

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Request for approval of) DOCKET NO. 940826-TL
capital recovery requirements by) ORDER NO. PSC-95-0427-FOF-TL
Indiantown Telephone System,) ISSUED: March 29, 1995
Inc.)
_____)

The following Commissioners participated in the disposition of this matter:

SUSAN F. CLARK, Chairman
J. TERRY DEASON
JOE GARCIA
JULIA L. JOHNSON
DIANE K. KIESLING

NOTICE OF PROPOSED AGENCY ACTION
ORDER ESTABLISHING CAPITAL RECOVERY SCHEDULE AND
ADDRESSING 1993 OVEREARNINGS

BY THE COMMISSION:

On August 8, 1994, Indiantown Telephone System, Inc. (Indiantown or the Company) filed a request for a capital recovery schedule addressing the unrecovered costs associated with certain central office equipment subject to retirement in 1996 in conjunction with a planned switching processor upgrade. This proposed schedule would be for a 2-year period beginning January 1, 1994.

After a request by the Commission, the Company developed more detailed demand forecasts concerning the processor change-out. Indiantown conducted a survey of 60 of its 746 business customers (545 B1 and 201 rotary and trunk) to determine the potential demand for the services provided by the processor upgrade. These 60 customers were selected on the basis that they were the most likely subscribers for the new services that would become available with the processor upgrade. Of the surveys mailed out, 19 responses were received and all were favorable.

Development of an advanced infrastructure is an important issue in today's telecommunications market. In this market, customers of the Local Exchange Companies (LECs) expect to be able to receive advanced services such as Integrated Services Digital Network (ISDN), medical imaging and distance learning. The advent of personal computers and the need to access informational

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databases increases the necessity for the deployment of what is known as the information superhighway. There is considerable support for developing an advanced infrastructure that will provide information age services to consumers regardless of their locale. To provide their customers with the ability to access this superhighway, LECs may be faced with large capital investments that may not initially meet the normal economic test of a prudent investment. This test basically requires a Company to have sufficient revenues in order to recover its investment in a reasonable time frame. However, the benefits to the Company, as well as to the consumers in these areas, that arise from this type of deployment should more than cover the cost of the deployment in the long run.

In the instant case, Indiantown proposes to write-off the current Siemens Stromberg-Carlson DCO (DCO) processor and associated equipment, which has an undepreciated value of approximately \$169,900. The DCO was initially installed in 1985 with the original processor being replaced in 1990. The Company proposes to convert the current processor for this switch to a Siemens Vision ONE Universal Platform at a cost of approximately \$344,000.

The ability to provide cost/benefits justification for rural areas may be difficult for some Local Exchange Companies, since the number of present subscribers who express an interest in these advanced services may be minimal. For the large LECs, the ability to provide advanced services out of other central offices equipped with these services is a possible alternative. However, this alternative is not realistic for a small LEC, since the Company may only have one or two central offices in its service territory, none of which may be capably equipped. Although this retirement does not initially meet the normal economic justification used in depreciation studies, we believe the potential revenues, to the Company as well as the potential benefits to the consumers, more than justify the proposed upgrade to the Vision ONE platform.

Indiantown generally does not perform market demand studies for services in its service territory. However, in this case, the Company did a survey that identified a market demand of 19 potential customers of ISDN which should generate approximately \$47,000 in annual revenues (Staff Calculated Revenue Amount). If this was the only revenue generated by the upgrade, the Company's payback period for this investment would be approximately 10 years, if the unrecovered depreciation amount of the old processor is also included in the amount recovered. The Company did not provide any additional projected market demand for the Vision ONE upgrade, but we believe the possible revenue sources via the new features and

functions of the Vision ONE upgrade such as Calling Name Delivery and Anonymous Call Rejection will provide additional revenue sources that will assist in recovering the company's investment. Although this revenue amount is unknown, we have no reason to believe Indiantown's consumers will not eventually use the services provided by the upgrade.

The provision of additional services to rural consumers is only one of the benefits that we believe will be realized with this upgrade. Indiantown has indicated that the local government and community are engaged in an economic development project to encourage companies to establish a presence in this area. Trying to forecast new demand created by businesses migrating into the area is even more difficult than developing a market demand for existing customers. The Company believes that waterway access and a state of the art telecommunications network will help the local governments in promoting new industries. In the long run, this will be a benefit to all consumers in Indiantown's service territory.

While the initial revenues generated by the upgrade do not meet the economic test normally used in depreciation studies, the potential revenues and the possible economic development benefits sufficiently support the upgrade. Further, the upgrade is a reasonable progression of the switching network in Indiantown's service territory. Therefore, we find that Indiantown's proposal to upgrade its current DCO processor to the Vision ONE platform is reasonable and should be approved.

The upgrade will require the current processor and some switching hardware and circuit equipment to be retired. The January 1, 1994, investment and associated reserve of the assets subject to retirement is \$257,026 and \$87,058, respectively. No net salvage is anticipated from the retirement of this equipment. The Company has proposed a two year capital recovery schedule for these net unrecovered costs of \$169,968.

Given our determination that the retirement of this equipment is reasonable, recovery through depreciation for the associated unrecovered investment is appropriate. Therefore, we find that the request of Indiantown Telephone System, Inc. for a two year capital recovery schedule addressing the unrecovered switching and circuit investments subject to retirement in connection with the planned switch upgrade is approved. The projected unrecovered total company investment of \$169,968 shall be written off by applying 1993 overearnings (discussed subsequently in this Order), with the residual amount to be amortized beginning January 1, 1994, through December 31, 1995.

1993 Overearnings

An audit of Indiantown's surveillance report for the twelve month period ending December 31, 1993, was conducted. It appears that the Company did overearn in 1993. After adjustments, the calculated average achieved return on equity (ROE) for 1993 was 16.28%. The ROE was calculated using Indiantown's financial statements, audit exceptions discussed in the audit report and the final 1993 Cost Study filed with the Commission on June 29, 1994. The Company's authorized ROE range was 11.7% to 13.7% with a midpoint of 12.7% for 1993.

The Company's Earnings Surveillance Report (ESR) indicates that the Company's achieved ROE was 15.25% for the year ending December 31, 1993. The achieved ROE difference is due to audit and other adjustments. The audit report issued on August 9, 1994, disclosed several audit exceptions and disclosures. The following audit adjustments were made:

- 1) The Universal Service Fund reported on the ESR was understated by \$3,626.
- 2) The Company failed to allocate customer billing, accounting, executive, or administration and general expenses related to inside wire operations. The total company amount for 1993 of \$13,755 was excluded.
- 3) Travel expenses related to nonutility business in the amount of \$9,380 on a total company basis were removed.
- 4) Electronic equipment not used for utility purposes was excluded in the amount of \$1,063.
- 5) A shed with a cost of \$752 was expensed and should have been capitalized.
- 6) Car phone expenses of \$4,214 which appear to be used for personal business were excluded from regulated expenses.
- 7) Expenses incurred by the Company totaling \$3,280 for a cottage owned by the pension plan were excluded from regulated expenses as being nonutility related.

In addition, rate base was adjusted to remove \$27,149 in nonutility plant on a total company basis. The Company has indicated that it is in agreement with the adjustments listed above.

The total of the above adjustments added to the Company's intrastate ROE results in a ROE of 16.28% which exceeds the ceiling of the Company's authorized ROE of 13.7%. The amount of excess earnings is \$71,115 for 1993. Therefore, we find that Indiantown Telephone System, Inc. earned \$71,115 in excess of its maximum authorized ROE of 13.7% for 1993.

The Company has requested the application of the 1993 overearnings for 1993 to the unrecovered switching and circuit investments subject to retirement in connection with a 1996 planned switch upgrade. We believe that this is the appropriate disposition of the 1993 overearnings. Therefore, we find that \$72,252 of excess earnings consisting of \$71,115 in intrastate revenue plus \$1,137 of interest accrued through December 31, 1993 shall be used to write off the unrecovered investment of the Stromberg-Carlson DCO Processor and associated equipment. The \$72,252 (\$144,504 total company) write off shall be recorded in 1994 and will be treated as a reduction to rate base.

Based on the foregoing, it is therefore

ORDERED by the Florida Public Service Commission that Indiantown's proposal to upgrade its current DCO processor to the Vision ONE platform is reasonable and is therefore approved. It is further

ORDERED that the request of Indiantown Telephone System, Inc. for a two year capital recovery schedule addressing the unrecovered switching and circuit investments subject to retirement in connection with the planned switch upgrade is approved. It is further

ORDERED that Indiantown Telephone System, Inc. earned \$71,115 in excess of its maximum authorized ROE of 13.7% for 1993. It is further

ORDERED that \$72,252 of excess earnings, consisting of \$71,115 in intrastate revenue plus \$1,137 of interest accrued through December 31, 1993, shall be used to write off the unrecovered investment of the Stromberg-Carlson DCO Processor and associated equipment. It is further

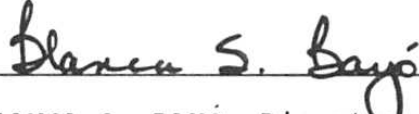
ORDERED that, after applying 1993 overearnings, the residual amount of unrecovered total company investment shall be amortized beginning January 1, 1994, through December 31, 1995. It is further

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ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective unless an appropriate petition, in the form provided by Rule 25-22.036, Florida Administrative Code, is received by the Director, Division of Records and Reporting, 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on the date set forth in the "Notice of Further Proceedings or Judicial Review" attached hereto. It is further

ORDERED that in the event this Order becomes final, this Docket should be closed.

By ORDER of the Florida Public Service Commission, this 29th day of March, 1995.



BLANCA S. BAYÓ, Director
Division of Records and Reporting

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting, 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on April 19, 1995.

In the absence of such a petition, this order shall become effective on the day subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

If this order becomes final and effective on the date described above, any party substantially affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days of the effective date of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.