

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:

GTE NORTH INCORPORATED
INDIANA BELL TELEPHONE COMPANY,
INCORPORATED
SOUTHERN NEW ENGLAND TELEPHONE
COMPANY

ORDER

Adopted: December 29, 1988; Released: January 23, 1989

By the Commission: Commissioner Dennis dissenting
in part and issuing a statement at a later date.

I. INTRODUCTION AND BACKGROUND

1. In this Order, we prescribe depreciation rates for three carriers that filed requests in 1988 for annual updates of their depreciation factors. We developed the rates listed in the Appendix after considering the studies underlying the carriers' filings and providing an opportunity for public comment. We prescribed the amortization amounts listed in the Appendix in prior orders.¹

2. Depreciation is the loss of service value incurred in connection with the use and prospective retirement of telecommunications plant from known causes, the effect of which can be forecast with reasonable accuracy.² Depreciation accounting is the mechanism through which the loss in service value is distributed to operating expense during the service life of the plant. This Commission is authorized to prescribe depreciation rates to compute the allowable depreciation expense for telephone common carriers as part of our responsibilities under the Communications Act of 1934.³

3. Depreciation is an important factor in the determination of a carrier's revenue requirement. It has two primary effects. First, the depreciation expense is included directly as a part of a carrier's revenue requirement. Second, the accumulation of the depreciation expense, which is commonly described as the depreciation reserve, is a deduction from the rate base and therefore affects the return component of a carrier's revenue requirement.

II. REVIEW PROCEDURES

4. It has been our practice to review and revise the depreciation rates of the larger telephone carriers every three years based upon a comprehensive review of all equipment life and salvage factors. Although this triennial review process proves adequate in most instances, it has often been necessary to make adjustments to the prescribed rates in the interim years to recognize special

situations, such as the establishment of new accounts or major changes in a carrier's operating plans. Moreover, in 1980, after we adopted extensive revisions to the methods the carriers must use in computing depreciation,⁴ we decided that it may be necessary to update rates annually to keep them in line with accounting activity (*i.e.*, plant additions, retirements, and net salvage). Accordingly, in *1983 Depreciation Order*,⁵ we established streamlined study procedures whereby carriers could file for the annual update of rates as necessary between triennial reviews using the same equipment life and salvage estimates that underlie prescribed rates. In 1988, Indiana Bell Telephone Company, Inc. (Indiana Bell) and Southern New England Telephone Company (Southern New England) filed for annual updates using these streamlined procedures. In addition, GTE North filed for a depreciation rate for its recently established Aircraft Account in its Ohio jurisdiction.

5. The Common Carrier Bureau (Bureau) discussed questions raised during the review process concerning the requested rates in correspondence and telephone conversations with the carriers and the state commissions. Following these discussions and after reevaluating its preliminary recommendations, the Bureau issued a Public Notice dated August 26, 1988, which announced that it was considering the revision of certain depreciation rates for these three carriers.⁶ The Bureau transmitted to each carrier and respective state commission a copy of the Public Notice and a list of the factors used to calculate its recommended depreciation rates. No comments were filed.

III. DISCUSSION

A. Prescribed Rates

6. Generally, the rates and amortizations requested in interim years between triennial reviews are based on the streamlined procedures that rely on the same equipment life and salvage estimates that were established in the most recent triennial review. As noted previously, however, carriers may also request interim period rates and amortizations for other reasons. In the current filings, Indiana Bell used the streamlined procedures for all accounts except Central Office Equipment (COE) Step-by-Step, COE Crossbar, and Public Telephones, and Southern New England used the streamlined procedures for all accounts except Operator Systems. In addition, GTE requested the prescription of a rate for its new Aircraft Account in its Ohio jurisdiction.⁷ Full studies were provided for the five exceptions identified above.

7. After reviewing these full studies in detail, the Bureau proposed life and salvage factors for these accounts. Inasmuch as no objections were raised in response to the public notice regarding the new life and salvage factors, we adopt their use and the depreciation rates derived therefrom.

8. The Bureau reviewed the annual update proposals for the remaining accounts for Indiana Bell and Southern New England and determined that their proposals were based upon the life and salvage factors underlying the currently prescribed rates, and the accounting activity since the effective dates of the prior studies. Further, the Bureau determined that the proposed rates were calculated in accordance with both our annual update procedures and our depreciation methods. No objections were

raised for these accounts, and we find that the depreciation studies and analyses justify the continued use of the factors underlying the currently prescribed rates. Accordingly, we adopt these rates as shown in the Appendix.

B. Effective Dates

9. Indiana Bell and GTE North filed for a January 1, 1988, effective date and Southern New England filed for a January 1, 1989, effective date for the rates requested in their respective filings. Inasmuch as these carriers requested effective dates that are in accordance with our rules and our past depreciation orders (*See 1981 Depreciation Rates*),⁸ and no objections were raised regarding these effective dates, we hereby adopt them.

C. Submission of Whole - Life Depreciation Factors

10. In the depreciation prescription orders which we have approved since our decision in *Property Depreciation*,⁹ we have required that depreciation filings include whole-life rates so that we could determine the size of the depreciation reserve imbalance and the speed with which our actions were resolving the imbalance. Because of our continued interest in these matters, we require the carriers named herein to file whole-life rates that are consistent with the prescribed rates until notified to the contrary.

D. Conclusion

11. Having considered the carriers' annual update proposals, the views and recommendations of the states and the recommendations of the Bureau, we adopt the rates and effective dates listed in the Appendix.

IV. ORDERING CLAUSE

12. ACCORDINGLY IT IS ORDERED pursuant to Sections 1, 4(i), 201-205 and 220(b) of the Communications Act of 1934, as amended, 47 U.S.C. Sections 151, 154(i), 201-205 and 220(b), that the percentages of depreciation set forth in the Appendix ARE PRESCRIBED effective on the dates listed.

FEDERAL COMMUNICATIONS COMMISSION

Donna R. Searcy
Secretary

FOOTNOTES

¹ The Prescription of Revised Percentages of Depreciation Pursuant to the Communications Act of 1934, as amended for: AT&T Communications - Interstate Division *et. al.*, Order 3 FCC Rcd 1242 (1988); The Prescription of Revised Percentages of Depreciation Pursuant to the Communications Act of 1934, as amended for: Alascom, Inc. *et. al.*, Order 3 FCC Rcd 1724 (1988).

² 47 C.F.R. § 32.9000.

³ See generally 47 U.S.C. § 220(b) (1982). In recent years, we have also prescribed amortization amounts to resolve depreciation accounting problems. See Amortization of Depreciation Reserve Imbalances of Local Exchange Carriers Report and Or-

der, 3 FCC Rcd 984 (1988). An amortization amount is a specific amount to be charged to depreciation expense each year as opposed to a depreciation rate which is applied to the plant investment to determine the amount of the expense charge.

⁴ See Amendment of Part 31 (Uniform System of Accounts for Class A and Class B Telephone Companies) 83 FCC 2d 267 (1980) (*Property Depreciation*), reconsideration, 87 FCC 2d 916 (1981), *Supplemental Opinion and Order*, 87 FCC 2d 1112 (1981).

⁵ The Prescription of Revised Percentages of Depreciation Pursuant to Section 220(b) of the Communications Act of 1934, as amended for: AT&T--Long Lines Department, 96 FCC 2d 257 (1983) (*1983 Depreciation Order*).

⁶ Depreciation Rate Prescriptions Proposed for Domestic Telephone Companies - Notice of Opportunity to Comment, 3 FCC Rcd 5841 (1988).

⁷ For all other accounts, GTE proposed no change in rate or amortization.

⁸ The Prescription of Revised Percentages of Depreciation Pursuant to Section 220(b) of the Communications Act of 1934 as amended for: American Telephone and Telegraph Company, Long Lines Department, 88 FCC 2d 1223 (1982), (*1981 Depreciation Rates*), at paragraph 56-60.

⁹ See note 3, *supra*.

APPENDIX
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Schedule of Annual Percentages of Depreciation for
INDIANA BELL TELEPHONE COMPANY, INCORPORATED

Effective January 1, 1988

Rate Category Description	Average Remaining Life	Future Net Salvage	Reserve Level	Remaining Life Rate	Annual Amort. Expense
	(years)	(%)	(%)	(%)	(\$000)
	A	B	C	D=(100%-B-C)/A	E
2112 Motor Vehicles	3.7	15.0	42.0	11.6	0
2115 Garage Work Equipment	7.0	3.0	41.0	8.0	24
2116 Other Work Equipment	7.0	3.0	41.0	8.0	380
2121 Buildings	29.0	5.0	20.7	2.6	1439
2122 Furniture	22.0	5.0	25.8	3.1	-22
2123 Office Support Equipment	7.2	5.0	24.8	9.8	-13
2123 Company Comm. Equipment	5.6	-6.0	26.8	14.1	-287
2124 General Purpose Computers	2.9	3.0	48.1	16.9	0
2211 Analog Electronic Switching	9.4	3.0	35.1	6.6	8247
2212 Digital Electronic Switching	12.8	3.0	11.4	6.7	-508
2215 Step-by-Step Switching	2.4	-3.0	66.7	15.1	0
2215 Crossbar Switching	2.2	-2.0	70.4	14.4	0
2220 Operator Systems	9.6	3.0	33.8	6.6	167
2231 Other Radio Facilities	5.6	-9.0	47.1	11.1	0
2232 Circuit Equipment - DDS	7.6	-4.0	31.7	9.5	-65
2232 Circuit Equipment - Other	6.1	3.0	32.8	10.5	6010
2351 Public Telephone Term. Eqpt.	0.0	0.0	94.4	9.0	0
2362 Other Terminal Equipment	3.6	-3.0	63.8	10.9	0
2411 Poles	16.3	-77.0	60.6	7.1	247
2421 Aerial Cable	14.3	-8.0	38.3	4.9	14
2422 Underground Cable	17.3	-6.0	33.2	4.2	4857
2423 Buried Cable	15.5	-9.0	31.7	5.0	2630
2424 Submarine Cable	9.8	-1.0	64.5	3.7	2
2426 Intrabuilding Cable	15.9	-8.0	27.1	5.1	2
2431 Aerial Wire	6.4	-35.0	53.0	12.8	-358
2441 Conduit Systems	46.0	-24.0	24.3	2.2	1249

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

The reserve level in Column C is used to calculate the depreciation rate and does not necessarily reflect the book reserve. The amortization amounts in Column E, ordered in FCC 88-13, released January 21, 1988, are continued.

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Schedule of Annual Percentages of Depreciation for
SOUTHERN NEW ENGLAND TELEPHONE COMPANY - CONNECTICUT

Effective January 1, 1989

Rate Category Description	Average Remaining Life	Future Net Salvage	Reserve Level	Remaining Life Rate	Annual Amort. Expense
	(years)	(%)	(%)	(%)	(\$000)
	A	B	C	D=(100%-B-C)/A	E
2112 Motor Vehicles	4.2	12.0	44.5	10.4	0
2115 Garage Work Equipment	12.1	3.0	22.4	6.2	10
2116 Other Work Equipment	5.6	1.0	41.3	10.3	431
2121 Buildings	26.0	-5.0	29.3	2.9	-588
2122 Furniture	8.8	3.0	24.5	8.2	871
2123 Office Equipment	5.8	0.0	57.3	7.4	226
2123 Company Communications Equip	5.1	3.0	58.3	7.6	0
2124 General Purpose Computers	2.9	5.0	52.9	14.5	0
2211 Analog Electronic Switching	10.0	0.0	33.4	6.7	10114
2212 Digital Electronic Switching	12.5	2.0	10.2	7.0	160
2215 Step-By-Step Switching	2.2	-9.0	75.8	15.1	0
2215 Crossbar Switching	2.6	-9.0	77.3	12.2	0
2220 Operator Systems-Digital	16.0	2.0	1.2	6.1	0
2220 Operator Systems-Other	4.6	0.0	61.0	8.5	555
2231 Radio Systems	8.6	-2.0	43.8	6.8	-24
2232 Circuit Equipment	8.5	0.0	37.2	7.4	3443
2232 Circuit DDS	4.6	2.0	48.1	10.8	0
2351 Public Tel Terminal Equip	5.3	1.0	46.9	9.8	62
2362 Other Terminal Equipment	4.1	-3.0	68.8	8.3	0
2362 Station Apparatus-Tel & Misc	7.3	0.0	49.2	7.0	-427
2411 Poles	21.0	-60.0	45.4	5.5	-1066
2421 Aerial Cable	16.9	-19.0	37.7	4.8	2628
2422 Underground Cable	18.5	-14.0	38.1	4.1	4243
2423 Buried Cable	18.0	-9.0	27.3	4.5	1101
2424 Submarine Cable	18.1	0.0	52.2	2.6	7
2426 Intrabuilding Network Cable	18.2	-19.0	38.5	4.4	518
2441 Conduit Systems	38.0	-27.0	30.7	2.5	2424

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

The reserve level in Column C is used to calculate the depreciation rate and does not necessarily reflect the book reserve. The amortization amounts in Column E, ordered in FCC 88-13, released January 21, 1988, are continued.

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FEDERAL COMMUNICATIONS COMMISSION
Schedule of Annual Percentages of Depreciation for
GTE NORTH INCORPORATED - OHIO

Effective January 1, 1988

Rate Category Description	Average Remaining Life	Future Net Salvage	Reserve Level	Remaining Life Rate	Annual Amort. Expense
	(years)	(%)	(%)	(%)	(\$000)
	A	B	C	$D=(100\%-B-C)/A$	E
2113 Aircraft	7.0	48.0	5.7	6.6	

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