

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

SOUTH CENTRAL BELL TELEPHONE)
COMPANY'S PROPOSED AREA CALLING) CASE NO. 91-250
SERVICE TARIFF)

O R D E R

On April 9, 1992, the Commission entered its Order approving, with certain modifications, South Central Bell Telephone Company's ("South Central Bell") tariff filing for area calling service. Area calling service establishes three local calling options for customers and allows them to choose either the current local calling area or an expanded local calling area. On April 29, 1992, the Attorney General, by and through his Utility and Rate Intervention Division ("AG"), filed a motion for rehearing, requesting clarification on the use of Kentucky data to be collected by South Central Bell. On May 13, 1992, South Central Bell filed a response in opposition to the AG's motion.

Since some of the data used by South Central Bell to model the effects of the tariff in Kentucky was not Kentucky-specific data, the Commission ordered South Central Bell to collect the relevant Kentucky-specific data over a 12-month period and file a new tariff which reflects new modeling and forecasting results using only Kentucky-specific data. This new tariff must be filed no later than 15 months from the April 9, 1992 Order.

The AG's motion for rehearing asserts that the Commission has not adequately stated the purpose and use of the Kentucky-specific data that South Central Bell has been ordered to collect. Specifically, the AG argues that the Commission should clarify and elaborate upon what is to be done with the information that has been requested on pages 26 and 29 of the April 9, 1992 Order. The AG is also concerned that revenue neutrality may not be preserved in the intervening period from April 9, 1992 to the date when the Commission renders a decision concerning South Central Bell's revised tariff, possibly an 18-month period. The AG goes on to suggest that any significant revenue shortfall should be imputed at each point of test in South Central Bell's incentive regulation plan. If there is a significant revenue increase, then the entire amount of the increase should be returned to ratepayers, contends the AG, and not flowed through the incentive regulation plan's revenue sharing mechanism.

South Central Bell opposes the AG's motion and responds that the AG's motion is not consistent with the proceeding on local measured service which merely required that no upward pressure be placed on existing flat rates.¹ South Central Bell also contends that the cost study supporting the Area Calling Service tariff was reviewed and accepted by the Commission and that the AG has produced no new evidence upon which to base a rehearing.

¹ Administrative Case No. 285, An Investigation Into the Economic Feasibility of Providing Local Measured Service Telephone Rates in Kentucky, Order dated October 25, 1990.

Finally, South Central Bell argues that the AG's request for maintaining revenue neutrality is at odds with incentive regulation.


The AG's motion for rehearing should be denied. The April 9, 1992 Order requires South Central Bell to use the collected Kentucky-specific data to obtain forecasts upon which to base new tariffs. South Central Bell will file any rate changes in tariffs for measured service in the expanded local areas or for flat rate service in the expanded local areas concurrently with the new forecasts.

When South Central Bell's incentive regulation plan was implemented, the Commission intended for South Central Bell's normal operations to be considered in the plan's sharing mechanism. Therefore, surplus revenues arising from area calling service should be handled through the mechanisms established by the incentive regulation plan. Also, in the April 9, 1992 Order at pages 15 and 16, the Commission required the customers who keep their current service to be sheltered from revenue shortfalls which may be caused by the measured service options. Accordingly, adequate safeguards exist to protect South Central Bell's customers. The Commission is aware of the need to monitor South Central Bell's revenues in these months prior to the filing by South Central Bell of new forecasts based on Kentucky-specific data.

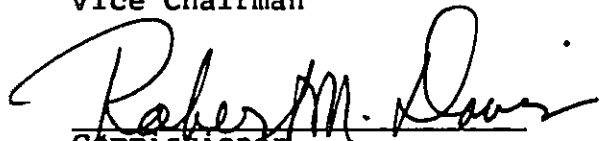
The Commission, being otherwise sufficiently advised, HEREBY ORDERS that the AG's motion for rehearing is denied.

Done at Frankfort, Kentucky, this 18th day of May, 1992.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director, Acting