TENNESSEE REGULATORY AUTHORITY

Sara Kyle, Chairman
Lynn Greer, Director
Melvin Malone, Director

460 James Robertson Parkway
Nashville, Tennessee 37243-0505

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EXECUTIVE SECRETARY

January 14, 2002

Mr. David Waddell
Executive Secretary
460 James Robertson Parkway
Nashville, TN 37243

In Re: *Petition of United Telephone Company to Change and Increase Certain Intrastate Rates and Charges So As to Permit It to Earn a Fair and Adequate Rate of Return on Its Property Used and Useful in Furnishing Telephone Service to Its Customers in Tennessee and To Adopt New and Realistic Depreciation Rates for Central Office Equipment*

Docket No. 01-00451

Dear Mr. Waddell:

Enclosed please find the original and 13 copies of the Response of TRA Staff (as a party) to United Telephone Company's Revised UTC Exhibit 1 filed on January 11, 2002, for filing in the above-referenced docket.

Copies have been served via facsimile on all parties.

Sincerely,

Gary R. Hotvedt
Counsel for TRA Staff (as a party)

cc: Richard Collier, Pre-Hearing Officer
R. Dale Grimes, Esq.
T.G. Pappas, Esq.
Vance Broemel, Esq.

BEFORE THE
TENNESSEE REGULATORY AUTHORITY
AT NASHVILLE, TENNESSEE

IN RE: PETITION OF UNITED TELEPHONE COMPANY TO CHANGE AND INCREASE CERTAIN INTRASTATE RATES AND CHARGES SO AS TO PERMIT IT TO EARN A FAIR AND ADEQUATE RATE OF RETURN ON ITS PROPERTY USED AND USEFUL IN FURNISHING TELEPHONE SERVICE TO ITS CUSTOMERS IN TENNESSEE AND TO ADOPT NEW AND REALISTIC DEPRECIATION RATES FOR CENTRAL OFFICE EQUIPMENT

DOCKET NO. 01-00451

RESPONSE OF TRA STAFF (AS A PARTY) TO
UNITED TELEPHONE COMPANY'S
REVISED UTC EXHIBIT 1
FILED ON JANUARY 11, 2002

JANUARY 14, 2002

This filing is made in response to the January 11, 2002, filing by United Telephone Company ("United Telephone" or "Company") of the "Revised UTC Exhibit 1" dated 1/9/02 and accompanying cover letter dated January 11, 2002. The cover letter states on page 1: "United Telephone Company is willing and has stated to the other parties that it is willing to rely on the enclosed Exhibit as a basis for its increased revenue requirements in this case." The Revised UTC Exhibit 1 ("Revised Exhibit") is comprised of six schedules that ostensibly provide an update of the Company's position on the appropriate level of regulated telephone revenue requirements necessary to cover its regulated telephone expenses and to provide a fair rate of return on its regulated telephone investment for the 2002 attrition year. However, the Revised Exhibit is unclear in that the schedules contain two sets of Company figures. For example, "Page 4 of 6" of the Revised Exhibit has a "Company" column in which United Telephone projects a $1.4 million revenue deficiency on line 8, and the same schedule has a "Company Using CAPD Method" column in which United Telephone projects a $528,901 revenue deficiency on line 16.

If the Company is adopting the $528,901 revenue deficiency figure on "Page 4 of 6" of the Revised Exhibit as its position on the revenue requirements for 2002 in this case, then the parties' respective positions on the 2002 revenue requirements are appropriately summarized on the schedule labeled "**Attachment 1**" that is attached hereto. **Attachment 1** contains four columns. The "A/ United Forecast 2002" column summarizes United Telephone's position based on the Revised Exhibit filed on January 11, 2002, using the "CAPD Method." This United Forecast 2002 column assumes that the depreciation rate for digital electronic equipment (Account 2212) is eight percent (8%) per year and that touch-tone charges remain in effect as currently charged. The "B/ CAPD Forecast 2002" column summarizes the Consumer Advocate and Protection Division's position based on the Direct Testimony of Mr. Terry Buckner filed on October 3, 2001. This CAPD Forecast 2002 column also assumes that the depreciation rate for digital electronic equipment is eight percent (8%) per year and that touch-tone charges remain in effect as currently charged. The "C/ Staff Recommended 2002" column summarizes the TRA Staff's (as a party) position on rate design based on the Direct Testimony of Mr. Joe Shirley filed on October 3, 2001. This Staff Recommended 2002 column assumes that the depreciation rate for digital electronic equipment is seven percent (7%) per year[1] and that touch-tone charges have been eliminated (reduced from $1.00/mo. per residential line and $1.50/mo. per business line to zero for both residential and business lines). The "D/ Staff Forecast 2002" column summarizes the TRA Staff's (as a party) position on earnings based on the Direct Testimony of Mr. Shirley filed on October 3, 2001. This Staff Forecast 2002 column assumes that none of the rate relief requested in the Company's Supplemental Petition is granted – that is, the depreciation rate for digital electronic equipment remains at four percent (4%) per year as presently applied and that touch-tone charges remain in effect as currently charged.

The Company did not provide an update of 2001 figures in the Revised Exhibit filed on January 11, 2002. A summary of 2001 is presented on the schedule labeled **Attachment 2** that is attached hereto. **Attachment 2** contains four columns. The "A/ United Forecast 2001" column summarizes United Telephone's position for 2001 based on the Supplemental Testimony of Mr. Joe Enoch filed on September 12, 2001. This United Forecast 2001 column assumes that the depreciation rate for digital electronic equipment is eight percent (8%) per year and that touch-tone charges remain in effect as currently charged. The "B/ Staff Recommended 2001" column summarizes the TRA Staff's (as a party) position on rate design based on the Direct Testimony

[1] The recommended depreciation relief of all parties includes the amortization of the extraordinary retirement of a switch that was prematurely retired from service.

of Mr. Shirley filed on October 3, 2001. This Staff Recommended 2001 column assumes that the depreciation rate for digital electronic equipment is seven percent (7%) per year and that touch-tone charges remain in effect as currently charged. The "C/ Staff Forecast 2001" column summarizes the TRA Staff's (as a party) position on earnings based on the Direct Testimony of Mr. Joe Shirley filed on October 3, 2001. This Staff Forecast 2001 column assumes that none of the rate relief requested in the Company's Supplemental Petition is granted – that is, the depreciation rate for digital electronic equipment is four percent (4%) per year as presently applied and that touch-tone charges remain in effect as currently charged. The "D/ Actual 12 MTD Oct. 2001" column summarizes the actual results for the twelve months ended October 31, 2001, as reported on United Telephone's October 2001 "3.01 Report" filed by the Company in December 2001. The Consumer Advocate and Protection Division's forecast for 2001 is not depicted because it did not file an income statement, rate base summary, or results of operation schedules for 2001.

If **Attachment 1** represents the parties' positions on the Company's revenue requirements for the 2002 attrition year, then, from the TRA Staff's (as a party) point of view, the contested issues that have a substantial impact on the revenue requirements phase of this rate proceeding have been narrowed to the following four issues:

1. The appropriate level of local service revenues to be forecasted for the 2002 attrition year;

2. The appropriate level of overhead expense allocation for the Company's non-regulated toll affiliate, UTC Long Distance, to be forecasted for the 2002 attrition year;

3. The appropriate level of depreciation and amortization expense for digital electronic switching equipment to be forecasted for the 2002 attrition year; and

4. The correct computation of operating income taxes reported on line 11 of the "Company Using CAPD Method" column on "Page 5 of 6" of the Revised Exhibit, as well as the impact that this operating income tax calculation has on the revenue deficiency reported on line 16 of the "Company Using CAPD Method" column on "Page 4 of 6" of the Revised Exhibit.

This response has attempted to frame the significant issues concerning the Company's revenue requirements from the TRA Staff's (as a party) perspective, assuming that as of January 11, 2002, United Telephone has adopted the "Company Using CAPD Method" figures filed in the Revised Exhibit and summarized in **Attachment 1** as the Company's position on revenue requirements for the 2002 attrition year. If the Company has not adopted such figures as its position for rate-setting purposes, then the issues in this rate proceeding have not been narrowed as outlined hereinabove and, instead, are those issues that are specifically addressed in the Direct Testimony of Mr. Joe Shirley filed on October 3, 2001.

Attachment 1

United Telephone Company
TRA Docket No. 01-00451
Comparative Analysis
FYE 2002

Line	Description	A/ United Forecast 2002 (Millions)	B/ CAPD Forecast 2002 (Millions)	C/ Staff Recommended 2002 (Millions)	D/ Staff Forecast 2002 (Millions)
1	Rate Design	8% Depr. w/ TT	8% Depr. w/ TT	7% Depr. w/o TT	4% Depr. w/ TT
2	Revenues	$ 11.1	$ 11.5	$ 11.2	$ 11.4
3	Expenses	$ 8.2	$ 8.2	$ 8.0	$ 7.6
4	Net Operating Income (NOI)	$ 2.9	$ 3.3	$ 3.2	$ 3.8
5	Rate Base	$ 40.7	$ 40.7	$ 40.8	$ 41.5
6	Rate of Return	7.1%	8.2%	7.9%	9.3%
7	Fair Rate of Return	7.9%	7.9%	7.9%	7.9%
8	Excess (Deficient) NOI	$ (0.3)	$ 0.1	$ 0.0	$ 0.6
9	Revenue Conversion Factor	0.60489	0.60489	0.61466	0.61466
10	Excess (Deficient) Revenues	$ (0.5)	$ 0.2	$ 0.0	$ 0.9

A/ Enoch Revised UTC Exhibit 1, Pages 4 and 5, filed 1/11/02.

B/ Buckner Exhibit 1, Schedules 1 and 3.

C/ Shirley Exhibits E-01 and E-02 (assumes TRA Staff's rate design recommendation is implemented).

D/ Shirley Exhibits A-01 and A-04 (assumes all current rates and charges remain in effect as presently applied).

Key:

Depr. = Depreciation Rate.

TT = Touch-tone charges (currently $1.00/mo. per residential line and $1.50/mo. per business line).

w/ = Includes touch-tone charges in revenues.

w/o = Excludes touch-tone charges from revenues.

Attachment 2

United Telephone Company
TRA Docket No. 01-00451
Comparative Analysis
FYE 2001

Line	Description	A/ United Forecast 2001 (Millions)	B/ Staff Recommended 2001 (Millions)	C/ Staff Forecast 2001 (Millions)	D/ Actual 12 MTD Oct. 2001 (Millions)
1	Rate Design	8% Depr. w/ TT	7% Depr. w/ TT	4% Depr. w/ TT	4% Depr. w/ TT
2	Revenues	$ 9.3	$ 10.7	$ 10.7	$ 10.4
3	Expenses	$ 7.2	$ 7.5	$ 7.1	$ 7.0
4	Net Operating Income (NOI)	$ 2.0	$ 3.2	$ 3.6	$ 3.3
5	Rate Base	$ 37.7	$ 37.7	$ 37.9	$ 38.4 *
6	Earned Rate of Return	5.3%	8.4%	9.5%	8.7%
7	Fair Rate of Return	6.7%	7.9%	7.9%	7.9%
8	Excess (Deficient) NOI	$ (0.5)	$ 0.2	$ 0.6	$ 0.3
9	Revenue Conversion Factor	0.61309	0.61466	0.61466	0.61466
10	Excess (Deficient) Revenues	$ (0.9)	$ 0.3	$ 1.0	$ 0.5

A/ Enoch Exhibits 1-Revised and 5-Revised, filed 9/12/01.

B/ Shirley Exhibits E-01 and E-02 (assumes TRA Staff's rate design recommendation is implemented).

C/ Shirley Exhibits C-01, D-02, D-18, D-20, D-26 and B-01 (assumes all current rates remain in effect as presently applied).

D/ 3.01 Report for October 2001 filed by United.

* Corrected for omitted ADFIT and forecast CWIP.

Key:

Depr. = Depreciation Rate.

TT = Touch-tone charges (currently $1.00/mo. per residential line and $1.50/mo. per business line).

w/ = Includes touch-tone charges in revenues.

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing has been served, via the method(s) indicated, this the 14th day of January, 2002, on the following:

[ ] Hand Delivery [X] Facsimile [ ] U.S. Mail	Vance L. Broemel, Esq. Office of the Attorney General Consumer Advocate and Protection Division 425 5th Avenue North, 3rd Floor Nashville, TN 37243
[X] Hand Delivery [ ] Facsimile [ ] U.S. Mail	J. Richard Collier, Esq. Tennessee Regulatory Authority 460 James Robertson Parkway Nashville, TN 37243
[ ] Hand Delivery [X] Facsimile [ ] U.S. Mail	T.G. Pappas, Esq. Dale Grimes, Esq. Bass, Berry & Sims PLC 315 Deadrick Street #2700 Nashville, TN 37238

Gary Hotvedt