

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ADJUSTMENT OF RATES OF THE SALEM)
TELEPHONE COMPANY, INC.) CASE NO. 91-217

O R D E R

On March 18, 1992, Salem Telephone Company, Inc. ("Salem") filed a petition for rehearing of the Commission's February 28, 1992 Order. Salem requests rehearing on four issues: corporate allocations, pension amortization, cash working capital, and rate of return.

After consideration of Salem's petition and being otherwise sufficiently advised, the Commission finds that rehearing should be denied on all issues except corporate allocations.

Affiliate Transactions

Salem's motion argues that the Commission's February 28, 1992 Order was unreasonable in that it, with limited exception, disallowed all corporate allocations no matter how reasonable they may have been and no matter what the benefit to Salem's ratepayers. Salem then cites three examples of what it describes as essential services provided by affiliates that were among those disallowed.

The Commission will grant rehearing on this issue and allow Salem the opportunity to justify the reasonableness of its

corporate allocations in accordance with the criteria set forth in the February 28, 1992 Order.

Pension Amortization

Salem requested rehearing on the issue of the Commission's disallowance of \$41,250 of test-year amortization expense associated with a 1986 transaction in which Salem purchased prior years service benefits for its employees. Salem's petition states merely that it takes exception with the Commission's disallowance of this expense and does not advance arguments relating to the appropriateness of the Commission's adjustment. The Commission believes that all of the facts relating to this issue were fully developed prior to the issuance of the final Order and that nothing would be served by rehashing this evidence through the rehearing process.

Cash Working Capital

Salem requested rehearing on the disallowance of its proposed inclusion of a cash-working capital provision based upon the 45-day computation method. Salem argues that the reasoning of the Commission relating to the elimination of working capital is not sound because of the timing of actual customer payment of their bills, and because 69 percent of Salem's revenue is related to toll service, which is collected in arrears.

Salem's petition offers no new evidence on this issue. All facts relating to this issue have been fully explored and considered and, as noted in the February 28 Order, no evidence has been presented which would lead the Commission to deviate from its

long standing policy of disallowing a cash working capital allowance for Local Exchange Companies.

Rate of Return

Salem requested rehearing on the Commission's calculation and Order granting a 12 percent rate of return on equity. Again, Salem's petition offered no new evidence to support its request.

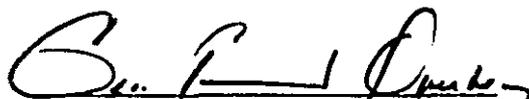
IT IS THEREFORE ORDERED that:

1. Rehearing shall be denied on all issues raised with the exception of corporate allocations.

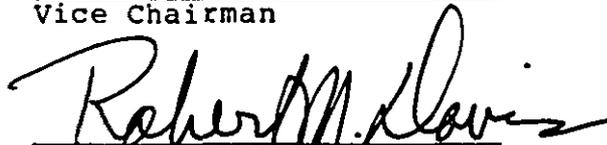
2. Salem shall file testimony and exhibits in support of its position on all affiliate transactions by July 17, 1992. At that time a procedural schedule will be established.

Done at Frankfort, Kentucky, this 7th day of April, 1992.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director