

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

* * * * *

In the Matter of

THE APPLICATION OF UNIONTOWN)
TELEPHONE COMPANY, INC., FOR)
AUTHORITY TO ADJUST ITS PLANT)
ACCOUNTS IN CONFORMITY WITH) CASE NO. 8302
THE INVENTORY AND ORIGINAL)
COST DETERMINATIONS MADE BY)
CENTRAL ASSOCIATED ENGINEERS,)
INC.)

O R D E R

On August 3, 1981, Uniontown Telephone Company, Inc., ("Uniontown") filed its application with this Commission requesting permission to adjust its plant in service accounts to conform to the inventory and original cost evaluations performed by Central Associated Engineers, Inc. The proposed adjustment to the plant accounts would result in an increase to net plant in service of \$141,000 (from \$125,000 to \$266,000).

A hearing was held on September 17, 1981, to determine the reasonableness of the request, and the matter is now submitted for final determination by the Commission.

Analysis & Determination

The Commission in Case No. 8124 granted approval to Century Telephone Enterprises, Inc., ("Century") to acquire the stock of Uniontown. Subsequent to the Order in Case No. 8124, Century contracted with Central Associated Engineers, Inc., for a cost study and inventory of Uniontown's plant in service. Based on the results of this study and supported by evidence of improper accounting treatment of plant items by the former owners, Century has proposed to increase Uniontown's plant accounts.

The Commission has reviewed the evidence and agrees with Century that the former owners did not in the instances outlined below adhere to the Uniform System of Accounts for Telephone Companies. Uniontown's plant accounts do not accurately reflect many internal labor costs during the period of previous ownership nor do they accurately reflect equipment received from other utility companies, placed in service by Uniontown and recorded at less than net original cost. The Commission does not, however, agree that Uniontown's plant accounts should be adjusted to correct the improper accounting practices of the previous owners.

The improper practice of currently expensing rather than capitalizing internal labor costs resulted in Uniontown's ratepayers paying for this labor in

the period the costs were incurred. The ratepayers should not be required to pay for this labor twice. Uniontown's decision under the previous owners not to request rate relief for approximately 17 years (from 1962-1979) does not substantiate Century's claim that these costs were not recovered. Many factors, including efficient management and increasing productivity, could counteract the improper current expensing of labor costs, and obviously did, since Uniontown operated on a sound financial basis throughout the period of improper accounting.

Another improper practice involving failure to record, or inaccuracies in the recording of, donated plant or plant purchased at less than net book cost from other utility companies had a zero effect on Uniontown's ratepayers, as it should have. The offsetting entries to a contribution or negative acquisition adjustment account, as required under proper account practice, would have reduced Uniontown's rate base since any other alternative would have unfairly required recovery and return on contributed plant. To permit the write-up of plant accounts at the present time without the appropriate offsetting entries would be equally unfair to Uniontown's ratepayers for the same reasons.

A review of the accounting treatment of equipment received at salvaged or reduced cost from enterprises other than utility companies did not reveal improper

accounting by the previous owners. Under the Uniform System of Accounts, all amounts included in the accounts for utility plant should be stated at the actual cost incurred by the entity which first dedicated the property to utility service. Current write-up of plant accounts based on an engineering assessment of original net "value" does not conform with the accounting methods prescribed by this Commission.

The Commission, having considered the record in this matter and being advised, is of the opinion and finds that an adjustment to Uniontown's plant accounts should not be allowed.

IT IS THEREFORE ORDERED that the application of Uniontown Telephone Company, Inc., for authority to adjust its plant accounts is hereby denied.

Done at Frankfort, Kentucky, this 4th day of March, 1982.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary