

FLORIDA PUBLIC SERVICE COMMISSION

Fletcher Building
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M E M O R A N D U M

NOVEMBER 22, 1993

TO : DIRECTOR, DIVISION OF RECORDS AND REPORTING

FROM : DIVISION OF AUDITING & FINANCIAL ANALYSIS [DAVIS, WRIGHT] *fw*
DIVISION OF COMMUNICATIONS [LONG, NORTON] *DN*
DIVISION OF LEGAL SERVICES [HATCH] *PH*

RE : DOCKET NO. 910731-TL - NORTHEAST FLORIDA TELEPHONE
COMPANY - MODIFIED MINIMUM FILING REQUIREMENTS OF
NORTHEAST FLORIDA TELEPHONE COMPANY

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

AGENDA: DECEMBER 7, 1993 - REGULAR AGENDA - PROPOSED AGENCY
ACTION - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: I:\PSC\AFA\WP\910731.RCM

CASE BACKGROUND

Northeast Florida Telephone Company, Inc. (Northeast or the Company) filed its Modified Minimum Filing Requirements (MMFRs) on July 22, 1991. By Order No. PSC-92-0337-AS-TL (the Order), issued May 12, 1992, the Commission approved, with certain modifications, a settlement agreement (the Agreement) submitted by Northeast and the Office of Public Counsel (OPC). The Agreement, as modified, provided the following:

1. Final refund of Northeast's 1990 revenue in excess of its authorized ROE to its customers;
2. Preliminary refund of Northeast's 1991 revenue in excess of its authorized ROE to its customers;

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3. Refund of Northeast's 1992 revenue in excess of 13.8% ROE, one half to its customers and one half to Southern Bell (Bill and Keep Subsidy contributor);
4. Implement \$0.25 local calling plan between Northeast and Jacksonville, Baldwin and Maxville;
5. Subsequent to January 1, 1993, refund earnings in excess of 13.2% ROE to Southern Bell and reduce the subsidy by a like amount.
6. Eliminate Northeast's remaining interLATA subsidy and remove Northeast from the interLATA subsidy pool, effective January 1, 1993. The reduction in subsidy payments by Southern Bell will be added to the set aside amount to be disposed of in Southern Bell's pending rate case, Docket No. 920260-TL.

In Order No. PSC-93-0228-FOF-TL the Commission determined the earnings in excess of the 14.4% maximum ROE to be \$435,636 as a final settlement of Northeast's 1991 earnings. In accordance with the provisions of the settlement agreement, Southern Bell's reduced subsidy payment shall be included as an additional set aside amount to be disposed of in Docket No. 920260-TL.

This Docket has remained open so that the Commission could continue to monitor the results of the 1992 rate reductions and monitor compliance with the provisions of the Agreement which addresses earnings through, at least, 1993.

This recommendation presents the recommended disposition of 1992 earnings based on staff's review of Northeast's final 1992 ESR, filed in October 1993, in accordance with the provisions of the settlement agreement accepted by the Commission in Order No. PSC-92-0337-AS-TL.

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DISCUSSION OF ISSUES

ISSUE 1: What 1992 revenues are available for Commission disposition?

RECOMMENDATION: The Commission should recognize \$217,168 in revenue in excess of 13.8% ROE, Northeast's maximum stipulated ROE, plus interest of \$11,257 for a total of \$228,425 as a final settlement of Northeast's 1992 earnings. [DAVIS]

STAFF ANALYSIS: Northeast filed its preliminary 1992 ESR in March 1993 and the final 1992 ESR in October 1993. This ESR included an accrual of \$157,000 which the company removed from revenue and added to the amount due to customers to allow for anticipated 1992 excess earnings. Based on staff's review of the final ESR, Northeast's revenue above the maximum allowed ROE of 13.8% as set forth in the settlement agreement accepted by the Commission in Order No. PSC-92-0337-AS-TL for 1992 is \$224,351, the \$157,000 accrual and an additional \$67,351. Interest accrued from January 1992 through January 1994 amounts to \$11,631 for a total of \$235,982 available for disposition in accordance with the settlement agreement as shown on Attachment A.

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ISSUE 2: What is the amount Northeast should refund to its customers based on the amounts identified in Issue 1?

RECOMMENDATION: Half of the \$235,982 in intrastate revenue identified in Issue 1, \$117,991, should be refunded to the customers as set forth in the settlement agreement accepted by the Commission in Order No. PSC-92-0337-AS-TL. The refund should be made as a credit to residential and business customers in the same proportion as the various local exchange rates bear to each other. The customer refund will be made to customers of record during the December, 1993 billing cycle and appear on the February 1994 bill.
{LONG, DAVIS}

STAFF ANALYSIS: Issue 1 identifies intrastate revenues of \$235,982 which are available for Commission disposition in accordance with the settlement agreement. The agreement directs half of the revenue to be refunded to the customers and the other half to be refunded to the payor of the Bill and Keep Subsidy, Southern Bell.

A customer refund in the amount of \$117,991 should be made as a credit on the bill of residential and business customers of record during the December 1993 billing cycle in the same proportion as the various local exchange rates bear to each other. The refund should appear on the customers' February 1994 bills. A final refund report shall be filed pursuant to Rule 25-4.114(7), F.A.C.

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ISSUE 3: What is the amount Northeast should refund to Southern Bell based on the amounts identified in Issue 1?

RECOMMENDATION: Half of the \$235,982 in intrastate revenue identified in Issue 1, \$117,991, should be refunded to Southern Bell as set forth in the settlement agreement accepted by the Commission in Order No. PSC-92-0337-AS-TL. Payments to Southern Bell will be added to the set aside amount to be disposed of in Southern Bell's pending rate case, Docket No. 920260-TL. [WRIGHT, DAVIS]

STAFF ANALYSIS: Issue 1 identifies intrastate revenues of \$235,982 which are available for Commission disposition in accordance with the settlement agreement. The agreement directs half of the revenue to be refunded to the customers and the other half to be refunded to the payor of the Bill and Keep Subsidy, Southern Bell.

\$117,992 should be refunded to Southern Bell to be added to the set aside amount and be disposed of in Southern Bell's pending rate case, Docket No. 920260-TL.

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ISSUE 4: Should this docket be closed?

RECOMMENDATION: No. This docket should remain open to allow staff to monitor the effects of the rate reductions implemented in 1991 and earnings in 1993 and beyond until Northeast's subsidy receipts have been eliminated as set forth in the settlement agreement accepted by the Commission in Order No. PSC-92-0337-AS-TL. [DAVIS]

STAFF ANALYSIS: The settlement agreement provides that earnings in excess of 13.20% in 1993 and beyond shall be used to reduce the Bill and Keep Subsidy receipts of Northeast until such time as Northeast's subsidy is eliminated. Staff will continue to monitor Northeast's earnings and provide the Commission with annual subsidy reductions based on the agreement.

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ATTACHMENT A

NORTHEAST FLORIDA TELEPHONE COMPANY
YEAR ENDED DECEMBER 31, 1992
REVENUE SUBJECT TO COMMISSION DISPOSITION

Adjusted Achieved Net Operating Income	\$697,367
Adjusted Rate Base	<u>6,691,801</u>
Return on Adjusted Achieved Rate Base	<u>10.42%</u>
Adjusted Achieved Return on Equity	20.38%
Maximum Return on Equity Allowed By Stipulation	<u>13.80%</u>
Return in Excess of Stipulated ROE Ceiling	<u>6.58%</u>
NOI in Excess of Stipulated ROE Ceiling of 13.80%	\$135,534
Revenue Expansion Factor	<u>1.655314</u>
1992 Revenue in Excess of Stipulated ROE Ceiling	\$224,351
Interest from January 1, 1992 to January 31, 1994	<u>11,631</u>
Total 1992 Revenue to be Refunded per Stipulation	<u>\$235,982</u>
1992 Revenue Refunded to Customers per Stipulation	<u>\$117,991</u>
1992 Revenue Refunded to Southern Bell per Stipulation	<u>\$117,991</u>