DECISION MEMORANDUM

TO:COMMISSIONER NELSON

COMMISSIONER SMITH

COMMISSIONER HANSEN

MYRNA WALTERS

TONYA CLARK

DON HOWELL

STEPHANIE MILLER

DAVE SCHUNKE

JOE CUSICK

DAVID SCOTT

WORKING FILE

FROM:WELDON STUTZMAN

DATE:JANUARY 29, 1997

RE:CASE NO. GNR-T-97-1

PETITION BY INDEPENDENT TELEPHONE COMPANIES FOR ADJUST­MENTS IN DEPRECIATION RATES

On December 31, 1996, a Petition for Approval of Revised Depreciation Rates was filed by six independent telephone companies.  The petitioners are independently-owned local telephone companies that provide local exchange and other telecommunication services in the state of Idaho.  Each Company is subject to the regulatory jurisdiction of the Commission pursuant to Titles 61 and  62, Idaho Code.

The petitioners request an order from the Commission approving revised depreciation rates for accounting purposes.  The Companies state that their existing depreciation rates are no longer reasonable in a competitive environment and that the onset of competition requires that depreciation rates more closely match the retirement of capital assets.  The petitioners are not requesting any changes in customer rates or charges as a result of the revised depreciation rates, and specifically acknowledge that any change in revenue requirements or customer rates will require a general rate case.  Petitioners request that the Commission issue an order prior to February 15, 1997, authorizing an effective date for the new rates of January 1, 1996.

The Commission issued a Notice of Petition and Notice of Modified Procedure on January 7, 1997.  The comment period expired on January 28, 1997.  Written comments were filed by GTE Northwest Incorporated (GTE), U S WEST Communications, Inc.  (U S WEST), AT&T Communications of the Mountain States, Inc.  (AT&T), Commission Staff, and the Petitioners.  Only AT&T opposed the proposal to revise the depreciation rates, and requested a hearing.  On January 29, MCI Telecommunications Corp. filed a letter concurring in the comments filed by AT&T.

In its comments, GTE stated that “as a result of rapidly changing technology and a competitive environment, traditional depreciation practices and procedures are no longer relevant.”  GTE’s comments support the petitioners’ request for depreciation rates that closely match the retirement of capital assets to ensure the financial health and viability of the petitioners.  U S WEST also supports the Petition, stating that “the depreciation lives allowed by the independent companies in Idaho need to be revised.”  U S WEST believes the proposal “should be accepted as reasonable depreciation lives and the lives, and the resulting depreciation rates, should be approved by the Idaho Commission.”  In its comments, Staff expressed some reservations about the rationale provided by the petitioners in support of shorter lives.  However, Staff is not opposed “to the Company’s recording shorter depreciation lives and larger depreciation charges on its books effective January 1, 1996, with the clear understanding that approval of an accounting change does not constitute approval of the proposed increases in depreciation rates for ratemaking purposes.”  The petitioners filed comments “to make clear that Commission approval of the proposed depreciation rates will have no impact on Idaho ratepayers.”  Instead, the companies “are merely seeking authority to book the proposed rates as of January 1, 1996.”  The petitioners recognize that in future rate proceedings all parties will have an opportunity to litigate the appropriateness of depreciation rates to be used by the companies for ratemaking purposes.

In its comments, AT&T states several reasons to oppose the petitioners request to increase its depreciation rates for accounting purposes.  The reasons for opposition provided by AT&T are the following:

1.  There presently exists no effective competition in Idaho’s local exchange market, particularly in the exchanges operated by the petitioners.  Additionally, rural telephone carriers have special protection under the Telecommunications Act of 1996 to slow the advent of competition.  Thus, AT&T asserts that the petitioners’ request is premature.

2.  Although AT&T recognizes the petitioners are not requesting adjustments to customer rates at this point, AT&T asserts, “if the Application is approved, customers will incur an increase in the future resulting directly from this revision of the depreciation rates.”  AT&T also asserts that Universal Service Fund support for the petitioning companies would increase.

3.  AT&T asserts that the proposed depreciation rates are significantly higher than the Federal Communication Commission’s prescribed rates for U S WEST in Idaho.  AT&T believes the FCC rates should have been included in the analysis to determine the appropriate rates because a significant portion of the petitioners’ revenues are derived from the federal Universal Service Fund which is funded by interstate access charges.

4.  Noting that the federal-State Joint Board reviewing changes to the federal USF support levels has recommended freezing support levels at 1996 per access line levels, AT&T states that it “is imperative that the petitioners use realistic depreciation rates for 1996 financials.”  AT&T states that the independent companies have an incentive to load as much cost as possible into filings during the freeze.  AT&T contends that the use by the petitioners of U S WEST’s estimated depreciation lives is inappropriate for the small independent companies in Idaho.  Because the independent companies will not face the same level of competition as U S WEST, and thus will not need to replace equipment as rapidly, company specific depreciation rates should be applied to the petitioner companies.  According to AT&T, these companies will not be forced to alter existing service and infrastructure due to increased demand or competitive pressures.  For these reasons, AT&T recommends that the Commission deny the petitioners’ Application.

AT&T also states that a formal hearing is appropriate to consider the Application.  AT&T states that a hearing would enable the Commission to determine any impact on the petitioners’ rates resulting from the adjustments, whether the proposed rates are adequately supported by evidence, and whether the petitioners actually intend to replace or retire the equipment that has been depreciated.  For these reasons, AT&T requests that the Commission schedule this matter for a hearing.

Commission Decision

1.  Should the request by petitioners to make accounting adjustments to depreciation rates be approved, so long as the adjustment does not effect revenue requirements or customer rates?

2.  Alternatively, should AT&T’s recommendation for a hearing be adopted?

Weldon Stutzman

vld/M:GNR-T-97-1.ws