COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ADJUSTMENT OF RATES OF THE LEWISPORT TELEPHONE COMPANY	))	CASE NO. 93-133

O R D E R

IT IS ORDERED that Lewisport Telephone Company, Inc. ("Lewisport") shall file the original and 12 copies of the following information with the Commission, with a copy to all parties of record, by October 8, 1993. In the event that a response to individual items becomes extraordinarily voluminous, Lewisport 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, Lewisport 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.

On August 6, 1993 the Commission ordered Lewisport to respond to a data request. The items below refer to Lewisport's answers to that data request.

1. With reference to Item 6:

a. State and explain Lewisport's dividend policy.

b. Identify by recipient and amount the December 1992 dividend.

c. Identify any provision in the sale and transfer agreement relating to payment of dividends.

d. In the event this dividend was associated with the transfer of Lewisport's interest in RSA #3, state and explain the rationale for including a $5,000 dividend in that transaction.

2. With reference to Item 11(c), state and explain the circumstances that resulted in the increase in the CWIP balance from $131,789 in December 1991 to $1,123,880 in December 1992. State the current CWIP balance.

3. With reference to Item 11(t):

a. Identify the non-affiliated company to which the indicated investment pertains.

b. State whether this investment is included in Lewisport's proposed rate base calculation.

4. With reference to Item 11(u), state the names of entities to which the indicated investment pertains.

5. With reference to Item 24(b), explain the purpose of the $81 charge for "Employee Discount Telephone Service."

6. With reference to Item 24(c), state whether the $152 charge for "Contributions" is included in Lewisport's proposed cost of service. If so, state the circumstances associated with the contribution.

7. With reference to Item 27, state whether TDS engages in lobbying activities. If so, identify 1992 lobbying expenditures allocated to Lewisport.

8. With reference to Item 44, provide the following information:

a. The calculation of the ratio used to allocate affiliated company charges to Lewisport; i.e. Lewisport Access Lines/Total Access Lines.

b. An explanation of the impact that the cable operation formerly had on the development of this allocator.

c. How frequently is the allocator updated?

9. With reference to Item 46(b), provide the following information:

a. State and explain the factors that resulted in TDS ROE earnings of 21.83 percent in 1992.

b. State and explain how the level of earnings of affiliates is considered in pricing services to Lewisport.

c. State and explain how intra-company profits or returns are factored into intra-company billings.

d. State and explain any refund requirements in the event of excessive earnings by an individual affiliate.

10. With reference to Item 55(a):

a. Elaborate on the statement "the adoption of the 1990 schedules would have prevented the Company from recording any extraordinary retirements resulting from its current construction program." Provide calculations to support your statement.

b. Why did Lewisport consider whether extraordinary retirements would or would not be recorded when it decided to reject the 1990 schedules? Fully explain.

11. With reference to Item 55(c), on August 27, 1993, the Commission issued its approved 1993 Average Depreciation Schedule.

a. State and explain Lewisport's intention with respect to adopting this schedule.

b. Provide a revised Exhibit G reflecting the 1993 rates.

12. With reference to Item 48, provide an itemized listing of actual or estimated test-year costs associated with the manager's personal use of a company vehicle.

13. With reference to adjustment K:

a. For each employee, provide wages and salary data for the years 1989-1992 in the following format:

Employee	Pay Rate	Reg Hrs	Reg Earnings	OT Hrs	OT Rate	OT Earnings	Total Earnings	Earnings Capitalized	Non/Reg Earnings	Earnings Expensed
Total			*			*	*	*	*	*

b. Restate Section 10.(11)(6)(a) page 21 of the application in the format as shown in (a) above.

c. With reference to Section 10.(11)(6)(a) page 22 of the application:

i) Does Column A, "Construction," refer to capitalized wages and salaries? If not, explain what the amounts in Column A represent.

ii) Explain what the amounts in Column B, "A/R" represent.

iii) Which amounts from which columns are included as wages and salaries expense in Lewisport's proposed cost of service.

d. For each employee of Lewisport employed from 1989 to the present, provide the following information:

i) Name or identification number.

ii) Salary on January 1, 1989, and each increase in pay subsequent to that date.

iii) All fringe benefits paid since January 1, 1989.

iv) An explanation of any extraordinary payments to management or employees associated with TDS's purchase of Lewisport in February 1990.

e. For each calendar year, beginning with 1989, provide an analysis showing total wages and salaries, wages and salaries expensed to jurisdictional operations, wages and salaries capitalized to jurisdictional operations, and wages and salaries expensed and capitalized to non-regulated operations.

14. With reference to the response to Item 57(d):

a. Provide the following information concerning the Consulting Agreements referenced on page 15 of the Acquisition Agreement:

i) An analysis of all compensation received by Penny Christ and Cindy Burris during the test year as a result of that provision reflecting 1) the service rendered; 2) related amount; 3) entity responsible for payment; and 4) the amount included in Lewisport's proposed cost of service. Also, provide the same information for the 12 months immediately preceding the test year.

ii) The compensation that would have been paid to these individuals during the test year absent the acquisition of Lewisport by TDS.

iii) A description of the consulting services provided by these individuals.

iv) An explanation of the necessity for these consultants in view of TDS's extensive experience in telecommunications and its billings to Lewisport for managerial services.

v) Absent the acquisition by TDS, would these consultant costs be incurred?

vi) Do the consultant agreements and the associated costs represent a portion of the overall compensation paid by TDS for the Lewisport stock? If so, identify the relevant amounts included in Lewisport's proposed cost-of-service. If not, explain.

vii) Any amounts representing compensation to these individuals that are included in Lewisport's proposed cost of service.

b. With reference to the Employment Agreements referenced on page 15 of the Acquisition Agreement, provide the following information:

i) An analysis of all compensation received by James R. Watts and Wayne R. Watts during the test year reflecting 1) the service rendered; 2) related amount; 3) entity responsible for payment; and 4) the amount included in Lewisport's proposed cost-of-service. Provide the same information for the 12 months immediately preceding the test year.

ii) The compensation that would have been paid to these individuals during the test year - absent the acquisition of Lewisport by TDS.

iii) Any amounts associated with these Employment Agreements that Lewisport considers to be a portion of the overall compensation paid by TDS for the Lewisport stock.

iv) Any amounts representing compensation to these individuals that are included in Lewisport's proposed cost-of-service.

15. With reference to Item 63:

a. Explain the comment "the question assumes the company agreed with the treatment of affiliated changes in the Salem case."

b. Compare and contrast the circumstances applicable to Lewisport and to Salem resulting from the TDS acquisitions; e.g., impact on overall expenses and additional services such as class services.

16. With reference to test-year affiliated charges:

a. For each affiliate, list each recurring charge billed monthly to Lewisport and explain the services rendered for each charge.

b. For each affiliate, list each recurring charge allocated monthly to Lewisport and explain each monthly allocation.

c. For each affiliate, list each test-year charge not listed in (a) or (b) above and explain each charge.

d. Provide copies of any contracts associated with (a) and (b) above.

e. For each affiliate, list each individual test-year payment, charge, or allocation involving Lewisport that exceeded $500 and describe the service rendered for each payment, charge, or allocation. Also, provide the aggregated total payments, charges, or allocations, broken out by category, for items less than $500.

f. Provide a breakdown of test-year affiliate charges to Lewisport in a format analogous to Schedule FC of the Salem Value of Service Study, columns (b) and (c) filed in Case No. 92-171.

17. Provide an analysis of rate case expense in the following format:

Category	Hours	Rate per Hour	Other* Expenses	Total by Category
Accounting				
Engineering				
Legal				
Other (Identify)				

*Travel related, copying, advertising, etc. - itemize.

18. With reference to Item 11(o), provide a reconciliation between the December 1992 deferred tax balance of <$25,540> in that exhibit and the $52,220 included in the rate base calculation.

19. With reference to Item 17(b), state and explain the services and activities included in the following accounts.

a. Account 6611 - Product Management.

b. Account 6612 - Sales.

c. Account 6613 - Product Advertising.

d. State what amounts, if any, of the $5,852 incurred for these expenses is included in Lewisport's proposed cost of service.

20. With reference to Item 41:

a. Provide a schedule separating the $23,652 in Regulatory Expenses into direct and allocated charges.

b. Explain the services and activities to which these charges pertain.

21. With reference to Item 36(a):

a. State and explain the consequences to Lewisport's operations resulting from its divestiture of its cable and cellular operations.

b. Identify all of Lewisport's employees who currently perform duties for the cable and cellular operations. For each employee, state the percentage of time devoted to the cable and cellular operations and identify the duties performed by each employee.

c. Identify all other resources shared by Lewisport, RSA #3, and Lewisport Cable Company.

d. Identify the entity that acquired the cable operation.

e. State and explain any modifications to Lewisport's cost allocation manual required as a result of its divestiture of the cable company.

22. Provide an income statement for the 12-month period immediately preceding TDS's acquisition, and the 12-month period immediately following acquisition.

23. With reference to Item 61(a), state and explain the basis for the crediting Telephone Plant in Service in the initial journal entry rather than Accumulated Depreciation.

24. a. With reference to Item 59(a), page 6 of 11 of the updated Part X allocation table shows an increase of $74,601 to

non-regulated expenses in the computation of the general allocator which represents operating expenses for the cable company. Is the $27,225 of direct labor charged to the cable company included in the $74,601? If not, explain why and recalculate adjustment I of your application based on the inclusion of the $27,225.

b. File TDS's November 6, 1992 response to the Commission's Report on Examination of Cost Allocation Procedures for Lewisport, including all enclosures. Page 2 of the response states that an adjustment recognizing billed cable revenue has been made to the billing percentage factor. An enclosure showed that including the billed cable revenue in the computation of the billing factor changed the ratio from 90.57 percent regulated/9.43 percent non-regulated to 76.22 percent regulated/23.78 percent non-regulated. State whether billed cable revenue was included in the computation of the 92.62 percent regulated/7.38 percent non-regulated billing factor in Lewisport's application. If not, explain why and recompute adjustment I of your application based on the inclusion of the billed cable revenue in the billing percentage factor computation.

c. With reference to Item 59(a), on page 2 of 11 of the updated version of the Part X allocation table under Accounting and Finance, was a line item inadvertently omitted that should have read "Region 21,369"?

d. With reference to Item 59(a), at the bottom of page 3 of 11 of the updated version of the Part X allocation table, was a line item inadvertently omitted that should have read "Total Non-regulated Wages 32,200?"

25. a. With reference to Item 60(g), explain how the actuarial assumption of a 15% health care trend rate was determined.

b. Recalculate all components of post-retirement benefits other than pensions (expense and transition obligation) using a 1, 2 and 3 percent decrease in the health care trend rate.

c. What portion of the affiliate charges shown in Item 56(f) as $177,506 is for post-retirement benefits other than pensions?

d. With reference to Item 60(l), recalculate total affiliate charges that would be allocated to Lewisport if the health care trend rate were reduced 1, 2 and 3 percent.

e. With reference to Item 60(n), what was the average remaining service life of employees used in the computation of post-retirement benefits expense?

f. With reference to Item 60(n), provide the <u>workpapers</u> used to calculate the $96,252 transition obligation and the $2,847 service cost.

g. With reference to Item 60(h), provide a schedule for the accrual basis accounting for post-retirement benefits for 1993-2012 showing the service cost, interest cost and <u>amortization</u> of the transition obligation for each year.

h. With reference to 60(n), $15,842 is shown as FAS 106 expense. Does this amount reflect FAS 106 expense after an adjustment to capitalize a portion to follow capitalized salaries? If not, calculate the FAS 106 expense adjusted for capitalization using a 15, 14, 13 and 12 percent health care trend rate.

i. With reference to 60(g) and 60(m), explain the discrepancy between the two Actuarial Assumption pages regarding "Claims."

26. Explain in detail the methodology or basis used to allocate the requested increase in revenue to each of the respective service categories (i.e., local service recurring and nonrecurring).

27. Explain why the $92,723 increase in revenue listed in Item 8(e) is more than the sum of the amounts listed in Item 8(a), column i, pages 1 through 5 ($91,947).

28. Explain why the ratio between Lewisport's residence and business rates should more closely resemble that of South Central Bell Telephone Company.

29. With reference to Item 8, explain why the sum of the subtotals in Column F does not agree with the total requested increase of $92,723 as shown in Item 8(e).

30. State the date that Lewisport obtained interim financing prior to the availability of REA funds. State the principal amount, interest rate, and source of the interim financing.

31. Provide the following information pertaining to the "D" Loan from REA:

a. Lewisport's application.

b. Dated copy of REA's approval.

c. Schedule showing the date and amount of draws.

32. Provide workpapers or copies of information on which Lewisport relied to determine its requested return on equity.

33. Provide the returns authorized for each company owned by TDS Telecom, the date authorized and the regulatory jurisdiction.

34. Provide the requested return on equity in the pending cases of:

a. Saluda Mt. Telephone

b. Badger Telephone

c. Grantland Telephone

d. Somerset Telephone

35. With reference to adjustment Q:

a. State and explain the advantages and disadvantages associated with Lewisport's decision not to fund fully its post-retirement benefit cost.

b. With reference to the Handley testimony, page 14, line 16, elaborate on the reasons Lewisport's proposed treatment of post-retirement benefits most appropriately matches cost recovery with the period in which the cost is generated.

36. With reference to Item 17(c):

a. For each account, provide a schedule itemizing the benefits provided.

b. State and explain why the totals for benefits exceeds wages in Account 6711-670.

37. With reference to Adjustment S - Telephone Plant in Service, Schedule 10.(11)(7)(c), page 2 of the application:

a. Provide the actual In-Service Dates for each line item in Column (c).

b. Provide the actual cost at completion for each line item in Column (d).

c. Provide a balance sheet for May 31, 1993.

38. With reference to Adjustment V:

a. Provide the workpapers showing the calculation of the $377,897 in Accumulated Tax Depreciation.

b. Provide the workpapers showing the calculation of the $245,509 in Accumulated Book Depreciation.

39. Provide a monthly breakdown of Local Service Revenue for 1992. Also, provide a monthly breakdown of Other Local Exchange Revenue for 1992 and state its sources.

Done at Frankfort, Kentucky, this 24th day of September, 1993.

PUBLIC SERVICE COMMISSION

For the Commission

ATTEST:

Executive Director