BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Resolution by Gadsden County Board of County Commissioners for extended area service between Gadsden County and Tallahassee	)	DOCKET NO. 890292-TL
In re: Investigation into QUINCY TELEPHONE COMPANY'S authorized return on equity and earnings	)	DOCKET NO. 891237-TL ORDER NO. 22367 ISSUED: 1-3-90

The following Commissioners participated in the disposition of this matter:

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

NOTICE OF PROPOSED AGENCY ACTION

AND

ORDER ACCEPTING PROPOSED RESOLUTION AS MODIFIED AND REQUIRING IMPLEMENTATION OF TOLL RELIEF PLAN

BY THE COMMISSION:

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that the actions discussed herein are preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding pursuant to Rule 25-22.029, Florida Administrative Code.

BACKGROUND

Docket No. 890292-TL

Docket No. 890292-TL was initiated by a resolution filed with this Commission on February 14, 1989, by the Gadsden County Board of County Commissioners. This resolution requested that we consider requiring implementation of extended area service (EAS) between all exchanges in Gadsden County and

Tallahassee. These exchanges are served by Central Telephone Company of Florida (Centel), Quincy Telephone Company (Quincy), Southern Bell Telephone and Telegraph Company (Southern Bell), and St. Joseph Telephone and Telegraph Company (St. Joe), all of which are subject to regulation by this Commission, pursuant to Chapter 364, Florida Statutes.

In addition to involving intercompany routes, this request also involves interLATA (Local Access Transport Area) routes. The vast majority of Gadsden County (except a small area served out of the Tallahassee exchange) is in the Panama City LATA and has the following exchanges: Chattahoochee (served by St. Joe); Greensboro, Gretna, and Quincy (served by Quincy); and Havana (served by Southern Bell). The Tallahassee exchange is located in the Tallahassee Market Area and is served by Centel.

Each of the involved exchanges currently has EAS as follows:

EXCHANGE	ACCESS LINES	EAS CALLING SCOPE
Chattahoochee	1,597	None*
Greensboro	906	Gretna, Quincy
Gretna	879	Greensboro, Havana, Quincy
Havana	3,126	Gretna, Quincy, Tallahassee
Quincy	6,634	Greensboro, Gretna, Havana
Tallahassee	116,294	Crawfordville, Panacea, St. Marks, Sopchoppy, Monticello, Havana

*Chattahoochee has an optional discounted toll plan on calls to Quincy. For monthly rates of:

1st hour or fraction - $4.80[1]
Each additional 15 minutes or fraction - $1.20[1]

[1]receive a 60% discount in daytime rate.

By Order No. 20868, issued March 9, 1989, we directed the above-named companies to complete traffic studies on the affected routes to determine whether a sufficient community of interest existed, pursuant to Rule 25-4.060, Florida Administrative Code. For those studies, we requested that the companies measure the messages per main and equivalent main station per month (M/M/M) and percentage of subscribers making two (2) or more calls monthly to the exchanges for which EAS was requested.

On March 27, 1989, the City of Midway filed a letter in support of the EAS requested by its County Commissioners. The City of Midway is located in Gadsden County but is served by Centel, out of Centel's Tallahassee exchange.

On April 17, 1989, the Citizens of the State of Florida, through the Office of Public Counsel, served their Notice of Intervention in this docket. This intervention was acknowledged by Order No. 21073, issued April 19, 1989.

By letters filed May 8, 1989, May 10, 1989, and July 4, 1989, Quincy requested specified confidential treatment for the interLATA traffic data it submitted in response to Order No. 20868. By letter filed May 9, 1989, St. Joe made a similar request. The Prehearing Officer granted these requests for specified confidential treatment as reflected in Order No. 22204, issued November 21, 1989.

The demographics of the areas involved in this EAS request are described below.

Chattahoochee Exchange

The Chattahoochee exchange is located in the northwestern portion of Gadsden County and had a 1987 population of 4,738. Since Quincy is the county seat, there would be a community of interest for Chattahoochee residents to call Quincy. The largest employer in Chattahoochee is the Florida State Hospital. There is a strong community of interest for calling to Tallahassee since many residents work and shop in the Tallahassee area. Tallahassee is a regional center for many services (higher education, hospitals, doctors, shopping and cultural activities, etc.).

Havana Exchange

The Havana exchange is a rural area of ninety square miles in Gadsden County. The exchange boundary is twelve miles northwest of Tallahassee, Florida's state capital. The proximity to Tallahassee is Havana's primary growth factor. Farming and lumber are also principal means of employment, along with general trade and services. The county seat is Quincy, nine miles west of Havana. As of the end of 1988, there were an estimated 3,450 occupied living units in the exchange.

Quincy, Gretna and Greensboro Exchanges

Quincy, Gretna and Greensboro are all located in Gadsden County where Quincy is the county seat. The 1987 population of Gadsden County was 46,187 and the county covers approximately 518 square miles, giving it a population density of 89.2 persons per square mile. The nearest metropolitan area is Tallahassee and the five largest incorporated areas in Gadsden County (with 1987 population figures) are: Quincy (8,629), Chattahoochee (4,738), Havana (2,800), Gretna (1,650), and Midway (1,559). Greensboro's 1987 population was 582.

Tallahassee Exchange

The Tallahassee exchange, located in Leon County, serves an area of 676 square miles and is bordered on the west by Gadsden County. As a university town and the capital city, Tallahassee is the regional center for the provision of services including education, hospitals, doctors, shopping, rehabilitation centers, cultural activities and human services for people needing food, housing, counseling, medical and financial aid. The Civic Center, a convention and entertainment facility, hosts a wide variety of events drawing spectators regionally. U.S. 90, U.S. 27 and I-10 are major highways connecting Gadsden County and Leon County. Outside the Tallahassee city limits, customers are served by Quincy-based Talquin Electric Cooperative for their electric, water and sewer needs. Employment in Tallahassee is a factor for many residing in Gadsden County. The City of Midway is served by Centel's Tallahassee exchange; however, it is located in the southeastern portion of Gadsden County. Midway's 1987 population was 1,559.

Current basic local service rates for the exchanges involved in this EAS request are shown below.

Chattahoochee Exchange
St. Joe Telephone - Rate Group N/A

R-1	$ 6.30
B-1	17.25
PBX	33.15

Greensboro, Gretna and Quincy Exchanges
Quincy Telephone - Rate Group N/A

R-1	$ 11.34	($ 3.79*)
B-1	27.69	(9.27*)
PBX	55.79	(18.67*)

*Credit until November 25, 1989.

Havana Exchange
Southern Bell - Rate Group VI

R-1	$ 11.27
B-1	37.28
PBX	82.14

Tallahassee Exchange
Central Telephone - Rate Group VI

R-1	$ 6.00
B-1	13.48
PBX	26.96

Docket No. 891237-TL

By letter dated September 5, 1989, we informed Quincy that its last authorized return on equity (ROE) of 13.3% ± 1% is considerably higher than current indications of a reasonable required ROE falling in the low to mid 12% range. On November 8, 1989, the Company responded to our concerns with a proposal

to reduce its authorized ROE to 12.9% ± 1% for all future purposes effective January 1, 1990, and to cap its 1990 earnings at a 13.9% ROE, with the disposition of excess earnings, if any, to be determined at a later date. Additionally, Quincy proposed that if EAS between Gadsden County and Tallahassee was not implemented, then the Company would: (1) make a permanent local service rate reduction of $357,000 annually, which is a $2.59 per month reduction (from $11.34 to $8.75 per month) for basic residential service (with proportional reductions to business customers) effective January 1, 1990; and (2) implement an alternative toll plan or discounted toll plan for calling between its three Gadsden County exchanges and Tallahassee. Quincy would target $300,000 annually of further revenue reductions toward the toll relief objective. The toll relief proposal was based upon Quincy being authorized to eliminate the requirement to book $407,000 of annual depreciation expense for its access charge bill and keep winnings.

Quincy's last authorized ROE was set at 13.3% ± 1% in Docket No. 870453-TL, as reflected in Order No. 20937, issued March 27, 1989. The ROE set at that time was the result of a penalty of .5% ROE applied to the Company's then authorized ROE of 13.8% ± 1%. The penalty was applied due to imprudent management decisions. This did not resolve the issue of an authorized ROE which is still significantly higher than current conditions indicate would be appropriate and reasonable for this Company.

On October 24, 1989, the Citizens of the State of Florida, through the Office of Public Counsel, served their Notice of Intervention in this docket. On November 17, 1989, AT&T Communications of the Southern States, Inc. (ATT-C) filed its Petition for Leave to Intervene in this docket. The intervention of Public Counsel was acknowledged and the intervention of ATT-C was granted by Order No. 22259, issued December 4, 1989.

Our staff filed its recommendations in both Docket No. 890292-TL and Docket No. 891237-TL on November 8, 1989, for our November 21, 1989, Agenda Conference. On November 20, 1989, Public Counsel filed a Petition for Issuance of a Notice of Proposed Agency Action in both dockets. This petition requested that we issue a Notice of Proposed Agency Action whereby we would require Quincy to: (1) reduce its authorized ROE to 12.5% ± 1% for all regulatory purposes; (2) refund all

earnings in excess of 13.5% for 1990; (3) reduce monthly basic local service rates by $2.59 (residential), $6.32 (business), and $12.74 (PBX), effective for the January, 1990, billing cycle; (4) implement EAS at no additional charge from all of Quincy's Gadsden County exchanges to the Tallahassee exchange; and (5) that we release Quincy from the requirement to record $407,000 annually as a credit to unclassified depreciation reserve.

Following extensive discussion at our November 21st Agenda Conference, we deferred both of these dockets until our December 19, 1989, Agenda Conference to enable our staff to further explore the various alternatives available to us. Specifically, we requested that Public Counsel make available his work papers and we also required Quincy to make available its company budget for the 1990-91 period. Additionally, we directed our staff to submit a revised recommendation to us in which they were to incorporate and analyze all the issues raised by both of these dockets, as well as to address Quincy's proposal, Public Counsel's petition, and Gadsden County's request for EAS.

DISCUSSION

At our December 19, 1989, Agenda Conference we considered the various proposals that the parties submitted to us for the purpose of resolving the issues raised by these two dockets. After a thorough examination of the pros and cons of each of these alternatives, we hereby announce our intention to require the actions described below as an appropriate means of resolving these dockets. We believe that our proposed action affords a just and reasonable result that adequately addresses and fairly balances the potentially competing interests of the parties in these two dockets. We note also that our plan described below represents both a partial acceptance and a partial rejection of Quincy's proposal, Public Counsel's petition, and the resolution filed by the Gadsden County Board of County Commissioners.

Initially, we note that Quincy's latest earnings surveillance report for the twelve months ending June 30, 1989, indicates an achieved ROE of 20.4%. This is substantially in excess of both the Company's currently authorized maximum ROE and its proposed ceiling and cap of 13.9% for 1990. Quincy has

proposed a new authorized ROE of 12.9% ± 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 reasonable and appropriate for this Company, based upon the most recent quarterly report on equity cost rates. If this Order becomes final, our acceptance of this proposal would make a formal hearing unnecessary and would save considerable expense. Therefore, we find it appropriate to accept Quincy's proposal for a new authorized ROE. We do not, however, believe it is appropriate to accept Quincy's proposal to cap its 1990 earnings at 13.9% ROE. Therefore, we propose rejecting this part of Quincy's offer. We note that should the Company exceed its authorized ROE range, appropriate action would be taken by this Commission at that time.

Next, we propose requiring Quincy to set up a deferred credit from its access charge bill and keep surplus revenues from 1987, 1988, 1989, and the first six months of 1990. This set aside shall consist of a total of $300,000 from Quincy's 1987-89 access bill and keep surplus revenues, plus the full amount of access bill and keep surplus revenue Quincy receives during January through June of 1990, which we estimate at approximately $204,000. These moneys shall be set aside to accrue interest at the 30-day commercial paper rate and then be returned to the Company as a credit to local earnings beginning January 1, 1991. The credit shall be in the amount of $200,000 annually, until the amount in the deferred credit is exhausted.

Additionally, we believe it is appropriate to release Quincy from the requirement that it book $407,000 of annual depreciation expense from its access bill and keep surplus. Both the Company and Public Counsel have made such a recommendation to us. Therefore, we propose to eliminate this requirement effective July 1, 1990.

In light of Quincy's earnings situation, we also believe it is appropriate to require Quincy to reduce its basic local service rates. Therefore, we propose requiring the following basic local service rates for all of Quincy's exchanges, to be effective March 1, 1990, as follows:

Quincy Telephone
Basic Local Service Rates Effective 3/1/90

	Current	Proposed
R-1	$ 11.34	$ 9.50
B-1	27.69	27.69
PBX	55.79	55.79

In response to Order No. 20868, each of the four companies involved in Docket No. 890292-TL filed the requested traffic studies. The traffic studies revealed the following calling rates on the ten intraLATA routes at issue in this EAS request:

EXCHANGE	M/M/M	% MAKING 2 OR MORE
Chattahoochee to Greensboro	1.11	15.00
Greensboro to Chattahoochee	2.69	30.00
Chattahoochee to Gretna	1.08	13.60
Gretna to Chattahoochee	3.60	39.00
Chattahoochee to Havana	0.24	4.20
Havana to Chattahoochee	0.11	2.11
Chattahoochee to Quincy	4.37	41.40
Quincy to Chattahoochee	1.23	16.00
Greensboro to Havana	0.97	16.00
Havana to Greensboro	0.23	3.68

Additionally, there are four interLATA routes involved in the request: Chattahoochee-Tallahassee; Greensboro-Tallahassee; Gretna-Tallahassee; and Quincy-Tallahassee. The actual results of the studies performed along these four routes were granted confidential treatment by Order No. 22204. However, we can report that for all four of these interLATA routes, the calling rates did exceed the threshold of Rule 25-4.060(2)(a), Florida Administrative Code, which requires three (3) or more M/M/M, with at least fifty percent (50%) of subscribers making two (2) or more calls per month. As can be seen from the chart above, the calling rates along those ten intraLATA routes fall short of the rule requirements.

Our policy in the past has been not to establish EAS where skipping over intermediate exchanges would be involved, because this would create a situation where calls to the more distant exchange were local, while calls to an adjacent exchange incurred toll charges. At the same time, we do not believe the subscribers in Gadsden County should be denied EAS to Tallahassee because the calling rates on the intermediate exchanges fall short of the rule requirement. We strongly believe that the communities of Chattahoochee, Greensboro, Gretna, Havana, and Quincy are all dependent upon Tallahassee for their workplace and for regional services such as education, hospitals, doctors, shopping, rehabilitation centers, and cultural activities. We believe that such factors should be given weight in our decision on whether toll relief is warranted. Both Gadsden County and the Citizens, through Public Counsel, believe that a sufficient community of interest exists in this case to warrant toll relief. We agree. We wish to emphasize, however, that our policy has been and will continue to be not to permit "leap-frogging" or skipping of exchanges in an EAS request.

We have considered the feasibility of a wide variety of calling plans in reaching our decision in these dockets. In so doing, we have attempted to strike a fair balance between the subscribers' desire for toll relief and the companies' concern with the cost of such relief. While the companies would understandably support a rate structure that would provide for full recovery of their costs, we do not believe such action would be appropriate in this situation. Therefore, we announce our intention to waive Rule 25-4.062(4), Florida Administrative Code, which provides for full recovery of costs from the subscribers in the petitioning exchange upon implementation of traditional, two-way, nonoptional EAS.

The calling plan we propose in these dockets is to be implemented effective July 1, 1990. The plan shall consist of the following:

A. Subscribers in Quincy's exchanges of Greensboro, Gretna, and Quincy shall be allowed to place five (5) toll free calls per month to the Tallahassee exchange. Additional calls after the first five (5) shall be at the flat rate of twenty-five cents ($.25) each.

B. Subscribers in Centel's Tallahassee exchange shall be allowed to place five (5) toll free calls per month (total) to the Greensboro, Gretna, and Quincy exchanges. The Chattahoochee exchange will also be included if the survey described below passes. Additional calls after the first five (5) shall be at the flat rate of twenty-five cents ($.25) each.

C. Flat rate, nonoptional, two-way EAS shall be implemented between Quincy's Greensboro exchange and Southern Bell's Havana exchange, with no change in rates for the subscribers in either exchange.

D. Subscribers in St. Joe's Chattahoochee exchange shall be surveyed at the following rates:

	Current	Proposed	Increase
R-1	$ 6.30	$ 9.50	$ 3.20
B-1	17.25	27.69	10.44
PBX	33.15	55.79	22.64

Chattahoochee subscribers would receive toll free calling to all exchanges within Gadsden County. Additionally, subscribers in the Chattahoochee exchange would be allowed to place five (5) toll free calls per month to the Tallahassee exchange, with additional calls after the first five (5) at the flat rate of twenty five cents ($.25) each. Survey requirements are detailed in a subsequent portion of this Order.

E. The toll calling to and from Tallahassee described above shall be treated as local effective upon implementation of the calling plan, with no terminating payments between Quincy, Centel, or St. Joe.

The subscribers in the Chattahoochee exchange shall be surveyed by St. Joe within thirty (30) days of our issuance of a consummating order in these dockets. Prior to balloting, St. Joe shall submit its survey letter and ballot to our staff for approval. In order for the survey to pass, we shall require that a simple majority of the total eligible Chattahoochee subscribers must vote in favor of the plan. Our decision to

require only a simple majority of those eligible to vote necessitates a waiver of Rule 25-4.063(5)(a), Florida Administrative Code. Should the survey pass, we direct that the plan described in "D" above be implemented effective July 1, 1990. Since Chattahoochee currently has an optional discounted calling plan to Quincy, that plan shall be cancelled simultaneously upon implementation of the plan described in "D".

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the resolution filed by the Gadsden County Board of County Commissioners in Docket No. 890292-TL is hereby approved in part and denied in part to the extent outlined in the body of this Order. It is further

ORDERED that Quincy Telephone Company's proposal to resolve the issues in Docket No. 891237-TL is hereby accepted in part and rejected in part to the extent outlined in the body of this Order. It is further

ORDERED that Public Counsel's Petition for Issuance of a Notice of Proposed Agency Action filed in Dockets No. 890292-TL and 891237-TL is hereby granted in part and denied in part as set forth in the body of this Order. It is further

ORDERED that Quincy Telephone Company's new authorized return on equity shall be established at 12.9% $\pm$ 1% effective January 1, 1990, for all future purposes as set forth herein. It is further

ORDERED that Quincy Telephone Company's 1990 earnings shall not presently be capped, but that appropriate action shall be taken in the future should overearnings occur, as set forth herein. It is further

ORDERED that Quincy Telephone Company shall set up a deferred credit from its bill and keep revenues that complies with the terms set forth herein. It is further

ORDERED that Quincy Telephone Company shall be released from the requirement that it book $407,000 of annual depreciation expense to offset its bill and keep revenue surplus effective July 1, 1990. It is further

ORDERED that Quincy Telephone Company shall reduce its residential basic local service rates effective March 1, 1990, in accordance with the terms set forth herein. It is further

ORDERED that Central Telephone Company of Florida, Quincy Telephone Company, Southern Bell Telephone and Telegraph Company, and St. Joseph Telephone and Telegraph Company shall each implement a toll relief calling plan effective July 1, 1990, that complies with the terms and conditions set forth herein. It is further

ORDERED that St. Joseph Telephone and Telegraph Company shall conduct a survey of its Chattahoochee subscribers within thirty days of the issuance of a consummating order in this docket. It is further

ORDERED that St. Joseph Telephone and Telegraph Company shall submit its survey letter and ballot for our approval prior to its distribution. It is further

ORDERED that, should the survey of the Chattahoochee subscribers pass, St. Joseph Telephone and Telegraph Company shall implement the calling plan described herein and simultaneously discontinue the optional calling plan to the Quincy exchange, pursuant to the terms set forth herein. It is further

ORDERED that certain rules as described herein have been waived for the reasons set forth in the body of this Order. It is further

ORDERED that the Companies named herein shall file any and all appropriate tariffs necessary for implementation of the terms and conditions of this Order. It is further

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, these dockets shall remain open pending results of the survey and submission and review of all required tariffs, after which time this docket shall be closed administratively.

By ORDER of the Florida Public Service Commission this 3rd day of JANUARY, 1990.

STEVE TRIBBLE, Director
Division of Records and Reporting

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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 close of business on January 24, 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.