**Section 791.80 Annual Cost Study Components**

a) Depreciation.

1) Depreciation shall represent the periodic recognition of investment cost as dictated by accounting rules (83 Ill. Adm. Code 710). Depreciation costs for a service shall be computed based upon the projected life of plant at age zero underlying the depreciation rates most recently approved by the Commission. (For purposes of a cost study submitted in a rate proceeding which includes a depreciation represcription proposal, a telecommunications carrier may, as an alternative, use the projected life of plant at age zero filed for approval in that proceeding, subject to final Commission action on represcription proposal.)

2) For a carrier seeking approval of an alternative regulatory plan under Section 13-506.1 of the Act, the Commission shall make a finding of, or adopt a methodology for determining the projected life of plant at year zero underlying the carrier's rates of depreciation for purposes of this Part in any order approving an alternative regulatory plan.

b) Cost of capital.

1) The cost of capital associated with an investment shall be the weighted average of the carrier's costs of debt and equity applied to the net investment. The development of this component shall be based upon the current amount and weighted cost of debt. Carriers shall use the cost of equity approved by the Commission in the carrier's latest proceeding in which cost of money was litigated. (For purposes of a cost study submitted in a rate proceeding in which the telecommunications carrier is presenting evidence on its cost of capital, the telecommunications carrier may, as an alternative, base the return components upon the costs submitted in the proceeding, subject to the final Commission action on such issue.)

2) For a carrier seeking approval of an alternative regulatory plan under Section 13-506.1 of the Act, the Commission shall make a finding of, or adopt a methodology for determining the carrier's cost of equity, for purposes of this Part in any order approving an alternative regulatory plan.

c) Federal, State, and local income taxes. The Federal, State, and local income tax expenses shall be determined based on rates which are expected to be in effect at the time of the cost study development for the service. Since Federal, State, and local taxes are applicable, recognition shall be given to the "tax-on-tax" situation that results from the deductibility of State and local tax when Federal taxes are paid.

d) Maintenance. Maintenance costs are those costs incurred to keep equipment resources in usable condition and the cost incurred to rearrange cable or other facilities, if applicable. In calculating the cost of a service, the carrier may use an investment-related annual maintenance factor to arrive at an annual maintenance cost estimate or service-specific maintenance cost for the service. If a maintenance factor is used, the factor shall be specific to Investment and Expense accounts associated with the service. Maintenance costs may be based upon historical costs if it can be demonstrated that those historical costs are relevant to the study of forward-looking costs.

e) Ad valorem taxes. For telecommunications services, an ad valorem tax factor shall be applied against investment. This factor shall be based on the quotient of the most current ad valorem taxes paid by the carrier divided by the carrier's total current investment.

f) Other costs. Other service-specific costs shall be identified and attributed to particular services or groups of services and included in the cost study of those services or groups of services. These costs may be based upon historical costs if it can be demonstrated that those historical costs, in particular the estimated labor hours, are relevant to the study of forward-looking costs. In the case of labor costs, the carrier shall provide a breakdown of these costs to reflect loaded labor rates and estimated labor hours.

(Source: Amended at 27 Ill. Reg. 4535, effective April 1, 2003)