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RECEIVED
MAY 12 2000
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

May 12, 2000

EX PARTE

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
The Portals
445 12th Street, SW
Washington, DC 20554

Re: CC Docket 98-137

Dear Ms. Salas:

On May 11, 2000, ILEC members of the Coalition for Affordable Local and Long Distance Service ("CALLS") met with Rebecca Beynon, Legal Advisor to Commissioner Harold Furchtgott-Roth. The purpose of the meeting was to discuss forbearance of the Commission's depreciation rules in a manner consistent with the framework set forth in the Commission's December 1999 Depreciation Order, as well as the CALLS proposal for exchange access and universal service reform. Attached is a summary of the presentation, as well as a copy of an ex parte submitted to Larry Strickling on May 8, 2000.

Attending the meeting were: Jay Bennett and Michele Thomas, SBC; Scott Randolph and Dennis Weller, GTE; and myself.

As required by Section 1.1206(b)(2) of the Commission's rules, I am filing two copies of this notice for placement in the record for the proceeding identified above.

Sincerely,

Robert T. Blau

cc: Rebecca Beynon

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List ABCDE

Attachments

SUMMARY OF DEPRECIATION PROPOSAL

1. Forbear from depreciation rules in manner consistent with framework set forth in December 1999 Depreciation Order
2. Allow the ILECs to adjust the depreciation reserve on their regulatory books to equal the depreciation reserve on their financial books
   - Amortize the adjustment over a five-year period
   - Account for amortization as an above-the-line expense
3. Use the same depreciation factors and rates for both Federal regulatory and financial accounting purposes going forward
4. Implementation of proposal should be optional for all LECs

ABOVE-THE-LINE TREATMENT

Good accounting policy

- Recognizes the existence of the equipment that is still used and useful for providing regulated services
- Allows accurate reporting of earnings; any other treatment has potential to distort earnings, create confusion
- States that have addressed issue have all allowed above-the-line treatment (amortization plan or increased depreciation rates)
- Five-year period more closely reflects useful life of equipment; consistent with CALLS and Commission precedent

No ratepayer impact

- There is no direct link between regulatory books and interstate rates set by price caps
- ILECs have committed not to seek lower formula adjustment, exogenous adjustment or above cap filing related to the above-the-line reserve adjustment
- ILECs have committed not to recover any portion of the proposed FCC amortization amount by increasing interstate or intrastate prices

Impact on Universal Service Fund can be neutralized

- ILECs support NECA proposed solutions

Accounting treatment and tracking will be simple and straight-forward

- Annually, for five years, one-fifth of total amortization amount would be credited to Account 3100, Depreciation Reserve, with corresponding debit to Account 6561, Depreciation Expense
- These transactions would be included in Company's annual Form 492 filing and any amortization amounts could be disclosed in a footnote

NO IMPACT ON STATE RULES AND RATES

- States will continue to have full authority over intrastate depreciation rules
- Many state commissions take an independent approach to depreciation and have authorized lives and rates that differ from FCC
  - For example, BellSouth is allowed to set its own intrastate depreciation rates in all nine of its in-region states
- Nothing in the proposal will have any impact on intrastate rates
- The ILECs have pledged not to seek intrastate price increases to recover any part of the proposed FCC amortization

CPR AUDITS ARE MOOT

- Record in CPR audit proceeding demonstrates the audits' flawed methodology and unsupportable conclusions
- Implied objectives of CPR audit will be met by CALLS plan and adoption of this depreciation proposal: lower access prices and decreased net investment
- Current audit should be terminated as moot and no resources should be expended on similar audits

OTHER ISSUES

- Economic lives rather than prescribed ranges should be used in UNE and USF cost studies. Economic depreciation schedules used in ILEC financial reports are sound enough to justify writing down billions of dollars in plant - those schedules must be sound enough to use in forward-looking cost models
- No additional reporting of data regarding ILEC depreciation accounts is necessary; rely on current ARMIS reporting. Any new reporting should be required of both ILECs and CLECs

COPY

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May 8, 2000

EX PARTE

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
The Portals
445 12th Street, SW
Washington, DC 20554

RECEIVED
MAY 08 2000
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re: CC Docket 98-137

Dear Ms. Salas:

Today ILEC members of the Coalition for Affordable Local and Long Distance Service ("CALLS") submitted the attached letter regarding depreciation forebearance to Mr. Lawrence E. Strickling, Chief, Common Carrier Bureau.

As required by Section 1.1206(b)(2) of the Commission's rules, I am filing two copies of this notice for placement in the record for the proceeding identified above.

Sincerely,

Robert T. Blau

cc: Lawrence E. Strickling

May 8, 2000

Mr. Lawrence E. Strickling
Chief, Common Carrier Bureau
Federal Communications Commission
445 Twelfth Street, SW
Washington, DC 20554

Re: Depreciation, CC Docket 98-137

Dear Mr. Strickling:

On Friday, April 28, 2000, the undersigned incumbent local exchange carriers ("ILECs") submitted Joint Reply Comments ("Reply Comments") regarding the Further Notice of Proposed Rulemaking ("Notice") concerning depreciation forbearance. The Notice requested comments about conditions under which the FCC would grant price cap ILECs relief from the depreciation prescription process. One of these conditions allowed the ILECs to adjust the depreciation reserve on their regulatory books to equal the depreciation reserve on their financial books. Pursuant to the Notice, the condition would permit the adjustment to be amortized over a five-year period as an above-the-line expense, *i.e.*, included in regulatory earnings, however, the ILECs would commit to not seek recovery of the amortization expense through a low-end adjustment, an exogenous adjustment, or an above-cap filing.

In their Reply Comments, the ILECs expressly stated their commitment not to seek recovery of the amortization expense through any of the above stated items and conceded that the FCC could craft its order to bind the ILECs to such a commitment. Moreover, the ILECs reiterated their commitment "not to seek recovery of the interstate amortization expense through any rate action at the state level, including any action on unbundled network element ("UNE") rates."[1] Even though the ILECs commitments were

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[1] *See* March 3, 2000 *ex parte* letter to Mr. Lawrence Strickling, Chief, Common Carrier Bureau from Frank J. Gumper, Bell Atlantic Network Services, Robert Blau, BellSouth Corporation, Donald E. Cain, SBC Telecommunications, Inc. and Alan F. Ciamporcero, GTE Service Corporation ("ILEC participants") in CC Docket No. 96-262 – Access Charge Reform; CC Docket No. 94-1 – Price Cap Performance Review for Local Exchange Carriers; CC Docket No. 99-249 – Low-Volume Long Distance Users; and CC Docket No. 96-45 – Federal-State Joint Board on Universal Service ("*March 3, 2000 letter*").

meant to be clear, leaving no confusion, it appears that some entities fear that the language is open to interpretation and the ILECs may avoid any commitment that would limit their ability to raise intrastate prices in order to recover a portion of the amortization amount in state proceedings.[2]

Accordingly, to ensure that no question could possibly exist regarding this matter, the ILECs submit this letter as an intransigent commitment on their behalf. The undersigned ILECs commit that they will not seek to recover *any* portion of the proposed FCC amortization amount by increasing interstate or intrastate prices. Further, in any state jurisdiction that automatically mirrors FCC depreciation rates, the ILECs agree not to seek intrastate price increases to recover the increased intrastate amortization expense that would occur as a result of this FCC amortization action.

Many state commissions have taken an independent approach to depreciation and many currently have authorized various amortizations as well as lives that differ from those prescribed by the FCC. These state depreciation procedures have been approved in the context of the local regulatory process and circumstance. The ILEC's do not intend to interfere with the prerogatives of the state commissions or to propose that the FCC's actions should bind the states in matters of depreciation. Again, the signatories to the CALLS agreement pledge not to seek intrastate price increases to recover any part of the proposed FCC amortization. We do not see how we can be more clear.

Should any other questions or concerns remain, please contact any of the undersigned to discuss.

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2 *See* NARUC Reply Comments at page 6, Section D.

/s/ Frank J. Gumper
Vice President Regulatory and
Long Range Planning
Bell Atlantic Network Services

/s/ Robert T. Blau
Vice President, Executive and
Federal Regulatory Affairs
BellSouth Corporation

/s/ Donald E. Cain
Vice President Federal Regulatory
SBC Telecommunications, Inc.

/s/ Alan F. Ciamporcero
Vice President, Regulatory Affairs
GTE Service Corporation

cc: K. Brown
D. Attwood
R. Beynon
J. Goldstein
S. Whitesell
K. Dixon
C. Mattey
K. Moran