

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

INVESTIGATION OF THE KENTUCKY)
INTRASTATE RATES OF SOUTH CENTRAL) CASE NO. 10105
BELL TELEPHONE COMPANY, INC.)

O R D E R

BACKGROUND

South Central Bell Telephone Company, Inc.'s, ("SCB") last general rate case, Case No. 9160, Petition of South Central Bell Telephone Company to Change and Increase Certain Rates Charged for Intrastate Telephone Service, was finalized in May, 1985. Numerous changes affecting the company, the telecommunications industry, and the economy have occurred since that date. SCB has revamped its internal retirement program, has set new depreciation schedules and has added and deleted numerous services. The Federal Communications Commission has, among the many decisions made during this period, detariffed the installation and maintenance of inside wire, ordered a new accounting system, ordered a completely different cost allocation system between regulated and deregulated operations and has made several decisions regarding interstate interexchange access charges. In addition, the Tax Reform Act of 1986 revised existing federal income taxation. Finally, market conditions differ significantly from those present 2 years ago. With all these changes, the

Commission is of the opinion that a review and investigation of SCB's rates and charges is appropriate at this time.

Many decisions which the Commission has recently made or will shortly make also impact SCB's earnings. These decisions add to the necessity of reviewing SCB's rates and charges. Concurrent with this Order, the Commission is entering an Order in Case No. 9923, Depreciation Rates and the Amortization of the Depreciation Reserve Deficiency of South Central Bell Telephone Company. That Order grants changes in depreciation parameters by plant account which increases depreciation expense by \$6.7 million. However, the Commission is reserving decisions on the amortization of the proposed reserve deficiency and the finalization of an effective booking date for the depreciation. SCB has proposed to amortize its expected reserve deficiency over a 5-year period for an annual intrastate expense of \$12.06 million.

Similarly, the Order implementing Phase IV of Case No. 8838, Investigation of Toll and Access Charge Pricing for Toll Settlement Agreements for Telephone Utilities, has been recently entered and the outcome of that Order may have an impact on SCB's earnings. In addition, the Commission will shortly issue an Order in Administrative Case No. 306, Detariffing Billing and Collection Services, that may impact SCB's earnings.

Moreover, an Order in Administrative Case No. 310, Change in the Uniform System of Accounts for Telephone Utilities, was entered on October 27, 1987, and these changes will directly impact SCB's operations. Further, in Case No. 9803, The Effects of the Federal Tax Reform Act of 1986 on the Rates of South

Central Bell Telephone Company, the Commission ordered SCB on June 11, 1987, to reduce its rates by \$19.4 million to reflect the reduction in tax expense of the Tax Reform Act of 1986, effective July 1, 1987.

The Commission is aware of internal changes in SCB's operations that will impact its financial position. For example, SCB has put in place an early employee retirement program. The internal changes will have a direct impact on SCB's earnings, as will the change in generally accepted accounting procedures for pensions as required in FASB 87 and FASB 88. Moreover, SCB has reported returns on equity for several of the past months which significantly exceed the range of 13.5 to 14.5 set in Case No. 9160.

Because of the factors cited above, the Commission is of the opinion that an investigation is necessary to determine the reasonableness of SCB's Kentucky intrastate rates and is herein opening this docket pursuant to KRS 278.270. Besides the relevant issues in SCB's last rate case, the changes as set forth above should be reviewed thoroughly in this investigation. The outstanding issues of the depreciation reserve deficiency and the finalization of a booking date for depreciation changes will be addressed in this docket.

The Commission is interested in negotiations among the parties to facilitate processing of the case. Staff will participate in these negotiations and all parties intervening in SCB's last case will be notified of this proceeding.

To begin processing this case, the Commission directs SCB to file a recent 12-month test period income statement, rate base, capital and capital structure. SCB should propose any adjustments it deems appropriate, including all issues cited above, and file all supporting documentation including a description of all assumptions and estimates. All adjustments made in SCB's last rate case should be quantified and proper adjustments made. If SCB disagrees with any of the adjustments cited above or the adjustments in Case No. 9160, it may so state. Moreover, SCB should file what it deems to be the appropriate return on equity and overall return on net investment. The above information should be filed within 30 days from the date of this Order.

The Commission contemplates establishing a procedural schedule which will proceed as quickly as possible while still affording adequate time for information requests to SCB and the company's responses.

RATE STABILIZATION

In this proceeding, the Commission is interested in addressing issues in a manner that will enhance the long-run interests of the ratepayers and the company. The Commission is, therefore, opening this investigation to include consideration of forms of incentive regulation. This will entail a review of plans and proposals related to rate stabilization or other nontraditional forms of regulation. SCB should file, also within 30 days from the date of this Order, a detailed proposal of the company's position on rate stabilization or any other nontraditional form of rate regulations. This proposal should be specific as to contract

period, required return, specific rates and any other features of the plans SCB consider appropriate. Detailed descriptions of all assumptions in any alternate rate proposal should be filed concurrent with the plan.

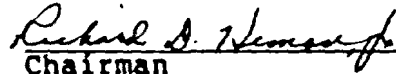
ORDERS

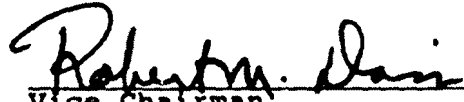
The Commission, having been advised, is of the opinion and hereby ORDERS that:

1. Pursuant to KRS 278.270 the Commission on its own motion is herein opening an investigation of SCB's Kentucky intrastate rates.
2. The depreciation reserve deficiency and the effective booking date of all depreciation changes originally requested in Case No. 9923 shall be addressed in this docket.
3. SCB shall file the information enumerated above within 30 days of the date of this Order.

Done at Frankfort, Kentucky, this 16th day of December, 1987.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director