COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

DETARIFFING THE INSTALLATION AND MAINTENANCE OF INSIDE WIRING	))	ADMINISTRATIVE CASE NO. 305

O R D E R

INTRODUCTION

In its First Report and Order in CC Docket No. 79-105, Expensing of Station Connections, released March 31, 1981, the Federal Communications Commission ("FCC") adopted a plan to expense the inside wire[1] portion of station connections recorded in Account 232 and to amortize embedded inside wire investment in Account 232. The FCC's plan allowed the expensing of station connections on a flash-cut basis, subject to state regulatory approval, or, alternatively, on a phase-in basis over a 4-year period beginning October 1, 1981.[2] Amortization of embedded inside wire investment was allowed over a 10-year period under

1 Inside wire consists of telephone plant, including materials and labor, installed on the customer's side of the network interface or demarcation point as set forth in the First Report and Order in CC Docket No. 81-216, Amendment of Part 68, 97 FCC 2d 527 (1984), and recorded in Account 232, Station Connections-Inside Wire. The FCC has defined network interface or demarcation point as the point of interconnection between telephone company facilities and terminal equipment, protective apparatus, or wiring at a subscriber's premises.

2 Retroactive accounting changes to January 1, 1981, were allowed upon application.

the flash-cut option or over a 14-year period under the phase-in option, also beginning October 1, 1981.[3]

The Commission has dealt with these matters in individual cases involving each local exchange carrier ("LEC") under its jurisdiction. In each case the Commission authorized the phase-in approach to the expensing of station connections. Thus, full expensing of the inside wire portion of station connections should have occurred no later than October 1, 1984. Full amortization of embedded inside wire will occur no later than September 30, 1994.

In a related Order in CC Docket No. 82-681, Detariffing of Customer Premises Equipment and Customer Provided Cable/Wiring, released November 2, 1984, the FCC detariffed the installation of complex inside wire,[4] effective May 2, 1984.[5] Although the Commission did not take any generic action concerning the FCC's detariffing Order, under the FCC's detariffing plan no further

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3 Ibid.

4 Complex inside wire, also called intrasystem wire, includes all cable and wire and its associated components (e.g., connecting blocks, terminal boxes, and conduit) located on the customer's side of the demarcation point, when this wiring is inside a building located on the same or contiguous property not separated by a public thoroughfare, which connect station components to each other or to the common equipment of a private branch exchange or key system. Simple inside wire is any inside wire other than complex inside wire.

5 Retroactive accounting changes to January 1, 1983, were allowed upon application.

installation of complex inside wire should have been charged to either Account 232[6] or Account 234, Large Private Branch Exchanges, and other miscellaneous accounts after May 1, 1984.[7] Also, embedded network terminating wire[8] in Account 234 should have been identified and amortized over a 5-year period, which would end no later than May 1, 1988.

On April 5, 1985, the FCC released a Further Notice of Proposed Rulemaking in CC Docket No. 79-105, proposing to detariff the installation of simple inside wire and the maintenance of all inside wire (both simple and complex). The FCC also proposed that LECs relinquish all claim to ownership of inside wire when their investment in inside wire became fully amortized.

On February 24, 1986, the FCC released its Second Report and Order in CC Docket No. 79-105. The Second Report and Order adopted the proposals set out in the Further Notice of Proposed Rulemaking with some modification. The FCC required that the installation of simple inside wire and the maintenance of all

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6 It should be noted that although no further installation of complex inside wire should have been charged to Acount 232 after May 1, 1984, a portion of the installation of simple inside wire would have continued to be charged to Account 232 through September 30, 1984.

7 These include the Accounts 241, Pole Line, 242.1, Aerial Cable, 242.2, Underground Cable, 242.3, Buried Cable, 243, Aerial Wire, 244, Underground Conduit, and other accounts as appropriate.

8 In a private branch exchange system, network terminating wire is wire that runs the house cable terminal to the demarcation point.

inside wire be detariffed after December 31, 1986. The FCC also required LECs to relinquish ownership, but deferred to state regulatory authority on the matter of the entity to which ownership should be transferred.

In summary, in its First Report and Order in CC Docket No. 79-105, the FCC addressed the expensing of the inside wire portion of station connections recorded in Account 232 and the amortization of embedded inside wire recorded in Account 232. However, in this Order, although expensing of station connections was introduced, revenues and expenses associated with the installation of all inside wire remained in regulated accounts. In its Order in CC Docket No. 82-681, the FCC detariffed the installation of complex inside wire and the amortization of embedded network terminating wire recorded in Account 234. As a result of this Order, the installation of complex inside wire became an unregulated activity while the maintenance of complex inside wire remained a regulated activity. However, although the FCC addressed the amortization of embedded network terminating wire recorded in Account 234, it did not address the amortization of other embedded complex inside wire that may be recorded in Account 234 and did not address the amortization of embedded complex inside wire recorded in other plant accounts.[9] Lastly, in its Second Report and Order in CC Docket No. 79-105, the FCC ordered detariffing of the installation and maintenance of simple inside wire and the maintenance of complex inside wire.

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9 See footnote number 7.

In this proceeding, the Commission will investigate the impact of detariffing the installation of simple inside wire and the maintenance of all inside wire upon LECs in Kentucky. Furthermore, the Commission will investigate the status of each LEC's compliance with applicable FCC and Commission Orders concerning the expensing of station connections and the amortization of embedded inside wire investment, and the detariffing of the installation of complex inside wire. This Order is issued as a means to generate necessary information and comment from each LEC and other interested parties on the items enumerated below.

DISCUSSION

The Expensing of Station Connections and Amortization of Embedded Inside Wire Investment

As indicated above, the Commission has dealt with accounting requirements involving the expensing of station connections and the amortization of embedded inside wire investment in prior cases. However, in the opinion of the Commission, prudence requires that it verify the status of each LEC's compliance with applicable Orders. Therefore, the Commission will require each LEC under its jurisdiction to provide the following information:

1. The date upon which full expensing of the inside wire portion of station connections was achieved.

2. A copy of the most recent journal entry to Account 232 involving capitalization of the inside wire portion of station connections, including an explanation of the journal entry.

3. Amortization schedule for embedded inside wire recorded in Account 232.

4. A copy of the most recent journal entries relating to the amortization of embedded inside wire recorded in Account 232, including explanations of the journal entries.

5. Investment balance in embedded inside wire recorded in Account 232 and related accumulated depreciation and/or amortization as of December 31, 1985.

The Detariffing of the Installation of Complex Inside Wire

As in the case with the expensing of station connections and amortization of embedded inside wire, in the opinion of the Commission, it should verify the status of each LEC's compliance with applicable Orders on detariffing the installation of complex inside wire. Therefore, the Commission will require each LEC under its jurisdiction to provide the following information:

1. The date upon which the installation of complex inside wire was detariffed.

2. A copy of the most recent journal entries to Accounts 232 and 234 involving capitalization of the installation of complex inside wire, including explanations of the journal entries.

3. A copy of the most recent journal entries to other plant accounts involving capitalization of the installation of complex

inside wire and related supporting facilities, including explanations of the journal entires.[10]

4. Amortization schedule for embedded network terminating wire recorded in Account 234.

5. A copy of the most recent journal entries relating to the amortization of embedded network terminating wire recorded in Account 234, including explanations of the journal entries.

6. Investment balance in embedded network terminating wire recorded in Account 234 and related accumulated depreciation and/or amoritzation as of December 31, 1985.

7. Embedded investment balance in other plant accounts by plant account relating to embedded complex inside wire and related accumulated depreciation and/or amortization as of December 31, 1985.

In addition to these information items, the Commission will require testimony from each LEC under its jurisdiction on the following points:

1. The extent to which any embedded complex inside wire is recorded in Account 231, Station Apparatus, and the appropriate regulatory and accounting treatment of such embedded complex wire. That is, if embedded complex inside wire is recorded in Account 231, should it remain in Account 231 or be transferred to another account? Furthermore, should such embedded complex inside wire be amortized under an accelerated depreciation plan and, if so, under

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[10] See footnote number 7.

what terms and conditions? (In the event that embedded complex inside wire is recorded in Account 231, the investment balance and related accumulated depreciation and/or amortization as of December 31, 1985, should be filed with the Commission).

2. The extent to which any embedded complex inside wire other than network terminating wire is recorded in Account 234 and the appropriate regulatory and accounting treatment of such embedded complex wire. That is, if other embedded complex inside wire is recorded in Account 234, is it being amortized along with embedded network terminating wire? If not, should such embedded complex inside wire be amortized under an accelerated depreciation plan and, if so, under what terms and conditions? (In the event that embedded complex inside wire other than network terminating wire is recorded in Account 234, the investment balance and related accumulated depreciation and/or amortization as of December 31, 1985, should be filed with the Commission).

3. The approriate regulatory and accounting treatment of embedded complex inside wire and related supporting facilities recorded in accounts other than Accounts 232 and 234. That is, should such embedded complex inside wire and related supporting facilities be amortized under an accelerated depreciation plan and, if so, under what terms and conditions?

4. Explanation of accounting treatment of revenues and expenses associated with the installation of complex inside wire after detariffing.

The Detariffing of the Installation of Simple Inside Wire and the Maintenance of All Inside Wire

Accounting Requirements

In the Second Report and Order in CC Docket No. 79-105 the FCC did not require structural separation as a means to prevent cross-subsidization between regulated and unregulated service activities.[11] Instead, it required that LECs account for installation and maintenance of inside wire in separate "below the line accounts," effective January 1, 1987, with indirect or common costs being allocated on the basis of rules to be adopted in another proceeding.[12]

In the opinion of the Commission, the matter of accounting requirements should be considered. Therefore, the Commission will require each LEC under its jurisdiction to file testimony on the following items:

1. The extent to which accounting requirements rather than structural separation is adequate to prevent cross-subsidization between regulated services and unregulated installation and maintenance of inside wire.

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11 Second Report and Order, page 18.

12 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.

2. Whether the Commission has the jurisdiction to require structural separation at the intrastate level and, if so, whether the Commission should require that the installation and maintenance of inside wire be structurally separated.

3. Whether the Commission should adopt allocation rules for common cost allocation at the intrastate level relative to the installation and maintenance of inside wire.

<u>Revenue Requirements</u>

Also, in the Second Report and Order in CC Docket 79-105, the FCC notes that although detariffing the installation of simple inside wire and the maintenance of all inside wire will not alter the jurisdictional allocation formula for remaining regulated activities, it will have an impact on both interstate and intrastate rates.[13] While at the interstate level, rate reductions should occur as a result of detariffing the installation and maintenance of inside wire, at the intrastate level either rate increases or rate decreases could result, depending on the extent to which the intrastate portion of installation and maintenance expenses has been indirectly recovered through other rates. If installation and maintenance charges have been compensatory, no changes should result. However, if installation and maintenance charges have not been compensatory, increases or decreases may result, depending on each LEC's particular rate structure.

13 <u>Ibid</u>., page 17.

In the opinion of the Commission, the matter of potential changes in revenue requirements should be considered. Therefore, the Commission will require each LEC under its jurisdiction to file the following information:

1. An annualized billing analysis of all installation and maintenance of inside wire related charges as of December 1985.

2. Total intrastate revenues and expenses by account related to the installation and maintenance of inside wire for the year ended December 31, 1985.

3. Total intrastate revenues and expenses for the year ended December 31, 1985, assuming all relevant adjustments and/or normalizations included in the LEC's most recent rate case, and any other applicable adjustments.

4. The most recent rate of return or times interest earned ratio authorized by the Commission, the date authorized and the case number of that proceeding.

5. The rate of return or times interest earned ratio, as appropriate, assuming deregulation of the installation and maintenance of inside wire and assuming all relevant adjustments and/or normalizations included in the LEC's most recent rate case, and any other applicable adjustments.

Transfer of Ownership

In the Second Report and Order in CC Docket No. 79-105 the FCC ordered relinquishment of ownership of inside wire already expensed to Account 605 effective January 1, 1987, and relinquishment of ownership of inside wire remaining in Account 232 concurrent with its full amortization.[14] Furthermore, the FCC deferred to state regulatory authority on the matter of the entity to which ownership should be transferred on the basis that "Such questions are best resolved through the application of local property law."[15]

In the opinion of the Commission, the matter of the transfer of ownership of inside wire should be considered. Therefore, the Commission will require each LEC under its jurisdiction to file testimony on the following points:

1. The nature and extent of inside wire eligible for ownership transfer.

2. The entity to which ownership should be transferred under applicable Kentucky property law. (Specific attention should be given to the instance where the LEC subscriber is not the owner of the premises where the inside wire is located.)

FINDINGS AND ORDERS

The Commission, having considered 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 and testimony from interested parties on the issues enumerated in this Order.

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14 Ibid., page 24.

15 Ibid.

2. All LECs under the jurisidiction of the Commission should file information and testimony on all issues enumerated in this Order no later than July 1, 1986.

3. Other interested parties should be invited to file information and testimony or comment on any of the issues enumerated in this Order no later than July 15, 1986.

IT IS THEREFORE ORDERED THAT:

1. This case be and it hereby is established to obtain information and comment on the issues enumerated in this Order.

2. All LECs under the jurisdiction of the Commission shall file information and testimony on all issues enumerated in this Order no later than July 1, 1986.

3. Other interested parties may file information and testimony or comment on any of the issues enumerated in this Order no later than July 15, 1986.

Done at Frankfort, Kentucky, this 5th day of June, 1986.

PUBLIC SERVICE COMMISSION

Richard D. Heman Jr.
Chairman

Vice Chairman

James M. Williams
Commissioner

ATTEST:

Secretary