BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

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| In the Matter of the Nebraska Public Service Commission on its own motion to investigate depreciation rates for all telephone companies. | ) ) ) ) ) | Application No. C-664<br>ORDER ADOPTING DEPRECIATION PROCEDURES<br>Entered: April 14, 1987 |

APPEARANCES: For Intervenor, AT&T Communications of the Midwest
Mark Belmont, Attorney
10825 Old Mill Road
Omaha, Nebraska

For Intervenor, Northwestern Bell
Richard L. Johnson, Attorney
100 South 19th Street
Omaha, Nebraska

For Intervenor, Nebraska Telephone Association, Lincoln Telephone and Telegraph, General Telephone Company of the Midwest
Victor E. Covalt, Attorney
1500 American Charter Center
Lincoln, Nebraska

For Intervenor, United Telephone Company of the West
Maria A. Kendro, Attorney
United Telephone Company of the West
6666 West 110th Street
Overland Park, Kansas

BY THE COMMISSION:

By order entered June 17, 1986, the Commission, on its own motion, created this docket to investigate depreciation rates for all telephone companies.

Pursuant to notice required by law, public hearing was held on November 13, 1986 in the Commission Hearing Room, Lincoln, Nebraska with appearances as set forth above.

## OPINION AND FINDINGS

Upon consideration of the evidence adduced at the hearing and being fully advised, the Commission is of the opinion and finds that:

1. The Commission staff proposed that AT&T Communications (AT&T), Northwestern Bell (NWB), Lincoln Telephone and Telegraph (LT&T), General Telephone Company of the Midwest (General), Great Plains Communications (GPC), and United Telephone Company of the West (United) file depreciation studies supporting rate review on a triennial basis. The proposed schedule would review

LT&T and United in 1987; AT&T and General in 1988; and NWB and GPC in 1989 with a repeat of this cycle beginning in 1990. The staff contends scheduled review of these companies would result in properly matching capital recovery with the consumption of assets and may often result in depreciation rate decreases as well as increases.

2. The staff proposed revising the schedule of guideline depreciation rates which would affect the remaining telephone companies in the state, not listed in paragraph 1. The proposed rates are found on Exhibit No. 4 and would be the maximum rate allowed by the Commission. All rates approved prior to this proceeding shall be reduced not to exceed the new guideline rates. The staff recommends that all companies subject to the guideline depreciation rates be required to file a schedule which shows for all plant accounts the investment and reserve levels along with the depreciation rate in effect. These schedules should be dated and maintained to reflect all subsequent changes in depreciation rates.

3. The staff proposal does not allow the six companies listed in paragraph 1 to avail themselves of the guideline depreciation rates. Under the proposal, any depreciation rate changes for these six companies shall occur only as a result of the triennial review process or subsequent to application filed by the company and approved by the Commission.

4. Norm Osland, Executive Vice President of the Nebraska Telephone Association (NTA) testified, on behalf of its members, that: Capital recovery on a timely basis is critical to Nebraska telephone companies and the current guideline depreciation rate process allows companies to implement reasonable depreciation rates without having to undertake detailed studies. Mr. Osland presented a schedule of proposed guideline rates supported by the NTA (Exhibit No. 5, Schedule A). The NTA proposal agrees with the staff proposal regarding the accounts and subaccounts which should have guideline rates set by the Commission. The NTA proposed rates differ from the staff proposed rates for five accounts. The NTA recommends that the rate for Subscriber Carrier remain at 12.5%; that the Public Telephone Equipment rate should be 20%; that the Group I sub-account for Motor Vehicles should have a rate of 20%; that Other Work Equipment be retained at 9%; and that the rate for Electronic Office Equipment be set at 15%.

5. Mr. Osland testified that the NTA does not oppose the triennial review of the largest five local exchange carriers provided they have the option of filing applications for interim review as the individual company finds necessary.

6. Jerry D. Harris, District Manager--Capital Recovery for Northwestern Bell testified: He supported the staff proposal to review NWB depreciation rates on a triennial basis provided the procedure allows companies the opportunity to revise depreciation rates for specific accounts when conditions warrant action before the scheduled triennial review. He agreed with staff that three years is an appropriate interval for analyzing the depreciation parameters for the majority of NWB's plant accounts.

7. Laurence Connealy, Senior Vice President and Controller for LT&T testified: Applications to the Commission for changes in LT&T depreciation rates usually are based on studies conducted at approximately three to five year

intervals. LT&T is not opposed to triennial review; however, they would like the flexibility to ask for changes in depreciation rates whenever needed, within the guideline rates established by the Commission. The rates proposed by the NTA are adequate excluding two specific sub-accounts, which are Analog COE and Computers where LT&T currently is approved rates in excess of the NTA proposals. LT&T's capital recovery program is in good shape and significant changes in the near future are not likely.

8. Beverly Ross, Capital Recovery Manager for United Telephone System's Midwest Group testified that: United is in favor of the triennial review of depreciation rates provided three years is the maximum length of time that may elapse between depreciation rate reviews. United would oppose any proposal that would not allow for interim depreciation rate review initiated by company application. If the Commission implements a triennial review procedure, United requests that its initial review take place in 1987. United recommends that the Commission approve the schedule of rates proposed by the NTA for both existing accounts and sub-accounts and for accounts and sub-accounts without currently established guideline rates. United requests to use the guideline rate process where appropriate.

9. Frank J. Houser, Staff Administrator--Revenue Planning for GTE Midwestern Telephone Operations (MTO) testified: Depreciation policies need to become more progressive and flexible and General views the staff proposal on triennial review as a more rigid approach from past practices. General feels the use of guideline rates is a more appropriate method concerning recovery of its capital and they support the NTA proposed schedule of accounts and rates, with two exceptions. General does not keep account detail to the extent necessary to comply with rates proposed for some of the sub-accounts and they are proposing higher rates than those the NTA requested, for some accounts. These accounts and rates are: Underground cable, 7.5%; Buried Cable, 6%; All Fiber Cable Accounts, 6.3%; Computers, 20%; Other Work Equipment, 10%; and Vehicles, 15%.

10. Larry Zeppetella, Staff Manager--Capital Management Recovery for AT&T Communications testified: If AT&T is required to have depreciation rates reviewed by the Commission, AT&T requests that the represcription be done at the same time as they are represcribed by the FCC. AT&T feels it is inappropriate for the Commission to review their depreciation rates while other interexchange carriers operating in Nebraska are not subject to depreciation rate review by the Commission.

11. The Commission agrees that the guideline rates currently in effect need revision and the staff proposal found on Exhibit No. 4 will be approved as the new schedule of guideline depreciation rates effective January 1, 1987, except that the guideline rate for electronic office equipment should be 15% and for computers should be 18%. All telephone companies subject to the guideline depreciation rates shall file a schedule which shows for all plant accounts the investment and reserve levels as of January 1, 1987 along with the depreciation rate in effect for each account in accord with the new guideline rates. Future requests for changes within the guidelines shall be by letter accompanied by a schedule showing for all plant accounts the then current investment and reserve levels along with the depreciation rate proposed for each account. Companies subject to the guideline rates may make application for approval of rates exceeding the guidelines.

12. The Commission finds that depreciation rates for AT&T, NWB, LT&T, General, GPC, and United should be reviewed on a triennial basis. Such reviews shall be scheduled by the staff upon receipt of supporting data from each subject company. The approved schedule will review LT&T and United in 1987; AT&T and General in 1988; and NWB and GPC in 1989 with a repeat of this cycle beginning in 1990. Should any of these companies be subject to review by the FCC in a year other than that proposed, the Commission will accept and process an application for full depreciation rate review concurrent with the FCC review. The triennial review shall be initiated by application from the companies subject to review and coordinated with Commission staff. Companies subject to triennial review may also file applications at any time seeking increases in specific depreciation rates. By letter, these subject companies may request depreciation rate decreases which shall become effective, after notice from the Commission, no less than 30 days from the date the request is filed with the Commission. Applications for depreciation rate changes may be processed administratively using modified procedure when there are no protests and the Commission staff, after review, supports the proposed new rates.

ORDER

IT IS THEREFORE ORDERED by the Nebraska Public Service Commission that the Depreciation Rates attached hereto and made part of shall be the approved Commission Guideline Depreciation Rates effective January 1, 1987 in accordance with the opinion and findings set forth above.

IT IS FURTHER ORDERED that all companies subject to the guideline depreciation rates shall file with the Commission within 60 days from the date hereof a schedule which shows, for all plant accounts, the investment and reserve levels as of January 1, 1987, along with the depreciation rate in effect for each account in accord with the attached guideline rates.

IT IS FURTHER ORDERED that AT&T, NWB, LT&T, General, GPC, and United be subject to depreciation rate review on a triennial basis in accordance with the opinion and findings set forth above.

MADE AND ENTERED at Lincoln, Nebraska this 14th day of April, 1987.

NEBRASKA PUBLIC SERVICE COMMISSION

Eric Rasmussen
Chairman

COMMISSIONERS CONCURRING:

Duane D. Gay

//s//James F. Munnelly
//s//Harold D. Simpson
//s//Eric Rasmussen
//s//Daniel G. Urwiller

ATTEST:

John Burvainis
Acting Executive Secretary