

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 shall file an original and 15 copies of the following information with the Commission, with a copy to all parties of record, not later than December 2, 1988. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets is 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 operations and jurisdictional operations, separately. If the information cannot be provided by this date, you should submit a motion for an extension of time stating the reason delay is necessary and include a date by which

it will be furnished. Such motion will be considered by the Commission.

1. Please explain why the "Actual 12/31/87 Cat 3 TPIS Investment" amount of \$167.6 million differs substantially from the projected amount of \$156.9 million.

a. Is it normal for projections to be this inaccurate?

b. Do either of these amounts include telephone plant under construction? If so, please identify these amounts.

c. Please provide USoA account level detail for the \$167.6 million amount.

2. When providing the following data, please use a two-dimensional matrix with all central office jurisdictional separations categories on one axis and all central office CXXX accounts on the other. For Part 36 Category 4 (or Part 67 Category 8), please provide a break down of Subcategory 4.2 into 4.21, 4.22, and 4.23. If the data is unavailable in the form requested, please provide data that is available closest to the time period requested, such as from the third quarter 1987 separations study. In either event, please ensure that the data for parts "a" and "b" are from the same time period so that it is possible to derive appropriate separations factors for each category or subcategory.

a. Provide a breakdown of Kentucky combined central office equipment investment that was in service as of October 1987 into USoA accounts and jurisdictional separations categories. These investment amounts are expected to correspond

to the data provided in response to Item 12 of the Commission's January 15, 1988 information request. If they do not, please explain.

b. Provide a breakdown of Kentucky jurisdictional central office equipment investment that was in service as of October 1987 into USoA accounts and jurisdictional separations categories. These investment amounts are expected to correspond to the data provided in response to Item 12 of the Commission's January 15, 1988 information request. If they do not, please explain.

c. If an unweighted DEM factor is available based on data from the separations study used to jurisdictionally allocate end of test period investments, please provide.

3. Please provide both the weighted and unweighted DEM factors used to support interstate rates in GTE South's 1988 interstate access charge filing.

a. Were these factors accepted by the FCC? If not, please explain and provide the factors that were accepted.

b. Has GTE South filed a 1989 interstate access charge tariff with the FCC? If so, please provide both the weighted and unweighted DEM factors used to support the rates in this filing.

4. With respect to the requested amortization due to the change in separations procedures for COE Category 4, please provide evidence to show that the revenue requirement was not recovered through interstate rates, such as providing the data used to support GTE South's interstate access tariff.

5. Has GTE made any attempt to recover the revenue requirement from the interstate jurisdiction, such as requesting reconsideration of the effective date? If so, please provide.

6. Has the FCC made any provision which would allow recovery of any revenue shortfall which would result from its reconsideration of COE Category 4 separations procedures? If so, please explain.

7. Please provide an analysis that separates the requested COE Category 3 and 4 adjustments into local, intraLATA toll, interLATA access, and interstate access components.

8. On page 4 of GTE South's Petition for Rehearing, it is stated: "Section 36.392, FCC Rules and Regulations, identifies general and administrative expenses as being 'apportioned among the operations on the basis of the separation of the cost of the combined big three expenses which include . . . central office switching expenses.' A correct application of Part 36 rules requires that these general administrative expenses also be jurisdictionally separated." Is it correct that the "general and administrative expenses" referred to are Corporate Operations Expenses which in turn is composed of Account 6710 Executive and Planning, and Account 6720 General and Administrative?

9. To the extent possible, please identify the Part 31 accounts that correspond to Part 32 Accounts 6710 and 6720.

10. Please indicate what percentage of Accounts 6710 and 6720, Kentucky combined, is directly assigned to the Kentucky intrastate jurisdiction on the basis that these expenses are related to Extended Area Service settlements.

11. Is it GTE South's understanding that the portions of Accounts 6710 and 6720 that are not directly assigned to exchange operations are jurisdictionally allocated on the basis of the separation of the combined Big Three Expenses, which are defined by the FCC as including Plant Specific Expenses, Plant Non-Specific Expenses, and Customer Operations Expenses? If not, please explain.

a. What percentage of the Big Three Expenses, Kentucky combined, were allocated to the Kentucky intrastate jurisdiction at the end of the test year (or closest quarter to the end of the test year for which data is readily available)?

b. Of total Kentucky central office switching expenses, what percentage was allocated to the intrastate jurisdiction?

c. Of total Kentucky central office investments, what percentage was allocated to the intrastate jurisdiction?

12. Is it GTE South's position that the expenses recorded in Accounts 6710 and 6720 are 7.26 percent of gross plant in service? If not, what percentage of gross plant in service do the expenses in these accounts represent? Please use Kentucky specific data when formulating a response.

13. Please reference the attachment to Item 16 of the Commission's April 5, 1988 information request. The attachment is entitled "Annual Charges as Percent of First Cost Based on Year 1986 (For Historical Purposes Only)."

a. Please explain what is meant by the phrase "For Historical Purposes Only."

b. A footnote at the bottom of the page states, "See study introduction (Section II) for study parameters and a list of expense items included in each annual charge component." Please provide this reference.

c. For the list of expense items identified in the above reference, please provide the Part 32 account numbers.

14. Of the following types of expenses, please indicate which are entirely included in Accounts 6710 and 6720:

- a. Gross Receipts Taxes
- b. Miscellaneous State Unemployment Taxes
- c. Business License and Franchise Taxes
- d. Commission Inspection Fees
- e. Federal Unemployment Taxes
- f. FICA Taxes
- g. Miscellaneous State and Local Taxes
- h. General Office
- i. Traffic
- j. Uncollectible Revenue
- k. Insurance
- l. Accidents and Damages
- m. Operating Rents
- n. Relief and Pensions
- o. Earth Station Expenses
- p. Telephone Franchise Requirements
- q. General Service and License

15. Provide by account, in a form similar to that provided in response to Item 10 of the Hearing Request, the respective level of plant in service, short-term plant under construction, accumulated depreciation, and accumulated deferred taxes on an end of test period basis for both Category 3 and 4.

16. In response to Item 10 of the Hearing Request, total COE Category 3 investment is shown to be \$171,891,824. Please provide the source of this level.

17. Explain the apparent inconsistency in the use of this level for the development of a net book ratio when it is not comparable to any of the previously used levels.

18. Please explain why short-term plant under construction needs to be a component of the above ratio.

19. In response to Item 10 of the Hearing Request, total COE Category 4 investment is shown to be \$93,598,608. Please provide the source of this amount.

20. Explain the apparent inconsistency in the use this level for the development of a net book ratio when it is not comparable to any of the previously used levels.

21. Exhibit 10 of GTE South's Notice filed January 29, 1988, contains a schedule listing allocation factors for the test period ending October 31, 1987. Please provide an amended schedule with column (a) being intralata toll, column (b) being intrastate access, column (c) being local, column (d) being total intrastate, and column (e) being interstate access. Are these factors end of period average for the test period?

22. In the testimony of both Farmer and Giammarino, the witnesses state that the increase in toll revenues can only be attributed to an increase in usage since the rate (price) has not changed. In that regard, provide the following information:

a. For the 12 months prior to the test period, the 12 months of the test period and all available months subsequent to the test period, provide on a monthly basis a schedule(s) in similar form to that provided in response to Hearing Request 11 showing both booked and normalized levels.

b. With reference the periods requested in (a) above, provide usage levels corresponding to the information provided in (a) above.

23. Farmer Rehearing Schedule 3 provides summary data for the 2-year period 1988 and 1987 for intralata toll. With reference to that schedule provide the following:

a. On a monthly basis starting with November 1985 to the most recent month available, provide operating expenses, separation factors, and the intrastate toll expenses in a format similar to the summary schedule.

b. Please provide an explanation of the apparent shift in separation factors for intralata toll. This explanation should also contain a full narrative of the process for developing these separation factors.

c. With reference to (b) above, identify and explain any significant change in any separation factor from month to month.

24. Mr. Giammarino states in his testimony that not only expenses need to be matched, but investment needs to be matched. In that regard, provide on a monthly basis starting with November 1985 to the most recent month available a schedule(s) showing total investment, separation factors, and intralata toll investment.

25. With the current authorized rate of return and the information above, provide on a monthly basis the contribution for intralata toll for the period requested above.

26. At pages 20 and 21 of Farmer Testimony, reference is made to future analysis and that the analysis would likely show a decrease in toll revenues. Please explain more fully lines 19-22 of page 20 and the expectation of a decline in toll revenues.

27. For the period November 1985 to the most recent month available, on a monthly basis, provide the monthly toll settlement forms supplied to South Central Bell and any true-up to those forms.

28. On a monthly basis for the 12 months prior to the test period, the 12 months of the test period and the months subsequent to the test period, provide intrastate access usage (units) for each element that has a separate tariffed rate along with the monthly revenue by element.

29. With regard to intrastate access expenses, provide on a monthly basis total operating expenses, intrastate access separation factors, and intrastate access expenses for the 12 months prior to the test period, for the test period, and for each month available subsequent to the test period.

30. On a monthly basis for the same period as requested for revenues and expenses, provide total investment, intrastate access factors, and the intrastate access investment.

31. With the current authorized rate of return and the information requested above, provide the contribution for intrastate access for the periods requested above.

32. Given the testimony that revenues, expenses, and investment must be matched, provide an explanation why the company finds no adjustments other than normalization to toll and access revenues is warranted when revenue requirement is developed using an end of period concept. How do toll and access differ?

33. Adhering to the matching principle, provide an analysis of the adjustments necessary to bring toll and access to an end of period basis.

34. Giammarino Rehearing Schedule 1 shows a comparison of R20, R21, and R22 account for two time periods. However, these periods do not correspond to the periods for the adjustment made by the Commission. Thus, in order to further analyze this difference, provide for the period November 1985 through September 1988 the expenses incurred in each of these maintenance accounts (R20, R21, and R22).

35. With regard to the above question, on monthly and account basis, identify any training or initial (non-recurring) costs as a result of central office conversions.

36. Provide an analysis for the 12-month period immediately prior to the test period, the test period and all available months subsequent to the test period of each COE repair account by cost

element code in a comparative format. Also identify the costs in each month that corresponds to the characterization set forth by the company in its reply to Staff Supplemental Request, Item 19, Case No. 9678, An Adjustment of Rates of General Telephone Company of the South, as mentioned in DeWard's direct testimony in Case No. 10117, page 57 beginning on line 17.

37. In the above question, identify for each month, the expenses by switch and identify each switch by cut over date.

38. Exclusive of wages, please discuss the cost improvements of digital COE repair which would generate more costs than non-digital COE repair under normal circumstances.

39. Please provide any other information to support your position that the cut-over to digital technology results in more or less a dollar-for-dollar transfer of expense from non-digital to digital accounts.

40. Please provide engineering repair estimates for each digital switch cut-over during the periods mentioned above, and comparisons of actual expenses for each switch it is to replace. Also, provide this comparison for each digital switch to be cut over in the future.

41. Please provide any budget assumption narratives relative to the change over from non-digital to digital technology and its impact on COE repair expenses.

42. On page 10 of the Petition for Rehearing, it is stated:

The Company explained, as it did in the prior rate case, that the increases in these specific "digital" accounts have been as a result of conversions in which older technology switches were replaced with digital technology. The Commission apparently misunderstood this explanation and presumed that the increase in

these accounts related to the "conversion activity" which took place as the new digital switches were installed.

Based on this statement, is it GTE South's position that the replacement of a switch causes no expenses to be recorded in any maintenance accounts? If not, please clarify GTE South's position and identify the maintenance expense accounts which could be affected.

43. When a switch is retired, are there any expenses associated with the retirement, such as removal costs? If so, please identify the maintenance expense accounts which could be affected.

44. Please give a brief description of the activity that occurs when a switch is replaced.

45. How many digital switches and access lines were placed into service prior to November 1985? For the period November 1985 to October 1986? For the period November 1986 to October 1987?

46. Please provide the gross investment in digital switching equipment in October 1986 and October 1987.

47. Is there any correlation between the amount of investment in switching equipment and the amount of maintenance expenses associated with the equipment? Please explain the response.

48. Provide workpapers for all adjustments shown in Giammarino Rehearing Schedule 3.

Done at Frankfort, Kentucky this 21st day of November, 1988.

PUBLIC SERVICE COMMISSION


For The Commission

ATTEST:

Executive Director