

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Triennial depreciation ) DOCKET NO. 950640-TL  
study for approval by Northeast ) ORDER NO. PSC-96-0135-FOF-TL  
Florida Telephone Company, Inc. ) ISSUED: January 31, 1996

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The following Commissioners participated in the disposition of this matter:

SUSAN F. CLARK, Chairman  
J. TERRY DEASON  
JOE GARCIA  
JULIA L. JOHNSON  
DIANE K. KIESLING

NOTICE OF PROPOSED AGENCY ACTION  
ORDER REVISING DEPRECIATION RATES AND  
APPROVING CORRECTIVE RESERVE TRANSFERS

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 substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

Northeast Florida Telephone Company's (Northeast or the Company) filed its regular triennial depreciation study in accordance with Rule 25-4.036, Florida Administrative Codes. The depreciation rates and recovery schedules currently in use by this Company were effective January 1, 1992. Impacts of technological developments and changes requiring adjustments in the capital recovery patterns are addressed as part of this review. A review of the Company's plans and activity indicates that there is a need for revision of current rates and capital recovery schedules. Therefore, we find currently prescribed depreciation rates and capital recovery schedules shall be revised, as discussed in this Order.

RESERVE TRANSFERS

As of January 1, 1995, the Motor Vehicles-Heavy Trucks account has an apparent reserve deficiency of \$3,920 while the Motor Vehicles-Tractors/Trailers account has a calculated reserve surplus of \$19,107. We approve the transfer of \$3,920 of the surplus to

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offset the deficit. In addition, the Buried Cable-Filled account has a reserve deficiency of \$218,458 while the Buried Cable-Nonfilled account has a reserve surplus of \$69,437. We find that the entire reserve surplus in Buried Cable-Nonfilled be used to help correct the deficit in Buried Cable-Filled. In light of the possible impact that these reserve transfers may have on cost allocation and jurisdictional separations, the Company shall make corresponding entries to the related depreciation expense accounts.

The approved corrective reserve measures are shown on Attachment A. These actions will bring the reserve positions for Motor Vehicles-Heavy Trucks and Motor Vehicles-Tractors/Trailers more in line with their theoretically correct levels. This also holds true with the reserve reallocations between Buried Cable-Filled and Buried Cable-Non-filled.

APPROPRIATE LIVES, NET SALVAGES, RESERVES, AND RESULTANT DEPRECIATION RATES

The appropriate lives, net salvages, reserves and resultant depreciation rates are shown on Attachment B.

Our decisions are the result of a comprehensive review of the Company's triennial depreciation study. As a result of that review and analyses process, there does not appear to be any dispute concerning the appropriate lives, net salvages, and resultant depreciation rates for all accounts. A brief discussion of salient matters is set forth below.

Amortizations

Certain general support asset account investments are being amortized under Rule 25-4.0178, Florida Administrative Code. The embedded investments for each of these equipment types are shown on Attachment B, as well as the associated amortization period as set forth in the Rule.

Depreciation Rates

**A. General Support Assets**

**Motor Vehicles** - The approved rate takes into account a recalculated average remaining life for the Light Trucks sub-account after excluding vehicles retired or replaced in 1995. Also incorporated is the reserve transfer from the Tractors/Trailers sub-account to the Heavy Trucks sub-account approved in this Order.

**B. Central Office Assets**

**Digital Remote Switches** - The approved rate incorporates the fact that Digital switches require upgrades in both hardware and software to keep pace with services and features. The approved average remaining life is based on an interim retirement pattern which simulates the projected period of major changeout of components for these switches.

**Digital Subscriber Circuit and Optic Electronics** - The approved rates take into account 1994 activity which was used to update the average age of these accounts.

**C. Information Origination/Termination Assets**

**Public Telephone Terminal Equipment** - The average age of this sub-account was recalculated, using the age distribution from the last depreciation review (1992), and updating it for the recent three years of activity.

**D. Outside Plant**

**Poles** - The approved rate retains the negative 80 percent net salvage value. It is consistent with what is materializing from other Company projections.

**Metallic Cables-General** - The metallic cable accounts are being impacted by fiber cable. Current industry projections are for a general phase-out of interoffice metallic facilities by about 2000; feeder cable between 2005-2012; distribution facilities a few years later. Our approved rates recognize these projections taken with the premise that the impact on the smaller companies will somewhat lag that experienced by the larger companies which serve the metropolitan areas.

**IMPLEMENTATION DATE FOR NEW RATES AND CAPITAL RECOVERY SCHEDULES**

Company data and related calculations are supportive of the Company requested January 1, 1995 implementation. We approve this date, since this is the earliest practicable date for utilizing the proposed revised rates.

**AMORTIZATION OF INVESTMENT TAX CREDITS (ITCS) AND THE FLOWBACK OF EXCESS DEFERRED INCOME TAXES**

In this Order, we have approved revisions to Northeast's depreciation rates and capital recovery schedules, to be effective

January 1, 1995. 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 (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. Since we have approved changes in depreciation rates, it is also appropriate to change the amortization of ITCs.

Section 203(e) of the Tax Reform Act of 1986 (TRA) prohibits rapid write-back of protected (depreciation related) deferred taxes. In addition, Rule 25-14.013, Accounting for Deferred Income Taxes under SFAS 109, Florida Administrative Code (F.A.C), 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 the TRA and Rule 25-14.013, F.A.C., prohibit faster write-off of protected excess deferred taxes. Consequently, the flowback of excess deferred taxes should be altered to comply with the TRA and Rule 25-14.013, F.A.C.

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 found them to be accurate. However, the amounts reflected on the workpapers will change based on our approved depreciation rates.

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. Also, the utility shall file detailed calculations of the revised ITC amortization and flowback of excess deferred taxes at the time it files its December 1995 surveillance report.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the currently prescribed depreciation rates and capital recovery schedules shall be revised as discussed in this Order. It is further

ORDERED that the corrective reserve transfers as shown on Attachment A shall be made. It is further

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ORDERED that the lives, net salvages, reserves and resultant depreciation rates shown on Attachment B, are approved for Northeast Florida Telephone Company. It is further

ORDERED that revised rates approved in this Order shall be implemented effective January 1, 1995. 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 depreciation rates and recovery schedules approved in this Order.

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective unless an appropriate petition, in the form provided by Rule 25-22.036, Florida Administrative Code, is received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings or Judicial Review" attached hereto. It is further

ORDERED that in the event this Order becomes final, this docket shall be closed.

By ORDER of the Florida Public Service Commission, this 31st day of January, 1996.

BLANCA S. BAYÓ, Director  
Division of Records and Reporting

by: Kay Deegan  
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, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on February 21, 1996.

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 substantially 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.

**NORTHEAST FLORIDA TELEPHONE COMPANY  
1995 STUDY**

**PROPOSED RESERVE ALLOCATION**

<u>ACCOUNT</u>	<u>BOOK RESERVE</u> (\$)	<u>THEORETICAL RESERVE</u> (\$)	<u>RESERVE TRANSFER</u> (\$)	<u>RESTATED RESERVE</u> (\$)
MOTOR VEHICLES- HEAVY TRUCKS	(731)	3,189	3,920	3,189
MOTOR VEHICLES- TRACTORS/TRLS.	80,619	61,512	(3,920)	76,699
BURIED CABLE- FILLED	2,825,543	3,044,001	69,437	2,894,980
BURIED CABLE- NON-FILLED	<u>736,800</u>	667,363	<u>(69,437)</u>	<u>667,363</u>
TOTALS	<u>\$3,642,231</u>		<u>0</u>	<u>\$3,642,231</u>

**NORTHEAST TELEPHONE COMPANY  
 1995 STUDY  
 COMPARISON OF RATES AND COMPONENTS**

ACCOUNT	COMMISSION APPROVED			
	AVERAGE REMAINING LIFE (YRS.)	NET SALVAGE (%)	RESERVE (%)	REMAINING LIFE RATE (%)
<b>GENERAL SUPPORT ASSETS</b>				
2112.1 - Motor Vehicles - Passenger Cars	6.3	12.0	41.84	7.3
2112.2 - Motor Vehicles - Light Trucks	6.3	12.0	47.10	6.5
2112.3 - Motor Vehicles - Heavy Trucks	14.5	10.0	3.00 **	6.0
2112.4 - Motor Vehicles - Tractors/Trailors	6.5	15.0	50.87 **	5.3
2121.1 - Buildings - Central Office	32.0	0.0	28.23	2.2
2121.2 - Buildings - Plant	29.0	0.0	19.38	2.8
2116 - Other Work Equipment - Tools			7 Year Amortization	
2122 - Furniture			10 Year Amortization	
2123 - Office Equipment			7 Year Amortization	
2123.2 - Company Communications			5 Year Amortization	
2124 - General Purpose Computers			5 Year Amortization	
<b>CENTRAL OFFICE ASSETS</b>				
2212.2 - Digital Remote Switches	10.7	0.0	38.57	5.7
2232.12 - Digital Subscriber Circuit	5.9	0.0	36.23	10.8
2232.3 - Optic Electronics	7.6	0.0	25.89	9.8
<b>INFORMATION ORIG/TERM ASSETS</b>				
2351 - Pub. Tel. Terminal Eqpt.	5.7	0.0	71.07	5.1
2362 - Terminating Equipment	7.4	0.0	1.18	13.4
<b>CABLE &amp; WIRE FACILITIES</b>				
2411 - Poles	11.8	(80.0)	85.38	8.0
2421.1 - Aerial Cable - Metallic	10.4	(30.0)	71.88	5.6
2421.2 - Aerial Cable - Fiber	20.0	(5.0)	0.00	5.3*
2422.1 - Undgd. Cable - Metallic	8.5	(10.0)	58.74	6.0
2422.2 - Undgd. Cable - Fiber	18.7	(10.0)	13.03	5.2
2423.2 - Buried Cable - Filled - Metallic	13.0	(15.0)	37.66 **	5.9
2423.2 - Buried Cable - Non - Filled - Metallic	2.0	(7.0)	96.20 **	5.4
2423.3 - Buried Cable - Fiber	20.0	(5.0)	9.73	5.3*
2441 - Underground Conduit	39.0	(5.0)	24.50	2.1

\* Denotes whole life rate  
 \*\* Denotes restated reserve