COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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IN THE MATTER OF:

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

O R D E R

Since the release of the Order by the Commission in the above-referenced matter dated September 10, 1985, most independent telephone companies have filed marketing plans and/or tariffs with the Commission as required. Upon reviewing these filings, it is our opinion that some clarification is needed to assist with the proper accounting for the deregulation of embedded customer premises equipment ("CPE").

Some companies have indicated that embedded CPE will be fully depreciated on their books by December 31, 1987. The first ordering paragraph of that Order clearly states that "embedded CPE shall be detariffed and transferred to nonregulated activities no later than December 31, 1987." These accounts (the investment and its related depreciation reserve) are to be transferred to the deregulated accounts on the detariffing date, but not later than December 31, 1987, <u>at the amount on the books at that time utilizing approved depreciation rates</u>. In many instances, full recovery may not occur on the regulated books unless an aggressive program to recover its investment through other means is implemented by the utility. No provisions were made in the

September 10, 1985, Order for amortization of the remaining balance.

The second issue concerns inventory differences between CPE per books and CPE in inventory or in place. The Order denied the request of some telephone companies that ratepayers bear the cost of this difference. After a thorough review of the Uniform System of Accounts, it is our opinion that the best approach to account for this inventory difference is through an adjustment directly to retained earnings. The entry to correct these differences should be a credit to the plant account for the amount to be transferred, a debit for the related depreciation reserves, and a balancing entry for the difference. The difference should not be amortized or accounted for "above the line."

SUMMARY

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

1. Each independent telephone utility should transfer to its nonregulated operations embedded CPE at the amount on its books at the detariffing date as instructed in the text of this Order.

2. Each independent telephone utility should account for the unaccounted-for difference between CPE per books and CPE in inventory or in place as instructed in the text of this Order.

3. Each independent telephone utility should file its journal entries to effect the deregulation of embedded CPE within the later of 30 days of its detariffing date or 30 days of the date of this Order.

4. Each independent telephone utility should file its journal entries to effect the accounting transaction of the unaccounted-for difference between CPE per books and CPE in inventory or in place within 30 days of the date of this Order.

5. Those companies utilizing the flow-through method of accounting for investment tax credits should make adjustments as if the normalized method had been used, submitting the journal entries to the Commission within the later of 30 days of the detariffing date or 30 days of the date of this Order.

6. In the event revised tariffs and/or marketing plans are needed as a result of findings 1-5 above, the company should file same with the Commission within 30 days of the date of this Order.

IT IS THEREFORE ORDERED that:

1. Each independent telephone utility shall transfer to its nonregulated operations embedded CPE at the amount on its books at the detraiffing date as instructed in the text of this Order.

2. Each independent telephone utility shall account for the unaccounted-for difference between CPE per books and CPE in inventory or in place as instructed in the text of this Order.

3. Each independent telephone utility shall file its journal entries to effect the deregulation of embedded CPE within the later of 30 days of its detariffing date or 30 days of the date of this Order.

4. Each independent telephone utility shall file its journal entries to effect the accounting transaction for the

difference between CPE per books and CPE in inventory or in place within 30 days of the date of this Order.

5. Those companies utilizing the flow-through method of accounting for investment tax credits shall make accounting adjustments as if the normalized method had been used, submitting journal entries to the Commission within the later of 30 days of the detariffing date or 30 days of the date of this Order.

6. In the event revised tariffs and/or marketing plans are needed as a result of orders 1-5 above, the company shall file same within 30 days of the date of this Order.

Done at Frankfort, Kentucky, this 6th day of February, 1986.

PUBLIC SERVICE COMMISSION

Richard D. Hemenway

Chairman

Vice Chairman

Commissioner

ATTEST:

Secretary