**FLORIDA PUBLIC SERVICE COMMISSION**

 **Fletcher Building**

 **101 East Gaines Street**

 **Tallahassee, Florida 32399-0850**

 **M E M O R A N D U M**

 **August 20, 2015**

**TO : DIRECTOR OF RECORDS AND REPORTING**

**FROM : DIVISION OF AUDITING AND FINANCIAL ANALYSIS (BASS, JOHE)**

 **DIVISION OF COMMUNICATIONS (SIRIANNI)**

 **DIVISION OF LEGAL SERVICES (MURPHY)**

**RE : DOCKET NO. 920795-TL - 1992 DEPRECIATION STUDY OF SOUTHLAND TELEPHONE COMPANY**

**AGENDA : MAY 4, 1993 - CONTROVERSIAL - PROPOSED AGENCY ACTION - PARTIES MAY PARTICIPATE**

**CRITICAL DATES: NONE**

**SPECIAL INSTRUCTIONS: I:\PSC\AFA\WP\920795.RCM**

 **DISCUSSION OF ISSUES**

**ISSUE :** Should the depreciation rates for Southland Telephone Company (Southland or Company) be revised for the Florida jurisdiction?

**RECOMMENDATION:** Yes. (Bass)

**STAFF ANALYSIS:** The depreciation study in this docket was filed by Southland Telephone Company in accord with Rule 25-4.0175(8)(a), Florida Administrative Code (F. A. C.), in August, 1992. The data provided in the filing depicts change in the recovery status for the depreciable accounts since the filing in 1989. The following recommendations provide for recovery of the current plant investment serving Florida customers, reflecting the current recovery status and expected life for each account.

**ISSUE 2:** What should be the implementation date for the revised depreciation rates?

**RECOMMENDATION:** The new depreciation rates should be implemented January 1, 1993, as proposed by the Company. (Bass)

**STAFF ANALYSIS:** By submitting the plant and reserve data through December 31, 1992, the Company has provided the necessary information to establish the January 1, 1993 recovery position for each account, and has requested implementation on that date. The proposed depreciation rates are based on the January 1, 1993 recovery position, and use of these rates should logically commence on that date.

**ISSUE 3:** Should any corrective reserve transfers be implemented for Southland Telephone Company at this time?

**RECOMMENDATION:** Yes. Corrective reserve transfers as shown on Attachment C, page 14 should be recorded by the Company. (Bass)

**STAFF ANALYSIS:**  In analyzing the last study, it was discovered that an amount of $116,728 had been transferred from Account 2212, Digital Electronic Switching to Account 2232, Circuit Equipment, without transfer of any associated reserve. The Company then calculated the associated reserve to be $36,147 and transferred that amount from the switching to the circuit reserve. In Order No. 23835, a corrective reserve transfer of $28,939 was provided to resolve the problem. The Company booked the ordered reserve transfer in addition to the amount it had already transferred. After review of the Company calculations we have concluded that the amount of $28,939 is correct. Therefore, we recommend restoring the $36,147 to the reserve for the switching account, and correcting both account reserves accordingly, as shown on Attachment C, page 14.

 The Company calculated the accrual associated with amortization of the investment in Account 2122, Furniture, incorrectly; as a result, there is a surplus of $4,261 in the reserve for this account. Lacking the expectation of additions to absorb this surplus, Staff recommends transfer of this amount to the reserve for Account 2232, Other Circuit Equipment, as shown on Attachment C, page 14; this transfer will partially reduce the reserve surplus for this account.

 Additionally, in review of the current study, the Company has submitted the reserve corrections discussed below. After review, Staff concurs that these are valid corrections and recommends that they be made.

 In the Circuit Equipment accounts, the Company realized in 1992 that in the amount of $112,346 had been booked to Fiber Circuit Equipment in 1989, although it should have been booked into the Other Circuit Equipment account. The plant amount was correctly transferred, but the commensurate reserve transfer was omitted. An associated reserve amount of $28,817 has been calculated, and the corrective transfer is recommended, as shown on Attachment C.

 In the Underground Cable accounts, a miscalculation during 1990 and 1991 resulted in $207 of depreciation expense booked to the records for the metallic account when it should have accrued to the fiber account. The corrective reserve transfer, as shown on Attachment C, is therefore recommended.

 In the Buried Cable, Metallic, Jelly-Filled Account, there was an error made in booking $171 cost of removal in 1991, and $2,182 in salvage in 1990. Both of these entries related to retirements incurred in the Buried Cable, Air Core Account. The corrective transfer shown on Attachment C is therefore recommended.

**ISSUE 4:** Is Southland Telephone Company properly accounting for reuse salvage?

**RECOMMENDATION:** No; the Uniform System of Accounts (USOA) requires that the material value of retirement units recovered for reuse shall be included in the materials account at original cost, estimated if not known. The Company is pricing reuse salvage based on current valuation, rather than on original cost as required by the Uniform System of Accounts. The Company should correct this practice, and should submit a report to the Staff by September 1, 1993, showing what procedures have been implemented to assure compliance. (Bass)

**STAFF ANALYSIS:**  Staff is informed that Southland has been retiring and reusing the equipment in the public telephone account. Based on expected reuse, the salvage value booked at retirement was an average cost. As far as Staff can determine, there was not an established, consistent methodology for determining the amount of salvage value. However, the current cost for similar equipment was included, as compared to the origin

al cost of the equipment retired. This is not in accord with requirements of the USOA.

 The Company should document procedures for determining the amount of reuse salvage to be booked. In addition, the Company should submit a report to Staff by September 1, 1993, detailing what procedures have been implemented to assure compliance with the USOA.

**ISSUE 5:** Should Southland Telephone Company be required to perform a physical inventory of the plant currently in service in the Account 2423.602, Buried Cable, Air Core?

**RECOMMENDATION:** Yes; in order to establish the amount of physical plant in service, and reconcile the investment of record to that amount of plant, the Company should perform a physical inventory. It is recommended that the Company submit a plan to Staff, by September 1, 1993, for execution of an inventory of this account. The completed inventory and results should be provided to Staff no later than April 1, 1994. (Bass)

**STAFF ANALYSIS:** The amount of plant in service recorded in this account is the result of an allocation of investment separated between air core and jelly filled. There had also been a prior allocation of investment, relating to the separation of Florida investment from that of Alabama. As far as Staff is able to ascertain, there has been no inventory by the Company, to determine the amount of air core cable plant actually in service, and its associated investment, within the Florida jurisdiction. Thus, there is doubt as to the extent to which the investment of record for this account represents physical plant in service. As a first step in resolving this problem, the continuing property record should be aligned with the plant which is currently in service, and the investment reconciled with the resultant continuing property record.

 Final retirement of all buried cable plant of the air core type is expected within a decade, approximately. Additionally, there are at present contradictory historical indicators as to the amount of the plant in service; consequently, there is some doubt as to relationship between investment amount and the reserve accrued.

 The Company should submit a plan to Staff, by September 1, 1993, for execution of an inventory of this account. The completed inventory and results should be provided to Staff no later than April 1, 1994.

**ISSUE 6:** What are the appropriate depreciation rates to be used by Southland Telephone Company?

**RECOMMENDATION:** The recommended rates, as derived from the January 1, 1993 reserve positions for the depreciable and amortizable accounts for Southland Telephone Company, are shown on Attachment A, page 12; estimated resultant expenses are shown on Attachment B, page 13. These rates result in a decrease in annual expense of about $72,000. (Bass)

**STAFF ANALYSIS:** In general, there are small differences between the rates recommended by Staff and those which had been proposed by the Company. Initially, the Company's calculations and proposals were based on data through December 31, 1991. Since the original filing, actual 1992 activity has been provided by the Company; this was used by Staff to update each account status to January 1, 1993, the Company's requested implementation date. Small differences have also occurred due to the corrective reserve transfers discussed in Issue 3, and rounding of the remaining life values and remaining life rates. Particular differences for each account are presented in the following discussion.

 Account 2121: Buildings - The Staff recommendation for a 22 year remaining life reflects the Company's proposal, updated for 1992 activity and rounded. Staff recommends continuation of 0% net salvage, in accord with the Company's proposal and the record of activity.

 Account 2122: Furniture - The Company is amortizing this account in accord with the Rule 25-4.0178, F. A. C.

 Account 2123.2: Communication Equipment - The account is fully amortized, and no further expense should be booked for recovery of the current embedded investment. Any new investment (meaning vintage 1993 or after) should be amortized over a 5 year period, in accord with Rule 25-4.0178, F. A. C.

 Account 2212: Digital Electronic Switching - The Company states that, from its point of view, the current switch is expected to require replacement by about the year 2003. There are no near-term retirements of switching equipment anticipated. All remote switches are expected to be retired at the same time, since attached remotes will retire with the network switches. This reflects the Company's perception of service demands, and the reconfiguration or change-outs which would most economically meet those demands. Staff recommendation for a 12-year remaining life incorporates the Company's view with industry expectation for the switch change-out in the first decade of the 2000's, and projections of interim retirements over the remaining life span. Interim retirement rates are 0.5% for 1993-1994; 1.0% for 1995-1997; 3.0% for 1998-1999; 1.0% for 2000-2004. These interim retirements include planned 1993 upgrades, as well as the anticipated later ones by which the basic switch can be modified to accommodate SS7 and thereby meet service requirements. Continuation of 0% net salvage, as proposed by the Company and indicated by the data, is recommended.

 Account 2232: Circuit Equipment - The reserve for this account should be restated in accord with the restoring of $36,147 to the switching reserve, as discussed in Issue 3.

 Our recommendation for life and salvage for this account is focused on the digital equipment currently associated with this account and serving the public. Much of the circuit equipment was retired in connection with the retirement of electromechanical switches during the period 1984-1989; analysis of account history extending back several years (into the life pattern of that equipment of the previous technology) does not necessarily relate to the current investment in digital equipment. In the last study, the Company commented that a decrease in projection life was in order for the newer equipment - an apparent indication of its belief that service demands would surpass equipment capability and shorten the equipment life span, as compared to the life span of previous equipment.

 No near-term retirements of circuit equipment are anticipated. Further, recognizing that there have been no retirements in this account over the period 1990 through 1992, Staff is constrained to look at the life expectancy for similar equipment throughout the state, in addition to information from this specific account. Based on industry averages, we recommend a service life of 12 years and the R1 curve; together with the January 1, 1993 average age of 8 years, this gives a remaining life of 6.6 years. Based on the expectation that the equipment will lack vendor support and be obsolete at the time of retirement, continuation of the Company proposed 0% net salvage is recommended.

 Account 2232: Circuit Equipment, Fiber - Staff recommends continuation of a whole life rate, based on expected growth in this account. The Company proposal of 10.1 years for average service life and zero net salvage is acceptable, based on correlation with industry expectations.

 Account 2351: Public Telephone Equipment - Southland is using the location life method for accounting for the equipment represented by this investment. The salvage has not been correctly booked, in that retired equipment has been returned to inventory at current average cost. The Company should conform with standard accounting practice and the requirements for telecommunications companies set forth in the Code of Federal Regulations. This is discussed in detail in Issue 4 above.

 Staff recommendation represents a conversion to location life methodology; an average service life of 8 years and net salvage of 20% are within the range of accepted industry averages and are recommended. Using the S2 curve with an average age of 2.2 years, Staff recommends a remaining life of 6 years.

 Account 2422: Underground Cable, Metallic - Staff recommends a remaining life of 11.8 years, which is based on a 17-year service life and the Company's proposal for continued use of the R3 curve. These parameter values correlate with current projections for phase-out of this type of plant. Continuation of the negative 5% net salvage, as proposed by the Company, is also recommended.

 Account 2422: Underground Cable, Fiber - Recognizing that the anticipated additions of this type of plant will be reflected in a low average age for the account, Staff recommends continuation of the whole life rate based on 20-year service life and negative 5% net salvage.

 Account 2423.012: Buried Cable, Fiber - As with other types of fiber cable installations, expected future additions will impact the average age, keeping it low during the period of initial growth. During that period, the remaining whole life rate will approximate the remaining life rate. Staff therefore recommends continuation of the whole life rate, based on a 20-year service life and 0% net salvage.

 Account 2423.502: Buried Cable, Metal, Jelly-Filled - The current rates are based on an underlying projection that the type of equipment associated with this investment will be phased-out by about the year 2017, and that an R2 curve with a 19-year average service life correlates closely with the retirement/survivor pattern; data since the last study is in line with this projection. Using the updated age of 6.5 years, the recommended remaining life is 13.4 years. Continuation of negative net salvage of 5% is recommended as reasonable and in line with the Company proposal.

 Account 2423.602: Buried Cable, Air Core - At the time of the prior study, the Company was retiring the air core cable as quickly as possible; however, the planning has been revised, and future retirements will be on a maintenance basis, as required by equipment deterioration. Staff has brought the account forward to 1-1-93, using the yearly retirement activity. However, the amount of plant in service in this account is somewhat questionable, due in large part to allocations made between the air core and jelly-filled cable types. Further, the best information available gives some conflicting indications in regard to account age. Staff therefore recommends that the Company undertake an inventory of the plant in this account, in order to avoid the possibility of non-existent plant in rate base. This matter is discussed in Issue 5 above.

 Bringing the age forward as described in the preceding paragraph, Staff calculates an age of 11.4 years for this account at January 1, 1993. Using the R2-15 curve, a remaining life of 6.1 years is obtained. The net salvage of negative 1% is recommended based on the expectation that this type of plant is abandoned in place.

 Account 2441: Conduit Systems - Continuation of the 55 year service life with 0% net salvage, as proposed by the Company, is recommended. Staff used the R4 curve, based on Company history and industry acceptance, and recommends a remaining life of 37 years.

**ISSUE 7:** Should this docket be closed?

**RECOMMENDATION:** Yes, assuming no timely protests to the Proposed Agency Action Order are filed. (Bass)

**STAFF ANALYSIS:** If there are no timely protests to the PAA Order, Staff believes that no further action on this docket is required.

 SOUTHLAND TELEPHONE COMPANY

 1992 STUDY

 Comparison of Depreciation Rates and Components

 C U R R E N T C O M P A N Y P R O P O S E D S T A F F R E C O M M

 AVERAGE REMAINING AVERAGE REMAINING AVERAGE REMAINING

 ACCOUNT ACCOUNT REMAINING NET LIFE REMAINING NET ADJUSTED LIFE REMAINING NET BOOK LIFE

 LIFE SALVAGE RATE LIFE SALVAGE RESERVE RATE LIFE SALVAGE RESERVE RATE

 (yrs) (%) (%) (yrs) (%) (%) (%) (yrs) (%) (%) (%)

 SOUTHLAND TELEPHONE COMPANY

 1992 STUDY

 Comparison of Depreciation Rates and Components

 C U R R E N T C O M P A N Y P R O P O S E D S T A F F R E C O M M

 AVERAGE REMAINING AVERAGE REMAINING AVERAGE REMAINING

 ACCOUNT ACCOUNT REMAINING NET LIFE REMAINING NET ADJUSTED LIFE REMAINING NET BOOK LIFE

 LIFE SALVAGE RATE LIFE SALVAGE RESERVE RATE LIFE SALVAGE RESERVE RATE

 (yrs) (%) (%) (yrs) (%) (%) (%) (yrs) (%) (%) (%)

DISTRIBUTION PLANT DISTRIBUTION PLANT

 2121 Buildings 2121 Buildings 26.0 0 2.9 23.1 0 33.00 2.90 22.0 0 33.04 3.0

 2122 Furniture ‑ Embedded 2122 Furniture ‑ Embedded 8 YEAR AMORTIZATION 6 YEAR AMORTIZATION FULLY AMORTIZED ‑‑ 8 YEAR AMORT. COMP

 Furniture Furniture 10 YEAR AMORTIZATION 10 YEAR AMORTIZATION 10 YEAR AMORTIZATION

 2123.2 Company Communication Eqpt.‑Emb. 2123.2 Company Communication Eqpt.‑Emb. 3 YEAR AMORTIZATION 1 YEAR AMORTIZATION FULLY AMORTIZED ‑‑ 3 YEAR AMORT. COMP

 Company Communication Eqpt. Company Communication Eqpt. 5 YEAR AMORTIZATION 5 YEAR AMORTIZATION 5 YEAR AMORTIZATION

 2212 Digital Electronic Switching 2212 Digital Electronic Switching 13.0 0 6.6 11.4 0 20.58 6.97 12.0 0 29.47 # 5.9

 2232 Circuit Equipment 2232 Circuit Equipment 8.1 0 7.7 7.4 0 38.57 6.67 6.6 0 43.97 # 8.5

 2232 Circuit Equipment‑Fiber 2232 Circuit Equipment‑Fiber 10.0 0 10 \* 7.9 0 19.67 10.17 10.1 0 26.85 # 9.9 \*

 2362 Public Telephone Equipment 2362 Public Telephone Equipment 5.5 0 10 7.4 0 67.72 4.36 6.0 20 70.17 1.6

 2422 Underground Cable‑Metallic 2422 Underground Cable‑Metallic 14.6 (5) 5.9 12.7 (5) 43.80 4.82 11.8 (5) 36.85 # 5.8

 2422 Underground Cable‑Fiber 2422 Underground Cable‑Fiber 20.0 (5) 5.3 \* 17.6 (5) 2.90 5.80 20.0 (5) 15.90 # 5.3 \*

 2423.502 Buried Cable‑Jelly Filled 2423.502 Buried Cable‑Jelly Filled 15.1 (5) 5.5 12.8 (5) 37.23 5.29 13.4 (5) 31.94 # 5.5

 2423.602 Buried Cable‑Air Filled 2423.602 Buried Cable‑Air Filled 5.5 (1) 10 12.8 (5) 38.13 5.22 6.1 (1) 74.58 # 4.3

 2423.012 Buried Cable‑Fiber 2423.012 Buried Cable‑Fiber 20.0 0 5.0 \* 17.8 0 11.18 4.99 20.0 0 16.97 5.0 \*

 2441 Conduit Systems 2441 Conduit Systems 40.0 0 1.7 25.7 0 36.49 1.74 37.0 0 38.30 1.7

 \* Whole life rate

 # Includes corrective reserve transfer.

 SOUTHLAND TELEPHONE COMPANY

 1992 STUDY

 Comparison of Depreciation Expenses

 C U R R E N T C O M P A N Y P R O P O S E D S T A F F R E C O M M E N D E D

 REMAINING REMAINING CHANGE REMAINING CHANGE

 ACCOUNT ACCOUNT (1/1/93) LIFE LIFE IN LIFE IN

 INVESTMENT RATE EXPENSES RATE EXPENSES EXPENSES RATE EXPENSES EXPENSES

 ($) (%) ($) (%) ($) ($) (%) ($) ($)

 SOUTHLAND TELEPHONE COMPANY

 1992 STUDY

 Comparison of Depreciation Expenses

 C U R R E N T C O M P A N Y P R O P O S E D S T A F F R E C O M M E N D E D

 REMAINING REMAINING CHANGE REMAINING CHANGE

 ACCOUNT ACCOUNT (1/1/93) LIFE LIFE IN LIFE IN

 INVESTMENT RATE EXPENSES RATE EXPENSES EXPENSES RATE EXPENSES EXPENSES

 ($) (%) ($) (%) ($) ($) (%) ($) ($)

DISTRIBUTION PLANT DISTRIBUTION PLANT

 2121 Buildings 2121 Buildings 146,338 2.9 4,244 2.90 4,244 0 3.0 4,390 146

 2122 Furniture ‑ Embedded 2122 Furniture ‑ Embedded 3,203 30 6 YR AMORT 35 5 AMORT COMPLT 30 (30)

 Furniture Furniture 10 YR AMORT 0 10 YR AMORT 0 0

 2123.2 Company Communication Eqpt.‑Emb. 2123.2 Company Communication Eqpt.‑Emb. 1,005 34 1 YR AMORT 38 4 AMORT COMPLT 0 (34)

 Company Communication Eqpt. Company Communication Eqpt. 5 YR AMORT 0 5 YR AMORT 0 0

 2212 Digital Electronic Switching 2212 Digital Electronic Switching 1,590,426 6.6 104,968 6.97 110,853 5,885 5.9 93,835 (11,133)

 2232 Circuit Equipment 2232 Circuit Equipment 478,482 7.7 36,843 6.67 31,915 (4,928) 8.5 40,671 3,828

 2232 Circuit Equipment‑Fiber 2232 Circuit Equipment‑Fiber 127,344 10.0 \* 12,734 10.17 12,951 217 9.9 \* 12,607 (127)

 2362 Public Telephone Equipment 2362 Public Telephone Equipment 16,151 10.0 1,615 4.36 704 (911) 1.6 258 (1,357)

 2422 Underground Cable‑Metallic 2422 Underground Cable‑Metallic 1,612 5.9 95 4.82 78 (17) 5.8 93 (2)

 2422 Underground Cable‑Fiber 2422 Underground Cable‑Fiber 2,692 5.3 \* 143 5.80 156 13 5.3 \* 143 0

 2423.502 Buried Cable‑Jelly Filled 2423.502 Buried Cable‑Jelly Filled 3,562,549 5.5 195,940 5.29 188,459 (7,481) 5.5 195,940 0

 2423.602 Buried Cable‑Air Filled 2423.602 Buried Cable‑Air Filled 1,117,236 10.0 111,724 5.22 58,320 (53,404) 4.3 48,041 (63,683)

 2423.012 Buried Cable‑Fiber 2423.012 Buried Cable‑Fiber 791,925 5.0 \* 39,596 4.99 39,517 (79) 5.0 \* 39,596 0

 2441 Conduit Systems 2441 Conduit Systems 1,710 1.7 29 1.74 30 1 1.7 29 0

 TOTAL TOTAL 7,840,673 507,995 447,300 (60,695) 436,561 (72,383)

 \* Whole life rate

 Attachment C

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|  **SOUTHLAND TELEPHONE COMPANY** **RECOMMENDED TRANSFERS** **FOR RESERVE CORRECTION** |
| ACCOUNT | 1/1/93RESERVEBALANCE | AMOUNTTRANSFERRED | 1/1/93RESTATEDRESERVE |
| 2122 Furniture | $7,464 | ($4,261) | $3,203 |
| 2212 Digital Electronic Switching | $432,631 | $36,147  | $468,778 |
| 2232 Circuit Equipment | $213,434 | ($3,069) | $210,365 |
| 2232 Circuit Equipment - Fiber | $63,016 | ($28,817) | $34,199 |
| 2422 Underground Cable - Metallic | $801 | ($207) | $594 |
| 2422 Underground Cable - Fiber | $221 | $207  | $428 |
| 2423.502 Buried Cable - Met. - Jelly | $1,139,748 | ($2,011) | $1,137,737 |
| 2423.602 Buried Cable - Met. - Air | $831,220 | $2,011  | $833,231 |
| TOTAL | $2,688,535 | $0  | $2,688,535 |