BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: 1993 Depreciation Study of GULF TELEPHONE COMPANY.	) DOCKET NO. 930170-TL) ORDER NO. PSC-93-1572-FOF-TL) ISSUED: 10/27/93

The following Commissioners participated in the disposition of this matter:

J. TERRY DEASON, Chairman
SUSAN F. CLARK
JULIA L. JOHNSON
LUIS J. LAUREDO

NOTICE OF PROPOSED AGENCY ACTION
ORDER REGARDING DEPRECIATION

BY THE COMMISSION:

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are adversely affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

I. THE FILING

The last comprehensive depreciation study for Gulf Telephone Company (Gulf or Company) was completed in 1990 with rates effective on January 1 of that year. Gulf has filed the current study in accord with Rule 25-4.0175, Florida Administrative Code. Review of activity since the last study and of the current capital recovery position indicates that depreciation rates need to be revised.

II. IMPLEMENTATION DATE

The Company has requested implementation at January 1, 1993, and has provided supportive data to abut this date. Upon review, we approve this implementation date.

III. SWITCHING RETIREMENTS (1993-1995)

The Company has two exchanges, Perry and Keaton Beach. The exchanges are served with Stromberg-Carlson, DCO Digital Switches.

The Company proposes to retire the DCO switch at Keaton Beach in 1994 and serve the area from the Perry switch utilizing digital subscriber carrier for the Keaton Beach access lines. It is proposed to retain the main distributing frame and the power equipment at Keaton Beach to work with the subscriber carrier terminals. The line equipment modules of the DCO switch will be reused to provide for growth at the Perry switch.

Upon review, we find this plan to be sound from an engineering and economical point and approve the replacement plans for Keaton Beach for depreciation purposes. No other major switching retirements are planned for the 1993-1995 period.

IV. 1992 OVEREARNINGS

The Company submitted a revised Earnings Surveillance Report (ESR) for 12 months ended December 31, 1992, based on its 1992 cost study. The revised ESR reflects that the achieved rate of return on equity (ROE) was 16.48%. The maximum authorized ROE for the period was 13.9%. This equates to revenues in excess of its maximum authorized ROE of $104,038.

The Company submitted a letter of agreement, dated August 13, 1992, to cap and dispose of any 1992 earnings in excess of its authorized maximum ROE to the benefit of ratepayers and at the direction of the Commission.

We have identified various asset accounts with depreciation reserve deficiencies. These deficiencies arise from past projections not matching actual activity, technological changes or growth. The 1992 excess earnings shall be applied toward these deficiencies. Applying excess revenues from the prior period to offset the deficits will appropriately match revenues and expenses.

The $104,038 of excess revenues identified above is an intrastate amount which must be grossed up to a total company amount before it can be applied. Using the Company's 1992 separations factors, we calculate $146,409 to be the total company amount associated with the overearnings before interest.

Pursuant to Rule 25-4.114(4), the Company is required to add interest to the amount of excess revenues. We calculate $4,812 to be the interest applicable to the excess revenues for the period January 1992 through mid November 1993. Thus, the total company amount to be applied against the reserve deficits is $151,221 ($146,409 + $4,812).

Gulf's earnings are expected to decline from 1992 to 1993 due in part to an increase in depreciation expense of $161,000 as set forth in Section VII below, and a decrease in USF revenue of $71,275. The expected decrease in earnings will be partially offset by the SPF and weighted DEM transitional factor phase-ups. Given these changes and eight months of actual financial data, we anticipate that the Company's earnings will be within its authorized ROE range in 1993. In this regard, we observe that the Company has agreed by letter, dated February 23, 1993, to cap its 1993 earnings at its authorized ROE ceiling of 13.9%. Thus, at this time, no further action is required regarding Gulf's 1993 earnings.

V. CORRECTIVE RESERVE MEASURES

The corrective reserve measures discussed in this section are set forth at Attachment A of this Order.

Upon retirement of the microwave and toll equipment in 1992, some equipment which had served dually in the microwave and other operations remained in service. This equipment and associated investment were transferred to appropriate accounts, based on utilization; associated reserve transfers were based on an estimated reserve remaining in the microwave account. The approved reserve corrections provide a true up of the estimates, and include the cost of removal associated with the retirement of the microwave equipment.

With the discontinuation of Improved Mobile Telephone Service (IMTS), there were retirements in 1993 of equipment in Account 22310, Radio Facilities Communication Equipment, and in Account 22320, Circuit Equipment, Analog. The approved reserve corrections provide full recovery for this equipment which has been retired.

Recognizing that Gulf is prudently planning for retirement of the digital switch located in Keaton Beach as discussed at Section III above, we approve a reserve correction for this account to bring the book reserve to its theoretical level.

The remaining corrective measures alleviate perceived reserve deficiencies where investment is involved with changing or dying technology and associated shortened remaining lives. These approved corrections impact no accounts which involve arrangements with affiliated or non-affiliated companies. However, in light of the possible impact on cost allocations and jurisdictional separations, the Company should make corresponding entries to the related depreciation expense accounts.

VI. RECOVERY SCHEDULE

The recovery schedule set forth at Attachment B of this Order provides for recovery of retirements associated with discontinued services and scheduled major retirements during the 1993-1995 period.

A retirement of analog circuit equipment was made in 1993 in association with discontinuation of IMTS service. The amount of investment retired was $9,929, for which there was an associated reserve amount of $4,036. Recovery of the $5,893 remaining is provided from overearnings as discussed at Section IV of this Order.

The digital switch located at Keaton Beach has been slated for retirement in 1994. As discussed at Section IV of this Order, retirement of this switch is a reasonable course for the Company to take. After reuse of some equipment, an estimated amount of $122,000 will be associated with retiring equipment. The approved reserve correction set forth at Section IV will bring the reserve for this account to the current theoretical level. We approve recovery for the remaining unrecovered investment, currently estimated to be $14,640, during the estimated two-year period of the equipment's remaining service. The monthly expense shall be determined by dividing the net plant for the month by the number of months of remaining service.

VII. DEPRECIATION RATES AND AMORTIZATION SCHEDULES

The approved depreciation rates and amortization schedules are set forth at Attachment C of this Order.

A. General Support Assets

1. Account 2112.0, Motor Vehicles, Cars

We approve a remaining life of 2.9 years as proposed by the Company. This is based on retaining the R4 curve with a service life of 6.3 years, which was derived from a projection life of 6 years. We approve continuation of the currently approved 20% net salvage. These parameters reflect experience of this Company and are typical of the industry

2. Account 2112.2, Motor Vehicles, Light Trucks

We approve the Company's remaining life proposal of 3.8 years. This is based on use of the R4 curve and a projection life of 8 years, from which an average service life of 8.6 years results. These parameters appear reasonable, compared with experience for the account and to others in the industry. We also approve the Company's proposal for net salvage of 30%, which is in line with industry expectations and recent experience.

3. Account 2112.3, Heavy Trucks and Trailers

Based on the current age of 13.4 years, together with retirement history of a single vehicle of 1974 vintage, this Company has experienced an atypically long service life for this type of equipment. Gulf states that no further retirements are expected at this time. In accord with this information, we employ an S3 curve with a 19-year average service life, and approve the resulting remaining life of 6.7 years for embedded plant.

For new equipment, based on industry experience, we approve a whole life rate based on the average service life of 15 years. It is our view that the new investment should not bear the burden of the recovery position associated with the embedded investment. The Company proposes continuation of the current approved 10% net salvage, which we approve for both embedded plant and new additions.

4. Account 2121.0, Buildings

For the investment in this account, we approve a composite remaining life of 17.8 years. This was determined based on calculations employing the Company's proposed average service lives for various building categories, and an 0.8% interim retirement rate. The interim retirement rate amounts to the annualized rate over the last decade, which is expected to continue. Recognizing that the retirement and salvage experience for this Company does include some insurance reimbursement, the Company's proposal to use net salvage of 5% is approved.

B. Central Office Assets

1. Account 2211.0, Digital Switches

There is a planned retirement of the digital switch at Keaton Beach, for which recovery is discussed at Section VI of this Order. For the remaining investment, we approve a remaining life of 9.5 years. This was determined based on a projected average date of final retirement of 2004 with an interim retirement pattern of 1% for the years 1993-1996; 4% for 1997 and 1998; 2% for 1999 and 2000; and 1% for the period from 2001 through final retirement. As stated in the response to the Staff Report, the 9.5-year remaining life has been accepted by the Company; however, there is concern that economic expedience may dictate retirement of the Stromberg DCO before 2004. Under the circumstances, the Company should monitor this account and respond to life related changes accordingly. A net salvage of zero, based on the expectation of scrap value only at the time of retirement, is approved.

2. Account 2231.0, Radio Facilities, Company Communications

When the study was filed, this account included investment associated with equipment used to provide mobile telephone service as well as Company communications. Mobile telephone service was subsequently discontinued, as set forth in Order No. PSC-93-0790-FOF-TL. There has been a retirement of $4,720 of equipment investment associated with the service. The Company reports that December 31, 1992 reserve associated with the equipment was $4,720. Therefore, no further recovery is required.

For the remaining investment associated with equipment used in Company communications, we approve the Company proposal of a 3.8-year remaining life as reasonable. The Company expects some costs associated with removal of antenna and coaxial cable from the tower, and we approve the proposed net salvage of negative 6% as reasonable.

3. Account 2232.0, Circuit Equipment, - Analog

Since the filing of the study, there was a retirement of equipment in this account associated with the discontinuation of IMTS; the associated investment amount was $9,929, with associated reserve determined to be $4,036. Recovery for this retirement is provided in Section VI of this Order.

For the remaining investment, we accept the Company proposal of a 5.9-year remaining life, as well as the net salvage of zero, as reasonable. This is reflective of the Company's expectation that "the loop extender equipment will be taken out of service as additional loop carrier systems are deployed in the service area." While this is an on-going process, the Company says that "no specific plans are in place" for retirement of the analog circuit equipment. The retiring equipment would be expected to have only scrap salvage value.

4. Account 2232.2, Circuit Equipment - Digital

The Company proposes a remaining life of 7.6 years, based on the R3 curve and service life of 12.3 years, with the January 1, 1993 account age of five years. We approve this approach based on Company experience and industry expectation, but suggest that this account be closely monitored for impacts of new technology. The proposal to continue use of net salvage of 5% is also approved.

5. Account 2232.3, Circuit Equipment - Optic

We approve the Company proposal of a whole life rate based on an expected average service life of ten years with 0% net salvage. This is based on anticipated growth and industry expected parameters.

C. Information Origination/Terminating Assets

1. Account 2351.0, Public Telephone Equipment

The Company has proposed and we approve a remaining life of 3.1 years, which is based on retaining both the R3 curve and the average service life of ten years, used with the January 1, 1993 account age of 8.1 years. Based on Company reports, additions to this account are not actively promoted, and there is no impact from "smart phones." The Company's proposal of future net salvage of 0% based on obsolescence is approved. Sale of old booths for nonutility use has generated some salvage revenue, but this is not expected to be consistent with the future salvage.

2. Account 2362.1, Private Line Equipment, Customer Premises

We approve a remaining life of 4.4 years and 20% net salvage, in accord with the Company's proposal. The remaining life results from continuation of the underlying S1 curve, and reducing the average service life to eight years. This reduction reflects the increased retirement activity, with no change in age and a slight decrease in investment since the last study. We approve the proposed 20% net salvage which is in line with the Company's experience and expected reuse of the equipment.

D. Cable and Wire Assets

Account 2411.0, Poles

We approve the Company's proposal to retain the R2 curve and decrease the average service life to 24 years, which reflects the continued decline of the investment for this account. With the current age of 22.4 years, this results in a remaining life of 8.8 years. We also approve the Company's proposal to continue the current net salvage of negative 30%.

2. Account 2411.2, Tower and Foundation

Investment in this account is associated with two tower installations; following the retirement of microwave and IMTS, they are used for Company communications. Upon review, we approve the Company's proposal to retain the current underlying service life of 26 years. However, recent retirement experience is not conclusive to drive a change from the R3 curve as proposed by the Company. We approve a remaining life of 12 years based on the current account age of 15.5 years. We approve the Company's net salvage proposal of negative 2%, based on the expectation that tower removal will be performed by an outside contractor who will be given rights to the scrap.

3. Account 2421.1, Aerial Cable

We find that replacement of current surviving aerial cable is likely to extend well into the second decade of the next century. We approve an average remaining life of 10.9 years, which results from use of a 20-year average service life with the S1 curve and the current age of 11 years. The Company's proposal for a net salvage of negative 10% is within industry averages and is in line with historic data; we approve the Company's net salvage proposal.

4. Account 2421.2, Aerial Cable, Fiber

There is no investment in this account. For any future investment, we approve a whole life rate based on average service life of 20 years and negative 5% net salvage. While the Company proposes a negative 15% net salvage, we find the negative 5% net salvage, which is most commonly expected within the industry, to be more appropriate.

5. Account 2422.1, Underground Cable

The Company has accepted a remaining life of 8.3 years, which implies a phase-out date of approximately 2014 with an S3 curve and the current average age of 11.8 years. This correlates with the Company report that Gulf's underground cable facilities are either interexchange or feeder. A net salvage of negative 5% is within industry expectations and is acceptable. The reserve position reflects the corrective measure for this account as shown on Attachment A of this Order.

6. Account 2422.2, Underground Cable - Fiber

Based on anticipated growth, we approve continuation of the whole life rate with a 20 year service life and net salvage of negative 5%.

7. Account 2423.1, Buried Cable - Non-Filled

We approve an average remaining life of 3.7 years which is in line with the Company's current plans to retire non-filled buried cable by the year 1998. Based on the explanatory information regarding removal of terminals and pedestals, we also approve the Company's proposal to retain the currently approved net salvage of negative 5%. The approved rate for this account which is set forth at Attachment C of this Order reflects the corrected reserve shown on Attachment A of this Order.

8. Account 2423.6, Buried Cable - Filled

A remaining life of 10.5 years is approved, based on the current age of 9.1 years, an S2 curve and a 19 year average service life. These parameters are in line with industry expectations, the Company's experience with retirements, and the expected phase-out of copper in the second decade after the year 2000. The Company's proposal to retain the current net salvage of negative 5% appears sound and is approved.

9. Account 2423.8, Buried Cable - Fiber Optic

Because of anticipated growth in this account, we approve a whole life rate based on an expected service life of 20 years and negative 5% net salvage.

10. Account 2441, Underground Conduit

We approve the Company's proposal for a 41-year remaining life, based on a current average age of 8.6 years, 50-year service life and R3 curve, and negative 4% net salvage.

VIII. INVESTMENT TAX CREDITS (ITCs)

As previously discussed, we have approved revisions to the Company's recovery schedules and depreciation rates to become effective January 1, 1993. Revision of a utility's depreciation rates usually results in a change in its rate of ITC amortization and a change in its flowback of excess deferred takes. In the instant case, the Company's ITC amortization shall be adjusted consistent with Section 46(f) of the Internal Revenue Code, and Rule 25-14.008(3)(b)(2), Florida Administrative Code. The flowback of excess deferred taxes shall be adjusted consistent with Section 203(e) of the Tax Reform Act of 1986, and Rule 25-14.013(9), Florida Administrative Code.

The Company shall file detailed workpapers quantifying the tax impact of depreciation rate changes on its net operating income, rate base, and cost of capital. This report shall be based on approved depreciation rates and 1993 data, and shall address the ITC amortization rate change and the change in the rate of the flowback of prior period deferred taxes. The revised calculations shall be submitted as a separate document when the Company submits its fourth quarterly Rate of Return Report for 1993.

Based upon the foregoing, it is

ORDERED by the Florida Public Service Commission that current depreciation rates shall be changed. It is further

ORDERED that an implementation date of January 1, 1993, is hereby approved. It is further

ORDERED that the Company's planned switching retirements for the 1993-1995 period are hereby approved for depreciation purposes. It is further

ORDERED that the Company shall record $151,221, total company, of depreciation expense toward the reserve deficiencies identified on Attachment A of this Order to dispose of 1992's excess earnings. This includes $4,812 of interest. It is further

ORDERED that corrective reserve measures are approved as shown on Attachment A of this Order. It is further

ORDERED that the recovery schedules for recovery associated with recent and planned retirements are approved as set forth in Attachment B of this Order. It is further

ORDERED that the appropriate depreciation rates and amortization schedules for Gulf Telephone Company are set forth at Attachment C of this Order. It is further

ORDERED that the amortization of investment tax credits and flowback of excess deferred income taxes shall be revised to reflect the approved depreciation rates. It is further

ORDERED that the utility shall file updated calculations of the revised ITC amortization and flowback of excess deferred taxes using approved depreciation rates and 1993 financial data. The aforementioned calculations shall be submitted as a separate document at the same time as the Company's fourth quarterly Rate of Return Report for 1993. It is further

ORDERED that this Docket shall be closed at the conclusion of the Proposed Agency Action protest period which is set forth below, assuming no timely protest is received.

By ORDER of the Florida Public Service Commission, this 27th day of October, 1993.

STEVE TRIBBLE, Director
Division of Records and Reporting

by: Kay Flynn
Chief, Bureau of Records

(S E A L)

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on November 17, 1993.

In the absence of such a petition, this order shall become effective on the day subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

If this order becomes final and effective on the date described above, any party adversely affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days of the effective date of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

GULF TELEPHONE COMPANY
1993 DEPRECIATION STUDY
COMMISSION APPROVED
CORRECTIVE RESERVE TRANSFERS

Account	1/1/93 Book Reserve $	Calculated Theoretical Reserve $	Commission Approved Correction $	Restated Reserve $
2211.0 Digital Switching	983,877	---	2,949	986,826
2231.0 Radio Facilities, Comp. Comm.	25,141	---	(426)	24,715
2232.0 Circuit Eqpt., Analog	105,042	---	(1,421)	103,621
2232.2 Circuit Eqpt., Digital	477,157	---	(1,102)	476,055
2232.0 Circuit Eqpt., Analog 1992, Retires	4,036	9,929	5,893	9,929
2211.0 Dig. Switch at Keaton Beach	27,023	107,360	80,337	107,360
2423.1 Buried Cable Non-Filled	572,950	606,588	33,638	606,588
2422.1 Underground Cable	233,226	317,963	31,353	264,579
1992 Overearnings	151,221		(151,221)	0

GULF TELEPHONE COMPANY
1993 DEPRECIATION STUDY
COMMISSION APPROVED
RECOVERY SCHEDULE

Account	1/1/93 Investment $	Restated Reserve $	Recovery Period Years
2211.0 Digital Switch Ret. at Keaton Beach	122,000	107,360	2

The monthly expense should be computed by divinding the average net plant for the month by the number of months of remaining service.

ATTACHMENT C

GULF TELEPHONE COMPANY
1993 STUDY
Depreciation Rates and Components

ACCOUNT		COMMISSION APPROVED AVERAGE REMAINING LIFE (yrs)	NET SALVAGE (%)	ADJUSTED RESERVE (%)	REMAINING LIFE RATE (%)
AMORTIZABLE GENERAL SUPPORT ASSETS					
21150	Garage Work Equipment	7	YEAR	AMORTIZATION	
21160	Tractors	7	YEAR	AMORTIZATION	
21162	Other Work Equipment	7	YEAR	AMORTIZATION	
21220	Furniture – Offices	10	YEAR	AMORTIZATION	
21222	Furniture – Supply	10	YEAR	AMORTIZATION	
21230	Office Equipment	7	YEAR	AMORTIZATION	
21232	Office Equipment – Station App.	5	YEAR	AMORTIZATION	
21233	Office Equipment – LPABX	5	YEAR	AMORTIZATION	
21240	General Purpose Computer	5	YEAR	AMORTIZATION	
GENERAL SUPPORT ASSETS					
21120	Motor Vehicles – Cars	2.9	20	49.19	10.6
21122	Motor Vehicles – Lt. Trucks	3.8	30	41.35	7.5
21123	Heavy Trucks and Trailers – Emb.	6.7	10	86.66	0.5
21123	Heavy Trucks and Trailers – New	15	10	0	6.0 *
21210	Buildings	17.8	5	34.97	3.4
CENTRAL OFFICE ASSETS					
22110	Digital Switching	9.5	0	41.65	6.1
22310	Radio Facilities – Comp. Comm'cat'n	3.8	(6)	78.37	7.3
22320	Circuit Equipment – Analog	5.9	0	45.42	9.3
22322	Circuit Equipment – Digital	7.6	5	41.52	7.0
22323	Circuit Equipment – Optic	10.0	0	17.44	10.0 *
INFORMATION ORIG/TERM ASSETS					
23510	Public Tel Term Equip.	3.1	0	69.95	9.7
23620	Other Term Eqpt. – Pvt. Line	4.4	20	44.24	8.1
CABLE & WIRE ASSETS					
24110	Poles	8.8	(30)	87.38	4.8
24112	Towers & Foundation	12.0	(2)	61.40	3.4
24211	Aerial Cable	11	(10)	50.12	5.5
24212	Aerial Cable – Fiber	20	(5)	0	5.3 *
24221	Underground Cable	8.3	(5)	50.77	6.5
24222	Underground Cable–Fiber	20.0	(5)	9.34	5.3 *
24231	Buried Cable – Non Filled	3.7	(5)	80.02	6.8
24236	Buried Cable – Filled	10.5	(5)	40.40	6.2
24238	Buried Cable – Opt. Fiber	20.0	(5)	5.91	5.3 *
24410	Conduit Systems	41	(4)	18.46	2.1
RECOVERY SCHEDULES					
22110	Digital Switching – 1994 Retirements	2	YEAR	AMORTIZATION	

* Whole Life Rate