

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Request for approval of) DOCKET NO. 941229-TL
1994 Depreciation Study by) ORDER NO. PSC-95-0180-FOF-TL
UNITED TELEPHONE COMPANY OF) ISSUED: February 8, 1995
FLORIDA and CENTRAL TELEPHONE)
COMPANY OF FLORIDA.)
_____)

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 PRELIMINARY IMPLEMENTATION OF DEPRECIATION RATES
AND ALLOWING ONE-TIME DEPRECIATION EXPENSE

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.

I. CASE BACKGROUND

The last comprehensive depreciation study for United Telephone Company of Florida was filed on June 27, 1991. This Company was required by Rule 25-4.0178(8)(a), Florida Administrative Code, to file its next comprehensive depreciation study within three years of the last filing. On February 7, 1994, United Telephone Company of Florida filed a request for waiver of the filing date as required by that rule, based on the fact that its parent company, Sprint Corporation, had acquired Central Telephone Company of Florida.

DOCUMENT NUMBER-DATE

01467 FEB-89

FPSC-RECORDS/REPORTING

In requesting the waiver, United cited the fact that company planning is an essential element in the proper design of depreciation rates. In conjunction with the consolidation of the operations of United and Centel, United's planning process will include both operating companies as one entity for planning purposes. United sought permission to allow the filing of its depreciation study at such a time that it could, in fact, reflect a combined planning study for the two companies. This study would be filed by November 30, 1994, the date required for filing of the next depreciation study for Centel.

By Order PSC-94-0430-FOF-TL, the Commission granted the request for waiver, thereby permitting United and Centel to develop remaining lives reflecting the most current plans for consolidated operations. The study, including separate historical accounting data for each company, was required to be filed by November 30, 1994. For the next review cycle after November 1994, a single study for the merged company will be submitted.

In accord with the requirements of Order PSC-94-0430-FOF-TL, United filed the current study on November 23, 1994. Depreciation rates being proposed are based on consolidated company planning and each company's investment and reserve positions.

II. CAPITAL RECOVERY SCHEDULE

In developing its capital recovery proposals for the metallic cable accounts for Aerial, Buried, Underground, United and Centel studied the respective accounts based on functionality such as interoffice, feeder and distribution. This approach has been used to mirror the network planning process for the evolution of the embedded network from existing copper cable facilities to digital technology and fiber optics.

For the purposes of this discussion, interoffice facilities are considered to be those facilities connecting host central offices. Feeder facilities are those located between the serving central office and a digital loop carrier (DLC) or the distribution cross-connect cabinet or between the digital loop carrier and the cross-connect cabinet. The remaining facilities from the cross-connect cabinet to the customer are generally known as distribution facilities.

Prior to the 1980's, the feeder segment of the network consisted of large cables originating from the central office and terminating in distribution splice cases. As growth continued, the existing feeder routes were extended and reinforced with additional copper feeder cable. Beginning in the 1980's however, United began deploying cross-connect cabinets which served as interfaces between the large feeder cables and the smaller sized distribution cables. This provided flexibility in the network and a higher utilization of the feeder facilities.

Since that time, the major impact to feeder plant, according to United, has been with the introduction of digital technology into the network. Today, it is more economical to deploy a remote digital switch or DLC than to place a large copper feeder cable. Placing electronics rather than physical copper cables has not only provided additional capacity for feeder relief but has also reduced the amount of physical copper plant required in the feeder plant. As the network has evolved from large copper feeder cables to digital technology, a significant amount of the embedded copper feeder plant has become un-used or stranded in place, no longer in use.

Under the existing capitalization procedures of both the FCC and FPSC, an entire copper cable run is considered a single retirement unit and thus capitalized when placed into service, regardless of the actual number of working pairs. Conversely, the cable is not retired on the books of the company until all the pairs inside that cable are no longer working. Because of the deployment of digital technology, a 500-pair cable may now only have 200 copper pairs actually working thus resulting in 300 copper pairs being stranded. The stranded cable, however, cannot be retired from the books of the company as long as there is one working pair. All 500 copper pairs must no longer be in service before the 500-pair cable can be retired. As can be seen, this mechanism results in plant no longer in service being carried on the books of the company. While depreciation will continue until the entire cable is retired, recovery is not being provided commensurate with consumption.

According to United, it currently has a system in place, Network Analysis Points System (NAPS), which monitors the feeder network at a multitude of points across the serving areas. By analysis of the information provided by this system, the Company is able to determine the current utilized capacity of the network. The under-utilization is the result of the stranding of copper pairs as digital loop carrier is placed. Recognizing that much of

the feeder growth will be provided through digital remote switches or DLC, minimal copper pairs are needed to be retained for future growth. However, there is still a need to retain pairs to meet maintenance requirements. Based on its analysis, United has identified that 41% of its feeder cable is stranded with very little chance for reuse. In response to this situation, the Company has proposed to remove from the current depreciable base that portion of the investment which is associated with the stranded feeder, and amortize the unrecovered portion of that investment in the amount of \$47,368,921 total Company over a 4-year period beginning in 1995.

In Docket No. 940201-TL, by Order No. PSC-94-0730-FOF-TL, the Commission approved a cap on United's 1994 earnings of 13.0% return on equity (ROE). The order required that any earnings in excess of that return be deferred to 1995. United is now requesting that it be allowed to book an additional amount of depreciation expense in 1994 sufficient to bring its earnings down to the 13.0% ROE cap. The exact amount is yet to be determined and is subject to true-up and audit.

It is appropriate for a company to write-off a reserve deficiency associated with plant no longer in service as soon as economically practicable. In this case, United is requesting to apply an additional amount of depreciation expense in the amount of its determined 1994 excess earnings against the perceived stranded feeder metallic cable reserve deficiency. We believe that this request is reasonable since it begins to write off the perceived deficiency as soon as possible. Therefore, United's request is approved. After the final review of United's depreciation study is completed, we may order that any overrecovery achieved in 1994 be transferred to other depreciation accounts that have a perceived need.

Therefore, we find that United shall be allowed to record a one-time additional amount of depreciation expense in 1994, sufficient to reduce its earnings to the top of its authorized return on equity for 1994.

III. PRELIMINARY IMPLEMENTATION OF DEPRECIATION RATES AND RECOVERY SCHEDULES

In the filing of November 23, 1994, in this docket, the Company has requested that it be allowed to implement its proposed depreciation rates and amortization/recovery schedules for United and Centel on a preliminary basis, in accord with our depreciation rules.

Preliminary booking does not and should not infer that, upon completion of the Company's filed study, that the Company's proposed life and salvage parameters will be approved. Rather, our decision to permit preliminary implementation is based on the expectation that implementation of the rates and recovery schedules shown on Attachment A will likely result in a more appropriate depreciation expense level than retention of the currently effective rates and schedules. In the normal course of review and analysis of any depreciation study, the Company's original proposals are frequently refined or changed. This United/Centel study covers the combining of operations and planning from two formerly separate companies under highly dynamic circumstances. The Company proposed rates and recovery schedules incorporate proposed allocations of reserve; resulting reserve levels will be subject to alteration in the course of analysis. In any case, upon Commission action in this docket, the expenses will be trued-up.

Therefore, we find that United and Centel shall be allowed to implement the respective proposed depreciation rates and recovery schedules on a preliminary basis, beginning January 1, 1995. The depreciation rates and recovery schedules approved on a preliminary basis for United and Centel are shown on Attachment A.

This docket shall remain open, pending review and analysis and final action concerning appropriate revised depreciation rates and amortization/recovery schedules.

Based on the foregoing, it is

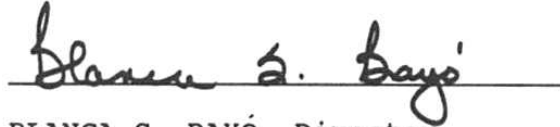
ORDERED by the Florida Public Service Commission that we find that United shall be allowed to record a one-time additional amount of depreciation expense in 1994, sufficient to bring it to the cap of its authorized return on equity for 1994 (13%). It is further

ORDERED that United and Centel shall be allowed to implement the depreciation rates and recovery schedules shown on Attachment A on a preliminary basis, beginning January 1, 1995. It is further

ORDERED that this docket shall remain open, pending review, analysis and final action concerning appropriate revised depreciation rates and amortization/recovery schedules.

ORDER NO. PSC-95-0180-FOF-TL
DOCKET NO. 941229-TL
PAGE 6

By ORDER of the Florida Public Service Commission, this 8th
day of February, 1995.



BLANCA S. BAYÓ, Director
Division of Records and Reporting

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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, 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on March 1, 1995.

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.

ORDER NO. PSC-95-0180-FOF-TL
DOCKET NO. 941229-TL
PAGE 7

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.

**UNITED TELEPHONE COMPANY OF FLORIDA
 1994 DEPRECIATION STUDY**

**COMMISSION APPROVED
 INTERIM DEPRECIATION RATES**

ACCOUNT	AVERAGE REMAINING LIFE (yrs)	NET SALVAGE (%)	REMAINING LIFE RATE (%)
GENERAL SUPPORT ASSETS			
=====			
2112.1 Passenger Cars	2.6	14	5.6
2112.2 Light Trucks	3.7	13	9.9
2112.3 Heavy Trucks	5.0	11	7.3
2114.1 Special Purpose Vehicles	10.8	5	6.3
2121.1 Buildings - Switching	22.6	(5)	3.5
2121.1 Buildings - Plant & Office	17.2	(5)	3.9
2121.1 Buildings - Other	8.5	(5)	7.0
2121.3 Building Equipment	9.1	(5)	7.0
2121.4 Self Supporting Towers	9.1	(15)	1.9
CENTRAL OFFICE EQUIPMENT			
=====			
2212.2 Switches - Digital 1210	5.1	0	5.5
2212.2 Switches - Digital Flexible	10.7	3	6.6
2231.3 Radio - Digital	5.1	(3)	9.6
2232.1 Circuit - Private Line	1.3	(5)	9.6
2232.1 Circuit - Subscriber Loop	3.1	(5)	8.8
2232.2 Circuit - Digital	4.6	5	7.5
2232.2 Tools and Test Equipment	4.5	0	11.8
2232.3 Circuit - Fiber Optic	4.7	0	13.8
INFORMATION ORIGATION / TERMINATION			
=====			
2311.2 Station Apparatus - E911	2.8	0	10.4
2351.1&2 Public Telephone - (Except Protel)	4.6	0	8.4
2351.3 Public Telephone - (Protel)	5.2	0	16.6
2362.2 Line Conditioning	3.4	0	3.6
2362.3 Eqpt. for Hearing Impaired	3.6	3	16.0
CABLE AND WIRE FACILITIES			
=====			
2411.1 Poles & Special Structures	10.4	(43)	8.6
2421.1 Aerial Cable - Metallic	9.9	(30)	8.5
2421.2 Aerial Cable - Fiber	15.1	(5)	5.8
2422.1 Underground Cable - Metallic	9.5	(20)	6.2
2422.2 Underground Cable - Fiber	15.2	(15)	6.0
2423.1 Buried Cable - Metallic Filled	10.8	(5)	6.0
2423.1 Buried Cable Metallic Non-Fid	4.2	(5)	3.4
2423.2 Buried Cable - Fiber	16.3	(5)	5.3
2424.1 Submarine Cable - Metallic	6.7	(5)	4.9
2424.2 Submarine Cable - Fiber	15.7	(5)	5.2
2426.1 Intrabuilding Network - Metal	10.8	(30)	8.2
2426.2 Intrabuilding Network - Fiber	18.4	(5)	5.0
2441.1 Underground Conduit	35.7	(5)	2.1

**CENTRAL TELEPHONE COMPANY OF FLORIDA
 1994 DEPRECIATION STUDY**

**COMMISSION APPROVED
 INTERIM DEPRECIATION RATES**

ACCOUNT	AVERAGE REMAINING LIFE (yrs)	NET SALVAGE (%)	REMAINING LIFE RATE (%)
GENERAL SUPPORT ASSETS			
=====			
2112.1 Passenger Cars	1.9	14	10.2
2112.2 Light Trucks	4.0	13	12.3
2112.3 Heavy Trucks	4.1	11	9.6
2121.1 Buildings – Switching	27.1	(5)	2.8
2121.05&06 Buildings – Plant & Office	17.3	(5)	4.2
2121.10 Buildings – COE Other	9.9	(5)	8.8
2121.4 Self Supporting Towers	10.5	(15)	2.5
CENTRAL OFFICE EQUIPMENT			
=====			
2212.2 Switches – Digital Flexible	10.9	3	5.4
2231.3 Radio – Digital	6.2	(3)	10.2
2232.1 Circuit – Other	4.8	(5)	12.0
2232.2 Circuit – Digital	5.6	5	10.1
2232.3 Circuit – Fiber Optic	5.5	0	10.9
INFORMATION ORIGATION / TERMINATION			
=====			
2351.1 Public Telephone – Coin	4.3	0	6.5
2351.2 Public Telephone – Coinleess	3.2	0	11.3
2362.4 Private Line & Interconnect	1.7	0	6.8
2362.6 Eqpt. for Hearing Impaired	4.3	3	17.4
2362.10 Station Apparatus – Non CPE	3.6	0	10.3
CABLE AND WIRE FACILITIES			
=====			
2411.1 Poles & Special Structures	11.8	(60)	8.9
2421.1 Aerial Cable – Metallic	9.5	(30)	8.0
2421.2 Aerial Cable – Fiber	15.0	(5)	6.2
2422.1 Underground Cable – Metallic	6.5	(20)	10.0
2422.2 Underground Cable – Fiber	16.6	(15)	5.9
2423.1 Buried Cable – Metallic Filled	10.4	(5)	6.1
2423.1 Buried Cable Metallic Non–Fld	3.4	(5)	2.1
2423.2 Buried Cable – Fiber	16.7	(5)	5.3
2424.1 Submarine Cable – Metallic	3.8	(5)	5.9
2424.2 Submarine Cable – Fiber	14.4	(5)	5.2
2426.1 Intrabuilding Network – Metal	8.4	(30)	9.5
2426.2 Intrabuilding Network – Fiber	18.0	(5)	5.2
2441.1 Underground Conduit	33.4	(5)	2.2

COMMISSION APPROVED CAPITAL RECOVERY SCHEDULES
FOR INTERIM IMPLEMENTATION

EFFECTIVE JANUARY 1, 1995

CENTRAL TELEPHONE COMPANY OF FLORIDA

<u>ACCOUNT</u>	<u>RECOVERY PERIOD</u>
Operator Systems	2 Years

UNITED TELEPHONE COMPANY OF FLORIDA

<u>ACCOUNT</u>	<u>RECOVERY PERIOD</u>
Digital 1210 (1995-1997)	3 Years
Operator Systems	6 Years
Radio (1995-1997)	1 Years
Aerial Cable (Remaining Feeder)	11 Years
Underground Cable (Remaining Feeder)	11 Years
Buried Filled Cable (Stranded Feeder)	4 Years
Buried Filled Cable (Remaining Feeder)	11 Years
Buried Non-Filled Cable (Remaining Feeder)	11 Years