

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: 1996 depreciation study ) DOCKET NO. 960788-TL  
by Frontier Communications of ) ORDER NO. PSC-96-1431-FOF-TL  
the South, Inc. ) ISSUED: November 21, 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 APPROVING 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 substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

BACKGROUND

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 depreciation study.

Before its recent revision, Rule 25-4.0175, Florida Administrative Code, required telephone companies to file a comprehensive depreciation study at least once every three years. The revised rule now 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.

DOCUMENT NUMBER-DATE

12508 NOV 21 96

FPSC-RECORDS/REPORTING

**DECISION**

We have reviewed Frontier's request to change its remaining life rates in accordance with Rule 25-4.0175, Florida Administrative Code. A review of the Company's original proposals revealed that the current and proposed life or salvage factors of some of the Company's accounts were not within our established ranges. We also discovered inconsistencies in the current 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, we discovered that the Company submitted its filing under the previous provisions of Rule 25-4.0175, Florida Administrative Code, which did not include ranges. However, we performed our review as if the Company filed under the current provisions of Rule 25-4.0175, Florida Administrative Code.

Because of the additional justification and support needed, under the amended Rule, and the limited amount of time available to the Company to provide it, we offered the Company our assistance in determining the remaining life for those accounts in question. The Company accepted.

We 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 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, Florida Administrative Code, "It shall be a rebuttable presumption that in determining the average remaining life, the curve shapes shall be those from the Company's last represcription."

We 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 represcription. 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 us 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 us. 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. The rule allows 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.

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, we support 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, we find that a remaining life of 4.3 years is appropriate.

**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. We believe 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 yields 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 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. We believe 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)** - Our 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. We 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.

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. We believe 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.

We 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.

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 is based on a December 31, 1995 date. In addition, the proposed implementation date is in keeping with Rule 25-4.0175, Florida Administrative Code. As a result, we accept the Company's proposed implementation date of January 1, 1996.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Frontier Communications of the South, Inc.'s revised depreciation rates, as set forth in Attachment A, are approved. It is further

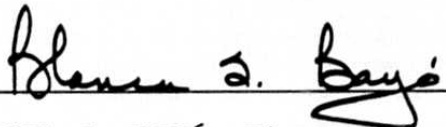
ORDERED that Frontier Communications of the South, Inc.'s implementation date of January 1, 1996 is approved. It is further

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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 21st day of November, 1996.



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BLANCA S. BAYÓ, Director  
Division of Records and Reporting

( S E A L )

NSR/MCB

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 December 12, 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.



**FRONTIER COMMUNICATIONS**  
**1996 STUDY**  
**COMMISSION APPROVED RATES**

ACCOUNT	COMMISSION APPROVED			
	AVERAGE REMAINING LIFE (yrs.)	NET SALVAGE (%)	BOOK RESERVE (%)	ARL RATE (%)
<b>GENERAL SUPPORT ASSETS</b>				
2121 Buildings - Central Office	19.7	0.0	41.52	3.0
2122 Furniture		10 Yr. Amortization		
2123 Office Equipment		7 Yr. Amortization		
<b>CENTRAL OFFICE ASSETS</b>				
2212 Digital Switch	6.5	0.0	35.56	9.9
2232 Digital Subscriber Circuit	4.3	0.0	66.91	7.7
2232 Optic Electronics	4.1	0.0	55.30	10.9
<b>INFORMATION ORIG/TERM ASSETS</b>				
2351 Pay Stations	3.9	20.0	56.32	6.1
<b>CABLE &amp; WIRE FACILITIES</b>				
2422 Underground Cable - Metallic	8.8	(5.0)	54.22	5.8
2422 Underground Cable - Fiber	14.4	(5.0)	31.84	5.1
2423 Buried Cable - Metallic	9.2	(5.0)	53.89	5.6
2423 Buried Cable - Fiber	14.5	0.0	31.87	4.7
2441 Underground Conduit	34.0	0.0	43.30	1.7