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THE STAFF CORPORATION COMMISSION
OF THE STATE OF KANSAS

Before Commissioners: Jim Robinson, Chairman
F. S. Jack Alexander
Rachel C. Lipman

Docket No. 188,681-U

In the Matter of a Common
Depreciation Schedule for Small
Independent Telephone Companies
in Kansas.

ORDER

NOW, the above-captioned matter comes before the State
Commission of the State of Kansas (Commission).

Having examined its files and records, and being duly advised in
the premises, the Commission finds as follows:

1. On June 24, 1993, Commission staff (staff) provided the
Commission with a recommended streamlined process for the
determination of depreciation rates and proposed submitting the
modifications to the industry and interested parties for comment.
2. On August 27, 1993, the Commission issued an order
initiating a comment period concerning depreciation rates.
streamlined process for the determination of depreciation rates.
The order indicated comments would only be accepted in written
form through and including September 30, 1993, at 5:00 p.m.
3. On September 30, 1993, Independent Telecommunications
Group, Columbus et al, (Columbus) filed comments in response to
staff's proposed streamlined process for the determination of
depreciation rates. Columbus expressed support for the procedural

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UTILITIES DIVISION

concept set forth in the staff proposal of a common depreciation
schedule for similarly situated local exchange carriers.

4. Columbus asserted the proposed ranges of acceptable
depreciation rates for categories of plant and equipment not
subject to accelerating technological obsolescence could be
recalculated to include Southwestern Bell Telephone Company (SWBT)
and United Telephone Company (United) rates and those approved for
smaller independent local exchange carriers in 1992, thereby
resulting in a more current and generally reasonable range.
Columbus contended there is no reason that computer-based plant
and equipment could not be made subject to reasonable depreciation
rates through the same procedure proposed by staff, but a
significantly higher ceiling on the range of approved depreciation
if such equipment would be necessary before the process could
yield reasonable depreciation rates in the current and foreseeable
environment.

5. Columbus indicated the extent of enhanced depreciation
which might be subject to this procedure may appropriately be a
policy determination for the Commission, which should thereby
able smaller local exchange companies to continue their plans
efforts toward making the 'state of the art' available to
customers. Implementation of depreciation rates should be
initiated through a notification letter to the Commission
tifying the specific rate each company intends to utilize
in such range. Columbus maintained that any rate approved

under the new methodology should be eligible for treatment on a retroactive basis to January 1, 1993.

6. On September 30, 1993, Blue Valley, et al, (Blue Valley) filed comments in response to staff's proposed streamlined process for the determination of depreciation rates. Blue Valley indicated support for Staff's recommendation of a streamlined process for determining reasonable and appropriate depreciation rates for small telephone companies in Kansas.

7. Blue Valley recommended the Commission define a "small telephone company" as any company under 50,000 access lines, which would encompass all but United and SWBT. Blue Valley proposed the Commission provide a window of depreciation rates that a small independent company may use within that range by simply notifying the Commission in writing. Blue Valley maintained that the range of rates should be derived from the full universe of small companies, and the very latest depreciation rates to be reflective of the current rates used by the companies.

8. Further, Blue Valley proposed no depreciation rate be deleted from the study unless it is greater than 200% of the average of the account. Blue Valley stated it generally agrees that the use of a range of rates on most of the plant accounts is realistic with some exceptions.

9. Additionally, Blue Valley recommended a two-tiered system of determining the ranges of depreciation. The first covered the more "stable" assets and would use the methodology of staff, as modified in Blue Valley's exhibits. The second applied to the technological sensitive assets, such as switching equipment, and would use a forward looking analysis to determine the proper rate. Blue Valley noted this forward looking analysis will need to rely on judgment that is derived from anticipated development in the industry, past experience, and discussions with engineers and vendors.

10. On October 1, 1993, pursuant to a one-day extension of the September 30, 1993, filing deadline by agreement with Staff counsel, SWBT filed comments in response to staff's proposed streamlined process for the determination of depreciation rates. SWBT agreed with Staff that simplification of the depreciation process in Kansas is needed. SWBT asserted that Staff's proposal should apply not only to smaller independent telephone companies but also to SWBT.

11. SWBT maintained that further evidence of the larger local exchange companies (LECs') need for simplification is the Federal Communication Commission (FCC) recent action to simplify depreciation at the interstate level for 33 LECs including SWBT on September 23, 1993. SWBT asserted that the FCC's new depreciation process will affect not only SWBT, but at least one other LEC in Kansas as well. SWBT proposed that the Commission delay entering its final order in this docket until the FCC's written Order is

issued and the industry has an opportunity to determine the Order's impact.

12. SWBT recommended that the Commission collect further evidence and allow further comments on the issues of: frequency with which LECs may change their rates, frequency of Commission review of established rate ranges, and a provision for "grandfathering" the rates currently used by the LECs if they are outside of the ranges proposed by Staff.

13. On October 4, 1993, the Commission issued an order establishing a reply comment period for interested parties to file written reply comments through and including October 22, 1993, at 5:00 p.m.

14. On October 22, 1993, SWBT filed responsive comments in reply to the comments filed by other parties. SWBT contended that the comments provided by Columbus are incorrect when they state that SWBT was allowed to reinvest excess depreciation in modernization of equipment and was allowed a higher depreciation rate on new equipment. SWBT maintained that their current intrastate depreciation rates have not changed since they went into effect on January 1, 1987, and that no new rates were established or allowed as a result of the TeleKansas plan. SWBT indicated that it would be inappropriate to make the changes retroactive for the primary reason that 1993 budgets and financial activities are already 10 months toward completion.

15. Furthermore, SWBT noted that this change could cause access cost payments to increase with no opportunity for discussion between the parties. Therefore, SWBT recommended that the change in the depreciation process be made effective no earlier than January 1, 1994. SWBT stated that if using the larger companies' data is important to setting appropriate rate ranges, and if the larger companies' rates match those used by the smaller companies, then there is no valid reason to exclude the large companies like SWBT from the simplified depreciation process.

16. On October 29, 1993, Columbus filed responsive comments in reply to the comments filed by SWBT. Columbus urged the Commission to adopt, at the earliest opportunity, a simplified methodology for depreciation treatment of smaller independent LECs similar in concept to that proposed by staff.

17. Columbus contended the range of "pre-approved" depreciation rates under such procedure should be increased significantly as to computer-based equipment and technological antecedents of such equipment in order to recognize the acceleration of technological obsolescence in telecommunications equipment. Columbus asserted that smaller LECs have operated under the financial burden of inadequate depreciation allowance on equipment for years. Such companies should have the opportunity to approach more reasonable recovery by access to simplified depreciation proceedings and to reasonable rates derived therefrom retroactive to January 1, 1993.

18. Columbus noted that SWBT identified no portion of the existing access stipulation mandating SWBT's assent in any modification of depreciation allowance sought by LECs. Columbus stated that such companies are entitled to regulatory determination of appropriate rates based upon their need to provide modern and efficient telecommunications services to their customers. Columbus indicated that while determination of such depreciation rates may or may not affect the level of access charges payable to such companies there is no justification to allow such a possible effect to become a cause for artificial restriction of otherwise reasonable recovery.

19. Columbus expressed disagreement with SWBT that depreciation methodology should be linked to 1994 access negotiations. Columbus asserted that if such negotiations are to be fruitful there is a need that as many issues as possible be resolved and in place prior to such negotiations; otherwise uncertainty will hamper and not enhance opportunities for stipulation. Columbus contends that SWBT's comments assert but do not support the propriety of linkage.

20. Columbus maintained that there is a clear difference between SWBT and the independent LECs in the proportion of potential dollar recovery from depreciation which must be consumed by the process of securing such recovery in the first instance, at least under existing regulations. Columbus contended nothing presented by SWBT necessarily supports extension to SWBT of the

benefits of simplified regulation under staff's proposed methodology.

21. On November 4, 1993, Columbus filed a motion for receipt and consideration by the Commission of comments not timely filed. In support of its motion, Columbus stated the delay in filing its reply comments was due to inadvertence in that counsel for Columbus, owing to a particularly burdensome schedule, had mistakenly believed that such reply comments were due on October 29, 1993. On November 24, 1993, the Commission issued an Order granting Columbus' motion.

22. On December 2, 1993, the Commission received a memorandum from staff recommending the Commission adopt staff's proposed depreciation schedule, retroactive to January 1, 1993. Staff stated the depreciation schedule has been prepared to provide guidelines for the determination of depreciation rates. Staff believes that this schedule will be useful for small companies which are unable to perform detailed depreciation studies because of limited resources. Staff expressed belief that these changes would not unduly burden or inconvenience the public, would reduce the costs of regulation and improve the efficiencies of staff and the small independent local telephone companies. Staff noted commentators supported the establishment of the proposed depreciation simplification process and agreed that it would reduce the costs associated with the determination of depreciation rates. It is staff's belief that based on comments from the industry the proposed depreciation schedule will meet the

desired objectives in terms of savings and simplification. Therefore, staff recommended the Commission adopt the proposed depreciation schedule, retroactive from January 1, 1993. Staff further noted in Administrative Meeting of December 9, 1993, that it is considering a similar simplification proposal for larger local telephone companies.

23. The Commission finds and concludes that staff's proposal is reasonable. The attached depreciation schedule (Attachment A) provides a range of depreciation rates which the Commission will presume are reasonable without supporting studies. For those LECs which do not have reasonable resources to perform such studies, they do not need to submit supporting depreciation studies. Local telephone companies, other than Southwestern Bell and United Telephone Company, who desire to change their depreciation rates may submit applications to do so and, to the extent such rates are within the attached ranges, need not submit supporting depreciation studies. In conformance with prior Commission practice, such changes in depreciation rates may be effective as of the beginning of the calendar year in which the application is filed.

IS, THEREFORE, BY THE COMMISSION ORDERED THAT:

The attached depreciation schedule is hereby adopted, retroactive to January 1, 1993, as set forth above.

Any party may file a petition for reconsideration of this order within fifteen days of the date this order is served. If

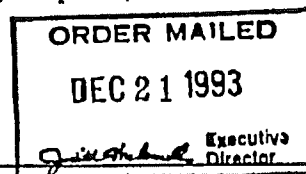
service is by mail, service is complete upon mailing and three days may be added to the above time frame.

The Commission retains jurisdiction over the subject matter and the parties for the purpose of entering such further order or orders as it may deem necessary.

BY THE COMMISSION IT IS SO ORDERED.

Robinson, Chmn.; Alexander, Com.; Lipman, Com.

Dated: DEC 21 1993



JUDITH MCCONNELL
EXECUTIVE DIRECTOR

MLC: jtb

Dep1992

DEPRECIATION		SCHEDULE	
ACCOUNT NO.	NAME	LWR LMT (Avg-Stdev)	UPPR LMT (Avg+Stdev)
2112	Motor vehicles	14.03%	23.02%
2115	Garage eqpmt	8.38%	17.20%
2116	Other work eqpmt	8.20%	18.47%
2121	Buildings	2.58%	4.00%
2122	Furniture	5.56%	11.26%
2123	Office eqpmt	6.89%	13.65%
2124	General purpose computers	9.01%	14.30%
2211	Analog electronic switch	5.48%	9.92%
2212	Digital electronic switch	4.78%	7.72%
2215	Electromechanical switch	4.75%	9.34%
2230	Central office- transmission	4.23%	8.25%
2311	Station apparatus	10.00%	10.27%
2321	Customer premisses wiring	5.04%	11.51%
2351	Public tele.terminal eqpmt	9.15%	16.59%
2411	Poles	3.36%	10.51%
2421	Aerial cable	3.93%	6.74%
2422	Underground cable	3.45%	4.81%
2423	Buried cable	3.75%	5.02%
2431	Aerial wire	4.41%	12.78%
2441	Conduit systems	1.63%	5.62%

**MEMORANDUM
UTILITIES DIVISION**

TO: Chairman Robinson
Commissioner Alexander
Commissioner Lipman

FROM: Panchali Das
Karen Matson-Flaming

DATE: December 3, 1993

SUBJECT: DEPRECIATION SCHEDULE

BACKGROUND:

On June 24, 1993, Staff provided the Commission with a streamlined process for the determination of depreciation rates and proposed submitting the proposed schedule to the industry for comment. The Commission found that a comment period concerning Staff's proposed depreciation schedule was appropriate and necessary. On August 27, 1993, Staff initiated a comment period concerning the proposed depreciation schedule. Three parties filed comments. They include Independent Telecommunications Group, Columbus et al; Blue Valley, et al; and Southwestern Bell Telephone Company.

ANALYSIS:

This depreciation schedule has been prepared to provide guidelines for the determination of depreciation rates. It is hoped that this schedule will be useful for small companies which are unable to perform detailed depreciation studies because of limited resources.

Staff believes these changes would not unduly burden or inconvenience the public and would reduce the costs of regulation and improve the efficiencies of staff and the small independent local telephone companies.

Commenters supported the establishment of the proposed depreciation simplification process and agreed that it would reduce the costs associated with the determination of depreciation rates. Based on comments from the industry, we believe that the proposed depreciation schedule will meet the desired objectives in terms of savings and simplification.

The attachments to this memorandum include a description of the depreciation schedule and the data used to prepare the schedule.

RECOMMENDATION:

Staff recommends that the Commission adopts the proposed depreciation schedule.

cc: Don Low Brian Moline Martha Cooper Gene Hiebsch
Stacey Boyles Dana Bradbury Judith McConnell

Dept 1992

ACCOUNTING NO.	DEPRECIATION NAME	SCHEDULE (AVG. SLOW)	UPPER/LIMIT (AVG. SLOW)
2112	Motor vehicles	6.38%	23.02%
2115	Garage eqpmnt	8.20%	17.20%
2116	Other work eqpmnt	2.58%	19.47%
2121	Buildings	5.58%	4.00%
2122	Furniture	8.88%	11.28%
2123	Office eqpmnt	9.01%	13.65%
2124	General purpose computers	5.48%	14.30%
2211	Analog electronic switch	4.78%	9.92%
2212	Digital electronic switch	4.75%	7.72%
2215	Electromechanical switch	4.23%	9.34%
2230	Central office transmission	10.00%	8.25%
2311	Station apparatus	5.04%	18.27%
2321	Customer premises wiring	9.15%	11.51%
2351	Public teleterminal eqpmnt	3.38%	16.59%
2411	Poles	3.88%	10.51%
2421	Aerial cable	3.45%	6.74%
2422	Underground cable	3.75%	4.81%
2423	Buried cable	4.41%	5.02%
2431	Aerial wire	1.83%	12.78%
2441	Conduit systems		5.82%

Dept 1992

ACCOUNTING NO.	DEPRECIATION NAME	SCHEDULE (AVG. SLOW)	UPPER/LIMIT (AVG. SLOW)
2112	Motor vehicles	6.38%	23.02%
2115	Garage eqpmnt	8.20%	17.20%
2116	Other work eqpmnt	2.58%	19.47%
2121	Buildings	5.58%	4.00%
2122	Furniture	8.88%	11.28%
2123	Office eqpmnt	9.01%	13.65%
2124	General purpose computers	5.48%	14.30%
2211	Analog electronic switch	4.78%	9.92%
2212	Digital electronic switch	4.75%	7.72%
2215	Electromechanical switch	4.23%	9.34%
2230	Central office transmission	10.00%	8.25%
2311	Station apparatus	5.04%	18.27%
2321	Customer premises wiring	9.15%	11.51%
2351	Public teleterminal eqpmnt	3.38%	16.59%
2411	Poles	3.88%	10.51%
2421	Aerial cable	3.45%	6.74%
2422	Underground cable	3.75%	4.81%
2423	Buried cable	4.41%	5.02%
2431	Aerial wire	1.83%	12.78%
2441	Conduit systems		5.82%