

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Investigation into) DOCKET NO. 911108-TL
the 1991 earnings of ALLTEL) ORDER NO. PSC-92-0028-FOF-TL
FLORIDA, INC.) ISSUED: 3/10/92
_____)

The following Commissioners participated in the disposition of this matter:

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

NOTICE OF PROPOSED AGENCY ACTION
ORDER DISPOSING OF 1991 OVERTURNINGS,
REDUCING THE INTERLATA SUBSIDY,
AND REDUCING 1992 EARNINGS

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

By Order No. 23819, issued December 3, 1990, we set ALLTEL Florida, Inc.'s (ALLTEL's or the Company's) authorized return on equity (ROE) at 13.0% +/- 1.0%. On November 5, 1991, this docket was opened to investigate ALLTEL's 1991 earnings. Our inquiry revealed that ALLTEL would earn in excess of its 14.0% authorized ROE in 1991 and 1992. The Company has already taken some measures to reduce its 1992 earnings. Specifically, on November 18, 1991, ALLTEL filed tariff revisions to modify its toll rates and alter the Hilliard-Jacksonville calling plan, which result in a total annual revenue decrease of \$1,524,997. We subsequently approved those tariffs.

On December 2, 1991, ALLTEL filed a proposal to refund 1991 projected overearnings of approximately \$900,000 directly to the customers. Several discussions with our staff and the Office of Public Counsel (OPC) followed without reaching an accord regarding the disposition of the 1991 and 1992 earnings. The issues were scheduled to be addressed at the January 7, 1992, agenda

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conference. On January 7, 1992, the Company asked that we defer consideration of the matter due to a separations error the Company had discovered in its calculations. In its letter, the Company agreed that the Commission's ultimate determination of the amount to be held subject to refund for 1992 will be as if the Commission had voted on January 7, 1992. On January 17, 1992, ALLTEL filed a proposal for disposition of its actual 1991 and projected 1992 overearnings and withdrawing its December 2, 1991 proposal. We addressed ALLTEL's estimated 1991 and projected 1992 overearnings at the February 18, 1992 agenda conference.

II. 1991 OVEREARNINGS

In full settlement of ALLTEL's overearnings for the year ended December 31, 1991, the Company proposes to make a cash refund in the amount of \$306,000 plus \$12,689 interest. We believe that ALLTEL's proposal is reasonable and appropriate, and we accept the proposal to the extent outlined in this Order.

The refund shall be made to customers of record as of December 31, 1991, and shall be made by May 1, 1992. The refund shall be made as a credit to residential and business customers in the same proportion as the various local exchange rates bear to each other. If the final analysis reflects a greater amount of overearnings, then those overearnings shall be subject to disposition by this Commission. The true-up of 1991 earnings will include adjustments arising from the jurisdictional cost study and the private line revenue adjustment. Any out of period revenues related to 1991 shall be treated as part of the earnings for the calendar year in which they are recorded.

III. INTERLATA SUBSIDY

ALLTEL has also proposed to reduce its interLATA subsidy by \$472,000 annually, beginning April 1, 1992. This represents about 26% of the subsidy, which presently is \$1,846,000. By making this reduction effective April 1, 1992, the interLATA subsidy reduction in 1992 would be approximately \$354,000. ALLTEL currently receives interLATA subsidies from both Southern Bell Telephone and Telegraph Company (Southern Bell) and GTE Florida Incorporated (GTEFL).

By Order No. 14452, issued June 10, 1985, we implemented our goal of placing the local exchange companies on a bill and keep

basis for interLATA access charges. To mitigate the potential adverse effects of bill and keep, we implemented an industry-wide access charge subsidy mechanism to keep the LECs whole during the transition. It was never envisioned that the access subsidy would be permanent. It was intended to last only until we were presented with an opportunity to address each company's particular circumstances in a rate case or other proceeding. We also stated that it would not be logical to provide a subsidy to a LEC if it is overearning.

We believe that this proceeding is the appropriate time to address ALLTEL's interLATA subsidy, and that the Company's proposal is consistent with our policies regarding subsidies. Upon consideration, we accept ALLTEL's proposal to reduce the interLATA subsidy by \$472,000 annually, effective April 1, 1992. Thus, the 1992 revenue reduction resulting from this action will be approximately \$354,000.

Additionally, by letter dated December 16, 1991, Southern Bell expressed its support of reducing or eliminating the interLATA subsidy payment to ALLTEL. Based on our action herein, Southern Bell's portion of the subsidy paid to Alltel will be reduced by \$334,000 annually. By Order No. 20162, issued in Docket No. 880069-TL, we set aside \$10 million annually for EAS implementation. Southern Bell proposes that the \$334,000 subsidy reduction should be treated as an additional EAS set aside amount. We believe that this proposal is reasonable and hereby accept it.

GTEFL's portion of the subsidy reduction is \$138,000 annually. We find that it is appropriate to place this amount into an unclassified depreciation reserve account until such time the rates change. GTEFL will file MMFRs by March 31, 1992, and is expected to file MFRs on April 24, 1992. If no rate changes occur before the completion of the MMFR or MFR dockets, the amount can be addressed in the final disposition of either of those dockets. The amount accruing in the unclassified depreciation reserve account should be made account specific as part of the review of the depreciation study.

IV. 1992 EARNINGS

Based on ALLTEL'S earning level for 1991, it appears that the Company will overearn in 1992. As discussed above, we believe that ALLTEL's proposal to dispose of its 1991 overearnings is

reasonable. We have made the following adjustments to the 1991 data to project the amount of overearnings for 1992. Those adjustments include the following:

1. Rate reductions previously approved in Docket No. 911154-TL will result in a revenue reduction of approximately \$1,524,000.
2. The BHMOC rate was reduced effective September 1, 1991, which will reduce intrastate revenue by approximately \$348,895 in 1992.
3. ALLTEL will receive an increase of \$2,040,000 from the Universal Service Fund.
4. Additional revenue from the private line\special access restructure will result in an increase in intrastate revenues of approximately \$97,041.
5. Certain separations changes will reduce 1992 earnings by an additional \$90,000.

Based on the above adjustments, we believe the Company will earn approximately \$480,623 in excess of its authorized ROE of 14.0% in 1992. As described herein, ALLTEL will reduce its interLATA subsidy \$472,000 annually, effective April 1, 1992, resulting in a 1992 reduction of \$354,000 in 1992. To account for the remainder of 1992's estimated overearnings, the Company proposes to record an additional amortization of \$218,124, total company, or \$163,000 intrastate, applicable to the cable reserve deficit, in the first quarter of 1992. This amount is in addition to the reserve deficiency amortization amount ordered for 1992 by Order No. 23833. This would fully amortize ALLTEL's reserve deficit in 1992, and eliminate the need to hold money subject to refund. We believe that ALLTEL's proposal to book additional amortization expense is both reasonable and appropriate and we hereby accept that proposal.

Finally, although we are investigating the possibility of making an adjustment to ALLTEL's equity ratio, we are not determining that issue at this time.

Based on the foregoing, it is

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ORDERED by the Florida Public Service Commission that ALLTEL Florida, Inc.'s excess 1991 earnings shall be disposed of as set forth herein. It is further

ORDERED that ALLTEL Florida, Inc's earnings for 1992 shall be reduced as set forth herein. It is further

ORDERED that ALLTEL Florida, Inc. shall reduce its interLATA subsidy by the amount of \$472,000 annually, effective April 1, 1992. It is further

ORDERED that Southern Bell Telephone and Telegraph Company shall treat the reduction in its interLATA subsidy payment to ALLTEL Florida, Inc. as an additional EAS set aside amount, as set forth herein. It is further

ORDERED that GTE Florida Incorporated shall place the reduction in its interLATA subsidy payment to ALLTEL Florida, Inc. into an unclassified depreciation reserve account until such time the rates are changed, as set forth herein. It is further

ORDERED that ALLTEL Florida, Inc. shall record additional amortization of \$218,124, total company, in the first quarter of 1992, to account for excess 1992 earnings. It is further

ORDERED that this docket shall remain open pending expiration of the Proposed Agency Action period, and for resolution of the pending equity ratio adjustment issue.

By ORDER of the Florida Public Service Commission, this 10th
day of MARCH, 1992.

STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

PAK

by: Kay Ferguson
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 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
3/31/92.

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 wastewater 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.