FLORIDA PUBLIC SERVICE COMMISSION
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M E M O R A N D U M

March 23, 1995

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF AUDITING & FINANCIAL ANALYSIS ~~(WRIGHT)~~
DIVISION OF COMMUNICATIONS (NORTON)
DIVISION OF LEGAL SERVICES (ELIAS) RVE

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

AGENDA: 04/03/95 - REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

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

CASE BACKGROUND

Order No PSC-94-0172-FOF-TL, Docket No 920260-TL, provided that Southern Bell's 1994 earnings in excess of 12% on equity would be shared with subscribers. Amounts were to be shared as follows: 60% refunded to the customers with the balance retained by Southern Bell. In Order No 20162, the FPSC created a mechanism for handling earnings exempt from sharing known as the "Box". Earnings exempt from sharing include all rate changes other than regrouping, changes resulting from significant governmental actions with a minimum impact of $3,000,000 on revenue requirements, refinancing of higher cost debt instruments, and major technological changes. As of December 31, 1993, the items in the Box were eliminated returning the Box to zero. Southern Bell earned a 13.47% ROE before sharing for the 12 month period ending December 31, 1994. A 13.47% ROE equates to $50.75 million in earnings above the sharing point of 12% ROE. Sixty percent of $50.75 million or $30.45 million is the amount that should be refunded to Southern Bell's subscribers.

DISCUSSION OF ISSUES

ISSUE 1: Should Southern Bell's proposal to refund earnings in excess of the sharing point of 12% on equity in the amount of $30.45 million be approved?

RECOMMENDATION: Yes. (Wright, Norton)

STAFF ANALYSIS: On March 15, 1995 Southern Bell filed a proposal to refund $30.45 million to subscribers due to earnings before sharing in excess of Southern Bell's sharing point of 12% on equity. The $30.45 million in earnings above the sharing point is based on Southern Bell's surveillance report for the 12 months ending December 31, 1994.

Southern Bell proposes that these funds be returned to ratepayers using the same methodology approved by this Commission in Order No 25367, issued on November 20, 1991, in Docket No 880069-TL. Staff agrees that this is appropriate. Therefore, the 1994 amount of $30.45 million should be refunded to customers of record as of March 31, 1995. Refunds should be made based on access lines, pro rata according to rate levels. ESSX customers should receive refunds based on applicable Network Access Register rates.

The refund to an R-1 customer in the highest rate group will be approximately $4.12; for a B-1 customer it will be about $11.27. Subscribers who pay usage rates plus some percentage of the equivalent flat rate should receive refunds based on either the applicable flat rate surrogate if there is one, or, if no tariffed flat rate surrogate exists, the full equivalent flat rate. This is equitable since most usage rate subscribers pay more for local service than the flat rate subscribers to the same service. Thus they should receive refunds that are at least equivalent to those based on flat rates.

In addition, Rule 25-4.114 requires the following:

a. Refunds must be made within 90 days of the final order.
b. Motions for reconsideration do not delay refunds unless a stay is requested and granted.
c. The Company must file refund reports.

In the final report submitted to staff, after the refunds are made pursuant to Rule 25-4.114, Southern Bell should include documentation (in the form of a priceout) showing the calculations for the actual refund amounts per line.

Refunds should be distributed during the May, 1995 billing cycles.

ISSUE 2: Should Southern Bell's proposal on the treatment of any adjustment to the 1994 sharing amount be accepted?

RECOMMENDATION: Yes. If there is sharing in 1995 then any adjustment related to the 1994 sharing amount should be included in the 1995 sharing amount. If there is no sharing in 1995, Southern Bell proposes to treat any adjustments resulting in a reduction in the 1994 sharing amount as an exogenous item in 1995. If an increase to the 1994 sharing amount is warranted due to adjustments, then the Company will either refund the additional amount or petition the Commission for instructions on how to treat the additional funds. (Wright, Norton)

STAFF ANALYSIS: Southern Bell's proposal states that while the surveillance report shows the amount of refund based on the best information that is currently available, certain tax and other information (such as out-of-period adjustments) related to the 1994 calendar year may result in a change to the refund amount. Based on the final numbers, the refund amount referred to in Issue 1 may turn out to be too much or too little. Also, there may be audit adjustments or adjustments proposed by other parties that would result in the sharing amount being adjusted.

Southern Bell proposes that if there is sharing for 1995 that the amount shared for 1995 be increased or decreased based on the final 1994 results, once all of the appropriate data is available. If there is no sharing for 1995 then the Company proposes two alternatives. If the 1994 sharing amount is reduced as a result of the adjustments, below the amount identified in Issue 1, then the Company proposes to treat the difference as an exogenous item in 1995. On the other hand, if the 1994 sharing amount is increased as a result of the adjustments, then the Company would either make another refund to its subscribers then in service or, if the amount is too small to make a refund practical, will petition the Commission for instructions as to how to treat the additional funds. Staff believes that Southern Bell's proposal for final disposition of adjustments to the sharing amount for 1994 is reasonable and recommends that it be approved.

ISSUE 3: Should this docket be closed?

RECOMMENDATION: No. (Wright, Norton)

STAFF ANALYSIS: Rate reductions are scheduled to be implemented on October 1, 1995, therefore the docket should remain open.