

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition for approval of) DOCKET NO. 931125-TL
specified accounting treatment) ORDER NO. PSC-94-0439-FOF-TL
by GTE Florida Incorporated) ISSUED: April 12, 1994

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 REGARDING ACCOUNTING TREATMENT
OF DEBT REFINANCING COSTS

BY THE COMMISSION:

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that the action discussed herein is 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.

On November 22, 1993, GTE Florida Incorporated (GTE or the Company) filed a petition for approval of specified accounting treatment for the amortization of debt expense and redemption premium in connection with the redemption of seven first mortgage bonds. GTE requested that the unamortized costs associated with the extinguished debt be spread over the average life of the two new series of debentures issued.

The subject of GTE's petition, \$22.9 million, consists of three pieces: the \$.8 million of unamortized balance of issuance expense associated with the retired debt, the \$3.9 million of outstanding discounts from the retired debt, and the \$18.2 million of call premium or prepayment penalty for redeeming the debt prior to maturity.

Since the unamortized issuance expense and outstanding discounts are associated with the retired debt, we hold that they shall be expensed as soon as is practicable. These costs were incurred in order for the company to originally obtain the retired debt. The effective interest rate for the newly acquired debt

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shall include the issuance costs and discounts/premiums of the new debt, if applicable. We also hold that \$4.7 million shall be amortized dollar for dollar at the same rate as the interest rate savings are realized, based upon the savings reported by the utility. The \$4.7 million shall be offset against the \$3.8 million of interest savings in 1993, and the remainder shall be amortized in 1994.

We recognize that the call premium is a penalty for retiring the debt and in that respect is associated with the retired debt. However, if the debt had been held to maturity, the expense would not have been incurred. The debt was not held to maturity in order for the utility and, in turn, the ratepayers to benefit from lower interest costs. We find that the call premium, which is the costs of receiving the lower cost debt, shall be matched to the period of savings which is the remaining life of the retired debt. In this case, the weighted average remaining life of the retired debt is 19.3 years. The average life of the new debt is 19.5 years.

Accounting Principles Board No. 26 states that refinancing gains or losses should be recognized in the current period. The Financial Accounting Standards Board (FASB) stresses the principle of conservatism as justification for accounting standards that expense costs such as bond issuance costs. FASB issued Statement of Financial Accounting Standards (SFAS) 71 to recognize that regulators should be more concerned with matching costs and benefits in an effort to avoid intergenerational inequities. The treatment of the costs associated with the early extinguishment of debt is cited within SFAS as one of the examples of how regulatory accounting can differ from accounting for general business corporations. We recognized that SFAS 71 applies under these circumstances in our decision to amortize a portion of the refinancing costs incurred by Southern Bell. See Order No. PSC-92-1412-FOF-TL, issued December 7, 1992. In that order, we noted that the decision to amortize a portion of the debt refinancing costs would properly match the savings from reduced interest costs with the cost associated with the decision to refinance.

Although the Federal Communications Commission does not allow amortization of the costs associated with early redemption of bonds, we note that the Federal Energy Regulatory Commission (FERC) continues to permit utilities to either amortize or expense such costs. All four major electric utilities operating in Florida have elected, and we have approved, the amortization of the costs associated with the early redemption of bonds. Prior to the change to Part 32 of the Code of Federal Regulations, we found that the reasoning for amortizing all refinancing costs for an electric

ORDER NO. PSC-94-0439-FOF-TL
DOCKET NO. 931125-TL
PAGE 3

utility applies equally to a telephone utility. See Order No. 16375, issued July 17, 1986.

In addition, we hold that GTE shall be required to consistently apply this methodology when refinancing any debt issuances in the future. By maintaining a consistent policy, the potential problem of manipulation of earnings through varying accounting treatments is avoided.

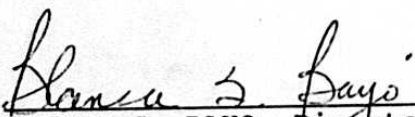
Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that GTE Florida Incorporated shall expense the unamortized issuance expense and discounts to the extent interest savings are realized; however, the call premium shall be amortized over the average weighted life of the retired debt. GTE Florida Incorporated shall apply this methodology when refinancing any debt issuances in the future. It is further

ORDERED that this Order shall become final and effective on the date set forth below if no timely protest is filed pursuant to the requirements set forth below.

ORDERED that if no protest is timely filed according to the requirements set forth below, this docket shall be closed.

By ORDER of the Florida Public Service Commission, this 12th day of April, 1994.



BLANCA S. BAYO, Director
Division of Records and Reporting

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Chairman Deason dissents from the Commission's vote regarding the accounting treatment of the unamortized issuance expense and discounts.

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 May 3, 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.