

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF BELLSOUTH)	
TELECOMMUNICATIONS, INC., D/B/A)	CASE NO.
SOUTH CENTRAL BELL TELEPHONE COMPANY)	94-121
TO MODIFY ITS METHOD OF REGULATION)	

O R D E R

IT IS ORDERED that BellSouth Telecommunications, Inc., d/b/a South Central Bell Telephone Company ("South Central Bell") shall file the original and 10 copies of the following information with the Commission, with a copy to all parties of record, no later than July 26, 1994. South Central Bell shall furnish with each response the name of the witness who will be available at the public hearing to respond to questions concerning each item of information requested.

All questions concern responses to the Commission's May 11, 1994 data request.

1. Item 5 asked South Central Bell to "compare and contrast the Price Cap Plan filed in Kentucky with the major points and conditions of those filed in other states by BellSouth." The response consisted of copies of Orders from other jurisdictions.

The question sought an analysis of the different plans which explored the reasonableness of this proposal vis-a-vis proposals that have been adopted or that are under consideration in other jurisdictions. To facilitate this comparison, South Central Bell shall provide a matrix showing the major points and conditions of

the various rate cap plans, including the plan now in effect at the federal level.

The matrix should include the following information for each state in the BellSouth region, and for any other state which would aid in comparison:

- a. Bell company name.
- b. State served by the company.
- c. Type of current regulation (i.e., "traditional," "incentive regulation with sharing," "price caps with sharing," "price caps with no sharing").
- d. Date that current plan ends.
- e. Type of proposed regulation (i.e., "traditional," "incentive regulation," "price caps with no sharing," "price caps with sharing").
- f. Proposed effective date of proposed regulation.
- g. Amount of rate reduction or increase proposed, if the case is pending, or instituted, if the plan is in effect.
- h. Amount of subsequent rate reductions or increases, and their effective dates.
- i. Brief description of the rate reduced or increased, or proposed to be reduced or increased (e.g., "touchtone elimination over 4 years").
- j. Period of any freeze on local rates.
- k. Brief narrative description of pricing rules, including the proposed or established levels of "inflation thresholds" or "productivity offsets."

1. Inflation index proposed or in use (e.g., GDP-PI).
2. Provide the following summary information regarding the BellSouth price cap plan now in effect at the federal level:
 - a. Sharing and adjustment mechanisms;
 - b. Rate of return levels for sharing and any formula adjustment mechanisms inherent in the plan;
 - c. Sharing levels;
 - d. Exogenous costs;
 - e. Service exclusions;
 - f. Baskets and bands;
 - g. Within-band, within-cap filings;
 - h. Above-band, within-cap filings;
 - i. Above-cap filings.
3. With regard to Item 34, has the Federal Communications Commission ("FCC") allowed South Central Bell to exempt a service or group of services from rate regulation? If yes, what services have been deregulated?
4. Item 62 discussed a sharing mechanism. Is South Central Bell subject to a sharing mechanism under the FCC's plan? If not, in which docket was the sharing mechanism eliminated?
5. With regard to Item 76, what is the percentage increase limitation included in the FCC rate cap plan? In which docket was this limitation established?
6. With regard to Item 77, does the FCC rate cap plan include similar review limitations? If yes, in which docket were these limitations established?

7. Compare, contrast, and explain, with specificity, the method proposed to adjust prices using the GDP-PI for South Central Bell in Louisiana to the method proposed in Kentucky.

8. Compare, contrast, and explain, with specificity, the method proposed to adjust prices using the GNP-PI, the 4percent productivity offset, and the adjustment for exogenous changes for Southern Bell in Florida to the method proposed in Kentucky.

9. Does South Central Bell use a 4.3 percent or 3.3 percent productivity offset at the federal level?

10. Identify similarities between South Central Bell's federal price-cap plan and the plan proposed in this case, and discuss how these similarities would result in more efficient regulation.

11. Identify differences between South Central Bell's federal price-cap plan and the plan proposed in this case, and discuss how these differences would result in more efficient regulation.

12. Provide a copy of the commission orders in West Virginia, New Jersey, Rhode Island, California, and Oregon cited in Item 7, pages 18 and 20.

13. Refer to Item 33.

a. South Central Bell states it is proposing "that the definition of the category serve as the criteria for classifying services. A service may need to be reclassified if the service no longer fits the category definition or if the pricing rules or constraints are no longer needed." Explain the process for reclassifying a service.

b. How long should the classification or reclassification process take?

c. To what extent does South Central Bell expect Commission involvement in the reclassification process and what documentation will it provide in support of a petition? Does South Central Bell envision a formal proceeding with interrogatories and intervenors?

d. South Central Bell further states that it "can petition the Commission for changing the classification of the service or may request that the pricing rules for the basic service category be modified." Under the plan, how often can South Central Bell petition the Commission for service reclassifications? For example, would all service reclassifications be grouped into a joint quarterly petition or filed on an as needed, per service basis?

14. Refer to Items 34 and 35. Explain why South Central Bell is not petitioning to exempt interconnection and non-basic services under KRS 278.512 and KRS 278.514.

15. Refer to Item 36. South Central Bell states, "... under the company's proposal, and as long as prices for basic services are below their long run incremental costs, revenues derived from non-basic services will continue to support basic services."

a. Explain how South Central Bell currently prices services included in the proposed basic service category. Are any fixed costs allocated to these services or included in these calculations?

b. Provide and explain all workpapers and calculations used to derive South Central Bell's short run and long run incremental cost of providing each service in the basic category.

16. Will the prices of services in the non-basic service category be set by market forces, with South Central Bell filing tariffs to reflect the market situation? If yes, how will South Central Bell handle the problem of fixed costs previously allocated to these services (cost-based pricing), but which may not be permitted under the discipline of market-based pricing? Will these fixed costs be allocated to basic services, written off or handled in another manner?

17. Refer to Item 46. Provide a more detailed explanation to answer the original question.

18. Refer to Item 47d. Under South Central Bell's proposal it may not impose inflation related increases unless the rate is 3.3 percent or greater. It may impose price increases equal to inflation rates between 3.3 percent and 5.0 percent. For inflation rates between 5.0 percent and 10 percent, South Central Bell can not raise prices more than 5.0 percent. Given that no increase is allowed until inflation is 3.3 percent or greater, explain why the inflation rate is not reduced by 3.3 percent for inflation levels greater than that amount.

19. Refer to Item 65. Does the information in Item 65 cover all services and rates and charges for which South Central Bell has filed tariffs in Kentucky? If not, identify any services or rates and charges that are not included and explain the omission.

20. Refer to Item 67.

a. Identify all basic services and service elements that must be purchased to obtain an interconnection service or service element and explain why any such "bundling" is necessary.

b. Identify all basic services and service elements that must be purchased to obtain a non-basic service or service element and explain why any such "bundling" is necessary.

c. Identify all interconnection services and service elements that must be purchased to obtain a basic service or service element and explain why any such "bundling" is necessary.

d. Identify all interconnection services and service elements that must be purchased to obtain a non-basic service or service element and explain why any such "bundling" is necessary.

e. Identify all non-basic services and service elements that must be purchased to obtain a basic service or service element and explain why any such "bundling" is necessary.

f. Identify all non-basic services and service elements that must be purchased to obtain an interconnection service or service element and explain why any such "bundling" is necessary.

g. In which situations identified in response to (a)-(f) above, is "bundling" not required due to network configuration and engineering requirements or network management and supervision requirements?

21. Refer to Item 68. Provide copies of all market studies or memoranda on marketing plans for message toll service.

22. Refer to Item 74. Separate the proposed adjustments of \$7,810,440 among effected access services. Does South Central Bell propose to eliminate non-traffic sensitive revenue requirement? If no, after the proposed adjustment, what non-traffic sensitive revenue requirement will remain?

23. Does the company propose to eliminate touchtone charges for business customers? If no, why not? What revenue reduction would be incurred by eliminating these charges for the test period? Provide the source and detailed information which supports calculation of the necessary reduction (i.e. price and number of units).

24. Identify the items in the non-basic, basic, and interconnection service categories which may be resold under current tariffs. Itemize all restrictions applicable to such resale on an item-by-item basis.

25. Provide the following information relating to competition: 1) names of direct competitors to South Central Bell in Kentucky, 2) the products or services that they offer in competition with South Central Bell, and 3) the percentage of market share which South Central Bell has in the competitive markets (separate by type of service).

26. South Central Bell has proposed reductions to touchtone and access charges. Did it consider changes to other charges? If so, what impact would the changes have had on South Central Bell's revenues?

27. Provide copies of any studies, cost/benefit analyses, or internal memoranda relating to recent or proposed BellSouth work force reductions. Explain the benefits and cost savings resulting from work force reductions from 1992 through 1996.

28. On March 24, 1994 the FCC released Responsible Accounting Officer ("RAO") Letter 24 relating to the accounting treatment of work force reduction programs under Part 32. Provide internal memoranda, any correspondence with the FCC, and an explanation of South Central Bell's adoption of RAO Letter 24 supported with and journal entries for any adjustments to financial statements.

29. Provide the calculations (revenues, expenses, taxes) of non-operating income included in the response to Item 1c.

30. Provide the calculations of interest expense related to capital included in the response to Item 1c.

31. Provide the calculations for all numbers in the response to Item 73. Include the number of access lines and indicate whether they are actual or forecasted. If forecasted, include the method or basis of the forecast. Also include, if any, the present value factors used and the basis for use of the factors.

32. Reconcile the response to Item 1c, adjustment a.- touchtone reduction of \$10,939,323, to the response of Item 73 of \$3,880,637.

33. Are the amounts on schedules B-1 in the response to Item 12 average amounts or end-of-period amounts?

34. Provide the calculations of other expenses and other income-net on schedules C-2 of the response to Item 12.

35. Reconcile the adjustment for employee telephone concession service of \$2,048,060 on Schedule C-3 of Item 12 to the adjustment of \$1,808,998 given in response to Item 18 and Item 13, page 23.

36. South Central Bell proposes to reduce intrastate switched access rates to interstate switched access rates on December 1, 1994 (response to Item 74). Between the dates of December 1, 1994 and May 31, 1997, will South Central Bell's intrastate switched access rate mirror the interstate switched access rate?

37. In response to Item 3, South Central Bell states that traditional and existing incentive regulation impedes its ability to make decisions, such as establishing appropriate depreciation policy.

a. Discuss in detail how current regulation impedes South Central Bell and specify changes that would be instituted by it if regulation were relaxed or removed pursuant to the proposed price-cap plan.

38. In response to Item 4, South Central Bell indicates that differences between GAAP and Part 32 exist due to FASB 71 which applies when expense recovery is guaranteed.

a. How would South Central Bell recover the current differences between GAAP and Part 32 under the proposed plan? Identify the amounts of any differences and the accounts in which they would be recorded in the test year.

b. Is the move to GAAP the result of South Central Bell's inability to guarantee expense recovery? If so, explain how

the inability to guarantee expense recovery eliminates the differences between Part 32 and GAAP.

c. Explain how this ties to the policy changes discussed in the response to Item 3.

d. Has South Central Bell or BellSouth proposed this change in any other jurisdiction and if so, what has been the result?

e. Has any other jurisdiction accepted this proposal?

39. Per the response to Item 9, South Central Bell adheres to GAAP when refinancing debt but Part 32 requires recording the gain or loss from refinancing in account 7360 unless material.

a. Explain how GAAP and Part 32 differ on this issue.

b. When were entries to account 7360 reclassified to account 7620?

c. South Central Bell shows unadjusted net operating income to be \$82,574,175. Does this amount include any gain or loss from debt refinancing occurring during the test period?

d. Does the development of a 7.45 percent embedded cost of long term debt include the amortization of any cost related to refinanced debt? If not, provide the new embedded cost.

40. South Central Bell made no adjustments to the test period other than those traditional adjustments carried forward from the current incentive plan.

a. Explain the decision to forbear all other adjustments to its test period

b. Provide an adjusted operating income statement recognizing all standard and appropriate normalization and pro forma adjustments for the test period, i.e., revenue normalization, revenue enhancements, changes in employee levels and wages, depreciation expense, maintenance savings, restructuring savings, etc., with the supporting workpapers showing the calculations and assumptions for each pro forma adjustment.

c. Provide revised responses for all questions affected by the response to (b) above.

41. Provide a revised response to Item 1 reflecting only the proposed revenue reductions to take place on December 1, 1994 and utilizing capitalization rather than rate base.

42. Identify services or service elements that must be purchased in order to obtain an unregulated service offering and explain why these services or service elements should not compose a fourth category under the proposed price regulation plan. Also, indicate any other jurisdiction that has required such treatment.

43. Refer to the prefiled testimony of Margaret Greene at page 21. Provide documentary support for the statement that "four of every ten new job opportunities in Kentucky are information-intensive functions." To the extent possible, compare this with national trends and trends in other states, and provide any available forecasts showing future job development trends in Kentucky.

44. Identify and explain any known changes in rate design South Central Bell intends to propose to the Commission through May 1997.

45. What incentives or disincentives would result from a review of the terms and conditions of the proposed price regulation plan coincident with the end of the price freeze on basic services?

46. Identify and explain any known changes in rates and terms and conditions of service for non-basic services through May 1997.

47. Explain why South Central Bell did not include message toll service and operator-assisted calling in the basic service category.

48. Compare and contrast the advantages and disadvantages of the past incentive regulation plan with the proposed price regulation plan relative to the actual and expected effect on end-users.

49. Refer to the prefiled testimony of Margaret Greene at page 4. Identify the events that may negatively affect universal service.

50. Explain the conditions under which South Central Bell decides to declare services obsolete and identify any services that may be declared obsolete through May 1997.

51. Explain the effect of declaring a service offering obsolete on the SPI and PRI and indicate whether obsolete service offerings should or should not be given equal weight in the SPI.

52. Identify any new service offerings South Central Bell intends to file with the Commission through May 1997 and the price regulation service category to which they would be assigned.

53. Does South Central Bell intend to amend its proposal in this case to mirror access charge filings currently pending before the FCC and, if so, provide associated revenue adjustments.

54. The following questions and requests pertain to the audit done by the Florida Commission of BellSouth and affiliated companies, whose final report was dated December 17, 1993. The information requested should only be provided if activity occurred during the test period.

a. With regard to Audit Disclosure No. 4, provide cost information associated with the fiber based trials at Springhurst, Kentucky.

b. With regard to Audit Disclosure No. 15, provide the amount by which Kentucky intrastate, regulated expenses would decrease if an analysis that parallels the Florida analysis were used.

c. With regard to Audit Disclosure No. 16, provide the intrastate, regulated expenses associated with the \$28,164 total expenses attributed to Kentucky.

d. Provide analysis similar to those presented in Audit Disclosure Nos. 17 and 18 to determine additional nonregulated expenses charged to Kentucky.

e. With regard to Audit Disclosure No. 30, prepare an analysis similar to that presented on page 86 of the audit report showing Kentucky intrastate, regulated expenses.

f. With regard to Audit Disclosure No. 35, provide an estimate, supported by an analysis, of the moving expenses which affected Kentucky intrastate, regulated expense accounts. Also, provide an estimate of the expenses discussed in Items II, III, and IV affecting Kentucky intrastate, regulated expenses.

g. With regard to Audit Disclosure Nos. 38, 39 and 49, determine the Kentucky intrastate regulated portion of these expenses on the same basis as used by the Florida Commission.

h. With regard to Audit Disclosure No. 43, determine rent allocable to Kentucky intrastate, regulated operations on the same basis employed by the Florida Commission and provide a supporting analysis.

i. With regard to Audit Disclosure Nos. 44 and 45, calculate the amount of BellSouth allocations to Kentucky intrastate, regulated operations and provide a supporting analysis.

j. With regard to Audit Disclosure No. 48, determine for Kentucky intrastate, regulated operations an amount comparable to the approximately \$17 million determined applicable to Florida. Support the amount by providing an analysis similar to that done by the Florida Staff. Include the computations required in Audit Disclosure Nos. 49 and 50.

k. With regard to Audit Disclosure No. 59, determine Kentucky's intrastate, regulated share of tax savings associated

with BellSouth Corporation's dividend payments discussed in this disclosure.

l. With regard to Audit Disclosure No. 60, determine the amount applicable to Kentucky intrastate, regulated operations and provide an analysis of the determination of this amount.

m. With regard to Audit Disclosure No. 64, determine the amount applicable to Kentucky intrastate, regulated operations and provide an analysis of the determination of this amount.

n. With regard to Audit Disclosure No. 65, determine the amount applicable to Kentucky intrastate, regulated operations and provide an analysis of the determination of this amount.

Done at Frankfort, Kentucky, this 5th day of July, 1994.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:

Executive Director