STATE OF FLORIDA

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JULIA L. JOHNSON, CHAIRMAN
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SUSAN F. CLARK
JOE GARCIA
E. LEON JACOBS, JR.

GENERAL COUNSEL
ROBERT D. VANDIVER
(850) 413-6248

Public Service Commission

November 20, 1998

BY AIRBORNE EXPRESS

Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, NW, Room 222
Washington, DC 20554

Re: CC Docket 98-137 - 1998 Biennial Regulatory Review -- Review of Depreciation Requirements for Incumbent Local Exchange Carriers

Dear Ms. Salas:

Enclosed are an original and 12 copies of the Florida Public Service Commission's Comments in the above-referenced docket. Please date stamp one copy and return in the enclosed self-addressed envelope.

A copy of the comments are also being furnished by diskette to Ernestine Creech, Accounting Safeguards Division and to the Commission's copy contractor, International Transcription Service.

Sincerely,

Cynthia B. Miller

Cynthia B. Miller
Senior Attorney

CBM:jmb
Enclosure
cc: Ernestine Creech
International Transcription Services, Inc.

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Before the
Federal Communications Commission
Washington, D. C. 20554

In the Matter of:	)	
	)	
1998 Biennial Regulatory Review -- Review of Depreciation Requirements for Incumbent Local Exchange Carriers	)	CC Docket No. 98-137
	)	

SUMMARY OF FLORIDA PUBLIC SERVICE COMMISSION COMMENTS

The Florida Public Service Commission (FPSC) believes the Federal Communications Commission (FCC) should continue oversight of depreciation rate setting but agrees that current requirements should be further streamlined. As the FCC notice states, "Depreciation is the largest single operating expense that incumbent LECs incur." The FPSC believes that a complete forbearance of the depreciation prescription process may be harmful to customers and competitors if access charges or universal service funding levels are too high. Since depreciation can represent a significant portion of these costs, it still plays a major role in the establishment of these costs.

The FPSC comments address the following:

1. The FCC should continue to oversee the adequacy of depreciation in cases where depreciation expense represents a significant portion of cost or price. Also, when depreciation represents a significant portion of cost or price, state regulators may find it necessary to review the appropriateness of an ILEC's depreciation expense.

2. Carriers selecting depreciation factors within the FCC prescribed ranges should be allowed to implement proposed rates without an order and should have supporting data requirements reduced.
3. Depreciation prescription proceedings should be eliminated for carriers proposing depreciation life and salvage factors within the FCC prescribed ranges.
4. The currently prescribed life factor range for digital switching should be expanded from 16 to 18 years to 13 to 18 years.
5. Carriers should continue to maintain continuing property records in order for the FCC to continue monitoring and updating the basic factor ranges.
6. Eliminating net salvage from the depreciation rate process should be examined in depth to address other questions not present in the NPRM.
7. The FCC should permit carriers to establish their own depreciation rates if they are willing to waive automatic low-end adjustment.
8. If reserve deficiencies are addressed for carriers who determine their own depreciation rates, then stranded benefits should also be addressed.

Before the
Federal Communications Commission
Washington, D. C. 20554

In the Matter of:	)	
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1998 Biennial Regulatory Review -- Review of Depreciation Requirements for Incumbent Local Exchange Carriers	)	CC Docket No. 98-137

FLORIDA PUBLIC SERVICE COMMISSION COMMENTS

The Florida Public Service Commission (FPSC) appreciates the opportunity to submit comments to the Federal Communications Commission (FCC) regarding its Notice of Proposed Rulemaking (NPRM) on the 1998 Biennial Regulatory Review -- Review of Depreciation Requirements for Incumbent Local Exchange Carriers in Docket No. 98-137 and on the United States Telephone Association (USTA) Petition for Forbearance from Depreciation Regulation of Price Cap Local Exchange Carriers in ASD 98-91.

The NPRM asks for comment regarding FCC proposals to further streamline the depreciation prescription process by (1) reducing the supporting documentation required for carriers selecting depreciation life and salvage factors from within the FCC prescribed ranges; (2) eliminating depreciation prescription proceedings for carriers that select depreciation actors within the FCC prescribed ranges; (3) expanding the currently prescribed range of lives for digital electronic switching equipment; and

(4) eliminating net salvage from the depreciation rate process. Additionally, the NPRM asks for comment on whether the FCC should permit carriers to establish their own depreciation rates if they are willing to waive the automatic low-end adjustment. According to the NPRM, these changes will minimize the reporting burden on carriers, and provide ILECs greater flexibility to adjust their depreciation rates while allowing the FCC to maintain adequate oversight.

A carrier's interstate depreciation may affect prices or federal support payments. The FCC currently requires ILECs to use depreciation factors within the FCC authorized ranges when calculating forward-looking economic costs for universal service high cost loop support purposes. The NPRM does not propose a change to this policy. If the FCC decides to no longer prescribe depreciation rates for ILECs, the FPSC believes the FCC should continue to oversee the adequacy of depreciation in cases where depreciation expense is a significant portion of the cost or price. This oversight will provide states additional sources of information that can be considered in determination of prices for unbundled network elements, fair and reasonable rates for basic local service, and universal service cost levels.

The FCC's action in this proceeding should not affect the authority of state regulators over intrastate operations. Regardless of the type of regulation, if depreciation is a significant portion of cost or price, state regulators may find it necessary to review the appropriateness of depreciation expense for an ILEC.

Filing and Prescription Procedures

The FCC proposes to reduce depreciation filings to four summary exhibits (comparison of existing and proposed depreciation rates, comparison of existing and proposed annual depreciation expenses, a book and theoretical reserve summary, and the depreciation factors) and the electronic data files that generate the exhibits, if the carrier selects depreciation factors within the FCC prescribed ranges. Detailed support would only be required in instances where proposals outside the existing ranges are made. Carriers would also be required to certify that their selections are consistent with their operations. Additionally, the FCC would permit the resulting rates to go into effect without a prescription order. According to the NPRM, this will save time and resources for both the FCC and the ILECs.

The FPSC applauds the FCC's simplification efforts to only require summary information with the electronic data support for accounts where carriers are electing life and salvage factors within the FCC ranges. The electronic data files will provide the information necessary for the FCC to continue monitoring and reviewing the basic factor ranges and make modifications as warranted. The proposed simplification will also reduce the regulatory lag by permitting rates to go into effect more expeditiously by not requiring an order.

The FPSC notes, however, that the NPRM is silent regarding how often carriers would be allowed to revise their depreciation rates. We would suggest the FCC continue its existing policy where carriers are allowed to change basic factors within the established ranges no more often than once a year. This would alleviate the concern of a carrier manipulating depreciation expenses to match economic conditions.

Another area we have noticed that the NPRM does not address concerns the effective dates of revised depreciation rates. The FCC's existing policy is that revised depreciation rates have an effective date of January 1 of the filing year. To allow additional flexibility, we would urge the FCC to consider modifying this policy so that carriers wishing an effective date

of January 1 of the filing year must provide their filings no later than July 1 of that year. Filings received after July 1 would have effective dates of January 1 of the next year. Carriers would of course be required to provide investment and reserve information matching the relevant effective date, estimated if necessary.

Equipment Life Ranges

The NPRM proposes to expand the life factor range for digital switching from 16 to 18 years to 13 to 18 years. According to the NPRM, retirement rates for digital switching have nearly doubled and are now averaging almost 3%. Florida companies are estimating future retirement rates in the neighborhood of 3% to 4.5%. The FPSC agrees that this activity is indicative of a faster replacement for the modular parts of the digital switch. Assuming this trend will continue, and perhaps increase, a life factor of about 13 years is reasonable. Expanding the current life factor range to 13 to 18 years will allow for carriers experiencing a higher interim retirement rate.

The FPSC believes that carriers should continue to maintain continuing property records in order for the FCC to continue

monitoring the basic factor ranges for reasonableness and updating as warranted.

Salvage and Cost of Removal

The possibility of changing the accounting treatment for cost of removal and salvage to current period accounting has merit and should be examined in depth to address other questions not present in the NPRM.

In 1984 the FCC issued a Notice of Inquiry (NOI) on this subject in response to recommendations of the Telecommunications Industry Advisory Group (TIAG) and received comments from interested parties, but did not pursue the matter to conclusion. The TIAG proposal recommended current period accounting for gross salvage only, not cost of removal.

Current period accounting would have a number of advantages compared to the existing system. First, it would eliminate the need to study cost of removal and salvage, thereby simplifying the depreciation prescription process automatically. Second, the removal of two speculative factors from the depreciation rate setting process would guarantee more overall accuracy. Third, in those accounts where future net salvage is expected to be negative, depreciation reserve deficiencies would be reduced.

Further, the Financial Accounting Standards Board (FASB) is currently reviewing accounting for removal costs of long-lived assets. In an Exposure Draft, issued February 7, 1996, the FASB proposed that removal obligations be considered part of the original cost of the asset and be recognized when the obligation is incurred rather than ratably over the life of the related asset. A FASB Statement, when issued, could significantly affect current accounting practices and might warrant FCC consideration.

The FPSC believes that the FCC should consider any tax consequences that could result from any accounting change for salvage and cost of removal. The FPSC suggests questions concerning the treatment of past depreciation accruals for cost of removal and salvage and abnormal occurrences be examined in depth, in either a separate phase of this docket or a separately docketed proceeding.

Low-end Adjustment

The NPRM states that one of the reasons the FCC believes it should retain some oversight over depreciation rates is because of the carriers' ability to seek a low-end adjustment. The USTA argues, in its Petition, for forbearance from depreciation regulation. In support of this argument, USTA states that

current FCC depreciation rules were used to control the potential manipulation of costs, in order to safeguard the sharing mechanism previously in place for price cap LECs. However, since the FCC eliminated the sharing mechanism for all price cap LECs in 1997, the link between depreciation rates and an ILEC's charges is weakened and the FCC's justification for depreciation regulation no longer exists. Even so, the FPSC believes that the potential for manipulation of costs remains. Without FCC oversight, a carrier's depreciation can be manipulated to reduce its interstate earnings below 10.25% at which point the carrier would qualify to adjust its prices upward (low-end adjustment). We further agree that a carrier, agreeing to waive the low-end adjustment, should be given the flexibility to set its own depreciation rates.

Reserve Imbalance Correction

In its Petition, the USTA opines that when the FCC gives carriers the flexibility to establish their depreciation rates, ILECs should not be precluded from seeking to recover any existing depreciation reserve deficiencies. While the FPSC has not addressed this issue in a hearing, we believe it is reasonable for the carriers to accept the existing reserve

positions irrespective of imbalances in exchange for forbearance. However, if the FCC determines it is appropriate to allow reserve corrections, stranded benefits should be addressed as well.

Conclusion

In conclusion, the FCC's action in this proceeding should not affect the authority of state regulators over intrastate operations. Regardless of the type of regulation, if depreciation is a significant portion of cost or price, state regulators may find it necessary to review the appropriateness of depreciation expense for an ILEC.

The FPSC believes the FCC should continue oversight of depreciation rate setting but agrees that current requirements should be further streamlined. A complete forbearance of the depreciation prescription process may be harmful to customers and competitors if access charges or universal service funding levels are too high. Since depreciation can represent a significant portion of these costs, it still plays a major role in the establishment of these costs.

Additionally, the FPSC believes the current accounting treatment of cost of removal and gross salvage should be examined in depth. While there are several advantages to current period

accounting, the FPSC raises additional questions that should be addressed in either a separate phase of this docket or a separately docketed proceeding.

Respectfully submitted,

CYNTHIA B. MILLER
Senior Attorney

Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399
(850) 413-6082

DATED: November 20, 1998

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Washington, D. C. 20554

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for Incumbent Local Exchange Carriers	)	
	)	

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing Comments of the Florida Public Service Commission has been furnished to:

Robert M. Lynch
Durward D. Dupre
Darryl W. Howard
One Bell Plaza
Room 3703
Dallas, Texas 75202

Richard J. Metzger
Association for Local
Telecommunications Service
888 17th Street NW
Suite 900
Washington, DC 20006

International Transcription
Service
1231 20th Street, NW
Washington, DC 20036

William T. Lake
Wilmer, Cutler & Pickering
2445 M Street, NW
Washington, DC 20037

Brad E. Mutschelknaus
Jonathan E. Canis
Kelley Drye & Warren, LLP
1200 19th Street, NW
Fifth Floor
Washington, DC 20554

John T. Lenahan
Christopher Heimann
Ameritech
2000 W Ameritech Center Drive
Suite 4H84
Hoffman Estates, Illinois 60196-102

Robert B. McKenna
US West, Inc.
1020 19th Street, NW
Washington, DC 20036

John Thorne
Robert Griffen
Bell Atlantic
1320 North Court House Road
8th Floor
Arlington, Virginia 23201

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CC Docket No. 98-137

Richard Taranto
Farr & Taranto
2445 M Street NW
Suite 225
Washington, DC 20037

Office of Advocacy
U.S. Small Business Administration
409 3rd Street SW
7th Floor
Washington, DC 20416

Brad Ramsay
NARUC
1100 Pennsylvania Avenue
Washington, DC 20004

BellSouth Corporation
1155 Peachtree Street, NE
Suite 1800
Atlanta, Georgia 30309

New York Public Service Commission
Three Empire State Plaza
Albany, New York 12223-1350

Cynthia B. Miller

CYNTHIA B. MILLER
SENIOR ATTORNEY