

FLORIDA PUBLIC SERVICE COMMISSION  
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M E M O R A N D U M

October 17, 1996

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO) *RH*  
FROM: DIVISION OF AUDITING & FINANCIAL ANALYSIS (HICKS) *APC*  
DIVISION OF COMMUNICATIONS (REITH) *1/2*  
DIVISION OF LEGAL SERVICES (RAMBANK, BROWN) *1/2*  
RE: DOCKET NO. 960788-TL - FRONTIER COMMUNICATIONS OF THE  
SOUTH, INC. - 1996 DEPRECIATION STUDY  
AGENDA: OCTOBER 29, 1996 - REGULAR AGENDA - PROPOSED AGENCY  
ACTION - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES NONE

SPECIAL INSTRUCTIONS: S:\PSC\AFA\WP\960788.RCM  
R:\960788.WK4

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CASE BACKGROUND

On July 1, 1996, the Commission established ranges of basic factors for lives and salvage values to be used in developing depreciation rates for companies subject to Rule 25-4.0175, Florida Administrative Code (F.A.C.); Depreciation (Docket No. 960715-TL). The ranges are presumptively valid and the burden of proof is placed on any party protesting a Commission approved life or salvage value.

If a company's current or proposed service life or salvage value for any given account is not within the established ranges, the company must file additional information. Each company should also make an election to continue using remaining life methodology or to switch to whole life methodology. The election is one-time, and requests for a change in the life and/or salvage factor for any account can be no more than once a year.

Frontier Communications of the South, Inc. (Frontier or Company) filed a request for approval of remaining life rates on June 28, 1996, and requested a January 1, 1996 implementation date.

DOCUMENT NUMBER-DATE

11101 OCT 17 96

FPSC-RECORDS/REPORTING

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### DISCUSSION OF ISSUES

**ISSUE 1:** Should currently prescribed rates be revised at this time?

**RECOMMENDATION:** Yes. A review of Frontier Communications of the South, Inc.'s plans and activity indicates that there is a need for revision of current rates. (HICKS)

**STAFF ANALYSIS:** The last comprehensive depreciation study for Frontier was submitted August 7, 1992, and its current depreciation rates and amortization schedules were approved effective January 1, 1993. Since then, the Company has been granted two extensions of time regarding the filing of this instant study.

The first extension was granted in Docket No. 950886-TL by Order No. PSC-95-044-FOF-TL, issued on September 6, 1995. The Order approved an extension of time until December 31, 1995 for Frontier to file its next depreciation study. The extension of time was granted in light of the Company's personnel shortage, work load requirements, and the inability to meet various regulatory requirements in several jurisdictions.

In February, 1996, the Company requested an additional extension in light of it contemplating the election of price regulation, and also in light of pending changes to Rule 25-4.0175, F.A.C., regarding capital recovery studies for small Local Exchange Companies subject to rate base regulation. By Order No. PSC-96-0490-FOF-TL, issued on April 8, 1996 in Docket No. 960289-TL, the Commission granted Frontier an extension of time until June 28, 1996 to file its 1995 study so that it would be permitted to use the new streamlined depreciation study procedure approved in Docket No. 960715-TL.

Before revision, Rule 25-4.0175, F.A.C., required telephone companies to file a comprehensive depreciation study at least once every three years. The revised rule allows telephone companies to change their depreciation rates once a year. The rule also provides ranges of life and salvage factors for telephone plant accounts. The ranges are considered presumptively valid, and movement within them requires no justification. However, justification is required to move into or out of an established range.

On June 28, 1996, the Company filed a request to change its remaining life rates. A review of Frontier's plans and activity indicates that there is a need for revision of current rates.

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**ISSUE 2:** What are the appropriate life and salvage values?

**RECOMMENDATION:** Attachment A is a comparison of the basic factors reflected in Rule 25-4.0175, F.A.C., the factors proposed by the Company, and the factors recommended by staff. Attachment B is a comparison of the depreciation rates and components, and Attachment C is a comparison of the resultant depreciation expenses. Staff's recommendation, based on investments as of December 31, 1995, would result in a decrease in annual expenses of approximately \$40,000. (HICKS)

**STAFF ANALYSIS:** Staff has reviewed Frontier's request to change its remaining life rates in accordance with Rule 25-4.0175, F.A.C. A review of the Company's original proposals revealed that the current and proposed life and/or salvage factors of some of the Company's accounts were not within the Commission established ranges. Staff also discovered inconsistencies in the current and/or proposed curve shapes (expected mortality dispersion) of certain accounts. For those accounts in question, the Company provided additional information.

During the initial review of the Company's filing, staff discovered that the Company submitted its filing under the previous provisions of Rule 25-4.0175, F.A.C., which did not include ranges. However, staff performed its review as if the Company filed under the current provisions of Rule 25-4.0175, F.A.C.

After discussions with staff, the Company decided it wanted to utilize the ranges. Because of the additional justification and/or support needed, and the limited amount of time in which the Company was allowed to provide it, staff offered the Company its assistance in determining the remaining life for those accounts in question. The Company accepted.

Staff calculated the remaining life resulting from each of the various service lives used, and presented them to the Company for its review. The Company generally selected the average service life which generated the remaining life closest to the remaining life it originally proposed. A discussion regarding these accounts is provided below.

**Buildings (Account No. 2121-090)** - The current average service life and net salvage factor for this account are 35 years and zero, respectively. They are both within the established ranges of 32-36 years for service life and 0-5 percent for salvage. The expected mortality dispersion underlying the existing average remaining life of this account represents a composite of the overall life span (number of years between in-service date and estimated retirement



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date) of each building structure with the life spans of the shorter lived parts of the building such as the roof, carpets, plumbing system, etc.

In its filing, the Company proposed an average service life of 30.3 years, while maintaining the current zero net salvage factor for this account. The Company provided no justification for its proposed life of 30.3 years which is not within the established range of 32-36 years. In addition, no justification was provided for the use of an R3 curve shape which differs from the composite curve used in the last case. According to Rule 25-4.0175, F.A.C., "It shall be a rebuttable presumption that in determining the average remaining life, the curve shapes shall be those from the Company's last prescription."

Staff informed the Company that its proposed service life was not within the established range, and the life span method rather than an Iowa curve shape, was used in the last prescription. As such, the Company decided to maintain its current 35 year average service life. In addition, the Company used an S4 curve shape in the determination of the remaining life. This is acceptable to staff because the expected mortality dispersion of an S4 curve is a close approximation to the resultant composite curve shape used in the last study.

The Company's proposed 35 year average service life is acceptable to staff. Using an S4 curve shape, along with the current age of 15.3 years, yields an average remaining life of 19.7 years. The current net salvage of zero will not change.

**Digital Switching (Account No. 2212-090)** - The current average service life and net salvage for this account is 14.6 years and zero, respectively. Both of these factors are within the range of life and salvage factors established for this account. However, the Company originally proposed a life of 12.30 years for this account, which is outside the range of 13-16 years. In addition, a tri-model interim retirement rate, rather than the proposed S1 curve shape, was used in the last case to determine the remaining life. The Company proposed no change to its current salvage.

The generation arrangement provided for this account used Equal Life Grouping (ELG), which is not allowed by the rule; only average remaining life or whole life. A revised generation arrangement, excluding ELG, was submitted and it resulted in a service life of 12.7 years and a remaining life of 6.8 years based on the current age of this account of 6.97 years.

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The recommended 6.5 year average remaining life incorporates the Company's view with industry expectations for switch change-outs in the first decade of the 2000's, and projections of interim retirements over the remaining life spans. Interim retirement rates used are those from the last study; 1% for 1996-1997; 3% for 1998-1999; 1% for 2000-2004. This proposal was presented to the Company and subsequently adopted as its proposal. The average service life underlying this recommended average remaining life is 13 years.

**Digital Circuit (Account No. 2232-490)** - As with the Digital Switching account, the ELG mechanism was used in the generation arrangement for this account. The revised generation arrangement resulted in a service life of 10.7 years and a remaining life of 4.3 years. No changes were proposed for the current salvage of zero, and the proposed average service life of 10.7 years is within the range of 10-12 years.

The Company is proposing to use an R2 curve shape. However, the current remaining life for this account was based on the use of an R1 curve shape. No justification was provided for the Company's proposed change. As a result, staff is recommending the continued use of an R1 curve shape. Based on an average service life of 10.7 years, the current age of the account, and an R1 curve shape, staff recommends a remaining life of 4.3 years.

**Optical Circuit (Account No. 2232)** - This account currently has a service life of 10.1 years and a whole life rate of 9.9%. The service life is within the established range for this account of 10-12 years. Staff believes this account's current age of 5.7 years indicates a need to shift to remaining life unless the Company has substantial additions forecasted in the near term. The option was presented to the Company, and the Company was not opposed to shifting this account to remaining life.

Using an R3 curve shape, which is typical of other companies, a 10 year average service life, and the current age of 5.7 years yield an average remaining life of 4.1 years. The Company is proposing no change to the salvage factor.

**Public Telephone Equipment (Account No. 2351-090)** - This account is currently prescribed an average service life of 7.8 years. Rounding the current service life to 8 years places it within the established range of 8-10 years. The current net salvage factor is 20%, which is also within the range of factors established for this

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account. The Company proposed an 8 year service life and it proposed to maintain the net salvage factor of 20%. These factors, along with the current S2 curve shape and an age of 4.5 years, yield a remaining life of 3.9 years.

**Underground Fiber Cable (Account No. 2422-290)** - This account currently has a service life of 20 years and net salvage of negative five percent, representing a whole life rate of 5.3%. Both factors are within the established ranges of life and salvage percentages for this account of 20-22 years and (5)-(0) percent, respectively. Staff believes this account's current age of 6.5 years indicates a need to shift to remaining life unless the Company has substantial additions forecasted in the near term. The option was presented to the Company, and the Company was not opposed to shifting this account to remaining life.

The remaining life of 14.4 years was determined by using an R2 curve shape, which is typical of other companies, a 20 year average service life, and the current age of 6.5 years. The salvage factor of negative 5% will not change.

**Buried Metallic Cable -Jelly Filled (Account No. 2423-190) & Air Core (Account No. 2423-590)** - The Commission established range for this account is 17-19 years and negative 5-0 percent for service lives and salvage, respectively. In addition, there is no separation made between Jelly-filled and Air core.

Jelly-filled cable currently has an average service life of 19 years, while Air core cable has an average service life of 15 years. The composite service life of the accounts is 18 years. If the accounts are examined separately, the currently prescribed average service life for the Jelly-filled cable account is within the established range of average service lives. However, on an individual basis, the service life for the Air core cable account is not within the established range.

The Company originally proposed average service lives of 15.7 years for Jelly-filled cable and 18.7 years for Air core cable. The original filing also stated that the Company is committed to replacing all Air Core Cable by the year 2000. Staff expressed concern regarding this commitment because placing the account on a 4 1/2 year recovery schedule would result in an expected yearly retirement of approximately \$249,000. This is a large amount considering the Company has not made any retirements in this account from 1993-1995, and annual retirements exceeded \$100,000 only once in the history of the account.



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Use of an R2, 18 year life table for the combined Jelly-filled and Air core buried cable investments implies a general phase-out of copper cables in the 2015-2016 time period. This phase-out is in line with industry projections and the assumption that smaller companies will lag somewhat behind larger companies with the deployment of fiber. These parameters result in a recommended average remaining life of 9.2 years for the combined account.

**Buried Fiber Cable (Account No. 2423-290)** - This account currently has a service life of 20 years and zero salvage, which represents a whole life rate of 5%. Both factors are within the established ranges of life and salvage percentages for this account of 20-22 years and (5)-(0) percent, respectively. Staff believes this account's current age of 6.4 years indicates a need to shift to remaining life unless the Company has substantial additions forecasted in the near term. The option was presented to the Company, and it was not opposed to shifting this account to remaining life.

Staff determined the remaining life by using an R2 curve shape, which is typical of other companies, a 20 year average service life, and the current age of 6.4 years. These parameters yield an average remaining life of 14.5 years.

**Underground Conduit (Account No. 2441)** - The Company has not proposed any changes to the 55 year average service life or zero net salvage currently approved for this account. Although the salvage factor is within the established range for this account, the service life is outside of the established range of 50-52 years. The Company wants to retain the current average service life because it believes the life factor is in line with the experience of this account.

Attachments A and B are comparisons of basic factors and depreciation rates and components, respectively. Attachment C reflects the resultant depreciation expenses. Staff's recommendation, based on investments as of December 31, 1995, would result in a decrease in annual expenses of approximately \$40,000.

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**ISSUE 3:** What should be the implementation date for the new rates?

**RECOMMENDATION:** The Company has requested, and Staff recommends, an implementation date of January 1, 1996. (HICKS)

**STAFF ANALYSIS:** Rule 25-4.0175, Florida Administrative Code, states that a company requesting an implementation date at the beginning of its fiscal year must submit its request prior to the mid-point of that fiscal year. The Company's request was submitted July 1, 1996, with a proposed implementation date of January 1, 1996. Since Frontier's fiscal year is the calendar year, its proposed implementation date is in accordance with the rule.

The schedule reflecting the Company's proposed life and salvage parameters are based on a December 31, 1995 date. In addition, the proposed implementation date is in keeping with Rule 25-4.0175, F.A.C. As a result, staff recommends the Commission accept the Company's proposed implementation date of January 1, 1996.

**ISSUE 4:** Should this docket be closed?

**RECOMMENDATION:** Yes. If no substantially affected person timely files a protest to the Commission's notice of proposed agency action, this docket should be closed. (HICKS)

**STAFF ANALYSIS:** If no substantially affected person files a timely request for a Section 120.57, Florida Statutes, hearing within twenty-one days, no further action will be required, and this docket should be closed.



**FRONTIER COMMUNICATIONS  
1996 STUDY  
COMPARISON OF BASIC FACTORS**

**ATTACHMENT A**

ACCOUNT	12/31/95	12/31/95	RANGES REFLECTED IN RULE 25-4.0175, F.A.C.		CURRENT		COMPANY PROPOSED (Revised)		STAFF RECOMMENDED	
	INVESTMENT	RESERVE	A.S.L.	NET SAL.	A.S.L.	NET SAL.	A.S.L.	NET SAL.	A.S.L.	NET SAL.
	(\$)	(\$)	(Yrs.)	(%)	(Yrs.)	(%)	(Yrs.)	(%)	(Yrs.)	(%)
<b>GENERAL SUPPORT ASSETS</b>										
2121.1 Buildings - Central Office	148,484	61,656	32 - 36	0 - 5	30.0	0.0	35.0	0.0	35.0	0.0
2122 Furniture	3,203	3,203	10 Yr. Amortization		10 Yr. Amortization		10 Yr. Amortization		10 Yr. Amortization	
2123 Office Equipment	1,005	2,371	7 Yr. Amortization		7 Yr. Amortization		7 Yr. Amortization		7 Yr. Amortization	
<b>CENTRAL OFFICE ASSETS</b>										
2212.3 Digital Switch	1,614,461	574,176	13 - 16	0 - 5	12.3	0.0	14.6	0.0	13.0	0.0
2232.1 Digital Subscriber Circuit	497,864	333,128	10 - 12	0 - 5	10.3	0.0	10.7	0.0	10.7	0.0
2232.3 Optic Electronics	131,524	72,728	8 - 10	0 - 5	10.1	0.0	10.0	0.0	10.0	0.0
<b>INFORMATION ORIG/TERM ASSETS</b>										
2351 Pay Stations	23,963	13,497	8 - 10	0 - 5	7.8	20.0	8.0	20.0	8.0	20.0
<b>CABLE &amp; WIRE FACILITIES</b>										
2422.1 Underground Cable - Metallic	1,612	874	19 - 21	(10) - (5)	17.0	(5.0)	17.0	(5.0)	17.0	(5.0)
2422.2 Underground Cable - Fiber	2,692	857	20 - 22	(10) - (5)	20.0	(5.0)	20.0	(5.0)	20.0	(5.0)
2423.2 Buried Cable - Metallic	5,037,561	2,714,559	17 - 19	(5) - 0	17.9	(4.0)	18.0	(5.0)	18.0	(5.0)
2423.3 Buried Cable - Fiber	799,065	254,694	20 - 22	(5) - 0	20.0	0.0	20.0	0.0	20.0	0.0
2441 Underground Conduit	1,709	740	50 - 52	(5) - 0	55.0	0.0	55.0	0.0	55.0	0.0
<b>TOTAL</b>	<b>\$8,263,143</b>	<b>\$4,032,483</b>								

**FRONTIER COMMUNICATIONS  
1996 STUDY  
COMPARISON OF DEPRECIATION RATES AND COMPONENTS**

ATTACHMENT B

ACCOUNT	CURRENT				COMPANY PROPOSED (Revised)				STAFF RECOMMENDED			
	AVERAGE REMAINING LIFE (yrs.)	NET SALVAGE (%)	BOOK RESERVE (%)	ARL RATE (%)	AVERAGE REMAINING LIFE (yrs.)	NET SALVAGE (%)	BOOK RESERVE (%)	ARL RATE (%)	AVERAGE REMAINING LIFE (yrs.)	NET SALVAGE (%)	BOOK RESERVE (%)	ARL RATE (%)
<b>GENERAL SUPPORT ASSETS</b>												
2121 Buildings - Central Office	22.0	0.0	33.04	3.0	19.7	0.0	41.52	3.0	19.7	0.0	41.52	3.0
2122 Furniture	10 Yr. Amortization				10 Yr. Amortization				10 Yr. Amortization			
2123 Office Equipment	7 Yr. Amortization				7 Yr. Amortization				7 Yr. Amortization			
<b>CENTRAL OFFICE ASSETS</b>												
2212 Digital Switch	12.0	0.0	29.47	5.9	6.5	0.0	35.56	9.9	6.5	0.0	35.56	9.9
2232 Digital Subscriber Circuit	6.6	0.0	43.97	8.5	4.3	0.0	66.91	7.7	4.3	0.0	66.91	7.7
2232 Optic Electronics	10.1	0.0	26.85	9.9 *	4.1	0.0	55.30	10.9	4.1	0.0	55.30	10.9
<b>INFORMATION ORIG/TERM ASSETS</b>												
2351 Pay Stations	6.0	20.0	70.17	1.6	3.9	20.0	56.32	6.1	3.9	20.0	56.32	6.1
<b>CABLE &amp; WIRE FACILITIES</b>												
2422 Underground Cable - Metallic	11.8	(5.0)	36.85	5.8	8.8	(5.0)	54.22	5.8	8.8	(5.0)	54.22	5.8
2422 Underground Cable - Fiber	20.0	(5.0)	15.90	5.3 *	14.4	(5.0)	31.84	5.1	14.4	(5.0)	31.84	5.1
2423 Buried Cable - Metallic	9.5	(4.0)	31.94	7.6	9.7	(5.0)	53.89	5.6	9.2	(5.0)	53.89	5.6
2423 Buried Cable - Fiber	20.0	0.0	16.97	5.0 *	14.5	0.0	31.87	4.7	14.5	0.0	31.87	4.7
2441 Underground Conduit	37.0	0.0	38.30	1.7	34.0	0.0	43.30	1.7	34.0	0.0	43.30	1.7

\* Denotes Whole Life Rate

**FRONTIER COMMUNICATIONS**  
**1996 STUDY**  
**COMPARISON OF DEPRECIATION EXPENSES**

ATTACHMENT C

ACCOUNT	12/31/95 INVESTMENT (\$)	12/31/95 RESERVE (\$)	CURRENT		COMPANY PROPOSED (Revised)		STAFF RECOMMENDED		CHANGE IN EXPENSES (\$)
			A.R.L. RATE (%)	EXPENSES (\$)	A.R.L. RATE (%)	EXPENSES (\$)	A.R.L. RATE (%)	EXPENSES (\$)	
<b>GENERAL SUPPORT ASSETS</b>									
2121.1 Buildings - Central Office	148,484	61,656	3.0	4,455	3.0	4,455	3.0	4,455	0
2122 Furniture	3,203	3,203	10 Yr Amort	0	10 Yr Amort	0	10 Yr Amort	0	0
2123 Office Equipment	1,005	2,371	7 Yr Amort	0	7 Yr Amort	0	7 Yr Amort	0	0
<b>CENTRAL OFFICE ASSETS</b>									
2212.3 Digital Switch	1,614,461	574,176	5.9	95,253	9.9	159,832	9.9	159,832	64,579
2232.12 Digital Subscriber Circuit	497,864	333,128	8.5	42,318	7.7	38,336	7.7	38,336	(3,982)
2232.3 Optic Electronics	131,524	72,728	9.9 *	13,021	10.9	14,336	10.9	14,336	1,315
<b>INFORMATION ORIG/TERM ASSETS</b>									
2351 Pay Stations	23,963	13,497	1.6	383	6.1	1,462	6.1	1,462	1,079
<b>CABLE &amp; WIRE FACILITIES</b>									
2422.1 Underground Cable - Metallic	1,612	874	5.8	93	5.8	93	5.8	93	0
2422.2 Underground Cable - Fiber	2,692	857	5.3 *	141	5.1	137	5.1	137	(4)
2423 Buried Cable - Metallic	5,037,561	2,714,559	7.6	382,855	5.6	282,103	5.6	282,103	(100,752)
2423.3 Buried Cable - Fiber	799,065	254,694	5.0 *	39,953	4.7	37,556	4.7	37,556	(2,397)
2441 Underground Conduit	1,709	740	1.7	29	1.7	29	1.7	29	0
<b>Non-Depreciable Property</b>									
2111 Land	21,130	0							
<b>TOTAL</b>	<b>\$8,284,273</b>	<b>\$4,032,483</b>		<b>\$578,501 #</b>		<b>\$538,339 #</b>		<b>\$538,339</b>	<b>(\$40,162)</b>

\* Denotes Whole Life Rate

# Differs from company filing because of rounding