

News Release

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NORTH CAROLINA UTILITIES COMMISSION APPROVES PRICE REGULATION PLANS FOR FOUR MAJOR LOCAL EXCHANGE COMPANIES

The North Carolina Utilities Commission (NCUC) issued Orders today approving price regulation plans for four major local exchange companies in that state--BellSouth Telecommunications, Inc. (BellSouth); Carolina Telephone and Telegraph Company (Carolina); Central Telephone Company (Central); and GTE South Incorporated (GTE).

The BellSouth plan provides for \$60 million in rate reductions over time, including elimination of touchtone charges for all customers at the end of the first year and a significant reduction over three years in the access charges paid by interexchange carriers for access to BellSouth's local network in order to complete long distance calls. The Carolina and Central plan calls for \$30 million in rate reductions over time, including a reduction of touchtone charges for customers over a three-year period and a reduction over a two-year period of access charges paid by interexchange carriers. Both plans require interexchange carriers to pass through their access charge reductions to their long distance customers in the form of reduced rates for long distance calls. The GTE plan does not include rate reductions.

The approval of these price regulation plans represents an historic shift from traditional rate base/rate of return regulation, where an examination of a utility's costs of service was a predominant element, to a more limited form of regulation based on the prices charged by the utility. The North Carolina General Assembly in 1995 directed the NCUC to allow price regulation for local exchange companies as part of House Bill 161, which also opened up local telephone service to competition. One of the purposes of price regulation is to allow a local exchange company greater flexibility to meet competitive pressures. The Commission's job is to balance the interests of the local exchange companies and those of the various parties, including competing local providers, so that the public interest is protected as telecommunications becomes more competitive.

Aside from the rate reductions, the price regulation plans set up various service baskets within which services are grouped. Rates in the baskets are adjustable up or down on the basis of inflation and other factors. The plans also contain price caps, and basic residential rates are capped for three years. The plans approved by the NCUC reflect the intense negotiations between the Public Staff, which represents the using and consuming public, and the local exchange companies. The local

exchange companies and the Public Staff presented joint stipulations to the NCUC prior to the hearings held this past winter. However, the plans approved by the NCUC modify the proposed plans in light of the positions presented by other affected parties, including long-distance companies, large business customers, pay phone providers, the Department of Defense, and the Attorney General's Office, as, for example, in the inclusion of specific anticompetitive safeguards in the plans.

The NCUC will be reviewing the respective local exchange companies' price regulation plans toward the end of five years to determine how the plans are working and what aspects of them may need to be modified. The NCUC also retains the authority to make changes, if necessary, to the plans in the interim if conditions change and the public interest so requires. The price regulation plans are expected to go into effect on June 3, 1996, if the respective local exchange companies accept the plans.