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BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

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DEC - 6 1993

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of	)	
	)	
Simplification of the Depreciation Prescription Process	)	CC Docket 92-296
	)	
	)	

PETITION FOR RECONSIDERATION AND CLARIFICATION OF SOUTHWESTERN BELL TELEPHONE COMPANY

Southwestern Bell Telephone Company (SWBT), by its attorneys, files this Petition requesting reconsideration and clarification of the Commission's October 20, 1993 Depreciation Simplification Order.[1] The Commission has sought to achieve three goals in this proceeding: simplification of the depreciation prescription process, administrative savings and flexibility, while continuing to ensure just and reasonable tariffed rates.[2] SWBT continues to believe that the best means of achieving these goals and providing the maximum amount of simplification and flexibility in the long run would be through the adoption of Option D, the Price Cap Carrier Option. The Commission, however, notes in the Depreciation Simplification Order that it is "unable to conclude that the LECs are yet in a position that justifies a depreciation prescription policy as flexible and streamlined as the price cap carrier option" and, thus, adopts instead the basic factor range

[1] In the Matter of Simplification of the Depreciation Prescription Process, CC Docket 92-296, Report and Order (Released October 20, 1993). (Depreciation Simplification Order).

[2] Depreciation Simplification Order, para. 3.

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approach for price cap LECs.[3] Although SWBT does not agree with the Commission's conclusion that the current circumstances do not justify the price cap carrier option, we are encouraged by the Commission's express willingness to revisit the issue as circumstances change.[4]

In the interim, the basic factor range approach adopted in the Depreciation Simplification Order can provide some measure of simplification and flexibility. As SWBT demonstrated in its September 10, 1993 ex parte, a range-type approach could only be effective if: 1) the ranges applied to all accounts; 2) represcriptions were allowed annually; 3) the ranges were sufficiently broad; and 4) the carriers had significant flexibility to move within the ranges with limited filing requirements. Based on the Commission's Depreciation Simplification Order and subsequent ex parte discussions with the United States Telephone Association, SWBT believes that the Commission has made an attempt to satisfy these requirements. Consequently, the range approach adopted does provide potential benefits over the current represcription procedure. However, to provide maximum benefit under the range approach, SWBT respectfully suggests that there are additional opportunities to realize the benefits the Commission seeks. To that end, SWBT requests modifications and clarification of the basic factor range approach and, thus, files this Petition.

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[3] Depreciation Simplification Order, para. 5.

[4] See, Depreciation Simplification Order, paras. 5, 27, 28, 44.

I. THE COMMISSION SHOULD SIMPLIFY THE METHODOLOGY FOR MOVEMENT FROM ABOVE THE RANGE INTO THE RANGE.

A. Simplified Justification Should Be Sufficient To Move From Above High End Of Factor Range Into the Range.

Under the basic factor range option adopted by the Commission a LEC seeking to change basic factors for a range account will only be required to submit streamlined data, as determined by the Common Carrier Bureau, if 1)the basic factors underlying the 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.[5] Since a simplified form of justification for movement within the range is already being required by the Commission, SWBT submits that the same level of justification is adequate for movement from above the range into the range.[6] The range will be prescribed by the Commission as representing a reasonable set of values. If a LEC is above the range and believes that circumstances warrant a move downward into the range, its situation is not significantly different than the carrier who is within the range and is wanting to move within the range. Allowing carriers who are above the range and wish to move into the range to file simplified justification would increase simplification and further reduce administrative burden while retaining regulatory oversight.

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[5] Depreciation Simplification Order, para. 72.

[6] "High end" or "above the range" in this proceeding refers to longer lives and higher future net salvage. These higher values result in lower depreciation rates. Conversely, lower values result in higher depreciation rates.

B. The Fact That One Basic Factor May Not Fall Within The Established Range Should Not Preclude The Use Of The Range Approach For The Factor Within The Range.

The Depreciation Simplification Order provides that if one basic factor for an account falls within the established range and the other does not, the carrier will be precluded from using the range approach for that account.[7] Thus, the carrier will be forced to provide a full study for both factors even though the one factor falls within the Commission's prescribed range.[8] Although life and salvage estimates are certainly interrelated in the development of depreciation rates, the underlying data used to estimate the actual values of each are not so interrelated as to require the use of current depreciation procedures to justify both.

The example given in the Depreciation Simplification Order to support the position that there is a sufficient interdependence between appropriate life and salvage estimates to preclude the use of the range approach for one factor is not correct. The example, given in Footnote 132, is that "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."[9] If a motor vehicle is retired after only two years, it should be because of physical wear or technological obsolescence. Therefore, it would not yield a higher salvage value

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[7] Depreciation Simplification Order, para. 74.

[8] Id.

[9] Depreciation Simplification Order, ftn. 132.

than a ten-year old vehicle retired for the same reasons. Copper cable is also illustrative of this point: 50-year old cable will generally have the same salvage value as 5-year old cable.

The requirement that current depreciation procedures must be performed for both factors if one factor is outside the range precludes the use of the simplification process in over one-third of the range accounts in the majority of SWBT's jurisdictions. Allowing the range approach to be used for that factor which is currently within the range, and meeting the current study requirements for only the factor outside the range, allows for at least partial use of the process for nearly all range accounts in all jurisdictions. Thus, allowing the partial use for those factors within the range would further support the Commission's goals of wide applicability and administrative savings, without sacrificing reasonableness of the resultant rates.

II. THE COMMISSION SHOULD ADOPT A BIANNUAL REVIEW OF RANGES.

The Depreciation Simplification Order calls for a triennial review of the ranges to insure that "technological, demand and competitive" changes are recognized.[10] The initial ranges are to be based on currently prescribed parameters[11] rather

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[10] Depreciation Simplification Order, para. 80.

[11] Depreciation Simplification Order, para. 62.

than forward looking data from industry-wide studies or from any carrier's recently filed studies as suggested by some commentors.[12]

By using data from the most recent series of three way represcriptions (1990-1992) and not updating the initial ranges until 1996 (3 years from 1993), some of the bases for the ranges will be six years old by the time of the update. The factors are more dynamic and require more frequent review. Significant changes in the market have occurred since 1990 (e.g., collocation and intraLATA toll competition), and the velocity of changes will likely increase by 1996. These market changes have a marked impact on the life and salvage factors. Ranges based on six-year old data will be of questionable applicability for simplified represcriptions. Thus, SWBT proposes that at least a biannual review based on current data from the last three represcription years is more reasonable than a triennial review.

III. THE COMMISSION SHOULD NOT REQUIRE THAT ALL PLANT ACCOUNTS BE UPDATED WHEN A CARRIER PROPOSES A NEW RATE FOR A RANGE ACCOUNT.

The Commission states that "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."[13] SWBT requests that the Commission reconsider this requirement because it is contrary to the Commission's goals of simplicity, administrative

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[12] Depreciation Simplification Order, para. 59.

[13] Depreciation Simplification Order, para. 72.

savings and flexibility.[14] The annual update process can be and often is punitive as it can reduce a LEC's overall capital recovery. At a time when recovery is critical, carriers will, when faced with the opportunity to seek movement within the ranges, opt between not seeking the movement or seeking the movement and filing full depreciation studies on its nonrange accounts rather than annual updates so as to avoid reductions in capital recovery. Thus, the benefits of simplification, administrative savings and flexibility are lost under this requirement. Instead, SWBT proposes that the rates for the nonrange accounts be frozen so as to avoid reduction in overall capital recovery.

In addition, if the Commission continues to require the filing of annual updates for all other accounts if movement is sought in a range account(s), it should clarify that an annual update is not required for range accounts in which no movement is sought. For example, if a carrier has 20 range accounts and 15 nonrange accounts and is seeking movement only in 5 of the 20 range accounts, the Commission should clarify that annual updates are not required for the fifteen range accounts for which no movement is sought. To require otherwise would be inconsistent with the Commission's goals because the Commission has already established the ranges as reasonable.

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[14] Depreciation Simplification Order, para. 3.

IV. THE COMMISSION SHOULD CLARIFY WHAT TYPE OF DATA IS REQUIRED TO SUPPORT SURVIVOR CURVES.

SWBT seeks clarification as to what the type of data will be required to support survivor curves for range accounts versus nonrange accounts. Paragraph 86 of the Depreciation Simplification Order implies that a different level of data is required to support curves for range accounts than for nonrange accounts. SWBT does not understand what different data is required or why there would be a difference and thus requests clarification.

V. CONCLUSION

Although SWBT believes that the Commission's goals and the public interest would best be served by adoption of Option D, the Price Cap Carrier Option, it also acknowledges that potential benefits are inherent in the basic factor range option adopted. SWBT also recognizes the need to adopt an approach which will gain the acceptability of the state commissions. Given the Commission's decision to adopt the basic range option, SWBT urges the Commission to improve and clarify the option adopted as noted herein.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I, Katie M. Turner, hereby certify that the foregoing "Petition for Reconsideration and Clarification of Southwestern Bell Telephone Company" in CC Docket No. 92-296 has been filed this 6th day of December 1993.

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