

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

ADJUSTMENT OF RATES OF)
GENERAL TELEPHONE COMPANY) CASE NO. 8859
OF KENTUCKY)

O R D E R

On July 15, 1983, General Telephone Company of Kentucky ("General") filed its notice with the Commission seeking to increase its rates and charges to produce an annual increase in revenues of \$31,342,362 which was later amended to \$25,522,187. On January 4, 1984, the Commission issued its Order granting an annual increase in revenues of \$3,894,000. On January 23, 1984, General filed its application for rehearing of several issues. On January 31, 1984, the Attorney General, through its Consumer Protection Division, filed its response to General's application. On February 2, 1984, the Commission entered its Order on rehearing requiring General to file additional financial information showing that its inclusion of carrying charges on non-utility investment was accounted for above-the-line in miscellaneous revenues. On March 2, 1984, General filed its response.

On February 24, 1984, subsequent to the February 2, 1984, Order on rehearing, General filed a motion to file corrected tariff pages dealing with rotary service and key access lines. The motion alleged that Appendix A to the Commission's Order of January 4, 1984, failed to produce the additional revenue author-

ized for rotary service, due to errors in General's billing analysis in the case. Meanwhile, the Commission received several complaints from single-line business customers who had experienced unexpected large increases.

Although the statutory period for rehearing of issues in the case had passed, the Commission sustained General's motion, primarily in recognition of the complaints received. A hearing was scheduled and held on April 5, 1984. The only intervenor of record to appear at the hearing was the Attorney General.

NON-UTILITY INVESTMENT

After examining the financial documents submitted, the Commission has determined that General is entitled to increase its rates and charges on an annual basis by \$150,672.

RATE DESIGN

The record on rehearing reflects that General made certain assumptions in preparing the billing analysis in its original case support, which subsequently were found to be incorrect. These assumptions involved the number of customers taking rotary service during the test year.

General understated the individual line rotary service by 1,482 billing units. Rather than verifying test period billing units with customer account service records, General assumed that since its billing records showed no individual line rotary service, there was no individual line rotary service. This was not the case. The error caused a revenue over-collection of \$558,000 more than originally proposed.

The billing analysis also overstated the key line rotary service by 5,837 billing units. This resulted because General erroneously assumed that all of its key line customers had rotary service. The error caused a revenue under-collection in the amount of \$1,948,000.

The net revenue shortfall as a result of the billing analysis errors in this case is \$1,390,000. General has proposed to recover the revenue shortfall by charging the same for all key lines, whether or not the line has rotary service, and to phase-in the individual line rotary service rate over a 12-month period in order to minimize the impact on individual line customers who have not been billed for rotary service in the past.

In the case, General proposed and the Commission approved a disaggregation of key line and rotary service rates, based on the premise that key line customers who do not have rotary service should not be charged for rotary service. The Commission is still of this opinion. Therefore, we will not accept General's proposal which results in a revenue shortfall.

General also originally proposed and the Commission approved application of rotary service rates to individual line customers, based on the premise that although they had not been charged for rotary service in the past, an individual line customer with rotary service should be charged for rotary service. General now proposes that this charge be phased in, which would reduce the offset to the revenue deficiency. Since rotary service is a valuable service, and because of the overall revenue

deficiency involved, the Commission has not accepted the phase-in proposal.

ABSORPTION OF REVENUE SHORTFALL

In the preceding sections a total revenue requirement of \$1,540,672 has been identified, \$1,390,000 of which is attributable to General's over- and under-collection errors involving rotary charges and key line rates. The Commission was under no obligation to resolve the problems caused by General's errors since they were not included in a timely petition for rehearing. Despite the lateness of the petition and the fact that the mistakes creating the shortfall are General's, the Commission will provide some relief.

In its January 4, 1984, Order, the Commission determined a range of returns on equity of 13.25 to 14.25 percent to be fair, just and reasonable, especially recognizing the conservative nature of General's capital structure. The Commission then stated that a return on equity within that range would allow General to attract capital at reasonable costs and would result in the lowest reasonable cost to the ratepayer. The actual return on common equity selected within the range found fair, just and reasonable was 13.75 percent.

Of the \$1,390,000 revenue shortfall attributable to rotary charges and key line rates, the Commission will grant additional revenues of \$745,882. General is being required to absorb the remainder of the deficiency. In absorbing that sum (\$644,118), General should still have an opportunity to earn a return of 13.5 percent on common equity, well within the range found fair, just

and reasonable. According to the Kentucky Supreme Court's opinion in Stephens v. South Central Bell, Ky., 545 S.W.2d 927 (1976) there is a "zone of reasonableness." "By longstanding usage in the field of rate regulation the 'lowest reasonable rate' is one which is not confiscatory in the constitutional sense."¹ According to the Commission's findings in its January 4, 1984, Order, and relevant case law, confiscation would not occur unless a rate of return on common equity is ordered which is less than the low end of the range of returns found reasonable. Thus, the 13.5 percent return now authorized within the specified range is fair, just and reasonable and non-confiscatory. This will result in an increase to basic service rates of \$0.16 to \$0.24 for residential rates and \$0.36 to \$0.67 for business rates, which is unfortunately necessary to provide the relief to General found appropriate.

FINDINGS AND ORDERS

After having examined the evidence of record and being advised, the Commission is of the opinion and finds that:

1. General recorded non-utility investment carrying charges above the line in miscellaneous revenues consistent with the Commission's Order in Case No. 8258, Application of General Telephone Company of Kentucky for an Order Implementing a Direct Sales Program Relating to its Single Line Telephone Instruments, and is entitled to additional revenue in the amount of \$150,672.

¹supra., 931.

2. General failed to file accurate billing analysis units for rotary and key line service, causing a revenue shortfall of \$1,390,000, \$644,118 of which General should absorb.

3. General should be authorized to increase its rates and charges for telephone service rendered on and after the date of this Order in the amount of \$896,554,² as set out in Appendix A.

4. The above-stated action will result in General having the opportunity to earn a 13.5 percent return, well within the range of returns previously found fair, just and reasonable.

5. All provisions of the Commission's Order of January 4, 1984, not specifically modified herein should remain in full force and effect.

IT IS THEREFORE ORDERED that the rates and charges in Appendix A are the fair, just and reasonable rates to be charged by General for telephone service rendered on and after the date of this Order.

IT IS FURTHER ORDERED that all provisions of the Commission's Order of January 4, 1984, not specifically modified herein shall remain in full force and effect.

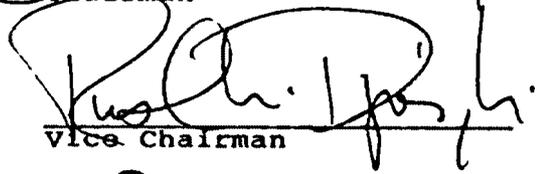
IT IS FURTHER ORDERED that within 30 days from the date of this Order General shall file revised tariff pages stating the rates and charges approved herein.

²\$150,672 + \$1,390,000 - \$644,118 = \$896,554.

Done at Frankfort, Kentucky, this 8th day of June, 1984.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX A

**APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 8859 DATED JUNE 8, 1984**

The following rates and charges are prescribed for customers in the area served by General Telephone 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 effective date of this Order.

GENERAL CUSTOMER SERVICES TARIFF

S3. BASIC LOCAL EXCHANGE SERVICE

S3.2 Monthly Exchange Rates

S3.2.1 Flat Rate Service

- a. The rate group schedule is applied on the basis of the number of primary stations and PBX access lines within the local calling area, including the primary stations within the same local calling area.

<u>CLASS AND GRADE OF ACCESS SERVICE</u>	<u>RATE GROUP 1 0-3,000</u>	<u>RATE GROUP 2 3,001-6,000</u>	<u>RATE GROUP 3 6,001-12,000</u>
<u>BUSINESS LINE</u>			
One-Party	\$ 22.26	\$ 23.77	\$ 26.38
Two-Party	19.09	20.09	22.35
Four and Eight Party	15.74	16.59	18.35
PBX Trunk	41.18	43.97	48.80
Semipublic	44.52	47.54	52.76
<u>RESIDENCE LINE</u>			
One-Party	9.98	10.48	11.23
Two-Party	7.98	8.36	8.98
Four and Eight Party	7.03	7.33	7.84

S3. BASIC LOCAL EXCHANGE SERVICE

<u>CLASS AND GRADE OF ACCESS SERVICE</u>	<u>RATE GROUP 4 12,001-25,000</u>	<u>RATE GROUP 5 25,001-50,000</u>	<u>RATE GROUP 6 50,001-100,000</u>
<u>BUSINESS LINE</u>			
One-Party	\$ 30.95	\$ 34.03	\$ 37.67
Two-Party	27.18	28.34	32.04
Four and Eight Party	22.57	23.70	26.38
PBX Trunk	57.26	62.96	69.69
Semipublic	61.90	68.06	75.34
<u>RESIDENCE LINE</u>			
One-Party	12.27	13.00	14.13
Two-Party	9.83	10.32	11.31
Four and Eight Party	8.70	8.98	9.89
<u>CLASS AND GRADE OF ACCESS SERVICE</u>	<u>RATE GROUP 7 100,001-150,000</u>		
<u>BUSINESS LINE</u>			
One-Party	\$ 41.03		
Two-Party	34.56		
Four and Eight Party	28.46		
PBX Trunk	75.91		
Semipublic	82.06		
<u>RESIDENCE LINE</u>			
One-Party	15.01		
Two-Party	11.94		
Four and Eight Party	10.49		

The local rates shown above are in addition to the Common Access Line Charge (CALC) shown in Tariff P.S.C. Ky. No. 6.

S3. 7 Rotary Line Service

S3.7.2 Rates

- a. The rate for each individual rotary line in use is the applicable monthly rate for individual line service, in addition to the following rates for each rotary number. The rate groupings are the same as those specified in Section S3.

S3. BASIC LOCAL EXCHANGE SERVICE

<u>Rate Group</u>	<u>Business Monthly Rate*</u>	<u>Residence Monthly Rate*</u>
1	\$ 18.92	\$ 8.48
2	20.20	8.91
3	22.42	9.55
4	26.31	10.43
5	28.93	11.05
6	32.02	12.01
7	34.88	12.76

*Not applicable to rotary line service provided in connection with PBX lines.

S3.13 Toll Terminals

S3.13.2 Rates and Charges

- a. The rate groupings are the same as those specified in Section S3.

Toll Terminals, each

<u>Rate Group</u>	<u>Installation Charge</u>	<u>Monthly Rate</u>
	Charges as set forth in Section S4.3 for Business Individual Line Service	
1		\$ 22.26
2		23.77
3		26.38
4		30.95
5		34.03
6		37.67
7		41.03