

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF THE LESLIE COUNTY TELEPHONE )  
COMPANY, INC. FOR A CERTIFICATE OF PUBLIC ) CASE NO. 90-225  
CONVENIENCE AND NECESSITY AUTHORIZING IT )  
TO CONSTRUCT ADDITIONAL FACILITIES )

O R D E R

On September 28, 1990, Leslie County Telephone Company, Inc. ("Leslie County Telephone") filed its application with the Commission seeking a Certificate of Public Convenience and Necessity to construct and upgrade its facilities.

On November 16, 1990, and January 14, 1991, the Commission ordered Leslie County Telephone to file additional information. Leslie County Telephone filed its responses on December 6, 1990, January 31, 1991, and February 13, 1991. On February 22, 1991, Leslie County Telephone filed a supplemental response.

Leslie County Telephone is a corporation organized under the laws of the Commonwealth of Kentucky. Its principle office is in Hyden, Kentucky. Leslie County Telephone serves the Bledsoe, Buckhorn, Canoe, Dwarf, Hyden, Stinnett, and Wooton exchanges.

In addition to outside plant construction, the proposed construction consists of upgrading the Hyden digital office, and remotes at Stinnett, Beech Fork, Bob's Fork, and Rockhouse exchanges. The analogue switches at Canoe, Buckhorn, Bledsoe, Dwarf, and Wooton exchanges will be replaced with digital central

office equipment. Remote Network switches will be installed in Dwarf and Buckhorn exchanges. The construction will provide equal access, custom calling features, and accommodate the services needed for subscriber growth. The project will upgrade four-party subscribers to one-party service. It also enables Leslie County Telephone to provide enhanced 911 service, Centrex features, and toll ticketing capabilities. The construction will include building modifications in the Dwarf and Wooton exchanges.

The estimated cost of this proposed construction is \$7,966,289. The cost will be funded through a loan from the Rural Electrification Administration ("REA"), an agency of the federal government. KRS 278.300(10) exempts loans from the federal government from Commission regulation.

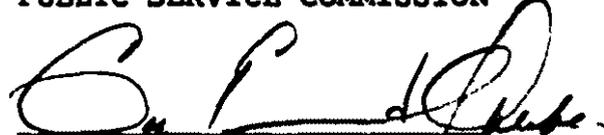
The Commission, having considered the evidence of record, and being otherwise sufficiently advised, finds that there is a substantial inadequacy in Leslie County Telephone's existing system and therefore there is a need for the proposed upgrades and construction. However, the construction project as it is currently priced is an excessive investment and is not in the public interest. A comparison between Leslie County Telephone's engineering expenditure costs and other similar projects of other telephone utilities shows that the engineering costs of Leslie County Telephone are much higher. Specifically, the engineering charges by American Communications Consultants, Inc. ("ACC") appear excessive. ACC is an affiliate of Leslie County Telephone. The record indicates that the rates being charged by ACC were not the result of an arms length transaction. Specifically, the

hourly rates of the ACC contract with Highland Telephone Cooperative, Inc. ("Highland Telephone") are much lower than those contracted by ACC with its affiliate, Leslie County Telephone. In addition, the Leslie County Telephone contract has several additional hourly charges such as Principal and Project Leader while Highland Telephone's contract does not have such additional expenditures. Also, the per mile charges of new aerial project lines, per mile charges of existing aerial project miles to be modified, per mile charges of existing lines to be removed, and several other charges which are per unit of either hour or miles are higher in the ACC's contract with Leslie County Telephone versus Highland Telephone. While the Commission is aware that Leslie County Telephone's construction project might involve more outside plant construction, more engineering projects and thus more engineering hours and/or more miles to be upgraded, the Commission finds the project as priced is an excessive investment and not in the public interest. Therefore, the Commission finds that Leslie County Telephone's application should be denied without prejudice.

IT IS THEREFORE ORDERED that Leslie County Telephone's application is hereby denied without prejudice.

Done at Frankfort, Kentucky, this 12th day of April, 1991.

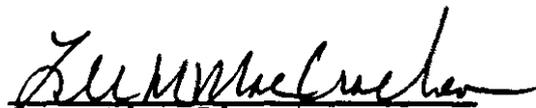
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Executive Director