

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF CONTEL OF KENTUCKY,)
INC. FOR COMMISSION APPROVAL OF ITS) CASE NO. 10387
1987 TECHNICAL UPDATE DEPRECIATION)
STUDY)

O R D E R

On September 9, 1988, Contel of Kentucky, Inc. ("Contel"), filed a Technical Update Depreciation Study ("Study"). The purpose of this type of Study is to bring Contel's depreciation accounting information forward to end-of-year 1987. No new estimates were proposed concerning the underlying depreciation parameters such as salvage, lives, and curve shapes. Those parameters established in Contel's 1986 Depreciation Study would continue to be effective. Contel requested an effective date of January 1, 1988.

Additionally, Contel proposed a 5-year amortization of depreciation reserve imbalances for those plant accounts that have remaining lives over 5 years. The proposed depreciation and amortization amounts would generate an increase in depreciation accrual of \$333,000 annually based on plant account balances as of the end-of-study date, December 31, 1987, and the composite depreciation rate would change from 6.4 percent to 6.7 percent.

On September 30, 1988, the Utility and Rate Intervention Division of the Attorney General's Office ("AG") intervened in this matter. Subsequently, an informal conference was held on October 31, 1988. During the conference, representatives of Contel discussed the purpose of the Study, and pointed out that the depreciation parameters which the Commission approved in Contel's 1986 Depreciation Study do not change in a Technical Update Study. Information was provided concerning the mathematical derivation of the proposed amortization of the depreciation reserve imbalance. Contel's representatives also stated that approval of the amortization would not precipitate a rate filing.

On November 14, 1988, Contel filed information outlining the financial impact of the proposed change in annual depreciation accrual resulting from the proposed changes in depreciation and in the amortization of the depreciation reserve imbalances. On November 18, 1988, the AG filed a statement indicating that the AG would have no evidence or further pleadings to file with the Commission in this matter.

DISCUSSION

After consideration, the Commission has determined that Contel's Study should be approved. This is not a new depreciation study but in effect is an extension of Contel's 1986 Depreciation Study. The Study does not propose any change to currently approved depreciation parameters. Since an overall composite depreciation rate is currently being booked for each of the equal life group accounts instead of vintage depreciation rates, it is

necessary to update the composite rates periodically so that they continue to reflect the composite of individual vintage rates. The Commission has also determined that Contel's proposed amortization of its depreciation reserve account imbalances should be approved. By allowing the amortization of the reserve account imbalances, Contel's rate base will more accurately reflect actual used and useful plant-in-service, without requiring an increase in customer rates. The Commission notes that it has previously approved an amortization of reserve account imbalances for South Central Bell Telephone Company in Case No. 10105, Investigation of the Kentucky Intrastate Rates of South Central Bell Telephone Company, Inc.

FINDINGS AND ORDER

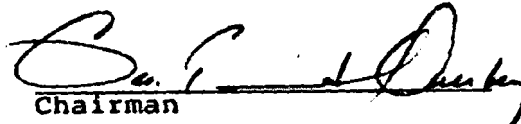
The Commission, after considering this matter and being advised, is of the opinion and finds that:

1. Contel's Technical Update Depreciation Study, as filed on September 9, 1988, is reasonable and should be approved.
2. Contel's proposed amortization of its depreciation reserve account imbalances is reasonable and should be approved.
3. Contel's proposed effective date for those changes of January 1, 1988, is reasonable and should be approved, resulting in a composite depreciation rate of 6.7 percent and an increase in annual depreciation accrual of \$333,000, based upon plant balances as of December 31, 1987.

IT IS THEREFORE ORDERED that Contel shall comply with all matters set out in findings 1, 2, and 3 as if each were individually so ORDERED.

Done at Frankfort, Kentucky, this 21st day of December, 1988.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director