

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PETITION OF SOUTH CENTRAL BELL	)	
TELEPHONE COMPANY TO CHANGE	)	
AND INCREASE CERTAIN RATES	)	CASE NO. 9160
CHARGES FOR INTRASTATE	)	
TELEPHONE SERVICE	)	

ORDER REQUESTING INFORMATION

IT IS ORDERED that South Central Bell Telephone Company ("South Central") shall file an original and 12 copies of the following information with the Commission by January 4, 1985, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets is required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to insure that it is legible. Where information requested herein has been provided along with the original application, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. When applicable, the information requested herein should be provided for total company operations

and jurisdictional operations, separately. If neither the requested information nor a motion for an extension of time is filed by the stated date, the case may be dismissed.

Each set of questions is propounded to a specific witness for South Central and relate to the testimony filed by that individual on November 21, 1984.

Questions for Stanley S. Dickson

1. Has official toll been included in this proceeding as a cost of doing business?

2. Is the cost for providing a nationally interconnected telecommunications system paid for by the local ratepayers of the BOCs or is it included in the access charges billed to the long distance carriers providing service between the respective LATAs?

3. Provide any study or data used to support Mr. Dickson's statement in response to the question on page 3 of his testimony.

4. On page 6 of your testimony, you discuss reduction of the construction budget, the need to take care of existing customers first, and that customers who want new service will suffer. You say this is due to the reduction in the construction budget. The Commission wants to know why existing customers have preference over service where the monopoly franchise requires that SCB serve all customers who request service, existing and new.

a. Please provide the name of persons who made the policy decision to give existing customers this special treatment. Provide any minutes from meetings, or documentation from which this decision was made.

b. Please provide any dollar figure which SCB has as a rule of thumb over which SCB will not install new service due to its low earnings.

5. Mr. Dickson, you imply in your testimony that due to the reduction in the construction budget many new customers will not be served. Please provide documentation to support this. Also, supply the dollar figure in the planned construction budget for the current and next 2 years that will go towards adding new customers. Please provide this information for the past 5 years.

Questions for David L. Laurent, Jr.

1. Provide all workpapers used in the derivation of the "first year" demand elasticity coefficients for each of the four econometric demand models. Include complete explanations and interpretations of all such derivations.

2. Provide the methodology, workpapers and results of any test runs to detect multicollinearity between the regressors of each of the models estimated. If no such tests were conducted on the variables of the final models, explain the rationale for this decision.

3. Identify the software package the demand models were run on, and the programs utilized. Is this package commercially available?

4. Provide a detailed description of the development of the following:

- a. Intrastate residence MTS price index.
- b. Intrastate business MTS price index.

c. Kentucky measured out WATs price index.

Provide all workpapers used in calculating these indexes.

5. Supply copies of the original sources of data for each of the following variables:

a.  $L(t)$ ,  $E(t)$ ,  $W(t)$ ,  $P(t)$  in the residence access demand equation.

b.  $Q(t)$ ,  $Y(t)$ ,  $P(t)$  in the business access demand equation.

c.  $Q(t)$ ,  $Y(t)$ ,  $P(t)$ ,  $WATS(t)$ , in business MTS equation.

d.  $Q(t)$ ,  $E(t)$ ,  $W(t)$ ,  $P(t)$ ,  $PA(t)$  in residence MTS equation.

6. Explain data anomaly in the first and second quarters of 1978.

7. Provide correlation matrix of the regressor variables for each regression model in this case.

8. Provide all calculations and workpapers used in estimating the loss of revenue due to repression of demand for residential access lines. Provide a narrative explaining the repression adjustment for residential access lines. Provide the amount of repression revenue adjustment without cost savings.

9. Provide all workpapers used in estimating loss of revenue due to repression of demand for business access lines. Provide a narrative explaining the repression adjustment for business access lines. Provide repression revenues adjustment without cost savings.

10. Provide all calculations and workpapers used in estimating costs savings due to repression of demand for residential lines. Provide a narrative explaining cost savings adjustments.

11. Provide all calculations and workpapers used in estimating cost savings due to repression of demand for business access lines. Provide a narrative explaining cost savings adjustment.

12a. Provide an explanation on how the residential Laspeyres price index was developed for the base year given the different types of services and rate groups.

b. Provide an explanation on how the residential Laspeyres price index is rebased for changing service offerings.

13. Provide the 95 percent confidence interval for the demand elasticity estimated derived from the residence access demand equation. Provide the same information for the price elasticity estimate for the business access demand model.

14. Provide all formulas and workpapers used to generate the responses to question 13.

15. Using the upper and lower bounds calculated in response to item 13, compute and provide the corresponding upper and lower bounds for the estimate of repression for both residential access model and business access model.

16. Provide variance-covariance matrix for each of the demand models developed in Mr. Laurent's testimony.

17. If Breusch-Godfrey test was used to test for fourth order autocorrelation in the residence access model provide workpapers.

18. If Breusch-Godfrey test was used to test for fourth order autocorrelation in the business access model provide workpapers.

Question for Jerome G. Lucas

1. Provide all by-pass studies or reports prepared for South Central Bell of Kentucky by Tele Strategies.

Question for E. Blair Mohon

1. Provide a list of the companies referred to on Mohon Exhibit, pages 2 through 4.

Questions for G. D. Cunningham

1. What is the amount of investment in BellSouth Services ("BSS") by South Central Bell ("SCB")?

2. On page 3 of your testimony you state that BSS can obtain volume buying discounts which neither of the BOCs could obtain on their own. Give specific examples of these discounts. Are the examples representative? Are these savings in excess of the cost incurred by SCB in supporting BSS?

3. What procedures or methods does BSS use to seek out cost effective methods, technologies and operational procedures which satisfy the needs of SCB?

4. Does BSS determine when and how SCB will improve, maintain, and modernize their facilities and operational support systems?

5. Identify members of BSS's Board of Directors or other officers which are also members of Bellcore's Board of Directors? What are their relationships to SCB?

6. Does BSS set the funding limits for work provided by Bellcore? If not BSS, then who?

a. How are these limits determined?

7. Who has the final determination of what constitutes the optimum materials, construction, and maintenance methods for SCB in BSS Network Plainnings's interface with Bellcore?

a. How are these guidelines set? What are the criteria?

8. Define the terms technological and competitive obsolescence.

a. What criteria are used to determine technological or competitive obsolescence in guiding the deployment of available technology in order to avoid technological or competitive obsolescence?

9. What criteria does ISS use in determining who is the most logical and economical organization to provide software and to plan and develop new applications of computer usage?

a. What plans and applications are currently being considered?

b. Has BSS (ISS) taken bids from competing vendors to provide or develop this software? Provide the names of the vendors and the reasons they were rejected, if that is the case.

10. How does BSS improve cost efficiencies in provisioning and maintaining the networks in the BellSouth area? How does this relate, directly or indirectly, to SCB?

11. Do the non-regulated services currently (or soon to be) offered by BellSouth benefit directly or indirectly from BSS's marketing organization?

a. Do these services support a reasonable share of the marketing organizations costs? How was this cost allocation

developed? Does this reflect the value of the service to non-regulated entities?

12. Will SCB experience any cost savings when the 3,400 employees currently being employed by SCB and SBT transfer to BSS? If yes, quantify these savings? If not, why is the transfer taking place?

13. Since the remaining 5,800 employees will be managed by BSS, why won't they be transferred to the BSS payroll?

a. Why are their work efforts going to be managed by BSS instead of SCB and SBT?

14. Provide the project title and non-technical description of the projects listed on page 29 and 30 of G. D. Cunningham's prefiled testimony which will either directly or indirectly benefit the non-regulated subsidiaries of the BOCs. In the description include the method of cost allocation and how this method was selected?

a. Is this a complete listing of both the core projects and special projects undertaken by Bellcore which benefit the unregulated subsidiaries of the BOCs? If not, provide a complete listing with the information required above.

15. Provide a brief non-technical description of the projects listed in Exhibit GDC-1, Part 9 of 11, Sheets 1 through 9 for which SCB is allocated funding costs of \$50,000 or more. In this description include the benefits to be derived from SCB's participation by its consumers. Quantify the expected benefits.

16. How often do the BOCs audit the books of BSS? When did the last audit take place?



17. What steps are being taken to ensure the projects or services of Bellcore or BSS offer economic incentives or cost benefits which will be experienced by SCB's consumers?

Questions for Don Pickens

1. Provide copies of the cost benefit analysis performed to determine the \$62 million savings to be incurred during 1984 by SCB from the utilization of the centralized services offered by Bellcore, BSC and BSS.

a. Do these analyses include the reduced costs that SCB would have experienced by foregoing certain services that it would not have undertaken independently?

b. Is the \$62 million net of the cost incurred by SCB to support BSS, BSC and Bellcore?

2. Explain how ownership and contractual arrangements with BSS, BSC and Bellcore result in the lowest possible cost to SCB's ratepayers.

3. Does Bellcore provide indirect support for SCB's or BellSouth's detariffed operations?

a. Do the detariffed operations contributed to the operations of Bellcore (monetarily or other) in return for the indirect support received from Bellcore?

b. What is the amount of this support and how is it determined?

4. Explain how LSRP and OFNPS allow Kentucky's planners to determine the most cost effective method for providing switching and trunking.

5. What criteria is used by SCB in determining the right technology and timing to optimize their evolving network?

a. How does this save the Kentucky ratepayer money?

6. You stated that industry relations services provided by Bellcore has helped SCB's divested operations. Give specific instances where Bellcore was responsible for providing this help. Quantify this help.

7. Does the services provided by the Government Affairs organization constitute a form of lobbying? If not, explain how this service differs.

8. Why is it necessary for SCB to have BSS manage Bellcore activities as opposed to SCB managing Bellcore directly?

a. What portion of BSS's activities and budget are devoted to managing Bellcore's activities? Quantify the amount.

9. Provide a more detailed explanation of the necessity and function as well as the manner of operation of the guidance structure consisting of employees of BSS, SBT and SCB.

10. How much direct input does Mr. Dickson have to Bellcore funding levels?

11. Have you determined that the 25 percent of billed Bellcore costs not included in the 130 projects studied are necessary for SCB's Kentucky operations and that the centralization of these services benefits the Kentucky ratepayer?

a. If yes, provide usable, non-technical documentation to support this position.

12. In performing alternative cost studies for the 130 projects studied was consideration given as to whether or not SCB would have undertaken the project on their own?

13. Are the subject matter experts (SMEs) which evaluated the 130 projects employed by Bellcore or SCB? If these SMEs are employed by Bellcore, what steps were taken to ensure independence in their analysis of the necessity of projects and the alternative costs of the projects to SCB?

14. Identify the users of the selected major projects used to validate the cost studies performed by Bellcore. What is their relationship to Bellcore? How were these users and projects selected?

15. What documentation is required by SCB in order as the user of a Bellcore service to approve and justify that the actual expenses that are incurred are both cost efficient and that the service is required?

16. Did the alternative cost study of services provided to SCB by BSC include consideration of whether SCB would have undertaken this service on its own?

17. When final BSS projects are established at the end of the year provide a listing of these projects and a non-technical description of the project, its pertinence to SCB, the cost and anticipated cost savings, as well as the methodology for computing these savings.

18. What contract management controls are being developed to ensure that SCB has control over BSS costs?

Questions for J. M. Robbins

1. What are the project cost variances which must be exceeded before a Bellcore project comes under review?

2. What are the constraints imposed by the Board of Directors of Bellcore within which the councils have the authority to reallocate resources between jobs?

3. What portion of Bellcore costs are attributable to providing for national preparedness?

a. What portion is attributable to maintaining a nationally interconnected telecommunications network?

b. What portion of these two costs overlap?

c. What portion of these cost are billed to SCB?

4. Does the Government Affairs Council of Bellcore attempt to influence or lobby federal regulatory agencies or congressional committees?

5. Does Bellcore consider the value of service in pricing the services rendered to interexchange carriers and projects or services which are directly or indirectly of value to the unregulated subsidiaries?

6. Have the separations procedures or factors being utilized in this proceeding been effected by the divestiture?

a. If so, identify or otherwise explain how these factors have been effected.

b. Provide a comparison of the separation factors used in the previous rate case and those currently being utilized.

### Questions for Mr. Greenlief

1. In your testimony, you discuss the LSRP computer program and some of its modules such as CUCRIT. In order for the Commission to fully understand the methodology behind these programs, please provide a copy of the LSRP program and a detailed flow chart for the LSRP software program. Also provide the same for the CUCRIT module.

2. In your testimony, you discuss the Pikeville area study. You also provide some results of that study. The Commission will require more information on this study for further evaluation of the underlying assumptions that went into the Pikeville study. Therefore, please provide a complete copy of the project letter on the Pikeville study. Also provide the complete lists of alternatives considered and all LSRP results.

3. On Exhibit 2, page 1 of 1 in your testimony you list the office conversion projects in the near future and some in the recent past. In order for the Commission to evaluate the feasibility of these projects, it will require the complete project letters on each of these projects so please provide this information.

### Questions for Joan D. Mezzell

1. Please elaborate on how the "cost causer pay" principle has been included in the design of the proposed rates.

2. What is the rationale for using the residual pricing philosophy in designing rates for basic exchange service?

3. Please describe the procedure in arriving at the proposed number of rate groups.

4. Please explain the reduction in the ratio of business to residence rate relationship. How was the final proposed ratio determined?

5. Why is the service charge for the Maintenance and Trouble Isolation Plan automatically added to existing customers' service?

6. Please provide information as to how the rates were developed for rearrangement of dropwire and/or protector service, private line service, MTS and automated calling card service.

a. How were the final increase percentages arrived at?

7. Please elaborate on how the proposed rate changes in the following areas were developed: operator verification, elimination of call allowance for D.A. service, and grouping services.

8. Please provide methodology in determining the rates for directory listings, semipublic telephone equipment, miscellaneous service arrangements, auxiliary offerings, enterprise service, and obsolete offerings.

9. Please provide pertinent data on the concept of disaggregation in relation to the design of the proposed rates. Provide a trend analysis of this concept if available.

10. Please summarize how the proposed rates will affect each consumer group, (average bill, economic class of those repressed, etc.).

Questions Relating to Billing Analysis - Joan D. Mezzell

1. Please revise the revenue tables, as presented in the exchange section of the billing analysis, to reflect 5 rate groups as well as the proposed 3.

2. Please outline the allocation factors used in determining the annual revenue change in the Product/Service Pricing section of the billing analysis.

3. Provide a billing analysis for all services not covered in the current case.

4. Please provide market data, when available, illustrating the competitive nature of the areas of service involved in the proposed rate case. Please include market share data.

5. Describe techniques the company utilizes in meeting competition. How heavily does the design of rates affect the company's positioning in the various markets.

6. Please recalculate expected revenue in the directory assistance section of the billing analysis to reflect call allowances. (Possibly 5 call allowances and 3.)

Done at Frankfort, Kentucky, this 21st day of December, 1984.

PUBLIC SERVICE COMMISSION

Richard D. Haman  
For the Commission

ATTEST:

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Secretary