

FLORIDA PUBLIC SERVICE COMMISSION
Capital Circle Office Center • 2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

M E M O R A N D U M

June 13, 1996

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF APPEALS (CALDWELL) *JWC DBS*
DIVISION OF AUDITING & FINANCIAL ANALYSIS (LEE, HICKS) *PSX R+ APC*
DIVISION OF COMMUNICATIONS (REITH) *RE*
DIVISION OF RESEARCH & REGULATORY REVIEW (HEWITT) *198*

RE: DOCKET NO. 960715-TL - PROPOSED AMENDMENT OF RULE 25-4.0174, UNIFORM SYSTEM & CLASSIFICATION OF ACCOUNTS-DEPRECIATION AND RULE 25-4.0175, DEPRECIATION AND REPEAL OF RULE 25-4.0176, RECOVERY SCHEDULES

AGENDA: JUNE 25, 1996 - REGULAR AGENDA - RULE PROPOSAL - INTERESTED PERSONS MAY PARTICIPATE

RULE STATUS: PROPOSAL MAY BE DEFERRED - THE STATUTORY REQUIREMENT, HOWEVER, MAY NOT BE MET

SPECIAL INSTRUCTIONS: S:\PSC\APP\WP\960715.RCM

CASE BACKGROUND

Currently, telephone companies are required to file a depreciation study at least once every three years. The current requirement calls for the original and 15 copies of the study to be filed along with three copies of any calculations, analysis, and numerical basic data used in developing a company's proposed life and salvage values. Once this information is filed, staff analyzes the data and determines if the requested values and rates are appropriate. The analysis requires staff to verify company calculations, verify reasonableness and support of company selected retirement patterns and statistics, mail/phone data requests, and complete numerous spreadsheets. Once the analysis is complete, a recommendation is filed and presented at the Agenda Conference. This process can take several months to complete.

Section 364.052(2)(a), Florida Statutes, states

By July 1, 1996, the commission shall establish by rule, ranges of basic factors for lives and salvage values to

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be used in developing depreciation rates for companies subject to this section.

In an effort to comply with the revised statute, streamline filing requirements, and allow the companies some flexibility in determining their depreciation rates, the Commission should establish ranges for asset lives and salvage values. The current depreciation rule is Rule 25-4.0175, Florida Administrative Code. In order to maintain consistency within the Commission's rules, staff recommends revising Rule 25-4.0174 and consolidating Rule 25-4.0176 into Rule 25-4.0175. Three workshops and several conference calls were held resulting in the proposed rules.

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission propose the attached amendments to the following rules in Chapter 25-4, Florida Administrative Code: Rule 25-4.0174, Uniform System and Classification of Accounts - Depreciation; Rule 25-4.0175, Depreciation; and 25-4.0176, Recovery Schedules.

RECOMMENDATION: Yes.

STAFF ANALYSIS: Rule 25-4.0174 lists and defines the uniform system and classification of accounts as they pertain to depreciation and reflects the primary depreciation accounts which are prescribed by the Uniform System of Accounts. These accounts and subaccounts should be used only where applicable because a given company may not have an investment in a given account. This rule and the following rules will apply to companies that are rate base, rate of return regulated.

Rule 25-4.0175 requires all telephone companies to file comprehensive depreciation studies at least once every three years using both whole life and remaining life methodologies. This rule also details the filing and requirements for the study and provides the filing requirements for a change in depreciation rates. The rule amendment deletes the provision which requires companies to file a depreciation study once every three years. The rule has been amended to (1) establish ranges of basic factors for lives and salvage values to be used in developing depreciation rates for small local exchange companies; (2) reduce the number of copies required by the Commission Clerk's office; (3) reduce the volume of information required to change depreciation rates; (4) allow flexibility in selecting a depreciation methodology; and (5) incorporate information from Rule 25-4.0176 regarding requests for capital recovery schedules.

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Companies may file for a change in life or salvage value for any account no more than once a year. A company's current average service life or net salvage value is that which is in effect as of the effective date of the rule amendment. Current service life values will be considered to be within the established ranges of service lives by rounding to the nearest whole year. If a company's current service life or salvage value for any given account is not within the established ranges, the company must file additional information, which is currently a requirement for depreciation studies, to justify moving into the ranges.

The ranges are presumptively valid and the burden of proof is placed on any party protesting a Commission approved life or salvage value. Staff will no longer have to file a recommendation regarding preliminary implementation. When a company petitions for a change in depreciation rates, it may begin booking its proposed rates pending Commission approval.

Each company will make an election of whether they want to continue using either remaining life methodology or whole life methodology. A company that fails to make an election will default to the remaining life methodology. A company is only required to show calculations on the methodology it chooses. If a company chooses the whole life methodology, recovery of reserve imbalances will not be considered for depreciation setting purposes. The burden of proof will be on the company to show that it deserves recovery when the methodology it selected is not reserve sensitive.

The rule is amended to allow staff assisted depreciation cases. If a company asks for staff assistance in converting the average service life to remaining life, staff will calculate the age from the information received in annual reports and the curve shape will be that used in the company's last depreciation study. If a company wishes to use a different curve shape, it will need to provide justification why that curve shape is more appropriate.

Rule 25-4.0176 specifies the Commission's policy with regard to capital recovery schedules. This rule is being repealed but the substance of the rule has been incorporated into Rule 25-4.0175.

Economic Impact. The proposed revisions should decrease Commission staff paperwork and no substantial additional costs or significant adverse impacts have been identified. Therefore, there is no need for preparation of an EIS for the proposed rule changes.

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ISSUE 2: If no requests for hearing or comments are filed, should the rule amendments as proposed be filed for adoption with the Secretary of State and the docket be closed?

RECOMMENDATION: Yes.

STAFF ANALYSIS: Unless comments or requests for hearing are filed, the rules as proposed may be filed with the Secretary of State without further Commission action. The docket may then be closed.

1
2 25-4.0174 Uniform System and Classification of Accounts -
3 Depreciation.

4 (1) Depreciation rates are to be designed in accordance with
5 the Uniform System and Classification of Accounts (USOA) and this
6 rule. The primary accounts listed below are identical to those
7 prescribed in the USOA. New accounts and subaccounts, as listed
8 below, are established under these accounts. They are intended to
9 group together items which are relatively homogeneous in their
10 expected life and salvage characteristics, and are for the purpose
11 of establishing uniformity among the companies in depreciation
12 studies.

13 (2) A company may further develop depreciation subaccounts
14 within a listed account as appropriate for its plant. No company
15 shall, however, establish a new subaccount that would represent
16 less than ten percent ~~10%~~ of the original primary account.

17 (3) Notwithstanding Subsection ~~subsection~~ (2), a new
18 subaccount must be established for the introduction of a new
19 technology, or for the treatment of an obsolescent component of a
20 current viable technology.

21 (4) Depreciation reserve, plant activity data, salvage cost,
22 and costs of removal, respectively, shall be maintained for each
23 depreciation category for which a depreciation rate is to be
24 developed. This shall be done on the books of the company.

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~~struck-through~~ type are deletions from existing law.

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2 (5) The following accounts and subaccounts, where applicable,
3 shall be used in the design of depreciation rates.

4 (a) Support assets ~~Assets~~, Account 2110. The following
5 accounts shall be used:

6 1. Motor vehicles ~~Vehieles~~, Account 2112. The following
7 subaccounts shall be used,

8 a. Passenger cars and light trucks. ~~This account shall~~
9 include passenger cars and trucks of one ton in capacity or less.

10 ~~b. Light trucks. This subaccount shall include trucks of one~~
11 ~~ton in capacity or less.~~

12 ~~be.~~ Heavy trucks and special purpose vehicles. This subaccount
13 shall include trucks of greater than one ton capacity.

14 ~~cd.~~ Tractors and trailers.

15 ~~2. Special Purpose Vehieles, Account 2114.~~

16 ~~23.~~ Garage work equipment ~~Work Equipment~~, Account 2115. This
17 account shall include tools and equipment used to maintain
18 vehicles. ~~It shall be used for depreciation studies only if the~~
19 ~~expected life for this equipment is substantially different from~~
20 ~~that expected for tools and equipment in Account 2116, Other Work~~
21 ~~Equipment.~~

22 ~~34.~~ Other work equipment ~~Work Equipment~~, Account 2116. This
23 account shall include power operated equipment, general purpose
24 tools, and other such work equipment items.

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2 45. Buildings, Account 2121. ~~Buildings are to be assigned to~~
3 ~~subaccounts in accordance with their potential life patterns in the~~
4 ~~use of the specific company. Suggested subaccount groupings are as~~
5 ~~follows:~~

6 a. ~~Headquarters buildings which include primary switching~~
7 ~~center building, and multipurpose buildings such as buildings~~
8 ~~housing combinations of switching, office, and warehouse space.~~

9 b. ~~Plant buildings which include work centers, garages, shops,~~
10 ~~training centers, warehouses, pole yards, pre-fab buildings housing~~
11 ~~remote switchers, sheds, repeater huts, and leased quarters.~~

12 56. Furniture, Account 2122.

13 67. Office equipment ~~Equipment~~, Account 2123. The following
14 subaccounts shall be used:

15 a. Office support equipment ~~Support Equipment~~. This subaccount
16 shall include office devices such as typewriters, cash registers,
17 check writers, calculating, reproducing, addressing, billing,
18 blueprinting, and other office machines.

19 b. Company communications equipment ~~Communications Equipment~~.
20 This subaccount shall include CPE and PBX equipment installed for
21 official company use.

22 78. General purpose computers ~~Purpose Computers~~, Account 2124.

23 (b) Central office switching ~~Office Switching~~, Account 2211.

24 The following accounts shall be used:
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2 1. Analog electronic switching ~~Electronic Switching~~, Account
3 2211. This account shall be established for analog switching
4 equipment and peripheral gear. It shall include equipment serving
5 analog switchers that is used solely for recording calling
6 telephone numbers in connection with customer dialed charged
7 traffic dial tandem switchboards and special service switchboards
8 used in conjunction with private line service. It shall not include
9 switchboards, and integral equipment thereof, which perform an
10 operator assistance function.

11 2. Digital electronic switching ~~Electronic Switching~~, Account
12 2212. This account includes investments in digital switches.
13 ~~Individual subaccounts shall be established for host, remote and~~
14 ~~digital switches, respectively.~~ This switching account shall
15 include equipment serving digital electronic switchers that is used
16 solely for the recording of calling telephone numbers in connection
17 with customer dialed charged traffic dial tandem switchboards and
18 special service switchboards used in conjunction with private line
19 service. It shall not include switchboards, and integral equipment
20 thereof, which perform an operator assistance function. Major
21 components such as hardware, processors, and ~~line~~ cards that are
22 expected to live substantially different from the remaining switch
23 investment should be considered as subcomponents in developing
24 ~~shall either be placed in additional individual separate~~

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2 ~~subaccounts or shall be included as a subcomponent used to develop~~
3 the rate for the ~~that~~ account ~~or subaccount~~.

4 3. Electromechanical switching ~~Switching~~, Account 2215. This
5 switching account includes investments in step-by-step ~~step-by-step~~
6 or crossbar switchers. It does not include digital compatible
7 equipment that is expected to live beyond the calculated life of
8 electromechanical switching. Such investment shall be in a separate
9 subaccount or included as a subcomponent used to develop the rate
10 for the account or subaccount. This account also does not include
11 switchboards which perform an operator assistance function and
12 equipment which is an integral part thereof. It shall include,
13 however, equipment serving electromechanical switchers that is used
14 solely for the recording of calling telephone numbers in connection
15 with customer dialed charged traffic dial tandem switchboards and
16 special service switchboards used in conjunction with private line
17 service.

18 (c) Operator systems ~~Systems~~, Account 2220. This account shall
19 include such charges as directory assistance, call intercept, and
20 other operator assisted call completion activities. ~~The following~~
21 ~~subaccounts shall be used:~~

22 1. ~~Analog, and~~

23 2. ~~Digital or digital compatible.~~

24 (d) Central office - transmission ~~Office - Transmission~~,
25 Account 2230. The following accounts shall be used:

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2 1. Radio systems ~~Systems~~, Account 2231. The following
3 ~~subaccounts shall be used.~~

4 ~~a. Microwave Radio, and~~

5 ~~b. Mobile Radio.~~

6 2. Circuit equipment ~~Equipment~~, Account 2232. This investment
7 shall be subcategorized in accord with the planning of the company,
8 to be separated between the following:

9 a. Analog ~~That portion planned for retirement;~~

10 b. Digital ~~That portion considered viable within the existing~~
11 ~~network; and~~

12 c. That portion associated with optic technology.

13 (e) Information organization or termination ~~Organization/~~
14 ~~Termination~~, Account 2310. The following accounts shall be used:

15 ~~1. Private Line Equipment. This account shall include enhanced~~
16 ~~network transmission for a private channel.~~

17 ~~2. Telecommunication Devices for the Deaf Hearing Impaired.~~
18 ~~This account shall include equipment required for communications by~~
19 ~~or with hearing or speech impaired subscribers.~~

20 ~~3. Network Carrier Equipment - Customer Premises. This account~~
21 ~~shall include network carrier equipment physically located on the~~
22 ~~customer premises.~~

23 14. Public telephone equipment ~~Telephone Equipment~~. This
24 account shall include coinless, coin-operated (including public and
25 semi-public), credit card, and pay telephones.

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2 25. Other regulated station equipment ~~Regulated Station~~
3 ~~Equipment~~. This account shall include private line other
4 ~~miscellaneous~~ equipment, telecommunication devices for the deaf, E-
5 911 equipment, and network carrier equipment physically located on
6 the customer's premises associated with regulated service not
7 ~~included in (1) through (4) above.~~

8 (f) Cable and wire facilities ~~Wire Facilities~~, Account 2410.
9 The following accounts shall be used:

10 1. Poles, Account 2411.

11 2. Aerial cable ~~Cable~~, Account 2421. The following subaccounts
12 shall be used:

13 a. Metallic. This investment shall be further subcategorized
14 in accord with company planning; and

15 b. Fiber.

16 3. Underground cable ~~Cable~~, Account 2422. The following
17 subaccounts shall be used:

18 a. Metallic. This investment shall be further subcategorized
19 in accord with company planning; and

20 b. Fiber.

21 4. Buried cable ~~Cable~~, Account 2423. The following subaccounts
22 shall be used:

23 a. Metallic. This subaccount shall be further subcategorized
24 in accord with company planning; and subaccounted as follows:

25 (i) ~~Nonfilled core,~~

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2 ~~(ii) Filled core, and~~
3 ~~(iii) Further subcategorization shall be made in accord with~~
4 ~~company planning;~~

5 b. Fiber.

6 5. Submarine cable ~~Cable~~, Account 2424. The following
7 subaccount shall be used:

8 a. Metallic. This investment shall be further subcategorized
9 in accord with company planning.

10 b. Fiber.

11 6. Intrabuilding network cable ~~Network Cable~~, Account 2426.
12 The following subaccounts shall be used:

13 a. Metallic. This investment shall be further subcategorized
14 in accord with company planning; and

15 b. Fiber

16 7. Aerial wire ~~Wire~~, Account 2431.

17 8. Conduit systems ~~Systems~~, Account 2441.

18 (6) Depreciation rates used after July 1, 1996, ~~January 1,~~
19 ~~1988~~ shall be based on the account classifications in the USOA and
20 this rule. In implementing these rates the following procedures
21 shall be followed:

22 (a) Reserve activity data, plant activity data, salvage costs,
23 and costs of removal are to be recorded to the new accounts for
24 activity subsequent to July 1, 1996 ~~January 1, 1988~~.

25

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2 (b) The separation of investments and reserves under prior
3 accounts into balances relating to new accounts and subaccounts
4 under this rule may require estimation. Where vintaged
5 distributions are maintained, separation into accounts and
6 subaccounts may require synthesization.

7 (c) If an existing account, in the opinion of the Commission,
8 is essentially compatible with an account listed in this rule, that
9 account shall be deemed to be in compliance with this rule.

10
11 Specific Authority 350.127(2) FS.

12 Law Implemented 350.115, 364.17 FS.

13 History--New 4-25-88, amended _____.

14
15 25-4.0175 Depreciation.

16 (1) For the purposes of Part II ~~this part~~, the following
17 definitions shall apply to small local exchange companies remaining
18 under rate of return regulation:

19 (a) Category or Category of Depreciable Plant - A grouping of
20 plant for which a depreciation rate is prescribed. At a minimum it
21 should include each plant account prescribed in Rule 25-4.017, F.
22 A. C.

23 (b) Average Service Life - The period of time that the given
24 type of equipment, on average, can be expected to prudently and
25 economically serve the public.

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2 (c) ~~(b)~~ Embedded Vintage - A vintage of plant in service as of
3 the date of study or implementation of proposed rates.

4 ~~(e) Equal Life Group Method - The method of calculating a~~
5 ~~depreciation rate based on the life expectations of the units~~
6 ~~constituting a vintage group. The vintage group is divided into~~
7 ~~sub groups, each of which is expected to live an equal life. The~~
8 ~~required capital recovery for the vintage is then the summation of~~
9 ~~the requirements for each equal life group. As an example: A~~
10 ~~vintage consists of three \$100 units, A, B, and C, expected to live~~
11 ~~2, 4, and 5 years. To recover each during its own service life will~~
12 ~~require annual accruals of \$50, \$25, and \$20 respectively in the~~
13 ~~following manner:~~

14
15
16 Accruals in Years

	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>
A	<u>\$50</u>	<u>\$50</u>			
B	<u>25</u>	<u>25</u>	<u>\$25</u>	<u>\$25</u>	
C	<u>20</u>	<u>20</u>	<u>20</u>	<u>20</u>	<u>\$20</u>
<u>Vintage</u>					
Totals	<u>\$95</u>	<u>\$95</u>	<u>\$45</u>	<u>\$45</u>	<u>\$20</u>

23 (d) Mortality Data - Historical data by study category showing
24 plant balances, additions, adjustments and retirements, used in
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2 analyses for life indications or for calculations of realized life.

3 Preferably, this is aged data in accord with the following:

4 1. The number of plant items or equivalent units (usually
5 expressed in dollars) added each calendar year.

6 2. The number of plant items retired (usually expressed in
7 dollars) each year and the distribution by years of placing of such
8 retirements.

9 3. The net increase or decrease resulting from purchases,
10 sales, or adjustments, and the distribution by years of placing of
11 such amounts.

12 4. The number that remains in service (usually expressed in
13 dollars) at the end of each year and the distribution by years of
14 placing of such amounts.

15 (e) Remaining Life Method - The method of calculating a
16 depreciation rate based on the unrecovered plant balance, less
17 average future net salvage and the average remaining life. The
18 formula for calculating a Remaining Life Rate (RLR) is:

19
$$\text{RLR Remaining Life Rate} = \frac{100\% - \text{Reserve \%} - \text{Average Future Net Salvage \%}}{\text{Average Remaining Life in Years}}$$

20
21 (f) Reserve Data - Historical data by study category showing
22 reserve balances, debits and credits such as booked depreciation
23 expense, salvage and cost of removal, and adjustments to the
24 reserve utilized in monitoring reserve activity and position.

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2 (g) Reserve Deficiency - An inadequacy in the reserve of a
3 category as evidenced by a comparison of that reserve indicated as
4 necessary under current projections of life and salvage with that
5 reserve historically accrued. The latter figure may be available
6 from the company's records or may require retrospective
7 calculation.

8 (h) Reserve Surplus - An excess in the reserve of a category
9 as evidenced by a comparison of that reserve indicated as necessary
10 under current projections of life and salvage with that reserve
11 historically accrued. The latter figure may be available from the
12 company's records or may require retrospective calculation.

13 (i) Salvage Data - Historical data by study category showing
14 bookings of retirements, gross salvage and cost of removal used in
15 analysis of trends in gross salvage and cost of removal, or for
16 calculations of realized salvage.

17 (j) Theoretical Reserve or Prospective Theoretical Reserve -
18 A calculated reserve based on components of the proposed rate,
19 using the formula:

20
$$\text{Theoretical Reserve} = \text{Book Investment} - \text{Future Accruals} -$$

21
$$\text{Future Net Salvage}$$

22 (k) Vintage - The year of placement of a group of plant items
23 or investment under study.

24 (l) Whole Life Method - The method of calculating a
25 depreciation rate based on the Whole Life (Average Service Life)

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2 and the Average Net Salvage. Both life and salvage components are
3 the estimated or calculated composite of realized experience and
4 expected activity. The formula is:

$$\text{Whole Life Rate} = \frac{100\% - \text{Average Net Salvage } \%}{\text{Average Service Life in Years}}$$

7 (2) (a) Ranges for basic life and salvage values, established
8 by the Commission, may be used by small LECs regardless of the
9 depreciation methodology utilized. The ranges for basic life and
10 salvage values for small LECs are as follows: No utility may change
11 any existing depreciation rate or initiate any new depreciation
12 rate without prior Commission approval.

13 Ranges of Basic Life and Salvage Values for
14 Small Local Exchange Companies

<u>ACCOUNT</u>	<u>AVERAGE SERVICE LIFE</u> <u>(Years)</u>	<u>NET SALVAGE</u> <u>(Percent)</u>
<u>GENERAL SUPPORT ASSETS</u>		
<u>Motor vehicles</u>		
<u>Passenger cars & light trucks</u>	<u>6 - 8</u>	<u>10 - 20</u>
<u>Heavy trucks & special</u> <u>purpose vehicles</u>	<u>8 - 11</u>	<u>5 - 10</u>
<u>Buildings</u>	<u>32 - 36</u>	<u>0 - 5</u>
<u>Other work equipment</u>	<u>7 yr. Amortization</u>	
<u>Furniture</u>	<u>10 yr. Amortization</u>	
<u>Office machines</u>	<u>7 yr. Amortization</u>	

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2	<u>Office equipment (official use)</u>	<u>5 yr. Amortization</u>	
3	<u>Computer equipment</u>	<u>5 yr. Amortization</u>	
4	<u>CENTRAL OFFICE ASSETS</u>		
5	<u>Digital switching</u>	<u>13 - 16</u>	<u>0 - 5</u>
6	<u>Operator systems</u>	<u>8 - 10</u>	<u>0 - 5</u>
7	<u>Radio</u>	<u>10 - 12</u>	<u>(5) - 0</u>
8	<u>Circuit</u>		
9	<u>Analog</u>	<u>8 - 10</u>	<u>(5) - 0</u>
10	<u>Digital</u>	<u>10 - 12</u>	<u>0 - 5</u>
11	<u>Fiber electronics (optics)</u>	<u>8 - 10</u>	<u>0 - 5</u>
12	<u>INFORMATION/ORINATION ASSETS</u>		
13	<u>Public telephone equipment</u>	<u>8 - 10</u>	<u>0 - 5</u>
14	<u>Other</u>	<u>8 - 10</u>	<u>0 - 5</u>
15	<u>CABLE/WIRE FACILITIES</u>		
16	<u>Poles</u>	<u>20 - 22</u>	<u>(60) - (40)</u>
17	<u>Aerial cable</u>		
18	<u>Metallic</u>	<u>18 - 20</u>	<u>(30) - (20)</u>
19	<u>Fiber</u>	<u>20 - 22</u>	<u>(30) - (20)</u>
20	<u>Underground cable</u>		
21	<u>Metallic</u>	<u>19 - 21</u>	<u>(10) - (5)</u>
22	<u>Fiber</u>	<u>20 - 22</u>	<u>(10) - (5)</u>
23	<u>Buried cable</u>		
24	<u>Metallic</u>	<u>17 - 19</u>	<u>(5) - 0</u>
25	<u>Fiber</u>	<u>20 - 22</u>	<u>(5) - 0</u>

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Submarine cable

<u>Metallic</u>	<u>20 - 25</u>	<u>(5) - 0</u>
<u>Fiber</u>	<u>20 - 22</u>	<u>(5) - 0</u>
<u>Underground conduit</u>	<u>50 - 52</u>	<u>(5) - 0</u>

Aerial wire - Expense all future additions and amortize embedded portion over 3 years.

(b) A company shall not petition the Commission to change any existing depreciation rate more than once a year. No utility may reallocate accumulated depreciation reserves among any primary accounts and sub-accounts without prior Commission approval.

(c) A company may not reallocate accumulated depreciation reserves among any primary accounts and subaccounts without prior commission approval.

(3) (a) Each company utility shall maintain depreciation rates and accumulated depreciation reserves in accounts or subaccounts as prescribed by Rule 25-4.0174, F. A. C., and as set forth in Paragraph (2) (a) of this rule. Companies Utilities may maintain further sub-categorization.

(b) Upon establishing a new account or subaccount classification, each company utility shall request Commission approval of a depreciation rate for the new plant category.

(c) A company's current average service life is that which has been approved by the Commission and in effect as of the effective date of this rule. To determine if a company's current average

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2 service life is within an established range, current average
3 service lives not reflected as a whole number shall be rounded
4 using traditional rounding methodology. (For example, 1.1 - 1.4
5 rounds to 1.0 ; 1.5 - 1.9 rounds to 2.0.)

6 (4) If the company's proposed and current average service lives
7 for a given account are within the ranges established in Paragraph
8 (2)(a), no additional support for those values shall be required.
9 If the company's proposed and current net salvage values for a
10 given account are within the ranges established in Paragraph
11 (2)(a), no additional support for those values shall be required.
12 The company shall submit to the Division of Records and Reporting
13 the original, five hard copies, and a diskette of the information
14 required by Subsection (8) of this rule.

15 (5)(4) A company proposing basic life or salvage values outside
16 of the ranges established in Paragraph (2)(a) of this rule utility
17 filing a depreciation study, regardless if a change in rates is
18 being requested or not, shall submit to the Division of Records and
19 Reporting Commission Clerk's Office the original and five hard
20 copies, and a diskette fifteen copies of the information required
21 by Subsection (10) paragraphs (6)(a) through (6)(h) of this rule
22 and at least three copies of the information required by paragraph
23 (6)(i).

24 (6)(5) After filing a petition for a change in depreciation
25 rates, upon commission approval by order establishing an effective

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2 date, the company utility may reflect on its books and records the
3 preliminary implementation of the proposed rates as of the proposed
4 effective date. ~~These rates are subject to Commission approval~~
5 ~~adjustment when final depreciation rates are approved.~~

6 (7) Any party protesting a Commission approved depreciation life
7 or salvage value, shall carry the burden of proof in demonstrating
8 that each protested value is unsupported by the operations and
9 planning of each company.

10 ~~(8)(6)~~ A depreciation filing study shall include:

11 (a) A comparison of current and proposed depreciation rates and
12 components for each category of depreciable plant. Current rates
13 shall be identified as to the effective date and proposed rates as
14 to the proposed effective date.

15 (b) A comparison of annual depreciation expense, as of the
16 proposed effective date, resulting from current rates with the
17 expense produced by the proposed rates for each category of
18 depreciable plant. The plant balances may involve estimates.
19 Submitted data including plant and reserve balances or company
20 planning involving estimates shall be brought to the effective date
21 of the proposed rates.

22 ~~(c) A comparison of annual depreciation expense resulting from~~
23 ~~current rates with the expense produced by the proposed rates~~
24 ~~allocated to interstate toll, intrastate toll and other, based on~~
25 ~~the 12 month average plant balance coinciding with the accounting~~

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2 ~~period in which proposed depreciation rates are to become~~
3 ~~effective.~~

4 ~~(c)(d)~~ Each recovery and amortization schedule currently in
5 effect should be included with any new filing showing total amount
6 amortized, effective date, length of schedule, annual amount
7 amortized, and reason for the schedule.

8 ~~(e)~~ A comparison of the accumulated book reserve to the
9 prospective theoretical reserve based on proposed rates and
10 components for each category of depreciable plant to which
11 depreciation rates are to be applied.

12 ~~(d)(f)~~ A general narrative describing the service environment of
13 the applicant company and the factors, e.g., growth, technology,
14 and physical conditions necessitating a revision in rates.

15 (9) If a company's current average service life or salvage value
16 for any given category of depreciable plant is not within the
17 established range, the company must file the information in
18 Subsection (10) to justify its move into the range.

19 (10) For each account that the Company proposed life or salvage
20 value is not within the established range, the depreciation filing
21 shall include the information in Subsection (8) as well as the
22 following:

23 ~~(a)(g)~~ An explanation and justification for each study category
24 of depreciable plant defining the specific factors that justify the
25 life or and salvage components and rates being proposed. Each

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2 explanation and justification shall include substantiating factors
3 utilized by the company in the design of the depreciation rates for
4 the specific category, e.g., company planning, growth, technology,
5 physical conditions, and trends. The explanation and justification
6 shall ~~discuss any proposed transfers of reserve between categories~~
7 ~~or accounts intended to correct deficient or surplus reserve~~
8 ~~balances. It should also~~ state any statistical or mathematical
9 methods of analysis or calculation used in the design of the
10 category rate.

11 (b)(h) The mortality and salvage data used by the company in the
12 depreciation rate design must agree with activity booked by the
13 utility. Unusual transactions not included in life or salvage
14 studies, e.g., sales or extraordinary retirements, must be
15 specifically enumerated and explained.

16 (c)(i) The filing shall contain all calculations, analysis and
17 numerical basic data used in the design of the depreciation rate
18 for each category of depreciable plant. ~~Numerical data shall~~
19 ~~include plant activity (gross additions, adjustments, retirements~~
20 ~~and plant balance at end of year) as well as reserve activity~~
21 ~~(retirements, accruals for depreciation expense, salvage, cost of~~
22 ~~removal, adjustments or transfers and reclassifications, and~~
23 ~~reserve balance at end of year) for each year of activity from the~~
24 ~~date of the last submitted study to the date of the present study.~~
25 To the degree possible, data involving retirements should be aged.

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2 ~~(11)(7)~~(a) Companies Utilities shall provide calculations of
3 depreciation rates using either both the whole life method or and
4 the remaining life method. The use of one of these methods is
5 required for all depreciable categories. ~~Companies may submit~~
6 ~~additional studies or methods for consideration by the Commission.~~

7 (b) Companies shall file an election to remain with the remaining
8 life methodology or move to whole life methodology within 90 days
9 of the effective date of this rule. Failure to file an election
10 shall result in the company's use of remaining life methodology.
11 Only one election regarding depreciation methodology will be
12 permitted.

13 (12) When a company elects whole life methodology, no recovery
14 of reserve imbalances will be considered for depreciation purposes.
15 This methodology is not reserve sensitive.

16 (13) When a company elects remaining life methodology, the
17 following apply:

18 (a) A company requiring the Commission staff's assistance in
19 determining a remaining life based on its average service life
20 selection, shall notify the Director of the Division of Auditing
21 and Financial Analysis, by letter, three months prior to the
22 company's filing date.

23 (b) The possibility of corrective reserve transfers shall be
24 investigated by the Commission prior to changing depreciation
25 rates.

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2 ~~(8)(a) Each company shall file a study for each category of~~
3 ~~depreciable property for Commission review at least once every~~
4 ~~three years from the submission date of the previous study unless~~
5 ~~otherwise required by the Commission.~~

6 (c) It shall be a rebuttable presumption that in determining the
7 average remaining life, the mortality curve shapes shall be those
8 used by the Commission the last time it prescribed rates.

9 (14)(a)(b) A company utility proposing an effective date of the
10 beginning of its fiscal year shall submit its petition for a change
11 in depreciation rates ~~depreciation study~~ no later than the
12 mid-point of that fiscal year.

13 (b)(e) A company utility proposing an effective date coinciding
14 with the expected date of additional revenues initiated through a
15 rate case proceeding shall submit its petition for a change in
16 depreciation rates ~~depreciation study~~ no later than the filing date
17 of its Minimum Filing Requirements.

18 (15)(9) Included as part of the annual report filed pursuant to
19 Rule 25-4.135 ~~25-4.018~~, F.A.C., each company shall provide Schedule
20 B-3 B-5a, Analysis of Plant In Service, and Schedule B-4 B-5b,
21 Analysis of Accumulated Depreciation. Schedule B-3 B-5a shall
22 include booked plant activity (plant balance at the beginning of
23 the year, additions, adjustments, transfers, reclassifications,
24 retirements, and plant balance at year end). Schedule B-4 B-5b
25 shall include reserve activity (reserve balance at the beginning of

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2 the year, retirements, accruals, salvage, cost of removal,
3 adjustments, transfers, reclassifications, and reserve balance at
4 year end) for each category of investment for which a depreciation
5 rate, amortization schedule, or capital recovery schedule has been
6 approved. ~~These schedules shall indicate for each category that (a)~~
7 ~~there has been no change of plans or utility experience requiring~~
8 ~~a revision of rates, amortization, or capital recovery schedules or~~
9 ~~(b) there has been a change requiring a revision of the rates,~~
10 ~~amortization, or capital recovery schedules. For each category~~
11 ~~where current conditions indicate a need for revision of~~
12 ~~depreciation rates, amortization, or capital recovery schedules and~~
13 ~~no revision is sought, the report shall explain why no revision is~~
14 ~~requested.~~

15 (16) (a) Prior to the date of retirement, the Commission may
16 approve capital recovery schedules to correct calculated
17 deficiencies where a utility demonstrates that replacement of an
18 installation or group of installations is prudent, and the
19 associated investment will not be recovered by the time of
20 retirement through the existing depreciation rate.

21 (b) The Commission may approve a special capital recovery
22 schedule when an installation is designed for a specific purpose or
23 for a limited duration.

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2 (c) Associated plant and reserve activity, balances, and the
3 annual capital recovery schedule expense must be maintained as
4 subsidiary records.

5 Specific Authority 350.127(2) FS.

6 Law Implemented 350.115, 364.03 FS.

7 History--New 9-8-81, Amended 4-28-83, 1-6-85, Formerly 25-4.175,
8 Amended 4-27-88, 12-12-91, _____.

9
10 25-4.0176 Recovery Schedules to Promote an Economical and Efficient
11 Telecommunications Network. ~~The Commission encourages an efficient~~
12 ~~and economical telecommunications network. To foster this goal the~~
13 ~~following policies apply:~~

14 ~~(1) Prior to the date(s) of retirement, the Commission may~~
15 ~~approve capital recovery schedules to correct calculated~~
16 ~~deficiencies where a utility demonstrates that (a) replacement of~~
17 ~~an installation or group of installations is prudent, and (b) the~~
18 ~~associated investment will not be recovered by the time of~~
19 ~~retirement through the normal depreciation process.~~

20 ~~(2) The Commission may approve a special capital recovery~~
21 ~~schedule when an installation is designed for a specific purpose or~~
22 ~~for a limited duration.~~

23 ~~(3) Associated plant and reserve activity, balances, and the~~
24 ~~annual capital recovery schedule expense(s) must be maintained as~~
25 ~~subsidiary records.~~

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DOCKET NO. 960715-TL
DATE: June 13, 1996

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Specific Authority 350.127(2) FS.
Law Implemented 350.115, 364.03 FS.
History--New 9-8-81, Formerly 25-4.176, Repealed.

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MEMORANDUM

June 3, 1996

TO: DIVISION OF APPEALS (CALDWELL)

FROM: DIVISION OF RESEARCH AND REGULATORY REVIEW (HEWITT) *CBH ; L JMA*

SUBJECT: ECONOMIC IMPACT STATEMENT FOR PROPOSED REVISIONS TO RULE 25-4.0174, 4.0175, 4.0177, FAC, DEPRECIATION, AND REPEAL OF RULE 25-4.0176, FAC, RECOVERY SCHEDULES

The proposed changes to the above rules would streamline the filing requirements for a change in depreciation rates and codify Section 364.052(2)(a), F.S. The statute requires the Commission to establish ranges of basic factors for lives and salvage values for companies subject to that section. Currently, companies must file data for different methods to determine depreciation schedules. The proposed amendments would simplify the depreciation prescription process, provide administrative cost savings, provide flexibility for the companies, and ensure reasonable depreciation rates.

The statutes require an agency to prepare an economic impact statement if a rule revision results in any "substantial increase in costs" or "significant adverse effects" to the parties directly affected, including state and local governmental entities. Since the revisions should decrease Commission staff paperwork and no substantial additional costs or significant adverse impacts have been identified, there is no need for preparation of an EIS for the proposed rule changes.

Please keep my name on the CASR.

CBH:tf/e-lecdep
cc: Mary Andrews Bane
Hurd Reeves