

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Comprehensive review of revenue requirements and rate stabilization plan of SOUTHERN BELL.) DOCKET NO. 920260-TL
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In Re: Investigation into the integrity of SOUTHERN BELL'S repair service activities and reports.) DOCKET NO. 910163-TL
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In Re: Investigation into SOUTHERN BELL'S compliance with Rule 25-4.110(2), F.A.C., Rebates.) DOCKET NO. 910727-TL
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In Re: Show cause proceeding against SOUTHERN BELL for misbilling customers.) DOCKET NO. 900960-TL
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In Re: Request by Broward Board of County Commissioners for extended area service between Ft. Lauderdale, Hollywood, North Dade and Miami.) DOCKET NO. 911034-TL
) ORDER NO. PSC-93-1567-PCO-TL
) ISSUED: October 26, 1993
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)

ADDITIONAL ORDER ON PREHEARING PROCEDURE

On April 23, 1993, the Prehearing Officer issued an Order Establishing Procedure in the above-referenced dockets (Order No. PSC-93-0644-PCO-TL). This Order, among other things, sets forth controlling dates for the key events that will occur in these dockets. Subsequently, by Order No. PSC-93-0921-PCO-TL, issued June 17, 1993, the Prehearing Officer modified the procedural schedule slightly by changing one date and adding another. Then, by Order No. PSC-93-1538-PCO-TL, issued October 20, 1993, the Prehearing Officer again slightly modified the procedural schedule by adding a date for another activity.

In the meantime, an issue identification workshop was held by our staff. At the conclusion of the workshop, the parties had agreed upon a tentative list of issues for the hearing in these dockets. That list is attached to this Order as Appendix "A." Prefiled testimony and prehearing statements shall address the issues set forth in Appendix "A."

Based on the foregoing, it is

DOCUMENT NUMBER-DATE

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ORDER NO. PSC-93-1567-PCO-TL

DOCKET NOS. 920260-TL, 910163-TL, 910727-TL, 900960-TL, 911034-TL

PAGE 2

ORDERED by Commissioner Susan F. Clark, as Prehearing Officer, that the provisions of this Order shall govern this proceeding unless modified by the Commission.

By ORDER of Commissioner Susan F. Clark, as Prehearing Officer, this 26th day of October, 1993.



SUSAN F. CLARK, Commissioner and
Prehearing Officer

(S E A L)
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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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

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

APPENDIX "A"

LIST OF ISSUES

GENERAL ISSUES

1. Is the test year ended December 31, 1993, an appropriate test year?

RATE BASE

Plant in Service

2. What is the appropriate amount of plant in service for the test year?
 - 2a. What adjustment, if any, should be made to plant in service, depreciation reserve and expense to account for plant investments shown on Southern Bell's Continuing Property Record System (CPR) for Circuit Other Account that does not represent physical plant in service?
 - 2b. Is Southern Bell's investment in its interLATA internal company network prudent, reasonable, and necessary to enable it to provide service to ratepayers? If not, what action should the Commission take?

Depreciation Reserve

3. What is the appropriate amount of depreciation reserve for the test year?

Plant Under Construction

4. What is the appropriate amount of construction work in progress for the test year?

Property Held For Future Use

5. What is the appropriate amount of property held for future use for the test year?

Working Capital

6. What is the appropriate amount of working capital allowance for the test year?
- 6a. Should the Company be allowed to include the unamortized portion of deferred Hurricane Andrew expenses in working capital?
- 6b. Should the Company be allowed to include the balance for unamortized deferred compensation absences in working capital?
- 6c. Should accrued dividends be added back in the computation of the working capital computation?
7. Should the unfunded FAS 106 liability reduce rate base?
8. What is the appropriate amount of rate base for the test year?

COST OF CAPITAL

9. What is the appropriate cost of common equity capital for Southern Bell?
10. Is Southern Bell's proposed test year equity ratio prudent and reasonable? If not, how should this be treated?
11. Is Southern Bell's balance of accumulated deferred investment tax credits, prior to reconciliation to rate base, appropriate?
12. Is Southern Bell's balance of accumulated deferred taxes, prior to reconciliation to rate base, appropriate?
13. What is the appropriate weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure for the test year?

NET OPERATING INCOME

Operating Revenue

14. What is the appropriate amount of operating revenue for the test year?
- 14a. Are all of the revenues from significant tariff revisions or planned tariff filings appropriately reflected in the test year?
- 14b. How should employee concessions be treated for ratemaking purposes?
- 14c. Should an adjustment be made to intrastate revenues for the test period to recognize adjustments to IXC's percentage interstate usage (PIU)?
- 14d. What is the appropriate amount of directory advertising revenue that should be included in the test period?

Operation & Maintenance Expense

15. What is the appropriate amount of O&M expense for the test year?
- 15a. Are the allocations to non-regulated operations reasonable?
- 15b. What adjustment, if any, should be made to expenses for USTA and FTA dues?
- 15c. Is the amount of lobbying and other political expenses included in the Company's intrastate operating expenses appropriate for ratemaking purposes?
- 15d. Is the amount of advertising and public relations expenses included in the Company's intrastate operating expenses appropriate for ratemaking purposes?
- 15e. Does the level of legal, injury, and damage claims expense represent a reasonable and necessary ongoing level?
- 15f. What is the appropriate treatment of the Company's promotional expenses, sponsorships, and charitable contributions?

- 15g. Are the test year expenses for software reasonable?
- 15h. In the event that the Commission requires a different accounting practice for software additions than is currently employed by SBT, how should that charge be treated for ratemaking purposes?
- 15i. How should the Commission treat the Company's incentive compensation/bonus plan payments?
- 15j. Should the Commission allow the Company to establish a casualty damage reserve? If so, what is the appropriate amount of annual expense?
- 15k. What is the appropriate expense adjustment of Hurricane Andrew, if any, in the test period?
- 15l. Has Southern Bell's ESOP been treated appropriately for regulatory purposes?
- 15m. How should the costs associated with debt refinancing be treated for ratemaking purposes?
- 15n. Has the Company properly recorded legal and professional services in connection with the Attorney General's investigation and the Davis anti-trust lawsuit as below the line expenses?
- 15o. Should the Company be allowed to recover a provision for pension expense in cost of service?
- 15p. Should the Company be allowed to recover the expense associated with force reductions planned for the years 1993-1996?
- 15q. Should the savings associated with force reductions as a result of the re-engineering plan forecast for the years 1994-1996 be considered in 1993?
- 15r. Should the savings associated with force reductions as a result of the re-engineering plan forecast for the years 1994-1996 be considered as part of a future step reduction in rates?

- 15s. Should the Company be allowed to recover, in cost of service, the cost of the Supplemental Executive Retirement Plan (SERP)?
- 15t. Should the Company be allowed to recover payments to Economic Developments Funds in the cost of service?
- 15u. Should the Company be allowed to recover, through cost of service, the cost of chauffeurs?
- 15v. Are there any out-of-period expenses which should be removed from the test year?
- 15w. Is the Company's proforma adjustment to remove certain aircraft expenses reasonable?

Nonrecurring Items

- 16. Have non-recurring items been removed from the determination of revenue requirements?

Affiliated Transactions

- 17. Are the affiliated charges and overhead allocations to Southern Bell-Florida reasonable, including charges from the central management/service organization?
- 17a. Are the ownership costs incurred at the corporate level appropriate for ratepayers to pay?
- 17b. Are the regulated operations being properly compensated for billing and collection services provided to nonaffiliated companies, and nonregulated and/or affiliated company operations?
- 17c. How should the Commission treat BST Research Organization expenses?
- 17d. Should the Company be allowed to recover as expense, the return on affiliated assets designated as Intracompany Investment Compensation (ICIC)?
- 17e. Has the Company properly removed all BSC corporate advertising costs?

- 17f. Should an adjustment be made for BSC Corporate Affairs expenses which are charged to the Company?
- 17g. Should an adjustment be made for BSC D.C. Public Relations costs which are charged to the Company?
- 17h. Should an adjustment be made to remove BSC sponsorships which are charged to the Company?
- 17i. Is the return on investment charged to the Company by BSC reasonable?
- 17j. Should an adjustment be made for BSC's lease of the Campanile Building which is charged to the Company?
- 17k. Should an adjustment be made to the 1993 budgeted BSC project costs charged to the Company?
- 17l. Are any adjustments necessary to remove travel, meals, club dues, gifts, sporting events, other entertainment, and other miscellaneous expenses of BSC which are charged to the Company?
- 17m. Is the Company's adjustment to remove BSC dues reasonable?
- 17n. Should an adjustment be made to remove BSC donations which are charged to the Company?
- 17o. Should an adjustment be made for BSC legal expenses charged to the Company?
- 17p. Are any adjustments necessary to costs allocated or charged to the Company from Bellcore?
- 17q. Should certain Research and Development costs charged to the Company be deferred or capitalized?

FAS 112 and 106

- 18. Should the Commission adopt FAS 112 for ratemaking purposes?
- 18a. What adjustment, if any, should be made for postemployment benefits for the test year related to FAS 112?

- 18b. Does the recognition of FAS 112 expense in 1993 duplicate budgeted expenses in 1993?
- 18c. What adjustment, if any, should be made for postretirement benefits other than pensions for the test year related to FAS 106?

Depreciation and Amortization Expense

19. What is the appropriate amount of depreciation expense for the test year?
- 19a. How and when should the reserve deficit caused by Hurricane Andrew damage be recognized for ratemaking purposes?
- 19b. Has the Company properly computed the adjustment for expiring amortization? If not, what is the appropriate adjustment?

Taxes

20. What is the appropriate amount of taxes other than income for the test year?
21. What is the appropriate amount of income tax expense for the test year?
- 21a. Has the Company implemented FAS 109, Accounting for Income Taxes, in accordance with Rule 25-14.013, Florida Administrative Code?
- 21b. Should the tax savings that BellSouth Corporation retains in connection with the PAYSOP and LESOP plans be allocated to Florida?
- 21c. Should a parent Company debt adjustment be made because of: (1) the debt issued by BellSouth Capital Funding Corporation and (2) the debt issued by the trust which holds the shares for the LESOP?
22. What is the appropriate achieved test year net operating income?

ATTRITION

23. Is Southern Bell's attrition (accretion) allowance appropriate?

REVENUE REQUIREMENT

24. What is the appropriate amount of revenue increase/decrease for the test year?
- 24a. Did Southern Bell earn above 14% Return on Equity (ROE) for 1992 therefore requiring a sharing of earnings between the company and ratepayers per Order No. 20162 in DN 880069-TL? If so, what is the amount to be shared?
- 24b. Did Southern Bell experience an increase in earnings when netting rate changes against changes in earnings due to exogenous factors and debt refinancings, therefore requiring a refund and/or a permanent disposition for 1992 per Order No. 20162? If so, what is the amount?
- 24c. What amount of revenue, if any, is subject to disposition for 1993 due to orders issued in DN 920260? How should this revenue be disposed of?
- 24d. What is the appropriate revenue expansion factor to be used in determining revenue requirements?

INCENTIVE REGULATION

- 25a. What criteria should the Commission use to evaluate Southern Bell's performance under the current form of regulation?
- 25b. Has the current incentive regulation plan under which Southern Bell has been operating achieved the goals as set forth in Order No. 20162? What are the positive and negative results, if any?
26. Should the Commission continue the current form of regulation of SBT? If not, what is the appropriate form of regulation for SBT?

POLICY AND PRICING

Billing Units

27. Are Southern Bell's test year billing units appropriate?
- 27a. Have billing units for employee concessions been properly accounted for in MFR Schedule E-1a?

Proposed Optional Expanded Local Service (ELS) Plan

28. Southern Bell has proposed an "Optional Expanded Local Service" (ELS) plan. Customers who subscribe would pay \$.02 per minute for all calls within the existing local calling area and \$.08 per minute for all intraLATA calls up to approximately forty miles. The proposed plan includes many components and features including seven-digit dialing, reduced flat-rate buy-ins, and usage caps. It would be available to both business and residence customers.
- a. Should Southern Bell's proposed Optional Expanded Local Service (ELS) plan be approved? If not, what alternative plan, if any, should be approved and what should be the criteria? What is the first year revenue impact?
- b. If the Company's Optional ELS plan or any other alternative is approved, should stimulation be taken into account? If so, how?
- c. If the Commission approves an OELS or similar plan, what other action should the Commission take, if any? (e.g., route-specific switched access charges, 1+ IntraLATA presubscription).
- d. Is Southern Bell's proposal to amend, eliminate, or grandfather various existing measured and message rate offerings appropriate?

Toll/Access/Mobile Interconnection

29. Southern Bell has made the following proposals:

- A) To reduce the local transport element for both originating and terminating access from \$.01600 to \$.01289.
- B) To reduce the current FGD originating CCL from \$.02660 to \$.02600.
- C) To reduce the current FGD terminating CCL from \$.03660 to \$.02927.
- D) Not to flow through the switched access reductions to mobile interconnection usage rates.
- E) Not to make any changes to its toll services rates.

Should SBT's proposals be approved? If not, what actions should the Commission take with respect to SBT's switched access, toll, and/or mobile interconnection usage rates? What is the test year revenue impact?

Vertical Services

- 30a. Should the Company's proposal to reduce Residential Call Waiting from \$3.50 to \$3.35 and the Residential Call Forwarding-Variable from \$2.45 to \$2.20 be approved? If so, what is the test year revenue impact?
- 30b. The Company has made no proposal to change its current Touchtone charges. Is this appropriate? If not, what action should be taken and what is the test year revenue impact?
- 30c. Should customers be allowed to subscribe to Call Forward-Busy in lieu of rotary or hunting service? If so, what is the test year revenue impact?
- 30d. Should SBT be required to offer Billed Number Screening for collect and third number billed calls at no charge to subscribers? If so, what is the test year revenue impact?

Service Connection Charges

- 31. Southern Bell has proposed to restructure and reduce its Service Connection Charges as shown below. What changes, if

any, should be made to Service Connection Charges? What is the test year revenue impact?

<u>Current</u>		<u>Proposed</u>	
<u>Residential</u>		<u>Residential</u>	
Primary Service Order	\$25.00	Line Connection - First	\$40.00
Secondary Service Order	\$ 9.00	Line Connection - Add'l	\$12.00
Access Line Connection		Line Change - First	\$23.00
Charge - C.O. Work	\$19.50	Line Change - Add'l	\$11.00
Access Line Connection		Secondary Service Charge	\$10.00
Charge - New Line	\$31.50		
Number Change-per S.O.	\$ 9.00		
Number Change-per No.	\$11.50		
 <u>Business</u>		 <u>Business</u>	
Primary Service Order	\$35.00	Line Connection - First	\$56.00
Secondary Service Order	\$12.50	Line Connection - Add'l	\$12.00
Access Line Connection		Line Change - First	\$38.00
Charge - C.O. Work	\$19.50	Line Change - Add'l	\$11.00
Access Line Connection		Secondary Service Charge	\$19.00
Charge - New Line	\$31.50		
Number Change-per S.O.	\$12.50		
Number Change-per No.	\$11.50		

Extended Area Service

- 32a. Is a toll relief plan warranted for the routes in Docket No. 911034-TL (Between Ft. Lauderdale and Miami; Ft. Lauderdale and N. Dade; and Hollywood and Miami)? If so, what is the appropriate form of toll relief? What is the revenue impact?
- 32b. Should the modifications to the OEAS and EOEAS plans in Section A3.7 of the General Subscriber Service Tariff be approved as proposed? If not, what action, if any, should be taken? What is the test year revenue impact?
- 32c. Should the proposed modifications to the "Local Exceptions" in Section A3.8 of the GSST be approved? If not, what actions, if any, should be taken? What is the test year revenue impact?

Basic Local Exchange Rates

- 33a. Southern Bell has proposed to reduce the rates and modify the rate relationships between certain of its business access lines services as shown below. It has proposed no other changes to business rate relationships. Is this appropriate? If not, what changes, if any, should be made to business access line rate relationships? What is the test year revenue impact?

<u>Service</u>	<u>Reduction</u>	<u>Cur./Prop. B-1 Ratio</u>
Business Rotary (or hunting)	31%	.50 / .35
Residential PBX Trunks	22%	.84 / .66
Business PBX Trunks	24%	2.24 / 1.70
Network Access Registers	24%	2.24 / 1.70
NARs - Small, Medium, Large	42%	1.03 / .59

- 33b. Should SBT be required to revise its tariff to change the Directory Assistance (DA) call allowance from one DA call per Centrex/ESSX main station line to 3 DA calls per NAR so as to be comparable with DA call allowances on PBX trunks? If so, what is the test year revenue impact?
- 33c. SBT's current rates for Customized Code Restriction (CCR) for B-1 and PBX subscribers are greater than the rates for equivalent services to the company's ESSX subscribers. Is this appropriate? If not, what adjustment(s) should be made?
- 33d. The Company has made no other proposals to change its basic local exchange rates. Is this appropriate? If not, what changes should be made?

Stimulation

34. Are Southern Bell's proposed stimulation rates and levels appropriate? If not, what is appropriate?

Miscellaneous Issues

35. Should Southern Bell be required to itemize customer bills on a monthly basis?

36. Should SBT be allowed to unbundle the Gross Receipts Tax from base rates and bill it as a separate line item on customer bills? If so, what is the test year revenue impact of doing so?
37. What other rate changes, if any, should be approved?

Effective Date/ Customer Notification

- 38a. What should be the effective date(s) of any rate changes approved in this docket?
- 38b. What information should be contained in the bill stuffers sent to customers and when should such notification take place?

ISSUES IN DOCKET NO. 900960-TL

201. Has SBT charged customers through non-contact sales for services not requested?
202. Did SBT misbill its customers by misinforming them or misleading them with respect to what was the most economic or least expensive service, with the result that the customers were billed for services they did not desire?
203. How many customers were charged for services not requested through non-contact sales and what is the total amount of such charges that has been collected from SBT customers? Have these charges been refunded appropriately?
204. Did SBT's management know or should they have known that customers were being billed through non-contact sales for services not ordered and were appropriate actions taken?
205. Did SBT have adequate internal controls for non-contact sales to prevent customers from being misbilled?
206. Did SBT's employees take any other inappropriate actions in regard to marketing and sales of telephone services? If so, what was the impact and what action should the Commission take?

207. If SBT did charge customers through non-contact sales for services not requested and/or took any other inappropriate actions in its marketing and sales of telephone services, did these actions violate Chapter 364, Florida Statutes, or Commission Rules?

ISSUES IN DOCKET NOS. 910163-TL AND 910727-TL

301. Did any of SBT's employees misreport or otherwise miscode trouble reports?
- If so, how?
 - How widespread were such activities?
 - Did Southern Bell take timely action to stop the practices?
302. Has SBT violated any Commission Rules or Florida Statutes in regard to its repair and rebate operations? If so, what?
303. Did SBT's management encourage behavior that led to any violations of Commission Rules or Florida Statutes in regard to its repair and rebate operations? If so, how?
304. Has SBT filed any inaccurate Commission Forms PSC/CMU 28 (12/86) or Schedules 2, 11, 17, or 18?
- If so, how?
 - Has Southern Bell filed corrected Quarterly Reports?
 - If not, what actions should the Commission take?
305. Did SBT have sufficient controls in place to detect or prevent any possible repair and rebate falsification from occurring? If not, where and how were the controls insufficient?
306. Under what circumstances have rebates been improperly denied to SBT'S customers, if any?
307. Were customers denied rebates due to mismanagement, if any, by SBT?
308. Should SBT be prospectively required to rebate out-of-service over 24 hours reports for the full period of the outage under

Rule 25-4.110(2) by rounding up each pro rata portion of a 24 hour period to equal one full day?

309. Should SBT be required to file a report with the Commission for rebates given to customers due to these investigation dockets? If so, what should be contained in the report?
310. Should the Commission modify SBT's reporting requirements, document retention policy, or make any other changes?

GENERAL ISSUES PERTAINING TO DNS 910163, 900960, AND 920260

401. Has SBT refunded the appropriate amounts due in order to make its customers whole for the Dockets listed below? If not, what action should the Commission take?
- a. Docket No. 900960-TL; Non-Contact Sales
 - b. Docket No. 910163-TL; Repair
 - c. Docket No. 910727-TL; Rebate
402. Has SBT taken adequate steps to prevent any recurrence of these inappropriate activities, if any, and, if not, what should the Commission require SBT to do to prevent these inappropriate activities from occurring again for the dockets listed below?
- a. Docket No. 900960-TL; Contact and Non-Contact Sales
 - b. Docket No. 910163-TL; Repair
 - c. Docket No. 910727-TL; Rebate
403. Should the Commission penalize SBT for poor quality of service, mismanagement, or violations, if any, of Commission Rules and Florida Statutes for the dockets listed below? If so, how?
- a. Docket No. 900960-TL; Non-Contact Sales
 - b. Docket No. 910163-TL; Repair
 - c. Docket No. 910727-TL; Rebate
 - d. Docket No. 920260-TL; Quality of Service
404. Did SBT's settlement with the Office of Statewide Prosecutor sufficiently compensate potentially affected subscribers so

ORDER NO. PSC-93-1567-PCO-TL

DOCKET NOS. 920260-TL, 910163-TL, 910727-TL, 900960-TL, 911034-TL

PAGE 18

that no additional compensation for subscribers is warranted for the dockets listed below?

- a. Docket No. 900960-TL; Non-Contact Sales
- b. Docket No. 910163-TL; Repair
- c. Docket No. 910727-TL; Rebate

DN 920260-TL: Quality of Service

39. Is Southern Bell's quality of service adequate?

39a. Do Rules 25-4.070 & 25-4.110 require SBT to provide a rebate for an out-of-service condition when the company fails to notify, within 24 hours of the trouble report, that the trouble is located in the Customer Premises Equipment (CPE)?