

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

On June 1, 1993, the Commission issued its Order denying South Central Bell's ("South Central Bell") May 3, 1993 proposal to amortize the November 1992 Point-of-Test temporary true-up reduction over an 18 month period. The Order further required South Central Bell to file revised schedules incorporating the full true-up into the May 1993 Point-of-Test and to apply subsequent reversal of the true-up to the same priority rates that will be reduced in the current point of test. On June 8, 1993, South Central Bell filed a Motion for Reconsideration of this Order. The Commission, having reviewed this motion, finds as follows:

In its motion, South Central Bell argues that implementing the June 1, 1993 Order will result in excessive rate fluctuations that will lead to "public confusion and customer irritation." South Central Bell seeks to avoid this consequence in one of two ways. The first suggestion is to apply the November 1993 Point-of-Test increase resulting from the reversal of the current true-up to the rate increase priority schedules. Under this proposal the current true-up and the November reversal of it would fall to different rate schedules. The second suggestion is to accept the June 1, 1993 tariff changes as filed, apply an additional true-up

reduction effective July 1, 1993, and defer the reversal of the current true-up until January 1, 1994, as an off-set to the currently scheduled reduction to occur on that date. Under this method the original true-up and the reversal of the true-up would fall to the same rate schedules.

On June 11, 1993, the Attorney General, through his Utility and Rate Intervention Division ("AG"), filed his response to South Central Bell's motion. The AG opposes each of the proposed options within South Central Bell's motion for reconsideration. The AG expressed specific reasons for his objection to the first option, agreeing with the Commission's June 1 finding that the true-up should not be used to alter rate design. The AG's concern with the second option was limited to disagreement with South Central Bell's assertion that rate changes occurring on December 1, 1993 and again on January 1, 1994 would result in customer confusion and irritation. The AG proposed an alternative mechanism whereby the temporary true-up would be transformed into a permanent reduction of approximately \$212,000. However, the Commission does not view the AG's proposed alternative mechanism as within the scope of the true-up provisions of the Incentive Plan, and the AG's arguments and concerns are not sufficient to deny South Central Bell's motion.

On June 23, 1993, AT&T Communications of the South Central States, Inc. ("AT&T") filed a response to South Central Bell's motion. This response urged the following actions by the Commission:

1. Apply all rate increases and decreases in accordance with the rate priority schedules adopted by the Commission in its Order dated January 23, 1992.

2. Deny South Central Bell's proposal to defer the reversal of the temporary true-up from December 1, 1993 until January 1, 1994.

3. Deny South Central Bell's proposal to apply the May 1993 Point of Test decreases to the Equal Access Cost Recovery rate element.

With respect to AT&T's first concern, the Commission is unsure why AT&T is only now objecting to the application of the reversal of the May 1993 temporary true-up against the rate decrease priority schedules. The Commission finding implementing this aspect of the true-up was set forth in its Order of June 1, 1993, and AT&T did not independently seek reconsideration on this issue.

To reiterate its June 1, 1993 finding, the Commission finds that the reversal of the May 1993 temporary true-up should be applied to the rate decrease schedules. Otherwise, a temporary true-up reduction to toll and access charges would be transformed into a permanent reduction, and local rates would be increased merely because of South Central Bell's missed forecast at the November 1992 Point of Test. Other elements of the November 1993 Point of Test, i.e. current earnings and true-ups relating to any May 1993 missed forecast, will be applied to the rate priority

schedules separate and apart from the reversal of the current true-up.

With respect to AT&T's second concern, delaying the reversal of the true-up for one month in order to avoid successive rate changes in toll and access charges will not be harmful to any party. Interest charges relating to the additional month will be accrued, so no financial harm will occur to any party. To the contrary, there are sufficient administrative benefits to justify the one month delay.

In summary, the Commission finds that the second alternative proposed by South Central Bell is an appropriate mechanism to implement the true-up associated with the November 1992 forecasting discrepancy. This will meet South Central Bell's objective of avoiding excessive rate fluctuations and at the same time meet the Commission's objective of applying the reversal of the true-up to the original beneficiaries of the true-up.

The following rate adjustments will be required as a result of this determination:

1. The \$4,213,000 in tariff reductions to toll and access charges proposed by South Central Bell in its May 3, 1993 filing, will become effective retroactive to June 1, 1993.
2. An additional reduction of \$2,239,000 to toll and access charges will be made effective July 1, 1993.
3. The above true-up reductions to toll and access will be reversed on January 1, 1994. The \$3,561,000 reversal will be

applied as an off-set to a \$6,250,000 reduction to toll and access charges already scheduled for that date.

The Commission, being otherwise sufficiently advised, HEREBY ORDERS that:

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

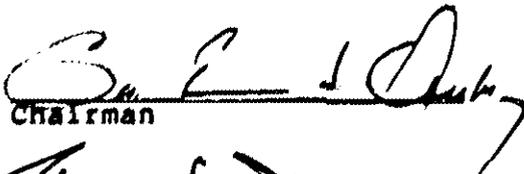
2. The Commission's Order of June 1, 1993 is hereby modified in accordance with the findings set forth herein.

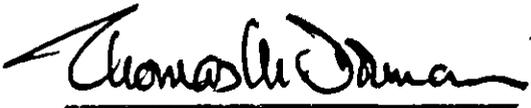
3. South Central Bell shall file revised Point-of-Test Schedules 1 and 2 in accordance with the discussion as set forth herein.

4. South Central Bell shall file tariffs reflecting a \$2,239,000 decrease to toll and access charges to be effective July 1, 1993.

Done at Frankfort, Kentucky, this 28th day of June, 1993.

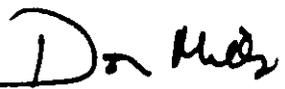
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