COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ADJUSTMENT OF RATES OF THE SALEM TELEPHONE COMPANY, INC.) CASE NO. 91-217

O R D E R

IT IS ORDERED that Salem Telephone Company, Inc. ("Salem") shall file the original and 15 copies of the following information with the Commission, with a copy to all parties of record, by October 24, 1991. In the event that a response to individual items becomes extraordinarily voluminous, Salem 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 ensure that it is legible. Where information requested herein has been provided 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 Kentucky operations and

Kentucky 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 an extension is necessary and include a date by which it will be furnished. Such motion will be considered by the Commission.

1. With reference to Salem's numerous responses wherein it indicated that it was unable to respond to Commission requests because Salem did not become a part of the TDS system until September 1989, provide the following information:

a. Explain why Salem is unable to provide financial information prior to September 1989.

b. State whether Salem has in its possession financial records relating to its operations prior to September 1989. If Salem does not have these records, explain where the records are located.

c. If Salem does have these records, explain why they were not used to prepare responses to the Commission requests.

d. If Salem does not have these records, state why it has not complied with the Commission's record retention regulations.

e. State and explain the impact of TDS's acquisition of Salem on its ability to provide the Commission with historical financial and operating data.

2. With reference to Item 23 of the Commission's August 6, 1991 Order, provide a copy of the audit report associated with the $4,000 annual audit.

3. With reference to Item 26 of the Commission's August 6, 1991 Order, provide the following information:

a. Explain Salem's position regarding the appropriate rate-making treatment of employee concessions.

b. Explain Salem's position regarding the Commission's policy of imputing revenues to recognize the revenues lost as a result of such concessions.

4. For each employee of Salem employed during and subsequent to 1987, provide the following information:

a. Identify each employee by name or identification number.

b. List each employee's salary on January 1, 1987 and list each increase in pay subsequent to that date.

c. List all fringe benefits paid to each employee since January 1, 1987.

d. State and explain any extraordinary payments to management or employees associated with TDS's purchase of Salem in September 1989.

e. With reference to Item 17(d) of the Commission's August 6, 1991 Order, elaborate on the reasons why Salem is unable to provide information pertaining to salaries paid prior to September 1989.

f. Explain why TDS's purchase of Salem has had an impact on its ability to provide information pertaining to Salem's historical wages and salaries information.

g. State and explain the status of Salem's payroll records.

h. For each calendar year, beginning with 1987, provide an analysis showing total wages and salaries, wages and salaries expensed, and wages and salaries capitalized. Provide the same information for the test year.

5. With reference to the response to Item 22(a) of the Commission's August 6, 1991 Order, provide a copy of the advertisements associated with the expense for Other Advertising (corporate).

6. With reference to the response to Item 22(c) of the Commission's August 6, 1991 Order:

a. State and explain Salem's position with respect to the $3,052 associated with charitable contributions.

(i) State whether Salem is aware of the Commission's policy of disallowing charitable contributions for rate-making purposes. State Salem's position with respect to this policy.

(ii) Explain any circumstances that would justify including charitable contributions in this case.

b. Explain the circumstances which resulted in the incurrence of the $1,070 tax penalty. Explain any circumstances that would justify including this non-recurring item in Salem's rates.

7. With reference to the response to Item 35(c) of the Commission's August 6, 1991 Order, provide the following information:

a. Respond to the portion which requests "The amount by type from each billing unit and the method used in billing (i.e., direct or allocated) and basis for allocating common charges."

b. For each affiliate, provide a listing showing each recurring charge billed monthly to Salem. Provide a narrative explaining the services rendered for each charge.

c. For each affiliate, provide a listing showing each recurring charge allocated monthly to Salem. Provide a narrative explaining each monthly allocation.

d. Provide any contracts associated with (b) and (c) above.

e. For each affiliate, list each individual test-year payment, charge, or allocation involving Salem that exceeded $500. Provide a narrative describing the service rendered for each payment, charge, or allocation. Also, provide the aggregated total payments, charges, or allocations, broken out by category of less than $500.

f. Provide any other available information relevant to test-year affiliate charges to Salem that support the reasonableness of these affiliated transactions.

8. Identify any direct or allocated affiliate charges that have been disallowed in other jurisdictions in rate proceedings involving TDS-owned LECs. Provide copies of the Orders that set forth the disallowances and identify the corresponding test-year charges to Salem.

9. With reference to Item 49 of the Commission's August 6, 1991 Order, provide an itemized listing of actual or estimated

test-year costs associated with the manager's personal use of a company vehicle. Also, state the make and model of the vehicle.

10. With reference to Item 50 of the Commission's August 6, 1991 Order, provide the dollar amount of aircraft expenses allocated to Salem, if any.

11. With reference to Item 51 of the Commission's August 6, 1991 Order, provide an analysis of clearing accounts for each month of the test year appearing on the books of Salem.

12. With reference to Item 54(a) of the Commission's August 6, 1991 Order, provide the following information:

a. Explain why Salem's income tax provision for rate-making purposes should be based upon the higher income tax rates that will result from the TDS takeover.

b. Provide any evidence Salem deems appropriate supporting its position that its income taxes should be based on 34 percent for rate-making purposes even though its rate-making tax rate would be lower if it were a stand-alone company.

c. With reference to Item 54(b) of the Commission's August 6, 1991 Order, provide an analysis showing the tax computation based upon Salem's actual requested increase of $165,620 and the income rates applicable to a non-controlled group company at this taxable income level.

13. With reference to Item 55 of the Commission's August 6, 1991 Order, provide the following information:

a. Copies of all correspondence with the Commission relating to the implementation of the pension plan and the booking of the "prior years service."

b. The initial journal entries related to the booking of prior years service.

c. Illustrative monthly journal entries to record the amortization of prior years service.

d. The amount included in test-year operating expenses related to prior years service amortization.

e. In consideration that this amortization expense relates to historical employee services, explain why it is appropriate to include this expense in setting prospective rates.

f. State and explain the relationship of the events described in Item 55 and the $6,173 pension adjustment included in Adjustment K.

14. With reference to Salem's 1989 and 1990 Annual Reports as filed with the Commission:

a. Explain for each of the following expense accounts the reasons for the level of increase/ decrease in each account:

Account	Expense	1989	1990	$ Change	% Change
6112-6116	Network Support	1,050	7,138	$ 6,088	580
6121	Land & Building	7,387	13,880	6,493	88
6215	Elec. - Mech.	30,671	19,548	(11,123)	- 36
6411	Poles	4,522	906	(3,616)	- 80
6422	Undergrd. Cable	62,862	49,365	(13,497	- 21
6532	Network Adm.	-0-	29,176	29,176	-
6533	Testing	9,125	16,694	7,569	83
6534	OPS Adm.	-0-	20,420	20,420	-
6535	Engineering	-0-	5,688	5,688	-
6561	Depreciation	148,019	170,214	22,195	14.9
6613	Prod. Adv.	760	4,254	3,494	459.7
6621	Call Completion	9,230	-0-	(9,230)	-100
6622	Number Services	-0-	7,118	7,118	-
6623	Cust. Services	87,914	246,154	158,240	180
6723	Human Resources	224	9,140	8,916	3,980
6728	Other G & A	28,212	13,446	(14,736)	- 52

b. With reference to test-year customer services expense, provide the following information:

(i) Provide a breakdown of the services included along with the corresponding charges.

(ii) Identify all charges associated with TDS affiliates.

(iii) For each service, explain its necessity in the operations of Salem.

(iv) For each service, explain its benefit to the ratepayers of Salem.

c. In total, Salem's operating expenses increased from $544,436 to $756,223 during 1989-1990, an increase of 38.9 percent. In addition to the specific responses of part (a), provide a detailed narrative explaining why Salem's expenses have increased under TDS ownership, and what quantifiable benefits have accrued to Salem's customers in terms of quality of service improvement, reduction of future costs, etc.

d. State whether the operating expenses of other LECs that TDS has purchased have increased to a similar extent.

e. Explain why the economies of scale available to Salem under TDS ownership have not resulted in a reduction in operating expenses.

f. State whether these increases in expenses were budgeted by Salem/TDS. If so, state why the decision was made to allow such a significant increase in expenditures. If they were not, what amounts were budgeted for 1990 and why did actual expenditures vary significantly from budgeted amounts?

15. With reference to Salem's proposed rate base of $1,434,118, provide the following information:

a. With reference to proposed CWIP of $68,644:

(i) Explain why Salem considers it appropriate to include in its rate base an item not used and useful to its ratepayers.

(ii) Provide an analysis showing how this CWIP will be financed.

(iii) State and explain any other adjustments related to CWIP that Salem has included in its filing.

(iv) If CWIP is included in rate base, does Salem consider it appropriate to also recognize the resulting revenues?

(v) Does Salem agree that any amounts included should be offset by related A/P?

b. Explain why Salem based Materials and Supplies on test year end rather than a 13 month average. Also, state Salem's position regarding reducing M & S by associated A/P.

c. Salem did not include $23,500 in test-year Deferred Taxes - Other in its rate based calculation.

(i) Provide an analysis of the timing differences that resulted in these deferred taxes.

(ii) Explain why these taxes should not be included as a deduction to rate base.

d. Salem's response to Item 11(s) of the Commission's August 6, 1991 Order reflects that it had test-year prepayment balances.

(i) Explain why Salem did not include prepayments in its calculation.

(ii) If included, which does Salem consider more appropriate, test year end or a 13 month average?

16. With reference to Item 5 of the Commission's August 6, 1991 Order, explain why the test-year net income of $102,158 disagrees with the test-year net income of $119,429 reflected in Salem's filing.

17. With reference to the $3,613 reduction to Non-Operating Income (Net), provide a calculation of this amount and reconcile to the $1,441 adjustment shown for adjustment I.

18. With reference to Adjustment K, provide the following information:

a. State the basis for the $6,000 estimated audit cost.

b. If actual audit costs are now known, state this amount.

19. With reference to the $15,000 estimated rate case expense:

a. Provide breakdown into general categories, (Accounting, Engineering, Legal, etc).

b. Provide the basis for estimated amounts.

c. Provide actual amounts incurred and revised estimates as they become available.

20. With reference to the 1989 and 1990 Salem Annual Reports on file with the Commission, explain the level of change in the following Balance Sheet Accounts from 1989-1990:

a. Account 1190 - Increase from $14,090 to $50,881.

b. Account 1406 - Increase from $59,867 to $103,079.

c. Account 2112 - Increase from $72,146 to $102,654.

d. Account 2124 - Increase from $0 to $78,100.

21. With reference to the response to Item 55 of the Commission's August 6, 1991 Order, Salem states that it "did not have a pension plan prior to the NTCA plan implemented in 1986." However, in the final Order in Salem's last rate filing, Case No. 7782,[1] page 3, an adjustment was made to recognize that "the Company has approved a retirement program for its employees."

a. Explain the discrepancy between Salem's response to Item 55 and the reference to a retirement plan in the 1980 Order.

b. Provide a narrative explaining the history of the plan referred to in the 1980 Order.

c. Provide an analysis of any adjustments necessary in this proceeding related to that plan.

22. With reference to Salem's proposed depreciation expense, provide the following information:

a. The date on which Salem adopted its current depreciation rates. State the basis upon which these rates were adopted.

b. A schedule showing Salem's depreciation rates prior to its adoption of the current rates.

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1 Case No. 7782, Application of Salem Telephone Company for Authority to Increase its Rates for Telephone Service rendered on or after July 1, 1980.

23. With reference to TDS's 1989 acquisition of Salem, provide the following information:

a. The purchase price paid by TDS for the acquisition of Salem.

b. An analysis showing TDS's projected return on its investment in Salem for the years 1992-1995, assuming Salem's requested increase is granted.

24. Provide the most recent allowed and actual return on equity, the date authorized, and regulatory jurisdiction for each company owned by TDS Telecom.

25. Is Salem now requesting a 3.5 percent return on common equity since it is requesting less than its proposed full revenue requirement? Explain.

26. The testimony of W. G. Butler discusses several systems that have recently been installed by Salem, including a Mechanized Plant Record/Trouble Report System, a TEKNO Alarm Reporting System, a TDS Customer Billing System, etc. For each system discussed in this testimony, provide:

a. The cost of the system.

b. The accounting treatment for the system, including expensing vs. capitalization and the accounts charged for these systems.

c. Whether quantifiable benefits were expected from these systems (e.g. reductions in maintenance costs), what the amount of these projected benefits were estimated to be, and whether they have been factored into Salem's determination of revenue requirements.

Done at Frankfort, Kentucky, this 10th day of October, 1991.

PUBLIC SERVICE COMMISSION

For the Commission

ATTEST:

Executive Director