BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: General investigation into what return on equity cap should be applied for INDIANTOWN TELEPHONE SYSTEMS, INC. for 1988 and 1989	) DOCKET NO.	890179-TL
	) ORDER NO.	21474
	) ISSUED:	6-28-89

The following Commissioners participated in the disposition of this matter:

MICHAEL McK. WILSON, Chairman
THOMAS M. BEARD
BETTY EASLEY
GERALD L. GUNTER
JOHN T. HERNDON

NOTICE OF PROPOSED AGENCY ACTION
ORDER ACCEPTING PROPOSED RESOLUTION AS MODIFIED

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 substantially affected files a petition for formal proceeding pursuant to Rule 25-22.029, Florida Administrative Code.

Indiantown Telephone Systems, Inc. (Indiantown), submitted a proposal on April 6, 1989, for resolving the issues in the above-captioned docket. The company proposes:

1) to cap its earnings for 1988 and 1989 at a 14.5% return on equity (ROE);

2) to credit $62,685 to its depreciation reserve in 1988;

3) to refund $75,000 in 1988 to customers of record as of March 31, 1989, in the form of a credit applicable to customers' toll charges;

4) to credit any additional 1988 earnings in excess of 14.5% ROE to Contributions in Aid of Construction (CIAC);

5) to eliminate mileage charges of approximately $70,000 annually as soon as possible after this proposal becomes final;

6) to eliminate multiparty service as soon as facilities are in place;

7) to dispose of 1989's earnings in excess of a 14.5% ROE as a credit to the depreciation reserve, a credit to customer toll bills or in such other manner as may be appropriate; and

8) to agree that this proposal would resolve all issues relating to the Tax Reform Act of 1986.

Indiantown's last authorized return on equity was set in Docket No. 74569-TP at a mid-point of 12.375% within a range between 12.0% and 12.75%. By Order No. 10127, issued July 7, 1981, we approved a stipulation which in part called for the use of a 14.5% ROE for the continuing surveillance program only.

Upon consideration, we accept Indiantown's proposal to cap its calendar year 1988 and 1989 earnings at 14.5% ROE. Through the use of this earnings cap, we intend that any excess earnings will be applied to benefit the ratepayer through a refund, depreciation entry or other disposition.

In Docket No. 870027-TL, a prospective reserve deficiency was identified in Indiantown's 1987 depreciation study. Our Staff calculated the amount of this deficiency, on a total company basis,as being $62,685 as of December 31, 1988. The company proposes to write off the entire amount against 1988's earnings. We believe that this amount should be written off as quickly as economically possible and that Indiantown's 1988 earnings in excess of the earnings cap adopted herein are sufficient to permit recovery in 1988.

Indiantown proposes to refund to customers of record as of March 31, 1989 in the form of a credit applicable to customers' toll charges an amount of $75,000. However, we find it appropriate for the company to record this amount as CIAC.

The company proposes to credit any additional 1988 earnings in excess of 14.5% to CIAC. After the company records $75,000 in CIAC and $62,685 in depreciation expense, our Staff believes there will be additional earnings in excess of 14.5%. The final determination of excess earnings for 1988, however, cannot be made until the separations cost study is completed around June 30, 1989. Applying any excess earnings to CIAC will also help offset the additional cost of facilities needed to upgrade from four-party to one-party service. Therefore, we accept Indiantown's proposal to credit any additional 1988 earnings in excess of a 14.5% ROE to CIAC.

Currently, Indiantown receives approximately $70,000 annually from mileage charges which are in effect. At present, one-party customers outside the base rate area (BRA) are paying mileage charges of 50¢ per quarter-mile monthly. Also, the company proposes to eliminate all four-party service, upgrading it to one-party service, as soon as facilities are in place. Four-party customers are currently paying the same monthly rates, $5.05 for residence customers and $11.49 for business customers, as one-party customers. The four-party customers now pay no mileage charge. Since the basic monthly exchange

rates are the same, there will be no customer impact if the mileage charge is eliminated for one-party customers outside the BRA. Indiantown's tariff should be revised to provide that four-party service will not be available to new customers. We accept the proposed elimination of mileage charges and multi-party service by Indiantown.

The company proposes that 1989 earnings in excess of a 14.5% ROE be recorded as a credit to its depreciation reserve, a credit to its customer toll bills or in some other appropriate manner. We believe it is premature to decide on the disposition of excess 1989 earnings, if any. As mentioned above, it is not currently possible to determine the exact amount of the company's 1988 excess earnings. This proposal will provide flexibility in resolving other potential problems; accordingly, we accept Indiantown's proposal for the disposition of its excess 1989 earnings, if any.

In 1987, the company reduced its Carrier Common Line rate by $18,120 annually. Together with the elimination of $70,000 in mileage charges approved herein, the company has reduced rates in excess of its total estimated tax savings of $61,000. Thus, we accept the company's proposal that all issues relating to the Tax Reform Act of 1986 are resolved by the action taken herein.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Indiantown Telephone Systems, Inc.'s April 6, 1989 proposal, as modified in the manner explained in the body of this Order, is hereby accepted. It is further

ORDERED that Indiantown Telephone Systems, Inc. shall file tariff revisions, within 15 days following the issuance of a consummating order in this docket, for the purposes of eliminating mileage charges and four-party service to new customers, except where one-party service is unavailable, to become effective in the company's next billing cycle.

ORDERED that this docket shall be closed after the expiration of the period established below if no protest is filed and after the appropriate tariff revisions are filed.

By ORDER of the Florida Public Service Commission, this 28th day of JUNE, 1989.

STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

JSR

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 July 19, 1989. In the absence of such a petition, this order shall become effective July 20, 1989, as provided by Rule 25-22.029(6), Florida Administrative Code, and as reflected in a subsequent order.

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 July 20, 1989, 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.