STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Joint Petition of Verizon North Inc. and Verizon South Inc. for the Commission to Ascertain, Determine and Fix Proper and Adequate Rates of Depreciation for Certain of the Several Classes of Properties of the Joint Petitioners	:	Docket 06-0687

DRAFT ORDER

By the Commission:

On October 23, 2006, Verizon North Inc. and Verizon South Inc. (collectively "Verizon" or the "Company") filed a Petition to ascertain, determine and fix proper and adequate rates of depreciation for certain of the several classes of properties with the Illinois Commerce Commission ("Commission"), pursuant to Sections 13-101 and 5-104 of the Illinois Public Utilities Act ("Act").

Status Hearings were held in this matter on November 15, 2006 and December 4, 2006. Petitioner appeared by its counsel at these hearings. At the November 15, 2006 hearing, Staff appeared and indicated that they do not object to the approval of Verizon's Petition. An evidentiary hearing was held at the Chicago offices of the Commission on January 30, 2007. At the conclusion of that hearing, the record was marked "Heard and Taken."

Verizon's Request

In support of the Company's position, Verizon presented the testimony of Anthony J. Flesch, its Senior Staff Manager - Capital Recovery for Verizon Services Organization (Verizon Ex. 1.0). Mr. Flesch testified that Verizon is not requesting the establishment of any new rates for tariffed telecommunications services to cover the new proposed depreciation rates. Mr. Flesch testified that Verizon made this filing for two reasons: (1) to request a revision to certain depreciation lives and future net salvage values; and (2) because the remaining life depreciation methodology requires periodic review. He further testified that Verizon's last depreciation represcription and rate revision was in Docket 97-0355, for revised depreciation rates effective January 1, 1998. He testified that Verizon's proposal takes into account the various changes that have occurred in the marketplace since that time.

Mr. Flesch sponsored Verizon's 2006 Illinois Depreciation Study which supported the depreciation parameters and resulting depreciation rates proposed in this proceeding. He testified that this study used the traditional remaining life, equal life group ("ELG") methodology. In addition, he noted that this is the same methodology that Verizon used in Docket 97-0355, as well as the method used by most state commissions and the Federal Communication Commission ("FCC"). Mr. Flesch testified that Verizon's Depreciation Study supports depreciation rates for 21 asset accounts ranging from Motor Vehicles to Conduit Systems. His testimony provides a summary of the proposed depreciation rates and expenses both in total and by each individual asset account (Attachment AJF-1).

Mr. Flesch further testified that in determining proposed depreciation lives, Verizon considered the past and current network modernization strategies; the impact of technology and obsolescence; the competitive environment in the marketplace; regulatory commitments; state demographics; and traditional wear and tear. He noted that these factors are all identified by the National Association of Regulatory Utility Commissioners ("NARUC") as physical or functional factors that impact the life of an asset. He testified that particularly important are the functional factors that cause decline in the depreciable value of an asset, even though the asset is "physically" intact. He stated that an asset's economic value may decline, for example, because of technological or competitive changes, or because of regulatory commitments. He also testified that as a check on the reasonableness of Verizon's depreciation lives, he reviewed independent industry studies of technology obsolescence from Technology Forecasting, Inc. ("TFI"), which is an independent research organization specializing in conducting technology/market forecasts.

Mr. Flesch testified that Verizon is proposing shorter depreciation lives for the major technology accounts in this filing except for buried metallic cable. He stated that these accounts comprise approximately 85% of the Verizon asset investment in Illinois. The following is a summary of his proposal with respect to depreciation lives:

	VZ-North Current	**VZ-South Current**	**Verizon Proposed**
Digital Switching	17	14	11
Circuit Equipment	9	8	8
Metallic Cable			
Aerial	18	18	16
Underground	18	18	17
Buried	18	18	18
Non-Metallic Cable	25	25	20

Mr. Flesch further testified that the proposed depreciation rates were calculated using the standard remaining life depreciation rate formula: (100% - Future Net Salvage % - Reserve Ratio %) / Average Remaining Life. He testified that Verizon's current composite depreciation rate is 7.3%, and through the Depreciation Study, Verizon is proposing a reduction in the composite depreciation rate to 5.9%. He stated that the Depreciation Study supports an overall annual decrease in depreciation expense of $26,008,324. Therefore, he explains, if the depreciation filing is approved, the accumulated depreciation reserve will decrease by $26,008,324 annually from the amount it would be if the study were not approved. Additionally, he states that this will result in a net book value increase of $26,008,324 annually from the amount it would be if the recommended depreciation rates were not approved.

Verizon asserts that its proposal is reasonable and requests approval of its proposed depreciation rates, effective January 1, 2007, and approval of its 2006 Depreciation Study.

Staff's Position

Staff does not object to Verizon's proposal.

Commission Analysis and Conclusions

The Commission has reviewed Verizon's Petition and 2006 Illinois Depreciation Study and finds Verizon's proposal to be reasonable. Verizon's current depreciation rates have been in place since 1998 and a review in accordance with Section 5-104 of the Act is appropriate. Verizon's 2006 Illinois Depreciation Study utilizes established methodologies that are consistent with those that Verizon used in Docket 97-0355 and the results are reasonable. For these reasons, the Commission approves Verizon's proposed depreciation rates, effective January 1, 2007, and approves its 2006 Depreciation Study.

Findings and Ordering Paragraphs

The Commission, having given due consideration to the entire record and being fully advised in the premises, is of the opinion and finds that:

1. Verizon North Inc. and Verizon South Inc. each are a "telecommunications carrier" within the meaning of 220 ILCS 5/13-202 of the Public Utilities Act;

2. The Commission has jurisdiction over the Company and of the subject matter of this proceeding;

3. The statements of fact and law set forth in the prefatory portion of this Order are supported by the evidence of record and are hereby adopted as findings of fact and law;

4. Verizon's 2006 Illinois Depreciation Study is reasonable and should be approved;

5. Verizon's asset depreciation lives and depreciation rates are reasonable and should be approved pursuant to Sections 13-101 and 5-104 of the Act. 220 ILCS 5/13-101, 5/5-104; and

6. The Company shall do any and all things incidental and necessary to the performance of any and all acts specifically authorized by the Commission in its said Order.

IT IS THEREFORE ORDERED that Verizon's proposed depreciation rates, effective January 1, 2007, and its 2006 Depreciation Study are approved pursuant to Sections 13-101 and 5-104 of the Illinois Public Utilities Act.

IT IS FURTHER ORDERED that subject to the provisions of Section 10-113 of the Public Utilities Act and 83 Ill. Adm. Code 200.880, this Order is final; it is not subject to the Administrative Review Law.

By Order of the Commission this
_____ day of February, 2007.

(SIGNED) Charles E. Box
Chairman