State of Florida

Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: MAY 25, 2000

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

FROM: DIVISION OF AUDITING AND FINANCIAL ANALYSIS (HACKNEY, WRIGHT)
DIVISION OF COMMUNICATIONS (HAWKINS)
DIVISION OF LEGAL SERVICES (VACCARO)

RE: DOCKET NO. 000570-TL - NORTHEAST FLORIDA TELEPHONE COMPANY - INVESTIGATION OF 1998 AND JANUARY 1 THROUGH FEBRUARY 8, 1999 EARNINGS OF NORTHEAST FLORIDA TELEPHONE COMPANY, INC.

AGENDA: 06/06/00 - REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\CMP\WP\000570.RCM

CASE BACKGROUND

On February 9, 1999, Northeast Florida Telephone Company, Inc. (Northeast) filed a notification of election to become subject to price cap regulation effective upon that date. By Order No. PSC-99-0693-FOF-TL, issued April 9, 1999, in Dockets No. 990152-TL and No. 990126-TL, the Commission acknowledged Northeast's notification. In that order, the Commission cited Section 364.052, Florida Statutes, which states that, after July 1, 1996, a company subject to this section, electing to be price cap-regulated, will have any over earnings attributable to a period prior to the date on which the company made the election, subject to refund or other disposition by the Commission. Based on this statute, the Commission noted that staff would be reviewing Northeast's earnings through February 8, 2000, to determine the need for disposition of any over earnings.

Northeast filed its preliminary December 1998 Earnings Surveillance Report (ESR) on March 17, 1999. The ESR indicated that Northeast had earned 14.17% return on equity (ROE) for 1998. Staff conducted an audit of the ESR and issued a report in October, 1999. After accepting certain staff adjustments, on April 10, 2000, Northeast filed the final 1998 ESR showing that the achieved ROE was above the maximum allowed ROE.

Staff also reviewed the earnings for January 1 through February 8, 1999. During this period, the Company was still under rate of return regulation. Staff's analysis indicates the Company had over earnings for this period.

This recommendation presents the proposed disposition of the 1998 and January 1 through February 8, 1999, over earnings based on Staff's review of Northeast's final 1998 Earnings Surveillance Report and January, 1999, financial statements.

Staff met with Northeast and the Office of Public Counsel (OPC) on April 28 and May 8, 2000, to discuss Northeast's earnings for 1998 and 1999.

DISCUSSION OF ISSUES

ISSUE 1: What is the amount of over earnings for 1998, and for January 1 through February 8, 1999?

RECOMMENDATION: The amount of over earnings for 1998 and January 1 through February 8, 1999, is $272,649. (HACKNEY)

STAFF ANALYSIS: According to the original 1998 ESR, filed on March 17, 1999, Northeast had an achieved ROE of 14.17%. An audit of Northeast's 1998 earnings was completed by Staff and a report issued on October 16, 1999. After the completion of Staff's review, the Company filed a final 1998 ESR on April 10, 2000, which contained adjustments involving prior period access expense, intangible taxes, and long term debt. In addition, the final ESR included the final 1998 National Exchange Carriers Association (NECA) Cost Study factors which separate the costs between interstate and intrastate traffic.

After the final 1998 ESR was filed, further review by Staff resulted in an adjustment being made to the Universal Service Fund (USF) revenues to reflect revenues which are being received based on 1998's costs. The amount of this adjustment increased earnings by $205,963.

In addition to the USF adjustment, two additional adjustments were made for the calculation of the earnings for January 1 through February 8, 1999. These adjustments both resulted from the retirement of the Macclenny Digital Central Office (DCO) in November, 1998. By Order No. PSC-97-1580-FOF-TL, issued December 16, 1997, in Docket No. 971495-TL, the Commission found that Northeast should be allowed to recover, by year end 1998, the remaining unrecovered costs associated with the Macclenny DCO switch retirement.

Staff calculated that the intrastate amount of nonrecurring amortization and depreciation expense associated with the Macclenny DCO booked in 1998 was $185,845. The adjustment to the 1999 intrastate rate base was to reflect the $177,122 decrease between the 1998 average intrastate rate base versus the 1998 year end rate base.

The Company has agreed to the refund amount proposed by staff.

The total amount of 1998 over earnings to be refunded to the customers is $225,329. The amount of over earnings for January 1 through February 8, 1999 is $47,320, so the total amount of refund is $272,649.

ISSUE 2: What is the appropriate disposition of the over earnings identified in Issue 1?

RECOMMENDATION: The over earnings should be refunded to customers of record as of July 22, 2000, applying the refund requirements stated in Rule 25-4.114, Florida Administrative Code, as set forth in the Staff analysis.

STAFF ANALYSIS: The over earnings should be refunded to customers of record as of July 22, 2000. Refunds should be made based on access lines, pro rata according to rate levels. Centrex and other Private Branch Exchange (PBX) customers should receive refunds based on applicable Network Access Register rates.

The refund to an average residential customer will be approximately \$21.30; for an average business customer, it will be about \$57.73.

In addition, Rule 25-4.114, Florida Administrative Code, 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.

Refunds should be distributed during the August 2000 billing cycle. Northeast should submit a report giving the status of the refund by September 10, 2000. In the final report submitted to Staff after the refunds are made pursuant to Rule 25-4.114(7), Florida Administrative Code, Northeast should include documentation (in the form of a priceout) showing the calculations for the actual refund amounts per type of access line.

At the end of the refund period, any unrefunded amount should be remitted to the Commission and forwarded to the Comptroller for deposit in the General Revenue Fund, pursuant to Section 364.285(1), Florida Statutes.

ISSUE 3: Should this docket be closed?

RECOMMENDATION: No. If no person, whose interests are substantially affected by the proposed action files a protest of the Commission's decision on Issue 1 within the 21 day protest period, the Commission's Order will become final upon issuance of a consummating order. This docket should, however, remain open pending the completion of the refund and receipt of the final report on the refund. After completion of the refund and receipt of the final refund report, this docket may be closed administratively. (VACCARO)

STAFF ANALYSIS: Whether staff's recommendation on Issue 1 is approved or denied, the result will be a proposed agency action order. If no timely protest to the proposed agency action is filed within 21 days of the date of issuance of the Order, the Commission's Order will become final upon issuance of a consummating order. This docket, however, should remain open pending the completion of the refund and receipt of the final report on the refund. After completion of the refund and receipt of the final refund report, this docket may be closed administratively.

The over earnings should be refunded to customers of record as of July 22, 2000.