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STATE CORPORATION COMMISSION

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STATE CORPORATION COMMISSION
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Docket
Room

THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

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

REPLY COMMENTS OF
INDEPENDENT TELECOMMUNICATIONS GROUP, COLUMBUS ET AL.

Comes now the Independent Telecommunications Group, Columbus et al.,
(Columbus) by and through its counsel Thomas E. Gleason, Jr., and submits the
following reply comments herein:

I. RETROACTIVITY

No rule or law, regulation or existing policy of the Kansas Corporation
Commission prohibits approval, under the presently available procedure, of
increased depreciation allowance including some retroactive effects, at least to the
beginning of the year in which such increase is sought. The comments herein of
Southwestern Bell Telephone Company (SWBT) in opposition to any retroactive
allowance under the proposed simplified procedure offers no rationale justifying
limitation of retroactivity based on the *nature of the procedure* under which an
otherwise appropriate increase in depreciation rates might be obtained.

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The rapid advancement of telecommunications technology which continues to accelerate the obsolescence of current local exchange companies' equipment and systems is not abated by the terms of the existing access stipulation. The present technological environment, independent of access agreement or order, constantly affects adversely the useful practical life of such companies' equipment. To the extent that such disadvantageous effects now exist (and have existed since before the present year) the KCC may recognize the propriety of some limited retroactivity regardless of the procedure by which an otherwise appropriate depreciation allowance is determined. Further, SWBT identifies no portion of the existing access stipulation mandating SWBT's assent in any modification of depreciation allowance sought by local exchange companies. Such companies are entitled to regulatory determination of appropriate rates based upon their need to provide modern and efficient telecommunications services to their customers. While determination of such depreciation rates may or may not affect the level of access charges payable to such companies (and even SWBT comments recognize this effect only as a possibility) there is no justification to allow such a possible effect to become a cause for artificial restriction of otherwise reasonable recovery.

The suggestions by SWBT that depreciation methodology should be linked to 1994 access negotiations is not well founded. 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. Whether future access payments are fixed by stipulation or by order in adversary proceedings it is sound policy to set such payments on current and stable conditions rather than on disputed projections of the future effects of changes in condition. Put more simply, SWBT's comments assert but do not support the propriety of linkage. Any such attempt at linkage which has the effect of delaying reasonable depreciation recovery by a local exchange company would have the effect (if any) of preserving artificially limited access compensation to the local exchange company.

II. AVAILABILITY OF THE STREAMLINED PROCESS TO SWBT

In its comments SWBT urges that it be permitted to employ the streamlined depreciation process presently under consideration. While such availability would likely have little or no effect on the local exchange companies already proposed to be subject thereto Columbus is constrained to note that the rationale for the establishment of such procedure does not extend to encompass SWBT's circumstances.

The stated reason for staff's proposed simplified methodology is not merely that detailed depreciation studies are expensive, but that such expense may deny the benefit of reasonable depreciation to companies having a comparatively small investment within each account. Economies of scale and the extent of SWBT's investment in equipment do not create a disincentive to SWBT to the same degree as such disincentive affects the much smaller local exchange companies.

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If this Commission wishes to reach a policy determination that detailed depreciation costs studies are uniformly unnecessary for the protection of the consumer then it is free to do so without objection by members of the Columbus group; such policy determination, however, was not the express subject of staff's proposal herein, nor is it the case that SWBT's expenses in preparing such detailed studies are likely ever to exceed the dollar amount of depreciation recovery to be obtained thereby.

Given the present existence of a staff review of SWBT's operation under the TeleKansas Plan it may be more appropriate for Bell's proposal herein to be considered in the context of that more general review of Bell's operations. Columbus urges that the adoption of a simplified depreciation methodology not be delayed by Bell's request for inclusion; rather an appropriate simplified methodology should be adopted as soon as possible, subject to the option of extending the availability thereof to SWBT if such extension is otherwise appropriate, as may be determined in the current review of the TeleKansas Plan.

Columbus has previously urged that depreciation rates applicable to SWBT (and to United Telephone Company) be considered in establishing reasonable ranges of depreciation available through simplified procedures to the smaller local exchange companies. This proposal is based upon a desire that all available and relevant information be considered in the determination of those rates. It does not

follow solely from such inclusion that SWBT is entitled to participation in the resulting simplified procedure.

There is a clear difference between SWBT and the independent local exchange companies 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. Nothing presented by SWBT herein necessarily supports extension to SWBT of the benefits of simplified regulations under staff's proposed methodology. As previous noted such extension could nevertheless be made subject to a separate policy determination by the KCC weighing the relative benefits and expense thereof to SWBT and its customers. Whatever the effect of such separate policy determination the need for relief to the smaller local exchange companies is present and significant and should receive priority attention and resolution.

III. CONCLUSION

The Kansas Corporation Commission should, at the earliest opportunity, adopt a simplified methodology for depreciation treatment of smaller independent local exchange companies similar in concept to that proposed by staff herein. The range of "pre-approved" depreciation rates under such procedure, however, should be increased significantly as to computer-based equipment and as to the technological antecedents of such equipment in order to recognize the acceleration of technological obsolescence in telecommunications equipment.

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Smaller local exchange companies have operated under the financial burden of inadequate depreciation allowance on much equipment for years; accordingly 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.

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 Reply Comments were mailed to the following, by placing the same, postage prepaid, in the United States mail on this 29th day of October, 1993:

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