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September 2, 1998

Mrs. Blanca S. Bayo
Director, Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399

RE: Docket No. 980696-TP

Dear Mrs. Bayo:

Enclosed for filing in the above referenced dockets on behalf of AT&T of the Southern States, Inc.'s (AT&T) and MCI Telecommunications Corporation is the Rebuttal Testimony of Catherine Petzinger, John Hirshleifer, Michael Majoros, Art Lerma, and Don Wood/Brian Pitkin. Please note that the Rebuttal Exhibit CEP-1 attached to Catherine Petzinger's Rebuttal Testimony may contain proprietary confidential business information and is being filed separately in accordance with Rule 25-24.006(5), Florida Administrative Code.

Copies of the foregoing are being served on all parties or record in accordance with the attached Certificate of Service. Thank you for your assistance in this matter.

Sincerely,

Tracy Hatch

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I HEREBY CERTIFY that a true and correct copy of the foregoing was furnished via *hand delivery/**Federal Express and U.S. Mail to the following parties of record on this 2nd day of September, 1998:

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ATTORNEY

ORIGINAL

BEFORE THE

THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 980696-TP

REBUTTAL TESTIMONY

OF

MICHAEL J. MAJOROS, JR.

ON BEHALF

OF

AT&T COMMUNICATIONS OF THE SOUTH CENTRAL STATES, INC.

AND

MCI TELECOMMUNICATIONS CORPORATION

SEPTEMBER 2, 1998

Q. **PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.**

A. My name is Michael J. Majoros, Jr. I am Vice President of the economic consulting firm of Snavely King Majoros O'Connor & Lee, Inc. ("Snavely King"). My business address is 1220 L Street, N.W., Suite 410, Washington, D.C. 20005.

Q. **ARE YOU THE SAME MICHAEL J. MAJOROS, JR. WHO SUBMITTED DIRECT TESTIMONY IN THIS PROCEEDING ON AUGUST 3, 1998?**

A. Yes, I am.

Q. **DID YOUR DIRECT TESTIMONY CONTAIN A DESCRIPTION OF YOUR BACKGROUND AND EXPERIENCE?**

A. Yes, it did.

Q. **WAS THIS TESTIMONY PREPARED BY YOU OR UNDER YOUR DIRECT SUPERVISION?**

A. Yes it was. I should note, however, that this testimony and its analytical framework draws heavily upon work performed by myself and others at Snavely King on behalf of AT&T, MCI and AT&T Canada LDS for use in other proceedings.

Q. **WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

A. In this testimony, I respond to the proposals of BellSouth, GTE and Sprint on the subject of the appropriate economic lives and future net salvage percents to be used in calculating depreciation

pursuant to the Universal Service Order of the Federal Communications Commission ("FCC").[1]

Q. PLEASE SUMMARIZE YOUR FINDINGS.

A. In my direct testimony, I explained that the FCC requires that Total Element Long-Run Incremental Cost ("TELRIC") methodology be used to estimate the cost of universal service.[2] I also found that the projection lives and future net salvage percents prescribed by the FCC are consistent with the FCC's Universal Service Order and appropriate for use in calculating depreciation. I recommended projection lives and future net salvage percents prescribed in 1995 by the FCC for BellSouth-Florida and GTE-Florida. I also recommended lives and future net salvage percents for Sprint from the low end of the FCC ranges.[3] [4] Since several of the lives proposed by BellSouth, GTE and Sprint are much shorter than those prescribed by the FCC in most major accounts, I conclude that they are too short to be used in universal service cost studies. The use of unrealistically short lives would overstate the cost of universal service and the subsidies necessary for its preservation.

Q. HAVE YOU COMPARED THE LIVES AND FUTURE NET SALVAGE VALUES PROPOSED BY BELLSOUTH, GTE AND SPRINT TO THOSE CONSISTENT WITH THE FCC'S RULES AS REFLECTED IN YOUR RECOMMENDATIONS?

A. Yes, I have. On Attachment MJM-7, I compare the proposals of

BellSouth, GTE and Sprint (Column d) to my recommendations.

The life proposals of BellSouth, GTE and Sprint (Column d) for digital switching, digital circuit and the outside plant accounts are generally much shorter than the latest FCC prescribed projection lives (Column c).

Q. HOW DID BELLSOUTH, GTE AND SPRINT DEVELOP THEIR LIFE ESTIMATES?

A. They relied largely upon "substitution analysis," which attempts to forecast the pattern by which new technology will replace old technology.[5] GTE and Sprint relied upon substitution analyses performed by Technologies Futures, Inc. ("TFI"), whose industry studies have been used frequently by local exchange carriers ("LECs") to justify shorter lives in regulatory depreciation proceedings.[6] TFI's studies are sponsored by the Telecommunications Technology Forecasting Group ("TTFG"), an industry association of BellSouth, GTE, Sprint and other major LECs in the United States and Canada. BellSouth also used to rely on TFI and at one point convinced this Commission to rely on TFI as well. However, that reliance has been shown to have been misplaced.

Q. WHAT ASSUMPTIONS UNDERLIE THESE STUDIES?

A. These studies are based upon the premise that LECs will replace their narrowband telecommunications networks with broadband

integrated networks capable of providing both telecommunications services and video services, such as cable television. According to these studies, Fiber-In-The-Loop ("FITL") will bring broadband to the home, displacing copper plant. This will result in the upgrading of all transmission systems to Synchronous Optical Network ("SONET"), replacing existing circuit equipment. TFI also predicts that Asynchronous Transfer Mode ("ATM") switching equipment will provide a broadband switching capability replacing today's narrowband switch fabrics.

Q. SHOULD TELRIC COST STUDIES BE BASED UPON ASSUMPTIONS SUCH AS THOSE UNDERLYING THESE ESTIMATES?

A. No. TELRIC is based on the use of the most efficient telecommunications technology currently available and the lowest cost network configuration, given the existing location of the incumbent LEC's wire centers. The TELRIC standard requires a determination of the stand-alone cost of unbundled network elements in an efficient telecommunications network.[7] The plant lives appropriate for such a calculation should not be based upon the assumption that efficient telecommunications facilities will be prematurely retired in order to provide broadband video services. The FCC has specifically ruled that the costs of premature retirements will not be charged to ratepayers. The FCC states:

Facilities upgrades and accelerated replacement of older facilities might also be undertaken primarily for the benefit of unregulated service offerings. The principles adopted in the Order dictates that such costs be excluded from the regulated accounts.[8]

The use of plant lives based upon the assumption that an integrated telecommunications/video network will replace the telecommunications network would effectively cause the costs of premature retirements to be charged to telephone ratepayers.

Q. **IS THIS DISTINCTION BETWEEN TELECOMMUNICATIONS AND VIDEO SERVICES UNIQUE TO THE FCC?**

A. No. The Canadian Radio-Television and Telecommunications Commission ("CRTC") draws the very same distinction. The CRTC divides cost between the Competitive (non-regulated) and Utility (regulated) segments, and states:

> The Commission finds that, in general, the most appropriate regulatory treatment for broadband initiatives is to require the telephone companies to assign to the Competitive segment all new investments and related expenses associated with the deployment of fiber, coaxial cable, optoelectrical equipment, asynchronous transfer mode (ATM) switches, and video servers.[9]

* * *

The Commission does not foresee any instances where it would be appropriate to have fiber or coaxial cables in the distribution portion of the loop assigned to the Utility segment.[10]

Q. ARE THE LIVES RESULTING FROM THE USE OF SUBSTITUTION ANALYSIS NECESSARILY ACCURATE?

A. No. Substitution models merely provide a convenient method for plotting by year the growth of a new technology assuming the inputs to the formula are correct. The output of a substitution analysis is only as accurate as the inputs selected.

In the first place, substitution analysis is not even relevant unless it is known that a new technology will replace, not supplement an older technology. It appears, for example, that Asynchronous Transfer Mode ("ATM") switches will be deployed as a supplemental technology to digital switches, not as a replacement for them. As such, substitution analysis is of no relevance. This helps to explain low retirement rates for digital switching equipment.

Indeed, even when a substitution has started, it does not necessarily follow that it will finish according to pattern. It appeared at one point, for example, that nuclear fuel would replace fossil fuel in electrical generation in this country. The use of substitution

formulas in that case would have resulted in dramatically incorrect predictions.

Even if a full substitution is likely, the formula requires the user to predict both the rate of substitution and the point at which the replacement technology will reach 50 percent of the universe.[11] In other words, the analyst must insert as an input the average remaining life of the old technology, since this is essentially the 50 percent level of the new technology. Although substitution methodology allows the preparation and presentation of impressive looking charts and tables, it is merely charting the assumptions made by the analyst. Its outputs at the hands of BellSouth or TFI are no more credible than their inputs.

Q. HAS SUBSTITUTION ANALYSIS PROVEN ACCURATE OVER THE LONG RUN?

A. No. Although TFI forecasts have been provided to the FCC for nearly a decade, they have not been relied upon in the selection of plant projection lives. Fatina K. Franklin, the Chief of the FCC's Competitive Analysis Branch, recently made a presentation at the Annual Meeting of the Society of Depreciation Professionals on the subject of forecasting. The charts from her presentation are provided as Attachment MJM-8. Charts 3 and 4 deal specifically with TFI's estimates. Chart 3 demonstrates that TFI's 1989 estimates for the retirement of circuit equipment have proven

grossly inaccurate. The percent of 1987 circuit equipment surviving as of the end of 1996 is nearly three times as great as that predicted by its studies. Chart 4 demonstrates that its 1994 estimates for circuit equipment and analog stored program control ("SPC") switches are already proving inaccurate.

Attachment MJM-9 provides a similar analysis of TFI's fiber in the feeder estimates. Page 1 of this analysis shows its predictions for the percent of fiber in the feeder in 1988, 1994 and 1997, and actuals (in bold) through 1995. In 1988 TFI predicted a substitution of 22.55 percent by 1995; in 1994 its prediction dropped to 11.20 percent; and its latest study shows an actual of 9.30 percent. Page 2 graphically portrays this data and demonstrates how TFI's life estimates have lengthened as actuals became available.

Q. HAS BELLSOUTH'S USE OF SUBSTITUTION ANALYSIS PRODUCED ESTIMATES MORE ACCURATE THAN TFI'S ESTIMATES?

A. No. Attachment MJM-10 to this testimony reproduces the "tracking reports" filed by BellSouth as part of its most recent 1996 Depreciation Study. The FCC requires these reports to shed light on the accuracy of past forecasts by a LEC. Actual retirements from 1993 to 1995 as a percent of retirements forecast in 1993 for the South Central Bell Companies were as follows:

Aerial Cable Metal	32.3%
Underground Cable Metal	11.1%
Buried Cable Metal	23.6%

This abysmal track record may have contributed to BellSouth's failure to request represcription in 1996.

Q. DO YOU HAVE ANY FLORIDA-SPECIFIC INFORMATION?

A. Yes. Attachment MJM-11 is a comparison of the TFI predictions upon which this Commission set BellSouth's copper cable depreciation rates in Docket No. 920385-TL. The table demonstrates that TFI was wrong by over $900 million. The remaining lives based on TFI's forecast were equally as wrong.

Q. ARE THE LIVES PROPOSED BY BELLSOUTH, GTE AND SPRINT CONSISTENT WITH THE LIVES THEY USE FOR PUBLIC REPORTING PURPOSES?

A. Yes. Apparently they are at least for BellSouth and CTE.

Q. DOES THE FACT THAT BELLSOUTH, GTE OR SPRINT MAY USE THESE LIVES FOR FINANCIAL REPORTING PURPOSES MAKE THEM APPROPRIATE FOR TELRIC PROCEEDINGS?

A. No. Florida-specific FCC prescribed lives are available and should be used in TELRIC calculations. In a 1989 Petition, AT&T asked the FCC to base its regulatory depreciation on its financial books.[12] The FCC flatly rejected this request, stating:

> We conclude that AT&T has not made a

sufficient showing that this Commission should base AT&T's book rates on the depreciation rates that it uses for financial reporting purposes. Initially, we observe that the present depreciation procedures have worked well for AT&T, in terms of ensuring more rapid capital recovery. Our recent depreciation orders have allowed AT&T to increase substantially its depreciation reserve, from 24.8% of plant as of January 1, 1984 to 39.1% as of January 1, 1989. AT&T does not state in its petition in what specific manner this Commission has been remiss in our depreciation rate prescriptions of recent years. Rather, it relies upon the fact that in 1988 it took a $6 billion writedown of its asset value for financial reporting purposes. This event may indicate that a new look at AT&T's depreciation situation is warranted, notwithstanding our recent depreciation represcription, and we are accordingly initiating herein an inquiry into AT&T's need for revised depreciation rates. However, that assessment can be accomplished using current procedures rather than depreciation rate methodologies that go well beyond those that we have traditionally employed. We have

taken a series of initiatives during the past decade to ensure that carriers are able to adjust their depreciation rates promptly to recover capital investment costs as quickly as possible under the federal regulatory scheme. We do not see a need now to abandon one of those initiatives to address what appears to be a temporary problem that can be resolved with measures less drastic than those suggested by AT&T.[13]

Q. HAS ANY MAJOR LEC CONCEDED THE BIAS INHERENT IN THE FINANCIAL BOOKS?

A. Yes. The lives used for financial accounting purposes are governed by the Generally Accepted Accounting Principle ("GAAP") of "conservatism." In the FCC's Prescription Simplification proceeding, GTE noted that the GAAP conservatism principle "prefers the understatement (versus overstatement) of net income and net assets where any potential measurement problems exist."[14] Most accountants would agree that the very nature of depreciation makes it a challenge to measure. GAAP, independent auditors and the Security and Exchange Commission, therefore, might well prevent the LECs from understating depreciation, since this would overstate net income and net assets. It is highly unlikely, however, that GAAP, or any financial auditor, would find

that a LEC (or any company, for that matter) had overstated its depreciation, since this would result in a conservative view of net income and net assets.

In its October 1993 Order, the FCC agreed with GTE, stating:

> One of the primary purposes of GAAP is to ensure that a company does not present a misleading picture of its financial condition and operating results by, for example, overstating its asset values or overstating its earnings, which would mislead current and potential investors. GAAP is guided by the conservatism principle which holds, for example, that, when alternative expense amounts are acceptable, the alternative having the least favorable effect on net income should be used. Although conservatism is effective in protecting the interest of investors, it may not always serve the interest of ratepayers. Conservatism could be used under GAAP, for example, to justify additional (but, perhaps not "reasonable") depreciation expense by a LEC to avoid its sharing obligation. Thus, GAAP would not effectively limit the opportunity for LECs to manage earnings so as to avoid the sharing zone as the basic

factor range option. In this instance, GAAP does not offer adequate protection for ratepayers.[15]

Q. IN AN EARLIER CASE BELLSOUTH CLAIMED THAT IT HAS A RESERVE DEFICIENCY ON AN FCC BASIS. IS THIS AN ACCURATE STATEMENT?

A. No. BellSouth claims a reserve deficiency calculated on the basis of its financial book lives. On an FCC basis, using FCC prescribed lives, BellSouth has a reserve surplus of $2.0 billion as of January 1, 1997.[16] BellSouth reported a $450 million surplus for Florida alone.

Q. BELLSOUTH COMPARES ITS PROPOSED LIVES TO THE LIVES PRESCRIBED BY THE FCC FOR AT&T IN 1994.[17] DO AT&T LIVES PROVIDE AN APPROPRIATE BENCHMARK?

A. No. Any comparison to lives prescribed for AT&T in 1994 is irrelevant because in 1994 AT&T was an interexchange carrier ("IXC"). The very same FCC Order that prescribed the lives for AT&T in 1994 also prescribed much longer lives for thirteen LECs. Clearly, the FCC recognized the difference between the appropriate lives for an IXC and a LEC. The FCC explicitly noted this difference in its Prescription Simplification proceeding when it stated:

> We believe the underlying considerations that go into estimating the basic factors are sufficiently different

for the two groups [IXC and LEC] that they should be considered separately.[18]

The plant lives of IXCs are simply not appropriate for use in calculating TELRIC for local service. The expected productive life of plant is largely dependent upon its specific use. To use an extreme, but apt, analogy, the expected productive life of the copper wire installed in a house is many times that of the copper wire installed in an automobile. Despite surface similarity, the use of plant by LECs to provide local exchange and exchange access service is much different than the use of plant by IXCs to provide interexchange services.

IXCs are much less capital intensive than LECs, and thus are able to economically replace their plant much faster than LECs when the occasion demands. To service all homes and businesses in the Nation, an IXC needs only about 150 switches and 100,000 sheath kilometers of cable.[19] To gain the same ubiquity for local exchange service, the LECs require over 23,000 switches and 6,000,000 sheath kilometers of cable.[20] No matter how motivated the LECs may be, the sheer magnitude and complexity of the replacement effort ensures that replacement is a long, drawn-out process. This difference also helps explain why facilities-based competition came quickly to the interexchange industry and has been painfully slow in the local exchange industry.

The key investments in TELRIC proceedings are local loops and end office switches. The IXCs have neither local loops or end office switches in the plant they currently depreciate. If and when they establish end office switches and local loops, it would be reasonable for the IXCs to look to FCC prescribed lives for LEC end office switches and local loop plant as benchmarks. Similarly, it would be reasonable for BellSouth to look to IXC lives for its interexchange plant. It is not, however, reasonable to use IXC lives for local plant, or vice versa.

Q. WHAT EFFECT WOULD THE USE IN TELRIC CALCULATIONS OF PLANT LIVES WHICH ARE UNREALISTICALLY SHORT HAVE ON UNIVERSAL SERVICE?

A. The use of unrealistically short lives would overstate the cost of universal service and the subsidies necessary for its preservation.

Q. BASED ON THE DIRECT TESTIMONY FILED BY THE ILECS IN THIS CASE, DO YOU BELIEVE ANY ADJUSTMENT IS WARRANTED IN THE RECOMMENDATION YOU GAVE IN YOUR DIRECT TESTIMONY?

A. No. I still believe the depreciation rates I recommended in my direct testimony are the most appropriate rates to use in this proceeding.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

[1] Federal-State Joint Board on Universal Service, CC Docket No. 96-45, Report and Order, FCC 97-157, released May 8, 1997 ("Universal Service Order").

[2] Majoros Direct, pp. 4.

[3] Id., p. 11.

[4] Simplification of the Depreciation Prescription Process, CC Docket No. 92-296 ("Prescription Simplification").

[5] Direct Testimony of G. David Cunningham, page 5.

[6] Testimony of Allen E. Sovereign, page 16, and Testimony of Kent W. Dickerson, page 8

[7] FCC, Implementation of the Local Competition Provisions in the Telecommunications Act of 1996. CC Docket No. 96-98, first Report and Order, FCC 96-325, released August 8, 1996 (August 8 Order"), Appendix B ("Rules"), ¶ 51.505 (c)(2)(A).

[8] Separation of costs of regulated telephone service from costs of non-regulated activities, CC Docket No. 86-111, Report and Order, FCC 86-564, released February 6, 1987, paragraph 115.

[9] CRTC, Implementation of Regulatory Framework - Splitting of the Rate Base and Related Issues, Telecom Decision CRTC 95-21, 31 October 1995, pp. 34-35.

[10] Id., p.35.

[11] The Modification of the Commission's Depreciation Prescription Practices as Applied to AT&T and The Prescription of Revised AT&T Depreciation Rates, Petition of American Telephone and Telegraph, February 15, 1989.

[12] Id., Memorandum Opinion and Order, FCC 89-325, adopted November 22, 1989 (footnote deleted).

[13] Prescription Simplification, Comments of GTE Service Corporation and its affiliated domestic telephone operations companies ("GTE"), March 10, 1993, p. 14.

[14] Prescription Simplification, Report and Order, FCC 93-452,

released October 20, 1993, para. 46.

[15] Attachment MJM-12 to this testimony summarizes the Statement C Reports filed by BellSouth with the FCC last year.

[16] Cunningham Testimony, page 9.

[17] Prescription Simplification, Notice of Proposed Rulemaking, FCC 92-296, released December 29, 1992.

[18] 1994 FCC Statistics of Common Carriers, p. 159.

[19] Id.

BellSouth Universal Service
Depreciation Parameter Comparison
Florida Docket No. 980696-TP

Account Number	Account Name	Life				Future Net Salvage			
		FCC Range		SK	BS	FCC Range		SK	BS
		Low (a)	High (b)	Rec. (c)	Prop. (d)	Low (e)	High (f)	Rec. (g)	Prop. (h)
2112	Motor Vehicles	7.5	9.5	7.5	8.0	10.0	20.0	10.0	16.0
2114	Spec. Purp. Vehicles	12.0	18.0	7.5	7.0	0.0	10.0	10.0	0.0
2115	Garage Work Eqpt	12.0	18.0	12.0	12.0	0.0	10.0	0.0	0.0
2116	Other Work Eqpt	12.0	18.0	15.0	15.0	0.0	10.0	1.0	0.0
2121	Buildings	N/A	N/A	45.0	45.0	N/A	N/A	4.0	0.0
2122	Furniture	15.0	20.0	11.0	15.0	0.0	10.0	14.0	10.0
2123.1	Ofc. Support Eqpt	10.0	15.0	10.5	11.5	0.0	10.0	10.0	5.0
2123.2	Co. Comm. Eqpt	7.0	10.0	7.0	7.0	-5.0	10.0	10.0	10.0
2124	Gen. Purpose Computers	5.0	8.0	4.4	5.0	0.0	5.0	0.0	0.0
2212	Digital Switching	16.0	16.0	16.0	10.0	0.0	5.0	0.0	0.0
2220	Operator Systems	8.0	12.0	10.0	10.0	0.0	5.0	0.0	0.0
2231	Radio Systems	9.0	15.0		9.0	-5.0	5.0		-5.0
2232	Digital Circuit	11.0	13.0	10.5	9.0	0.0	5.0	0.0	0.0
2351	Public Telephones	7.0	10.0	7.0		0.0	10.0	10.0	
2362	Other Terminal Equip.	5.0	8.0		6.0	-5.0	5.0		5.0
2411	Poles	25.0	35.0	35.0	34.0	-75.0	-50.0	-75.0	-60.0
2421.1	Aerial Cable - Met	20.0	26.0	18.0	14.0	-35.0	-10.0	-11.0	-14.0
2421.2	Aerial Cable - Fiber	25.0	30.0	25.0	20.0	-25.0	-10.0	-11.0	-14.0
2422.1	Underground Cable - Met	25.0	30.0	23.0	12.0	-50.0	-5.0	-7.0	-8.0
2422.2	Underground Cable - Fiber	25.0	30.0	25.0	20.0	-20.0	-5.0	-8.0	-8.0
2423.1	Buried Cable - Met	20.0	26.0	18.0	14.0	-10.0	0.0	-8.0	-7.0
2423.2	Buried Cable - Fiber	25.0	30.0	25.0	20.0	-10.0	0.0	0.0	-7.0
2424.1	Submarine Cable - Met	25.0	30.0		14.0	-5.0	0.0		-5.0
2424.2	Submarine Cable - Fiber	25.0	30.0		14.0	-5.0	0.0		-5.0
2426.1	Intrabldg Cable - Met	20.0	25.0	20.0	20.0	-30.0	-5.0	-12.0	-10.0
2426.2	Intrabldg Cable - Fiber	25.0	30.0	20.0	20.0	-15.0	0.0	-12.0	-10.0
2441	Conduit Systems	50.0	60.0	55.0	55.0	-10.0	0.0	-7.0	-10.0

Source: Cols. a, b, e, f = FCC Docket No. 92-296 Orders released 6/28/94 and 5/4/95
Cols. c, g = Florida Dkt. Nos. 960833-TP/960846-TP/971140 TP Order, except the 2421, 2422, and 2423 fiber accounts. These are as prescribed by the FCC.
Cols. d, h = Direct Testimony of G. David Cunningham, Exhibit GDC-2, August 3, 1998, Docket No. 980696-TP.

GTE Universal Service
Depreciation Parameter Comparison
Florida Docket No. 980696-TP

Account Number	Account Name	Life				Future Net Salvage			
		FCC Range		SK	GTE	FCC Range		SK	GTE
		Low	High	Rec.	Prop.	Low	High	Rec.	Prop.
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
2112	Motor Vehicles	7.5	9.5	7.5	8.0	10.0	20.0	18.0	10.0
2114	Spec. Purp. Vehicles	12.0	18.0	7.5	10.0	0.0	10.0	18.0	0.0
2115	Garage Work Eqpt	12.0	18.0	12.0	10.0	0.0	10.0	0.0	0.0
2116	Other Work Eqpt	12.0	18.0	12.0	10.0	0.0	10.0	0.0	0.0
2121	Buildings	N/A	N/A	40.0	30.0	N/A	N/A	0.0	0.0
2122	Furniture	15.0	20.0	15.0	10.0	0.0	10.0	9.0	0.0
2123.1	Ofc. Support Eqpt	10.0	15.0	10.0	10.0	0.0	10.0	8.0	0.0
2123.2	Co. Comm. Eqpt	7.0	10.0	7.0	10.0	-5.0	10.0	-5.0	0.0
2124	Gen. Purpose Computers	6.0	8.0	6.0	5.0	0.0	5.0	0.0	0.0
2212	Digital Switching	16.0	18.0	16.0	10.0	0.0	5.0	0.0	0.0
2220	Operator Systems	8.0	12.0	8.0	10.0	0.0	5.0	0.0	0.0
2231	Radio Systems	9.0	15.0		10.0	-5.0	5.0		0.0
2232	Digital Circuit	11.0	13.0	9.0	8.0	0.0	5.0	3.0	0.0
2351	Public Telephones	7.0	10.0	7.0	7.0	0.0	10.0	0.0	0.0
2362	Other Terminal Equip.	5.0	8.0		5.0	-5.0	5.0		0.0
2411	Poles	25.0	35.0	25.0	25.0	-75.0	-50.0	-75.0	50.0
2421.1	Aerial Cable - Met	20.0	26.0	20.0	15.0	-35.0	-10.0	-35.0	-10.0
2421.2	Aerial Cable - Fiber	25.0	30.0	25.0	20.0	-25.0	-10.0	-25.0	-10.0
2422.1	Underground Cable - Met	25.0	30.0	25.0	15.0	-30.0	-5.0	-17.0	-10.0
2422.2	Underground Cable - Fiber	25.0	30.0	25.0	20.0	-20.0	-5.0	-9.0	-10.0
2423.1	Buried Cable - Met	20.0	26.0	20.0	15.0	-10.0	0.0	-10.0	-10.0
2423.2	Buried Cable - Fiber	25.0	30.0	25.0	20.0	-10.0	0.0	-10.0	-10.0
2424.1	Submarine Cable - Met	25.0	30.0		15.0	-5.0	0.0		-10.0
2424.2	Submarine Cable - Fiber	25.0	30.0		20.0	-5.0	0.0		-10.0
2426.1	Intrabldg Cable - Met	20.0	25.0	20.0	15.0	-30.0	-5.0	-10.0	-10.0
2426.2	Intrabldg Cable - Fiber	25.0	30.0	20.0	20.0	-15.0	0.0	-10.0	-10.0
2441	Conduit Systems	50.0	60.0	50.0	40.0	-10.0	0.0	-10.0	-10.0

Source: Cols. a, b, e, f = FCC Docket No. 92-296 Orders released 6/28/94 and 5/4/95
Cols. c, g = FCC Parameter Report, August 11, 1995
Cols. d, h = Direct Testimony of Allan E. Sovereign, Exhibit AES-2, Docket No. 980696-TP

Sprint-Florida, Inc. Universal Service
Depreciation Parameter Comparison
Florida Docket No. 980696-TP

Account Number	Account Name	Life				Future Net Salvage			
		FCC Range		SK	Sprint-FL	FCC Range		SK	Sprint-FL
		Low	High	Rec.	Prop.	Low	High	Rec.	Prop.
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
2112	Motor Vehicles	7.5	9.5	7.5		10.0	20.0	10.0	
2114	Spec. Purp. Vehicles	12.0	18.0	12.0		0.0	10.0	0.0	
2115	Garage Work Eqpt	12.0	18.0	12.0		0.0	10.0	0.0	
2116	Other Work Eqpt	12.0	18.0	12.0		0.0	10.0	0.0	
2121	Buildings	N/A	N/A	N/A		N/A	N/A	N/A	
2122	Furniture	15.0	20.0	15.0		0.0	10.0	0.0	
2123.1	Otc. Support Eqpt	10.0	15.0	10.0		0.0	10.0	0.0	
2123.2	Co. Comm. Eqpt	7.0	10.0	7.0		-5.0	10.0	-5.0	
2124	Gen. Purpose Computers	6.0	8.0	6.0		0.0	5.0	0.0	
2212	Digital Switching	16.0	18.0	16.0		0.0	5.0	0.0	
2220	Operator Systems	8.0	12.0	8.0		0.0	5.0	0.0	
2231	Radio Systems	9.0	15.0	9.0		-5.0	5.0	-5.0	
2232	Digital Circuit	11.0	13.0	11.0		0.0	5.0	0.0	
2351	Public Telephones	7.0	10.0	7.0		0.0	10.0	0.0	
2362	Other Terminal Equip.	5.0	8.0	5.0		-5.0	5.0	-5.0	
2411	Poles	25.0	35.0	25.0		-75.0	-50.0	-75.0	
2421.1	Aerial Cable - Met	20.0	26.0	20.0		-35.0	-10.0	-35.0	
2421.2	Aerial Cable - Fiber	25.0	30.0	25.0		-25.0	-10.0	-25.0	
2422.1	Underground Cable - Met	25.0	30.0	25.0		-30.0	-5.0	-30.0	
2422.2	Underground Cable - Fiber	25.0	30.0	25.0		-20.0	-5.0	-20.0	
2423.1	Buried Cable - Met	20.0	26.0	20.0		-10.0	0.0	-10.0	
2423.2	Buried Cable - Fiber	25.0	30.0	25.0		-10.0	0.0	-10.0	
2424.1	Submarine Cable - Met	25.0	30.0	25.0		-5.0	0.0	-5.0	
2424.2	Submarine Cable - Fiber	25.0	30.0	25.0		-5.0	0.0	-5.0	
2426.1	Intrabldg Cable - Met	20.0	25.0	20.0		-30.0	-5.0	-30.0	
2426.2	Intrabldg Cable - Fiber	25.0	30.0	25.0		-15.0	0.0	-15.0	
2441	Conduit Systems	50.0	60.0	50.0		-10.0	0.0	-10.0	

Source: Cols. a, b, e, f = FCC Docket No. 92-296 Orders released 6/28/94 and 5/4/95
Col c = Column (a)
Col g = Column (e)

SOCIETY OF DEPRECIATION PROFESSIONALS

Annual Meeting

FORECASTING

FATINA K. FRANKLIN
FEDERAL COMMUNICATIONS COMMISSION
SEPTEMBER 22, 1997

Chart 1

LIFE SPAN OR FORECAST METHOD

1. Large Individual Identifiable Units
2. Forecast Of An Individual Retirement Date Or Overall Life Span
3. Life Span - Yrs. From Avg. Date Of Placing To Avg. Date Of Retirement
4. Future Additions Are Integral Part Of Initial Installation

ANALOG ELECTRONIC SWITCHING

(INDIVIDUAL RETIREMENT DATE)

Location Name	Type	Equipped Lines	Year Placed	Book Investment	Est. Date Of Retirement
Springfield	1A	50,000	1979	15,000,000	1999
Paris	2B	10,000	1980	2,500,000	1998
Lexington	RSS	1,000	1984	500,000	1997
Total or Composite		61,000	1979.3	18,000,000	1998.8

DIGITAL ELECTRONIC SWITCHING

(OVERALL LIFE SPAN)

Location Name	Type	Equipped Lines	Year Placed	Book Investment
Jackson	5ESS	56,000	1985	20,000,000
Gainesville	DMS-100	9,000	1987	5,000,000
Lexington	RSS	200	1990	300,000
Total or Composite		65,200	1985.5	25,300,000

Est. Avg. Retirement Year = 1985.5 + 20 Year Span = 2005.5

PRODUCT LIFE CYCLE

Company A
Buried Metallic Cable

Year	1994 Study Forecast	1997 Study Actuals/Forecast	Beg of Year Investment
1994	214.9	229.8 (A)	
1995	140.5	153.5 (A)	
1996	86.5	62.1 (A)	
Total	441.9	445.4 (A)	
1997	43.4	33.2 (F)	221.3
1998	41.0	132.8 (F)	188.1
1999	44.6	55.3 (F)	55.3
Total	129.0	221.3 (F)	464.7

Average Remaining Life (As of 1/1/97) = 464.7 / 221.3 - 0.5 = 1.6 Years

Company B
Aerial Metallic Cable

Year	1991 Study Forecast	1994 Study Forecast	1997 Study Actuals
1994	7,416	5,887	3,532
1995	10,318	7,532	3,818
1996	12,697	9,037	3,490
Total	30,433	22,456	10,840

Chart 3

Substitution Analysis 1

OBSOLESCENCE OF CIRCUIT EQUIPMENT-ALL CATEGORIES
SURVIVORS REMAINING FROM 1987 INVESTMENT

Technology Futures Inc.*		Percent Surviving From FCC Carriers Reviewed In	
End Of Year	Percentage Surviving	1996#	1997@
1987	100		
1988	90		
1989	83		
1990	73		
1991	62		
1992	53		
1993	44		
1994	35		
1995	27	60.6	
1996	21		59.2

ARL (As of 1-1-89) = 5.3 Years

* Technological Substitution in Circuit Equipment
For Local Telecommunications

Includes NET, SNET, US West, GTE- South & GTE-SW

@ Includes Southwestern Bell, Cincinnati Bell & US West

Chart 4

Substitution Analysis 2

Non-SONET Circuit Equipment Survivors

Technology Futures Inc.* End Of Year	% Of 1994 Investment Surviving	Percent Surviving From Carriers Reviewed By FCC Staff In 1996#	1997@
1994	100		
1995	89	97.6	
1996	76		93.7

ARL (As of 1-1-95) = 3.7 Years

Analog SPC Survivors

Technology Futures Inc.* End Of Year	% Of 1994 Investment Surviving	Percent Surviving From Carriers Reviewed By FCC Staff In 1996#	1997@
1994	100.0		
1995	82.1	95.0	
1996	58.9		84.1

ARL (As of 1-1-95) = 2.8 Years

- Depreciation Lives for Telecommunications Equipment: Review & Update
  Copyright 1996, Technology Futures, Inc.

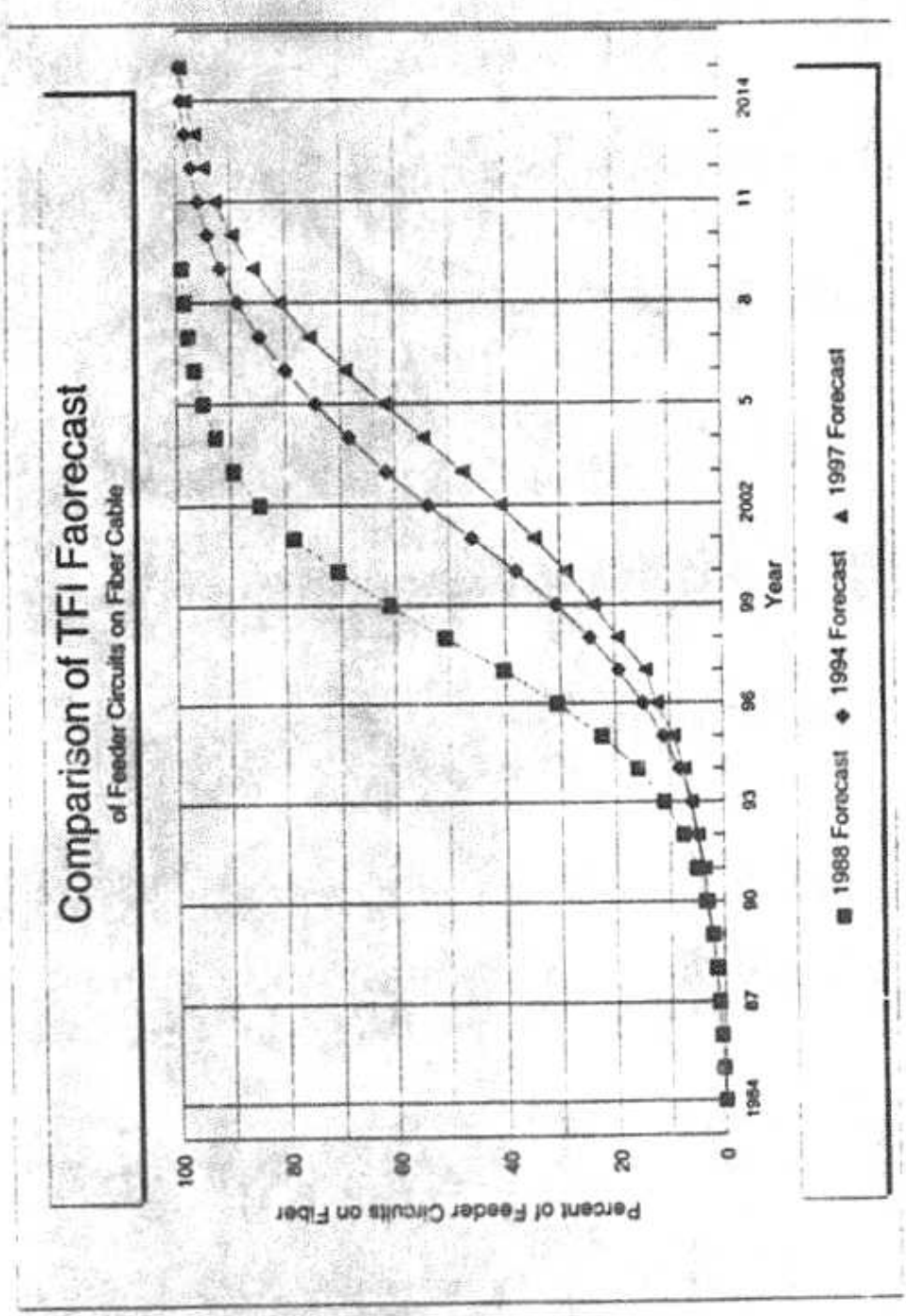
Includes NET, SNET, US West, GTE- South & GTE-SW

@ Includes Southwestern Bell, Cincinnati Bell & US West

COMPARISON OF TFI'S FIBER FEEDER FORECASTS
(PERCENT OF CIRCUITS SERVED BY FIBER CABLE)

End-of-Year	TFI's 1988 Forecast %	TFI's 1994 Forecast %	TFI's 1997 Forecast %
1982	**0.0**	**0.0**	**0.0**
1983	**0.1**	**0.1**	**0.1**
1984	**0.1**	**0.1**	**0.1**
1985	**0.4**	**0.4**	**0.4**
1986	**0.7**	**0.7**	**0.7**
1987	**1.1**	**1.1**	**1.1**
1988	**1.6**	**1.6**	**1.6**
1989	**2.2**	**2.2**	**2.2**
1990	**3.4**	**3.1**	**3.1**
1991	**5.1**	**3.8**	**3.7**
1992	**7.6**	**5.1**	**4.9**
1993	**11.1**	**6.1**	**6.1**
1994	**16.0**	**8.3**	**7.4**
1995	**22.6**	**11.2**	**9.3**
1996	**30.8**	**15.0**	**12.4**
1997	40.4	19.4	14.4
1998	50.8	24.6	19.5
1999	61.2	30.8	23.9
2000	70.6	38.0	29.0
2001	78.5	45.9	34.6
2002	84.8	53.9	40.8
2003	89.5	61.6	47.5
2004	92.9	68.5	54.6
2005	95.2	74.6	61.9
2006	96.8	80.0	69.1
2007	97.9	84.7	75.6
2008	98.6	88.7	81.1
2009	99.1	91.9	85.8
2010		94.3	89.7
2011		96.0	92.8
2012		97.3	94.9
2013		98.4	96.5
2014		99.1	98.2
2015		99.5	99.2

Note: Bold indicates actual industry percents at the time TFI projections developed.


Comparison of TFI Faorecast
of Feeder Circuits on Fiber Cable
Percent of Feeder Circuits on Fiber
100
80
60
40
20
0
1984
87
90
93
96
99
2002
5
8
11
2014
Year
1988 Forecast
1994 Forecast
1997 Forecast

BellSouth Telecommunications
General Cable
Attachment 5
Page 1 of 5

TRACK RECORD

COMPARISON OF ACTUAL RETIREMENTS AND ADDITIONS

TO THE 1990 AND 1993 DEPRECIATION STUDY FORECASTS

Retirements-Aerial Cable Metal

($000)

	Activity Year	1990 Study Forecast	1993 Study Forecast	Actuals #	Percent Change 1990-1993 Study Forecast	Percent Achievement Actuals vs 1993 Study Forecast
		A	B	C	D = B/A	E = C/B
Alabama	1993	11,316	13,604	4,977	120.2%	36.6%
	1994	11,803	17,226	6,090	146.0%	35.3%
	1995	12,276	20,879	5,675	170.1%	27.2%
	Totals	35,395	51,711	16,742	146.1%	32.4%
Kentucky	1993	10,058	13,953	3,338	138.7%	23.9%
	1994	10,547	17,038	4,353	161.5%	25.5%
	1995	11,063	20,117	4,367	182.0%	21.7%
	Totals	31,668	51,108	12,058	161.4%	23.6%
Louisiana	1993	11,327	12,793	4,593	112.9%	35.9%
	1994	11,913	15,700	4,648	131.8%	29.6%
	1995	12,507	18,608	6,188	148.8%	33.3%
	Totals	35,747	47,101	15,429	131.8%	32.8%
Mississippi	1993	10,380	16,408	4,948	158.1%	30.2%
	1994	10,928	20,365	8,097	186.4%	39.8%
	1995	11,490	24,331	5,640	211.8%	23.2%
	Totals	32,798	61,104	18,685	186.3%	30.6%
Tennessee	1993	13,036	15,524	6,750	119.1%	43.5%
	1994	13,607	19,006	7,259	139.7%	38.2%
	1995	14,167	22,486	9,557	158.7%	42.5%
	Totals	40,810	57,016	23,566	139.7%	41.3%
Company	1993	56,117	72,282	24,606	128.8%	34.0%
	1994	58,796	89,337	30,447	151.9%	34.1%
	1995	61,493	106,421	31,427	173.1%	29.5%
	Totals	176,406	268,040	86,480	151.9%	32.3%

January 29, 1996

Forecasted 1995
3491

BellSouth Telecommunications
General Cable
Attachment 5
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TRACK RECORD (cont'd)

Retirements-Underground Cable Metal

($000)

	Activity Year	1990 Study Forecast	1993 Study Forecast	Actuals a	Percent Change 1990-1993 Study Forecast	Percent Achievement Actuals vs 1993 Study Forecast
		A	B	C	D = B/A	E = C/B
Alabama	1993	8,607	13,496	1,452	156.8%	10.8%
	1994	8,863	16,353	2,869	184.5%	17.7%
	1995	9,144	19,195	2,877	209.9%	15.0%
	Totals	26,614	49,044	7,218	184.3%	14.7%
Kentucky	1993	5,312	9,214	486	173.5%	5.3%
	1994	5,501	10,766	264	195.7%	2.5%
	1995	5,711	12,288	945	215.2%	7.7%
	Totals	16,524	32,268	1,695	195.3%	5.3%
Louisiana	1993	13,627	23,905	2,358	175.4%	9.9%
	1994	14,176	27,469	3,603	193.8%	13.1%
	1995	14,796	30,932	2,702	209.1%	8.7%
	Totals	42,599	82,306	8,663	193.2%	10.5%
Mississippi	1993	3,376	6,100	716	180.7%	11.7%
	1994	3,552	7,042	1,175	198.3%	16.7%
	1995	3,755	7,961	457	212.0%	5.7%
	Totals	10,683	21,103	2,348	197.5%	11.1%
Tennessee	1993	11,640	18,648	2,376	160.2%	12.7%
	1994	11,687	21,094	3,579	180.5%	17.0%
	1995	11,703	23,445	1,661	200.3%	7.1%
	Totals	35,030	63,187	7,616	180.4%	12.1%
Company	1993	42,562	71,363	7,388	167.7%	10.4%
	1994	43,779	82,724	11,510	189.0%	13.9%
	1995	45,109	93,821	8,642	208.0%	9.2%
	Totals	131,450	247,908	27,540	188.6%	11.1%

a Forecasted 1995
3433

Issued : 28.1995

BellSouth Telecommunications
General Cable
Attachment 5
Page 5 of 5

TRACK RECORD (cont'd)

Retirements-Buried Cable Metal

($000)

	Activity Year	1990 Study Forecast	1993 Study Forecast	Actuals #	Percent Change 1990-1993 Study Forecast	Percent Achievement Actuals vs 1993 Study Forecast
		A	B	C	D = B/A	E = C/B
Alabama	1993	18,678	24,27[illegible]	5,978	130.0%	24.6%
	1994	19,625	30,333	8,680	154.6%	28.6%
	1995	20,619	36,411	6,956	176.6%	19.1%
	Totals	58,920	91,023	21,614	154.5%	23.7%
Kentucky	1993	8,983	11,833	3,116	131.7%	26.3%
	1994	9,371	13,373	3,415	142.7%	25.5%
	1995	9,748	14,856	3,793	152.4%	25.5%
	Totals	28,102	40,062	10,324	142.6%	25.8%
Louisiana	1993	28,418	38,681	10,001	136.1%	25.9%
	1994	30,003	44,996	9,902	150.0%	22.0%
	1995	31,664	51,186	8,705	161.7%	17.0%
	Totals	90,085	134,863	28,608	149.7%	21.2%
Mississippi	1993	13,678	24,014	6,534	175.6%	27.2%
	1994	14,286	29,362	7,634	205.5%	26.0%
	1995	14,857	34,700	8,841	233.6%	25.5%
	Totals	42,821	88,076	23,009	205.7%	26.1%
Tennessee	1993	19,817	35,772	8,967	180.5%	25.1%
	1994	20,629	41,417	11,186	200.8%	27.0%
	1995	21,439	46,931	9,140	218.9%	19.5%
	Totals	61,885	124,120	29,293	200.6%	23.6%
Company	1993	89,572	134,579	34,596	150.2%	25.7%
	1994	93,914	159,481	40,817	169.8%	25.6%
	1995	98,327	184,084	37,435	187.2%	20.3%
	Totals	281,813	478,144	112,848	169.7%	23.6%

@ Forecasted 1995
3495

January 29, 1996

COMPARISON OF BELLSOUTH'S METALLIC CABLE FORECAST TO ACTUAL RETIREMENTS

(BellSouth of Florida - Docket No. 920385-TL)

	BellSouth of Florida Retirement Forecast ($000) (a)	Total Actual Booked Retirements ($000) (b)	Retirements Associated With Hurricane Andrew ($000) (c)	Normal Retirements Excluding Andrew ($000) (d=b-c)	Forecast Error ** (%) (e=(a-d)/a
Aerial Cable - Metallic					
1992	15,306	23,228	2,577	20,651	-34.9%
1993	19,917	25,934	14,602	12,332	38.1%
1994	25,512	9,343	0	9,343	63.4%
1995	31,214	12,840	0	12,840	58.9%
1996	35,722	8,995	0	8,995	74.8%
1997	37,788	8,701 *	0	8,701	77.0%
Totals for Years 1992-1997	165,459	90,041	17,179	72,862	56.0%

BellSouth of Florida - Docket No. 920385-TL Authorized Lives Based on Last Bell South Forecast (Aerial Cable - Metallic)
Authorized Remaining Life 9.7 Years
Associated Projection Life 15.5 Years

Underground Cable- Metallic					
1992	43,211	10,495	39	10,456	75.8%
1993	53,215	19,402	221	19,181	64.0%
1994	63,915	14,845	0	14,845	76.8%
1995	74,634	11,837	0	11,837	84.1%
1996	81,990	6,178	0	6,178	92.5%
1997	82,709	3,698 *	0	3,698	95.5%
Totals for Years 1992-1997	399,574	66,455	260	66,195	83.4%

BellSouth of Florida - Docket No. 920385-TL Authorized Lives Based on Bell South Forecast (Underground Cable - Metallic)
Authorized Remaining Life 6.0 Years
Associated Projection Life 11.6 Years

Buried Cable - Metallic					
1992	53,236	22,881	783	22,098	62.1%
1993	76,137	22,283	4,438	17,845	76.6%
1994	97,482	23,506	0	23,506	75.9%
1995	119,162	20,135	0	20,135	83.1%
1996	135,835	21,445	0	21,445	84.2%
1997	142,227	15,600 *	0	15,600	89.0%
Totals for Years 1992-1997	629,079	125,850	5,221	120,629	80.8%

BellSouth of Florida - Docket No. 920385-TL Authorized Lives Based on Bell South Forecast (Buried Cable - Metallic)
Authorized Remaining Life 9.0 Years
Associated Projection Life 15.0 Years

Total Metallic Cable	$1,194,112	$282,346	$22,660	$259,686	78.3%
Combined Forecast Error (1992-1997)				($934,426)	

* Forecast Activity, Cunningham's Testimony Docket No. 980696-TP, Table A's .
** Positive value indicates BellSouth's Docket No. 920385-TL forecast of more retirements in life projections than actually occurred.

Summary of Reserves On FCC Basis

(Dollars in Thousands)

BellSouth

State	1/1/98 Investment a	Book Reserve b	Percent c = b / a	Theoretical Reserve d	Percent e = d / a	Surplus f = b - d	Percent g = f / a
Alabama	4,495,450	2,305,080	51.3%	2,049,569	45.6%	255,511	5.7%
Florida	11,221,015	5,913,028	52.7%	5,462,663	48.7%	450,364	4.0%
Georgia	8,546,417	4,285,198	50.1%	3,951,720	46.2%	333,478	3.9%
Kentucky	2,468,479	1,253,552	50.8%	1,116,112	45.2%	137,440	5.6%
Louisiana	4,533,989	2,597,514	57.3%	2,307,926	50.9%	289,588	6.4%
Mississippi	2,989,921	1,606,380	53.7%	1,437,854	48.1%	168,527	5.6%
North Carolina	4,788,910	2,355,183	49.2%	2,230,763	46.6%	124,420	2.6%
South Carolina	2,918,692	1,497,967	51.3%	1,442,795	49.4%	55,172	1.9%
Tennessee	4,908,301	2,333,198	47.5%	2,176,157	44.3%	157,041	3.2%
Total	**46,871,174**	**24,147,099**	**51.5%**	**22,175,557**	**47.3%**	**1,971,542**	**4.2%**

Source: Carrier submissions pursuant to Section C-1 of Depreciation Study Guide