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August 10, 2005

Via Facsimile

RECEIVED

Hon. Elizabeth O'Donnell
Executive Director
Public Service Commission of Kentucky
211 Sower Boulevard
Frankfort, KY 40601

AUG 10 2005

PUBLIC SERVICE
COMMISSION

Re: Application of Jackson Purchase Energy Corporation for Adjustments
in Existing Cable Television Attachment Tariff
Case No.: 2004-00319

Dear Ms. O'Donnell:

Enclosed please find the Kentucky Cable Telecommunications
Association's Prefiled Testimony in the above-referenced proceeding which we are
submitting for filing.

Thank you for your attention to this matter and please let me know if
there are any questions.

Very truly yours,

WYATT, TARRANT & COMBS, LLP


Frank F. Chuppe

FFC/jsc
Enclosures
cc: Gardner Gillespie

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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

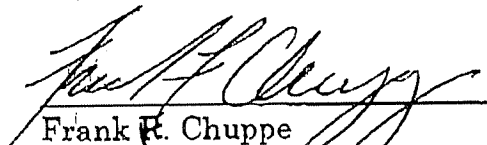
In the Matter of:

APPLICATION OF JACKSON PURCHASE)
ENERGY CORPORATION FOR) CASE NO. 2004-00319
ADJUSTMENTS IN EXISTING CABLE)
TELEVISION ATTACHED TARIFF)

PREFILED DIRECT TESTIMONY
OF
JAMES FREEMAN
ON BEHALF OF
KENTUCKY CABLE TELECOMMUNICATIONS ASSOCIATION

August 10, 2005

Gardner F. Gillespie
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555 Thirteenth Street, N.W.
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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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ENERGY CORPORATION FOR) CASE NO. 2004-00319
ADJUSTMENTS IN EXISTING CABLE)
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OF
JAMES FREEMAN
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August 10, 2005

Q. Please state your name and occupation.

A. My name is James W. Freeman and I am a tenured associate professor at the Gatton College of Business and Economics, University of Kentucky.

Q. Have you ever testified before this Commission?

A. I have testified before this Commission dozens of times. During the 1980s and early 1990s, I was the expert witness for the Kentucky Attorney General in numerous rate cases and other matters.

Q. What is the purpose of your testimony in this proceeding?

The purpose of my testimony is to recalculate the proposed CATV attachment rates using the most recent Commission adopted rate of return for Jackson Purchase ("JP"), which was authorized in Case No. 97-224.

Q. What is that rate?

A. According to earlier JP filings, the imputed rate accepted by the Commission in that proceeding was 4.61%. If two later proceedings, Case No. 2000-527 and Case No. 2002-485 are considered, JP believes that its rate of return would increase to 5.81%. I have accepted both of these numbers as accurate.

Q. Do you have an opinion as to which of these rates of return is appropriate here?

A. Yes. I believe that the 5.81% rate of return, which is the rate of return used by JP in its earlier testimony in this case, represents the most recent Commission approved rate of return for JP, and that is the one that should be used.

Q. Please explain how you recalculated the CATV attachment rates using this newer rate of return.

A. I used the methodology contained in JP Exhibit 2, dated November 12, 2004. On line 9 of the Exhibit, I reinstated 5.81% for the 8.88% rate of return used by JP in its most recent filing. I also substituted 66.5% for the 71.82% Gross to Net Adjustment factor used by JP. Then I performed all of the mathematical calculations in the same manner as done by JP in its earlier filing, except that I adjusted JP pole Accounts by 15% for non pole material (rather than the 5% requested by JP) and I omitted JP's attempt to add

\$33.08 for additional pole grounding costs. In its most recent filing, JP has changed its position to agree with these latter two adjustments.

Q. What were the results of your calculations?

A. All of the rates would be lowered. Two Party Pole Attachments would be \$4.20; 3 Party Pole Attachments would be \$3.56; 2 Party Charge per Anchor Attachment would be \$5.10; 2 Part Ground Attachments would be \$.22; and 3 Party Ground Attachments would be \$.13.

Q. Why do you think that your proposed rate of return is preferable to the one used by JP.

A. The rate JP used is over 20 years old and was developed during a period of high inflation. The rate of return that I have used is the most current rate of return that has been authorized by this Commission.

The more recent proceedings yield a much more reasonable rate of return in light of today's financial conditions. In the Commission's 1997 Order and Settlement Agreement, JP was limited to a TIER not greater than 2.0. While I have not done the calculations, a rate of return of 8.88% over JP's entire rate base would probably yield a TIER of around 3.0, well in excess of the allowable number. Furthermore, using a rate of return of 8.88% would mean that some JP rates would be set based on an imputed rate of return 5.81% while others (CATV rates) would be based on a much higher rate of return. This certainly raises fairness issues.

Q. Should perhaps the rate of return of 4.61% be used in stead of the 5.81% rate of return?

A. The 4.61% rate of return comes from the last rate case in which the Commission actually accepted a margin for JP, which is the language used in Case No. 251. But the two later proceedings are really part and parcel of the earlier 97-224 case, even though the Commission did not directly specify a margin or rate of return in either of those two cases. In my opinion the two later cases amend Case No. 97-224, and the three cases should be considered, together, as the Commission's last rate case for JP.

Q. Please explain your other changes.

A. JP used Total Plant Investment and Total Plant Depreciation to determine Net Pole Values. I believe that Pole Depreciation and Pole Investment should be used to determine Net Pole Values, absent a known problem with the accuracy of the Pole Accounts. As no issues of Pole Account accuracy have been raised, it seems logical to use actual data rather than a proxy for the actual numbers.

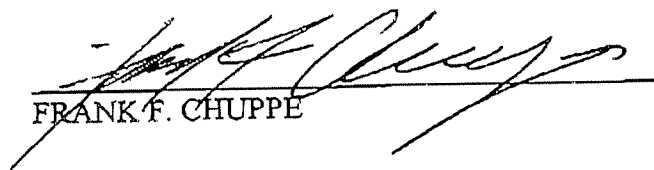
Q. Does that conclude your written testimony?

A. Yes.

James Freeman

CERTIFICATE OF SERVICE

I certify that a copy of the foregoing was served upon Frank N. King, Jr., Esq., Dorsey, King, Gray, Norment & Hopgood, 318 Second Street, Henderson, Kentucky 42420 and John Selent, electronically and via facsimile on August 10, 2005.


FRANK F. CHUPPE