

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

NOTICE OF SOUTH CENTRAL BELL)
TELEPHONE COMPANY OF AN)
ADJUSTMENT IN ITS INTRASTATE) CASE NO. 9056
RATES AND CHARGES TO RECOVER)
ADDITIONAL DEPRECIATION EXPENSE)

ORDER DENYING REHEARING

On November 21, 1984, the Commission entered an Order denying the proposal of South Central Bell Telephone Company ("SCB") to increase its intrastate rates and charges to produce an increase in revenues of \$7.147 million annually in order to recover additional depreciation expense. On December 11, 1984, SCB filed a petition for rehearing requesting that the Commission modify its Order to find that SCB did not have the ability to absorb the additional depreciation expense. SCB contended that the Commission erred in its determination of SCB's adjusted income by "double counting" the contribution revenues available from Customer Premises Equipment ("CPE"). SCB also stated that the effect of double counting CPE revenue inflated SCB's revenues by \$10,486,000 and that the Commission should recognize the double counting by a "divestiture adjustment" of \$6,128,000 in income which would result in SCB being unable to absorb any of the increase in depreciation expense. On December 17, 1984, the

Attorney General ("AG") filed a response to SCB's petition to deny SCB's request for rehearing.

The Commission has considered SCB's petition and the evidence of record in this case and is of the opinion that SCB's petition should be denied for the reasons discussed herein. First and foremost, the Commission is of the opinion that a rehearing should not be granted because of SCB's clear failure to meet its burden of proof throughout this proceeding. The Commission in its November 21st Order outlined the development of this case, describing how SCB attempted to support its position that it could not absorb the additional depreciation expense by first proposing the use of a 3-month test period, by subsequently proposing the use of a 5-month test period, and by finally proposing a "divestiture adjustment" of \$12,154,000 to 12 months of operating results. The Commission in its November 21st Order stated the following with regards to the \$12,154,000 "divestiture adjustment":

An example of this lack of evidence is SCB's use of its \$12,154,000 adjustment for the effects of divestiture to support its position. This adjustment is nothing more than a mathematical computation which converts 12 months of actual operations to 5 months of divested operations, annualized. Such an adjustment has no validity in attempting to reflect a test period representative of normal post-divestiture operations and is unsupported by any credible¹ or detailed analysis of post-divestiture conditions.

¹ November 21st Order, page 10.

Despite the Commission's total rejection of this purported divestiture adjustment, SCB in its petition for rehearing seemed to contend that the adjustment was proper, stating the following:

The Company compensated for the double inclusion in 1983 of the CPE contribution revenues in its \$12.154 million divestiture adjustment. The Commission recognized this revenue replacement type of divestiture adjustment in Case No. 8847. The adjustment was designed to restate the 1983 portion of the test period on a post-divestiture basis and to reflect post-divestiture operations. The divestiture adjustment included CPE contribution revenues which were lost at divestiture, separations effects and earnings erosion.²

The Commission reiterates its objections to the "divestiture adjustment" proposed by SCB which, as the Commission noted in its November 21st Order, was nothing more than an attempt by SCB to return to a 5-month test period. The Commission notes that SCB provided absolutely no evidence regarding the composition of the "divestiture adjustment" in any manner sufficient to allow the Commission to ascertain the specific revenue or expense components which affected the adjustment, although SCB's petition argued that the adjustment "included CPE contribution revenues which were lost at divestiture, separations effects and earnings erosion." The Commission finds it noteworthy that even after SCB had been questioned by the Commission regarding the adjustment at the hearing, and even after being asked and offered an opportunity to provide the calculations of absorption potential if the adjustment

² SCB's Petition for Rehearing, pages 3 and 4.

was ignored, SCB failed to provide any additional evidence supporting the "divestiture adjustment".³ The Commission is of the opinion that SCB's attempt to provide additional, new evidence at this time is totally inappropriate given the ample opportunities available to SCB to provide this evidence prior to the Commission's Order in this case. KRS 278.400 states, in relevant part:

Upon the rehearing any party may offer additional evidence that could not with reasonable diligence have been offered on the former hearing.

The evidence SCB has indicated it would have the Commission consider on rehearing is clearly evidence which SCB could have produced at the October 23, 1984, hearing using reasonable diligence.

Second, assuming arguendo that "double counting" has occurred as SCB contends, all adjustments to decrease expenses, which would be consistent with the guidelines established for absorption cases in Case No. 8150, had not been proposed by SCB. For example, in its November 21st Order, the Commission specifically cited the license contract expense adjustment made in Case No. 8847 which was not adjusted for in this case. Neither was an adjustment for the Commission's removal of expense for Business Information System ("BIS"), as was done in Case No. 8847, proposed by SCB. Both adjustments would have significantly increased SCB's ability to absorb the increase for depreciation expense. Furthermore, the AG in its response to SCB's petition

³ Response to Hearing Request filed November 2, 1984, item 4.

was correct in stating that SCB's purported revenue deficiency as stated in its petition for rehearing is overstated because SCB's calculation was based on 1982 Embedded Direct Analysis figures when in fact the 1983 CPE contribution levels declined from the 1982 levels. This would also increase SCB's ability to absorb the increase in depreciation expense.


FINDINGS AND ORDERS


The Commission, having considered SCB's petition and the evidence of record, is of the opinion and finds that its request for rehearing should be denied.

IT IT THEREFORE ORDERED that SCB's request for a rehearing be and it hereby is denied.

Done at Frankfort, Kentucky, this 21st day of December, 1984.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary