

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petitions of SOUTHERN BELL)	DOCKET NO. 880069-TL
TELEPHONE AND TELEGRAPH COMPANY for)	
rate stabilization and implementation)	ORDER NO. 24861
orders and other relief)	
_____)	ISSUED: 7/29/91

The following Commissioners participated in the disposition of this matter:

THOMAS M. BEARD, Chairman
 J. TERRY DEASON
 BETTY EASLEY
 MICHAEL MCK. WILSON

NOTICE OF PROPOSED AGENCY ACTION
ORDER REIMPOSING MONTHLY REPORTING REQUIREMENTS,
FINALIZING EARNINGS AND EXOGENOUS FACTORS EFFECTS
FOR SHARING PURPOSES FOR 1988 AND 1989, REQUIRING
OPTIONAL RESIDENTIAL MEASURED RATE AND RETAINING
JURISDICTION OVER AMOUNTS SUBJECT TO FURTHER DISPOSITION

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed in Sections III, IV and VI are 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.

I. BACKGROUND

By Order No. 20162, the Commission ruled on Southern Bell Telephone and Telegraph Company's (Southern Bell or the Company) petitions for rate stabilization and other relief. As of the rate stabilization plan, the Commission expanded the authorized range of return on equity to a minimum of 11.5% and a maximum of 16%. Within the expanded range the Commission also implemented an earnings sharing plan. Any earnings in excess of 14% are to be shared with 60% being given to Southern Bell's ratepayers and the other 40% retained by the company. All earnings in excess of 16% after sharing are returned to the ratepayers. In addition, earnings stemming from certain exogenous factors were excluded from the sharing process.

II. RATE OF RETURN REPORTING REQUIREMENTS

Rule 25-4.0245(2)(a), Florida Administrative Code, requires local exchange companies (LECs) to file rate of return (ROR)

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reports on a monthly basis by the 15th day of the third month following the reported month. By Order No. 24296, we determined to waive that Rule for Southern Bell and allow the Company to file ROR reports on a quarterly basis; however, we shortened the filing period to the 15th day of the second month following the reported month. Our alteration of the reporting requirements reflected our desire to reduce the volume of ROR filings since any excess earnings are split with the ratepayers without the need to place money subject to refund.

Southern Bell filed a Motion for Reconsideration of Order No. 24296 on April 11, 1991. In its Motion, Southern Bell requested that it be allowed to file quarterly ROR reports by the 15th day of the third month following the reported quarter rather than the second month. In support of its Motion, Southern Bell states that the additional time to file its ROR report is to avoid filing preliminary information and then having to update the ROR report based on final information. Upon consideration, we find that our earlier decision will not result in any significant reduction in work and filing requirements compared to filing the ROR report monthly. We also recognize that other parties also use the ROR reports and that monthly filing is more beneficial to them. Therefore, we find it appropriate to rescind our waiver of Rule 25-4.0245(2)(a). Southern Bell shall continue to file monthly ROR reports by the 15th day of the third month following the reported month as required by Rule 25-4.0245(2)(a). As a result of our decision here, Southern Bell's Motion is granted in part and denied in part.

III. SOUTHERN BELL'S ROE FOR 1988 AND 1989 FOR SHARING PURPOSES

By Order 20162, issued October 13, 1988, Southern Bell is required to share earnings in the 14%-16% ROE range with a 60/40 split in the ratepayers favor. Any and all earnings over 16% ROE after sharing were to be returned to the ratepayers. Based on an audit by our Staff of Southern Bell's 1988 and 1989 surveillance reports, it appears that for each of those years, Southern Bell's ROE fell below the 14% sharing threshold. Southern Bell earned a revised adjusted ROE of 13.69% for both 1988 and 1989. The ROEs were revised to include principally out-of-period adjustments for both years. Since both 1988 and 1989 ROEs fell below 14%, no sharing is warranted for either year.

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IV. EXOGENOUS FACTORS FOR 1988 AND 1989

By Order 20162, it was determined that only earnings attributable to productivity increases should be shared. As a result, earnings from certain exogenous factors were excluded from the sharing. Earnings from the following sources are excluded from the splitting process: all rate changes other than regroupings; 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. Any rate increases are netted against rate decreases, significant governmental actions, and debt refinancings. If the result is an overall increase in earnings due to the netting process, the net amount will be refunded to ratepayers or subject to other disposition in an appropriate manner. If netting produces a decrease in earnings, the company absorbs the loss.

The final net impact for 1988 and 1989 is as follows:

	<u>1988 Revenue</u> <u>Requirements Impact</u>	<u>1989 Revenue</u> <u>Requirements Impact</u>
I. Rate Changes		
A. Rate increases	\$1,233,000	\$ 9,387,000
B. Rate decreases	<u>(26,000)</u>	<u>(91,000)</u>
Net	\$1,207,000	\$ 9,296,000
II. Exogenous Factors		
A. Depreciation increase due to USOAR	\$(4,989,000)	\$(9,044,000)
B. Separations change	<u> </u>	<u>(5,567,000)</u>
Net	\$(4,989,000)	\$(14,611,000)
III. Debt Refinancing		
A. Difference between forecast and actual	<u>\$(1,379,000)</u>	<u>\$(1,281,000)</u>
Total	<u>\$(5,161,000)</u>	<u>\$(6,596,000)</u>

As shown above, the effect of netting rate changes against exogenous factors and debt refinancing results in negative amounts

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for both 1988 and 1989. Therefore, no amounts are available for refunds or other disposition.

V. AMOUNTS SET ASIDE IN ORDER NO. 20162 FOR SUBSEQUENT DISPOSITION

By Order No. 20162, we set aside certain amounts for later disposition including \$17.1 million in 1989 and \$147.7 million in 1990 pending the outcome of Southern Bell's depreciation represcription in Docket No. 890256-TL, \$2,100,000 related to SFAS 87 (pensions), and \$1,949,000 as a result of interest savings resulting from debt refinancing. Subsequently, we subjected certain of the amounts set aside to further disposition. By Order No. 23132, we authorized an additional \$98,344,915 of depreciation expense net of rate base and investment tax credit effects. By Order No. 23628, we reduced Southern Bell's BHMOC revenues by \$18,620,000 on an annual basis. By Order No. 23960, we reduced Southern Bell's toll rates and eliminated EAS additives and toll charges for a total annual reduction of \$26,808,500. Subtracting the revenue reductions from the amounts set aside for disposition leaves \$8,018,667 remaining for disposition from the initial implementation of Southern Bell's rate stabilization.

By Order No. 24066, we extended Southern Bell's rate stabilization plan until December 31, 1992. In that Order, we also set aside \$18,420,620 for 1991 and an additional \$21,868,551 for 1992 due to the expiration of amortization schedules established by Order 23132. Adding the \$8,018,667 to the \$18,420,620 of 1991 amortization schedule expiration results in \$26,439,287 in annual revenues available for prospective rate reductions in 1991. In addition, to the \$26,439,287, there is an additional amortization schedule that expires in 1992 which results in an additional amount of \$21,868,551 in annual revenue.

By Order No. 20162, we set aside \$10,000,000 annually for the implementation of Optional Extended Area Service (OEAS) of which approximately \$3,264,300 has been used to date leaving \$6,735,700 available for further disposition. Additional EAS routes are expected to be put into place in the near future, which should dispose of the bulk of the remaining \$6,735,700. Accordingly, we do not include the \$6,735,700 in the amount available for prospective reductions. The nonrecurring amount available for refund or other disposition as of December 31, 1990 is approximately \$64,185,012, including interest.

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VI. PARTIAL DISPOSITION OF PROSPECTIVE REVENUES

In addressing the disposition of the revenues, both recurring and nonrecurring amounts, the parties have presented numerous suggestions for our consideration. Southern Bell proposed that the nonrecurring funds be directed to special advanced telecommunications projects that would focus on four areas: education, health care, law enforcement, and the disabled community. Southern Bell also proposed that grants be set aside for teaching institutions to assist in development of information services, particularly for handicapped or for the disabled community. Southern Bell's proposal was conceptual in nature and made no specific proposals. The company added that detailed projects would be brought before the Commission for review and approval as they were developed. Public Counsel advocated that the amounts be returned to the customers as a refund. Our Staff proposed that the nonrecurring revenues be booked as a deferred credit in order to effect a continuing revenue requirement reduction of approximately \$8,321,000.

With respect to the recurring revenues, our Staff proposed that the bulk of the revenue be set aside for systematic toll reductions under either a short haul basis or on a county-wide basis. Staff also proposed: 1) residential message rate service, 2) reduce the rate for measured trunks to \$.10 and, 3) reduce the PBX trunk rate to two times the B-1 rate. Public Counsel supports the implementation of an optional message rate plan. Southern Bell advocates deferring a decision on disposition of the recurring until a more comprehensive plan can be developed.

Upon consideration, we find it appropriate that Southern Bell implement an optional measured service for the Company's residential customers.

We view this as a desirable addition to Southern Bell's basic services at this time. Southern Bell is now the only major LEC not to have a message rate option generally available to its lower usage residential customers. GTE has provided optional message rate service to its customers for more than eleven years. We recently authorized residential measured rate option in the United and Centel rate cases. Message rate service has been available to business customers in Southern Bell's territory for many years. Evidence in the recent rate case dockets shows that subscribers view a message rate option more favorably than a measured rate

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option. Based on data submitted by Southern Bell, the 1992 estimated revenue impact will be \$8,428,000. Accordingly, Southern Bell shall implement a residential message rate option as follows:

- a. The rate shall be 60% of the applicable one party rate, with a 30 call allowance per month and a \$.10 message rate above the allowance.
- b. Non-recurring charges shall be waived for existing customers wishing to switch to this new service for a 120 day period following the effective date.
- c. Southern Bell shall notify customers of this new option via a minimum of two bill stuffers and contacts with senior citizen, low-income, and other target groups.
- d. The service shall be offered effective October 1, 1991.

In view of the uncertainty of customer participation, we find it appropriate to also establish a true-up of the revenue impact of the residential measured rate service.

In order to monitor the implementation and impact of the plan, the subscription rate should be reported to the Commission at monthly intervals for six months. By June 1, 1992 the Company shall submit, by rate group, a priceout of the number of subscribers from October 1, 1991 to April 1, 1992 as well as the number of flat rate residential customers, including the number of units, rates and annualized revenues for each. The subscription rate at the end of the six month period will be used for true-up purposes. If the revenue effect after six months significantly departs from the estimate provided by the Company, the difference will be addressed subsequently.

With respect to the remaining recurring revenues and the non-recurring revenues, we defer any decision as to disposition. We do not endorse Southern Bell's proposal because of the lack of sufficient information to make an informed decision. However, the Company's proposal raises the possibility of new and innovative services which may benefit Southern Bell's customers as well as the State of Florida as a whole. The vague nature of the proposal also raises question as to whether the type of services contemplated

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would be an appropriate disposition of the revenues. Accordingly, we direct our Staff to investigate and present to us a broad array of options directed to disposing of the revenues. All parties are invited to provide specific proposals. We will allow a ninety day convert period for parties to submit proposals. We anticipate that any proposed disposition shall contain sufficient information to enable us to make a reasonable decision.

Until we make a decision on the disposition of revenues, the nonrecurring revenues shall continue to be set aside and accumulate interest.

VII. PUBLIC COUNSEL'S MOTION TO REDUCE RATES AND REFUND MONEY

On April 10, 1991, Public Counsel filed a motion asking that we refund all nonrecurring revenues and reduce rates to dispose of recurring revenues. Southern Bell responded, arguing that a refund would provide a one-time benefit only. It would be preferable, according to Southern Bell, to have the monies be accorded treatment such that it will provide "lasting and long term benefits." The only suggestion that Southern Bell offered, however, was the implementation of a residential optional local service offering.

As discussed above, we have directed the implementation of an optional measured rate and deferred a decision as to disposition of the remaining amounts. In view of this decision, Public Counsel's motion shall be taken under advisement and will be finally addressed in conjunction with our final decision on the disposition of revenues.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that each and all of the specific findings herein are approved in every respect. It is further

ORDERED that Southern Bell Telephone and Telegraph Company shall resume monthly reporting of its surveillance reports pursuant to Rule 25-4.0245(2)(a), Florida Administrative Code, as set forth in the body of this Order. It is further

ORDERED that no sharing of earnings pursuant to Southern Bell Telephone and Telegraph Company's incentive regulation plan is

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appropriate for either 1988 or 1989 as set forth in the body of this Order. It is further

ORDERED that no revenues resulting from exogenous factors are available for return to customers as set forth in the body of this Order. It is further

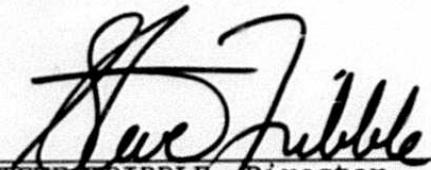
ORDERED that parties shall be allowed ninety days from the date of this Order to file comments on the appropriate disposition of the revenues as set forth in the body of this Order. It is further

ORDERED that the revenues not otherwise disposed of in this Order shall continue to be held and shall accrue interest consistent with our decision herein pending a final disposition. It is further

ORDERED the Office of Public Counsel's Motion to Refund Revenues and Reduce Rates is held in abeyance as set forth in the body of this Order. It is further

ORDERED that a protest of any of our actions in Sections III, IV and VI of this Order shall not prevent the action proposed in another section for which no protest is filed from becoming final.

By ORDER of the Florida Public Service Commission, this 29th day of JULY, 1991.



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.

As identified in the body of this order, our actions in Sections III, IV and VI are 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 25-22.029(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 8/19/91. In the absence of such a petition, this order shall become effective on the date 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 the actions in Sections III, IV and VI of this order become 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.

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Any party adversely affected by the Commission's final action in Sections II and V of this Order may request: 1) reconsideration of the decision by filing a motion for reconsideration with the 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.