PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Telecommunications Branch
Commission Advisory & Compliance Division

RESOLUTION T-14852
September 2, 1992

RESOLUTION

RESOLUTION T-14852. THE SISKIYOU TELEPHONE COMPANY (U-1017-C). REPRESCRIPTION OF STRAIGHT-LINE, REMAINING LIFE DEPRECIATION RATES FOR ALL TELEPHONE PLANT.

SUMMARY

By letter dated November 5, 1991, to the Commission Advisory and Compliance Division (CACD), The Siskiyou Telephone Company (Siskiyou) proposed represcription [1] of its depreciation rates for all telephone plant. A depreciation study based on depreciable plant as of January 1, 1991, accompanied Siskiyou's letter.

After discussion with CACD, Siskiyou gave notice of its proposed depreciation rates by letter of January 14, 1992, to the Division of Ratepayer Advocates (DRA) and to parties in its last general rate case.

DRA protested Siskiyou's reduction of service life from 15 years to less than 10 years for seven digital central office switches. Siskiyou responded to DRA's protest with a revised depreciation study of January 24, 1992, retaining a 15-year service life for two of the seven switches, but supporting less than 10-year service life for the remaining five switches.

For reasons discussed below, we adopt for accounting purposes the depreciation study as set forth in Table A, based on a full 10-year service life for the remaining five switches.

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[1] Represcription of depreciation rates includes review of depreciation rates to reflect changes in service life, future net salvage and retirement patterns due to technological changes and growth of telephone plant.

BACKGROUND

On November 5, 1991, Siskiyou submitted to the Telecommunications Branch of the Commission Advisory and Compliance Division (CACD) a study for represcription of the depreciation rates for all telephone plant. Siskiyou requested increases in service life for certain work equipment and decreases in service lives for office furniture, central office equipment, and outside plant.

In support of its request to decrease service lives on some items, Siskiyou cited a rapidly changing technological environment in which it may cost less to replace an entire central office switch than it does to upgrade it. Similarly, introduction of fiber optics and customer demand for broadband and video services has made Siskiyou re-evaluate the useful life of certain existing outside plant. Siskiyou further states that the facilities upgrade would provide the company with the ability to interconnect with the Signaling System 7 (SS7) network and offer its customers Custom Local Area Signaling Services (CLASS), 800 service number portability, and Carrier Identification Code expansion.

Commission acceptance of telephone companies' rates for accounting purposes facilitates their use in calculating settlement amounts to be drawn from the intercompany intrastate toll revenue pool, but does not endorse them for the purpose of setting rates in current or future general rate proceedings.

Siskiyou's depreciation rates were last represcribed for 1985 by Memorandum to the Commission for the meeting of January 8, 1986.

NOTICE/PROTESTS

After discussion with CACD, Siskiyou made notice of its proposed depreciation rates by letter of January 14, 1992, to DRA and other interested parties.

DRA filed a limited protest of Siskiyou's depreciation rates, objecting to Siskiyou reducing the service life of its Digital Central Office switches from 15 years to less than 10 years. DRA recommends that the 15-year service life be retained for two switches (Etna and Ft. Jones central offices), and that five smaller switches be retained until Siskiyou justifies its plan to replace these with remote switches that can provide more modern services. DRA says these five switches should not be retired until Siskiyou provides supporting studies for the demand for advanced services and/or operational savings incurred by their replacement. DRA states, "current switches (DMS10m) are capable of providing adequate service well into the 1990s and beyond and should not be retired prematurely."

Siskiyou responded to DRA's protest by letter of February 18, 1992. Siskiyou concurred with DRA's recommendation of a 15-year service life for the Etna and Ft. Jones switches, but continued to support its selection of less than 10-year total life for the five remote switches, explaining that it is more economical to replace these remote switches in 1994 with new remotes designed to be software compatible with the 15-year Etna/Ft. Jones switches. Siskiyou presented its revised switch service life estimate in a January 24, 1992, depreciation study. Siskiyou's depreciation schedule rates reflect an average six-year total life for the remote switches. DRA recalculated the depreciation schedule based on a 10-year life for the remote switches, and the result is presented in Table A, attached.

DRA, in addition, states that the issues are whether or not there is a need for advanced services in Siskiyou's five remote offices and if realizable operational savings warrant a change.

DISCUSSION

DRA's concern centers on the reasonableness of Siskiyou's decision to retire five remote switches and replace them with new equipment capable of providing modern telecommunications services (broadband and video) for which DRA does not foresee a reasonable demand in Siskiyou's remote central offices. DRA believes the present remote central office switches are capable of providing adequate service well into the 1990s and beyond.

Upon further inquiry by CACD, Siskiyou explains that this facilities upgrade provides the company with the ability to interconnect with the SS7 network. Such an upgrade permits Siskiyou the ability to provide CLASS services, as well as more efficient access for basic toll calling. In addition, the upgrade would permit Siskiyou to utilize the new 800 database system mandated by the FCC, to implement NPA/NXX format code modifications, and to facilitate a Carrier Identification Code (CIC) expansion. CIC expansion is a necessity for intraLATA presubscription, the demand for which may increase following IRD implementation.

DRA responds that Siskiyou fails to supply data on the number of 800 service subscribers and information on alternative methods to meet the needs of these subscribers. DRA notes that Siskiyou does not provide information on timing and cost of deploying CIC expansion and NPA/NXX format code modification and costs of alternatives other than replacing the smaller switches (Remote Digital Central Offices - RDCO's). DRA concludes that Siskiyou's computation of depreciation rates is based on a six-year average service life for the five RDCO's and not a 10-year life. DRA recalculates the depreciation schedule based on a 10-year total life for the RDCO's (see Table A, attached). DRA suggests Siskiyou file an application supporting a 10-year service life.

We find that Siskiyou has provided sufficient rationale to reduce from 15 to 10 years, for accounting purposes only, the service life for the five RDCO's, and decide that no further application is required from Siskiyou at this time supporting a 10-year service life for the RDCO's. However, we make no judgement on Siskiyou's plans to retire the RDCO's after an average life of six years. Moreover, this review of Siskiyou's proposed depreciation schedule for accounting purposes is not the time or place for a ratemaking treatment or a reasonableness review of Siskiyou's operations. Such a review is more appropriate for Siskiyou's next general rate case proceeding. At this time our acceptance of the depreciation rates in Table A for accounting purposes is not a finding of reasonableness of the resulting accrual, depreciation reserve balance or net plant investment for ratemaking purposes. These amounts for each class of plant are normally reviewed in general rate cases.

After reviewing Siskiyou's projected replacement and retirement schedules and current investment in modern plant equipment, we accept for accounting purposes the proposed depreciation rates shown in Table A, as calculated by DRA.

The proposed rates result in an estimated annual increase in depreciation accrual of $232,714 (or $1,009,992 to $1,242,706), based on January 1, 1991, plant investment of $14,843,888.

FINDINGS

1. Siskiyou requested revised depreciation rates as set forth by letters to CACD dated November 5, 1991 and January 24, 1992.

2. Siskiyou proposed an average service life of less than 10 years for five Remote Digital Central Offices (RDCO's).

3. DRA protested the reduction in service life for the five RDCO's.

4. DRA recalculated Siskiyou's depreciation schedule based on a 10-year service life for the RDCO's. The results are presented in Table A, attached.

5. DRA calls for Siskiyou to file an application to support a 10-year service life for the RDCO's.

6. This review of Siskiyou's proposed depreciation schedule for accounting purposes is not the time or place for a ratemaking treatment or a reasonableness review of Siskiyou's operations.

7. No application is required at this time from Siskiyou supporting a reduction of service life from 15 years to 10 years for the RDCO's.

8. The depreciation rates set forth in Table A are reasonable for accounting purposes.

9. No finding is made concerning the reasonableness for ratemaking of Siskiyou's resulting depreciation accruals, or the resulting depreciation reserve balances or net plant investment.

THEREFORE, IT IS ORDERED that:

1. Authority is granted to make the depreciation rate revisions shown in Table A of this Resolution effective for accounting purposes for calendar year 1992 and subsequent years until revised by this Commission.

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 September 2, 1992. The following Commissioners approved it:

Neal J. Shulman

NEAL J. SHULMAN
Executive Director

DANIEL Wm. FESSLER
President
JOHN B. OHANIAN
NORMAN D. SHUMWAY
Commissioners

Commissioner Patricia M. Eckert, being necessarily absent, did not participate.

TABLE-A

THE SISKIYOU TELEPHONE COMPANY

ANNUAL DEPRECIATION ACCRUAL & RATE DETERMINATION

STRAIGHT LINE REMAINING LIFE METHOD

ACCT. NO.	DESCRIPTIONS	GROSS PLANT $	RATE %	PRESENT AMOUNT $	DEPR. RESERVE $	NET BALANCE $	AVERAGE SERVICE LIFE	REMAINING LIFE YRS	ANNUAL ACCRUAL $	RATE %
21120	VEHICLES	288,890	5.00%	14,445	131,436	143,010	7	4.32	33,104	11.46%
21140	SPEC PURPOSE VEHICLES	5,889		0	5,889	0	10	0.50	0	0.00%
21160	WORK EQUIPMENT	219,510		0	180,620	38,890	15	5.81	6,694	3.05%
21210	BUILDINGS	928,897		0	417,165	511,732	15/40	9.68	52,865	5.69%
2121X	BLDG-MW,DMS1,RR	206,156		0	75,195	130,961	15/25	7.73	16,942	8.22%
21220	FURNITURE	119,128		0	36,797	82,331	15	9.72	8,470	7.11%
21231	OFFICE EQUIPMENT	89,844		0	23,005	66,839	10	5.29	12,635	14.06%
21240	COMPUTERS	764,584		0	536,020	228,564	5	2.04	112,041	14.65%
22120	COE - DIGITAL	3,513,232		0	515,550	2,997,682	10/15	7.31	410,080	11.67%
2231X	COE - MW,MR,RR	1,087,434		0	695,227	392,207	10	3.78	103,758	9.54%
22321	COE - TRUNK CARRIER	1,092,877		0	904,901	187,976	10	1.96	95,906	8.78%
2232X	COE - EAS,RR,SUB CXR	600,242		0	346,587	253,655	10	5.48	46,287	7.71%
22325	COE - DSM1 CARRIER	433,687		0	125,007	308,680	10	3.50	88,194	20.34%
23510	PUBLIC TELEPHONE EQUIP.	57,760		0	50,048	7,712	7	3.96	1,947	3.37%
24110	POLE LINES	724,478	-5.00%	(36,224)	250,297	510,405	25	13.47	37,892	5.23%
24111	MICROWAVE POLE LINES	297,776	-5.00%	(14,889)	222,521	90,144	25	6.50	13,868	4.66%
24210	AERIAL CABLE	1,940,506	-5.00%	(97,025)	594,541	1,442,990	25	16.51	87,401	4.50%
24220	UNDERGROUND CABLE	66,892		0	16,355	50,537	25	15.90	3,178	4.75%
24230	BURIED CABLE	2,320,335		0	644,695	1,675,640	25	15.73	106,525	4.59%
24410	UNDERGROUND CONDUIT	85,771		0	36,015	49,756	25	10.12	4,917	5.73%
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		14,843,888		(133,694)	5,807,871	9,169,711			1,242,706	8.37%

23210	CUSTOR PREMISES WIRING 10 YEAR AMORTIZATION PER PUC ORDER	228,970	208,941	20,029