

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

A REVIEW OF THE RATES AND CHARGES)
AND INCENTIVE REGULATION PLAN OF) CASE NO. 90-256
SOUTH CENTRAL BELL TELEPHONE COMPANY)

O R D E R

IT IS ORDERED that South Central Bell Telephone Company ("South Central Bell") shall file the 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 ensure that it is legible.

The information requested is due no later than May 13, 1991. 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. Such motion will be considered by the Commission.

1. (a) Provide (a) demand price-outs and (b) affected tariff pages to support the proposed \$17.6 million and \$7.3 million reduction in toll and access services rates recommended at

page 4 of Mr. Wilkerson's prefiled testimony. Identify the historical or forecasted time period on which the demand price-outs are based. To the extent that historical results are available for forecasted time periods, provide available historical results as a supplement to the forecasts. Also, identify and include a thorough discussion of the assumptions and estimation techniques underlying any demand elasticity adjustments.

(b) Based on usage data available from the intraLATA revenue fund distribution reports filed in Case No. 8838 or other information available to South Central Bell, estimate the impact of reducing South Central Bell toll revenue by \$17.6 million and \$24.9 million on other intraLATA toll tariff concurrents. (If usage information other than the Case No. 8838 information is used to estimate the impact, identify the source of the usage information and its purpose in the normal course of business.)

2. Elaborate on the timing of the expiration of the inside wire amortization expense and flow-through to ratepayers discussed at page 4 of Mr. Wilkerson's prefiled testimony, and specifically state South Central Bell's flow-through proposal if the full \$6.9 million revenue effect is not reflected on October 1, 1991.

3. Explain the basis of the claim that intrastate access services rates must be reduced by \$16 million at page 5 of Mr. Wilkerson's prefiled testimony. Specially, identify the annual interstate tariff filing the statement is based on (e.g., 1991 annual interstate tariff filing); indicate whether the amount

indicates any elimination or reallocation of non-traffic sensitive revenue requirement (i.e., carrier common line and ULAS) to end users; identify needed reductions by rate category (i.e., carrier common line, switched access, special access, etc.); and, assuming implementation of the Joint Motion proposed in Administrative Case No. 323, indicate whether it would affect the amount stated and in what manner (provide any necessary illustrative calculations).

4. (a) Elaborate on the claim that "a revenue reduction to South Central Bell of approximately \$33 million is required in order to achieve ultimate competitive toll rate levels" at page 6 of Mr. Wilkerson's prefiled testimony. Specifically, identify the benchmark rates the statement is based on (e.g., AT&T's 1991 intrastate message toll rates) and provide a copy of the benchmark rates, if any; indicate the demand period the statement is based on (e.g., 1991 forecasted intrastate demand, adjusted or unadjusted for demand elasticities); and estimate the needed revenue reduction assuming the message toll rates of alternative carriers as benchmarks (e.g., as alternatives to AT&T, MCI and US Sprint).

(b) Based on usage data available from the intraLATA revenue fund distribution reports filed in Case No. 8838 or other information available to South Central Bell, estimate the "industry-wide" impact of reducing South Central Bell's toll revenue by \$33 million. (If usage information other than the Case No. 8838 information is used to estimate the impact, identify the source of the usage information and its purpose in the normal course of business.)

(c) Provide any available intrastate toll cost of service analysis done by South Central Bell or available to South Central Bell from another jurisdiction.

5. Reconcile Mr. Wilkerson's reference to the industry-wide impact of toll rate reduction at page 6 of his prefiled testimony with the reference to a keep-whole arrangement at page 7. That is, is South Central Bell proposing a keep-whole plan, a non-keep whole plan, or a bifurcated approach to intrastate toll rate reductions?

6. (a) At pages 7-8 of his prefiled testimony, Mr. Wilkerson discusses an "approximate toll to access ratio of 2:1." Does this ratio bear any relationship to cost of service or is it solely a way to allocate available funds between toll and access services? If the latter, are other allocation ratios equally reasonable or does the 2:1 ratio have some merit that other ratios do not possess?

(b) What is the rationale behind linking toll and access services and reducing rates in tandem, as opposed to, for example, first reducing toll rates by the target amount of \$33 million and then reducing access rates by the target amount of \$16 million?

(c) Does the linkage of toll and services in any way drive the amount of needed toll reduction? That is, if the target toll reduction of \$33 million is based on US Sprint's 1991 intrastate message toll rates and access rates are reduced from 1991 levels, would or would not further reductions in toll rates

be indicated, or have anticipated rate reductions by the benchmark carrier been included in the \$33 million estimate?

(d) Would South Central Bell agree to link growth in access services revenue with reductions in access rates at each point of test until the target reduction is met? In framing the response, give consideration to the access demand stimulation arguments advanced in Administrative Case No. 323.

7. With reference to Mr. Wilkerson's prefiled testimony at pages 8-9 and Exhibit 1, is it correct to understand that toll and access rates treated at a 2:1 ratio at each point of test until the total target reductions are achieved is South Central Bell's first priority? If this understanding is not accurate, fully explain South Central Bell's intent. Also, if the linkage between toll and access is not approved, would toll become South Central Bell's first priority and access its second priority? If not, fully explain how South Central Bell's priorities would change.

8. (a) With reference to Mr. Wilkerson's prefiled testimony at pages 9-11 and Exhibit 1, is it correct to understand that zone charges are South Central Bell's second priority to be treated after toll and access but before grouping charges as described at each subsequent point of test until a total reduction of \$17.5 million is achieved? If this understanding is not accurate, fully explain South Central Bell's intent.

(b) What total revenue reduction would be required to eliminate zone charges?

9. With reference to Mr. Wilkerson's prefiled testimony at page 11 and Exhibit 1, is it correct to understand that grouping

charges are South Central Bell's third priority to be treated after zone charges but before touch-tone charges as described at each subsequent point of test until a total reduction of \$5.6 million is achieved? If this understanding is not accurate, fully explain South Central Bell's intent.

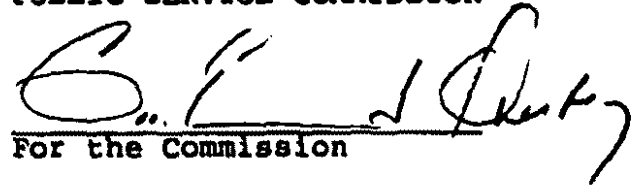
10. With reference to Mr. Wilkerson's prefiled testimony at pages 11-12 and Exhibit 1, is it correct to understand that touch-tone charges are South Central Bell's fourth priority to be treated after grouping charges but before exchange access lines as described at each subsequent point of test until a total reduction of \$11 million is achieved? If this understanding is not accurate, fully explain South Central Bell's intent.

11. Provide the price-outs described at page 13 of Mr. Wilkerson's prefiled testimony.

12. The Commission's Order of April 3, 1991 in Phase I of this case required that monies associated with the expiration of the inside wire amortization expense and depreciation reserve deficiency amortization expense be set aside and accrue interest (page 22). What is South Central Bell's position on the most appropriate method for returning these monies to ratepayers? That is, should these monies be returned to ratepayers in the form of refunds or credited to customer bills, and should these monies be targeted to exchange access or other services?

Done at Frankfort, Kentucky, this 2nd day of May, 1991.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:


Executive Director