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PUBLIC SERVICE COMMISSION

April 21, 2000

VIA ELECTRONIC FILING AND U.S. POSTAL SERVICE

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

Re: CC Docket No. 98-137, 1998 Biennial Regulatory Review--Review of Depreciation Requirements for Incumbent Local Exchange Carriers
CC Docket No. 99-117, Ameritech Corporation Telephone Operating Companies' Continuing Property Records Audit, *et. al.*
AAD File No. 98-26, GTE Telephone Operating Companies Release of Information Obtained During Joint Audit

Dear Ms. Salas:

Transmitted herewith is an electronic copy of the Florida Public Service Commission Reply Comments regarding the depreciation proposal of the CALLS ILECs in the above-noted dockets. An original and five copies are also being sent by regular mail. Please date stamp and return one copy.

In the event of any questions concerning this matter, you may contact Pat Lee at (850) 413-6453.

Sincerely,

/s/

Cynthia B. Miller, Esq.
Bureau of Intergovernmental Liaison

CBM:tf

cc: Brad Ramsay, NARUC
Debbie Byrd, Accounting Safeguards Division, with diskette
International Transcription Service, with diskette

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Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of:	
1998 Biennial Regulatory Review-- Review of Depreciation Requirements for Incumbent Local Exchange Carriers	CC Docket No. 98-137
Ameritech Corporation Telephone Operating Companies' Continuing Property Records Audit, *et. al.*	CC Docket No. 99-117
GTE Telephone Operating Companies Release of Information Obtained During Joint Audit	AAD File No. 98-26

REPLY COMMENTS OF THE FLORIDA PUBLIC SERVICE COMMISSION

The Florida Public Service Commission (FPSC) appreciates the opportunity to submit comments to the Federal Communications Commission (FCC) regarding its Further Notice of Proposed Rulemaking (FNPRM) on the 1998 Biennial Regulatory Review--Review of Depreciation Requirements for Incumbent Local Exchange Carriers in Docket No. 98-137, the Ameritech Corporation Telephone Operating Companies' Continuing Property Records Audit, *et. al.*, in Docket No. 99-117, and the GTE Telephone Operating Companies Release of Information Obtained During Joint Audit in AAD File No. 98-26. The FNPRM seeks comment regarding an alternative proposal submitted by the Coalition for Affordable Local and Long Distance Service (CALLS) ILECs to the FCC on March 3, 2000, to eliminate the existing disparity between the regulatory and the financial accounting for depreciation expense and associated reserve balances over five years in conjunction with the CALLS proposal regarding universal service and interstate access charge reform.

First and foremost, the FPSC agrees with the FCC's conclusions in its Report and Order in CC Docket No. 98-137 and Memorandum Opinion and Order (Depreciation Order) adopted on December 17, 1999 and released December 30, 1999. Additionally, we believe the depreciation proposal of the ILEC members of the CALLS, with minor modifications, could satisfy the criteria set forth in the Depreciation Order. However, we notice that the FNPRM would relate to all price cap ILECs rather than just the CALLS ILECs. Since the commitments made by the CALLS ILECs are not necessarily commitments of other price cap ILECs, we would encourage the FCC to obtain similar commitments from the other price cap ILECs before those carriers are given the same treatment proposed by the CALLS ILECS.

ABOVE-THE-LINE vs. BELOW-THE-LINE AMORTIZATION

When the ILECs adopted the discontinuation of application of FASB Statement No. 71 and elected to use shorter depreciation lives for reporting their operations in their financial statements, a difference in the reserve position was created. This difference was created by a credit to the reserve and a debit to an extraordinary below-the-line charge reflecting the effect of shorter plant lives. To parallel the original accounting that set up the difference in the reserve positions between the financial and regulatory books and to eliminate an administrative five-year amortization period, the FPSC suggests a one-time regulatory adjustment below-the-line resulting in a modification to the CALLS ILEC proposal. Such a write-off represents a one-time, non-recurring adjustment which, by definition, is typically recorded below-the-line. In contrast, the above-the-line adjustment proposed by the CALLS ILECs will artificially lower the reported earnings of the carriers. Moreover, an above-the-line adjustment could lead one to infer that the carriers' financial depreciation rates were reasonable. No such finding has been made; if an above-the-line adjustment were allowed, it should not be taken as tacit approval of the shorter lives. As the FCC concluded in the Depreciation Order, "the incumbent LECs have not sufficiently demonstrated the validity of the assumptions underlying their proposed shorter lives for plant equipment categories other than digital switching equipment."

Also, the below-the-line adjustment provides assurance that customer rates will not be affected by the adjustment. The CALLS ILEC proposal already commits not to change interstate price caps or rates, and not to seek recovery of the regulatory-financial book reserve difference in customer rates or through a low-end or exogenous adjustment. While the CALLS commitment refers only to interstate amortizations, the FNPRM infers that the CALLS ILECS also intend to commit not to seek recovery, at the state level, of any portion of the amortization. The FPSC believes that a similar adjustment on the intrastate books would bring all plant records into agreement with the financial records and would provide the same assurance that there would be no impact on intrastate customer rates.

On the other hand, if the FCC concludes that the amortization should be recorded as an above-the-line operating expense, the specific account or accounts to which this amortization is recorded should likewise be set forth. The specific accounting treatment must be mandated to fully insure that no portion of these expenses will impact local rates, UNEs, interconnection rates, or USF cost levels.

AMORTIZATION PERIOD

The FNPRM requests comment on whether a five-year amortization accounting treatment will have an adverse impact on reported earnings. Without knowing the specific amount of the amortization for the Florida operating carriers, the FPSC cannot categorically conclude that a five-year amortization will or will not have an adverse impact on a carriers' earnings. However, the 1999 returns on equity as reported in the carriers' financial reports range from 18% to 29%, which would seem to indicate little likelihood of an adverse impact either from a five-year amortization period or an immediate write-off. It appears quite evident that there are sufficient revenues to recover the amortization expenses. The FPSC would maintain that the reserve difference, sometimes referred to as stranded cost, will be fully recovered at the end of the amortization period, whether that is a five-year period or an immediate write-off.

IMPACT ON LOCAL RATES AND COMPETITION

A major public interest issue remaining is to determine how the new depreciation rates resulting from the shorter lives and possibly different depreciation methods will affect future costs and customer rates. The FCC currently uses depreciation factors within the FCC authorized ranges when calculating forward-looking economic costs for universal service high cost loop support purposes. The FNPRM does not propose a change to this policy. If the FCC decides to no longer prescribe depreciation rates for price cap ILECs, the FPSC believes the FCC should continue to oversee the appropriateness of depreciation in cases where depreciation expense is a significant portion of the cost. While there will certainly be more pressure for the FCC and states to use the financial depreciation rates as inputs to the proxy models, the FCC should remain cognizant of its conclusion in the Depreciation Order that the ILECs have not sufficiently demonstrated the validity of the assumptions underlying their proposed shorter lives for plant equipment categories other than digital switching equipment.

Another reason for continued FCC oversight is that carriers may choose other methods of depreciation such as accelerated depreciation while maintaining existing financial lives. There is nothing in the FNPRM that would prohibit this action, although the FCC's Uniform System of Accounts currently requires carriers to use a straight-line method of depreciation. However, with increased pressures for the FCC to move to General Accepted Accounting Principles (GAAP), the FPSC cautions the FCC that GAAP would permit the use of depreciation methods other than straight-line. Depreciation rates resulting from accelerated depreciation methods, if used in the proxy models, would have a significant impact in the determination of universal service support as well as interconnection and UNE prices. Additionally, FCC oversight will provide states with an additional source of information that can be considered when determining prices for unbundled network elements and intrastate universal service fund levels.

Before rendering a decision in this rulemaking docket, the FPSC believes that the FCC should quantify the overall change that will result from moving to financial depreciation rates, and require each ILEC to furnish the following information:

1. The reserve differences at December 31, 1999, between its financial and regulatory books.

2. The projected financial depreciation expense for year 2000.

3. The projected regulatory depreciation expense for year 2000 with and without the reserve amortization.

4. The depreciation method to be used for calculating financial depreciation expense.

In order for the FCC to continue its ability to maintain realistic life and salvage factor ranges so they are available for use in universal service cost models or in states' interconnection and unbundled network elements (UNE) cost analyses, carriers should be required to submit plant life information to satisfy the fourth criteria set forth in the Depreciation Order. However, the CALLS proposal would place the timing of such data submission at the discretion of the carriers by committing "to submit, under a request for confidentiality, information concerning their depreciation accounts when significant changes to depreciation factors are made." The FPSC is concerned that insignificant changes to the carriers may not be considered insignificant to the FCC or to the states. The FCC should determine for themselves if changes in depreciation factors are warranted. This can only be done if the relevant information and data is available. Therefore, we urge the FCC to reaffirm its position in its Depreciation Order and require carriers to submit information such as forecast additions and retirements for major network accounts; replacement plans for digital central offices; and information concerning relative investments in fiber and copper cable. This information should be readily available from the carriers' records, whether plant and equipment is depreciated over its service life under financial or regulatory accounting principles, and therefore should not be burdensome. Further, we suggest that this information be submitted on an annual basis. Carriers already submit accounting information annually through the FCC ARMIS Reports. With the rampant technological changes in technology and competitive pressures facing carriers, updated planning should likewise be available annually without causing an undue burden.

On the subject of confidentiality, the FCC has procedures which dictate the confidentiality of information. The Depreciation Order found the existing procedures to be sufficient to protect carrier information. The FPSC asserts that a conclusion at this time on the confidential status of carrier information to be submitted is premature.

CPR AUDITS

The FNPRM requests comments regarding whether the CPR audits should be terminated when the ILECs agree to an amortization adjustment. The FPSC believes it is in the public interest and fosters competition to resolve the questions arising from the CPR audits rather than ignoring them, regardless of the outcome of this rulemaking. Further, CPR discrepancies could have an impact on current levels of universal support for rural carriers, since the existing methodology calculates support based on historical financial information. On a forward-looking basis, universal service support for nonrural ILECs may also be affected, to the extent that the proxy model employed utilizes historical relationships to determine forward-looking plant-specific expenses and other expense categories. It is unclear at this point when and if Florida will implement a state USF; however, use of erroneous embedded data may result in misstatements of funding requirements, if estimates of expense levels attributable to universal service are based on faulty historical cost relationships. In either event, the reliance on historical costs that are misstated could mean the calculations used to establish a Florida USF will be inaccurate.

A fundamental concept is that depreciation expenses relate to existing assets regardless of the effect on price caps. It is imperative that the depreciation rate be applied to the correct base in calculating depreciation expense. To the extent the base is overstated due to a carrier's failure to record the retirement of investment that is no longer in service or the inclusion of non-regulated assets, depreciation expenses will be overstated. The FNPRM seems to infer that the proposed amortization will correct any misstatements resulting from the CPR audits. The FPSC asserts that the amortization action contemplated in this rulemaking will not affect the investment to which depreciation rates will be applied. If the investments are overstated before the amortization, they will be overstated after the amortization. The proper valuation of a carrier's assets is imperative in order to assure that funding for high cost loops is determined appropriately. For these reasons, the FCC should require the ILECs to provide a plan to verify that the plant and equipment being depreciated on the financial records is properly includable in their plant and equipment balances in their financial statements. Further, the issues raised in the CPR proceedings should be throughly reviewed and decided in those proceedings and not in this FNPRM.

ADDITIONAL COMMENTS

We want to note that the FCC merely released this Further Notice of Proposed Rulemaking on April 3, yet is requiring comments by April 17. A state commission which holds publicly noticed meetings can barely react in this unrealistically short amount of time. Only through extra diligence can a state even keep up with all the many permutations and filings in the CALLS proposals and CALLS revisions. If the FCC sincerely wishes to include states in this very important matter, more time should be allotted for responding.

As Commissioner Furchtgott-Roth says, "The public generally was not notified that the CALLS negotiations were taking place, nor were a number of parties that wished to be included in these negotiations permitted at the table." He concludes "that the process by which this Notice has been promulgated falls short of certain fundamental principles that govern the behavior of administrative agencies."

We sincerely appreciate the FCC's desire to take some action that brings certainty and to do so quickly. Yet the negotiation on the CALLS proposal and its progeny in related dockets should be in the sunshine as much as possible, and should provide a sufficient opportunity for States and the general public to be involved.

CONCLUSION

In conclusion, the FPSC believes that the depreciation proposal of the ILEC members of the CALLS, with minor modifications, could satisfy the criteria set forth in the Depreciation Order. However, before the proposal is applied to other price cap ILECs, the FCC should obtain similar commitments as received from the CALLS ILECs. Furthermore, before rendering a decision in this rulemaking docket, the FCC should quantify the overall change for all carriers that will result from moving to financial depreciation rates. We believe the difference between the financial reserve position and the regulatory reserve position should be recorded as a one-time, below-the-line adjustment to ensure there is no customer rate effect. If an above-the-line adjustment is made, we believe a one-year amortization is appropriate as it does not appear that such action will have an adverse impact on reported earnings. Additionally, in order for the FCC to update its life and salvage ranges for use when calculating forward-looking economic costs for universal service high cost loop support purposes as well as for states to use for interconnection and UNE prices, carriers should submit plant life information on an annual basis. Finally, questions arising from the CPR audits should be resolved independent of the decision in this rulemaking. The potential impacts on depreciation expense and universal support levels, because of overstated investment levels, have no relation to the amortization amount or the fact that it is non-recoverable.

Finally, we are concerned with the unduly short comment time in this docket and with negotiations that have not provided sufficient opportunity for states and the general public to be involved. This concern continues with respect to the overall CALLS proposal.

Respectfully Submitted,

/s/

Cynthia B. Miller, Esq.
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DATED April 21, 2000.

Petition of the Florida Public Service Commission
CC Docket No. 98-137

CERTIFICATE OF SERVICE

I hereby certify that copies of these FPSC reply comments are being mailed to the attached service list for the above dockets.

Respectfully submitted,

/s/

Cynthia B. Miller, Esq.
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