

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

NOTICE OF SOUTH CENTRAL BELL)
TELEPHONE COMPANY OF AN)
ADJUSTMENT IN ITS INTRASTATE) CASE NO. 8150
RATES AND CHARGES)

O R D E R

PROCEDURAL BACKGROUND

On December 4, 1981, South Central Bell Telephone Company ("Bell") filed a notice with the Commission proposing to increase its intrastate telephone rates and charges to produce an increase in revenues of \$17.086 million annually to be effective on and after January 1, 1982. Bell's requested revenue increase included an amount of \$6.203 million for expensing station connections capitalized in Account 232 and \$10.883 million in increased depreciation from using revised lives and salvage values including use of remaining-life depreciation and equal life group ("ELG") methodology.

In its Order dated August 11, 1981, in Case No. 8150, the Commission addressed the issues of expensing station connections, use of the remaining-life depreciation technique, and the ELG methodology for determining depreciation rates. This Order will further address these issues and the Commission's findings and determination on each as well as Bell's revenue requirements and rate design.

Station Connections

In its Order in Case No. 8150, at pages 18 through 20, the Commission addressed at some length the subject of expensing station connections capitalized in Account 232. On page 20 the Commission said:

Anticipating that the Commission would adopt the phase-in approach of expensing station connections, Bell requested that a provision be made for it to file tariffs to cover the additional expense in December 1981, 1982 and 1983. The Commission accepts Bell's proposal as it is less costly to the ratepayer and will provide timely rate relief to the company. The limited filing should, however, be specific to the station connection expense increase only, and Bell should fully demonstrate validity of this expense in its application. Bell must, moreover, demonstrate, based on actual results, adjusted solely for the effect of rate increases, that absorption of these increased costs would result in Bell not achieving the return on equity allowed in this Order.

The \$6.203 million total revenue requirement applicable to the second phase of expensing station connections and Bell's justification therefor can be found in W. J. Lester's Exhibit 8.

Depreciation Expense

In the same order at pages 20 through 24, the Commission also addressed the subject of proposed changes in the methodology of determining depreciation rates.

On page 22 the Commission said:

The Commission will adopt the FCC change to the Uniform System which will permit the utilization of equal life group depreciation....
(Emphasis added.)

And, on page 23 the Commission had the following to say about the remaining-life technique:

Since the remaining-life technique is not new and is a recognized methodology used by many regulators, this Commission will permit its use. (Emphasis added.)

Having given its approval to the adoption of equal life group depreciation and its permission to use the remaining-life technique, the Commission addressed the remaining issue, the time at which rate relief should be granted. On page 23, the Commission said:

...As the issue of the procedures to be followed to allocate depreciation reserve has not been settled by the FCC, and as the 'three-way' meeting on rescription of rates will not be held until the first week of September, the Commission will take no action at this time on Bell's requested depreciation adjustment.

At the time these issues have been resolved, the Commission, as part of this rate proceeding, will permit Bell to file, on 20-days notice, new tariff charges reflecting the dollar amount change resulting from the rescription of its depreciation rates.

The three-way meeting on depreciation was concluded on September 10, 1981. An agreement was reached between representatives of the Federal Communications Commission (FCC) staff, this Commission's engineering staff and Bell as to the proper service life and salvage factors to be used by Bell in determining its annual depreciation accruals.

On October 1, 1981, the FCC adopted a Supplemental Opinion and Order in Docket No. 20188 describing the method to be used in the allocation of the depreciation reserve account to the

various primary accounts. Subsequently, Bell requested FCC authorization to book depreciation expense based on the remaining-life depreciation rates resulting from the reserve allocation and factors agreed upon in the three-way meeting. The FCC has not acted on Bell's request. In its findings the Commission, on page 31, said:

Bell should, giving the Commission 20 days' notice, file tariffs to produce the revenues required to offset the additional depreciation charges following the FCC's order pursuant to the decisions reached in the three-way meeting.

The dollar amount requested by Bell for depreciation expense in this proceeding reflects the change resulting from the represcription of its depreciation rates and application of the remaining-life technique. Bell originally requested an increase of \$30.3 million in its annual depreciation accrual. At the conclusion of the three-way meeting, agreement was reached on an increase of \$16.646 million. Both amounts are based on Bell's cost at January 1, 1981.

In its filing Bell has requested additional intrastate depreciation expense of \$12.012 million. This amount was computed by applying the represcribed depreciation rates and the remaining-life technique to Bell's projected plant balance at January 1, 1982. This increase in depreciation expense translates into a revenue requirement of \$9.716 million, as found in Bell's application under W. J. Lester's Exhibit 6.

The FCC, in its Report and Order in Docket No. 20188, made the following statement about implementation of ELG:

Therefore, the Commission will direct that implementation be allowed on a progressive basis. During 1981, the staff will address the adoption of ELG by those carriers capable of implementing it and providing adequate supporting and controlling mechanisms and only for new additions to property falling with the broad classification of central office equipment.... During 1982 the staff and carriers can address adoption of ELG for new additions to property falling within the broad classification of central office equipment.... Finally, in 1983 the staff and carriers can address implementation of ELG for all new plant additions to the remaining categories of plant investment.

On November 25, 1981, the FCC staff advised that implementation of ELG procedures for outside plant would be delayed until 1982. In its filing Bell has reflected the combined depreciation expense of \$2.124 million, resulting from the implementation of ELG procedures for the 1982 budgeted additions of outside plant and central office equipment.

PETITION FOR HEARING

On December 22, 1981, the Attorney General's Consumer Protection Division filed a Petition for Hearing and Motion to Suspend Rates stating that an evidentiary hearing is necessary in order to determine the reasonableness of the proposed rates and charges.

On December 28, 1981, Bell filed a Response to the Petition and Motion stating, among other things, that the supplemental filing maintains the same rate structure as that proposed in the initial application, that the rate structure was litigated

in Case No. 8150, and that further evidentiary hearings on rate design will be of no value.

FINDINGS AND ORDER

The Commission, after consideration of the evidence of record and being advised, finds that:

1. The rates filed by Bell to recover increased expenses resulting from the second phase of expensing station connections, change in depreciation from rescription of rates and change in method of computing depreciation rates meet the requirements established by the Commission in its Order in Case No. 8150.

2. The FCC has not issued its order pursuant to the decision reached at the three-way meeting. The Commission will, however, permit Bell to implement the revised lives and salvage factors including the use of remaining-life depreciation, effective January 1, 1982. The revenue requirement applicable to these changes in depreciation should be allowed subject to refund if the depreciation rates prescribed by the FCC are different than those used by Bell in this proceeding.

3. Implementation of ELG procedures has been delayed and the record does not indicate when they may be implemented by the FCC. Therefore, the implementation of ELG should be deferred to some future period, and the rates filed by Bell to recover increased depreciation from implementation of ELG should be denied.

4. The Petition of the Attorney General's Consumer Protection Division should be granted and an evidentiary hearing should be scheduled for the purpose of considering

(a) whether the absorption of the station expense increase and the changes in depreciation rates would result in Bell's inability to achieve the return on equity allowed in the Commission's Order entered August 11, 1981, and (b) whether the rate design proposed by Bell is fair, just and reasonable.

5. The Motion to Suspend Rates of the Attorney General's Consumer Protection Division should be denied.

6. The rates and charges in Appendix A, attached hereto and made a part hereof, should be placed into effect, subject to refund, pending final determination of these matters by the Commission.

IT IS THEREFORE ORDERED that the Petition of the Attorney General's Consumer Protection Division is hereby granted and a hearing is hereby scheduled on February 25, 1982, at 9:00 a.m., Eastern Standard Time, in the Commission's offices at Frankfort, Kentucky, for the purposes noted in finding 4.

IT IS FURTHER ORDERED that all Requests for Information to South Central Bell Telephone Company shall be submitted on or before January 8, 1982.

IT IS FURTHER ORDERED that South Central Bell Telephone Company shall file Responses to the Requests for Information on or before January 20, 1982.

IT IS FURTHER ORDERED that the Attorney General's Consumer Protection Division shall file its testimony in verified prepared form on or before February 10, 1982.

IT IS FURTHER ORDERED that the Motion to Suspend Rates of the Attorney General's Consumer Protection Division be and it hereby is denied.

IT IS FURTHER ORDERED that the rates filed by Bell be and they hereby are denied.

IT IS FURTHER ORDERED that the rates in Appendix A of this Order be and they hereby are approved, subject to refund, for service rendered on and after January 1, 1982.

IT IS FURTHER ORDERED that Bell shall maintain its records in a manner that will permit a prompt refund if, after hearing, the Commission determines a refund is required.

Done at Frankfort, Kentucky, this 4th day of January, 1982.

PUBLIC SERVICE COMMISSION

Marlin M. Vohy
Chairman

Katherine Sandall
Vice Chairman

L. M. Carrigan
Commissioner

ATTEST:

Secretary

APPENDIX "A"

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION
IN CASE NO. 8150 DATED January 4, 1982

The following rates and charges are prescribed for the customers in the area served by South Central Bell Telephone Company in Kentucky. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the date of this Order.

A3 BASIC LOCAL EXCHANGE SERVICE

A3.2 Statewide Rate Schedules

These Statewide Rate Schedules for local exchange service apply to all exchanges based upon the number of main station lines, including Centrex main station lines, ESSX-1 main station lines, PBX main station lines (where DID is provided) and PBX Trunk lines (where DID is not provided) in the local calling scope of each exchange for the four months prior to the date of this Order.

A3 BASIC LOCAL EXCHANGE SERVICE

A3.2.1 Flat Rate Schedule

RATE GRP	MAIN STATION LINES, PBX TRUNKS, AND CENTREX MAIN STATION LINES		-----RESIDENCE-----				-----BUSINESS-----			
			<u>1-PTY</u>	<u>2-PTY</u>	<u>4-PTY</u>	<u>RURAL</u>	<u>1-PTY</u>	<u>2-PTY</u>	<u>4-PTY</u>	<u>RURAL</u>
			\$	\$	\$	\$	\$	\$	\$	\$
1	0-	10300	10.92	8.06	6.94	6.94	27.35	20.41	17.67	13.47
2	10301-	13800	11.26	8.34	7.16	7.16	28.53	21.29	18.37	14.02
3	13801-	18600	11.61	8.60	7.40	7.40	29.76	22.21	19.20	14.67
4	18601-	25100	11.99	8.87	7.62	7.62	31.06	23.16	20.03	15.31
5	25101-	33800	12.35	9.18	7.88	7.88	32.38	24.16	20.88	15.95
6	33801-	45500	12.76	9.46	8.14	8.14	33.76	25.20	21.79	16.66
7	45501-	61200	13.13	9.74	8.38	8.38	35.22	26.31	22.72	17.40
8	61201-	82400	13.55	10.05	8.65	8.65	36.72	27.45	23.71	18.14
9	82401-	110900	13.96	10.38	8.93	8.93	38.29	28.58	24.72	18.91
10	110901-	149200	14.40	10.68	9.20	9.20	39.88	29.83	25.78	19.74
11	149201-	200800	14.87	11.03	9.48	9.48	41.54	31.07	26.85	20.56
12	200801-	270200	15.31	11.39	9.81	9.81	43.27	32.35	27.99	21.42
13	270201-	363500	15.78	11.75	10.09	10.09	45.11	33.72	29.14	22.32
14	363501-	489200	16.26	12.11	10.41	10.41	46.96	35.09	30.36	23.25
15	489201-	658200	16.79	12.48	10.76	10.76	48.85	36.52	31.59	24.19
16	658201-	885700	17.31	12.87	11.09	11.09	50.76	37.96	32.85	25.14
17	885701-	1191800	17.82	13.27	11.41	11.41	52.72	39.45	34.13	26.08

A3 BASIC LOCAL EXCHANGE SERVICE

A3.2.2 Measured Rate Schedule

This service is available only in certain central offices in exchanges specified by the Company.

<u>Rate Group</u>	<u>Main Station Lines, PBX Trunks, and Centrex Main Station Lines</u>	<u>Residence</u>	<u>Business</u>
1	0 - 10300	\$ 8.20	\$20.52
2	10301 - 13800	8.45	21.40
3	13801 - 18600	8.71	22.32
4	18601 - 25100	8.99	23.29
5	25101 - 33800	9.26	24.28
6	33801 - 45500	9.57	25.32
7	45501 - 61200	9.85	26.42
8	61201 - 82400	10.16	27.54
9	82401 - 110900	10.48	28.72
10	110901 - 149200	10.80	29.91
11	149201 - 200800	11.15	31.16
12	200801 - 270200	11.49	32.45
13	270201 - 363500	11.84	33.83
14	363501 - 489200	12.19	35.23
15	489201 - 658200	12.60	36.63
16	658201 - 885700	12.98	38.07
17	885701 - 1191800	13.37	39.54

A3 BASIC LOCAL EXCHANGE SERVICE

A3.5 Joint User Service

<u>Individual Line</u>		<u>Monthly Rate</u>
Flat Rate:	Exchanges in Louisville Local Calling Area	\$11.74
Business	All Other Exchanges	7.44
Measured Rate:	Exchanges in Louisville Local Calling Area	8.81
Business	All Other Exchanges	5.58
Message Rate:	Exchanges in Louisville Local Calling Area	7.63
Business	All Other Exchanges	5.05
Semipublic:	Exchanges in Louisville Local Calling Area	7.04
Business	All Other Exchanges	4.46
 <u>Private Branch Exchange Trunks and Centrex</u>		
Commercial	Exchanges in Louisville Local Calling Area	11.74
Flat Rate	All Other Exchanges	7.44
 <u>PBX Service</u>		
Business	Exchanges in Louisville Local Calling Area	7.63
	All Other Exchanges	5.05
Residence	Exchanges in Louisville Local Calling Area	3.05
(Permanent	All Other Exchanges	2.02
Guest or Tenant)		

A3.7 Monthly Exchange Rates

Message Rate Service

Exchanges

Louisville Local Calling Area	30.52
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This service not available where Measured Service is offered.

A3 BASIC LOCAL EXCHANGE SERVICE

A13.15 Trunk Lines

	<u>Monthly Rate</u>
Message Rate Service Trunks	
First Trunk	
Louisville Local Calling Area	\$30.52
All Other Exchanges	20.20
Each Additional Trunk	
Louisville Local Calling Area	25.52
All Other Exchanges	15.20

A4 SERVICE CHARGES

	<u>Nonrecurring Charge</u>
A4.9 <u>Premises Work Charge</u>	
Residence - First 15 minute increment	\$30.65
Business - First 15 minute increment	39.25

A13 MISCELLANEOUS SERVICE ARRANGEMENTS

	<u>Monthly Rate</u>
A13.10 <u>Announcement Lines</u>	
Louisville Local Calling Area	\$58.70
Exchanges Outside Louisville Calling Area	38.84

A100 OBSOLETE SERVICE OFFERINGS

A100.64 Centrex Service (where switching equipment is on customer's premises)

A minimum charge of 100 main stations applies at one location, which may be either the principal or secondary location.

Where the dial switching equipment is located on the Company's premises	Monthly Rate	
	Schedule 1*	Schedule 2**
Centrex I		
Main Stations, at the location with the largest number of main stations		
Exchange Access Charge -		
First 100 stations, each	\$ 7.93	\$11.81
Next 200 stations, each	5.51	8.19
Next 600 stations, each	4.29	6.43
Over 900 stations, each	4.29	6.43
Main Stations, at each additional location		
Exchange Access Charge -		
First 100 stations, each	6.33	9.44
Next 200 stations, each	6.33	9.44
Next 600 stations, each	4.29	6.43
Over 900 stations, each	4.29	6.43

Centrex II

The charge is the same as the respective charge for Centrex I, plus an additional \$.75 per month per main station intercommunicating charge.

*Schedule 1 - Includes all exchanges except those in the Louisville Local Calling Area.

**Schedule 2 - Includes all exchanges in the Louisville Local Calling Area.

T8 TELEPHONE SETS AND ADJUNCTS

<u>Feature Telephone Sets</u>	<u>Monthly Rate</u>
The Traditional Telephone Set	
- Rotary dial, each	\$ 1.38
- Touch-Tone® dial, each	2.45
Intercom Only Set	
- Rotary dial, each	1.38
- Touch-Tone® dial, each	2.45
The Princess Telephone Set	
- Rotary dial, each	2.70
- Touch-Tone® dial, each	3.45
The Trimline Telephone Set	
- Rotary dial, each	2.95
- Touch-Tone® dial, each	3.95
Message Waiting Lamp Telephone	
- Traditional Set, Rotary dial, each	2.50
- Traditional Set, Touch-Tone® dial, each	3.50
- Princess Set, Rotary dial, each	3.75
- Princess Set, Touch-Tone® dial, each	4.50
- Trimline Set, Rotary dial, each	4.00
- Trimline Set, Touch-Tone® dial, each	5.00

T108 OBSOLETE TELEPHONE SETS AND ADJUNCTS

<u>Feature Telephone Sets</u>	
Single Payment Option	
The Princess® Telephone Set	
- Rotary Dial, each	1.50
- Touch-Tone® Dial, each	2.50
Trimline® Telephones	
- Rotary Dial, each	1.50
- Touch-Tone® Dial, each	2.50
Residence Packages	
Rotary Residence Package	
- 3 telephones	8.30
- 4 telephones	11.25
- 5 telephones	13.25
- 6 telephones	16.00
- 7 telephones	18.75
Touch-Tone® Residence Package	
- 3 telephones	11.00
- 4 telephones	14.75
- 5 telephones	17.50
- 6 telephones	21.25
- 7 telephones	24.75

	<u>Monthly Rate</u>
Design Line* Telephone	
Working Components	
<u>Enclosure</u>	
Accent* ¹	\$ 2.00
Antique Gold** ²	2.00
Candlestick*** ²	2.00
Celebrity* ²	2.00
Chestphone** ¹	2.00
Coquette**** ²	2.00
Country Junction* ²	2.00
Early American** ²	2.00
Elite - Vinyl Finish* ¹	2.00
- Commemorative ³	2.00
Exeter* ¹	2.00
Mediterranean** ²	2.00
Noteworthy* ¹	2.00
Optique** ¹	2.00
Sculptura* ¹	2.00
Stowaway* ¹	2.00
Telstar* ¹	2.00
The Mickey Mouse Phone***** ¹	2.00
The SNOOPY & WOODSTOCK Phone***** ¹	2.00

¹Available with Touch-Tone® or Rotary dials.

²Available with Rotary dials only.

³Available with Touch-Tone® dial only.

*Trademark of A.T.&T. Company.

**Trademark of American Telecommunications Corporation.

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***** Housing Supplied by American Telecommunications Corporation.

PEANUTS Characters (C) 1958, 1965 United Features Syndicate, Inc.

T108 OBSOLETE TELEPHONE SETS AND ADJUNCTS

Monthly
Rate

Custom Telephone Units

When modification of the Custom Telephone Unit
is not required:

- per Custom Telephone Unit

Rotary Dial

\$ 2.00

Touch-Tone® Dial

2.00

When modification of the Telephone Enclosure or
Custom Telephone Unit is required:

- per Custom Telephone Unit

Rotary Dial

2.00

Touch-Tone® Dial

2.00

When Telephone Enclosure or Custom Telephone Unit
was previously modified

- per Custom Telephone Unit

Rotary Dial

2.00

Touch-Tone® Dial

2.00