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BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

AR 437

In the Matter of a Proposed Rulemaking to)
Update the Accounting Requirements for)
Telecommunications Utilities and Cooperatives.) ORDER

DISPOSITION: RULE AMENDMENTS ADOPTED

At its public meeting on January 8, 2002, the Public Utility Commission (Commission) initiated a rulemaking docket with hearing to update the accounting requirements for telecommunications utilities and cooperatives. A Notice of Proposed Rulemaking was published in the Oregon Secretary of State’s Bulletin and sent to the list of persons interested in such matters.

Reasons for Opening the Rulemaking. In the Oregon Administrative Rules (OAR) 860-027-0050, 860-034-0393, 860-034-0394, 860-034-0730, and 860-034-0740, the Commission adopted the 1998 versions of the Federal Communications Commission (FCC) Part 32, Uniform System of Accounts and Part 64, Subpart 1, Allocation of Costs. On October 11, 2001, the FCC adopted significant changes to Parts 32 and 64. In its proposed rules, Attachment A to Staff’s public meeting memorandum for the January 8, 2002, public meeting, Staff recommended adopting most of the FCC changes.

The Commission has already combined many of the same accounts for reporting purposes, so Staff’s proposal would not substantially change the Commission’s current accounting and reporting requirements. Staff’s proposed rules will continue to require all telecommunications utilities and cooperatives to use the same system of accounts and retain some intrastate accounts so that the Commission can perform its statutory duties. Staff has decided to recommend including the cost allocation rules in a new docket rather than as part of AR 437 (see below).

Background. The Commission has generally adopted federal accounting structures for public utilities and incumbent local exchange carriers (ILECs). These charts of accounts are known as Uniform Systems of Accounts. The FCC’s system of accounts follows generally accepted accounting principles and provides a uniform structure to meet interstate regulatory requirements. ILECs and state commissions may add to it as needed to comply with tax codes, state rules and statutes, and state commission policies, and to meet ILECs’ internal corporate needs.

For ILECs, OAR 860-027-0050, 860-034-0393, and 860-034-0730 currently adopt the FCC’s October 1998 Part 32, Uniform System of Accounts for Telecommunications

Companies, with exceptions. Competitive telecommunications providers are not subject to similar rules in Oregon.

In October 2001, the FCC approved significant changes to Part 32. Staff believes most FCC revisions are reasonable and should be adopted. However, Staff believes that not all the changes should be adopted, and that the Commission should retain or add a few accounts to allow the Commission to perform its statutory duties.

Staff's proposed rule revisions would allow telecommunications utilities and cooperatives to use the current FCC rules while complying with Oregon statutes, rules, and policies.

Procedural History of the Docket. After the Commission opened this rulemaking, Qwest Corporation (Qwest) contacted Staff with additional changes to OAR 860-027-0050(5). Staff believes that Qwest's proposals would make the rules simpler for companies to apply. Staff therefore agreed to revise its proposal for OAR 860-027-0050(5), 860-034-0393(5), and 860-034-0730(5). Staff emailed the revised proposal to Qwest, Verizon Northwest, Inc. (Verizon), Sprint/United Telephone Company of the Northwest (Sprint), CenturyTel, Oregon Telecommunications Association (OTA), and the members of the OTA Accounting Committee.

Verizon recommended revising the first sentences of OAR 860-027-0050(5) and 860-034-0393(5) to include deferred taxes. OTA recommended rewriting OAR 860-027-0050(2), 860-034-0393(2), and 860-034-0730(2) to emphasize Class B accounting instead of Class A accounting. Staff incorporated these additional recommendations into its proposals and emailed the revisions to Qwest, Verizon, Sprint, CenturyTel, OTA, and the OTA Accounting Committee on February 8, 2002. Qwest emailed its support for the attached version of OAR 860-027-0050.

Staff filed its revised proposal for the Uniform System of Accounts rules with its comments dated February 22, 2002. Staff recommends that the Commission adopt its revised proposal, included as Appendix A to this order.

A hearing was held on this matter on February 25, 2002. Only Staff appeared to comment on its proposed rules. OTA and Qwest filed written comments supporting the proposed rules. Qwest noted that adoption of the noncontested changes will provide more consistency between the accounting rules in Oregon and the federal accounting rules that became effective on January 1, 2002. Qwest encourages the Commission to move forward with these Uniform System of Accounts rule changes and agrees that the cost allocation rules should be reviewed in a separate proceeding. Qwest and OTA support moving the cost allocation rules to a separate docket.

Cost Allocations. At the January 8, 2002, public meeting, Staff proposed to adopt changes to the cost allocation rules for telecommunications utilities and cooperatives (OAR 860-027-0052, 860-034-0394, and 860-034-0740). Since that time, Staff has concluded that the cost allocation rules deserve additional review and recommends moving them to a new docket. Therefore, Appendix A, Staff's proposed rules, excludes those rules.

Staff began reconsidering its proposal to the cost allocation rules after Staff received the following request from Brant Wolf of OTA on February 5, 2002:

Additionally, if you look at paragraph 90 in the FCC order dated October 11, 2001, it states that a \$500,000 threshold should be established for transfer of assets and services. Carriers should not be required to perform net book cost/fair market value comparisons for the first \$500,000 of asset transfers. OTA feels that language to this effect should be included in the appropriate place under 860-034-0740 . . .

In reviewing OTA's request, Staff concluded that the Commission should consider making additional changes to its current cost allocation rules for telecommunications utilities and cooperatives. For example, should OAR 860-027-0052(3) be revised to exempt large telecommunications utilities that are regulated under ORS 759.255 or ORS 759.410? Should OAR 860-027-0052(3) also be revised to add a threshold for large telecommunications utilities? The 1999 Oregon Legislature granted a threshold to the large telecommunications utilities regarding the need to file an application for Commission approval of affiliated interest transactions. According to ORS 759.385(4), the filing requirement under ORS 759.385 "applies only to transactions in which the telecommunications utility's Oregon intrastate expenditure to the affiliate is more than \$100,000."

The Commission's policies and rules about accounting for costs related to affiliated interest transactions have periodically been contested. Staff believes that changes to affiliated interest cost allocation rules should be given careful consideration, and all parties should be provided with time to fully respond to other parties' comments.

On Page 1 of the January 8, 2002, public meeting memorandum, Staff recommended that the Commission adopt the changes "with OPUC's exceptions, as soon as possible, so the companies can be reasonably consistent with interstate requirements." FCC Errata Order 02-97 allows the companies to implement the changes effective January 1, 2002. Staff also stated that "Staff's proposed rules would . . . (c) retain OPUC's current cost allocation rules."

Adding thresholds and exemptions to the cost allocation rules would not "retain OPUC's current cost allocation rules" and is, therefore, outside the intended scope of docket AR 437. Such changes would also delay Oregon's implementation of the noncontested changes to the USOA (Uniform System of Accounts) rules. Therefore, Staff recommends moving the cost allocations rules to a new docket. This action would allow rapid adoption of the noncontested changes to the Uniform System of Accounts rules in AR 437 and would let companies implement the FCC's changes, with exceptions, as soon as possible. Staff notified Qwest, Verizon, Sprint, CenturyTel, OTA, and members of the OTA Accounting Committee of Staff's revised proposal for the cost allocation rules by email on February 20, 2002.

Resolution. At its regular public meeting of March 21, 2002, the Commission voted to adopt the amendments to the Uniform System of Accounts rules, OAR 860-027-0050, 860-034-0393, and 860-034-0730. The Commission determined not to make changes at present

to the cost allocation rules, OAR 860-027-0052, 860-034-0394, and 860-034-0740. Instead, the Commission decided to open a new docket to consider amendments to the cost allocation rules.

ORDER

IT IS ORDERED that:

1. The modifications to the rules attached as Appendix A, and made part of this order, are adopted.
2. The rule modifications shall become effective upon filing with the Secretary of State.

Made, entered and effective _____.

Roy Hemmingway
Chairman

Lee Beyer
Commissioner

Joan H. Smith
Commissioner

A party may petition the Commission for the amendment or repeal of a rule pursuant to ORS 183.390. A person may petition the Court of Appeals to determine the validity of a rule pursuant to ORS 183.400.

860-027-0050

Uniform System of Accounts for Large Telecommunications Utilities

(1) The Uniform System of Accounts for Telecommunications Companies, Part 32, adopted by the Federal Communications Commission (FCC) ~~with revisions to October 1, 1998~~ **on October 11, 2001**, is hereby adopted and prescribed for all large telecommunications utilities except as modified for intrastate purposes in sections (2) through (5) of this rule.

~~_____ (2) Exceptions to section (1) of this rule:~~

~~_____ (a) The rule changes adopted by the FCC on May 18, 1999, in FCC Order No. 99-106, Appendix B, are adopted;~~

~~_____ (b) The rules related to accounts in general, unusual items and contingent liabilities, property held for future use, construction work in progress, and the expense matrix filing requirements, adopted by the FCC in FCC Order No. 00-78, Appendix B, are prescribed as follow: CFR Parts 32.13, 32.25, 32.2002, 32.2003, and 32.5999;~~

~~(e2) Each A large telecommunications utility shall maintain its accounting records at an adequate level of detail to~~ may follow Class B accounting except when Class A accounting is needed to complete intrastate depreciation and jurisdictional separation studies, to provide the details requested in annual reports under OAR 860-027-0070, and to comply with other Oregon rules and statutes, ~~as needed.~~

~~(e3) For intrastate purposes, the allocation rules in Part 32, Sections 32.27(a), 32.27(b), 32.27(c), and 32.27(d) are replaced by OAR 860-027-0052(3);~~

~~(d4) For construction work in progress and property held for future use, each large telecommunications utility shall maintain subsidiary records consistent with ORS 759.285; and.~~

(5) Each large telecommunications utility shall maintain subsidiary records sufficient to separately identify the following deferred taxes, revenues, and expenses:

(a) Federal and state net noncurrent deferred operating income taxes (Account 4340).

(b) Interstate and intrastate switched access revenue (Account 5082).

(c) Interstate and intrastate special access revenue (Account 5083).

(d) Miscellaneous Revenues (Account 5200):

(i) Directory revenues, including amounts derived from alphabetical and classified sections of directories and fees paid by other entities for the right to publish the large telecommunications utility's directories; the classified section of the directories; the sale of new telephone directories whether they are the large telecommunications utility's own directories or directories purchased from others; additional and boldface listings, marginal displays, inserts, and other advertisements in the alphabetical sections of the telephone directories; and unlisted and nonpublished telephone numbers;

(ii) Interstate and intrastate carrier billing and collection revenues derived from the provision to other telecommunications providers for

services such as message recording, billing, collection, billing analysis, and billing information services, whether rendered under tariff or contractual arrangements; and

(iii) Miscellaneous revenue other than directory or carrier billing and collection revenues.

(e) Universal Service Fund (USF) revenues and expenses:

(i) Collections from customers for federal USF and Oregon USF;

(ii) Contributions to the federal USF and Oregon USF; and

(iii) Distributions from the federal USF and the Oregon USF.

(f) Depreciation expenses related to telecommunications plant in service, depreciation expense related to property held for future use, and amortization expense.

[Publications: The publication(s) referred to or incorporated by reference in this rule are available from the office of the Public Utility Commission.]

Stat. Auth.: ORS Ch. 183, 756 & 759

Stats. Implemented: ORS 756.105, 759.120, 759.125 & 759.130

Hist.: PUC 164, f. 4-18-74, ef. 5-11-74 (Order No. 74-307); PUC 8-1981, f. & ef. 9-8-81 (Order No. 81-626); PUC 5-1985, f. & ef. 4-24-85 (Order No. 85-355); PUC 13-1987, f. & ef. 11-16-87 (Order No. 87-1176); PUC 17-1989, f. & cert. ef. 12-14-89 (Order Nos. 89-1508 & 89-1672); PUC 6-1998, f. & cert. ef. 3-13-98 (Order No. 98-090); PUC 3-2000, f. & ef. 2-9-00 (Order No. 00-067); PUC 9-2000, f. & ef. 5-26-00 (Order No. 00-264); PUC 16-2000, f. & ef. 9-12-00 (Order No. 00-540); PUC 4-2001, f. & ef. 1-24-01 (Order No. 01-117); PUC 16-2001, f. & cert. ef. 6-21-01 (Order No. 01-488)

860-034-0393

Uniform System of Accounts for Small Telecommunications Utilities

(1) The Uniform System of Accounts for Telecommunications Companies, Part 32, adopted by the Federal Communications Commission (FCC) ~~with revisions to October 1, 1998~~ on October 11, 2001, is hereby adopted and prescribed for all small telecommunications utilities except as modified for intrastate purposes in sections (2) through (5) of this rule.

~~(e2) Each A~~ small telecommunications utility ~~shall maintain its accounting records at an adequate level of detail to~~ may follow Class B accounting except when Class A accounting is needed to complete intrastate depreciation and jurisdictional separation studies, to provide the details requested in annual reports under OAR 860-034-0395, and to comply with other Oregon rules and statutes, ~~as needed~~.

~~(2) Exceptions to section (1) of this rule:~~

~~(a) The rule changes adopted by the FCC on May 18, 1999, in FCC Order No. 99-106, Appendix B, are adopted;~~

~~(b) The rules related to accounts in general, unusual items and contingent liabilities, property held for future use, construction work in~~

~~progress, and the expense matrix filing requirements, adopted by the FCC in FCC Order No. 00-78, Appendix B, are prescribed as follow: CFR Parts 32.13, 32.25, 32.2002, 32.2003, and 32.5999;~~

~~(e3) For intrastate purposes, the allocation rules in Part 32, Sections 32.27(a), 32.27(b), 32.27(c), and 32.27(d) are replaced by OAR 860-034-0394(3);~~

~~(d4) For construction work in progress and property held for future use, each small telecommunications utility shall maintain subsidiary records consistent with ORS 759.285; and.~~

(5) Each small telecommunications utility shall maintain subsidiary records sufficient to identify the following deferred taxes, revenues, and expenses:

(a) Federal and state net noncurrent deferred operating income taxes (Account 4340).

(b) Interstate and intrastate switched access revenue (Account 5082).

(c) Interstate and intrastate special access revenue (Account 5083).

(d) [Reserved].

(e) Universal Service Fund (USF) revenues and expenses:

(i) Collections from customers for federal USF and Oregon USF;

(ii) Contributions to the federal USF and Oregon USF; and

(iii) Distributions from the federal USF and the Oregon USF.

(f) Depreciation expenses related to telecommunications plant in service, depreciation expense related to property held for future use, and amortization expense.

[Publications: The publication(s) referred to or incorporated by reference in this rule are available from the office of the Public Utility Commission.]

Stat. Auth.: ORS Ch. 183, 756 & 759

Stats. Implemented: ORS 756.040 & 759.045

Hist.: PUC 6-1993, f. & ef. 2-19-93 (Order No. 93-185); PUC 6-1998, f. & cert. ef. 3-13-98 (Order No. 98-090); Renumbered from 860-034-0510 by PUC 3-1999, f. & ef. 8-10-99 (Order No. 99-468); PUC 3-2000, f. & ef. 2-9-00 (Order No. 00-067); PUC 9-2000, f. & ef. 5-26-00 (Order No. 00-264); PUC 16-2000, f. & ef. 9-12-00 (Order No. 00-540); PUC 4-2001, f. & ef. 1-24-01 (Order No. 01-117); PUC 15-2001, f. & cert. ef. 6-21-01 (Order No. 01-488)

860-034-0730

Uniform System of Accounts for Type 2 Cooperatives

(1) The Uniform System of Accounts for Telecommunications Companies, Part 32, adopted by the Federal Communications Commission (FCC) ~~with revisions to October 1, 1998~~ **on October 11, 2001**, is hereby adopted and prescribed for all Type 2 cooperatives utilities except as modified **for intrastate purposes** in sections (2) **through (11)** of this rule.

(2) A Type 2 cooperative may follow Class B accounting except when Class A accounting is needed to complete intrastate depreciation and jurisdictional separation studies, to provide the details requested in annual reports under OAR 860-034-0750, and to comply with other Oregon rules and statutes.

(2) Exceptions to section (1) of this rule:

(a) The rule changes adopted by the FCC on May 18, 1999, in FCC Order No. 99-106, Appendix B, are adopted;

(b) The rule changes adopted by the FCC in FCC Order No. 00-78 are adopted; and

(3) The allocation rules in Part 32, Section 32.27, are replaced by OAR 860-034-0740(3).

(e4) For construction work in progress and property held for future use, each Type 2 cooperative shall maintain subsidiary records consistent with ORS 759.285.

(5) Each Type 2 telecommunications cooperative shall maintain subsidiary records sufficient to identify the following revenues and expenses:

(a) [Reserved].

(b) Interstate and intrastate switched access revenue (Account 5082).

(c) Interstate and intrastate special access revenue (Account 5083).

(d) [Reserved].

(e) Universal Service Fund (USF) revenues and expenses:

(i) Collections from customers for federal USF and Oregon USF;

(ii) Contributions to the federal USF and Oregon USF; and

(iii) Distributions from the federal USF and the Oregon USF.

(f) Depreciation expenses related to telecommunications plant in service, depreciation expense related to property held for future use, and amortization expense.

[Publications: The publication(s) referred to or incorporated by reference in this rule are available from the office of the Public Utility Commission.]

Stat. Auth.: ORS Ch. 183, 756 & 759

Stats. Implemented: ORS 756.040, 759.220 & 759.225

Hist.: PUC 3-1999, f. & ef. 8-10-99 (Order No. 99-468); PUC 3-2000, f. & ef. 2-9-00 (Order No. 00-067); PUC 9-2000, f. & ef. 5-26-00 (Order No. 00-264); PUC 16-2000, f. & ef. 9-12-00 (Order No. 00-540); PUC 4-2001, f. & ef. 1-24-01 (Order No. 01-117)