

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Modified Minimum Filing ) DOCKET NO. 920195-TL  
Requirements Report of QUINCY ) ORDER NO. PSC-94-0119-FOF-TL  
TELEPHONE COMPANY. ) ISSUED: February 1, 1994  
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The following Commissioners participated in the disposition of this matter:

J. TERRY DEASON, Chairman  
SUSAN F. CLARK  
JULIA L. JOHNSON  
DIANE K. KIESLING  
LUIS J. LAUREDO

NOTICE OF PROPOSED AGENCY ACTION  
ORDER RESOLVING 1992 EARNINGS AND  
REVISING DEPRECIATION EXPENSE

BY THE COMMISSION:

On June 22, 1993, Quincy Telephone Company (Quincy or the Company) submitted a letter of agreement to cap its 1992 earnings at its maximum authorized return on equity (ROE) of 13.9% and its 1993 earnings at 13.4% ROE. On November 23, 1993, the Company filed a Petition to Recalculate Recovery Schedule for its Stromberg Carlson DCO Switch to Obtain Additional Depreciation (Petition). In its Petition, the Company requests that the final resolution of 1992 overearnings, as well as disposition of preliminary 1993 overearnings, be applied toward additional depreciation on its DCO switch. In addition, the Company requests that it be allowed to recalculate its recovery schedule for the DCO switch to obtain additional depreciation through a two year amortization of any unrecovered investment remaining after application to depreciation of the 1992 and 1993 overearnings amounts.

The Company's Earnings Surveillance Report (ESR) for the year ended 1992 indicates an achieved ROE of 13.45%. We believe the following adjustments should be made to the ESR, consistent with the staff audit done for this time period:

1. Intrastate rate base and expenses should be decreased by \$87,414 and \$92,967, respectively, to reflect final 1992 separations factors.

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2. Intrastate plant in service should be decreased by \$261,924, accumulated depreciation by \$123,533, and depreciation expense by \$18,619 to reflect allocations to non-regulated operations, as well as Georgia's share of the general support assets.

3. Order No. PSC-92-1472-FOF-TL directed the Company to increase depreciation expense effective March, 1992, but the ESR does not reflect this change until December, 1992. Intrastate accumulated depreciation should be increased by \$156,404 to correct this error.

4. The appropriate cost rate for long-term debt is 7.63%, as opposed to 8.11% filed by the Company.

5. Intrastate revenues should be increased by \$167,500 for items related to prior periods.

6. Intrastate expense for United States Telephone Association (USTA) dues should be reduced by 37% (\$717) because 37% of the monies spent by the USTA are spent on lobbying, meals, and other similar items.

7. Intrastate expense should be reduced by \$3,269 to remove charitable, social, and community welfare activities.

8. Intrastate expense should be reduced by \$831 to remove the costs of spouses attending certain events with employees.

9. Intrastate expense should be reduced by \$6,514 to remove half of the costs for activities related to maintenance of an active investor relations program, since these activities benefit both the stockholders and the ratepayers.

10. Intrastate expense should be reduced by \$51,232 to correct an error in the billing distribution code.

11. Intrastate expense should be reduced by \$16,696 to remove the general overhead costs of searching for and acquiring new companies.

12. By Order No. PSC-92-1472-FOF-TL, we directed the Company to record additional intrastate depreciation of \$208,538. However, the Company erroneously increased

local revenue by only \$200,215; therefore, local revenues should be increased by \$8,323 for 1992.

After the above adjustments, Quincy's achieved ROE for 1992 is 20.61%, 6.71% in excess of its authorized maximum ROE of 13.9%. This equates to \$422,621 in excess revenues. Pursuant to Rule 25-4.114(4), Florida Administrative Code, the Company shall be required to add interest to this amount, which we calculate to be \$24,224 for the period January, 1992, through mid-March, 1994. This total \$446,845 shall be refunded to Quincy's customers. The refund shall be made as a credit on the bill of residential and business customers of record during the February, 1994, billing cycle in the same proportion as the various local exchange rates bear to each other. The refund shall appear on the customers' March, 1994, bills. A final refund report shall be filed pursuant to Rule 25-4.114(7), Florida Administrative Code.

Our preliminary analysis of Quincy's earnings through October, 1993, indicates that the Company will earn approximately 21.73% ROE. As noted above, the Company has agreed to cap its 1993 earnings at 13.4% ROE. Based upon our preliminary analysis, the Company's intrastate revenues in excess of 13.4% would amount to \$464,260 for this period.

The Stromberg Carlson DCO switch and remotes serving the Greensboro and Gretna exchanges are now planned for replacement by the end of the first quarter of 1995. The replacing equipment will be AT&T remotes served by the AT&T 5ESS host switch at the Quincy exchange. Currently, there are two host switches located in the Quincy central office. An Alcatel E10-5 switch is in the process of being replaced with an AT&T 5ESS switch, with an expected cutover date of March 12, 1994. This switch will serve the Quincy exchange, with the DCO continuing to serve Greensboro and Gretna. The Company has estimated that \$670,000 of additional investment would be required for the DCO to maintain current technology through the year 1997 and obtain Integrated Services Digital Network (ISDN) capabilities. This contrasts with a cost of \$562,000 for replacing the DCO with state-of-the-art AT&T equipment. As noted by Quincy, the operation of two different switches in a small company creates administrative difficulties and increased costs. In addition, the replacement of the Alcatel switch with the AT&T switch will bring CLASS services to the Quincy customers.

Under the present depreciation schedule, the net unrecovered investment associated with the DCO switch and associated remotes as of January 1, 1994, is approximately \$1,308,300. Accordingly, we find it appropriate to require the Company to record additional

depreciation expense of \$880,532, total company, in 1993. For ESR purposes, the Company shall reflect the additional depreciation expense as if it were recorded evenly throughout the year. This will result in the Company earning approximately 12.4% ROE for 1993. In addition, we find it appropriate to authorize a capital recovery schedule effective January 1, 1994, to recover \$427,768 over the remaining months the related equipment is providing service to the public. The Company estimates that the replacement will take place in the first quarter of 1995 (15 months). This equates to depreciation expense associated with the DCO of \$342,214 and \$85,554 in 1994 and 1995, respectively. This mechanism will adjust for any shifts in plans or unexpected net salvage.

The effect of our decision above is to grant Quincy's Petition, in part, with modification, and to deny it in part. We believe that our action, as a whole, represents an equitable solution for both the ratepayers and the Company.

We believe that the Company will be in an overearnings posture in 1994, as well. However, the overearnings will be considerably less than expected overearnings in 1993. In 1993, the Company recorded certain non-recurring revenues. In addition, the Company's Universal Service Fund revenue in 1994 will decline by a significant amount. Finally, the amount of the deferred credit to be added-back as revenue, as ordered in Docket No. 910461-TL, decreases by \$65,000 in 1994. Even with these revenue decreases, we expect the Company will overearn and to this end, we are continuing to pursue prospective solutions and will revisit this matter in the near future.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Quincy Telephone Company shall make a refund to customers for 1992 in accordance with the terms and conditions set forth in the body of this Order. It is further

ORDERED that Quincy Telephone Company shall record additional depreciation expense for 1993 in the manner described herein. It is further

ORDERED that Quincy Telephone Company shall implement a capital recovery schedule effective January 1, 1994, in the manner and for the reasons detailed in the body of this Order. It is further

ORDERED that the Petition to Recalculate Recovery Schedule filed by Quincy Telephone Company on November 23, 1993, is hereby

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granted in part, with modification, and denied in part. It is further

ORDERED that the effective date of our actions described herein is the first working day following the date specified below, if no proper protest to this proposed agency action is filed within the time frame set out below. It is further

ORDERED that this docket shall remain open.

By ORDER of the Florida Public Service Commission, this 1st day of February, 1994.

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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

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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 February 22, 1994.

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.

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 wastewater 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.