



United States Telephone Association
EX PARTE

1401 H Street, N.W., Suite 600
 Washington, D.C. 20005-2136
 (202) 326-7300
 (202) 326-7333 FAX

October 13, 1995

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**FEDERAL COMMUNICATIONS COMMISSION
 OFFICE OF SECRETARY**

Mr. William F. Caton
 Secretary
 Federal Communications Commission
 1919 M Street, NW - Room 222
 Washington, DC 20554

**Re: Ex Parte Material Related to CC Docket 92-296, In the Matter of
 Simplification of the Depreciation Prescription Process.**

Dear Mr. Caton:

I am writing to express USTA's continued support of the Commission's objective of simplifying the depreciation prescription process for LECs. Now that the Commission has completed the streamlining proceeding outlined in the 1993 Report and Order, and considering that the regulatory landscape has significantly changed since the Order was released, the opportunity for the Commission to actively address the current and emerging competitive realities has presented itself.¹ Accordingly, we urge the Commission to grant our December 3, 1993 petition for reconsideration, and more specifically, to allow implementation of the price cap carrier option (PCCO).

Both regulators and industry must acknowledge that the regulatory promise of an opportunity for full recovery of capital investment, while well-intended and sincere, is at risk. As many LECs have recorded in their external financial statements, the depreciation lives prescribed in the regulatory process far exceed the economic lives of LECs' assets. While we believe that regulators should still acknowledge the need for full recovery of these assets, we would like to emphasize that the presence of competition makes guarantee of recovery

¹ Specifically, we consider the adoption by states of progressive depreciation rules, the entry of AT&T and other communications companies into the local exchange market, and LECs' resultant shortening of asset lives for financial reporting purposes as particularly significant developments.

questionable. Further, the Commission's regulatory processes should not add to the obstacles to recovery already imposed by competition.

Many indications of the increasing pace of competition recently surfaced in the local telecommunications market, with state legislatures and commissions leading the way. In fact, at least twenty-one states currently either allow carriers to set their own depreciation rates or have discontinued regulation of depreciation rates.² Nonetheless, the two-year-old conclusion in the depreciation simplification docket - which asserts that the level of local competition is inadequate to permit LECs to adopt the PCCO and that the price-cap sharing mechanism makes the PCCO untenable - remains in effect. Given the Commission's recent decision to offer price-cap carriers a no-sharing option and that competition is expanding at an accelerated pace, USTA believes that the timing is right for reconsideration of these issues.

One other factor deserves mention: the endogenous nature of depreciation under the price caps regimen. Above and beyond the spread of competition in the local business, it is important to remember that price-regulated LECs certainly have no incentive to "game" the depreciation process, as depreciation clearly has no effect on the pricing formula under the new price cap rules.

For these reasons, we urge the Commission to continue its progress in depreciation simplification and grant our petition for reconsideration in this docket.

Respectfully submitted,



Mary McDermott
Vice President
Legal & Regulatory Affairs

cc: The Honorable Reed Hundt, Chairman
The Honorable James Quello, Commissioner
The Honorable Andrew Barrett, Commissioner
The Honorable Rachelle B. Chong, Commissioner
The Honorable Susan Ness, Commissioner
Ruth Milkman, Senior Legal Advisor to Chairman Hundt

² The following states either have abolished depreciation regulation or have instituted flexible, carrier-set rates for at least one USTA member operating in that state: Delaware, Florida, Idaho, Illinois, Indiana, Kansas, Maine, Maryland, Massachusetts, Michigan, Nebraska, New Jersey, New York, North Dakota, Ohio, Pennsylvania, Rhode Island, Texas, Virginia, Wisconsin and West Virginia.

John Nakahata, Special Assistant to Chairman Hundt
Lauren J. Blevin, Senior Legal Advisor to Commissioner Quello
Lisa B. Smith, Legal Advisor to Commissioner Barrett
Richard Welch, Legal Advisor to Commissioner Chong
James L. Casserly, Senior Legal Advisor to Commissioner Ness
Kathleen M.H. Wallman, Common Carrier Bureau Chief
Kathleen Levitz, Common Carrier Bureau Deputy Chief (Policy)
A. Richard Metzger, Jr., Common Carrier Bureau Deputy Chief (Operations)
Kenneth P. Moran, Common Carrier Bureau Accounting and Audits Division Chief
Fatina K. Franklin, Common Carrier Bureau Depreciation Rates Branch Chief