FLORIDA PUBLIC SERVICE COMMISSION
Capital Circle Office Center ● 2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

M E M O R A N D U M

April 24, 1997

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

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

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

AGENDA: 05/06/97 - 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 BellSouth Telecommunication's (BellSouth's) 1996 earnings in excess of 12.5% return on equity (ROE), adjusted for the difference between the 1993 and 1996 average AA Utility Bond Rates for September through November of each year, respectively, would be shared with subscribers. The resulting threshold for 1996 is 13.11% return on equity. Amounts were to be shared as follows: Sixty percent refunded to the customers with the balance retained by BellSouth. In Order No. 20162, the FPSC created a mechanism for handling earnings exempt from sharing known as the "Box". Earnings exempt from sharing included 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 Box was returned to zero. BellSouth filed a preliminary surveillance report on March 17, 1997, for the twelve months ending December 31, 1996, along with a proposal on how to treat $83.5 million in earnings above their sharing threshold.

DISCUSSION OF ISSUES

ISSUE 1: Should BellSouth's proposal to refund earnings in excess of the sharing point of 13.11% return on equity in the amount of $50.1 million be approved?

RECOMMENDATION: Yes. (Wright, Norton)

STAFF ANALYSIS: On March 17, 1997 BellSouth filed a proposal to refund $50.1 million to subscribers due to earnings before sharing in excess of BellSouth's 1996 sharing point of 13.11% return on equity. BellSouth earned approximately 15.75% ROE before sharing for the 12 month period ending December 31, 1996. A 15.75% ROE equates to $83.5 million in earnings above the sharing point of 13.11% ROE. Sixty percent of $83.5 million or $50.1 million is the amount that should be refunded to BellSouth's subscribers. The $83.5 million in earnings above the sharing point is based on BellSouth's surveillance report for the 12 months ending December 31, 1996. The $50.1 million refund is preliminary and subject to a true-up after final company, staff, and Public Counsel adjustments, if any, are included.

BellSouth 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. This procedure was approved as part of the stipulation in Order No. PSC-94-0172-FOF-TL. Under that methodology, the 1996 amount of $50.1 million should be refunded to customers of record as of March 28, 1997. Refunds should be distributed during the June, 1997 billing cycles. 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. Staff agrees that this is appropriate.

The refund to an R-1 customer in the highest rate group will be approximately $6.34; for a B-1 customer it will be about $17.34. These amounts reflect the assumption that subscribers who pay usage rates plus some percentage of the equivalent flat rate, will receive refunds based on either a) the flat rate surrogate, if applicable or b) 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, F.A.C., 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(7), BellSouth should include documentation (in the form of a priceout) showing the calculations for the actual refund amounts per line.

ISSUE 2: Should BellSouth's proposal on the treatment of any adjustment to the 1996 sharing amount be accepted?

RECOMMENDATION: Yes. If there is sharing in 1997, then any adjustment related to the 1996 sharing amount should be included in the 1997 sharing amount. If there is no sharing in 1997, BellSouth proposes to treat any adjustments resulting in a reduction in the 1996 sharing amount as an exogenous item in 1997 and if an increase to the 1996 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)

STAFF ANALYSIS: BellSouth'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 1996 calendar year may result in the refund amount changing. 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 staff and Public Counsel adjustments that would result in the sharing amount being adjusted.

BellSouth proposes that if there is sharing for 1997 that the amount shared for 1997 be increased or decreased based on the 1996 results, once all of the appropriate data is available. If there is no sharing for 1997, then the Company proposes two alternatives. If the 1996 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 1997. On the other hand, if the 1996 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 BellSouth's proposal for adjustments to the sharing amount for 1996 is reasonable and recommends that it be approved.

ISSUE 3: Should this docket be closed?

RECOMMENDATION: No. (Wright)

STAFF ANALYSIS: BellSouth's Order No PSC-94-0172-FOF-TL also addresses 1997 earnings, therefore the docket should remain open.