BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Proposed tariff filing by SOUTHERN BELL TELEPHONE COMPANY to restructure and reprice private line and special access services	DOCKET NO. 890505-TL ORDER NO. 24149 ISSUED: 02/25/91

The following Commissioners participated in the disposition of this matter:

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

NOTICE OF PROPOSED AGENCY ACTION

ORDER APPROVING REVENUE OFFSETS FOR RATE CHANGES IN PRIVATE LINE AND SPECIAL ACCESS SERVICES IN ORDER NO. 23400

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.

I. Background

This docket was initiated by Southern Bell Telephone and Telegraph Company's (Southern Bell's or the Company's) tariff filing to restructure and reprice private line services and special access services. This filing was suspended at our May 2, 1989, Agenda Conference because we needed additional information in order to adequately evaluate the proposal. However, by Order No. 23400, we approved with some modifications the increases in private line and special access rates proposed by Southern Bell Telephone and Telegraph Company (Southern Bell), and by concurrence for the other local exchange companies (LECs) in Florida except United Telephone Company of Florida (United). In addition, by Order No. 23400, we approved the inception of Phase II, the purpose of which is to determine the appropriate revenue offsets for the rate increases set out in Order No. 23400. In that Order, we also required the Florida LECs to file information to assist our Staff in the determination of these revenue offsets.

In addition, by Order No. 23400, we required Southern Bell to resubmit costs and rates based on a lower cost of money and the correct depreciation rates. All of the LECs submitted information on the revenue impact of the approved rate changes and proposed offsets for Year 1. The adjustments to the cost information submitted by Southern Bell lowered the rates and, thus, the revenue impact to the LECs. In fact, with the adjustments, many of the LECs will experience a decrease in revenues for the first year of the restructure.

Southern Bell is the only LEC that will have a significant revenue increase during the first year of the restructure. Southern Bell has proposed offsets to make the revenue impact of the restructure neutral. GTE Florida, Inc. (GTE) and United Telephone Company of Florida (United) will experience revenue decreases and have made revenue proposals to address such decreases. Central Telephone Company of Florida (Centel) is currently involved in a rate proceeding in which the impact on its revenue will be considered. All of the other LECs will experience relatively minor increases or decreases in revenues, so they have not proposed any offsets.

By Order No. 23400, we also decided that the private line and special access rate changes approved therein shall not be implemented until the appropriate offsets have been implemented. Accordingly, we will not authorize the implementation of the rate changes approved by Order No. 23400 until the revenue offsets set forth in this proposed agency action Order become effective and may be implemented simultaneously.

II. Southern Bell's Proposed Revenue Offsets for the First Year Denied; Appropriate Offsets Approved

Southern Bell established in its original filing to restructure and reprice private line and special access services that the positive revenue impact of the Company's filing was to be addressed by specific revenue offsets, meaning that the increased net revenues gained through restructure and repricing would be completely offset by revenue decreases applied to specific rate elements. Prior to the selection of appropriate revenue offset targets, it was necessary to determine whether Southern Bell's estimated first year revenue fluctuations associated with private line and special access services were correctly stated. This analysis was based upon the Company's adjustments to the proposed costs, rates and revenues we required by Order No. 23400. Southern Bell resubmitted Chapters 5, 6, 7, 8, and 10 of its cost study using annual cost factors developed based on a return on equity of 13.2%, a cost of debt of 9.5%, and using depreciation rates established for the Company in Docket No. 861618-TL. In addition, rates for these services reflect the same level of contribution as originally proposed, and revenues are adjusted to reflect the above-mentioned changes in costs. Based on our review, we find that such resubmitted costs, rates and revenues accurately reflect the changes we required by Order No. 23400.

In accord with Order No. 23400, Southern Bell has submitted its proposed revenue offsets, including the Company's projected first year increase in revenues for private line and special access services. The Company also filed an amendment to its original data at our Staff's request. As amended, Southern Bell's changes in revenues for 1991 are projected to be $9,753,351. This figure is a summation of the changes in revenues for private line and special access services, taking into account the impact of the interexchange private line pool settlements. The Company was unable to provide separate revenue changes for intraexchange private line and interexchange private line services. The summation is as follows:

Private Line Services Revenue Increase:	$ 6,390,983
Special Access Services Revenue Increase:	$ 3,618,704
Total Revenue Increase Before Pooling Settlement Adjustment:	$10,009,687
Less 1990 Private Line Pooling Revenues Settlements (negative for S. Bell):	
Southern Bell	($256,336)
Private Line/Special Access Revenue Increase:	$ 9,753,351

We find these projected increases are reasonable given the approved changes in structure and rates for private line and special access services.

Our Staff conducted a workshop on October 24, 1990, to review the LECs' information pertaining to the development of proposed first year revenue offsets to the approved restructure of private line and special access services as required by Order No. 23400. Southern Bell agreed to submit a response to all parties to the questions raised at the workshop by October 30, 1990, and, in turn, the parties were encouraged to file with this Commission their positions on the proposed offsets by November 1, 1990, based upon

Southern Bell's response to the questions. In its response, Southern Bell provided an explanation of its proposed offsets, its revised 1991 offsets, its 1991 switched access priceout, and the LECs' pool revenues and settlement impacts for January 1988 through September 1990. Further discussions resulted in some changes to the Company's projected revenue increases and the proposed offsets. The Company filed an updated proposal for offsets on November 14, 1990, as follows:

Switched Access Offsets	
Reduction in Originating Carrier Common Line Switched Access Charge (CCL Premium/daytime from $.0304 per MOU to $.02065 per MOU, other CCL reductions listed in Attachment A - Page 21):	($12,750,000)
Reduction in Switched Access Time-of-Day Discount (evening, night/weekend) from 35% and 60% to 25% and 50%:	+ $ 6,820,000
Total Switched Access Offsets:	($5,920,000)
Private Line/Special Access Offsets	
Nonrecurring Charge Waiver, Digital Services:	($ 700,000)
Local Exchange Service Offsets	
Reduction in PBX Touchtone Monthly Rate Per Trunk (from $3.70 to $1.00):	($3,240,000)
Total Offsets	
Total Reduction:	($9,860,000)

AT&T Communications of the Southern States, Inc. (ATT-C) and the Florida Interexchange Carriers' Association (FIXCA) submitted comments on the Southern Bell response. ATT-C responded favorably to the proposed reduction in Carrier Common Line (CCL) switched access charges proposed by Southern Bell, but criticized the Company's proposal to reduce time-of-day discounts to switched access charges. FIXCA took the same stance in its response, except FIXCA argued that terminating CCL switched access rates should be reduced as well as originating CCL switched access rates, instead of the Company's proposal to reduce just originating CCL switched access rates. Neither party was aware of the Company's proposal to reduce PBX touchtone rates because the Company did not include touchtone reductions in its proposal until November 8, 1990. However, the parties did indicate a strong interest in seeing further reductions in CCL switched access rates.

We have three concerns regarding the services to be targeted for rate reductions: the extent to which originating CCL switched access rates should be lowered, whether reductions to switched access time-of-day discounts should be included in this proceeding, thereby increasing evening and night/weekend switched access rates, and the extent to which PBX and business line Touchtone rates should be lowered?

Regarding the first concern, we agree that such switched access reductions are appropriate. First, the restructuring and repricing of Southern Bell's private line and special access services was undertaken in part to encourage current customers of such services who could be served equally well with a switched service to transfer to such a service, thereby creating a more efficient use of the switched network. Increasing private line rates above costs creates an incentive for such customers to switch from dedicated to switched services, but so would decreasing the rates for switched services, assuming such reductions in CCL rates are passed through to the end user by the IXCs. Second, reducing the CCL rate helps prevent uneconomic bypass of the switched network. Finally, reducing the originating CCL rate benefits a broad spectrum of network users if such reductions are passed through to end users, including MTS, WATS, 800, as well as private line and special access service customers.

However, we are concerned about the magnitude of Southern Bell's proposed reduction in originating CCL switched access charges. Southern Bell has the lowest intrastate switched access rates of any Florida LEC by a significant margin. If we approve Southern Bell's proposal to reduce originating CCL revenues by $12,750,000, the company's switched access minutes of use (MOU) would drop to $.126. We find only a moderate reduction in CCL rates is appropriate here since there is currently a disparity in the switched access rates between LECs. Such disparities have far reaching implications, affecting location decision of individuals and businesses. We believe the provisioning of monopoly services, such as switched access, should be available at comparable prices throughout the state, and this is an important policy goal of this Commission. Therefore, we find a more moderate reduction in originating CCL switched access charges is appropriate.

Regarding our concern over reductions to evening and night/weekend discounts for switched access, the Company's November 30 response to the workshop questions states that this proposed reduction in discounts is market driven. Southern Bell is concerned that ATT-C announced a 2% increase in its interstate evening and weekend MTS rates to become effective November 5, 1990. Southern Bell suggests that its intrastate access rates for these time periods should be increased accordingly, so that the Company can match ATT-C pricing trends.

Reducing time of day discounts encourages less efficient use of the network. If such reductions in discounts were implemented, off peak usage could be expected to diminish accordingly, and the network would be more inclined to be overloaded at peak usage time periods. Peak usage time periods occur during the daytime. Also, we fail to see the existence of a market for access since Southern Bell is the sole provider of switched access in the territories it serves. Comparison of Southern Bell's MTS rates and ATT-C's MTS rates indicates that Southern Bell's rates are highly competitive. In Docket No. 880069-TL, we have approved reductions in the Company's MTS rates which will now be considerably less than ATT-C's intrastate and interstate MTS rates for day, evening, and night/weekend periods.

Upon consideration, we find that it is not appropriate to reduce switched access time-of-day discounts as an offset to private line revenue increases since the sole purpose of such offsets is to reduce revenues. The impact of reducing time-of-day discounts for switched access will be increased pressure on IXCs to increase MTS rates to residential callers. Such reductions in discounted rates, or rate increases, require exclusive consideration since they modify many important intercompany and intracompany rate relationships. Such rate increases to switched access time-of-day rates must more appropriately be considered in a separate proceeding.

With respect to PBX and business line Touchtone rates, the Company has agreed to reduce PBX Touchtone rates from the current monthly rate of $3.70 per trunk to $1.00 per trunk, which represents a total of $3,240,000 in revenue offsets.

There is little or no cost associated with Touchtone service.

It is priced based on value of service. There is no competition for this service other than customer premises equipment (CPE). Another consideration for allowing PBX reductions to offset revenue increases is the heavy impact of the rate increase on local private line customers. The majority of the projected revenue increase falls upon local private line services customers, many of whom also subscribe to PBX trunks. While it is true that these same customers may have been undercharged for years for private line and special access services and that these rate increases are justified, we believe it is appropriate to consider at this time other rates these customers are paying such as Touchtone. For these reasons, we find that PBX Touchtone is an appropriate offset target. We find the reduction in PBX Touchtone to $1.00 per trunk to be appropriate and, hereby approve it.

Southern Bell, has stated that it believed that its projected first year revenue increases in private line and special access services were "doubtful" based upon a combination of two factors. These factors include the existence of nonrecurring charge waivers for TELPAK and Special Access Bulk Discount customers and the significant increases in nonrecurring rates for private line and special access services. As a result, the Company states the first year offsets may exceed the actual revenue increase. Based on this, the Company argues that it is appropriate to allow a true-up of revenue offsets to be considered in the development of second year offsets to be determined in the last quarter of 1991.

We do not agree. The original proposal for offsets did not include a true-up feature. True-ups are not appropriate since such true-ups would be based upon repression of demand, which the Commission has not recognized in past proceedings. We have taken this position partly on the basis of the companies' inability to forecast the extent of stimulation and repression. Nonrecurring rate increases may, in fact, result in a decrease in demand for private line services, but the revenue effect associated with this reduced demand cannot be estimated. In any case, customers dissuaded from using private line and special access services based on rate increases would subscribe to a switched access alternative in many instances, so that the effect of increased private line and special access rates can be more accurately characterized as revenue displacement rather than revenue loss. The revenue increases projected by the Company should be matched against revenue offsets without revenue offset true-ups conducted at the end of each phase. Rather, the offsets should be determined based upon the revenue increases projected by the Company.

A final concern of the Company is the timing of the offsets. In the event of a protest of the Phase II Order, the Company does not wish to delay the implementation date of private line and special access rate increases until the offsets are established. However, by Order No. 23400 we mandated that no rate changes to private line and special access services would become effective until the appropriate revenue offsets were determined and were placed into effect. Southern Bell states that it does not matter when the revenue offsets become effective as long as the Rate Stabilization/Incentive Regulation Plan remains in effect for the Company through 1991. In consideration of this plan, the Company states that earnings related to private line and special access services should be excluded from the sharing process and treated as earnings derived from an exogenous factor since they are influenced by rate increases. The Company states that the plan fully protects the subscriber from the Company profiting from rate increases. In addition, Southern Bell and other LECs concurring with the Company's private line and special access services rates and tariffs are adapting their private line and special access services billing systems for a complete cutover to the new billing system on January 16, 1991, and their customers have been notified that this is the effective date for their new rates.

We believe that revenue offsets should match revenue increases on a synchronized schedule. All of the revenue analysis is based on the accrual of offsets over a one year period. Delaying the implementation of the offsets would have the effect of extending the duration of the revenue offsets over a longer period than the two year, three step phase-in period for private line and special access rates, and would confuse the process of establishing revenue offsets. We find a synchronized schedule is appropriate and consistent with the guidelines established in the Rate Stabilization/Incentive Regulation Plan. Allowing implementation of revenue offset and rate increases to go into effect together is highly preferable to them going into effect at different times. In the event that the Phase II Order is protested, we believe that the effective date for Southern Bell's private line and special access services rates and tariffs should be suspended until such time that the revenue offsets become effective.

Furthermore, we find that second and third year offsets should be determined in the final quarter of the year preceding their implementation so that the offsets can be applied in a timely fashion to appropriate services as determined by this Commission. Thus, our Staff shall conduct industry meetings to discuss these offsets during the third quarter of 1991 for the second year of the private line and special access rate increases, and during the third quarter of 1992 for the third year.

Upon consideration of the foregoing, we do not find it appropriate to approve Southern Bell's proposed revenue offsets to its projected first year revenue increases associated with private line and special access services. However, since revenue offsets are appropriate, we find that the Company shall adopt the following revenue offsets to counterbalance the first year revenue increases associated with private line and special access services and these revenue offsets shall become effective January 16, 1991, unless the this Order is protested. In that event, the effective date for Southern Bell's rates and tariff is suspended until such time that the revenue offsets become effective. The specific rate reductions shall be as follows:

Switched Access Offsets	
Reduction in Originating Carrier Common Line Charge (CCL Premium/daytime from $.0304 per MOU to $.0278 per MOU)	($5,800,000)
Private line/Special Access Offsets	
Nonrecurring Charge Waiver, Digital Services	($ 700,000)
Local Exchange Service Offsets	
Reduction in PBX Touchtone Monthly Rate to $1.00	($3,258,694)
Total Offsets	
Total Reduction	($9,758,694)

II. Other LECs' Revenue Offset Proposals

(A) GTE Florida, Incorporated

With our approval of the restructuring and repricing of private line and special access services, we required the LECs to file impact information and proposed offsets. Under the restructuring, increased special access rates are phased in over three years. This rate phase-in combined with the decrease in interexchange private line rates has caused many of the other LECs to have a negative revenue impact for the first year of the restructure. However, the interexchange private line rate decrease is a one time decrease and the special access rates will continue to increase over the next two years. The special access rates will continue to increase to the same rate level as interexchange rates in 1993.

Southern Bell is the only LEC to undergo a restructure of its intraexchange private line service in this docket. This restructure of intraexchange private line services for Southern Bell resulted in a revenue increase and thus Southern Bell has the only major revenue increase with the implementation of these rates. Since special access will continue to increase, the revenue for all of the LECs will show an increase in 1992 and 1993.

The information GTEFL filed in response to Order No. 23400 on the revenue impact of the private line and special access restructure indicated that it would experience a first year annual revenue decrease of $2.3 million dollars. GTEFL initially indicated that it did not intend to propose any offsets for the revenue decrease. However, it later proposed to increase certain components of its intraexchange private line tariff to offset the revenue decrease resulting from the private line and special access restructure. The Company has indicated that this proposal would generate an annualized revenue of $3.0 million. Finally, the Company commits to file a cost justified restructure of its intraexchange private line tariff by June 30, 1991.

The proposed increases appear to be consistent with what we have approved in the restructure of Southern Bell's intraexchange service. However, we have some concerns with changing any of the intraexchange private line rates outside of a general review of the current intraexchange rates and structure. Further analysis should be made of GTEFL's proposal. We note that GTEFL experienced a recent increase in its billing and collection service rates that was not offset and this revenue well exceeds the proposed decrease noted in this docket by GTEFL.

Because it appears that GTEFL will not experience any significant decrease in its rate of return resulting from the revenue decrease, we find it appropriate to deny GTEFL's proposed offsets. In addition, GTEFL shall file its proposed restructure of intraexchange service by June 30, 1991, with the proper cost justification.

(B) United Telephone Company of Florida

The information United filed in response to Order No. 23400 on the revenue impact of the private line and special access restructure indicated that the Company would experience a first year annual revenue decrease of $453,014. To offset this decrease, United is proposing a $.09 increase in its BHMOC recurring rates.

Because we have indicated that the LECs should be making an effort to reduce this rate element, we find the Company's proposal to increase its BHMOC rate inappropriate. In addition, United has proposed to reduce its BHMOC rate in its earnings review proceeding. In view of United's pending general rate proceeding, we find it appropriate to include the revenue impact from the private line and special access restructuring in United's rate case.

(C) Central Telephone Company of Florida

Centel's response to Order No. 23400 indicates that first year revenue offsets to its projected revenue increases associated with interexchange private line and special access services are reflected in its pending rate case. The Company indicates that the increase in projected revenues for private line and special access services in 1991 is significantly affected by the private line pooling settlement. Special access revenues are expected to increase by $301,242, but interexchange private line settlements are expected to decrease $194,540, yielding an overall increase in revenues of $106,702.

We agree with the Company that it is appropriate to include such changes within the context of the rate case. It would be impractical to independently impose a revenue reduction on any service when the Company's entire revenue and rate structure is currently being reviewed.

(D) The Smaller LECs

Based on the responses of the smaller LECs, which include

Alltel, Florala, Gulf, Indiantown, Northeast, Quincy, St. Joe, Southland, and Vista-United, it does not appear that they will, overall, experience significant revenue increases as a result of their concurrence in the restructure and repricing of Southern Bell's private line and special access services.

Although Southland did not send in an impact report, it is our understanding that the Company has only two circuits in Florida. Therefore, we conclude that Southland's impact will be minimal. Of these smaller LECs, only St. Joe has proposed an offset. St. Joe suggests taking its $730 revenue increase and applying it to its BHMOC which would result in a rate decrease of $.02. Because of the insignificance of this decrease, we do not find the lowering of its BHMOC rate to be appropriate at this time.

Our review of the dollar impact on these smaller LECs' actual returns on equity as of June 30, 1990, indicates that Indiantown has the largest decrease at .36%. Quincy and St. Joe will be the only companies to experience an increase. Because the special access rate increase is being phased in over the next three years, we believe that all of the smaller LECs will experience an increase in revenues in the next two years as a result. However, we do not find it appropriate to offset these minimal revenue impacts for these smaller LECs.

This Order shall become effective if no protest is received within the period set forth in the Notice of Further Proceedings below. Because of outstanding issues still to be addressed, including the application of future rate offsets to address revenue resulting from the phase-in of special access rates, this docket shall remain open.

Based on the foregoing, it is, therefore,

ORDERED by the Florida Public Service Commission the offsets to the revenue increases, resulting from the restructure and repricing of private line and special access services, proposed by Southern Bell Telephone and Telegraph Company are hereby denied. It is further

ORDERED that the offsets set forth herein for Southern Bell shall be implemented simultaneously with the rates approved by Order No. 23400. It is further

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ORDERED that the specific offsets and conditions set forth herein for certain of the local exchange companies shall be implemented by those companies. It is further

ORDERED that this proposed agency action order shall become effective if no protest is received within the period set forth in the Notice of Further Proceedings below. It is further

ORDERED that this docket shall remain open to address outstanding issues.

By ORDER of the Florida Public Service Commission, this 25th day of FEBRUARY, 1991.

Steve Tribble

STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

SFS

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 25-22.029(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 March 18, 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.