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September 2, 1999

Ex Parte

Ms. Magalie R. Salas
Secretary
Federal Communication Commission
Room TW-A325,The Portals
445 Twelfth Street
Washington, D.C. 20554

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

ASD Docket No.98-91, USTA Petition For Forbearance from Depreciation Regulation

CC Docket No. 98-177, In the Matter of 1998 Biennial Regulatory Review—Petition for Section 11 Biennial Review filed by SBC Communications Inc., Southwestern Bell Telephone Company, Pacific Bell and Nevada Bell

Dear Ms. Salas:

In accordance with the Commission's rules, please be advised that on September 1, 1999, Mr. Pat Doherty, Mr. Larry Canedy and the undersigned met with the following in separate meetings:

- Ms. Dorothy Atwood, Legal Advisor, Office of Chairman Kennard
- Mr. Bill Bailey, Legal Advisor, Office Of Commissioner Furchtgott-Roth
- Ms. Linda Kinney, Legal Advisor, Office of Commissioner Ness
- Ms. Sarah Whitesell, Legal Advisor, Office of Commissioner Tristani

The purpose of the meeting was to urge the FCC to grant the Petition filed by USTA to forbear from regulating depreciation lives and rates. With forbearance Local Exchange Carriers (LECs) will use the same lives based upon Generally Accepted Accounting Principles ("GAAP") for both FCC *financial* reporting purposes and external *financial* reporting GAAP purposes. At the same time, the FCC could also simultaneously set forth forward looking "principles" stating that when a copy adopts GAAP for regulatory

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reporting purposes, depreciation lives and rates should be forward looking, consider the rate of technological change and the expected decrease in value.

A summary of the discussion is outlined in the attached. Also attached is a copy of the publication, "Comparison of Economic Life Techniques." ©[1] An original and one copy of this letter and the attachments are being submitted. Acknowledgement and date of receipt of this transmittal are requested. A duplicate transmittal letter is attached for this purpose.

Please include this letter in the record of these proceedings in accordance with Section 1.1206(a)(2) of the Commission's Rules.

If you have any questions on this, please do not hesitate to contact Ms. Jeannie Fry at 202-326-8894.

Sincerely,

Attachments

[1] Please note that this document is copyrighted and therefore copying restrictions apply. However, this document is publicly available. See "Comparison of Economic Life Techniques," Technology Futures Inc., 1999. For additional information, contact Mr. Larry Vanston at 512.258.8898. (Please note that one copy is being filed with the Secretary of the Commission and a courtesy copy is also being provided to Mr. Thom David, Accounting Safeguards Division.)

Cc: Ms Dorothy Atwood, Legal Advisor, Office of Chairman Kennard
Mr. Bill Bailey, Legal Advisor, Officer of Commissioner Furchtgott-Roth
Ms. Linda Kinney, Legal Advisor, Officer of Commissioner Ness
Ms. Sarah Whitesell, Legal Advisor, Office of Commissioner Tristani
Mr. Larry Strickling, Chief of the Common Carrier Bureau
Mr. Ken Moran, Chief, Accounting Safeguards Division
Mr. Tim Peterson, Deputy Chief, Accounting Safeguards Division
Mr. Thom David, Accounting Safeguards Division
Mr. Howard Schelanski, Office of Plans and Policy
Mr. Pat DeGraba, Office of Plans and Policy
Mr. Jay Atkinson, Competitive Pricing Division
Ms. Lisa Zaina, Deputy Bureau Chief, Common Carrier Bureau
Mr. Don Stockdale, Common Carrier Bureau
Mr. Bob Loube, Economist, Accounting Policy Division
Mr. Craig Brown, Deputy Chief, Accounting Policy Division

CC Docket 98-137
Biennial Review of Depreciation Rate Regulation
SBC Communications Inc.

I. Forward looking Depreciation Lives should be used for Part 32—— Reporting Interstate Rate of Return—USF——UNE Cost Studies.

- FCC Ranges employed for USF cost proxy models, Part 32, and state UNE Cost Studies.
- Plant end dates projected must be representative and updated as information/ technology becomes available.

II. FCC Prescribed Ranges for lives are Backward Looking and out of date.

- Ranges established from lives prescribed in the 1991-1993 time period.
- Prescribed lives determined from projected retirements not technology exhaust forecasts.
  - Prescription and forthcoming ranges are invalid. Texas analog example (Attach. 1)
- Ranges far longer than comparable company lives e.g. AT&T. (Attach. 2)

III. Commission should forbear from depreciation regulation as filed by USTA. Allow Price Cap carriers to use GAAP lives for financial and regulatory reporting (Part 32, USF, and UNE Costs).

- GAAP requires forward looking lives and updates to lives as information arises.
- SBC determines GAAP lives from forward projections of TFI.(Vanston) and information from plant replacement programs.
- GAAP lives are audited and held out to the financial analysis community for scrutiny.
- Commission should set out principles 1) requiring forward looking lives and 2)mandating a match between regulatory lives and financial lives(GAAP)
- Staff reality tests of lives can consist of comparisons to lives of IXCs, CLECs, Cable cos.

IV. GAAP Depreciation Lives would reduce Stranded Plant problems.

- SBC reserve deficiency is $7.7 Billion(1998)-GAAP lives versus Part 32.
- GAAP lives would reduce the deficiency over time.
- California PUC eliminated depreciation reviews and approvals for Pacific(10/98). Order concludes that (company determined lives) precludes "new stranded investment".
- FERC allowed recovery of stranded investment for gas(1992)/electric(1996) companies transitioning to a competitive environment. FERC does not regulate depreciation rates.

V. Two depreciation systems –GAAP and regulatory-squander people/resources.

- SBC spends $500 K annually when filing depreciation studies with the Staff.
- Two accounting depreciation systems/tax adjustment processes are required.

VI. LFAM elimination should rest upon a carrier opting into pricing flexibility.

VII. SBC urges the FCC to forbear from regulation. Allow Price Cap Carriers to use GAAP Based Depreciation Lives for regulatory reporting and costing.

- In the alternative, allow the price cap carrier option which requires informational filing upon changes to lives.

Attachment 1

Texas Analog Central Office Switch Lives
SWBT

Forecasted Average Service Life FCC Prescribed –1989	Actual Experience Average Service Life 1998 Data(Same Plant)	Vanston(TFI) Forward Looking Projection 1989
16.0 Years	8.9 Years	11 Years to final retirement

Attachment 2

FCC Prescribed Life Ranges (LECs) compared to Competitors Economic Lives (in years based on most available data)

Plant Category	FCC Prescribed Ranges for ILECs (1)	Southwestern Bell Financial Reporting Lives(GAAP)	Pacific Bell Financial Reporting Lives (GAAP)	AT&T (2)	Electric Lightwave (2)	TCG (2)
Digital Switching	13-18	11	10	9.7	10	10
Digital Circuit	11-13	9	8	7.2	10	8
Fiber Optic Cable	25-30	20	20	20	20	20
ATT- Lives for all Communications and network plant (1998 Annual Report)				3-15		

Sources:

(1)FCC Prescribed range for digital switching from: FCC NPRM, July 22, 1998, CC Docket No. 98-137.

--FCC prescribed ranges for all other plant categories from FCC Third Report and Order, May 5, 1995, CC Docket No. 92-296.

(2)Depreciation rates for AT&T, ELI and TCG as of 1995 from: Testimony of Robert Harris On Behalf of U S West Communications Inc. Before the Arizona Corporation Commission, AT&T-U S WEST Interconnection Arbitration, Docket No. U2428-96-417, September 30, 1996, p. 38.

COMPARISON OF ECONOMIC LIFE TECHNIQUES

STEPHEN L. BARRECA

TECHNOLOGY FUTURES INC.

Comparison of Economic Life Techniques

Case Studies of Various Economic Life Estimation Techniques for Mass Property Influenced by Technological Obsolescence

Stephen L. Barreca

Technology Futures, Inc.

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Attachment A

DOCUMENT OFF-LINE

This page has been substituted for one of the following:

o An oversize page or document (such as a map) which was too large to be scanned into the ECFS system.

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