

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Investigation into the 1990) DOCKET NO. 910461-TL
 earnings of QUINCY TELEPHONE COMPANY.) ORDER NO. 25499
 _____) ISSUED: 12/17/91

The following Commissioners participated in the disposition of this matter:

THOMAS M. BEARD, Chairman
 SUSAN F. CLARK
 J. TERRY DEASON
 BETTY EASLEY
 MICHAEL MCK. WILSON

NOTICE OF PROPOSED AGENCY ACTION
ORDER FINALLY SETTling QUINCY TELEPHONE
COMPANY'S 1990 EARNINGS AND LOWERING
CERTAIN RATES PROSPECTIVELY

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 adversely affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

I. Background

By Order No. 22367, issued January 3, 1990, we ordered Quincy Telephone Company (Quincy or the Company) to implement county wide extended area service (EAS) in Gadsden County, and a \$.25 per message rate for calls to Tallahassee. In that Order, we also reduced local residential rates from \$11.34 to \$9.50 per month and established a deferred credit which is being reversed and used as local revenues during 1991, 1992, 1993 and 1994. These actions were designed to meet Quincy's needs for EAS to Tallahassee and to target Quincy's 1991 earnings at its authorized return on equity (ROE) midpoint of 12.9% by reducing revenues approximately \$1,054,000 annually. Each of these actions has been implemented and we have closely monitored the impacts on Quincy's earnings. In the fall of 1990, we became aware of an unexpected increase in Quincy's Universal Service Fund revenue for 1991 and ordered a further reduction of approximately \$90,000 annually in local residential and business rates by Order No. 24011, issued January 22, 1991.

Quincy filed its preliminary 1990 surveillance report in March 1991. Based on our initial review of the surveillance report, Quincy's earnings above its authorized maximum ROE of 13.9% for 1990 were estimated to be \$172,821. This amount, plus interest of

DOCUMENT NUMBER-DATE

12417 DEC 17 1991

FPSC-RECORDS/REPORTING

ORDER NO. 25499
DOCKET NO. 910461-TL
PAGE 2

\$7,146, was booked to an unclassified depreciation account as prescribed by Order No. 24940.

On July 10, 1991, Quincy filed a proposal to address its 1990 and 1991 estimated overearnings, its depreciation needs and the need for ongoing rate reductions. The overall effect of Quincy's proposal was to retarget its earnings at its authorized ROE midpoint. We accepted the Company's proposal by Order No. 24940. Because we acknowledged that the reductions might result in additional stimulation, we have closely monitored the results of these reductions.

II. Current 1990 Excess Earnings

A. Adjustments Based on Audit Findings

Our staff's audit of Quincy was completed on August 23, 1991, and the report was submitted on September 16, 1991. On September 17, 1991, Quincy filed a revised surveillance report, updated with the 1990 actual cost study allocation factors and additional revenue adjustments which relate to 1990, but were not booked until 1991. On September 18, 1991, Quincy replied to the findings of our staff's audit.

Based on the Company's revised surveillance report and the findings of our audit, Quincy's ROE for 1990 is 17.93% and the Company has received revenue in excess of its maximum allowed ROE of \$221,240. \$50,420, \$48,419 of excess earnings and \$2,001 in interest, the amount remaining after booking the \$179,967 in estimated excess earnings with interest to depreciation, shall be placed in the unclassified depreciation account as a final settlement of Quincy's 1990 earnings, as we previously ordered by Order No. 24940. The rate base effect of this additional depreciation is to decrease revenue requirements by \$6,504.

In addition to those adjustments included by Quincy in its revised surveillance report, we find five additional adjustments to the Company's 1990 net operating income (NOI) derived from the audit findings to be appropriate. These adjustments increase the Company's NOI by \$8,014.

The first adjustment involves an allocation of \$1,777 to Quincy from Telephone Data Systems (TDS), its parent company, consisting of travel expenses of family members of TDS employees attending national conventions. The Utility contends that attendance at these conventions by family members of high level TDS employees is required and such attendance enhances the leaders'

ORDER NO. 25499
DOCKET NO. 910461-TL
PAGE 3

effectiveness at these functions. We find this type of expense to be of marginal value to the ratepayers of Florida and, therefore, we hereby disallow these allocations as operating expense for ratemaking purposes, which results in an increase in NOI of \$1,108.

The second adjustment involves the misallocation of cellular operations' costs to Quincy. The Utility agrees with the audit finding that these costs are not related to regulated operations and should not be a part of operating expense. The Utility shall take steps to ensure that these costs are not allocated to Quincy in the future. We find it appropriate to remove these costs in the amount of \$116 from operating expense, increasing NOI by \$72.

The third adjustment involves the costs of acquiring additional businesses for TDS. The costs allocated to Quincy's Florida operations are \$10,028, which represents an NOI impact of \$6,254. These costs were identified in Quincy's 1986 earnings investigation, Docket No. 870453-TL. The Commission found that Quincy had not demonstrated that these allocations are utility related and provide benefit to Quincy. We did not approve these allocations in the Company's 1986 investigation and we find no further justification of these costs in this proceeding. Therefore, we find that the business acquisition costs allocated to Quincy by TDS are inappropriate and they are hereby disallowed.

The fourth adjustment is a correction of Florida/Georgia allocations by Quincy which includes Florida costs allocated to Georgia as well as Georgia costs allocated to Florida. The Utility agrees with the audit finding and is implementing measures to identify specific costs which are generated by Florida or Georgia operations and charge them directly to the appropriate operation rather than allocating them. The net effect of the misallocations is a reduction of Florida expense of \$728, which is an increase of Florida NOI by \$454. Therefore, we find it appropriate to disallow these misallocations.

The fifth adjustment removes the charges for late payment of power bills. Quincy agrees with this audit finding and has implemented measures to prevent these charges from occurring in the future. We find it appropriate to eliminate these charges from NOI as non-utility related. This increases the Company's Florida NOI by \$126.

B. Gross Receipts Tax

Section 203.10, Florida Statutes, provides that utilities may separately state all the GRT on their customers' bills. We believe it appropriate for Quincy to state the entire GRT as a separate

ORDER NO. 25499
DOCKET NO. 910461-TL
PAGE 4

amount on the customer bills. Quincy has requested authorization to bill the GRT as a separate line item on the customers' bills. Rule 25-4.110(8), Florida Administrative Code, requires that when a company elects to add the GRT onto the customer's bill as a separately stated component, the company must first remove from the tariffed rates any embedded provisions for the GRT. 1.5% of the GRT is embedded in numerous rates and it is impractical to remove the embedded amount from each of these rates. Therefore, we find it appropriate for the Company to bill the entire amount of GRT as a separate amount on customer bills. This will result in additional revenue of \$34,608 annually which will be offset by the rate reductions set forth herein.

C. Summary of 1990 Excess Earnings to be Disposed

Order No. 24940 approved the Company's proposal to reduce revenues and targeted the reductions to the midpoint ROE. We have identified additional revenue over this targeted amount which will impact Quincy's future earnings. The final settlement of Quincy's 1990 earnings results in additional excess earnings of \$48,419. The rate base effect of this amount being placed in an unclassified depreciation account is to reduce revenue requirements by \$6,504. Also, separate billing of the GRT produces additional revenue of \$34,608. The Universal Service Fund amount that Quincy received in 1991 was \$207,417. This amount will increase to \$224,298 in 1992 which will provide additional revenues of \$16,881. These items will produce additional earnings in excess of Quincy's midpoint ROE of \$106,412 for 1992.

III. Rate Reductions Finally Disposing of 1990 Excess Earnings

Rule 25-4.110(7)(b), Florida Administrative Code, provides that, if a company elects to separately state the gross receipts tax on customers' bills, it shall reduce the rates by an equal amount to ensure that the customers' bills are unaffected. We do not believe that, practically, this rule requires the unbundling of the GRT from each rate by 1.5%. We believe that the intent of this rule is that no company benefits, at its customers' expense, from the unbundling of the GRT from rates and that, generally, customers are held harmless. Generally, if a company was proposing only to unbundle gross receipts tax, we would find it appropriate to reduce the basic local exchange rates, R-1, B-1, PBX, etc. to use up all of the gross receipts tax dollars, retaining the existing relationship among the classes of service.

However, Quincy is 100% digital and, therefore, incurs no additional cost to provide Touchtone service. The Company's

ORDER NO. 25499
DOCKET NO. 910461-TL
PAGE 5

current Touchtone rates are \$1.00 for residential and business customers. Approximately 76% of the residential and business customers have Touchtone service. The elimination of the Touchtone rate would provide most residential and business customers with a net \$1.00 reduction in their normal monthly recurring charges. In addition, other customers who previously did not have Touchtone will have it. Therefore, we find it appropriate to eliminate the Company's Touchtone charges. The elimination of Touchtone rates results in a \$83,172 reduction in revenues annually. The Company shall advise customers of the rate reductions and of the availability of Touchtone at no additional charge through a bill stuffer within 30 days of the effective date of this order.

The elimination of Touchtone charges leaves \$24,384 for further disposition. We find it appropriate to use this \$24,384 balance of excess revenues to reduce local rates across all classes of service. These reductions represent \$.15 off of R-1, to \$9.10, \$.40 off of B-1, to \$25.10, and \$.85 off of PBX trunks, to \$50.15. Since 76% of Quincy's customers have Touchtone, the elimination of Touchtone rates gives 76% of basic local exchange customers a substantial reduction in their rates. We believe these rate reductions totalling \$107,556 reflect an appropriate disposition of the Company's remaining excess revenues. Appropriate tariff revisions reflecting the elimination of the Touchtone charge and reducing the monthly residential and business rates shall be filed no later than December 26, 1991, to become effective January 1, 1992.

IV. Denial of OPC's Petition

On August 2, 1991, the Office of Public Counsel (OPC) filed a petition to reduce rates and refund money which called for a reduction to \$.10 for each call in excess of five to Tallahassee, a reduction in local rates of \$.25 and refunding all excess 1990 earnings to the customers. By Order No. 24940, we accepted Quincy's proposal to reduce rates and book any additional excess earnings for 1990 to the unclassified depreciation reserve account. This Commission's acceptance of Quincy's proposed rate reductions addressed the disposition element in OPC's petition, leaving only the amount in dispute. The amount of future excess earnings subject to disposal used by OPC was based on the average 1990 rate base. However, the Company's December, 1990 surveillance report reflects that Quincy's rate base had increased by \$377,000 as of December of 1990. This is an increase of 4%, which OPC used to show growth in NOI. If the rate base used by OPC to estimate future overearnings was grown by the same 4% that OPC grew NOI, the amount of future overearnings would be approximately the same as

ORDER NO. 25499
DOCKET NO. 910461-TL
PAGE 6

Quincy used to develop their proposed rate reductions leaving only the disposition at issue. Since this Commission has already disposed of the estimated future overearnings by Order No. 24940, we find all issues to be resolved and, therefore, deny the OPC's petition.

Based on the foregoing, it is, therefore,

ORDERED by the Florida Public Service Commission that Quincy Telephone Company's excess 1990 earnings shall be disposed of as set forth herein. It is further

ORDERED that Quincy Telephone Company is hereby authorized to separately state the amount of Florida Gross Receipts Tax on its customers' bills. It is further

ORDERED that Quincy Telephone Company shall reduce its R-1, B-1 and PBX rates as set forth herein. It is further

ORDERED that Quincy Telephone Company shall eliminate its Touchtone charges as set forth herein. It is further

ORDERED that Quincy Telephone Company shall notify its customers of the rate changes ordered herein within 30 days of the effective date of this Order. It is further

ORDERED that Quincy Telephone Company shall file tariffs reflecting the decisions herein by December 26, 1991, and to be effective January 1, 1992. It is further

ORDERED that Public Counsel's Petition to Reduce Rates and Refund Money is hereby denied.

By ORDER of the Florida Public Service Commission, this 17th
day of DECEMBER, 1991.



STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

SFS

ORDER NO. 25499
DOCKET NO. 910461-TL
PAGE 7

Commissioners Beard and Wilson dissented on the issue of the appropriate disposition of the excess earnings resulting from the rate base effect of the \$48,419 amount of 1990 excess earnings being placed in an unclassified depreciation account.

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
1/7/92.

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.

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 wastewater 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

ORDER NO. 25499
DOCKET NO. 910461-TL
PAGE 8

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.