

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

DEPRECIATION RATES AND THE )  
AMORTIZATION OF THE DEPRECIATION )  
RESERVE DEFICIENCY OF SOUTH ) CASE NO. 9923  
CENTRAL BELL TELEPHONE COMPANY )

O R D E R

On December 11, 1986, South Central Bell Telephone Company ("SCB") filed with the Commission its 1987 Depreciation Rate Study ("Study") for its Kentucky operations. The Study addressed proposed changes in service life and salvage value for each of SCB's plant accounts, as well as applicable depreciation curve shapes. Additionally, SCB proposed a 60-month special amortization of depreciation reserve deficiency which SCB claimed to exist, based upon the proposed parameters. SCB proposed a composite rate of 8.3 percent, and an increase in annual accrual for depreciation of \$19,753,000. Additionally, the special amortization would amount to an additional \$34,269,000 per year for each of the five years, for a total annual increase of \$54,022,000. SCB subsequently filed information indicating that without the special amortization, the proposed composite rate would be 9.5 percent, with a 1987 change in annual accruals of \$37,988,000.

In addition to its filing with this Commission, SCB also filed its Study with the Federal Communications Commission ("FCC"), which has jurisdiction over SCB's interstate facilities,

as well as with each of the other four states served by SCB. This is a process which is traditionally followed by telephone utilities operating under the joint jurisdiction of this Commission and the FCC. Following review by the Commission staff, and separately by the FCC staff, a "three-way" meeting is conducted at which time the three parties attempt to reach agreement concerning mutually acceptable depreciation parameters.

On February 27, 1987, the Commission staff completed its review and analysis of the Study, and forwarded to SCB and the FCC its proposal for depreciation parameters for each plant account. The staff's proposal would result in a composite depreciation rate of 6.7 percent and an annual change in accrual for depreciation of negative \$3,796,000 in 1987, without any special amortization.

The three-way meeting took place in Atlanta, Georgia, on March 8-11, 1987. At that time, agreement was reached with SCB and the FCC staff concerning the service life, salvage, and appropriate curve shape for each of SCB's plant accounts. The proposed amortization was briefly discussed at the meeting, but the Commission staff took no position on this issue.

On April 27, 1987, SCB formally filed for Commission approval of the agreed parameters, as well as the special amortization, to be effective July 1, 1987. A letter was sent to all parties of record in SCB's last rate case, Case No. 9160,<sup>1</sup> inviting comment

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<sup>1</sup> Petition of South Central Bell Telephone Company to Change and Increase Certain Rates Charges for Intrastate Telephone Service.

and/or participation. Those parties responding, and receiving intervenor status, are the Attorney General of the Commonwealth of Kentucky, by and through the Utility and Rate Intervention Division; MCI Telecommunications Corporation; AT&T Communications of the South Central States, Inc; and the Secretary of the Army on behalf of the Department of Defense.

#### DISCUSSION

At the three-way meeting, the Commission staff agreed to parameters which would produce a composite depreciation rate of 7.5 percent, and an annual increase in accrual for depreciation of \$8,684,000, without an amortization, on a combined inter- and intra-state basis. If the special amortization were approved, the composite rate would be 7.2 percent, with an annual accrual change of \$3,712,000 plus an amortization of \$15,047,000 per year for five years, for a total annual increase of \$18,759,000, on a combined basis. The Kentucky intrastate operations would be responsible for 76.80 percent of the total.

Although no request has been made in this case for any changes in customer rates because of the changes in depreciation parameters, it is obvious that approval of SCB's request, with or without amortization, will have an impact upon the overall financial condition of the utility. It is also obvious that approval of the parameters with an amortization will have the greater financial impact.

Concurrent with this Order, the Commission is establishing Case No. 10105 to initiate a formal investigation of SCB's financial condition and overall revenue requirements. As part of that

investigation, the revenue impact of the proposed depreciation changes, including the impact of the proposed amortization, will be reviewed. The Commission has determined that the proposal for the special amortization should be incorporated into that investigation.

However, the Commission has also determined that the depreciation parameters agreed upon at the three-way meeting should be approved. Although three parties have requested intervention in this case, no party has presented any comments relative to the proposed depreciation parameters concerning life, salvage, and appropriate curve shape for each of SCB's plant accounts.

SCB asked for an effective booking date of July 1, 1987, for the revised depreciation rates. The Commission will approve this booking date in the instant matter. However, because the rates are applicable to SCB's investment as of December 31, 1986, the Commission reserves the right in the investigation in Case No. to order an earlier effective date, which would be between January 1, 1987, and June 1, 1987.

#### FINDINGS AND ORDER

The Commission, having considered this matter, and being advised, is of the opinion and finds that:

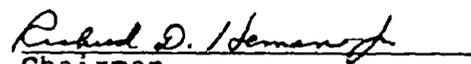
1. The proposed depreciation parameters, attached as Appendix A to this Order, are fair, just, and reasonable and should be approved, effective July 1, 1987;
2. Subject to the investigation in Case No. 10105, the effective booking date should be subject to change to a date between January 1, 1987, and June 1, 1987; and

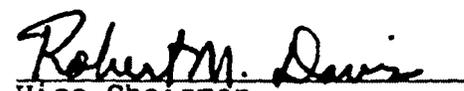
3. SCB's request for a special amortization of its alleged depreciation reserve deficiency should be incorporated into Case No. 10105, and considered in that investigation.

Accordingly, each of the above findings is HEREBY ORDERED.

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

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

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Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE  
COMMISSION IN CASE NO. 9923, DATED 12/16/87

SOUTH CENTRAL BELL TELEPHONE COMPANY

DEPRECIATION RATES AND PARAMETERS  
EFFECTIVE ON AND AFTER JULY 1, 1987

1987  
CURVE SHAPE PARAMETER OUTPUT REPORT

CATEGORY	FIRST E.L.S. YEAR	P.L. OR AYFR	AVG. NET SALV.	FUTURE NET SALV.	CURVE SHAPE PARAMETERS			COMMENTS
					C	D	S	
212			3.0	3.0				
BUILDINGS - HEADQUARTERS	1984	57.0	3.0	3.0	BELL CURVE @ 3.0			
BUILDINGS - MAJOR EQUIPMENT	1984	57.0	3.0	3.0	BELL CURVE @ 3.0			
BUILDINGS - OTHER	1984	31.0	3.0	3.0	BELL CURVE @ 2.5			
221 STEP BY STEP			-2.0	-4.0				
LARGE STEP-BY-STEP C.O.E.	0	1987.9	1.0	-4.0	9.9000000E-01	8.8775435E-02	-1.6379332E-03	
SMALL STEP-BY-STEP C.O.E.	0	1988.5	-3.0	-4.0	7.3000000E-01	-1.5414132E-02	-4.6814330E-03	
221 CROSSBAR C.O.E.	0	1988.2	4.0	-3.0	9.7000000E-01	-2.3299882E-01	-7.7557479E-03	
221 CIRCUIT C.O.E.-HOW DGS	1983	12.0	9.0	4.0	8.6000000E-01	-3.1120599E-01	-5.0068151E-02	
221 CIRCUIT C.O.E.-DGS	1983	8.0	24.0	10.0	8.6000000E-01	-3.1120599E-01	-5.0068151E-02	
221 RADIO C.O.E.	1983	16.0	-8.0	-9.0	1.0100000E+00	-1.2205078E+01	1.2016254E-01	
221 ELECTRONIC C.O.E.- ANALOG	1983	16.0	9.0	6.0	1.2911331E+00	-2.8887284E-02	-2.4888478E-03	
231 ELECTRONIC C.O.E.- DIGITAL	1983	20.0	3.0	3.0	1.2911331E+00	-2.8887284E-02	-2.4888478E-03	
231 STA. APP.-TELETYPEWRITER	0		0.0	0.0	1.2546053E+00	-9.8332853E-02	2.2298195E-02	SL only prescribed.
231 STA. APP.-TEL. & RISC.	0		9.0	4.0	1.1680761E+00	-9.7781038E-02	1.3389381E-04	" " "
234 LARGE PRX-HOW ELECTRONIC	0		0.0	-4.0	1.0195406E+00	-4.4872198E+00	5.8590832E-02	" " "
234 LARGE PRX-DGS	0		2.0	2.0	1.0368404E+00	-9.3184685E+00	1.2698571E-01	" " "
235 PUBLIC TEL. EQUIPMENT	1987	7.0	32.0	20.0	BELL CURVE @ 2.5			
241 POLE LINES	1982	30.0	-54.0	-61.0	1.0100000E+00	-3.8786324E+00	3.8414647E-02	
242 AERIAL CA-EXCH-METALLIC	1982	23.0	-9.0	-10.0	1.0800000E+00	-3.9528944E-02	1.1561901E-03	
242 AERIAL CA-EXCH-FIBER	1984	30.0	-13.0	-13.0	1.0800000E+00	-3.9528944E-02	1.1561901E-03	
242 AERIAL CA-TOLL-METALLIC	1982	15.0	24.0	25.0	1.0400000E+00	-2.3389092E-01	9.5056830E-03	
242 AERIAL CA-TOLL-FIBER	1984	30.0	-13.0	-13.0	1.0400000E+00	-2.3389092E-01	9.5056830E-03	
242 U.G. CA-EXCH-METALLIC	1982	20.0	-20.0	-20.0	1.0400000E+00	-6.8947702E-02	1.4354491E-03	
242 U.G. CA-EXCH-FIBER	1984	30.0	-7.0	-7.0	1.0400000E+00	-6.8947702E-02	1.4354491E-03	
242 U.G. CA-TOLL-METALLIC	1982	15.0	-3.0	-3.0	9.6000000E-01	-4.0228086E-01	-1.7508138E-02	
242 U.G. CA-TOLL-FIBER	1984	30.0	-7.0	-7.0	9.6000000E-01	-4.0228086E-01	-1.7508138E-02	
242 BURIED CA-EXCH-METALLIC	1982	24.0	-14.0	-15.0	1.0500000E+00	-1.9635121E-01	9.2872302E-03	
242 BURIED CA-EXCH-FIBER	1984	30.0	-4.0	-4.0	1.0500000E+00	-1.9635121E-01	9.2872302E-03	
242 BURIED CA-TOLL-METALLIC	1982	15.0	-1.0	-1.0	8.0000000E-01	-8.9294262E-02	-9.9269014E-03	
242 BURIED CA-TOLL-FIBER	1984	30.0	-3.0	-3.0	8.0000000E-01	-8.9294262E-02	-9.9269014E-03	
242 SUBMARINE CABLE	1982	25.0	0.0	0.0	1.0300000E+00	-3.2197955E-01	5.3283969E-03	
243 AERIAL WIRE	1984	19.0	-42.0	-47.0	1.0100000E+00	-9.9889198E+00	8.0769330E-02	
244 UNDERGROUND CONDUIT	1982	65.0	-3.0	-3.0	1.0900000E+00	-1.2352308E-02	-9.3246178E-04	
261 FURNITURE	1984	14.0	9.0	10.0	5.3000000E-01	-1.4229395E-01	-3.1675632E-02	
261 COMPUTERS	1984	7.0	3.0	5.0	1.1700000E+00	-1.3723301E-02	1.7863391E-03	
262 OTHER COMM. EQUIPMENT	1987	6.5	40.0	30.0	BELL CURVE @ 2.0			
264 MOTOR VEHICLES			19.0	19.0				
MOTOR VEHICLES-LIGHT	1984	6.5	19.0	19.0	1.7400000E+00	-1.1167708E-02	2.4093491E-02	
MOTOR VEHICLES-OTHER	1984	8.5	19.0	19.0	2.6100000E+00	-1.1487445E-04	1.1811229E-03	
264 TOOLS AND WORK EQUIPMENT	1984	17.0	7.0	3.0	1.0300000E+00	-1.4817396E+00	2.7027591E-02	

11-Mar-87 THREE-MAY MEETING RESULTS  
 1 NO AMORT Using Interstate Filing Parameters

COMPANY : SOUTH CENTRAL BELL TEL. CO.  
 STATE : KENTUCKY

STATEMENT A (WG/ELG - RL, NO AMORT)

SUMMARY OF CHANGES IN DEPRECIATION RATES  
 ANNUAL PERCENTAGE RATES OF DEPRECIATION

ACCOUNT NUMBER	CLASS OR SUBCLASS OF PLANT	DEPRECIATION RATES IN EFFECT 12-31-86			DEPRECIATION RATES EFFECTIVE 1987 INVESTMENT AND SALVAGE RECOVERY - ALL VINTAGES			
		WG INVEST. RATE	ELG INVEST. RATE	SALV. RATE	AVERAGE REMAINING LIFE	BOOK RESERVE	FUTURE NET SALVAGE	DEPR RATE
		X	X	X		X	X	X
		A	B	C	D	E	F	G=(100-E-F)/D
212	BUILDINGS	2.4	4.3	0.0	28.0	18.1	3.0	2.8
221	CENTRAL OFFICE EQPT							
	STEP BY STEP	10.0	0.0	-1.3	1.9	58.8	-4.0	23.8
	CROSSBAR	15.9	0.0	-1.5	1.7	50.4	-3.0	30.9
	CIRCUIT-NON DDS	7.9	16.8	-1.0	7.1	30.3	4.0	9.3
	CIRCUIT-DDS	9.1	13.2	-0.1	4.2	14.8	10.0	17.9
	RADIO	6.1	9.6	0.3	9.9	31.0	-9.0	7.8
	ELECTRONIC-ANALOG	5.4	8.1	-0.3	10.3	15.3	6.0	7.6
	ELECTRONIC-DIGITAL	5.4	8.1	-0.3	12.7	7.1	3.0	7.1
231	STATION APPARATUS							
	TELETYPE	14.9	-	-	0.0	172.4	0.0	0.0
	TELE. & MISC.	10.7	-	-	7.1	69.0	4.0	3.8
234	LARGE FXK							
	OTHER	30.3	-	-	3.0	61.2	-4.0	14.3
	DDS	17.2	-	-	5.5	35.4	2.0	11.2
235	PUBLIC TELEPHONE	10.7	0.0	0.0	3.5	51.0	20.0	6.3
241	POLES	3.6	8.3	2.3	18.9	34.8	-61.0	6.7
242.1	AERIAL CABLE							
	EXCH METALLIC	5.4	7.5	0.2	14.7	32.1	-10.0	5.3
	EXCH FIBER	5.4	7.5	0.2	19.7	10.2	-13.0	5.2
	TOLL METALLIC	5.2	7.8	-1.6	7.4	24.1	25.0	6.9
	TOLL FIBER	5.2	7.9	-1.6	20.0	5.6	-13.0	5.4
242.2	UNDERGROUND CABLE							
	EXCH METALLIC	3.5	6.5	-0.1	18.8	20.1	-20.0	5.3
	EXCH FIBER	3.5	6.5	-0.1	18.1	10.4	-7.0	5.1
	TOLL METALLIC	4.3	6.7	-0.7	8.6	4.7	-3.0	10.2
	TOLL FIBER	4.3	6.7	-0.7	14.8	6.5	-7.0	6.8
242.3	BURIED CABLE							
	EXCH METALLIC	4.8	5.8	0.2	15.9	20.5	-15.0	5.9
	EXCH FIBER	4.8	5.8	0.2	21.0	7.7	-6.0	4.7
	TOLL METALLIC	4.3	6.9	0.0	11.7	27.0	-1.0	6.3
	TOLL FIBER	4.3	6.9	0.0	15.9	3.2	-3.0	6.3
242.4	SUBMARINE CABLE	3.2	7.9	0.0	18.5	30.2	0.0	3.8
243	AERIAL WIRE	8.8	21.7	3.0	12.5	62.8	-67.0	8.3
244	UNDERGROUND CONDUIT	1.5	2.5	0.1	52.0	18.5	-5.0	1.7
261	FURN & OFC EQPT							
	FURNITURE	7.8	8.8	-0.3	9.7	20.6	10.0	7.2
	COMPUTER	14.3	17.5	0.0	4.4	40.6	5.0	12.4
	ARTWORK	0.0	-	-	-	-	-	0
262	OTHER COMM EQPT	13.4	0.0	0.0	5.2	21.7	30.0	7.4
264	VEH & OTH WORK EQPT							
	MOTOR VEHICLES	13.8	13.5	-1.5	3.4	38.1	19.0	12.8
	OTHER WORK EQPT	5.8	15.9	-1.0	11.7	21.8	3.0	6.4
	TOTAL/COMPOSITE	(12-31-86 COMPOSITE 6.9 )				26.3		7.5

⊕ PRESCRIBED APRIL 1, 1984

CHANGE IN ANNUAL DEPRECIATION ACCRUALS  
 RESULTING FROM CHANGES IN DEPRECIATION RATES  
 (\$000)

ACCOUNT NUMBER	CLASS OR SUBCLASS OF PLANT	INVESTMENT 1-1-87			ANNUAL DEPRECIATION ACCRUALS		
		NON-ELG VINTAGES	ELG VINTAGES	TOTAL	RATES IN EFFECT 12-31-86 ALL VINT.	RATES EFFECTIVE 1987 ALL VINT.	CHANGE IN ANNUAL ACCRUALS
		H	I	J-H+I	K	L-JxG	M-L-K
212	BUILDINGS	105216	10205	115421	2904	3232	268
221	CENTRAL OFFICE EQPT						
	STEP BY STEP	40130	0	40130	3652	9551	5699
	CROSSBAR	43684	0	43684	6290	13498	7208
	CIRCUIT-NON DOS	118959	97954	216913	23783	20173	-3610
	CIRCUIT-DOS	548	1585	2133	257	382	125
	RADIO	12267	8773	21040	1854	1662	8
	ELECTRONIC-ANALOG	126743	46803	173546	10115	13189	3074
	ELECTRONIC-DIGITAL	351	43123	43474	3381	3087	-294
231	STATION APPARATUS						
	TELETYPE	135	0	135	20	0	-20
	TELE. & MISC.	3692	0	3692	395	140	-255
234	LARGE PRK						
	OTHER	3537	0	3537	1072	506	-566
	DOS	342	0	342	59	38	-21
235	PUBLIC TELEPHONE	13007	0	13007	1392	1080	-312
241	POLES	39663	27119	66782	5294	4474	-820
242.1	AERIAL CABLE						
	EXCH METALLIC	177910	82646	260556	16327	13809	-2518
	EXCH FIBER	0	1770	1770	138	82	-44
	TOLL METALLIC	3463	798	4261	175	294	119
	TOLL FIBER	0	7910	7910	498	427	-71
242.2	UNDERGROUND CABLE						
	EXCH METALLIC	79054	19101	98155	3910	5202	1292
	EXCH FIBER	0	3059	3059	196	156	-40
	TOLL METALLIC	1802	279	2081	82	212	130
	TOLL FIBER	0	2305	2305	138	157	19
242.3	BURIED CABLE						
	EXCH METALLIC	163695	39756	223453	11934	13184	1250
	EXCH FIBER	0	273	273	18	13	-3
	TOLL METALLIC	7017	406	7423	330	468	138
	TOLL FIBER	0	2625	2625	181	165	-16
242.4	SUBMARINE CABLE	120	13	133	5	3	0
243	AERIAL WIRE	7822	2282	9904	1463	822	-641
244	UNDERGROUND CONDUIT	69565	10629	80214	1390	1364	-26
281	FURN & OPC EQPT						
	FURNITURE	8311	1479	7790	605	561	-44
	COMPUTER	5095	6448	11543	1857	1431	-426
	ARTWORK	1	0	1	0	0	0
262	OTHER COMM EQPT	15898	0	15898	2130	1176	-954
264	VEH & OTH WORK EQPT						
	MOTOR VEHICLES	14543	6960	21503	2624	2709	85
	OTHER WORK EQPT	10172	2737	12909	876	828	-50
	TOTAL/COMPOSITE	1070362	447040	1517602	105401	114085	8684

SUMMARY OF RESERVES  
BY  
DEPRECIATION RATE CATEGORY  
1-1-87  
(\$)

ACCOUNT NUMBER	CLASS OR SUBCLASS OF PLANT	BOOK COST	BOOK DEPRECIATION RESERVE	
			AMOUNT	PERCENT
			A	B C=B/A
212	BUILDINGS	115421408	20941921	18.1
221	CENTRAL OFFICE EQPT			
	STEP BY STEP	40129605	23579394	58.8
	CROSSBAR	43684221	21997647	50.4
	CIRCUIT-NOW DDS	216913105	65827909	30.3
	CIRCUIT-DDS	2132847	316438	14.8
	RADIO	21040141	6524002	31.0
	ELECTRONIC-ANALOG	173546491	26884089	15.5
	ELECTRONIC-DIGITAL	43473509	3084204	7.1
231	STATION APPARATUS			
	TELETYPE	134328	231964	172.4
	TELE. & MISC.	3691570	2345469	69.0
234	LARGE PRX			
	OTHER	3536636	2164977	61.2
	DDS	341695	124231	36.4
239	PUBLIC TELEPHONE	13006961	6634318	51.0
241	POLES	66782012	23247969	34.8
242.1	AERIAL CABLE			
	EXCH METALLIC	260555822	83692682	32.1
	EXCH FIBER	1769745	180763	10.2
	TOLL METALLIC	4260790	1028201	24.1
	TOLL FIBER	7910001	459880	5.8
242.2	UNDERGROUND CABLE			
	EXCH METALLIC	98155104	19742632	20.1
	EXCH FIBER	3058630	316932	10.4
	TOLL METALLIC	2080895	97072	4.7
	TOLL FIBER	2305255	149997	6.5
242.3	BURIED CABLE			
	EXCH METALLIC	223453075	45807408	20.5
	EXCH FIBER	273412	21176	7.7
	TOLL METALLIC	7422585	2002127	27.0
	TOLL FIBER	2625378	84428	3.2
242.4	SUBMARINE CABLE	133305	40280	30.2
243	AERIAL WIRE	9904484	6227842	62.8
244	UNDERGROUND CONDUIT	80214253	13209820	16.5
261	FURN & OFC EQPT			
	FURNITURE	7790158	1608419	20.6
	COMPUTER	11543348	4689299	40.6
	ARTWORK	1133	0	0.0
262	OTHER COMM EQPT	15897556	5045902	31.7
264	VEH & OTH WORK EQPT			
	MOTOR VEHICLES	21503297	8202236	38.1
	OTHER WORK EQPT	12909339	2828116	21.9
	TOTAL/COMPOSITE	1517602316	399532744	26.3