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November 19, 1999

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
445-12th Street, SW
Room TW-A325
Washington, DC 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re: CC DOCKET NO. 98-137/ASD 98-91

Dear Ms. Roman Salas:

On November 18, 1999 representatives of the United States Telecom Association Kathleen Levitz - BellSouth, Thomas Whittaker - Bell Atlantic, Tony Alessi - SBC, Frank McKennedy - USTA and John Hunter - USTA met with Dorothy Atwood of Chairman Kennard's office. The purpose of this meeting was to discuss USTA's Petition for Forbearance from Depreciation Regulation in the above-referenced proceeding. The attached material was presented and discussed.

In accordance with Section 1.1206(a)(1) of the Commission's rules, an original and one copy of this notice and the written material are being submitted herewith. Please include this notice in the public record of these proceedings. If there are any questions regarding this submission, please contact the undersigned.

Respectfully submitted,

John W. Hunter
Senior Counsel

Attachment

cc w/o att: D. Atwood

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List ABCDE

The United States Telecom Association Petition for Forbearance from Depreciation Regulation

CC Docket No. 98-137
Filed 9/21/98
(ASD 98-91)

USTA
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ASSOCIATION

The United States Telecom Association's Ex Parte: Forbearance from Depreciation Regulation

11/12/99

Relief from depreciation regulation

- Now is the appropriate time to forbear from prescribing depreciation rates
  - The Telecommunications Act of 1996 permits forbearance and requires the elimination of unnecessary rules and regulations
  - Forbearance is in the public interest and eliminates unnecessary regulation
  - Fosters efficiency of Price Cap Carriers
  - Consistent with competitive market conditions and the recent Access Pricing Flexibility Order

Relief from depreciation regulation

- Current depreciation regulation is ineffective and unnecessary
- Price cap regulation works
- Competition works
- Many other alternative checks and balances to ILEC pricing
- Commission has established transition to total market based pricing and has provided for removal of competitive services from price caps
- Recovery of capital must be consistent with ILEC market environments
- Depreciation regulation is costly, burdensome and counter productive to the Commission's goals for market based pricing
- It is in the public interest to forbear from regulating depreciation

With forbearance, ILECs will move toward GAAP for FCC reporting

- Companies use forward-looking economic models (such as prepared by TFI) to set lives for externally reported depreciation in conformance with GAAP and these regulatory lives will match those externally reported lives.
- Rates used for external reports provide a more realistic pace of capital recovery, better matching consumption of resources in the competitive market environment.

Consumer protection

- Price cap regulation provides appropriate consumer protection.
- Purpose of Price caps is to emulate the restraint on prices experienced in a competitive market.
- Price Cap mechanism limits ILEC prices using a formula based on comprehensive economic market indicators, not changes in particular operating costs.
- Regulation of depreciation provides no effective consumer protections, is ineffective as a regulatory tool and should be forborne as it is unnecessary.

Other safeguards

- All charges shall be just and reasonable (section 201)
- FCC complaint process (section 208)
- FCC tariff review process
- SEC financial reporting
- External audit of financial reports
- Antitrust claims

Forbearance does not affect the FCC's:

- Authority to review Lower-Formula Adjustment filings
- Calculation of the Productivity Factor
- Determination of exogenous cost adjustments (depreciation changes are endogenous)
- Authority to review above-cap tariff filings

Forbearance does not affect:

- Prices for interconnection, UNEs or Universal Service support:
  - FCC's forward-looking economic cost model prescribes the capital recovery component for Universal Service support. The regulations from which forbearance is requested apply to the arbitrary determination of the rates of consumption of ILECs' total embedded assets
  - UNE prices and interconnection arrangements are developed by negotiation between parties or by the state PUC based on forward-looking, not recorded cost.

FCC's Pricing Flexibility Order, Docket No. 96-262

Price Flex Order provides removal of services from price caps:

- **Immediate removal of IX services from price caps (conditional) - existing high degree of competition**
- **Provides frame work and triggers based on degrees of competition for additional pricing flexibility in MSAs**
  - **Phase I: Contract tariffs (remove from price cap)**
  - **Phase II: Removal of competitive services from price cap regulation**

FCC's Pricing Flexibility Order, Docket No. 96-262

- "The Commission envisioned that this approach would enable it to give carriers progressively greater flexibility to set rates as competition develops, until competition gradually replaces regulation as the primary means of setting prices." (¶ 2.)

- "Although our current price cap regime gives LECs some pricing flexibility and considerable incentives to operate efficiently, significant regulatory constraints remain. As the market becomes more competitive, such constraints become counter productive." (¶ 19.)

- "...regulation imposes costs on carriers and the public, and the costs of delaying regulatory relief outweigh any costs associated with granting that relief before competitive alternatives have developed to the point that the incumbent lacks market power." (¶ 90.)

FCC's Pricing Flexibility Order, Docket No. 96-262

- "First, existing rules clearly limit price cap LECs' ability to respond to competition. Price cap LECs are subject to both our Part 61 rules regarding rate levels and the mandatory rate structure rules set forth in Part 69 of our rules. Our rules precluding LECs from offering contract tariffs and limiting volume and term discount offerings may create a price umbrella for competitors. Second, as mentioned above, delaying regulatory relief imposes costs on carriers and the public, the latter of which is deprived of the benefits of more vigorous competition." (¶ 92.)

- "Finally, because regulation is not an exact science, we cannot time the grant of regulatory relief to coincide precisely with the advent of competitive alternatives for access to each individual end user. We conclude that the costs of delaying regulatory relief outweigh the potential costs of granting it before IXCs have a competitive alternative for each and every end user." (¶ 144.)

Need to match responsibility for market pricing and depreciation

- ILECs' increased freedom to price more responsively to competition must be matched by corresponding responsibility for capital recovery consistent with the competitive market environment
- Current depreciation regulation does not allow ILECs to reflect the effects of the market conditions in which they operate
- Forbearance from depreciation regulation would alleviate this mismatch

Summary

- The Commission should forbear from regulation of depreciation NOW.
- Forbearance is in the public interest and meets all the goals of the Act.
- Forbearance does not eliminate consumer protection.
- Forbearance does not affect the price cap mechanisms.
- Forbearance promotes efficiency and competition.
- Forbearance is consistent with and necessary to achieve efficient results from pricing flexibility.

UNITED STATES TELECOM ASSOCIATION
EX PARTE, CC DOCKET NO. 98-137
RESPONSE TO FCC CONCERNS

1. **Above cap filings:**

The Commission's price cap rules require a stringent cost showing for the Commission's review. See for example Parts 61.49 (c), 61.49(d)(1), and 61.49(d)(2). See NERA attachment page 16.

2. **"X" Factor:**

USTA filed a "sensitivity analysis with its comments in this proceeding, developed by Professor Frank Gollop which shows that changes in depreciation rates do not materially change the "X" factor using the Commission's own "X" Factor model. See NERA attachment page 13.

3. **Universal Service:**

The Commission's Tenth Report and Order, (Order) in the Universal Service proceeding, CC Docket No.'s 96-45 and 97-160 prescribe the values to be used in determining the capital costs to be used in the forward looking model including depreciation expense and reserve factors. See for example para.s 419-436 of the Order.

4. **Exogenous Costs:**

Part 61.45(d) regarding exogenous adjustments to the price cap formula does not include changes in depreciation rates. Any petition for an exogenous adjustment would therefore be subject to Commission specific scrutiny and approval. See NERA attachment page 14.

5. **Regarding prices of interconnection and unbundled network elements:**

The Telecommunications Act of 1996, section 252 provides that interconnection and UNE prices may be negotiated by the parties and/or determined by the state PUC.

UNITED STATES TELECOM ASSOCIATION
EX PARTE, CC DOCKET NO. 98-137
RESPONSE TO FCC CONCERNS

6. **Takings:**

Beginning with implementation of forbearance, an ILEC becomes responsible for the effects of its own capital recovery.

7. **LFAM:**

When used, an LFAM adjustment is subject to intense Commission scrutiny. The LFAM is an exogenous adjustment effective for only one year and then reversed returning the price cap to where it would have been if no adjustment had been made. See also NERA attachment page 13.

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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

COMMENTS OF THE UNITED STATES TELEPHONE ASSOCIATION

The United States Telephone Association (USTA) hereby files its comments on the Notice of Proposed Rulemaking in the above-captioned proceeding.[1] USTA is the principal trade association of the incumbent local exchange carrier (ILEC) industry. Its member telephone companies provide over 95 percent of the incumbent LEC-provided access lines in the United States.

As part of the Commission's biennial regulatory review mandated by Section 11 of the Communications Act of 1934, as amended,[2] the Commission is reviewing certain aspects of its depreciation prescription process. In the Notice, the Commission tentatively concludes that the elimination of depreciation regulation is not justified. However, the Commission identifies a number of elements of depreciation regulation that it tentatively concludes should be eliminated and that comprise the totality of unnecessary requirements. Specifically, the Commission seeks

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[1] FCC 98-170, released October 14, 1998 (Notice).

[2] 47 U.S.C. § 161.

ATTACHMENT A

BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION

IN THE MATTER OF	)	
	)	
1998 BIENNIAL REGULATORY REVIEW —	)	**CC DOCKET NO. 98-137**
REVIEW OF DEPRECIATION REQUIREMENTS	)	
FOR INCUMBENT LOCAL EXCHANGE CARRIERS	)	

AFFIDAVIT OF

WILLIAM E. TAYLOR, Ph.D., AND ANIRUDDHA BANERJEE, Ph.D.

ON BEHALF OF

UNITED STATES TELEPHONE ASSOCIATION

NOVEMBER 23, 1998

n/e/r/a
Consulting Economists

AFFIDAVIT OF
WILLIAM E. TAYLOR, Ph.D., AND ANIRUDDHA BANERJEE, Ph.D.

CC DOCKET NO. 98-137

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depreciation policy for one important group of firms caught up in so much *market* change, namely, the price cap ILECs, has not changed to match the new investment reality.

When technological progress outruns the depreciation expenses that ILECs are allowed, their existing plant and equipment reach economic obsolescence *before* those assets have been completely written off the ILECs' books. As a result, a regulated ILEC can only feel justified in investing in more efficient and newer plant if, in its service prices to end-users, it is able to recover the unamortized portion of its previous investments. Under price cap regulation, there is *no* mechanism for effecting that recovery. There is simply no way for endogenous changes in costs to be transmitted into price changes. Therefore, lacking that ability to adjust prices, it is easy to understand why the ILEC's incentive to make future investments in more efficient capital would be dampened, if not aborted. At the very least, a price cap ILEC would need to follow *economic* depreciation principles in order to retain—and act on—that incentive.[17]

Only forbearance and the elimination of regulatory uncertainty about depreciation—not the piecemeal reform proposed by the Commission—would encourage ILECs to focus on making efficient technology and service planning decisions. In the meantime, price cap regulation will continue to simulate the protections of full-blown price competition and ensure that prices of capped services are never unjust or unreasonable.

III. FORBEARANCE WILL NOT ADVERSELY AFFECT PRICE CAP PARAMETERS OR UNIVERSAL SERVICE

A. The Commission's View of Likely Impacts of Forbearance on Price Cap Parameters and Universal Service

As the *NPRM* makes clear, the Commission's hesitation in granting full forbearance—rather than only gradual relief—stems from its belief that a certain threshold of competition must be reached before forbearance is justified. In addition, the Commission is clearly concerned about how forbearance now would affect (i) several key parameters of the price cap

[17] See, e.g., Alfred E. Kahn, *The Economics of Regulation: Principles and Institutions*, Cambridge, MA: The MIT Press, 1988, at 117-122.

plan by which ILECs are presently regulated and (ii) the proposed reform of universal service. Specifically, the Commission declares that depreciation

> ... remains significant, even under current price cap rules, in the following situations: (1) a calculation of a low-end adjustment; (2) a recalculation of the productivity factor; (3) an exogenous cost determination; (4) a calculation of the Base Factor Portion that is used to determine how much a carrier can recover through End User Common Line charges; or (5) the cost support a carrier would have to provide if it proposed an Actual Price Index ... higher than its Price Cap Index. ... In addition to these price cap changes, changes in depreciation expense may also affect prices or federal support payments through new mechanisms created to implement [the Act].[18]

FCC STAFF CONCERNS

B. The Commission's Concerns are Misplaced: Expected Impacts Will be Non-Existent or Minimal

After serious consideration of these concerns, we are led to conclude that the adverse impacts of forbearance expected by the Commission would either not materialize or would be *de minimis*. We explain the reasons for our conclusion below.

USTA RESPONSE

1. Calculation of the low-end adjustment

(SEE PAGE 14)

PPS. 16

Presently, price cap ILECs that experience a drop in their earnings below the LFAM (10.25 percent) are entitled to an upward adjustment in their price-capped rates that is targeted to raise their earnings to the level of the LFAM.[19] The Commission's concern is that changes in depreciation rates can affect rate of return calculations (through the rate base) and, thereby, determine whether a price cap ILEC qualifies for a low-end adjustment. For this reason, the Commission appears to be willing to grant more flexibility in depreciation in exchange for price cap ILECs agreeing to a waiver of the low-end adjustment. It is not immediately clear from this offer whether more flexibility would translate into full forbearance. But, more to the point, the price cap ILECs have already indicated their readiness to give up the low-end adjustment as part of a regulatory adaptation to increased competition.[20] Moreover, those

[18] *NPRM*, ¶ 6. (Footnotes omitted)

[19] *Code of Federal Regulations*, § 61.45(d)(1)(vii).

[20] Comments of the United States Telephone Association, *In the Matter of Access Charge Reform*, CC Docket No. 96-262, *Price Cap Performance Review for Local Exchange Carriers*, CC Docket No. 94-1, *MCI*

ILECs are also willing to be required to justify their depreciation practices and earnings calculations to the Commission in the very rare event that they seek a low-end adjustment.[21] Therefore, the low-end adjustment cannot—and should not—be a factor restraining the Commission from forbearing the regulation of depreciation.

2. Recalculation of the productivity factor

The Commission is concerned that changes in depreciation rates beyond those presently contemplated in the *NPRM* could induce significant change in the productivity offset or X-factor used under current price cap rules to determine basket-specific price caps. We note two points in this connection. First, the Commission itself has announced plans to adjust the X-factor on the basis of industry-wide performance factors rather than factors that determine ILEC-specific interstate earnings levels.[22] Second, a recent study that simulated the effects of changing various economic variables on the X-factor concluded that changes in depreciation rates have virtually no effect on that factor.[23] Therefore, the Commission need have no concern about how forbearance from depreciation regulation might affect the productivity factor.

3. Exogenous cost determination (SEE Page 15)

The Commission has defined exogenous costs thus:

> Exogenous costs are in general those costs that are triggered by administrative, legislative or judicial action beyond the control of the carriers. ... These costs are created by such events as separations changes; USOA amendments; changes in transitional and long term support; *the expiration of amortizations*; and the reallocation of regulated and nonregulated costs.[24]

Telecommunications Corporation Emergency Petition for Prescription of Access Charges, CC Docket No. 97-250, *Consumer Federation of America Petition for Rulemaking*, RM 9210, filed in response to the FCC's Public Notice, released October 5, 1998, FCC 98-256, Attachment E.

[21] *USTA Petition*, at 12.

[22] *Price Cap Order*, ¶ 167.

[23] Affidavit of Professor Frank M. Gollop, USTA Attachment B in this proceeding.

[24] FCC, *In the Matter of Policy and Rules Concerning Rates for Dominant Carriers*, Second Report and Order, CC Docket No. 87-313, released October 4, 1990, ¶ 166. (Emphasis added)

The Commission carefully distinguished the process of amortizing undepreciated assets (an exogenous cost event) from changes in depreciation rates themselves (which it labeled an *endogenous* cost event). The Commission reasoned that even though depreciation parameters were prescribed, the price cap carrier still had control over the decision to deploy or retire plant and equipment.[25] Therefore, by the Commission's own reasoning, any forbearance from depreciation regulation that results in ILEC-selected depreciation rates (unrelated to amortizations of past undepreciated capital) cannot create an exogenous cost event. The ILECs have already accepted that recovery of any future depreciation reserve deficiencies that arise *after* forbearance takes effect should be conditional on the Commission first receiving a satisfactory explanation for those deficiencies.[26]

Changes in depreciation Rates are endogenous

More importantly, under existing regulations, exogenous cost events are only applied in the price cap formula with the Commission's prior approval, i.e., any application of exogenous cost changes is *not* automatic.[27] Therefore, *even if* forbearance, followed by ILEC adoption of their own depreciation standards, were to generate an exogenous cost event, the Commission would retain the authority to allow or deny its application to the price cap formula.

4. Calculation of the Base Factor Portion that determines revenues through the End User Common Line charge

SEE Page 16

Rates in the common line basket—such as for the End User Common Line charge ("EUCL"), the Presubscribed Interexchange Carrier charge ("PICC"), and the Carrier Common Line charge ("CCL")—are presently set in accordance with specific regulations for price cap ILECs.[28] The revenue requirement for the common line basket is sought to be recovered through a combination of these three charges. While the regulations provide specific rules for calculating the EUCL and the PICC on a *revenue* basis, the gap between the basket's revenue

[25] *Id.*, at ¶¶ 182-184. It is noteworthy that in this Order the Commission specifically and categorically *rejected* the adoption of an "economic life" basis for prescribing depreciation rates. The depreciation rates in effect today still reflect this decision and, therefore, are squarely at odds with the new environment in which regulated ILECs have to compete with new entrants who are free to select their own depreciation standards.

[26] *USTA Petition*, fn. 5.

[27] *Code of Federal Regulations*, § 61.45(d)(1)(i-ii).

[28] *Code of Federal Regulations*, § 69.152 - § 69.154.

requirement and the combined revenues from the EUCL and the PICC is recovered by the CCL which is adjusted periodically (and, subject to circumstances, may be assessed on both originating and terminating interstate access minutes). The EUCL and PICC are fixed, line-related charges while the CCL—a residually-determined charge—is assessed on minutes of use. The Commission's clear concern is that any increase in depreciation rates (that may follow forbearance of depreciation regulation) will likely raise the common line basket's revenue requirement. The unstated concern may be that such an increase may force upward adjustments to any or all of the three charges in the common line basket.

This concern of the Commission may be allayed by reference to a fundamental change in the offing for the manner in which the common line basket will be treated. After January 1, 1999, price cap ILECs will be able to adjust their EUCL rates and price ceilings for multi-line business customers and non-primary lines purchased by residential customers upward to account for inflation.[29] A similar adjustment will apply to the ceiling for the PICC for all customers on and after July 1, 1999.[30] These developments are significant because they would mark the transition from treatment of the common line basket on a *revenue requirements* basis to treatment on a pure *revenue* basis (i.e., subject only to adjustments for inflation). This would happen as rising EUCL and PICC charges raised enough revenue to make it unnecessary for the CCL to serve as a filler of the gap. Once that transition is completed, effects of changing depreciation rates will no longer be transmitted into the setting of rates (specifically, for surviving elements EUCL and PICC) in the common line basket.[31]

common line

5. Cost support for above-cap filings

(CONTINUED ON NEXT PAGE)

Current regulations require that price cap ILECs which file rates that cause the Actual Price Index ("API") of a price cap basket to exceed its cap or Price Cap Index ("PCI") must provide detailed explanations about how cost has been assigned both within and outside the

[29] *Code of Federal Regulations*, § 69.152(e) and § 69.152(k).

[30] FCC, *In the Matter of Access Charge Reform*, Third Order on Reconsideration, CC Docket No. 96-262, released October 5, 1998, ¶ 1.

[31] See the USTA's proposed rule changes for the common line basket (Part XX) in *In the Matter of United States Telephone Association Petition for Rulemaking — 1998 Biennial Regulatory Review*.

affected basket.[32] The Commission believes that any change in depreciation rates is likely to affect this cost support showing.

Above cap filings cost.

It is not clear in what respects this issue represents a constraint on the Commission's moving immediately to forbearance from depreciation regulation. As long as a price cap ILEC files rates that cause the API to exceed the PCI, it would remain obligated to provide the necessary cost justification—with or without forbearance from depreciation regulation. The Commission will retain final authority on whether to allow above-cap filings of rates to go forward, even after such forbearance.

6. Prices of interconnection and unbundled network elements and federal support payments for universal service (SEE ATTACHED

The Commission's belief that changes in depreciation will affect prices and universal service payments is stated as follows:

> ... changes in depreciation expense may also affect prices or federal support payments through new mechanisms created to implement the Telecommunications Act of 1996. For example, the Commission required incumbent LECs to use depreciation factors within the FCC authorized ranges when calculating forward-looking economic costs for universal service high cost loop support purposes. Also, state commissions have required incumbent LECs to use interstate depreciation rates or life and salvage factors developed during the Commission's depreciation prescription process when calculating rates for interconnection or unbundled network elements.[33]

Depreciation expenses arise as ILECs retire and replace their plant and equipment already in place. Depreciation expenses also arise for plant and equipment placed in network configurations used to calculate forward-looking costs for the two purposes of determining (i) cost-based prices for interconnection and unbundled network elements and (ii) the present subsidy to universal service and, therefore, the amount of high cost loop support needed on a going forward basis. While calculation of forward-looking costs is the province of state regulatory agencies, the Commission is concerned that depreciation-related decisions made at

[32] *Code of Federal Regulations*, § 61.49.

[33] *NPRM*, ¶ 6. (Footnotes omitted)

the federal level would automatically affect the states that choose to mirror the Commission-prescribed depreciation parameters in their own intrastate depreciation regimes.

No matter where—and in what circumstances—depreciation expenses are actually realized, our primary concern here is with the overarching principle: that *economic* depreciation parameters (lives and rates) alone should be applied from this point forward. That does *not* mean that those parameters would be the same for all ILECs, or even be identical for existing assets and new assets alike. While the depreciation rates may vary in this manner, it is vitally important that they represent market imperatives—rates of economic obsolescence, in particular—not regulation-determined depreciation parameters.

While recognizing that forward-looking costs should be based on economic asset lives and depreciation rates, the Commission has also appeared ambivalent about how truly economic those lives and depreciation rates could be. For example, in spelling out the criteria for calculating forward-looking costs for determining universal support payments, the Commission stated:

> Economic lives and future net salvage percentages used in calculating depreciation expense *must be within the FCC-authorized range*. ... To the extent that competition in the local exchange market changes the economic lives of the plant required to provide universal service, we will re-evaluate our *authorized* depreciation schedules.[34]

While duly recognizing the value of economic lives, this criterion does *not* appear to grant ILECs the freedom to operate with such lives. First, even in the new environment, ILECs must adhere to the Commission-authorized range for lives; they would not be free to adopt market-responsive depreciation schedules. As we explained earlier, in recent years, the rate of economic obsolescence has become quicker and more unpredictable, making market-responsive depreciation imperative. Second, present-day Commission-authorized depreciation parameters are just fine-tuned heirs of depreciation parameters that the Commission has prescribed in the past when under-depreciation of ILEC assets was routine and customary. There is no evidence that currently prescribed ranges for ILEC plant and equipment are

[34] *Universal Service Order*, ¶ 250(5). (Emphasis added)

significantly different from those that existed before the competitive era was ushered in by the Act. Any delay in allowing ILECs to use truly economic depreciation standards (until some nebulous threshold of competition is crossed) would only violate the overarching principle of depreciation we stated earlier. Unfortunately, it would also raise the same specter of accumulated reserve deficiencies under competition that the ILECs faced in the pre-competitive era.

IV. SUMMARY AND CONCLUSIONS

Upon detailed examination of the concerns raised by the Commission regarding any move to forbearance from the regulation of depreciation parameters used by price cap ILECs, we conclude the following:

1. The depreciation reform proposed by the Commission in its *NPRM* does not amount to full forbearance from regulation of depreciation. Forbearance should indeed be the new public policy for depreciation.

2. The regulation of depreciation is a throwback to the pre-competitive era in the telecommunications industry and has become an anachronism in the present competitive environment in which economic obsolescence is becoming quicker and increasingly unpredictable.

3. Prescribed depreciation parameters (and the depreciation rates they imply) cannot produce forward-looking costs or allow price cap ILECs to face market risks and competition from new entrants on a fair and economically efficient basis.

4. The Commission should not wait for a vague and contentious threshold for competition to be achieved before granting forbearance from depreciation regulation. A prolonged delay in granting such forbearance will dampen ILEC incentives to invest in more economically efficient assets and practices and inflict economic welfare losses on society at large.

5. Granting forbearance from depreciation regulation will have either non-existent or minimal impacts on a number of price parameters (the low-end adjustment, the productivity factor, exogenous cost events, rates in the common line basket, cost support for above-cap filings) or on the pricing of interconnection and unbundled network elements or payment of universal service support. Price cap regulation will continue to protect consumers even if depreciation changes affect costs.