BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for a rate increase by UNITED TELEPHONE COMPANY OF FLORIDA	DOCKET NO. 910980-TL
In re: Petition by Bonita Springs residents for extended area service between Bonita Springs and the Fort Myers and Naples exchange	DOCKET NO. 910027-TL
In re: Request by Pasco County Board of County Commissioners for extended area service between all Pasco County exchanges	DOCKET NO 910529-TL ORDER NO. PSC-92-0708-FOF-TL ISSUED: 07/24/92

The following Commissioners participated in the disposition of this matter:

THOMAS M. BEARD, Chairman
SUSAN F. CLARK
J. TERRY DEASON
BETTY EASLEY
LUIS J. LAUREDO

APPEARANCES:

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On behalf of Florida Ad Hoc Telecommunications Users Committee.

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On behalf of the Commission Staff.

TABLE OF CONTENTS

FINAL ORDER REDUCING REVENUE REQUIREMENT OF
UNITED TELEPHONE COMPANY OF FLORIDA
AND
NOTICE OF PROPOSED AGENCY ACTION
ORDER IMPLEMENTING $.25 PLAN ON INTERCOMPANY ROUTES
AND
ORDER ADJUSTING BILLING UNITS DUE TO IMPLEMENTATION OF
BONITA SPRINGS EXTENDED AREA SERVICE

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that a portion of the action discussed in Sections VII-A.1, XI-A.2, and XI-D of this Order are 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. SUMMARY OF DECISION

On November 15, 1991, United Telephone Company of Florida (United, UTF, or the Company) filed Minimum Filing Requirements (MFRs) with this Commission pursuant to Sections 364.05 and 364.055, Florida Statutes. United's MFRs were in support of proposed rate changes designed to generate increased annual revenues of approximately $55,104,000. The Company's filing is based on a projected test year of July 1, 1992 to June 30, 1993.

We have found, based on the record in this proceeding, that United is not entitled to an increase in revenues; instead, we find that a revenue decrease of $1,065,000 for the test year is appropriate. In making this determination, we conclude that a fair rate of return on equity (ROE) for United is 12.5%, plus or minus 100 basis points, for a range of 11.5% to 13.5%. We have also found that the appropriate equity ratio is 57.5%. Based on the ROE, the equity ratio, and all other adjustments, the Company's overall rate of return is 9.48%.

II. BACKGROUND

On September 19, 1991, United requested Commission approval of its proposed test year beginning July 1, 1992, and ending June 30, 1993, for purposes of filing a rate case. Upon review, on September 25, 1991, the Chairman sent United a letter initially accepting the requested test year. Simultaneously, on September 25, 1991, the Office of Public Counsel (OPC) filed a Motion to Review Test Year Request by the Full Commission and to Conduct a Hearing Under Section 120.57(1), Florida Statutes. United subsequently filed, on October 4, 1991, a Motion to Dismiss and Answer of United Telephone Company of Florida. By Order No. 25484, issued December 17, 1991, the Commission initially approved United's test year, denied OPC's request for a Section 120.57, Florida Statutes, hearing, and ordered that additional Minimum Filing Requirements (MFR) schedules be filed for the calendar years 1993 and 1994.

The intervention of the Office of Public Counsel (OPC) in this docket was acknowledged by Order No. 25143, issued September 30, 1991. In addition, intervention was sought by and granted to the Florida Pay Telephone Association, Inc., AT&T Communications of the Southern States, Inc., the Florida Cable Television Association, and the Florida Ad Hoc Telecommunications User's Committee.

On November 15, 1991, the Company filed its MFRs in this rate case. On November 20, 1991, the OPC filed a Motion to Dismiss United's rate case filing on the basis that United did not comply with the provisions of Rule 25-4.141, Florida Administrative Code. On November 27, 1991, United filed its Response to OPC's Motion to Dismiss asserting that it had complied with Rule 25-4.141, Florida Administrative Code. Additionally, on November 26, 1991, OPC filed an Objection to CASR and Motion to Reschedule requesting that the Commission reschedule the hearing in this docket to a later date. United filed its response on December 4, 1991. Finally, on December 9, 1991, United filed a Motion to Consolidate Dockets, requesting that this docket be consolidated with Docket No. 910725-TL, United's depreciation represcription. By Order No. PSC-92-0134-FOF-TL, the Commission denied the Motion to Dismiss and Motion to Reschedule. Additionally, by Order No. 25530, issued December 24, 1991, the Commission suspended the tariffs filed by United as part of its MFR requirements.

We held customer hearings on this matter in Fort Myers on March 11, 1992, and in Altamonte Springs on March 16, 1992. An informal prehearing conference was held on March 20, 1992. At the final Prehearing Conference on April 6, 1992, the procedures to govern the evidentiary hearing were established. These procedures are detailed in Order No. PSC-92-0181-PCO-TL, issued April 10, 1992.

We held a public hearing at which we heard testimony and received evidence from the parties on April 15, 16 and 20, 1992, in Tallahassee. Witnesses were sponsored by the Company, OPC, and our Staff, and were available for cross-examination by the parties. Our decisions that follow are based upon the substantial record compiled in this proceeding.

III. STIPULATIONS

The Company and OPC, with the support of our Staff and without objection from any other party agreed that the cost of short term debt for the test year is 7.08%.

All parties agreed that Issues 21p, 22a, 22c, 22j are dropped. Those issues are:

21p. How should the Commission treat credit card referral revenues and expenses?

22a. Should an adjustment be made to the budgeted levels of Sprint/United Management Company (S/UMC) costs?

22c. Should an adjustment be made for certain incentive compensation costs of S/UMC?

22j. Should an adjustment be made to test year return on investment costs allocated from SUIS?

IV. TEST YEAR

By letter dated September 19, 1991, United requested approval of the twelve months of July 1, 1992 through June 30, 1992, as a test year for purposes of filing this rate proceeding. On September 25, 1991, we granted approval of the requested test year.

Rule 25-4.140 requires that United provide a designation of the test period and justification for that period. United's justification for the test period is that it is designed to recognize substantial cost changes that will occur during the second half of 1992. Those changes include new depreciation rates which will take effect on July 1, 1992, jurisdictional cost shifts from interstate to intrastate, and the accrual of costs associated with employee retirement benefits.

OPC objected to United's proposed test year because the forecast used by United for the test year was prepared 8 months before the beginning of the test year. The test year spans a period from 8 to 20 months after the forecast. OPC states that the Company regularly overprojects operating expense by large amounts: $15.6 million in 1989; $8.6 million in 1990; and $26.6 million in 1991. OPC believes that the projections are unreliable, and that the Company should bear the risk of them, not the ratepayers.

We believe that the purpose of the test year is to represent the financial operations of a company during the first year in which the new rates would be in effect. Based on the filing date of United's request for a rate increase and the date of our decision in June, 1992, the first year that the new rates would be in effect is approximately from July 1, 1992 to June 30, 1993. We have made adjustments to United's forecast within the context of this rate case. We believe that with the inclusion of these adjustments, United's forecast of financial operations is accurate enough to use as a basis for setting rates. Therefore, we find that the test year requested by the Company is appropriate.

V. QUALITY OF SERVICE

Section 364.035, Florida Statutes, requires that this Commission, when fixing rates, consider the efficiency, sufficiency, and adequacy of the facilities provided and the services rendered by the utility. In this proceeding we have fulfilled this statutory requirement through an extensive service evaluation. A service evaluation involves making thousands of test calls and checking hundreds of records over an extended period of time. Witness McDonald testified, based on the results achieved, that the overall service quality provided by United is satisfactory.

For this rate case, our Staff performed an evaluation in January 1992 that included reviewing those areas for which United was deficient in the 1990 evaluation. The results of that evaluation reflected that all categories showed improvement except for out-of-service restorals within the same day. Although that category decreased slightly, from 79.7% to 78.2%, United is still very close to its objective of 80%.

Additional data indicates that since 1987 United's complaints have decreased 4% while the complaint activity against the LECs as a whole has increased 7%. Further, the number of justified complaints United received per 1000 access lines has been the lowest of the four major LECs from 1987 through 1991. In 1991 United had approximately 14% of the total access lines in Florida but only 8% of the total number of complaints. Based on all data presented in this docket, we find that the quality of service United provides is adequate.

During the proceeding we explored the issue of requiring United to provide distance intercept recordings for vacation disconnect, non-pay disconnects, and regular disconnects. Upon review, we find that United is in compliance with Rule 25-4.074, which sets the guidelines for intercept recordings. The appropriate forum for addressing changes to the present requirements is a rulemaking proceeding. We do not believe that such a proceeding is warranted at this time.

We also addressed the issue of requiring United to provide a separate and distinct service order audit trail to distinguish appointments for regulated work, when the order contains both regulated and nonregulated work. During the proceeding, we became aware that United implemented a procedure in January 1992, which complies with the guidelines for premises visits in Rule 25-4.0770. Since the Company has implemented an appropriate procedure, we need not order it to do so.

VI. RATE BASE

The Company's rate base is the investment upon which the Company is entitled to earn a return. Once a test period is determined, the Company's investment and expenses for that period are analyzed in order to establish the investment upon which a rate of return will be permitted. The test year intrastate rate base represented by the MFR Schedules filed by United in this proceeding was $995,263,000. After our consideration of the issues presented, we have made certain adjustments to the rate base and have determined that the appropriate average rate base for United for the purposes of this proceeding is $1,008,534,000. The adjustments we have made are set forth below.

INTRASTATE RATE BASE

ACHIEVED INTRASTATE RATE BASE PER FILING		
Rate Base Per Books		
Plant in Service	$1,637,509,000	
Depreciation reserve	(665,720,000)	
Net Plant in Service	$ 971,789,000	
Plant Under Construction	12,078,000	
Property Held for Future Use	44,000	
Allowance for Working Capital	11,352,000	
Achieved Intrastate Rate Base Per Filing		$995,263,000
Commission Adjustments:		
Plant in Service	($3,307,000)	
New Depreciation Rates	17,100,000	
Plant Under Construction	(283,000)	
Allowance for Working Capital	(239,000)	
Total Commission Adjustment		$ 13,271,000
ADJUSTED INTRASTATE RATE BASE		**$1,008,534,000**

A. Test Year Plant in Service

United asserts that its intrastate plant in service for the test year is $1,637,509,000 as shown in its MFR filing. In reviewing the data provided in this docket through the depreciation study, we find that plant in service should be decreased by $1,655,000 intrastate. Additionally, we find that an adjustment should be made to decrease plant in service to reflect the preliminary amount of the 1992 volume purchase credit from Northern Telecom, Inc. (NTI). During the hearing it was revealed that the Company had received the preliminary amount of the credit to be received from NTI in late 1992 as a result of 1991 purchases. The amount is $272,500, with $201,000 as the intrastate portion. This amount will be applied to 1992 work orders and will reduce 1992 plant in service.

We have determined that United shall implement Statement of Financial Accounting Standard 106 (SFAS 106) on January 1, 1993. The incremental costs shall be deferred under SFAS 71 until July 1, 1993. Since the incremental costs of SFAS 106 will not be recognized during the test period all related rate base and capital structure effects should be removed. Thus, the additional Other Postretirement Benefits (OPEB) costs shall be deferred. This will result in an additional $1,451,000 decrease in plant in service.

OPC asserted that the Commission should make an adjustment of $5,427,460 to the test year plant in service to reflect its belief that United has made an uneconomic investment in fiber optic cable. However, OPC presented no information detailing what the amount includes. We do not believe that OPC has justified an adjustment in that amount.

The Company proposes to include $850,000 in the rate base for outside plant construction for a fiber-to-the-curb trial. OPC and our staff recommended that we remove half of the budgeted amount from the rate base, or $310,000 intrastate, as an uneconomic investment. Our staff was concerned that the Company had included the amount in the rate base without an indication of when or if the trial would begin, and believed that the shareholders, rather than the ratepayers only, should bear some of the risk associated with the trial. We believe that experiments and trials, although they may be uneconomic in the initial stages, are part of the cost of doing business. Therefore, we find that the $850,000 associated with the fiber-to-the-curb trial shall be included in the rate base. However, if the Company does not initiate the trial by July 1993, the BHMOC shall be lowered by $95,100. This will ensure that United will not recover the $850,000 unless the project has actually been initiated.

In summary, we approve adjustments to plant in service in the amount of $3,307,000. Thus the adjusted plant in service for the test year is $1,634,202.

B. <u>Depreciation Reserve</u>

The intrastate depreciation reserve as filed in the MFR schedules is $665,720,000, and the Company has proposed no additional adjustments. OPC has not proposed any adjustments to the reserve.

By Order No. PSC-92-0604-FOF-TL, issued July 6, 1992, in Docket No. 910725-TL, United's triennial depreciation represcription, we approved new depreciation rates and recovery schedules. Based on those rates and schedules the intrastate depreciation reserve as filed in the MFRs shall be decreased by $17,100,000 to $648,620,000.

As a result of the above adjustments, the net plant in service for the test year is $985,582,000.

C. Plant Under Construction

The Company asserts that its intrastate construction work in progress for the test year is $12,078,000 as shown in its MFR filing. The Company has not proposed any additional adjustments. OPC has not quantified a specific adjustment. We believe that it is appropriate to decrease Telephone Plant Under Construction (TPUC) by $283,000 intrastate for cancelled projects. Although we agree that projects cancelled for prudent reasons should continued to be allowed in operating expense, the above adjustment is necessary to prevent duplication of projects in TPUC that are also recognized in expense as cancelled. With this adjustment, intrastate plant under construction is $11,795,000.

D. Allowance for Working Capital

United asserts that the appropriate amount of intrastate working capital for the test year is $11,352,000. Neither the Company nor OPC proposed further adjustments. However, we believe that three additional adjustments are necessary.

1. Plug-in Units

United states that Alcatel has discontinued production of its 1210 switching equipment line along with the associated plug-in units, which is an interface device between the cable and the switch/remote terminal. The Company has been forced into the position of trying to support its future plug-in requirements and that the Alcatel equipment is only available by special order. United asserts that the current stock level is a result of cards being returned to inventory. We acknowledge the circumstances that have driven United to keep such a high inventory of plug-in units for the Alcatel product line.

But, we have an even greater concern with the balance of plug-in units that are not within the Alcatel product line, which amount to nearly 45% of the total 1991 inventory dollars and constitutes 72% of the total number of plug-in units. These are made up of mostly Northern Telecom and AT&T plug-in units, which are readily available from the vendors. The average lead time that the Company needs for ordering plug-in units ranges anywhere from 3 to 10 days, depending on the type of card required. The Company has stated that they reuse the Alcatel plug-in units; therefore, staff believes that these lead times for ordering are mainly associated with Northern Telecom and AT&T plug-in units.

United currently keeps a 770 day supply of plug-in units. We believe that amount is excessive. Given the complex mix of new and obsolete plug-in units and the lack of supporting information in the record, we will not be making an adjustment to this account based on the appropriate number of days supply to be kept in inventory. The Company's budgeted test year ending balance for this account is $10,440,000. The usage this account has experienced for 1990 and 1991 has been $5,398,825 and $4,412,957, respectively. We believe that Account 1220-132 COE Plug-in Card Inventory should be reduced by $4,440,000. This has been calculated using the Company projected test year balance of $10,440,000 and subtracting out a $6,000,000 usage component for the test year. We believe that this is a conservative adjustment given that United's usage has averaged approximately $4,900,000 for the past two years.

Accordingly, we are approving a reduction to total company working capital of $4,440,000, or $3,269,000 intrastate. We also direct the Company to record all activity for its Alcatel plug-in units in a separate subaccount under Material and Supply Primary account for future reference.

2. <u>Pension Expense</u>

An additional adjustment is necessary to account for the change in the salaries and wages increase assumption of 7.02% to 5.27%, for the purpose of calculating pension liability for the test year. We are reducing the test year expense by $651,896 intrastate. The other side of the journal entry for pension would be recorded in the deferred debit. It is appropriate to take into account the rate base impact of this adjustment. The 13-months average effect of $651,896 is $326,000. Thus, test year's intrastate allowance for working capital shall be increased by $326,000. The expense adjustment is reflected in Section VIII-B.8 herein.

3. Other Postretirement Benefits

Finally, in order to take into account our decisions regarding the treatment of Other Postretirement Benefits, working capital should be increased by $2,704,000. The total adjustments to working capital yield a decrease of $239,000. Thus, we find that the adjusted intrastate allowance for working capital is $11,113,000.

VII. NET OPERATING INCOME

Having determined United's rate base, the next step in the ratemaking process is the determination of the Company's test year Net Operating Income (NOI). Once this amount is determined it can be applied to the test year rate base value to develop the appropriate achieved rate of return for the test period. United has submitted an NOI figure of $69,162,000. Based on our review of the evidence in the record of this proceeding, we find United's net operating income for the test year to be $96,267,000. This amount is derived from the following adjustments.

INTRASTATE NET OPERATING INCOME

ACHIEVED INTRASTATE NET OPERATING INCOME PER FILING		
Company Adjusted Net Operating Income		
Operating Revenue		$514,385,000
Operating Expenses		(279,877,000)
Depreciation and Amortization		(134,322,000)
Operating Taxes Other Than Income		(18,015,000)
Operating Income Taxes		(12,516,000)
NOI per filing		$ 69,655,000
Company Adjustments		(493,000)
ACHIEVED INTRASTATE NET OPERATING INCOME PER FILING		$ 69,162,000
COMMISSION ADJUSTMENTS		
Operating Revenue		
Basic Local Service Revenue	1,420,000	
Intrastate Toll-Intraterritory	(3,152,000)	
Total Adjustments	(1,732,000)	
Operating Expenses		
Plant Specific	7,849,000	
Plant Non-Specific	2,321,000	
Customer Operations	4,738,000	
Corporate Operations	4,642,000	
Total Adjustments	19,550,000	
New Depreciation Rates	21,808,000	
Operating Taxes		
Other Operating	2,000	
State Income Taxes	(2,031,000)	
Federal Income Taxes	(10,492,000)	
Total Adjustments	(12,521,000)	
Total Commission Adjustment		27,105,000
ADJUSTED NET OPERATING INCOME		$ 96,267,000

A. Adjustments to Operating Revenue

United asserts that its intrastate operating revenues for the test year are $511,303,000. United's original MFRs reflected operating revenue of $514,385,000. The Company then made tariff changes of $(756,000) and revenue reductions of $(2,326,000) for a total adjustment of $(3,082,000), resulting in the revised test year operating revenue of $511,303,00. OPC recommends an adjustment to recognize the Bonita Springs/Lady Lake regrouping resulting in operating revenues of $514,686,000. Upon review, we find that the appropriate intrastate operating revenues for the test year are $509,571,000. This amount is based on United's adjustments, and additional adjustments as set forth below.

1. Bonita Springs

By Order No. PSC-92-0322-FOF-TL, issued May 11, 1992, the Commission voted to implement flat rate nonoptional two-way Extended Area Service (EAS) for Bonita Springs to Fort Myers, Fort Myers Beach, and Naples. Basic Exchange Service, LDTS, TollPAC, and OELC revenues are all affected by the Bonita Springs EAS. Thus, test year revenues must be adjusted to reflect this change. Both United and OPC agree that this adjustment is necessary. We believe that the Bonita Springs EAS will generate an additional $1,420,000 in basic local service revenues, while intrastate toll revenue will decrease by $2,048,000. This results in a test year intrastate operating revenue decrease of $628,000.

The Company supplied additional data in an attachment to its Bonita Springs tariff filing, in Docket No. 910027-TL. This information was submitted subsequent to the hearing in this proceeding. Based on this data, we find that the minutes in the calculations must be converted from conversation minutes to billable minutes. Additionally, we must take into account the inclusion of the operator surcharge revenue when calculating the average rate per minute for Long Distance Telecommunications Service (LDTS). These changes result in a further decrease in intrastate operating revenue of $1,012,000 for the test year.

As stated above, the data initiating the adjustment herein was introduced in another docket, and corrections were made after the hearing. Accordingly, this adjustment is set forth as a Proposed Agency Action.

2. Lady Lake Regrouping

United contends that the Commission should not include the Lady Lake regrouping in the test year because it will occur outside the test year period. OPC believes that an additional $301,255 of revenue should be included because the rate increase will occur without any significant expense to the Company.

We believe that the Company's position is appropriate. The Lady Lake regrouping will take place in September of 1993. Including these revenues in the test year would distort the rates established to determine the test year revenue requirement.

B. Adjustments to Operating and Maintenance Expense

United's per book test year intrastate Operating Expense is $279,877,000. The Company adjusted this amount to show CABS allocation, proprietary costs, executive retirement/incentive compensation, S/UMC allocation factors and general allocator, UTI investment tax credits, and SUIS budgeted allocations. The adjusted amount is $277,589,000. OPC proposes adjustments in the amount of $27,906,000. Based on the adjustments set forth below, we find that the appropriate intrastate O&M expense for the test year is $258,039,000.

1. Actual versus Budgeted Expense Levels

United asserts that its projections of test year expenses are accurate and that no adjustment is necessary. OPC is concerned that year after year the Company has overprojected expenses when comparing projected versus actual expenses for time periods similar to the time periods preceding the Company's projection of the test year in this case. The test year projections are substantially in excess of the historical level of increases in expenses. OPC recommends that the Commission allow increases in operating expense after 1991 at no more than an arbitrary 4% compounded annual rate. This results in an adjustment to the Company's projection of intrastate O&M expense of $19.3 million dollars.

We are also concerned with the apparent pattern of over budgeting expenses. In Docket No. 891239-TL, United's last rate case, the budgeted O&M Expense used for setting rates was 9% over the actual for 1991. The budget used in this proceeding showed the 1991 budgeted O&M 3% in excess of the actual. Additionally, there is a large increase in the 1992 budget over the 1991 budget of 14% compared with a historical 3-6% annual increase.

Growth in access lines, a primary driver of O&M expense, decreased from 7.53% to 4.84% during the 1988 to 1991 period. Growth in O&M expense historically lags growth in access lines by 1% to 2%; if access lines grow by 5%, O&M expense can be expected to grow by 2% to 3%. The growth in access lines during 1992 decreases from 4.84% to 4.26% which, following historical growth patterns, would not drive a 12.81% increase in O&M. Following the historical growth patterns, O&M growth should have been slightly less than the experienced access line growth during these periods. We believe that a reduction in the budgeted test year total company O&M is appropriate to smooth out the expenses during 1992 and the test year and to better show a representative amount for ratemaking purposes. Since O&M growth has historically lagged access line growth, we find that O&M expense should grow no faster than access lines under normal circumstances. The access line growth rate during 1992 is 4.26% and 4.37% during the test year, O&M expense growth should not have exceeded 4.26% in 1992 and 4.37% for the test year.

In order to properly evaluate the relative growth rates, the O&M expense numbers should be comparable. We believe it is appropriate to start the evaluation with the historic 1990 O&M expense, less depreciation and other income and expenses. We have chosen 1990 as the starting point because we believe that the -0.34% growth in expense, from $309,529,000 in 1990 to $308,485,000 in 1991, is not representative of the normal pattern of growth in United's expenses. Over that same period, there was a 4.84% increase in access line growth.

As reported, the 1990 total company O&M expense, less depreciation, was $309,529,000. Reducing the 1990 expenses by $4,501,000, to reflect similar disallowances in the test year, leaves the adjusted base year at $305,028,000. The adjusted 1990 expenses are then trended forward for 2.5 years at the average growth rate of 3.40%. This results in a test year O&M expense amount of $331,667,000. This total Company amount is $8,678,000 lower than United's filed total O&M expense (less all SFAS costs and rate case expense) of $340,345,000. This results in a reduction in O&M expenses of $6,751,000 intrastate for the test year.

We believe that this adjustment is appropriate. By using 1990 as a staring point, we have avoided basing the adjustment on 1991, which showed a decrease in expense while access lines increased. Additionally, the growth rate of 3.4% reflects the average growth rate of the 1988-1993 period of 5.4%, minus the 2%, reflecting the historical lag in growth between O&M expense and access lines.

2. Initial Placement of Software

United's policy regarding the accounting treatment for software has historically been to capitalize the initial placements of operational software and to expense all application software. Thus, the Company distinguishes between "operation" software and "application" software. The Company asserts that this accounting policy is required by Part 32 of the FCC's rules and regulations and Generally Accepted Accounting Principles (GAAP). While we agree that a reading of Part 32 can be interpreted to allow a company to capitalize only initial placement costs, we also believe that a different interpretation can be made in which all software should be capitalized.

As a general proposition, we believe that the accounting options available for consideration are to 1) allow UTF to continue to capitalize the initial placement of operational software and expense all application software; 2) require the capitalization of the initial placement of all software regardless of whether it is operational or application and expense all subsequent modifications, replacements, and enhancements; or, 3) require the capitalization of the initial placements as well as any modifications, enhancements, and modifications of all software.

We believe that the Company's accounting treatment for software is appropriate, in that it does not violate Part 32. However, we also believe that nothing in Part 32 precludes this Commission from setting an accounting policy for software costs for regulatory purposes. But, we realize that this issue has far reaching implications for any company and industry that purchases items of plant that are software based. Accordingly, we find that this issue shall be pursued in the context of a generic investigation.

3. Software Upgrades, Replacements, and Enhancements

Although we are not changing our policy regarding the general accounting treatment of software, we do find that an adjustment to an expense account is necessary. Account 6212, Central Office Equipment Software Expense exhibited an unusually large increase during the test year period. Specifically, the account rose from $5,106,000 in 1990 to $5,918,000 in 1991. During the test year period, the account increases to $11,110,000, then falls to $9,851,000 in 1994. Although we recognize that software expenses will progressively increase over time, we do not think it would be proper to set rates based on a level that appears to be a spike and is not projected to continue into the future. Since the Company has projected the 1994 balance to be $9,851,000, we believe that amount is an appropriate level of expense to assume for the test year. That amount will allow for substantial growth in the account, while leveling out the spike in the account balance. Accordingly, we find that the intrastate software expense for the test year shall be reduced by $930,000.

4. Customer Billing System Costs

By Order No. 24049, in United's last rate case, the Commission ordered that the new billing system costs be amortized over four years. As of the beginning of the test period one and one-half years' costs will have been amortized. OPC proposes to amortize the remaining two and one-half years of costs over six and one-half years, beginning with the test year. This would defer the cost of the billing system over eight years.

This expense was spread over four years beginning in 1990, which was to be the first year of the project. The project has been delayed one year and the total cost has increased. The project was to have cost UTI $41,500,000 and $10,792,000 was to have been billed to UTF over the four years ending in 1993. Currently the project will cost S/UMC $45,000,000 and $11,755,000 is being billed to UTF over the four years ending in 1994. The utility will recognize one fourth of the intrastate portion of the cost, $2,570,000, each year in compliance with Order No. 24049.

We believe that the charges for the new billing system should be treated the same in this case as they were in the last case, as reflected in Order No. 24049. The costs should be allowed and, due to the differing annual amounts billed by UTI, recognized in equal amounts each year for the four years that the rates will be in effect. At the beginning of the test year, UTF would have recovered $3,855,000 intrastate, leaving $6,424,000 remaining to be recovered. Based on the delayed starting date and increased cost, the intrastate charge will be $1,607,000 each year. Thus, test year intrastate expense shall be reduced by $963,000 to reflect this charge.

5. Carrier Access Billing System Separations

Both the Company and OPC acknowledge that an incorrect separations factor was applied to test year costs associated with the new carrier access billing system and that operating expenses should be reduced. United's adjustment is based on a separations factor of 78.4662% and the overstatement was $388,820. The correct factor is 50%. United recognized the error and made the adjustment. Thus, we approve the $389,000 reduction in intrastate test year operating expenses.

6. Supplemental Executive Retirement Plan

Approximately 40 to 45 managers and executives qualify for United's incentive compensation plan. The Company projected that the managers and executives will meet 100% of all the stated objectives to qualify for incentive compensation during the test year. During the past four years, the average percentage of the managers achieving their goals is 91.57%. OPC identified the intrastate incentive amount of $303,571 for the test year. United asserts that this amount is overstated, but did not provide data supporting that position. Based on past performance, we do not believe that it is reasonable to expect that the managers and executives will meet 100% of the stated objectives to qualify for incentive compensation. Therefore, we find that based on the average performance over the previous four years of 91.57%, the test year's intrastate expenses for incentive compensation shall be reduced by $25,591.

Supplemental Executive Retirement Plan (SERP) equates to the difference between the benefit determined under the pension plan using the revised definition of compensation which includes incentive compensation and the benefit calculated under the terms of the pension plan which does not include incentive compensation. We believe that the 91.57% applied to incentive compensation should be applied to SERP for the test year. OPC identified an intrastate amount of $43,927. Thus, expenses for SERP shall be reduced by $3,703 intrastate for the test year. Therefore, the total reduction is $29,294.

7. Early Retirement or Severance Pay

United has proposed that costs associated with severance pay and early retirement be recognized for rate making purposes. OPC asserts that the Company's budgeting system does not recognize the potential savings in terms of wages, fringe benefits and payroll taxes when employees are offered early retirement plans. Therefore, OPC considers the expenses associated with severance pay or early retirement plan duplicative of wages that are in the test period.

We believe that the Company may incur a minor level of severance or early retirement costs each year. These expenses can be classified as normal ongoing expenses that may occur more frequently. Additionally, we do not believe that this is a duplicative expense. During the budget process, each department takes into account any identified reductions in the number of positions required to meet the forecasted levels. Thus, the potential savings is a lower level of salary and wage expense. Upon review, we find that no adjustment is necessary.

8. Wage Increase for Pension Expense

United has anticipated a future salary increase of 7.02% for the purpose of calculating pension liability for the test year. OPC believes that this amount is excessive and recommends a 4% increase. The Company conducted an actuarial study to recalculate pension expense based on a 4.0% increase. The change in the assumption caused the pension expense to decrease by $1,482,213, total Company.

From 1986 through 1991, the average of the actual salary and wage increases was 4.57%. Wage and salary increase rates used for the test year were 4.5% for corporate operations expense, and 4% for the remaining expenses. The Company asserts that the annual wage increase factor in the pension calculation should not be confused with the Company overall wage increases. The wage factor in the pension calculation includes not only the wages and salaries increase, but also the promotional increase expected over an extended period of time. We disagree. Employee turnovers occur at a constant rate. UTF's actual wages and salaries increase rates should take into account the fact that when higher paid employees leave, they are replaced by lower paid employees, as well as reflecting any promotional increases for any current employees. We do not believe that there should be any significant difference between the overall wage increase assumption and the assumption used for the pension calculation.

We believe that the past two years' history is more representative of the test year than the past six years, because 1990 and 1991 better reflect the current economic conditions. The average wage increase rate for 1990 and 1991 is 5.27%. Because actuarial studies are lengthy and costly, we did not require the Company to perform a study based on a 5.27% increase. Therefore, we find that an adjustment be made based on a pro rated basis. Currently, United has a negative pension expense. By overestimating the salary increase, the Company has understated the negative pension expense. Thus, the test year expense shall be reduced by a pro rated amount of $651,896 intrastate. Finally, we must take into account the rate base impact of this adjustment. Thus, test year's intrastate rate base shall be increased by $325,948.

9. Expenses Related to NARUC Conference

United has included expenses incurred for hospitality suites and golfing at NARUC conferences as part of O&M expense. The Company took a position that these are appropriate business expenses and that NARUC provides ongoing support on national regulatory and industry issues. We agree that NARUC conferences can be beneficial to the companies in handling industry issues; however, expenses related to activities such as golf and hospitality suites are entertainment expenses which we believe are image building expenses. Thus, these expenses should be disallowed for ratemaking purposes. Accordingly, we find that intrastate test year expense should be reduced by $6,557.

10. Expenses Related to Sporting Events, Musical and Theatrical Presentations

United contends that expenses incurred for sporting events, musical and theatrical presentations are appropriate expenses for ratemaking purposes. United incurs these expenses for the purpose of entertaining current and prospective customers and business clients all in the pursuit of increased business. The Company acknowledges that in its last rate case specific sporting event expenses were disallowed for ratemaking purposes, and it has removed such expenses from the regulated operations in this proceeding. OPC asserts that the Commission should disallow expenses incurred attending sporting events, musical and theatrical presentations, reducing intrastate expenses by $43,797.

In United's last rate case we removed all meals, entertainment and travel expenses of the spouses of Company officers and executives from the test year budget. It is unreasonable for this Commission to specifically list all the payees for sporting, musical, or theatrical events, or the various conferences and conventions in which the Company may be involved. An adjustment such as this should not be limited to only those events that the Commission could identify at the time; it should include all payees for similar events. We believe that such expenses, and other similar expense, are image building related expenses that do not benefit ratepayers. Thus, we shall remove $2,178 in costs associated with spouse attendance at the FTA and USTA conferences. Additionally, $13,776 related to memorial charity contributions and expenses relating to welcoming troops home from the Middle East, shall be removed. In summary, the test year's intrastate expenses shall be reduced by $15,954.

11. Logo Expenses

United has included $135,000 in test year expense to change its logo on buildings and vehicles, to reflect the parent company's new logo. The Company asserts that United's ratepayers receive the benefit of a royalty payment from United Telephone Long Distance, Inc., which is designed to compensate for the use of United's name, logo, reputation and other intangibles. Thus, the Company believes that it is appropriate for the ratepayers to support costs reasonably necessary to establish those intangible values. OPC contends that since the Company is not changing its name and UTLD is now a well established company, current and potential new customers will still associate UTLD with its parent company, United of Florida. Additionally, OPC does not believe that the customers will be aware of the change in logo of United's parent company.

We believe that United's logo change is a nonrecurring event and the Company should not be allowed to recover this cost year after year. Accordingly, we find that the Company's projected intrastate expense be decreased by $134,023.

12. Lobbying and Political Expenses

Consistent with Commission policy, we believe that all lobbying and political expenses should be removed from the test year. United has properly classified these costs as lobbying expenses and recorded them below-the-line. The OPC has not produced any evidence in the record that indicates otherwise. Therefore, no further adjustment is recommended.

13. Rate Case Expense

The Company asserts that it incurred $1.2 million in rate case expense and seeks an amortization period of four years. Of that $1.2 million, $900,000 is an estimated rate case expense associated with the Company employees' normal salaries and wages expense. This amount is in addition to the expenses incurred for outside consultants, employee's overtime salaries and wages, travel, and other miscellaneous expenses. United also seeks a four year amortization period for rate case expense. OPC maintains that the Company has requested a recovery of $900,000 twice in this rate proceeding: as a rate case expense and as a normal salaries and wages expense.

In budgeting the salaries and wages expense for the test year, United did not reduce the expense related to those employees who are working on this rate proceeding. Therefore, that expense is recorded both in the test year's operating expenses and in the rate case expense of which the Company is seeking a recovery. We believe that the rationale for allowing the rate case expense is so that a company may recover the reasonable incremental cost of a rate proceeding. We find that the $900,000 normal salaries and wages expense is not an incremental cost. Regardless of this rate case, the Company would have incurred the $900,000 normal salaries and wages expense. However, the $90,000 associated with overtime hours due to the rate proceeding is a legitimate incremental rate case expense.

Upon review, we find it appropriate to disallow $900,000 of the requested $1.2 million for rate case expense. The remaining $300,000 of incremental rate case expense shall be amortized over a four year period. Thus, intrastate expense shall be reduced by $274,066.

14. Cancelled Projects

Projects cancelled for prudent reasons should continue to be allowed in operating expense as they were in United's the last two rate cases. OPC is concerned that cancelled projects brought into expense by adjustment represent costs that are already included in the budgeted amounts.

United budgets for the costs of projects that are subsequently cancelled based on historical trends and engineering judgement. Theses costs are accounted for separately from the capital and departmental expense budgets. There is no duplication of costs already included in expense. Both parties agree that it is proper to recognize cancelled projects for ratemaking purposes, therefore, no further adjustment to expense is required. However, we have decreased rate base by $283,000 to account for the cancelled projects.

15. Inside Wire

We must decide whether this Commission should change the manner in which inside wire maintenance is booked for United. Since January 1, 1987, inside wire installation and maintenance have been considered 100% below the line, and not considered at all as part of the regulated books of the Company. Inside wire is the wiring that goes between the demarcation point, which is the end of the regulated (and tariffed) network, and the customer's premises equipment (CPE). In a business which has a PBX or a key system, it is typical that this inside wire is maintained by the same vendor that maintains the equipment. For residential and single line business customers, who often own their own CPE and do not have an ongoing maintenance company for it, the wire maintenance can be done by the customer himself, by United Telephone inside wire maintenance service, or by an independent company. United provides two inside wire maintenance services: Line Guard and Repair Care.

United asserts that its below-the-line accounting treatment of inside wire revenues and expenses is consistent with the Commission's rule. Rule 25-4.0345(2)(a) provides that inside wire is deregulated for intrastate purposes. OPC contends that the revenues and expenses from inside wire services should be considered above the line for the purpose of setting other, regulated rates. OPC maintains that inside wire is an integral part of United's regulated telephone business for the following reasons: the customers for the Company's maintenance contracts come from the existing database; sales come when the Company processes initial regulated service orders; maintenance contracts are sold by service representative at the same time new regulated services are established; and repairs are made by the Company's service technicians in the normal pursuit of their jobs.

While United may argue that inside wire maintenance is competitive in its territory, the numbers indicate this is not so. The penetration rate for United's two residential inside wire maintenance programs has steadily increased since 1987 and are projected to continue to grow through the end of 1996. Currently the penetration rate is 60%.

Additionally, it should be noted that this Commission has the authority to move inside wire above the line. In February 1992, the FCC issued its Third Report and Order in CC Docket No. 79-105, stating that it has not precluded those states that regulated the prices under which telephone companies provide simple inside wiring services from assigning the telephone companies' simple inside wiring costs and revenues to the intrastate jurisdiction for intrastate accounting purposes, and from setting unbundled rates based on those costs.

Upon review, we find that United should continue to book the expenses and revenues associated with inside wire services below the line. Under our current rule, inside wire is deregulated. Any change in that policy will require a rulemaking proceeding, to appropriately amend the existing rule. Accordingly, we shall commence a rulemaking proceeding for all local exchange companies on the appropriate treatment of inside wire services.

16. Non-Regulated Operations

We find that, to the extent of the material that we reviewed, allocations to non-regulated operations are reasonable and are consistent with the requirements of the cost allocation manual mandated by the FCC, and filed with this Commission. Accordingly, no adjustment is necessary.

17. Projected Incremental Increased Profitability

Based on the changes in earnings that we project will occur, the total expected improvement in earnings from the test year to calendar year 1993 is $3,168,000, and the total expected improvement in earnings from the test year to calendar year 1994 is

$16,132,320. We do not believe it is necessary to take any specific action at this time relating to 1993 and 1994, other than the implementation of SFAS 106 for Other Postretirement Benefits, as set forth in this Order.

18. Property Tax Expense

United maintains that no adjustment should be made to property tax expense for the test year. The Company forecast an increase of 4% over actual 1991 millage rates for the test year. OPC asserts that, on a total company basis, actual property tax in 1991 was $736,000 less than budgeted. Both assessed value and millage rate were less than forecasted. Further, OPC proposes that in 1992, budget variances continue to see property tax expense coming in at less than the amount included in the 1992 budget. Thus, OPC recommends adjusting the test year by the amount of the 1991 variance, or $736,000 total company.

We do not believe that the variance between the actual versus budgeted property tax expense for 1991 will affect the projected property tax expense for the years 1992 and 1993. The Company knew the actual 1991 millage rate, which was used to project the millage rates for 1992 and 1993. The fact that the 1991 property tax expense was overbudgeted is irrelevant, since the test year property tax expense was based on the actual 1991 millage rate. We find that the projected millage rate for the test year is reasonable given that the overall increase in the millage rate from 1991 to 1993 is approximately 4% per year. Accordingly, no adjustment to property tax expense is required.

19. USTA Dues

United has included $107,493 intrastate, in the test year for USTA dues. The entire USTA dues are recorded above-the-line. OPC contends that some of the activities that USTA engages in may not be beneficial to the ratepayers. OPC recommends that 50% of the total USTA dues be disallowed. However, there has been no evidence put into the record by either OPC or the Company showing an adequate segregation of the USTA activities.

It has been Commission practice to disallow a portion of industry association dues in the electric industry. By Orders Nos. 15451, 13771, and 13537, the Commission found that some of the activities that Edison Electric Institute (EEI) engages in are direct lobbying or in support of direct lobbying activities. This

Commission has maintained that costs of such activities should be borne by the stockholder since there is no evidence that the ratepayers receive any benefits from these expenditures.

We found that in the absence of an adequate segregation of EEI expenditures, one-third of EEI administrative dues payments should be allocated to direct lobbying and be borne by the stockholders. Since neither UTF nor OPC has presented an adequate segregation of USTA activities, we will apply this policy and disallow one-third of the $107,493 USTA dues expense. Therefore, we find that $35,831 shall be disallowed from the test year intrastate expenses.

20. GS&L Expense

Based on the following adjustments, we find that the intrastate GS&L expense for the test year shall be reduced by $3,952,000.

a. Sprint/United Management Company Proprietary Costs

United has removed $1,235,000 from the intrastate GS&L allocation which represent proprietary costs which are of marginal or no benefit to UTF and would be disallowed for ratemaking purposes if incurred directly by UTF. Those costs include costs related to external and legislative affairs, aircraft, contributions, dues and memberships, and other such costs that are not allowable if incurred directly by UTF. In addition, the Company has also identified costs of $103,000 intrastate, associated with a new cost center which falls within the Corporate Communications area which was disallowed in the last rate case. However, United has not removed any of the incentive compensation costs in this proceeding, half of which was removed in the last case.

OPC has proposed an additional intrastate adjustment of $695,000 consisting of the incentive compensation which he believes rewards S/UMC employees for the attainment of goals. These goals are not necessarily consistent with the goals of regulation. S/UMC goals are more likely to benefit US Sprint and other non-regulated operations and the Company has made no showing that UTF ratepayers will realize any benefits from added costs of the S/UMC incentive compensation program. OPC recommends that the costs of this program be removed in its entirety.

We agree with OPC that the incentive compensation plan has elements that reward S/UMC employees for the attainment of goals which are not necessarily consistent with the goals of regulation and are more likely to benefit Sprint and other non-regulated operations. We also believe that the incentive compensation plan does provide some benefit to the regulated telephone companies. Therefore, we find that intrastate GS&L shall be further reduced by $563,000 to remove one half of the allocated costs of the incentive compensation plan, and $103,000 to remove the corporate communications costs agreed to by the Company. Thus, the total intrastate adjustment is $666,000.

b. S/UMC Ownership Costs

At issue here are costs associated with shareholder litigation, treasury operations, corporate secretary and business planning. United asserts that each of these departments performs direct, substantial services to United to the ultimate benefit of United's ratepayers. OPC maintains that certain ownership costs, such as corporate board of director expenses, are duplicative of costs incurred directly by the telephone operating companies. In addition, OPC maintains that certain costs associated with Senior UTI managers also fall within the scope of this adjustment.

In United's last rate case, we removed $549,000 from the intrastate GS&L allocation which we found to be duplicative of costs incurred directly by the telephone operating companies. United has removed $43,000 intrastate for the cost of the intangible tax on dividends. However, the Company claims that the other costs are essential to the operation of UTI as a whole.

We agree with the Company that these allocated costs do have the character of management costs and are of some benefit to the ratepayer. However, OPC's argument that these costs represent the costs of UTI as an owner/investor in UTF also have merit, particularly in light of our previous decisions. Therefore, we find it appropriate to disallow one half of executive departments 105, 110, 130 and 260 and the corporate secretary, as ownership costs, with the remainder being management costs. Additionally, we shall disallow the entire costs of the planning department and executive departments 160, 195 and 197. These adjustments shall reduce intrastate GS&L by $827,000 in ownership costs.

c. S/UMC Return on Investment Costs

Within the S/UMC billings to UTF, UTI recovers a rent pool charge associated with Kansas City area billings, which includes rent, utilities, a return on investments and other facility related cost. We must determine how to calculate the GS&L cost for rent expense and return on investment for property that S/UMC occupies. Actual Kansas City rent pool facility costs in 1991 were almost 14% below 1991 budget estimates. S/UMC has been successful in significantly reducing the effective cost per square foot of rent, return, salaries, security, utilities and depreciation in the Kansas City facilities used by UTI and S/UMC personnel.

The Company contends that the correct amount of rent expense is contained in its updated data. In that data, an adjustment was made reflecting that S/UMC's actual rent expense for 1991 was 5.84% below what was forecast for 1991. Thus, United reduced test year rent expense by 5.84% or $93,779.

OPC recommends a much larger adjustment based on the actual 1991 total rent expense allocated based on the end of year, rather than the average year, square footage occupied. However, OPC does not substantiate its argument.

We agree with United's proposal to reduce intrastate test year rent expense by $94,000, and hereby approve it.

d. S/UMC Allocation Factors

United agrees that an adjustment should be made to the test year operating expenses to reflect the updated S/UMC allocation factors for the year 1992. The Company has acknowledged this adjustment in its updated data, and has reduced the test year intrastate expenses by $325,454. OPC recommends reducing the test year expense by $411,995.

We find that an adjustment should be made to reflect the updated statistical data. United believes that if the Commission makes an adjustment to reflect the updated allocation factors, the Commission should also recognize that as a result of the lower allocation of costs to UTF due to the allocation revision, the amount which the Company had removed from the regulated expenses to recognize the Commission's prior disallowance of certain cost centers in the last rate case would be overstated. UTF identified the overstated amount to be $249,190. We agree that this overstated GS&L adjustment should also be recognized. The Company also stated that it erroneously failed to remove the $102,916 intrastate costs associated with a new cost center. We have accounted for this under S/UMC Proprietary Costs above.

Accordingly, the test year intrastate expenses shall be reduced by $222,538.

e. S/UMC General Allocator

OPC proposes eliminating the number of companies factor from the general allocator. The number of companies factor is designed to recognize that the amount of work associated with any given company is not completely based on its size or other demographics but rather is independent of those other factors recognized in the general allocator. OPC asserts that this process dilutes the importance of US Sprint while inflating allocations of cost to other subsidiaries. Eliminating the number of companies factors would decrease the intrastate expenses by $72,422.

We believe that considering the total allocated amount and the OPC's recommended adjustment, the "number of companies" factor employed by S/UMC in deriving the general allocator is not diluting the importance of US Sprint while inflating allocations of cost to other subsidiaries. We have not been presented with any evidence that shows the current weighting method is unreasonable. Therefore, we find that the General Allocator employed by S/UMC appropriately apportions costs to UTF and no adjustments shall be made.

f. Sprint/United Information Services Cost Allocations

United has recognized an adjustment of $1,446,724 intrastate to SUIS for obsolete budget assumptions. The adjustment was made to reflect the favorable sales program initiated by IBM in 1991, which reduced computer costs for an upgrade in the central processing unit (CPU) at the regional data center in Florida.

OPC recognizes that adjustment; however, OPC's calculations result in an adjustment of $1,906,236. United did not refute this amount. Additionally, OPC asserts that the 1993 forecast of Sprint/United Information Services (SUIS) expenses escalated 1992 expenses by a range of between 3% and 5%. OPC believes SUIS costs other than postage and inserter costs for 1993 should be held constant at 1992 budget levels because of continuing productivity gains, and UTI's new budget states that such costs should be held to zero growth. OPC contends that the intrastate test year expenses should be reduced by $1,906,236 for the updated CPU cost and $235,526 for the 1993 SUIS budget, a total intrastate reduction of $2,141,762.

We agree with OPC's analysis of the data. Upon review, we find it appropriate to reduce intrastate expense by $2,141,762 in total which is comprised of $1,906,236 for updated CPU costs and $235,536 for the 1993 SUIS budget.

g. UTI Investment Tax Credits

OPC contends that an adjustment of $16,246 should be made to recognize the benefit of Investment Tax Credits (ITCs) previously taken at the parent company level and treated as a direct reduction to federal income tax expense. UTF maintains that UTI, the parent company, flowed through the ITCs in question; however UTI compensated UTF for use of the ITCs. UTF received a reduction in GS&L billings from UTI in the year the ITCs were flowed through.

We believe that it is appropriate that UTF receive some benefit from ITCs flowed through by UTI. However, UTF has received this benefit through the GS&L billing. In addition, UTF's overall cost of capital is employed when determining the return on assets used to provide services to UTF at the parent company level. Upon review, we find that ITCs previously taken by UTF's parent should not be used to reduce income tax expenses.

C. Other Postretirement Benefits (OPEBs)

1. Statement of Financial Accounting Standards No. 106

The Statement of Financial Accounting Standards No. 106 (SFAS 106) is titled Employers' Accounting for Postretirement Benefits Other Than Pensions. The basic concept underlying SFAS 106 is the concept of accrual versus cash basis accounting to record other postretirement benefits (OPEB). Historically, OPEBs have been recorded on a pay-as-you-go or cash basis since it was thought the cash basis approximated the accrual basis. Accrual accounting offers a better matching of the expense associated with offering OPEBs with the ratepayer who receives the benefit of the utility employees' services. Under SFAS 106, there are six possible components that comprise the OPEB cost that is recorded: service cost, interest cost, amortization of the transition liability, return on plan assets, gains and losses, and prior service costs.

OPC offers several arguments against using SFAS 106 for ratemaking purposes. First, OPC contends that the Commission is not obligated to adopt SFAS 106. We agree that this Commission is not obligated to adopt SFAS 106. Next, OPC asserts that many of the costs included in SFAS 106 are speculative in nature. United also shares this concern. OPC states that for a cost to be included in rates it must be certain. We believe that when rates are set, the costs included are based upon the best estimate of what will occur in the first year the rates will be in effect and no costs are certain. OPC's argument could also be applied to depreciation expense, the cost of equity, nuclear decommissioning or any other expense based upon estimates. We would be note that SFAS 106 contains a mechanism to encompass changes in the underlying assumptions and plan terms.

OPC also claims that UTF has misinterpreted the clause in SFAS 106 on substantive plans. While this is an argument for changing the amount included in rates, it is not an argument against using SFAS 106 for ratemaking purposes. Further, OPC argues that UTF may institute cost saving measures in the future. Although OPC would applaud UTF's attempts to reduce costs, it is possible that rates will be set higher than what is necessary to cover the OPEB costs. We believe that UTF will continue to review its OPEB costs. Evidence in the record indicates that instead of decreasing benefits in the future, benefits may actually be increased and, in turn, the OPEB expense would increase. Thus, we believe that at the current time, there is no evidence that UTF will be implementing any additional cost containment measures in the near future. But, if the cost containment measures are taken, they will be recognized in the future OPEB expense.

OPC's next argument is that the Company has not committed to the level of benefits that will be given in the future. UTF has a written plan that discusses the provisions currently offered by UTF. We believe that a promise has been made to the UTF employees that they will receive postretirement benefits. The benefits may change over time, but the mechanisms in SFAS 106 account for those changes. OPC's final argument is that SFAS 106 removes flexibility to address changes such as those in a national health care policy. Because no one is sure of where health care will be in the future, OPC recommends caution in deciding whether to use SFAS 106.

We find that the basic concepts underlying SFAS 106 should be adopted. SFAS 106 allows the recognition of a future liability for current employees of UTF providing services to today's customers. While we adopt the concept of accrual for OPEBs, we also may make certain adjustments to the various assumptions used by SFAS 106.

2. Adjustment for OPEBs

While we believe that SFAS 106 should be used for ratemaking purposes to record the expense, we also believe that the impact to the ratepayers should be mitigated to the extent possible. United has proposed early implementation of SFAS 106 beginning on July 1, 1992, which is six months earlier than the January 1, 1993, implementation date required by SFAS 106. The Company states that early implementation will allow UTF the ability to avoid another rate increase request in 1993 to cover the additional OPEB expense. The amount requested above pay-as-you-go is $9,254,859 of which $7,805,077 is expense and $1,449,782 is capitalized.

OPC contends that if the proposal to remain on the pay-as-you-go is not accepted, then the implementation date of the SFAS 106 should be deferred until 1994. OPC believes that UTF's 1994 earnings would be sufficient to absorb the impact of the 1994 OPEB expense and the 1993 OPEB expense. However, OPC witness DeWard agreed that in order to defer the SFAS 106 amount until 1994, entries would have to be recorded under Statement of Financial Accounting 71 (SFAS 71). Under SFAS 71, a deferred charge would be recorded if the Commission were to defer SFAS 106 implementation until a future date. The deferred charge would reverse as the deferred expense is recognized.

We agree that the additional OPEB costs due to the implementation of SFAS 106 should be deferred. Accordingly, we shall require UTF to implement SFAS 106 on January 1, 1993. The incremental costs shall be deferred under SFAS 71 until July 1, 1993, when amortization over 18 months should begin. We believe that the earnings of UTF and the fall-off of depreciation amortization schedules will be sufficient to absorb the additional expense recorded under SFAS 106. Since the incremental costs of SFAS will not be recognized during the test year, all related rate base and capital structure effects shall be removed.

We must also determine whether to recognize United's substantive plan or the written plan under SFAS 106. There are two alternatives available. Under the base case or substantive plan, UTI would continue to increase benefit levels after 1993. This is the plan on which UTF's test period OPEB expenses are based. United asserts that it has traditionally increased the benefits from year-to-year, and that SFAS 106 requires the substantive plan to be used over the written plan of the Company. Under the hypothetical case, no benefit increases were assumed for employees after 1993. The hypothetical case reflects the Company's written benefits plan. United's witness McRae admitted that the Company has not committed to increasing the benefits past 1993.

The uncertainty surrounding the escalation of future benefits is heightened by the fact that UTF significantly restructured its retiree health care benefit plan. Witness McRae pointed out that the Company aggressively tackled the level of health care benefits costs. The restructuring affected employees retiring on or after January 1, 1991.

Upon review, we find that it is appropriate to use the substantive plan to determine the OPEB cost to be deferred for the first half of 1993. Therefore, the incremental, intrastate OPEB cost is $9,689,000 in 1993. The amount to be deferred is $4,844,500. The deferral shall be amortized over 18 months beginning July 1, 1993.

3. Discount Rate

United has proposed an 8.00% discount rate. This is the amount that its actuaries used to calculate the accrued expense under SFAS 106. OPC states that the objective in selecting a discount rate is to identify the single amount that, if invested at the measurement date, would produce returns necessary to meet the obligation in the future. OPC contends that, although SFAS 106 rejects the use of a company's cost of capital as the discount rate, it should be considered for ratemaking purposes.

SFAS 106 rejected the use of a company's cost of capital as the discount rate because there are no uniform methods for determining a company's cost of capital. Companies can have negative returns on equity, and a company's debt does not cover the same period as the period over which postretirement benefits would be paid. Instead, SFAS 106 requires the discount rate to be based on the rates for high-quality fixed income investments that have cash flows that match the timing and amount of benefit payments. We believe that the postretirement benefit obligation is the same regardless of what discount rate is used. It is a matter of timing. Accordingly, we find that the appropriate rate is 8.00%.

4. Current Service Costs

Service cost is the portion of the expected postretirement benefit obligation attributed to employee service during a period and is a component of the accrued postretirement benefit expense. UTF argues that recognition of interest is a fundamental part of SFAS 106 and that there is no funding mechanism that it can satisfactorily use. OPC contends that interest should be excluded from the allowance for postretirement benefit expense since the Company should fund its benefit plan and such a fund would earn interest.

We believe that the accrual of interest is essential to the present value concepts that are part of the accrual accounting established by SFAS 106. The actual liability will be larger than the present value. Interest allows the present value to increase to the actual amount. If discounting and the associated interest cost were not allowed, then larger nominal (undiscounted) amounts would be used. Accordingly, we find it appropriate to recognize interest as a component of current service cost.

5. Recognized Prior Period Costs

Recognized prior period cost is the transition obligation cost that has been accrued. It is the recognized portion of the transition obligation. Both UTF and OPC present essentially the same arguments for prior period costs as they did for current service costs, above. UTF believes that recognition of interest is a fundamental part of SFAS 106 and that there is no funding mechanism that it can satisfactorily use. OPC argues that interest should be excluded from the allowance for postretirement benefit expense since the Company should fund its benefit plan and such a fund would earn interest.

We find that the accrual of interest is essential to the present value concepts that are part of the accrual accounting established by SFAS 106. Accordingly, we find it appropriate to recognize the interest component of recognized prior period cost.

6. Unrecognized Prior Period Costs

Unrecognized prior period cost is the transition obligation cost that has not been accrued. It is the unrecognized portion of the transition obligation. UTF argues that recognition of interest is a fundamental part of SFAS 106 and that there is no funding mechanism that it can satisfactorily use. UTF further contends that unrecognized prior period costs are amounts that are discounted to present value; therefore, interest should be allowed so that the present amount can grow to the amount of the benefit that will be paid. OPC argues that interest costs on the unrecognized liability portion, which does not relate to the prior period costs, should be charged to an above the line account.

Upon review, we find that it is appropriate to recognize the interest component of unrecognized prior period costs.

7. Recovery of Funds for Changed Estimates

United asserts that SFAS 106 already contains a mechanism for recognizing changes. The Company contends that, as a practical matter, the Commission can require companies to report changes in benefit plans, if that is a concern. OPC argues that the Commission should establish a mechanism to recover funds associated with changes in estimates. OPC believes that while SFAS 106 has mechanisms to smooth the effects of the volatility, that mechanism gives little comfort to ratepayers. If the rates include incorrect estimates, there is no way to recover the overcharge to ratepayers. In fact, the corrections to the estimates will not flow through to ratepayers unless the rates are reset.

We believe that the mechanisms contained within SFAS 106 combined with the surveillance program at the Commission are sufficient to monitor OPEB costs. Rule 25-4.017, requires UTF to report every change it makes in its SFAS 106 accrual that will change its revenue requirements by 25 basis points. Accordingly, we shall not establish additional mechanisms to recover funds associated with changed estimates.

8. Revenues Received in Advance of Disbursement

We must next determine how the Commission should treat the accrued liability under SFAS 106 for ratemaking purposes. There are three possible methods of treating the liability. The liability could reduce working capital, it could be considered as a zero cost source of capital, or it could directly reduce rate base. UTF argues that the liability should be treated as a reduction to working capital. OPC maintains that the liability should be treated as a zero cost source cost of capital.

If the liability is treated as a zero cost source of capital, then the amount might be reduced by a pro rata adjustment. OPC believes that the most appropriate approach would be to treat the liability as a zero cost source of capital, with the Commission ordering the Company that there will be no pro rata adjustment. UTF's study of the funding versus not funding issue indicates that using the liability as a reduction to rate base results has a significant and growing impact on revenue requirements. We believe that treating the liability as a reduction to working capital fully recognizes the effect of the liability in reducing the revenue requirement. Accordingly, we find it appropriate to treat the liability as a reduction to working capital.

9. Funding versus Non-Funding of Obligation

Having determined that SFAS 106 is appropriate for ratemaking purposes, we must decide whether funding or not funding the accruals for postretirement benefits is the least costly method to the ratepayers. UTF agrees that the Commission should use the method that is least costly to ratepayers, with two qualifications. The Company believes that the method should comply with SFAS 106, including realistic assumptions. Additionally, if funding is required, all taxes associated with funding must be recognized for ratemaking purposes. UTF states that it has already taken steps to control health care costs. OPC states that the Commission should continue to recognize postretirement benefits on a pay-as-you-go basis.

The Company asserts that, until a tax deductible funding mechanism is created, not funding is the less costly approach to take. OPC contends that a tax deductible plan is less costly than an unfunded plan.

We believe that there are two positive aspects to not funding. By not funding, the Company can reduce its external financing needs. Additionally, the accrued liability serves to reduce rate base. A negative aspect of not funding is that the return on plan (funded) assets reduces expense. There is currently no tax advantaged funding method that would cover all UTF employees. The only fully tax deductible method is a collectively bargained for

VEBA, which only covers union employees, who comprise 40% of UTF's workforce. Retiree health benefits would have to become a bargained for benefit for UTF to use a collectively bargained for VEBA. Due to the lack of tax deductible methods that would cover all employees, we believe that not funding the obligation under SFAS 106 is less costly than funding the obligation. Accordingly, we find that an unfunded plan is the least costly.

D. Depreciation Expense

United contends that the appropriate amount of intrastate depreciation expense for the test year is $134,321,629. OPC maintains that $111,186,000 is the appropriate amount of depreciation expense. By Order No. PSC-92-0604-FOF-TL, issued July 6, 1992, in Docket No. 910725-TL, United's depreciation study, we approved rates and schedules decreasing intrastate test year depreciation expense by $21,808,000. Accordingly, we find that the appropriate amount of intrastate depreciation expense for the test year is $112,514,000. We also approved a January 1, 1992, implementation date for depreciation recovery schedules, and a July 1, 1992 date for the revised depreciation rates.

E. Taxes Other Than Income Taxes

United asserts that the appropriate amount of intrastate test year taxes other than income is $18,010,000, as revised from its updated MFRs. OPC recommends an additional property tax adjustment, resulting in test year taxes other than income of $17,457,000.

We have made an additional $2000 adjustment to United's proposed amount. Accordingly, we find that the appropriate amount of intrastate test year taxes other than income is $18,008,000.

F. Income Tax Expense

United asserts that its appropriate amount of test year intrastate income tax expense is $12,220,000 filed in its revised MFRs. OPC proposes that, based on the level of revenues and expenses recommended in the proceeding, the amount of intrastate income tax expense is $36,623,000.

The amount of income tax requested in the revised MFRs should be adjusted by $14,955,000 for the tax effect of other NOI adjustments. An adjustment of $(1,024,000) shall be made for the interest synchronization. Additionally a parent debt adjustment of $(1,408,000) shall be made. Based on these adjustments, we find a total intrastate tax expense of $24,743,000.

Finally, we are unaware of any federal or state legislation passed since our decisions in this proceeding that affects taxation or other costs in the test year. Accordingly, no further adjustment is required.

G. Parent Company Debt Adjustment

Rule 25-14.004 is based on the premise that debt at the parent level supports a portion of the parent's equity investment in the utility. Since the interest expense on such debt is deductible by the parent for income tax purposes, the income tax expense of the regulated subsidiary is reduced by the tax effect. United argues that the Commission should not apply the parent debt adjustment at all. The Company believes that the adjustment penalizes the Company for being part of a holding company and it allows changes to the revenue requirement without recognizing that there has been no change in the parent's investment in the Company.

However, if an adjustment is made, the Company believes it should be based on the 1983 capital structure of the parent. OPC believes that the current capital structure of UTI should be used. We have already found that the current capital structure of UTI is appropriate for determining the parent debt adjustment. The most recent capital structure of UTI is as of June 30, 1991. Based on UTI's weighted cost of debt as of June 30, 1991, we find that the net reduction in intrastate federal income tax expense due to the effect of parent debt is $1,408,000.

VIII. COST OF CAPITAL

An initial consideration must be addressed prior to determining the appropriate rate of return and equity ratio of United. We must decide whether the affiliation between UTF and its parent company UTI adversely affect the cost of debt and equity of UTF. Regarding the cost of debt, evidence in this proceeding reveals that UTF's bonds are currently rated AA by Duff & Phelps, A2 by Moody's, and A- by Standard & Poors (S&P). Moody's downgraded UTF's bonds from AA2 to A2 in March 1992. Both Moody's and S&P indicate that UTF's rating is affected by its affiliation with UTI. However, at this time it appears that this has not directly resulted in increased costs to UTF. Similarly, we do not believe that the cost of equity in this proceeding has been affected by the risk of the parent. Although we believe that UTF's affiliation with UTI may have an affect on UTF in the future, we find that for the purposes of this proceeding, that affiliation does not have an impact on UTF's cost of debt and equity.

A. Fair Rate of Return

The Commission must establish the fair rate of return which the Company will be authorized to earn on its investment in rate base. The allowed rate of return must maintain the Company's financial integrity and enable it to attract capital at reasonable costs. The ultimate goal of providing a fair return is to allow an appropriate return on the equity-financed portion of the investment in rate base. The Commission has traditionally considered all sources of capital, with appropriate adjustments, in establishing a fair rate of return.

The establishment of a utility's capital structure serves to identify the sources of capital employed by the utility, together with the amounts and cost rates associated with each component. After identifying the sources of capital, the weighted average cost of capital is determined by multiplying the relative percentages of the capital structure components by their associated cost rates and summing the weighted average costs. The net utility rate base multiplied by the weighted average cost of capital produces an appropriate overall return which includes a return on the equity-financed portion of the investment in rate base.

To arrive at a fair overall rate of return, it is necessary that the Commission use its judgment to establish the allowed return on common equity. In this proceeding, two expert witnesses presented testimony concerning the fair rate of return on common equity for United. Witness Charles M. Linke, testifying on behalf of United, recommended an ROE of 13.95%. Witness David Parcell, testifying for OPC, recommended an ROE of 11.5%. Witness Linke utilized two methodologies in arriving at his return. First, he performed a Discounted Cash Flow (DCF) analysis on the seven Regional Bell Holding Companies (RBHCs). Next, he performed a Risk Premium (RP) analysis using the Capital Asset Pricing Model (CAPM). Witness Parcell used three methodologies to arrive at his recommended return. First, he performed a DCF analysis on three comparable groups of telephone companies, a group of natural gas distribution utilities, and United's parent, UTI. Next, he used the CAPM to conduct an RP analysis for those same groups. Finally, he conducted a Comparable Earnings (CE) test to the same groups as well as a group of unregulated firms.

Based on our review of the testimony of these witnesses and the extensive analyses they have performed in deriving their recommendation for a reasonable cost of equity for United, as well as current market conditions, we find it appropriate to set rates for United that will produce a return on equity of 12.5%. Traditionally, our practice has been to set an ROE and to establish a 100 basis point range above and below this midpoint ROE. This creates a zone of 200 basis points within which the Company's earnings are considered reasonable. We believe that such a range is appropriate in this case. Therefore, we establish for United a 12.5% ROE midpoint for all prospective regulatory purposes with a 100 basis point range on either side. This results in an approved range of 11.5% to 13.5%.

B. Capital Structure

United asserts that it's proposed test year equity ratio of 60.2% is prudent and reasonable. In this proceeding three witnesses presented testimony regarding the equity ratio. Richard D. McRae and Thomas M. Coyle, appearing on behalf of United, conclude that United's equity ratio is reasonable for a LEC based upon the level of business risk the Company faces. They also contend that United's equity ratio is consistent with comparable companies in the telephone industry. Witness David Parcell, appearing for OPC, concludes that United's proposed equity ratio is excessive in light of the UTI consolidated equity ratio of 33.8% and the average equity ratios of the independent telephone companies (59.5%), and the RBHCs (57.9%). He contends that UTF's capital structure contains an excessive amount of equity relative to the investment risk faced by UTF. He also asserts that if a company has too much equity in its capital structure relative to the risk it faces, and if this relationship is not recognized by regulators through some form of adjustment, then ratepayers will incur the cost of an inefficient capital structure.

We believe that the relative level of equity in the capital structure of UTF of 60.2% is high compared to the 33.8% maintained by its more risky parent, UTI. UTF's level of equity is within the range for a AA-rated LEC, is above the top of the range for an A-rated LEC, and is significantly above the level that UTI management believes is reasonable for its much riskier consolidated operations. To ensure that only the fair and reasonable cost of providing regulated telephone service is passed on to ratepayers, we are adjusting the equity ratio to 57.5% for ratemaking purposes. We find that this level of equity is appropriate based on the level of risk faced by UTF, is within the range for an A-rated company, and is consistent with the 12.5% ROE which we are also approving.

Based upon the proper components, amounts, and cost rates associated with the capital structure for the test year ending June 30, 1993, we conclude that the appropriate weighted average cost of capital for United is 9.48%. Based on our review of the record, we find that the capital structure components, amounts and cost rates as set out on Attachment 1 hereto are appropriate and hereby approve them. In arriving at this approved capital structure, we have made several adjustments to the Company's proposed capital structure as set forth below.

1. <u>Parent Company Debt Adjustment</u>

Rule 25-14.004, F.A.C., requires that a parent debt adjustment be made for each parent level above the capital structure used in setting rates. This adjustment assumes, for ratemaking purposes, that a portion of the parent's debt is invested in the equity of the subsidiary and imputes the deduction of interest expense on that debt for income tax purposes. Since UTF has only an immediate parent, a one-tier parent debt adjustment is required to recognize UTF's parent, UTI. In this proceeding, we have determined that an adjustment to decrease federal income tax expense by $1,408,000 is the appropriate parent debt adjustment.

However, we must determine the capital structure to be used for that adjustment. United, although opposed to the parent debt adjustment, proposed that if such an adjustment was to be made it should utilize the parent's 1983 capital structure which preceded the significant increase in debt at the parent level to finance the acquisition and expansion of US Sprint. OPC contends that the Commission should not apply the parent company debt adjustment proposed by United based on UTI's debt level in 1984, because such a procedure would implicitly assume that it is possible to trace dollars. However, if the Commission chooses a procedure to trace funds, then a double leverage capital adjustment utilizing UTI's 1983 consolidated capital structure and cost rates to determine UTF's cost of common equity should be used.

We believe that the current UTI capital structure should be used for determining the parent debt adjustment. It would not be appropriate to use UTF's 1983 capital structure for ratemaking purposes in 1993; similarly, it would make no sense to use UTI's 1983 capital structure for making a parent debt adjustment for ratemaking purposes in 1993. Additionally, we will not use the double leverage adjustment suggested by OPC. The double leverage formula inherently traces funds to their capital source, but we consider funds to be fungible. Also, we believe that a double leverage adjustment for UTF may result in an ROE that understates the Company's required return on capital. Accordingly, we shall apply the parent debt adjustment as set forth in Rule 25-14.004.

2. Deferred Income Taxes

The appropriate 12 month average intrastate test year deferred income taxes to be included in the capital structure after reconciliation is $144,408,000.

Additionally, we must address the treatment of deferred income taxes associated with the adjustment taken by United for 1988 and 1989 overearnings. By Order No. 25007, issued September 4, 1991, we ordered United to dispose of 1988 and 1989 excess earnings by placing monies, including interest, into an unclassified intrastate depreciation reserve account, thus decreasing rate base. We also required United to reduce rates to reflect the resulting reduction in revenue. OPC asserts that the depreciation charge taken from the overearnings did not affect tax depreciation, thus creating a tax timing difference. OPC suggests that the Commission should increase deferred income taxes by removing the 13 month average of the deferred tax debit associated with the depreciation recorded by the company for the 1988 and 1989 overearnings.

United asserts that the Commission grossed up United's excess earnings for taxes, increased the depreciation adjustment by a like amount, and reduced deferred taxes, with no unintended consequences resulting from the adjustment to the depreciation reserve.

We agree that the tax consequences of the excess earnings were taken into consideration when the overearnings were grossed up by taxes. Additionally, the resulting slight increase in cost of capital from the debit deferred income taxes, is offset by the rate base reduction associated with the depreciation reserve adjustment.

Accordingly, the deferred taxes associated with the additional depreciation expense recorded in 1991 for overearnings shall remain a component of the accumulated deferred tax balance. No adjustment will be made to remove the debit deferred income taxes associated with the depreciation reserve adjustment made by UTF.

Finally, we must determine the appropriate treatment of deferred income taxes associated with the adjustment taken by United for its parent company debt resulting from United's last rate case. By Order No 24942, issued August 20, 1991, we ordered UTF to dispose of monies held subject to refund, which were related to the parent debt adjustment. We also ordered United to place those monies into an unclassified intrastate depreciation reserve account. We find that it is appropriate to recognize the deferred taxes associated with the adjustment in the accumulated deferred income tax balance.

3. Investment Tax Credits

United asserts that its capital structure, after reconciliation, reflects an intrastate deferred investment tax credit of $18,398,000, with an associated cost rate of 12.24%. Based on other adjustments in this proceeding, we find that the intrastate test year investment tax credit is $18,277,000 with an associated cost rate of 11.23%.

4. Removal of Non-regulated Investments

United asserts that its investment in UTLD and other non-regulated operations should be removed from the capital structure pro-rata from all types of investor supplied capital. The Company believes that this is consistent with financial principles and practice and is more consistent with the actual financing practices in the interexchange services and interconnect industries where United competes than removing these investments 100% from common equity. OPC contends that UTLD and other non-regulated investments should be removed from equity.

We recognize that regulated utilities are of relatively low risk and have correspondingly lower costs of capital. We also recognize that UTF's non-regulated investments increase the Company's risk, and its cost of capital, above what may be necessary for the provision of regulated telephone service. Therefore, UTF's investment in UTLD and other non-regulated activities do increase the riskiness of UTF. However, by reducing the ROE to 12.5%, which is analogous to that of comparable risk companies, and adjusting the equity ratio to 57.5%, we can alleviate concerns regarding financial cross subsidization through the cost of capital and ensure that only the fair and reasonable cost of providing regulated telephone service is passed on to ratepayers. Accordingly, we find that UTF's non-regulated investments be removed from the capital structure pro rata from investor-supplied sources of capital.

IX. REVENUE REQUIREMENT

The revenue requirement of a utility is derived by establishing the rate base, net operating income and fair rate of return. A test period of operations, traditionally based upon one year of operations, is used to derive these factors. Multiplying the rate base by the fair rate of return provides the net operating income the utility is permitted to earn. Comparing the permitted net operating income with the test year net operating income determines the net operating income deficiency or excess. The total test year revenue deficiency or excess is determined by expanding this net operating income deficiency or excess for taxes.

United's rate base is $1,008,534,000 multiplied by its required rate of return of 9.48% equals the Company's required net operating income of $95,609,000. The test year net operating income is $96,267,000, which results in an NOI excess of $658,000. The excess multiplied by the revenue expansion multiplier of 1.618463 produces a decrease in revenue requirements of $1,065,000.

X. ADDITIONAL REQUIREMENTS

Based on our approval of the ratemaking treatment of certain items discussed in prior issues, UTF may make adjustments to its accounting records or to reports which it files with the Commission. In order for the Commission to follow up on decisions in this proceeding and on UTF's implementation of those decisions, we believe a tracking mechanism is necessary. United would agree to provide a filing consistent with the draft amendment to Rule 25-4.017 upon which the staff has requested comments in an undocketed data request. Accordingly, United shall be required to file, within 30 days after the date of the final order in this proceeding, a description of all entries or adjustments to its annual report, rate of return reports, and books and records required as a result of the Commissions's findings in this proceeding.

Finally, United shall file, within 30 days after the date of the final order in this proceeding, an updated schedule to reflect the actual rate case expense.

XI. RATE DESIGN

Generally, non-basic services should be analyzed first, to derive as much revenue as possible from them before looking to raise the prices on local rates. In the course of examining non-basic services we utilize numerous criteria including costs, established policy, the existence and extent of competitive alternatives, customer impact, and historic rate relationships. If the revenue requirement is not met after all other services have been analyzed and set, then we must turn to basic local exchange rates for the needed revenue. Basic local exchange rates have traditionally been separated into residential and business categories and include various single line and multi-line (rotary and PBX) offerings.

In this proceeding, we have determined that an overall revenue decrease of $1,065,000 for the test year is appropriate. Thus, we are not approving an increase in basic local rates, as was proposed by United. However, as set forth below, we are approving both increases and decreases in custom calling features, as well as additional Direct-Inward-Dialing restructure. We are also approving several Extended Area Service arrangements. Based on those decisions, we find that United will earn excess revenues in the amount of $972,000 intrastate for the test year. We believe that it is appropriate to record these monies annually in an unclassified intrastate depreciation reserve account, until the next depreciation study. United shall book $1,093,000 to account for the rate base effect.

A. FORECASTING

1. Access Lines, Toll Messages and Access Minutes of Use

The Company's forecast of access lines, toll messages, and access minutes of use (MOU) are primary drivers for UTF's budget process. These forecasts are inputs for determining revenue, expense, and construction budgets. No party in this docket contested the issue directly.

In this proceeding we reviewed the Company's forecasting methods, data, and results as they pertain to access lines, toll messages, and access MOU. Each forecast was reviewed in light of historical trends, current economic conditions, and the reasonableness of the economic assumptions used to support the forecasts. Minor revisions have been made by United to the minutes of use forecast to recognize the impact of shifts between intraLATA toll messages and interLATA access minutes.

UTF's process of developing its access line forecast is continuous, and it follows an annual schedule. The process starts with the development of a national and state economic overview, which is used as an input for all forecasts. The overview includes two economic and demographic assumptions. First, a national economic recession, which began in the third quarter of 1990, will continue in Florida until the fourth quarter of 1991, when a modest recovery begins. Additionally, a slowdown in access line growth in Florida will occur during the 1990's, based on certain demographic variables.

UTF forecasts net access line gain (ALG) in order to derive access lines in service (ALIS). Net ALG is the numerical increase in ALIS from one period (quarter or year) to the next. ALIS is the total number of access lines connected at any point in time. The Company forecasts residential ALG of 33,500 in 1992 and 35,500 in 1993. These amounts are relatively higher than the gain forecasted for 1991, but lower than the gains experienced from 1988-1990. The forecast for business ALG is 15,500 in 1992 and 16,500 in 1993. The annual business line gains also exceed the 1991 gain forecast, but are lower than the gain experienced during 1988-1990. Thus, actual total ALG was 46,095 in 1991. Forecasted ALG is 49,000 in 1992, and 52,000 in 1993. These access line forecasts reflect UTF's test year assumptions of economic recovery but slow growth.

As in the case of ALG, the percentage increase in ALIS during the test period reflects a slowly recovering economy and reduced population growth in Florida. Thus, we find the Company's forecast of ALG and ALIS reasonable.

UTF develops and updates its toll message forecast on an annual schedule very similar to their access line forecast. Statistical trending analysis and individual message type marketplace performance expectations are used by Company forecasters to formulate the message forecasts. These message type forecasts are summed to form a total message forecast, so the process can be described as "bottoms-up" forecasting. The resulting total message forecast is analyzed with the same statistical measures, which provides a top-down view. UTF bases their toll message forecasts on three types of inputs: historical trends of messages; access line growth; and, known and measurable events, such as Commission decisions on EAS. We analyzed the Company's historic and forecasted messages and percent annual message increases by jurisdiction and message type. We found that the forecasts are reasonably accurate when compared to actuals. Finally, based on our review of the data, we find that the access MOU forecast presented in this rate proceeding is reasonable.

Upon review, we believe that UTF's forecasts of access lines, toll messages, and access MOU are reasonable.

2. Billing Units

United asserts that its forecasted billing units are appropriate with one exception. Subsequent to the MFR filing, the Commission approved flat rate nonoptional two-way Extended Area Service (EAS) for Bonita Springs to Fort Myers, Fort Myers Beach, and Naples. The billing units have not been revised to reflect the June 28, 1992, implementation date of this plan. OPC contends that the Company incorrectly forecasts the number of messages expected from the $.25 plan for calls between Kissimmee and Orlando because it did not account for any stimulation. Likewise, it failed to account for any stimulation from its Telesaver service, a service providing toll discounts of about 36%-40% over regular toll. OPC believes that no adjustments should be allowed for these services because of the Company's faulty forecast of usage.

Although we agree with the concept of stimulation, there is no definitive basis on the record for quantifying the effect on the services in question. We have sufficient doubt about the level of stimulation for both the Kissimmee and Orlando $.25 plan and Telesaver, such that a stimulation adjustment would be inappropriate.

However, because of the Commission approved implementation of flat rate nonoptional two-way EAS for Bonita Springs, the pricing units for Long Distance Telecommunications Service (LDTS), Optional Extended Local Calling (OELC), and TollPac require adjustment.

Average test year billing units for LDTS and TollPac shall be reduced in the 11-22 mileage band as follows: LDTS - 504,446 minutes; TollPac - 5,352 minutes. Further, average test year billing units for Operator Surcharges need to be reduced as follows: Station, Dialed Calling Card - 5,593; Station, All Other - 5,992; Person, All Calls - 206. Average test year billing units for OELC need to be reduced by 6,410 to reflect that the only remaining OELC customers will be in Ocala and Williston. With the inclusion of these adjustments, we believe that United's forecasted billing units are appropriate. Because these adjustments were made following the evidentiary hearing in the proceeding, our action herein shall be in the form of a notice of proposed agency action.

B. Access/Toll/Interconnection

1. Time-of-Day Discounts

United requests a change to the switched access time-of-day discounts to provide consistency in the discount between IXCs and United's intraLATA message toll service. The Company asserts that if significant differences in the discounts exist, competitive imbalances between IXC provided intraLATA traffic and LEC provided intraLATA traffic may result. This proposal moves switched access time-of-day discounts to the same level as the Company's intraLATA MTS time-of-day discounts. The proposed change would increase revenues by $2,353,117.

AT&T does not oppose the proposed change in time-of-day discounts as long as such action is taken in conjunction with the BHMOC reduction proposed by United in this docket. AT&T believes that the reduction in annual switched access charges resulting from those changes would be a positive step towards driving access rates towards cost.

OPC asserts that in United's last case, the Commission raised local rates significantly while reducing access charges, and that the Commission should not again reduce access charges in this case.

Upon review, we find it appropriate to approve United's proposal to change time-of-day discount amounts which will increase access revenues by $2.632 million.

2. BHMOC

The Busy Hour Minute of Capacity (BHMOC) is a fixed monthly rate per busy hour minute of switched access capacity ordered by IXCs. The BHMOC charge is calculated and assessed for each IXC connection to a LEC switch. The BHMOC rate is unique to Florida, and there is no BHMOC charge for interstate access. In United's last rate case and with subsequent rate changes, the Company's BHMOC rate was reduced from $6.39 to $3.95. United has proposed reducing its BHMOC from $3.95 to $2.406 for an $8.46 million revenue reduction. In addition, the Company proposes adjusting the Modified Access Based Compensation (MABC) BHMOC rates to coincide with any change in BHMOC rates since these are the access rates that United charges other local exchange companies.

AT&T supports United's proposal to reduce BHMOC rates from $3.95 to $2.406 in this proceeding. While AT&T continues to advocate the elimination of all charges associated with the BHMOC element, AT&T recognizes United's proposed reduction as an important step towards that end. OPC does not support any reduction in access charges in this docket.

This Commission has clearly indicated that it is encouraging the reduction and future elimination of the BHMOC charge. Southern Bell has removed the charge entirely and Centel's and United's charges were reduced substantially in their last rate cases. We increased local rates by $15.9 million in United's last rate case and lowered the BHMOC. But, we do not believe that local rates should again be raised in this proceeding in order to have a greater BHMOC reduction. Accordingly, we shall deny United's request. However, in conjunction with the increase in time-of-day discounts, we will reduce BHMOC revenues in the same amount. This will result in a decrease in the BHMOC rate of $.45 to a rate of $3.50 premium and $2.275 non premium. Cellular mobile interconnection rates will also be reduced as a result of the BHMOC reduction.

C. Extended Area Service

1. Optional Extended Local Calling

United proposes to increase Optional Extended Local Calling (OELC) plans by the same percentage amount as that proposed for local residential rates. Although we believe that the OELC plan rate increases proposed by United are in accord with the our established procedures, we are neither increasing nor decreasing local rates. Therefore, no changes are required for the OELC plans.

2. Clermont to Orlando EAS Additive

By Order No. 24144, issued February 22, 1991, in Docket No. 891339-TL, EAS was granted between the Clermont exchange and the Lake Buena Vista, Orlando, Reedy Creek, Windermere, and Winter Garden exchanges. EAS was implemented on December 15, 1991, under the 25/25 plan with regrouping. The Clermont EAS additive for R-1 service includes two components: a 25\25 additive of $2.36 and a regrouping additive of $1.50, for a total additive of $3.86. An issue in this proceeding was whether it is appropriate to remove the 25/25 additive at the time of this rate proceeding.

United asserts that Order No. 24144 does not indicate that either component of the additive is temporary until the Company's next rate case, whereupon the additive would be removed. Thus, United sees no justification for removal or reduction of the 25/25 component. OPC argues that the combined increase from the recent EAS additive and the proposal by United in this case to apply another full percentage increase is excessive.

We believe that part of the rationale for the 25/25 additive is that the customers who benefit from the additional calling scope will pay at least some part of the added costs and lost revenues for a period of time. Although this Commission has not designated precisely how long the additives should be retained, that period of time has, in all cases, been longer than six months. Most additives have been in effect from two to five years.

EAS affects the local exchange company in two ways: lost revenues from converting toll to local calling, and added costs from additional facilities. This Commission has traditionally waived the portion of its rules regarding the recovery of costs, recognizing that recovery of all costs, while providing customers the needed additional calling at reasonable rates, is virtually impossible. However, we have agreed that the beneficiaries of EAS should cover some of the company's costs/lost revenues, at least for some period of time. In the Clermont exchange, customers gained flat rate local calling to the Lake Buena Vista, Orlando, Reedy Creek, Windermere, and Winter Garden exchanges. In doing so, their local calling scope went from 91,047 to 412,488 access lines, an increase of over 300%.

We believe that it is appropriate to maintain the Clermont additive at this time. The plan has only been in place since December 15, 1991. United must file modified minimum filing requirements in four years. We do not believe this is an unreasonable time for customers to pay the additive. Therefore, we find it appropriate that customers pay the 25/25 additive for at least two years, or until the next rate case, whichever is greater.

3. Bonita Springs EAS

By Order No. PSC-92-0322-FOF-TL, issued May 11, 1992, in Docket No. 910026-TL, the Commission ordered implementation of flat-rate, two-way, nonoptional EAS for toll free calling on the Bonita Springs-Fort Myers, Bonita Springs-Fort Myers Beach and Bonita Springs-Naples routes. United implemented the plan on June 28, 1992.

With the implementation of EAS, the rates for residents of Bonita Springs increased from $7.20 to $11.65. The $4.45 increase consists of two components: a $2.25 regrouping additive and a $2.20 25/25 additive. The expansion of the calling scope from 41,171 to 221,385 access lines requires the regrouping of Bonita Springs from rate group 2 to rate group 5. The $2.20 additive for the 25/25 plan is 25% of the rate group schedule for the number of access lines which were added to the exchange's calling scope.

EAS has only recently been implemented for Bonita Springs. Based on our policy of retaining additives for a reasonable period of time as reflected in Section 2 above, we do not believe it would be appropriate to eliminate an additive that has only recently been instituted. Thus, the additive shall be retained.

4. Toll-PAC Conversion

Toll-Personalized Area Calling (Toll-PAC) is an optional, typically intraLATA calling plan which is available to residential and business customers. It is not available to semipublic, PATS or FX services. Toll-PAC is a route-specific plan which allows a subscriber to place toll calls to specific nearby communities with a discount of 30% applied to the applicable message toll service (MTS) rate after payment of a minimum monthly amount. Toll-PAC applies only to those customers who subscribe to the Plan.

Toll-PAC was traditionally implemented in areas that exhibited a need for toll relief but did not qualify for two-way flat rate

EAS. Toll-PAC was generally chosen when there was some community of interest expressed, but it was not substantial enough to meet survey requirements. Today, we generally find a $.25 plan fulfills the needs of these subscribers. United currently has 16 Toll-PAC routes remaining.

The $.25 calling plan is a non-optional plan which bills $.25 for each call placed on a route where the plan is in place. This plan includes seven-digit dialing, where possible, and is available to residential, business, semipublic and PATS services. The plan applies in both directions of the specified route. The $.25 rate applies to all subscribers who make calls on these specific routes. We believe that the following routes should be converted to the $.25 calling plan: Cape Haze to Port Charlotte, Moore Haven to Clewiston, and Williston to Gainesville. These routes should be converted to the $.25 calling plan because of their high calling rates, which are greater than 4 messages per main and equivalent main station per month (M/M/Ms). Because of the high calling rates, and low take rates on Toll-PAC on those routes, the conversion to the $.25 plan will more adequately serve the customers in those areas. Thus, Toll-PAC shall be deleted on these routes. The Williston to Gainesville route is inter-company, with Southern Bell Telephone and Telegraph Company (Southern Bell). Therefore, our action herein shall be in the form of a notice of proposed agency action, for that route.

Although some revenue loss will occur, we believe that stimulation will reduce the revenue loss. Using a conservative estimate of stimulation (31.8%), the revenue loss would be reduced to $592,863. We will include this conservative estimate of stimulation for computing rates. Additionally, the Company shall monitor the stimulation and also true-up the reverse calling volumes for six months after the plans are put in place. Upon review of the true-up we may wish to investigate the possibility of implementing certain interLATA routes with high M/M/Ms.

D. <u>Other EAS</u>

United contends that, although some routes in the Company's service territory are facing EAS pressures, the Commission should not take action at this time to address these or other routes. The Company believes that no EAS changes should be made in United's territory at this time other than those changes proceeding under the established EAS rules and procedures separate and apart from this rate case. We disagree. We believe that a proceeding where the Company's overall earnings and rates are being reviewed provides an appropriate forum for addressing EAS needs. This also offers the Company the advantage of addressing EAS needs in a proceeding where revenue losses can be taken into account. Although some of the routes in question might never be the subject of EAS requests, we believe it is only a matter of time before the higher volume routes must be considered. Accordingly, we shall address these high volume routes in the context of this rate case.

OPC believes that the calling scope of the Cape Haze and Bonita Shores areas should be addressed in this case. Bonita Shores is part of the Bonita Springs exchange, and that has been addressed in Docket No. 910027-TL. The Cape Haze exchange has been considered in our decision regarding Toll-Pac, above.

In addition to the three routes for which we have deleted Toll-PAC, there are three other intraLATA routes which currently have no optional calling plan, but have calling rates higher than 4M/M/Ms. These are Everglades to Naples (7.64 MMMs), Immokalee to Naples (5.00 MMMs), and Immokalee to Ft. Myers (4.92 MMMs). We believe it is appropriate to implement the $.25 plan on these routes.

The revenue impact, without stimulation, for the conversion of these three routes is $865,145. We believe that there will be stimulation and that it will be greater than the 31.8% that United experienced when it decreased the rate on its 0-10 mileage band routes to $.25 per message. In that case, the average revenue per message only went from $.261 to $.25. For the instant routes, the current average revenue varies from $.77 to $.85 per message. A decrease to $.25 per message should cause significant stimulation. However, as a conservative estimate, we will use the same stimulation number here for revenue purposes.

With stimulation, the revenue impact is $747,239. Although we had only one-way calling information, we assumed that the return calling volume was 84% of the one-way calling volume, based on the information received on the Bonita Springs EAS routes. This will require a truing-up. Therefore, United shall monitor the results of stimulation and true up the return calling volume for six months after implementation of these routes. Upon review of the true-up we may wish to investigate the possibility of implementing certain interLATA routes with high MMMs.

Finally, we believe that it is necessary to address options for the Trillacoochee to Brooksville exchange. Trillacoochee customers have been surveyed, and did not vote to incur the additional rate for the additional calling, according to the current EAS rules. However, we recognize that the Trillacoochee customers have a legitimate need for toll relief. Therefore, we find that the $.25 plan is appropriate based on the results of the survey. It should be noted that the Trillacoochee to Brooksville route currently has Optional Extended Area Service (OEAS). Upon implementation of the $.25 plan, OEAS shall be eliminated simultaneously, with the exception of Option 1 (the flat rate option) which shall be retained. The revenue impact of converting this route to the $.25 calling plan is $34,632, without stimulation. We expect stimulation to occur, and a conservative estimate of 31.8% would yield a revenue loss of $27,420. United shall monitor stimulation for a period of six months, for the purpose of truing-up revenues. The Trillacoochee to Brooksville route is inter-company. Therefore, our action herein regarding that route, shall be in the form of a notice of proposed agency action.

E. Custom Calling Features/Signal Ring/ Express Touch

1. Custom Calling Features

United has proposed rate changes for Custom Calling Features in both residential and business services. The Company asserts that the proposed rates for custom calling services are based on the relative demand for the features and are reflective of the relative market value of the individual services and should be approved.

United also bases proposed prices for the various Custom Calling Features on analysis of the rates of other local exchange companies for these features. In conjunction with the proposed rate changes for each individual feature, the charge for First Feature Access will be eliminated. The Company believes that this will align rates with the perceived value for the individual features.

The proposed rate changes are as follows:

	RESIDENCE		BUSINESS	
	PRESENT	PROPOSED	PRESENT	PROPOSED
First Feature Access	$1.40	$0.00	$1.65	$0.00
Call Forwarding	$1.65	$2.50	$2.75	$4.50
Call Forward Don't answer	$1.65	$1.00	$2.75	$1.00
Call Forward - Busy	$1.65	$1.00	$2.75	$1.00
3-Way Calling	$1.65	$2.00	$2.75	$3.00
Call Waiting	$1.65	$3.50	$2.75	$4.00
Cancel Call Waiting	$0.75	$1.00	$1.25	$1.25
Speed Calling	$1.65	$2.00	$2.75	$3.00
Call Forward Remote Activation	$1.75	$1.75	$2.35	$2.50
Personal Alert Line	$1.65	$1.65	$2.75	$2.75
SignalRing 1	$2.10	$3.00	$3.40	$6.00
SignalRing 2	$4.05	$5.00	$6.65	$8.00

We believe that it is appropriate to require increases in these services before placing any increases on local rates. Custom Calling Features are discretionary services and provide significant contribution. The greatest proposed increase is Residential Call Waiting, from $1.65 to $3.50.

UTF also proposes to eliminate the First Feature Access rates of $1.40 (residential) and $1.65 (business). The Company asserts that it is the only company that requires this charge, and the first feature rate plus the specific calling feature rate may be a detriment in selling the service. the Company expects to recover any lost revenues in the higher rates proposed for other features, most notably Call Forwarding and Call Waiting. Additionally, United has proposed large increases in the SignalRing I and II rates.

We believe that the proposed rate changes are appropriate. Accordingly, we approve the above listed rate changes as filed.

2. SignalRing

On March 24, 1992, United filed tariff revisions concerning SignalRing service. We addressed the tariff filing in the context of this proceeding. United proposes to expand SignalRing into fifteen of its 1210 central offices serving areas where it was previously not available. Heretofore, SignalRing was restricted to the areas served by the DMS-100 and 5ESS central offices due to the 1210 offices not having the necessary software package to provide the service. The Alcatel manufacturer now offers the software to support SignalRing, thus the service can be expanded to include fifteen 1210 offices. However, SignalRing will not be universally available as UTF has an additional eight 1210 offices and ten analog offices that are not designed to provide SignalRing.

Accordingly, we approve the tariff as filed. The effective date shall coincide with the approval date for rate changes in the rate case issues.

3. Special Identity Number Arrangement

On March 24, 1992, United filed tariff revision regarding Special Identity Number Arrangement (SINA). We addressed this filing in the context of this proceeding. United proposes to increase the recurring charge from $.75 to $2.00 for the SINA "grandfathered" subscribers. SINA is a service which is almost identical to SignalRing 1. SINA provides for a residential single line subscriber to obtain an additional telephone number for the existing access line, and receive calls differentiated by different ringing signals. The subscriber must pay for an additional listing if the number is to be listed in directory. SINA became an obsolete service in June 1990 because United implemented SignalRing and the DMS-100 and 5ESS switches did not have the line-card capability to provide SINA, and United had not expected the Alcatel 1210 switch manufacturer to provide the software for SignalRing.

The Company believes that the coexistence of SINA at $0.75 per month and residential SignalRing 1 at $2.10 per month will create a rate disparity for what appears to be like services. We agree that a rate disparity currently exists; however, increasing the SINA rate to $2.00 will not alleviate the disparity as United is also requesting a rate increase in SignalRing 1 from $2.10 to $3.00. The services are very closely related but SINA does not provide an additional listing for the second number. United agrees that it is encouraging migration from SINA to SignalRing, and while restricting the SINA rate increase to the same percentage as SignalRing1 may be more reasonable to the SINA subscriber, the Company believes the pricing and value of service are comparable to the SignalRing service.

We do not believe that UTF has justified a 200% increase in the SINA rate from $0.75 to $2.00. SignalRing and SINA are very similar; however, unlike the SignalRing subscriber, the SINA subscriber does not receive an additional listing, and we do not believe that any additional value has been identified that would support a greater percentage of increase for SINA. We believe that any increase will be an incentive for the SINA subscribers to migrate to SignalRing. Thus, the rate increase should be limited to 43%, which is the same increase requested for SignalRing, or a new rate of $1.10. The effective date shall coincide with the approval date for rate changes in the rate case.

4. Secondary Service Order Charges

United proposes elimination of the secondary service order charge (SSOC) for subscribers adding Custom Calling Features, SignalRing and ExpressTouch. The individual rates are $9.50 for residential subscribers and $16.00 for business subscribers. The Company believes that since Custom Calling Features have high contribution margins, removing the application of the Secondary Service Order Charge should stimulate revenues over the long term. United also indicates that revenues have consistently increased on previous occasions where special promotions were conducted with a waiver of the SSOC.

We believe that elimination of the SSOC benefits customers by allowing them greater flexibility in their utilization of the features. Some customers may only need a feature for two or three months at a time, thus the customer benefits by not incurring the SSOC.

We find the Company's proposal appropriate. Although a precise impact on demand cannot be quantified, we believe it will increase revenues for the affected services. Accordingly, we approve elimination of the secondary service order charge.

F. Residential/Business/PBX/ABC

1. Residential Rates

United proposes to increase local exchange rates 37% over current levels to produce a revenue increase of $59.2 million. The Company asserts that its current rates are lower than Southern Bell's and GTE Florida Incorporated's local service rates. Further, United's proposed residential local service rates average only $11.77 as compared to $14.87 for the average of six southeastern states.

United proposed only minor changes to other service rates. The Company maintains that this was due to the fact that the Commission had just completed an intensive review and rate adjustments in United's last rate case, Docket No. 891239-TL. The Company stated that the only other service for which major rate adjustments were considered was intraLATA toll. United has proposed no other changes to local exchange rates.

OPC believes that United is overearning and that local service rates should be reduced in this case to offset increases granted in the last rate case. AT&T, FCTA and FPTA have no position on this issue.

We do not believe it appropriate to change residential rates or rate relationships in this proceeding. The Commission completely restructured United's local rates in its last case, including reducing the amount of rate groups from 9 to 6. The Commission also granted increases of $15.9 million in local rates in the last rate case. The customer impact varied due to the restructure of rate groups. Although we do believe that the rates in United's lower rate groups are low relative to other companies with similar calling scopes, we do not believe it is reasonable to raise these rates in the face of on overall revenue requirements decrease. Thus, no further changes in residential rates or rate relationship are warranted at this time.

2. Business Services Rate Relationships

Staff witness Richard Cimerman supported proposed changes in rate relationships for business services. Witness Cimerman recommended that the Commission revise its approach to pricing business services. While this issue was entered into this docket at a late date, it is a subject that this Commission has been considering for some period of time. In Order No. 23872, issued December 13, 1990, following the investigation into the pricing of Southern Bell's PBX trunks and ESSX service, the Commission stated that the issue of potentially inconsistent pricing of similar competitive business services is worth examining in depth. However, we found that it is not appropriate to reprice PBX, DID and centrex-type offerings or other competitive, functionally equivalent offerings in isolation. Specifically, we planned to determine whether the local loop, performance of that loop, network usage and touchtone for ESSX, PBX trunks, B-1 lines and other business services should be priced on a similar basis.

We would like to reiterate that this Commission intends to review this subject and its merit. In this docket, we are considering for the first time, the initial stages of the repricing of business services. Staff witness Cimerman presented a proposal establishing the rates for these services on three underlying cost characteristics: interconnection to the network (the loop); network usage; and various additional functionalities, such as signaling or conditioning. The rates would reflect any underlying cost differences in these three elements. Absent any change in revenue requirements for business services, the likely result from this restructure would be a reduction in PBX rates and an increase in B-1 rates.

No other party provided testimony on this issue. OPC has only stated that local rates must be reduced. The Ad Hoc Telecommunications Users stated at the hearing that it supported witness Cimerman's proposal. United stated that the Company does recognize the competitive pressures of these services. The Company further stated that any move in this direction be done in phases to give customers the opportunity to make adjustments.

Upon review, we find that no changes to United's local business rates should be made at this time. While we still support the concept of changing the rate relationships for business services, we do not believe a negative revenue requirement supports an increase in any basic local exchange rates at this time. Therefore, there will be no revenue impact to local business service rates in this proceeding.

3. Direct-Inward-Dial

United proposes to continue the restructure for Direct-Inward-Dialing (DID). In the Company's last rate case, United initiated the first step of a restructure of DID rates. DID service provides a customer the ability to route incoming calls directly to a called party instead of having to go through a live operator or receptionist. DID service also allows the called party, who may share a trunk, to appear as if he has a direct line used only by him. DID requires central office switching equipment that will complete calls from the LEC network directly to stations located on the customer premises without intervention by a PBX attendant.

United's current and proposed DID rates are as follows:

DID Monthly rates for:	Current	Proposed
Block of 20 numbers	$ 25.00	$ 12.50
Block of 100 numbers	$100.00	$ 50.00
DID Trunk Termination per trunk	$ 20.00	$ 30.00

In United's last rate case the rates for DID service were completely restructured to its current structure in an effort to make the application of DID rates for different services more consistent. The Company maintains that with the continued restructure 75% of DID customers will have impacts of less than 20%.

The other parties have taken no specific position on this issue. Again, OPC's general position is that local rates should be decreased.

We believe that the continued restructure of DID services is appropriate. This is a logical step in the phase-in approach to restructure DID services. The Commission has approved the restructure of PBX DID rates to make the application of DID rates for different services more consistent. However, mobile interconnection rates are still at different levels than DID service rates. The current mobile interconnection tariff has a DID numbers rate at $.40 and a termination rate of $38.00.

Additional steps to the phase-in of these rates will be necessary, and will need to occur in future rate cases or as excess revenue is identified that may need to be offset. Accordingly, we hereby approve United's proposal to continue the restructure of DID rates.

4. Advanced Business Connection

United proposes rate increases in several other services as a result of these services' rate elements being tied to local service rates. These services include the Advanced Business Connection (ABC) network access register (NAR) and ABC hunting rates. These rates are proposed to increase consistent with their existing relationship to local service rates.

ABC is a central office communications system package provided in association with individual line exchange and resident services furnished from a digital central office Company location. All features are available to Touch-tone signalling that will accommodate up to 25 lines. An Enhanced ABC service is available in systems with 26-75 lines or 76-150 lines.

The ABC basic system standard features include call hold, call pickup, ring again, station-to-station calling and three-way conference/transfer/consultation hold. Optional features include call forward-don't answer, call forward-busy, call forwarding, call waiting, class-of-service restrictions, station controlled conference, meet-me conference, speed call-station, speed call-group, automatic line, call park, station hunting, off-premises extension station, ABC 800 service, ABC OUTWATS, ABC OUTWATS/callback queue, multiple appearance directory number, auto answer back, fictitious directory number and music-on-hold.

The Enhanced ABC service is also provided from digital central offices with basic service features of Direct Inward and Outward Dialing (DID,DOD), Intercommunication calls, Identified Outward Dialing (IOD), intercept and station line hunting. Optional services include an array of features in excess of those on the basic ABC system. The number of exchange and long distance calls in the Enhanced ABC system is limited by the number of NARs subscribed to by the customer.

ABC is offered as Basic and Enhanced. The Basic offering is designed for the smaller customer configurations which would normally be served by business one-party and business rotary services terminated in key telephone systems. The recurring rate for Basic ABC service is an addition to the business basic service rates. Enhanced ABC is an alternative to PBX service with trunks. The Enhanced ABC NARs are tied to the PBX trunk rate.

We have determined, based on the evidence presented in this proceeding, that an increase in local rates is not appropriate. Accordingly, we shall also deny United's request to increase those ABC rates that are tied to local rates.

UTF's request for an increase in ABC rates also includes a proposal to establish a Subscriber Line Charge (SLC) credit similar to the plans which have been approved for Centel, GTEFL and Southern Bell. The Company believes an inequity exists in the SLC assessment for its PBX and ABC subscribers. PBX subscribers pay the SLC per trunk while ABC subscribers pay the SLC per each access line. In an effort to make ABC pricing more comparable to the pricing of PBX service, United proposes charging the SLC to end users based on the number of NARs rather than the number of lines. Due to federal regulatory requirements, this charge will be implemented by the use of SLC credits.

In an Enhanced ABC system, network access is limited by the number of NARs. The NAR limits the number of simultaneous outside calls to and from an ABC system and provides a mechanism for charging for use of the switched network. The equivalent to a NAR in PBX service is the local network usages accounted for in the PBX trunk rate. In the case of a PBX, network access is limited by the number of trunks. The NAR is, in effect, trunk equivalency.

The concept of trunk equivalency allows United to base the SLC collected from the customer on a trunk equivalency basis rather than a per station basis, thus reducing the cost to the customer. SLCs are an FCC requirement based on volume of service or $6.00 per trunk. With UTF's SLC credit, ABC customers would pay SLCs equivalent to those paid by PBX customers. The ABC customers' charges would equate to $6.00 per network access register. This is comparable to the $6.00 SLC a PBX customer is charged for each trunk. United's proposed SLC credit is the same as Centel's methodology of charging a SLC per each equivalent trunk.

Although we have denied the requested changes in the ABC service rates, we have approved herein United's request to revise the ABC Custom Calling Feature rates. We also believe it is appropriate to approve the SLC credit as it will make ABC pricing more comparable with PBX service, and is consistent with the

Commission's prior approval of similar plans for Centel, GTEFL and Southern Bell.

5. Telephones in Elevators

On February 19, 1992, Clipper Bay Condominium Association, Inc. and several other condominium associations (Clipper Bay) filed complaints against United. The complaints are substantively identical and allege that United has, for a number of years, been inappropriately charging business rates for elevator telephones in the various condominiums. Clipper Bay asserts that it is the policy of the State of Florida that condominiums are residential. Clipper Bay further alleges that United's tariffs provide that residential rates should apply. These complaints were addressed in Docket No. 920464-TL.

It is United's position that the subscribers of the telephones at issue are the respective condominium associations; that the purpose of the telephones are primarily business; and that under United's tariffs the elevator telephones are properly billed as business. The Commission heard this complaint at the June 18, 1992 agenda and decided to move forward with the complaint and discuss the matter in the context of this rate case.

United asserts that whether residence or business service rates apply is determined, in part, by who the customer is. For elevator telephones in condominiums the customer is the condominium association, a business entity, rather than any person who lives in the condominium. The existence of telephones in elevators is not for domestic residence service but rather to meet the condominium association's legal liability for maintaining its premises in a safe condition.

Section A2 C.5 of United's tariff sets forth the criteria for determining whether business or residential rates should apply. Based on current language in its tariffs, we believe United has interpreted its tariff correctly in charging business rates to condominium associations for elevator telephone service.

There continues to exist an inconsistency in Commission policy. Under electric service tariffs, the common areas of condominiums, apartment houses and boarding houses are billed as residential.

We believe that this issue would be more appropriately addressed in a generic proceeding. The issue came up late in this proceeding, thus only limited discovery was available. Specifically, there was not adequate time to obtain revenue impact information. Moreover, we believe that this is a generic issue which should be addressed by all LECs. It appears probable that a generic proceeding will result in rulemaking, thus the financial implications will be addressed by the Economic Impact Statement. Accordingly, we direct our staff to initiate a generic proceeding to determine how telephones installed in both elevators and common areas of condominiums, apartments, and boarding houses should be tariffed.

G. Current Bill Format

Rule 25-4.110 requires that the telephone companies issue bills monthly and that each bill show the delinquent date, provide a clear listing of all charges due and payable. In addition, the bill must provide that written itemization of local billing is available upon request. Finally, itemized bills shall be provided with the first bill rendered after service is initiated or changed, and at least once a year. The annual itemized bill must contain an explanation of the itemization and advise the customer to verify the items and charges on the itemized bill.

OPC asserts that United should be required to itemize bills on a monthly basis. OPC cites inaccurate billing as well as customers being charged for additional items not ordered. Additionally, OPC believes that there is customer confusion in interpreting the bill.

United asserts it is in full compliance with Rule 25-4.110, which requires periodic itemized billing. The Company estimates it would cost $500,000 annually to itemize bills monthly. The Company contends that any customer may request a detailed bill at any time or call a service representative to have a bill explained in detail.

We agree that United is in full compliance with Rule 25.4.110. There is no evidence to support a need or desire by customers to warrant the additional estimated cost of $500,000 annually to provide the monthly itemized bill. Finally, we believe it would be improper to require United to meet stricter billing requirements than what is required by all other LECs, when United is complying with the Rules.

H. Notice of Rate Changes and Effective Date

United shall notify its customers by a bill stuffer reflecting any rate changes in the first billing cycle following the rate changes. The bill stuffer shall contain an overview of the case and the results of the Commission's final decision. In addition, it shall contain the following specific announcements. First, the Company shall provide a summary of services for which rates have been adjusted, with current rates and approved rates listed side by side. A statement that information on new rates is available from each of the Company's business offices and service centers should be included. An explanation of the credit for discontinuance or modification of service and how it may be obtained shall also be provided. Finally, the bill stuffer shall be submitted to the Commission Staff for review within 5 days of our vote in this proceeding.

The effective date of any rate changes shall be 5 days after a complete set of tariffs has been filed. The revised tariffs shall be filed within 5 days of our final vote. Before the tariffs become effective, we shall have a period of 5 days to review those tariffs in their final proposed form in order to ensure that the rates as filed comply with our vote. Billing should apply to all service received on or after the effective date even if it is not actually billed until the following month. Any customer requesting discontinuance of service prior to the due date of the first bill shall receive a credit back to the effective date of the increased amount.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that each and every one of the specific findings set forth herein be and the same are hereby approved in every respect. It is further

ORDERED that the Minimum Filing Requirements filed by United Telephone Company of Florida support a decrease in its rates and charges of $1,065,000. It is further

ORDERED that the Company shall file revised tariffs reflecting the rate adjustments approved herein no later than five days after our vote in this matter. These tariffs shall become effective no later than five days after correct tariffs have been filed and approved by our Staff. It is further

ORDERED that the Company shall dispose of excess revenue in the amount of $972,000 by recording $1,093,000 annually to an unclassified intrastate depreciation reserve account. It is further

ORDERED that Docket No. 910980-TL shall remain open. It is further

ORDERED that Dockets Nos. 910027-TL and 910529-TL shall be closed following the expiration of the protest period specified below, if no protest to our proposed agency action is filed in accordance with the requirement set forth below.

By ORDER of the Florida Public Service Commission, this 24th day of July, 1992.

STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

PAK

NOTE: Chairman Thomas M. Beard dissented from the Commission's decision to disallow expenses related to changing the corporate logo to "Sprint."

Commissioner Deason dissented from the Commission's approval of the Company's forecasted billing units, only in that he would have included a stimulation factor in the calculations for Extended Area Service. Commissioner Deason also dissented from the Commission's decision to decrease O&M expense by $6,751,000. Commission Deason also dissented from the Commission's decision to set the wage increase assumption at 5.27% for pension calculation, in favor of a 4.57% increase.

Commissioner Clark dissented on the Commission's decision to reduce software expense by $930,000, in favor of Staff's recommendation to decrease expense $2,480,000.

Commissioner Lauredo dissented from the Commission's decision regarding the following matters:

> appropriate balance of plug-in units; expenses related to changing the corporate logo to "Sprint"; allocation of costs from Sprint/United Information Services to United Telephone Company of Florida; effect of other postretirement benefits; amount of plant in service; uneconomic investment; amount of rate base; amount of deferred income taxes to be included in the capital structure; amount of investment tax credits; weighted average cost of capital; O&M expense; income tax expense; net operating income; revenue decrease of $1,065,000 for the test year.

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.

As identified in the body of this order, a portion of our action in Sections VII-A.1, XI-A.2, and XI-D are 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 August 14, 1992. In the absence of such a petition, this order shall become effective on the date 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 the relevant portion of 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 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.

Any party adversely affected by the Commission's final action in this matter may request: (1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or (2) 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 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 after the issuance 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.

UNITED TELEPHONE COMPANY OF FLORIDA
TEST YEAR ENDED JUNE 30, 1993
COST OF CAPITAL

DESCRIPTION	LONG TERM DEBT	SHORT TERM DEBT	PREFERRED STOCK	CUSTOMER DEPOSITS	COMMON EQUITY	TAX CREDITS WEIGHTED COST	DEFERRED INCOME TAXES	TOTAL CAPITAL
Total Company per Budget	$406,906	$44,339	$9,269	$6,086	$706,830	$25,241	$181,366	$1,380,037
Non-Regulated Operations	(6,279)	(683)	0	(65)	(11,145)	(56)	223	(18,005)
Total Company Regulated	$400,627	$43,656	$9,269	$6,021	$695,685	$25,185	$181,589	$1,362,032
Specific Adjustments:								
Deferred Tax on Intercompany Profits	$0	$0	$0	$0	$0	$0	$6,311	$6,311
Reclassify Information Services	(91)	(10)	0	0	(157)	0	0	(258)
Postretirement Benefits	0	0	0	0	(2,287)	0	(1,380)	(3,667)
Total Adjustment	($91)	($10)	$0	$0	($2,444)	$0	$4,931	$2,386
Adjusted Capital per Books	$400,536	$43,646	$9,269	$6,012	$693,241	$25,185	$186,520	$1,364,418
Pro Rata Adjustments:								
TPUC (IDC)	($3,653)	($398)	($85)	($55)	($6,323)	($230)	($1,701)	($12,445)
Other Investments - UTLD	(717)	(78)	0	0	(1,241)	0	0	(2,036)
Miscellaneous Physical Property	(128)	(14)	(3)	(2)	(221)	(8)	(60)	(436)
Total Pro Rata Adjustments	($4,498)	($490)	($88)	($57)	($7,785)	($238)	($1,761)	($14,917)
Total Company Capital Structure	$396,038	$43,156	$9,181	$5,964	$685,456	$24,947	$184,759	$1,349,501
Intrastate Deferred Taxes	0	0	0	0	6,108	0	(6,108)	0
Capital Subject to Separations	$396,038	$43,156	$9,181	$5,964	$691,564	$24,947	$178,651	$1,349,501
Non-Jurisdictional Capital	(103,958)	(11,328)	(2,410)	(1,566)	(181,532)	(6,549)	(46,895)	(354,238)
Separated Capital	$292,080	$31,828	$6,771	$4,398	$510,032	$18,398	$131,756	$995,263
Intrastate Deferred Taxes	0	0	0	0	6,108	0	(6,108)	0
Jurisdictional Capital as Filed	$292,080	$31,828	$6,771	$4,398	$503,924	$18,398	$137,864	$995,263
Capital Effect of Rate Base Adjustments	(1,917)	(209)	(44)	(28)	9,046	(121)	6,544	13,271
Adjust Equity Ratio to 57.5%	29,120	0	0	0	(29,120)	0	0	0
Adjusted Jurisdictional Capital	$319,283	$31,619	$6,727	$4,370	$483,850	$18,277	$144,408	$1,008,534
Percent of Total	31.66%	3.14%	0.67%	0.43%	47.98%	1.81%	14.32%	100.00%
Cost Rate	9.39%	7.08%	7.61%	8.30%	12.50%	11.23%		
Weighted Cost	2.97%	0.22%	0.05%	0.04%	6.00%	0.20%		9.48%