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February 19, 1990

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Mr. Steve C. Tribble
Director, Records and Reporting
Florida Public Service Commission
101 East Gaines Street
Tallahassee, Florida 32301

Re: Revision of Rule 25-14.003, F.A.C., Corporate Income
Tax Expense Adjustment Rule: Mid-Point and Additional
Changes; Docket No. 891278-PU

Dear Mr. Tribble:

Enclosed for filing please find fifteen (15) copies of the
Posthearing Statement of Central Telephone Company of Florida in
the above-styled docket.

Please acknowledge receipt and filing of the above by
stamping the duplicate copy of this letter and returning same to
this writer.

Thank you for your assistance in connection with this
matter.

Sincerely,

Lee L. Willis

ACK 1
AFA 3
APP _____
CAF _____
CMU _____
CTR _____
EAG 1 LLW/bjm
LEG 1
LIN 6 Enclosures
OPC CC: All Parties of Record (w/encls.)
RCH _____
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OT FPSC-BUREAU OF RECORDS

DOCUMENT NUMBER-DATE

01596 FEB 19 1990

FPSC-RECORDS/REPORTING

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Amendment of Rule 25-14.003,)
F.A.C., Corporate Income Tax Expense)
Adjustment, Midpoint and Additional)
Changes)
_____)

DOCKET NO. 891278-PU
Filed: February 19, 1990

POSTHEARING STATEMENT
OF
CENTRAL TELEPHONE COMPANY OF FLORIDA

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DOCUMENT NUMBER-DATE
01596 FEB 19 1990
FPSC-RECORDS/REPORTING

POSTHEARING STATEMENT

In Accordance with Rule 25-22.056, F.A.C., Central Telephone Company of Florida ("Centel") files this its Posthearing Statement.

Centel adopts the comments submitted in Testimony of Hugh Gower presented during the hearing on January 29, 1990. Centel summarizes its primary concerns with Staff's proposed amendments to the rule as follows:

1. **The proposed rule violates the normalization requirement of the Federal Income Tax Code.**

There is a substantial risk that the normalization requirements of Section 46(f)(2) of the Internal Revenue Code apply not only to the full revenue requirements proceeding but also a limited scope proceeding such as contemplated under the Tax Savings Rule. Because of the significant risk that the use of zero cost for ITC would place the utility and its ratepayers in jeopardy of loosing significant tax benefits. The Commission should exercise extreme caution before requiring zero cost ITC in calculations under the rule.

During the hearing, Staff proposed a new paragraph 8 to the rule which would provide for an Internal Revenue ruling request prior to the operation of the zero cost ITC. Centel believes that the most prudent course of action would be for the Commission to reject the requirement in the rule that zero cost ITC be used. If the Commission, however, insists on including such a provision within the rule, it is essential that Staff's proposed language for the new paragraph 8 be included within the

rule.

2. Staff's proposal to utilize the most recent Commission - approved rate of return on common equity and the calculated weighted cost of capital is inappropriate.

The determination of the appropriate return on common equity is extremely complex and interrelated to virtually all aspects of the Company's operations. There is a high risk that the treatment of return on equity within a limited scope proceeding would greatly add to the complexity of proceedings under the rule. Since the purpose of the rule should be to provide an efficient means for taking into account changes in income tax rates between general rate cases, infusion in this additional issue overburdens the operation of the rule.

3. Staff's exclusion of nonrecurring elements from the earnings calculation is improper and inconsistent with the intent of the rule.

This is another instance where unnecessary controversy is created under the operation of the rule. Any attempt to adjudicate whether a specific expense is nonrecurring and should be excluded on the basis is simply not administratively efficient. The rule should be designed to address actual increases or decreases in income tax expenses based on the actual earnings of the utility calculated in the manner consistent with the Commission's policies and procedures. Issues relating to nonrecurring items or questions whether or not a particular expense will be incurred again in the future.

In any event, not all nonrecurring expenses are excluded from the ratemaking formula in full revenue requirements proceedings. It should also be noted that if nonrecurring expenses are always excluded from the ratemaking formula, a utility would never earn its authorized return.

4. The proposed report form to be filed under the rule inappropriately elevates the status of the O&M benchmark.

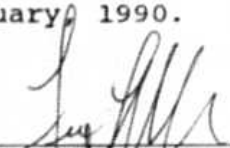
Staff's proposed report form contains a requirement for the utility to provide a calculation of the O&M benchmark. Such a requirement looses the main focus of the limited scope proceeding under the Tax Savings Rule. That purpose should be the calculations of the earnings under the rule on an actual prior year earnings adjusted only for specific cost elements recovered through a separate recovery clause or expenses previously excluded from consideration as a matter of Commission policy. The O&M benchmark is an analytical tool which is the point of beginning for analysis. The requirement of an O&M benchmark calculation creates further controversy and debate under a procedure that is already overburdened. The level of operating expense should be addressed through continuing surveillance and, if necessary, show cause proceedings.

COMMENTS ON COMMISSIONER GUNTER'S PROPOSAL

During the hearing, Commissioner Gunter requested comment on a proposal whereby the tax savings or deficiency amounts would be recalculated using the data in the Company's last rate case.

Such an approach would not be practical in actual application for companies such as Central Telephone Company of Florida which have not had a full revenue requirements case since 1976. While this Company's rates were adjusted in 1987 to take into account changes in the Tax Reform Act of 1986, this action was taken by stipulation and there was no specific record of rate base and earned return calculations to use in the operation of the rule as contemplated under Commissioner Gunter's proposal. Over the many years this rule may be in place, there could be numerous other instances where the length of time since the last rate proceeding could distort the results. The application of the tax savings or deficiency to age old billing detriments will also exaggerate the effect due to subsequent growth in billing units.

DATED this 19th day of February 1990.



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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing Posthearing Statement of Central Telephone Company of Florida has been furnished by U. S. Mail this 19th day of February, 1990, to the following:

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