Kenneth R. Hill, Division Staff Manager, Service Costs, testified to the economic principles followed in evaluating cost-revenue relationships and to cost studies which underlie pricing decisions.

Robert P. Little, an Assistant Vice President of SNET, testified to the Company's overall pricing policy for monopolistic and competitive services and the proposed amended schedules of rates and charges.

Alfred W. Van Sinderen, Chairman of the Board and Chief Executive Officer of SNET, testified to the overall state of the Company's service and earnings and the reasons for seeking additional revenue at this time.

B. Test Year; Financial Data; Table I

The Company offered in evidence statements of the results of its financial operations for the years 1977 through 1980. The 12 months ending December 31, 1981 is the test year selected by the Company.

These data indicated that for the test year ending December 31, 1981, the Company's income from operations was $166,923,000 in total and $115,439,000 on the intrastate portion. The rate of return earned on the rate base of December 31, 1981, as computed by the Company, was 11.13% in total and 11.13% on the intrastate portion.

The Company modified the income statement for the test year ending December 31, 1981 to reflect known changes in revenues and expenses and claimed that the resulting amount of income from operations at present rates was a reduction to $79,452,000 intrastate with a rate of return of 8.04%.

The Company's position was that a $127,944,000 intrastate revenue increase would be needed to cover its cost of service. This results in intrastate operating income of $136,037,000, which when using the intrastate rate base would result in a 13.76% rate of return.

We reproduce in summary form in Table I, below, income statements presented by the Company in support of its request for higher rates.

## TABLE I

Pro Forma Income Statements
(000 - Omitted)

| | Present Rates | | Proposed Rates | |
|---|---|---|---|---|
| | Intrastate | Total Company | Intrastate | Total Company |
| Operating Revenues | $ 724,620 | $ 1,039,815 | $ 724,620 | $ 1,039,815 |
| Proposed Increase | - | - | 127,944 | 127,944 |
| Total Operating Revenues | $ 724,620 | $ 1,039,815 | $ 852,564 | $ 1,167,759 |
| Maintenance Expense | $ 152,517 | $ 215,299 | $ 152,517 | $ 215,299 |
| Depreciation Expense | 96,792 | 139,424 | 96,792 | 139,424 |
| Traffic Expense | 43,648 | 58,819 | 43,648 | 58,819 |
| Commercial Expense | 84,206 | 111,432 | 84,206 | 111,432 |
| Gen'l Office Sales & Expense | 73,257 | 101,493 | 73,257 | 101,493 |
| Relief & Pensions | 63,897 | 87,109 | 63,897 | 87,109 |
| Other Operating Expenses | 17,939 | 24,410 | 17,939 | 24,410 |
| Total Operating Expenses | $ 532,256 | $ 737,986 | $ 532,256 | $ 737,986 |
| Net Operating Revenues | $ 192,364 | $ 301,829 | $ 320,308 | $ 429,773 |
| Federal Income Tax | $ 20,949 | $ 38,422 | $ 69,150 | $ 86,623 |
| Connecticut Corp. Business Tax | 7,019 | 11,614 | 18,662 | 23,257 |
| Other Taxes | 84,878 | 122,052 | 96,393 | 133,567 |
| Total Operating Taxes | $ 112,846 | $ 172,088 | $ 184,205 | $ 243,447 |
| Operating Income | $ 79,518 | $ 129,741 | $ 136,103 | $ 186,326 |
| Interest Charged Construction | $ - | $ 224 | $ - | $ 224 |
| Miscellaneous Income - Net | (66) | 1,379 | (66) | 1,379 |
| Total Income from Operations | $ 79,452 | $ 131,344 | $ 136,037 | $ 187,929 |
| Total Interest Deductions | | 59,478 | | 59,478 |
| Net Income | | $ 71,866 | | $ 128,451 |
| Preferred Dividend Requirements | | 5,762 | | 5,762 |
| Income Applicable to Common Shares | | $ 66,104 | | $ 122,689 |
| Rate Base | $ 988,643 | $ 1,499,368 | $ 988,643 | $ 1,499,368 |
| Rate of Return | 8.04% | 8.76% | 13.76% | 12.53% |

C. Rate Base

A discussion of the Company's rate base evidence has been incorporated in the Authority Analysis and Evaluation of Evidence. See Section IV. C., below.

D. Expenses

The testimony and exhibits offered by one of the Company's witnesses detail the Company's proposed expenses. The Company's pro forma expenses are discussed, and adjusted where necessary, in the Authority's Analysis and Evluation of Evidence. See Section IV. D., below.

E. Rate of Return

The Company argued that it needed rates sufficient to produce a rate of return on rate base of 13.76%. This it contended was its overall cost of capital, based upon a cost of common equity of 18.3%. Further discussion of the Company's position on rate of return is included in the Authority Analysis and Evaluation of Evidence. See Section IV.E., below.

F. Curtailment

The Company sponsored testimony and studies to demonstrate the expected impact of proposed rate levels upon test year revenues. The evidence indicates that a "curtailment" allowance must be made to reflect the fact that telephone usage in each aggregate service category would have been reduced at the higher rate levels. To compensate for this reduction in usage, proposed rate levels must be increased by an additional increment so that the net revenue increase being sought by the Company is achieved.

The curtailment estimates submitted by the Company are derived from econometric models which estimate curtailment as a function of several variables including proposed rate levels and historical market responses to rate increases. The Company also has offered various indices and calculations to demonstrate the accuracy of the estimates. The Authority notes that the models presented in this case differ significantly from those utilized by the Company in previous general rate applications.

The proposed curtailment adjustment is a net of $39,038,200 (revenue curtailment of $57,340,100 less cost offsets of $18,301,900). This produces a gross increase proposed of $167,604,100.

G. Cost Studies

A discussion of the Company's cost studies has been incorporated in the Authority Analysis and Evaluation of Evidence. See Section IV. G., infra.

H. Rates

1. Pricing Policy

The Company's position was that increasing competition requires certain changes in pricing policy now and in the future. The Company presented the

testimony of a consultant economist as well as that of its own rate expert in support of those policy changes. These changes are described and analyzed in Section IV.H.1, below.

2. Local Measured Service

The Company proposed a new optional tariff structure for basic exchange service. This service, termed Select-A-Call or Local Measured Service (LMS) is fully discussed in the Authority Analysis and Evaluation of Evidence. See Section IV.H.2, below.

3. Basic Exchange Service

In order to align rates more closely with costs of service, the Company proposed to increase business rates $2 for each $1 increase in residential rates rather than the 3 to 1 ratio that prevailed in the past. For the same reason it proposed to lessen the differential among the three exchange classifications by increasing each class by the same dollar amount. This amounts to a greater percentage increase for the smaller, generally rural Class I exhanges than for the urban Class III exchanges.

In addition, the Company proposed two relatively minor changes: reduction of the ratio between the PBX trunk rate and individual line rate from 1.3:1 to 1:1 and application of the rotary hunting charge to PBX subscribers.

4. Party Line Service

Four-party service, which has been obsolete since 1972 and not available to new customers, is proposed to be withdrawn and replaced with two-party service, which was made obsolete in 1980. Two-party service was proposed to be priced at 80% of individual flat rate service.

5. Local Coin Service

The Company has in this case, as in Docket 80-04-18, proposed to increase the local coin charge from 10 cents to 20 cents per call.

6. Message Toll Service

The Company proposed to increase Message Toll Service (MTS) to an annual revenue level of $179,954,700, an increase of 14.4% before curtailment. As was done in the previous Decision, the Company proposed a 3:1 allocation of increases in toll and basic rates.

The Company proposed a 2 cent increase in the initial minute for each mileage band, a 3 cent uniform increase in the additional minute for each mileage band, and four modifications to the MTS rate structure:

a. The Company proposed to increase the number of rate centers from 90 to 118 in order to draw a closer relationship between distance and rates and "align rates more closely with costs."

b. The Company proposed to consolidate toll rate bands 9 and 10 into rate band 8 to include all calls from 71 miles to 112 miles at the same rate.

c. The Company proposed to charge peak and off-peak rates in proportion to the time spent in the respective periods during one call. Hence, a customer beginning a call at 4:50 p.m. and ending it at 5:15 p.m., would be charged at the peak rate for the first 10 minutes and at the off-peak rate for the remaining 15 minutes. The current practice is to charge according to the period in which the call begins.

d. Coin sent-paid toll message and conference call rates were proposed to include a one-minute initial period, to conform with the initial one minute timing of all other toll calls, and a series of surcharges imposed on operator-assisted calls, would be increased as follows: collect calls would increase to $0.50 from $0.35, calls billed to third party would increase to $0.75 from $0.45, and person-to-person calls would increase to $1.50 from $1.35. The $0.25 surcharge for credit card calls would remain at its present level.

7. Wide Area Telephone Service (WATS)

As discussed above, the Company asserts that the imminent advent of resale and sharing of telephone services and the eventual entry of MTS competitors, compel it to seek structural changes in Wide Area Telephone Service (WATS) rates.

Separate charges for outwats and inward WATS (800 service) were proposed by the Company to reflect the difference in cost of network routing. A monthly rate of $45 and $55 respectively for these two services would be assessed. This would permit access only, in contrast with the current rate of $175 which includes a 10 hour usage allowance in addition to access.

Discounts based on the Message Toll Service off-peak schedule would be offered to WATS users. The proposed rates are listed on the next page.* The current assessment beyond the initial 10-hour allowance amounts to $8.50 per hour of usage for the next 35 hours, and $5.25 for each additional hour thereafter.

*Company's Proposed 800 Service (Inward WATS) Rates:

Access Line - Monthly Rate: $55.00

| Usage Schedule per Hour | First 15 Hours | Next 25 Hours | Next 40 Hours | Over 80 Hours |
|---|---|---|---|---|
| Day | $13.00 | $12.00 | $11.00 | $10.00 |
| Evening/Weekend | 8.45 | 7.80 | 7.15 | 6.50 |
| Night | 5.20 | 4.80 | 4.40 | 4.00 |

*Company's Proposed Outwats Rates:

Access Line - Monthly Rate: $45.00

| Usage Schedule per Hour | First 15 Hours | Next 25 Hours | Next 40 Hours | Over 80 Hours |
|---|---|---|---|---|
| Day | $12.25 | $11.25 | $10.25 | $9.25 |
| Evening/Weekend | 7.96 | 7.31 | 6.66 | 6.01 |
| Night | 4.90 | 4.50 | 4.10 | 3.70 |

8. Foreign Exchange Service

The Company is proposing to make flat rate Foreign Exchange (FX) service obsolete so that only message rate FX service would be available to new customers. The Company further proposes to convert all FX lines to measured service on January 1, 1984.

9. Private Line Rates

The Company performed cost studies on the various private line (PL) services, including the categories of local channels, interoffice channels, interexchange channels, channel terminals and Telpak service. The Company proposal was to increase these rates as follows:

| | Proposed Rate | % Increase |
|---|---|---|
| Local Channels (voice grade) | $17.00 | 61.3 |
| Interoffice Channels | 28.50 | 109.2 |
| Interexchange Channels | 4.20 | 76.4 |
| Channel Terminals | 12.00 | 14.3 |
| Telpak | Variable | 233.0 |

This proposal would increase PL service revenues in total by $1,809,300 annually, or 43.3%. This would result in the revenues from PL services being approximately equal to the embedded cost of the service, but would not equal the costs indicated by the Long Range Incremental Analysis (LRIA) cost studies.

10. Obsolete Secretarial Switchboard Rates

The Company proposed increases in the rates applicable to the various components associated with the 554C, 557A, 557B switchboards ranging from

approximately 50% to slightly in excess of 100%. These increases would increase the revenues from these services by $475,000 annually or 58.12%. The DCF rates of return for the three switchboards would be 13.8%, 28.5% and 14.7% respectively.

Most of the non-recurring (product charges) were proposed to be increased significantly. These product charges would apply only to new services ordered.

11. Cable Television Pole Attachment Rates

The Company did not propose any change in the rate charged cable television or community antenna television (CATV) companies for attachment of their cable to utility poles. The current rate of $4.50 per pole per year dates from 1965. Upon request during the hearing, the Company did submit an exhibit showing that the result of using more recent data in the calculation would be to increase the charge from $4.50 to 9.53. The Company did not, however, recommend a $9.53 rate.

12. Terminal Equipment

The Company proposed increases in the Obsolete Manual PBX's, Dial PBX's and Series PBX's of 25%, 10-50% and 10-25% respectively. This would result in an increase in revenue from the entire category of $3,047,200 annually or 16%.

In addition, increases in various terminal equipment items such as telephone sets, data sets, key equipment etc. were proposed.

13. Multi-element Non-recurring Charges

The Company proposed to retain the current structure and levels of these charges with only a few changes. It proposed a new non-recurring charge of $20.00, applicable to the upgrading of residential service from LMS to measured or flat, and from measured to flat. This $20.00 would also apply for temporary disconnect of residential service and when the provision of totalphone or touchtone service requires a number change. This charge would be $40.00 for business customers.

Further changes would make the Access Line Connection Charge applicable to the installation of a standard network interface device on an existing service and installation of an auxiliary ringing unit. Finally, a charge for change of listed name would apply even when the change is the result of marriage, death or court order.

14. Charges for Maintenance of Simple Inside Wire

Customers with more than one telephone outlet are currently charged for Company maintenance of the additional inside wiring, unless they notify the Company that they will maintain it themselves. The Company proposed to expand the applicability of the charge to all customers who wish the Company to be responsible for maintenance of inside wiring, regardless of the number of telephones. Thus, customers with only inside wire to a primary station would see an additional charge while those already paying for maintenance of additional wire would not.

15. Product Charges

In a prior case, the Company proposed to disaggregate the labor portion of the installation charges for terminal equipment, and replace it with time and material charges. What was left was assessed as a "product charge." This was approved by the Authority, and in the instant case, the Company proposed to increase these various product charges.

This product charge, coupled with the revenue received from the monthly rates, combined to meet the overall revenue requirements for the service.

I. Construction Program

The Company proposed total construction amounts of $211.7 million for 1982, $232.6 million for 1983 and $247.0 million for 1984. These figures represent expenditures for Land and Buildings, General Equipment, Stations, Outside Plant and Central Office Equipment.

Expenditure for Central Office Equipment, which is primarily conversion to Electronic Switching Systems (ESS), represents 34.4% of the construction budget in 1982, 36% in 1983 and 41.1% in 1984.

The Company maintains that this proposal is both necessary and adequate to meet the growth and improvement needs of its customers. It projects completion of the ESS conversion program in 1988.

J. Productivity

Dr. Brian P. Sullivan, Division Staff Manager - Business Research for SNET, testified regarding his analyses of productivity gains made by SNET compared to the United States economy in general. His testimony was intended to show that the Company is continuing to improve its efficiency and specifically to support the testimony of other witnesses that expense budgets have been well controlled and that construction programs have been kept to a reasonable level.

Dr. Sullivan's testimony was not directly challenged by any party or intervenor nor specifically analyzed by the Authority.

III. POSITIONS OF CONSUMER COUNSEL, INTERVENORS AND OTHER PARTICIPANTS

A. Division of Consumer Counsel

The Division of Consumer Counsel (DCC), represented by Consumer Counsel Barry Zitser, participated fully in this proceeding, requesting additional data from the Company, cross-examining Company witnesses, presenting the direct testimony of a witness, and filing a brief, reply brief, and supplemental reply brief.

The Division offered the testimony of Ben Johnson, a consultant with Ben Johnson Associates, Inc., with regard to the issues of rate of return on equity, working capital, curtailment and rate structure.

In its brief, the DCC set forth its final positions as follows:

1. The Company's proposed, local measured service option should be denied since it threatens economic development and the social welfare of its customers.

2. If the DPUC approves of some form of local measured service option, such an option should be along the lines recommended by the DCC's expert. Such an option should:

   a. Retain existing toll free calling boundaries;

   b. Retain eight digit dialing for intrastate toll calls;

   c. Impose charges based solely on the number of calls made after a certain allotment; and

   d. Permit customers to back out of measured service without charge during the first six months.

3. The Company has requested an excessive profit level. The lower profit recommendation of the DCC's expert should be adopted.

4. The Company has overestimated a number of expenses and has underestimated revenues. The DCC has provided a list of such areas in its brief, and has recommended disallowance of tens of millions of dollars of unsupported or unreasonable expense and revenue projections.

5. Ratepayers should not be compelled to subsidize the unregulated activities of SNETCO. The Company should be ordered to prepare an allocation study as part of any future rate filing to insure that unregulated activities are fully segregated.

6. The Company is improperly charging ratepayers for good will and political advertising. The DPUC should order a cessation of such ratepayer charges.

7. The DCC has recommended a number of changes in the Company's rate proposals, including, but not limited to, retention of the ten cent coin rate, retention of foreign exchange service, and substantial reductions in the proposed local access rates.

8. The Company should be ordered to permit its customers to purchase simple telephone sets which are currently rented.

9. The Company has overestimated the level of curtailment of telephone usage which will result from rate increases, thereby resulting in a higher revenue allowance than is justified.

B. Connecticut Association Telephone Answering Services

The Connecticut Association Telephone Answering Services (CATAS), represented by Attorney Dennis L. Myers of Champaign, Illinois, is composed

of telephone answering companies which are substantial users of telephone services and equipment provided by SNET. CATAS participated in this proceeding by requesting additional data from the Company, cross-examining Company witnesses, presenting the direct testimony of two witnesses and filing a brief, reply brief, and supplemental reply brief.

CATAS presented the testimony of Lorraine Wrinn and Thomas Fulton, owner-operators of telephone answering service (TAS) businesses, with regard to the proposed increases in the SNET equipment and services used by their businesses.

In its brief, CATAS summarized its position with regard to the proposed rate increases for vintage TAS equipment, the off-premises extension (OPX), Direct Inward Dialing (DID), the impact of the proposed increases on the TAS industry; and SNET's motivation for the proposals. CATAS concluded that SNET's proposed increases for the TAS equipment and line facilities discussed in the brief should be rejected, and fair and reasonable increases, if any, should be ordered.

C. Connecticut Business and Industry Association

The Connecticut Business and Industry Association (CBIA), represented by Attorney Marshall Collins, participated in this proceeding by cross-examining a Company witness and filing a brief. In its brief, CBIA stated its position that the Authority should approve the Company's proposal to reduce the current 3:1 business to residence flat rate relationship and that if the Authority approved the Company's proposal for Local Measured Service, it should not allow the rate to be mandatory for business service while optional for residence service.

D. Connecticut Cable Television Association and Northwest Cablevision, Inc.

Northwest Cablevision, Inc. (Northwest), represented by Attorney David Silverstone, is a regulated public service company providing community antenna television (CATV) service to customers in its franchise area and paying SNET an annual rental rate of $4.50 per pole to utilize a portion of telephone and electric poles to string CATV cable. The Connecticut Cable Television Association (CCTA), also represented by Attorney Silverstone, was granted intervenor status during the hearing. The Association is composed of most of the other franchised CATV companies in the state, all of whom also pay pole rental rates to SNET. These intervenors together participated in the proceeding by requesting additional data of the Company, cross-examining Company witnesses, presenting the testimony of two witnesses and filing a brief and reply brief.

Northwest and CCTA presented the testimony of Stuart McDaniel of Associated Utility Services, Inc. and Michael Petruzzi, President of Northwest, with regard to just and reasonable pole rental charges. In their brief, Northwest and CCTA argued that the just and reasonable pole rental rate is no more than $2.03 per pole per year and that the decision in this proceeding is applicable throughout the state for all poles utilized for CATV attachments.

E. Connecticut Public Interest Research Group, Inc.

The Connecticut Public Interest Research Group, Inc. (ConnPIRG) was represented by its Executive Director, Edmund Mierzwinski. The membership of ConnPIRG includes college students who are consumers of telephone service during the school year and who may wish to have that service temporarily disconnected during the summer months.

ConnPIRG participated in this proceeding by cross-examining a Company witness and filing a brief, reply brief and supplemental reply brief. In its brief it concluded that "SNET's current and proposed rates and charges for temporary disconnection of telephone service are inherently discriminatory against college students and the other potential users of this service" and that "economically efficient" rates and charges should be approved instead of the proposed ones.

F. Connecticut Security Dealers Association

The Connecticut Security Dealers Association (CSDA), represented by Attorney Charles J. Beck and W. Kenneth Edwards of Consumer Consultants, Inc., is composed of businesses who use SNET private line services in the operation of alarm systems. The CSDA requested additional data of the Company, including certain American Telephone and Telegraph (AT&T) documents which the Company stated it did not possess and did not use in the development of its cost studies. CSDA then filed a motion to compel production of the AT&T documents, under a protective order if necessary, but the Authority denied the motion. CSDA cross-examined Company witnesses, presented the testimony of W. Kenneth Edwards and Douglas Curtiss; and filed a brief, reply brief, and supplemental reply brief.

In its brief, CSDA set forth its position as follows:

1. The Company's private line embedded cost study overstates the actual cost of providing private line services.

2. The contribution cost study of private lines is defective.

3. The Company's non-recurring cost study overstates the actual cost of installing and removing private lines.

4. The past and present rate increases for private lines will ultimately lead to stranded investment and a burden for the general body of ratepayers in Connecticut.

The CSDA brief concluded that the Authority should direct the Company to submit an embedded cost study of private lines that "accurately reflects the actual characteristics of these lines," and until such studies are submitted, the Authority should permit increases for private lines of no more than the overall percentage increase allowed in the case.

G. New Haven Telephone

The New Haven Telephone Company, represented by its President, Richard Augur, provides business telephone equipment in competition with SNET. Although it requested and was granted intervenor status, the New Haven Telephone Company did not actively participate in the proceeding.

H. Western Connecticut Industrial Council

The Western Connecticut Industrial Council (WCIC), represented by its President and Counsel, Donald A. Gray., Jr., is composed of businesses which are customers of SNET. WCIC participated in this proceeding by cross-examining Company witnesses and filing a brief.

In its brief, WCIC made the following points:

1. The request for increased rates by the applicant is excessive.

2. At the time of filing of the rate application, interest rates were higher than today.

3. SNETCO's union contract settlements far exceed union settlements for industry.

4. In the event that SNETCO enters unregulated businesses, what are the safeguards for the ratepayer?

5. SNETCO's rate structure is based on inter- and intra-class subsidy.

6. A rate structure based on long run incremental cost is judgmental and therefore may not be equitable.

7. Business customers of SNETCO have in the past and are currently being discriminated against by the SNETCO rate structure.

8. Discounts available to SNETCO employees on telephone service discriminate against all other ratepayers.

9. The proposed Local Measured Service Rate is not cost justified and discriminates against all ratepayers.

10. Rate increases apportioned to obsolete services are calculated to force customers to update equipment.

The WCIC brief concluded by urging the Authority to order only such increase as will maintain an economically stable utility and order that rates be apportioned on a cost-justified basis without subsidy.

I. Yale University

Yale University, represented by Michael Grunder, is a large consumer of telephone services. Although it requested and was granted intervenor status, Yale did not participate in this proceeding.

J. Statements of Other Participants

Representative David Lavine of Durham made an oral statement during the hearing regarding three aspects of the Company's application. With regard to the charge for use of coin phones, he urged the Authority not to make any change unless it is sure the cost justification is "overwhelming." With

regard to the Company's proposal to introduce usage sensitive pricing in a new Local Measured Service rate, he pointed out that "consumer sensitive pricing" is important, particularly if usage sensitive pricing were ever to be made mandatory. As with Extended Local Calling, he stated, there is a community of interest involved in universal access to telephone service. Representative Lavine also discussed the relationship between residential and business rates and how different cost allocation techniques will produce different answers to the question of whether residential users are paying their fair share of the costs. He also pointed out that a reduction in demand caused by high rates or new rate structures could lead to higher unit costs leading to a further reduction in demand. Such a vicious circle could endanger universal service.

J. Edward Caldwell, Comptroller of the State of Connecticut, wrote to the Department with regard to increases in particular rates which would have a significant impact on state government expenses. The Executive Director of the Connecticut Conference of Municipalities wrote regarding the rate of return requested and the Local Measured Service rate proposal. The Town Manager of Stratford wrote to oppose increases in Direct-Inward-Dialed telephone systems. In addition, the Department received approximately 50 letters from individual customers, most of whom opposed the proposed rate increase.

## IV. AUTHORITY ANALYSIS AND EVALUATION OF EVIDENCE

### A. Test Year; Financial Data

It is the practice of this Authority in utility rate cases to establish rates prospectively upon the basis of a historical test year, usually the most recent full twelve months for which adequate records are available, to reflect the actual operating results and experience during such period. For most purposes, the test year adjusted for pro forma purposes sets the parameters within which the factors of ratemaking can be determined and used for the ratemaking process. The Authority may make certain prospective adjustments deemed necessary to ensure that a utility it regulates has a reasonable opportunity to achieve its revenue allowances.

The Authority has analyzed the cost and revenue experience of the Company during the test year ending December 31, 1981 and finds that it is reasonable for test year purposes in connection with this application.

### B. Revenues and Revenue Adjustments

#### 1. 1982 Revenues

At the Department's request, the Company provided 1982 figures on the expensing of station connections. In its application, the Company had computed pro forma expenses for this item on the basis of only one month's actual experience because of a regulatory change in the accounting treatment of station connections. As discussed below, the Authority believes that pro forma calculations based on the seven months of actual data available are preferable to any based on one month's actual experience.

The Company claimed, however, that if the Authority were to update this particular expense item by using 1982 data, in order to be fair it should also update the Company's overall pro forma revenues based on 1982 experience, which would result in a reduction of $8,348,000 in pro forma revenues. We do not agree with this contention. The primary purpose of requesting 1982 data for this specific expense item was to check the reliability of a pro forma calculation based on one month's data. Updating overall revenues for 1982 data on the other hand, would not improve the reliability of the pro forma revenue calculation because there is no evidence that 1982 revenue levels are more appropriate than those of the test year for determining the levels that are likely to prevail during the period new rates will be in effect. Also, to update all revenues would require an update of all expenses, including those which would have decreased due to lower usage, not just one expense item. This the Company did not do.

#### 2. "Business to Business" Advertising Revenue

The Company's new "Business to Business" telephone book was issued in 1982. The advertising revenues from this source constitute not only a known change, but also one which is expected to continue. The Company estimates $3,800,000 in annual new revenues and the Authority will increase pro forma revenues by that amount. All expenses associated with the Business to Business book are reflected as an adjustment to pro forma expenses in Section IV.D.9, below.

C. Rate Base and Rate Base Adjustments - Table II and III

The rate base presented by the Company in this proceeding for the year ending December 31, 1981, is predicated upon the original cost of telephone plant in service plus short term telephone plant under construction, less accumulated depreciation reserve or net telephone plant of $1,700,339,000 of which $1,172,301,000 is intrastate Connecticut plant. The rate base adopted by the Company did not include the unamortized amount of accumulated tax savings under Section 168 of the Internal Revenue Code. In our opinion, these savings are in the nature of consumer contributed capital and the Company is not entitled to a return thereon. Therefore, we agree that equity requires that these savings should not be included in the Company's rate base for purposes of these proceedings. In addition to the net telephone plant, the Company's claimed rate base includes an allowance for cash and working funds, materials and supplies, and prepaid amounts. With the inclusion of these additional items, the net original cost rate base becomes $1,499,368,000 of which $1,037,329,000 is intrastate. The Company made pro forma adjustments to the intrastate rate base which decreased it to $988,643,000.

We show in Table II, below, the Company's computation of its rate base:

TABLE II

Rate Base Presented by Company

December 31, 1981

(000 - Omitted)

| | Total Plant | Intrastate Plant |
|---|---|---|
| Telephone Plant in Service | $ 2,190,363 | $ 1,485,853 |
| Short Term Tel. Plant Under Construction & Other | 55,932 | 35,018 |
| Total Telephone Plant | $ 2,246,295 | $ 1,520,871 |
| Less: Depreciation Reserve | 545,956 | 398,264 |
| Net Telephone Plant | $ 1,700,339 | $ 1,122,607 |
| Add: Cash and Working Funds | 4,776 | 3,235 |
| Materials & Supplies | 19,016 | 12,777 |
| Prepaid Accounts | 15,490 | 14,058 |
| Less: Reserve for Deferred Income Tax | 240,253 | 164,034 |
| Rate Base | $ 1,499,368 | $ 988,643 |

We have adopted the Company's rate base for the 12 months ended December 31, 1981, for purposes of these proceedings with the adjustments that appear below.

1. Cash and Working Funds

The Company included in its intrastate rate base the sum of $3,235,000 for Cash and Working Funds. This sum is based on the actual cash working fund allowance on hand as of December 31, 1981. In addition, the Company

introduced a lead and lag study which indicated a working capital requirement of $51,998,000 total company and $22,415,000 intrastate which it claims demonstrates the reasonableness of using the December 31, 1981 balances as representative of normal working capital requirements.

We note that the amount requested by the Company is less than one-seventh of the amount which the Company asserts it might have requested based upon the customary lead and lag study approach. For the purposes of this proceeding, we find the amount of $3,235,000 for cash requirements is a reasonable allowance to be included in the rate base for cash working capital.

2. Customer Deposits

A number of customers of the Company are required to deposit funds with the Company for various reasons. The Company does pay interest on these deposits but at a rate less than the cost of money in today's market. These funds are available for its construction program. We find that the total of these deposits amount to $2,374,000. Therefore, we reduce the rate base by $2,374,000 as these funds were not supplied by investors. We also find that, to be fair to the Company, we should allow as a proper operating expense, the interest paid for the use of these funds. The total of this expense is $151,000. We adjust operating expenses accordingly.

3. Interest Charged Construction Capitalized Since 1979

The Company made a pro forma adjustment to amortize over a three year period the embedded Intrastate Short Term Interest Charged Construction (ICC) capitalized in 1979, 1980, and 1981 in the Company's off-book memorandum records. (C-3.24) The Company updated this pro forma adjustment to amortize over a three year period the embedded Intrastate Short Term interest Charged Construction capitalized in 1979, 1980, 1981 and through November 30, 1982, a 47 month period. This supplemental pro forma adjustment increased the Intrastate Short Term Interest Charged Construction to be amortized over three years from $8,034,000 to $10,976,000. (C-3.41SP) The Federal Communications Commission (FCC) made the accounting change regarding the inclusion of short term telephone plant under construction (short term TPUC) in the rate base and the exclusion of interest charged construction (ICC) on short term TPUC from the rate base and from operating income for the purpose of more properly matching income and expenses. Also, in the telephone industry short term TPUC involves projects of such a short nature that they are completed and in service by the time new rates would go into effect.

In late filed revision of Exhibit Number C-3.41SP the Company shows the effect of amortizing 47 months of ICC over a three year period. The Authority finds that this item should be amortized over a 47 month period, namely the accrual and recovery periods should match. Therefore, we reduce the rate base by $124,000 and increase operating expenses by a like amount.

4. 1982 Investment in Computers for Directory Assistance

The labor cost adjustment developed on Additional Data Request No. 125 (corresponding to Schedule C-3.32SP, the pro forma adjustment for a lower

level of employees 12/31/82) included a reduction in the number of operators due to the recent implementation of DAS/C, a computerized directory assistance system. Only a portion of the investment for DAS/C has been reflected in the end of the test year rate base; based on year-to-date actuals, the Company expects to add $2,900,000 in 1982 to the rate base for the completion of DAS/C, of which $2,013,000 is allocated to intrastate operation.

This is a permanent change that the Company became aware of after it prepared its original filing. Therefore, we shall increase the pro forma intrastate rate base by $2,013,000.

5. Exchange Network Facilities for Interstate Access (ENFIA)

In Schedule C-3.39SP Revised the Company presented data relating to the most recent level of expenses and plant attributable to ENFIA. The Authority finds that these data appropriately reflect the conditions likely to prevail when new rates will be in effect and will adjust the pro forma rate base accordingly. The net rate base effect of this adjustment is a $2,363,000 reduction in the pro forma intrastate rate base.

6. Phaseout of Embedded Customer Premises Equipment

In Schedule C-3.40SP the Company presented data relating to the phaseout of embedded Customer Premises Equipment (CPE) in 1983. The Authority finds these data appropriate for pro forma purposes and will adjust the pro forma rate base accordingly. The net rate base effect of this adjustment is a $5,665,000 increase to the pro forma intrastate rate base.

7. Equal Life Group Depreciation

In its original filing the Company made an adjustment to show the effect of Equal Life Group (ELG) depreciation. This adjustment consisted of two parts - ELG depreciation permitted by the FCC for certain accounts and an estimate for ELG depreciation on other accounts that the Company was planning to submit to the FCC for approval. The Company submitted Schedule C-3.29SP Revision #2 to show the effect of the FCC's final approval on the second half of their original adjustment.

As discussed in Section IV.D. 11, below, the Authority has decided not to accept the Company's ELG depreciation proposal and will reverse the adjustment that was made in the original filing. The net rate base effect of this adjustment is a $1,745,000 increase to the pro forma intrastate rate base and a reduction to pro forma intrastate operating expense of $1,745,000.

With the foregoing adjustments, we find that the Company's intrastate rate base totals $993,205,000 as shown in Table III. (See next page.)

TABLE III

Intrastate Rate Base with Authority Adjustments

December 31, 1981

(000 - Omitted)

| | Intrastate Plant | Authority Adjustments | Intrastate Plant as Adjusted by Authority |
|---|---|---|---|
| Telephone Plant in Service | $ 1,485,853 | $ 1,906 | $ 1,487,759 |
| Tel. Plant Under Construction & Other | 35,018 | (62) | 34,956 |
| Total Telephone Plant | $ 1,520,871 | $ 1,844 | $ 1,522,715 |
| Less: Depreciation Reserve | 398,264 | (2,142) | 396,122 |
| Net Telephone Plant | $ 1,122,607 | $ 3,986 | $ 1,126,593 |
| Add: Cash & Working Funds | 3,235 | 10 | 3,245 |
| Materials & Supplies | 12,777 | (36) | 12,741 |
| Prepaid Accounts | 14,058 | 2 | 14,060 |
| Less: Reserve for Deferred Income Tax | 164,034 | (600) | 163,434 |
| Rate Base | $ 988,643 | $ 4,562 | $ 993,205 |

D. Expenses and Expense Adjustments

1. Interest Paid on Customer Deposits

In keeping with the earlier Authority adjustment removing customer deposits from the rate base, we have allowed the related interest expense to be treated as an operating expense. Therefore, we shall increase the pro forma intrastate operating expenses by $151,000.

2. Amortization of Interest Charged Construction Capitalized Since 1979

In keeping with the earlier Authority adjustment changing the Company's proposed amortization of this item we will increase the pro forma intrastate operating expenses by $124,000.

3. Updates of Estimates and Additional Known Changes

At the request of the Division of Consumer Counsel, the Authority and DPUC staff, and on its own initiative the Company submitted the following exhibits to show the updates of certain estimates it used in the original filing and to show the effect of changes that have become known since the preparation of the original filing and that are appropriate for pro forma purposes.

a. Sch. C-3.305P - Rev.8/82 wage increase - increase operating expenses by $156,000 - decrease operating taxes by $77,000

b. Sch. C-3.32SP - Lower 12/31/82 employee level - reduce operating expenses by $9,625,000 - increase operating taxes by $4,748,000 - increase miscellaneous deductions by $1,064,000

c. Sch. C-3.36SP - 1983 Pension Accrual Changes - reduce operating expenses by $1,310,000 - increase operating taxes by $728,000

d. Sch. C-3.37SP - 1983 Changes in Unemployment Taxes - increase operating taxes by $97,000

e. Sch. C-3.38SP - Higher 1982 Property taxes - increase operating taxes by $185,000

The Authority finds the above changes reasonable as presented, therefore reducing operating expenses by $10,779,000, increasing miscellaneous deductions by $1,064,000 and increasing operating taxes by $5,681,000.

4. Update of December, 1981 Factors

In the original application the Company used certain December, 1981 factors in annualization and pro forma adjustments and not the test year average. As a result of the November 16, 1981 flash-cut implementation of expensing station connections all but one of these factors changed. The Company filed updated figures using January to June, 1982 factors. In order to reflect all available data, the Authority has decided to use December, 1981 through June, 1982 factors on a seven-month instead of a six-month average and recalculated the Company's exhibit. As a result of using the recalculated and updated figures we have reduced the originally filed pro forma intrastate operating expenses by $648,000 and increased operating taxes by $497,000.

5. Effects of Deregulation

The Company filed Schedule C-3.34SPSP to show the estimated effect of the transfer of certain employees to a newly formed unregulated division. The Company stated that on average for 1983, 150 employees will have left the regulated side of the Company to staff the unregulated division. With wages, fringe benefits, office space and other support items related to these employees, the total adjustment to expenses is a decrease of $4,350,000 and a decrease of $2,236,000 in taxes. In addition, in its original filing the Company removed the costs of consultants, hired to perform studies regarding future unregulated activities, from pro forma expenses. The Company filed Schedule C-3.35SP detailing the associated costs of employees that had dealings with the aforementioned consultants.

The Authority finds that these two filings are reasonable and therefore reduces operating expenses by $4,468,000 and increases operating taxes by $2,297,000.

6. Fringe Benefits for Officers

During the course of cross-examination, a Company witness testified that included in its expenses was approximately $44,000 paid to outside accounting and financial firms for professional and investment advice sup-

plied to the Company's officers. Since this expense is for personal financial and accounting advice, we believe that it is not a proper expense for ratemaking purposes and therefore we reduce operating expenses by $44,000 and increase operating taxes by $22,000.

It may well be that this and other types of personal perquisites such as individual memberships in social and golf clubs etc. are useful in attracting and retaining top flight corporate talent. Because of the peculiar public service nature of regulated utilities, we believe shareholders rather than ratepayers should provide such extraordinary incentives to their corporate officers.

7. AT&T Corporate Expenses

During the test year, SNET was one of the Licensee Companies of the American Telephone and Telegraph Company (AT&T) operating system, partaking of certain benefits derived from that association for which it paid a fee. This fee consisted of an allocated portion of the cost, plus a return on investment employed in rendering services to Long Lines Department and Licensee Companies in accordance with the terms of the License Contract.

Although the break-up of the AT&T operating system may end the centralized services provided by AT&T to the Bell operating companies, SNET is currently negotiating with AT&T for the continuation of some or all of the services which have been provided through the License Contract. In any event, as SNET will have to replace whatever services that AT&T will no longer provide, we consider the License Contract expenses, as adjusted below, to be a reasonable estimate of the annual costs that will be incurred during the period new rates are in effect. In this application, SNET deducted some advertising expenses which were previously disallowed. In addition, as was determined in past rate applications of the Company, we find that certain expenses of AT&T which were allocated to SNET are not proper for rate making purposes. These are as follows:

| | |
|---|---|
| Directors Fees | $ 4,552 |
| Annual Report | $ 18,855 |
| Stockholder's Meetings | $ 16,578 |
| Contributions | $ 37,580 |
| Lobbying Expense | $ 47,924 |
| Auditors Fees | $ 2,773 |
| Total | $128,262 |

Therefore, we have reduced pro forma intrastate operating expenses by $128,000 and increased operating taxes by $66,000.

8. AT&T Antitrust Litigation Expense

Of the $744,975 SNET paid to AT&T for antitrust legal expense during the test year, SNET's $472,324 share of the Department of Justice's Antitrust case is definitely of a non-recurring nature and therefore should not be allowed as a pro forma intrastate operating expense. Therefore, we have reduced pro forma intrastate operating expenses by $472,000 and have increased operating taxes by $243,000.

9. "Business to Business" Advertising

As a result of the revenue adjustment made earlier in this Decision, we increase operating expenses by $1,300,000 and operating taxes by $668,000 to show the related expenses for the "Business to Business" book.

10. Jurisdictional Cost Separations

Jurisdictional Cost Separations is the process by which a telephone company's total investment and expenses are apportioned between regulatory jurisdictions for ratemaking purposes. Such an apportionment is necessary because a significant portion of a Company's total costs is attributable to the provision of interstate services which are regulated by the FCC. The procedures for making this jurisdictional apportionment are set forth in the February 1971 Separations Manual ("Manual") which was prepared by the NARUC-FCC Cooperative Committee on Communications. These procedures are incorporated by reference as Part 67 of the FCC's Rules, and have been adopted by all regulatory jurisdictions as the basis for performing jurisdictional cost allocations.

The apportionment of costs between regulatory jurisdictions essentially proceeds on two bases. First, costs which arise solely from the provision of a jurisdictional service are assigned directly to that jurisdiction. A substantial portion of the Company's total costs, however, arise from the provision of facilities used to render both intrastate and interstate service. An example is the cost of central office switching capacity which services exchange and state toll traffic, as well as interstate toll traffic. Because these costs cannot be assigned directly, the Manual prescribes that these costs are to be allocated between jurisdictions roughly in accordance with relative usage. Such relative usage is reflected by the Company's Subscriber Line Usage (SLU) factors and various derivative factors including the Subscriber Plant Factor (SPF).

Relative usage is calculated, in part, on the basis of sample studies which are performed periodically by the Company. The purpose of these studies is to calculate the relative amounts of time which telephone exchange plant is used to render state and interstate service. Paragraph 11.212 of the Manual requires only that usage be determined using "studies of traffic handled ... during a representative period ..." The purpose of Paragraph 11.212 is to ensure that the results of sampling studies, such as those used by the Company, truly reflect the actual and relative use of telephone plant.

Despite these provisions, which were intended to promote uniformity among regulatory jurisdictions, it frequently is argued that the Bell System, which in practice acts as superintendent over separations practices, has imposed upon the industry a system of uniformity which goes beyond the language of the Manual.

In this case, it was determined that a review of the Company's interpretation and implementation of Separations Manual procedures was warranted. In all, four areas were investigated: 1) ENFIA[1] minutes of use; 2) interstate FX/CCSA[2] minutes of use; and 3) Holding Time studies; and 4) Phase Out of Terminal Equipment Costs.

Two of these practices -- the treatment of interstate FX/CCSA minutes of use, and the application of five day holding time studies -- are quite old and their origins are not well documented. The treatment of ENFIA usage and Terminal Equipment Cost by contrast, are quite recent. Each of these issues is discussed in the sections below.

a. ENFIA Minutes of Use

The Company has made a pro forma adjustment to reflect the allocation of ENFIA costs to the interstate jurisdiction. The effect of this adjustment is to reduce the jurisdictional revenue requirement by approximately $5.3 million. The adjustment is based upon the assumption that ENFIA usage per line averages approximately 3,000 conversation minutes per month. This assumption is based upon the fact that the Specialized Common Carriers (SCC), such as MCI, paid AT&T on the basis of 3,000 minutes of use per ENFIA connections per month during the test year. This figure was negotiated between the SCC's and AT&T. Although the Company has performed no study of actual ENFIA usage, documents filed by AT&T with the FCC indicate that actual usage, on average, is on the order of 7,460 holding time minutes, which is equivalent to 6,407 conversation minutes using SNET traffic ratios.

Based on a September decision of the FCC, the estimated ENFIA usage was increased to 4,474 minutes of use and therefore under the current ENFIA tariff, the Specialized Carriers compensate Bell on an interim basis of 4,474 minutes of use rather than 3,000.

We believe this to represent the proper level of use for pro forma purposes and will require a pro form adjustment based on the 4,474 figure. This means an expense adjustment of $3,170,000 rather than the $2,356,000 originally proposed and therefore reduction in operating expenses of $814,000.

b. Interstate Foreign Exchange (FX) and Common Control Switching Arrangements (CCSA)

Where interstate FX and CCSA circuits terminate in SNET exchange facilities, the exchange is used to switch and transmit some amount of traffic which either originates or terminates outside of Connecticut. The issue is whether or not such usage is "interstate" and, if so, whether or not the corresponding minutes of use should be treated as interstate for separations purposes.

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[1] Exchange Network Facilities for Interstate Access.

[2] Foreign Exchange / Common Control Switching Arrangement.

The Company is reluctant to term this traffic "interstate" since the call traverses a private line (FX) circuit. AT&T and the Bell System, however, recently proposed that interstate FX/CCSA usage be recognized as such for separations purposes. As proposed, the "change" would add language to the glossary of the Manual to give express recognition to FX/CCSA usage.

If it was determined that interstate FX/CCSA minutes of use should be regarded as interstate for purposes of separations, then the net test year expense would be reduced by about $960,000.

Since this matter is currently pending before the Joint Board of Federal and State regulators convened to consider this and other separations issues, we believe it inappropriate to decide this issue at this time. It is anticipated that these issues will be resolved in a uniform manner in 1983. Therefore no adjustment is warranted.

c. Holding Time Studies

"Holding time" represents the amount of time telephone plant is used per call. Because holding times differ among services, a unique holding time factor is estimated for most services (e.g., exchange, toll, etc.). Once estimated, these factors are used to develop total minutes of use estimates which, in turn, are used to develop jurisdictional allocation factors.

The Company has developed the holding time estimates used to separate most categories of plant on the basis of five day or "weekday" holding time studies. Only Category 3 (Switching Machine) costs are separated on the basis of seven day or "calendar day" studies which include weekend as well as weekday traffic characteristics.

The Manual does not prescribe the length of the holding time study to be used. The Manual requires only that a "representative" study period be utilized. It is a Bell System interpretation of the Manual which has produced SNET's separations approach.

Although the Company has not completed seven day holding time studies of its own, estimates proposed by AT&T and filed in FCC Docket 80-286 indicate that the impact upon Connecticut of seven day holding times would have been to decrease the 1979 state revenue requirement by about $8.7 million. The existence of such a cost differential suggests that a five day holding time study period does not produce a representative estimate of usage, thus apparently leaving the Company's studies in violation of the Manual. However, since the only data available on which to base any adjustment are AT&T estimates not specific to Connecticut and since the holding time issue is pending before the Joint Board, we will make no adjustment.

d. Phase Out of Terminal Equipment Costs

The final separations issue which the Authority has addressed in this case is the phase out of terminal equipment costs from the separations cost base. This phase out, which will occur over a five year period beginning January 1, 1983, results from an amendment to the Separations Manual which was enacted by the FCC earlier this year. As shown by the Company, the

first year effect of this phase out will be to increase the state operating expenses by approximately $4.7 million. The pro forma adjustment submitted by the Company is approximately $2.3 million. This amount reflects the average (i.e., 6 month) impact of the phase out in calendar year 1983.

Since this amendment to the Manual is in effect, the Authority will allow the adjustment and increase the Company's operating expense by the average 1983 impact of $2,347,000.

11. Depreciation

The Company proposed in this case to implement two new depreciation treatments for state ratemaking purposes. The first depreciation treatment, Remaining Life (RL), was approved by the FCC in January of 1982 and made retroactive to January 1, 1981. This change increases the 1981 depreciation expense by over $15 million.

The second new depreciation treatment is Equal Life Grouping (ELG). This method is also referred to as Straight Line Equal Life Group (SLELG) depreciation, and, if adopted, would replace Straight Line Vintage Group (SLVG) accounting for new investment in certain accounts. Equal Life Grouping was approved by the FCC in May of 1982 for 1982 vintage Outside Plant. In June, 1982, the Company requested FCC authorization to use ELG for Central Office Equipment investment as well. Based upon the pro forma adjustment shown on Schedule C-3.10, the effect of the ELG proposal is to increase the 1981 jurisdictional depreciation expense by approximately $1.7 million. Recent FCC approval of ELG rates for SNET would reduce this amount by $638 thousand.

The first issue to be addressed is whether or not the FCC's authorization of RL and ELG methods and rates is binding upon this Authority. The language of the FCC's decisions regarding depreciation seem clearly to indicate that the FCC did not intend to preempt state authority. In its Report and Order in Docket No. 20188 (Re: ELG) the FCC made it clear that it merely was approving, not mandating, the use of ELG. Accordingly, the Authority is free either to accept or reject the Company's two depreciation proposals based upon the interest of state ratepayers.

a. Remaining Life

The considerations surrounding the Company's RL proposal largely are matters of regulatory philosophy; i.e., to what extent will the Authority insulate the Company against possible capital losses and/or ensure that the Company will not carry a rate base which reflects in part investment for which the associated asset already has been retired from service. Because we are currently experiencing times of unprecedented growth in technology and competition which places substantial pressures on capital recovery of investments, and since RL will allow the Company to minimize these risks without over recovering its investment through depreciation, we will allow this change in depreciation practices.

b. Equal Life Grouping

Unlike RL, the Company's justification for ELG appears to reflect a narrow view of the depreciation concept. Specifically, the Company indi-

cates in response to ADR-32 that ELG is desirable because it (a) provides for a better match between capital recovery and capital consumption, and (b) provides an enhanced cash flow which will reduce the Company's external capital requirements. These two points are discussed below.

i. Capital Consumption vs. Capital Recovery

> In ADR-32, the Company states that "...capital... should be recovered currently as assets are consumed as measured by the physical retirement of assets.
> Consequently...the progressive implementation of [ELG]...will provide for the recovery of capital more in line with its consumption."

These comments reflect an overly restrictive view of the depreciation process. Capital consumption -- or the reduction of the capital value of an asset -- not only is a function of retirements, but also is a function of such factors as wear and tear, replacement cost, and obsolescence. To link capital consumption with retirements comes close to arguing in support of a system of retirement accounting,[1] a regulatory accounting practice which was abandoned in the late 1920s and replaced by the present system of depreciation accounting.

The purpose of present day depreciation accounting is two-fold: 1) to reflect the fact that assets generally lose value (i.e., capital is consumed) over time; and 2) to eliminate the extraordinary expense burden which results under retirement accounting in the year during which an asset is retired.

Although one purpose of depreciation accounting is to reflect the decline in the value of assets over time, depreciation accounting methods do not attempt to measure or to approximate actual changes in capital value over time. Rather, depreciation methods are concerned only with the allocation of capital costs in a systematic and rational manner over the estimated useful life of assets. Because the essential purpose of depreciation accounting is to allocate rather than to value, any matching of depreciation accruals with capital consumption must result purely as a matter of coincidence. In other words, a mismatch between capital consumption and capital recovery almost necessarily is inherent in any accounting treatment of capital costs. Partially in recognition of this fact, the National Association of Regulatory Utility Commissioners (NARUC) consistently has opposed the use of ELG depreciation accounting for ratemaking.[2]

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[1] Retirement accounting is a method whereby the full cost of a depreciable asset is charged to operating expense in the year that the asset is retired from service. None of the cost of the asset is charged to depreciation expense prior to the time of retirement.

[2] The NARUC has opposed the allowance of the Equal Life Group depreciation method throughout these proceedings. The NARUC's opposition has been based upon a belief that the SLELG method is no more accurate than the currently used SLVG method, and upon the opinion that the substantial disadvantage accompanying a changeover to SLELG would preclude its adoption even if the claims made on its behalf were true. (Petition for Reconsideration, FCC Docket No. 20188, February 25, 1981, pp. 2-3.)