

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF WEST KENTUCKY RURAL)
TELEPHONE COOPERATIVE CORPORATION, INC.)
FOR A CERTIFICATE OF CONVENIENCE AND) CASE NO. 9825
NECESSITY AUTHORIZING IT TO CONSTRUCT)
ADDITIONAL TELEPHONE LINES AND OTHER)
FACILITIES)

INTERIM ORDER

On December 22, 1986, West Kentucky Rural Telephone Cooperative Corporation, Inc., ("WKRTCC") filed its application for a Certificate of Public Convenience and Necessity to construct additional telephone lines and other facilities. Upon review of the application, it was evident that this construction project involved complete replacement of central office equipment as well as extensive replacement of outside plant facilities. The total proposed capital expenditure of this project was \$20,205,826. However, since this amount reflects a construction budget calculated for a loan application to the Rural Electrification Administration ("REA"), items are included which are not relevant to this case. Some of these items will be identified in this Order for clarification.

The application contained detailed information about a proposed master switch to be located in a building addition to the Mayfield business office, a location which has previously had no switching equipment, with digital stand-alone switches in all 18

exchanges. These switches were to be connected to the master switch by a combination of microwave radio and T-Carrier. Based on the information provided, this configuration created concerns, because it seemed more costly than necessary. For instance, the usual approach for digital central office conversion is to use a host-remote cluster arrangement, which involves a host switch in one exchange with dependent, but less expensive, remote switching equipment in surrounding exchanges. According to cost estimates supplied by WKRTCC, a remote switch is \$100,000 less expensive than a stand-alone switch; therefore considerable savings could result from the use of remote switching equipment.

Another major concern was the proposed Mayfield master toll switch and associated microwave equipment. The main purpose of this switch appeared to be for concentrating toll traffic, thereby eliminating the need for some of the existing toll routes. In addition to the expenditures in microwave equipment, this toll configuration requires extra switching and trunking investments. Since it was assumed that the present method for routing toll traffic is adequate, provided that some of the analog routes were upgraded for digital transmission, this expenditure of over \$2 million required further investigation.

On March 6, 1987, an informal conference was held to discuss some of the staff's concerns with representatives for WKRTCC. At the conference, it became apparent that this proposed configuration had long been abandoned and that the design was now greatly altered. Brief descriptions of the new proposal seemed an improvement over the original proposal, since the new design

incorporated a host-remote concept and the planned master toll switch was eliminated. WKRTCC was asked to file a revised application, which was subsequently filed on March 23, 1987. A review of the new proposal revealed that savings were less than expected since the Mayfield master toll switch was simply moved to the Pilsomdale exchange. The savings that should have resulted from the use of remote switching equipment in 14 of the exchanges were partially offset by the increased number of spanlines required to support the remotes.

Additional information was requested by Order dated April 29, 1987, with the response filed on May 14, 1987. Although this response clarified some questions, there are issues which are still unresolved and require further investigation. The most important issue is the planned rearrangement of WKRTCC's toll network and associated expenditures. This was the subject of an informal conference held on June 4, 1987, attended by Commission staff and representatives of the engineering firm representing WKRTCC, Central Associated Engineers, Inc. Additional information has been requested by Order dated June 9, 1987, with responses due by July 15, 1987.

This case was filed unusually late in the planning process. Most of the documentation originally filed was prepared between October 1984 and March 1985, yet was not filed with the Commission until December 1986. Additional delays have occurred since the project has been substantially revised. Although revisions are to be expected in projects of this magnitude, it should be noted that the revised design was prepared in May 1985, well before the

December 1986 filing date. A considerable amount of time had been spent reviewing the erroneously filed data, and as previously mentioned, further investigation on some issues is still required. However, due to the filing delays, this investigation cannot be completed before construction is scheduled to begin. Some of this construction is urgently required and is unrelated to the toll rearrangement issue. Therefore, the Commission is of the opinion that approval should be given for items that do not require further investigation. In addition, because the filing is basically a copy of the REA loan application, some items are included that are not relevant to this case and therefore some clarification would be useful to insure an understanding of which items are still pending investigation.

WKRTCC plans to invest \$3,524,785 for replacing buried cable. Existing cable is air-core and has been the source of significant maintenance problems. Detailed plans were filed for the Folsomdale exchange, with costs for the other exchanges estimated using data from Folsomdale. The total amount for Folsomdale of approximately \$209,000 was used to obtain average costs per modified mile, per new subscriber, and per 5-year projection subscriber. These averages were then applied to each exchange and averaged together to obtain an estimated replacement cost for that exchange. Estimates obtained in this manner cannot be expected to have a high degree of accuracy. However, detailed studies will be performed prior to beginning construction. Therefore, the Commission will authorize this replacement of buried cable, provided that a summary of the detailed study for each exchange be

filed as soon as this information is available and prior to beginning construction.

Several items were included in the application which do not require certification. These include routine investments in station drops and protectors, vehicles and work equipment, furniture and office equipment, station equipment, and station connections. The individual amounts involved do not indicate that any extraordinary activity is occurring and WKRTCC is expected to make sound management decisions concerning these investments.

The financial data supplied assumes significant amortization of removed plant. However, any such amortization will require specific Commission approval and should be applied for when exact details are known. The application does not request approval for amortization and is not being considered in this case.

The application includes a contingency amount of \$1,020,628 which is allocated to the various accounts. However, this amount appears to be derived for the purpose of keeping the REA loan amount constant after revisions have been made. This amount is not being considered as a cost of construction.

FINDINGS AND ORDERS

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

1. Public convenience and necessity require that the replacement of buried cable as proposed in the application be performed and that a Certificate of Public Convenience and Necessity be granted for this purpose.

2. A summary of the detailed study for each exchange should

be filed as soon as this information is available and prior to beginning construction.

IT IS THEREFORE ORDERED that:

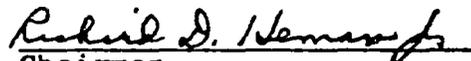
1. WKRTCC be and it hereby is granted a Certificate of Public Convenience and Necessity to proceed with the buried cable replacements as proposed in its application.

2. WKRTCC shall file a summary of the detailed study for each exchange as soon as this information is available and prior to beginning construction.

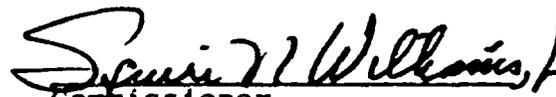
3. Nothing in this Order shall preclude the Commission from issuing further Orders in this matter.

Done at Frankfort, Kentucky, this 19th day of June, 1987.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director