BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition of CENTRAL TELEPHONE COMPANY OF FLORIDA for a rate increase	DOCKET NO. 891246-TL
In re: Petition of CENTRAL TELEPHONE COMPANY OF FLORIDA regarding disposition of certain 1987 revenues	DOCKET NO. 881370-TL
In re: Refund of CENTRAL TELEPHONE COMPANY OF FLORIDA'S 1988 overearnings	DOCKET NO. 891182-TL ORDER NO. 23454 ISSUED: 9-10-90

The following Commissioners participated in the disposition of this matter:

MICHAEL McK. WILSON, Chairman
THOMAS M. BEARD
BETTY EASLEY
GERALD L. GUNTER
FRANK S. MESSERSMITH

ORDER SUSPENDING PROPOSED PERMANENT RATES AND GRANTING INTERIM RATE INCREASE SUBJECT TO REFUND

BY THE COMMISSION:

BACKGROUND

On June 12, 1990, Central Telephone Company of Florida (Centel or the Company) filed a Petition to adjust its rates and charges pursuant to Sections 364.05 and 364.055, Florida Statutes, and for approval of an incentive regulation plan. Through this Petition, Centel seeks a permanent revenue increase of $18,087,736, as well as approval of its proposed incentive regulation plan. The Company has requested that we allow the permanent increase to go into effect immediately. In the alternative, the Company asks that we either allow the full amount of the permanent increase to go into effect on an interim basis or that we approve an interim increase in the amount of $3,788,867.

By letter dated April 19, 1990, Centel sought modification of the minimum filing requirements (MFRs) specified in Rule 25-4.141, Florida Administrative Code. By Order No. 22970, issued May 23, 1990, we granted in part the Company's request for modification of the MFRs, to the extent outlined therein. On June 12, 1990, Centel made its initial MFR filing.

By Order No. 23138, issued July 2, 1990, we acknowledged the intervention of the Office of Public Counsel (OPC) in this docket.

In addition, intervention has been sought by and granted to both the Florida Pay Telephone Association, Inc. and AT&T Communications of the Southern States, Inc.

On July 9, 1990, OPC filed its Answer to Centel's Petition. OPC's Answer addresses the following points: (1) Centel's request to place the tariff as filed into effect should be denied and Centel's tariff filing should be suspended; (2) Centel's request for interim relief should be denied since Centel has not substantiated that it is entitled to the relief requested; (3) with respect to the proposed incentive regulation plan, Centel has not stated a claim for which relief can be granted, since its Petition does not state with sufficient particularity the so-called plan, and the plan as set out in the testimony supporting the Petition may not be approved by the Commission in proceedings initiated prior to October 1, 1990; (4) even if Centel were entitled to the incentive regulatory plan, the plan as proposed in the testimony should not be allowed under the conditions requested by Centel; (5) the Company's rate restructuring proposal is unwarranted and not cost justified; and (6) a 14.5% return on equity is excessive. On July 13, 1990, OPC filed a revision to its Answer in which it made several corrections to its July 9th filing.

REQUEST FOR PERMANENT REVENUE INCREASE

Centel has filed amendments to its General Customer Services and Access Tariffs (MFR Schedule E-5) to produce an annual revenue increase of approximately $18,095,000. The increase in basic local rates alone is approximately $14,288,000, which represents about a sixty percent (60%) increase above current rates. The Company has also proposed a decrease in the busy hour minute of capacity (BHMOC) charge which totals approximately $2,555,826. Additionally, Centel seeks approval of a proposed incentive regulation plan under which a price cap would be placed on basic local services, while non-basic services would be subject to flexible pricing.

Pursuant to Section 364.05(4), rates proposed by a telephone company become effective sixty (60) days after filing unless this Commission withholds its consent to the proposed rates within those sixty (60) days. Further, the above-referenced statute permits the company to implement the proposed rates under bond or corporate undertaking, subject to refund, eight (8) months after filing, unless final action has been taken by the Commission. The Commission is required to take final action and enter its final order within twelve (12) months after the commencement date for final agency action.

At our July 31, 1990, Agenda Conference, we considered Centel's request for immediate implementation of its permanent rate increase, along with the associated proposed rate schedules and tariff sheets. We find it is reasonable and necessary to require further explanation and substantiation of the data filed by the Company. In addition, we believe that a formal evidentiary hearing, as well as customer service hearings, are warranted with such a filing. Accordingly, we find it appropriate to suspend the Company's proposed permanent rate schedules and associated tariffs. We note that a formal evidentiary hearing has been set beginning October 29, 1990, and continuing for approximately two (2) weeks, and that customer service hearings have been scheduled during August, 1990. We note further that this decision, as well as the other decisions discussed in the body of this Order, were announced at our July 31, 1990, Agenda Conference and that this Order merely memorializes those decisions.

INTERIM RATE REQUEST

Concurrent with its Petition for a permanent rate increase, Centel also petitioned for an interim increase in rates pursuant to Section 364.055 (the interim statute). The interim statute requires that we authorize an interim increase sufficient to allow the Company to earn the minimum of the range of the rate of return calculated in accordance with subparagraph (5)(b)2. That section of the statute contemplates that interim revenues will equal the difference between the required rate of return and the Company's achieved rate of return for the most recent 12-month period. Based upon our review of the Company's average achieved rate of return for 1989 as discussed below, we believe it is appropriate, on an interim basis, to increase Centel's revenues. In so doing, we have made a number of adjustments to the Company's interim filing as set forth below.

Rate Base

As shown in Schedule No. 1, the appropriate amount of intrastate rate base for interim purposes is $205,806,315, a decrease of $4,996,541 from the Company's filing. This reduction results from two adjustments.

Centel used estimated 1990 jurisdictional separations factors in its interim filing. However, the Company is requesting interim relief based on the average rate of return for 1989. There is simply no authority in the interim statute for using out-of-period separations factors for interim purposes. Accordingly, we have recalculated the intrastate rate base using Centel's 1989 separations factors as reflected in the Company's 1989 Cost Separation Study submitted on June 14, 1990.

In addition, Centel has included unearned revenue of $2,308,126 in that portion of its working capital subject to an interstate factor of .269069 (MFR Schedule WPG-2A-6, Vol. 6). We believe this deferred liability can be directly identified with the intrastate operation because it is primarily related to billing of local service in advance. The effect of this adjustment to the Company's working capital allowance is to decrease the intrastate rate base.

Capital Structure

The Company's capital structure for interim purposes is reflected in Schedule No. 2. The return on equity for interim purposes has been determined to be 11.75%, while the overall rate of return for interim purposes has been determined to be 8.15%.

Centel's last full rate case was in 1976. However, by Order No. 17783, issued June 30, 1987, we accepted as clarified a Stipulation entered into on June 8, 1987, by OPC and Centel for settlement of Centel's 1986, 1987, and 1988 earnings and cost of equity. Paragraph 7 of the Stipulation provides that: "In the spirit of compromise, the parties agree for review of earnings and for all future purposes the Commission shall establish the Company's rate of return on equity within a range of 11.75 to 13.75 percent, with a midpoint of 12.75 percent." As clarified at the June 23, 1987, Agenda Conference where the Stipulation was approved, this rate of return is intended to serve as the rate of return on equity that is prescribed by the Commission after a rate case and is to remain in effect until changed by further order of the Commission. See Transcript, June 23, 1987, Agenda Conference at pages 71-75. Accordingly, 11.75% return on equity is the appropriate rate for interim purposes.

In its Answer to Centel's Petition, OPC proposed two adjustments to the Company's filing. First, OPC proposed an adjustment to the investor-supplied sources of capital to reflect the relative equity capitalization which resulted from the 1987 Stipulation. However, the portion of the Stipulation that called for a 55% equity ratio adjustment was entered into for a limited purpose and for a limited duration. That portion of the Stipulation has expired and the adjustment is no longer being made. Therefore, we shall not make such an adjustment for interim purposes.

The second adjustment proposed by OPC is one made over all sources of capital to allocate all customer deposits to intrastate operations. Because this specific adjustment was not made in the last rate proceeding, we do not believe it is appropriate for interim purposes. However, we do believe that both issues raised by OPC are important issues which need to be explored in the full rate case.

Net Operating Income

We have made a number of adjustments to Centel's filing, the overall effect of which is to increase the amount of net operating income (NOI) available for interim purposes. Our calculation of NOI, along with our adjustments, is set forth in Schedule No. 3.

Our recalculation of rate base utilizing 1989 separations factors calls for an adjustment to both operating expense and depreciation. The change in separations factors also results in an adjustment in the amount of other taxes, as well as in the amount of income taxes.

We have made three additional adjustments to operating expense. First, we have removed an out-of-period digital central office expense, thereby reducing intrastate operating expense by $122,000. Second, we have reduced operating expense by $313,289 to reflect removal of the intrastate portion of a 1989 pension expense relative to the so-called "7 share stock award" because there is no evidence that this is a continuing expense. Third, we have made an adjustment of $313,454 to remove the increase in corporate salary expense not removed by the Company's own adjustment to this item (Centel's NOI Adjustment No. 21). In 1989, Centel Corporation's stock price increased 97%, due in part to a take-over attempt made on the company. The increase in stock price has caused an excessive level of increase in corporate salary expense, mainly through stock appreciation rights and incentive deferred compensation payments. Centel itself removed all of this expense in excess of 10%. We believe the remainder of this expense should also be removed. This is consistent with our decision in Order No. 22352, issued December 29, 1989, where we stated that this type of expense is an estimate of a future liability based on the current market price of the stock and may rise or fall in future periods. There is no evidence that this is a continuing expense; therefore, it is inappropriate to include it for interim purposes.

Our final adjustment is a reduction of $112,769 to the amount of intrastate income tax expense. Centel paid only $8,000,000 in dividends in 1989 and none in 1988. On the other hand, the Company reduced its common stock balance by $15,000,000 in 1988 and 1989 by returning capital to the parent company. This reduction in capital stock causes an increase in revenue requirements because of the tax effect of the parent debt adjustment. At this time, there is no valid explanation as to why the capital was returned to the parent in lieu of dividend payments. Accordingly, we shall restore $12,633,332 into the capital stock account, based on a 12-month average of capital stock. This results in an increase in the amount of parent company interest used in the parent company debt adjustment and a reduction to the intrastate income tax expense.

In its Answer to Centel's Petition, OPC raised an issue regarding the treatment of property tax on embedded inside wire assets. OPC states that the asset is recorded above-the-line, but it is considered nonregulated and generates nonregulated revenues. It is OPC's position that any additional property tax generated by the asset should be allocated as nonregulated. While it is true that the embedded inside wire and its associated amortization account are recorded above-the-line, this asset account has been fully amortized since December 31, 1984; therefore, the net plant balance of inside wire is zero. In assessing the value of assets for property tax purposes, it is a general practice to consider the net plant balance of the assets. Since the net balance of inside wire is zero, we do not believe there is any additional property tax expense generated from the inside wire; therefore, no additional adjustment to other taxes is warranted on this issue.

<u>Revenue Requirement</u>

As shown in Schedule No. 4, the appropriate expansion factor to be used to calculate the interim revenue requirement is 1.643351. The difference between the Company's factor and the one we have computed is due to two errors made by the Company in its filing. First, the correct amount of regulatory assessment fee is 1/8 of 1% or .125%; the Company used .13% in its calculation. Second, Centel has included franchise fees in its calculation. Franchise fees are an add-on tax to the local rates on customer bills and should not be included in this calculation.

Centel's request for interim relief is based on the 1989 average rate base using an 11.75% return on equity. Based upon the adjustments discussed in the above sections, including an overall rate of return of 8.15%, we have calculated an interim revenue deficiency of $1,142,672 as set forth in Schedule No. 5.

Interim Rates

In order to allow Centel the opportunity to generate additional annual revenues of $1,142,672, the Company shall be authorized to increase its rates for basic local service for interim purposes. Centel shall apply the increase uniformly across the board to Section 3, Basic Local Exchange Service rates. This results in a maximum rate of $6.32 for R-1 service in the highest rate group, an increase of approximately 5.26%. Revised tariff pages shall be submitted by the Company no later than August 6, 1990, reflecting the changes. The interim rates shall be effective to all billings on or after September 16, 1990. Centel shall submit and receive approval of a customer notice to accompany the initial billing of the interim increase.

As part of its interim increase, we shall allow Centel to retain a total of $107,172 of unrefunded money from Docket No. 881370-TL and Docket No. 891182-TL. By Order No. 21823 in Docket No. 881370-TL, Centel was directed to refund $7,351,825, as a preliminary refund of 1987 overearnings, to customers of record as of June, 1988. By Order No. 22395 in Docket No. 881370-TL and Docket No. 891182-TL, Centel was directed to refund $2,721,491, as a final refund of 1987 and 1988 overearnings, to customers of record as of January, 1990. The Company has filed refund reports pursuant to Rule 25-4.114, Florida Administrative Code. The latest report was filed on July 23, 1990, and shows that a total of $107,172 remains unclaimed from these two dockets. We find it reasonable and appropriate to allow Centel to retain these funds, thereby delaying implementation of the increase in customer rates by 34 days. Without the retention of these funds, the customer increase would have gone into effect on August 12, 1990. This action will dispose of the unclaimed balances of these two refunds without the necessity of a further refund or credit on customer bills.

The interim rates we have approved are subject to refund with interest, in accordance with Rule 25-4.114. The revised tariff sheets will be approved upon our staff's verification that the tariffs are consistent with this Order, that the proposed customer notification is adequate, and that the required security, as set forth below has been provided.

Pursuant to Section 364.055, the excess of the interim rates over the previously authorized rates shall be collected under guarantee, subject to refund with interest. To guarantee a potential refund, Centel shall provide a corporate undertaking in the appropriate amount, pursuant to Rule 25-4.114.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the permanent rate schedules proposed by Central Telephone Company of Florida are hereby suspended, pursuant to Section 364.05(4), Florida Statutes. It is further

ORDERED that the request by Central Telephone Company of Florida for an interim rate increase is hereby granted to the extent set forth in the body of this Order. It is further

ORDERED that the increase over the last authorized rates shall be collected subject to refund with interest pursuant to Rule 25-4.114, Florida Administrative Code. It is further

ORDERED that the interim rates approved herein shall be effective for billings on or after September 16, 1990, as set forth herein. It is further

ORDERED that Central Telephone Company of Florida shall file a notice of corporate undertaking that complies with the requirements set forth in the body of this Order. It is further

ORDERED that Central Telephone Company of Florida shall provide notice to each customer of the rates approved herein, in accordance with the conditions set forth herein. It is further

ORDERED that Central Telephone Company of Florida shall retain a total of $107,172 of unrefunded money from Docket No. 881370-TL and Docket No. 891182-TL for the reasons and purposes set forth herein. It is further

ORDERED that Docket No. 881370-TL and Docket No. 891182-TL are hereby closed. It is further

ORDERED that Docket No. 891246-TL shall remain open.

By ORDER of the Florida Public Service Commission, this 10th day of SEPTEMBER, 1990.

Steve Tribble

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.

Any party adversely affected by this order, which is preliminary, procedural or intermediate in nature, may request: 1) reconsideration within 10 days pursuant to Rule 25-22.038(2), Florida Administrative Code, if issued by a Prehearing Officer; 2) reconsideration within 15 days pursuant to Rule 25-22.060, Florida Administrative Code, if issued by the Commission; or 3) judicial review by the Florida Supreme Court, in the case of an electric, gas or telephone utility, or the First District Court of Appeal, in the case of a water or sewer utility. A motion for reconsideration shall be filed with the Director, Division of Records and Reporting, in the form prescribed by Rule 25-22.060, Florida Administrative Code. Judicial review of a preliminary, procedural or intermediate ruling or order is available if review of the final action will not provide an adequate remedy. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.

COMPARATIVE RATE BASE SCHEDULE

	TOTAL COMPANY PER BOOK	*COMPANY INTRASTATE PER BOOK*	*COMPANY ADJUSTMENT*	*COMPANY INTRASTATE ADJUSTED*	*COMMISSION ADJUSTMENT*	*COMMISSION INTRASTATE ADJUSTED*
Plant in Service	$445,629,084	$326,108,061	($336,457)	$325,771,604	(6,596,507)	319,175,097
Accumulated Depreciation	(162,613,268)	(119,245,610)	61,432	(119,184,178)	2,301,606	(116,882,572)
Net Plant	283,015,816	206,862,451	(275,025)	206,587,426	(4,294,901)	202,292,525
Plant Under Construction	3,985,373	2,915,711	0	2,915,711	(61,142)	2,854,569
Working Capital	(8,664,102)	(6,426,230)	7,725,949	1,299,719	7,305	1,307,024
					(647,803)	
Rate Base	$278,337,087	$203,351,932	$7,450,924	$210,802,856	($4,996,541)	$205,806,315

AVERAGE CAPITAL STRUCTURE

CAPITAL COMPONENTS	*TOTAL COMPANY PER BOOK*	*COMPANY SPECIFIC ADJUST*	*COMPANY PRO-RATA ADJUST*	*COMPANY INTERSTATE ADJUST*	*CO. ADJUSTED INTRASTATE CAPITAL*	*COMM. PRO-RATA ADJUST*	*COMMISSION ADJ. INTRA CAPITAL*	*% OF TOTAL*	*COST RATE*	*WTD COST*
Long-Term Debt	$71,470,834	($1,531,676)	($52,144)	($18,542,293)	$51,344,721	($1,216,995)	$50,127,726	24.36%	8.80%	2.14%
Short-Term Debt	6,171,446	(862,595)	(3,958)	(3,469,460)	1,835,433	(43,504)	1,791,929	0.87%	8.85%	0.08%
Accrued Overearning	0	7,771,709	0	0	7,771,709	(184,208)	7,587,501	3.69%	8.85%	0.33%
Customer Deposits	1,396,017	0	(1,041)	(370,113)	1,024,863	(24,292)	1,000,571	0.49%	7.64%	0.04%
Common Equity	136,443,905	(7,627,013)	(96,041)	(34,151,977)	94,568,874	(2,241,513)	92,327,361	44.86%	11.75%	5.27%
ITC	7,925,038	65,300	(5,957)	(2,142,984)	5,841,397	(138,455)	5,702,942	2.77%	10.60%	0.29%
Deferred Taxes	60,471,432	4,522,734	(48,457)	(16,529,852)	48,415,857	(1,147,574)	47,268,283	22.97%	0.00%	0.00%
Total Capital	**$283,878,672**	**$2,338,459**	**($207,598)**	**($75,206,679)**	**$210,802,854**	**($4,996,541)**	**$205,806,313**	**100.00%**		**8.1488%**

Cost Rate for Investment Tax Credits (ITC):

Capital Component	Staff Adjusted Intrastate	% of Total	Cost Rate	Wtd Cost
Equity	$92,327,361	60.81%	11.75%	7.14%
LT Debt	50,127,726	33.01%	8.80%	2.91%
ST Debt	9,379,429	6.18%	8.85%	0.55%
Total	$151,834,517	100.00%		10.60%

COMPARATIVE NOI SCHEDULE

	TOTAL COMPANY PER BOOK	COMPANY INTRASTATE PER BOOK	COMPANY ADJUST	COMPANY INTRASTATE ADJUSTED	COMMISSION ADJUST	COMMISSION INTRASTATE ADJUSTED
Operating Revenue	$138,508,869	$99,664,563	($358,901)	$99,305,662	$0	$99,305,662
Operating Expense	80,366,987	60,796,025	(1,986,035)	58,809,990	(609,276)	
					(122,000)	
					(313,289)	
					(313,454)	57,451,971
Depreciation	26,536,849	19,527,246	(66,913)	19,460,333	(365,405)	19,094,928
Other Taxes	5,742,445	4,453,634	0	4,453,634	(57,847)	4,395,787
Income Taxes	2,787,086	(1,782,417)	94,227	(1,688,190)	670,292	
					(112,769)	
					48,581	(1,082,086)
Deferred Inc Taxes - Net	2,741,900	4,382,684	0	4,382,684		4,382,684
ITC	(50,000)	(35,980)	0	(35,980)		(35,980)
Amortization of ITC	(1,361,200)	(979,526)	0	(979,526)		(979,526)
Total Op. Expense & Taxes	116,764,067	86,361,666	(1,958,721)	84,402,945	(1,175,167)	83,227,778
Net Operating Income	$21,744,802	$13,302,897	$1,599,820	$14,902,717	$1,175,167	$16,077,884
Achieved Rate of Return	7.81%	6.54%		7.07%		7.81%

SCHEDULE NO. 4

REVENUE EXPANSION MULTIPLIER

	COMPANY	COMMISSION
Gross Revenue	100.00%	100.00%
Uncollectible	0.81%	0.81%
Net of Uncollectible	99.19%	99.19%
Regulatory Assessment Fee	0.130%	0.125%
Gross Receipts Tax	1.500%	1.500%
Franchise Fees	1.360%	0.000%
Net of Other Taxes	96.200%	97.565%
State Income Tax (Line 7 X 5.5%)	5.291%	5.366%
Net of State Income Tax	90.909%	92.199%
Federal Income Tax (Line 9 X 34%)	30.909%	31.348%
Net of taxes	60.000%	60.851%
REVENUE EXPANSION MULTIPLIER	1.666611 *	1.643351

Note * Our recalculation of the Company's number is 1.666668.
The difference is due to the rounding error.

REVENUE DEFICIENCY CALCULATION

	COMPANY	COMMISSION
Rate Base	$210,802,856	$205,806,315
Net Operating Income	$14,902,717	$16,077,884
Earned Rate of Return	7.07%	7.81%
Last Authorized Rate of Return	8.15%	8.15%
Required Operating Income	$17,176,115	$16,773,215
Operating Income Deficiency	$2,273,398	$695,331
Revenue Expansion Multiplier	1.666611	1.643351
Revenue Deficiency	$3,788,870	$1,142,672
Attrition Allowance	$0	$0
Total Revenue Requirement for Interim	**$3,788,870**	**$1,142,672**