COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ADOPTION OF A NEW UNIFORM SYSTEM OF ACCOUNTS FOR KENTUCKY TELEPHONE COMPANIES	)))	ADMINISTRATIVE CASE NO. 310

O R D E R

In its Report and Order in CC Docket No. 78-196, Revision of the Uniform System of Accounts and Financial Reporting Requirements for Class A and Class B Telephone Companies, released May 15, 1986, the Federal Communications Commission ("FCC") established a new Uniform System of Accounts for Telephone Companies ("USoA".) The new USoA, which will replace Part 31 of the FCC's Rules and Regulations, USoA for Class A and B Telephone Companies, and Part 33 of the FCC's Rules and Regulations, USoA for Class C Telephone Companies, will be entitled Part 32 of the FCC's Rules and Regulations, USoA for Telephone Companies and will be implemented on a flash-cut basis beginning January 1, 1988.

The new USoA is intended to improve the quality of information required in the current financial and regulatory environment without imposing unreasonable or unnecessary reporting requirements. The establishment of a new USoA will be affected by, or will have an affect on, several other FCC dockets. The related dockets, which the Commission will be reviewing in conjunction with this case, are as follows: (1) CC Docket No. 84-469, Revision of the Uniform System of Accounts for Telephone Companies to Accomodate Generally Accepted Accounting Principles (Parts 31, 33, 42 and 43 of the FCC's Rules); (2) CC Docket No. 86-111, Separation of Costs of Regulated Telephone Service from Costs of Nonregulated Activities and Amendment of Part 31, the Uniform System of Accounts for Class A and Class B Telephone Companies, to provide for nonregulated activities and to provide for transactions between telephone companies and their affiliates; and (3) CC Docket No. 86-297, Amendment of Part 67 of the Commission's Rules and Establishment of a Federal-State Joint Board.

PART 32 USOA

One of the major features of the new USoA is a four-digit numbering system designed along technological and functional lines which is intended to provide greater flexibility than is available under the current three-digit numbering system.

The new USoA is a two-tiered system establishing a less burdensome requirement for Class B carriers (annual revenues of less than $100 million) than required for Class A carriers (annual revenues of $100 million or more.) The FCC's Report and Order allows the states to impose the more detailed requirements of Class A carriers upon small companies and allows Class B companies to maintain the more detailed Class A system if they so desire for settlement purposes.[1]

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1 CC Docket No. 86-297 proposed to simplify separations procedures for Class B companies.

The disaggregation of plant accounts for the purpose of reflecting technological and functional distinctions is another major feature of the new USoA. The most significant aspect of disaggregation is the reporting for Central Office Equipment with the establishment of six accounts for Class A carriers and three accounts for Class B carriers.

One aspect of the new USoA which is of considerable interest to the Commission concerns the shift of costs from capitalization to expense that will result from the new instructions on capitalization.[2] In the FCC proceeding, a wide range of estimates for these shifts was observed with the Report and Order stating that shifts are expected to be reasonable and not burdensome to ratepayers.

The deferred taxes arising from the use of comprehensive inter-period tax allocation will be included in four accounts established by the new USoA. These accounts will be segregated between operating and non-operating taxes as well as current and non-current taxes. When the new USoA becomes effective, normalization accounting for material tax timing differences shall be phased-in over a period of 5 years.

The new USoA establishes revenue accounts which retain much of the existing Part 31 revenue account structure by using several summary accounts, the first three digits of which correspond to revenue accounts in the current three-digit numbering system. The

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2 The changes are related to the adoption of generally accepted accounting principles - CC Docket No. 84-469.

new USoA requires subsidiary records be maintained in order to meet the FCC's needs for jurisdictional data.

Expense accounts in the new USoA are reflected in four major groups: plant specific operations, plant non-specific operations, customer operations and corporate operations. Expenses in these groups are then segregated in subsidiary records for salaries and wages, benefits, rents and other expenses.

Another aspect of the new USoA which interests the Commission is the accounting for transactions with affiliates. Of specific interest is the absence from the new USoA of separate balance sheet accounts for the reporting of receivables from or payables to affiliates.

In this proceeding the Commission will investigate the impact of the new USoA on the telephone companies subject to its jurisdiction and whether there is need for any modification to the new USoA in regard to the reporting requirements of this Commission. This Order is issued as a means of generating necessary information and comment on the items enumerated herein.

DISCUSSION

As regards the major issues identified above, the Commission will require the following information:

1. A description of the manner in which the new four-digit numbering system will be implemented, i.e., will the four-digit system become the company's internal accounting system or will the company use a different numbering system internally, but prepare its reports using the USoA account numbers?

2. An estimate, with supporting documentation, of the cost to implement the four-digit account number system.

3. For Class B companies, an indication of whether there is reason to implement the detailed Class A system for small companies, and a description of any potential problems or shortcomings with the less-detailed Class B system and suggestions or recommendations of how to deal with these problems.

4. For Class A companies and Class B companies intending to use the Class A system, provide an estimate, with supporting documentation, of the cost of disaggregating plant accounts with a separate estimate of the cost of disaggregating central office equipment.

5. Based on the new USoA's instructions on capitalization, provide an estimate, with supporting documentation, of the expected shift of costs from capitalization to expense on an annual basis by account.

6. For Class A companies, the total expected additional annual revenue requirement resulting from a complete adoption of the new accounting system for the calendar year 1986, and the anticipated changes for the calendar years 1987 and 1988, using budgeted figures.

7. Provide any additional comments, testimony or other relevant information concerning the new USoA, its effects, its implementation and whether any modification is necessary for reporting to this Commission.

SUMMARY

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

1. This case should be established in order to obtain information on the issues enumerated in this Order concerning the new USoA.

2. All utilities under the jurisdiction of this Commission which will be subject to the reporting requirements of the new USoA should file information as outlined in this Order and any additional testimony in this matter within 45 days from the date of this Order.

3. Any interested parties should be invited to file information, testimony or comment on this matter within 60 days from the date of this Order.

IT IS THEREFORE ORDERED that:

1. This case be and it hereby is established as set out in Finding No. 1 of this Order.

2. The affected utilities and interested parties shall file any information, testimony or comment according to Findings Nos. 2 and 3 of this Order.

Done at Frankfort, Kentucky, this 4th day of March, 1987.

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner

ATTEST:

Executive Director