

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

* * * * *

In the Matter of:

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| HIGHLAND TELEPHONE COOPERATIVE, INC. |) | |
| SUNBRIGHT, TENNESSEE 37872 |) | |
| |) | |
| I. FOR AN ORDER APPROVING AND AUTHORIZING |) | |
| IT TO BORROW \$1,373,284 FROM THE RURAL |) | CASE NO. |
| ELECTRIC AND TELEPHONE REVOLVING FUND |) | 9399 |
| AND ISSUE ITS NOTE AND MORTGAGE OR |) | |
| OTHER SECURITY INSTRUMENTS TO SECURE |) | (S-8 LOAN) |
| THE SAME |) | |
| |) | |
| |) | |
| II. FOR A CERTIFICATE OF CONVENIENCE AND |) | |
| NECESSITY TO CONSTRUCT ADDITIONAL |) | |
| TELEPHONE LINES AND OTHER FACILITIES |) | |

O R D E R

On August 12, 1985, Highland Telephone Cooperative, Inc., ("Highland") filed its application for (I) a certificate of public convenience and necessity to construct additional telephone lines and other facilities and (II) authorization to borrow \$1,373,284 from the rural electric and telephone revolving fund and issue its ~~note and mortgage~~ or other security instruments to secure same.

Highland is a non-stock, non-profit membership cooperative with its principal office in Sunbright, Tennessee. Highland provides local exchange and toll telephone service through two exchanges serving one county in Kentucky and eight exchanges serving three counties in Tennessee. As of June 30, 1985,

Highland had 4,302 access lines in Kentucky and 10,448 access lines in Tennessee.

Highland proposes to construct sufficient outside plant to accommodate 1,416 new subscribers in all 10 exchanges, with an estimated 411 new subscribers in Kentucky. In addition, Highland plans to replace the existing analog toll carrier between the Stearns-Whitley City exchange in Kentucky and General Telephone Company's Burnside exchange with fiber optic cable. Central office switch replacements are planned, utilizing digital technology, in the Petros, Wartburg and Deer Lodge exchanges in Tennessee.

Highland plans to finance the proposed construction project in the following manner: \$150,000 from Highland's existing general funds, \$2,562,051 from Highland's unencumbered funds and a loan in the amount of \$6,384,000 from the Rural Electrification Administration ("REA"). Highland estimated that approximately \$1,373,284 of the REA loan will be for the proposed construction to be completed in the two Kentucky exchanges. The REA loan will have a 28-year maturity and an effective annual interest rate of 5 percent.

Since Highland does not have an engineering staff sufficient to cope with a project of this magnitude, they have contracted for the services of Cottrell & House, Inc., a telephone engineering consultant firm.

On August 26, 1985, a letter was sent from the Commission Secretary's Office informing Highland of several filing deficiencies. Highland's response was received September 9, 1985.

On September 30, 1985, the Commission ordered that additional information be filed. The requested information was filed on October 17, 1985. Information was again requested on January 7, 1985, in order to clarify for the record certain aspects of this case. This information was filed on January 24, 1986.

In its initial filing, Highland indicated that detailed outside plant cost studies were obtained for the Wartburg and Huntsville exchanges. The costs for the remaining eight exchanges were then estimated using an average cost per new subscriber based on the Wartburg and Huntsville estimates. Staff efforts at duplicating these figures were not successful and further clarification was requested. A subtraction error was confirmed in Highland's response; however, since the amounts affected by the error were only rough estimates, and the error was not a large percentage of the estimated cost, correction would be expensive and of little benefit at this time. Prior to actual construction, detailed studies will be completed for each exchange.

Concern was also raised pertaining to the justification and cost estimates regarding the proposed fiber toll cable. In Highland's original application the estimated cost for the fiber system was presented as \$151,600. This figure was not accompanied by any cost studies indicating that it was the economical choice over various alternatives that might have been considered for this construction; therefore, the staff requested that Highland substantiate the fiber choice with supportive data. Highland

responded to this staff request in a supplemental filing on October 17, 1985. Highland presented a cost comparison of fiber optic vs. digital carrier for the proposed route. The relative costs for each alternative were shown, \$90,010 for fiber, and \$77,000 for digital carrier. The issue was now complicated even further by the two conflicting estimates for the fiber system, one for \$151,600 presented in the original application filing, and another for \$90,010 which was used in the alternative comparison.

Clarification concerning the contradicting fiber estimates as well as justification for not selecting the most cost-effective system for this toll route was requested in the Commission's second information request. Highland's response confirmed that the cost of \$151,600 represented the most accurate estimate. Justification for selecting the more expensive fiber system over carrier included a mixture of qualitative and quantitative factors. Most importantly, the use of carrier would now require an additional \$52,000 to interface with General Telephone's fiber system at Burnside. It is apparent that the fiber system is more cost effective when consideration is also given to maintenance savings, although perhaps Highland's estimate of \$12,000 annually may be a bit optimistic.

This case has encountered unnecessary delay due to various omissions and mathematical errors. It should be assumed that in most cases, Commission staff will attempt to duplicate derived or calculated results and that submission of sufficient, accurate documentation will greatly facilitate this. It should also be obvious that some form of justification will be required whenever

cost studies are submitted and the least expensive alternative has not been selected.

The Commission, after considering the application and all evidence of record and being advised, is of the opinion and finds that:

1. The proposed plan of financing is for the lawful object within the corporate purpose of its utility operations, is necessary and appropriate for and consistent with the proper performance of its service to the public, will not impair its ability to perform that service, and is reasonably necessary and appropriate for such purposes.

2. Highland is seeking to borrow funds from the REA. On November 12, 1982, the Franklin Circuit Court issued its opinion in West Kentucky RECC v. Energy Regulatory Commission, 80-CI-1747 Franklin Circuit Court. Therein, the Court held that the Commission had no authority to approve or disapprove borrowings from the REA since the REA is an agency of the federal government and KRS 278.300(10) exempts such borrowing from Commission regulation. Accordingly, the Commission takes no action on the REA portion of Highland's proposed financing plan.

3. Public convenience and necessity require that the proposed construction be performed in the Kentucky jurisdiction. However, the Commission will require that revised information be filed when a proper design study has been completed, prior to beginning actual construction. No finding can be made on the Tennessee portion of the construction proposal. Since historically, Highland has not been required to separate Kentucky and

Tennessee expenses for rate-making purposes, it is emphasized that unnecessary construction costs in Tennessee will not be borne by Kentucky ratepayers.

IT IS THEREFORE ORDERED that:

1. Highland be and it hereby is granted a certificate of public convenience and necessity to construct additional telephone lines and other facilities in the Kentucky jurisdiction.

2. Highland shall file revised information on all Kentucky construction projects as soon as a design study has been completed and at least 6 months prior to beginning actual construction.

Nothing contained herein shall be construed as a finding of value for any purpose or a warranty on the Commonwealth of Kentucky or any agency thereof as to the financing authorized herein.

Done at Frankfort, Kentucky, this 19th day of February, 1986.

PUBLIC SERVICE COMMISSION

Richard D. Neman Jr.
Chairman

Richard L. ...
Vice Chairman

Spencer N. Williams
Commissioner

ATTEST:

Secretary