FLORIDA PUBLIC SERVICE COMMISSION

Fletcher Building
101 East Gaines Street
Tallahassee, Florida 32399-0850

M E M O R A N D U M

March 18, 1993

TO : DIRECTOR, DIVISION OF RECORDS AND REPORTING

FROM : DIVISION OF COMMUNICATIONS [NORTON] RNT
DIVISION OF AUDITING AND FINANCIAL ANALYSIS
[WRIGHT, MAILHOT] DM
DIVISION OF LEGAL SERVICES [GREEN, HATCH]

RE : DOCKET NO. 920260-TL: COMPREHENSIVE REVIEW OF THE REVENUE REQUIREMENTS AND RATE STABILIZATION PLAN OF SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY

AGENDA: March 30, 1993 - PAA - CONTROVERSIAL - PARTIES MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: I:\PSC\CMU\WP\920260.RCM

CASE BACKGROUND

In DN 880069-TL, the Southern Bell rate stabilization docket, the Commission identified $44.9 million that required permanent disposition. It was ultimately decided that permament disposition of the $44.9 million would be addressed in DN 920260-TL, SBT's current rate case. In the meantime, Order No. 25558, issued January 2, 1992, required that a monthly credit should be applied to customer bills, beginning January 1992, equal to one-twelfth of $44.9 million until permanent disposition of the monies was made. The purpose of applying the credit was to prevent accumulation of excess revenues which would require a large refund or other permanent disposition later.

The effective date of permanent rate changes in the current rate case was scheduled to be January 1, 1993. By Order No. PSC-92-1412-FOF-TL issued December 7, 1992, the customer credit was therefore ordered to terminate at year end 1992. Order No. PSC-92-1412-FOF-TL also identified an additional $3.9 million that needed to be added to the set aside amount for 1992. The $3.9 million was used as an offset to the cost of refinancing for 1992.

For 1993, the set aside amount subject to permanent disposition is $48.1 million. The $48.1 million includes interest

DOCUMENT NUMBER-DATE
03255 MAR 24 93
FPSC-RECORDS/REPORTING

savings from bond refinancing and an increase in the revenue effect of EAS implementation compared to the 1992 set aside amount.

Since the rate case has now been deferred, the question arises as to whether the Commission should revisit the remaining $48.1 million from DN 880069-TL that still needs permanent disposition. On March 8, 1993, Southern Bell filed a Motion to Reinstitute Customer Credit, which is addressed in this recommendation.

DISCUSSION OF ISSUES

ISSUE 1: Should Southern Bell's Motion to Reinstitute Customer Credit be approved?

PRIMARY RECOMMENDATION: Yes, Southern Bell's Motion should be approved except that the credit should begin with the May billing cycle. It should continue until permanent disposition of the revenues is made. It should be applied to customers' bills pro-rata based on current basic local exchange rate levels, including network access registers (NARs), in the same fashion as was approved in Order No. 25558. The credit should be based on an annual amount of $48.1 million. Credit amounts for January through April should be calculated with interest and applied to the May bills.

Southern Bell should be required to submit a price-out showing the amount of the monthly credit for each local service by rate group, the billing units, and the total credit amounts. (NORTON)

ALTERNATIVE RECOMMENDATION: No, Southern Bell's Motion should be denied. The Commission should eliminate the additive rate for Touchtone, beginning with the May billing cycle. Touchtone should be provided free of charge and automatically. The remaining amount, approximately $13.6 million, should be disposed of by means of a one time refund applied to May customer bills. The refund should be applied to customers' bills pro rata based on current basic local exchange rate levels, including network access registers (NARs), in the same fashion as was approved in Order No. 25558.

Southern Bell should be required to submit: 1) a priceout showing the most recent estimated 1993 billing units for Touchtone, and the 1993 revenue effect of eliminating the additive rate effective May 1; 2) a calculation showing the remaining amount to be refunded, and a price-out showing the refund amount to be applied to customer bills, the billing units, and the total of the refund amounts. (NORTON)

PRIMARY STAFF ANALYSIS: In its March 8, 1993 Motion to Reinstitute Credit, Southern Bell proposed that the credits begin with April 1993 billing cycles. Under SBT's proposal, credit for the months of January through March 1993 would be added to the credit applied for each of the months of April through June 1993. The credit would continue until permanent disposition is made in the Company's pending rate case. On March 17, the Office of Public Counsel filed a Response in support of Southern Bell's Motion.

Granting Southern Bell's Motion to Reinstitute Credit would in effect, reapply the terms of Order No. 25558. The advantage of this action is that it would prevent accumulation of monies to be refunded, yet not commit the Commission to a permanent decision without having the full array of choices before it. It would leave a substantial amount available for permanent disposition as the Commission deems appropriate after hearing the evidence in the rate case.

The disadvantage would be that permanent rate reductions have already been pending for over two years, and permanent disposition would be further delayed. There is no question as to whether the general body of ratepayers would be kept whole. The point is simply that a credit is a holding action, not a ratemaking decision.

Staff recommends approval of Southern Bell's Motion with the slight modification that the credit begin with the May billing cycle. The credit should continue until permanent disposition of the revenues is made. It should be applied to customers' bills pro-rata based on current basic local exchange rate levels, including network access registers (NARs), in the same fashion as was approved in Order No. 25558. The credit should be based on an annual amount of $48.1 million. Credit amounts for January through April should be calculated with interest and applied to the May bills. Southern Bell should be required to submit a price-out showing the amount of the monthly credit for each local service by rate group, the billing units, and the total credit amounts.

ALTERNATIVE STAFF ANALYSIS: This Commission has three times in the course of this docket made temporary fixes, either by giving customers a direct refund, or by placing a temporary credit on customers' bills. It is time to finally make a permanent disposition of the revenues in the form of lower rates. Staff recommends that, consistent with the Commission's action recently taken with other LECs (ALLTEL, Florala, GTE, Gulf, Indiantown, Quincy, St. Joseph), the Touchtone rate be eliminated. The Commission has been reducing and eliminating this additive for LECs as funds become available. This is because Touchtone is very widely used (93% penetration in Southern Bell's territory in 1991, increasing approximately 2% per year); the conversion to digital switching technologies has reduced the cost to provide the function to almost zero; and there is a growing perception that Touchtone should be considered part of basic service. Touchtone should be provided free of charge and automatically.

The revenue effect of eliminating the Touchtone additive is approximately $51.8 million annually based on 1993 estimates provided in the rate case. This amount is more than the $48.1 million available. However, 1993 will be one third gone at the end of April, so if the reduction goes in May 1, the 1993 revenue effect of eight months of no Touchtone revenue would be $34.5 million. The balance to be disposed of after implementation of staff's recommendation here should be a one time refund applied in the form of a credit in the May billing cycle. The calculation using these estimated amounts is shown below:

Annual amount for disposition in 1993	$48.1 million
Less: Eliminate Touchtone rate - 1993 est. (Assume May 1 effective date)	34.5 million
Amount to be refunded for 1993 on May bills	**$13.6 million**

The advantage to this approach is that a permanent reduction, to a service the Commission has expressed a desire to reduce, will finally be accomplished for this company. There will still be a residual amount in 1993 that will need to be refunded, however, we do not think this a problem. We would be using up more than $48.1 million annually in the Touchtone elimination, but there are still ample revenues to be disposed of through other actions. Even after the recommended rate reduction, Southern Bell has additional revenues of approximately $36 million above the current ROE rate setting point of 13.2%, based on its 1991 MFR filing including company adjustments. One percentage point on equity is worth approximately $34 million. Although the Office of Public Counsel has supported the customer credit, we do not believe they would oppose elimination of the Touchtone rate.

A potential problem with this approach is that Touchtone rates are currently an issue in the SBT rate case. The Commission will in effect be deciding an issue before it goes to hearing. SBT did not propose reducing or eliminating Touchtone rates, and has argued against such an action in response to staff discovery. If the Commission chooses to eliminate Touchtone at this time, SBT has the right to protest. So do other parties if they do not think this rate reduction is in their best interest. If this occurs, then we could find ourselves conducting an interim proceeding. It was this prospect that resulted in the institution of the credit in 1992 rather than permanently disposing of the money in DN 880069-TL at that time.

Although Southern Bell's motion was only filed on March 8, staff is filing its recommendation expeditiously to provide the opportunity for a decision prior to Bell's first May billing cycle. For this reason, we have not had an opportunity to verify the exact dollar amounts associated with the various recommendations. Staff recommends that the Commission order Southern Bell to provide the following:

If the Primary Recommendation is approved:
1) A price-out showing the amount of the credit for each local service by rate group, the billing units, and the total credit amounts.

If the Alternative Recommendation is approved:
1) A priceout showing the most recent estimated 1993 billing units for Touchtone, and the 1993 revenue effect of eliminating the additive rate effective May 1.

2) A calculation showing the remaining amount to be disposed of, and a price-out showing the refund to be applied to customer bills, the billing units, and the total of the refund amount.

ISSUE 2: Should this docket remain open?

RECOMMENDATION: Yes, this docket should remain open pending resolution of remaining issues.

STAFF ANALYSIS: Hearings on this and related dockets have been scheduled to begin January 24, 1994, with final decisions to take place in May. This docket should remain open until all issues are decided and implemented.