

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF BALLARD RURAL TELEPHONE)
COOPERATIVE CORPORATION, INC. FOR AUTHORITY)
TO CONSTRUCT AND BORROW FOR THE PURPOSE OF) CASE NO. 9773
IMPROVING TELEPHONE SERVICE IN ITS SERVICE)
AREA)

O R D E R

On November 26, 1986, Ballard Rural Telephone Cooperative, Inc., ("Ballard") filed its application for authority to borrow \$3,630,900 from the Rural Telephone Bank for the purpose of improving telephone service in its area. This application was later amended to include a request for authority to construct, since a preliminary review indicated that Ballard was proposing substantial construction which must be approved by the Commission pursuant to KRS 278.020 and 807 KAR 5:001, Section 9(2). Therefore, this application has also been treated as a request for a Certificate of Public Convenience and Necessity.

The majority of the construction design study was filed on December 2, 1986. Additional information was requested by Order dated January 23, 1987, with responses due by February 9, 1987. Ballard requested and received an extension of time to February 19, 1987, in which to file the requested information.

Ballard presently provides local exchange telephone service in all of Ballard and portions of McCracken counties in Kentucky.

The system consists of seven exchange areas which range in size from 378 to 938 subscribers. As of June 30, 1985, the total number of subscribers was 4,841.

According to its application, Ballard proposes to replace all existing electromechanical central office equipment with digital equipment. The design includes a host office located in the LaCenter exchange, with six remote switches in the remaining exchanges. All remote switches, with the exception of the Gage office, will be capable of "stand alone" operation. Since there have been difficulties with rain water leaks and associated damage in the Kevil and Gage central office buildings, these will be replaced. The present buildings are of Armco steel products constructed in the early 1950's, and will be replaced with masonry-type buildings. The Kevil building will require a new site. A commitment has been obtained from a property owner for a site within 50 feet of the existing structure.

Included in the central office equipment estimates are sufficient "T" carrier toll circuits to serve a 5-year projection of subscribers. Digital "T" span line equipment for the host-remote circuits will replace the existing EAS circuits and will operate over existing screened cable. Buried air core cable in the Bandana, Barlow, Gage, LaCenter, and Wickliffe exchanges is already in the process of being replaced with buried filled cable. The design study includes provisions for replacement of remaining air core cable in the Heath and Kevil exchange areas.

The estimated cost of construction based on the 5-year subscriber projection is \$3,094,696. Engineering costs are

estimated at \$330,000 for a total of \$3,424,696. Estimates were provided for the 10- and 20-year projections. However, it is assumed that considerable modifications will occur before construction on these projects will begin; therefore, Commission approval should be sought at least 6 months prior to the beginning of this construction.

Since the construction will involve the addition of equipment requiring the establishment of new plant sub-account numbers it is suggested that the appropriate depreciation schedule be thoroughly reviewed to ensure correct application of depreciation rates. For instance, the majority of the present central office equipment is in the step-by-step subaccount with a rate of 9.1 percent. The new equipment will be in the digital subaccount, which has a rate of only 4.5 percent. From the application, it is not clear that this change in subaccount rates was accurately reflected in the 5-year income statement projections. However, if an error of this nature did occur, its effect would be a decrease in projected depreciation expense. Since the full impact cannot be readily determined, the Commission will not require corrections at this time. However, the Commission will monitor results to determine full compliance with appropriate depreciation rates.

Additionally, it should be noted that the acceptance of the average depreciation parameters precludes the booking of "extraordinary retirements" for various outside plant accounts when these retirements are associated with on-going construction programs. The application also indicates the intention to amortize other selected accounts. Any such amortization will

require specific Commission approval and should be applied for when exact details are known.

Ballard is seeking to borrow funds from the Rural Telephone Bank with the loan being administered by the Rural Electrification Administration ("REA"). On November 12, 1982, the Franklin Circuit Court issued its opinion in West Kentucky RECC v. Energy Regulatory Commission. Therein, the court held that the Commission had no authority to approve or disapprove borrowings from REA since the REA is an agency of the federal government and KRS 278.300(10) exempts such borrowing from Commission regulation. Accordingly, the Commission takes no action on the REA portion of Ballard's proposed borrowing.

FINDINGS AND ORDERS

The Commission, having considered the evidence of record and being advised, is of the opinion and finds that:

1. Public convenience and necessity require that the construction proposed in the application for the 5-year subscriber projection be performed and that a Certificate of Public Convenience and Necessity be granted.
2. Ballard should keep the Commission informed of its progress on this construction project by filing a copy of all progress reports submitted to the REA with this Commission.
3. Ballard should review the appropriate depreciation schedule to ensure that proper rates are being applied.
4. Ballard should apply for Commission approval before amortizing any of its plant accounts.


IT IS THEREFORE ORDERED that:


1. Ballard be and it hereby is granted a Certificate of Public Convenience and Necessity to proceed with the proposed construction project as described in its 5-year subscriber projections in its application.

2. Ballard shall comply with all matters set out in Findings 2 through 4 as if same were individually so ordered.

Done at Frankfort, Kentucky, this 1st day of May, 1987.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director