

Decision 97-12-034 December 3, 1997

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

In the Matter of the Application of GTE California Incorporated (U 1002 C), a corporation, for approval of 1998 depreciation rates.

Application 97-06-050  
(Filed June 30, 1997;  
amended October 8, 1997)

**ORIGINAL**

Munger, Tolles & Olson, by Henry Weissman, Attorney at Law, for GTE California Incorporated, applicant.

Glenn Stover and Randolph Deutsch, Attorneys at Law, for AT&T, protestant.

Thomas Long, Attorney at Law, for The Utility Reform Network, interested party.

Rufus G. Thayer, Attorney at Law, for the Office of Ratepayer Advocates.

**O P I N I O N**

**Background**

This application was filed by GTE California Incorporated (GTEC) pursuant to Ordering Paragraph 6 of Decision (D.) 89-10-031 (33 CPUC2d 43, at 233 (1989)), the Phase II order in the New Regulatory Framework proceeding, which required GTEC to file an application and supporting testimony no later than June 30 of each year for approval of rescription or technical update of its depreciation rates to become effective on January 1 of the following year.

Rescription of depreciation rates is a review of depreciation rates to reflect any change in the service life, future net salvage and retirement pattern due to technical changes and growth of utility plant. The technical update is a review of depreciation rate changes made necessary due to changes in the composition of utility plant and relative growth or decline in the depreciation reserve.

This application was filed with the Commission's Docket Office on June 30, 1997. Notice of the application appeared in the Commission's Daily Calendar of July 7, 1997. Protests to the application were filed by the Office of Ratepayer Advocates (ORA) and

AT&T Communications of California, Inc. (AT&T-C) on August 4, 1997 and August 5, 1997, respectively.

### **Request**

By its application, GTEC seeks approval of a change in its individual plant-account depreciation rates to become effective on January 1, 1998. Its proposed rates, including the January 1, 1997 effect of Contel of California, Inc. being merged into GTEC as required by D.96-12-069, will result in a \$96 million increase in depreciation expense for the 1998 calendar year based on year-end 1996 recorded plant investments.

The increased depreciation expense results from GTEC's proposed represcription of eight of its 27 plant accounts and a technical update of its remaining 19 plant accounts, as detailed in testimony attached to the application. The majority of the increase in depreciation expense is attributable to the represcription method employed by GTEC which utilizes a substitution analysis model and employs economic remaining life in place of the traditional model and remaining life as described in the Commission's Standard Practice U-4. The plant accounts impacted by GTEC's proposed represcription include Digital Switching Equipment, Circuit Equipment, Aerial Cable Metallic, Aerial Cable Non-Metallic, Underground Cable Metallic, Underground Cable Non-Metallic, Buried Cable Metallic, and Buried Cable Non-Metallic.

### **Protests**

The ORA took exception to GTEC using its substitution-analysis model and economic remaining life in place of the Standard Practice U-4 traditional mortality model and traditional remaining life, respectively. ORA also took exception to GTEC's use of a substitution analysis which does not reflect changes in GTEC's California service area. ORA recommended that GTEC be required to file its depreciation application based on the traditional Standard Practice U-4 remaining-life method.

AT&T-C also took exception to GTEC's depreciation application. AT&T-C contends that the substitution-analysis model overestimates the effect of changes in technology and competition as to the need for increases in depreciation rates.

Accordingly, AT&T requested that evidentiary hearings be held to determine whether GTEC's request is valid.

#### **Response to Protests**

GTEC responded to the protests on August 15, 1997. Through its response, GTEC submitted a new computation of remaining lives based on the traditional approach embodied in Standard Practice U-4. As a result of this new computation, GTEC revised its depreciation lives and reduced its requested \$93 million increase in depreciation expense to approximately \$83 million. GTEC also submitted a new California-specific study of its economic lives to support the plant lives that GTEC employed in its application.

#### **Prehearing Conference**

A prehearing conference on this application was held on August 28, 1997, in San Francisco. All parties to this proceeding concurred that the issue to be addressed in this application is GTEC's use of an independent consulting corporation's depreciation model and the applicability of the Commission's Standard Practice U-4. All parties agreed to continue discussing the merits of the application and indicated that GTEC may amend its application.

#### **Amended Application**

Subsequently, on October 8, 1997, GTEC submitted an amended application which further reduced its request to increase its 1998 depreciation expense from \$83 million to \$55 million. The reason for this further reduction in depreciation expense resulted from an increase in the total life of its Digital Switching plant account from 10 to 11 years. Although GTEC continues to believe that a 10-year life more accurately reflects the economic lives of its Digital Switching plant account in a competitive environment, it concurs with ORA that a 11-year projection life is reasonable for use in its application.

After reviewing the amended application, ORA filed a response recommending that GTEC's amended depreciation rates be adopted for the 1998 calendar year, and AT&T-C withdrew its protest. Absent any protest, a public hearing is not necessary.

GTEC's request to change its depreciation rates for the 1998 calendar year, which does not affect the rates its customers pay for service, should be approved.

**Findings of Fact**

1. ORA and AT&T-C filed protests to the application.
2. D.89-10-031 requires the approval of GTEC's depreciation represcription and technical update reviews be effective January 1 of successive years.
3. GTEC filed an amended application on October 8, 1997.
4. ORA requested that the amended depreciation rates be adopted for the 1998 calendar year, and AT&T-C withdrew its protest.
5. An evidentiary hearing is not necessary.

**Conclusions of Law**

1. GTEC's 1998 proposed depreciation rates for its individual plant accounts, as reflected in its amended application, should be adopted.
2. In order that applicant may comply with D.89-10-031, this order should be made effective upon issuance.

**O R D E R**

**IT IS ORDERED that:**

1. GTE California Incorporated (GTEC) depreciation rates set forth in its amended application for the calendar year 1998 are adopted, as set forth in Appendix A to this order.

2. Application 97-06-050 is closed.

This order is effective today.

Dated December 3, 1997, at San Francisco, California.

P. GREGORY CONLON  
President  
JESSIE J. KNIGHT, JR.  
HENRY M. DUQUE  
JOSIAH L. NEEPER  
RICHARD A. BILAS  
Commissioners

EXHIBIT: AES-R1  
 COMPANY: GTE  
 STATE: CALIFORNIA

08-Oct-97

TABLE 1  
 CHANGE IN ANNUAL DEPRECIATION ACCRUALS  
 RESULTING FROM CHANGES IN DEPRECIATION RATES  
 (000)

ACCOUN NUMBER	CLASS OR SUBCLASS OF PLANT	1997 CURRENT RATES			1998 PROPOSED RATES		
		1-1-97 INVESTMENT A	RATE B	DEPR. ACCRUALS C=A*B	RATE D	DEPR. ACCRUALS E=(A*D)	CHANGE IN ACCRUALS F=G-C
2112	MOTOR VEHICLES	101,128	6.4%	6,472	6.4%	6,472	0
2113	AIRCRAFT	1,240	4.8%	60	0.0%	0	(60)
2114	SPECIAL PURPOSE VEHICLES	126	7.9%	10	12.7%	16	6
2115	GARAGE WORK EQ	2,523	4.0%	101	4.2%	106	5
2116	OTHER WORK EQ	92,712	6.5%	6,026	6.5%	6,026	0
2121	BUILDINGS	694,973	2.7%	18,764	2.9%	20,154	1,390
2122	FURNITURE	31,516	3.6%	1,135	3.4%	1,072	(63)
2123	OFFICE EQ	117,535	13.9%	16,337	11.5%	13,517	(2,820)
2124	GEN PURPOSE COMPUTERS	115,389	11.7%	13,501	11.7%	13,501	0
2211	ANALOG ELECTRONIC SW	57,386	19.4%	11,133	14.2%	8,149	(2,984)
2212	DIGITAL ELECTRONIC SW	1,991,202	7.3%	145,358	8.9%	177,217	31,859
2220	OPERATOR SYSTEMS	46,874	11.3%	5,297	16.2%	7,594	2,297
2231	RADIO SYSTEMS	57,449	12.5%	7,181	11.0%	6,319	(862)
2232	CIRCUIT EQ	1,286,651	8.6%	110,652	10.1%	129,952	19,300
2351	PUBLIC TELE TERM EQ	42,150	3.6%	1,517	5.2%	2,192	674
2362	OTHER TERMINAL EQ	66,098	6.8%	4,495	7.6%	5,023	529
2411	POLES	163,950	4.3%	7,050	4.3%	7,050	0
24211	AERIAL CABLE METALLIC	1,073,105	9.1%	97,653	9.0%	96,579	(1,073)
24212	AERIAL CABLE NONMETAL	7,953	4.8%	382	5.1%	406	24
24221	UNDRGRD CABLE METALLIC	1,424,687	8.0%	113,975	7.6%	108,276	(5,699)
24222	UNDRGRD CABLE NONMETAL	126,657	4.7%	5,953	5.0%	6,333	380
24231	BURIED CABLE METALLIC	947,235	7.8%	73,884	9.1%	86,198	12,314
24231	BURIED CABLE NONMETAL	22,600	5.0%	1,130	4.3%	972	(158)
2424	SUBMARINE CABLE	991	3.8%	38	3.6%	36	(2)
2426	INTRABLDG CABLE	38	2.4%	1	0.0%	0	(1)
2431	AERIAL WIRE	11,342	5.4%	612	5.4%	612	0
2441	CONDUIT SYSTEMS	779,617	2.1%	16,372	2.1%	16,372	0
		9,263,127	7.2%	665,089	7.8%	720,144	55,055

(END OF APPENDIX A)