

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

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

O R D E R

INTRODUCTION

On June 21, 1983, the Federal Communications Commission ("FCC") released a Notice of Proposed Rulemaking in Docket No. 81-893, Procedures for Implementing the Detariffing of Customer Premises Equipment and Enhanced Services ("Second Computer Inquiry"). The notice of rulemaking follows an earlier Notice of Inquiry, released April 13, 1982, and proposes to establish procedures under which embedded customer premises equipment ("CPE") owned by the Bell Operating Companies will be detariffed and transferred to AT&T Information Systems, Inc. (formerly American Bell, Inc.). The notice also proposes to establish procedures under which embedded CPE owned by independent telephone companies will be detariffed.

In previous decisions in the Second Computer Inquiry, the FCC adopted a bifurcated approach to the detariffing of CPE. New CPE was defined as CPE acquired or manufactured after January 1, 1983, and was detariffed on January 1, 1983. Embedded CPE was

defined as CPE subject to jurisdictional separations as of January 1, 1983. Throughout the Second Computer Inquiry, the FCC has maintained that embedded CPE should be detariffed, but deferred a final decision until the details of a plan for the detariffing of embedded CPE could be developed. The FCC plan is now imminent and the Commission will initiate action to develop a state plan for the detariffing of embedded CPE.

PLAN OF IMPLEMENTATION

The Commission concurs with the FCC that embedded CPE should be detariffed under state, rather than FCC, auspices in a manner consistent with the FCC's decisions and within the limitations of the Modification of Final Judgment in the AT&T divestiture proceeding. The Commission issues this Order as a means to generate comment toward the development of a plan to detariff embedded CPE which will affect all telephone companies under the jurisdiction of the Commission, except South Central Bell Telephone Company.¹ The Commission is conscious of the divergent interests and different operating characteristics of the telephone companies under its jurisdiction and invites each company and other interested parties to comment on the following issues or any other issue it considers pertinent to a plan to detariff embedded CPE:

¹ Pursuant to the Modified Final Judgment in United States v. Western Electric et al., Civil Action No. 82-0192, South Central must transfer all of its remaining embedded telephone equipment to American Bell, Inc., or a successor entity.

1. The FCC has recommended that embedded CPE be detariffed no later than December 31, 1987. This date coincides with the date on which the interstate revenue requirement associated with embedded CPE will be reduced to zero under the Popenoe Plan adopted by the FCC in Docket No. 80-286, Amendment of Part 67 of the Commission's Rules and Establishment of a Joint Board.

The Commission is of the preliminary opinion that for telephone companies under its jurisdiction embedded CPE should be detariffed no later than December 31, 1985. The Commission bases its opinion on two considerations. First, telephone companies under the jurisdiction of the Commission could remove embedded CPE from rate base in a time period less than the maximum recommended by the FCC without hardship to themselves or their customers by entering the already active competitive market for CPE. Second, under the Popenoe Plan, embedded CPE allocated to the interstate revenue requirement is frozen at the January 1, 1983, level and will be reduced one-sixtieth per month during the 5 years ending December 31, 1987. The Commission interprets the FCC's intent to be that an individual company's interstate revenue requirement as defined by the Popenoe Plan will not be affected by that company's schedule for removing embedded CPE from its rate base. Thus, in the short term, advancing the date for the detariffing of embedded CPE should create the opportunity for a revenue benefit from the jurisdictional separations process.

The Commission invites comment on its desire to detariff embedded CPE by December 31, 1985.

2. The Commission is of the preliminary opinion that embedded CPE now under tariff should be gradually removed from the rate base through a sales program that would allow customers the option of purchasing embedded CPE. The sales program should be actively promoted--through the use of bill inserts explaining existing CPE billing, CPE purchase options, and CPE service and maintenance options, for example--and include all embedded CPE, i.e., single line, party line, multiline, auxiliary, and miscellaneous CPE. Moreover, in the case of multiline CPE, intrasystem wiring should be considered part of the CPE, consistent with the Commission's recommendation to the FCC.

The Commission invites comment on (a) the practicality of a sales program as a means of gradually removing embedded CPE from the rate base, (b) promotional options that could be reasonably required, (c) the range of embedded CPE to be included in the sale program, and (d) the treatment of intrasystem wiring as part and parcel of multiline CPE.

3. The Commission is of the preliminary opinion that embedded CPE included in the sales program should be priced at no less than net book value plus transaction costs, and should distinguish between embedded CPE that is in-place and in inventory. Also, the embedded CPE included in the sales program should be priced on a range basis to allow maximum marketing flexibility, but under explicit guidelines to prevent discrimination among customers. Furthermore, each telephone

company should file a semi-annual status report with the Commission, giving information on CPE sold and CPE remaining in the rate base.

The Commission invites comment on (a) the pricing of embedded CPE, especially as it relates to items that should be included as transactions costs, (b) the appropriate source of information to document each transaction cost, (c) the concept of range pricing and (d) the filing of status reports.

4. The Commission is of the preliminary opinion that all telephone companies under its jurisdiction should file tariffs on or before March 1, 1984, providing for the sale of embedded CPE. The tariffs should state all terms and conditions applicable to the sales program, including prices, limitations on the availability of embedded CPE, payment provisions, warranty provisions, and repair provisions.

The Commission invites comment on the practicality of filing tariffs for the sale of embedded CPE by March 1, 1984, and the terms and conditions that should be required.

5. The Commission is of the preliminary opinion that sales of embedded CPE should be recorded on company records under normal asset retirement accounting. The detariffing and transfer of CPE to below-the-line accounts should also use normal retirement accounting. However, the Commission recognizes that in many instances the actual inventory of CPE may not agree with book value due to theft or loss undetected and therefore unrecorded in prior periods.

The below-the-line accounts and allocation procedures approved by this Commission for sale and lease of CPE acquired on and after January 1, 1983, in Administrative Case No. 257, The Detariffing of Customer Premises Equipment Purchased Subsequent to January 1, 1983 (Second Computer Inquiry, FCC Docket 20828), should continue to be used to record embedded or detariffed CPE transactions.

The Commission invites comment on (a) the appropriateness of the current accounting system to record sale transactions, and (b) proper accounting procedures to reconcile actual inventory records of embedded CPE which may not agree with actual book values.

6. The Commission is of the preliminary opinion that prior to detariffing embedded CPE, customers' bills should show as separate line items the basic monthly charge for access and the lease or rental charges on terminal equipment. This billing procedure would allow the customers to make informed purchase or lease decisions.

The Commission invites comment on (a) the appropriateness of separately identifying the monthly access rate from other charges on the customer's bill, (b) the present billing system now in use, and (c) the changes necessary to implement the Commission's proposed billing system.

7. The Commission also invites comment on the necessity of change in any state law or regulation to conform to the above

plan, as well as any other aspects of operations or management decisions which may not have been specifically mentioned above.

ORDERS

IT IS THEREFORE ORDERED that all telephone companies under the jurisdiction of the Commission shall respond to the issues outlined in this Order within 60 days from the date of this Order.

Done at Frankfort, Kentucky, this 21st day of September, 1983.

PUBLIC SERVICE COMMISSION


Chairman

Did not participate
Vice Chairman


Commissioner

ATTEST:

Secretary