

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

In the instant rate proceeding, GTE South Incorporated ("GTE") has proposed a pro forma adjustment of \$5,759,988 to increase operating expenses to account for costs resulting from the capital to expense shift pursuant to the accounting changes in the Uniform System of Accounts ("USoA") Part 32.

On March 22, 1988, the Attorney General of the Commonwealth of Kentucky, by and through his Utility and Rate Intervention Division, and Lexington-Fayette Urban County Government (hereinafter referred to collectively as "AG") filed a Motion to Exclude costs of USoA-related capital to expense shifts from consideration for failure to provide documentary cost support.

In support of his Motion, the AG states that though the proposed pro forma adjustment represents approximately 27 percent of GTE's total proposed rate increase, GTE has failed to provide the necessary financial data to support the adjustment. Also, the AG states that his expert has made repeated, unsuccessful attempts to obtain information while performing on-site investigations at the company's Durham, North Carolina, headquarters and supports such claims by an affidavit of his expert. As additional support for

the Motion, the AG states that his efforts and those of the Commission to obtain similar information have been prejudiced by the inability to analyze this information.

The AG opines that any continued analysis of the USoA expense would be an exercise in futility because the adjustment must eventually be denied because of GTE's failure to meet its burden of proof and that the company should not be allowed to delay providing information for much of the suspension period and subsequently profit from the time pressures resulting to all.

However, the AG does state in his Motion that GTE was to respond to outstanding information requests within a week of the filing of this Motion and that such response could contain information necessary to begin analysis of the actual costs associated with the USoA-related shifts.

On April 7, 1988, GTE responded to the AG's Motion. In support of its response, GTE states that the AG has mischaracterized its failure to supply timely information concerning the costs generated by the USoA expense changes. Specifically, GTE states that it adequately responded to the Commission's January 15, 1988, information Order as well as the March 4, 1988, information Order. The information requested in the March 4, 1988, Order, according to GTE, was not reflected in prior workpapers and that information was timely submitted in its March 29, 1988, response to the March 4, 1988, Order.

GTE also states that the AG's contention that the AG and the Commission have been prejudiced because of the delay in providing the support for the USoA costs is without merit because such

information was supplied to the Commission and the AG according to the procedural schedule ordered by the Commission. GTE also requested a hearing for the limited purpose of offering testimony in opposition to the AG's Motion and to cross-examine the affiant concerning allegations that GTE purposely failed to provide information.

The Commission, being advised, is of the opinion and finds that the AG's Motion to Exclude the USOA costs should be denied. GTE has filed information which it claims is sufficient to support its proposed USOA adjustments and has filed such information within the time allotted for receipt of responses to information requests. Upon submission of the case, the Commission will determine the sufficiency of GTE's support for its proposed adjustments and render a decision accordingly. Thus, the AG's Motion should be denied, and therefore the Commission should also deny GTE's request for a limited hearing to cross-examine the affiant.

On April 13, 1988, the AG filed a Motion for Deviation from the Procedural Schedule for matters related to the USOA capital to expense shift. The AG intended this Motion to be considered only in the event the Commission should deny its Motion to Exclude costs of USOA-related shifts. Having decided that the Motion to Exclude should be denied, the Commission will now consider the Motion for Deviation. Specifically, the Motion requests to deviate from the intervenor's second information request, GTE's responses to that request, and intervenor's testimony. The AG asks that GTE respond to an additional information request concerning USOA-related items, and that the AG be given an

extension of time to file testimony on the USOA-related matters which corresponds to the amount of time needed by GTE to respond to the data request concerning USOA-related matters.

On April 25, 1988, GTE responded to the AG's Motion for Deviation from the procedural schedule, stating that, in a spirit of cooperation, it would not object to the proposed procedural changes.

The Commission, being advised, is of the opinion and finds that the AG's Motion for Deviation from the Procedural Schedule should be granted as there is no opposition and as such changes may enhance the analysis of the USOA-related adjustments.

On April 5, 1988, the AG filed a Motion to Compel GTE to respond to certain items requested in the March 11, 1988, data request. On April 18, 1988, GTE filed its response in opposition to the AG's Motion to Compel. Each of the items in the AG's Motion to Compel will be discussed, as well as the company's response. In evaluating each of these items, the Commission has considered whether the information in question is relevant to the rate proceeding or may lead to information which is relevant to this proceeding. In some cases, the Commission has, also, considered the scope of the requested information.

The AG seeks to compel production of Item 5e, information leading to a comparison of the amount of home office allocations to the level of home office allocations included in the current rate filings in other jurisdictions or information filed in the last rate case in those jurisdictions. The AG contends that this information is relevant to a determination of any overrecovery

from Kentucky ratepayers. In response, GTE states that this matter is within the explicit jurisdiction of the regulatory bodies of other states and that the allocation is determined pursuant to the FCC/NARUC separations procedures.

The Commission, being advised, is of the opinion and finds that the AG's Motion to Compel the production of information concerning home office allocations should be granted only in part. The scope of the AG's request spans many time periods and, thus, makes any attempted comparison invalid. However, the Commission believes that GTE should provide an analysis, based on the test period, of the current allocated level compared to the level upon which rates in Kentucky and the other states were set. The AG's request for copies of testimony, exhibits, pro forma adjustments, workpapers, or other documentation is unwarranted and, therefore, not required at this time. It should be noted that the provision of this analysis does not preclude further discussion during the hearing or in the briefs regarding the use of such analysis.

The AG seeks to compel the production of Item 98, a statement of profit and loss for the non-regulated operations, and states that such information is relevant because the proper accounting for non-regulated operations has a direct bearing on rate case revenues and expenses. GTE contends that the Commission has no regulatory jurisdiction over these matters, except to the extent of determining whether the company has properly segregated the costs of its unregulated operations. GTE also states that it has provided information sufficient to determine whether proper allocation has occurred.

The Commission, being advised, is of the opinion and finds that the AG's Motion to Compel the production of a statement of profit and loss for the non-regulated operations should be granted. The Commission agrees with the AG that records pertaining to non-regulated activities are relevant for the purpose of determining the reasonableness and the methodology for deriving the impact on regulated activities. Although the Commission finds the AG's request relevant, its scope could be deemed overly broad. Thus, the Commission suggests that the parties examine the scope of this request and attempt to limit its scope to specific issues.

The AG seeks to compel production of Item 19, copies of GTE South, Kentucky, and home office budgets for 1987, 1988 and 1989; Item 20, copies of GTE's service corporation budgets for 1987, 1988 and 1989, when complete; and Item 21, budgeted amounts of home office expense to be allocated to Kentucky in 1987, 1988 and 1989. In support of these requests, the AG states that this material is relevant to the issue of allocations to the Kentucky jurisdiction. The AG also states that budget projections are relevant for the purpose of determining the reasonableness of GTE's proposed annualization adjustments. GTE, in response, states that the matters are irrelevant and that the budget information will not enable the AG to ascertain information concerning such items as the impact of early retirements, as alleged by the AG.

The AG seeks to compel the production of Item 22, a comparison between budgeted and actual amounts for Kentucky, the home office and GTE Service Corporation. The AG states that such

material is relevant because it will permit an examination of abnormalities occurring during the test period. GTE characterizes this request as a fishing expedition and states that the transmittal of "all analysis, studies, etc., where actual results are compared to budgeted amounts" would require a moving van.

Also, the AG seeks to compel the production of Item 99, a copy of complete budgets with supporting information and Item 100, a 5-year plan for Kentucky, the general office, GTE Service Corporation, GTE Data Services, GTE Directories, and GTE Laboratories. In support of this Motion, the AG states that such material is relevant to the rate case in that GTE's proposed annualized adjustments should be compared with budget projections and that the expenses for affiliated entities of GTE are a major issue. In response GTE states that the AG offered no plausible reasons why the items were relevant to the proceeding.

The Commission, being advised, is of the opinion and finds that the AG's Motion to Compel the production of the Kentucky, the general office and the affiliated entities budgets and related analysis for the test period and future periods, encompassing Items 19, 20, 21, 22, 99, and 100, should be granted only to the extent that GTE should provide the Kentucky budgets for 1987, 1988, and 1989. The budgets should contain sufficient information to enable the Commission and intervenors to analyze the reasonableness of the test period and expected known and measurable changes. As stated above the AG seeks production of budgeted information to analyze the ever-increasing allocation to Kentucky and the proposed annualization adjustments. It is the

Commission's opinion that the Kentucky budgets should include Kentucky's cost estimates from the general office, GTE South, Service Corporation and other affiliate budgets.

The budget detail must be adequate to provide sufficient review of each revenue and expense category by USoA account number. GTE must also supply all assumptions used in the determination of the specific budget estimates by account. If the budgeted information is incomplete or requires aggregation of amounts from different accounts to reflect estimates of affiliates' cost estimates, GTE should supplement the Kentucky budget by providing this additional information. GTE should also specify whether or not the Kentucky budgeted amounts for the affiliates' costs were obtained from the affiliates' own budgets. If not, a full description of why any particular affiliates' budget was not used should be provided. Although this information is less than that requested by the AG, it should enable the AG to determine if pursuing further information will provide significant benefit.

With regard to Item 22, comparisons of the budgeted amounts and actual amounts for the years 1987, 1988, and 1989 when available, the Commission finds that only the Kentucky information should be provided to the extent such comparative analysis is or has been performed by GTE.

Lastly, the AG seeks to compel the production of Item 11, a complete copy of the management audit, when complete, copies of preliminary draft recommendations of the audit and a list of recommendations included in the audit which will result in savings

to Kentucky. In response GTE states that preliminary draft recommendations are unfinalized and speculative.

The Commission, being advised, is of the opinion and finds that the AG's Motion to Compel the production of preliminary draft recommendations from the management audit and a list of recommendations included in the audit which result in savings should be denied because of the unfinalized and preliminary nature of such draft recommendations. However, the AG's Motion to Compel a final copy of the management audit of GTE should be granted.

Upon serious reflection and deliberation, the Commission is of the opinion that this case should not proceed as originally planned, and subsequently ordered, in the March 1, 1988, Order establishing a schedule of events. The Motions concerning USOA-related matters and the Motions concerning discovery and procedure matters have delayed the progress of this proceeding. GTE obviously will require additional time to frame responses to the items enumerated which the Commission believes should be compelled. In addition, the Commission has had the opportunity to further reflect on Staff's role in major rate proceedings and has strongly advocated that its Staff participate to the maximum extent possible in negotiations. The Commission is of the opinion that such Staff participation is most beneficial when Staff positions are presented in a written form, but Staff testimony in this proceeding was not possible as Staff and its resources are limited.

Based upon all this analysis as well as the delays set forth above, the Commission is of the opinion that it is no longer in the public interest to hold a negotiation conference in this

proceeding and, thus, the negotiation conference which was to have begun May 24, 1988, should be cancelled. Also, the filing of proposed issues lists scheduled on May 18, 1988, and the subsequent rendering of an agenda scheduled on May 20, 1988, should be cancelled.

The Commission is of the opinion that the following changes to the procedural schedule should be implemented. GTE should file responses pursuant to the Commission's decision regarding the AG's Motion to Compel as well as updated or revised testimony, if necessary, as early as possible but no later than May 18, 1988. Intervenors should file additional or updated testimony, if necessary, by June 1, 1988. The hearing will proceed as scheduled, beginning on June 8, 1988.

SUMMARY

The Commission, being advised, is of the opinion and finds that:

1. The AG's Motion to Exclude the USoA costs should be denied and therefore, GTE's request for a hearing on such Motion should also be denied.

2. The AG's Motion for Deviation from the Procedural Schedule should be granted.

3. The AG's Motion to Compel the production of information concerning home office allocations should be granted only to the extent that GTE should file an analysis of test period general office allocations and the level of allocation used to establish rates in each jurisdiction.

4. The AG's Motion to Compel the production of a statement of profit and loss for the non-regulated operations should be granted.

5. The AG's Motion to Compel the production of GTE South, Kentucky budgets for 1987, 1988 and 1989, to the extent available; GTE's Service Corporation budgets for 1987, 1988 and 1989, when complete; budgeted amounts of home office expense to be allocated to Kentucky in 1987, 1988 and 1989, complete budgets; and 5-year plans for affiliates should be granted only in part, for the reasons stated above.

6. The AG's Motion to Compel the production of comparisons between budgeted and actual amounts should be granted only for Kentucky operations, in the detail as outlined above.

7. The AG's Motion to Compel the production of preliminary draft recommendations from the management audit and a list of recommendations included in the audit which result in savings should be denied because of the unfinalized and preliminary nature of such draft recommendations. However, the AG's Motion to Compel a final copy of the management audit of GTE should be granted.

8. The revisions to the procedural schedule enumerated above should be adopted and implemented.

9. The negotiation conference scheduled for May 24, 1988, should be cancelled and therefore, so should the production of an issues list.

Each of the above findings is hereby ORDERED.

Done at Frankfort, Kentucky, this 9th day of May, 1988.

PUBLIC SERVICE COMMISSION

Richard D. Werner Jr.
Chairman

Robert M. Davis
Vice Chairman

James W. Williams
Commissioner

ATTEST:

Executive Director