FLORIDA PUBLIC SERVICE COMMISSION

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

M E M O R A N D U M

APRIL 6, 1995

TO : DIRECTOR OF RECORDS AND REPORTING

FROM : DIVISION OF AUDITING AND FINANCIAL ANALYSIS (MAILHOT) DM
DIVISION OF LEGAL SERVICES (ELIAS) RVE

RE : DOCKET NO. 950146-TL - ALLTEL FLORIDA, INC. - DETERMINATION OF APPROPRIATE SUBSCRIBER PLANT FACTOR TO APPLY TO ALLTEL FLORIDA, INC.

AGENDA: 04/18/95 - REGULAR AGENDA - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: I:\PSC\AFA\WP\950146.RCM

DISCUSSION OF ISSUES

ISSUE 1: Should staff's proposed Request for Interpretation (ATTACHMENT A) to the Federal Communications Commission (FCC) be approved?

RECOMMENDATION: Yes. (MAILHOT, ELIAS)

STAFF ANALYSIS: Staff filed a recommendation for the February 21, 1995, agenda requesting that the Commission place $1,353,000, plus interest, of annual revenues of ALLTEL Florida, Inc. (ALLTEL), subject to refund. The following paragraph was part of the recommendation and explains the issue at hand.

> Staff is concerned with a continued high level of ALLTEL's earnings on a prospective basis for 1995 and 1996. Staff estimates that ALLTEL will earn 12.87% ROE in 1995, which is in excess of the company's maximum authorized ROE of 12.5%. In addition, there is an issue concerning the FCC's rules on the interaction of the Universal Service Fund and the allocation of costs to the interstate jurisdiction. Staff believes that ALLTEL's intrastate earnings will be increased by

> approximately $1,352,000 in 1995, due to the FCC rule. ALLTEL does not believe that staff is interpreting the rule correctly. If staff is correct about the FCC rule, then staff projects that ALLTEL will earn 15.14% ROE for 1995. Staff intends to request a ruling from the FCC concerning the application of the rule. The application of this rule will affect only one other small local exchange company (LEC) in Florida in 1995. However, it will likely have an impact on the earnings of several other LECs in 1996 and future years. Even after requesting an opinion from the FCC, it may be a long period of time before we receive a response. In order to protect the interests of the ratepayers during the pendency of this request, staff recommends that the Commission place $1,353,000 in annual revenues, plus interest, subject to refund.

As a result of that recommendation, ALLTEL submitted a proposal, which was approved at the February 21, 1995, agenda. The proposal from ALLTEL Florida, Inc. (ALLTEL), effective January 1, 1995, was to place $1,353,000 plus interest in annual revenues subject to further disposition of the Commission for the sole purpose of obtaining a ruling from the FCC on the proper use of the 5% limit on change in interstate allocation rule.

ALLTEL's proposal also included a requirement that the Commission prepare and file a Motion for Declaratory Ruling or some other appropriate filing with the FCC. ATTACHMENT A is staff's proposed filing to the FCC. ATTACHMENT B is a copy of the relevant rules.

ISSUE 2: Should this docket be closed?

RECOMMENDATION: No. This docket should remain open to resolve the FCC rule issue and the revenue held subject to refund. (MAILHOT)

STAFF ANALYSIS: This docket should remain open pending a response from the FCC on staff's proposed Request for Interpretation of the FCC's rule. Also, the final disposition of the revenue held subject to refund will have to be addressed.

Request for Interpretation

The Florida Public Service Commission requests an interpretation of the applicability of CFR 47, § 36.154(f) Limit on Change in Interstate Allocation to study areas after 1993 and after that study area's subscriber plant factor (SPF) has reached a level of 25 percent.

§ 36.154(f)(1) states:

> No study area's percentage interstate allocation for Subcategory 1.3 Exchange Line C&WF and COE, Exchange Line Circuit Equipment Excluding Wideband- Category 4.13 investment as well as associated maintenance and depreciation shall decrease by a total of more than five percentage points from one calendar year to the next as a result of the combined operations of §§ 36.154(d) and 36.641(a) and (b).

Although the transition began in 1986, § 36.154(d) describes the transition mechanism for the allocation factor, known as SPF, from its level in 1988 to 25 percent in 1993. § 36.641(a) and (b) describes the transition mechanism for the expense adjustment, commonly known as the Universal Service Fund (USF) amount, from 1988 to its full amount in 1993 and subsequent years.

Application of § 36.154(f) can result in the SPF level being higher than 25 percent in 1993 and subsequent years. This higher level of SPF can occur if a study area's transition SPF declines too much from one year to the next due to § 36.154(d) or if a study area's USF declines too much from one year to the next.

The purpose of § 36.154(f) is to mitigate a large shift in revenue requirements from the interstate jurisdiction to the intrastate jurisdiction in one year and thereby help to stabilize a company's earnings and rates. We believe that this purpose is still valid.

ATTACHMENT A
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The reference in § 36.154(f)(1) to §§ 36.154(d) and 36.641(a) and (b) makes it clear that the limit on change in interstate allocation applies through 1993. However, it is not clear if § 36.154(f) applies to a study area after 1993 and after its SPF has reached a level of 25 percent. A review of the relevant Federal Communications Commission rules indicates that there is no prohibition against applying § 36.154(f) to a study area after 1993 and after that study area's SPF has reached 25 percent.

Therefore, the Florida Public Service Commission requests an interpretation from the Federal Communications Commission concerning the applicability of § 36.154(f) to a study area after 1993 and after that study area's (SPF) has reached a level of 25 percent.

§ 36.154 Exchange Line Cable and Wire Facilities (C&WF) - Category 1 - apportionment procedures.

(f) *Limit on Change in Interstate Allocation.*

(1) No study area's percentage interstate allocation for Subcategory 1.3 Exchange Line C&WF and COE, Exchange Line Circuit Equipment Excluding Wideband- Category 4.13 investment as well as associated maintenance and depreciation shall decrease by a total of more than five percentage points from one calendar year to the next as a result of the combined operations of §§ 36.154(d) and 36.641(a) and (b).

(2) The determination of whether the decrease in the interstate allocation for a given study area resulting from the operation of §§ 36.154(d) and 36.641(a) through § 36.641(b) exceeds five percentage points shall be made by calculating a percentage interstate allocation for both of the years involved. This shall be done by dividing the interstate allocation of subcategory 1.3 Exchange Line C&WF and COE exchange Line circuit Equipment Excluding Wideband Category 4.13 and associated expenses for each year as calculated pursuant to § 36.154(f)(4) by the total unseparated investment in Exchange Line C&WF subcategory 1.3 and COE Category 4.13 and associated expenses for the corresponding year as calculated pursuant to § 36.154(f)(5).

(3) If the resulting percentage for the more recent of the two years is more than five percentage points less than the percentage for the earlier year, the decrease in the interstate allocations shall be reduced pro rata for plant investment, maintenance and depreciation so that the difference between the two percentages does not equal more than five percentage points.

(4) The sum of the following:

(i) The net interstate allocation of Exchange Line C&WF - subcategory 1.3 investment calculated pursuant to § 36.154(d) and (e) multiplied by the authorized interstate rate of return.

(ii) The net interstate allocation of COE Exchange Line Circuit Equipment - Category 4.13 investment calculated pursuant to § 36.154(d) and (e) multiplied by the authorized interstate rate of return.

(iii) The interstate allocation of maintenance and depreciation attributable to Exchange Line C&WF subcategory 1.3 customer premises wire and COE Exchange Line Circuit Equipment - Category 4.13 calculated pursuant to § 36.154(d) and (e).

(iv) The amount of the additional interstate expense allocation calculated pursuant to § 36.641.

(5) The sum of the following:

(i) The net unseparated Exchange Line C&WF subcategory 1.3 investment multiplied by the authorized interstate rate of return.

(ii) The net unseparated COE Exchange Line Circuit - Category 4.13 investment multiplied by the authorized interstate rate of return.

(iii) The unseparated maintenance and depreciation attributable to Exchange Line C&WF subcategory 1.3 investment, customer premises wiring investment and COE Exchange Line Circuit Equipment Category - 4.13 investment.

§ 36.154 Exchange Line Cable and Wire Facilities (C&WF) - Category 1 - apportionment procedures. (Cont'd)

(d) Except as provided in § 36.154(f), the interstate allocation of subcategory 1.3 costs for the years 1988, 1989, 1990, 1991 and 1992 will be as follows:

(1) 1988 - The § 36.154(e) allocation factor multiplied by .625 plus .09375.

(2) 1989 - The § 36.154(e) allocation factor multiplied by .5 plus .125.

(3) 1990 - The § 36.154(e) allocation factor multiplied by .375 plus .15625.

(4) 1991 - The § 36.154(e) allocation factor multiplied by .25 plus .1875.

(5) 1992 - The § 36.154(e) allocation factor multiplied by .125 plus .21875.

(e) For purposes of the transitional allocations described in § 36.154(d) and (f) an allocation factor known as the subscriber plant factor or SPF that is the sum of the following shall be computed:

(1) Annual average interstate subscriber line use (SLU), for the calendar year 1981, representing the interstate use of the subscriber plant as measured by the ratio of interstate holding time minutes of use to total holding time minutes of use applicable to traffic originating and terminating in the study area, multiplied by .85, the nationwide ratio of subscriber plant costs assignable to the exchange operation per minute of exchange use to total subscriber plant cost per total minute of use of subscriber plant, plus[2]

(2) Twice the annual average interstate subscriber line use ratio for the study area for the calendar year 1981, multiplied by the annual average composite station rate ratio used for the calendar year 1981 (ratio of the nationwide, industry-wide average interstate initial 3-minute station charge at the study area average interstate length of haul to the nationwide, industry-wide average total toll initial 3-minute station charge at the nationwide average length of haul for all toll traffic for the total telephone industry).

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2 In the case of a company that cannot calculate the average interstate subscriber line usage (SLU) ratio for the calendar year 1981, the average interstate SLU for the customarily used 12-month study period ending in 1981 may be utilized. In the case of a company for which no such 1981 annual average SLU exists, the annual average interstate SLU for the initial study period will be utilized.

§ 36.641 Transition.

(a) The expense adjustment for 1993 and subsequent years shall be the amount computed in accordance with § 36.631.

(b) The expense adjustments for 1988 through 1992 shall be as follows:

(1) Three-eighths of the amount computed in accordance with § 36.631 in 1988;

(2) One-half of the amount computed in accordance with § 36.631 in 1989;

(3) Five-eighths of the amount computed in accordance with § 36.631 in 1990;

(4) Three-quarters of the amount computed in accordance with § 36.631 in 1991; and

(5) Seven-eighths of the amount computed in accordance with § 36.631 in 1992.