

BEFORE THE TENNESSEE PUBLIC SERVICE COMMISSION
Nashville, Tennessee

May 10, 1996

IN RE: COMPLIANCE AUDIT OF TELEPHONE ELECTRONICS CORPORATION (TEC) AND ITS LOCAL TELEPHONE COMPANIES IN TENNESSEE - CROCKETT, PEOPLES AND WEST TENNESSEE

DOCKET NO. 96-00773

ORDER

This matter is before the Commission upon the filing of the Staff's Compliance Audit of Telephone Electronics Corporation and its local telephone companies in Tennessee - Crockett, Peoples and West Tennessee (herein after "TEC" or "Company") for the 12 months ended December 31, 1994. The audit report was issued in December, 1995.

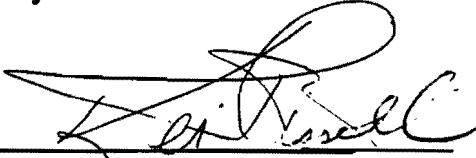
In the Compliance Audit, the Staff noted twenty-two (22) exceptions and made five general recommendations. TEC, in its response, received on February 28, 1996 states agreement with sixteen (16) exceptions, partial agreement with three exceptions, and total disagreement with three exceptions. The Staff reviewed TEC's responses and were unpersuaded to change its original finding and recommendation on those areas where the company either partially or totally disagrees with an audit exception.

The Staff, in its memorandum dated April 22, 1996, recommended that the Commission establish a contested case to determine if TEC's rates should be reduced since the audit found the Company had earned a rate of return of 19.24% for the twelve months ended December 31, 1994. That rate of return is well in excess of the 9.56% rate of return authorized by the Commission. The Staff also made recommendations, which it says can be handled as part of the contested case proceeding, asking that the Commission order the Company to make the accounting changes outlined in the audit report, and the issuance of show cause orders and monetary fines for failure to comply with the Commission's "FYI Tennessee" Technology Deployment Schedule and past Commission Orders.

The Commission considered this matter at its regularly scheduled Commission Conference on April 30, 1996. It is the finding of the Commission that the Staff's Compliance Audit should be accepted and that a contested case proceeding be opened to determine whether TEC should reduce its rates. (See Docket 96-00774, *Telephone Electronics Corporation and its Subsidiaries - Petition of Consumer Advocate to Convene a Contested Case and to Intervene*)

IT IS THEREFORE ORDERED:


1. That the Staff's Compliance Audit of Telephone Electronics Corporation and its local telephone companies in Tennessee - Crockett, Peoples and West Tennessee is hereby accepted;
2. That a separate proceeding will be established to create a contested case to investigate whether the rates of Telephone Electronics Corporation and its local telephone companies in Tennessee - Crockett, Peoples and West Tennessee should be reduced;
3. That any party aggrieved with the Commission's decision in this matter may file a Petition for Reconsideration within ten (10) days from the entry of this Order;
4. That any party aggrieved with the Commission's decision in this matter has the right to judicial review by filing a Petition for Review in the Tennessee Court of Appeals, Middle Section, within sixty (60) days from the entry of this Order.


CHAIRMAN


COMMISSIONER


COMMISSIONER

ATTEST:


EXECUTIVE DIRECTOR