**FLORIDA PUBLIC SERVICE COMMISSION**

 **Fletcher Building**

 **101 East Gaines Street**

 **Tallahassee, Florida 32399‑0850**

 **M E M O R A N D U M**

 **December 3, 1992**

**TO : DIRECTOR OF RECORDS AND REPORTING**

**FROM : DIVISION OF AUDITING AND FINANCIAL ANALYSIS (LEE, MOODY)**

 **DIVISION OF COMMUNICATIONS (SIRIANNI)**

 **DIVISION OF LEGAL SERVICES (KURLIN)**

**RE : DOCKET NO. 920589‑TL ‑ NORTHEAST FLORIDA TELEPHONE CO. ‑ 1992 DEPRECIATION STUDY**

**AGENDA: DECEMBER 15, 1992 - CONTROVERSIAL - PROPOSED AGENCY ACTION - PARTIES MAY PARTICIPATE**

**CRITICAL DATES:I:\PSC\AFA\WP\920589.RCM**

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 **DISCUSSION OF ISSUES**

**ISSUE 1:** Should currently prescribed depreciation rates be revised?

**RECOMMENDATION:** Yes. A review of the plans and activity for Northeast Florida Telephone Company (Northeast or Company) indicates that there is a need of revising depreciation rates. (LEE)

**STAFF ANALYSIS:** This is the regular triennual depreciation review for this Company, filed in accord with Commission rules. Current expectations of technological impacts are addressed as a part of this review.

DOCKET NO. 920589‑TL

DECEMBER 3, 1992

**ISSUE 2:** What should be the implementation date for new depreciation rates and capital recovery schedule?

**RECOMMENDATION:** January 1, 1992. (LEE)

**STAFF ANALYSIS:** All data and calculations are supportive of a January 1, 1992 implementation, which is the Company‑proposed date. Staff recommends acceptance of this date.

 ‑ 2 ‑

DOCKET NO. 920589‑TL

DECEMBER 3, 1992

**ISSUE 3:** What reserve reallocations, if any, should be made?

**RECOMMENDATION:** Staff‑recommended reserve allocations are shown on Attachment A, page 8. (LEE)

**STAFF ANALYSIS:** The recommended reserve allocations are basically moving dollars from subaccounts which have been over‑accrued in the past to those which are now seen as being in need of additional reserve. This is primarily a matter of differences in current and past projections, or past projections not matching actual activity.

 The recommended reserve transfers impact no accounts which involve arrangements with other affiliated or non affiliated companies.

 ‑ 3 ‑

DOCKET NO. 920589‑TL

DECEMBER 3, 1992

**ISSUE 4:** What are the appropriate lives, net salvages, reserves and resultant depreciation rates?

**RECOMMENDATION:** The Staff recommended depreciation rates and components are shown on Attachment B, pages 9 and 10. The Staff recommendation will result in an estimated increase in annual depreciation expenses of about $91,000 based on January 1, 1992 plant‑in service, as shown on Attachment D, page 13. (LEE)

**STAFF ANALYSIS:** Staff recommendations are the result of a comprehensive review of the Company's depreciation study. Attachment B presents a comparison of the Company proposal and Staff‑recommended rate parameters (life, salvage, reserve). Company and Staff are in agreement for a majority of accounts. A brief discussion of salient matters is set forth below.

**Motor Vehicles** ‑ Company and Staff are in agreement on life and salvage parameters. Staff proposed, and the Company agreed, on transferring surplus reserve from the Heavy Truck sub‑account to the prospectively short‑lived Light Truck sub‑account.

**Digital Switching** ‑ The difference in Company and Staff, to a large extent, is due to Staff's inclusion of the effect of the expected 1992 growth in the account.

**Circuit Equipment** ‑ The Staff recommendations take into account information received from the Company subsequent to the filing of the study. This information includes the estimate that about 40% of the circuit equipment is not SONET compatible, and that all the optic equipment is asynchronous.

**Aerial Cable, Metallic** ‑ The Staff recommendation takes into account information from the Company regarding near‑term retirement projects. The recommendation provides for a recovery schedule for the 1992‑94 retirements, with a depreciation rate for the continuing assets. For the assets using a depreciation rate, the implied date of final retirement of embedded aerial metal cable is about 2017.

**Underground Cable, Metallic** ‑ The Company and Staff are in agreement. The implied phase‑out date for the embedded assets is about 2012.

 ‑ 4 –

DOCKET NO. 920589‑TL

DECEMBER 3, 1992

**Buried Cable, Metallic, Filled** ‑ The Company and Staff are in agreement on life and salvage components. Implied phase‑out date for the embedded assets is about 2017. The recommended reserve reallocation from Non‑filled (discussed below) can be considered something of a hedge against potential near‑term retirements being projected for the Filled subaccount.

**Buried Cable, Metallic, Non‑Filled** ‑ The Company and Staff are in agreement on life and salvage components. This is a type of asset which, due to maintenance and service problems, is being replaced ‑ for this Company, over 80% of the sub‑account is being projected for retirement in the next five years. However, due to past projections not being met, there is currently a reserve surplus (reserve has reached 100%), resulting in the recommended reallocation between Non‑filled and Filled, with $83,000 of surplus being shifted from the former to the latter.

 ‑ 5 ‑

DOCKET NO. 920589‑TL

DECEMBER 3, 1992

**ISSUE 5:** What are the appropriate capital recovery schedules?

**RECOMMENDATION:** The recommended capital recovery schedule is shown on Attachment E, page 14. (LEE)

**STAFF ANALYSIS:** The only recommended recovery schedule relates to the aerial metallic cable projected for retirement in the 1992‑1994 period. This is the only situation where the Company is projecting retirements of a substantial portion of a relatively large and volatile account. The recommended recovery schedule is designed to provide recovery over the remaining period that the assets will be serving the public. The monthly expenses for this schedule should be obtained each month by dividing the net plant remaining to be recovered by the number of months the assets are expected to remain in service. This allows for any interim activity as well as changes in plans, so that full recovery and no more will be achieved.

 ‑ 6 ‑

DOCKET NO. 920589‑TL

DECEMBER 3, 1992

**ISSUE 6:** Should this docket be closed?

**RECOMMENDATION:** Yes, assuming no timely objections to the Proposed Agency Action Order are filed within 21 days of that Order. (LEE)

**STAFF ANALYSIS:** In Staff's opinion, no further action in this docket is required if no timely objections to the PAA Order are filed.

 ‑ 7 ‑

**ATTACHMENT A**

 **NORTHEAST FLORIDA TELEPHONE CO.**

 **DEPRECIATION STUDY 1‑1‑92**

 **(Staff‑recommended reserve reallocations)**

 **(As of 1‑1‑92)**

 **BOOK REALLOCATED**

**ACCOUNT RESERVE TRANSFER <‑ RESERVE ‑>**

 $ $ $ %

Motor Veh.s

 Lt. Trucks 64,968 9,449 74,417 62.2

 Hvy.Trucks 43,987 (9,449) 34,538 71.4

 Total 108,955 0 108,955

Aer Ca., Met. 297,370 (297,370) 0

 Depr. rate 0 197,312 197,312 67.0

 Rec.Sched 0 100,058 100,058 101.6

 Total 297,370 0 297,370

Bur.Ca.Non‑Fill 757,106 (83,000) 674,106 90.8

 Filled 1,780,038 83,000 1,863,038 31.0

 Total 2,537,144 0 2,537,144

 ‑ 8 ‑

 **NORTHEAST FLORIDA TELEPHONE CO.**

 **DEPRECIATION STUDY 1‑1‑92**

 **(Rates and Components)**

 **<‑ CURRENT ‑> <‑ ‑ ‑ CO. PROPOSED ‑ ‑ ‑> <‑ ‑ ‑ ‑ ‑ STAFF ‑ ‑ ‑ ->**

 **REM. NET DEPR. WHOLE REM. NET DEPR. WHOLE REM. NET DEPR**

**ACCOUNT LIFE SALV. RATE LIFE LIFE SALV. RESV. RATE LIFE LIFE SALV. RESV. RATE**

 **yr.s % % yr.s yr.s % % % yr.s yr.s % % %**

(General Support Assets)

2112 Motor Vehicles

 Passenger 4.2 20 11.6 8.2 3.9 15 51.1 8.7 8.2 3.9 15 51.1 8.7

 Lt. Tks. 4.2 30 12.8 6.2 2.2 20 62.2\* 8.1 6.2 2.2 20 62.2\* 8.1

 Hvy. Tks. 3.5 10 7.8 17.0 3.5 10 71.4\* 5.3 17.0 3.5 10 71.4\* 5.3

 Tract&Trail. 6.6 30 5.3 10.3 6.5 20 31.6 7.4 10.3 6.5 20 31.6 7.4

2116 Other Wk. Eq. <‑‑‑‑‑‑‑‑‑‑‑‑‑‑‑‑‑‑ SEVEN YEAR AMORTIZATION ‑‑‑‑‑‑‑‑‑‑‑‑‑‑‑‑‑‑‑>

2121 Buildings

 Cent.Ofc. 32 0 2.6 40 33 0 23.8 2.3 40 33 0 23.8 2.3

 Plant 32 0 2.4 36 31 0 10.7 2.9 36 31 0 10.7 2.9

2122 Furniture <‑‑‑‑‑‑‑‑‑‑‑‑‑‑‑‑‑‑ TEN YEAR AMORTIZATION ‑‑‑‑‑‑‑‑‑‑‑‑‑‑‑‑‑‑‑>

2123 Ofc.Support Eq. <‑‑‑‑‑‑‑‑‑‑‑‑‑‑‑‑‑‑ SEVEN YEAR AMORTIZATION ‑‑‑‑‑‑‑‑‑‑‑‑‑‑‑‑‑‑‑>

 Co. Comm. Eq. <‑‑‑‑‑‑‑‑‑‑‑‑‑‑‑‑‑‑ FIVE YEAR AMORTIZATION ‑‑‑‑‑‑‑‑‑‑‑‑‑‑‑‑‑‑‑>

2124 Computer Eq. <‑‑‑‑‑‑‑‑‑‑‑‑‑‑‑‑‑‑ FIVE YEAR AMORTIZATION ‑‑‑‑‑‑‑‑‑‑‑‑‑‑‑‑‑‑‑>

(Central Office Assets)

2212 Dig. Sw. 13.4 6 5.5 16.7 12.6 0 28.9 5.6 NA 13.2 0 23.5E 5.8

2232 Cct Eqp. 8.8 7 3.9 14.3 8.9 7 51.0 4.7 NA 6.4 3 51.0 7.2

 Optic 10.0# 0 10.0# 10.0 ‑ 0 NA 10.0# 8.0 ‑ 3 NA 12.1#

 # Whole Life Rate \* Reallocated reserve

 **NORTHEAST FLORIDA TELEPHONE CO.**

 **DEPRECIATION STUDY 1‑1‑92**

 **(Rates and Components)**

 **<‑ CURRENT ‑> <‑ ‑ ‑ CO. PROPOSED ‑ ‑ ‑> <‑ ‑ ‑ ‑ ‑ STAFF ‑ ‑ ‑ ‑>**

 **REM. NET DEPR. WHOLE REM. NET DEPR. WHOLE REM. NET DEPR**

**ACCOUNT LIFE SALV. RATE LIFE LIFE SALV. RESV. RATE LIFE LIFE SALV. RESV. RATE**

 **yr.s % % yr.s yr.s % % % yr.s yr.s % % %**

2351 Public Tel. 5.8 0 10.9 9.0 4.5 0 54.4 10.1 9.0 4.5 0 54.4 10.1

2362 Term. Eq. 5.0 2 8.7 10.8 5.0 2 26.0 14.4 ‑ 5.0 2 26.0 14.4

(Outside Plant)

2411 Pole Lines 15.0 (60) 6.7 24 12.4 (80) 68.9 9.0 24 12.4 (80) 68.9 9.0

2421 Aer. Cable

 Metal

 92‑94 rets. 15.8 (20) 4.9 21 10.0 (40) 75.7 6.4 Three Year Recovery Schedule

 Remaining 15.8 (20) 4.9 21 10.0 (40) 75.7 6.4 21 9.3 (20) 67.0\* 5.7

 Fiber 20# (5) 5.3# 20 ‑ (5) NA 5.3# 20 ‑ (5) NA 5.3#

2422 U.G. Cable

 Metallic 18.4 (10) 4.7 21 12.8 (10) 43.1 5.2 21 12.8 (10) 43.1 5.2

 Fiber 20# (5) 5.3# 20 ‑ (5) NA 5.3# 20 ‑ (5) NA 5.3#

2423 Bur. Cable

 Met.Filled 19.9 (7) 4.0 20 14.0 (7) 31.0\* 5.4 20 14.0 (7) 31.0\* 5.4

 " NonFill. 5.9 (7) 8.8 20 3.0 (7) 90.8\* 5.4 ‑ 3.0 (7) 90.8\* 5.4

 Fiber 20# (5) 5.3# 20 ‑ (5) NA 5.3# 20 ‑ (5) NA 5.3#

2441 Conduit 45 (5) 2.1 50 42 (5) 18.2 2.1 50 42 (5) 18.2 2.1

 # Whole Life Rate \* Reallocated reserve

 **NORTHEAST FLORIDA TELEPHONE CO.**

 **DEPRECIATION STUDY 1‑1‑92**

 **(Comparison of Estimated Annual Expense)**

 **($000)**

**SUPPORT ASSET AMORTIZATION (PER RULE 25‑4.0178)**

 **1‑1‑92 CURRENT CHANGE IN**

**ACCOUNT INVEST. EXPENSE EXPENSE**

 **$ $**   **$**

2116 Other Wk. Eqp. 60,800 5,700 <‑‑ SEVEN YEAR AMORTIZATION ‑‑> 0

2122 Furniture 35,700 2,440 <‑‑ TEN YEAR AMORTIZATION ‑‑> 0

2123 Ofc. Support Eq. 102,100 13,000 <‑‑ SEVEN YEAR AMORTIZATION ‑‑> 0

 Company Commun. 58,100 21,500 <‑‑ FIVE YEAR AMORTIZATION ‑‑> 0

2124 G.P. Computers 457,100 91,700 <‑‑ FIVE YEAR AMORTIZATION ‑‑> 0

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 Totals 713,800 134,340 0

 **NORTHEAST FLORIDA TELEPHONE CO.**

 **DEPRECIATION STUDY 1‑1‑92**

 **(Comparison of Estimated Annual Expense)**

 **($000)**

 **<‑ ‑ CO.PROPOSED ‑ ‑> < STAFF RECOMMENDED >**

 **<‑ CURRENT ‑> CHANGE CHANGE**

 **1‑1‑92 DEPR. ANNUAL DEPR. ANNUAL IN DEPR. ANNUAL IN**

**ACCOUNT INVEST. RATE EXPENSE RATE EXPENSE EXPENSE RATE EXPENSE EXPENSE**

 **$ % $ % $ $ % $ $**

(General Support Assets)

2112 Motor Veh.s

 Passenger 87,165 11.6 10,111 8.7 7,583 (2,528) 8.7 7,583 (2,528)

 Lt. Tks. 119,667 12.8 15,317 8.1 9,693 (5,624) 8.1 9,693 (5,624)

 Hvy. Tks. 48,339 7.8 3,770 5.3 2,563 (1,207) 5.3 2,563 (1,207)

 Tract&Trail. 149,622 5.3 7,930 7.4 11,072 3,142 7.4 11,072 3,142

2121 Buildings

 Cent.Ofc. 710,602 2.6 18,476 2.3 16,344 (2,132) 2.3 16,344 (2,132)

 Plant 223,596 2.4 5,366 2.9 6,484 1,118 2.9 6,484 1,118

(Central Office Assets)

2212 Dig. Sw. 1,995,019 5.5 109,726 5.6 111,721 1,995 5.8 115,711 5,985

2232 Circuit Equip.

 Existing 744,331 3.9 29,029 4.7 34,984 5,955 7.2 53,592 24,563

 Optic 24,373 10.0 2,437 10.0 2,437 0 12.1 2,949 512

(Info Orig/Term Assets)

2351 Public Tel. 84,964 10.9 9,261 10.1 8,581 (680) 10.1 8,581 (680)

2362 Other Term. 1,314 8.7 114 14.4 189 75 14.4 189 75

 **NORTHEAST FLORIDA TELEPHONE CO.**

 **DEPRECIATION STUDY 1‑1‑92**

 **(Comparison of Estimated Annual Expense)**

 **($000)**

 **<‑ ‑ CO.PROPOSED ‑ ‑> < STAFF RECOMMENDED >**

 **<‑ CURRENT ‑> CHANGE CHANGE**

 **1‑1‑92 DEPR. ANNUAL DEPR. ANNUAL IN DEPR. ANNUAL IN**

**ACCOUNT INVEST. RATE EXPENSE RATE EXPENSE EXPENSE RATE EXPENSE EXPENSE**

 **$ % $ % $ $ % $ $**

(Outside Plant Assets)

2411 Poles 177,254 6.7 11,876 9.0 15,953 4,077 9.0 15,953 4,077

2421 Aer. Cable

 Metallic

 92‑92 Rets 98,500 4.9 4,827 6.4 6,304 1,477 3yr.Rec 6,047 1,220

 Remaining 294,540 4.9 14,432 6.4 18,851 4,419 5.7 16,789 2,357

 Fiber 0 5.3 0 5.3 0 0 5.3 0 0

2422 U.G. Cable

 Metallic 181,381 4.7 8,525 5.2 9,432 907 5.2 9,432 907

 Fiber 0 5.3 0 5.3 0 0 5.3 0 0

2423 Bur. Cable

 Met.Filled 6,015,730 4.0 240,629 5.4 324,849 84,220 5.4 324,849 84,220

 NonFill. 742,355 8.8 65,327 5.4 40,087 (25,240) 5.4 40,087 (25,240)

 Fiber 133,866 5.3 7,095 5.3 7,095 0 5.3 7,095 0

2441 Conduit 168,729 2.1 3,543 2.1 3,543 0 2.1 3,543 0

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 Summary: 12,001,347

Rates and

 Recovery Schedules 567,791 637,765 69,974 658,556 90,765

 Rules Amortizations 134,340 134,340 0 134,340 0

 Expense Totals: Current= $702,131 Company= 772,105 Recomm.= $792,896

 **NORTHEAST FLORIDA TELEPHONE CO.**

 **DEPRECIATION STUDY 1‑1‑92**

 **(Capital Recovery Schedule)**

 **<‑‑‑ 1‑1‑92 ‑‑‑> ESTD. TO BE <‑ ‑ EXPENSE ‑ ‑>**

**ACCOUNT INVEST. RESERVE NET SALV. RECOVERED PERIOD 1992 93 94**

 **$ $ $ $ Yr.s $ $ $**

2421 Aerial Cable 98,500 100,058# (19,700) 18,142 3 6,047 6,047 6,048

 (1992‑94 retirements)

 # Reflects Staff‑recommended reserve reallocation

 (See Attachment 1, page 8)