

APR 13 1993

Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

In the Matter of )  
 )  
Simplification of the ) CC Docket No. 92-296  
Depreciation Prescription )  
Process )

AT&T REPLY COMMENTS

Pursuant to Section 1.415 of the Commission's Rules, 47 C.F.R. § 1.415, and the Commission's Depreciation NPRM in this proceeding,<sup>1</sup> American Telephone and Telegraph Company ("AT&T") hereby replies to comments by other parties on the Commission's proposals in this docket to simplify the procedures, and reduce the costs, associated with the depreciation prescription process.<sup>2</sup>

The comments confirm AT&T's showing that the Commission's proposed "price cap carrier option" should be implemented for AT&T's depreciation prescription process because AT&T's capped interstate rates are unaffected by its depreciation level, and because in the highly competitive interexchange marketplace the level of AT&T's depreciation expenses for regulatory purposes could not, in all events, affect the rates charged by

<sup>1</sup> Simplification of the Depreciation Prescription Process, CC Docket No. 92-296, Notice of Proposed Rulemaking, FCC 92-537, released December 29, 1992 ("Depreciation NPRM").

<sup>2</sup> A list of the commenters is attached as Appendix A.

No. of Copies rec'd  
List A B C D E

24

AT&T to consumers. However, claims by local exchange carriers ("LECs") subject to the Commission's price plan that this same option is also appropriate for prescribing those entities' depreciation are unsupported by the record, and should be rejected.

The comments overwhelmingly concur with the Commission's tentative conclusion in the Depreciation NPRM (¶ 6) that the current depreciation prescription process, which requires preparation and review of voluminous, detailed studies, is unduly burdensome for carriers and the agency alike.<sup>3</sup> Similarly, there is widespread recognition that, as the Depreciation NPRM (¶ 8) also suggested, the present procedure should be modified to make Commission administration and carrier compliance less costly and more efficient.<sup>4</sup> These objectives are shared by state regulators, as well as carriers affected by the current prescription process.<sup>5</sup>

---

<sup>3</sup> See, e.g., Ameritech, p. 2; Bell Atlantic, pp. 3-4; CBT, p. 2; NYNEX, pp. 2, 4.

<sup>4</sup> See, e.g., Pacific Bell and Nevada Bell, p.2; SNET, pp. 3-5.

<sup>5</sup> See, e.g., NARUC, p. 5 n.2 ("[W]e agree that the current FCC prescription process is too complex and detailed, and we support simplification where appropriate"); accord, Michigan PSC, p. 4 (eliminating current detailed depreciation submissions "would produce an administrative savings" and "provide carriers with a greater degree of flexibility than they have experienced" under present regulation); Tennessee PSC, p. 1 ("We support an effort to simplify the existing depreciation process"); Wisconsin PSC,

The parties' pleadings therefore properly focus principally on the proper methods for achieving that goal.

AT&T demonstrated (Comments, pp. 5-8) that the "price cap carrier option" proposed in the Depreciation NPRM is the most (and, indeed, the only) appropriate method for prescribing its depreciation expense. Under

AT&T's showing stands uncontradicted on the record. Although several state commissions and other parties challenge the appropriateness of the price cap carrier option for determining a carrier's depreciation expense, those commenters make these claims in the context of applying that option to the LECs, rather than to AT&T.<sup>7</sup> As the Virginia State Corporation Commission expressly acknowledges (p. 3), the price cap carrier option "would be suitable for AT&T" because its permissible interstate rate levels are not tied to the amount of its depreciation expenses. Similarly, NARUC recognizes (p. 12) that where -- as with AT&T -- the carrier's capped rates are unaffected by the level of its interstate earnings, the price cap carrier option "may well have merit."<sup>8</sup>

---

<sup>7</sup> See NARUC, pp. 11-12 (objection based on affect of option on sharing and low-end adjustment under LEC price cap plan); NYDPS, p. 12 (price cap option "should not be considered for the LECs"); SCA, p. 25 (pointing out that "local exchange carriers may well experience significant future reductions in unit costs" as exchange plant is retired and digital

The record also confirms that reliance on the price cap carrier option to establish AT&T's depreciation expenses is fully consistent with the requirements of the Communications Act. Specifically, it is undisputed that under this methodology the Commission retains the ultimate authority to review the reasonableness of proposed depreciation rates and to prescribe the level of those rates, as required by Section 220(b) of the Act.<sup>9</sup> Moreover, as several parties acknowledge, the proposed notice and comment procedure for evaluating the filed depreciation rates satisfies the Commission's obligation under Section 220(i) to provide affected state commissions a reasonable opportunity to present their views on a carrier's proposed rates.<sup>10</sup> In sum, the comments establish both the appropriateness and lawfulness of using the price cap carrier option to set AT&T's depreciation expenses.

Predictably, those LECs that are subject to price cap regulation contend that this option should also

in the interexchange marketplace.<sup>11</sup> These claims are squarely foreclosed, however, by the Commission's eminently correct findings that there are major differences between the LEC-dominated local exchange markets and the competitive interexchange marketplace.<sup>12</sup>

Equally without merit is the LECs' claim that they should receive the same depreciation treatment as AT&T because their local exchange plant allegedly has characteristics similar to AT&T's interexchange plant.<sup>13</sup> Here again, the underlying premise of these carriers'

---

<sup>11</sup> See Ameritech, pp. 3-4; GTE, p. 7; NYNEX, pp. 2-3; Pacific Bell and Nevada Bell, p. 12; SNET, pp. 2-3; SWBT, pp. 2-3; UTS, p. 3; U S WEST, p. 5; USTA, pp. 2-3.

<sup>12</sup> The Commission has concluded that "there is little competition for LEC access services," and that "the LECs are subject to less competition than is AT&T." See Policy and Rules Concerning Rates for Dominant Carriers, CC Docket 87-313, Report and Order and Second Further Notice of Proposed Rulemaking, 4 FCC Rcd. 2873, 3148 (1989) (¶¶ 572, 574). It has also found that "[t]he market for most interstate services provided by LECs appears to be characterized by less competition than exists in the market for interexchange services." Policy and Rules Concerning Rates for Dominant Carriers, Further Notice of Proposed Rulemaking, 3 FCC Rcd. 3195 (1988) (¶ 147). Even in the present proceeding, the Depreciation NPRM (¶ 8) contrasted the "significant competition in the interexchange market" that affects AT&T with the "emerging competition in the local exchange market" only now beginning to affect the LECs.

<sup>13</sup> The apparent suggestion in the Depreciation NPRM (¶ 15) that AT&T should be grouped with Alascom for purposes of simplified depreciation treatment is likewise mistaken. Unlike AT&T, Alascom exclusively serves a rural, high-cost customer base and is not subject to the Commission's incentive regulation plan.

argument is unfounded. As the Commission itself has recognized,<sup>14</sup> there are in fact significant differences between the LECs and AT&T both in the mix of plant and, even more important, in plant service lives, reflecting the more intensely competitive nature of the interexchange services market. For example, as shown in Appendix B, during the period 1988 through 1991 (the last year for which data are available), AT&T's plant retirement rate was almost three times higher than the LECs' composite rate.

The LECs also do not successfully rebut AT&T's showing (at pp. 9-10) that the sharing and adjustment mechanisms in the LECs' price cap scheme create both the opportunity and incentive for those carriers to alter depreciation levels to affect their earnings levels, and hence their prices. The LECs assert that adherence to Generally Accepted Accounting Principles ("GAAP") and certifications by their independent auditors will be sufficient to preclude such manipulation of their depreciation expense levels.<sup>15</sup> These parties cannot deny, however, that even with such purported controls,

---

<sup>14</sup> See, e.g., Depreciation NPRM, ¶ 15 n.12 (pointing out that AT&T uses digital toll switches, while LECs employ digital technology in local switches).

<sup>15</sup> See, e.g., Ameritech, p. 6; Bell Atlantic, p. 9 n.22; NYNEX, pp. 8-9; Pacific Bell and Nevada Bell, p. 5; USTA, p. 12

the price cap carrier option would confer sufficient latitude on the LECs to change the amount of their depreciation expenses to achieve exactly this result.<sup>16</sup> Indeed, UTS candidly admits (p. 6) that "[a] price cap LEC could use depreciation practices to micromanage earnings and 'game' the sharing process."<sup>17</sup>

In lieu of adopting the price cap option for LECs, the majority of comments support the "base factors range" option, under which the Commission would establish permissible ranges for basic factors that underlie the depreciation rate formula.<sup>18</sup> AT&T agrees with these parties that the base factors range option is the best

---

<sup>16</sup> For example, as BellSouth has acknowledged in another proceeding currently pending before the Commission, increases in its depreciation expenses would have eliminated "much or all of [its] sharing obligation" under the Commission's price cap plan governing the LECs. See BellSouth Comments, p. 9, in AT&T (Petition for Waiver of the Commission's Depreciation Methods and Procedures), AAD 93-18.

<sup>17</sup> There is even less justification for CBT's claim (p. 3) that, in the interest of "simplification of procedures," the price cap carrier option should be extended to LECs that are still regulated under rate of return. Any additional depreciation expenses for these carriers would reduce their earnings dollar for dollar and enable them to increase their interstate access rates by an equivalent amount, without any of the protection to customers afforded by the price cap plan.

<sup>18</sup> See Bell Atlantic, pp. 10-12; CPUC, pp. 2-4; GTE, pp. 11-12; Idaho PUC, p. 3; Michigan PSC, p. 4; NARUC, pp. 6-7; Nebraska PSC, p. 2; NYNEX, pp. 13-19; Oklahoma PUD, p. 6; Pacific Bell and Nevada Bell, pp. 16-20; SCA, pp. 12-6; South Dakota PUC, p. 1; SNET, pp. 17-19; Tennessee PSC, p. 1; UTS, pp. 8-9; U S WEST, pp. 9-11; USTA, pp. 15-21.

alternative for simplifying the Commission's regulation of the LECs' depreciation rates.

WHEREFORE, for the reasons stated above and in AT&T's Comments, the Commission should promptly adopt the price cap carrier option to prescribe AT&T's depreciation rates. The Commission should not adopt that option to prescribe the LECs' depreciation rates, however, in view

LIST OF COMMENTERS

American Telephone and Telegraph Company ("AT&T")  
Ameritech Operating Companies ("Ameritech")  
The Bell Atlantic telephone companies ("Bell Atlantic")  
BellSouth Telecommunications, Inc. ("BellSouth")  
People of the State of California and the Public Utilities  
Commission of the State of California ("CPUC")  
California Cable Television Association ("CCTA")  
Cincinnati Bell Telephone Company ("CBT")  
Colorado Public Utilities Commission  
District of Columbia Office of People's Counsel, Florida  
Office of the Public Counsel, Indiana Office of Utility  
Consumer Counselor, Pennsylvania Office of Consumer  
Advocate ("SCA")  
General Services Administration ("GSA")  
GTE Service Corporation and its affiliated domestic  
telephone operating companies ("GTE")  
Idaho Public Utilities Commission ("Idaho PUC")  
MCI Telecommunications Corporation ("MCI")  
Michigan Public Service Commission Staff ("Michigan PSC")  
Missouri Public Service Commission ("MoPSC")  
National Association of Regulatory Utility Commissioners  
("NARUC")  
Nebraska Public Service Commission ("Nebraska PSC")  
New York State Department of Public Service ("NYDPS")  
New York Telephone Company and New England Telephone and  
Telegraph Company ("NYNEX")  
North Dakota Public Service Commission ("NDPSC")

Oklahoma Corporation Commission, Public Utility Division  
("Oklahoma PUD")

Public Utility Commission of Oregon ("Oregon PUC")

Pacific Bell and Nevada Bell ("Pacific Bell and Nevada  
Bell")

South Dakota Public Utilities Commission ("South Dakota  
PUC")

Southern New England Telephone Company ("SNET")

Southwestern Bell Telephone Company ("SWBT")

Tennessee Public Service Commission Staff ("Tennessee PSC")

Public Utility of Texas ("PUC of Texas")

United States Telephone Association ("USTA")

United Telephone - Southeast, Inc. ("UTS")

U S WEST Communications, Inc. ("U S WEST")

Virginia State Corporation Commission Staff

Washington Utilities and Transportation Commission  
("Washington UTC")

Public Service Commission of Wisconsin ("Wisconsin PSC")

## COMPARISON RETIREMENT RATES\*

	<b>AT&amp;T</b>	<b>RHCs</b>	<b>Total LEC**</b>
	<b>Rate (%)</b>	<b>Rate (%)</b>	<b>Rate (%)</b>
1988	5.6	4.3	4.2
1989	11.4	3.5	3.7
1990	18.8	5.6	5.4
1991	14.8	5.2	5.5
Total	12.8	4.7	4.7

---

\* Source: FCC Annual Statistics of Communications Common Carriers. Rate is defined as plant retired as a percentage of the beginning of the year balance for Account 2001 (Telecommunications Plan in Service).

\*\* Includes Alascom

**CERTIFICATE OF SERVICE**

I, Ann Marie Abrahamson, certify that on this  
13th day of April 1993 the true copy of the foregoing is made

## SERVICE LIST

Floyd S. Keene  
Barbara J. Kern  
Ameritech Operating Companies  
2000 W. Ameritech Center Dr., 4H88  
Hoffman Estates, IL 60196

Christopher W. Savage  
Bell Atlantic  
1710 H Street, N.W.  
Washington, D.C. 20006

William B. Barfield  
M. Robert Sutherland  
BellSouth Telecommunications, Inc.  
1155 Peachtree St., N.E., Suite 1800  
Atlanta, GA 30367

Peter Arth, Jr.  
Edward W. O'Neill  
Ellen S. Levine  
505 Van Ness Avenue  
San Francisco, CA 94102  
Attorneys for the People of the  
State of California and the Public  
Utilities Commission of the  
State of California

Frank W. Lloyd  
Mintz, Levin, Cohn, Ferris,  
Glovsky and Popeo, P.C.  
701 Pennsylvania Ave., N.W., Suite 900  
Washington, D.C. 20004  
Attorneys for California Cable  
Television Association

Thomas E. Taylor  
William D. Basket III  
Christopher J. Wilson  
Frost & Jacobs  
2500 PNC Center  
201 East Fifth Street  
Cincinnati, OH 45202  
Attorneys for Cincinnati Bell  
Telephone Company

Robert E. Temmer, Chairman  
Colorado Public Utilities Commission  
Office Level 2 (OL-2)  
1580 Logan Street  
Denver, CO 80203

Michael McRae  
District of Columbia  
Office of People's Counsel  
1133 15th St., N.W., Suite 500  
Washington, D.C. 20005

Charles Beck  
Earl Poucher  
Florida Office of Public Counsel  
812 Claude Pepper Building  
111 West Mochian Street  
Tallahassee, FL 32399

Allie B. Latimer  
Vincent L. Crivella  
Michael J. Ettner  
General Services Administration  
18th & F Sts., N.W., Room 4002  
Washington, D.C. 20405

Richard McKenna HQE03J36  
GTE Service Corporation  
P. O. Box 152092  
Irving, TX 75015-2092

Gail Polivy  
GTE Service Corporation  
1850 M St., N.W., Suite 1200  
Washington, D.C. 20036

Stephanie Miller  
Director of Utilities  
Idaho Public Utilities Commission  
Statehouse  
472 West Washington Street  
Boise, ID 83702

Tim Seat  
Indiana Office of Utility Consumer  
100 N. Senate Ave., Room N501  
Indianapolis, IN 46204

Elizabeth Dickerson  
Manager, Regulatory Analysis  
MCI Telecommunications Corporation  
1801 Pennsylvania Avenue, N.W.  
Washington, D.C. 20036

Ronald G. Choura  
Policy Division  
Michigan Public Service Commission  
6545 Mercantile Way  
P. O. Box 30221  
Lansing, MI 48909

Eric Witte  
Assistant General Counsel  
Missouri Public Service Commission  
P. O. Box 360  
Jefferson City, MO 65102

Paul Rodgers  
Charles D. Gray  
James Bradford Ramsay  
National Association of Regulatory  
Utility Commissioners  
1102 ICC Building  
P. O. Box 684  
Washington, D.C. 20044

Frank E. Landis, Chairman  
Nebraska Public Service Commission  
300 The Atrium  
Lincoln, NE 68508

William Cowan  
General Counsel  
New York State Department of  
Public Service  
Three Empire State Plaza  
Albany, NY 12223

Mary McDermott  
Campbell L. Ayling  
NYNEX Telephone Companies  
120 Bloomingdale Road  
White Plains, NY 10605

Susan E. Wefald  
Leo M. Reinbold  
Bruce Hagen  
Public Service Commission  
State of North Dakota  
State Capitol  
Bismarck, ND 58505

Maribeth D. Snapp  
Deputy General Counsel  
Oklahoma Corporation Commission  
Public Utility Division  
400 Jim Thorpe Office Building

Oklahoma City, OK 73105  
Ron Eachus  
Joan H. Smith  
Roger Hamilton  
Oregon Public Utility Commission  
550 Capitol St. NE  
Salem, OR 97310-1380

James P. Tuthill  
Lucille M. Mates  
Pacific Bell/Nevada Bell  
140 New Montgomery St., Room 1526  
San Francisco, CA 94105

James O. Wurtz  
Pacific Bell/Nevada Bell  
1275 Pennsylvania Ave., N.W.  
Washington, D.C. 20004

Philip F. McClelland  
Laura Jan Goldberg  
Pennsylvania Office of Consumer Advocate  
1425 Strawberry Square  
Harrisburg, PA 17120

Laska Schoenfelder  
Kenneth Stofferahn  
James A. Burg  
South Dakota Public Utilities Commission  
500 East Capital Avenue  
Pierre, SD 50701

Linda D., Hershman  
Vice President-External Affairs  
The Southern New England  
Telephone Co.  
227 Church Street  
New Haven, CT 06510

James E. Taylor  
Richard C. Hartgrove  
Bruce E. Beard  
Southwestern Bell  
Telephone Company  
One Bell Center, Suite 3520  
St. Louis, MO 63101

Austin J. Lyons, Director  
Telecommunications Division  
Tennessee Public Service Commission  
460 James Robertson Parkway  
Nashville, TN 37243-0505

**Rowland L. Curry, Director**  
**Telephone Utility Analysis Division**  
**Public Utility Commission of Texas**  
**7800 Shoal Creek Blvd.**  
**Austin, TX 78757**

**Martin T. McCue**  
**Vice President & General Counsel**  
**United States Telephone Association**  
**900 19th Street, N.W., Suite 800**  
**Washington, D.C. 20006-2105**

**Jay C. Keithley**  
**United Telephone-Southeast, Inc.**  
**1850 M St., N.W., Suite 1100**  
**Washington, D.C. 20036**

**W. Richard Morris**  
**United Telephone - Southeast, Inc.**  
**P. O. Box 11315**  
**Kansas City, MO 64112**

**James T. Hannon**  
**U S WEST Communications, Inc.**  
**1020 19th St., N.W., Suite 700**  
**Washington, D.C. 20036**

**Edward C. Addison**  
**William Irby**  
**Virginia State Corporation Commission Staff**  
**P. O. Box 1197**  
**Richmond, VA 23209**

**Sharon L. Nelson**  
**Richard D. Casad**  
**Washington Utilities & Transportation Commission**  
**Post Office Box 47250**  
**Olympia, WA 98504-7250**

**Scot Cullen**  
**Clarence Mouglin**  
**Public Service Commission of Wisconsin**  
**4802 Sheboygan Avenue**  
**Post Office Box 7854**  
**Madison, WI 53707-7854**