

FLORIDA PUBLIC SERVICE COMMISSION

Capital Circle Office Center  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0850

MEMORANDUM

September 26, 1996

TO : DIRECTOR OF RECORDS AND REPORTING (BAYO)

FROM : DIVISION OF AUDITING AND FINANCIAL ANALYSIS (HICKS) *RH*  
DIVISION OF COMMUNICATIONS (REITE) *RTT*  
DIVISION OF LEGAL SERVICES (RAMBANA, BROWN) *MCB MC [signature]*

RE : DOCKET NO. 960797-TL - 1996 DEPRECIATION STUDY OF  
INDIANTOWN TELEPHONE COMPANY

AGENDA: 10/08/96 - REGULAR AGENDA - PROPOSED AGENCY ACTION -  
INTERESTED PARTIES MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: S:\PSC\AFA\WP\960797.RCM  
R:960797.WK4

CASE BACKGROUND

On July 1, 1996, the Commission established ranges of basic factors for lives and salvage values to be used in developing depreciation rates for companies subject to Rule 25-4.0175, Florida Administrative Code; Depreciation (Docket No. 960715-TL). The ranges are presumptively valid and the burden of proof is placed on any party protesting a Commission approved life or salvage value.

If a company's current or proposed service life or salvage value for any given account is not within the established ranges, the company must file additional information. Each company should also make an election to continue using remaining life methodology or to switch to whole life methodology. The election is one-time, and requests for a change in the life and/or salvage factor for any account can be no more than once a year.

Indiantown Telephone Company (Indiantown or Company) filed a request for approval of remaining life rates on July 1, 1996, and requested a January 1, 1996 implementation date.

DOCUMENT NUMBER-DATE

10347-26

FPSC-RECORDS/RE. ORTING

DOCKET NO. 960797-TL  
September 26, 1996

DISCUSSION OF ISSUES

ISSUE 1: Should currently prescribed rates be revised at this time?

RECOMMENDATION: Yes. A review of Indiantown's plans and activity indicates that there is a need for revision of current rates.  
(HICKS)

STAFF ANALYSIS: The last comprehensive depreciation study for Indiantown was submitted December 21, 1992, and its current depreciation rates and amortization schedules were approved effective January 1, 1993. Before revision, Rule 25-4.0175, Florida Administrative Code, required telephone companies to file a comprehensive depreciation study at least once every three years. However, Rule 25-4.0175, Florida Administrative Code, has been revised.

Rule 25-4.0175, Florida Administrative Code, allows telephone companies to change their depreciation rates once a year. The rule also provides ranges of life and salvage factors for telephone plant accounts. The ranges are considered presumptively valid, and movement within them requires no justification. However, justification is required to move into or out of a established range.

On July 1, 1996, the Company filed a request to change its remaining life rates in keeping with this rule. A review of Indiantown Telephone Company's plans and activity indicates that there is a need for revision of current rates.

**ISSUE 2:** What are the appropriate life and salvage values?

**RECOMMENDATION:** Staff's recommendation, based on investments as of December 31, 1995, and reflected on Attachments A, B, and C, would result in a decrease in annual expenses of approximately \$850. Attachment A is a comparison of the basic factors approved by the Commission, the factors proposed by the company, and the factors recommended by staff. Attachment B is a comparison of the depreciation rates and components, and Attachment C reflects the resultant depreciation expenses. (HICKS)

**STAFF ANALYSIS:** Staff has reviewed Indiantown's request to change its remaining life rates in accordance with Rule 25-4.0175, F.A.C. The filing reveals that the current and proposed life and/or salvage factors of some of the company's accounts are not within the Commission established ranges. For those accounts, the company has provided additional support to justify its request. A brief discussion regarding these accounts is provided below.

**Account 2116.1 - Construction Equipment**

The company is currently outside of the Commission established range of life values which is 8-11 years for this account. In support of its proposal to remain outside of the range, the company states that half of the investment in this account is 15 years old and the remaining half is 2 years old. Staff believes that the company's proposed life of 13.5 years is in line with the experience of this account.

**Accounts 2121.0; 2121.1; 2121.2; 2121.3 - Buildings**

The company's proposed average service life of 34 years is a composite of the currently prescribed life of each subaccount, and it is within the established range. However, the current composite net salvage of the subaccounts is 6.9%, which is outside the established range of zero to 5%. In its proposal to move within the range, the company states that a salvage factor of 5% is more typical of industry experience. Staff believes the company's proposed life and salvage factors are reasonable.

**Account 2232.1 - Circuit Analog**

The investment in this account is fully recovered. Therefore, no future depreciation rate or accrual is needed.

**Account 2362.2 - Terminating Equipment**

The company's currently prescribed average service life is 10.8 years, which is outside of the established range of 8-10 years. The company is proposing a life of 9.9 years, which is within the established range, stating the shift reflects its increasing concern over existing equipment in a highly technology driven account. The proposal appears reasonable.

**Account 2411.0 - Poles**

The currently prescribed net salvage is negative 30%. Although the factor is outside the established range of negative 60%-40%, it is in line with the company's experience with the account. As such, staff recommends the Commission accept the company's proposal to retain the negative 30% net salvage.

**Account 2421.4 - Aerial Cable-Fiber**

There is currently no investment in this account. However, the current salvage factor is outside of the established range. The company is proposing to move within the range by changing its net salvage from negative 15% to negative 25%. This appears to be in line with other companies, and it recognizes the labor intensiveness of the removal.

**Account 2423.2 - Buried Cable-Metallic Filled**

The company's currently prescribed service life of 16.3 years is below the established range of 17-19 years. The company proposes to move within the range with an average service life of 17 years. While the future retirement of metallic cables may be inexact, current industry projections reflect a general phase-out of interoffice facilities by 2000; feeder cable between 2004 and 2015; distribution facilities a few years later. The company's proposal is in line with these general projections.

In the company's last depreciation review, the Commission approved a 2 year recovery schedule for the remaining net investment of \$62,214 in the Air Core Metallic Buried Cable Account (Investment - \$277,673; Reserve - \$215,460). However, the current study reflects an investment balance of \$244,679, and a reserve balance of \$244,679 for this account. Although there is no impact on the amount of annual depreciation expense being recommended by staff, the company's records should reflect a zero balance for this account. The company agreed. As a result, the balance in the Air Core Metallic Buried Cable account has been retired.

DOCKET NO. 960797-TL  
September 26, 1996

Staff's recommendation, based on investments as of December 31, 1995, and reflected on Attachments A, B, and C, would result in a decrease in annual expenses of approximately \$850. Attachment A is a comparison of the basic factors approved by the Commission, the factors proposed by the company, and the factors recommended by staff. Attachment B is a comparison of the depreciation rates and components, and Attachment C reflects the resultant depreciation expenses.

DOCKET NO. 960797-TL  
September 26, 1996

**ISSUE 3:** What should be the implementation date for the new rates?

**RECOMMENDATION:** The Company has requested, and Staff recommends, an implementation date of January 1, 1996. (HICKS)

**STAFF ANALYSIS:** Rule 25-4.0175, Florida Administrative Code, states that a utility requesting an implementation date at the beginning of its fiscal year must submit its request prior to the mid-point of that fiscal year. The company's request was submitted July 1, 1996, with a proposed implementation date of January 1, 1996. Since Indiantown's fiscal year is the calendar year, its proposed implementation date is in accordance with the rule.

The schedule reflecting the company's proposed life and salvage parameters are based on a December 31, 1995 date. In addition, the proposed implementation date is in keeping with Rule 25-4.0175, F.A.C. As a result, staff recommends the Commission accept the company's proposed implementation date of January 1, 1996.

**ISSUE 4:** Should this docket be closed?

**RECOMMENDATION:** Yes. If no substantially affected person timely files a protest to the Commission's notice of proposed agency action, this docket should be closed. (HICKS)

**STAFF ANALYSIS:** If no substantially affected person files a timely request for a Section 120.57, Florida Statutes, hearing within twenty-one days, no further action will be required, and this docket should be closed.

INDIANTOWN TELEPHONE COMPANY  
1996 STUDY  
COMPARISON OF RANGES

ATTACHMENT A

ACCOUNT	12/31/95	12/31/95	COMMISSION		CURRENT		COMPANY		STAFF	
	INVESTMENT	RESERVE	APPROVED RANGES	NET SALV.	A.S.L.	NET SALV.	PROPOSED	NET SALV.	RECOMMENDED	NET SALV.
			A.S.L.	(%)	A.S.L.	(%)	A.S.L.	(%)	A.S.L.	(%)
			(Yrs.)	(%)	(Yrs.)	(%)	(Yrs.)	(%)	(Yrs.)	(%)
<b>GENERAL SUPPORT ASSETS</b>										
2112.1 Motor Vehicles - Pass. Cars /LT Trucks	123,256	61,267	6 - 8	10 - 20	7.0	15.0	7.4	15.0	7.4	15.0
2116.1 Spec. Purp. Veh. / Construction Equipment	32,038	13,027	8 - 11	5 - 10	16.3	10.0	13.5	10.0	13.5	10.0
2121 Buildings	894,624	291,271	32 - 36	0 - 5	34.0	6.5	34.0	5.0	34.0	5.0
2116 Other Work Equipment	139,284	79,907	7 yr. Amortization		7 yr. Amortization		7 yr. Amortization		7 yr. Amortization	
2122 Furniture	47,443	33,035	10 yr. Amortization		10 yr. Amortization		10 yr. Amortization		10 yr. Amortization	
2123.1 Office Support Equipment	67,999	47,025	7 yr. Amortization		7 yr. Amortization		7 yr. Amortization		7 yr. Amortization	
2123.2 Official Telephone System	42,228	32,439	5 yr. Amortization		5 yr. Amortization		5 yr. Amortization		5 yr. Amortization	
2124 General Purpose Computer	281,157	210,794	5 yr. Amortization		5 yr. Amortization		5 yr. Amortization		5 yr. Amortization	
<b>CENTRAL OFFICE ASSETS</b>										
2212.1 Digital Switch	1,509,421	661,474	13 - 16	0 - 5	14.8	0.0	14.3	0.0	14.3	0.0
2232.1 Circuit - Analog	166,008	166,008	8 - 10	(5) - 0	10.0	0.0	10.3	0.0	10.3	0.0
2232.3 Circuit - Digital	1,275,225	638,057	10 - 12	0 - 5	12.3	0.0	11.7	0.0	11.7	0.0
2232.4 Circuit - Fiber Optics	649,087	96,997	8 - 10	0 - 5	10.0	0.0	10.1	0.0	10.1	0.0
2232.5 COE - Stuart West	79,952	79,952	10 - 12	0 - 5	-	-	-	-	-	-
2232.5 COE - Stuart West - Additions	30,126	4,206	10 - 12	0 - 5	11.8	0.0	10.5	0.0	10.5	0.0
<b>INFORMATION ORIG/TERM ASSETS</b>										
2351 Pay Stations	51,765	18,705	8 - 10	0 - 5	10.3	0.0	9.4	0.0	9.4	0.0
2362.2 Terminating Equipment	47,625	30,738	8 - 10	0 - 5	10.8	0.0	9.9	0.0	9.9	0.0
<b>CABLE &amp; WIRE FACILITIES</b>										
2411 Poles	17,687	15,664	20 - 22	(60) - (40)	21.0	(30.0)	22.4	(30.0)	22.4	(30.0)
2421.4 Aerial Cable - Fiber	0	0	20 - 22	(30) - (20)	20.0	(15.0)	20.0	(25.0)	20.0	(25.0)
2422 Underground Cable - Metallic	144,326	46,412	19 - 21	(10) - (5)	19.5	(5.0)	18.7	(5.0)	18.7	(5.0)
2422.4 Underground Cable - Fiber	176,606	13,756	20 - 22	(10) - (5)	20.0	(5.0)	20.0	(5.0)	20.0	(5.0)
2423.2 Buried Cable - Metallic - Filled	4,381,946	1,947,026	17 - 19	(5) - 0	16.3	(5.0)	17.3	(5.0)	17.3	(5.0)
2423.4 Buried Cable - Fiber	794,374	98,889	20 - 22	(5) - 0	20.0	(5.0)	20.0	(5.0)	20.0	(5.0)
2441 Underground Conduit	142,529	21,779	50 - 52	(5) - 0	50.0	(5.0)	50.0	(5.0)	50.0	(5.0)
<b>TOTAL</b>	<b>11,094,706</b>	<b>4,608,428</b>								

**INDIANTOWN TELEPHONE COMPANY**  
**1996 STUDY**  
**COMPARISON OF DEPRECIATION RATES AND COMPONENTS**

**ATTACHMENT B**

ACCOUNT	CURRENT				COMPANY PROPOSED				STAFF RECOMMENDED			
	AVERAGE REMAINING LIFE	NET SALVAGE (%)	BOOK RESERVE (%)	ARL RATE (%)	AVERAGE REMAINING LIFE	NET SALVAGE (%)	BOOK RESERVE (%)	ARL RATE (%)	AVERAGE REMAINING LIFE	NET SALVAGE (%)	BOOK RESERVE (%)	ARL RATE (%)
	(yrs.)	(%)	(%)	(%)	(yrs.)	(%)	(%)	(%)	(yrs.)	(%)	(%)	(%)
<b>GENERAL SUPPORT ASSETS</b>												
2112 Motor Vehicles - Pass. Cars /Li.Trucks	4.4	15.0	34.77	11.4	3.3	15.0	49.71	10.7	3.3	15.0	49.71	10.7
2116 Spec. Purp. Veh. / Construction Equipment	4.5	10.0	65.25	5.5	6.9	10.0	40.66	7.2	6.9	10.0	40.66	7.2
2121 Buildings	24.1	0.9	26.21	2.8	22.0	5.0	32.56	2.8	22.0	5.0	32.56	2.8
2116 Other Work Equipment	7 Yr. Amortization				7 Yr. Amortization				7 Yr. Amortization			
2122 Furniture	10 Yr. Amortization				10 Yr. Amortization				10 Yr. Amortization			
2123 Office Support Equipment	7 Yr. Amortization				7 Yr. Amortization				7 Yr. Amortization			
2123 Official Telephone System	5 Yr. Amortization				5 Yr. Amortization				5 Yr. Amortization			
2124 General Purpose Computer	5 Yr. Amortization				5 Yr. Amortization				5 Yr. Amortization			
<b>CENTRAL OFFICE ASSETS</b>												
2212 Digital Switch	10.3	0.0	29.58	6.8	7.3	0.0	43.82	7.7	7.3	0.0	43.82	7.7
2232 Circuit - Analog	3.1	0.0	92.98	2.3	-	-	-	N/A	-	-	-	N/A
2232 Circuit - Digital	7.6	0.0	49.17	6.7	6.2	0.0	50.03	8.1	6.2	0.0	50.03	8.1
2232 Circuit - Fiber Optics	10.0	0.0	13.75	8.6	8.5	0.0	14.94	10.0	8.5	0.0	14.94	10.0
2233 COE - Stuart West	-	-	-	N/A	-	-	-	N/A	-	-	-	N/A
2233 COE - Stuart West - Additions	11.8	0.0	0.00	8.5	10.5	0.0	13.96	8.2	10.5	0.0	13.96	8.2
<b>INFORMATION ORIG/TERM ASSETS</b>												
2351 Pay Stations	6.3	0.0	38.18	9.8	6.0	0.0	36.13	10.6	6.0	0.0	36.13	10.6
2362 Terminating Equipment	6.9	0.0	39.18	8.8	3.6	0.0	64.54	9.9	3.6	0.0	64.54	9.9
<b>CABLE &amp; WIRE FACILITIES</b>												
2411 Poles	11.1	(30.0)	71.24	5.3	9.8	(30.0)	88.56	4.2	9.8	(30.0)	88.56	4.2
2421 Aerial Cable - Fiber	20.0	(15.0)	0.00	5.8	20.0	(25.0)	0.00	6.3	20.0	(25.0)	0.00	6.3
2422 Underground Cable - Metallic	11.4	(5.0)	42.12	5.5	12.6	(5.0)	32.16	5.8	12.6	(5.0)	32.16	5.8
2422 Underground Cable - Fiber	20.0	(5.0)	0.00	5.3	18.5	(5.0)	7.79	5.3	18.5	(5.0)	7.79	5.3
2423 Buried Cable - Metallic - Filled	11.0	(5.0)	34.53	6.4	10.6	(5.0)	44.43	5.7	10.6	(5.0)	44.43	5.7
2423 Buried Cable - Fiber	20.0	(5.0)	7.16	4.9	18.5	(5.0)	12.45	5.0	18.5	(5.0)	12.45	5.0
2441 Underground Conduit	44.0	(5.0)	12.33	2.1	42.0	(5.0)	15.28	2.1	42.0	(5.0)	15.28	2.1

**INDIANTOWN TELEPHONE COMPANY**  
**1996 STUDY**  
**COMPARISON OF DEPRECIATION EXPENSES**

**ATTACHMENT C**

ACCOUNT	12/31/95		CURRENT		COMPANY PROPOSED		STAFF RECOMMENDED		CHANGE IN EXPENSES
	INVESTMENT	RESERVE	A.R.L. RATE	EXPENSES	A.R.L. RATE	EXPENSES	A.R.L. RATE	EXPENSES	
	(\$)	(\$)	(%)	(\$)	(%)	(\$)	(%)	(\$)	(\$)
<b>GENERAL SUPPORT ASSETS</b>									
2112.1 Motor Vehicles - Pass. Cars / Lt. Trucks	123,256	61,267	11.4	14,051	10.7	13,188	10.7	13,188	(863)
2116.1 Spec. Purp. Veh. / Construction Equipment	32,038	13,027	5.5	1,762	7.2	2,307	7.2	2,307	545
2121 Buildings	894,624	291,271	2.8	25,049	2.8	25,049	2.8	25,049	0
2116 Other Work Equipment	139,284	79,907	7 Yr	14,430	7 Yr	14,430	7 Yr	14,430	0
2122 Furniture	47,443	33,035	10 Yr	3,245	10 Yr	3,245	10 Yr	3,245	0
2123.1 Office Support Equipment	67,999	47,025	7 Yr	8,609	7 Yr	8,609	7 Yr	8,609	0
2123.2 Official Telephone System	42,228	32,439	5 Yr	5,912	5 Yr	5,912	5 Yr	5,912	0
2124 General Purpose Computer	281,157	210,794	5 Yr	21,390	5 Yr	21,390	5 Yr	21,390	0
<b>CENTRAL OFFICE ASSETS</b>									
2212.1 Digital Switch	1,509,421	661,474	6.8	102,641	7.7	116,225	7.7	116,225	13,584
2232.1 Circuit - Analog	166,008	166,008							
2232.3 Circuit - Digital	1,275,225	638,057	6.7	85,440	8.1	103,293	8.1	103,293	17,853
2232.4 Circuit - Fiber Optics	649,087	96,997	10.0 *	64,909	10.0	64,909	10.0	64,909	0
2232.5 COE - Stuart West	79,952	79,952	0.0	0	0.0	0	0.0	0	0
2232.5 COE - Stuart West - Additions	30,126	4,206	8.5	2,561	8.2	2,470	8.2	2,470	(91)
<b>INFORMATION ORIGTERM ASSETS</b>									
2351 Pay Stations	51,765	18,705	9.8	5,073	10.6	5,487	10.6	5,487	414
2362.2 Terminating Equipment	47,625	30,738	8.8	4,191	9.8	4,667	9.9	4,715	524
<b>CABLE &amp; WIRE FACILITIES</b>									
2411 Poles	17,687	15,664	5.3	937	4.2	743	4.2	743	(194)
2421.4 Aerial Cable - Fiber	0	0	5.3 *	0	0.0	0	0.0	0	0
2422 Underground Cable - Metallic	144,326	46,412	5.5	7,938	5.8	8,371	5.8	8,371	433
2422.4 Underground Cable - Fiber	176,606	13,756	5.3 *	9,360	5.3	9,360	5.3	9,360	0
2423.2 Buried Cable - Metallic - Filled	4,381,946	1,947,026	6.4	280,445	5.7	249,771	5.7	249,771	(30,674)
2423.4 Buried Cable - Fiber	794,374	98,889	5.3 *	42,102	5.0	39,719	5.0	39,719	(2,383)
2441 Underground Conduit	142,529	21,779	2.1	2,993	2.1	2,993	2.1	2,993	0
<b>RECOVERY SCHEDULES</b>									
2423 Buried Cable - Metallic (2 Yr)	244,679	244,679							0
Dfd. Rev. - CIAC Order No. 21474	0	216,938		(33,207)		(33,207)		(33,207)	0
<b>TOTAL</b>	<b>\$11,339,385</b>	<b>\$5,070,045</b>		<b>\$669,831</b>		<b>\$668,931</b>		<b>\$668,979</b>	<b>(\$852)</b>

\* Denotes whole life rate