

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

INVESTIGATION OF THE KENTUCKY)
INTRASTATE RATES OF SOUTH CENTRAL) CASE NO. 10105
BELL TELEPHONE COMPANY, INC.)

O R D E R

IT IS ORDERED that the parties identified below shall file an original and 12 copies of the following information with the Commission, 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 are 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.

The information requested is due no later than February 3, 1989. If the information cannot be provided by this date, a motion for an extension of time must be submitted stating the reason for the delay and the date by which the information can be furnished. The Commission will give due consideration to such motions.

AT&T Communications of the South Central States, Inc. ("AT&T")

1. On page 1 of his prefiled testimony, Mr. Sather states that a major portion of AT&T's effort is directed toward achieving economically based, nondiscriminatory access charges and structures. Define the term economically based, nondiscriminatory access charges and structures.

2. On page 2 of his prefiled testimony, Mr. Sather identifies four goals that would be appropriate for Kentucky. How would you prioritize these goals?

3. On page 7 of his prefiled testimony, Mr. Sather states that the prevention of uneconomic bypass in Kentucky dictates that long distance toll rates be reduced significantly. Provide any internal study of uneconomic bypass by either AT&T and/or its competition that has occurred in Kentucky. In the absence of a study provide a basis for this statement.

4. On page 8 of his prefiled testimony, Mr. Sather states that to achieve economic efficiencies for telecommunications services, promote consumer welfare and prevent uneconomic bypass it is necessary that subsidies from toll services to local services be reduced. Provide any AT&T studies used to support this position. Provide the factual basis for this statement.

5. On page 10 of his prefiled testimony, Mr. Sather states that differing rate design criteria should be established for each of the categories depending on specific market conditions. How should these market conditions be defined? What would be the source of information on market conditions?

6. On page 12 of his prefiled testimony, Mr. Sather mentions "transfer pricing of access." What is the objective of transfer pricing? Are you aware of any jurisdiction currently using transfer pricing?

7. On page 13 of his prefiled testimony, Mr. Sather states that there must be assurances that the priorities for rate changes move toward proper revenue/cost relationships by individual service category. Provide examples of proper revenue cost relationships.

8. On page 14 of his prefiled testimony, Mr. Sather states that increased earnings can result from the continuation of currently inappropriately priced services. As one example, Mr. Sather cites the carrier common line charge. Identify additional services that are inappropriately priced in Mr. Sather's opinion.

9. On page 15 of his prefiled testimony, Mr. Sather states that the discriminatory pricing of bottleneck services for private branch exchange customers provides South Central Bell Telephone Company ("South Central Bell") with increased contribution from private branch exchange offerings while at the same time allowing this contribution to fund discounts it offers to its ESSX service. Provide the factual basis for this statement.

10. On page 19 of his prefiled testimony, Mr. Sather states that AT&T opposes significant reductions of intraLATA MTS and WATS rates without concomitant treatment for access charges. Provide the reasons for this opposition.

11. On page 22 his prefiled testimony, Mr. Sather states that without rate reductions the customer is required to provide South Central Bell with the use of interest free dollars. On page 23, Mr. Sather states that it is only through rate reductions that customers receive the benefits to which they are supposedly entitled under the incentive regulation plan. Provide an explanation for these statements, since all rate reductions are prospective.

12. With reference to MCI Telecommunications Corporation's ("MCI") witness Mr. Burnette's prefiled testimony proposing that excessive earnings should trigger both rate refunds and reductions, provide the following information:

(a) Provide a response to MCI's contention that both rate refunds and reductions should be required in the event South Central Bell achieves excessive earnings.

(b) If AT&T disagrees with MCI, explain AT&T's rationale for its disagreement.

(c) If any rate refunds are made, explain how ratepayers will achieve equitable benefits on a going-forward basis.

(d) If any rate reductions are required, explain how ratepayers will achieve a sharing of excessive earnings achieved in the period of test.

(e) In consideration that the Order of September 30, 1988 in this case provided that either rate refunds or rate reductions would be required during the incentive regulation

experiment, state which method AT&T believes to be more appropriate.

Attorney General of the Commonwealth of Kentucky ("Attorney General")

1. On page 9 of Mr. Kahn's prefiled testimony, it is stated that rate refunds should be based on total jurisdictional charges. Please define total jurisdictional charges. Would the pro rata reduction apply to access charges?

2. With reference to MCI's witness Mr. Burnette's prefiled testimony proposing that excessive earnings should trigger both rate refunds and reductions, provide the following information:

(a) Provide a response to MCI's contention that both rate refunds and reductions should be required in the event South Central Bell achieves excessive earnings.

(b) If the Attorney General disagrees with MCI, explain the Attorney General's rationale for its disagreement.

(c) If any rate refunds are made, explain how ratepayers will achieve equitable benefits on a going-forward basis.

(d) If any rate reductions are required, explain how ratepayers will achieve a sharing of excessive earnings achieved in the period of test.

(e) In consideration that the Order of September 30, 1988 in this case provided that either rate refunds or rate reductions would be required during the incentive regulation

experiment, state which method the Attorney General believes to be more appropriate.

Contel of Kentucky, Inc. ("Contel")

1. On page 4 of his prefiled testimony, Mr. Fulp states that if the Commission anticipates using refunds, then the only appropriate time to establish prospective rates would be at the end of the trial. By end of the trial, does Mr. Fulp mean at the conclusion of the 2-year incentive regulation plan?

2. Does Contel have a recommendation on whether the Commission should use refunds or rate reductions to provide the maximum reduction to consumers? If yes, please state recommendation and reasons for support.

3. On page 4 of his prefiled testimony, Mr. Fulp states that to establish prospective rates other than at the end of the trial would, in effect, penalize South Central Bell. Describe how South Central Bell would be penalized.

4. Will there be any benefits to other pool members as a result of lower intraLATA MTS or WATS rates?

5. With reference to MCI Telecommunications Corporation's ("MCI") witness Mr. Burnette's testimony proposing that excessive earnings should trigger both rate refunds and reductions, provide the following information:

(a) Provide a response to MCI's contention that both rate refunds and reductions should be required in the event South Central Bell achieves excessive earnings.

(b) If Contel disagrees with MCI, explain Contel's rationale for its disagreement.

(c) If any rate refunds are made, explain how ratepayers will achieve equitable benefits on a going-forward basis.

(d) If any rate reductions are required, explain how ratepayers will achieve a sharing of excessive earnings achieved in the period of test.

(e) In consideration that the Order of September 30, 1988 in this case provided that either rate refunds or rate reductions would be required during the incentive regulation experiment, state which method Contel believes to be more appropriate.

GTE South Incorporated ("GTE")

1. On page 4 of his prefiled testimony, Mr. Farmer states that any reduction in South Central Bell's intraLATA MTS or WATS rates will result in a reduction in pool revenues available for distribution among pool participants. Will there be any benefits to other pool members as a result of lower intraLATA MTS or WATS rates?

2. On page 5 of his prefiled testimony, Mr. Farmer states that the Commission could authorize an automatic mechanism that would allow revenue neutral increases in local exchange carriers' local rates as intraLATA toll rates are reduced.

a. Please define revenue neutral increases.

b. Does this proposal include an absorption test?

3. With reference to MCI's witness Mr. Burnette's testimony proposing that excessive earnings should trigger both rate refunds and reductions, provide the following information:

(a) Provide a response to MCI's contention that both rate refunds and reductions should be required in the event South Central Bell achieves excessive earnings.

(b) If GTE disagrees with MCI, explain GTE's rationale for its disagreement.

(c) If any rate refunds are made, explain how ratepayers will achieve equitable benefits on a going-forward basis.

(d) If any rate reductions are required, explain how ratepayers will achieve a sharing of excessive earnings achieved in the period of test.

(e) In consideration that the Order of September 30, 1988 in this case provided that either rate refunds or rate reductions would be required during the incentive regulation experiment, state which method GTE believes to be more appropriate.

MCI

1. On page 5 of his prefiled testimony, Mr. Burnette states that MCI believes that all services, including South Central Bell's services, should contribute equally to the residually priced services or local rates. Does MCI think South Central Bell's current rates contribute equally to the residually prices services? Provide rationale.

2. On page 6 of his prefiled testimony, Mr. Burnette states that the Commission should require all intraLATA toll rates to be

set at a level equal to or above the stated components. In Mr. Burnette's opinion, do South Central Bell's current intraLATA toll rates cover all these components? If not, identify those not covered.

3. On page 7 of his prefiled testimony, Mr. Burnette states that MCI believes that for the duration of this 2-year incentive regulation experiment, the Commission should distribute any rate reductions among all the proposed services in a manner which will provide the greatest reduction to those services providing the largest contributions per unit of traffic to South Central Bell's costs. Is Mr. Burnette recommending that rate reductions be inverse to the contribution to South Central Bell's cost? Identify those South Central Bell services, in Mr. Burnette's opinion, that make the largest contribution per unit of traffic to South Central Bell's costs.

4. On page 8 of his prefiled testimony, Mr. Burnette states that access charges are too high and subsidize other services by an unjustified amount. Provide rationale.

South Central Bell

1. At page 3 of Mr. Anderson's prefiled testimony, are the per minute of use toll charges misstated and, if so, what are the correct per minute of use toll charges?

2. At page 4 of Mr. Anderson's prefiled testimony, explain the statement that MTS/WATS rates should be reduced by approximately \$20 million to "catch up" with declining interLATA toll rates - i.e., document the \$20 million.

3. Provide an analysis of South Central Bell's access services rate reductions since January 1, 1984, through December 31, 1988, by access services tariff section.

4. Provide an analysis of any anticipated access services rate reductions as a result of South Central Bell's annual 1989 and 1990 intrastate access services tariff filings, by access service tariff section.

5. At page 5 of Mr. Anderson's prefiled testimony, in detail, explain how South Central Bell would propose to insure no financial impact on other local exchange carriers as a result of any MTS/WATS rate reductions during the first 12 months of the incentive regulation plan.

6. At page 7 of Mr. Anderson's prefiled testimony, in detail, explain how South Central Bell would propose to disaggregate local usage from the access line rate on a flat rate basis. If possible, provide the proposed disaggregation by rate group and evidence to support such disaggregation.

7. Provide South Central Bell's most recent embedded direct analysis, disaggregated to the maximum extent possible consistent with the company's principle service categories.

8. If available, provide an embedded direct analysis or other similar analysis indexed on a section-by-section basis with South Central Bell's general subscriber services tariff, private line services tariff, and access services tariff.

9. Provide intrastate carrier common line revenues for the 12 months ended December 31, 1988, or for the most recent 12-month period for which the information is available. Footnote material

adjustments made to intrastate carrier common line revenues during the period.

10. At Exhibit 1, Schedule 3 to Mr. Anderson's prefiled testimony, indicate the present and proposed trouble determination charge, and provide a bill analysis to support the recommended \$2 million revenue reduction.

11. Provide the most recent available cost study on the trouble determination charge.

12. In detail, explain why South Central Bell does not propose to reduce other service charges, indicate which service charges are priced above cost, if any, and indicate each rate reduction that could be made to equate cost and price, if any. Provide any related cost study and bill analysis information.

13. At Exhibit 1, Schedule 3 to Mr. Anderson's prefiled testimony, indicate present and proposed grouping rates, assuming, first, reduction of the multiplier from 55 percent to 50 percent of applicable access line rates and, second, 50 percent of applicable rate group 1 rates as maximum grouping rates. Also, provide a bill analysis to support revenue reduction in each case.

14. Provide the most recent available cost study on grouping.

15. At Exhibit 1, Schedule 3 to Mr. Anderson's prefiled testimony, indicate present and proposed touch tone rates, and provide a bill analysis to support the recommended \$3 million revenue reduction.

16. Provide the most recent available cost study on touch tone service.

17. In detail, explain why South Central Bell does not propose to reduce custom calling services, indicate which custom calling services are priced above cost, if any, and indicate each rate reduction that could be made to equate cost and price, if any. Provide any related cost study and bill analysis information.

18. At Exhibit II, Schedule 4 to Mr. Anderson's prefiled testimony, indicate present and proposed directory assistance rates, and provide a bill analysis to support the recommended \$5 million revenue increase.

19. Provide the most recent available cost study on directory assistance.

20. At Exhibit II, Schedule 4 of Mr. Anderson's prefiled testimony, provide a bill or sensitivity analysis to support the recommended late payment charge revenue increase.

21. At Exhibit II, Schedule 4 of Mr. Anderson's prefiled testimony, indicate present and proposed miscellaneous services rates, and provide a bill analysis to support the recommended \$0.5 million revenue increase.

22. On page 2 of his prefiled testimony, Mr. Anderson states that South Central Bell believes it is preferable to reduce rates as opposed to issuing credits. Provide the reasons for this position.

23. On page 4 of his prefiled testimony, Mr. Anderson states that if subsidy provided by intraLATA toll services to local exchange service is to continue, toll rates must transition downward from their artificially high levels to lessen potential

losses. Otherwise toll users will continue to find lower priced alternatives. Have any studies been undertaken to support these statements? If yes, provide copies. Have any records of subscribers who have found lower priced alternatives been maintained? If yes, summarize. If no, provide a factual basis for these statements.

24. On page 7 of his prefiled testimony, Mr. Anderson states that grouping or hunting rates should be reduced. Provide more detailed arguments than those presented for this recommendation.

25. On page 8 of his prefiled testimony, Mr. Anderson states that South Central Bell is proposing decreases in touch tone service and the trouble determination charge. Provide reasons for this recommendation.

26. On page 10 of his prefiled testimony, Mr. Anderson states that other items on his Exhibit II, Schedule 4 include across-the-board percentage increases for miscellaneous services, as well as exchange access line. Provide the rationale for these increases.

27. On page 10 of his prefiled testimony, Mr. Anderson states that the proposed changes include provisions to implement South Central Bell's stated objectives. Are these objectives in priority order? If not, how would Mr. Anderson prioritize them?

28. Provide the rationale or basis for Mr. Anderson's Exhibit I, Schedule 3. Provide the justification for each "Note."

29. Provide the rationale for Mr. Anderson's Exhibit II, Schedule 4. What is the basis for the priority assignments on Mr. Anderson's Exhibit II, Schedule 4.

30. With reference to MCI's witness Mr. Burnette's testimony proposing that excessive earnings should trigger both rate refunds and reductions, provide the following information:

(a) Provide a response to MCI's contention that both rate refunds and reductions should be required in the event South Central Bell achieves excessive earnings.

(b) If South Central disagrees with MCI, explain South Central Bell's rationale for its disagreement.

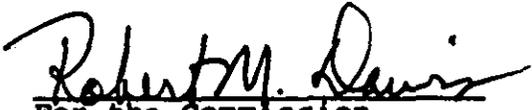
(c) If any rate refunds are made, explain how ratepayers will achieve equitable benefits on a going-forward basis.

(d) If any rate reductions are required, explain how ratepayers will achieve a sharing of excessive earnings achieved in the period of test.

(e) In consideration that the Order of September 30, 1988 in this case provided that either rate refunds or rate reductions would be required during the incentive regulation experiment, state which method South Central Bell believes to be more appropriate.

Done at Frankfort, Kentucky, this 20th day of January, 1989.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:

Executive Director