

THE  
PUBLIC UTILITIES COMMISSION  
OF THE  
STATE OF COLORADO

COST ALLOCATION RULES FOR TELECOMMUNICATIONS  
SERVICE PROVIDERS AND TELEPHONE UTILITIES

4 CODE OF COLORADO REGULATIONS (CCR) 723-27

RULE (4 CCR) 723-27-3. APPLICABILITY TO SPECIFIC TYPES OF SERVICES.

723-27-3.1 Each provider must file ~~in its cost-segregation manual~~ with the Commission, a list of each service that it offers, providing a description of each service and the classification of each service as a regulated or deregulated telecommunications service as those terms are used in Title 40, Article 15, C.R.S. and as determined by the Commission. This list shall be updated ~~in accordance with Rule 8.12 of these rules~~ as changes occur.

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723-27-3.4 Providers shall specify ~~in their cost-segregation manuals~~ precisely which services they propose to treat as incidental services and which services they propose to treat as de minimis services.

723-27-3.5 EACH PROVIDER ~~Each cost-segregation manual filed with the Commission~~ must include a showing that any activity proposed for treatment as either an incidental service or as a de minimis service complies with this rule.

~~3.5 Providers shall update their cost segregation manuals as changes occur in accordance with Rule 8.12 of these rules to specify any new service they propose to treat as an incidental service and will ensure that the service proposed for treatment as an incidental service complies with this rule, except that compliance with Rule 3.2.4 will not be required for new services that a provider proposes to treat as incidental services.~~

~~3.6 Providers shall update their cost segregation manuals as changes occur in accordance with Rule 8.12 of these rules to specify any new service they propose to treat as a de minimis treatment as a de minimis service complies with this rule, except that compliance with Rule 3.3.2 will not be required for new services that a provide proposes to treat as de minimis services.~~

**RULE (4 CCR) 723-27-4. UNIFORM SYSTEM OF ACCOUNTS ("USOA").**

723-27-4.2 In the event a provider is authorized by the FCC to maintain its books of account and records in a manner other than under the **USDA USOA**, it may seek a waiver from Rule 4.1 allowing it to maintain its books of account and records as permitted by the FCC. However, the provider requesting that waiver must implement a suitable alternate method of producing Colorado intrastate-specific information to the Commission.

723-27-4.3 Providers who are already authorized by this Commission prior to April 30, 1990, to maintain their books of account and records in a manner other than the **USDA USOA** need not seek a waiver from Rule 4.1 and are authorized

to continue maintaining their books of account and records in the manner previously authorized by this Commission.

**RULE (4 CCR) 723-27-7. COST-SEGREGATION STANDARDS AND GUIDELINES - SPECIFIC.**

723-27-7.1 All investments and expenses attributable to the interstate jurisdiction are to be allocated using federal rules. Each ~~cost-segregation manual filed with this Commission must~~ PROVIDER MUST BE ABLE TO demonstrate that these federal procedures have been properly applied.

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723-27-7.6 As providers develop new services, it is not appropriate to allocate investments or expenses associated with the new services exclusively to existing services. As new services begin to use joint and common investments and expenses are incurred, the methods of segregation ~~in the manuals~~ must be modified to track the usage and expenses. ~~A providers cost segregation manual shall be modified as necessary in accordance with Rule 8.12 when the use of facilities and expenses incurred become material.~~

**RULE (4 CCR) 723-27-8. IMPLEMENTATION AND ENFORCEMENT.**

723-27-8.1 A certified audit report ~~as described in Rule 8.8.1 also~~ shall be filed with the Commission when a provider files a general rate case which is defined to ordinarily include requests for a change in revenue requirements, a change in the spread of rates, a change in rate base, and a change in the rate of return.

723-27-8.2 A provider seeking any change in revenue requirements shall have the burden of demonstrating

that the change is based on cost information and standards established in these rules.

~~8.1 All providers, except small LECs, shall file cost segregation manuals with the Commission demonstrating, in detail, the application of these rules to their particular operations at a provider specific level.~~

~~8.2 These manuals must be submitted to the Commission for approval by application and shall be kept current. Once a manual is approved, changes to the manuals shall be filed in accordance with Rule 8.12. Providers submitting manuals or changes to manuals for Commission approval shall have the burden of persuasion, as defined in Black's Law Dictionary, 5th Edition, that the manual or change demonstrates the application of these rules to their particular operations at a provider specific level. As part of the application for approval, a provider may also see a waiver of specific rules as authorized by Rule 21.~~

~~8.3 The nonproprietary portions of the manuals or changes to the manual shall be subject to review by the public. In the event portions of a manual are deemed proprietary by a provider, the provider shall file with the complete manual a detailed, nonproprietary summary of the manual or changes to the manual have been deemed to be proprietary and may be subject to protective orders.~~

~~8.4 The entire manual and changes filed with the Commission, including any portions designated as proprietary, shall be subject to audit review in accordance with §40-6-106 & 107, and 40-15-107, C.R.S. by the Commission and its Staff.~~

~~8.5 — If the application for approval of a manual or change to a previously approved manual is challenged by and intervenor or the Staff of the Commission on the basis that the manual or change does not properly demonstrate the application of these rules to a provider's particular operations, the party asserting the challenge shall have the burden of going forward and the burden of proof, as defined in Black's Law Dictionary, 5th Edition, with respect to its position.~~

~~8.6 — Once a manual or change is filed, notice shall be issued to the public as required by law by the Executive Secretary of the Commission within 10 days from the date of filing. After the notice period has expired, discovery may be propounded by parties for a period of 60 days after the notice period has expired. All discovery shall be completed within 100 days after notice period has expired. Prefiling requirements may be established by the Commission for the hearing on the application for approval. The prefiling requirements established in Rule 71 of the Commission's Rules of Practice and Procedure, found at 4 CCR 723 1, will not be applicable to these applications unless otherwise ordered by the Commission.~~

~~8.7 — Applications for approval of a manual or change to a manual shall be heard within 120 days after the notice period has expired. In the event no petitions to intervene have been filed opposing approval of the manual or change, the Commission may process the application in accordance with §~~

~~40-6-109(5), C.R.S., and Rule 24 of the Commission's Rules of Practice and Procedure.~~

~~8.8 — Certified Audit Report~~

~~8.8.1 — Once a manual or material change as defined in Rule 8.12 has been approved, a certified audit report shall be filed with the Commission at the time the next Appendix B is due in accordance with Rule 10 of these rules, which shall certify that the provider has properly implemented the procedures in its manual or the change to the manual in its operations. The certified report shall be prepared under the guidance of an independent auditor, shall include the information required under Rule 11.1, and shall be attested to by the independent auditor.~~

~~8.8.2A certified audit report as described in Rule 8.8.1 also shall be filed with the Commission when a provider files a general rate case which is defined to ordinarily include requests for a change in revenue requirements, a change in the spread of rates, a change in rate base, and a change in the rate of return. — [See new Rule 8.1]~~

~~8.9 — Small LECs or providers granted an exemption from filing a cost segregation manual are required to follow these rules even though they are not required to file cost segregation manuals unless otherwise ordered by the Commission.~~

~~8.10 — The Commission Staff will develop a model manual for use by small LECs, at their option. The Commission Staff will audit small LECs for compliance with these rules. All~~

~~workpapers, detailed specifications, documentation and supporting information implementing these rules by small LECs must be available to the Commission Staff for audit purposes.~~

~~8.11A provider seeking any change in revenue requirements shall have the burden of demonstrating that the change is based on cost information and standards established in these rules.—[See new Rule 8.2]~~

~~8.12 For purposes of rules 8.2, 8.4, 8.5, 8.6, 8.7, and 8.8.1, a "change" in a provider's manual is defined to be any modification which materially affects the results of the cost allocation methodologies prescribed by these rules as applied to a provider's operations. A provider shall notify the Commission in writing of all changes or modifications it proposes to its manual at least 30 days prior to the effective date of the change or modification. Following this written notification, the Commission shall within the 30 day period advise the provider in writing whether the change or modification of the provider's manual is sufficiently material so as to be deemed by the Commission to be a change or modification which require compliance with Rules 8.2, 8.4, 8.5, 8.6, 8.7, and 8.8.1. If the change or modification is deemed by the Commission to be material, the provider shall then file an application seeking approval of the change or modification. Copies of proposed changes or modifications shall also be sent to the Colorado office of Consumer Counsel contemporaneously with the notice to the Commission.~~

~~————— RULE 9: CONTENTS OF COST SEGREGATION MANUALS~~

~~Manual Content. Each provider's cost segregation manual shall contain~~

~~9.3 For each account and sub-account, a detailed specification of cost categories to which amounts in each account or sub-account will be assigned and the basis upon which each cost category will be apportioned. Whenever a direct assignment is made, it must be specifically explained. Each provider must show in its manual the method it uses to segregate its costs between regulated services and deregulated services. The manual must show how the segregation methods used conform to the prescribed standards in this rule.~~

~~9.4 A verification that the federally mandated Part 32, or the provider specific FCC authorized accounting method, Part 64 and Part 36 (FCC) cost-allocation standards and separations procedures were used. A provider not required by the FCC to apply Part 36 or Part 64 will not have to make such a showing. However, the provider must implement a suitable alternative method of producing Colorado jurisdictional intrastate specific information to the Commission.~~

**RULE (4 CCR) 723-27-9. INFORMATION REQUIREMENTS.**

Each provider shall provide the following information:

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~~723-27-9.39.5~~ A list of all services which the provider now accords incidental accounting treatment and treats as incidental services and the justification for treating each as incidental.

~~723-27-9.49.6~~ A list of all services which the provider accords de minimis accounting treatment and treat as de minimis services and the justification for treating each as de minimis.

~~723-27-9.59.7~~ If it is a local exchange provider, a chart showing all of its corporate affiliates.



~~723-27-9.69-8~~ If it is a local exchange provider, a statement identifying affiliates that engage in transactions with the providing entity, as described in Rule 13, describing the nature, terms and frequency of those transactions.

**RULE (4 CCR) 723-27-10.            REPORTING AND RECORDKEEPING -**  
**APPENDIX B TO ANNUAL REPORTS.**

~~10.3 For calendar years 1990, 1991, 1992, and 1993, Appendix B may either be filed with a provider's annual report or as a separate filing due no later than June 30 of each of those years. For calendar year 1994 and each year thereafter, the provisions of rule 10.2 of these rules shall apply.~~

723-27-10.3 Unless an Appendix B is used to support a general rate case as defined in Rule 8.1, the Appendix B need only be certified by a certified public accountant. If the Appendix B is also used by the provider to support a general rate case, then the Appendix B must be certified in accordance with Rules 11.1.1 through 11.1.5.

**RULE (4 CCR) 723-27-11.            AUDITING.**

723-27-11.1 Certified auditor's reports required under ~~Rules 8.8.1 and 8.8.2~~ **RULE 8.1** of these rules shall include the following information:

723-27-11.1.1 The scope of work conducted, specifying the items examined and the extent of examination.

723-27-11.1.2 The auditor's conclusion as to whether actual methods and procedures designed and implemented by the provider conform with the procedures described in ~~the cost-segregation manual~~ **THESE RULES.**

**RULE (4 CCR) 723-27-12.**

**PROPRIETARY INFORMATION.**

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723-27-12.2 The detailed specifications, documentation and supporting information implementing ~~the provider's cost segregation manual~~ **THESE RULES** must be made available to the Commission and its staff and may be given proprietary status if requested.

~~12.3 Portions of the cost segregation manual may be given proprietary status if requested.~~

723-27-12.34 Appendix B filed in accordance with Rule 10 of these rules may be given proprietary status if requested.

**RULE (4 CCR) 723-27-13.**  
**EXCHANGE PROVIDERS.**

**AFFILIATE TRANSACTIONS - LOCAL**

~~13.1 Applicability. This rule applies to all local exchange providers who transfer assets, liabilities, revenues, and expenses between regulated and deregulated books of account and records within the company and to transfer of assets, liabilities, revenues, and expenses between regulated and deregulated affiliates.~~

723-27-13.1 Transactions with affiliates involving asset transfers or provision of services into or out of the regulated accounts shall be recorded by the provider in its regulated accounts as provided in paragraphs 13.2 through 13.5 of this Rule.

723-27-13.2 Transfer of Assets.

~~13.2.1 All assets transferred between regulated providers and deregulated affiliates must be values at the prevailing market price held out to the general public in the normal course of business or at the current effective tariff rate on file with the Commission.~~

723-27-13.2.1 Assets sold or transferred between a provider and its affiliate pursuant to a tariff shall be recorded in the appropriate revenue accounts at the tariffed rate. Non-tariffed assets sold or transferred between a provider and its affiliate that qualify for prevailing price valuation, as defined in paragraph 13.4 of this rule, shall be recorded at the prevailing price.

~~13.2.2 If there is no prevailing market price or tariff rate, the asset transfer from the deregulated affiliate to the regulated provider should be recorded at the lower of net book cost or fair market value, while transfers from the regulated provider to the deregulated affiliate should be recorded at the higher of net book cost or fair market value.~~

723-27-13.2.2 For all other assets sold by or transferred from a provider to its affiliate, the assets shall be recorded at the higher of fair market value and net book cost. For all other assets purchased by or transferred to a provider from its affiliate, the assets shall be recorded at the lower of fair market value and net book cost. For purposes of this section providers are required to make a good faith determination of fair market value.

723-27-13.3 Valuation of Services Provided to or by an Affiliate.

~~13.3.1 All services provided to or by an affiliate must be valued at the federally tariffed rate or the rate on file with this Commission.~~

~~13.3.2 If there is no tariffed rate, but the affiliate provides the service to the general public in the normal course of business then this prevailing market price should be used to determine the price charged to the regulated provider.~~

~~13.3.3 When a regulated provider furnishes to a deregulated affiliate a service which is neither tariffed nor offered to the general public in the normal course of business, or when a regulated provider receives from a deregulated affiliate a service which is not offered to the general public in the normal course of business, the cost of the service should be values at the fully allocated cost consistent with these rules.~~

723-27-13.3.1 Services provided between a provider and its affiliate pursuant to a tariff shall be recorded in the appropriate revenue accounts at the tariffed rate. Non-tariffed services provided between a provider and its affiliate pursuant to publicly-filed agreements submitted to the Commission pursuant to section 252(e) of the Communications Act of 1934 or statements of generally available terms pursuant to section 252(f) shall be recorded using the charges appearing in such publicly-filed agreements or statements. Non-tariffed services provided between a provider and its affiliate that qualify for prevailing price valuation, as defined in paragraph 13.4, shall be recorded at the prevailing price.

723-27-13.3.2 For all other services provided by a provider to its affiliate, the services shall be recorded at the higher of fair market value and fully distributed cost. For all other services received by a provider from its affiliate, the service shall be recorded at the lower of fair market value and fully distributed cost, except that services received by a provider from its affiliate that exist solely to provide services to members of the provider's corporate family shall be recorded at fully distributed cost. For purposes of this section providers are required to make a good faith determination of fair market value.

~~13.4 Prevailing Market Price. The mere offering of a service to unaffiliated persons or entities is not sufficient to establish a prevailing market price. The provider shall have the burden of proving that a prevailing market price exists by showing that the service is actually provided to a sufficient number of nonaffiliates to establish a prevailing market price. Evidence to support the existence of a prevailing market price should include whether the services listed in the portion of the manual concerning affiliate transactions are offered to nonaffiliates, and if so, the terms and frequency at which they are provided to the nonaffiliates.~~

723-27-13.4 Prevailing Price Valuation. In order to qualify for prevailing price valuation, sales of a particular asset or service to third parties must encompass greater than 50 percent of the total quantity of such product or service sold by an entity. Providers shall apply this 50 percent threshold on a asset-by-asset and service-by-service

basis, rather than on a product line or service line basis. In the case of transactions for assets and services subject to section 272 of the Communications Act of 1934, a Bell operating company may record such transactions at prevailing price regardless of whether the 50 percent threshold has been satisfied.

723-27-13.5 Income taxes shall be allocated among the regulated activities of the provider, its nonregulated divisions and members of an affiliate group. Under circumstances in which income taxes are determined on a consolidated basis by the provider and other members of an affiliated group, the income tax expense to be recorded by the provider shall be the same as would result if determined for the provider separately for all time periods, except that the tax effect of carry-back and carry-forward operating losses, investment tax credits or other tax credits generated by operations of the provider shall be recorded by the provider during the period in which applied in settlement of the taxes otherwise attributable to any member, or combination of members, of the affiliated group.

723-27-13.65 ~~Manual Content.~~ All providers, except small LECs and interexchange providers, must ~~include in their cost-segregation manuals~~ **PROVIDE TO THE COMMISSION** a statement identifying affiliates that engage in transactions with the provider. They shall describe the nature, terms and frequency of those transactions.

723-27-13.6.15.1 Nature of transactions. The provider must state ~~in its manual,~~ for each service transaction, a description of the nature of the transactions (that is, whether the service involves the provision of services or asset transfers).

723-27-13.6.25-2            Terms of affiliate  
transactions. The provider must state ~~in its manual~~ the terms  
at which the service is provided (that is, at tariff rate,  
prevailing market price, or fully distributed cost).

723-27-13.6.35-3            Frequency of affiliate  
transactions. The provider must state ~~in its manual~~ the  
frequency with which the service is rendered.