PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION
Telecommunications Branch

RESOLUTION NO. T-13050
February 24, 1989

R E S O L U T I O N

GTE CALIFORNIA. ORDER AUTHORIZING TECHNICAL UPDATE AND LIMITED REPRESCRIPTION OF STRAIGHT LINE REMAINING LIFE DEPRECIATION RATES FOR TELEPHONE PLANT, REQUESTED BY LETTER FILED JUNE 9, 1988. THE DEPRECIATION RATES ARE EFFECTIVE JANUARY 1, 1989.

SUMMARY

This resolution adopts, for accounting purposes, the Division of Ratepayer Advocates' (DRA) recommendation for 1989 technical update and limited represcription of straight-line remaining life depreciation rates for all telephone plant for GTE California (GTEC). The adopted depreciation rates reflect a limited represcription involving a five year amortization of Right to Use (RTU) fees[1] and retirement of operator switching equipment. The technically updated and represcribed depreciation rates, when applied to the 1988 projected average plant of $6,540,333,000, reduce depreciation accrual by $2.3 million. Table A provides the details of GTEC's current depreciation rates and the adopted rates. The adopted technically updated and represcribed depreciation rates are effective January 1, 1989. In addition, the protest of API Alarm Systems (API) is denied.

BACKGROUND

GTEC's depreciation rates were represcribed and approved in the 1988 rate case, D.87-12-070. The represcription of depreciation rates incorporates changes in service life, future net salvage and retirement patterns due to technological changes and plant growth. The requested technical update reflects changes in composition of the utility plant and relative growth or decline in the depreciation reserve.

In anticipation of the Commission's authorization of this technical update and limited represcription of depreciation rates, GTE requested the impact on revenue requirement (using the depreciation rates recommended by DRA) as part of its 1989

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1 RTU fees are paid for permission to use proprietary information or processes such as computer software programs.

attrition filing in Advice Letter No. 5168. In Resolution No. T-13036, Ordering Paragraph No. 2, we directed GTEC to make an advice letter filing to reflect the revenue requirement impact of technical update thirty days after the approval of technically updated depreciation rates.

On June 9, 1988, GTEC filed a letter requesting technical update of its 1989 depreciation rates. In addition, represcription was requested for the following: (1) retirement of operator switching equipment (Account 2220.00), (2) amortization of previously capitalized Right To Use (RTU) fees over a three year period (Accounts 2211.00 and 2212.00), and (3) recognition of the impact of rapid technological change resulting in installation of fiber optics in the Underground Cable account (Account 2422.10).[2] DRA reviewed GTEC's proposed technical update and limited represcription of depreciation rates and its recommendation results in a reduced depreciation accrual of $2.3 million and a reduced revenue requirement effect of $2.0 million. Table A shows the details of GTEC's request and DRA's recommendation.

Account 2220.00 includes such equipment as directory assistance equipment, manual switchboards, and operator position equipment. Upon review of technological changes and operator equipment retirements in the telephone industry, DRA recommends approval of a represcribed depreciation rate for operator equipment (Account 2220). GTEC will replace its Traffic Service Position System (TSPS)[3] Equipment in 1989. The amortization schedule for this equipment, which had been due to complete in 1990 will be adjusted to be complete in 1989, yielding a composite remaining life for the account of 1.43 years.

The Federal Communication Commission's rewrite of the Uniform System of Accounts requires that RTU fees be treated as an expense. GTEC had previously capitalized the fees. In the change in treatment of RTU fees, DRA recommends a five year amortization rather than GTEC's proposed three year amortization. This impacts Accounts 2211 and 2212.

While DRA recognizes that changes in technology and increasing use of fiber optics may lead to reduction in remaining life of metallic underground cable, it has not had the opportunity to review this account in detail and recommends that the issue of remaining life be reviewed in the next represcription year, not

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2 The requested depreciation rates would have resulted in increased annual depreciation accrual of approximately $20.2 million based on the 1988 projected average plant of $6,540,333,000.

3 Traffic Service Position System provides for the processing and recording of special toll calls, public telephone toll calls, and other types of calls requiring operator assistance.

during this technical update year. Therefore DRA recommends rejection of the requested change in Underground Cable life (Account 2422.1).

In accordance with this Commission's procedures for depreciation review (adopted September 13, 1977), interested parties were invited to file statements opposing or supporting the change in depreciation rates. Only one protest, filed by API, was received.

PROTEST

API, in a letter dated August 11, 1989, protests "...GTEC's purported justification for the rather dramatic increase in depreciation rates shown for the operator systems account (Account No. 2220.00)..." It takes exception to GTEC's mention of GTEC's "forced exit" from the interexchange business as part of its discussion on contracts as a factor affecting service life of operator equipment[4]:

> "API submits for DRA's consideration that this 'forced exit' of GTEC from the interexchange business is an entirely inappropriate basis upon which to predicate increasing depreciation rates for Account 2220.00-Operator Systems. In this regard, it should be noted that GTEC's exit from the interexchange business was hardly forced. In United States v. GTE Corporation, 603 F. supp. 730 (D.D.C. 1984), GTEC agreed in a Consent Decree, through its parent GTE Corporation, to exit the interexchange telecommunications market in return for its acquisition of the Southern Pacific Company (now known as U.S. Sprint).

API requests that some reduction of GTEC's proposed depreciation rate be made because "GTEC apparently relies upon the Consent Decree to justify the depreciation rate for operator services.

In its review and evaluation of the protest DRA staff requested a response from GTEC. By letter dated October 5, 1988, GTEC offers

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4 GTEC's depreciation study includes the following on page 2 of its discussion of Operator Systems:

> "IX Contracts
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> The forced exit of the Telcos from the interexchange business has particular implications for operator services. The contract for interexchange services with AT&T-C has assured the recovery of the IX TSPS investment. However, it is reasonable to assume that AT&T will withdraw from the Operator Services contracts concurrent with their withdrawal from the switching and facilities contracts."

clarification of the protested material. It asserts that API is incorrect in its interpretation that GTEC based service lives for Operator Services Account on its forced exit from the interexchange market by the Consent Decree.

> "The paragraph regarding Interexchange (IX) Contracts was inserted into an earlier depreciation study to show that a service life exceeding the life of the contract could result in stranded investment. The statement regarding the exit of GTEC from the interexchange market was reiterated only as additional background to aid in understanding the history of the account and some of the underlying assumptions which impact the service lives of the plant.
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> "The major factor which impacts the life of this account is the economics of changing to a new technology. In GTEC's 1988 test year rate case, the DRA was strongly supportive of the company's plans to change out the existing technology in 1989 in order to achieve the significant work efficiencies that the new technology will make possible. (EX. 85, Ch. 9, ¶¶71-75, pp. 9-16, 9-17.) The economic study, which was reviewed by DRA in conjunction with the 1989 Depreciation Study, clearly demonstrated that it would be beneficial to replace the TSPS in 1989. This was a continuation of the Operator Services review which was started in GTEC's 1988 rate case.
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> "GTEC's exit from the interexchange market has no bearing on the account's remaining life."

DISCUSSION

It appears that GTEC included discussion from previous depreciation reviews in the material submitted for the current technical update and limited represcription. This material is not pertinent to the issues in represcription and might well have been excluded from GTEC's filing. While GTEC included three topics in its request for represcription of the Operator System account (IX Contracts, technology, and competition), it is the technology concerns that lead GTEC, DRA and the Commission to support a change in useful life for this category of plant. In view of the previous consideration and study operator systems received in GTEC's 1988 rate case it is appropriate to close out TSPS in 1989. The depreciation rate we will adopt accomplishes this. Therefore we will deny API's protest and request to revise the depreciation rates.

FINDINGS

1. GTEC filed a letter on June 9, 1988 requesting technical update and limited represcription of straight-line remaining life depreciation rates for its telephone plant.

2. GTEC requests represcription of depreciation rates for accounts having operator systems equipment, RTU fees and buried cable.

3. DRA accepts the retirement of operator equipment.

4. DRA recommends a five year amortization, rather than the requested three year amortization, for RTU fees.

5. DRA recommends deferring consideration of represcription of buried cable account depreciation rates until a study can be undertaken.

6. On July 14, 1989 DRA circulated notice of GTEC's filing and DRA's evaluation to interested parties.

7. API protested the inclusion of GTEC's exit from the interexchange market as justification for retirement of operator systems equipment.

8. The change in operator system depreciation rates is based on GTEC's plans to replace TSPS in 1989, and DRA's review of new technology and retirements of operator equipment in the industry.

9. API's protest should be denied.

10. DRA's recommendation for technically updated depreciation rates and limited represcribed rates for GTEC shown in Table A is reasonable, and should be adopted for accounting purposes. However, this is not a finding of reasonableness for ratemaking purposes.

IT IS ORDERED that:

1. The technically updated and represcribed straight-line depreciation rates for telephone plant for GTEC, as shown in Table A are adopted for accounting purposes. The depreciation rates are effective for 1989 and subsequent years until GTEC files a new depreciation study with the Commission.

2. Within 30 days of the effective date of this resolution, GTEC shall file an advice letter with supporting workpapers, to reflect the revenue requirement impact of technical update and limited represcription of 1989 depreciation rates on 1989 attrition year plant, using methodology adopted for attrition filings. In its advice letter, GTEC shall propose a bill and keep surcharge/surcredit subject to Commission approval.

3. API's protest is denied.

4. The effective date of this Resolution is today.

I certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on February 24, 1989. The following Commissioners approved it:

G. MITCHELL WILK
President
STANLEY W. HULETT
JOHN B. OHANIAN
Commissioners

Victor Weissell
Executive Director

Commissioner Frederick R Duda, being necessarily absent, did not participate.

TABLE A
1989 TECHNICAL UPDATE OF DEPRECIATION RATES

GTE CALIFORNIA

COMPARISON OF DEPRECIATION RATES
(Thousands of Dollars)

ACCT #	CLASS OF PLANT	PROJECTED 1989 AVG PLANT $	PRESENT RATES %	PRESENT ACCRUALS $	UTILITY REQ. RATES %	UTILITY REQ. ACCRUALS $	DIFFERENCE (REQ-PRES) $	ADOPTED STAFF REC. RATES %	ADOPTED STAFF REC. ACCRUALS $	DIFFERENCE (REC-PRES) $
2122.00	MOTOR VEHICLE	118367	8.30	9874	8.37	9958	83	8.37	9958	83
2125.00	GARAGE WORK EQUIPMENT	4065	5.29	215	5.34	217	2	5.34	217	2
2116.10	TOOLS & OTHER WORK EQUIP.	74083	4.64	3436	4.60	3406	-30	4.60	3406	-30
2121.00	BUILDINGS	424174	3.98	16975	3.95	16833	-142	3.95	16833	-142
2122.00	FURNITURE	47235	12.90	6093	4.86	2296	-3798	4.86	2296	-3798
2123.10	OFFICE EQUIPMENT	11716	12.90	1511	5.71	669	-842	5.71	669	-842
2123.21	COMPANY COMMUN.-LARGE PBX	26210	13.96	3659	13.62	3570	-89	13.62	3570	-89
2123.22	COMPANY COMMUN.-STR APP	53344	13.61	7260	11.71	6247	-1014	11.71	6247	-1014
2124.00	GENERAL PURPOSE COMPUTER	88388	12.90	11403	22.50	20011	8538	22.50	20011	8538
2211.00	ANALOG SWITCHING	564626	16.83	95027	20.60	116313	21286	20.60	116313	21286
2211.00	ANALOG SWITCHING (RTU FEES)	2802	16.83	472	33.33	934	462	20.00	560	89
2212.00	DIGITAL SWITCHING	736992	6.14	45251	7.04	51884	6633	7.04	51884	6633
2212.00	DIGITAL SWITCHING (RTU FEES)	98099	6.14	6020	33.33	32676	26657	20.00	19608	13588
2215.11	ELECTROMECHANICAL-AMORT.	152397	39.91	60822	5.11	7787	-53034	5.11	7787	-53034
2225.00	OPERATOR SYSTEM	25135	18.42	4630	56.98	14322	9692	56.98	14322	9692
2231.20	RADIO	51066	10.80	5515	10.46	5342	-174	10.46	5342	-174
2232.10	CIRCUIT EQUIPMENT-ANALOG	165694	9.79	16221	3.52	5832	-10389	3.52	5832	-10389
2232.00	CIRCUIT EQUIPMENT-DIGITAL	733992	9.79	71798	10.16	74512	2714	10.16	74512	2714
2232.00	CIRCUIT EQUIPMENT-LIGHTWV	42365	9.79	4148	11.97	5071	924	11.97	5071	924
2321.00	STAT.CONN.-INSIDE WIRE	415641	10.00	41564	10.00	41564	0	10.00	41564	0
2351.00	PUBLIC TELE EQUIP-COIN	35869	8.90	3192	9.43	3382	190	9.43	3382	190
2362.00	TERMINAL EQUIPMENT	30291	14.27	4323	13.55	4104	-218	13.55	4104	-218
2411.10	POLES	99613	4.96	4941	4.85	4831	-110	4.85	4831	-110
2421.10	METALIC CABLE-AERIAL	689316	5.51	37981	5.61	38671	689	5.61	38671	689
2421.20	NON-METALIC CABLE-AERIAL	277	5.51	15	6.74	19	3	6.74	19	3
2422.10	METALIC CABLE-UNDERGROUND	830992	4.35	36148	5.46	45372	9224	4.37	36314	166
2422.20	NON-METALIC CABLE-UNDERGROUND	18189	4.35	791	4.78	869	78	4.78	869	78
2423.10	METALIC CABLE-BURIED	520961	5.14	26777	5.70	29695	2917	5.70	29695	2917
2423.20	NON-METALIC CABLE-BURIED	124	5.14	6	7.59	9	3	7.59	9	3
2424.10	METALIC CABLE-SUBMARINE	808	4.00	32	4.17	34	1	4.17	34	1
2426.00	INTRABUILDING CABLE	6420	5.24	336	3.63	233	-103	3.63	233	-103
2431.00	AERIAL WIRE	8311	10.83	954	11.49	1012	58	11.49	1012	58
2441.00	CONDUIT	411841	2.02	8319	2.01	8278	-41	2.01	8278	-41
	TOTAL	6540333		535781		555953	20172		533453	-2328
	COMPOSITE RATE		8.19%		8.50%			8.16%		