



Public Service Commission

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RECORDS AND REPORTING

DATE: NOVEMBER 16, 2000

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

FROM: DIVISION OF COMPETITIVE SERVICES (CATER, WRIGHT, SIMMONS)
DIVISION OF ECONOMIC REGULATION (MAILHOT) DM
DIVISION OF LEGAL SERVICES (ELLIOTT, BANKS) JAE

RE: DOCKET NO. 001650-TL - INVESTIGATION OF 1998 AND JANUARY 1 THROUGH FEBRUARY 28, 1999 EARNINGS OF ALLTEL FLORIDA, INC.

AGENDA: 11/28/00 - REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\CMP\WP\001650.RCM

CASE BACKGROUND

On March 1, 1999, ALLTEL Florida, Inc. (ALLTEL) filed a notification of election to become subject to price cap regulation effective upon that date. By Order No. PSC-99-0759-FOF-TL issued on April 20, 1999, in Docket No. 990224-TL, the Commission acknowledged ALLTEL'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 regulated pursuant to Section 364.051, Florida Statutes, will have any overearnings attributable to a period prior to the date 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 ALLTEL's earnings up through February 28, 1999, to determine the need for disposition of any overearnings.

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ALLTEL filed its preliminary December 1998 Earnings Surveillance Report (ESR) on March 1, 1999. The ESR indicated that ALLTEL had earned 12.23% return on equity (ROE) for 1998. Staff conducted an audit of the ESR and issued a report on January 28, 2000. After accepting certain staff adjustments, on October 3, 2000, ALLTEL filed the final 1998 ESR, showing that the achieved ROE was above the maximum allowed ROE of 12.50%.

Staff also reviewed the earnings for January 1 through February 28, 1999. During this period, the Company was still under rate-of-return regulation. Staff's analysis indicates that the Company also had overearnings for this period.

This recommendation presents the proposed disposition of the January 1, 1998 through February 28, 1999 overearnings based on Staff's review of ALLTEL's 1998 Earnings Surveillance Report and January and February, 1999, financial statements.

DISCUSSION OF ISSUES

ISSUE 1: What is the amount of overearnings for January 1, 1998 through February 28, 1999?

RECOMMENDATION: The amount of overearnings including interest for January 1, 1998 through February 28, 1999, is \$648,000. (CATER)

STAFF ANALYSIS: According to the original 1998 ESR, filed on March 1, 1999, ALLTEL had an achieved ROE of 12.23%. An audit of ALLTEL's 1998 earnings was completed by Staff and a report was issued on January 28, 2000. The Company filed a final ESR on October 3, 2000, which included the final National Exchange Carriers Association (NECA) Cost Study factors which separate the costs between interstate and intrastate traffic. This final ESR reported an achieved ROE of 12.58%. Staff used 1998 earnings to estimate the Earnings for January and February, 1999.

Staff reviewed the proposed audit adjustments and made adjustments for a capitalization error, an amortization error, directory gross profits, and non-regulated expenses. In addition, based on its review, Staff made adjustments for income taxes, misclassified expenses, expense allocations, depreciation rates, and Universal Service Fund. Based on Staff's knowledge of the issues and adjustments, we believe that the recommended overearnings and refund amount is reasonable.

The company has agreed to the refund amount of \$580,000, plus \$68,000 in interest for a total of \$648,000.

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

RECOMMENDATION: The overearnings should be refunded to customers of record at the time of the refund, applying the refund requirements stated in Rule 25-4.114, Florida Administrative Code, as set forth in the staff analysis. The refund should be made during the February 2001 billing cycle. (CATER, SIMMONS)

STAFF ANALYSIS: The overearnings should be refunded to customers of record at the time of the refund. Refunds should be made based on access lines, on a pro rata basis according to rate levels. Centrex and other Private Branch Exchange (PBX) customers should receive refunds based on the applicable Network Access Register rates.

The refund to the average residential customer will be approximately \$6.42 per access line; for the average business customer, it will be approximately \$15.95 per access line.

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 February 2001 billing cycle. By March 10, 2001, ALLTEL should submit a report giving the status of the refund. Pursuant to Rule 25-4.114(7), Florida Administrative Code, "a preliminary report shall be made within thirty (30) days after the date the refund is completed and again 90 days thereafter." In the final report submitted to Staff after all administrative aspects of the refund are completed pursuant to Rule 25-4.114(7), Florida Administrative Code, ALLTEL should include documentation showing how the actual amount of the refund was computed for each type of access line, the amount of money actually refunded, the amount of money that was unrefunded, and the status of the unrefunded amounts.

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.

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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 within the 21 day protest period, the Commission's Order will become final upon the 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, the receipt of the final refund report, and receipt by this Commission of any unrefunded amount, this docket may be closed administratively. (ELLIOTT, BANKS)

STAFF ANALYSIS: Whether Staff's recommendation 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 the issuance of the Order, the Commission's Order will become final upon the 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, the receipt of the final refund report, and receipt by this Commission of any unrefunded amount, this docket may be closed administratively.

The overearnings should be refunded to customers of record at the time of the refund. The refund should be made during the February 2001 billing cycle.