

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE SALE AND DETARIFFING OF)
EMBEDDED CUSTOMER PREMISES) ADMINISTRATIVE CASE
EQUIPMENT) NO. 269

O R D E R

On September 10, 1985, the Commission issued an Order in the above-styled matter requiring the detariffing and transfer of embedded customer premises equipment ("CPE") to nonregulated activities no later than December 31, 1987. On September 30, 1985, General Telephone Company of Kentucky ("GTKY") filed an application for rehearing in this matter. GTKY specifically requested rehearing on the decision by the Commission that net book value be used as the appropriate valuation method for purposes of this case. It also requested an extension of the detariffing date until December 31, 1990, to afford an opportunity for full capital recovery from regulated operations.

The Commission affirmed its decision to use net book value as the proper valuation method for purposes of this case. The FCC concurs with the use of net book value in that it properly meets the balancing test of Democratic Central Committee. The Commission therefore denied rehearing on the issue of net book value.

The Federal Communications Commission ("FCC") has provided for an extension of the detariffing date until not later than

December 31, 1990, on a case-by-case basis to ensure that full capital recovery is possible. The Commission therefore granted rehearing on the issue of granting a waiver of the detariffing date.

On November 27, 1985, a hearing was held in the offices of the Commission, with representation of the Attorney General's Office being present as an intervenor in this case.

The Commission has thoroughly reviewed the request by GTKY, the requirements of the FCC, and the facts in this matter. In our opinion, the evidence does not support the extension of the detariffing date to December 31, 1990. However, in order to ensure that GTKY has an opportunity for full capital recovery, the Commission will allow GTKY to detariff its embedded CPE at December 31, 1988.

Although granting this relief and seeking a one-year waiver from the FCC, the Commission emphasizes that GTKY must take full advantage of this additional opportunity for full capital recovery. To date, GTKY's marketing program for sale of embedded CPE has been neither comprehensive nor consistent. In response to Item 15 of the Commission's data request dated November 15, 1985, GTKY did not provide any advertisements which would have promoted sale of embedded CPE to customers. This is especially troublesome when the Commission reflects upon the deregulated sales of CPE in which GTKY was engaged at the same time. Without making all customers aware that they can purchase their equipment and the price to do so, GTKY has not taken full advantage of the opportunity it has had to sell its embedded CPE. The Commission

urges GTKY to implement an active sales plan during the remaining period before detariffing. The Commission has requested an extension for GTKY of one year beyond that of the other independent telephone companies, but GTKY must now do its part.

The Commission also notes that in 1983 GTKY did not propose to rescribe depreciation rates for its CPE accounts. At that time competition in the offering of CPE and the resulting impact on technology had already influenced CPE service lives. GTKY did not avail itself of this opportunity to achieve full capital recovery before detariffing. Given that fact and the one-year extension being granted, the Commission advises GTKY that it will oppose any rescription of depreciation rates or amortization by GTKY for these accounts in 1987.

Finally, the Commission refers GTKY to the Commission's treatment of land and buildings in its original Order. In this case GTKY benefits from the application of net book value to these assets, which most likely have appreciated. The Commission could have used fair market value, as the FCC allows.

SUMMARY

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

1. The embedded CPE of GTKY should be detariffed and transferred to its nonregulated activities no later than December 31, 1988, upon the granting of a waiver by the FCC.

2. Within 60 days of the date of this Order, GTKY should file marketing plans for the sale of embedded CPE.

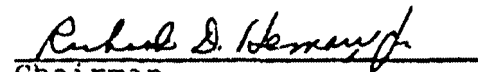
IT IS THEREFORE ORDERED THAT:

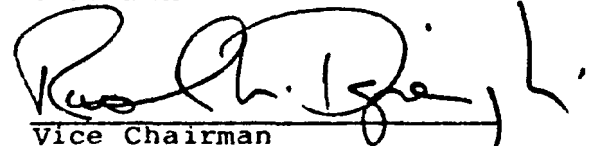
1. The embedded CPE of GTKY shall be detariffed and transferred to nonregulated activities no later than December 31, 1988, upon the granting of a waiver by the FCC.

2. Within 60 days of the date of this Order, GTKY shall file marketing plans for the sale of embedded CPE.

Done at Frankfort, Kentucky, this 9th day of January, 1986.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary