COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF LESLIE COUNTY TELEPHONE COMPANY, INC., FOR ORDER AUTHORIZING ADJUSTMENT OF RATES AND CHARGES	))))	CASE NO. 9430

O R D E R

IT IS ORDERED that Leslie County Telephone Company, Inc., ("Leslie County") shall file an original and twelve copies of the following information with the Commission, with a copy to all parties of record, within 2 weeks of the date of this Order. Each copy of the data requested should be placed in a bound volume with each item tabbed. Where a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), sheet 2 of 6. Careful attention should be given to copied material to insure that it is legible. Leslie County shall furnish with each response the name of the witness who will be available at the public hearing for responding to questions concerning each area of information requested. Where information requested herein has been provided along with the original application, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. If neither the requested information nor a motion for an extension of time is filed by the stated date, the case may be dismissed.

1. Provide information referencing those sections of the NECA Intrastate tariff which is the basis for the calculations of Schedule 14, Leslie County Telephone Company, Inc., Calculation of the Effect of the NECA Rate Change.

2. Provide copies of the Interstate tariff which is the basis for the calculations of Schedule 14.

3. Explain why the billing analysis does not match the amount used to calculate adjusted revenues on Schedule 12 of Mr. Swanson's direct testimony.

4. For the test year, provide a monthly break-down of toll service revenue into intra- and interstate components.

5. When available provide a copy of the 1985 audited financial statements.

6. The 1984 audited financial statements provided in response to Item No. 6 of the initial information request does not match those included in the 1984 Annual Report. Reconcile the differences between the two sets of financial statements with a full explanation.

7. Provide the entries which were recorded to the Depreciation Reserve account during the test period by month.

8. Does accumulated depreciation in the amount of $2,828,585 include depreciation on plant reclassified from work-in-progress at August 31, 1985?

9. Schedule 7 of Mr. Swanson's testimony has a depreciation expense adjustment of $72,033, but Schedule 10 shows an adjustment of $71,033. Which is the correct amount?

10. Why are accounts 231 and 232 listed on Schedule 2 of Swanson's testimony but omitted in response to question 12(a) of the Commission's first data request?

11. On Schedule 8, provide an explanation and justification for pro forma adjustment #13.

12. On Schedule 11, support depreciation rates for accounts 221.2 and 234.

13. The following are in reference to Investment Tax Credits ("ITC"):

(a) Provide the types of utility plant upon which the ITC was earned, the dollar amount of the plant and the date the plant was placed in service.

(b) After reviewing Leslie County's Annual Reports, it appears that prior to 1983 Deferred ITC was recorded in an account other than Account No. 176.2 - Accumulated Deferred Income Taxes--Other. Provide the accounting method utilized by Leslie County prior to 1983. If the method has changed, provide the current method.

(c) Per the 1983 and 1984 Annual Reports, Leslie County recorded an increase in the amount of $22,605 to Deferred ITC in 1983 and in 1984 recorded a decrease in the amount of $30,518. Explain the fluctuations to Deferred ITC and the reason no amortization was apparently recorded during these two years.

(d) On Schedule 5 of Swanson's testimony, how was the composite depreciation rate derived?

(e) Explain why the composite rate for the entire utility plant was utilized in the computation of ITC amortization

(Mr. Swanson's direct testimony, Schedule 5) rather than the rates that are applicable to the plant which caused the ITC.

(f) Did Leslie County earn ITC from the present construction, if so, provide the amount, type of plant and the dated earned.

14. Provide the following tax data where applicable for the test period actual and adjusted operations: (If the information has already been provided please give reference to where it is located.)

(a) Income taxes:

(1) Federal operating income taxes deferred - accelerated tax depreciation

(2) Federal operating income taxes deferred - other (explain)

(3) Federal income taxes - operating

(4) Income Credits resulting from prior deferrals of Federal Income taxes

(5) Investment tax credit net

(i) Investment credit realized

(ii) Investment credit amortized - Pre-Revenue Act of 1971

(iii) Investment credit amortized - Revenue Act of 1971

(6) Provide the information in 14a (1) through 14a (3) for state income taxes.

(7) Reconciliation of book to taxable income as shown in Format 20a (7) and a calculation of the book Federal and State income tax expense for the test year using book taxable income as the starting point

(8) A copy of Federal and state income tax returns for the taxable year ended during the test year including supporting schedules

(9) Schedule of franchise fees paid to cities, towns or municipalities during the test year including the basis of these fees

(b) An analysis of Kentucky other operating taxes in the format as shown in attached Format 20b.

15. Provide full documentation for the revenue adjustment column contained in Schedule 7 of Mr. Swanson's direct testimony. A detailed calculation should be shown for the determination of income taxes.

16. Explain why federal tax expense is not included in the months of January 1985 through August 1985. (Schedule 6 of Mr. Swanson's direct testimony.)

17. Provide the following information for the 1982 note from the Rural Electrification Administration ("REA") which, when completely advanced, will be in the amount of $6,834,000 at an annual interest rate of 5%:

(a) The date and amount of each advancement.

(b) The total amount advanced at the end of the test period.

18. Schedule 13 of Mr. Swanson's testimony is a listing of outstanding note balances as of the end of the test period. Provide that same information for each note separately.

19. In his direct testimony, answer 19, Mr. Roark stated that a TIER of 1.7 was relied upon in the calculation of proposed earnings because it would compensate for the increase in interest which would occur when the entire 1982 REA loan is advanced. Schedule 13 of Mr. Swanson's testimony appears to have utilized both the TIER of 1.7 and the entire amount of the 1982 REA loan.

Provide an explanation of the apparent conflict between the two testimonies.

20. The following are in reference to the detariffing of embedded C.P.E. (Administrative Case No. 269):

(a) When does Leslie County plan to implement its detariffing of C.P.E?

(b) Provide the allocation methodology used in determining the expenses associated with embedded CPE.

(c) Have all expenses and revenues associated with embedded CPE been removed from operating sections of Leslie County's financial statement? If not, provide the appropriate pro forma adjustments necessary to eliminate these items.

(d) Does Leslie County propose any pro forma adjustments to remove utility plant, accumulated depreciation and depreciation expense from the regulated accounts to the unregulated accounts. If so, provide these adjustments. If not, provide an explanation.

(e) Does Leslie County concur that a portion of its loans were obtained in connection with embedded CPE and that some of that debt remains on the books? If so, provide the amount of the loan(s) with associated interest, if not then provide an explanation.

21. Provide justification for the allocation methodology utilized in adjustment No. 12 of Mr. Swanson's direct testimony? (the allocation of expenses associated with deregulated lease revenues)

22. Provide detailed estimation for rate case expenses (Schedule 26, Swanson direct testimony) in the amount of $77,000.

23. Provide detailed estimation of why Leslie County has estimated a 2-year amortization period for rate case expense.

24. The following are in reference to Leslie County's test period maintenance expense:

(a) Explain why adjustments to maintenance are based on a 5-year average, while adjustments to right-of-way expenses are based on a 3.667-year average (Swanson's testimony, Schedule 18 and 27). Why were 4 months of 1984 counted twice in maintenance average?

(b) Explain why maintenance expenses increased drastically in 1984 and 1985. Were there any unusual circumstances?

(c) Explain why 1983 right-of-way expense was significantly higher than surrounding years. Were there any unusual circumstances? Should any part of this expense have been included in plant accounts? Why was there no right-of-way expense in 1981? Why was 1981 not included in the average?

(d) In calculating normalized right-of-way clearing (Schedule 17, Swanson's direct testimony) and maintenance expense (Schedule 27, Swanson's direct testimony) Leslie County utilized differing averages; however, both consisted entirely of the period of construction. Does Leslie County concur that both expenses may have been overstated during the period of recent construction? If not provide an explanation.

(e) Explain why Leslie County is of the opinion that the normalized level of right-of-way clearing and maintenance expense is as developed in its testimony.

(f) Would Leslie County concur that to obtain normalized right-of-way clearing and maintenance expense that years prior to the construction period should be included in the average? If so, provide a recalculation of the pro forma adjustment. If not explain.

25. Provide documentation to support proposed CWIP in the amount of $50,000 (Schedule 16, Mr. Swanson's direct testimony).

26. The following are in reference to the capitalization of non-recurring payroll expenses:

(a) Mr. Roark stated in his direct testimony, answer No. 24, that $74,353 of payroll expense was for part-time employees and that $33,809 of these wages constitutes a normal yearly occurrence. Provide documentation for this estimate.

(b) Mr. Roark further stated in answer No. 24 that test period wage expense would be reduced by $40,544; however, Mr. Swanson in his direct testimony Schedule 28 further reduced this amount by 15 percent and the associated FICA and Unemployment taxes by the same percentage. Provide an explanation for this conflict and the correct amount. Also provide documentation supporting the 15 percent of wages capitalized.

27. After reviewing the breakdowns contained in Item Nos. 2, 7 and 10 test period operating expenses contains $9,030 of rate case expense. Is this amount the actual expenditure or is it representative of expense which was amortized.

28. Provide a detailed breakdown of the costs of sending the employees to the national convention.

Done at Frankfort, Kentucky, this 6th day of February, 1986.

PUBLIC SERVICE COMMISSION

Richard D. Heman

For the Commission

ATTEST:

Secretary

Format 20a(7)
Schedule 1

Leslie County Telephone Company
Commonwealth of Kentucky
Case No. 9430
RECONCILIATION OF BOOK NET INCOME AND FEDERAL TAXABLE INCOME
12 Months Ended

Line No.	Item (a)	Total Company (b)	Total Company Non-operating (c)	Kentucky Operations Combined (d)	Kentucky Operations Intrastate (e)	Kentucky Operations Other Jurisdiction (f)
1.	Net income per books					
2.	Add income taxes:					
3.	A. Federal income tax-Current					
4.	B. Federal income tax deferred-Depreciation					
5.	C. Federal income tax deferred-Other					
6.	D. Investment tax credit adjustment					
7.	E. Federal income taxes charged to other income and deductions					
8.	F. State income taxes					
9.	G. State income taxes charged to other income and deductions					
10.	Total					
11.	Flow through items:					
12.	Add (itemize)					
13.	Deduct (itemize)					
14.	Book taxable income					
15.	Differences between book taxable income and taxable income per tax return:					
16.	Add (itemize)					
17.	Deduct (itemize)					
18.	Taxable income per return					

NOTE: (1) Provide a calculation of the amount shown on Lines 3 through 7 above.
(2) Provide work papers supporting each calculation including the depreciation schedules for straight-line tax and accelerated tax depreciation.
(3) Provide a schedule setting forth the basis of allocation of each item of revenue or cost allocated above.

Leslie County Telephone Company

Format 20a(7)
Schedule 2

Commonwealth of Kentucky
Case No. 9430
RECONCILIATION OF BOOK NET INCOME AND STATE TAXABLE INCOME
12 Months Ended

Line No.	Item (a)	Total Company (b)	Total Company Non-operating (c)	Kentucky Operations Combined (d)	Kentucky Operations Intrastate (e)	Kentucky Operations Other Jurisdiction (f)
1.	Net income per books					
2.	Add income taxes:					
3.	A. Federal income tax-Current					
4.	B. Federal income tax deferred-Depreciation					
5.	C. Federal income tax deferred-Other					
6.	D. Investment tax credit adjustment					
7.	E. Federal income taxes charged to other income and deductions					
8.	F. State income taxes					
9.	G. State income taxes charged to other income and deductions					
10.	Total					
11.	Flow through items:					
12.	Add (itemize)					
13.	Deduct (itemize)					
14.	Book taxable income					
15.	Differences between book taxable income and taxable income per tax return:					
16.	Add (itemize)					
17.	Deduct (itemize)					
18.	Taxable income per return					

NOTE: (1) Provide a calculation of the amount shown on Lines 8 through 9 above.
(2) Provide work papers supporting each calculation including the depreciation schedules for straight-line tax and accelerated tax depreciation.
(3) Provide a schedule setting forth the basis of allocation of each item of revenue or cost allocated above.

Format 20b

Leslie County Telephone Company
Case No. 9430

Analysis of Other Operating Taxes
12 Months Ended

"000 Omitted"

Line No.	Item	Charged Expense (a)	Charged to Construction (b)	Charged to Other Accounts (c)	Amount Accrued (d)	Amount Paid (e)
1.	Kentucky Retail:					
	(a) State Income					
	(b) Gross Receipts*					
	(c) Ad Valorem (Property)					
	(d) Payroll (Employer's Portion)					
	(e) Other Taxes					
2.	Total Kentucky Retail [L1(a) through L1(d)]					
3.	Other Jurisdictions					
	Total Per Books (L2 + L3)					

Instructions:

*Actual payments for test year should be shown under the amount paid column.

1. Explain items in column (c).