current basic factors and found them to be reasonable.[104] We sought comment on a width of one standard deviation because, under a normal distribution pattern, a majority of the carriers' basic factors would fall within that range.

62. After careful consideration of the comments and analysis of many of the basic factors underlying current rates, we believe that our proposal may be too rigid. Our analysis indicates that, because of variances among LECs' basic factors, a range width of one standard deviation around the mean could be either too narrow or too wide for some accounts. Moreover, because we will review ranges on a schedule that will not coincide with every carrier's represcription schedule,[105] we believe we should, when appropriate, consider company retirement and modernization plans to determine whether there are technological trends that might not be fully reflected in all of the carriers' current rates. Therefore, in establishing ranges, we will start with ranges of one standard deviation around an industry-wide mean of basic factors underlying currently prescribed rates. From that point, we will consider other factors such as the number of carriers with basic factors that fall within this initial range and future LEC plans in determining the actual range width for any one account.

c. Accounts for Which Ranges will be Established

(1) Introduction

63. In the Notice, we sought comment on whether we should adopt ranges for all accounts.[106] We tentatively concluded that we should not because we believed that the divergence of basic factors from company to company made a number of accounts less adaptable to ranges. We sought comment on this conclusion and on criteria to be used in the selection of range accounts.

(2) Comments

64. All carriers support adoption of ranges for all accounts, arguing that there would be little measurable savings without ranges for all accounts.[107] They also contend that establishing ranges for all accounts eliminates yet another regulatory hurdle -- establishing criteria and reviewing accounts to determine whether they meet the criteria. The state

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[104] However, as we have stated previously, because the basic factors are estimates, they are subject to the exercise of reasonable judgment. By establishing ranges, we recognize this fact, and give carriers more flexibility in the final exercise of this reasonable judgment.

[105] Although we intend to establish ranges for all accounts if feasible and will allow carriers to move within those ranges annually, we will continue the three year represcription cycles for carriers because ranges will not be established all at once and not all carriers will use ranges for all accounts.

[106] Notice, 8 FCC Rcd at 148-149, para. 16.

[107] See e.g., Pacific Comments at 6; and SNET Comments at 18. See also USTA Comments at 17.

commissions generally support ranges for less than all of the accounts.[108] They suggest a wide range of criteria for determining which accounts are appropriate for range selection. For example, the Missouri Commission suggests that only accounts that individually constitute less than 2% of total plant investment company-wide be used.[109]

(3) Discussion

65. We believe that establishing ranges for all accounts would further our administrative savings goal for this proceeding. We will therefore, to the extent feasible, establish ranges for all plant accounts.[110] However, because we wish to implement this range approach for 1994, we find it impracticable to have ranges established for all accounts at once. With limited staff and resources, the analysis necessary to establish ranges for all accounts by 1994 cannot be completed. Thus, we direct the Common Carrier Bureau to identify those accounts readily adaptable to the range approach and recommend them to us so that we may invite comment on the initial ranges for those accounts for implementation in 1994. We further direct the Bureau to establish ranges for the remaining plant accounts where feasible and as soon as possible.

d. Range Participation

(1) Introduction

66. In the Notice, we proposed to mandate ranges for all carriers. We reasoned that our ranges would provide sufficient flexibility for carriers so that mandatory participation would be reasonable.[111] At the same time, we recognized that some carriers' basic factors initially would fall outside of the established ranges, and we would need to move these carriers' factors toward the ranges gradually. Also, we conceded that, in certain situations,

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108 See e.g., Missouri Commission Comments at 2; New York Commission Comments at 9; and South Dakota Commission Comments at 1. But see Indiana Commission Comments at 5.

109 Missouri Commission Comments at 2. Other suggested criteria include the amount of variance in basic factors among carriers and the extent to which accounts are affected by rapid technological or competitive changes.

110 There are a few plant accounts for which it is technically difficult, and not feasible for 1994, to establish ranges because we have allowed the carriers flexibility in how the accounts are studied for depreciation purposes. For example, carriers are allowed to subdivide their buildings account and estimate lives for each category, although only one rate is prescribed for the account. As a result, there are a wide variety of categorization schemes --some categorize based on the size of the buildings, some by location, and others based on the use of the building. Because of the great differences among the categorization schemes, the projection lives among the companies are currently incompatible. If we are to establish ranges for this account, we must examine the categorization schemes in depth to ascertain the feasibility and desirability of ranges.

111 Notice, 8 FCC Rcd at 149, para. 17.

some carriers' basic factors would need to remain outside the ranges established. We also proposed to limit LECs' ability to move within the ranges. We sought comment on each of these issues.

(2) Comments

67. There is no general consensus on this issue. A number of parties conclude that the use of ranges should be mandatory,[112] while others argue that they should be optional.[113] A third position is to make ranges optional, but to not allow a carrier that has selected ranges to later opt out of them.[114] However, all parties generally agree that carriers should be required to use ranges when feasible.

68. There is general agreement among a majority of the parties that, if the Commission mandates the use of ranges, carriers with current basic factors outside the ranges should be allowed to move into the ranges over time, a phase-in approach.[115] The commenters differ over the length of the phase-in period; some argue for a three-year transition period to coincide with a carrier's next depreciation prescription,[116] while others contend that a longer phase-in period with LEC discretion for transitioning into the ranges is appropriate.[117]

69. There is also general agreement that, if the Commission mandates ranges, a waiver process would be required. However, the parties differ over the appropriate waiver standard. For example, the Michigan Commission Staff and Pacific agree that a waiver should not be granted except under unique circumstances such as when there is a significant divergence between expected depreciation expenses and depreciation expenses resulting from use of the ranges.[118] The Oklahoma Commission Staff and the New Jersey Commission Staff suggest a waiver standard that incorporates state action affecting depreciation.[119] USTA argues that a carrier should always have the right to

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112 Michigan Commission Staff Comments at 5; New Jersey Commission Staff Comments at 5; Pacific Comments at 18; and SNET Comments at 18-19.

113 NARUC Comments at 6; NYNEX Comments at 14; and Utah Commission Comments at 2.

114 See California Commission Comments at 4.

115 See e.g., New York Commission Comments at 9; Pacific Comments at 19; USTA Comments at 18; and Washington Commission Comments at 3.

116 See e.g., Colorado Commission Comments at 15; and Utah Commission Comments at 2. The SCA proposes a three-year transition period with percentage adjustments specified each year -- 33% adjustment from current rates allowed each year. SCA Comments at 14.

117 See e.g., Pacific Comments at 19; and US West Comments at 11.

118 Michigan Commission Staff Comments at 5; and Pacific Comments at 18.

119 New Jersey Commission Staff Comments at 5; and Oklahoma Commission Staff Comments at 4.

request factors outside ranges, but should be required to make a showing using the current depreciation study requirements.[120]

70. Finally, parties address the issue of whether carriers should be allowed to move within established ranges if their current basic factors for an account fall within that range, both initially and thereafter. A few state commissions recommend limiting carriers to their current basic factors for their initial range selection.[121] The LECs argue that they should be allowed to choose any basic factor within a range initially.[122] The LECs also contend that after their initial range selection, they should be able to select any basic factor from within the range on an annual basis.[123] BellSouth reasons that additional flexibility is warranted in light of the price cap regulatory scheme, and current safeguards such as GAAP and ARMIS.[124] The state commissions are divided; a few agree that the LECs should be given additional flexibility,[125] but others would limit the flexibility by imposing a limit on the percentage change a carrier could make within the range.[126] Moreover, several state commissions would allow a carrier to change its basic factors only at the time of a new depreciation prescription.[127]

(3) Discussion

71. After careful consideration, we believe that we should not force carriers to use the basic factors within established ranges if their basic factors are now outside the ranges because of the Commission's long-held principle that an asset should be depreciated on a straight-line basis over the life of that asset.[128] That is, plant costs should be allocated to

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[120] USTA Comments at 18.

[121] See e.g., Colorado Commission Comments at 14; Michigan Commission Staff Comments at 5; and Utah Commission Comments at 3.

[122] See e.g., Pacific Comments at 19; and United Comments at 9. See also Wisconsin Commission Comments at 3.

[123] See e.g., BellSouth Comments at 36-38. See also CBT Comments at 11-12.

[124] See BellSouth Comments at 38.

[125] See e.g., Wisconsin Commission Comments at 3. See also NARUC Comments at 7.

[126] See e.g., Michigan Commission Staff Comments at 5; Colorado Commission Comments at 15; and Utah Commission Comments at 3. These commenters do not propose a specified percentage change.

[127] See e.g., Idaho Commission Comments at 4; Indiana Commission Comments at 5; and Missouri Commission Comments at 3.

[128] See 47 C.F.R. § 32.2000(g)(1)(i) ("depreciation percentage rates shall be computed in conformity with a group plan of accounting for depreciation and shall be such that the loss in service value of the property ... may be distributed under the straight-line method during the service life

depreciation expense at a rate representative of the consumption of the plant. If a projection life range of 20 - 25 years was established for a particular account, but a carrier, because of its unique circumstances, is currently using a 10 year projection life, forcing the carrier to use a life within the range would violate this principle. Prescribing depreciation rates that allocate plant costs over the useful life of plant is central to our depreciation policy. Thus, a carrier should use the basic factors that reflect its company operations. Obviously, if a carrier is using a 10 year life because of its unique circumstances, we have reviewed that company's operations and plans and determined that the 10 year life is consistent with such plans. Because we will not mandate the use of ranges for carriers outside the ranges, we need not address the issue of a transition period for moving carriers' basic factors within the ranges.

72. The basic factor range option we adopt today should achieve simplicity, conserve resources, and allow LECs greater flexibility in the depreciation process while remaining consistent with the public interest. We will allow a LEC to seek to change basic factors within the ranges as long as (1) the basic factors underlying that carrier's current rate for an account are within the established ranges and (2) the basic factors proposed to be used for a new rate are within the established range. If these conditions are met, the carrier will only be required to submit the streamlined data, as determined by the Common Carrier Bureau,[129] in its request for a new depreciation rate. Additionally, for range accounts, LECs may seek to change basic factors on an annual schedule as opposed to the current triennial schedule. However, in order to ensure adequate time for us to conduct our represcription proceeding, LECs must file for those changes by April 1 of the year in which new rates are sought. Finally, consistent with our current annual update process, carriers must update all plant accounts at the time they propose any new rate for a range account.[130]

73. We believe this approach is reasonable because the factors that will be the basis for establishing the ranges will have been analyzed and found generally reasonable. We further ensure the reasonableness of the ranges by seeking comment on them. The added degree of flexibility given by this approach means that for any carrier with a prescribed rate derived from basic factors within established ranges for an account, a presumption of reasonableness attaches to all basic factors within the established ranges for that account. However, such a presumption is not conclusive. Any proposed basic factor changes, either inside or outside the ranges, should be based on company operations. If a LEC makes a reasonable showing, based on current

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of the property.").

129 We delegate to the Common Carrier Bureau the authority to determine the information to be submitted for these range accounts consistent with our decision here.

130 _See_ Prescription of Revised Percentages of Depreciation pursuant to Section 220(b) of the Communications Act of 1934, as amended, for: American Telephone and Telegraph Company - Long Lines Department, _et al._, _Order_, 96 FCC 2d 257, 268 at para. 33 (1984) ("[w]e can find no reason not to extend this procedure [annual updates] to all accounts to assure that composite rates are kept as current as possible.").

data requirements, that its basic factors should be different from those within established ranges, we would prescribe rates using appropriate basic factors. If other interested parties make reasonable showings that a LEC's operations require the use of basic factors different from those within established ranges or those proposed (although they fall within the ranges), we also would prescribe rates using appropriate basic factors. In either case, the showing would necessarily include a study consistent with our current depreciation analysis process.

74. Finally, we recognize that there may be instances when, for any one account, one basic factor may fall within an established range, but the other does not.[131] We have considered whether to allow a carrier to use the range approach for the factor within the range, but to require the LEC to provide data consistent with the current process to support the factor outside the range. However, because there is an interdependence between the LECs' decisions on appropriate life and salvage estimates,[132] we believe the better approach would be to require a LEC to provide supporting data for both factors consistent with the current depreciation practice. Therefore, if a LEC's current basic factors for any one account do not both fall within the established ranges for that account, the LEC may not use the range approach for that account.

e. Implementation Date for Ranges

(1) Introduction

75. In the Notice, we sought comment on when and how ranges should be implemented. We asked whether we should have a one-time conversion to ranges, or allow carriers to use ranges only after their next prescription.[133] We noted that, although a one time conversion would be expedient, converting all carriers at once might produce such an administrative burden upon regulators and carriers alike that implementation on a staggered basis might be warranted. We invited comment on these issues.

(2) Comments

76. All state commissions commenting on the issue and GTE favor phasing ranges in over the three-year prescription cycle.[134] Other suggestions

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[131] As discussed infra, we are not adopting a range of survivor curves for any range account. Instead, we will require carriers to use company-specific data to determine the appropriate survivor curve to be used for range accounts. The carriers will be required to submit sufficient data to support proposed curves. See infra para. 86.

[132] For example, motor vehicles kept in service for two years and then sold would likely yield higher salvage amounts than motor vehicles retired after ten years of service.

[133] Notice, 8 FCC Rcd at 149, para. 19.

[134] See e.g., GTE Comments at 11; Michigan Commission Staff Comments at 5; and Utah Commission Comments at 2. See also CBT Comments at 12.

include implementing ranges by 1994 for all carriers,[135] or beginning implementation of ranges in 1994, but allowing carriers to move to the ranges at their discretion over a 3 - 5 year period.[136] MCI would allow the range approach to go into effect only after the LEC price cap review is completed.[137]

(3) Discussion

77. We agree that the basic factor range approach should be implemented as soon as practicable. However, given current administrative resources, we are unable to complete a new depreciation prescription for every carrier in 1994. For that reason we set forth the following schedule:

1994 depreciation prescription carriers:

- if a carrier's current basic factors fall within the ranges, the carrier may use the range approach;

- if a carrier's current basic factors fall outside the ranges, the carrier must conduct and submit the regular depreciation analyses (and may show that its basic factors now fall within the established ranges);

- for non-range accounts, the carrier must conduct and submit the regular depreciation analyses.

1995 and 1996 depreciation prescription carriers:

- if a carrier's current basic factors fall within the ranges, the carrier may seek to change a basic factor as long as it is within the range, but the carrier must file for the change by April 1 (consistent with the Common Carrier Bureau's submissions requirements) and must update all other accounts consistent with our annual update process;[138]

- if a carrier's current basic factors fall outside the ranges, the carrier must wait until its next prescription date to show, through a depreciation study, that its basic factors fall within the ranges.

We believe that this approach balances the carriers' interest in simplification and flexibility provided by the range approach, our interest in reasonably allocating scarce administrative resources, and state commissions' right to present their views on depreciation rate changes. We recognize that 1995 and 1996 companies will not be able to make use of ranges for those accounts in which their current basic factors do not fall within the established ranges until their next prescription. However, we believe this minor inconvenience is outweighed by the LECs' ability to use ranges for those

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[135] See e.g., Bell Atlantic Comments at 11; and SNET Comments at 19.

[136] See e.g., Pacific Comments at 19; Southwestern Comments at 18; and USTA Comments at 17.

[137] MCI Comments at 9.

[138] See supra n. 130.

accounts in which their basic factors do fall within the established ranges and our ability to continue to prescribe depreciation rates in a timely fashion.

f. Reviewing and Updating Ranges

(1) Introduction

78. In the Notice, we sought comment on how and when we should review and update the established ranges. We invited comment on the length of time any set of ranges should be in place, the process for updating, and the data to be used for review.[139] One option we proposed was to complete a depreciation review on an industry-wide basis, which would result in carriers analyzing data and company plans and submitting such information for determination of new ranges. We also asked specifically whether we should simplify this review process further by reviewing data at the regional operating company level or by a sampling method.

(2) Comments

79. Commenters overwhelmingly favor a review period of 3 - 5 years.[140] However, at least three LECs would have us conduct an annual review of the ranges for some or all of the accounts.[141] For the actual updating process and the data to be used for review, NARUC argues that the Commission should establish new ranges based on the companies' continuing property records and mortality data.[142] NARUC also states a preference for review of data at the LEC level, but concludes that use of data aggregated at the regional level may have merit.[143] A majority of companies maintains that the Commission should establish new ranges on the basis of benchmark studies of other communications companies, individual company plans, and filings with the Commission.[144] United, however, proposes new ranges based on the recommendation of an informal depreciation review board composed of industry, Commission and state

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[139] Notice, 8 FCC Rcd at 149, para.22.

[140] California Commission Comments at 3 (3 years); CBT Comments at 12 (3-5 years, depending upon the account); Wisconsin Commission Comments at 3 (3 years). Both Utah and the SCA favor a two tier review approach. Utah would have the Commission review accounts impacted by technological changes every three years and other accounts every five years. Utah Commission Comments at 3. The SCA would have the Commission review accounts using ELG every three years and other accounts every five years. SCA Comments at 14-15.

[141] See NYNEX Comments at 18; Pacific Comments at 19; and United Comments at 9.

[142] NARUC Comments at 7.

[143] Id.

[144] See e.g., CBT Comments at 12; and Pacific Comments at 19. See also USTA Comments at 20.

representatives.[145]

(3) Discussion

80. We agree with those commenters who suggest that a three year review period is reasonable. We are persuaded that a three year review is necessary to keep ranges in line with technological, demand, and competitive changes. Therefore, barring unforeseen regulatory, market, or technological changes, we will begin a review of the range set for a given account three years after the range is introduced.

81. We believe it premature to establish an all inclusive list of specific data to be used in our review. Regulatory and market changes may require us to consider a broader range of information than our current process does. However, carriers must continue to maintain continuing property records. If we later determine that a review similar to that which we use today is appropriate, carriers will be required to provide such data.

3. Related Issues

a. Price Cap Treatment of Depreciation Expense

(1) Introduction

82. In the Notice, we tentatively concluded that adoption of this range process will not alter our endogenous treatment of depreciation expense changes. We reasoned that, under the basic factor range option, carriers would continue to exert control over their depreciation rates and expenses because the ranges would reflect the carriers' actual depreciation experience and future plans.[146] We found that this would result in carriers controlling the ranges to approximately the same extent that they control the rate-setting process today. Moreover, we recognized that they would have added control over the basic factors they selected within the ranges, and thus added control over depreciation rates and expenses.[147]

(2) Comments/Discussion

83. No party to this proceeding objects to our conclusion that the basic factor range option does not undercut our analysis supporting endogenous treatment of depreciation expense. We therefore conclude that incorporation of the basic factor range option into the depreciation prescription process does not affect our determination that depreciation expense should be an endogenous cost under price caps.

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[145] United Comments at 9.

[146] Notice, 8 FCC Rcd at 150, paras. 23-24.

[147] Id.

b. Equal Life Group Procedures

(1) Introduction

84. In the Notice, we sought comment on whether we should continue our equal life group (ELG) procedures in light of our proposal to use ranges for all of the basic factors used in the depreciation rate formula. As we explained there, we do not determine a future life expectancy for every asset in every account. Rather, we group assets by age (by vintage) and may further refine the group by subdividing assets of the same age into equal life groups. This grouping procedure is known as ELG. We believe ELG allows for more accurate depreciation than vintage grouping. However, because ELG rates are very sensitive to the survivor curve shape, we have only allowed the use of ELG when the necessary data to determine the curve shape is available for a specific account of an individual carrier.[148] Because we proposed to establish a range of survivor curves for plant accounts based on industry-wide data, we questioned whether this should affect our continued use of ELG.

(2) Comments

85. A majority of state commissions commenting on this issue advocates eliminating the use of ELG because company-specific data would not be used to develop the actual survivor curve selected by a carrier.[149] Moreover, these parties argue that eliminating ELG will greatly simplify the current depreciation prescription process.[150] The companies argue for the continued use of ELG.[151] USTA contends that ELG rates would not be materially affected by the use of industry curves.[152] CBT states that the Commission could devise one standard curve for each account for which ranges will be adopted. This, CBT contends, would allow the Commission to continue to use ELG because a standard curve would create a standard ELG recovery pattern for all carriers.[153]

(3) Discussion

86. Carriers employ various curve fitting techniques to determine the appropriate survivor curves to be used in computing their depreciation

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148 See id. at 150, para. 25, citing, ELG Depreciation Order.

149 See e.g., Colorado Commission Comments at 19; Florida Commission ex parte Comments at 3-4; and Washington Commission Comments at 3.

150 See e.g., Colorado Commission Comments at 19.

151 See e.g., GTE Comments at 11-12; and Pacific Comments at 20.

152 USTA Comments at 21.

153 CBT Comments at 12.

rates.[154] This divergence in curve-fitting techniques makes it impracticable to specify a range of curves that all carriers can apply. In addition, as we stated in the Notice, the use of ELG procedures is premised on the availability of company-specific survivor curves.[155] We have recognized that ELG procedures allow for more timely depreciation.[156] Thus, we find that the most rational approach to these issues is to allow carriers to employ company-specific curves, reflecting their actual experience and current curve-fitting techniques. This approach will allow for the continued use of ELG procedures. Carriers must submit data supporting their curves with their proposed rates for range accounts as required by the Common Carrier Bureau.[157] For non-range accounts, carriers will be required to continue to follow the current process. Because we will not establish ranges of survivor curves, the issue of eliminating ELG is moot.

c. Reserve Deficiencies

(1) Comments

87. A number of parties ask what should happen to current and future reserve deficiencies if any simplification option were adopted. A number of state commissions conclude that, because all of the options give LECs a greater degree of flexibility, LECs should be responsible for any future reserve deficiencies.[158] In effect, these parties argue that any resulting reserve deficiency would be caused by LEC decisions. The LECs, on the other hand, hold that under any option, except perhaps the price cap carrier option,[159] current and future reserve deficiencies would need to be taken care of through the amortization process.[160] They conclude that any reserve deficiency would be caused by regulatory oversight.

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154 For example, most of the BOCs use Gomperts-Makeham curve fitting techniques. The Gomperts-Makeham curves are based on equations that smooth and extend an observed life table. Most of the other LECs use Iowa curves. Iowa curves are standardized tables that are fit to an observed life table by trial and error.

155 Notice, 8 FCC Rcd at 150, para. 25.

156 ELG Depreciation Order, 83 FCC 2d at 281 and 283, paras. 48 and 55.

157 Carriers should continue to use the curves currently determined for those range accounts for which mortality data may not yet definitively describe retirement dispersions.

158 See e.g., California Commission Comments at 4; Colorado Commission Comments at 16; and New York Commission Comments at 10.

159 BellSouth suggests that the price cap carrier option would provide sufficient flexibility for carriers to deal with reserve problems without regulatory intervention. BellSouth Comments at 38-40. But see Southwestern Comments at 20-21.

160 See e.g., BellSouth Comments at 38-40; Southwestern Comments at 20-21; and US West Comments at 13.

(2) Discussion

88. We have already taken steps to correct for reserve deficiencies that may have been caused, in part, by past regulatory decisions.[161] Furthermore, reserve studies do not demonstrate a significant overall LEC reserve deficiency at this time.[162] We also do not find persuasive either position taken by the parties regarding future reserve deficiencies. We believe the better approach is to evaluate any future reserve deficiencies on a case-by-case basis. Although we have adopted a depreciation rate formula that should correct for past inaccuracies in the depreciation process, we cannot say that every potential future reserve problem is, or should be, solved through that formula. We will continue our case-by-case approach.

C. Simplification for AT&T

1. Introduction

89. The Notice suggested that we were considering adopting the same simplification option for AT&T and the LECs. For example, in discussing the implementation issues for the basic factor range option, we sought comment on whether we should adopt separate ranges for LECs and AT&T for any particular account.[163] At the same time, we recognized the differences between AT&T and the LECs in regard to the competitiveness of their markets and their price cap plans.[164]

2. Comments

90. AT&T states that the price cap carrier option is appropriate for it, but not for the LECs.[165] AT&T cites as distinguishing factors the differences in the competitiveness of AT&T's and the LECs' respective markets and the absence of a sharing obligation under AT&T's price cap plan.[166] In addition, a number of state commissions and NARUC indicate that they believe the price cap carrier option "has merit" under a pure price caps system, i.e.,

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161 Amortization of Depreciation Reserve Imbalances of Local Exchange Carriers, Report and Order, 3 FCC Rcd 984 (1988).

162 See supra n.86.

163 Notice, 8 FCC Rcd at 148, para. 15.

164 See id. at 147-148, para. 8 ("significant competition in the interexchange market, emerging competition in the local exchange market") and at 152, para. 40 ("under the LEC price cap scheme, LECs must share earnings with their customers if earnings fall within the specified sharing zone").

165 AT&T Comments at 5-8.

166 Id. In its Reply, AT&T also points out that, for the period 1988-1991, its plant retirement rate was nearly three times greater than the LECs' composite retirement rate. AT&T Reply at Appendix B.

price caps without a sharing component.[167] Moreover, the Virginia Commission Staff expressly states that AT&T should be permitted to use the price cap carrier option.[168] However, the LECs argue that the price cap carrier option should not be turned into the "AT&T option."[169] BellSouth states that AT&T recognizes the benefits of the price cap carrier option, but then AT&T "blithely suggests that only it should be regulated under the [price cap carrier option]."[170] AT&T's suggestion, according to BellSouth is "blatantly self-interested, and must be rejected."[171]

3. Discussion

91. As we have stated, the goals of this proceeding are simplification, administrative savings, and flexibility. We have concluded that the price cap carrier option is the simplest and most flexible option. Moreover, if a carrier is not required to perform detailed depreciation analysis in the intrastate jurisdiction, we believe that this option would produce the most savings. Thus, we would adopt this option for any carrier if other public interest concerns were not raised.

92. After careful consideration of the record, we conclude that AT&T should be allowed to use a modified form of the price cap carrier option. Our reservations about adopting this option for the LECs do not extend to AT&T. AT&T's price cap plan does not include a sharing component. Thus, AT&T will not have an incentive to manage earnings to avoid sharing them with ratepayers. Furthermore, AT&T faces a more competitive market than the LECs.[172] We have recognized this by moving many of AT&T's services into streamlined regulation.[173] Only Basket 1 services, containing residential and small business services, remain fully under price cap regulation. Baskets 2

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167 See California Commission Comments at 9; and NARUC Comments at 12. See also GSA Comments at 3 ("[a]t best, an argument could be made for deregulating AT&T's depreciation rates .. because AT&T is now a competitive enterprise.").

168 Virginia Commission Staff Comments at 3.

169 See e.g., BellSouth Reply Comments at 10-12.

170 Id. at 10.

171 Id.

172 We note that AT&T's recent plant retirement rate is approximately 14.3%, and its composite depreciation rate is approximately 14.1%. In comparison, the LECs' recent composite plant retirement rate is approximately 4%, and their composite depreciation rate is approximately 7.3%.

173 Most of AT&T's basket 2 and 3 services have been streamlined. See Competition in the Interstate Interexchange Marketplace, Report and Order, 6 FCC Rcd 5880 (1991), recon., 6 FCC Rcd 7569 (1991), further recon., 7 FCC Rcd 2677, pets. for recon. pending; see Competition in the Interstate Interexchange Marketplace, Memorandum Opinion and Order on Reconsideration, 8 FCC Rcd 2659 (1993).

and 3 have only one service each remaining under price cap regulation.[174] For these reasons, we find that AT&T should be allowed greater flexibility than the LECs in the depreciation prescription process. Thus, we will adopt a form of the price cap carrier option for AT&T.

93. Although we find that a price cap carrier option is reasonable for AT&T, we believe that AT&T should provide somewhat more information than that proposed in the Notice because such information will help us monitor the effectiveness of AT&T's price cap plan. Under the price cap carrier option proposed in the Notice, a carrier would need only to provide its current depreciation rates, its proposed depreciation rates, and the changes in depreciation expense that would occur if the proposed rates become effective. Under the price cap carrier option we adopt today, AT&T must submit the information set forth in the Notice, plus generation data, a summary of basic factors underlying proposed rates by account, and a short narrative supporting those basic factors, including company plans of forecasted retirements and additions, and recent annual retirements, salvage, cost of removal. These submission requirements are much less burdensome than the current submission requirements; decreasing the filing requirements from approximately 25 pages per account to approximately 5 pages per account.[175] AT&T may also seek revised depreciation rates under this new prescription process annually.

94. We note that in the Notice, we asked whether the proposed price cap carrier option met the requirements of Section 220 of the Communications Act.[176] The parties addressing this issue are divided. The carriers claim that the option as proposed does not violate the Commissions's obligations under Section 220; the state commissions claim that it does. We need not address the issue, however, because we are not adopting that proposal. Moreover, although we do not reach the issue of whether the price cap carrier option as proposed would be legally sufficient pursuant to Section 220, we are confident that the modified plan we adopt today, as applied to AT&T, addresses the concerns raised by the state commissions because this plan will provide us with the information necessary to review AT&T's proposed depreciation rates for reasonableness.

D. Simplification for Alascom

95. As we stated previously, we had considered whether applying the same simplification option to the LECs and AT&T and Alascom would serve the public interest, although we noted the differences among these carriers. No party spoke directly to the issue of which simplification option should be adopted for Alascom; neither Alascom nor the Alaska state commission has participated in this proceeding. After careful consideration, we have determined that simplification for Alascom should be deferred.

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174 The service continuing under price cap regulation in basket 2 is 800 Directory Assistance. The service remaining under price cap regulation in basket 3 is analog private line service.

175 These information submissions should be consistent with the Common Carrier Bureau's depreciation study guide in format, style, and content.

176 Notice, 8 FCC Rcd at 152-153, paras. 41-42.

96. The Alaska interstate interexchange market structure is currently in transition. A Federal-State Joint Board has recently sought comment on a tentative recommendation to the Commission in regard to the provision of interstate interexchange service that directly affects Alascom.[177] In light of this, we will defer simplification for Alascom until the Joint Board makes a final recommendation regarding the changes that should be made in the provision of interstate interexchange service in Alaska.

E. Salvage

1. Introduction

97. In the Notice, we asked whether we should change our approach to salvage and cease to consider it in the depreciation prescription process.[178] Instead, carriers would account for the cost of removal and salvage as current period charges and credits on their regulated books of account. Specifically, carriers would account for cost of removal, when it occurred, as a current period charge and salvage as a current period credit.

2. Comments

98. The record on this issue is mixed. The LECs overwhelmingly oppose this change. For example, GTE and Pacific, among others, argue that to change the accounting treatment of salvage would be inconsistent with GAAP.[179] The state commissions, however do not provide such a united front. Many oppose the change,[180] while others believe the idea has merit, but requires further study.[181] GSA and the SCA give their unqualified support for this change, saying that this will result in greater simplification.[182] Two parties offer alternatives to the accounting change. The Oklahoma Commission Staff suggests that the Commission treat salvage as a separate rate which changes independently of the basic depreciation rate.[183] The Washington Commission, while supporting the proposal in the Notice, offers another approach; it proposes that we eliminate salvage accounting for each individual plant account, and establish a single salvage account applicable to all plant

177 See supra n. 10. That Tentative Recommendation endorses elimination of the Joint Service Arrangement (JSA), subject to the institution of suitable transition mechanisms, between Alascom and AT&T. Under the JSA, AT&T reimburses Alascom for its interstate interexchange costs incurred in the provision of interstate message telephone service and wide area telecommunication service, including a return on investment.

178 Notice, 8 FCC Rcd at 153, para. 43.

179 See GTE Comments at 14; and Pacific Comments at 21-22.

180 See e.g., Michigan Commission Staff Comments at 6; Oregon Commission Comments at 3; and South Dakota Commission Comments at 3.

181 See e.g., Missouri Commission Comments at 6; New York Commission Comments at 9; and Washington Commission Comments at 5.

182 GSA Comments at 8-10; and SCA Comments at 27-30.

183 Oklahoma Commission Staff Comments at 6.

accounts.[184]

3. Discussion

99. We have considered whether we should eliminate the future net salvage determination from the depreciation prescription process and instead consider it in current period accounting. We conclude that we will not change the accounting of salvage amounts based on the record before us. The record is mixed, and is replete with the suggestion that further study is needed to determine if the change could and should be made. Additional issues that would need to be studied include whether the proposed change is consistent with GAAP and whether it will create a matching problem. We find that delaying this simplification proceeding to study whether an accounting change should occur is unwarranted, especially in light of the simplification taking place. Therefore, we will continue to determine the future net salvage value in the depreciation process.

IV. ORDERING CLAUSES

100. Accordingly, IT IS ORDERED, pursuant to Sections 1, 4(i), 4(j), 220, and 403 of the Communications Act of 1934, as amended, 47 U.S.C. §§ 151, 154(i), 154(j), 220(b), 403, that Section 43.43 of the Commission's Rules IS AMENDED, 47 C.F.R. § 43.43, to reflect the changes to our depreciation prescription process as described herein.

101. IT IS FURTHER ORDERED, that the motion for leave to file late filed pleadings by California Cable Television Association IS GRANTED.

102. IT IS FURTHER ORDERED, that pursuant to Section 1.427(a) of the Commission's Rules, 47 C.F.R. § 1.427(a), the amendment to Section 43.43 of the Commission's Rules, 47 C.F.R. § 43.43, shall be effective no later than January 1, 1994.

FEDERAL COMMUNICATIONS COMMISSION

William F. Caton

William F. Caton
Acting Secretary

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184 Washington Commission Comments at 4.

APPENDIX A

Comments Filed

Ameritech Operating Companies (Ameritech)
American Telephone and Telegraph (AT&T)
Bell Atlantic (Bell Atlantic)
BellSouth Telecommunications, Inc. (BellSouth)
California Cable Television Association (CCTA) (late filed comments)
People of the State of California and the Public Utilities Commission of the State of California (California Commission)
Cincinnati Bell Telephone (CBT)
Colorado Public Utilities Commission (Colorado Commission)
Deloitte & Touche (Deloitte & Touche)
General Service Administration (GSA)
GTE Service Corporation and its affiliated domestic telephone operating companies (GTE)
Idaho Public Utilities Commission (Idaho Commission)
Indiana Utility Regulatory Commission (Indiana Commission)
MCI Telecommunications Corporation (MCI)
Michigan Public Service Commission Staff (Michigan Commission Staff)
Missouri Public Service Commission (Missouri Commission)
National Association of Regulatory Utility Commissioners (NARUC)
Nebraska Public Service Commission (Nebraska Commission)
New Jersey Board of Regulatory Commissioners Staff (New Jersey Commission Staff) (late filed comments)
New York State Department of Public Service (New York Commission)
New York Telephone Company and New England Telephone and Telegraph Company (NYNEX)
North Dakota Public Service Commission (North Dakota Commission)
Oklahoma Corporation Commission Public Utility Division Staff (Oklahoma Commission)
Oregon Public Utility Commission (Oregon Commission)
Pacific Bell and Nevada Bell (Pacific)
South Dakota Public Utilities Commission (South Dakota Commission)
Southern New England Telephone Company (SNET)
Southwestern Bell Telephone Company (Southwestern)
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 (State Consumer Advocates or SCA)
Tennessee Public Service Commission Staff (Tennessee Commission Staff)
Public Utility Commission of Texas (Texas Commission)
United States Telephone Association (USTA)
U S West Communications, Inc. (US West)
United Telephone - Southeast, Inc. (United)
Utah Division of Public Utilities (Utah Commission)
Virginia State Corporation Commission Staff (Virginia Commission Staff)
Washington Utilities and Transportation Commission (Washington Commission)
Public Service Commission of Wisconsin (Wisconsin Commission)

Reply Comments Filed

AT&T
Ameritech
Bell Atlantic
BellSouth
Colorado Office of Consumer Counsel (Colorado Consumer Counsel)
Deloitte & Touche
GSA
GTE
International Communications Association (ICA)
Iowa Office of Consumer Advocate (Iowa Consumer Advocate) (late filed comments)
MCI
Minnesota Department of Public Service (Minnesota Commission)
NARUC
NYNEX
Pacific
Southwestern
USTA
US West
United

Ex Parte Filings

Ameritech
Bell Atlantic
BellSouth
Florida Public Service Commission (Florida Commission)
GTE
MCI
NARUC
Pacific
Southwestern
USTA
US West

APPENDIX B

Part 43 of the Commission's Rules and Regulations, 47 C.F.R. Part 43 is amended as follows:

Reports of Communication Common Carriers and Certain Affiliates

1. The authority citation for Part 43 continues to read as follows:

Authority: Sec. 4, 48 Stat. 1006, as amended; 47 U.S.C. 154, unless otherwise noted. Interpret or apply secs. 211, 219, 220, 48 Stat. 1073, 1077, as amended; 47 U.S.C. 211, 219, 220.

2. Section 43.43 is amended by revising paragraph (c) to read as follows:

§ 43.43 Reports of proposed changes in depreciation rates

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(c) Except as specified in subsections (c)(i) and (c)(ii) of this rule, when the change in the depreciation rate proposed for any class or subclass of plant (other than one occasioned solely by a shift in the relative investment in the several subclasses of the class of plant) amounts to twenty percent (20%) or more of the rate currently applied thereto, or when the proposed change will produce an increase or decrease of one percent (1%) or more of the aggregate depreciation charges for all depreciable plant (based on the amounts determined in compliance with paragraph (b)(2) of this section) the carrier shall supplement the data required by paragraph (b) of this section with copies of the underlying studies, including calculations and charts, developed by the carrier to support service-life and net-salvage estimates. If a carrier must submit data of a repetitive nature to comply with this requirement, the carrier need only submit a fully illustrative portion thereof.

(i) A Local Exchange Carrier regulated under price caps, pursuant to §§ 61.41 through 61.49, is not required to submit the supplemental information described above in paragraph (c) of this section for a specific account if: the carrier's currently prescribed depreciation rate for the specific account is derived from basic factors that fall within the basic factor ranges established for that same account; and the carrier's proposed depreciation rate for the specific account would also be derived from basic factors that fall within the basic factor ranges for the same account.

(ii) Interexchange carriers regulated under price caps, pursuant to §§ 61.41 through 61.49, are exempted from submitting the supplemental information as described above in paragraph (c) of this section. They shall instead submit: generation data, a summary of basic factors underlying proposed rates by account and a short narrative supporting those basic factors, including: company plans of forecasted retirements and additions; and recent annual retirements, salvage, and cost of removal.

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Separate Statement
of
Commissioner Ervin S. Duggan

In Re: Simplification of the Depreciation Prescription Process

Today we take a major step toward simplification of the Commission's depreciation prescription process by adopting a "range of basic factors" approach for as many accounts as we feasibly can. I support wholeheartedly the goal of simplifying regulation and conserving resources, both ours and the carriers', if we can do so without risk to consumers.

I also support our plans to explore, in a future proceeding, whether there are ways that we can make our depreciation process more responsive to the accelerating pace of carrier investment in their networks. The local telephone companies increasingly will find themselves impelled--- whether by foresight, competitive realities, or consumer demand--- to speed up infrastructure investment. They face increasing competition on all sides, often from companies lucky enough to be able to start with the newest technology. Consumers also stand on the threshold of an explosion of new services that the latest technology has made possible, and they deserve to benefit from that technology.

As we seek to encourage that, it is essential for the Commission to maintain the close tie between FCC-prescribed depreciation rates and the actual rate of new infrastructure investment by the affected carriers.

Carriers that accelerate their replacement of plant with sophisticated new technology should know that their stepped-up investment will also lead to a step-up in their depreciation expense. The promise of accelerated depreciation provides a strong incentive for carriers to invest in network upgrades--- to install digital switches, fiberoptic cable, and sophisticated signalling technology, for example.

Consumer protection also requires that the link between the rate of actual network investment and the rate of depreciation remain intact. First, that link preserves the integrity of the price caps sharing mechanism. Second, that link ensures that ratepayer revenues attributable to increased depreciation are not being funnelled into other telco endeavors--- or even abroad--- but instead are being pumped into the network. Any plan we adopt in a future proceeding must protect consumer interests as well.

The Commission, in its depreciation policies, must respond to the real world changes that telephone companies are undergoing. We must do so in a way that also continues to protect consumers. I have great confidence that we can accomplish both goals.

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SEPARATE STATEMENT
OF
COMMISSIONER ANDREW C. BARRETT

RE: Simplification of the Depreciation Prescription Process [CC Docket 92-296].

This decision is a substantial step forward in making adjustments to the Commission's depreciation prescription process, but it is clearly not reform. It streamlines the process of setting depreciation rates and provides both AT&T and price cap local exchange carriers needed flexibility in the determination of depreciation rates. These adjustments will result in significant resource savings for both the companies and the Commission. They also respond to the changing marketplace realities of increased competition faced by these carriers and the impact of that competition on the economic lives of their productive assets.

We adopt in this Order the so-called price cap carrier approach for AT&T. Under this approach the company will propose depreciation rates, with substantially reduced supporting information requirements. After receiving comment on the reasonableness of those rates from interested parties, the Commission will prescribe depreciation rates based on AT&T's submission and the comments received. AT&T may seek revision of its depreciation rates annually rather than the previous schedule of every two years.

Ranges for the basic factors that determine depreciation rates will be established for local exchange carriers under interstate price cap regulation. Carriers using basic factors within these established ranges will not need to submit the detailed supporting data required under the current scheme. Further, carriers may seek to change these basic factors annually, as opposed to the current triennial represcription cycle.

I am gratified that the Commission indicates its willingness to consider additional adjustment with an eye toward reform of its depreciation practices as changing circumstances warrant. In particular, the Order notes that elimination of the rate-of-return based sharing backstop for price cap LECs, or lack of LEC's ability to manipulate this to ratepayer's detriment, would warrant reexamination of the appropriate depreciation prescription process for these carriers. So while this is a step in the right direction, much will be needed as the environment continues to change.