BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for a rate increase by CENTRAL TELEPHONE COMPANY OF FLORIDA	) DOCKET NO. 920310-TL) ORDER NO. PSC-92-0980-FOF-TL) ISSUED: 09/11/92

The following Commissioners participated in the disposition of this matter:

THOMAS M. BEARD, Chairman
SUSAN F. CLARK
J. TERRY DEASON
BETTY EASLEY
LUIS J. LAUREDO

ORDER SUSPENDING RATES AND GRANTING INTERIM RATE INCREASE

BY THE COMMISSION:

I. Background

Central Telephone Company of Florida (Centel or Company) filed a petition on June 24, 1992 to adjust its rates and charges pursuant to Sections 364.05 and 364.055, Florida Statutes. Centel requested a permanent $17,960,753 increase in its rates and charges. The Company requested that the proposed rates be made effective immediately or, in the alternative that it be allowed an interim increase of $9,083,350.

We have set this matter for hearing on December 7-11, 1992. Accordingly, we find it appropriate to suspend the Company's tariff proposed for permanent rate increase. We also find it appropriate to approve an interim rate increase as outlined below.

II. Rate Base for Interim Rates

As shown in the Company's Minimum Filing Requirement (MFR) Schedule G-2a, adjusted intrastate rate base is $224,843,580. For the interim filing, Centel used preliminary 1991 jurisdictional separations factors in calculating the revenue requirements. Subsequent to the filing of the MFRs, the separations factors were finalized and submitted. Section 364.055 (5)(b)1, Florida Statutes, defines the achieved rate of return, for purposes of interim rates, as the rate of return earned by the company for the most recent 12-month period. Because the separations factors are not finalized until the following year, it is necessary to true-up the prior year's earnings using the final separations factors. Therefore, it is appropriate to calculate the intrastate rate base using the final 1991 separations factors rather than the preliminary factors that were used for the interim filing. For this reason, the intrastate rate base should be increased by $1,451,290. The appropriate amount of intrastate rate base to determine the interim revenue requirements is $226,294,870.

III. Appropriate Return on Equity and Overall Rate of Return for Purposes of Setting Rates

The Company's last authorized return on equity was 13.00%. Therefore, it is appropriate to use 12.00%, the low end of the range, as the cost of equity for interim purposes. The cost rates for long-term debt, short-term debt, and customer deposits are the embedded cost of rates for 1991. The cost rate for investment tax credits is 10.85%, which is the weighted average cost of investor capital for 1991 using a 12.00% cost of equity. Consistent with the last rate case, an amount for non-utility investment, $6,823,703, was removed specifically from common equity. The resulting overall rate of return is 8.71%.

IV. Operating Revenues for Interim Test Year Purposes

As shown in the Company's MFR Schedule G-1c, Centel filed $116,003,711 as the appropriate amount of intrastate operating revenues for the interim test year. We find that this amount should be adjusted for the following three adjustments: (1) the true-up of 1991 private line revenue, (2) correction of revenues, and (3) AT&T marketing and selling services.

(1) Private Line Revenue: Centel filed its 1991 private line cost study on June 30, 1992. According to the cost study, Centel's 1991 intraLATA private line revenue pool is $2,957,135. Centel has recorded $2,660,435 on its books for 1991 as private line revenue, thus, intrastate revenues should be increased by the true-up amount of $296,700.

(2) Revenue Corrections: Two corrections to revenues that the Company failed to incorporate in its interim filing were subsequently identified. The first correction is for Feature Group C operator handled Minutes of Use revenue that the Company failed to bill for the months of September, October, and December 1991. This error was discovered and correctly backbilled in March 1992. The amount of backbilled revenue was $254,000.

The second correction is for the overpayment of surcharge to non-LEC PATs providers. Centel overpaid by $104,000 in 1991 in error and subsequently corrected the error in 1992.

The total amount of these two corrections is $359,000, thus, intrastate revenues should be increased by that amount.

(3) Sales of AT&T's Services: In Centel's last rate case, we ordered the Company to record the revenues and expenses associated with marketing and selling AT&T services, such as Reach-Out and credit card service, above-the-line. In addition to our decision on the regulatory treatment of AT&T marketing service, we also addressed the Company's projected profitability of this service. In the last rate case, Centel projected a net loss of $81,304, revenues of $97,000 and expenses of $178,304. However, we did not include this projected net loss in the revenue requirement calculation for a reason that the Company should not enter into contracts that results in a net loss situation. The Company needed to reevaluate the status of this service and either discontinue the service or position itself in a profitable status.

The Company filed additional information in time to incorporate that information into this decision. After review of the late filed information we believe that the amounts provided reflect the actual revenues and expenses, $114,092 and $289,806, respectively, recorded above-the-line for ten months in 1991. For the first two months of 1991, prior to the issuance of the Company's last rate case order, the revenues and expenses were booked below-the-line. The Company made an adjustment for interim purposes to reflect the net loss above-the-line for the first two months, MFR Schedule WPG-4d-23. The Company increased revenues and expenses by $21,505 and $68,000, respectively. We believe that the net loss incurred from this service should be excluded from the revenue requirement calculation for interim purposes. This adjustment is consistent with the last rate case. The total revenues and expenses incurred for this service are $135,597 and $357,806, respectively.

The sum of the three adjustments discussed above is an increase of $520,103. Therefore, the appropriate amount of intrastate operating revenues for the interim test year is $116,523,814.

V. Operating and Maintenance Expense for Interim Test Year Purposes

As shown in the Company's MFR Schedule G-1c, Centel filed $72,089,805 and $5,956,617 as the appropriate amounts of intrastate Operating & Maintenance (O & M) expense and taxes other than income, respectively, for the interim test year. These amounts should be adjusted for the following eight adjustments: (1) separations factors; (2) general allocator; (3) discontinued operations adjustment; (4) Charlottesville revenue center consolidation cost ; (5) employee benefits adjustment; (6) AT&T marketing and selling services; (7) Morgan Stanley fees; and (8) taxes other than income.

(1) Separations Factors: As discussed above, Centel used preliminary 1991 jurisdictional separations factors in calculating the revenue requirements for interim filing. Also as discussed above we find it appropriate to true-up the private line revenue according to the 1991 cost study. Therefore, it is appropriate to calculate the intrastate operating and maintenance expense using the final 1991 separations factors rather than the preliminary factors that were used for the interim filing. Accordingly, intrastate operating and maintenance expense should be increased by $128,061.

(2) General Allocation: During April 1991, Central Telephone Company and Centel Corporation, Centel's parent and grandparent companies, changed their method of determining the general allocator. General allocators are used to allocate costs that can not be directly assigned or directly attributable to a specific company. The method of calculating the general allocator was changed from an access line basis to an operating expense basis excluding the cost of goods sold. In addition to the methodology change, Centel made an adjustment, Adjustment No. 26, to annualize the impact of this change in methodology by increasing intrastate expenses by $141,824.

As discussed above, annualizing expenses does not reflect what the company achieved for the most recent 12-month period. The company is not permitted to adjust its achieved expenses to reflect an annual impact of certain accounting changes. Therefore, the annualizing adjustment of $141,824 should be disallowed for the interim filing.

(3) Discontinued Operations: Centel Corporation and Central Telephone Company have undergone various sales of their

business systems during 1991 and 1992. The sale of two telephone systems, two electric systems, information services and other smaller systems as well as acquisitions of some communication systems took place in those two years. Due to these sales and acquisitions, the allocation percentages to Centel have changed throughout 1991.
In Centel's interim filing, the Company made an adjustment to increase operating expenses to reflect the annual impact of these changing allocation percentages due to the discontinued operations of these businesses. In essence, Centel has annualized the expense to reflect the entire year's impact of sales for interim purposes. As stated earlier, the interim statute clearly specifies that only those adjustments consistent with the last rate case can be made to the company's most recent 12-month earnings. Annualizing expenses for interim purposes is not consistent with the interim statute. Therefore, intrastate operating expense should be decreased by $1,846,298.

(4) Charlottesville Consolidation: In the last rate case, we required the amortization of costs associated with the consolidation of the Charlottesville Revenue Center. The Company did not begin the amortization until February 1991. Adjustment No. 24 reflects the amortization for January. Annualizing expenses for interim purposes is not consistent with the interim statute as discussed above. Therefore, intrastate operating expenses should be decreased by $4,135.

(5) Employee Benefits: Centel made an employee benefit adjustment for the interim, Adjustment No. 19. There are three components to this adjustment: (a) a new national bargaining unit agreement; (b) implementation of FAS 106, OPEB; and (c) the changes in actuarial assumptions.

(a) Bargaining Agreement A new bargaining unit agreement was reached with the union, effective January 1, 1992. The Company has made a pro-forma adjustment to increase operating expenses in the interim test year to reflect the new bargaining agreement. Pro-forma adjustments which do not affect the company's achieved earnings during the interim test year are not allowable under the interim statute. Thus, intrastate expenses should be decreased by $939,669.

(b) FAS 106-OPEB In the last rate case, we approved the early implementation of FAS 106. There are two parts to the Company's adjustment regarding the implementation of FAS 106. The first part is to record January 1991 expense for other post-retirement benefits associated with Centel, since the

Company did not implement FAS 106 until February 1991. Once again, this is an annualizing adjustment that is not consistent with the interim statute. Therefore, intrastate operating expenses should be decreased by $195,207.

The second part of Centel's adjustment is to reflect the impact on Centel's allocated post-retirement benefits expense from Centel Corporation and Central Telephone Company. During 1991, those companies had not implemented FAS 106 for book purposes. The adjustment reflects what the allocated post-retirement benefits expense level would have been had those companies implemented FAS 106 during 1991.

It is the Company's interpretation that Order 24178 from the last rate case allows the Company to use FAS 106 corporate wide rather than Florida specific operation. Although the order does not specifically identify which companies were to be under FAS 106, our decision addressed only the Florida operation. Therefore, intrastate expenses should be decreased by $80,920.

(c) Actuarial Assumptions The last component of Adjustment No. 19 relates to the changes in actuarial assumptions. Effective January 1, 1992, Centel's assumption for the medical inflation factor that was used to calculate the liability and expense for FAS 106 has gone down from 20% to 15%. Centel has made a pro-forma adjustment to reflect that decrease in the medical inflation factor. As discussed above, a pro-forma adjustment is not an allowable adjustment under the interim statute. Therefore, intrastate operating expenses should be increased by $639,225.

The total of these three adjustments is a decrease in intrastate operating expenses of $576,571.

In addition to the annualizing and pro-forma adjustments, Centel also made an out-of-period expense adjustment for employee benefits, Adjustment No. 4, shown in MFR Schedule WPG-4d-42. This adjustment increases intrastate expenses by $111,054 for the 1990 true-up of employee benefits expenses recorded in 1991. Subsequent to the MFR filing, the 1991 true-up of benefits expense of $57,723 was recorded in 1992. Thus, the 1991 true-up should also be reflected in this out-of-period adjustment. For this reason, intrastate expenses should be decreased by $57,723.

The total amount of adjustment for employee benefits expenses is a reduction of $634,294 to intrastate operating expenses.

(6) Sales of AT&T Services: The net loss from marketing and selling AT&T services should not be included in the revenue requirements calculation. This is consistent with our decision in the last rate case. The appropriate amount of expense adjustment is to decrease intrastate expenses by $357,806.

(7) Morgan Stanley Fees: In Centel's last rate case, we disallowed the allocated expenses associated with an investment firm, Morgan Stanley, and other miscellaneous related allocated costs. The Company failed to remove $23,861 of allocated costs associated with Morgan Stanley in this rate case. To be consistent with the last rate case, the intrastate portion of that amount, $18,041, should be removed from operating expenses.

(8) Taxes Other Than Income: Two adjustments need to be made to the taxes other than income. As discussed earlier, taxes other than income should also be adjusted to reflect the 1991 separations factors. Intrastate taxes other than income should be increased by $7,001.

The second adjustment to the taxes other than income is to adjust for the mismatch of Gross Receipts Tax (GRT) revenue and expense. GRT revenue is recorded in the local revenue account, not subject to any jurisdictional separations, whereas, the GRT expense was erroneously separated between the interstate and intrastate. This caused a mismatch between GRT revenue and expense. To correct this error, taxes other than income should be increased by $213,209

The total adjustment to intrastate taxes other than income is an increase of $220,210.

The sum of the first seven adjustments discussed above is $2,874,337. Therefore, the appropriate amount of intrastate O&M expense for the interim test year is $69,215,468. Furthermore, reflecting adjustment number 8, the appropriate amount of intrastate taxes other than income for the interim test year is $6,176,827.

VI. Amortization and Depreciation

The appropriate amount of intrastate depreciation and amortization expense for the interim test year is $21,743,321. This represents a $845,710 reduction from the Company's calculation of $22,589,033 reflected in MFR G-1c. This difference is based on substitution of the final 1991 separations factors in lieu of the preliminary factors used in Centel's filing. This adjustment results in a $192,410 increase in intrastate depreciation and amortization expenses. The nonrecurring adjustment of $2,713,036 to depreciation and amortization expense should be reduced by $15,343. This reduction reflects the final separation factor rather than the preliminary intrastate separation factor.

Centel's filing also reflects a pro forma adjustment. Such a pro forma adjustment is not permissible under the interim statutes. By applying the interstate composite separation factor to correct for this impermissible adjustment, intrastate depreciation expense should be decreased by 1,022,780.

These corrections result in an intrastate depreciation adjustment of $845,710. Thus the appropriate amount of intrastate depreciation and amortization expense for the interim test year is $21,743,323.

VII. Parent Debt Adjustment

In its MFR filing, Centel reports a year-end intrastate equity balance of $155,289,340, of which $92,573,906 is retained earnings and $62,715,434 is common stock. A review of the utility's annual reports reveal that Centel has paid dividends to its shareholders during the years beginning 1987 through 1991. In addition, the utility has also returned capital to the parent company during this same period. The dividend payments were reflected as reductions to retained earnings while the payments to the parent company were reflected as reductions to the capital stock account. As a result, the capital stock reductions have increased revenue requirements with respect to the parent debt adjustment. No valid explanations were given by the company as to why the capital was returned to the parent in lieu of dividend payments.

Based on the information and analysis before us at this time, we find that the appropriate amount of intrastate parent debt adjustment for the interim test year is $762,531. We find that an additional adjustment of $173,926 should be made to intrastate income tax expense to account for the tax effect of interest expanse on the parent debt. We find this last adjustment to be appropriate because the adjustment was made in the last interim order as part of the last rate case.

VIII. Interim Rate Increase

Based on the adjustments set forth above, we find it appropriate to grant Centel an interim rate increase of $4,591,194. We further find that the interim increase should be uniformly applied to the rates in Section A3, Basic Local Exchange Service. Centel shall submit revised tariff pages by September 1, 1992 and the increase shall be effective for all billing periods made on or after September 7, 1992. Centel shall provide for staff approval a copy of the appropriate notice to customers that will accompany the first billing.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the $17,960,753 permanent rate increase requested by Central Telephone Company of Florida is hereby suspended pending the final outcome of this proceeding. It is further

ORDERED that the appropriate amount of rate base for calculating an interim increase is $226,291,870. It is further

ORDERED that the appropriate return on equity and overall rate of return for interim rate purposes are 12.00% and 8.71%, respectively. It is further

ORDERED that the appropriate operating revenue for the interim test year is $116,523,814. It is further

ORDERED that for interim rate setting purposes the appropriate amount of operating and maintenance expense and taxes other than income is $69,215,468 and $6,176,827, respectively. It is further

ORDERED that the appropriate amount of depreciation and amortization expense for the interim test year is $21,743,321. It is further

ORDERED that the appropriate amount of intrastate parent debt adjustment for the interim test year is $762,531. An additional adjustment to the intrastate income tax expense of $173,926 shall be made for the tax effect of interest expense on the parent debt. It is further

ORDERED that Central Telephone Company of Florida's petition for an interim rate increase of $9,083,350 is hereby denied. It is further

ORDERED that Central Telephone Company of Florida is hereby granted an interim rate increase of $4,591,194 as reflected in Appendix A of this Order. It is further

ORDERED that the interim rate increase shall be uniformly applied to the rates in Section A3, Basic Local Exchange Service. Central Telephone Company of Florida shall submit revised tariff pages by September 1, 1992. The interim increase shall be effective for all billing periods made on or after September 7, 1992. Central Telephone Company of Florida shall submit for approval a copy of the appropriate notice to customers that will accompany the first billing. It is further

ORDERED that interim rates shall be subject to refund with interest and Central Telephone Company of Florida shall file a Corporate undertaking. It is further

ORDERED that this docket shall remain open pending further proceedings.

By ORDER of the Florida Public Service Commission this 11th day of September, 1992.

STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

JKA

Commissioners Deason and Clark dissented from the Commission's decision regarding adjustments to taxes other than income. Commissioner Deason's dissent is as follows:

> I dissent from the very limited portion of the Commission's decision that makes any adjustment to increase the parent debt adjustment to account for the reduction to paid-in-capital made through a return of capital to the parent (in lieu of a dividend payment). While I believe that the adjustment has merit, that is not the test in deciding interim rates. The Interim Statute (Section 364.055, Florida Statutes (1991)) limits the Commission's ability to make adjustments to those

made in the company's last rate case. While I recognize that a similar adjustment was made in the company's last interim decision, no such adjustment was made in the final decision nor did the commission consider making such an adjustment at the time of the agenda vote. Had the Commission voted to make such an adjustment or expressed its intention to make one, but the adjustment was not factored into the revenue requirement through inadvertence, a different question might have been presented. Such is not the case and I am compelled to follow what I believe to be the requirements of the Interim Statute.

Commissioner Clark concurs.

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 Civil Procedure. The notice of appeal must be in the form specified in Rule 9.900 (a), Florida Rules of Appellate Procedure.

CENTRAL TELEPHONE COMPANY OF FLORIDA — Docket 920310-TL
YEAR ENDED DECEMBER 31, 1991
INTERIM TEST YEAR REVENUE DEFICIENCY

Adjusted Achieved Revenue:		
As Filed	$116,003,711	
Adjustments: (Issue 4)		
(1) 1991 Private Line	296,700	
(2) Revenue Corrections	359,000	
(3) AT&T Marketing	(135,597)	
Staff Adjusted Revenue	520,103	116,523,814
Adjusted Achieved O&M Expense:		
As Filed	$72,089,805	
Adjustments: (Issue 5)		
(1) Separations Factors	128,061	
(2) General Allocator	(141,824)	
(3) Discontinued Operations	(1,846,298)	
(4) Charlottesville Revenue Center	(4,135)	
(5) Employee Benefits	(634,294)	
(6) AT&T Marketing	(357,806)	
(7) Morgan Stanley Fees	(18,041)	
Staff Adjusted O&M Expense	(2,874,337)	69,215,468
Adjusted Achieved Depreciation Expense:		
As Filed	22,589,033	
Adjustments: (Issue 6)		
(1) Separations Factors	192,410	
(2) Separation of Non-recurring Item	(15,340)	
(3) Pro-forma Adjustment	(1,022,780)	
Staff Adjusted Depreciation Expense	(845,710)	21,743,323
Adjusted Income and Other Taxes:		
As Filed	7,372,945	
Adjustments		
Issue 5 (8)	220,210	
Tax Impact of Issues 4, 5, and 6	1,512,703	
Issue 7	(173,926)	
Interest Reconciliation	(14,527)	
Staff Adjusted Taxes	1,324,250	8,697,195
Staff Adjusted Net Operating Income		$16,867,828
Adjusted Achieved Rate Base:		
As Filed	$224,843,580	
Adjustments (Issue 2)	1,451,290	
Adjusted Achieved Rate Base		$226,294,870
Staff Adjusted Achieved Rate of Return		7.45%
Last Authorized Rate of Return		8.71%
Required Net Operating Income		$19,710,283
Net Operating Income Deficiency		$2,842,456
Revenue Expansion Factor		1.615221
REVENUE DEFICIENCY		**$4,591,194**