

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

On March 21, 1997, BellSouth Telecommunications, Inc. ("BellSouth") filed an application to restructure its rates. The proposal requested business rate reductions totaling \$42.6 million and residential rate increases totaling \$40.1 million, as well as certain deviations from BellSouth's price regulation plan approved by this Commission in Case No. 94-121.¹ BellSouth also filed a tariff implementing the proposed rate changes, which the Commission suspended. A hearing on the application was held on July 17, 1997. Intervenors participating in the hearing included the Attorney General, AT&T Communications of the South Central States, Inc., MCI Telecommunications, Inc. and MCImetro Access Transmission Services, Inc., American Communications Services, Inc., American Communications Services of Louisville, Inc., and American Communications Services of Lexington, Inc. Metro Human Needs Alliance filed documents in support of BellSouth's proposed Lifeline program.

On September 19, 1997, the Commission issued an Order postponing until January 21, 1998, the statutory deadline pursuant to KRS 278.190, its final decision on

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

the application. The Order stated that, because issues raised in this application are inextricably intertwined with core questions that remained to be answered in the Commission's docket on universal service,² the Commission was unable to determine whether the proposed residential rate increases are just and reasonable. Costs of local service, the Commission explained, will be evaluated based on cost models to be reviewed in the universal service proceeding.

On October 13, 1997, BellSouth filed tariffs altering certain rates and requesting a deviation from its price cap plan to enable it to decrease its non-traffic sensitive revenue requirement to offset increases to various rates in its "non-competitive" services category. The Commission approved the deviation and the rate changes noting, among other things, that increasing basic residential rates was not an issue in that proposal.³

On December 5, 1997, BellSouth filed a proposed modification to its original application in this case, together with documents indicating that several intervenors have no objections to BellSouth's implementing the rate changes proposed in the modification. Among other things, the proposed modification would increase basic residential rates in all rate groups. BellSouth contends that there should be a "transition of subsidy from business and access rates to residential services."⁴

Issues regarding "subsidies" are, however, precisely the issues the Commission will decide in Administrative Case No. 360. As the Commission has already explained

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

³ Case No. 97-074, November 24, 1997 Order.

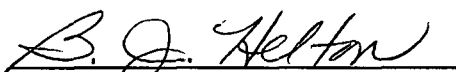
⁴ Letter dated December 5, 1997 from BellSouth to Executive Director of the Public Service Commission.


in its Order of September 19, local service costs will be evaluated based on the cost models filed in the universal service proceeding. Due to relevant FCC determinations and requests by the parties to update recommended models, those cost models have yet to be reviewed. Evidence in regard to these models will be heard on March 3, 1998. Until essential policy decisions regarding, inter alia, appropriate calculation of costs are issued, approval of BellSouth's proposal to restructure its rates is premature. After those decisions are made, this Commission can appropriately consider rate restructuring proposals such as the one at issue here.

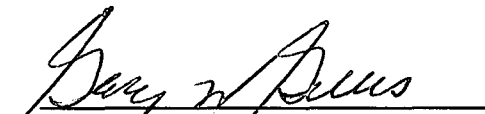
IT IS THEREFORE ORDERED that the proposals made by BellSouth in this docket to modify rates, other than the modifications approved in the Commission's Order of November 24, 1997, are denied and this case is dismissed.

Done at Frankfort, Kentucky, this 21st day of January, 1998.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director