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

In the Matter of

The Prescription of Revised Percentages of	)
Depreciation pursuant to the Communications	)
Act of 1934, as amended for:	)
	)
Southwestern Bell Telephone	)

MEMORANDUM OPINION AND ORDER

Adopted: January 7, 1999 **Released:** January 8, 1999

By the Commission: Commissioner Furchtgott-Roth issuing a statement.

I. INTRODUCTION

1. On July 30, 1998, Southwestern Bell Telephone ("SBC") filed a request that the Commission prescribe revised depreciation rates pursuant to Section 220(b) of the Communications Act of 1934 ("Act").[1] In this Memorandum Opinion and Order, we adopt these rates.

II. BACKGROUND

2 Under the Communications Act of 1934, as amended, the Commission may prescribe depreciation rates that are used to compute depreciation expense for incumbent local exchange carriers ("LECs"). Our rules provide that prescribed depreciation rates shall allocate the carriers' plant investments on a straight-line basis over the life of the associated plant. The depreciation rate for an account is a function of the associated plant's average remaining life, future net salvage, and depreciation reserve ratio.[2] The depreciation rate is calculated using the following formula:

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[1] 47 U.S.C. § 220 (b). We note that the Commission recently commenced a review of the depreciation rules as a part of our biennial review of rules pursuant to Section 11 of the Act. 1998 Biennial Regulatory Review--Review of Depreciation Requirements for Incumbent Local Exchange Carriers, *Notice of Proposed Rulemaking*, CC Docket No. 98-137, FCC 98-170 (rel. Oct. 14, 1998) *("Depreciation NPRM")*.

[2] *See* 47 C.F.R. § 32.2000(g)(2)(ii). The average remaining life is the average of the future life expectancy of the various items in a particular plant account. The future net salvage is the estimated gross salvage of the plant less the estimated cost of removal. The depreciation reserve ratio represents the portion of a carrier's plant investment that has been depreciated or charged against income. It is the ratio of a carrier's respective accumulated depreciation and plant investment accounts.

$$\text{Depreciation rate} = \frac{100\% - \text{depreciation reserve ratio \%} - \text{future net salvage \%}}{\text{average remaining life}}$$

Both the average remaining life and the future net salvage factors are based upon estimates that require periodic review to ensure their reasonableness. In 1993, the Commission established procedures that allow streamlined studies for review, provided that carriers select life and salvage factors from within the prescribed ranges.[3]

III. DISCUSSION

3. On December 19, 1997, SBC submitted a depreciation rate study to the Common Carrier Bureau ("Bureau") proposing revisions to its depreciation rates for facilities in Kansas, Missouri, and Texas.[4] On March 6, 1998 and April 2, 1998, SBC provided additional information regarding its proposed depreciation rates.[5] Bureau staff reviewed this proposal and on July 23, 1998 convened a video teleconference with representatives of SBC and the Kansas Corporation Commission, Missouri Public Service Commission, and Texas Public Utility Commission.[6] With the exception of two accounts, all of the parties participating in the teleconference agreed to equipment life and salvage factors that should be used to compute SBC's depreciation rates. The exceptions are Account 2212, Digital Electronic Switching, and Account 2423, Buried Cable - Metallic for the Kansas jurisdiction. For these accounts, SBC and the Bureau staff agreed to factors, but the Kansas staff did not agree.

4. On July 30, 1998, SBC formally filed a request that the Commission prescribe revised depreciation rates for its Kansas, Missouri, and Texas facilities.[7] The Bureau staff reviewed the filing and determined that: (1) the proposed rates were based on the factors agreed to in the teleconference; (2) SBC

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[3] *See* Simplification of the Depreciation Prescription Process, *Report and Order*, 8 FCC Rcd 8025 (1993) (*"Depreciation Simplification Order"*), *petitions for recon. pending*; *see also*, *Second Report and Order*, 9 FCC Rcd 3206 (1994); *Third Report and Order*, 10 FCC Rcd 8442 (1995).

[4] *See* Letter from Richard G. Lindner, Vice President and Chief Financial Officer, Southwestern Bell Telephone, to Kenneth P. Moran, Chief, Accounting and Audits Division, Federal Communications Commission, December 18, 1997.

[5] *See* letter from B. Jeannie Fry, Director-Federal Regulatory, SBC Telecommunications, Inc., to Fatina Franklin, Chief, Competitive Safeguards Branch, Accounting and Audits Division, Federal Communications Commission, March 6, 1998. *See also*, Letter from Jane Knox, Director-Accounting, Southwestern Bell Telephone, to Fatina Franklin, Chief, Competitive Safeguards Branch, Federal Communication Commission, April 2, 1998.

[6] The Commission ensures that the states have a reasonable opportunity to present their views concerning carrier depreciation rates by inviting them to participate in conferences or teleconferences during which the proposed depreciation rate changes are discussed. *See* 47 U.S.C. § 220(i).

[7] *See* Letter from Richard G. Lindner, Vice President and Chief Financial Officer, Southwestern Bell Telephone, to Magalie R. Salas, Secretary, Federal Communications Commission, July 30, 1998.

did not propose, except for two accounts, to move its life factors outside the prescribed ranges;[8] and (3) the proposed rates were calculated consistently with our rules.[9]

5. On August 26, 1998, the Bureau released a Public Notice seeking comments on SBC's proposed rates. Only Kansas submitted comments. Kansas agreed to the proposed rates with the exception of Accounts 2212 and 2423. For those accounts, Kansas reserved judgment pending the resolution of a Kansas Commission proceeding in which those depreciation rates may be resolved for state ratemaking purposes.[10]

6. Based on our review of the record, we find that SBC's proposed depreciation rates were prepared in accordance with the Commission's depreciation prescription process and that the proposed rates are reasonable and consistent with our rules and orders. We therefore adopt SBC's proposed rates as specified in the Appendix.

7. In addition, SBC proposed that the revised rates become effective on January 1, 1998. SBC's request is consistent with our rules that allow rates to be made retroactive to the beginning of the year in which the filing is made.[11] We hereby set the effective date of these rates as January 1, 1998.[12]

IV. ORDERING CLAUSES

8. ACCORDINGLY IT IS ORDERED, pursuant to Sections 4(i), 201-205 and 220(b) of the Communications Act of 1934, as amended, 47 U.S.C. Sections 154(i), 201-205 and 220(b), that the percentages of depreciation set forth in the Appendix to this Order ARE PRESCRIBED, effective January 1, 1998.

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[8] For Account 2231, Radio Systems, SBC proposes 5-7 year projection lives to reflect its plans to replace all of its radio systems by 2002. The prescribed range for Radio Systems is 9-15 years. During the teleconference, Kansas, Missouri, Texas, and the Bureau agreed with SBC's proposed life for Radio Systems. For Account 2212, Digital Switching, SBC proposes a 14.5 projection life. The prescribed range is 16-18 years. SBC proposed that it be allowed to select a life outside the prescribed range to reflect the fact that digital switches are undergoing rapid technological changes, evolving into switches that offer greater capacities than previous generations of digital switches, and this has created higher interim retirements to accommodate new features and capture operational efficiencies that are available with new technologies. During the teleconference, all parties except Kansas agreed with SBC's proposed life for Digital Switching.

[9] *See* 47 C.F.R. § 32.2000(g).

[10] *See* Kansas Commission comments at 1.

[11] *See* The Prescription of Revised Percentages of Depreciation pursuant to the Communications Act of 1934, as amended for: Alascom, Inc., *et. al*, 6 FCC Rcd 750 (1991).

[12] *See* 47 C.F.R. § 43.43(e).

9. IT IS FURTHER ORDERED that this Order is effective upon release.

FEDERAL COMMUNICATIONS COMMISSION

Magalie Roman Salas
Secretary

STATEMENT OF
COMMISSIONER HAROLD FURCHTGOTT-ROTH

Re: ***The Prescription of Revised Percentages of Depreciation Pursuant to the Communications Act of 1934, as amended, for Southwestern Bell Telephone***

I support today's Order revising the depreciation rate for Southwestern Bell Telephone. I write separately to express my continued concern with the Commission's micromanagement of LECs in general. The Commission's authority to prescribe depreciation rates for LECs is a mere vestige of outdated rate of return regulation. I note that the Commission has initiated a proceeding to review the depreciation rules, along with many of its other detailed accounting regulations, in the context of its biennial review proceedings. I await anxiously the opportunity to address more fully these issues and the circumstances under which dominant LECs should be accorded a simpler form of price cap regulation.

In today's increasingly competitive telecommunications marketplace, the Commission should be focusing its efforts on transitioning to this more competitive environment. The amount of detailed information and regulatory scrutiny required under our current price cap rules is inordinate and should be reduced. This seemingly anachronistic regulatory regime should be reformed to provide further pricing flexibility, eliminating altogether such relics as the low-end adjustment. I am becoming increasingly convinced that the current regulatory mechanisms -- and certainly the level of detail -- are no longer necessary in today's increasingly competitive marketplace. We must develop a more forward-looking blueprint to guide the transition from regulation to competition. As I have stated previously, regulation is merely designed, to the extent possible, to replicate a competitive marketplace, but any form of regulation is an imperfect surrogate for full-fledged competition. I believe the Commission must consider even further deregulation as these cumbersome regulations become unnecessary.

FEDERAL COMMUNICATIONS COMMISSION
Schedule of Annual Percentages of Depreciation for
SOUTHWESTERN BELL TELEPHONE COMPANY - KANSAS

Effective January 1, 1998

Rate Category Description	Average Remaining Life	Future Net Salvage	Accumulated Depreciation	Remaining Life Depreciation Rate
	(years)	(%)	(%)	%
	A	B	C	D=(100%-B-C)/A
2112 MOTOR VEHICLES	3.6	11	56.9	8.9
2115 GARAGE WORK EQPT	3.8	0	57.1	11.3
2116 OTHER WORK EQPT	5.7	0	53.1	8.2
2121 BUILDINGS	25.0	6	27.3	2.7
2122 FURNITURE	7.0	0	27.6	10.3
2123 OFFICE SUPPORT	4.9	0	49.7	10.3
2123 COMPANY COMMUNICATIONS EQPT	3.7	0	58.9	11.1
2124 GEN'L PURPOSE COMPUTERS	2.4	2	71.9	10.9
2211 ANALOG ELECT SWITCHING	0.9	-3	75.3	30.8
2212 DIGITAL ELECT SWITCHING	7.8	2	33.1	8.3
2220 OPERATOR SYSTEMS	3.9	0	46.1	13.8
2231 RADIO @	1.8	-5	87.5	9.7
2232 DIGITAL DATA SYSTEMS	3.5	0	57.3	12.2
2232 DIGITAL CIRCUIT	5.7	0	40.3	10.5
2232 ANALOG CIRCUIT	3.0	-4	72.5	10.5
2311 STATION APPARATUS	2.9	-2	70.0	11.0
2341 LARGE PBX	3.2	-5	71.2	10.6
2362 OTHER TERMINAL EQPT	3.3	-2	8.3	28.4
2411 POLE LINES	10.2	-108	118.2	8.8
2421 AERIAL CABLE-METALLIC	10.5	-42	62.9	7.5
2421 AERIAL CABLE-NONMETAL	13.0	-25	22.3	7.9
2422 UG CABLE-METALLIC	14.3	-12	62.8	3.4
2422 UG CABLE-NONMETAL	13.1	-9	32.6	5.8
2423 BURIED CABLE-METALLIC	9.4	-10	55.4	5.8
2423 BURIED CABLE-NONMETAL	14.8	-10	24.3	5.8
2424 SUBMARINE CABLE	11.3	0	68.9	2.8
2426 INTRABLDG NETWORK CABLE-METAL	13.3	-17	63.6	4.0
2426 INTRABLDG NETWORK CABLE-NONMET	12.3	-5	49.2	4.5
2431 AERIAL WIRE	2.1	-145	161.7	39.7
2441 CONDUIT SYSTEMS	31.0	-10	30.8	2.6

The figures in Columns B, C, and D are percentages of gross book costs.

@ The January 1, 1998 reserve imbalance of $8,840,000 for the Radio Systems Account is to be amortized over a twenty-four month period ending December 31, 1999.

FEDERAL COMMUNICATIONS COMMISSION
Schedule of Annual Percentages of Depreciation for
SOUTHWESTERN BELL TELEPHONE COMPANY - MISSOURI

Effective January 1, 1998

Rate Category Description	Average Remaining Life	Future Net Salvage	Accumulated Depreciation	Remaining Life Depreciation Rate
	(years) A	(%) B	(%) C	(%) D=(100%-B-C)/A
2112 MOTOR VEHICLES	3.6	10	55.8	9.5
2115 GARAGE WORK EQPT	7.4	0	34.5	8.9
2116 OTHER WORK EQPT	6.0	0	52.8	7.9
2121 BUILDINGS	41.0	4	22.4	1.8
2122 FURNITURE	7.9	0	3.7	12.2
2123 OFFICE SUPPORT	5.2	0	42.7	11.0
2123 COMPANY COMMUNICATIONS EQPT	4.0	5	34.1	15.2
2124 GEN'L PURPOSE COMPUTERS	3.0	2	47.8	16.7
2211 ANALOG ELECT SWITCHING	2.5	-3	57.0	18.4
2212 DIGITAL ELECT SWITCHING	8.0	2	30.1	8.5
2220 OPERATOR SYSTEMS	7.0	0	44.3	8.0
2231 RADIO @	1.0	-5	95.8	9.2
2232 DIGITAL DATA SYSTEMS	3.4	0	71.2	8.5
2232 DIGITAL CIRCUIT	5.7	0	44.3	9.8
2232 ANALOG CIRCUIT	2.9	-3	70.9	11.1
2311 STATION APPARATUS	2.5	-2	82.1	8.0
2341 LARGE PBX	2.7	-5	54.8	18.6
2362 OTHER TERMINAL EQPT	3.4	-5	7.9	28.6
2411 POLE LINES	13.1	-116	87.9	9.8
2421 AERIAL CABLE-METALLIC	10.7	-49	62.0	8.1
2421 AERIAL CABLE-NONMETAL	13.2	-25	17.4	8.2
2422 UG CABLE-METALLIC	13.5	-21	62.8	4.3
2422 UG CABLE-NONMETAL	13.2	-10	30.3	6.0
2423 BURIED CABLE-METALLIC	10.0	-10	48.7	6.1
2423 BURIED CABLE-NONMETAL	14.7	-10	25.5	5.7
2424 SUBMARINE CABLE	11.6	0	-158.0	22.2
2426 INTRABLDG NETWORK CABLE-METAL	12.8	-17	53.4	5.0
2426 INTRABLDG NETWORK CABLE-NONMET	11.9	-5	20.3	7.1
2431 AERIAL WIRE	3.6	-287	228.4	44.1
2441 CONDUIT SYSTEMS	32.0	-6	28.0	2.4

The figures in Columns B, C, and D are percentages of gross book costs.

@ The January 1, 1998 reserve imbalance of $10,878,000 for the Radio Account is to be amortized over a twenty-four month period ending December 31, 1999.

FEDERAL COMMUNICATIONS COMMISSION
Schedule of Annual Percentages of Depreciation for
SOUTHWESTERN BELL TELEPHONE COMPANY - TEXAS

Effective January 1, 1998

Rate Category Description	Average Remaining Life	Future Net Salvage	Accumulated Depreciation	Remaining Life Depreciation Rate
	(years) A	(%) B	(%) C	(%) D=(100%-B-C)/A
2112 MOTOR VEHICLES	3.5	9	53.7	10.7
2115 GARAGE WORK EQPT	4.6	-51	94.3	12.3
2116 OTHER WORK EQPT	5.8	0	49.5	8.7
2121 BUILDINGS	29.0	4	25.5	2.4
2122 FURNITURE	7.6	4	69.6	3.5
2123 OFFICE SUPPORT	4.6	0	58.4	9.0
2123 COMPANY COMMUNICATIONS EQPT	4.2	0	48.7	12.2
2124 GEN'L PURPOSE COMPUTERS	3.0	2	52.9	15.0
2211 ANALOG ELECT SWITCHING	2.2	-2	73.5	13.0
2212 DIGITAL ELECT SWITCHING	8.1	2	30.5	8.3
2220 OPERATOR SYSTEMS	4.7	0	52.1	10.2
2231 RADIO	2.2	-5	63.7	18.8
2232 DIGITAL DATA SYSTEMS	3.6	0	54.3	12.7
2232 DIGITAL CIRCUIT	5.8	0	43.0	9.8
2232 ANALOG CIRCUIT	3.1	-5	82.4	7.3
2311 STATION APPARATUS	2.7	-2	62.3	14.7
2341 LARGE PBX	2.9	-5	62.3	14.7
2362 OTHER TERMINAL EQPT	3.6	-2	4.6	27.1
2411 POLE LINES	13.4	-155	92.1	12.2
2421 AERIAL CABLE-METALLIC	10.7	-49	67.9	7.6
2421 AERIAL CABLE-NONMETAL	15.0	-25	17.6	7.2
2422 UG CABLE-METALLIC	12.4	-16	58.5	4.6
2422 UG CABLE-NONMETAL	15.2	-10	26.1	5.5
2423 BURIED CABLE-METALLIC	11.1	-13	56.6	5.1
2423 BURIED CABLE-NONMETAL	14.5	-10	24.3	5.9
2424 SUBMARINE CABLE	14.5	-2	15.9	5.9
2426 INTRABLDG NETWORK CABLE-METAL	11.9	-17	73.4	3.7
2426 INTRABLDG NETWORK CABLE-NONMET	11.6	-10	19.3	7.8
2431 AERIAL WIRE @	4.5	-79	179.0	0.0
2441 CONDUIT SYSTEMS	33.0	-10	25.9	2.5

The figures in Columns B, C, and D are percentages of gross book costs.

@ The amortization amount for the Aerial Wire Account ordered in FCC 96-22 released January 26, 1996 is continued.