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

FCC 94-174

In the Matter of	)	
	)	
Simplification of the	)	CC Docket No. 92-296
Depreciation Prescription	)	
Process	)	

Second Report and Order

Adopted: June 22, 1994 **Released: June 28, 1994**

By the Commission:

I. INTRODUCTION AND BACKGROUND

1. On September 23, 1993, we adopted streamlined depreciation prescription procedures for the local exchange carriers ("LECs") regulated under our price cap incentive regulatory plan.[1] These procedures require us to establish ranges for the underlying factors that are used to compute depreciation rates for plant categories.[2] The new procedures generally will permit

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[1] Simplification of the Depreciation Prescription Process, Report and Order, 8 FCC Rcd 8025 (1993) (Depreciation Simplification Order).

[2] Rates are determined by a depreciation rate formula:

$$\text{Depreciation Rate} = \frac{100\% - \text{accumulated depreciation}\% - \text{future net salvage}\%}{\text{average remaining life}}$$

This formula requires forecasting two parameters: future net salvage (FNS) and average remaining life (ARL). The FNS is the estimated gross salvage of the plant less any estimated cost of removal. The ARL is the estimated average of the future life expectancy of investment in a particular plant account. The ARL is derived from two basic factors: a carriers to make streamlined filings for changes in depreciation rates for these categories, as long as their underlying factors fall within the prescribed ranges. By adopting these streamlined procedures, we hoped to simplify the depreciation process, achieve administrative savings, and allow the LECs greater flexibility[3] in the depreciation process, while remaining consistent with the public interest.[4]

2. We further concluded that the streamlined procedures should be implemented as soon as practicable. To that end, we decided to implement the new procedures in two phases. In phase one, we directed the Common Carrier Bureau to identify the accounts most readily adaptable to the range approach and propose ranges for them.[5] In phase two, we will establish ranges for the remaining, more complex accounts, to the extent feasible.

3. On November 8, 1993, we adopted an Order Inviting Comment[6] on 22 plant categories selected by the Bureau for initial implementation of the streamlined procedures. These categories represent two-thirds of the 33 plant categories for which carriers currently submit depreciation studies. In addition, the OIC sought comments on the proposed projection life and future net salvage ranges proposed by the Bureau for these categories.

4. A total of 26 parties filed comments, reply comments, and ex parte communications.[7] These parties include state commissions, the National Association of Regulatory Utility Commissioners ("NARUC"), LECs, the United States Telephone Association ("USTA"), MCI Telecommunications Corporation ("MCI"), the California Cable Television Association, and the General Services Administration ("GSA"). In this Second Report and Order, we are adopting the proposed ranges.[8]

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additions to plant.

[3] Flexibility allows a LEC to select, within established ranges, the life and salvage factors it uses in prescribed depreciation rates without undergoing the expense of submitting studies to justify its specification of those factors. Depreciation Simplification Order, 8 FCC Rcd at 8035. In addition, under the new procedures, the LECs can change their basic factors annually, as opposed to the current triennial represcription cycle. Id. at 8054.

[4] Id. at 8054.

[5] Id. at 8051.

[6] Simplification of the Depreciation Prescription Process, Order Inviting Comments (OIC), CC Docket No. 92-296, FCC 93-492 (Nov. 12, 1993).

[7] The list of the parties filing each type of pleading is contained in Appendix A.

[8] In the Depreciation Simplification Order, we addressed such issues as the accounts for which ranges should be established, the data and procedures to be used to establish, review

II. DISCUSSION

A. Accounts Selected for the Streamlined Procedures

5. The OIC solicited comments on the 22 plant categories selected for phase one of the implementation process.

1. Position of the Parties

6. The LECs and USTA maintain that, to maximize the benefits of the simplification procedures, ranges should be established for all accounts as quickly as possible. They argue that the limited number of accounts for which ranges have been proposed in phase one severely restricts the benefits of streamlining depreciation.[9] According to the majority of these commenters, the 22 categories selected for this phase contain only a small portion of the carriers' overall plant investment, and do not include the central office and outside plant accounts that contain most of the plant investment and are most affected by competition and changing technologies. These commenters suggest that phase one of the implementation process should be expanded to include ranges for the larger network-related accounts.[10] Moreover, GTE, Southwestern, and US West[11] contend that the Commission has sufficient information to establish ranges for these larger accounts at this time.

7. MCI, the Oklahoma Commission, the Utah Commission, the Colorado Commission, the Minnesota Department of Public Service ("Minnesota DPS"), and NARUC support the 22 plant categories proposed in the OIC for implementation in phase one of the simplification process. The Oklahoma and Utah Commissions[12] state that the categories selected in the OIC are

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and update the ranges, and eligibility criteria for using the ranges. Many of the parties filing in response to our OIC included additional comments on these issues. Such comments are not relevant to the questions raised by the OIC. To the extent these comments were also made by these parties in their petitions for reconsideration of the Depreciation Simplification Order, they will be considered in conjunction with our analysis of the petitions seeking modifications to that Order. In the paragraphs below, we address the issues germane to our OIC.

[9] See, e.g., Bell Atlantic Comments at 1-2; SNET Comments at 1-2; Pacific Comments at 2; US West Comments at 2.

[10] See, e.g., Ameritech Comments at 2; BellSouth Comments at 3; NYNEX Comments at 2-3; Southwestern Comments at 2-3; US West Comments at 2.

[11] GTE Comments at 3; Southwestern Comments at 3; US West Comments at 4-6.

[12] Oklahoma Commission Comments at 2-3; Utah Commission Comments at 2.

generally uncontroversial and, therefore, ranges can be established readily for them. The Colorado Commission, the Minnesota DPS, and NARUC[13] contend that the excluded plant categories present a variety of circumstances requiring further study before proper ranges can be established.

8. The Missouri Commission opposes the range approach on the grounds that it does not consider the individual circumstances of the LECs. It states that, if adopted, the range approach should be limited to individual accounts with no more than two percent of total depreciable plant investment.[14]

2. Discussion

9. We agree with the commenters that the ranges should be established as soon as possible. However, to begin the simplification process in 1994, it is necessary to implement the streamlined depreciation procedures in two phases and to limit the initial phase to certain categories of plant readily adaptable to the range approach. As we stated in the Depreciation Simplification Order, this schedule will make the most efficient use of our limited resources.[15] To change our plans at this time and to perform the thorough analyses required to establish appropriate ranges for additional plant accounts would delay unnecessarily the use of the new procedures for the depreciation categories identified in the OIC. The commenting parties have presented no new information or arguments that would warrant a change in our plans.

10. Prior to the release of the Notice of Proposed Rulemaking in this proceeding, the staff of the Common Carrier Bureau had been considering ways to improve and to streamline the depreciation prescription process. The staff collected a substantial amount of data and performed analyses to determine the difficulty of establishing ranges for various accounts. Based on these analyses, it concluded that the 22 plant categories proposed in the OIC were the categories most adaptable to the range approach, because their life and salvage factors did not vary substantially among the carriers, or over time. As noted above, the commenting state commissions generally concur with this conclusion.

11. The LECs complain that we did not propose to include additional accounts, especially the larger network-related accounts, in phase one of the simplification process. They contend that, until ranges are established for these accounts, the benefits derived from the simplification process will be minimal. We disagree. We estimate that the establishment of the ranges for the 22 categories selected for phase one will result in a substantial simplification and resource savings. Carriers now file depreciation studies that average approximately 660 pages, which

[13] Colorado Commission Reply Comments at 5-6; Minnesota DPS Reply Comments at 5; NARUC Comments at 5.

[14] Missouri Commission Comments at 1-2.

[15] Depreciation Simplification Order, 8 FCC Rcd at 8051.

amounts to an average of 20 pages of analysis per plant category for each of 33 categories. Our new streamlined procedures will reduce the analysis required for each category to a maximum of 5 pages, which is a savings of 15 pages per category. Thus, instituting these procedures for the 22 categories selected for phase one will reduce the size of a typical depreciation study by a total of 330 pages, or 50%. We recognize that a 50% reduction in the size of the study will not necessarily result in a reduction of the workload by 50%. Nevertheless, in our view, the elimination of so much of the detailed analyses currently required in the studies will produce a substantial administrative savings for both the LECs and our staff.

12. Moreover, we plan to propose ranges for additional accounts later this year, and to adopt ranges for these accounts early in 1995. As a result, we expect that the simplification procedures will be in place for all accounts, to the extent feasible, for the 1995 depreciation prescription review process. The ranges we establish in this Second Report and Order will be used to establish depreciation rates for 1994. Considering that ranges for additional accounts will take effect in 1995, we believe that our two-phase plan will allow us to achieve a major improvement in the depreciation prescription process in a very short period of time.

13. Accordingly, we find that the selection of accounts listed in Appendix B of this Second Report and Order for phase one of the simplification process is reasonable, and will further our objective of implementing the simplification procedures as quickly as possible. We conclude that it is in the public interest to adopt ranges for these accounts at this time. We further find that the record in this proceeding is not adequate to support adoption of ranges for any other accounts at this time.

B. Establishment of Ranges at the Category Level

14. In the OIC, we proposed to establish ranges at the account level for sixteen plant accounts and at a rate category level for four additional accounts.[16]

1. Position of the Parties

15. The majority of parties commenting on this matter support our proposal. NARUC states that complying with streamlined study requirements at the rate category level would not be difficult or expensive for the LECs, because the Commission's accounting rules already require

[16] A rate category is a category of plant to which a specific depreciation rate is applied. For the majority of plant, the rate categories correspond to the plant accounts prescribed in Part 32. (47 C.F.R. Part 32). For example, the rate category for poles is Account 2411, Poles. (47 C.F.R. §32.2411). For six plant accounts, however, we allow carriers to subdivide the accounts so that separate depreciation rates apply to different types of investment within a particular account. See 47 C.F.R. §§ 32.2232, 32.2421, 32.2422, 32.2423, 32.2424, 32.2426. For example, in the cable accounts, we generally prescribe different rates for metallic (copper) cable verses non-metallic (fiber) cable.

carriers to maintain the necessary subsidiary records.[17] GTE, however, contends that this policy would result in additional work for the carriers.[18]

16. Pacific suggests that if a carrier maintains levels of categorization that are more detailed than those proposed by the Commission, it should be allowed to use the streamlined procedures.[19] Specifically, it recommends that, if the "composite" factors of a carrier's individual rate categories are within the ranges established for the category as a whole, the carrier should be able to use the streamlined procedures. NYNEX makes a special request that the Commission establish a separate rate category[20] with appropriate ranges for interoffice cable plant, because it contends the life characteristics of this plant are significantly different from those of subscriber cables.

2. Discussion

17. Based on these comments, we have decided to adopt the ranges for the 22 rate categories as proposed in the OIC (see Appendix B). As NARUC observed, establishing ranges at these levels should not require any additional record keeping or substantial effort on the part of the LECs, since they are presently required to maintain their accounting records at these levels under Part 32.[21] This requirement includes maintaining records at the category levels listed in Appendix B for Account 2232, Circuit Equipment;[22] Account 2421, Aerial Cable;[23] Account 2422, Underground Cable;[24] and Account 2423, Buried Cable.[25]

18. We have decided not to develop special ranges for LECs that have chosen to study rate categories at levels not listed in Appendix B. The application of our range approach is based on national averages of prescribed depreciation factors. Consequently, to develop special ranges

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[17] NARUC Comments at 5.

[18] GTE Comments at 3-4.

[19] Pacific Comments at 6-7.

[20] NYNEX Comments at 3.

[21] 47 C.F.R. §32.12(b). The LECs for which we prescribe depreciation rates are Class A companies and must keep all the Class A accounts prescribed in Part 32.

[22] 47 C.F.R. §32.2232(c).

[23] 47 C.F.R. §32.2421(a).

[24] 47 C.F.R. §32.2421(a).

[25] 47 C.F.R. §32.2423(a).

would slow the process significantly as it would be necessary to require many carriers to submit large amounts of data which we would then have to analyze in order to establish appropriate ranges. This would place an undue burden on the majority of the carriers that do not study the plant investment at the levels of detail desired by the LECs that seek ranges for additional categories. This is not to say that a LEC cannot disaggregate the categories for which we prescribe ranges into subcategories, if it concludes that further disaggregation is necessary to compute accurate depreciation rates. We believe that it would be too burdensome, however, and an inefficient use of resources to develop ranges for these special cases.

19. Nevertheless, we will consider requests from LECs like Pacific, that study an account listed in Appendix B at a more detailed level than shown, but wish to qualify within the established range for that account. During the prescription process, we will consider their proposals on a case-by-case basis to use the basic factors computed at the more detailed levels to satisfy the range requirements. In appropriate cases, this should relieve some of the burden on LECs studying rate categories at more detailed levels, yet allow us to administer our range approach on a uniform basis.

C. Ranges Adopted for the Initial Accounts

20. The OIC solicited comments on a specific set of proposed ranges for the future net salvage and projection life factors for 22 plant categories.

1. Position of Parties

21. USTA and the LECs argue that the proposed ranges are too narrow,[26] because the LECs will be able to use the streamlined procedures for fewer than 50% of the 22 plant categories. They argue that the ranges should be expanded in order to streamline the process significantly. In addition, for a few of the plant categories, they argue that the proposed life ranges are too high. They suggest that, because of the rapid changes in technology, certain plant accounts should be written off more quickly.[27]

22. GSA, MCI, NARUC and most of the state commission commenters[28] support the ranges proposed in the OIC. California CATV and GSA believe that the objections to the proposed ranges raised by the LECs are aimed at obtaining higher depreciation rates, rather than

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[26] See, e.g., Ameritech Comments at 3-4; NYNEX Comments at 4; and BellSouth Comments at 3-4.

[27] Bell Atlantic Comments at 5-8; US West Comments at 9-16.

[28] GSA Comments at 7; MCI Comments at 2; NARUC Comments at 4; Utah Commission Comments at 1; Oklahoma Commission Comments at 3-4; Colorado Commission Reply Comments at 1; Minnesota DPS Reply Comments at 6.

streamlining the depreciation process.[29]

23. On the other hand, the Missouri Commission believes that the proposed ranges are too wide, and would permit the LECs to increase significantly their depreciation expenses without adequate justification. It suggests more narrow life ranges in which the upper bound would exceed the lower bound by no more than 20%.[30] Moreover, the Missouri Commission recommends that we increase the upper and lower life bounds for fiber cable and public telephones and increase the upper and lower net salvage bounds for fiber cable.[31]

2. Discussion

24. In the Depreciation Simplification Order, we set forth the specific data that should be considered in establishing the projection life and future net salvage ranges,[32] and we used these data in proposing ranges in the OIC. We first developed ranges of one standard deviation around the means of the basic factors underlying the currently prescribed LEC depreciation rates. From that point, we determined whether there were technological trends or changing carrier plans that might not be fully reflected in some of the LECs' prescribed factors. We then considered the number of LECs with basic factors that fall within the initial ranges and altered the ranges where appropriate.[33]

25. We do not believe that the ranges are too high, or too low, as some of the commenters contend. Our objective was not to change the depreciation rates, but to streamline the process used by the Commission to prescribe those rates. As indicated above, we based the ranges on statistical studies of the most recently prescribed factors. These statistical studies required detailed carrier-by-carrier analyses of the most recent plant retirement patterns, the carriers' plans, and the current technological developments and trends. Because the proposed ranges reflect these data, we believe that the ranges provide a reasonable degree of confidence that the basic factors falling within their bounds will produce depreciation rates accurately reflecting

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29 California CATV Reply Comments at 5; GSA Reply Comments at 7.

30 Missouri Commission Comments at 2-3.

31 Id. at 5.

32 Depreciation Simplification Order, 8 FCC Rcd at 8050.

33 For example, for the circuit analog category (Account 2232), a life range of plus or minus one standard deviation (SD) about the mean would yield a 8.5 - 11 year life range, with 67% of the carriers falling within the range. Our decision to expand the range to 8 - 11 years resulted in 76% of the carriers falling within the range. Likewise, a salvage range of plus or minus one SD about the mean would yield a -4% to -1% salvage range for this category, with 60% of the carriers falling within the range. By widening the range to -5% to 0%, 98% of the carriers would then fit within the range.

plant retirements, company plans, and technological trends. Moreover, they allow the LECs sufficient flexibility in the selection of the final factors.[34] We do not have the same confidence with regard to wider ranges. Consequently, we will not at this time modify any of the proposed ranges. We believe that some experience with the ranges should be developed before we consider modifying them. If changing conditions require revisions in the ranges, we can modify them at that time.[35]

26. The LECs' assertion that they will be able to use the streamlined procedures for fewer than 50% of the 22 rate categories is incorrect.[36] We have studied the potential application of the ranges to every carrier for which the Commission prescribes depreciation rates. We have found that today over two-thirds of the carriers would qualify for the streamlined procedures for the 22 proposed rate categories. Furthermore, our most recent depreciation rate reviews indicate that the proportion should increase over the next few years.

D. Other Issues

1. Previous Study Options

27. In the past, we allowed two informal, alternative streamlined procedures for plant accounts representing less than 3% of a carrier's total depreciable investment in a jurisdiction. One informal procedure allowed carriers to set projection lives at the average of the most recent life indications and to set their future net salvage percentages at the average of the most recent five-year band of actual net salvage percentages.[37] The second informal procedure allowed the carriers to use the currently prescribed projection life and future net salvage factors.[38] Ameritech and Pacific Bell ask whether we intend to continue to allow price cap LECs to use these procedures.[39] In addition, Pacific suggests that the Commission should reinstate these streamlined study procedures, and focus its simplification efforts on other accounts, thus

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[34] See supra, note 3.

[35] Depreciation Simplification Order, 8 FCC Rcd at 8058.

[36] In the Depreciation Simplification Order, the Commission decided that "if a LEC's current basic factors for any one account do not both fall within the established ranges for that account, the LEC may not use the range approach for that account." Depreciation Simplification Order, 8 FCC Rcd at 8055.

[37] Carriers could use this procedure in cases where suitable mortality data existed and wide fluctuations in indications did not occur.

[38] Carriers could use this procedure only if there were no suitable mortality data or if mortality analysis provided inconsistent or unreliable results.

[39] Ameritech Comments at 3; US West Comments at 14.

increasing the number of accounts subject to some type of simplification.[40]

28. We are replacing these informal streamlined study procedures with the adoption of our range option. To have several streamlined procedures in place at the same time could prove confusing and could negate any streamlining achieved by the Commission. Moreover, these previous procedures had a minimal streamlining effect as compared with the new streamlined procedures. To illustrate, they only reduce the studies by 3 or 4 pages per category, whereas our new procedures reduce them by 15 pages. Therefore, we have decided to employ only the streamline range option adopted in our Depreciation Simplification Order.

2. Carriers Scheduled for Review in 1995 and 1996.

29. Under our depreciation prescription process, one-third of the carriers for which we prescribe depreciation rates have their rates reviewed each year. In the Depreciation Simplification Order, we stated that price cap LECs scheduled for review in 1995 and 1996 could file for changes in their depreciation rates for 1994 as long as they used basic factors within the ranges we selected. These carriers must file these depreciation rate changes in a timely manner in accordance with the requirements set forth in the Depreciation Simplification Order.[41]

III. ORDERING CLAUSES

30. Accordingly, IT IS ORDERED, pursuant to Section 4(i), 201-205 and 220(b), of the Communications Act of 1934, as amended, 47 U.S.C. §§ 154(i), 201-205 and 220(b), that the ranges for the future net salvage and the projection life factors for the accounts listed in Appendix B are HEREBY ADOPTED as specified in Appendix B.

31. IT IS FURTHER ORDERED, that this order is effective thirty days after publication in the Federal Register.

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[40] Pacific Comments at 3.

[41] Depreciation Simplification Order, 8 FCC Rcd at 8056.

32. IT IS FURTHER ORDERED, that carriers may use the ranges established herein for federal filing purposes prior to the effective date of this order.

FEDERAL COMMUNICATIONS COMMISSION

William F. Caton
Acting Secretary

APPENDIX A

Comments Filed

Ameritech Operating Companies (Ameritech)
Bell Atlantic (Bell Atlantic)
BellSouth Telecommunications, Inc. (BellSouth)
California Cable Television Association (California CATV)
Colorado Public Utilities Commission (Colorado Commission)
GTE Service Corporation (GTE)
General Services Administration (GSA)
MCI Telecommunications Corporation (MCI)
Missouri Public Service Commission (Missouri Commission)
National Association of Regulatory Utility Commissioners (NARUC)
New York Telephone Company and
New England Telephone and Telegraph Company (NYNEX)
Oklahoma Corporation Commission Public Utility Division Staff (Oklahoma Commission)
Pacific Bell and Nevada Bell (Pacific)
Southern New England Telephone Company (SNET)
Southwestern Bell Telephone Company (Southwestern)
United States Telephone Association (USTA)
Utah Division of Public Utilities (Utah Commission)

Reply Comments Filed

Bell Atlantic (Bell Atlantic)
BellSouth Telecommunications, Inc. (BellSouth)
California Cable Television Association (California CATV)
Colorado Public Utilities Commission (Colorado Commission)
General Services Administration (GSA)
MCI Telecommunications Corporation (MCI)
Minnesota Department of Public Service (Minnesota DPS)
National Association of Regulatory Utility Commissioners (NARUC)
Pacific Bell and Nevada Bell (Pacific)
Southwestern Bell Telephone Company (Southwestern)
United States Telephone Association (USTA)

Ex Parte Filing

United States Telephone Association (USTA)

APPENDIX B

ACCOUNTS AND RANGES FOR PHASE ONE IMPLEMENTATION

ACCOUNT NUMBER	ACCOUNT NAME	DEPRECIATION RATE CATEGORY	PROJECTION LIFE RANGE (YEARS) LOW	HIGH	FUTURE NET SALVAGE RANGE (PERCENT) LOW	HIGH
2112	Motor Vehicles	Motor Vehicles	7.5	9.5	10	20
2113	Aircraft	Aircraft	7	10	30	60
2114	Special Purpose Vehicles	Special Purpose Vehicles	12	18	0	10
2115	Garage Work Equipment	Garage Work Equipment	12	18	0	10
2116	Other Work Equipment	Other Work Equipment	12	18	0	10
2122	Furniture	Furniture	15	20	0	10
2123.1	Office Support Equip	Office Support Equip	10	15	0	10
2123.2	Co. Communications Equip	Co. Communications Equip	7	10	-5	10
2124	Gen. Purpose Computers	Gen. Purpose Computers	6	8	0	5
2231	Radio Systems	Radio Systems	9	15	-5	5
2232	Circuit Equipment	Digital Data Service	7	11	-5	10
2232	Circuit Equipment	Analog	8	11	-5	0
2311	Station Apparatus	Station Apparatus	5	8	-5	5
2341	Large PBX	Large PBX	5	8	-5	5
2351	Public Telephone	Public Telephone	7	10	0	10
2362	Other Terminal Equipment	Other Terminal Equipment	5	8	-5	5
2421	Aerial Cable	Non-Metallic	25	30	-25	-10
2422	Underground Cable	Non-Metallic	25	30	-20	-5
2422	Underground Cable	Metallic	25	30	-30	-5
2423	Buried Cable	Non-Metallic	25	30	-10	0
2424	Submarine Cable	Submarine Cable	25	30	-5	0
2441	Conduit Systems	Conduit Systems	50	60	-10	0