COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of

THE APPLICATION OF SOUTH CENTRAL RURAL TELEPHONE COOPERATIVE COR-PORATION, INC., TO CONSIDER CHANGES WITH RESPECT TO THE EXPENSING OF STATION CONNECTIONS RESULTING FROM THE AMENDMENT OF THE UNIFORM SYS-TEM OF ACCOUNTS

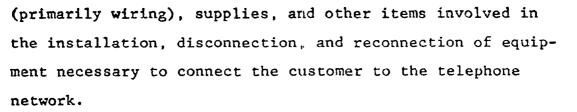
CASE NO. 8349

ORDER

On September 17, 1981, the Kentucky Telephone Association ("KTA"), on behalf of South Central Rural Telephone Cooperative Corporation, Inc., ("Applicant") and 16 other telephone companies, filed a request that the Commission establish a generic docket to consider changes resulting from the amendment of Part 31 of the Uniform System of Accounts for telephone companies with respect to the expensing of station connections. After considering this request, the Commission has determined that a separate docket should be established for each telephone utility which has applied.

On October 14, 1979, the Federal Communications Commission ("FCC") released a notice of proposed rulemaking wherein it proposed to amend Part 31 of the Rules and Regulations to modify the accounting treatment afforded station connections. Station connections include the labor, materials





On March 31, 1981, the FCC, in its first report and order in Docket No. 79-105, ordered that inside wiring costs associated with station connections should no longer be capitalized but expensed. In order to implement this change, the FCC directed that the existing station connection account, Account 232, be divided and maintained in two separate subaccounts entitled "inside wiring" and "other". The FCC further directed that the investment assigned to the inside wiring subaccount be expensed and that portion in subaccount "other" be capitalized.

Prior to this FCC decision, all station connection costs were capitalized in Account 232. This allowed a new customer to enter the system at a price lower than the total cost of installation, with the remaining costs being financed by and recovered from the general subscriber body. As the cost of labor and overhead increased and the population moved more frequently, the balance in this account grew dramatically.

The FCC ordered all carriers subject to its jurisdiction to commence the expensing of all current station connection costs on October 1, 1981. However, being concerned about the burden which would be placed upon such carriers and

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regulatory agencies as a consequence of immediate implementation, the FCC ordered the carriers to elect between phasing in the expensing over a four-year period or flash cutting the entire cost immediately. However, the FCC order required the carriers to obtain state regulatory agency approval before implementing the flash cut procedure.

Although the FCC has no ratemaking jurisdiction in the intrastate arena, this Commission has recognized these changes as appropriate. In its decisions in South Central Bell Telephone Company, Case No. 8150, General Telephone Company of Kentucky, Case No. 8045, Cincinnati Bell, Inc., Case No. 8174, and Continental Telephone Company of Kentucky, Case No. 8182, the Commission adopted the phase-in approach for expensing the current cost of new connections, in order to reduce the immediate impact on the ratepayer and to provide for gradual implementation of this accounting change. The Commission finds no compelling reasons to reconsider its policy in this case.

FINDINGS OF FACT

(1) Applicant's request for a general docket in this matter should be denied, since the Commission has adopted the "phase-in" approach for telephone companies within its jurisdiction;

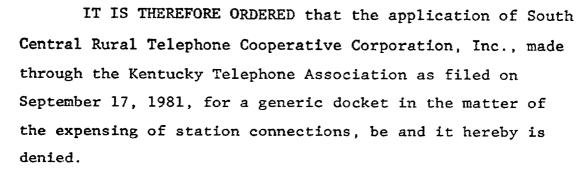
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(2) Consistent with its decisions in other recent telephone cases, the Commission will grant the Applicant the opportunity to file tariffs on or after October 1, 1981, 1982, 1983 and 1984 to recover the increase in operating costs caused by the expensing of station connections. These annual filings are limited specifically to station connection expense increases. Applicant must demonstrate, based on actual results adjusted solely for the effect of rate increases, that absorption of these increased costs would result in its inability to achieve the return on equity allowed in its most recent rate order; and

(3) Should Applicant decide to file tariffs in accordance with Finding No. 2 of this Order, it must file financial data which demonstrates the revenue impact of the phase-in approach, proposed tariffs designed to recover increased revenue requirements, and prefiled testimony which at a minimum must provide cost support for the proposed tariffs. As a guide, Appendix "A" to this Order contains a suggested technique for estimating the impact on the revenue requirement of expensing station connection expenses, and Appendix "B" contains a sample industry study of Account 232 cost analysis. Applicant may substitute a different method if it so desires.

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IT IS FURTHER ORDERED that on and after October 1, 1981, South Central Rural Telephone Cooperative Corporation, Inc., shall adopt the phase-in approach to the expensing of station connections, and shall maintain its records in Account 232 of the Uniform System of Accounts as directed by the FCC in its Order of March 31, 1981, in Docket No. 79-105.

IT IS FURTHER ORDERED that South Central Rural Telephone Cooperative Corporation, Inc., be and it hereby is granted the authority to file tariffs to recover the increase in operating costs caused by the expensing of station connections in accordance with Findings No. 2 and 3 of this Order.

Done at Frankfort, Kentucky, this 28th day of September, 1981.

PUBLIC SERVICE COMMISSION

Chairman

ATTEST:

Secretary

APPENDIX "A"

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE NO. 8349, DATED SEPTEMBER 28, 1981

This attachment is a suggested technique for estimating the impact on the revenue requirement of expensing station connection expenses. Your company may substitute a different method if you choose.

Account 232 must be separated. The companies which have the cost already separated should use the recorded amounts. The companies which do not have the account separated must use one of the following three methods:

1. Conduct a new time and notion study.

2. Use an existing study.

3. Use the attached industry study.

A copy of the study should be attached and filed with the study results.

- A. As of year end 1980 (or more current period, if available) show separately the amounts for:
 - a. Plant in service for station connections--inside wire
 - b. Plant in service for station connections-other
 - c. Depreciation reserve for station connectionsinside wire
 - d. Depreciation reserve for station connectionsother

For expediency purposes, the reserve should be apportioned in the same manner as plant in service for Account 232. If the present reserve for Account 232 is negative, the negative amount should be assigned to station connections-inside wire and the reserve for station connections-other set at zero.

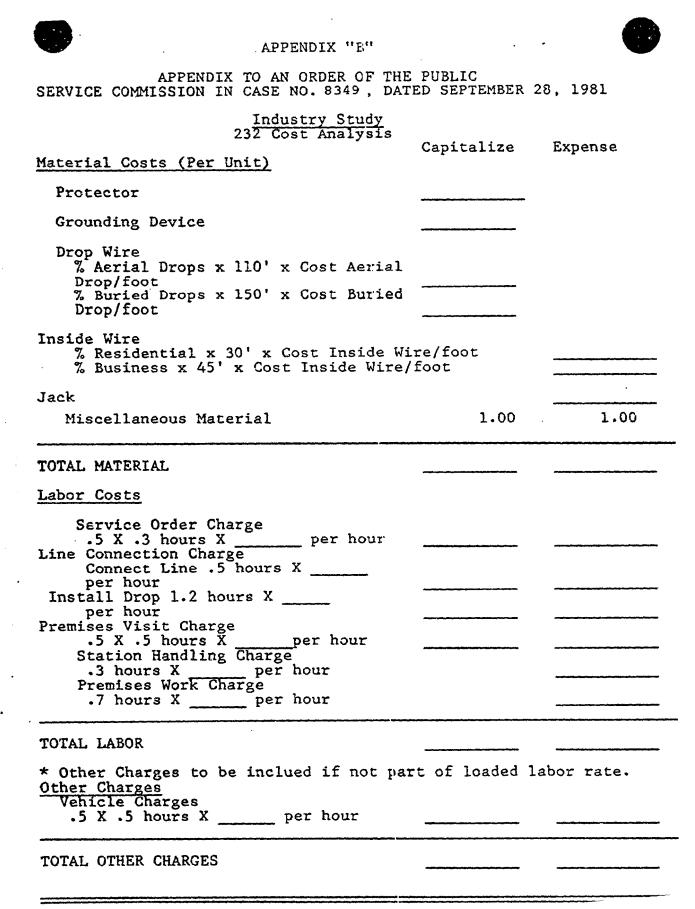
2.	Projected Station		Year 1		<u>Year 2</u>		Year 3 Pear 4			
	Connections-Inside Wire (3)	\$	х	Ş	x	\$	X	\$	х	
	-Other		W	·	W		<u></u>		W	
	-Total		XW		XW		XW		XW	

C. Projected station connection expenses - Four Year Phase-in (The abbreviation SC-I refers to Station Connections-Inside Wire.)

No.	Description	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>
1	Annual depreciation expense for account 232 at present rates	Ş Z	\$ Z	\$ Z	Ş Z
2 3	Less: Depreciation on SC-Other (1) Subtotal	(Y) <u>ŞŞ ZY</u>	<u>(Y)</u> <u>\$ ZY</u>	<u>(Y)</u> <u>Ş ZY</u>	(Y) <u>\$ ZY</u>
4 5	Embedded SC-I (2) times 10% Year 1 SC-I additions (3)	\$ T	\$ T	\$ T	\$ T
6	times .75 times 10% = A Year 2 SC-I additions (3)	1/2A	A ת <i>בו</i> ר	A B	А • В
7	times .50 times 10% = B Year 3 SC-I additions (3) times .25 times 10% = C		1/2B	۵ 1/2C	ь С
8. 9.	New depreciation SC-I Increase (decrease) depreciation:	TD	TD	TD	TD
	L8-L3	<u>\$ ZX</u>	<u>\$ 2X</u>	<u>\$ ZX</u>	<u>\$ ZX</u>
10	Year 1-SC-I additions (3) times .25	\$ D			
- 11	Year 2 SC-I additions (3) times .50		\$ E		
12 13	Year 3 SC-I additions (3) times .75 Year 4 SC-I additions (3) times 1			\$ F	\$ G
13 14 15	Cost of removal Salvage	H L	I M	J N	\$G K 0
16	Cost of reconnects & reinstalls	P	<u>0</u>	R	S
17	Impact of expensing SC-I each year (L10 through L16)	<u>\$ DX</u>	<u>\$ EX</u>	<u>\$ FX</u>	<u>\$ GX</u>
18	Total impact - four year phase in (Ll7 plus L9)	<u>\$ XZ</u>	<u>ş xz</u>	<u>\$ XZ</u>	<u>\$ XZ</u>

- (1) Use 5% rate times SC-Other (embedded cost + projected SC-Other additions) unless you can justify some other rate. Embedded SC-I (Investment less accumulated reserve as of con-
- (2) version date).
- New additions should be estimated for each year of the four year period. Depreciation rate on new addition is 10% annually, but only 1/2 of this annual depreciation is allowed in the first year (3) of the addition.

Line



TOTAL 232 COST

% Capitalize (Total Cost Capitalize) X 100 = //% % Capitalize =(Total Cost Capitalize + Total Cost Expense) % Expense = 100 - % Capitalize = //%

APPENDIX "B"

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SERVICE CHARGES

Des	scription of Charge	Definition of Charge	Charge Amount			
A)	Service Order Charge (All Services)	Work operation that occurs in business office, traffic, work assignment, revenue, etc. as required by customer for work performed by telephone company.				
B)	Line Connection Charge (All Services)	Work operation required to pro- vide link between central office and customers premises up to and including protector.				
C)	Premises Visit Charge (All Services)	Work operation requiring visit to customers premises.				
Dr)	Premises Work Charge (Residential) (Business)	Work operation requiring the in- side wiring of customers premises including wall jacks.				
E)	Station Handling Charge (All Stations)	Work operation requiring the moving, connecting, or changing of telephones.				
A) Service Order Charge=labor (.3 hours X per hour) = \$						
B) Line Connection Charge=labor (.5 hours X per hour) = $\frac{1}{2}$						
C) Premises Visit Charge=labor (.5 hours X per hour) + vehicle charge (.5 hours X per hour) = \$						
Dr) Residential Premises Work Charge = material (residential wire + jack + 1.00) = labor (.6 hours X per hour) = <u>\$</u>						
Db) Business Premises Work Charge = material (business wire + jack + 1.00) = labor (.9 hours X per hour) = <u>\$</u>						
E) Station Handling Charge = labor (.3 hours X per = <u>\$</u>						

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APPENDIX "B"

SERVICE CONNECTION CHARGES BASED ON SERVICE CHARGES

Service Connection Charge Main Station - Business	Make-up of Charge*	Charge
Instrument in Place Instrument Not in Place Initial Pre-wiring Pre-wiring completion	A+C A+B+C+Db+E A+C+Db B+E	
Residence Instrument in Place Instrument Not in Place Initial Pre-wiring Pre-wiring completion	A+C A+B+C+Dr+E A+C+Dr B+E	
<u>Extension</u> Business Residence	A+C+Db+E A+C+Dr+E	
Moves and Changes Minimum Trip Business Residence	A+C+E A+C+E	
<u>Inside Move</u> Main Station - Business - Residence Extension - Business - Residence	A+C+Db+E A+C+Dr+E A+C+Db+E A+C+Dr+E	
Outside Move Main Station - Business - Residence Extension - Business - Residence	A+B+C+E A+B+C+E A+B+C+E A+B+C+E	
Change Type or Color Business Residence Service Call <u>Reconnect</u> Business Residence	A+C+E A+C+E A+C A+C A+C A+C	

*) Charges should be based upon only the work functions actually performed.

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