

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

A REVIEW OF THE RATES AND CHARGES)
AND INCENTIVE REGULATION PLAN)
OF SOUTH CENTRAL BELL TELEPHONE) CASE NO. 90-256
COMPANY)

O R D E R

On October 17, 1994, South Central Bell Telephone Company ("SCB"), by letter, informed the Utility and Rate Intervention Division of the Office of the Attorney General ("AG") of its intent to file a Point of Test on November 1, 1994 and that the likely result would be an increase in rates. On October 25, 1994, the AG filed a letter with the Commission responding to SCB's letter. The AG expressed concern that the incentive plan had been continued without notice to any party. The AG argues that the incentive plan expired on May 31, 1994 and that any extension should have been considered in its settlement on the proper return on capital midway through the plan.

On November 1, 1994, SCB formally filed its November 1994 Point of Test. The results of the filing showed that for the 12 months ending November 1994, SCB's return on capital was 11.26%, well within the neutral range of 10.99-11.61%. However, SCB further stated that an increase was necessary to true-up the prior Point of Test by the amount of \$2,984,000. In its last Point of Test, SCB projected its return to be 11.06%, but the actual return was 10.76%, or 23 basis points below the neutral range. After

accounting for the 50-50 sharing between SCB's customers and shareholders, this deficiency requires a permanent increase of \$1,471,000 and a temporary increase of \$1,513,000, including accumulated interest, to recover the six-month's revenue shortfall between June 1, 1994 and December 1, 1994. The temporary increase need only be in effect prospectively for six months.

To implement the permanent increase, SCB concurrently filed tariff revisions to introduce late payment charges to Section A2 of the General Subscriber Services Tariff and Section B2 of the Private Line Services Tariff. The proposed tariff revision will impose a .6 percent late payment charge on the unpaid portion of the customers' bill. The proposed tariff is expected to produce \$1,468,763 during the first year and was to become effective on and after December 1, 1994.

Furthermore, to implement the temporary increase, SCB also filed tariff revisions to Sections A12 and A13 of its General Subscriber Services Tariff to modify its existing residence and business rates for the Prestige[®] Communications Service Features, Call Waiting and the Customer Calling Services. The proposed tariff revisions will increase Residence Call Waiting and Business Call Waiting, \$.30 and \$.55, respectively. The tariff revision is expected to produce \$1,505,273 on an annual basis and was to become effective on and after December 1, 1994.

Pursuant to KRS 278.190, the Commission finds that further review and proceedings are necessary in order to determine the reasonableness of the tariff filing.

IT IS THEREFORE ORDERED that:

1. The proposed tariffs be and are hereby suspended for five months from December 1, 1994, up to and including April 30, 1995.

2. SCB and the AG shall tender pre-filed testimony by December 20, 1994. Any other party may pre-file testimony by the same date on all issues related to the November Point of Test and the proposed tariffs.

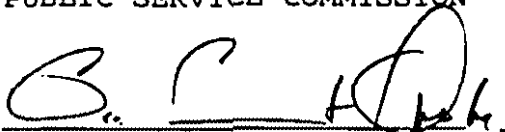
3. SCB shall notify customers of a proposed rate increase and of the hearing as required by the Commission's rules and regulations.

4. A public hearing shall be held on January 4, 1995 at 10:00 a.m., Eastern Standard Time, in Hearing Room 1, at the Commission's offices at 730 Schenkel Lane, Frankfort, Kentucky.

5. Nothing contained herein shall prevent the Commission from entering a final decision in this case prior to the termination of the suspension period.

Done at Frankfort, Kentucky, this 1st day of December, 1994.

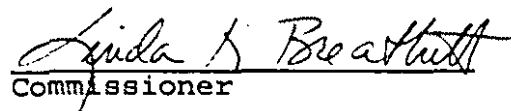
PUBLIC SERVICE COMMISSION



Chairman



Vice Chairman



Commissioner

ATTEST:


Executive Director