that line are not applicable.

A12.3 RATES

	Installation Charge
(c) ESSX-1 Main Station Line, each	None

(1) Service Charges

The Service Charges (including Complex Premises Work Charges) specified in Section A4 of this tariff apply to the service connection, move and change of ESSX-1 Service.

A12.4 ESSX-1 OPTIONAL FEATURES

A. Station User Optional Features (available on a per station line basis)

A12. ESSX-1 SERVICE

(a) Rates and Charges

Call Forwarding -
Variable,*

Call Forwarding -
Variable, Outside*

*Operation may be limited or not available with ESSX-1 systems served by Number 1 ESS Central Offices with certain generic programs. A mix of Call Forwarding - Variable and Call Forwarding - Variable, Outside is not allowed in a single customer system.

Call Pickup,
per call pickup group

Preferential Hunt,
per group

A13. MISCELLANEOUS SERVICE ARRANGEMENTS

A13.2 CHANNELS FOR EXTENSION LINE

A13.2.2 METHODS OF APPLYING RATES

A. The method of applying rates for two-point service is determined as follows:

3. Channels Between Buildings on the Same Premises

When the channel facility (wire or cable) placed is of sufficient length and/or the in-plant cost of the circuit (wire or cable) facility renders the monthly rate inadequate, the customer may be required to pay a monthly rate of 3-1/4% of the in-plant cost of the facilities placed.

A13.2.4 RATES AND CHARGES

	Installation Charge	Monthly Rate
(a) For use with Company-Provided ESSX and Centrex		
Local channels, each		
Type 2156	-	$12.00
(b) For use with Customer-Provided Equipment		
Local channels, each		
Type 2157	$36.00	11.75
Type 2154	-	45.50
Type 2155	-	18.50
Type 2158	-	14.25
(c) Non-wire center connected channels each		
Per two point channel		
Each 1/4 mile or fraction thereof	-	2.00
Minimum Charge	-	4.00

A13 MISCELLANEOUS SERVICE ARRANGEMENTS

	Installation Charge	Monthly -Rate
(d) Channel Between Buildings on the same premises, each		
Per two Point channel		
Each 1/4 mile or fraction thereof	-	$ 2.00
Minimum Charge	-	4.00
(e) Interoffice channel including channel terminals for use with local channels,		
Per channel		
1st 1/4 mile	-	26.50
Each additional 1/4 mile or fraction thereof	-	0.95

*When furnished jointly with another company which does not concur in this tariff the charge for the 1st 1/4 mile is $13.75.

	Installation Charge	Monthly Rate
(g) Signaling Options		
To arrange a local channel for E & M Type Signaling, per local channel		
- Types 2154, 2155 & 2156	$4.15	$ 6.80
- Type 2158	9.60	12.00
To arrange a Local channel for Loop Signaling, per local channel (The customer-provided equipment must supervise up to 1300 ohms.)		

A13 MISCELLANEOUS SERVICE ARRANGEMENTS

	Installation Charge	Monthly Rate
- Type 2158	$ 8.30	$ 0.45
For use with PBX (or similar) off-premises channels for Customer-Provided Equipment.		
Signaling Arrangement Each, per circuit		
Type A	72.00	24.75
Type B	72.00	19.50
Type C	72.00	12.00

A13.2.5 NONRECURRING CHARGES

A. Service charges for connection, move or change of service

(a) Schedule of Charges

<u>All Other Types</u>	Channels Bridged In The Wire Center	Charges For Non-Wire Center Connected Channels And For Moving A Local Channel In the Same Building
Service ordering charge, per customer request		
Type 2102, 2158	$155.00	$84.00
Type 2104, 2146, 2147, 2154, 2155, 2156	115.00	45.50
Visit charge, per premises	18.00	18.00

	Channels Bridged In The Wire Center	Charges For Non-Wire Center Connected Channels And For Moving A Local Channel In the Same Building
Channel connecting charge, per channel provided		
Type 2155, 2156	$110.00	-
Type 2154	88.00	-
Type 2158	65.00	-
Premises work charge, per premises	(See Section A4 for time and and material charges.)	

A13.3 TIE LINE SERVICE

A13.3.2 RATES AND CHARGES

A. Intraexchange

(b) In different buildings on the same premises — The rate for tie lines provided between systems in different buildings on the same premises are as specified in A13.2.4, except that the minimum monthly charge is $6.30 for each tie line. These tie lines are not furnished to connect customer-provided systems.

(c) In the same building — The rate for tie lines provided between systems in the same building is $6.30 per month for each tie line. These tie lines are not furnished to connect customer-provided systems.

A13 MISCELLANEOUS SERVICE ARRANGEMENTS

A13.4 TOUCHTONE CALLING SERVICE

A13.4.3 RATES AND CHARGES

The following installation and monthly charges are in addition to any applicable rates and charges for the facilities and service furnished:

	Installation Charge	Monthly Rate
(a) Individual and Two-Party Line Service		
- Residence, per line	$5.00	$1.50
- Business, per line	5.00	3.00
(b) Centrex Systems		
Per Centrex station line equipped for Touch-Tone signaling, each line	-	1.00
(c) PBX Systems		
Per central office trunk arranged for both-way or outward service	5.00	3.00

A13.6 ANNOUNCEMENT FACILITIES

C. Rates and Charges

	Monthly Rate
Exchange facility, each	A rate equal to 65% of the flat rate business individual line will be applicable. Grouping service rates also apply as appropriate.

A13 MISCELLANEOUS SERVICE ARRANGEMENTS

A13.9 ARRANGEMENTS FOR NIGHT, SUNDAY AND HOLIDAY SERVICE

B. Rates

	Monthly Rate
(b) Arrangements which involve the use of additional equipment will be provided as follows:	
- Facilities required to provide connection to an alternate telephone number	$1.30
- Facilities to permit the completion of calls to dial PBX systems:	
Auxiliary line circuit including night service line, each	4.65

A13.13 EMERGENCY REPORTING SERVICES

A13.13.1 UNIVERSAL EMERGENCY NUMBER SERVICE-911

c. Basic 911

3. Rates and Charges

e. Optional Features

	Per Basic 911 Exchange Answering Line Equipped	
	Installation Charge#	Monthly Rate
(b) Emergency Ringback	$8.90	$22.00
(c) Switchhook Status	8.90	10.25

#In addition, Service Charges (including Complex Premises Work Charges) as specified in Section A4 apply.

A13 MISCELLANEOUS SERVICE ARRANGEMENTS

A13.13.2 MUNICIPAL EMERGENCY REPORTING SERVICE

B. Rates and Charges

1. City of Louisville

(a) Within the city limits of Louisville	The flat monthly charge for each emergency reporting station to be served by concentrator-identifier lines within the city limits of Louisville as of December 28, 1963, will be $32.50

A13.13.3 THE WESCOM 931 EMERGENCY ALERTING SYSTEM

B. Rates and Charges

2. Nonrecurring Charges

The Wescom 931 Emergency Alerting System charges are in addition to appropriate Service Charges (including Complex Premises Work Charges) outlined in Section A4 of this tariff. . .

3. Central Office Controlled

	Installation Charge	Monthly Rate
(a) Common Equipment (per 20 ports), each	$625.00	$68.00
(b) Mounting Shelf, each	625.00	40.50
(c) Emergency Reporting Unit, each	31.50	14.00
(d) Emergency Alerting Unit, each	31.50	14.75

A13.13.5 THE TELLABS 291 EMERGENCY ALERTING SYSTEM

B. Rates and Charges

2. Nonrecurring Charges

The Tellabs 291 Emergency Alerting System charges are in addition to appropriate Service Charges (including Complex Premises Work Charges) outlined in Section A4 of this tariff . . .

A13 MISCELLANEOUS SERVICE ARRANGEMENTS

A13.16 CUSTOM CALLING SERVICES

A13.16.3 RATES

	Monthly Rate Per C.O. Line Equipped	
	Residence	Business
(a) Available Features		
- Call Waiting	$2.75	$3.75
- Call Forwarding	2.75	3.75
- Three-Way Calling	2.75	3.75
- Speed Calling (8-Code)	2.75	3.75
- Speed Calling (30-Code)	3.75	4.75

	Monthly Rate Per C.O. Line Equipped Residence Only
(b) Feature Packages	
- Call Waiting with Call Forwarding	$4.50
- Call Waiting with Speed Calling (8-Code)	4.50
- Call Waiting with Call Forwarding and Speed Calling (8-Code)	6.25
- All features including Speed Calling (8-Code)	8.00
- Call Waiting with Three-Way Calling	4.50
- Call Forwarding with Three-Way Calling	4.50
- Call Forwarding with Speed Calling (8-Code)	4.50

A13 MISCELLANEOUS SERVICE ARRANGEMENTS

	Monthly Rate Per C.O. Line Equipped Residence Only
- Three-Way Calling with Speed Calling (8-Code)	$4.50
- Call Waiting with Call Forwarding and Three-Way Calling	6.25
- Call Waiting with Three-Way Calling and Speed Calling (8-Code)	6.25
- Call Forwarding with Three-Way Calling and Speed Calling (8-Code)	6.25

A13.19 REMOTE CALL FORWARDING

A13.19.2 RATES AND CHARGES

B. Message Charges

2. Between the call forwarding location and the terminating station line. . .

For calls forwarded inside the Local Calling Area, the Remote Call Forwarding customer is responsible for the measured rate service usage charges listed in A3.2.2 for each call answered at the terminating station line.

A13.22 TOLL TRUNKS

A13.22.2 REGULATIONS

F. If appropriate, in addition to rates and charges listed below, Company Foreign Exchange channel charges are applicable when this service is extended over such dedicated facilities from a foreign exchange.

A14.2 JACKS

A14.2.4 JACK EQUIPMENT

A. General

2. Registered terminal equipment and systems, whether customer-provided or Company-provided, must be directly connected to the telecommunications network through Company-provided standard jacks as specified in, or authorized by, Part 68 of the FCC Rules and Regulations with three exceptions. Connections through standard jacks are not required for the following:

   a. Registered (Company-provided or customer-provided) equipment/systems for which a specific waiver has been granted by the FCC.

   b. Registered Company-provided and installed bells/ringers.

   c. Registered (Company-provided or customer-provided) equipment/systems located in hazardous or inaccessible locations. However, in this case, standard jacks may be installed in locations that are considered not to be hazardous or inaccessible even if the jack placement does not meet the Part 68 requirements.

3. Grandfathered terminal equipment and systems, whether customer-provided or Company-provided, may be directly connected to the telecommunications network through Company-provided standard jacks, or through Company-provided nonstandard jacks,* or as otherwise determined by the Company (hardwiring, etc.). An exception to this exists in Category III Private Lines covered under Part 68 Rules and Regulations. Grandfathered equipment in this category cannot be connected to a tie line port using a nonstandard jack but, rather, only through certain registration program jacks or through hardwiring.

*Availability of nonstandard voice jacks is covered in this section and Section A100 of this tariff.

5. Jack installations shall be restricted in connection with any station line to such locations and numbers as will not, in the opinion of the Company, adversely affect the service.

6. Where service is reestablished using "left-in" jack equipment, jack charges do not apply if the jack(s) is the appropriate type connector for the set or system and if the jack(s) (except miniature-modular jack or equivalent) is in working condition.

B. Rates and Charges

1. Application of Charges

a. The Network Interface (NI) Charge*

The NI Jack Charge is applicable only when a jack is installed as a Network Interface, whether for simple service or complex service, as defined in Section A4.1 of this tariff.

b. The Non-Network Interface (Non-NI) Jack Charge*

(1) The Non-NI Jack Charge is applicable whenever the Company installs a jack, exclusive of the NI, for simple service.

(2) The Non-NI Jack Charge is not applicable whenever the Company installs a jack, exclusive of the NI, for complex service. A non-NI jack installed for complex service is billed based on cost as specified in Section A4 of this tariff.

c. Service Charges, as specified in Section A4 of this tariff, apply as appropriate in addition to the nonrecurring jack charge(s).

d. There is no recurring rate for jacks.

*This charge may be applied only to jacks tariffed in this Section A14.2.4.

A14. AUXILIARY EQUIPMENT

2. Standard Voice Jacks

	Nonrecurring Charge	
	NI*	Non-NI
(a) Miniature-modular jack, each	$13.25	$ 2.70
(b) Series jack, each	30.00	11.75
(c) Miniature-ribbon connector, each	67.00	35.50
(d) Weatherproof female jack (three-conductor) for use at boat docks and recreational vehicle pads, each	78.00	21.50

*Appropriate jack charge when connector used as Network Interface (NI).

3. Standard Data Jacks

	Nonrecurring Charge	
	NI*	Non-NI
(a) Programmed jack, each	$ 54.00	$ 20.00
(b) Universal jack, each	64.00	31.00
(c) Multiple-mounting arrangement for up to sixteen single-line data jacks, each	215.00	222.00
(d) Multiple-line data jack for use with both fixed loss-loop and programmable data equipment:		
- Multiple-line data jack common equipment for up to eight lines, each	200.00	190.00

A14. AUXILIARY EQUIPMENT

	Nonrecurring Charge NI*	Nonrecurring Charge Non-NI
- Line-circuit card, each	$42.00	$25.00
- Wall mounting with cover, each	53.00	45.00
- Rack mounting, each	41.00	32.50

*Appropriate jack charge when connector used as Network Interface (NI).

4. Nonstandard Voice Jacks

	Nonrecurring Charge NI**	Nonrecurring Charge Non-NI
(a) Waterproof male jack (three-conductor) for movable premises (or boats), each	-	$43.50
(b) Weatherproof male jack (three-conductor) for movable premises (or trailers), each	-	44.00

**Appropriate jack charge when connector used as Network Interface (NI).

	Nonrecurring Charge NI*	Nonrecurring Charge Non-NI
5. Miscellaneous Jack-related Equipment*		
(a) Outdoor (patio-type, etc.) cover/housing for miniature-modular jack		
- Flush (outdoor cover), each	$55.00	$8.90

A14. AUXILIARY EQUIPMENT

	Nonrecurring Charge	
	NI*	Non-NI
- Nonflush (outdoor cover and mounting box), each	$55.00	$ 8.90
(b) Flexible weatherproof cord (three-conductor), double-plug ended, fifty-foot length, each	-	49.00
(c) Modular Jack converter, each	5.40	4.45
(d) Bridge/wire junction		
- Entrance bridge (with modular plug), each	-	6.60
- Line bridge (without modular plug), each	-	4.15
(e) Prewire jack equipment**		
- Prewire flush-mounted modular jack (with protective cover), each	-	5.60
- Prewire wall mount modular jack, each	-	5.10
- Prewire faceplate, each	-	1.00

A14. AUXILIARY EQUIPMENT

	Nonrecurring Charge	
	NI*	Non-NI
(f) Adapters		
- Converts four-prong jack to four-conductor miniature-modular jack, each	-	$2.00
- Converts twelve-prong jack to four-conductor miniature-modular jack, each	-	5.80
- Converts four-conductor miniature-modular jack from single- to double-connecting point capability, each	-	6.00

*Inside wire equipment used in conjunction with the provisions of Section A4 of this tariff.

**Equipment used in conjunction with prewired premises.

A14.22 TOLL RESTRICTION (BATTERY REVERSAL IN CENTRAL OFFICE)

B. Rates

	Installation Charge	Monthly Rate
Toll Restriction Arrangement (battery reversal) from certain Central Offices per Central Office line or trunk arranged, each	$175.00	$12.50

A14. AUXILIARY EQUIPMENT

A14.23 MULTIPLE LINE CONTROL ARRANGEMENTS

A14.23.1 BREAK IN ROTARY NUMBER GROUP

B. Rates

The following rates apply for furnishing a break in a rotary number group:

	Installation Charge	Monthly Rate
(a) Common equipment for the first ten lines	-	$14.25
(b) For each additional ten lines controlled	-	12.00
(c) Change in point of break in rotary number group	$10.75	-

A14.23.2 LINE OUT-OF-SERVICE FEATURE

C. Rates

	Installation Charge	Monthly Rate
(a) Control equipment, per line	$10.50	$6.40

A14.24 PRIVATE LINE SAMPLING ARRANGEMENTS

A. Dial Intercept and Recording Arrangement to permit the attendant at a cord type switchboard to intercept private line calls so that message details may be recorded.

	Monthly Rate
(a) For use in connection with step-by-step Centrex systems located on Company premises	
- Common Equipment including announcement system	$65.00

A14. AUXILIARY EQUIPMENT

	Monthly Rate
- Sampling trunks, each (including facility from subscriber's premises to Central Office)	$ 24.50
(b) For use in connection with Common Control Switching Offices (CCSA)	
- Common Equipment for a maximum of 40 circuits including announcement system	120.00
- Sampling trunks, each	59.00

A14.28 MULTI-STATION ONE-WAY CIRCUIT ARRANGEMENT FOR USE IN COMMUNITY DIAL OFFICES

A14.28.2 RATES

A. In addition to the charges shown below, tariff rates and charges will apply for individual business main station service at headquarters, services at other locations, extension line mileage and other services provided.

	Installation Charge	Monthly Rate
(a) Common Equipment, including auxiliary line equipment at the central office and one connector termination circuit	$49.00	$10.75
(b) Connector equipment for additional central office line	20.00	4.30

A14. AUXILIARY EQUIPMENT

A14.29 CENTREX-CO COMPANY TIE LINE TERMINATIONS

	Monthly Rate
(a) Company Intraexchange Tie Line	
- Dial operation	$23.75
- Dial and Manual operation	29.50
- Manual operation	5.90
(b) Company Interexchange Tie Line	
- Dial Operation	30.50
- Manual operation (terminating or single jack through & terminating)	15.75

A15. CONNECTIONS WITH CERTAIN FACILITIES AND/OR EQUIPMENT OF OTHERS

A15.1 GENERAL PROVISIONS

A15.1.3 RESPONSIBILITY OF THE COMPANY

d. The Company will provide facilities to the first point (demarcation/network interface) inside the customer's premises which, in the judgement of the Company, is suitable for the location of a network interface. The most economical route from existing network distribution facilities will determine the approach used in establishing the point-of-demarcation. The customer may designate an alternate approach route furnished at additional charges as specified in Section A5.1.1.f of this tariff. The Company will extend the point-of-demarcation to any point inside the customer's premises designated by the customer for additional charges specified in section A4.8 of this tariff. Route selection and location of point-of-demarcation must be in compliance with regulations set forth in other sections of this tariff and F.C.C. Part 68.

A17. MOBILE TELEPHONE SERVICE

A17.4 RATES

A17.4.1 SERVICE CHARGES

a. Measured Rate Mobile Service

(1) Local Service

	Mo. Rate for Svc. Incl. 1 Hr. of Use of the Radio Link on a Dial Basis
Base Station	
Louisville Local Calling Area	$ 46.12
All Other Exchanges	35.17

A18.3 TWO-POINT SERVICE

A18.3.1 SERVICE BETWEEN LAND WIRE TELEPHONES

B. Rates and Charges

Charges for each Long Distance MTS message between any two points within the state are determined as follows:

- First minute and additional minute rates for all messages are specified in the Basic Rate Schedule table in 1. following.

- If any portion of a message occurs in a reduced rate period, the Basic Rate Schedule charges are discounted, as specified in 2. following.

- For any Dialed Calling Card Station, Operator Station, or Person-to-Person message, the Service Charge specified in 3. following is added to the Basic Rate Schedule charge.

2. Rate Periods and Rate Reductions

Lower rates for the Evening and Night and Weekend reduced rate periods are expressed as a percentage reduction of the Basic Rate Schedule charges (in 1. preceding). The reduction is applied to the total Basic Rate Schedule charge for that portion of a message occurring within the reduced rate period. When application of the reduction results in a fractional charge, the amount will be rounded down to the lower cent.

When a message spans more than one rate period, total charges for the minutes in each rate period are calculated, any reduction applied and the results for each rate period are totaled to obtain the total message charge.

3. Service Charges

For any message in the call classes listed below, add the Service Charge shown below to the Basic Rate Schedule charge for that message.
Reductions do not apply to the Service Charges.

Station-to-Station:	
Dialed Calling Card	$1.00
Operator	1.50
Person-to-Person	3.00

C. Timing of Messages

2. The time at the beginning of each minute of connection determines the applicable rate period. The time observed at the rate center of the calling station applies, whether the call is originated as sent-paid or collect.

E. Rates Applicable on Certain Holidays

On Christmas Day (December 25), New Year's Day (January 1), Independence Day (July 4), Thanksgiving Day and Labor Day, the holiday rate applicable is the Evening rate, unless a lower rate would normally apply.

A18.3.3 ENTERPRISE SERVICE (SPECIAL REVERSED CHARGE TOLL)

B. Rates and Charges

2. In addition a monthly service charge of $4.30 applies for each listing published in a directory in connection with which this service is furnished. Additional directory listings may be provided at charges shown in Section A6 preceding.

A18.3.5 LONG DISTANCE DIRECTORY ASSISTANCE SERVICE

B. Application of Charges

5. There will be a charge for all customer calls to Long Distance Directory Assistance, except as specified in 1. preceding.

C. Rates

1. A charge of $0.30 per call will apply for each Long Distance Directory Assistance call.

2. A surcharge of $0.30 will be applicable to all calls connected to Long Distance Directory Assistance by the "O" operator, provided that the "O" operator is not the only source for Long Distance Directory Assistance.

A18.3.6 LONG DISTANCE OPERATOR SERVICE REQUIRING TELEPHONE NUMBER ASSISTANCE

C. Rates

A charge of $0.30 for the Long Distance operator obtaining or attempting to obtain the telephone number of the called party will apply to all telephone number assistance calls described above.

A18.3.7 LONG DISTANCE OPERATOR VERIFICATION/INTERRUPTION SERVICE

C. Rates

1. Verification: A charge of $0.95 applies each time the operator verifies a called line and hears voice communication.

2. Interruption: A charge of $1.40 applies each time the operator interrupts a conversation that is in progress on the called line. The charge is for the interrupt service and does not depend on whether the called party agrees to release the line and accept the call.

A18.4 CONFERENCE SERVICE

A18.4.2 APPLICATION OF CHARGES

B. Timing of Messages

1. The time at the beginning of each minute of connection determines the applicable rate period. The time observed at the rate center of the calling station applies, whether the call is originated as sent-paid or collect.

A19. WIDE AREA TELECOMMUNICATIONS SERVICE

A19.4 RATES AND CHARGES

A19.4.2 MONTHLY ACCESS LINE RATES

Rates and charges for each Outward WATS or 800 Service Access Line apply as specified in Section G7. of the Access Services Tariff for the appropriate service access line elements. The rates and charges are in addition to the monthly usage charges specified in A19.4.1 preceding.

A19.4.3 NONRECURRING ACCESS LINE CHARGES

Rates and charges for the installation of Outward WATS or 800 Service Access Line apply as specified in Section G7. of the Access Services Tariff.

A19.4.6 MINIMUM SERVICE PERIOD

The minimum service period for WATS is one day.

A19.4.7 CHARGES FOR FRACTIONAL PERIODS

See Section G2.4 of the Access Services Tariff.

A19.4.8 ALLOWANCE FOR INTERRUPTIONS

See Section G2.4 of the Access Services Tariff.

A100. OBSOLETE SERVICE OFFERINGS

A100.21 GROUP EMERGENCY ALERTING AND DISPATCHING SYSTEMS

A100.21.1 RATES AND CHARGES

A. Ten Line system - (For use within a single dial central office, having a maximum capacity of 10 call receiving individual lines.)

	Installation Charge	Monthly Rate
(a) Common Equipment, including one connector termination circuit	-	$56.00
(b) Connector termination circuit for one additional central office line	$14.50	6.50
(c) Subsequent addition or change of called lines	Service Charges specified in Section A4 are applicable.	

A100.64 CENTREX SERVICE

A100.64.6 RATES

B. Station Lines

1. Centrex I

	Schedule 1**		Schedule 2***	
	Instal-lation Charge	Monthly Rate*	Instal-lation Charge	Monthly Rate*
(a) Main Centrex Station Number Access, at the location with the largest number of main stations. Both Exchange Access and Intercommunication charges following apply.				
- Exchange Access Charge				
- First 100 station lines, each	-	$8.11	-	$12.49
- Next 200 station lines, each	-	4.48	-	6.89
- Next 600 station lines, each	-	4.04	-	6.21
- Over 900 station lines, each	-	4.04	-	6.21

	Schedule 1**		Schedule 2***	
	Installation Charge	Monthly Rate*	Installation Charge	Monthly Rate*
- Intercommunication Charge				
- First 100 station lines, each	-	$24.00	-	$24.00
- Next 200 station lines, each	-	12.00	-	12.00
- Next 600 station lines, each	-	11.00	-	11.00
- Over 900 station lines, each	-	9.00	-	9.00
(b) Main Centrex Station Number Access, at each additional location. Both Exchange Access and Intercommunication charges following apply.				
- Exchange Access Charge				
- First 100 station lines, each	-	5.69	-	8.76
- Next 200 station lines, each	-	5.69	-	8.76
- Next 600 station lines, each	-	4.04	-	6.21
- Over 900 station lines, each	-	4.04	-	6.21
- Intercommunication Charge				
- First 100 station lines, each	-	17.00	-	17.00
- Next 200 station lines, each	-	16.00	-	16.00
- Next 600 station lines, each	-	11.00	-	11.00
- Over 900 station lines, each	-	9.00	-	9.00

*In addition, Service Charges (including Complex Premises Work Charges) as specified in Section A4 apply, if appropriate. Customer-provided facilities and equipment may be required at the customer's premises.

** Schedule 1 - Applies to all exchanges other than in the Louisville Local Calling Area.

***Schedule 2 - Applies to all exchanges in the Louisville Local Calling Area.

3. Centrex I and II

	Schedule 1**		Schedule 2***	
	Installation Charge	Monthly Rate*	Installation Charge	Monthly Rate*
(a) Interior Station Lines, each				
- Centrex I				
- at the principal location	-	$ 7.40	-	$ 7.40
- at secondary locations	-	11.00	-	11.00

A100. OBSOLETE SERVICE OFFERINGS

	Schedule 1** Installation Charge	Schedule 1** Monthly Rate*	Schedule 2*** Installation Charge	Schedule 2*** Monthly Rate*
- Centrex II				
- at the principal location	-	$ 8.70	-	$ 8.70
- at secondary locations	-	12.50	-	12.50

*In addition, Service Charges (including Complex Premises Work Charges) as specified in Section A4 apply, if appropriate. Customer-provided facilities and equipment may be required at the customer's premises.

** Schedule 1 - Applies to all exchanges other than in the Louisville Local Calling Area.

***Schedule 2 - Applies to all exchanges in the Louisville Local Calling Area.

A100.64.8 OPTIONAL FEATURES - NUMBER 1 ESS CENTRAL OFFICE

A100.64.8.2 CENTREX STATION USER OPTIONAL FEATURES

(a) Call Forwarding - Variable*

(b) Call Forwarding - Variable, Outside*

(k) Call Pickup
per line
per call pickup group

(l) Preferential Hunt
per group
per list

*When Call Forwarding - Variable or Call Forwarding - Variable, Outside is provided on a system, all station lines equipped must have the same arrangement. A mixture of Call Forwarding - Variable and Call Forwarding- Variable, Outside is not allowed within a single customer system.

A100. OBSOLETE SERVICE OFFERINGS

A100.72 GROUP EMERGENCY ALERTING AND DISPATCHING SYSTEMS

A100.72.2 RATES AND CHARGES

A. Small System - Limited to one dial central office area with a maximum capacity of 63 called lines.

	Monthly Rate
(a) Common Equipment - either single or multigroup basis, maximum of three groups as follows: (1) two or three groups of 21 alerting lines or less per group; (2) two groups with a maximum of 42 alerting lines in one group and 21 alerting lines in the second group	$195.00
(b) Supplementary Items	
- Line equipment each called line	5.20

(c) Line Connection and Rewire Charges	Nonrecurring Charge
- Connection or substitution of subscriber lines subsequent to initial installation	Appropriate Service Charges (including Complex Premises Work Charges) in Section A4 are applicable.

B. Twenty-Four Line System - (For use within a single dial central office and having a maximum capacity of twenty-four call receiving individual exchange lines)

A100. OBSOLETE SERVICE OFFERINGS

	Monthly Rate
(a) Common Equipment for fifteen called lines including two connector terminations	$300.00
(b) Common Equipment for additional called lines up to a maximum of twenty-four called lines, each group of three	37.00
(c) Subsequent addition or change of called line	Appropriate Service Charges (including Complex Premises Work Charges) in Section A4 are applicable.

A100.91 CUSTOM CALLING SERVICES

A100.91.2 RATES AND CHARGES

	Monthly Rate Per C.O. Line Equipped
	Residence
Call Waiting with Speed Calling (30-code)	$5.50
Call Waiting with Call Forwarding and Speed Calling (30-Code)	7.25
All features including Speed Calling (30-code)	9.00

A100. OBSOLETE SERVICE OFFERINGS

A100.93 JACKS

A100.93.2 RATES AND CHARGES

B. Nonstandard Voice Jacks - Type C Obsolescence

1. Nonweatherproof

	Nonrecurring Charge NI**	Nonrecurring Charge Non-NI
(a) Three- or four-conductor, flush, each	$21.25	$11.75
(b) Three- or four-conductor, nonflush, each	15.25	4.95
2. Weatherproof		
(a) Three- or four-conductor, each	18.75	8.80

**Appropriate jack charge when connector used as Network Interface (NI).

CUSTOMER PREMISES PRODUCTS TARIFF

PREFACE

Effective January 1, 1983, pursuant to the conditions imposed by the FCC's orders in Docket 20828, customer premises equipment, as defined by the FCC, offered within this Customer Premises Products Tariff shall be provided by the Company for use with new or existing service only so long as such equipment is available from Company inventory acquired prior to January 1, 1983, except as otherwise permitted by the FCC. Also pursuant to the order, effective January 1, 1983, the Company will no longer provide enhanced services.

Until January 1, 1984 the Company shall continue to provide maintenance for Company provided customer premises products subject to the availability of replacement parts and equipment.

The use and provision of Company provided customer premises equipment remains subject to the regulations of filed tariffs.

Effective January 1, 1984, pursuant to conditions imposed by the Court's Opinion of August 11, 1982, and the terms of the Modification of Final Judgement of August 24, 1982, in the case of United States v. AT&T Co., 522 F. Supp. 131 (D.D.C. 1982), embedded customer premises equipment shall no longer be provided by South Central Bell.

T106. OBSOLETE SPECIAL SYSTEMS AND SERVICES

T106.4 Centrex CU Service

(Obsolete - Type D; Not available for new installations, moves, transfers of service or replacements. Available for additions to existing systems only at the rates shown herein so long as the dial switching equipment used to provide the service does not require replacement. Effective 12/31/83 Centrex CU Service will be withdrawn from this tariff. PBX type premises switching equipment existing at that time which furnishes Centrex CU Service will be converted to standard PBX tariff rates as shown in Section T103. In addition, appropriate tariff charges will apply for central office lines or trunks, Direct-Inward-Dialing and Identified-Outward-Dialing, as well as mileage, channel, and zone charges as indicated in the General Subscriber Services and Private Line Service Tariffs.)

PRIVATE LINE SERVICE TARIFF

C3. CHANNELS

C3.2 METHODS OF APPLYING RATES

C3.2.8 CHANNELS BETWEEN BUILDINGS ON THE SAME PREMISES

When the channel facility (wire or cable) placed is of sufficient length and/or the in-plant cost of the circuit (wire or cable) facility renders the monthly rate inadequate, the customer may be required to pay a monthly rate of 3-1/4 percent of the in-plant cost of the facilities placed.

C3.2.11 NONRECURRING CHARGES

(I) Schedule of charges

	Channel Associated With		Charges for providing channels without central office connections or for moving a local channel in the same building
	Interexchange Service	Intraexchange Service	
SERVICE ORDERING CHARGE PER CUSTOMER REQUEST			
Series 1000			
Intraexchange			
Type 1101, 1102, 1180, 1182	-	$ 45.50	$ 22.00
Type 1150, 1151	-	200.00	87.00
Interexchange			
All Types	$255.00	-	120.00
Series 2000			
Intraexchange			
All Types	-	150.00	87.00
Interexchange			
Type 2050, 2052, 2072	255.00	-	120.00
All other Types	200.00	-	120.00

PRIVATE LINE SERVICE TARIFF

C3. CHANNELS

	Channel Associated With: Interexchange Service	Channel Associated With: Intraexchange Service	Charges for providing channels without central office connections or for moving a local channel in the same building
Series 6000			
Intraexchange			
Type 6160, 6170	-	$ 45.50	$ 87.00
All other Types	-	120.00	87.00
Interexchange			
All Types	$255.00	-	120.00
RECORD ORDERING CHARGE			
Type 1101, 1102, 1180, 1182,	-	19.50	-
All other Series and Types	29.00	29.00	-
VISIT CHARGE PER PREMISES			
All Series and Types	18.00	18.00	18.00
CHANNEL CONNECTION CHARGE PER LOCAL CHANNEL			
Series 1000			
Intraexchange			
Type 1101, 1102, 1180, 1182	-	16.50	-
All Other Types	-	73.00	-
Interexchange			
All Types	170.00	-	-
Series 2000			
Intraexchange			
Type 2153, 2171	-	59.00	-
All Other Types	-	105.00	-
Interexchange			
Type 2054	440.00	-	-
Type 2058	275.00	-	-
All Other Types	240.00	-	-

C3. CHANNELS

	Channel Associated With: Interexchange Service	Channel Associated With: Intraexchange Service	Charges for providing channels without central office connections or for moving a local channel in the same building
Series 6000			
Intraexchange Channel Not Connected to a Bridging Amplifier			
Type 6160	-	$ 49.50	-
Type 6170	-	65.00	-
Type 6161, 6162	-	100.00	-
Type 6171, 6172	-	130.00	-
Type 6163	-	165.00	-
Series 6000 Intraexchange Channel Connected To a Bridging Amplifier			
Type 6160, 6170	-	65.00	-
Type 6171, 6172	-	130.00	-
Type 6161, 6162	-	180.00	-
Type 6163	-	230.00	-
Interexchange Channel Not Connected To A Bridging Amplifier			
Type 6064	$165.00	-	-
Type 6065, 6066	355.00	-	-
Channel Connected To a Bridging Amplifier			
Type 6064	280.00	-	-
Type 6065, 6066	590.00	-	-

PRIVATE LINE SERVICE TARIFF

C3. CHANNELS

	Channel Associated With: Interexchange Service	Channel Associated With: Intraexchange Service	Charges for providing channels without central office connections or for moving a local channel in the same building
PREMISES WIRING CHARGE PER LOCATION			
All Series and Types	**	**	**

**See the General Subscriber Services Tariff Section A4 for time and materials charges.

C3.2.14 JOINT USE ARRANGEMENT

(A) Joint use arrangements are offered on those interexchange private line services furnished for 24 hours per day, seven days per week which utilize Types 2050, 2052 to 2056, 2058, 1000, 1001, 1050 and 1051 except: . . .

C3.3 DESCRIPTION OF SERVICE AND RATES

C3.3.1 SPECIAL SIGNALING SERVICE - SERIES 1000

(D) Rates - Intraexchange Type 1101 and 1102

	Monthly Rate
(1) Local Channel, each,	
Type 1101	$ 8.10
Type 1102	8.10
(2) Interoffice Channel including the channel terminals for use with Type 1101 and 1102 Per channel 1st 1/4 mile	4.30
each additional 1/4 mile or fraction thereof	3.30

C3. CHANNELS

		Monthly Rate
(3)	Each additional point of termination of a local channel in a different building on the same premises, per 1/4 mile or fraction thereof	$ 2.00
	Minimum charge	
	Type 1101	4.00
	Type 1102	4.00
(4)	Each additional point of termination of a local channel in the same building or an additional drop wire from the same aerial terminal that serves the local channel (Two Series Leg Service)	
	Type 1101	4.00
	Type 1102	4.00
(5)	Two point service different buildings, same premises, per 1/4 mile or fraction thereof	2.00
	Minimum charge	
	Type 1101	4.00
	Type 1102	4.00
(6)	Two point service, same building	
	Type 1101	4.00
	Type 1102	4.00
(7)	Each additional point of termination in the same building for two point service in (5) or (6) preceding	
	Type 1101	4.00
	Type 1102	4.00

		Monthly Rate
(E)	Rates Interexchange (Type 1002)	
(1)	Interexchange Channel including the Channel Terminals, Per Channel	
	Type 1002 1st mile	$ 49.00
	Each additional mile or fraction thereof	1.20
(2)	Interoffice Channel including the Channel terminals for use with the interexchange channel listed in (1) above, per channel 1st 1/4 mile	11.50
	each additional 1/4 mile or fraction thereof	1.05
(3)	Local Channel, each,	
	Type 1002	26.50
(4)	Additional Point of Termination, different building same premises,	
	Each 1/4 mile or fraction thereof	2.00
	Minimum Charge	4.00
(5)	Additional point of termination in the same building	4.00

	Monthly Rate
(f) LOCAL AREA DATA CHANNELS	
(5) Rates - Intraexchange	
Local Channel, Each	
Type 1180	$ 8.10
Type 1182	16.25
Two point service different buildings same premises, per 1/4 mile or fraction thereof	2.00
Minimum charge	4.00
Two point service same building	4.00

C3.3.2 SUB VOICE GRADE SERVICE - SERIES 1000

(D) Parameters and Specifications for Sub Voice Grade Local Channels used with Customer-Provided Station Equipment (CPE) is discussed in C3.3.2(C) above.

Channel Signals

Local Channels used with CPE - as specified in (C) above. Note that the specifications of channel signals refer to the requirement of the total service offering and not the individual local channel.

Channel Distortion

Local Channels used with CPE - as specified in (C) above. Note that the specifications for channel distortion refer to the requirement of the total service offering and not the individual local channel.

PRIVATE LINE SERVICE TARIFF

C3. CHANNELS

(F) Rates - Intraexchange

	MONTHLY RATE Half Duplex	Full Duplex
(1) Local channel, each		
Type 1150	$21.75	$24.00
Type 1151	28.00	30.50
(2) Interoffice Channel including the Channel terminals for use with the local channels listed in (1) above, Per channel		
1st 1/4 mile	22.75	22.75
Each additional 1/4 mile of fraction thereof	.95	.95
(3) Each additional point of termination of a local channel in a different building on the same premises, per 1/4 mile or fraction thereof	2.00	2.00
Minimum Charge		
Type 1150	4.00	4.00
Type 1151	4.00	4.00
(4) Each additional point of termination of a local channel in the same building		
Type 1150	4.00	4.00
Type 1151	4.00	4.00

	MONTHLY RATE Half Duplex	Full Duplex
(5) Two-point service, different buildings, same premises per 1/4 mile or fraction thereof	$2.00	$2.00
Minimum Charge		
Type 1150	4.00	4.00
Type 1151	4.00	4.00
(6) Two-point service, same building		
Type 1150	4.00	4.00
Type 1151	4.00	4.00
(7) Each additional point of termination in same building for two-point service in (5) and (6) preceding		
Type 1150	4.00	4.00
Type 1151	4.00	4.00

(8) A station arrangement is required for stations on certain types of 1000 Series channels. Monthly charges as set forth below apply for each station:

	Installation Charge	Monthly Rate
Type 1151 Where all stations are located on same premises, each station	$39.00	$10.50

PRIVATE LINE SERVICE TARIFF

C3. CHANNELS

	Installation Charge	Monthly Rate
Type 1151 Where any stations of a system are located on different premises, non-wire center connected, each station	$ 39.00	$ 16.00

(G) Rates - Interexchange

	MONTHLY RATE Half Duplex	Full Duplex
(1) Interexchange Channel including the Channel Terminals, Per Channel		
Type 1050 and 1051 1st mile	$49.00	$49.00
Each additional mile or fraction thereof		
Type 1050	1.20	1.20
Type 1051	1.55	1.55
(2) Interoffice Channel including the Channel terminals for use with the interexchange channels listed in (1) above, Per Channel 1st 1/4 mile	11.50	11.50
Each additional 1/4 mile or fraction thereof	1.05	1.05
(3) Local Channel, each,		
Type 1050	25.50	28.00
Type 1051	29.00	32.00

	MONTHLY RATE Half Duplex	Full Duplex
(4) Each additional point of termination of a local channel, different building on the same premises, per 1/4 mile or fraction thereof	$ 2.00	$ 2.00
Minimum Charge		
Type 1050	4.00	4.00
Type 1051	4.00	4.00
(5) Each additional point of termination of a local channel in same building		
Type 1050	4.00	4.00
Type 1051	4.00	4.00

C3.3.3 VOICE GRADE SERVICE - SERIES 2000

(B) The following Series 2000 local channels are furnished for termination at a premises for connection to customer-provided terminal equipment and systems. They are furnished for use as the customer elects for two-point private line service and operate within certain technical specifications. Multipoint service provided with certain type channels as stated following in C3.3.(D).

(E) Rates - Intraexchange

	Monthly Rate
(1) Local Channel, Each,	
Type 2150	$43.50
Type 2152	43.50
Type 2153	9.90
(2) Interoffice Channel including the Channel terminals for use with Series 2000 intraexchange local channels, Per Channel 1st 1/4 mile	26.50

PRIVATE LINE SERVICE TARIFF

C3. CHANNELS

		Monthly Rate
	Each additional 1/4 mile or fraction thereof	$ .95
(3)	Each Additional point of termination of a local channel in a different building on the same premises,	
	Per 1/4 mile or fraction thereof	2.00
	Minimum Charge	4.00
(4)	Each additional point of termination of a local channel in the same building	4.00
(5)	Two-point service different buildings same premises, per 1/4 mile or fraction thereof	
	Half Duplex	2.00
	Duplex	2.00
	Minimum Charge	4.00
(6)	Two-point service, same building	
	Half Duplex	4.00
	Duplex	4.00
	Each Additional point of termination in the same building for two-point service in (5) or (6) preceding	
	Half Duplex	2.00
	Duplex	2.00

	Monthly Rate
(7) Different building, different premises, non wire center connected, per channel	
Half Duplex Each 1/4 mile	$ 2.00
Minimum Charge	8.00
Full Duplex Each 1/4 mile	4.00
Minimum Charge	16.00
(F) Rates - Interexchange	
(1) Interexchange Channel including the Channel terminals for use with all series 2000 channels, Per Channel	
1st mile	57.00
each additional mile or fraction thereof	2.75
(2) Interoffice Channel including the Channel terminals for use with all interexchange channels associated with Series 2000 service, Per Channel 1st 1/4 mile	12.50
Each additional 1/4 mile or fraction thereof	.55

	Monthly Rate
(3) Local Channel, each,	
Type 2050	$42.50
Type 2052	42.50
Type 2053	18.00
Type 2054	42.50
Type 2055	29.50
Type 2056	23.25
Type 2058	24.50
(4) Each additional point of termination of a local channel in a different building on the same premises, per 1/4 mile or fraction thereof	2.00
Minimum Charge	4.00
(5) Each additional point of termination of a local channel in the same building	
Minimum Charge	4.00
(G) DATAPHONE Select-A-Station Channels and Telemetry/Alarm Bridging Service (TABS) Channels	
(2) Rates	
<u>Intraexchange</u>	
Local Channel, each	
Type 2171	9.90
Type 2172	43.50
<u>Interexchange</u>	
Local Channel, each	
Type 2071	18.00
Type 2072	42.50

C3.3.5 CUSTOMER OPERATING CENTER SERVICE

(K) Monthly Rates

(1) Per complement of cable pairs

DISTANCE IN 1/4 MILE OR FRACTION THEREOF	COC SERVICE CABLE SIZE							
	50 Pairs	100 Pairs	200 Pairs	300 Pairs	400 Pairs	600 Pairs	900 Pairs	1200 Pairs
1/4 Mile	0	0	0	0	0	0	0	0
1/2 Mile	$220	$225	$ 280	$ 330	$ 390	$ 525	$ 680	$ 890
3/4 Mile	465	475	595	695	820	1100	1425	1825
4/4 Mile	730	750	970	1140	1340	1800	2340	2990
5/4 Mile	940	970	1205	1415	1675	2245	2905	3720

(2) Per Local Channel Activated

LOCAL CHANNEL PROVIDED WITHIN A CABLE WHOSE AIRLINE DISTANCE IS	TYPE OF LOCAL CHANNEL ACTIVATED						
	1101	1102	2150 2172	2152	2153 2171	2106	2107
1/4 Mile	$2.00	$2.00	$13.75	$29.50	$2.00	*	●
1/2 Mile	2.00	2.00	14.75	30.50	2.00	●	*
3/4 Mile	2.00	2.00	15.25	31.50	2.00	●	*
4/4 Mile	2.00	2.00	16.25	32.50	2.55	*	*
5/4 Mile	2.00	2.00	17.50	33.50	4.30	*	●

C3.3.8 CHANNELS FOR AUDIO AND WIRED MUSIC MULTIPOINT DISTRIBUTION - SERIES 6000

(F) Audio Channels

(1) Types and Description

(j) Rates and Charges Intraexchange

	Monthly Rate	
	Channels Not Connected to A Bridging Amplifier	Channels Connected to A Bridging Amplifier
Local Channels, Each		
Type 6160	$ 9.50	$ 8.10
Type 6161	28.50	56.00
Type 6162	29.50	57.00
Type 6163	40.50	-

	Monthly Rate		
	Channels Not Connected to a Bridging Amplifier	Channels Connected to one Bridging Amplifier	Channels Connecting Bridging Amplifiers
Interoffice channels including the channel terminals, per 1/4 mile or fraction thereof, per channel			
First 1/4 Mile			
Type 6160	$23.50	$23.75	$18.50
Type 6161	42.00	34.00	21.75
Type 6162	42.50	34.00	22.00
Type 6163	73.00	-	-

	Monthly Rate
Each Additional 1/4 Mile	
Type 6160	$ .95
Type 6161	1.40
Type 6162	1.65
Type 6163	3.25

(k) Rates and Charges - Interexchange

	Monthly Rate	
	Channels Not Connected to a Bridging Amplifier	Channels Connected to Bridging Amplifier(s)
Two-Point Interexchange Audio, Type 6064, 6065 and 6066		
Local Channels, each		
Type 6064	$18.00	$25.50
Type 6065	47.50	40.50
Type 6066	49.00	48.00

	Monthly Rate
Interoffice channels including the channel terminals, per 1/4 mile or fraction thereof, per channel	
First 1/4 Mile	
Type 6064	$11.50
Type 6065	21.75
Type 6066	32.50
Each Additional 1/4 Mile	
Type 6064	1.05
Type 6065	1.40
Type 6066	1.55

Interexchange channels including the channel terminals, per mile or fraction thereof, per channel

C3. CHANNELS

	Monthly Rate: Channels Not Connected to a Bridging Amplifier	Monthly Rate: Channels Connected to Bridging Amplifier(s)
First Mile		
Type 6064	$ 58.00	$ 74.00
Type 6065	115.00	140.00
Type 6066	165.00	195.00
Each Additional Mile		
Type 6064	2.75	
Type 6065	4.30	
Type 6066	6.20	

(G) Wired Music Multipoint Distribution Channels

(1) Types and Description

		Monthly Rate
(a)	Type 6170	$ 8.10
(b)	Type 6171	18.25
(c)	Type 6172	18.50

Distribution amplifiers and associated bridging arrangements (maximum capacity 299 channels)

(a)	initial 30 channel arrangement	56.00
(b)	each additional 30 channel arrangement	26.50

Distribution amplifiers, per central office

		Installation Charge	Monthly Rate
(a)	10 lines	$120.00	$28.00
(b)	12 to 48 lines	140.00	30.00
(c)	50 to 98 lines	150.00	32.00
(d)	100 to 250 lines	165.00	34.00
(e)	Spare Amplifiers, each	49.00	11.00

C3.3.10 CONDITIONING OPTIONS - AVAILABLE FOR TYPES 2050, 2052, 2150 AND 2152

(B) Rates and Charges

(1) When, at the request of the customer, a channel is conditioned in accordance with the specifications in (A) preceding, conditioning charges apply as set forth below.

	Installation Charge	Monthly Rate
Type C1		
Intraexchange		
- On a two point channel - each station	$ 32.00	$ 10.50
- On a multi-point channel - each station	32.00	20.00
Interexchange		
- on a two-point channel not arranged for switching		
- for the first station in an exchange	32.00	20.00
- on a multi-point channel		
- for the first station in an exchange	32.00	34.00
- for each additional station the same channel and in the same exchange as the first station	32.00	10.50
Type C2		
Interexchange and Intraexchange		
- for the first station in an exchange		
- On a two-point channel not arranged for switching	40.00	59.00

	Nonrecurring Charge	Monthly Rate
On a multi-point channel	$ 80.00	$ 76.00
For each additional station on the same channel and in the same exchange as the first station	16.00	32.00
<u>Type C4</u>		
Interexchange and Intraexchange		
For the first station in an exchange		
On a two-point channel not arranged for switching	80.00	64.00
<u>Type D1</u>		
- on a two-point channel not arranged for switching		
- per channel	245.00	24.50

C3.3.11 ALTERNATE USE ARRANGEMENTS

(A) The Company . . .

(2) Series 2000 Channels

	Alternate Use	Alternate Use Charges
(1)	Voice private line service used alternately as channel in connection with Foreign Exchange Service. Foreign exchange operation available only between two points on the private line service.	Arrangement to switch from private line to foreign exchange service. Manual Operation At each of the two rate centers: Monthly Rate $18.25 Installation Charge 32.00

Alternate Use	Alternate Use Charges
Voice and Data	Where Company Data Sets are utilized: See Paragraph C4.3.1 or Where Customer-Provided Data Sets are utilized: interface between 4-wire voice-band private line and customer-provided data modem for alternate voice-data capability. Monthly Charge $ 9.50 Installation Charge 40.00

C3.3.12 MULTIPOINT SERVICE

(B) Rates and Charges

(1) Charges are applicable. . .

(a) Series 1000

Bridging arrangement for use with interexchange service

Per bridged interexchange channel, interoffice channel or local channel

	Installation Charge	Monthly Rate
Type 1002	$34.50	$49.00
Type 1050	34.50	49.00
Type 1051	34.50	53.00

Bridging arrangement for use with intraexchange service

	Installation Charge	Monthly Rate
Per bridged inter-office channel or local channel		
Type 1150 and 1151	$ 34.50	$23.25
(b) Series 2000		
Bridging arrangement for use with inter-exchange or intra-exchange service		
Per bridged interexchange channel, interoffice channel or local channel		
Type 2053 and 2153	34.50	18.50
Type 2052, 2071, 2152 and 2171	34.50	9.40
Type 2050 and 2150	34.50	8.10

C3.3.13 TELEMETRY/ALARM BRIDGING SERVICE

(D) Rates and Charges

(1) Split Band, Active Bridging

	Installation Charge	Monthly Rate
(a) Common Equipment, per Central Office		
i) First bridging shelf capacity of 48 2-wire connections	2305.00	88.00
ii) Additional bridging shelf, capacity of 56 2-wire connections	2140	65.00
(b) Channel Connections, per channel connected		

PRIVATE LINE SERVICE TARIFF

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	Installation Charge	Monthly Rate
i) Remote station channel connection, each	$ 17.50	$ 3.25
ii) Mid-Link Channel Connection, each		
- First channel	125.00	27.00
- Subsequent channels	40.00	4.50
(2) Passive Bridging		
Common Equipment, per Central office		
Each bridge, capacity of 10 2-wire connections	190.00	16.25
(3) Summation, Active Bridging		
Common Equipment, per Central Office		
First or additional bridging shelves, capacity of 10 2-wire connections, each	380.00	22.50

C4. EQUIPMENT

C4.1 GENERAL

C4.1.7 MAINTENANCE OF SERVICE CHARGE

	Nonrecurring Charge
Maintenance visit charge, as specified in Paragraph C2.6.14 preceding, each visit	$130.00

C4.2 VOICE COMMUNICATION EQUIPMENT

C.4.2.1 SIGNALING

(A) Associated With INTRAEXCHANGE Channels

(1) Signaling arrangements. . .

Signaling Options	For Use With Local Channel Types	Installation Charge	Monthly Rate
Manual Ringdown	2153	$ 6.90	$11.50
Automatic Ringdown	2153	20.75	4.70
E & M Signaling	2153	9.60	12.00
DC Control Circuit - One-Way Signaling	2153	6.20	1.75
Loop Signaling	2153	8.30	.45

(2) Signaling requiring on-premises signaling equipment

Private Line Terminal Equipment: For use where the line terminates in a regular common battery telephone: Lines equipped for ringdown signaling, per termination	$3.65

C4. EQUIPMENT

	Nonrecurring Charge	Monthly Rate
Lines for two-way automatic or one-way automatic and one-way ringdown, per termination		$4.15 3.65

(B) Associated With INTEREXCHANGE Channels

(1) Signaling arrangements. . .

Signaling Options	For Use With Local Channel Types	Installation Charge	Monthly Rate
Manual Ringdown	2053	$ 76.00	$21.25
Automatic Ringdown	2053	20.75	16.25
E & M	2053,	105.00	24.00
	2054, 2055 & 2056	20.75	17.50
	2058	93.00	21.00
Loop Signaling	2058	20.75	12.00
DC Control Circuit - One-Way Signaling	2053	110.00	13.00

(2) Signaling Arrangements. . .

	Installation Charge	Monthly Rate
Signaling Arrangement Each, per circuit		
TYPE A	$74.00	$40.00
TYPE B	74.00	32.50
TYPE C	74.00	26.50

C4. EQUIPMENT

	Installation Charge	Monthly Rate
(C) Dial Selector Signaling and Switching		
(2) Key Selector Signaling (Sending)		
For Signaling individual stations, or predetermined groups of stations by means of a signaling key per station equipped to send signals	$11.25	$2.45
Maximum installation charge of $10.25 applies for all of the above signaling equipment installed at one time on a premises.		
(3) Key Selector Signaling (Receiving)		
Per Station, or pre-determined group of stations within an exchange, equipped to receive a given signal		10.75

C4.2.3 SWITCHING ARRANGEMENTS

	Monthly Rate
(A) Interexchange Channel Switching	
Per private line arranged (In any combination not to exceed 21 lines)	$12.00

C4. EQUIPMENT

C4.3 DATA COMMUNICATING EQUIPMENT

C4.3.3 DATAPHONE SELECT-A-STATION SERVICE

(F) Rates

	Installation Charge	Monthly Rate
Primary Data Station Selector (PDSS) Sequential Arrangement		
- Common Equipment	$190.00	$105.00
Addressable Arrangement		
- Common Equipment	190.00	150.00
Channel Connections		
- Per 2-wire channel connected	31.50	3.75
- Per 4-wire channel connected	31.50	14.50
Secondary Data Station Selector (SDSS) Sequential Arrangement		
- Common Equipment	190.00	99.00
Addressable Arrangement		
- Common Equipment	190.00	150.00
Channel Connections		
- Per 2-wire channel connected	31.50	3.75
- Per 4-wire channel connected	31.50	14.50

C5. OBSOLETE SERVICE OFFERINGS

C5.1 VOICE COMMUNICATING EQUIPMENT

C5.1.1 SIGNALING ARRANGEMENT REQUIRING ON-PREMISES SIGNALING EQUIPMENT

	Installation Charge	Monthly Rate
"Central Office type" signaling,		
Common equipment, for a maximum of 13 lines	$34.00	$14.00
per line equipped	8.80	9.40

C5.4 CHANNELS

C5.4.1 SERIES 6000

(A) The charges for a channel wholly within a building or between buildings on the same premises are $.45 per month for 500 feet or fraction thereof, route measurement.

DATAPHONE DIGITAL SERVICE TARIFF

E3. RATES AND CHARGES

E3.2 DATA SERVICE UNIT

A Data Service unit. . .

	Nonrecurring Charge	Monthly Rate
2.4 Kbps DSU	$ 31.50	$ 25.00
4.8 Kbps DSU	31.50	25.00
9.6 Kbps DSU	31.50	25.00
56.0 Kbps DSU	31.50	31.50

E3.3 DIGITAL ACCESS LINE

Type 1

2.4 Kbps	140.00	125.00
4.8 Kbps	140.00	150.00
9.6 Kbps	140.00	225.00
56.0 Kbps	190.00	375.00

Type 2

2.4 Kbps	140.00	150.00
4.8 Kbps	140.00	175.00
9.6 Kbps	140.00	250.00
56.0 Kbps	190.00	425.00

	Monthly Rate Per Airline Mile
2.4 Kbps	$2.20
4.8 Kbps	2.50
9.6 Kbps	3.15
56.0 Kbps	8.80

DATAPHONE DIGITAL SERVICE TARIFF

E3. RATES AND CHARGES

E3.4 MULTI-STATION ARRANGEMENT

	Monthly Rate
Multi-Station Arrangement, per station	
2.4 Kbps	$ 18.75
4.8 Kbps	18.75
9.6 Kbps	18.75
56.0 Kbps	18.75

E3.5 ANALOG DIGITAL ADAPTOR

2.4 Kbps	205.00
4.8 Kbps	265.00
9.6 Kbps	415.00

E3.12 56 KBPS MULTIPLEXOR

	Nonrecurring Charge	Monthly Rate
- Basic arrangement with capacity to create up to 11 data bit streams	$500.00	$300.00
- Incremental arrangement with capacity to create additional data bit streams up to the maximum of 21	155.00	130.00
- Per data bit stream created	-	39.00

Rearrangement of a multiplexor to change the operating speed of the data bit streams or to create additional data bit streams which are subsequent to the initial installation of the basis or incremental arrangement will be subject to a nonrecurring charge of $115.00 per rearrangement.

E3.16 CHANNELS BETWEEN DIGITAL CITIES

	Fixed Monthly Rate
2.4 Kbps	$125.00
4.8 Kbps	315.00
9.6 Kbps	440.00
56.0 Kbps	625.00

	Monthly Per Airline Mile
2.4 Kbps	$ .30
4.8 Kbps	.65
9.6 Kbps	.95
56.0 Kbps	5.60

APPENDIX B

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE NO. 8847 DATED JANUARY 18, 1984

PART B

APPENDIX 1

Staff Information Requests Concerning Divestiture Adjustments and South Central Bell Responses

Item 16(a) of this Request asked for "detailed workpapers showing calculations supporting all accounting, pro forma, end of period, and proposed rate adjustments . . . and a complete detailed narrative explanation of each adjustment . . ." The Question further requested "all components used in each calculation including the methodology employed and all assumptions . . . "

South Central Bell's response included information concerning all of the adjustments in Mr. Ballard's Exhibits. The section dealing with divestiture consisted of twenty pages. Of these, the first three, which constituted the only narrative portion of the response, were an almost identical reproduction of the discussion of these adjustments included in pages 16 to 18 of Mr. Ballard's testimony. The remaining pages addressed each line item in Mr. Ballard's Exhibit 3, Part 2, purporting to detail the divestiture adjustments to each. In the case of the expenses included in the category adjusted through forecast data - Maintenance, Traffic, Commercial and Marketing, Accounting, and General Expense - these "detailed workpapers" provided nothing more than pre-divestiture amounts, a "budget ratio" and post-divestiture amounts, with additional minor costs identified as allocated to the Regional Holding Company.

The pre-divestiture and divested amounts in these papers are identical to the amounts listed in columns P and Q of Mr. Ballard's Exhibit 3, Part 2. Since the newly introduced "budget ratios" can be easily derived by dividing the post-divestiture amounts by the pre-divestiture amounts, these ratios provide no greater insight into the adjustment process. In other words, with the exception of two line items identifying RHC expenses, South Central Bell's response to this request for comprehensive, detailed explanations of its adjustments provided absolutely no new information not already included in the Company's testimony.

2. Item 16(b) of the first Staff Request asked South Central Bell for information concerning its budget projections, which were apparently used in determining the divestiture adjustments to several expense groups. The request included "all underlying assumptions and calculations used to determine projected operations."

   In response, South Central Bell provided two documents: "Financial and Economic Planning Assumptions," and "Budget of Operations." The first of these is a fifteen page set of guidelines for making budget projections. Four pages discuss "Divestiture Planning Assumptions." These are simply broad guidelines for formulating a post-divestiture budget, with no specific accounts or figures included. The guidelines are apparently meant to apply to all BellSouth Companies; there is almost no reference to South Central Bell of Kentucky. The Company provided no further explanation of how these guidelines were employed in deriving its actual projected budget figures, nor was there any discussion of how the guidelines relate to test year adjustments for the effects of divestiture.

The Budget of Operations included in this response merely presents aggregate amounts for divested 1984 operations by revenue and expense categories, with no calculations or descriptions of the procedures followed in reaching these numbers. The totals for each major expense category are the same as those presented in Mr. Ballard's Exhibit 7. Where the figures are broken down at all, there is no reconciliation with the aggregate figures, nor any explanation of the nature and relationship of the disaggregated numbers. This document is simply a photocopy of a computer printout of projected budget data. Nothing in this document or anywhere in SCB's response to this request explains <u>how</u> these figures were calculated, what specific elements are included in the broad categories, or the relationship of these budget amounts to <u>pre-divestiture</u> amounts.

3. In the next Staff Information Request, submitted on August 12, 1983, Item 9 attempted again to elicit "all workpapers, methodology, data, assumptions and other information relating to the development of the

effect of divestiture . . . " The request further asked for "a description and explanation of the allocation procedures used to determine how much of each account will be retained . . ."

South Central Bell's response to this request consisted of twenty-seven pages. Five of these pages involved information concerning the divestiture of assets according to the Modified Final Judgment. One page provided a summary of the "Impact of Divestiture on Operating Accounts," which consisted of the amounts listed in columns P and Q of Mr. Ballard's Exhibit 3, Part 2, and a third column showing the difference between these two columns. The remainder of the response was an identical reproduction of the divestiture information which was provided in response to Item 16(a) of the first Staff request, described above.

4. Item 10 of this second Request asked for the number of employees to be retained by South Central Bell of Kentucky by FCC operating sub-account, and related wage and salary information. Although this Question was asked primarily with a view to quantifying the effects of SCB's proposed wage and salary changes, it is significant that in this context the Company was able to provide specific numbers of retained employees by function area. While the level of detail supplied in response to this question is less than Staff requested, it is nevertheless far greater than the Company provided in response to any of the questions directly addressing divestiture adjustments.

5. Staff's third Information Request was submitted on September 2, 1983, and included three more questions concerning the divestiture adjustments. Items 54 and 56 referred specifically to Mr. Ballard's testimony at pages 15-17, and asked for detail concerning his statements describing how divestiture adjustments were made to revenue and expense accounts. The questions precisely identified the type of documents sought. These included "[a]ll materials (forms, instruction sheets, directives . . .) used in the forecasting procedure . . . The names, titles and job descriptions of all employees who participated in the forecasting procedure . . . Copies of any and all raw data sheets related to the forecasting procedure."

South Central Bell responded to these requests by referring Staff to pages 16 and 17 of Mr. Ballard's testimony, and to SCB's response to Item 9 of Staff's Information Request submitted August 8, 1983. As described above, this response amounted to a reproduction of a section of SCB's response to Item 16(a) of Staff's first Information Request, which was no more than a reproduction and restatement of portions of Mr. Ballard's testimony and exhibits. Again, <u>no new information beyond the Company's original filing was provided</u>.

6. The final Staff Information Request was submitted on September 15, 1983, and included a number of specific questions aimed at focusing upon the details of the adjustment process. In particular, Items 1 through 6 sought a breakdown of SCB accounting data by FCC Functional

Subaccount (FSUB), including a request for the impact of divestiture upon the test year book amounts in each FSUB, as measured by "retention ratios."

South Central Bell's response to this request stated: "There was no attempt to break down the proformed data for divestiture by Functional Subaccount ("FSUB"). Such granularity was not considered necessary to arrive at the end result." What answers the Company did provide to other questions concerning FSUBs involved only test year amounts, or descriptions of functional areas.

7. Item 7 of this Information Request anticipated the possibility that detailed information by FSUB would not be provided, and therefore asked that if this information were "not available in the form requested (i.e., by FSUB), please provide a detailed description, including all associated workpapers and other documentation, of the forecasting process applied in developing retained expense levels . . . " This more broad question was essentially the fourth request by the Staff for the same background information on divestiture adjustments.

In this case, however, South Central Bell chose not to refer Staff back to information that was the same as its testimony. Instead, SCB provided the first real piece of explanation for its forecast-based expense adjustments. The response explained that SCB had developed two forecasted budgets, which it compared to arrive at "retained" expense levels. The two budgets were for projected 1984 operations including and excluding the effects of divestiture. The budget including divestiture effects is that which Mr. Ballard's Exhibit 7 summarizes, and which was presented in raw form in the Company's response to Staff's first Information Request, Item 16(b). To arrive at the "budget ratios" used in determining test year adjustments, SCB divided the divested budget figures by the undivested budget figures in each expense category. This ratio was multiplied by the test year actuals in Mr. Ballard's Exhibit 3, Part 2, column P, to arrive at the values in column Q. This explanation filled one paragraph. In addition, the Company provided an example for Traffic Expense, showing the budget totals in this category, their ratio, the test year amount, and the resulting retained amount. No other examples were provided, nor any further explanation of the budget development process, nor any detail of the Traffic Expense category beyond the aggregate total. What was <u>new</u> in this response was the description of the adjustment procedure, and the single line amount for the <u>undivested</u> 1984 Traffic Expense, since the divested amount, ratio, and other figures were already available in Mr. Ballard's original testimony and exhibits.

8. Item 8 further anticipated that the response to Item 7 would not explain all the adjustments and procedures, so this question focused on the particular category which was most questionable in SCB's original information, General Expense. It asked the Company to "[e]xplain in detail how the adjustment to General Expense in Mr. Ballard's Exhibit

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8. Item 8 further anticipated that the response to Item 7 would not explain all the adjustments and procedures, so this question focused on the particular category which was most questionable in SCB's original information, General Expense. It asked the Company to "[e]xplain in detail how the adjustment to General Expense in Mr. Ballard's Exhibit

3, Column Q was developed." The request further asked for specific information concerning the treatment of costs for Business Information Systems (BIS) in the development of this adjustment.

Rather than provide detailed budget projections and cost figures, South Central Bell answered this request by stating: "The process described in the response to Item 7 was also utilized in developing General Expense. In addition, an amount representing Regional Holding Company costs was added." The explanation of the treatment of BIS costs repeated that these costs were included in the budget projections "based upon an analysis of projects to be supported by South Central Bell in a post-divestiture environment. In other words, costs for items which will not be funded in 1984 are excluded from Exhibit 3."