

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

In the Matter of)	
)	
)	
1998 Biennial Regulatory Review --)	
Review of Depreciation Requirements)	CC Docket 98-137
for Incumbent Local Exchange Carriers)	
)	
United States Telephone Association's)	
Petition for Forbearance from Depreciation)	ASD 98-91
Regulation of Price Cap Local Exchange)	
Carriers)	

**REPORT AND ORDER IN CC DOCKET NO. 98-137
MEMORANDUM OPINION AND ORDER IN ASD 98-91**

Adopted: December 17, 1999

Released: December 30, 1999

By the Commission, Commissioner Furchtgott-Roth Dissenting and Issuing a Statement,
Commissioner Powell Concurring:

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lives as short as eight years for digital switching, arguing that technological change, increased competition, and customer demand for new higher bandwidth services are shortening the lives of switches.³⁶ Based on our review of the record, we are persuaded that the lower limit of the life range for digital switching should be shortened from the current 16-year minimum to 12 years. We find that this reduction is justified by incumbent LEC accounting data that shows an upward trend in retirements of digital switching equipment in recent years.³⁷ The increasing retirements are due, in part, to the modular nature of modern digital switches, which allows the incumbent LECs to retire portions of a switch on an interim basis as technology improves.

14. Incumbent LECs also advocate shorter minimum lives for accounts other than digital switching. They contend that our currently prescribed lives are too long and prevent them from recovering adequate depreciation.³⁸ The incumbent LECs further contend that the Commission's ranges for projection lives are historical and backward-looking. Non-LEC commenters respond that the Commission-prescribed lives are appropriate and forward-looking. They note that the Commission has been reforming its depreciation prescription process since 1980, and that those reforms have resulted in an increase in the composite reserve level from 18.7 percent in 1980 to 48.8 percent in 1997.³⁹ MCI-WorldCom also notes that the incumbent LECs have been adding over \$10 billion to their depreciation reserves each year since the Commission's 1993 depreciation simplification reforms took effect in 1994.⁴⁰ We agree with MCI-WorldCom, that, except for digital switching equipment, recent carrier accounting data and trends do not support reductions in the prescribed projection life ranges. Specifically, with the exception of digital switching equipment, incumbent LEC retirement rates have either dropped or remained relatively constant in recent years.⁴¹ This certainly has contributed to the substantial increase in reserve levels that MCI-WorldCom cites.

15. Several incumbent LECs contend that we should adopt the projection lives recommended by Technology Futures, Inc. (TFI).⁴² TFI develops its analysis by using the Fisher-Pry model to perform a "substitution analysis" to forecast the pattern by which new technology will replace old technology.⁴³ TFI's projections about replacement of digital switches, copper loop plant, and circuit equipment extend as far out as 2015.⁴⁴ The non-LEC commenters dispute

at iii.

³⁶ Ameritech Comments at 10; BellSouth Comments at 12.

³⁷ ARMIS Report 43-02, Table B-1. This range is slightly wider than the 13 to 18 range we proposed in *Depreciation Notice* to reflect recent retirement rates and trends.

³⁸ US West Comments at 11; BellSouth Comments at 12; SBC Comments at 22.

³⁹ AT&T Reply at 3; MCI-WorldCom Reply at 7.

⁴⁰ MCI-WorldCom Reply, Attachment 1 at p. 4.

⁴¹ ARMIS Report 43-02, Table B-6.

⁴² Ameritech Comments at 10; CBT Comments at 7-8; SBC Comments at 21; Sprint Comments at 6. TFI is an economic consulting firm that has analyzed depreciation issues on behalf of the incumbent LECs.

⁴³ Transforming the Local Exchange Network: Analysis and Forecasts of Technology Change by Lawrence K. Vanston, Ray L. Hodges and Adrian J. Poiras at 29 (2d ed. 1997) (*Second TFI Study*).

⁴⁴ TFI projects the following: fiber in the loop will replace copper feeder cable by 2015, *Id.* at 9; fiber will replace copper in 98 percent of all interoffice trunks by 2000, *Id.* at 8; SONET equipment will replace all non-SONET circuit equipment by 2005, *Id.* at 16; and fiber in the loop will replace copper distribution plant by between 2010 and 2015, *Id.* at 10.

APPENDIX B

**Summary of Current Prescription Life Ranges and Proposals
(In Years)**

	FCC Prescribed	SBC Proposal	TFI Proposal	BellSouth Proposal
Fiber Cable – All Categories	25 –30	20	20	
Underground Cable - Metallic	25 – 30	12.5 - 15.5	14 - 20	10 - 14
Buried Cable – Metallic	20 – 26	18 -19	14 - 20	12 - 16
Aerial Cable – Metallic	20 –26	13.5 - 16	14 - 20	12 - 16
Circuit Equipment – Digital	11 – 13	7 - 13	6 - 9	8 - 10
Switching – Digital	12 –18	7 - 16	9 - 12	8 - 10