BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Amortization of the Embedded Balance of Certain Plant Items Costing Under $2,000 for Telephone Companies.	))))	Case No. 97-1443-TP-ORD

ENTRY

The Commission finds:

(1) On May 30, 1997, the Federal Communications Commission (FCC) released its Report and Order in FCC Docket No. 95-60 which amended Part 32 of the FCC's rules and regulations, entitled Uniform System of Accounts for Class A and Class B Telephone Companies. The effective date of the FCC's order is January 1, 1998.

(2) The FCC's order increased the dollar limitation on expensing certain individual items of furniture and equipment from $500 to $2,000 for Account 2112, Motor Vehicles; Account 2113, Aircraft; Account 2114, Special Purpose Vehicles; Account 2115, Garage Work Equipment; Account 2122, Furniture; and Account 2124, General Purpose Computers except for personal computers in this account for which the expensing limit would remain at $500. Prior to this increase, the expensing limit had been increased three times: from $25 to $50 in 1974, from $50 to $200 in 1981, and from $200 to $500 in 1988.

(3) In its decision, the FCC further required carriers to segregate into separate subaccounts the embedded balances of equipment currently included in the affected plant accounts which cost between $500 and $2,000 along with the associated accumulated depreciation. According to the FCC's analysis, the average remaining life of the assets affected by the increased expense limit is 5.5 years. Therefore, the FCC required all carriers to amortize the net embedded balances using a single amortization period of 5 years.

(4) Furthermore, the FCC required that continuing property records (CPR) continue to be maintained on the embedded balance capitalized prior to the expense limit change and that the changes were ineligible for exogenous treatment for carriers subject to price caps.

(5) The FCC has stated that the purpose of increasing the expense limit is to reduce the cost of maintaining property records for the acquisition, depreciation, and retirement of a multitude of low-cost, high-volume assets. It believes the change will greatly reduce on a going forward basis the number of items carriers will need to capitalize. As a result, the CPR records required to be maintained by carriers will be reduced. With the prospective elimination of detailed property records for certain items costing less than $2,000, the FCC believes that it has provided carriers with substantial relief from administrative costs previously imposed. Additionally, the FCC believes that it is necessary to increase the expense limit periodically to recognize the effects of inflation, technological changes, and changes in the telecommunications regulatory environment.

(6) This Commission has adopted Rule 4901:1-3-01, Ohio Administrative Code (O.A.C.). That rule provides, in pertinent part, that:

> Local exchange telephone companies subject to the jurisdiction of the public utilities commission of Ohio shall keep their books, accounts, and records in accordance with the uniform system of accounts from time to time prescribed by the federal communications commission.

(7) The change in the expensing limit itself from $500 to $2,000 is automatically adopted by this Commission pursuant to Rule 4901:1-3-01 of the O.A.C.

(8) Ameritech Ohio is currently the only Ohio local exchange company operating under a price cap mechanism for its intrastate operations approved by this Commission. The question of whether these changes should be given exogenous treatment for Ameritech's intrastate operations should be addressed using the procedures established in Case No. 93-487-TP-ALT for such issues and will not be addressed in the instant case.

(9) The remaining issues of the FCC's order, namely, the segregation of the embedded balances, the amortization of these embedded balances over 5 years, and the requirement to continue to maintain CPRs for these accounts need to be addressed by this Commission as they relate to the intrastate operations of Ohio local exchange companies.

(10) The Staff has reviewed the FCC's Report and Order as it relates to these remaining three issues.

(11) The Staff recommends Ohio local exchange companies with more than 15,000 access lines be required to follow the FCC's order to segregate the embedded balances into separate subaccounts, amortize the embedded balances over 5 years, and continue to maintain CPRs.

Consistent with the FCC's order, the Staff recommends that subsidiary records be established and maintained in the asset and accumulated depreciation accounts to segregate the embedded balances of those items which are the subject of this proceeding. The Staff further recommends that the embedded net investment should be amortized over a five-year period beginning January 1, 1998. This shall be accomplished by monthly credits to the asset account subsidiary records and monthly debits to the accumulated depreciation subsidiary records. These monthly amounts shall be determined by dividing the subsidiary record balances by the number of months remaining for which amortization must be provided. The difference between the debit and credit amounts so determined will be charged to Account 6565, Amortization Expense-Other. At the end of the five-year amortization period when the balances in the subsidiary record accounts have been fully amortized (at which time the balances in the asset account subsidiary records will be zero), use of the subsidiary records shall be discontinued.

(12) However, the Staff is concerned that adoption of the requirement to segregate the embedded balances and to amortize these balances over five years by the smaller local exchange companies with 15,000 access lines or less might result in unnecessary financial and administrative burdens on those companies. The Staff believes that the costs required to comply with the segregation and amortization requirements of the FCC's Report and Order may be cost prohibitive for the smaller local exchange companies and, therefore, not in the best interest of the companies or the customers they serve.

(13) The Staff, therefore, recommends that local exchange telephone companies with total access lines of 15,000 or less not be required to segregate the embedded balances or to amortize these balances over five years. The Staff recommends that these companies be permitted to continue to depreciate the affected plant accounts

utilizing existing approved depreciation accrual rates. The Staff further recommends that waivers be granted, with good cause shown, to local exchange companies with total access lines of 15,000 or less who may wish to follow the segregation and amortization requirements of the FCC's Report and Order.

(14) Any local telephone company or other interested person which wishes to comment on the Staff's recommendations shall have thirty days from the date of this Entry in which to file comments.

It is, therefore,

ORDERED, That any local exchange telephone company or other interested person shall have thirty days from the date of this Entry to file comments on the Staff's recommendations. It is, further,

ORDERED, That a copy of this Entry be served upon all local exchange telephone companies subject to the jurisdiction of this Commission, the Office of Consumers' Counsel, and any interested person.

THE PUBLIC UTILITIES COMMISSION OF OHIO

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Craig A. Glazer, Chairman

Jolynn Barry Butler	Ronda Hartman Fergus
David W. Johnson	Judith A. Jones

DAH:dj

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Gary E. Vigorito
Secretary