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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

UNITED STATES TELEPHONE ASSOCIATION FILES)
PETITION FOR FORBEARANCE FROM DEPRECIATION)
REGULATION OF PRICE CAP LOCAL EXCHANGE CARRIERS)

ASD 98-91

COMMENTS OF NEW NETWORKS INSTITUTE

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Do Not Grant the Bells and Other LECs Forbearance of Depreciation Expenses. Instead, We Call Upon the FCC to Investigate \$21 billion in Previous Depreciation Write-offs.

On May 11th, 1998 NNI filed a formal complaint with the Criminal Justice Division of the Internal Revenue Service to investigate \$20.8 billion dollars of questionable Depreciation write-offs by the Regional Bell Operating Companies, and other local phone companies.

Our claims, presented in the attached Complaint, and summarized in our recent FCC filings for the FCC proceedings on Advanced Network Deployments, 98-146, and 98-147, states the following:

In the early 1990's, the Regional Bell Holding Companies and their local phone companies promised to deploy advanced networks, which would deliver very high speed, 500 channel, full-motion video interactive services.

These networks would be based on new fiber-optic wiring, replacing the current copper wiring in use today. By the end of next year, almost HALF of America's households was supposed to have been upgraded.

In exchange for these new services state Public Utility Commissions and state legislatures granted Alternate Regulations that allowed the Bells more profits which would be used to fund these networks. Also, the Bells stated that there was facing competition and that they needed to replace their old business model with this new alternative, giving them more financial freedoms. This change was from a "Rate-of-Return regulation to "Price Cap" regulation.

Unfortunately, the Bells failed to deliver on their promised deployments or services. Attached is a description of how New Jersey's Alternate Regulation plan, "Opportunity New Jersey", did nothing more than increase Bell Atlantic's profits. Also, today, only 1% of residential customers and businesses use competitive local services. There was virtually NO local competition in 1993-1995.

However, from 1993 to 1995, the Bells took massive, multiple-billion dollar depreciation deductions, \$20.9 billion to be exact, writing-off most of the copper wiring - the wiring that is still in place today and still being used.

If there was virtually no replacement of the copper wire, or more importantly, new advanced services that would require this new wiring, and if there was no substantial competition in 1993 to 1995, then these deductions were, at best, premature. However,

the copper networks are still in use today, and these deductions, as far as we can tell, were not in the Public Interest, as monopoly phone companies are obligated to do.

Therefore:

The FCC should not grant any new forbearance in depreciation until these issues are investigated.

The FCC should rule as to the legality of these network deductions and require customer reimbursements and penalties.

If the deductions were legal then the FCC should consider that the Bells are still charging retail for networks that have already been written off, and therefore, all charges, from the "FCC Subscriber Line Charge" to "Access Fees" should be reassessed.

Respectfully submitted,

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