COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

NOTICE OF CONTINENTAL TELEPHONE COMPANY OF KENTUCKY OF AN ADJUSTMENT IN ITS RATES	)	CASE NO. 8659

O R D E R

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PROCEDURAL BACKGROUND

On October 29, 1982, Continental Telephone Company of Kentucky ("Continental") filed notice with the Commission proposing to increase its intrastate telephone rates for service rendered effective November 18, 1982. The proposed rates would increase Continental's local revenue by $4,595,515 annually, an increase of approximately 30.1 percent over normalized local service revenue. Through numerous amendments at the hearing of February 23, 1983, and revised exhibits filed on March 4, 1983, Continental reduced its requested rate adjustment to $4,381,311 including increased intrastate revenue requirements of $208,063 to reflect the impact of the Popenoe Plan, the name given the plan to remove station apparatus over a period of 60 months from intrastate toll settlements, mandated by the Federal Communications Commission ("FCC"). Proposed changes in depreciation methodologies represent approximately $1.1 million of the revised request.

On November 3, 1982, the Commission suspended the proposed rates until April 18, 1983, to conduct public hearings and investigate the reasonableness of the proposal. A hearing was scheduled for February 23, 1983, and Continental was directed to give notice to its consumers of the proposed rates and the scheduled hearing pursuant to 807 KAR 5:025, Section 7. The hearing was held as scheduled with the Consumer Protection Division of the Attorney General's Office ("AG") being the sole intervenor. Briefs were filed by March 18, 1983.

On March 14, 1983, the AG, pursuant to objections raised during the hearing of February 23, 1983, requested another hearing in this case on the limited issues regarding toll revenue adjustments proposed by Continental. That hearing was held on March 31, 1983. All information requested has been submitted.

This Order addresses the Commission's findings and determinations on issues presented and disclosed in the hearings and investigation of Continental's revenue requirements and rate design and provides rates and charges that will produce an increase in annual revenues of $1,519,642.

COMPANY BACKGROUND

Continental is a wholly-owned subsidiary of Continental Telecom, Inc. ("Telecom") (formerly Continental Telephone Corporation). Continental operates in all or part of 20 counties in the Commonwealth of Kentucky, having its principal office in London, Kentucky. Continental serves approximately 58,400 customer access lines.

REVISED TESTIMONY

Several witnesses appearing on behalf of Continental in this proceeding announced numerous substantial changes in their respective pre-filed testimony and supporting exhibits at the hearing held February 23, 1983, immediately preceding cross-examination. These revisions were known to Continental prior to the date of the hearing. Interjecting the new data into the proceeding at the very moment cross-examination was to begin frustrated meaningful participation by the parties in this case. The Commission granted liberal recesses for study of the new material, but this solution is not optimal, especially considering the inefficiencies it imposes on the Commission, its staff and the parties. It is especially difficult for the Commission to understand the position taken by Continental on this subject since the Commission's Secretary notified all utilities by letter of January 20, 1983, that any applicant substantially amending its case should provide copies of revised testimony and exhibits to the parties prior to the hearing for cross-examination and during the hearing Continental acknowledged receipt of the letter. Counsel for all utilities have been mailed a copy of this letter since the February 23, 1983, hearing. The Commission expects that Continental will respect this policy in the future.

Two substantial changes proposed by Continental at the February 23, 1983, hearing involved a $375,000 estimated adjustment due to the Popenoe Plan and a $250,000 estimated adjustment for changes in the Subscriber Plant Factor ("SPF"). The AG objected to the inclusion of these changes since they relate to events which occurred after the test period, were not quantified and were first announced at the hearing. The Commission conducted a separate hearing held March 31, 1983, for cross-examination on these adjustments after they had been quantified and is of the opinion that any unfairness to the AG has been corrected. However, the Commission is of the opinion that this experience highlights the reasons for the Commission's policy requiring prior written notice of substantial adjustments.

ANALYSIS AND DETERMINATIONS

TEST PERIOD

Continental proposed and the Commission has accepted the 12-month period ending July 31, 1982, as the test period in this matter.

VALUATION METHODS

Net Investment

Continental proposed a Kentucky intrastate net investment rate base of $54,766,251[1] at July 31, 1982. The Commission has accepted the proposed rate base with two exceptions. First, Continental proposed an adjustment to its depreciation expense to reflect end-of-period plant in service, but failed to make a corresponding adjustment to its reserve for depreciation. Thus, the Commission has increased Continental's reserve for depreciation by $471,848[2] on an intrastate basis. Second, the Commission has increased the rate base by $54,273[3] to reflect the amortization of excess accumulated deferred taxes. Furthermore, since the Commission made a similar adjustment in the Order in Continental's last rate case, Case No. 8428, entered June 18, 1982, the balance in deferred income taxes has been adjusted for 13 months. This issue is discussed in greater detail in a subsequent section of this Order.

Therefore, the Commission has determined the appropriate Kentucky intrastate net investment rate base at July 31, 1982, to be $54,348,676, calculated as follows:

Telephone Plant In Service	$78,352,842
Plant Under Construction	5,405,724
Less: Depreciation Reserve	21,139,830
Net Telephone Plant	$62,618,736
Add: Materials and Supplies	$ 428,229
Less: Deferred Income Taxes	$ 8,424,381
Pre 1981 Investment Tax	91,180
Plant Allocated to Direct Sales	182,728
Total Rate Base	$54,348,676

Capital

Mr. Robert B. Morris, III, Vice President and Public Utility Security Analyst for Wells Fargo Investment Advisors and witness for Continental, proposed to use Continental's actual end-of-test-year capital structure, containing 42.24 percent common equity, 55.42 percent long-term debt and 2.34 percent preferred stock.[4] The Commission is of the opinion that this capital structure is reasonable.

Continental's combined (total interstate and intrastate) capitalization at July 31, 1982, was $65,826,888, including the balance in Unamortized Investment Tax Credits - Revenue Act of 1971 ("JDIC") of $4,667,982.[5] JDIC has been allocated to each component of the capital structure on the basis of the rates of each component to the total capital structure excluding JDIC. The Commission is of the opinion that this treatment is entirely consistent with the requirement of the Internal Revenue Service ("IRS") that JDIC receive the same overall return allocated to common equity, debt and preferred stock.

Moreover, the Commission has reduced capital by the July 31, 1982, balances in miscellaneous physical property which consisted primarily of unregulated direct sales inventory[6] and plant allocated to the unregulated direct sales program of $261,143[7] and $224,434,[8] respectively. These reductions have been made to reflect capital supporting utility operations only and have been assigned to the capital components based on the accepted capital structure.

Therefore, the Commission has determined the combined capital devoted to utility operations to be $65,341,311. The Commission has allocated combined capital to intrastate operations based on the ratio of intrastate net investment to combined net investment of .8185[9] resulting in intrastate capital of $53,481,863, as follows:

	Combined	Intrastate	Structure
Common Equity	$27,600,170	$22,590,739	42.24%
Preferred Stock	1,528,986	1,251,475	2.34%
Long-Term Debt	36,212,155	29,639,649	55.42%
Total	$65,341,311	$53,481,863	100.00%

Capital and Net Investment Rate Base[10]

Investor-supplied capital (including JDIC) and the net investment rate base are the two valuation methods predominately used by regulatory agencies in the determination of utility revenue requirements. In theory, these two methodologies should be identical, as net investment in utility operations must be supported by capital. However, these two measures seldom are equivalent without extensive analysis of the balance sheet accounts and operations because of the difficulties inherent in the determination of the appropriate level of working capital and investment supported by cost-free sources of capital such as accounts payable. Because of the time required to reconcile investment in utility operations and investor-supplied capital supporting investment in utility operations, this Commission has traditionally used investor-supplied capital in its determination of revenue requirements.

In Case No. 8428 the Commission departed from its long-established practice and used the net investment rate base in determining the required revenue. Investor-supplied capital in that case far exceeded net investment in utility operations primarily due to an extraordinarily high level of cash held by Continental for future construction. Had the

Commission based its decision in that case on investor-supplied capital, ratepayers would have been paying a return on cash or "assets" not used nor useful in utility operations and moreover currently generating interest income. Thus, rather than establishing a complete reconciliation of utility capital and investment, which would have been time consuming and costly based on the materiality of the results, the Commission used Continental's net investment rate base in its utility operations without a full investigation of all cost-free capital supporting that investment.

In the current case, net investment in utility operations slightly exceeds investor-supplied capital supporting net investment in utility operations. Continental's cash balance is at a more normal level. The primary reasons for the difference in net investment and investor-supplied capital can be traced to cost-free accounts payable of $620,291[11] supporting construction work in progress and materials and supplies at July 31, 1982, and further to the remaining differences in current liabilities over other current assets. Continental did not perform a lead-lag study nor any other studies to reconcile the differences in valuations. Therefore, the Commission is of the opinion that investor-supplied capital in utility operations including JDIC is the appropriate valuation method to use in the determination of revenue requirements in this proceeding.

REVENUES AND EXPENSES

For the 12 months ending July 31, 1982, Continental had intrastate operating income of $5,182,928.[12] In order to reflect current operating conditions Continental proposed several adjustments to revenues and expenses that resulted in an adjusted test period intrastate net operating income of $4,429,982.[13] The Commission has determined the appropriate level of adjusted test period operating income from intrastate operations to be $5,095,921.

In its analysis of Continental's operations, the Commission has accepted the majority of the revised pro forma adjustments including the changes in toll revenue from changes in the SPF and the Popenoe Plan, the 1983 wage adjustments including a reduction of 23 employees, employee concessions, and normalized end-of-period local service revenues. In the following sections the Commission will outline Continental's adjustments which it did not accept and other adjustments to Continental's intrastate net operating income.

Wages and Wage-Related Expenses

Continental proposed to increase its wages to reflect a 6.6 percent increase to its management employees in January 1983, and a 5 percent increase to its non-management employees in February 1983. Continental further proposed an increase of 6 percent for all its employees in January and February 1984. Correspondingly, FICA, state and federal unemployment and company-provided pensions and group insurance were increased. Subsequent to the hearing of February 23, 1983, Continental submitted revised exhibits reflecting the reduction in wages and wage-related expenses from a reduction in its work force of 23 employees. From responses to information requests and testimony at the hearings, it was determined that the 1984 wage adjustment was based on projected inflation trends.[14] Therefore, the Commission is of the opinion that the 1984 wage adjustment is neither known nor measurable and should be rejected. Thus, the Commission has reduced Continental's wage expenses by $88,456 on a combined basis and $69,811 on an intrastate basis. Other corresponding and minor adjustments have also been made to reflect wage expenses charged to construction and payroll taxes.[15] The sum of these adjustments increase Continental's intrastate operating income by $38,073.

Depreciation Expense

Continental proposed several changes to its existing depreciation rates. Changes to existing straight line method, vintage group procedure, remaining life technique rates, including the introduction of remaining life rates to plant accounts presently depreciated on an average service life basis, would result in increased depreciation expense of $1,559,997 on an annual basis. The remaining life rates would be applicable to plant additions recorded through December 31, 1981.

For plant additions recorded beginning January 1, 1982, Continental proposed the use of the straight line method, equal life group procedure, and whole life technique. The proposed rates would result in additional depreciation expense of $242,385 on an annual basis.

In a separate filing, Continental filed a depreciation study in support of the requested rates on September 27, 1982. On October 8, 1982, the Secretary of the Commission informed Continental by letter that consideration of the depreciation study and resulting depreciation rates would be deferred pending the development and approval of a regulation (807 KAR 5:064) relating to telephone utility depreciation filings and rates. On April 6, 1983, this regulation became effective.

The Commission has determined that depreciation studies should be considered in a separate proceeding. Utility plant depreciation is a complex and technical subject, and the Commission has learned from prior experience that proper consideration of this item cannot be conducted in the context of rate hearings. For this reason, the Commission will defer any changes to Continental's existing depreciation rates, and resulting expenses, until the conclusion of the process prescribed by 807 KAR 5:064.

Although the regulation makes no provision for recovery by a utility of additional expense resulting from changes in depreciation rates, the Commission will allow Continental, as a part of this rate proceeding, new tariff charges reflecting the dollar amount change which may result from represcription of its depreciation rates. However, the

Commission advises Continental that this will be permitted only because it filed its depreciation study and proposed rates prior to the effective date of 807 KAR 5:064, and that hereafter Continental, and other telephone utilities, shall adhere to the regulation in requesting changes to depreciation rates.

The limited filing permitted herein shall, however, be specific to any resulting depreciation expense increase only, and Continental must fully demonstrate validity of this expense in its application. Continental must, moreover, demonstrate, based on actual results, adjusted solely for the effect of rate increases, that absorption of these increased costs would result in Continental failing to achieve the return on equity allowed in this Order.

In its filing, the Commission will permit Continental to make adjustments to expenses for known changes approved in this Order. Continental will also be required to make adjustments to revenues to reflect changes such as increases from regroupings and the annualized effect of the rates approved herein.

Pursuant to the provisions of 807 KAR 5:064, any change in depreciation rates approved for Continental will be effective January 1, 1984. Continental is advised that its limited filing in this matter should be made in a timely manner and not later than 20 days after the date of the Commission's Order which sets Continental's depreciation rates in order to allow the Commission to thoroughly review the application prior to that date. Continental is further advised that all of its tariffed rates and charges will be closely scrutinized in determining an appropriate rate design to recover any increased costs which are found reasonable.

Therefore, the Commission has increased intrastate operating income by $746,000[16] to reflect the disallowance of depreciation rate changes at this time.

Station Connection Expense

Continental proposed to reflect the normalization of phase two of the expensing of its station connections which began in October, 1982, and 7 months of phase three of the expensing of station connections to provide simultaneous revenue recovery for the full year following implementation of the rates approved herein. However, in its revised exhibits filed March 4, 1983, Continental withdrew its phase-three adjustment. The Commission is of the opinion that Continental's original adjustment was appropriate. Thus, the Commission has increased combined maintenance expenses by $91,857,[17] a decrease to intrastate operating income of $38,005.

The AG expressed concern with the adjustment for phase-three expensing of station connections because of the length of time beyond the test period in this case. The Commission is of the opinion that Continental's approach is reasonable, but Continental is hereby placed on notice that no further direct recovery will be permitted for the remainder of phase-three station connection expenses until a limited filing is made which provides adequate notice of an effective date of May 1, 1984 (i.e., the remaining 5 months of phase three). In the event that notice is given for a general rate adjustment prior to May 1, 1984, the normalized level of station connection expense will be determined therein.

Direct Sales Expenses

Continental proposed a decrease to its combined operating expenses and taxes of $265,793 for allocation to direct sales. Due to the Commission's rejection of the 1984 wage adjustment, the Commission has reduced this adjustment to $260,157, thus decreasing intrastate net operating income by $2,398.

Other Expenses

Continental properly adjusted its operating expenses to eliminate charitable contributions and lobbying expenses incurred during the test period. However, Continental apparently overlooked charitable contributions allocated from the Eastern Region of $564.[19] It is the Commission's policy to require these expenses to be borne by the stockholders of a utility and not the ratepayers. Therefore, the Commission has disallowed the intrastate portion of these expenses for rate-making purposes, thus resulting in an increase to Continental's intrastate operating income of $234.

Toll Revenue

Continental and South Central Bell ("SCB") use the cost method for determining Continental's share of toll revenues generated by the Kentucky intrastate toll network. Thus, Continental receives from SCB its actual intrastate toll operating expenses plus a return and matching taxes on its Kentucky intrastate toll rate base. The return paid Continental by SCB is SCB's achieved overall return from its intrastate operations.

At the hearing of February 23, 1983, Continental amended its proposed adjustment for toll revenue to reflect SCB's 1982 calendar year achieved return of 10.11 percent, resulting in intrastate toll revenue of $7,320,772.[20] The Commission is in agreement with this approach in that it produces reasonable results based on an annualized historical period representative of future expectations.

The AG in its brief proposes that the Commission annualize the 3 months of November and December 1982 and January 1983, which is the most recent information available on SCB's intrastate rate of return. This approach was used by the Commission in Case No. 8428. Continental had proposed using SCB's intrastate return for the test period in that case, but the Commission instead used the first quarter of 1982. In the Commission's Order entered June 18, 1982, the Commission stated that the use of SCB's intrastate return for 12 months was preferable to the use of 3 months because SCB's 1981 calendar year earnings or return reflected abnormalities which materially distorted its use as a predictor of future expectations. These specific abnormalities were discussed in detail in the Commission's Order of June 18, 1982 and included changes in the recording of higher depreciation and station connection expenses prior to revenue recovery in January 1982. Thus, the Commission's only viable and reasonable alternative in Case No. 8428 was to use the first quarter of 1982, which reflected a normal and recent period's return. In this case, the Commission is of the opinion that the 12-month period ending December 31, 1982, is appropriate and reflects normal operations for SCB and thus the AG's proposal is rejected. The Commission further points out that the differences in the annualized returns for these two periods is not material. This decision does not rule out the use of intrastate returns based on other time periods should the Commission find different data more appropriate and reasonable.

Finally, using Continental's methodology and incorporating other Commission adjustments to rate base, operating expenses and income tax deductions, the Commission has reduced Continental's intrastate toll revenue to $6,881,781, a decrease of $438,991. Thus, the Commission has reduced Continental's intrastate operating income by $222,832.

Income Tax Expenses

In each of the previous revenue and expense adjustments, the income tax effect has been reflected in the adjustment itself. However, the income tax effect on below the line adjustments to fixed charges and depreciation expenses, payroll taxes and pensions capitalized has not been reflected and is as follows:

a) Continental proposed intrastate fixed charges of $2,318,042[21] based on the debt portion of its intrastate net investment.

The amount of fixed charges provided for herein is $2,433,415 based on end-of-period debt including the porportionate assignment of JDIC. Thus, income taxes have been reduced by $56,810.

b) Continental included in its calculation of income taxes an "add-back" to taxable income of $213,202[22] for depreciation on expenses capitalized on an intrastate basis. This amount was based on the amount of expense capitalized at July 31, 1982, at the proposed remaining life depreciation composite rate. The depreciation changes have been deferred and, therefore, the add-back has been reduced to $166,898, a decrease of $46,304. Thus operating income taxes have been reduced by $22,800.

c) Continental proposed to reduce its taxable income for pro forma levels of payroll taxes capitalized and pensions capitalized based on its 1983 and 1984 wage adjustments of $65,058 and $62,766, respectively,[23] on an intrastate basis. The 1984 wage adjustment has been disallowed and these associated taxes have been reduced to $64,053 and $62,753, respectively, a gross change of $1,018 and a net increase of $501.

Finally, the Commission has reduced intrastate state income tax by $126 to reconcile changes in the allocation of the state surcharge on an intrastate basis and has further reduced federal income taxes by $15,535 to recognize the net intrastate portion of the federal surcharge and reconciliation of state income tax.

The sum of the above changes in income taxes increases Continental's operating income by $94,770.

Excess Deferred Taxes

In Case No. 8428, the Commission amortized over 5 years Continental's excess deferred taxes resulting from the reduction in the federal corporate income tax rate from 48 to 46 percent effective January 1, 1979. In its Order entered June 18, 1982, the Commission discussed this adjustment in detail. In order to avoid repetition, the discussion herein has been limited and the Commission's opinion in Case No. 8428 is incorporated by reference.

Since Continental's operating expenses for the test period do not reflect the amortization of excess deferred taxes required by the Commission in its last case, a similar adjustment is found necessary in this instance. Therefore, intrastate operating income has been increased by $50,098.[24] The Commission previously adjusted the rate base by this amount and further by $4,175[25] to recognize the implementation of 13 months amortization effective July 1982. The Commission, moreover, directs Continental to transfer these excess deferred taxes to a separate liability account in order that the accumulated excess deferred taxes can be readily identified in future rate proceedings.

Affiliated Transactions

Continental presented testimony and exhibits from two of its witnesses, Mr. Douglas Baker, Senior Financial Analyst, and Mr. Marvin W. Krehmeyer, Assistant Vice President - Regulatory Matters, employees of Continental Telephone Service Corporation ("CTSC"), regarding services provided by affiliated companies in its organizational structure. For the test period, the books and records of Continental of Kentucky reflected charges from services provided by the following affiliates:

Continental Telephone Service Corporation

Contel Data Service Corporation

Leland Mast Directory Company

Continental Supply and Service Corportion ("CSSC")

In general and often vague terms, the witnesses stated the description, functional objectives and method of billing the operational companies of each entity. The total billings from these entities reported on Continental's financial statements during the test period were in excess of $6 million representing nearly 25 percent of its reported revenues. Excluding payments to CSSC for equipment and supplies, the total billings for intangible services is $3.4 million or 27 percent of test period operation and maintenance expense.

An examination of the descriptions of these various service organizations revealed a very complex layering in the organizational structure of Telecom. Furthermore, the functional objectives of each organizational layer often appeared to be overlapping if not duplicative. For instance, the System Operations Division ("license contract") and the Eastern Region Division of CTSC have almost identical nomenclature, i.e., network design, accounting, financial, network services, personnel, customer services and so on, for the services provided. Continental presented little, if any, testimony to identify the specific responsiblities of each of its corporate layers, but instead relied on the standard company philosophy that it is more economical to provide management services to the operating companies on a shared basis than on an individual basis.

During the hearing of February 23, 1983, a substantial portion of time was spent on cross-examination regarding the benefits of these affiliated transactions. In its brief, the AG expressed concern about such a high level of outside expense and the cost-effectiveness of the arrangement to the Commonwealth's ratepayers. The Commission shares this concern. In addition, the AG asked the Commission to consider carefully whether these payments were justified or should be substantially trimmed.

The Commission performed an analysis of the license contract expense for the period 1977 to 1982 and found that it had grown at a rate far out-distancing the consumer price index ("CPI") with the license contract increasing 117 percent while the CPI only increased 57 percent. However, when customer growth is taken into account, the results were not as extreme, but were still in excess of the CPI. Further, a comparison of the larger telephone utilities' current access charges for comparable rate groups in the Commonwealth revealed that Continental does not compare unfavorably, especially considering all the factors that could affect these statistics (rate design, customer density, age of plant, terrain, etc.). Moreover, a comparison of operation and maintenance expense reveals that Continental does not compare unfavorably with SCB and compares favorably with General Telephone of Kentucky which is the telephone utility closest in size and service area. Although these are not the only measures of productivity, they do indicate that the cost of service provided is not abnormal.

Continental has not performed any total productivity studies nor conducted studies to determine whether the affiliated companies provide cost effective services. The Commission urges Continental to perform such studies and present its findings as part of its next general rate case. Further, the Commission wishes to apprise Continental that it expects more testimony and exhibits specifically identifying the responsibilities and objectives of the various corporate affiliates and definitive studies showing the cost-effectiveness of the structure in its next general rate proceeding.

Cost Efficiency Quantification

The Commission has continually stressed the need for utility management to reduce costs and achieve greater efficiencies. Recognizing the Commission's policy, Continental highlighted some of the areas in which costs had been cut and efficiencies gained. However, Continental failed to propose pro forma adjustments in these areas or to update original adjustments fully until required to do so in response to specific information requests made at the hearing. The Commission notes that pro forma adjustments which increase expenses are readily proffered, even to the point of projecting wage increases for 2 years beyond the test year, while adjustments which involve expense decreases were not fully identified and quantified at the hearing. Fairness dictates that Continental undertake, and the Commission require, an evenhanded approach in proposing adjustments to the historical test year.

In one area where expenses may be reduced due to a $2 million construction project budget decrease in 1983, which was first mentioned on cross-examination, Continental agreed to list the changes to the construction budget and indicate which changes would be made by in-house crews and which by outside contractors. It was asserted that contractors accounted for the majority of items being eliminated from the budget and these items, therefore, presented no expense reduction possibilities. However, Continental's response failed to distinguish between cancellations and additions to the construction budget which are expected to be performed in-house and those which will be handled by contractors. Therefore, although the Commission cannot accept Continental's position, it has no basis to adjust expenses independently. In the future, the Commission expects Continental to take the initiative to quantify changes such as this one; otherwise, reported benefits of achieved efficiencies and cost reduction programs will flow solely to Continental's shareholders for the period between rate cases rather than to its ratepayers, a result the Commision finds to be unsatisfactory.

Summary of Adjusted Operating Income

The Commission, based on the foregoing analysis, has determined Continental's appropriate intrastate adjusted test period operating income to be $5,095,921 as set out below.

	Proposed	Adjustments	Reasonable
Operating Revenues	$23,079,863	$ (438,991)	$22,640,872
Operating Expenses	18,649,881	(1,104,930)	17,544,951
Net Operating Income	$ 4,429,982	$ 665,939	$ 5,095,921

The changes resulting from the Popenoe Plan mandated by the FCC are added directly to the revenue requirements and thus not reflected in the above calculations.

RATE OF RETURN

Mr. Morris proposed embedded rates of 8.21 percent and 9.41 percent for long-term debt and preferred stock, respectively.[26] The Commission is of the opinion that an

8.21 percent rate for long-term debt and a 9.35 percent rate for preferred stock are reasonable and should be accepted for rate-making purposes. The 9.35 percent rate is the annualized cost calculated on schedule 2, item 31 of the Commission's first staff request. The Commission is of the opinion that this is the proper embedded cost for preferred stock.

Mr. Morris proposed a 17 percent return on equity at the hearing, updating the recommendation in his prefiled testimony.[27] He used a discounted cash flow analysis, a risk premium analysis and a security market plane ("SMP") analysis to develop his proposed return on equity.[28] Mr. Morris derived his proposed return on equity from the calculation of the market-required rate of return on the common equity of a composite of telephone utilities because Continental has no publicly traded common stock.[30] Most of the comparison companies are much larger, geographically and financially, than Continental.

Mr. Morris used an 8 percent dividend growth rate and an 8.42 percent expected dividend yield for his composite DCF analysis.[31] However, the compound growth rate in dividends for the composite, from 1977 to 1982, is approximtely 5.13 percent and Value Line's dividend growth rate estimate is 5.7 percent. A sustainable growth rate estimate (b x r) is 6.13 percent.[32] The Commission is not convinced that investors expect the composite's dividends to grow at 8 percent annually over the long run. Using a range of growth rates of

5.13 percent to 6.13 percent and an 8.42 percent expected dividend yield gives a reasonable DCF estimate of the composite's cost of capital of 13.55 percent to 14.55 percent.

Mr. Morris developed a risk premium required by equity investors, of 3.06 percentage points.[33] Adding the risk premium to the Moody's Baa average yield on public utility bonds, from December 1977 through December 1982, produced a required rate of return of 17.75 percent.[34] He used a composite of public utilities followed by Wells Fargo Bank ("WFB") to determine the return on equity used in his risk premium analysis.[35] However, a majority of the firms included in the WFB composite are electric utilities and approximately 73 percent of these operate or are constructing nuclear power facilities.[36] Very few of the utilities in the composite are telephone utilities and this could bias a risk premium developed using the WFB composite. The risk premium from December 1977 to December 1982 fluctuates from a low of .61 percentage points in October 1981 to a high of 5.40 percentage points in December 1978.[37] The Commission is of the opinion that Mr. Morris' risk premium analysis overstates the cost of capital to Continental.

Mr. Morris also developed a return on equity using WFB's SMP analysis but he did not present that return as a recommendation for Continental's market required rate of return.[39] Mr. Morris presented insufficient information to allow the Commission to make a judgment on the ability of the

SMP to determine a proper required return on equity in this case.

The AG did not sponsor a rate of return witness but in its brief recommended that the return on equity not exceed 14 percent.[40] The AG stated that the proper dividend growth rate for the composite of telephone utilities was in the range of 5.7 to 6.1 percent, using Value Line's estimate and Continental's growth in book value between 1980 and 1981.[41] The AG used a dividend yield for the composite companies of 7.5 percent to 7.7 percent.

Continental Telecom's market to book value ratio is in excess of 1.0 and its stock price has been improving recently.[38] This indicates that investors expect Continental Telecom and indirectly its subsidiary, Continental, to earn their cost of capital. Continental Telecom's rate of return on average common equity has been in the 14 percent to 15 percent range since 1978.

After considering all of the evidence, including current economic conditions, the Commission is of the opinion that a range of returns on equity of 13.75 to 14.75 percent is fair, just and reasonable. A return on equity in this range would not only allow Continental to attract capital at reasonable costs to insure continued service and provide for necessary expansion to meet future requirements, but also would result in the lowest reasonable cost to the ratepayer. A return on common equity of 14.25 percent will allow Continental to attain the above objectives.

Rate of Return Summary

Applying rates of 14.25 percent for common equity, 9.35 percent for preferred stock and 8.21 percent for long-term debt to the capital structure approved herein produces an overall cost of capital of 10.79 percent. The additional revenue granted will provide a rate of return on net investment of 10.62 percent. The Commission finds this overall cost of capital to be fair, just and reasonable.

AUTHORIZED INCREASE

The additional revenue required based on the rate of return found fair herein is computed as follows:

Adjusted Net Operating Income	$5,095,921
Net Operating Income Found Reasonable	5,769,608
Deficiency	673,687
Deficiency Adjusted for Taxes (.5067)	1,329,558
Intrastate Requirement for Popenoe Plan	190,084
	$1,519,642

RATE DESIGN

Continental proposed rate adjustments in the areas of basic exchange service, service charges, foreign exchange service, and miscellaneous service and equipment, as follows:

Basic Exchange Service	$3,918,777
Service Charges	352,701
Foreign Exchange Service	2,914
Miscellaneous Service Arrangements and Auxiliary Equipment	231,123
Total	$4,505,515

The Commission does not concur with Continental's distribution of revenue requirement in this case, especially insofar as Continental failed to make any adjustment to obsolete service offerings. Therefore, the Commission has made various changes in Continental's rate design.

The Commission has reduced basic exchange service rates from the level proposed by Continental to reflect residual pricing methodology, that is, all elements of service and equipment that could reasonably share in the burden of the additional revenue requirement were increased and the remaining revenue requirement was allocated to basic exchange service.

Continental proposed service charges at approximately 100 percent of cost. The Commission has reduced service charges to a level more consistent with phase-three expensing of station connections, which was a matter of issue in this case. Service charges priced at less than 75 percent of cost have been increased to 75 percent of cost. Service charges priced at more than 75 percent of cost have not increased. This is consistent with the Commission's treatment of service charges in Case No. 8150, Notice of South Central Bell Telephone Company of an Adjustment in its Intrastate Rates and Charges.

The Commission has reduced foreign exchange service rates consistent with basic rate exchange service, except foreign exchange service mileage, which has been increased consistent with other mileage rates.

Continental did not propose to increase mileage rates. The Commission acknowledges that mileage rates are a serious concern to Continental's customers. However, the Commission must establish rates that are reasonable and which equitably distribute the burden of additional revenue requirement.

Therefore, the Commission has increased mileage rates a uniform 10 percent, except individual line mileage, which is consistent with the level of other increases authorized in this Order. At the same time, the Commission advises Continental that it should file cost information concerning mileage as part of its next general rate case.

The Commission has made modest adjustments to increase miscellaneous service arrangements and auxiliary equipment. Such items of service have been increased a uniform 10 percent.

Continental did not propose to increase interconnections with customer-provided equipment or obsolete service offerings. The Commission has increased interconnections and obsolete service offerings a uniform 10 percent, which is consistent with its treatment of such items of service in Case No. 8467, Notice of South Central Bell Telephone Company of an Adjustment in its Intrastate Rates and Charges, and which allocates to the charges on related equipment most of the Popenoe Plan adjustment resulting from the removal of embedded terminal equipment from the toll settlements process.

The rates in Appendix A yield the additional revenue authorized in this Order as follows:

Basic Exchange Service	$1,028,761
Service Charges	67,447
Mileage	23,699
Foreign Exchange Service	1,460
Miscellaneous Service Arrangements and Auxiliary Equipment	252,104
Interconnections with Customer-Provided Equipment	324
Obsolete Service Offerings	145,847
Total	$1,519,642

FINDINGS AND ORDERS

The Commission, after consideration of the evidence of record and being advised, finds that:

(1) The rates proposed by Continental would produce revenues in excess of those found reasonable herein and should be denied upon application of KRS 278.030.

(2) The rates and charges in Appendix A are the fair, just and reasonable rates and charges for Continental to charge its customers for telephone service.

(3) Continental should file cost information concerning mileage in its next general rate case.

(4) Continental's proposed depreciation rates should be denied without prejudice pending consideration under 807 KAR 5:064, and Continental should be allowed to make a limited filing following that consideration for the recovery of any additional revenues found reasonable.

IT IS THEREFORE ORDERED that the proposed rates and charges in Continental's notice of October 29, 1982, be and they hereby are denied.

IT IS FURTHER ORDERED that Continental be and it hereby is authorized to place into effect the rates and charges in Appendix A for all service rendered on and after April 18, 1983.

IT IS FURTHER ORDERED that Continental shall file cost information concerning mileage in its next general rate case.

IT IS FURTHER ORDERED that within 20 days of the date of the Commission's Order which sets Continental's depreciation rates pursuant to 807 KAR 5:064, Continental may request the recovery of any additional revenues found reasonable in accordance with the provisions of this Order.

IT IS FURTHER ORDERED that within 30 days of the date of this Order, Continental shall file its tariff sheets setting out the rates approved herein.

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

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner

ATTEST:

Secretary

FOOTNOTES

1. Baker Exhibit, schedule 2, item 1, revised February 23, 1983.

2. \$578,670 x .8154 = \$471,848.

3. \$308,218 ÷ 5 =\$61,644 x 13/12 = \$66,781 x .8127 = \$54,273.

4. Morris testimony, page 37.

5. Notice Exhibit, item 9, page 2 of 2 and response to staff request no. 1, item 2L.

6. Transcript of Evidence ("T.E."), February 23, 1983, page 193.

7. Response to staff request no. 1, item 1B, page 1.

8. Baker Exhibit, schedule 2, item 1, revised February 23, 1983.

9. \$54,348,676 ÷ \$66,403,606 = .8185.

10. Discussions of this topic are found in T.E., February 23, 1983, pages 194-197.

11. Response to staff request no. 1, items 2I and 20.

12. <u>Ibid.</u>, item 1A, page 3.

13. Baker Exhibit, schedule 3, item 1, revised February 23, 1983.

14. AG request no. 1, item 9 and T.E., February 23, 1983, page 177.

15.

Payroll Taxes	\$5,323	(\$6,864 x .7755)
Expenses Charged to Construction	129	(\$47,477 - \$47,310 = \$167 x .7755)
Net Intrastate Change	\$5,194	

16. \$1,802,382 x .8154 = \$1,469,662 x .5076 = \$746,000.

17. Baker Exhibit, schedule 3, item 9.

18. <u>Ibid.</u>, item 10, revised February 23, 1983.

19. Hearing data request, February 23, 1983, analysis of charitable contributions.

20. Baker Exhibit, schedule 3, item 5, page 1, revised February 23, 1983.

21. Ibid., item 22, page 2, revised February 23, 1983.

22. Ibid., page 1, revised February 23, 1983.

23. Ibid.

24. \$308,218 ÷ 5 = \$61,644 x .8127 = \$50,098.

25. \$50,098 ÷ 12 = \$4,175.

26. Morris testimony, page 37.

27. Ibid., page 38.

28. T.E., February 23, 1983, page 11.

29. Morris testimony, page 12.

30. Ibid., page 8.

31. Morris Exhibit, schedule 6, page 6.

32. T.E., February 23, 1983, page 48 and updated Morris Exhibit, schedule 6, page 4.

33. T.E., February 23, 1983, page 10.

34. Morris testimony, page 18.

35. Ibid., page 17.

36. T.E., February 23, 1983, pages 52-53.

37. Updated Morris Exhibit, schedule 3, pages 1-4.

38. T.E., February 23, 1983, page 45.

39. Morris testimony, page 22.

40. AG's brief, page 4.

41. Ibid., page 3.

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE NO. 8659 DATED April 18, 1983.

The following rates and charges are prescribed for the customers in the area served by Continental Telepone Company of Kentucky. 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.

GENERAL EXCHANGE TARIFF

GENERAL RULES AND REGULATIONS

XIII. SPECIAL SERVICE AND FACILITIES

B. Customer Billing

7. An administrative charge in the amount of $10.00 will be applied to each insufficient funds check received in payment of a customer's account.

8. A non-recurring penalty charge of 10% will be charged on unpaid billing after 31 days from the beginning of the customer's billing period, exclusive of taxes, license or franchise fees billed under authority of federal, state, county, or municipal governments, or school or other special districts.

LOCAL EXCHANGE SERVICE

VI. MONTHLY ACCESS LINE RATES

ACCESS LINE	Rate Group 1	2	3	4	5	6
Business						
1-Pty.	$22.13	$22.68	$23.23	$23.72	$24.72	$24.77
4-Pty.	14.75	15.14	15.47	15.74	16.07	16.40
Business Trunk	61.26	62.63	63.90	65.33	66.60	67.97
Key Line	46.62	47.66	48.82	49.86	50.91	51.96
Semi-public	36.77	37.59	38.36	39.19	39.96	40.78
Multi-line	33.19	34.01	34.84	35.55	36.38	37.15
Residence						
1-Pty.	12.93	13.26	13.59	13.76	14.25	14.64
4-Pty.	10.02	10.18	10.51	10.68	10.95	11.12
Key Line	27.68	28.29	29.01	29.34	30.27	31.04
Multi-line	19.43	19.92	20.42	20.64	21.35	21.96

ACCESS LINE	7	8	9	10	11	Special*
Business						
1-Pty.	$25.37	$25.92	$26.47	$27.02	$27.52	$20.33
2-Pty.						17.89
4-Pty.	16.68	17.06	17.28	17.61	18.00	13.54
Business Trunk	69.40	70.78	72.10	73.42	74.74	55.91
Key Line	53.11	54.27	55.31	56.36	57.41	42.72
Semi-public	41.66	42.49	43.31	44.03	44.86	33.57
Multi-line	38.03	38.86	39.68	40.51	41.28	30.49
Residence						
1-Pty.	14.92	15.30	15.63	15.96	16.29	11.89
2-Pty.						10.48
4-Pty.	11.28	11.61	11.78	12.05	12.27	9.20
Key Line	31.65	32.36	33.02	33.63	34.34	21.36
Multi-line	22.40	22.95	23.45	23.94	24.44	17.82

*Cumberland Exchange

SERVICE CHARGES

III. SCHEDULE OF CHARGES

	Business	Residence
Service Order		
Primary, each	$21.25	$19.75
Secondary, each	5.75	5.00
Premise Visit, each	18.25	15.75
Central Office Work, each	21.25	18.80
Acess Line Work, each	36.45	36.45
Inside Wiring, each	26.25	24.50
Jack		
Standard, each	3.65	3.65
Other	See Section 13, Sheet 14	
Equipment Work, each	18.25	11.30

MILEAGE

III. MILEAGE CHARGES

A. General

1. The following mileage charges apply in connection with primary sets or private branch exchange systems which are located outside the base rate area but within the exchange area and are in addition to the base rate quoted for the class of service furnished.

   Individual line or private branch exchange trunk line per one-fourth mile or fraction thereof, per month. . . $1.00

   Two party line, per one-fourth mile or fraction thereof, per month, each main station. . . $0.60

2. The following mileage charges apply on tie-lines and off premises sets between subscriber locations within the same exchange.

   Continuous Property - All telephone service except paystations, per one-tenth mile per month . . . $1.10

   Non-continuous Property - Individual lines or trunks, per one-tenth mile per month. . . $1.10

IV. PRIVATE LINE FACILTIES

C. Rates

1. Within the same central office area

For each private line facility within the same central office area (except commercial radio broadcast loops).

Per one-tenth circuit mile, per month	$0.85
Equipment work charge, per terminal	Basic

FOREIGN EXCHANGE SERVICE

I. FOREIGN EXCHANGE SERVICE

B. Rates

2. Local Channels	Per Month
When foreign exchange channels are routed through the normal central office, the charge per circuit or fraction thereof between the normal central office and the applicant's location.	$3.30

XIII. JACK EQUIPMENT

B. Rates

	Equipment Work Charge
1. Data Equipment	
Universal	$47.30
Programmable	47.30
2. Key and PBX System	
50-Pin Miniature Connector	52.15

XIX. TOUCH CALLING SERVICE

B. Rates	Monthly Rate	Equipment Work Charge
Business, per line	$2.20	Basic
Residence, per line	1.65	Basic

XXII. RADIO PAGING SERVICE

C. Rates

	Monthly Rate	Equipment Work Charge
1. All exchanges as service becomes available		
a. Radio Paging Service including one receiver, batteries not included		
Tone Paging	$22.00	See Section 4
Voice Paging	29.00	See Section 4
b. Additional Receiver, each		
Tone	15.70	See Section 4
Voice	22.65	See Section 4

XXIV. CUSTOM CALLING SERVICES

C. Rates

	Monthly Rate Per C.O. Line Equipped	
	Residence	Business
Call Forwarding	$1.40	$2.20
Three-Way Calling	1.65	2.50
Call Waiting	1.40	2.50
Speed Calling (8 code)	1.40	2.20
Speed Calling (30 code)	1.40	4.95
Packages:		
1. Call Forwarding - Call Waiting	2.50	4.40
2. Speed Calling (8 code) - Call Waiting	2.50	4.40
3. Call Forwarding - Call Waiting - Speed Calling (8 code)	3.85	6.60
4. Call Forwarding - Call Waiting - Speed Calling (30 code)	4.95	8.80
5. Call Waiting - Three-Way Calling	2.75	4.70
6. All Features (Not including 30 code)	5.50	9.10

INTERCONNECTIONS WITH COMMUNICATIONS EQUIPMENT PROVIDED BY THE CUSTOMER

I. GENERAL

Customer-provided equipment which serves a location where the Telephone Company considers impracticable to serve because of hazard or inacessibility may be connected with telecommunications service by means of appropriate protective circuitry registered in accordance with Part 68 of the Federal Communications Commission's Rules and Regulations.

1. (a) Deleted

II. CONNECTIONS OF REGISTERED TERMINAL EQUIPMENT AND SYSTEMS

A. 3. Unless a specific waiver has been granted by the Federal Communications Commission or except as specified elsewhere in this Tariff, all connections of registered equipment to services furnished by the Company shall be made through standard jacks.

B. 1. a. (1) registered as a component of and supplied to the user with the registered terminal equipment or protective circuitry with which it is to be used.

B. 3. Deleted.

III. CONNECTIONS OF GRANDFATHERED TERMINAL EQUIPMENT AND GRANDFATHERED COMMUNICATIONS SYSTEMS

A. 1. (B) All connections are made through standard jacks, demarcation point or by other means agreeable to the Company and the customer.

V. CONNECTIONS OF CUSTOMER-PROVIDED COMMUNICATIONS SYSTEMS NOT SUBJECT TO PART 68 OF FCC RULES AND REGULATIONS

A. 2. The connection shall be through a network control signaling unit and connecting arrangement in accordance with Part 68 of the Federal Cummunications Commission's Rules and Regulations.

VI. CONNECTIONS OF CUSTOMER-PROVIDED TERMINAL EQUIPMENT SPECIFICALLY EXCLUDED FROM THE FCC REGISTRATION PROGRAM

A. 1. The connection of customer-provided terminal equipment to services specifically exempted from the Federal Communications Commission's Registration program shall be through a protective connecting arrangement in accordance with Part 68 of the Federal Communications Commission's Rules and Regulations.

VII. MAINTENANCE OF SERVICE DUE TO THE CONNECTION OF CUSTOMER-PROVIDED EQUIPMENT OF OTHER FACILITIES

A. Maintenance of Service Due to the Connection of Customer-Provided Equipment of Other Facilities

Per maintenance service call -	$34.10	first hour or fraction thereof
	$17.05	each additional 1/2 hour thereafter or major part thereon, continues with first hour

IX. SALE OF KEY AND PABX TELEPHONE SYSTEMS AND STATION WIRE BY THE TELEPHONE COMPANY

A. The price for such systems, including installed station wire and station equipment shall be on a negotiated basis with such price under ordinary circumstances, not to be below net book value. (Net book value to be the amount of the original investment, including material and labor, less the appropriate accumulated depreciation reserve for the system plus salvage value for station wiring plus direct selling costs).

X. RATES

A. Data Access Arrangement for connection of customer provided data transmitting and/or receiving equipment:

	Monthly Rate	Equipment Work Charge
(1) 1001B Data Coupler	$8.25	Basic

B. Connecting arrangement to provide for automatic connection of customer provided voice transmitting and/or receiving terminal equipment.

1. 20721-L1 Voice Coupler per line equipped	14.05	Basic
2. 20721-L2 Voice Coupler per line equipped	19.80	Basic

C. Recording, Reproducing, and Automatic Answering and Recording Equipment Provided by the Customer

	Monthly Rate	Equipment Work Charge
1. Recorder Connector Equipment Jack for portable recorder connector equipment	$ 0.90	Basic

E. Key Systems provided by tne customer

	Monthly Rate	Equipment Work Charge
(1) CAC K-1-2 (RR) Coupler	$10.75	Basic

OBSOLETE SERVICE OFFERINGS

100.2 MISCELLANEOUS SERVICE ARRANGEMENTS AND AUXILIARY EQUIPMENT

100.2.1 Automatic Answering Equipment

	Monthly Rate	Equipment Work Charge
Model 200A	$16.30	Basic

100.2.2 Automatic Answering and Recording Service

	Monthly Rate	Equipment Work Charge
Code-A-Phone Model 370	$10.90	Basic
Code-A-Phone Model 525	22.60	Basic
Code-A-Phone Model 560	28.00	Basic
Model 222	13.55	Basic
Model 333	22.20	Basic
Model 555	29.85	Basic
Model 700	27.10	Basic

Additional Equipment for above Models

	Monthly Rate	Equipment Work Charge
a. Multi-line adapter (three line capacity), each	10.65	$10.10
b. Tone Oscillator for Model 555	2.70	Basic
c. Earphone (X100-121), for Model 700	1.25	49.50
d. Footswitch (X00-099), for Model 700	1.45	49.50

100.2.3 Automatic Dialer Equipment

	Monthly Rate	Equipment Work Charge
Select-A-Call Ten (10 line capacity)	$10.45	Basic
Automatic Dialer with 400 line capacity tape	13.55	Basic
Teletronics AD9 8 digit single address dialer	6.80	Basic
Teledialer 32	15.05	Basic

100.2.4 Special Type Telephones

100.2.4.a Decorator Telephones

Candlestick Telephone (Rotary)	5.70	Basic
Chest Telephone (Rotary)	7.10	Basic
Cradle Telephone (Rotary)	7.10	Basic

100.2.4.b Panel Telephones

Basic panel - for single line installation	3.90	Basic
Basic panel - for single line installation with illuminated dial	4.35	Basic
Two line panel	4.80	Basic

100.2.4.c Outdoor Telephone Sets

b. Rates

Metal enclosed set Rotary	6.40	Basic

100.2.4.d Explosive Atmosphere Telephone Equipment

	Monthly Rate	Equipment Work Charge
Wall type or pedestal set, each	$11.85	Basic
Hand set, each	17.25	Basic

100.2.4.e Amplifying Equipment

b. Rates

	Monthly Rate	Equipment Work Charge
Amplifying Equipment	$2.10	Basic
Push to Talk Handset	1.65	Basic
Confidencer (noise cancelling transmitter)	2.50	Basic

100.2.4.f Hands Free Telephone Set (Speakerphone)

B. Rates

	Monthly Rate	Equipment Work Charge
Speakerphone set Rotary	$15.60	Basic
Companion II Speakerphone	9.70	$29.70

100.2.4.g. Princess Telephone

A. Rates

Princess Telephone		
Rotary	3.80	Basic
Touch Calling	4.25	Basic

100.1.4.h. Trim-Line Telephone

B. Rates

Trim-Line Telephone		
Rotary	4.60	Basic
Touch Calling	5.05	Basic

100.2.4.i. Externally Mounted Telephone Loudspeaker (Orator Type)

B. Rates

	Monthly Rate	Equipment Work Charge
	$2.70	Basic

100.2.4.j. Standard Telephone Sets

B. Rates

Standard Telephone Set		
Business - Rotary	2.00	See
Business - Touch Calling	2.75	Section
Residence - Rotary	2.00	4
Residence - Touch Calling	2.75	

100.2.5. Buzzer Circuits and Push Button Pads

B. Rates

	Monthly Rate	Equipment Work Charge
Each button or associated buzzer	$0.90	Basic
Battery supply for buttons and buzzers (and other uses)	3.65	Basic

100.2.6 Electronic Sentry System

B. Rates

Yale Telemergency Alarm Dialer DC 8C, single channel	18.10	Basic

100.2.7 Headset

	Monthly Rate	Equipment Work Charge
A. Headset applique unit for key set (plug)	$1.40	Basic
B. Plantronics Headset (star set) model H5-0110-1A equipped with lock and push to talk switches, four wire, and ten foot cord	4.50	Basic

100.2.8 Emergency Call System/Fire Reporting System

B. Rates

	Monthly Rate	Equipment Work Charge
1. ITT Emergency Call System Equipment		
10 line capacity	$18.90	Basic
20 line capacity	31.65	$17.60
40 line capacity	83.20	35.20
5. Annunciator Cabinet 11 lamp cabinet, each	6.35	Basic
Connecting Line circuits - local private line channel charges		Basic

100.2.9 Auxiliary Bells, Gongs, Horns and Chimes

B. Rates

1. Signal control equipment for one or more signals on the same circuit, for indoor mounting.

	Monthly Rate	Equipment Work Charge
Continuous	$2.10	Basic
Noncontinuous	2.10	Basic
Explosive atmosphere, noncontinuous	5.00	Basic

100.2.9 Auxiliary Bells, Gongs, Horns and Chimes (Cont'd)

	Monthly Rate	Equipment Work Charge
2. Bells (Gongs)		
a. Operated by power from central office		
(1) Inside Mounting		
2"	$0.70	Basic
4"	0.90	Basic
6"	1.40	Basic
Telephone bell in box as extension	0.90	Basic
(2) Outside Mounting		
2"	1.80	Basic
4"	5.45	Basic
6"	6.80	Basic
b. Operated by commercial power		
(1) Inside Mounting		
6"	1.80	Basic
8"	2.15	Basic
10"	2.35	Basic
(2) Outside Mounting		
6"	2.70	Basic
8"	3.35	Basic
10"	3.80	Basic
12"	4.45	Basic
3. Horns		
a. Operated by commercial power only		
(1) Inside Mounting		
Small	1.70	Basic
Medium	2.10	Basic
Extra Loud	4.20	Basic
(2) Outside Mounting		
Small	2.35	Basic
Medium	3.35	Basic
Extra Loud	6.70	Basic
Large	3.65	Basic

100.2.9 Auxiliary Bells, Gongs, Horns and Chimes (Cont'd)

	Monthly Rate	Equipment Work Charge
4. Chimes		
a. Inside Mounting Only	$3.65	Basic
5. Toggle Switches (Cam Type)		
1 key	0.90	Basic
2 key	1.80	Basic

100.2.10 SECRETARIAL ANSWERING CABINET

B. Rates

1. 6 line capacity	16.30	Basic
2. 10 line capacity	27.10	Basic
3. 20 line capacity	54.30	Basic

100.2.11 SOUND SYSTEMS AND VOICE INTERCOMMUNICATING EQUIPMENT

B. Rates

	Monthly Rate	Equipment Work Charge
1. Power Amplifiers		
25 watt	$8.60	Basic
40 watt	14.05	Basic
75 watt	16.30	Basic
150 watt	26.25	Basic
2. Cone Type Sound Reproducers		
6 inch, surface wall	1.80	Basic
6 inch, flush wall	1.80	Basic
8 inch, surface, sloping front	2.25	Basic
8 inch, bi-directional	2.25	Basic
8 inch, surface ceiling	1.80	Basic
8 inch, flush ceiling, round grill	1.80	Basic

100.2.11 SOUND SYSTEMS AND VOICE INTERCOMMUNICATING EQUIPMENT (Cont'd)

	Monthly Rate	Equipment Work Charge
3. Trumpet Type Sound Reproducers		
15 watt, explosion proof including relay	$8.60	Basic
25 watt, with transformer, weatherproof	3.65	Basic
40 watt, with transformer, weatherproof	4.50	Basic
25 watt, bi-directional with transformer, weatherproof	4.15	Basic
4. Telephone System Input Coupling Units		
ETA107 Key System Page Access	2.70	Basic
ETA103 PABX Coupling Box	2.25	Basic
5. Microphones		
Paging Microphone dynamic with preamp	5.45	Basic
Paging Microphone cardiod type	6.35	Basic
7. Signaling Input Devices		
M400S1 Tone Generator	4.80	Basic
9. System 1 - Multi Conversation System - Intercommunicating Equipment		
a. Control Stations		
(1) Selective call-up to 11 stations (111D)	9.95	Basic
(2) Selective call-up to 11 stations (111AD)	11.75	Basic

100.2.11 SOUND SYSTEMS AND VOICE INTERCOMMUNICATING EQUIPMENT (Cont'd)

	Monthly Rate	Equipment Work Charge
b. Staff Stations		
(1) Call origination to (1) control station (11AL)	$3.25	Basic
10. System 6 - Single Conversation system - Intercommunicating Equipment		
a. Amplifier and (1) Junction Box (6000K/J52)	10.45	$14.85
b. Control Stations		
(1) Selective call-up to 6 stations (606D)	3.65	Basic
c. Staff Stations		
(1) Indoor Use		
(a) Flush or surface mount with busy light indicator (61L)	1.80	Basic
(2) Outdoor Use (See Common Equipment)		
11. System 7 - Single Conversation System - Intercommunicating Equipment		

100.2.11 SOUND SYSTEMS AND VOICE INTERCOMMUNICATING EQUIPMENT (Cont'd)

	Monthly Rate	Equipment Work Charge
a. Control Stations:		
(Amplification included)		
(1) Connected to (1) staff or a group in parallel (701RKK)	$3.65	Basic
(3) Selective call-up to 10 stations (710DKK)	7.20	Basic
b. Staff Stations		
(1) Indoor Use		
(a) Flush surface mount (81)	2.00	Basic
(2) Outdoor Use (See Common Equipment)		
12. Special Equipment - Voice Intercommunicating Equipment		
a. Staff Stations for Outdoor Use, ea.		
(1) 10" Trumpet (C-23)	2.70	Basic
b. Junction Box (734), each	1.40	Basic
c. Junction Box (J52), each	1.40	Basic
d. Junction Control (J804), each	3.25	Basic
e. Power Supply (M217), each	3.65	Basic

100.2.11 SOUND SYSTEMS AND VOICE INTERCOMMUNICATING EQUIPMENT (Cont'd)

	Monthly Rate	Equipment Work Charge
f. Power Booster (P-29), each	$3.65	Basic
g. Transformer (J629S42), each	0.90	Basic
h. Call Control (J635LS1), each	1.80	Basic
i. Call Switch (JRS41), each	0.90	Basic
m. Handset for use with Intercom Systems		
(1) Desk type (1PTH 158L)	7.20	Basic
(2) Wall Type (Surface of Flush Mount) (1PTH 158LS/w2)	7.20	Basic
n. J-689 S42 Paging Relay	3.65	Basic

1002.13 TELEPHONE PADS

1. 12 Button Touch Tone Pad	4.50	Basic

100.2.14 CALL DIVERTERS

B. Rates

1. Dacon MK-10-E (11 digit)	23.55	$29.70
2. Dacon MK-10-14-E (14 digit)	25.80	29.70
3. Optional Equipment: Audible tone to called party (BOC)	3.20	Basic

100.2.15 AUTOMATIC TIME AND TEMPERATURE ANNOUNCEMENT SERVICE

Rates

	Monthly Rate	Equipment Work Charge
Automatic Time and Temperature Announcement Equipment	$309.95	None
Announcement Line Connectors, each	3.80	None
First recording of advertising's message, other than for maintenance purposes		$88.00
Announcement Lines, each	Individual Business Line Rate	Basic

100.2.16 AIR TRAFFIC CONTROL COMMUNICATION SYSTEM

B. Rates and Charges

	Monthly Rate	Equipment Work Charge
Common Equipment consists of (1) 405 and (1) 403 module (requires one of each to access special service circuit)	$14.85	$304.70
Apparatus Case (15A), capacity for 2, 403 modules	6.05	202.40
Handset/Headset	16.10	

100.3 KEY TELEPHONE SYSTEMS

100.3.1 Key Strips

6 Button	8.15	17.60

100.3.2 Two Talk Path Systems - Intercoms

	Monthly Rate	Equipment Work Charge
18 Code Unit Rotary Dial	$27.10	$23.65

100.3.3 <u>Tie Key System 100</u>

	Monthly Rate	Equipment Work Charge
Common Equipment	$32.55	$59.40
Optional Equipment:		
Line Card	2.25	-0-
Calling Announcing Card	7.20	17.60
Music on Hold without Source	2.70	17.60
19 Station Intercom	7.20	17.60
10 Button Memory	18.85	17.60
Supplemental Equipment:		
Exclusion per station with release	1.40	17.60
Tone Oscillator, per station equipped	0.90	17.60

100.3.6 <u>Type C Systems</u>

A. System 11A (Capacity 6 lines, 12 stations, no intercom)		
Common Equipment	11.75	23.65
Line equipment (one per line req'd)	4.45	None
B. System 11B (13 line capacity, 36 station maximum, no intercom)		
Common Equipment	18.10	23.65
Line equipment (one per line req'd)	4.45	None
C. System 22A (6 line capacity, 12 stations, equipped for standard 9 code intercom, optional code intercom expander)		
Common Equipment	14.45	23.65
Line equipment (one per line req'd)	4.45	None

100.3.6 Type C Systems (Cont'd)

	Monthly Rate	Equipment Work Charge
D. System 22B (13 line capacity, 36 station maximum; equipped for standard 18 code intercom and optional intercom code expanders)		
Common Equipment	$21.65	$23.65
Line equipment (one per line req'd)	4.45	None
E. System 22A and 22B Intercoms		
9 Code Unit		
Rotary Unit	7.15	Basic
Touch-Calling	13.55	Basic
9 Code Intercom Expander (Rotary or Touch-Calling)	6.35	Basic
F. System K36 (12 line capacity, 36 stations) common equipment including:		
18 station - two path rotary dial	138.40	59.40
18 station - two path touch-calling	154.65	59.40
18 station - four path rotary dial	142.90	59.40
Line equip. (one per line req'd)	4.45	None
Additional 3 code capacity		
two path rotary dial	9.00	14.30
two path touch-calling	9.00	14.30

100.3.8 <u>Station Set Rates</u>

A. Type A, turn key		
Rotary	7.65	17.60
Touch Calling	8.35	17.60

100.3.8 Station Set Rates (Cont'd)

	Monthly Rate	Equipment Work Charge
B. Type B, 3 line - hold, each		
Rotary	$ 8.70	$17.60
Touch Calling	9.20	17.60
C. Type C		
6 button (Rotary dial)	10.45	17.60
6 button (touch-calling)	11.85	17.60
10 button (rotary dial w/ busy field)	16.00	23.65
10 button (rotary dial)	11.85	23.65
with built-in speakerphone	13.20	23.65
10 button (touch-calling) w/busy field)	17.40	23.65
10 button (touch-calling)	13.20	23.65
with built-in speakerphone	14.65	23.65
12 button (rotary dial)	16.00	23.65
12 button (touch-calling)	17.40	23.65
18 button (rotary dial)	18.80	29.70
20 button (touch-calling) with built-in speakerphone	24.35	29.70
30 button (touch-calling)	28.55	29.70

100.3.9 Supplemental Equipment

A. Manual intercom common equipment	1.80	Basic
B. Power supply for lights only (Type B Systems)	5.45	6.05
C. Buttons, each	0.45	Basic
D. Buttons, each	0.45	Basic
E. Manual exclusion, per set	1.95	Basic
F. Automatic or ringdown signaling unit	7.20	11.85
G. 18 Station Busy Lamp Field	9.75	166.10
H. Music on hold, per 5 lines	4.50	Basic

100.3.9 Supplemental Equipment (Cont'd)

	Monthly Rate	Equipment Work Charge
I. 6034 Toll restrictor card, each (used with System 22A)	$ 4.75	$ 11.85

100.4 PRIVATE BRANCH EXCHANGE SERVICE

100.4.1 L55 PBX (Manual System)

Capacity 60 lines, 10 trunks and 10 cord circuits	135.70	117.70
Internal Dial	50.60	Basic

100.4.2 S/C 10 PABX

Common Equipment	126.50	59.40
Additional Trunk Terminal each	11.35	None
Attendants Console (4 trk. capacity)	31.65	17.60
Message Registers (35 ln. capacity)	22.60	23.65
Toll Restriction, per trunk	4.50	11.85

100.4.3 S/C 30 PABX, Series Systems

30 6-50-6 System	234.05	294.80
30 20-100-12 System	451.60	473.00
Toll Restriction, per trunk	5.45	5.95
Line Terminals, each	1.40	None
Trunk Terminals, each	12.65	11.85
Links, each	10.90	11.85
Conference Service 1 trunk and 5 stations	18.10	23.65
Attendants Console (20 trunks, 100 line capacity)	39.75	59.40
Standby Power	81.40	59.40
Pre-determined Night Answering, per trunk	4.50	11.85

100.4.4 S/C 40 PABX

	Monthly Rate	Equipment Work Charge
Common Equipment	$198.60	$266.20
Trunk Terminals	14.45	11.85
Line Terminals	1.80	None
Selectors	7.20	None
Connectors, each	7.20	None
Operator Trunk Terminals, call completion, each	9.00	11.85
Attendant's Turret, desk mounted	63.25	82.50
Night Answer, Common	9.50	11.85

100.4.5 S/C F40 PABX

Common Equipment	63.25	59.40
Attendant Console	27.10	35.20
Line Terminals, each	1.80	None
Trunk Terminals, each	10.90	17.60
Links, each	7.20	11.85

100.4.7 S/C Type H PABX

Common Equipment for 200 line system	271.35	589.60
Attendant Console (cord type)	135.70	354.20
Line Terminals, each	2.70	None
Trunk Terminal, each	7.20	17.60
Selectors, each	12.65	17.60
Connectors, each	12.65	17.60
Finders, each	12.65	17.60
Universal Toll Restriction	18.10	None
Toll Restriction, per trunk	5.45	None
Conference Circuit (5 capacity)	18.10	17.60
Code Call (28 code)	29.00	29.70
Pre-determined Night Answering, per trunk equipped	4.50	11.85

100.3.8 S/C 400 PABX

Basic System 423	597.10	1,771.00
Line Terminals, per 10	13.15	29.70
Junctors (regular), each	7.20	17.60
C.O. Trunk Terminal, with transfer, each	17.20	17.60
LD Trunk Terminal, each	9.00	23.65
Tie Line Terminal, each	22.60	41.25

100.3.8 S/C 400 PABX (Cont'd)

	Monthly Rate	Equipment Work Charge
Battery Charger & Batteries (8 hour)	$139.25	$294.80
Paging Adaptor, each	16.30	29.70
Busy Field, each 200 lines	39.75	88.55
Outgoing Register Sender		
Trunk positions 1 thru 12, each	32.55	23.65
Trunk positions 13 thru 20, each	10.45	17.60
Toll Restriction, per system	5.45	17.60
Pre-determined Night Answer, per system	5.45	17.60
Meet-Me-Conference Circuit	12.65	35.20
Dial Up Conference	29.20	59.40

100.4.9 SG1 Type PABX

Basic Common Equipment		
- 40 lines, 15 trunks, rotary dial	215.20	236.50
- 80 lines, 15 trunks, rotary dial	244.15	236.50
- 80 lines, 30 trunks, rotary dial	274.05	236.50
Attendant Console		
- with busy lamp field (40 lines)	33.00	23.65
- with busy lamp field (80 lines)	42.10	23.65
Trunk Terminal, each	6.60	11.85
Tie Line Trunk Terminal, each	7.20	11.85
Line Terminal, one required for each two (2) lines	4.50	5.95
Camp-on and Trunk Answer for any station (per system)	5.40	5.95
Attendant Conference	15.30	23.65
Executive Ringback - override	8.00	11.85
Toll Restriction (2 digit only, per system)	7.20	11.85
Paging Adaptor, each	3.65	11.85
Dial Dictation Trunk, each	3.65	5.95
Music on Hold Trunk	8.60	
Touch Calling, per system (40 lines)	34.30	29.70

100.4.9 SG1 Type PABX (Cont'd)

	Monthly Rate	Equipment Work Charge
Touch Calling, per system (80 lines)	$ 47.10	$ 29.70
Touch Calling Receiver	14.10	11.85
Enhancement Features		
Call Pickup Directed	7.85	23.65
Call Forwarding	11.40	

100.4.10 UH-30 PABX

	Monthly Rate	Equipment Work Charge
Common Equipment	180.90	177.10
Station Lines, each 5	7.20	23.65
Intercom Links, each	10.90	17.60
Trunk Terminals, each	21.65	17.60
Attendant's Console, each	36.20	59.40
Busy Lamp Field	9.00	41.25
Conference, "Meet-Me"	18.10	17.60
Night Answering, common	7.20	None
Paging Adaptor	9.00	17.60
Toll Restriction, per trunk	7.20	11.85
Tie Line Selectors, each	3.80	17.60

100.4.11 UH-45 PABX

	Monthly Rate	Equipment Work Charge
Common Equipment	180.90	236.50
Each Working -		
Station Lines, each 5	7.20	17.60
Intercom Links, each	10.90	11.85
Trunk Terminals, each	21.65	11.85
Busy Lamp Field	18.10	41.25
Conference ("Meet-Me")	18.10	17.60
Night Answering (common)	7.20	11.85
Paging Adaptor	8.90	17.60
Toll Restriction, per trunk	7.20	11.85
Standby Power Supply	81.40	59.40

100.4.12 UH 300 Type PABX

	Monthly Rate	Equipment Work Charge
Common Equipment		
- 100 sta. lines, 12 IC links, 15 trk. terms.	343.70	412.50
- 150 sta. lines, 18 IC links, 20 trk. terms	506.50	471.90
Power Supply - Battery Eliminator for -		
- 100 lines	43.40	35.20
Lines, each 10	21.65	41.25
Intercom Links, each 2	18.10	17.60

100.4.12 UH 300 Type PABX (Cont'd)

	Monthly Rate	Equipment Work Charge
Trunk Terminals, each	$ 21.65	$ 17.60
Standby Power - - 101-200 lines	117.60	117.70
Automatic Call Transfer (10-1)	23.55	11.85
Busy Lamp Field, each 50 lines equipped	18.10	41.25
Call Transfer (dial "1"0, per trunk	N/C	None
Message Waiting, each station equipped	0.90	None
Night Answering (Common)	7.20	11.85
Paging Adaptor	8.90	17.60
Toll Diversion, each trunk	10.90	11.85
Console, Attendant's Second Console	54.30	29.70

100.4.13 UH 900 Type PABX

Common Equipment	1,410.95	1,771.00
Line Terminals, per 10	21.65	41.25
Intercom Links, each	14.45	17.
Trunk Terminals, each	27.10	17.60
Standby Power - 300-400 lines	135.70	117.70
Conferencing- - "Meet-Me" (up to 4 stations)	18.10	17.60
Executive Right-of-Way - First 50 line group equipped	27.10	11.85
- Each additional 50 line group equipped	4.50	None
Paging Adaptor	9.00	17.60
Toll Diversion, each trunk	10.90	11.85
Encoder (Motorola 90 Call)	271.35	236.50

100.4.14 ARD 561 PABX

Common Equipment Basic System No. 11	904.50	1,180.30
Additional Line Terminals, each 30	81.40	59.40
Additional Links, each	14.45	23.65
Trunk Terminals, each	27.10	17.60

100.4.14 ARD 561 PABX (Cont'd)

	Monthly Rate	Equipment work Charge
Tie Line Terminals, each	$ 36.20	$23.65
Paging Adaptor	9.00	17.60
Toll Restriction System II	57.85	47.30
Standby Power System II	135.70	117.70

100.4.16 1201 Expandable Digital Switching System

	Monthly Rate	Equipment Work Charge
Common Equipment Capacity of 63 positions, 504 addresses	$ 651.20	$1,771.00
Multi Class Line Unit (for 8 lines)	37.95	23.65
Ground/Loop Truck Unit (for 8 trunks)	41.20	23.65
Trunk By-Pass (each 4 trunks) (requires Auxiliary Shelf)	5.00	23.65
Auxiliary Shelf (12 card capacity)	5.45	29.70
Toll Restrictor Unit	21.65	29.70
Standby Power (8 hours)	217.10	177.10

100.4.17 Siemens SD-192/232

Common Equipment

SD - 192/232 System I System ID Capacity: 48 lines, 12 trunks, 24 junctors & 2 attendant consoles. Equipped with: 0 lines, 0 trunks, 0 junctors, 0 consoles, AC power and standard features	331.85	1,002.65

100.4.17 Siemens SD-192/232 (Cont'd)

	Monthly Rate	Equipment Work Charge
Equipment to Increase Business System Capacity:		
First Addition: 48 lines and 16 trunks (to capacity of 96 lines and 28 trunks)	$ 95.20	$309.10
Second Addition: 48 lines and 16 trunks (to capacity of 144 lines and 44 trunks)	106.70	309.10
Attendant Equipment:		
Business Attendant Console	39.90	137.80
Business Attendant Busy Lamp Field	21.05	
Auxiliary Common Equipment - All Systems:		
Station Line Terminal, each 8	23.10	19.50
Trunk Terminal	15.50	19.50
Each 4, 2 Way	24.95	19.50
Each 4, 1-way out only	20.30	19.50
Direct Inward Dial or Tie Line (Loop) Each 2	19.65	19.50
Tie Line Terminal (Receive & Transmit) Each 4	36.60	19.50
Junctors Each 8	12.60	19.50
Optional Equipment/ Features - Business:		
Conference Unit (max. 1 attendant conference and 1 meet-me, or 2 meet-me units per system)	21.60	39.05

100.4.17 Siemens SD-192/232 (Cont'd)

	Monthly Rate	Equipment Work Charge
Line Ringing Lamp Display (for Dial Call Pick-up) 12 Lines	4.60	101.75
<u>Optional Equipment/ Features - All Systems:</u>		
Power Failure, Transfer, each 4 trunks	$ 6.35	$ 59.40
Station Access - when disconnect supervision, muting or switching is required. Requires 840 power supply and mounting assembly.	7.05	58.60
Touchtone Dial (DTMF) Receivers		
Each 2	40.65	19.50
Each 1	21.35	19.50

100.5 INTERCONNECTIONS WITH COMMUNICATION EQUIPMENT PROVIDED BY THE CUSTOMER

100.5.1 Data access arrangement for connection of customere provided data transmitting and/or receiving equipment:

	Monthly Rate	Equipment Work Charge
a. 1000A Data Coupler	$ 5.80	Basic
b. 1001A Data Coupler	14.45	Basic

100.5.2 Connecting arrangement to provide for automatic connection of customer provided voice transmitting and/or receiving terminal equipment:

	Monthly Rate	Equipment Work Charge
a. 30A Voice Coupler including exclusion type telephone	$3.30	Basic

100.5.3 Recording, Reproducing and Automatic Answering and Recording Equipment Provided by the Customer:

	Monthly Rate	Equipment Work Charge
a. Recorder Connector Equipment		
1. With an automatic recorder tone device (19645-L2)	$ 12.45	Basic
2. Portable jack box associated with portable recorder connector equipment for use at cord switchboards	2.20	None

100.5.4 Alarm Detection and Reporting Equipment Provided by the Customer:

	Monthly Rate	Equipment Work Charge
a. Alarm Coupler combined with tone signalling unit, 20445-L2	$ 14.05	Basic

100.6 DATA TRANSMITTING AND RECEIVING EQUIPMENT AND TELETYPEWRITER EQUIPMENT

100.6.2 Rates and Charges

	Monthly Rate	Equipment Work Charge
a. Data Sets		
1. 100 Series		
Suitable for sending and receiving signals at rates up to 300 bits per second in sequence		
- combined sending and receiving		
- single installation (103 type)	$ 56.80	$11.85

100.6.2 Rates and Charges (Cont'd)

	Monthly Rate	Equipment Work Charge
- T113A Data Set with 502 Data Auxiliary Set	$ 31.75	$17.60
2. 200 Series		
Suitable for conditioning signals at rates of 2000 or 2400 bits per second in sequence		
- 201C-Data Set equipped with 565 Sub Set	116.90	64.90
Suitable for conditioning signals at rates up to 4800 bits per second in sequence		
T208A	287.20	200.20
201A Combined Sending and Receiving	258.85	106.15
202S L1A/2 with telephone	65.20	59.40
209A	385.70	59.40
208B with 565 auxiliary set	212.10	59.40

100.9 OTHER SPECIAL ASSEMBLY EQUIPMENT

100.9.1 Automatic Warning Equipment

	Monthly Rate	Equipment Work Charge
Adcor alarm center	$15.85	Basic
Power transformer	0.45	Basic
Line seizure	0.25	Basic

100.9.2 Burglar Alarm System

Telemergency dialer	12.30	Basic
Door contacts	0.65	Basic
Panic buttons	0.65	Basic
Alarm control unit F276	26.55	Basic
Pick proof key switch A34729	1.10	Basic
Nonrestorable alarm counter	0.65	Basic

100.9.3 K36A System

Common equipment	111.30	Basic
Additional 3 station rotary	6.35	Basic
Additional station tel-touch	6.35	Basic

100.9.4 Key Equipment

Multi-line set e/w Push Buttons	7.55	Basic
Touch Tone Intercom	16.50	Basic