FLORIDA PUBLIC SERVICE COMMISSION

Fletcher Building
101 East Gaines Street
Tallahassee, Florida 32399-0850

SCANNED

M E M O R A N D U M

October 7, 1993

TO : DIRECTOR OF RECORDS AND REPORTING

FROM : DIVISION OF AUDITING AND FINANCIAL ANALYSIS (WRIGHT)
DIVISION OF COMMUNICATIONS (NORTON)
DIVISION OF LEGAL SERVICES (GREEN) H for ABC

RE : DOCKET NO. 920260-TL - SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY - COMPREHENSIVE REVIEW OF THE REVENUE REQUIREMENTS AND RATE STABILIZATION PLAN

AGENDA : OCTOBER 19, 1993 - REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: I:\PSC\AFA\WP\920260.RCM

DISCUSSION OF ISSUES

ISSUE 1: Did Southern Bell earn above 14% Return On Equity (ROE) for 1991 therefore requiring a sharing of earnings between the company and ratepayers per Order No. 20162? If so, what is the amount to be shared?

RECOMMENDATION: No, Southern Bell did not earn above a 14% ROE for 1991.

STAFF ANALYSIS: Order No. 20162 set a ROE range of 11.5% to 16% with a sharing point of 14%. Order No. 20162 required a review of the year-end surveillance report to determine if any earnings are required to be shared. That review has been completed. Southern Bell filed a Surveillance Report on March 16, 1992 for the twelve month period ending December 31, 1991 which reported an ROE of 12.9%. Based on Southern Bell's final surveillance report for the twelve months ending December 31, 1991, revised December 1992, the company earned an ROE of 13.17%. The revisions to the ROE result from final tax adjustments and out of period adjustments related to 1991. Since 13.17% is below the 14% sharing point, there is no sharing required.

ISSUE 2: Did Southern Bell experience an increase in earnings when netting rate changes against changes in earnings due to exogenous factors and debt refinancings, therefore requiring a refund and/or a permanent disposition for 1991 per Order No. 20162? If so, what is the amount?

RECOMMENDATION: No, Southern Bell did not experience an increase in earnings when netting rate changes against changes in earnings due to exogenous factors and debt refinancings.

STAFF ANALYSIS: By Order No. 20162, the Commission excluded from the sharing process the revenue effects of: all rate changes other than regroupings; changes resulting from significant governmental actions with a minimum impact of $3,000,000 of revenue requirements; refinancing of higher cost debt instruments and major technological changes. These items excluded from sharing are included in what has come to be known as "the Box".

Under the concept of the Box, any rate increases are netted against rate decreases, significant governmental actions, and debt refinancings. If the result is an overall increase in earnings due to the netting process, the net amount will be refunded to ratepayers or disposed of in some other appropriate fashion. If netting produces a decrease in earnings the company absorbs the loss.

Based on Southern Bell's surveillance report for the twelve month period ending December 31, 1991, the overall netting process resulted in a decrease in earnings of $10,742,000. Per order 20162, the company absorbs the decrease in earnings.

ISSUE 3: Should this docket be closed?

RECOMMENDATION: No.

STAFF ANALYSIS: This docket has hearings scheduled in January, 1994 as part of Southern Bell's revenue requirements review, therefore the docket should remain open.