COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ADJUSTMENT OF RATES OF GENERAL TELEPHONE COMPANY OF THE SOUTH	))	CASE NO. 9678

In the Matter of:

THE EFFECTS OF THE FEDERAL TAX REFORM ACT OF 1986 ON THE RATES OF GENERAL TELEPHONE COMPANY OF THE SOUTH	)))	CASE NO. 9800

O R D E R

Procedural Background

On September 26, 1986, General Telephone Company of the South ("GenTel") filed notice with the Commission to change its rates and charges effective October 26, 1986. The Commission suspended the proposed rates and charges until April 16, 1987, in order to determine the reasonableness of the request. On April 16, the Commission issued an Order in this case authorizing a permanent rate increase for GenTel of $2,251,772 on an annual basis.

On May 6, 1987, GenTel filed a Petition for Rehearing on four of the issues that were addressed in the April 16 Order. Those issues were: 1) the adjustment to local service revenues for profits derived from GTE Directories Corporation; 2) the disallowance of 50 percent of the adjustment proposed by the company to reflect appropriate jurisdictional separations of the general office expenses; 3) the disallowance of wage increases occurring in the

period following the test period; and, 4) the specific common equity rate of return selected by the Commission from the range of returns found to be fair, just, and reasonable. The Commission granted the Petition and on June 8, 1987, GenTel's witness, Bruce Holmberg, filed his rehearing testimony. The rehearing was held on June 24, 1987, in the Commission's offices in Frankfort, Kentucky. The only appearances at the rehearing were GenTel, the Attorney General ("AG"), and Lexington Fayette Urban County Government. Mr. Holmberg was the sole witness.

At the rehearing the AG alleged that Mr. Holmberg was not an expert witness and therefore moved that his prefiled testimony be stricken. In response, the attorney for GenTel clearly stated that the company was not seeking to introduce new evidence but merely to "explain our rationale for why we believe the Commission should reach a different opinion on that same evidence."[1] The Commission overruled the motion to strike the testimony from the bench and indicated that Mr. Holmberg's testimony would be given appropriate weight.

Discussion

Adjustment to Directory Advertising Revenues

In its April 16 Order, the Commission made an adjustment which imputed in the determination of GenTel's revenue requirement additional directories revenues of $1,463,189 for rate-making purposes. In its Petition for Rehearing, the company argued that it had responded to the only contentions raised prior to or during

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1 Transcript of Evidence ("T.E."), June 24, 1987, page 20.

the hearing. In response to the AG's contention that GTE Directories Corporation was earning an excessive rate of return, GenTel asserted that the rate of return was similar to that earned by firms engaged in the same type of business. In response to the AG's argument that the contract between GenTel and GTE Directories Corporation was not an arms-length transaction, GenTel stated that the agreement was negotiated at arms-length.

However, these points raised by the AG were not the only issues of concern that the Company witnesses were asked to address at the hearing. Commission staff and the AG repeatedly asked the witnesses whether GTE Directories Corporation was regulated. Under cross-examination by the AG, Richard G. Stone, Vice President of Finance for GenTel, was asked why there is a need for the directories company to generate a profit, rather than billing at cost.[2] He stated that, "the directory company is a non-regulated -- a deregulated company, and as a deregulated company, I think, is expected to earn a rate of return that would be compatible with other competitors that offer that type of service."[3] Staff also asked, "Do you consider the functions performed by the Directories Corporation to be a deregulated service?" Mr. Stone answered, "In my opinion I certainly can see it being deregulated business, yes." When asked why he held that opinion, Mr. Stone replied,

> Well, you know, I think that as we're getting into an era of re--of deregulation that all companies, in order to keep costs down that costs can't be kept down strictly by reducing costs. I think we've got to use our imagination, our ingenuity, all of our abilities

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2 T.E., Volume II, February 18, 1987, page 194.

3 Ibid., page 195.

> wherever we can to go outside and be able to bring into General Telephone of the South all types of revenues and services that we possibly can. I don't know, maybe we might like to do directory business ourself.

In response to this answer, Mr. Stone was asked:

> If you hold this opinion, I assume you have a reasonable basis for it and I would like to find out what that is. Who has determined that the directories corporation is a deregulated service?

At this point, counsel for GenTel, Mr. Goodrum, interjected, "I believe that does call for a legal conclusion."

The following dialogue then occurred:

Q. Who has--well, what's the basis for your opinion?

A. That's strictly my opinion, strictly mine.

Q. To your knowledge, has the FCC determined that the--that the--

A. Not to my knowledge. I'm not familiar.

Q. Any courts?

A. I know it has--I think it has been discussed in some areas. I've read things about it, but my--what I'm giving you is strictly my opinion.[4]

Another company witness, Gary McGrath, Assistant Treasurer of GTE Directories Corporation was asked by the staff whether Directories Corporation activities with affiliated companies were considered non-regulated. Mr. McGrath answered that he did not know of "any state or federal body that regulates what a directory company can charge for quarter column ad. Advertising rates are not regulated."[5]

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4 T.E., Volume II, pages 208-209.

5 T.E., Volume III, page 180.

Finally, Ronald L. Roberts, Operations and Support Manager for Customer Services, when asked whether the "printing, publishing, advertising and selling associated with the telephone companies directory" is non-regulated activity, stated that like Mr. McGrath "he wasn't aware of a situation where a regulatory body had established sales rates for a company."[6] The witness went on to say that "certainly that portion of the revenues recognized for sales and that reside or go back to the particular telephone company have, to my knowledge, always been considered funds to be used as part of the rate base."[7]

Thus, despite being asked many times about the status of directories revenues, the company could produce no satisfactory basis for its belief that all directories revenues should not benefit local ratepayers. As stated above, counsel for GenTel felt that the issues were legal matters, but when given the opportunity to address the status of GTE Directories Corporation, the Company admitted that there is no Kentucky case law on the matter and failed to provide support from other jurisdictions.[8] GenTel had several other opportunities to support its views. These opportunities included the Petition for Rehearing, Mr. Holmberg's pre-filed testimony, the rehearing, and finally, the Memorandum of Law on Rehearing issues. However, at no time could GenTel offer credible support for its position. The Company has

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6 T.E., Volume III, page 195.

7 T.E., Volume III, page 196.

8 GenTel's brief, March 13, 1987, pages 13-20.

failed to meet its burden of proof in setting aside the Commission's determination that the benefit of directories revenues belongs to the local company. KRS 278.430.

Instead, GenTel argued vigorously against the language in the April 16 Order which cited Judge Greene's opinion in the AT&T divestiture case as an example for the treatment of directories revenues. GenTel concluded that the Commission improperly relied upon the Modified Final Judgment which stated Judge Greene's opinion that yellow pages are a part of regulated operations and that profits should be returned to the local service companies.[9] The Commission referred to Judge Greene's opinion only as support for its position and GenTel has erred in assuming that the Commission based its conclusion on the Modified Final Judgment.

The Commission's April 16 Order clearly stated its views:

> All of GenTel's arguments against the AG's proposed adjustment center on one issue -- GTE Directories produces non-regulated services for its affiliates. The other various arguments put forth by GenTel witnesses are not persuasive. It is the Commission's opinion that directory services including yellow page advertising are a part of regulated operations. This position has never been challenged in this jurisdiction and has widespread national support.
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> [T]his Commission is of the opinion that any arrangement that would result in a lower level of directory service revenues flowing to local service is inconsistent with the principle that these are a part of GenTel's regulated operations and the goal to promote universal service. It is the Commission's opinion that profits derived from the affiliated transactions between GTS and

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9 United States of America v. American Telephone and Telegraph Company, 552 F.Supp. 131 (1982).

GTE Directories should be returned to the local company.[10]

The Commission's Order maintained that directory advertising, including yellow pages, is intimately linked to the provision of local service. As part of the regulated operations, directory revenue should be applied to the regulated side to offset expenses, thereby providing a contribution to regulated ratepayers. Capturing this contribution for the regulated side furthers the goal of universal service by enabling companies to charge lower rates than would be possible without this adjustment. The Commission found that such treatment of directory revenues not only has never been challenged in this jurisdiction but, in fact, has national support.[11]

In support of the Commission's position, the following case, from a sister commission which involves a GTE company, demonstrates that the adjustment to directories revenues is both reasonable and appropriate.

In Re: General Telephone Company of California, 92 PUR 3rd 223, 237-239 (1971), the California Commission made an adjustment similar to the one made in our April 16 Order. Part of the rationale was that GenTel could have developed its own directory

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10 April 16, 1987, Order, pages 14 and 15.

11 As additional support for the Commission's view that the imputation of directories revenues to regulated operations has national support see Regulatory Focus, published by Regulatory Research Associates, Inc., "State Telecommunications Regulatory Overview," page 7, (July 21, 1987). The survey which is the subject of this article determined that 33 state commissions impute directories revenue for the benefit of regulated operations.

operations which would be part of the local company. The Order then quotes prior orders stating that the directory company should not be allowed a greater return on business with GenTel than GenTel is allowed on its other utility business and that a utility should not be allowed to obtain higher profits than would otherwise be available merely by separation of the corporate structure of an essential instrumentality of telephone service. The California Commission also mentioned that the contract was not bargained at an arms-length transaction and that the directory company does not compete for the business of GenTel nor does it have any measurable risk of losing such business.

At least two other states within GenTel's operating area, Tennessee and North Carolina, have made an adjustment similar to this one in the company's recent rate cases.[12]

When presented with this issue, a North Carolina court reached the same conclusion. In North Carolina ex rel. Utilities Commission v. Central Telephone Company, 51 PUR 4th 474, 475, 299 S.E.2d 264, 61 N.C. App. 742 (1983),

> [T]he furnishing of classified advertising by a telephone company, more commonly known as the Yellow Pages, is an essential part of the service it provides. As a result, Yellow Page revenue and expenses should be included in the revenues and expenses of the company when it applies for a rate increase.

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12 Petition of General Telephone Company of the South to Change and Increase Certain Rates and Charges for Intrastate Telephone Service in the State of Tennessee, Docket No. U-86-7437, Order dated January 2, 1987, pages 3-6; and Application of General Telephone Company of the South for Authority to Adjust its Rates and Charges Applicable to Intrastate Telephone Service in North Carolina, Docket No. P-19, Sub 207, Order dated September 16, 1986, pages 9-12. See also, T.E., June 24, 1987, pages 113-114.

The Commission, having seriously considered the issue, affirms it original decision. We are of the opinion that GenTel should not be permitted to reduce its regulated revenues by segregating the profits of a very lucrative service into an affiliate. In so doing, the company should not be allowed to earn for its investors a rate of return in excess of that authorized for other regulated offerings.

In addition to contesting the adjustment per se, GenTel asserts that an error was made in the calculation of the directories adjustment. The Commission concurs and finds that in its determination of this adjustment the overall rate of return had been applied to the Directories Corporation's equity capital. Although GenTel suggested that the equity return would have been more appropriate, the Commission is of the opinion that the overall rate of return was correct; however it should have been applied to the total capital. Thus the Commission for the above-stated reasons has determined that additional revenue imputed from the Directories Corporation is $1,305,270, an increase in revenue requirements of $157,916.

GenTel Office Allocation

In its Order of April 16, 1987, the Commission disallowed one-half, or $2,254,970, of GenTel's proposed increase to office expenses. Two major reasons for the Commission's disallowance were that 1) GenTel had made reductions to expenses in at least two states in which there have been no rate proceedings, thus resulting in a double recovery of these expenses, and 2) GenTel

was unable to support the proposed amount to be allocated to the Kentucky ratepayers.

In its petition for rehearing and in testimony before this Commission, GenTel contended that no double recovery existed because it had not earned its authorized return in the states where general office expenses have been reduced. Individual state earnings are not the point. Recovery of general office costs by individual states is the point, and absent any detailed analysis of GenTel's operations in those other states, this Commission is unable to determine the exact causes of these underearnings or whether they were related to the reductions in general office expenses. But the record remains that not all states have recognized revenue requirement reductions and in those states recognizing reductions, levels were less than those in the Kentucky study.

Regarding the second reason for disallowance, Mr. Holmberg testified that the amount of expense was determined by "jurisdictional separations and methodologies that are appropriate for that purpose" [i.e. NARUC/FCC separations procedures].[13] Although the Commission finds the basis for the method used for the allocation appropriate, it has serious concerns with the level of expense to be allocated. This has a significant impact on Kentucky ratepayers, and it is the state commissions that must make the ultimate determination as to the proper amount of expense to be allocated. An analysis of the amounts to be allocated based upon

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[13] T.E., June 24, 1987, page 37.

the "world map" allocation shows wide fluctuations among the eight states served by GenTel and the different time periods involved. In response to cross-examination by the AG, Mr. Holmberg's only explanation was that different time periods produce different results and, therefore, the discrepancies cannot be reconciled. The Commission agrees that different time periods in combination with their respective amounts may produce different results; however, because the level of expenses directly assigned to Kentucky in each of the studies was also volatile it is difficult to fix the level of expenses to be allocated to Kentucky on a going-forward basis. Asked why the amounts allocated exceeded the total sum of expenses Mr. Holmberg again stated that it was because of different time periods in different jurisdictions;[14] however every study had the same result. Thus, it is the Commission's opinion that GenTel has failed to provide the reasons for the fluctuations or the overbilling.

It is the Commission's position that GenTel has failed to meet its burden of proof on this issue. The record does not indicate that the total cost allocated to Kentucky is necessary or that the Kentucky ratepayers have in any way benefited from the services associated with these costs. Moreover, when asked at the initial hearing whether merging the Kentucky system into GenTel had increased or decreased costs to Kentucky, GenTel's witness, Richard J. Nordman, stated that he had no study to determine whether there had been any greater productivity or reduced costs

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[14] T.E., June 24, 1987, page 110.

to Kentucky ratepayers.[15] It would certainly seem that subsequent to merger GenTel would monitor costs to see if centralization eliminated duplication and reduced expenses; however, to this date GenTel has not provided any concrete evidence that the merger has benefited Kentucky ratepayers. In fact, GenTel's total general office allocation to be borne by all states has increased from $83,600,000 in September 1985, to $149,144,000 in September 1986, or approximately 78 percent.[16] Specifically, Kentucky's allocation for the test year was $39 million and GenTel proposed to increase the level to $47 million with little explanation for the substantial increase.[17] Apparently, the most significant result of the merger has been an increase in expenses over which Kentucky has little or no control.

GenTel has offered no new information on rehearing that the Commission believes is sufficiently persuasive to warrant changing its position on this issue. The Commission continues to question the amount of general office expenses allocated to the Kentucky ratepayers and believes its allowance of one-half of the proposed increase in the April 16, 1987, Order was adequate given the level of proof provided. Thus, the Commission affirms its original decision. Furthermore, the Commission wishes to reemphasize that it will not allow any future increases in general office alloca-

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15 T.E., Volume II, February 18, 1987, pages 149, 150.

16 T.E., June 24, 1987, page 84.

17 Response to AG information request on rehearing. Item 1A.

tion to Kentucky without GenTel proving that the expenses are proper, necessary, and of benefit to Kentucky ratepayers.

Wages and Benefits

In its April 16 Order, the Commission denied an increase of $2,169,407 to wages and benefits. Throughout the proceeding GenTel contended that disallowance of these adjustments would be inconsistent with the treatment of similar adjustments, such as pensions, taxes, and general office allocations, all of which occurred subsequent to the test period. The Commission's Order dealt with the consistency issue; however, on rehearing GenTel has again contended that the Commission has been inconsistent but has narrowed its argument to a comparison of the Commission's treatment of the adjustments to wages and pensions. The two adjustments are comparable from the standpoint that both must be analyzed with respect to GenTel's earnings and the Commission has analyzed the adjustments in this context.

At the initial hearing, Mr. Sparrow testified to the many positive changes that GenTel has made over the past 3 or 4 years. He also testified to new technology that GenTel has installed and reductions in GenTel's work force. A post-test period analysis of GenTel's operations proves that Mr. Sparrow's predictions of increased productivity have indeed occurred and that GenTel will continue to benefit from the productivity gains. The analysis showed that GenTel's revenues increased by approximately $7.6 million on an annual basis. The net increase in operating income for the 12-month period ending December 31, 1986, was approximate-

ly $4.4 million.[18] The Commission believes that GenTel can continue to earn at this level due to the projected productivity increases, potential reductions in its work force and other changes.

Upon rehearing GenTel did not attempt to refute the Commission's finding regarding the post-test period analysis of GenTel's operations.

The Commission's treatment of the wage and benefit adjustment is consistent with GenTel's earnings situation. This, and not the fact that the adjustment was beyond the test period, is the major reason for disallowance. The Commission's position is not to allow adjustments that would produce over- or underearnings. It is important to recognize that in any given period there will be numerous changes that impact earnings, and the further beyond the test period an adjustment is made, the greater the likelihood of distortions if consideration is not given to all changes that can arise.

GenTel contends that if underlying volume and productivity gains are to be considered in determining the level of wages they should also be considered in determining the level of pensions. It should be noted that nowhere in the record in the initial proceeding, including the data used to determine the pension adjustment, has GenTel indicated that there was any volume consideration. If volume changes were to be included with respect to GenTel's pension adjustment, the difference in the adjustment

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18 GenTel's Kentucky Intrastate Monthly Reports to the Commission for the Months of July-December, 1986.

would be minimal. For example, the accounting (price) change represents an approximate $3 million reduction or two-thirds of GenTel's pension expense. On the other hand, the offset to the price reduction in pension expense would be approximately $100,000, a de minimis amount, based on the end of period wage changes.

The Commission believes that it was correct in treating the pension and wage adjustments differently because when viewed in the context of GenTel's overall operations one adjustment, wages, would cause a distortion and the other, pensions, would not. Mr. Holmberg agreed that the Commission should consider adjustments in the context of overall operations.[19] Therefore, though the two adjustments were given different treatments, both treatments were consistent with GenTel's earnings situation.

The Commission believes that its original decision regarding the wage adjustment is correct and should stand.

Return on Equity

GenTel requested that the Commission reconsider its original decision setting Return on Equity ("ROE") at 12.25 percent and increase it to 12.75 percent, the upper end of the adopted range. GenTel contends that the Commission failed to support its original selection of 12.25 percent with an evidentiary finding and thus the selection is arbitrary. GenTel argues that "the investments which the Company had made, and which it has committed to continue

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19 T.E., June 24, 1987, page 95.

to make, have resulted in levels of service which not only meet, but usually greatly exceed, Commission standards."[20] GenTel contends that the Commission should consider improvements in service as evidence supporting an increase in ROE to 12.75 percent. According to GenTel, such consideration is consistent with and permitted under South Central Bell v. Utility Regulatory Commission, Ky., 637 S.W.2d 649 (1982). In addition, GenTel argues that other factors support the Commission granting a higher ROE. The Company contends that since the February hearing in this case there have been upward pressures on the costs of capital. The Company asserts that this increase is reflected in both "the dramatic rise in interest rates" and "the change in utility stock market prices."[21] Thus GenTel contends "a 12.75 percent rate of return is supported by the criteria and is consistent with the evidence and record in this case."[22]

The AG opposed GenTel's request for an upward adjustment of ROE to 12.75 percent. The AG contends that the selection of a specific return on equity is a judgment call, not the result of a precise science. The AG also asserts that once the Commission has established a "zone of reasonableness" based on the evidentiary support for the zone, then the Commission has the discretion to select a rate within that zone without further evidentiary

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20 Holmberg Prefiled Testimony, page 4.

21 Holmberg Prefiled Testimony, pages 5 and 6.

22 GTE Memorandum of Law, page 5.

support.[23] In addition, the AG argues that according to the South Central Bell case "quality of service is not germane" to the rate-making process. Id., at 653. In her closing argument on rehearing, the AG stated, "[T]hat case stands for the proposition that at this point in time the Commission cannot consider the quality of service in setting a return on equity."[24] Further, the AG contends that the fluctuations in the capital market cited by the Company are of insufficient duration to require a change in the midpoint return on equity. Finally, the AG argues that investments for growth are recognized in rate base and thus should not be recognized again in rate of return. Thus, the AG indicated that there was no reason to increase ROE on rehearing.

The Commission is of the opinion that GenTel has failed to meet its burden of proof in its request to increase the specific ROE from 12.25 percent to 12.75 percent. First, GenTel contends that the Commission has failed to rely on evidentiary support for the specific ROE granted in this case. The Commission in its determination of ROE relies heavily on analytical techniques and evidence that are less than perfect and that yield imprecise answers. The Commission is forced to determine a range of reasonable returns based on the evidence in the case. The selection of a specific ROE can only be determined as a result of reviewing the same evidence that was used in selecting the range of returns and applying the Commission's judgment in selecting the

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23 Attorney General's Response To Company Memorandum of Law on Rehearing Issues, page 2.

24 T.E., June 24, 1987, page 142.

specific ROE. The Commission has considered all of the evidence previously presented by Mr. Austin in making its original determination. GenTel has provided no new evidence on ROE in this rehearing. Thus, the Commission rejects GenTel's contention that the determination of the specific ROE is without proper foundation and is arbitrary.

As to GenTel's other contentions concerning the determination of the specific ROE, the Commission also finds them without merit. GenTel contends that there has been a deterioration in the capital markets since its February hearings. The Commission does agree with GenTel that capital markets are volatile and that there have been changes in both interest rates and stock prices since February. However, a few months experience is not adequate for determining whether a fundamental change in the markets has occurred. Further, if the Commission were to select a new ROE, it would require a complete analysis of the financial market. For example, the Commission would require a complete DCF analysis to determine if the cost of equity had changed.

Finally, GenTel argues that it has made and will continue to make substantial investment in its Kentucky telephone plant. As a result of these investments the public has received and will continue to receive substantial improvements in quality of service. The Commission recognizes the substantial investment of GenTel in its Kentucky telephone plant and the improvement in quality of service in its territory. The Commission concurs generally with GenTel's contention that quality of service should be a possible consideration when determining ROE. However, the South Central

Bell case clearly states that the provision of an incentive to improve service is outside the statutory scope of the Commission. The Court held that "absent legislation to the contrary, the question of rates should be kept separate from the question of service." Id., at 654.

The Company contends that this case is applicable only to penalties for poor service and not to "awards" for improved service. But the Commission's Order which was the subject of the South Central Bell case specifically stated that the purpose of the penalty was "to provide an incentive for the Company to improve its record." Id., at 652. Thus, the Court's rationale is true whether the intent of the Commission would be to improve poor quality of service or to recognize improved service, consistently good service, or a superior quality of service. The Commission is precluded from considering GenTel's service improvements in determining ROE and will not alter the ROE on rehearing.

FINDINGS AND ORDERS

The Commission, after further consideration of the evidence of record and being advised, is of the opinion and finds that:

1. GenTel should receive additional annual revenues in the amount of $157,916.

2. Its decisions on all other issues on rehearing from the April 16, 1987, Order should be affirmed.

IT IS THEREFORE ORDERED that:

1. The rates in Appendix A, as revised, be and they hereby are approved as the rates GenTel shall charge for telephone service rendered on and after the date of this Order.

2. All other provisions of the Commission's Order of April 16, 1987, shall remain in full force and effect.

3. GenTel shall file revised tariff sheets setting out the rates and charges approved herein within 30 days of the date of this Order.

Done at Frankfort, Kentucky, this 19th day of October, 1987.

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 9678 DATED 10/19/87

The following rates and charges are prescribed for the customers in the area served by General Telephone Company of the South, effective on and after the date of this Order. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

GENERAL CUSTOMER SERVICES TARIFF

S3. BASIC LOCAL EXCHANGE SERVICE

S3.2 Monthly Exchange Rates

S3.2.1 Flat Rate Service

a. The rate group schedule is applied on the basis of the number of primary stations and PBX access lines within the local calling area, including the primary stations and PBX access lines of other telephone companies, within the same local calling area.

CLASS AND GRADE OF SERVICE	RATE GROUP 1 0-6,000	RATE GROUP 2 6,001-12,000	RATE GROUP 3 12,001-25,000
BUSINESS			
One-Party Access Line	$25.83	$28.40	$31.23
Two-Party Access Line	21.95	24.14	26.54
Four and Eight Party Access Lines*	18.08	19.88	21.86
PBX Access Line	47.78	52.54	57.77
Semipublic Service	51.65	56.80	62.45

CLASS AND GRADE OF SERVICE	RATE GROUP 1 0-6,000	RATE GROUP 2 6,001-12,000	RATE GROUP 3 12,001-25,000
RESIDENCE			
One-Party Access Line	10.33	11.36	12.49
Two-Party Access Lines	8.26	9.09	9.99
Four and Eight Party Access Lines (2)*	7.23	7.95	8.74

EXCHANGES	EXCHANGES	EXCHANGES
Albany	Campbellsville	Berea
Bradsville	Grayson	Burnside
Bryantsville	Hazard	Cecilia
Burkesville	Hustonville	Glasgow
Columbia	Leatherwood	Hodgenville
Ewing	Leitchfield	Nancy
Flemingsburg	Morehead	Paint Lick
Garrison	Olive Hill	Somerset
Greensburg	Vicco	South Hardin
Hillsboro		
Lancaster		
Lebanon		
Liberty		
Loretto		
Monticello		
Owingsville		
Salt Lick		
Scottsville		
Sharpsburg		
Tollesboro		
Tompkinsville		
Vanceburg		

CLASS AND GRADE OF SERVICE	RATE GROUP 4 25,001-50,000	RATE GROUP 5 50,001-150,000
BUSINESS		
One-Party Access Line	$34.38	$37.78
Two-Party Access Line	29.22	32.11
Four and Eight Party Access Lines*	24.06	26.44
PBX Access Line	63.59	69.88
Semipublic Service	68.75	75.55
RESIDENCE		
One-Party Access Line	13.75	15.11
Two-Party Access Lines	11.00	12.09
Four and Eight Party Access Lines (2)*	9.63	10.58

EXCHANGES	EXCHANGES
Ashland	Lexington
Catlettsburg	Midway
Elizabethtown	Nicholasville
Greenup	Versailles
Meads	Wilmore
Russell	
South Shore	

(2) Four-party residential service is not offered in Zone 1 areas; in Zone 2 and beyond it is limited to existing customers at present locations only.

* 4 and 8-party Zoned Exchange Service is an offering limited to existing customers at present locations only.

S3.7 Rotary Line Service

S3.7.1 General

d. Rotary Telephone Numbers may be reserved for future use, subject to the availability of facilities, at the rate shown in Section S3.12.

S3.7.2 Rates

a. The rate for each individual rotary line in use is the applicable monthly rate for individual line service, in addition to the following rates for each rotary number. The rate groupings are the same as those specified in Section S3.

Rate Group	Business Monthly Rate*	Residence Monthly Rate*
1	$21.95	$ 8.78
2	24.14	9.66
3	26.54	10.62
4	29.22	11.69
5	32.11	12.84

* Not applicable to rotary line service provided in connection with PBX lines or WATS Service.

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DISSENT

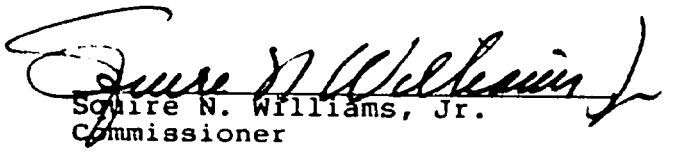
In the April, 1987 Order the Commission found that a range of return on equity of 11.75 to 12.75 percent was fair, just and reasonable. We further found that 12.25 percent was, at the time the Order was issued, the proper lawful rate of return.

On the rehearing we were presented financial evidence, of which we should take notice, which indicates a higher rate of return now to be appropriate. The Legislature has specifically directed us to consider properly presented evidence on rehearing and having done so in this case, we should have fixed the present appropriate rate of return at 12.75 percent.

Whether directory services and advertising are to be considered regulated functions of General Telephone is a legal question. One which has now been presented to the Commission and should be answered.

In my opinion, we should have answered the question in the negative.

For the above reasons, I respectfully dissent.



Squire N. Williams, Jr.
Commissioner