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BEFORE  THE  IDAHO  PUBLIC  UTILITIES  COMMISSION

IN THE MATTER OF THE APPLICATION )

OF GTE NORTHWEST INCORPORATED ) CASE  NO.  GTE-T-97-5

TO DETERMINE AND FIX PROPER AND )

ADEQUATE RATES OF DEPRECIATION )COMMENTS OF THE

FOR SEVERAL CLASSES OF ITS )COMMISSION STAFF

DEPRECIABLE PROPERTY )

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COMES  NOW  the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Susan Hamlin, Deputy Attorney General, and submits the following comments for the Commission’s consideration in Case No. GTE-T-97-5.

BACKGROUND

GTE Northwest filed a request to change its depreciation rates on March 10, 1997.  The filing consisted of an Application and Direct Testimony of Allen E. Sovereign, Manager-Capital Recovery.  The Application requested an increase in depreciation rates for eight accounts specifically identified in the filing and requested that booking of the new rates be effective beginning January 1, 1997.  The depreciation rates for the remainder of the accounts would be the rates as established at the 1994 three-way depreciation meeting.  The eight accounts involved in the Application are:

Account Number          Description   Change in rate

2212.00Digital Switching EquipmentFrom 6.4% to 12.0%

2232.00Circuit EquipmentFrom 8.1% to 16.1%

2421.10Aerial Cable - MetallicFrom 5.4% to 16.0%

2421.20Aerial Cable - FiberFrom 3.6% to 6.5%

2422.10Underground Cable - MetallicFrom 4.3% to 15.5%

2422.20Underground Cable - FiberFrom 3.5% to 6.1%

2423.10Buried Cable - MetallicFrom 5.1% to 13.5%

2423.20Buried Cable - FiberFrom 3.4% to 6.4%

COMPARISONS

GTE requests that the overall average depreciation rate increase from 5.9% to 12.1%.  Additionally, depreciation expense would increase from about $20.285 million to about $42.033 million.  A comparison of the depreciation rates requested by GTE and the calculation of the related depreciation expense is presented in Exhibit No. 101.

Mr. Sovereign, Direct Testimony, page 18, presents a list of composite depreciation rates for seven different companies.  GTE has requested a 12.1% composite depreciation rate; a rate higher than for any other company presented for comparison.  Those rates range from 8.69% for AT&T to 11.99% for COX.  Additionally, U S WEST agreed to an 8.6% composite rate in a stipulation with Staff in its most recent rate case, Case No. USW-S-96-5.  The individual accounts are as follows:

Account Number          Description   USW Stipulation

2212.00Digital Switching Equipment10.5%

2232.00Circuit Equipment11.9%

2421.10Aerial Cable - Metallic  7.1%

2421.20Aerial Cable - Fiber  9.6%

2422.10Underground Cable - Metallic  6.9%

2422.20Underground Cable - Fiber  7.1%

2423.10Buried Cable - Metallic  5.2%

2423.20Buried Cable - Fiber  6.2%

DEPRECIABLE PLANT

Staff investigation of the depreciable plant for this case consisted of the following three items:

1.Participate in a presentation by GTE related to the reasons for this filing.

2.Audit the records of plant in service at San Angelo, Texas.

3.Compare the plant in service records to actual plant in service by physical inventory of twelve central offices.

The twelve central offices visited were:  Sandpoint, Hope, Clark Fork, Priest River,

Coeur d’Alene, Post Falls, Rathdrum, Spirit Lake, Kellogg, Wallace, Potlatch, and Moscow.

There are 46 central offices in GTE’s Idaho jurisdiction with a total booked cost of about $131.3 million.  Additionally, there is outside plant in service with a booked cost of about $216.6 million.  That makes a total plant in service of about $347.9 million.  The twelve central offices visited had plant in service booked at about $54.1 million as of April 30, 1997.  Therefore, Staff

physically examined about 26% of the Idaho central offices with a recorded cost totaling approximately 41% of the total cost of all Idaho central offices, and a total cost of almost 16% of all recorded Idaho plant in service.  There are four distinct identifiable errors:

A.Part numbers recorded on the subsidiary plant in service records are very often wrong.  The number cannot be related to the asset in service.

B.The terminology used to identify the asset on the subsidiary records does not identify the asset.  The terminology is established by a person in the recording office, and the technical people that make use of the asset don’t understand the terminology.

C.The booked general ledger amount for the central offices examined differed from the detailed subsidiary ledger postings by $681,805.  An error factor of 0.989%.

D.There were recognizable financial errors between the recorded central office plant in service and the actual plant in service.  The recognizable financial errors discovered in this investigation are:

1.At Hope central office there is recorded Part No. 375A17 related to batteries that were not actually there.  Cost recorded $9,910.

2.At Hope central office battery systems had been changed such that only one-half of the batteries recorded were in use.  Cost recorded $9,382.

3.At Moscow central office there is recorded in Miscellaneous Bay 1 converters that were not there.  Cost recorded $18,442.

4.At Post Falls central office there is recorded a ROTL1054A Master that was not there.  Cost recorded $3,759.

5.At Post Falls there are recorded three rectifiers that have been removed and transferred to Rathdrum.  (There were actually 5 in service in Post Falls.)  Cost recorded $35,632.

6.At Potlatch there is recorded a TELT test set that is not there.  Cost recorded $10,997.

7.At Rathdrum there is recorded a NPPC 101 Tape Drive Assembly that is not there.  Cost recorded $19,354.

8.At Rathdrum there is recorded an old generator that has been removed.  Cost recorded $7,606.

9.At Rathdrum there is recorded a NTCB Unit OPC 525 MB E/W Tape that is not there.  Cost recorded $12,066.

10.At Rathdrum there is a duplicate recording of SW Auto Transfer Fully Equipped.  Cost recorded $10,183.

11.At Sandpoint there is recorded a Power Supply unit that is not there.  Cost recorded $15,520.

12.At Sandpoint there is recorded a TRYM Unit RCU 560 that was removed in 1994.  Cost recorded $20,962.

13.At Sandpoint there is recorded a GTPH System GTD - 5 EAX that is not there.  Cost recorded $15,722.

14.At Spirit Lake there are recorded 3 Terminals Mono Green.  Only one is there.  Cost recorded of the missing two $3,570.

15.At Wallace there are recorded two DESI Test Sets.  Only one is there.  Cost of the missing one $2,692.

The sum of the recognizable financial errors in items 1 through 15 above is $195,797.  Therefore, there is an error factor of 0.362% ($195,797 divided by $54.1 million).  By adding the error factor related to the difference between the general ledger and the subsidiary ledger (0.989%) to the error factor related to the recordings in the subsidiary ledger (0.362%) there is an overall error factor from the general ledger through the subsidiary ledger to the actual plant in service of 1.35%.  That calculates to be a reduction of the recorded general ledger plant in service of $4.7 million ($347.9 million times 1.35%).  The error factor should be considered in a rate case, but for this depreciation case the change in depreciation is less than $600,000 if all the requested depreciation rates were approved.  Therefore, the error factor is not part of additional discussions in this case.

DEPRECIATION RATE PROPOSAL

A history of depreciation rates is presented for the eight accounts involved in the Application (Exhibit No. 102).  The schedule shows Vintage average life, Reserve ratio, Whole life rate, and Remaining life rate as they existed in 1984, 1990, and 1994.  For each account the remaining life rate was related to the vintage average life, which, in turn was supported by retirements.

The Company requests an order authorizing it to revise depreciation rates for the eight accounts most affected by competition and new technology, effective retroactive to

January 1, 1997.  This revision roughly doubles  GTE’s depreciation expenses.  The Company’s support for the proposed changes comes in the form of testimony from Allen Sovereign, Manager-Capital Recovery, and concentrates on three items: (1) the changing telecommunications environment, (2) technological change, and (3) the inappropriateness of historical analysis.  The Company cites studies by Technology Futures Inc. (TFI) in support of its revisions and also offers comparisons to other telecommunications providers in support of the reasonableness of those revisions.

Staff believes there are three major problems with the Company’s proposed change in depreciation rates and lives:

1.The Company’s foundation for the proposal is a specific TFI study already seriously questioned by Staff in a recent case before this commission.  Staff witness Lee Selwyn of ETI, in Case No. USW-S-96-5, testified concerning U S WEST depreciation proposals and detailed why studies conducted by Technology Futures, Inc. (TFI) were inappropriate as the rationale for shortening depreciation lives.  Those comments pertain to the same TFI studies submitted as evidence by GTE in this case and are equally applicable here.  In addition, the change in depreciation lives sought by GTE is even more radical than U S WEST sought to justify with those studies.  Witness Selwyn noted, at pages 2483 ff. of the case transcript, two specific problems with the TFI studies.  First, the studies ignore the actual empirical life of the assets involved and rely on a non-standard methodology.  Problems with the Fisher-Pry model for technological substitution are elucidated in more detail at Selwyn, pages 2489-2492.  Second, the studies were conducted at an industry-wide level and contain nothing Idaho-specific about the actual state of competition and the real need for technological replacement.

2.The Company’s case for the inappropriateness of historical analysis is based on mere assertion and is without foundation.

3.The Company’s comparison to other providers does not, as the Company contends, show the essential reasonableness of its proposal.  As a matter of fact, GTE’s proposed composite rate of 12.1% is appreciably higher than six of the seven competitors’ composite rates cited in Sovereign’s Direct Testimony, page 18, as well as much higher than the 8.6% settled on in the most recent U S WEST case (USW-S-96-5).  Further comparisons were made by Staff to two recent filings before this Commission.

Five of the eight revised rates are higher than originally proposed and finally agreed upon by U S WEST in Case No. USW-S-96-5.  In addition, U S WEST proposed recovery of the depreciation reserve deficiency consequent on its revised rates over a period of years and ultimately agreed to write off the reserve deficiency to lessen the impact on rates.  The five accounts where the Company’s proposed rate is higher are the biggest of the eight and for the biggest of all (Account 2423-Buried Cable Metallic) GTE’s proposed rate is more than twice

U S WEST’s.  The fourth and fifth biggest (Accounts 2421 and 2422 Metallic) find GTE’s proposed rate also more than double U S WEST’s.  The second and third biggest (Accounts 2212 and 2232) are more than marginally larger than U S WEST’s.

Comparison with the rates proposed by GVNW for Idaho’s rural telecommunications companies in GNR-T-97-1 gives similar results.  Fewer accounts were directly comparable, but again for the largest (Account 2423-Buried Cable Metallic) GTE’s proposed rate is more than twice the rural carriers’ proposed rate.  Only in Account 2212-Digital Electronic Switches was the GTE proposed rate matched by the rural carriers’ proposed rate.

Simple comparisons show the GTE’s proposed revisions are not reasonable based on its own suggested standard comparison with other rates.  Ample testimony provided in Case No. USW-S-96-5 was offered to show that careful application of depreciation rates must be made to distinguish what is necessary for regulated services from separate impacts on future deregulated services.  Allowing such revised rates to be included in future calculations for cost of service and universal service obligations is a serious step.  This is a major revision with potentially

far-reaching impacts that must be considered more fully now.  Decisions taken in the public interest cannot afford to put off serious consideration of such impacts until some future time.

Staff believes that accession to the Company’s request will create an overhang of “legacy costs” that will be used to artificially inflate cost of service in current interconnection proceedings and that will be difficult to reverse when the time comes to formally consider their possible inclusion in rates.  The cost increases consequent on accelerated depreciation schedules are highly speculative and are not required by current competition.

Staff is unable to support the Company’s requested increase in depreciation rates.  Staff can support an increase in depreciation rates based on the most recent three way meeting results.  During 1996 GTE participated in three way meetings establishing depreciation rates in eight states (Exhibit No. 103).  The order (FCC 96-485) establishing those depreciation rates is dated December 19, 1996.  Exhibit No. 103 shows the depreciation rates established by that order for the eight accounts in dispute and the average of those rates for the eight states involved in 1996.  Staff recommends that the average of the depreciation rates established in 1996 be the depreciation rates approved for this case.  GTE’s own asset useful life history is proper in determining the expected useful life of GTE assets.  The depreciation rates established in 1996 are the most recent rates available to us that were established utilizing some historical data.  The current impact of competition on depreciation rates does not require the elimination of historical data.  Exhibit No. 104 shows the depreciation expense as calculated utilizing those average depreciation rates.  The result is an increase of depreciation expense of $3.4 million as compared to the increase of $21.7 million requested by GTE.

RECOMMENDATION

Staff recommends that the depreciation rates shown as “average” on Exhibit No. 103 and included in Exhibit No. 104 in the column “1997 Recommended Rates” be established as Commission authorized depreciation rates with a starting date of January 1, 1997.  The historical actual useful life of an asset is still a reliable indication of the service life of the asset and is consistent with forward-looking competitive market lives for regulated services.  The starting date for the new depreciation rates should be January 1, 1997, the same as requested by GTE.

DATED  at Boise, Idaho, this            day of August 1997.

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