BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

In the Matter of the Application of Consolidated Telephone Company, Lincoln, Nebraska, for Authority to Change its Accounting Procedure to provide for flash-cut Expensing of Station Connections.)	Application C-264 GRANTED
In the Matter of the Application of The Hamilton Telephone Company, Aurora, Nebraska, for Authority to Change its Accounting Procedure to provide for flash-cut Expensing of Station Connections.)	Application No. C-263 GRANTED Entered: November 5, 1982

APPEARANCES: For Both Applicants
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OPINION AND FINDINGS

BY THE COMMISSION:

By applications filed on June 7, 1982, Consolidated Telephone Company, Lincoln, Nebraska, and The Hamilton Telephone Company, Aurora, Nebraska, seek authority to change their accounting procedures to provide for flash-cut expensing for station connections, retroactive to January 1, 1981.

Notice of the filing of the applications was published pursuant to the provisions of the Commission's Rules and Regulations. No formal protest or other objections to either application were filed with the Commission.

Pursuant to notice required by law, public hearing was held on both applications on September 29, 1982, at 9:30 a.m. in the Commission Hearing Room, 301 Centennial Mall South, Lincoln, Nebraska. Upon Motion to Consolidate the Applications for Hearing filed by both applicants, these applications were consolidated for hearing.

Upon consideration of the applications, the testimony and the evidence adduced at the hearing, and being fully advised, the Commission is of the opinion and finds that:

1. Applicant Consolidated Telephone Company (Consolidated) is a corporation duly orgainzed and existing under and by virtue of the laws of the State of Nebraska with its principal place of business in Lincoln, Nebraska. Consolidated conducts and operates a general telephone business in Arthur, Blaine, Thomas, Hooker and Grant Counties and in parts of Cherry, Brown, Custer, Loup, Logan, Sheridan and Garden Counties, Nebraska, under and by virtue of authority heretofore granted the Nebraska Public Service Commission.

2. Applicant The Hamilton Telephone Company (Hamilton) is a corporation duly organized and existing under and by virtue of the laws of the State of Nebraska with its principal place of business in Aurora, Nebraska. Hamilton conducts and operates a general telephone business in Hamilton County, Nebraska, and in parts of Clay, York, Adams, and Hall Counties, Nebraska, under and by virtue of authority heretofore granted by the Nebraska Public Service Commission.

3. Applicants are both "average" schedule toll settlement telephone companies comprising part of a group of approximately one-half dozen of such companies operating in the State of Nebraska. Applicants have established that in December, 1981, USITA Settlements and Separations Committee and the Bell System Representatives adopted a joint report which describes the recommended arrangements for average schedule toll settlements between Bell operating companies and the independent telephone companies. Under the terms of the joint report and

agreement, a copy of which was admitted into evidence in the hearing as Exhibit "3", different factors are applied to those independent operating companies which expense the inside wiring portion of station connections than are applied to those companies which capitalize station connections. The joint report provides that the independent companies may select with Commission approval the option to flash-cut the expenses of the inside wiring portion of station connections. This option is described at page 4 of the joint report admitted as Exhibit "3" herein. Both applicants as average schedule settlement companies desire to adopt, effective January 1, 1981, this accounting option.

4. The Federal Communications Commission in its Final Report and Order released on March 31, 1981 (CC Docket 79-105, FCC 81-104) established as its objective the placing of all costs for station connections-inside wiring on the immediate cost causative rate payer and for that reason ordered all subject carriers to change their acccounting procedures to expense rather than capitalize the inside wiring portion of station connections. The FCC also stated that for those carriers who feel the flash-cut approach will not be too disruptive to their operations and who receive state regulatory agency approval the FCC will authorize the accounting change to expensing station connections using the flash-cut approach, retroactive to an earlier date in calendar year 1981.

5. The evidence adduced at the hearing by both applicants establishes that the authorization by this Commission of the change in accounting procedure allowing applicants to flash-cut the expensing of the inside wiring portion of the station connections will result in a significant increase in retention of toll revenue which applicants are now required to pay into the toll settlement pool, the net effect of which is to allow applicants more funds with which to upgrade their facilities.

6. If this Commission authorizes the expensing of the inside wiring portion of the station connection charges it must then determine whether the accounting change to expensing of station connections should be permitted on an instantaneous or "flash-cut" basis or whether it should be accomplished gradually or "phased in". The evidence adduced by applicants has established that the flash-cut approach is preferable primarily because the high administrative costs involved for the phase-in approach are totally unjustified for small telephone companies. The evidence has established that the flash-cut method is more desirable because it more quickly accomplishes the intended purpose. The total revenue requirement impact is less under the flash-cut method than it would be under the phase-in method.

7. The applicants have adduced evidence substantiating that the ultimate objective of the accounting change authorizing the expensing rather than the capitalization of the inside wiring portion of station connections is to insure that the causative rate payers bear the full burden of their cost. The expensing of station connections will help insure that future rate payers do not pay costs primarily benefiting current rate payers. Applicants also established that the additional revenue received from the maximum schedule of toll settlement which would result from the flash-cut expenses of station connection charges is necessary for the operation and modernization of facilities of applicants and will delay pressure on applicants to raise local rates to compensate for increasing costs.

8. Applicants in their applications and in the presentation of their testimony suggest to this Commission that the prohibitive effect of Rule 54 adopted by this Commission on September 1, 1981, be waived or modified to authorize the expensing of the inside wiring portion of station connections for applicants as average schedule companies of less than 5,000 subscribes on the basis that applicants comprize two of a very small group of Nebraska telephone companies who effect toll settlement agreements as average schedule companies. the FCC in its Memorandum Opinion and Order released on April 27, 1982, (FCC

82-155, CC Doc. 79-105) has recognized that the allowed regulatory treatment at issue in these applications does not preclude State Commissions from using different accounting or depreciation methods for intrastate rate making purposes. This Commision finds, however, that the proposed flash-cut to the expensing of the inside wiring portion of station connections by applicants reflects sound regulatory policy and is in the best interests of both the applicants and their rate payers. The adoption and implementation of expensing of the inside wiring portion of station connections will produce benefits by placing these costs in the accounting periods in which they are incurred. The adoption and implementation of expensing (rather than capitalizing) station connections will allow for a single systme of accounting by applicants for station connections. The evidence adduced by applicants also establishes that the adoption and implementation of the expensing of station connections will be of great benefit to applicants for proper and timely capital recovery. In view of the fact that applicants have established that they are in the minority in this state as average schedule toll settlement telephone companies, this Commission finds it appropriate at this time to authorize and implement the flash-cut to expensing of the inside wiring portion of station connections proposed by applicants in this case.

ORDER

IT IS THEREFORE ORDERED by the Nebraska Public Service Commission that Application No. C-263 and Application No. C-264 be and the same are hereby granted and that the proposed flash-cut to the expensing of the inside wiring portion of station connections by Consolidated Telephone Company and Hamilton Telephone Company be and the same is hereby approved effective January 1, 1981.

MADE AND ENTERED at Lincoln, Nebraska, this 5th day of November, 1982.

NEBRASKA PUBLIC SERVICE COMMISSION

Harold D. Simpson

Chairman

ATTEST:

COMMISSIONERS CONCURRING:

Terrence L. Kubicek

Executive Secretary