

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THACKER-GRIGSBY)
TELEPHONE COMPANY, INC. FOR A CERTIFICATE)
OF PUBLIC CONVENIENCE AND NECESSITY TO) CASE NO. 89-239
CONSTRUCT ADDITIONAL TELEPHONE LINES AND)
OTHER FACILITIES)

O R D E R

On August 28, 1989, Thacker-Grigsby Telephone Company, Inc. ("Thacker-Grigsby") filed its application for a Certificate of Public Convenience and Necessity to construct. Its application is a result of a study made of its entire system requirements through 1993, which indicated a need for expenditures totalling \$4,404,705 through this period. This amount includes replacement of central office switching equipment, the installation of interexchange fiber optic transmission facilities and associated terminating equipment, and modifications of exchange outside plant facilities.

Thacker-Grigsby provides local telephone service to approximately 5500 customers and is comprised of six dial exchanges located primarily in Knott County, Kentucky, with portions extending into Perry, Floyd, and Breathitt counties. Three exchanges, Hindman, Mousie, and Pippa Passes were previously converted to digital operation utilizing a TRW-Vidar host and remote switching equipment. Thacker-Grigsby proposes to convert the remaining exchanges in Cody, Fisty, and Topmost with

digital remote switching equipment and to add a new host in Hindman. The existing switching equipment in the Cody, Fisty, and Topmost central offices are of electromechanical design dating back to 1972, 1963, and 1976, respectively. Based on information contained in the application, it appears that the equipment is obsolete and cannot support the line additions required to accommodate normal growth over the next five years. Furthermore, it was noted that the equipment cannot provide services such as 911, special custom calling features, equal access, and toll recording. Additional functions to be established are centralized billing, automatic message accounting, equal access if requested, subscriber remote line testing, and repair and number assignments.

The TRW-Vidar equipment is no longer being manufactured; therefore, the new switching equipment must be obtained from a different manufacturer and will not be technically compatible with the existing TRW-Vidar host in Hindman. This will necessitate the installation of new host switching equipment; however, the existing TRW-Vidar equipment will be retained for as long as possible. Thacker-Grigsby proposes to install the new host switch in an addition to its headquarters building. The existing Hindman central office and Thacker-Grigsby headquarters are in two separate buildings, although they are in close proximity. Due to concerns over the operational inefficiencies resulting from this arrangement, Thacker-Grigsby plans this as a first step in consolidating its headquarters and the Hindman central office.

In the area of central office equipment, Thacker-Grigsby also proposes to install new stand-by generators, a portable generator, and halon fire extinguishers.

Thacker-Grigsby also proposes to link its central offices with fiber optic transmission facilities to support the digital span lines necessary to connect the host offices with remotes. It proposes to use a "ring" concept as a method of providing continuous service. If a link is broken, the system will transfer the signal to an alternate path. Two separate rings are being proposed. One ring will connect the Hindman central office with Cody, Pinetop, Topmost, and Pippa Passes. The other ring will connect Hindman with Fisty, Softshell, and Mousie. Cordia would be served by existing T-carrier facilities from the Fisty office. With the exception of approximately two miles of new pole line, the fiber optics will utilize the existing pole line. Thacker-Grigsby notes that the fiber optic transmission facilities are necessary because the present digital carrier system operates in older exchange grade cables, which have been causing significant carrier troubles. However, these cables would be suitable for providing local exchange service; therefore, Thacker-Grigsby is not proposing to retire these facilities, but will reassign them for local use.

In evaluating exchange outside plant requirements, Thacker-Grigsby used a design procedure commonly used in Rural Electrification Administration ("REA") loan applications. This procedure involves selecting one exchange as a prototype for estimating construction costs in the remaining exchanges. In

this case, Thacker-Grigsby selected the Cody exchange as the prototype, for which a complete, detailed study was made. From the data obtained from Cody, an estimated cost per mile, per new subscriber, and per total subscriber were developed. These ratios were applied to the remaining exchanges, in order to obtain a construction cost estimate. Although this procedure is adequate for REA loan applications, it provides insufficient information to determine that such construction is necessary. Therefore, the Commission will only approve the exchange outside plant construction in the Cody exchange. Thacker-Grigsby should file for construction approval for the remaining exchanges after detailed studies are made, if it is determined that the construction will exceed extensions in the ordinary course of business.

Construction costs will be funded by a loan from the REA; however, in Franklin Circuit Court Civil Action No. 80-CI-1747, styled West Kentucky Rural Electric Cooperative Corporation v. Energy Regulatory Commission, the circuit court held that the Commission has no authority to approve or disapprove borrowings from the REA because the REA is an agency of the federal government. KRS 278.300 exempts loans from the federal government from Commission regulation. Therefore, approval of financing is not required in this proceeding.

The retirement of the electromechanical switching equipment may result in a depreciation reserve deficiency; however any amortization will require specific Commission approval and should be applied for separately, if necessary.

FINDINGS AND ORDERS

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that:

1. The proposed construction with respect to central office equipment, and the proposed building addition, is reasonable and should be approved.

2. Thacker-Grigsby's proposal to link its central offices with fiber optic transmission facilities is reasonable and should be approved.

3. The proposed outside plant construction in the Cody exchange is necessary and should be approved.

4. Thacker Grigsby has not provided sufficient documentation regarding the outside plant construction proposed at the remaining exchanges, and should file for construction approval for these exchanges after detailed studies are made, if it is determined that the construction will exceed extensions in the ordinary course of business.

5. Thacker-Grigsby should keep the Commission informed of its progress on this construction project by filing a copy of all progress reports, or similar documents, submitted to the REA with this Commission. This case number should be cited on all reports.

6. The Commission is not empowered to approve or disapprove the financing of this construction.

IT IS THEREFORE ORDERED that:

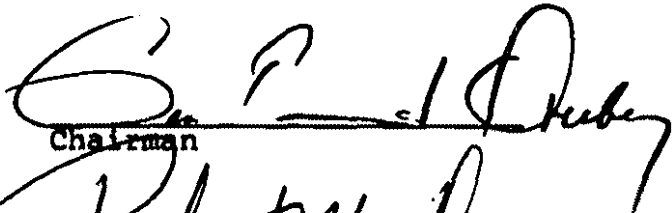
1. Thacker-Grigsby be and it hereby is granted a Certificate of Public Convenience and Necessity to proceed with

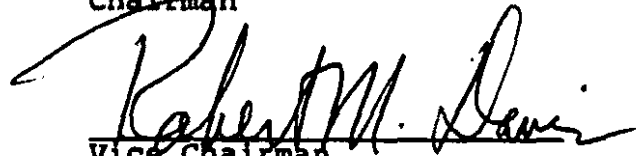
the proposed central office equipment replacements, to construct the proposed building addition, to construct the proposed fiber optic transmission facilities to link its central offices, and to proceed with the proposed outside plant construction in the Cody exchange.

2. Thacker-Grigsby shall file a copy of all progress reports, or similar documents, submitted to the REA with this Commission.

Done at Frankfort, Kentucky, this 7th day of December, 1989.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman

Commissioner

ATTEST:

Executive Director