BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Request for new depreciation rate by ALLTEL FLORIDA, INC.	) DOCKET NO. 920755-TL) ORDER NO. PSC-93-0897-FOF-TL) ISSUED: June 14, 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 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, ALLTEL Florida, Inc. (ALLTEL or the Company) filed its Depreciation Study (the Study) on July 27, 1992. The Company's current rates were approved effective January 1, 1990, by Order No. 23833, in Docket No. 891026-TL.

As part of the last review, a reserve imbalance for the metallic cable accounts was calculated and placed on a five year amortization. By Order No. PSC-92-0028-FOF-TL, issued March 10, 1992, in Docket No. 911108-TL, we directed the Company to record additional amortization expenses for 1992 in the amount of $218,124 to account for excess 1992 earnings. This action resulted in the full recovery of ALLTEL's cable reserve deficit in 1992.

To meet current and future needs of its customers, ALLTEL has implemented or planned capital programs to enhance its network. The Company has plans for switch processor upgrades, adding Signaling System 7 (SS7) to the network primarily for call set-up, providing Customer Local Area Signaling Service (CLASS) capability, completing implementation of Synchronous Optical Network (SONET) Standards, and replacing buried air core cables. Further, ALLTEL has plans to install several fiber optic interoffice routes during the next few years. This changing environment makes it necessary for a review and implementation of revised depreciation rates where appropriate. In addition, since the time of the last review, net plant balances have changed, and technological impacts on life and salvage have changed further indicating a need for a review and revised rates where appropriate.

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.

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 shows the approved rate parameters (lives, salvages, and reserves); and Attachment C reflects the approved capital recovery schedule.

II. SWITCHING RETIREMENTS

ALLTEL is planning to reconfigure the Alachua area switching network. The present architecture is a satellite switching configuration with Alachua as the hub and High Springs, Lake Butler, Raiford, Brooker and Fort White as the satellite offices. These exchanges are currently equipped with Northern Telecom DMS-10s.

The Company is experiencing an increasing need to upgrade and redesign this area of its network. Southern Bell serves the nearby Gainesville area with a DMS-100 which is a more advanced digital switch than ALLTEL's DMS-10s. With the proximity of Alachua to Gainesville, customer growth, needs and expectations are expanding. Biotechnology laboratories and other types of high tech industry are locating their offices in Alachua. Business and residential customers are requesting the same grade of service and features as those available from the Gainesville office.

The current architecture of the Alachua area has limited flexibility and is becoming increasingly expensive to meet customer needs. ALLTEL's proposed remedy is to have the Alachua office home off of Live Oak's DMS-100. This will allow the Alachua area switches to act as remotes and share the capabilities and sophistication of the DMS-100 without having to purchase another DMS-100. In order to take advantage of this sharing arrangement, the DMS-10s in the Alachua, High Springs, Lake Butler, Raiford, Brooker and Fort White offices will all have to be changed out to Remote Switching Centers (RSC).

We believe that the Company's plan is appropriate. This will result in long term savings and benefits to the Company through: (1) A decrease in trunks needed for the area; (2) CLASS AND CCS7 software will only have to be purchased for the Live Oak host switch because the remote offices will have access to CLASS and CCS7 services from the host; (3) An annual savings in linkage charges for call setup through the CCS7 network. Each DMS-10 would need its own link, but the new architecture will only require linkage to the DMS-100; and, (4) The utilization of common feature and switching operations for the entire Alachua area.

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. RECOVERY SCHEDULES

The capital recovery schedules which we are approving, as shown in Attachment C, reflect the most current Company plans regarding the near term retirement of digital switching equipment, and recovery of the existing negative reserve for the retired radio systems and associated towers.

ALLTEL currently plans to retire six switches within the 1993-1995 time period. Pursuant to our authority under Rule 25-4.0176, F.A.C., we are approving a capital recovery schedule. This schedule will result in the recovery of these switching installations over the remaining time that they are in service to the public, and will provide a matching of capital consumption with expense for this retiring equipment. The planned retirements for 1993 will be recovered during 1993; 1994 retirements will be recovered during 1993 and 1994; 1995 retirements will be recovered during 1993, 1994 and 1995. This method assures that the associated equipment will be fully recovered at the time of retirement. Additionally, the Company plans to reuse several of these switches within the ALLTEL system, which accounts for the significant amount of estimated net salvage.

The Company believes that an amortization schedule is not appropriate at this time, and that such a schedule is more rigid and less adaptable to change than a depreciation rate. However, we believe that the design of the recommended recovery schedules is flexible because the recovery period for these schedules will be the remaining period the equipment will be in service. This mechanism will automatically adjust for any additions, interim retirements, actual salvage and any shifts in retirement dates.

In its last review, the Company planned to replace existing microwave radio systems and associated towers by year end 1992. As such, these net investments were placed on a three year recovery schedule ending December 31, 1992. Due to higher removal costs being incurred than anticipated, the reserve balance for this schedule is now a negative $40,970. The Company proposes to amortize this negative reserve during 1993. We believe this action is appropriate, and approve ALLTEL's proposal.

These recovery schedules are designed to recover the net investments related with certain digital equipment planned for retirement during 1993-1995. The recovery period will be the remaining period the associated equipment 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 shall be booked to these schedules, and not to another depreciation category or account.

IV. RESERVE ALLOCATIONS

As of January 1, 1993, there are existing negative reserves for the Circuit Analog Subscriber Carrier account and the Motor Vehicles - Heavy Trucks account. These reserve deficits are the result of unforeseen retirements taking place since the last depreciation review. Consequently, currently prescribed depreciation rates were inadequate to provide recovery for these retiring investments.

By Order No. PSC-92-0028-FOF-TL, issued March 10, 1992, we directed ALLTEL to refund excess earnings for 1991. As a result, the Company now has $6,301 in unclaimed refunds, with a total Company depreciation effect of $8,401. We direct the Company to use the $8,401 to offset the reserve deficit of $5,078 for Circuit Analog Subscriber Carrier, and to offset the reserve deficit in the Heavy Trucks account with the remaining $3,323. Further, we also direct the Company to transfer $3,979 from the perceived reserve surplus in the Light Trucks account to bring the reserve for Heavy Trucks to its calculated theoretical reserve level. These reserve transfers will correct the reserve imbalances in these accounts and result in more accurate depreciation rates and expenses for the plant actually serving the public. Finally, because 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. Accordingly, the reserve allocations which we are approving are reflected on Attachment A.

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 B. These parameters result in an increase in annual depreciation expense of approximately $1.4 million based on January 1, 1993 investments. 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 B.

Upon review of the study, we find that the Company's proposed life and salvage parameters are appropriate for all accounts with the exception of Digital Switching. Based on data provided in the Study, ALLTEL's digital switches require upgrades in both hardware and software to keep pace with services and features that the Company intends to provide to its customers. In the last review, the Commission prescribed a remaining life and depreciation rate based on an interim retirement pattern which simulated the period of major changeout of components for these switches. The Company wishes to retain this interim retirement pattern. This pattern corresponds with the industry view regarding the possible retirements associated with upgrading these switches to the next generation. However, if it appears that the next generation switch will require even more major software and hardware changeouts, it may become more economical to retire existing switches rather than to update. Thus, we will continue to monitor this account for significant future developments.

As discussed herein, we are approving a recovery schedule for six DMS-10 switches that are retiring in the near term years 1993-1995. For the remaining switches, the Company proposed 7.5 year average remaining life is based on a final retirement date of 2000.8 for the total account. However, by withdrawing those investments being placed on recovery schedules, we find that the average date of final retirement is 2002 with a resultant average remaining life of 8.5 years.

VI. INVESTMENT TAX CREDITS AND EXCESS DEFERRED INCOME TAXES

We are approving revisions to ALLTEL'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.

ALLTEL states that when depreciation rates are altered, the Company also alters its ITC amortization rate and the rate of flowback of excess deferred taxes to reflect the new depreciation rates. Further, ALLTEL states that it will make similar revisions following the final decision in this proceeding. Accordingly, we direct ALLTEL to submit detailed calculations of the tax impact, to include amortization of ITCs and flowback of deferred taxes. The detailed calculations shall be submitted at the same time ALLTEL files its third quarterly Rate of Return Report in 1993.

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 ALLTEL Florida, Inc. 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 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 14th day of June, 1993.

Steve Tribble

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.

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 jULY 6, 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.

ALLTEL FLORIDA, INC.
1992 DEPRECIATION STUDY

APPROVED RESERVE ALLOCATIONS

ACCOUNT	1-1-93 BOOK RESERVE ($)	THEORETICAL RESERVE ($)	APPROVED RESERVE TRANSFERS ($)	APPROVED RESTATED RESERVE ($)
CIRCUIT- ANALOG SUBSCRIBER CARRIER	(5,078)	0	5,078	0
MOTOR VEHICLES- HEAVY TRUCKS	(4,980)	2,322	7,302	2,322
MOTOR VEHICLES- LIGHT TRUCKS	391,389	344,186	(3,979)	387,410
UNCLAIMED REFUND	8,401 *	0	(8,401)	0
TOTALS	389,732		0	389,732

*Denotes depreciation effect of unclaimed refund as a result of Order No. PSC-92-0028-FOF-TL

ALLTEL FLORIDA, INC.
1992 DEPRECIATION STUDY

ACCOUNT	AVERAGE REMAINING LIFE (YRS.)	NET SALVAGE (%)	RESERVE (%)	REMAINING LIFE RATE (%)
GENERAL SUPPORT ASSETS				
Motor Vehicles–Passenger Cars	4.6	10.0	23.35	14.5
Motor Vehicles–Light Trucks	4.6	10.0	35.55 **	11.8
Motor Vehicles–Heavy Trucks	8.8	10.0	6.40 **	9.5
Buildings–Remote/Conc.	12.3	2.0	30.87	5.5
Buildings–Central Office	17.1	2.0	36.02	3.6
Buildings–Main Office	20.0	8.0	30.33	3.1
Buildings–Warehouse	14.1	0.0	49.37	3.6
OWE–Tools and OWE		7 Yr. Amortization		
OWE–Bur. Cable Tools & Work Eq.		7 Yr. Amortization		
OWE–Maint. Channel Mob. Radio		7 Yr. Amortization		
Furn. & Fixtures		10 Yr. Amortization		
OE–Office Machines		7 Yr. Amortization		
OE–Company Comm. Eqpt.		5 Yr. Amortization		
OE–Centrex Systems		5 Yr. Amortization		
Computers & Data Eqpt.		5 Yr. Amortization		
GPC–Personal Computers		5 Yr. Amortization		
CENTRAL OFFICE ASSETS				
Digital Switching	8.5	0.0	21.41	9.2
Crossbar Switching			100.00	
Radio Sys.–Mobile Radio New Adds	12.0	0.0	0.00	8.3 *
Circuit–CO Line Treatment	5.1	0.0	65.11	6.8
Circuit–Analog Private Line Spec. Svc.	6.0	(5.0)	45.62	9.9
Circuit–Digital Trunk Carrier	5.1	5.0	63.36	6.2
Circuit–Digital Subscriber Carrier	5.8	0.0	26.21	12.7
Circuit–Fiber Optic Carrier	7.2	3.0	39.86	7.9
Circuit–Digital Pair Gain	6.9	5.0	35.59	8.6
Circuit–Digital Private Line Spec. Svc.	6.4	(5.0)	14.16	14.2
INFORMATION ORIG/TERM ASSETS				
P. L. Network Term Eqpt.	4.0	0.0	89.15	2.7
Pub. Tel. Terminal Eqpt.	4.8	0.0	41.95	12.1
OTE–Reg. Devices for the Deaf	4.7	0.0	57.96	8.9
CABLE & WIRE FACILITIES				
Poles	13.4	(32.0)	24.50	8.0
Aerial Cable – Metallic	10.9	(30.0)	62.94	6.2
Aerial Cable – Fiber	15.5	(5.0)	22.21	5.3
Undgd. Cable – Metallic	10.2	(20.0)	51.16	6.7
Undgd. Cable – Fiber	16.6	(5.0)	14.00	5.5
Buried Cable–Metallic–Filled	11.9	(7.0)	36.44	5.9
Buried Cable–Metallic–Nonfilled	5.7	(7.0)	78.95	4.9
Buried Cable – Fiber	16.7	(5.0)	16.43	5.3
Aerial Wire	6.4	(41.0)	79.03	9.7
Conduit	42.0	(5.0)	17.05	2.1

*Denotes whole life rate
**Denotes restated reserve

ATTACHMENT C

ALLTEL FLORIDA, INC.
1992 DEPRECIATION STUDY
APPROVED RECOVERY SCHEDULES

	1-1-93 INVESTMENT (000)	1-1-93 RESERVE (000)	EST. ADDS. (000)	EXPECTED SALVAGE (000)	NET TO BE RECOVERED (000)	PERIOD OF RECOVERY (Yrs.)
Digital Switching						
1993 Retirements						
Alachua	1,880	661	0	499	720	1 Yr.
Total	1,880	661	0	499	720	
1994 Retirements						
Fort White	501	106	0	395	0	2 Yr.
Total	501	106	0	395	0	
1995 Retirements						
Dowling Park	268	129	0	(5)	144	3 Yr.
Florahome	618	238	0	0	380	3 Yr.
High Springs	1,335	577	6	182	582	3 Yr.
Wellborn	608	275	20	230	123	3 Yr.
Total	2,829	1,219	26	407	1,229	
Radio & Towers						
Negative Reserve	0	(41)	0	0	41	1 Yr.
TOTALS	5,210	1,945	26	1,301	1,990	

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.