

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: INVESTIGATION INTO ST. JOSEPH) DOCKET NO. 891238-TL
 TELEPHONE AND TELEGRAPH COMPANY'S) ORDER NO. 22284
 AUTHORIZED RETURN ON EQUITY AND EARNINGS)
 _____) ISSUED: 12-11-89

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

ORDER ACCEPTING ST. JOSEPH TELEPHONE AND
 TELEGRAPH COMPANY'S PROPOSAL TO REDUCE
 ITS AUTHORIZED RETURN ON EQUITY

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.

BACKGROUND

We informed St. Joseph Telephone and Telegraph Company (St. Joe) by letter dated September 5, 1989, that the Company's last authorized return on equity (ROE) of a 15% midpoint with a range from a low of 14% to a high of 16% is substantially in excess of current indications of a reasonable required ROE falling in the low to mid 12% range. On November 8, 1989, the Company responded to our concern regarding its authorized ROE with a proposal to reduce its authorized ROE to a 12.9% midpoint with a range from a low of 11.9% to a high of 13.9% for all future purposes including application of our tax rule, for interim purposes and for calculation of its interest during

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construction (IDC) rate. St. Joe proposed, in addition, that we excuse it from any tax savings dockets initiated for 1990 related to the Tax Reform Act of 1986.

The Company's proposed ROE is within a half a percentage point of our estimate of a currently reasonable and appropriate ROE for this Company. This finding is based on the most recent quarterly report on equity cost rates. Because we find that acceptance of this proposal would make a formal hearing unnecessary and would, therefore, save considerable expense, we find it appropriate to accept St. Joe's proposal of a new authorized ROE.

Regarding St. Joe's proposal to be excused from any tax savings dockets initiated for 1990 related to the Tax Reform Act of 1986, we note that St. Joe's estimated tax savings is \$199,000 annually from the reduction in tax rates from 46% to 34%. St. Joe reduced its access charges by \$298,000 annually and is now proposing to reduce its subsidy by \$400,000 annually. Since we believe that St. Joe's tax savings have been disposed of through permanent rate reductions, we also find it appropriate to excuse St. Joe from any tax savings dockets related to the Tax Reform Act of 1986.

Based on St. Joe's latest surveillance report for the twelve months ended June 30, 1989, the Company's achieved ROE is 14.24%. This is in excess of the Company's proposed ceiling and cap of 13.9% ROE. Also, in reviewing the Company's earnings, we have excluded non-recurring depreciation expense of \$220,854 intrastate, which increases the Company's achieved ROE to 15.87% on a going forward basis. Therefore, we find it appropriate to reduce the Company's achieved earnings to below its proposed maximum authorized ROE. St. Joe has proposed to reduce its revenues by \$400,000 annually through a reduction in its interLATA subsidy of \$300,000 and a reduction in its intraLATA subsidy of \$100,000. These reductions will reduce the Company's ROE by 2.96%. Based on the Company's current and expected earnings level, we believe that this proposal will bring the Company's achieved earnings within its newly authorized ROE range to 12.91%. Therefore, we hereby accept the Company's proposal to reduce its revenues.

Currently, St. Joe receives net subsidies of \$1,523,000 and \$579,000 from the interLATA and intraLATA subsidy pools, respectively. The interLATA subsidy is a fixed amount unless

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we take specific action to alter the subsidy amounts. The intraLATA subsidy fund is currently being phased down each year at the rate of \$.25 per access line per month. Accepting St. Joe's proposal is consistent with our prior actions regarding Gulf Telephone Company and Indiantown Telephone Company, when we reduced their subsidies because those Companies were overearning. For both those Companies, we first approved the elimination of zone and mileage charges and then reduced their subsidies. St. Joe has no zone or mileage charges. Therefore, we believe it is appropriate to reduce the excess earnings of St. Joe through a reduction in its subsidies.

The Company has also proposed that any excess earnings in 1990 not corrected by these subsidy reductions, be corrected by the Company increasing its depreciation expense. We decline to approve this proposal. If further action is necessary, we will address such excess earnings if and when established.

In Docket No. 890383-TL, we approved a new charge for St. Joe for operator-assisted local calls. We also ordered that St. Joe should use the additional revenues, estimated at \$11,400 annually, as an offset to the intraLATA subsidy pool. St. Joe's proposal to reduce its intraLATA subsidy receipts by \$100,000 in lieu of reducing it by the amount of operator assisted local call revenue is reasonable considering that the \$100,000 appears to be significantly in excess of the new revenue. Therefore, we accept St. Joe's proposal.

No further action is necessary in this docket. Therefore, this docket shall be closed at the expiration of the protest period if no timely protest is filed.

Based on the foregoing, it is, therefore,

ORDERED by the Florida Public Service Commission that St. Joseph Telephone and Telegraph Company's proposal to reduce its authorized return on equity to a 12.9% midpoint with a range from a low of 11.9% to a high of 13.9% is hereby accepted as set forth in the body of this Order. It is further

ORDERED that St. Joseph Telephone and Telegraph Company is hereby excused from any further tax savings dockets related to the Tax Reform Act of 1986. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final unless an

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appropriate petition in the form provided by Rule 25-22.036, Florida Administrative Code, is 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 the date indicated in the Notice of Further Proceedings or Judicial Review below. It is further

ORDERED that, in the event no protest is timely received, this docket shall be closed.

By ORDER of the Florida Public Service Commission,
this 11th day of DECEMBER, 1989.



STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

SFS

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.

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

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close of business on January 2, 1990.

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.