

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

NOTICE OF SOUTH CENTRAL BELL)
TELEPHONE COMPANY OF AN ADJUST-)
MENT IN ITS INTRASTATE RATES AND) CASE NO. 9056
CHARGES TO RECOVER ADDITIONAL)
DEPRECIATION EXPENSES)

O R D E R

On June 1, 1984, South Central Bell Telephone Company ("SCB") pursuant to KRS 278.180 gave notice to the Commission that effective June 21, 1984, it would place into effect tariffs which would provide additional annual revenue of \$7.147 million on an intrastate basis for the sole purpose of recovering additional depreciation expense resulting from the 1984 agreement among SCB, this Commission and the Federal Communications Commission ("FCC") Staff setting up rescription of the life and salvage factors used to determine the depreciation rates for SCB's plant located in the Commonwealth.

The three-way meeting was held on January 17-19, 1984, and on February 8, 1984, the FCC Staff issued an interim booking letter certifying the results of that three-way meeting. As a result of the rescription, SCB stated that its annual depreciation expense for property located in Kentucky will increase by \$10.882 million which SCB stated results in an increased intrastate revenue requirement of \$7.147 million. SCB

stated that the proposed tariffs were designed to recover no more than the increase in SCB's annual depreciation expense and would neither increase nor decrease the present earnings. SCB further stated in its petition that it was unable to absorb the increased expense and still achieve the overall rate of return allowed by the Commission in its Order dated January 18, 1984, in Case No. 8847, Notice of South Central Bell Telephone Company of an Adjustment in its Intrastate Rates and Charges. The proposed tariffs were designed to recover the additional revenue requirement from only basic local service.

Also on June 1, 1984, SCB pursuant to 807 KAR 5:001, Section 13, moved the Commission to deviate from the Commission's rules to permit it to omit the financial exhibit referred to in 807 KAR 5:001, Section 6. In support of its motion, SCB stated that it had filed with its notice adequate and sufficient financial data to enable the Commission to substantiate that the additional revenue would not affect its earnings.

On June 11, 1984, the Attorney General, by and through its Consumer Protection Division, ("AG") filed an objection and motion to dismiss the June 1, 1984, filing of SCB. The AG stated that the filing failed to comply with Commission guidelines for the handling of cost recovery filings and ignored the rate design standards set out in Case No. 8847. The AG further objected to SCB's motion to deviate from the Commission's regulations and proposed rate design.

In support of its motion to dismiss, the AG stated that SCB had failed to provide any evidence that it could not absorb in

whole or part the additional revenue requirement associated with the new depreciation rates without dipping below its authorized return. The AG went on to say that such an evidentiary showing has been an integral part of the Commission's absorption test in past capital recovery requests and that the Commission's Order dated January 4, 1982, in Case No. 8150, Notice of South Central Bell Telephone Company of an Adjustment in its Intrastate Rates and Charges, made it clear that such an absorption test was applicable. The AG also stated that the filing failed to address the Commission's specific directives concerning the pricing relationship between flat rate service and local measured service and for these reasons, the filing should be dismissed.

In support of its objection to SCB's motion to deviate from the Commission's regulations, the AG stated that SCB had failed to furnish sufficient financial information for the Commission to set rates and that no good cause exists for such deviations. The AG further objected to SCB's proposed rate design in that the great majority of the revenue sought was from basic exchange service when the increased depreciation expense was relative to plant jointly used to provide all types of service. The AG stated that an "across the board" rate increase would be acceptable and requested the Commission to deny SCB's proposed rate design.

On June 19, 1984, SCB filed a response to the AG's motion to dismiss and a supplemental statement in support of its said filing.

FINDINGS AND ORDERS

The Commission is therefore of the opinion and finds that:

1. A hearing and investigation will be necessary in order to determine the reasonableness of the proposed rates and that such investigation cannot be completed prior to the proposed effective date of the tariffs.

2. The AG's motion to dismiss this case should be denied. SCB's ability to absorb all or part of the increment in depreciation expense and its proposed rate design are major concerns which the Commission shares with the AG. However, the Commission will attempt to correct the deficiencies in the instant filing rather than dismissing the case as proposed by the AG. Moreover, in addition to the AG's concerns, the Commission is also concerned with SCB's annualizing 3 months of intrastate separations factors to determine its intrastate revenue requirement.

3. SCB's motion to deviate from the regulations as stated in KAR 5:001, Section 6, will be granted with the exception of Item 9, given that this proceeding is limited to the reasonableness of the revenue requirements, the appropriateness of its proposed rate design, and its ability to absorb any of the increased depreciation expense. However, it will be necessary for SCB to file a customer billing analysis as described in 807 KAR 5:001, Section 9(2)(b).

4. In an effort to expedite this proceeding, the Commission will adhere to the guidelines established in Case No. 8150 regarding a utility's absorption potential. The absorption

test as established in Case No. 8150 (in the Commission's Orders of January 4, and May 5, 1982) anticipated the use of current financial data, adjusted for all adjustments to the financial data determined appropriate in the utility's most recent rate case.

5. The Commission is of the opinion that the test period used by SCB is outdated for use in determining current absorption.

6. The Commission utilizes a historical test period with known and measurable adjustments in determining fair, just and reasonable rates. SCB's proposal to use the first 3 months of 1984 to determine its intrastate separations factors as a substitute for 12-month historical results which was used in the most recent case is SCB's burden to prove as reasonable and may result in less expeditious consideration. Should instead SCB use 12-month average separations factors based on a more recent test period, as described in finding number 4, which may include those same 3 months of separations factors, but only based on those 3 months' weighted portion of the more recent 12-month test period, the Commission will not be required to examine this issue.

IT IS THEREFORE ORDERED that the rates and charges as proposed by SCB be and they hereby are suspended and the application of the rates deferred for a period of 5 months subsequent to the effective date of June 21, 1984.

IT IS FURTHER ORDERED that the AG's motion to dismiss this proceeding be and it hereby is denied.

IT IS FURTHER ORDERED that SCB's motion to deviate from the regulations as stated in KAR 5:001, Section 6, be and it hereby is

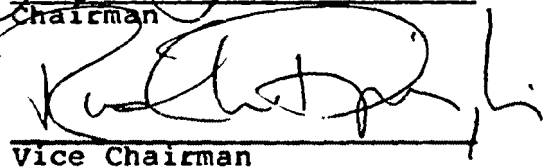
granted in part and denied in part as specified in finding number 3.

IT IS FURTHER ORDERED that SCB shall file its absorption test (as described in finding number 4) based on a recent test period ending no later than 90 days prior to the date of its original filing. This absorption test shall be filed with the Commission within 20 days from the date of this Order.

Done at Frankfort, Kentucky, this 20th day of June, 1984.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary