

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: 1992 Depreciation Study) DOCKET NO. 920795-TL
of SOUTHLAND TELEPHONE COMPANY.) ORDER NO. PSC-93-0801-FOF-TL
_____) ISSUED: May 25, 1993

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 ON DEPRECIATION

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. Depreciation Rates

The depreciation study in this docket was filed by Southland Telephone Company (Southland or the Company) in accordance with Rule 25-4.0175(8)(a), Florida Administrative Code, in August, 1992. The data provided in the filing depicts change in the recovery status for the depreciable accounts since the Company's 1989 filing. The decisions set forth below will provide for recovery of the current plant investment serving Florida customers, reflecting the current recovery status and expected life for each account.

II. Implementation Date

By submitting the plant and reserve data through December 31, 1992, the Company has provided the necessary information to establish the January 1, 1993, recovery position for each account, and has requested implementation on that date. The proposed depreciation rates are based on the January 1, 1993, recovery position, and use of these rates should logically commence on that date.

DOCUMENT NUMBER-DATE

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PSC-RECORDS/REPORTING

III. Corrective Reserve Transfers

In reviewing the last study, it was discovered that the Company transferred \$116,728 from Account 2212, Digital Electronic Switching, to Account 2232, Circuit Equipment, without transfer of any associated reserve. The Company then calculated the associated reserve to be \$36,147 and transferred that amount from the switching to the circuit reserve. By Order No. 23835, a corrective reserve transfer of \$28,939 was ordered to resolve the problem. The Company booked the ordered reserve transfer in addition to the amount it had already transferred. After review of the Company calculations we have concluded that the amount of \$28,939 is correct. Therefore, we shall restore the \$36,147 to the reserve for the switching account, and correct both account reserves accordingly, as set forth on Attachment B of this Order.

The Company calculated the accrual associated with amortization of the investment in Account 2122, Furniture, incorrectly; as a result, there is a surplus of \$4,261 in the reserve for this account. Lacking the expectation of additions to absorb this surplus, we shall transfer this amount to the reserve for Account 2232, Other Circuit Equipment, as shown on Attachment B of this Order. This transfer will partially reduce the reserve surplus for the account. Regarding the current study, the Company has submitted reserve corrections as set forth below:

In the Circuit Equipment accounts, the Company realized in 1992 that \$112,346 had been booked to Fiber Circuit Equipment in 1989, although it should have been booked into the Other Circuit Equipment account. The plant amount was correctly transferred, but the commensurate reserve transfer was omitted. An associated reserve amount of \$28,817 has been calculated, and the corrective transfer is approved, as shown on Attachment B.

In the Underground Cable accounts, a miscalculation during 1990 and 1991 resulted in \$207 of depreciation expense booked to the records for the metallic account when it should have accrued to the fiber account. The corrective reserve transfer, as shown on Attachment B, is therefore approved.

In the Buried Cable, Metallic, Jelly-Filled Account, there was an error made in booking \$171 cost of removal in 1991, and \$2,182 in salvage in 1990. Both of these entries related to retirements incurred in the Buried Cable, Air Core Account. The corrective transfer shown on Attachment B is therefore approved.

IV. Reuse Salvage

Southland has been retiring and reusing the equipment in the public telephone account. Based on expected reuse, the salvage value booked at retirement was an average cost. As far as we can determine, there was not an established, consistent methodology for determining the amount of salvage value. However, the current cost for similar equipment was included, as compared to the original cost of the equipment retired. This is not in accordance with requirements of the USOA.

On review, the Company shall document procedures for determining the amount of reuse salvage to be booked. In addition, by September 1, 1993, the Company shall submit to the Commission a report detailing procedures which have been implemented to assure compliance with the USOA.

V. Physical Inventory of Account 2423.602

The amount of plant in service recorded in Account 2423.602 is the result of an allocation of investment separated between air core and jelly filled. There was also a prior allocation of investment, relating to the separation of Florida investment from that of Alabama. As far as we have been able to ascertain, there has been no inventory by the Company, to determine the amount of air core cable plant actually in service, and its associated investment, within the Florida jurisdiction. Thus, there is doubt as to the extent to which the investment of record for this account represents physical plant in service. As a first step in resolving this problem, the continuing property record shall be aligned with the plant which is currently in service, and the investment reconciled with the resultant continuing property record.

Final retirement of all buried cable plant of the air core type is expected in approximately a decade. Additionally, there are at present contradictory historical indicators as to the amount of the plant in service; consequently, there is some doubt as to relationship between investment amount and the reserve accrued.

The Company shall submit a plan by September 1, 1993, for execution of an inventory of this account. The completed inventory and results shall be provided no later than April 1, 1994.

VI. Depreciation Rates

In general, there are small differences between the depreciation rates which we approve and those proposed by the Company. Initially, the Company's calculations and proposals were based on data through December 31, 1991. Since the original filing, actual 1992 activity has been provided by the Company; this was used to update each account status to January 1, 1993, the Company's requested implementation date. Small differences have also occurred due to the corrective reserve transfers discussed supra, and rounding of the remaining life values and remaining life rates. Particular differences for each account are presented in the following discussion.

Account 2121: Buildings - A 22 year remaining life reflects the Company's proposal, updated for 1992 activity and rounded. We approve continuation of 0% net salvage, in accord with the Company's proposal and the record of activity.

Account 2122: Furniture - The Company is amortizing this account in accord with the Rule 25-4.0178, F. A. C.

Account 2123.2: Communication Equipment - The account is fully amortized, and no further expense shall be booked for recovery of the current embedded investment. Any new investment (meaning vintage 1993 or after) shall be amortized over a 5 year period, in accord with Rule 25-4.0178, F. A. C.

Account 2212: Digital Electronic Switching - The Company states that, from its point of view, the current switch is expected to require replacement by about the year 2003. There are no near-term retirements of switching equipment anticipated. All remote switches are expected to be retired at the same time, since attached remotes will retire with the network switches. This reflects the Company's perception of service demands, and the reconfiguration or change-outs which would most economically meet those demands. A 12-year remaining life incorporates the Company's view with industry expectation for the switch change-out in the first decade of the 2000's, and projections of interim retirements over the remaining life span. Interim retirement rates are 0.5% for 1993-1994; 1.0% for 1995-1997; 3.0% for 1998-1999; 1.0% for 2000-2004. These interim retirements include planned 1993 upgrades, as well as the anticipated later ones by which the basic switch can be modified to accommodate SS7 and thereby meet service

requirements. Continuation of 0% net salvage, as proposed by the Company and indicated by the data, is approved.

Account 2232: Circuit Equipment - The reserve for this account shall be restated in accord with the restoring of \$36,147 to the switching reserve, as discussed supra.

Our decision regarding life and salvage for this account is focused on the digital equipment currently associated with this account and serving the public. Much of the circuit equipment was retired in connection with the retirement of electromechanical switches during the period 1984-1989; analysis of account history extending back several years (into the life pattern of that equipment of the previous technology) does not necessarily relate to the current investment in digital equipment. In the last study, the Company commented that a decrease in projection life was in order for the newer equipment - an apparent indication of its belief that service demands would surpass equipment capability and shorten the equipment life span, as compared to the life span of previous equipment.

No near-term retirements of circuit equipment are anticipated. Further, recognizing that there have been no retirements in this account over the period 1990 through 1992, we are constrained to look at the life expectancy for similar equipment throughout the state, in addition to information from this specific account. Based on industry averages, we approve a service life of 12 years and the R1 curve; together with the January 1, 1993 average age of 8 years, this gives a remaining life of 6.6 years. Based on the expectation that the equipment will lack vendor support and be obsolete at the time of retirement, continuation of the Company proposed 0% net salvage is approved.

Account 2232: Circuit Equipment, Fiber - We approve continuation of a whole life rate, based on expected growth in this account. The Company proposal of 10.1 years for average service life and zero net salvage is acceptable, based on correlation with industry expectations.

Account 2351: Public Telephone Equipment - Southland is using the location life method for accounting for the equipment represented by this investment. The salvage has not been correctly booked, in that retired equipment has been returned to inventory at current average cost. The Company shall conform with standard accounting practice and the requirements for telecommunications

companies set forth in the Code of Federal Regulations. This is discussed in detail supra.

Our approved treatment represents a conversion to location life methodology. An average service life of 8 years and net salvage of 20% are within the range of accepted industry averages and shall be employed. Using the S2 curve with an average age of 2.2 years, we approve a remaining life of 6 years.

Account 2422: Underground Cable, Metallic - We approve a remaining life of 11.8 years, which is based on a 17-year service life and the Company's proposal for continued use of the R3 curve. These parameter values correlate with current projections for phase-out of this type of plant. Continuation of the negative 5% net salvage, as proposed by the Company, is also approved.

Account 2422: Underground Cable, Fiber - Recognizing that the anticipated additions of this type of plant will be reflected in a low average age for the account, we approve continuation of the whole life rate based on 20-year service life and negative 5% net salvage.

Account 2423.012: Buried Cable, Fiber - As with other types of fiber cable installations, expected future additions will impact the average age, keeping it low during the period of initial growth. During that period, the remaining whole life rate will approximate the remaining life rate. Therefore, we approve continuation of the whole life rate, based on a 20-year service life and 0% net salvage.

Account 2423.502: Buried Cable, Metal, Jelly-Filled - The current rates are based on an underlying projection that the type of equipment associated with this investment will be phased-out by about the year 2017, and that an R2 curve with a 19-year average service life correlates closely with the retirement/survivor pattern. Data since the last study is in line with this projection. Using the updated age of 6.5 years, the approved remaining life is 13.4 years. Continuation of negative net salvage of 5% is approved as reasonable and in line with the Company proposal.

Account 2423.602: Buried Cable, Air Core - At the time of the prior study, the Company was retiring the air core cable as quickly as possible; however, the planning has been revised, and future retirements will be on a maintenance basis, as required by equipment deterioration. We have brought the account forward to

1-1-93, using the yearly retirement activity. However, the amount of plant in service in this account is somewhat questionable, due in large part to allocations made between the air core and jelly-filled cable types. Further, the best information available gives some conflicting indications in regard to account age. We therefore require the Company to undertake an inventory of the plant in this account, in order to avoid the possibility of non-existent plant in rate base as discussed supra.

Bringing the age forward as described in the preceding paragraph, we calculate an age of 11.4 years for this account at January 1, 1993. Using the R2-15 curve, a remaining life of 6.1 years is obtained. The net salvage of negative 1% is approved based on the expectation that this type of plant is abandoned in place.

Account 2441: Conduit Systems - Continuation of the 55 year service life with 0% net salvage, as proposed by the Company, is approved. We used the R4 curve, based on Company history and industry acceptance, and approve a remaining life of 37 years.

Therefore, based upon the foregoing, it is

ORDERED by the Florida Public Service Commission that the depreciation rates for Southland Telephone Company shall be revised for the Florida jurisdiction. It is further

ORDERED that the new depreciation rates shall be implemented January 1, 1993. It is further

ORDERED that corrective reserve transfers shall be recorded by the Company as shown on Attachment B of this Order. It is further

ORDERED that Southland Telephone Company shall submit a report by September 1, 1993, showing what procedures have been implemented to assure that reuse salvage is priced at original cost as required by the USOA. It is further

ORDERED that Southland Telephone Company is hereby required to perform a physical inventory of the plant currently in service in the Account 2423.602, Buried Cable, Air Core and reconcile the investment of record to that amount of plant. The Company shall submit to the Commission, by September 1, 1993, a plan for execution of an inventory of this account. The completed inventory


ORDER NO. PSC-93-0801-FCF-TL
DOCKET NO. 920795-TL
PAGE 8

and results shall be submitted to the Commission no later than April 1, 1994. It is further

ORDERED that the approved depreciation rates as derived from the January 1, 1993 reserve positions for the depreciable and amortizable accounts for Southland Telephone Company, are set forth at Attachment A of this Order. It is further

ORDERED that this Docket shall be closed at the end of the Proposed Agency Action protest period, assuming no timely protest is filed.

By ORDER of the Florida Public Service Commission this 25th day of May, 1993.



STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

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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.

ORDER NO. PSC-93-0801-FOF-TL
DOCKET NO. 920795-TL
PAGE 9

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 June 15, 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.

ATTACHMENT A

SOUTHLAND TELEPHONE COMPANY
1992 DEPRECIATION STUDY

COMMISSION APPROVED RATES

ACCOUNT	AVERAGE REMAINING LIFE (yrs)	NET SALVAGE (%)	BOOK RESERVE (%)	REMAINING LIFE RATE (%)
2121 Buildings	22.0	0	33.04	3.0
2122 Furniture - Embedded Furniture	10	YEAR	AMORTIZATION	FULLY AMORTIZED -- 8 YEAR AMORT. COMPLETE
2123.2 Company Communication Eqpt.-Emb. Company Communication Eqpt.	5	YEAR	AMORTIZATION	FULLY AMORTIZED -- 3 YEAR AMORT. COMPLETE
2212 Digital Electronic Switching	12.0	0	29.47 #	5.9
2232 Circuit Equipment	6.6	0	43.97 #	8.5
2232 Circuit Equipment-Fiber	10.1	0	26.85 #	9.9 *
2362 Public Telephone Equipment	6.0	20	70.17	1.6
2422 Underground Cable-Metallic	11.8	(5)	36.85 #	5.8
2422 Underground Cable-Fiber	20.0	(5)	15.90 #	5.3 *
2423.502 Buried Cable-Jelly Filled	13.4	(5)	31.94 #	5.5
2423.602 Buried Cable-Air Filled	6.1	(1)	74.58 #	4.3
2423.012 Buried Cable-Fiber	20.0	0	16.97	5.0 *
2441 Conduit Systems	37.0	0	38.30	1.7

* Whole life rate.

Includes corrective reserve transfer.

ORDER NO. PSC-93-0801-FOF-TL
DOCKET NO. 920795-TL
PAGE 11

Attachment B

SOUTHLAND TELEPHONE COMPANY

**APPROVED TRANSFERS
FOR RESERVE CORRECTION**

<u>ACCOUNT</u>		<u>1/1/93 RESERVE BALANCE</u>	<u>AMOUNT TRANSFERRED</u>	<u>1/1/93 RESERVE RESERVE</u>
2122	Furniture	\$7,464	(\$4,261)	\$3,203
2212	Digital Electronic Switching	432,631	\$36,147	\$468,778
2232	Circuit Equipment	\$213,434	(\$3,069)	\$210,365
2232	Circuit Equipment Fiber	\$63,016	(\$28,817)	\$34,199
2422	Underground Cable Metallic	\$801	(\$207)	\$594
2422	Underground Cable Fiber	\$221	\$207	\$428
2423.502	Buried Cable Met. - Jelly	\$1,139,748	(\$2,011)	\$1,137,737
2423.602	Buried Cable Met. - Air	<u>\$ 831,220</u>	<u>\$ 2,011</u>	<u>\$ 833,231</u>
TOTAL		\$2,688,535	\$0	\$2,688,535