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**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

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| In Re: Investigation Into Pricing of Unbundled Network Elements, Phase II | ) ) ) | Docket 990649-TP |

**DIRECT TESTIMONY OF**

**ALLEN E. SOVEREIGN**

**On Behalf of**

**GTE FLORIDA INCORPORATED**

**SUBJECT: DEPRECIATION**

**MAY 1, 2000**

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# DIRECT TESTIMONY OF ALLEN E. SOVEREIGN

## I. INTRODUCTION

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

A. My name is Allen E. Sovereign. My business address is 1420 East Rochelle Blvd., Irving, Texas 75039. I am employed by GTE Service Corporation as Group Manager-Capital Recovery.

**Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

A. I received a Bachelor of Science Degree in Electrical Engineering from Michigan Technological University, Houghton, Michigan, in 1971. I received a Master of Science Degree in Business Administration from Indiana University, Bloomington, Indiana, in 1980. I have attended courses in depreciation and life analysis provided by Depreciation Programs, Inc., of Kalamazoo, Michigan. I have also attended and instructed basic and advanced GTE courses in depreciation life analysis. I am a Senior Member of the Society of Depreciation Professionals.

**Q. PLEASE BRIEFLY DESCRIBE YOUR WORK EXPERIENCE WITH GTE.**

A. I have worked for GTE Companies for 25 years, with 18 of those

years in the depreciation study area. I have held various positions in Engineering and Construction, Capital Budgeting, Marketing, and Product Development. I was named to my current position in February 1994.

**Q. WHAT ARE THE RESPONSIBILITIES OF YOUR CURRENT POSITION?**

A. I am responsible for the preparation, filing and resolution of capital recovery studies and the determination of economic lives for GTE.

**Q. HAVE YOU PREVIOUSLY TESTIFIED IN FLORIDA?**

A. Yes.

**Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY OTHER REGULATORY BODIES?**

A. Yes, I have also testified before state utility commissions in South Carolina, Texas, New Mexico, Arkansas, California, Washington, Idaho, Illinois, Indiana, Nebraska, Pennsylvania, Michigan, Virginia, Kentucky, Nevada, Iowa, and Hawaii.

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

A. The purpose of this testimony is to respond to Issue 7b in this proceeding regarding the appropriate depreciation lives and future net salvages to be used to calculate Unbundled Network Element ("UNE") rates. I describe the methodology that this Commission should

approve for determining the depreciation parameters used to calculate total service long-run incremental ("TSLRIC") costs. I also recommend a set of depreciation lives and future net salvage percentages to be used in the cost studies used to calculate UNE rates for GTE Florida Incorporated ("GTE").

**Q. WHAT DEPRECIATION INPUTS DID GTE USE IN THE COST STUDIES IT SUBMITTED IN THIS PROCEEDING?**

A. GTE used the forward-looking economic lives and future net salvages recommended in this testimony. A complete list of GTE's proposed depreciation lives and future net salvage percentages is attached as Exhibit AES-1.

**Q. PLEASE SUMMARIZE YOUR DIRECT TESTIMONY.**

A. The Florida Public Service Commission ("FPSC") should approve the economic depreciation inputs GTE used in its cost studies. Like the cost study methodology prescribed for use in this proceeding, GTE's depreciation inputs are forward-looking. This forward-looking approach produces a more accurate estimate of assets' economic lives than an outdated, historical approach.

When all local exchange companies were monopoly providers, regulators could defer capital recovery without affecting the ability of the regulated company to recover its investments. With the advent of local competition, regulators no longer have the luxury of postponing

capital recovery in the rate-setting process. The changing telecommunications environment must be taken into consideration when determining the proper recovery period of an asset. The methodology described in my testimony considers these developments.

## II. ECONOMIC LIVES MUST BE USED IN FORWARD-LOOKING COST STUDIES

**Q. PLEASE DEFINE THE TERM "ECONOMIC LIFE" AND HOW IT RELATES TO GTE'S COST STUDIES.**

A. Economic life can be defined as the period of time over which an asset is used to provide economic value to GTE. GTE's proposed depreciation parameters consider the decline in an asset's value from all causes, including competition and technological change. They reflect the principle that depreciation parameters should be consistent with forward-looking economic assumptions and based on competitive market asset lives.

**Q. WHAT ARE "COMMISSION-PRESCRIBED DEPRECIATION LIVES"?**

A. These are the lives set by regulatory commissions for regulatory accounting purposes. As I explain below, the FPSC no longer prescribes depreciation lives for GTE or other price-cap regulated companies.

**Q. IS AN ASSET'S ECONOMIC LIFE EQUAL TO THE DEPRECIATION LIFE OF THAT ASSET AS PRESCRIBED BY STATE COMMISSIONS OR THE FCC?**

A. Economic lives are generally shorter than prescribed asset lives.

**Q. WHY ARE ECONOMIC LIVES SHORTER THAN PRESCRIBED LIVES?**

A. Historically, regulatory commissions prescribed asset lives under the assumption that there would be little or no competition and that technological innovation would continue at its traditional pace. The Telecommunications Act of 1996 (Act) is intended to spur a new competitive environment that invalidates that basic assumption.

As previously discussed, the economic life of an asset is the period of time over which that asset is used to provide economic value. Both increased competition and technological change shorten the period over which an asset will provide economic value. In a world where GTE was sole provider, GTE was able to keep old assets on the books, even after their economic lives had expired, because depreciation rates were based upon artificially long asset lives. By basing depreciation rates on long asset lives, the depreciation rates were lower, and the period of time over which the asset was depreciated was longer. These longer depreciation lives helped state commissions to keep consumer prices artificially low. Today's current market environment reduces the length of time over which GTE can

recover its investment in an asset and renders unsustainable the use of artificially long asset lives in calculating depreciation rates.

**Q. WHEN ESTIMATING ECONOMIC LIVES, IS IT POSSIBLE TO USE TRADITIONAL LIFE ESTIMATION TECHNIQUES?**

A. No. Traditional life estimation techniques are used to predict an asset's *physical* life, but not its *economic* life. The physical life of an asset ends upon that asset's retirement. Economic lives, however, can be affected when no retirements are evident. For example, assume GTE has a 1,200 pair cable that has been used to provide service to 1,000 customers in the pre-1996 Telecommunications Act single-provider environment. Next, assume that in the post-1996 Act industry, only 500 pairs of the 1,200 pair cable are being used (*i.e.*, providing service to customers and economic value to GTE) as a result of 500 customers leaving for competitors' networks. Retirement of the 500 pairs that are no longer being used is not permitted under current "Part 32" accounting guidelines. Retirement-based analysis (*i.e.*, the traditional physical life estimation technique) assumes that all plant in service has economic life. However, under this scenario, only 50% of the originally utilized investment actually has economic life. The economic life of the asset is severely affected by competition, but there are no associated retirements of the asset.

**Q. HAS THE FLORIDA PUBLIC SERVICE COMMISSION FOLLOWED THE TRADITIONAL METHOD FOR SETTING DEPRECIATION**

**LIVES?**

A. Historically, the FPSC followed the traditional method for setting depreciation rates. However, since January 1996, GTE has been permitted to set depreciation rates that reflect competitive and technological advancements in the marketplace. GTE uses the same depreciation inputs for FPSC regulatory reporting that it uses for financial reporting purposes, and those are the same inputs I recommend here.

**Q. WHAT DID THE FPSC RECOMMEND THE LAST TIME IT PRESCRIBED DEPRECIATION INPUTS?**

A. As previously stated, the FPSC no longer prescribes depreciation inputs for GTE for regulatory reporting purposes. The last time it did so was in Docket 920284-TL, in 1992. The Commission did, however, recommend depreciation inputs in its 1998 proceeding to determine the cost of basic local service for purposes of establishing a universal service fund mechanism. (Docket 980696-TP). The chart below compares the FPSC-ordered depreciation lives in Docket 980696-TP with the depreciation lives GTE uses in its cost studies for the major technology-sensitive accounts. A complete comparison of all accounts is attached as Exhibit AES-2.

A Comparison of FPSC-Ordered and GTE's Proposed Depreciation Lives

| | FPSC Ordered | GTE Proposed |
|---|---|---|
| Digital Switching Equipment | 13 | 10 |

| | FPSC Ordered | GTE Proposed |
|---|---|---|
| Circuit Equipment | 8 | 8 |
| Copper Cable | | |
| Aerial | 18 | 15 |
| *Underground* | 23 | 15 |
| Buried | 18 | 15 |
| Fiber Cable | | |
| Aerial | 20 | 20 |
| Underground | 20 | 20 |
| Buried | 20 | 20 |

As the chart illustrates, the FPSC accepted GTE's lives in some of the major technology-sensitive accounts, but ordered somewhat longer lives in others.

Establishing the proper economic lives for these assets is critical to determining economic depreciation in a forward-looking cost study. Economic lives of other assets are used in GTE's cost studies, but the changes in those assets' economic lives (*e.g.*, motor vehicles) as compared to the prescribed lives are extremely small and have little impact on the depreciation rates for those assets.

## III. COMPETITION AND TECHNOLOGICAL INNOVATION REQUIRE THE USE OF ECONOMIC LIVES

**Q. WHAT FACTORS SHOULD THE COMMISSION CONSIDER IN APPROVING DEPRECIATION INPUTS FOR THE COST MODEL?**

A. The two most important factors that must be considered in establishing the economic value of GTE's assets are: (1) technological innovation and (2) impact of competition.

**Q. WHAT TECHNOLOGICAL INNOVATIONS WERE CONSIDERED IN YOUR ESTABLISHMENT OF GTE'S ECONOMIC LIVES?**

A. Competitive carriers are utilizing a number of alternative technologies to provide telecommunications service that completely bypass the ILEC's existing wireline network. These technologies include wireless local loops, cable lines, and electric lines. Prior to the passage of the 1996 Telecommunications Act, depreciation analysis consisted primarily of mortality analysis with only slight adjustments for technological change. Now, the rapid pace of advancement in technological innovations must be recognized in establishing the economic value of GTE's assets.

**Q. WHAT KINDS OF COMPETITIVE DEVELOPMENTS WERE CONSIDERED IN ESTABLISHING OF GTE'S ECONOMIC LIVES?**

A. Florida has been and will continue to be one of the most attractive markets for entry by competitive local exchange carriers. As of April 7, 2000, 365 companies hold statewide certificates to operate as alternative local exchange companies ("ALECs"), including such well-known companies as AT&T, MCI Worldcom, Time Warner,

Intermedia, Covad, e.spire, Teligent, and Winstar. A total of 125 companies have interconnection and/or resale contracts with GTE. In addition, GTE has entered collocation agreements with 74 ALECs; nearly all GTE exchanges have one or more collocated ALECs, indicating the presence of facilities-based competitors. An additional 160 collocation agreements are pending. The total in-service UNE loops purchased by ALECs from GTE jumped 1554% (from 52 to 860) in just one year, from January 1999 to January 2000. Resold switched access lines increased 158% over the same period. As of May 1999, 83% of all buildings in Tampa were within an 18,000 foot radius of a ALEC switch. (Comments of GTE Service Corporation in *Implementation of the Local Competition Provisions in the Telecommunications Act of 1996*, App. D (study by PNR & Associates, Inc.), FCC CC Docket No. 96-98.) The FPSC's latest Report on Competition in Telecommunications Markets in Florida, published in December 1999, likewise noted the competitive strides ALECs have made and continue to make. As GTE witness Jacobson has testified, ALECs have captured a substantial number of the total business lines in several Florida exchanges.

These statistics clearly point to the acceleration of competitive activity in GTE territory. This trend will only become more pronounced, as more and more competitors enter the market. For example, Level 3 Communications, Inc. launched services in February 2000 in the Orlando and Tampa metropolitan areas. The company is targeting

business customers for services such as private lines, Internet access, and dark fiber. Florida Digital Networks, a facilities-based ALEC headquartered in Orlando and focussing on the business segment, is currently completing construction of fiber optic networks in Tampa, among other areas. Most of GTE's competitors are, understandably, targeting the most lucrative business customers.

The increased trend toward facilities-based competition that has been evident here is consistent with developments nationwide. According to the latest annual report of the national Association for Local Telecommunications Services (ALTS), published in February 2000, 333 of the over 375 ALECs in operation across the United States own or control and operate some of their own facilities. Intermedia Communications, headquartered in GTE's Tampa area, has over 60% of its lines on its own switches, and Allegiance and Nextlink have over 80%. ICG has over 50% of its lines on its own network and an additional 28% on-switch. (ALTS 2000 Report at 4). ALTS President John Windhausen, Jr. notes that "CLECs alone have invested $30 billion in new networks since passage of the Act and are now investing over $1 billion every month in their networks." (Open Letter, dated Feb. 2, 2000.)

**Q. HAVE YOU ALSO FACTORED IN THE THREAT OF BYPASS BY EMERGING TECHNOLOGIES SUCH AS WIRELESS LOCAL LOOP TECHNOLOGIES?**

A. Yes. In this regard, for instance, AT&T recently announced its "Project Angel" trials of fixed wireless local loop technology was underway and would soon be available nationwide. Other companies, including Winstar, Teligent, and Airwire.net, are currently offering a fixed wireless alternative to local landline service in the Tampa area.

**Q. HAVE THE REGIONAL BELL OPERATING COMPANIES (RBOCS) EXPRESSED INTEREST IN COMPETING IN GTE'S OPERATING TERRITORY?**

A. Yes. On June 2, 1999 the PSC granted SBC's application for certification to provide local service in Florida. SBC had announced that it would begin offering local service in 30 of the nation's top markets, including Tampa, outside of its franchise territories within 18 months of consummation of its merger with Ameritech. In February 1999, SBC announced Miami as one of the first three "national-local" markets it would enter, thus signaling its intent to compete in Florida at the earliest possible moment.

Since October 1998, BellSouth has offered wireless service in the Tampa Bay area. Its prices and bundled packages for wireless local and long distance service, including paging and calling features, represent direct competition to GTE's wireline services.

**Q. DO CELLULAR PROVIDERS ALSO POSE A THREAT TO GTE'S WIRELINE NETWORK?**

A. Yes. Prices and packages for wireless plans are becoming increasingly competitive with the wireline plans and are being marketed as an alternative to the wireline network. A national survey recently conducted by the Yankee Group indicates that the number of consumers relying solely on their mobile phones is on the rise. According to the survey, the number of U.S consumers who use their mobile phones as their only phones account for two percent of all wireless phone users, as compared to last year's unmeasurable handful. Yankee Group analyst Mark Lowenstein predicts that traffic on U.S. wireless networks will skyrocket from 105 billion minutes in 1998 to 554 billion minutes in 2004 "More Using Cell than Home Phones" (USA Today, July 28, 1999 at 1A.).

## IV. GTE PROPERLY WEIGHS ALL RELEVANT FACTORS IN DETERMINING ECONOMIC LIVES.

**Q. WHAT METHOD DOES GTE USE TO DETERMINE THE ECONOMIC LIFE OF AN ASSET?**

A. When estimating economic lives, GTE (a) evaluates the criteria that are used to establish the retirement lives of assets as a guideline for estimating economic lives, (b) considers industry benchmark comparisons, and (c) considers the effect the evolving competitive market will have on the economic lives of many of GTE's assets.

**Q. WILL YOU PLEASE EXPLAIN THE USE OF THESE FACTORS**

**IN MORE DETAIL?**

A. GTE first considers the National Association of Regulatory Utility Commissioners' description of factors that cause property to be retired. (Public Utility Depreciation Practices, National Association of Regulatory Utility Commissioners (NARUC), 1996, at 15). These include:

1. Physical Factors
   a. Wear and tear
   b. Decay or deterioration
   c. Action of the elements and accidents

2. Functional Factors
   a. Inadequacy
   b. Obsolescence
   c. Changes in art and technology
   d. Changes in demand
   e. Requirements of Public Authorities
   f. Management discretion

3. Contingent Factors
   a. Casualties or disasters
   b. Extraordinary obsolescence

GTE believes these same factors can be used to help estimate an

asset's economic life expectancy by allocating the appropriate weighting to each factor. That is, GTE uses the NARUC factors as a guideline for choosing economic lives of certain assets, but only after allocating proper weighting to those factors that reflect the significant roles competition and technological change play in determining an asset's economic life.

Specifically, the "Functional Factors" (Part 2 of the NARUC factors) are sensitive to competition and technological change and are given substantially greater weight when GTE considers the NARUC criteria in establishing the economic lives of GTE's assets. As I explained above, the effects of competition and technological change on an asset's economic life must be properly considered when determining competitive market asset lives. It has long been recognized in the industry that traditional methods for determining lives for accounts most affected by technology and competition are inadequate. Most Commissions, including this one, have thus seen fit to make adjustments to the physical life indications produced by historical mortality analysis.

**Q. WHAT OTHER GUIDES DO YOU USE IN ESTABLISHING ASSET LIVES?**

A. To help quantify our professional judgment as to the appropriate lives for telephone plant, GTE also benchmarks against competitors, such as AT&T, MCI Worldcom, and cable television providers, and

considers industry studies performed by Technology Futures Inc. ("TFI").

**Q. PLEASE EXPLAIN WHY BENCHMARKING IS USEFUL AND APPROPRIATE.**

A. We believe that benchmarking affords an excellent example of the reasonableness of GTE's recommended depreciation lives. As we transition to a competitive environment, we should be treated the same as our competitors with respect to setting depreciation rates. Competitors' depreciation rates are not reviewed or approved by any regulatory body, and are a good guide to reasonable practices in a competitive market.

**Q. WHAT DID YOU DETERMINE USING BENCHMARK COMPARISONS WITH AT&T?**

A. Comparing the economic lives proposed by GTE to the lives AT&T uses affords an excellent example of how reasonable GTE's recommendations are. AT&T's 1998 annual report states that the useful life of communications and network equipment ranges from 3 to 15 years. The useful life of other equipment ranges from 3 to 7 years. The useful life of buildings and improvements ranges from 10 to 40 years. GTE's recommended lives are not as short as AT&T's. In comparison, GTE's recommendation for network equipment ranges from 8 to 40 years. My testimony also recommends 5 to 10 years for Other Equipment and 35 years for buildings.

**Q. WHAT WAS DETERMINED BY THE COMPARISON WITH MCI WORLDCOM?**

A. MCI's 1996 annual report stated that the weighted average depreciable life of the assets comprising the communications system in service approximates 10 years. Furniture, fixtures and equipment are depreciated over a weighted average life of 6 years. Buildings are depreciated using lives of up to 35 years. In comparison, GTE's recommendation for equipment that comprises the communication system ranges from 8 to 40 years. My testimony recommends 5 to 10 years for furniture, fixtures and equipment, and 35 years for buildings.

In 1998, MCI again shortened the lives of its communications facilities from approximately 10 years to 9 years, stating that the company periodically reviews and adjusts the useful lives assigned to fixed assets to ensure that depreciation charges provide appropriate recovery of capital costs over the estimated physical and technological lives of the assets. The weighted average of depreciable life of the assets comprising the communications system in service approximates nine years.

**Q. WHAT WAS DETERMINED BY THE COMPARISONS TO LIVES USED BY THE CABLE TELEVISION (CATV) OPERATORS?**

A. GTE's lives are not as short as the lives used by CATV operators. The FCC adopted a flexible range of lives to be used by CATV operators seeking to justify depreciation rates in cost of service filings. The useful

lives adopted by the FCC for distribution facilities were from 10 to 15 years. This range was developed from a statistical analysis of lives used by CATV operators for their own facilities. The 15-year economic life for copper cable and the 20-year life for fiber cable calculated selected by GTE are not as short as the lives within the FCC-allowed range for CATV distribution facilities. Additionally, the lives proposed by GTE for support assets such as office furniture and equipment, vehicles, and buildings are reasonable when compared to the FCC-allowed ranges for CATV operators. The FCC range for office furniture and equipment is 9-11 years, which compares favorably to GTE's proposal of 10 years for these accounts. The FCC range for vehicles and equipment is 3-7 years, which is shorter than GTE's proposal of 8-10 years. The FCC range for buildings is 18-33 years, which compares favorably with GTE's proposal of 35 years. (FCC MM Docket No. 93-215, In re Implementation of Sections of the Cable Television Consumer Protection and Competition Act of 1992: Rate Regulation and FCC CS Docket No. 94-28, In re Adoption of a Uniform Accounting System for Provision of Regulated Cable Service, Second Report and Order, First Order on Reconsideration, and Further Notice of Proposed Rulemaking, released January 26, 1996).

**Q. HAVE ANY OTHER COMMISSIONS DETERMINED THAT BENCHMARKING IS A VIABLE METHOD TO ASSESS THE REASONABLENESS OF GTE'S PROPOSED LIVES?**

A. Yes. The Missouri Public Service Commission commented on

benchmarking for purposes of establishing depreciation rates to be utilized in GTE's TELRIC cost studies as follows:

> Staff believes that benchmarking GTE TELRIC rates against those booked for financial purposes of likely competitors and other companies using similar technologies is appropriate and is the best method to determine if GTE's TELRIC rates pass the muster of reasonableness. (Case No. TO-97-63, Missouri Public Service Commission Final Arbitration Order, July 31, 1997, Attachment C at 77).

The Missouri Staff chose 19 of the largest IXC, CATV, cellular, CAP, and PCS companies to benchmark against and found that the depreciation rates used to calculate GTE TELRIC costs were at the bottom or second from the bottom of the list and were significantly lower than several companies in similar industries, concluding:

> This is the most significant factor to Staff's belief that GTE's proposed depreciation rates are reasonable. ( Case No. TO-97-63, Missouri Public Service Commission Final Arbitration Order, July 31, 1997, Attachment C at 79).

**Q. PLEASE EXPLAIN YOUR USE OF THE TFI STUDIES.**

A. TFI forecasts the remaining lives for certain assets when technological change is driving the shortening of asset lives. To quantify this technological change, TFI uses a model to analyze remaining economic lives using patterns of technological substitution observed

in the communications industry, as well as other industries. The industry studies conducted by TFI forecast the combined effects that competition and technological change will have on an asset's remaining useful life. The studies generally project shorter lives than traditionally prescribed by most Commissions. GTE uses the TFI lives as a reasonableness benchmark comparison with the lives used by other companies, both regulated and non-regulated, with similar types of telecommunications assets.

**Q. WHAT DO THE TFI STUDIES RECOMMEND GTE USE AS ECONOMIC LIVES FOR ITS ASSETS?**

A. GTE's recommendations here are in line with TFI's recommended economic life ranges, as shown by the following chart. (*Transforming the Local Exchange Network: Analyses and Forecasts of Technology Change*, Larry K. Vanston, Ray L. Hodges, and Adrian J. Poitras, 2d Ed. 1997, *Technology Futures, Inc.*, at 33).

A Comparison of The TFI Ranges with GTE's Proposed Economic Lives

| | TFI Ranges | GTE Economic |
|---|---|---|
| *Digital Switching Equipment* | 9-12 | 10 |
| Circuit Equipment | 6-9 | 8 |
| Copper Cable | 14-20 | 15 |
| Fiber Cable | 20 | 20 |

TFI specifically addresses the appropriate lives to be used for outside plant cable, central office switching, and circuit equipment accounts, as these accounts report equipment that are most affected by changes in competition and technology.

## V. GTE'S ECONOMIC LIVES HAVE BEEN ENDORSED BY OTHER STATE REGULATORY COMMISSIONS

**Q. HAS ANY OTHER REGULATORY BODY APPROVED THE ECONOMIC LIVES PRESENTED HERE?**

A. Yes. In 1996 the California Public Utilities Commission ("CPUC") endorsed the use of the same economic lives presented here except that they approved a 14 year life for copper cable, one year less than requested here. The CPUC concluded that the economic lives used by GTE and Pacific Bell for external financial reporting were the appropriate forward-looking lives for cost studies. The CPUC rejected the suggestion by AT&T and others that FCC-prescribed lives are forward-looking, stating (*California Public Utilities Commission* Decision, No. D.96-08-021, Adopted August 2, 1996, in Rule Making R.93-04-003, I.93-04-002):

> *We agree with Pacific that the schedules formally adopted in* the represcription proceeding reflect the previous paradigm of the regulated monopoly environment, and so are difficult to justify in a cost study that looks forward to an environment in which there is local exchange competition. We also see little

merit in the Coalition's original suggestion that we use FCC schedules. These schedules also reflect the previous paradigm; moreover, they are based on different assumptions and applied in different ways than our own. It also seems to be the case, however, that Pacific is now using these schedules in financial reports it is required to file, and thus for purposes of these cost studies, the schedules also appear consistent with generally accepted accounting principles. The schedules also appear realistic for a firm having to operate in a competitive environment, as Pacific will soon have to do. Accordingly, we will approve their use in this proceeding.

**Q. HAS THE USE OF ECONOMIC LIVES BEEN ENDORSED IN OTHER STATE PROCEEDINGS?**

A. Yes. In 1997, the Missouri Public Service Commission adopted the same economic lives proposed in this case, stating:

> Staff's goal has been to recommend depreciation rates based on parameters that GTE is likely to experience for financial purposes so as to fully recover its long run capital costs in a timely fashion. (Case No. TO-97-63, Missouri Public Service Commission Final Arbitration Order, July 31, 1997, Attachment C at 76).

The Michigan Public Service Commission also adopted its Staff's recommendation to approve the use of GTE's economic lives on

February 25, 1998, stating:

> GTE proposes to reduce its asset lives in accordance with their economic lives ... The Staff's view is that GTE's proposed asset lives are largely consistent with a forward-looking approach and are reasonable .... The Commission finds that GTE's proposal related to depreciation is appropriate for TSLRIC purposes .... The Commission further finds AT&T/MCI's proposal to be insufficiently forward looking for purposes of a TSLRIC study (Michigan Docket No. U-11281, Feb. 25, 1998 order, Section d).

## VI. CONCLUSION

**Q. PLEASE SUMMARIZE YOUR DIRECT TESTIMONY.**

A. Traditional historical methods of establishing depreciation lives are not forward-looking. The economic lives used in GTE's cost studies are properly based on a forward-looking approach. GTE's proposed rates are reasonable in comparison to the financial reporting lives of competitive telecommunications providers such as AT&T and MCI Worldcom and should be adopted by this Commission for use in establishing permanent UNE rates.

**Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

A. Yes.

**GTE Recommended Depreciation Lives and Salvage Values**

| USOA ACCT | ACCOUNT DESCRIPTION | GTE LIFE YEARS | GTE SALVAGE % |
|---|---|---|---|
| 2112 | Motor Vehicles | 8 | 10 |
| 2113 | Aircraft | 5 | 50 |
| 2114 | Special Purpose Vehicles | 10 | 0 |
| 2115 | Garage Work Eq | 10 | 0 |
| 2116 | Other Work Eq | 10 | 0 |
| 2121 | Buildings | 35 | 0 |
| 2122 | Furniture | 10 | 0 |
| 2123.1 | Office Support Eq | 10 | 0 |
| 2123.2 | Company Communications Eq | 10 | 0 |
| 2124 | General Purpose Computers | 5 | 0 |
| 2212 | Digital Electronic Switching | 10 | 0 |
| 2220 | Operator Systems | 10 | 0 |
| 2231 | Radio Systems | 10 | 0 |
| 2232 | Circuit Eq | 8 | 0 |
| 2362 | Other Terminal Eq | 5 | 0 |
| 2411 | Poles | 25 | -75 |
| 2421.1 | Aerial Cable Metallic | 15 | -30 |
| 2421.2 | Aerial Cable NonMetallic | 20 | -20 |
| 2422.1 | Underground Cable Metallic | 15 | -20 |
| 2422.2 | Underground Cable NonMetallic | 20 | -10 |
| 2423.1 | Buried Cable Metallic | 15 | 0 |
| 2423.2 | Buried Cable NonMetallic | 20 | 0 |
| 2424.1 | Submarine Cable Metallic | 15 | -10 |
| 2424.2 | Submarine Cable NonMetallic | 20 | -10 |
| 2425.1 | Deep Sea Cable Metallic | 15 | -10 |
| 2425.2 | Deep Sea Cable NonMetallic | 20 | -10 |
| 2426.1 | Intrabuilding Cable Metallic | 15 | 0 |
| 2426.1 | Intrabuilding Cable Metallic | 20 | 0 |
| 2431 | Aerial Wire | 15 | -30 |
| 2441 | Conduit Systems | 40 | -10 |

**Comparison of GTE Recommended Depreciation Lives and Salvage Values with Commission-Ordered Depreciation Lives and Salvage Values in Docket No. 980696-TP, Order No. PSC-99-0068-FOF-TP, Table V-A(3)**

| USOA ACCT | ACCOUNT DESCRIPTION | GTE LIFE YEARS | FPSC LIFE YEARS | GTE SALVAGE % | FPSC SALVAGE % |
|---|---|---|---|---|---|
| 2112 | Motor Vehicles | 8 | 7.5 | 10 | 1 |
| 2113 | Aircraft | 5 | 5 | 50 | 0 |
| 2114 | Special Purpose Vehicles | 10 | 7 | 0 | 0 |
| 2115 | Garage Work Eq | 10 | 12 | 0 | 0 |
| 2116 | Other Work Eq | 10 | 12 | 0 | 0 |
| 2121 | Buildings | 35 | 40 | 0 | 0 |
| 2122 | Furniture | 10 | 11 | 0 | 10 |
| 2123.1 | Office Support Eq | 10 | 10 | 0 | 0 |
| 2123.2 | Company Communications Eq | 10 | 7 | 0 | 10 |
| 2124 | General Purpose Computers | 5 | 5 | 0 | 0 |
| 2212 | Digital Electronic Switching | 10 | 13 | 0 | 0 |
| 2220 | Operator Systems | 10 | 10 | 0 | 0 |
| 2231 | Radio Systems | 10 | 9 | 0 | 0 |
| 2232 | Circuit Eq | 8 | 8 | 0 | 0 |
| 2362 | Other Terminal Eq | 5 | 6 | 0 | 0 |
| 2411 | Poles | 25 | 30 | -75 | -75 |
| 2421.1 | Aerial Cable Metallic | 15 | 18 | -30 | -35 |
| 2421.2 | Aerial Cable NonMetallic | 20 | 20 | -20 | -35 |
| 2422.1 | Underground Cable Metallic | 15 | 23 | -20 | -10 |
| 2422.2 | Underground Cable NonMetallic | 20 | 20 | -10 | -10 |
| 2423.1 | Buried Cable Metallic | 15 | 18 | 0 | -10 |
| 2423.2 | Buried Cable NonMetallic | 20 | 20 | 0 | -10 |
| 2424.1 | Submarine Cable Metallic | 15 | 18 | -10 | -5 |
| 2424.2 | Submarine Cable NonMetallic | 20 | 20 | -10 | -5 |
| 2425.1 | Deep Sea Cable Metallic | 15 | na | -10 | na |
| 2425.2 | Deep Sea Cable NonMetallic | 20 | na | -10 | na |
| 2426.1 | Intrabuilding Cable Metallic | 15 | 20 | 0 | -10 |
| 2426.1 | Intrabuilding Cable Metallic | 20 | 20 | 0 | -10 |
| 2431 | Aerial Wire | 15 | na | -30 | na |
| 2441 | Conduit Systems | 40 | 50 | -10 | -10 |