

CHAPTER 26. SUBSTANTIVE RULES APPLICABLE TO TELECOMMUNICATIONS SERVICE PROVIDERS.

Subchapter J. COSTS, RATES AND TARIFFS.

§26.206. Depreciation Rates.

- (a) **General.** Dominant certificated telecommunications utilities (DCTUs) shall use depreciation rates approved by the commission to determine depreciation expense and provide for accumulated depreciation (also referred to as depreciation reserve). For purposes of this section, depreciation rates used prior to September 1, 1976, and those in effect on September 1, 1976, shall be deemed appropriate for use, unless subsequently modified by the commission.
- (b) **Depreciation rate changes for telecommunications utilities subject to regulation of interstate depreciation rates by the Federal Communications Commission.** Telecommunications utilities subject to interstate regulation by the Federal Communications Commission are also required to file for commission approval of intrastate depreciation rates. Filings should be made in the same format and on the same schedule as those required by the federal regulatory body, with the addition of proposed intrastate accrual changes calculated through use of jurisdictional separations procedures. The utility shall have the burden of proof to establish that requested intrastate depreciation rate changes are reasonable and in the public interest in proceedings before the commission.
- (c) **Depreciation rate changes for other dominant carriers.** Any DCTU, except as covered in subsection (b) of this section, requesting a change in depreciation rates must request commission approval and include in its request the information set out in paragraphs (1) - (3) of this subsection.
 - (1) For each property account or subaccount for which a depreciation rate change is proposed:
 - (A) the plant in service and the accumulated depreciation as of the requested effective date for the proposed depreciation rates;
 - (B) the total of accruals, additions, retirements, gross salvage, and cost of removal for each of the preceding 4 years; and
 - (C) detailed justification for the proposed changes.
 - (2) The requested effective date of the changes. A request for an effective date that is earlier than January 1st of the year in which the request is filed must be fully justified in order to receive consideration.
 - (3) The change in annual depreciation expense that would result from adoption of the proposed depreciation rates, expressed both as a dollar amount and as a percentage of current total depreciation expense.
- (d) **Methods for figuring depreciation rates.** On application by a utility, the commission shall fix depreciation rates that promote deployment of new technology and infrastructure. In setting depreciation rates, the commission shall consider depreciation practices of nonregulated telecommunications providers. Depreciation rates must be based on reasonable methods of depreciation; however, the commission reserves the right to specifically consider any and all appropriate methods of depreciation in each case.
- (e) **Burden of proof.** A DCTU shall have the burden of proof to show that depreciation or amortization expense is reasonable, necessary and in the public interest. The DCTU shall also be required to show that depreciation rate changes were timely requested in accordance with prudent management practices. The burden of proof shall not be satisfied solely by demonstrating that the depreciation rates or amortization periods used were approved. If the DCTU fails to meet this burden the commission may deny as a cost of service that depreciation or amortization expense.

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- (f) **Interim booking.** Unless otherwise ordered by the commission, a DCTU may book depreciation and amortization expense on an interim basis based on proposed depreciation rates from the month of filing until interim or final action by the commission. Interim booking shall be adjusted upon final approval of depreciation rates and records must be maintained showing the interim booking and the adjustments, if any, that were made upon final approval of the rates.
- (g) **Special amortization.** Where all or a substantial portion of a property account or subaccount is retired earlier than anticipated and the reserve for that account is less than the amount to be retired less salvage, or in other instances when an amortization is appropriate, special amortization may be requested.
 - (1) If the amortization period is two years or less, and the annual amount to be amortized is less than 2.0% of annual revenues, the DCTU shall advise the commission. The commission may review the appropriateness of such amortization during rate cases.
 - (2) If the amortization period is more than two years, or the amount to be amortized is more than 2.0% of annual revenues, commission approval is required.
- (h) **New depreciation rates.** When a DCTU determines a need to establish a new depreciation rate for a new class of property, it may adopt a depreciation rate that has been approved by the commission for a similar DCTU for the same property class if similar depreciation parameters and methods are used to determine the rates. The DCTU must notify the commission that it has adopted such rates within 45 days of its adoption. The commission may review and modify such rates upon appropriate motion or in subsequent rate or depreciation proceedings.
- (i) **Public Utility Regulatory Act (PURA), Chapter 58 companies.** A company electing under PURA Chapter 58 may determine its own depreciation rates and amortizations, but shall notify the commission of any subsequent changes to the rates or amortizations. Such company shall notify the commission using the same format required by the Federal Communications Commission for depreciation and amortization filings.