

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Modified Minimum Filing) DOCKET NO. 910927-TL
Requirements Report of ST.) ORDER NO. PSC-92-1341-PHO-TL
JOSEPH TELEPHONE & TELEGRAPH) ISSUED: 11/18/92
COMPANY.)
_____)

Pursuant to the agreement between the parties as reflected in Order No. PSC-92-1221-PCO-TL, issued October 28, 1992, no Prehearing Conference was held in this docket.

PREHEARING ORDER

I. CASE BACKGROUND

Section 364.035(3), Florida Statutes, requires that each local exchange company (LEC) file Modified Minimum Filing Requirements (MMFRs) within 18 months after October 1, 1990. By Order No. 23452, issued September 7, 1990, we established a schedule for each of the LECs to file MMFRs.

St. Joseph Telephone & Telegraph Company (St. Joe or the Company) filed its MMFRs on September 30, 1991, using a test year ended June 30, 1991. In Docket No. 910462-TL, 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. Those decisions are reflected in Order No. 25630, issued January 22, 1992.

By Order No. 25686, issued February 4, 1992, the Company was directed to place \$445,935 subject to refund with interest for 1992, in accordance with Section 364.055, Florida Statutes, and Rule 25-4.114, Florida Administrative Code. An expedited hearing was then held on February 27, 1992, to determine whether additional revenue should be placed subject to refund for 1992, based upon an adjustment of St. Joe's equity ratio to 45.0%. At the hearing, we accepted the Company's offer to place a total of \$700,00 subject to refund, and made no finding regarding an appropriate equity ratio for the Company. These actions are reflected in Order No. PSC-92-0149-FOF-TL, issued April 2, 1992.

Then, by Order No. PSC-92-0284-FOF-TL, issued May 5, 1992, we set this docket for hearing and directed the Company to file Minimum Filing Requirements (MFRs) by updating its MMFRs and filing certain other schedules.

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FPC-RECORDS/REPORTS

Finally, at the November 3, 1992, Agenda Conference, we accepted a proposal by the Company that resolves Issues 2 - 13 in this docket, finalizes the 1991 overearnings, and sets forth the methodology for calculating the refund for the interim period.

II. PROCEDURE FOR HANDLING CONFIDENTIAL INFORMATION

A. Any information provided pursuant to a discovery request for which proprietary confidential business information status is requested shall be treated by the Commission and the parties as confidential. The information shall be exempt from Section 119.07(1), Florida Statutes, pending a formal ruling on such request by the Commission, or upon the return of the information to the person providing the information. If no determination of confidentiality has been made and the information has not been used in the proceeding, it shall be returned expeditiously to the person providing the information. If a determination of confidentiality has been made and the information was not entered into the record of the proceeding, it shall be returned to the person providing the information within the time periods set forth in Section 364.183(2), Florida Statutes.

B. It is the policy of the Florida Public Service Commission that all Commission hearings be open to the public at all times. The Commission also recognizes its obligation pursuant to Section 364.183, Florida Statutes, to protect proprietary confidential business information from disclosure outside the proceeding.

In the event it becomes necessary to use confidential information during the hearing, the following procedures will be observed:

- 1) Any party wishing to use any proprietary confidential business information, as that term is defined in Section 364.183, Florida Statutes, shall notify the Prehearing Officer and all parties of record by the time of the Prehearing Conference, or if not known at that time, no later than seven (7) days prior to the beginning of the hearing. The notice shall include a procedure to assure that the confidential nature of the information is preserved as required by statute.

- 2) Failure of any party to comply with 1) above shall be grounds to deny the party the opportunity to present evidence which is proprietary confidential business information.
- 3) When confidential information is used in the hearing, parties must have copies for the Commissioners, necessary staff, and the Court Reporter, in envelopes clearly marked with the nature of the contents. Any party wishing to examine the confidential material that is not subject to an order granting confidentiality shall be provided a copy in the same fashion as provided to the Commissioners, subject to execution of any appropriate protective agreement with the owner of the material.
- 4) Counsel and witnesses are cautioned to avoid verbalizing confidential information in such a way that would compromise the confidential information. Therefore, confidential information should be presented by written exhibit when reasonably possible to do so.
- 5) At the conclusion of that portion of the hearing that involves confidential information, all copies of confidential exhibits shall be returned to the proffering party. If a confidential exhibit has been admitted into evidence, the copy provided to the Court Reporter shall be retained in the Commission Clerk's confidential files.

III. PREFILED TESTIMONY AND EXHIBITS

Testimony of all witnesses to be sponsored by the parties and Staff has been prefiled. All testimony which has been prefiled in this case will be inserted into the record as though read after the witness has taken the stand and affirmed the correctness of the testimony and associated exhibits. All testimony remains subject to appropriate objections. Each witness will have the opportunity to orally summarize his or her testimony at the time he or she takes the stand. Upon insertion of a witness' testimony, exhibits appended thereto may be marked for identification. After all parties and Staff have had the opportunity to object and cross-

examine, the exhibit may be moved into the record. All other exhibits may be similarly identified and entered into the record at the appropriate time during the hearing.

Witnesses are reminded that, on cross-examination, responses to questions calling for a simple yes or no answer shall be so answered first, after which the witness may explain his or her answer.

IV. ORDER OF WITNESSES

| <u>WITNESS</u> | <u>APPEARING FOR</u> | <u>ISSUES NOS.</u> |
|----------------------------------|----------------------|--------------------|
| Steven T. Brown <u>Direct</u> | Staff | 14 - 24 |

St. Joe has agreed to make Lynda Bordelon available for cross-examination, at the Commission's discretion, regarding the Company's position on Staff's proposals for Issues 14 - 24.

V. BASIC POSITIONS

ST. JOE'S BASIC POSITION: The basic position of St. Joseph is that the pro forma exhibits submitted by Mr. Faison accurately reflect the anticipated financial condition of St. Joseph on a going forward basis, that there is no basis to impose any optimal capital structure on St. Joseph or limit the percent of equity allowed in the capital structure for rate making purposes and that actual experience during 1992 should determine the amount of refunds for 1992, if any are warranted.

OPC'S BASIC POSITION: St. Joe's rates should be reduced annually by \$534,582.00 on a prospective basis beginning January 1, 1993. The Commission should implement additional extended area service; eliminate touchtone rates; and reduce intraLATA toll, WATS rates, and access charges.

STAFF'S BASIC POSITION: Staff believes that St. Joseph's earnings should be reduced. St. Joe's rates should be restructured and placed into a rate group plan designed to reflect the toll free calling scope of the various exchanges. Embedded Gross Receipts Tax should be unbundled and billed as a separate line item on

customers' bills. Revenues from the restructure and unbundling of the GRT, along with any other funds available, should be used to reduce touchtone, to implement the Wewahitchka/Blountstown EAS, to reduce MTS, WATS and BHMOC rates.

Staff's positions are preliminary and based on materials filed by the parties and on discovery. The preliminary positions are offered to assist the parties in preparing for the hearing. Staff's final positions will be based upon all the evidence in the record and may differ from the preliminary positions.

VI. ISSUES AND POSITIONS

QUALITY OF SERVICE

ISSUE 1: Is the quality of service adequate?

Stipulation proposed - see Section VIII.

RATE BASE

ISSUE 2: What is the appropriate amount of rate base for the test year?*

ISSUE 2a: Should adjustments be made to adjust rate base and expenses for the final 1991 cost study?*

COST OF CAPITAL

ISSUE 3: What is the appropriate cost of common equity?*

ISSUE 4: Is the Company's proposed equity ratio prudent and reasonable? If not, how should this be treated?*

ISSUE 5: What is the weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure?*

NET OPERATING INCOME

ISSUE 6: What is the appropriate amount of operating revenue for the test year?*

ISSUE 6a: What adjustments, if any, should be made to operating revenue for audit findings?*

ISSUE 7: What is the appropriate amount of O&M expense for the test year?*

ISSUE 7a: What adjustments, if any, should be made to O&M expense for audit findings?*

ISSUE 8: What is the appropriate amount of depreciation and amortization expense for the test year?*

ISSUE 9: What is the appropriate amount of taxes other than income tax for the test year?*

ISSUE 10: What is the appropriate amount of income tax expense for the test year?*

ISSUE 11: What is the achieved test year net operating income?*

REVENUE REQUIREMENT

ISSUE 12: What is the appropriate amount of the revenue increase/decrease for the test year?*

ISSUE 12a: What amount, if any, of the revenue held subject to refund should be refunded? (NEW ISSUE PROPOSED BY STAFF)*

ISSUE 13: Should the Modified Minimum Filing Requirement (MMFR) proceeding be treated as the most recent rate case for all future purposes?*

***SETTLEMENT**

Issues 2 through 13 have been resolved by a proposal submitted by the Company and agreed to by Public Counsel which was adopted by the Commission at the November 3, 1992, Agenda Conference. The Order adopting the proposal is scheduled to be issued shortly.

RATES

ISSUE 14: Should the thirteen exchanges be placed into a rate grouping plan and how should the plan be designed?

ST. JOE'S POSITION: No position.

OPC'S POSITION: No position at this time.

STAFF'S POSITION: Yes. St Joe's thirteen exchanges should be placed into a rate group plan. The plan should be designed according to the calling scope of the exchanges so that exchanges having a similar calling scope are charged the same basic monthly rates.

ISSUE 15: Should basic local exchange rates be restructured? If so, how and at what level?

ST. JOE'S POSITION: No position.

OPC'S POSITION: No position at this time.

STAFF'S POSITION: Local rates should be restructured to more nearly reflect the rates being charged by other LECs for similar calling scopes. Business rates should bear a relationship of approximately 2.6 to residence rates and the PBX trunk rates should reflect approximately 1.9 of the business rates. Rates should be structured using the rates approved for the highest calling scope (R1 \$9.15, B1 \$24.00 and PBX \$46.00) in Docket No. 910510-TL, with other rates derived according to the calling scope for the various exchanges. Staff proposed rate groups and rates are as follows:

| <u>RATE GROUP</u> | <u>ACCESS LINES</u> | <u>BASIC LOCAL RATES**</u> | | |
|-------------------|---------------------|----------------------------|-----------|------------|
| | | <u>R1</u> | <u>B1</u> | <u>PBX</u> |
| I | 0 - 12000 | \$7.30 | \$19.15 | \$36.70 |
| II | 12001 - 25000 | 7.80 | 20.45 | 39.20 |
| III | 25001 - 50000 | 8.40 | 22.05 | 42.25 |
| IV | 50001 - UP | 9.15 | 24.00 | 46.00 |

**Gross Receipts Tax not included

ISSUE 16: Should the EAS additive charged the Chattahoochee subscribers be eliminated?

ST. JOE'S POSITION: No position.

OPC'S POSITION: Yes.

STAFF'S POSITION: Yes. The EAS additive charged the Chattahoochee subscribers should be eliminated and the Chattahoochee exchange placed into staff's recommended rate group II. The Chattahoochee subscribers should be charged the basic monthly rates assigned for rate group II.

ISSUE 17: Should the monthly charges for touch-tel (touchtone) be reduced or eliminated?

ST. JOE'S POSITION: No position.

OPC'S POSITION: All monthly charges for touchtone should be eliminated.

STAFF'S POSITION: Yes. Residence touchtone rate should be reduced to \$0.75 and the business rate should be reduced to \$1.00. If additional monies are available, further reductions should be made.

ISSUE 18: Should the intraLATA MTS and WATS rates be changed? If so, how?

ST. JOE'S POSITION: No position.

OPC'S POSITION: IntraLATA MTS, WATS, and access charges should be reduced. The amount of the reduction should be determined after other rate structure issues have been decided, and the residual amount remaining should be applied to intraLATA MTS, WATS, and access charges.

STAFF'S POSITION: IntraLATA MTS and WATS rates should be reduced before making any further reductions in EHMOC. Normally, the relationship is maintained between MTS, WATS and access rates. Since St. Joe's MTS and WATS rates are among the highest in the state, they should be reduced before further reducing the BHMOC rate.

ISSUE 19: Should access charges be reduced?

ST. JOE'S POSITION: No position.

OPC'S POSITION: IntraLATA MTS, WATS, and access charges should be reduced. The amount of the reduction should be determined after other rate structure issues have been decided, and the residual amount remaining should be applied to intraLATA MTS, WATS, and access charges.

STAFF'S POSITION: The BHMOC rate should be reduced provided monies are available after the MTS and WATS reduction.

ISSUE 20: Should any other EAS routes be added? If so, what routes and at what rates?

ST. JOE'S POSITION: No position.

OPC'S POSITION: EAS should be extended between the Kinard exchange in Calhoun county and Blountstown.

STAFF'S POSITION: The \$0.25 message rate plan should be implemented between the Calhoun County pocket of the Wewahitchka exchange and the Blountstown exchange. Should St. Joe experience technical difficulties implementing only the pocket, then the entire Wewahitchka exchange should be included. The EAS request in Docket No. 920699-TL between Alligator Point and Sopchoppy, Panacea, Crawfordville, St. Marks and Tallahassee should proceed in that docket.

ISSUE 21: Should any other rates be changed?

ST. JOE'S POSITION: No position.

OPC'S POSITION: No position at this time.

STAFF'S POSITION: Yes. The business simple and complex rates should be restructured so that there will be only a B1 business rate for each rate group. Also, the Inward only PBX trunk rates should be the same rates as the two-way trunk rates.

ISSUE 22: Should the Gross Receipts Tax (GRT) be unbundled and billed as a separate line item on customer bills as permitted by Section 203.01(5), Florida Statutes?

ST. JOE'S POSITION: No position.

OPC'S POSITION: If gross receipts taxes are unbundled, the unbundling should be done in a manner so that it is revenue neutral and not a back door way of increasing local rates. Local rates should be reduced by exactly the same amount as the itemized gross receipts tax if the tax is unbundled, so that the total of the gross receipts tax and the new local rate is no more than the old local rate.

STAFF'S POSITION: Yes. Staff believes the embedded GRT should be unbundled (staff's restructured rates do not include GRT) and shown as a separate line item on customer's billing.

ISSUE 23: What should be contained in the bill stuffer to St. Joe customers announcing any rate changes resulting from this proceeding?

ST. JOE'S POSITION: No position.

OPC'S POSITION: A plain language description of the change in rates and the effective date should be provided to customers. In addition, if the Commission should increase local rates in this case, the bill stuffer should explain why the Commission raised local rates in a proceeding examining St Joe's overearnings.

STAFF'S POSITION: A bill stuffer advising subscribers of any changes (details of rate impact, the effective dates and any other

changes) resulting from this proceeding should be included in the first billing cycle.

ISSUE 24: What should be the effective date of any rate changes?

ST. JOE'S POSITION: No position.

OPC'S POSITION: January 1, 1993.

STAFF'S POSITION: All the rate changes (except the EAS changes) should be submitted in tariff format by December 15, 1992 to become effective on January 1, 1993. The Wewahitchka/Blountstown \$0.25 plan should be implemented as soon as possible, but no later than ninety (90) days from the final order in this proceeding. The Liberty County/Tallahassee EAS should be implemented under the provisions of Docket No. 910510-TL, Order No. 25364.

VII. EXHIBIT LIST

| <u>WITNESS</u> | <u>PROFFERED BY</u> | <u>I.D. NO.</u> | <u>DESCRIPTION</u> |
|-----------------|-------------------------|---------------------|--|
| Steven T. Brown | Staff | STB-1 | Exchanges |
| | | STB-2 | Proposed Rate Groups and Basic Local Exchange Rates |
| | | STB-3 | Revenue Impact |
| | | STB-4 | MTS Rates and BHMOC Comparison |

A stipulation is proposed regarding certain exhibits - see Section VIII.

Parties and Staff reserve the right to identify additional exhibits for the purpose of cross-examination.

VIII. PROPOSED STIPULATIONS

1. St. Joe, OPC, and Staff agree that the Company's quality of service is satisfactory.
2. St. Joe, OPC, and Staff agree that the following documents should be entered into the record of this proceeding:
 - (a) St. Joe's MMFRs, Commission Document No. 07703-92, filed July 15, 1992.
 - (b) Certain Pro Forma Schedules, Commission Document No. 10574-92, filed September 15, 1992.
 - (c) Surveillance Report ending October 31, 1992, Commission Document No. 13459-92, filed November 16, 1992.


IX. PENDING MOTIONS

The Motion to Provide Notice of Staff Rate Proposal to the Customers of St. Joseph Telephone and Telegraph Company and to Hold Public Hearings on Staff Rate Proposal, filed on October 30, 1992, by the Office of Public Counsel, will be taken up by the panel at the beginning of the hearing.

It is therefore,

ORDERED by Commissioner Betty Easley, as Prehearing Officer, that this Prehearing Order shall govern the conduct of these proceedings as set forth above unless modified by the Commission.

By ORDER of Commissioner Betty Easley, as Prehearing Officer, this 18th day of November, 1992.



BETTY EASLEY, Commissioner
and Prehearing Officer

(S E A L)
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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 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.