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Before the FCC MAIL SECTION  
Federal Communications Commission  
Washington, D.C. 20554  
OCT 13 3 25 PM '94

FCC 94-256

In the Matter of )  
)  
Simplification of the )  
Depreciation Prescription )  
Process )

DISPATCHED BY  
CC Docket No. 92-296

**Further Order Inviting Comments**

**Adopted:** October 7, 1994

**Released:** October 11, 1994

**Comment Date:** November 14, 1994

**Reply Comment Date:** December 14, 1994

By the Commission:

**I. INTRODUCTION**

1. On September 23, 1993, we adopted streamlined depreciation prescription procedures for the local exchange carriers ("LECs") regulated under our price cap incentive regulatory plan.<sup>1</sup> These procedures require us to establish ranges for the future net salvage and projection life estimates that are used to compute depreciation rates for plant categories.<sup>2</sup> The new procedures generally permit price cap LECs to make streamlined filings for changes in depreciation rates for these categories, as long as these estimates fall within the prescribed ranges. In our Second

<sup>1</sup> Simplification of the Depreciation Prescription Process, Report and Order, 8 FCC Rcd 8025 (1993) (Depreciation Simplification Order).

<sup>2</sup> Rates are determined by a depreciation rate formula:

$$\text{Depreciation Rate} = \frac{100\% - \text{accumulated depreciation\%} - \text{future net salvage\%}}{\text{average remaining life}}$$

This formula requires forecasting two parameters: future net salvage (FNS) and average remaining life (ARL). The FNS is the estimated gross salvage of the plant less any estimated cost of removal. The ARL is the estimated average of the future life expectancy of investment in a particular plant account. The ARL is derived from two basic factors: a projection life and a survivor curve. The projection life is the life expectancy of new additions to plant, whereas the survivor curve describes the percentage of plant investment surviving at each age that the plant is in service. Id. at 8030.

Report and Order,<sup>3</sup> we adopted underlying factor ranges for 22 depreciation rate categories. By this Further Order Inviting Comments, we invite comments on our proposals for setting ranges for the remaining 12 plant categories.

## II. BACKGROUND

2. Prior to adoption of the Depreciation Simplification Order, the depreciation prescription process required carriers to submit extensive data to support the underlying depreciation basic factors that are the future net salvage, projection life, and survivor curve estimates used to compute proposed depreciation rates.<sup>4</sup> These data requirements often resulted in voluminous submissions, consisting of up to 25 pages of analysis for each of 34 plant categories. In recognition of the regulatory, technological, and market changes that price cap LECs face, we decided to simplify the process by establishing ranges that specify maximum and minimum amounts for two of the basic depreciation factors, the future net salvage and projection life estimates.<sup>5</sup> Under our new process, if a price cap LEC meeting the requisite criteria<sup>6</sup> selects future net salvage and projection life estimates that are within the established ranges, it need not submit the detailed supporting data otherwise required.<sup>7</sup> In addition, under the new procedures, price cap LECs can change these basic factors annually, as opposed to the current triennial represcription cycle.<sup>8</sup> These streamlined procedures are intended to simplify the depreciation process, achieve administrative savings, and allow the price cap LECs greater flexibility in the depreciation process, while continuing an appropriate oversight of their depreciation rates.<sup>9</sup>

3. We determined that the new, streamlined procedures should be implemented in two phases, beginning with the accounts most readily adaptable to the range approach. We have

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<sup>3</sup> Simplification of the Depreciation Prescription Process, Second Report and Order, 9 FCC Rcd 3206 (1994).

<sup>4</sup> See Simplification of the Depreciation Prescription Process, Notice of Proposed Rulemaking, 8 FCC Rcd 146, 147 (1993).

<sup>5</sup> Depreciation Simplification Order, 8 FCC Rcd at 8026.

<sup>6</sup> There are two prerequisites for using the streamlined procedures. First, the basic factors underlying the price cap LEC's current depreciation rate for an account must be within the established ranges. If the basic factors are not within the established ranges, the price cap LEC must submit a full depreciation study to move the basic factors within the established ranges before it can use the streamlined procedures. Second, the basic factors proposed to be used for a new depreciation rate must also be within the established ranges. Id. at 8054-55.

<sup>7</sup> Id. at 8035, 8054-55. We delegated to the Common Carrier Bureau the authority to determine the filing requirements for range accounts consistent with our decision Id. at 8054, n.129.

<sup>8</sup> Id. at 8054.

<sup>9</sup> Id.

completed phase one of the streamlining process and adopted ranges for 22 plant categories.<sup>10</sup> We now begin phase two by proposing ranges for eight of the remaining categories. If we implement these proposals, we will have established ranges of projection life and future net salvage factors for 30 of the 34 plant categories. These plant categories represent 85% of the total plant investment. In addition, we propose in this notice alternate simplified procedures for the other four accounts. We solicit public comment on the following proposals for phase two.

### III. DISCUSSION

#### A. Accounts For Which Ranges Are Proposed

4. We propose to establish ranges for eight of the remaining twelve plant categories. (See Appendix). In the Depreciation Simplification Order, we set forth a number of specific data that should be considered in establishing the projection life and future net salvage ranges,<sup>11</sup> and we used these data to formulate the ranges listed in the attached Appendix. For each plant category, we first developed a range of one standard deviation from the mean of each of the projection life and the future net salvage basic factors underlying the currently prescribed LEC depreciation rates. We then determined whether there are technological trends or recent changes in carrier investment plans that might not be fully reflected in the LECs' prescribed factors. Finally, we considered the number of LECs with basic factors that fall within the initial ranges and altered the ranges where appropriate. We recognized, however, that these specifically enumerated data must be considered in light of our obligation to prescribe reasonable depreciation rates:

we wish to make the ranges wide enough to accommodate a significant number, if not all, of the LECs. On the other hand, we must not make the ranges so wide that they would no longer enable us to exercise effective oversight of depreciation rates.<sup>12</sup>

Thus, in developing the proposed ranges, we considered both the specific data enumerated in the Depreciation Simplification Order and our overriding responsibility to prescribe reasonable depreciation rates. We set forth in the Appendix our proposed projection life and future net salvage ranges for these eight plant categories.

#### B. Four Accounts For Which Ranges Are Not Proposed

5. We do not propose to establish ranges for Account 2211, Analog Electronic Switching;<sup>13</sup>

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<sup>10</sup> See Second Report and Order, 9 FCC Rcd at 3211.

<sup>11</sup> Id. at 8050.

<sup>12</sup> Id. at 8049.

<sup>13</sup> 47 C.F.R. §32.2211.

Account 2215, Electro-mechanical Switching;<sup>14</sup> and Account 2431, Aerial Wire.<sup>15</sup> These are "dying accounts"<sup>16</sup> as LECs are replacing the plant in these accounts with newer technologies. The LECs are rapidly phasing out this obsolete equipment in accordance with specific retirement schedules that are based on company plans to modernize their networks.<sup>17</sup> Depreciation rates for this equipment can be readily calculated from these retirement schedules. We believe that depreciation rates for such equipment that are based upon a LEC's specific retirement plans are more accurate than rates based upon national averages. Moreover, the calculations are less complicated than those for other plant accounts, since detailed statistical analyses are not required to forecast lives.

6. In addition, we do not propose to set ranges for Account 2121, Buildings.<sup>18</sup> For depreciation study purposes, we have permitted the LECs to subdivide this account and estimate lives for each subcategory. Moreover, we allowed the LECs flexibility to develop individual methods of categorization. As a result, some LECs subdivided this account based on the size of the buildings, some by location, and others based on use. Because of the significant differences among the categorization methods, the LECs' current basic factors for the subaccounts cannot be used to establish nationwide ranges. If ranges are to be developed for the buildings account, the LECs' data must be recast into new, uniform subcategories.

7. We believe that the cost of establishing such subcategories would outweigh the benefits. The LECs have indicated that the cost of compiling the information necessary to develop new subcategories would be substantial.<sup>19</sup> Moreover, the LECs do not have plans to add or retire a significant number of buildings in the next few years. As a result, the underlying depreciation factors applicable to Account 2121 likely will not change, and an extensive analysis of the buildings account probably will not be necessary within the next few years. Accordingly, we propose to maintain the basic factors underlying the currently prescribed depreciation rates for

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<sup>14</sup> 47 C.F.R. §32.2215.

<sup>15</sup> 47 C.F.R. §32.2431.

<sup>16</sup> "Dying accounts are asset accounts in which little or no new investment is being made, and for which substantial retirements are impending." Amortization of Depreciation Reserve Imbalances of Local Exchange Carriers, Report and Order, 3 FCC Rcd 984, 990 n.10 (1988).

<sup>17</sup> For example, both Ameritech-Illinois and Bell Atlantic-New Jersey have already retired all of their electro-mechanical switching equipment. See Illinois Bell Telephone Company 1991 Depreciation Rate Study (November 15, 1990); New Jersey Bell Telephone Company 1991 Depreciation Rate Study (May 7, 1991). In addition, Ameritech-Illinois and Bell Atlantic-New Jersey plan to retire all of their analog electronic switching equipment by 1997 and 1998, respectively. See Ameritech-Illinois 1994 Depreciation Rate Study (April 26, 1994); Bell Atlantic-New Jersey 1994 Depreciation Rate Study (May 10, 1994).

<sup>18</sup> 47 C.F.R. §32.2121.

<sup>19</sup> See Letter from Thomas R. Whittaker, Chairman, United States Telephone Association Ad Hoc Depreciation Committee, to Ms. Fatina Franklin, Chief, Depreciation Rates Branch (June 21, 1994).

the buildings account, until our three-year range review when we will reconsider whether ranges would be appropriate for this account.<sup>20</sup> In the interim, we believe that the data required under the streamlined procedures will be adequate, and we propose to require that the price cap LECs provide only these data for the buildings account.

#### IV. PROCEDURAL MATTERS

##### A. Ex Parte

8. This is a non-restricted notice and comment rulemaking proceeding. Ex Parte presentations are permitted, except during the Sunshine Agenda period, provided they are disclosed as provided in the Commission's rules.<sup>21</sup>

##### B. Regulatory Flexibility

9. We certify that the Regulatory Flexibility Act of 1980 does not apply to this proceeding because if the proposals in this Order Inviting Comments are adopted, there will not be a significant economic impact on a substantial number of small business entities, as defined by Section 601(3) of the Regulatory Flexibility Act.<sup>22</sup> Because of the nature of local exchange and exchange access service, the Commission has concluded that small telephone companies are dominant in their fields of operation and therefore are not "small entities" as defined by that Act.<sup>23</sup> The Secretary shall send a copy of this Order Inviting Comments, including this certification, to the Chief Counsel for Advocacy of the Small Business Administration in accordance with Section 603(a) of that Act.<sup>24</sup>

#### V. COMMENT DATES

10. We invite comment on the proposals set forth above. Pursuant to applicable procedures set forth in Sections 1.415 and 1.419 of the Commission's Rules,<sup>25</sup> interested parties may file comments on or before November 14, 1994, and reply comments on or before December 14, 1994. To file formally in this proceeding, interested parties must file an original and four copies of all comments and reply comments. If commenters want each Commissioner to receive a personal copy of their comments, they must file an original plus nine copies. Interested parties

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<sup>20</sup> See Depreciation Simplification Order, 8 FCC Rcd at 8058.

<sup>21</sup> See generally 47 C.F.R. §§ 1.1202, 1.1203, 1.1206(a).

<sup>22</sup> 5 U.S.C. §601(3).

<sup>23</sup> See MTS and WATS Market Structure, 93 FCC 2d 241, 338-39 (1983).

<sup>24</sup> 5 U.S.C. §603(a).

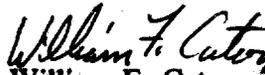
<sup>25</sup> 47 CFR §§ 1.415, 1.419.

should send comments and reply comments to Office of the Secretary, Federal Communications Commission, Washington, D.C. 20554. Parties should also file one copy of any documents filed in this docket with the Commission's copy contractor, International Transcription Services, Room 246, 1919 M Street, N.W., Washington, D.C. 20554. We also ask that parties send a courtesy copy of their comments to the Accounting and Audits Division, 2000 L Street, N.W., Washington, D.C. 20036. Comments and reply comments will be available for public inspection during regular business hours in the FCC Reference Center (Room 239) of the Federal Communications Commission, 1919 M Street, N.W., Washington, D.C. 20554.

## VI. ORDERING CLAUSE

11. Accordingly, IT IS ORDERED, pursuant to Sections 1, 4(i), 4(j), and 220(b) of the Communications Act of 1934, as amended, 47 U.S.C. §§ 151, 154(i), 154(j), and 220(b), that NOTICE IS HEREBY GIVEN of proposed plant accounts for which basic factor ranges should be established and the ranges proposed for those accounts to be used in the depreciation prescription process as described in the Depreciation Simplification Order.

FEDERAL COMMUNICATIONS COMMISSION

  
William F. Caton  
Acting Secretary

## PROPOSED ACCOUNTS AND RANGES

ACCOUNT NUMBER	ACCOUNT NAME	DEPRECIATION RATE CATEGORY	PROJECTION LIFE RANGE (YEARS)		FUTURE NET SALVAGE RANGE (PERCENT)	
			LOW	HIGH	LOW	HIGH
2220	Digital switching	Digital Switching	16	18	0	5
2220	Operator systems	Combined	8	12	0	5
2232	Circuit equipment	Digital	11	13	0	5
2411	Poles	Poles	25	35	-75	-50
2421	Aerial Cable	Metallic	20	26	-35	-10
2423	Buried Cable	Metallic	20	26	-10	0
2426.	Intrabuilding network cable	Metallic	20	25	-30	-5
2426	Intrabuilding network Cable	Non-metallic	25	30	-15	0