

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

December 26, 1996

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF AUDITING & FINANCIAL ANALYSIS (HICKS) *RM*
DIVISION OF COMMUNICATIONS (REITH) *RE*
DIVISION OF LEGAL SERVICES (BROWN) *MAB by [unclear] [unclear]*

RE: DOCKET NO. 960794-TL - QUINCY TELEPHONE COMPANY - REQUEST
FOR APPROVAL OF REMAINING LIFE RATES

AGENDA: JANUARY 07, 1997 - REGULAR AGENDA - PROPOSED AGENCY
ACTION - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: S:\PSC\AFA\WP\960794TL.RCM

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.

Quincy Telephone Company (Quincy or Company) originally filed a request for approval of remaining life rates on July 1, 1996, and requested a January 1, 1996 implementation date. On August 6, 1996, the Company submitted revised schedules and requested an implementation date of July 1, 1996.

DOCUMENT NUMBER-DATE

13709 DEC 26 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 Quincy's plans and activity indicates that there is a need for revision of current rates. (HICKS)

STAFF ANALYSIS: The last comprehensive depreciation study for Quincy was submitted June 6, 1994, and its current depreciation rates and amortization schedules were approved effective January 1, 1994. Before 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 allows telephone companies to change their depreciation rates once a year.

Rule 25-4.0175, F.A.C., 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 July 1, 1996, the Company filed a request to change its remaining life rates in keeping with this rule. This request was subsequently revised on August 6, 1996. A review of the Company's plans and activity indicates that there is a need for revision of current rates.

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ISSUE 2: What adjustments to accounts, if any, should be made to correct errors in this filing?

RECOMMENDATION: The Company's books should be adjusted to reflect its Analog Subscriber Circuit account as fully recovered. (HICKS)

STAFF ANALYSIS: In the last study (Docket No. 940607-TL; Order No. PSC-95-0400-FOF-TL, issued March 23, 1995), Quincy's analog subscriber circuit account was placed on a 2 year recovery schedule. At January 1, 1994, analog subscriber circuit had a net unrecovered investment of \$19,451. A review of the instant filing and annual reports revealed that the Company had not placed the account on a recovery schedule as indicated in the Order. If the account had been accounted for according to the Order, the analog subscriber circuit account would be fully recovered as of the proposed implementation date (July 1, 1996).

Staff recommends that the Company adjust its books to reflect its Analog Subscriber Circuit account as fully recovered. The Company was notified of the error, and it has agreed to make the correction as needed.

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ISSUE 3: What transfers between accounts, if any, should be made?

RECOMMENDATION: Staff recommends that the Company transfer negative investment and reserve balances from the Aerial Wire account to the Aerial Cable investment and reserve accounts. (HICKS)

STAFF ANALYSIS: A negative investment and reserve balance of \$708 and \$919, respectively, is reflected in the Aerial Wire account. The Company proposes a transfer of these amounts to the Aerial Cable investment and reserve accounts. According to the Company, its proposal is in line with the transfers made from the Aerial Wire accounts in conjunction with the 1994 depreciation study.

Staff's recommended adjustments are presented below. Table A reflects staff's recommended transfer adjustments. Table B reflects the investment and reserve balance of both accounts after staff's recommended adjustment.

TABLE A

ACCOUNT	JULY 1, 1996 INVESTMENT ADJUSTMENT	JULY 1, 1996 RESERVE ADJUSTMENT
Aerial Wire Acct. No. 2431	\$708	\$919
Aerial Cable Acct. No. 2421	(\$708)	(\$919)

TABLE B

ACCOUNT	JULY 1, 1996 INVESTMENT BALANCE	JULY 1, 1996 RESERVE BALANCE
Aerial Wire Acct. No. 2431	\$0	\$0
Aerial Cable Acct. No. 2421	\$2,624,548	\$1,430,429

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ISSUE 4: 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 reflects the depreciation rates and components, while Attachment C is a comparison of the resultant depreciation expense. Staff's recommendation, based on investments as of July 1, 1996, would result in an increase in expenses of approximately \$90,000. (HICKS)

STAFF ANALYSIS: Staff has reviewed Quincy's request to change its remaining life rates in accordance with Rule 25-4.0175, F.A.C. The Company's current life and salvage factors are within the Commission established ranges, and the Company has not requested a factor outside the established range for any given account. However, the Company has proposed a change in curve shape for the Aerial Cable-Metallic (Account No. 2421.1) and the Buried Cable-Metallic (Account No. 2423.2) accounts.

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 represcription." Justification for its proposed change in curve shapes has been provided by the Company.

The Company proposes to change its curve shape (expected mortality dispersion) for the aerial cable account from an R1 to an S1.5, and change its curve shape for the buried cable account from an S0 to an S1.5. These changes, according to the Company, are requested due to the substantial amount of retirements expected in these accounts and the forecasted phase-out of the embedded investment in aerial cable and buried cable by about 2016 and 2017, respectively.

Staff has reviewed the Company's proposals and believes them to be in line with the Company's plans. Further, we find the Company's plans regarding the phase-out of metallic cable to be reasonable and in line with current industry projections. Using the currently prescribed R1 curve shape and the current age of 10.7 years for the aerial cable account implies a phase-out date of 2019. However, an S1.5 curve shape is reflective of the Company's planned phase-out of aerial cable by the year 2016. Similarly, the currently prescribed S0 curve shape along with the current age of buried cable of 9.8 years, implies a phase-out date of 2008, while the proposed S1.5 curve shape implies a phase-out date of 2017.

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Based on the foregoing, staff recommends that the current curve shapes for aerial cable-metallic and buried cable-metallic be changed to S1.5. 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 reflects a comparison of the Company's and staff's positions regarding the depreciation rates and components for each account. Attachment C is a comparison of the resultant depreciation expense. Staff's recommendation, based on investments as of July 1, 1996, would result in an increase in expenses of approximately \$90,000.

ISSUE 5: What should be the implementation date for the new rates?

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

STAFF ANALYSIS: Rule 25-4.0175, F.A.C., states that a utility 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 original request was submitted July 1, 1996, with a proposed implementation date of January 1, 1996. A revised request was submitted on August 6, 1996, with a proposed implementation date of July 1, 1996. Since Quincy'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 July 1, 1996 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 July 1, 1996.

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ISSUE 6: 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.

**Quincy Telephone Company
 1996 Depreciation Study
 Comparison of Basic Factors**

ATTACHMENT A

ACCOUNT	06/30/96 INVESTMENT	06/30/96 RESERVE	COMMISSION		CURRENT		COMPANY		STAFF	
			ASL (Yrs)	NETSQU (%)	ASL (Yrs)	NETSQU (%)	ASL (Yrs)	NETSQU (%)	ASL (Yrs)	NETSQU (%)
GENERAL SUPPORT ASSETS										
2112.1 Motor Vehicles - Passenger Cars	47,733	3,674	6-8	10-20	5-0	20-0	36-0	5-0	36-0	5-0
2112.2 Motor Vehicles - Light Trucks	148,006	7,152	6-8	10-20	7-0	20-0	10-yr Amortization	10-yr Amortization	10-yr Amortization	7-yr Amortization
Motor Vehicles - Pass Cars, Li Trucks (Combined)	195,739	80,826	6-8	10-20	N/A	N/A	6-5	20-0	6-5	20-0
2112.3 Motor Vehicles - Heavy Trucks	243,725	50,386	8-11	5-10	10-0	15-0	10-0	10-0	10-0	10-0
2121.1 Buildings - Central Office	452,096	420,682	32-36	0-5	38-0	7-0				
2121.2 Buildings - Plant	191,049	50,934	22-26	0-5	30-0	0-0				
2121.3 Buildings - Combined	643,145	471,616	32-36	0-5	N/A	N/A				
2116 Other Work Equipment - Tools	250,488	135,009	7-yr Amortization		7-yr Amortization		7-yr Amortization	5-0	7-yr Amortization	5-0
2122 Furniture	125,093	83,881	10-yr Amortization		10-yr Amortization		10-yr Amortization		10-yr Amortization	
2123 Official Support Equipment	43,962	24,097	7-yr Amortization		7-yr Amortization		7-yr Amortization		7-yr Amortization	
2123.2 Official Telephone System	58,926	23,094	5-yr Amortization		5-yr Amortization		5-yr Amortization		5-yr Amortization	
2123.3 General Purpose Computer	272,260	44,323	5-yr Amortization		5-yr Amortization		5-yr Amortization		5-yr Amortization	
CENTRAL OFFICE ASSETS										
2212.3 Digital Switch 4T SE & Routers	4,298,252	1,027,460	13-16	0-5	15-0	0-0	13-0	0-0	13-0	0-0
2232.1 Digital Subscriber Circuit	1,527,617	466,963	10-12	0-5	10-1	5-0				
2232.2 Trunk Circuit Equipment	144,075	117,567	10-12	0-5	Recovery Schedule					
2232.3 Concentrator Equipment	720,999	280,261	10-12	0-5	10-0	0-0				
2233 Other Private Line Circuit	662,690	614,147	8-10	0-5	12-0	0-0				
Circuit Equipment (Combined)	3,055,081	1,478,958	10-12	0-5	N/A	N/A	10-0	2-0	10-0	2-0
2232.3 Optic Electronics	436,042	117,640	8-10	0-5	10-0	0-0	10-0	0-0	10-0	0-0
INFORMATION ORIG TERM ASSETS										
2351 Pan Stations	85,460	56,035	8-10	0-5	9-0	0-0	9-0	0-0	9-0	0-0
2362 Termination Equipment	0	0	8-10	0-5	9-0	0-0				
CABLE & WIRE FACILITIES										
2311 Poles										
2321.1 Aerial Cable - metallic	2,701,166	169,386	20-22	(600)-(400)	20-0	(400-0)	20-0	(400-0)	20-0	(400-0)
2321.2 Underground Cable - Metallic	2,624,848	1,430,429	18-20	(300)-(200)	18-0	(300-0)	18-0	(300-0)	18-0	(300-0)
2322.1 Underground Cable - Fiber	528,522	225,778	19-21	(100)-(50)	20-0	(50-0)	19-0	(50-0)	19-0	(50-0)
2322.2 Underground Cable - Fiber	162,831	15,325	20-22	(100)-(50)	20-0	(50-0)	20-0	(50-0)	20-0	(50-0)
2323.1 Burred Cable - Metallic - Filled	11,819,457	4,925,366	17-19	(50-0)	17-0	(50-0)	18-0	(50-0)	18-0	(50-0)
2323.2 Burred Cable - Fiber	991,460	144,469	20-22	(50-0)	20-3	(50-0)	20-0	(50-0)	20-0	(50-0)
2323.3 Submarine Cable	10,244	3,164	20-25	(50-0)	25-0	(20-0)	25-0	(20-0)	25-0	(20-0)
2351 Aerial Wire	0	0			18-0	(300-0)				
2351 Underground Conduct	591,144	96,670	50-52	(50-0)	50-0	0-0	50-0	0-0	50-0	0-0
TOTAL	27,511,355	11,357,220								

**Quincy Telephone Company
 1996 Depreciation Study
 Comparison of Rates and Components**

ATTACHMENT B

ACCOUNT	CURRENT			COMPANY PROPOSED			STAFF RECOMMENDED		
	AVERAGE REMAINING LIFE (yrs.)	NET SALVAGE RATE (%)	BOOK RESERVE RATE (%)	AVERAGE REMAINING LIFE (yrs.)	NET SALVAGE RATE (%)	BOOK RESERVE RATE (%)	AVERAGE REMAINING LIFE (yrs.)	NET SALVAGE RATE (%)	BOOK RESERVE RATE (%)
GENERAL SUPPORT ASSETS									
2112.1 Motor Vehicles - Passenger Cars	2.5	20.0	11.4						
2112.2 Motor Vehicles - Light Trucks	3.9	20.0	42.26						
2112.3 Motor Vehicles - Heavy Trucks	7.4	15.0	14.36	3.8	20.0	41.29	10.2	3.8	20.0
2112.4 Motor Vehicles - Passenger Cars	17.6	7.0	49.30	6.0	10.0	19.86	11.7	6.0	10.0
2121.1 Buildings - General Office	24.0	0.0	25.87	5.0	10.0	19.86	11.7	6.0	10.0
2121.2 Buildings - Plant	16.3	5.0	50.00	2.8	5.0	50.00	16.3	5.0	50.00
2116 Other Work Equipment - Tools	7 Yr. Amortization			7 Yr. Amortization			7 Yr. Amortization		
2122 Furniture	10 Yr. Amortization			10 Yr. Amortization			10 Yr. Amortization		
2123 Office Support Equipment	7 Yr. Amortization			7 Yr. Amortization			7 Yr. Amortization		
2123.1 Office Support Equipment	5 Yr. Amortization			5 Yr. Amortization			5 Yr. Amortization		
2123.2 Office Telephone System	5 Yr. Amortization			5 Yr. Amortization			5 Yr. Amortization		
2124 General Purpose Computer	5 Yr. Amortization			5 Yr. Amortization			5 Yr. Amortization		
CENTRAL OFFICE ASSETS									
2212.3 Digital Switch AT, SE & Remotes	15.0	0.0	0.00	6.7	0.0	24.14	6.5	11.7	0.0
2232.1 Digital Subscriber Circuit	7.4	5.0	21.06	10.0	0.0	24.14	6.5	11.7	0.0
2232.2 Trunk Circuit Equipment	7.1	0.0	24.83	10.6	0.0	24.83	10.6	0.0	0.0
2232.3 Concentrator Equipment	5.7	0.0	84.00	2.8	0.0	84.00	2.8	0.0	0.0
2232.3 Other Private Line Circuit	8.1	0.0	18.23	10.1	2.0	48.41	8.3	10.0	2.0
2232.3 Other Equipment (combined)	4.5	0.0	74.69	5.6	0.0	65.58	7.8	4.4	0.0
2351 Pay Stations	9.0	0.0	0.00	11.1	0.0	0.00	3.6	4.4	0.0
2362.2 Terminating Equipment	12.4	(40.0)	67.15	5.9	9.4	62.70	8.2	9.4	(40.0)
2411 Poles	9.9	(30.0)	59.80	7.1	8.6	54.50	8.8	8.6	(30.0)
2421.1 Aerial Cable - metallic	16.6	(5.0)	17.98	5.2	18.8	9.41	5.1	18.8	(5.0)
2422.2 Underground Cable - Fiber	10.1	(5.0)	37.36	6.6	9.5	41.67	6.7	9.5	(5.0)
2423.2 Buried Cable - Metallic - Filled	17.5	(5.0)	14.88	5.1	18.3	14.57	4.9	18.3	(5.0)
2423.3 Submarine Cable	19.6	(2.0)	23.80	4.0	17.6	33.81	3.9	17.6	(2.0)
2431 Aerial Wire	9.9	(30.0)	0.00	13.1	0.0	0.00	16.35	0.0	0.0
2441 Underground Conduit	36.0	0.0	40.82	1.6	35.0	0.0	2.4	35.0	0.0

**Quincy Telephone Company
1996 Depreciation Study
Comparison of Depreciation Expenses**

ATTACHMENT C

ACCOUNT	06/30/96		06/30/96		CURRENT		COMPANY PROPOSED (RE)		STAFF RECOMMENDED		CHANGE	
	INVESTMENT (\$)	RESERVE (\$)	ARR. RATE (%)	EXPENSES (\$)	ARR. RATE (%)	EXPENSES (\$)	ARR. RATE (%)	EXPENSES (\$)	ARR. RATE (%)	EXPENSES (\$)	EXPENSES (\$)	
GENERAL SUPPORT ASSETS												
21121 Motor Vehicles - Passenger Cars	47,733	1,674	11.4	5,442								
21122 Motor Vehicles - Light Trucks	138,006	77,152	9.7	14,357								
Motor Vehicles - Passenger Cars - Light Trucks (Combined)	195,739	80,826	Not Applicable	24,104	10.2	19,965	10.2	19,965	10.2	19,965	166	
21123 Motor Tractors - Heavy Trucks	251,725	50,386	9.5	24,104	11.7	29,686	11.7	29,686	11.7	29,686	5,582	
21211 Buildings - General Office	453,096	420,682	2.5	18,802								
21212 Buildings - Plant	181,049	50,934	3.1	5,923								
21212 Buildings - Combined	634,145	471,616	Not Applicable	24,725	2.8	26,408	2.8	26,408	2.8	26,408	1,683	
2116 Other Motor Equipment - Trucks	250,488	135,009	7 Yr Amort	15,312	7 Yr Amort	15,312	7 Yr Amort	15,312	7 Yr Amort	15,312	0	
2122 Furniture	125,043	83,881	10 Yr Amort	11,352	10 Yr Amort	11,352	10 Yr Amort	11,352	10 Yr Amort	11,352	0	
2123 Office Support Equipment	43,962	24,007	7 Yr Amort	4,080	7 Yr Amort	4,080	7 Yr Amort	4,080	7 Yr Amort	4,080	0	
21232 Official Telephone System	86,936	33,084	5 Yr Amort	9,507	5 Yr Amort	9,507	5 Yr Amort	9,507	5 Yr Amort	9,507	0	
2123 General Purpose Computer	772,260	777,323	5 Yr Amort	79,224	5 Yr Amort	79,224	5 Yr Amort	79,224	5 Yr Amort	79,224	0	
CENTRAL OFFICE ASSETS												
22123 Digital Switch 477 SE & Remote	4,298,252	1,037,460	6.7	287,983	6.5	279,386	6.5	279,386	6.5	279,386	(8,597)	
221212 Digital Subscriber Circuit	1,527,617	466,963	10.0	152,762								
22122 Trunk Circuit Equipment	144,075	117,567	Recovery Schedule	76,394								
22123 Concentrator Equipment	20,690	280,281	10.6	18,555								
2232 Other Private Line Circuit	662,690	614,147	2.8	18,555								
Circuit Equipment (Combined)	3,055,081	1,478,958	Not Applicable	44,040	8.3	253,572	8.3	253,572	8.3	253,572	\$861	
22123 Optic Electronics	456,042	117,640	10.1	44,040	10.0	43,604	10.0	43,604	10.0	43,604	(436)	
INFORMATION SYSTEMS ASSETS												
2351 Pan Stations	85,460	\$6,043	5.6	4,786	7.8	6,666	7.8	6,666	7.8	6,666	1,880	
2362 Terminating Equipment	0	0		0		0		0		0	0	
CABLE & WIRE FACILITIES												
2411 Poles	270,166	169,386	5.9	15,940	8.2	22,154	8.2	22,154	8.2	22,154	6,214	
24211 Aerial Cable - Metallic	1,430,429	252,428	7.1	186,343	8.8	230,960	8.8	230,960	8.8	230,960	44,617	
24221 Underground Cable - Metallic	525,522	225,778	4.1	21,538	8.4	44,127	8.4	44,127	8.4	44,127	22,589	
24222 Underground Cable - Fibre	162,831	15,225	5.2	8,467	5.1	8,304	5.1	8,304	5.1	8,304	(163)	
24223 Buried Cable - Metallic - Filled	11,819,457	4,925,366	6.6	780,084	6.7	791,904	6.7	791,904	6.7	791,904	11,820	
24233 Buried Cable - Fibre	991,360	144,469	5.1	50,584	4.9	48,582	4.9	48,582	4.9	48,582	(1,982)	
2433 Submarine Cable	10,244	3,464	4.0	410	3.9	400	3.9	400	3.9	400	(10)	
2431 Aerial Wire	0	0		0		0		0		0	0	
2431 Underground Conduit	491,134	96,670	1.6	9,458	2.4	14,187	2.4	14,187	2.4	14,187	4,729	
TOTAL	\$7,511,355	\$11,357,220		\$1,845,427		\$1,939,380		\$1,939,380		\$1,939,380	\$91,953	

* Balance corrected