

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF THE SALEM TELEPHONE	)	
COMPANY FOR A CERTIFICATE OF PUBLIC	)	CASE NO. 92-171
CONVENIENCE AND NECESSITY AUTHORIZING	)	
IT TO CONSTRUCT ADDITIONAL FACILITIES	)	

O R D E R

On April 21, 1992, Salem Telephone Company ("Salem Telephone") filed an application seeking a Certificate of Public Convenience and Necessity to construct and upgrade its facilities.

On June 8, 1992, the Commission ordered Salem Telephone to file additional information. Salem Telephone filed its response on August 10, 1992.

Salem Telephone is a corporation organized under the laws of the Commonwealth of Kentucky. Its principle office is in Salem, Kentucky. Salem Telephone serves Livingston and Crittenden counties of Kentucky through its exchange located in Salem, Kentucky.

The purpose of the proposed construction is to provide continued reliable service, custom calling features and position the company for future extended service offerings. In addition to limited outside plant construction, the proposed construction consists of replacing the Salem north crossbar central office switch with digital central office equipment. The central office replacement will allow for the provision of enhanced 911 and Equal

Access services, Centrex features and toll ticketing support which are not currently available with the existing crossbar switch.

The estimated cost of this proposed construction is \$1,502,750. 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.

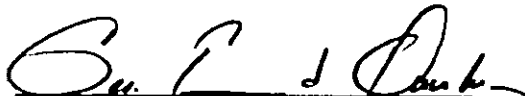
The Commission, having considered the evidence of record, and being otherwise sufficiently advised, finds that the proposed construction includes necessary and desirable upgrades and improvements that would benefit Salem Telephone's present and future subscribers. However, the construction project, as currently priced, is an excessive investment and is not in the public interest. As addressed in the Order requesting additional information, the engineering costs provided by American Communications Consultants ("American Communications") for the proposed construction are substantially higher than those encountered in other similar construction cases approved by this Commission. American Communications is an affiliate of Salem Telephone, Leslie County Telephone Company, Inc. ("Leslie County Telephone"), and Lewisport Telephone Company, Inc. all of which are wholly owned subsidiaries of Telephone and Data Systems ("TDS"). There is a question as to whether or not the rates being charged by American Communications for the engineering services associated with the proposed construction are a result of an arms-length transaction. In previous cases before this Commission, TDS

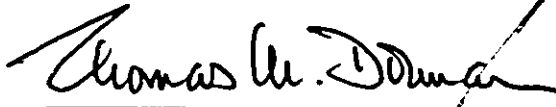
affiliates have been assessed substantially lower engineering costs by American Communications than those presented in Salem Telephone's instant application. The Commission realizes that significant differences in the construction projects may exist to account for variations in the associated engineering costs. However, in response to the Order requesting additional information, Salem was asked to identify and explain any reasons why engineering costs are higher as a percentage of total investment for this construction project than that experienced by Leslie Telephone and other telephone utilities. Salem Telephone's response indicated that the estimated engineering costs are based upon American Communications' best evaluation of what will realistically be required to complete the project in a high quality manner, but offered no specific reasons why the proposed project required higher engineering costs. Therefore, the Commission finds that Salem Telephone's application should be denied without prejudice.

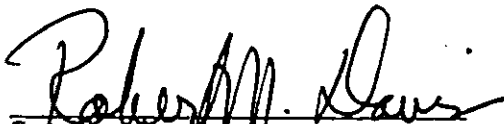
IT IS THEREFORE ORDERED that Salem Telephone's application for a Certificate of Public Convenience and Necessity is hereby denied without prejudice.

Done at Frankfort, Kentucky, this 29th September, 1992.

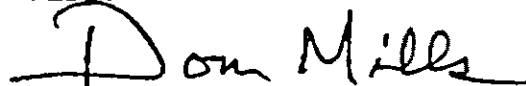
PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:



Executive Director