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EX PARTE OR LATE FILED

Bell Atlantic

September 2, 1999

Ms. Magalie R. Salas
Secretary
Federal Communications Commission
The Portals
445 12th Street S.W.
TW-A325 – 12th Street Lobby
Washington, D.C. 20554

RECEIVED
SEP 02 1999
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re: Ex Parte
CC Docket 98-137 In the Matter of 1998 Biennial Review-Review of Depreciation Requirements for Incumbent Local Exchange Carriers and ASD Docket No. 98-81, USTA Petition for Forbearance from Depreciation Regulation

Dear Ms. Salas:

On September 2, 1999 Edward Googe and the undersigned representing Bell Atlantic met with Ms. Dorothy Attwood of Chairman Kennard's Office to discuss the above referenced proceedings.

The discussion reflected the positions that Bell Atlantic had provided in their written comments and reply already on the record. A copy of the discussion guide used during the meeting is attached.

An original and a copy of this Ex Parte is being filed in the office of the Secretary on September 2, 1999. Please include it in the public record of the above referenced proceeding.

Respectfully submitted,

Gerald Asch

Gerald Asch

Attachment

cc: Ms. Attwood w/o Attachment

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DEPRECIATION FORBEARANCE

BELL ATLANTIC EX PARTE

9/2/99

CC Docket No. 98-137

ASD 98-81

FORBEARANCE IS REQUIRED NOW

- INTRODUCTION:
  - PURE PRICE CAPS
  - SECTION 10(a) REQUIRES FORBEARANCE
  - LECS HAVE ADDRESSED PARAGRAPH 6
  - FORBEARANCE ≠ COMPLETE DEREGULATION
  - GAAP PRINCIPLES
  - FCC DEPRECIATION REGULATION IS NOT NEEDED BY STATE COMMISSIONS

PURE PRICE CAPS

- SHARING AND COMPETITION CONCERNS EXPRESSED IN 1993 NO LONGER RELEVANT

  LECs Under Pure Price Caps

  "Many-- but by no means all -- of the fundamental prerequisites for fully competitive, deregulated local telecommunications markets are now in place. (*A New FCC for the 21st Century, Draft Strategic Plan, p. 5, released 8/99)*.

PURE PRICE CAPS, CONT'D

- DEPRECIATION HAS NO IMPACT ON DAY TO DAY RATE LEVELS
  - Endogenous
  - No Relation Between Accounting Earnings and Productivity (Statement of Professor Frank M. Gollop, Attachment B to USTA Comments)
  - Per Depreciation Simplification, Commission should "reevaluate its decision" to retain depreciation regulation

FORBEARANCE REQUIRED BY SECTIONS 10(a) & 11

- DEPRECIATION REGULATION NO LONGER NECESSARY TO ENSURE REASONABLE RATES
- FORBEARANCE IS IN PUBLIC INTEREST
  - ELIMINATES REGULATORY COSTS
  - HELPS TO MAINTAIN INCENTIVE FOR LECS TO INVEST IN LOCAL NETWORKS
  - FULFILLS CONGRESS'S COMPETITIVE VISION - "[ensures] there are economically rational options for those wanting to enter the market" (Remarks of Chairman Kennard to Legg Mason, 3/12/98)
- CONSISTENT WITH POLICY INITIATIVE TO "consider additional areas that may be appropriate for forbearance..." (Draft Strategic Plan, p. 11)

PARAGRAPH 6 CONCERNS

LFAM	FCC retains authority to review LEC depreciation practices
ABOVE-CAP FILING	Stringent cost showing already required. [47 C.F.R., 61.49(e), 61.46 (c) and 61.47 (d)]
'X' FACTOR	Does not vary with changes in depreciation levels
UNIVERSAL SERVICE	GAAP is forward looking and thus consistent with Commission measure of universal service; GAAP would eliminate mismatch between ILECs and CLECs

CONCERNS, CONT'D

BFP	Per line revenue option is available; does not determine overall level of rate recovery
EXOGENOUS COSTS	Depreciation is endogenous; FCC has used revenues, rather than costs, to determine exogenous costs adjustments
UNE PRICES	FCC and some state commissions have endorsed use of economic depreciation; other states are free to set own depreciation

FORBEARANCE ≠ COMPLETE DEREGULATION

- FCC AUDIT AUTHORITY
- TARIFF REVIEW
- FORMAL COMPLAINT
- INDEPENDENT AUDITS
- NEW ENFORCEMENT BUREAU
  - One of FCC's core goals will include enforcement and promotion of competitive markets (Draft Strategic Plan, p. 3)
  - Role of prospective regulation should decrease

GAAP PRINCIPLES

- MATCHING
- CONSISTENCY IN REPORTING
- CONSERVATISM
- SAME DEPRECIATION RULES FOR ALL

GAAP -v- FCC

(Millions)

	GAAP	FCC
RESERVES	42,422	36,712
ACCRUALS	5,016	5,081

STATE COMMISSIONS NO LONGER RELY ON FCC

- ONLY TWO COMMISSIONS FILED COMMENTS
  - FCC action should not affect authority of state regulators over intrastate operations (FPSC at 9)
  - Forbearance would not interfere with state responsibilities (VSCC comments at 5)
- State Commissions Have Been Progressive
  - Many States Have Adopted GAAP (VSCC Comments at 3; BellSouth Comments at 6; GTE Comments at 14)

STATE REGULATORY STATUS

State	Some Lives Below FCC Ranges	Alternative Regulation Plan (ARP)	Ability to Set Rates	Requires FCC Participation	Comments
Pennsylvania	Yes	Yes	Yes	No	Required to filed Annual Report and Service Life Study triennially.
New Jersey	Yes	Yes	Yes	No	No formal state requirements.
Delaware	No	Yes	Yes	No	No formal state requirements.
Virginia	Yes	Yes	Yes	No	ARP requires monitoring.
West Virginia	Yes	Yes	Yes	No	No formal state requirements.
Maryland	Yes	Yes	Yes	No	No formal state requirements.
Washington	Yes	Yes	Yes	No	No formal state requirements.
New York	Yes	Yes	Yes	No	ARP sets depreciation floor.
Massachusetts	Yes	Yes	Yes	No	ARP allows for flexibility in setting new rates and requires lives to be no longer than FCC lives.
Maine	Yes	Yes	Yes	No	ARP allows for flexibility in setting new rates.
New Hampshire	Yes	No	No	No	Under rate of return regulation and continues to follow traditional depreciation practices.
Vermont	Yes	No	No	No	Under rate of return regulation and continues to follow traditional depreciation practices.
Rhode Island	Yes	Yes	Yes	No	ARP allows flexibility and requires composite depreciation rate not below the 1/1/94 rate.
Connecticut	No	No	No	No	Under rate of return regulation and continues to follow traditional depreciation practices.

CONCLUSION

- FORBEARANCE
  - IS MANDATORY PURSUANT TO SECTIONS 10(a) & 11
  - WILL PROMOTE COMPETITION
    - "Eliminating outdated rules will play an important role in accelerating the transition to fully competitive markets." (Draft Strategic Plan, p. 14)
  - WILL NOT HINDER OTHER FCC RESPONSIBILITIES
    - GAAP AND OTHER CONTROLS REMAIN IN PLACE