BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Review of Capital Recovery Requirements of Indiantown Telephone System, Inc.	DOCKET NO. 921278-TL ORDER NO. PSC-93-1554-FOF-TL ISSUED: October 25, 1993

The following Commissioners participated in the disposition of this matter:

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

NOTICE OF PROPOSED AGENCY ACTION
ORDER REGARDING 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. THE FILING

Rule 25-4.0175, Florida Administrative Code, requires that telephone companies file a comprehensive depreciation study at least once every three years from the submission date of the previously filed study. Indiantown has filed a study pursuant to the Rule. Since the time of the last represcription, net plant balances and technological impacts on life and salvage have changed. In addition, current Company plans are to replace remaining aerial and air core buried metallic cables with filled buried metallic cable by year-end 1994. These circumstances indicate that some rates may need revision.

II. IMPLEMENTATION DATE

All supportive data and calculations have been made abutting the Company's requested implementation date of January 1, 1993 which we find to be appropriate.

III. RESERVE TRANSFERS

As of January 1, 1993, the Aerial Metallic Cable account, (Account 2421) shows a negative reserve balance of $29,536. The cause for this deficiency was a large retirement (about 87% of the account investment) occurring in 1991. This unusual activity was unforeseen at the time of the last study and, therefore, was not considered in the design of the currently prescribed depreciation rate. Upon review, we find that the apparent reserve surplus which exists in Construction Equipment, Account 2116.1, shall be transferred to help alleviate the aerial cable deficiency. This will leave a residual deficiency of $34,303 in the Aerial Cable account. In addition, there is a perceived deficiency of $213,455 in the Buried Cable-Filled account.

The Company's Earnings Surveillance Report for 12 month ended June 30, 1993 indicates an achieved return on equity (ROE) of 20.33%, 6.63% above the maximum authorized ROE. This equates to approximately $200,000 in excess revenues. Based on seven months of actual financial data, we have forecasted the Company's earnings for 1993. Included in the forecast is the recently approved intraLATA toll rate reduction of $208,000. Additionally, it appears that the Company's earnings will improve even more by the end of the year. The Company submitted a letter of agreement, dated February 3, 1993, to cap its 1993 earnings at its maximum authorized ROE. Thus, there should be sufficient earnings in 1993 to write-off the $247,758 in depreciation net reserve deficiencies as identified above and on Attachment A. These reserve transfers impact no accounts which involve arrangements with other affiliated or non affiliated companies. However, in light of the possible impact on cost allocations and jurisdictional separations, the Company should make corresponding entries to the related depreciation expense accounts.

IV. CAPITAL RECOVERY SCHEDULES

While current Company plans do not call for any near-term retirement of central office equipment, there are plans to replace the remaining aerial and air core buried cables with filled metallic buried cable by year-end 1994. Maintenance has been the major contributing factor towards this replacement program. In accord with its planning, the Company has proposed recovery schedules addressing the associated unrecovered costs of this retiring equipment over the 1993 and 1994 time period. Upon review, we find this to be reasonable and acceptable.

During the course of this study review, the Company found that the reported investment of $1,265 associated with telephone devices for the deaf, Account 2362.1, represented plant no longer in service that should have been previously retired. This retirement results in a slight negative reserve which shall be recovered during 1993.

V. DEPRECIATION RATES AND AMORTIZATION

The Company proposal is based on an estimated reserve position whereas we have chosen to employ the actual January 1, 1993, reserve balance. A brief discussion of salient matters is set forth below.

A. General Support Assets

The approved lives for these accounts simply reflect an update of activity since the last study. Net salvages for the buildings accounts and construction equipment represent no change from that currently prescribed. There is a minor difference, however, in the net salvage proposed by the Company and that which we approve for passenger cars. Typically, for these vehicles, net salvage across the State ranges from 10% to 20%. We can find no reason why similar activity should not be expected to be incurred from any passenger cars purchased by Indiantown. Our decision is to retain the currently prescribed net salvage factor of 10%. The net salvage factor proposed for Light Trucks is in line with the activity of the account and we find it to be acceptable.

B. Central Office Assets

We approve the Company's proposals regarding life and salvage factors for these accounts. The life factors reflect the prospective impacts of network upgrading throughout the State. The expected life of upgradeable digital switchers remains problematic. However, a blending of projections of upgrade retirements as projected by various sources comports with the Company's proposed remaining life indicating that about 30% of the current embedded investments will have been retired by about 2004.

The analog carrier account investment represents primarily analog subscriber carrier with just over 10% being private line special circuit equipment. According to the Company, much of this equipment serves only for emergency or short-term use. As digital loop carrier or concentrators are placed, analog loop treatment will not be required. The Company's proposal reflects an update of activity since the last study which we find to be acceptable. However, this account should be monitored for any significant developments affecting its life expectancy.

The make-up of the digital carrier account has changed since the last depreciation review following the retirement of analog trunk carrier equipment. About 75% of this account is now comprised of line concentrator equipment which is not expected to be impacted by the move to the synchronous optic network. For this reason, we find the Company's proposed remaining life to be acceptable.

While there is merit to the Company's service life and net salvage factors for the fiber optic carrier account, we find it more appropriate to retain a whole life rate at this time rather than moving to a remaining life rate as proposed by the Company. Considering the anticipated growth in investment, the age of the account will remain very young resulting in essentially no difference between the service life and remaining life. Since this equipment is not SONET compatible, the Company should monitor the status of this account for possible impacts from the deployment of SONET equipment.

At the time of the last study, even though the Stuart West remote terminal was expected to be replaced with a stand alone switch due to increased growth demands, no building in the area had yet begun. Given the present economy, the fact that growth has stalled, and that currently there are no specific plans regarding replacement, we find continuation of the currently prescribed factors to be acceptable.

C. Information Origination/Termination Assets

The Company's proposed remaining lives simply reflect an update of age since the last study review. Upon review, we find them to be reasonable and acceptable.

D. Cable and Wire Facilities

According to the Company, of the $26,922 remaining in the Poles account, $8,450 represents stub poles used as pedestal supports, which should be reclassified to the Buried Cable Account. We have calculated the associated reserve amount to be $6,020. The investment and reserve shown on Attachment B for this account are reflective of this reclassification.

The Company has proposed a negative 50% net salvage in the Poles account; however, upon review, we approve a negative 30% net salvage based on a review of historical salvage experience and taking into consideration the labor intensiveness of the account.

Current industry projections for metallic cables reflect the scenario of a general phase-out of interoffice facilities by about 2000; feeder cable between 2005 and 2012; distribution facilities a few years later. Our decision utilizes these projections with an understanding that the impact on the smaller companies will generally lag that experienced by the larger companies which serve the more metropolitan high-tech areas.

The buried account is currently the only fiber account with investment. The Company has proposed to move to a remaining life rate at this time. However, considering the expected near-term growth in investment, the age will remain relatively young resulting in essentially no difference between service life and remaining life. Therefore, we find it more appropriate to continue a whole life rate.

The remaining life for conduit is simply reflective of the activity during the past three years since the last study review. We approve the Company proposed rate.

VI. TAXES

As set forth above, we have approved revisions to Indiantown's depreciation rates and capital recovery schedules, to be effective January 1, 1993. Revising a utility's depreciation rates usually results in a change in its rate of ITC amortization and flowback of excess deferred income taxes.

Section 46(f)(6) of the Internal Revenue Code provides 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. Since we have approved a change in depreciation rates, it is also appropriate to change the amortization of ITCs.

Section 203(e) of the Tax Reform Act of 1986 prohibits rapid write-back of protected (depreciation related) deferred taxes. In addition, Rule 25-14.013, Florida Administrative Code, prohibits, without good cause shown, excess deferred income taxes associated with temporary differences from being reversed any faster than allowed under Section 203(e). Therefore, both Section 203(e) and Rule 25-14.013, prohibit faster write-off of protected excess deferred taxes. Consequently, the flowback of excess deferred taxes must be adjusted in order to comply with both Section 203(e) and Rule 25-14.013.

The Company has submitted detailed workpapers quantifying the impact of the proposed depreciation rates on the amortization of ITCs and the flowback of excess deferred income taxes. We have reviewed the calculations and find them to be accurate. However, the amounts reflected on the workpapers will change based on the approved depreciation rates.

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. The Company shall be required to file detailed calculations of the revised ITC amortization and flowback of excess deferred taxes at the time it files its surveillance report.

Therefore, it is

ORDERED by the Florida Public Service Commission that the Company's plans and activity indicates a need to revise depreciation rates and recovery schedules. It is further

ORDERED that the implementation date for the new rates and capital recovery schedules shall be January 1, 1993. It is further

ORDERED that the restated reserve is approved as shown on Attachment A of this Order. The Company shall record an additional $247,758, total company depreciation expense in 1993. It is further

ORDERED that capital recovery schedules are approved as set forth on attachment B of this Order. It is further

ORDERED that depreciation rates and recovery/amortization schedules are approved as set forth on Attachment B of this Order. It is further

ORDERED 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. The Company also shall be required to file detailed calculations of the revised ITC amortization and flowback of excess deferred taxes at the same time that it files its surveillance report. It is further

ORDERED that this Docket shall be closed at the conclusion of the protest period set forth below, assuming no timely protest is received.

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

STEVE TRIBBLE, Director
Division of Records and Reporting

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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 November 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"

INDIANTOWN TELEPHONE SYSTEM, INC.
1992 STUDY

APPROVED RESERVE TRANSFERS

ACCOUNT	1-1-93 BOOK RESERVE ($)	RESERVE IMBALANCE ($)	APPROVED RESERVE ($)
CONSTRUCTION EQUIP.	11,405	2,737	8,668
AERIAL METALLIC CABLE	(29,536)	(37,040)	7,504
BURIED MET. CABLE-FILLED	1,151,056	(213,455)	1,364,511
NET		(247,758)**	

**The net deficiency is to be written off during 1993.

INDIANTOWN TELEPHONE SYSTEM, INC.
1992 STUDY

ACCOUNT	AVERAGE REMAINING LIFE (YRS.)	NET SALVAGE (%)	1\1\93 BOOK RESERVE (%)	REMAINING LIFE RATE (%)
	COMMISSION APPROVED RATES			
GENERAL SUPPORT ASSETS				
Motor Vehicles – Passenger Cars	8.0	10.0	0.00	11.3*
Motor Vehicles – Light Trucks	4.4	15.0	34.77	11.4
Construction Equipment	4.5	10.0	65.25 **	5.5
Buildings – Office	21.0	10.0	35.01	2.6
Buildings – Single – Unit	18.6	0.0	26.66	3.9
Buildings – Plant	27.0	5.0	19.85	2.8
CENTRAL OFFICE ASSETS				
Digital Switching	10.3	0.0	29.58	6.8
Analog Carrier	3.1	0.0	92.96	2.3
Digital Carier	7.6	0.0	49.17	6.7
Fiber Optic Carrier	10.0	0.0	13.75	10.0*
Stuart West (New Additions)	11.8	0.0	0.00	8.5*
INFORMATION ORIG/TERM ASSETS				
Paystations	6.3	0.0	38.18	9.8
Terminating Equipment	6.9	0.0	39.16	8.8
CABLE & WIRE FACILITIES				
Poles	11.1	(30.0)	71.24	5.3
Aerial Cable – Fiber	20.0	(15.0)	0.00	5.8*
Undgd. Cable – Metallic	11.4	(5.0)	42.12	5.5
Undgd. Cable – Fiber	20.0	(5.0)	0.00	5.3*
Buried Cable – Metallic – Filled	11.0	(5.0)	34.53	6.4
Buried Cable – Fiber	20.0	(5.0)	7.16	5.3*
Conduit	44.0	(5.0)	12.33	2.1
AMORTIZATION				
Other Work Equipment		7 Year Amortization		
Furniture		10 Year Amortization		
Office Support Equipment		7 Year Amortization		
Company Communications		5 Year Amortization		
General Purpose Computers		5 Year Amortization		

*Denotes Whole Life Rate
**Denotes Restated Reserve

APPROVED RECOVERY SCHEDULES

ACCOUNT	1-1-93 Investment ($)	1-1-93 Reserve ($)	Period of Recovery	Annual Expenses ($)
Devices for the Deaf	0	(7)	1 Year	7
Aerial Metallic Cable	7,386	7,504 **	2 Year	990
Air Core Metallic Buried Cable	277,673	215,460	2 Year	31,107
Recovery Sch. Total	285,059	222,957		32,104

**Denotes Restated Reserve