

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Review of capital) DOCKET NO. 920823-TL
recovery requirements of FLORALA) ORDER NO. PSC-93-0505-FOF-TL
TELEPHONE COMPANY) ISSUED: 4/5/93
_____)

The following Commissioners participated in the disposition of this matter:

J. TERRY DEASON, Chairman
THOMAS M. BEARD
SUSAN F. CLARK
JULIA L. JOHNSON
LUIS J. LAUREDO

NOTICE OF PROPOSED AGENCY ACTION
ORDER SETTING 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.

I. BACKGROUND

Rule 25-4.175(8), Florida Administrative Code, requires telephone companies to file a comprehensive depreciation study at least once every three years. In compliance with this Rule, Florala Telephone Company, Inc. (Florala or the Company) filed its Depreciation Study (the Study) on August 14, 1992. The Company's current rates were approved effective January 1, 1990, by Order No. 23146, in Docket No. 891050-TL.

Since its last represcription, Florala has retired and replaced its electromechanical switches with two digital switches. The unrecovered investment of these retired switches and associated circuit equipment were placed on recovery schedules as part of the last review. Those schedules are now complete. A review of Florala's plans indicate that no new recovery schedules are required at this time. Growth in the Laurel Hill area has prompted placement of a new toll route with the Company's first fiber cable application together with the associated optical circuit equipment. Several accounts have experienced a high degree of activity. The updated remaining lives, resultant plant, and reserve balances

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should be incorporated in revised remaining life rates. Thus, the depreciation rates require revision at this time.

The Company requests an implementation date of January 1, 1993. The data and calculations submitted support that date. Accordingly, we find that January 1, 1993 is the appropriate date to implement the rates we have approved herein.

II. RESERVE TRANSFERS

By Order No. 17134, issued January 26, 1987, as part of Florala's 1986 depreciation study, recovery was provided for the net unrecovered investment associated with analog circuit equipment expected to retire in 1989. The retirement of that equipment was completed in 1990. There is now a reserve surplus of \$30,696 associated with this retirement primarily due to an unexpected need in the Alabama operations for this equipment. The Company proposes to transfer this surplus to the current Circuit-Analog depreciable category. We find that this transfer is appropriate as it will more than offset the perceived reserve deficit in this account. This transfer is reflected on Attachment A to this Order. Upon review of the current reserve position for each account, we find that no other reserve transfers are necessary at this time.

III. APPROPRIATE LIVES, NET SALVAGES, RESERVES, AND DEPRECIATION RATES

The approved appropriate lives, net salvages, reserves, and resultant depreciation rates are reflected on Attachment A to this Order. The adjustments result in an increase in annual depreciation expense of approximately \$38,000, based on January 1, 1993, investments.

Differences between the Company's requests and the parameters we are approving occur in the following accounts:

A. Information Origination/Termination Equipment Paystations

We accept the Company's life proposal; however, the salvage factor is based on the fact that salvage was booked in only one year of activity, resulting in a negative 1% net salvage. Also, this account shows only two retirements since 1985. With such a

small universe and relatively no activity, we find that it is appropriate to retain the current salvage factor of zero.

B. Poles

We accept the Company's life parameters for this account, but we believe that the Company's proposal to retain the currently prescribed 15% salvage factor is not appropriate. We find that a 40% future net salvage factor is more representative of the future.

C. Underground Cable - Metallic

We accept the Company's life parameters for this account, but we believe that Florala's proposal of zero future net salvage is not representative of the future. Most of this investment will be abandoned in place upon retirement. However, taking into account that some associated equipment is physically removed, we find that the use of negative 5% future net salvage is appropriate to recognize these removal costs.

IV. INVESTMENT TAX CREDITS AND EXCESS DEFERRED INCOME TAXES

During our review of Florala's Study, we discovered that the Company did not change its amortization of Investment Tax Credits (ITCs) and excess deferred income taxes with each depreciation prescription. Florala amortizes ITCs using the remaining asset lives in effect at the time the credits are generated. The excess deferred income taxes are amortized using the remaining asset lives in effect at the time the Commission began requiring the amortization of excess deferred income taxes. We believe that the amortization of ITCs and excess deferred income taxes should be changed with each subsequent depreciation prescription.

Section 46(f) of the Internal Revenue Code provides that the amortization of ITCs should be determined by the period of time actually used in computing depreciation expense for purposes of reflecting operating results of the utility. We believe that the amortization of excess deferred income taxes should be determined in the same manner to ensure consistency.

Accordingly, Florala shall amortize ITCs and excess deferred income taxes over the remaining life of the assets which generated

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them. The change in amortization shall be on a prospective basis and shall be reflected in the Company's surveillance reports.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the depreciation rates and recovery schedules set forth in Attachment A are hereby approved for Florida Telephone Company, Inc. It is further

ORDERED that the implementation date for such rates shall be January 1, 1993. It is further

ORDERED that the reserve transfers set forth in Attachment A are hereby approved. It is further

ORDERED that the current amortization of investment tax credits and the flowback of excess deferred income taxes shall be changed to reflect the new depreciation rates and recovery schedules. It is further

ORDERED that our action herein shall become final and this docket shall be closed if no timely protest is filed in accordance with the requirements set forth below.

By ORDER of the Florida Public Service Commission, this 5th day of April, 1993.



STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

PAK

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 April 26, 1993.

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 wastewater 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.