

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE EFFECTS OF THE FEDERAL TAX)
REFORM ACT OF 1986 ON THE RATES OF) CASE NO. 9798
CINCINNATI BELL TELEPHONE COMPANY)

O R D E R

On December 11, 1986, the Commission established this case for the purpose of determining the effects of the Tax Reform Act of 1986 ("Tax Reform Act") on the rates of Cincinnati Bell Telephone Company ("Cincinnati Bell"). Intervenors in this proceeding were the Attorney General of the Commonwealth of Kentucky ("AG"), the Utility Rate Cutters of Kentucky, AT&T Communications of the South Central States, Inc. ("AT&T"), and MCI Telecommunications Corporation. A hearing in this matter was held in the Commission's offices on May 5, 1987.

COMMENTARY

In response to the Commission's Order Cincinnati Bell submitted a proposal to reflect part of its tax savings in rates while using the remainder of its tax savings to offset proposed amortizations of its investment in inside wire and its depreciation reserve deficiency. This was the same proposal Cincinnati Bell submitted in Ohio and Cincinnati Bell requested that the Commission continue to follow rate uniformity and adopt the rates set for Cincinnati Bell's Ohio customers as the fair,

just, and reasonable rates for Cincinnati Bell's Kentucky customers.

Historically, based upon the revenue split basis for allocating utility plant and expenses between the Ohio and Kentucky jurisdictions, the Commission has adopted Cincinnati Bell's Ohio rates for Kentucky customers residing in Cincinnati Bell's Cincinnati Metropolitan Service Area ("CMSA"). In past rate cases the Commission has found that acceptance of rate uniformity based on the revenue split allocation method has benefited Cincinnati Bell's Kentucky customers.

DISCUSSION OF ISSUES

Cincinnati Bell's original proposal included an estimate for a monthly credit of \$.30 for each exchange access line beginning on July 1, 1987, and continuing through June 30, 1989, with a guarantee of rate stability on exchange access lines for this 2-year period. On April 24, 1987, Cincinnati Bell revised the calculation to \$.31 per exchange access line in conformance with its filing before the Ohio Commission.

The AG recommended that the Commission reject the concept of rate uniformity and make a separate evaluation of Cincinnati Bell's revenue requirements as effected by the Tax Reform Act. In support of its recommendation the AG submitted a schedule of recommended rate reductions which produced an available revenue reduction of \$2.9 million.

Rate Uniformity

The major issue in this case is rate uniformity and whether to continue uniform rates in conjunction with Cincinnati Bell's

proposal before the Commission reflecting the effects of the Tax Reform Act in rates. Although Cincinnati Bell's proposed credit results in a lesser reduction to consumers' bills than if the entire tax reduction were flowed through, the Commission cannot reject rate uniformity on a piecemeal basis by isolating the effects of the Tax Reform Act for purposes of this proceeding.

There are differences in rate-making practices between the Ohio and Kentucky Commissions; however, despite these differences it has been shown in past rate cases, and was shown in this proceeding in response to the AG's data requests, that rate uniformity, based on the revenue split allocation method, benefits Cincinnati Bell's Kentucky customers. Therefore, without making any judgment on the decision of the Ohio Commission in this matter, this Commission finds that rate uniformity within the CMSA should be maintained.

Adjustment of Rates

In an amended filing, submitted May 26, 1987, Cincinnati Bell proposed to increase the monthly credit to \$.35 per exchange access line. Cincinnati Bell's proposed \$.31 credit included an offset of \$.04 per exchange access line for an anticipated increase in the Ohio gross receipts tax. On May 20, 1987, Cincinnati Bell amended its application before the Ohio Commission and withdrew the gross receipts tax increase from its proposal. On June 9, 1987, Cincinnati Bell's proposed credit of \$.35 per exchange access line was approved in Ohio in Case No. 87-639-TP-ATA. The credit will remain in effect for 24 months, from July 1, 1987, through June 30, 1989, and Cincinnati Bell will seek no

adjustment for exchange access line rates during that time period, pending any possible changes to the provisions of the Tax Reform Act.

As an intervenor in this case, AT&T proposed that a portion of any rate reduction resulting from the Tax Reform Act should be applied to reducing access charges. AT&T indicated that it was committed to passing through any such reduction to its customers in the form of reduced toll rates. While the Commission can envision many benefits from lowered toll rates, it finds that the greatest benefit to Kentucky ratepayers is to proceed, at this time, with rate uniformity for local exchange rates. The Commission notes that the Ohio Commission in its June 9, 1987, Order permitted intervention of the Ohio Office of Consumers' Counsel regarding the reasonableness of certain offsets against Cincinnati Bell's tax reduction. The Commission reserves the right to consider any further decisions regarding Ohio Case No. 87-639-TP-ATA as said decisions are rendered.

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 approved by the Public Utilities Commission of Ohio in Case No. 87-639-TP-ATA are the fair, just, and reasonable rates to be charged by Cincinnati Bell for service rendered to its Kentucky jurisdictional customers and should be approved for service rendered on and after July 1, 1987.

2. The rates approved herein should remain in effect through June 30, 1989, absent any changes to the Tax Reform Act.

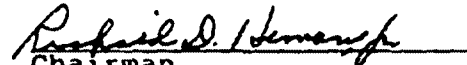
IT IS THEREFORE ORDERED that:

1. The rates proposed by Cincinnati Bell are approved as filed for service rendered on and after July 1, 1987.

2. Within 30 days from the date of this Order Cincinnati Bell shall file with the Commission its revised tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this 11th day of June, 1987.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director