

COMMONWEALTH OF KENTUCKY  
BEFORE THE UTILITY REGULATORY COMMISSION

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In the Matter of:

ADJUSTMENT OF RATES OF GENERAL )  
TELEPHONE COMPANY OF KENTUCKY ) CASE NO. 8045

O R D E R

IT IS ORDERED that General Telephone Company shall file with the Commission by January 26, 1981, the following information:

1. Provide a copy of the depreciation studies for central office equipment switching account (203) and the station equipment accounts (401), (404), (407) and (481).
2. Provide market forecasts used in the calculation of average remaining life for each category of equipment.
3. Provide detailed information on how you developed book reserves used to calculate remaining-life rates.
4. Provide supporting working papers for Jeffries exhibit five. Include detailed calculations of dividend yields, historic growth rates, and sustainable growth rates for the S & P Industrials and separately for each of the six independent telephone companies. For the calculation of the average annual dividend yields, show how the average annual dividends and market prices were determined.
5. Are the returns on common equity in Jeffries' exhibits six, seven, and eight calculated on average or year-end common equity book value?
6. Are the yields on "A" rated industrial bonds in Jeffries' exhibit nine on newly issued or seasoned bonds?
7. Provide supporting working papers for the average yield of 13.3% on "A" rated utility bonds stated on page 22 of Jeffries' testimony. Include the source of the data used and the detailed calculation of the average yield.
8. Provide Standard & Poor's published guidelines for independent telephone companies, as referred to on page 25 of Jeffries' testimony. Include guidelines for all bond ratings.

9. Provide a current bibliography of the extensive finance literature on non-traded divisional cost of capital that is discussed on pages 35 through 39 of Pettway's testimony.

10. Provide the amounts and dates of the dividends and market prices used by Value Line to calculate the expected annual dividend yields listed in column 2 of Pettway exhibits 2A and 2B.

11. For Value Line's estimated dividend growth rates listed in Pettway exhibits 3A and 3B, provide the publication date and the duration of the estimated growth periods.

12. Provide supporting working papers for Pettway exhibit four. Include:

- a. A detailed statement of the methodology Pettway used in updating the Ibbotson and Sinquefield study.
- b. Rates of return for all yearly holding periods from 1947 through 1979 for common stocks and long-term treasury bonds. Provide detail and format comparable to that presented in Ibbotson and Sinquefield's exhibit A.

13. For the Ibbotson and Sinquefield estimate of a future risk premium from 1977 to 2000, provide

A detailed description of the data, methodology, and results of the study.

14. Provide supporting working papers for Pettway exhibit six. Include:

- a. A detailed description of the "br method."
- b. The proxy used for the risk-free rate.
- c. A clarification of whether  $E(RP_{1979})$  refers to the expected market risk premium at the beginning or the end of 1979.
- d. A list of the ten individual year risk premiums used to estimate the 1980 expected risk premium.

15. Provide support for the statement on page 66 of Pettway's testimony that "conventional wisdom generally believes that a cost allowance of 2% to 3% for market pressure and 3% to 4% for break during underwriting are proper." List and describe in detail all sources of information used to determine "conventional wisdom."

16. Provide a list of the studies of market pressure and price break during the underwriting period that are discussed on pages 65 and 66 of Pettway's testimony.

17. Provide detailed calculations of the cost rates of 7% on the real estate lease and 14% on equipment leases, as stated on page 9 of Mason's testimony.

18. For the adjustment in Mason exhibit 4 for the anticipated sale of 40,000 shares of common stock to G T & E, provide

- a. the anticipated date of issue
- b. a current estimate of proceeds
- c. an itemized estimate of expenses associated with the issue

19. Provide a detailed description of GTC of Ky's long-range financing plans for the plant and equipment purchases in the adjustment in column D of Mason exhibit 4.

20. Provide the amounts and dates of the dividends and market prices used by Value Line to calculate the dividend yields listed in Mason exhibit 10.

21. Describe the procedure used to estimate the 10% adjustment factor for financing costs and market pressure used in Mason exhibit 10.

Done at Frankfort, Kentucky, this 12th day of January, 1981.

UTILITY REGULATORY COMMISSION

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Chairman

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Vice Chairman

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Commissioner

ATTEST:

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Secretary