

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition by 597 prefix subscribers) DOCKET NO. 900913-TL
for extended area service from Indiantown) ORDER NO. 24607
Exchange to Stuart Exchange) ISSUED: 6/3/91
)

The following Commissioners participated in the disposition of this matter:

J. TERRY DEASON
BETTY EASLEY
GERALD L. GUNTER
MICHAEL MCK. WILSON

NOTICE OF PROPOSED AGENCY ACTION
ORDER REQUIRING SURVEY OF CUSTOMERS FOR
IMPLEMENTATION OF EXTENDED AREA SERVICE

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are adversely affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

BACKGROUND

This docket was initiated pursuant to a petition filed with this Commission on behalf of 154 subscribers in the Indiantown exchange. The petition requested that we consider requiring implementation of extended area service (EAS) between the Indiantown exchange and the Stuart exchange. The Indiantown exchange is served by Indiantown Telephone System, Inc. (Indiantown) and the Stuart exchange is served by Southern Bell Telephone and Telegraph Company (Southern Bell). Both of the exchanges are located in Martin County and lie in the Southeast LATA (local access transport area).

By Order No. 23878, issued December 13, 1990, we directed the companies involved to conduct traffic studies between these exchanges to determine whether a sufficient community of interest exists, pursuant to Rule 25-4.060, Florida Administrative Code. The companies were to prepare and submit the traffic studies to us within sixty (60) days of the issuance of Order No. 23878, making the studies due by February 11, 1991.

DOCUMENT NUMBER-DATE

05516 JUN -3 1991

PSC-RECORDS/REPORTING

Each of the involved exchanges currently has EAS as follows:

<u>Exchange</u>	<u>Access Lines</u>	<u>EAS Calling Scope</u>
Indiantown	2,506	None
Stuart	40,985	Hobe Sound, Jensen Beach, Port St. Lucie

The demographics of the areas involved in this EAS request are described below.

Demographics

The Indiantown exchange is primarily a sparsely populated rural area, mainly agricultural in character. Indiantown is on the threshold of more growth than the past decades have seen. Several industrial concerns, such as Bay State Milling Company, Eterna Roof Tiles, Inc., and Tampa Farm Service, Inc. have recently moved to Indiantown. In addition, Caulkins Grove operates a large plant which produces orange juice concentrate, and Florida Power and Light operates two fossil fuel plants on the outskirts of the exchange.

Stuart is the county seat of Martin County and offers medical facilities, professional services, retail establishments, and educational and entertainment opportunities which are unavailable in Indiantown. Indiantown residents conduct most of their commercial activities in Stuart, since Indiantown has not yet reached a sufficient level of population to support many retail or service outlets. Students living in Indiantown attend the South Fork schools once they progress beyond the eighth grade. This school complex is located in the Stuart exchange. Martin County governmental offices are located in the Stuart exchange, as well.

Current basic local service rates for the exchanges involved in this EAS request are shown below.

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BASIC LOCAL RATES

<u>Indiantown</u>		<u>Stuart</u>	
R-1	\$ 5.05	R-1	\$ 8.80
B-1	11.49	B-1	23.85
PBX	30.00	PBX	53.68

DISCUSSION

By Order No. 23878, Indiantown and Southern Bell were directed to conduct traffic studies on the exchanges affected by the petition to determine if a sufficient community of interest exists pursuant to Rule 25-4.060. For these studies, we requested that the companies measure the messages per main and equivalent main station per month (M/M/M) and percentage of subscribers making two (2) or more calls monthly to the exchanges for which EAS was proposed.

The results of the traffic studies indicate that the calling rates between these exchanges are as follows:

<u>ROUTE</u>	<u>M/M/M</u>	<u>CUSTOMERS MAKING 2 OR MORE CALLS</u>
Indiantown - Stuart (combined)	11.12	57%
Indiantown - Stuart (business)	16.67	43%
Indiantown - Stuart (residence)	9.37	62%

Rule 25-4.060(2)(a) requires a minimum of 3.00 M/M/Ms, with at least fifty percent (50%) of the exchange subscribers making two (2) or more calls per month, to qualify for nonoptional EAS. As the traffic studies above show, the calling rates between these exchanges far exceed the minimum requirements under our Rule.

Accordingly, we find it appropriate to require Indiantown to survey its subscribers for implementation of flat rate, nonoptional, two-way calling between the Indiantown and Stuart exchanges, under the 25/25 plan with regrouping. With this plan, both residential and business subscribers are charged two additives above their standard monthly rates. The 25/25 additive is twenty-five percent (25%) of the rate group schedule for the number of access lines to be newly included in the exchange's calling scope. The regrouping additive is the difference in rates between the exchange's original rate group and the new rate group into which the exchange will fall with its expanded calling scope. The rates at which the Indiantown customers shall be surveyed are as follows:

<u>Customer Class</u>	<u>Current Rate</u>	<u>25/25 Additive</u>	<u>Regrouping Additive</u>	<u>New Rate</u>
R-1	\$ 5.05	\$1.80	\$2.15	\$ 9.00
B-1	11.49	4.23	5.41	21.13
PBX	30.00	8.45	3.80	42.25

Under this calling plan, the Indiantown and Stuart exchanges would receive toll free calling to and from each other. Rates for the Stuart exchange would not increase; therefore, the Stuart subscribers are not included in the survey.

The 25/25 plan is dependent on the existence of rate groups because the formula makes use of the differential between rate groups to develop new EAS rates. Since Indiantown has only one exchange, the Company has not developed rate groups. To be consistent with previous EAS dockets, we find it appropriate to employ the 25/25 plan in this docket. In developing reasonable rates, we considered applying the 25/25 formula to the rate groups of either Southern Bell or United Telephone Company of Florida (United).

In setting reasonable rates, we had two objectives: (1) to develop rates which are not unacceptably high from the perspective of the subscribers; and (2) to ensure the Company a reasonable level of cost recovery. Applying the 25/25 formula to Southern Bell's rate groups would result in a local service rate for R-1 subscribers of \$10.50, an increase greater than 100%. Applying the 25/25 formula to United's rate groups results in an R-1 rate of

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\$9.00, an increase of 78%. Although the percentage increase under either scenario may seem high, it should be noted that Indiantown subscribers would experience a seventeen-fold increase in their calling scope (from 2,506 access lines to 43,491 access lines).

In previous dockets in which the calling rates justified implementation of flat rate EAS, we have ordered that the respective local exchange companies (LECs) not be allowed to fully recover their costs because this would result in unacceptably high local rates. This results from the significant amount of lost toll revenue as well as the cost of additional facilities (primarily switching and trunking). Nonetheless, we have ordered surveys without full cost recovery in such cases because the community of interest, as demonstrated by calling volumes, was great enough in each case to warrant implementation of flat rate EAS.

Although we find that 100% cost recovery is not necessary, we also find that substantial cost recovery is warranted in this particular EAS docket because of the uniqueness of this Company. Indiantown Telephone System is one of only two LECs in Florida whose entire territory is made up of only one exchange. The Company serves only 2506 access lines. Sources of revenue for the Company are very limited. Implementation of flat rate EAS without substantial cost recovery would quickly put the Company in an underearnings position. One percentage point (1%) on equity for this Company is approximately \$30,000. Since the annual toll revenue on the Indiantown/Stuart route is in excess of \$175,000, it is clear that the Company's earnings could fall sharply without substantial cost recovery.

We find that the rates developed by applying the 25/25 formula to United's rate groups are the best compromise between keeping rates at a reasonable level, while still allowing substantial cost recovery for the Company. The new R-1 rate of \$9.00 compares favorably with the R-1 rate of \$8.80 paid by Stuart subscribers (served by Southern Bell). This rate also allows the Company to recover all but approximately \$750-\$800 per month of the lost toll revenue. The \$10.50 rate developed by applying the 25/25 formula to Southern Bell's rate groups would recover more than 100% of the lost toll revenue.

The 25/25 additives shown above were derived by first calculating the additional calling scope for the Indiantown exchange. The number of access lines by which the calling scope

will increase is simply the number of access lines in the Stuart exchange (40,985). This number of access lines was then applied to United's rate group schedule. The additional calling scope would fall into rate group 2. With the addition of 40,985 access lines to the current calling scope in the Indiantown exchange (2,506), the new totals would be 43,491, which would regroup to United's rate group 2.

The existing rates, proposed rates, and expected revenue increases are shown below:

<u>INDIANTOWN - STUART EAS</u>					
<u>SERVICE</u>	<u>CUSTOMERS</u>	<u>PRESENT</u>	<u>PROPOSED</u>	<u>INCREASE</u>	<u>ADDED REVENUE</u>
R-1	1906	\$ 5.05	\$ 9.00	\$ 3.95	\$7,528.70
B-1	550	11.49	21.13	9.64	5,302.00
PBX	50	30.00	42.25	12.25	<u>612.50</u>
			TOTAL		\$13,443.20

The traffic studies filed in this docket report the toll revenue during the period of the study. Indiantown reports monthly toll revenue on the Indiantown-Stuart route of \$14,357.43 for direct dialed calls. An additional \$1,735.28 in revenue is reported for operator-handled calls on this route. That figure includes both toll charges and operator charges.

In calculating the lost toll revenue from implementation of flat rate EAS, there are two additional factors to be considered: access charges and impact on operator-handled calls. Indiantown pays terminating access charges to Southern Bell on calls from the Indiantown exchange to the Stuart exchange. Similarly, Southern Bell pays terminating access charges to Indiantown for calls in the other direction. Southern Bell's terminating access rate is lower than that of Indiantown; however, substantially more calls flow from the Indiantown exchange to the Stuart exchange than in the reverse direction. In minutes of use, for the period of the traffic study, Southern Bell terminated approximately 67% more minutes than did Indiantown for traffic on this route. What this means is that Indiantown's access expense will be reduced more than its access revenue if this plan is implemented. We have calculated the savings to Indiantown to be approximately \$1084 per month.

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As to the impact on operator-handled calls, we believe that the majority of these calls will simply be dialed as seven digit local calls if EAS is implemented. Thus, the Company would lose both the toll revenue and the operator charge revenue on these calls. However, some of these calls would continue to be made as operator-handled local calls because some locations are restricted to 0+ calling only. Therefore, while all of the toll revenue would be lost on these calls, some portion of the operator revenue would be retained. Yet, even that revenue may be in jeopardy, depending upon the outcome of Southern Bell-Indiantown negotiations regarding operator charges.

Taking into account these additional factors, our proposed new rates would result in a revenue impact to Indiantown of between \$0 and \$800 per month, or between \$0 and \$9,600 annually. The expected costs to the Company, other than lost toll revenue, include: the additional facilities necessary to convert the existing toll traffic to local traffic; the cost of new directories; programming costs; and the cost of balloting the customers. The additional facilities necessary are primarily in the form of additional trunking and switching costs.

The Company has estimated the expected costs of the additional facilities necessary at \$36,900. Other estimated costs include: \$8,000 for directories; \$5,000 for programming; and \$1,500 for balloting. The facilities' costs would normally be amortized over a 10 to 15 year period, resulting in an annual cost of between \$2,500 and \$3,700. The programming and balloting costs would be a one-time expenditure. The directory expense would decrease after the initial cost of providing new directories. Accordingly, our proposed rates should result in additional expense to the Company, in the first year, of up to \$18,200, followed by additional expense of up to \$5,000 in subsequent years.

Inasmuch as the traffic studies in this docket reflect a sufficient community of interest to warrant implementation of an alternative to toll and the alternative takes into account the known costs to set rates, the companies shall be relieved of conducting the cost studies required by Rule 25-4.061, Florida Administrative Code. We shall also waive Rule 25-4.062(4), Florida Administrative Code, which provides for full recovery of costs from the subscribers in the petitioning exchange.

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The subscribers in the Indiantown exchange shall be surveyed by the Company within thirty (30) days of the date this Order becomes final. Prior to conducting the survey, Indiantown shall submit its explanatory survey letter and ballot to our staff for approval.

If the survey passes by a simple majority of the customers surveyed, Indiantown and Southern Bell shall then implement the toll free calling plan between the Indiantown and Stuart exchanges within twelve (12) months of the issuance date of our order on survey approval. By our requiring a simple majority, we are hereby waiving the fifty-one percent (51%) favorable vote requirement of Rule 25-4.063(5)(a), Florida Administrative Code.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the petition filed with this Commission on behalf of 154 Indiantown exchange subscribers is hereby approved to the extent outlined in the body of this Order. It is further

ORDERED that if no proper protest is filed within the time frame set forth below, Indiantown Telephone System, Inc. shall, within thirty (30) days of the date this Order becomes final, survey the subscribers in the Indiantown exchange for implementation of a flat rate, two-way, nonoptional extended area service plan that complies with the terms and conditions set forth herein. It is further

ORDERED that Indiantown Telephone System, Inc. shall submit its survey letter and ballot to our staff for approval prior to their distribution. It is further

ORDERED that certain rules as described herein have been waived for the reasons set forth in the body of this Order. It is further

ORDERED that if the survey passes, the plan described herein shall be implemented by Indiantown Telephone System, Inc. and Southern Bell Telephone and Telegraph Company within twelve (12) months of the issuance date of our Order on survey approval. It is further

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ORDERED that the effective date of our action described herein is the first working day following the date specified below, if no proper protest to this Proposed Agency Action is filed within the time frame set forth below. It is further

ORDERED that this docket shall remain open.

By ORDER of the Florida Public Service Commission, this
3rd day of JUNE, 1991.



STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

ABG

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.

The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-

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22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on June 21, 1991.

In the absence of such a petition, this order shall become effective on the day subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

If this order becomes final and effective on the date described above, any party adversely affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by 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 of the effective date 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.

MEMORANDUM

May 30, 1991

TO: DIVISION OF RECORDS AND REPORTING
FROM: DIVISION OF LEGAL SERVICES (GREEN)
RE: DOCKET NO. 900913-TL

AS *FP*

24607

Attached is a NOTICE OF PROPOSED AGENCY ACTION ORDER REQUIRING SURVEY OF CUSTOMERS FOR IMPLEMENTATION OF EXTENDED AREA SERVICE in the above-referenced docket, which is ready to be issued.

ABG/mgf
Attachment
cc: Division of Communications

900913a.mgf

*protest
due 6/21/91*

DOCUMENT NUMBER-DATE
05516 JUN-3 1991
FPSC-RECORDS/REPORTING

~~DOCUMENT NUMBER-DATE
05516 MAY 31 1991
FPSC-RECORDS/REPORTING~~