

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION INTO THE DIVERSIFICATION)
OF RURAL ELECTRIC COOPERATIVE CORPORATIONS) ADMINISTRATIVE
INTO THE SATELLITE-DELIVERED TELEVISION) CASE NO. 326
PROGRAMMING SERVICES)

O R D E R

Through inquiries of Rural Electric Cooperative Corporations ("RECCs") in recent rate case proceedings, it has come to the attention of the Commission that RECCs have become involved to varying degrees in the distribution and sale of satellite-delivered television programming services and equipment. In order to better understand the impact of this diversification on utility operations and to evaluate the extent of Public Service Commission review and oversight of this area, the Commission is opening an administrative proceeding in which all RECCs and interested parties in Kentucky shall participate. The initial phase of this proceeding will be a survey of all RECCs which is attached as Appendix A to this Order. Following a review of the initial data response, the Commission will determine the scope of this investigation and establish a procedural schedule to obtain testimony and/or additional information as needed and issue its decision. The response to the initial data request should be supplied by January 31, 1989. All Kentucky Public Service Commission jurisdictional RECCs will be made a party to these proceedings. Any

other parties wishing to participate in these proceedings should file for intervention pursuant to 807 KAR 5:001, Section 3,(8).

IT IS THEREFORE ORDERED that:

1. This case be and it hereby is established to investigate RECCs' diversification into satellite-delivered television programming services and equipment sales.

2. All RECCs shall file a response to the questions contained in Appendix A to this Order by January 31, 1989.

Done at Frankfort, Kentucky, this 28th day of December, 1988.

PUBLIC SERVICE COMMISSION

Chairman

Robert M. Davis

Vice Chairman

Spencer N. Williams

Commissioner

ATTEST:

Executive Director

APPENDIX A
APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN ADMINISTRATIVE CASE NO. 326 DATED DECEMBER 28, 1988

1. Concerning the issue of diversification into satellite-delivered television programming services, sale of satellite or descrambling equipment and/or other related activities, provide a detailed narrative discussion of the extent of the cooperative's involvement to date.

2. Concerning an organization known as the National Rural Telecommunications Cooperative ("NRTC"):

a. Has RECC joined the NRTC? When?

b. What is the total investment of RECC in NRTC?

c. Identify each employee, officer, or director of RECC who is associated with the activities of NRTC. Identify any position within NRTC these people hold.

d. Explain how membership in NRTC and the associated investment has been accounted for.

e. Provide a detailed analysis of any costs incurred by the cooperative from the initial inception of NRTC through December 31, 1988 as a result of its relationship and/or involvement in this organization.

f. Provide any additional information concerning the extent of cooperative's involvement in this organization.

3. Concerning the potential interest in satellite television programming services in the service area:

a. Has RECC surveyed its customers about their interest in satellite television programming services?

b. Indicate how many surveys were sent out, how many responses were received, and a tabulation of the responses concerning the satellite television programming service questions.

c. Identify any costs related to the survey(s) and indicate how these costs were accounted for.

d. Provide copies of any reports prepared in summary of the results of the survey and/or for recommendations to the members or board of directors regarding the market for these services.

4. Please provide the name, business address, and extent of cooperative involvement in any business other than the NRTC which RECC has joined or anticipates joining in connection with satellite television programming services. For each entity contained in this response, provide the information contained in Question No. 2(a-f) above.

5. Provide a thorough discussion and any supporting information available of how RECC plans to identify receipts and expenses associated with satellite television programming services.

6. Provide a thorough discussion including account titles and descriptions of how the investment, revenues, and expenses for satellite television programming services will be accounted for.

7. Provide copies of any studies or reports prepared for the purpose of determining whether or not the cooperative should become involved in provision of the services or sales addressed in this proceeding.

8. In May 1988, three distribution cooperatives formed Kentucky Telecommunications, Inc. ("KTI").

a. Is RECC aware of KTI?

b. Has RECC joined KTI? When?

c. How would RECC propose to account for its membership in KTI?

d. How would RECC propose to account for any subsequent expenses related to KTI?

9. Provide copies of excerpts of Board of Directors' meeting minutes where any of the activities identified in Question Nos. 1 through 8 were discussed or approved.

10. Provide a thorough analysis of all costs incurred to date by the cooperative, not identified in response to the above questions, but related to research, development, planning or other involvement in satellite television program services.

11. Provide copies of any accounting or operations bulletins, memoranda, or other correspondence from REA addressing the accounting treatment or any other aspect of diversified activities.

12. Provide copies of any provisions of the cooperative's bylaws and/or articles of incorporation which specifically permit or prohibit cooperative involvement in diversified activities or investment in affiliated or non-affiliated business ventures.

Identify any conditions on such activity and the steps taken by the cooperative to comply with these provisions.

13. Provide any information you deem appropriate to reflect your cooperative's position on the following issues:

a. The need for Commission approval, or prior review, of plans to provide satellite-delivered programming services and sales.

b. The need for changes in the accounting system to provide for the allocation of costs of non-utility activities that utilize cooperative resources.

c. The need for RECCs to provide periodic reports of diversification activities.

d. The need for Commission approval or review of contracts with affiliated companies.

e. The need for Commission access to financial and other information of non-utility subsidiaries and affiliated companies.

f. The liability of cooperative ratepayers for costs associated with non-utility activities.

g. The liability of ratepayers for losses associated with non-utility activities.

h. The receipt by ratepayers of the benefit of income produced by non-utility activities.