

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ADJUSTMENT OF RATES OF GTE SOUTH,)
INCORPORATED) CASE NO. 10117

O R D E R

IT IS ORDERED that GTE South, Incorporated ("GTE") shall file an original and 17 copies of the following information with the Commission, with a copy to all parties of record. In the event that a response to individual items becomes extraordinarily voluminous GTE shall file an original and two copies of that response, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to insure that it is legible. Where information requested herein has been provided along with the original application, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. When applicable, the information requested herein should be provided for total company, total Kentucky and jurisdictional operations on an independent basis with each

specifically identified. The information requested is due with the filing of notice and testimony, but not later than March 29, 1988. If the information cannot be provided by this date, a motion for an extension of time must be submitted stating the reason for the delay and the date by which the information can be furnished. The Commission will give due consideration to such motions.

1. Provide a copy of the Request for Proposal or any correspondence with Coopers & Lybrand describing the scope and methodology of the study on the impact of the consolidation of General Telephone Company of the Southeast and General Telephone of Kentucky.

2. On page 15 of Haddad's testimony, he estimates the consolidation savings using the full adjusted NARUC allocation as \$.9 million. On page 14 he estimates the net savings as \$5.5 million. What are the primary reasons that use of the NARUC allocation reduced net savings so significantly? Is there a floor for net savings below which consolidation is not beneficial? If so, what was the floor?

3. On page 8 of Haddad's testimony, he indicated that GTE had considered combining Kentucky with GTE North but it was rejected because there was no difference in the projected cost savings resulting from a consolidation with either entity. Provide any cost/benefit study used in making the savings comparison.

4. With reference to the Value of Service Studies for Durham and the Service Corporation, provide details on how the

estimates of the cost of obtaining service from outside vendors were developed.

5. In addition, provide complete documentation for the development of alternative cost estimates for each line item of the two studies. This should be inclusive of, but not limited to, the completed Value of Service Study Questionnaires for each activity identified.

6. Provide all workpapers and/or computer printouts used in calculating the cost of equity capital for Austin Schedules 6, 8 and 10.

7. Provide photocopies of the original source pages containing Merrill-Lynch and IBES' estimates of dividends and earnings growth for each of the companies included in Austin Schedules 6, 8 and 10.

8. Provide the results of GTE South's latest bypass study conducted for its Kentucky operations. Provide estimates of revenue that may be at risk from bypass.

9. Provide all workpapers and/or computer printouts used in calculating dividend yield in Furst Schedules 2-4, 2-7, 2-10 and 2-13.

10. Provide photocopies of the original pages from the sources listed in Furst Schedule 2-3 containing the estimates of dividends and earnings growth for each of the companies included in Furst Schedules 2-2, 2-6, 2-9 and 2-12.

11. Provide a copy of the 1985 Furst & Associates study of historical risk premiums.

12. Provide all workpapers used in developing the market premium estimates included in Furst Schedule 2-16.

13. With reference to Bredeweg's testimony, provide organizational charts that indicate the operation of the Telops Management Committee, the Presidents' Service Contract Committee, the Technology Transfer Coordinating Committee, and the Functional Councils.

14. In addition, provide copies of any standard forms or procedures that these committees and councils use in their evaluation process.

15. Cite examples of activities approved and disapproved by these committees and councils during the past year. Use examples to show how the evaluation process works.

16. a) Provide a balance sheet, income statement and retained earnings statement for GTE Communications Systems ("GTECS") for the test period and for the 2 calendar years preceding the test period.

b) Provide Kentucky intrastate investment rate base and capitalization for GTECS, assuming it was not a separate subsidiary, and a description of the methodology for these allocations.

c) Provide the actual rate of return on equity for GTECS for the test period.

d) Based on the authorized rate of return, what level of revenues would be allocated to Kentucky operations from GTECS?

17. Does adjustment Q, Giammarino Schedule 2, page 3, include any type of retroactive or lump sum adjustment? If so, provide details of such adjustment(s).

18. Provide an analysis of the \$86,648,870 local service revenues for the test period. The analysis should reflect each major price and volume change occurring during the test period and should be inclusive of, but not limited to, changes resulting from CPE, inside wire, rate adjustments, etc.

19. With reference to Item 22, Schedule 2, page 3, does the adjustment to local service revenues reflect the end-of-period level of access lines? If so, what is the dollar amount? If not, provide a calculation of such an adjustment.

20. Provide reconciliation between the present annual revenues of \$69.5 million per Exhibit 3, page 1 of 21 and Giammarino Schedule 1, Column C. Please identify each tariff group resulting in the aggregate of each line of revenue.

21. Pursuant to an Order dated May 31, 1985, in Case No. 8838, An Investigation of Toll and Access Charge Pricing and Toll Settlement Agreements for Telephone Utilities Pursuant to Changes to be Effective January 1, 1984, the Commission established GTE South's access revenue requirements at \$19.993 million. Provide a schedule showing each component of this amount and, on the same basis, the comparable test period and pro forma levels.

22. Per response to Item 29 of staff information request dated January 15, 1988, provide the amount of employee concessions attributed to officers and directors.

23. Provide the information in Item 38 on a monthly basis as requested in the staff request of January 15, 1988.

24. In response to Items 42(b), 42(d), 43(b), and 43(d), GTE declined to provide the requested information citing that it disagrees with the proposed allocations or is not aware of any recognized or authoritative technique. However, in Case No. 9678, An Adjustment of Rates of General Telephone Company of the South, GTE provided the same information requested in this proceeding. The staff again requests that GTE South provide this information.

25. Provide narrative and additional documentation supporting adjustments AB & AC, Giammarino Schedule 2, Pension Adjustments.

26. In response to Item 38 of the staff request dated January 15, 1988, GTE provided information on home office charges that were allocated to Kentucky. According to the "world map," provided in response to Item 22, Staff Request dated November 14, 1986, in Case No. 9678, Kentucky booked a total of \$38,661,882 for general office allocations; however, the response to the request in this proceeding indicates only \$19,655,787 allocated to Kentucky for the test period. The current response obviously does not contain all home office charges booked to Kentucky for the test period; therefore, provide a schedule of all home office and/or inter-company charges for the test period and yearly for the last 3 calendar years. Indicate whether the particular item was directly charged to Kentucky or whether it was allocated.

27. Explain why the general office allocations per Item 38 increased from \$10,828,834 in 1986 to \$19,655,787 for the test period.

28. Per response to Item 39, explain the columns titled "Contract Revenue," "Billing To Domestic Telephone Company" and "Billing to Affiliate."

29. Do the monthly billings provided in response to Item 39 include any amounts for services billed directly (not allocated) to GTE? If not, please provide.

30. Provide the Arthur Anderson and Company report to which Bredeweg refers on page 14 of his testimony.

31. For the month of October 1987, provide all supporting documentation from GTE Service Corporation used to determine the \$1,278,841 amount billed to GTE.

32. Identify all operating expense accounts in Item 18(a) that show an increase or decrease of 10 percent or more over the preceding 12 months and provide a detailed explanation for the fluctuation.

33. Why was a 3-year amortization period chosen for USoA implementation costs?

34. Provide a breakdown of USoA implementation costs by the categories referred to in Giammarino's Testimony, page 21, lines 5-8, along with all supporting documents.

35. Provide a detailed analysis of the major capital to expense categories shown on Item 16, Adjustment S, page 2 of 2, in response to Staff's initial information request. As a minimum, this should include a description of how the amounts listed were

determined, whether the amounts are based on historical expenditures or reflect budgeted amounts, whether the amounts are net of depreciation expense and rate of return effects, and identification of the amounts using both Part 31 and Part 32 account numbers.

36. Provide a detailed explanation of why the adoption of Part 32 will increase GTE's software expense.

37. In Administrative 310, Adoption of a New Uniform System of Accounts for Kentucky Telephone Companies, response filed August 20, 1987, the total projected 1988 software cost for GTE was \$3.4 million (revision no. 1). How does this compare with the original estimate and with revision no. 2?

38. Provide, for the test period, the impact of Part 32 capital to expense shifts in a format similar to Item 16, Adjustment 5, page 2 of 2.

39. Regarding Adjustment U, Giammarino Schedule 2, page 3 of 4, doesn't Adjustment U overlap with Adjustment S (same schedule)?

40. Why should there be a 3-year amortization per Adjustment U?

41. In Case No. 9660, Petition of General Telephone Company of the South to Change Certain Rates and Charges for Intrastate Telephone Service, the Commission instructed GTE to maintain records showing over- and under-collections and any incremental expenses associated with its Usage Sensitive Service trial. It was also stated that none of the impact should be borne by the ratepayers. Thus, provide the impact on net operating income of that portion of the Usage Sensitive Service trial during the test period. Provide details, i.e., revenues impact, etc.

42. It is the Commission's understanding that on or about May 1987, GTE was in the final stages of an early retirement program. Please provide responses to the following:

a) The number of employees and associated dollar level of those employees electing early retirement.

b) The same information for the categories of craft, management and management support.

c) With reference to question b above, how many of these vacated positions have been backfilled from within or externally by employee group. Were the positions which were left vacant by backfilling, also filled?

d) Minutes of other documentation of the level of employees expected to make the election and the ultimate results.

43. With reference to Robert's Schedule 6, provide the following:

a) Retention rates for all other jurisdictions in which GTE operates, i.e., GTE of Florida.

b) Current and past regulatory commission decisions adopting adjustments to directories revenues and expenses differing from the contractual levels of GTE and other GTE jurisdictions.

c) What is the status of these decisions?

44. With reference to Robert's Schedule 7, provide all calculations with supporting documentation for all ratios shown.

45. With reference to Wellemeyer Schedule 1, page 1, provide the following:

a) Source of line 2 (\$17,755,611).

b) Assuming the proposed March 1, 1988, tariffs are approved, would not the going forward level be \$19,127,053 for an adjustment of \$1,377,442?

46. With regard to both end-of-period and pro forma wage adjustments, what recognition has been given to current and future employee levels, productivity gains, management philosophy, recommendations of management audit, etc.?

47. Provide copies of any total factor productivity studies occurring during the past 5 years, either for Kentucky or GTE.

48. At page 20, of Grammarino testimony there is discussion of a future break-even point as a result of the adoption of USOA Part 32. Provide an analysis reflecting this projected break-even point along with all assumptions, calculations and supporting documentation on a yearly basis for a 20-year period starting with 1988. In the event 20 years is not available, provide that which is available.

49. Provide the amount of expenses allocated to Kentucky for institutional advertising, lobbying and other miscellaneous income charges and the accounts charged for any and all of GTE's affiliates.

50. Regarding your submission of a Cost Allocation Manual to the Federal Communications Commission last fall, identify any impact this manual has or will have upon the test period. Be specific.

51. Please reference Giammarino Schedule 6, Adjustment F, Analysis of IX Lease Adjustments:

a) Explain the meaning and source of amounts in columns entitled "Revenue Requirement."

b) Explain why amounts in these columns vary significantly from year to year.

c) Were amounts listed in the column entitled "Nov '86 - Oct '87 Revenues" actually booked in the time periods indicated? If not, please supply the account numbers, amounts, and the actual dates involved.

d) Please explain why some of the facilities show adjustments to test period net book costs and expenses and others do not.

e) Please explain the terms and conditions of IX lease termination payments. For instance, are these payments for early termination of the leasing agreement?

f) Are the dates listed in the column entitled "Migration Date" the originally agreed upon termination dates or do any of the dates represent early termination? If so, please identify.

g) Has leasing to other carriers been considered? Please explain.

h) Provide an explanation of the decreases in IX lease adjustments for those leases having migration dates beyond October 31, 1988.

52. Please reference Giammarino Schedule 9, Adjustment J, Analysis of COE Category 3 Adjustment and Analysis of COE Category 4 Adjustment:

a) Please provide data detailing the amounts listed, to include total Kentucky investments in the affected categories, separations factors derived based on Part 36 and Part 67 rules, explanation and derivation of the weighted annual expense charge factor and the weighted annual depreciation charge factor.

b) Do GTE's present interstate access rates reflect the new allocations?

53. Please reference the response to the Commission's First Information Request, Item 16, Adjustment K, CPE and Inside Wire Adjustments:

a) A review of the material provided shows that the period expense loading factor of 64 percent is essentially a ratio of "Total Period Expenses" to "Total M&C and Repairs." This is derived by using equations which are implied by information contained on page 2, as follows:

$$\text{Line21} = \text{Line5}$$

$$\text{Line7} = \text{Line5}/\text{Line6}$$

$$\text{Line20} = \text{Line18} \times \text{Line7} = \text{Line18} \times (\text{Line5}/\text{Line6})$$

$$\begin{aligned} \text{Line22} &= \text{Line20}/\text{Line21} = (\text{Line18} \times (\text{Line5}/\text{Line6}))/\text{Line5} \\ &= \text{Line18}/\text{Line6} \end{aligned}$$

$$= \text{Total Period Expenses}/\text{Total M\&C and Repairs}$$

Please explain why this factor is considered an appropriate allocator of indirect unregulated operating expenses.

b) Please explain why it is considered appropriate to apply the period expense loading factor to only those unregulated operating expenses that were booked in the test period regulated accounts. Does this imply that indirect unregulated expenses were

incurred only if direct expenses were booked in regulated accounts?

c) Provide an explanation of the rationale used in selecting the accounts used in determining total period expenses.

d) Provide a listing, by account number, of the amount of all unregulated expenses incurred in the test period.

e) Provide an explanation of the methods used in determining whether an expense was regulated or unregulated.

54. Please reference Giammarino Schedule 10, Adjustment P, Savings from Central Office Conversions:

a) The amounts listed are drastically understated compared to the studies filed in response to the Commission's First Information Request, Item 34. Please explain how these amounts were determined and the reasons these amounts are so low compared to the original estimates.

b) Since it appears that some significant changes have occurred in the assumptions used by Network Planning, such as lower than expected maintenance savings and revenues or the elimination of the investment tax credit, have planned central office conversions been reevaluated to ensure that the correct economic decision has been made?

c) Please provide the Burnside and Russell studies.

d) Item 34 of the Commission's First Information Request indicated that, as a minimum, discounted cash flow analyses should be provided. Please comply with this request. Such an analysis should contain identification of all investments, expenses, and revenues associated with a particular project, at least to the

extent that these amounts differ from the present method of operation or some other reasonable basis. These amounts, as well as other relevant amounts, such as tax effects, would typically be aggregated by year of occurrence and then discounted to a common point in time, usually the present. Sufficient documentation should be provided at a level of detail that would allow the determination of the sensitivity of the result to changes in basic assumptions, such as the assumed maintenance savings, increased revenues, and the availability of tax credits.

55. Please reference the response to the Commission's First Information Request, Item 16, Adjustment W, Medical and Dental Premium Increase Adjustment:

a) On pages 7 and 8, it appears that a "Margin for Fluctuation" has been included in this adjustment. Page 3 states that "[i]f claims are as predicted, the margin will be returned as a dividend." Please explain why this margin should be considered as a revenue requirement.

b) The summary on page 3 indicates that "the Patient Advocate program will reduce medical costs for covered employees by 5% per year". Was this savings reflected in the adjustment?

56. Please reference the response to the Commission's First Information Request, Item 16, Adjustment Y, Rate Case Expense Adjustment. Are any expenses resulting from Case No. 9678 included in test period operating expenses? If so, has an adjustment been made reflecting the amortization of these expenses?

57. Please reference the response to the Commission's First Information Request, Item 16, Adjustment AA & AB, Pension Adjustment. Provide derivations for the "percent regulated" factor and the "amount expensed" factor.

58. Please reference the response to the Commission's First Information Request, Item 16, Adjustment AE, Payphone Installation and Removal Costs Adjustment. Provide a copy of the Order in FCC Docket 86-322, which is presumed to support the adjustment.

59. Please reference the response to the Commission's First Information Request, Item 16, Adjustments AF & AG, Supply Consolidation Adjustments:

a) Provide derivations for the "expense," "capital," and "nonregulated" factors.

b) Provide an explanation of the meaning of a 3-year amortization of an amount identified as a capital amount. It is recognized that this results in a rate base reduction; however, the logic of this adjustment is not clear.

c) Provide a copy of the analysis used to determine costs and savings.

d) On page 27 of Giammarino's testimony, he identifies the functions of GTE Supply to be purchasing and procurement, material management, and inventory control as well as the staff functions associated with these responsibilities. Please explain why these functions are not viewed as the responsibilities of a utility's regulated operations.

e) What percentage of GTE Supply's revenues are from the General Telephone operating companies?

60. Please reference the response to the Commission's First Information Request, Item 16, Adjustment AH, End-of-Period Depreciation Adjustment. A review of the monthly balances of Account C203, COE - Automatic Switching, indicates that the retirements associated with the Elizabethtown and Burnside central office conversions have probably not been included in the test period, whereas it appears that the new equipment is included. Is this correct? If so, please identify the amounts involved.

61. The testimony of Wellemeyer, page 11, lines 6-14, indicates that an analysis in the area of intraexchange private lines resulted in monthly costs of \$8.00 per quarter mile.

a) Please provide this analysis.

b) If an analysis has been done in the area of interexchange private lines, please provide that analysis.

c) Please explain why Remote Call Forwarding is unavailable on a local basis.

d) Provide an explanation of the difference, from an engineering prospective, between the provision of local Remote Call Forwarding and Foreign Central Office Service. Does this difference depend upon the types of switching equipment involved?

e) Please provide an analysis showing the costs involved in the provision of Foreign Central Office Service, specifically justifying a mileage-based rate for what intuitively appears to be a switching function, at least for stored program controlled offices. If this assumption is incorrect, please identify all situations in Kentucky in which the construction of dedicated,

private lines was necessary in order to provide Foreign Central Office Service.

62. Please reference Wellemeyer's testimony, page 15, lines 19-26, concerning the company's position that trouble isolation services resulting in trouble found beyond the demarcation point should have repair or trip charges administered on an unregulated basis.

a) Provide rationale for this position, such as FCC orders.

b) The revenues associated with this service appear unusually low. For the test period, provide a complete description of the circumstances that would have had to occur before this charge would have been assessed. For instance, would customers who subscribe to an inside wire maintenance plan have been assessed this charge?

c) Please identify the expenses associated with this service. Are these expenses included in Giammarino Schedule 6, Adjustment K? If so, disaggregation is requested.

With reference to the proposed tariff for custom calling services filed February 5, 1988, provide the following:

a) A schedule of the present and proposed rates, charges, terms and conditions, and service rules and regulations, which the applicant seeks to change, in comparative form. Show rate elements in package offerings in detail.

b) A detailed analysis of customers' bills, adjusted to the actual usage, and in such detail that the revenues from the present and proposed rates can be readily determined.

c) A schedule of test period revenues per book rates, present rates annualized and proposed rates annualized.

d) A schedule showing effect on average customers' bills.

e) A statement setting forth estimates of the effect the new rates will have upon the revenues of the utility, the total amount of money resulting from the increase or decrease and the percentage increase or decrease.

f) A statement showing, by cross-outs and italicized inserts, all proposed changes in rates, charges, terms and conditions, and service rules and regulations for each rate or charge. Indicate, by an identified symbol, changes from the rates, charges and conditions specifically approved by the Commission's Order, dated September 9, 1987, in Case No. 9905, General Telephone Company of the South's Tariff Filing Proposing a Waiver of Monthly Rate and Nonrecurring Charges for Special Promotions and a Revision of Custom Calling Service to Include "Package" Monthly Rates. A copy of the present tariff may be used.

g) Any cost study done by GTE concerning custom calling services, including an executive summary, a complete narrative description of the study methodology and results, and data concerning study conclusions. Summarize any data, findings and conclusions relating specifically to changes in rates, charges and conditions approved in Case No. 9905.

h) A summary of the costs and revenues associated with the tariff offering in Case No. 9905 which were required to be tracked in that case.

i) A list of special promotional offerings since September 9, 1987, and any associated revenue loss.

j) Summarize any benefits realized from these special promotional offerings.

k) State whether the proposed rates cover the costs associated with providing the services.

l) State whether the present rates for custom calling services provide a contribution. If so, will the proposed rates provide the same level of contribution? Explain.

m) How many customers are presently receiving custom calling services under the existing package rates proposed to be grandfathered?

n) Provide a detailed comparison of existing packaged feature offerings and those proposed to be established including costs, rates, revenues, services and benefits.

o) A schedule and narrative summary detailing the effect of the revenues and expenses associated with the proposed custom calling services rates and charges as they relate to the revenues and expenses associated with the rates and charges proposed in GTE's current application.

p) All other information required to be filed by 807 KAR 5:001, Section 10, not specifically mentioned herein, as it relates to custom calling services.

63. Provide the following as they relate to the tariff proposed as a result of changes in the USoA, Case No. 10116, Application of General Telephone Company of the South for

**Authority to File Tariffs for the Recovery of Revenue Requirements
Caused by the Change in Accounting Procedures:**

a) A schedule, in comparative form, of the present rates and charges, those proposed in Case No. 10116, and those proposed in Case No. 10117, which the Applicant seeks to change.

b) A detailed analysis of customers' bills for the test year, adjusted to the actual usage, and in such detail that the revenue from the proposed rates can be readily determined.

c) A schedule showing the effect on average customers' bills.

d) A schedule of test period revenues per book rates, present rates annualized, and proposed rates annualized.

e) Any cost study done by GTE concerning basic local service, including an executive summary, a complete narrative description of the study methodology and results, and data concerning study conclusions, which support allocation of the total requested increase of \$5,757,507 to basic local service.

f) Do the proposed rates change rate relationships such as the present 2.5X relationship between business and residence one-party?

g) If relationships are changed, provide a schedule in comparative form showing the current and proposed levels for each affected rate.

h) Provide a description of GTE's rationale, i.e., cost of service, value of service, or other rationale, for any change in rate relationships.

64. With reference to the current proposed tariff, provide a description of GTE's rationale; i.e., cost of service, value of service, or other rationale, in setting the rate relationships at the particular levels shown - business and residence single-party 2.75, PBX access line and residence single-party 3.75, etc.

65. Provide a schedule showing the effect of the proposed changes in rate relationships on average bills.

66. Are adequate facilities available to provide single-party service to existing and potential customers in all areas presently served by GTE? If not, provide details.

67. How many business customers and how many residential customers currently have two-party service, four-party service, eight-party service?

68. Are there any areas within GTE's service territory where facilities for providing service are not yet available? If so, could complete transition to single-party service delay construction of adequate facilities to provide service to those areas?

69. Provide a schedule showing the effect of the proposed changes in ratios of business and residence two-, four-, and eight-party rates to single-party rates on average bills?

70. How much of the requested increase is attributable to these proposed changes in rate ratios?

71. Provide a narrative description of how transition toward higher priced single-party service is pertinent or will contribute to implementation of a lifeline assistance program, in reference to Wellemeier testimony, page 9.

72. Provide a schedule showing the number of PBX access line units and the number of toll terminal service units billed during the test year and any revenue difference which would have resulted had the toll terminal units been billed as PBX access lines during the test year, with reference to Wellemeyer testimony, page 10.

73. Provide the cost analysis referred to in Wellemeyer testimony, page 11, relating to intraexchange private line, foreign central office service, off premises extension, and PBX tie line termination mileage charges.

74. Provide the net revenue difference which would result from elimination of the maintenance of service charge and application of test period non-regulated repair or trip charges and the impact on the average customer costs per trouble report.

75. Response to Staff Request No. 1, Item 17, shows jurisdictional Kentucky test year revenues for other toll service and directory advertising which exceed total Kentucky revenues. Please reconcile. Are the entries for limited pay telephone and limited access correct?

76. Provide any cost study done by GTE, including an executive summary, a complete narrative description of the study methodology and results, and data concerning study conclusions, which support allocation of 93.53 percent of the \$21,334,518 increase requested to local exchange services.

77. Provide a schedule showing the revenue effect of the late payment penalty.

78. With reference to the development of the carrying charge expensed on Kentucky books for the Durham Headquarters, please provide the following:

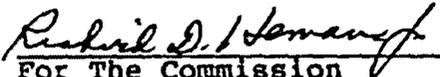
a) The date when this carrying charge was first booked to Kentucky.

b) The amount booked during the test period on a monthly basis and the account to which it was booked.

c) A narrative of the methodology used in determining this amount with the actual calculation for October 1987.

Done at Frankfort, Kentucky this 4th day of March, 1988.

PUBLIC SERVICE COMMISSION


For The Commission

ATTEST:

Executive Director