

## BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: UNITED TELEPHONE COMPANY OF ) DOCKET NO. 880860-TL  
 FLORIDA's 1988 Depreciation Study ) ORDER NO. 21598  
 ) ISSUED: 7-21-89

The following Commissioners participated in the disposition of this matter:

MICHAEL McK. WILSON, Chairman  
 THOMAS M. BEARD  
 GERALD L. GUNTER  
 JOHN T. HERNDON  
 BETTY EASLEY

NOTICE OF PROPOSED AGENCY ACTIONORDER APPROVING NEW DEPRECIATION RATES, RECOVERY SCHEDULES AND ADJUSTMENT OF DEPRECIATION RESERVE

BY THE COMMISSION:

Notice is hereby given by the Florida Public Service Commission of its intent to approve the request of United Telephone Company of Florida (United) for new depreciation rates, recovery schedules and adjustment of depreciation reserves pursuant to Sections 350.127 and 364.03, Florida Statutes (1987), and Rule 25-4.175, Florida Administrative Code. This action is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for formal proceeding pursuant to Rule 25-22.029.

Rule 25-4.0175(7) requires telephone companies to periodically file a comprehensive depreciation study at least once every three years. In compliance with this rule, United filed its triennial depreciation study (Study) on June 27, 1988, requesting our rescription of United's depreciation rates and approval of recovery schedules. The Study represents a comprehensive review of all classes of equipment.

By Order No. 20330, issued November 18, 1988, we granted United's request to record a one-time charge of \$16,125,182 in 1988 depreciation expense to be applied to an outside plant cable reserve deficiency. United had also sought authority to implement its proposed depreciation rates and recovery schedules on a preliminary basis beginning January 1, 1989; however, we denied this request and granted authority to

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implement rates and schedules recommended by our Staff. This action was taken on condition that that these expenses and adjustments will be "true-up" to reflect any differences noted after our review of the Study is completed.

#### RESERVE ADJUSTMENTS

In Order No. 16257, issued June 19, 1986, we approved continuing monthly adjustments to United's depreciation reserve to implement prospectively an interest synchronization adjustment. The Study proposes that \$1,203,000 in intrastate adjustments for 1987, 1988 and 1989 be applied as a credit to reduce the 1989 intrastate depreciation expenses associated with proposed recovery schedules for central office equipment. Similarly, the Study proposes that the applicable 1990 and 1991 adjustments be applied to reduce each year's intrastate amortization expenses. We will approve these adjustments to United's depreciation reserve which are shown on Attachment 1.

Our Staff recommends that 1989 and 1990 surpluses arising from increased salvage estimates be transferred from the reserve for digital switching equipment to offset deficiencies projected in other accounts. Part of the 1989 amount would be transferred to the depreciation reserves associated with electromechanical equipment, radio equipment and the associated circuit equipment planned for retirement in 1989, thereby reducing the unrecovered investments. Additionally, the balance of the 1989 surplus would offset a reserve deficiency associated with radio towers that were retired in 1988. The surplus associated with the 1990 retiring digital equipment would be transferred to the reserve for the electromechanical switching equipment scheduled for retirement in 1990 in order to reduce the unrecovered investment. We approve these adjustments to United's depreciation reserves which are shown on Attachment 2.

In Order No. 13624, issued August 27, 1984, we directed United to record \$8,650,000 of additional intrastate depreciation expense in the digital switching equipment account. The Study proposes that this amount be transferred from this account's reserve and be amortized in equal annual amounts over a three-year period as credits to the associated intrastate depreciation expenses. We will approve these transfers in United's depreciation reserve accounts which are shown on Attachment 1.

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#### RECOVERY SCHEDULES

We will adopt the amortization schedules listed on Attachment 2 that cover property planned for retirement during the period from 1989 through 1991. In accordance with its plans to retire all existing analog microwave radio systems within the next three years, United proposes recovery schedules for the associated towers. As discussed above, we have approved a depreciation reserve transfer involving this account that will offset the reserve deficiency created when three towers were retired in 1988. The recovery schedules which we approve are calculated to recover United's investments in towers that will be retired in 1989 and 1990. Accordingly, the schedules are designed to cover these investments over the remaining period during which the towers will be used to serve the public. The investments in towers retired in 1989 will be recovered during 1989, and for those retired in 1990, the investments will be recovered during 1989 and 1990. United will calculate the monthly amortization expense by dividing the net investment for that month by the number of months remaining in the amortization period.

The amortization schedule for operator systems that we approve is designed to recover the net investment in two systems which are being used under lease agreements that expire December 31, 1990. United had forecast a 40% resale value for this equipment; however, our Staff recommends that no resale value be recognized, and we adopt that recommendation.

Order No. 20330 approved interim treatment of near-term retirements of digital switching equipment subject to a later "true-up". Subsequent changes in United's plans now require that nine switches be advanced into the 1989-1991 period for retirement while three switches be delayed for retirement after 1991. We find these plans to be prudent. The Study failed to propose that these investments include the additions necessary to support normal growth and to maintain reliable service until the retirement of these switches. Our Staff recommends that these additions be amortized over the remaining period that the associated equipment will serve the public, and we adopt that recommendation. As discussed above, we have approved reserve transfers involving these accounts because the company's reuse plans indicate that surpluses will be created in the depreciation reserves when equipment is retired in 1989 and 1990.

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Similarly, our Staff recommends that the recovery schedules proposed for electromechanical switching equipment include the additions which are needed to support normal growth and to maintain reliable service until the associated equipment is retired. These schedules are designed to recover the net investment over the remaining period that the equipment will be used to serve the public. United will calculate the monthly expense by dividing the net investment for that month by the number of months remaining in the amortization period. In this manner, both the embedded costs as well as the short-lived additions will be recovered fully over the amortization period.

United's plans for retiring radio equipment during the 1989-1990 period appears prudent. Also, the company's proposed amortization schedules for circuit equipment during the 1989-1991 period, as modified by the depreciation reserve transfers discussed above, appear appropriate. These schedules should recover the net investments over the remaining period that the equipment associated analog radio and electromechanical switching equipment will be in service.

#### DEPRECIATION RATES

As a result of our comprehensive review of the Study, we will prescribe the depreciation rates and components listed on Attachment 3. The company revised its original proposals to concur with certain suggestions made by our Staff, and in most instances, the prescribed rates mirror those proposed by United in its revised requests. There are four major differences between United's proposals as revised and our Staff's recommendation.

For "flexible" digital switching equipment, our Staff believes that retirement rates in the 1990s will be increased because 30% of current investments in these accounts is expected to be replaced as new components are substituted for present equipment. The Study does not recognize the impact of such retirements and additions of components. We approve Staff's recommendation regarding these anticipated changes, assuming a 20-year life and a trimodal interim rate of 2.5% for the normal period and 4.5% for the 1991-1997 period. Remote switching equipment is assumed to have the same life as its host equipment. We approve a 12.4-year life for these switches. We intend to monitor this equipment to determine if switches should be retired rather than having components exchanged as technological developments occur.

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Concerning circuit equipment, our Staff recommends that private line equipment be gradually retired as the Integrated Services Digital Network is introduced, expanding United's data switching capability. We accept this recommendation in lieu of the Study's proposal that this equipment be retired all at once.

Although the Study made no provision for retiring the analog circuit equipment along with its associated electromechanical switches that will remain in use at the end of the represcription period, our Staff believes that this should be accomplished. We adopt the life and salvage factors recommended for this equipment by our Staff.

The final area of difference involves the accounts for Aerial, Underground and Buried (Filled) Metallic Cable. Having concluded that the Study does not correctly reflect United's planning for these assets, Staff has formulated its recommendation based on industry forecasts for the replacement of copper conductors with fiber. Staff supports the view that, while fiber will be substituted for copper in Inter-Office and Feeder Cables in the near-term, distribution plant will not be converted totally to fiber until the period of the 2020s. Staff expects fiber technology to have only a minimal impact on United's embedded distribution plant in the near-term with the result that most existing subscribers will not be served during that time period with "fiber to the home." We adopt Staff's recommendation which projects that the lives of distribution cable will be similar to those adopted before the advent of fiber technology. Further, we direct United to inventory Buried (Nonfilled) Cable and Aerial Wire prior to our next represcription because we expect substantial retirements in these accounts. Since such retirements are not projected in the Study, we are concerned that these accounts might not represent existing assets.

United requested a January 1, 1989 implementation date for its newly-prescribed depreciation rates. All data and calculations submitted in the Study support this date. We believe this to be an appropriate effective date and will approve the requested implementation date.

Now, therefore, in consideration of the foregoing, it is

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ORDERED by the Florida Public Service Commission that the depreciation reserve accounts of United Telephone Company of Florida, its depreciation rates and components, and its amortization schedules are hereby adjusted and represeted as set forth in the body of this Order and as more particularly identified in the attachments appended to this Order. It is further

ORDERED that this docket shall be closed at the expiration of the period established below if a proper protest has not be received.

By ORDER of the Florida Public Service Commission,  
this 21st day of JULY, 1989.

  
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STEVE TRIBBLE Director  
Division of Records and Reporting

( S E A L )

DLC

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

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The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on August 11, 1989. In the absence of such a petition, this order shall become effective August 14, 1989, as provided by Rule 25-22.029(6), Florida Administrative Code, and as reflected in a subsequent order.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

If this order becomes final and effective on August 14, 1989, any party adversely affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or sewer utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days of the effective date of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

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ATTACHMENT 1

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ALLOCATION OF JDITC INTRASTATE ADJUSTMENTS

Estimated Amortization Expenses (Total Company)

	<u>1989</u>	<u>1990</u>	<u>1991</u>
Digital Switching (1989-1991 Rets.)	\$2,024,429	\$2,208,429	\$2,278,429
Electromechanical (1989-1991 Rets.)	1,139,496	1,139,498	344,542
Radio (1989-1990 Rets.)	369,349	369,348	
Circuit(Radio) (1989-1990 Rets.)	4,819,364	2,030,000	
Circuit(Electromech.) (1989-1991) Rets.)	<u>588,544</u>	<u>317,905</u>	<u>8,856</u>
Total	\$8,941,182	\$6,065,180	\$2,631,827
Forecasted intrastate COE plant factors	<u>66.6525%</u> -\$5,959,521	<u>69.3851%</u> \$4,208,331	<u>72.5081%</u> \$1,908,288
Less "intrastate-only" reserves to be applied:			
a) 1984 earnings reserve- COE Digital	\$(4,350,000)	\$(3,300,000)	\$(1,000,000)
b) 1987-1991 JDITC/Interest synchronization	<u>(1,203,000)</u>	<u>(401,000)</u>	<u>(401,000)</u>
Net amortization to intrastate	<u>\$ 406,521</u>	<u>\$ 507,331</u>	<u>\$ 507,288</u>



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## ATTACHMENT 2

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ACCOUNT	1-1-89 INVESTMENT	1-1-89 RESERVE	EXPECTED SALVAGE	RESERVE TRANSFERS	NET PLANT TO BE RECOVERED	NUMBER OF YEARS
TOWERS						
(1988 RETIREMENTS)	\$0	(\$39,705)	0	\$39,705 *	\$0	1
(1989 RETIREMENTS)	417,453	300,984	(\$62,617)		179,086	1
(1990 RETIREMENTS)	52,644	52,644	(74,053)		97,651	2
OPERATOR SYSTEMS (1990 RETIREMENTS)	\$2,514,775	\$1,541,304	\$0	\$0	\$973,471	2
DIGITAL SWITCHING						
(1989 RETIREMENTS)	\$19,525,074 #	\$11,685,033	\$12,300,207	(\$4,460,166) *	\$0	1
(1990 RETIREMENTS)	9,187,303 #	4,819,947	5,185,981	(818,625) **	0	2
(1991 RETIREMENTS)	21,291,083 #	9,379,235	5,400,561	0	6,511,287	3
ELECTROMECHANICAL						
(1989 RETIREMENTS)	\$17,240,406	\$15,407,385	\$810,754	\$1,022,267 *	\$0	1
(1990 RETIREMENTS)	16,082,400 #	13,673,864	0	818,625 **	1,589,911	2
(1991 RETIREMENTS)	8,108,914 #	7,075,289	0	0	1,033,625	3
RADIO						
(1989 RETIREMENTS)	\$4,862,162	\$3,560,030	(\$121,554)	\$1,423,686 *	\$0	1
(1990 RETIREMENTS)	2,319,349	1,638,636	(57,984)	0	738,697	2
CIRCUIT(assoc. RADIO RETS)						
(1989 RETIREMENTS)	\$9,340,000	\$4,576,129	\$0	\$1,974,508 *	\$2,789,363	1
(1990 RETIREMENTS)	7,960,000	3,899,999	0	0	4,060,001	2
CIRCUIT(assoc. ELECTROMECH.RETS)						
(1989 RETIREMENTS)	\$522,470	\$251,830	\$0	\$0	\$270,640	1
(1990 RETIREMENTS)	1,193,237	575,180	0	0	618,097	2
(1991 RETIREMENTS)	51,290	24,722	0	0	26,568	3
TOTAL	\$120,668,560 #	\$78,422,506	\$23,381,295	\$0	\$18,888,397	

\* 1989 RESERVE SURPLUS APPLIED TO RESERVE DEFICIENCIES ASSOCIATED WITH TOWERS  
ELECTROMECHANICAL SWITCHING, RADIO, AND CIRCUIT.

\*\* RESERVE SURPLUS APPLIED TO ELECTROMECHANICAL SWITCHING.

# INCLUDES FORECASTED INTERIM ADDITIONS.

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## ATTACHMENT 3

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UNITED TELEPHONE COMPANY  
1988 STUDY

ACCOUNT	COMMISSION APPROVED				
	AVERAGE REMAINING LIFE (YRS)	NET SALVAGE (%)	BOOK RESERVE (%)	REMAINING LIFE RATE (%)	
<u>GENERAL SUPPORT ASSETS</u>					
2112.1	PASSENGER CARS	2.3	20.0	48.38	13.7
2112.2	LIGHT TRUCKS	2.4	23.0	46.00	12.9
2112.3	HEAVY TRUCKS	4.9	20.0	44.99	7.1
2114	SPECIAL SUPPORT VEH.	3.7	10.0	62.18	7.5
2115	GARAGE WORK EQUIP	7	YEAR	AMORTIZATION	
2116	OTHER WORK EQUIP	7	YEAR	AMORTIZATION	
2121	SWITCHING BLDGS	28.3	0.0	27.79	2.6
2121	PLANT/OFFICE BLDGS	18.8	0.0	28.09	3.8
2121	OTHER BLDGS	14.5	0.0	18.06	5.7
2121	TOWERS (REMAINING)	6.5	(15.0)	41.24 **	11.3
2121	BUILDING EQUIP	11.5	(5.0)	26.25	6.8
2122	FURNITURE	10	YEAR	AMORTIZATION	
2123.1	OFFICE SUPPORT EQUIP	7	YEAR	AMORTIZATION	
2123.2	COMPANY COMMUNICATIONS	5	YEAR	AMORTIZATION	
2124	GEN PURPOSE COMPUTERS	5	YEAR	AMORTIZATION	
<u>CENTRAL OFFICE ASSETS</u>					
2212	DIGITAL 1210'S (REMAINING)	5.1	4.0	44.02	10.2
2212	DIGITAL OTHER	12.4	5.0	12.21	6.7
	DIGITAL (NEW SWITCHERS)	15.5	10.0	0.00	5.8 *
2215	ELECTROMECH SWITCHING (REM'G)	3.9	0.0	94.84	1.3
2220.1	OPERATOR SYSTEMS (REMAIN'G)	5.5	0.0	39.06 **	11.1
2231.2	RADIO MOBILE	3.9	(3.0)	57.42 **	11.7
2231.3	RADIO OTHER - DIGITAL	5.3	5.0	50.78	8.3
2232	CIRCUIT - ANALOG (REMAINING)	3.9	(3.0)	48.16	14.1
2232	CIRCUIT - DIGITAL	3.9	5.0	43.03	13.3
2232	PRIVATE LINE	4.2	5.0	41.54	12.7
2232	SUBSCRIBER	3.8	5.0	44.34	13.3
2232	FIBER TERMINATION	4.8	0.0	12.98	18.1
2232	SONET FIBER TERMINATION ADDS.	10.0	20.0	0	8.0 *
2232	TOOLS/TEST	4.0	0.0	45.20	13.7
<u>INFORMATION ASSETS</u>					
2311	STATION EQUIP	7.0	0.0	27.45	14.3 *
2351	PUBLIC TELE EQUIP	3.4	3.0	80.06	5.0
2362.2	LINE CONDITIONING	3.7	0.0	75.19	6.7
2362.1	SUBSCRIBER MULTIPLEX	4.3	0.0	55.97	10.2

\* Denotes whole life rate.

\*\* Denotes restated reserve.

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ATTACHMENT 3

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UNITED TELEPHONE COMPANY  
1988 STUDY

ACCOUNT		COMMISSION		APPROVED	
		AVERAGE REMAINING LIFE	NET SALVAGE	BOOK RESERVE	REMAINING LIFE RATE
		---(yrs)---	---(\$)--	---(\$)--	---(\$)--
	<u>CABLE/WIRE FACILITIES</u>				
2411.1	POLES	13.4	(45.0)	41.50	7.7
2421.1	AERIAL CABLE METALLIC	13.0	(12.0)	33.22	6.1
2421.2	AERIAL CABLE FIBER	20.0	0.0	1.16	5.0 *
2422.1	UNDERGRD CABLE METALLIC	13.6	(10.0)	43.85	4.9
2422.2	UNDERGRD CABLE FIBER	20.0	(5.0)	8.88	5.3 *
2423.1	BURIED CABLE FILLED	15.7	(5.0)	22.72	5.2
	BURIED CABLE NONFILLED	5.8	(5.0)	64.83	6.9
2423.2	BURIED CABLE FIBER	20.0	(5.0)	9.49	5.3 *
2424.1	SUBMARINE CABLE METAL	14.7	(5.0)	40.01	4.4
	SUBMARINE CABLE FIBER	20.0	(5.0)	0.88	5.3 *
2426.1	INTRABLDG NETWORK	15.0	(10.0)	7.65	7.3 *
2431.1	AERIAL WIRE	4.5	(35.0)	90.43	9.9
2441.1	UNDERGRD CONDUIT	39.0	(5.0)	22.20	2.1

\* Denotes whole life rate.  
\*\* Denotes restated reserve.