

BEFORE THE PUBLIC SERVICE COMMISSION

In re: SOUTHLAND TELEPHONE COMPANY -)	DOCKET NO. 891115-TL
1989 Depreciation Study)	ORDER NO. 23835
_____)	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.

Rule 25-4.0175(7), Florida Administrative Code, requires telephone companies to periodically file a comprehensive depreciation study at least once every three years. In compliance with this Rule, Southland Telephone Company (Southland or the Company) originally filed its Depreciation Study (the Study) in September 1989. At that time, the Company requested an implementation date of January 1, 1989. Based on the requirements of Subsection (8)(b) of Rule 25-4.0175, Florida Administrative Code, the Company was informed by our Staff that the date of implementation would need to be revised because the Study was submitted after the midpoint of the fiscal year which commenced January 1, 1989. The Company subsequently submitted revised data and calculations addressing the balance of the period up to January 1, 1990. Accordingly, the Company also revised its request for an implementation date to January 1, 1990, as the earliest practical date for utilizing the revised rates, as well as it being the beginning of the next fiscal year for the Company. We, therefore, find an implementation date of January 1, 1990, to be appropriate and hereby approve it.

DOCUMENT NUMBER-DATE

10716 DEC -4 1990

PSC-RECORDS/REPORTING

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The Company currently operates with remaining life rates and recovery schedules approved by this Commission effective January 1, 1986. Since the time of that represcription, the Company has completed installation of new equipment and associated planned retirements. Other large scale retirements associated with replacement of air core cable are currently underway. The current recovery schedules have expired. Additionally, there have been retirements in excess of those recognized in the determination of life in the last represcription, resulting in reserve imbalance. Updated plant and reserve balances must be incorporated in revised remaining life rates. As a result, both rates and recovery schedules require revision at this time.

1. Company Compliance With Rule 25-4.0178,
Florida Administrative Code

Rule 25-4.0178, Florida Administrative Code, provides for required amortizations for certain General Support Accounts in general plant, effective January 1, 1988. Southland has, however, continued to use the rates we set in Order No. 17214, effective January 1, 1986. This is because, Southland asserts, that the net investment remaining to be recovered is very small, under \$500 total in both accounts. The Company has proposed, in its Study, to implement the amortization method for the unrecovered investment in the two general plant accounts which currently have investment in Florida. The amortization periods have been adjusted, in the Company's proposal, from 1988. There have been no additions to these accounts in 1988 or 1989, so the investment amount has remained at the embedded level. Further, when any of the General Support Accounts have investment in Florida in the future, the Company proposes to amortize the investment according to the Rule. Our Staff recommends approval of this proposal as reasonable and appropriate and, therefore, we approve it.

II. Reserve Adjustment

Attachment A shows our approved corrective reserve transfers.

Following a physical inventory, there was a recategorization of \$116,728 from Digital Switching Equipment to Circuit Equipment. Our Staff recommends the transfer of associated reserve in the amount of \$28,939 from the Digital Switching Reserve Account to the Circuit Equipment Reserve Account as the appropriate action at this time and we agree.

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The retirement of electromechanical equipment resulted in a reserve deficiency of \$70,475 in the Step-by-Step account. By Order No. 22588 the Company was instructed to utilize winnings from bill and keep to reduce this deficiency to zero.

III. Appropriate Rates and Amortization Schedules

We will adopt the depreciation rates and the recovery and amortization schedules shown on Attachment B hereto. These depreciation rates and recovery and amortization schedules proceed from our analysis of the current recovery position of the Company, recent retirements and those projected for 1990, 1991, and 1992, and technological advances within the industry. Attachment A shows a comparison of the existing, the Company requested, and the newly approved depreciation parameters (lives, salvages, and reserves) and rates. Besides the differences previously discussed the major differences between the Company's request and the parameters we are approving herein result from the treatment of accounts impacted by significant planned replacements or by impending technological change. These differences are discussed below.

A. Account 2212.1 Digital Switching

The Company reports that the digital switches which it currently has can be upgraded to serve as future generation switches; this would be accomplished by substantial changeouts of components over the life of the switching equipment. Based on indications 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%. The use of the greater retirement rate is 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. If it is found that the next generation switch will require even more major software and hardware changeouts, it may be more economical to retire existing switches rather than to update. The Company should carefully monitor this account for significant developments.

Reserve for this account has been restated to reflect the transfer of reserve associated with the transfer \$116,728 of investment made in March of 1989 to the Digital Carrier Account.

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B. Account 2215 Step-by-Step Switching

All switching equipment of this type has been retired. Full recovery of the associated investment was provided by use of proceeds from bill and keep, as set forth in Order No. 22588.

C. Account 2232 Circuit Equipment - Digital Carrier

We find the Company-proposed remaining life and salvage to be acceptable; the proposed life correlates with an expectation that 99% of the investment in this account will be retired by the year 2004.

The retirement of electromechanical switching resulted in the retirement of associated digital carrier which was not provided for in the design of the currently prescribed rates. As a consequence, a negative reserve balance of \$41,182 currently exists. We have calculated a reserve deficiency for this account of \$128,781. This represents the difference between the book reserve for this account, restated to include the reserve transfer discussed earlier, and a calculated theoretical reserve, based on the newly approved rates. Since this deficiency represents non-existent plant, it should be written off as fast as economically practicable. For Southland, we find the appropriate write-off period to be three years as shown in Attachment A.

Future activity in this account will reflect the impact of SONET technology throughout the industry. Because of the possibility that this could cause the life pattern of the equipment to change, this account should be closely monitored.

D. Account 2351 Public Telephone Equipment

The Company proposes to maintain the current 10 year service life, which we find appropriate. In addition, we find the Company's proposal of 0 net salvage acceptable. In reviewing the current circumstances affecting this account, we are reluctant to extend the existing service life for this equipment. The Company reports little interest in private ownership of pay phones in the rural area they serve, and they have not reacted to the question as to the impact of "smart" phones. In the environment of the community served by this Company, there appears to be little to cause early retirements of pay phones, as indicated by the fact that records show few retirements in this account. Except for additions made in 1987 and 1989, the investment consists of

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survivors estimated to be 8 years old or more. Recent additions have almost tripled the amount of the investment in the account, and result in an average age of only 4.7 years. While this history might point to an increase in service life, which the Company originally proposed, or a "higher shouldered" retirement pattern, we anticipate that the actual trigger in the retirement of the current investment will be the encroachment of improved, easier-to-use equipment into the stable environment of the community served. These improvements are the result of industry-wide technological development, and our decision is based on our understanding of what is expected in the timing of those developments.

E. Cable Accounts

The rates and recovery schedules approved for these accounts are based on industry forecasts for the replacement of copper cable installations by fiber, taken with the premise that the impact on the smaller companies will generally lag that experienced by the larger companies which serve the metropolitan areas.

F. Account 2421 Aerial Cable - Metallic

While the Company currently has no investment in this account, the rate is provided in the unexpected event that installation might be required. Likewise, the possibility of adjunct investment in poles or in aerial fiber is also covered. An anticipated date of final retirement of 2017 was used for the metallic type, which correlates with an R2 curve and a service life of approximately 16 years. Our Staff recommends whole life rates for poles and fiber, should there be any installed. We find this appropriate.

G. Account 2422 Underground Cable - Metallic

Based on a current composite age of 3.5 years, taken with industry forecasts for the retirement of embedded plant by the year 2014 and life pattern of the R3 type, our use of an 18-year average service life results in a remaining life of 14.6 years.

H. Account 2423.502 Buried Cable - Metal, Jelly-Filled

Our decisions here are based on the expectation that 99% of installed copper cable represented by this account will be retired by approximately the year 2017. Combining this with the current age of 4.5 years and with the R2 curve for a service life of 19 years gives a remaining life of 15.1 years.

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I. Account 2423.602 Buried Cable - Metal, Air-Core

For this account, our decision combines the implications of technological development with the Company's stated intent to retire this type of cable as fast as they can accomplish the necessary work. Due to the repair history of this equipment, the Company deems it unreliable, and is installing jelly-filled cable in its place. The industry-wide trends would indicate a final retirement date of 2005 or prior, and the Company anticipates the complete retirement of all equipment of this type before that time. Toward the end of the retirement period, the retirement rate may have to escalate if the cable cannot continue to serve.

In the Study as originally filed and in the update to January 1, 1990, the Company had described plans for a 2 year period of accelerated retirement, first set for 1989 and 1990, then for 1990 and 1991. The Company had proposed a 2 year amortization of the investment associated with these anticipated retirements, with a remaining life rate for the remainder of the net investment. Notwithstanding these expectations, Company records to date describe retirements occurring at a fairly consistent rate. Overall, the Company proposal has implied an annual retirement level substantially higher than the Company has actually accomplished under the retirement program.

Our decisions here are consistent with the pattern of retirements presented by the data. The expectation that all air core will be removed in about 10 to 11 years would imply an average annual retirement level of approximately \$78,000, which appears within the Company's capability. This is more than the \$73,000 retired in 1989, however, the 1987 and 1988 retirements exceeded this amount.

No further Commission action is necessary in this docket if no objections to our proposed agency action Order are filed.

Based on the foregoing, it is, therefore,

ORDERED that the reserve transfers set out in Attachment A are hereby approved.

ORDERED by the Florida Public Service Commission that the depreciation rates and amortization and recovery schedules set out

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on Attachment B hereto are hereby approved for Southland Telephone Company. It is further

ORDERED that these rates and amortization and recovery schedules shall be implemented January 1, 1990. It is further

ORDERED that our action herein shall be effective and this docket shall be closed if no objections are received in the protest period as set out in the Notice of Further Proceedings or Judicial Review below.

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 Nelson
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

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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.

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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APPROVED
 RESERVE TRANSFERS

<u>ACCOUNT</u>	BEGINNING	AMOUNT	1-1-90
	RESERVE		RESTATED
	<u>BALANCE</u>	<u>TRANSFERRED</u>	<u>RESERVE</u>
	\$	\$	\$
Step-by-Step	(70,475)	70,475	-0-
Bill and Keep (Order No.22588)	70,475	(70,475)	-0-
Digital Switch	209,665	(28,939)	180,726
Digital Carrier	(41,182)	28,939	(12,243)

AMORTIZATION

	1-1-90	THEORETICAL	RESERVE	CORRECTED
	RESTATED		RESERVE	
	<u>RESERVE</u>	<u>RESERVE</u>	<u>IMBALANCE</u>	<u>RESERVE</u>
	\$	\$	\$	\$
Digital Carrier				
Reserve Deficit	(12,243)	116,538	(128,781)	116,538

Reserve imbalance of \$128,781 to be amortized
 over 3 years with annual expense of \$42,927.

ATTACHMENT B
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SOUTHLAND TELEPHONE COMPANY
 1989 STUDY

ACCOUNTS	COMMISSION APPROVED				
	AVERAGE REM'NG LIFE	NET SALVAGE	1-1-90 BOOK RESERVE	REM'NG LIFE RATE	
	(yrs)	(%)	(%)	(%)	
2112	VEHICLES				
	Passenger	7.0 #	17	0	11.9 *
	Light Trucks	7.0 #	17	0	11.9 *
	Heavy Trucks	11.0 #	17	0	7.5 *
2121	BUILDINGS - FL	26	0	24.61	2.9
CENTRAL OFFICE ASSETS					
2212.1	DIGITAL SWITCHING	13.0	0	14.48	6.6
2232	CIRCUIT EQUIPMENT				
	Digital Carrier	8.1	0	37.63	7.7
	Optics	10.0 #	0	1.90	10.0 *
INFORMATION ORIG/TERM ASSETS					
2351	PUBLIC TELEPHONE EOPT.	5.5	0	44.73	10.0
CABLE AND WIRE ASSETS					
2411	POLES	20 #	(35)	0	6.8 *
2421	AERIAL CABLE-METALLIC	16 #	(10)	0	6.9 *
2421	AERIAL CABLE-FIBER	20 #	0	0	5.0 *
UNDERGROUND CABLE					
2422	Metallic	14.6	(5)	19.17	5.9
2422.012	Fiber	20.0 #	(5)	0	5.3
BURIED CABLE					
2423.502	Metal - Jelly-Filled	15.1	(5)	21.35	5.5
2423.602	Metal - Air-Core				
	Est. Ret. 1990-1991				
	Remaining Air-Core				
	Total - Air-Core	5.5	(1)	45.77	10.0
2423.012	Fiber	20.0 #	0	1.18	5.0 *
2441.1	UNDERGROUND CONDUIT	40	0	33.22	1.7
TOTAL					
AMORTIZATION SCHEDULES					
2116	TOOLS, WORK EQUIPMENT	7	YEAR	AMORTIZATION	
2122	FURNITURE - Embedded	8	YEAR	AMORTIZATION	
	FURNITURE -Post 89 Additions	10	YEAR	AMORTIZATION	
2123.0	OFC SUPPORT EOPT	7	YEAR	AMORTIZATION	
2123.2	COMP COMM EOPT - Embedded	3	YEAR	AMORTIZATION	
	COMP COMM EOPT -Post 89 Ad't	5	YEAR	AMORTIZATION	
2124	GENERAL PWPS COMPUTERS	5	YEAR	AMORTIZATION	
RECOVERY SCHEDULE:					
	DIGITAL CARRIER Reserve Def.	3	YEAR	AMORTIZATION	

* Denotes whole life rates.

Value of average service life
 is used for remaining life.