BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petitions of SOUTHERN BELL TELEPHONE COMPANY for rate stabilization and implementation orders and other relief	DOCKET NO. 880069-TL ORDER NO. 23960 ISSUED: 1/4/91

The following Commissioners participated in the disposition of this matter:

MICHAEL McK. WILSON, Chairman
BETTY EASLEY
GERALD L. GUNTER
FRANK S. MESSERSMITH

ORDER REDUCING MTS RATES AND ELIMINATING CERTAIN OTHER CHARGES

BY THE COMMISSION:

I. Introduction

By Order No. 20162, we set aside certain annual revenues in conjunction with Southern Bell Telephone and Telegraph Company's triennial depreciation represcription. As part of that decision, we also determined that any amounts remaining after the depreciation rates were set would be subject to further disposition. As discussed in greater detail below, we have determined the amount of Southern Bell's 1990 earnings that is subject to further disposition. In addition, we have disposed of a portion of the amount by reducing Southern Bell's MTS rates, eliminating the EAS additive or certain EAS routes, and eliminating toll charges on certain intraLATA toll routes.

II. Revenues Subject For Further Disposition

By Order No. 20162, issued October 13, 1988, in this docket, the Commission reserved $147,743,082 of Southern Bell's earnings for 1990 for later disposition. The disposition was to be decided after Southern Bell's depreciation rates were represcribed. Order No. 23132, issued June 29, 1990 in Docket No. 890256-TL, authorized an additional depreciation expense for 1990 of $123,757,423. With an increase in depreciation expense there is a corresponding reduction in rate base. The $123,757,423 depreciation expense amount does not include the offsetting reduction in revenue requirements of $8,273,508 resulting from the decrease in rate base. Also, revenue requirements are further reduced by the increase in the amortization of investment tax credits and deferred tax flowback in the amount of $17,139,000. Motions for reconsideration of Order No. 23132 have been filed; however, these

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motions request a lower level of depreciation expense. Therefore, additional depreciation expense should be no more than $123,757,423 on an annual basis. Considering these offsets to the additional depreciation expense results in a net increase in expense of $98,344,915. Deducting the $98,344,915 net annual expense amount from the $147,743,082 reserved for disposition leaves $49,398,167. By Order No. 23628, issued October 16, 1990, we reduced Southern Bell's BHMOC revenue annually by $18,620,000. Subtracting the $18,620,000 BHMOC reduction to the $49,398,167 remaining, leaves a net of $30,778,167 available for disposition.

In addition, Order No. 20162 set aside $2.1 million related to the effect of the Statement of Financial Accounting Standards 87 (SFAS 87). SFAS 87 is a standard for pension accounting and was not taken into account in the Southern Bell forecasts in Docket No. 880069-TL. Order No. 23005, issued May 30, 1990, removed the Telecommunications Industry from Docket 881170-PU, Review of Utility Pension Fund Accounting. Removal of Southern Bell from this docket makes the $2.1 million related to SFAS 87 available for disposition.

Also available for disposition is the interest savings resulting from debt refinancing. By Order No. 22793 we allowed Southern Bell to offset the cost of debt refinancing in 1989 using the $10 million set aside for OEAS implementation in 1989. The resulting $1.949 million in interest savings was to be added to the $10 million set aside for OEAS implementation in 1990. Adding the interest savings of $1.949 million and the SFAS 87 amount of $2.1 million gives an additional amount available for disposition of $4.049 million. Adding the $4.049 million to the $30,778,167 results in a total amount available for disposition of $34,827,167. Those amounts not disposed of below shall be held for further disposition.

III. MTS Reduction

Over the past several years this Commission has lowered and ultimately eliminated Southern Bell's Busy Hour Minute of Capacity Charge (BHMOC) in order to reduce its switched access charges. Southern Bell requested some of these access reductions in order to keep the IXCs on the switched network and discourage them from bypassing. In Order No. 20162, we approved Southern Bell's proposal to reduce its MTS rates to make them more competitive with the IXCs on intraLATA toll traffic. However, we did not allow the lowest rate bands to be reduced below the switched access rates because we wanted to insure the toll rates would exceed the relevant access charges at least on an aggregate basis. By Order

No. 23628, we reduced Southern Bell's BHMOC rate to zero. LECs' access rates are not tied directly to their MTS rates. However, there is a correlation between the two; MTS rates must cover switched access charges in the aggregate.

While this Commission has not required that LEC MTS rates be reduced by an amount proportionate to its switched access rate reductions, it has been our desire to see that occur. We are frequently faced with the question from ratepayers why it is more expensive to make an intrastate toll call than an interstate call of the same distance and time of day. Part of the answer to that question is due to the disparity between inter- and intrastate access charges and the aforementioned requirement that toll revenues must exceed access charge rates in the aggregate. In light of the amount of rates that are subject to further disposition as a result of Order No. 20162, we find it appropriate to reduce Southern Bell's MTS rates. The new rates are as follows:

Mileage Band	Day Initial Minute	Additional Minute
0-10	$.15	$.08
11-22	$.18	$.12
23-55	$.19	$.19
56-124	$.20	$.20
125-292	$.20	$.20

In designing the new rates, we were cognizant of two goals: reduce the interstate and intrastate rate disparity and maintain the aggregate coverage of access charges by the MTS rates. To reduce the disparity we utilized AT&T's interstate rates as a guide. To continue to cover access charges in the aggregate it was necessary to change the discount on Evening and Night/Weekend rates. The new rates include a reduction in the discount for Evening calls from 35% to 30%. The discount reduction for night/weekend is from 60% to 40%. As a result of changing the discounts, Southern Bell's Night/Weekend rates will increase slightly in several mileage bands, notably the first two, which will improve the relationship of access charges to MTS rates.

Southern Bell's first two mileage bands account for approximately 40% of its MTS usage and the upper three mileage bands account for approximately 60% of its usage. The following chart shows the cost of access per minute:

TOD	Originating Rate	X	Holding Time	+	Terminating Rate	=	One Minute
Day	$.0641		1.113		$.0719		$.1432
Eve	$.0417		1.113		$.0719		$.1183
N/W	$.0257		1.113		$.0719		$.1005

While the first two mileage bands do not cover access in every case the upper three collect enough revenues to more than cover the difference. From this it appears that these new rates cover access in the aggregate. We note that these new MTS rates are below AT&T's interstate rates for every relevant mileage band. With the toll transmission monopoly areas expiring at the end of 1991, Southern Bell, as well as its toll customers, will benefit from toll rates that are more competitive with IXCs operating in Southern Bell's territory. The new rates dispose of approximately $25.6 million of the amount subject to further disposition.

The new rates shall be effective December 1, 1990. Southern Bell shall file tariffs accordingly. In addition, because the intraEAEA compensation rate that IXCs pay the LECs is calculated from the difference between MTS rates and access charges, Southern Bell shall also file a new tariff for its compensation rate to reflect the rate reductions.

IV. Elimination of EAS Additive for Havana/Tallahassee and Milton/Pensacola EAS Routes

When EAS was granted on these two routes an additive was placed on local rates to partially recover the expense of providing the extended service. Havana EAS was implemented in June of 1987 and Milton EAS was implemented in September of 1986. It appears that sufficient revenues have been collected to pay for the additional expense, stemming from the implementation of EAS on these routes. Accordingly, we find it appropriate to eliminate the additives. Eliminating these additives results in an annual net revenue reduction to Southern Bell of $128,800 on the Havana/Tallahassee route and $634,700 on the Milton/Pensacola route. This disposes of a total of $763,500 of the amounts subject to further disposition.

V. Elimination of Toll Charges on the Baldwin/Maxville, Julington/Orange Park and Port St. Lucie North/Stuart Toll Routes

Extended Area Service pressures are an increasing concern. One method to alleviate these pressures is to eliminate some of the toll routes in the first (0 - 10) mileage band. Southern Bell has few toll routes in this band and these routes generate a small amount of revenue. However, these short toll routes account for a large amount of EAS pressure. Southern Bell has six intracompany routes in the first mileage band. One is an interLATA route and five are intraLATA routes. At this time it appears that only three of the routes may be practically eliminated. These three routes, Baldwin to Maxville, Julington to Orange Park, and Port St. Lucie to Stuart, are solely Southern Bell routes. Eliminating these toll routes will have no impact on other LECs. In addition, eliminating toll charges on these routes will have a net positive impact to customers after any rate regrouping charges. We decline to take any action on the two remaining intra-company intraLATA routes because the increase to customer rates which would occur due to regrouping would more than offset any savings to the customer from eliminating toll charges.

The proposed routes make a relatively small revenue contribution towards Southern Bell's total revenues. The Baldwin/ Maxville route generates $20,000 in annual toll revenues, the Julington/Orange Park route generates $23,000, and the Port St. Lucie North/Stuart route generates $500,000 in annual toll revenues.

Port St. Lucie North exchange will move from rate group V to rate group VI, resulting in an increase in the R-1 rate from $8.80 to $9.15 per month. The total annual regrouping revenue is $98,000. This increase in local rates due to regrouping is more than offset by the $500,000 annual reduction in toll charges. The net annual reduction in Southern Bell's revenues from the elimination of toll charges disposes of approximately $445,000 of the amount subject to further disposition.

Based on the foregoing, it is

ORDERED by the FLORIDA PUBLIC SERVICE COMMISSION that certain of Southern Bell Telephone and Telegraph Company's revenues as set forth in the body of this Order are subject to further disposition. It is further

ORDERED that Southern Bell's MTS rates shall be reduced as set forth in the body of this Order. It is further

ORDERED that the EAS additive charge for certain EAS routes shall be eliminated as set forth in the body of this Order. It is further

ORDERED that toll charges shall be eliminated on certain toll routes as set forth in the body of this Order. It is further

ORDERED that each and all of the specific findings herein are approved in every respect. It is further

ORDERED that each of the rate changes set forth in the body of this Order shall be effective December 1, 1990.

By ORDER of the Florida Public Service Commission, this 4th day of JANUARY, 1991.

Steve Tribble

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 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.