

## BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Modified minimum filing )  
 requirements report of ST. JOSEPH )  
 TELEPHONE AND TELEGRAPH COMPANY )

DOCKET NO. 910927-TL  
 ORDER NO. 25686  
 ISSUED: 2/4/92

The following Commissioners participated in the disposition of this matter:

SUSAN F. CLARK  
 J. TERRY DEASON  
 BETTY EASLEY

ORDER INITIATING EXPEDITED HEARING  
TO ADDRESS EQUITY RATIO ADJUSTMENT AND  
DIRECTING REVENUES BE HELD SUBJECT TO REFUND

St. Joseph Telephone and Telegraph Company (St. Joe or the Company) filed its Modified Minimum Filing Requirements (MMFRs) on September 30, 1991, using a test year ended June 30, 1991. Discovery is presently being conducted in this docket. However, as we noted in Docket No. 910462-TL at our December 17, 1991, Agenda Conference, the Company overearned in 1990 and may overearn in 1991. In that docket, we ordered a cash refund of \$731,340 plus interest for 1990, along with proposed acceptance of the Company's offer to cap its 1991 earnings at its 13.9% return on equity (ROE) ceiling. The overearnings for 1991 are to be trued up after receipt of the 1991 Cost Study. In addition, we directed our staff to bring a recommendation to our January 7, 1992, Agenda Conference to address overearnings for 1992.

Our analysis shows that there has been some decline in the level of overearnings since 1990 when calculated at the Company's current equity ratio and ROE ceiling of 13.9%. This decline in earnings is expected to continue into 1992 due to the continued phase down of the interstate subscriber plant factor (SPF) and the effect of a full year's reduction in the Company's busy hour minute of capacity (BHMOC) rate. However, if adjustments are made in this docket to either the equity ratio and/or to the ROE, the Company will again find itself in an overearnings posture in 1992. Therefore, we find it appropriate to place revenues subject to refund for 1992.

When placing revenues subject to refund, Chapter 364.055, Florida Statutes, states that the rate of return shall be calculated "using the company's last authorized rate of return on equity." In addition, subparagraph (5)(b)3 states, "the term 'last authorized rate of return on equity' means the maximum of the range

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of the last authorized rate of return on equity established in the company's most recent rate case." Accordingly, the appropriate ROE to use for placing money subject to refund for this Company is 13.9%. This ROE was approved in Docket No. 891238-TL by Order No. 22284, issued December 11, 1989.

The statute also states in subparagraph (5)(a)1 that "The achieved rate of return shall be calculated by applying appropriate adjustments consistent with those which were used in the company's most recent rate case and annualizing any rate changes occurring during such period."

We have projected St. Joe's potential 1992 overearnings by annualizing eleven months of actual 1991 data. We find that this is a more accurate current estimate of the 1992 earnings as opposed to using the September, 1991, Surveillance Report. We have made the following adjustments to the 1991 data to project the amount of overearnings for 1992:

- 1) St. Joe's interstate SPF is phasing down with the result that \$120,000 annually of revenue requirement is being shifted to the intrastate jurisdiction.
- 2) St. Joe's intraLATA BHMOC rate was reduced in Docket No. 910584-TL by Order No. 24819, effective September 1, 1991, which will reduce intrastate revenue by an additional \$148,000 in 1992.
- 3) We have also made a pro forma adjustment to recognize the increase in the Universal Service Fund (USF). The 1991 amount of the USF was \$770,132; the 1992 amount will be \$1,248,660. Therefore, our adjustment is an increase of \$478,528.
- 4) We determined, on December 17, 1991, in Docket No. 890505-TL, that additional revenue identified in the private line/special access restructure should be addressed in this docket. This results in an increase in intrastate revenues of \$58,963.

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Based upon this analysis, we find that the appropriate amount of revenue to be placed subject to refund for 1992, including the above-mentioned adjustments, is \$445,935. Accordingly, the Company is directed to hold such revenue subject to refund, pending the result of our review of the MMFRs in this docket. These revenues shall be subject to refund, with interest, in accordance with Rule 25-4.114, Florida Administrative Code. To guarantee a potential refund, St. Joe shall provide a corporate undertaking in the appropriate amount.

In addition, we note that we have ordered implementation of a county-wide alternative toll plan known as the \$.25 plan in Franklin County in Docket No. 900302-TL, Order No. 24835, issued July 19, 1991, and in Gulf County in Docket No. 910122-TL, Order No. 25352, issued November 15, 1991. We recognize that implementation of these calling plans will reduce the amount of overearnings for 1992; however, we are unable to quantify the dollar impact at this time. Therefore, these changes will be reflected in the 1992 actual data.

A final matter concerns the issue of an appropriate equity ratio for this Company. St. Joe's equity ratio of 56% for the year ending December 31, 1991, is outside the range established by Standard & Poor's (S&P). S&P has established a range of equity ratios for a "low" risk BBB-rated local exchange company (LEC) of 35% to 45%. S&P has also established an equity ratio range for a "high" risk BBB-rated LEC of 38% to 50%. The distinction between a "low" risk and a "high" risk LEC is based on S&P's perception of business risk with respect to competition and regulatory support.

We are concerned that where a utility increases its equity ratio above the level necessary for the provision of local exchange service, it also increases its revenue requirements. For this reason, we find it appropriate to address the issue of an adjustment to equity for determining the total amount of revenue to be held subject to refund pending completion of the MMFR review in this docket. We recognize that this adjustment is not consistent with the last rate case. However, Section 364.055(3) allows us to make such an adjustment, so long as a hearing is held within sixty days. Accordingly, we find it appropriate to set this matter for an expedited hearing pursuant to Section 364.055(3). We believe such action is necessary on our part in order to ensure that only the fair and reasonable cost of providing local exchange service is

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passed on to the ratepayers. The schedule for this hearing shall be established by separate order.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that St. Joseph Telephone and Telegraph Company shall hold certain revenues subject to refund in accordance with the terms and conditions set forth herein. It is further

ORDERED that St. Joseph Telephone and Telegraph Company shall file a notice of corporate undertaking that complies with the requirements contained in the body of this Order. It is further

ORDERED that the issue of whether to adjust St. Joseph Telephone and Telegraph Company's equity ratio for the purpose of holding money subject to refund will be addressed in an expedited hearing as set forth herein. It is further

ORDERED that this docket shall remain open.

By ORDER of the Florida Public Service Commission, this 4th  
day of FEBRUARY, 1992.

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STEVE TRIBBLE, Director  
Division of Records and Reporting

( S E A L )

ABG

by: Kay DeLeon  
Chief, Bureau of Records

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

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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 this order, which is preliminary, procedural or intermediate in nature, may request: 1) reconsideration within 10 days pursuant to Rule 25-22.038(2), Florida Administrative Code, if issued by a Prehearing Officer; 2) reconsideration within 15 days pursuant to Rule 25-22.060, Florida Administrative Code, if issued by the Commission; or 3) 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 wastewater utility. A motion for reconsideration shall be filed with the Director, Division of Records and Reporting, in the form prescribed by Rule 25-22.060, Florida Administrative Code. Judicial review of a preliminary, procedural or intermediate ruling or order is available if review of the final action will not provide an adequate remedy. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.