

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Modified Minimum Filing) DOCKET NO. 920195-TL
Requirements Report of QUINCY) ORDER NO. PSC-92-1472-FOF-TL
TELEPHONE COMPANY.) ISSUED: 12/21/92

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

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING MODIFIED MINIMUM
FILING REQUIREMENTS, SUBJECT TO
FURTHER MONITORING

BY THE COMMISSION:

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

On July 10, 1991, Quincy Telephone Company (Quincy or the Company) filed a proposal in Docket No. 910461-TL to address its 1990 and 1991 estimated overearnings, its depreciation requirements and the need for ongoing rate reductions. The overall effect of Quincy's proposal was to retarget its earnings at its authorized return on equity (ROE) midpoint. In Order No. 25499 we made our final determination and disposition of Quincy's 1990 overearnings. We recognized that the reductions might result in additional stimulation and required monitoring of the results.

By letter dated August 19, 1991, Quincy committed to dispose of any 1991 earnings in excess of its maximum authorized ROE of 13.9% pursuant to our determination. In Order No. PSC-92-0141-FOF-TL, we identified \$186,117 as a preliminary determination of Quincy's 1991 overearnings, but deferred the final determination and disposition of Quincy's 1991 earnings and depreciation needs to this docket.

DOCUMENT FILED 12/21/92

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On June 29, 1992, due to changes in plans for retirement of a switch, Quincy filed a petition to recalculate the recovery schedule for the Company's Alcatel switch (now planned for earlier retirement) to obtain additional depreciation. The 1991 audit of Quincy was completed on July 17, 1992, and Quincy filed a revised 1991 Earnings Surveillance Report (ESR) incorporating the results of its 1991 cost study. Quincy filed its preliminary 1991 ESR in March, 1992. Based on an initial review of the ESR, Quincy's earnings above its maximum authorized ROE of 13.9% for 1991 were estimated to be \$186,117 as recognized in Order No. PSC-92-0141-FOF-TL.

Quincy's revised ESR, filed August 28, 1992, which is updated with the 1991 actual separation factors does not include any of the findings from the July 17, 1992, audit. This ESR indicates excess earnings of \$208,312, an increase of \$22,195 from the \$186,117 shown on the preliminary ESR. On July 30, 1992, Quincy replied to the findings of the staff audit. Based on the revised ESR, the findings of the July 17, 1992, audit and recalculation of the cost of the deferred credit, we find Quincy's achieved ROE for 1991 to be 18.33% and the Company has received revenue in excess of the maximum allowed ROE of \$253,769, a further increase of \$64,449 over the preliminary findings. Interest accrued from January 1, 1992, through January 31, 1993, on this amount is \$17,889. Total revenues plus interest totaling \$271,658 are available for disposition.

In addition to those adjustments included by Quincy in its revised ESR, we find it appropriate to include six adjustments drawn from the audit findings and adjusting the cost of the deferred credit as described below. Application of these adjustments increases Quincy's net operating income (NOI) to \$1,004,331 which produced a 11.70% return on the rate base of \$8,583,094. This equates to a return on equity of 18.33%, 4.43% in excess of Quincy's maximum authorized ROE of 13.90%.

NOI for 1991 should be increased by:

- (a) \$8,620 to exclude business acquisition costs;
- (b) \$1,975 to remove image advertising and charitable contributions;
- (c) \$772 to remove a portion of the USTA dues;

- (d) \$333 to remove late payment penalties;
- (e) \$6,155 to remove non-utility expenses; and decreased by:
- (f) \$6,712 to show the interest synchronization effect of staff's adjustment to the cost of the deferred credit.

These adjustments increase intrastate NOI \$11,143.

In addition to the \$271,658, including interest, identified as 1991 excess overearnings, Quincy has received \$272,193 from AT&T Communications of the Southern States, Inc. (AT&T) for Busy Hour Minutes of Capacity (BHMOC) backbillings during the years 1988 through 1990. This represents prior year earnings for years in which Quincy had earnings caps in place. For each of these years, Quincy earned in excess of the cap, thus any excess was subject to disposition. Since this revenue would have also been subject to disposition, it should be added to 1991's earnings rather than reopening 1988 through 1990's earnings. The total revenue available for disposition is \$543,851.

We also find that Quincy should be allowed to record additional total company depreciation of \$295,379 in 1992, representing the underrecovery for the Quincy Alcatel switch. The driver here is the planned replacement of the Alcatel E-10 switch, located in Quincy. The Alcatel company was entering the U.S. market in 1985, when Quincy purchased this switch. As the largest supplier of central office switching equipment in the world market, there was every reason to expect the machine to be a logical choice. However, Alcatel has not been as successful as anticipated in the U.S. market. The degree of support to be provided, and ability to upgrade, has been questionable, and the Company believes that the switch is not viable for service in the developing network. Near-term retirement of the Alcatel switches has been expected for the last few years.

Furthermore, beginning last year, service problems relating to slow dial tone have surfaced. Also, the inability to upgrade means that services available elsewhere cannot be provided with this switch. It is locked into current technology. As Quincy asserts in its petition, the ability to convert to SS7 alone will cost the Company 65% to 70% of the access revenues currently billed to AT&T for 800 call access.

Quincy now plans to retire this switch by year-end 1993. At that time, under the present provision for depreciation, the total company's net undepreciated amount would be \$295,379, \$208,538 intrastate. This \$208,538 shall be recognized as additional depreciation expense deducted from the \$543,851 in 1991 overearnings. The remaining \$335,313 should be refunded to customers of record during the December 1992, billing cycles. The refund shall be made as a credit to residential and business customers in the same proportion as the various local exchange rates bear to one another.

The overall effect of Quincy's July 10, 1991, proposal was to retarget its earnings at its authorized ROE midpoint. In Order No. 25499, we made our final determination of disposition of Quincy's 1990 overearnings by implementing rate reductions of \$225,650 in October, 1991, and \$107,556 in January, 1992. The results of 1991 operations do not reflect the full effect of these reductions. Accordingly, this docket shall remain open to allow staff to monitor the result of rate reductions and to further review the Modified Minimum Filing Requirements.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the accounting adjustments outlined in the body of this Order shall be recognized. It is further

ORDERED that Quincy Telephone Company's proposal to book an additional \$295,379 depreciation in 1992 for the early retirement of the Alcatel switch hereby approved. It is further

ORDERED that the \$208,538 in additional intrastate depreciation shall partially offset the \$563,580 in overearnings identified in the body of this Order. It is further

ORDERED that the remaining \$335,313 in overearnings shall be refunded. It is further

ORDERED that the refund shall be made to all customers of record as of the December, 1992, billing cycle. It is further

ORDERED that the refund shall be made as a credit on the January, 1993, bill. It is further

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ORDERED that this docket shall remain open to permit monitoring of these refunds and further review of the modified minimum filing requirements.

By ORDER of the Florida Public Service Commission this 21st day of December, 1992.

STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

JKA

by: Kay Flynn
Chief, Bureau of Records

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on January 11, 1993.

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In the absence of such a petition, this order shall become effective on the day subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

If this order becomes final and effective on the date described above, any party adversely affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days of the effective date of this order, pursuant to Rule 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.