

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: 1992 Depreciation Study) DOCKET NO. 910725-TL
for UNITED TELEPHONE COMPANY OF) ORDER NO. PSC-92-0604-FOF-TL
FLORIDA.) ISSUED: 07/06/92
_____)

The following Commissioners participated in the disposition of this matter:

THOMAS M. BEARD, Chairman
SUSAN F. CLARK
J. TERRY DEASON
BETTY EASLEY
LUIS J. LAUREDO

Pursuant to Notice, a public hearing was held on April 13-14 1992, in Tallahassee, Florida.

APPEARANCES:

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FINAL ORDER ON DEPRECIATION STUDY

BY THE COMMISSION:

On June 27, 1991, United Telephone Company of Florida (United, or the Company) filed its 1991 Depreciation Study. The Study is United's triennial depreciation represcription filing which is required by Rule 25-4.0175, Florida Administrative Code. The Office of Public Counsel (OPC) and the Florida Cable Television Association (FCTA) intervened. On February 25, 1992, we issued Order No. 25800 setting forth the prehearing procedure. On March 11, 1992, the Prehearing Officer issued Order No. PSC-92-0049-PCO-TL which set forth issues for hearing. That Order was amended by Order No. PSC-92-0049A-PCO-TL on March 13, 1992. A hearing was held on April 13-14, 1992.

I. ADEQUACY OF CURRENT SCHEDULES

United filed its current study pursuant to Rule 25-4.0175. It is the Company's view that existing depreciation rates do not reflect the rapid change in technology being experienced in the telephone industry. The Company contends that it needs to change depreciation rates to reflect perceived changes in service lives and salvage characteristics, as well as to reflect changes in the Company's plans and future expectations since the last represcription.

OPC's recognition of the need for changes in depreciation is evinced by its filing of an alternative depreciation schedule. FCTA states that it has no position on this issue except as expressed in responses to other issues. Thus, with the possible exception of FCTA, all parties are in agreement that the currently prescribed depreciation rates and capital recovery schedules need to be revised.

In our view, the purpose of depreciation is to match depreciation expenses as closely as possible to the time period that the equipment is serving the public. Because the telephone industry is highly subject to technological changes, it is beneficial to review and revise the capital recovery position of a company as soon as practical. Thus, we find that a revision of the Company's depreciation rates and capital recovery schedules is appropriate at this time.

II. BASIS FOR ESTABLISHING DEPRECIATION RATES

All parties agree that depreciation rates should be established based on what is economically justified for telephone service. There is, however, disagreement as to the implications of this determination. These differences are evident throughout this case.

United argues that its network plans are economically justified for telephone service. The Company asserts that its network studies only project revenues from services that already exist and that its economic studies do not consider revenues associated with potential new future services. The Company concludes that its network plans are designed to build an economical network that is cost justified for today's services, yet is capable of economically and technically evolving to meet tomorrow's service needs.

OPC asserts that depreciation rates charged to regulated telephone customers should not be based upon speculation about unquantified and unknown possibilities of new services.

FCTA contends that as a matter of law and policy, the Commission is required to establish depreciation rates that are economically justified for basic telephone service and that to do otherwise would require monopoly services to subsidize competitive services.

Staff witness Lee relates depreciation to embedded assets as opposed to those which may be added subsequently. However, she notes that it is necessary to project the future expectancies so that an investment on the books today will be recovered over the period of time that the related equipment is in service. She asserts that failure to do this will result in unrecovered amounts (relating to investments that are no longer serving the public) remaining in the rate base.

Upon review, we find that depreciation rates shall be established based on what is economically justified for telephone service.

III. TIMETABLE FOR TRANSITION TO SONET TRANSMISSION EQUIPMENT

United argues that its timetable to achieve a complete transition from today's asynchronous transmission equipment to the new Synchronous Optical Network (SONET) transmission equipment, over the 1994-1998 period, is reasonable.

It is the Company's view that the initial deployment of high speed SONET fiber optic terminal equipment is driven by growth requirements in the interoffice network. United plans high speed SONET additions to its interoffice network. These additions will begin in late 1992, and will initially coexist with the Company's asynchronous terminal equipment. Based on current growth projections, United will have total SONET connectivity throughout its fiber optic interoffice network by year-end 1995. The SONET connectivity in the Company's fiber interoffice network, coupled with the continued deployment of SONET terminal equipment in the feeder segment of the network, will allow United to offer the advantages of SONET to customers on an end-to-end basis at or before year-end 1995.

The Company projects that the existing asynchronous fiber optic terminal equipment will begin to be replaced as four conditions develop:

1. Growth on fiber limited routes will result in the replacement of existing asynchronous terminal equipment with higher capacity SONET equipment to provide the required relief.
2. Customer demand for the performance monitoring and network management capabilities inherent in SONET will drive the migration in areas with high concentrations of business.
3. UTF provides leased facilities to interexchange carriers (IXCs) which are expected to be among the first customers to demand SONET transport facilities. The IXCs are currently leasing over 40 DS-3s in the asynchronous network. These leases are expected to migrate to SONET facilities between 1993 and 1995.
4. Beginning in 1993, the next generation Digital Loop Carriers (DLCs) are planned to be introduced by the major vendors. These DLCs are being developed to the BellCore TR-303 specification which utilizes the SONET transmission standard for connection to the host switching center. The introduction of these next generation DLCs will result in the introduction of new SONET facilities, as well as the replacement of existing asynchronous facilities.

United projects that the events described above will result in the complete replacement of asynchronous fiber optic transmission equipment by year-end 1998.

OPC took no position on this issue.

FCTA argues that United did not meet its burden of proof. Therefore, FCTA asserts that it is necessary for the Commission to establish a process for reviewing these replacements, after-the-fact, to determine if the Company's actions in this regard are prudent.

FCTA relies on portions of witnesses Reynolds, Brennan, Poucher, Gillett and Montgomery's testimony to argue that the Company's transition, from asynchronous to SONET in the 1994-1998 time frame, is not reasonable. However, FCTA's position appears to be derived from arguments regarding the replacement of copper cable with fiber cable in the distribution network by year 2010. The replacement of asynchronous terminal equipment with SONET terminal equipment is in the interoffice and feeder portion of United's network and FCTA's witness Gillett agreed that fiber to the feeder is economical for telephone service. Therefore, there is an apparent conflict between FCTA's position on this issue and the testimony of its own witness.

FCTA contends that the Commission should make a comprehensive "after-the-fact" review of United's future replacements to assure that current purchasers of monopoly services are not required to pay more than they would otherwise pay for basic telephone services. However, we find that FCTA has presented no evidence which warrants the Commission initiating an "after-the-fact" review. We find that an "after-the-fact" review would cause an undue burden on the Company, as well as the Commission, without providing any additional benefits to the depreciation process.

We have reviewed United's proposal to completely replace today's asynchronous equipment with new SONET equipment in the 1994-1998 time period. Although United has not done an economic study for this transition, with the exception of the final retirement date, we find that the Company's proposed retirements are appropriate. We reach this conclusion because: retirement of this equipment will provide the Company with the ability to interconnect different vendors' equipment due to the development of SONET standards worldwide; increased use of fiber in the telecommunications network may cause the production of asynchronous equipment to cease; United's initial customers will be large businesses and IXCs that will likely require the ability to manage their bandwidth needs, something that can be facilitated by SONET; residential customers will benefit indirectly since United will be able to mix various vendors' equipment in host-remote switching configurations; and added flexibility will mean more options for facility relief which should result in less costly solutions.

However, United's current underlying service life of six years is shorter than that of any other telephone company in the State. United acknowledges that should any of the conditions set forth in its argument be delayed, the transition of asynchronous equipment to SONET equipment also would be delayed. While we find the technical judgment of the Company to be appropriate, we are concerned about the uncertainty associated with the conditions which justify the Company's proposed time frame. The currently prescribed life and curve shape infer a complete migration by the year 2000. We find the year 2000 to be appropriate, given the uncertainty of the conditions relied upon by the Company in its analysis.

IV. MIGRATION FROM A METALLIC TO AN ALL FIBER NETWORK

United argues that it has already converted the majority of its interoffice network to fiber facilities and that the projection that its interoffice network will be essentially 100% fiber by the end of 1995 is all but certain, given the extent of the ongoing conversion and the fact that fiber is already established as the most cost-effective solution.

The Company asserts that the former copper-based feeder facilities linking the host switching centers with the digital remote and loop carrier systems will continue to transition to fiber. The deployment of fiber in the feeder portion of the network will accelerate due to the combined impacts of the economies of fiber versus copper, the demands for higher bandwidth services, and the continued economic distribution of the switching network. United projects that the former copper-based feeder segment of the network will be essentially 100% converted to fiber by the end of the year 2000. The Company asserts that its projection is realistic and highly probable because feeder relief is most economically provided by utilizing remote digital switching and digital loop carrier systems.

In 1989, United began to deploy fiber in the distribution portion of the network to meet the bandwidth service demands of its larger business customers. The Company projects that fiber will become cost-effective for new distribution plant in residential developments for narrow band "plain old telephone service" (POTS) in the 1993-1994 time frame. The Company anticipates that deployment of fiber in the distribution plant will not be delayed more than one or two years beyond 1994.

United contends that demand for higher bandwidth services will be the catalyst for the retrofit of existing copper-based

distribution facilities. It projects that this retrofit will begin in 1996 and, due to market demands, be completed over a 15-year period ending in 2010. If, as discussed above, fiber for new distribution plant were delayed for a year or two, the retrofit of existing copper-based distribution facilities would begin a year or two later than the Company's projections. However, the Company maintains that 1996 is the most realistic date to utilize for planning purposes.

United compares this transition with its migration to digital switches which, based upon current plans, will require 15 years to complete. The Company concludes that its 15-year interval projection, which results in a complete fiber network by 2010, is reasonable.

OPC argues that United advocates a vision to replace 100% of its existing copper network with fiber optic cable to every mobile home, every farm, every house it serves by the year 2010. OPC asserts that United's vision is predicated in large part on an assumption that the Company will begin to replace existing copper distribution facilities with fiber optic facilities in 1996. And this assumption, in turn, is grounded on an assumption that unknown new services will prove-in the economics of abandoning its existing copper distribution plant in favor of new fiber optic facilities beginning in 1996.

OPC asserts that 2010 is not a reasonable estimate. However, OPC does not offer support for a more appropriate date. OPC asserts that United is simply speculating that increased revenues from broadband services will be sufficient to pay for the accelerated fiber optic deployment. OPC points out that such speculation is based on anecdotal evidence from interviews with government officials and telephone customers. It is OPC's view that United's 2010 date and our staff's 2012 date were extrapolated from data developed for fiber in the interoffice and feeder routes. OPC accepts United's estimates for interoffice and feeder plant, but disagrees that this will carry-over to the distribution segment of the network.

FCTA also fails to offer support for a specific date. FCTA echoes the OPC's view that United's vision is merely speculation which lacks necessary cost support. FCTA presented testimony that it is not opposed to fiber to the home but that fiber should go to exactly the point at which it is economically justified. FCTA argues that United has not met its burden of proof on this issue. Therefore, FCTA asserts that it is necessary for the Commission to establish a process for reviewing these replacements, after-the-

fact, to determine if the Company's actions in this regard are prudent.

Staff witness Lee favors a 2012 date for replacement of the existing copper distribution plant with either fiber or more copper. She testified that a 2012 date is appropriate for United, which is an aggressive Company in a high-tech area. Ms. Lee agrees with OPC and FCTA that the Company should do whatever is economical at the time of substitution. Regarding technological obsolescence, she draws an analogy to the past when manual cord boards were replaced by electromechanical switching and later by digital switching. Ms. Lee points out that, at that time, there was nothing wrong with the equipment being replaced; the replacement decisions were based on quality of service and additional services which were offered when economical.

Throughout this case, concern has been expressed regarding the Company's failure to produce economic studies in support of its long range projections. On the other hand, there is also testimony which indicates that such studies are not practical, or meaningful, at this time. We find that whenever a projection is made, it may be the subject of debate no matter what time frame is contemplated. United projects that its distribution network will be completely retrofitted with fiber optics by the year 2010. This forecast was not based on cost analysis, but rather, on a belief that demand for higher bandwidth services will be the catalyst for the retrofit. The Company predicts that this retrofit will begin in 1996. The Company asserts that revenues from new broadband services will make the replacement of existing copper in the distribution plant affordable. It is United's position that, when it begins to replace existing copper facilities, the decision will be supported by a business case which identifies real services with real revenues.

Staff witness Lee, OPC and FCTA agree that United's position is based on projections. However, we find that the positions of all of the parties on this issue are based on projections. While forecasting United's network for the year 2010 involves speculation, we cannot ignore the on-going evolution of the telecommunications industry. As discussed later in this Order, United is migrating to an all fiber network as it becomes economical to do so. We find that 2012 is an appropriate date for the migration from a metallic to an all fiber network for United. This is consistent with projected dates of other utilities in Florida and supports the trend from copper to fiber.

V. RETIREMENT OF CERTAIN SWITCHES

United has proposed to replace nine Northern Telecom DMS NT40 processors in 1992, one Rockwell E911 Tandem Switch in 1993, three Alcatel 1210s and four Alcatel subtending remotes in 1993, and four Alcatel 1210s and 8 Alcatel subtending remotes in 1994.

The Company argues that the nine Northern Telecom DMS NT40 processors exhaust their data memory capacity of 15.75 megawords with either the BCS31 or BCS32 software release, depending on the demand in each individual office. In order to upgrade the DMS-100 beyond BCS32, it is necessary to upgrade the NT40 processor with a SuperNode series processor. Current plans call for the upgrade of all DMS-100 switching systems to BCS33 or higher by year-end 1992. Therefore, it is necessary to replace the NT40 processors with SuperNode series processors in order to accommodate these software upgrades.

The 7 digital Alcatel switches being retired in 1993 and 12 digital Alcatel switches being retired in 1994 include the host and the subtending remotes. The Company asserts that these replacements are necessary due to one or more of the following situations: processor exhaust, floor space exhaust, or feeder route relief requirements. United notes that an economic analysis is, or will be, performed for each office to determine the most prudent method and timing of the replacement.

The Rockwell SCX E911 Tandem switch, located in Fort Myers, is a one-of-a-kind switch in the UTF network. The Company argues that there have been severe problems with similar switches. By retiring the Rockwell SCX and replacing it with new E911 software which will be installed in the existing DMS-100 switches at Fort Myers and Leesburg, United plans to eliminate ongoing investments in a one-of-a-kind switch, provide service that will be superior to that which is available from the Rockwell SCX, and provide a more survivable E911 network by eliminating the single point of failure at Fort Myers.

OPC asserts that in the past United forecasted that its 1210 switches would be fully retired by 1992 in contrast to the Company's current view which is for retirement by 1999. OPC notes that the vendor of this equipment continues to add to and extend the support of the equipment in ways which United concedes it did not anticipate. OPC argues that the Commission should deny United's request and approve Special Recovery amortization expenses of \$2,783,000 by reducing the United request by 50% of the amount requested. In addition, OPC contends that, in order to adjust for United's past failures to adequately forecast Company plans for

retirements, the proposed life for the remaining investment in Account 2212, Digital, Embedded-Other, should be extended by one year.

FCTA asserts that United has not met its burden of proof and that the Commission should establish a process for reviewing these replacements, after-the-fact, to determine if the Company's actions in this regard are prudent. FCTA contends that a review of Company CUCRIT studies indicates that the Company does not always implement the least cost option studied. Additionally, FCTA argues that at least one assumption used by the Company in doing the studies is invalid.

We address the specific retirements as follows:

Northern Telecom DMS NT40 Processors

We have reviewed the process used by United to forecast when the processor capacity is near exhaust and find the Company's proposed retirement dates for the 9 Northern Telecom NT40 processors are appropriate.

Rockwell E911 Tandem Switch

We find that E911 service is critical for public safety. Currently, the Company has a single switch which handles all of its E911 traffic. A major outage could cause severe damage and hardship to United's customers. The new E911 software which has been developed by Northern Telecom (NTI) will allow United to provide a redundant network. For the Leesburg switch, United has shown that the savings associated with the deployment of an E911 switch in the northern section of the Company far outweigh the costs.

We were more concerned with the retirement of the Rockwell SCX switch in Ft. Myers. However, because the switch is one-of-a-kind and has experienced problems in the past, we find that United's customers would be better served with the NTI E911 service. We recognize that the NTI E911 service scenario costs approximately \$139,000 more than the Rockwell SCX, but there will be at least \$24,000 annual maintenance savings associated with retiring the Rockwell switch.

Thus, we find that United's plan to retire the Rockwell E911 Tandem switch in Ft. Myers and to add the NTI E911 software in Leesburg and Ft. Myers is appropriate.

1210 Switches

United proposes to change out 3 Alcatel 1210s and 4 Alcatel subtending remotes in 1993, and 4 Alcatel 1210s and 8 Alcatel subtending remotes in 1994. United notes that when a host switch is changed out, it is also necessary to change out the subtending remotes. The Company asserts that before a 1210 is changed out, the switch is the subject of a CUCRIT analysis. The CUCRIT analysis program is a cash flow and financial analysis model designed to measure the economic impact of a proposed project, or the incremental differences between a set of mutually exclusive alternatives developed to meet the objectives of a specific project. These studies are typically done two years before the replacement of the specific equipment identified in the project. In addition to the CUCRIT studies, United utilizes a program called CITRUS. The CITRUS program is used as a modeling tool to determine optimal timing in establishing nodes within a wire center. Employing CITRUS, the Company looks at the integrated planning of outside plant, switching, and facilities to determine which network configurations should be reviewed further. The planning engineer coordinating the wire center study has the ability in the CITRUS program to manipulate the timing of when equipment will be added or changed out. Once a specific configuration is loaded into the CITRUS program, the program sums all of the costs and runs it through a cash flow analysis that is similar to CUCRIT, but not to the depth that the CUCRIT entails. The planning engineer may make hundreds of CITRUS runs before settling on a few alternatives. The alternatives that are determined to be the most economical are then loaded into the CUCRIT program which runs a more detailed analysis for the alternatives chosen by the planning engineer.

FCTA asserts that United's CUCRIT analysis is flawed due to the "negative income tax" illustrated in the Cape Haze Integrated Plan. Because it involves the replacement of an analog switch, the Cape Haze office is considered elsewhere in this Order; however, we will address FCTA's concern regarding the validity of the CUCRIT study. This matter was extensively discussed on the record. The Company asserts that if the expenses exceed revenues, then there is a loss (or negative cash flow) and because of that loss, the CUCRIT study reflects a "negative income tax". CUCRIT analysis does not consider revenues that are common in all alternatives evaluated in the CUCRIT study. We find that the "negative income tax" is appropriate in the CUCRIT study since the common revenues for all alternatives are excluded from the CUCRIT study and no alternative was advantaged or disadvantaged by this approach.

OPC argues that the Commission should extend by one year the proposed life for the remaining investment due to United's past

failures to adequately forecast Company plans for the 1210 retirements. This adjustment is intended to provide an incentive for the Company to avoid such problems in the future. However, we find that the Company has made a reasonable effort to adjust its depreciation schedules based on what it believed to be true. Support for the Alcatel product line has been unsure for the past 7-8 years and we find that it would be inappropriate to penalize the Company across-the-board for failure to project the future life of a continually changing switch technology.

Evidence indicates that Alcatel will phase out the 1210 product over the next decade. Thus, we find that the 1999 phase out date of the 1210 product line is appropriate at this time.

There are two categories of 1210 switches to examine --- those with cost support and those without. We find that the Company has provided sufficient support, both economically and technically, for the Sebring and Windermere switches through the use of the demand and facility charts, Office Replacement Schedule information, and its CUCRIT studies. OPC has argued that United should always use carefully crafted fundamental economic studies to support both actual capital spending and estimates of the associated depreciation retirements that will result from these studies. We agree with that analysis, except where there are severe problems associated with a particular switch.

FCTA has argued that United has not met its burden of proof. However, we find that the demand and facility charts, the Office Replacement Schedule, and the CUCRIT studies provide sufficient support for the replacement of the two offices discussed above. Since no party has addressed the retirement of a specific 1210 switch and the Company has supported generally the retirement of these switches, we find that the retirement dates for these switches are appropriate.

The second category includes those 1210 switches for which the Company did not develop a CUCRIT study to provide economic support for the proposed replacement. There are five switches in this category: Bonita Springs, Buenaventura Lakes, Lady Lake, Punta Gorda, and Suncoast. While we find cost support to be one of the most important pieces of information to be considered, we also acknowledge that there could be technical reasons which would justify a switch replacement. As United points out, all of the 1210 replacements are due to processor exhaust, floor space exhaust, or route relief requirements. However, we find that of those three circumstances, the only one which warrants replacement of a switch without the support of a CUCRIT study is processor exhaust. This is because processor exhaust is the only

circumstance which would endanger the entire office with the potential for failure. The Company uses a processor utilization of 70% to justify the claim of processor exhaust. We find 70% to be inappropriate based upon the information in the record. The processor charts show that no projected processor occupancy reaches 85% until 1997. We acknowledge that this is higher than the Company's desired occupancy rate but find that it should create no problems for the Company prior to 1997.

Upon an examination of the record, we agree with FCTA that the Company has not supported the retirements for the Bonita Springs, Buenaventura Lakes, Lady Lake, Punta Gorda, and Suncoast offices. Therefore, a retirement date of 1997 shall be used for these switches. We acknowledge that not allowing these replacements may require the Company to make some additions to accommodate route relief requirements and, in some cases, necessitate a building addition. However, we find that the cost of a building addition should not drive a \$2 or \$3 million switch replacement decision.

VI. ELECTROMECHANICAL SWITCHES AND ASSOCIATED ANALOG CIRCUITS

United proposes to retire 13 analog switches and the circuit equipment associated with those switch retirements. The Company argues that retirement of its remaining electromechanical switches and associated analog circuit equipment in 1992 and 1993 is prudent. Economic studies have been completed for all of these offices, and the Company asserts that in all cases it is more economical to replace the existing switch with new flexible digital technology than to extend the life of the obsolete electromechanical switch. OPC took no position on this matter. FCTA asserted that United has not met its burden of proof and that the Commission should establish a process for reviewing these replacements, after-the-fact, to determine if the Company's actions in this regard are prudent.

FCTA asserts that United did not choose the least cost alternative in the Company's proposed plan for Cape Haze, and thereby, demonstrated that economics was not the primary driver in the selection of the plan. FCTA further asserts that the strategic goal of deploying fiber in the network was United's impetus for its selection in the Cape Haze study. Although it may appear from a cursory review of the Cape Haze study that FCTA is correct in its assessment, we find United ultimately did select the least cost alternative for Cape Haze. Moreover, the selection of this alternative actually slowed United's deployment of fiber in its network.

FCTA contends that United evaluated only the alternatives which were provided in the CUCRIT study for the Trillacoochee office, and therefore, did not determine whether the timing of the replacement of the switch at a later date would be more cost effective than the date chosen. Even though the Company did not evaluate a different date for the replacement of the Trillacoochee switch, we find that the change out of this switch is justified by the cost support provided, the need for a line addition in Trillacoochee in 1994, and the potential services that are available with a digital switch.

In this and several other issues, FCTA has argued that this Commission should impose an after-the-fact review to determine the prudence of United's retirements. We find such a review is already needlessly burdensome and unnecessary because periodic review is required by Rule 25-4.0175 which requires the Company to file a comprehensive depreciation study every three years. FCTA's concern regarding the "negative income tax" element of CUCRIT studies was addressed previously in this Order.

We find that the Company has provided sufficient cost and technical support for its proposed retirements in this category.

VII. OPERATOR SYSTEMS

United argues that retirement of its remaining operator systems by year-end 1994 is prudent. United's proposal is based on an anticipated 1994 replacement of the existing systems. The existing TOPS-4 Toll and Assist (T&A) positions have been discontinued by the manufacturer, and the existing Directory Assistance (DA) system will not support new revenue producing services such as DA call completion. A re-evaluation of T&A and DA services is planned and, while no replacements will be authorized until the analysis is complete, United believes that a network based solution utilizing the latest equipment will enable the Company to take advantage of operator expense reductions, survivability options, and increased revenue opportunities.

OPC took no position on this issue. FCTA reiterates its position that United has not met its burden of proof and that, therefore, it is necessary for the Commission to establish a process for reviewing these replacements, after-the-fact, to determine if the Company's actions in this regard are prudent.

Upon review, we find that United's proposal to retire its remaining operator systems by year-end 1994 is prudent for the reasons asserted by the Company.

VIII. MICROWAVE RADIO ROUTES AND ASSOCIATED TOWERS

The Company argues that retirement of the microwave radio routes and associated towers in the 1992-1996 time period is prudent based upon the anticipated economic replacement of the routes. The Company notes that growth in bandwidth requirements and an increase in the number of customers and their calling patterns are factors which necessitate retirement of the radio routes. Individual engineering economic studies have been or will be developed for each route. United anticipates that these studies will demonstrate that the replacement of the routes is the most economic and prudent solution.

OPC argues that the study supporting this retirement compared the economics of constructing interoffice lines using new digital radio systems to constructing new fiber optic systems. OPC contends that the study provided no basis to justify the replacement of already existing radio equipment and towers. OPC concludes that the remaining special recovery amount for the digital radio systems and their towers should be disallowed.

FCTA reiterates its argument that United has not met its burden of proof and that this Commission should establish a process for reviewing these replacements, after-the-fact, to determine if the Company's actions in this regard are prudent.

United proposes to retire 16 digital microwave radio routes and their associated towers. For purposes of analysis, we believe it is appropriate to divide these routes into the following categories: radio routes for which UTF provided cost support; radio routes for which UTF has studies that are not in the record; and radio routes for which UTF did not provide cost support.

Radio Routes for Which UTF Provided Cost Support

No party contests the retirement dates of a facility if there is sufficient cost support for the retirement. We have previously discussed the validity of CUCRIT studies and do not revisit the issue here since no new points have been raised. We have reviewed the CUCRIT studies developed for the Bushnell, Inverness, Ocala, and Salt Springs radio routes and find that the retirement dates of these routes with fiber are appropriate.

Two radio route studies indicate that it is more economical to retain the radio routes than to add fiber: Kenansville - St. Cloud and Kissimmee - St. Cloud. The Kissimmee study had a net present

value (NPV) difference of 20% and the Kenansville study had a NPV of 4.8% in favor of increasing the capacity of the radio route. However, upon review of the evidence concerning these two routes, we find the investment in fiber to be prudent. In each case, we find that the increase in capacity and the need for a more flexible network warrants the investment.

Thus, we find that United has presented sufficient evidence to support the retirement dates for each of the radio routes and associated towers discussed above.

Radio Routes For Which UTF Has Studies That
Are Not in the Record

United made a study of three radio routes but failed to put the results in the record, except for the date of completion of the study. The Company was given the opportunity to provide a late filed exhibit to include the missing information and failed to provide it.

FCTA argues that the Company has not met its burden. We agree and find that the Company has not justified the retirement dates associated with these radio routes. Thus, we shall maintain the existing average service life projections for the Fort Myers, Leesburg, and Dade City radio routes and associated towers.

Radio Routes For Which UTF Did Not Provide Cost Support

FCTA argues that United has not met its burden. We agree, and find that United has failed to present sufficient evidence to support the replacement of these digital radio routes with fiber optic cable. Therefore, the Company shall maintain the existing average service life projections for the Altamonte Springs, Orange City, Cape Coral, Fort Myers Beach, Sanibel Island, Boca Grande, and Pine Island radio routes and associated towers.

IX. DIGITAL CIRCUIT EQUIPMENT

The Company argues that retirement of \$38.6 million of digital circuit equipment during the period 1992-1994 is prudent. The Company's proposed retirements for this time period are as follows:

1. Retirements of Timespan 128 and Alcatel T-324S digital loop carrier equipment which are limited in capacity, are discontinued by the manufacturer and experiencing high maintenance problems will be replaced with new

higher capacity DLC systems. Total retirements for the 1992-1994 time period are \$1.9 million.

2. Retirement of channel banks associated with the analog switch replacement program total \$1.4 million for the 1992-1994 time period.
3. Retirement of copper based T-Carrier facilities is required as a result of the cost effective migration to fiber optic facilities in the interoffice and feeder network. Also included is the retirement of channel banks that do not support digital data services. Total retirements for the 1992-1994 time period are \$19.3 million.
4. Retirement of the Central Office Terminals associated with double-ended DLC systems as a result of the economies associated with the direct integration of the digital loop carrier system into the central office total \$16.0 million for the 1992-1994 time period. million.

OPC did not take a position on this issue. FCTA reiterates its argument that United failed to meet its burden of proof and that the Commission should establish a process for reviewing these replacements, after-the-fact, to determine if the Company's actions in this regard are prudent.

We find that this is a "fall out" issue from other issues in this case and that United has provided sufficient support for the associated retirements. We note that United should adjust the \$38.6 million to take into account our decisions in other sections of this Order regarding radio routes, towers, and switches. However, the detailed data required to separate digital circuit investments associated with those facilities is not available. Therefore, the entire \$38.6 million shall be included on a recovery schedule.

X. METALLIC CABLE RETIREMENTS

United argues that its budgeted metallic cable retirements of \$69,709,000 for the 1992-1995 time period are prudent. The Company describes its projected retirements of aerial, underground, and buried copper cable facilities for the period as follows:

Replacement Activity

Replacement of plant located on public right-of-ways required as the result of highway and street projects.

Replacement of plant due to normal deterioration or damage as a result of cable cuts or "dig-ins".

The retirement dollars for these activities are based on approved or announced highway work and identified deteriorated or damaged plant which has caused service affecting trouble.

Retirements of Copper Interoffice and Feeder Cables

Fiber is already the economic facility of choice for all new interoffice routes. As fiber is deployed in the interoffice due to growth requirements, all or portions of the replaced interoffice copper cable will become 100% stranded and retired.

In the feeder segment of the network, the continued deployment of DLC to provide economic feeder relief is resulting in the stranding of copper feeder plant. Additionally, the use of fiber in the feeder is proving to be the most economic solution versus copper. The combined use of DLC and fiber feeder is resulting in all or portions of the replaced feeder copper cable becoming 100% stranded and retired.

Retirements of Aerial and Buried Drop Wire

Because Drop Wire is not considered a retirement unit, retirements from these accounts are based upon their relationship to retirements in the buried and aerial copper cable accounts.

The Company presented testimony that "it is essential to allow corresponding depreciation rates so that capital invested in [metallic facilities] will be fully recovered as these facilities are replaced. If that does not happen, tomorrow's customers will be paying for something that today's customers should have paid for, along with paying for the fiber facilities that will then be in place." United asserts that the potential for reuse of the stranded interoffice and feeder copper facilities in the distribution network only comes from growth in new areas where facilities do not already exist and that reuse will diminish as fiber to the curb for POTS becomes cost effective. It is United's position that only about 5-10% of the stranded copper facilities have the potential to be reused.

OPC argues against United's position that the effect of "stranding" should be recognized when fiber optic technology replaces metallic cable. "Stranding," according to Company witness Brennan, occurs before the plant is actually retired. OPC asserts that this position is flawed for two reasons. First, much of the stranded plant analysis is based on United's speculative view about the economics of fiber. Second, Company documents demonstrate the judgment of United's plant engineers that placing fiber in certain segments of the network, particularly interoffice and feeder facilities, frees up plant that can be used for customer distribution links and special services.

FCTA reiterates its argument that United has not met its burden of proof and that the Commission should establish a process for reviewing these replacements, after-the-fact, to determine if the Company's actions in this regard are prudent.

We find that there is very little opportunity to reuse copper facilities from the interoffice and feeder segments as distribution facilities. We note that cable is not fungible plant which can be moved to another location. We find that the Company's migration from copper to fiber facilities in the interoffice and feeder networks is being driven by both economics and technical obsolescence. Based on the overall network plan, we find that United's cable deployment is both logical and economically justified as set forth below. Thus, we approve the proposed \$69,709,000 in metallic cable retirements.

XI. NETWORK PLAN JUSTIFIED FOR TELEPHONE SERVICE

United asserts that it has demonstrated that its network plan is economically justified for telephone service and that all individual elements of the overall network plan are justified through the use of sound engineering economic studies or business cases, or both.

OPC contends that United advocates a vision that it will replace 100% of its existing copper network with fiber optic cable to every mobile home, every farm, every house it serves by the year 2010. Its vision is predicated in large part on an assumption that it will begin to replace existing copper distribution facilities with fiber optic facilities in 1996. And this assumption, in turn, is grounded on an assumption that unknown new services will prove in the economics of abandoning its existing copper distribution plant in favor of new fiber optic facilities beginning in 1996.

FCTA reiterates its argument that United has not met its burden of proof and that the Commission should establish a process for reviewing replacements, after-the-fact, to determine if the Company's actions are prudent.

This issue is closely related to the question of whether depreciation rates should be established based on what is economically justified for telephone service. The intervenors strongly advocate the need for economic studies proving-in the projected network. However, staff witness Lee asserts that projections of the future must be taken into account and that this Company's projections are compatible with those of other companies in Florida. As OPC witness Montgomery said: "I think it's very unlikely that anybody in this room can actually tell us what's going to happen in the second decade of the 21st century."

We have reviewed the Company's overall network plan for this depreciation represcription period along with its internal process for evaluating various engineering alternatives for network solutions and design. The Company performs an engineering study for every major network addition or replacement. We have reviewed numerous United studies and have found them to be adequate justification for the Company's near term retirements. Regarding digital switching, microwave radio, and circuit equipment, we have questioned certain retirement dates.

When determining if a part of its network is to be replaced or upgraded, United will first experience some type of triggering event. For example, a central office may be approaching capacity exhaust or have a need for a very costly addition. This would suggest to the Company that it should begin to study alternatives to its present mode of operation. The study process consists of identifying the triggers and then utilizing the Company's CITRUS program to filter through many network scenarios in order to choose the most viable options to be considered as inputs into CUCRIT---the Company's engineering economic analysis tool. Using CUCRIT, the Company then analyzes the options and provides the Company's engineers with a comparison of net present values to be used in his or her final recommendation.

United's network planning process was scrutinized by FCTA at the hearing. For example, when reviewing the Cape Haze Integrated Plan, FCTA noted that United did not choose, in its recommendation, the least cost alternative that was examined using CUCRIT. FCTA questioned Company witness Brennan about this recommendation and he responded that the Company has a policy that any time the CUCRIT analysis is within 5% of an alternative, firm price quotes must be obtained and utilized in the final decision. Witness Brennan was

also questioned as to United's application of the CUCRIT program when he was asked about a "negative income tax" number. FCTA's concern was that this was not a valid assumption and that it constituted a negative rate of return. Mr. Brennan pointed out that the number in question was a net of the expenses, revenues and carrying charges and that the negative sign was a cash flow designation that was used in the CUCRIT cash flow analysis section of the program.

OPC's Witness Montgomery testifies that where United does utilize CUCRIT studies, the Company does a relatively good job, performing the study in the same way that a competitive firm would do a capital analysis. He points out that if we try to dictate how CUCRIT studies are to be done we will create an inappropriately inflexible process. Mr. Montgomery asserts that these studies should be periodically audited. However, we find that the review which takes place every 3 years in the depreciation process is sufficient.

The Company proposes to move to an all digital central office environment and to continue its migration from copper to fiber facilities and eventually evolve into a fiber-to-the-curb network. United has stated that this type of evolution is a logical extension of its network. Although FCTA commented on United's network plan, FCTA appears to be making a case against fiber-to-the-home (rather than to-the-curb). OPC recognizes that United is planning a fiber-to-the-curb network and asserts that there is no current financial or market analysis for support. OPC asserts that in order to introduce new technology it should be proven-in with lower maintenance costs, better equipment, and more revenues produced from alternative services.

We have reviewed the Company's overall network plan for this depreciation rescription period along with its internal process for evaluating various engineering alternatives for network solutions and design. With the exception of specific retirement dates which we have questioned in this Order, we find that United has demonstrated that its network plan is economically justified for telephone service. While we agree with United's overall network plan, we also agree with OPC that new technology should be economically justified. We find that United's network evolution plan, when cost justified, should only include revenues for services that exist at that point in time.

We reject FCTA's argument that we should conduct an after-the-fact review of the Company's replacements. We find that such a procedure would create a burden on this Commission, and on the Company while providing no benefit to the depreciation process.

This issue has been raised by FCTA regarding numerous issues in this case and our rationale for rejecting it in this context applies equally to each instance where it has been asserted.

XII. RESERVE ALLOCATIONS

United asserts that reserve adjustments are necessary for the hearing impaired, radio-mobile, and aerial wire accounts. Staff Witness Lee proposes reserve allocations to handle the residual reserve for mobile radio equipment and the surplus for aerial wire. Ms. Lee also asserts that it is necessary to correct the negative reserves for the Hearing Impaired account and Aerial Cable-Fiber by bringing the reserve for the Hearing Impaired account to its theoretical amount and bringing the reserve for Aerial Cable-Fiber to zero. She would have us apply the remaining surplus to the unrecovered investment for the 1992 electromechanical retirements. Her proposal for Radio Other includes the use of the residual reserve surplus to offset the unrecovered portions of the near term retirements for 1992-1994. OPC agrees that account reserve adjustments should be made. FCTA takes no position, except as otherwise expressed in responses to other issues. Upon review, we find that it is appropriate to make reserve adjustments.

Staff witness Lee asserts that the residual reserve surplus of \$138,263 from the recovery schedule established in the last study for Radio Other associated with the 1989-1991 retirements should be applied to the near term retirements as follows: \$82,199 applied to 1992 retirements and the remaining \$56,064 applied to 1994 retirements. She further asserts that the reserve surplus of \$20,728 associated with the 1993 retirements should be used to reduce the 1994 unrecovered amount. Staff witness Lee notes that there are negative reserves for the Hearing Impaired and Aerial Cable-Fiber accounts, along with a residual surplus for Radio-Mobile resulting from the sale of this equipment; the Aerial Wire account also contains a surplus that needs to be addressed. Based on its Brief, United is in substantial agreement with witness Lee's position. OPC's position regarding the specific accounts is set forth in its position in Exhibit 51. Upon review, we find that the appropriate treatment for these deficits and surpluses shall be those set forth at Attachment 1 to this Order.

In Docket Nos. 890486-TL and 891239-TL, we ordered United to record \$30,056,733 of depreciation expense to an unclassified intrastate depreciation reserve account. We further ordered that this money be made account specific at the next depreciation study review. United asserts that this intrastate reserve should be made account specific in this Docket, and proposes that the \$30 million

be applied against the capital recovery schedules identified in the 1991 Depreciation Study Update, dated November, 1991. The Company asserts that these dollars should apply to the capital recovery schedules over a five year period and that the fairest way to amortize the \$30 million would be in direct proportion to recovery schedule recognition. OPC agrees that reserve allocations should be made. OPC's witness Montgomery testified that the only difference between OPC's position and that of staff witness Lee is the amount to be recovered on the recovery schedules. However, we find OPC's position to be unclear regarding what allocations should be made and to which accounts. FCTA has taken no position on this issue. Staff witness Lee asserts that the \$30 million should be used to offset the intrastate portion of the capital recovery schedules for 1992 and 1993.

Upon review, we find that the \$30 million intrastate monies shall be applied as a credit to the intrastate depreciation expenses associated with the capital recovery schedules approved below in this Order under the heading "XIV. RECOVERY SCHEDULES." We find that it is appropriate to prorate the retirements to allocate the intrastate expense portion of the \$30 million as shown on Attachment 2 of this Order.

XIII. LIFE, SALVAGE, AND RESERVE COMPONENTS AND RESULTANT DEPRECIATION RATES

Company witness McRae testified that the results of United's depreciation study indicate a need to significantly increase the annual level of depreciation expense to reflect changes in service lives and salvage characteristics, as well as changes in the Company's plans and future expectations since its last depreciation rescription. United asserts that the appropriate life, salvage, and reserve components and resultant depreciation rates are those proposed in United's 1991 Depreciation Study Update, as revised in Company witness Harris' rebuttal testimony.

OPC advocates an alternative depreciation schedule. FCTA did not present a witness to specifically address its proposed life, salvage, and reserve components and resultant rates. However, FCTA agrees with OPC's position, with the exception of Buried Cable Metallic. FCTA asserts that the Commission should place this account on a 20 year amortization schedule (1992-2012) and establish a new average life of about 20 years for new investments.

There is agreement among the parties that there is a need to revise currently prescribed depreciation rates and recovery schedules. However, there is disagreement regarding the

appropriate resulting rates and schedules. Staff witness Lee asserts that an increase in recovery schedule expenses of \$22.9 million is appropriate, while the depreciation rates should be a decrease of \$11 million. This would result in an increase in expenses of approximately \$11.9 million. United witness Harris asserts in rebuttal testimony that an overall increase of around \$44.1 million (which is an increase in depreciation rate expense of \$28.9, and recovery schedule expense of \$15.2) is appropriate. OPC contends that an overall increase of approximately \$16.2 million (\$4.1 million from depreciation rates and \$12.0 million from the recovery schedules) is appropriate. FCTA argues that a decrease of approximately \$6.4 million (which reflects a decrease from depreciation rates of \$18.1 million and an increase in recovery schedules of \$11.7 million) is proper. We find that the Company's plans and activity indicate a need to revise currently prescribed depreciation rates and recovery schedules.

A review of specific accounts which involve significant differences among the parties follows:

Central Office Equipment

Digital Switching (New and Embedded) - Staff witness Lee's position is that this category should include switchers which will be added in the future. She proposes that new assets will have a whole life rate and that embedded switchers will have a remaining life rate. The difference between the Company's proposal and witness Lee's testimony regarding remaining life for Embedded is due to Ms. Lee's use of interim retirement rates within the range of industry averages in Florida. We agree with witness Lee.

Operator Systems - The intervenors advocate a depreciation rate, while staff witness Lee asserts that a recovery schedule is the correct approach. The Company has agreed with witness Lee that it is appropriate to provide a rate for future additions. We find the recovery schedule advocated by witness Lee to be appropriate. This is set forth at Attachment 3 of this Order. Regarding the rate for future additions, we find the position of the Company and witness Lee to be persuasive.

Digital Circuit - The Company and intervenors propose a depreciation rate. Staff witness Lee's testimony is that planned near term retirements should be withdrawn and placed on a recovery schedule. Witness Lee's position would result in a longer remaining life for those assets assigned a depreciation rate. We find witness Lee's position to be appropriate.

Optic Circuit - The intervenors and staff witness Lee assert that it is appropriate to retain the average service life underlying the presently prescribed rates. We agree.

Circuit Tools and Test Equipment - The life of this account is simply a composite of the lives of the equipment it serves.

Outside Plant

Poles - Witness Lee asserts a remaining life rate derived from the average service underlying current rates. The Company and the intervenors project a faster retirement pattern. We do not find accelerated retirements to be appropriate. We find Ms. Lee's argument to be persuasive.

Aerial Cable (Metallic) - United asserts that a remaining life rate is appropriate for the entire category. Staff witness Lee contends that the near term retirements should be placed on a recovery schedule with a remaining life rate applied to the embedded investment. Witness Lee's calculated remaining life rate is based on an end point of 2012. This is consistent with recent projections from other companies in Florida that the embedded copper distribution cables will retire in the decade of the 2010's. We find witness Lee's testimony to be persuasive. This determination is consistent with our decision which is set forth in this Order under the heading "IV. MIGRATION FROM A METALLIC TO AN ALL FIBER NETWORK."

Aerial Cable (Fiber) - The intervenors assert that a remaining life rate is appropriate for this account. United and staff witness Lee argue that it is appropriate to maintain the current whole life rate because there is little development in this account. We find the approach advocated by the Company and witness Lee to be appropriate.

Underground Cable (Metallic) - United asserts that a remaining life rate is appropriate for the entire category. On the other hand, staff witness Lee contends that the near-term retirements should be placed on a recovery schedule with a remaining life rate applied to the embedded investment. Witness Lee's calculated remaining life rate is based on an end point of 2012. This is consistent with recent projections from other companies in Florida that the embedded copper distribution cables will retire in the decade of the 2010's. We find witness Lee's testimony to be persuasive. This determination is consistent with our decision which is set forth in this Order under the heading "IV. MIGRATION FROM A METALLIC TO AN ALL FIBER NETWORK."

Buried Cable (Metallic) - FCTA proposes a 20 amortization schedule. However, we are not persuaded that amortization is an appropriate substitute for depreciation rates for major embedded assets expected to have substantial remaining lives.

United asserts that a remaining life rate is appropriate for the entire category. Staff witness Lee contends that the near-term retirements should be placed on a recovery schedule, with a remaining life rate applied to the embedded investment. Witness Lee's calculated remaining life rate is based on an end point of 2012. This is consistent with recent projections from other companies in Florida that the embedded copper distribution cables will retire in the decade of the 2010's. We find witness Lee's testimony to be persuasive. This determination is consistent with our decision which is set forth in this Order under the heading "IV. MIGRATION FROM A METALLIC TO AN ALL FIBER NETWORK."

Aerial Wire (Embedded and New) - No party proposes a rate for the over-recovered remaining wire. Staff witness Lee asserts that it is appropriate to establish a whole life rate for any new wire which may be added. We agree.

Conclusion

Upon review, we approve rates and schedules which result in an annual increase in expense of about \$21.9 million, based on the investments of January 1, 1992, for recovery schedules (Attachment 3), and July 1, 1992, for depreciation rates (Attachment 4). Of this amount, an increase of approximately \$33.9 million results from the approved recovery schedules while the approved depreciation rates reflect a decrease of approximately \$12 million.

XIV. RECOVERY SCHEDULES

United asserts that the appropriate recovery schedules are those proposed in United's 1991 Depreciation Study Update as revised in Mr. Harris' rebuttal testimony. OPC's position regarding specific dollar figures is set forth in Exhibit 51. Staff witness Lee asserts that near term retirements should be placed on recovery schedules and recovered over the period of time remaining in service. In contrast, FCTA argues that amounts included in recovery schedules should be amortized equally over the 5 year recovery period instead of being front end loaded.

Upon review, we concur with witness Lee that near term retirements should be placed on a recovery schedule. We find that

a five year recovery schedule is not appropriate and agree with United that straight amortization of unrecovered investment does not reflect what is actually occurring.

Based on the record, we find that the appropriate recovery schedules are those set forth in Attachment 3 of this Order. These schedules incorporate our determinations set forth in this Order at "V. RETIREMENT OF CERTAIN SWITCHES," "VIII. MICROWAVE RADIO ROUTES AND ASSOCIATED TOWERS," and "IX. DIGITAL CIRCUIT EQUIPMENT," and recognize that recovery should be designed to fit the perceived remaining period of service to the public.

Witness Lee testifies that in the context of recovery schedules, the expense for each month should be determined by dividing the net plant for that month by the remaining period of recovery. She asserts that this compensates for interim activity, unexpected salvage, and changes in plan. We agree.

XV. IMPLEMENTATION DATE FOR REVISED DEPRECIATION
AND RECOVERY SCHEDULES

United asserts that the implementation date for revised depreciation rates should be July 1, 1992, and the implementation date for recovery schedules should be January 1, 1992. OPC does not object to an implementation date of July 1, 1992, and takes no position regarding the January 1, 1992, implementation for recovery schedules. FCTA takes no position on this issue. Staff witness Lee does not oppose the aforementioned dates and notes that, in compliance with Commission rule, all supportive data and calculations have been made abutting these dates. Thus, there is substantial agreement among the parties. Upon review, we find that the proposed dates are appropriate.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that each and every finding set forth herein is approved in every respect. It is further

ORDERED that revision of United Telephone Company of Florida's depreciation rates and capital recovery schedules is needed at this time. It is further

ORDERED that depreciation rates shall be established based on what is economically justified for telephone service. It is further

ORDERED that the Company's technical projections for a complete transition from today's asynchronous transmission equipment to the new SONET transmission equipment are appropriate. It is further

ORDERED that the appropriate date for complete migration to SONET is the year 2000. It is further

ORDERED that the year 2012 is the appropriate date for migration from metallic to fiber for this Company. It is further

ORDERED that the prudence of the Company's proposed retirement of specified Northern Telecom DMS NT40 processors, Digital 1210 switches, and a Rockwell E911 Tandem switch is as set forth in the body of this Order. It is further

ORDERED that the retirement dates for five 1210s and eight subtending remotes associated with the 1210 switches shall be 1997 as set forth in the body of this Order. It is further

ORDERED that the Company's proposed retirement of its remaining electromechanical switches and associated analog circuit equipment by year-end 1993 is prudent. It is further

ORDERED that United Telephone Company of Florida's proposed retirement of its remaining operator systems by year-end 1994 is appropriate. It is further

ORDERED that the prudence of United Telephone Company of Florida's proposal to retire 16 microwave radio routes and their associated towers during the period 1992-1996 is set forth in the body of this Order. The Company has not justified the retirement dates for ten of the radio routes and their associated towers. The retirement date for those radio routes and the associated towers shall be the currently prescribed average service life. It is further

ORDERED that United Telephone Company of Florida's proposed retirement of \$38.6 million of digital circuit equipment during the period 1992-1994 is prudent. It is further

ORDERED that United Telephone Company of Florida's metallic cable retirements of \$69,709,000 during the 1992-1995 time period are prudent. It is further

ORDERED that with the exception of our determinations set forth in this Order at Sections V., VIII., and IX, United has

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demonstrated that its network plan is economically justified for telephone service. It is further

ORDERED that reserve allocations shall be made as set forth in Attachment 1 this Order. It is further

ORDERED that United Telephone Company of Florida's currently prescribed lives, salvages, and resultant depreciation rates shall be revised as shown on Attachment 4. It is further

ORDERED that the appropriate recovery schedules are those found at Attachment 3 of this Order. The expense for each month shall be calculated by dividing net plant for that month by the number of months remaining in service. It is further

ORDERED that a January 1, 1992, implementation date is hereby approved for recovery schedules with a July 1, 1992, implementation date for the revised depreciation rates.

By ORDER of the Florida Public Service Commission, this 6th day of July, 1992.

STEVE TRIBBLE, Director
Division of Records and Reporting

by: Kay Ferguson
Chief, Bureau of Records

Chairman Beard and Commissioner Lauredo dissented from the Commission's decision that the appropriate date for complete migration to SONET is the year 2000.

Chairman Beard dissented from the Commission's decision regarding the appropriate retirement date of certain switches.

Chairman Beard and Commissioner Clark dissented regarding the retirement dates of certain microwave radio routes and their associated towers.

Chairman Beard dissented from the Commission's vote to consider a portion of its decision regarding reserve allocations in the context of the United rate case. The deferred decision regarding reserve allocations has been incorporated into this Order under the heading "XII. RESERVE ALLOCATIONS."

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 Civil Procedure. The notice of appeal must be in the form specified in Rule 9.900 (a), Florida Rules of Appellate Procedure.

UNITED TELEPHONE COMPANY
 1991 DEPRECIATION STUDY
 APPROVED RESERVE ALLOCATION

	1-1-92 INVESTMENT	1-1-92 RESERVE	APPROVED TRANSFER	APPROVED RESTATE 1-1-92 RESERVE
Mobile Radio	0	70,800	(70,800)	0
Hearing Impaired	133,000	(5,000)	36,588	31,588
Aerial Cable - Fiber	131,000	(3,000)	3,000	0
Aerial Wire	134,000	553,000	(372,100)	180,900
Electromechanical Switch	.			
1992 Rets.	19,405,000	10,146,000	403,312	10,549,312
TOTAL	19,803,000	10,761,800	0	10,761,800

ALLOCATION OF INTRASTATE ADJUSTMENTS
 UNITED TELEPHONE COMPANY

Capital Recovery Expenses (Total Company)

	1992	1993	1994	1995	1996
Towers (1992-1996 Ret.)	91	35	36	13	14
Electromechanical (1992-1993 Ret.)	10,622	1,567			
Digital 1210 Switch. (1993-1994 Ret.)	1,937	2,149			
Flexible Digital Switch. (1992-1993 Ret.)	1,434	394			
Digital Circuit (1992-1994 Ret.)	10,257	3,718	1,663		
Analog Circuit (1992-1993 Ret.)	979	979	979		
Operator Systems (1994 Ret.)	592	592	592		
Radio - Other (1992-1996 Ret.)	119	119	119	55	55
Subscriber Multiplexing Equip. (1992-1993 Ret.)	198	84			
Aerial Metallic Cable (1992-1995 Ret.)	6,934	4,133	2,450	1,138	
Buried Metallic Cable - Filled (1992-1995 Ret.)	8,465	4,698	2,656	1,248	
Buried Metallic Cable - Non - Filled (1992-1995 Ret.)	2,847	1,966	1,328	638	
Underground Metallic Cable (1992-1995 Ret.)	1,369	893	592	295	
Total	45,844	21,327	10,415	3,387	69
Forecasted "intrastate-only" plant factors	73.00%	74.79%	74.72%	74.72%	74.72%
Percent of Total Retirements	33,466	15,950	7,782	2,531	52
LESS: Intrastate - only bottom line reserve amount approved from Docket Nos. 890486-TL and 891239-TL = \$30,057,000	56.0	26.7	13.0	4.2	0.1
	16,832	9,317 *	3,907	0	0
Net Recovery Expense to intrastate	16,634	6,633	3,875	2,531	52

*\$1,262,000 + \$30,000 moved from 1995 and 1996 to second half of 1993

UNITED TELEPHONE COMPANY
 1991 DEPRECIATION STUDY
 APPROVED CAPITAL RECOVERY SCHEDULES

	1-1-92 INVESTMENT (000)	1-1-92 RESERVE (000)	EST. ADDS. (000)	EXPECTED SALVAGE (000)	NET TO BE RECOVERED (000)	PERIOD OF RECOVERY (Yrs.)
Towers					0	
1992 Ret.	128	96		(24)	56	1 Yr.
1994 Ret.	165	118		(20)	67	3 Yr.
1996 Ret.	191	136		(11)	66	5 Yr.
Electromechanical Switch						
1992 Ret.	19,405	10,549*		(200)	9,056	1 Yr.
1993 Ret.	6,593	3,835	250	(125)	3,133	2 Yr.
Digital 1210 Switch						
1993 Ret.	8,783	5,462	860	95	4,086	2 Yr.
Flexible Digital Switch						
1992 Ret.	3,473	2,434			1,039	1 yr.
1993 Ret.	999	210			789	2 Yr.
Digital Circuit						
1992 Ret.	15,790	8,461		790	6,539	1 yr.
1993 Ret.	10,428	5,799		521	4,108	2 Yr.
1994 Ret.	12,407	6,796		620	4,991	3 Yr.
Analog Circuit						
1992-'94 Ret.	3,494	535		(68)	2,937	3 Yr.
Operator Systems						
1994 Ret.	5,262	3,486			1,776	3 Yr.
Radio - Other						
1992 Ret.	185	185			0	1 Yr.
1994 Ret.	572	380			192	3 Yr.
1996 Ret.	634	359			275	5 Yr.
Subscriber Multiplexing Equip.						
1992 Ret.	95	(20)			115	1 Yr.
1993 Ret.	138	(29)			167	2 Yr.
Aerial Metallic Cable						
1992 Ret.	3,267	1,119		(653)	2,801	1 Yr.
1993 Ret.	3,910	1,322		(782)	3,370	2 Yr.
1994 Ret.	4,538	1,512		(908)	3,934	3 Yr.
1995 Ret.	5,213	1,706		(1,043)	4,550	4 Yr.
Buried Metallic Cable - Filled						
1992 Ret.	5,028	1,510		(251)	3,769	1 Yr.
1993 Ret.	5,444	1,633		(272)	4,083	2 Yr.
1994 Ret.	5,630	1,686		(282)	4,226	3 Yr.
1995 Ret.	6,640	1,983		(332)	4,989	4 Yr.
Buried Metallic Cable - Non-Filled						
1992 Ret.	3,258	2,540		(163)	881	1 Yr.
1993 Ret.	4,666	3,623		(233)	1,276	2 Yr.
1994 Ret.	7,485	5,786		(374)	2,073	3 Yr.
1995 Ret.	9,007	6,909		(451)	2,549	4 Yr.
Underground Metallic Cable						
1992 Ret.	852	460		(85)	477	1 Yr.
1993 Ret.	1,078	582		(108)	604	2 Yr.
1994 Ret.	1,590	859		(159)	890	3 Yr.
1995 Ret.	2,103	1,135		(210)	1,178	4 Yr.
TOTAL	158,361	83,157	1,110	(4,728)	81,042	

* Denotes restated reserve.

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

UNITED TELEPHONE COMPANY
 1991 DEPRECIATION STUDY

ACCOUNT	AVERAGE REMAINING LIFE (YRS.)	NET SALVAGE (%)	RESERVE (%)	REMAINING LIFE RATE (%)
<u>GENERAL SUPPORT ASSETS</u>				
Passenger Cars	3.3	11	45.67	13.1
Light Trucks	4.1	14	49.71	8.9
Heavy Trucks	3.2	12	36.71	16.0
Special Support Vehicles	11.1	10	64.67	2.3
Buildings - Switching	24.0	(5)	26.45	3.3
Buildings - Plant & Office	19.5	(5)	26.45	4.0
Buildings - Other	9.2	(5)	26.48	8.5
Building Equipment	10.5	(5)	36.38	6.5
Self-Supporting Towers	8.6	(15)	71.01	5.1
Self-Supporting Towers (Issue 8)	3.3	(13)	71.41	12.5
Garage Equipment		7 Year Amortization		
Other Work Equip.		7 Year Amortization		
Furniture		10 Year Amortization		
Office Equip.		7 Year Amortization		
Company Communications		5 Year Amortization		
Gen. Purpose Computers		5 Year Amortization		
<u>CENTRAL OFFICE ASSETS</u>				
Digital 1210	4.4	2	50.54	10.8
Digital 1210 (Issue 3)	5.0	15	56.48	5.7
Digital - New	15.5	3	0.00	6.3 *
Digital - Embedded	13.6	3	23.30	5.4
Operator Systems (New)	10.0	0	0.00	10.0 *
Radio - Other	7.6	(3)	38.64	8.5
Radio - Other (Issue 8)	3.3	0	72.29	9.0
Circuit - Private Line	3.6	(5)	54.50	14.0
Circuit - Subscriber	3.4	(5)	66.00	11.5
Circuit - Digital	5.2	5	57.23	7.3
Circuit - Tools/Test	4.5	(3)	46.48	12.6
Circuit - Fiber Termination	4.3	3	35.64	14.3
<u>INFORMATION ORIG/TERM ASSETS</u>				
Station Apparatus - E911(Embedded)	3.5	0	61.32	11.1
Station Apparatus - E911(New)	10.0	0	0.00	10.0 *
Public Telephone	4.3	2	77.17	4.8
Line Conditioning	3.5	0	84.87	4.3
Hearing Impaired	6.1	3	24.06 **	12.0
<u>CABLE & WIRE FACILITIES</u>				
Poles	12.2	(43)	49.87	7.60
Aerial Cable - Metallic	15.4	(20)	38.65	5.3
Aerial Cable - Fiber	20.0	(5)	0.00 **	5.3 *
Undgd. Cable - Metallic	13.1	(10)	54.00	4.3
Undgd. Cable - Fiber	16.8	(10)	16.81	5.5
Buried Cable - Filled Metallic	12.4	(5)	31.30	5.9
Buried Cable - Non-Filled Metallic	7.3	(5)	87.82	2.4
Buried Cable - Fiber	20.0	(5)	13.50	5.3 *
Submarine Cable - Metallic	10.1	(5)	11.91	4.2
Submarine Cable - Fiber	20.0	(5)	12.50	5.3 *
Intrabuilding Cable - Metallic	11.9	(15)	29.57	7.2
Intrabuilding Cable - Fiber	20.0	(5)	2.96	5.3 *
Aerial Wire - Embedded	N/A	N/A	135.07 **	0.0
Aerial Wire - New Adds	12.0	(35)	0.00	11.3 *
Conduit	38.0	(5)	26.60	2.1

* Denotes Whole Life Rate
 ** Denotes Restated Reserve