

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

U. S. DEPARTMENT OF DEFENSE,)	
)	
COMPLAINANT)	
)	
vs.)	CASE NO. 9608
)	
SOUTH CENTRAL BELL TELEPHONE)	
COMPANY,)	
)	
DEFENDANT)	

O R D E R

On June 9, 1986, the Department of Defense ("DOD") filed a petition asking the Commission to conduct an investigation into the reasonableness of the rates of South Central Bell Telephone Company ("Bell"). The DOD, through its witness Mark Langsam, stated that Bell's authorized cost of capital (particularly its cost of common equity) was too high. Mr. Langsam recommended reducing Bell's return on equity to 11.7 percent.¹

On July 7, 1986, the Commission issued an Order to Satisfy or Answer. On August 6, 1986, Bell filed its response.

On September 4, 1986, the Commission issued a request for information. On September 19, 1986, Bell filed its response.

After considering all of the evidence of record, the Commission concludes that this case should be dismissed without

¹ Testimony of Mark Langsam, page 6.

prejudice. The Commission has taken into consideration current market conditions, but at this time, many uncertainties exist, such as changes in accounting for pension costs, the Federal Communications Commission mandated detariffing of inside wire, the possible detariffing of billing and collection, and tax reform. These items are currently being investigated by the Commission; however, final decisions have not been reached. Therefore, the Commission is of the opinion that at this point a full investigation and hearing into the reasonableness of the rates of Bell are not timely. However, the Commission will continue its internal investigation of Bell's earnings and shortly will be making final decisions on the pending issues of inside wire and billing and collection. Simultaneously with the release of this Order, the Commission is issuing an Order establishing a formal investigation into the effects of tax reform. As a result of its findings in these matters, the Commission may initiate a similar investigation into the reasonableness of Bell's rates in the near future.

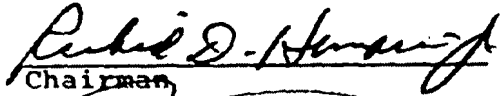
In addition, Bell, pursuant to 807 KAR 5:001, Section 7, has petitioned the Commission to treat certain data contained in Item No. 15 of the Commission's information request dated September 4, 1986, as confidential. The Commission, after reviewing the data, concurs with Bell's request and will grant the petition.

IT IS THEREFORE ORDERED that:

1. This case be and it hereby is dismissed without prejudice.
2. Bell's petition for confidentiality be and it hereby is granted.

Done at Frankfort, Kentucky, this 11th day of December, 1986.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director