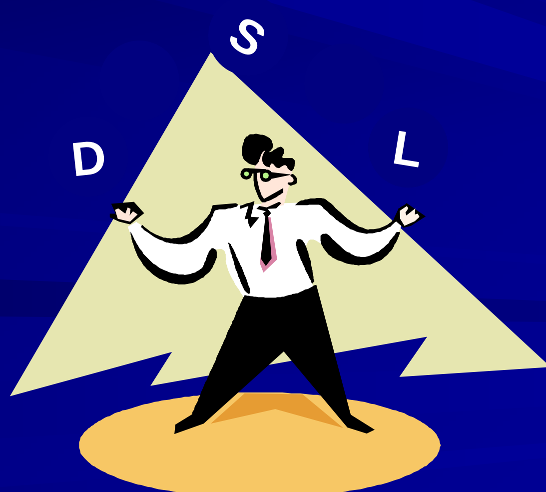
2005 TTA Accounting Seminar

Accounting for DSL Operations – Regulated and Non-Regulated



Presented by:
Blake Lackey, CPA
Curtis Blakely & Co., P.C.
P. O. Box 5486
Longview, TX 75608
903.758.0734
October 19, 2005
blackey@cbandco.com
www.cbandco.com

Agenda

- DSL defined
- Types of DSL
- NECA's DSL Tariff Offerings
- Components of DSL Service
- Accounting for DSL Operations (Regulated ILEC)

Curtis Blakely & Co., PC Certified Public Accountants & Consultants

Agenda

- Accounting for DSL Operations (Non-Regulated Subsidiary)
- Regulated vs. Non-Regulated DSL
- Where to Get Additional Information

Curtis Blakely & Co., PC
Certified Public Accountants & Consultants

DSL Defined

- DSL is a technology which allows simultaneous transmission of voice and high speed data over the same copper loop.
- Data transmission is at far greater speeds than than what the end user can achieve using the traditional dial-up access with a 56 kbps modem

Types of DSL

- Asymmetric DSL (ADSL)
  - Most popular form of DSL technology, attractive to residential and small business users, provides high-speed access to the Internet without need for additional lines
  - Faster speeds downstream than upstream

Curtis Blakely & Co., PC
Certified Public Accountants & Consultants

Types of DSL

- Symmetric DSL (SDSL)
  - ➢Permits equal data traffic speeds to enable running Web and e-mail servers
  - ➢Characterized by equal upstream and downstream data transmission speeds

Curtis Blakely & Co., PC
Certified Public Accountants & Consultants

Types of DSL

- Variations of ADSL and SDSL
  - ISDN based DSL (IDSL)
  - High Bit Rate DSL (HDSL)
  - Rate Adaptive DSL (RADSL)
  - Very High Bit Rate DSL (VDSL)

Curtis Blakely & Co., PC
Certified Public Accountants & Consultants

NECA's DSL Tariff Offerings

- ADSL and SDSL - Retail
  - Voice-Data option, must be provided in conjunction with local exchange service
  - Data only option, no requirement to purchase local exchange service line
- DSL Discount Pricing Arrangement (DPA) - Wholesale
  - Monthly and Term Plan

Components of DSL Service

- Digital Subscriber Line Access Multiplexer (DSLAM)
  - ➢Used to multiplex DSL subscribers' lines
  - ➢Separates voice and data
  - ➢Normally located in central office, field cabinet or remote
- Local Loop

Components of DSL Service

- POTS Splitter
  - Filters telephone service signal from DSL signal
- Modem
  - Establishes translation
- Telephone Filter
  - Provides filtering of voice service

Curtis Blakely & Co., PC
Certified Public Accountants & Consultants

Regulated ILEC is Providing Retail DSL to End User

- DSLAM – Recorded in account 2232 "Circuit Equipment DSL"
- Software Upgrades – Separate 2232 account or 2690 Intangibles (3 year amortization)

Curtis Blakely & Co., PC
Certified Public Accountants & Consultants

Regulated ILEC is Providing Retail DSL to End User

- Local Loop
  - ADSL and SDSL Voice-Data use the existing copper loop, therefore no additional costs are recorded
  - Data-Only requires separate copper facilities and should be recorded in account 2421 “Aerial Cable” or account 2423 “Buried Cable”

Curtis Blakely & Co., PC
Certified Public Accountants & Consultants

Regulated ILEC is Providing Retail DSL to End User

- CPE (modems, splitters and filters)
  - Companies may elect to lease DSL modems, etc. to customers or to sell/give away
  - If leased, accounted for the same as other customer premises equipment, account 2311
  - If sold or given to end user, expense as cost of sales, account 6311

Curtis Blakely & Co., PC
Certified Public Accountants & Consultants

Regulated ILEC is Providing Retail DSL to End User

- Revenues
  - All recurring and non-recurring charges billed using the NECA tariff for the provision of interstate DSL are recorded as Special Access (5083) and reported to NECA; suggest sub accounts. Revenues greater than NECA tariff are nonregulated.

Curtis Blakely & Co., PC Certified Public Accountants & Consultants

Regulated ILEC is Providing Retail DSL to End User

- Revenues (continued)
  - ILEC is ISP and therefore should charge the non-regulated side for interconnection
  - Requires entry charging nonreg expense and crediting Special Access (5083)

Regulated ILEC is Providing Retail DSL to End User

- Expenses associated with DSLAM
  - Central office type maintenance, etc.
  - Charged to account 6232 “Repair of Circuit Equipment DSL”
  - Charges incurred with initial setup of DSLAM should be capitalized with DSLAM

Curtis Blakely & Co., PC Certified Public Accountants & Consultants

Regulated ILEC is Providing Retail DSL to End User

- Costs associated with installation and sale of modem and splitter
  - Cost of Goods Sold
  - Installation at the customer's premises
  - Charged to 6311 "Cost of Non-regulated Equipment Sold and Installation of CPE"

Curtis Blakely & Co., PC
Certified Public Accountants & Consultants

Regulated ILEC is Providing Retail DSL to End User

- Costs associated with modifying loop for DSL
  - Removal of load coils
    - If unit of property, record retirement and associated costs of removal
    - If load coils are not unit of property, record to account 6423 “Repair of Buried Cable - DSL”

Curtis Blakely & Co., PC Certified Public Accountants & Consultants

Regulated ILEC is Providing Retail DSL to End User

- Costs associated with modifying loop for DSL
  - Removal of bridge taps
    - If unit of property, record retirement and associated costs of removal
    - If not unit of property, record to account 6423 “Repair of Buried Cable - DSL”

Curtis Blakely & Co., PC Certified Public Accountants & Consultants

Regulated ILEC is Providing Wholesale DSL to Subsidiary via DPA

- Regulated Equipment and upgrades recorded on the regulated ILEC's books essentially the same as "Retail" scenario.

Curtis Blakely & Co., PC
Certified Public Accountants & Consultants

Regulated ILEC is Providing Wholesale DSL to Subsidiary via DPA

- CPE (modems, splitters and filters)
  - Non-regulated subsidiary provides to end user and records appropriately on subsidiary books.

Curtis Blakely & Co., PC
Certified Public Accountants & Consultants

Regulated ILEC is Providing Wholesale DSL to Subsidiary via DPA

- Regulated ILEC bills subsidiary using NECA tariff (per line charge and installation charge)

Curtis Blakely & Co., PC Certified Public Accountants & Consultants

Regulated ILEC is Providing Wholesale DSL to Subsidiary via DPA

- NECA tariff provides two discount plans
  - Monthly plan, month-to month basis with discount on per line charge
  - Term Plan, one or three year commitment with larger discount on per line charge. Flat monthly per wire center charge. Installation charge waived.

Curtis Blakely & Co., PC Certified Public Accountants & Consultants

Regulated ILEC is Providing Wholesale DSL to Subsidiary via DPA

- Revenues
  - Regulated ILEC reports revenue billed under the NECA tariff to NECA. Revenues should be recorded in 5083.

Curtis Blakely & Co., PC Certified Public Accountants & Consultants

Regulated ILEC is Providing Wholesale DSL to Subsidiary via DPA

- Revenues (continued)
  - Subsidiary is ISP and therefore ILEC should charge the subsidiary for interconnection. These revenues are reported by ILEC to NECA and recorded in 5083.

Curtis Blakely & Co., PC
Certified Public Accountants & Consultants

Regulated ILEC is Providing Wholesale DSL to Subsidiary via DPA

- Revenues (continued)
  - Subsidiary is free to charge end user whatever rates they feel are appropriate. Subsidiary assumes responsibility for DSL service.

Curtis Blakely & Co., PC
Certified Public Accountants & Consultants

Regulated ILEC is Providing Wholesale DSL to Subsidiary via DPA

- Expenses
  - ILEC charges expenses much the same as “retail” scenario. Segregate as much as possible to maximize revenue requirement. DSL 100% interstate.

Regulated ILEC is Providing Wholesale DSL to Subsidiary via DPA

- Expenses (continued)
  - Subsidiary classifies amounts paid to ILEC as access or expense classification management feels is most useful. Sub accounts are recommended.

Curtis Blakely & Co., PC
Certified Public Accountants & Consultants

Non-Regulated Subsidiary is Providing DSL to End User

- Subsidiary owns equipment and assumes responsibility for DSL service
  - Free to charge rates management determines are appropriate

Curtis Blakely & Co., PC
Certified Public Accountants & Consultants

Non-Regulated Subsidiary is Providing DSL to End User

- ILEC might need to charge subsidiary for interconnection and/or transport if subsidiary does not have facilities
- ILEC charges subsidiary cost based loop rental

Curtis Blakely & Co., PC
Certified Public Accountants & Consultants

Regulated vs. Non-Regulated DSL

- When DSL is non-regulated, ILEC must apportion costs between regulated and non-regulated depending on how the non-regulated services are provided.
- Services provided to an affiliate under tariff are recorded as revenues at the tariff rate.

Regulated vs. Non-Regulated DSL

- Non-tariffed services provided an affiliate are recorded at the higher of fair market value or fully distributed costs.

Curtis Blakely & Co., PC
Certified Public Accountants & Consultants

Regulated vs. Non-Regulated DSL

- When the regulated ILEC provides non-regulated DSL directly to its end users, the ILEC must:
  - Allocate costs according to Part 64
  - Dedicated costs should be directly assigned
  - Joint or common costs should be allocated

Curtis Blakely & Co., PC
Certified Public Accountants & Consultants

Where to Get More Information

- NECA.org
- Teri Kessler, NECA Southwest Region

Curtis Blakely & Co., PC

Certified Public Accountants & Consultants