COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF ALLIED TELEPHONE COMPANY OF KENTUCKY, INC. FOR AN ORDER IMPLEMENTING A DIRECT SALES PROGRAM RELATING TO ITS TELEPHONE INSTRUMENTS	)	CASE NO. 8456

ORDER

On January 26, 1982, Allied Telephone Company of Kentucky, Inc., ("Allied") filed with the Commission its tariff proposing to implement a program of direct sales of telephone instruments. On May 27, 1982, the Commission entered an Interim Order accepting Allied's proposed tariff to sell customer premises terminal equipment. Allied was given a period of 4 months from the date of the Interim Order to develop specific procedures for proper cost allocations between the regulated and nonregulated portions of its operations, subject to review and modification by the Commission. On September 27, 1982, Allied filed cost allocation procedures using the guidelines specified in the Commission's Interim Order.

The Commission concurs with Allied's accounting procedures for the sale of embedded and new telephone instruments and accepts them with the exception of the computation of a carrying charge for working capital. Allied proposed that the carrying charge to the nonregulated business for working capital be computed by multiplying the average required nonregulated working capital times the approved overall rate of return allowed in its latest rate case.

The Commission does not agree with Allied's proposal for the carrying charge on cash working capital. Cash working capital is primarily financed through short-term debt, the cost of which can fluctuate significantly over short periods of time. Moreover, had the nonregulated business entered the marketplace on its own, it would have been subject to arms-length bargaining with lending institutions at whatever rates the market would have demanded. It is highly unlikely that nonregulated business would have been able to obtain financing at the relatively low cost of capital which a regulated utility incurs. Therefore, the Commission finds that the proper cash working capital carrying cost rate should be equal to Allied's current annual weighted cost of short-term debt plus 2 percent.

Allied did not propose a procedure to allocate the appropriate financing costs of shared assets to the nonregulation business. The Commission is of the opinion that procedures should be established for all foreseeable allocations. Therefore, Allied should establish a carrying cost rate for the purpose of assigning the financing costs of jointly used assets to the nonregulated portion of the business, which should be no less than Allied's embedded cost of debt and the return on equity requested in its most recent rate case.

IT IS THEREFORE ORDERED that the cost allocation procedures submitted September 27, 1982, be and they hereby are approved with the exception of the cash working capital carrying cost rate.

IT IS FURTHER ORDERED that Allied's cash working capital carrying cost rate shall be its annual short-term debt interest rate plus 2 percent, and that it shall amend its procedures accordingly.

IT IS FURTHER ORDERED that Allied's capital carrying cost rate for jointly used assets and liabilities shall be the composite cost of its embedded long-term debt and its requested return on equity in its most recent rate case and that it shall amend its procedures accordingly.

IT IS FURTHER ORDERED that Allied shall submit its revised cost allocation procedures within 30 days from the date of this Order.

Done at Frankfort, Kentucky, this 18th day of March, 1983.

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner

ATTEST:

Secretary