

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

ADJUSTMENT OF RATES OF HAROLD)
TELEPHONE COMPANY, INC.) CASE NO. 8137

O R D E R

On February 2, 1981, Harold Telephone Company, Inc., ("Applicant") filed an application requesting to increase its intrastate rates and charges by \$229,207 annually. Applicant stated that the requested increase was necessary in order to continue to provide adequate and efficient service to its 3,500 consumers in Floyd and Pike Counties, Kentucky.

In order to determine the reasonableness of the proposed increase, the Commission set a public hearing for May 19, 1981. Notice of the hearing was provided by Applicant in the manner prescribed by Kentucky Revised Statutes and the Commission's regulations. The hearing was held as scheduled with the Consumer Protection Division of the Attorney General's Office being the sole intervenor.

At the conclusion of the hearing and following responses to all requests for information, the matter was considered submitted for final Commission determination.

TEST PERIOD

For the purpose of testing the reasonableness of the proposed rates, the Commission has adopted the 12 months ending October 31, 1980, as the test period. In accordance with Commission policy, pro forma adjustments have been included when found appropriate.

VALUATION METHODS

In its application Applicant proposed a pro forma net investment rate base of \$3,635,396. The Commission has accepted this rate base with two exceptions. Accumulated deferred income taxes of \$92,070 have been deducted from Applicant's rate base as this item represents income taxes which have previously been included in Applicant's cost of service and will not be paid to the taxing authorities until some future time. Moreover, the Commission has rejected Applicant's inclusion of a cash working capital allowance of \$101,299 as the rates for local service are billed in advance of service rendered, and Applicant provided no substantive evidence to demonstrate its investment or capital needs for funds to support its daily operations.

Therefore, Applicant's net investment rate base is as follows:

Plant in Service	\$ 4,478,518
Construction Work in Progress	172,553
Materials and Supplies	77,640
Prepayments	18,177
Acquisition Adjustment	<u>106,099</u>
Subtotal	\$ 4,852,987
Less: Accumulated Depreciation	1,318,890
Deferred Income Taxes	<u>92,070</u>
Net Investment Rate Base	\$ 3,442,027

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

REVENUES AND EXPENSES

Applicant proposed several adjustments to its income statement to reflect more current operating conditions. The Commission is of the opinion that these adjustments are proper and have been accepted with the following exceptions:

Rate Case Expenses

Applicant included in its test period operating expenses of \$6,000 associated with this rate case. In accordance with past Commission policy and based on Applicant's prior rate case history, the Commission has amortized these expenses over a 3-year period. This reduces Applicant's operating expenses by \$4,000.

The Commission has further adjusted Applicant's income statement as follows:

Employee Concessions

The Commission has increased Applicant's operating revenues by \$1,917 to include revenues available to Applicant in the absence of employee discounts on local service. The Commission finds no evidence that these discounts are part of Applicant's wage requirements and they are, therefore, the responsibility of Applicant's stockholders.

Employee Bonuses

During the test period Applicant paid certain employees bonuses totaling \$26,300. Applicant stated that these bonuses were necessary for the security and benefit of those employees who had

been with the utility for long periods of time.

The Commission finds, however, that more than two-thirds of the total bonuses were paid to the stockholders of the utility who are also employed in the operation of the utility. Therefore, as there appears to be no formal wage requirement associated with this expense the Commission has removed the \$26,300 from Applicant's test period expenses for rate-making purposes.

Property Tax

Applicant, in its monthly statements of revenues and expenses, showed a total expense for property tax during the test period of \$37,500. As this is higher than Applicant's projected pro forma property tax expense of \$30,513, the Commission has reduced the allowance for property tax expense by \$6,987.

Interest on Long-term Debt

Applicant has included in its other non-current long-term debt \$13,313 associated with the purchase of non-utility property. Since this property is neither used nor useful in the operation of the utility, the Commission has deducted the interest associated with this portion of its long-term debt from Applicant's test period expenses.

Therefore, Applicant's test period operations are adjusted as follows:

	<u>Actual</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$975,121	\$101,152	\$1,076,273
Operating Expenses	808,837	77,524	886,361
Net Operating Income/(Loss)	\$166,284	\$ 23,628	\$ 189,912
Interest on Long-term Debt	132,035	3,969	136,004
Net Income/(Loss)	\$ 34,249	\$ 19,659	\$ 53,908

RATE OF RETURN

The Commission is of the opinion that Applicant's adjusted operating income which produces a return on net investment of 1.6% is unjust, unfair and unreasonable. The Commission is further of the opinion that a fair, just and reasonable rate of return on Applicant's net investment is 8.5% in that this return will provide revenues sufficient to pay Applicant's operating expense, service its debt and provide a reasonable surplus for equity growth.

To achieve the return found fair, just and reasonable the Commission has determined that Applicant is entitled to increase its rates and charges to produce additional annual revenues of \$198,727 which, after adjustment for income taxes and uncollectibles, will produce operating income of \$292,572⁽¹⁾ on a test period basis.

SUMMARY

The Commission, having considered the evidence of record and being advised, is of the opinion and finds that:

(1) The rates and charges set out in Appendix A, attached hereto and made a part hereof, will produce gross annual operating revenues of approximately \$1,270,594 and are the fair, just and reasonable rates to be charged in that they will allow Applicant to pay its operating expenses, service its debt and provide a reasonable amount of surplus for equity growth.

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- (1) a. Uncollectible revenues were calculated by using the percentage of Applicant's proposed bad debts expense to its proposed increase in revenue and applying this percentage to the amount of gross revenues allowed before the inclusion of uncollectibles, as follows: $\$1,284,249 \times .852\% = \$10,941.80$
b. State and Federal income taxes based on the income allowed have been determined to be \$112,094.

(2) The rates and charges proposed by Applicant and set out in the application would produce revenues in excess of those, found reasonable herein and should be denied upon application of KRS 278.030.

(3) Applicant has in the past followed a flow-through approach with respect to its job development investment tax credits.

(4) Under Section 46(f) of the Internal Revenue Code, Applicant is required to normalize these investment tax credits with ratable amortization of the credits to operations over the useful life of the property.

(5) Prospectively Applicant should follow the prescribed accounting treatment for job development investment tax credits as specified in Section 46(f) of the Internal Revenue Code.

IT IS THEREFORE ORDERED that the proposed schedule of rates and charges as set out by Harold Telephone Company in its application is hereby denied upon application of KRS 278.030.

IT IS FURTHER ORDERED that the rates and charges as set out in Appendix A, be and are approved as the fair, just and reasonable rates to be charged by Harold Telephone Company on and after the date of this Order.

IT IS FURTHER ORDERED that within 30 days after the date of this Order, Harold Telephone Company shall file with this Commission its revised tariffs setting out the rates and charges approved herein.

Done at Frankfort, Kentucky, this 15th day of October, 1981.

PUBLIC SERVICE COMMISSION

Marlin M. Cook
Chairman

Katherine Randall
Vice Chairman

L. M. Darnigan
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC
SERVICE COMMISSION IN CASE NO. 8137
DATED OCTOBER 15, 1981

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

	<u>Monthly Rate</u>
Residence:	
R-1	\$ 13.05
R-2	7.55
Business:	
B-1	\$ 21.30
Paystations - Company Owned	21.30
Paystation - Company Owned	
Local calls	.25
PABX-PBX, Key Systems:	
Radio Circuit - 2 Way	\$ 25.00
208 Data Set	94.50
Recorder	15.00
Hands Free Telephone	14.00
Trunks or Circuits	31.95
4 Line Key System	152.60
Radio Line	35.30
1-Way OCP	10.50
2-Way OCP	11.20
T10- EA Modem	35.70
567 - PB - Auxiliary Set	55.45
Intercom	15.40
Intercom $\frac{1}{2}$	7.70
Additional Keys, each	.70
Automatic Call	14.30
Key System Cabinet	7.30

	<u>Monthly Rate</u>
Extensions:	
Petite, Pushbutton, etc.	\$ 2.75
Auxiliary Equipment:	
Colored Telephone	Eliminated
Hearing Aids	\$ 3.50
Horns	3.00
Buzzers	1.50
Bells, Loud Ringing	4.50
Extra Listing	.75
Foreign Listing	1.25
FX Listing	1.60
Mileage:	
Off Premises Extensions	\$ 4.25
Off Premises Extension	5.50
FX Circuits	6.00
Radio Circuits	4.50
Radio Loops	6.25
Various	1.00
Unlisted Numbers	1.50
Special Designed Phones:	
Decorator	3.75
Trimline	1.50
Touch Tone:	
Residence	
Per Line	\$ 2.40
Per Station	.50
Business	
Per Line	2.90
Per Station	.75
Multi-Line:	
Per Line	\$ 2.90
Per Station	2.00
Mobile Telephones - Company	
Owned, each	70.00
Mobile Telephones - Customer	
Owned, each	35.00
Automatic Dial Paging Service:	
Tone Only, each	\$ 30.00
Second Unit, each	25.00
More than 2 Units, each	23.00
Tone and Maximum 15 second voice message	40.00
Second Unit, each	35.00
Over Tone Units, each	33.00

	<u>Non-Recurring Charge</u>
Miscellaneous:	
Outside Moves, Per Station	
Business	\$ 24.00
Residence	21.00
Inside Moves, Per Station	
Business	15.00
Residence	10.00
Connect Phone in Place, Per Station	
Business	15.00
Residence	12.00
Connect Phone not in Place, Per Station	
Business	30.00
Residence	21.00
Installation New Phone, Per Station	
Business	30.00
Residence	21.00
Installation Extension, Per Station	
Original Installation:	
Business	15.00
Residence	10.00
Separate Visit	
Business	30.00
Residence	21.00
Long Cords	
Business	15.00
Residence	12.00
Damaged Phone, Per Station	
Regular Phone	30.00
Special Phones	40.00
Service Call, Customer Owned Equipment	
Business	40.00
Residence	30.00
Jack and Plugs, Outlets, each	15.00
Install Lock on Phone	23.00
Loud Bells, Horns, Buzzers	3.75

	<u>Non-Recurring Change</u>
Collection Fee	\$ 15.00
Name or Number Change	
Business	10.00
Residence	10.00
Returned Check, Insuf- ficient Funds	10.00
Unpublished Number	10.00