

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ADJUSTMENT OF RATES OF AT&T)
COMMUNICATIONS OF THE SOUTH) CASE NO. 9889
CENTRAL STATES, INC.)

O R D E R

On April 10, 1987, AT&T Communications of the South Central States, Inc., ("AT&T") filed an application for adjustment of rates to become effective for service rendered on and after May 1, 1987. On April 30, 1987, the Commission suspended the proposed rates for 5 months and allowed the parties of record 2 weeks in which to file comments pertaining to the issues in this proceeding. The parties, the Attorney General of the Commonwealth of Kentucky and U.S. Sprint Communications Company, filed comments on May 14, 1987.

Since the issuance of the Commission's Order of April 30, 1987, additional intervenors, MCI Telecommunications Corporation and the Kentucky Long Distance Association, have become parties to this proceeding.

COMMENTARY

AT&T's proposed adjustment of rates presents three major points which are as follows:

1. The proposed rates result in an overall reduction of revenues which in turn reduces AT&T's earnings and return on investment.

2. The rate changes, producing an overall reduction, also consist of increases in certain rates based on the premise that rates should be priced at or above variable costs.

3. The proposed rates are AT&T's maximum allowable rates which AT&T requests authority to reduce or "flex downward" in the future, subject to certain conditions and 30 days notice of such reduction to the Commission.

The Commission believes some discussion of these issues is warranted at this time for the purpose of addressing the comments that have been filed herein. That discussion is as follows:

Revenue Reduction

The Commission is of the opinion that the reduction proposed by AT&T is reasonable and that it adequately reflects the Commission's general rate-making practices. The proposed reduction reflects a historical test year's operation and uses a year-end net investment rate base. The adjustments to the test year operations include typical normalization adjustments for end-of-period items, non-recurring expenses, and other items, as well as adjustments to reflect the effects of the Tax Reform Act of 1986. The overall revenue reduction greatly reduces AT&T's earnings and produces a rate of return more consistent with recent rates of return awarded by the Commission.

Changes in Specific Rates

Rates generally are reduced for Message Telecommunications Service ("MTS") with the exception of the lowest mileage band. The increase in the first band reflects AT&T's costs and the additional revenue is de minimis. The discounts for evening,

night, and weekend calls are being reduced, which means that the cost to customers of most calls in these periods will increase. Again, these changes are based on AT&T's costs.

The rates proposed for WATS and 800 service consist of decreases in low-usage bands and increases in the high bands. These rates are reflective of AT&T's cost of service and represent a collapsing of bands for usages in excess of 80 hours.

Maximum Allowable Rates

AT&T requests that it be able to reduce MTS rates by as much as 10 percent below its proposed maximum allowable rates. Any reduction would be across the board for all bands on a statewide basis but would not reduce any rate band below AT&T's variable cost of service.

SUMMARY

The Commission, having considered the evidence of record, is of the opinion and finds that AT&T's overall revenue reduction is reasonable and should be allowed to go into effect June 1, 1987. However, the Commission will continue the suspension of AT&T's proposed Tariff A, Section A5, Original Page 23, regarding maximum allowable rates for MTS service.

The Commission recognizes that the intervenors in this proceeding may wish to address further the issue of "rate flexing." If they desire, the intervenors may file comments or motions regarding specific issues applicable to "rate flexing;" otherwise, the Commission finds no reason that the rates proposed

by AT&T should not become AT&T's rates, subject to possible future adjustment pending the final outcome of this case.

IT IS THEREFORE ORDERED that:

1. The rates proposed by AT&T are approved as filed for service rendered on and after June 1, 1987, subject to further actions of the Commission.

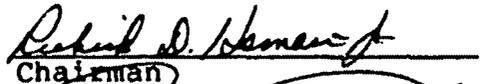
2. The suspension of AT&T's proposed Tariff A, Section A5, Original Page 23, shall remain in effect.

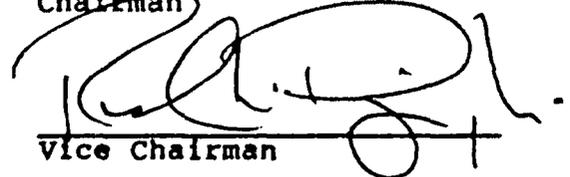
3. The intervenors shall file any comments or motions regarding further consideration of the "flexed rates" in this case by no later than June 22, 1987.

4. Within 30 days from the date of this Order AT&T shall file with the Commission its revised tariff sheets setting out the rates approved herein in paragraph 1.

Done at Frankfort, Kentucky, this 1st day of June, 1987.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director