COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

* * * * *

In the Matter of:

APPLICATION OF GENERAL TELEPHONE COMPANY OF KENTUCKY FOR AN ORDER IMPLEMENTING A DIRECT SALES PROGRAM RELATING TO ITS SINGLE LINE TELEPHONE INSTRUMENTS	)	CASE NO. 8258

O R D E R

On January 17, 1983, the Commission entered an Order in the above case approving the amended cost allocation procedures of General Telephone Company of Kentucky ("General") which were submitted November 24, 1982, with the exception of the capital carrying cost rate on jointly-used assets and the capital carrying cost rate on cash working capital. Further, the Commission's Order required General to implement the capital carrying cost rate on jointly-used assets and on cash working capital as specified in the Commission's letter of September 30, 1982. This letter stated that the capital carrying cost rate on jointly-used assets should be computed using the embedded cost of debt and the requested cost of equity proposed in the most recent general rate case and that the capital carrying cost rate on cash working capital should be the current cost of short-term debt plus 2 percent.

On February 7, 1983, General requested that the Commission reconsider its Order and that General be afforded the opportunity to present additional information. Furthermore, on February 25, 1983, General, as required by the Commission's Order entered February 17, 1983, filed its statement of matters on which rehearing was sought. General's primary concern was the Commission's deviation from use of the fair, just and reasonable return established during a general rate proceeding for the determination of carrying cost to the nonregulated portion of its business.

A rehearing was held on April 6, 1983. At the hearing General presented a statement of its position, and Mr. Bruce M. Holmberg, Vice President-General Manager of General Telephone of Kentucky, was available for cross-examination.

General's position is that it operates one business and that the costs to the regulated and unregulated segments of the business should be equal. The Commission agrees that officially General operates one business. However, the Commission does not agree that the costs of the two segments of the business should be equal, since the risks may differ materially. With the rapidly changing environment in the telecommunications industry, the nonregulated segment has been forced into the world of competition and high technology. The Commission recognizes this and is of the opinion that the risks of these two segments differ, and, therefore, the nonregulated segment should not be sheltered by the regulated segment.

In the absence of arms-length transactions between the unregulated and regulated segments wherein the distinct costs of doing business could be ascertained, judgment must be used. It is, therefore, the opinion of the Commission that General did not provide any new evidence to support its position that the costs should be equal, and therefore that the Order entered January 17, 1983, should not be changed.

During the rehearing General raised the issue of assets and cash flow of the nonregulated segment being used by the regulated segment and the appropriate cost rates when this occurred. General contended that it would be illogical for the regulated segment to provide a carrying cost to the nonregulated segment in excess of that which could be obtained in an arms-length transaction. The Commission agrees. Consequently, the Commission is of the opinion that in the event the cash flow is from the nonregulated segment to the regulated segment, the cash working capital carrying cost rate should be no greater than the cheapest alternate source of funds and that when the reverse is true, the nonregulated segment should continue to reflect a premium of 2 percent, thus providing the least cost to the regulated ratepayers. Furthermore, in the event nonregulated assets are jointly used, General's regulated segment should make every effort to obtain an arms-length rental cost or purchase cost of such assets and may be required by the Commission to prove that its costs reflect this concept.

IT IS THEREFORE ORDERED that the Commission's Order entered January 17, 1983, be and it hereby is affirmed.

IT IS FURTHER ORDERED that in the event the regulated segment has the opportunity of obtaining funds or assets from the nonregulated segment every effort must be made to obtain those funds or assets at a cost rate no greater than that which can be obtained through arms-length bargaining with any other lendor or vendor.

IT IS FURTHER ORDERED that all other accounting and allocation procedures not specifically mentioned herein shall remain in full force and effect.

Done at Frankfort, Kentucky, this 13th day of May, 1983.

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner

ATTEST:

Secretary