COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ADJUSTMENT OF RATES OF GENERAL TELEPHONE COMPANY OF THE SOUTH	))	CASE NO. 9678

In the Matter of:

THE EFFECTS OF THE FEDERAL TAX REFORM ACT OF 1986 ON THE RATES OF GENERAL TELEPHONE COMPANY OF THE SOUTH	)))	CASE NO. 9800

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O R D E R

PROCEDURAL BACKGROUND

On September 26, 1986, General Telephone Company of the South ("GenTel") filed notice with the Commission to change its rates and charges effective October 26, 1986, to produce an annual increase in revenues of $35,419,869.[1]

In order to determine the reasonableness of the request, the Commission suspended the proposed rates and charges until March 26, 1987, five months after the effective date. Due to delays in filing certain requested information, the suspension period was extended to April 16, 1987.

On January 12, 1987, GenTel revised its original request downward to $27,756,313.[2] This revision was caused by the 3-way agreement on GenTel's represcription of depreciation rates as well as the correction of some errors in the original filing.

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[1] Nordman Schedule 5

[2] Staff Request of December 24, 1986, Item 1, page 9.

Intervening in this proceeding were: the Attorney General, through his Utility and Rate Intervention Division ("AG"), the Lexington-Fayette Urban County Government ("Urban County"), AT&T Communications of the South Central States, Inc., ("AT&T") and Don Wiggins. Additionally, after the hearing, Kentucky Cable Television Association ("KCTA") and MCI Telecommunications Corporation ("MCI") filed Motions for intervention. These Motions were granted.

On January 14, 1987, GenTel filed a Motion to consolidate Case No. 9800, The Effects of the Federal Tax Reform Act of 1986 on the Rates of General Telephone Company of the South, with Case No. 9678, Adjustment of Rates of General Telephone Company of the South. On January 28, 1987, AT&T filed a Motion in opposition to the consolidation. On February 4, 1987, the Commission granted the Motion to Consolidate.

On February 9 and 10, 1987, GenTel, the Commission staff, the AG, and AT&T entered into negotiations to determine if there were issues in this proceeding upon which all parties could reach agreement. All intervenors as of that date were invited to participate. As a result of these negotiations agreement was reached on several issues. (See Attachment A.)

A hearing was held in the Commission's offices at Frankfort, Kentucky, on February 18 and 19, 1987. At the hearing GenTel again revised its request downward to $22,393,813 as a result of agreements reached during the negotiations.[3]

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3 Updated Exhibit, Nordman Schedule 1.

The parties sponsored testimony at the hearing by the following witnesses:

GenTel	Bruce M. Holmberg, Vice President of Revenue Requirements Larry J. Sparrow, Vice President and Area General Manager Jerry L. Austin, Treasurer Richard J. Nordman, Controller Richard G. Stone, Vice President-Finance Thomas C. Miller, Staffing and Compensation Director Charles E. Graham, Capital Recovery Manager Alfred A. Banzer, Pricing and Tariffs Manager Ronald T. Roberts, Operations Support Manager-Customer Service Gary M. McGrath, Assistant Treasurer of GTE Directories Corporation ("GTE Directories")
Attorney General and Urban County	Thomas C. DeWard, Senior Regulatory Analyst Larkin and Associates, CPAs Dr. Carl G.K. Weaver of M.S. Gerber and Associates
AT&T	AT&T presented no witness at the hearing but did address the Commission on certain matters and filed a proposal for the Commission's consideration.
Consumer	Don Wiggins presented testimony on his own behalf.

In addition, three GenTel customers made comments before the Commission concerning this proceeding and the Commission was addressed by State Representatives Bill Strong from the 39th District, Gene Cline from the 96th District, and Dr. Walter Blevins, Jr., from the 71st District. Briefs were filed on March 13, 1987.

At the hearing, AT&T's attorney presented to the Commission a Proposal, which will be treated as a Motion, to set aside some portion of the tax savings realized by GenTel as a result of the Federal Tax Reform Act of 1986 ("Tax Reform Act") to be used as a potential reduction to access charges in future proceeding in Case No. 8838.[4] The Commission continues to believe that Case No. 8838 is the appropriate avenue for consideration of access charges, and access charge revenue requirements have not been changed since 1984. Thus, AT&T's motion is inappropriate, and the Commission therefore finds it should be denied.

At the company's request, the Commission heard oral arguments on March 26, 1987, from GenTel and the AG concerning Statement of Financial Accounting Standards No. 87 ("FASB 87") and its impact on pension expense. On April 7, 1987, the AG filed comments on the pension expense issue and issues raised in the oral argument.

On April 10, 1987, KCTA filed comments in opposition to the adjustment of pole attachment rates. After review of the comments, the Commission is of the opinion that the Agreement regarding pole attachments should be adopted.

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[4] An Investigation of Toll and Access Charge Pricing And Toll Settlement Agreements For Telephone Utilities Pursuant to Changes To Be Effective January 1, 1984.

In this Order the Commission is granting GenTel two-phase rates. From April 16, 1987, to July 1, 1987, GenTel may temporarily charge its customers the rates set out in Appendix A to this Order. If these rates were in place on an annual basis, the revenue increase would be $9,483,372. The rates will, however, be effective for only 11 weeks, producing an approximate increase in revenues during that period of $2,006,098. On and after July 1, 1987, GenTel is to charge the permanent rates as set out in Appendix B to this Order. The permanent annual revenue increase is $2,251,772. These two phases are necessary because of the Commission's decisions regarding the Tax Reform Act as explained later in this Order. The major change is that on July 1, 1987, the federal corporate income tax rate drops from the current level of 46 percent to 34 percent producing a major drop in revenue requirements.

This Order addresses the Commission's findings and determinations on issues presented and disclosed in the hearing and investigation of GenTel's revenue requirements and rate design.

ANALYSIS AND DETERMINATIONS

TEST PERIOD

GenTel proposed and the Commission has accepted the 12-month period ending June 30, 1986, as the test period in this case.

AGREEMENT

Pursuant to the negotiations of February 9 and 10, 1987, several areas of agreement were reached in valuation, revenues and expenses, and rate design. The Agreement was signed by GenTel, the Commission Staff, the AG, and AT&T and presented to the Commission on February 18, 1987. The Commission herein adopts all provisions of the Agreement with the exception of the rate design issue on the matter of local directory assistance exemptions.

VALUATION

Net Investment

GenTel proposed an intrastate net investment rate base of $324,298,668 at June 30, 1986.[5] This level reflected the effects of customer premises equipment ("CPE") deregulation, an adjustment to accumulated depreciation to bring depreciation expense to an end of period level and the proposed represcription of GenTel's depreciation rates.

The AG proposed an intrastate net investment rate base of $327,575,982.[6] On October 16-17, 1986, representatives of GenTel, the Federal Communications Commission and the Kentucky Commission Staff met in a 3-way meeting on depreciation rate changes to determine appropriate depreciation rates for the next 3 years. Following the conclusion of the 3-way depreciation represcription meeting and proposed adjustments by the AG, GenTel revised the original proposed rate base upward to $325,561,200.[7] Further, as a result of agreement reached among the parties during the negotiations prior to the hearing, GenTel again revised the rate base to reflect removal of the cash working capital allowance of

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5 Nordman Schedule 3.

6 DeWard Exhibit, Schedule 2.

7 Staff Request of December 24, 1986, Item 1, page 8.

$67,015 and a reduction of $1,985,924 to accumulated deferred income taxes to reflect the results of GenTel's represcribed depreciation rates. Based upon the above actions, the Commission finds GenTel's appropriate intrastate net investment rate base to be $327,480,109, calculated as follows:

Telephone Plant in Service	$465,827,675
Telephone Plant Under Construction	43,651,837
Plant Held for Future Use	14,649
Subtotal	$509,494,161
Less:	
Accumulated Depreciation	(138,050,027)
Accumulated Deferred Income Taxes	(48,327,501)
Add:	
Materials and Supplies	3,534,646
Prepayments	828,830
Total Net Investment	$327,480,109

Capital

In its determination of the pro forma capital structure, GenTel used an adjusted total company capital of $1,380,631,000.[8] This level included proposed adjustments occurring outside the test period to reflect additions and retirements to long-term debt, issuance of common stock and reductions to short-term debt. In addition, total company job development investment tax credit ("JDIC") of $92,041,000 was included.[9]

Although the Commission finds GenTel's proposed level of capital an appropriate means of developing a pro forma capital structure, the Commission is not of the opinion this level is

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8 Austin Schedule 1.

9 *Ibid.*

representative of end of period capitalization. The Commission is of the opinion, however, that a more representative level would be actual end of period capital of $1,279,250,000, excluding JDIC.[10]

The Commission finds the use of this level of capital an appropriate basis for an allocation of capital to Kentucky operations. The Commission has used the relationship of Kentucky's net investment rate base to total company net investment rate base to allocate capital and finds the Kentucky combined allocated portion of capital to be $437,887,275,[11] excluding JDIC, based on Kentucky's percentage of net investment to total company net investment of 34.23 percent.[12] Kentucky's end of period JDIC is $31,774,000,[13] resulting in Kentucky combined capital plus JDIC of $469,661,275. Kentucky's intrastate factor as reflected in the relationship of its intrastate and combined net investment rate base is .715075,[14] and applied to the Kentucky combined level of capital plus JDIC results in an adjusted Kentucky intrastate level of capital plus JDIC of $335,843,036. The Commission has adjusted the intrastate level of capital plus JDIC to reflect the adjustments made to GenTel's Kentucky net investment rate base (i.e., CPE deregulation,

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10 Staff Request of September 26, 1986, Item 1, Schedule 1, page 5.

11 $1,279,250,000 X 34.23% = $437,887,275.

12 Staff Request of November 14, 1986, Item 17, page 2.

13 Staff Request of September 26, 1986, Item 11e.

14 Nordman Schedule 3 ($341,055,340 ÷ $476,950,096).

depreciation changes and related deferred tax changes) producing an adjusted Kentucky intrastate level of capital of $322,334,821. The Commission finds this to be the appropriate level of capital for GenTel's Kentucky operations.

Capitalization vs. Net Investment Rate Base

GenTel proposed and the AG agreed to the use of the net investment rate base as its valuation method. The Commission has chosen to use an allocated level of capital.

GenTel's net investment exceeds the allocated capital by $5,145,288. Capital cannot be assigned directly to any particular state or jurisdiction nor can it be assigned to any particular asset; therefore, an allocation is necessary. The Commission is of the opinion that capital is a more appropriate method of valuation because companies traditionally include working capital components, such as prepayments and materials and supplies, in their calculation of rate base. GenTel has included these components in the calculation of its rate base. However, GenTel made no adjustments to reduce its net investment for "cost-free" components of working capital, such as payables, that provide a source of "cost-free" financing.

GenTel opposes the use of allocated capital as the valuation method. Mr. Nordman in his testimony stated that he was of the opinion it was inappropriate to use an allocation of capital in a multi-state environment because there are significantly different accounting methods used in different states, and he especially noted different depreciation methods.[15] The focus on different depreciation rates in different jurisdictions actually works to Kentucky's disadvantage in allocated capital. The composite depreciation rate for Kentucky is 8.1 percent. The composite depreciation rate for the total company is between 7.1 and 7.2 percent.[16] Thus this accounting difference when allocated to Kentucky, produces a higher level of allocated equity than Kentucky's individual share would be on a stand alone basis. When asked if these differences in accounting methods among the states could be quantified, Mr. Nordman indicated that it would be virtually impossible.[17] Since these differences cannot be quantified, the Commission cannot adjust retained earnings to reflect the differences. However, with the exception of depreciation methodologies, it is doubtful that differing accounting methods among the states would produce a material difference.

In its brief, GenTel cited different state construction requirements in a multi-state operation as a further argument against using allocated capital rather than net investment. Concerning differing construction (and depreciation) requirements, GenTel argued that "[s]uch differences will result in differing

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15 Ibid., page 144.

16 Transcript of Evidence ("T.E."), Vol. II dated February 18, 1987, page 40.

17 Ibid., page 145.

amounts of cost-free capital, and thus will affect the amount of investor-supplied capital in a particular jurisdiction."[18] The Commission agrees that this statement is true. The Commission, however, emphasizes that it is a fact that no cost-free capital for the Kentucky jurisdiction was proposed as a reduction to net investment. This is the reason allocated capital is being used herein. Again GenTel in its brief did not quantify the various construction requirements in the different states in the GTS service territory.

Finally, the Commission notes that the Kentucky portion of the GTS service territory is the largest operation, representing 34 percent of GTS's total investment, and that fact tends to minimize any material distortions that could arise from the differences between state operations affecting capital allocation.

It is the Commission's judgment that neither allocated capital nor the proposed net investment is the best valuation methodology. The best valuation method would be net investment rate base reflecting a lead-lag study determination of the appropriate positive or negative working capital requirement. However, Mr. Nordman testified that GenTel did not perform a lead-lag study and in the absence of such the Commission believes that allocated capital is much closer to GenTel's Kentucky valuation than a net investment valuation that has not considered cost-free sources of working capital.

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18 Brief of GenTel, page 51.

REVENUES AND EXPENSES

GenTel reported intrastate net operating income of $32,073,316 for the test period.[19] In its amended filing of January 12, 1987, GenTel proposed numerous adjustments which reduced the level of net operating income to $23,592,516.[20] At the hearing, GenTel further revised its net operating income upward to $26,780,102 as a result of the agreement reached among the parties during negotiations.[21] The Commission has determined that the appropriate level of adjusted net operating income under the permanent rate determination using a 34 percent tax rate is $33,392,078. In its determination the Commission has considered the following issues:[22]

Directory Advertising

For the calendar year 1985, GenTel reported $6,008,962 in revenues from its publishing affiliate, GTE Directories. The AG proposed to increase this amount by $1,128,392 based on GenTel's proposed rate of return on equity. Mr. DeWard contends that this adjustment should be made for two reasons: (1) the rate of return earned by GTE Directories is excessive and, therefore, inappropriate and (2) since GTE Directories is an affiliate of GenTel the contract between the two may not be an arms-length

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19 Staff Request of December 24, 1986, Item 1, page 2.

20 Ibid.

21 Agreement, Attachment A.

22 All subsequent changes to net operating income are based on a tax rate of 34 percent.

transaction.[23] Based on information provided by GenTel, GTE Directories earned approximately 29.07 percent on common equity in 1985.[24] Mr. DeWard's proposed increase in directory revenues would represent a reduction in payments from GenTel to GTE Directories, thus reducing GTE Directories' rate of return to that allowed GenTel.

Under the current contract GenTel retains 51.1 percent of the directory revenues and pays GTE Directories the remaining 48.9 percent out of which GTE Directories pays its expenses. GenTel contends that Mr. DeWard's proposal to increase GenTel's directory revenues, and thus change the retention rate, would result in lower earnings for GTE Directories. According to GenTel this reduction in earnings would limit the profitability of GTE Directories and, therefore, remove the incentive to produce a quality directory.[25] Mr. Roberts stated in his testimony that if this occurs it would result in a reduction of revenues that GenTel could expect to derive from directory operations causing an adverse impact upon ratepayers. Mr. Roberts further states that an arrangement such as the one that Mr. DeWard proposes is in fact a "cost plus" arrangement in which GenTel would be required to pay GTE Directories for the cost of publishing directories but would

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23 DeWard Testimony, page 18.

24 AG Request of December 24, 1986, Item 8(a), page 1.

25 Roberts Rebuttal Testimony, page 5.

in fact have no control over, or any mechanism to monitor, these costs.[26]

GenTel witness Mr. McGrath testified as to the economic differences between GenTel and GTE Directories. Mr. McGrath testified that GenTel was a capital-intensive business while GTE Directories would be considered labor intensive, that is, most of its profitability and risk lie in the human resources employed, and for this reason GTE Directories' profitability would more appropriately be determined by some profit margin measure rather than rate of return on investment.[27]

All of GenTel's arguments against the AG's proposed adjustment center on one issue -- GTE Directories produces non-regulated services for its affiliates. The other various arguments put forth by GenTel witnesses are not persuasive. It is the Commission's opinion that directory services including yellow page advertising are a part of regulated operations. This position has never been challenged in this jurisdiction and has widespread national support. In the Opinion on the Modified Final Judgment in the AT&T divestiture, Judge Harold Greene awarded yellow pages to the local service companies. Judge Greene considered this service not only an integral part of basic telephone service but recognized that the profits from this service should be used to reduce local service rates, this is evidenced in his ruling:

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[26] **Ibid., pages** 18 and 19.

[27] MrGrath Rebuttal Testimony, pages 9, 10, and 12.

> . . .All those who have commented on or have studied the issue agree that the Yellow Pages provide a significant subsidy to local telephone rates. This subsidy would most likely continue if the Operating Companies were permitted to continue to publish the Yellow Pages.
>
> The loss of this large subsidy would have important consequences for the rates for local telephone services.... Evidence submitted during the AT&T trial indicates that large rate increases of this type will reduce the number of households with telephones and increase the disparity, in terms of the availability of telephone service, between low income and well-off citizens. This result is clearly contrary to the goal of providing affordable telephone service for all Americans.[28]

Therefore, this Commission is of the opinion that any arrangement that would result in a lower level of directory service revenues flowing to local service is inconsistent with the principle that these are a part of GenTel's regulated operations and the goal to promote universal service. It is the Commission's opinion that profits derived from the affiliated transactions between GTS and GTE Directories should be returned to the local company. Thus, the Commission finds that local service revenues should be increased $1,463,186[29] based on the return found reasonable herein. This results in an increase to net operating income of $895,689.

Wages and Benefits

GenTel proposed to adjust its wages and benefits for known and measurable changes of $2,169,407 occurring beyond the end of

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28 United States of America v. American Telephone and Telegraph Company, 552 F.Supp. 131 (1982).

29 Calculated in the same form as provided in Staff Request of November 14, 1986, Item 24d.

the test period. The adjustment would allow for both "step" increases and increases on employees' anniversary dates and contract adjustments for that portion of the construction period ending before June 30, 1987, or one year beyond the end of the test period. These adjustments thus bring GenTel's wage and benefit expenses to an end of period basis at June 30, 1987. The adjustment reflects overall increases of approximately 2.77 percent for union employees and approximately 5 - 5.25 percent for management and management support employees.

The AG opposed GenTel's proposed adjustment because the increases are considerably beyond the test period. Mr. DeWard stated that GenTel's adjustment is one-sided because it reflects the additional wage and benefits expense to be incurred during the 12 months beyond the test period but does not reflect any reductions to expenses, increased revenues, or productivity gains that may occur as a result of GenTel's significant increase in plant and is, therefore, an improper matching of revenues and expenses.[30]

GenTel contends that Mr. DeWard's position is inconsistent and illogical in that the productivity gains resulting from the plant additions are reflected in the test period operations because the plant changes have been occurring since 1983.[31] GenTel further contends that Mr. DeWard is being inconsistent

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30 DeWard Testimony, pages 20, 21.

31 Brief of GenTel, pages 21 and 22.

because he is not willing to acknowledge known and measurable changes occurring post-test period for wages and benefits but is willing to accept these types of changes regarding the Tax Reform Act, the deregulation of CPE and the newly prescribed depreciation rates. All of these changes have occurred or will occur beyond the test period. Many other adjustments herein described also occur well beyond the end of the test period. Much of GenTel's brief is focused on the ability to make known and measurable adjustments to the historical test period. In addition, in its arguments before the Commission on March 26, 1987, GenTel emphasized the need to be consistent in the treatment of out of period adjustments.

The Commission has in the past been willing to recognize some known and measurable price changes that occur subsequent to the test period. The Commission has, however, been reluctant to recognize changes that may likely produce distortions in the relationship of earnings to capital. Mr. DeWard is correct in stating that GenTel's adjustment improperly matches revenue and expenses. However, the Commission believes that in a dynamic, growing company such as GenTel, because there are going to be numerous changes, adjustments must be viewed and evaluated in the context of the overall changing operations.

Mr. Sparrow, in his testimony before this Commission, has stated that GenTel has, since 1983, added approximately $245 million of new plant. Mr. Sparrow states that the company's investment in new plant has contributed significantly to productivity improvement.[32] Mr. Sparrow also stated in response to an AG data request that "productivity increases [as a result of the upgraded plant] will partially or perhaps fully offset higher expense levels which result from inflation and growth in the number of lines served by the company."[33] Mr. Sparrow in direct testimony at the hearing stated that additional savings as a result of conversions to modern technology will be only somewhat offset by increased costs as a result of the growth in [access] lines.[34] There is reason to believe from Mr. Sparrow's testimony that there are underlying positive factors that GenTel has failed to quantify. Due to technological changes, for example, GenTel should be able to reduce its work force, as it has in fact done over the past 4 years.[35]

Mr. Sparrow's testimony clearly indicates that productivity increases should be occurring now and continue to occur. However, the Commission in evaluating the out-of-period wage increase felt it necessary to look into the most recent financial information on file to evaluate GenTel's current financial operations.[36] At the end of December 1986, based on the most recent monthly report on

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32 Sparrow Testimony, page 13.

33 AG Request of November 14, 1986, Item 2a.

34 T.E., Vol. II, February 18, 1987, page 52.

35 *Ibid.*, page 50.

36 GenTel's Kentucky Intrastate Monthly Reports to the Commission for the months of July-December, 1986.

file with the Commission, GenTel's investment per access line held fairly constant in the 6 months subsequent to the end of the test period. Revenues grew by approximately $7.6 million dollars on an annual basis (including among other changes approximately $1 million in local service revenues, $3.4 million in access charge revenues and $4.2 million in toll revenues). Total expenses increased approximately $3.2 million on an annual basis (maintenance expenses decreased $2 million). The net gain in operating income for the 12-month period ending December 31, 1986, was approximately $4.4 million. While this period represents only a 6-month change in annual financial results, it appears to the Commission that Mr. Sparrow's prediction of increased productivity has occurred. Mr. Sparrow's testimony indicates that GenTel will continue to benefit from productivity gains.

Therefore, it is the Commission's conclusion that GenTel has benefited and will continue to benefit from updated technology and that although GenTel has quantified the price change related to wages and benefits it has failed to consider any of the underlying volume changes that have occurred and will occur outside of the test period. "Consistency" as stressed by GenTel would require these positive adjustments and, in fact, the wage adjustment creates an inconsistency when viewed in the overall context of GenTel's operations. The Commission, for the above reasons, has denied GenTel's pro forma adjustments to wage and benefits subsequent to the test period. This results in a total reduction to expense of $2,169,407,[37] which increases net operating income by $1,328,002.

Leveling Adjustment for Non-Wage Expenses

GenTel in past cases has proposed to bring its expenses and revenues to end-of-period levels by annualizing the revenues and expenses for the last 3 months of its test period. The AG opposes both these adjustments based on the premise that they do not consider fluctuations in the level of revenues and expenses due to seasonality and would compound any errors or nonrecurring changes that may be recorded in the last 3 months of the test year.[38]

GenTel contends that the adjustment in expenses is necessary to accurately present the level of expenses on a going forward basis. Mr. Nordman testified that he selected the final 3 months of the test period because he felt that these months were representative of activity during the test period.[39]

After careful analysis the Commission has determined that the annualization of test period revenues is appropriate because it closely reflects a going forward level of revenues. However, after examination of the various expense accounts the Commission is of the opinion that the leveling adjustment for non-labor expense is inappropriate. Two of the months chosen for

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37 $1,872,170 (wages) + $138,001 (pensions) + $29,111 (other benefits) + $130,125 (FICA).

38 DeWard Testimony, page 23.

39 T.E., Vol. II, February 18, 1987, page 177.

annualization reflect maintenance expenses that are higher than any month during or subsequent to the test period. In addition the non-labor portion of maintenance expense during the 3 months selected by GenTel were very volatile, ranging from $1,238,076 in June to $1,744,139 in April, which supports the AG's contention that there may be large abnormalities during this short period of time. Based on the most recent monthly reports on file with this Commission,[40] it is apparent that GenTel's maintenance expense has decreased substantially (approximately $2 million) on an annualized basis for the 12 months ending December 31, 1986, 6 months subsequent to the end of the test period. Most expense categories other than maintenance actually reflect decreases in GenTel's leveling adjustment and thus when maintenance was removed the adjustment resulted in an overall decrease.

The Commission does not believe it is inconsistent to reject GenTel's proposed expense leveling adjustment and accept the revenue leveling adjustment. Both actions are representative of current levels. Moreover, the Commission has accepted all other adjustments to bring labor and depreciation expenses to an end of period level. To accept the expense adjustment in order to be "consistent" with the revenue adjustment would mean ignoring the rationale for making an end-of-period adjustment. The Commission, therefore, denies GenTel's expense leveling adjustment which increases net operating income by $516,853.

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40 GenTel's Kentucky Intrastate Monthly Reports to the Commission for the months of July-December, 1986.

Reallocation of the Accounting for Expenses of the Durham Headquarters

On December 31, 1985, General Telephone of Kentucky officially merged with the seven states of General Telephone of the Southeast to form General Telephone of the South. GenTel, at the time, did not change the manner in which the headquarters expense was being charged to different states. Kentucky had been an independent company with a staff working in Kentucky and, thus, most of the overhead charges were billed directly to the Kentucky operations. Durham, North Carolina, the headquarters for GenTel of the Southeast, did perform some minor work for the Kentucky company and had an allocation system set up for that work. When the merger occurred some employees from Kentucky were moved and began working in Durham performing functions for all eight states. Since GenTel did not immediately change the allocation of costs, Kentucky was underbilled according to GenTel. Effective January 1, 1987, after numerous studies, GenTel changed the allocation methodology for Kentucky to reflect its proposed equitable pricing of its services to each jurisdiction. In this proceeding, GenTel proposed an adjustment to increase the Kentucky portion of expenses by $4,509,939. The AG opposed this adjustment because the allocation would not become effective until January 1, 1987. The AG further argued that the adjustment should be disallowed until GenTel can fully identify all costs associated with home office services.

During Mr. Nordman's cross-examination, the AG pointed out that GenTel was not seeking offsetting rate reductions in states that would be billed less as a result of the new allocation methodology, and therefore, GenTel would be recovering some of its costs twice if the adjustment in Kentucky was accepted.[41] From cross-examination at the hearing and GenTel's information responses subsequent to the hearing, the AG found those states having had rate changes in the recent past have failed to reduce rates for the reduction in headquarters' expenses of approximately $1.6 million. The Commission concurs with this figure. Staff asked GenTel to provide any cost benefit studies showing positive benefit to Kentucky ratepayers. GenTel responded that no study had been made.[42]

The Commission does agree that it is appropriate for GenTel to recover Kentucky's share of the Durham headquarters expenses. However, the Commission agrees with the AG that the costs change given different periods of time and that there is a period where there may be double recovery. In addition, GenTel has failed to quantify any cost savings as a result of the merger during the test period. At the hearing, Staff asked GenTel to provide a "before and after" cost of the services now performed in Durham previously performed in Kentucky. GenTel has been unable to provide such a study because of its inability to identify all the accounts that were directly charged pre-merger.[43] As a result

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41 T.E., Vol. II, February 18, 1987, pages 134-136.

42 Ibid., pages 149 and 150.

43 Ibid.

GenTel has provided less than full support for the adjustment it has proposed.

The Commission recognizes that some additional cost is allocated to Kentucky. However, because of the lack of specific information to determine the precise amount, the Commission believes that the fair and equitable solution to this problem at this time is to share the amount of the adjustment between GenTel and the Kentucky ratepayers. Therefore, the Commission will recognize 50 percent of the proposed adjustment. The Durham allocation to Kentucky represents a substantial cost to the Kentucky ratepayers. The Commission is of the opinion that absent an analysis of the benefit to the Kentucky ratepayers no future increases in the Durham headquarters' expenses will be considered beyond this level.

The Commission, therefore, has increased GenTel's operating expenses by the amount of $2,254,970 or 50 percent of GenTel's proposed adjustment for headquarters expense allocation. This results in an increase to net operating income of $1,380,380.

GTE Service Corporation Expenses

During the test period GenTel incurred service corporation expenses of $3,198,776 on an intrastate basis.[44] GenTel has proposed no increase to this test period level.

The Commission in its Order in GenTel's previous rate case, Case No. 8859, expressed concern "with the rapid acceleration in

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[44] Staff Request of November 14, 1986, Item 11(b), page 1.

the license contract expense".[45] The Commission also served notice to GenTel

> that in future proceedings, as the burden of proof lies with GenTel, it expects to see studies and analyses of the specific contract costs that show tangible evidence of both the necessity to the Kentucky ratepayer of the services provided under the license contract and the reasonableness and tangible cost-benefit relationship of these individual expenses by service.[46]

Based on the seemingly little amount of information GenTel can discern about the purposes for which the Service Corporation bills it, GenTel made a good effort to comply with the Commission's directive.

The Service Corporation presents GenTel with a monthly bill for services rendered. The only breakdown of these expenses provided by the Service Corporation is a "backup" statement showing total charges by Service Corporation. There is no determination of how the expenses were derived or what specific services were rendered. GenTel also appears to have limited authority to refuse services or deny payment for any services it does not need. It moreover appears to have very little authority to direct and control the activities of the Service Corporation.[47]

The Commission directs GenTel to request and obtain a detailed bill for all payments made to the Service Corporation.

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45 Adjustment of Rates of General Telephone Company of Kentucky, January 4, 1984, Order, page 18.

46 *Ibid.*, pages 18 and 19.

47 T.E., Vol. II, February 18, 1986, pages 209 and 214 and Stone Testimony, pages 14 and 15.

The bill must contain a full description of what was performed and the determination of cost for each specific service (i.e., billable hours and allocation factors). The Commission further directs GenTel to continue to perform a cost/benefit analysis on an annual basis for the exact services for which it is billed as described by the Service Corporation billing. If a service is not needed, but payment is required and made, the analysis should fully reflect that negative benefit was derived.

The Commission further directs GenTel to begin to work with other affiliated operating companies and the Service Corporation to enact positive changes in the degree of oversight by the operating companies and their ability to select services and direct the projects and operations of the Service Corporation.

In GenTel's next rate case the Commission expects to see that major reforms in this affiliated relationship have been enacted. Absent such showing, the Commission is of the opinion that the Kentucky ratepayers should not continue to pay for services that are neither under the control of GenTel nor even clearly identified as a service both needed and performed to enhance GenTel's operations to the benefit of these Kentucky ratepayers. GenTel should clearly show a change in the affiliated relationship, the cost/benefit analysis and necessity to the Kentucky ratepayer for the expenses of each and every service described by the Service Corporation, and each service should be both fully detailed and directly traceable to the Service Corporation billings with the backup data describing the service and the determination of cost. The Commission will evaluate the filing and allow costs for prudent and necessary services.

The Commission in this case will reluctantly allow the majority of the Service Corporation charges.

One adjustment has been made. During cross-examination by the AG, Mr. Stone stated that there would probably be an increase in the amount of payroll from the Service Corporation to be allocated to deregulated activities resulting from the detariffing of CPE and inside wire but deferred the question of any adjustment to Mr. Nordman.[48] Mr. Nordman testified that he would have to perform a calculation to determine if such an increase would be necessary and to determine the proper amount.[49] GenTel provided this information subsequent to the hearing and determined the amount to be $267,392.[50] The Commission finds that GenTel's Service Corporation expenses should be decreased by this amount associated with deregulated activities. This results in an increase to GenTel's net operating income of $163,684.

Federal Income Tax Rate

In 1986 Congress passed one of the most sweeping tax reform laws in history. The Tax Reform Act would lower the maximum corporate tax rate from 46 percent to 34 percent beginning July 1, 1987. On December 11, 1986, this Commission initiated a separate

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48 T.E., Vol. II, February 18, 1987, pages 220 and 221.

49 T.E., Vol. III, February 19, 1987, page 48.

50 Response to Hearing Request, Item 16, page 1.

case for GenTel and other utilities to investigate the effect of the Tax Reform Act upon rates presently prescribed. GenTel moved that its separate tax case be merged with this rate proceeding and the effects of the Tax Reform Act be determined in conjunction with the rate case. The Commission sustained GenTel's Motion.

GenTel proposed to use a 40 percent blended tax rate for 1987. The blended rate is developed by applying the 46 percent rate to the first 6 months of the year and the 34 percent rate to the last 6 months for calendar year taxpayers such as GenTel.[51]

The AG proposed the use of the going forward 34 percent rate which is effective July 1, 1987. In the alternative, the AG offered a blended rate of approximately 37 percent based on a 46 percent rate for 91 days (prior to the date of this Order) during 1987 and using the 34 percent rate for the remainder of 1987.[52] The AG justifies this methodology by pointing out that GenTel is booking revenues based on a 46 percent tax rate from January 1, 1987, through the date that an Order is released in this proceeding.

The Commission acknowledges that the Tax Reform Act requires GenTel to book income tax expense using the blended 40 percent rate beginning January 1, 1987. However, it is the Commission's judgment that the use of any tax rate other than the 34 percent rate for rate-making purposes would be inappropriate for setting rates in this case. The Commission believes that any benefit

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[51] Brief of GenTel, page 36.

[52] DeWard Testimony, page 32.

derived from the Tax Reform Act should have been passed through to GenTel's ratepayers concurrent with the booking date of January 1, 1987. GenTel has been collecting revenue from January 1 through April 16, 1987, on rates set using a 46 percent tax rate. Thus, it is the judgment of this Commission that the 34 percent federal income tax rate is the appropriate rate for this proceeding on a going forward basis.

However, there is an 11-week period between the effective date of this Order and July 1, 1987, and during this period the use of the 34 percent tax rate will cause an understatement of earnings. In order to alleviate this understatement, the Commission will permit GenTel to continue to collect rates set using the 46 percent tax rate in effect prior to the Tax Reform Act. Thus, GenTel will collect rates based on 46 percent for the first 6 months of 1987 and 34 percent for the last 6 months of 1987. This results in an equivalent of the 40 percent blended rate and is therefore in compliance with the statutorily-prescribed blend rate for 1987.

Based upon GenTel's update of February 18, 1987, federal income tax expense was $3,463,800 using a 40 percent tax rate.[53] Applying a tax rate of 34 percent results in a federal tax expense of $2,944,230. The following adjustments were made for a federal tax expense of ($1,446,877).

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[53] Letter from GenTel dated April 2, 1987.

Less:	
ITC Amortization	$3,500,532
Deferred Tax Payback	886,485
ITC Flowthrough (new dep. rates)	717,202
Deferred Tax (new dep. rates)	78,273
Plus:	
ITC Loss	202,603
ITC on CPE	351,772
Loss of Business Meals	3,660
Amortization of Uncollectibles	36,208
Change from Accrual Write-Off	50,500
8.5 Vacation Limitation	29,617
Banked Vacation	49,844
Capitalization of IDC	67,181
	$(1,446,877)

Although the last five items in the above calculation were filed after the hearing, the Commission finds these adjustments appropriate since other utilities will be permitted to make similar adjustments to tax expense in cases presently before the Commission. Therefore, these adjustments have been accepted for rate-making purposes. This results in an increase to net operating income of $769,677.

Interest During Construction ("IDC")

GenTel reported construction work in progress ("CWIP") of $43,651,837 on an intrastate basis at the end of the test period. Of this amount $22,589,341 is eligible for IDC. GenTel using the year end level of CWIP on which IDC is accrued and the overall cost of capital proposed as the prescribed IDC rate with an offset of the debt portion at 40 percent has increased operating revenues by $932,570. However, the Commission finds the increase to operating revenue to be $202,310 when the overall cost of capital allowed herein and a federal tax rate of 34 percent is used. This reduces net operating income by $202,310.

Pension Costs

In December 1985 the Financial Accounting Standards Board issued its pronouncement concerning Employers' Accounting for Pensions to become effective December 15, 1986. The AG cross-examined GenTel on its plans regarding FASB 87 during the hearing and it was determined that a company-wide study was in progress but would not be completed until mid-April.

On March 11, 1987, the Commission ordered the study to be provided by March 21. On March 26, GenTel and the AG presented oral arguments on this issue. At that time, GenTel stated that preliminary analysis of 1987 pensions expense would be approximately $1.3 million. GenTel did not oppose this adjustment. On April 2, GenTel provided the Commission a statement showing that intrastate pension expense could be reduced $2,242,764 based on a March 31, 1987, letter from GTE Service Corporation. On April 7, the AG filed its response to the April 2, 1987, letter stating that it was of the opinion that GenTel's response was not in compliance with the hearing data request or the Commission's Order of March 11, in that no supporting documentation was provided. Some data was supplied on April 15, 1987.

GenTel submitted a letter from GTE Service Corporation describing the calculated components of the new pension costs and a letter from a partner in the partnership Towers, Perrin, Forster and Crosby, an actuarial firm, confirming that the actuarial studies complied with FASB 87. In the letter from the Service Corporation to GenTel, the Service Corporation stated that it could not supply the back-up data at this date. The Commission hereby directs that this data be filed within 60 days from the date of this Order. This data will, therefore, be filed approximately 2 months beyond the end of the suspension period. Accordingly, the Commission will herein accept the adjustment as submitted by GenTel but directs its Staff to review the documentation upon receipt. If Staff finds that the documentation supporting GenTel's figure is derived contrary to the FASB pronouncement, the Commission will reopen this case on its own motion.

Therefore the Commission herein accepts FASB 87 for rate-making purposes in this proceeding. As a result of other adjustments to pensions throughout this case, the Commission finds that pension expense should be further reduced $2,051,881.[54] This results in an increase to net operating income of $1,256,059.

Rent Expense

The AG proposed a reduction of $43,331 to GenTel's operating expenses to remove from the test period rent expense associated with office space in Lexington.[55] GenTel vacated the lease in November 1985 and the AG contends that because GenTel will no longer incur the expense it is inappropriate to include it in the test period level of expenses. The Commission agrees and

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54 $2,242,764 - $138,001 - $52,882 (pension portion of $116,920 adjustment recognized in the agreement).

55 DeWard Schedule 15-1.

therefore reduces GenTel's rent expense by $43,331, resulting in an increase to net operating income of $26,525.

Late Payment Penalty

As part of the agreement during negotiations GenTel will apply a 1.5 percent late payment charge to outstanding balances in excess of $25 after 20 days from the customer's billing cycle date, resulting in an increase of $705,679 to GenTel's operating revenues or an increase of $431,981 to net operating income.

Interest Synchronization

GenTel proposed to reflect interest expense of $15,162,329 in its determination of taxes based on its proposed rate base and cost of debt including an allocation of JDIC to all components of capitalization less JDIC. However, the Commission using the same methodology applied to GenTel's allowed capitalization finds interest expense to be $14,958,856. This results in a decrease to net operating income of $78,917.

Access Charge Revenues

During its investigation of GenTel's test period operations, the AG found that non-AT&T interLATA carriers had improperly reported jurisdictional minutes of use and, therefore, that GenTel had improperly recorded interstate revenue from these carriers. The AG requested that GenTel determine the non-AT&T interLATA carriers' improperly reported minutes of use and adjust intrastate revenues for the amounts improperly recorded as interstate revenue. GenTel did not comply with that request or two staff requests for the same information. GenTel has the raw data necessary to perform these calculations and insofar as information is needed from interLATA carriers it is obtainable from these interLATA carriers. However, the Commission, based on data available in Case Nos. 8838 and Administrative 273,[56] has estimated this additional revenue to be approximately $203,142. The Commission has adjusted revenues by this estimate which it believes to be very conservative. Thus net-operating income has been increased by $124,353.

If GenTel believes this adjustment is inappropriate and can support its determination, the Commission will reconsider this adjustment on rehearing.

Outside Plant Maintenance Expense

In the course of this case, there was considerable controversy over the level of outside plant maintenance expense, particularly with GenTel's M60X account. This account increased 58 percent in the test year from the previous 12 months, for an approximate $3.8 million increase. In Item 12(b) of the Staff Request of November 14, 1986, GenTel stated that:

> This account increased during the test period because of the reclassification of M&C drop charges to this account and the change to 100% expensing of service order assignment charges.

The first portion of this response was later amended by information filed on April 1, 1987, which states in part:

> This is not true since further research provided conclusive evidence that the reclassification of Drop & Block had been properly restated in the prior period and therefore was not a driver of the change.

[56] An Inquiry Into Inter- and IntraLATA Intrastate Competition in Toll and Related Services Markets In Kentucky, May 25, 1984.

The second portion of this response, "the change to 100% expensing of service order assignment charges," was the cause of most of the controversy since it implies that previously capitalized items were expensed during the test period. Since no significant accounting changes were authorized during the test period by either this Commission or the Federal Communications Commission ("FCC"), this change appeared improper. In the Staff Request of December 24, 1986, Item 8, it was requested that the previous method for expensing service orders be explained and justification for the change be provided. In its response, GenTel stated:

> Test desk and assignment work were previously allocated to capital and expense accounts based on an estimate of time spent by the labor forces. Attachments A & B indicate that further research and discussions with FCC representatives provided the basis to begin expensing this activity.

Since the attachments were two pages of an internal memorandum dated May 8, 1985, it supported the conclusion that an unauthorized accounting change did occur in the test period.

It later became apparent that this accounting change should have been phased-in along with the expensing of station connections. However, GenTel failed to do so. This is supported by the Rebuttal Testimony of Richard J. Nordman, which states in part:

> Q. Mr. Nordman, were there accounting changes reflected in the June, 1986 test period that the Commission should be aware of?
>
> A. Yes, there are station connection accounting changes and in particular test desk and assignment, driven by the accounting interpretation of FCC Docket 82-679 that all test desk and assignment cost previously capitalized should now be expensed.

Mr. Nordman goes on to explain the reason for beginning 100 percent expensing of this activity in the test year rather than phasing it in.

At the hearing, Mr. Nordman again confirmed that the accounting change occurred in the test year:

> Q. When did GenTel actually begin expensing this activity?
>
> A. Let me see, here, I've got the date. Around August of 1985.
>
> Q. Was the expensing that began in August, 1985 phased in?
>
> A. No, it was not.[57]

Mr. Nordman was later asked to provide the exact amounts involved in this accounting change. In Item 12 of the response, the intrastate amount was identified as $3,135,938. In addition, a paragraph was included which stated:

> The accounting change referenced above is merely a reclassification of expense from M4XX to M6XX and not a capital to expense shift. During the prior period, there was still 25% capitalization of the C451 account (which includes test desk and assignment of approximately $24,200, $21,000, and $19,800 for July, August, and September, 1984 respectively.) Further this accounting change was phased in along with station connection accounting changes and thus has been 100% expensed since October, 1984.

Data was supplied with this response which contained several contradictions. For instance, it showed an entry of $110,814 to Account C451 in July 1985. Since this account corresponds to the USOA plant account 232 "Station Connections" and should have been fully expensed since October, 1984, this appeared to be in error.

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[57] T.E., Vol. II, February 18, 1987, page 163.

The data also showed amounts booked to accounts M46X in July 1985. Since information previously supplied[58] indicated that this account was reclassified to M60X in August, 1984, this too appeared to be in error.

The response was clarified and the data corrected by information filed on April 1, 1987. GenTel now contends that previous responses appear to have been incorrectly interpreted, test desk and assignment work have been expensed 100 percent since October 1984, and that the only capital-to-expense shift was the final 3 months of the phase-in of station connections at the beginning of the prior period. The data supplied suggests that portions of accounts other than M46X were reclassified to outside plant at the beginning of the test period, principally M41X and M45X. This would imply that increases to outside plant would have been offset by decreases to these accounts. However, since GenTel's response to the Staff Request of November 14, 1986, Item 12(b), indicated that decreases to these accounts were principally related to the "steady migration of station equipment to customer provided equipment whereby maintenance is charged to a BTL account" the possibility of a reclassification was not obvious.

The Commission is of the opinion that much of the controversy surrounding the outside plant maintenance expenses could have been avoided had GenTel kept adequate records of its accounting changes. In the future, GenTel should maintain records on each

58 Staff Request of September 26, 1986, Item 18(a), page 3, and AG Request of December 24, 1986, Item 2.

account so that any significant changes in these accounts can be readily and accurately explained. These records should contain any related internal memoranda and applicable Commission or FCC directives.

RATE OF RETURN

Capital Structure

Mr. Austin proposed that the Commission adopt GTS's capital structure as of June 30, 1986, adjusted for known and measurable financing activities occurring after that date. Mr. Austin recommended pro forma capital ratios, as of June 30, 1986, of 42.45 percent mortgage bonds, .44 percent debentures, 3.04 percent short-term debt, .31 percent preferred stock, 47.09 percent common stock, and 6.67 percent JDIC.[59] These ratios were to reflect the issuance of $125,000,000 of new long-term debt, $20,000,000 of common equity, retirement of $21,900,000 long-term debt, retirement of $11,400,000 preferred stock and reduction of short-term debt to reflect these financing activities.[60] These changes occurred after the June 30 test year.

The AG's witness, Mr. DeWard, proposed a capital structure of 45.07 percent mortgage bonds, .47 percent debentures, 4.12 percent short-term debt, .33 percent preferred stock, and 50.01 percent common equity.[61] Mr. DeWard accepted GenTel's proposed pro forma capital structure with the exception that he allocated JDIC

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59 Austin Schedule 1.

60 Austin Testimony, pages 13 and 14.

61 DeWard, Schedule 3.

proportionally among the capital structure components and proposed to use actual short-term debt levels as of December 31, 1986.

In its post-hearing brief the AG proposed additional adjustment to the capital structure. The AG argued that since common stock issued in December is reflected in GenTel's proposed capital structure then dividends paid in September, 1986, and January 6, 1987, should also be reflected. The AG's proposed capital structure with the proposed dividend adjustments would be 45.63 percent mortgage bonds, .47 percent debentures, 5.45 percent short term debt, .34 percent preferred stock, and 48.11 percent common equity.[62]

The Commission has traditionally used end of test period capital structures; however, in this case it will concur with the parties and accept that the pro forma capital structure is appropriate. The pro forma adjustments proposed by GenTel with the exceptions of the short-term debt level and treatment of JDIC should be accepted. The Commission will in this case, as in previous cases, allocate JDIC proportionally among the capital structure components. As to short-term debt level the Commission will adopt the AG's proposal of using the actual level of short-term debt as of December 31, 1986. It is the Commission's opinion that the total known and measurable effect of the financing activity occurring after the test year is reflected in the December 31, 1986, short-term debt level. The Commission will

[62] AG's Brief, page 14.

deny the AG's proposed adjustment for dividends paid in September and January as being untimely.

Cost of Debt and Preferred Stock

GenTel proposed a 9.61 percent cost for long-term debt.[63] Included in the proposed costs were the issuance of $125,000,000 of long-term debt at 8.75 percent in September, retirement of $18,800,000 of long-term debt at 13.75 percent in September and additional $3,100,000 in December, 1986.[64] In addition Mr. Austin proposed an embedded cost of short-term debt of 6.91 percent, and 5.29 percent for the cost of debentures.[65] Finally, Mr. Austin proposed a pro forma cost of 4.84 percent for GenTel's preferred stock.[66] The AG's witness concurred with GenTel's proposed debt and preferred stock costs.

The Commission is of the opinion that GenTel's proposed 4.84 percent cost for preferred stock, 9.61 percent cost for long-term debt, 5.29 percent for debentures and 6.91 percent for short-term debt are reasonable and reflect the known and measurable changes beyond the test year.

Cost Of Common Equity

In GenTel's initial filing Mr. Austin proposed a return on equity in the range of 13.9 percent to 15 percent,[67] based on a

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63 Austin Testimony, page 18.

64 *Ibid.*, page 14.

65 *Ibid.*, page 18.

66 *Ibid.*, page 18.

67 *Ibid.*, page 46.

Discounted Cash Flow ("DCF") analysis and a risk premium analysis. At the public hearing Mr. Austin adjusted the proposed range downward to "13 1/2 percent to 14 1/2 percent in order to reflect...a continuation in the volatility of the stock market prices and interest rates have declined somewhat further."[68] Mr. Austin continued to propose that the Commission adopt 14.5 percent as the cost of equity for GenTel.

Mr. Austin selected three groups including six utilities (non-telephone), three non-Bell telephone utilities, and seven Regional Bell Operating Companies ("RBOC") for his DCF analysis. Dividend yields were determined for spot price, 3-month average price, and 8-month average for each group of stocks. Mr. Austin used projected growth rates of earnings and dividends from Value Line and Merrill Lynch in his DCF analysis of the six utilities. For the two telephone groups Mr. Austin restricted his analysis to using only projected earning growth rate from both Value Line and Merrill Lynch, contending "telephone dividend growth is not expected to keep pace with prior years dividend growth due to more capital being returned for investment to meet the loss of revenue resulting from bypass technology and competition."[69] Therefore, he argues growth in earning estimates provide a better indication of investor expectation. Mr. Austin further refined his DCF calculation by including a 5 percent flotation cost adjustment and

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68 T. E., Vol. III, February 19, 1987, page 62.

69 Austin Testimony, page 31.

introducing a quarterly dividend model to adjust the required return on equity for quarterly payments of dividends.

The Commission has a number of concerns with the rate of return testimony provided by Mr. Austin. In his DCF analysis of the seven RBOCs, Mr. Austin used growth rates of 7.2 and 6.8 percent for each of the periods.[70] If, instead, Mr. Austin had used dividend growth estimates, the average growth rates would have been reduced to 6.4 (Merrill Lynch) and 6.1 (Value Line) percent.[71] When applied to the annual dividend yield this would have reduced cost of equity by approximately one percentage point. In his DCF analysis of the three non-Bell telephone companies, Mr. Austin used growth rates of 8.8 (Merrill Lynch) and 7.8 (Value Line) percent for each of the periods.[72] Again if Mr. Austin had used dividend growth estimates the growth rates would have been 6.0 (Merrill Lynch) and 4.7 (Value Line) percent for each of the periods and applied to the annual dividend yield it would reduce cost of equity by one percentage point[73]. Though the Commission recognizes that there is debate among rate of return analysts concerning whether the focus should be on expected dividend or earnings growth this Commission continues to believe that investors in telephone companies still consider telephone

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70 Austin Schedule 9.

71 Staff Request of November 14, 1986, Item 72, and Value Line, October 24, 1986.

72 Austin Schedule 8.

73 Staff Request of November 14, 1986, Item 73, and Value Line, October 24, 1986.

companies as utilities and are primarily concerned with dividend growth. Though GenTel has attempted to picture itself as a high risk competitive enterprise, it still remains primarily a company whose revenues are provided by a monopoly local exchange services. The Commission is of the opinion that the use of earning growth estimates overstates the required return on equity.

Additional concerns with Mr. Austin's DCF analysis are with the proposed flotation cost adjustment and the quarterly DCF model. Mr. Austin adjusted the dividend yield for a 5 percent stock flotation cost in each period for both the RBOC and those non-Bell telephone companies. The resulting adjustment increased the dividend yield by approximately 30 basis points in each of his periods.[74] However, GenTel indicated there was no flotation cost associated with the selling of its stock.[75] The Commission has indicated in previous Orders that where there are flotation costs that can be identified, it is appropriate to recognize and permit recovery. However, where there are no identifiable costs, an adjustment for flotation cost results in overstating the required return on equity and is therefore inappropriate. The Commission indicated the deficiencies that it saw in the DCF quarterly dividend model.[76] The Commission has found nothing persuasive in Mr. Austin's testimony upon which to change its opinion. The

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74 T. E., Vol. II, February 18, 1987, page 71.

75 Staff Request of September 26, 1986, Item 4a, pages 1-3.

76 Case No. 9160, Petition of South Central Bell Telephone Company to Change and Increase Certain Rates and Charges for Intrastate Telephone Service, Final Order dated May 2, 1985.

Commission continues to be of the opinion that if it were to adopt the quarterly dividend model, investors would have the opportunity to be doubly compensated, due to a higher allowed rate of return on equity and the reinvestment of the quarterly dividend. Therefore, the Commission rejects the DCF quarterly dividend model.

In addition to the DCF analysis, Mr. Austin filed a risk premium analysis in support of his recommended return on equity. Mr. Austin contends that "[b]ecause equity is riskier than debt, the current cost of equity for GTS can be determined by estimating the additional average risk premium that should be added to the Company's current cost of long-term debt."[77] Mr. Austin provided two studies purporting to identify the risk premium. The first study compared the returns between utility common stock and utility long-term bonds for a 47-year period, 1937 through 1984.[78] The resulting risk premium was 4.22 percentage points using geometric means return and 5.17 percentage points using the arithmetic means return.[79] The second study compared the returns between telephone common stock (excluding AT&T) and telephone bonds for a 27-year period. The resulting risk premium was 6.28 percentage points using geometric means returns and 7 percentage points using arithmetic means.[80] Mr. Austin contends that his

77 Austin Testimony, page 37.

78 Ibid., page 42.

79 Ibid., page 44.

80 Ibid., page 44.

risk premium analysis demonstrates "that the investor will require a return on equity capital between 4.2 to 6.6 percentage points above the expected yield on GTS' bonds."[81] Finally, Mr. Austin contends that his risk premium analysis indicates that the expected return on equity would be in a range of 14.8 percent to 15.2 percent.[82]

The Commission, as it has stated in previous Orders, continues to have serious reservations with risk premium analysis. A major criticism of risk premium analysis is that the results are volatile and highly dependent upon the time periods selected for the analysis. This concern was reinforced in this proceeding. During cross-examination Mr. Austin admitted that "[y]ou could pick different periods...and come up with a different spread."[83] The AG reinforced this by demonstrating that the risk premium would drop to 1.57 percentage points if it was measured from 1968 through 1984.[84] The Commission continues to believe that risk premium analysis is of little value in determining required return on equity.

The AG's witness, Dr. Weaver, provided a recommendation to the Commission concerning GenTel's return on equity. Dr. Weaver recommended a cost of common equity capital for GenTel in the

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81 Ibid., page 45.

82 Ibid., page 46.

83 T.E., Vol. II, February 18, 1987, page 82.

84 Ibid.

range of 11 to 12 percent[85] based on a DCF analysis using six independent telephone companies. To determine the dividend yield, Dr. Weaver used the latest quarterly annualized dividend amount divided by the mid-range stock price that occurred in 1986.[86] Dr. Weaver determined his growth estimate using the retention ratio multiplied by the return on book equity ("b x r"). The growth estimate was 5 percent for the six companies and 6 percent for GTE. Dr. Weaver adjusted the resulting cost of equity, using relationships established through the Capital Asset Pricing Model for the risk differences between GTE and the six companies. According to Dr. Weaver's DCF result, the cost of equity using the six company group with adjustments was 11.04 percent with GTE having an adjusted cost of equity of 11.85 percent.[87] To confirm his DCF results, Dr. Weaver calculated a cost of equity using earning-price ratios of 1986 price data and 1987 estimated earnings per share. In addition he performed a DCF analysis of the six companies using a historical period 1975-1977 in which he contended that the economic conditions were similar. He argued that the results of these tests confirmed the results of his DCF analysis. Dr. Weaver concluded that GTS was less risky than either GTE or the six company groups and he recommended that the Commission adopt 11 percent as the cost of equity.

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85 Weaver Testimony, page 2.

86 Ibid., page 16.

87 Ibid., page 17.

The Commission has some concern with Dr. Weaver's DCF analysis. We believe that the selection and use of the six independent telephone companies does result in an understatement of GenTel's required return on equity. The availability of low-cost federal financing and the mostly rural areas served by these telephone companies does result in these companies having less risk than GenTel.

Mr. Wiggins proposed that the Commission adopt "net profit margin" as the method for determining rate of return. The Commission addressed the net profit margin methodology in its Final Order in Case No. 8467.[88] The Commission remains of the opinion that adopting this methodology would be in neither the customer's or GenTel's best interests. Therefore, the Commission will reject net profit margin as a method for determining cost of equity.

After having considered all of the evidence, including current economic conditions, the Commission is of the opinion that a range of returns on equity of 11.75 to 12.75 percent is fair, just, and reasonable. This range of returns also reflects the conservative nature of GenTel's capital structure. A return on equity in this range would not only allow GenTel to attract capital at reasonable rates to insure continued service and provide for necessary expansion to meet future requirements, but also would result in the lowest reasonable cost to the ratepayers.

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88 Notice of South Central Bell Telephone Company of an Adjustment in its Intrastate Rates and Charges, Final Order dated October 13, 1982, pages 24-26.

A return on common equity of 12.25 percent will allow GenTel to attain the above objective.

Rate of Return Summary

Applying rates of 12.25 percent for common equity, 4.84 percent for preferred stock, 9.61 percent for long-term debt, 5.29 percent for debentures, and 6.91 percent for short-term debt to the capital structure herein produces an overall cost of capital of 10.78 percent. The additional revenue granted will provide a rate of return on net investment of 10.61 percent which the Commission finds is fair, just, and reasonable.

REVENUE REQUIREMENTS

The Commission, based on GenTel's adjusted operations, has determined that GenTel is entitled to increase its rates and charges on an intrastate basis by $2,251,772 determined as follows:

Required Net Operating Income	$34,757,296
Adjusted Net Operating Income	$33,392,078
Deficiency	1,365,218
Retention Factor	.606,826
Required Increase	$2,251,772

INTERIM REVENUE REQUIREMENTS

As discussed in the tax section of this Order, in order to achieve the 40 percent blended rate, the Commission stated that the use of a 46 percent tax rate through June 30, 1987, would be appropriate. The above revenue requirement was determined using the 34 percent tax rate; however, using the 46 percent tax rate additional revenue requirements would be $9,483,372 on an annual basis. All calculations and assumptions in this Order are fully reflected in this figure, the only difference being the tax rate.

These interim rates are set out in Appendix A to this Order and should be charged for service rendered on and after April 16, 1987, through June 30, 1987. Beginning with service rendered on and after July 1, 1987, the rates in Appendix B are the fair, just, and reasonable rates for GenTel to charge.

RATE DESIGN

The Commission concurs with all negotiated agreements concerning rate design as elaborated in the attached settlement agreement, except on the matter of local directory assistance exemptions.

GenTel's current subscriber services tariff allows five local directory assistance exemptions per month and local directory assistance inquiries are billed at 30 cents per chargeable inquiry. GenTel proposed to eliminate local directory assistance exemptions and retain the current rate. The parties to the settlement agreement accepted GenTel's elimination of local directory assistance exemptions and agreed to reduce the local directory assistance charge to 25 cents per chargeable inquiry.

Although the local directory assistance charges are compensatory on a per inquiry basis, the overall provision of local directory assistance requires a subsidy from other services that cannot be eliminated until local directory assistance exemptions are eliminated. Nonetheless, in the opinion of the Commission, a transition from five to zero local directory assistance exemptions is too abrupt and should be accomplished on a more gradual basis. Therefore, the Commission will allow a reduction in local directory assistance exemptions from five to three. Also, a reduction in local directory assistance charge would compound the subsidy problem. Therefore, the Commission will not authorize a reduction in the local directory assistance charge.

Consistent with the revenue requirements discussed in this Order, the rates in Appendix A are designed to produce additional revenue in the amount of $9,483,372 and are effective for service rendered on and after April 16, 1987, through June 30, 1987. The rates in Appendix B are designed to produce additional revenue in the amount of $2,251,772 and are effective for service rendered on and after July 1, 1987.

FINDINGS AND ORDERS

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

1. The rates proposed by GenTel 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 GenTel to charge its customers for telephone service rendered from April 16, 1987, to July 1, 1987.

3. The rates in Appendix B are the fair, just, and reasonable rates for GenTel to charge its customers for telephone service rendered on and after July 1, 1987.

4. The Agreement entered into by GenTel, Commission Staff, the AG, and AT&T should be adopted by the Commission except for the issue of local directory assistance exemptions.

5. AT&T's Motion of February 17, 1987, should be denied.

6. GenTel should continue to evaluate and implement the changes specified in the text of this Order with its Service Corporation and other affiliates to determine cost benefit relationships and to determine the benefit to Kentucky ratepayers.

7. GenTel should provide adequate support for any future increases in allocation of general office expenses to Kentucky operations.

8. GenTel should maintain records on any significant accounting changes. These records should contain any related internal memoranda and applicable Commission or FCC directives.

9. GenTel should file, with the Commission within 60 days of the date of this Order, supporting data for its adjustment resulting from FASB 87.

10. Within 30 days of the date of this Order, GenTel should file its tariff sheets setting out the rates approved herein.

IT IS THEREFORE ORDERED that:

1. The rates and charges proposed by GenTel be and they hereby are denied.

2. The rates in Appendix A be and they hereby are approved as the rates and charges GenTel shall charge its customers for telephone service rendered from April 16, 1987, until July 1, 1987.

3. The rates in Appendix B be and they hereby are approved as the rates and charges GenTel shall charge its customers for service rendered on and after July 1, 1987.

4. The Agreement is hereby adopted by the Commission except for the issue of local directory assistance exemptions.

5. AT&T's Motion of February 17, 1987, be and the same is hereby denied.

6. GenTel shall comply with findings 6 through 10 above as if they were so Ordered.

Done at Frankfort, Kentucky, this 16th day of April, 1987.

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner

ATTEST:

Executive Director

ATTACHMENT A

In the Matter of

AN ADJUSTMENT OF RATES OF GENERAL TELEPHONE COMPANY OF THE SOUTH	))	CASE NO. 9678

In the Matter of

THE EFFECTS OF THE FEDERAL TAX REFORM ACT OF 1986 ON THE RATES OF GENERAL TELEPHONE COMPANY OF THE SOUTH	)))	CASE NO. 9800

AGREEMENT

Comes the following parties and jointly file this Agreement with the Commission for its review:

General Telephone Company of the South (referred to herein as "General" or "Company");

Attorney General of the Commonwealth of Kentucky, by and through his Utility and Rate Intervention Division (referred to as "Attorney General");

AT&T Communications of the South Central States, Inc. (referred to as "AT&T"); and

The Public Service Commission Staff (referred to as "Staff").

Don Wiggins did not participate in the negotiation conferences or this agreement, although he was invited to attend.

This Agreement contains the understandings between and the recommendations of the enumerated parties joining herein. It is the intent and purpose of such parties to express their agreement on a mutually satisfactory resolution of those issues agreed upon herein.

It is understood by all parties hereto that this Agreement is not binding upon the Commission.

ITEMS OF AGREEMENT

Based upon the negotiation conferences the parties herein agree to the enumerated items and recommend to the Commission the following:

1. Test Period. The test year to be used in this case is the 12 months ending June 30, 1986.

2. Rate Design.

a. Exchange Schedule Rate Relationships (Tariff S3)

The business to residence rate ratio will be set at 2.5.

b. Local Exchange Cost of Service (Tariff S3)

The derivation of the monthly local exchange rates will be based on a residually priced methodology and the usage cost of service study filed in this case by the company will not be used as a basis for the pricing of the monthly local exchange rates.

c. Local Exchange Rate Group Consolidation (Tariff S3)

The monthly exchange rate schedule will consolidate current rate groups 1 and 2 as well as 6 and 7. Current rate groups 3, 4, and 5 will be retained. Any further rate group consolidation must be preceded by an exchange cost of service study.

d. <u>Elimination of Local Directory Assistance Exemptions and Call Allowances</u> (Tariff S3)

Local directory exemptions will be eliminated except for the handicapped. Local directory assistance call allowances will be reduced to zero and the charge for local directory assistance calls will be 25¢ per inquiry. Each local directory assistance inquiry will be limited to no more than two requests.

e. <u>Private Line Services and Mileage Pricing</u> (Tariffs S9, S13, S20, and T103)

Private line services and mileage rates will be accepted as filed.

f. <u>Services Charges Pricing</u> (Tariff S4)

Service charges will be accepted as filed and the service charges installment payment period will be increased from two equal installments to three equal installments.

g. <u>Special Pricing of Local Exchange Service</u> (Tariff S5)

The proposal for special pricing of local exchange services will be withdrawn, however, the company reserves the right to file a petition for a generic investigation on the issue.

h. <u>Call Tracing and Repression of Call Tracing Bill Units</u> (Tariff S2)

The historical units will be used for pricing call tracing.

Rules applicable to call tracing will be as follows:

> A $60.00 charge applies for the installation or application of equipment for the purpose of tracing harassing telephone calls to a customer. The Telephone Company shall leave the equipment in place for a period of no more than seven days. Should a harassing call be made during this period, the Telephone Company shall attempt to trace the call and report the results to the person or persons identified by a Court Order or warrant, or as may be directed by a subpoena or law enforcement agency. A Premises Visit Charge as provided for in Section S4 may also be applicable.
>
> Charges are not applicable for tracing requests performed pursuant to a Court Order or warrant. Federal, State and local government agencies shall also be exempt from such charges.

The company will file a revised call tracing price-out exhibit using applicable historical units.

i. <u>Late Payment Penalty</u> (Tariff S2)

The company will withdraw its proposal to apply a minimum late payment charge of $1.00 to unpaid balances of less than $70.00.

A 1-1/2% late payment charge is applicable to outstanding balances in excess of $25.00 after 20 days from the customer's billing cycle date.

The customers in exchanges under the usage sensitive pricing study, as authorized in Case No. 9660, will be exempt from the above-mentioned late payment charge so long as the rates adopted in Case No. 9660 for the usage sensitive study are in effect.

The company will file a revised late payment charge price-out exhibit.

j. <u>Local Operator Services Pricing</u> (Tariff S3)

Local operator services rates will be as filed.

k. "Grandfathering" of 4-Party Service (Tariff S3)

The 4-Party service will be grandfathered.

l. Directory Listings (Tariff S6)

Directory listings rates will be as filed.

m. Coin Telephone Service (Tariff S7)

Adjustments to coin telephone service items of equipment will be as filed. Also, the coin operated customer owned telephone (COCOT) tariff filed in this case will be modified to reflect the company's tariff filing in Administrative Case No. 293.

n. Telephone Answering Service (Tariff S8)

Secretarial line termination charges will be eliminated, as filed.

o. CATV Pole Attachments (Tariff S21)

CATV pole attachment rates will be as filed.

p. Discontinued Local and Foreign Exchange Services (Tariffs S103 and S109)

Joint user service rates will be consistent with exchange rate schedule adjustments approved in this case. Foreign exchange service rates will be as filed.

3. Rate Base.

a. No cash working capital will be included in the rate base.

b. The depreciation reserve will reflect the additional depreciation expense allowed in this case.

c. The Accumulated Deferred Income Taxes shall be calculated as proposed by the witness for the Attorney General.

4. Operating Revenues.

a. Local service revenues will be increased to reflect revenues associated with employee concessions of $272,402.

b. Toll service revenues will be increased by an amount of $95,247.

c. Access service revenues shall be increased by $1,530,701 to reflect the normalized level of access service revenues.

d. The ($47,276) adjustment to access revenues proposed by the Company will be withdrawn.

e. Billing and collection revenues are $2,868,691.

f. Interexchange lease revenues are $4,425,974.

g. Interest during construction ("IDC") will be adjusted to reflect the approved return, net of taxes, on the portion of eligible Construction Work in Progress ($22,589,341) included in rate base.

h. Customer premises equipment revenues will be removed from test year at the level of $9,874,246.

i. Inside wire revenues will be removed from the test year at the level of $785,488.

5. Expenses.

a. Wage and associated payroll taxes and benefit increases occurring within the test year shall be accepted, with the exception of pension benefits and the end of period benefits included in 5(b).

b. Hospital and dental expense increases associated with all wage and salary increases will be excluded in the amount of $379,588. Also, end of period benefits will be reduced by $116,920.

c. The over-accrual of insurance expense of $82,917 will be excluded.

d. Expenses of $4,146,751 associated with inside wire shall be used in the calculation of revenue requirements.

e. Expenses and depreciation of $7,397,398 associated with the adjustment to reflect the removal of customer premises equipment shall be used in the calculation of revenue requirements.

f. An additional reduction in property taxes associated with detariffing of customer premises equipment of $140,927 shall be made.

6. Depreciation Rates

The depreciation rates are as agreed to by the Commission Staff and the Company.

7. Depreciation Expenses.

The depreciation and amortization expense is $36,286,029.

8. Taxes.

a. Investment Tax Credit (ITC) normalization will reflect the new depreciation rates. The increased amortization associated with ITC normalization at the new depreciation rates will be $717,202.

b. The interest expense for the determination of income taxes will be determined by the synchronization of the capital structure to the Kentucky jurisdictional operations as determined by the Commission.

c. An adjustment to the current portion of deferred tax expense to reflect the new depreciation rates shall be made.

Each party requests that this Agreement be admitted into the record.

The Commission Staff will not be subject to cross-examination. Additionally, each party waives all cross-examination of the witnesses of the other parties with respect to the issues agreed to and accepted by the Commission.

Each party hereto agrees that this Agreement is submitted for purposes of this case only and is not deemed binding upon the parties hereto in any other proceeding, nor is it to be offered or relied upon in any other proceeding involving General or any other utility.

For purposes of Commission approval, each item agreed to herein shall be severable.

If the Commission adopts this Agreement in its entirety or any parts thereof, the parties hereto agree that they shall not file an application for rehearing, nor an appeal to the Franklin Circuit Court, upon any matter approved by the Commission and agreed to herein.

All of the parties agree that the foregoing is reasonable and in the public interest, and urge that the Commission adopt this Agreement in its entirety.

AGREED and respectfully submitted this 18th day of February, 1987.

WAYNE L. GOODRUM
on behalf of
GENERAL TELEPHONE COMPANY
OF THE SOUTH

PAMELA JOHNSON
on behalf of
ATTORNEY GENERAL FOR THE
COMMONWEALTH OF KENTUCKY

AMY E. DOUGHERTY
on behalf of
COMMISSION STAFF

JOHN E. SELENT
on behalf of
AT&T COMMUNICATIONS OF THE
SOUTH CENTRAL STATES, INC.

CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing Brief was served, by mail or in person, upon the parties of record as shown on the attached list this 13th day of March, 1987.

Wayne L. Goodrum

Service List

Case No. 9678

Hon. Pamela Johnson
Assistant Attorney General
Utility & Rate Intervention Division
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Frankfort, Kentucky 40601

Hon. Edward W. Gardner
Lexington-Fayette Urban County Government
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APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 9678 DATED APRIL 16, 1987

The following rates and charges are prescribed for the customers in the area served by General Telephone Company of the South, effective April 16, 1987, through June 30, 1987. 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.

GENERAL CUSTOMER SERVICES TARIFF

S2. GENERAL REGULATIONS

S2.3 Establishment And Furnishing Of Service

S2.3.15 Ringer Limitations

a. Deleted

b. The number of ringers directly connected to the line is limited to four per access line in the case of individual and two-party service, two per customer on the case of four party service and one per customer in the case of eight-party service.

S2.3.18 Wire Tap Investigation

a. When, at the request of a customer, a wire tap investigation is made by the Telephone Company, and when no wire tap or trouble condition in Telephone Company equipment or facilities can be found, a $60.00 one time charge for inspection of the facilities and equipment serving the customer may be applicable.

S2.3.19 Tracing of Harassing Calls

A $60.00 charge applied for the installation or application of equipment for the purpose of tracing harassing telephone calls to a customer. The Telephone Company shall leave the equipment in place for a period of no more than seven days. Should a harassing call be made during this period, the Telephone Company shall

S2.3.19 Tracing of Harassing Calls (Continued)

attempt to trace the call and report the results to the proper authorities for legal handling. A Premises Visit Charge as provided for in Section S4 may also be applicable.

Charges are not applicable for tracing requests performed pursuant to a Court Order or warrant. Federal, State and local government agencies shall also be exempt from such charges.

S2.4 **Payment Arrangements and Credit Allowances**

h. A Late Payment Charge of 1.5% is applicable to unpaid balances on customer bills in excess of $25.00 after 20 days from the customer's billing cycle date and will be included in the total amount due on the customer's current bill.*

* Customers in exchanges under usage sensitive pricing study, as authorized in Case No. 9660, will be exempt from the above-mentioned late payment charge so long as the usage sensitive rates adopted in Case No. 9660 for the usage sensitive pricing study are in effect.

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 and PBX access lines of other telephone companies, within the same local calling area.

CLASS AND GRADE OF SERVICE	RATE GROUP 1 0-6,000	RATE GROUP 2 6,001-12,000	RATE GROUP 3 12,001-25,000
BUSINESS			
One-Party Access Line	$28.78	$31.65	$34.80
Two-Party Access Line	24.46	26.90	29.58
Four and Eight Party Access Lines*	20.15	22.15	24.36
PBX Access Line	53.24	58.55	64.38
Semipublic Service	57.56	63.30	69.60
RESIDENCE			
One-Party Access Line	11.51	12.66	13.92
Two-Party Access Lines	9.21	10.13	11.14
Four and Eight Party Access Lines (2)*	8.06	8.86	9.74
	EXCHANGES	EXCHANGES	EXCHANGES
	Albany	Campbellsville	Berea
	Bradsville	Grayson	Burnside
	Bryantsville	Hazard	Cecilia
	Burkesville	Hustonville	Glasgow
	Columbia	Leatherwood	Hodgenville
	Ewing	Leitchfield	Nancy
	Flemingsburg	Morehead	Paint Lick
	Garrison	Olive Hill	Somerset
	Greensburg	Vicco	South Hardin
	Hillsboro		
	Lancaster		
	Lebanon		
	Liberty		
	Loretto		
	Monticello		
	Owingsville		
	Salt Lick		
	Scottsville		
	Sharpsburg		
	Tollesboro		
	Tompkinsville		
	Vanceburg		

CLASS AND GRADE OF SERVICE	RATE GROUP 4 25,001-50,000	RATE GROUP 5 50,001-150,000
BUSINESS		
One-Party Access Line	$38.30	$42.13
Two-Party Access Line	32.56	35.81
Four and Eight Party Access Lines*	26.81	29.49
PBX Access Line	70.86	77.94
Semipublic Service	76.60	84.26
RESIDENCE		
One-Party Access Line	15.32	16.85
Two-Party Access Lines	12.26	13.48
Four and Eight Party Access Lines (2)*	10.72	11.79
	EXCHANGES	EXCHANGES
	Ashland Catlettsburg Elizabethtown Greenup Meads Russell South Shore	Lexington Midway Nicholasville Versailles Wilmore

(2) Four-party residential service is not offered in Zone 1 areas; in Zone 2 and beyond it is limited to existing customers at present locations only.

* 4 and 8-party Zoned Exchange Service is an offering limited to existing customers at present locations only.

S3.4 **Mileage and Zoned Exchange Service**

S3.4.2 **Zoned Exchange Service**

d. Grades of Service

The following grades of service are available under the zone service area application of the Zoned Exchange Service Program:

Zone 1 through 6

One and Two-Party Residence
One-Party Business

e. Rates

(4) The following monthly zone rates will be charged in addition to basic local exchange rates:

Four-Party*

* Offering limited to existing customers at present locations only.

S3.7 **Rotary Line Service**

S3.7.1 **General**

d. Rotary Telephone Numbers may be reserved for future use, subject to the availability of facilities, at the rate shown in Section S3.12.

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.

Rate Group	Business Monthly Rate*	Residence Monthly Rate*
1	$24.46	$ 9.78
2	26.90	10.76
3	29.58	11.83
4	32.56	13.02
5	35.81	14.32

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

S3.8 Local Directory Assistance Service

S3.8.2 Application of Charges and Allowances

a. The charges specified in "Rates", following, will be applicable to all customers, except:

Customers who have been certified by a physician or appropriate agency as unable to use a telephone directory because of a visual or physical handicap.

Customers served by an out of state Directory Assistance Bureau. This exemption shall terminate for each of these areas as facilities and associated operator assistance become available.

b. Chargeable Calls

For charging purposes a call to Local Directory Assistance is defined as a call:

Resulting in obtaining a maximum of two telephone numbers, or

Resulting in obtaining no telephone number because there was no such listing or there was a non-published (private) listing.

c. There will be an allowance of three calls per billable month at no charge for each basic local exchange main telephone, Key or PBX trunk, ETSX telephone, main mobile telephone, and nondormitory main Centrex. For Dormitory Centrex Service, the allowance applies to each dormitory main station number. Call allowances are not transferable between separate accounts, even for the same customer.

d. Any unused portion of the monthly allowance described above will not be credited to the customer's account in any other month service is rendered.

e. A Local Directory Assistance Service Surcharge, as specified in S3.8.3(c), will be applicable to all calls connected to Local Directory assistance by the "0" operator, provided that the "0" operator is not the only source for Local Directory Assistance.

f. There will be a charge for all customer calls to Local Directory Assistance, except as specified in above.

S3.8.3 Rates

		Charge Per Call
a.	Local Directory Assistance Service Charge	$0.30
b.	Local Directory Assistance Service Charge on Sent-Paid Public and Semipublic Telephone Service	0.25
c.	Local Directory Assistance Service Surcharge	0.30

S3.9 Operator Assisted Local Calls and Local Calling Card Service Calls

S3.9.1 Operator Assisted Local Calls

a. A surcharge of $1.00 will apply when the caller requests operator assistance and the call is completed within the local service area. The call may be billed to the originating telephone, credit card, third number, or collect.

b. Application of Charges

(1) The $1.00 surcharge will be applied to each completed call except:

c. A surcharge of $2.00 will apply to all calling card service calls wherein the caller dials both the called number and the calling card service number and the call is completed within the local service area.

S3.9.2 Local Calling Card Service Calls

a. A surcharge of $.50 will apply to all calling card service calls wherein the caller dials both the called number and the calling card service number and the call is completed within the local service area.

S3.13 **Toll Terminals**

S3.13.2 Rates and Charges

a. The rate groupings are the same as those specified in Section S3.2.

Toll Terminals, each

Rate Groups	Installation Charge	Monthly Rate
1 2 3 4	Charges as set forth in Section S4.3 for Business Individual Line Service	Rate as set forth in Section S3.2 as applicable for Business Individual Line Service

S4. SERVICE CHARGES

S4.1 **Definitions**

S4.1.1 Service Charges

a. Network Access Establishment and Change - Applicable for receiving, recording and processing a customer's order for installation, moves or changes. The network access charge varies according to the type of activity involved. When an order for service contains more than one activity, the highest network access charge will apply. Network access charges are classified as network access establishment and network access change.

S4.1.10 Customer Request

The term "Customer Request" as used in conjunction with Service Ordering charges means all work or service ordered by one customer to be performed or provided at the same time on the same premises on the same system. Where both business and residence service is furnished on the same premises, "Customer Request" treatment is applicable separately for each service. When more than one network access charge applies at the same time on the same premises, only one premises visit charge is applicable.

S4.2 General

f. Network Access Charge

(1) Service order activity is classified as establishment of service, change (modification to an existing service) or supersedure. Where both business and residence service is furnished on the same premises, charges are applicable separately for each service.

(2) One initial network access establishment charge is applicable to each order for establishment of service.

(3) One network access change charge is applicable to each order for a move, change (including change in style or type) or additional and the following:

(4) One supersedure network access charge is applicable when service is assumed by a customer prior to discontinuance by another customer and there is no change of telephone number.

(5) Only one network access charge is applicable per customer request for work or service ordered to be provided or performed at the same time, on the same premises on the same system. If an order includes work to be completed at the same time on the same system on different but contiguous premises, and the work is performed by the same person or crew, only one network access charge will apply.

g. Premises Visit Charge

(2) When more than one network access charge applies at the same time at the same premises, only one premises visit charge is applicable if the work is performed by the same person or crew.

h. Central Office Line Connection Work

i Wiring Charge

j. Station Handling Work Charge

k. Each terminal of a tie line, or local private line, and an off-premises station line are treated as an access line for the purpose of applying service charges.

l. Changes in the locations of existing stations or terminations to points outside the customer's premises are considered new installations at the new location.

m. For changing or moving any equipment not covered in this section of the tariff, the charge will be as follows:

n. Service charges do not apply to:

(8) During selected periods of special promotion of Custom Calling or Touch Calling Services, the Network Access Change Charge does not apply to any order on which either or both of these services are being established and for which that charge is the only service charge which would have normally applied on the order. If other work which would have normally required the application of any other service charge(s) is requested on the same order, then all normally applicable charges apply, including the Network Access Change Charge.

S4.3 **Schedule of Charges**

a. Network Access

	Business	Residence
(1) Establishment, each	$24.15	$22.75
(2) Change, each	9.80	9.00
(3) Supersedure, each	24.15	22.75
b. Premises Visit, each	16.10	16.10
c. Central Office Line Connection Work, each	24.60	24.60

S4.6 **Restoration Charge**

In the event service is tempcrarily suspended for non-payment of charges, such service will be restored upon payment of charges due or at the discretion of the Company, a substantial portion thereof, and in addition a restoration charge will apply.

Business	$34.40
Residence	33.65

S4.7 Maintenance of Service Charge

The customer shall be responsible for payment of service charges shown below for each visit by the Telephone Company to the premises of the customer, or authorized user, where the difficulty or trouble report results from the use of equipment or facilities provided by the customer, or authorized user.

(1) First 30 minutes, each premises

Business	$45.60
Residence	45.60

(2) Each additional 30 minutes or fraction thereof, each premises

Business or Residence	$18.95

S4.8 Relocation of Drop or Protector

a. For relocation of the drop and/or protector, requested by the customer, the following charges are applicable:

(1) First 30 minutes, each premises Business or Residence	$45.60
(2) Each additional 30 minutes or fraction thereof, each premises Business or Residence	$18.95

S5. CHARGES APPLICABLE UNDER SPECIAL CONDITIONS

S5.3 Special Service Arrangements

a. Where practicable, special equipment and arrangements, not otherwise provided for in this tariff, are furnished if they are in accord with authorized service offerings and if they are to be used in connection with and not detrimental to any of the service furnished by the Company. Special Service Arrangements may also be furnished in lieu of existing tariff offerings, provided there is reasonable potential for uneconomic bypass of the Company's services.

S6. DIRECTORY LISTINGS

S6.4 **Additional Listings**

a. Additional listings for which a charge is made are furnished subject to Directory Listing regulations.

	Rates
Business	$1.80
Residence	1.20

S6.5 **Alternate Call Number Listings**

c. A charge of $1.80 per month is made for each alternate call number listing.

S6.7 **Non-Published Telephone Numbers**

S6.7.1 **Rate Application**

A monthly rate of $2.90 applies for each non-published telephone number except when provided for the following services:

S7. COIN TELEPHONE SERVICES

S7.2 **Semi-Public Telephone Service**

S7.2.3 **Rates and Charges**

c. The billing for semipublic service is composed of the monthly local rate stated below plus any additional optional services, toll, and applicable taxes.

Installation Charge

In addition to appropriate Network Access, Premises Visit, and Central Office Line Connection charges specified in Section S4.

d. The subscriber is responsible for any Local Directory Assistance Service, charged as shown in Section S3.8.3(b).

S7.3 Booths

S7.3.1 Rates and Charges

	Monthly Rate	Installation Charge
Acoustic Booth	$ 6.10	$190.00
Indoor Acoustic Booth	9.05	48.00
Indoor Shelfette	3.70	48.00
Full Outdoor	30.00	190.00
Indoor Full	21.45	190.00

S7.4 Access Line Service for Customer-Provided Public Telephones

S7.4.2 Rates and Charges Applied by the Company

a. Access line service for customer-provided public telephones is provided at the Business Individual Line Rates as shown in Section S3.2.1.a.

Operator Assistance Charges also apply where appropriate.

S8. TELEPHONE ANSWERING SERVICE FACILITIES

S8.2 Rates and Charges

b. Deleted.

c. Deleted.

d. The monthly rate for Off-premises extension mileage will be applied as shown in Section S13.2. The applicable nonrecurring service charges are reflected in Section S4.3.

S9. FOREIGN EXCHANGE SERVICE AND FOREIGN CENTRAL OFFICE SERVICE

S9.2 **Foreign Central Office Service**

S9.2.2 **Rates**

a. The following charge applies to each circuit furnished in addition to the applicable zone rate for the service desired.

	Monthly Rate
(1) Each quarter mile or fraction thereof, circuit measurement, between the Central Office from which the customer would normally be served and the Foreign Central Office	$2.61
(2) Deleted.	

S13. MISCELLANEOUS SERVICE ARRANGEMENTS

S13.2 **Extension Service Mileage Charges**

S13.2.1 **General**

d. Extension or PBX station lines (except as provided in g. through k.) not located on the same continuous property or in the same building as the main station, private branch exchange switchboard or dial switching equipment and for other circuit extensions of like character, where permitted, an extension line mileage charge of $2.61 per month is made for each quarter-mile (1,320 feet) or fraction thereof circuit measurement.

f. The following rates apply for special line conditioning associated with extension line service, as required.

Line Signaling Unit, each, per month	$ 9.50
Line Transmission Unit, each, per month	$12.00

S20. PRIVATE LINE SERVICE AND CHANNELS

S20.2 Intraexchange Private Line Service

S20.2.1 Local Private Line Service

b. Rates (in addition to all applicable Service Charges)

	Monthly Rate
(1) Channels	
(a) Each quarter mile or fraction (airline measurement)	$2.61
(b) Deleted.	

S20.2.2 Local Private Line Data Service

b. Rates and Charges

	Monthly Rate
(1) Channels	
Each 2-wire Circuit	$17.30
Each 4-wire Circuit	34.60

S20.2.3 Channels for Program Transmission

b. These services are classified as interstate communications; therefore, are furnished in accordance with the rates and regulations set forth in Tariff FCC No. 1 of the GTE Telephone Operating Companies.

S20.2.4 Channel Conditioning Arrangements

	Monthly Rate
a. Type C1 or C2	$20.00
b. Type D1	11.55

S21. CATV POLE ATTACHMENT AND CABLE DUCT ARRANGEMENTS

S21.16 Rates

	Monthly Rate
Per 2-User Pole	$1.01
Per 3-User Pole	.47
Per linear foot of cable duct space occupied	.10

S103. DISCONTINUED BASIC LOCAL EXCHANGE SERVICE

S103.1 Joint User Service

b. Rates

(1) Joint User Service, including one listing in the directory, is furnished at the following monthly rates for each joint user:

b. Deleted

c. Deleted

d. Deleted

S109.1 DISCONTINUED FOREIGN EXCHANGE SERVICE

S109.1 Cross Boundary Foreign Exchange Service

a. General

The rates for Foreign Exchange Service provided from a contiguous or adjacent exchange by means of foreign exchange facilities, are as follows (all distances measured airline):

(1) Business service, monthly rates

	B-1, or P.B.X. Access Line
(a) First half-mile or fraction between customer's location and the circuit junction point on the boundary line of the foreign exchange.	$5.00

Second half-mile or fraction between customer's location and the circuit junction point on the boundary line of the foreign exchange	$5.70

	B-1, or P.B.X. Access Line
Third half-mile or fraction between customer's location and the circuit junction point on the boundary line of the foreign exchange	$6.45
Fourth half-mile or fraction between customer's location and the circuit junction point on the boundary line of the foreign exchange	7.15

(2) Residence service, monthly rates

(a) First half-mile or fraction between customer's location and the circuit junction point on the boundary line of the foreign exchange.

	Rates
R-1	$3.25
R-2	2.55
R-4	2.15

Second half-mile or fraction between customer's location and the circuit junction point on the boundary line of the foreign exchange.

	Rates
R-1	$3.95
R-2	2.85
R-3	Deleted.

Third half-mile or fraction between customer's location and the circuit junction point on the boundary line of the foreign exchange.

	Rates
R-1	$4.70
R-2	3.25
R-4	-

T103. DISCONTINUED PRIVATE BRANCH EXCHANGE SERVICE

T103.7 Optional PBX Equipment

T103.7.9 Tie Line Terminations, PBX and Centrex

	Monthly Rate
Each quarter mile or fraction thereof, circuit measurement between switchboards	$2.61
Each additional quarter mile	Deleted.

The minimum charge for each tie line is $2.61 per month.

Tie Line Termination mileage airline measurement, each quarter	$2.61

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 9678 DATED APRIL 16, 1987.

The following rates and charges are prescribed for the customers in the area served by General Telephone Company of the South, effective on and after July 1, 1987. 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.

GENERAL CUSTOMER SERVICES TARIFF

S2. GENERAL REGULATIONS

S2.3 <u>Establishment And Furnishing Of Service</u>

S2.3.15 Ringer Limitations

a. Deleted

b. The number of ringers directly connected to the line is limited to four per access line in the case of individual and two-party service, two per customer on the case of four party service and one per customer in the case of eight-party service.

S2.3.18 Wire Tap Investigation

a. When, at the request of a customer, a wire tap investigation is made by the Telephone Company, and when no wire tap or trouble condition in Telephone Company equipment or facilities can be found, a $60.00 one time charge for inspection of the facilities and equipment serving the customer may be applicable.

S2.3.19 Tracing of Harassing Calls

A $60.00 charge applied for the installation or application of equipment for the purpose of tracing harassing telephone calls to a customer. The Telephone Company shall leave the equipment in place for a period of no more than seven days. Should a harassing call be made during this period, the Telephone Company shall

S2.3.19 **Tracing of Harassing Calls (Continued)**

attempt to trace the call and report the results to the proper authorities for legal handling. A Premises Visit Charge as provided for in Section S4 may also be applicable.

Charges are not applicable for tracing requests performed pursuant to a Court Order or warrant. Federal, State and local government agencies shall also be exempt from such charges.

S2.4 **Payment Arrangements and Credit Allowances**

h. A Late Payment Charge of 1.5% is applicable to unpaid balances on customer bills in excess of $25.00 after 20 days from the customer's billing cycle date and will be included in the total amount due on the customer's current bill.*

* Customers in exchanges under usage sensitive pricing study, as authorized in Case No. 9660, will be exempt from the above-mentioned late payment charge so long as the usage sensitive rates adopted in Case No. 9660 for the usage sensitive pricing study are in effect.

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 and PBX access lines of other telephone companies, within the same local calling area.

CLASS AND GRADE OF SERVICE	RATE GROUP 1 0-6,000	RATE GROUP 2 6,001-12,000	RATE GROUP 3 12,001-25,000
BUSINESS			
One-Party Access Line	$25.75	$28.33	$31.15
Two-Party Access Line	21.89	24.08	26.48
Four and Eight Party Access Lines*	18.03	19.83	21.81
PBX Access Line	47.64	52.41	57.63
Semipublic Service	51.50	56.66	62.30
RESIDENCE			
One-Party Access Line	10.30	11.33	12.46
Two-Party Access Lines	8.24	9.06	9.97
Four and Eight Party Access Lines (2)*	7.21	7.93	8.72
	EXCHANGES	EXCHANGES	EXCHANGES
	Albany Bradsville Bryantsville Burkesville Columbia Ewing Flemingsburg Garrison Greensburg Hillsboro Lancaster Lebanon Liberty Loretto Monticello Owingsville Salt Lick Scottsville Sharpsburg Tollesboro Tompkinsville Vanceburg	Campbellsville Grayson Hazard Hustonville Leatherwood Leitchfield Morehead Olive Hill Vicco	Berea Burnside Cecilia Glasgow Hodgenville Nancy Paint Lick Somerset South Hardin

CLASS AND GRADE OF SERVICE	RATE GROUP 4 25,001-50,000	RATE GROUP 5 50,001-150,000
BUSINESS		
One-Party Access Line	$34.28	$37.67
Two-Party Access Line	29.14	32.02
Four and Eight Party Access Lines*	23.99	26.37
PBX Access Line	63.42	69.69
Semipublic Service	68.55	75.34
RESIDENCE		
One-Party Access Line	13.71	15.07
Two-Party Access Lines	10.97	12.06
Four and Eight Party Access Lines (2)*	9.60	10.55

	EXCHANGES	EXCHANGES
	Ashland	Lexington
	Catlettsburg	Midway
	Elizabethtown	Nicholasville
	Greenup	Versailles
	Meads	Wilmore
	Russell	
	South Shore	

(2) Four-party residential service is not offered in Zone 1 areas; in Zone 2 and beyond it is limited to existing customers at present locations only.

* 4 and 8-party Zoned Exchange Service is an offering limited to existing customers at present locations only.

S3.4 Mileage and Zoned Exchange Service

S3.4.2 Zoned Exchange Service

d. Grades of Service

The following grades of service are available under the zone service area application of the Zoned Exchange Service Program:

Zone 1 through 6

One and Two-Party Residence
One-Party Business

e. Rates

(4) The following monthly zone rates will be charged in addition to basic local exchange rates:

Four-Party*

* Offering limited to existing customers at present locations only.

S3.7 Rotary Line Service

S3.7.1 General

d. Rotary Telephone Numbers may be reserved for future use, subject to the availability of facilities, at the rate shown in Section S3.12.

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.

Rate Group	Business Monthly Rate*	Residence Monthly Rate*
1	$21.89	$ 8.76
2	24.08	9.63
3	26.48	10.59
4	29.14	11.65
5	32.02	12.81

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

S3.8 Local Directory Assistance Service

S3.8.2 Application of Charges and Allowances

a. The charges specified in "Rates", following, will be applicable to all customers, except:

Customers who have been certified by a physician or appropriate agency as unable to use a telephone directory because of a visual or physical handicap.

Customers served by an out of state Directory Assistance Bureau. This exemption shall terminate for each of these areas as facilities and associated operator assistance become available.

b. Chargeable Calls

For charging purposes a call to Local Directory Assistance is defined as a call:

Resulting in obtaining a maximum of two telephone numbers, or

Resulting in obtaining no telephone number because there was no such listing or there was a non-published (private) listing.

c. There will be an allowance of three calls per billable month at no charge for each basic local exchange main telephone, Key or PBX trunk, ETSX telephone, main mobile telephone, and nondormitory main Centrex. For Dormitory Centrex Service, the allowance applies to each dormitory main station number. Call allowances are not transferable between separate accounts, even for the same customer.

d. Any unused portion of the monthly allowance described above will not be credited to the customer's account in any other month service is rendered.

e. A Local Directory Assistance Service Surcharge, as specified in S3.8.3(c), will be applicable to all calls connected to Local Directory assistance by the "0" operator, provided that the "0" operator is not the only source for Local Directory Assistance.

f. There will be a charge for all customer calls to Local Directory Assistance, except as specified in above.

S3.8.3 Rates

		Charge Per Call
a.	Local Directory Assistance Service Charge	$0.30
b.	Local Directory Assistance Service Charge on Sent-Paid Public and Semipublic Telephone Service	0.25
c.	Local Directory Assistance Service Surcharge	0.30

S3.9 Operator Assisted Local Calls and Local Calling Card Service Calls

S3.9.1 Operator Assisted Local Calls

a. A surcharge of $1.00 will apply when the caller requests operator assistance and the call is completed within the local service area. The call may be billed to the originating telephone, credit card, third number, or collect.

b. Application of Charges

(1) The $1.00 surcharge will be applied to each completed call except:

c. A surcharge of $2.00 will apply to all calling card service calls wherein the caller dials both the called number and the calling card service number and the call is completed within the local service area.

S3.9.2 Local Calling Card Service Calls

a. A surcharge of $.50 will apply to all calling card service calls wherein the caller dials both the called number and the calling card service number and the call is completed within the local service area.

S3.13 Toll Terminals

S3.13.2 Rates and Charges

a. The rate groupings are the same as those specified in Section S3.2.

Toll Terminals, each

Rate Groups	Installation Charge	Monthly Rate
1 2 3 4	Charges as set forth in Section S4.3 for Business Individual Line Service	Rate as set forth in Section S3.2 as applicable for Business Individual Line Service

S4. SERVICE CHARGES

S4.1 Definitions

S4.1.1 Service Charges

a. Network Access Establishment and Change - Applicable for receiving, recording and processing a customer's order for installation, moves or changes. The network access charge varies according to the type of activity involved. When an order for service contains more than one activity, the highest network access charge will apply. Network access charges are classified as network access establishment and network access change.

S4.1.10 Customer Request

The term "Customer Request" as used in conjunction with Service Ordering charges means all work or service ordered by one customer to be performed or provided at the same time on the same premises on the same system. Where both business and residence service is furnished on the same premises, "Customer Request" treatment is applicable separately for each service. When more than one network access charge applies at the same time on the same premises, only one premises visit charge is applicable.

S4.2 **General**

f. Network Access Charge

(1) Service order activity is classified as establishment of service, change (modification to an existing service) or supersedure. Where both business and residence service is furnished on the same premises, charges are applicable separately for each service.

(2) One initial network access establishment charge is applicable to each order for establishment of service.

(3) One network access change charge is applicable to each order for a move, change (including change in style or type) or additional and the following:

(4) One supersedure network access charge is applicable when service is assumed by a customer prior to discontinuance by another customer and there is no change of telephone number.

(5) Only one network access charge is applicable per customer request for work or service ordered to be provided or performed at the same time, on the same premises on the same system. If an order includes work to be completed at the same time on the same system on different but contiguous premises, and the work is performed by the same person or crew, only one network access charge will apply.

g. Premises Visit Charge

(2) When more than one network access charge applies at the same time at the same premises, only one premises visit charge is applicable if the work is performed by the same person or crew.

h. Central Office Line Connection Work

i Wiring Charge

j. Station Handling Work Charge

k. Each terminal of a tie line, or local private line, and an off-premises station line are treated as an access line for the purpose of applying service charges.

l. Changes in the locations of existing stations or terminations to points outside the customer's premises are considered new installations at the new location.

m. For changing or moving any equipment not covered in this section of the tariff, the charge will be as follows:

n. Service charges do not apply to:

(8) During selected periods of special promotion of Custom Calling or Touch Calling Services, the Network Access Change Charge does not apply to any order on which either or both of these services are being established and for which that charge is the only service charge which would have normally applied on the order. If other work which would have normally required the application of any other service charge(s) is requested on the same order, then all normally applicable charges apply, including the Network Access Change Charge.

S4.3 <u>Schedule of Charges</u>

a. Network Access

	Business	Residence
(1) Establishment, each	$24.15	$22.75
(2) Change, each	9.80	9.00
(3) Supersedure, each	24.15	22.75
b. Premises Visit, each	16.10	16.10
c. Central Office Line Connection Work, each	24.60	24.60

S4.6 <u>Restoration Charge</u>

In the event service is temporarily suspended for non-payment of charges, such service will be restored upon payment of charges due or at the discretion of the Company, a substantial portion thereof, and in addition a restoration charge will apply.

Business	$34.40
Residence	33.65

S4.7 Maintenance of Service Charge

The customer shall be responsible for payment of service charges shown below for each visit by the Telephone Company to the premises of the customer, or authorized user, where the difficulty or trouble report results from the use of equipment or facilities provided by the customer, or authorized user.

(1) First 30 minutes, each premises

Business	$45.60
Residence	45.60

(2) Each additional 30 minutes or fraction thereof, each premises

Business or Residence	$18.95

S4.8 Relocation of Drop or Protector

a. For relocation of the drop and/or protector, requested by the customer, the following charges are applicable:

(1)	First 30 minutes, each premises Business or Residence	$45.60
(2)	Each additional 30 minutes or fraction thereof, each premises Business or Residence	$18.95

S5. CHARGES APPLICABLE UNDER SPECIAL CONDITIONS

S5.3 Special Service Arrangements

a. Where practicable, special equipment and arrangements, not otherwise provided for in this tariff, are furnished if they are in accord with authorized service offerings and if they are to be used in connection with and not detrimental to any of the service furnished by the Company. Special Service Arrangements may also be furnished in lieu of existing tariff offerings, provided there is reasonable potential for uneconomic bypass of the Company's services.

S6. DIRECTORY LISTINGS

S6.4 **Additional Listings**

a. Additional listings for which a charge is made are furnished subject to Directory Listing regulations.

	Rates
Business	$1.80
Residence	1.20

S6.5 **Alternate Call Number Listings**

c. A charge of $1.80 per month is made for each alternate call number listing.

S6.7 **Non-Published Telephone Numbers**

S6.7.1 **Rate Application**

A monthly rate of $2.90 applies for each non-published telephone number except when provided for the following services:

S7. COIN TELEPHONE SERVICES

S7.2 **Semi-Public Telephone Service**

S7.2.3 **Rates and Charges**

c. The billing for semipublic service is composed of the monthly local rate stated below plus any additional optional services, toll, and applicable taxes.

Installation Charge

In addition to appropriate Network Access, Premises Visit, and Central Office Line Connection charges specified in Section S4.

d. The subscriber is responsible for any Local Directory Assistance Service, charged as shown in Section S3.8.3(b).

S7.3 Booths

S7.3.1 Rates and Charges

	Monthly Rate	Installation Charge
Acoustic Booth	$ 6.10	$190.00
Indoor Acoustic Booth	9.05	48.00
Indoor Shelfette	3.70	48.00
Full Outdoor	30.00	190.00
Indoor Full	21.45	190.00

S7.4 Access Line Service for Customer-Provided Public Telephones

S7.4.2 Rates and Charges Applied by the Company

a. Access line service for customer-provided public telephones is provided at the Business Individual Line Rates as shown in Section S3.2.1.a.

Operator Assistance Charges also apply where appropriate.

S8. TELEPHONE ANSWERING SERVICE FACILITIES

S8.2 Rates and Charges

b. Deleted.

c. Deleted.

d. The monthly rate for Off-premises extension mileage will be applied as shown in Section S13.2. The applicable nonrecurring service charges are reflected in Section S4.3.

S9. FOREIGN EXCHANGE SERVICE AND FOREIGN CENTRAL OFFICE SERVICE

S9.2 **Foreign Central Office Service**

S9.2.2 **Rates**

a. The following charge applies to each circuit furnished in addition to the applicable zone rate for the service desired.

	Monthly Rate
(1) Each quarter mile or fraction thereof, circuit measurement, between the Central Office from which the customer would normally be served and the Foreign Central Office	$2.61

(2) Deleted.

S13. MISCELLANEOUS SERVICE ARRANGEMENTS

S13.2 **Extension Service Mileage Charges**

S13.2.1 **General**

d. Extension or PBX station lines (except as provided in g. through k.) not located on the same continuous property or in the same building as the main station, private branch exchange switchboard or dial switching equipment and for other circuit extensions of like character, where permitted, an extension line mileage charge of $2.61 per month is made for each quarter-mile (1,320 feet) or fraction thereof circuit measurement.

f. The following rates apply for special line conditioning associated with extension line service, as required.

Line Signaling Unit, each, per month	$ 9.50
Line Transmission Unit, each, per month	$12.00

S20. PRIVATE LINE SERVICE AND CHANNELS

S20.2 <u>Intraexchange Private Line Service</u>

S20.2.1 Local Private Line Service

b. Rates (in addition to all applicable Service Charges)

	Monthly Rate
(1) Channels	
(a) Each quarter mile or fraction (airline measurement)	$2.61
(b) Deleted.	

S20.2.2 Local Private Line Data Service

b. Rates and Charges

	Monthly Rate
(1) Channels	
Each 2-wire Circuit	$17.30
Each 4-wire Circuit	34.60

S20.2.3 Channels for Program Transmission

b. These services are classified as interstate communications; therefore, are furnished in accordance with the rates and regulations set forth in Tariff FCC No. 1 of the GTE Telephone Operating Companies.

S20.2.4 Channel Conditioning Arrangements

	Monthly Rate
a. Type C1 or C2	$20.00
b. Type D1	11.55

S21. CATV POLE ATTACHMENT AND CABLE DUCT ARRANGEMENTS

S21.16 Rates

	Monthly Rate
Per 2-User Pole	$1.01
Per 3-User Pole	.47
Per linear foot of cable duct space occupied	.10

S103. DISCONTINUED BASIC LOCAL EXCHANGE SERVICE

S103.1 Joint User Service

b. Rates

(1) Joint User Service, including one listing in the directory, is furnished at the following monthly rates for each joint user:

b. Deleted

c. Deleted

d. Deleted

S109.1 DISCONTINUED FOREIGN EXCHANGE SERVICE

S109.1 Cross Boundary Foreign Exchange Service

a. General

The rates for Foreign Exchange Service provided from a contiguous or adjacent exchange by means of foreign exchange facilities, are as follows (all distances measured airline):

(1) Business service, monthly rates

	B-1, or P.B.X. Access Line
(a) First half-mile or fraction between customer's location and the circuit junction point on the boundary line of the foreign exchange.	$5.00

Second half-mile or fraction between customer's location and the circuit junction point on the boundary line of the foreign exchange	$5.70

	B-1, or P.B.X. Access Line
Third half-mile or fraction between customer's location and the circuit junction point on the boundary line of the foreign exchange	$6.45
Fourth half-mile or fraction between customer's location and the circuit junction point on the boundary line of the foreign exchange	7.15

(2) Residence service, monthly rates

(a) First half-mile or fraction between customer's location and the circuit junction point on the boundary line of the foreign exchange.

	Rates
R-1	$3.25
R-2	2.55
R-4	2.15

Second half-mile or fraction between customer's location and the circuit junction point on the boundary line of the foreign exchange.

	Rates
R-1	$3.95
R-2	2.85
R-3	Deleted.

Third half-mile or fraction between customer's location and the circuit junction point on the boundary line of the foreign exchange.

	Rates
R-1	$4.70
R-2	3.25
R-4	-

T103.7 Optional PBX Equipment

T103.7.9 Tie Line Terminations, PBX and Centrex

	Monthly Rate
Each quarter mile or fraction thereof, circuit measurement between switchboards	\$2.61
Each additional quarter mile	Deleted.

The minimum charge for each tie line is \$2.61 per month.

Tie Line Termination mileage airline measurement, each quarter	\$2.61