

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ADJUSTMENT OF RATES OF )  
LESLIE COUNTY TELEPHONE ) CASE NO. 9430  
COMPANY, INC. )

O R D E R

Procedural Background

On September 26, 1985, Leslie County Telephone Company ("Leslie County") filed its notice of intent to file for a rate increase with the Commission pursuant to 807 KAR 5:011, Section 8. On December 13, 1985, Leslie County filed its rate case giving notice that it proposed to increase its rates and charges effective January 2, 1986, to produce an annual increase in revenue of approximately \$781,001. On January 10, 1986, Leslie County filed its direct testimony.

In order to determine the reasonableness of the request the Commission suspended the proposed rates and charges for 5 months after the effective date and scheduled a public hearing for April 8, 1986. The only motion to intervene in this matter was filed by the Attorney General's Consumer Protection Division ("AG") on November 14, 1985. This motion was granted on November 15, 1985.

The hearing for the purpose of cross-examination of the witnesses of Leslie County and the AG was held in the Commission's offices in Frankfort, Kentucky, on April 8, 1986. Witnesses

prefiling testimony and/or appearing at the hearing for Leslie County were: Donald Roark, Assistant Manager of Leslie County, and Richard Swanson, partner in the firm of Arthur Anderson and Company, Certified Public Accountants. The AG witnesses were Hugh Larkin, Jr., senior partner in the firm of Larkin and Associates, Certified Public Accountants and Thomas C. Deward, CPA and Senior Regulatory Analyst in the firm of Larkin and Associates.

This Order addresses the Commission's findings and determinations on issues presented and disclosed in the hearings and investigation of Leslie County's revenue requirements and rate design. The Commission has granted rates and charges to produce an increase of \$43,328 herein.

#### COMMENTARY

The Commission in Case No. 9002<sup>1</sup> advised Leslie County to seek "technical assistance" in the preparation of its next case in order to prevent the complexities experienced in that case from recurring. Leslie County obtained the services of Arthur Anderson and Company in preparing this case. The assistance of Arthur Anderson has reduced many of the problems experienced in Case No. 9002. However, one major problem remains--the inadequacy of Leslie County's financial records. This inadequacy was made apparent by Leslie County's inability to file monthly operating revenue and expense statements, the need for numerous information

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<sup>1</sup> The Application of Leslie County Telephone Company, Inc., for Order Authorizing Adjustment of Rates and Charges, Order dated January 3, 1985.

requests to obtain basic responses, and the lack of adequate supporting documentation.

Prior to the filing of this case, Leslie County and Arthur Anderson met with Commission staff to discuss the deficiencies in Case No. 9002 and the filing requirements of this case. At this conference Arthur Anderson identified problems they were having obtaining adequate monthly financial data and requested deviation from normal requests for information. At the informal conference the day prior to the hearing it came to the Commission's attention that prior to Leslie County filing its case, Arthur Anderson had made numerous adjustments to normalize the test period, in particular adjusting entries made to close 1984. These adjusted levels were presented as actual test period data. Thus, the Commission advises Leslie County that until it has available accurate and detailed financial records on a monthly basis, it should utilize an unadjusted calendar-year test period and any normalizing adjustments should be identified.

#### TEST PERIOD

Leslie County proposed and the Commission has accepted the 12-month period ending September 31, 1985, as the test period in this matter.

#### VALUATION

Leslie County proposed a revised net investment rate base of \$9,311,567.<sup>2</sup> In its calculation of the appropriate rate base Leslie County utilized deferred Investment Tax Credits ("ITC") in

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<sup>2</sup> Revised Swanson Schedule 7 filed at the hearing.

the amount of \$189,770, which is composed entirely of ITC used, not the amount generated in prior years. The Commission has adjusted deferred ITC to recognize the amounts Leslie County claimed for tax purposes which can be used to reduce Leslie County's future tax obligations. A more detailed explanation of the adjustment to ITC is provided in a later section of this Order.

The Commission has further adjusted rate base to reflect the deregulation of PBX and key systems which Leslie County elected to deregulate effective January 1, 1986, per Administrative Case No. 269.<sup>3</sup> It further reflects amounts determined to be more appropriately capitalized as discussed in later sections of this Order. Therefore, Leslie County's adjusted net investment rate base is as follows:

Telephone Plant in Service	\$11,065,801
Construction Work in Progress	971,620
Materials and Supplies	41,589
Prepayments	10,655
Subtotal	<u>\$12,089,665</u>
Accumulated Provision for	
Depreciation and Amortization	\$ 2,557,224
Deferred Investment Tax Credits	651,845
Subtotal	<u>\$ 3,209,069</u>
Net Investment Rate Base	<u>\$ 8,880,596</u>

Capital

The Commission has determined that Leslie County's total capital at the end of the test period was \$9,728,422 consisting of

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<sup>3</sup> The Sale and Detariffing of Embedded Customer Premises Equipment.

\$689,479<sup>4</sup> in equity and \$9,038,943<sup>5</sup> in long term debt outstanding to the Rural Electrification Association ("REA") and the Rural Telephone Bank ("RTB").

Leslie County's capital is supporting both the regulated and deregulated aspects of its operations. The Commission is of the opinion that based on this reasoning Leslie County's capital should be prorated between regulated and deregulated operations. At the hearing Richard Swanson generally agreed with the Commission's position. However, he was concerned with how the REA would view this separation.<sup>6</sup> The Commission is further of the opinion that Leslie County's Florida condominium is not a prudent investment in that it does not provide any direct benefit to the ratepayers and it, too, is being supported by Leslie County's capital.

The Commission has determined a net investment in deregulated equipment and non-utility investment in the amount of \$457,876<sup>7</sup> and a net investment in regulated operations in the amount of

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<sup>4</sup> Item No. 21, First Commission Request, dated October 21, 1985.

<sup>5</sup> Schedule 13, Swanson's direct testimony, filed January 10, 1986.

<sup>6</sup> Transcript of Evidence ("T.E."), April 8, 1986, page 69.

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CPE Deregulated Case No. 269	\$201,129
CPE Deregulated Case NO. 257	38,163
PBX Deregulated Case No. 269	112,714
Condominium	105,870
Total Net Deregulated & Condo Equipment	<u>\$457,876</u>

\$8,938,704.<sup>8</sup> The Commission has calculated a ratio based on Leslie County's net investments and has determined the following division of capital:

	<u>Regulated &amp; RTE Stock</u>	<u>Deregulated &amp; Condominium</u>
Debt	\$8,598,494	\$440,449
Equity	655,882	33,597
Total	<u>\$9,254,376</u>	<u>\$474,046</u>

The Commission has given due consideration to Leslie County's capital structure, net investment rate base and other elements of value in determining the reasonableness of the rate increase requested herein.

#### REVENUES AND EXPENSES

For the test period ending August 31, 1985, Leslie County reported a net operating income in the amount of \$141,511 reflecting adjustments made mid-year to normalize December 1984 entries. Leslie County proposed numerous adjustments to increase its operating income level to \$230,576 excluding pro forma adjustments proposed to reflect requested increased rates. The Commission has accepted Leslie County's adjusted test period operations with the following exceptions:

#### Toll Revenues

Leslie County proposed a test period pro forma level of toll revenues in the amount of \$1,073,339. The AG proposed to adjust Leslie County's toll revenues by a proportionate amount of a

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Rate Base - Commission Adjusted	\$8,847,204
RTE Stock	91,500
Total Net Regulated & RTE Equipment Stock	<u>\$8,938,704</u>

retroactive payment Leslie County received between January and March, 1986, relating to June 1, - November 30, 1985.<sup>9</sup> The Commission concurs with the AG that toll revenues should be adjusted by the retroactive payment; however this will be a recurring level of toll compensation. Thus the Commission has annualized the retroactive payment of \$57,822 for an increase in toll revenues in the amount of \$115,644.

#### Employee Concession Service

In response to staff requests, Leslie County stated that \$2,100 of concession telephone service was provided for Leslie County's employees.<sup>10</sup> Consistent with past Commission practice, employee concessions have been disallowed in this instance. This practice has been upheld by the Kentucky court in South Central Bell v. PSC, KY. App., 702 S.W. 2d 447(1986). Thus, the Commission has increased Leslie County's test period revenue by \$2,100 to include the revenue which would have been realized in the absence of these employee discounts.

#### Right-of-Way

Leslie County proposed a pro forma level of right-of-way clearing expense in the amount of \$121,542,<sup>11</sup> an increase of \$10,411<sup>12</sup> to the amount Leslie County reported for test period operations. Leslie County calculated its pro forma level by

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<sup>9</sup> T.E., page 243, and Exhibit TCD3.

<sup>10</sup> First staff request, Item No. 3.

<sup>11</sup> Swanson's prefiled testimony, Schedule 17.

<sup>12</sup> Ibid.

averaging the amounts spent on right-of-way clearing for the past 3.667 years.<sup>13</sup> However, the Commission has noted that the actual test period level was inflated since it included charges for clearing which occurred outside the test period.

Donald Roark testified that Leslie County did not clear its right-of-way on a general or routine yearly basis, but rather only during its construction programs.<sup>14</sup> He went on to state that right-of-way clearing was not a normal annual operating expense.<sup>15</sup> However, it was his opinion that a certain level of right-of-way clearing was expected to occur in the future. Leslie County provided no substantive support that further right-of-way clearing would remain at the proposed level. The Commission concurs with Leslie County that some level of right-of-way clearing will be recurring; however, it does not agree that \$121,542 is an accurate measurement of that level.

Leslie County's right-of-way clearing is performed entirely by Clear Path, Inc., a company owned by Leslie County's stockholders. Leslie County's level of right-of-way clearing was a topic of debate throughout this case. Upon reviewing the records, the Commission finds that Clear Path only provides service to Leslie County and therefore, has no other source of revenue. The Commission questions the need for this entity.

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<sup>13</sup> Swanson's prefiled testimony, Schedule 18.

<sup>14</sup> T.E., page 179.

<sup>15</sup> Ibid.

Both the AG and the Commission staff expressed concern with the level of expense during the construction project. On April 16, 1986, the Commission staff and representatives of the AG's office reviewed Clear Path's financial records to determine the reasonableness of the level of charges for right-of-way clearing. As a result of this review, the AG proposed that the Commission reduce Leslie County's operating expense by amounts which could be considered excessive profits to Clear Path. In its evaluation of Clear Path's records the Commission has determined that excessive profits did exist. It is the Commission's opinion that the excess results from Clear Path performing services which Leslie County could perform itself. Thus, the Commission has determined a reasonable level based on actual wages paid Clear Path's employees and the appropriate depreciation expense on Clear Path's actual investments to be \$30,951, a reduction of \$90,591.

#### Maintenance Expense

Leslie County proposed a revised pro forma test period amount for maintenance expense excluding right-of-way clearing in the amount of \$337,010.<sup>16</sup> In its original calculation Leslie County averaged test period maintenance expense with the levels of the 4 previous years.<sup>17</sup> Leslie County later adjusted its original amount by removing maintenance expense associated with embedded customer premises equipment ("CPE"), which Leslie County choose to deregulate as of January 1, 1986, from the average pro forma

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<sup>16</sup> Swanson Schedule 7a provided at the hearing.

<sup>17</sup> Swanson's prefiled testimony, Schedule 27.

level. The Commission is of the opinion that considering the effects of the deregulation of CPE an adjustment based on removing actual CPE levels from the pro forma average would be inappropriate.

In response to the Commission's requests Leslie County identified \$59,960 of maintenance expense for the rearrangement of cable, aerial wire, drop wire and pole lines.<sup>18</sup> At the hearing Donald Roark testified that in his opinion it would be proper to expense these items rather than capitalize them due to their possible recurring nature.<sup>19</sup> He went on to state, however, that the test period level is substantially higher than normal due to the construction project.<sup>20</sup> It is considered standard accounting practice to capitalize rather than expense items incurred in the installation of new equipment. In light of Leslie County's major construction project and standard accounting practice, the Commission is of the opinion that it would be more appropriate to capitalize these items than expense them. Therefore, the Commission has reduced test period maintenance expense by \$59,960.

During the test period Leslie County purchased two used central offices from the Mt. View Arkansas Telephone Company and transferred existing central office equipment to the Wooton, Bledsoe, and Canoe exchanges in an attempt to upgrade and expand

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<sup>18</sup> First Commission request, Item No. 246, page 19.

<sup>19</sup> T.E., page 195.

<sup>20</sup> T.E., page 196.

these exchanges.<sup>21</sup> Leslie County stated that \$66,187 of the cost of installation, testing and routining of the used equipment was capitalized while \$17,326 of the cost was expensed.<sup>22</sup> Leslie County was unable to justify why the cost was not fully capitalized. As previously stated, standard accounting practice would be to capitalize the entire cost of installing either new or used equipment. Therefore, the Commission has reduced test period maintenance expense by \$17,326.

The Commission discovered upon reviewing Leslie County's responses to requests made at the hearing that Leslie County recorded an end-of-period adjustment in the amount of \$82,577 related to work orders recorded during December 1984.<sup>23</sup> Leslie County then proposed to spread this adjustment back over a 6-month period. Leslie County explained that this coincided with the half-year depreciation principle taken on plant.<sup>24</sup> The Commission is of the opinion that no connection exists between depreciation of plant and expensing of work orders. Considering the condition of Leslie County's financial recordkeeping, it would be more appropriate to spread this amount over the full year. The Commission has therefore reduced maintenance expense by \$27,527.

Leslie County reduced its test period maintenance expense by the amount of Account 605 - Repairs--Station Equipment in an

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<sup>21</sup> Third Commission request, Item No. 7, page 5.

<sup>22</sup> Responses to requests at the hearing, Item No. 13.

<sup>23</sup> Responses to requests at the hearing, Item No. 5.

<sup>24</sup> Ibid.

attempt to reflect the deregulation of its embedded CPE.<sup>25</sup> The Commission, after reviewing Leslie County's breakdown of test period maintenance expenses identified other maintenance expense accounts that it considered to be related to the embedded CPE.<sup>26</sup> Leslie County reviewed the questionable accounts but did not provide an analysis or description of the expenses recorded in these accounts or adequate reasons for not removing these items from test period operations.<sup>27</sup> The Commission is of the opinion that in the absence of proper documentation Account No. 605.2 - Station Equipment - Moves, Etc. and Account No. 605.4 - Repairs - Telephone Sets should be excluded from test period maintenance expense.

The Commission determined an adjusted test period level of maintenance expense in the amount of \$198,674<sup>28</sup> for a final reduction of \$138,336. Depreciation of the capitalized items

<sup>25</sup> Third Commission request, Item No. 21, pages 17-27.

<sup>26</sup> Third AG request, Item No. 25.

<sup>27</sup> Responses to hearing requests, Item No. 9.

<sup>28</sup> Maintenance Expense: excluding station Connection & right-of-way (workpaper E-1/3)	\$450,192
Leslie County adjustments - excepted	
Station Connection	25,587
Embedded CPE Account 605	<53,123>
Non-recurring employees Swanson Sch. 28	<34,462>
Subtotal	<u>\$388,194</u>
Commission Adjustments	
Rearrangement of lines	<59,960>
COE installation costs	<17,326>
Mid-test Period Adj-Annualized	<27,527>
Embedded CPE Account 605.2	<41,056>
Account 605.4	<43,651>
Total Test Period Other Maintenance Expense	<u><u>\$198,674</u></u>

identified in this section will be discussed in the following section.

#### Depreciation Expense

The Commission has adjusted depreciation expense based on the end of test period plant-in-service figures as provided in Swanson's Schedule 11, as follows:

1) Central Office Equipment--Changes reflect the corrections proposed in Leslie County's response to the Commission's March 24, 1986, data request, Item 15. In addition, as discussed in the maintenance expense section, the \$17,326 originally expensed to Account 604 has been added to the step-by-step account.

2) Customer Premises Equipment (CPE)--Amounts in Accounts 231 and 234, as well as the associated depreciation expense have been deleted due to the detariffing of embedded CPE.

3) Outside Plant--Accounts 241, 242.1 and 243 have been increased by \$7,920, \$43,678 and \$8,362, respectively. These adjustments reflect the capitalization of amounts originally expensed to Accounts 602.1, 602.2 and 602.6, as discussed in the maintenance section.

4) Miscellaneous-Expenses associated with Accounts 241A and 264.31 have been eliminated since the amounts recorded in the plant-in-service and accumulated depreciation accounts indicated that these accounts have been fully depreciated.

To summarize, the Commission has reduced test period depreciation expense by \$8,546 for an adjusted level of \$595,081 as reflected in Appendix B.

Embedded CPE

Leslie County opted to fully deregulate its embedded CPE as of January 1, 1986, in compliance with Administrative Case No. 269. Leslie County proposed reductions in local service revenue in the amount of \$109,542 and operating expenses excluding income taxes and maintenance expense in the amount of \$50,898. Leslie County in calculating its adjustments used the same methodology it chose in Administrative Case No. 257.<sup>29</sup> This case provides the Commission with its first opportunity to review Leslie County's proposed methodology and its effects in a rate proceeding. The Commission is of the opinion that Leslie County's allocation process on an overall basis is sound. However, better financial recordkeeping might have allowed Leslie County to compute actual expense amounts rather than rely totally upon allocations.

The Commission discovered that Leslie County did not exclude PBX and key system equipment from regulated operations in its revised adjustments. The Commission has identified revenues of \$188,361<sup>30</sup> that apparently include PBX and key station equipment revenues. The Commission is aware that this amount could possibly contain revenues other than these equipment charges. Considering the documentation available, however, this is the only amount the Commission could readily identify.

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<sup>29</sup> The Detariffing of Customer Premises Equipment Purchased Subsequent to January 1, 1983 (Second Computer Inquiry FCC Docket 20828).

<sup>30</sup> Original Application, Exhibit B-3, page 3 of 3.

The Commission has recalculated Leslie County's proposed adjustments using the \$188,361 figure. This results in a further reduction of \$78,820 in local service revenues. The Commission has also calculated deregulated expenses at a level of \$111,945 (See Appendix C) for a reduction in operating expenses of \$61,047.

Interest During Construction

Leslie County proposed to increase miscellaneous operating revenue by \$2,500 to recognize interest during construction ("IDC") which utilizes an estimated construction work in progress ("CWIP") estimate of \$50,000. Richard Swanson testified at the hearing that the proposed level of CWIP was based on a projected future level, which was chosen over the actual level due to the current construction program nearing completion.<sup>31</sup> The purpose of the Commission's rate-making treatment of IDC is to match cost and benefit. Therefore, the Commission is of the opinion that basing IDC on an estimated future level is a mismatching of revenues and expenses. Therefore, the Commission has calculated IDC of \$47,344<sup>32</sup> for a further increase of \$44,844 to Leslie County's proposed revenues. It should be noted that IDC would normally be recorded to Interest Income for book purposes, but for rate-making purposes, it is recognized as an operating revenue.

<sup>31</sup> T.E., pages 76-77.

<sup>32</sup> CWIP (Swanson's prefiled testimony, Sch. 3) \$971,620  
 Less: Work Orders -- 100.24                    24,738  
 Amount available for IDC                    \$946,882  
 1982 REA interest rate                            58  
 IDC    \$ 47,344

### Company Automobile

The AG proposed that operating expenses should be reduced by \$5,000 to account for the personal use of an automobile supplied by Leslie County for Edward Mattingly, manager of Leslie County.<sup>33</sup> The Commission concurs with the AG that the ratepayers should not have to bear the cost of providing Mr. Mattingly with an automobile for his personal use. The Commission has reduced Leslie County's test period operating expenses by \$5,000.

### Interest Expense

Leslie County proposed a test period level of interest expense in the amount of \$420,390 based on total debt outstanding at the end of the test period. The Commission has already determined that a portion of this debt is supporting deregulated or non-utility investment activities and an investment in a Florida condominium. Therefore, the Commission has utilized this same process to determine unregulated interest in the amount of \$20,485 and has reduced the test period proposed level by this amount.

### Rate Case

Leslie County originally proposed to amortize the cost of filing the present rate case in the amount of \$77,000 over a 2-year period for a level of \$38,500. The original cost of the case was broken down into two components: (1) accounting services of \$42,000 and (2) legal fees of \$35,000. Arthur Anderson originally estimated the cost to be \$25,000,<sup>34</sup> which was increased to \$42,000

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<sup>33</sup> Edward's supplemental testimony, filed April 7, 1986, page 7.

<sup>34</sup> AG's first request, Item No. 85.

and was later revised to \$84,603.<sup>35</sup> Richard Swanson testified that "for that size of company [Leslie County does] a fairly decent job."<sup>36</sup> He further stated that the condition of the financial records did not cause the extremely high cost of preparing the case but was rather caused by the number of data requests.<sup>37</sup>

It is the Commission's opinion with respect to the analysis of the records that the number of data requests required to examine Leslie County's records were the result of its poorly maintained and documented financial records. For example, Leslie County does not routinely review and record its monthly transactions as evidenced by its failure to maintain its CWIP<sup>38</sup> and work orders<sup>39</sup> on a current (monthly) basis. Further, there were numerous instances of inadequate documentation and support of actual levels, i.e., toll revenue, depreciation expense, and right-of-way expense<sup>40</sup> and monthly operating revenues and

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<sup>35</sup> Response made at the hearing, Item No. 16.

<sup>36</sup> T.E., page 279.

<sup>37</sup> T.E., page 278.

<sup>38</sup> Swanson's prefiled testimony, page 4.

<sup>39</sup> Responses to hearing request, Item No. 5, page 5, [B](11) in which adjustments were necessary to normalize work orders recorded in December 1984 relative to the entire calendar year.

<sup>40</sup> No continuing property records were available to aid in differentiating between capitalized and expensed right-of-way.

expenses.<sup>41</sup> Thus, it is the Commission's opinion that Leslie County's ratepayers should not bear the added costs due to the inadequate records. Therefore, the Commission has used the estimated cost of \$42,000 for Arthur Anderson in its amortization calculation since this represents a more equitable level of responsibility for rate case expenses between the shareholders and ratepayers. Further, Leslie County failed to adequately support its proposed 2-year amortization; therefore, the Commission has utilized its generally applied 3-year period. Amortization of rate case expense has been adjusted to \$25,667, a reduction in test period other operating expense of \$11,833.

The Commission has identified \$9,029 of prior rate case expense contained in test period operating expenses.<sup>42</sup> The Commission is of the opinion that these expenses should be removed and amortized over a 3-year period. Therefore, operating expenses have been decreased by \$6,019, which results in a total reduction to operating expenses of \$17,852.

#### ITC

Leslie County proposed to amortize deferred ITC over the life of the utility plant and included this amortization in non-operating income. Leslie County then reduced rate base by the unamortized deferred ITC. The original intent of Congress in

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<sup>41</sup> First Commission request, Item No. 18, Leslie County stated that they would supply monthly operating revenues and expenses when available. However, at the conference prior to the hearing Leslie County informed the Commission it was not able to provide the monthly statements.

<sup>42</sup> First Commission request, Items No. 2, 7 and 10.

allowing ITC was not only to provide utilities with an incentive to invest, but also to provide a benefit to utility customers. If revenues were calculated using return on net investments then customers would receive some benefit. In this instance, however, required revenues are being calculated using the times interest earned ratio ("TIER") and therefore customers receive no direct benefit. Richard Swanson stated that Leslie County followed the general rule in amortizing deferred ITC and any departure from this procedure might cause Leslie County to forfeit its ITC.<sup>43</sup> Leslie County has a 15-year period in which to use its accumulated ITC. The Commission is of the opinion that this is ample time in which to do so. Therefore, in order to provide a direct benefit to the ratepayers the Commission has recalculated ITC amortization using the ITC actually claimed by Leslie County per its tax returns and has used this amount as an offset to the federal tax expense. The Commission has used this procedure in past cases with this type of utility (Option A) and found it to be an adequate measure. Test period ITC amortization has been calculated to be \$39,356.

#### Income Tax Expense

In its original determination of adjusted net operating income, Leslie County did not calculate income tax expense, but simply eliminated deficit federal income tax and carried state income tax at actual level. In later revisions, Leslie County

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<sup>43</sup> T.E., page 88.

determined income taxes based on its proposed revenue level, but did not provide any calculation based on its adjusted levels or the amortization of ITC. In its determination of income taxes, the Commission has used Commission adjusted operating revenues, operating expenses, interest expense, and amortization of ITC for an adjusted level of federal and state taxes of \$1,299 and \$5,093, respectively.

Therefore, the adjusted operations of Leslie County are stated as follows:

	Leslie County's Final <u>Adjusted</u>	Commission <u>Adjustments</u>	Commission <u>Adjusted</u>
Operating Revenues	\$1,896,749	\$ 73,579	\$1,970,328
Operating Expenses	<u>1,666,173</u>	<u>&lt;274,197&gt;</u>	<u>1,341,976</u>
Net Operating Income	<u>\$ 230,576</u>	<u>\$347,766</u>	<u>\$ 578,352</u>

#### REVENUE REQUIREMENTS

Leslie County is an investor-owned utility financed chiefly by long-term debt from the REA and the RTB. Its capital structure is similar to that of many telephone cooperatives. The Commission has consistently determined revenue requirements for telephone cooperatives based on a return on net investment rate base and a TIER. Leslie County proposed a TIER of 1.7 rather than the 1.5 TIER required by the REA loan agreement. Leslie County explained that a TIER of 1.7 was chosen to reflect the amount of coverage that would be required when a 1986 REA loan is fully drawn down. The Commission is of the opinion that a 1.5 TIER is adequate under the existing loan agreement and that Leslie County has not provided adequate support to persuade the Commission to deviate

from its practice of basing TIER on the lender's required coverage as specified in the loan agreement.

Leslie County's adjusted net operating income of \$578,352 results in a TIER of 1.45. The Commission is of the opinion that this is unfair, unjust and unreasonable. The Commission has determined that Leslie County would require a net operating income of \$599,858 to achieve a TIER of 1.5, which the Commission believes is the fair, just and reasonable return. This will provide Leslie County with adequate revenue to cover operating expenses, loan payments, and provide the owner with an adequate return on investment. Therefore, the Commission has determined that Leslie County is entitled to a increase in local service revenue in the amount of \$43,328.

#### Rate Design

Leslie County proposed to allocate its additional revenue requirement in this case to local exchange access. In addition, Leslie County proposed to increase its local pay station toll from 10 cents to 25 cents. Two new enhanced service, speed-dialing and conference calling, are also proposed.

The record in the case indicates that enhanced service charges and local pay station tolls are compensatory as proposed and should be allowed.

In this case, the Commission will allocate additional revenue requirement to local exchange access.

#### FINDINGS AND ORDERS

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

1. The rates proposed by Leslie County 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 Leslie County to charge its customers for telephone service to provide approximately \$697,619 of local service revenues.

IT IS THEREFORE ORDERED that:

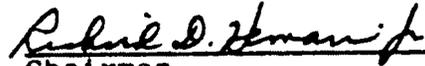
1. The proposed rates and charges in Leslie County's application of December 1985 be and they hereby are denied upon application of KRS 278.030.

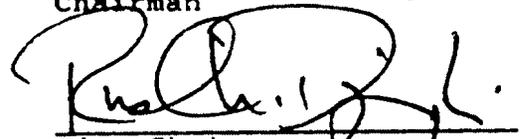
2. The rates and charges in Appendix A are the fair, just and reasonable rates and charges to be charged by Leslie County to its ratepayers for telecommunication services rendered on and after the date of this Order.

3. Within 30 days of the date of this Order, Leslie County shall file its tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this 2nd day of June, 1986.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

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Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 9430 DATED JUNE 2, 1986

The following rates and charges are prescribed for the customers in the area served by Leslie County Telephone Company, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

LOCAL EXCHANGE TARIFFS

For The Service Areas of:

	Hyden Exchange Stinnett Exchange Buckhorn Exchange	Wooton Exchange Bledsoe Exchange Canoe Exchange
Residential 1-Party Service: Line Access Charge		\$ 8.30
Residential 4-Party Service: Line Access Charge		6.75
Business 1-Party Service: Line Access Charge		12.15
Business 4-Party Service: Line Access Charge		10.60
Zone Charges:		
Zone 1		1.55
Zone 2		3.10
Zone 3		4.65
Zone 4		6.20
Zone 5		7.75
PABX		
Regular		13.96
Trunkhunt		20.95
Key		
Regular		13.96
Trunkhunt		20.95

For The Service Area of:

Dwarf Exchange

Residential 1-Party Service:  
Line Access Charge \$ 8.80

Business 1-Party Service:  
Line Access Charge 12.95

PABX  
Regular 14.74  
Trunkhunt 22.12

Key  
Regular 14.74  
Trunkhunt 22.12

For Service In All Exchanges.

Pay Station Local Calls \$ 0.25

Miscellaneous Enhanced Equipment Charges

Speed-dialing \$ 2.00  
Conference Calling 2.00

Service Connection Charges

Service Order \$10.00

APPENDIX B

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE NO. 9430 DATED JUNE 2, 1986

SCHEDULE OF DEPRECIATION  
AND NET INVESTMENT

SCHEDULE 11 FIGURES:

CORRECTED FIGURES:

ACCOUNT NUMBER		GROSS PLANT	RATE	EXPENSE	ACCUM.	NET PLANT	GROSS PLANT	RATE	EXPENSE	ACCUM.	NET PLANT
211	LAND	\$48,319	0.0%	\$0	\$0	\$48,319	\$48,319	0.0%	\$0	\$0	\$48,319
212	BUILDINGS	\$503,697	2.4%	\$12,089	\$100,530	\$403,167	\$503,697	2.4%	\$12,089	\$100,530	\$403,167
221	COE-DIGITAL	\$1,013,335	4.5%	\$45,600	\$855,600	\$157,735	\$1,105,597 a	4.5%	\$49,752	\$855,600	\$249,997
221	COE-CROSSBAR	\$0	0.0%	\$0	\$0	\$0	\$204,916	10.2%	\$20,901	\$0	\$204,916
221	COE-SXS	\$1,895,507	9.1%	\$172,491	\$0	\$1,895,507	\$1,615,655 b	9.1%	\$147,025	\$0	\$1,615,655
221.2	COE-CARRIER	\$722,852	9.1%	\$65,780	\$142,879	\$579,973	\$722,852 c	5.3%	\$38,311	\$142,879	\$579,973
231	STATION APP	\$421,534	8.4%	\$35,409	\$220,405	\$201,129	\$0 d	8.4%	\$0	\$0	\$0
232	STATION CONN	\$215,112	10.0%	\$21,511	\$84,253	\$130,859	\$215,112	10.0%	\$21,511	\$84,253	\$130,859
232.01	STATION CONN	\$162,278	5.0%	\$8,114	\$70,099	\$92,179	\$162,278	5.0%	\$8,114	\$70,099	\$92,179
232.10	STATION CONN	\$28,785	10.0%	\$2,879	\$9,843	\$18,942	\$28,785	10.0%	\$2,879	\$9,843	\$18,942
232.12	STATION CONN	\$15,929	10.0%	\$1,593	\$3,825	\$12,104	\$15,929	10.0%	\$1,593	\$3,825	\$12,104
232.13	STATION CONN	\$6,278	10.0%	\$628	\$895	\$5,383	\$6,278	10.0%	\$628	\$895	\$5,383
232.20	STATION CONN	\$28,953	5.0%	\$1,448	\$9,890	\$19,063	\$28,953	5.0%	\$1,448	\$9,890	\$19,063
232.22	STATION CONN	\$24,034	5.0%	\$1,202	\$5,483	\$18,551	\$24,034	5.0%	\$1,202	\$5,483	\$18,551
232.23	STATION CONN	\$18,944	5.0%	\$947	\$2,674	\$16,270	\$18,944	5.0%	\$947	\$2,674	\$16,270
232.24	STATION CONN	\$18,637	5.0%	\$932	\$903	\$17,734	\$18,637	5.0%	\$932	\$903	\$17,734
232.4	STATION CONN	\$6,536	0.0%	\$0	\$0	\$6,536	\$6,536	0.0%	\$0	\$0	\$6,536
234	PABX	\$97,138	8.8%	\$8,548	\$58,975	\$38,163	\$0 e	0.0%	\$0	\$0	\$0
235	PAYSTATIONS	\$3,067	10.0%	\$307	\$331	\$2,736	\$3,067	10.0%	\$307	\$331	\$2,736
241	POLE LINES	\$1,675,843	4.9%	\$82,116	\$203,983	\$1,471,860	\$1,683,763 f	4.9%	\$82,504	\$203,983	\$1,479,780
241A	POLES LINES	\$54,991	4.9%	\$2,695	\$54,991	\$0	\$54,991 g	0.0%	\$0	\$54,991	\$0
242.1	AERIAL CABLE	\$3,958,468	3.7%	\$146,463	\$712,948	\$3,245,520	\$4,002,146 h	3.7%	\$148,079	\$712,948	\$3,289,198
242.2	BURIED CABLE	\$1,287	3.4%	\$44	\$759	\$528	\$1,287	3.4%	\$44	\$759	\$528
243	AERIAL WIRE	\$275,213	12.0%	\$33,026	\$86,565	\$188,648	\$283,575 i	12.0%	\$34,029	\$86,565	\$197,010
261	OFFICE	\$46,029	4.0%	\$1,841	\$34,061	\$11,968	\$46,029	4.0%	\$1,841	\$34,061	\$11,968
261B	MACHINES	\$19,347	4.0%	\$774	\$12,054	\$7,293	\$19,347	4.0%	\$774	\$12,054	\$7,293
261C	COMPUTERS	\$8,240	13.9%	\$1,145	\$1,592	\$6,648	\$8,240	13.9%	\$1,145	\$1,592	\$6,648
264.1	VEHICLES	\$166,902	9.5%	\$15,856	\$116,016	\$50,886	\$166,902	9.5%	\$15,856	\$116,016	\$50,886
264.2	WORK EQUIP	\$68,935	4.6%	\$3,171	\$38,893	\$30,042	\$68,935	4.6%	\$3,171	\$38,893	\$30,042
264.31	WORK EQUIP	\$997	4.6%	\$46	\$997	\$0	\$997 j	0.0%	\$0	\$997	\$0
TOTALS		\$11,507,187		\$666,652	\$2,829,444	\$8,677,743	\$11,065,801		\$595,081	\$2,550,064	\$8,515,737

Footnotes:

- a) Corrected per Leslie County (response to commissions 3rd information request, Item No. 15.
- b) Same as foot note (a) except \$17,326 added from Account No. 604.
- c) Incorrect rate.
- d) Deregulation of CPE.
- e) Deregulation of CPE.
- f) Addition of \$7,920 from Account No. 602.1.
- g) Fully depreciated.
- h) Addition of \$43,628 from Account No. 602.2.
- i) Addition of \$8,362 from Account No 602.6.
- j) Fully depreciated.

APPENDIX C

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 9430 DATED JUNE 2, 1986

ADJUSTMENT FOR THE DEREGULATION OF EMBEDDED CPE AND PBX

DESCRIPTION	ORIGINAL AMOUNTS	257 FACTOR	CASE 257 ADJUSTMENT	269 FACTOR	CASE 269 ADJUSTMENT	AG 3 ITEM 25 AMOUNT	COMM FACTOR	COMMISSION ADJUSTED	COMMISSION ADJUSTMENT
COMMERCIAL EXPENSE:	102,787.97	5.46%	5,613.11	6.67%	6,852.35	102,788.00	20.85%	21,434.76	-8,969.31
GENERAL OFFICE EXPENSE:									
EXECUTIVE SALARIES	54,307.10	5.46%	2,965.64	6.67%	3,620.38	53,630.00	20.85%	11,183.66	-4,597.65
ACCOUNTING SALARIES	77,284.77	5.46%	4,220.41	6.67%	5,152.18	77,329.00	20.85%	16,125.70	-6,753.11
OTHER SALARIES	54,704.28	5.46%	2,987.33	6.67%	3,646.86	55,337.00	20.85%	11,539.63	-4,905.45
SUB-TOTAL	186,296.15	5.46%	10,173.38	6.67%	12,419.41	186,296.00	20.85%	38,849.00	-16,256.21
OTHER OPERATING EXPENSE:									
SALES EXPENSE	1.55	5.46%	0.08	6.67%	0.10	3.00	20.85%	0.63	-0.44
INSURANCE EXPENSE	12,616.38	5.46%	688.96	6.67%	841.07	12,500.00	20.85%	2,606.67	-1,076.64
OPERATING RENTS				6.67%		61,610.00	20.85%	12,847.76	-12,847.76
PENSION PLAN	40,459.06	5.46%	2,209.41	6.67%	2,697.20	41,108.00	20.85%	8,572.40	-3,665.79
HEALTH INSURANCE	22,125.05	5.46%	1,208.22	6.67%	1,474.96	22,183.00	20.85%	4,625.90	-1,942.72
UNIFORMS & PAID HOLIDAY	3,382.33	5.46%	184.70	6.67%	225.48	3,113.00	20.85%	649.17	-238.98
OTHER OPERATING EXPENSE	47,517.20	5.46%	2,594.85	6.67%	3,167.73	48,107.00	20.85%	10,031.93	-4,269.35
BOARD OF DIRECTORS FEES	2,608.20	5.46%	142.43	6.67%	173.88	2,318.00	20.85%	483.38	-167.08
ADVERTISING EXPENSE	1,903.09	5.46%	103.93	6.67%	126.87	1,632.00	20.85%	340.33	-109.53
SUB-TOTAL	130,612.86	5.46%	7,132.59	6.67%	8,707.29	192,574.00	20.85%	40,158.17	-24,318.29
PAYROLL TAXES						39,713.00	20.85%	8,280.16	
STATE AND LOCAL TAXES:									
KY. ADD VLOREN						352,007.00	0.45	1,584.03	
PROPERTY TAXES						352,007.00	0.4656	1,630.94	
SUB-TOTAL								3,222.98	
TOTAL	419,696.98		22,919.07		27,979.06	521,371.00		111,945.07	-61,046.94
DEREGULATED CPE REVENUE	49,326.00		60,216.00			188,361.00			
TOTAL OPERATING REVENUE	903,264.00		903,264.00			903,264.00			
ALLOCATION FACTOR	5.46%		6.67%			20.85%			
TOTAL LESLIE'S CPE ADJ.								50,898.13	
COMMISSION ADJUSTMENT								-61,046.94	