

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

ADJUSTMENT OF RATES OF)
RADIO TELEPHONE, INC.)

CASE NO. 8146

O R D E R

On February 18, 1981, Radio Telephone, Inc., ("Applicant"), a utility engaged in the business of domestic public land mobile radio service in Ashland and surrounding areas of Kentucky, filed notice with this Commission wherein it proposed to adjust its rates for services rendered to be effective on and after March 10, 1981. The proposed rates would produce additional annual intrastate revenues of approximately \$75,120, an increase of 60%. Applicant stated that the increase sought was necessary to meet increased operating expenses and to improve its working capital position.

In order to determine the reasonableness of the proposed rates, the Commission in Orders dated February 18, 1981, and March 18, 1981, suspended the proposed increase for a period of five months on and after the effective date and set a public hearing for May 27, 1981. Notice of said hearing was provided by Applicant pursuant to the Kentucky Revised Statutes and the Commission's Regulations.

The public hearing was held as scheduled with no protests entered. At the close of the hearing and following Applicant's responses to requests for additional information, the entire matter was considered to be fully submitted for final determination by this Commission.

TEST PERIOD

Applicant proposed and the Commission has accepted the 12 months ending December 31, 1980, as the test period in this matter. Adjustments, where proper and reasonable, have been included to more clearly reflect current operating conditions.

VALUATION METHODS

The Commission has determined that Applicant's intrastate net original cost rate base at December 31, 1980, was \$228,412. In its determination, the Commission recognized the adjusted level of operation and maintenance expenses found reasonable herein in its calculation of cash working capital. The rate base was calculated as follows:

Property and Equipment	\$ 362,098
Acquisition Adjustment (Net)	15,783
Cash Working Capital	14,142
Subtotal	<u>\$ 392,023</u>
Less:	
Accumulated Depreciation	163,611
Net Original Cost Rate Base	<u>\$ 228,412</u>

Although no other methods of valuation have been included herein nor introduced by Applicant, the Commission has given due consideration to all elements of value in order to determine the reasonableness of this matter.

REVENUE AND EXPENSES

Applicant proposed several adjustments to its operating expenses and interest expense to more closely reflect current and expected operating conditions. Many of these adjustments were based on the use of an arbitrary inflation factor which was not substantiated by the evidence of record as being known and measurable. Therefore, these inflationary

adjustments have not been accepted for rate-making purposes. Other adjustments were generally proper and reasonable and have been accepted as proposed with the following exceptions:

(1) Applicant proposed to adjust depreciation expense for proposed capital expenditures subsequent to the test period. As Applicant has not made an analysis of the future revenues expected to be derived from these proposed capital expenditures, it would be erroneous and inconsistent to include any expenses resulting from these capital additions. Therefore, this adjustment to the test period level of depreciation expense is denied. However, the Commission is of the opinion that normalization of depreciation expense based on the end-of-period level of depreciable plant is a proper adjustment and, therefore, the adjusted level of depreciation expense for intrastate operations found reasonable is \$70,663.

(2) Applicant, to be consistent with its proposal to include capital expenditures subsequent to the test period, proposed to adjust interest expense for additional capital necessary to finance these capital expenditures. For the reasons set out above, the Commission is also denying this adjustment to interest expense. Further, the Applicant allocated interest expense to its intrastate operations based on an allocation factor of total revenues to revenues from intrastate operations. The Commission is of the opinion that a proper method is to allocate interest expense on the basis of plant. Therefore, the adjusted level of interest expense found reasonable for intrastate operations is \$16,658.

Following the above adjustments, test period intrastate operations are as follows:

	<u>Actual</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$125,128		\$ 125,128
Operating Expenses	<u>167,537</u>	<u>\$ 25,567</u>	<u>193,104</u>
Net Operating Income	<u>\$(42,409)</u>	<u>\$(25,567)</u>	<u>\$ (67,976)</u>

RATE OF RETURN

The Commission is of the opinion that the adjusted operating loss is clearly unfair, unjust and unreasonable. The rates and charges proposed by Applicant will produce operating revenues of \$200,240 and a rate of return on its net original cost rate base of 3.1%, which will improve Applicant's financial condition and is clearly necessary. Moreover, the Commission is of the opinion that, with Applicant's ongoing process of upgrading its service and the additional revenues derived from the installation of new facilities, Applicant will be able to achieve a higher rate of return than that determined herein.

SUMMARY

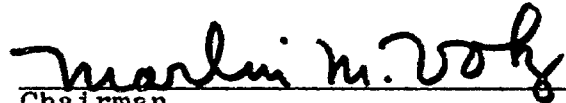
The Commission, after consideration of the evidence of record and being fully advised, is of the opinion and finds that the rates and charges set out in Appendix A and proposed by Applicant in its notice are the fair, just and reasonable rates and charges for Applicant to bill its customers for domestic public land mobile radio service rendered, in that, based on test period conditions, intrastate revenues of \$200,240 will be produced.

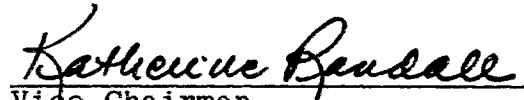
IT IS THEREFORE ORDERED that the rates and charges sought by Applicant are hereby approved and set forth in Appendix A to this Order to become effective for services rendered on and after August 10, 1981.


IT IS FURTHER ORDERED that Applicant shall file with this Commission within 30 days from the date of this Order its revised tariff sheets setting forth the rates and charges approved herein.

Done at Frankfort, Kentucky, this 19th day of August, 1981.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION OF KENTUCKY IN CASE NO. 8146
DATED August 19, 1981

The following rates are hereby prescribed for all customers served by Radio Telephone, Inc. at Ashland, South Portsmouth, Morehead, Paintsville, Pikeville and Prestonsburg, Kentucky. All rates not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the date of this Order.

Air Time usage:

Mobile & Portables

Manual Service--100 one-minute calls \$40.00 per month: 25¢ per minute on all calls after the 100 minutes have been used.

Automatic Service--100 one-minute calls \$35.00 per month; 20¢ per minute on all calls after the 100 minutes have been used.

Transient Users--\$2.50 minimum charge plus 40¢ per minute.

Paging--Unlimited number of tone and voice paging messages - \$18.00 per month.

Paging--Unlimited number of tone only pages - \$10.00 per month.

Equipment Rental Fees:

Mobile Automatic	\$45.00 per month
Mobile Manual	30.00 per month
Portable Units	30.00 per month
Paging Receivers--Tone & Voice	14.00 per month
Paging Receivers--Tone Only	10.00 per month
Additional Channels, each	2.50 per month

Maintenance Rates:

Mobile Automatic	\$12.50 per month
Mobile Manual	12.50 per month
Portable Units	10.00 per month
Pager Units	3.50 per month

Equipment Installation and Removal

Mobiles Installation	\$85.00
Mobiles Removal	\$25.00

Special Charges

For reconnection of service that has been disconnected for non-payment of bills or for violation of the rules and regulations	\$10.00
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