COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

* * * * *

In the Matter of:

ADJUSTMENT OF RATES OF GENERAL TELEPHONE COMPANY OF KENTUCKY	))	CASE NO. 8295
AND		
THE TARIFF FILING OF GENERAL TELEPHONE COMPANY OF KENTUCKY REGROUPING THE NICHOLASVILLE AND WILMORE EXCHANGES	))))	CASE NO. 8416

O R D E R

On July 31, 1981, General Telephone Company of Kentucky ("General") filed a notice with the Commission proposing to increase its intrastate telephone rates and charges to produce an increase in revenues of $4,376,100 annually to be effective on and after August 20, 1981. General's requested revenue increase resulted from increased depreciation expense associated with implementation of the straight line remaining-life and straight line equal life group ("ELG") methods of depreciation. By Order dated August 4, 1981, the proposed rates, charges and classifications were suspended for a period of 5 months on and after August 20, 1981.

Additionally, on December 3, 1981, General made a tariff filing proposing to regroup its Nicholasville and Wilmore exchanges, in accordance with the procedure authorized in Case No. 6708. In addition, General filed rates as proposed in Case No. 8295 and requested an effective date of January 1, 1982, subject to deferral pending a final Order in Case No. 8295. By Order dated December 22, 1981, the tariff filing was suspended and made a part of this case.

Public hearings were held in this matter on September 14, 1981, and December 1, 1981, in the Commission's offices at Frankfort, Kentucky. Additionally, an informal meeting was held by the Commission staff, General and intervenors of record on October 26, 1981, in General's offices at Lexington, Kentucky, for the purpose of examining the working papers used to develop the depreciation studies filed in the case. Intervenors of record in the matter were the Consumer Protection Division of the Office of the Attorney General, the University of Kentucky Student Association, and the University of Kentucky.

In its Orders dated May 15, 1981, and September 4, 1981, in Case No. 8045, the Commission addressed the issues of the use of the remaining-life depreciation technique and the ELG methodology for determining depreciation rates. This Order will further address these issues and the Commission's findings and determination on each as well as General's revenue requirements and rate design.

Remaining-Life

In its Order of May 15, 1981, on pages 13 through 15, the Commission addressed the subject of proposed changes in the methodology of determining depreciation rates. On page 14, the Commission said:

> The remaining-life technique is not new and is a recognized methodology used by many regulators. The remaining-life technique will be permitted; however, the Commission will delay its implementation to some future test period.

Additionally, on page 3 of the Order dated September 4, 1981, in Case No. 8045, the Commission said:

> The Commission takes notice of the Company's application in Case No. 8295 wherein it seeks to implement the remaining-life method for all existing plant accounts and the equal life group method for all new additions to plant and to recover the increase in depreciation resulting from implementing these methods. This change and any associated increase in rates should be deferred and consolidated in Case No. 8295.

The dollar amount requested by General for depreciation expense in this proceeding reflects the change resulting from application of the remaining-life technique and adoption of ELG. General requested an increase of $4,331,000 in its annual depreciation accrual due to adoption of the remaining-life technique to General's projected plant account balances at January 1, 1982.

The Commission has closely reviewed General's proposed changes resulting from application of the remaining-life technique, and has determined that several changes must be made in order to reasonably allow General to recover its plant investment over the life of that plant, which is the basis for switching to remaining-life depreciation. Appendix A of this Order sets out the remaining-lives, future net salvage rates and depreciation rates which the Commission has found to be reasonable in this proceeding.

The Commission will not address each item which in General's original proposal which was not accepted; however, certain plant account changes do require comment. First, in Account C121 (Buildings), the Commission has found that General's proposed remaining-life of 23.9 years is unreasonably low. Many of the buildings used to house personnel and equipment are permanent, modern structures and can be expected to have a projection life much greater than the 27 years used by General. Although some buildings are of a less-permanent nature, the Commission finds that General has not been able to justify its proposed remaining service life for this account. The Commission has determined that 28 years is a reasonable expectation of remaining-life for buildings.

Second, in Sub-Account C293 (Automatic Switching), the Commission has found that General's proposed remaining life of 7.8 years is unreasonably low. Testimony in the matter revealed that actual central office equipment final retirement dates have in numerous cases been delayed from expected dates used to develop the proposed remaining service lives. Additionally, historical experience has shown that electromechanical office equipment has continued to be utilized long after "technology" has produced state-of-the-art equipment which was to have replaced the older offices. Additionally, experience has shown that the older equipment, even after replacement, has been utilized to expand other offices. Finally, the Commission is concerned about General's testimony in this matter relating to its No. 1-EAX and No. 2-FAX offices. General was installing this type equipment up to the last part of the 1970's, and in fact, stated at the time of installation that this was state-of-the-art equipment which could be expected to provide many years of modern, relatively trouble-free service. Now General has testified that this equipment has become virtually obsolete with the development of digital technology. It is not reasonable that this equipment has a service life as short as has been testified to by General. For these reasons, the Commission has determined that a remaining service life of 10 years is reasonable for automatic switching. The Commission has, however, lowered the future net salvage in this sub-account to 6 percent to reflect the longer life.

Third, in Sub-Account C464 (Drop Wire), the Commission has changed the depreciation rate from General's present 8.33 percent to 5 percent. Because this is a new plant category, underlying studies for service life and net salvage are not currently available. The Federal Communications Commission (FCC) has determined that a rate of 5 percent should be used by carriers under its jurisdiction. This Commission has decided that to be consistent and equitable, this same rate should be used by carriers in Kentucky, pending further study and review by the FCC.

Fourth, in Account C601 (Pole Line), the Commission has accepted General's proposed remaining service life of 16.6 years. However, we have serious reservations about the presently booked average service life of 22.7 years. The Commission will expect General, in future filings concerning depreciation charges, to be fully prepared to justify the remaining service life which has been allowed in this proceeding.

Fifth, in Account C604 (Buried Cable), the Commission has determined that a remaining service life of 20 years is appropriate for this account. The Commission cannot accept General's current average service life of 21.3 years. This is a "cradle-to-grave" account, and the Commission believes that buried cable can reasonably be expected to have an average service life of 25-27 years. General has supplied information to the effect that North Carolina is presently allowing General Telephone in that state a whole life depreciation rate of 3.8 percent, which the Commission staff has found to correspond to an average service life of 27 years, with a 2 percent net salvage. The Commission will, however, allow General's estimate of 0 percent future net salvage, since the value of scrap copper cannot reasonably be expected to exceed the cost of removal.

Sixth, in Sub-Account C821 (Motor Vehicles), the Commission has determined that General's proposed estimate of 11.1 percent future net salvage is not a reasonable expectation. General testified that it has already begun a program to replace its fleet with smaller, more fuel-efficient vehicles, and with the trend toward higher new and used vehicle prices, the Commission has determined that a future net salvage of 15 percent is reasonable and appropriate, based upon the allowed remaining service life of 4.4 years.

Finally, in Sub-Accounts C831 (Motor Vehicle Shop Equipment) and C841 (Tools and Work Equipment), the testimony shows that C831 is a recent spinoff of C841, and that the rate in effect was assumed from the C841 rate. The Commission has determined that it is reasonable to find that the remaining service life and future net salvage for both sub-accounts should be the same. Additionally, the Commission has determined that General's proposal of 1.7 percent future net salvage is unrealistically low, given the salvage value of the type of plant involved, and has found a value of 4 percent future net salvage to be appropriate.

Based upon the changes determined by the Commission as shown in Appendix A, General should be allowed additional depreciation expense of $1,514,400 based upon the use of the remaining-life technique. The conversion of this expense to revenue requirements is covered in the revenue requirements section of this Order.

Equal Life Group

In its Order of May 15, 1981, in Case No. 8045, the Commission also addressed the use of the ELG method of depreciation. On page 15, the Commission said:

> In this proceeding, General has not adjusted its depreciation rates to reflect the use of the equal life group procedure for new plant. It has, however, petitioned the Commission for its use. Since the adjustment in depreciation in this proceeding is not affected by the equal life group depreciation, the Commission will defer its decision on this proposal and will include its findings in its Order on implementation of the remaining-life technique.

Additionally, as noted earlier in this Order, the Commission stated in its Order of September 4, 1981, in Case No. 8045, that changes due to the use of the ELG method of depreciation would be addressed in this proceeding.

General requested an increase of $941,000 in its annual depreciation accrual due to adoption and use of ELG. However, implementation of ELG procedures has been delayed. The record does not indicate when implementation by the FCC for carriers under its jurisdiction will begin. Since this Commission desires to be consistent with the ELG implementation methods of the FCC, General's request for the use of ELG should be deferred.

Revenue Requirements

General, subsequent to the issuance of the Commission's Order on Rehearing in Case No. 8045 dated September 4, 1981, revised its proposed increase in revenue downward by $1,204,585 to $3,171,515 to reflect an increase in depreciation on central office equipment. As stated earlier, the revenue requirements found reasonable in this Order should be based on additional depreciation expense of $1,514,400, with the intrastate portion being $1,095,438. Following the procedures presented in General's calculation of revenue requirements, the Commission has determined that additional revenue of $924,430 is required.

The Commission cross-examined General on what effect its proposed adjustment to depreciation would have on the amortization of investment tax credits. As a result of this cross-examination, General provided a calculation which showed that the current weighted composite life for unamortized investment tax credit under remaining life is 11.14 years. The Commission, based on application of the remaining lives as shown in Appendix A, finds that a weighted composite life of 12.21 years is appropriate, and has reduced the amortization of investment tax credit by 9.6 percent or $217,728, with the intrastate portion being $158,402. The effect of this reduction in the amortization of investment tax credit on toll revenues is a reduction of $18,439. The revenue effect of the Commission's adjustments to the amortization of the investment tax credits is $330,501. Thus, the total revenue required and the amount of the increase granted herein is $1,254,931.

Rate Design

General proposed in this proceeding to recover its revenue requirements through increases in basic residential and business service charges, Centrex charges, and standard and standard with message waiting lamp station set charges. The Commission has reviewed General's proposal and has determined that it is an appropriate means to recover the revenue increase allowed in this matter.

However, General has also proposed that basic service charges be increased according to the contribution to the total revenue of each class of service. This would result, under the original revenue request, in a 2.33 percent increase on the average residential service bill and a 1.69 percent increase on the average business service bill. This represents a departure from past across-the-board percentage increases for each class of service. The Commission has determined that General's proposed method of revenue recovery from basic service charges should be denied, and basic service rates should be increased as shown in Appendix B of this Order.

Findings and Order

The Commission, after consideration of the evidence of record and being advised, finds that:

1) The remaining service lives, future net salvage rates, and depreciation rates proposed by General would allow depreciation expense recovery in excess of that found reasonable herein and should be denied.

2) The remaining service lives, future net salvage rates, and depreciation rates shown herein in Appendix A, attached hereto and made a part hereof, are fair, just and reasonable and should be approved, effective January 1, 1982.

3) Implementation of ELG procedures has been delayed and the record does not indicate when it will begin. Since this Commission has determined that its actions be consistent with the FCC in this matter, the implementation of ELG should be deferred to some future period, and the rates filed by General to recover increased depreciation from implementation of ELG should be denied.

4) In its Order in Case No. 8045, dated September 4, 1981, the Commission advised General that if the absorption of the changes in depreciation materially impaired its ability to achieve the return on equity allowed therein of 13.75 percent it could recover the revenues based on increased depreciation expenses.

5) Based on a review of General's monthly reports filed with the Commission for the 12 months ending October 31, 1981, the Commission has determined that absorption of any portion of the depreciation changes would materially impair General's ability to earn the 13.75 percent stated return on equity as the average return on equity for that period was only 13.2 percent.

6) The rates proposed by General would produce revenues in excess of the revenues found reasonable herein and must be denied upon application of KRS 278.030.

7) General's proposed method of increases to basic local exchange service rates deviates from traditional rate-making principles, without adequate evidence of appropriate benefit to its subscribers, and should not be approved.

8) The rates and charges in Appendix B, attached hereto and made a part hereof, are the fair, just and reasonable rates for General to charge its customers for telephone service.

9) General's proposed regrouping of its Nicholasville and Wilmore exchanges is in accordance with the procedure authorized in Case No. 6708 and should be approved effective January 1, 1982; however, the rates charged should be in accordance with those in Appendix B.

IT IS THEREFORE ORDERED that the remaining service lives, future net salvage rates and depreciation rates filed by General in this proceeding be and the same hereby are denied.

IT IS FURTHER ORDERED that the remaining service lives, future net salvage rates and depreciation rates in Appendix A, attached hereto and made a part hereof, be and they hereby are approved, effective January 1, 1982.

IT IS FURTHER ORDERED that the rates filed by General to recover increased depreciation from implementation of the Equal Life Group method of depreciation be and they hereby are denied.

IT IS FURTHER ORDERED that the proposed rates and charges filed by General in this proceeding be and they hereby are denied.

IT IS FURTHER ORDERED that General's proposed increases to basic local exchange service be and they hereby are denied.

IT IS FURTHER ORDERED that effective January 1, 1982, General is hereby authorized to place into effect the rates and charges in Appendix B, attached hereto and made a part hereof.

IT IS FURTHER ORDERED that effective January 1, 1982, General is hereby authorized to place into effect its proposed regrouping of the Nicholasville and Wilmore exchanges, and further to charge rates in accordance with Appendix B of this Order.

IT IS FURTHER ORDERED that within 20 days of the date of this Order, General shall file its tariffs based on Appendix B of this Order in accordance with the regulations of the Commission.

Done at Frankfort, Kentucky, this 20th day of January, 1982.

PUBLIC SERVICE COMMISSION

Marlin M. Volz
Chairman

Katherine Randall
Vice Chairman

Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE NO. 8295, DATED JANUARY 20, 1982

The following remaining service lives, future net salvage rates, and depreciation rates are to be used by General Telephone Company of Kentucky.

Account		Class of Plant	Book Cost ($000's)	Remaining Life	Est. Future Net Salvage	Depreciation Rate
FCC/Company			Dec. 31, 1981			
212	C121	Buildings	$ 32,429	28.0 years	13.0%	2.48%
221		COE				
	C202	Manual Switching	11,146	11.1	6.3	6.21
	C203	Auto. Switching	105,146	10.0	6.0	7.31
	C204	Auto. Message Recording	12,543	5.3	1.6	12.43
	C205	Circuit Equip.	47,320	8.7	5.0	8.33
	C206	Radio Equip.	6,132	6.9	5.4	8.10
231		Station Apparatus				
	C401	Tel. Sta. Apparatus	52,075	7.0	3.0	9.76
	C404	TTY Equipment	2,502	7.0	1.0	8.74
	C407	Radio Tel. Equip.	1,639	6.7	2.0	9.40
232	C464	Drop Wire	8,344			5.00
234	C481	Large PBX	19,176	5.1	5.0	13.02
241	C601	Pole Line	20,967	16.6	-21.5	5.43
242.1	C602	Aerial Cable	77,730	15.5	-3.8	4.90
242.2	C603	Underground Cable	21,635	25.3	-2.9	3.26
242.3	C604	Buried Cable	14,672	20.0	0	3.86
243	C606	Aerial Wire	3,677	5.2	-19.5	12.88
244	C607	Underground Conduit	10,894	44.6	0	1.88
261	C811	Furniture and Office Equipment	3,975	14.3	5.4	5.22
264						
	C821	Motor Vehicles	8,063	4.4	15.0	11.61
	C831	Motor Vehicle Shop Equip.	80	10.6	4.0	6.70
	C841	Tools & Work Equip.	3,542	10.6	4.0	6.69

APPENDIX B

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE NO. 8295 DATED JANUARY 20, 1982

The following rates and charges are prescribed for the customers in the area served by General Telephone Company of Kentucky. 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 date of this Order.

BASIC LOCAL EXCHANGE RATE SCHEDULE

Statewide Flat Rate Schedule

		Rates Per Month					
	Total Network	Residence			Business		
Group	Access Lines	1-Pty	2-Pty	4-Pty & Rural	1-Pty	2-Pty	Rural*
1	0 - 2,000	$ 9.47	$ 7.58	$ 6.63	$ 21.20	$ 18.03	$ 14.85
2	2,001 - 2,300	9.61	7.68	6.73	21.50	18.27	15.05
3	2,301 - 2,650	9.76	7.80	6.82	21.84	18.56	15.28
4	2,651 - 3,050	9.92	7.93	6.94	22.17	18.85	15.53
5	3,051 - 3,500	10.05	8.04	7.04	22.54	19.16	15.77
6	3,501 - 4,000	10.20	8.17	7.13	22.88	19.45	16.01
7	4,001 - 4,600	10.36	8.28	7.26	23.40	19.89	16.38
8	4,601 - 5,300	10.51	8.41	7.36	23.96	20.37	16.77
9	5,301 - 6,100	10.66	8.52	7.45	24.51	20.84	17.16
10	6,101 - 7,000	10.83	8.66	7.58	25.11	21.35	17.58
11	7,001 - 8,050	11.00	8.80	7.69	25.73	21.86	18.02
12	8,051 - 9,250	11.16	8.93	7.80	26.34	22.40	18.43
13	9,251 - 10,650	11.33	9.07	7.93	26.97	22.92	18.87
14	10,651 - 12,250	11.49	9.20	8.04	27.62	23.48	19.34
15	12,251 - 14,100	11.65	9.32	8.16	28.24	24.01	19.77

* Business rural rates apply to existing business four-party service.

Semi-Public Telephone	50% of Business 1-Party
Key Telephone Trunk	175% of Applicable 1-Party Rate
PBX Trunk	200% of Applicable 1-Party Rate

The above rates for basic local exchange service are related to the total number of Network Access Lines including one- and multi-party lines, public and semi-public lines, Centrex lines, ETSX lines, and all types of trunk lines within the local calling area.

Rates for basic local exchange service apply to Network Access Lines only. Telephone Company-provided station sets and other terminal equipment rates and charges are listed in appropriate sections of the Company tariff.

BASIC LOCAL EXCHANGE RATE SCHEDULE (Continued)

Statewide Flat Rate Schedule

Group	Total Network Access Lines	Rates Per Month — Residence 1-Pty	2-Pty	4-Pty & Rural	Business 1-Pty	2-Pty	Rural*
16	14,101 - 16,200	$11.84	$ 9.48	$ 8.29	$28.88	$24.54	$20.22
17	16,201 - 18,650	12.02	9.62	8.42	30.04	25.55	21.03
18	18,651 - 21,450	12.22	9.78	8.56	31.73	26.97	22.20
19	21,451 - 24,700	12.39	9.92	8.67	32.32	27.46	22.63
20	24,701 - 28,400	12.57	10.05	8.81	32.88	27.97	23.03
21	28,401 - 32,650	12.76	10.20	8.93	33.43	28.42	23.40
22	32,651 - 37,550	12.93	10.35	9.06	33.97	28.88	23.77
23	37,551 - 43,200	13.14	10.52	9.21	34.56	29.38	24.19
24	43,201 - 49,700	13.35	10.68	9.33	35.15	29.89	24.62
25	49,701 - 57,150	13.54	10.83	9.48	35.76	30.40	25.02
26	57,151 - 65,700	13.75	11.00	9.62	36.43	30.97	25.50
27	65,701 - 75,550	13.94	11.16	9.77	37.09	31.54	25.96
28	75,551 - 86,900	14.15	11.32	9.90	37.90	32.22	26.54
29	86,901 - 99,950	14.38	11.49	10.05	38.79	32.98	27.15
30	99,951 -114,950	14.59	11.67	10.22	39.68	33.74	27.78
31	114,951 -132,200	14.82	11.85	10.38	40.56	34.49	28.40
32	132,201 -152,050	15.03	12.02	10.52	41.46	35.24	29.03
33	152,051 -174,850	15.24	12.20	10.67	42.36	36.01	29.65
34	174,851 -201,100	15.47	12.38	10.83	43.35	36.85	30.34
35	201,101 -231,250	15.72	12.58	11.01	44.33	37.67	31.03

* Business rural rates apply to existing business four-party service.

Semi-Public Telephone	50% of Business 1-Party
Key Telephone Trunk	175% of Applicable 1-Party Rate
PBX Trunk	200% of Applicable 1-Party Rate

The above rates for basic local exchange service are related to the total number of Network Access Lines including one- and multi-party lines, public and semi-public lines, Centrex lines, ETSX lines, and all types of trunk lines within the local calling area.

Rates for basic local exchange service apply to Network Access Lines only. Telephone Company-provided station sets and other terminal equipment rates and charges are listed in appropriate sections of the Company tariff.

STATION SETS

The following rates and charges for station sets are in addition to appropriate service charges and all other rates and charges applicable to the service with which the station sets are used:

	Monthly Rate
Station Sets	
Standard	
Rotary Dial, each	$1.00
Touch Call Dial, each	1.50
Standard with Message Waiting Lamp	
Rotary Dial, each	1.25
Touch Call Dial, each	1.75

CENTREX SERVICE

	Monthly Rate Network Access	Monthly Rate Intercommunication
Schedule I		
C.U. Centrex		
Main or Administrative Centrex Lines		
First 200 Lines, each	$ 18.89	$ 5.00
Next 400 Lines, each	10.62	6.60
Next 400 Lines, each	7.90	5.60
Over 1,000 Lines, each	7.16	3.35
Restricted Lines, each		2.80
Dormitory Lines, each	7.16	3.35
C.O. Centrex		
Main or Administrative Centrex Lines		
First 200 Lines, each	18.89	5.52
Next 400 Lines, each	10.62	7.12
Next 400 Lines, each	7.90	6.12
Over 1,000 Lines, each	7.16	3.87
Restricted Lines, each		2.80
Dormitory Lines, each	7.16	3.87
Schedule 2		
C.U. Centrex		
Main or Administrative Centrex Lines		
First 200 Lines, each	27.20	5.00
Next 400 Lines, each	13.88	6.60
Next 400 Lines, each	9.70	5.60
Over 1,000 Lines, each	8.88	3.35
Restricted Lines, each		2.80
Dormitory Lines, each	8.88	3.35
C.O. Centrex		
Main or Administrative Centrex Lines		
First 200 Lines, each	27.20	5.52
Next 400 Lines, each	13.88	7.12
Next 400 Lines, each	9.70	6.12
Over 1,000 Lines, each	8.88	3.87
Restricted Lines, each		2.80
Dormitory Lines, each	8.88	3.87