BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition of GULF TELEPHONE COMPANY to modify EAEA boundaries to permit Gulf to become a part of the Tallahassee market area	DOCKET NO. 881465-TL
In re: Implementation of local exchange company toll bill and keep	DOCKET NO. 850310-TP ORDER NO. 21259 ISSUED: 5-19-89

The following Commissioners participated in the disposition of this matter:

MICHAEL McK. WILSON, Chairman
THOMAS M. BEARD
BETTY EASLEY
GERALD L. GUNTER
JOHN T. HERNDON

ORDER APPROVING EAEA/LATA BOUNDARY CHANGE

AND

NOTICE OF PROPOSED AGENCY ACTION

ORDER REDUCING INTRALATA MTS RATES
AND MODIFYING ORDER NO. 17743

BY THE COMMISSION:

Notice is hereby given by the Florida Public Service Commission that the action discussed in Sections II and III of this Order is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for formal proceeding pursuant to Rule 25-22.029, Florida Administrative Code.

SECTION I - Gulf's EAEA/LATA Change

On November 10, 1988, Gulf Telephone Company (Gulf) filed a Petition to have its entire territory transferred from the Jacksonville LATA to the Tallahassee Market Area. As discussed below, we grant Gulf's request to change LATA's. In addition, we also have directed Gulf to modify certain of its intraLATA toll rates to reflect the same rates currently charged by ATT-C for an interLATA call from Gulf's territory to the Tallahassee market area.

Presently, Gulf's toll traffic homes on the Live Oak toll center operated by ALLTEL Florida, Inc. (ALLTEL). The toll traffic is carried by an antiquated microwave facility and three supplemental T-Carrier systems. The route of these facilities is routed from Perry to Live Oak. According to Gulf, the antenna system needs extensive repair, the microwave system is obsolete and additional capacity is required. In addition, the supplemental T-Carrier systems will soon be destroyed by the Department of Transportation road construction. Further, ALLTEL has indicated that it desires to eliminate its portion of the microwave facilities and the supplemental T-Carrier systems. These conditions force Gulf to evaluate its options for the provision of toll service. Gulf states that it has two options: (a) remain associated with the Live Oak EAEA and replace its existing facilities; or (b) construct new facilities and rehome its toll traffic on the Tallahassee toll center.

Gulf states that to continue its association with the Live Oak EAEA/Jacksonville LATA would require construction of a 6 fiber optic route between Perry (Gulf) and Live Oak (ALLTEL) utilizing U.S. Highway 27 rights-of-way at an estimated cost to Gulf of $483,601. In addition, because ALLTEL did not design its current fiber network to handle Gulf's traffic, ALLTEL would have to invest $824,012 in order to have sufficient capacity and facilities to handle Gulf's toll traffic.

A further problem is the inability for Gulf to have an alternate path for toll calls. Between Gulf's territory and the Live Oak toll center is a swamp with only one route to bury cable, U.S. Highway 27. Consequently, Gulf would be dependent on that one fiber route for all of its toll traffic. This is the situation that exists now; however, Gulf is concerned to that a disaster or accident on U.S. 27 could sever the network.

According to Gulf, its preferred option is to build new facilities along U.S. Highway 221 to connect with a Central Telephone Company of Florida (Centel) fiber route from Tallahassee to Greenville. Rehoming on Tallahassee provides two possible cable routes available to Gulf, U.S. Highway 221 and U.S. Highway 27. Facilities will eventually be constructed over both routes, and Gulf intends to construct a fiber route consisting of 6-fiber optic cables north on U.S. Highway 221 to connect to a fiber route planned by Centel from Tallahassee to Greenville. This construction would cost a total of $373,770 for Gulf and for $181,538 Centel. In addition to aligning Gulf's customers more towards their community of interest, which appears to be Tallahassee (based on actual minutes of usage), it will give Gulf added capacity for growth in the northwestern portion of its service territory.

In addition to Gulf's financial incentive to rehome to the Tallahassee toll center, Gulf also believes it is in the best interest of its customers for Gulf's traffic to be rehomed with their community of interest. The available traffic data shows that Gulf carries twice as many calls to the Tallahassee Market Area as it does to all of the Jacksonville LATA. This indicates a stronger community of interest to Tallahassee than to any area in the Jacksonville LATA.

We note that certain economic effects will follow Gulf's requested LATA change. The change will economically effect ALLTEL, Centel, Northeast, Southern Bell and all the customers in the Jacksonville LATA or the Tallahassee Market Area that either originate or terminate calls in Gulf's territory. This impact is caused by the differences between intraLATA and interLATA toll call compensation procedures.

Under our intraLATA LEC toll bill-and-keep system, intraLATA toll calls are carried by the LECs and these toll rates are higher than IXC's interLATA rates. InterLATA toll calls are carried by IXCs. For interLATA calls, the IXCs pay originating and terminating access charges and keep whatever is left to cover the transportation charge. For intraLATA toll calls the LEC of origination must pay terminating access charges as well as local transport charges to those LECs' territories they cross.

As a result of a Gulf LATA change, Northeast, ALLTEL and Southern Bell will lose terminating access charge revenues for calls that are currently originated in Gulf's territory and terminated in those companies' respective territories. Gulf will lose terminating access revenues from calls originated in those LECs' territories and terminated in Gulf's territory. ALLTEL and Southern Bell will also lose intraLATA LEC toll intermediate transport revenues. We note that Northeast does not lose revenues because the current toll rates between Northeast and Gulf are so low that, once Northeast has paid Gulf terminating access and ALLTEL and Southern Bell transportation charges, the amount that remains is less than the cost of originating access. With the LATA change, Northeast will receive originating access from the IXCs for calls placed into Gulf's territory which will amount to more than the company now receives.

Based on the available data, ALLTEL's, Southern Bell's and Gulf's net revenues will decline. It also appears that Centel's and Northeast's net revenues will increase. Centel's net revenues are expected to increase by $134,000 annually. However, Centel will incur additional investment and expenses for carrying traffic to Gulf. We believe that the net increase in earnings for Centel will be less than .1% return on equity (ROE). The projected effect on Northeast of Gulf's LATA change is to increase Northeast's net revenue by $922 and ROE by .06%. Southern Bell's net revenues are expected to decrease by $76,000 annually, which is a decrease in ROE of .002%.

ALLTEL's expected decrease in net revenues is $193,000. However, $89,000 of this revenue loss is attributable to joint or local transport. If Gulf changes LATAs, then ALLTEL should incur less costs because it is no longer transporting traffic to Gulf. The remaining $104,000 loss will decrease ROE by .25%. The toll rates for calls from ALLTEL to Gulf will decline due to the switch from intraLATA to interLATA toll rates. As a result, ALLTEL's ratepayers will receive a benefit from this change. The revenue effect on Northeast, Centel, Southern Bell and ALLTEL of the LATA change do not appear to be of any material significance. Therefore, we find it appropriate to take no action to adjust the earnings situations of these companies. Our actions to address Gulf's revenue losses are discussed below.

We note that, in addition to the revenue effects of the LATA change on the LECs, there are also potential toll rate effects on the customers of these companies. These effects cause us some concern. Because of the LATA switch, the rates for toll calls between Gulf's territory and the Tallahassee Market Area will rise from the lower interLATA level to the higher intraLATA level. Most of Gulf's customers' toll calls are terminated in Centel's territory; therefore, a large percentage of Gulf's toll customers could realize an increase in toll rates. Centel's Tallahassee Market Area customers who place calls to Gulf's territory would also be adversely affected by the switch to intraLATA rates. By contrast, calls between Gulf's territory and the rest of the Jacksonville LATA would lead to lower customer charges. Our actions to address the toll rate effects of the Gulf LATA change are discussed in Section III below.

We also note rate effects that would take place for Gulf's Private Line and Special Access customers. Customers with dedicated facilities between Gulf's territory and Tallahassee currently use Special Access provided by an IXC. The LATA change would require them to switch to LEC Private Line services. While Special Access provided by an IXC has lower transport fees on a mileage basis, Private Line facilities provided by the LECs have lower end connection (station terminal) charges, and this results in lower overall costs for existing Special Access customers because the distance between Gulf's territory and Tallahassee is so short.

Customers in Gulf's territory with dedicated facilities to Live Oak or Jacksonville will be moved from LEC Private Line to Special Access. These customers may face increases of up to 400%. Four of Gulf's customers fall into this category and Gulf is meeting with each to explore a lower cost alternative. We note that the State of Florida Department of General Services sent us a letter in support of the LATA change. General Services indicates that the state will experience a cost savings from the change.

Upon consideration, we find that Gulf's request to change from the Jacksonville LATA to the Tallahassee Market Area should be approved. Due to the availability of capacity through Centel, the lower costs associated with the Centel connection and the opportunity to install back-up facilities, it appears more economically feasible for Gulf to invest in new facilities between its territory and the Tallahassee Market Area than to continue to home its traffic on the Live Oak toll center. Additionally, the high volume of toll traffic between Gulf and Tallahassee indicates that Gulf's customers have a greater community of interest with Tallahassee than Live Oak. The revenue changes to the affected LECs appear insignificant and are not expected to materially affect any of those LECs' earnings. A representative from ATT-C (the only IXC serving Gulf) stated that this LATA change would have no effect on ATT-C.

In order to monitor the progress of the LATA change we also find it appropriate to require Gulf to submit monthly status reports by the 5th of each month. Until Gulf has converted to the Tallahassee Market Area, these reports should provide the status of construction and the estimated date of completion.

SECTION II - <u>Modification of Order No. 17743</u>

In Order No. 17743, issued June 24, 1987, the Commission approved implementation of LEC toll bill-and-keep. Our intent in implementing bill-and-keep was to keep each company in the same financial position it would have been in prior to implementation. In the implementation of LEC toll bill-and-keep, we determined that Centel, Florala, Gulf and Southern Bell would experience a surplus. Order No. 17743 required that such surpluses would be credited to the companys' depreciation reserves. In accordance with Order No. 17743, Gulf has been applying its surplus to its depreciation reserve.

In Order No. 17743, the surplus calculated for Gulf was based on Gulf's being in the Jacksonville LATA. Having approved Gulf's request for a LATA change, this premise is no longer correct. As discussed above, it appears that Gulf will experience a net loss from the LATA change. Since the basis for Gulf's surplus will no longer exist, effective January 1, 1989, we find it appropriate to allow Gulf to cease recording the depreciation expense as required by Order No. 17743. Our action here is consistent with our treatment of other LECs that experience a LEC toll bill-and-keep surplus. Centel, Florala and Southern Bell have been relieved of the depreciation requirements of the Order and have disposed of their surpluses through various rate reductions.

SECTION III - Modification of Gulf's IntraLATA Toll Rates

As we discussed above, moving Gulf from the Jacksonville LATA to the Tallahassee Market Area will change the applicable toll rates between Gulf's territory and the Tallahassee Market Area and the Jacksonville LATA. Currently, on average, higher intraLATA rates apply for any calls between Gulf's territory and the Jacksonville LATA. With Gulf moving out of the Jacksonville LATA, lower interLATA rates will apply for calls from Gulf to the Jacksonville LATA. As a result, customers placing calls in either direction between Gulf and the Jacksonville LATA will realize a rate decrease[1]. These customers will receive a benefit from this LATA change.

The opposite is true of customers calling between the Tallahassee Market Area and Gulf's territory. Currently, they are paying lower interLATA rates. When the LATA change occurs, they will begin paying the higher intraLATA rates. These customers will pay rates 20% higher than they currently pay for daytime calls.

Gulf has stated that one of the reasons it desires to rehome to the Tallahassee toll center is because its customers have a greater community of interest with Tallahassee than with Live Oak. In support, Gulf provided data showing that the usage to Tallahassee was over 100% greater than the usage to the Jacksonville LATA, despite the fact that the number of access lines in the Tallahassee Market Area is much less than that for the Jacksonville LATA. This clearly indicates a greater community of interest with Tallahassee. However, we do

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[1] We note one exception. Customers calling from Southern Bell to Gulf's territory during the night or weekend using the 56 to 124 mileage band will experience an increase. This is caused by ATT-C's reduction of its off-peak discounts.

not believe it logical or appropriate to impose a 20% toll rate increase on Gulf's ratepayers in the course of accommodating a change to more closely reflect their community of interest.

According to Gulf, the Company will lose approximately $57,220 annually as a result of this intraLATA rate reduction. As discussed in Section II above, we have allowed Gulf to use its $63,000 LEC toll bill-and-keep surplus to offset this loss. Without this intraLATA rate reduction, Gulf calculated its loss at $46,587. However, Gulf calculated this amount using Southern Bell's new BHMOC rate, which overstates the loss. We believe the actual loss will be approximately $20,000 without the intraLATA rate reduction. This loss will not cause Gulf to fall below its currently authorized earnings range. We also note that in subsequent years Gulf will realize increases in earnings resulting from its phase up of the SPF. We expect these changes to enable Gulf to absorb the remaining revenue loss and still remain within its authorized earnings range.

Accordingly, we find it appropriate to require Gulf to reduce its intraLATA rate in the 23 to 55 mileage band to be equal to ATT-C's current intrastate rate. With this proposed rate change, the rates for customers making calls from Gulf's territory to the Tallahassee Market Area will be unaffected. Since the Tallahassee Market Area is so small, it is only necessary for Gulf to change one mileage band, the 23-55 band. We note that Gulf's rates for its 0-10 and 11-22 mileage bands are the same as ATT-C's equivalent rates.

While we have deemed it appropriate to modify Gulf's intraLATA toll rates, we do not find it appropriate to modify Centel's intraLATA rates. It is important to note that, proportionally, Centel's customers do not make as many calls to Gulf's territory. Additionally, not all of Centel's territory is located in the Tallahassee Market Area. If Centel were required to lower its intraLATA rates to address the relatively small volume of Tallahassee to Gulf's traffic it would have a severe company-wide impact on Centel.

We note that our reduction of this intraLATA toll rate will require Gulf to absorb a large revenue loss. However, we also note that if intraLATA rates are not changed the potential loss in the future could be even greater. If Gulf's customers were charged 20% higher rates than they are accustomed to paying for daytime calls to Tallahassee, EAS pressures would be increased on this route. If EAS were implemented between Perry and Tallahassee, Gulf would lose more than $400,000 annually.

Having determined above that Gulf should reduce its toll rates, Gulf is hereby directed to file a tariff revision reflecting this rate reduction at least 60 days prior to LATA conversion to become effective on the conversion date.

As a result of the rate changes discussed above, Gulf's and Centel's customers could be adversely impacted by this proposed LATA boundary change. Therefore, we find it appropriate to require Gulf and Centel to notify their respective customers who will be affected by the rate changes by a "bill stuffer" one month prior to the actual conversion. This notification shall identify any rate changes that may affect the customers. The notice shall, at a minimum, include the MTS rate changes and a description and explanation of the LATA change's effect on dedicated facilities, both Private Line and Special Access. This notification shall also include any benefits to customers as well as adverse impacts. Gulf and Centel shall submit the proposed notification for review by our Staff at least two weeks prior to the notice being printed for distribution.

ALLTEL's, Northeast's and Southern Bell's customers who make toll calls to Gulf's territory will also experience a rate change. This change will be an overall decrease[2]. Because of this, we do not believe it necessary to require ALLTEL, Northeast and Southern Bell to notify their customers of the rate decrease for calls to Gulf's territory. The revenue impact to the few customers who will not receive a decrease is not significant enough to warrant requiring Southern Bell to notify all its customers of this change.

It is therefore,

ORDERED by the Florida Public Service Commission that Gulf Telephone Company's request to transfer its territory from the Jacksonville LATA to the Tallahassee Market Area is granted as set forth in the body of this Order. It is further

ORDERED that Gulf shall modify its intraLATA LEC toll rates as set forth in the body of this Order. It is further

ORDERED that Order No. 17743 is hereby modified to the extent set forth in the body of this Order to allow Gulf Telephone Company to cease booking its LEC toll bill-and-keep surplus to its depreciation reserve. It is further

ORDERED that Gulf Telephone Company shall notify its customers of the rate changes directed in the body of this Order as set forth in the body of this Order. It is further

ORDERED that Gulf Telephone Company shall file progress reports as set forth in the body of this Order.

By ORDER of the Florida Public Service Commission, this 19th day of MAY, 1989.

Steve Tribble

STEVE TRIBBLE, Director
Division of Records and Reporting

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[2] We note that there is one exception. Customers calling from Southern Bell to Gulf's territory during the night or weekend using the 56 to 124 mileage band will experience an increase. This exception is caused by ATT-C's reducing its off-peak discounts.

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.

Our action in Sections II and III of this Order 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 June 9, 1989. In the absence of such a petition, this order shall become effective June 12, 1989, as provided by Rule 25-22.029(6), Florida Administrative Code, and as reflected in a subsequent 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.

If the relevant portions of this order become final and effective on June 12, 1989, 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 sewer 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 Section I of this Order 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 sewer 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.