

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Investigation into NORTHEAST)	DOCKET NO. 891236-TL
FLORIDA TELEPHONE COMPANY'S authorized)	ORDER NO. 22273
return on equity and earnings)	ISSUED: 12-7-89
)	

The following Commissioners participated in the disposition of this matter:

- MICHAEL McK. WILSON, Chairman
- THOMAS M. BEARD
- BETTY EASLEY
- JOHN T. HERNDON

NOTICE OF PROPOSED AGENCY ACTION
AND
ORDER ACCEPTING PROPOSED RESOLUTION AS MODIFIED

BY THE COMMISSION:

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

By letter dated September 5, 1989, we informed Northeast Florida Telephone Company (Northeast or the Company) that its last authorized return on equity (ROE) of 15% + 1.5% is substantially in excess of current indications of a reasonable required ROE falling in the low to mid 12% range. On November 3, 1989, the Company responded to our concerns with a proposal to reduce its authorized ROE to 12.9% + 1.5% for all future purposes, including application of our tax rule, for interim purposes, and for calculation of its IDC rate. Additionally, the company proposed several other actions to bring its achieved earnings below its proposed cap of 13.9% ROE for 1990. Finally, the Company proposed that we excuse it from any tax savings dockets related to the Tax Reform Act of 1986.

By Order No. 19165, issued April 18, 1988, we accepted a proposal from Northeast to reduce its authorized ROE from 16% + 2% to 15% + 1.5%, and to cap its earnings at 15.3% for 1988 and 1989. That proposal was intended by the Company to resolve tax savings for 1988 and 1989. Although by our acceptance of that

ORDER NO. 22273
DOCKET NO. 891236-TL
PAGE 2

proposal, we lowered Northeast's authorized ROE slightly, the Company's ROE still remains significantly higher than current conditions indicate would be reasonable and appropriate.

The Company's proposed ROE is within a half a percentage point of our calculation of a reasonable and appropriate ROE for this Company, based upon the most recent quarterly report on equity cost rates. Because our acceptance of this proposal would make a formal hearing unnecessary and, therefore, would save considerable expense, we find it appropriate to accept Northeast's proposal for a new authorized ROE.

The Company also proposes that we provide it with the opportunity to establish a new ROE if the cost of equity increases by 100 basis points or more above the August, 1989, report on cost of equity based on the average of annual discounted cash flow and risk premium models. We propose rejecting this offer because we do not find it to be meaningful. We note that the Company always has the opportunity to establish a new ROE should it find that conditions have changed.

Northeast's latest earnings surveillance report for the twelve months ending June 30, 1989, indicates an achieved ROE of 14.85%. This is in excess of the Company's proposed cap of 13.9% ROE for 1990. Northeast proposes to reduce revenues by a net amount of \$45,483 which would reduce its achieved ROE to 12.46% based upon the June 30, 1989, surveillance report. We believe such a reduction is appropriate in view of Northeast's current earnings.

Presently, Northeast receives approximately \$127,000 annually from zone charges on one and two-party service. Customers outside the base rate area pay zone charges ranging from \$1.10 to \$10.10 per month. Northeast has offered to reduce zone charges on one-party service to a range of \$.75 to \$4.50 per month effective January 1, 1990, and to completely eliminate zone charges on two-party service, also effective January 1, 1990. The reduction in one-party zone charges will reduce annual revenues by \$45,655, while the elimination of two-party zone charges will reduce annual revenues by \$2,489.

ORDER NO. 22273
DOCKET NO. 891236-TL
PAGE 3

Northeast has also offered to eliminate four-party service effective January 1, 1990, which will increase annual revenues by \$2,661 when these subscribers are transferred to two-party service. The elimination of four-party service will affect 120 customers and will increase their monthly bill by \$1.57 as a result of moving to a higher class of service. However, customers will not be affected by a zone charge when moving to two-party service, as the Company has proposed elimination of zone charges for two-party service. The customers will, however, experience additional increases if they select one-party service, since zone charges would apply outside the base rate area, in addition to an increase for the upgrade in service.

We propose accepting Northeast's offers to reduce one-party zone charges, to eliminate two-party zone charges entirely, and to discontinue offering four-party service, all to be effective January 1, 1990. Northeast shall file appropriate tariffs reflecting these changes immediately following our issuance of a consummating order in this docket, with the tariffs to become effective January 1, 1990.

Northeast has also proposed to eliminate its remaining zone charges and to eliminate two-party service if overearnings appear to be ongoing, or to record additional depreciation for 1990 earnings in excess of 13.9% ROE if overearnings appear to be limited to 1990. We propose to reject this portion of Northeast's offer. Instead, we believe it is appropriate to review the Company's earnings at the end of the second quarter in 1990 to determine if excess earnings do exist, and the disposition to be made of them would be determined at that time. This shall be accomplished through our normal surveillance procedures.

Regarding Northeast's proposal to be excused from any tax savings dockets related to the Tax Reform Act of 1986, we note that Northeast's estimated tax savings are \$14,000 annually. Northeast has reduced its access charges by \$66,946, established Toll-Pac at an estimated loss of \$75,000, and is now proposing to reduce zone charges by \$45,655. Since we believe that Northeast's tax savings have been disposed of, we find it appropriate to accept Northeast's proposal to be excused from any further tax savings dockets relative to the 1986 Act.

ORDER NO. 22273
DOCKET NO. 891236-TL
PAGE 4

Upon consideration, we shall propose to require the actions specified above as a reasonable and appropriate resolution of the issues in this docket. This action shall become final on the date following the date specified below, unless an appropriate petition protesting our proposed action is filed within the time period specified below. This docket shall remain open pending the proposed agency action period and until all correct tariffs have been filed and reviewed by our staff. At that time, this docket shall be closed administratively.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Northeast Florida Telephone Company's proposal to establish a new authorized return on equity of 12.9% + 1.5% for all future purposes and to cap its ROE at 13.9% for 1990 is hereby accepted as set forth in the body of this Order. It is further

ORDERED that Northeast Florida Telephone Company shall reduce its one-party zone charges, eliminate two-party zone charges entirely, and eliminate four-party service, all to be effective on January 1, 1990. It is further

ORDERED that Northeast Florida Telephone Company shall file appropriate tariffs as further specified within the body of this Order immediately following the issuance of a consummating order in this docket. It is further

ORDERED that Northeast Florida Telephone Company is hereby excused from any further tax savings dockets related to the Tax Reform Act of 1986. It is further

ORDERED that this Order shall become final on the date following the date specified below, unless an appropriate petition protesting our proposed action is filed within the time period specified below. It is further

ORDERED that if no protest is filed within the time period specified below, this docket shall remain open pending the submission and review of all required tariffs, as set forth in the body of this Order, after which time this docket shall be closed administratively.

ORDER NO. 22273
DOCKET NO. 891236-TL
PAGE 5

By ORDER of the Florida Public Service Commission
this 7th day of DECEMBER, 1989.

STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

ABG

by: Kay Flynn
Chief, Bureau of Records

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 December 28, 1989.

ORDER NO. 22273
DOCKET NO. 891236-TL
PAGE 6

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, and as reflected in a subsequent order.

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 sewer 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.