**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**

 **September 26, 1996**

**TO: DIRECTOR OF RECORDS AND REPORTING (BAYO)**

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

 **DIVISION OF COMMUNICATIONS (REITH)**

 **DIVISION OF LEGAL SERVICES (RAMBANA, BROWN)**

**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.

 **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.

 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.

**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

 COMMISSION COMPANY STAFF

 12/31/95 12/31/95 APPROVED RANGES CURRENT PROPOSED RECOMMENDED

 ACCOUNT INVESTMENT RESERVE A.S.L. NET SALV. A.S.L. NET SALV. A.S.L. NET SALV. A.S.L. NET SALV.

 (Yrs.) (%) (Yrs.) (%) (Yrs.) (%) (Yrs.) (%)

 GENERAL SUPPORT ASSETS

 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 6.9 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

 CENTRAL OFFICE ASSETS

 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

 INFORMATION ORIG/TERM ASSETS

 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

 CABLE & WIRE FACILITIES

 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)

 TOTAL 11,094,706 4,608,428

 INDIANTOWN TELEPHONE COMPANY ATTACHMENT B

 1996 STUDY

 COMPARISON OF DEPRECIATION RATES AND COMPONENTS

 CURRENT COMPANY PROPOSED STAFF RECOMMENDED

 AVERAGE AVERAGE AVERAGE

 REMAINING NET BOOK ARL REMAINING NET BOOK ARL REMAINING NET BOOK ARL

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

 (yrs.) (%) (%) (%) (yrs.) (%) (%) (%) (yrs.) (%) (%) (%)

 GENERAL SUPPORT ASSETS

 2112.1 Motor Vehicles ‑ Pass. Cars /Lt.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

 2116.1 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 6.9 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

 2123.1 Office Support Equipment 7 Yr. Amortization 7 Yr. Amortization 7 Yr. Amortization

 2123.2 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

 CENTRAL OFFICE ASSETS

 2212.1 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

 2232.1 Circuit ‑ Analog 3.1 0.0 92.98 2.3 ‑ ‑ ‑ N/A ‑ ‑ ‑ N/A

 2232.3 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

 2232.4 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

 2232.5 COE ‑ Stuart West ‑ ‑ ‑ N/A ‑ ‑ ‑ N/A ‑ ‑ ‑ N/A

 2232.5 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

 INFORMATION ORIG/TERM ASSETS

 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

 2362.2 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

 CABLE & WIRE FACILITIES

 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

 2421.4 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

 2422.4 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

 2423.2 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

 2423.4 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 ATTACHMENT C

 1996 STUDY

 COMPARISON OF DEPRECIATION EXPENSES

 CURRENT COMPANY PROPOSED STAFF RECOMMENDED

 CHANGE

 12/31/95 12/31/95 A.R.L. A.R.L. A.R.L. IN

 ACCOUNT INVESTMENT RESERVE RATE EXPENSES RATE EXPENSES RATE EXPENSES EXPENSES

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

 GENERAL SUPPORT ASSETS

 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

 CENTRAL OFFICE ASSETS

 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)

 INFORMATION ORIG/TERM ASSETS

 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

 CABLE & WIRE FACILITIES

 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

 RECOVERY SCHEDULES

 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

 TOTAL $11,339,385 $5,070,045 $669,831 $668,931 $668,979 ($852)

 \* Denotes whole life rate