BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

SOUTH CENTRAL BELL TELEPHONE COMPANY'S   )
SPECIAL SERVICE CONTRACT ARRANGEMENT   )
FOR DIGITAL ESSX SERVICE WITH ALLIANT   ) CASE NO. 90-140
HEALTH SYSTEM   )

O R D E R

On November 6, 1990, the Commission issued its Order in this proceeding rejecting the proposed special contract for the provision of digital ESSX service to Alliant Health System of Louisville ("Alliant") on the basis that the service was priced below corresponding intrastate costs and would result in South Central Bell's monopoly service customers subsidizing the deficiency. On November 9, 1990, South Central Bell filed a motion for reconsideration proposing that the Alliant contract be approved subject to the condition that South Central Bell shareholders absorb all unrecovered intrastate costs. South Central Bell supported its motion by noting that such approval would be consistent with its ESSX contract with the University of Louisville approved by the Commission on July 5, 1988.

On November 16, 1990, AT&T Communications of the South Central States, Inc. ("AT&T") filed its response to South Central Bell's motion for reconsideration. AT&T contends that the Commission's conclusion in its November 6, 1990 Order that the proposed ESSX contract is priced at a level that fails to recover intrastate costs prohibits Commission approval of the special

contract.   AT&T   further   contends   that   South Central Bell's
proposal for shareholder absorption of all unrecovered intrastate
costs has already been proposed and rejected by the Commission in
the July 10, 1990 Order.

AT&T is incorrect that South Central Bell's offer has already
been proposed and rejected in this proceeding. The Commission's
rejection   in   its   July 10, 1990 Order was based on South Central
Bell's   original   offer   to   absorb   the   difference   between   the
contract's rates and total costs whereas the current offer is to
absorb the difference between contract rates and intrastate costs.

As   the   combined interstate and intrastate rates recover the
combined costs of the service, the contract cannot be construed as
predatory pricing.   The Commission's rejection of the proposed
contract   was   not   based   on   predatory   pricing   concerns.   The
Commission's primary reason for rejecting the proposed contract
was   the   intrastate   revenue   deficiency   and   the   Commission's
unwillingness to require South Central Bell's monopoly ratepayers
to   absorb   this   deficiency.   However,   South   Central   Bell's
shareholder   absorption   proposal   satisfies   this   concern.   The
Commission   therefore   finds   that   the   Alliant contract should be
approved   conditional   upon   South   Central   Bell's   shareholders
absorbing   all   intrastate   cost   recovery   deficiencies   on   a
below-the-line basis. This will protect regulated ratepayers from
bearing   the   burden   of   unrecovered   intrastate   costs that will
result from the Alliant contract.

In   consideration   of   the   current   incentive   regulatory
environment under which South Central Bell operates, accounting

-2-

safeguards must be implemented to ensure that below-the-line rate-making treatment is accorded the Alliant contract. Therefore, to the extent that intrastate costs relating to this contract exceed intrastate revenues, those costs shall be accounted for as non-operating expenses in a manner that will not impact monthly intrastate income available for capital. Records shall be maintained which will allow the Commission to readily determine monthly revenues and expenses relating to this contract and the accounts to which they were booked.
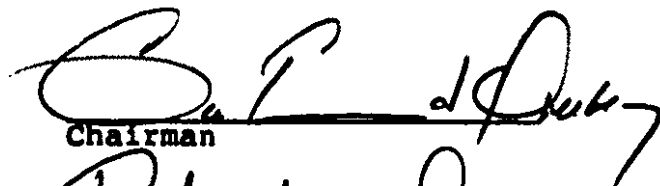
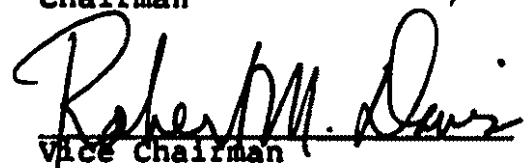The Commission, being otherwise sufficiently advised, HEREBY ORDERS that:

(1) South Central Bell's motion for reconsideration is granted.

(2) The contract between South Central Bell and Alliant for the provision of digital ESSX service be and hereby is approved. South Central Bell's shareholders shall absorb all intrastate cost recovery deficiencies on a below-the-line basis relating to the contract approved herein.

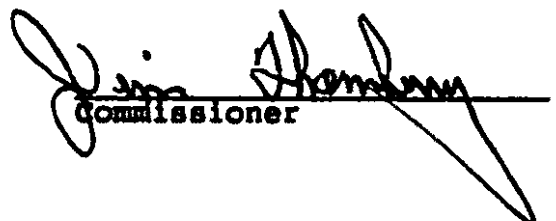Done at Frankfort, Kentucky, this 21st day of November, 1990.

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

ATTEST:

Executive Director

Commissioner