

BEFORE THE PUBLIC SERVICE COMMISSION

In re: Petition for approval of storm cost recovery surcharge, and stipulation with Office of Public Counsel, by Sprint-Florida, Incorporated. | DOCKET NO. 050374-TL
ORDER NO. PSC-05-0735-PAA-TL
ISSUED: July 8, 2005

The following Commissioners participated in the disposition of this matter:

BRAULIO L. BAEZ, Chairman
J. TERRY DEASON
RUDOLPH "RUDY" BRADLEY
LISA POLAK EDGAR

NOTICE OF PROPOSED AGENCY ACTION ORDER
APPROVING STIPULATION

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 May 25, 2005, Sprint-Florida, Incorporated (Sprint / Company) filed a Petition for Approval of Storm Cost Recovery Surcharge and Stipulation (Stipulation). The Stipulation involves an agreement between Sprint and the Office of the Public Counsel (OPC) regarding the maximum amount of costs that should be considered as relevant for surcharge recovery as a result of the 2004 Hurricanes: Charley, Frances, Jeanne, and Ivan. The Stipulation indicates that it is contingent upon approval in its entirety. It also states that if the Stipulation is not accepted and approved without modification by an order not subject to further proceedings or judicial review, then the Stipulation would be considered null and void and of no further force and effect.

Between mid-August and late September of 2004, Hurricanes Charley, Frances, Jeanne, and Ivan struck Sprint's service territory causing damage to Sprint's telecommunications systems. The Stipulation provides that \$30,319,521 incurred for storm restoration are the maximum costs to be considered for recovery from Sprint-Florida basic wireline customers. The remaining storm restoration costs are to be assessed against non-basic Sprint customers. The major components of the petitioned amount include wages, external contractors, and equipment either damaged or destroyed by the hurricanes of 2004. Based on Sprint's calculations and line

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counts, residential and single wireline business customers would pay a \$0.93 per month surcharge for a period of 24 months.

The carrying costs and taxes used by Sprint reflect interest, a return, and income tax expense on the return. Sprint included a total of \$6,712,822 in carrying costs and taxes. Of that amount, \$3,069,192 is included in the Sprint/OPC Stipulation of \$30,319,521. These carrying costs relate to the August 2004 through July 2005 period. Additional carrying charges of \$3,641,810 have been embedded in Sprint's calculation to arrive at its proposed monthly surcharge of \$0.93 for the period August 2005 through July 2007.

In accordance with Section 364.051, Florida Statutes, we must act on Sprint's petition within 120 days after filing. To expedite the processing of this docket, the factual issues are being addressed in this Order including: the number of access lines to be used in calculating the maximum monthly surcharge; the level of interest or carrying costs subject to collection, if any; and whether the Stipulation should be accepted.

Our decision will establish the maximum amount of Sprint storm related costs for which Sprint may seek recovery. Subsequent to this Order, briefs will be filed by the parties. While the prehearing officer has not yet approved the briefing issues, the following are the issues tentatively reached by the parties:

1. Do the costs incurred by Sprint as a result of the 2004 hurricanes constitute a compelling showing of a substantial change in circumstances pursuant to Section 364.051(4), Florida Statutes?
- 2(a). If Issue 1 is answered in the affirmative, how much, if any, of the costs set forth in the stipulation may be recovered from Sprint's basic local service customers?
- 2(b). If any costs are determined to be recoverable, how should these costs be recovered?

We have jurisdiction over this matter pursuant to Sections 364.01, 364.051(4), 364.051(5).

II. Analysis and Decision

The Stipulation between Sprint and the OPC establishes that the total intrastate hurricane-related expenses to be considered are \$33,048,980. In the Stipulation, carrying costs for the period August 2004, through July 2005, and income taxes, have been added to the total expenses for a total cost amount of \$36,773,728. (\$33,048,980 expenses plus \$3,724,748 in carrying costs and taxes) Taking 82.4 percent of these costs attributable to basic service, the total proposed recoverable cost is \$30,319,521. This amount reflects the costs agreed to between Sprint and the OPC.

To arrive at the \$0.93 access line surcharge, Sprint applied a present value methodology to its access lines for purposes of embedding carrying costs for the period August 2005, through July 2007. Additional carrying costs totaling \$3,641,810 have been included for potential

recovery over the 24-month recovery period. OPC and Sprint did not agree to a particular surcharge.

Our staff, the OPC, and Sprint met to discuss the carrying costs included for the period August 2005, through July 2007. In that meeting, Sprint proposed, and the OPC agreed, that it would be acceptable to apply an average 30-day commercial paper rate, rather than Sprint's proposed weighted cost of capital for the period over which the surcharge, if any, is collected. Sprint's proposed weighted cost of capital would still be used to calculate the carrying charges for the period August 2004 through July 2005. By changing the weighted cost of capital to an average 30-day commercial paper rate, the total carrying charge decreases from \$3,641,810 to \$567,897, a difference of \$3,073,913 for the 24-month recovery period.

Accordingly, we hereby approve the Stipulation between Sprint and OPC. Furthermore, an average 30-day commercial paper rate shall be applied for the purposes of calculating the carrying costs attributable to the period August 2005, through July 2007. We appreciate the give-and-take that resulted in this compromise. We further find that this Stipulation is in the public interest with the accepted modification to use the 30-day commercial paper rate for the August 2005, through July 2007 recovery period.

Additionally, at the July 5, 2005, Agenda Conference, counsel for Sprint presented a letter in which Sprint proposed a true-up of its access line forecast utilized in the development of its proposed per customer surcharge. Sprint states in its letter that a true-up of access lines will only be made if it results in a lower surcharge or shorter recovery period than its proposed period of 24 months. We find Sprint's proposed true-up mechanism to be reasonable and in the best interest of the Florida consumer by insuring that Sprint will not collect more than the hurricane-related costs we approve for recovery, if any. Therefore, we hereby approve Sprint's proposed true-up of its access line forecast as outlined in its letter dated July, 5, 2005.

Based upon the foregoing, it is

ORDERED by the Florida Public Service Commission the Stipulation between Sprint-Florida, Incorporated and the Office of Public Counsel is approved. It is further

ORDERED that Sprint-Florida, Incorporated shall apply an average 30-day commercial paper rate for the purposes of calculating the carrying costs attributable to the recovery period if a customer surcharge is ultimately approved. It is further

ORDERED that Sprint-Florida, Incorporated's proposed true-up of its access line forecast is approved as outlined in its July 5, 2005 letter. 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 the Commission Clerk and Administrative Services, 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

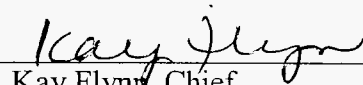
ORDERED that due to the expedited nature of this proceeding, any party filing a protest shall be required to prefile testimony with the protest. Rebuttal testimony shall be due no later than 10 days after the receipt of prefiled testimony. It is further

ORDERED that this Docket shall remain open to address the remaining open issues.

By ORDER of the Florida Public Service Commission this 8th day of July, 2005.

BLANCA S. BAYÓ, Director
Division of the Commission Clerk
and Administrative Services

By:



Kay Flynn, Chief
Bureau of Records

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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 the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on July 29, 2005.

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/these docket(s) before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.