

THE  
FEDERAL COMMUNICATIONS COMMISSION  
WASHINGTON, D.C. 20554

In the Matter of

Federal-State Joint Board on  
Universal Service

Forward-Looking Mechanism  
For High Cost Support for  
Non-Rural LECs

CC Docket No. 96-45

CC Docket No. 97-160

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

REPLY COMMENTS  
of the  
GENERAL SERVICES ADMINISTRATION

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## SUMMARY

In these Reply Comments, GSA responds to the proposals of various ILECs with respect to three critical inputs to the Commission's universal service model. In each case, the ILEC proposals would serve to increase the calculated cost of services subject to universal service subsidy.

Some of the ILECs propose the use of a productivity factor lower than the 6.5 percent factor adopted by the Commission in 1997. Since ILEC productivity improvement has exceeded 6.5 in 1997 and 1998, GSA recommends 6.5 percent as the minimum appropriate factor for universal service model calculations.

A number of ILECs propose depreciation lives shorter than the prescribed lives tentatively adopted by the Commission for use in universal service model calculations. As GSA demonstrates, however, the lives prescribed by the Commission are forward-looking and appropriate as inputs to the universal service model. The lives proposed by the ILECs, on the other hand, are too conservative for use in regulation. As GSA explains, the studies supporting ILEC life proposals are fatally flawed.

Finally, GSA explains that Bell Atlantic's support for a rate of return exceeding 11.25 percent lacks credibility. GSA urges the Commission to conclude its rate of return proceeding and prescribe a rate of return of 9.5 percent.

**BEFORE THE  
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**REPLY COMMENTS  
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GENERAL SERVICES ADMINISTRATION**

The General Services Administration ("GSA") submits these Reply Comments on behalf of the customer interests of all Federal Executive Agencies ("FEAs") in response to the Commission's Further Notice of Proposed Rulemaking ("Notice") released on May 28, 1999. In the Notice, the Commission seeks comments and replies on the inputs for its model for determining the forward-looking economic cost of constructing and operating the network facilities and functions used to provide the services supported by the Federal universal service support mechanisms.

**I. INTRODUCTION**

On July 23, 1999, GSA filed Comments in this proceeding addressing three critical inputs to the Commission's universal service model. First, GSA recommended the use of a 6.5 percent productivity factor.<sup>1</sup> Second, GSA recommended the use of

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<sup>1</sup> Comments of GSA, pp.3-4.

depreciation lives and net salvage percents based on Commission prescriptions.<sup>2</sup>

Third, GSA urged the Commission to use a rate of return less than 11.25 percent.<sup>3</sup>

Comments were also filed by the following parties:

- The United States Telephone Association ("USTA") and twenty-two incumbent local exchange carriers ("ILECs") and ILEC associations;
- AT&T Corp. and MCI Telecommunications Corporation (the "interexchange carriers" or "IXCs"); and
- the Nebraska Public Service Commission.

In these Reply Comments, GSA responds to the proposals and comments of these parties.

## **II. The Commission Should Use A 6.5 Percent Productivity Factor In Its Model Calculations.**

In its Comments, GSA urged the Commission to use the full 6.5 percent productivity factor adopted in its price cap Fourth Report.<sup>4</sup> GSA noted that the ILEC productivity increase had actually exceeded 6.5 percent in 1997 and 1998.<sup>5</sup>

Some of the ILECs contend in their comments that the productivity factor should be much lower than 6.5 percent. Bell Atlantic and BellSouth propose productivity

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<sup>2</sup> *Id.*, pp. 4-6.

<sup>3</sup> *Id.*, pp.6-7.

<sup>4</sup> Price Cap Performance Review for Local Exchange Carriers, CC Docket No. 94-1, and Access Charge Reform, CC Docket No. 96-262, Fourth Report and Order in CC Docket No. 94-1 and Second Report and Order in CC Docket 96-262, FCC 97-159, released May 2, 1997 ("Fourth Report")

<sup>5</sup> Comments of GSA, p. 4.

factors of less than 4 percent.<sup>6</sup> USTA and other ILECs argue that the remand of the Commission's 6.5 percent decision by the D.C Circuit Court of Appeals precludes its use in universal service model calculations.<sup>7</sup>

The IXCs, on the other hand, agree with GSA's contention that ILEC productivity increases currently exceed 6.5 percent per year.<sup>8</sup> The IXCs cite recent calculations that indicate ILEC productivity of 8.4 percent per year.

GSA notes that the court's remand did not find the Commission's 6.5 percent decision inaccurate. The court merely found that the Commission had not adequately explained its decision. Indeed, in light of recent experience, the Commission might find its 6.5 percent calculation too low when it addresses the court's remand. In any case, the record clearly supports the use of a 6.5 percent productivity factor for use in universal service model calculations.

### **III. The Commission Should Use Depreciation Lives And Future Net Salvage Percents Based On Commission Prescriptions In Its Model Calculations**

In its Comments, GSA supported the Commission's tentative conclusion that depreciation lives and future net salvage percents should be based on a weighted average of current Commission prescriptions.<sup>9</sup> GSA noted that the forward-looking orientation of Commission prescriptions is confirmed by much higher accrual rates than

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<sup>6</sup> Comments of Bell Atlantic, p. 22; BellSouth, p. 22.

<sup>7</sup> Comments of USTA, p. 2; Bell Atlantic, p. 22; GTE, p. 88; U S West, p. 57.

<sup>8</sup> Comments of IXCs, p. 46-47.

<sup>9</sup> Comments of GSA, p. 5.

retirement rates and the dramatic increase in depreciation reserve levels since 1980.<sup>10</sup>

A number of ILECs oppose the use of prescribed depreciation lives and future net salvage percents. They contend that prescribed lives are not forward-looking and propose lives which are much shorter than the lives prescribed by the Commission. None of the ILEC proposals and arguments are credible.

#### **A. Commission Prescribed Lives Are Forward-Looking**

The facts belie the contention of some ILECs that the lives prescribed by the Commission are not forward-looking.<sup>11</sup> As the Commission has noted, since 1980 the lives prescribed by the Commission have been based “primarily on analysis of incumbent LEC investment plans and on judgments concerning the technological obsolescence and economic viability of the assets, rather than a focus on the historical equipment life trends.”<sup>12</sup> Prescribed lives are typically much shorter than historical life indications. Indeed, since the composite retirement rate of the ILECs is about four percent, the Commission would be prescribing accruals at this rate, instead of at about seven percent, if its lives were not forward-looking.<sup>13</sup>

As GSA explained in its Comments, the dramatic rise in ILEC depreciation reserve levels from 18.7 percent in 1980 to 50.7 percent in 1998 can be directly attributed to the Commission’s forward-looking orientation. The prescription of shorter

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<sup>10</sup> *Id.*, pp. 5-6 and Attachment 1. *See, also*, Comments of IXC’s, pp. 47-48.

<sup>11</sup> *See, e.g.*, Comments of Ameritech, pp. 30-33; BellSouth, pp. 23-26; GTE, pp. 85-6.

<sup>12</sup> 1998 Biennial Regulatory Review – Review of Depreciation Requirements for Incumbent Local Exchange Carriers, CC Docket No. 98-137, Notice of Proposed Rulemaking, FCC 98-170, released October 14, 1998 (“Depreciation NPRM”), footnote 6.

<sup>13</sup> Comments of GSA, pp. 5-6.

lives as a result of this shift in Commission orientation resulted in large depreciation reserve deficiencies in the 1980's. The Commission's use of remaining life methodologies and selective amortizations has eliminated these deficiencies for most ILECs.<sup>14</sup> In fact, the large ILECs now have a reserve surplus of over \$7 billion, as shown on Attachment 1 to these Reply Comments.

## **B. Financial Book Lives Are Not Appropriate For Use In Regulation**

Several of the ILECs propose use of the depreciation lives that they use for financial reporting in universal service model calculations.<sup>15</sup> This would not be appropriate, since the lives used for financial accounting purposes are governed by the Generally Accepted Accounting Principle ("GAAP") of "conservatism."

As GTE has acknowledged, the GAAP conservatism principle "prefers the understatement (versus overstatement) of net income and net assets where any potential measurement problems exist."<sup>16</sup> As the Commission has found, GAAP is investor-focused and may not always serve the interest of ratepayers. The Commission stated:

"One primary purpose of GAAP is to ensure that a company does not present a misleading picture of its financial condition and operating results by, for example, overstating its asset values or overstating its earnings, which would mislead current and potential investors. GAAP is guided by the conservatism principle which holds, for example, that, when alternative expense amounts are acceptable, the alternative having the least favorable effect on net

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<sup>14</sup> Depreciation NPRM, footnote 48.

<sup>15</sup> See, e.g., Comments of Bell Atlantic, p. 24; GTE, p. 86; SBC, pp. 22-23.

<sup>16</sup> Simplification of the Depreciation Prescription Process, CC Docket No. 92-296 ("Prescription Simplification"), Comments of GTE, March 10, 1993, p. 14.

income should be used. Although conservatism is effective in protecting the interest of investors, it may not always serve the interest of ratepayers. Conservatism could be used under GAAP, for example, to justify additional (but, perhaps not "reasonable") depreciation expense by a LEC...."<sup>17</sup>

The depreciation lives used in universal service model calculations should be forward-looking, but unbiased. Commission prescribed lives meet this criteria, but financial book lives do not.

### **C. TFI Lives Are Not Appropriate For Use In Regulation**

Ameritech endorses the use of lives recommended by Technology Futures, Inc. ("TFI"). TFI's recommendations are based upon studies sponsored by the Telecommunications Technology Forecasting Group, an industry association of major ILECs in the United States and Canada. TFI's studies are often used by ILECs to justify shorter lives in regulatory depreciation proceedings.

TFI's studies are largely based upon "substitution analysis" which attempts to forecast the pattern by which a new technology will replace an old technology. TFI predicts an "avalanche" of retirements in various accounts based upon the application of past retirement patterns of obsolete technologies to future circumstances.

TFI's recommended lives are based upon the premise that the ILECs will replace their existing networks with broadband networks capable of providing both telecommunication services and video services, such as cable television. According to TFI, fiber will replace copper in the distribution network, and Asynchronous Transfer Mode ("ATM") switching equipment will replace today's digital switching equipment.

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<sup>17</sup> Prescription Simplification, Report and Order, FCC 93-452, released October 20, 1993, para. 46.

The flaw in TFI's analysis is that the ILECs have found that they can provide broadband services by supplementing existing technologies, rather than replacing them. Advances in Digital Subscriber Line ("DSL") technology allow the ILECs to provide high-speed internet access – and even cable television services – over plain old copper wire. While the ILECs are adding ATM switches to provide data services, they are not replacing existing digital switches with ATM switches.

As a result, the retirement avalanches and shortened lives predicted by TFI are not likely to occur. Most state commissions have rejected TFI's proposed lives when they have been proposed in Total Element Long-Run Incremental Cost ("TELRIC") proceedings.<sup>18</sup> The Commission should do likewise in this proceeding.

#### **D. Comparisons of ILEC Prescribed Lives To Competitor Lives Are Meaningless**

Ameritech contends that comparisons of ILEC prescribed lives to the lives used by AT&T and other ILEC competitors demonstrate that ILEC prescribed lives are too long.<sup>19</sup> Such comparisons are meaningless.

Ameritech's comparison of ILEC prescribed lives to the lives prescribed by the Commission for AT&T in 1994 demonstrates only that the lives appropriate for an IXC are shorter than those appropriate for an ILEC. The economic life of an asset depends upon the use to which it is put. In 1994, all of AT&T's plant was used in the provision of

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<sup>18</sup> See, e.g. Orders in Massachusetts (D.P.U. 96-73/74, 96-75, 96-80/81, 96-83, 96-94-Phase 4, December 4, 1996); New York (Cases 95-C-0657, 94-C-0095, 91-C-1174, April 1, 1997); Delaware (Docket 96-324, April 29, 1997); West Virginia (Case No. 96-1516-T-PC, April 21, 1997); Maryland (Case No. 8731 Phase II, September 22, 1997); and Virginia (Docket 970005, May 22, 1998).

<sup>19</sup> Comments of Ameritech, p. 31.

long distance service, not local service. AT&T had no local loops or end office switches, so life comparisons between AT&T and the ILECs have no relevance.

Similarly, comparisons of ILEC prescribed lives to competitor financial book lives serve only to demonstrate the conservatism of financial book lives, as discussed above. Such comparisons provide no insight into the appropriateness of prescribed lives for regulatory purposes.

#### **IV. The Commission Should Use A Rate Of Return Lower Than 11.25 Percent In Its Model Calculations.**

In its Comments, GSA opposed the use of the currently prescribed rate of return of 11.25 percent in universal service model calculations.<sup>20</sup> Instead, GSA urged the Commission to conclude its pending rate of return proceeding by prescribing a lower rate of return and use this updated prescription in its universal service model calculations.

The IXCs agree with GSA's contention that a rate of return much lower than 11.25 percent should be used in universal service model calculations.<sup>21</sup> The IXCs argue that the true cost of capital of the ILECs is approximately 8.5 to 9 percent. They recommend that the Commission use a 10.01 percent rate of return in its model calculations if it is unable to conclude its rate of return proceeding by the end of the year.

Alone among commenting parties, Bell Atlantic recommends a rate of return higher than 11.25 percent.<sup>22</sup> Bell Atlantic recommends a rate of return no lower than

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<sup>20</sup> Comments of GSA, pp. 6-7.

<sup>21</sup> Comments of IXCs, pp. 49-51.

<sup>22</sup> Comments of Bell Atlantic, p. 24.

12.7 percent based upon an analysis submitted by Dr. Vander Weide in the rate of return proceeding.<sup>23</sup>

In its Direct Case in the rate of return proceeding, GSA explained why the Commission should prescribe a rate of return of 9.5 percent.<sup>24</sup> In its Reply Comments in the rate of return proceeding, GSA discussed the flaws in the analyses submitted by the ILECs, including the analysis of Dr. Vander Weide.<sup>25</sup> Those flaws led GSA to reiterate its position that the rate of return should be set at 9.5 percent.<sup>26</sup>

The Commission should act upon the record it has built in its rate of return proceeding and prescribe a lower unitary rate of return. This lower rate of return should be used in all universal service model calculations.

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<sup>23</sup> Id.

<sup>24</sup> Prescribing the Authorized Rate of Return for Interstate Services of Local Exchange Carriers, CC Docket No. 98-166, Direct Cases of GSA, January 19, 1999, pp. 3-23.

<sup>25</sup> Id., Reply to Direct Case of GSA, March 16, 1999, pp. 4-16.

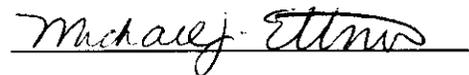
<sup>26</sup> Id., p. 9.

## V. CONCLUSION

As a major user of telecommunications services, GSA urges the Commission to implement the recommendations set forth in these Reply Comments.

Respectfully submitted,

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## Summary of Reserves On FCC Basis

(Dollars in Thousands)

Company	State	1/1/99 Investment a	Book Reserve b	Percent c = b / a	Theoretical Reserve d	Percent e = d / a	Surplus f = b - d	Percent g = f / a
Ameritech	Illinois	9,816,408	4,849,080	49.4%	4,459,709	45.4%	389,371	4.0%
	Indiana	3,386,192	1,833,945	54.2%	1,673,365	49.4%	160,580	4.7%
	Michigan	8,595,929	4,792,937	55.8%	4,489,108	52.2%	303,828	3.5%
	Ohio	6,510,577	3,417,494	52.5%	3,215,099	49.4%	202,395	3.1%
	Wisconsin	<u>2,941,434</u>	<u>1,448,457</u>	<u>49.2%</u>	<u>1,363,284</u>	<u>46.3%</u>	<u>85,173</u>	<u>2.9%</u>
	<b>Total</b>		<b>31,250,540</b>	<b>16,341,912</b>	<b>52.3%</b>	<b>15,200,565</b>	<b>48.6%</b>	<b>1,141,348</b>
Bell Atlantic	Delaware	870,610	406,647	46.7%	397,967	45.7%	8,680	1.0%
	Maine	1,460,303	819,264	56.1%	757,094	51.8%	62,171	4.3%
	Maryland	6,016,041	2,958,068	49.2%	2,861,159	47.6%	96,908	1.6%
	Massachusetts	8,634,368	4,428,769	51.3%	4,260,538	49.3%	168,231	1.9%
	New Hampshire	1,659,000	899,930	54.2%	842,885	50.8%	57,045	3.4%
	New Jersey	9,956,169	4,948,791	49.7%	4,766,387	47.9%	182,405	1.8%
	New York	21,133,337	10,856,846	51.4%	11,327,504	53.6%	-470,658	-2.2%
	Pennsylvania	10,142,878	5,061,929	49.9%	4,977,656	49.1%	84,272	0.8%
	Rhode Island	1,009,179	552,421	54.7%	550,404	54.5%	2,017	0.2%
	Vermont	835,596	485,006	58.0%	460,072	55.1%	24,934	3.0%
	Virginia	6,214,375	2,947,787	47.4%	2,699,731	43.4%	248,056	4.0%
	Washington, DC	1,719,125	761,739	44.3%	787,875	45.8%	-26,136	-1.5%
	West Virginia	<u>1,811,363</u>	<u>1,004,389</u>	<u>55.4%</u>	<u>949,370</u>	<u>52.4%</u>	<u>55,019</u>	<u>3.0%</u>
	<b>Total</b>		<b>71,462,345</b>	<b>36,131,586</b>	<b>50.6%</b>	<b>35,638,641</b>	<b>49.9%</b>	<b>492,944</b>
BellSouth	Alabama	4,625,552	2,485,851	53.7%	2,212,815	47.8%	273,036	5.9%
	Florida	11,742,280	6,432,472	54.8%	5,818,640	49.6%	613,832	5.2%
	Georgia	8,959,750	4,636,161	51.7%	4,219,699	47.1%	416,462	4.6%
	Kentucky	2,555,317	1,356,197	53.1%	1,186,225	46.4%	169,972	6.7%
	Louisiana	4,654,122	2,787,650	59.9%	2,433,857	52.3%	353,793	7.6%
	Mississippi	3,051,100	1,734,491	56.8%	1,517,827	49.7%	216,665	7.1%
	North Carolina	5,059,583	2,613,145	51.6%	2,422,643	47.9%	190,502	3.8%
	South Carolina	3,063,929	1,654,156	54.0%	1,554,295	50.7%	99,861	3.3%
	Tennessee	<u>5,085,398</u>	<u>2,546,762</u>	<u>50.1%</u>	<u>2,340,947</u>	<u>46.0%</u>	<u>205,815</u>	<u>4.0%</u>
	<b>Total</b>		<b>48,797,032</b>	<b>26,246,886</b>	<b>53.8%</b>	<b>23,706,947</b>	<b>48.6%</b>	<b>2,539,938</b>

## Summary of Reserves On FCC Basis

(Dollars in Thousands)

Company	State	1/1/99 Investment a	Book Reserve b	Percent c = b / a	Theoretical Reserve d	Percent e = d / a	Surplus f = b - d	Percent g = f / a
SBC	Arkansas	2,041,133	1,025,815	50.3%	1,001,847	49.1%	23,968	1.2%
	California	28,015,164	13,965,032	49.8%	13,173,054	47.0%	791,977	2.8%
	Kansas	2,406,396	1,191,198	49.5%	1,193,513	49.6%	-2,316	-0.1%
	Missouri	5,262,220	2,409,597	45.8%	2,559,761	48.6%	-150,164	-2.9%
	Nevada	598,989	291,250	48.6%	253,599	42.3%	37,651	6.3%
	Oklahoma	3,009,429	1,620,565	53.8%	1,570,319	52.2%	50,246	1.7%
	Texas	<u>18,928,142</u>	<u>9,282,855</u>	<u>49.0%</u>	<u>9,232,707</u>	<u>48.8%</u>	<u>50,148</u>	<u>0.3%</u>
	<b>Total</b>		<b>60,261,474</b>	<b>29,786,311</b>	<b>49.4%</b>	<b>28,984,802</b>	<b>48.1%</b>	<b>801,509</b>
US West	Arizona	4,618,240	2,328,645	50.4%	2,250,599	48.7%	78,046	1.7%
	Colorado	6,021,274	2,833,167	47.1%	2,759,353	45.8%	73,814	1.2%
	Idaho	949,524	496,823	52.3%	467,271	49.2%	29,552	3.1%
	Iowa	1,894,681	1,122,842	59.3%	1,051,771	55.5%	71,071	3.8%
	Minnesota	3,848,433	2,044,445	53.1%	1,901,550	49.4%	142,894	3.7%
	Montana	764,426	378,169	49.5%	381,892	50.0%	-3,723	-0.5%
	Nebraska	1,374,770	775,967	56.4%	724,599	52.7%	51,368	3.7%
	New Mexico	1,758,464	903,678	51.4%	938,750	53.4%	-35,073	-2.0%
	North Dakota	480,843	291,587	60.6%	258,372	53.7%	33,215	6.9%
	Oregon	2,480,288	1,191,743	48.0%	1,189,989	48.0%	1,755	0.1%
	South Dakota	592,298	352,837	59.6%	313,910	53.0%	38,927	6.6%
	Utah	2,198,746	1,000,745	45.5%	1,024,549	46.6%	-23,804	-1.1%
	Washington	4,749,154	2,508,308	52.8%	2,458,756	51.8%	49,553	1.0%
	Wyoming	<u>729,213</u>	<u>386,734</u>	<u>53.0%</u>	<u>379,930</u>	<u>52.1%</u>	<u>6,804</u>	<u>0.9%</u>
<b>Total</b>		<b>32,460,356</b>	<b>16,615,689</b>	<b>51.2%</b>	<b>16,101,290</b>	<b>49.6%</b>	<b>514,399</b>	<b>1.6%</b>
<b>RBOCs</b>	<b>Total</b>	<b>244,231,747</b>	<b>125,122,384</b>	<b>51.2%</b>	<b>119,632,245</b>	<b>49.0%</b>	<b>5,490,139</b>	<b>2.2%</b>

## Summary of Reserves On FCC Basis

(Dollars in Thousands)

<u>Company</u>	<u>State</u>	<u>1/1/99 Investment</u> a	<u>Book Reserve</u> b	<u>Percent</u> c = b / a	<u>Theoretical Reserve</u> d	<u>Percent</u> e = d / a	<u>Surplus</u> f = b - d	<u>Percent</u> g = f / a
GTE - North	Illinois	1,822,451	934,929	51.3%	796,430	43.7%	138,499	7.6%
	Indiana	2,042,487	1,021,959	50.0%	807,074	39.5%	214,886	10.5%
	Michigan	1,577,753	771,801	48.9%	663,266	42.0%	108,535	6.9%
	Ohio	1,723,555	865,780	50.2%	721,395	41.9%	144,384	8.4%
	Pennsylvania	1,244,551	634,340	51.0%	503,041	40.4%	131,299	10.5%
	Wisconsin	<u>1,154,504</u>	<u>618,308</u>	<u>53.6%</u>	<u>495,633</u>	<u>42.9%</u>	<u>122,675</u>	<u>10.6%</u>
	Total		<b>9,565,301</b>	<b>4,847,117</b>	<b>50.7%</b>	<b>3,986,840</b>	<b>41.7%</b>	<b>860,277</b>
GTE - Florida	Florida	<u>4,479,322</u>	<u>2,075,650</u>	<u>46.3%</u>	<u>1,811,379</u>	<u>40.4%</u>	<u>264,271</u>	<u>5.9%</u>
	Total	<b>4,479,322</b>	<b>2,075,650</b>	<b>46.3%</b>	<b>1,811,379</b>	<b>40.4%</b>	<b>264,271</b>	<b>5.9%</b>
GTE - South	Alabama	643,081	320,123	49.8%	286,233	44.5%	33,890	5.3%
	Kentucky	1,298,158	649,840	50.1%	541,793	41.7%	108,048	8.3%
	North Carolina	903,622	436,305	48.3%	398,217	44.1%	38,088	4.2%
	South Carolina	<u>446,149</u>	<u>232,818</u>	<u>52.2%</u>	<u>208,193</u>	<u>46.7%</u>	<u>24,625</u>	<u>5.5%</u>
	Total		<b>3,291,010</b>	<b>1,639,086</b>	<b>49.8%</b>	<b>1,434,436</b>	<b>43.6%</b>	<b>204,650</b>
GTE - Midwest	Iowa	630,116	288,716	45.8%	238,799	37.9%	49,917	7.9%
	Missouri	1,233,434	511,158	41.4%	456,045	37.0%	55,113	4.5%
	Nebraska	<u>119,825</u>	<u>58,067</u>	<u>48.5%</u>	<u>46,777</u>	<u>39.0%</u>	<u>11,289</u>	<u>9.4%</u>
	Total		<b>1,983,375</b>	<b>857,941</b>	<b>43.3%</b>	<b>741,621</b>	<b>37.4%</b>	<b>116,320</b>
GTE - Southwest	Arkansas	250,744	118,963	47.4%	111,641	44.5%	7,322	2.9%
	New Mexico	225,007	137,033	60.9%	116,781	51.9%	20,252	9.0%
	Oklahoma	284,229	131,727	46.3%	126,734	44.6%	4,993	1.8%
	Texas	<u>4,799,070</u>	<u>2,325,473</u>	<u>48.5%</u>	<u>2,123,609</u>	<u>44.3%</u>	<u>201,863</u>	<u>4.2%</u>
	Total		<b>5,559,051</b>	<b>2,713,196</b>	<b>48.8%</b>	<b>2,478,765</b>	<b>44.6%</b>	<b>234,430</b>

**Summary of Reserves On FCC Basis**

(Dollars in Thousands)

<u>Company</u>	<u>State</u>	<u>1/1/99 Investment</u> a	<u>Book Reserve</u> b	<u>Percent</u> c = b / a	<u>Theoretical Reserve</u> d	<u>Percent</u> e = d / a	<u>Surplus</u> f = b - d	<u>Percent</u> g = f / a
GTE - Northwest	Idaho	368,889	161,432	43.8%	123,220	33.4%	38,212	10.4%
	Oregon	941,737	409,902	43.5%	320,805	34.1%	89,097	9.5%
	Washington	<u>2,090,308</u>	<u>895,658</u>	<u>42.8%</u>	<u>712,358</u>	<u>34.1%</u>	<u>183,300</u>	<u>8.8%</u>
	<b>Total</b>	<b>3,400,934</b>	<b>1,466,993</b>	<b>43.1%</b>	<b>1,156,383</b>	<b>34.0%</b>	<b>310,609</b>	<b>9.1%</b>
GTE - Hawaii	Hawaii	<u>1,794,864</u>	<u>768,160</u>	<u>42.8%</u>	<u>682,718</u>	<u>38.0%</u>	<u>85,442</u>	<u>4.8%</u>
	<b>Total</b>	<b>1,794,864</b>	<b>768,160</b>	<b>42.8%</b>	<b>682,718</b>	<b>38.0%</b>	<b>85,442</b>	<b>4.8%</b>
Contel of CA	California	<u>926,360</u>	<u>500,350</u>	<u>54.0%</u>	<u>440,959</u>	<u>47.6%</u>	<u>59,391</u>	<u>6.4%</u>
	<b>Total</b>	<b>926,360</b>	<b>500,350</b>	<b>54.0%</b>	<b>440,959</b>	<b>47.6%</b>	<b>59,391</b>	<b>6.4%</b>
GTE/Contel of VA	Virginia	<u>1,190,471</u>	<u>533,306</u>	<u>44.8%</u>	<u>493,680</u>	<u>41.5%</u>	<u>39,626</u>	<u>3.3%</u>
	<b>Total</b>	<b>1,190,471</b>	<b>533,306</b>	<b>44.8%</b>	<b>493,680</b>	<b>41.5%</b>	<b>39,626</b>	<b>3.3%</b>
<b>GTE</b>	<b>Total</b>	<b>32,190,688</b>	<b>15,401,799</b>	<b>47.8%</b>	<b>13,226,782</b>	<b>41.1%</b>	<b>2,175,017</b>	<b>6.8%</b>
<b>All Large LECs</b>	<b>Total</b>	<b>276,422,435</b>	<b>140,524,183</b>	<b>50.8%</b>	<b>132,859,027</b>	<b>48.1%</b>	<b>7,665,156</b>	<b>2.8%</b>

Source: Carrier submissions pursuant to Section C-1 of Depreciation Study Guide

## CERTIFICATE OF SERVICE

I, MICHAEL J. ETTNER, do hereby certify that copies of the foregoing "Reply Comments of the General Services Administration" were served this 6th day of August, 1999, by hand delivery or postage paid to the following parties.

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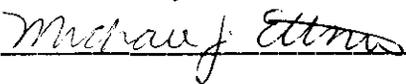
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