

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: 1991 Depreciation Study) DOCKET NO. 910725-TL
for UNITED TELEPHONE COMPANY) ORDER NO. PSC-92-0178-PCO-TL
OF FLORIDA.) ISSUED: 04/10/92
_____)

Pursuant to Notice, a Prehearing Conference was held on April 6, 1992, in Tallahassee, Florida, before Commissioner J. Terry Deason, as Prehearing Officer.

APPEARANCES:

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On behalf of United Telephone Company of Florida.

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On behalf of Florida Cable Television Association.

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On behalf the Citizens of the State of Florida.

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On behalf of the Commission Staff.

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On behalf of the Commissioners.

PREHEARING ORDER

I. CASE BACKGROUND

On June 27, 1991, United Telephone Company of Florida (United or the Company) filed its 1991 Depreciation Study. The Study is United's triennial depreciation rescription filing which is required by Rule 25-4.0175, Florida Administrative Code. The normal progression of our staff's review and Company responses has ensued. The Office of Public Counsel (OPC) and the Florida Cable Television Association (FCTA) have intervened.

DOCUMENT NUMBER-DATE

03570 APR 10 1992

FPSC-RECORDS/REPORTING

On February 25, 1992, the Prehearing Officer issued Order No. 25800 setting forth Prehearing Procedure. On March 11, 1992, the Prehearing Officer issued Order No. PSC-92-0049-PCO-TL which set forth issues for hearing. That Order was amended by Order No. PSC-92-0049A-PCO-TL on March 13, 1992. The hearing in this proceeding is set for April 13-14, 1992.

II. PROCEDURE FOR HANDLING CONFIDENTIAL INFORMATION

A. Any information provided pursuant to a discovery request for which proprietary confidential business information status is requested shall be treated by the Commission and the parties as confidential. The information shall be exempt from Section 119.07(1), Florida Statutes, pending a formal ruling on such request by the Commission, or upon the return of the information to the person providing the information. If no determination of confidentiality has been made and the information has not been used in the proceeding, it shall be returned expeditiously to the person providing the information. If a determination of confidentiality has been made and the information was not entered into the record of the proceeding, it shall be returned to the person providing the information within the time periods set forth in Section 364.183(2), Florida Statutes.

B. It is the policy of the Florida Public Service Commission that all Commission hearings be open to the public at all times. The Commission also recognizes its obligation pursuant to Section 364.183, Florida Statutes, to protect proprietary confidential business information from disclosure outside the proceeding.

In the event it becomes necessary to use confidential information during the hearing, the following procedures will be observed:

- 1) Any party wishing to use any proprietary confidential business information, as that term is defined in Section 364.183, Florida Statutes, shall notify the Prehearing Officer and all parties of record by the time of the Prehearing Conference, or if not known at that time, no later than seven (7) days prior to the beginning of the hearing. The notice shall include a procedure to assure that the confidential nature of the information is preserved as required by statute.
- 2) Failure of any party to comply with 1) above shall be grounds to deny the party the opportunity to

present evidence which is proprietary confidential business information.

- 3) When confidential information is used in the hearing, parties must have copies for the Commissioners, necessary staff, and the Court Reporter, in envelopes clearly marked with the nature of the contents. Any party wishing to examine the confidential material that is not subject to an order granting confidentiality shall be provided a copy in the same fashion as provided to the Commissioners, subject to execution of any appropriate protective agreement with the owner of the material.
- 4) Counsel and witnesses are cautioned to avoid verbalizing confidential information in such a way that would compromise the confidential information. Therefore, confidential information should be presented by written exhibit when reasonably possible to do so.
- 5) At the conclusion of that portion of the hearing that involves confidential information, all copies of confidential exhibits shall be returned to the proffering party. If a confidential exhibit has been admitted into evidence, the copy provided to the Court Reporter shall be retained in the Commission Clerk's confidential files.

III. PREFILED TESTIMONY AND EXHIBITS

Testimony of all witnesses to be sponsored by the parties and Staff has been prefiled. All testimony which has been prefiled in this case will be inserted into the record as though read after the witness has taken the stand and affirmed the correctness of the testimony and associated exhibits. All testimony remains subject to appropriate objections. Each witness will have the opportunity to orally summarize his or her testimony at the time he or she takes the stand. Upon insertion of a witness' testimony, exhibits appended thereto may be marked for identification. After all parties and Staff have had the opportunity to object and cross-examine, the exhibit may be moved into the record. All other exhibits may be similarly identified and entered into the record at the appropriate time during the hearing.

Witnesses are reminded that, on cross-examination, responses to questions calling for a simple yes or no answer shall be so answered first, after which the witness may explain his or her answer.

IV. ORDER OF WITNESSES

<u>WITNESS</u>	<u>APPEARING FOR</u>	<u>ISSUES NOS.</u>
<u>Direct</u>		
<u>Policy</u>		
B. H. Reynolds	United	4
<u>Accounting</u>		
R. D. McRae	United	15
<u>Technical</u>		
M. W. Harris	United	1,12,13,14,15
D. H. Brennan	United	2,3,4,5,6,7,8,9,10,11
William Page Montgomery	OPC	1,2,4,5,8,10,11,13,14
R. Earl Poucher	OPC	2,10,11
Thomas F. Gillett	FCTA	All
Patricia S. Lee	Staff	1,2,4,12,13,14,15
<u>Rebuttal</u>		
(To staff and intervenors)		
M. W. Harris	United	4,12,13,14
D. H. Brennan	United	2,3,4,5,8,10,11

V. BASIC POSITIONS

UNITED'S BASIC POSITION: United's basic position is that its pending request for represcription of depreciation rates is in compliance with the Commission's requirements for triennial depreciation filings and reflects a reasonable projection of United's capital recovery requirements over the next three years.

Increasing competition and rapid, comprehensive technological change must be considered in developing an appropriate capital

recovery program. United's proposed depreciation rates represent the end result of a thorough, professional examination of the capabilities of the company's existing capital assets and their expected remaining useful service lives. To provide the services United's customers demand now and in the future, United's network must continue to evolve. United's copper-based interoffice facilities will be 100% converted to fiber optic cable by the end of 1995. Essentially all feeder routes will be fiber based by the end of the year 2000. Distribution plant (the last mile) will be 100% fiber by the end of the year 2010. All placement of fiber and replacement of copper will occur when it is cost effective to do so.

Technological development and substitution of facilities are not dependent on whether the Commission allows capital recovery of existing plant; competition and customer demand will drive this change. The key issue is who pays for capital recovery and when. United's depreciation filing represents its best view of when and why changes will take place; the capital recovery schedules are designed to appropriately allocate cost recovery among today's and tomorrow's customers.

FCTA'S BASIC POSITION: FCTA believes that United Telephone Company of Florida ("United") is required to establish depreciation rates based upon what is economically justified for basic telephone service. FCTA Further believes that United has not demonstrated that the network plan which it proposes is economically justified for basic telephone service.

OPC'S BASIC POSITION: United Telephone is following an investment strategy that would accelerate the replacement of its existing network technology with fiber optic transmission to the curb of each of its customers. It is following this strategy without regard to basic market analysis or even a rudimentary business case. By attempting to migrate its network to 100% fiber optic subscriber line deployment by the year 2010, excessive costs could cumulatively reach as much as \$2.4 billion dollars by the year 2010. In the peak cost year, 2001, each of UTF's access lines would cost from \$8.80 to almost \$12.00 more per month.

United's plan would abandon the principal of least cost engineering in pursuit of its digital-fiber strategy. It is rushing forward with a high cost network solution for a market that has not been quantified and may not exist.

STAFF'S BASIC POSITION: Since the last comprehensive study review for United Telephone Company of Florida, net plant balances have changed and digital and photon technologies have continued

impacting life and salvage. Staff therefore believes that currently-prescribed depreciation rates and capital recovery schedules should be reviewed and revised where appropriate and justified.

VI. ISSUES AND POSITIONS

ISSUE 1: Should the currently prescribed depreciation rates and amortization/recovery schedules for United Telephone Company be revised at this time?

UNITED'S POSITION: Yes. In accordance with Rule 25-4.0175, F.A.C., United filed its current triennial depreciation study. The depreciation study identified changes in company plans and service life indications that show the need to revise currently prescribed depreciation rates and amortization/recovery schedules. (Mr. Harris)

FCTA'S POSITION: No position at this time, except as otherwise expressed in response to issues 2-15.

OPC'S POSITION: Yes. Exhibit WPM-6 to the testimony of William Page Montgomery summarizes the Citizens' position on changes to depreciation accruals and recovery schedules. (Montgomery).

STAFF'S POSITION: Yes. Under Rule 25-4.0175, Florida Administrative Code, telephone companies are to file a comprehensive depreciation study at least once every three years from the submission date of the previous filed study. A review of the Company's plans and activity indicate the need for revising depreciation rates and capital recovery schedules where appropriate. (Lee)

ISSUE 2: Should depreciation rates be established based on what is economically justified for telephone service?

UNITED'S POSITION: Yes, depreciation rates should be established based on what is economically justified for telephone service.

UTF's network plans are economically justified for telephone service. UTF's network studies only project revenues from services that already exist. UTF's economic studies do not consider revenues associated with potential new future services.

In summary, UTF's network plans are designed to build an economical network that is cost justified for today's services yet is capable of economically and technically evolving to meet tomorrow's service needs. (Mr. Brennan)

FCTA'S POSITION: As a matter of law and policy, the Commission is required to establish rate of depreciation that are economically justified for basic telephone service. To do otherwise would require monopoly services to subsidize competitive services.

OPC'S POSITION: Yes. Depreciation rates charged to regulated telephone customers should not be based upon speculation about unquantified and unknown possibilities of new services. (Montgomery, Poucher).

STAFF'S POSITION: Yes. (Lee)

ISSUE 3: United is projecting a complete transition from today's asynchronous transmission equipment to the new SONET transmission equipment over the 1994-1998 period. Is this timetable reasonable?

UNITED'S POSITION: Yes, the timetable to achieve a complete transition from today's asynchronous transmission to the new SONET transmission equipment over the 1994-1998 period is reasonable.

The initial deployment of high speed SONET fiber optic terminal equipment is being driven by growth requirements in the interoffice network. United is currently planning high speed SONET additions to its interoffice network starting in late 1992 that will initially coexist with the existing asynchronous terminal equipment. Based on current growth projections, UTF will have total SONET connectivity throughout its fiber optic interoffice network by year end 1995. The SONET connectivity in the UTF fiber interoffice network, coupled with the continued deployment of SONET terminal equipment in the feeder segment of the network, will allow UTF to offer the advantages of SONET to customers on an end-to-end basis at or before year end 1995.

We project the existing asynchronous fiber optic terminal equipment will begin to be replaced as three conditions develop.

1. Growth on fiber limited routes will result in the replacement of existing asynchronous terminal equipment with higher capacity SONET equipment to provide the required relief.

2. Customer demand for the performance monitoring and network management capabilities inherent in SONET will drive the migration in areas with high concentrations of business.
3. UTF provides leased facilities to inter-exchange carriers (IXCs) which are expected to be among the first customers to demand SONET transport facilities. The IXCs are currently leasing over 40 DS-3s in the asynchronous network. These leases are expected to migrate to SONET facilities between 1993 and 1995.
4. Beginning in 1993, the next generation Digital Loop Carriers (DLC) are planned to be introduced by the major vendors. These Digital Loop Carriers are being developed to the BellCore TR-303 specification which utilizes the SONET transmission standard for connection to the host switching center. The introduction of these next generation DLC's will result in the introduction of new SONET facilities as well as the replacement of existing asynchronous facilities.

It is expected that the events described above will result in the complete replacement of the asynchronous fiber optic transmission equipment by year end 1998. (Mr. Brennan)

FCTA'S POSITION: On this issue, United has not met their burden of proof, therefore it is necessary for the Commission to establish a process for reviewing these replacements, after the fact, to determine if the Company's actions in this regard are prudent.

OPC'S POSITION: No position at this time.

STAFF'S POSITION: No position at this time.

ISSUE 4: United projects its migration from a metallic to an all fiber network to be complete by 2010. Is this projection reasonable?

UNITED'S POSITION: Yes, the projection of a migration from a metallic to an all fiber network to be complete by 2010 is reasonable.

United has already converted the majority of its interoffice network to fiber facilities. Our projection that United's interoffice network will be essentially 100% fiber by the end of 1995 is all but certain given the extent of the ongoing conversion

and the fact that fiber is already established as the most cost effective solution.

The former copper-based feeder facilities linking the host switching centers with the digital remote and loop carrier systems will continue to transition to fiber. The deployment of fiber in the feeder portion of the network will accelerate due to the combined impacts of the economies of fiber versus copper, the demands for higher bandwidth services and the continued economic distribution of the switching network. We project that the former copper-based feeder segment of the network will be essentially 100% converted to fiber by the end of the year 2000. This projection is realistic and highly probable inasmuch as feeder relief is most economically provided utilizing remote digital switching and digital loop carrier systems.

In 1989 United began to deploy fiber in the distribution portion of the network to meet the bandwidth service demands of our larger business customers. The Company projects that fiber will become cost effective for new distribution plant in residential developments for narrowband Plain Old Telephone Service (POTS) in the 1993-1994 time frame. In our opinion, this is the most likely time frame; however, if delays do occur, we believe that they would not extend deployment of fiber in the distribution plant more than one or two years beyond 1994.

The demand for higher bandwidth services will be the catalyst for the retrofit of the existing copper-based distribution facilities. We project that this retrofit will begin in 1996 and, due to market demands, will be essentially 100% completed over a 15-year period ending in 2010. If, as discussed above, fiber for new distribution plant were delayed for a year or two, the retrofit of existing copper-based distribution facilities would begin a year or two later than our projections, but we believe that 1996 is the most realistic date to utilize for planning purposes.

To put this projection that the retrofit of the embedded copper distribution portion of the local loop would be completed in a 15-year time span in perspective, we would observe that United installed its first digital switch in March 1979. Based on current plans, we will complete the conversion to an all-digital switching network by the end of 1993, an interval of slightly less than 15 years. Therefore, we believe that the 15-year interval projection, which results in a complete fiber network by 2010, is reasonable. (Mr. Brennan)

FCTA'S POSITION: On this issue, United has not met their burden of proof, therefor it is necessary for the Commission to establish a

process for reviewing these replacements, after the fact, to determine if the Company's actions in this regard are prudent.

OPC'S POSITION: No. United's projection is pure speculation made without regard to basic market analysis or even a rudimentary business case. United misapplied Fisher-Pry substitution modeling. Exhibit WPM-11 to the exhibit of William Page Montgomery shows that if United were to follow the strategy contained in its depreciation study, its ratepayer would face additional monthly costs per access line of from \$8.83 per month to \$11.63 per month in excess of what would be required if existing, business as usually trends continued. By the year 2010, accelerated fiber optic deployment would require cumulative added revenue of \$1.55 billion dollars to \$2.4 billion dollars more than customers would face under a business as usual deployment. (Montgomery).

STAFF'S POSITION: Industry forecasts of complete fiber migration range from 2010-2020. Recognizing that United operates in a high tech area, a reasonable projection for the phase-out of the remaining copper cables is 2012. (Lee)

ISSUE 5: United is proposing the retirement of 9 Northern Telecom DMS NT40 processors in 1992, 13 Digital 1210 switches and 1 Rockwell E911 Tandem switch in 1993, and 10 Digital 1210 switches in 1994. Are these retirements prudent?

UNITED'S POSITION: Yes, the retirements for the equipment listed above are prudent. It should be noted that, due to a decrease in forecast, the number of 1210 "switches" to be replaced is now 7 in 1993 and 12 in 1994. These replacements include 3 1210 hosts and 4 subtending remotes in 1993 and 4 1210 hosts and 8 subtending remotes in 1994.

The nine Northern Telecom NT40 processors exhaust their data memory capacity of 15.75 megawords with either the BCS31 or BCS32 software release, depending on the demand in each individual office. In order to upgrade the DMS-100 beyond BCS32, it is necessary to upgrade the NT40 processor with a SuperNode series processor. Current plans call for the upgrade of all DMS-100 switching systems to BCS33 or higher by year-end 1992. Therefore, it is necessary to replace the NT40 processors with SuperNode series processors in order to accommodate these software upgrades.

The 7 digital 1210 "switches" being retired in 1993 and 12 digital 1210 "switches" being retired in 1994 include the host and the subtending remotes. These replacements are necessary due to one or more of the following situations; processor exhaust, floor

space exhaust, or feeder route relief requirements. It is important to note that an economic analysis is performed for each office to determine the most prudent method and timing of the replacement.

The Rockwell SCX E911 Tandem switch, located in Fort Myers, is a one-of-a-kind switch in the UTF network. A similar switch in another Sprint OTC experienced severe service problems which will require hardware and software upgrades in the UTF switch to prevent the possibility of a similar occurrence. By retiring the Rockwell SCX and replacing it with new E911 software that will be installed in the existing DMS-100 switches at Fort Myers and Leesburg, we will eliminate ongoing investments in a one-of-a-kind switch, provide service that will be superior to what was available from the Rockwell SCX, and provide a more survivable E911 network by eliminating the single point of failure at Fort Myers. (Mr. Brennan)

FCTA'S POSITION: On this issue, United has not met their burden of proof, therefore it is necessary for the Commission to establish a process for reviewing these replacements, after the fact, to determine if the Company's actions in this regard are prudent.

FCTA's review of company "CUCRIT" studies indicates the company does not always implement the least cost option studied, and at least one assumption used by the company in doing the studies is invalid.

OPC'S POSITION: In the past United forecasted that its 1210 switches would be fully retired by 1992. Now the company view is for retirement by 1997. However, the vendor of this equipment continues to add to and extend the support of the equipment in ways that UTF concedes it had not anticipated. To account for what is now a more likely retirement scenario, one additional year to the embedded other switching plant account should be added for remaining life depreciation purposes. (Montgomery)

STAFF'S POSITION: No position at this time.

ISSUE 6: United is proposing the retirement of its remaining electromechanical switches and associated analog circuit equipment by year-end 1993 (8 in 1992 and 5 in 1993). Are these retirements prudent?

UNITED'S POSITION: Yes, the retirement of the remaining thirteen electromechanical switches in 1992 and 1993 is prudent. Economic studies have been completed for all of these offices, and in all

cases it is more economical to replace the existing switch with new flexible digital technology than to extend the life of the obsolete electromechanical switch. (Mr. Brennan)

FCTA'S POSITION: On this issue, United has not met their burden of proof, therefor it is necessary for the Commission to establish a process for reviewing these replacements, after the fact, to determine if the Company's actions in this regard are prudent.

OPC'S POSITION: No position at this time.

STAFF'S POSITION: Yes.

ISSUE 7: United is proposing the retirement of its remaining operator systems by year-end 1994. Are these retirements prudent?

UNITED'S POSITION: Yes, these retirements are prudent. United's proposal in the depreciation filing is based on an anticipated 1994 replacement of the existing systems. The existing TOPS-4 Toll and Assist (T&A) positions are manufacturer discontinued, and the existing Directory Assistance (DA) system will not support new revenue producing services such as DA call completion. A re-evaluation of T&A and DA services is planned and, while no replacements will be authorized until the analysis is complete, United believes that a network based solution utilizing the latest equipment will enable us to take advantage of operator expense reductions, survivability options, and increased revenue opportunities. (Mr. Brennan)

FCTA'S POSITION: On this issue, United has not met their burden of proof, therefor it is necessary for the Commission to establish a process for reviewing these replacements, after the fact, to determine if the Company's actions in this regard are prudent.

OPC'S POSITION: No position at this time.

STAFF'S POSITION: Yes.

ISSUE 8: United is proposing the retirement of 16 microwave radio routes and their associated towers during the period 1992-1996 (3 in 1992, 1 in 1993, 7 in 1994, 2 in 1995, and 3 in 1996). Are these retirements prudent?

UNITED'S POSITION: Yes, the retirement of the microwave radio routes and associated towers in the 1992-1996 time period is prudent. In each and every case, there has been or will be an individual engineering economic analysis developed to support the associated retirement. The following factors are taken into account in assessing each situation:

- In most cases, growth requirements will exhaust the capacity of the existing radio system.
- Radios provide limited capacity; therefore, they are not usually suitable for backbone routes with high demands.
- There are some cases where the only equipment that remains on the tower is IMTS. With the sale of IMTS, these towers become vacant with no potential future use and are scheduled for removal and retirement.
- Generally, it is more economic to replace the existing radio route with fiber optic facilities than it would be to continue to upgrade the existing system.
- In some cases, the associated network damage and poor service that results from severe lightning is further cause for removal of the radio system and tower.

An added advantage of placing fiber is, with careful planning, we can strategically place fiber to economically relieve multiple T-Carrier or microwave routes. (Mr. Brennan)

FCTA'S POSITION: On this issue, United has not met their burden of proof, therefore it is necessary for the Commission to establish a process for reviewing these replacements, after the fact, to determine if the Company's actions in this regard are prudent.

OPC'S POSITION: No. The study supporting this retirement compared the economics of constructing interoffice lines using new digital radio systems to constructing new fiber optic systems. This study provided absolutely no basis to justify the replacement of already existing radio equipment and towers. In other words, a study that address only new construction was misused to accelerate the replacement and retirement of equipment already in place and in

service. The remaining special recovery amount for the digital radio systems and their towers should be disallowed. (Montgomery).

STAFF'S POSITION: No position at this time.

ISSUE 9: United is proposing the retirement of \$38.6 million of digital circuit equipment during the period 1992-1994. Are these retirements prudent?

UNITED'S POSITION: Yes, these retirements are prudent. Shown below is a description of retirement activity for this time period:

1. Retirements of Timespan 128 and Alcatel T-324S digital loop carrier equipment which are limited in capacity, manufacturer discontinued and experiencing high maintenance problems will be replaced with new higher capacity Digital Loop Carrier (DLC) systems. Total retirements for the 1992-1994 time period are \$1.9 million.
2. Retirement of channel banks associated with the analog switch replacement program. Total retirements for the 1992-1994 time period are \$1.4 million.
3. Retirement of copper based T-Carrier facilities is required as a result of the cost effective migration to fiber optic facilities in the inter-office and feeder network. Also included is the retirement of channel banks that do not support digital data services. Total retirements for the 1992-1994 time period are \$19.3 million.
4. Retirement of the Central Office Terminals associated with double-ended digital loop carrier systems as a result of the economies associated with the direct integration of the digital loop carrier system into the central office. Total retirements for the 1992-1994 time period are \$16.0 million.
(Mr. Brennan)

FCTA'S POSITION: On this issue, United has not met their burden of proof, therefore it is necessary for the Commission to establish a process for reviewing these replacements, after the fact, to determine if the Company's actions in this regard are prudent.

OPC'S POSITION: No position at this time.

STAFF'S POSITION: No position at this time.

ISSUE 10: United has budgeted metallic cable retirements of \$69,709,000 (\$16,928,000 in Aerial, \$5,623,000 in Underground and \$47,168,000 in Buried) during the 1992-1995 time period. Are these projected retirements prudent?

UNITED'S POSITION: Yes, the budgeted metallic cable retirements for the 1992-1995 time period are prudent. Shown below is a description of the projected retirements of aerial, underground, and buried copper cable facilities for the period 1992 to 1995.

1. Replacement activity

This category includes retirements associated with replacement activity as follows:

- ° Replacement of plant located on public right-of-ways required as the result of highway and street projects.
- ° Replacement of plant due to normal deterioration or damage as a result of cable cuts or "dig-ins".

The retirement dollars for these activities are based on approved or announced highway work and identified deteriorated or damaged plant which has caused service affecting trouble.

2. Retirements of Copper Interoffice and Feeder Cables

Fiber is already the economic facility of choice for all new interoffice routes. As fiber is deployed in the interoffice due to growth requirements, all or portions of the replaced interoffice copper cable will become 100% stranded and retired.

In the feeder segment of the network, the continued deployment of Digital Loop Carrier (DLC) to provide economic feeder relief is resulting in the stranding of copper feeder plant. Additionally, the use of fiber in the feeder is proving to be the most economic solution versus copper. The combined use of DLC and fiber feeder is resulting in all or portions of the replaced feeder copper cable becoming 100% stranded and retired.

3. Retirements of Aerial and Buried Drop Wire

Because Drop Wire is not considered a retirement unit, retirements from these accounts are based upon their relationship to retirements in the buried and aerial copper cable accounts.
(Mr. Brennan)

FCTA'S POSITION: On this issue, United has not met their burden of proof, therefore it is necessary for the Commission to establish a process for reviewing these replacements, after the fact, to determine if the Company's actions in this regard are prudent.

OPC'S POSITION: No. Even in the test year the company is incurring a penalty on account of the premature retirement of metallic plant in order to accelerate the placement of fiber.
(Montgomery, Poucher).

STAFF'S POSITION: No position at this time.

ISSUE 11: Has United demonstrated that their network plan is economically justified for telephone service?

UNITED'S POSITION: Yes, UTF has demonstrated that their network plan is economically justified for telephone service. All individual elements of the overall network plan are justified through the use of sound engineering economic studies or business cases, or both.

The vast majority of investments in the network are to provide for growth and modernization. Investments for growth provide for growth in customers, services and usage. In this situation, there is no choice but to provide additional capacity in order to serve growth.

Growth also drives modernization in that it is frequently more economical to provide for growth in customers, services and usage by deploying new technology rather than continuing to add to the existing antiquated embedded plant. With the rapid growth in Florida during the 1980s, United had many opportunities to cost-effectively modernize the network.

As stated above, UTF's network plans are economically justified for telephone service. UTF's network studies only project revenues from services that already exist. UTF's economic studies do not consider revenues associated with potential new future services.

In summary, UTF's network plans are designed to build an economical network that is cost justified for today's services yet is capable of economically and technically evolving to meet tomorrow's service needs. (Mr. Brennan)

FCTA'S POSITION: No, as a matter of law and policy, United has failed to establish that their network plan is economically justified for basic telephone service. In fact, their network plan is rationale to deploy fiber optic technology to supply competitive, enhanced telecommunication services. No hard data on cost effectiveness of their "plan" has been submitted.

OPC'S POSITION: No. In pursuit of their accelerated fiber to the curb program, United has abandoned the use of economic studies to justify the accelerated placement of fiber. In fact, the use of the term "accelerated" may imply that the strategy cannot be done based upon economic studies, for if it was done economically the placement would not be "accelerated." Furthermore, the company has done no analysis of the market to test whether fiber to the curb in the time proposed by the company is economical. (Montgomery, Poucher).

STAFF'S POSITION: No position at this time.

ISSUE 12: Should any reserve reallocations be made at this time?

UNITED'S POSITION: Yes. In Dockets 890486-TL and 891239-TL, the Commission ordered United to record approximately \$30 million of intrastate depreciation expense for disposition in this Docket. This intrastate reserve should be made account specific in this Docket, and United has proposed that the \$30 million be applied against the special recovery schedules identified in the 1991 Depreciation Study Update, dated November, 1991.

Additionally, United has identified in its 1991 Depreciation Study Update, dated November, 1991 or in response to the FPSC Staff Report that reserve adjustments are necessary for the hearing impaired, radio-mobile and aerial wire accounts. (Mr. Harris)

FCTA'S POSITION: Reserves should be allocated if necessary to assure that prospective rates are appropriate, for new additions as well as existing investment, or the Commission must establish a separate rate for new additions to avoid improper rates for the future.

OPC'S POSITION: Yes. See exhibit WPM-6 attached to the prefiled testimony of William Page Montgomery for specific dollar figures. (Montgomery).

STAFF'S POSITION: Yes. Exhibits PSL-4 and PSL-5, attached to the prefiled testimony of Patricia S. Lee, show the specific reserve reallocations. (Lee)

ISSUE 13: What are the appropriate life, salvage and reserve components and resultant depreciation rates?

UNITED'S POSITION: The appropriate life, salvage and reserve components and resultant depreciation rates are those proposed in United's 1991 Depreciation Study Update, dated November, 1991. (Mr. Harris)

FCTA'S POSITION: No position at this time.

OPC'S POSITION: See exhibit WPM-6 attached to the prefiled testimony of William Page Montgomery for specific dollar figures. (Montgomery).

STAFF'S POSITION: The appropriate life, salvage and reserve components and resultant depreciation rates are those shown on Exhibit PSL-1 which is attached to the testimony of Patricia S. Lee. (Lee)

ISSUE 14: What are the appropriate recovery schedules?

UNITED'S POSITION: The appropriate recovery schedules are those proposed in United's 1991 Depreciation Study Update, dated November, 1991.

United has proposed the following special recovery schedules:

<u>Special Recovery Schedule</u>	<u>Recovery Period</u>
Self-supporting towers	1992 - 1996
Early generation digital switching - 1210	1992 - 1994
NT-40 processors	1992
Rockwell E-911 SCX Switch	1992 - 1993

Electromechanical switching	1992 - 1993
Radio - other	1992 - 1996
Circuit - analog	1992 - 1994
Subscriber Multiplexing	1992 - 1993

(Mr. Harris)

FCTA'S POSITION: Staff's proposed recovery schedules are inappropriate --- amounts included in recovery schedules should be amortized equally over the recovery period instead of "front end loading" as indicated on page 1 of PSL-5.

OPC'S POSITION: See exhibit WPM-6 attached to the prefiled testimony of William Page Montgomery for specific dollar figures. (Montgomery).

STAFF'S POSITION: The appropriate capital recovery schedules are those shown on Exhibit PSL-1, page 3 of 3, and on PSL-3, which are attached to the prefiled testimony of Patricia S. Lee. (Lee)

ISSUE 15: What should be the implementation date for revised depreciation rates and recovery schedules?

UNITED'S POSITION: As indicated in United's 1991 Depreciation Study Update, dated November, 1991, the implementation date for revised depreciation rates should be July 1, 1992, and the implementation date for recovery schedules should be January 1, 1992. (Mr. Harris)

FCTA'S POSITION: No position at this time.

OPC'S POSITION: The Citizens do not object to an implementation date of July 1, 1992.

STAFF'S POSITION: Revised depreciation rates should be implemented July 1, 1992; capital recovery schedules should be implemented January 1, 1992. (Lee)

VII. EXHIBIT LIST

<u>WITNESS</u>	<u>PROFFERED BY</u>	<u>I.D. NO.</u>	<u>DESCRIPTION</u>
M. W. Harris	United	MWH-1	Depreciation Study (2 volumes)
	United	MWH-2	Depreciation Study (update)
R. D. McRae	United	RDM-5	Increase in Depreciation and Amortization Expense
D. H. Brennan	United	DHB-1	Network Diagrams and Statistics
William Page Montgomery	OPC	WPM-1	Proposed Application of 1991 Additional Depreciation Expense Based on 1991 Depreciation Study
	OPC	WPM-2	7/1/92 Depreciation Based on the 1989 FPSC Rates
	OPC	WPM-3	UTF Proposed Depreciation Parameters/Expenses for 7/1/92
	OPC	WPM-4	7/9/92 Depreciation Per Staff Interim Report-Less Open Accounts

<u>WITNESS</u>	<u>PROFFERED BY</u>	<u>I.D. NO.</u>	<u>DESCRIPTION</u>
William Page Montgomery	OPC	WPM-5	Citizen's Depreciation Summary - FPSC Interim With Six Account Changes
	OPC	WPM-6	Summary of Depreciation Expense Proposals
	OPC	WPM-7	Example of United Telephone of Florida Incomplete Economic Analysis of Construction I
	OPC	WPM-8	Example of United Telephone of Florida Incomplete Economic Analysis of Construction II
	OPC	WPM-9	"Theoretical Study" By Which United Telephone of Florida Estimated Metallic Cable Substitution
	OPC	WPM-10	Fiber Substitution of Access Lines - 2010 Schedule

<u>WITNESS</u>	<u>PROFFERED BY</u>	<u>I.D. NO.</u>	<u>DESCRIPTION</u>
William Page Montgomery	OPC	WPM-10B	Fiber Substitution of Access Lines - 2020 Schedule
	OPC	WPM-11	Basic Fiber Optics Cost Model of UTF
	OPC	WPM-12	Documents Discussing the "Stranding" of Metallic Cable Account
	OPC	WPM-13	Worksheet for Re-Specifying Metallic Cable Account Lives
R. Earl Poucher	OPC	REP-1	Outside Plant Stranded Investment
	OPC	REP-2	Average Loop Cost
	OPC	REP-3	Fiber Cable Deployment Guideline Cost
Patricia S. Lee	Staff	PSL-1	United Telephone Company 1991 Study - Comparison of Rates and Components
	Staff	PSL-2	United Telephone Company 1991 Study - Comparison of Expenses

<u>WITNESS</u>	<u>PROFFERED BY</u>	<u>I.D. NO.</u>	<u>DESCRIPTION</u>
Patricia S. Lee	Staff	PSL-3	United Telephone Company 1991 Study - Summary of Capital Recovery Schedules
	Staff	PSL-4	United Telephone Company 1991 Study - Proposed Reserve Allocation
	Staff	PSL-5	Allocation of Intrastate Adjustments
<u>Rebuttal</u>			
M. W. Harris	United	MWH-3	Circuit Digital Special Recovery Schedule and Remain Life Calculation
		MWH-4	Metallic Cable Special Recovery Schedule
		MWH-5	Metallic Cable Remaining Life Calculations
		MWH-6	Buried Cable-Filed Reserve Position 10.9 R.L. Buried Cable-Filed Reserve Position 12.4 R.L.

<u>WITNESS</u>	<u>PROFFERED BY</u>	<u>I.D. NO.</u>	<u>DESCRIPTION</u>
M. W. Harris		MWH-7	Buried Metallic Cable Allocation Drop
		MWH-8	Special Recovery Schedules
		MWH-9	Depreciation Expense Comparison

Due to the expedited nature of this hearing, staff is still gathering information and anticipates that there will be additional exhibits. Staff will provide the parties with a copy of each additional exhibit on an ongoing basis.

Parties and Staff reserve the right to identify additional exhibits for the purpose of cross-examination.

VIII. PROPOSED STIPULATIONS

Staff and the parties have agreed to the admission of the following exhibits into the evidentiary record:

<u>I.D. NO.</u>	<u>DESCRIPTION</u>
1.	9/4/91 letter to Patricia S. Lee from Mike Harris regarding effective dates of new depreciation rates and recovery schedules and allocation of \$30 million intrastate unclassified reserve
2.	10/14/91 letter to Patricia S. Lee from Mike Harris regarding response to staff initial review of depreciation study
3.	1/20/92 letter to Patricia S. Lee from Mike Harris regarding additional information
4.	2/28/92 United response to 2/3/92 staff report

5. 3/16/92 letter to Patricia S. Lee from Mike Harris regarding supplemental Digital 1210 switching information as noted in the 2/28/92 staff report response
6. Deposition of Harris, Brennan and McRae - Transcript pages 128, 136
7. (Late-Filed) Number of Pay Stations in Service for 1987 through 1992, January 1st of each year
8. (Late-Filed) Revised Retirements and Additions for Coin Pay Stations for Each of the years '92 through '94
9. (Late-Filed) Reconciliation of Analog Circuit Account, Additions and Retirements
10. (Late-Filed) 1989-1990 Salvage Corrections for Prior Years
11. (Late-Filed) Calculation of the 1-1-92 Reserve for Digital Circuit Retiring Investments for 1992 through 1994
12. (Late-Filed) Discussion of Substitution of Asynchronous Fiberoptic Circuit Equipment
13. (Late-Filed) Economic Studies Evaluating Alternatives for 1992 to 1994 Switching Retirements
14. (Late-Filed) Total Cost for Upgrading to the 680 Processor and Eliminating the CSA Relief Requirement for Buenaventura Lakes
15. (Late-Filed) Cost for Projected SuperNode Upgrade for Lake Placid
16. Response to Staff's Inquiry Into Issues Relating to the Deployment of Fiber Technology in the Local Loop, Public Utilities Commission of Texas, Project No. 10003, July 15, 1991
17. Border Lake CSA Remote Equipment Recommendation, July 1990
18. South Fort Myers Integrated Plan / Idlewild CSA Study, October 1990

19. Spring Lake Integrated Plan (Excluding b and c of UTF's confidential request)
20. Bowling Green/Ft. Meade Integrated Plan (Excluding b and c of UTF's confidential request)
21. Windermere Integrated Plan (Excluding b of UTF's confidential request)
22. Wildwood Integrated Plan (Excluding b of UTF's confidential request)
23. Cape Haze Integrated Plan (Excluding a and d of UTF's confidential request)
24. Recommendation for Improvements in UTF E911 Services (Excluding b of UTF's confidential request)
25. Immokalee Integrated Plan (Excluding b, c, d, e, f and g of UTF's confidential request)
26. Bonita Springs-Citrus Park Facility Study
27. Ocala-Highlands-Silver Springs-Forest-Salt Springs Facility Plan
28. Bushnell Inverness Digital Radio
29. Umatilla Integrated Plan (Excluding b, d, f and h of UTF's confidential request)
30. San Antonio Integrated Plan (Excluding b and f of UTF's confidential request)
31. Trillacoochee Integrated Plan (Excluding a and c of UTF's confidential request)
32. Glades Network Area Integrated Plan (Excluding b and f of UTF's confidential request)
33. Sebring Integrated Plan (Excluding a and c of UTF's confidential request)
34. Tupperware Fiber Optic Network Study
35. 1990 Home Media Consumer Survey: Residential Telecommunications

36. October 25, 1991 Letter; From: L.N. Hulbert, V.P. Sales, Services and Technical Marketing-Alcatel; To: William C. Prout, V.P. Engineering and Operations-UTI (RE: 1210 Switching Vehicle)
37. August 5, 1991 Letter; From: William C. Prout, V.P. Engineering and Operations-UTI; To: Dan Meessmann, V.P. Sales and Marketing-Alcatel (RE: 1210 Switching Vehicle)
38. May 9, 1990 Letter; From: Randy McGovern, National Sales Manager-Switching-Alcatel; To: Russ Dunn, Senior Engineer-UTF (RE: GSM-301, Release 2)
39. August 21, 1990; Alcatel/UTF Meeting Minutes
40. November 9, 1990 FAXs; From: Michael Roach, Manager, 1210 Software Engineering-Alcatel; To: Lane Trussell, Dave Hirtz and Russ Dunn, UTF (RE: ACD function for Lady Lake)
41. September 10, 1990 Letter; From: Randy McGovern, National Sales Manager-Switching-Alcatel; To: Russ Dunn, Senior Engineer-UTF (Design Review Meeting)
42. 1210 Alcatel Business Features, date reissued 5/18/90
43. September 26, 1990 Letter; From: Laurie A. Santulli, Product Manager-ABC Services-UTF; To: Randy McGovern, National Sales Manager-Alcatel (RE: ABC forecasts)
44. Alcatel 1210 Switching System - Development Accomplishments 1986-1990
45. October 23, 1990 Letter; From: E.R. Dunn, Senior Engineer-Long Range Technology Planning; To: Distribution (RE: Alcatel Response to September 20-21, 1990 meeting)
46. November 13, 1990 Letter; From: Randy McGovern, National Sales Manager-Switching-Alcatel; To: Russ Dunn, Senior Engineer-UTF (RE: Real-Time Processor Capacity Report)
47. December 19, 1990 Letter; From: Randy McGovern, National Sales Manager-Switching-Alcatel; To: Russ Dunn, Senior Engineer-UTF (RE: GSM 303 Upgrades)
48. Alcatel Network Systems GSM 303 Feature Description
49. Alcatel Network Systems GSM 304 Feature Description

50. GSM-300 Series Feature Overview - August 13, 1990
51. April 26, 1991 Letter; From: Mike Roach; To: Randy McGovern (RE: 1210's 56KB data capability)
52. June 18, 1991 Letter; From: Don Hogue, Manager, Switching Sales-Alcatel; To: Russ Dunn, Senior Engineer-UTF (RE: Response to items raised at CIG meeting)
53. August 14, 1991 Letter; From: Randy McGovern, National Sales Manager-Switching-Alcatel; To: Russ Dunn, Senior Engineer-UTF (RE: Summary of GSM-303 demonstration)
54. February 11, 1992 Letter; From: Randy McGovern, National Sales Manager-Switching-Alcatel; To: Russ Dunn, Senior Engineer-UTF (RE: Recent conversation relating to ongoing feature development for the 1210 Product line)
55. August 28, 1990 FAXs; From: Mike Roach, Alcatel; To: Russ Dunn, UTF (Abstract for Alcatel/UTF meeting-August 21, 1990)
56. 1992 October View Office Replacement Schedule - September 1991
57. Demand and Facility Charts, filed in UTF's Ratecase Docket No. 910980-TL, for all Analog, Digital and Radio offices being modified in the Depreciation Study
58. ITT Telecom Network Systems Division - Document No. 972-010-100 - October 1983 - Issue 4 ITT 1210/32 General Description
59. ITT Telecom - Document No. 972-015-100 - December 1985 - Issue 3 ITT 1210/ITT 1218DSR Features List for Generic Software Module 7
60. Alcatel Network Systems - Document No. 974-020-100 - November 1989 - Issue 2 - 1210/64 General Description
61. Alcatel Network Systems - Document No. 974-053-100 - March 1992 - Issue 1 - 1210 Features List for Generic Software Module 304
62. CITRUS Users Manual - April 1991
63. CUCRIT Users Guide

64. [The contents of this exhibit were contained in other exhibits]
65. ALL OF BRENNAN'S LATE-FILED EXHIBITS FOR THE MARCH 30, 1991 DEPOSITION
67. Transcript from 3/11/92 Deposition of Mr. Harris, Mr. Brennan, and Mr. McRae
68. Transcript from 3/19/92 Deposition of Mr. Gillett
69. Transcript from 3/26/92 Deposition of Mr. Montgomery
71. Transcript from 3/31/92 Deposition regarding CUCRIT and CITRUS studies
72. MFR Schedules F-2 (D&F Charts) filed in 910980-TL

IX. PENDING MATTERS

Staff and the parties have tentatively agreed to the admission of the following exhibits into the evidentiary record subject to review of the documents:

<u>I.D. NO.</u>	<u>DESCRIPTION</u>
66.	UTF'S RESPONSES TO STAFF'S 1ST AND 2ND PODS
70.	Transcript from 3/30/92 Deposition of Mr. Brennan and Mr. Harris

X. RULINGS

The Company's December 6, 1991, Motion for Temporary Protective Order regarding OPC's First Request for Production of Documents was granted.

Motions regarding discovery in the rate case which may apply to the depreciation Docket have been resolved by Order No. PSC-92-0084-PCO-TL, issued on March 3, 1992, in Docket No. 910980-TL.

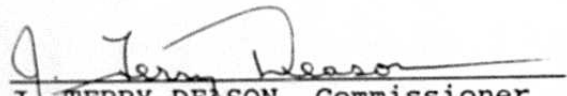
United's oral motion for extension to April 29, 1992, of any Notice for Confidential Treatment for which the 21 day period expires during the period April 13, 1992, to April 22, 1992 was granted.

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It is therefore,

ORDERED by Commissioner J. Terry Deason, as Prehearing Officer, that this Prehearing Order shall govern the conduct of these proceedings as set forth above unless modified by the Commission.

By ORDER of Commissioner J. Terry Deason, as Prehearing Officer, this 10th day of APRIL, 1992.


J. TERRY DEASON, Commissioner
and Prehearing Officer

(S E A L)

CWM

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.

Any party adversely affected by this order, which is preliminary, procedural or intermediate in nature, may request: 1) reconsideration within 10 days pursuant to Rule 25-22.038(2), Florida Administrative Code, if issued by a Prehearing Officer; 2) reconsideration within 15 days pursuant to Rule 25-22.060, Florida Administrative Code, if issued by the Commission; or 3) judicial review by the Florida Supreme Court, in the case of an electric, gas or telephone utility, or the First District Court of Appeal, in the case of a water or wastewater utility. A motion for reconsideration shall be filed with the Director, Division of Records and Reporting, in the form prescribed by Rule 25-22.060,

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Florida Administrative Code. Judicial review of a preliminary, procedural or intermediate ruling or order is available if review of the final action will not provide an adequate remedy. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.