

COMMONWEALTH OF KENTUCKY
BEFORE THE UTILITY REGULATORY COMMISSION

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In the Matter of:

NOTICE OF ECHO TELEPHONE)
COMPANY OF A GENERAL) CASE NO. 7902
ADJUSTMENT IN ITS RATES)

O R D E R

On June 30, 1980, Echo Telephone Company (Applicant) filed its Notice with the Commission wherein it proposed to increase intrastate rates and charges by \$843,935 annually. Applicant further proposed an effective date of July 20, 1980, for the first \$500,000 of the requested increase with the balance of \$343,935 to become effective October 1, 1981. Applicant proposed to implement the requested increase in two phases in order to comply with President Carter's voluntary price guidelines and to minimize the impact of the proposed increases upon its subscribers.

In order to determine the reasonableness of the proposed increase the Commission suspended the proposed rates for a period of five months beginning on July 20, 1980. Public hearings were held on August 4, 1980, November 19, 1980, and November 20, 1980. The Attorney General's Division of Consumer Intervention was the sole intervenor in this matter although several consumers attended the hearings and made statements on the record.

All briefs and responses to requested information were filed by December 10, 1980, and the matter was then submitted to the Commission for final determination.

TEST PERIOD

For the purpose of testing the reasonableness of the proposed rates, the twelve-month period ending March 31, 1980, has been adopted. In accordance with Commission policy, pro forma adjustments have been included when found appropriate.

VALUATION METHODS

Net Original Cost

Applicant proposed a Net Original Cost Intrastate Rate Base of \$10,542,999 on Bobbitt's Exhibit B. The Commission accepts this valuation with two exceptions. We have omitted entirely Applicant's Working Capital of \$126,611. As the customer furnishes cash through advanced payments for basic exchange services, the Commission is of the opinion that those same customers should not be required to pay a return thereon. Rural Telephone Bank Stock in the amount of \$269,677 has also been deleted as this does not represent an investment in utility property which is used or useful in furnishing intrastate telephone service.

The Commission finds, from the evidence of record, that Applicant's Net Original Cost devoted to providing Kentucky intrastate telephone service is as follows:

Plant in Service	\$ 13,995,415
Construction Work in Progress	178,496
Materials and Supplies	<u>212,573</u>
Sub-total	\$ 14,386,484
Less:	
Accumulated Depreciation	\$ 2,875,382
Deferred Income Taxes	622,066
Unamortized Investment Tax Credit	<u>732,798</u>
Sub-total	\$ 4,230,246
Net Original Cost	<u>\$ 10,156,238</u>

Capital Structure

The Commission has determined from the record that the Applicant's Capital Structure as of March 31, 1980, was as follows:

	<u>\$</u>	<u>%</u>
Long Term Debt	10,041,253	80.09
Common Equity	<u>2,495,621</u>	<u>19.91</u>
Capitalization	<u>12,536,874</u>	<u>100.00</u>

From the record, net plant devoted to intrastate operations is 84.51%. As a result, that portion of the Capital Structure allocated to Kentucky operations is \$10,594,912 consisting of \$2,109,049 of common equity and \$8,485,863 of long term debt.

Customer deposits of \$201,835 have not been included in the capital structure as proposed by the Applicant since the Commission is of the opinion that their inclusion is not proper for rate-making purposes.

The Commission is aware of other valuation methods not included in the evidence of record. The Commission has given due consideration to all elements of value in determining the reasonableness of the matter herein.

REVENUES AND EXPENSES

The Applicant proposed several pro forma adjustments to reflect more current operating conditions. The Commission is of the opinion that these adjustments generally are proper and have been accepted with the following exception. The Company proposed to increase the depreciation rate on its digital central office equipment to 6% contending that, since this is first generation equipment, significant technological advances will probably occur requiring major modifications or replacements. The Commission feels that the Applicant is overly pessimistic in its estimates and, therefore, finds that a 4% depreciation rate is more appropriate for this equipment. This reduces Applicant's proposed adjustment by \$17,537.

The Commission has made several further adjustments to the Applicant's Income Statement:

Employee Concession Service:

The Commission has made an adjustment to increase Net Operating Income by \$12,599 to include the net effect of estimated additional revenues available to the Company in the absence of employee discounts on local service. It is the Commission's opinion that this is an expense properly borne by the stockholders of the Company and should not be a factor in the cost of service to the ratepayer.

Toll Settlements:

On September 2, 1980, the Commission in Case No. 7774 granted South Central Bell an increase in toll rates. As a result of this increase, independent telephone companies who settle toll revenues with South Central Bell participate in the benefits of this increase.

The Commission has therefore made an adjustment in the amount of \$16,023 to reflect Applicant's portion of this increase on a test period basis.

Wages and Fringe Benefits:

The Commission has adjusted Applicant's test period expenses for wages and fringe benefits by \$42,325 and \$5,452 respectively, based on eleventh hour information submitted December 10, 1980. This information contained calculations concerning wage increases granted from March 31, 1980 to December 1, 1980. The Commission feels that these additional expenses must be recognized in order for Applicant to have a realistic opportunity to achieve its allowed rate of return.

Advertising:

The Commission deducted \$868 of institutional advertising from Applicant's operating expenses in compliance with 807 KAR 25:025.

Therefore, Applicant's test period operations are adjusted as follows:

	<u>Actual</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$2,385,101	\$ 67,966	\$2,453,067
Operating Expenses	1,834,252	186,998	2,021,250
Net Operating Income	<u>\$ 550,849</u>	<u>\$(119,032)</u>	<u>\$ 431,817</u>

RATE OF RETURN

The determination of a fair rate of return for a public utility requires the Commission to consider not only the Utility's ability to attract capital at reasonable costs in order to provide continuous reliable service, but it must also consider that this service should be provided to the consumer at the lowest possible cost. The Commission has determined that a range of returns on equity of 13% to 14% fulfills both these requirements.

Based on an analysis of revenues, expenses, net original cost, capital structure and all other evidence of record, the Commission is of the opinion that a fair, just and reasonable rate of return on common equity is 13.75%. Adjusted test period operations result in a net operating income deficiency of \$336,300.¹

¹\$10,594,912 x .0725 = \$768,131 - \$431,817 = \$336,314.

This deficiency, adjusted for income taxes and uncollectibles, results in additional revenue requirements of \$665,200. The rate of return allowed on equity will produce rates of return on net original cost and capital structure of 7.56% and 7.25% respectively.

Moreover, the Commission finds that Applicant's proposed two-phase implementation of any increase granted herein is in the public interest and should be approved. The rates prescribed in Appendix "A," Phase I rates, will produce gross annual revenues of approximately \$2,953,000.

On a test period basis, the rates prescribed in Appendix "B," Phase II rates, will produce gross annual revenues of approximately \$3,118,267 or \$165,267 more in gross annual revenues than the Phase I rates. These rates will further provide net operating income of \$768,100, the level found reasonable in this matter.

SUMMARY

The Commission, after consideration of the evidence of record and being advised so FINDS that the rates of return allowed in this matter on a test period basis will permit the Applicant to pay its operating expenses and fixed costs and provide a reasonable amount of surplus for equity growth. The Commission further finds that the rates set out in Appendices "A" and "B," attached hereto and made a part hereof, are the fair, just and reasonable rates for Echo Telephone Company, Inc.

IT IS THEREFORE ORDERED, that effective with the date of this Order, Echo Telephone Company, Inc. is hereby authorized to place in effect the rates set out in Appendix "A."

IT IS FURTHER ORDERED, that effective October 1, 1981, as proposed by Applicant, the rates set out in Appendix "B" be and the same are hereby authorized to be placed into effect.

IT IS FURTHER ORDERED, that the rates and charges proposed by Echo Telephone Company, Inc. are unfair, unjust and unreasonable in that they produce revenue in excess of that found reasonable herein, and are hereby denied.

CONCURRING OPINION
OF
Vice Chairman John S. Hoffman

While I concur with the conclusion of this Order that the rates set forth in Appendices "A" and "B" herein are fair, just and reasonable, I must express my reservations over the level of return granted the company. I strongly believe that Echo's ability to borrow REA funds at a 5% or less interest rate makes it a much less risky company than other private telephone companies of similar size. For this reason, I feel that a return on equity near the lower end of the range found just and reasonable would have been appropriate in this case.

s/ Vice Chairman John S. Hoffman
Vice Chairman John S. Hoffman

CONCURRING OPINION
OF
Commissioner Mary Ray Oaken

While I too concur with the conclusion of this Order that the rates set forth in the Appendices are fair, just and reasonable, I must express my concern over granting a company with only 20% equity a return on equity of less than 14%. I strongly feel that Echo's high debt ratio makes it a much riskier company than other private utilities of similar size. For this reason, I would have awarded Echo a return on equity at the high end of the range found just and reasonable in this Order.

s/ Commissioner Mary Ray Oaken
Commissioner Mary Ray Oaken

APPENDIX "A"

APPENDIX TO AN ORDER OF THE UTILITY REGULATORY
COMMISSION IN CASE NO. 7902 DATED DECEMBER 19, 1980

The following rates and charges are prescribed for the customers in the territory served by Echo Telephone Company. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the date of this Order.

Rates: Monthly

Mt. Washington and Shepherdsville Exchanges

Business:	<u>Rate</u>
Commercial/Hotel Trunks	\$ 31.10
One-party (Base Rate Area)	
Multi-line Rotary	18.65
Multi-line Non-Rotary	15.55
Non-Multi-line	14.80
Semi-Public Coin	15.55
Extensions	.75
Charge for Company Owned Basic Telephone Set	.75
 Residence:	
One-Party (Base Rate Area)	\$ 8.35
Two-Party (Base Rate Area)	4.70
Two-Party (Rural)	4.70
Four-Party (Base Rate Area)	7.15
Four-Party (Rural)	7.15
Extensions	.75
Charge for Company Owned Basic Telephone Set	.75

Zonetown Exchange

Business:	
Commercial/Hotel Trunks	\$ 62.15
One-Party (Base Rate Area)	
Multi-line Rotary	37.25
Multi-line Non-Rotary	31.10
Non-Multi-line	30.35
Semi-Public Coin	31.10
Extensions	.75
Charge for Company Owned Basic Telephone Set	.75
 Residence:	
One-Party (Basic Rate Area)	\$ 11.95
Two-Party (Base Rate Area)	10.15
Two-Party (Rural)	10.15
Extensions	.75
Charge for Company Owned Basic Telephone Set	.75

<u>Present Service Offerings</u>	<u>Monthly Rate</u>
Directory Listings	
Alternate Call - Business	\$ 1.00
Alternate Call - Residence	.50
Extra Listing - Business	1.00
Extra Listing - Residence	.50
Semi-private listings	1.00
Private Listing	2.00
Foreign Listing - Business	3.00
Foreign Listing - Residence	1.50
Zone Charges	
1-Party, Zone 1, Shepherdsville, Mt Washington	1.50
1-Party, Zone 1, Zoneton	.50
2-Party, Zone 1, Shepherdsville, Mt. Washington	1.00
1-Party, Zone 2, Shepherdsville, Mt. Washington	3.00
1-Party, Zone 2, Zoneton	1.00
2-Party, Zone 2, Shepherdsville, Mt. Washington	2.00
1-Party, Zone 3, Shepherdsville	4.50
2-Party, Zone 3, Shepherdsville	3.00
1-Party, Zone 4, Shepherdsville	6.00
1-Party, Zone 5, Shepherdsville	7.50
Touch-Tone Service	
Residence service, per line	1.50
Business service, per line	1.90
Residence service, per single line set	.50
Business service, per single line set	.75
Multiline instrument, per set	1.00
Detached Extensions	
Off-premise, Min. 1 qtr. mile	3.00
Off-premise, each additional qtr. mile	.70
Miscellaneous Loop Rental	
First qtr. mile	3.00
Each additional qtr. mile	.70
Trendline Phone	1.95
Amplifying Handsets	1.50
Handsfree Single Line Telephone Set	5.25
Switch Key	1.00
Audible and Visual Signals	
Extension Bell	
Indoor	.30
Outdoor	.75
Gong	1.15
Chime	1.00
Industrial Bell, Outdoor	1.00
Horn, Weatherproof	3.55
Signal Lamp	.50
Telemetering Service	7.65
Coupling Devices	
VCC	5.70
VCA	6.30
DAA	4.55
Special Billing Telephone Numbers	1.50
1A2 Key Systems & Options	
Relay Cabinet, e/w intc., 6 trunk cap.	17.50
Tone Dial adapter	2.50
Manual exclusion, per set	.50
Multiline Telephone Sets	
6-Button Key Set	3.00
10-Button Key Set	3.50
20-Button Key Set	9.15
Handsfree, 10-button set	6.00
Handsfree, 20-button set	9.05

<u>Discontinued Service Offerings</u>	<u>Monthly Rate</u>
Private Branch Exchange Service	
North AKD 741	\$ 122.85
North ARD 561	370.00
Convenience Systems	
Dial Intercom, 2-6 Stations	2.00
Manual Exclusion, per set	.50
Convenience Telephone Set	1.25
Automatic Answering and Recording Services	
Doro 311	11.65
Push Button and Buzzer	.85

<u>Service Charges</u>	<u>Rate</u>
Business:	
Service Order Charge	
Initial Order	\$ 10.00
Subsequent Order	8.00
Line Connection Charge	13.00
Premise Visit Charge	16.00
Premise Wiring Charge	
First outlet	12.00
Each additional outlet	12.00
Station Connection and Handling Charge	
Each Station	2.00
Jack Charge	2.00
Residence:	
Service Order Charge	
Initial Order	8.00
Subsequent Order	5.00
Line Connection Charge	8.00
Premise Visit Charge	11.00
Premise Wiring Charge	
First outlet	8.00
Each additional outlet	8.00
Station Connection and Handling Charge	
Each Station	1.00
Jack Charge	2.00
Key Lines/Trunks:	
Service Order Charge	
Initial Order	10.00
Subsequent Order	8.00
Line Connection Charge	13.00
Premise Visit Charge	16.00
Premise Wiring Charge	
First outlet	12.00
Each additional outlet	12.00
Station Connection and Handling Charge	
Each station	2.00

<u>Other Charges</u>	<u>Rate</u>
Color Telephone Charge	\$ 2.50
Return Check Charge	5.00
Prewiring Charge -	
Up to Four Outlets	-
First Outlet	6.00
Each Additional Outlet	4.00
Nuisance Call Investigation	20.00
Customer Return Credit	5.00
Long Cord Charge	10.00

<u>Pay Telephone Stations</u>	
Local Messages, each	\$.25

APPENDIX "B"

APPENDIX TO AN ORDER OF THE UTILITY REGULATORY
COMMISSION IN CASE NO. 7902 DATED DECEMBER 19, 1980

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Rates: Monthly

Mt. Washington and Shepherdsville Exchanges

Business:	Rate
Commercial/Hotel Trunks	\$ 34.05
One-party (Base Rate Area)	
Multi-line Rotary	20.40
Multi-line Non-Rotary	17.00
Non-Multi-line	16.35
Semi-Public Coin	17.00
Extensions	.75
Charge for Company Owned Basic Telephone Set	.75
Residence:	
One-Party (Base Rate Area)	\$ 9.35
Two-Party (Base Rate Area)	4.70
Two-Party (Rural)	4.70
Four-Party (Base Rate Area)	7.90
Four-Party (Rural)	7.90
Extensions	.75
Charge for Company Owned Basic Telephone Set	.75

Zonetown Exchange

Business:	Rate
Commercial/Hotel Trunks	\$ 68.15
One-Party (Base Rate Area)	
Multi-line Rotary	40.85
Multi-line Non-Rotary	34.05
Non-Multi-line	33.40
Semi-Public Coin	34.05
Extensions	.75
Charge for Company Owned Basic Telephone Set	.75
Residence:	
One-Party (Basic Rate Area)	\$ 13.30
Two-Party (Base Rate Area)	11.30
Two Party (Rural)	11.30
Extensions	.75
Charge for Company Owned Basic Telephone Set	.75