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STATE CORPORATION COMMISSION

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THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

STATE CORPORATION COMMISSION
JAN 10 1994
G. J. McNeill Locked
F. J. ...

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

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

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

**PETITION OF INDEPENDENT TELECOMMUNICATIONS GROUP,
COLUMBUS, ET AL., FOR LIMITED RECONSIDERATION OF ORDER**

COMES now the Independent Telecommunications Group, Columbus, et al.,
(Columbus) and files its petition for limited reconsideration of the Commission's
order herein dated December 21, 1993. In support of its petition Columbus states as
follows:

1. Petitioner is an informal group of independent local exchange telephone
utilities, each of whom has fewer than 50,000 access lines and each of whom is
affected by the Commission's order herein.

2. Columbus has been a party to, and has participated throughout, these
proceedings.

3. Although Columbus supports generally the procedural aspects of the
Commission's order of December 21, 1993, reconsideration is sought specifically
regarding the upper limit of approved depreciation rate ranges for those categories
of telephone utility property which are computer-based or which are

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UTILITIES DIVISION

antecedents of such equipment.

4. Columbus seeks no modification nor reconsideration of the balance of the aforesaid order, nor suspension of the present effect of any portion of such order.

BACKGROUND

The staff of the Kansas Corporation Commission has proposed recognizing the substantial burden and expense to small local exchange companies in engaging in the formal detailed process for application in change in depreciation rates. Staff's proposal in this matter to establish a range of rates, which would be essentially presumed reasonable, in itself is a reasonable procedural response to such excessive burdens on the small local exchange companies.

With regard to those categories of telephone utility property which are relatively stable in nature and not subject to major technological advances, the staff's proposed methodology adopted by the Commission's order is reasonable; present depreciation rates allowed for the subject companies were averaged, and a standard deviation calculation was applied, resulting in a range of acceptable depreciation rates.

One of the greatest tasks of the independent local exchange companies is meeting the requirement that telecommunications service be provided in a modern and efficient manner for the benefit of Kansas telecommunications customers. Such need in itself is laudable and reasonable, but the expense of doing so is adversely affected by the rate at which required equipment must be modernized or

wholly replaced.

The capability of digital technology continues to increase at a rapid (if not startling) rate. Moreover, the limited number of vendors of computer-based equipment used in telecommunications (e.g., digital switches) leaves local exchange companies to some degree at the mercy of those vendors. It is not uncommon for digital switch vendors to require purchase frequently, and at enormous expense, of software upgrades by local exchange companies in order to assure that the vendor will continue to provide technological support and service for the digital switches previously sold and installed. If a local exchange company is unable to acquire each such software upgrade as it becomes available it is not uncommon for the company to find that outright replacement of a digital switch is the less expensive course of action, even though the previous switch might well have a mechanical useful life of many years remaining.

Likewise computer technology in office equipment (e.g., general purpose computers) is subject to technological obsolescence which renders the mechanical useful life of such equipment practically meaningless. Continued rapid development of new software desirable and necessary to provide efficient management services creates a requirement for office computers with ever greater memory, speed and functionality. Accordingly, although the period of time over which a computer will perform its designed function continues to be substantial, the period of time in which such equipment is of full value to an efficiently operated telecommunications utility becomes shorter and shorter.

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of reasonable depreciation rates on computer-based property through the newly available simplified procedure.

METHODS OF DERIVING APPROVED RANGES OF DEPRECIATION RATES

If the small local exchange companies in Kansas had previously been granted depreciation rates on computer-based property which reasonably reflected the effect of technological obsolescence then the staff's proposed ranges and methods for determining the same would not achieve problematic results. Then again, if such were the case then the simplified depreciation proceedings might be unnecessary from the outset. The fact is that the small independent telecommunications companies of Kansas have generally performed excellently in their efforts to make modern communication services and facilities available to their customers in spite of the fact that they have not been granted adequate and reasonable rates of depreciation on the equipment necessary for provision of such services and facilities. As a result the process of averaging substantially inadequate rates yields only inadequate averages.

One cannot follow current events without being aware of attention to the forthcoming "information superhighway." If rural Kansas is to have an "on ramp" to this highway it is essential that continuing modernization be encouraged rather than discouraged. Reconsideration of the maximum allowed depreciation rate under the procedure ordered by this Commission December 21, 1993, would provide the opportunity for such encouragement to be afforded in a tangible fashion.

Further, those local exchange companies which have been unable to maintain modernized plant and services would be more able to do so if such companies were not burdened by the knowledge that they would face either inadequate depreciation rates or the substantial expense and uncertainty of formal application under previously existing procedures.

SUMMARY

Columbus requests that the Commission maintain so much of its order as establishes a simplified procedure for small local exchange carriers to seek modification in their rates of depreciation. Further, increased depreciation rates already put into effect or pending pursuant to the Commission's order of December 21, 1993, should continue to be effective, since the same provide partial relief to the problem posed by inadequate previous depreciation rates. The Commission should order reconsideration only of those portions of its order which establish maximum allowed depreciation rates on computer-based property and its technological antecedents.

Upon reconsideration Columbus request that the Kansas Corporation Commission issue an amending order substantially increasing those maximum rates applicable to computer-based property and its technological antecedents so as to encourage and allow continuing modernization of telecommunications services in rural Kansas. Such an order would minimize the burdens to local exchange carriers, to their customers and to the taxpayers of Kansas resulting from the otherwise

necessary resort to disproportionately extensive and expensive formal application proceedings. Such an order would also permit those carriers to secure reasonable recovery of investment without incurring unreasonable expense in doing so.

Respectfully submitted,



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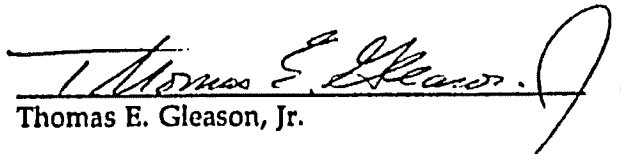
CERTIFICATE OF MAILING

Thomas E. Gleason, Jr., hereby certifies that a true and correct copy of the above and foregoing Petition for Reconsideration was mailed to the following, by placing the same, postage prepaid, in the United States mail on this 7th day of January, 1994:

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Thomas E. Gleason, Jr.

MEMORANDUM
UTILITIES DIVISION

TO: Chairman Robinson
Commissioner Alexander
Commissioner Ljpmn

FROM: Karen Matson-Flaming
Panchali Das

DATE: January 21, 1994

RE: Docket No. 188,681-U

BACKGROUND:

On December 21, 1993, the Kansas Corporation Commission (Commission) issued an order which established a streamlined process for the filing and determination of depreciation rates for small independent local telephone companies.

On January 7, 1994, Southwestern Bell Telephone Company (SWBT) filed a Petition for Reconsideration. Also on January 7, 1994, Blue Valley et. al. filed a Petition for Reconsideration. On January 10, 1994, Columbus et. al. filed a Petition for Reconsideration

STAFF RESPONSE AND RECOMMENDATION:

In general, staff believes there is some merit to the concerns expressed by the parties in this matter. However, the streamlined depreciation process has several mechanisms which, staff believes, compensates and allows for the parties' concerns to be addressed. Staff does not believe reconsideration is warranted, although the Commission may wish to provide additional clarification.

One of the mechanisms that staff believes balances the concerns of the parties is the option for a company to request approval of a depreciation rate outside of the established range. The option provides the relief the independent companies (Blue Valley et al, and Columbus, et al) desire while addressing SWBT's concerns that independent companies not be provided carte blanche to book extremely aggressive depreciation rates without adequate Commission review.

It is important that requests for rates outside the ranges be accompanied by supporting documentation consistent with past depreciation review policies. The information considered by the Commission has not always been historical, and in fact, often includes forward-looking data. This burden of proof has not changed. However, it is also important that the common schedule be updated periodically so that the ranges will reflect trends in technology. The goal of the common schedule is to enhance the companies' ability to implement appropriate rates that reflect and enhance their modernization plans.

Staff recommends the common schedule be updated at the end of the first quarter of each calendar year, incorporating the independent telephone company depreciation rates which have been granted in the proceeding year (including those rates within and outside of the ranges). This

updating will enhance the common schedule's reliability and flexibility.

Staff believes the suggestion of SWBT, that the ILECs be required to provide supporting data even for rates requested within the established ranges, runs counter to the intent of this proceeding. The basic premise was to develop a schedule of rates in which any rate requested within the range would be considered reasonable, without additional information being required. This is also one of the reasons staff does not believe simply increasing the upper range without supporting data, as the independent companies would suggest, is appropriate either.

Staff would expect the ILECs to propose depreciation rates which are appropriate to their company. Staff believes the Commission should expressly note its jurisdiction regarding this matter and its ability to investigate the appropriateness of ALL rates, upon its own motion, or in a rate case or similar proceeding.

Staff believes consideration of a streamlined depreciation schedule for SWBT is timely; however, staff firmly believes SWBT's proposal which incorporates reserve parity, warrants consideration in the TeleKansas docket and should not be addressed in this proceeding.

The Commission's order also continued the requirement that ILEC must make formal filings to request changes to rates, even for proposed rates which are within the established ranges. It has been argued that this process should also be streamlined to a letter of notification rather than a formal filing. Staff believes it important to continue with the existing filing requirements while the Commission, staff and the industry becomes familiar with the common schedule concept. Staff recommends the Commission continue to require formal filings, however, the Commission may wish to re-evaluate this situation at a later time.

In the same vein, staff considers the request by Blue Valley et al to implement a two-tier system to be somewhat premature and perhaps unnecessary, although the Commission and staff may wish to consider such a concept if experience with the common schedule demonstrates a change is warranted.

Finally, SWBT has stated its desire to use the ILEC depreciation expense as a negotiating tool in the next access proceeding and has requested the Commission reconsider the effective date of the common schedule (January 1, 1993). Staff strongly objects to such a reconsideration. Staff proposed implementation of a common schedule because this state's average depreciation rates for independent companies were severely out-dated. This is a policy matter which affects independent companies accounting records. SWBT has some potential exposure in Access, if an independent company should file for an expedited access proceeding in this last year of the access plan. However, even if the Commission were to reconsider the effective date as SWBT desires, it would not impact future access in the manner in which SWBT describes. Authorized depreciation expense is a pro forma adjustment that would be taken into consideration in any revenue requirement calculation since it is a known and measurable event that will affect future costs. Furthermore, this is not a policy to be reconsidered because SWBT wants to bargain with an ILEC's authorized depreciation expense in another matter. Staff believes such a request to be highly inappropriate.

cc: Don Low Shirley Sicilian Brian Moline Judith McConnell
Martha Cooper Stacey Boyles Dana Bradbury Gene Heibsch