

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF CUMBERLAND)
VALLEY ELECTRIC, INC. TO ADJUST) CASE NO. 2000-359
ITS RATES)

O R D E R

This matter comes before the Commission through the application of Cumberland Valley Electric, Inc. ("Cumberland Valley") for authority to increase its miscellaneous service charges and cable television pole attachment and anchor ("CATV") charges for service rendered on and after October 1, 2000. On September 28, 2000, the Kentucky Cable Telecommunications Association ("KCTA") filed a request to intervene in this proceeding. By Order dated September 29, 2000, the Commission granted KCTA's request and suspended Cumberland Valley's proposed charges for five months from October 1, 2000, up to and including February 28, 2001. A procedural schedule was established which provided for two rounds of discovery, intervenor testimony and a formal hearing. The formal hearing was held on January 11, 2001.

Cumberland Valley provided adequate cost support for the proposed increases in its miscellaneous service charges, and those charges were not disputed by KCTA. However, KCTA did take issue with the proposed increases in Cumberland Valley's CATV charges. To address the matter of the appropriate levels for such charges the Commission finds that a brief history of our regulation of CATV charges is appropriate.

HISTORY

In Administrative Case No. 251 (“Admin. 251”), the Commission addressed the matter of establishing a uniform methodology for calculating CATV charges.¹ Parties to that proceeding included KCTA as well as telecommunication and electric utilities regulated by the Commission that owned utility poles that could be used by cable television providers. In the final decision in that proceeding the Commission exercised its jurisdiction over CATV charges and established a uniform methodology for calculating CATV charges.

DISCUSSION OF ISSUES

There are two contested issues involving the appropriate calculation of Cumberland Valley’s CATV charges. The first issue concerns the appropriate cost-of-money, or rate of return, to be included in the carrying charge component of the formula for calculating CATV charges. This relates directly to the uniform methodology established by the Commission in Admin. 251. The second issue is the appropriateness of an adjustment made by Cumberland Valley to increase the investment in its utility pole sub-accounts by approximately \$1.5 million in conjunction with the preparation of its application in this proceeding. The Commission’s discussion and findings on both issues follows.

Rate of Return

Two of the items in the formula established in Admin. 251 for the calculation of CATV charges are (1) the average cost of a utility pole and (2) a carrying charge that includes a cost-of-money component. The Commission determined in that proceeding that the cost-of-money component should be the rate of return on investment allowed in the utility’s last rate case. In its application Cumberland Valley included the average gross pole

costs for two-party and three-party poles in the formula as the average cost of utility poles and also included the overall return on net investment of 7.58 percent from its last general rate case. According to Cumberland Valley, the use of gross plant for the cost of poles together with the use of the rate of return on net investment allowed in its most recent rate case is consistent with the uniform methodology for the calculation of CATV charges established by the Commission in Admin. 251.

KCTA takes issue with Cumberland Valley's proposal to apply a carrying charge that includes a return on net investment to pole cost amounts that are based on gross plant, rather than net plant. KCTA argues that applying a rate of return that was derived from net plant investment to pole cost amounts that are based on gross plant is illogical as well as contrary to established rate-making principles used by this Commission and at least 35 other regulatory commissions across the United States. KCTA maintains that the Admin. 251 Order does not support applying a return based on net investment to pole cost amounts based on gross plant investment.

KCTA states that, since the return component of the carrying charge was based on net investment, it should be applied to pole costs based on Cumberland Valley's net plant investment in utility poles. KCTA offers two methods by which this can be accomplished. The first method would adjust the "gross" average pole cost amounts used by Cumberland Valley to amounts that reflect "net" average pole costs after recognizing accumulated depreciation on utility poles. The second method would adjust the rate of return to reflect the ratio of Cumberland Valley's net plant investment to its gross plant investment and then

¹ Administrative Case No. 251, The Adoption of a Standard Methodology for Establishing Rates for CATV Pole Attachments, Order dated September 17, 1982.

apply the resulting return to the “gross” average pole cost amounts. For purposes of this proceeding, KCTA used the second method.

The Admin. 251 Order includes no specific discussion on the issue of “gross vs. net” plant and Cumberland Valley has interpreted the Order to mean that gross plant should be used in the calculation of CATV charges. However, the Order’s silence on this issue simply indicates that there was no controversy on the appropriate methodology to be used. It is today, and has for decades been, a basic rate-making principle in Kentucky that a utility’s rate of return is determined based on net rather than gross investment.

Nevertheless, since the Commission recognizes that there may be some uncertainty as to the appropriate methodology, this Order will definitively resolve this issue. Regardless of any uncertainty as to the intent in Admin. 251, basic rate-making involves establishing an overall rate of return based on net investment rate base. That is how the overall rate of return of 7.58 percent used by Cumberland Valley in its calculation was developed in its last general rate case. We can find no authoritative support for the use of gross plant when the result is that a return derived from net plant is applied to an investment amount that reflects gross plant. It is our decision, therefore, that net plant - i.e., net investment in utility poles - through either of the methods suggested by KCTA should be the basis for the calculation of Cumberland Valley’s CATV charges. Although it would be preferable to use net pole costs and the actual return from Cumberland Valley’s most recent rate case, in this instance, the alternative method is acceptable.

Adjustment to Increase Utility Poles Investment

In the course of preparing its application for this proceeding, Cumberland Valley found errors in its continuing property records for the investment recorded in Account 364,

Poles, Towers, and Fixtures. The nature of the errors was that the records showed a significantly greater number of anchors and guy wires (“guys”) in service than the number of poles in service. According to Cumberland Valley, the number of anchors and guys would normally not exceed the number of poles. Cumberland Valley and its outside auditor, who appeared as Cumberland Valley’s witness in this proceeding, reviewed the records and concluded that the total costs recorded in Account 364 were accurate. However, for some reason that Cumberland Valley was unable to ascertain, the numbers of anchors and guys were overstated. Cumberland Valley’s adjustment to correct this error was to reduce the number of anchors and guys reflected in the continuing property records to a number equal to the number of poles and reduce the amounts recorded for anchors and guys proportionately. An amount equal to the reduction in the investment in anchors and guys was then added to the balances for poles in proportion to the existing sub-account balances for the different size poles. This resulted in no change in the overall account balance, but shifted approximately \$1.5 million in investment from the anchors and guys sub-accounts to the utility pole sub-accounts.

KCTA contested the adjustment, claiming that without further investigation, possibly including a pole survey, the adjustment was based on improper assumptions. KCTA argued that the excess number of anchors and guys relative to the number of poles was likely the result of Cumberland Valley not properly removing anchors and guys from the continuing property records as new anchors and guys were being installed and old anchors and guys were being retired from service. KCTA stated that the appropriate adjustment would be to reduce the number of anchors and guys as Cumberland Valley did, and to

write-down the amounts in the anchors and guys sub-accounts and related accumulated depreciation accounts without making any adjustment to the utility pole sub-accounts.

Using the pole account balances as adjusted by Cumberland Valley results in average costs of \$257.61 for two-party poles and \$345.11 for three-party poles. If the pole account balances absent the adjustment to increase the pole sub-accounts are used, the average pole cost for two-party poles is \$204.69 and \$274.24 for three-party poles.

Although its review of its records at the time it was preparing its application may have revealed an overstatement in the number of anchors and guys and the investment in anchors and guys, there is little evidence in the record to support the adjustment made by Cumberland Valley to address that overstatement. Particularly questionable is the increase in the pole sub-accounts that offsets the reduction in the anchors and guys sub-accounts. It is also unclear, based on the evidence of record, whether the adjustment proposed by KCTA, which would not impact the utility pole sub-account balances, is the appropriate accounting adjustment. However, for this proceeding, the Commission must only determine whether the adjustment made by Cumberland Valley is appropriate.

The Commission finds that the adjustment made by Cumberland Valley has not been adequately supported and should not be accepted for either rate-making or accounting purposes. While the reduction in the amounts recorded for anchors and guys may be appropriate, Cumberland Valley has not supported its decision to maintain the same total account balance by shifting \$1.5 million from the anchors and guys sub-accounts to the poles sub-accounts. As to KCTA's suggestion that Cumberland Valley undertake a pole survey to adequately resolve this matter, the Commission acknowledges that such a survey would likely be a very labor-intensive and costly undertaking. However,

in light of the \$1.5 million magnitude of the adjustment, such a survey by Cumberland Valley might be necessary if it cannot support its adjustment through some other methodology.

Having concluded that average pole cost amounts absent the adjustment proposed by Cumberland Valley should be used for determining its pole attachment charges, the Commission finds that Cumberland Valley's pole attachment charges should be based on average pole costs of \$204.69 for two-party poles and \$274.24 for three-party poles. The accounting entries made by Cumberland Valley to adjust the anchors and guys sub-account should be reversed until adequate support for the adjustment has been developed.

SUMMARY OF FINDINGS AND ORDERS

Based on the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. Cumberland Valley's proposed miscellaneous charges should be approved.
2. Cumberland Valley's CATV charges should be based on its net pole costs and the overall return of 7.58 percent allowed in its last general rate case.
3. Cumberland Valley's CATV charges should be based on the balances in its pole sub-accounts absent the effects of the adjustment it made to increase those balances by approximately \$1.5 million.
4. Using net pole costs absent the adjustment referenced in Finding No. 3 results in average pole costs of \$204.69 for two-party poles and \$274.24 for three-party poles.
5. Using these pole costs results in CATV pole attachment charges that correspond to those proposed by KCTA.

6. Cumberland Valley's miscellaneous charges and CATV charges should be established at the levels set out in Appendix A to this Order.

7. Cumberland Valley should reverse the accounting entries made to correct the overstatement in the anchors and guys sub-accounts. If adequate documentation of the entries can be developed, Cumberland Valley may record a correction at a later time, upon approval of the Commission.

IT IS THEREFORE ORDERED that:

1. The miscellaneous charges proposed by Cumberland Valley are approved.

2. The CATV charges proposed by Cumberland Valley are denied.

3. CATV charges shall be determined according to the uniform methodology established in Administrative Case No. 251. The correct application of that methodology shall reflect the use of net pole costs and the overall return on net investment allowed in the most recent general rate case.

4. The miscellaneous charges and CATV charges set out in Appendix A to this Order are approved for service rendered by Cumberland Valley on and after March 1, 2001.

5. Cumberland Valley shall file its revised tariff sheets setting out the charges approved herein with the Commission within 20 days from the date of this Order.

6. Cumberland Valley shall reverse the accounting entries made to correct the anchors and guys sub-account and seek Commission approval prior to making any correcting entries.

Done at Frankfort, Kentucky, this 26th day of February, 2001.

By the Commission

ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2000-359 DATED FEBRUARY 26, 2001

The following rates and charges are prescribed for the customers in the area served by Cumberland Valley Electric, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of the Order.

MISCELLANEOUS CHARGES:

Return Check	\$20.00
Meter Reading	\$25.00
Collection	\$25.00
Reconnect	\$25.00
Meter Tests	\$30.00
Reconnect-Overtime	\$65.00

CATV ATTACHMENTS:

2-Party Pole	\$ 3.58
3-Party Pole	\$ 2.98
2-Party Anchors	\$ 3.58
3-Party Anchors	\$ 2.36
2-Party Pole Grounds	\$ 0.26
3-Party Pole Grounds	\$ 0.16