

MEMORANDUM

June 22, 2000  
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RECORDS AND  
REPORTING

TO: DIVISION OF RECORDS AND REPORTING

FROM: DIVISION OF LEGAL SERVICES (VACCARO) *WAC*

RE: DOCKET NO. 000570-TL - INVESTIGATION OF 1998 AND JANUARY  
1 THROUGH FEBRUARY 8, 1999 EARNINGS OF NORTHEAST FLORIDA  
TELEPHONE COMPANY, INC.

*1156-PAA*

Attached is an ORDER DETERMINING AMOUNT AND DISPOSITION OF  
OVER EARNINGS to be issued in the above-referenced docket.  
(Number of pages in order - *6/5*)

TV/sa  
Attachment  
cc: Division of Competitive Services (Hackney)  
I:000570or.tv

*If*

*Doc. #07670-00*

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Investigation of 1998 and  
January 1 through February 8,  
1999 earnings of Northeast  
Florida Telephone Company, Inc.

DOCKET NO. 000570-TL  
ORDER NO. PSC-00-1156-PAA-TL  
ISSUED: June 23, 2000

The following Commissioners participated in the disposition of  
this matter:

JOE GARCIA, Chairman  
J. TERRY DEASON  
SUSAN F. CLARK  
E. LEON JACOBS, JR.  
LILA A. JABER

NOTICE OF PROPOSED AGENCY ACTION  
ORDER DETERMINING AMOUNT AND DISPOSITION OF OVER EARNINGS

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

I. CASE BACKGROUND

On February 9, 1999, Northeast Florida Telephone Company, Inc.  
(Northeast) filed a notification of election to become subject to  
price cap regulation effective upon that date. By Order No. PSC-  
99-0693-FOF-TL, issued April 9, 1999, in Dockets No. 990152-TL and  
No. 990126-TL, we acknowledged Northeast's notification. In that  
order, we noted that our staff would be reviewing Northeast's  
earnings through February 8, 2000, to determine the need for  
disposition of any over earnings pursuant to Section 364.052,  
Florida Statutes. The statute provides that, after July 1, 1996,  
a company subject to this section, electing to be price cap-  
regulated, will have any over earnings attributable to a period  
prior to the date on which the company made the election, subject  
to refund or other disposition by the Commission.

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FPSC-RECORDS/REPORTING

Northeast filed its preliminary December 1998 Earnings Surveillance Report (ESR) on March 17, 1999. The ESR indicated that Northeast had earned 14.17% return on equity (ROE) for 1998. Our staff conducted an audit of the ESR and issued a report in October 1999. After accepting certain staff adjustments, on April 10, 2000, Northeast filed the final 1998 ESR showing that the achieved ROE was above the maximum allowed ROE.

Our staff also reviewed the earnings for January 1 through February 8, 1999. During this period, the Company was still under rate of return regulation. Staff's analysis indicates the Company had over earnings for this period.

This Order presents the proposed disposition of the 1998 and January 1 through February 8, 1999, over earnings based on review of Northeast's final 1998 Earnings Surveillance Report and January, 1999, financial statements. We also note that our staff met with Northeast and the Office of Public Counsel on April 28 and May 8, 2000, to discuss Northeast's earnings for 1998 and 1999.

## II. OVER EARNINGS

As discussed earlier, Northeast's original 1998 ESR indicated an achieved ROE of 14.17%. Upon completion of staff's October 1999 audit, the Company filed a final 1998 ESR on April 10, 2000, which contained adjustments involving prior period access expense, intangible taxes, and long term debt. In addition, the final ESR included the final 1998 National Exchange Carriers Association (NECA) Cost Study factors which separate the costs between interstate and intrastate traffic.

After the final 1998 ESR was filed, further review by our staff resulted in an adjustment being made to the Universal Service Fund (USF) revenues to reflect revenues which are being received based on 1998's costs. The amount of this adjustment increased earnings by \$205,963.

In addition to the USF adjustment, two additional adjustments were made for the calculation of the earnings for January 1 through February 8, 1999. These adjustments both resulted from the retirement of the Macclenny Digital Central Office (DCO) in November, 1998. By Order No. PSC-97-1580-FOF-TL, issued December 16, 1997, in Docket No. 971495-TL, we found that Northeast should

be allowed to recover, by year end 1998, the remaining unrecovered costs associated with the Macclenny DCO switch retirement.

Our staff calculated that the intrastate amount of nonrecurring amortization and depreciation expense associated with the Macclenny DCO booked in 1998 was \$185,845. The adjustment to the 1999 intrastate rate base was to reflect the \$177,122 decrease between the 1998 average intrastate rate base versus the 1998 year end rate base.

Based on the foregoing, we find that the total amount of 1998 over earnings to be refunded to the customers is \$225,329. The amount of over earnings for January 1 through February 8, 1999 is \$47,320, so the total amount of refund is \$272,649. The Company has agreed to make this refund.

### III. DISPOSITION OF OVER EARNINGS

The over earnings shall be refunded during the August 2000 billing cycle. Refunds shall be made based on access lines, pro rata according to rate levels. Centrex and other Private Branch Exchange customers shall receive refunds based on applicable Network Access Register rates.

The refund to an average residential customer will be approximately \$21.30; for an average business customer, it will be about \$57.73.

In addition, Rule 25-4.114, Florida Administrative Code, requires the following:

- a. Refunds must be made within 90 days of the final order.
- b. Motions for reconsideration do not delay refunds unless a stay is requested and granted.
- c. The Company must file refund reports.

Northeast shall submit a report giving the status of the refund by September 10, 2000. In the final report submitted to our staff after the refunds are made pursuant to Rule 25-4.114(7), Florida Administrative Code, Northeast shall include documentation in the form of a priceout showing the calculations for the actual refund amounts per type of access line.

At the end of the refund period, any unrefunded amount shall be remitted to us and forwarded to the Comptroller for deposit in

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the General Revenue Fund, pursuant to Section 364.285(1), Florida Statutes. If no timely protest to this proposed agency action is filed within 21 days of the date of issuance of this Order, the Order will become final upon issuance of a consummating order. This docket, however, shall remain open pending the completion of the refund and receipt of the final report on the refund. After completion of the refund and receipt of the final refund report, this docket shall be closed administratively.

Therefore, based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Northeast Florida Telephone Company, Inc. shall refund \$225,329 for 1998 over earnings and \$47,320 for January 1 through February 8, 1999 over earnings for a total amount of \$272,649. It is further

ORDERED that over earnings shall be refunded during the August 2000 billing cycle. Refunds shall be made as set forth in the body of this Order. At the end of the refund period, any unrefunded amount, shall be remitted to the Commission and forwarded to the Comptroller for deposit in the General Revenue Fund, pursuant to Section 364.285(1), Florida Statutes. It is further

ORDERED that Northeast Telephone Company, Inc. shall submit a report giving the status of the refund pursuant to Rule 25-4.114, Florida Administrative Code, by September 10, 2000. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that this docket shall remain open pending the completion of the refund and receipt of the final report on the refund. After completion of the refund and receipt of the final refund report, this docket shall be closed administratively.

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By ORDER of the Florida Public Service Commission this 23rd  
day of June, 2000.

BLANCA S. BAYÓ, Director  
Division of Records and Reporting

By: Kay Flynn  
Kay Flynn, Chief  
Bureau of Records

( S E A L )

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing that is available under Section 120.57, 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 will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on July 14, 2000.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

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.