

COMMONWEALTH OF KENTUCKY

BEFORE THE UTILITY REGULATORY COMMISSION

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In the Matter of

NOTICE OF CHANGE IN RATES OF)
UNIONTOWN TELEPHONE COMPANY, INC.)
FOR TELEPHONE SERVICE TO GO INTO) CASE NO. 7664
EFFECT JANUARY 1, 1980)

O R D E R

On November 20, 1979, Uniontown Telephone Company, Inc., (Applicant), a small telephone utility serving approximately 640 telephone subscribers in Uniontown, Kentucky, filed a Notice with this Commission wherein they proposed to increase certain rates and charges effective January 1, 1980. The increased rates proposed were for one- and two-party business and residential service with no increase proposed for four- and eight-party service. Moreover, the Applicant proposed to charge for certain special services such as unlisted telephone numbers which had presently been provided without charge. Applicant stated that these increases were necessary as rising costs of equipment, material and increased operating expenses had made it extremely difficult for Applicant to survive as a business.

By Order dated November 20, 1979, the Commission suspended the proposed rates and charges for a period of five (5) months on and after January 1, 1980, finding that a hearing and investigation was necessary to determine the reasonableness of the proposed rates. On December 12, 1979, the Commission, by Order, set a public hearing for January 15, 1980 and ordered the Applicant to publish notice of said hearing and the proposed rates and charges as required by Kentucky law and the Commission's regulations. At the hearing, which was held as scheduled, the Applicant introduced evidence to substantiate compliance with the notification requirements. The Attorney General's Division of Consumer Intervention was the only party intervening in the matter and was present at the hearing and

cross-examined the Company's witness at such time.

At the close of the hearing, the matter was submitted to the Commission for final determination.

TEST PERIOD

The Commission has accepted the Applicant's proposed test period, the twelve months ending August 31, 1979, for the purpose of determining the reasonableness of the proposed rates and charges.

NET INVESTMENT

The Applicant introduced no proposed valuation methods; however, the Commission, from the record, has determined the Applicant's Net Investment Rate Base in its utility operations at August 31, 1979, to be as follows:

Telephone Plant in Service	\$336,308.63
Less: Depreciation Reserve	203,936.56 ⁽¹⁾
Net Investment	<u>\$132,372.07</u>

Although no other methods of valuation are introduced herein, the Commission has given due consideration to all elements of value in order to determine the reasonableness of the matter.

REVENUES AND EXPENSES

In the Commission's investigation in the matter, it became apparent that the Applicant's books and records have been kept on a "cash" basis and not on an "accrual" basis as prescribed by the Uniform System of Accounts for Telephone Utilities. As such, the Applicant has not been properly matching revenues and expenses in an operating period. This situation is apparent especially in the Applicant's recording of operating revenues during the test period, which have been overstated substantially. Accordingly, to correct for this deficiency, the Commission has adjusted Applicant's operating revenues by \$3,091⁽²⁾ to reflect the normalized test-year-end revenues. Moreover, the Commission has made an adjustment to interest expenses of \$1,346⁽³⁾ to reflect normalized

(1) Applicant's Exhibit - Balance Sheet.

(2) \$115,690 - \$112,599 = \$3,091.

(3) \$60,140 x 7.33% = \$4,408 - \$3,062 = \$1,346.

test-period interest expenses. As a result of the above-mentioned adjustments, Kentucky State Income Taxes have been adjusted by \$50⁽¹⁾ to reflect the Applicant's normalized tax liability.

Therefore, the Commission finds that Uniontown's adjusted income statement at August 31, 1979 is as follows:

Operating Revenue	\$ 112,599
Operating Expenses:	
Operation & Maintenance Expenses	\$ 77,401 ⁽²⁾
Depreciation Expense	20,472 ⁽²⁾
Operating Taxes	<u>5,233</u>
Total Operating Expenses	\$ 103,106
Operating Income	\$ 9,493
Interest Expense	4,408
Net Income	<u><u>\$ 5,085</u></u>

Rate of Return

The Commission is of the opinion that the adjusted rate of return of 7.17%⁽³⁾ is clearly deficient and is unfair, unjust, and unreasonable.

We are of the opinion that a fair, just, and reasonable rate of return is 12.0% in that it will allow Uniontown to pay its operating expenses, service its debt, and provide an adequate surplus. To achieve these earnings, Uniontown is entitled to increase its telephone service rates to generate additional annual revenues of approximately \$6,658,⁽⁴⁾ which are adjusted for Kentucky State Income Taxes.

SUMMARY

The Commission, after considering all of the evidence of record and being fully advised, is of the opinion and so FINDS that the rates set out in Appendix "A" attached hereto and made a part hereof will produce gross annual revenues in the amount of approximately \$119,257 and are the fair, just, and reasonable

(1) \$271 - \$221 = \$50.

(2) Applicant's Exhibit - Income Statement.

(3) $\$9,493 \div \$132,372.07 = 7.17\%$.

(4) $\$132,372.07 \times 12.0\% = \$15,885$.

rates for the Applicant to charge for telephone service in that they will produce revenues sufficient to permit it to pay its operating expenses, service its debt, and provide a reasonable surplus for equity.

The Commission further FINDS that the rates proposed by the Applicant in this Case are unfair, unjust, and unreasonable in that they produce gross annual revenues in excess of \$119,257 and should be denied.

The Commission further FINDS that the Applicant has not been using accrual accounting methods as prescribed by the Uniform System of Accounts for Telephone Utilities adopted by this Commission, and that the failure to do so has created a mismatching of revenues and expenses in an operating period.

IT IS THEREFORE ORDERED, that the rates sought by Uniontown Telephone Company, Inc., in this Case be and the same are hereby denied.

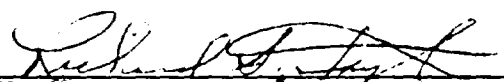
IT IS FURTHER ORDERED, that the rates and charges set out in Appendix "A" attached hereto and made a part hereof are the fair, just, and reasonable rates for the Uniontown Telephone Company to charge for telephone service on and after the date of this Order.

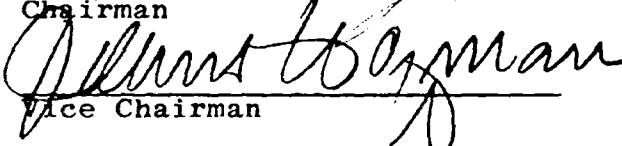
IT IS FURTHER ORDERED, that Uniontown Telephone Company, Inc., shall file with this Commission within thirty (30) days from the date of this Order its revised tariff sheets setting out the rates approved herein.

IT IS FURTHER ORDERED, that the Uniontown Telephone Company, Inc., shall adopt and use the methods of accrual accounting on and after the date of this Order.

Done at Frankfort, Kentucky, this the 19th day of February, 1980.

UTILITY REGULATORY COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX "A"

APPENDIX TO AN ORDER OF THE UTILITY REGULATORY
COMMISSION IN CASE NO. 7665, DATED FEBRUARY 19, 1980.

Schedule of Charges

<u>Type Service</u>	<u>Rates</u>
1-Party Residence	\$ 7.11/month
2-Party Residence	5.69/month
1-Party Business	14.21/month
2-Party Business	11.37/month
Unlisted Directory Numbers	9.45/year
2-Party Residential Mileage	1.40/mile/month
Additional Directory Listing	0.96/month
Push-Button Phones (Additional Charge)	0.38/month

All other rates and charges not specifically mentioned herein will remain the same.