BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Review of capital recovery requirements of ST. JOSEPH TELEPHONE AND TELEGRAPH COMPANY as of 12/31/92	) DOCKET NO. 921270-TL) ORDER NO. PSC-93-1392-FOF-TL) ISSUED: 9/23/93

The following Commissioners participated in the disposition of this matter:

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, St. Joseph Telephone and Telegraph Company (St. Joe or the Company) filed its Depreciation Study (the Study) on December 18, 1992. The Company's current rates were approved effective January 1, 1990.

Since the last study, impacts of technological developments and changes in the network require adjustments in the capital recovery patterns. Company plans call for upgrading the processor portion of its toll switch at Port St. Joe and replacement of the digital switch at Blountstown. Further plans are to replace all microwave radio with fiber routes by the end of 1993.

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.

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Our decisions herein are the result of our comprehensive review of the Company's Study. We will adopt the depreciation rates and amortization and recovery schedules as reflected on the attachments to this Order. Attachment A shows the approved reserve allocations; Attachment B reflects the approved recovery schedule; and, Attachment C shows the approved rate parameters (lives, salvages, and reserves).

II. SWITCHING RETIREMENTS

St. Joe has proposed only two major equipment replacements for the 1993-1995 period. The Company proposes replacement of the Port St. Joe Northern Telecom DMS-100/200 central processor with the vendor's Super Node processor and software in 1993. This will be completed by December 31, 1993. The switch capacity with the present processor is approaching exhaust and the new processor will increase both the capacity and the capabilities of the Access Tandem Switch. The DMS-100/200 is currently serving all the local access lines in the Port St. Joe exchange as well as providing 1+ and 0+ toll recording, equal access, access to interexchange carriers, access to operator services and 800 database services for all thirteen company exchanges.

We believe that the additional capacity and features of the Super Node processor are required so that the Company can continue to provide services in an efficient and economical manner. The Super Node processor and software is the present standard technology for all Northern Telecom DMS switches.

The Company also plans to replace the NEC NEAX-61 switch at Blountstown in 1995. The NEAX-61 switch does not have vendor support for the provision of SS7 type services and other expected future demands. With this replacement, the entire service area will be served by Northern Telecom digital switches. We believe that there are advantages of having only one switch vendor such as maintenance standards, employee training and efficiency. The proposed DMS-100 switch can be efficiently utilized in the St. Joseph Company's network serving as a Host office for present and future remote switches and subscriber line carrier.

Based on the information provided to us, we find that the Company's proposed switching retirements for the 1993-1995 time frame are reasonable and acceptable.

III. RESERVE TRANSFERS

As of January 1, 1993, the Circuit-Analog account has an apparent reserve surplus of $70,316 while the Radio Systems-Microwave account has a deficit of about $54,452. We believe that the appropriate action is a transfer of the surplus to offset the deficit, with the remaining $15,864 to be transferred to the recovery schedule for the digital central processing unit as discussed below. Further, there are residual reserve amounts associated with the recovery schedules for Circuit-Digital Carrier and Microwave Radio, retiring in 1992, that were prescribed as part of the last depreciation review. These amounts shall also be transferred to offset the unrecovered investment for the retiring central processing unit.

During the course of this current depreciation study, the Company discovered that the past classification of Drop and Block Cable to Aerial and Buried Cable was based on the physical characteristics of the drop itself rather than on the type of cable from which it was fed. As a result, there was a disproportionate amount of Aerial Drop and Block investment relative to the amount of cable investment, compared to the same relationship in the Buried Cable classification. The Company has proposed a reallocation of the Drop and Block Cable investment and associated reserve between the Aerial and Buried Cable classifications. We find that the Company's proposal to correct this allocation is appropriate and approve the adjustment.

St. Joe doesn't have any lease agreements with an affiliate or non affiliate that affects these accounts. However, in light of the possible impact of reserve transfers on cost allocations and jurisdictional separations, the Company shall make corresponding entries to the related depreciation expense accounts.

The actions described herein will bring the reserve positions for Circuit-Analog and Radio Systems-Microwave more in line with their theoretically correct levels and will reallocate the residual reserve amounts associated with completed recovery schedules approved during the last represcription. Accordingly, the reserve allocations which we are approving are reflected on Attachment A.

IV. RECOVERY SCHEDULES

The capital recovery schedules which we are approving, as shown in Attachment B, are designed to recover the net investments associated with the switching equipment and radio systems planned for retirement during the 1993-1995 time period.

St. Joe plans to retire the Central Processing Unit (CPU) in the St. Joe central office in 1993 and the Blountstown NEAX-61 switch in 1995. The Company has proposed two recovery schedules: Digital Switching-Central Processing Unit and Digital Switching-Blountstown Switch. Additionally, the Company's remaining Radio Systems-Microwave investment is associated with interoffice links which will be replaced by the third quarter of 1993 with fiber facilities. With this replacement in mind, the Company has proposed to transfer $55,647 reserve surplus from Circuit-Analog which will provide for full recovery of this account's investment by the time of retirement.

The recovery pattern of each schedule which we are approving is designed to recover the unrecovered amounts over the remaining period each switch will be serving the public. The monthly expense for these schedules shall be obtained by dividing the net plant for the month by the number of months remaining in the recovery period. All activity relating to these schedules should be booked to these schedules and not to another depreciation category or account.

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

The lives, net salvages, reserves, and resultant depreciation rates which we are approving are reflected on Attachment C. Additionally, certain general support asset account investments are being amortized pursuant to Rule 25-4.0178. The associated amortization periods are also reflected on Attachment C.

Upon review and analysis of the Study, it appears that there is no significant difference between the Company's proposals and the lives, net salvages, reserves, and resultant depreciation rates which we are approving.

VI. INVESTMENT TAX CREDITS AND EXCESS DEFERRED INCOME TAXES

We are approving revisions to St. Joe's depreciation rates and capital recovery schedules with an effective date of January 1, 1993. Revising a utility's depreciation rate usually results in a change in its rate of investment tax credit (ITC) amortization and a change in its flowback of deferred taxes.

Section 46(f)(6) of the Internal Revenue Code (IRC) states that the amortization of ITCs should be determined by the period of time used in computing depreciation expense for purposes of reflecting regulated operating results of the utility. Additionally, Section 203(e) of the Tax Reform Act of 1986 (TRA) prohibits rapid write-back of protected (depreciation related) deferred taxes. Moreover, Rule 25-14.013, prohibits, without good cause shown, excess deferred income taxes (protected and unprotected) associated with temporary differences, from being reversed any faster than allowed under either the average rate assumption method of Section 203(e) of the TRA or Revenue Procedure 88-12, whichever is applicable. Therefore, both the TRA and Rule 25-14.013 prohibit faster write-off of protected excess deferred taxes. Accordingly, we find that the current amortization of ITCs and the flowback of excess deferred income taxes shall be revised to reflect the approved depreciation rates and recovery schedules, in order to comply with the TRA and Rule 25-14.013.

St. Joe states that historically, it has not made any changes with respect to the ITC amortization and the amortization of deferred taxes with depreciation represcriptions. However, the Company will review the amortization following the final decision in this proceeding. Accordingly, the current amortization of ITCs and the flowback of excess deferred income taxes shall be revised to reflect the approved depreciation rates and recovery schedules. We also direct St. Joe to submit detailed calculations of the revised ITC amortization and flowback of excess deferred taxes at the same time it files its September 1993 surveillance report.

VII. Findings of Continuing Property Record Audit

Concurrent with the depreciation study review, the Division of Research and Regulatory Review performed an operational review of the Company's Continuing Property Records (CPR). The audit concluded that the Company was in violation of FCC Title 47, Code of Federal Regulations, Part 32 which was adopted by this

Commission under Rule 25-4.017(1), Florida Administrative Code. The criteria for property records include that they must be: 1) subject to internal accounting controls, 2) auditable, 3) equal in the aggregate to the total investment reflected in the financial property control accounts as well as the total of the cost allocations supporting the determination of cost-of-service at any particular point in time, and 4) maintained throughout the life of the property.

The review contained six recommendations. However, St. Joe only agreed with two. The four for which there was no agreement are discussed below:

1. Audit Recommendation No. 1

The results of the CPR audit indicate that the Continuing Property Records System and the Work Order System have no written procedures to which employees can refer for guidance and instruction, and to ensure uniformity of record keeping. The Company believes that its size, lack of employee turnover and close day-to-day involvement of upper management provides reasonable assurance that all work orders are processed in accordance with management's objectives. However, we believe that written procedures are necessary to assure consistency in the CPR process, by providing management with the means by which to direct and control functions within their enterprise.

Upon review, we find that the Company shall develop written CPR and work order procedures which employees can use for guidance and instruction, and which will ensure uniformity of record keeping.

2. Audit Recommendation No. 2

The results of the audit indicate that the CPRs as currently maintained are not auditable. Rules adopted by the FCC and this Commission require that CPRs be auditable. In order for this type of record to be auditable, there should be an audit trail document linking the input source documents into the CPRs and to the output printouts.

The Company contends that the existing system is auditable and sufficient controls exist to insure that transactions are properly recorded. However, during the course of this audit, our staff reviewed 30 completed outside plant work orders with nine having retirements. None of the nine retirements could be traced to the outside plant December 31, 1992 printout. Of the 30 completed outside plant work orders, four were traceable without a problem; two were not traceable at all, and 24, while traceable, reflected different dollar amounts. These differences may have resulted from amounts related to minor items which were spread to various work order numbers without documentation.

Due to the lack of documentation, it is virtually impossible to find and correct entry errors. Therefore, we believe it is appropriate to require the Company to identify the entries in such a manner as to provide the Commission required audit trail.

Upon review, we find that all dollar amounts entered into the CPR records shall be identified as to the work order number or other source such as a correcting entry number. Amounts from two or more work orders shall not be combined into a single line item unless supporting documentation is sufficient to determine the specific amounts entered in the CPR for each work order. Each page shall have a subtotal for each account on that page.

3. Audit Recommendation No. 3

The audit revealed that neither the Internal Audit Department of St. Joe Paper Company nor the auditor of St. Joseph Telephone and Telegraph Company conducts audits of the Company's work order process and CPR System. The Company advised the staff auditors that they do not have an internal auditing staff and do not perform internal audits. The Company believes that the existing procedures provide adequate assurance that the transactions are recorded correctly.

The Parent/Affiliate is Alfred I. DuPont Testamentary Trust and the St. Joe Paper Company; the Company is their lineal descendent. We noted that St. Joe Paper Company does have an internal auditing staff and additionally the organization chart for St. Joe Telephone and Telegraph Company shows the title of the chief accounting official as "Auditor Accounting." This auditor reporting responsibility is designated on the organization chart by a dotted line directly to the St. Joseph Telephone and Telegraph Company President. Based on this, it appears that the Company does have access to internal auditing staff that could be utilized to perform internal CPR audits.

Generally, public utilities perform some internal auditing functions based upon their assessment of the materiality and risks associated with an area of its operation. Central Telephone Company of Florida, United Telephone Company of Florida, GTE Florida Incorporated, and BellSouth Telecommunications, Inc. d/b/a Southern Bell Telephone and Telegraph Company all perform internal audits for each major unit of the CPRs and the work order process on a frequency of at least every three years. Even though these companies are much larger than St. Joe, the relative risk to the Company is the same. Thus, it is appropriate that the Company perform internal audits of the work order process and continuing property records not less thant every four years.

Upon review, we find that the Company should reassess the risks associated with the work order and CPR process and perform internal audits not less than every four years.

Audit Recommendation No. 5

The audit revealed that the central office equipment CPRs are incomplete and poorly organized, and causes users to spend excessive time locating entries. The staff auditors had difficulty tracing central office equipment transactions from work orders because the CPRs do not always identify the physical location of equipment. The CPR central office equipment printouts are sorted by exchange and by equipment location. Some 25% of the entries, however, do not identify equipment location and those data fields are left blank. As a result, these entries could not be satisfactorily traced due to lack of information. Further, there was no assurance that a work order entry was not also charged to an incorrect exchange.

Since the CPRs are not sorted by work order number, the entries associated with the work order being traced could be anywhere in the printout. Consequently, a user searching for a specific entry must review each work order number in an exchange to determine if all amounts related to a particular work order have been found. Therefore, our auditors had no assurance that a work order entry being traced was not also charged to an incorrect exchange.

Upon review, we find that the Continuing Property Records should be sorted by location, account number and work order number.

The quantity field should be used to avoid multiple entries of identical items.

Upon review of the CPR audit, we direct St. Joe to implement the audit recommendations as set forth herein. These findings shall be implemented within one year of the date that this Order becomes final.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the depreciation rates and recovery schedules set forth in Attachments B and C are hereby approved for St. Joseph Telephone and Telegraph Company. It is further

ORDERED that the monthly expense for the approved recovery schedules shall be calculated by dividing the net plant for the month by the number of months remaining in the recovery period. It is further

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

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

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

ORDERED that St. Joseph Telephone and Telegraph Company shall implement the recommendations of the Continuing Property Record Audit, as set forth herein. It is further

ORDERED that the recommendations of the Continuing Property Record Audit shall be implemented within one year of the date that this Order becomes final. 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 23rd day of September, 1993.

STEVE TRIBBLE, Director
Division of Records and Reporting

by: Kay Flynn
Chief, Bureau of Records

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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.

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 October 14, 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.

ST. JOSEPH TELEPHONE AND TELEGRAPH COMPANY
1992 DEPRECIATION STUDY

APPROVED RESERVE ALLOCATIONS

ACCOUNT	BOOK RESERVE ($)	THEORETICAL RESERVE ($)	APPROVED RESERVE TRANSFERS ($)	APPROVED RESTATED RESERVE ($)
COMPLETED RECOVERY SCHEDULES:				
CIRCUIT	19,024	0	(19,024)	0
RADIO SYSTEMS	(8,486)	0	8,486	0
APPROVED RECOVERY SCHEDULES:				
DIGITAL SWITCHING-CPU	96,118	385,947	26,402	122,520
RADIO SYSTEMS-MICROWAVE	224,470	278,922	54,452	278,922
TOTAL	331,126		70,316	401,442
CIRCUIT-ANALOG	197,062	126,746	(70,316)	126,746
TOTAL	197,062		(70,316)	126,746
GRAND TOTAL	528,188		0	528,188

ST. JOSEPH TELEPHONE AND TELEGRAPH COMPANY

1992 DEPRECIATION STUDY

APPROVED REALLOCATION
DROP AND BLOCK CABLE INVESTMENT AND RESERVE

ACCOUNT	1-1-93 UNADJUSTED INVESTMENT ($)	REALLOCATION OF DROP AND BLOCK ($)	1-1-93 APPROVED INVESTMENT ($)
AERIAL CABLE	3,939,843	(2,430,723)	1,509,120
BURIED CABLE-NON-FILLED	2,716,350	255,858	2,972,208
BURIED CABLE-FILLED	18,331,672	2,174,865	20,506,537
TOTAL	24,987,865	0	24,987,865

	1-1-93 UNADJUSTED RESERVE ($)	REALLOCATION OF DROP AND BLOCK ($)	1-1-93 APPROVED RESERVE ($)
AERIAL CABLE	3,099,497	(2,012,463)	1,087,034
BURIED CABLE-NON-FILLED	2,605,550	228,869	2,834,419
BURIED CABLE-FILLED	6,054,970	1,783,594	7,838,564
TOTAL	11,760,017	0	11,760,017

ATTACHMENT B

ST. JOSEPH TELEPHONE AND TELEGRAPH COMPANY
1992 DEPRECIATION STUDY

APPROVED RECOVERY SCHEDULES

	1-1-93 INVESTMENT (000)	1-1-93 RESERVE (000)	NET TO BE RECOVERED (000)	PERIOD OF RECOVERY (Yrs.)
Digital Switching				
1993 Retirements Central Processing Unit	463,136	122,520 *	340,616	1 Yr.
1995 Retirements Blountstown	901,117	311,880	589,237	3 Yr.
Radio Systems-Microwave				
1993 Retirements	278,922	278,922 *	0	1 Yr.
GRAND TOTAL	1,643,175	713,322	929,853	

*Denotes restated reserve

The monthly expense for each recovery schedule shall be calculated by dividing the net amount to be recovered by the months remaining for recovery. This will take care of additions and interim retirements, as well as actual salvage experienced and any shifts in retirement dates. All activity relating to these schedules shall be recorded to these schedules and not to another depreciation category or account.

ATTACHMENT C

ST. JOSEPH TELEPHONE AND TELEGRAPH COMPANY
1992 DEPRECIATION STUDY

ACCOUNT	COMMISSION APPROVED RATES			
	AVERAGE REMAINING LIFE (YRS.)	NET SALVAGE (%)	RESERVE (%)	REMAINING LIFE RATE (%)
GENERAL SUPPORT ASSETS				
Motor Vehicles–Passenger Cars	2.2	10.0	71.69	8.3
Motor Vehicles–Light Trucks	1.3	10.0	86.60	2.6
Motor Vehicles–Heavy Trucks	4.8	20.0	40.60	8.2
Motor Vehicles–Trailers	4.3	10.0	69.78	4.7
Buildings–Office	21.0	6.0	38.29	2.7
Buildings–Plant	18.2	0.0	54.60	2.5
Buildings–Other	15.1	(2.0)	45.06	3.8
Other Work Equipment		7 Year Amortization		
Furn. & Fixtures		10 Year Amortization		
OE–Office Support Equip.		7 Year Amortization		
OE–Company Communications		5 Year Amortization		
General Purpose Computers		5 Year Amortization		
CENTRAL OFFICE ASSETS				
Digital Switching–Toll	12.8	0.0	25.54	5.8
Digital Switching–Exchange	12.7	5.0	31.47	5.0
Operator Systems	3.8	0.0	81.06	5.0
Radio Sys.–Marine Mob. Emb.	0.0	0.0	112.28	0.0
Radio Sys.–Marine Mob. New	12.0	5.0	0.00	7.9 *
Circuit–Analog Private Line Carrier	3.5	20.0	35.42	12.7
Circuit–Fiber Optic	7.6	5.0	29.85	8.6
Circuit–Analog	3.4	0.0	71.10 **	8.5
Circuit–Digital	6.4	10.0	47.94	6.6
Circuit–Subscriber Carrier After '89	7.0	10.0	0.00	12.9 *
INFORMATION ORIG/TERM ASSETS				
Pay Station Equipment	2.9	0.0	89.85	3.5
IOT–Hearing Impaired	4.6	0.0	45.72	11.8
CABLE AND WIRE FACILITIES				
Poles	10.0	(30.0)	64.13	6.6
Aerial Cable–Metallic	8.7	(30.0)	72.03	6.7
Aerial Cable – Fiber	20.0	(15.0)	0.66	5.7 *
Undgd. Cable–Metallic	10.0	(5.0)	31.65	7.3
Undgd. Cable – Fiber	17.6	(5.0)	11.43	5.3
Buried Cable–Metallic–Non–Filled	3.0	(5.0)	95.36	3.2
Buried Cable–Metallic–Filled	11.6	(6.0)	38.22	5.8
Buried Cable – Fiber	16.6	(5.0)	19.46	5.2
Submarine Cable–Metallic–Embedded	0.0	0.0	94.50	5.0
Submarine Cable–Metallic–New	20.0	0.0	0.00	5.0 *
Submarine Cable–Fiber	20.0	0.0	0.00	5.0 *
Conduit	43.0	(5.0)	13.65	2.1

*Denotes Whole Life Rate
**Denotes restated reserve