

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION INTO THE)
REASONABLENESS OF THE EARNINGS OF) CASE NO. 92-563
BRANDENBURG TELEPHONE COMPANY, INC.)

O R D E R

IT IS ORDERED that Brandenburg Telephone Company ("Brandenburg") shall file an original and 15 copies of the following information with the Commission, 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. The information requested is due no later than 30 days following the date of the Order.

All amounts reflected in the answers to the following questions shall be for regulated activities only.

1. Provide the account balances for all revenue, expense and investment items on an annual basis for the years 1989-1991 and on a monthly basis for 1992 and all available months of 1993. Calculate the percentage change from year to year for each line item. These exhibits are to be in similar detail to that provided on Exhibit 2 and Exhibit 4 of Brandenburg's March 26, 1993 response

to the Commission's January 11, 1993 Order, except that revenues shall be in comparable detail as is required in the Annual Report - Form T. Disaggregate local service revenues into each category assigned its own billing code, i.e., touch tone charges, zone charges, custom call features, CLASS services, if provided, and so forth. All percentage changes between the years shown shall be computed and reflected on the schedule. The federal subscriber line charge should be included in access revenues rather than local service revenues. Also, Account 6728 shall be disaggregated into its individual expense categories and percent changes calculated for each expense.

2. a. Provide a copy of NECA settlements for the years 1989-1991 on an annual basis and for 1992 on a monthly basis and all available months of 1993. This exhibit should reflect all individual settlement elements.

b. Provide, for the same time periods cited in 2(a), intrastate interLata access charge billings to all toll carriers showing total access minutes billed and revenues received by tariff element, i.e., transport, switching, intercept, etc.

3. Provide the amount of employee concession service for the year 1992.

4. Provide directors' fees paid for 1992.

5. Provide a schedule of salaries and wages on an annual basis for the years 1989-1992 by employee and for all available months of 1993.

6. Provide a detailed analysis of expenditures for advertising included in all accounts. This advertising will

include newspaper ads, space purchased in publications such as yearbooks, programs, calendars, etc. for the individual months of 1992.

7. Provide an analysis of wages and overheads (taxes, pensions, health insurance, etc.) cleared or charged to telephone plant in service or telephone plant under construction for 1992 on an annual basis.

8. It is generally accepted in rate-making that capital and net investment are comparable. If the Company does not agree with this, provide a detailed explanation of your position. In the Commission's Order dated January 11, 1993 which initiated this case, Item 2(d) required a reconciliation of Brandenburg's net investment and capital at the end of the 12-month period chosen by Brandenburg. This reconciliation was not provided. Therefore, Brandenburg shall supply such a reconciliation in response to this information request.

9. Provide computations for earned book returns on equity and net investment on an annual basis for the years 1987-1992 and for the 12 months to date for those months of 1993 which are available. The calculation should be prepared using the earned rate of return on net investment as the allowable overall return on capital. This methodology is consistent with the principle that the overall return on capital should be comparable to the earned return on net investment.

10. The following information requests are related to Brandenburg's March 26, 1993 response to the Commission's January 11, 1993 Order:

a. Provide support for Brandenburg's statement in the last sentence of the second paragraph on page 2 that "Brandenburg should be allowed to earn a return on investment greater than 10.75 percent." This support should be based upon the generally accepted methodologies, i.e. comparable companies, discounted cash flow method, or some other methodology used in rate proceedings to support that company's proposed return, both on net investment and on common equity.

b. Provide a pro forma income statement similar to that provided in March 26, 1993 incorporating the new headquarters building and a 36 percent federal income tax rate.

c. Exhibit 2 and Exhibit 4 included a number of pro forma adjustments, all of which were accompanied by a letter notation. The Commission did not receive explanations of these adjustments. Provide these explanations.

d. Provide the company's calculation of the cash working capital adjustment in the amount of \$578,581 as shown in Exhibit 2, page 2 of 2.

e. Explain why RTB stock in the amount of \$591,605 reflected on Exhibit 2, page 2 of 2, is included in rate base when the funds were used to purchase stock rather than to construct telephone plant used and useful in providing telephone service.

f. Explain why "Customer Deposits" is deducted from rate base.

g. Are any of the plant additions reflected on Exhibit 2 or expense increases on Exhibit 4 associated with equal access implementation? If yes, explain and discuss.

h. Net investment increases, on a pro forma basis, from \$16,905,554 million to \$18,985,253 million on Exhibit 2, page 2 of 2, while the capital structure reflected on Exhibit 3 is roughly equal to the actual capital structure at December 31, 1992. It appears that no financing is required for the constructed additions. Explain.

i. On Exhibit 3, page 2 of 2, explain why the current portion of debt is deducted prior to calculating the annual costs.

11. a. During the period 1988-1992, net investment has increased from approximately \$14,952,508 at December 31, 1988 to approximately \$16,632,900 at December 31, 1992 or about 11 percent, with the largest single yearly increase being approximately 4.9 percent from 1991 to 1992. These amounts are from Brandenburg's quarterly reports and exclude cash working capital and RTB stock. Based upon your response dated March 26, 1993, net investment will increase approximately 11.9 percent in 1993, on a pro forma basis, as compared to 1992. Explain why this increase is significantly greater than historical experience.

b. Analysis of Exhibit 4, submitted as a part of your March 26, 1993 response indicates that on a pro forma basis total operating expenses will increase \$1,150,452 or approximately 19.6

percent. Per Brandenburg's Annual Reports, total operating expenses have increased \$1,009,128 or approximately 20.71 percent from the end of 1988 to the end of 1992, an average of approximately 5.2 percent. Explain why this increase is significantly greater than historical experience.

12. Explain the increase in Deferred Federal Income Taxes from the end of 1991 to the end of 1992.

13. From 1991 to 1992, local service revenues increased approximately 5.0 percent. For the same period and adjusting for the required \$236,731 refund for interstate access, access and toll revenues increased approximately 10.2 percent. Overall from 1984 to 1992, total revenues have increased on average by approximately 5 percent annually. In Case No. 10481, Notice of Adjustment of The Rates of Kentucky-American Water Company Effective February 2, 1989, the Commission gave notice to Kentucky-American as well as other utilities under its jurisdiction that adjustments for post test-year additions to plant in service should not be requested unless all revenues, expenses, rate base, and capital items were also updated to the same period as the plant additions. Explain why pro forma revenue increases have not been considered in the March 26, 1993 response.

14. Provide state and federal income tax calculations for regulated activities only. Do not include any nonregulated income or expense items or any income or expense item reflected in accounts below "Net Operating Income" on the Form T. This

calculation is to be detailed and not presented as an "effective" rate.

15. Reconcile the differences between revenue and expense items as reported on your quarterly report for the 12 months ended December 31, 1992 and those reflected on Exhibit 4, investment amounts shown on Exhibit 2 and capital amounts shown on Exhibit 3.

16. Explain the impetus for the plant additions shown on Exhibit 2, i.e., increases in traffic (minutes of use), increases in access lines due to increased population served, or redundancy.

17. Provide a mathematical analysis of the .0816 effective income tax rate shown on Exhibit 5.

18. Exhibit 2 does not reflect any retirements. Should it? If no, explain.

19. Provide the approximate date on which Brandenburg will file with the Commission for a Certificate of Convenience and Public Necessity under KRS 278.020 for authority to construct the additions outlined in Exhibit 2 of the response as well as the construction of the new headquarters building alluded to on page 3 of the response.

20. Provide the statutory authority that would allow the Commission to consider Brandenburg's quality of service and efficiency in order to allow it to earn a return above its cost of capital.

21. What is Brandenburg's cost of capital? Provide a complete discounted cash flow analysis to support this cost.

Include all assumptions and justifications for reasonableness of each component of the analysis.

22. Provide a complete price-out (units x rate) for all services offered by Brandenburg for the 12 months ended January 31, 1992. The price-out should include all rate elements and be organized by tariff section.

Done at Frankfort, Kentucky, this 4th day of May, 1993.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:


Executive Director