COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

SEPARATION OF COSTS OF REGULATED TELEPHONE SERVICE FROM COSTS OF NONREGULATED ACTIVITIES	)))	ADMINISTRATIVE CASE NO. 321

DISCUSSION

On April 17, 1986, the Federal Communications Commission ("FCC") began an investigation[1] into the separation of the costs of regulated telephone service from the nonregulated activities of telephone companies and their affiliates. At the center of this investigation was the documentation of the methods and procedures which were to be used for the separation of costs. This documentation is found in the FCC's Cost Allocation Manuals ("CAMs"). Telephone utilities doing business in Kentucky which were required to file these manuals with the FCC were South Central Bell Telephone Company ("SCB"), Cincinnati Bell Telephone Company ("CBT"), GTE South Incorporated ("GTE"), and AT&T Communications of the South Central States, Inc. ("AT&T").

On December 29, 1987, the Commission initiated this proceeding to investigate the need for procedures for separating costs of regulated telephone service from nonregulated activities of Kentucky telephone companies and their affiliates. On May 20, 1988, the Commission, in response to a motion by the companies

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1 CC Docket 86-111 "Separation of Costs of Regulated Telephone Service from Costs of Nonregulated Activities."

comprising the Independent Telephone Group ("ITG")[2], divided the case into two categories of carriers and two separate phases. The first category included those companies required to file CAMs with the FCC plus Contel of Kentucky, Inc. ("Contel") and Alltel Kentucky, Inc. ("Alltel"). Subsequently, Telephone and Data Systems ("TDS") was included in the first category because it had purchased two small companies previously included in the ITG. The second category included all of the remaining companies comprising the ITG. On December 22, 1988, the Commission accepted the cost allocation methodologies submitted by the ITG and that phase of the case was closed.

On June 26, 1989, the Commission ordered all companies included in the first category to submit their most current CAM plus any revisions, modifications, and FCC memorandums or orders associated with the CAMs. On August 30, 1989, these companies were ordered to appear at informal conferences in order to summarize their CAMs, revisions and modifications. On November 27, 1989, the Commission required the companies to respond to questions which had arisen during the informal conferences and to provide copies of relevant informational material. The responses

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2 Ballard Rural Telephone Cooperative Corporation, Inc.; Brandenburg Telephone Company, Inc.; Duo County Telephone Cooperative Corporation, Inc.; Foothills Rural Telephone Cooperative Corporation, Inc.; Harold Telephone Company, Inc.; Highland Telephone Cooperative, Inc.; Lewisport Telephone Company, Inc.; Logan Telephone Cooperative, Inc.; Mt. Rural Telephone Cooperative Corporation, Inc.; North Central Telephone Cooperative, Inc.; Peoples Rural Telephone Cooperative Corporation, Inc.; Salem Telephone Company; South Central Rural Telephone Cooperative Corporation, Inc.; Thacker-Grigsby Telephone Company, Inc.; and West Kentucky Rural Telephone Cooperative Corporation, Inc.

were due on December 27, 1989. On December 22, 1989, AllTel filed a motion for extension of time until January 17, 1990, which was granted.

Having reviewed the CAMs and responses to subsequent inquiries, the Commission finds that the CAMs generally protect ratepayers from the potential of cross-subsidization of telephone company unregulated activities by its regulated services. The Commission is generally satisfied that the current CAMs are in compliance with FCC guidelines, especially as they relate to the use of fully allocated costing methods and affiliated transactions. Moreover, the Commission finds that these CAMs provide a workable framework for the allocation of nonregulated activities from regulated services and in principle accepts the CAMs.

However, this acceptance is not meant to suggest that the Commission is in total agreement with all content of the CAMs. In fact, the Commission puts each party in this case on notice that during future rate proceedings, the CAMs will be subject to vigorous scrutiny and the methods and procedures then in place, even though accepted by the FCC, may not in every case be acceptable to the Commission for rate-making purposes.

Moreover, the Commission is not in agreement with AT&T's position[3] that because its CAM was prepared from an interstate perspective, it should not be applicable to intrastate activities.

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3 Response of AT&T to the Commission's Request from the September 25, 1989 Informal Conference, filed on October 25, 1989, page 2.

Further, the Commission does not embrace AT&T's position that the competitive interexchange marketplace will govern cost allocation and cost allocation principles should not be applied to interexchange carriers. Therefore, it is the Commission's intention to consider appropriate cost allocation standards in any subsequent AT&T rate proceeding.

Finally, the Commission finds that all carriers that file CAMs with the FCC should file with this Commission, simultaneously with their FCC filings, a copy of any changes or modifications to the CAMs. These carriers should also file any FCC responses, orders or comments regarding the changes within 10 days of receipt. Carriers that file CAMs with the FCC will be required to file copies of the most recent Attestation Audits within 10 days of the date the audit report is final. Those companies not required to file with the FCC should file a current copy of their CAM with the Commission and submit any changes or modifications made to the CAMs prior to implementing the change for accounting purposes.

Having considered the record of evidence and being otherwise sufficiently advised, the Commission HEREBY ORDERS that:

1. Carriers required to file CAMs with the FCC shall file any revisions or modifications to the CAMs with this Commission simultaneously with the FCC filing.

2. Carriers required to file CAMs with the FCC shall file within 10 days of receipt any FCC orders, comments or responses pertaining to any revision or modifications of the CAMs.

3. Carriers required to file CAMs with the FCC shall file copies of the most recent CAM Attestation Audit with the Commission within 10 days of the final audit report.

4. All companies not subject to FCC filing requirements, including members of the ITG, shall submit to the Commission as they become available, revised CAMs or changes or modifications thereto prior to implementation of any accounting changes.

5. All issues in this proceeding have been resolved; therefore the case is closed.

Done at Frankfort, Kentucky, this 26th day of March, 1990.

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner

ATTEST:

Executive Director