

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Protest of a portion of Order)	DOCKET NO. 900018-TL
No. 21954 dealing with Southland's)	
interLATA surplus, filed by SOUTHLAND)	ORDER NO. 22588
TELEPHONE COMPANY in Docket No.)	
820537-TP)	ISSUED: 2-21-90
)	

The following Commissioners participated in the disposition of this matter:

MICHAEL MCK. WILSON, Chairman
 THOMAS M. BEARD
 BETTY EASLEY
 GERALD L. GUNTER
 JOHN T. HERNDON

ORDER ACCEPTING PROPOSAL TO RESOLVE
 SOUTHLAND'S PROTEST OF ORDER NO. 21954

BY THE COMMISSION:

On September 27, 1989, Order No. 21954 was issued in Docket No. 820537-TP as a Proposed Agency Action. The Order proposed to accomplish several items: 1) removal of Indiantown's interLATA subsidy, 2) removal of Florala, Gulf, Quincy, Southland, United and Vista from the interLATA subsidy mechanism, 3) release of Florala and Vista from any further requirements of Order No. 14452 regarding disposition of their surpluses and 4) requiring Quincy and Southland to continue recording depreciation expense as an offset to their respective bill and keep surpluses. On October 18, 1989, Southland timely filed a Protest of a Portion of Proposed Agency Action. Southland did not protest any portions of Order No. 21954 except the specific requirement to continue its depreciation expense adjustment. This docket was opened to specifically address Southland's protest.

On November 30, 1989, Southland filed a proposal to resolve its protest of Order No. 21954. Southland's proposal offered the following:

- 1) For 1989, Southland would record additional amortization of \$70,475 which would suffice as compliance with Order No. 14452.

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ORDER NO. 22588
DOCKET NO. 900018-TL
PAGE 2

- 2) For 1990 and subsequent years Southland would have no further obligations as to the booking of bill and keep surplus as ordered in Docket No. 820537-TL.
- 3) For 1990 and subsequent years, until changed, Southland would utilize a revised authorized return on equity of $12.9\% \pm 1.5\%$.
- 4) Southland will have no further requirements for the 1986 Tax Reform Act for 1990 and subsequent years.
- 5) Upon acceptance of the foregoing, Southland would withdraw its pending protest.

Southland did not request a hearing and only took issue with the language in Order No. 21954 which states:

"Southland shall continue to record \$95,000 annually in intrastate depreciation expense for its bill and keep surplus until otherwise ordered by this Commission."

As noted in the order, the Company's 1986, 1987 and 1988 surpluses were used to offset increased depreciation expense in its last depreciation prescription. As the company is now proposing to record additional amortization expense in 1989 of \$70,475, to replace certain amortization schedules of \$64,223 which expired on December 31, 1988, it appears that no additional depreciation other than the \$70,475, needs to be recorded by Southland in order to meet its obligations to offset its bill and keep winnings with additional depreciation expense for 1989. Recording the additional amortization of \$70,475 will keep 1989's overall depreciation and amortization expense at or above the level recorded in 1988.

Southland's currently authorized ROE is $13.8\% \pm 1.0\%$. As indicated in the above, Southland proposes a new authorized return on equity (ROE) of $12.9\% \pm 1.5\%$ for all future purposes. The proposed ROE is within one half a percentage point of the illustrative range on the most recent quarterly staff report on equity cost rates. We note that the proposed midpoint of 12.9% is consistent with the midpoints approved for Floral, Gulf, Northeast, Quincy and St. Joe. The proposed

ORDER NO. 22588
DOCKET NO. 900018-TL
PAGE 3

range of $\pm 1.5\%$ is consistent with the range approved for Northeast and is reflective of Southland's low equity ratio of approximately 20%.

Southland proposes that for 1990 and subsequent years it would have no further obligation to book its bill and keep surplus to depreciation expense. By Order No. 22421, we released GTE Florida, Inc. from further requirements regarding the disposition of its interLATA bill and keep surplus. Our decision was based on several items. The 1984 data on which the interLATA access surpluses were originally calculated is outdated. In addition, GTE has received a new and more current authorized ROE. Finally, we believe that an earnings approach should be adopted for the future. The make-whole approach used in creating the subsidy mechanism served its purpose well but is no longer required. These reasons now apply equally well to Southland. Southland's surplus is based on outdated 1984 data and Southland has proposed a new authorized ROE, effective January 1, 1990. As in the case of GTEFL, we believe an earnings approach should be adopted for Southland, effective January 1, 1990. If Southland actually experiences any windfall as a result of relieving it of this ongoing depreciation requirement then it will appear as part of the company's earnings and be evaluated through the Commission's normal surveillance program. We note that Southland's current depreciation study indicates that its depreciation expense will not decline in 1990; therefore, it appears that Southland will not experience any windfall as a result of relieving it of the depreciation requirement.

Southland also proposes that it have no further obligations as to tax expense savings stemming from the 1986 Tax Reform Act as it applies to 1990 and subsequent years. Since 1987, Southland's intrastate achieved ROE has been negative as indicated on its surveillance report. If its achieved ROE is negative, it is experiencing no tax savings. As in the case of Southland's bill and keep surplus, we believe it is appropriate to move to an earnings approach in dealing with Southland's requirements related to the 1986 Tax Reform Act rather than to single out one factor or change in the Company's revenues or expenses. Upon consideration of the above, we find it appropriate to accept Southland's proposal to resolve its protest of Order No. 21954.

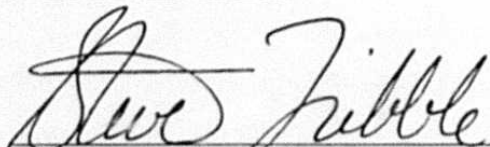
ORDER NO. 22588
DOCKET NO. 900018-TL
PAGE 4

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Southland's proposal to resolve its protest of Order No. 21954 is accepted as set forth in the body of this Order. It is further

ORDERED that this docket be closed.

By ORDER of the Florida Public Service Commission,
this 21st day of FEBRUARY, 1990.



STEVE TRIBBLE, Director
Division of Records and Reporting

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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.

Any party adversely affected by the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the

ORDER NO. 22588
DOCKET NO. 900018-TL
PAGE 5

Director, Division of Records and Reporting within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or sewer 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 after the issuance 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.