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BEFORE THE  
FEDERAL COMMUNICATIONS COMMISSION  
WASHINGTON, D.C. 20554  
FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

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

ORIGINAL

COMMENTS OF BELLSOUTH TELECOMMUNICATIONS, INC.

BellSouth Telecommunications, Inc. ("BellSouth")  
through its undersigned counsel, submits its Comments in the  
above stated docket.

INTRODUCTION

On October 11, 1994, the Commission released a Further  
Order Inviting Comments (FOIC) in the above-referenced  
docket. The Further Notice seeks comment on the  
Commission's proposals for addressing the twelve plant  
categories that had not been addressed in previous  
Commission orders on depreciation simplification.<sup>1</sup> The  
Commission is proposing to set factor ranges for eight<sup>2</sup> of  
the remaining twelve accounts, and is proposing not to  
establish ranges for four<sup>3</sup> other accounts.

<sup>1</sup>See: Simplification of the Depreciation Process, Report and Order, 8 FCC Rcd. 8025 (1993) and Second Report and Order, 9 FCC Rcd. 3206 (1994).

<sup>2</sup>Account Nos. 2220 - Digital Switching, 2220 - Operator Systems (combined), 2232 - Circuit Equipment (digital), 2411 - Poles, 2421 - Aerial Cable (metallic), 2423 - Buried Cable (metallic), 2426 - Intrabuilding Network Cable (metallic), 2426 - Intrabuilding Network Cable (non-metallic).

<sup>3</sup>Account Nos. 2211 - Analog Electronic Switching, 2215 - Electro-mechanical Switching, 2431 - Aerial Wire, and 2121 - Buildings.

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Consistent with its Comments in previous phases of this docket, BellSouth does not believe that the Commission's present direction affords sufficient depreciation flexibility and simplification for BellSouth. BellSouth urges the Commission to adopt meaningful reforms to its depreciation policies that will provide positive incentives for the LECs to invest and reinvest in their core networks.

#### DISCUSSION

In several recent filings in this docket, BellSouth has urged the Commission to adopt meaningful reform of the process by which depreciation rates are established for local exchange carriers (LECs). BellSouth urged the Commission to adopt a process that would rely principally on the judgment of carrier management as to the future lives of their depreciable assets. Called the "Price Cap Carrier Option," this method would establish a rebuttable presumption that the depreciation rates proposed by carrier management were reasonable. BellSouth also proposed data filing requirements and additional procedural safeguards that would allow meaningful review of management's proposals by the Commission staff and interested parties, thus allowing the Commission to fulfill its statutory mandate under Section 220(b) of the Communications Act. In its Depreciation Simplification Order in this docket, the Commission adopted the Price Cap Carrier Option for AT&T, but declined to extend this option to the LECs. Instead,

the Commission adopted a "Range of Rates Option" for the Price Cap LECs. BellSouth petitioned for reconsideration of the decision to withhold the Price Cap Carrier Option from the Price Cap LECs. That petition for reconsideration remains pending, and BellSouth urges the Commission to seriously consider the points raised in its petition for reconsideration which, if followed, would lay the foundation for meaningful reform for Price Cap LECs.

On June 28, 1994, the Commission adopted a Second Report and Order in this docket. In that order, the Commission adopted without modification the ranges of depreciation rate factors for 22 plant categories recommended by the Common Carrier Bureau staff. The Order anticipated that the action, would "...result in a substantial simplification and resource savings" for both the LECs and the Commission staff. At least insofar as BellSouth is concerned, this is a hollow promise.

The Commission's action to date in Docket No. 92-296 has been a laborious effort to find a "one size fits all" solution to the regulation of LEC depreciation rates. This was made clear in the June 28 Order where the Commission indicated that it conducted extensive statistical analyses of the basic factors underlying the currently prescribed depreciation rates. The Commission determined the mean value for each factor, calculated a range of one standard deviation around the mean, and then adjusted certain ranges

where appropriate. Such an approach systematically excludes from each resulting range up to one-third of the carriers. Unfortunately, among the carriers systematically excluded by such an approach are carriers, such as BellSouth, who have been aggressive in deploying new technology. For example, the Commission has already adopted ranges for 22 plant categories in the June 28 Order. However, BellSouth is eligible for simplification in only a limited number of those plant categories by jurisdiction, representing only 6 percent of BellSouth's assets. Thus, the June 28 order will provide almost no simplification for BellSouth. In addition, for the accounts subject to the FOIC, BellSouth is at the bottom end of the range for most or all of these remaining major categories. Hence, BellSouth will similarly get no benefit from the Commission's "simplification" for such accounts.<sup>4</sup>

In addition to denying simplification to carriers aggressively deploying new technology, the Range of Rates Option contains a time lag that prejudices all LECs. By performing statistical studies on depreciation rates prescribed using the triennial review process, the existing

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<sup>4</sup>Basically, for BellSouth only 14% of Company assets in the remaining technology accounts targeted for "simplification" in this phase of the docket would be within the prescribed ranges. Added to the previous 6% of assets subject to "simplification," BellSouth has flexibility in setting ranges for only 20% of Company assets, leaving 80% without any current possibility for simplification or flexibility.

prescriptions are up to three years old. Since the data underlying the prescriptions is largely historical, the study data could be four or five years old. To base future prescriptions on such stale data at a time when technology is exploding is a fundamental flaw in the newly adopted procedures.

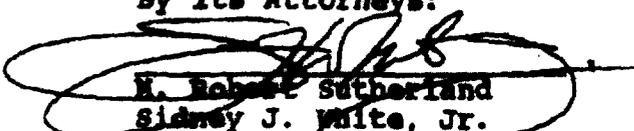
The reasons given by the Commission for withholding the Price Cap Carrier Option from the LECs were the existence of the sharing mechanism in the LEC price cap plan, and the perceived lack of competition for LEC services. In CC Docket 94-1, Price Cap Performance Review for Local Exchange Carrier, BellSouth has joined the rest of the LEC industry and numerous other commenters in recommending the elimination of the sharing mechanism from the LEC price cap plan. Whatever value the sharing mechanism has as a backstop safeguard is far outweighed by the damage done by the retention of this vestige of cost of service regulation. After elimination of the sharing mechanism, the Commission can then move forward with meaningful depreciation reform for the LECs using BellSouth's petition for reconsideration in this depreciation docket as a vehicle.

With regard to the issue of the level of competition for LEC access services, BellSouth notes that a substantial factual record was developed in Docket 94-1 as to the rapidly growing competition in major access markets. In addition, BellSouth finds it extremely significant that the

Commission found it unnecessary to actively regulate the depreciation rates of cable television companies subject to cost of service regulation. By definition, these companies do not face effective competition. Hence, the perceived lack of effective competition cannot justify the retention of the current, highly destructive level of regulation of LEC depreciation rates.

BellSouth believes that if an appropriate regulatory framework is adopted, the LECs will be able to attract the necessary capital to build out their piece of the national information infrastructure. On the other hand, if a stifling regulatory framework is maintained, providers of capital will seek more attractive investments. BellSouth urges the Commission to adopt meaningful reforms that provide positive incentives for the LECs to invest, and reinvest, in their core networks. Part of that reform is real depreciation flexibility and simplification, similar to that proposed herein as well as in previous BellSouth Comments and other filings heretofore filed in this docket.

Respectfully submitted,  
BELLSOUTH TELECOMMUNICATIONS, INC.  
By its Attorneys:

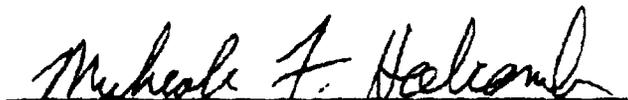


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November 14, 1994

**CERTIFICATE OF SERVICE**

I hereby certify that I have this 14TH day of November, 1994, serviced all parties to this action with a copy of the foregoing COMMENTS reference to CC Docket No. 92-296, by placing a true and correct copy of the same in the United States Mail, postage prepaid, addressed to the parties as set forth on the attached service list.



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