**FLORIDA PUBLIC SERVICE COMMISSION**

 **Fletcher Building**

 **101 East Gaines Street**

 **Tallahassee, Florida 32399-0850**

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

 **August 26, 1993**

**TO : DIRECTOR, DIVISION OF RECORDS AND REPORTING**

**FROM : DIVISION OF AUDITING AND FINANCIAL ANALYSIS (MEEKS, HICKS, JOHE)**

 **DIVISION OF COMMUNICATIONS (WIDELL)**

 **DIVISION OF LEGAL SERVICES (KURLIN)**

**RE : DOCKET NO. 921270-TL, ST. JOSEPH TELEPHONE AND TELEGRAPH COMPANY, 1993 DEPRECIATION STUDY**

**AGENDA : 09/07/93 - REGULAR AGENDA**

 **PROPOSED AGENCY ACTION - PARTIES MAY PARTICIPATE**

**CRITICAL DATES: NONE**

**SPECIAL INSTRUCTIONS: I:\PSC\AFA\WP\921270.RCM**

 **R:STJOE1.WK3 AND STJOERS.WK3**

 **DISCUSSION OF ISSUES**

**ISSUE :** Should currently prescribed depreciation rates and capital recovery schedules be revised?

**RECOMMENDATION:** Yes. A review of St. Joseph Telephone and Telegraph Company's (St. Joe or Company) plans and activity indicate that there is a need for revision of current rates and capital recovery schedules.

**STAFF ANALYSIS:** The depreciation rates and recovery schedules currently in use by this Company were ordered effective January 1, 1990. Since the last study, impacts of technological developments and changes in the network require adjustments in the capital recovery patterns. Company plans call for upgrading the processor portion of its toll switch at Port St. Joe and replacement of the digital switch at Blountstown. Further plans are to replace all microwave radio with fiber routes by the end of 1993.

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

**RECOMMENDATION:** The Company has requested, and Staff recommends, implementation as of January 1, 1993. (MEEKS)

**STAFF ANALYSIS:** Company data and related calculations abut the January 1, 1993 date. This is the recommended date of implementation, being the earliest practicable date for utilizing the revised rates.

**ISSUE 3:** Are the Company's planned switching retirements for 1993-1995 reasonable?

**RECOMMENDATION:** Yes. The Company plans for the 1993-1995 period are reasonable and it is recommended that the plans be approved for depreciation purposes. (WIDELL)

**STAFF ANALYSIS:** Only two major equipment replacements are proposed for the 1993-1995 period.

 At Port St. Joe the Northern Telecom DMS-100/200 central processor is proposed to be replaced with the vendor's Super Node processor and software in 1993. This undertaking is in progress now and will be completed by December 31, 1993. The switch capacity with the present processor is approaching exhaust and the new processor will increase both the capacity and the capabilities of the Access Tandem Switch. The DMS-100/200 is currently serving all the local access lines in the Port St. Joe exchange as well as providing 1+ and 0+ toll recording, Equal Access, Access to Interexchange carriers, Access to Operator Services and 800 database services for all thirteen company exchanges.

 Staff believes that the additional capacity and features of the Super Node processor are required so that the Company can continue to provide services in an efficient and economical manner. The Super Node processor and software is the present standard technology for all Northern Telecom DMS switches.

 The Company also plans to replace the NEC NEAX-61 switch at Blountstown in 1995. The NEAX-61 switch does not have vendor support for the provision of SS7 type services and other expected future demands. With this replacement, the entire service area will be served by Northern Telecom digital switches. Staff believes that there are advantages of having only one switch vendor such as maintenance standards, employee training and efficiency. The proposed DMS-100 switch can be efficiently utilized in the St. Joseph Company's network serving as a Host office for present and future remote switches and subscriber line carrier.

 Based on the above, staff recommends that the 1993-1995 switch replacement plans should be approved for depreciation purposes.

**ISSUE 4:** What reserve transfers between accounts, if any, should be made?

**RECOMMENDATION:** Staff recommends that the corrective reserve measures as shown on Attachment A, pages 21-22, be made. This action will bring the reserve positions for Circuit-Analog and Radio Systems-Microwave more in line with their theoretically correct levels and will reallocate the residual reserve amounts associated with completed recovery schedules approved during the last represcription. (MEEKS)

**STAFF ANALYSIS:** As of January 1, 1993, the Circuit-Analog account has an apparent reserve surplus of $70,316 while the Radio Systems-Microwave account has a deficit of about $54,452. Staff recommends a transfer of the surplus to offset the deficit, with the remaining $15,864 to be transferred to the recovery schedule for the digital central processing unit as discussed in Issue 5. Further, there are residual reserve amounts associated with the recovery schedules for Circuit-Digital Carrier and Microwave Radio (retiring in 1992) that were prescribed as part of the last depreciation review. Staff recommends that these amounts also be transferred to offset the unrecovered investment for the retiring central processing unit.

 During the course of this current depreciation study, the Company discovered that the past classification of Drop and Block Cable to Aerial and Buried Cable was based on the physical characteristics of the drop itself rather than on the type of cable from which it was fed. As a result, there was a disproportionate amount of Aerial Drop and Block investment relative to the amount of cable investment, compared to the same relationship in the Buried Cable classification. The Company has proposed a reallocation of the Drop and Block Cable investment and associated reserve between the Aerial and Buried Cable classifications. This reallocation is shown on Attachment A, page 22. Staff agrees with the Company's proposal to correct this allocation and recommends the booking of these adjustments.

 St. Joe doesn't have any lease agreements with an affiliate or non affiliate that affects these accounts. However, in light of the possible impact of reserve transfers on cost allocations and jurisdictional separations, the Company should make corresponding entries to the related depreciation expense accounts.

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

**RECOMMENDATION:** Staff recommended recovery schedules are shown on Attachment B, page 23. These recovery schedules are designed to recover the net investments related with certain switching equipment planned for retirement during 1993-1995. The recovery period will be the remaining period the associated equipment will be serving the public. The monthly expense for these schedules should be obtained by dividing the net plant for the month by the number of months remaining in the recovery period. All activity relating to these schedules should be booked to these schedules and not to another depreciation category or account. (MEEKS)

**STAFF ANALYSIS:** The Company has proposed two recovery schedules: Digital Switching-Central Processing Unit and Digital Switching-Blountstown Switch. These two schedules reflect the most current Company plans regarding the near-term retirement of its switching equipment as discussed in Issue 3. The Central Processing Unit (CPU) is located in the Port St. Joe central office and provides toll switching including Equal Access and 800 database service as well as local switching. The processor is at memory capacity due to increased demands and is planned for replacement in 1993. The Blountstown NEAX-61 switch was installed in 1982 and lacks vendor support for provision of SS7 type service and other expected future demands. Current Company plans are to replace this switch in 1995.

 The Company's remaining Radio Systems-Microwave investment is associated with interoffice links which will be replaced by the third quarter of 1993 with fiber facilities. With this replacement in mind, the Company has proposed to transfer $55,647 reserve surplus from Circuit-Analog which will provide for full recovery of this account's investment by the time of retirement.

 Accordingly, recovery schedules are recommended for the net switching investments. Initially the Company requested a three year recovery schedule for the central processing unit. However, during the course of this review, the Company has agreed with Staff that a one year recovery schedule is more appropriate since it matches the recovery to the remaining service life. The recommended recovery pattern of each schedule is designed to recover the unrecovered amounts over the remaining period each switch will be serving the public, i.e., 1993 planned retirements recovered during 1993, 1994 retirements recovered during 1993 and 1994, and 1995 retirements recovered during 1993, 1994 and 1995. The monthly expense for these schedules should be obtained by dividing the net plant for the month by the number of months remaining in the recovery period. All activity relating to these schedules should be booked to these schedules and not to another depreciation category or account.

**ISSUE 6:** What are the appropriate lives, net salvages, reserves and resultant depreciation rates for each account?

**RECOMMENDATION:** The Staff recommended lives, net salvages, reserves and resultant depreciation rates are shown on Attachment C, pages 24-25. This results in an increase of annual depreciation expense of approximately $315,000 based on January 1, 1993 investments as shown on Attachment D, pages 26-28. (MEEKS)

**STAFF ANALYSIS:** Staff's recommendations are the result of a comprehensive review of the Company's depreciation study. Attachment C shows a comparison of the currently approved, Company revised proposed, and Staff recommended rate parameters (lives, salvages, and reserves). Attachment D shows a comparison of resultant expenses based on January 1, 1993 investments.

 In the course of reviewing and analyzing this study, the Company has agreed with Staff on life and salvage parameters for all accounts. A brief discussion by account is shown below.

 Amortizations

 Certain general support asset account investments are being amortized under Rule 25-4.0178, Florida Administrative Code. The embedded investments for each of these equipment types are shown on page 24, as well as the associated amortization period as set forth in the Rule and the estimated 1993 expense.

 Depreciation Rates

A. GENERAL SUPPORT ASSETS:

 1. Motor Vehicles - The Company proposed life and salvage factors for the motor vehicle accounts are reasonable and are in line with current industry projections.

 2. Buildings - The Company developed lives for the building categories using the Shell-Short Lived approach. Service life estimates were developed for each current building by considering the structure type and the life expectancy of the shell as well as recognizing that service components such as electrical, plumbing, heating, air conditioning, and interior partitions and finish work generally have a shorter service life. This approach recognizes that not all investment will survive until the shell is retired. Staff finds this mechanism appropriate and finds the Company proposals reasonable and acceptable.

B. CENTRAL OFFICE ASSETS:

 1. Digital Switching - The expected life of upgradeable switchers remains problematic. St. Joe will be 100% digital by year end 1993 and these digital switches are flexible and, at this point in time, are considered to be upgradeable to future generation switchers by changeouts of components. A blending of projections of upgrade retirements as projected by various sources comports with the Company's proposed remaining life of 12.7 years for Exchange and 12.8 years for Toll. The proposed salvage factors are also reasonable and acceptable to Staff.

 2. Operator Systems - This account has been relatively stable and the Company has no immediate plans to retire this equipment. The Company has updated the account for the current age and proposes to maintain the life and salvage parameters that underlie the current represcription. This results in an average remaining life of 3.8 years. This is acceptable to Staff.

 3. Radio Systems

 A. Microwave - As discussed in Issue 5, the Company anticipates that this investment will be replaced by the third quarter of 1993 with fiber and full recovery will be provided by the recommended transfer of $55,647 surplus reserve from Circuit-Analog. Staff concurs with this proposal.

 B. Marine Mobile - According to the data submitted, this account was 100% recovered as of 12-31-92. Even though the Company anticipates no activity, Staff recommends maintaining the current whole life and salvage parameters for any new additions that may occur.

 4. Circuit Equipment

 A. Subscriber Carrier Pre-1989 - This investment is fully recovered and has a 105% reserve. The Company proposes to maintain this surplus to cover the eventual cost of removal and continue the policy of no further accruals. Staff believes that this is reasonable and accepts this proposal.

 B. Private Line Carrier - The Company proposed 8.5 year average service life, S1 curve and average remaining life of 3.5 years considers that this equipment is subject to change due to service requirements. This is acceptable and in line with industry projections. While we agree with the Company that some reuse will likely occur for near term retirements, we also recognize that the salvage has been steadily declining over the last few years with part of the reason being due to a reducing universe. With this in mind, we recommend the use of a 20% salvage factor instead of the 25% proposed by the Company. The Company has agreed with this recommendation.

 C. Fiber Optic - As lightwave technology continues to advance, improved components will replace or eliminate the existing equipment. The Company's proposal is reflective of this. Therefore, Staff accepts the use of a 9 year average service life with the R3 curve shape which results in an average remaining life of 7.6 years. Indications are that SONET (Synchronous Optical Network) will impact this account but, at this time, the Company is unable to quantify that impact. St. Joe should carefully monitor this account for significant developments.

This account has had a limited amount of retirement and salvage experience with only two retirements of any magnitude in 1990 and 1992 which generated a 64% net salvage. Recognizing that there is a reuse potential in the near term decreasing in the long term as synchronous fiber technology is removed and SONET equipment is deployed, Staff agrees with the Company's proposed 5% salvage factor. This is in line with current industry projections and appears to be reasonable.

 D. Analog - This account primarily represents loop treatment devices used to amplify signalling and/or voice transmission on long physical subscriber lines. It is the Company's contention that this equipment will not be replaced in the very near term. With this in mind, the Company has proposed maintaining the current R3 curve and using an 11.8 year average service life which produces an average remaining life of 3.4 years. Staff finds the Company's proposed service life and salvage parameters to be reasonable and acceptable.

 E. Digital - The Company chose to analyze this investment as two separate categories and then composite the results to obtain an average service life and average remaining life for the total account. Line concentration equipment, representing about 47% of the account investment, is expected to experience a different retirement pattern from the other investment which is represented by the copper span lines and channel banks. Further, St. Joe contends that the line concentration equipment remains in service somewhat longer than the rest of the equipment in this account. Recognition of retirements resulting from advances in digital technology including the implementation of SONET Standards is reflected in the Company's proposal. The analysis by St. Joe used the R3 curve and a 12.8 year average service life which produced a 6.4 year average remaining life. Staff recommends acceptance of the Company proposal.

Net salvage has been declining over the last few years, ranging from 89% in 1989 to 17% in 1992. This reduction in salvage is expected to continue as the need for the span lines and channel bank equipment decreases. Therefore, Staff recommends the Company's proposed salvage factor of 10% which is reasonable.

 F. Subscriber Carrier Added After 1989 - This category was established in the last depreciation review and was prescribed a whole life rate based on a 7 year average service life and 10% salvage factor. With only three years of activity and an average age of about 1.5 years, Staff recommends that the whole life rate and its associated parameters be retained at this time. The Company has agreed with the Staff recommendation.

C. INFORMATION ORIGINATION/TERMINATION ASSETS:

 1. Paystation Equipment - As in the last two depreciation reviews, this category combines Coin, Coinless and Booths for study analysis with a composited depreciation rate. The Company proposal is to maintain the current life parameters which produce a 2.9 year average remaining life and the current salvage factor of zero. This account has been relatively stable considering that there is competition for this type of service. The activity for the 1990 - 1992 time period shows a growth rate of around 1% and a retirement rate of less than one-half of a percent. Based on this, Staff recommends acceptance of the Company's proposal.

 2. Hearing Impaired Equipment - The Company has proposed to maintain the same average service life and salvage parameters for this account that currently underlie the prescribed whole life rate. The only activity in this account since it was established in 1988 has been an addition in 1990 bringing the total investment to $3,467. With an average age of 4.1 years, Staff recommends a remaining life rate based on the S1-8 year life table which results in an average remaining life of 4.6 years. The Company is in agreement with Staff on this life proposal.

 Staff recommends the Company's proposal to retain the current salvage factor of zero which is reasonable for this account.

D. CABLE AND WIRE ASSETS:

 1. Metallic Cables-General - The metallic cable accounts are being impacted by fiber cable. Current industry projections are for a general phase-out of interoffice metallic facilities by about 2000; feeder cable between 2005-2012; distribution facilities a few years later. The Staff proposals recognize these projections taken with the premise that the impact on the smaller companies will generally lag that experienced by the larger companies which serve the metropolitan areas.

 The Company proposals distinguished between filled and non-filled aerial and underground metallic cables and proposed separate depreciation rates for each sub-account. The remaining life for the non-filled cables was developed based on a replacement program to completely retire all non-filled cable by year end 1998. While the industry has experienced maintenance problems with non-filled buried cable, the non-filled type cable is generally not recognized as a maintenance problem in aerial and underground facilities. At this time, St. Joe has no firm plans for the removal of these cables; however, should this change in the immediate future, steps should be taken to provide recovery any net unrecovered investments. St. Joe should carefully monitor these accounts for significant developments.

 A. Aerial Cable - The Company's proposed 10.4 year remaining life based on an S0-13 year life table infers a phase-out date of about 2015 is acceptable. Retention of the (30)% salvage factor is reasonable and in line with current industry projections.

 B. Underground Cable - Underground cable is primarily used as interoffice and feeder. Our recommendation of a 10.2 year remaining life is based on using an R2-16 year life table with an average age of 6.9 years. The inferred phase-out date is 2013 which is more in line with industry expectations than a 2017 phase-out date inferred from the Company's proposal. The Company has agreed with the Staff recommendation.

 C. Buried Cable-Filled - Filled buried cable is generally distribution cable. With this in mind, Staff recommends retaining the current curve shape of R2 with a 17 year service life. This produces an average remaining life of 11.6 years and an implied phase-out date of 2015. The Company has agreed with the Staff's recommendation. The Company's proposed salvage factor of (6%), based on the most recent activity, is reasonable and recommended by Staff.

 D. Buried Cable-Non-Filled - A phase-out program has been underway for the last few years due to various maintenance problems encountered in this type of equipment and the Company's proposal is reflective of this. The Company proposal, which is based on the R1 curve and a 16.1 year average service life, produces a 3.0 year remaining life and an inferred phase-out date of about 2005. Staff finds this to be reasonable; however, the Company should carefully monitor this account for significant developments. When plans become firm for the removal of this cable, St. Joe should readdress this account.

 E. Submarine Cable-Metallic - According to the submitted data, this account is fully recovered and no further accruals are proposed. The Company proposes for any new additions to use a whole life rate based on a 20 year average service life and zero salvage. Staff finds this to be acceptable.

 2. Fiber Cable (Aerial, Underground, Buried, Submarine) - The recommended lives for these accounts reflect each account's updated age and accounting activity since the last review, as well as a move to remaining life methodology for Underground and Buried Fiber Cables. Retention of the current whole life rate parameters for Aerial and Submarine Cable are proposed. In Staff's opinion, these lives are reasonable and acceptable. The only proposed change in salvage is for the Aerial Fiber Cable account from a negative 5% to a negative 15% which gives recognition of rising labor costs involved with removing this type of plant. This is acceptable to Staff and is in line with current industry projections.

 3. Poles, Conduit - Staff believes the Company proposed life and salvage parameters for these accounts are reasonable and acceptable. Generally, the changes in remaining lives reflect each account's updated age and accounting activity since the last review.

**ISSUE 7:** Should the current amortization of investment tax credits (ITCs) and the flowback of excess deferred income taxes be revised to reflect the approved depreciation rates and recovery schedules?

**RECOMMENDATION:** Yes. The current amortization of ITCs and the flowback of excess deferred income taxes should be revised to reflect the approved depreciation rates and recovery schedules. Also, the utility should be required to file detailed calculations of the revised ITC amortization and flowback of excess deferred taxes at the same time it files its September 1993 surveillance report. (HICKS)

**STAFF ANALYSIS:** In issues previously addressed, Staff recommends revisions to St. Joe's depreciation rates and capital recovery schedules, to be effective January 1, 1993. Revising a utility's depreciation rates usually results in a change in its rate of ITC amortization and flowback of excess deferred income taxes.

 Section 46(f)(6) of the Internal Revenue Code (IRC) states that the amortization of ITCs should be determined by the period of time used in computing depreciation expense for purposes of reflecting regulated operating results of the utility. Since Staff is recommending a change in depreciation rates, it is also appropriate to change the amortization of ITCs.

 Section 203(e) of the Tax Reform Act of 1986 (TRA) prohibits rapid write-back of protected (depreciation related) deferred taxes. In addition, Rule 25-14.013, Accounting for Deferred Income Taxes under SFAS 109, Florida Administrative Code (F.A.C), prohibits, without good cause shown, excess deferred income taxes associated with temporary differences from being reversed any faster than allowed under Section 203(e). Therefore, both the TRA and Rule 25-14.013, F.A.C., prohibit faster write-off of protected excess deferred taxes. Consequently, Staff believes that the flowback of excess deferred taxes should be altered to comply with the TRA and Rule 25-14.013, F.A.C.

 The Company states that, historically, it has not made any changes with respect to the ITC amortization and the amortization of deferred taxes with depreciation represcriptions. However, the Company will review the amortization after receipt of final approved depreciation rates. Staff has not requested or received calculations showing the effect of the new depreciation rates on ITCs and excess deferred taxes.

 Consequently, Staff recommends that the current amortization of ITCs and the flowback of excess deferred income taxes be revised to reflect the approved depreciation rates and recovery schedules. Also, the utility should be required to file detailed calculations of the revised ITC amortization and flowback of excess deferred taxes at the time it files its September 1993 surveillance report.

**ISSUE 8:** Should St. Joseph Telephone and Telegraph Company be directed to implement the findings disclosed in the Continuing Property Record (CPR) Audit?

**RECOMMENDATION:** Yes. (MEEKS, JOHE)

**STAFF ANALYSIS:** At the same time of the depreciation study review, the Division of Research and Regulatory Review performed an operational review of the Company's Continuing Property Records. This audit found that the Company was in violation of FCC Title 47, Code of Federal Regulations, Part 32 which was adopted by the FPSC under Rule 25-4.017, Florida Administrative Code (F.A.C.). Criteria stated in the rule for property records are that they must be: "1) subject to internal accounting controls, 2) auditable, 3) equal in the aggregate to the total investment reflected in the financial property control accounts as well as the total of the cost allocations supporting the determination of cost-of-service at any particular point in time, and 4) maintained throughout the life of the property."

 The review contained six recommendations. The Company agreed with two. The four for which there was no agreement are discussed below. It is Staff's opinion that these recommendations can be implemented prospectively, with a minimum amount of effort on the Company's part. Staff will work with the Company in this endeavor so that these findings will be implemented within one year of the date of the order in this proceeding. At that time, a follow up audit will be performed to assure implementation. In the event of noncompliance, the Company should be subject to a fine.

 Audit Recommendation No. 1: The Company should develop written CPR and work order procedures which employees can use for guidance and instruction, and to ensure uniformity of record keeping.

 The Staff found that the Continuing Property Records (CPRs) System and the Work Order System have no written procedures to which employees can refer for guidance and instruction, and to ensure uniformity of record keeping. The Company believes that its size, lack of employee turnover and close day-to-day involvement of upper management provides reasonable assurance that all work orders are processed in accordance with management's objectives. However, Staff is of the opinion that written procedures are necessary to assure consistency in the CPR process. Written instructions provide management with the means by which to direct and control functions within their enterprise.

 The American Management Association recommends the adoption of a written procedures manual as a coordination tool. Further, written procedures establish a mechanism for continuity in the event of retirement, sudden death, or termination of key personnel. Without written instructions, the various employees are likely to have different interpretations of how to proceed under similar situations and that can result in confusion. Staff recommends that the Company develop and adopt written CPR and work order procedures.

 Audit Recommendation No. 2: All dollar amounts entered into the CPR records should be identified as to the work order number or other source such as a correcting entry number. Amounts from two or more work orders should not be combined into a single line item unless supporting documentation is sufficient to determine the specific amounts entered in the CPR for each work order. Each page should have a subtotal for each account on that page.

 Staff found that the CPRs as currently maintained are not auditable. The Federal Communications Commission (FCC) and the Florida Public Service Commission (FPSC) require that CPRs be auditable. This is covered by FCC Title 47, Code of Federal Regulations, Part 32 and adopted by the FPSC under Rule 25-4.017, Florida Administrative Code (F.A.C.). In order for this type of record to be auditable, there should be an audit trail document linking the input source documents into the CPRs and to the output printouts.

 The Company contends that the existing system is auditable and sufficient controls exist to insure that transactions are properly recorded. However, during the course of this audit, Staff reviewed 30 completed outside plant work orders with nine having retirements. None of the nine retirements could be traced to the outside plant December 31, 1992 printout. Of the 30 completed outside plant work orders, four were traceable without a problem; two were not traceable at all, and 24, while traceable, reflected different dollar amounts. These differences may have resulted from amounts related to minor items which were spread to various work order numbers without documentation.

 Accordingly, because of the lack of documentation, Staff found it is virtually impossible to find and correct entry errors. Therefore, Staff recommends that the Company identify the entries in such a manner as to provide the Commission required audit trail.

 Audit Recommendation No. 3: The Company should reassess the risks associated with the work order and CPR process and perform internal audits not less than every four years.

 Staff found that neither the Internal Audit Department of St. Joe Paper Company or the auditor of St. Joseph Telephone and Telegraph Company conducts audits of the Company's work order process and Continuing Property Records System. The Company has advised Staff that they do not have an internal auditing staff and do not perform internal audits. The Company believes that the existing procedures provide adequate assurance that the transactions are recorded correctly.

 The Parent/Affiliate is Alfred I. DuPont Testamentary Trust and the St. Joe Paper Company; the Company is their lineal descendent. Staff has noted that St. Joe Paper Company does have an internal auditing staff and additionally the organization chart for St. Joe Telephone and Telegraph Company shows the title of the chief accounting official as "Auditor Accounting". This auditor reporting responsibility is designated on the organization chart by a dotted line directly to the St. Joseph Telephone and Telegraph Company President. Based on this, Staff believes that the Company does have access to internal auditing staff that could be utilized to perform internal CPR audits.

 Normally public utilities perform some internal auditing functions based upon their assessment of the materiality and risks associated with an area of its operation. Staff notes that Centel, United Telephone, GTE of Florida, Inc., and Southern Bell all perform internal audits for each major unit of the CPRs and the work order process on a frequency of at least every three years. Even though these companies are much larger than St. Joe, the relative risk to the Company is the same. Staff recommends that the Company perform internal audits of the work order process and continuing property records not less that every four years.

 Audit Recommendation No. 5: The Continuing Property Records should be sorted by location, account number and work order number. The quantity field should be used to avoid multiple entries of identical items.

 The Staff found that the central office equipment CPRs are incomplete and poorly organized, and causes users to spend excessive time locating entries. Staff had difficulty tracing central office equipment transactions from work orders because the CPRs do not always identify the physical location of equipment. The CPR central office equipment printouts are sorted by exchange and by equipment location. Some 25% of the entries, however, do not identify equipment location and those data fields are left blank. As a result, these entries could not be satisfactorily traced due to lack of information. Further, there was no assurance that a work order entry was not also charged to an incorrect exchange.

 Since the CPRs are not sorted by work order number, the entries associated with the work order being traced could be anywhere in the printout. So a user searching for a specific entry, must review each work order number in an exchange to determine if all amounts related to a particular work order have been found. Therefore, Staff had no assurance that a work order entry being traced was not also charged to an incorrect exchange.

 The Federal Communications Commission (FCC) and the Florida Public Service Commission (FPSC) require that CPRs be auditable. This is covered by FCC Title 47, Code of Federal Regulations, Part 32 and adopted by the FPSC under Rule 25-4.017, Florida Administrative Code (F.A.C.).

**ISSUE 9:** Should this docket be closed?

**RECOMMENDATION:** Yes, assuming no protests are filed to the Proposed Agency Action Order. (MEEKS)

**STAFF ANALYSIS:** In Staff's opinion, no further Commission action is necessary if no protests to the PAA Order are filed.

 ST. JOSEPH TEL. AND TEL. CO.

 1992 DEPRECIATION STUDY

 RECOMMENDED RESERVE ALLOCATIONS

 RECOMMENDED

 BOOK THEORETICAL RESERVE RESTATED

 ACCOUNT RESERVE RESERVE TRANSFERS RESERVE

 ($) ($) ($) ($)

COMPLETED RECOVERY SCHEDULES:

 CIRCUIT 19,024 0 (19,024) 0

 RADIO SYSTEMS (8,486) 0 8,486 0

PROPOSED RECOVERY SCHEDULES:

 DIGITAL SWITCHING‑CPU 96,118 385,947 26,402 122,520

 RADIO SYSTEMS‑MICROWAVE 224,470 278,922 54,452 278,922

 TOTAL 331,126 70,316 401,442

 CIRCUIT‑ANALOG 197,062 126,746 (70,316) 126,746

 TOTAL 197,062 (70,316) 126,746

 GRAND TOTAL 528,188 0 528,188

 ST. JOSEPH TEL. AND TEL. CO.

 1992 DEPRECIATION STUDY

 RECOMMENDED REALLOCATION

 DROP AND BLOCK CABLE INVESTMENT AND RESERVE

 1‑1‑93 REALLOCATION 1‑1‑93

 UNADJUSTED OF DROP ADJUSTED

 ACCOUNT INVESTMENT AND BLOCK INVESTMENT

 ($) ($) ($)

 AERIAL CABLE 3,939,843 (2,430,723) 1,509,120

 BURIED CABLE‑NON‑FILLED 2,716,350 255,858 2,972,208

 BURIED CABLE‑FILLED 18,331,672 2,174,865 20,506,537

 TOTAL 24,987,865 0 24,987,865

 1‑1‑93 REALLOCATION 1‑1‑93

 UNADJUSTED OF DROP ADJUSTED

 RESERVE AND BLOCK RESERVE

 ($) ($) ($)

 AERIAL CABLE 3,099,497 (2,012,463) 1,087,034

 BURIED CABLE‑NON‑FILLED 2,605,550 228,869 2,834,419

 BURIED CABLE‑FILLED 6,054,970 1,783,594 7,838,564

 TOTAL 11,760,017 0 11,760,017

 ST. JOSEPH TEL. AND TEL. CO.

 1992 DEPRECIATION STUDY

 RECOMMENDED RECOVERY SCHEDULES

 1‑1‑93 1‑1‑93 EST. EXPECTED NET TO BE PERIOD OF 1993 1994 1995

 INVESTMENT RESERVE ADDS. SALVAGE RECOVERED RECOVERY EXPENSE EXPENSE EXPENSE

 (000) (000) (000) (000) (000) (Yrs.) (000) (000) (000)

**Digital Switching**

 1993 Retirements

 Central Processing Unit 463,136 122,520 \* 0 0 340,616 1 Yr. 340,616 0 0

 Total 463,136 122,520 0 0 340,616 340,616 0 0

 1995 Retirements

 Blountstown 901,117 311,880 0 0 589,237 3 Yr. 196,413 196,412 196,412

 Total 901,117 311,880 0 0 589,237 196,413 196,412 196,412

**Radio Systems‑Microwave**

 1993 Retirements 278,922 278,922 \* 0 0 0 1 Yr. 0 0 0

 Total 278,922 278,922 0 0 0 0 0 0

 GRAND TOTAL 1,643,175 713,322 0 0 929,853 537,029 196,412 196,412

 \*Denotes restated reserve

The monthly expense for each recovery schedule shall be calculated by dividing the net amount to be

recovered by the months remaining for recovery. This will take care of additions and interim

retirements, as well as actual salvage experienced, and any shifts in retirement dates. All activity relating

to these schedules shall be recorded to these schedules and not to another depreciation category or account.

 ST JOSEPH TEL. AND TEL. CO.

 1992 STUDY

 COMPARISON OF RATES AND COMPONENTS

 CURRENT COMPANY PROPOSAL STAFF RECOMMENDATION

 AVERAGE REMAINING AVERAGE REMAINING AVERAGE REMAINING

ACCOUNT REMAINING NET LIFE REMAINING NET LIFE REMAINING NET LIFE

 LIFE SALVAGE RESERVE RATE LIFE SALVAGE RESERVE RATE LIFE SALVAGE RESERVE RATE

 (YRS.) (%) (%) (%) (YRS.) (%) (%) (%) (YRS.) (%) (%) (%)

**GENERAL SUPPORT ASSETS**

 Motor Vehicles‑Passenger Cars 3.6 14.0 63.36 6.3 2.2 10.0 71.69 8.3 2.2 10.0 71.69 8.3

 Motor Vehicles‑Light Trucks 3.2 10.0 67.36 7.1 1.3 10.0 86.60 2.6 1.3 10.0 86.60 2.6

 Motor Vehicles‑Heavy Trucks 7.0 20.0 41.31 5.5 4.8 20.0 40.60 8.2 4.8 20.0 40.60 8.2

 Motor Vehicles‑Trailers 7.2 10.0 60.71 4.1 4.3 10.0 69.78 4.7 4.3 10.0 69.78 4.7

 Buildings‑Office 23.0 6.0 32.68 2.7 21.0 6.0 38.29 2.7 21.0 6.0 38.29 2.7

 Buildings‑Plant 21.0 0.0 51.27 2.3 18.2 0.0 54.60 2.5 18.2 0.0 54.60 2.5

 Buildings‑Other 19.5 (2.0) 34.72 3.5 15.1 (2.0) 45.06 3.8 15.1 (2.0) 45.06 3.8

 Other Work Equipment 7 Year Amortization 7 Year Amortization 7 Year Amortization

 Furn. & Fixtures 10 Year Amortization 10 Year Amortization 10 Year Amortization

 OE‑Office Support Equip. 7 Year Amortization 7 Year Amortization 7 Year Amortization

 OE‑Company Communications 5 Year Amortization 5 Year Amortization 5 Year Amortization

 General Purpose Computers 5 Year Amortization 5 Year Amortization 5 Year Amortization

**CENTRAL OFFICE ASSETS**

 Digital Switching‑Toll 13.0 0.0 14.56 6.6 12.8 0.0 25.54 5.8 12.8 0.0 25.54 5.8

 Digital Switching‑Exchange 13.0 5.0 33.34 4.7 12.7 5.0 31.47 5.0 12.7 5.0 31.47 5.0

 Operator Systems 5.0 0.0 60.02 8.0 3.8 0.0 81.06 5.0 3.8 0.0 81.06 5.0

 Radio Sys.‑Marine Mob. Emb. 3.0 6.2 93.77 0.0 0.0 0.0 112.28 0.0 0.0 0.0 112.28 0.0

 Radio Sys.‑Marine Mob. New 12.0 5.0 0.00 7.9 \* 0.0 0.0 0.00 0.0 12.0 5.0 0.00 7.9 \*

 Circuit‑Analog Private Line Carrier 4.4 25.0 45.50 6.7 3.5 25.0 35.42 11.3 3.5 20.0 35.42 12.7

 Circuit‑Fiber Optic 6.9 0.0 51.79 7.0 7.6 5.0 29.85 8.6 7.6 5.0 29.85 8.6

 Circuit‑Analog 6.0 0.0 75.37 4.1 3.4 0.0 71.10 \*\* 8.5 3.4 0.0 71.10 \*\* 8.5

 Circuit‑Digital 5.6 15.0 48.94 6.4 6.4 10.0 47.94 6.6 6.4 10.0 47.94 6.6

 Circuit‑Subscriber Carrier After '89 7.0 10.0 0.00 12.9 \* 5.5 10.0 22.00 12.4 7.0 10.0 0.00 12.9 \*

 \*Denotes Whole Life Rate \*\*Denotes restated reserve

 ST JOSEPH TEL. AND TEL. CO.

 1992 STUDY

 COMPARISON OF RATES AND COMPONENTS

 CURRENT COMPANY PROPOSAL STAFF RECOMMENDATION

 AVERAGE REMAINING AVERAGE REMAINING AVERAGE REMAINING

 REMAINING NET LIFE REMAINING NET LIFE REMAINING NET LIFE

ACCOUNT LIFE SALVAGE RESERVE RATE LIFE SALVAGE RESERVE RATE LIFE SALVAGE RESERVE RATE

 (YRS.) (%) (%) (%) (YRS.) (%) (%) (%) (YRS.) (%) (%) (%)

**INFORMATION ORIG/TERM ASSETS**

 Pay Station Equipment 4.2 2.0 76.47 5.1 2.9 0.0 89.85 3.5 2.9 0.0 89.85 3.5

 IOT‑Hearing Impaired 8.0 0.0 10.76 12.5 \* 8.0 0.0 45.72 12.5 \* 4.6 0.0 45.72 11.8

**CABLE AND WIRE FACILITIES**

 Poles 11.5 (30.0) 56.98 6.3 10.0 (30.0) 64.13 6.6 10.0 (30.0) 64.13 6.6

 Aerial Cable‑Metallic 11.9 (30.0) 70.03 5.0 8.7 (30.0) 72.03 6.7 8.7 (30.0) 72.03 6.7

 Aerial Cable ‑ Fiber 20.0 (5.0) 0 5.3 \* 20.0 (15.0) 0.66 5.7 \* 20.0 (15.0) 0.66 5.7 \*

 Undgd. Cable‑Metallic 12.1 (5.0) 21.22 6.9 12.4 (5.0) 31.65 5.9 10.0 (5.0) 31.65 7.3

 Undgd. Cable ‑ Fiber 20.0 (5.0) 6.92 5.3 \* 17.6 (5.0) 11.43 5.3 17.6 (5.0) 11.43 5.3

 Buried Cable‑Metallic‑Non‑Filled 3.8 (9.0) 82.02 7.1 3.0 (5.0) 95.36 3.2 3.0 (5.0) 95.36 3.2

 Buried Cable‑Metallic‑Filled 13.1 (9.0) 26.49 6.3 11.0 (6.0) 38.22 6.2 11.6 (6.0) 38.22 5.8

 Buried Cable ‑ Fiber 20.0 (5.0) 10.02 5.3 \* 16.6 (5.0) 19.46 5.2 16.6 (5.0) 19.46 5.2

 Submarine Cable‑Metallic‑Embedded 20.0 0.0 94.5 5.0 \* 20.0 0.0 94.50 5.0 0.0 0.0 94.50 5.0

 Submarine Cable‑Metallic‑New 20.0 0.0 0 5.0 \* 20.0 0.0 0.00 5.0 \* 20.0 0.0 0.00 5.0 \*

 Submarine Cable‑Fiber 20.0 0.0 0 5.0 \* 20.0 0.0 0.00 5.0 \* 20.0 0.0 0.00 5.0 \*

 Conduit 45.0 (2.0) 12.87 2.0 43.0 (5.0) 13.65 2.1 43.0 (5.0) 13.65 2.1

 \*Denotes Whole Life Rate \*\*Denotes restated reserve

 ST. JOSEPH TEL. AND TEL. CO.

 1992 STUDY

 COMPARISON OF EXPENSES

 CURRENT COMPANY PROPOSAL STAFF RECOMMENDATION

 CHANGE CHANGE

 1/1/93 1/1/93 IN IN

ACCOUNT INVESTMENT RESERVE RATE EXPENSES RATE EXPENSES EXPENSES RATE EXPENSES EXPENSES

 ($) ($) (%) ($) (%) ($) ($) (%) ($) ($)

**GENERAL SUPPORT ASSETS**

 Motor Vehicles‑Passenger Cars 130,274 93,397 6.3 8,207 8.3 10,813 2,606 8.3 10,813 2,606

 Motor Vehicles‑Light Trucks 353,908 306,475 7.1 25,127 2.6 9,202 (15,925) 2.6 9,202 (15,925)

 Motor Vehicles‑Heavy Trucks 203,932 82,790 5.5 11,216 8.2 16,722 5,506 8.2 16,722 5,506

 Motor Vehicles‑Trailers 25,340 17,681 4.1 1,039 4.7 1,191 152 4.7 1,191 152

 Buildings‑Office 2,817,489 1,078,916 2.7 76,072 2.7 76,072 0 2.7 76,072 0

 Buildings‑Plant 285,806 156,037 2.3 6,574 2.5 7,145 571 2.5 7,145 571

 Buildings‑Other 813,743 366,709 3.5 28,481 3.8 30,922 2,441 3.8 30,922 2,441

 Other Work Equipment 1,410,298 957,754 7 Yr. Amort. 107,888 7 Yr. Amort. 107,888 0 7 Yr. Amort. 107,888 0

 Furn. & Fixtures 300,597 191,564 10 Yr. Amort. 51,140 10 Yr. Amort. 51,140 0 10 Yr. Amort. 51,140 0

 OE‑Office Support Equip. 311,345 192,481 7 Yr. Amort. 9,442 7 Yr. Amort. 9,442 0 7 Yr. Amort. 9,442 0

 OE‑Company Communications 154,994 142,297 5 Yr. Amort. 28,954 5 Yr. Amort. 28,954 0 5 Yr. Amort. 28,954 0

 General Purpose Computers 1,187,034 939,100 5 Yr. Amort. 11,139 5 Yr. Amort. 11,139 0 5 Yr. Amort. 11,139 0

 Total Support Assets 7,994,760 4,525,201 365,279 360,630 (4,649) 360,630 (4,649)

**CENTRAL OFFICE ASSETS**

 Digital Switching‑Toll 3,518,594 898,656 6.6 232,227 5.8 204,078 (28,149) 5.8 204,078 (28,149)

 Digital Switching‑Exchange 6,787,633 2,135,852 4.7 319,019 5.0 339,382 20,363 5.0 339,382 20,363

 Operator Systems 155,399 125,968 8.0 12,432 5.0 7,770 (4,662) 5.0 7,770 (4,662)

 Radio Sys.‑Marine Mob. Emb. 28,827 32,368 0.0 0 0.0 0 0 0.0 0 0

 Radio Sys.‑Marine Mob. New 0 0 7.9 \* 0 0.0 0 0 7.9 \* 0 0

 Circuit‑Analog Private Line Carrier 557,011 197,267 6.7 37,320 11.3 62,942 25,622 12.7 70,740 33,420

 Circuit‑Fiber Optic 799,032 238,547 7.0 55,932 8.6 68,717 12,785 8.6 68,717 12,785

 Circuit‑Analog 178,264 126,746 \*\* 4.1 7,309 8.5 15,152 7,843 8.5 15,152 7,843

 Circuit‑Digital 4,971,985 2,383,629 6.4 318,207 6.6 328,151 9,944 6.6 328,151 9,944

 Circuit‑Subscriber Carrier After '89 106,626 23,458 12.9 \* 13,755 12.4 13,222 (533) 12.9 \* 13,755 0

 Total C O Assets 17,103,371 6,162,491 996,201 1,039,414 43,213 1,047,745 51,544

 \* Denotes whole life rate \*\* Denotes restated reserve \*\*\* Denotes reallocated investment and reserve for Drop and Block

 ST. JOSEPH TEL. AND TEL. CO.

 1992 STUDY

 COMPARISON OF EXPENSES

 CURRENT COMPANY PROPOSAL STAFF RECOMMENDATION

 CHANGE CHANGE

 1/1/93 1/1/93 IN IN

ACCOUNT INVESTMENT RESERVE RATE EXPENSES RATE EXPENSES EXPENSES RATE EXPENSES EXPENSES

 ($) ($) (%) ($) (%) ($) ($) (%) ($) ($)

**INFORMATION ORIG/TERM ASSETS**

 Pay Station Equipment 401,948 361,147 5.1 20,499 3.5 14,068 (6,431) 3.5 14,068 (6,431)

 IOT‑Hearing Impaired 3,467 1,585 12.5 \* 433 12.5 \* 433 0 11.8 409 (24)

 Total Info. Assets 405,415 362,732 20,932 14,501 (6,431) 14,477 (6,455)

**CABLE AND WIRE FACILITIES**

 Poles 639,813 410,324 6.3 40,308 6.6 42,228 1,920 6.6 42,228 1,920

 Aerial Cable‑Metallic 1,509,120 \*\*\* 1,087,034 \*\*\* 5.0 75,456 6.7 101,111 25,655 6.7 101,111 25,655

 Aerial Cable ‑ Fiber 27,295 181 5.3 \* 1,447 5.7 \* 1,556 109 5.7 \* 1,556 109

 Undgd. Cable‑Metallic 515,171 163,066 6.9 35,547 5.9 30,395 (5,152) 7.3 37,607 2,060

 Undgd. Cable ‑ Fiber 190,835 21,816 5.3 \* 10,114 5.3 10,114 0 5.3 10,114 0

 Buried Cable‑Metallic‑Non‑Filled 2,972,208 \*\*\* 2,834,419 \*\*\* 7.1 211,027 3.2 95,111 (115,916) 3.2 95,111 (115,916)

 Buried Cable‑Metallic‑Filled 20,506,537 \*\*\* 7,838,564 \*\*\* 6.3 1,291,912 6.2 1,271,405 (20,507) 5.8 1,189,379 (102,533)

 Buried Cable ‑ Fiber 1,678,694 326,735 5.3 \* 88,971 5.2 87,292 (1,679) 5.2 87,292 (1,679)

 Submarine Cable‑Metallic‑Embedded 1,781 1,683 5.0 \* 89 5.0 89 0 5.0 89 0

 Submarine Cable‑Metallic‑New 0 0 5.0 \* 0 5.0 \* 0 0 5.0 \* 0 0

 Submarine Cable‑Fiber 0 0 5.0 \* 0 5.0 \* 0 0 5.0 \* 0 0

 Conduit 1,447,092 197,515 2.0 28,942 2.1 30,389 1,447 2.1 30,389 1,447

 Total OSP 29,488,546 12,881,337 1,783,813 1,669,690 (114,123) 1,594,876 (188,937)

 DEPRECIATION RATE TOTAL 54,992,092 23,931,761 3,166,225 3,084,235 (81,990) 3,017,728 (148,497)

 \*Denotes whole life rate \*\*\*Denotes reallocated investment and reserve

 for Drop and Block

 ST. JOSEPH TEL. AND TEL. CO.

 1992 STUDY

 COMPARISON OF EXPENSES

 CURRENT COMPANY PROPOSAL STAFF RECOMMENDATION

 CHANGE CHANGE

 1/1/93 1/1/93 RECOVERY IN RECOVERY IN

 ACCOUNT INVESTMENT RESERVE RATE EXPENSES SCHEDULE EXPENSES EXPENSES SCHEDULE EXPENSES EXPENSES

 ($) ($) (%) ($) ($) ($) ($) ($)

**RECOVERY SCHEDULES:**

 Digital Switching‑CPU 463,136 122,520 \* 6.6 30,567 3 YR 359,640 119,880 1 YR 340,616 310,049

 Digital Switching‑Blountstown 901,117 311,880 4.7 42,352 3 YR 196,413 154,061 3 YR 196,413 154,061

 Radio Systems‑Microwave 278,922 278,922 \* 5.2 14,504 1 YR 0 0 1 YR 0 0

 RECOVERY SCHEDULE TOTAL 1,643,175 713,322 87,423 556,053 273,941 537,029 464,110

 DEPRECIATION RATE TOTAL 54,992,092 23,931,761 3,166,225 3,084,235 (81,990) 3,017,728 (148,497)

 GRAND TOTAL 56,635,267 24,645,083 3,253,648 3,640,288 191,951 3,554,757 315,613

 \*Denotes restated reserve