

## BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Investigation into INDIANTOWN	)	DOCKET NO. 891235-TL
TELEPHONE SYSTEM, INC'S. authorized	)	ORDER NO. 22275
return on equity and earnings	)	ISSUED: 12-7-89
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The following Commissioners participated in the disposition of this matter:

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

NOTICE OF PROPOSED AGENCY ACTION  
AND  
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 System, Inc.'s (Indiantown's or the Company's) last authorized return on equity (ROE) was set in Docket No. 74569-TL at 12.375% + .375%. In Docket No. 800437-TP, we approved a Stipulation to use a 14.5% ROE for purposes of our surveillance program, as reflected in Order No. 10127, issued July 7, 1981. In the years following that approval, there has been much uncertainty about the effect of using a 14.5% ROE for the continuing surveillance program. To capture any excess earnings, Indiantown's calendar year 1988 and 1989 earnings were capped at 14.5% ROE. Although Indiantown's last authorized midpoint ROE is more in line with the recent quarterly report on equity cost rates, its ROE for the surveillance program is significantly higher than current conditions indicate would be appropriate and reasonable for this Company.

At our Agenda Conference on November 21, 1989, we considered an offer submitted by Indiantown on November 8, 1989, and November 20, 1989, for the purpose of resolving the issues in the above-referenced docket. Specifically,

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Indiantown made the following proposals: (1) to establish a new authorized ROE of  $12.5\% \pm 1\%$  for all future purposes; (2) to reduce its intraLATA message toll service (MTS) rates by \$215,000 annually, effective January 1, 1990; (3) to establish banded pricing for its intraLATA MTS rates; and (4) to cap its 1990 earnings at a 13.5% ROE.

Indiantown has proposed a new authorized ROE of  $12.5\% \pm 1\%$  for all future purposes, including application of the tax rule, for interim purposes, and for calculation of its IDC rate. This proposed ROE is within the range we find to be a reasonable and appropriate ROE for this Company, based upon the most recent quarterly report on equity cost rates. Because our acceptance of this proposal would make a formal hearing unnecessary and, therefore, would save considerable expense, we find it appropriate to accept Indiantown's proposal for a new authorized ROE.

Indiantown's latest earnings surveillance report for the twelve months ending June 30, 1989, indicates earnings above a 13.5% ROE of \$626,141. There were two major changes during 1989 which are not reflected in this surveillance report: the elimination of Indiantown's interLATA and intraLATA subsidies, and the elimination of its zone charges. In Docket No. 820537-TP, we approved allowing Indiantown to forego interLATA and intraLATA subsidy receipts of \$347,000 per year, effective September 1, 1989. This \$347,000 is included in the June 30, 1989, report, but will not be received by Indiantown in 1990. Along with the elimination of these subsidies, we also approved the elimination of zone charges of approximately \$70,000 annually. These two reductions in revenue in 1990 will bring Indiantown's earnings in excess of a 13.5% ROE to approximately \$210,000. To resolve this, the Company has proposed to reduce its intraLATA toll revenues by \$215,000 annually.

In its proposal of November 8, 1989, Indiantown proposed modifying its intraLATA toll rates by using the current toll rates as a cap and access charges as a floor, with the new rates to be developed within that range. Further, Indiantown proposed that future modifications to these rates be accomplished on a thirty day notice tariff filing, subject to the same conditions and requirements as imposed on AT&T Communications of the Southern States, Inc. in Order No. 16180, issued June 2, 1986. In its proposal filed November 20, 1989, Indiantown modified its initial proposal and proposed instead

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that subsequent tariff filings be under the same terms and conditions as set forth for Southern Bell Telephone and Telegraph Company in Order No. 18326, issued October 21, 1987, except that tariffs submitted by Indiantown would be accompanied by a statement of purpose and justification for the revision, rather than any cost or pricing information. Indiantown further proposed that the reduced requirements would be applicable so long as the rates remain within the band and consistent with regulations in existence at the time of the reduction.

We recognize that Indiantown's options to dispose of its overearnings are limited. Its basic monthly local rates are among the lowest in the state. Further, its zone charges have already been eliminated. We believe that reduction of Indiantown's intraLATA MTS rates is an appropriate means of reducing its overearnings. Additionally, we believe that a reduction of the Company's busy hour minute of capacity (BHMOC) charge is also proper.

Therefore, as to Indiantown's second and third proposals, we propose accepting Indiantown's banded rate pricing for its intraLATA MTS rates, as described in the Company's November 8, 1989, filing and as further modified in the Company's November 20, 1989, filing. Further, as to Indiantown's offer to reduce its intraLATA MTS rates by \$215,000 annually, effective January 1, 1990, we propose rejecting this offer. Instead, we find it appropriate to require Indiantown to reduce its revenue in 1990 by \$240,000 annually, or to approximately 12.5%, the midpoint of its new ROE range. Approximately \$40,000 of this amount shall be applied to reduce the BHMOC, with the balance of the reduction going to reduce intraLATA MTS rates. Further, revised intraLATA MTS tariffs shall be filed by November 30, 1989.

We do not believe that Indiantown's fourth proposal, to cap its 1990 earnings at 13.5%, should be accepted because we do not find this provision to be meaningful. Therefore, we propose rejecting this offer. We note that should the Company exceed its authorized ROE range, appropriate action would be taken by this Commission at this time.

Finally, because Indiantown's tariff format is extremely outdated, we propose requiring Indiantown to file a reissue of its entire Local and General Exchange Tariffs, in standard

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format, within 120 days of the date of this Order, assuming this Order becomes final at the expiration of the period specified below.

Upon consideration, we shall propose to require the actions specified above as a reasonable and appropriate resolution of the issues in this docket. This action shall become final on the date following the date specified below, unless an appropriate petition protesting our proposed action is filed within the time period specified below. This docket shall remain open pending the proposed agency action period and until all correct tariffs have been filed and reviewed by our staff. At that time, this docket shall be closed administratively.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Indiantown Telephone System, Inc.'s proposal to establish a new authorized return on equity of  $12.5\% \pm 1\%$  for all future purposes is hereby accepted as set forth in the body of this Order. It is further

ORDERED that Indiantown Telephone System, Inc.'s proposal to establish banded rate pricing for its intraLATA MTS rates is hereby accepted to the extent outlined in the body of this Order. It is further

ORDERED that Indiantown Telephone System, Inc. shall reduce its revenues in 1990 by \$240,000 annually, with approximately \$40,000 of this amount applied to reduce the busy hour minute of capacity charge and the balance of approximately \$200,000 going to reduce its intraLATA MTS rates. It is further

ORDERED that Indiantown Telephone System, Inc. shall file revised intraLATA MTS tariffs by November 30, 1989. It is further

ORDERED that Indiantown Telephone System, Inc. shall file a reissue of its entire Local and General Exchange Tariffs, in standard format, within 120 days of this Order, as further specified within the body of this Order. It is further

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ORDERED that this Order shall become final on the date following the date specified below, unless an appropriate petition protesting our proposed action is filed within the time period specified below. It is further

ORDERED that if no protest is filed within the time period specified below, this docket shall remain open pending the submission and review of all required tariffs, as set forth in the body of this Order, after which time this docket shall be closed administratively.

By ORDER of the Florida Public Service Commission, this 7th day of DECEMBER, 1989.

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STEVE TRIBBLE, Director  
Division of Records and Reporting

( S E A L )

ABG

by: Kay Flynn  
Chief, Bureau of Records

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.

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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 December 28, 1989 .

In the absence of such a petition, this order shall become effective on the day subsequent to the above date 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 the date described above, 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.