

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

BELLSOUTH TELECOMMUNICATIONS, INC.'S)
APPLICATION TO RESTRUCTURE RATES) CASE NO. 97-074

O R D E R

IT IS ORDERED that BellSouth Telecommunications, Inc. ("BellSouth") shall file an original and 10 copies, unless otherwise specified, of the following information with this Commission no later than May 2, 1997 with a copy to all parties of record. When a response requires multiple pages, each page should be appropriately indexed, for example, Item 1(a), Sheet 2 of 4. 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.

1. In its application, BellSouth proposes to restructure its price to more favorably reflect economic rather than social pricing.

a. Has BellSouth proposed this type of price restructure in other states? If so, give details of the proposals and provide the respective Commission decisions. If not, provide a full explanation of why Kentucky has been selected for this proposal.

b. Is BellSouth aware of any other price restructure comparable to this proposal in other states? If so, provide details and the Commission decisions.

2. In 1996, business hunting rates were reduced in 1996 from a percentage of the single business rate to a flat rate. Did BellSouth experience any stimulation following this reduction? If so, how much? Provide all details and related studies.

3. In its proposed tariff to restructure rates, BellSouth has used December annualized to price its proposed rates. How was December selected? What makes it the most appropriate month? Explain.

4. BellSouth has proposed to reduce hunting charges to \$1 in Louisville and \$1.95 in the remainder of Kentucky.

a. Explain how BellSouth determined these prices.

b. Provide a list of substitutes for hunting.

c. What are the current prices for these substitutes?

d. Provide examples of hunting rates in other BellSouth states.

5. Currently, BellSouth's tariff contains numerous relationships, i.e., two-party service is 50 percent of the single-party rate. Identify all relationships currently employed by BellSouth in Kentucky and, if different, in other BellSouth states. Does BellSouth intend to continue to use each of these relationships? Explain why or why not.

6. During the development of the proposal, what other possible increases or decreases were considered? Were elements other than those proposed reviewed? If so, identify.

7. Provide two copies of detailed price analysis of BellSouth's Kentucky revenue by market category (basket).

8. In this filing BellSouth has estimated the GDP-PI. Provide a true and accurate calculation showing all supporting worksheets using the actual December 1996 GDP-PI in the price cap formula.

9. Reconcile the \$4 million amount shown in the application with the \$4.4 million referenced in BellSouth's press release.

10. Assuming a typical small business has three lines with TouchTone (one line has data and fax, two are voice with hunting), provide the revenue changes which will occur from the proposed rates.

11. The proposed residential local exchange rate in rate group 5 appears to be greater than the average cost for the state produced by BellSouth's TSLRIC study provided in Administrative Case No. 355.¹

a. Does BellSouth still stand behind this study with respect to universal service issues? Explain.

b. If BellSouth were to be granted its proposed rates in this proceeding, does BellSouth contemplate further adjustments stemming from Administrative Case No. 360?² Explain.

¹ Administrative Case No. 355, An Inquiry into Local Competition, Universal Service, and the Non-Traffic Sensitive Access Rate.

² Administrative Case No. 360, An Inquiry into Universal Service and Funding Issues.

c. Does BellSouth's proposed residential rate for rate group 5 reflect a perceived market clearing price for residential service or is the rate simply a consequence of business service rate restructuring? Explain.

12. Provide the relevant market studies which guided BellSouth's pricing decisions.

13. Explain how BellSouth arrived at its final proposed pricing decisions. Provide the relevant workpapers and correspondence relating to the pricing decisions among the five rate groups for the 1FR, 1FB, Hunting, ESSX and trunking services and miscellaneous and vertical services.

14. BellSouth's proposed service prices do not seem to be adjusted for stimulation. Provide a priceout which reflects the estimated stimulation effects of the proposed price changes.

15. Explain the business case scenarios which illustrate the point where it makes economic sense for a growing business to purchase trunks and ESSX type services (or a PBX) versus multiple individual lines and selected vertical services. Refer to or incorporate relevant market studies provided herein.

16. TouchTone rates appear to have been rolled into BellSouth's proposed basic residential rates. Assuming that low income households have greater turnover (cut offs and reconnections) relative to other residential customers, will the fact that TouchTone is grandfathered impose any additional burden on this customer class? In other words, could low income customers more frequently experience a \$4.95 basic rate increase as opposed to a \$3.95 rate increase? Explain.

17. Provide a price analysis of the \$1.5 million impact associated with LifeLine. Does BellSouth expect to recover funds from the intrastate Universal Service Fund for the LifeLine program if implemented? If so, would BellSouth lower rates to avoid double recovery?

18. Regarding the proposed price change for residential service, how did BellSouth estimate the cost of its proposed LifeLine program? Explain.

19. Does the proposed LifeLine program cost take into account the stimulation effect of increasing residential rates? If so, explain.

20. Is it BellSouth's intention to fund a LifeLine program in its territory only until a Kentucky Universal Service Fund takes up the program for the whole state? Explain.

21. How is BellSouth proposing to implement the LifeLine program? Explain.

22. In your example showing the changes between unbundled rates and discounted rates, BellSouth has eliminated the \$6 subscriber line charge. Provide any information supporting the elimination of this charge. Is it possible this revenue stream will take a different form, thus, BellSouth's revenue requirement will continue to be met. Give a full discussion of all answers.

23. Many consumers have written the Commission stating that the proposed increases will present too great a burden on them and they will be forced to discontinue service. The universal service principles in the Telecommunications Act of 1996 ("the Act") say that quality services should be available at just, reasonable, and affordable rates. Comment on the position that some consumers have raised that the proposed rates are not affordable, and are the rates proposed in conflict with the Act?

24. Which BellSouth exchanges are currently experiencing business and residential local wireline competition in Kentucky?

25. In the exchanges which are experiencing local wireline competition, is the competition coming from facilities based carriers, resellers or providers using unbundled elements from BellSouth?

26. In the exchanges experiencing local wireline competition, what percentage of the business lines are currently under special contract? Is this percentage reflective throughout BellSouth's rategroups?

27. Is the proportion of special contracts to the number of business lines higher in rate group 5 than the other rate groups? Explain.

28. BellSouth proposes to reduce the business rate line charge 33% in rate group 5, 19% in RG4, 13% in RG3, 6% in RG2, while remaining constant in RG1. Why is there such disparity in the reductions among these rate groups?

29. If, as stated in Administrative Case No. 355, "a line is a line," why do business rates differ from residential rates? How much subsidy remains embedded? Do the proposed restructured residential rates cover their costs?

30. BellSouth states in its March 21, 1997 press release that it is "concerned with residence service remaining affordable." However, BellSouth has asked this Commission to increase the residential wireline local rate 21% for RG5, 30% for RG4, 31% for RG3, 33% for RG2, and 35% for RG1. Will these increases cover residential costs?

31. The business to residential ratios of proposed line charges per rate group are 1.45 for RG5, 1.68 for RG2, 1.74 for RG3, 1.82 for RG2, and 1.86 for RG1. This is an increasing trend from RG1-RG5. The current rate trend is the inverse of this pattern - with the exception of RG4 and RG5. Explain the reason for this changing trend.

Done at Frankfort, Kentucky, this 18th day of April, 1997.

PUBLIC SERVICE COMMISSION



For the Commission

ATTEST:



Executive Director