

COMMONWEALTH OF KENTUCKY
BEFORE THE UTILITY REGULATORY COMMISSION

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In the Matter Of:

APPLICATION OF FOOTHILLS RURAL)
TELEPHONE COOPERATIVE CORPORATION,) CASE NO. 7948
INC. TO ADJUST ITS RATES)

O R D E R

On August 29, 1980, Foothills Rural Telephone Cooperative Corporation, Inc., (hereinafter Applicant or Company) filed its application seeking authority to increase its rates and charges. The proposed rates would cause revenues to increase by an additional \$213,264.

The case was scheduled for hearing at the Commission's offices in Frankfort, Kentucky, November 26, 1980. All parties of interest were notified and the Division of Consumer Intervention of the Attorney's General Office was the only party intervening in the matter.

After the hearing, additional information was requested. This information has been furnished and the entire matter is now considered to be submitted for final determination by this Commission.

COMMENTARY

Foothills Rural Telephone Cooperative Corporation, Inc., is a Kentucky Corporation established by and under the laws of the State of Kentucky. Applicant provides telephone service to approximately 8,600 subscribers in eastern Kentucky in the counties of Lawrence, Magoffin, Johnson, and Breathitt.

TEST YEAR

The twelve months period ending May 31, 1980, has been used in this matter as the test year for the purposes of determining the reasonableness of the proposed rates and charges. In accordance with Commission policy, pro-forma adjustments have been included where found reasonable and proper for rate-making purposes.

VALUATION

The Applicant proposed a net investment rate base as of the end of the test year of \$10,283,438. The Company has included a cash working capital allowance of \$122,900 in its net investment calculations. Since the customer furnishes cash through advance payments for basic exchange services, the Commission is of the opinion that those same customers should not be required to pay the Applicant a return thereon; therefore, the Commission has eliminated the item of cash working capital from the rate base. The Commission has also adjusted the reserve for depreciation to include the depreciation expense adjustment based on plant in service at the end of the test year.

After consideration of these adjustments, Applicant's net investment rate base would appear as follows:

Telephone Plant in Service	\$10,015,442
Telephone Plant under Construction	1,903,161
Materials and Supplies	57,316
Prepayments	13,825
Sub-total	<u>11,989,744</u>
Less:	
Reserve for Depreciation	1,837,633
Net Investment	<u><u>\$10,152,111</u></u>

The Applicant's capital structure as of May 31, 1980, was as follows:

Total Equities and Margins	\$ 2,126,250
Long Term Debt	9,082,616
Capitalization	<u><u>\$11,208,866</u></u>

The Commission is aware of other methods of valuation which were not included in the evidence of record. The Commission has, however, given due consideration to all elements of value as required by Kentucky law in determining the reasonableness of the proposed rate increase.

REVENUES AND EXPENSES

From Exhibit 2 and the testimony of its' accountant, the Applicant presented several pro-forma adjustments to its operating revenues and operations expenses. These adjustments have been duly considered by the Commission and we find that they are based on speculative projections for a five year period with the exception of salary increases; therefore, they will not be allowed for rate making purposes.

Based upon the record in this case, the Commission has, however, made several adjustments to reflect known changes in operating conditions. Operating revenues have been increased by \$64,378 to reflect normalized revenues for the test year. In addition, as the Commission is of the opinion that concession rates can no longer be justified in view of the ever increasing costs all other customer must pay in order to return this lost revenues to the Company, operating revenues have been increased by \$1,419 to reflect the elimination of all concession rates for rate-making purposes. The Commission has also adjusted operating revenue by \$19,622 to include interest during construction.

Operating expenses have been increased by \$25,485 for salary increases; \$8,427 for depreciation expense; and \$16,211 for property taxes based on test year end plant in service. We have, also, increased interest expense by \$282,508 to reflect long-term debt outstanding as of the end of the test period and the additional long-term debt advanced from REA through November 30, 1980.

Based on the accepted pro-forma adjustments, Applicant's Operating Statement would appear as follows:

	<u>Actual 5-31-80</u>	<u>Pro-forma Adjustments</u>	<u>Adjusted Test Year</u>
Operating Revenues	\$ 1,908,369	\$ 85,419	\$ 1,993,788
Operating Expenses	1,451,094	50,123	1,501,217
Net Operating Income	\$ 457,275	\$ 35,296	\$ 492,571
Other Income	24,913	-	24,913
Interest on Long Term Debt (Net)	277,363	282,508	559,871
Net Income	<u>\$ 204,825</u>	<u>(\$247,212)</u>	<u>\$ (42,387)</u>

REVENUE REQUIREMENTS

The actual rate of return on Applicants net investment rate base established herein for the test year was 4.5%. After taking into consideration, the pro-forma adjustments, Applicant's rate of return would be 4.85%. The Commission is of the opinion that the adjusted rate of return is unreasonable and a more reasonable rate of return would be 6.95% which will be sufficient to allow Foothills to pay its operating expenses, service its debt, and provide a surplus for equity growth.

In order to achieve this rate of return Foothills should be allowed to increase its annual revenues by approximately \$213,264 which is the total amount of increase requested herein.

SUMMARY

The Commission, after consideration of the evidence of record and being advised, is of the opinion and finds that the rates proposed by Applicant and as set out in Appendix "A" attached hereto, are the fair, just, and reasonable rates for Foothills Rural Telephone Cooperative Corporation, Inc., on and after the date of this order. Further, the rates set out in Appendix "B" attached hereto are the fair, just, and reasonable rates for service provided by Applicant after conversion to one-party service.

IT IS THEREFORE ORDERED that the rates set out in Appendix "A" attached hereto, are the approved rates for service rendered on and after the date of this Order.

IT IS FURTHER ORDERED that the rates as proposed by Foothills Rural Telephone Cooperative Corporation, Inc., and set out in Appendix "B" are hereby approved as the fair, just, and reasonable rates to be charged for telephone service rendered on and after the completion of the conversion to one-party service only. Said rates may be placed into effect for each route the first billing period after cut over to one-party service of the complete route.

IT IS FURTHER ORDERED that the Applicant shall file with this Commission within twenty (20) days from the date of this Order, its revised tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this 23rd day of January, 1981.

UTILITY REGULATORY COMMISSION

Did Not Participate
Chairman

Thomas D. G. Mann
Vice Chairman

Mary Kay Baker
Commissioner

ATTEST:

APPENDIX "A"

APPENDIX TO AN ORDER OF THE UTILITY
REGULATORY COMMISSION IN CASE NO.
7948 DATED JANUARY 23, 1981

The following rates are prescribed for the customers in the area served by Foothills Rural Telephone Cooperative Corporation, 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 date of this Order.

<u>Local Exchange Service:</u>	<u>Monthly Rate</u>
Residence:	
R-1	\$ 7.80
R-2	6.90
R-4	6.30
Business:	
B-1	\$ 10.50
B-2	9.30
B-4	8.40
<u>Miscellaneous:</u>	
Paystations - Customer Owned	\$ 20.00
Paystations - Company Owned local messages, each	\$.25
Colored Telephone Charge	Eliminated
Loud Ringing Horns	\$ 4.00

APPENDIX "B"

APPENDIX TO AN ORDER OF THE UTILITY
REGULATORY COMMISSION IN CASE NO.
7948 DATED JANUARY 23, 1981

The following rates are prescribed for the customers in the area served by Foothills Rural Telephone Cooperative Corporation, 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 date of this Order.

Local Exchange Service:

Residence:

R-1
R-2
R-4

Monthly Rate

\$ 12.60
Eliminated
Eliminated

Business:

B-1
B-2
B-4

\$ 20.00
Eliminated
Eliminated

Miscellaneous:

Air Mileage - Residence and Business

Eliminated

PABX or Key Trunks on Rotary

\$ 30.00