

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: ALLTEL FLORIDA, INC. -)	DOCKET NO. 891026-TL
Request for New Depreciation Rates.)	ORDER NO. 23833
)	ISSUED: 12-4-90

The following Commissioners participated in the disposition of this matter:

MICHAEL MCK. WILSON, CHAIRMAN
 THOMAS M. BEARD
 BETTY EASLEY
 GERALD L. GUNTER
 FRANK S. MESSERSMITH

NOTICE OF PROPOSED AGENCY ACTIONORDER CHANGING DEPRECIATION RATES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are adversely affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

We last prescribed comprehensive depreciation rates for ALLTEL Florida, Inc., (ALLTEL or the Company) in 1987. Those rates were remaining life with recovery schedules addressing the unrecovered central office equipment planned for near-term retirement during 1987 to 1989. In addition, the write-off periods of the historic and prospective reserve deficiencies and inside wire were reduced to permit full recovery within three years.

Since our last represcription of this Company's depreciation rates, projected technological impacts on life and salvage have changed. For example, the move to digital and photon technologies is causing retirements of digital as well as analog circuit equipment and microwave radio. The advent of SONET (Synchronous Optical Network) will significantly impact embedded asynchronous fiber termination equipment. Digital switchers are being upgraded to provide more enhanced services which, in turn, is causing significant changeout of peripheral equipment. The Company's modernization program to establish Carrier Serving Areas, in which loops are limited to a maximum of twelve kilofeet from the serving point, impacts interoffice and feeder copper cable as well as associated equipment.

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The Company's current plans are to replace all analog switches by the end of 1992. Additionally, the Company intends to replace all remaining microwave radio and analog trunk carrier during this time period. Fiber optic facilities have been placed in service along many routes already and will continue to displace present facilities in the next several years.

Ideally, recovery patterns and their expenses should be adjusted immediately upon perceiving the need for change. The supportive data and calculations underlying the proposed new rates are based on January 1, 1990, as the implementation date. Implementation as of the January 1, 1990, date will permit the recognition of more appropriate expenses for the fiscal year. Therefore, we find it appropriate to approve January 1, 1990, as the implementation date for these new rates.

Our decisions herein are the result of our comprehensive review of the Company's depreciation study. Attachment A hereto shows the newly approved rate parameters (lives, salvages, and reserves). Attachment B hereto shows the approved recovery schedules; Attachment C shows the approved restated reserves for the metallic cable accounts.

I. Recovery Schedules

A. Electromechanical Switching (Step and Crossbar)

Current plans call for the replacement of both remaining step offices in 1991 and the ten remaining crossbar offices by year end 1992 (three in 1990, three in 1991, and four in 1992). High maintenance costs, extensive floor space requirements, high trunking costs, lack of custom calling features and extensive rearrangements to provide growth have made replacement to electronic switchers more desirable across the industry. We have reviewed the Company's plans and consider them to be prudent. However, the Company proposes to recover evenly over a two year period for the step unrecovered amounts and over a three year period for the crossbar unrecovered amounts. While this mechanism does have a smoothing effect on the resulting expenses, our approved schedules are designed to recover the net investment over the remaining period each switch will be serving the public. Therefore, we find it appropriate that 1990 planned retirements be recovered during 1990, 1991 retirements be recovered during 1990 and 1991, and 1992 retirements be recovered during 1990, 1991, and

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1992. This more closely matches recovery with consumption than the Company's proposal. The monthly expense of the schedules shall be calculated by dividing the net amount remaining to be recovered by the months remaining for recovery. This method of calculation addresses additions and interim retirements, as well as actual salvage experienced, and any shifts in retirement dates. All activity relating to this schedule shall be booked to this schedule, and not to another depreciation category or account.

B. Analog Trunk Carrier

All remaining analog trunk carrier is planned for retirement in conjunction with the retirement of the remaining electromechanical switchers. Therefore, we find a three year recovery schedule to be appropriate. The monthly schedule expense shall be calculated in the same fashion described above for the electromechanical recovery schedules.

C. Microwave Radio and associated Towers

The Company currently plans to replace all existing microwave radio systems with photon technology during the next two years. Several of the radio legs are at exhaust and spare parts are in short supply due to the fact that this technology is obsolete. Of the 9 systems in service, 7 are planned for retirement in 1990 with 2 planned for retirement in 1991. As a result, the associated towers are also planned for retirement in the same fashion with the exception of Live Oak. Although this radio system is retiring in 1990, the tower will not be retired until 1992 due to a lease agreement. We find it appropriate to permit recovery of these unrecovered net amounts over the period of time each radio system or tower is remaining in service. This mechanism more closely matches recovery to consumption than the Company's proposal to recover evenly over a three year period.

D. Reserve Imbalance

At the time of the 1983 represcription, a bottom line net reserve imbalance was calculated and has since been amortized. Our intentions, at that time, were to perform this calculation once upon the initial move to reserve sensitive (remaining life) rates and, from that point forward, the use of straight remaining life rates and recovery schedules would correct any future imbalances. However, the impact of fiber optics in the outside plant cable accounts is a major factor which was not fully realized at that time nor at the time of the company's last represcription. For

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this reason, we have calculated a reserve imbalance for the metallic cable accounts being affected by photon technology (Aerial, Underground, and Buried). This bottom-line net reserve deficit amounts to \$8,510,384. To the extent technology is affecting the estimated life of equipment, it is appropriate to react accordingly and the deficits resulting from a new shortened perceived life should be recognized and written-off as fast as practicable since they relate to an overestimation in the past. A five year write-off period for this deficiency appears to be as fast as economically practicable for this Company. In addition, the approved annual amount of this write-off for each of the years 1190, 1991, and 1992 is shown on Attachment B. As a result of our reserve imbalance calculation, each affected cable account's reserve is placed at its theoretically correct position.

II. Amortizations

In accord with the Retirement Unit Rule for Telephone Companies, Rule 25-4.0178, Florida Administrative Code, certain general support asset account investments are being amortized.

III. Depreciation Rates

A. General Support Assets

1. Motor Vehicles

The Company proposed life factors for the motor vehicle accounts are reasonable and are in line with current industry averages. We also find the proposed salvage factors to be in line with each account's experience.

2. Buildings

The Company developed lives for the building categories using the Shell Short-Lived approach. Service life estimates were developed for each current building by considering the structure type and developing a composite which considers the life expectancy of the shell as well as recognizes that service components such as electrical, plumbing, heating, air conditioning, and interior partitions and finish work generally have a shorter service life. This is an attempt to recognize that not all investment can be expected to survive until the shell is retired. We agree with this mechanism and find the Company's proposals for the Office and Plant building categories to be reasonable and acceptable. Due to the

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heterogenous nature and the life expectations of the Remote/Concentrator structures and the Switching buildings, however, we have addressed these assets as two categories or subaccounts. While the Company recognized two separate categories for this COE building category a composite rate was proposed. The Company developed lives for these subaccounts for each category using the shell-short-lived approach. We find these lives to be appropriate and hereby approve them.

B. Central Office Assets

1. Digital Switching

This Company's digital switchers are flexible and are, at this point in time, considered to be upgradable to future generation switchers by substantial changeouts of components. Based on input from the industry regarding the possible retirements associated with the upgrading of these switchers to essentially "next generation," we find the following interim retirement pattern to be appropriate: 1990-1991 - 1%; 1992-1998 - 2%; 1999-2000 - 4%; and 2001-2004 - 2%. We find this increased retirement rate appropriate to simulate the period of major changeout of components. The trigger for these switchers, as we see it, is their nature and adaptability to the next generation switch. The Company shall monitor this account to determine if the next generation switch will require even more major software and hardware changeouts. In such a case, it may be appropriate to retire existing switches rather than to update.

2. Mobile Radio

It is the Company's desire to grandfather or discontinue mobile radio service in the near future as cellular service becomes available in areas where there is existing mobile service. No additions are forecasted to this account in the near future. Recognizing these plans and the current reserve position that shows full recovery, the Company has proposed to discontinue accruals on the embedded investments. We approve the Company's proposal. However, a depreciation rate shall be used if there are additions made between now and the next depreciation study.

3. Circuit Equipment

This account includes separate categories for analog and digital circuitry or carrier equipment including optical

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terminating equipment. The digital and analog equipment is being impacted by new technologies - digital as well as optics. Analog and digital circuit will be retiring as the Company moves toward a complete digital environment, although some will be, and is being, diverted to other uses such as special service circuits. Digital circuit is no longer needed for the termination of interoffice span lines since these capabilities are now inherent in the digital switch. Also, one of the objectives for the Company's establishment of the twelve kilofeet loop limit for the Carrier Serving Area is to eliminate the need for analog loop treatment. The Company is positioning itself to have 100% remote testable lines for its customers. In addition, the requirement for span shelves and span line equipment associated with digital carrier in the copper line environment will be eliminated as these routes are converted to photon technology.

The Company has addressed this general circuit account as seven different categories - analog trunk, analog subscriber, analog line treatment, digital trunk, digital subscriber, optic transmission, and digital concentrator. All remaining analog trunk carrier will retire in conjunction with the retirement of the remaining electromechanical switchers. Therefore, we find a three year recovery schedule to be appropriate. For the remaining investments, the remaining lives we are approving herein are engineering estimates and recognize an evolvement toward an all synchronous optical network.

C. Information Origination/Termination Assets

1. Private Line Network Terminating Equipment

The investment in this account represents devices at the subscriber premise used to interface the network for transmission of other than standard message telephone service. The Company proposed remaining life simply represents an update of age since the last prescription. We find the Company's proposals to be reasonable and acceptable.

2. Pay Stations

This account consists of coin and coinless telephone sets, booths and other equipment associated with pay station installations. Since this Commission approved individual ownership of pay telephone service, there have been 304 PATS locations established in Alltel's market area. Besides this factor, the

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introduction of "smart" phones is another factor that could render existing public telephone equipment technologically obsolete. We find the Company's proposed parameters reasonable and acceptable.

3. Devices for the Deaf

We find the Company's proposals for this account to be reasonable and acceptable.

D. Cable and Wire Assets

1. Metallic Cable (Underground, Buried, Aerial)

For copper cables, generally speaking, we would expect a phase-out of the interoffice facilities by about the year 2000 and feeder by about 2012. Distribution facilities would be expected to have phased out a very few years later - possibly in the 2013-2015 period.

While a breakdown between feeder and distribution plant is not readily available because of common sheaths rather than dedicated feeder cable, at least 98% of this Company's metallic cable plant is represented by this combined group, and the majority is distribution cables. This results from most interoffice facilities having previously been provided by microwave radio.

Aerial and buried metallic cable accounts are generally distribution cables. The rates we approve herein are based on a projected phase-out by about 2014. The underground metallic cable account is primarily feeder cable with some interoffice. The approved life factors for this account are based on a phase-out by about 2012. The Company proposal for underground metallic cable assumes it out-living aerial metallic by several years. Our projections are in general accord with the concept of fiber to the home (or curb) in the second decade of the 21st century.

As discussed earlier, the approved rates reflect a restated reserve position to the calculated theoretical reserve for each of these accounts. We find it appropriate for the resulting reserve deficiency to be amortized over 5 years.

2. Poles, Aerial Wire, Conduit

We find the Company's proposed life and salvage parameters for the Poles, Aerial Wire, and Conduit accounts to be reasonable and

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acceptable. Changes in remaining lives from those currently prescribed generally reflect average ages updated since the last study.

3. Fiber Cable (Aerial, Underground, Buried)

Changes in remaining lives for these accounts simply reflect each account's updated age since the last study. We find these life proposals reasonable and acceptable. Net salvage proposals project somewhat lower costs of removal than what is being realized from the retirement of metallic cables accompanied with zero gross salvage. We believe that very little cost should be incurred from the removal of aerial and underground fiber cable. For this reason, we find it appropriate to retain the currently prescribed net salvage factors for each of these accounts.

This proposed agency action order will become final if no protest is received during the period set out in the Notice of Further Proceedings or Judicial Review below. Since no further action is necessary, this docket shall be closed if no objections are filed during the protest period.

Based on the foregoing, it is, therefore,

ORDERED by the Florida Public Service Commission that the depreciation rates, amortization and recovery schedules set out on Attachments A and B are hereby approved for ALLTEL Florida, Inc. It is further

ORDERED that the implementation date for such rates shall be January 1, 1990. It is further

ORDERED that our action herein shall become final and this docket shall be closed if there are no protests filed within the period set out in the Notice of Further Proceedings and Judicial Review set out below.

ORDERED that the reserves for the Aerial, Underground and Buried Cable Accounts be restated as set forth on Attachment C.

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By ORDER of the Florida Public Service Commission this
4th day of DECEMBER, 1990.

STEVE TRIBBLE, Director
 Division of Records and Reporting

(S E A L)

SFS

by: Kay Flynn
 Chief, Bureau of Records

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.

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 December 26, 1990.

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In the absence of such a petition, this order shall become effective on the day subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

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 the date described above, 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.

ATTACHMENT A
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ALLTEL FLORIDA, INC.
1990 STUDY

ACCOUNT	COMMISSION APPROVED				
	AVERAGE	NET	BOOK	REMAINING	
	REMAINING LIFE (yrs)	SALVAGE (%)	RESERVE (%)	LIFE RATE (%)	
GENERAL SUPPORT ASSETS					
VEHICLES					
2112.1	Passenger	2.0	15.0	76.53	4.2
2112.2	Light Trucks	3.6	10.0	48.45	11.5
2112.3	Heavy Trucks	3.8	10.0	65.43	6.5
BUILDINGS					
2121.5	COE				-
	Remote/Concentrators	14.8	2.0	11.90	5.8
	Switching	21.0	2.0	42.55	2.6
2121.6	Office	21.0	8.0	28.66	3.0
2121.9	Plant	17.9	0.0	50.30	2.8
CENTRAL OFFICE ASSETS					
2212.1.3	Digital Switch	12.8	0.0	24.08	5.9
2231.3	Mobile Radio-Embedded	-	-		-
	Mobile Radio-New Adds.	12.0	0.0		8.3
2232.2	Subscriber Carrier-Analog	3.3	(5.0)	47.09	17.5
2232.3,4,9	Line Treatment-Analog	4.4	(5.0)	51.66	12.1
2232.5	Trunk Carrier-Digital	5.0	5.0	47.73	9.5
2232.6	Subscriber Carrier-Digital	6.4	0.0	18.43	12.7
2232.7	Fiber Optics	7.8	0.0	19.30	10.3
2232.8	Digital Concentrator	8.7	0.0	51.43	5.6
INFORMATION ORIG/TERM ASSETS					
2312.2	P.L. Network Termn. Equip.	4.9	0.0	72.10	5.7
2351.1-3	Pay Stations	3.7	0.0	76.09	6.5
2362.1	Devices For The Deaf	5.3	0.0	31.21	13.0
CABLE & WIRE ASSETS					
2411	Pole Lines	13.5	(35.0)	24.68	8.2
	Aerial Cable				
2421.1	Metallic	11.7	(38.0)	57.27 #	6.9
2421.2	Fiber	17.8	(5.0)	12.94	5.2
	Underground Cable				
2422.1	Metallic	10.8	(12.0)	45.04 #	6.2
2422.2	Fiber	17.7	(5.0)	11.07	5.3

		COMMISSION APPROVED			
ACCOUNT		AVERAGE	NET	BOOK	REMAINING
		REMAINING	SALVAGE	RESERVE	LIFE
		LIFE	(%)	(%)	RATE
		(yrs)	(%)	(%)	(%)
	Buried Cable				
2423.5	Metallic-Nonfilled	6.4	(7.0)	66.68 #	6.3
2423.1	Metallic-Filled	12.6	(7.0)	32.66 #	5.9
2423.2	Fiber	18.3	(5.0)	8.93	5.2
2431	Aerial Wire	6.3	(55.0)	61.59	14.8
2441	Underground Conduit	40.0	(5.0)	19.56	2.1

AMORTIZATION

2116	Tools & Other Work Equip.	7 YR. AMORTIZATION
2122.1	Furniture	10 YR. AMORTIZATION
2123	Office Machines	7 YR. AMORTIZATION
2123.6	Official Terminal Equip.	5 YR. AMORTIZATION
2123.1	Computer & Data Equipment	5 YR. AMORTIZATION

RECOVERY SCHEDULES

2215.1	Step Switch	2 YR. AMORTIZATION
2215.2	Crossbar Switch	3 YR. AMORTIZATION
2232.1	Trunk Carrier-Analog	3 YR. AMORTIZATION
2231.4	Microwave Radio	2 YR. AMORTIZATION
2121.3	Towers	3 YR. AMORTIZATION

Denotes reserve restated to theoretical level.

ALLTEL FLORIDA, INC.
1990 STUDY
Recovery Schedules

	(1-1-90) INVESTMENT (\$)	BOOK RESERVE (\$)	NET SALVAGE	UNRECOVERED AMOUNT	RECOVERY PERIOD	1990 EXPENSES	1991 EXPENSES	1992 EXPENSES
Step Switching								
1990 Rets.	1,589,039	1,198,370	0	390,669	2 YR.	195,335	195,334	
Crossbar Switching								
1990 Rets.	2,781,666	2,149,312	(55,633)	687,987	1 YR.	687,987		
1991 Rets.	1,161,860	735,153	(23,237)	449,944	2 YR.	224,972	224,972	
1992 Rets.	2,177,776	1,430,466	(43,556)	790,866	3 YR.	263,622	263,622	263,622
Analog Trunk Carrier								
1990-92 Rets.	159,350	(295,944)	0	455,294	3 YR.	151,765	151,765	151,764
Microwave Radio								
1990 Rets.	431,859	93,078	0	338,781	1 YR.	338,781		
1991 Rets.	915,756	216,185	0	699,571	2 YR.	349,785	349,786	
Towers								
1990 Rets.	72,408	68,545	(3,620)	7,483	1 YR.	7,483		
1991 Rets.	5,400	5,112	(270)	558	2 YR.	279	279	
1992 Rets.	44,050	41,700	(2,203)	4,553	3 YR.	1,517	1,518	1,518
Cable Res. Def.	0	(8,510,384)	0	8,510,384	5 YR.	800,000	1,800,000	2,600,000
TOTAL	\$9,339,164	(\$2,868,407)	(\$128,519)	\$12,336,090		\$3,021,526	\$2,987,276	\$3,016,904

ATTACHMENT C
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ALLTEL FLORIDA, INC.
 1990 STUDY
 ANALYSIS OF RESERVE POSITION FOR
CABLE ACCOUNTS BEING IMPACTED BY FIBER OPTICS

	<u>(1-1-90)</u> <u>Investment</u>	<u>(1-1-90)</u> <u>Book Reserve</u>	<u>Approved</u> <u>Retained Reserve</u>
Aerial Cable Metallic	\$ 6,195,830	\$ 2,572,476	\$ 3,548,352
Underground Cable Metallic	1,403,061	282,660	631,939
Buried Cable Metallic Non-filled	7,834,223	4,388,036	5,223,860
Filled	<u>60,965,918</u>	<u>13,562,064</u>	<u>19,911,469</u>
Total	\$76,399,032	\$20,805,236	\$29,315,620

	Book Reserve	=	\$ 20,805,236
Less:	Theoretical Reserve based on Commission Approved rates	=	<u>29,315,620</u>
	Reserve Deficit	=	\$(8,510,384)