BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 97-125-C - ORDER NO. 97-985

NOVEMBER 18, 1997

IN RE: Application of GTE South, Inc. for Approval of New Depreciation Rates.	)))	ORDER APPROVING DEPRECIATION RATES

This matter comes before the Public Service Commission of South Carolina (the Commission) on the request of GTE South, Inc. (GTE or the Company) for approval of a new schedule of depreciation rates. The Company requests that the rates be made effective January 1, 1997. The Company's Application was filed pursuant to S.C. Code Ann. Section 58-9-350 (1976), and the Regulations of the Public Service Commission of South Carolina.

The Commission's Executive Director instructed GTE to publish, one time, a prepared Notice of Filing in newspapers of general circulation in the affected areas. The purpose of the Notice of Filing was to inform interested parties of GTE's Application and of the manner and time in which to file the appropriate pleadings for participation in the proceeding. GTE complied with this instruction and provided the Commission with proof of publication of the Notice of Filing. A Petition to Intervene was received from the Consumer Advocate for the State of South Carolina (the Consumer Advocate).

A hearing was held on August 28, 1997 at 10:30 a.m. in the offices of the Commission, with the Honorable Guy Butler, Chairman, presiding. GTE was represented by Steven W. Hamm, Esquire; the Consumer Advocate was represented by Elliott F. Elam, Jr., Esquire; and the Commission Staff (the Staff) was represented by Florence P. Belser, Staff Counsel. GTE presented the testimony of John P. Blanchard and Allen E. Sovereign. The Staff presented the testimony of David S. LaCoste. The Consumer Advocate did not present a witness.

John P. Blanchard, Vice President of Regulatory and Governmental Affairs - East for GTE, testified in support of GTE's proposed depreciation rates. Blanchard testified that GTE currently operates in a new business environment which is undergoing significant and dynamic change. Blanchard offered that this new business environment is characterized by the opening of formerly protected markets and that this new business environment will manifest itself within GTE's operations through price competition and market share losses. By way of illustration, Blanchard stated that this Commission has received 29 applications from companies seeking to provide local exchange service in the State of South Carolina and that 17 of those applications had been granted authority to provide those services. Additionally, two local interconnection agreements between GTE and alternative local providers have been approved and another three are pending Commission action.

Blanchard proposed that the lives used by nonregulated

competitors are illustrative of appropriate lives in the competitive environment. According to Blanchard, Financial Accounting Standard No. 71 enabled GTE to use the longer lives that were ordered by the Commission in the Company's financial books as well as in the regulated books. However, Blanchard testified that with the new competitive environment, which includes a loss of exclusive franchise rights and the loss of price regulation, GTE no longer has the assurance that it will have a future revenue stream specifically earmarked to provide recovery in a future period of time.

Blanchard testified that GTE is requesting an increase in its depreciation rates to a composite rate of 9.7% and that the proposed depreciation rates will generate an increase in annual depreciation expense of $3.9 million in GTE's intrastate operations. Blanchard further testified that GTE would be harmed if it is not permitted to recognize an appropriate level of recovery of its investment since GTE will not be able to recover the capital it invested without specific Commission action to impose an economic surcharge on future services to all customers. Blanchard also assured the Commission that GTE does not intend to seek higher local rates specifically as a result in an increase in depreciation rates. Finally, Blanchard requested that the Commission approve the requested depreciation rates to reflect the competitive times and to resolve the issue of stranded investment brought about by these competitive times.

Allen Sovereign, GTE's Manager of Capital Recovery, also

testified in support of GTE's proposed depreciation rates in the State of South Carolina. Sovereign testified that due to rapidly changing technology and the constantly evolving competitive environment, detailed analysis of mortality data in the traditional regulatory depreciation filing is no longer a viable tool for setting depreciation rates. Rather, Mr. Sovereign offered that the determination of depreciation rates must transition from heavily weighted historical analysis to forecast more heavily weighted towards the impacts of the changing telecommunications environment. Sovereign stated that economic life is the appropriate measure of the proper recovery period.

Sovereign stated that GTE's filing is a forward looking prospective view that emphasizes the factors influencing depreciation in today's competitive marketplace. Therefore, GTE proposes changes in only eight accounts which contain the assets most impacted by competition and changing technology. Further, GTE relied not only on its own analysis of future trends but also relied on studies prepared by Technology Futures, Inc. ("TFI"). Sovereign also stated that the depreciation lives proposed by GTE compare favorably with lives used by the interexchange carriers as well as those used by the RBOCs.

David S. LaCoste, Engineer Associate III in the Commission's Utilities Department, testified on behalf of the Staff. LaCoste stated that GTE's proposed depreciation rates result from GTE's proposals to decrease economic lives used in the calculation of the depreciation rates. LaCoste stated that technological,

economic, and competitive forces are impacting the telecommunications industry and that GTE appears concerned with the competitive forces, or at least the potential for competition. LaCoste's proposals would result in an overall increase of intrastate expense of approximately $2,392,000 in contrast to $3,897,000 under GTE's proposed depreciation rates. LaCoste stated that his analysis was based primarily on comparisons of economic lives with parameters used by other telephone companies which operate within South Carolina, primarily BellSouth.

We have examined this matter, including all of the testimony and exhibits presented by the witnesses for the Company and the Staff. Although we recognize that the adoption of depreciation parameters is somewhat judgmental, we believe that the Commission Staff's numbers most accurately reflect current industry conditions and take into account the competitive telephonic environment that presently exists today. The Commission Staff's comparisons of the parameters of other South Carolina telephone companies with the data presented within the GTE proposal present a reasonable comparison of depreciation parameters in today's telecommunications environment. These depreciation recommendations as presented by the Commission Staff, we believe, are appropriate for adoption in today's competitive telecommunications environment and represent what we think is reasonable judgment, based on the observations of other South Carolina telephone operations. The Commission believes that the Commission Staff data presents the best compromise between use of

the traditional depreciation methodology and what is appropriate under today's competitive technological environment. We therefore adopt staff's recommended depreciation parameters and the resultant depreciation rates. The revised depreciation rates are fully set forth herein as Appendix A. Said rates shall be effective January 1, 1997.

This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

Chairman

ATTEST:

Deputy Executive Director

(SEAL)

	ACCOUNT	DEPRECIATION RATE (%)
2112	Motor Vehicles	12.1
2115	Garage Work Equipment	3.3
2116	Other Work equipment	6.8
2121	Buildings	4.1
2122	Furniture	3.6
2123	Office Equipment	
	-- Office Machines	24.4
	-- Company Communications Eqpt.	17.0
2124	General Purpose Computers	31.0
2212	Digital Electronic Switching	12.1*
2220	Operator System	20.8
2232	Circuit Equipment	13.0*
2351	Public Telephone Terminal Equip.	5.2
2362	Other Terminal Equipment	3.5
2411	Poles	6.6
2421	Aerial Cable	
	-- Metallic	8.3*
	-- Fiber	4.1*
2422	Underground Cable	
	-- Metallic	8.3*
	-- Fiber	4.4*
2423	Buried Cable	
	-- Metallic	6.5*
	-- Fiber	4.9*
2424	Submarine Cable	2.1
2426	Intrabuilding Cable	3.7
2431	Aerial Wire	0.0
2441	Conduit Systems	2.4

* New Depreciation Rates