

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

O R D E R

In its Order of September 19, 1997, this Commission stated its intent to postpone a decision regarding rate changes that are outside BellSouth Telecommunications, Inc.'s ("BellSouth") price cap plan until January 21, 1998, as permitted by KRS 278.190(3). Among the proposed changes to BellSouth's rates are increases to basic residential rates which, under BellSouth's price cap plan, are specifically capped.¹ The Commission stated in its Order of September 19, 1997 that BellSouth could file modifications to its application herein. This Order concerns such a modification.

On October 13, 1997, BellSouth filed tariffs which would increase vertical service rates up to ten percent as permitted by the price cap plan. This change in vertical service rates will produce a \$1.8 million increase in annual revenues which BellSouth proposes to offset by reducing its Non-Traffic Sensitive Revenue Requirement ("NTSRR") by \$1.2 million and its business hunting rate outside the Louisville calling area by \$0.6 million. BellSouth proposed that these rates become effective October 17, 1997 and November 1, 1997. Subsequently, on October 17, 1997, BellSouth proposed to change the effective dates to November 28, 1997 and December 1, 1997. On

¹ See Case No. 94-121, BellSouth Telecommunications, Inc. d/b/a South Central Bell Telephone Company to Modify Its Method of Regulation.

October 28, 1997, BellSouth filed tariffs to increase annual revenues in directory assistance/call completion rates by \$2.0 million and optional residence and business calling feature rates by \$1.2 million. BellSouth proposed to offset these increases with reductions to the single-line business rate in Louisville in the amount of \$1.6 million and the NTSRR in the amount of \$1.6 million. BellSouth also notified the Commission that it desired to increase late payment charges by \$1.7 million and reduce the single-line business rates in Louisville by \$1.2 million and the NTSRR by \$0.5 million. BellSouth will file these tariffs to be effective January 5, 1998.

With its October 13, 1997 filing, BellSouth filed a motion for a deviation from its price cap plan to allow it to decrease the NTSRR to offset the increases made to the various rates in the "non-competitive" services category.² BellSouth's proposal involves offsetting price increases to "non-competitive" services category by decreasing the NTSRR, an "interconnection" category revenue stream. Because such offsets are not permissible under BellSouth's price cap plan, BellSouth has filed a motion to deviate from the plan to the extent necessary to allow the offset.

The Commission is reluctant to approve isolated deviations from BellSouth's price cap plan absent thorough review of that plan. The price cap plan was instituted to enable BellSouth to adapt to an increasingly competitive environment while preserving essential protections for captive ratepayers. However, the deviation sought here is a

² BellSouth in its motion states that this Commission has indicated "a strong desire to eliminate NTSRR." While the future of NTSRR in Kentucky is uncertain, the decision to eliminate it altogether certainly has not been made. It is reasonable for interexchange carriers to compensate local exchange carriers ("LECs") to some extent, and by some method, for their use of the LECs' networks.

limited one, and the serious policy issues implicit in permitting non-competitive services to subsidize competitive ones do not arise. In addition, the Commission notes that the proposed price increases pertain to discretionary services and to late payment charges. Increasing the prices of such services does not implicate the concerns inherent in increasing basic residential rates.

Accordingly, BellSouth's motion to deviate should be granted, but only to the extent necessary to enable it to implement the specific tariffs discussed herein. Furthermore, the Commission expects the interexchange carriers who will receive the benefit of reduced NTSRR payments to BellSouth to follow through with their previously announced intentions to make corresponding reductions to their intrastate toll rates.

The Commission being sufficiently advised, IT IS THEREFORE ORDERED that:

1. BellSouth's motion to deviate from certain parameters of its price regulation plan is granted, to the extent necessary to enable BellSouth to implement its tariffs filed October 13, 1997 and October 28, 1997.

2. BellSouth's tariffs filed October 13 and October 28, 1997 are approved to be effective on and after November 28 and December 1, 1997 as proposed in its applications.

3. BellSouth shall file the tariffs approved herein pursuant to 807 KAR 5:011.

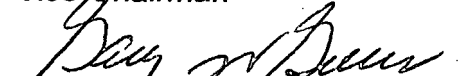
Done at Frankfort, Kentucky, this 24th day of November, 1997.

PUBLIC SERVICE COMMISSION

Chairman



Vice Chairman



Commissioner

ATTEST:



Executive Director