

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF GTE SOUTH)
INCORPORATED FOR APPROVAL)
OF CHANGES IN ITS UTILITY PLANT) CASE NO. 97-045
DEPRECIATION RATES AND FOR)
WAIVER OF 807 KAR 5:064)

O R D E R

On January 28, 1997, GTE South Incorporated ("GTE South") filed a request for changes in certain of its utility plant depreciation rates with the Commission. Additionally, since GTE South's proposal was not filed in accordance with the requirements of 807 KAR 5:064, it requested a deviation from certain of the regulations requirements.

GTE South's currently prescribed depreciation parameters result in a composite depreciation rate of 7.8 percent. In its proposal, GTE South proposed changes in the following plant accounts:

<u>Account Number</u>	<u>Class or Subclass of Plant</u>
2212	Digital Electronic Switching
2232	Circuit Equipment
2421.1	Aerial Cable Metallic
2421.2	Aerial Cable Nonmetallic
2422.1	Underground Cable Metallic
2422.2	Underground Cable Nonmetallic
2423.1	Buried Cable Metallic
2423.2	Buried Cable Nonmetallic

GTE South did not propose any change to its remaining plant accounts.

If approved by the Commission, the proposed changes would result in a composite depreciation rate of 9.9 percent, with an annual increase in intrastate depreciation expense accrual of \$32,637,000. These figures are based upon plant account balances as of December 31, 1996. GTE South requested an effective booking date of January 1, 1997.

GTE South's proposal in this matter differs substantially from the traditional process by which telephone utilities seek depreciation parameter and expense changes in their utility plant accounts. GTE South is a "joint-jurisdiction" utility in that its plant is subject to the jurisdiction of both this Commission and the Federal Communications Commission ("FCC"). Historically, and in accordance with applicable FCC Regulations, GTE South has filed a full Depreciation Study ("Study") with both this Commission and with the FCC, typically on a three-year cycle. This Study would consist of a Kentucky-specific, detailed mortality study of each plant account, in addition to an analysis by the utility of its expected plant changes due to the effects of both physical and technological obsolescence, growth, and the effects of anticipated competition.

Following separate review and analysis of the Study by Commission and FCC staff, each party would issue proposals which contained depreciation parameters considered appropriate for GTE South's plant accounts. Subsequently, a "Three-Way" settlement meeting would be held at which time representatives of GTE South, the FCC, and Commission staff would attempt to reach agreement on changes to GTE South's plant account depreciation parameters. The utility would then petition the Commission and the FCC for approval of the agreed parameters.

GTE South has not filed any type of detailed mortality study of its Kentucky plant, nor has the utility filed any study with the FCC. Instead, GTE South has requested so-called "economic life" depreciation rates, based upon two documents filed with the application. The first is entitled "Technology Forecast for GTE Telephone Operations," and the second is "Depreciation Lives for Telecommunications Equipment: Review and Update." If approved, the resultant changes would apply only to the Kentucky intrastate jurisdiction. Neither document provides any analysis of Kentucky-specific plant. Additionally, GTE South states in its application at 4 that it will not file a concurrent proposal with the FCC, and that it will not accept a negotiated settlement which includes depreciation rates lower than those proposed by the utility. On March 21, 1997, GTE South filed the testimony of John P. Blanchard and Allen E. Sovereion, employees of GTE Telephone Operations, in support of GTE South's application.

The Commission has reviewed GTE South's application and has determined that the application should be denied for the following reasons:

1. GTE South has not provided any analysis of Kentucky-specific plant or operations, relying instead upon national economic studies which attempt to forecast the future. These studies do not take into account the rural nature of much of the utility's Kentucky operations, and in fact specifically attempt to forecast the nationwide operations of the utility without addressing any individual state-by-state differences.

2. As noted in this Order, GTE South has stated that it will not accept any negotiated settlement which includes depreciation rates lower than those proposed by the utility. In effect, GTE has given the Commission a "take-it-or-leave-it" proposition. At the

same time, the utility has not provided any information which would allow a meaningful analysis of Kentucky-specific operations in order to determine whether the proposed parameters are appropriate.

3. As a "joint-jurisdiction" utility, GTE South is responsible for petitioning the FCC for changes in its interstate depreciation rates. As noted in this Order, GTE South has stated that this will not be done in the instant matter. This Commission is therefore being asked to assign a substantially different life to a particular class of plant than the life accepted by the FCC for the allocated interstate portion of that plant. This means that a central office switch, for example, will have two different life parameters. This Commission is aware that each state has the right to assign its own intrastate depreciation parameters which may differ from those assigned by the FCC for interstate purposes; however, this is the purpose of the "three-way" meeting, that being to attempt to mutually agree upon appropriate depreciation parameters. GTE South's proposal would effectively foreclose this course of action.

4. Dismissal of this application does not foreclose GTE South from proposing reasonable changes to its depreciation parameters. However, this action should be accompanied by a concurrent filing with the FCC in accordance with that Commission's requirements. This process has been described in this Order.


The Commission, having considered the record and being otherwise sufficiently advised, HEREBY ORDERS that:

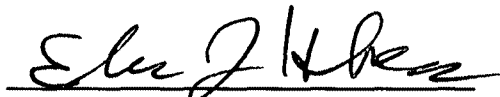
1. This case is hereby dismissed without prejudice to GTE South refiling a proposal in accordance with the requirements of this Order.

2. GTE South's request for a deviation from the requirements of 807 KAR 5:064 is moot.

Done at Frankfort, Kentucky, this 8th day of April, 1997.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director