

## BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

|                                   |   |                      |
|-----------------------------------|---|----------------------|
| In re: Review of SOUTHERN BELL    | ) | DOCKET NO. 890256-TL |
| TELEPHONE AND TELEGRAPH COMPANY'S | ) | ORDER NO. 23132      |
| Capital Recovery Position         | ) | ISSUED: 6-29-90      |
|                                   | ) |                      |

The following Commissioners participated in the disposition of this matter:

MICHAEL McK. WILSON, Chairman  
 THOMAS M. BEARD  
 BETTY EASLEY  
 GERALD L. GUNTER

## APPEARANCES:

LEN S. ANTHONY, 4300 Southern Bell Center, 675 West Peachtree Street, Atlanta, Georgia 30375, and JOHN P. FONS, Ausley, McMullen, McGehee, Carothers & Proctor, 227 Calhoun Street, P.O. Box 391, Tallahassee, Florida 32302, on behalf of Southern Bell Telephone and Telegraph Company.

JOSEPH A. MCGLOTHLIN, Lawson, McWhirter, Grandoff and Reeves, 522 East Park Avenue, Suite 200, Tallahassee, Florida 32301, and BRUCE W. RENARD, Messer, Vickers, Caparello, French, Madsen and Lewis, P.A., 215 South Monroe Street, Suite 701, Post Office Box 1876, Tallahassee, Florida 32302-1876, on behalf of Florida Cable Television Association.

JACK SHREVE, Public Counsel, and CHARLES J. BECK, Assistant Public Counsel, Office of Public Counsel, c/o The Florida Legislature, 111 West Madison Street, Room 812, Tallahassee, Florida 32399-1400, on behalf of Citizens of the State of Florida.

DONALD L. CROSBY, Florida Public Service Commission, 101 E. Gaines Street, Tallahassee, Florida 32399-0863, on behalf of the Commission Staff.

PRENTICE P. PRUITT, Florida Public Service Commission, 101 E. Gaines Street, Tallahassee, Florida 32399-0862, on behalf of the Commissioners.

DOCUMENT NUMBER-DATE

05757 JUN 29 1990

FPSC-RECORDS/REPORTING

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FINAL ORDER

BY THE COMMISSION:

By Order No. 20162, issued October 13, 1988, in Dockets Nos. 880069-TL and 870832-TL (the Rate Stabilization Proceeding), we ordered Southern Bell Telephone and Telegraph Company (Bell) to collect certain revenues, \$17,114,281 for 1989 and \$147,743,082 for 1990, subject to disposition after the company filed its next triennial depreciation study. Order No. 20162 stated that, if Bell justified a need for additional depreciation expense, these revenues can be applied to that purpose, but if the need for depreciation is not proven, they can be disposed of otherwise.

Usually, a docket to address a reprscription is not opened until a company files its depreciation study. Our Staff opened Docket No. 890256-TL on February 17, 1989, for that purpose because the Office of the Public Counsel (OPC) began its discovery regarding this issue before the anticipated study was filed. In Order No. 20850, issued on March 3, 1989, intervention was acknowledged for OPC in this docket.

On May 12, 1989, OPC filed two motions: the first (the Motion to Close) sought to close Docket No. 890256-TL and to address appropriate depreciation rates for Bell in Docket No. 880069-TL; and the second (the Implementation Motion) sought to require a January 1, 1989 implementation date for any new depreciation rates and recovery schedules, or in the alternative, to refund the money held subject to disposition in 1989. Bell filed responses in opposition to both of OPC's motions on May 24, 1989.

On May 1, 1989, Bell filed an updated capital recovery schedule (the Petition) for its analog switching equipment slated for retirement in 1989, 1990, and 1991, with a proposed implementation date of January 1, 1989. A comprehensive depreciation study addressing all accounts was filed on May 22, 1989 (the Study), with a proposed implementation date of January 1, 1990.

On June 16, 1989, the Florida Cable Television Association (FCTA) moved to intervene and filed a request for hearing. Bell responded on July 6, 1989, asking the Commission to deny

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FCTA's request for hearing but not opposing FCTA's intervention. In Order No. 21651, issued on August 1, 1989, intervention was authorized for FCTA.

By Order No. 21941, issued September 25, 1989, we denied the Motion to Close. In addition, we held that Docket No. 890256-TL was appropriately opened in accordance with our normal practice dealing with re-prescriptions. We did not indicate in Order No. 20162 that Bell's re-prescription would be considered as part of the Rate Stabilization Proceeding. Rather, we held open the question of how to dispose of potential excess revenues calculated for 1989 and 1990 until we complete our re-prescription review. In Order No. 21941, we concluded that proper depreciation rates and recovery schedules must be prescribed before the revenues being collected subject to disposition can be resolved. A decision on the Implementation Motion was deferred until final action on the Study is taken. Finally, in Order No. 21941, FCTA's request for a hearing in this docket was granted.

In Order No. 22471, issued January 25, 1990, the Prehearing Officer established the prehearing procedure to govern this proceeding and adopted a tentative list of eleven issues to be addressed. On February 16, 1990, prehearing statements were filed by Bell, FCTA, OPC and our Staff.

During four days of hearings that began on March 27, 1990, 11 witnesses offered nearly 32 hours of testimony. On May 9, 1990, Bell, FCTA and OPC filed briefs. The issues discussed in this Order were decided at our Special Agenda Conference held on June 8, 1990.

#### REPRESCRIPTION

According to Bell, its currently-prescribed depreciation rates and capital recovery schedules should be revised because they no longer reflect the technological change being experienced by the telecommunications industry, the growth occurring in Florida or its current network plans. The recovery schedules and depreciation rates proposed in the Study must be adopted, in Bell's view, in order to allow the company adequate capital recovery. The proposed depreciation rates and schedules are derived from economic life estimates that are based upon Bell's network deployment plans which in turn are based on customers' needs and technological changes. These

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plans indicate that the economic lives of Bell's metallic cable facilities, analog electronic switchers, analog-related circuit equipment and digital electronic switches are shorter than the lives prescribed in 1986 and must be changed.

As an alternative to Bell's proposal, OPC submitted two recommendations for us to consider. The first recommendation (the "BISDN Approach") assumes that we accept Bell's claim regarding its anticipated Broadband Integrated Services Digital Network (BISDN) and suggests that the costs of that network be matched with its anticipated revenues. Under the BISDN Approach, higher depreciation and amortization expenses caused by BISDN would be matched against the revenues to be realized from deploying that network. For certain accounts, a BISDN reserve correction was recommended, which is calculated as the level of reserve that would be needed to maintain currently-prescribed rates. The book reserve for these accounts was then restated to the BISDN corrected level. The difference between the book reserve and the BISDN corrected reserve was then allocated to the individual fiber cable account reserves. The resultant effect of this is a restatement of reserves for each of the fiber accounts as negative amounts. The other recommendation (the "Traditional Approach") is based on a traditional analysis of Bell's depreciation rates and relies basically on statistical life indications.

We cannot adopt the BISDN Approach because we oppose any reserve correction that intentionally restates book reserves so that some accounts are negative. Moreover, this approach appears to us to be at odds with Generally Accepted Accounting Principles and the Uniform System of Accounts. Neither can we adopt the Traditional Approach which relies on historical life indications. This methodology is meaningless, in our view, for determining life characteristics for accounts subject to be impacted by changes in technology and competition. Accordingly, we reject both the BISDN Approach and the Traditional Approach.

FCTA argued that the burden was on Bell to prove the need for the proposed changes in depreciation rates. To justify replacing a facility, in FCTA's view, Bell must prove the substitution is cost-effective, recognizing the undepreciated remaining investments in the existing asset as a cost of the replacement decision. FCTA claimed that the Study fails to

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demonstrate why depreciation rates for metallic cable, digital switching or asynchronous circuit equipment should be changed. The great bulk of the requested depreciation hike is to fund deployment of Bell's video strategy, FCTA contends, and should not be subsidized by monopoly rates.

After reviewing the company's additions and retirements during the last three years and its future plans, we find that currently-prescribed depreciation rates and recovery schedules should be revised. A change in underlying life and salvage projections in some accounts is indicated due to impacts of new technology and evolving competition in the industry. In addition, recovery schedules should be revised to conform with new plans. Accordingly, we find that the depreciation rates shown on Attachment 1 to this Order are appropriate and are hereby prescribed.

The record of this proceeding has led us to conclude that Bell's proposed network planning changes offer the benefits of improved network capabilities, new service offerings, and lower costs. Fiber cable offers improved network capabilities by offering high-speed transmission with higher speed upgrades as needed as well as increased capacity. Fiber allows new service offerings through the transmission capabilities for broadband services. Lower costs due to fiber cable are through the ease of installation due to its smaller size, the ease of maintenance with a higher quality of service, and the need for fewer regenerators. Digital switching provides improved network capabilities through its immediate connectivity and modular upgrades. Digital switching has greater flexibility with software installation to offer new services (e.g., Digital ESSX, ISDN, LightGate, and SynchroNet). The digital switching modularity and self-healing and self-diagnostics for ease of maintenance lead to lower costs.

Both OPC and FCTA fail to recognize that the network as is currently proposed by Bell is not a broadband network. The proposed network will have the ability to migrate to a broadband network with the appropriate installation of the necessary electronics. However, the initial system will be narrowband. By arguing against their perceived totally broadband system both OPC and FCTA have failed to acknowledge the benefits of the fiber digital network. We believe that the benefits of the improved network capabilities, the new service offerings and the lower costs cannot be ignored when reviewing the proposed fiber digital network as a whole.

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The compatibility with multiple vendors' equipment that the digital fiber system gives will allow Bell to select the best equipment for a specific purpose from a variety of manufacturers. This alone opens up the competitive marketplace for equipment and the associated lower prices to the subscriber. We believe that analog switching is an obsolete technology, has limited support, will have limited service applications and will pose maintenance and upgrading problems in the future.

We accept the testimony of Bell's witnesses that the costs for installation of fiber have dropped significantly. Digital switching has the cost advantage of the continued development of high packing density and low power designs. In addition, upgrading for new services is primarily accomplished through software installation.

For all accounts, other than those discussed below, we accept the depreciation rates recommended by our Staff, which are shown on Attachment 1. The accounts discussed below represent those that were contested by the parties. For the reasons explained below, the depreciation rates shown on Attachment 1 are prescribed for these accounts.

Analog Switching: The parties offered differing proposals for dealing with the 1989-1992 retirements of analog switching installations. While OPC's witness apparently had no objection to Bell's plans to replace these switchers by the end of 1999, he testified that the 1989-1991 retiring installations are not cost justified and therefore recommended returning those investments to the rate-applied account and assigning them the same remaining life as that of the investments remaining in service beyond 1991.

In our opinion, the evidence supports recovery of these investments through amortization schedules. We adopt a recovery schedule to become effective on January 1, 1989, in order to address the 1989-1991 retiring analog switching installations and another schedule to be implemented on January 1, 1990, for the purpose of addressing recovery of those installations planned for retirement in 1992, see Attachment 2. Removal of the 1989-1992 investments from the rate-applied account changes the expected life of the remaining switchers to 6.6 years, see Attachment 1.

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Digital Switching: We find that the 15-year projection, or service, life as proposed by Bell is appropriate for this account. This infers a replacement date of 2003 for all current digital switchers. The OPC BISDN approach accepts a 2003 replacement date and then restates the book reserve to a BISDN reserve; however, for reasons stated above, we have rejected this approach. The OPC traditional approach is predicated on retaining the current 20-year service life.

We do not accept the testimony of OPC, FCTA and Staff witnesses regarding the service lives of digital switches; in our opinion, these lives are becoming shorter due to technological advances. We agree with the company that the evolution to one wide-band digital network, integrating voice, data and video services, will shorten the life of digital switches as proposed in the Study. However, we accept our Staff's proposal of a zero net salvage for this account. Our conclusion is based on the company's recent experience in reusing retiring equipment and recognizes that any reuse or resale of it will be offset by the cost of removal.

Digital Circuit Equipment: The main question involving this account is when all circuit equipment will become compatible with the technology needed to create a Synchronized Optical Network (SONET). We find that the following factors are affecting the life expectancy of this account: (1) the move from analog to digital switching; (2) everyday wear and tear; (3) the growth of the system; and (4) the move from asynchronous to synchronous equipment. The parties advocated positions ranging from 4.6 to 11 years as the appropriate remaining life for this account. Upon review, we find that a remaining life of 5 years is appropriate for this category of circuit accounts.

Metallic Cables: Bell's remaining life proposals indicate that all existing copper cable will have been replaced by 2011. The Study contends that fiber will be more cost-effective than copper in feeder plant for providing "Plain Old Telephone Service" by 2011. The company further contends that BISDN stimulus can produce the same result in the distribution plant within the same time frame. Bell's witnesses testified that recent developments in digital loop carrier technology and further decreases in fiber optic equipment prices indicate that fiber will soon become the economic choice for the transport facility from a remote

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terminal to or near a customer's premise such as the distribution portion of the network. As fiber becomes more economical than embedded copper, it will be substituted for copper in new installations, replacements for growth purposes and road moves and relocations, and ultimately when the copper plant can no longer be maintained economically. Bell anticipates that this crossover point will occur in the mid-1990s.

FCTA estimates that this replacement will be completed between 2023 and 2025. FCTA contends that Bell's dates for replacement of copper feeder and distribution cables are inappropriate. For both, Bell arbitrarily assumed, in FCTA's view, that "broadband stimulus" would allow it to retire copper much faster than it would based on "Plain Old Telephone Service" economics.

OPC submits that there is no justification for Bell's projection of 2011 as the completion date of its all-fiber cable network. Its proposals are predicated on statistical life indications and relies upon the Study's breakdown between interoffice, feeder and distribution to arrive at a composite remaining life for each account.

Upon review, we prescribe the following remaining lives for each Metallic Cable subaccount: (1) Aerial, Submarine and Intrabuilding - 10 years, as proposed by Bell; (2) Underground - 9.7 years, as proposed by Staff; and (3) Buried - 9.5 years, which falls between Bell's low proposal of 7 years and Staff's high proposal of 14.1 years. These remaining lives infer a projected date of about 2012 for the total replacement of embedded copper facilities with fiber throughout Bell's network. We believe that the company's proposed remaining lives in some subaccounts are too short and that the other parties' proposals are too long. After reviewing the record of this proceeding, we conclude that the remaining lives adopted above are appropriate.

With regard to future net salvage, we prescribe the following values for each Metallic Cable subaccount: (1) Aerial and Intrabuilding - (12)%, which falls between Bell's low proposal of (22)% and Staff's high proposal of (10)%; (2) Underground and Buried - (5)%, as proposed by Staff; and (3) Submarine - (2)%, as proposed by Bell. We believe that the company's proposed future net salvage values for most subaccounts are too low and that the other parties' proposals are too high for some subaccounts. We conclude from a review

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of the record that the future net salvage values adopted above are reasonable because we expect the costs of removal to exceed the fair market value of this equipment by these magnitudes.

We intend for Bell to pursue a network construction program that will permit it to furnish levels of service which exceed the national average. In our opinion, the depreciation rates prescribed here will permit Bell to comply with Section 364.03, Florida Statutes.

#### RECOVERY SCHEDULES

OPC argued that Bell's discounted cash flow studies provide no basis to decide for or against the early replacement of the analog switches. FCTA generally supported analog switch replacement with the exception of retirements geared to deployment of BISDN. Staff's witness testified that he considered the retirement of the 17 analog switches as prudent from an engineering point of view after reviewing the Demand and Facility (D&F) charts and the associated supporting D&F chart narrative documentation.

After reviewing the record and the arguments, we find that Bell's plans for certain central office equipment retirements within the 1989-1992 period and for the planned additions to the retiring equipment during this period are prudent. Accordingly, we approve the recovery schedules shown on Attachment 2 to this Order.

#### IMPLEMENTATION DATES

The Petition proposed a January 1, 1989 implementation date for the analog switchers retiring during the 1989-1991 period. Investments and reserves for these installations were provided as of that date.

The Study reflects investments and reserves as of December 31, 1989, and requests depreciation rates to be implemented as of January 1, 1990. Additionally, the Study seeks an implementation date of January 1, 1990, for recovery schedules covering circuit equipment and the Crossbar Operator System planned for retirement during the 1990-1992 period as well as the 1992 retirements of analog switchers.

Both FCTA and OPC recommended a January 1, 1989 implementation date for any revision in depreciation rates.

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OPC submitted that the primary objective to Bell's proposed implementation dates was to "keep the cash flow" discussed in Order No. 20162. Bell's witness disagreed, saying that the company's total depreciation request reflected no attempt to match the dollars set aside by Order No. 20162.

We will adopt the implementation dates for the revised depreciation rates and for the recovery schedules that are proposed by the company. In our opinion, the data provided in the Petition and in the Study support these implementation dates.

#### ACCOUNTING

Based on the evidence adduced at the hearing, we will institute certain accounting requirements to become effective on January 1, 1991. Circuit equipment associated with optic technology shall be recorded in three separate subaccounts, based on its connection to either interoffice, feeder or distribution fiber cable. Aerial, underground and buried fiber cable shall each be categorized into interoffice, feeder and distribution subaccounts.

Bell's position is that no special accounting or ratemaking treatment is necessary because its investment plans are cost effective. The position of OPC and FCTA is that Bell has not proved that its network modifications are cost effective. For this reason, they believe that special accounting requirements and ratemaking treatment are necessary. FCTA offers no specific accounting requirements, proposing only that we institute stringent provisions (e.g., reviews of Bell's construction plans prior to their implementation). OPC proposes no specific accounting requirements but recommends that we adopt the recommendations of FCTA. OPC and FCTA said that we need to implement ratemaking treatment to ensure that ratepayers do not pay more for service than they otherwise would have under the existing system. Staff contended that no special ratemaking treatment regarding Bell's modernization plans should be adopted at this time.

Commission Rule 25-4.0174, Florida Administrative Code, requires companies to maintain separate subaccounts for circuit equipment associated with optic technology, aerial cable-fiber, underground cable-fiber and buried cable-fiber. As technology progresses and plant is replaced, these four subaccounts will

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contain most of the investment. We believe that the fiber cable and especially the associated circuit equipment may have different economic lives depending on their location in the network, i.e., interoffice, feeder or distribution. Having the investment in circuit equipment and fiber cable separated into subaccounts will also facilitate our deliberation in any future proceeding regarding the regulatory treatment of these investments. For these reasons, we direct Bell to establish three subaccounts for circuit equipment associated with optic technology, based on its connection to either interoffice, feeder or distribution fiber cable. Additionally, Bell shall establish three subaccounts for interoffice, feeder and distribution in each of the Aerial, Underground and Buried fiber cable accounts.

The subaccounts recommended by our Staff will provide us with part of the necessary information in the future for determining the cost effectiveness of Bell's actual investments in fiber and its related circuit equipment. The required subaccounts are necessary in any future reviews of prudence. Having the investment separated into interoffice, feeder and distribution will furnish more accurate and reliable data on which to base future decisions. Any further decision regarding the ratemaking treatment of the investment and expenses associated with fiber technology cannot be made at this time.

At a later date, we intend to revisit the matter of how Bell shall account for and report on its investment in fiber installations. Our Staff is hereby directed to prepare a recommendation on accounting and reporting requirements for our consideration. After further deliberation, we may revise the requirements imposed herein, to include changing or expanding them.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Southern Bell Telephone and Telegraph Company's currently-prescribed depreciation lives, salvage values, reserves, depreciation rates and recovery schedules are hereby revised. It is further

ORDERED that the depreciation lives, salvage values, reserves and depreciation rates shown on Attachment 1 to this Order are hereby prescribed for Southern Bell Telephone and Telegraph Company for the three-year period beginning January 1, 1990. It is further

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ORDERED that the recovery schedules shown on Attachment 2 to this Order are hereby prescribed for Southern Bell Telephone and Telegraph Company. It is further

ORDERED that a January 1, 1989 implementation date is hereby adopted for the recovery schedules shown on Attachment 2 to this Order relating to analog switchers which are projected as retiring in the 1989-1991 period. It is further

ORDERED that a January 1, 1990 implementation date is hereby adopted for the recovery schedules shown on Attachment 2 addressing 1992 analog switching retirements, 1990-1992 associated circuit equipment retirements and the 1992 retiring crossbar operator system. It is further

ORDERED that Southern Bell Telephone and Telegraph Company's plans for retirements and additions of certain central office equipment within the 1989-1992 period are hereby found to be prudent. It is further

ORDERED that Southern Bell Telephone and Telegraph Company shall implement the accounting requirements adopted in the body of this Order to become effective on January 1, 1991.

By ORDER of the Florida Public Service Commission  
this 29th day of JUNE, 1990.

STEVE TRIBBLE, Director  
Division of Records and Reporting

( S E A L )

DLC

by: Kay Flynn  
Chief, Bureau of Records

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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.

Any party adversely affected by the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or sewer 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 after the issuance 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.

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ATTACHMENT 1

## SOUTHERN BELL 1990 DEPRECIATION STUDY

| ACCOUNT             | COMMISSION APPROVED |                    |           |            |
|---------------------|---------------------|--------------------|-----------|------------|
|                     | REM. LIFE           | NET SALV           | EST. RES. | DEPR. RATE |
|                     | YRS.                | %                  | %         | %          |
| Motor Vehicles      | 3.5                 | 14.0               | 67.0      | 5.4        |
| Light               |                     |                    |           |            |
| Heavy               |                     |                    |           |            |
| New Purchase        |                     |                    |           |            |
| Pass. Cars/LI. Tks. | 7.0 (B)             | 20.0               | N/A       | 11.4       |
| Hvy. Trucks         | 10.0 (B)            | 15.0               | N/A       | 8.5        |
| Spcl. Purp. Veh.s   | 5.0                 | 0.0                | 67.2      | 6.5        |
| Garage Wk. Eqpt.    |                     | 7 yr. amortization |           |            |
| Other Wk. Eqpt.     |                     | 7 yr. amortization |           |            |
| Buildings           |                     |                    |           |            |
| ADM/DPC \           |                     |                    |           |            |
| Lge. COE >          | -                   | -                  | -         | 2.1 (A)    |
| Local COE /         |                     |                    |           |            |
| Miscell.            | 23.0                | 6.0                | 25.9      | 3.0        |
| Computers           |                     | 5 yr. amortization |           |            |
| Furniture           |                     |                    |           |            |
| Office Equipment    |                     |                    |           |            |
| Ofc. Support        |                     | 7 yr. amortization |           |            |
| Co. Communic.       |                     | 5 yr. amortization |           |            |
| Computers           |                     | 5 yr. amortization |           |            |
| Analog Elect. Sw.   | 6.6                 | 6.0                | 42.3      | 7.8        |
| Digital Switch      | 12.9                | 0.0                | 14.7      | 6.6        |
| Operator Syst.s     |                     |                    |           |            |
| ESS Analog          | 5.4                 | 0.0                | 38.7      | 11.4       |
| Digital             | 14.7                | 0.0                | 11.3      | 6.0        |
| Radio               |                     |                    |           |            |
| Non-cell.           | 3.5                 | (3)                | 78.1      | 7.1        |
| Other               | 10.0                | (3)                | 60.4      | 4.3        |
| Circuit             |                     |                    |           |            |
| Analog              | 6.9                 | 3.0                | 22.9      | 10.7       |
| Digital             | 5.0                 | 3.0                | 28.7      | 13.7       |
| Optic               | 10.0 (B)            | 0.0                | N/A       | 10.0       |
| Public Tel.         | 3.4                 | 20.0               | 56.9      | 6.8        |
| Info. Orig.         | 6.0                 | 9.0                | 39.0      | 8.7        |
| Poles               | 25.0                | (45)               | 30.2      | 4.6        |
| Aerial Cable        |                     |                    |           |            |
| Metallic            | 10.0                | (12)               | 31.3      | 8.1        |
| Fiber               | 20.0 (B)            | (5)                | N/A       | 5.3        |
| Underground Cable   |                     |                    |           |            |
| Metallic            | 9.7                 | (5)                | 34.8      | 7.2        |
| Fiber               | 16.7                | (5)                | 22.5      | 4.9        |
| Buried Cable        |                     |                    |           |            |
| Metallic            | 9.5                 | (5)                | 32.1      | 7.7        |
| Fiber               | 20.0 (B)            | 0.0                | N/A       | 5.0        |
| Submarine Cable     |                     |                    |           |            |
| Metallic            | 10.0                | (2)                | 46.3      | 5.6        |
| Fiber               | 20.0 (B)            | 0.0                | N/A       | 5.0        |
| IntraBldg. Cable    |                     |                    |           |            |
| Metallic            | 10.0                | (12)               | 36.8      | 7.5        |
| Fiber               | 20.0 (B)            | (5)                | N/A       | 5.3        |
| Aerial Wire         | 5.9                 | (20)               | 106.4     | 2.3        |
| Conduit             | 44.0                | (5)                | 19.1      | 2.0        |

(A) Composite Components And Rate  
(B) Whole Life

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ATTACHMENT 2

SOUTHERN BELL 1990 DEPRECIATION STUDY

| COMMISSION<br>APPROVED       |                     |
|------------------------------|---------------------|
| <u>RECOVERY SCHEDULES</u>    |                     |
| <u>IMPLEMENTATION 1/1/89</u> |                     |
| Analog Switch.               |                     |
| (1989 Ret.)                  | 1 YEAR AMORTIZATION |
| (1990 Ret.)                  | 2 YEAR AMORTIZATION |
| (1991 Ret.)                  | 3 YEAR AMORTIZATION |
| <u>IMPLEMENTATION 1/1/90</u> |                     |
| Analog Switch.               |                     |
| (1992 Ret.)                  | 3 YEAR AMORTIZATION |
| Analog Circuit Ret.          |                     |
| (1990 Ret.)                  | 1 YEAR AMORTIZATION |
| (1991 Ret.)                  | 2 YEAR AMORTIZATION |
| (1992 Ret.)                  | 3 YEAR AMORTIZATION |
| Digital Circuit Ret.         |                     |
| (1990 Ret.)                  | 1 YEAR AMORTIZATION |
| (1991 Ret.)                  | 2 YEAR AMORTIZATION |
| (1992 Ret.)                  | 3 YEAR AMORTIZATION |
| Crossbar Operator System     |                     |
| (1992 Ret.)                  | 3 YEAR AMORTIZATION |

The monthly expense for each recovery schedule shall be calculated by dividing the net amount to be recovered by the months remaining for recovery. This will take care of additions and interim retirements, as well as actual salvage experienced, and any shifts in retirement dates. All activity relating to these schedules shall be recorded to these schedules, and not to another depreciation category or account.