COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION INTO THE REASONABLENESS OF THE EARNINGS OF BRANDENBURG TELEPHONE COMPANY, INC.	) CASE NO. 9859

O R D E R

On March 3, 1987, the Commission initiated this investigation into the possible overearning of Brandenburg Telephone Company ("BTC"). On January 15, 1988, Staff issued a Report recommending that the Commission reduce BTC's annual revenues by $1,375,000. On June 10, 1988, BTC filed its response to the Staff Report and on June 28, 1988, BTC filed direct testimony. No one requested intervention in this case.

On July 22, 1988, BTC and Staff met to discuss the issues and attempt to negotiate a settlement. As a result of the negotiations, a proposed settlement was reached. The attached "Agreement Between Brandenburg Telephone Company and Staff of the Kentucky Public Service Commission to Settle Contested Regulatory Issues Prior to Hearing" embodies all agreements reached at the July 22, 1988 conference. BTC and Staff agree that BTC's revenues should be reduced by $280,000. The primary differences between Staff's recommendation in the Staff Report and the final agreement are the acceptance by Staff of rate base additions which have occurred subsequent to December 31, 1987 and the negotiated rate of return.

On November 17, 1988, BTC filed a letter in conjunction with an informal conference in which BTC and Staff discussed three factors which BTC believes will preclude it from earning the agreed level. The factors have surfaced subsequent to the agreement reached in July 1988. The Commission is of the opinion that these factors are not yet quantifiable with certainty and that it would be more appropriate to consider the impact of these factors at such time as they are quantifiable.

After careful review of the agreement between BTC and Staff, the Commission is of the opinion and finds that the settlement is in the public interest and should be accepted for rate-making purposes. Further the Commission finds that the terms of the settlement are in conformity with accepted rate-making standards.

IT IS THEREFORE ORDERED that:

1. The Agreement between Brandenburg Telephone Company and Staff of the Kentucky Public Service Commission attached hereto be, and it hereby is, incorporated into this Order as if fully set forth herein.

2. The terms and conditions contained in the agreement be, and they hereby are, adopted and approved.

3. Rates which are designed to implement a $280,000 rate reduction on local service should be implemented for service rendered on and after December 1, 1988.

4. Tariffs containing the above-mentioned rates shall be filed no later than 20 days of the date of this Order.

5. The issues contained in the letter filed November 17, 1988 shall not be considered part of this proceeding, but may be considered by the Commission in future rate proceedings.

6. The approval of this agreement shall be for the purposes of this proceeding only and shall not be deemed binding upon BTC or the Commission Staff in any other proceeding nor shall it be offered or relied upon in any other proceeding.

Done at Frankfort, Kentucky, this 29th day of November, 1988.

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner

ATTEST:

Executive Director

FILED

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PUBLIC SERVICE
COMMISSION

AGREEMENT BETWEEN BRANDENBURG TELEPHONE COMPANY AND STAFF OF THE KENTUCKY PUBLIC SERVICE COMMISSION TO SETTLE CONTESTED REGULATORY ISSUES PRIOR TO HEARING

THIS AGREEMENT is made and entered into by and between Brandenburg Telephone Company ("BTC") and the Staff of the Kentucky Public Service Commission ("Staff").

RECITALS

1. On March 3, 1987, the Kentucky Public Service Commission ("KPSC") issued an order in Case No. 9859 asserting that BTC may have earned in excess of its authorized return and requesting that BTC file certain data for analysis.

2. BTC duly filed the data requested in the Order of March 3, 1987 and thereafter filed additional data pursuant to Orders dated June 19, 1987, July 22, 1987, August 21, 1987, and November 9, 1987.

3. On January 15, 1988, the Staff issued a report (the "Staff Report") based on a twelve month test period ended March 31, 1987, in which it recommended to the KPSC that BTC annual revenues should be reduced by $1,375,000 and that the reduction should come from a combination of reduced settlements from interconnecting and interexchange carriers and reduced local exchange access revenues.

4. On June 10, 1988, BTC filed its response in opposition to the Staff Report and on June 28, 1988 prefiled its direct testimony as though the matter would go to hearing.

5. Neither the Attorney General, Office of Consumer Protection, nor any other person, firm or corporation moved to intervene in this docket.

6. On the basis of the record developed in this docket, the Staff and representatives of BTC met on July 22, 1988 to discuss the issues and to attempt without a hearing to resolve contested issues and agree on new tariffs, on the condition that all such agreements would be subject to KPSC approval before becoming effective. During this conference, eighteen issues were identified and resolved as between the Staff and BTC.

7. This Agreement is intended to document all agreements reached at the July 22, 1988 conference.

NOW, THEREFORE, Brandenburg Telephone Company and the Staff of the Kentucky Public Service Commission have reached the following agreements which are conditioned upon approval by the Kentucky Public Service Commission.

1. Revenue Reduction. BTC and Staff agree that effective December 1, 1988, BTC's annual revenues shall be subject to a one time reduction of $280,000 by making effective the tariff sheets attached hereto and marked Schedule A. This agreement is based on resolution of the following specific issues discussed at the conference:

RATE BASE

(a) Rate Base Additions. The Staff agreed to accept as part of the Company's rate base additional investment after March 31, 1987 on the condition that BTC demonstrate that this investment has been booked. Subsequent to the conference, BTC and Staff representatives confirmed that the foregoing investment has been booked. Staff and BTC agree to use the December 31, 1987 balance of plant, adjusted for construction completed subsequent to December 31, 1987 in the rate base. The balance is $21,509,113.

(b) Capital to Expense Shift. The Staff Report reduced the Company's rate base by $63,978 due to certain capital to expense shifts associated with new USoA procedures. The Staff agrees that this amount should be reinstated to the test period rate base.

(c) Capitalization of Benefits. In connection with the correction of BTC's accounting practice to properly capitalize certain overhead and benefits, BTC proposed an increase to the rate base of $491,697 that would recognize this proper accounting practice as though it had been in place for the preceding ten years. The Company further proposed a $160,977 credit to the depreciation reserve to recognize depreciation on these capitalized items. BTC and Staff agree that this adjustment would only be made for test period activity in the amount of $54,633.

(d) End of Period Depreciation Reserve. BTC and Staff agree that an $82,047 increase should be made to the December 31, 1987 depreciation reserve balance. The adjustment represents bringing the reserve to a level representative of plant balances as of December 31, 1987 and to recognize additional depreciation on additions occurring subsequent to December 31, 1987.

RATE OF RETURN

(e) Rate of Return. BTC maintains that under current conditions it should be entitled to an authorized return on equity of 13.75 to 14.25 percent. The Staff Report recommended an 11.05 percent authorized return on equity. BTC and Staff agree that based on the record of this case and the Settlement discussions, the appropriate return on equity in this case is 12.5 percent which currently equates to an overall return on net investment of 10.08 percent.

OPERATING EXPENSES

(f) Concession Service to Employees. Test period expense equal to $6,602 representing concession service to employees shall not be included.

(g) Uncollectible Amounts on Toll. BTC shall not be required to decrease uncollectible revenue of $3,278 with respect to settlements due from interconnecting and interexchange carriers.

(h) Incentive Compensation to Employees. For the purpose of this settlement, the amount of $125,308 in employee compensation shall be allowed.

(i) Advertising Expense. The cost of institutional advertising is not allowed as an expense in accordance with 807 KAR 5:016. Advertising costs of $3,244 shall not be included.

(j) Depreciation on Additional Investment. BTC and Staff agree to reflect depreciation expense at the December 31, 1987 level of plant, plus depreciation expense for plant additions subsequent to December 31, 1987 in accordance with sub-paragraph 1(a) above. The resulting level of depreciation expense is $1,163,471.

(k) Capitalization of Benefits. Concurrent with BTC's proposals outlined in (c) on page 3, BTC proposed to increase depreciation expense by $31,141. Inasmuch as BTC and Staff agreed that these adjustments should not be made retroactive for rate-making purposes, BTC and Staff likewise agree that BTC's proposal is not appropriate for rate-making purposes.

(l) Amortization of USoA Expense. The Staff Report amortized general office test period cost associated with USoA implementation over three years. BTC and Staff agree to a two-year amortization of these costs, which results in an increase of $22,825 to the test period level of expenses.

(m) CABS. The Staff Report amortized the entire cost of implementing BTC's new carrier access billing system over three years. BTC and Staff agree to a two-year amortization period which equates to a $3,089 increase in test period level of expenses.

(n) Professional Fees. The Staff Report removed all but $21,483 of anticipated additional professional fees of $168,080 associated with regulatory, accounting and other miscellaneous issues. BTC and Staff agree to include $40,000 of these anticipated fees.

(o) Professional Fees on USoA. The Staff Report amortized professional fees associated with implementation of USoA over three years. BTC and Staff agree that a two-year amortization should be used for these costs. This results in a $15,500 increase to test period expenses.

(p) Director Fees. The Staff Report disallowed $14,400 of pro forma expense relating to fees paid to directors who are also officers. The Company agrees to this adjustment.

(q) Professional Fees Relating to Docket No. 9859. After the Staff Report was issued, BTC revised its estimate of legal, accounting and expert witness fees required in this docket from $85,000 to $200,000 and claimed one-third of the increase as an additional test period expense. The Staff agrees with this adjustment.

(r) Capital to Expense Shift. The Staff Report proposed a depreciation adjustment of $3,423 based on capital to expense shifts associated with certain regulatory changes. BTC and Staff agree that this adjustment shall not be made.

2. Rate Design. BTC and Staff agree that the overall annual revenue reduction of $280,000 shall be sourced from local exchange access revenue and shall not affect settlements from interconnecting or interexchange carriers.

3. Settlement in Compromise. It is understood and agreed by both BTC and Staff that the agreements reflected in this instrument have been made for the purpose of settling all regulatory matters now pending before the KPSC other than any matters arising out of BTC's depreciation report dated June 30, 1988, and that there are presently no other matters known to Staff that would or may cause it to modify or revoke the agreements reached herein. It is further understood that by entering into this Agreement, BTC does not admit that its

tariffs currently on file are or were producing excessive earnings. In any new and subsequent proceedings neither BTC nor the Staff or KPSC is estopped or otherwise precluded from asserting any position that may be deemed inconsistent with any agreement or concession made herein for the purpose of settlement, and nothing in this Agreement shall preclude BTC from filing at any time an application for an increase in its rates and charges for any reason whatsoever.

4. Agreement on Rate of Return. Notwithstanding any provision to the contrary contained in paragraph 3 above, this Agreement, once approved by the KPSC, shall be deemed to have the force and effect of an Order by the KPSC ordering that under current conditions and until otherwise modified by subsequent proceedings, BTC has the opportunity to earn a rate of return of 12.5 percent on equity which currently equates to a 10.08 percent overall return on net investment. Until and unless modified by subsequent proceedings, BTC shall be entitled to rely on the foregoing and to consider any previous KPSC Order on rate of return (reference Case No. 8175) as superseded by this Agreement.

5. Joint Recommendation. BTC and Staff agree that the foregoing represents a fair and lawful resolution of the issues presented in Case No. 9859 and jointly recommend its approval by the Kentucky Public Service Commission.

IN WITNESS WHEREOF, Brandenburg Telephone Company and the Staff of the Kentucky Public Service Commission have executed this Agreement this 17th day of November, 1988, to become effective upon approval by the Kentucky Public Service Commission and the filing of the tariffs contained in Schedule A hereto.

BRANDENBURG TELEPHONE COMPANY

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