

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF GENERAL TELEPHONE)
COMPANY OF THE SOUTH FOR AN ORDER)
AUTHORIZING THE ISSUANCE AND SALE) CASE NO. 9964
OF SECURITIES)

O R D E R

On July 13, 1987, General Telephone Company of the South ("GenTel") filed its application for authority to issue and sell up to \$150,000,000 of its First Mortgage Bonds and/or promissory notes in one or more transactions over a two-year period and 1,000,000 shares of its Common Stock, \$25 par value, to GTE Corporation for \$25,000,000 by December 31, 1987. GenTel will file a shelf registration for \$150,000,000 of First Mortgage Bonds and/or promissory notes with the Securities and Exchange Commission ("SEC") pursuant to SEC Rule 415. The proceeds from the sale of the securities will be used to redeem outstanding mortgage bonds and to repay short-term obligations.

The terms of GenTel's Kentucky Indenture allows for:

1. redemption of its 13.10 Series First Mortgage Bonds at a redemption price of 110.48 percent after December 1, 1988.
2. redemption of its 9.95 Series First Mortgage Bonds at a redemption price of (i) 105.76 percent after July 1, 1987, (ii) 105.24 percent after July 1, 1988, and (iii) 104.71 percent after July 1, 1989.

3. redemption of its Series X First Mortgage Bonds at a redemption price of (i) 105.06 percent after February 1, 1987, (ii) 104.76 percent after February 1, 1988, and (iii) 104.46 percent after February 1, 1989.

Any series of security that is issued would have a lower effective cost to GenTel than the series being redeemed and, thus, reduce GenTel's embedded cost which would be to the benefit of GenTel and its ratepayers.

GenTel also requests approval to recover the call premium expenses and the unamortized cost of issuance expenses associated with the First Mortgage Bonds to be redeemed over the life of the First Mortgage Bonds and/or promissory notes issued in which the series is redeemed.

The Commission is aware, however, that the recovery of premium and issuance costs could effectively increase ratepayers' costs in a net present value context although there may be a nominal reduction in revenue requirements. The Commission is also aware that financing costs could be reduced to such an extent that recovery of the premiums and issuance costs may still result in an effective reduction in revenue requirements.

Therefore, the Commission, having considered the evidence of record and being advised, is of the opinion and finds that the issuance and sale of the above securities by GenTel are for the lawful object within the corporate purposes of GenTel's utility operations, are necessary or appropriate for and consistent with the proper performance of its service to the public, and will not impair its ability to perform that service, and are reasonably

necessary and appropriate for such purposes and should, therefore, be approved contingent upon a showing that the effective overall revenue requirements are minimized as a result of the refinancing.

IT IS THEREFORE ORDERED that:

1. GenTel be and it hereby is authorized to issue, sell, and deliver long term securities in the form of First Mortgage Bonds and/or promissory notes in one or more transactions, subsequent to the issuance of this Order, over a two year period, with an aggregate principal value not to exceed \$150,000,000 in an underwritten public offering, through either negotiated sale or competitive bidding, or private placement transaction utilizing the proper documentation. GenTel is further authorized to issue and sell up to 1,000,000 shares of its Common Stock, \$25 par value, to GTE Corporation for \$25,000,000 prior to December 31, 1987. Such authorization shall be contingent upon a showing that the effective overall revenue requirements will be minimized as a result.

2. The terms and interest rate(s) of the First Mortgage Bonds shall be determined in negotiations between GenTel and the purchasers or through competitive bidding. The final maturity date of the First Mortgage Bonds will not be less than 5 years or more than 40 years from the date of issuance. The First Mortgage Bonds will have an annual effective overall embedded cost, including recovery of redemption premium and issuance expense, that is lower than the outstanding securities being refunded.

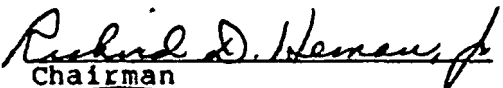
3. The proceeds from the transactions authorized herein shall be used only for the lawful purposes as set out in the application.

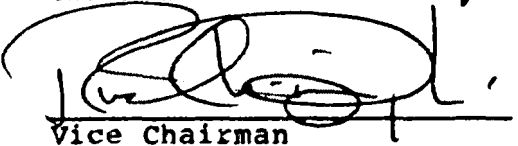
4. GenTel shall, as soon as reasonably possible after the issuance of the securities referred to herein, file with the Commission a statement setting forth the date or dates of issuance of the securities authorized herein, the price paid, the interest or dividend rate, the purchasers, and all fees and expenses, including underwriting discounts or commission or other compensation, involved in the issuance and distribution.

Nothing contained herein shall be construed as a finding of value for any purpose or as a warranty on the part of the Commonwealth of Kentucky or any agency thereof as to the securities authorized herein.

Done at Frankfort, Kentucky, this 20th day of August, 1987.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director