

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

O R D E R

On March 21, 1997, BellSouth Telecommunications, Inc. ("BellSouth") filed an application to restructure rates. BellSouth's proposal requests business rate reductions totalling \$42.6 million and residential rate increases totalling \$40.1 million. The residential rate increase proposed was \$3.95 per month for rate groups 1 through 4 and \$3.45 per month for rate group 5. In conjunction with the application, BellSouth requests the Commission suspend, for this case only, certain provisions of its price regulation plan approved by the Commission in Case No. 94-121.¹

To implement its proposed rate changes, BellSouth filed a tariff pursuant to KRS 278.190. The Commission suspended the operation of the tariff to the date of this Order.

On June 17, 1997, a hearing was held on BellSouth's application. The intervenors participating in the hearing were: the Attorney General by and through his Public Service Litigation Branch, AT&T Communications of the South Central States, Inc., MCI Telecommunications, Inc. and MCImetro Access Transmission Services, Inc., and

¹ Case No. 94-121, Application of BellSouth Telecommunications, Inc. d/b/a South Central Bell Telephone Company to Modify Its Method of Regulation, Order dated July 20, 1995.

American Communications Services, Inc., American Communications Services of Louisville, Inc., and American Communications Services of Lexington, Inc. Metro Human Needs Alliance filed information supporting BellSouth's proposed Lifeline program.

This rate restructuring proceeding is intertwined with the issues in the Commission's pending docket on universal service.² The local service costs will be evaluated based on the cost models yet to be filed in that proceeding. The review of the cost models is critical to a determination of the reasonableness of BellSouth's proposed rate restructuring and any residential rate increases.

Accordingly, the Commission is unable to decide whether the proposed residential rate increases are just and reasonable at this time. BellSouth and the intervenors will be given an opportunity to file modifications or additional comments. BellSouth's price regulation plan specifically capped residential rates; therefore, BellSouth may not place the proposed tariff in effect pending the Commission decision pursuant to KRS 278.190(2). A decision regarding the reasonableness of the proposed rate changes will be entered by no later than ten months after the filing of the proposed tariffs, or January 21, 1998, as permitted in KRS 278.190(3).

Done at Frankfort, Kentucky, this 19th day of September, 1997.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman

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

DISSENT OF COMMISSIONER B. J. HELTON

I respectfully dissent from the majority decision to delay entering a final Order in this case.

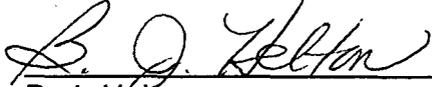
As support for its request to increase residential rates, BellSouth contends that "it is intuitive that residence rates are below their cost by any measure that this Commission has looked at."¹ While it is true that the Commission encourages the filing of applications seeking to alter rates so that they more accurately reflect cost, it has not, and does not, encourage the filing of applications relying on the Commission's intuition.

When BellSouth filed its application to rebalance rates, which raises the issue of subsidization of residential service, it cited the Commission's decision on rehearing in Case No. 96-431 as support for its apparent argument that the Commission advised BellSouth to file its application at this time. However, in Case No. 96-431, the Commission clearly states its intention to address the issue of subsidization of residential service in Administrative Case No. 360 prior to altering rates to address what BellSouth sees as the disparity between resale rates and unbundled element rates. The cost information that is essential in that docket is, likewise, essential in this docket. This information was not made available by BellSouth in this case.

BellSouth has not yet provided to the Commission its cost studies for the universal service proceeding. The Commission will need to take some time to consider the record in Administrative Case No. 360 before adopting a cost model. BellSouth and any ILEC should have the opportunity to apply for rebalancing of rates for purposes of removing implicit subsidies as required by the Telecommunications Act of 1996 when this Commission has the information which will be produced in Administrative Case No. 360.

¹ Transcript of Evidence, Volume I, at 26.

The evidence of record clearly shows that BellSouth has not met its burden of proof in this case. It has not demonstrated the competitive pressure that it alleges and it has not provided adequate cost information. BellSouth testified that its rebalancing plan was in response to anticipated, not existing, competition in the market. By BellSouth's own admission, the conditions necessary to request a deviation from its price cap plan are not present. This fact negates a decision to delay based on the evidence in this case.



B. J. Helton
Commissioner

ATTEST:



Executive Director