

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) CASE NO. 9430
ORDER AUTHORIZING ADJUSTMENT OF)
RATES AND CHARGES)

O R D E R

Due to unusual circumstances and delays in this case the Commission finds itself in need of additional information beyond the Order of Procedure issued February 10, 1986. Leslie County Telephone Company, Inc., ("Leslie County") has been notified of this need at the informal conference and hearing held March 19, 1986, and has raised no objection.

IT IS ORDERED that Leslie County shall file an original and eight copies of the following information with the Commission, with a copy to all parties of record by at least March 31, 1986. 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. The following questions pertain to right-of-way expense:

- a. Please reference your response to Item 24(c) of the Commission's February 6, 1986, Data Request. You state "see response to Item 24(a) as to why 1981 was not included in the average calculation." Your response to Item 24(a) does not state why 1981 was not included, but merely restates the obvious in that you have used a 3.667 year average, from 1982 through the end of the test year. Again, why was 1981 not included in the right-of-way average, especially in view of the fact that it was considered appropriate to include 1981 data in the maintenance average?
- b. What was the amount of 1981 right-of-way expense?
- c. Please reference your response to the Attorney General's ("AG's") Supplementary Data Request, Items 27 and 28, wherein you indicate that it is Leslie County's policy to expense all right-of-way costs. Justify why Leslie County should be allowed to deviate from the requirements imposed by the Uniform System of Accounts, which requires that

initial right-of-way costs be recorded in appropriate plant accounts?

2. Provide the number of years between Leslie County's last and present construction project?

3. During the time period between construction projects did Leslie County clear any of its right-of-way, if so provide a list of those expenditures by year.

4. When does Leslie County plan to clear the right-of-way in the future. (Provide documentation for any estimate.)

5. Provide a monthly breakdown of all maintenance expenses into sub-accounts for 1984 and 1985. These sub-accounts should include 602.1- 602.8, 603, 604, 605, 606, 610, 611, and 612.

6. Identify the account used to record right-of-way expenses.

7. Leslie County's 1983 and 1984 annual reports indicate that central office repairs (Accts. 604, 605 and 606) increased from \$207,411 to \$315,286, which is a 52% increase. A review of previous annual reports indicate that the average increase of the sum of these three accounts since 1976 was about 14%. The expensing of station equipment has obviously caused increases in Account 605. Provide an analysis to explain any other unusual circumstances which might have occurred to cause increases in these accounts. Your explanation is expected to reasonably account for most of the increase. Is it possible that some of this expense is associated with new construction and as such would be recorded in plant accounts?

8. According to annual reports, outside plant expenses (Account 602) increased by 153% in 1982 over 1981 and by 100% in 1983 over 1982 (this increase was 406% over 1981).

- a. Provide a complete explanation for these increases.
- b. Are any 1985 expenses associated with removal of outside plant included in Account 602 or any other maintenance expense account?
- c. If the response to 5(b) was yes, please identify these amounts and accounts. Are you aware that the negative net salvage values from the 1985 Average Depreciation Schedule prohibits expensing removals?
- d. If the response to 5(b) was no, please describe what measures are taken to insure that plant removals are not expensed. If plant removals are done by an outside contractor in conjunction with new construction, please describe the method used to insure that removal costs are not reflected in plant-in-service accounts.

9. In Item No. 24(b) of the second Commission Order, Leslie County identified \$59,960 of the \$191,046 increase which occurred to maintenance expense between 1983 and the test period. Please identify the remaining difference.

10. Should the \$59,960, which has been identified as construction expenditures, be capitalized and, if so, what time period should they be capitalized over. (Provide supporting documentation.)

11. In review of Leslie County's maintenance expense, it appears expense of station connections was excluded, please explain.

12. With reference to the preceding question, provide the normal level of station connections which Leslie County expects to occur after the test period with supporting documentation.

13. Schedule 27 of Mr. Swanson's testimony is a 5-year average of maintenance expenses incurred during construction. How does an average of abnormally high expenditures incurred during a construction project equate to normalized expenditures that will occur after the construction is complete. Please be specific.

14. The following are in reference to Leslie County's capitalization policy:

- a. Identify your general policy in capitalizing items.
- b. Does Leslie County have a dollar limit when considering capitalization versus expensing an item?

15. In the attached letter dated January 7, 1985, Leslie County elected to depreciate carrier equipment by the radio and microwave rate of 5.3 percent. However, in response to Item No. 12 of the second Commission Order dated February 6, 1986, Leslie County now reiterates that account 221.1 is step-by-step equipment and that it has elected to use the step-by-step rate of 9.1 percent. The following are in regard to this election.

- a. Explain why both account 221 and 221.2 would be classified as step-by-step equipment:

- b. If account 221 and 221.1 are both considered to be step-by-step equipment in which account is carrier equipment included?
- c. Has Leslie County requested prior Commission approval before changing its depreciation rates.
- d. Provide a breakdown of the equipment contained in account 221.2.

16. Provide an explanation of why Leslie County proposed to increase depreciation expense by the utility plant reclassified at August 31, 1985, but did not include a like adjustment to accumulated depreciation.

17. After reviewing Item No. 7 of the second Commission Order it has come to the Commission's attention that the greatest amount of plant retirements occur during the last month of the test period. Explain why this occurs.

18. Leslie County provided a schedule of the ITC actually used and amortized by year since 1980 in response to Item No. 12 of the AG's first information request. After reviewing this schedule the Commission has realized that Leslie County has utilized an amortization period of 5 years rather than the life of the plant. Provide a recalculation of the ITC amortization utilizing the life of the plant.

19. In the responses to both the AG and the Commission, Leslie County has stated that ITC which would be earned on plant reclassified as of August 31, 1986, has not been calculated at this time. Provide a calculation of expected ITC.

20. What effect does Leslie County foresee from changing the amortization period of ITC from 5 years to the life of the plant.

21. In Administrative Case No. 269 (The Sale and Detariffing of Embedded Customer Premises Equipment) Order dated September 10, 1985, the Commission instructed the companies wishing to detariff their embedded CPE as of January 1, 1986, to file their intent within 60 days from the date of the Order. In regard to Leslie County's intent to detariff as of January 1, 1986, provide the following:

- a. The journal entries which Leslie County made January 1, 1986 to detariff embedded CPE.
- b. Identify all expenses and revenues associated with embedded CPE and the allocation methodology which Leslie County proposes to utilize.
- c. Provide the necessary pro forma adjustments to recognize this change.

22. In response to Item No. 4 of the Commission response, Leslie County provided a monthly breakdown of test period toll revenues. Provide a monthly breakdown of InterLATA revenues into Interstate InterLATA revenues and Intrastate InterLATA revenues with a detailed explanation of amounts included in the other four columns.

23. The following are in reference to test period right-of-clearing expense and Clear Path Co., Inc., ("Clear Path"):

- a. When was Clear Path incorporated or formed?

- b. Does Clear Path perform work for companies other than Leslie County? If so, provide a list of those companies, the duties performed and price charged.
- c. Explain how the outside contract prices provided in response to the AG's Item No. 71 of the first information request compares to the price that Clear Path charges when considering the differing variables that might effect the price of the contract. (Example: size of project, the terrain of project area, etc.)
- d. Please list the percentage ownership in Clear Path by Mr. Mattingly, Ms. Stewart and Ms. Lewis.
- e. For each invoice of Clear Path for the years 1982 through 1985 list the specific areas which were cleared by reference to a map of the Company's service territory showing the specific lines involved.

24. Please state the amount of time Mr. Mattingly, Ms. Stewart and Ms. Lewis devote to the operations of Clear Path and whether or not this time is devoted outside of the normal office hours of Leslie County Telephone.

25. Please state the amount of time Mr. Mattingly devotes to the Hyden Insurance Agency. Is this time outside of the normal office hours of Leslie County Telephone? Specifically state whether Mr. Mattingly receives any form of compensation from the Hyden Insurance Agency which would relate to Leslie County's insurance policies.

26. In certain instances where the utility has provided adequate support the Commission has allowed a 2-year amortization of rate case expense. Provide further documentation which Leslie County has that was not provided in earlier responses to support its proposed 2-year amortization of rate case expense.

Done at Frankfort, Kentucky, this 24th day of March, 1986.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:

Secretary

Eng



LESLIE COUNTY TELEPHONE CO., INC.

E. A. Mattingly, Pres.

Adelene M. Lewis, V. Pres.

Ronnie C. Stewart, Secy.-Treas.

P. O. BOX 1477

TELEPHONE (606) 672-2303

HYDEN, KENTUCKY

7 Jan 85

RECEIVED

JAN 11 1985

PUBLIC SERVICE
COMM. DIV.

Mr. Forest M. Skaggs, Secretary
Public Service Commission
730 Schenkel Lane
P. O. Box 615
Frankfort, Kentucky 40602

Dear Mr. Skaggs:

Pursuant to your letter dated November 16, 1984 regarding Average Depreciation Schedule for 1984, this Utility accepts the proposed schedule which has been approved by the Commission.

We realize that these rates will remain in effect for at least three years which will take effect January 1, 1985 and end as of December 31, 1987. This utility will use the maximum rate as specified in the 1984 schedule. FCC Account No. 221, Central Office Equipment, will be subdivided into three accounts because we have three types of central offices, step by step, crossbar and digital. Carrier equipment will be depreciated by the radio and microwave rate.

The remaining FCC Accounts will follow the Average Depreciation Schedule.

I talked with Mr. Wayne Bates about this filing after 31 Dec. 84 and he has no problems with this because this is the first month of the new year when the depreciation will go into effect. I request that you concur with his opinion because needless to say 1984 has not been one of our better years.

If you have any questions or desire additional information, please contact me.

Thank you in advance for your cooperation.

Sincerely,

Donald Roark
Assistant Manager