

FLORIDA PUBLIC SERVICE COMMISSION
Capital Circle Office Center • 2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

MEMORANDUM

November 20, 1997

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FPSC - Records/Reporting

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

FROM: DIVISION OF AUDITING & FINANCIAL ANALYSIS (HACKNEY, LEE, WRIGHT) *PKH 1/29*
DIVISION OF COMMUNICATIONS (GREER) *SLG*
DIVISION OF LEGAL SERVICES (PELLEGRINI) *WTO*

RE: DOCKET NO. 971495-TL - NORTHEAST FLORIDA TELEPHONE COMPANY, INC. - REQUEST FOR APPROVAL OF CAPITAL RECOVERY SCHEDULES BY NORTHEAST FLORIDA TELEPHONE COMPANY, INC.

AGENDA: 12/02/97 - REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: S:\PSC\AFA\WP\971495.RCM
NO ATTACHMENTS AVAILABLE.

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission approve Northeast's proposed capital recovery schedule for the retiring Mudlake and Conner RLS-1000 remote switches?

RECOMMENDATION: Yes. A capital recovery schedule designed to recover, in 1997, the remaining unrecovered costs of \$99,076 associated with the retiring Mudlake and Conner remote switches should be approved. (LEE)

STAFF ANALYSIS: In 1994, the switching network plan of Northeast was to move from the existing Stromberg-Carlson DCO switching platform to the new Electronic Switching System-Digital (EWSD) Vision ONE-UP Platform (Vision ONE) in Macclenny in 1995. The Vision ONE upgrade required the retirement of the DCO processor and associated circuit equipment and the installation of the EWSD. The DCO lines would then be incorporated into the EWSD. Additionally, Siemens Stromberg-Carlson told Northeast that the existing Remote Line Switching (RLS-4000 and 1000) equipment located in Blackwell, Sanderson, Mudlake, and Conner would also interface with the EWSD. The Vision ONE upgrade would allow Northeast the ability to offer services such as ISDN and to add Advanced Intelligent Network (AIN) and Personal Communications Services (PCS) for an additional price.

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By Order No. PSC-95-0426-FOF-TL, issued March 29, 1995 in Docket No. 910731-TL, the Commission found that the Vision ONE platform would introduce potential revenue sources that did not currently have a market demand and provide an advance infrastructure which could potentially provide an economic boost for the Northeast service area. Further, the upgrade was a logical progression of Northeast's switching hierarchy, and therefore a reasonable investment.

During 1996, Northeast installed an RLS-4000 switch at Glen St. Mary and the EWSD switch in the Macclenny host office. At the time the installation of the Glen St. Mary RLS-4000 was nearing completion, Northeast learned that this new switch, as well as the existing RLS-4000 equipment at Blackwell and Sanderson, would not integrate with the new software as it had originally been informed by Siemens Stromberg-Carlson. Further, Northeast learned that Siemens would no longer offer support for the RLS-4000s due to the protocol problems. The only remote switching equipment that was compatible with the Vision ONE upgrade was Remote Control Unit (RCU) equipment and RLS-1000 equipment. Consequently, in order for service to continue to be provided to the Blackwell and Sanderson areas, Northeast had to replace the existing RLS-4000 equipment with RCU equipment. Recovery of this associated unrecovered cost was provided in Docket No. 971396-TL at the November 4, 1997 Agenda. Siemens replaced the Glen St. Mary RLS-4000 with an RCU at no additional charge.

The Mudlake and Conner remote offices are RLS-1000s and can interface with the new software. However, the new services provided by the EWSD cannot be provided through these remotes unless they are replaced. Current planning is that this replacement will take place by year end 1997.

Under the present provision for depreciation, the net investment associated with the Mudlake and Conner remote switches as of December 31, 1997 will be \$20,370 and \$78,706 (total company), respectively. By letter (see Attachment A) Northeast has proposed that these remaining unrecovered costs be recovered in 1997 to match the recovery of the invested capital with the retirement of the related equipment. Staff supports this requested action and recommends its acceptance. This action corrects the inherent reserve deficiency which, upon retirement of the equipment, will relate to plant no longer serving the public. Staff believes that deficiencies such as this should be recovered as soon as possible, unless that recovery prevents the company from earning a fair and reasonable return on its investments. Northeast is projected to have sufficient earnings in 1997 to absorb this recovery and still earn within its authorized range. Staff

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therefore recommends that the Company be allowed to recover the remaining unrecovered costs associated with the 1997 retirement of the Mudlake and Conner remote switches in 1997.

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ISSUE 2: Should the Commission approve Northeast's proposed recovery schedule for the 1998 planned retirement of the Macclenny DCO switch?

RECOMMENDATION: Yes. Staff recommends that the Commission approve Northeast's request to recover, during 1997 and 1998, the remaining net investment of \$244,968 associated with the Macclenny digital switch and circuit equipment by year end 1998. (LEE)

STAFF ANALYSIS: With the replacement of the RLS-1000 remote switches at Mudlake and Conner with Remote Control Units (RCUs), there will no longer be any need for Northeast to continue maintaining the Macclenny DCO switch. Current company plans are to retire this switch in 1998. Under the present provision for depreciation, the net unrecovered investment associated with the DCO switch and related circuit equipment is estimated to be \$244,968, total company, as of December 31, 1997. By letter, Northeast has proposed that this amount be recovered by year end 1998. Staff supports this request as it matches the recovery of the investment with the remaining service period of the related equipment. This proposal also allows flexibility as to the amount booked in 1997 and 1998.

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ISSUE 3: Should Docket 971495-TL be closed?

RECOMMENDATION: Yes. If no person whose substantial interests are affected by the Commission's proposed agency action, timely files a protest within twenty-one days of the issuance of this Order, this docket should be closed. (PELLEGRINI)

STAFF ANALYSIS: If no person whose substantial interests are affected, files a timely request for a Section 120.57, Florida Statutes, hearing within twenty-one days of the issuance of this Order, no further action will be required and this docket should be closed.

Northeast Florida Telephone Company, Inc.

October 24, 1997

Ms. Patricia S. Lee
 Florida Public Service Commission
 Capital Circle Office Center
 2540 Shumard Oak Boulevard
 Tallahassee, Florida 32399-0865

Dear Ms. Lee:

Attached for your review are copies of retirement worksheets, which show the investment, depreciation reserve and total deficiency amounts for the Conner remote, Mudlake remote and Macclenny DCO switch. By this letter, Northeast Florida Telephone Company (Northeast) requests that the Florida Public Service Commission allow the company to "write-off" the reserve deficiencies (net losses) that will exist when these two remote offices are retired at the end of 1997. In addition, the company would like to request that an amortization schedule be approved for the retirement of the Macclenny DCO switch, which is currently scheduled for retirement in 1998. Once this has been completed, the reserve deficiencies resulting from the installation of our new Siemens-Stromberg/Carlson switch will be gone.

To give you an idea of the magnitude of the reserve deficiencies that exist for the Conner remote, Mudlake remote and Macclenny DCO switch, a breakdown of these amounts is shown below:

	<u>Conner</u>	<u>Mudlake</u>	<u>Macclenny DCO</u>
Plant Investment	\$200,565	\$26,505	\$1,582,308
Depreciation Reserve	<u>121,859</u>	<u>6,135</u>	<u>1,337,340</u>
Total Reserve Deficiency	\$78,706	\$20,370	\$ 244,968

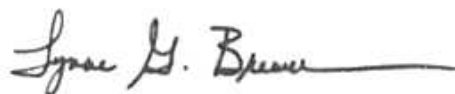
We appreciate your assistance in determining how we should proceed to quickly eliminate the reserve deficiencies that will exist on our books when the last two remotes and the DCO switch are retired by our company. Please don't hesitate to call me at (904)259-0639 or Janet Easterday at (904)259-0640 if you have any questions concerning the attached worksheets or would like to discuss this matter further.

Thanks again for your help on this matter.

Your Quality Service Communications Provider For Over 40 Years

130 North 4th Street • P.O. Box 485 • Macclenny, FL 32063-0485 • (904) 259-2261

Yours truly,

A handwritten signature in cursive script that reads "Lynne G. Brewer". The signature is written in black ink and includes a long horizontal flourish at the end.

Lynne G. Brewer
Director - Revenue Requirements & Regulatory Affairs

Attachments

cc: Leon Conner
Janet Easterday