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STATE CORPORATION COMMISSION  
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Docket  
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BEFORE THE STATE CORPORATION COMMISSION OF THE  
FOR THE STATE OF KANSAS

In The Matter Of a Common Depreciation )  
Schedule for Small Independent Telephone )  
Companies in Kansas. )

Docket No. 188,681-U  
94-GIMT-082-DRS

COMMENTS OF SOUTHWESTERN BELL TELEPHONE COMPANY

COMES NOW Southwestern Bell Telephone Company (SWBT), by and through its counsel of record, and hereby provides its initial comments in the above-captioned docket.

I. INTRODUCTION

1. As the Commission is fully aware, the present telecommunications industry is undergoing rapid change, both in the areas of technology and competition. The Commission's move to simplify the depreciation process is therefore timely and necessary. In these Comments, SWBT makes certain suggestions and recommendations to Staff's proposed simplified depreciation process so that it may better serve the interests of the Commission, the local exchange companies in Kansas, and Kansas telecommunications customers.

II. COMMENTS

A. LARGER TELEPHONE COMPANIES SHOULD ALSO BE ENTITLED TO USE THE SIMPLIFIED DEPRECIATION PROCEDURE.

As presently proposed by Staff, any new depreciation schedule

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would apply only to the smaller independent telephone companies operating in Kansas. However, in the current competitive environment, including the larger telephone companies like SWBT is also appropriate. In today's economy of declining cost markets and corporate downsizing, the term "limited resources" does not apply solely to small companies. When seeking to preserve the resources of only the small local exchange carriers (LECs), the Commission should also consider the disadvantage imposed on the other LECs (like SWBT) that would not be subject to similar treatment. Granting this type of regulatory relief to one class of carriers can place all other carriers at a significant disadvantage in a competitive marketplace.

SWBT is interested in the flexibility afforded by the proposed depreciation procedure. SWBT and its ratepayers would benefit by the fact that, if the procedure were available, SWBT would no longer be required to perform a full depreciation study simply to seek a change in one account or category of items subject to depreciation.

SWBT also notes that the Federal Communication Commission (FCC) is also addressing this issue concurrently with this Commission. In fact, on September 23, 1993, the FCC announced that it had adopted a simplified depreciation process for 33 LECs (including SWBT). This fact, in addition to the other facts discussed above, illustrate the need for a simplified depreciation process for larger LECs like SWBT at the state level.

B. KANSAS' SIMPLIFIED DEPRECIATION PROCESS IS SIMILAR TO THE PROCESS ESTABLISHED BY THE FCC.

As discussed above, the FCC has within the past week adopted a new depreciation rate process for 33 price cap LECs and AT&T.<sup>1</sup> The option announced by the FCC appears to be similar to Staff's proposal in many ways. Specifically, the FCC announced a "basic factor" range that will purportedly:

- (1) have as a goal, to establish ranges for all accounts, if feasible;
- (2) establish ranges for two of the three basic factors comprising the depreciation rate formula, the projection life and the future net salvage factors;
- (3) allow price cap LECs the flexibility to select any basic factor from within the established ranges, consistent with company operations....

FCC News, "Depreciation Prescription Process Simplified," p. 2, ¶ 1 (Sept. 23, 1993). The FCC also announced its intent to initiate a proceeding in the near future to consider other means by which the FCC's depreciation process and policies can respond to changes in technology and the market as competition increases. Id., p. 2, ¶ 2. SWBT expects that the FCC will issue a complete written Order on this matter within 30 days.

The FCC's new depreciation process will affect not only SWBT but at least one other LEC in Kansas as well. As a result, SWBT proposes that the Commission delay entering its final Order in this docket until the FCC's written Order is issued and the industry has had an opportunity to determine the Order's impact. At that point,

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<sup>1</sup> AT&T is the only entity associated with the old Bell system prior to divestiture that was singled out for different treatment by the FCC. None of the other Regional Bell Operating Companies (RBOCs) were excluded from the FCC basic factor simplification process. SWBT notes that even though it was treated differently, the FCC still significantly simplified AT&T's depreciation process.

SWBT recommends a second comment period so that interested parties may have an opportunity to evaluate and comment on both depreciation plans. This second comment period will provide an ample opportunity for those parties to offer modifications to obtain the most comprehensive simplification package for all LECs.

C. MORE EVIDENCE SHOULD BE GATHERED BEFORE AN ORDER IS ISSUED.

SWBT believes there are other aspects of a simplified depreciation process that should be considered before it is implemented. For example, Staff's proposal does not address the frequency with which LECs may change their rates, i.e., annually, triennially, etc. It does not state how frequently the Commission will review the established rate ranges.<sup>2</sup> It also makes no provision for "grandfathering" the rates currently used by the LECs if they are outside of the ranges proposed by Staff, a provision that SWBT would also recommend.

SWBT recommends that the Commission collect further evidence on these issues and allow the LECs the opportunity to make additional comments before any new depreciation process is ordered.

III. CONCLUSION

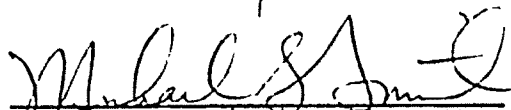
As noted above, SWBT is in agreement with Staff that simplification of the depreciation process in Kansas is needed. However, for the reasons stated above, SWBT believes that simplification is needed for all LECs in Kansas, not just the

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<sup>2</sup> SWBT would note that as new ranges are being evaluated, changes in salvage value and service life should be examined and considered before the range is established from the current rate averages.

"small" ones. Further evidence of the larger LECs' need for simplification is the FCC's recent action to simplify depreciation at the interstate level. Therefore, if SWBT is accorded similar treatment on the intrastate level, and if SWBT's other recommendations herein are adopted, including its request for an additional comment opportunity, then the proposed simplified depreciation process can provide the greatest benefit to everyone concerned, including Kansas telecommunications customers.

Respectfully submitted,

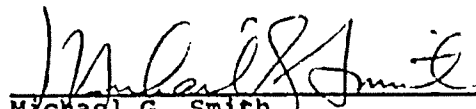


Lawrence A. Dimmitt (#06771)  
Michael C. Cavell (#08340)  
Michael G. Smith (#14094)  
220 E. 6th, Room 515  
Topeka, Kansas 66603  
(913) 276-8411

ATTORNEYS FOR SOUTHWESTERN BELL  
TELEPHONE COMPANY

CERTIFICATE OF MAILING

I hereby certify that a copy of the foregoing was hand-delivered this 1st day of October, 1993 to the following: Martha Cooper, Esq., Asst. General Counsel, Kansas Corporation Commission, 1500 S.W. Arrowhead Road, Topeka, Kansas 66614.



Michael G. Smith

VERIFICATION

STATE OF KANSAS            )  
                                  ) ss.  
COUNTY OF SHAWNEE        )

J. Mark Connolly, of lawful age, being duly sworn according to law, upon his oath, deposes and says:

I am the District Manager-Chief Accountant for the Kansas Division of Southwestern Bell Telephone Company, and as such am authorized on behalf of the Company to make this verification; that I have read the above and foregoing comments and verify that the information contained therein is true and correct according to the best of my knowledge, information and belief.

*J. Mark Connolly*  
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J. Mark Connolly

Subscribed and sworn to before me this 30th day of September, 1993.



*Belinda Joyce Wilson*  
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Notary Public

My Appointment Expires: January 26, 1995