RECEIVED
FLORIDA PUBLIC SERVICE COMMISSION

91 JAN 22 PM 4:19

AUDITING &
FINANCIAL ANALYSIS DIV

FLORIDA PUBLIC SERVICE COMMISSION

Fletecher Building
101 East Gaines Street
Tallahassee, Florida 32399-0850

M E M O R A N D U M

JANUARY 18, 1991

TO : DIRECTOR, DIVISION OF RECORDS AND REPORTING

FROM : DIVISION OF COMMUNICATIONS [SIRIANNI, FUCHS, MAILHOT, JOHE, CASPRY, LONG, MCNULTY, CIMMERMAN, AND WALLS]

DIVISION OF AUDIT AND FINANCE [MAUREY, SALAK, BRAND, LEE]

DIVISION OF LEGAL SERVICES [GREEN, KURLIN]

RE : DOCKET NO.: 891246-TL - CENTRAL TELEPHONE COMPANY OF FLORIDA'S PETITION FOR RATE INCREASE

DOCKET NO.: 880069-TL - SOUTHERN BELL RATE STABILIZATION

DOCKET NO.: 870248-TL - HOLMES COUNTY EAS

DOCKET NO.: 900539-TL - OKALOOSA COUNTY EAS

AGENDA: JANUARY 30, 1991 - CONTROVERSIAL - PARTIES MAY NOT PARTICIPATE - ISSUE 78 RECOMMENDATION 7 SHOULD BE ISSUED AS A PROPOSED AGENCY ACTION

CRITICAL DATES: 8 MONTH EFFECTIVE DATE: 2-12-91

DOCUMENT NO. DATE
00649-91 1/18/91
FPSC - COMMISSION CLERK

EXECUTIVE SUMMARY

Staff analysis supports an increase in revenue of $6,899,501, an amount $7,753,043 lower than the $14,652,544 requested by Centel. In determining the appropriate revenue requirement for Centel, staff recommends that Centel's capital structure be adjusted for ratemaking purposes to reflect an equity ratio of 57% of investor-supplied capital and the cost of common equity capital to be 12.70%.

In addition to the adjustments recognized by Centel at the hearing, staff recommends adjustments for E-911 services, test year retirements, waiver of the parent debt rule, deferred compensation and stock options, and budget allocation adjustments.

Centel proposes an increase in basic local rates alone of approximately $14.5 Million, which represents about a 60% increase above current rates. Staff recommends an increase in basic local rates of $9.2 Million, which represents about a 38% increase above current rates.

The Company's current busy hour minute of capacity (BHMOC) charge is $6.47. Centel has proposed a decrease in the BHMOC charge to $5.00, which totals a decrease in revenue of approximately $2,608,480. Staff recommends a decrease in the BHMOC charge to $3.72, which totals a decrease in revenue of $4,879,809. Centel has proposed no changes to its intraLATA MTS toll rates, however staff is recommending a total revenue decrease in MTS rates of $2,033,616.

Additionally, Centel seeks approval of a proposed Incentive Regulation Plan which is comprised of five primary components as described by Centel: price-capped rates for basic and non-basic services, with flexible pricing for non-basic services; special treatment for switched access service, until a more favorable price to cost relationship has been achieved; an annual flow-through of exogenous factors; enhanced service commitments; and continued implementation of improved technologies. The term of Centel's Incentive Regulation Plan would be four years (1991 through 1994). Staff recommends disallowing Centel's incentive plan. Also, staff recommends that no incentive plan be approved until sufficient documentation, budgeting, and evidence supporting such a plan is available.

Staff recommends denying Centel's request to increase Touch Calling for residential, business and PBX services. Also staff recommends placing a $1.00 charge on Touch Calling for Digital

Business service (Centrex) and reducing the PBX Touch Calling Charge from $4.00 to $1.00.

Countywide nonoptional toll-free, two-way Extended Area Service (EAS) is being recommended by staff for Holmes, Jackson, Okaloosa and Walton Counties. Staff is recommending EAS on the 0-10 Centel/Southern Bell routes and the $.25 plan on the Centel/St. Joseph/ Sneads/Chattahoochee route.

Staff is also recommending that the rates for Local Private Lines be increased substantially, but less than that proposed by Centel. Centel proposes rates which are the same as those adopted for the industry in Docket No. 890505-TL. Staff proposes lower rates than the Company due to significant customer impacts which need to be moderated. Thus, staff recommends recurring rates 10% less than what was proposed by the Company for Local Private Line circuits, except for Local 1.544 Service, for which staff recommends recurring rates 20% less than those proposed by the Company. Staff recommends that Centel be required to submit a company specific Special Access Services tariff no later than November 16, 1991, for implementation no later than January 16, 1992.

Staff recommends that the Company be required to file any revised tariffs five days after the final vote of the Commission. The effective date of any rate changes should be five days after a complete set of correct tariffs have been filed. Also, a bill stuffer containing basic information about the case and results of the Commission's decision should be reviewed by staff prior to being mailed to customers. The bill stuffer should then be mailed to customers in the first bill following a final decision in this proceeding.

CASE BACKGROUND

On June 12, 1990, Central Telephone Company of Florida (Centel or the Company) filed a Petition to adjust its rates and charges and for approval of an Incentive Regulation Plan. Centel's original filing proposed an increase in revenue of $18,087,736 which was later revised to a revenue requirement of $14,652,544 as a result of adjustments for several items during the hearing. These items include adjustments for depreciation rates, directory receivables, rate case expense, amortization, trunk equivalency charge, Okaloosa County Fiber span lease, CORPs, Data Accounting Center consolidation and intercompany allocations.

The Company requested that we allow the permanent increase to go into effect immediately. In the alternative, the Company asked that we either allow the full amount of the permanent increase to go into effect on an interim basis or that we approve an interim increase in the amount of $3,788,867.

At the July 31, 1990, Agenda Conference, the Commission found it appropriate, on an interim basis, to increase Centel's revenues by $1,142, 672. In so doing, a number of adjustments were made to the Company's interim filing, as set forth in Order No. 23454.

In order to allow Centel the opportunity to generate the additional revenues, the Company was authorized to increase its rates for basic local service for interim purposes. Centel was ordered to apply the increase uniformly across the board to Section 3, Basic Local Exchange Service rates. This resulted in a maximum rate of $6.32 for R-1 service in the highest rate group, an increase of approximately 5.26%. Interim rates were made effective to all billings on or after September 16, 1990. The interim rates we approved are subject to refund with interest, in accordance with Rule 25-4.114, Florida Administrative Code.

The intervention of the Office of Public Counsel (OPC) in this docket was acknowledged by Order No. 23138, issued July 2, 1990. In addition, intervention was sought by and granted to the Florida Pay Telephone Association, Inc., AT&T Communications of the Southern States, Inc., the Florida Department of General Services, and McCaw Cellular Communications, Inc.

The Commission held customer hearings on this matter in Tallahassee on August 15, 1990 and in Ft. Walton Beach on August 20, 1990. The main rate case hearing was held October 29 through

November 2, 1990, in Tallahassee.

Of the 127 issues, including subparts, identified in the prehearing order, nineteen (19) issues have been dropped, twenty five (25) issues have been stipulated and one (1) issue has been partially stipulated.

For issues 3, 4, 5, 7b, 7d (partial), 23a, 23b, 23f, 23h, 23i, 23m, 24, 24a, 25, 28b, 28d, 28e, 28f, and 31, the Prehearing Order contained the following statement:

> This issue has been stipulated by Centel, OPC and Staff, without objection from any other party...

That statement was not correct. What that statement should have said for the issues enumerated above is:

> This issue has been stipulated by Centel and OPC, with the support of Staff, and without objection from any other party...

This change reflects a minor factual correction but does not result in any substantive legal difference.

Staff has attempted to reorder the recommendation to flow more logically. The issues have been broken up into six (6) categories listed below:

	Category	Corresponding Issues
1.	Quality of Service	1
2.	Rate Base	2-8
3.	Cost of Capital	9-13
4.	Net Operating Income	14-31
5.	Revenue Requirement	32-33
6.	Rate Design and Tariff Changes	34-96

TABLE OF CONTENTS

Issue NO.	DESCRIPTION	PAGE NO.
	Executive Summary	2
	Case Background	4
	STIPULATIONS	
Issue A	Should the following stipulations be approved?	22
	QUALITY OF SERVICE	
Issue 1	Is the quality of service adequate? (Fuchs) (Exhibits 33 and 34)	30
	INCENTIVE PLAN	
Issue 96	Does the Commission have the jurisdiction to grant Central Telephone-Florida's proposed incentive regulation plan? (Green) (Exhibits 7 and 17)	37
Issue 93	Should the Commission approve an incentive regulation plan for Centel? (Griswold) (Exhibits 15, 81 and 105)	48
Issue 94	Centel's plan proposes to substitute price caps for traditional rate of return regulation. The plan proposes the following components listed below. What are the pros and cons of this proposed plan? Is this plan appropriate? (Griswold) (Exhibits 7, 14 - 16, 21 and 102)	57
	RATE BASE	
Issue 2	What is the appropriate amount of Plant in Service? (Johe) (Exhibits 84 & 89)	93
Issue 3	**This issue has been stipulated.** What adjustments should be made to the depreciation reserve for the test year to reflect new depreciation rates, amortization, and recovery schedules?	

TABLE OF CONTENTS

ISSUE NO.	DESCRIPTION	PAGE NO.
Issue 4	What is the appropriate amount of depreciation reserve? (Johe)	99
Issue 5	**This issue has been stipulated.** What is the appropriate amount of Telephone Plant under Construction?	
Issue 6	**This issue has been dropped.** What is the appropriate allocation of working capital allowance between interstate and intrastate jurisdiction?	
Issue 6a	How should unearned revenues be jurisdictionally allocated for purposes of calculating test year working capital? (Johe)	101
Issue 7	What is the appropriate amount of working capital allowance? (Johe) (Attachment 1)	102
Issue 7a	Should deferred pension costs be removed from test year working capital? (Salak)	103
Issue 7b	**This issue has been stipulated.** How should directory receivables (both long term and short term) be treated in test year working capital? (Johe)	106
Issue 7c	Should unamortized rate case expense be allowed in test year working capital? If so, in what amount? (Johe)	107
Issue 7d	**This issue has been stipulated.** Should working capital reflect the impact of the three amortization adjustments proposed by the Company, as well as the increase in post-retirement expense?	110
Issue 8	What is the appropriate test year rate base? (Johe) (Attachment 1)	113

TABLE OF CONTENTS

ISSUE NO.	DESCRIPTION	PAGE NO.
	COST OF CAPITAL	
Issue 9	What specific adjustments should be made to Accumulated Deferred Income Tax? (Brand)	114
Issue 10	What specific adjustments should be made to accumulated investment tax credits? (Brand)	116
Issue 10a	What cost rate should be associated with Investment Tax Credits? (Brand)	117
Issue 11	**This issue has been dropped.** Should customer deposits be allocated 100% to intrastate?	
Issue 12	What is the cost of common equity capital? (Maurey) (Exhibits 23, 29 and 32)	118
Issue 13a	Is Centel's proposed capital structure reasonable and prudent? (Maurey) (Exhibits 29, 30 and 31)	138
Issue 13	What is the weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure for the test year 1991? (Maurey)	146
	NET OPERATING INCOME	
Issue 14	**This issue has been dropped.** Are all the revenues from significant tariff revisions or planned tariff filings appropriately reflected in the forecast?	
Issue 29	What services, if any, which Centel treats as nonregulated should be considered as regulated services? (Johe)	149

TABLE OF CONTENTS

ISSUE NO.	DESCRIPTION	PAGE NO.
Issue 15a	Should Centel discontinue debiting local revenues and credit interstate revenues for the difference between Centrex trunk equivalency charge and the per line sub-scriber line charge? If not, what is the adjustment to test year local revenues? (O'Pry)	150
Issue 15	What is the appropriate test year revenues? (Johe)	152
Issue 16	**This issue has been dropped.** Are equal access costs properly allocated between intrastate and interstate jurisdictions?	
Issue 17	**This issue has been dropped.** Should the 20% meal and entertainment exclusion for IRS purposes be disallowed for ratemaking?	
Issue 18	**This issue has been dropped.** Have all legislative lobbying and political action committee related expenses been removed from regulated expenses?	
Issue 19	**This issue has been dropped.** Should all meals and entertainment expenses related to public relations and image building efforts be removed from regulated expenses?	
Issue 20	**This issue has been dropped.** Did all expenses relating to Centel Classic and Western Professional Golf Tournaments get removed from the operating expenses?	
Issue 21	**This issue has been dropped.** What is the appropriate adjustment to operating and maintenance expense for advertising, if any?	
Issue 22	What is the appropriate amount of rate case expense? (Johe)	154

TABLE OF CONTENTS

ISSUE NO.	DESCRIPTION	PAGE NO.
Issue 23a	**This issue has been stipulated.** What is the Centel-Florida's portion of the savings from the Virginia Data Center consolidation and how should it be treated in the test year?	
Issue 23b	**This issue has been stipulated.** What is the proper rate making treatment of COPRS costs and savings?	
Issue 23c	Should Centel's method of accounting for retirement benefits be approved? (Salak) (Exhibit 67)	156
Issue 23d	Should the accrued bonuses proposed by Centel be allowed as a test year expense? (Johe)	158
Issue 23e	Should projected stock option expenses and incentive deferred compensations plans expenses be allowed as test year expenses? (Johe) (Exhibit 70)	163
Issue 23f	**This issue has been stipulated.** Should the Okaloosa County fiber span lease costs be removed from test year expense?	
Issue 23g	What level of Arthur Anderson fees (including rate case expense) should be allowed in test year expenses? (Johe)	167
Issue 23h	**This issue has been stipulated.** Should miscellaneous affiliate cost allocations such as, holiday parties, company picnics, and kids day; Morgan Stanley fees; year end gifts to the employees; and certain legal services be disallowed for rate making purposes?	
Issue 23i	**This issue has been stipulated.** Should test year pension expense be adjusted to reflect changes in the actuarial assumptions?	

TABLE OF CONTENTS

ISSUE NO.	DESCRIPTION	PAGE NO.
Issue 23j	**This issue has been stipulated.** What adjustment, if any, should be made to Operating and Maintenance Expense to reflect expenses associated with the filing, defending, and correcting the depreciation study in Docket No. 881543-TL?	
Issue 23k	Should the impact of the six Arthur Andersen "Proposed Adjusting Journal Entries" be included in this filing? (Johe)	172
Issue 23l	Should the cumulative impact of the changes to the test year budget that were discovered after the initial filing be included in test year expense? (Johe)	175
Issue 23m	**This issue has been stipulated.** Should an adjustment be made for corporate philanthropy costs?	
Issue 23n	Should certain expenses relating to employee relocation be disallowed for ratemaking purposes? (Johe)	179
Issue 23o	Is the projected salary expense appropriate for the test year? (Johe) (Exhibits 73, 77 and 95)	182
Issue 28	**This issue has been dropped.** Is Centel's cost allocation procedure appropriate?	
Issue 28a	Should test year O&M expense be adjusted to eliminate the increased corporate expense allocations caused by the sale of Centel Business Systems? (Johe) (Exhibit 73)	184
Issue 28b	**This issue has been stipulated.** Should Information Systems incentive deferred compensation plan costs be allocated to Florida?	

DOCKET NO. 891246-TL
JANUARY 18, 1991

TABLE OF CONTENTS

ISSUE NO.	DESCRIPTION	PAGE NO.
Issue 28c	Should special executive compensation and pension benefits be allocated to Florida? (Johe)	187
Issue 28d	**This issue has been stipulated.** Should Centel's 1991 budgeted expenses be adjusted for the revised general allocator and the adoption of an exception time reporting methodology?	189
Issue 28e	**This issue has been stipulated.** Should allocated corporate community relations be removed from the test year expenses?	190
Issue 28f	**This issue has been stipulated.** Should aircraft depreciation be removed from test year expenses?	
Issue 23	What is the appropriate amount of test year operating and maintenance expense? (Johe)	191
Issue 24	**This issue has been stipulated.** What is the appropriate amount of depreciation expense for test year to reflect new depreciation rates, amortization and recovery schedules approved in Docket No. 881543-TL?	192
Issue 24a	**This issue has been stipulated.** Should depreciation and amortization expense be adjusted to replace the company's budgeted amounts with the amounts contained in the staff's August 1990 recommendation?	
Issue 25	**This issue has been stipulated.** What is the appropriate amount of taxes other than income tax for the test year?	
Issue 26	What is the appropriate amount of parent company debt adjustment? (Brand)	194
Issue 27	What is the proper amount of income tax expense? (Brand)	197

TABLE OF CONTENTS

ISSUE NO.	DESCRIPTION	PAGE NO.
Issue 30	What is the appropriate amount of net operating income? (Johe)	198
Issue 31	**This issue has been stipulated.** What is the appropriate expansion factor?	
	REVENUE REQUIREMENTS	
Issue 32	What is the final amount of interim increase? What should be disposition? (O'Pry)	199
Issue 33	What is the appropriate amount of the revenue increase/decrease for the test year? (Johe)	200
	RATE DESIGN AND TARIFF CHANGES	
Issue 34	Centel's proposed revenues are based on projected units. Is the method Centel used to develop the projected units appropriate? (McNulty) (Exhibits 104, 106 and 107)	201
Issue 35	What general approach, considering accuracy and methodology of cost studies, value of service, competition, universal service goals, etc., should be used in changing rates to produce the approved revenue requirement? (Long) (Exhibit 106)	207
Issue 36	**This issue has been dropped.** Is the Company able to reconcile billing units revenue to booked revenue for 1989? If not, should any adjustment be made to recognize the inability to reconcile billed and booked revenue?	
Issue 37	**This issue has been dropped.** The Company has proposed no changes to its employee concessions. Are the current employee concessions appropriate?	

TABLE OF CONTENTS

ISSUE NO.	DESCRIPTION	PAGE NO.
Issue 38	**This issue has been stipulated.** Have the billing units for employee concessions been accounted for properly?	
Issue 39	Centel has proposed no changes to its Directory Assistance services. Is this appropriate? (Cimerman) (Exhibits 102, 106 and 107)	213
Issue 40	Centel has proposed no changes in the rates for Local Operator Assistance as shown below. Is this appropriate? (Cimerman)	217
Issue 41	Centel has proposed changes in the rates for directory listings as shown below. Are the proposed rate appropriate? (Cimerman)	219
Issue 42	Centel has proposed changes in the rates for Custom Calling Features as shown below. Is this appropriate? (Cimerman) (Exhibit 107)	223
Issue 46	Centel has proposed changes in the rates for Touch Calling as shown below. Is this appropriate? (Cimerman) (Exhibit 102)	227
Issue 43	**This issue has been dropped.** Centel has proposed no changes to the following offerings contained in its Miscellaneous Service arrangements tariff. Is this appropriate?	
Issue 45	**This issue has been dropped.** Centel has proposed increases to various items provided under the Special Service Arrangements subsection of its Miscellaneous Service Arrangements tariff. Is this appropriate?	

TABLE OF CONTENTS

ISSUE NO.	DESCRIPTION	PAGE NO.
Issue 47	Centel has proposed no change in its tariff for Charges Applicable Under Special Conditions (Section A5). In light of the recent changes in other Local Exchange Companies' similar tariffs, is this appropriate? (McNulty) (Exhibit 104)	231
Issue 48	**This issue has been dropped.** Should any of the subsections contained in Section 5, Charges Applicable Under Special Conditions be obsolete in the cases where certain customers for which the rates were developed can now be better served out of other parts of the tariff?	
Issue 49	Centel has proposed to increase semi-public telephone rates as shown below. Is this appropriate? (Cimerman) (Exhibit 107)	234
Issue 50	**This issue has been stipulated.** Centel has proposed no changes to the following offerings contained in its Telecommunications Devices for Persons with hearing Impairment subsection of its Auxiliary Equipment tariff. Is this appropriate?	
Issue 51	**This issue has been stipulated.** Centel has proposed no changes to the Weatherproof Voice Jacks equipment contained in the Modular Jack Equipment and Portable Telephone Sets subsection of its Auxiliary Equipment tariff. Is this appropriate?	
Issue 52	The only change that Centel has proposed to mobile interconnection tariff is to increase the non-recurring charges for DID service. Is this appropriate? (Cimerman) (Exhibit 107)	237

TABLE OF CONTENTS

ISSUE NO.	**DESCRIPTION**	**PAGE NO.**
Issue 53	Centel has proposed to increase the rates for tone-only mobile service access lines by 57% with no change to usage rates. They have also proposed to increase the rates for company-owned mobile service by 44% with no change to usage rates. Is this appropriate? (Cimerman) (Exhibits 38, 106 and 107)	242
Issue 54	**This issue has been stipulated.** Has Centel complied with Commission policy set forth in Order Nos. 21815 and 23183 in DN 880423, the Commission's investigation of Information Services? If not, what should Centel be required to do to implement that policy?	
Issue 57	**This issue has been dropped.** Centel has proposed to increase the nonrecurring charge from $15.00 to $23.55 and the recurring monthly rate from $1.25 to $1.95 for its Telephone Answering Service (TAS). Is this appropriate?	
Issue 64b	Centel has proposed no changes to the rates or tariff pages associated with their Packet Switching Network contained in Section 16 - Data Service. Is this appropriate? (McNulty) (Exhibits 106 and 107)	245
Issue 90	How should the revenues and costs for Centel's Voice Mailbox Service be accounted for in this proceeding? (Long) (Exhibit 104)	246
Issue 55	**This issue has been dropped.** Centel has proposed changes in the rates for Direct Inward Dial Trunks (DID) as shown below. Is this appropriate?	
Issue 56	Centel has proposed no change in the Installation Charge and Monthly Rate for DID trunks as shown below. Is this appropriate? (Cimerman)	248

TABLE OF CONTENTS

ISSUE NO.	DESCRIPTION	PAGE NO.
Issue 62	Did Centel appropriately apply the cost manual in the development of private line costs, as mandated by the Commission? (McNulty) (Exhibits 47, 104 and 106)	250
Issue 58	What changes are appropriate for local private line rates considering costs, value of service, effect of competition, etc? (McNulty) (Exhibits 46, 47, 102, 104, 106 and 107)	258
Issue 44	Centel has proposed to restructure and increase the Extension Line Mileage and Tie Line rates contained in its Miscellaneous Service Arrangement tariff. Is this appropriate? (McNulty) (Exhibits 46, 47, 102, 104, 106 and 107)	258
Issue 61	Centel proposes to consolidate tariff sections pertaining to D-4 Channel equipment and Digital Access Cross Connect Service into the Intraexchange Private Line Section (Section 20). Is this appropriate? (McNulty) (Exhibits 46, 47, 102, 104, 106 and 107)	258
Issue 64a	Centel has proposed to obsolete its Local Data Transmission Service contained in Section 16 of its Data Service tariff. Is this appropriate? (McNulty) (Exhibits 46, 47, 102, 104, 106 and 107)	258
Issue 65	Centel has proposed to restructure and increase its rate for Foreign Central Office Services. Is this appropriate? (McNulty) (Exhibits 106 and 107)	277
Issue 66	Centel has proposed to continue its concurrence in Southern Bell's tariff for Foreign Exchange Service (rates, rules and regulation). Is this appropriate or should Centel develop its own tariff? (McNulty) (Exhibits 104 and 106)	280

TABLE OF CONTENTS

ISSUE NO.	DESCRIPTION	PAGE NO.
Issue 59	What will be the revenue impact to Centel of the restructure of interexchange private line and special access and how should that impact be addressed in this docket? (McNulty) (Exhibits 107 and 108)	283
Issue 60	Should Centel submit its own rates and tariffs for interexchange private line and special access, or is it appropriate for the Company to continue in its concurrence with the Southern Bell rates and tariffs? (McNulty) (Exhibit 106)	286
Issue 63	Centel has indicated the Private Line and Special Access Services are non-basic, and therefore may fluctuate upward, individually, up to 10 percent without Commission approval. Is this appropriate, given the concurrence that the Company maintains with the Southern Bell Interexchange Private Line and Special Access Services Tariff? (McNulty) (Exhibits 102 and 104)	293
Issue 67	Centel has proposed to increase its rates for Digital Business Service as shown below. Is this appropriate? (McNulty) (Exhibit 107)	296
Issue 68	Centel has proposed no changes in its current rates for City Wide Service, Northern Telecom Business Terminal, Automatic Call Distribution and Customer Specific Recorded Announcements. Is this appropriate? (McNulty) (Exhibits 106 and 107)	307
Issue 69	**This issue has been dropped.** Centel has proposed no changes to its central office non-transport service offering, (Digital Services for the Florida Lottery, Okaloosa County School Board and Suncom Network). Is this appropriate?	

TABLE OF CONTENTS

ISSUE NO.	DESCRIPTION	PAGE NO.
Issue 70	Centel has proposed to increase the Trouble Location charge to end users from $29.50 to $46.80. Is this appropriate? (Long) (Exhibit 106)	309
Issue 71	Centel has proposed no increases to the Trouble Location Charge in the Access Tariff. Is this appropriate? (Long)	312
Issue 72	**This issue has been stipulated.** Centel does not tariff their return check charge. Is this appropriate? If not, what charge should be tariffed?	
Issue 77	Centel has not proposed a Late Payment Charge. Is this appropriate? (Griswold) (Exhibit 107)	314
Issue 73	Centel has proposed the following changes to the rates for service connection charges: (Long) (Exhibits 102 and 104)	316
Issue 80	Should stimulation and/or repression due to rates reductions be considered in determining revenue requirements, and if so, what are the appropriate adjustments? (Cimerman)	321
Issue 74	Centel has proposed no changes to its intraLATA MTS toll rates. Is this appropriate? (Cimerman) (Exhibits 102 and 107)	324
Issue 75	Centel has proposed no changes to its recurring WATS or 800 Service rates. They have proposed an increase in the installation and nonrecurring charges as shown below. Is this appropriate? (Cimerman)	331
Issue 78	Centel has proposed no changes in its nonoptional or optional intraLATA toll calling rates (EAS). Is this appropriate? (O'Pry) (Exhibit 104)	337

TABLE OF CONTENTS

ISSUE NO.	DESCRIPTION	PAGE NO.
Issue 79	Centel has proposed to reduce its BHMOC charge from $6.60 to $5.46. Is this appropriate? (Cimerman) (Exhibit 107)	360
Issue 76	**This issue has been dropped.** Should Centel's proposal to recognize the elimination of the PIC change charge be approved?	
Issue 81	Centel has proposed no change in the Billing and Collection service (E8). Is this appropriate? (McNulty) (Exhibits 102 and 104)	364
Issue 95	The following services have not been addressed in other issues and no changes have been proposed. (O'Pry) (Exhibit 107)	367
Issue 82	**This issue has been stipulated.** Should Centel's proposal to separately, state gross receipts tax on to customer's bill as permitted by Section 203.10(5), Florida Statutes, be approved?	
Issue 84	**This issue has been stipulated.** Centel has proposed to increase the number of rate groups from six to eight as shown below. Is this appropriate?	
Issue 85	Centel has proposed an optional Local Measured Service (LMS) to residence subscribers. Subscribers will pay the monthly rates shown below and receive a message allowance of 30 calls after which a per message charge of $.10 will apply. Is this appropriate? (Long) (Exhibits 102, 104 and 107)	372
Issue 86	Centel currently charges PBX rates for all hybrid key systems. Is this appropriate? (Long)	376

TABLE OF CONTENTS

ISSUE NO.	DESCRIPTION	PAGE NO.
Issue 87	Centel currently has no PBX message rated trunks nor any usage rates for hotel/motel, hospitals, etc.. Is this appropriate? (Long) (Exhibit 106)	378
Issue 89	Centel proposes to change the relationship between basic local service access line rates as a proportion of the RI rate, in the following classes of service shown below. Is this appropriate? (Long)	379
Issue 88	Centel proposes to adjust rates upward for basic local exchange services prior to implementing its rate cap proposal. Centel proposes to increase basic local exchange access line rates by $14,389,492 or 56.7% over current rates at proposed test year units. What changes, if any, should be made to local exchange access line rates? (Long) (Exhibits 102 and 106)	382
Issue 83	Does Centel's current bill format meet the Commission bill format requirements and guidelines? (O'Pry)	387
Issue 91	What should be contained in the bill stuffer to Centel customers announcing any rate charges? (O'Pry)	388
Issue 92	What should be the effective date of any rate changes? (O'Pry) (Exhibit 104)	390
ATT 1	Comparative Rate Bases	391
ATT 2	Revenue Distribution Comparison by Issue	410
ATT 3	Revenue Distribution Comparison by Tariff Section	414
ATT 4	Local Exchange Rates-Present, Proposed and Recommended	417

DISCUSSION OF ISSUES

ISSUE A: Should the following stipulations be approved?

RECOMMENDATION: Yes, the following stipulations should be approved.

Note: Centel Telephone Company of Florida and the Office of Public Counsel have agreed to the proposed stipulations, with the support of Staff, and without objection from any other party.

STIPULATION 1 (ISSUE NOS. 3, 4, 24 & 24a):

Depreciation Reserve

This Stipulation is intended for settlement of Docket No. 881543-TL, In re: Central Telephone Company of Florida Depreciation and for stipulation and settlement of issues relating to depreciation in Docket No. 891246-TL In re: Petition of Central Telephone Company of Florida for a Rate Increase:

1. Effective January 1, 1990 the annual total Company depreciation expense of Central Telephone-Florida shall be increased by $2,000,000 ($1,509,256 intrastate) to be added as a bottom line non-account specific addition to expenses derived from currently prescribed depreciation rates and amortization schedules under current orders.

2. For purposes of setting rates using the 1991 test year, the appropriate amount of intrastate depreciation expense in 1991 which reflects the effect of the $1,509,256 intrastate increase in depreciation expense and the removal of aircraft depreciation in the amount of $92,204 ($69,141 intrastate) is $23,864,062. The total Company depreciation reserve shall be increased by $3,000,000 ($2,243,352 intrastate) in 1991 as a result of the stipulated increase in depreciation expense.

3. The appropriate total amount of intrastate depreciation reserve for 1991 is $152,738,991.

4. Docket No. 881543-TL shall be closed. The Company's next depreciation study required under Rule 25-4.0175(8)(a) shall be filed during the fourth quarter of 1991 with rates proposed to be effective January 1, 1992.

5. Issues 3, 4, 24 and 24a in Docket No. 891246-TL are stipulated and Issue 23j is dropped.

6. The intent of this stipulation is to increase annual total Company depreciation expense of Central Telephone-Florida by $2,000,000 ($1,509,256 intrastate) as a bottom line nonaccount specific addition to expenses derived from currently prescribed depreciation rates and amortization schedules under current orders after adjustments have been made, if any, to plant in service under Issue No. 2. Nothing contained in the aforesaid stipulation shall prevent the Commission from adjusting the Company's plant in service, nor shall this stipulation interfere with the Commission's ability to adjust the Company's depreciation expense or depreciation reserves resulting from any specific adjustment to plant in service.

STIPULATION 2 (ISSUE NO. 5):

Test Year Telephone Plant Under Construction (TPUC)

The appropriate amount of intrastate test year Telephone Plant Under Construction ("TPUC") to be included in rate base (i.e., short term TPUC) is $603,987 as shown on MFR Schedule A-2a.

STIPULATION 3 (ISSUE NO. 7b):

Directory Receivables in Test Year Working Capital

Intrastate working capital should be reduced by $1,214,031 to remove the long-term CenDon directory receivable from working capital. However, working capital should be increased by $197,057 due to an increase in short-term directory receivable. The net effect of these adjustments is to reduce working capital by $1,016,974.

STIPULATION 4 (ISSUE NO. 7d): This issue has been partially stipulated by Centel and OPC without objection from any other party, as follows:

Amortization Adjustments and Post-Retirement Expense

The impact of the amortization of the Revenue Accounting Center closing costs (Issue No. 23a) and COPRS (Issue No. 23b) should be included in working capital. These adjustments increase intrastate working capital by $157,836 and $733,562 respectively for a total increase of $891,398. The working capital impact of Arthur Anderson costs (Issue No. 23g) and the increase in post retirement expense (Issue No. 231) should be considered after the resolution of Issue Nos. 23g and 231.

STIPULATION 5 (ISSUE NO. 23a):

Virginia Data Center Consolidation

> A total Company adjustment of $60,844 should be made to increase expenses for the amortized cost of closing the revenue accounting center together with an offsetting adjustment of $313,000 to decrease expense for the savings associated with the same, for a net $252,156 decrease to expense. The net intrastate amount is $179,548. The appropriate working capital adjustment should be made also. (See Issue 7d)

STIPULATION 6 (ISSUE NO. 23b):

COPRS Costs and Savings

The anticipated total cost of COPRS of $4,583,000 should be recovered ratably over a four year period beginning January 1, 1991. This results in a $1,145,000 annual charge to expense. The savings from the project are already in the revenue requirement calculation. This adjustment decreases total Company test year expenses by $715,250. The intrastate expense decrease is $544,970. The appropriate working capital adjustment should be made as well. (See Issue 7d)

STIPULATION 7 (ISSUE NO. 23f):

Leasing Costs Of Okaloosa County Fiber Span

A total Company adjustment of $202,551 should be made to reduce expense for leasing cost associated with the Okaloosa County fiber span expected to be completed in 1991. The intrastate amount is $151,195.

STIPULATION 8 (ISSUE NO. 23h):

Miscellaneous Affiliate Costs

Central Telephone-Florida shall make an adjustment of $80,000 intrastate to disallow certain Morgan Stanley fees and other miscellaneous affiliate cost allocations for ratemaking purposes.

> In addition, an adjustment of $1,018,500 on a total Centel Corporation basis to reduce certain legal expenses relating to cases not applicable to Central Telephone-Florida is appropriate. The proper amount for Central Telephone-Florida is contingent on the allocation factors determined in conjunction with Issue 28a.

STIPULATION 9 (ISSUE NO. 23i):

Test Year Pension Expense

Test year pension expense should be adjusted to reflect changes in actuarial assumptions. The correct adjustment to reflect these changes is to increase the credit to total Company pension expense by $45,494. The intrastate increase to the pension credit is $32,425.

STIPULATION 10 (ISSUE NO. 23j):

Operating and Maintenance Expense in Depreciation Study

This issue has been dropped pursuant to the stipulation set forth in Issue No. 3.

STIPULATION 11 (ISSUE NO. 23m):

Corporate Philanthropy Costs

An additional total Company adjustment of $16,312 should be made to remove the portion of corporate philanthropy costs inadvertently left in the original filing as shown on Document 5, line 30 of Samuelson's Rebuttal Exhibit. The intrastate amount is $11,155.

STIPULATION 12 (ISSUE NO. 25):

Intrastate Test Year Taxes

The appropriate amount of intrastate test year taxes other than income taxes is $4,493,993 (see MFR A-26) plus $27,541 for the increase in regulatory assessment fee. [Note this amount is calculated as follows: $110,162,819 (see MFR C-1a Column 4, line 1) x .00025 (change in regulatory assessment fee) = $27,541 intrastate expense increase.]

STIPULATION 13 (ISSUE NO. 28b):

Information Systems Incentive Deferred Compensation Plan

A total company adjustment of $48,640 is necessary to reduce test year expenses for benefits applicable to another operating unit of Centel Corporation, Information Systems, which were inadvertently included in Central Telephone-Florida's cost of service. The intrastate amount is $34,373.

STIPULATION 14 (ISSUE NO. 28d):

General Allocator and Adoption of an Exception Time Reporting Methodology

An adjustment to reduce expenses for the adoption of the exception time reporting and a revised method of allocating centrally-managed costs should be made. On a total Central Telephone Company of Florida basis, the amount of the adjustment is a $122,410 decrease to test year expenses, using the Company's allocation factor. The proper amount for Central Telephone-Florida is contingent on the allocation factor determined in conjunction with Issue No. 28a.

STIPULATION 15 (ISSUE NO. 28e):

Corporate Community Relations Expenses

An adjustment should be made to decrease expenses for costs related to Centel Corporation's community relations department. On a total Centel Corporation basis, the amount of the adjustment is a $1,516,953 decrease to test year expenses. The proper amount for Central Telephone-Florida is contingent on the Central Telephone-Florida allocation factor determined in conjunction with Issue No. 28a.

STIPULATION 16 (ISSUE NO. 28f):

Aircraft Depreciation

A total Company adjustment of $92,204 to reduce the depreciation expense on corporate aircraft and a total Company adjustment of $11,520 to reduce the expense for the cost of insurance on corporate aircraft should be made. The intrastate amounts are $69,141 and $8,239 respectively.

STIPULATION 17 (ISSUE NO. 31):

Revenue Expansion Factor

The appropriate revenue expansion factor is 1.617665.

Note: Centel Telephone Company of Florida and Staff have agreed to the following proposed stipulations, to which AT&T-C, DGS, FPTA, McCAW and Office of Public Counsel have no objection:

STIPULATION 18 (ISSUE NO. 38):

Billing Units for Employee Concessions

The billing units for employee concessions have been properly accounted for in Schedule E1a.

STIPULATION 19 (ISSUE NO. 50):

Hearing Impairment Auxiliary Equipment

The Company's proposal not to increase rates for the following services should be approved, since these services are being priced at cost, pursuant to Order No. 12701.

a. Porta View Jr
b. AC Adapter/Charger
c. Ring Alert
d. Amplified Handset
e. Tone Ringer

STIPULATION 20 (ISSUE NO. 51):

Weatherproof Voice Jack Equipment

Centel is presently recovering costs for Weather proof Voice Jack Equipment.

STIPULATION 21 (ISSUE NO. 54):

Centel's Compliance With Commission's Investigation of Information Services

Centel is in compliance with Orders 21815 and 23183 in Docket No. 880423; therefore, no further action is necessary.

STIPULATION 22 (ISSUE NO. 72):

Return Check Charge

Centel agrees to tariff their return check charge at the $15.00 charge (or 5%) as authorized by statute.

STIPULATION 23 (ISSUE NO. 82):

Gross Receipts Tax

Gross receipts tax should not be treated as an expense for ratemaking purposes in this proceeding, but rather may be billed directly to customers as permitted by Section 203.01(5), Florida Statutes.

STIPULATION 24 (ISSUE NO. 84):

Rate Group Increase From Six to Eight

Present		Proposed	
Group	Upper Limit	Group	Upper Limit
1	2,000	1	2,000
2	4,000	2	4,000
3	8,000	3	8,000
4	16,000	4	16,000
5	32,000	5	32,000
6	32,001 and above	6	64,000
7	N/A	7	128,000
8	N/A	8	128,001 and over

Centel has agreed to revise rate group 8 to reflect upper limit 128,001 and over; therefore, the rate groups are in compliance with Commission's rule.

QUALITY OF SERVICE

ISSUE 1: Is the quality of service adequate?

RECOMMENDATION: Yes, the quality of service provided by the Central Telephone Company of Florida (Centel) is adequate.

POSITIONS OF THE PARTIES

CENTEL: The evidence presented in this case shows that Central Telephone-Florida provides excellent service and is in full compliance with this Commission's prescribed standards.

AT&T-C, DGS, FPTA, McCAW & OPC: No Position.

STAFF ANALYSIS: Exhibit No. 34, sponsored by witness Taylor, reflects the results of staff's most recent service evaluation of Centel. A service evaluation involves making thousands of test calls and checking hundreds of records over an extended period of time. Witness Taylor testified, based on the results achieved, that the overall service quality provided by Centel is satisfactory. (TR 696)

There are seventy-five (75) items in the Commission's service evaluation for which the local exchange company (LEC) bears full responsibility. As in many rating systems, some are more important than others. An example would be safety, which is very important, versus the requirement to receive dial tone within three seconds.

Centel met or exceeded 58 of the 75 Commission rule requirements in the most recent service evaluation performed during the period of February 5 through April 13, 1990. Two ratings, Vacation Disconnects and Vacant Numbers were rated n/a because there were none available to audit at the time of the evaluation.

Table 1-1 lists the categories from the most recent service evaluation for which Centel met or exceeded Commission rule requirements. For a quantitative analysis of the results, refer to Exhibit No. 34, and the referenced page number within the service evaluation report for each category.

TABLE 1-1

Category	Rule Req.%	Eval. Result%	Exhibit No. 34 Page No.
a. Dial Tone Delay	95	100	14
b. Call Completions			
1) Intra office	95	100	15
2) Inter Office	95	99.6	15
3) EAS	95	99.8	15
4) DDD Intra-LATA	92	99.8	15
c. Answer Time			
1) Operator	90	96.5	17
2) Directory Assistance	90	98.1	18
3) Repair Service	90	97.7	19
4) Business Office	80	91.7	20
d. Adequacy of Directory and Directory Assistance			
1) Directory Service	100	100	21
2) New Numbers	100	100	22
e. Adequacy of Intercept			
1) Changed Numbers	90	94.1	23
2) Disconnect Service	80	97.1	23
3) Vacation Disconnects	80	n/a	23
4) Vacant Numbers	80	n/a	23
5) Disconnects-Non Pay	100	100	23
f. Public Telephone Service			
A. One phone per exchange	100	100	24
B. 3) Glass	NP/95	100	24
4) Door	NP/95	100	24
5) Level	NP/95	100	24
6) Wiring	NP/95	100	24
7) Cleanliness	95	100	24
8) Lights	100	100	24
9) Telephone Number	100	100	24
10) Name or Logo	100	100	24
11) Enclosure	NP/95	100	24
12) Dial Instructions	100	100	24
13) Transmission	NP/95	100	24
14) Dialing	NP/95	100	24
16) Coin Return, Operator	NP/95	98	24

TABLE 1-1 (cont.)

Category	Rule Req.%	Eval. Result%	Exhibit No. 34 Page No.
17) Operator ident. coins	NP/95	98.7	24
18) Access LD's	100	100	24
20) Coin Free, Operator	100	100	24
21) Coin Free/Rtn D.A.	100	100	24
22) Coin Free, 911	100	100	24
23) Coin Free/Rtn, Repair	100	100	24
24) Coin Free/Rtn, Bus. Off	100	100	24
25) Directories	100	100	24
26) Directory Security	NP/95	100	24
27) Address/Location	100	100	24
g. Toll Timing and billing accuracy			
4) Directory Assistance	NP/97	99.5	30
h. Incorrectly Dialed Calls	NP/95	100	31
i. Availability of Service			
1) 3- Day Primary Service	90	97.8	34
2) Appointments	95	100	34
k. Power and Generators	100	100	36
l. Central Office			
1) Scheduled Routine Prog.	NP/95	100	35
2) Frame	NP/95	100	37
m. Repair Service			
2) Restoral - 24 Hours	95	95.4	38
3) Appointments	95	100	38
4) Rebates - Over 24 Hours	100	100	39
n. Test Numbers - 3 Line Rot.	100	100	40
o. Transmission (Proposed Rule)			
1) Central Office			
a. Dial Tone Level	100	100	41
b. C.O. Loss	100	100	41
c. M.W. Frequency	100	100	41
d. C.O. Noise, Met.	100	100	41
e. C.O. Noise, Imp.	100	100	41

TABLE 1-1 (cont.)

Category	Rule Req.%	Eval. Result%	Exhibit No. 34 Page No.
p. Safety			
1) Installations			
b. Older Loops	NP/92	97.4	45
q. Periodic Reports			
1) Received Complete/timely	100	100	47
3) Accuracy (Reports vs. Serv. Eval.)	NP	Sat.	47

NOTE: In several categories, the Commission requirement is listed as "NP/xx%." This indicates there is no specific percentage specified in the Rule, Order or Statute. Target values chosen by the staff represent established standards or practical and desirable objectives.

In the most recent evaluation of the Central Telephone Company of Florida, performed from February 5 through April 13, 1990, there were three (3) rule violations and twelve (12) unsatisfactory levels recorded (EXH 34, pp. 1-48).

Satisfactory or unsatisfactory ratings are given in those instances where the rule has no specific percentage indicated. In most cases 100% is implied, however, staff's standard is generally a lesser and more realistic value, keeping cost of service in mind.

A review of the deficiencies identified in Exhibit No. 34 follows:

1) **Rule 25-4.040** (Directory Assistance)

a) Numbers from Directory

The rule states the directory shall normally list all subscribers in the exchange in alphabetical order. While no explicit percentage is stated 100% is implied by the use of the word all. Staff has chosen 99% as a realistic and attainable standard, again, keeping cost of service in mind. Centel achieved a rating of 97.4%. (EXH 34, pp. 3)

2) Rule 25-4.076 (Public Telephone Service)

There were 4 violations/deviations in this category. (EXH 34, pp. 4)

Table 1-2

	Evaluated Item	Comm. Req.	Comp. Score
1)	Serviceability (Does the phone work?)	100%	99.3%
2)	Wheelchair/hearing impaired compatible	100%*	48.3%
15)	Coin Return, Automatic	100%	98.7%
19)	Ring Back, Operator (This allows collection for overtime)	(NP/95)	90.7%

* All payphones installed since January, 1987 must meet American National Standards Institute (ANSI) requirements. When the staff is evaluating phones during an audit we have no way of knowing the installation date. Therefore all failures are recorded and the company must produce evidence regarding the installation dates.

3) F.S. 365.171 (911 Service)

There is no requirement imposed on the companies regarding answer time for 911 service. Answer Time is the responsibility of the public safety answering point (PSAP). Companies are responsible for call completion, i.e., the delivery of the call to the answering point. The staff believes this item should receive top priority because it pertains to public safety and health. We have established an objective of 100% call completion. Centel had a 99.1% call completion. (EXH 34, pp. 6)

4) Rule 25-4.070 (Repair Service)
(Restoral-Same Day and 24 hours)

1) The rule states,"Companies shall make every reasonable attempt to restore service on the same day that the interruption is reported to the serving repair center." Since no percentage is specified for same day clearance, staff has established 80% as a reasonable objective. Centel achieved 62.9%. (EXH 34, pp. 6)

5) Rule 25-4.036/072 (Subscriber Loops-Proposed)

The staff is proposing this as a rule and has established a 98% compliance requirement. Centel

achieved 97.2% compliance with 202 satisfactory and 8 marginal loops out of 216 tested. (EXH 34, pp. 6)

6) **Rule 25-4.036 & 25-4.038** (Safety)

a) One faulty ground was observed from recent installations (under 30 days), additionally, nine faulty grounds were observed from older installations during the service evaluation requiring an unsatisfactory safety rating. (EXH 34, pp. 45)

b) A total of three other safety violations were observed requiring an unsatisfactory rating. (EXH 34, pp. 11 para. 5)

The staff has recently revised the manner in which companies are rated for safety. Since deregulation, customers are more frequently installing their own inside wire and moving protectors; a practice formerly reserved for the telephone companies. The staff believes that companies should not be held responsible for customer action. The fact that the company has had no reason to visit the premises for a very long period indicates good service. It is now our practice to inspect "recent installs," that is, those under thirty days old. We expect 100% compliance with these recently installed lines. The older existing loops are expected to meet a 92% compliance level to be satisfactory.

7) **Rule 25-4.0185** (Periodic Reports)

Centel filed the first quarter 1990 periodic reports required by this Commission in a timely manner. Centel indicated in their report that they failed to meet Commission requirements regarding the clearing of trouble reports within 24 hours for the months of February and March requiring an unsatisfactory rating. (EXH 34, pp. 9)

8) **Customer Service Complaints**

The level of justified customer service complaints per 1000 lines exceeds the state average. The Division of Consumer Affairs lists Centel as having the most complaints per 1000 access lines of all LECs in Florida with .149 justified complaints per 1000 lines. This compares to United's rating of .025 justified complaints per 1000 lines. (EXH 33, pp. 7)

While the number of deficiencies appears significant, the staff routinely works with companies to correct problems found

during a service evaluation. We are satisfied that Centel has or will correct the deficiencies to our satisfaction.

Based on the record in this proceeding, staff believes the Central Telephone Company of Florida is providing adequate service for its customers in Florida.

ISSUE 96: Does the Commission have the jurisdiction to grant Central Telephone-Florida's proposed incentive regulation plan?

RECOMMENDATION: No. This proceeding is governed by Chapter 364, Florida Statutes, as it existed prior to October 1, 1990, and the plan proposed by Centel does not conform to the requirements of that statute.

POSITION OF PARTIES

CENTEL: The Company's Incentive Regulation Plan was filed with the intention that it be judged and implemented within the context of Chapter 364, Florida Statutes, 1989, as it existed prior to October 1, 1990. (Cross, TR 525-26) Based upon the record developed in this proceeding, the Company's plan does conform to the requirements of that statute.

The record clearly shows that the Company's plan is rooted in rate of return regulation, both in terms of the initial setting of prices and in the ongoing overview of those prices. As pointed out by the Company's witness, Dr. Kahn, price caps are just another form of rate of return regulation, with the focus being on prices rather than earnings. (Kahn, TR 39-40) Additionally, because the Plan has only a four-year term, the proprietary of the Company's prices will be judged once again at its expiration on traditional rate of return criteria. In Dr. Kahn's view,

> It [the Company's Plan] offers the promise of very substantially mitigating some inherent deficiencies of rate base rate of return regulation without abandoning rate base rate of return regulation . . .

(Kahn, TR 81-82)

Under the prior Chapter 364, the Commission clearly had authority to set banded rates for local telephone companies and to freeze prices (both increases and decreases) for basic local exchange services. See, In re: Southern Bell Telephone and Telegraph Company Petition for Rate Stabilization, Docket No. 880069-TL, Order Nos. 20162 and 20503, aff'd Citizens v. Nichols, 556 So.2d 1109 (Fla. 1990). The Commission in that case also approved earnings sharings. The price caps now proposed by the Company are just a variation on earnings sharing, which substitutes productivity and exogenous factors for rate of return measurements. Although price caps may stretch the rate of return range, they are, nonetheless, intrinsically related to rate of

return. (Kahn, TR 81-82) Because price changes are related to cost changes in the economy in general, the price changes should track with the rate of return used by the Commission in initially setting the price capped basic rates. In other words, through the Company's price cap indexing mechanism, including the productivity offset, prices for basic services should remain relatively stable in relation to basic prices set through traditional rate of return analysis. Likewise, the Company's non-basic prices and earnings would be restrained by competition and economic conditions. (Cross, TR 267-68)

The key point is that the Company's prices and earnings initially will be set using traditional earnings regulation and periodically thereafter be checked, at least every four years, through traditional rate base, rate of return criteria. (Rohlfs, TR 483-84) In the intervening period, price caps will provide a more efficient monitoring mechanism than historically has been used. As pointed out by Dr. Kahn, price caps simply expand and quantify the previously acceptable practice of regulatory lag. (Kahn, TR 28-29, 169-72; EXH 7) In no sense, however, do price caps, in general, and the Company's Plan, in particular, constitute an abandonment of rate of return regulation. Price caps provide assurance that the Company's prices for basic services during the agreed upon period of regulatory lag will not produce earnings that exceed a reasonable level.

In the event, however, the Commission has any reservations that the Company's Plan, as proposed, cannot be implemented under the previous Chapter 364, the Commission has the authority to make whatever changes it deems necessary in order that the Plan comport with prior Chapter 364. Indeed, the Company urges, in that event, that the Commission make any requisite changes so that an incentive regulation plan emerges from this proceeding which will bring the benefits of incentive regulation to the Company's customers. In doing so, however, the Commission must take care that any changes to the Company's Plan not undermine the benefits which would otherwise have flowed from it. As noted by the Company's witnesses, Mr. Cross and Drs. Kahn and Rohlfs, the Company's Plan is a well-designed one with each element tailored precisely to fit the other elements in order to produce the greatest incentives and benefits for the Company's customers. (Cross, TR 247; Kahn, TR 90, 112-14, 144-47; Rohlfs, TR 484-86) Modifying one aspect of the Plan without consideration of the effects on the Plan as a whole could be seriously detrimental. For example, adding an earnings sharing component to price caps without providing an adequately broad sharing range would severely weaken the incentives derived from the Plan. (Cross, TR 261) Likewise, the imposition of a price freeze on basic local

service rates, without offsetting recognition of exogenous factors, would destroy the incentives otherwise achievable under the Plan. (Kahn, TR 161-63; Rohlfs, TR 485-86) Such "regulatory reform" in name only and without true incentives will provide no benefit to the Company's customers.

Finally, Commission approval of the Company's Plan necessarily includes approval of a procedure by which the Company annually could file for changes in the price caps for basic and non-basic services and revisions to switched access charges over the term of the Plan. It is fully within the Commission's authority to institute a procedure that contemplates such periodic price changes. To the extent that future changes in price caps made during the existence of the Plan are demonstrably consistent with the terms imposed by the Commission in initially approving the Plan, then such price cap changes should be permitted to go into effect without delay or further procedural impediments. Indeed, it would be inimical to the objectives of the Plan if each pricing change opened renewed debate on every aspect of the approved Plan. Since the Company's Plan is controlled by Chapter 364, Florida Statutes, as it existed prior to October 1, 1990, pricing changes under the Plan are not revisions constituting a new plan within the meaning of new Chapter 364, as effective after October 1, 1990.

FPTA & McCAW: Disposition of Centel's requested alternative regulation plan is governed by Florida Statutes chapter 364 effective prior to October 1, 1990. Chapter 90-244, § 44, 1990 Fla. Laws (Fla. Stat. § 364.385(2), amended effective October 1, 1990). At the issues identification conference on August 8, 1990, FPTA attempted to have the parties stipulate to the application of the newly updated chapter 364 as is permitted by Florida Statutes section 364.385(2). This request was made because new Florida Statutes section 364.036 specifically spoke to alternative regulation, it provided clear criteria to govern the review of any request for alternative regulation, and the law, like Centel's plan, would be applicable on a going forward basis. Nevertheless, Centel rejected any stipulation to make the revised chapter govern these proceedings.

It is well settled that the Commission has no general authority to regulate utilities and that any regulatory authority is strictly limited to that contained in the statutes. United Telephone Co. v. Public Service Comm'n, 496 So.2d 116, 118 (Fla. 1986); Radio Telephone Communications, Inc. v. Southeast Telephone Company, 170 So.2d 577 (Fla. 1965). A plain reading of Florida Statutes chapter 364 makes it quite clear that under Florida law effective prior to October 1, 1990, the Commission

was limited to rate base/rate of return regulation for local exchange companies such as Centel.

Florida Statutes section 364.035(1) states that "no telephone company shall be denied a reasonable rate of return upon its rate base." Further, Florida Statutes section 364.14(1) requires in any rate setting proceeding that the Commission "shall allow a fair and reasonable return on the telephone company's honest and prudent investment in property used and useful in the public service." The effect of these statutes is to require rates to be set based upon the utility's used and useful, prudent rate base. State v. Hawkins, 364 So.2d 723 (Fla. 1978); General Telephone Co. v. Carter, 115 So.2d 554 (Fla. 1959). Under the law effective prior to October 1, 1990, the Commission is without authority to waive these statutes for local exchange companies. Compare Fla. Stat. § 364.337(2)(a) and chapter 90-244, § 5, 1990 Fla. Laws (Fla. Stat. s. 364.036(3)(b), effective October 1, 1990).

There is no disputing the fact that Centel's requested regulation plan involves an abandonment of rate base/rate of return regulation. Centel's plan involves the initial setting of rates pursuant to rate of return regulation. Then, during the next four years, rates will be subject to an annual price adjustment based upon one of two formulas depending upon whether the service is classified as basic or nonbasic. Cross, TR 265, 267. This price indexing has no relationship to traditional rate of return principles and no relationship to Centel's earnings. As Mr. Cross admitted, Centel's plan does not have a maximum or minimum rate of return included within its proposal. Exhibit No. 17, at 36 (October 8, 1990, Deposition Transcript, p. 80). Even accepting Centel's plan as a price cap does not eliminate the fact that Centel's overall regulated earnings will not be subject to any floor or cap. Based on recent history, the earnings likely resulting from the price cap approach would lead to rates that are unjust, unreasonable, unjustly discriminatory, unduly preferential, or overly compensatory, which would violate the mandates of Florida Statutes sections 364.035(1) and 364.14(1).

The plan requested by Centel is clearly distinguishable from that approved in 1988 for Southern Bell. First, and foremost, the Commission continued rate base/rate of return regulation for the Company. While the Commission set a wider range of authorized returns for the company by authorizing a band of "shared" earnings, which includes a cap on overall rate of return, Southern Bell's rates continue to be set based upon the company's earning within the authorized range. Second, the plan approved was clearly experimental and implemented for a short

period of time. Third, the Commission required more, not less reporting, by the company in order to ensure a close monitoring of the company's operations. Fourth, the Commission retained authority to terminate the experiment at any time. Order No. 20162, issued October 13, 1988. Indeed, while the legality of Southern Bell's alternative regulatory plan was not the subject of an appeal, the Florida Supreme Court has suggested that the plan would not be invalidated for these reasons. Citizens of Florida v. Nichols, 556 So.2d 1109, 1111 (Fla. 1990). Centel's plan lacks each of the components present in the Southern Bell plan.

The recent actions of the Florida Legislature also independently support the finding that the Commission lacks the statutory authority under Florida law governing this proceeding. Florida Statutes chapter 364 was significantly enhanced by the 1990 Florida Legislature. Effective October 1, 1990, the Legislature granted to the Florida Public Service Commission the express power to approve "alternative regulatory methods for local exchange telecommunications companies." Chapter 90-244, § 5, 1990 Fla. Laws (creating Fla. Stat. § 364.036). It is a well settled principle of statutory construction that the granting of authority implies the absence of existing authority. Seddon v. Harpster, 403 So.2d 409, 411 (Fla. 1981); Mikos v. Ringling Bros.-Barnum & Bailey Combined Shows, Inc., 497 So.2d 630, 633 (Fla. 1986).

In adopting new alternative regulatory methods statute, it must also be noted that even by this grant of authority, the Commission remains circumscribed in its jurisdiction. Specifically, new section 364.036(2)(e) expressly states that the Commission must find, inter alia, "that the rates for monopoly services are just, reasonable, and not unduly discriminatory, and do not yield excessive contribution" (emphasis supplied). Thus while the toll, traditional form of rate base regulation itself may be modified under the statute, any local exchange company alternative regulation plan approved by the Commission must not result in rates that lead to unsupervised, excessive earnings.

The plain language of this statute is buttressed by the legislative history and intent underlying this section. The Committee Staff Analysis prepared by the Senate Committee responsible for drafting new section 364.036 speaks in terms of the changes now "authorizing the commission" to adopt alternative regulatory methods. Staff of Fla. S. Comm. on Economic, Professional and Utility Regulation, CS for SB 2398 (1990) Staff Analysis 2 (April 23, 1990) (on file with Committee). Moreover, during the House floor debate on the chapter 364 sunset package,

Representative Tobin, Chairman of the House Committee on Science, Industry & Technology engaged in a colloquy with Representative Drage regarding the effects of enactment of section 364.036:

> Representative Drage: "Representative Tobin, you indicated in your summary that one of the safeguards for the use of the alternative regulatory methods was an assurance that rates under such a plan would not result in excessive compensation. By that, do you mean that customer rates will not exceed what they would have otherwise been had the company's monopoly service rates continued to be set by the traditional rate base, uh, rate of return regulation?"
>
> Representative Tobin: "Yes...."

Fla. H. R., tape recording of proceedings (May 31, 1990) (floor of the House) (discussion of CS for SB 2398).

Later, Chairman Tobin amplified his comments in response to Representative Drage, saying:

> [Under the bill] the Commission may, upon a showing that customer rates for basic local exchange telecommunications services exceed levels which would otherwise be approved by it under rate of return regulation, impose additional regulatory safeguards, to include a return to full rate base regulation. [Emphasis supplied.]

Fla. H. R. Jour. 1459 (Reg. Sess. 1990). There can be little dispute that prior to the adoption of new section 364.036, effective October 1, 1990, the Commission lacked authority to abandon rate base/rate of return regulation in favor of the price cap regulation sought by Centel, and that even with the enactment of new section 364.036 the Commission lacks the authority to grant the relief that Centel has requested.

OPC: Centel advocates a plan to automatically increase local rates each year for four years (with no review of the company's earnings) as long as the inflation rate exceeds 2% each year.

Section 364.14, Fla. Stat., states that in prescribing rates, the Commission shall allow a fair and reasonable rate of return on the telephone company's honest and prudent investment

in property used and useful in the public service. In a similar vein, Section 364.035, Fla. Stat., states that no telephone company shall be denied a reasonable rate of return upon its rate base. These statutes require the Commission to use rate of return regulation to prescribe the company's rates.

Under Centel's proposal, the company's initial rates would be set using rate of return regulation. However, the company then asks the Commission to authorize automatic increases in its local rates each year for four years without regard to what the company earns during those four years.

Despite its protests to the contrary, the company recognizes that Florida statutes existing prior to October 1, 1990, do not allow the Commission to implement a price cap plan. For example, Exhibit No. 9, a memorandum dated April 20, 1990, from Dale Cross to Paul Yovovich, admits that an earnings sharing plan was abandoned in favor of price cap plan "as a result of language in a proposed Senate bill which would allow the PSC to move away from rate base rate of return legislation." (EXH 9, p. 1). The new statute, Chapter 90-244, Laws of Florida, specifically allows the Commission to waive the provisions of Sections 364.055 and 364.14 when considering plans for alternative regulation. The reason for this provision in the new statute is precisely that Sections 364.055 and 364.14 require the Commission to use rate of return regulation -- not a price cap plan which allows the company to increase rates without reference its earnings.

Centel does not dispute the fact that this case is governed by Florida's telecommunications laws which precede passage of Chapter 90-244, Laws of Florida. Section 44 of Chapter 90-244, Laws of Florida, states that proceedings pending on October 1, 1990, are governed by the law as it existed prior to October 1, 1990. Any administrative adjudicatory proceeding which has not progressed to the stage of a hearing may be conducted in accordance with the provisions of Chapter 90-244, Laws of Florida, only with the consent of all parties and the Commission. The Citizens withheld such consent in the Citizens' answer dated July 9, 1990, on page 12.

In summary, the Commission has no jurisdiction to order a plan which would allow the company to automatically change its rates without regard to its earnings, such as the plan proposed by Centel in this case.

AT&T-C & DGS: No position.

STAFF ANALYSIS: The Commission has been asked to determine

whether it has the jurisdiction to grant the incentive regulation plan proposed by Centel. Based upon our analysis of the controlling statute, it is staff's recommendation that the Commission cannot grant Centel's proposed plan.

Before proceeding with our legal analysis, staff believes it is important to acknowledge that certain other questions simply cannot be answered within the context of this particular issue. Issue 96 does not determine the benefits or detriments of Centel's proposed plan (these are addressed in Issue 94). Nor does Issue 96 attempt to delineate what this Commission's regulatory philosophy is or ought to be (this is discussed in Issue 93). In addressing the question posed by Issue 96, staff has attempted to refrain from critiquing the applicable law. We have taken this approach because we believe that discussions of the relative merits of the applicable statutory provisions could have a tendency to detract from our legal analysis. Staff believes its role in formulating its recommendation on this legal issue following the hearing is to state what the law is, to the best of our ability, irrespective of any personal views we may have regarding what the law should be.

To make the determination posed by this issue, the Commission must answer three questions: (1) what law governs this proceeding; (2) what are the essential requirements of the law; and (3) is the proposed plan consistent with the essential requirements of the law?

As to the first question, all parties are in agreement that the disposition of Centel's petition is governed by Chapter 364, Florida Statutes, as it existed prior to October 1, 1990. Staff agrees. Section 44 of Chapter 90-244, Laws of Florida (the new statute), provides that proceedings pending on October 1, 1990, are governed by the law as it existed prior to October 1, 1990. This section does provide that for pending proceedings the new law could apply, but only with the consent of all parties and the Commission. FPTA attempted to procure such an agreement, but it was rejected by Centel. Additionally, OPC explicitly withheld its consent in its July 9, 1990, answer to Centel's petition. Accordingly, the disposition of this case is controlled by Chapter 364 as it existed prior to October 1, 1990.

The next step in the analysis is to isolate those portions of the statute addressing the means that may be employed by the Commission in regulating telephone companies. Two sections of the statute are pertinent in this regard. Section 364.035(1), Florida Statutes, states that "no telephone company shall be denied a reasonable rate of return upon its rate base..."

Additionally, Section 364.14(1), Florida Statutes, mandates that in setting rates the Commission "shall allow a fair and reasonable return on the telephone company's honest and prudent investment in property used and useful in the public service." The clear effect of these provisions is to require the Commission to use rate of return regulation to prescribe the company's rates. With the exception of Centel, all of the parties explicitly agree with this conclusion. While Centel never actually states that the Commission is required to use rate of return regulation, it is obvious that Centel agrees with this statement because of its continual attempts to characterize its plan as meeting those requirements. At page 100 of its brief, Centel states that its plan "is rooted in rate of return regulation..." Again, at page 101, Centel characterizes its price caps as "intrinsically related to rate of return." Once again, quite tellingly, Centel asserts that "[i]n no sense, however, do price caps, in general, and the Company's Plan, in particular, constitute an abandonment of rate of return regulation." (Brief, p. 102) Staff believes that these assertions, and numerous others just like them, are an acknowledgement by Centel of the Commission's duty to utilize rate of return regulation in its disposition of this case. The only true area of dispute, then, is whether Centel's proposed plan is consistent with that statutory mandate. That question is addressed in the third step of the analysis.

Other than Centel, none of the parties that took positions on this issue believe that Centel's plan is consistent with the requirements of rate of return regulation. All parties, including Centel, agree that Centel's proposed plan does utilize rate of return regulation for the initial setting of rates. Then, for the next four years, rates would be subject to an annual price adjustment based upon one of two formulas, depending upon whether the service is classified as basic or nonbasic. (Cross, TR 265, 267) This price indexing simply is not related to rate of return regulation or to Centel's earnings. Centel attempts to dispute this by citing the testimony of Dr. Kahn to the effect that "price caps are just another form of rate of return regulation, with the focus being on prices rather than earnings." (Brief, p. 100) Yet as Centel's witnesses Cross and Kahn both admitted, the plan does not include a maximum or minimum rate of return. (EXH 17, p. 36 and TR 40). Staff submits that this omission is fatal. Centel argues that its price caps <u>should</u> track with the rate of return used by the Commission initially because price changes are related to cost changes in the economy in general. (emphasis added) (Brief, p. 101) The tip-off here is the Company's use of the word "should." What Centel is saying, staff believes, is that price caps <u>in</u>

theory would get us to the same place as traditional rate of return regulation, assuming that the price indexing was perfectly formulated and that the forecasters were clairvoyant. With all due respect, this is simply not the case. Nor can such a theory be accepted as the basis for legal validation of the plan.

In addition to the lack of a floor and ceiling on earnings, indexing of rates is itself legally problematic. Under Centel's plan, local rates would increase automatically each year as long as the inflation rate exceeds 2%. Such a rate structure would effectively divest the Commission of any meaningful regulatory oversight. Section 364.03(1), Florida Statutes (1989) requires that "[a]ll rates, tolls, contracts, and charges ... shall be fair, just, reasonable, and sufficient..." Section 364.035(1) and Section 364.14(1) both mandate the use of rate base/rate of return regulation in fixing rates that are fair, just, reasonable, and sufficient. Indexed rates are inherently inconsistent with these requirements. Accordingly, Centel's proposal to automatically adjust its rates should be rejected as legally impermissible.

Centel attempts to save its proposed plan from its fatal legal flaws by an inappropriate comparison to Southern Bell's plan in Docket No. 880069-TL. (See Brief, p. 101) The plan requested by Centel is readily distinguishable from that approved in 1988 for Southern Bell. First, the Commission continued rate base/rate of return regulation for Southern Bell. Although the Commission set a wider range of authorized return by utilizing a band of shared earnings (including a limit on overall rate of return), Southern Bell's rates continue to be set based upon its earning within its authorized range. Second, the plan approved for Southern Bell was clearly experimental and for a short initial time period. Third, the Commission required more, not less reporting by Southern Bell to ensure close monitoring of the experiment. Fourth, the Commission retained the authority to terminate the experiment at any time. See Order No. 20162. Centel's plan lacks each of the components present in the Southern Bell plan. Additionally, Centel is not in the same posture as Southern Bell was at that time as regards earnings.

Another element of the Centel plan with clear legal infirmities is the proposed moratorium on show cause proceedings. Foregoing show cause proceedings where such proceedings would traditionally be deemed appropriate would be a derogation of the Commission's duty to regulate utilities in the public interest. Accordingly, this part of the proposal could not be accepted.

In summary, the plan proposed by Centel cannot be

implemented because it abandons rate of return regulation once rates are initially set. Despite Centel's protests to the contrary, the plain language of Chapter 364 effective prior to October 1, 1990, makes it quite clear that the Commission is limited to rate base/rate of return regulation for local exchange companies such as Centel. Accordingly, the Commission must reject Centel's proposed plan because it does not conform to the statute.

ISSUE 93: Should the Commission approve an incentive regulation plan for Centel?

RECOMMENDATION: No, not at this time. A plan that provides an incentive for the company to operate more efficiently and innovatively, and which meets the public interest test, should be approved provided sufficient documentation, budgeting and evidence supports such a finding and, at a minimum, include those elements listed at the end of this recommendation. However, Centel has not provided this information (especially budget information) at this time.

ALTERNATIVE RECOMMENDATION: Yes, the Commission should approve an incentive regulation plan for Centel provided Centel modifies their proposed incentive plan to incorporate the 12 elements listed in the primary staff analysis and provides staff with acceptable financial documentation to support such a plan.

POSITION OF PARTIES

CENTEL: Yes, most definitely. As stated in the Company's basic position, changes in industry structure and technology, and the introduction of competition into the largest portion of the Company's business has dramatically altered the environment in which Central Telephone-Florida provides service to its customers. In this new environment, with mixed competitive and monopoly services, and different risks and opportunities, the traditional manner in which the Company's prices and earnings have been regulated is no longer appropriate.

Traditional regulation attempts to deal with innovation and efficiency of operations by monitoring the activities of the telephone company, examining the prudence of its investment projects, assessing the reasonableness of its purchasing policies, and disallowing unnecessary or imprudently incurred costs. But, this kind of negative regulatory second-guessing is a weak instrument in a rapidly changing industry with new technology driving customer demand for innovative services. The kind of regulatory oversight that accompanies cost-plus regulation is inevitably a highly imperfect substitute for a regime in which the Company itself has a powerful incentive continuously to search out ways for providing basic and innovative services with maximum efficiency.

Unlike traditional regulation, with its lack of adequate incentives for efficiency and innovation, incentive regulation and in particular the type of incentive plan proposed by the Company will create motivational challenges, yield significant

savings in administrative costs, maximize productivity and efficiency gains and provide the flexibility needed for telephone companies to respond rapidly to changing market conditions. Moreover, incentive regulation will meet the Commission's primary goal of ensuring quality service with a sound, cost-efficient infrastructure at reasonable and affordable prices.

The Company recognizes that there are many different ways this Commission could fashion a plan to achieve the basic objectives of incentive regulation. The point is that it is extremely important for this Commission to focus on the basic objectives of incentive regulation. Regardless of the details of the plan ultimately prescribed by this Commission, it should be an aggressive, well thought-out proposal which is what the Company has presented to the Commission.

Central Telephone-Florida is an ideal candidate for this Commission to continue to experiment with incentive regulation. The Company has, in the past, demonstrated to this Commission that it is an aggressive pursuer of efficiencies for the benefit of its customers, as demonstrated by the levels of refunds and reductions in rates experienced by Central Telephone-Florida's customers since its last rate case in 1976. This historical experience provides substantial assurance that the Company's exemplary behavior will continue under price caps or whatever form of regulation the Commission approves. Accordingly, the Company urges the Commission to continue its aggressive pursuit of incentive regulation for the benefit of the Company's ratepayers.

OPC: The Commission should not, and cannot, approve the plan proposed by Centel. Centel's plan would violate Section 364.14 and 364.035, Florida Statutes, by departing from rate of return regulation.

AT&T-C: AT&T-C does not oppose the concept of price cap regulation provided that adequate safeguards are maintained and access charges are targeted for immediate and continuing reductions. The required safeguards include:

The price of intraLATA toll should recover the price of access service that interexchange carriers would be required to pay if offering a similar service.

Monopoly services should not be allowed to subsidize competitive or potentially competitive services.

Tariffs filed in accordance with a LEC incentive plan should

be free of unreasonable discrimination so that no customer or competitor is unfairly disadvantaged.

In addition to the safeguards, any approved plan must incorporate a mechanism to reduce and phase down access charge levels over the life of the trial. AT&T-C specifically recommends that the BHMOC be initially set at $4.85 (down from the current $6.47) and then subsequently reduced by an additional $1.62 at each anniversary of the inception of an approved plan until all charges for the BHMOC are eliminated.

Further, AT&T-C encourages Centel to move toward open network architecture (ONA) type structures to mitigate the potential ill effects of increased pricing flexibility.

DGS: No position.

FPTA/McCAW: Based upon a review of all of the evidence of record Centel has failed to substantiate its entitlement to an incentive plan. Under any objective criteria, the company has failed to demonstrate either specific harms that have occurred as a result of the current system or meaningful improvements possible under any alternative system. This result is only complicated by the potential anticompetitive and unfairly discriminatory rate adjustments possible from an improperly structured program. Moreover, to the extent the Commission finds that Centel's plan fails these or any criteria, the Commission has no duty to develop and implement an alternative plan. Accordingly, on this record, Centel is not entitled to any alternative regulation.

FPTA's and McCaw's positions, with the exception of the concern for being unable to deploy new equipment under ROR, are directed at Centel's specific plan and the legal aspects. This approach was also taken by OPC. Consequently, their positions on each of these issues are included in Issues 94 and 96, respectively.

STAFF ANALYSIS: Centel contends that this plan will overcome the deficiencies found in traditional rate of return regulation (ROR) and move the company closer to competition. By including price caps, and thus instilling the profit motive, the company will be relying more on market forces.(Cross TR 237) These market forces will act as a strong influence on the company to be efficient.(Cross TR 237)

Incentive plans generally consist of three primary elements. These include a provision allowing the firm greater flexibility in pricing of services, a provision allowing greater flexibility

for earnings, and a provision directed at improving quality of service. For example, one method of achieving pricing flexibility is through price caps while flexibility of earnings may be achieved through a sharing provision.

Where better results can be achieved for the ratepayers, staff supports the idea allowing greater earnings flexibility and pricing flexibility. We agree that Centel's proposed incentive regulation plan (IRP) is a step in that direction. However, staff believes that while the Centel plan has numerous acceptable components, it also contains numerous flaws, flaws that are fatal to the plan as a whole. This recommendation is contained in Issue 94 where the individual elements of the plan are discussed in detail. **This issue is whether or not the Commission should approve an incentive regulation plan for Centel.** Staff recommends the Commission not approve a plan for Centel at this time. The basis for this recommendation follows.

Staff believes it is questionable that Centel has been hampered by ROR. IRPs are thought to influence firms to invest in new plant, modernize their networks, and enable them to offer a wider variety of services. (Centel-Cross TR 229) When Witness Cross was asked to indicate where the current regulatory scheme has prevented the Company from investing in technological improvements, the witness was unable to provide an example. (TR 284)

A perceived advantage of an incentive regulation plan is that it enables the regulated firm to respond to competition in a timely manner. When witness Cross was asked for specific examples where Centel had been unable to meet competition in a timely manner, he was unable to provide any examples. (Cross TR 283)

A further perceived advantage of an incentive regulation plan is the regulated company need not come to the Commission to justify each and every rate change they propose to make. Witness Cross refers to this as micro-regulation.(Cross TR 228) When asked to point out where they had been harmed by micro-regulation, Centel witness Cross was unable to provide an example.(Cross TR 284)

Incentive regulation plans have been developed in part to enable the regulated firm, through pricing flexibility, to compete in the competitive market place, offering competitive services while still ensuring that the firm continues to provide monopoly services. Centel indicates that it considers no service it provides to be monopoly. (EXH 15 p. 14) When asked what the

alternatives were to basic service, witness Cross replied that cellular and shared tenant services are alternatives. (Cross TR 314) It is staff's assertion that statements of this nature reveal a fundamental misunderstanding by the company of what its role is concerning its social responsibility and the provision of basic service.

Centel has not provided forecasts for earnings under their proposed plan. Nor have they done financial analysis for any of the plans that were created in arriving at the plan presented to the Commission. (Cross TR 254) The Company did do an analysis of its plan under the various price cap proposals of the FCC.(Cross TR 275) (This also detracts from the credibility of setting the productivity factor at 2%, as Centel has proposed--see Issue 94.) This deficiency is further exacerbated where the Company states that it is aware of possible separation changes, yet no analysis is provided incorporating these expected changes. (EXH 104, pp. 410, 411)

Staff has considered the possibility of instituting an IRP similar to the one approved for Southern Bell. The basic foundation of the Southern Bell plan was the determination and establishment of a reasonable level of expected financial performance during the time for which the IRP is approved. In this way, the Company does not simply keep all improvements in earning which are occurring as a result of technological improvements and efficiency gains which the industry is experiencing overall. The Company is only allowed to retain or share those earnings which it achieves in excess of normal productivity gains.

Centel filed its test year MFRs on June 12, 1990. On July 20, 1990, Centel filed additional data related to 1992, 1993 and 1994 operations. This was the first time Centel has attempted to budget for operations in such detail so far into the future (1992-1994). Centel engaged Arthur Andersen to assist in the budget preparation. Questioning by the staff of Centel witness Felsenthal (EXH 81) and Centel witness Cross (TR 1133-1141) showed numerous errors in the budget such as budgeting for programs which had been terminated, retiring plant from the wrong plant and reserve accounts, and not retiring major pieces of plant at all. The majority of Centel's expenses for 1992, 1993 and 1994 were simply based on 1991's amounts increased by 5% each year (Centel-Felsenthal TR 1122-1123). Centel's budget indicates that earnings will decline from 1991 through 1994. This is contrary to the general improvement in earnings being experienced by most other LECs in Florida.

Staff does not believe that the budget prepared by Centel was prepared accurately, nor does it realistically depict the likely earnings of Centel for 1992, 1993 and 1994. Even though the budget was filed five weeks after the MFRs were filed and the backup data to the budget was provided even later, staff discovered enough errors in the budget to create serious doubts as to its usefulness.

Staff believes a reasonable budget is the foundation of an incentive plan like Southern Bell's, a requirement staff believes Centel has failed to meet. In addition, when asked about the appropriateness of the Southern Bell arrangement for Centel, the Company could not state if it would be a good plan for Centel and also expressed reservations with the SBT plan in that it does not go far enough in encouraging efficiencies.(Cross TR 273) Therefore, staff cannot recommend a similar plan for Centel.

Finally, staff would note that there were several interesting observations Centel witness Kahn offered concerning the possibility that ROR might actually be beneficial. For example, knowing that losses may be recouped from rate payers, the regulated firm may invest in some risky venture knowing that they are protected from loss. (EXH 14, pp. 24-25) Under ROR, regulated utilities are constantly under the scrutiny of both the Commission and the public. By providing exceptional service, they may be the recipient of rather generous rewards in terms of the allowed return for this excellent service.(EXH 14, p. 24) Centel has argued that the time between regulatory review, such as rate cases, should be extended. As Centel witness Kahn points out, should the Company be in an excessive earnings position, the firm will continue earning in that fashion for the time it takes to correct the situation. (Kahn TR 28)

In summary, staff believes Centel has not provided adequate justification for the Commission to approve its proposed IRP, both in terms of its suggested earnings deficiencies as well as the theoretical underpinnings of such regulation. Staff also believes that Centel has been unable to demonstrate where they have been prevented by ROR from operating efficiently and profitably. Staff, therefore, recommends that until Centel submits information providing adequate support for an IRP, the Commission not approve an incentive regulation plan for Centel.

Staff is cognizant of the Commission's desire to ensure that the citizens of Florida are provided with quality service at just and reasonable rates while at the same time reducing its regulatory oversight. The industry in Florida will no doubt be bringing before the Commission incentive regulation plans to

allow them to operate more freely. With this in mind, staff recommends that consideration of any IRPs submitted in the future should include the following:

1. Basic and non-basic services should be separated into at least four categories; Monopoly, Emerging Monopoly, Emerging Competitive, and Competitive. This will allow greater flexibility in assigning regulatory oversight and rates.

2. At the least, monopoly services should have rate caps assigned to them. These caps should include a provision for inflation, an offset for productivity, and an offset for exogenous factors.

    a. The provision for inflation should be an index related to the telecommunications industry. For example, the telecommunication industry has been described as a declining cost industry. If this is truly the case, an index that measures overall inflation, such as the GNP-PI or the CPI would be inappropriate. In addition, an index that is Florida specific may also be more appropriate.

    b. The productivity offset should also reflect the environment in which the company is operating. Florida is a fast growing area, therefore, a productivity factor developed for North Dakota, a state where the population may actually be declining, would not accurately reflect the expected productivity for Florida.

    c. A device to allow for events outside the Company's control, i.e., exogenous events, should be included. Those events determined to be exogenous should be agreed upon ahead of implementation of the plan. Naturally, not all events can be identified, consequently, only those events that have a <u>direct</u> impact on company earnings should be considered. A level of impact should be instituted and should be measured in dollars.

3. "Bottleneck facilities", such as switched access, should be treated differently than other monopoly services. Access to these facilities should be priced uniformly, regardless of the customer. Rates for switched access should be subjected to no adjustments unless the adjustments are downward.

4. The remaining service categories should be subject to price caps with the exception of the Competitive basket. Emerging Monopoly should have a "tighter" cap than emerging Competitive. The Competitive basket should have price floors.

5. A provision for sharing should be included. It must be recognized that this can become quite complex in design, particularly if ceilings and floors are to be put in place.

6. Earnings should be subject to ceilings.

7. A provision for controlling cross-subsidization should be installed. For categories other than Monopoly, some measure other than incremental cost as the floor may be more appropriate. (The incremental costs for some services are quite small.)

8. The results of the plan should be reviewed annually. The plan itself should run 3 to 5 years, a period of time where large fluctuations in earnings and rates will be "smoothed".

9. Regulatory authority and oversight should be maintained. A provision for intervention by the Commission, should it find the plan not to be operating in the public interest, should be specified. Show cause proceedings should also be allowed.

10. An analysis for expected results of the plan for each year the plan is to operate should be provided by the Company. This should be updated every year.

11. Any plan should have a reason for why it should be accepted by the Commission. For example, promises to increase efficiency should also show how this increase is to be measured. In conjunction with this, evidence should be provided demonstrating why a new plan is better than the current plan. Included with this, should be realistic methods for measuring this.

12. Tariffs should continue to be required for all but competitive services. Tariffs for emerging competitive should be presumptively approved on a 30 day basis. Tariffs for monopoly and emerging monopoly should be reviewed under current regulatory procedure.

As a closing caveat, this list of elements should not be construed as all inclusive or addressing all the issues that can

emerge for each element. It is provided with the realization that each element should have a detailed description of what it is, its impact, and how it fits into the plan as a whole.

ISSUE 94: Centel's plan proposes to substitute price caps for traditional rate of return regulation. The plan proposes the following components listed below. What are the pros and cons of this proposed plan? Is this plan appropriate?

RATES

A. Defines Basic services as:

1) local access services consisting of residence and business access lines, trunks, semi public access lines, public access telephone service, cellular service, and

2) switched access service.

B. Defines Non-basic services as

1) all new services implemented after adoption of the plan (i.e., services that are not a mere repackaging or repricing of existing basic services) and

2) all other existing services not specifically included in the definition of basic services.

C. Adjusts rates of all basic services except switched access services upward as a starting point.

D. Caps adjusted rates for all basic services except switched access service.

E. Price caps would be recalculated annually using a price cap index (PCI) of the Gross National Product-Price Index (GNP-PI) less a 2% productivity factor plus or minus exogenous factors.

F. Defines price caps such that prices for individual services could be raised or lowered up to 10%, as long as the average for all non-basic prices did not increase over the PCI.

G. Defines exogenous factors as changes in regulations or statutes, taxes, separations, and accounting practices, and adjustments to depreciation rates.

H. Treats exogenous factors such that increases and decreases in exogenous factors are netted and applied

as follows:

1. Any aggregate downward adjustment in revenue is applied to reduce rates for switched access service.

2. Any aggregate upward adjustment in revenue is applied to increase rates for basic local service in equal percentages for residential and business customers.

I. Proposes that impacts from any depreciation adjustment be put on rate categories that are priced under cost.

J. Proposes that as long as the costs of providing switched access do not increase, the Company will not increase rates for busy hour minutes of capacity (BHMOC) charges and the carrier common line rate element. Proposes that these elements be reduced whenever possible.

K. Adjusts basic service rates downward or upward annually. Increases and decreases due to exogenous factors from the prior year, along with other known and measurable exogenous changes for the upcoming year will be netted and reflected in current year rates. If the Commission or any other interested party desires further review of the price changes required by exogenous factors, the new prices would go into effect immediately; provided that in the case of an increase in prices, the increased amount would be subject to refund pending conclusion of the Commission's review.

L. Proposes that, during the proposed four-year term of the plan, a moratorium be placed on rate cases and show cause proceeding, except for "significant unforseen circumstances".

M. Requires comprehensive review of the plan's parameters during second half of 1994. Allows plan to be reviewed thereafter upon the mutual consent of the Commission and the Company, subject to any amendments approved by the Commission.

<u>TARIFFS</u>

A. Proposes that instead of the current tariff process, the Company notify the Commission of changes in prices

for nonbasic services, and the new prices become effective 30 days later.

B. Proposes that the Company address possible cross subsidization in the following way:

> Company will set prices for competitive service over incremental costs so they make a contribution to common costs.

SERVICE

A. Proposes that the Company establish specified service installation dates. Proposes that missed commitment dates for reasons within Company's control result in customers receiving credit equal to basic service charge for one month.

B. Proposes that the Company establish customer repair appointments. Proposes that missed appointments within Company's control result in customers receiving credit equal to basic service charge for one month.

RECOMMENDATION: No, the Commission should not approve Centel's proposed incentive regulation plan, because there is not sufficient financial support for such a plan, and several of the plan elements are flawed such as the categorization of services, the treatment of earnings, and the variables in the price cap formula. Because of the imbalance between acceptable elements and unacceptable elements and the interdependence of these elements, the viability of the plan as a whole is questionable.

ALTERNATIVE RECOMMENDATION: Yes, a plan with the modifications outlined in Table 94-5, such as adding a sharing element and using an expanded range of return on equity, may be considered.

POSITION OF PARTIES

CENTEL: The Incentive Regulation Plan proposed by Central Telephone-Florida promotes economic efficiency, minimizes regulatory costs, and stimulates both service and technological innovation. In short, the Plan will provide benefits to consumers not available through traditional regulation. Traditionally, basic local service rates have been residually priced, with a significant portion of the Company's revenue requirement being covered with revenues from the Company's discretionary service offerings. As the prices for these

discretionary services, e.g., toll, private line, special access, enhanced service, etc., become more market driven, the ability of the Company to preserve the current subsidy stream is seriously jeopardized. Consequently, the Company must have the pricing and earnings flexibility to market its current service and introduce new services and new technology without constantly checking to see if the success of these new services is contributing more revenues than necessary to cover the Company's common costs.

The Company's proposed incentive plan, with its price caps and service commitments provides the Company and the Commission with incentives to meet customer demand for new service in a timely fashion and at reasonable and affordable prices. With the additional incentives provided by the plan to invest in a modern infrastructure, the Company will provide its customers with a variety of services that will improve their quality of life. At the same time, price caps will, over time, assure reasonable local service rates.

OPC: As filed, Centel's plan is not legally sufficient under the current Florida law. The revised Chapter 364 could possibly authorize an alternative regulation scheme such as the one proposed by Centel, but only if filed after October 1, and set for hearing in a different proceeding. This plan may not be taken up in this proceeding because all the parties, namely the Office of the Public Counsel, have not agreed to it. Furthermore, as reflected in the testimony of Citizens' witness Page Montgomery, the Centel plan is not in the public interest and would result in excessive rates being charged to Centel customers.

AT&T-C: General Position: The high level of Centel's access charges in the State of Florida does not constitute an appropriate starting point for access price caps. Access charges must be scheduled for immediate and continuing reductions. AT&T-C will oppose the implementation of any price cap plan for Centel unless a specific schedule of continuing access charge reductions is incorporated in the approved plan. Assuming the adoption of such scheduled access charge reductions, AT&T-C offers the following positions on the specifics of Centel's proposal:

RATES

Position on Item A: AT&T-C accepts Centel's categorization as a means of defining particular service "baskets" for the purposes of administering the proposed trial. AT&T-C does not accept the implication that the term "non-basic" is somehow synonymous with the term "competitive". Indeed the majority of

the so-called "non-basic" services are monopoly provided services - many to the same extent as basic local service. Given this reality, the Commission must exercise particular care in evaluating the reasonableness of any proposed rate changes in this category.

Position on Item B: See response to Item A.

Position on Item C: Rates for switched access services should be immediately reduced and targeted for on-going scheduled reductions. Rates for other "basic" services should be adjusted upward as needed, based upon the Commission's determination of an appropriate revenue requirement for Centel.

Position on Item D: AT&T-C accepts this provision with the understanding that switched access charges are scheduled for reduction as discussed in our "general" position above.

Position on Item E: AT&T-C does not object to the use of the proposed formula. AT&T-C takes no position at this time on the appropriateness of the "2%" factor.

Position on Item F: AT&T-C does not object to this provision at this time with the understanding that approval of such provision does not relieve this Commission of its obligation to ensure that Centel's rate proposals remain in compliance with previous Commission rules and orders, particularly those dealing with the imputation of access charges and the prohibition of unjust discrimination.

Position on Item G: AT&T-C does not object to this definition.

Position on Item H: AT&T-C supports the proposed position.

Position on Item I: AT&T-C supports the proposed position.

Position on Item J: There are no incremental costs associated with either the BHMOC charge or the CCLC, therefore, rates applicable to these elements should never be increased. Rather, rates charged for these elements should be scheduled for immediate and continuing reductions. Rates charged for Traffic Sensitive (TS) switched access elements should not be increased unless or until the incremental cost incurred in providing the elements approaches the existing rates.

Position on Item K: AT&T-C accepts this position providing rate adjustments are made in conjunction with the prescription

offered in Item H above.

Position on Item L: AT&T-C has no position on this provision.

Position on Item M: AT&T-C supports this position.

TARIFFS

Position on Item A: AT&T-C does not object to this provision at this time with the understanding that approval of such provision does not relieve this Commission of its obligation to ensure that Centel's rate proposals remain in compliance with previous Commission rules and orders, particularly those dealing with the imputation of access charges and the prohibition of unjust discrimination and that all service rates are publicly available.

Position on Item B: AT&T-C considers this provision as an adequate interim safeguard against predatory pricing pending resolution of the issues in Docket No. 900633 regarding the development of LEC cost methodologies. However, when service become competitive and the deregulation of these services is considered a fully competitive services should be deregulated), then the terms contained in the cost allocation manuals should comprise the definitive safeguards.

SERVICE

Position on Item A: AT&T-C does not object to this provision.

Position on Item B: AT&T-C does not object to this provision.

FPTA/McCAW: As a fundamental matter, Centel's proposed incentive rate fails to meet the requirements of Florida Statutes chapter 364 (effective October 1, 1990). While this proceeding is not governed by this law, Centel's proposed plan should be reviewed in light of the provisions of new 364.036 and the fundamental policies embodied in section 364.01(3). A review of Centel's plan in light of the general policies of chapter 364 and the specific requirements of section 364.036 indicates noncompliance.

Notwithstanding the requirements of revised chapter 364, Centel's proposal has several major deficiencies. First, Centel has failed to provide identifiable benefits to consumers that are

not available under existing regulatory procedures. Second, Centel has been unable to point to any actions that it would have taken in the past had the Company not been subject to the existing regulations. Third, bottleneck monopoly inputs to competitive providers should not be subject to annual rate adjustments; these services are already priced substantially in excess of cost, and the plan gives too much discretion to the Company. Fourth, LEC costs are declining, not increasing, therefore Centel's proposal is particularly inappropriate for monopoly services. In the final analysis, the only difference for ratepayers between the status quo and Centel's proposed plan is an annual increase in rates. Accordingly, Centel's plan should be rejected.

DGS: No Position

STAFF ANALYSIS: In Issue 93, the question of whether or not to approve an incentive regulation plan is addressed. While Central Telephone Company of Florida (Centel) has submitted a specific plan in this rate case, Issue 93 deals only with the approval of **any** plan. In this issue, staff turns its attention to the specific plan proposed by Centel.

Legal has advised staff that Centel's proposed incentive regulation plan violates Chapter 364 Florida Statutes, effective prior to October 1, 1990. Revised Chapter 364 contains a provision for the Commission to consider incentive regulation plans. However, Centel's plan was filed with the Commission on June 12, 1990, over 3 months prior to the effective date of the statute revision. Consequently, the legality of approving an incentive regulation plan has been called into question, a question addressed in Issue 96. Nonetheless, staff has analyzed Centel's plan and presents its position below.

The plan consists of 5 major elements. First, it would provide price caps for basic and non-nonbasic services. Second, while switched access is considered a basic service, it would be subject to special treatment rather than that applied to basic services. Third, there would be an allowance for the flow through of exogenous factors. Fourth, it would establish enhanced service commitments. And fifth, it would provide for the continued utilization of changing technologies to maintain service excellence.(Cross TR 220) The plan would run through 1994 when it would then be reevaluated by the Commission. These major elements are supported by a plethora of smaller, yet not unimportant, components.

Centel states throughout its testimony that the Plan is a

combination or "package" of elements and also that if one element of the plan is to be considered for change or implementation then the change's effect on all other elements must be taken into consideration as well.(EXH 7, pp. 3-5, 7, 15-16, 28-29, EXH 16, pp. 15, 17-18, Cross TR 313, 314, 295, Kahn TR 90, 114, 157-159) Staff finds this to be of the utmost importance. Staff considers many of the elements included in the Centel plan to be acceptable while many are not considered acceptable. (Table 94-1, below, indicates which elements staff considers to be acceptable and those not acceptable. Reasons for staff's position are included under the STAFF COMMENTS column. Also, to maintain continuity, the discussion below follows the format of the table). Staff contends that inclusion of those elements found not to be acceptable are fatal to the plan in its entirety. Staff bases this contention on Centel's testimony concerning the interrelationship of the plan elements and the effect on the other elements of changing or removing a particular element. The following discusses each of these elements individually.

TABLE 94-1

ITEM #	ISSUE	ACCEPTABLE		STAFF COMMENTS
		YES	NO	
RATES-A	Basic Services	X		
RATES-B	Non-basic Services		X	Should have more baskets. Need "cleaner" definitions. Some services not necessarily competitive.
RATES-C-1	Adjustment of basic rates	X		OK but not 66%. Productivity increases may erase need for increase.
RATES-C-2	Switched access treatment		X	Can only go up. Company can't show where there would be decreases.
RATES-D	Basic service price caps		X	No provision for sharing. Is GNP-PI index appropriate? Productivity offset could be too large or too small. Definition of exogenous not clear. Possible double counting of exogenous factor.
RATES-E	Annual adjustment of price caps		X	No floors and/or ceilings for earnings.
RATES-F	Non-basic price caps		X	Not enough baskets. Definitional problem. Incremental costs on some services close to 0. Unequal allocation of rate changes.
RATES-G	Exogenous definition	X		OK but use "direct" effect as opposed to "indirect". Ok but develop process to determine "exogenous".
RATES-H	Treatment of Exog. effect	X		
RATES-I	Depreciation's impact	X		
RATES-J	BHMOC & CCLC Adjustment	X		OK but define "relative to their cost".
RATES-k	Known changes in Exog.		X	Knowns can change !!!
RATES-L	Moratorium		X	Legal Issue.
RATES-M	1994 Review of plan		X	If plan approved.
Tariffs-A	Tariffs - Non Basic		X	Should be reviewed due to basket problem.
Tariffs-B	Tariffs - Cross sub		X	Subject being addressed in DKT #900633-TL.
Service	Service - Install Dates		X	Time constraints more suited as marketing tool.

The format for Issue 94 is broken into 3 main subissues labeled "Rates", "Tariffs", and "Service". Most of the plan's five elements are addressed under these subissues with the remaining plan elements provided in a separate discussion. Staff also found in reviewing the plan and the support documentation, that the format for Issue 94 had neglected to include several areas that should be addressed. These additional areas follow the three subissue categories.

As a general statement, incentive regulation plans attempt to allow the regulated firm to meet competition in an industry that is moving from primarily monopoly to increasingly competitive in some markets, while at the same time, ensuring that quality universal service is maintained at just and reasonable rates. Centel specifically states that its plan will enable it to "...continue the Company's commitment to universal service; meet the challenges the Company faces in attracting and retaining customers; and enable [Centel] to meet increasingly intense competition for business customers from private networks, shared tenant services, interexchange carriers and even other local exchange companies." (Cross TR 230)

It must be stressed from the outset that Centel's proposed plan is a departure from traditional rate base/rate-of-return regulation. To begin with, the plan focuses not on costs but rather on prices. Only the rates charged for services are important, not the achievement of (or exceeding of) an allowed rate of return.

There are no ceilings or floors provided for earnings. The Company's earnings, whether they be high or low, are of no interest. Consequently, earnings go virtually unregulated.

A sharing provision is often included in incentive regulation plans even though the provisions are really an expansion of an allowed rate of return. Sharing provisions are included to have some offset of overearnings and still provide some incentive for the Company to be efficient. A sharing provision is not part of Centel's plan. The Company argues that by excluding it, the Company is provided with maximum incentive to be efficient.(Cross TR 247)

As an alternative to treating all services as monopoly, Centel's plan attempts to distinguish between types of services. To make the distinction, the plan provides 2 baskets, one for <u>basic</u> services and one for <u>non-basic</u> services. The basic services category contains those services most often deemed to be

"monopoly". The non-basic basket contains those services more often, although not always, associated with greater degrees of competition. Both baskets are subject to price caps with rates adjustable under those caps.

The price cap for basic services is an equation containing an element to offset inflation, an element to allow for increased productivity the Company expects under an incentive regulation plan, and an element to offset an events outside the control of the Company. Under the current form of regulation, rates are fixed at a point in time. The only way a Company can account for changes occurring outside its control such as inflation or a change in tax procedures is through a rate case.

Rather than having to come to the Commission each time the Company decides to make a rate adjustment, a procedure the Company must currently follow, the plan proposes that the Company notify the Commission that it is making a change, and if there is no protest, the change goes into effect 30 days following notification.

Finally, the plan proposes a moratorium on all show cause and rate case proceedings for a four year period. The Company contends that show cause and rate case proceedings "...are elements of earnings regulation." (Cross TR 325) In addition, by extending out four years, the Company contends the plan will be allowed to evolve so as to show the strength of such a plan.(Cross TR 326)

RATES

BASIC SERVICES

The Centel plan proposes to break services into two baskets, basic services and non-basic services. "Basic services would include access services (residence and business access lines, trunks, semi-public telephone service and cellular carrier service), as well as switched access service." (Cross TR 221) Centel suggests placing in this category those services it believes to have the least amount of competition, i.e., monopoly access services.(Cross TR 232) In essence, these are services essential for ordinary local and toll voice transmission. (EXH 102, p. 83)

Staff finds this categorization of basic rates, and those items included in it, to be reasonable. However, several issues should be clarified.

Most notably absent from the list of basic services is Touch-calling or Touchtone. Centel witness Wahlen contends that Touch-calling should be classified as a nonbasic service because telephones are available that allow a person to switch between tone and pulse without having Touch-calling.(EXH 102, p. 3) In addition, he believes since access to basic services does not require Touch-calling as is the case with non-basic services such as custom calling features, these services are not monopoly services. (EXH 102, p. 3) Centel argues that maintaining Touch-calling charges aids in keeping local service rates low. (EXH 102, p. 4) Staff believes the argument that Touch-calling is a discretionary service is weakened as the percentage of takers of Touch-calling service approaches 100%. Touch-calling service has increased from 65.52% of access lines in 1985 to 83.70% in 1989 which indicates a growing demand by customers to include Touch-calling as a part of basic local service.(EXH 102, p. 7)

Another concern of staff's is the blurring of distinctions between monopoly and competitive services. For example, Centel contends that they provide no services that are monopolies.(EXH No. 15, p. 14) In his testimony, witness Cross argues that even basic service is subject to some form of competition, albeit nominal.(Centel-Cross TR 316) This is not to suggest that Centel promotes the position that the basic service market is absolutely competitive. In reality, there is certainly very little competition for local service, but this does point out the need for cleaner definitions of services in terms of their relation to the various types of markets.

NON-BASIC SERVICES

The Centel plan would place those services not classified as basic into the second basket labelled non-basic services. According to Centel it is that group of services for which alternatives exist and customers are using these alternatives. (EXH 102, p. 83) Consequently, these services are perceived as facing the greatest degree of competition.(Cross TR 318) This category would also contain newly introduced services as long as they were not a repackaging or repricing of an existing basic service. (Cross TR 221)

Staff finds this categorization unacceptable for a number of reasons. First, suggesting that all services can be categorized into two categories, given the difference of opinion as to what constitutes monopoly and competitive services, is inappropriate. Two categories is not enough to account for the variation between the competitiveness of various services. Even Central Telephone

Company of Virginia, currently operating under an incentive regulation plan, which does not include price caps, has 3 baskets; basic, discretionary, and competitive. (EXH 14, p. 77) As is argued above in the discussion concerning the basic service basket, cleaner definitions are needed.

Centel has suggested the non-basic category because the services in it face the greatest degree of competition as compared to basic services or the service is not "...essential to making ordinary voice local and toll calls". (EXH 102, p. 83) Staff believes that many of these services face relatively little competition. For example, Centel's argument for including Touch-calling in this category is that telephones are being manufactured that allow the end user to switch between pulse and tone. (EXH 102, p. 3) Admittedly, this is competition for Touch-calling in the literal sense. Data submitted by Centel suggest that even though this alternative is available, in 1989, over 83% of the Company's access lines had Touch-calling.(EXH 102, p. 7)

ADJUSTMENT OF BASIC SERVICE RATES

As proposed by Centel, basic service rates, excluding switched access, would be raised approximately 66% and set at that level immediately in conjunction with the approval of the plan (proposed basic service rates are discussed in detail in Issue 88). Adjustments to rates following the initial increase will be made annually with the amount of the change determined through a price cap formula (discussed below).

To support the need for an initial increase, Centel suggests that the cost of providing basic local service is considerably higher than current rates, as indicated in the fully allocated cost study performed by the Company based on 1988 costs.(Wahlen TR 1212) The Company argues that by employing price caps, prices for basic (as well as non-basic) services will remain stable over the life of the plan, thus remaining predictable.(Cross TR 231)

Although considered a basic service, switched access is proposed to be excluded from the adjustment process suggested above. Centel states that switched access is composed of several elements "...generating revenues in excess of their costs and is...subject to facilities and service bypass." (Cross TR 225) Therefore, this service should only be allowed to receive rate decreases, driving the rates closer to costs, and not rate increases, driving rates further away from costs. (Switched access is discussed below under TREATMENT OF SWITCHED ACCESS).

Staff believes that, with reservations, Centel's proposal to adjust basic rates is reasonable. While an initial rate increase for basic local service may be warranted, a 66% increase may be precipitous (see Issue 88). Also, should the plan be approved in its totality, the productivity expected to be realized may substantially decrease the need for an increase of this size. (Note: productivity increases are discussed in detail in Issue 93.) However, movement of rates closer to costs is realistic if the Commission is to promote a more competitive regulatory scheme.

TREATMENT OF SWITCHED ACCESS

While switched access is included in the basic services basket, Centel has proposed a separate procedure for adjusting rates for switched access. Rates "...would not be indexed; that is to say, they would not be adjusted automatically either upward for general inflation or downward for productivity." (Kahn TR 41) To briefly summarize the procedure; should a decrease in rates be called for as a result of an exogenous event, the decrease would be applied to switched access, at least until rates equaled costs. (Note: All increases are to be applied to all <u>other</u> basic services until rates equal cost.) The process would be to first apply the decreases to the BHMOC element until it is eliminated and further decreases applied to the carrier common line charge until all elements are established relative to their cost.(Centel-Cross TR 223) Unlike the other basic services, no adjustment would be made to current rates for switched access at the immediate implementation of the plan. Centel's reasoning for separating out switched access for special treatment is to drive rates closer to costs and thus, discourage bypass, either facilities or economic. (Cross TR 225)

Staff has no quarrel with the Company's proposal to attempt to arrive at a better cost/price relationship for switched access, but staff cannot accept the proposed treatment for switched access. First, the cost of switched access has never been determined to all parties' satisfaction, and in particular to the Commission's. The cost/price relationship requires that one have knowledge of the actual cost (i.e., the numerator). Consequently, until some agreement has been reached, discussions revolving around rates approaching cost are meaningless.

Second, staff finds unlikely the assumption that switched access rates will decrease. Rate reductions would only occur if there were decreases due to exogenous events or decreases in inflation to a level below 2%. The events the Company has included in its list of recognizable exogenous events, such as

changes in tax rates (Cross TR 223), are not likely to decrease anytime in the near future. And, while reductions could possibly occur due to changes in separations, this is not met with optimism, at least as implied in Centel witness Kahn's testimony.(TR 135) In conjunction with this, the Company is unable to indicate where it expects a decrease to occur for any of the exogenous factors listed in Centel witness Cross' testimony.(TR 223)

BASIC SERVICE PRICE CAPS

In the Centel proposed plan, basic services are to be controlled by price caps. The components making up the price cap are the Gross National Product Price index (GNP-PI), an offset for productivity, and a device to account for exogenous factors.(Cross TR 222) This can be expressed algebraically as follows:

price cap = (GNP-PI - productivity factor) + exogenous factor

For example, suppose GNP-PI reached 5% and no exogenous events occurred during the year. Algebraically this is written:

$$\text{Price Cap} = (.05 - .02) + 0 = .03$$

In other words, basic rates would be raised by 3%. It can be readily seen that increases in the GNP-PI above 2% with or without an increase resulting from exogenous events could increase basic rates while negative exogenous events or an increase in the GNP-PI equal to or below 2% would decrease basic service rates.

Centel's reasoning for placing price caps on basic services is to "...ensure that the Company will not engage in anti-competitive behavior and that the prices charged to customers will be...limited to the net of inflation in the overall economy less productivity improvements" thus, rendering prices "fair." (Cross TR 237) Price caps are also perceived as a method to encourage the profit motive by "...breaking the link between the Company's costs and its permitted return." (Cross TR 237) For the customer, prices can now change, but within an expected range, i.e., they are predictable.(Cross TR 231)

Staff does not disagree with the concept of price caps but believes there are many flaws in the Centel price cap proposal thus rendering it unacceptable.

While not a required element, Centel's plan does not have a

sharing provision. Centel argues by excluding this provision, the range of allowable earnings is stretched thereby creating greater motivation on the part of the Company.(Cross TR 247) Staff believes that a sharing provision is appropriate for a Company operating in a monopoly market. If some semblance to competition is to be created in the market, the firms operating in that market should have some incentive to perform. However, because captive customers are supporting the infrastructure through their presence on the network and providing a stream of revenue to the regulated firm, therefore, a portion of potential excess earnings should be returned to them.

Staff is aware that the GNP-PI is being used in other states as well as being included in the FCC's price cap plan for LECs. Nonetheless, staff believes the appropriateness of the GNP-PI component is subject to debate.

The GNP-PI is a broad index of a number of costs and not telephone industry specific.(OPC-Montgomery TR 348) The GNP-PI may not be comparable to an index that measures only those products and services purchased by the telecommunications industry.(OPC-Montgomery TR 351) Centel has suggested that the GNP-PI is comparable to the Bell System Telephone Plant Index (TPI) developed by AT&T-C prior to divestiture.(Rohlfs TR 444) Centel witness Rohlfs, in his rebuttal testimony, discusses his research indicating the TPI was strongly correlated with the GNP-PI up through 1982 when the index was discontinued.(TR p.444-445) However, witness Rohlfs agreed that the correlation may be the result of regulatory practices prior to divestiture as well as Bell System's close association with Western Electric, virtually the only provider of products to the telephone companies at that time.(TR 477-478)

In addition, it appears there may be other indices available that are closer to the industry than the GNP-PI. For example, the August 20, 1990 FCC News states that the Bureau of Labor Statistics has data on telephone services through three separate sources, the Consumer Price Index, the Producer Price Index, and the Consumer Expenditure Survey. In this same publication, the FCC provides an analysis of the long term trend in telephone prices (1935 to 1989) using a price index for telephone services introduced in 1935.

Finally, on the subject of the GNP-PI, there is reason to believe that telephone rates don't necessarily correlate with inflation and that the GNP-PI may have a larger positive impact on the price cap formula than some other index more closely related to the telecommunications industry. Centel witness

Rohlfs stated that when the FCC was looking for an appropriate deflator "...people assumed that the index was going to be the Consumer Price Index(CPI). And when the GNP-PI came out, it was less favorable, considerably less favorable, to the companies than the Consumer Price index..."(TR 476) Staff noted that in the August 20, 1990 issue of FCC News (p.5), an index developed using telephone services, the Consumer Price Index for Telephone services (CPI-TS), was compared to the GNP-PI and the CPI for all services. Table 1 below, derived from this publication, indicates that witness Rohlfs' contention that the GNP-PI would be less favorable to the companies than the CPI is correct. However, when the GNP-PI is compared to the CPI for telephone services, the CPI-TS rose approximately 16% over the period 1984 to 1989 while the GNP-PI had risen 22% for the same period. In addition, the 9.2% jump in the CPI-TS occurring in 1984 may have been the result of divestiture rather than normal inflationary pressures in telephone services. This assumption is at least partially supported by the fact that rates of change for the years following divestiture were smaller and more consistent with one another.

TABLE 94-2

ANNUAL PERCENT RATE OF CHANGE IN MAJOR PRICE INDEXES			
YEAR	GNP: Fixed Weight Price Index	CPI: All 3.9 Items	CPI: Telephone Services
1984	3.7	3.9	9.2
1985	3.6	3.8	4.7
1086	2.3	1.1	2.7
1987	3.8	4.4	-1.3
1988	4.6	4.4	1.3
1989	4.0	4.6	-0.3
TOTAL	22.0	22.2	16.3

Turning attention to the productivity factor, the 2% productivity factor offset is included in the basic service rate cap formula Centel describes as a device to "...ensure that customers for basic services receive the benefits from the implementation of price controls." (Cross TR 222) The difficulty staff finds with this element is not with its inclusion in the rate cap formula but with the acceptability of the 2% value.

First, not surprisingly, research presented by both parties are not in agreement on productivity factors. Centel states that the 2% value is supported by studies done in the FCC's Price Cap Docket (CC Docket No. 87-313), where compared to the Bell Operating Companies (BOCs), the FCC found a lower figure was more appropriate for smaller companies.(Cross TR 222) Centel witness Rholfs' research also indicated that the 2% value was reasonable.(EXH 21) On the other hand, at least one study has found that the independent companies annual productivities since 1984 have been 6.36% vs 3.13% for Bell system companies.(OPC Montgomery TR 353-354)

Staff is also concerned with the condition of setting the cap accurately in the beginning. The approach advocated by Centel suggests if all other components of the cap have been set accurately then also so should the productivity factor. Yet, it appears there is a good deal of arbitrariness in formulating the percentage. Centel witness Kahn stated based upon his survey of

productivity studies, should the FCC find a productivity factor of 3% for AT&T-C then "...something less than that is <u>probably</u> reasonable for a local exchange carrier..."(emphasis added).(TR 44 and TR 138) In addition, The British experience of regulating British Telecom alluded to in OPC witness Montgomery's testimony (TR 355) and Centel witness Kahn's testimony (TR 79) and these individuals' disagreement as to the reason for the adjustment of the productivity factor, indicate the difficulty in setting this component. To add to the problem, OPC witness Montgomery points out, various studies for the telephone industry or even the U.S. economy as a whole do not agree as to the **<u>direction</u>** of productivity.(TR 350)

This leads to the second concern of staff: What is the impact should the productivity factor be set too high or too low? Centel witness Cross expressed concern with it being set at too high a level in that it would act as a disincentive for the Company to improve efficiency and/or innovation.(TR 251) Yet California found the appropriate level to be 4.5%.(Centel-Kahn TR 126) (The record contains no reason as to why it was set so high).

Concern that the productivity factor could be set too low is supported by the growth of Florida and what this holds for the possible productivity of Centel. Centel witness Kahn states that "...where you have very rapid growth, that may be conducive to more rapid productivity improvement...".(TR 102) Centel witness Kahn, in response to a question pointing out that intrastate toll services were growing faster in Florida than on average for the nation and that particular situation's effect on productivity, stated, "...that would lead me to surmise that on that account you would expect productivity advance in Florida to be relatively high." (TR 103)

Staff is also concerned in how productivity is to be measured. For instance, Centel witness Rohlfs, in a discussion involving General Motors addresses the situation concerning real as opposed to perceived productivity.(TR 489-491) The supposition is that the Company takes a big loss in year one by closing down some plants which is reflected as a decline in productivity. The following year, there are no closings with productivity in the remaining plants staying at the same level it was during the first year. Despite no real improvement in productivity, the change between year one and year two is perceived as increased productivity. As Centel witness Rohlfs indicates, to measure productivity one "...would have to rely largely on accounting data..." (TR 499) The point is, that in order to measure productivity, the Commission must utilize the

accounts of the Company. And because they are made up entirely of accounting data, these may reflect perceived gains due to accounting adjustments and not real gains at all. As Centel witness Rohlfs states,"...you really should try to get beyond the accounting numbers to what the economics are underneath." (TR 491)

As a final comment on the productivity factor, there may be a relationship between the expected increase in efficiency and motivation and the productivity factor. If this assumption is correct, should productivity increase as the Company expects to occur with approval of the plan, there is reason to believe the 2% figure would not accurately reflect true productivity.

The Company has proposed that the plan include an allowance for the flow through of exogenous factors, where exogenous factors are those events that affect Company earnings but are not subject to Company control. The events include, but are not limited to, changes in regulation, changes in statutes, tax changes, and changes in separations and accounting practices.(Centel-Cross TR 223) The argument posed by the Company for the inclusion of this provision is that the Company will not benefit by windfalls or be damaged by shortfalls that are not the result of its own performance.(Kahn TR 41)

Staff agrees that an incentive regulation plan should include a provision to account for circumstances outside the Company's control. Should the Commission allow this element to be included in a plan, several caveats should be recognized. First, exactly what an exogenous event consists of should be defined, a topic addressed below under the heading DEFINITION OF EXOGENOUS FACTORS. Second, a list of those events should be created and agreed upon by the Commission and the Company. Third, care should be taken to avoid recognizing an event as exogenous and providing the Company with relief while the event's impact is realized through inflation. This would cause "double counting".(OPC-Montgomery TR 361)

Overall, it should be noted that in terms of the percentages, the impact of increases in basic rates experienced by small users will be considerably greater than that experienced by large users. A 10% increase in basic service for a person with a $10 bill is $1, or a 10% increase, overall. A 10% increase in local service for a person with a $100 bill, a bill comprised of $10 for basic and $90 for toll, is also $1, but 1% increase overall.

ANNUAL ADJUSTMENT OF BASIC PRICE CAPS

The Centel plan specifies that price caps on basic as well as non-basic services (discussed below) are to be reviewed, and if necessary, changed on an annual basis.

For basic services, rate increases or decreases are calculated using the GNP-PI less a productivity offset, plus or minus any exogenous factors. Increases and decreases are treated differently. Increases are to be applied to basic services. The reasoning is that basic services are priced below cost, requiring non-basic services to be priced high in order to subsidize basic services. Once basic service rates cover costs, any further increases would be applied equally to all services.

Rate decreases would be applied to the BHMOC and other access elements, including common carrier line charge elements of switched access with reductions going to the BHMOC element first. The reasoning is that switched access is currently priced well above cost and is subject to facilities and service bypass.(Centel-Cross TR 225) Once a "...more reasonable price/cost relationships are achieved", switched access would be priced in the same manner as the other basic services.(Centel-Cross TR 225)

Staff views this as unacceptable. Staff is concerned with the fact that the plan as proposed has no ceilings on the rate of return.(Centel-Kahn TR 40) Coupled with the regulatory lag discussed above, the plan proposes that should the Company or the Commission become disenchanted with the arrangement during the four year period, the arrangement can be voided.(Centel-Kahn TR 40) If the Company has decreased earnings at any time during the four years, they will be able to come to the Commission for relief. On the other hand, if the Company has very high earnings during the four years, they would likely not come to the Commission. The Commission would be enlightened to the situation through surveillance reports, and act by discontinuing the plan, a position the Company would vigorously oppose. The argued decrease in regulatory costs (Centel-Cross TR 235) would quickly be overcome by the ensuing hearings etc. resulting from the Company's discontent.

PRICE CAPS ON NON-BASIC SERVICES

The price cap index for non-basic services is the GNP-PI. Non-basic service rates would be allowed to increase to 10% of their current rate as long as the average of all non-basic service rates did not exceed the GNP-PI.(Centel-Cross TR 227) The 10% range is employed so that adjustments will not be too severe, thus preventing "rate shock".(EXH 14, p. 19) The Company would provide the Commission with notice that there is a price change(s) for a service(s) within that basket, and that change(s) would go into effect 30 days later.

The Company contends that this flexibility would permit it to "...react rapidly to changes in competitive market conditions." (Cross TR 226) In addition, it is the Company's belief "...that market conditions will be the chief form of control on individual prices." (Cross TR 249)

Staff finds this unacceptable for two reasons. First, staff cannot accept Centel's categorization scheme, i.e., two baskets consisting of basic and non-basic services. (Note, this is discussed above under the heading NON-BASIC SERVICES) In the same context, the distinction between what services are competitive and what services are monopoly is not clear. Staff believes the non-basic category is somehow being construed as non-monopoly. Yet, some services included in the non-basic category such as Touch-calling do not, in staff's opinion, face significant competition.

Second, and in relation to the first concern, there can be an inequitable allocation of charges for different types of users. For example, suppose two services yield the same revenues with one used by small business and residential users and the other used by medium and large business users. The service used by residences and small businesses is very inelastic while the service used by large businesses is highly elastic. Rates can be adjusted for each service so as to offset one-another. Tables 94-3 and 94-4 demonstrate this situation.

TABLE 94-3 (Period 1)

SERVICE CATEGORY	TAKE RATE	RATE	TOTAL
Residential/Small Bus.	200	.50	100.00
Large & Med. Bus.		1.00	100.00
			200.00

TABLE 94-4 (Period 2)

SERVICE CATEGORY	TAKE RATE	RATE	TOTAL
Residential/Small Bus.	200	.55	110.00
Large & Med. Bus.	100	.90	90.00
			200.00

The result is of benefit to the Company in two ways. The captive residential and small business users (note: the service is inelastic) will pay the difference and the company will notice little if any decrease in subscribers. At the same time, the service provided to the medium and large business customers, a service facing competition, is now more competitively priced, and the Company may in fact realize an increase in subscribers.

This is an expected outcome of the pricing scheme and not necessarily an improper one. However, the problem arises when the service being provided to one set of subscribers is a monopoly service with few or no alternatives coupled with a very low incremental cost for the competitive service. That is, the Company would have a great deal of room to raise rates on the monopoly service because the floor under the competitive service is so low.

DEFINITION OF EXOGENOUS FACTORS

The Centel plan includes a provision for offsetting any exogenous events that affect the Company's earnings where the term exogenous refers to those events "...outside the Company's control, and which cannot be reasonably offset by gains in

customer growth [or] management or operational efficiency...". (Centel-Cross TR 223) (A detailed discussion concerning the exogenous factor is provided under the category BASIC SERVICE PRICE CAPS above, where the definitional problem is also addressed, although briefly.) The reason why clearly defining an exogenous factor is of such importance is manifested in Centel witness Kahn's response to a question concerning direct and indirect impacts on the Company: "...it is the net effect on the Company's total revenue requirements that is the critical piece of arithmetic, whether it's direct <u>or indirect</u>" (emphasis added).(TR 139) However, the identification of an exogenous event is not clear.(Centel-Kahn TR 138)

In conjunction with a clear definition of an exogenous event is the fact that whatever the event, it must be quantified. That is, the event must be redefined in terms of percentages in order for it to be included in the basic service price cap equation. For example, suppose the event is a change in tax law, affecting many aspects of the Company's operation. To attempt to somehow reduce the several effects to a single percentage amount would be particularly difficult in itself. But coupled with the fact that all parties, including the Commission, must ultimately agree on the figure, the task might be impossible.

TREATMENT OF EXOGENOUS FACTOR EFFECTS

Exogenous effects are to be netted out with the other elements of the price cap formula for basic services, i.e., increases or decreases resulting from exogenous events are not applied separate of the GNP-PI or the productivity factor.

Staff accepts the netting out concept as reasonable. Because Commission decisions are similar to changes in regulations and statutes, depreciation changes should also be considered as exogenous.

IMPACT OF DEPRECIATION ADJUSTMENTS

Exogenous events are proposed to include depreciation adjustments "...resulting from the Commission's treatment..." of the triennial depreciation study to be filed 1993.(Centel-Cross TR 224) Consequently, changes would be netted out in the manner stated above.

Staff agrees with the inclusion of depreciation adjustments and the netting process.

BHMOC AND CARRIER COMMON LINE CHARGE ADJUSTMENTS

According to the plan, changes in switched access rates will only be decreasing unless the actual cost of providing switched access should rise.(Centel-Cross TR 225-226) Reductions are to be first applied to the BHMOC until it is eliminated, followed by reductions "...to other switched access elements including the carrier common line charge, until rates for all elements are established relative to their costs." (Centel-Cross TR 223)

Staff accepts this proposed arrangement with one concern. Exactly what is meant by "...relative to their cost" should be clarified.

KNOWN UPCOMING CHANGES IN EXOGENOUS FACTORS

As stated above, the Centel plan includes a provision for offsetting any exogenous events that affect the Company's earnings. Any change resulting from an exogenous event is to be netted out with the GNP-PI and the productivity factor. The calculation is made on an annual basis with any changes going into effect immediately following the review effective dates (assuming this netted value is less than or greater than 0), unless there is a review requested by interested parties.(Centel-Cross TR 36). If interested parties do ask for a review, the rates containing the adjustments would still go into effect with the increases being held subject to refund should the Commission deem a refund to be appropriate.(Centel-Cross TR 36)

Staff accepts the need for offsetting the effect of exogenous events. However, any known upcoming events should be accounted for prior to the outset of the plan.

MORATORIUM ON SHOW CAUSE AND RATE CASE PROCEEDINGS

Centel's plan proposes that, with the exception of "significant unforseen circumstances", a moratorium should be placed on all rate case and show cause proceedings.(Cross TR 220) Their reasoning for including this provision is that the intent of the plan is to move from cost based regulation to price based regulation. Centel considers "...show cause proceedings [to be] elements of earnings regulation." (Cross TR 325) (This subissue is also addressed in Issue 96).

Staff considers the idea of waiving all show cause proceedings to be unacceptable. The clause "significant unforseen events" does nothing more than place the parties in a position of having to define what a significant unforseen event

is and having to then determine whether or not it should be considered for a show cause proceeding. This creates another layer between the event and resolution of the event through the show cause process.

REVIEW OF PLAN DURING SECOND HALF OF 1994 AND THEREAFTER

Centel's plan provides for a comprehensive review of the plan's parameters during the second half of 1994. At that time, the plan would be continued or revised.

The Company argues that by extending the operational period for the plan over four years, and by allowing the Company to keep higher levels of earnings, the Company will be willing to increase its efficiency and undertake possibly risky innovation to obtain these higher profits.(Kahn TR 47-48) Also while no review is undertaken for the four years, the Commission will be using the continuing surveillance reports to review the Company's earnings. At the end of the four year period, the Commission will be using this information when considering extension or modification of the plan. The Company will have the clear incentive to "...behave responsibly" by keeping pricing at reasonable levels to encourage the Commission to allow them to continue with the plan.(Kahn TR 48)

Staff considers the concept of an extended review period to be beneficial from a regulatory expense standpoint. A reduction in the number of reviews should yield a decrease in the administrative time and subsequent costs involved in handling these types of proceedings.

Should the Commission approve the concept of a four year moratorium on rate cases and show cause cases, staff recommends approval of a review during the second half of 1994. Staff agrees with Centel witness Kahn that the Commission will formulate its decision to revise or leave unchanged, the Centel plan based on what observations it makes over the four year period.(TR 48)

TARIFFS

NON-BASIC TARIFF PROCESS

The Centel plan proposes that in conjunction with the other plan elements the current tariff process be changed. "Tariffs reflecting changes [in rates] would be filed by the Company and [become] effective 30 days later. If the Commission or any other interested party desires further review of the price changes...,

the new prices would go into effect immediately; provided that in the case of an increase in prices, the increased amount would be subject to refund pending conclusion of the Commission's review." (Cross TR 224)

Staff does not find this process acceptable. There are too many problems attached to the non-basic category of services. In particular, problems with the distinction between basic and non-basic services and the blurring of the distinction between monopoly and competitive services do not justify accelerating effective dates of tariff revisions that have not been adequately scrutinized.

Regarding the provision of intervention by interested parties, the amount of intervention may actually increase causing additional administrative effort rather than less administrative effort.

ADDRESSING OF CROSS-SUBSIDIZATION

To decrease the possibility of cross-subsidization, the Company has proposed that the price of "competitive" services be set over incremental cost so as to make a contribution to common cost. The Company also states that a second "...safeguard is the continuing regulatory oversight of the Company's monopoly services and the prices for those services." (Cross TR 232)

Staff does not agree that these safeguards necessarily ensure that cross-subsidization is not taking place. We do not yet have a device that can accurately detect cross-subsidization. Staff does believe that using incremental cost (as a beginning method) and continued oversight are as good as we can expect at this stage.

SERVICE

SPECIFIC SERVICE INSTALLATION DATES

The Company proposes as part of the incentive regulation plan to include provisions concerning service. Specifically, in the area of missed appointments for customer repairs and missed dates for installation of service, the Company would reimburse the customer a credit equaling 1 free month of basic service should they miss these appointments.

Staff does not recommend that the Commission accept this. Centel does not agree that it would be reasonable for the Company to put these changes in place regardless of the approval of a

plan.(Cross TR 313) However, staff suggests that these are marketing tools and if the Company is actually confronted with the high degree of competition they claim to be facing, they would use a strategy such as promising to meet dates and reimbursement for missed dates as a tool in meeting competition. This is manifested in Centel witness Cross' testimony where he points out that the Company is planning to put in, or already has put in, new programs designed to maximize efficiency.(TR 203) For example, voice mail is being used for contacting servicemen.(EXH 14, p. 10) In addition, 56% of service orders are committed for 1 day service and 99% of those are completed in one day.(EXH 14, p. 10)

The Commission currently has rules requiring companies to meet specific deadlines. However, as staff witness Taylor points out, staff has reason to suspect that some companies, in the past, may have led customers to agree to extended dates for installation or repair appointments.(TR 695-696) This is accomplished by simply suggesting a date or appointment time and having the customer agree.(Taylor TR 696) Consequently, if the Commission should accept this provision, staff recommends that the plan be modified in the following way.

First, two reporting categories should be added concerning installation dates and repair dates; a "Customer Requested" category and a "Customer Agreed" category. Second, the Company should be required to provide quarterly reports which include "...the number of requests [for service or repair] received, the number of times the existing rule deadlines were met, the number of customer requests for dates outside the rule deadlines, the number of Customer Agreed dates beyond the rule deadlines, the number of missed appointments segregated according to rate group, residential and business units and total dollar figure of rebates given because of missed appointments." (Taylor TR 696)

SUB-ISSUES NOT SPECIFICALLY LISTED IN Issue 94

THE ABSENCE OF A SHARING PROVISION

Centel witness Rohlfs indicated that a sharing provision may act as a disincentive in terms of innovation.(TR 482) This logic is further illustrated by Centel's exclusion of a provision for the sharing of "excess" earnings in its proposed plan. The Company elected to do so as a further step away from existing regulation and by stretching the "...range of allowable earnings..." it would provide "...an even better motivation for the Company to perform in a proper manner." (Cross TR 246-247)

Staff agrees that to exclude a sharing provision is definitely a further step away from current regulation, a giant step. However, including a sharing provision should not necessarily be construed as destructive to incentives. As Centel witness Rohlfs points out: "compared to rate of return regulation, [sharing] represents a very substantial increase in incentives." (TR 482) In addition, the inclusion of a sharing provision is not essentially detrimental as demonstrated in the Commission's experience with the Southern Bell rate stabilization plan.

INSTALLATION OF MODERN EQUIPMENT TO MEET CHANGING TECHNOLOGY

In support of its proposal, Centel states that its plan will provide the incentive for the Company to "...make investments in plant and introduce new, competitive services designed to meet the growing needs of sophisticated information-age customers. Without opportunities to retain profits...[Centel] may be unable to keep pace with the changing marketplace and offer the modernized telecommunications infrastructure desired by its customers." (Cross TR 195)

Staff does not agree that the Company will be placed in the position of not being able to modernize its network should an incentive regulation plan not be approved. Centel is already demonstrating its interest in maintaining and upgrading its network to meet technological demands and has done so under traditional rate of return regulation. For example, the statement is made that Centel is "...the industry's leader in the conversion to digital switching..." (Centel-Cross TR 200) Centel witness Cross also states that all but one of the Company's central offices has been converted to digital switching with the final office to be converted in 1991.(TR 200) In addition, 14 of the Company's 25 host switching offices have been upgraded with integrated business software allowing business customers to utilize digital Centrex systems with their enhanced services.(Centel-Cross TR 201)

Staff believes that there is some confusion between Centel and Centel Corporation concerning the deployment of new technology. As indicated in witness Cross' testimony, there may be some reluctance on the part of the Company to deploy new technology should the IRP be approved.(TR 255-256) This is further supported by information contained in Exhibit No. 3. Exhibit No. 3 contains a document which states that the Company will not commit to introduce new technology without first seeing that to do so would be economically feasible. It also implies that the Company will not make any commitment to deploying new

technology other than that already provided for in the five year plan.(Kahn TR p.105-107, Cross TR 255-256)

Under questioning by Public Counsel, neither Witness Kahn nor Witness Cross would agree to the accuracy of the statement.(Kahn TR 107, Cross TR 256) In addition, witness Cross states that he believes that the Company's position "... ever was, or is now, that it would not commit to deploying additional new technology." (TR 256) This is not a condemnation of the plan, witness Cross' testimony, witness Kahn's testimony or Exhibit No. 3, but staff believes this portrays possible confusion on the part of Centel of Florida in regards to Centel Corporation direction. Should the plan be approved, Centel of Florida may not be in a position to deploy new technology, despite its intentions.

Finally, as with service enhancements, staff contends deploying new technology would be a marketing tool. Increasing enhancements should attract additional customers and increase revenues. Therefore, the Company would be interested in deploying it anyway.

CURRENT LEVEL OF COMPETITION

Centel has expressed concern that there is competition for all services they offer, including the provision of basic services.(Cross TR 291, 314, EXH 15, p. 14 and 15) These include pay telephones, mobile telephone, paging, switched access, special access, directory, operator services, billing and collection and Centrex. (EXH 15, p. 11) The Company submitted a list of these services with each ones percentage contribution to total revenue. The total contribution for the listed services was 73.7%. Excluding switched access, the contribution is 18.5%. Excluding switched access, special access and directory, the contribution is 5.1%. Mobile telephone comprises less than .1% , billing and collection comprise 3.4%, and pay telephone comprises about 1.5%. No value was given for Centrex.

The Company also states in a second list, that it is experiencing the most competition in Centrex services, Privately Owned Coin Operated Telephone (PATS), Operator Services, Custom Calling features, and Yellow Pages Directories. (EXH 14, p. 90)

Staff is tentative in forming any analysis of those services listed above as competitive and those listed as providing the most competition. Not all elements contained in the first list are contained in the second and vice versa. However, the variation between the two suggests some disagreement in terms of

where the competition lies.

Staff finds the arguments posed in support of the contention that alternatives exist for basic service suggested by the Company to be unacceptable. (Cross TR 314-318) Cellular, one such suggestion, is considerably more expensive than basic service both in terms of nonrecurring fees and recurring fees such as those for usage. It certainly is an alternative but not a viable one.

Overall, staff agrees that Centel is facing competition, and with advances in technology virtually certain, the Company will face increasing and more intense competition. But staff would argue that the level of competition is not nearly as great as that suggested by the Company.

SUMMARY

Centel states throughout its testimony that if one element of the plan is to be considered for change or implementation than the change's effect on all other elements must be taken into consideration as well. (Cross TR 313, 314, 295, Kahn TR 90, 114, 157-159) Staff finds this to be of the utmost importance. Many of the elements included in the Centel plan staff considers to be acceptable while many are not considered acceptable. Staff contends that inclusion of those elements found not to be acceptable are fatal to the plan in its entirety. Staff bases this contention on Centel's testimony concerning the interrelationship of the plan's elements and the effect on the other elements of changing or removing a particular element. Therefore, staff recommends the Commission not approve Centel's incentive regulation plan.

ALTERNATIVE ANALYSIS: In the primary recommendation, staff indicates that the data submitted by Centel would not support installation of its proposed incentive regulation plan. Staff suggests that other factors should be considered in approving or denying such a plan. These include results such as possible increased productivity, separation of risk between shareholders and customers, and social benefits derived from possible improved quality of service.

In addition, staff has observed that not all elements of the Centel proposed plan are "bad". This begs the question: How could those elements found to be inappropriate be modified to be acceptable? Table 94-5, indicates those unacceptable elements with a short statement as to where the changes can be made to make the element acceptable.

The majority of these elements are discussed in the summary of Issue 93, above. However, Issue 93 is not Centel-specific but addresses incentive regulation plans from a more generic standpoint. Nonetheless, a good deal of that discussion applies to Centel. Where necessary, the following, hopefully, fills in the gaps in applying those ideas in the summary of Issue 93 to Centel's proposed plan.

BASIC AND NON-BASIC SERVICE TREATMENT:

Basic and non-basic services should be divided into four baskets based on the degree of competitiveness of the service. The monopoly basket should contain all services Centel has initially proposed for its "Basic" category. Those items that are becoming increasingly monopoly due to LEC entry into the market, such as voice mail boxes, should be placed in the emerging monopoly category (i.e., those services where competition does exist but services for which Centel controls a very high portion of the market.) Emerging competitive are those services where Centel maintains a lesser degree of the market. Competitive determinations should follow the guidelines found in section 364.338, F.S.

PRICE CAPS FOR BASIC SERVICES:

A price cap formula for basic services should include a provision for inflation, an offset for productivity, and a provision for exogenous factors. (for more of a discussion, see Issue 93) There should be no annual adjustments to rates until Centel develops a more appropriate measure that more accurately reflects conditions of the telephone industry. The productivity offset should be determined concurrent with the development of the measure of conditions of the telephone industry.

ANNUAL ADJUSTMENT OF PRICE CAPS:

Annual review and adjustment is acceptable as long as ceilings and floors are in place for earnings. Otherwise, disagreement over the appropriate level of earnings may lead to increased administrative costs over bickering between the Commission and the Company.

NON-BASIC PRICE CAPS:

For the "emerging monopoly" and "emerging competitive" market baskets, the price cap should include an index of inflation and a productivity offset.

TABLE 94-5

ITEM #	ISSUE	REQUIREMENTS FOR ACCEPTABILITY
RATES-A	Basic Services	See Non-Basic below.
RATES-B	Non-basic Services	Should have at least four baskets including monopoly, emerging monopoly, emerging competitive, and competitive. The Commission may also wish to distinguish between discretionary and basic services Provide clearer definitions for each basket. Services should be categorized in the proper basket.
RATES-C-1	Adjustment of basic rates	Rates should initially be set at the appropriate level.
RATES-C-2	Switched access treatment	Decreases should be made whenever possible. Same rates should be charged to any user, regardless of Company affiliation.
RATES-D	Basic service price caps	A provision for sharing should be included and set at same level as that for Southern Bell. In the price cap formula, no adjustments to rates until a more appropriate measure of conditions in the telephone industry is developed. A productivity offset should be developed concurrent with the development of the index.
RATES-E	Annual adjustment of price caps	Services should have ceilings and floors.
RATES-F	Non-basic price caps	A provision should be put in place to prevent discriminatory pricing.
RATES-G	Exogenous definition	The list of exogenous factors should be fixed.
RATES-H	Treatment of Exogenous effects	Acceptable. Should be netted out.
RATES-I	Depreciation's impact	Acceptable. Should be included in Exogenous category.
RATES-J	BHMOC & CCLC Adjustment	Should be subject to decreases only. Never increased.
RATES-k	Known changes in Exogenous factors	Should not be included.
RATES-L	Moratorium on Rate cases and Show Cause proceedings	Should not be incorporated.
RATES-M	1994 Review of plan	Should be instituted amending or discontinuing plan.
Tariffs-A	Tariffs - Non Basic	Tariffs should be reviewed in all baskets accept competitive category.
Tariffs-B	Tariffs - Cross subsidization	Until another method is established, incremental cost should be the floor for service rates. Subject being addressed in DKT #900633-TL.
Service	Service - Install Dates	Should be included but not as an attribute or reason for a plan. Reporting requirements should be included.

KNOWN CHANGES IN EXOGENOUS FACTORS:

Staff stated above that it believes the consideration of exogenous factors is acceptable. Should the Commission approve Centel's proposed plan or another plan which includes an exogenous factor offset, staff recommends that the definition of such an exogenous factor be made on the basis of the factor's direct, as opposed to its indirect, effect on Company earnings. The inclusion of indirect impacts allows virtually anything to be construed as an exogenous factor. For example, tax changes would have a direct effect on earnings while an increase in the price of services or products purchased from a Centel affiliate would not because the products and services can be purchased from other sources.

Also, recognizing that the universe of all possible events is unlikely to be defined, staff recommends the same categorization as that used for the SBT plan for exclusion of certain events. (Order No. 20162) These include certain rate changes, certain changes resulting from government actions, certain refinancing, and major technological changes.

TARIFFS:

Tariff filings for all but the competitive service basket should be handled in the current way. Competitive service filings should be presumptively valid with an effective date 30 days following the filed date. All filings should be subject to protest.

SERVICE:

The Commission currently has rules requiring companies to meet specific deadlines. However, as staff witness Taylor points out, staff has reason to suspect that some companies, in the past, may have led customers to agree to extended dates for installation or repair appointments. (TR 695-696) This is accomplished by simply suggesting a date or appointment time and having the customer agree. (Taylor TR 696) Consequently, staff recommends that the plan be modified in the following way:

First, two reporting categories should be added concerning installation dates and repair dates; a "Customer Requested" category and a "Customer Agreed" category. Second, the Company should be required to provide quarterly reports which include "...the number of requests [for service or repair] received, the number of times the existing rule deadlines were met, the number of customer requests for dates outside the rule deadlines, the

number of Customer Agreed dates beyond the rule deadlines, the number of missed appointments segregated according to rate group, residential and business units and total dollar figure of rebates given because of missed appointments." (Taylor TR 696)

RATE BASE

ISSUE 2: What is the appropriate amount of Plant in Service?

RECOMMENDATION: The intrastate plant in service amount of $386,156,000 as filed in MFR Schedule A-2a is overstated by $3,538,627 due to under-projecting upcoming retirements. The correct amount of intrastate plant in service is $382,617,373.

POSITION OF PARTIES

CENTEL: The appropriate amount of gross intrastate plant in service for the test year is $386,155,997 as shown on MFR Schedule A-2a. (EXH 41) This amount represents gross intrastate plant in service per books of $386,463,428, less a Company adjustment of $307,428 to reflect the correct regulatory treatment of certain equal access costs in accordance with the stipulation approved by this Commission in Order No. 17783, issued June 30, 1987. This adjustment was proposed by the Company in its initial filing and was not contested by the parties. The record does not contain evidence supporting any changes to the equal access adjustment or any other adjustments to the $386,155,997 gross intrastate plant in service as originally filed by the Company.

OPC: $386,155,997 (intrastate).

AT&T-C, DGS, FPTA & McCAW: No position.

STAFF ANALYSIS: The intrastate plant in service amount as originally filed in the MFR Schedule A-2a of $386,155,997 is overstated by $3,538,627 due to underestimating the retirements in 1990 and 1991.

The following plant accounts contained errors in retirement projections for 1990 and 1991: 2121.08, 2212.22, 2212.40, 2231.20, 2212.70, 2433.11 and 2423.12. (EXH 84 and 89) Staff has also briefly pointed out during the hearing some of the errors contained in the capital budget of which Witness Cross has agreed that the errors were made by the company. (TR 1134 - 1141) Witness Cross stated "But there are some omissions in the years 1990 and '91, and those that are for those two years would, in fact, impact plant in service. And they are the subject of the calculations that we are making right now as a result of the discussions that took place during the deposition on last Friday." (TR 1141) It is erroneous for Centel to state in their Brief that the record does not contain evidence supporting any changes to the plant in service amount as originally filed.

There were a number of instances where the Company had omitted upcoming retirements. In instances where the Company had projected the retirements, the projections were made in the incorrect accounts. There were also instances where the plant additions were projected by an incorrect amount in the incorrect account. Also some accounts had negative investments and some accounts had depreciation reserves in excess of the plant balance. (Cross TR 1134 - 1141) Some examples are where the Company had omitted retirements of $3.9 million in 1990, $7.4 million in 1992 and $575,456 in 1993 for Account 2231.20, Radio Analog. (EXH 89, pp. 22-23)

Witness Cross also stated that "The amount of those omissions, when taking the entire amount of plant into consideration, are relatively small, in the range of 1 to 2% of total plant." (TR 1139) Staff agrees with the Company that the bottom line effect of these errors is relatively small, however, it concerns staff that the errors made by the Company were very fundamental in nature such as omitting very large retirements and having negative investments and excess recovery of investments. The Company personnel also stated in a deposition, when questioned about all the errors found by the staff, that the Company engineers have re-examined the entire capital budget since the filing of the MFR schedules and have identified all the errors. (EXH 89, p. 28). However, staff believes that all the errors that were identified are only the ones that were initially identified by the staff.

Staff accepts the capital budget amount as originally filed in MFR Schedule A-2a with all the necessary adjustments found in seven plant accounts to reflect all the errors as discussed above for the test year 1991. The calculation of the adjustment for the reduction in intrastate plant in service by $3,538,627 is shown in Table 2-1. The adjusted intrastate plant in service amount is $382,617,373.

TABLE 2-1

Account Number	Description	Errors in Retirements		Changes in Average Plant Balance 1991	Intrastate Factor	Intrastate
		1990	1991			
2121.08	Self-Antenna Towers	<323,537>	<419,861>	<533,468>	.746088	<398,014>
2212.22	Local Switch Add to Emb.	937,500	1,813,100	1,844,050	.778595	1,435,768
2212.40	Elec. Digital Switch	<937,500>	<1,813,100>	<1,844,050>	.778595	<1,435,768>
2231.20	Radio Analog	<3,949,788>	<308,182>	<4,103,879>	.759962	<3,118,792>
2212.70	COE Software		<56,051>	<28,026>	.778595	<21,821>
2423.11	Metallic-Filled	493,332	676,890	831,777	.730525	607,634
2423.12	Metallic-Nonfilled	<493,332>	<676,890>	<831,777>	.730525	<607,634>
	TOTAL	<4,273,325>	<784,094>	<4,665,373>		<3,538,627>

ISSUE 3: What adjustments should be made to the depreciation reserve for the test year to reflect new depreciation rates, amortization, and recovery schedules?

This issue has been stipulated by Centel and OPC, without objection from any other party, as follows:

This Stipulation is intended for settlement of Docket No. 881543-TL, In re: Central Telephone Company of Florida Depreciation and for stipulation and settlement of issues relating to depreciation in Docket No. 891246-TL In re: Petition of Central Telephone Company of Florida for a Rate Increase:

1. Effective January 1, 1990 the annual total Company depreciation expense of Central Telephone-Florida shall be increased by $2,000,000 ($1,509,256 intrastate) to be added as a bottom line non-account specific addition to expenses derived from currently prescribed depreciation rates and amortization schedules under current orders.

2. For purposes of setting rates using the 1991 test year, the appropriate amount of intrastate depreciation expense in 1991 which reflects the effect of the $1,509,256 intrastate increase in depreciation expense and the removal of aircraft depreciation in the amount of $92,204 ($69,141 intrastate) is $23,864,062. The total Company depreciation reserve shall be increased by $3,000,000 ($2,243,352 intrastate) in 1991 as a result of the stipulated increase in depreciation expense.

3. The appropriate total amount of intrastate depreciation reserve for 1991 is $152,738,991.

4. Docket No. 881543-TL shall be closed. The Company's next depreciation study required under Rule 25-4.0175(8)(a) shall be filed during the fourth quarter of 1991 with rates proposed to be effective January 1, 1992.

5. Issues 3, 4, 24 and 24a in Docket No. 891246-TL are stipulated and Issue 23j is dropped.

6. The intent of this stipulation is to increase annual total Company depreciation expense of Central Telephone-Florida by $2,000,000 ($1,509,256 intrastate)

as a bottom line nonaccount specific addition to expenses derived from currently prescribed depreciation rates and amortization schedules under current orders after adjustments have been made, if any, to plant in service under Issue 2. Nothing contained in the aforesaid stipulation shall prevent the Commission from adjusting the Company's plant in service, nor shall this stipulation interfere with the Commission's ability to adjust the Company's depreciation expense or depreciation reserves resulting from any specific adjustment to plant in service.

RECOMMENDATION: The Commission should accept this stipulation.

STAFF ANALYSIS: The above stipulation was entered into by the Company and OPC without any objection from any other parties. Even though Staff did not sign this stipulation, we do support it and recommend that it be accepted. Under the stipulation, current depreciation rates prescribed in 1986 and any amortization and recovery schedules prescribed under current orders remain in effect for 1990 and 1991. In addition, total depreciation expense will be increased each year by an intrastate amount of $1,509,256. This increase will be booked to a bottom-line non specific account. At the time the next depreciation review is made in 1992, this accumulated two year amount will be allocated to specific accounts where appropriate. Therefore, for the purposes of this rate case, intrastate test year depreciation expense and reserve are $23,864,062 and $152,738,991, respectively, rather than the amounts shown in the MFRs which reflect use of the depreciation rates proposed by the Company in its depreciation study filed in Docket No. 881543-TL. These amounts do not reflect any adjustments that may be necessary due to recommended plant-in-service adjustments discussed in other issues.

The Company filed a fourth version of its depreciation study on September 28, 1990 in Docket No. 881543-TL, four weeks prior to the beginning of the rate case hearing. Upon an initial review by Staff, it appeared that some of the same types of mechanical problems that existed in the three previous study versions continue to be present. In addition, a box of data representing continuing property record reconciliation information, had accompanied the study and needed to be reviewed and audited. It was apparent that neither staff nor any other party would have sufficient time to conduct a comprehensive review and analysis of the study and data submitted to present a recommendation in that case prior to the rate case hearing. The next depreciation review as required by Rule 25-4.0175, Florida

Administrative Code, is due by year-end 1991. Acceptance of the stipulation gives some recognition to the technological impacts affecting the telecommunications industry and is in all probability a more appropriate statement of depreciation requirements than simply retention of present rates. In addition, the current depreciation study docket will be closed and a new docket opened at the time a new study is filed next year. This will allow Centel and Staff to continue to work together and resolve the outstanding mechanical and data problems prior to the filing of the next study.

Even though an effective date of January 1, 1992 for new depreciation rates and recovery schedules is stated, Staff believes that this stipulation by no means authorizes the Company to begin booking its proposed depreciation rates January 1, 1992 without specific Commission approval.

ISSUE 4: What is the appropriate amount of depreciation reserve?

RECOMMENDATION: The intrastate depreciation reserve amount of $154,667,342 as filed in MFR Schedule A-2a is overstated by: A) $3,526,153 for understating retirements as discussed in Issue 2 and, B) $1,928,351 to reflect the stipulation discussed in Issue 3. The appropriate amount of intrastate depreciation reserve for the test year is $149,212,838.

POSITION OF PARTIES

CENTEL: As stated in the Prehearing Order, this issue has been stipulated by Central Telephone-Florida, OPC and Staff, without objection from any other party. The appropriate amount of intrastate depreciation reserve for 1991 is $152,738,992. See Order No. 23686 at 12-13.

OPC: $152,738,992 (intrastate).

AT&T-C, DGS, FPTA & McCAW: No position.

STAFF ANALYSIS: As discussed at length in Issue 2, numerous errors were identified in the capital budget. For the years 1990 and 1991, several retirements were omitted from the budget, causing both plant in service and depreciation reserve to be overstated. The intrastate depreciation reserve should be decreased by $3,526,153. See Table 4-1 for the calculation.

Issue 3 discusses the stipulation that was entered into by the Company and OPC, without any objections from any other parties regarding the depreciation rates and amortization schedules to be used for the purposes of ratemaking. An intrastate depreciation reserve reduction of $1,928,350 will reflect the appropriate depreciation rates, amortization and recovery schedules as stated in the stipulation.

The total intrastate adjustment to the depreciation reserve is $5,454,504. This adjustment will reduce the intrastate depreciation reserve amount from $154,667,342 as originally filed in MFR Schedule A-2a to $149,212,838.

TABLE 4-1

Account Number	Description	Intrastate Plant Balance From Table 2-1	Current Depreciation Rate	Changes in Depreciation Expense	Changes in Depreciation Reserve
2121.08	Self-Antenna Towers	<398,014>	3.5%	<19,412>	378,602
2212.22	Local Switch Add to Emb.	1,435,768	7.1%	152,054	<1,283,714>
2212.40	Elec. Digital Switch	<1,435,768>	5.4%	<115,646>	1,320,122
2231.20	Radio Analog	<3,118,792>	Amortization	--	3,118,792
2212.70	COE Software	<21,821>	16.6%	<7,244>	14,577
2423.11	Metallic-Filled	607,634	4.3%	36,760	<570,874>
2423.12	Metallic-Nonfilled	<607,634>	6.9%	<58,986>	548,648
		<3,538,627>		<12,474>	3,526,153

ISSUE 6a: How should unearned revenues be jurisdictionally allocated for purposes of calculating test year working capital?

RECOMMENDATION: Staff believes that the jurisdictional allocation treatment used by Centel which results in 75% of unearned revenues being assigned to intrastate is appropriate. Therefore, no further adjustment is necessary.

POSITION OF PARTIES

CENTEL: The unearned revenue liability account, while predominately local in nature, does contain interstate revenue billed in advance. This revenue includes interstate end user access charges, IXC special access and WATS access line billings. (TR 743) An analysis of this account on December 31, 1989, shows that approximately 30% of the total relates to interstate revenue billings. The Company applied a general separation percentage of about 25% in its working capital calculation. The 5% difference is immaterial and requires no adjustment.

OPC: All unearned revenues should be allocated to intrastate. Working capital should be reduced $640,933.

AT&T-C, DGS, FPTA & McCAW: No position.

STAFF ANALYSIS: The unearned revenue is predominately intrastate in nature; however, this liability account does include some advanced billing of interstate revenue (Samuelson TR 743), as Centel has also discussed in their position statement. Thus, staff believes that it is inappropriate to allocate 100% of this liability to intrastate as OPC proposes. No adjustment is necessary.

ISSUE 7: What is the appropriate amount of working capital allowance?

RECOMMENDATION: The appropriate amount of intrastate working capital allowance is $(2,006,085), as originally filed in MFR Schedule A-2a plus the adjustments discussed in Issues 7a through 7d.

POSITION OF PARTIES

CENTEL: The appropriate amount of intrastate working capital in this proceeding is ($666,842). This amount reflects the working capital impact of all adjustments stipulated to by the parties, reflected in Witness Samuelson's revised rebuttal exhibit and as agreed to at the hearing. (EXH 54) This amount also assumes that the Company's alternative proposal for the treatment of Arthur Andersen fees will be accepted by the Commission. This proposed alternative, together with the Company's primary position on this issue, are both fully explained in conjunction with Issue 23g. If the Commission rejects the Company's primary proposal for Issue 23g, the total 1991 intrastate working capital as shown above would be reduced by $142,650 for a total intrastate working capital of a ($809,492).

OPC: Intrastate working capital allowance should be ($4,331,131).

AT&T-C, DGS, FPTA & McCAW: No position.

STAFF ANALYSIS: The appropriate amount of intrastate working capital allowance is ($2,006,085). This amount is derived from the originally filed amount of ($842,088) shown in MFR Schedule A-2a adjusted by Issues 7a through 7d.

MFR Schedule A-2a	$ (842,088)
Issue	
7a - Deferred Pension	0
7b - Directory Receivable	(1,016,974)
7c - Unamort. Rate Case Exp	(1,090,941)
7d - Other Amortizations	943,918
Intrastate Working Capital	($2,006,085)

Attachment 1, Schedule 1, Lines 57-70 shows the working capital per the Company, OPC and the staff recommendation.

ISSUE 7a: Should deferred pension costs be removed from test year working capital?

RECOMMENDATION: No, deferred pension costs should not be removed from test year working capital.

POSITION OF PARTIES

CENTEL: No. The issue is not whether "cash working capital" is required but rather, whether prepaid pension costs are supported by liabilities and equity which have an associated cost. Clearly, prepaid pension costs are supported by liabilities and equity and are entitled to earn the Company's requested overall rate of return. This position is consistent with the basic tenets of the balance sheet approach to computing working capital which has been approved by the Commission and is reflected in the methodology set forth in MFR Schedule B-6c. Prepaid pension costs should also be considered in connection with the liability for other post retirement benefits. Both relate to retirement benefits and taken together they represent the status of all post retirement benefits. The results of this analysis show that the net impact resulting from these items is a net reduction in working capital.

OPC: Yes, the company has included in working capital a book amount to record the debit side of the entry associated with the recording of negative pension expense according to SFAS 87. This does not represent an outlay of funds and is an artificial asset and thus there is no associated working capital requirement. Working capital should be reduced $3,421,844. In addition, a corresponding reduction to intrastate accumulated deferred taxes of $1,287,640 should be made.

AT&T-C, DGS, FPTA & McCAW: No position.

STAFF ANALYSIS: Witness DeWard, representing OPC, argues that deferred pension costs should not be included in working capital. He explains that the deferred pension costs are recorded as a result of recognizing a negative pension expense under Statement of Financial Accounting Standard 87 (SFAS 87). He states that "the mere recording of the deferred pension cost does not create a need for working capital requirements. It is merely a book entry--the debit side recording the deferred pension expense and the credit side recording the negative pension expense. There is absolutely no cash working capital requirement associated with this book entry." (TR 1163)

Witness DeWard further argues that one of the reasons that

the company is overfunded is because the company had great latitude in determining its pension expense which was, in turn, paid for by the ratepayers. Witness DeWard believes that the higher funding levels were historically paid for by the ratepayers and the benefit of the negative pension expense should be passed to the ratepayers without "penalizing" them by requiring them to pay a return on the working capital deferred pension costs. (TR 1163)

Witness Felsenthal, representing Centel, believes that Centel should be afforded the opportunity to earn a return on the prepaid pension costs since they are supported by equity and liabilities which have a cost of capital. (TR 783) He believes that this is a matter of applying the balance sheet approach to working capital. (TR 783)

Witness Felsenthal points out that the negative pension expense reduces that company's revenue requirements. Since the reduction in revenue requirements cannot be supported by the pension fund, it is supported by the investors. (TR 784) He states further that the prepaid pensions should be considered in conjunction with the other postretirement benefits. Considered together, all postretirement benefits are considered and result in a net reduction to working capital. (TR 784)

Witness Felsenthal states that prior ratepayers were charged for pensions under APB Opinion No. 8 and were based on actuary estimates to provide the accumulation of plan assets to meet the projected plan benefits. (TR 785) He explains that there are two reasons why the pension fund is overfunded. First, the earnings on the pension plan assets have been better than expected. Second, the Company lowered its plan benefits in 1985. (TR 785)

Staff notes that this issue has been previously decided by the Commission in Docket No. 881056-EI, Petition of Florida Public Utilities Company for rate increase in Fernandina Beach Division. In Order No. 22224, the Commission decided that the prepaid pension working capital component should be allowed. The order states, in part:

> ....ratepayers derived the benefit of the negative pension cost which gave rise to the present prepaid expense. Accordingly, we find that the prepaid expense should be included in working capital, since there is no evidence that the company's pension contribution estimates were imprudent.

Staff has found no evidence in this case that indicates that Centel's pension contributions were imprudent.

Staff recommends that the prepaid pension costs be included as a component of working capital. Staff believes that the ratepayers will receive the benefit of the negative pension expense, but the company is entitled to the opportunity to earn a return on the prepaid working capital components.

ISSUE 7b: How should directory receivables (both long term and short term) be treated in test year working capital?

> This issue has been stipulated by Centel and OPC, without objection from any other party, as follows:
>
> Intrastate working capital should be reduced by $1,214,031 to remove the long-term CenDon directory receivable from working capital. However, working capital should be increased by $197,057 due to an increase in short-term directory receivable. The net effect of these adjustments is to reduce working capital by $1,016,974.

RECOMMENDATION: The Commission should accept this stipulation.

STAFF ANALYSIS: As stated in the Prehearing Order, this issue has been stipulated by Centel and OPC, without any objections from any other parties. It is appropriate to make these two adjustments to the working capital allowance. A long-term receivable was created by CenDon Partnership agreement, a partnership between Donnelley Corporation, Centel Directory Company and Central Telephone Company of Florida. This long-term receivable was created for the future payments to be received in the year 2005. The ratepayers should not be required to pay a return on a long-term receivable such as this. Intrastate working capital should be reduced by $1,016,974.

ISSUE 7c: Should unamortized rate case expense be allowed in test year working capital? If so, in what amount?

RECOMMENDATION: No. Unamortized rate case expense should be excluded from the working capital allowance. Intrastate working capital should be reduced by $1,090,941.

POSITION OF PARTIES

CENTEL: Yes. Rate case expense has always been recognized as a valid expense reasonably incurred as part of the regulatory process. The normal procedure followed by this Commission is to allow reasonable rate case expenses and to amortize them over an appropriate period. Unamortized rate case expense represents the unrecovered expense which must be financed. Under the current form of regulation in Florida, the Company can only adjust its local service rates to proper levels through the general rate case process.

Because the Company has expended these dollars from investor-supplied funds within the framework of the regulatory process and a portion of these dollars remain unrecovered, the investment is properly included in the working capital calculations. (TR 742) Indeed, to remove these deferred costs from the working capital calculation would be inconsistent with the balance sheet method of computing working capital which has been adopted by the Commission. The Company does agree however that the 1991 level of unamortized rate case expense in the MFRs should have included the average balance of unamortized rate case expense for 1991. (TR 742-43, 755) Additionally, since this filing is intrastate in nature, no part of deferred rate case expense should be allocated to the interstate jurisdiction as was done in the original filing. (TR 755) The impact of these two adjustments, which are reflected in Witness Samuelson's Exhibit No. 54, increase the intrastate amount of unamortized rate case expenses over and above the amounts originally reflected in the MFRs by $179,113. This amount has also been reflected in the reconciliation of working capital shown under Issue 7.

OPC: It has long been the Citizens' position that ratepayers should not be required to pay for return on rate case expense in addition to a four year amortization of the expense. Working capital should be reduced $1,090,941. In the alternative, the Commission should ensure that Centel does not receive return on the unamortized balance of rate case expense. The average balance should be utilized if a return is to be given. This would reduce working capital by $545,470 if the alternative is followed.

AT&T-C, DGS, FPTA & McCAW: No position.

STAFF ANALYSIS: It has been the Commission's practice to allow a reasonable amount of rate case expense as part of the regulatory process. Centel is proposing to amortize the rate case expense over a 4-year period, the period which it proposes the incentive regulation plan be in effect. Centel argues that the unamortized balance of the rate case expense in 1991 should be properly included in the working capital allowance calculation because the Company has expended these dollars from investor-supplied funds and a portion of the rate case expense remains unrecovered. Thus, Centel believes including the unrecovered portion in the working capital, as a deferred debit, is proper accounting treatment.

Witness DeWard for OPC stated that the ratepayers should not be double penalized for both the cost incurred by the Company to file for rate relief and, additionally, to provide the Company a return on the unamortized portion of rate case expense, especially when it was the Company's choice to file for rate relief, thus they recommend excluding the entire amount of the unamortized rate case expense from the working capital allowance (TR 1165). In the alternative, Witness DeWard recommends that the Commission only allow the average balance be included in the working capital calculation for the reason that by the end of the 4-year period, unamortized rate case expense will be reduced to zero (TR 1166).

It has been the Commission's practice not to allow a return on the unamortized rate case expense in the Electric and Gas industries. The most recent case in electric was in Order No. 23573, Docket No. 891345-EI, dated October 3, 1990, Gulf Power Company rate case where the unamortized rate case expense was disallowed in the working capital allowance calculation.

Staff believes that this practice strikes a reasonable balance between the ratepayers and the stockholders. The stockholders receive the benefit of the additional revenues, and the ratepayers receive the benefit by having the cost related to the rate case recovered in expense over two or more years. In addition, this practice acts as an incentive to the company to hold down the cost of a rate case where possible.

In addition to the Gulf Power Company rate case, return on unamortized rate case expense has been disallowed in a number of other rate cases: Central Florida Gas Company, Order No. 18716, Docket No. 870118-GU, dated January 26, 1988; South Florida Natural Gas Company, Order No. 17933, Docket No. 860341-GU, dated

August 4, 1987; and Gainesville Gas Company, Order No. 14165, Docket No. 840229-GU, dated March 12, 1985.

In the Alltel rate case, Docket No. 850064-TL, no unamortized rate case expense was allowed. Staff believes that the disallowance of a return on unamortized rate case expense should also be applied in this case. The intrastate amount of unamortized rate case expense as filed on MFR Schedule WPB-1a-4 of $1,090,941 should be reduced to zero.

ISSUE 7d: Should working capital reflect the impact of the three amortization adjustments proposed by the Company, as well as the increase in post-retirement expense?

This issue has been partially stipulated by Centel and OPC without objection from any other party, as follows:

The impact of the amortization of the Revenue Accounting Center closing costs (Issue 23a) and COPRS (Issue 23b) should be included in working capital. These adjustments increase intrastate working capital by $157,836 and $733,562 respectively for a total increase of $891,398. The working capital impact of Arthur Anderson costs (Issue 23g) and the increase in post retirement expense (Issue 231) should be considered after the resolution of Issues 23g and 231.

RECOMMENDATION: The total recommended increase in intrastate working capital allowance is $943,918. This adjustment is composed of three separate items: A) the stipulated amount of $891,398 for the amortization of Revenue Accounting Center closing costs and COPRS costs; B) an increase in intrastate working capital by the impact of amortization of Arthur Anderson Costs from Issue 23g, $73,461; and C) a decrease in intrastate working capital of $20,941 for the postretirement expense adjustment from Issues 23c and 231.

POSITION OF PARTIES

CENTEL: As discussed in the Prehearing Order, this issue has been partially stipulated by Central Telephone-Florida and OPC without objection from any other party.

Arthur Andersen Fees

As discussed in conjunction with Issue 23g, the fees charged by Arthur Andersen in connection with assisting Central Telephone Company and its affiliated local exchange companies, including Central Telephone-Florida, in improving the budget process and which should be allowed in test year expenses is $196,800. Central Telephone-Florida disagrees with OPC's witness, Thomas DeWard, attempt to eliminate a portion of the costs associated with Arthur Andersen's review and participation in the budget process review. For reasons discussed under Issue 23g, Mr. DeWard's adjustment totally ignores the Company's efficiency and

productivity efforts.

As an alternative to Mr. DeWard's adjustment Mr. Bailor proposed to accumulate the total cost of Arthur Andersen's participation and recover those costs ratably over a four-year period beginning when the rates in this filing take effect. (TR 832) If the company's primary proposal is accepted by the Commission, no working capital adjustment is necessary. If this alternative proposal is accepted instead, $82,342 of Arthur Andersen fees should be included in test year expenses. Further, since under this alternative the Company would accumulate the total costs of Arthur Andersen's participation in the Company's review and improvement of the budget process and recover it ratably over a four-year period, working capital should be increased by $142,650 intrastate ($189,795 total Company) to reflect the unamortized costs of the budget process review in the ratemaking equation. This increase is reflected in the reconciliation of working capital under Issue 7.

Postretirement Expenses

Mr. DeWard also proposed an adjustment to decrease test year expense by $1,332,384 to remove the impact of adopting the FASB pronouncement on postretirement expenses. (EXH 98, Schedule 15) The company opposes this adjustment for the reasons discussed under Issue 23c. However, if Mr. DeWard's adjustment is approved, there will be a decrease in accrued liabilities, and working capital must be increased by $500,710 intrastate. The Company's number for this adjustment to working capital differs from Mr. DeWard's due to a slight difference in allocation factors. As discussed under Issue 23c, Central Telephone-Florida urges that Mr. DeWard's adjustment to postretirement expense be rejected. In accordance with the Company's position on Issue 231, postretirement expense should be decreased by $49,663 ($35,905 intrastate) compared to the level of expense included in the original filing, and working capital should be reduced by $27,863 ($20,941 intrastate). The working capital effect of this adjustment is reflected in the working capital reconciliation shown under Issue 7.

OPC: Part of this issue has been stipulated. There is no working capital impact related to the Arthur Anderson cost at issue in Issue 23g. These costs are unnecessary, and even if considered necessary would be nonrecurring and should not be amortized. Therefore, no deferred debit is created. Related to OPC's position on Issue 231, disallowance of accrued post-retirement benefits as recommended by the OPC, would result in an increase in working capital of $502,610 (intrastate).

AT&T-C, DGS, FPTA & McCAW: No position.

STAFF ANALYSIS: A decrease in intrastate working capital allowance of $943,918 is comprised of three adjustments: A) the amortization impacts of Revenue Accounting Center closing costs and COPRS costs, Issues 23a and 23b; B) the amortization impact of Arthur Andersen costs, Issue 23g; and C) the impact of the increase in postretirement expense, Issues 23c and 23l.

The Commission should accept the stipulation that was entered into by Centel and OPC without any objections from any other parties on the amortization impacts of Revenue Accounting Center closing costs and COPRS costs. As stated in the Issues 23a and 23b, the parties have stipulated to decreasing intrastate expenses for the test year and creating deferred debits. It is appropriate to increase the intrastate working capital by $891,398 to reflect the deferred debits created by Issues 23a and 23b.

Staff believes that it is also appropriate to include the deferred debit that was created from the amortization of Arthur Andersen costs discussed in Issue 23g. Staff has recommended in Issue 23g to only include the cost associated with Phase III, $146,922, intrastate. The Commission should only allow a return on the average balance of the unamortized amount. The rational behind this recommendation is that by the end of the amortization period the deferred debit will be reduced to zero. It would be inappropriate to set rates based on the year that includes the highest deferred debit balance. Therefore, intrastate working capital should only be increased by the average, $73,461.

Staff recommends no adjustment to Issue 23c. Staff believes that the Company's method of accounting for postretirement benefits is appropriate, thus it is unnecessary to make any adjustment to the working capital allowance. However, intrastate working capital should be reduced by $20,941 to correct the error in the level of expense for postretirement benefits included in the original filing as Centel has stated in their position statement as well as at the hearing. (Cross TR 1037) The appropriate amount of expense reduction is discussed in Issue 23l.

ISSUE 8: What is the appropriate test year rate base?

RECOMMENDATION: The appropriate amount of test year intrastate rate base is the sum of the amounts from Issues 2, 4, 5 and 7. The appropriate intrastate rate base is $232,002,437 as shown on Attachment 1, Schedule 1, Line 84.

POSITION OF PARTIES

CENTEL: The appropriate revised amount of test year rate base is $233,354,153, after taking into consideration the Company's positions and various stipulations on Issues 2 through 8. A summary of the adjustments used to derive this amount is shown in Witness Samuelson's final revised rebuttal exhibit. (Document 5, page 3 of 3)

OPC: If the deferred tax credit related to prepaid pension expenses is reflected in the rate base, the test year rate base (intrastate) is $227,761,510. If the deferred tax credit related to prepaid pension costs is removed from the capital structure, test year rate base should be $226,473,872. In OPC's position schedules, the former has been utilized for simplicity in presentation.

AT&T-C, DGS, FPTA & McCAW: No position.

STAFF ANALYSIS: The appropriate amount of intrastate test year rate base is $232,002,437. This amount is derived on Attachment 1, Schedule 1, from the originally filed amount of $231,250,557 shown on MFR Schedule A-2a adjusted by Issues 2, 4, 5 and 7.

COST OF CAPITAL

ISSUE 9: What specific adjustments should be made to Accumulated Deferred Income Tax?

RECOMMENDATION: The adjusted intrastate balance of Accumulated Deferred Income Taxes should be $46,808,267.

POSITION OF PARTIES

CENTEL: The appropriate amount of accumulated deferred income taxes is $47,163,156, as shown on Late-Filed Exhibit No. 90.

OPC: The appropriate balance of accumulated deferred income taxes is $45,377,172.

AT&T-C, DGS, FPTA & McCAW: No position.

STAFF ANALYSIS: The test year total company accumulated deferred income tax balance per books was $60,122,986. Centel increased this balance by $82,408 related to nonregulated operations, on MFR D-9. As explained in note (a), MFR D-9, Centel removed $14,133,096 interstate based on the specific deferred tax interstate separation factor. The resulting jurisdictional balance was $46,072,298. Centel increased this balance to $47,163,156 for the effect of the depreciation stipulation and the four adjustments made to working capital in the rebuttal testimony of Centel witness Samuelson, as shown on Late-Filed Exhibit No. 90. (TR 1085)

Staff has adjusted the originally filed total company balance of $60,122,986 for the $82,408 related to nonregulated operations, and for the deferred tax effects of adjustments recommended in Issues 2, 3, 7 and 23. The balance associated with the budget corrections discussed in Issue 2 is not contained in the record; however, the relative amounts of the recommended adjustments of $3,538,627 to plant and $3,526,155 to depreciation indicate that any related deferred tax balance should be almost completely amortized. Staff has made no adjustment relative to these budget corrections, because the minimal amount of any remaining deferred tax balance should have no effect on either cost of service or cost of capital, whether left in or removed.

Total company deferred taxes have been increased by $986,536 associated with the depreciation stipulation in Issue 3. (Late-Filed EXH 90, TR 1085) A reduction of $542,514 (total company) results from the removal of $1,451,491 unamortized rate case expense in Issue 7(c). The effect of the working capital

adjustments in Issue 7(d) for COPRS Costs vs. Savings, Revenue & Data Center Closing, and AA & Co. Budget Review Expenses, is $517,712 (total company). (Late-Filed EXH 90, TR 1085) The jurisdictional separation factor provided by Centel on MFR B-14b was applied to the adjusted total company balance, consistent with note (a) on MFR D-9.

The above adjustments result in a jurisdictional deferred income tax balance of $46,808,267, as shown on Page 1, Attachment 1, Schedule 4.

ISSUE 10: What specific adjustments should be made to Accumulated Investment Tax Credits?

RECOMMENDATION: No specific adjustments should be made to accumulated ITC's. The appropriate intrastate balance is $4,188,040, as originally filed.

POSITION OF PARTIES

CENTEL: No adjustment needs to be made to accumulated investment tax credits. The correct amount of accumulated deferred investment tax credits (ITC) is $4,188,040, as originally filed.

OPC: The appropriate intrastate balance of investment tax credits is $4,188,040.

AT&T-C, DGS, FPTA & McCAW: No position.

STAFF ANALYSIS: The total company accumulated balance of ITC's was reported as $5,588,531, on MFR A-2c. Centel made no adjustments to this balance, and applied a specific ITC interstate separation factor to determine the intrastate balance of $4,188,040 on MFR A-2c. No adjustments were identified by any parties. Centel witness Samuelson testified that the amortization of ITC is based on the life component of depreciation rates. (TR 1087-88) Although Centel based the depreciation in the filing on proposed rates, Late-Filed Exhibit No. 94 states that the amortization of ITC's was calculated using the life components that were contained in the previously authorized depreciation rates. (TR 1143) Based on this information, the ITC balance in the filing reflects the depreciation rates stipulated to in Issue 3 and requires no adjustment. The amount of ITC's associated with the rate base adjustments recommended in Issue 2 is not contained in the record, but no adjustment has been calculated because the amount would be immaterial. No other recommended adjustments affect the ITC balance. Therefore, the appropriate balance is $4,188,040 as originally filed.

ISSUE 10a: What cost rate should be associated with Investment Tax Credits?

RECOMMENDATION: The appropriate cost rate for ITC's is 11.14%.

POSITION OF PARTIES

CENTEL: The appropriate cost rate for ITCs is 12.46%. No adjustment for the parent debt effect of the equity component of ITCs was made because of the minor impact of this adjustment. If a parent company debt adjustment is made to the equity component it would also affect the interest expense in the tax calculation, not the cost rate in the capital structure. Consequently if Staff's proposed adjustment is made it should also be made as part of the parent company debt adjustment in Issue 26.

OPC: The appropriate cost rate for Investment Tax Credits is 10.88%.

AT&T-C, DGS, FPTA & McCAW: No position.

STAFF ANALYSIS: The ITC interest synchronization adjustment is based on the premise that, if ITC had not been available, the Company would have replaced those funds with debt and equity in the same ratios as exist in their capital structure. The parent debt adjustment is based on the premise that a portion of the equity invested in the Company by the parent is supported by debt of the parent. There is an interest expense associated with that debt, and a resulting tax deduction, which is imputed to the regulated utility. (TR 1089-1090) In this Issue, staff proposed that the ITC cost rate should be adjusted to reflect the parent debt supporting the equity portion of the ITC.

The Company argued that this additional adjustment is immaterial, unnecessary, and inconsistent with past Commission practice. However, Centel's witness Samuelson agreed that, if a parent debt adjustment is made, this proposed adjustment would be theoretically correct as part of the parent debt adjustment, rather than as an adjustment to the ITC cost rate. (TR 1090)

Staff believes that the proposed adjustment is consistent with the interest synchronization and parent debt adjustments, and recommends that it be made in conjunction with the parent debt adjustment in Issue 26. The Internal Revenue Service constraints discussed in Issue 26 would also apply to this additional amount.

given 13.0%

ISSUE 12: What is the cost of common equity capital?

RECOMMENDATION: Staff determined that the cost of common equity capital for Centel falls within the range of 12.3% to 13.15%. Since a point estimate of the cost of equity capital must be used to set rates, staff recommends the midpoint of this range of 12.7% (rounded) be used for ratemaking purposes.

POSITION OF PARTIES

CENTEL: The cost of common equity is 14.50% as established in the prefiled direct testimony of Dr. Vander Weide.

OPC: As recommended by Citizens' witness Mark Cicchetti, Centel's rates should be set utilizing a return on equity of 12.15%.

AT&T-C, DGS, FPTA & McCAW: No position.

STAFF ANALYSIS: Two witnesses presented testimony concerning the rate of return on common equity capital (ROE) for Centel. Witness James H. Vander Weide, testifying on behalf of Centel, recommends an ROE of 14.5%. Witness Mark A. Cicchetti, testifying on behalf of the OPC, recommends an ROE of 12.15%.

SUMMARY OF WITNESSES' TESTIMONIES

Witness James H. Vander Weide, testifying on behalf of Centel, utilized two capital market pricing models in arriving at his estimate of an ROE for Centel. He first performed a Discounted Cash Flow (DCF) analysis on the seven Regional Bell Holding Companies (RBHCs) and on a group of 19 large, industrial companies. Next, he performed a Risk Premium (RP) analysis of the comparable returns received by bond and stock investors over the last 52 years. (TR 565)

Because the common stock of Centel is not publicly traded, a DCF analysis cannot be directly applied to Centel. To arrive at his estimate of an ROE for Centel, witness Vander Weide applied the DCF approach to two groups of companies he determined to have risk-return profiles comparable with Centel. (TR 571-572)

The first group of companies witness Vander Weide used as a proxy for Centel was comprised of seven large telecommunication holding companies (the RBHCs). The second group of companies he used consisted of 19 large, unregulated industrial companies. Witness Vander Weide selected this latter group using a statistical method called cluster analysis. In his cluster

analysis, witness Vander Weide used four risk variables to identify a group of companies that he determined to be relatively homogeneous in regard to risk. The four risk variables were the total amount of investor-supplied capital, the S&P bond rating, the equity ratio, and the coefficient of variation in quarterly operating income. (TR 571-572; EXH 23, Appendix 4, pp. 1-3)

The Discounted Cash Flow (DCF) model is the most generally accepted method of measuring equity capital cost rates. The DCF model determines a company's cost of equity capital by examining the present value of a future stream of income. These expected cash flows consist of the expected yearly dividends plus the price appreciation investors expect to receive when they sell the stock.

This relationship is expressed by the equation:

$$K_e = D_1 / P_0 + G$$

where K_e = the discount rate (required rate) that equates the present value of the expected cash flows to the present price of the stock.

P_0 = the present price of the stock.

D_1 = the dividend expected in the next 12 months.

G = the expected growth rate of dividends.

The DCF model maintains an emphasis on the long-term rather than short-term growth of dividends. This analysis, therefore, normally attempts to determine what investors expect long-term growth will be. Since the dividend growth factor requires a certain degree of subjective judgment, it is generally this element which presents the greatest problem in implementing the DCF model.

Witness Vander Weide first performed a DCF analysis for each of the seven RBHCs. He also performed a DCF analysis for each of the 19 large industrial companies. The DCF model used by witness Vander Weide assumed a constant dividend growth rate, quarterly receipt of dividends, and an adjustment for flotation costs of 5%. (TR 567-571; EXH 23, Schedules 1-4; EXH 32, Late-filed Deposition EXH 2)

The DCF model requires an estimate of the current stock

price, the expected dividend growth rate, and the expected dividends. For both indices, the average market price represented the average of the high and low stock prices during the three months ended March 31, 1990 as reported in the February, March, and April S&P Stock Guides, respectively. Also for both indices, he used the median long-term growth in earnings-per-share as reported by the Institutional Brokers Estimate System (IBES) on April 19, 1990 as a proxy for the expected dividend growth rate. Finally, he used the latest quarterly dividend as reported in the April, 1990 S&P Stock Guide for the RBHCs and the latest quarterly dividend as reported in the May, 1990 S&P Stock Guide for the industrial companies. The DCF model used by witness Vander Weide produced a 12.56% ROE for the index of large telecommunication companies and an ROE of 14.97% for the index of large, unregulated industrial companies. (TR 567-571; EXH 23, Schedule 1; EXH 32, Late-filed Deposition Exh 2)

In addition to the conventional DCF analysis of the RBHCs, witness Vander Weide also performed a DCF analysis of the RBHCs with an adjustment made to the average stock price to account for the companies' investments in cellular operations. Witness Vander Weide argues that current RBHC stock prices are inflated by investors' valuation of the companies' cellular operations, however, because cellular earnings are currently such a small part of RBHC total earnings, he contends that analysts' current earnings growth rates over the next five years do not include the effects of expected cellular earnings. As a result, he contends that an unadjusted DCF analysis of the RBHCs understates the ROE of the RBHCs by an unmeasurable amount. To compensate for this shortcoming, witness Vander Weide performed three additional DCF analyses on the RBHCs using the same market data discussed earlier with the exception of the average stock prices. The average stock prices were adjusted for the assumed values of the cellular operations of the RBHCs. He used assumed cellular valuations of $150, $200, and $250 per unit of population (pop). Witness Vander Weide's DCF analyses, adjusted for cellular valuations, produced a DCF range of 14.0% to 15.2%. (TR 573-576; EXH 23, Schedule 2-4)

Based upon his DCF analyses of the RBHCs, adjusted for the assumed values of the companies' cellular operations, and the DCF analysis of the industrial companies, witness Vander Weide concluded that his DCF estimate of Centel's ROE falls within the range of 14.0% to 15.2%. (TR 576)

Witness Vander Weide also performed a Risk Premium (RP) analysis to estimate the appropriate ROE for Centel. The RP

approach attempts to estimate the ROE by recognizing the higher return investors require on equity securities than on debt securities. (TR 576)

Witness Vander Weide performed a RP study of the comparable returns received by bond and stock investors over the last 52 years. His study consisted of making equal dollar investments in the S&P 500 stock portfolio and the Moody's single A-rated utility bond portfolio at the beginning of each year from 1937 to 1989. The return associated with each stock portfolio was comprised of the annual dividend yield and capital gain (or loss) which accrued to the portfolio during the time it was held. This information was obtained from the S&P Security Price publication. The return associated with the bond portfolio was comprised of the sum of the annual coupon yield and capital gain (or loss) which accrued to the portfolio during the time it was held. The bond price information was obtained by calculating the present value of a bond due in 30 years with a 4.0% coupon rate and a yield to maturity of a particular year's indicated Moody's single A-rated utility bond yield. The coupon interest rate was assumed to be 4.0% for each year of the study. He states that 4.0% was indicative of the yields on bonds for much of the early years in his study and since he wanted to maintain a constant interest rate over the entire length of the study, he chose this interest rate. Between 1937 and 1989, the stock portfolio grew at a rate of 10.24% per year and the bond portfolio grew at a rate of 4.22% per year. The difference between the two portfolios indicated a risk premium of 6.02%. (TR 576-577; EXH 23, Schedule 6 and Appendix 5; EXH 32, p. 46)

Witness Vander Weide also conducted a second, essentially identical RP analysis using stock data on the S&P 40 Utilities index rather than the S&P 500 index. The S&P 40 Utilities stock portfolio grew at a rate of 8.77% over the period 1937 through 1989. The difference between the S&P 40 stock portfolio and the Moody's single-A rated bond portfolio indicated a risk premium of 4.55%. (TR 577; EXH 23, Schedule 7)

Based upon these RP studies, witness Vander Weide determined that investors require an equity return of approximately 4.5% to 6.0% above the expected yield on single-A rated long-term debt issues. He determined that the yield on single A-rated utility bonds was approximately 9.50% at the time he prepared his testimony. After adding the 4.5% to 6.0% risk premiums to the 9.5% yield on single-A rated utility bonds, witness Vander Weide concluded that his RP estimate of Centel's ROE falls within the range of 14.0% to 15.5%. (TR 578)

The simple average of witness Vander Weide's DCF and RP analyses indicates an ROE range of 14.0% to 15.35%. Witness Vander Weide concludes that the ROE for Centel is within the range of 14.0% to 15.5% and he recommends that Centel be allowed an ROE of 14.5%. (TR 578-579)

Witness Mark A. Cicchetti, testifying on behalf of the OPC, utilized two capital market pricing models in arriving at his estimate of an ROE for Centel. He first performed a DCF analysis on the RBHC index. Next, he performed a RP analysis on the Moody's Natural Gas Distribution Index (Moody's gas index). (TR 662-663)

To arrive at his estimate of an ROE for Centel, witness Cicchetti performed a DCF analysis on a group of comparable-risk telephone utilities. The comparable group he chose was comprised of the seven RBHCs. The DCF model used by witness Cicchetti assumed a two-stage variable dividend growth rate, annual receipt of dividends, and an adjustment for flotation costs of 3%. (TR 662-668)

As stated previously, the DCF model requires an estimate of the current stock price, the expected dividend growth rate, and the expected dividends. The current stock price was determined by averaging the high and low stock prices for June 1990 for each company. This data was obtained from the July 1990 S&P Stock Guide. The initial growth rate for the period 1990 through 1994 was derived from the explicit forecast of dividends in Value Line. The constant growth rate expected after 1994 was calculated using the earnings retention method (b x r approach). Witness Cicchetti relied on the Value Line forecast of the expected ROE and expected retention rate of the RBHCs for 1994 to calculate the expected long-term dividend growth rate. Finally, a forecast of the expected dividends for each company was obtained from Value Line. The DCF model used by witness Cicchetti produced an ROE of 11.7% for the index of large telecommunication companies. (TR 665-668)

Witness Cicchetti also performed a RP analysis on the Moody's gas index as a proxy for the RBHC index to determine his estimate of an ROE for Centel. Witness Cicchetti argues that a proxy must be used for the RBHC index in a RP study because the RBHCs have only been in existence since 1984 and as a result there is insufficient data regarding the RBHCs to do a valid RP analysis. He contends that it is reasonable to use companies in the natural gas distribution industry in a RP study as a proxy for companies in the telecommunications industry since both industries face similar business and financial risks. Therefore,

he used the Moody's gas index as a proxy for the RBHCs in his RP analysis. (TR 663)

The RP approach attempts to estimate the ROE by adding a premium to the cost of debt to compensate the investor for the greater risk inherent in an equity investment. In order to apply the methodology, a risk premium for the yield on common stock over some measure of debt cost must be estimated. (TR 668-669)

Witness Cicchetti calculated the risk premium as the difference between the expected monthly ROE for the Moody's gas index and the concurrent risk-free rate. He first determined the expected monthly ROE for the Moody's gas index over the 120 month period August 1980 through July 1990. The expected ROE for the Moody's gas index was calculated using the same DCF methodology described previously. Next, he used the yield-to-maturity on 30-year Treasury bonds as reported by Moody's as a proxy for the risk-free rate. The average risk premium calculated over the 120 month period was 3.80%. (TR 669-670)

After estimating the risk premium, witness Cicchetti chose the September 1, 1990 Blue Chip Financial Forecasts' (Blue Chip) consensus forecast of long-term government bond yields for the coming year of 8.55% as an estimate of the expected long-term risk-free rate. By adding the risk premium of 3.80% to the expected risk-free rate of 8.55%, he determined a RP estimate of the ROE for the Moody's gas index of 12.35%. (TR 671-672)

Based upon the combined results of his DCF analysis of the RBHC index and his RP analysis of the Moody's gas index, witness Cicchetti determined an ROE for the indices falls within the range of 11.70% to 12.35%. However, he contends that Centel is slightly riskier than the indices and should be allowed a slightly higher ROE. He points out that Centel has a lower pretax interest coverage ratio and a lower net cash flow to capital outlays ratio than the respective averages for the RBHC index. In addition, Centel is significantly smaller than the companies in both indices. However, witness Cicchetti also points out that these factors are somewhat offset by the fact that Centel has a higher equity ratio and lower debt ratio than the averages for the indices. Furthermore, he notes that Centel is subject to less business risk than the RBHCs on average as evidenced by its classification by S&P as a "low risk" local exchange company. Despite these offsetting factors, witness Cicchetti believes that Centel is still riskier than the indices on average and should be allowed a slightly higher ROE. (TR 672-673)

In order to reflect the greater risk that Centel must bear compared with the companies in the indices, witness Cicchetti adjusted the ROE obtained for the indices. In his opinion, the differential between the yields on double A minus and single A plus rated bonds is a reasonable estimate of the additional return required for Centel. The bond-yield spread between the yields on double A minus and single A plus rated utility bonds has averaged 10 basis points over the last 60 months. Adding this spread to the previously determined DCF and RP estimates produced an ROE range of 11.80% to 12.45%. Witness Cicchetti recommended the midpoint of this range of 12.15% (rounded) as the allowed ROE for Centel. (TR 674)

STAFF ANALYSIS OF WITNESS' TESTIMONIES

Witness James H. Vander Weide, testifying on behalf of Centel, employed two capital market pricing models to determine his estimate of an ROE for Centel. Based upon the results of these two models, he recommends an ROE of 14.5%.

Witness Vander Weide conducted a series of DCF analyses on an index of large telecommunication companies (the RBHCs). He also conducted a DCF analysis on an index of large, unregulated industrial companies which he determined to be of comparable risk with Centel. Witness Vander Weide concluded that his DCF estimate of Centel's ROE falls within the range of 14.0% to 15.2%. (TR 571-576)

In his testimony, witness Vander Weide describes the financial theory which is the basis for the DCF model. He also acknowledges that the DCF approach provides a conceptually correct and straightforward method for establishing a firm's market determined ROE. However, he also argues that the results of a DCF analysis of the RBHCs which is not adjusted for the valuation of cellular operations provides a downwardly biased estimate of the RBHC's ROE. He claims this downward bias in the DCF estimate of the ROE occurs because the current stock prices embody the expected long-run benefits from cellular operations while the current 5-year growth expectations of analysts reflect expected developments only during the next 5-year period. In other words, the net present value of the RBHC's cellular operations are embodied in the current RBHC stock prices but the earnings and growth expectations are not reflected in the 5-year expected growth rates. As a result, witness Vander Weide argues that a DCF analysis on the RBHC's which does not include an adjustment for the value of cellular operations understates the ROE of Centel by an unmeasurable amount. (TR 565-567, 573-576; EXH 32, Deposition pp. 8-10)

Witness Vander Weide states that the DCF valuation logic is based upon the premise that investors value an investment on the basis of the future cash flows they expect to receive from owning the investment. He also cites a second fundamental principle of the DCF approach called the time value of money. This principle holds that investors value a dollar received in the future less than a dollar received today. This is because if they had a dollar today they could invest it in an interest bearing account and increase their wealth. Applying these two fundamental DCF principles to an investment in a company's stock, he demonstrated how the price of the stock should equal the present value of the expected cash flows. (TR 966-967; EXH 23, Appendix 1)

During his deposition, witness Vander Weide agreed that the DCF model attempts to determine investors' required ROE by examining the present value of a future stream of income and that the relevant cash flows to common equity investors are dividend income and price appreciation. He also agreed that for companies in a mature industry such as the utility industry, dividends are increased in a stepped fashion and only when management is convinced that a new higher plateau of earnings will be maintained. However, he disagreed that dividend growth tends to lag earnings growth because management prefers to maintain a stable dividend policy. He contends that over the long-run, differences in timing between dividend and earnings growth rates would not materially affect the ROE determination. Based upon this belief, witness Vander Weide used the median long-term growth in earnings-per-share as reported by IBES as a proxy for the expected dividend growth rate. (EXH 32, Deposition pp. 8-10, 27-30)

~~Also during his deposition~~, Witness Vander Weide contends that the anticipation of cellular earnings is enough to drive up RBHC stock prices but this same anticipation is not enough to drive up earnings growth expectations because the anticipation of cellular earnings is an anticipation over a very long period of time. While the stock price may reflect all currently available information, investors are only willing to pay for the value they perceive. Witness Vander Weide agrees that sophisticated investors in telecommunication stocks take a company's cellular operations into account when they make their investment decisions and that if investors perceive that a stock is selling at a price that cannot be supported by expected earnings growth investors will bid the price down until equilibrium is reestablished. Therefore, for witness Vander Weide's contention that the impact of cellular operations is embodied in the stock prices of the RBHCs but not in the earnings growth expectations over the next five years to hold true, he must assume that investors are

willing to bid up the price of the stocks in anticipation of earnings that highly paid security analysts have failed to recognize and that the investors themselves have no means of assessing. (EXH 32, Deposition pp. 39-42)

Witness Cicchetti agrees with witness Vander Weide that the DCF model is the most commonly used approach for estimating a utility investor's required ROE. However, he disagrees that a DCF analysis of the RBHCs produces a downwardly biased estimate of Centel's ROE. Witness Cicchetti contends that since cellular operations represent a relatively small percentage of the earnings and assets of the RBHCs, an adjustment is not necessary. Moreover, he states that if he were to recommend an adjustment to account for cellular operations, it would be an adjustment to reflect the fact that the cost of equity associated with the cellular operations is greater than the cost of equity for the RBHCs in general due to the greater degree of risk associated with cellular operations. Witness Cicchetti did not make any adjustment to his DCF analysis of the RBHCs to account for cellular operations. Furthermore, he argues that the adjustment recommended by witness Vander Weide would overstate the required ROE for the RBHCs. (TR 664; EXH 29, pp. 13-14)

Staff disagrees with witness Vander Weide's contention that an unadjusted DCF analysis of the RBHCs provides a downwardly biased estimate of Centel's ROE. During his deposition, witness Vander Weide admitted he was not aware of any public utility commissions which recognized his methodology for adjusting DCF results to recognize the impact of cellular operations. He also admitted that he was not aware of any articles or publications which advocated this adjustment of the DCF results. (EXH 32, Deposition pp. 41-43) Furthermore, it can be argued that by using a long-term earnings growth rate that may be greater than the sustainable dividend growth rate in a dividend discounting model, the expected earnings growth rate used by witness Vander Weide includes any impact from cellular operations that may be embodied in the stock price. Staff finds that witness Vander Weide has failed to provide conclusive evidence to support his adjustment for the impact of cellular operations on the RBHCs. Therefore, staff finds that only the results of witness Vander Weide's conventional DCF analysis, without an adjustment for cellular operations, a reasonable estimate of Centel's ROE.

Witness Vander Weide also conducted a DCF analysis for each of the 19 large, unregulated industrial companies he determined to have risk-return profiles comparable with Centel. This DCF analysis indicated an average required ROE of 14.97% for this group of industrial companies. (TR 571-572; EXH 23, Schedule 1)

Staff has several concerns regarding the use of an index comprised of large, unregulated industrial companies as a proxy for determining the required ROE for a regulated, local exchange company. First, witness Vander Weide acknowledged that none of the companies in his industrial index are regulated utilities. During his deposition he admitted that as a general statement, regulated utility companies are considered less risky than unregulated industrial companies. (EXH 32, Deposition p. 33)

Secondly, a utility company's rates are set for it to achieve its cost of capital. Witness Cicchetti points out, and witness Vander Weide agrees, that unregulated companies charge prices based on what the market will bear and not on the basis of their cost of capital. As a result, unregulated companies have an opportunity to earn a return significantly above or below their cost of capital. This wider range of possible returns implies a greater degree of investment risk for this group of industrial companies compared with the group of regulated telecommunication companies. This wider range of variability of earnings is demonstrated by the fact that the average Beta for the group of industrial companies of 1.14 is greater than the average Beta for the RBHC index of .94. (EXH 29, Deposition pp. 11-12; EXH 32, Deposition pp. 16-19, 35)

Staff also has a concern with some of the results produced by witness Vander Weide's DCF analysis of the industrial companies. For example, this DCF analysis produced a required ROE of 17.0% for the Kimberly Clark Corporation; a company with a double A bond rating and a Beta of 1.00. This analysis also indicated an ROE of 16.7% for the Gannett Company; a company with the same double A bond rating and a Beta of 1.15. In contrast, this DCF analysis produced an ROE of 13.6% for the Brunswick Corporation, which has a triple B plus bond rating and a Beta of 1.45, and an ROE of 11.6% for the Potlatch Corporation which has a single A minus bond rating and a Beta of 1.30. It is inconsistent with generally accepted financial theory for double A rated companies to have investor required ROEs which are significantly above the required ROEs for triple B plus or single A minus rated companies. This is particularly true when all the companies are assumed to have comparable risk-return profiles as witness Vander Weide contends. (EXH 27, Schedule 4; EXH 29, Deposition pp.11-12; EXH 32, Deposition pp. 33-35)

Witness Vander Weide contends that his DCF analysis of a group of industrial companies provides a reasonable estimate of the required ROE for Centel. However, witness Cicchetti argues

that a group of companies in an unregulated industry is not directly comparable to a group of companies in a regulated industry. This is borne out by the fact that the results from witness Vander Weide's conventional DCF analysis of the seven RBHCs indicate a range of 12.00% to 13.07% for a spread of 107 basis points, while the DCF results for the industrial companies indicate a range of 11.6% to 17.8% for a spread of 620 basis points. This wide spread in ROE estimates raises further concerns that this group of companies is not a reasonable proxy for Centel. Therefore, despite his contentions to the contrary, staff finds that witness Vander Weide's DCF analysis of the group of large, unregulated industrial companies does not provide a reasonable estimate of the required ROE for Centel.

Witness Vander Weide next performed two RP analyses of the comparable returns received by bond and stock investors over the last 52 years. The first analysis measured the difference in earned returns between the S&P 500 stock portfolio and the Moody's A-rated utility bond portfolio. The second study measured the difference in earned returns between the S&P 40 Utility stock portfolio and the same Moody's portfolio. Witness Vander Weide concluded that his RP estimate of Centel's ROE falls within a range of 14.0% to 15.5%. (TR 576-578; EXH 23, Schedule 6 & 7, Appendix 5)

The RP methodology estimates the cost of equity capital by adding a premium to the cost rate of long-term debt to compensate the investor for the greater risk inherent in an equity investment. The benefit of such an approach is that it attempts to recognize all the elements of equity cost, i.e., pure rent, inflation, and risk. However, since there is no one agreed upon formula to compute the risk premium with absolute precision at any point in time, the main drawback of this approach is determining the appropriate premium to add to the long-term debt cost rate. Other concerns are the methodology's reliance on historical earned returns and the assumption that future risk premiums will approximate assumed risk premiums.

Staff has several concerns with the RP analysis of witness Vander Weide. First, the use of a historical as opposed to an expectational debt cost rate may or may not be a reasonable proxy for investors' expectations of this particular rate. While the single A rated utility bond yield may have been 9.5% when witness Vander Weide prepared his testimony, this rate may not be reflective of what the rate will be prospectively. Based upon the underlying assumption that the risk premium remains constant over time, an assumed decrease in the debt cost rate would indicate that the RP analysis done in March 1990 would overstate

the prospective estimate of the required ROE by at least the size of the decline in bond yield. The converse would also be true.

Another concern staff has with the RP approach used by witness Vander Weide is its dependence on earned returns. Witnesses Vander Weide and Cicchetti both agree that the cost of equity is a function of expectations and not historical performance. They also both agree that earned returns can vary significantly from expected returns. Therefore, projecting a risk premium derived from historic earned returns forward without taking into consideration past events and current expectations may indicate an ROE estimate which can vary significantly from the required ROE. (EXH 29, Deposition pp. 3-4, 13; EXH 32, Deposition pp. 44-45)

In staff's fifth set of interrogatories, witness Vander Weide was asked several questions regarding earned and expected risk premiums. Two questions in particular related to the relationship of negative earned risk premiums and the determination of a prospective ROE.

> Q. Should there always be a positive risk premium between a company's cost of equity and the return on the bonds of that same company?
>
> A. In answering questions 408, 409, 410, 411, and 412, I make a distinction between the investor's expected risk premium and the earned risk premium that resulted in a given past year. The expected risk premium is the difference between the investor's expected return on equity and the investor's expected return on bonds. The earned risk premium in a given year is the difference between the earned return on the stock portfolio in that year and the earned return on the bond portfolio in that year. Yes, there should always be a positive expected risk premium, i.e., the expected return on a company's equity should exceed the expected return on the same company's bonds.
>
> Q. Would you ever apply a negative risk premium to a cost of debt to determine a required ROE?
>
> A. No, because the expected risk premium is always positive and the cost of equity is related to the expected risk premium, not the earned risk premium. (EXH 32, Interrogatory pp. 1,5)

Both risk premium analyses conducted by witness Vander Weide produced negative earned risk premiums in certain years. The

analyses produced negative risk premiums in 20 of the 52 years of the S&P 500 study and in 18 of the 52 years of the S&P 40 study. Although witness Vander Weide admitted that he would never apply a negative risk premium to a debt cost rate to estimate a prospective ROE, he has done essentially that by relying upon a RP analysis which produced negative risk premiums in his determination of Centel's required ROE.

The final concern staff has with witness Vander Weide's RP analysis is the question of relevancy of a risk premium calculated over a long period of time and the determination of a prospective ROE. Both witnesses Vander Weide and Cicchetti agree that unless factors that make up the differences between equity and bond yields remain relatively constant, the ROE results obtained from this technique may not be the most reliable means of estimating the prospective ROE. There is little doubt that the underlying market conditions in the economy have definitely not remained constant over the last 52 years. (EXH 29, Deposition p. 13; EXH 32, Deposition pp. 44-45)

Witness Mark A. Cicchetti, testifying on behalf of the OPC, employed two capital market pricing models in arriving at his estimate of an ROE for Centel. Based upon the results of these two methodologies, he recommends an ROE of 12.15%. (TR 646)

Witness Cicchetti first applied a DCF analysis on the RBHC index. This DCF analysis, which relied upon stock price and dividend data as of June 1990, indicated an ROE for the index of 11.7%. (TR 664-668)

During his deposition, witness Cicchetti indicated that the crisis in the Middle East may have had an impact on the underlying market data he used in his original analysis. As a result, staff requested that witness Cicchetti perform another DCF analysis using updated market data and to provide this analysis as a late-filed deposition exhibit. This subsequent DCF analysis, which relied upon stock price and dividend data as of October 1990, indicated an ROE for the index of 12.11%. (EXH 29, Deposition pp. 6-8; Late-filed Deposition EXH 1)

In his rebuttal testimony, witness Vander Weide raises several concerns he had with the DCF model used by witness Cicchetti. (TR 583-585) His first concern deals with witness Cicchetti's use of an annually compounded DCF model. Witness Vander Weide argues that since the RBHCs pay dividends quarterly, a DCF model that reflects quarterly compounding must be used to accurately reflect investors' return expectations. (TR 586)

Witness Cicchetti defends his use of an annually compounded DCF model in both his direct testimony and during his deposition. He states that in Docket No. 880558-EI, the Commission expressed the opinion that the specificity obtained by recognizing the effects of compounding to determine the cost of equity for ratemaking purposes was an unnecessary refinement. Therefore, he conducted analyses using annually compounded models, the results of which, in his judgment, approximate the appropriate point at which rates should be set to meet investor return requirements. He admits that the use of models that accurately reflect the receipt and timing of cash flows provide a better estimate of the required rate of return and the appropriate return to be allowed for ratemaking purposes. However, he argues that using the results derived from a quarterly DCF model without making an effective to nominal rate of return adjustment would be inconsistent and unfair to the ratepayers. The effective to nominal rate of return adjustment recognizes the time value of money associated with the company's monthly accrual of earnings. As a result, he argues, it would be inconsistent to recognize the time value of money associated with investor's quarterly receipt of dividends, through use of a quarterly DCF model, and not recognize the time value of money associated with the company's monthly accrual of earnings, which is a function of the monthly payment of bills by ratepayers. (TR 674-675; EXH 29, Deposition pp. 43-44)

Witness Vander Weide only discussed the question of reasonableness of using an annual model when dividends are known to be received on a quarterly basis. It is witness Cicchetti's contention that use of an annually compounded DCF model produces results very similar to those produced by a quarterly compounded model with the effective to nominal rate of return adjustment. Since the results are not unreasonable and because annually compounded DCF models have long been and continue to be used in rate case proceedings, staff will not recommend that the model be disallowed in this proceeding.

Witness Vander Weide also argues that witness Cicchetti used a two-stage dividend growth rate without demonstrating why investors would expect dividend growth to change after the fourth year. (TR 586) However, witness Cicchetti does not assume that investors expect dividend growth rate to change after the fourth year. Rather, he used a two-stage dividend growth rate to take advantage of the best information he had available to him. Witness Cicchetti used the explicit dividend projections provided by Value Line for the first four years and then used long-term projections by Value Line to determine the dividend growth rate after the fourth year. So rather than use a general estimate for

the entire period, he used an explicit forecast for the near-term and then used a general estimate for only the period he did not have an explicit forecast. (TR 665-666)

Witness Vander Weide further argues that witness Cicchetti's use of the earnings retention method (b x r approach) for estimating the growth rate after the fourth year is logically invalid. He contends that it is logically inconsistent for witness Cicchetti to recommend an ROE of 12.15% when he used the average of the Value Line future expected ROE projections for the RBHCs of 16.86% in the determination of his growth rate for his DCF analysis. (TR 587-589)

However, witness Vander Weide fails to mention that the sustainable growth rate used by witness Cicchetti of 6.53% is not significantly different from the average earnings growth rate he used of 6.85%. The difference between witness Cicchetti's growth rate and the rate used by witness Vander Weide can be explained as the difference between using a sustainable growth rate and an expected earnings growth rate.

Witness Vander Weide also questions witness Cicchetti's use of a 3% allowance for the recovery of flotation costs. Witness Vander Weide cites two articles which he states support a flotation cost adjustment of 4% to 5%. He also argues that a 2% to 3% allowance is necessary to compensate for the effects of market pressure. Taken together, he claims these articles support a 6% to 8% allowance for flotation costs and market pressure. Therefore, he believes the allowance for flotation costs and market pressure he used in his DCF analysis of 5% is a conservative estimate and argues that the flotation cost adjustment of 3% used by witness Cicchetti is insufficient to allow the company to recover the costs associated with issuing equity securities. (TR 570-571, 590-591)

Witness Cicchetti also cites two articles to support his flotation cost adjustment. These articles, both published in one of the same periodicals witness Vander Weide cites, support a flotation cost adjustment of 3% to 4%. Furthermore, he argues that an adjustment for market pressure is not necessary or appropriate. Through the use of shelf registration, he contends it is no longer necessary for companies to go to the market with large security issuances and possibly oversupplying the market. The companies have the ability to look for windows of opportunity and can avoid any large price swings associated with large security offerings. Therefore, witness Cicchetti believes that a 3% adjustment is adequate for the recovery of flotation costs. (TR 666-668; EXH 29, Deposition pp. 9-10, 35-36)

Witness Vander Weide's final concern regarding witness Cicchetti's DCF analysis deals with witness Cicchetti's failure to recognize a condition which witness Vander Weide refers to as the "cellular phenomenon." As discussed earlier in the summary of witness Vander Weide's testimony, he argues that the current stock prices of the RBHCs are inflated by investors' valuation of the companies' cellular operations. However, he contends that cellular earnings are currently such a small part of the RBHC's total earnings that these earnings have little effect on the RBHC's earnings growth rates over the next five years. By not making an adjustment for this phenomenon, he argues that witness Cicchetti's DCF analysis underestimates the RBHC's cost of equity capital by an unmeasurable amount. (TR 591-592)

Witness Cicchetti states that cellular operations represent a relatively small percentage of the earnings and assets of the RBHCs. Therefore, he contends that an adjustment is not required. Moreover, he states that if he were to recommend an adjustment to account for cellular operations, it would be an adjustment to reflect the fact that the cost of equity associated with the cellular operations is greater than the cost of equity for the RBHCs in general due to the greater degree of risk associated with cellular operations. Witness Cicchetti did not adjust his DCF results to account for cellular operations because he believes it is not required. Furthermore, he contends that the adjustment recommended by witness Vander Weide overstates the required cost of equity for the RBHCs. (EXH 29, Deposition pp. 13-14) As discussed earlier in the analysis of witness Vander Weide's testimony, staff does not believe witness Vander Weide has provided conclusive evidence to warrant an adjustment for the "cellular phenomenon."

Witness Vander Weide also had three concerns regarding witness Cicchetti's RP analysis. (TR 593) Witness Cicchetti performed a RP analysis on the Moody's gas index as a proxy for the RBHC index. He relied on a proxy for the RBHC index because the RBHCs have only been in existence since 1984. In his opinion, there is insufficient data to do a valid RP study of the RBHCs. (TR 663, 669-670)

Witness Vander Weide's first concern with witness Cicchetti's RP analysis is the DCF methodology he used to estimate the expected monthly ROE for the Moody's gas index. He argues that witness Cicchetti's DCF estimate of the ROE for the Moody's gas index suffers from all the "failures" of his DCF estimate of the ROE for the RBHCs. (TR 593) Staff has already addressed the concerns witness Vander Weide raises regarding witness Cicchetti's DCF model earlier in the analysis of witness

Cicchetti's DCF analysis of the RBHCs. While he does raise some valid points, he does not provide sufficient nor conclusive evidence to compel staff to reject witness Cicchetti's DCF results.

Witness Vander Weide's next concern with witness Cicchetti's RP analysis deals with the use of the Blue Chip consensus forecast of the long-term Treasury bond yield as a proxy for the risk-free rate. He argues that it is inconsistent to add the Blue Chip forecast of future Treasury bond yields to the risk premium when the risk premium itself is calculated using current bond yields. Furthermore, he contends that since bond markets tend to be efficient, the current bond yield is a better predictor of future bond yields than the Blue Chip forecast. (TR 595)

Since the intention of this proceeding is to set a utility's rates going into the future, the cost of equity witnesses in this proceeding have attempted to estimate a prospective ROE. To this end, both witnesses have used analysts' forecasts of future growth rates in their respective DCF analyses. (TR 567, 666) In support of his use of expectational growth rates in his DCF analysis, witness Vander Weide contends that several empirical studies provide overwhelming evidence that consensus analysts' forecasts of future growth rates are superior to historically-oriented growth measures in predicting a firm's stock price. (TR 569) Since the Blue Chip Financial Forecasts is a publication that provides interest rate forecasts from fifty leading financial forecasters, this same logic should apply. By applying his risk premium measure to the Blue Chip forecast, witness Cicchetti has derived a prospective RP estimate of the ROE for the Moody's gas index. Witness Vander Weide did not provide any evidence which would indicate that the Blue Chip forecast is an unreliable estimate of the expected long-term Treasury yield. Therefore, staff discounts this objection to witness Cicchetti's RP analysis.

Witness Vander Weide's final concern with witness Cicchetti's deals with his use of the Moody's gas index as a proxy for the RBHC index. He argues that witness Cicchetti employed an inconsistent risk methodology in arriving at his conclusion that the companies in the Moody's gas index are comparable in risk with the companies in the RBHC index. Since the average Beta of the Moody's gas index is .71, while the average Beta of the RBHC index is .94, he contends that witness Cicchetti should have concluded that the companies in the Moody's gas index are significantly less risky than the companies in the RBHC index. (TR 593-594)

Witness Cicchetti argues that the Moody's gas index and the RBHC index are of comparable risk. He contends that although the Moody's gas index has a lower average Beta than the RBHC index, the Moody's gas index has a less attractive average Value Line safety ranking and a higher average debt ratio than the RBHC index. In his judgment, these factors offset each other. (TR 671)

Staff finds it interesting that although witness Vander Weide argues that the RBHC index, with an average Beta of .94, is more risky than the Moody's index, with an average Beta of .71; he contends that his industrial index, with an average Beta of 1.14, is of comparable risk with the RBHCs. Furthermore, when asked in deposition regarding his industrial index if he considered companies with a higher Beta to be more risky, witness Vander Weide responded, no. (EXH 32, Deposition pp. 35-36) Therefore, due to the apparent inconsistency of witness Vander Weide's claims, staff finds no basis for this final objection raised by witness Vander Weide.

CONCLUSION AND RECOMMENDATION

Two cost of equity experts presented testimony on the appropriate ROE for Centel. Witness Vander Weide, testifying on behalf of Centel, recommends an ROE of 14.5%. Witness Cicchetti, testifying on behalf of the OPC, recommends an ROE of 12.15%. By stipulation of all parties, there was no cross-examination of the witnesses. The direct and rebuttal testimonies of the witnesses, the schedules attached to the testimonies, certain late-filed exhibits, the company's responses to staff's interrogatories, and the witnesses' depositions were inserted into the record as though read.

Staff reviewed the models used, the assumptions made, and the results tendered by the witnesses. For several reasons, staff discounted the results obtained by witness Vander Weide's RP studies. The primary reasons for not accepting the results of this analysis are its reliance on negative earned risk premiums, a question of relevancy of risk premiums calculated over such a long period of time to the determination of a prospective ROE, and a concern about the movement of interest rates between the time testimony was prepared and the date of the final decision in this proceeding. Staff did agree with witness Cicchetti's method of calculating the expected risk premium. However, staff concludes that during periods which experience significant movements in interest rates, the RP approach may not be the most reliable estimator of the prospective ROE. Therefore, staff discounts the results from witness Cicchetti's RP study as well.

Both witnesses performed DCF analyses of the RBHCs. Witness Vander Weide also performed a DCF analysis of a group of large, unregulated industrial companies. Despite witness Vander Weide's arguments to the contrary, staff believes that this latter group is not a reasonable proxy for Centel and believes the results from this DCF analysis do not provide a reasonable estimate of the expected ROE of Centel. Therefore, staff discounts the results obtained from the DCF analysis of the industrial companies.

Witness Vander Weide used a quarterly compounded DCF model and relied on an earnings growth rate as a proxy for the expected dividend growth rate. His DCF analysis, based on stock price and dividend data from March 1990, produced a DCF estimate of 12.56%.

Witness Cicchetti used an annually compounded DCF model and relied on explicit dividend forecasts and the sustainable growth method to estimate the expected dividend growth rate. His DCF analysis, based on stock price and dividend data from October 1990, produced a DCF estimate of 12.11%. This represents a 41 basis point increase in the expected ROE over the initial 11.7% estimate. Witness Vander Weide did not update his DCF analyses during his rebuttal testimony or through late-filed exhibits. The late-filed deposition exhibit tendered by witness Cicchetti indicates that the expected ROE for the RBHCs increased from 11.7% in July to 12.11% in October. If it is assumed that the change in market conditions had the same impact on witness Vander Weide's DCF analysis as it did on witness Cicchetti's DCF analysis, it would be reasonable then for staff to make a 41 basis point adjustment to the DCF results of witness Vander Weide. By operation of math, this would indicate a DCF estimate of the expected ROE of 12.97%.

Based upon the DCF analyses of the witnesses after these adjustments, staff believes the expected ROE for the RBHCs is within the range of 12.11% and 12.97%. However, witness Cicchetti argues that Centel is subject to slightly greater business risk compared with the companies in the RBHC index and therefore should be allowed a slightly higher ROE. He recommends that the average yield differential between double A minus utility bonds and single A plus utility bonds over the last 60 months of 10 basis points would compensate Centel for the greater risk. Since the average bond rating for the RBHC index appears closer to a double A rating than to a double A minus rating, staff believes the average spread should be greater. The average spread between double A rated utility bonds and single A plus rated utility bonds has been 18 basis points over the last 60 months. By operation of math, the range for the expected ROE for

Centel becomes 12.29% to 13.15%. The midpoint of this range indicates an ROE of 12.72%.

Based upon the evidence in the record and a detailed review of the cost of common equity capital methodologies presented, staff determined that the cost of common equity capital for Centel falls within the range of 12.3% to 13.15%. Since a point estimate of the cost of equity capital must be used to set rates, staff recommends the midpoint of this range of 12.7% (rounded) be used for ratemaking purposes. This implies a top of the allowed ROE range for Centel of 13.7%, a bottom of the allowed ROE range of 11.7%, and that rates be set using the midpoint of 12.7%.

allowed actual C.S.

ISSUE 13a: Is Centel's proposed capital structure reasonable and prudent?

RECOMMENDATION: Centel's proposed capital structure, which consists of 62% equity and 38% debt as a percentage of investor-supplied capital, appears very conservative for a "low risk" local exchange company when compared to the much riskier parent company's capital structure which consists of 44% equity and 56% debt. Therefore, staff recommends that Centel's capital structure be adjusted for ratemaking purposes to reflect an equity ratio of 57% of investor-supplied capital.

POSITION OF PARTIES

CENTEL: Yes. The Company's proposed capital structure is reasonable and prudent.

OPC: No. Centel's equity ratio should be adjusted (for ratemaking purposes only) to 57% of investor capital.

AT&T-C, DGS, FPTA & McCAW: No position.

STAFF ANALYSIS: Witness Cicchetti, testifying on behalf of the OPC, concludes that Centel's capital structure is not prudent and reasonable for a "low risk" local exchange company (LEC) and results in a cost of capital which is above what is required to cover the cost of providing utility service. To ensure that only the fair and reasonable cost of providing local exchange service is passed on to the ratepayers, he recommends that the equity ratio be adjusted from 62.4% to 57.0% of investor-supplied capital for ratemaking purposes. (TR 657, 661; EXH 29, pp. 24, 29)

Witness Cicchetti cites several reasons for why he believes Centel's equity ratio should be reduced for ratemaking purposes. First, he notes that Centel's equity ratio of 62.4% as a percentage of investor-supplied capital is significantly above the guideline inherent in Standard & Poors (S&P) financial benchmark for a single A-rated, "low risk" LEC. The S&P benchmark for a "low risk," single A-rated LEC calls for an equity ratio in the range of 43% to 55%. (TR 658; EXH 30, p. 50)

Second, witness Cicchetti points out that due to the significant degree of financial leverage employed by Centel Corp. to finance Centel Capital Corporation and Centel Cellular, it appears evident that Centel Corp. is relying on the LECs to support the substantial debt which was incurred to fund its significant diversification into non-regulated operations. This

concern is expressed in the June 4, 1990 issue of S&P Creditweek:

> "Central Telephone Co. of Florida's ratings reflect strong measures of financial and operating support for credit, which are somewhat offset by the aggressive financial policy and relatively high business risk of Centel Corp. . . . The company's customer base is heavily residential, limiting bypass exposure. Aggressive plant modernization has resulted in a highly efficient network and reduced operating costs, further limiting the potential for effective competition. Efficient operations and a conservative capital structure have yielded high levels of earnings and cash flow protection for debtholders in a generally progressive regulatory environment. Central of Florida creditors should continue to benefit from the company's operating and financial strengths. However, Centel Corp. has taken on a significant debt burden to fund diversification efforts, but has yet to develop material sources of parent credit support outside of the telephone units. The degree of potential parent company reliance on the telephone units for financial support remains a concern. (TR 658-659; EXH 30, p.20) [Emphasis added]

Third, witness Cicchetti points out that by having the costs associated with maintaining unnecessarily high equity ratios at the telephone company level passed on to the ratepayers, Centel Corp. increases the cost of capital above what is required to provide utility service. (TR 659)

Fourth, witness Cicchetti conducted an analysis which shows that the variability of operating income for the cellular and other non-regulated operations is substantially greater than the variability in operating income of the telephone operations. As indicated earlier, cellular and the other non-regulated operations are financed by Centel Corp. with significantly more debt than equity relative to the capitalization of the telephone operations. This is contrary to generally accepted financial theory which contends that companies subject to more business risk or that have greater earnings variability should be capitalized with more equity and less debt compared to companies subject to less business risk or that have less earnings variability. (TR 660)

Finally, witness Cicchetti compares the equity ratio of Southern Bell, described by S&P as a "high risk" LEC with an equity ratio of 61% of investor-supplied capital and a triple A

bond rating, to Centel, described by S&P as a "low risk" LEC with an equity ratio of 62% of investor-supplied capital and a single A bond rating. He points out that the difference between the bond ratings may be attributed to the fact that the equity ratio of BellSouth is greater than the equity ratio of its telephone units while the equity ratio of Centel Corp. is significantly less than the equity ratio of its telephone units. (TR 660-661)

For the reasons just mentioned, witness Cicchetti recommends that the Commission adjust Centel's equity ratio, for ratemaking purposes, to ensure that ratepayers only pay the reasonable and prudent costs associated with the provision of local exchange service. He contends that such an adjustment would alleviate concerns regarding financial cross subsidization through the cost of capital. Furthermore, as pointed out in the OPC's brief, the 57% equity ratio recommended by witness Cicchetti is conservative and at the same time reasonable in light of Centel's stipulated 55% equity ratio that was a product of the 1987 stipulation agreement between Centel and the OPC which the Commission accepted in Order No. 17783. (TR 661)

Witness Claerhout, testifying on behalf of Centel, concludes that Centel's capital structure is prudent from both an investor and a ratepayer perspective. He cites three reasons to support his recommendation that Centel's actual capital structure is reasonable and should be used for ratemaking purposes. (TR 606, 612)

First, witness Claerhout points out that Centel's equity ratio of 62.4% as a percentage of investor-supplied capital is comparable with the equity ratios of other LECs. On December 31, 1989, the average equity ratio of the 21 Regional Bell Operating Companies (RBOCs) was 59.9%. Individually, the RBOCs had equity ratios which ranged from 56.3% to 65.6%. (TR 612-613)

The fact that other LECs have high equity ratios is not valid evidence that Centel's equity ratio is prudent. S&P characterizes Centel as a "low risk" LEC. Many of the RBOCs are characterized by S&P as "high risk" LECs. Therefore, while other companies with less attractive risk-return profiles compared with Centel and which operate in different regulatory jurisdictions may have high equity ratios, this does not necessarily mean Centel's equity ratio is prudent for its risk-return profile or that this level of equity is actually necessary for the provision of utility service.

Second, witness Claerhout explains that Centel's bond ratings are sound but not excessively high. Although he admits

that bond ratings at the highest levels could indicate that a company has too much equity in its capital structure, he contends that this is not the case for Centel. He points out that the bond ratings of Centel, despite the company's higher than average equity ratio, are not as high as the ratings could be if Centel further increased its equity ratio. He contends this is reflected in the fact that Centel's bond ratings are in the single to double A range while almost all the RBOCs have bond ratings in the double to triple A range. (TR 612, 614)

The S&P benchmark equity ratio range for a "low risk," single A-rated LEC is 43% to 55%. The bottom of the S&P equity ratio range for a "low risk," double A-rated LEC is 53%. Centel's equity ratio of 62.4% is well within the range for a double A-rated company and is above the top of the range for a single A-rated company. It is obvious that financial benchmarks other than the equity ratio are responsible for the relative bond rating of Centel. Therefore, the fact that other LECs may have similar equity ratios but higher bond ratings does not constitute justification for Centel's equity ratio.

Finally, witness Claerhout contends that Centel is exposed to a significant level of business risk in the form of increased competition. He argues that the capital structure is appropriate in light of the degree of business risk faced by Centel. (TR 612-613, 615-617)

This argument is contradicted by the passage presented earlier from the June 4, 1990 issue of the S&P Creditweek which indicates that Centel is somewhat insulated from effective competition due to its heavily residential customer base and its highly efficient network. When asked during deposition about S&P's comments regarding Centel, witness Claerhout responded that he does not believe that S&P carries as high a level of prestige with respect to the telecommunications industry as it does overall and that he believes its reputation has been tainted somewhat by the actions it took with respect to Centel and some other companies in 1988. (EXH 31, Deposition pp. 13-15)

Both witnesses Cicchetti and Claerhout agree that Centel's cost of equity as determined by the Commission should reflect only the cost of providing utility service. Both witnesses also agree that the required ROE is the minimum return required to attract capital to an investment. However, they disagree on the appropriate capital structure to use for ratemaking purposes. (EXH 29, pp. 3-4; EXH 31, pp. 3-4)

In his rebuttal testimony, witness Claerhout argues against

four of the five reasons witness Cicchetti cites for adjusting Centel's equity ratio. Witness Claerhout contends that the evidence presented by witness Cicchetti to substantiate his recommendation to adjust the equity ratio is irrelevant, incomplete and unsupportive. (TR 622-633)

First, witness Claerhout points out that a bond rating does not determine a company's equity ratio. The converse is true. The equity ratio is one of several factors which the bond rating agencies use in determining a company's bond rating. Therefore, he argues that comparisons of Centel's equity ratio relative to its bond rating with the S&P benchmark or with the equity ratio and bond rating of Southern Bell is irrelevant. (TR 624, 633)

Staff finds it interesting that witness Claerhout argues that comparisons between Centel's equity ratio relative to its bond rating with the S&P benchmark or Southern Bell as cited in witness Cicchetti's testimony is irrelevant but his comparison of Centel's equity ratio relative to its bond rating with the RBOCs supports his contention that Centel's equity ratio is prudent. As stated earlier, staff believes the fact that other LECs with less attractive risk-return profiles compared with Centel may have high equity ratios does not constitute evidence that Centel's equity ratio is prudent for its risk-return profile or necessary for the provision of utility service.

Second, witness Claerhout argues that, just like any other owner of the common stock of a LEC or other investment, Centel Corp. is entitled to earn a return on its investment. He contends that such return, as long as it is reasonable and the LEC meets its franchise obligations, can be deployed by the common equity holder in any way it deems appropriate. This can include making investments in non-regulated businesses and making payments on debt incurred to finance those investments. Therefore, he argues that the fact that Centel Corp. uses the normal investment return from its investments in its local exchange companies for activities not related to utility business is irrelevant. (TR 627-628)

Witness Claerhout's rebuttal argument concerning the use of investment returns, although true in most cases when the investor and the company are otherwise financially independent, does not fully apply to Centel Corp. As pointed out in the passage from the June 4, 1990 S&P Creditweek, the manner in which Centel Corp. finances its non-regulated investments does have an adverse affect on the bond rating agency's opinion of its telephone units. Witness Cicchetti does not recommend that Centel Corp. be precluded from spending its investment returns. However, despite

witness Claerhout's arguments to the contrary, witness Cicchetti and S&P raise a valid concern that Centel Corp.'s decision to finance its more risky non-regulated operations with significantly more debt and less equity relative to the capitalization of its less risky telephone units may be increasing the cost of capital of its telephone units above what is required to provide local exchange service. (TR 627-628, 658-659; EXH 29, pp. 27-29; EXH 30, p. 20)

In his final rebuttal argument concerning witness Cicchetti's testimony, witness Claerhout points out that witness Cicchetti did not provide any objective evidence in support of his contention that Centel's actual capital structure would produce a higher cost of capital than the hypothetical capital structure he recommends. During his deposition, witness Cicchetti admitted that he did not perform or rely upon any study or studies in reaching his conclusion. (TR 631-632; EXH 29, pp. 29-30)

Witness Claerhout did not address witness Cicchetti's contention that Centel Corp. violated generally accepted financial theory with its decision to capitalize the less risky telephone unit with a significantly higher equity ratio than the equity ratio of the more risky consolidated system of which it is a member. During his deposition, witness Claerhout admitted that generally accepted financial theory maintains that companies with greater business risk should be capitalized with more equity than companies subject to less business risk. However, he contends this principle only holds true when stock prices are fairly valued. Because the management of Centel Corp. believes that the company's stock has been and continues to be under valued by the capital markets, he implied that this principle does not apply to the financing decisions of Centel Corp. (TR 622-624; EXH 31, pp. 11-13)

Staff recognizes that the relative level of equity in the capital structure of Centel of 62% is very conservative compared with the level maintained by its more risky parent, Centel Corp., of 44%. Witness Cicchetti has made some very compelling arguments that the Centel level of equity is manipulated by Centel Corp. not to produce a lower cost of capital for Centel but rather to produce higher earnings and increased cash flow. (TR 657-661) Furthermore, witness Claerhout admitted during his deposition that Centel Corp. determines the equity ratio of its telephone units and depends on the telephone units for at least 90% of its income. This would indicate that Centel Corp. has a significant vested interest in maximizing the revenues of its telephone units and has the discretion to influence the

subsidiary capital structures to meet this goal. (EXH 31, pp. 16-17)

As discussed in Issue 12, both cost of equity capital witnesses used market pricing models to derive their respective estimates of an ROE for Centel. Staff relied on this testimony to determine that the ROE for Centel falls within the range of 12.3% to 13.15%. Since the ROE recommended in Issue 12 is based upon market pricing models and investor perceptions of relative risk, the ROE recommendation and the level of equity in the capital structure are inextricably related. However, the Commission should also recognize that the determination of the particular level of equity necessary for the provision of utility service as well as the determination of a point estimate of the ROE both require a certain degree of subjective judgment.

The Commission has the authority to use a hypothetical capital structure for ratemaking purposes if it believes the actual capital structure is not reasonable and prudent for a regulated utility. Such a situation could exist if the Commission believes the level of equity capital maintained by the company is above a level the Commission deems is reasonable for the provision of utility service. Both cost of equity capital witnesses performed DCF analyses on the seven RBHCs. The equity ratios of the RBHCs range from 54.0% to 62.0%, with an average equity ratios of 58.6%. Just as the Commission has the discretion to choose an allowed ROE within the range indicated by the witnesses models, it also has the discretion to choose an equity ratio within the range maintained by the comparable-risk telephone companies in the index upon which the models are applied. In other words, an allowed ROE within the range of 12.3% to 13.15% would be appropriate for a "low risk" LEC with an equity ratio between 54% and 62% of investor-supplied capital.

S&P characterizes Centel as a "low risk," single A plus rated LEC. The S&P benchmark for a "low risk," single A rated LEC calls for an equity ratio within the range of 43% to 55%. The S&P benchmark for a "low risk," double A rated LEC calls for an equity ratio above 53%. Therefore, staff's recommendation of an equity ratio of 57% of investor-supplied capital for ratemaking purposes is still above the top of the range for a single A rated LEC and is well within the range for a double A rated LEC. Furthermore, as pointed out in the OPC's brief, the 57% equity ratio is conservative and at the same time reasonable in light of Centel's stipulated equity ratio of 55% that was a product of the 1987 stipulation agreement between Centel and the OPC which the Commission accepted in Order No. 17783.

Therefore, to alleviate concerns regarding financial cross subsidization through the cost of capital and to ensure that only the fair and reasonable cost of providing local exchange service is passed on to ratepayers, staff recommends that the equity ratio be adjusted from 62.4% to 57.0% of investor-supplied capital for ratemaking purposes.

ISSUE 13: What is the weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure for the test year 1991?

RECOMMENDATION: The weighted average cost of capital is ~~8.88%~~. 9.16%

POSITION OF PARTIES

CENTEL: The weighted average cost of capital is 9.92%.

OPC: The weighted average cost of capital is 8.67%. (The weighted average cost of capital would be 8.71% if deferred taxes are removed from the capital structure pursuant to Issue 7a.)

AT&T-C, DGS, FPTA & McCAW: No position.

STAFF ANALYSIS: Based upon the proper components, amounts, and cost rates associated with the capital structure for the test year ending December 31, 1991, staff concludes that the weighted average cost of capital is 8.88%. Attachment 1, Schedule 4 details staff's recommendation.

The company per book amounts were taken directly from Centel's MFR filing. These amounts reflect the total company operations of Central Telephone Company of Florida. The test year adjustments represent the specific adjustments staff made to the per book amounts. Staff made specific adjustments to reduce plant in service (Issue 2), to increase the depreciation reserve (Issue 3), to reduce directory receivables (Issue 7b), to reduce unamortized rate case expense (Issue 7c), to reflect the proper amortization adjustment (Issue 7d), to remove non-regulated investments, and to account for taxes related to non-regulated operations.

All specific adjustments are discussed in the referenced issues with the exception of the adjustments to remove non-regulated investments solely from equity. The equal access adjustment was recommended by the company in its MFR filing and agreed to by staff. The company specifically identified the proper amounts of deferred taxes and investment tax credits (ITCs) associated with the specific adjustments. Staff discusses the treatment of deferred taxes and ITCs in Issues 9 and 10, respectively. The net amount of each adjustment, after accounting for deferred taxes and ITCs, was applied pro rata over the remaining sources of capital.

The non-regulated investments adjustments are made consistent with the Commission practice of removing non-regulated

investments solely from equity as pointed out by witness Samuelson. (TR 1081-1083) This practice has been followed for two reasons. The first reason is the basic principle that the cost of capital allowed for ratemaking purposes should be the cost of capital associated with the provision of utility service. The second reason relates to the signals and incentives sent to the companies. This practice is supported by past Commission action as reflected in Commission Order No. 22352 from the General Telephone Company of Florida case. Specifically, the Order states:

> "We agree further with staff's witness that non-regulated investments should be removed directly from equity. In our opinion, utilities are of relatively low risk and have correspondingly lower costs of capital. There are very few investments a utility can make that are of lower or equal risk. As a result, non-regulated investments will almost certainly increase a utility's cost of capital. The company's witness indicated that GTEFL's non-regulated investments are riskier but argued that, even though there is a higher cost of capital associated with higher risk investments, the pro rata removal of GTEFL's unregulated investment is appropriate. This argument contradicts generally accepted financial theory and accordingly is rejected. We conclude that removing non-regulated investments directly from equity recognizes their higher risks, prevents cost of capital cross-subsidies, and sends a clear signal to utilities that ratepayers will not subsidize non-utility related costs."

Therefore, staff concludes that Centel's non-regulated investments should be removed solely from common equity to protect ratepayers against financial cross-subsidization and to ensure that ratepayers are charged only for the cost of capital associated with the provision of utility service.

After all specific adjustments were made, staff applied the appropriate jurisdictional separation factors to the respective capital structure components to determine the intrastate capital structure. At this point, the investor-supplied sources of capital were then adjusted to reflect an equity ratio of 57% of investor capital. This adjustment is discussed in Issue 13a. The resulting jurisdictional capital structure was used for ratemaking purposes.

Staff agreed with and used the respective cost rates

supplied by Centel with one exception. Staff used the ROE recommended in Issue 12 of 12.70% instead of the ROE recommended by Centel of 14.50% or the ROE recommended by the OPC of 12.15%. The determination of the ROE for Centel is discussed in Issue 12. Attachment 1, Schedule 4 shows the components, amounts, cost rates, and weighted average cost of capital associated with the projected test year capital structure.

ISSUE 29: What services, if any, which Centel treats as non-regulated should be considered as regulated services?

RECOMMENDATION: Although staff is recommending no dollar adjustment for the test year, the revenues and expenses associated with the marketing and selling of AT&T-C services should be recorded above-the-line in the future.

POSITION OF PARTIES

CENTEL: None of the services which Centel treats as non-regulated should be considered regulated services.

AT&T-C, DGS, FPTA, McCAW & OPC: No position.

STAFF ANALYSIS: Prior to the AT&T-C divestiture in 1984, Centel was recording the associated revenues and expenses from marketing and selling AT&T-C services such as Reach-Out and credit card services above-the-line. Without any prior Commission approval, Centel has been recording the revenues and expenses below-the-line since divestiture. (Cross TR 1127 - 1129) Staff believes that the associated revenues and expenses should continue to be recorded above-the-line as they were prior to divestiture.

Late-Filed Exhibit 93 from the hearing states that Centel is projecting revenues of $97,000 based on the AT&T-C marketing agreement and expenses of $178,304 based on the expenses and non-regulated allocations in the MFR budget. This would result in a net loss of $81,304 from this service. Based on these numbers that were provided by the Company, it is difficult for the staff to believe that the Company is continually engaged in a competitive service that is putting them in a net loss situation. Staff believes that Centel needs to reevaluate the status of this service.

It is appropriate to record the associated revenues and expenses from marketing and selling AT&T-C services above-the-line; however, the projected net loss of $81,304 for the test year should not be included in the regulated revenue calculation for this proceeding. Staff believes that this service will either be discontinued or be in a profitable status.

The treatment of Voice Mailbox service will be discussed in Issue 90.

ISSUE 15a: Should Centel discontinue debiting local revenues and credit interstate revenues for the difference between Centrex trunk equivalency charge and the per line subscriber line charge? If not, what is the adjustment to test year local revenues?

RECOMMENDATION: No. Centel should continue debiting local revenues and crediting interstate revenues for the difference between the Centrex trunk equivalency charge and the per line subscriber line charge. The correct amount to be charged to intrastate revenues should be $1,768,062 instead of $1,943,250. An adjustment should be made to increase local revenues $175,188 for the test year.

POSITION OF PARTIES

CENTEL: No. The Company should continue to debit local revenues and credit interstate revenues for the difference between Centrex trunk regulatory charges and the per line subscriber line charge. This accounting treatment is necessary to ensure that interstate revenues are reported properly.

OPC: Test year local revenues should be increased by $175,188.

AT&T-C, DGS, FPTA, & McCaw: No position.

STAFF ANALYSIS: Centel was allowed to bill the subscriber line charge portion of its interstate common line revenue requirement to Centrex customers on a trunk equivalency basis instead of billing a CALC charge for each Centrex line. (TR 515) The result is Centrex customers are billed more like PBX customers are, making the Centrex service more equitably and competitively priced in comparison with PBX service. This results in a difference between the actual interstate revenues and the interstate revenues recognized by the FCC. This Commission has permitted Centel to recover the difference in interstate revenues from other local service categories.

The FCC in Docket Nos. 84-30 and 85-26 confirmed the Company's accountability for the required $6.00 CALC per line regardless of any shortfall created by actual rates. (TR 515)

Public Counsel's (OPC) original position was that the trunk equivalency charge debit to local revenues should be discontinued and intrastate revenues increased by $1,943,250. (DeWard TR 1168) Prior to April 1, 1989 Centel was billing at a 40 cents per line rate and was required to report $6.00 per line to the National Exchange Carrier Association (NECA). On April 1, 1989, Centel withdrew from the NECA pooling agreement and no longer

reports the CALC charge. (TR 1167) Witness DeWard made an adjustment to reverse the Company journal entry and increase local service revenues. (TR 1168)

In an ongoing discussion between Centel and OPC it was determined that the debit to local intrastate revenues was proper since the Company had to continue accounting for the shortfall between the 40 cents per line and the $6.00 CALC per line charge. However, an error had been made in the model used to calculate the amount to be charged to intrastate revenues. The correct amount would be $1,768,062 instead of $1,943,250. Therefore an adjustment should be made to increase local revenues $175,188 ($1,943,250-$1,768,062) for the test year. (Bailor TR 935, 936) Staff agrees with this adjustment.

The other parties had no position.

ISSUE 15: What is the appropriate test year revenues?

RECOMMENDATION: The intrastate operating revenue amount of $109,115,375 as originally filed on MFR Schedule A-2b is adjusted by the following amounts: A) Issue 15a increases intrastate revenues by $175,188; B) Issue 95 increases intrastate revenues by $1,240,218 for the changes made to the tariff filings; and C) Issue 95 also increases intrastate revenues by $273,276 for E-911 revenues. The appropriate test year intrastate revenue is $110,804,057.

POSITION OF PARTIES

CENTEL: The appropriate amount of test year intrastate revenues is $109,290,563. Originally, the Company filed test year intrastate revenues of $109,115,375, as shown on MFR Schedule A-2b (Company method) (EXH 41, MFR Volume 8). This amount was adjusted by $175,188 to correct a computational error discussed below under Issue 15a relating to the trunk equivalency charge and was agreed to by OPC and the Company at the hearing.

OPC: The test year local revenues as filed should be increased by $382,140 to reflect the trunk equivalency charge issues and the E-911 revenues. Test year revenues are $109,494,138.

AT&T-C, DGS, FPTA & McCAW: No position.

STAFF ANALYSIS: The appropriate amount of intrastate test year revenue is $110,804,057. An increase in intrastate revenues of $1,688,682 should be made to the $109,115,375 originally filed on MFR Schedule A-2b. This adjustment is comprised of the following items: A) Issue 15a, an increase in intrastate revenue by $175,188; B) Issue 95, an increase in intrastate revenue by $1,240,218 for the changes made to the tariff filings; and C) an increase in intrastate revenue by $273,276 for E-911 revenues, also discussed in Issue 95.

As discussed in Issue 15a, staff believes that it is appropriate to increase intrastate revenue by $175,188 to correct the computational error made by the Company relating to the trunk equivalency charge. As stated in the position statements for Centel and OPC, the parties agree that this is an appropriate adjustment.

As discussed in Issue 95, an increase to intrastate revenue of $1,240,218 is recommended for all the changes made to the tariff filings. The staff and the Company detected various errors in the originally filed MFR Schedule E-1a. However, the

bottom line revenue change in Schedule E-1a has not been reflected in the accounting schedules in the MFRs from which the revenue deficiency is calculated. The calculation of $1,240,218 is as follows:

	Total Company Present Revenues
Exhibit No. 107	$155,277,055
MFR Schedule E-1a	154,149,705
Revenue Difference	$ 1,127,350
Discussed in Issue 95:	
Tariff Sec E-3&6	(558,020)
Tariff Sec E-4	658,824
Tariff Sec E-6	12,064
Total Tariff Changes	$ 1,240,218

For more detailed staff discussion, see Issue 95.

As also discussed in Issue 95, an increase to intrastate revenue of $273,276 is recommended for E-911 services for Leon and Jefferson counties as well as Leon County Data Base service. For a detailed explanation of these services, see Issue 95.

These corrections to MFR E-1a Schedule effect various jurisdictions, thus making it difficult to determine the exact jurisdictional impacts, therefore, staff proposes to allocate the entire $1,688,682 adjustment to the local service revenues.

ISSUE 22: What is the appropriate amount of rate case expense?

RECOMMENDATION: The total intrastate rate case expense of $1,451,491 should be amortized over a 4-year period, thus, the appropriate amount of intrastate rate case expense for the test year is $362,873. The appropriate working capital treatment is reflected in Issue 7c.

POSITION OF PARTIES

CENTEL: As originally filed, the total intrastate rate case expense of $1,451,491 should be amortized to cost of service over a 4-year period, and the correct amount of rate case expense in the 1991 test period is $362,873. (EXH 37, MFR Schedule WPC-2a-10) Of this total, $108,000 relates to fees paid to Arthur Andersen for designing the methodology for preparing MFRs, reviewing the MFR package, testing the reasonableness of the 1991 MFR budget assumptions, responding to discovery requests, participating in depositions and preparing and presenting testimony. This level of Arthur Andersen fees is properly includable in rate case expense and reflects reasonable levels of costs traditionally considered recoverable by the Commission. There is no evidence suggesting that the amount of the rate case expense should be made.

Arthur Andersen also performed additional services in conjunction with a comprehensive review and improvement of the system-wide budget process. These expenses are addressed separately in conjunction with Issue 23g and should not be confused with this rate case expense.

OPC: Rate case expense should be reduced by at least $75,962 to remove Arthur Anderson's fees related to an overall system-wide budget revision process.

AT&T-C, DGS, FPTA & McCAW: No position.

STAFF ANALYSIS: The appropriate amount of rate case expense for the test year is $362,873. This amount is derived from amortizing the total intrastate rate case expense of $1,451,491 shown on MFR Schedule C-20 over a 4-year period.

OPC is proposing to disallow the rate case expense associated with Arthur Andersen, $407,000. Witness DeWard for OPC states:

> "In my opinion, the Arthur Andersen fees are closely related to developing an alternative budget methodology

and should be charged to telephone operations and then allocated to each operating division. As the expense was incurred in 1990, there would not be any allocation of these charges in the 1991 MFR budget. Certainly, with all the expertise locally, in Lincoln, and in Chicago, the Company cannot justify the expenditure of $407,000 to assist in the preparation of the MFRs." (TR 1181)

Witness Bailor for Centel states:

The model they developed and the work that is done here [budget review] are two separate projects and are in no way related. (TR 1047)

Staff believes that although Arthur Andersen was retained at the same time for the two projects, the projects can be separately identified and do not appear to be duplicative. Arthur Andersen's fee reflected in the rate case expense appears to be for services such as MFR package preparation, assistance in the discovery requests and preparation for and participation in the depositions and the hearing, which differs from the system-wide budget review process that is discussed in Issue 23g. Witness DeWard also argues that the rate case preparation performed by Arthur Andersen could have been conducted by the company personnel. Although staff agrees with OPC to a certain degree, staff also recognizes that the preparation of the entire rate case by the company personnel would not have been feasible due to lack of expertise and manpower. (Bailor TR 831)

A portion of the rate case expense relates to the filing of the incentive regulation plan. Staff believes that when a company files for a rate case that includes some type of regulatory incentive plan, the rate case expense associated with the plan should be segregated from the traditional test year rate case expense. In this case, the expenses were not separated. In the future, this would allow the Commission more flexibility in treating the rate case expense vs. the expense associated with the plan.

ISSUE 23c: Should Centel's method of accounting for postretirement benefits be approved?

RECOMMENDATION: Yes, there should not be an adjustment for other postretirement benefits.

Centel: Yes. While Public Counsel correctly notes that the effective date for the proposed fasb pronouncement on postretirement benefits has been delayed until fiscal years beginning after December 15, 1992, Public Counsel has failed to recognize that early adoption of the pronouncement is encouraged. Further, whether or not the exposure draft becomes effective now or in 1992, the FASB concluded as far back as 1982 that postretirement benefits should be accounted for using the accrual method of accounting. The Company's proposed accounting treatment for postretirement benefits is consistent with the intent of the FASB and sound ratemaking practices. The Citizens' proposed adjustments for postretirement benefits should be rejected.

OPC: Centel has assumed the FASB exposure draft on postretirements benefits to be effective in 1991. The current exposure draft has been delayed until years beginning after December 15, 1992. Test year expense should be reduced by $978,050.

AT&T-C, DGS, FPTA & McCAW: No position.

STAFF ANALYSIS: Centel has included an expense for other postretirement benefits in its test year based upon the criteria established in the exposure draft on accounting for other postretirement benefits released by the Financial Accounting Standards Board. (TR 815-816) Centel offers postretirement medical and life insurance benefits. (TR 815) Centel believes that the most appropriate time to implement the provisions of the exposure draft is concurrent with the effective date of the new rates. (TR 816) (Staff notes that since the hearing for this case, the exposure draft has become a final standard--Statement of Financial Accounting Standard 106.)

Witness Bailor on behalf of Centel testified that Centel began recognizing the liability associated with other postretirement benefits from prior years in 1985 by amortizing it over a thirty year period. Use of the exposure draft changes Centel's method of accruing other postretirement costs in three ways: 1) Past service cost is amortized over 20 years. (TR 825) 2) Interest will accrue on the entire obligation. 3) The other postretirement liability must be recognized by each employee's

eligibility date. (TR 816-817) Centel's total liability for its Florida operations is approximately $14 million for medical and $3.2 million for life insurance postretirement benefits. (TR 949)

Witness DeWard on behalf of OPC testified that the current implementation date of the exposure draft is not until years beginning after December 15, 1992. (TR 1172) As summarized in its brief, "The Citizens' objection is essentially that the company's proposed ratemaking treatment is premature." (TR 23) OPC states that the main advantage for early implementation is higher revenue requirements, while there are several disadvantages to early implementation. At the time of the hearing, the pronouncement was not final and OPC points out that it was subject to change. (TR 824-825) The OPC states that one advantage to delaying implementation is the possibility exists that additional funding options will become available through legislative action or found through research of existing funding options. (EXH 67, p. 2)

As discussed by Witness Bailor, the early adoption of the exposure draft before 1993 is strongly encouraged. (TR 823) Staff believes that the liability associated with other postretirement benefits has been quantified. No one has argued that the amount is inappropriate or incorrect. The area of disagreement has focused on the starting point for the recognition of the liability for the other postretirement benefits. Staff believes that if the liability has been quantified, it should be recognized in the ratemaking process as soon as possible. Delaying implementation of the exposure draft does not appear to accomplish any goal. OPC's most compelling argument to Staff was the concept of finding additional funding vehicles in the next two years. While this may be accomplished, the evidence in this case suggests that it is speculative. In addition, the interests of the ratepayers are protected through the recognition of the accumulated other postretirement benefits as a reduction to rate base.

Staff recommends that Centel be allowed to recognize the expense associated with other postretirement benefits under the provisions of the exposure draft. This is with the understanding that there will be early adoption of the exposure draft (now Statement of Financial Accounting Standard 106) in 1991.

ISSUE 23d: Should the accrued bonuses proposed by Centel be allowed as a test year expense?

RECOMMENDATION: No. Test year intrastate expense should be reduced by $1,050,327.

POSITION OF PARTIES

CENTEL: The accrued bonuses or short-term incentives proposed by the Company are part of the Company's carefully tailored, market-based employee compensation program. (TR 991) The Company's short-term incentives, taken in the context of the Company's overall compensation package and expenses, are reasonable, prudent and necessary. The Commission has allowed recovery of similar at-risk compensation costs in a previous case. See Docket No. 891345-EI.

The Company has structured its compensation program so that an employee's combined base salary and target short-term, incentive equal the externally competitive compensation level for that employee's position. The target level of compensation for each position is market-based. An employee expects to receive, and the Company expects to pay, this combined compensation amount. (TR 984) The purpose of the short-term incentive is not to provide recognition-type awards to only certain employees, but, rather, is to place a portion of its management employee expected compensation at risk. This risk component is earned when predetermined individual, business unit and corporate performance goals are met. (TR 851) The use of short-term incentives provides employees opportunities to earn more or less than their target, but this opportunity is related to certain risks in terms of performance.

As pointed out during OPC's cross-examination of Mr. Bailor, 75% of the individual target performance goal is related to cash flow. (TR 991-996) Since the factors that improve cash flow (higher revenues, lower expenses and greater productivity) clearly promote the interests of ratepayers, setting performance levels based on cash flow is reasonable and consistent with sound ratemaking policy. Placing 25% of an employee's compensation at risk for meeting individual performance goals also promotes the interest of ratepayers. Personal goals relate to safety, service, and other personal objectives, not just financial objectives. Placing a portion of the employee's compensation at risk in this manner provides a real motivation and contributes to the high-level of service quality delivered to the Company's customers. For these reasons, the Commission should embrace, not reject, incentive compensation programs of this kind.

Public Counsel's proposal to disallow the short-term incentive compensation is based on a fundamental misunderstanding of the nature of these short-term incentives. As pointed out in the testimony of Witness Dinneen, these short-term incentives are not something given to employees in addition to what is due. (TR 850) Indeed, this short-term incentive compensation is an integral part of the Company's target compensation package which is market driven. (TR 850, 991) In fact, 96% of comparable companies structure their compensation programs to include short-term compensation incentives. (TR 993)

To understand the Company's program, it is helpful to review how this program works in the case of a single employee. Assume that based on the relevant labor market, the appropriate compensation for a manager is $25,000 per year. Under the company's plan, this $25,000 represents that employee's target compensation leave. However, because the employee is a management employee, a portion of his or her compensation will be placed at risk under the Company's short-term incentive plan. For the purposes of this example, assume that $1,250 or 5%, of the employee's total compensation is placed at risk. Under these facts, this employee's base compensation will be $23,750 and the at-risk target will be $1,250.

Whether or not this employee receives the $1,250 short-term incentive compensation depends on whether certain goals are met. Indeed, 25% of this short-term incentive, or $312.50, will be paid only if the employee meets his or her individual goals. (TR 995) The employee will receive $625, or 50%, of his or her short-term incentive only if Central Telephone-Florida (the "business unit") achieves its goals. (TR 995) Finally, another 25%, or $312.50, of the short-term incentive is dependent on Centel Corporation achieving its goals. (ID) Because receiving the $1,250 short-term incentive compensation is contingent on meeting certain goals, this portion of the employee's compensation is considered at risk. This approach is valid for all management employees.

The fact that the Company has elected to place a part of an employee's compensation at risk does not change the fact that the employee is receiving a proper, market-driven amount of compensation for his or her services. (TR 995) Moreover, there is no reason to believe that the performance targets will be substantially missed. (TR 989) The future payment of short-term incentive compensation is not speculative. Indeed, with the exception of 1989 (which is explained at TR 983-84), history shows that the Company has paid between 95% to 104% of its budgeted target short-term incentive compensation. (TR 983-84)

Although the compensation of individuals may fluctuate, both above and below their targets, the total compensation of employees taken as a group has been and continues to be very predictable.

The fact that the short-term incentive portion of a management employee's total compensation depends, in part, on the consolidated results of Centel Corporation, does not mean that such compensation-related costs should be disallowed from test year operating expenses either. (TR 995) Short-term incentive compensation is "at risk" compensation. (TR 993) The Company has set its target compensation levels based on the dynamics of the labor markets such that if target goals are met, management employees receive the proper amount of compensation for the services they provide to customers in Florida. The fact that the Company has elected to evaluate a part of that compensation based upon being a member of the Centel Corporation team does not change the fact that the total target compensation levels are set at reasonable and appropriate levels based upon market factors. (TR 995) Indeed, as previously discussed, placing a portion of an employee's compensation "at Risk" provides real benefits to the Company's customers. For all the above reasons, OPC's proposed adjustment to disallow this expense should be rejected.

OPC: Customers should not have to bear the cost of controllable bonuses, with no certainty that actual payments will be made. Centel's proposed test year intrastate accrued bonuses of $1,061,438 (intrastate) should be disallowed for ratemaking purposes.

AT&T-C, DGS, FPTA & McCAW: No position.

STAFF ANALYSIS: The currently filed MFRs contain $1,473,657, total company, of bonus expenses for first, second, third and upper level managements for the test year. (Samuelson TR 1145) That amount is calculated based on the percentages of those different levels of managements' compensations that are "at risk" as discussed below in the example plus the 25% matching bonus plan. (Bailor TR 987) As explained by Witness Dinneen, the Company offers a 25% matching bonus plan which increases the level of bonuses if the employee elects to receive stock as opposed to cash. The Company also assists the employee in meeting the tax obligation on that bonus. Furthermore, the Company will provide an additional 25% match after 12 months if the employee remains with the Company and does not dispose of any of the shares originally received. (TR 851-852)

The Company repeatedly states that the Commission should not

view this short-term incentive compensation as something given to the employees in addition to what is usual or due. (Dinneen TR 850)

> "...the total compensation of our employees are market-based, they are determined through studies. And we don't really consider bonuses, payments in addition to any target compensation, the total target compensation, as the market-based compensation that includes what we're calling bonuses here, but it's really a management incentive plan whereby a certain portion of the employee's total compensation is at risk. And it's that risk -- it's that at-risk component that we have been talking about here." (Bailor, TR 991)

In the Company's Brief, Centel laid out an example in a case of a single employee to better understand how the short-term incentive program works. In that example, it shows how a portion of the management employee's annual compensation of $25,000 is placed at risk. Assuming that 5% of the employee's total compensation is at risk, this employee's base compensation will be reduced to $23,750 and the remaining $1,250 will depend on whether or not certain goals are met: 25% individual goals, 50% Centel goals and 25% Centel Corporation goals. (Dinneen TR 995)

As clearly laid out in that example, the portion that is "at risk" should be reduced from the total level of the employee's compensation, otherwise the employee has placed nothing at risk. Witness Bailor stated that the plan will be implemented for the first time in 1990 for the first and second level managements and implemented in 1989 for the third and upper level managements. (TR 987) However, no evidence has been presented that any corresponding reductions for the "at risk" portion of the management compensations have been made. This indicates that the short-term incentive program is in fact something that is paid to the employees in addition to what is due, bonuses, just the opposite of what the Company claims it to be.

Staff also believes that if this budgeted bonus is truly dependent on whether those specified goals are met or not, the future payment should be speculative. However, the Company's history indicates that actual payment of the bonus is between 95% to 104% of its budgeted target. (Bailor TR 984) Staff questions the validity of the goals that are laid out for the employees, perhaps the goals are somewhat effortless.

As briefly discussed above, the bonus is paid contingent upon meeting goals: 25% based on individual's financial and safety goals; 50% based on Centel's goals of which 16.6% is based

on nonregulated operating cash flow; and 25% based on Centel Corporation's consolidated cash flow per share from continuing operations. (Bailor TR 991-995) This indicates that 33.3% of the total projected bonus relates to the operations of entities other than Centel.

Centel came before this Commission seeking rate relief based on the Company's claim of uncontrollable declining financial performance over the past couple of years. However, accrued bonuses, which is a controllable expense, is projected to increase from the 1989 level. During the time of financial difficulties, Centel should be seeking ways of reducing controllable expenses such as this rather than increasing it. Staff believes that this accrued bonus should be disallowed from the test year expenses for the reasons mentioned above.

ISSUE 23e: Should projected stock option expenses and incentive deferred compensations plans expenses be allowed as test year expenses?

RECOMMENDATION: No. The test year intrastate expenses should be decreased by $235,930 for the Stock Option Plan and $282,066 for the Incentive Deferred Compensation Plan (IDCP), a total intrastate decrease of $517,996.

POSITION OF PARTIES

CENTEL: The stock option and incentive deferred compensation plan expenses included in the revenue requirement calculation are also an integral part of the Company's market-based employee compensation program. These long-term incentives enable the Company to attract and retain highly qualified personnel. Like the short-term incentive compensation discussed above in Issue 23f, the Company's stock option and incentive deferred compensation plans are market-based. The necessity for such a long-term incentive is illustrated by the fact that 90% of similarly situated companies have such plans. (TR 1004) These expenses, considered in the context of the Company's overall compensation expenses, are reasonable, prudent and necessary.

The purpose of the long-term incentive is to retain talented employees who make significant, positive contributions to the Company's future success. (TR 852) The long-term incentive utilized by the Company through November 1988, was an incentive deferred compensation plan (IDCP), which provided stock awards that vested after five years to employees who contributed significantly to the continuing success of the Company. (ID) Management employees do not merely receive paychecks. Their compensation relates to risk, opportunity and responsibility. Like the short-term incentive discussed in the previous issue, the stock option and IDCP plans benefit ratepayers by encouraging efficient and innovative operations.

The amount of long-term incentive expenses reflected in the MFR budget is not speculative, as OPC suggests, and should be included in recoverable test year operating expenses. Indeed, the calculation of these expenses is straight-forward. (TR 853) In the case of the IDCP, the plan requires at least 65% of the awards granted after October 1986, to be taken in stock. Since the stock price on the date of grant is the basis of the cost of this stock portion, the cost is known precisely. Accordingly, only the remaining 35% cash portion remains to be calculated. Here, historical experience with the stock price growth rate affords a reasonable measure of the cost of the grant, which will

ultimately be distributed in the form of cash. Indeed, the 1991 MFR budget assumes a reasonable, conservative growth rate of only 14%, based on past stock market performance and on the Company's expected cost of capital. (TR 853) Stock price increases for the five-year period from 1984 to 1989 averaged 30%. (TR 1004) Under these circumstances, the 14% long-term growth rate assumed by the Company is clearly reasonable. (TR 1004)

In the case of the stock option plan, the same 14% stock price growth rate was used in the 1991 MFR budget. (ID) Again the expense is not speculative but, rather, is calculated on the basis of reasonable assumptions, grounded in historical experience. Accordingly, they are properly includable in the Company's expense in this rate proceeding as well. If the expenses described above are not recognized in this proceeding, a situation will be created whereby the costs associated with these commonly used, market-driven plans can never be recovered for ratemaking purposes. Such a situation should not be allowed to occur. As previously discussed, the use of incentive compensation, like incentive regulation, should be encouraged by this Commission, because such programs further promote the interests of the Company's customers.

OPC: Because the company's proposed accruals for IDCP and stock option plans are speculative and not known and measurable it is inappropriate to include such expense in the projected test year. The Company's proposal to increase test year expense for these items should be disallowed. Expense should be reduced by $521,798.

AT&T-C, DGS, FPTA & McCAW: No position.

STAFF ANALYSIS: In addition to the short-term incentive program discussed in Issue 23d, a part of Centel's compensation package is a long-term incentive program which includes the Stock Option Plan also known as the Stock Appreciation Rights and the IDCP. The currently filed MFRs contain intrastate expenses of $235,930 for the Stock Option Plan and $282,066 for the IDCP. (Samuelson TR 1143)

The IDCP was utilized by the Company only through November 1988. It provided stock awards to employees who contributed significantly to the continuing success of the Company. (Dinneen TR 852) There are two components to the IDCP. One component is the amount treated as compensation at the time of the granting of the IDCP and is amortized over its vesting period which is five years. Because the implementation of the IDCP was terminated in November 1988, there are no new participants that are being added

to this plan and the amortization will be expiring by the end of 1992 with an exception of $36,000 in 1993 as indicated in Exhibit 70, page 3. The other component of the IDCP is based on the stock price fluctuations from the date of the grant. The expense calculation for the IDCP depends not only on the stock price assumption, but also on the behavior of the employees in his exercise. The employee has options to take cash, stock or a combination of both. Therefore, the Company has to make yet another assumption as to how the employees will behave in order to calculate the expense. (Bailor TR 1000-1002)

The Stock Option Plan was adopted in order to increase the level of risk to the employee, tying compensation more directly to the stock value and further encouraging employee stock ownership. (Dinneen TR 852) The expense calculation is solely dependent on the incremental changes in the stock price from the option price; thus, if the incremental increase in stock price in the Stock Price Option Plan does not materialize, then the accrued costs that are included in the MFRs would be overstated for the purposes of setting rates for 1991. (Bailor 1002-1003)

Centel states that the calculations of the expenses for the IDCP and stock options are straight-forward. (Dinneen TR 853) Staff agrees that the mathematical calculation of the expense is reasonably straight-forward; however, the numbers utilized to do the actual calculation are based on an estimated stock price and an estimated number of participants that will be taking the stock. Centel also states that assumptions are reasonable based on historical experience. (TR 853-854)

Staff believes that these expenses are speculative and cannot be accurately quantified for the purposes of setting rates. Centel is assuming that the stock price would increase from a 1990 year end projected price of $33.875 to a year end 1991 stock price of $38.625. (EXH 70, pp. 3) When questioned by OPC in regards to the actual level of stock price in 1990, Witness Bailor stated

> "It [stock price] dropped during the first three months quite a bit . . . It's been leveled off at around, like I said earlier, the $25 to $26 per share range over several days now." (TR 1003)

The hearing took place at the end of October and the variance in the stock price between the actual to date and the year end price projected in the MFRs is substantial. Witness Bailor made another statement that clearly indicates that the stock price is so volatile that it cannot be relied on to be used

to set rates.

> "...I'd like to explain something with these '89 bonuses, if I may. '89 was an unusual year for purposes of paying bonuses compared to target for one -- for principally one reason, and that one reason is that we had in the goals for bonuses operating results that included the expense related to certain stock-based incentive plans. And in 1989 Centel's stock increased almost 100%, which resulted in a substantial increase and expense level related to those plans . . .." (TR 983)

Staff recommends that the total intrastate amount of $517,996 for the IDCP and the Stock Option Plan be disallowed in the test year expenses.

ISSUE 23g: What level of Arthur Anderson fees (including rate case expense) should be allowed in test year expenses?

RECOMMENDATION: The level of Arthur Andersen fees allowed in the intrastate test year expenses should be a total of $156,974. This amount is comprised of two Arthur Anderson fees: $108,000 for one year of amortization of the rate case expense discussed in Issue 22; and $48,974 for one year of amortization of the costs associated with phase III of the system-wide budgeting process. Arthur Anderson fees associated with the phase I and phase II of the budget review process should not be included in the test year expenses. Staff recommends that phase III costs be amortized over a 3-year period resulting in a decrease in test year intrastate expense of $97,948. An appropriate adjustment to working capital is reflected in Issue 7d.

POSITION OF PARTIES

CENTEL: The level of Arthur Anderson fees which should be allowed in the test year expenses is a total of $304,550. Of this total, $108,000 is rate case expense and $196,800 is Florida's allocation of other Arthur Andersen fees. The rate case expenses represent the fee for designing the methodology for preparing MFRs, reviewing the MFR package, testing the reasonableness of assumptions, responding to discovery requests and preparation of testimony. Florida's allocated portion of the $1.2 million of other Arthur Andersen fees is $196,800. This amount should not be removed because costs of this type are recurring. Alternatively, the company proposes to include a total of $190,092 in test year expenses. Of this total, $108,000 is rate case expenses and $82,342 is Florida's allocation of other Arthur Andersen fees. Under its alternative proposal, the Company proposes to accumulate the total costs of the budget process review and recover it ratably over a four-year period concurrent with the term of the Company's proposed incentive regulation plan. Under this alternative, an adjustment to decrease intrastate test year expenses by $114,458 ($298,550 - $184,092 = $114,458) is appropriate. The intrastate portion of this adjustment is $82,313. If the Company's alternative adjustment is made, the appropriate working capital adjustment should be made as well.

OPC: Rate case expense should be reduced by $75,962 to remove Arthur Andersen fees relating to an overall system-wide budget revision process. This was adjusted and discussed in Issue 22. In addition, Florida's allocated portion of the $1.2 million dollar Arthur Anderson fees for 1991 should be removed because it is nonrecurring. In addition to the adjustment made for rate

case expense, test year expense should be reduced by $95,792.

AT&T-C, DGS, FPTA & McCAW: No position.

STAFF ANALYSIS: The level of Arthur Andersen fees allowed in the test year expenses should be a total of $156,974. This amount is comprised of two Arthur Anderson fees: $108,000 for one year of amortization of the rate case expense discussed in Issues 7c & 22; and $48,974 for one year of amortization of the costs associated with phase III of the system-wide budgeting process.

As discussed in Issue 22, staff recommends no adjustment to the rate case expense; thus, the $108,000 of Arthur Andersen fees included in the rate case expense for the test year is appropriate.

As briefly discussed in Issue 22, Central Telephone Company (Central) has retained the services of Arthur Andersen to perform a system-wide review of the budgeting process to be utilized by Central and its affiliated local exchange telephone companies, including Centel. (Bailor, TR 827)

This system-wide review of the budget process entailed three different phases which are functionally segregated from one another. The phases are not merely divisional stages for billing purposes. Phase I relates to a review of the existing budget process and phase II relates to the design and implementation of short-term recommendations with a total corporate cost of $808,335 for the two phases. (TR 827-829) The expenses associated with phase I and II were incurred in 1989 and 1990. Furthermore, the currently filed MFRs do not reflect this cost in the test year. (TR 1047-1048) Staff believes that the Commission should treat these phases as three independent projects where the first two occurred in prior years, thus staff believes that it would be inappropriate to attempt to include the prior expenses in the test year. Therefore, no adjustment is recommended for phases I and II.

The disagreement between the OPC, the company and the staff is over the treatment of the costs of Phase III which are included in the test year. OPC recommends excluding all the costs from the test year whereas Centel requests to include all the Phase III costs in the test year.

Phase III of the budget review process is projected to occur during the test year for the implementation of long-term recommendations with a corporate cost of $1.2 million. (TR 829) Staff believes that the level of the fees for phase III is not

representative of future costs. Witness Bailor also agreed with Witness DeWard from OPC that the $1.2 million of phase III costs will not be recurring past the test year period. (TR 1045) Thus, staff recommends amortizing the phase III costs over a 3-year period. This will bring down the level of Arthur Anderson fees to a more comparable average of the phase I and II costs and yet allow the Company to recover the cost over three years. Of the $1.2 million, 16.4% is allocated to Centel and an intrastate factor of .746555 is applied to calculate Centel's intrastate expense relating to phase III costs, $146,922. A one year amortization of $146,922 over a 3-year period is $48,974. Therefore, intrastate expense should be reduced by $97,948 ($146,922-$48,974).

ISSUE 23h: Should miscellaneous affiliate cost allocations such as, holiday parties, company picnics, and kids day; Morgan Stanley fees; year end gifts to the employees; and certain legal services be disallowed for rate making purposes?

> This issue has been stipulated by Centel and OPC without objection from any other party, as follows:
>
> Central Telephone-Florida shall make an adjustment of $80,000 intrastate to disallow certain Morgan Stanley fees and other miscellaneous affiliate cost allocations for ratemaking purposes.
>
> In addition, an adjustment of $1,018,500 on a total Centel Corporation basis to reduce certain legal expenses relating to cases not applicable to Central Telephone-Florida is appropriate. The proper amount for Central Telephone-Florida is contingent on the allocation factors determined in conjunction with Issue 28a.

RECOMMENDATION: The Commission should approve this stipulation. The appropriate amount of the intrastate expense reduction is $160,578. This adjustment is comprised of A) $80,000 stipulated amount to disallow certain Morgan Stanley fees and other miscellaneous affiliate cost allocations and B) $80,578 of legal expenses not applicable to Centel using 11.1% allocation factor recommended in Issue 28a.

STAFF ANALYSIS: The miscellaneous affiliate cost allocations such as holiday parties, company picnics, and kids day; Morgan Stanley fees; year end gifts to the employees; and certain legal services should be disallowed for rate making purposes. As stipulated by Centel, OPC and staff, without any objections from any other parties, the intrastate expenses should be reduced by $160,578.

The parties have agree that it is appropriate to disallow $80,000, intrastate, for the miscellaneous affiliate cost allocations including Morgan Stanley fees. The second part of the stipulation addresses certain legal expenses relating to cases not applicable to Centel. Parties have agreed that this allocated expense should be disallowed; however, the proper amount of this adjustment is contingent on the allocation factor determined in conjunction with Issue 28a.

As stated in Issue 28a, staff recommends that 11.1% is the proper allocation factor. Therefore, the recommended adjustment for the intrastate portion of the legal expense is $80,578. The calculation is as follows:

Centel Corporation Legal Expense		$1,018,500
Florida Allocated Amount	@11.1%	113,054
Less Nonregulated Amount	@4.53%	5,121
Total Regulated Amount		$ 107,933
Intrastate Factor		0.746555
Reduction in Intrastate Expense		$ 80,578

ISSUE 23k: Should the impact of the six Arthur Andersen "Proposed Adjusting Journal Entries" be included in this filing?

RECOMMENDATION: Yes. The impact of all Arthur Andersen proposed adjusting journal entries should be included in the MFRs. This increases intrastate O&M expenses by $111,324 and decreases intrastate income tax expenses by $149,765.

POSITION OF PARTIES

CENTEL: As a result of Arthur Andersen & Co. review of the Company's budget for this filing six "proposed adjusting journal entries" were identified. If made, these six adjustments would require a $129,951 decrease in the Company's revenue requirement. (EXH 54) Except for adjustment No. 1, these adjustments were not included in the Company's revenue requirement calculation as originally filed. (TR 751) OPC's accounting witness, DeWard, selected only one of these adjustments to reduce income tax expense by $202,584. (TR 1184, 749) The adjustment selected by Witness DeWard reduces test year operating expenses, increases test year net operating income and reduces the Company's proposed revenue requirement. (TR 749) In the interest of fairness, either all six adjustments should be included or none should be. OPC should not be allowed to pick and choose only those adjustments favorable to its purposes. The total impact on expense of all six adjustments is shown in Witness Samuelson's Rebuttal Exhibit (BAS-s), Document 5, Lines 11-15 and 36. (EXH 54) With the exception adjustment No. 2, OPC has "no strong feeling[s] one way or the other." (TR 1186) With respect to the adjustment No. 2, OPC has not created a record basis for disallowing this adjustment other than, "We do object to the specific one on the non-regulated adjustment." (TR 1186-1187).

The Company included the effect of all these adjustments in the calculation of its revenue requirement only after Witness DeWard selected one of the six adjustments to reduce the Company's revenue requirement. Consistent with sound regulatory policy, the purpose of the Adjustment No. 2 is to reflect up-to-date information in the calculation of the Company's revenue requirement. (TR 752) In the absence of strong and clearly articulated opposition to these adjustments, and in the interest of fairness, the effect of all six proposed adjusting journal entries should be reflected in the calculation of the Company's revenue requirement. In the alternative, none of the six adjustments should be made.

OPC: Not all of the adjustments should be included. OPC agrees that adjustments three through six should be made.

AT&T-C, DGS, FPTA & McCAW: No position.

STAFF ANALYSIS: Arthur Andersen discovered six adjustments that needed to be made to the MFR budget while they were testing for reasonableness. However, because in the aggregate, the amount was insignificant, the adjustments were never made. The following are the proposed adjusting journal entries by Arthur Andersen:

Adjustment

No. 1 An adjustment to increase other postretirement expenses for late changes to actuarial-determined data. Subsequently, the Company discovered that this adjustment had, in fact, been included in the 1991 MFR budget, so no further adjustment is necessary.

No. 2 An adjustment of $171,713 to decrease the nonregulated allocation percentages based on year-to-date April 1990, information which, in turn, increases regulated expense.

No. 3 An adjustment of $113,133 to decrease expense for telecommunications charges inadvertently double counted.

No. 4 An adjustment to decrease tax expense by $202,584 to correct treatment of the federal tax effect of the amortization related to a state tax rate change. This is a tax adjustment and does not require a further tax effect.

No. 5 An adjustment of $114,905 to increase expense for a normalization entry which was not included in the original filing.

No. 6 An adjustment of $25,000 to decrease expense for certain legal costs which were included in both legal expense and as part of deferred rate case expense.

Staff believes that it is appropriate to include all six proposed journal entries. OPC agrees that all entries with the exception of Adjustments 1 and 2 should be included. Adjustment 1 has already been included in the filing; therefore, OPC has not addressed it and no further adjustment is necessary. OPC argues that the Company accounting witness, Samuelson, did not have a

very detailed explanation of the proposed Adjustment No. 2, thus it should be disallowed. As Witness Samuelson stated, Adjustment No. 2 relates to approximately 30 different allocations between regulated and nonregulated, some increasing expense and some decreasing. (TR 1040-1041) Sufficient explanations have been provided for each of the adjustments by the Company and staff believes that each of these six individual adjustments are reasonable. (TR 751-752) The impact of these adjustments are A) an increase in intrastate O&M expenses of $111,324 and B) a decrease in intrastate income tax expenses of $149,765. This adjustment to the income tax expenses will be reflected in Issue 27.

ISSUE 231: Should the cumulative impact of the changes to the test year budget that were discovered after the initial filing be included in test year expense?

RECOMMENDATION: Yes. The test year intrastate expenses should be decreased by $422,054.

POSITION OF PARTIES

CENTEL: Yes. These adjustments are discussed in Samuelson's rebuttal testimony and shown in Samuelson's Rebuttal Exhibit (BAS-2), Document 4, Lines 20, 21, 23 through 25, 29 and 30. (EXH 54) In addition, to reflect the correction made by Witness Samuelson during the hearing, Adjustment No. 2, postretirement benefits adjustment should be a decrease in intrastate expense of $35,905 rather than an increase of $40,288. The cumulative impact of Adjustment Nos. 1 through 6 is a decrease in intrastate expenses of $55,226.

OPC: Adjustment Nos. 3, 4(b), 5, 6 and 10 should be made. The cumulative impact of these adjustments is a decrease in intrastate expenses of $427,373.

AT&T-C, DGS, FPTA & McCAW: No position.

STAFF ANALYSIS: After the initial filing of the MFRs, several additional adjustments were discovered in the continuing process of reviewing the MFRs. The adjustments are as follows:

Adjustment

No. 1 An adjustment of $359,680 to increase total company expense for short-term incentives. This increase is necessary to reflect: (a) the impacts of inflation which is assumed to increase 5% from 1990 levels ($39,200); (b) omission from the original filing of Centel's allocated portion of first and second level management short-term incentives for Centel Corporation employees ($43,008); (c) omission from the original filing of legal department short-term incentives ($2,500); and (d) the impact of matching shares for first and second level management short-term incentives, which the company instituted too recently to include in the original filing ($274,972). The intrastate effect of this adjustment is $256,357.

No. 2 An adjustment of $35,905 to decrease intrastate expenses for other postretirement expenses to reflect: (a) the latest available actuarial information; (b) certain Centel Corporation and Central allocations which were not included in the original filing; and (c) the recent change made by the FASB to extend the optional minimum amortization period, as described in Witness Bailor's rebuttal testimony.

No. 3 An adjustment of $307,269 to decrease intrastate expenses for the data service area, due to inadvertent double loadings.

No. 4 An adjustment of $11,585 to decrease total company expenses to reflect: (a) an increase of $112,442 in Central stock option costs allocable to Centel; and (b) an offsetting $124,027 for stock appreciation rights which the Company recently decided not to grant. The intrastate effect of this adjustment is $8,257.

No. 5 An adjustment of $66,183 to decrease intrastate expenses for certain functions which were translated improperly before being allocated to Centel.

No. 6 An adjustment of $106,031 to increase intrastate expenses for depreciation and return on the Revenue Accounting Center. This adjustment is also related to the stipulated Issue 23a.

No. 7 An adjustment of $14,050 to decrease intrastate expenses for not excluding a nonrecurring charge in 1991 budget for Area 6046.

No. 8 An adjustment of $28,521 to decrease intrastate expenses for including certain legal fees that are non-utility related.

No. 9 An adjustment of $8,798 to decrease intrastate expenses for including certain nonexisting responsibility areas in 1991 budget.

No. 10 An adjustment of $67,359 to decrease intrastate expenses for not excluding a nonrecurring charge in 1991 budget for Area 6020.

Staff and OPC do not believe that Adjustment No. 1 should be made for the same reasons stated in Issue 23d. Staff recommended that expenses relating to short-term incentive be disallowed. Staff believes that short-term incentives are in fact unjustifiable bonuses; they are also speculative expenses.

As discussed in Issue 23c, staff believes that the Company is properly accounting for the postretirement benefits, thus Adjustment No. 2 should be made accordingly.

Centel, OPC and staff agree that it is appropriate to make Adjustment Nos. 3, 5 and 6. Adjustment Nos. 3 and 6 reflect the errors made by the Company when filing the MFRs. Adjustment 6 relates to the consolidation of the revenue accounting center. The stipulated Issue 23a, cost vs. savings on the closing of the revenue accounting center, did not properly reflect the associated depreciation and return.

Staff believes that Adjustment No. 4 should not be made for the same reasons stated in Issue 23e. Staff recommended that expenses relating to the IDCP and the Stock Option Plan be disallowed. Staff believes that these expenses are speculative and unjustifiable. OPC is proposing to only make the offsetting adjustment for the cancellation of stock appreciation right grants. Staff believes that it is inappropriate to only make one adjustment to decrease the expenses and not include the adjustment that increases the expenses.

Adjustment Nos. 7 through 9 are additional staff adjustments that were identified through a review of Centel organizations numerous responsibility areas. Adjustment No. 7 relates to a 1990 one-time charge of $18,900 that was inadvertently included in the 1991 budget. (Cross TR 1133) Adjustment No. 8 relates to Area 1031 which included non-utility related legal expenses from Centel Corporation that was allocated to Centel's regulated operations. (Bailor TR 1109 and Late-Filed EXH 91) Adjustment No. 9 relates to budgeting expenses for certain responsibility areas that no longer exist in 1991.
(Bailor TR 1111)

Staff believes that Adjustment No. 10 should be made to the intrastate expenses. In 1990, Responsibility Area 6020 budgeted for a special project to complete lowering of all paystations to be handicap accessible. This project is to be completed in 1990. (EXH 60) Although this project is nonrecurring expense it is included in the 1991 budget. (Fensenthal TR 898-899)

The cumulative impact of the adjustments staff believes that are necessary is a decrease in intrastate expenses of $422,054.

Table 231 - 1

Adjustment No.	Intrastate Amount
2. Postretirement	($ 35,905)
3. Double Loading	(307,269)
5. Function Translation	(66,183)
6. Depreciation & ROR	106,031
7. Nonrecurring Charge-Area 6046	(14,050)
8. Area 1031 Nonutility Legal Fee	(28,521)
9. Nonexisting Respon. Areas	(8,798)
10. Nonrecurring Charge-Area 6020	(67,359)
Reduce Intrastate Expenses	($422,054)

ISSUE 23n: Should certain expenses relating to employee relocation be disallowed for ratemaking purposes?

RECOMMENDATION: Yes. The test year intrastate expense should be decreased by $17,141 for expenses associated with the selling of an employee's old residence, purchase of the new residence and 4% relocation allowance.

POSITION OF PARTIES

CENTEL: Employee relocation expenses are reasonable, prudent and necessary and should not be disallowed for ratemaking purposes. As discussed by Witness Dinneen, 98% of utility and communications companies reimburse employees for moving expenses in a manner similar to Centel. (TR 973) The Company's policy on employee relocation costs is straightforward and serves to make an employee whole when asked to relocate at the Company's request. (TR 973)

Indeed, if the Company did not reimburse for relocation costs, it would impose a hardship on employees and make it difficult for the Company to attract and retain quality employees. (TR 1112) It would also make it difficult to move employees to locations where they are needed to provide quality services to customers. This, therefore, becomes a market-driven expense which the Company must pay in order to attract, keep and relocate employees to locations where they are most needed. Obviously, these costs are much less than the costs and inefficiencies which should occur from trying to find, hire and train new employees. The Commission has previously allowed recovery of relocation expenses. See Order No. 23573, Docket No. 891345-EI, page 39.

Finally, the amount of relocation expenses included in the 1991 MFR budget (i.e., $38,268) is well below the actual intrastate amount of $213,634 incurred in 1989. (TR 1120) Sound regulatory policy dictates that these costs be allowed in recoverable test year operating expenses.

AT&T-C, DGS, FPTA, McCAW & OPC: No position.

STAFF ANALYSIS: The staff recognizes that certain expenses relating to the relocation of an employee should be reimbursed by the company in order to attract and retain quality employees. However, staff questions Centel's policy in what they consider reasonable and prudent "moving expenses."

Centel engages in a very generous practice of either

reimbursing or directly paying for expenses such as the Homequity Program, closing costs on the purchase of a new residence and 4% of the employee's gross annual salary, in addition to the direct moving expenses. (Dinneen TR 1111-1112)

The Homequity Program is a third-party vendor who assists employees in selling their old residences. (TR 1113) The amount paid to the employee by Homequity is based upon the market value plus any other expenses that would result in the sales transaction, such as commission fees. (TR 1116-1117) If an employee chooses to sell the residence himself, the Company will reimburse administrative costs such as closing costs, brokers' fees, title insurance and etc. (Cross TR 1119) This expense is recorded at the corporate level, Centel Corporation and a portion of that expense is allocated to the Florida operations. (TR 1118) When this expense flows down to Florida, Centel's ratepayers are absorbing the cost of the Company's employees transferring within the various states Centel Corporation operates in, outside of Florida.

Centel also reimburses the employee for the closing costs on the purchase of the transferred employee's new home. In addition, the Company offers 4% of the employee's gross annual salary as a moving allowance. This is to cover any other miscellaneous expenses that have not been covered by other reimbursements.

In addition, employees are reimbursed for the direct moving expenses incurred during the actual transfer such as moving van, meals and lodging, temporary housing and transportation. Staff agrees that it is a good policy to reimburse the employees for such direct moving expenses to ease the burden. Centel states that this is a market-driven expense which the Company must pay in order to attract, keep and relocate employees to locations where they are most needed. (TR 1112) The Company has failed to point out that although the transfer is generally at the Company's request, the transferred employee is most likely to be receiving either a higher-paying position and/or a position that offers a career advancement. Therefore, the transferred employee and the Company should be sharing the cost of the transfer, rather than entirely paid for by the Company.

Finally, the Company argues that the relocation expense budgeted in the MFRs for the test year is well below the actual amount incurred in 1989, thus the Commission should allow the recovery of this expense. Although the recommended adjustment by the staff is minimal, staff believes that it is important that the Commission make a rate case adjustment at this time. The

evidence clearly indicates that this expense could have a greater financial impact on the company's earnings, as it did in 1989 ($213,634 intrastate). (TR 1120)

Staff recommends that relocation expenses related to the reimbursement of expenses associated with sales and purchases of the employee's residence and the 4% salary allowance be disallowed. (Dinneen TR 1120) The remaining relocation expenses related to the direct moving expenses such as the cost of the moving van, meals, lodging, temporary housing and transportation should be allowed. Staff recommends that intrastate expenses be reduced by $17,141.

Exhibit No. 87	$ 22,961
Intrastate Factor	0.746555
Disallowance	$ 17,141

ISSUE 23o: Is the projected salary expense appropriate for the test year?

RECOMMENDATION: No. The test year intrastate expense should be decreased by $355,028 to parallel the test year's projected salary increase for the exempt employees of 7% with the Company's assumed Consumer Price Index (CPI) of 5% for 1990 and 1991. The projected salary increases for the non-exempt employees of 5.25% for the 1991 test year appears to be reasonable, thus no adjustment is necessary.

POSITION OF PARTIES

CENTEL: Yes. The projected salary expense for the test year is appropriate. As Witness Dinneen testified, the Company computed 1990 and 1991 salaries assuming a 7% annual increase for exempt employees and a 5.25% annual increase for non-exempt employees. (TR 855-856) These percentage increases are reasonable and consistent with historical experience. (TR 941-942)

OPC proposes that the wage increase assumptions for 1990 and 1991 be limited to the CPI (i.e., 5%) only. This proposal is unreasonable in light of past history and recent labor negotiations. As Witness Dinneen testified, the Company's historical average salary increases have been 1.5% to 2.0% above the base CPI. (TR 856) Further, the non-exempt salary increases agreed to by Central during recent labor negotiations in other states were 6.5%. (EXH 95, p. 1 of 2) Notably, these 6.5% increases are larger than the 5.25% increase included in the MFR budget. Accordingly, the Company's proposed salary increase assumptions are conservative, reasonable in light of historical experience and should be accepted without adjustment.

OPC: No. OPC believe the assumed 7% increase for exempt employees is excessive in light of the Company's assumed CPI growth factor of 5%.

AT&T-C, DGS, FPTA & McCAW: No position.

STAFF ANALYSIS: The Company's budgeted operating expenses are based on salary increases for 1990 and 1991 of 7% for exempt (non-union) employees and 5.25% for non-exempt (union) employees when the assumed CPI is only 5% for both of those years. (Dinneen TR 936-938)

Staff believes that the assumed salary increase of 7% for the exempt employees, 2 percentage points above the CPI increase, is excessive. Centel came before this Commission seeking rate

relief based on the Company's claim of uncontrollable declining financial performance over the past couple of years. However, salary increases for 1990 and 1991 are controllable. Centel should be seeking ways of reducing controllable expenses such as this.

This adjustment is consistent with the Commission's prior decision in Order No. 12348 in Docket No. 820097-EU, dated August 9, 1983, Petition of Florida Power & Light Company (FP&L) for an Increase in its Rates and Charges (St. Lucie Unit No. 2, Nuclear Cost Recovery Factor). The Commission stated that FP&L's proposed payroll increases were excessive and ordered the non-union wage increase to equal to the projected rate of inflation for the test year.

The Company also argues that the recent labor negotiations indicate that the non-exempt employee's salary increase was negotiated at 6.5% in the other states rather than 5.25% as projected in the MFRs (EXH 95) and furthermore, if the Commission were to make an adjustment to reduce the exempt salary increase to the assumed CPI, then the Commission also should make an adjustment to increase the non-exempt salary to the most likely labor negotiated increase of 6%. (Late-Filed EXH 77)

Staff disagrees with the Company's argument. Centel filed their MFRs on June 12, 1990 using their most current information. Staff believes that if a 5.25% wage increase assumption, at the time of the filing, for the non-exempt employees was most reflective of the contract that will be in effect as of March 2, 1991, then the assumption should remain valid five months later. Furthermore, some of the labor contracts that show increases of 6.5% in the other states were dated before the Company's June 12, 1990 filing date. (Late-Filed EXH 95, p. 1 of 2) This indicates that the 5.25% assumption used in their currently filed MFRs is reasonably reflective of Florida's future labor negotiation regardless of what the other states' rates are.

Late-Filed Exhibit No. 77, page 2 of 3 indicates that a one percent impact in the Company's exempt salary assumption is $177,514, intrastate. Therefore, staff's recommended reduction in the exempt salary increase from 7% to 5% is a reduction in intrastate expenses of $355,028. Staff also recommends that no adjustment be made to the non-exempt salary assumption.

ISSUE 28a: Should test year O&M expense be adjusted to eliminate the increased corporate expense allocations caused by the sale of Centel Business Systems?

RECOMMENDATION: The 1990 factor of 11.1% which does not reflect the sale of Centel Business Systems should be applied to Florida as the appropriate allocation percentage for the test year expense. The test year intrastate expense should be decreased by $296,005.

POSITION OF PARTIES

CENTEL: OPC's proposal to adjust the 1991 corporate cost allocation factor is inappropriate. (TR 820) OPC's assumption that every divestiture in an organization results in a corresponding reduction in the overall amount of allocated corporate costs is erroneous. (TR 820) OPC's position ignores the fact that this issue only deals with allocated costs. Corporate costs that are applicable to specific business units are direct-charged, and these types of costs are reduced by the sale of the business unit prior to the allocation.

By definition, allocated corporate service costs are those corporate costs which cannot be directly attributed to a specific business unit. (TR 821) They represent costs for general corporate support services which benefit the entire organization. (TR 821) As long as the organization retains its significant, core businesses, changes in the sizes or numbers of other, less significant businesses, such as the sale of a single business unit like Business Systems, do not significantly affect the overall level of such corporate costs. (TR 821) It is, therefore, inappropriate to assume that generally allocated corporate service cost will decline as a result of the sale of a single unit like Business Systems. (TR 821).

The allocation factor in question is the percentage Centel's operating expenses bear to the total operating expenses of the entire Centel organization. The 12.8% allocation factor used in the 1991 MFR budget is the Company's best estimate of what percentage will be in 1991 (TR 822) and already recognizes the disposition of the Business Systems unit as planned. In contrast, the 11.1% allocation factor offered by OPC is based on February 1990, actual results and misassumes that the investment in Business Systems will continue into the test year. This assumption ignores the fact that a definitive agreement to sell Business Systems by year end 1990, has already been signed. Using the 1990 allocation factor also requires an assumption that future non-telephone investments, such as in additional cellular

properties, will replace the expense levels of Business Systems. Such an assumption is purely speculative, as no evidence exists in the record to support it. In fact, to replace Business Systems' expense levels with additional cellular expenses would require additional cellular investments of approximately $1 billion during the next few months -- an unreasonable and wholly unsupported assumption.

The most recent forecast of operations would indicate a slight decrease in the percentage from 12.8% to 12.2%, before consideration of the recently announced sale of Centel Corporation's electric operations. When this sale is factored into the calculation, however, the percentage increases to 13.0%. Accordingly, 12.8% remains a reasonable and fair percentage to use in this proceeding. Test year operations and maintenance expenses should not be adjusted to eliminate the effect on corporate allocations caused by the sale of Centel Business Systems.

OPC: Yes. An allocation factor of 11.1% Centel Corporation's allocated corporate service costs should be used. Test year intrastate expenses should be reduced by $296,005.

AT&T-C, DGS, FPTA & McCAW: No position.

STAFF ANALYSIS: Staff recognizes that the allocated corporate service costs are not directly attributable to a specific business unit. However, if Centel takes into consideration the potential sale of a business unit such as Business Systems, then the company also needs to consider the potential acquisitions of other operations as well. Witness Bailor has stated

> ... certainly, it's been made public that Centel's [Centel Corporation] plans are to concentrate on the development of its core businesses, namely telephone and cellular. And in connection with that, they've decided to sell Business Systems and restructure the entire organization in a way that we can concentrate our resources on the development of those core businesses. (TR 1029)

This statement indicates that Centel Corporation not only plans to sell Business systems but also has plans to restructure the entire organization with other sales and acquisitions by concentrating mainly on the telephone and cellular operations in the future. In fact, Centel Corporation's board of directors minutes indicate that Centel Corporation is considering a purchase of a cellular operation, United Telespectrum. (EXH 73)

The Company's statement in their Brief regarding the recently announced sale of Centel Corporation's electric operation that will drive the allocation factor from 12.8% to 13.0% is inappropriate. There is no evidence in the record to support this statement as well as inaccurately calculating the factor by only including the future sales and excluding any acquisitions.

The evidence clearly states that the corporate restructure is to take place in the future. For rate making purposes, staff believes that it is appropriate to either include all sales and acquisitions of business units to take place or exclude them entirely. Staff also recognizes that it is difficult to quantify the effect of the expected sales and acquisitions, therefore, staff recommends that an 11.1% allocation factor used in 1990 be applied in this rate case. The intrastate expense should be reduced by $296,005.

ISSUE 28c: Should special executive compensation and pension benefits be allocated to Florida?

RECOMMENDATION: **The intrastate expenses should be decreased by $19,403 to disallow the special executive compensation for the same reasons stated in Issue 23d. However, the Commission should not make any adjustment for the interest expenses relating to the pension benefits for the executives.**

POSITION OF PARTIES

CENTEL: **Yes. These costs are part of the Company's total market-based compensation package for the employees in question.** This compensation package enables Centel to attract and retain highly qualified senior officers. The Company's compensation package and expenses are reasonable, prudent and necessary. See Issues 23d and 23e for a more detailed discussion of the Company's compensation programs.

OPC: No. The special executive compensation and benefit costs of $51,669 (intrastate) are, like the bonuses and stock price related compensation, improper expenses to be considered in the rate setting process.

AT&T-C, DGS, FPTA & McCAW: No position.

STAFF ANALYSIS: Centel Corporation provides special compensations for the current and retired Chief Executive Officers. The Company offers them an option to receive either a cash or stock bonus. Staff believes that this expense is excessive and speculative, therefore, it should be disallowed. For more detailed discussions, see Issues 23d (accrued bonus) and 23e (IDCP & Stock Option). Using an 11.1% general allocator as recommended in Issue 28a, intrastate expenses should be reduced by $19,403.

Centel Corporation	**$247,350**
Florida Amount @11.1%	**27,456**
Regulated Amount @94.66%	**25,990**
Intrastate Factor	**0.746555**
Intrastate Expense	**$ 19,403**

Centel Corporation also provides pension benefits to the current and retired Chief Executive Officers (CEOs). OPC is proposing to disallow the interest expenses relating to the CEOs' pension benefits in the test year. Staff believes that the

Company's accounting method for pension and postretirement is appropriate, as stated in Issues 7a and 23c. No evidence has been presented that the interest expenses relating to the pension benefits are inappropriately recorded by the Company. Therefore, staff recommends no adjustment for the interest expenses relating to the CEO's pension benefits.

ISSUE 28d: Should Centel's 1991 budgeted expenses be adjusted for the revised general allocator and the adoption of an exception time reporting methodology?

This issue has been stipulated by Centel and OPC without objection from any other party, as follows:

An adjustment to reduce expenses for the adoption of the exception time reporting and a revised method of allocating centrally-managed costs should be made. On a total Central Telephone Company of Florida basis, the amount of the adjustment is a $122,410 decrease to test year expenses, using the Company's allocation factor. The proper amount for Central Telephone-Florida is contingent on the allocation factor determined in conjunction with Issue 28a.

RECOMMENDATION: The Commission should approve this stipulation. The proper amount of the adjustment is a reduction in intrastate expenses of $81,986.

STAFF ANALYSIS: The proper amount of the adjustment is a reduction in intrastate expenses of $81,986. This amount is comprised of two intrastate adjustments: A) $34,337 for exception time reporting and B) $47,649 for changes in allocation methodology.

Centel distributes directly identifiable corporate costs based on the direct time reporting procedure. However, in the MFRs, the Company used the general allocator of 12.8% rather than utilizing the direct time reporting method. This caused Florida's total company expenses to be overstated by $55,556. By applying the 11.1% general allocator as recommended in Issue 28a, the intrastate expenses should be reduced by $34,337.

In filing the MFRs, the Company used a methodology of calculating the general allocator of Central's costs based on the access lines of each state. However, the methodology described under the FCC's Cost Allocation Manual is based on the ratio of operating expenses of the telephone companies. This difference in methodologies caused the Florida allocated percentage to be overstated by 0.6% (15.9% vs 16.5%). To properly reflect this overstatement, the intrastate expenses should be reduced by $47,649.

ISSUE 28e: Should allocated corporate community relations be removed from the test year expenses?

> This issue has been stipulated by Centel and OPC without objection from any other party, as follows:
>
> An adjustment should be made to decrease expenses for costs related to Centel Corporation's community relations department. On a total Centel Corporation basis, the amount of the adjustment is a $1,516,953 decrease to test year expenses. The proper amount for Central Telephone-Florida is contingent on the Central Telephone-Florida allocation factor determined in conjunction with Issue 28a.

RECOMMENDATION: The Commission should approve this stipulation. The proper amount of adjustment is a reduction in intrastate expenses of $115,901.

STAFF RECOMMENDATION: Centel and OPC without any objections from any other parties, agreed that it is appropriate to remove community related expenses allocated from Centel Corporation. The proper amount of the adjustment is contingent on the allocation factor determined in Issue 28a. As stated in Issue 28a, staff recommended that 11.1% is the proper allocation factor. Therefore, the recommended adjustment for the intrastate portion of the community related expenses is $115,901. The calculation is as follows:

Centel Corporation Community Related Exp		$1,516,953
Florida Allocated Amount	@11.1%	168,382
Less Nonregulated Amount	@7.80%	13,134
Total Regulated Amount		$ 155,248
Intrastate Factor		0.746555
Reduction in Intrastate Expense		$ 115,901

ISSUE 23: What is the appropriate amount of test year operating and maintenance expense?

RECOMMENDATION: The amount of intrastate test year operating and maintenance expense as shown on MFR Schedule A-2b of $76,221,994 is adjusted by Issues 23a - 23o and 28a - 28f. The appropriate intrastate operating and maintenance expense is $63,237,046 as shown in Attachment 1, Schedule 2, Line 201.

POSITION OF PARTIES

CENTEL: The appropriate intrastate amount of test year operating and maintenance expense is $89,702,456. The intrastate test year operating and maintenance expense originally filed was $92,680,729 as shown on MFR Schedule A-2b (Company method). (EXH 41, MFR Volume 8) This amount has been revised for adjustments of ($2,902,081), as shown in the revised rebuttal exhibit of Witness Samuelson, as well as an adjustment to postretirement benefit of a negative $76,192 as agreed during the hearing. (EXH 54)

OPC: Test year O&M expense is $85,894,703.

AT&T-C, DGS, FPTA & McCAW: No position.

STAFF ANALYSIS: The appropriate intrastate operating and maintenance expense is $63,237,046. This amount is derived from the originally filed intrastate test year operating and maintenance expense OF $67,221,994 as shown on MFR Schedule A-2b adjusted by Issues 23a - 23o and 28a - 28f.1. The Company's position includes depreciation expense which is addressed in Issue 24.

ISSUE 24: What is the appropriate amount of depreciation expense for the test year to reflect new depreciation rates, amortization and recovery schedules approved in Docket No. 881543-TL?

This issue has been stipulated by Centel and OPC, without objection from any other party. The contents of the stipulation are set forth in Issue 3.

RECOMMENDATION: The intrastate depreciation expense of $25,458,735 as filed in MFR Schedule A-2b should be decreased by: A) $1,594,673 to reflect the stipulation discussed in Issue 3 and B) $12,474 to reflect the understated retirements discussed in Issue 2.

The amount of intrastate depreciation and amortization expense is $23,851,588.

POSITION OF PARTIES

CENTEL: As discussed in the Prehearing Order, this issue has been stipulated by Centel and OPC without objection from any other party. See Order No. 23686. The contents of the stipulation are set forth in Issue 3.

OPC: Per stipulation set forth in Issue 3, the intrastate depreciation expense is $23,864,062.

AT&T-C, DGS, FPTA & McCAW: No position.

STAFF ANALYSIS: The appropriate amount of intrastate depreciation expense is $23,851,588, a decrease in expense of $1,607,147 from the originally filed amount of $25,458,735 as shown in MFR Schedule A-2b. This adjustment is comprised of two elements: A) the stipulation set forth in Issue 3; and B) the reduction in depreciation expense due to the reduction in plant in service amounts, Issue 2.

The stipulation set forth in Issue 3 governs the depreciation rates to be used for purposes of setting rates using the 1991 test year. It is the Stipulation's intent to increase the depreciation expense as a bottom line nonaccount specific addition to expenses derived from currently prescribed depreciation rates, amortization and recovery schedules which differ from the depreciation rates proposed in the MFRs. To bring down the currently filed level of intrastate depreciation and amortization expense to its stipulated amount, intrastate depreciation and amortization expense should be decreased by $1,594,673.

As discussed in Issue 2, Centel understated the amount of retirements for 1990 and 1991, thus, overstating the plant in service. Reducing the plant in service to appropriately reflect the omitted retirements also reduces the amount of depreciation expense. Intrastate depreciation expense should be reduced by $12,474. See Table 4-1 for the calculation.

ISSUE 26: What is the appropriate amount of parent company debt adjustment?

RECOMMENDATION: No parent debt adjustment should be made. However, $1,017,731 should be held subject to refund, or other disposition, with interest calculated at the commercial paper rate contemplated in Rule 25-14.171, F.A.C., pending the issuance of final Regulations by the Internal Revenue Service (IRS). Under proposed Regulations published on November 27, 1990, the parent debt adjustment would violate the normalization requirements of the Internal Revenue Code (Code).

POSITION OF PARTIES

CENTEL: The parent debt adjustment should be $626,926.

OPC: Agree with Company.

AT&T-C, DGS, FPTA & McCAW: No position.

STAFF ANALYSIS: Rule 25-14.004, Florida Administrative Code (Rule), is based on the premise that debt at the parent level supports a portion of the parent's equity investment in the utility. Since the interest expense on such debt is deductible by the parent for income tax purposes, the income tax expense of the regulated subsidiary is reduced by that tax effect.

Normally, staff would recommend that a parent debt adjustment be made in accordance with the Rule where there is a parent/subsidiary relationship and a consolidated federal income tax return is filed. However, staff recommends that the Commission take administrative notice of the proposed regulations published by the Internal Revenue Service (IRS) on November 27, 1990, after the hearing in this case. The effective date of the proposed regulations is December 20, 1990, for all orders which become final on or after that date. These proposed regulations provide that determining a utility's ratemaking tax expense, either current or deferred, by taking into account the income, losses, deductions, or credits of other taxpayers with which it files a consolidated return violates the normalization requirements of the Code. A regulated utility that violates normalization is prohibited from using accelerated depreciation, both prospectively and retroactively, for income tax purposes. This eliminates all zero cost deferred taxes from the capital structure, resulting in a higher rate of return and higher revenue requirement. Application of the Rule by the Commission is this case would clearly put Centel in the position of violating the IRS' normalization requirements according to the

provisions of these proposed regulations.

Although the regulations are not final, and it cannot be determined when, or if, they will become final, staff believes it is necessary to avoid the very serious risk of causing Centel to violate the IRS' normalization requirements. Staff's recommendation to the Commission is to allow Centel to collect the revenues associated with the parent debt adjustment, while placing subject to refund or other disposition an amount equal to that which would have been removed if a parent debt adjustment had been made in this proceeding, with interest. If the regulations do not become final or do allow a parent debt adjustment, Centel would dispose of the revenues and interest in question as directed by the Commission. If a parent debt adjustment is made in this case and these regulations become final in their original form, Centel will have violated the normalization requirements from the date the order in this case becomes final. Staff believes the best way to protect the ratepayers adequately is to place the appropriate revenues subject to refund or other disposition. The appropriate amount to place subject to refund or other disposition in staff's opinion is $994,637, based on a parent debt adjustment of $614,860 calculated in accordance with the Rule.

The proposed regulations were published after the briefs of the parties were filed in this case. Therefore, no other party has addressed them to date in this proceeding.

As discussed in Issue 10a, there should be an additional refinement made to the parent debt adjustment in connection with the calculation of the equity portion of ITC's. The interest synchronization adjustment is based on the premise that, if ITC had not been available, the Company would have replaced those funds with debt and equity in the same ratios as in their capital structure. The parent debt adjustment is based on the premise that a portion of the equity invested in the Company by the parent is supported by debt of the parent. There is an interest expense associated with that debt, and a resulting tax deduction. If there is an equity portion of ITC, as the ITC interest synchronization adjustment assumes, then there should be a parent debt adjustment made against it. (TR 1089-1090) This would increase the parent debt adjustment by $14,276, and the associated revenues held subject to disposition by $23,094.

The state tax impact of the parent debt adjustment was discussed at the hearing. Company witness Samuelson testified that the debt that generates the interest expense is the debt of Central Telephone Company and Centel Corporation, neither of

which does business in Florida. Neither the parent companies nor Centel-Florida is able to deduct this interest for Florida state income tax purposes. (TR 1091) For this reason, Staff's calculation reflects only the federal income tax effect.

Based on this discussion, no parent debt adjustment should be made, but total revenues of $1,017,731 ($994,637 + $23,094) should be held subject to disposition with interest, pending the issuance of final regulations by the IRS.

ISSUE 27: What is the proper amount of income tax expense?

RECOMMENDATION: The appropriate intrastate income tax expense is $2,857,172.

POSITION OF PARTIES

CENTEL: The proper amount of intrastate test year income tax expense is $947,132.

OPC: Intrastate test year income tax expense is $2,080,656.

AT&T-C, DGS, FPTA & McCAW: No position.

STAFF ANALYSIS: The Company requested total intrastate income tax expense of ($66,591) on MFR C-23b ($532,758 state, ($599,349) federal). State income tax should be increased by $357,993 and federal by $2,565,770 for the tax effect of other Staff adjustments to revenues and expenses. This includes $280,070 for the interest reconciliation and interest synchronization adjustments. As discussed in Issue 26, no parent debt adjustment should be made. The resulting income tax expense is $2,857,172.

ISSUE 30: What is the appropriate amount of net operating income?

RECOMMENDATION: The appropriate amount of test year intrastate net operating income is Issue 15 less the sum of Issues 23, 24, 25 and 27. The appropriate amount of intrastate NOI is $16,336,717 as shown in Attachment 1, Schedule 2, Line 369.

POSITION OF PARTIES

CENTEL: The Company's revised intrastate adjusted net operating income is $14,119,482, as shown in the revised rebuttal testimony of Witness Samuelson (EXH 54), and includes the net operating income impact of the adjustments agreed to at the hearing. This is an increase of $2,112,239 from the Company's original filing of $12,007,239, as shown on MFR Schedule A-2e (Company method). This increase does not reflect the NOI impact of these adjustments agreed to at the hearing.

OPC: Test year NOI is $16,997,245 (intrastate).

AT&T-C, DGS, FPTA & McCAW: No position.

STAFF ANALYSIS: The appropriate amount of test year intrastate NOI is $16,336,717. This amount is calculated based on Issue 15 less sum of the Issues 23, 24, 25 and 27.

Issue 15	Revenue	$110,804,057	
Less:			
Issue 23	O&M Expense	63,237,046	
Issue 24	Depreciation	23,851,588	
Issue 25	Taxes other than IT	4,521,534	
Issue 27	Income Taxes	$ 2,857,172	
	Intrastate NOI		$ 16,336,717

ISSUE 32: What is the final amount of interim increase? What should be disposition?

RECOMMENDATION: The interim increase of $1,142,672 authorized by Order No. 23454 effective September 16, 1990, should be affirmed in the final order with no further disposition required.

POSITION OF PARTIES

CENTEL: The interim increase of $1,142,672 in additional annual revenues should be affirmed in the final order.

OPC: Centel's maximum revenue deficiency is $4,431,883. The interim increase of $1,142,672 should be affirmed in the final order.

AT&T-C, DGS, FPTA & McCAW: No position.

STAFF ANALYSIS: Order No. 23454 issued September 10, 1990, pursuant to interim statute 364.055, Florida Statutes, authorized interim rates in the amount of $1,142,672 subject to refund with interest in accordance with Rule 25-4.114, F.A.C. The Company was required to file a corporate undertaking to guarantee a potential refund.

The interim increase of $1,142,672 was based upon interim revenues equaling the difference between the required rate of return and the Company's achieved rate of return for the most recent 12 month period. The Company's average achieved rate of return for 1989, with adjustments discussed in Order No. 23454, brought the interim rates up to the floor at 11.75% ROR which is lower than the 12.7% ROR midpoint recommended in this proceeding. Therefore, the interim increase should be affirmed in the final order with no further disposition required.

Centel and OPC agree with staff that the interim increase of $1,142,672 should be affirmed in the final order. The other parties had no position.

ISSUE 33: What is the appropriate amount of the revenue increase/decrease for the test year?

RECOMMENDATION: The appropriate amount of revenue increase for the test year is $6,899,501 as shown in Attachment 1, Schedule 6, Line 22. The calculation is based on the Issues 8, 13, 30 and 31, which are adjusted rate base, capital structure, NOI and the revenue expansion factor, respectively.

POSITION OF PARTIES

CENTEL: The Company's revised revenue request is $14,597,330, as shown on revised Document 3 of Witness Samuelson's Rebuttal Exhibit No. 54, and includes the revenue requirement impact of the adjustments agreed to at the hearing. This is a decrease of $3,490,406 from the Company's original filing of $18,087,736, as shown on MFR Schedule A-1a (Company method).

OPC: Centel has justified a rate increase of no more than $4,431,883.

AT&T-C, DGS, FPTA & McCAW: No position.

STAFF'S POSITION: The appropriate amount of revenue increase for the test year is $6,899,501. This amount is calculated based on the adjusted rate base, capital structure, NOI and the revenue expansion factor.

RATE DESIGN AND TARIFF CHANGES

ISSUE 34: Centel's proposed revenues are based on projected units. Is the method Centel used to develop the projected units appropriate?

RECOMMENDATION: Yes. Centel's methods used to develop projected units for the Company's services are appropriate. However, MFR Schedule E-1a should be amended to include the estimated 1991 units established in Column F of Table 34-2 as they apply to service order charges. Further, the revenue impact of the amended units amounting to $658,520 should be realized in the test year.

POSITION OF PARTIES

CENTEL: Yes. Central Telephone-Florida's unit forecasts were based on historical trends, economic condition projections, planned marketing programs, technology changes, and specific knowledge of the customer.

AT&T-C, DGS, FPTA, McCAW & OPC: No position.

STAFF ANALYSIS: Centel's forecast of demand for services is a key element in determining projected revenues. Reasonable estimates of unit demand are critical for protecting the integrity of the rate case, since there is a direct correlation between the number of billed units and revenues. The Company's forecasted demand is the projected billing units for each service, and an exhaustive listing of all such units appears in MFR Schedule E-1a. For most services, the projected demand (units) and the proposed rate(s) are the two key elements the Company uses to determine projected revenues. Each service's projected revenues are simply the product of its proposed rate(s) and its projected demand (units). This method of estimating revenues is called the "bottoms up" approach. In the "bottoms up" approach, the Company uses a variety of techniques for estimating the growth in units. The techniques used to estimate growth in units include access line growth projections, linear regression of access minutes, and penetration levels.

For some new services, such as Cellular Service and Non-LEC Pay Telephone Service (PATS), the Company was unable to determine the historical units, so an alternative "tops down" approach was used to estimate the number of projected units. This approach requires first projecting the revenues for the test year, dividing this quantity by the rate for the service, which yields the projected units.

Centel's basic position regarding the appropriateness of its methods for developing unit forecasts is that such forecasts were based on historical trends, economic condition projections, planned marketing programs, technology changes, and specific knowledge of the customer, and that the methods used in unit development were appropriate. No other parties had a position on the issue.

Table 34-1 shows the approach used to develop projected units and revenues for each category of service, either "tops down" or "bottoms up", and the techniques used to develop the units and revenues. Centel's witness Wahlen states that new services for which the Company had not yet developed a methodology for accumulating billing units were candidates for the "tops down" approach. (EXH 106, pp. 15-16)

TABLE 34-1 - METHODS AND TECHNIQUES IN UNIT DEVELOPMENT		
SERVICE TYPE	APPROACH TO UNIT DEVELOPMENT	TECHNIQUES USED TO DEVELOP UNITS
Residential and Business Basic Service	Bottoms Up	Residential based on forecast of building permits. Business based on forecast of industry, government agency additions and economic indicators. Both res. and bus. include an assumed 5.5% growth in access lines in 1991.
Centrex Service	Bottoms Up	Based on forecast of major Centrex customer's future needs, including FSU and government agencies. Includes an assumed 15.5% growth in access lines in 1991.
LEC Pay Telephone Service	Bottoms Up	Based on historical trends per station used and effect of competitor penetration (PATS) and profitability of individual paystations.
Custom Calling Features	Bottoms Up	Based on forecasted access line growth and adjusted for expected changes in penetration levels.
Service Orders and Line Connections	Bottoms Up	Based on forecasted access line growth and historical trends.
Access Minutes	Bottoms Up	Linear regression of historical monthly units.
Non-LEC Pay Telephone Service (COCOTS useage in minutes)	Tops Down	Develop projected revenues for test year given assumed penetration levels, then deriving units by dividing such revenues by the proposed service rate.
Cellular Telephone Service	Tops Down	Develop projected revenues for test year given assumed penetration levels, then deriving units by dividing such revenues by the proposed service rate.

Centel prepared its rate case filing's units and revenues based upon a projected test year (1991). Centel either estimated projected billing units first in order to develop projected revenues or, in the case of the "tops down" approach, used projected revenues to derive projected billing units. However, the Commission has typically reviewed rate cases which were based

upon historic test years using historical billing units, without using the "tops down" approach at all. The implicit assumption in using a projected test year is that the projected units developed by the Company will more closely approximate the actual units for the projected year than will the historical units. Obviously, testing this assumption is not possible until after the test year. Due to the uncertainty associated with the units developed for a projected test year, staff utilized a quantitative test to judge the reasonableness of the projected units. The test involved conducting a trend analysis for each type of service, wherein the actual 1988 and 1989 units are compared to the partially-actual, partially-forecasted 1990 units, and the 1991 forecasted units. For any service which has projected test year unit growth falling outside of an established pattern of unit growth, staff conducted further investigation to determine why such deviations were projected. For services which staff expected to have significantly different growth than had been achieved historically, staff attempted to judge whether such growth expectations were reflected in the Company's projected units. In this way, staff was able to determine whether the forecast conducted by the Company was reasonable.

Staff's trend analysis was based upon the Company's response to Interrogatory 281A. (EXH 104, pp. 225-229) Staff requested actual 1987, 1988, and 1989 units and unit percent increases for all services with greater than $100,000 in projected revenues. Staff also requested similar data for 1990 year-to-date and the projected data for 1991. The Company responded to the request, but did not supply the unit percent increases nor the 1987 data. The Company stated that the 1987 data was not available. Also, the Company did not include data on services included in restructured sections of the Company's tariff in its response.

Staff's review of the data revealed that the Company's expected growth in units in Digital Business Services (DBS), which appears in Section A12, does not follow the historical pattern set since 1988. Staff noted an unprecedented growth in service was expected in 1991. The Company explained such growth based upon an expansion in the number of offices capable of offering DBS in 1991 and a general increase in the popularity of that service. Arthur Anderson conducted a revised forecast which revealed this increase in expected demand. (EXH 106, p. 17) Staff is satisfied that this change in the growth pattern of units for DBS have been adequately substantiated by the Company.

Staff discovered that the number of units for Residential and Business New Service Order and Connection Charges, which showed a pattern of growth through 1989, was expected to decline

in 1991 by small percentages (3% to 10%). (EXH 104, p. 229) However, staff noted that Centel's witness Bailor's testimony showed expected growth in Line Connections in 1991 of 7.68%. (TR 794, EXH 56, p.2) Upon staff's inquiry, the Company responded that the Schedule E-1a was in error (the number of units for Line Connection Charge were understated). (EXH 104, p. 223) Staff found that the Company revised the final edition of the E-1a such that the units for Line Connection Charge were amended to show a level of growth in units consistent with Company's percentage growth assumption stated in witness Bailor's testimony. However, staff found that a similar error was made by the Company in its representation of units for Residential and Business Service Order Charges. That is, witness Bailor's testimony shows that service order growth is expected to be 6.29% in 1990 and 6.74% in 1991, yet the Schedule E-1a shows a decline in units from the historical year (1989) to the test year (1991) of 70%. Table 34-2 below shows the discrepancy in units represented between the Schedule E-1a and witness Bailor's testimony (Staff's 1991 Estimate (Column F) are expansions of 1989 E-1a units by the percentages listed in witness Bailor's testimony).

TABLE 34-2 - Discrepancies in Service Order Units

A	B	C	D	E	F
NAME OF SERVICE ELEMENT	1989 E-1a UNITS	1991 E-1a UNITS	PERCENT DECREASE IN UNITS	STAFF'S 1991 ESTIMATE	DIFFER -ENCE (E-F)
Resid. Service Order, New	72,733	42,348	41%	82,751	40,403
Bus. Service Order, New	12,103	6,834	50%	13,728	6,894
Resid. Service Order, Change	76,785	65,833	16%	87,099	21,266
Bus. Service Order, Change	3,488	1,877	47%	3,957	2,080

Using Column F as the correct unit forecast, staff estimates that current service order revenues (current rates times projected units) are underestimated by $658,520 due to underestimates in the units for service orders. Staff's calculations appear in Table 34 - 3 below.

TABLE 34-3 - UNDERESTIMATED REVENUES RELATED TO SERVICE ORDERS			
SERVICE TYPE	NUMBER OF UNITS UNDERESTIMATED	CURRENT MONTHLY RATE FOR SERVICE	UNDERESTIMATED ANNUAL REVENUE
Resid. Service Order, New	40,403	$10.64	$429,888
Bus. Service Order, New	6,894	$12.16	$83,831
Res. Service Order, Change	21,266	$6.08	$128,993
Bus. Service Order, Change	2,080	$7.60	$15,808
Total Units, Revenues	70,643.00	-----	$658,520

Several major changes in the billing units appearing in MFR Schedule E-1a were required in order to get an accurate representation of units for the Company. The originally-submitted Schedule E-1a did not include Special Access Services, so staff requested and the Company produced these services' units, rates, and revenues in the follow-up edition of the schedule. (EXH 107, pp. 262-322) The originally filed MFR Schedule E-1a also had numerous omissions and errors in the units listed for Local Private Line and other restructured tariff sections. Upon request of the staff, corrections in units were made in each edition of the MFR Schedule E-1a submitted by the company. The final MFR Schedule E-1a did include corrections to most of the omissions and errors, with the exception of the errors in estimating service order units noted above.

Staff recommends that the Commission approve Centel's methods used to develop projected units for the Company's services. However, staff believes that MFR Schedule E-1a should be amended to include the estimated 1991 units established in Column F of Table 34-2 as they apply to service order charges. Staff further recommends that revenue impact of the amended units amounting to $658,520 be realized in the test year.

ISSUE 35: What general approach, considering accuracy and methodology of cost studies, value of service, competition, universal service goals, etc., should be used in changing rates to produce the approved revenue requirement?

RECOMMENDATION: Cost studies, where available and determined reasonable, should be used as a beginning point for pricing other non-basic services. Additional considerations should include appropriate contribution levels, historic revenue/cost relationships, the existence and extent of competitive alternatives, customer impact, established Commission policy, etc.

POSITION OF PARTIES

CENTEL: Basic services should undergo rate changes that reflect both the value of service, as in changes in rate groupings, and the cost of service, as reflected in the overall increases in basic local service rates and the proposed decrease in the BHMOC element of switched access service.

Non-basic services should be priced based on market conditions to yield the maximum possible overall contribution to revenues and common costs.

AT&T-C: Rates charged for a particular service should reflect the underlying costs incurred in providing the service. Further, when monopoly provided elements are offered in conjunction with competitive elements, the Commission must ensure that those monopoly items are offered to customers free of discrimination with respect to price, terms and/or availability. It would be inappropriate for a service provider to distort or influence a competitive market through discriminatory pricing of monopoly provided services.

FPTA, McCAW: In making pricing decisions in this docket, the Commission should be guided by the policies embodied in the revised Florida Statutes, Chapter 364, that took effect on October 1, 1990. Although the new legislation does not expressly govern these proceedings, the rate decisions rendered in this case will have applications to the company and its ratepayers on a going-forward basis, and there is no bar under the current law to consideration and evaluation of the Centel proposals in light of the requirements set forth in the law that will govern at the conclusion of this rate case. In particular, it is critical that Centel's competitive services be identified and priced in a manner that is cost-based, without subsidization from monopoly ratepayers, and without the opportunity for anticompetitive and

predatory pricing by Centel.

OPC: Because the local rate is the one rate every customer must pay just to have telephone service, the Commission should strive to maintain current reasonable local rates.

DGS: No position.

STAFF ANALYSIS: This issue addresses the general approach which should be used in repricing the services offered by Centel. Traditionally, this Commission has priced non-basic services first, deriving as much revenue as possible from them before looking to local rates for increased revenues.

Florida has emerged as a leader not only in the growth and development of its telecommunications industry but also in its regulatory policies and practices. Shortly after divestiture and the advent of long distance competition, many LECs nationwide filed for massive local rate increases to make up for projected losses in toll revenue. In Florida, Southern Bell filed such a case (Docket No. 820263-TP). This Commission, however, declined to increase local rates before actual evidence that the LECs were experiencing earnings declines as a result of the restructure of the telecommunications industry.

Over the next several years it became clear that not only were the LECs not harmed by the new environment, they were actually thriving in it. Florida now has a robust telecommunications industry as well as some of the lowest local rates in the nation.

Centel's general approach to ratemaking in this proceeding was remarkably straightforward. Witness Wahlen listed six principles the Company considered when designing rates:

1. Design rates to preserve universal service, promote the use and development of the network and decrease the incentive for uneconomic bypass;

2. Develop rate schedules which will produce the required amount of revenue on a reasonably stable basis;

3. Give consideration to both the value and cost of each service;

4. Provide a desirable balance among the various classes of service;

5. Keep the rate schedules as simple and practical as possible; and

6. Make pricing changes which promote the general welfare of the Company's customers. (TR 1209)

Centel made several decisions for their proposal using the above-listed principles. It decided to keep most rate relationships the same to keep adjustments simple. (Wahlen TR 1237) Discretionary services were increased to the extent Centel's marketing division believed the market would bear. (Wahlen EXH 106, pp. 54-5) Some services such as service connection charges were adjusted to more accurately reflect recent cost data. (MFR SCH E3-A) Local rates were set last, after revenues were gathered from other services. Centel also proposed Option 30 Service, an optional residential local message rate service offering designed to promote universal service by providing a lower cost local service for those who are low volume users of the network. (Wahlen TR 1210-11)

No other party took a position on the <u>specific</u> pricing approach proposed by Centel. However, FPTA, McCaw, and AT&T-C took positions on general ratemaking philosophies. FPTA and McCaw advocated that the Commission consider the requirements of the newly revised Chapter 364 of the Florida Statutes. FPTA and McCaw acknowledged that the new statute does not apply on cases initiated before October 1, 1990. (Brief, p.4) They believed however that sound public policy would require that "the new law not be contravened by the final order in this proceeding." (Brief, p.4) Specifically, both parties believed that the new law requires that monopoly services be priced out at full cost and that competitive services "must not be priced below other LEC services plus . . . reasonable overhead." (Brief, p. 5) Both parties viewed the philosophy of the new law as requiring that all services ultimately cover their costs. (Brief, p. 5)

Staff believes this rate case, like the United case just reviewed (Docket No. 891239-TL), is not the appropriate forum in which to take up a debate on how the new Chapter 364 should be interpreted. This Commission is setting up workshops to address those issues. Staff only notes here that the above is a summary of FPTA and McCaw's position on this issue.

AT&T-C's position advocated an "elemental cost" approach for setting rates, particularly for those instances where monopoly services are being provided in conjunction with competitive services. (Order No. 23686, p. 42) According to AT&T-C, this approach would ensure that competitive services are not

subsidized or would not suffer from discriminatory pricing decisions by the LEC. Although not fully explored or explained by AT&T-C, staff believes an elemental cost method would attribute direct cost elements for each service, each of which must cover its elemental costs with the revenues generated for that service. The Commission is exploring this method, among others, in its LEC cost study methodology docket (Docket No. 900633-TL).

Centel's proposed philosophy is not unlike the policy this Commission has historically followed. The policy of pricing local rates after discretionary, toll/access, and other rates was developed long ago in an effort to promote universal service, a concept that set forth the goal of making basic telephone service available to anyone who wanted it at a reasonable price. This policy has worked. Based on data utilized in staff's 1989 report to the Legislature on the status of competition, as of July 1989, 93.1% of households in Florida had a telephone. This is just slightly below the national average of 93.3%, and reflects a large improvement over 1983. In that year only 85.5% of Florida's households had phone service as compared to the national average of 91.4%. According to the report, Florida's basic telephone rates also fared well when compared with other rates across the country.

Because Centel is a monopoly provider of access to the network, competitive equity requires that access prices be reasonable relative to Centel's own toll retail rates. Centel recognizes this and to accomplish it, has proposed proportional reductions in access rates, specifically the BHMOC, as per Commission policy set forth in Order No. 19677 in the NTS docket (Docket No. 860984-TP).

Generally, non-basic services should be analyzed first to derive as much revenue from them as is reasonable before looking to raise the prices on local rates. This Commission has standard criteria upon which to base pricing decisions for these services, as follows:

1. <u>Costs</u> - To the extent the Company has provided cost data, and this data is determined to be reasonable, costs have been and will be an important guide in price setting. In Staff's opinion, the language in the new statute simply codifies what this Commission has been trying to do since competition was initiated. Therefore, the new statute does not substantially change our direction. The adoption of a cost-of-service methodology will be a refinement in the

application of these criteria.

2. Established Commission policy - For certain services, the Commission has already fully addressed the issues surrounding the offering and has previously determined the appropriate prices or pricing approach in a generic policy proceeding. Therefore, for offerings such as cellular interconnection or TDD equipment for the hearing impaired, pricing decisions should be based on established policy.

3. Existence and extent of competitive alternatives - If there exist substitutes for a given offering, in the form of other LEC services or services provided by other vendors, this should be taken into account. It is important to consider the degree of competition as well as the LEC's business goals in dealing with it. The growth of cellular technology as it has affected the old two-way/mobile radio services and the development of "smart" CPE that can provide custom calling features are two examples that are addressed in this case.

4. Customer Impact - In competitive offerings, too severe a customer impact will drive the customer to another vendor. In a monopoly offering, the customer may either suffer the increase or suffer without the service. Depending on the offering, this may reduce overall social welfare. In any event, good pricing decisions consider the degree of customer impact.

5. Historic rate relationships - Cross elasticity (which is, in essence, the ability to tariff shop) and customer acceptance are factors that must be considered in pricing certain offerings. To the extent that rate relationships between offerings, or certain elements of the same offering, have been worked out over time (or need to be worked out now), these should be considered in setting prices.

If the revenue requirement as determined by the Commission has not been met after all other services have been analyzed and set, then the Commission must turn to basic local exchange rates for the needed revenue. Basic local exchange rates have traditionally been separated into residential and business categories and include various single line and multi-line (rotary and PBX) offerings. Additional business offerings include access lines for semi-public coin service, PATS, and foreign exchange.

Staff believes that Centel has, for the most part, followed these guidelines in its pricing decisions. Although some deviations have occurred, those rate decisions are addressed in the rate-specific issues. The basic philosophy of ratemaking is a subjective one; Witness Wahlen admitted that "ratemaking is not a science, it's an art." (EXH 106, p. 56) Staff believes that Centel's approach here follows reasonably with the philosophy recommended in this issue.

ISSUE 39: Centel has proposed no changes to its Directory Assistance services. Is this appropriate?

RECOMMENDATION: No. Rates should be increased from $.25 to $.35 per call for both local and intraLATA directory assistance. The Company should continue the three free local call allowance.

POSITION OF PARTIES

CENTEL: Yes. The current $.25 price for local directory assistance reflects industry standard prices and covers costs. While the Company has not proposed a change in the price for local directory assistance, the Company would agree to such an increase if desired by the Commission.

AT&T-C, DGS, FPTA, McCAW & OPC: No position.

STAFF ANALYSIS: Centel offers two types of directory assistance (DA) services, local and intraLATA DA. A local DA call is placed by dialing 411 for directory assistance. A customer has a local DA three call allowance per month before the DA rate is charged. An intraLATA DA call is placed by dialing 555-1212. This service is alternately known as the Home Numbering Plan Area (HNPA).

The Company has proposed no change in the rates for local or intraLATA DA service. No increase was proposed because the Company believed that the Commission's policy of a statewide uniform DA rate was not likely to be changed. (EXH 106, p.46) In its recent rate case the Commission approved a $.35 DA rate for United Telephone Company of Florida (Docket No. 891239-TL). Staff believes that Centel's DA rate should also be raised to $.35 per call (both local and intraLATA) with the continuation of the three free local DA call allowance.

This Commission set the current DA charge in 1984 at $.25 for all local exchange companies (Order No. 13934 in Docket No. 820537-TP, the Access Charge docket). After a complete investigation the Commission determined that the provision of DA service has a substantial public interest aspect. Therefore, companies would, on the whole, not be allowed to set DA rates to fully recover costs. The $.25 rate did cover costs for some companies, but not for others.

The public interest consideration centered on the belief that the availability of DA stimulated the overall usage of the network, and that easy access to telephone numbers enhances the value of the network. Nonetheless, the Commission determined that a charge for DA was appropriate. The effect of the charge

for DA was twofold: costs would be placed on cost causers allowing the LEC to recover some of the costs of DA, and customers would be deterred from excessive usage of DA.

Though the Commission had established its policy of less than full cost recovery for DA as recently as 1984, AT&T-C in 1987 filed a proposed tariff to increase DA from $.25 to $.30. In Order No. 18342 the Commission reaffirmed its previous decision and denied AT&T-C's proposed increase. However, more recently in Docket No. 891124-TI the Commission approved a $.35 DA charge for AT&T-C. The Commission's policy has been one of partial, rather than full, cost recovery (for local DA) because of the public interest aspects of DA service. However, this policy has begun to change as the Commission recently approved a $.35 rate for United Telephone Company. It should be noted that even if DA rates are raised enough to recover the cost of individual DA calls, the overall cost of DA may not be recovered because of the three free call allowance.

Rather than considering DA as a discretionary service the Commission has traditionally considered DA to be a service which is necessary in some cases. The Commission's pricing policy for DA has taken this distinction into account. End users have an alternative to local DA, namely the local directory, which is provided free of charge. However, if a number has not yet been published in the directory the customer must dial local DA in order to get the number. For this reason, the LECs allow three free DA calls per month, and additional calls are charged the DA rate. The figure of three free calls was derived on the basis that approximately 80% of customers would never be charged for local DA (since they make three or fewer calls per month). (Order No. 13934)

Staff believes an increase in the DA rate is appropriate for several reasons. The primary reason is that beyond the three call allowance, additional DA calls are almost surely discretionary (Subscribers with special needs, such as those subscribers who are visually impaired, receive DA service without charge). In keeping with general Commission policy on discretionary services staff believes it is appropriate to increase the rate for DA. In particular, it is appropriate because DA services as a whole fail to cover their relevant costs. Centel states that the average cost per billable call is projected to be nearly $.27 per call and that the average number of local DA calls for business and residence combined (per access line) is 4.2. (EXH 102, p.304, and EXH 102, p.14)

Centel provided staff with the following information on the cost of providing DA services:

TABLE 39-1

DIRECTORY ASSISTANCE COSTS			
	Total Cost	Total DA Calls	Cost per Call
1988 Actual	$2,409,415	10,957,818	$.2199
1989 Actual	$2,753,908	11,677,704	$.2358
1990 Projection	$2,767,298	12,480,007	$.2217
1991 Projection	$3,452,363	12,947,591	$.2666

Source: EXH 102, p.304.

Witness Wahlen was unable to explain why the projected costs were expected to increase so much between 1990 and 1991. (EXH 106, p. 5) The cost information reported above shows a projected cost of $.2666 per DA call, yet the prehearing statement reports that the $.25 local DA rate covers costs. When asked to clarify the seeming discrepancy between these statements witness Wahlen responded "The [reported costs] are from a projected cost separations study, which is a fully allocated cost of service study... It obviously shows almost a 27 cent revenue requirement. The 25 cents would cover incremental costs, and probably attributable costs... But one would assume by looking just at these numbers of [interrogatory] 137 that there should be an increase in those charges." (EXH 102, pp.45-46)

Beyond the issue of covering costs on an individual call basis is the fact that the total revenue from DA calls falls far short of covering the total costs of DA calls when the free call allowance is considered. As shown above the total costs for DA calls falls between $2.4 million and $3.5 million in any given year. The number of billable DA calls, however, was only 3,763,084 in 1989 vs. the 11,677,704 DA calls placed. Thus the revenue shortfall for total DA services was well over $1 million. Therefore, whether or not the costs of an individual DA call are covered by the DA rate, staff believes that an increase in the rate would be appropriate because of the revenue shortfall.

The expected customer impact of staff's recommendation is very small. Since the average number of local DA calls is 4.2 per access line and three free calls are allowed, the average customer impact would be an increase of $.12 per month. Centel was unable to provide a call distribution showing the number of customers making a certain number of calls. (EXH 102, p. 17) However, for a customer making ten calls per month, substantially

more than the average, the impact would be an increase of $.70 per month. The test year revenue increase from staff's recommended increase is $395,124. (EXH 107, p.266)

Staff recognizes that approval of staff's recommendation to increase DA would represent a continuing move away from the previous policy of state-wide uniform rates. However, staff does not believe that this presents a significant problem in terms of customer acceptance. One reason is that these charges are explicitly stated on subscribers' bills and therefore there should be no confusion as to the rates for the subscriber of one LEC versus the subscriber of another LEC. Subscribers are unlikely to be concerned with the rate other LECs charge for DA. There is little rationale for continuing a statewide uniform rate for services such as DA. Although such a rationale may have existed when the charge was first put into place, since subscribers were accustomed to receiving the service for free, customer acceptance of the charge since that time has grown. Subscribers are accustomed to varying rates and charges for various services from various companies. Additionally, as noted above, the Commission recently approved a $.35 rate for AT&T-C's Foreign Numbering Plan Area (FNPA) DA calls (Order Nos. 23028, 22248, Docket No. 891124-TI) and a $.35 rate for United Telephone (Docket No. 891239-TL).

Finally, staff would recommend increasing local and intraLATA DA, placing the cost on the cost causers. Although Centel did not propose an increase in DA rates, they agree with this general philosophy. (EXH 102, p.13)

ISSUE 40: Centel has proposed no changes in the rates for Local Operator Assistance as shown below. Is this appropriate?

	Present	Proposed
Paystation Person to Person	$2.50	$2.50
Paystation Credit Card	1.00	1.00
Paystation All Other	1.00	1.00
Busy Verification	.35*	.35
Emergency Interrupt	.75*	.75

* approved effective 07-31-90 (T-90-233)

RECOMMENDATION: Yes. Local operator assistance rates should be left unchanged.

POSITION OF PARTIES

CENTEL: Yes. The present rates for all of these services are the same as the proposed rates. The busy verification and emergency interrupt were just approved by the Commission.

AT&T-C, DGS, FPTA, McCAW & OPC: No position.

STAFF ANALYSIS: Centel has proposed no changes in the rates for local operator assistance. They are equal to the existing rates for intraLATA toll operator services, except for the local verify and interrupt rates. The Company believes that continuing the existing rates is appropriate because the local rates equal the intraLATA rates except for local verify and interrupt which were recently approved by this Commission (T-90-233, effective 7-31-90).

Local operator services, except for verify and interrupt, are generally only applicable to paystation calls. This is because local calls from residential or business locations are unlimited, at no additional per call cost, except where local measured service is available. Therefore, a customer would have little reason to make a local collect or credit card call from such locations. From a paystation, on the other hand, local coin calls are $.25. A user may sometimes need to make a call but have no quarter, or for bookkeeping or expense account reasons, prefer to make an operator assisted call rather than paying $.25 in advance.

Centel's existing rates have already been approved for Southern Bell's and GTEFL's local operator services as well as for UTF's, Southern Bell's, and GTEFL's intraLATA toll operator services. Staff believes that many of these calls are

discretionary and the cost should be recovered from the cost causers.

The following chart provides a comparison of what other LECs are currently charging for local operator services:

TABLE 40-1

LOCAL EXCHANGE COMPANY COMPARISON OF LOCAL OPERATOR SERVICES					
Local Operator Services	Paystation Person-to-Person	Paystation Credit Card	Paystation All Other	Busy Verification	Emergency Interrupt
Central Telephone	$2.50	$1.00	$1.00	$0.35	$0.75
Southern Bell	$2.50	$0.75	$1.00	$0.35	$0.40
GTEFL	$2.50	$0.75	$1.00	$0.95	$0.45
ALLTEL	$2.50	$0.75	$1.00	$0.95	$0.45
United (Current) United (Approved)	$1.70 $2.50	$0.70 $0.75	$0.70 $1.00	$0.15 $0.95	$0.15 $0.45

Since there are no proposed changes for local operator service rates, there is no revenue impact for this issue. Staff considered whether to recommend increases in these services and decided against any such proposal. There are two primary reasons for not recommending any increase. First, Centel's rates, for the most part, match those of other major LEC's in Florida. Second, there was no compelling cost evidence that the present rates are inappropriate. Therefore, staff recommends that Centel's proposal, namely, that existing local operator rates be retained, be approved. Several secondary reasons also entered into the analysis. Among them are that the rates for local verify and interrupt were approved in mid-1990 and there is certainly no evidence that such rates need changing so soon. And finally, no party other than the Company took a position on this issue.

ISSUE 41: Centel has proposed changes in the rates for directory listings as shown below. Are the proposed rates appropriate?

	Present	Proposed
Business Additional Listings	$1.00	$1.25
Residential Additional Listings	.75	1.25
Business Alternate Listing	1.00	1.25
Residential Alternate Listing	.75	1.00
Add'l. Business List Each Line	1.00	1.25
Non-listed service	1.20	1.60
Non-published service	1.50	2.00
Res. Listing Foreign Exchange	.75	1.25
Bus. Listing Foreign Exchange	1.00	1.25
Hours of Service Listing	1.00	1.25

RECOMMENDATION: Yes. The proposed rates are appropriate.

POSITION OF PARTIES

CENTEL: Yes. These increases are based upon an analysis of prices being charged in other markets for the same services. Moreover, these services have not been repriced for several years. Even with these modest changes, the overall increase to customers requiring these services is minimal. These increases will help to meet the overall revenue requirement.

AT&T-C, DGS, FPTA, McCAW & OPC: No position.

STAFF ANALYSIS: Centel has proposed various changes in their rates for directory listings in order to align their rates more closely to the rates charged by other LECs in Florida. (Order No. 23686, p. 45) Centel believes the increase in rates should be approved in order to help meet the overall revenue requirement. (Order No. 23686, p. 45)

The following summarizes Centel's directory listings:

1. Additional listings are additional listings in excess of those permitted without extra charge.

2. Alternate listings are of two general types, according to whether the listing indicates (a) that the alternate telephone number is to be called after business hours and on Sundays and Holidays; or (b) that the alternate telephone number is to be called in the event no answer

is received on the call for the first number or numbers.

Subscribers may obtain listings which refer calling parties to certain other telephone numbers after business hours and on Sundays and Holidays, or in case no answer is received on the call for the first listed number or numbers.

3. Additional Business Listing, each line is listing additional information such as corner addresses, room or suite numbers of office buildings.

4. A non-listed telephone number is a number for which no listing appears in the alphabetical section of the directory. The number is listed in the directory assistance records and is given out upon request.

5. A non-published telephone number is a number omitted from both the directory and the Company's directory assistance records.

6. Foreign exchange listings are listings in directories other than those of home exchange.

7. Hours of Service Listings are additional lines for business listings which describe the hours of operation, or the hours at which a party may be reached.

The following chart provides a comparison of LEC charges for directory listings:

TABLE 41-1

	CENTEL (Present)	CENTEL (Proposed)	SBT	GTEFL	UTF (Present)	UTF (Approved)	ALLTEL
Additional Listing	Bus - $1.00 Res - $0.75	Bus - $1.25 Res - $1.25	$1.20	Bus - $1.25 Res - $0.95	$1.00	$1.25	$1.00
Alternate Listing	Bus - $1.00 Res - $0.75	Bus - $1.25 Res - $1.00	$1.20	Bus - $1.25 Res - $0.95	$1.00	$1.25	$1.00
Add'l Bus Listing Each Line	$1.00	$1.25	$1.20	Bus - $1.25 Res - $0.95	$1.00	$1.25	$1.00
Non-Listed Service	$1.20	$1.60	$0.80	$1.10	$.65	$1.00	$1.50
Non-Published Service	$1.50	$2.00	$1.75	$2.00	$1.50	$2.00	$1.50
Listing Cross Reference	*	*	$1.20	Bus - $1.25 Res - $0.95	$1.00	$1.25	$1.00
Hours of Service Listing	*	*	$1.20	*	$1.00	$1.25	*
Listing Foreign	Bus - $1.00 Res - $0.75	Bus - $1.25 Res - $1.25	$1.20	Bus - $1.25 Res - $0.95	$1.00	$1.25	$1.00

* Service covered in other areas

This table demonstrates that Centel's proposed rates are comparable with other LECs' directory listings rates, although not completely identical.

Centel has provided no cost data in support of its rate changes for directory listings. LECs usually do not develop cost data for directory listings, and the rates for these services have generally been priced based upon the value of these services.

The Company's primary justification for the increase is that the large majority of these services have not been repriced for many years. All of the services except for Non-Published Service were last changed in 1978 (T-78-133). Staff considers such a justification to be acceptable for discretionary services such as directory listings. No other parties took a position on this issue.

The expected customer impact on any individual customer will be slight. Although staff has no specific data on the elasticity of these services, staff believes these services to be relatively price inelastic within the range of increases proposed. Staff further believes that there should only be an insignificant repression effect.

It is staff's opinion that directory listings are discretionary services. As such, the cost causers should bear the full costs of the use of these services, as well as providing additional contribution to reduce the upward pressure on local rates.

If the Commission grants Centel's proposed increase for directory listings, the increase in revenue for these services would be $231,545 for the test year. Staff believes it is appropriate to increase the rates for Centel's directory listings before increasing basic local rates. Alternatively, the additional revenues could be used for other rate reductions.

ISSUE 42: Centel has proposed changes in the rates for Custom Calling Features as shown below. Is this appropriate?

Individual Services, per C. O. lines equipped.

	Present	Proposed
Call forwarding		
Residential	$ 1.50	$ 2.25
Business	1.50	2.25
Three-Way Calling		
Residential	1.75	2.25
Business	1.75	2.25
Call Waiting		
Residential	2.25	2.25
Business	2.25	2.25
Speed Calling-8 Code Type		
Residential	1.50	2.25
Business	1.50	2.25
Speed Calling-30 Code Type		
Residential	2.50	2.50
Business	2.50	2.50
Enhanced Call Waiting		
Residential	2.50	2.50
Business	2.50	2.50
Calling Forward Busy/No Answer		
Residential	1.50	1.50
Business	1.50	1.50
Call Forward Three Way Calling, Call Waiting and Speed Calling (8 Code)		
Residential	5.25	6.30
Business	5.25	6.30
Call Forwarding, Three Way Calling, Call Waiting and Speed Calling (30 Code)		
Residential	6.75	6.75
Business	6.75	6.75

	Present	Proposed
Call Forwarding, Call Waiting and Speed calling (8 Code)		
Residential	4.00	5.00
Business	4.00	5.00
Call Forwarding, Call Waiting and Speed Calling (30 Code)		
Residential	5.25	5.00
Business	5.25	5.00
Call Forwarding, Call Waiting, Three Way Calling		
Residential	4.00	5.00
Business	4.00	5.00
Call Forwarding, Call Waiting		
Residential	3.00	3.60
Business	3.00	3.60
Call Forwarding, Three Way Calling, Enhanced Call Waiting, Speed Calling (8 Code)		
Residential	5.50	5.50
Business	5.50	5.50

RECOMMENDATION: Yes. The proposed increases and the proposed decreases are appropriate. The rates are appropriate as well, for those services for which no increases have been proposed.

POSITION OF PARTIES

CENTEL: Yes. These are increasingly popular discretionary services and will support some price increase, thus providing increased contribution to common costs to help keep basic service rates low.

AT&T-C, DGS, FPTA, MCCAW & OPC: No position.

STAFF ANALYSIS: Centel has proposed increases for most custom calling features which were offered prior to 1990. The Company has proposed no changes for services which were introduced and newly tariffed in 1990. The proposed increases range from 20% to 50%, varying by service. The increases are as shown above in the issue statement. The Company has also proposed minor decreases of 4.76% for two services. Those services are packages which combine several offerings. They are Call Waiting Business 30

(call waiting plus 30 number speed dialing for business users) and Speed Calling 30/Waiting/Forward (30 number speed dialing plus call waiting plus call forwarding). Staff believes that increases should be placed on discretionary services before any increases are placed on basic local service.

Custom calling features consist of optional central office features which are intended to provide subscribers with a greater and more efficient use of their telephone service. Custom calling features are limited to those areas served by electronically controlled central offices equipped for custom calling features. All of Centel's central offices offer custom calling features.

Centel introduced two new services through tariff filing T-90-046 (effective 3-22-90, Docket No. 900173-TL). These services, Call Forwarding Busy Line/Don't Answer and Enhanced Call Waiting, when combined with other custom calling features, result in 28 distinct service offerings. In its tariff filing the Company noted that these new services would "offer the residential and small business customer sophisticated Centrex-type calling features." The two new services function as follows:

<u>Call Forward Busy Line/Don't Answer</u> - allows the subscriber to have calls forwarded to another number when the called station is busy or has not answered after a predetermined number of rings.

<u>Enhanced Call Waiting</u> - combines the features of Call Waiting and another feature commonly known as Cancel Call Waiting (not available separately). This feature allows a user to prevent Call Waiting tones from interrupting calls or disrupting data transmission.

In tariff filing T-90-135 (effective 6-8-90, Docket No. 900493-TL), the Company introduced three new call management features: Return Call, Redial Call, and Call Trace. These features were offered to give "customers more convenience in placing calls and more control over incoming calls." These three features function as follows:

<u>Return Call</u> - allows a subscriber to return the last incoming call by entering a three digit code.

<u>Redial Call</u> - allows the subscriber to periodically redial a busy number. When the destination line becomes free the customer is notified by a distinctive

ring that the call is ready to be placed.

<u>Call Trace</u> - permits a customer to input a three digit code and send the date, the time of the call, the time of the trace, and the originating and terminating numbers for the last incoming call to Centel's security department.

Staff believes that it would be inappropriate to increase the rates for the specific services described above, since they were only put into place this year (1990). Rate increases, so soon after these services have been implemented would not be desirable. Centel agrees, and therefore has proposed no increases for these services.

Centel has not submitted any cost information concerning custom calling features to support their proposed increases. However, staff believes that cost information is not particularly relevant for these services (and other discretionary services) as long as the Commission is satisfied that the costs of providing such services are fully recovered. As for custom calling features which have been in place prior to 1990, staff believes that the original rates covered costs and there is no evidence or reason to believe that the costs of such services have materially changed. Those features which have been newly offered in 1990 are likewise covering their costs as demonstrated in their respective tariff filings.

The expected revenue impact of these changes is an increase in the test year of $660,312.96. (EXH 107, pp. 271-272) The expected impact on an average customer is minor. At the most an average residential or business customer would subscribe to one of the packages of custom calling features per access line. Through the various package offerings every service is available either singly or in combination with other features. The greatest increase proposed for any of the packages is $1.05 (for the Call Forward, Three Way Calling, Call Waiting and Speed Calling (8) package). This increase would represent an annual customer impact of $12.60. For discretionary services such as custom calling features, staff believes that such an impact is minimal.

Staff believes that it is appropriate to require some increases in these services before placing any increases on local rates. No parties, other than the Company, took a position on this issue. The proposed increases should be approved, the proposed decreases should be approved, and all other rates should remain unchanged.

ISSUE 46: Centel has proposed changes in the rates for Touch Calling as shown below. Is this appropriate?

	Present	Proposed
Residence	$1.00	$1.25
Business Key	1.00	1.25
Trunks	4.00	4.25

RECOMMENDATION: No. The proposed increase in Touch Call rates is not appropriate. Touch Call rates associated with Residence and Business key service should not be changed. The Company should reduce the rates for Touch Call rates associated with PBX Trunk Service to the level charged for B-1 lines. This is a reduction from $4.00 to $1.00 per month.

POSITION OF PARTIES

CENTEL: Yes. Although Touch Calling has many more applications, it is still a discretionary service and is not required for touch tone applications or functions which may be called for by the called party, e.g., a bank, or other data service. In those situations, the newer pulse/tone telephone sets can perform the require function without the customer subscribing to Touch Calling service. These modest increases help reduce the amount of price increases otherwise required for basic local service.

FPTA: For competitive pay telephone service providers, subscription to Touch Calling service is not discretionary. In order to provide any pay telephone service, competitive payphone service providers must subscribe to this service. To eliminate the potential for anticompetitive pricing practices for this bottleneck monopoly input, nonLEC payphone providers should pay cost-based rates for this service as a result of these proceedings. At a minimum, the nonLEC payphone providers should not be subject to a price increase in this required service.

AT&T-C, DGS, McCAW & OPC: No position.

STAFF ANALYSIS: Centel has proposed an increase of $.25 per line for Touch Call service. The Company believes that Touch Call is a discretionary service and that an increase in the rates for Touch Call will reduce the need for an increase in basic local service rates. The Company argues further that Touch Call is competitive with non-pulse telephones.

Witness Wahlen believes that Touch Call is discretionary and competitive because it is not necessary to subscribe to Touch

Call in order to access information services. (EXH 102, p 312.) He also believes that a customer can purchase a switchable pulse-touchtone phone and access Centel's Central Processing Equipment (CPE) via the digital tones the office generates. (EXH 102, p. 311) Centel states that Centel's Touch Call offering is essentially replaceable with the CPE in the market today and hence Touch Call is competitive. (EXH 102, p.311) While we agree that telephones which are switchable from rotary to pulse may be used to send tones, they are not as convenient as "true" touchtone. Further, in digital central offices, touchtone is the standard. Centel is 100% digital.

The Florida Pay Telephone Association (FPTA) believes that cost based rates for bottleneck monopoly inputs are required to avoid anticompetitive practices on the part of Centel. Specifically, the FPTA states that in order to provide any pay telephone service, competitive pay telephone providers must subscribe to Touch Call, and that Touch Call is therefore a bottleneck monopoly input (FPTA TR 6-8). Although, from a policy perspective, this Commission does not order payphone providers to subscribe to Touch Call there is no other source from which they could reasonably receive the service. The FPTA believes that a price increase for this service is inappropriate. Staff agrees.

This Commission has, over the last few years, approved proposals to lower Touch Call rates whenever possible. For example, in August 1987 Docket No. 861361-TL, Order No. 17783, Centel implemented rate reductions to their Touch Call service because of overearnings. The rate decreased from $1.40 to $1.00 for residence and $2.00 to $1.00 for business. In January 1990, Docket No. 891234-TL, Gulf Telephone Company lowered their Touch Call monthly recurring rates due to overearnings from $2.00 to $1.00 for residence and $2.50 to $1.50 for business. Similarly, in January 1990, Docket No. 880216-Tl and 891199-TL General Telephone Company of Florida reduced Touch Call rates in association with custom calling features. Following is a table showing the Touch Call rates for certain Florida LECs. The

following table illustrates what other LECs are currently charging for Touch Call:

TABLE 46-1

Local Exchange Company Touch Tone Comparison

COMPANY	RESIDENCE	BUSINESS	TRUNKS
Centel Current	$1.00	$1.00	$4.00
Centel Proposed	$1.25	$1.25	$4.25
United Current	$1.00	$1.00	$1.00
United Approved	$1.00*	$1.00*	$1.00*
Southern Bell	$1.00	$1.00	$3.50
GTE	$0.50	$1.00	$2.00
Alltel	$1.00	$1.50	N/A

* The Company proposed banded rates with $.50 as the lower band and $2.00 as the higher band, but the Commission rejected this proposal.

N/A not available

Although staff was not provided with any evidence on the cost of providing Touch Call service staff believes that the cost of providing such service from digital central offices is very, very low. Staff recognizes that the service generates a major amount of revenue for the Company. Centel expects to receive $1,785,120 in projected revenues from 1991 at the current $1.00 rate for residence and business (B-1) customers and $160,656 from PBX customers. Because Touch Call is such a major revenue generating source, staff would not recommend eliminating the charge entirely at this point. However, if the Commission is inclined to change the rate for Touch Call, staff would recommend that any change only be one in which the rates are lowered.

The Commission may want to pursue the option of reducing Touch Call rates, thus reducing the revenue generated by the service. Staff would recommend this if the revenues are not needed elsewhere. At 1991 units, a $.25 reduction would have a negative revenue impact of $446,355.

Staff would note that Centel currently charges different rates for Touch Call to different business lines (i.e., B-1 or PBX). This is inconsistent with the Commission's recent decision to lower the SBT charges for PBX Touch Call to the same level as that for B-1 lines. Staff believes that Centel should lower the

rate charged for PBX lines to that charge for B-1 lines. The rate would change from $4.00 per month to $1.00 per month. This would result in a negative revenue impact of $120,492 for the Company.

In summary, staff believes the increases proposed by Centel are not appropriate for this service. Alternatively, Touch Call rates could be reduced if revenues are available. Therefore, staff recommends that the proposed increases in Touch Call rates not be approved. The Company should further be ordered to lower its Touch Call rates associated with PBX Trunk Service to the level charged for B-1 lines. This is a reduction from $4.00 to $1.00 per month.

ISSUE 47: Centel has proposed no change in its tariff for Charges Applicable Under Special Conditions (Section A5). In light of the recent changes in other Local Exchange Companies' similar tariffs, is this appropriate?

RECOMMENDATION: No. Centel should refile its GCST Section A5 to reflect the language used in Southern Bell's GSST Section A5, and this revised filing should be submitted to the Commission staff no later than 120 days after the issue date of the final order in this rate proceeding.

POSITION OF PARTIES

CENTEL: Yes. All of the rates for the service in Section 5 of the tariff have been established since May 1988. Most were established in 1989 or this year. Section 5 was designed for unique construction service arrangements, for which there are no provisions under other sections of the tariff. The Company believes the charges are still appropriate.

AT&T-C, DGS, FPTA, McCAW & OPC: No position.

STAFF ANALYSIS: Section A5 of Centel's General Customer Services Tariff (GCST) is "Charges Applicable Under Special Conditions". This tariff section includes the following subsections:

5.1 Construction Charges
5.2 Charges for Overtime Work Performed at the Customer's Request
5.3 Special Service Arrangements
5.4 Digital Services for the Florida Lottery
5.5 SUNCOM Service Center
5.6 D-4 Channel Service For Public Employees Service Company
5.7 Cable Pair Leasing For Sandestin
5.8 Digital Data Test System For The State Of Florida
5.9 Digital Network For Okaloosa County School Board
5.10 SUNCOM Network
5.11 Contract Service Arrangements

Subsections A5.1 and A5.2 have generally been known throughout the industry as the "Special Construction" portion of the tariff. Subsections A5.3 through A5.10 contain the provisions for Special Service Arrangements (Section 5.3) and the existing customer-specific Special Service Arrangements (Sections 5.4 - 5.10). Subsection 5.11 describes Centel's Contract Service Arrangement authority. This is a newly-approved tariff subsection (December 4, 1990 Agenda Conference) submitted by the Company in response to staff interrogatories issued in this rate

proceeding.

Special construction provisions specified in these subsections apply to those situations where tariffed service offerings require unusual facility configurations, nonreusable facilities, or extraordinary costs to provide the service. Such tariff sections were developed to protect the Company from undue risks associated with specially constructed facilities, to allow the Company to recover excessive construction costs, and to prevent cross subsidization of such facilities by the general body of ratepayers.

In Docket 870099-TL, the Commission approved Southern Bell's revised Tariff Section 5 - Charges Applicable Under Special Conditions, which featured major changes in the existing tariff's organization, language, and provisions relating to special construction and additional engineering. Such changes were necessary to correct the deficiencies of the existing tariff, which contained vague and sometimes contradictory provisions. (Order No. 18481)

Similar to the Southern Bell tariff prior to its revision, Centel's current GCST Section A5 contains vague and repetitive language as to how and when provisions are applied. For instance, Centel's GCST Section A5.1.4 - Page 7 states that "the customer may be required to bear part of the construction cost" when the associated revenue is not sufficient to insure an adequate return on investment "within a reasonable time". There is no explanation of what constitutes a "reasonable time" or "part of the construction cost". Such vague language exists in numerous locations throughout Sections 5.1 and 5.2, and may be a source of customer confusion and conflict between Centel and its customers if not corrected. Considerable staff time and effort was applied towards the revision of Southern Bell's Tariff Section 5 in order to correct these types of problems. Staff believes it is appropriate that similar changes be made to Centel's tariff.

Centel did not file any changes in Tariff Section A5 with its current filing. However, Centel Witness Wahlen stated that the Company did not object to including the terms, conditions, and liabilities contained in Southern Bell's Tariff Section A5 into Centel's Section A5, as long as redundancy does not result. (EXH 106, p. 25)

Subsections A5.3 though A5.9 describe Special Service Arrangements (SSAs), which are specially-tariffed service offerings which are distinct from other tariff offerings, either

in terms of the nature of the service, the facility configuration, or the costs required to provide the service. Each SSA is provided to a single customer. Included in the SSA tariff is a general description of the service and the agreed-upon rates and, in some cases, the effective dates of such rates. The SSA is often the vehicle used to allow the LEC to provide service to a large customer with special needs not covered in the other tariff sections. Special contracts between the Company and its customer reflect the terms, rates and conditions specified in the SSAs established in Section A5. Such contracts state that the applicable provisions in the Company's tariff represent a binding agreement between the customer and the Company. (EXH 104, p. 301) Section A5.3 states that all such SSAs are based on the estimated costs of furnishing the service, and lists the items for which costs are measured in the rating of the service.

The current SSAs were established on or after May 30, 1988 and have been assembled with rates and terms included. Staff has reviewed the rates for each of the SSAs. The SUNCOM Network SSA (Subsection A5.10) accounts for $273,468 in current revenue of the $422,359 in total current SSA revenue. Approved by the Commission in 1990, the major revenue-producing rates which apply to the SUNCOM Network are line port and trunk port rates for the state's private line network, which account for $219,760. The SUNCOM network contract is in effect until 1992. The other SSAs were also established for private line services, and will also expire in 1992. For all current SSAs, cost justification was provided at the time of tariffing.

The provisions for Contract Service Arrangements (CSAs) are described in Subsection A5.11. CSAs include nontariffed rates for specific services subject to competition. CSAs are offered by the Company in response to the threat of uneconomic bypass. Significant regulatory reporting requirements exist for CSAs, as described in Order Nos. 13603 and 15317.

No other parties took a position regarding the lack of proposed changes to Section A5 of the Centel tariff.

Therefore, staff recommends that the Commission require Centel to refile their GCST Section A5 to reflect the language used in Southern Bell's GSST Section A5, and this revised filing should be submitted to the Commission staff no later than 120 days after the issue date of the final order in this rate proceeding.

ISSUE 49: Centel has proposed to increase semi-public telephone rates as shown below. Is this appropriate?

	Present	Proposed
Rate Group 1	$7.61	15.54
Rate Group 2	8.06	16.56
Rate Group 3	8.45	17.20
Rate Group 4	9.28	19.04
Rate Group 5	9.73	19.87
Rate Group 6	10.12	20.70
Rate Group 7	N/A	21.51
Rate Group 8	N/A	22.36

RECOMMENDATION: Yes. The proposed rates are appropriate to the extent that they reflect 100% of the B-1 rates. If B-1 rates other than those shown above are approved, then the semi-public telephone rates should be increased to match 100% of the approved B-1 rates. The rates which should be approved are:

Rate Group 1	$13.16
Rate Group 2	13.95
Rate Group 3	14.74
Rate Group 4	15.64
Rate Group 5	16.54
Rate Group 6	17.44
Rate Group 7	18.45
Rate Group 8	19.46

POSITION OF PARTIES

CENTEL: Yes. Like other business one-party services, the semi-public service rate, even at proposed rates, does not cover the fully allocated cost of a business line. In addition, the Company provides a coin telephone set with this service at no additional charge. Like many basic services, this service needs to be moved closer to cost.

AT&T-C, DGS, FPTA, McCAW & OPC: No position.

STAFF ANALYSIS: Semi-public pay telephones are a class of coin box exchange service furnished in locations which, in the judgement of the Company, are reasonably accessible to the public but do not warrant the installation of a public pay telephone. Semi-public pay telephones are generally installed at locations where there is an appreciable demand for service on the part of transients yet the demand will not generate sufficient revenues to cover the cost of a public pay telephone. Currently, a

premises owner that has a semi-public pay telephone pays 75% of the rate paid by a single party business line customer (B-1). Central Telephone of Florida (Centel) has forecasted 353 semi-public pay telephones will be in use during the test year.

Centel is proposing a change in the rate relationship between semi-public pay telephones and the B-1. Centel proposed rates for semi-public phones, which are priced currently at 75% of the B-1 rate, to be set at 100% of the B-1 rate. If approved, Centel's access line revenues for semi-public telephones would increase 116.2% with annual access line revenues rising from $42,304.8 to $91,444.20, an increase of $49,139.40. (EXH 107, p. 266) This, of course, assumes that Centel's proposed B-1 rates are approved.

Centel asserts that such a rate relationship is needed to appropriately reflect the fully distributed cost of such service. However, the Company provided no cost data for this service.

No other parties have taken a position on this issue. Staff believes that Centel's proposed rate of 100% of the B-1 is appropriate. One of the purposes of providing this class of service is that it provides the premises owner with the ability to allow the public to make local and long distance calls, without the risk of incurring the charges to the premises owners' business phone. Because the location does not meet the Company's requirement that a public need be served and the fact that the location does not generate sufficient revenues to cover the cost of a public pay telephone, it is reasonable to assume that the primary beneficiary of such service is the premises owner. Therefore, it is appropriate that the premises owner bears the cost of providing telephone service to his or her customers.

Another benefit associated with a semi-public pay telephone is that the pay telephone can also serve as the premises owner's business phone through the use of extension stations. Extension stations are provided without dials or coin collectors for the exclusive use of the subscriber for answering purposes only. In addition, subscribers to semi-public pay telephone service may be listed in the directory.

In the United Telephone Company rate case, United proposed rates for semi-public telephone service which were 125% of the B-1 rates. Staff believes that 125% of the B-1 rate appropriately compensates the LEC for the access line in addition to the additional investment of the instrument (pay telephone). However, United's semi-public telephone rates were 100% of the B-1 rates to begin with. Staff believes that increasing rates from

75% of the B-1 rate to 125% of the B-1 rate would result in rate shock for users of semi-public telephone service. Therefore, staff believes that rates should only be increased to 100% of the B-1 rates at this time.

The revenue impact of Centel's proposed rates would be an increase in the test year of $49,139.40. The revenue impact of staff's recommendation would be an increase of $36,448.14 in the test year.

Staff agrees with Centel that this rate increase will help to bring total revenues more in line with the cost of providing the service. A semi-pub line is essentially the same as a B-1 line with additional central office functionalities (such as coin return). Although staff was provided with no cost information specific to semi-public telephone service, there is little doubt that the costs are at least as great as the costs for B-1 service, since a semi-pub line offers more functionalities than a B-1 line.

Other than the cost of the access line and usage, there are both additional costs and additional revenues associated with the provision of semi-public pay telephone service. While the Company collects and retains the coins deposited in each telephone, the company has costs associated with the collection and counting of the coins. Centel was unable to provide the average coin revenue for semi-public pay telephones as opposed to public pay telephones. Similarly, no cost information specific to semi-public pay telephone service was provided.

If an increase in the rates is approved for B-1 service then staff recommends an increase be approved here as well. Further, staff recommends that Centel's proposal to set semi-public telephone rates at 100% of the B-1 rate be approved.

ISSUE 52: The only change that Centel has proposed to its mobile interconnection tariff is to increase the non-recurring charges for DID service. Is this appropriate?

RECOMMENDATION: No. In keeping with Order No. 20475 in Docket No. 870675-TL, if the company's proposed or staff's recommended access charge reductions are approved, mobile interconnection rates should be reduced as per Order No. 20475. The proposed increases in non-recurring charges for DID service should be rejected. Non-recurring charges for DID trunks should be the same for all customers. They should not vary whether they serve mobile interconnection, PBX, or TAS.

POSITION OF PARTIES

CENTEL: Yes. The remaining charges were recently set In re: Investigation into Interconnection of Mobile Carriers with Facilities of LECs, Docket No. 870675-TL.

McCAW: No. The Commission's cellular interconnection policies established in Order No. 20475 tie the cellular usage rates to certain switched access charge elements with changes in the levels of these components to be reflected in the rates paid by cellular carriers. Any access charge rate changes must be properly reflected in Centel's cellular usage rates.

In addition, if the Commission adopts any incentive regulation plan for Centel, which based upon the current record it should not, cellular interconnection services should not be subject to any price caps or annual rate adjustments plan. First, in general, it is inappropriate for competitive service prices set in a full adjudicatory proceeding to be adjusted automatically without an opportunity for hearing. Second, any competitive interconnection service priced significantly above cost should not be subject to any automatic annual price increase; these services are already paying their fair share. Third, with respect to the cellular usage rates, so long as these rates are tied to access charges, they should continue to be subject only to changes made in access charges in order to be consistent with the Commission's findings in the cellular docket.

AT&T-C, DGS, FPTA & OPC: No position.

STAFF ANALYSIS: The interconnection of Mobile Services tariff provides interconnection arrangements for all mobile carriers. This service is different from Centel's own mobile telephone service which provides end-to-end service to Centel's own mobile customers. In the interconnection tariff the Company is

providing access for mobile carriers which they in turn use to provide end-to-end service to their own subscribers.

DID CHARGES

The only change Centel has proposed is to increase the nonrecurring charges for the establishment of trunk groups and adding additional blocks of numbers. The Company has not proposed any such changes for establishment of such service in any other tariff sections. That is, the Company has proposed no change in the DID installation rates for PBX customers or for TAS customers. In fact, Centel responded to Issue 56 (Installation Charge for DID trunks) that "[T]he service rates identified above have been established recently, and the rates fully recover the associated costs of service." (Order No. 23686, p. 55)

Specifically, Centel has proposed the following increase in Section 26 (mobile interconnection) of its tariff:

	Installation Charge	
	Present	Proposed
Establish Trunk Group and provide first group of 20 DID number	$915.00	$1,143.75
Each additional group of 20 DID number	$15.00	$18.75

However, Centel has proposed no changes in Sections 11 (PBX Service) and 23 (Shared Tenant Service) for the following items:

	Installation Charge	
	Present	Proposed
Establish Trunk Group and provide first group of 20 DID number	$915.00	$915.00
Each additional group of 20 DID number	$15.00	$15.00

In response to Issue 56 Centel, in its Brief, states "[W]ith respect to the installation charge, the non-recurring charges were established in Docket No. 870310-TL, effective April 24, 1987, and no price changes are appropriate at this time." However, in response to this specific issue (52), Centel chose to respond only to the portion of the issue which dealt with mobile usage charges. That is, in both its pre-hearing statement and

its Brief Centel did not address in any way the proposed increase in DID installation charges for mobile interconnection.

Centel has provided no evidence of any kind to support an increase in the DID installation rates for mobile interconnection. Further, Centel has not differentiated in any way DID installation for mobile interconnection, and DID installation for PBX or TAS, for which no increases were proposed. Staff believes that there is little or no difference between the various classes of DID installation discussed here and in the absence of either any cost evidence, or any differentiation between classes of DID service, the proposed increases are inappropriate. While staff has no evidence to show that the costs are not different, staff believes that the onus is on the Company to justify their proposed changes. The revenue impact of denying the Company's proposal would be a reduction of $723.75 in the test year. That reduction breaks down into $686.25 from establishment of trunk groups and $37.50 from additional groups of DID numbers.

INTERCONNECTION RATES

Centel has not proposed any reduction in the usage rates to reflect the proposed changes in their switched access rates. No parties except McCaw Communications have presented positions on this issue. McCaw correctly points out that "the Commission's cellular interconnection policies established in Order No. 20475 tie the cellular usage rates to certain switched access charge elements with changes in the levels of these components to be reflected in the rates paid by cellular carriers. Any access charge rate changes must be properly reflected in Centel's cellular usage rates." (Order No. 23686, p. 53) Further, they argue that if the Commission approves an incentive regulation plan for Centel, interconnection for competitive services such as cellular usage rates should not be subject to automatic rate increases without a hearing. Staff agrees that automatic increases in competitive services would not be appropriate. In particular, services which require access to the local network should not be priced without an examination by the Commission.

The method used to calculate the mobile interconnection usage rate was determined in Docket No. 870675-TL, the Commission's investigation into the appropriate rates and charges for interconnection of mobile carriers to the local exchange network. The usage rate is a flat rate per minute comprised of a local and toll component and is based on switched access charges. Order No. 20475 in that docket requires that as switched access rates change those changes should be flowed through to the mobile interconnection usage rate.

In response to this issue Centel stated in its prehearing statement and its Brief that the cellular interconnection charges were recently set in Docket No. 890675-TL and that therefore they should not be changed. What the Company failed to realize was Order No. 20475 specifically requires that switched access charge changes be flowed through to the mobile interconnection usage rate. Witness Wahlen, however, did admit under cross examination that the mobile interconnection usage rate should be lowered if switched access charges are lowered. (TR 1306)

Centel is proposing to reduce its BHMOC to $5.00 in this docket (see Issue 79). In order for the Company to comply with Order No. 20475, if Centel's proposed BHMOC rate were approved, the mobile interconnection usage rate would fall from $0.0405 to $0.0397 per minute on-peak. The revenue effect of this reduction would be $7,847. (EXH 107, Sch. E-1a) If the Commission approves Centel's proposed BHMOC reduction, then it should reflect that reduction in this issue.

Staff, however, has recommended a BHMOC rate of $3.72 in Issue 79. Based on the calculation required in Order 20475, the on-peak mobile usage rate would decrease to $0.0385 per minute. Mobile interconnection usage revenues would thus decrease by $19,575. A cellular carrier with usage of 2,000,000 on-peak minutes per month currently pays $81,000 in usage. Using the rates which would be derived under Centel's proposed BHMOC rate that carrier's monthly charge would decrease by $1,600 to $79,400. Using the rates which would be derived under staff's recommended BHMOC rate, that carrier's monthly usage charge would decrease by $4,800 to $77,000.

TABLE 52-1

Mobile Interconnection Usage Rates			
	Centel Current	Centel BHMOC	Staff BHMOC
On-peak	$0.0405	$0.0397	$0.0385
Off-peak	$0.0302	$0.0294	$0.0282
Landline to Mobile	$0.0992	$0.0953	$0.0893

One additional sub-issue which must be addressed is that of trunk charges assessed to Radio Common Carriers (RCCs). In Docket No. 900079-TL, the Florida Radio Telephone Association

(FRTA) filed a petition which sought to have the Commission implement a separate one-way DID trunk service offering at a reduced rate within the mobile interconnection tariff. The Commission denied the petition, however, it directed staff to review the trunk rates in this proceeding. FRTA had argued in its petition that, contrary to the record on which Order No. 20475 was based, the RCCs' interconnection is inferior to the Type 1 interconnection used by the CMCs, and should therefore be offered at lower rates. (In the mobile interconnection docket, FRTA had testified that RCCs did take Type 1 interconnection and should pay the same rates as cellular carriers.)

In staff's analysis in Docket No. 900079-TL, staff presented three options for Commission action regarding the error in the record of Docket No. 870675-TL and the subsequent concern over the price of trunks for RCCs First, the Commission could make the trunk rates for RCCs identical to those that PBX trunk subscribers currently pay since RCCs do take that type of connection. This option, however would have raised the trunk rates for RCCs in Southern Bell's, General's and United's territories, and substantially reduced them in Centel's territory. The second option was to approve the petition by simply reducing the trunk rates to the levels requested by FRTA. The third option was to deny the petition on the basis that the RCCs were not harmed by the Commission's decision in Docket No. 870675-TL. This is because the net effect of all the Commission's decision in that docket was to substantially reduce the total charges assessed to RCCs. Staff believes now, as it did then, that the trunk charges assessed RCC's, as a result of the investigation, should remain in place. Further, we would note that FRTA did not intervene in this docket.

In summary, Staff recommends that the mobile interconnection usage rate be reduced to $0.0385 per minute on-peak and $0.0282 off-peak, according to Order No. 20475. Centel's proposed increase in DID installation charges should be rejected. The Commission should take no other action with respect to mobile interconnection rates and charges in this proceeding.

ISSUE 53: Centel has proposed to increase the rates for tone-only mobile service access lines by 57% with no change to usage rates. They have also proposed to increase the rates for company-owned mobile service by 44% with no change to usage rates. Is this appropriate?

RECOMMENDATION: Yes. The Company's proposed increases are appropriate.

POSITION OF PARTIES

CENTEL: Yes. The tone-only mobile service refers to the Company's paging service. The company-owned mobile service refers to its Improved Mobile Telephone Service. Both of these services are declining. The proposed prices are designed to bring the revenues from these minor services more in line with costs.

AT&T-C, DGS, FPTA, McCAW & OPC: No position.

STAFF ANALYSIS: Centel has proposed to increase the rates for tone-only (paging) mobile service access lines by 57% with no change to usage rates. They have also proposed to increase the rates for company-owned mobile service by 44% with no change to usage rates. The Company claims that these are declining services because of increased competition.

Paging mobile service is the Company's paging service. The December 1990 Centel telephone directory (Tallahassee) lists eight competitors under the heading "Paging and Signaling Service". Company-owned mobile service refers to Centel's Improved Mobile Telephone Service (IMTS). The same directory lists at least two direct competitors (for IMTS) as well as two cellular carriers which compete for the same market.

Because ample competitive substitutes are available for the two services in question staff believes that the Company's proposed increase is appropriate. If the Company believes that they can retain customers with the increased prices, in the face of competitive pressure, then staff is inclined to agree with their proposal. Responding to the issue of competitive substitutes witness Wahlen responded, "[i]t's not necessarily other services, it is other providers. There are a number of radio common carrier companies in our operating territory who provide not only area-wide, but nationwide paging in competition with our paging service. Those same carriers, in many cases, provide mobile telephone service which is very close to our IMTS with the possible exception that customers can't roam from city

to city as easily as they can with IMTS, and there are also the cellular providers who are providing cellular mobile telephone service which is in competition with our Improved Mobile Telephone Service." (EXH 106, pp. 50-51)

These services might also be declining because of other factors. For example, the increased usefulness of cellular phones as opposed to IMTS may cause customer migration regardless of any price changes. As customers have already migrated from Centel's IMTS or paging service to competitors, Centel must cover its fixed facilities costs with lower revenues. That is, certain capital facilities and equipment are required for IMTS and paging service and those costs are shared by the subscribers to those services. As the number of customers decline the fixed costs do not decline, and there may be substantial maintenance costs which also do not decrease. Rather the fixed costs and maintenance costs must now be spread over a smaller pool of customers. Therefore, rate increases for declining services may be appropriate. United Telephone Company has proposed obsoleting its IMTS and paging services, and General Telephone of Florida has already obsoleted its paging service.

Centel has not provided any specific cost data for these services. However, since there are numerous alternatives available to current subscribers, staff believes that cost data is less relevant than if these were monopoly services with captive ratepayers.

Other LECs charge the following rates:

TABLE 53-1

COMPANY	IMTS	STANDARD PAGING	VOICE
Centel Current	$34.66	$11.75	$13.00
Centel Proposed	$50.00	$18.45	$20.41
United Current	$52.75	$ 9.00	N/A
United Approved	$60.65	$10.35	N/A
Southern Bell	$55.80	$14.10	$19.75
GTE	$41.50	N/A	N/A
ALLTEL	$37.00	N/A	N/A

Source: Respective Tariffs.

Staff believes that most subscribers to these services are

single access line customers. Therefore, the expected customer impact for IMTS would be $15.34 per month. The expected customer impact for standard paging customers would be $6.70 per month, and for voice paging customers would be $7.41 per month. If any customers are multiple subscribers then of course they would face a proportionately higher increase. Centel reports 175, 1, and 57 projected customers in 1991 for IMTS, standard paging, and voice paging services respectively. (EXH 107, p. 274) The average monthly demand in 1989 was 190, 1, and 53 units respectively. (EXH 38, p. 9, E-1a Historic) Thus a decrease of 15 units for IMTS, no change for standard paging, and an increase of 4 units for voice paging are projected.

Staff believes that the proposed increases are appropriate. No parties, other than the Company, took a position. Since these are competitive services with several alternate vendors available to subscribers and since the capital equipment employed does have some maintenance costs as well as fixed costs, the proposed increases should be approved. The Company projects a $37,363 revenue increase if the proposed rates are approved. (EXH 107, p. 274)

ISSUE 64b: Centel has proposed no changes to the rates or tariff pages associated with their Packet Switching Network contained in Section 16 - Data Service. Is this appropriate?

RECOMMENDATION: Yes. Centel Packet Switching Service (CPSN) is an expired tariff offering appearing in Section A16 of Centel's General Customer Subscriber Tariff (GCST). The Company should file to delete the tariff for Centel Packet Switching Network Service within 30 days of this Agenda Conference.

POSITION OF PARTIES

AT&T-C, DGS, FPTA, McCAW & OPC: No position.

CENTEL: The Company's previous experimental Packet Switching Tariff has expired, and the Company plans to file a new tariff in the near future.

STAFF ANALYSIS: Centel Packet Switching Network (CPSN) is an expired tariff offering which is currently located in Section 16.3 of the General Customer Subscriber Tariff (GCST). It was a packet switching data network service which provided data concentration and packet switched transmission and was offered on an experimental basis.

The tariff for CPSN became effective for a one year period beginning on February 13, 1989. The Company did not file a tariff to revise the tariff since that time, so it has been expired since February 13, 1990. Since the tariff expired, Centel has had no customers. Witness Wahlen stated that the Company is waiting until after the current rate proceeding to file changes to the tariff since it was overlooked in the rate case filing. He further stated that the tariff offering was not a success, and that at this time, the Company has no planned changes for the service. (EXH 106, pp. 74,75)

Centel's proposed revenue associated with CPSN for 1991 is $10,373, which is the same as the current revenue. (EXH 107, pp. 274, 286)

Staff believes that it is inappropriate to have expired tariff sections located within the Company's existing GCST, especially when revenues associated with such expired tariff sections are included in the proposed revenues of the Company. Staff recommends that the Commission require Centel to file to delete the tariff for Centel Packet Switching Network Service within 30 days of this Agenda Conference.

ISSUE 90: How should the revenues and costs for Centel's Voice Mailbox Service be accounted for in this proceeding?

RECOMMENDATION: Centel's current treatment of voice mail revenues and expenses is not in violation of existing Commission policy and is acceptable at this time. At present, voice mail for the State of Florida is a tariffed item, with revenues and expenses accounted for above the line.

Voice mail service for other users is a LEC-provided, currently non-tariffed information service. Centel's policy is that its voice mailbox service to the general public is below the line.

The Company should, however, maintain a separate record of its revenues and expenses for voice mail services on a going-forward basis so an accurate accounting may be produced should the Commission decide to change the treatment of the monies.

POSITION OF PARTIES

CENTEL: Central Telephone-Florida believes that it current treatment of Voice Mail Service is appropriate. At present, Voice Mail Service for the State of Florida is a regulated offering associated with its contract with Central Telephone-Florida for the provision of telecommunications services. Voice Mail Service for other users is a non-regulated information service.

AT&T-C, DGS, FPTA, McCAW & OPC: No position.

STAFF ANALYSIS: This Commission's policy regarding LEC-provided information services was set forth in Docket No. 880423-TP, Order Nos. 21815 and 23183. The Commission decided that LEC-provided information services are under our jurisdiction and will be regulated; the degree of regulation to be decided on a case-by-case basis. The decision on exercising the Commission's jurisdiction over LEC-provided information services was stayed pending rulings in federal court; the stay has not been lifted as of this date.

Centel's voice mail product is a LEC-provided information service; therefore it is a regulated service pursuant to the provisions of Order No. 21815, once the stay is lifted. At that time, the Commission may wish to decide how the earnings will be treated for all or some of the LEC-provided information services.

The Commission's policy regarding the revenues associated

with regulated services has traditionally been to include those revenues and expenses above the line. Centrex service, which in some cases is provided via special contracts with customers, is an example of a service that is not entirely tariffed, yet its revenues, expenses and investment are included as part of regulated earnings for setting rates. In the same fashion, the Commission does not set rates for directory advertising, but does have jurisdiction over a portion of the revenues from it. The Commission has exercised this jurisdiction by including all or part of the revenues, expenses, and investment associated with directory advertising operations as part of regulated earnings.

It is important to emphasize here that while the Commission has not expressed a desire to tariff voice mail to this point, it has also not addressed how the earnings for voice mail will be treated, if at all. These decisions may be made in other dockets or on the Commission's own motion at any time. Until those decisions are made, however, it is not improper for a company to account for these revenues in either fashion. United chose to account for the revenues as a regulated item; Centel did not. Either method is acceptable.

The Company estimates that the state portion of its voice mail service will generate $64,230 in 1991. (MFR SCH E1-A) The non-tariffed portion should generate approximately $360,000 in 1991, according to Centel's projections. (EXH 104, p. 1) The record did not reveal any figures for the expenses associated with Centel's voice mail. Centel further stated off the record that it does not separately account for its voice mail expenses; they are bundled in with other unregulated services.

Staff recommends that Centel be allowed, for the time being, to account for voice mail revenues as it sees fit. We do recommend, however, that a separate accounting be made on a going-forward basis so that voice mail revenues and expenses may be separated from the Company's other unregulated services. This will be necessary information for the time when the Commission begins its case by case examination of information service offerings.

ISSUE 56: Centel has proposed no change in the Installation Charge and Monthly Rate for DID trunks as shown below. Is this appropriate?

	Installation Charge	Monthly Rate
Two Wire DID Trunk Termination, each	$ 90.00	$40.00
Establish Trunk Group and provide first group of 20 DID numbers	$915.00	$4.00
Each additional group of 20 DID numbers	$15.00	$4.00

RECOMMENDATION: Yes. The installation charges for DID trunks and the monthly rates for DID numbers should not be changed.

POSITION OF PARTIES

CENTEL: The service rates identified above have been established recently, and the rates fully recover the associated costs of service. Contrary to the position stated in this Issue, the Company has proposed changes to the monthly rates for DID trunks. With respect to the installation charge, the non-recurring charges were established in Docket No. 870310-TL, effective April 24, 1987, and no price changes are appropriate at this time.

AT&T-C, DGS, FPTA, McCAW & OPC: No position.

STAFF ANALYSIS: Direct-in-Dialing service (DID) provides a customer the ability to direct incoming calls directly to a called party instead of having to go through a live operator or receptionist. DID service also allows the called party (who may share a trunk) to appear as if he has a direct line used only by him. DID requires central office switching equipment that will complete calls from the LEC network direct to stations located on the customer premises without intervention by a PBX attendant.

Centel's current DID rate structure includes a rate for each group of 20 DID station numbers. The structure and rates are as shown above in the issue statement. These rates are applied in addition to regular PBX trunk charges.

In its Brief Centel states that "[C]ontrary to the position stated in this Issue, the Company has proposed changes to the monthly rates for DID trunks." (TR 77) The wording of this issue

is slightly confusing, resulting in Centel's statement. Centel has proposed an increase in the monthly rates for the DID trunk rates as shown in issue 55 (to match proposed increase in PBX trunk rates). This issue (56) specifically deals with the installation charges and monthly rates for DID trunk termination and DID numbers and not with the PBX trunk charges.

Centel has restructured its Direct-in-Dialing (DID) service. The restructure was done in Docket No. 870310-TL in the midst of the Cellular Interconnection Docket No. 870675-TL and conforms to the recommended DID rate structure which flowed from that docket. Staff believes that the present rate structure is appropriate. The only issue then, is whether the rate levels are appropriate.

The Company has not supplied any cost evidence, other than what was previously supplied with the tariff filing in Docket No. 870310-TL (T-87-065). That filing showed that the rates fully recovered the costs associated with those services at that time. The Company states that the current rates fully recover the costs associated with the services. Staff has no reason to believe that any material increases in the costs of providing these services have occurred since 1987. More likely, the prevalence of digital central offices has reduced the cost of providing DID service. However, staff is recommending no change at this time. Centel's rates are identical to those of Southern Bell with the exception of the monthly rate for DID trunk termination. Southern Bell charges $34.75 per month while Centel charges $40.00 per month.

If staff's recommendation is approved, there will be no revenue impact for this issue. Similarly, there will be no customer impact. No parties other than the Company have taken a position on this issue. The current rates should be approved as appropriate.

ISSUE 62: Did Centel appropriately apply the cost manual in the development of private line costs, as mandated by the Commission?

RECOMMENDATION: No. Not all costs have been developed for each Private Line/Special Access Service and an inappropriate rate of return was used to develop cost factors. The Commission should require the Company to refile the Centel Private Line/Special Access Cost Study with cost development that mirrors the rate structure for all Private Line/Special Access Services, including first and additional designations for local channel nonrecurring costs. Also, the Commission should require Centel to submit channel unit equipment costs required for DDS Channels, and revised costs for all services based upon the rate of return approved by the Commission in Issue 13. This refiled cost study should be submitted within 120 days of the issue date of the order for this rate proceeding.

POSITION OF PARTIES

CENTEL: Yes. Centel Telephone-Florida's private line study complies with Commission requirements.

AT&T-C, DGS, FPTA, McCAW & OPC: No position.

STAFF ANALYSIS:

BASIS AND PURPOSE FOR THE CENTEL PRIVATE LINE/SPECIAL ACCESS COST STUDY

Centel submitted a Private Line/Special Access Cost Study, prepared by Ernst and Young, in support of the changes it has proposed in its Local Private Line Service rates. The study was prepared in accordance with FPSC Rule 25-4.044. This rule mandates any company which proposes to change the rates, terms or conditions of Private Line/Special Access Service shall provide cost support by submitting a cost study based on the cost manual approved by this Commission for that purpose (Form PSC/CMU 30). This rule was adopted in December 1986. Southern Bell submitted a cost study in May 1989, and the study formed the basis of the repricing and restructure of the industry tariff for Private Line/Special Access Services, approved in July 1990.

The cost manual adopted by the Commission was designed to determine incremental costs. Neither the manual nor the rule state the purpose for which the results of the study should be used. In Docket No. 890505-TL, incremental costs developed using the Private Line/Special Access Cost Manual were used to determine price floors for services. In addition, these same

costs were used to provide a contribution benchmark. Southern Bell was mandated by the Commission to submit adjustments to its costs and rates such that the contribution levels for each service as originally submitted were to be maintained.

Witness Wahlen states that the purpose of the study is to determine price floors. He further states that fully allocated cost studies are the appropriate method of pricing services. (EXH 106, pp. 67-68) The purposes of various costing methodologies are currently being considered in Docket No. 900633-TL (Development of Local Exchange Company Cost Methodology[ies]).

APPLICATION OF THE COST STUDY TO ALL INTRASTATE JURISDICTIONS

The Centel Cost Study develops costs for all Private Line/Special Access Services. While Centel submitted its cost study for the purposes of supporting changes in its Local Private Line Service rates, Witness Wahlen stated that "the facilities used to provide either Special Access, Local Private Line, Interexchange Private Line, or any other dedicated service within an exchange area is covered by the cost study, the incremental cost study that we did." (EXH 106, pp. 66-67)

Southern Bell, on the other hand, submitted four separate studies, developing costs for Private Line Digital Services, Private Line Analog Services, Special Access Digital Services, and Special Access Analog Services. Witness Wahlen states that Centel performed one consolidated cost study since facilities and the installation for private lines are essentially the same, regardless of jurisdiction. (EXH 106, p. 67) Staff believes that private line facilities of all jurisdictions are essentially the same, and that whatever differences might exist are minor and, for the purposes of developing a cost study, can be ignored.

OVERVIEW OF THE CENTEL COST STUDY

Staff reviewed the Centel Private Line/Special Access Cost Study by first estimating its level of conformance to the procedures and methods of the approved cost manual. The cost manual allows companies to exercise a high degree of flexibility in choosing the assumptions and methods to be used to develop incremental costs. Staff compared the Centel Cost Study's assumptions, methods, and results to the Southern Bell Private Line/Special Access Cost Study submitted in Docket No. 890505-TL.

The study developed recurring and nonrecurring incremental costs for services based upon the type of facility, engineering, and installation required for the service. Most of the costs

developed apply to several different services, since many services are quite similar in terms of facility, engineering, and installation requirements. Costs were developed into the broad categories in conformance with the manual: recurring costs for loops, interoffice channels, and circuit equipment; nonrecurring costs for voice grade, Wideband T-1, Program Audio, and Digital Data Service. The cost summary appearing in Chapter 2 of the study develops a total of 29 separate costs.

Centel's cost study was not organized to follow exactly the cost manual's chapter-by-chapter format. The study was organized as follows:

Introduction - Major Assumptions of the Study.
Chapter 2 - Summary of Costs
Chapter 3 - Loop Costs
Chapter 4 - Interoffice Costs
Chapter 5 - Circuit Design Costs
Chapter 6 - Annual Cost Factors
Chapter 7 - Nonrecurring Costs

The cost study addresses all the major steps in private line incremental cost development as outlined in the manual. In addition, the requisite forms have been submitted which detail the circuit designs, loop and interoffice channel characteristics, annual cost factor development, shared cost factors, circuit design costs, and loaded labor rates. Staff requested and received from the Company the following information required by the cost manual which was omitted from the study as originally submitted:

1. A complete list and description of all assumptions used in the study per Chapter 4 of the cost manual (EXH 104, p. 350)
2. Work Flow Diagram used in developing nonrecurring costs per Chapter 9 of the cost manual. (EXH 104, p. 368)

REVIEW AND EVALUATION OF COST STUDY ASSUMPTIONS

The assumptions which Centel made in developing the Centel Private Line/Special Access Cost Study are important factors in determining the resulting costs produced by the study. Because these assumptions are the driving force behind the resulting costs, a brief review of the major assumptions is in order. Staff asked the Company to list its major cost study assumptions, to which the Company responded accordingly. (EXH 104, pp. 350-355)

The major assumptions are summarized below:

1. The planning horizon used for the deployment of the technology and network design which is used in the study is 3 to 5 years from present.

2. Standard Engineering Designs are based on the most efficient, currently available technology being deployed.

3. No costs are sunk, all costs are variable.

4. The company plans to install 12-fiber cables on all routes (feeder and interoffice).

5. No cost estimates were developed for narrowband services because that service is obsolete (circuit equipment will simulate the metallic facilities used to transmit narrowband services).

6. Longest loops are no longer than 12,000 feet.

7. Since fiber costs are fixed, the additions to the network of central office equipment were quite large, based on increments the size of DS-3 service, or 672 voice grade circuits.

8. The utilization factor applied to fiber is 100%, and the utilization factor applied to central office equipment is 85%.

9. The annual cost factor was developed based upon an assumed rate of return of 10.03% (the same as that proposed in the rate case - reference MFR A-1a).

10. The depreciation rates and lives are those currently approved for the company.

While the cost manual allows Centel the flexibility to base the study on assumptions regarding each of the topics included above (percent of fiber, etc.), each assumption must be critically reviewed to determine whether it is realistic for the Company given Centel's current status in each of these areas. In addition, it is essential to consider these assumptions whenever one seeks to compare the costs developed for Centel with similar costs developed for other companies using the same cost manual, such as Southern Bell's costs.

In staff's view, the Company's planning horizon of 3 to 5 years is realistic given the rapid change in telecommunications technology. Using standard engineering designs based on the most

advanced technology is also a fair assumption. The assumption that all costs are variable is acceptable given that it is a long run study.

Staff believes that the assumption of installing only fiber in the interoffice channel is reasonable. It is evident that the Company is moving quickly in the direction of all-fiber interoffice channel facilities due to the lower costs associated with fiber deployment compared to copper deployment.

The assumption that the utilization factor for fiber is 100% is based on the fact that placement costs are nearly invariant with the size of the sheath and the cost of the cable itself varies only slightly with the number of fibers in the sheath. Staff believes that a 100% utilization factor for fiber is reasonable.

Centel's rate of return used in the cost study is 10.03%, the same as that used in the rate case. (EXH 47, Section 6-1-1) The rate of return calculations include the weighted cost of equity and debt, but do not include the cost of accumulated deferred taxes. (EXH 104, pp. 348-349) This rate of return is greater than the 8.88% rate of return calculated by staff in Issue 13. Staff believes the Company should have used an 8.88% rate of return in developing costs for Private Line/Special Access Services.

Staff did confirm that the depreciation rates and lives are those currently approved for the Company.

Staff agrees that the deployment of narrowband services on metallic facilities will soon become obsolete.

Staff believes that caution should be used in interpreting costs developed in the study, given the assumptions that were made. Assumptions such as those noted above, especially the assumption regarding installation of fiber feeder and interoffice facilities, ignore the ongoing cost of existing copper in the network. Because this copper plant is not recognized as a cost in the Centel study, the existing plant's cost recovery depends on establishing prices that are not based solely on incremental costs plus some contribution to common costs. Cost recovery depends on the inclusion of the overall costs of the existing plant into the rate development process. The Centel Private Line/Special Access Cost Study establishes costs only for plant that is installed on a forward-looking basis, and does not develop cost information regarding the plant that is in use today, and will continue to be in use in the future. Staff

believes that such costs are significant and should be recovered through the revenues collected for these services.

In contrast, the Southern Bell Private Line/Special Access Cost Study included the costs of existing plant. Also, Southern Bell's study was not based on the same fiber assumptions, and as a result, widely different costs were determined for Southern Bell Private Line/Special Access Services compared to Centel's, including both the local loop and interoffice costs. Table 62 - 1 shows a comparison of the recurring costs which were developed by Centel and Southern Bell for Voice Grade 2 Wire and Voice Grade 4 Wire Private Line Service. Staff believes that the difference between Southern Bell and Centel in the treatment of the cost of existing plant and the assumptions regarding deployment of 100% fiber interoffice and feeder facility are the major reasons for the difference in costs shown in Table 62 - 1. An example of such differences is Centel's Voice Grade 2 Wire total cost of $12.03 as compared to Southern Bell's cost of $44.58 for the same service.

TABLE 62 - 1

COMPARISON OF COSTS
CENTEL AND SOUTHERN BELL
PRIVATE LINE SERVICE

SERVICE NAME	LOCAL CHANNEL COST	INTEROFFICE OFFICE COSTS (FIXED)	INTEROFFICE OFFICE COSTS (PER MILE)	CIRCUIT EQUIPMENT COSTS	TOTAL COST
CENTEL COSTS (1)					
Voice Grade Two Wire	$ 7.92	$ 0.73	-----	$ 3.38	$12.03
Voice Grade Four Wire	$10.39	$ 0.73	-----	$ 3.38	$14.50
SOUTHERN BELL COSTS (2)					
Voice Grade Two Wire	$16.93	$27.09	$ 0.56	-----	$44.58
Voice Grade Four Wire	$30.45	$27.09	$ 0.56	-----	$58.10

Sources: EXH 47 - Cost Summary and Southern Bell Private Line Cost Study Summary

Notes:

1. Circuit equipment cost listed separate, no interoffice mileage cost developed.

2. Circuit costs included with local channel and interoffice channel costs.

Thus, staff argues that while the costs developed by Centel may represent realistic marginal costs for the Private Line Services offered by the Company, caution must be used when using this data for pricing decisions. In other words, staff believes that the Centel Cost Study must be interpreted as representing only incremental costs of the company on a forward-looking basis, without consideration of existing plant. The existing plant that is used for Private Line Services should be recovered by private line rates. The existing, or embedded, plant cost is not represented in this study.

PROBLEMS WITH THE COST STUDY

Staff notes that an important problem with the study is that the development of costs are not structured the same as the rates appearing in the proposed Local Private Line Tariff. For instance, the Company has adopted the fixed and per mile interoffice channel rate structure approved in Docket No. 890505-TL, yet the costs developed by Centel for interoffice are fixed costs, with no per mile element cost established. Southern Bell avoided this problem in its development of costs by always coordinating rates and costs for each channel service. For Centel, this presents an obvious problem in terms of utilizing the cost data for either setting price floors or establishing a basis for other pricing decisions.

An additional structural problem of the study is the lack of first and additional designations for loop, or local channel, nonrecurring costs. Staff believes that the designation of first and additional costs are appropriate, as established in Docket No. 890505-TL. It is realistic to assume that the follow-up installations will not be as time consuming for Company personnel. Since this represents a significant distinction in costs, which are often quite large for Private Line/Special Access Services, such costs should be represented in the study.

Staff was unable to identify cost development for equipment such as channel units which accompany Digital Data Service (DDS). Without this cost development, staff found it impossible to determine the customer impact and contribution level resulting

from proposed rate changes for DDS Channels in Issue 58 (Local Private Line Service).

Finally, Centel's stated rate of return of 10.03% is greater than the 8.88% rate of return calculated by staff in Issue 13. Staff believes the Company should have used an 8.88% rate of return in developing costs for Private Line/Special Access Services.

STAFF'S RECOMMENDATION

Staff believes that the Centel Private Line/Special Access Cost Study requires correction since not all costs have been developed for each Private Line/Special Access Service and since an inappropriate rate of return was used to develop cost factors. Staff recommends that the Commission require the Company to refile the Centel Private Line/Special Access Cost Study with cost development that mirrors the rate structure for all Private Line/Special Access Services, including first and additional designations for local channel nonrecurring costs. Also, staff recommends the Commission require Centel to submit channel unit equipment costs required for DDS Channels. Finally, the Company should refile costs for all services based upon the rate of return approved in Issue 13. This refiled cost study should be submitted within 120 days of the issue date of the order for this rate proceeding.

ISSUE 58: What changes are appropriate for local private line rates considering costs, value of service, effect of competition, etc?

RECOMMENDATION: The Commission should approve the restructure of Local Private Line Services as proposed by the Company, except the Company should be required to include first and additional local channel nonrecurring rate elements. Also, the Company should be required to refile local channel and interoffice channel recurring rate elements at rates 20 percent less than those proposed by Centel for Local 1.544 Service and at rates 10 percent less than those proposed by the Company for all other Local Private Line Channel Types represented in this filing in order to mitigate the significant customer impact of the proposed rates. The Company must refile the Local Private Line tariff to reflect these revised rates within 30 days of the final issue date of the order for this rate proceeding, to become effective April 1, 1991.

ISSUE 44: Centel has proposed to restructure and increase the Extension Line Mileage and Tie Line rates contained in its Miscellaneous Service Arrangement tariff. Is this appropriate?

RECOMMENDATION: The Commission should approve the restructure of Extension Line Mileage and Tie Line Services as proposed by the Company, but require the Company to refile local channel and interoffice channel, recurring rate elements at rates 10 percent less than proposed by the Company in this filing in order to mitigate the significant customer impact of the proposed rates. The Company should refile the Local Private Line tariff to reflect these revised rates within 30 days of the final issue date of the order for this rate proceeding, to become effective April 1, 1991.

ISSUE 61: Centel proposes to consolidate tariff sections pertaining to D-4 Channel equipment and Digital Access Cross Connect Service into the Intraexchange Private Line Section (Section 20). Is this appropriate?

RECOMMENDATION: The Commission should approve the Company's proposed relocation of D-4 Channel Services and Digital Access Cross Connect Service into Section A20 of the General Customer Services Tariff, to become effective April 1, 1991.

ISSUE 64a: Centel has proposed to obsolete its Local Data Transmission Service contained in Section 16 of its Data Service tariff. Is this appropriate?

RECOMMENDATION: The Commission should approve the Company's proposal to obsolete Local Data Transmission Service, to become effective April 1, 1990.

POSITION OF PARTIES

CENTEL: The Company's proposed changes in rate structure and rate level are appropriate. The facilities used to provide local private line services, special access, and the exchange portion of interexchange private lines are identical in almost every case. It is appropriate to have like services priced the same. The prices for private line services should be developed based upon market conditions and incremental costs.

AT&T-C, FPTA, McCAW & OPC: No position.

STAFF ANALYSIS:

I. BACKGROUND

Private Line is a generic term which refers to a circuit dedicated to one customer. Dedicated circuits provide a direct path for communications capabilities between customer locations, and are not connected to the public switched network. This issue addresses only those private lines which are local, or are originated and terminated within any one of Centel's local areas, or exchanges. That is, local private line is jurisdictionally both intraLATA and intraexchange. Private Line Service exists in two other intrastate jurisdictions as well - IntraLATA, Interexchange Private Line Service and Special Access Service. Special Access Services are those private lines which connect the customer to an interexchange carrier's point of presence (POP). In contrast to other private lines, Special Access Service allows interconnection across LATA boundaries, either on a switched or dedicated basis.

Staff has chosen to investigate Centel's Local Private Line Service separately from its Interexchange Private Line Service and Special Access Service. Issues 59, 60, and 63 address Interexchange Private Line and Special Access Private Line Services. For such services, Centel concurs in the industry tariff established by this Commission and recently modified in Docket No. 890505-TL (Southern Bell's Repricing and Restructure of Private Line Services). By concurring in these tariffs, Centel has adopted the industry rates and tariff language in its entirety for the interexchange and interLATA jurisdictions of private line services. No such concurrence exists for Centel's Local Private Line Services. As with most other Florida local

exchange companies, Centel has its own Local Private Line Tariff.

Separate issues are established for the restructure, relocation and obsolescence proposals for private line services which are currently located in Sections A13 and A16, but staff believes it appropriate to present the analysis of these issues in a consolidated format within this issue. Thus, each issue is presented in this analysis, including Issue 44 (Extension Line and Tie Line Service), Issue 61 (D-4 Channel Service and Digital Access Cross Connect Service), and Issue 64A (Local Data Transmission Service).

II. DESCRIPTION OF CENTEL'S PROPOSED LOCAL PRIVATE LINE SERVICES TARIFF FILING

The Company's proposed rates, rate elements, and tariff for its Local Private Line Service are similar to the rates and tariff approved for Interexchange Private Line Service in Docket No. 890505-TL. In that docket, the Commission approved the combination of Southern Bell's intraexchange and interexchange private line rates and rate structure and tariff language into one tariff section, but this union of the two tariff sections did not extend to other LECs' tariffs. One of the Commission's reasons for adopting a single tariff section for the two jurisdictions in Southern Bell's case was the simplicity which could be achieved in adopting a single tariff section rather than continue with two different tariffs. Because Centel does not propose the same wide variety of services for its local private line tariff that is included in the industry interexchange private line tariff, the Centel tariff is less voluminous than the industry tariff. Nonetheless, Centel's proposed rates, rate structures, service descriptions and regulations for Local Private Line Services are the same as those which were approved for the interexchange private line industry tariff. Similarly, most of the proposed names of the services are identical to the industry tariff names. Table 58-1 provides a comparison of current and proposed services' names and tariff locations.

TABLE 58-1

CURRENT SERVICE NAME	CURR. TARIFF SECT.	PROPOSED SERVICE NAME	PROP. TARIFF SECT.	DESCRIPTION
Series 1000 Channels	20.3.1	Channel Type 1204 & 1205	20.2.1	Sub-voice, Local Channel
Series 2000 Channels	20.3.2	Channel Types 2230-35, 2261-62	20.2.2 20.4.1	Voice-grade, Local Channel, Voice (includes OPX, Tie Lines)
Series 3000 Channels	20.3.3	Channel Type 2260, 2463, & 2464	20.2.2 20.4.1	Voice-grade, Local Channel, Data
Series 3000 Channels (LADDS)	20.3.5	Digital Data Service	20.2.3 20.4.1	Digital, 2.4 - 56 Kbps, Local Channel, Data
Local 1.544 Mbs Service	20.3.7	High Capacity Service	20.2.4 20.4.1	Digital, 2-way, 1.544 Mbs (requires digital transmission facil.)
Extension Line Mileage	13.2	Channel Type 2432 (relocated)	20.2.2 20.4.1	2 or 4 wire connecting channels for off-premises service
Tie Line Mileage	13.3	Channel Type 2432, 2434 (relocated)	20.2.2 20.4.1	2 or 4 wire connecting channels for PBX, others
Wired Music Systems	15.2.9	Wired Music Systems (Obsoleted)	100.15	Connecting wired music company to customer premises
Local Data Trans. Service	16.1	Local Data Transmission Service (Obsoleted)	100.16	Analog and Digital Data Circuits, an unbundled channel, allows subscriber to use DACS
Digital Access Cross Connect Service	16.2	Digital Access Cross Connect Service (relocated)	20.5.120.5.4	Connects up to 24 DSO Channels, flexible arrangements
D-4 Channel Service	16.4	D-4 Channel Service (relocated)	20.6.1 20.6.2	Multiplexing of analog and digital circuits

III. STAFF CONSIDERATION OF THE COMPANY'S PROPOSED FILING

A. ANALYSIS OF COMPANY'S PROPOSAL TO RELOCATE / OBSOLETE PRIVATE LINE SERVICES NOT IN SECTION A20, GCST

As Table 58-1 indicates, Centel has proposed to consolidate most of its Local Private Line Services into Section 20 in its General Customer Services Tariff (GCST). In addition, the Company proposes to obsolete certain private line services which are shrinking in demand. In the current GCST, Local Private Line Services can be found in each of the following sections: Section 20 (local private line general regulations, channel and station-related equipment, and local and interoffice sub-voice grade, voice grade, and digital local and interoffice channels); Section 13.2 (Off-Premises Extension Line); Section 13.3 (Tie Lines); Section 15.2.9 (Wired Music Systems); Section 16.1 (Local Data Transmission Service); Section 16.2 (Digital Access Cross Connect Service); and Section 16.4 (D-4 Channel Service).

Centel proposes with this filing to relocate tariff sections containing Digital Access Cross Connect Service and D-4 Channel Service into Section 20, without restructure. In addition, the Company proposes to both relocate and restructure Extension Line Service and Tie Line Service into Section 20. The Company also proposes to obsolete Wired Music and Local Data Transmission Service. Information regarding the Company's restructure proposal, such as the Company's anticipated change in customer bills and the benefits of restructure to the customer and the Company, is included in Schedule A-5b of the MFRs (the schedule of all restructured sections of the tariff). (EXH 104, pp. 298-300)

Staff established Issue 44 to determine the appropriateness of Centel's proposal to restructure and increase the Extension Line Mileage and Tie Line Service rates. These services are private line services in terms of the way the circuits are designed, tested, and provisioned. Centel's Extension Line Mileage and Tie Line Service as proposed in Section A20 are identical to the proposed Channel Types 2231 and 2432, respectively. The relocation of these services to Section A20, the tariff section in which Centel proposes to group all Local Private Line Services, appears to staff to be appropriate. (EXH 46, Tariff Section 20, 5th Revised Sheet 5, MFR Schedule E5) The appropriateness of the proposed changes in Extension Line Mileage and Tie Line Service rates and rate structure will be addressed later in this analysis.

Issue 61 was established to determine whether it is appropriate to relocate tariff sections pertaining to D-4 Channel Service and Digital Access Cross Connect Service into Section A20. D-4 Channel Service is a complementary service to the private line analog and digital services such as Series 3000 Channels and Local 1.544 Mbps Service. It is a multiplexing service which provides central office multiplexing equipment for deriving 24, 48 and 96 channels. The service was approved in June 1989 to support the multiplexing needs of the Florida Department of General Services, but the Company expects additional demand to develop. Staff agrees that this central office equipment is used in conjunction with private line services and as such belongs in Section A20.

The relocation of Digital Access Cross Connect Service (DACS) is also addressed in Issue 61. Like D-4 Channel Service, it is a recent optional feature used to facilitate basic private line service. DACS provides for the management and reconfiguration of digital private line networks. It is a service similar to Southern Bell's Megalink Channel Services. It is located in Section A16.2 of the GCST, and the Company proposes to merge it into Section A20.5.1. Staff agrees that Centel's proposal to move private line services such as DACS into Section A20 is appropriate.

Issue 64a addresses the Company's plan to obsolete Local Data Transmission Service (LDTS), with no proposed change in rates. LDTS provides a simple metallic local private line circuit and is an unbundled private line offering, used to accommodate DACS. It is located in Section A16 in along with DACS (only end-to-end channels appear in Section A20, none of which can accommodate DACS). Since the Company is proposing to unbundle local channel and interoffice channel rate elements for its Local Private Line Service, DACS can now be accommodated by the unbundled local channels (Voice Grade Channel Type 2463 or 2464 or Digital Data Service), which makes the continuation of LDTS unnecessary. The Company also proposes to obsolete Local Data Transmission Service because it is available only on metallic cable pairs, while today's technology relies on carrier channel transport, an advanced facility with more capability than metallic cable.

LDTS had a demand of just two (2) analog circuits and forty-three (43) digital circuits as of December 1989. (EXH 102, p. 85) Centel does not expect growth in the number of circuits in 1991 given the restructure proposal for Private Line Services. (EXH 107, p. 294)

For analog LDTS circuits, the proposed alternatives can be purchased by customers for slightly more than current LDTS rates in many cases, depending upon channel length and channel type. For instance, an alternative service, such as a five mile Channel Type 2463, with no interoffice channel, has a proposed rate is $63.30, whereas the current LDTS rate is $59.60. (EXH 107, p. 294; EXH 104, p. 375) The proposed annual revenue for the service in 1991 is $27,253. (EXH 107, p. 314) Staff believes that the Company's plan to obsolete Local Data Transmission Service is appropriate.

Another service Centel proposes to obsolete is Local Wired Music Systems, which is currently located in Section A15 of the GCST. No issue was established to address this, primarily because there is very little projected demand for this service. Centel projects only 11 customers for the Local Wired Music in 1991, at rates that are identical to the current rates. Interexchange Wired Music was determined to be a dying service in Docket No. 890505-TL, and was obsoleted in the industry tariff. Total annual revenue for Local Wired Music Systems is expected to be $7,240 in 1991. Voice grade alternatives to this service exist in the proposed tariff, such as Channel Type 2435, and many former customers of wired music have developed their own CPE alternatives. Staff believes Wired Music Systems should be obsoleted in the Company's tariff. (EXH 107, p. 293, Lines 1040 - 1047)

B. COMPARISON OF CENTEL'S CURRENT AND PROPOSED RATE STRUCTURE FOR LOCAL PRIVATE LINE SERVICE

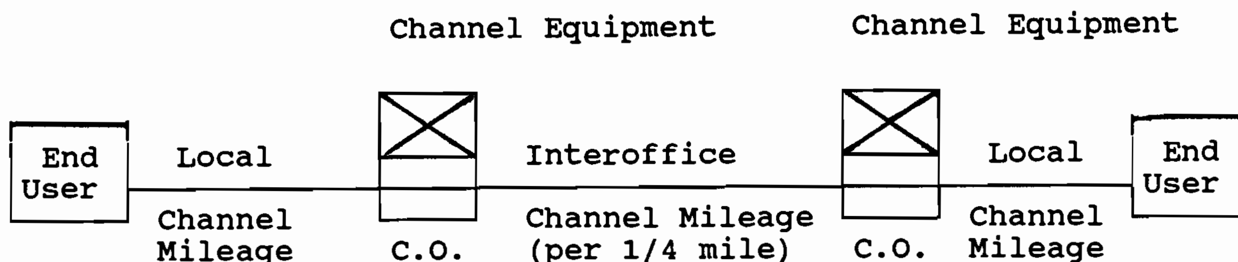
The current structure for a typical voice grade circuit includes the following elements:

1. Channel Mileage Charge (Monthly, first mile and additional 1/4 miles)
2. Interoffice Channel Mileage Charge (Monthly, 1/4 mile basis, applied only where needed)
3. Service Charge (Nonrecurring charge to establish service)
4. Optional Channel Equipment and/or Channel Conditioning Charges (Nonrecurring and monthly)

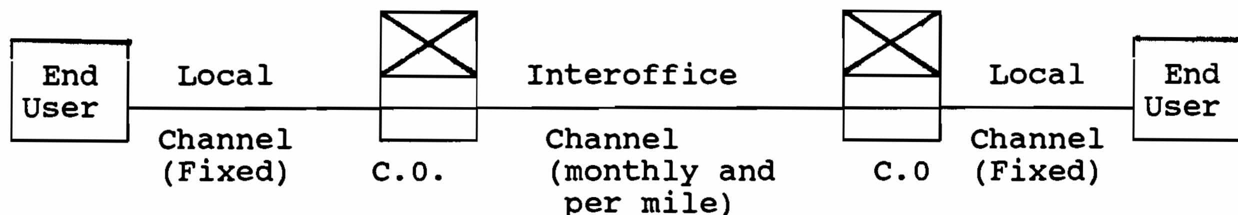
The structures for Extension Line Service and Tie Line Service are the same as shown above except the mileage charge is applied on a 1/4 mile basis only (no First-Mile Charge Element). Additionally, Local 1.544 Mbps Service deviates from the structure noted above in that it contains a fixed monthly charge.

The current and proposed configurations for Centel's Local Private Line Services appears below.

CURRENT LOCAL PRIVATE LINE RECURRING RATE ELEMENTS



PROPOSED LOCAL PRIVATE LINE RATE ELEMENTS



Centel's proposed rate structure for Local Private Line Service mirrors the industry's rate structure recently adopted as a result of Docket No. 890505-TL. The structure for a typical service proposed in Centel's filing is as follows:

1. Local Channel (Monthly)
2. Local Channel (Nonrecurring)
3. Interoffice Channel (Monthly)
4. Interoffice Channel (Monthly, per mile)
5. Interoffice Channel (Nonrecurring)
6. Optional Features and Functions (monthly and nonrecurring)

The Commission approved the industry rate structure for Interexchange Private Line and Special Access Services in Docket No. 890505-TL because it would decrease customer confusion and allow like services to be similarly priced between jurisdictions. Staff believes it was the Commission's intent that all LECs in the state would eventually adopt this industry structure for its

Local Private Line Services, as did Southern Bell (Order No. 23400, p. 7). Therefore, staff believes that the Commission should approve the same structure for Centel's structure for its Local Private Line Services.

Centel duplicated the structure approved in Docket No. 890505-TL in every regard except one. Centel deviates from the approved structure in that it proposes a single nonrecurring rate element to be applied to all installation of local channels, rather than designating both "first channel" and additional channel" nonrecurring rate elements for Local Private Line Services.
The significant differences in costs between first and additional installations of private line circuit's local channels (Issue 58 - Staff Recommendation) indicates that separate rate elements should be established for each type of circuit. Thus, staff believes that first and additional nonrecurring rate elements should be included in Centel's tariff for Local Private Line Services.

C. ANALYSIS OF CENTEL'S PROPOSED RATES FOR LOCAL PRIVATE LINE SERVICES

1. Staff's General Approach to Reviewing The Proposed Rates

Staff conducted its analysis of Centel's proposed rates for Local Private Line Service based upon certain rate concerns the Commission expressed in the past in the rating of private line services. First, staff sought to identify whether the current rates and/or the proposed rates for individual circuits covered their related incremental costs identified in the Company's Private Line/Special Access Cost Study. Second, staff sought to identify the impact of the proposed rates for Local Private Line Services on current customers. Third, staff reviewed the availability of service alternatives to the Company's private line offerings, and the impact such alternatives might have upon rate levels.

Based on Centel's test year forecasts for 1991, the Local Private Line Services expected to be in the greatest demand are: PBX Main or Off-Premise Extension Lines (Channel Type 2231), which requires subscription to E&M Signalling; Four-Wire Analog Data Circuits (Channel Type 2463); 56 KBPS Digital Data Circuits; and High Capacity 1.544 KBPS Digital Data Local Channel. As such, staff focused much of its analysis on the rates proposed for these types of circuits.

These local channel services will often be subscribed to in

conjunction with a specially-designed interoffice channel which mimics the engineering characteristics of the local channel. In determining customer impacts, staff analyzed private line service rates both with and without the interoffice channel rates in order to get an accurate representation of the impact of rate changes to all types of circuits.

2. Cost Support for Proposed Rates

Rule 25-4.044, Florida Administrative Code, requires the submission of cost support in compliance with the Private Line/Special Access Cost Manual which LECs must utilize when requesting changes in private line rates. Centel has submitted a study which it has stated complies with the Private Line/Special Access Cost Manual. (EXH 47) The study addresses costs for not only Local Private Line Service but also Interexchange Private Line Service and Special Access Service. The Company states that the costs developed in the study apply to all three private line jurisdictions (EXH 106, p. 66), unlike the costs developed for Southern Bell's study, which was developed separately for Private Line Services and Special Access Services. Based on Rule 25-4.044, the results of the cost study, and staff's evaluation of the study, are key inputs into staff's evaluation of the Company's rates for Local Private Line Service. The evaluation of the Company's cost study is addressed in Issue 60.

Staff recommends in Issue 60 that the Commission reject the cost study submitted by Centel based upon the Company's failure to include cost data that reflects the structure of the Company's proposed rates. For instance, the interoffice channel rate structure includes both fixed and per mile rate elements, but the Company developed only interoffice fixed costs. Also, cost development for special channel equipment, such as channel units, was not included in the study. The staff also recommended a different rate of return be used to develop costs. Centel used a rate of return of 10.03%, but staff recommended a rate of return of 8.88%.

However, staff believes that even with the above-stated shortcomings, the cost study is a useful tool in analyzing the issue of cross-subsidy. This is important to recognize, since the main application of the incremental cost study in terms of estimating the appropriateness of the proposed rates is to determine whether Local Private Line Services would be cross subsidized by other Company services. Staff acknowledges that cross-subsidy may exist even if a service's rates exceed its incremental cost, depending on one's definition of cross-subsidy, so that the incremental cost study submitted by Centel is simply

a baseline approach to determining whether cross subsidy exists. Staff believes that if some or all of the current rates are below incremental cost, then a strong argument exists for increasing rates for Local Private Line Service.

Staff compared current rates to costs in order to determine whether the Company's current rates meet or exceed costs for a variety of channel types, both with and without interoffice channels of 5 miles length. (EXH 102, p. 362-376) Table 58 - 2, Columns B and F, presents the data used in staff's analysis. Staff's comparison of current rates to costs on a service-by-service basis revealed that current nonrecurring rates are, for each service, below the incremental costs presented in the Company's cost study, and in most cases, by a large margin. However, a comparison of current recurring rates to costs shows that such rates are above costs in each instance except in the case of High Capacity 1.544 Service (without interoffice channel). These findings indicate that an increase in nonrecurring rates is justified in order to insure that the incremental nonrecurring costs of these services are being recovered through Local Private Line Rates, and that an increase in recurring rates is also required in the case of High Capacity 1.544 Service.

Proposed rates for Local Private Line Services meet or exceed costs in each case except for DDS, as can be witnessed by comparing the proposed rates and their related costs in Columns C and F of Table 58 - 2. Staff adjusted the proposed rates to reflect the final revised rates submitted by the Company. (EXH 107, pp. 262-356) Staff cannot determine whether rates meet or exceed costs for DDS. As stated earlier, a shortcoming of the study is the lack of certain cost development, such as in the case of recurring costs for DDS's channel units. Positive contribution levels are indicated for each service except for the Digital Data Services (DDS). In no case did staff determine that costs were greater than rates. In most cases, rates exceeded costs by a large margin (contribution percentages range from 9% to 296%).

Staff believes that the need to adjust Local Private Line rates needs to be addressed within the context of this rate case. Although the shortcomings of the cost study are several, staff believes rate revisions should be pursued regardless, in order to correct the current situation of rates not covering costs for private line services, and that such action should not be delayed until the Company can complete the revisions required to correct the cost study. The change in costs resulting from staff's recommended 8.88% rate of return instead of the Company's 10.03%

rate of return will not change the fact that costs exceed rates for many Local Private Line Services for which costs have been developed (Table 58 -2). Instead, staff believes it is appropriate that currently available cost, customer impact, and revenue effect information should be used by the Commission within the context of the current rate case to establish new rates for these services. Staff's recommendation in Issue 62 (Private Line Cost Study) would have the Company submit a corrected cost study within 120 days of the final issue date of the final order in this rate case. Staff believes it is appropriate to perform a check after the Commission approves the revised study to determine whether costs for Private Line Services exceed rates, and if so, to recommend further adjustments at that time to the rates.

TABLE 58 - 2
LOCAL PRIVATE LINE RATES, COSTS AND CONTRIBUTION

A SERVICE TYPE	B CURRENT RATE (TOTAL)	C PROPOSED RATE (TOTAL)	D RATE CHANGE	E PERCENT CHANGE	F COST	G PROPOSED CONTRIBU-TION
Channel Type 2231, different wire center	$ 50.50 Rec	$ 79.05 Rec	$ 28.55	57%	$19.95	296%
	$ 93.10 NRC	$627.00 NRC	$533.90	573%	$317.17	98%
Channel Type 2231, same wire center	$30.00 Rec	$ 42.30 Rec	$ 12.30	41%	$19.22	120%
	$43.10 NRC	$540.00 NRC	$496.90	1,153%	$317.17	70%
Channel Type 2463, different wire center	$ 90.60 Rec	$100.05 Rec	$ 9.45	10%	$ 30.19	231%
	$133.10 NRC	$687.00 NRC	$553.90	416%	$317.17	117%
Channel Type 2463, same wire center	$ 90.60 Rec	$ 63.30 Rec	$-27.30	-30%	$29.46	115%
	$133.10 NRC	$600.00 NRC	$466.90	351%	$317.17	89%
Hi-Cap 1.544 Mbps, different wire center	$174.66 Rec	$495.15 Rec	$320.49	183%	$141.71	249%
	$473.10 NRC	$1690.00 NRC	$1,216.90	257%	$1362.37	24%
Hi-Cap 1.544 Mbps, same wire center	$ 77.34 Rec	$281.80 Rec	$204.46	264%	$124.35	127%
	$343.10 NRC	$1490.00 NRC	$1,146.90	334%	$1362.37	9%
DDS 56 Kbs, different wire center	$127.60 Rec	$262.75 Rec	$135.15	106%	n/a	n/a
	$283.10 NRC	$1107.00 NRC	$823.90	291%	$437.77	153%
DDS 56 Kbs, same wire center	$ 59.60 Rec	$138.20 Rec	$ 78.60	132%	n/a	n/a
	$ 43.10 NRC	$780.00 NRC	$736.90	1,710%	$437.77	78%

2. Customer Impacts

As a second area of investigation, staff sought to identify the customer impact of the proposed filing on local private line customers by comparing current rates and proposed rates for individual services. Both nonrecurring and recurring rate impacts for private line services were analyzed. However, this did not actually determine what the actual bill impact might be to any single private line customer since the volume of any private line service and variety of private line services subscribed to by any one customer is quite diverse. Nonetheless, the percentage increase in rates and the dollar increase in rates of individual services together provide some measure of customer impact.

According to Witness Wahlen, the main customer impact resulting from the proposed changes in private line rates is related to the change in the method of mileage measurement of interoffice channels. This proposed structural change is in keeping with the change approved in Docket No. 890505-TL for Interexchange Private Line/Special Access Services. The change involves computing mileage measurement on a serving central office basis rather than an airline measurement from premises-to-premises basis. Witness Wahlen indicates that this change in mileage measurement is the main reason why the customer impact of the proposed rates for Local Private Line Service will be greater than the customer impact of the rates recently approved for Interexchange Private Line and Special Access Services. (EXH 102, p. 277)

Table 58-2 summarizes the customer impacts (nonrecurring and recurring charges) for each of the major Voice Grade and Digital Local Private Line Services, both in terms of the proposed dollar increases in rates (Column D) and the proposed percentage increases in rates (Column E). The Company provided customer impacts of typical private line services in the form of diagrams in response to Staff Interrogatory 119. (EXH 102, p. 262-276) However, these proposed customer impacts provided by Centel do not reflect the across-the-board rate reduction mandated by Order 23400 in Docket No. 890505-TL. Centel submitted revised rates which reflect the revised Southern Bell rates in their last MFR Schedule E-1a filing, but such rates are not reflected in Interrogatory 119. Therefore, staff performed the calculations to adjust the customer impacts accordingly, as represented in Table 58-2. (EXH 107, pp. 262-356)

An inspection of the data in Table 58-2 indicates that the

proposed nonrecurring rates are substantially greater than the current nonrecurring rates. Staff calculates the average increase in nonrecurring rates across all services shown to be 636%. However, because these nonrecurring rates (designed to cover the cost of installation, design, and engineering) are paid by the customer at the time of initiating the service, such proposed rate increases, if approved, would have no impact on current customers' existing services.

Recurring rates appear in the shaded areas in Table 58-3. The proposed recurring rates are also shown to be substantially greater, on average, than current rates, albeit not to the same degree as the proposed increase in nonrecurring rates (the average increase is 95%). The range of increases is from -30% to 364%. The data also show that the proposed recurring rates for voice grade services with an interoffice channel represent a greater increase over current rates than do the rates for similar services without an interoffice channel. For instance, the recurring rate for Channel Type 2231 with an interoffice channel is 57%, while the rate for the same service without an interoffice channel increases 41%. Conversely, the proposed recurring rates for Local 1.544 Service without interoffice channels represent a greater increase over current rates (264%) than do the rates for similar services with an interoffice channel (183%). Local 1.544 Service was included in Centel's tariff as recently as 1988, so the proposed rates will impact these customers quite dramatically.

Staff believes that the customer impacts for recurring rates are unacceptably high. In staff's view, the proposed recurring rates should be reduced by 10% for all local channel and interoffice channel and channel unit rate elements, except for the rates for Local 1.544 Service, which should be reduced by 20%. The effect upon customers, and the ability of such revised rates to cover incremental costs, is shown in Table 58 - 3.

TABLE 58 - 3 CURRENT AND PROPOSED RECURRING RATES VERSUS COSTS						
A SERVICE TYPE	B CURRENT RATE (TOTAL)	C RECOMMENDED RATE (TOTAL)	D RATE CHANGE	E PERCENT CHANGE	F COST	G RECOMMEND-ED CONTRI-BUTION
Channel Type 2231, different wire center	$ 50.50	$ 71.15	$ 20.65	41%	$19.95	257%
Channel Type 2231, same wire center	$30.00	$ 38.07	$ 8.07	27%	$19.22	98%
Channel Type 2463, different wire center	$ 90.60	$90.05	$ -0.55	-1%	$ 30.19	198%
Channel Type 2463, same wire center	$ 90.60	$ 56.97	$-33.63	-37%	$29.46	93%
Hi-Cap 1.544 Mbps, different wire center	$174.66	$396.12	$221.46	127%	$141.71	180%
Hi-Cap 1.544 Mbps, same wire center	$ 77.34	$225.44	$148.10	191%	$124.35	81%
DDS 56 Kbs, different wire center	$127.60	$236.48	$108.88	85%	n/a	n/a
DDS 56 Kbs, same wire center	$ 59.60	$124.38	$ 64.78	109%	n/a	n/a

The effect of reducing proposed recurring rates for Local 1.544 Service by 20% and reducing recurring rates for all other Local Private Line Services by 10% is to reduce Centel's proposed average rate increase (customer impact) from 95% to 76%. Increases range from -37% to 191%. Staff believes that 191% rate increase to Local Private Line Service is probably necessary to recover the incremental costs of the service plus a fair contribution to the common costs of the company. The level of contribution in this instance is 81%, which is the lowest contribution level recommended. For other services, contribution levels range up to 237%. It is apparent from this table that the effect is to reduce customer impact to more reasonable levels while at the same time allowing the company to cover its

incremental costs plus provide a substantial contribution to common costs. The revenue effect of these changes is addressed in the next section.

The Company's basic position regarding rates for Local Private Line Services is that its rates should be the same from one jurisdiction to the next (Local Private Line should be priced the same as Interexchange Private Line). Staff agrees that this is desirable, in order to reduce customer confusion, but that it is more important that rates be set at an appropriate level given considerations such as customer impact and costs. Staff believes equivalent rates between jurisdictions can be achieved when the Company files company-specific tariffs for Interexchange Private Line Services and Special Access Services, and that the Company should be encouraged to do so as soon as possible (Issue 60 addresses the time frame for the Company to do this).

Proposed rate changes to Extension Line Mileage and Tie Line Service are included in the above analysis (Issue 60). Rate changes to Local Private Line Services which were moved to Section A20 such as Extension Line Mileage and Tie Line Service are included in the above analysis (Channel Type 2231, Tables 58-2 and 58-3). Proposed rate changes for other services which the Company intends to locate in Section 20, such as Digital Access Cross Connect Service (DACS) and D-4 Channel Services, were reviewed by staff as well. The only rate changes proposed for DACS is the unbundling of its rates for sub-rate multiplexing. Centel claims that this was done in order to accommodate additional choices demanded by customers. (EXH 104, p. 317) Instead of featuring one rate of $61.00 for all DS-0 Channel multiplexing to sub-rate speeds, the Company proposes rates of $44.50 for up to five 9.6 Kbps channels multiplexed, $88.90 for up to ten 4.8 Kbps channels multiplexed, and $177.80 for up to twenty 2.4 Kbps channels multiplexed. (EXH 46, Section 20.5.4.) Staff believes such rate changes are appropriate.

No rate change is proposed for D-4 Channel Equipment. This service was recently repriced. Staff believes the Company's proposed rates for this service are appropriate.

3. Alternative Services To Local Private Line Service

The proposed rates for Local Private Line Service represent substantial increases over the current rates, as is established in the analysis above. As such, it is important to determine whether current customers have viable options to those services receiving large increases in rates. In some instances, customers

may substitute a switched-access alternative service for their private line service. Large rate increases could, in some instances, encourage migration to switched services which would be beneficial in that it would create a more efficient network. On the other hand, large rate increases for services which have non-LEC service alternatives (AAVs, private networks, microwave, VSATs, etc.) would perhaps drive customers away from the LEC services altogether, which would result in a loss of revenue for the company, as well as any related contribution to common costs provided by such revenues. Also, within this issue of the existence of viable options is the question of equity to the current customer. That is, how much of an increase in rates is equitable (given costs, contribution levels, value of service, etc.) in cases where the customer has little or no option available and thus relies solely on the service in question to conduct their business operations?

Staff believes that, in general, private line services are gradually becoming more competitive, and that more alternatives to private line services are becoming available. However, staff also believes that the Company currently provides most of the private line communication services which exists in the Company's service area, and will continue to do so for the next several years. Thus, customers of these services still require rate protection, and staff has thus considered both rate impact and cost of service as important measures of equity in developing its alternative rate proposal presented in Table 58 - 3.

IV. REVENUE IMPACT OF THE PROPOSED RATES

The Company's proposed revenues associated with Local Private Line Services have been altered several times since the original filing, as omissions and adjustments were recognized by the Company and subsequently included in new editions of the MFR Schedule E-1a. However, the Company failed to file revised MFR Schedule E7 (Revenue Sources, Rates, and Tariffs), so staff has relied upon the revenue information appearing in the latest edition of the MFR Schedule E-1a for its assessment of proposed private line revenue impacts. (EXH 107, pp. 262-356)

Staff has assembled the revenue impact data in Table 58-4. The Company's proposed recurring revenue of Section A20 of $4,114,156 exceed current revenues of $1,645,875 by $2,468,281. This large increase is due to the combination of the rate increases and the inclusion of Extension Line Mileage, Tie Line Service, D-4 Channel Services, and DACS recurring charges into this Section A20. The impact of deleting Extension Line Mileage and Tie Line Service from Section A13 is the elimination of

and Tie Line Service from Section A13 is the elimination of $294,028 from this section. Including the proposed nonrecurring revenue impact of $86,1107, the total revenue impact of the repricing and restructure of Local Private Line Service is the difference in the total current revenues of $2,573,134 and the proposed revenues of $4,833,494, or $2,260,360.

TABLE 58 - 4

TARIFF SECTION	SERVICE TYPE		ANNUAL PRESENT REVENUE	ANNUAL PROPOSED REVENUE (COMPANY)	REVENUE IMPACT PROPOSED COMPANY)	ANNUAL PROPOSED REVENUE (STAFF)	REVENUE IMPACT PROPOSED (STAFF)
Section A20	General Private Line	REC NRC	$1,645,875 $109,514	$4,114,156 $191,948	$2,468,281 $82,434	$3,579,315 $191,948	$1,933,440 $82,434
Deleted A13	Ext. Line Mlg. Tie Line Serv.	REC NRC	$294,029 $1,600	$0 $2,196	($294,029) $596	$0 $2,196	($294,029) $596
Section A100.15	Wire Music System	REC NRC	$7,240 $0	$7,240 $0	$0 $0	$7,240 $0	$0 $0
Section A100.16	Local Data T.S.	REC NRC	$490,703 $24,175	$490,703 $27,253	$0 $3,078	$490,703 $27,253	$0 $3,078
Total, REC			$2,437,847	$4,612,099	$2,174,252	$4,077,258	$1,639,411
Total, NRC			$135,289	$221,397	$86,108	$221,396	$86,107
TOTAL			$2,573,136	$4,833,496	$2,260,360	$4,298,654	$1,725,518

Staff also calculated the revenue impact based on the rates proposed by staff. The impact in recurring revenues under this scenario is $1,639,411, compared to the Company's impact of $2,174,252. Staff's recommended total revenue impact is $1,725,518, compared to the Company's proposed revenue impact of $2,260,360. Thus, staff recommends increasing recurring rates for private line services approximately $534,842 less than the Company's proposal.

Staff believes this analysis provides further evidence that the recurring rate increases to customers of Local Private Line Services should be moderated.

V. In summary, staff recommends:

ISSUE 58

Staff recommends that the Commission approve the restructure of Centel's Local Private Line Services as proposed by Centel, except the Company should be required to include first and additional local channel nonrecurring rate elements. Also, the Company should be required to refile recurring local channel,

percent less than proposed by the Company in this filing in order to mitigate the significant customer impact of the proposed rates. Staff recommends that the Company refile the Local Private Line tariff to reflect these revised rates within 30 days of the issue date of the order for this rate proceeding, to become effective April 1, 1991. Furthermore, staff recommends that the Commission determine whether the required revisions to the Centel's Local Private Line/Special Access Cost Study should result in any further rate changes after the cost study is approved.

ISSUE 44

Staff recommends the Commission approve the restructure of Extension Line Mileage and Tie Line Services as proposed by the Company, except the Company should be required to include first and additional local channel nonrecurring rate elements. Also, the Company should be required to refile recurring local channel and interoffice channel rate elements at rates 10 percent less than those rates proposed by the Company in order to mitigate the significant customer impact of the proposed rates. Staff recommends that the Company refile the Local Private Line tariff to reflect these revised rates within 30 days of the final issue date of the order for this rate proceeding, to become effective April 1, 1991.

ISSUE 61

Staff recommends the Commission approve the Company's proposed relocation of D-4 Channel Services and Digital Access Cross Connect Service into Section A20 of the General Customer Services Tariff, to become effective April 1, 1991.

ISSUE 64a

Staff recommends the Commission approve the Company's proposal to obsolete Local Data Transmission Service, to become effective April 1, 1991.

ISSUE 65: Centel has proposed to restructure and increase its rate for Foreign Central Office Services. Is this appropriate?

RECOMMENDATION: No. The Company should refile their tariff for Foreign Central Office Service featuring rates which are equivalent to the interoffice rates of $28.50 per circuit fixed monthly charge and $1.55, $1.60, and $1.65 per mile monthly charge recommended in Issue 58 for voice grade local private line interoffice facilities. This revised filing should be submitted within 30 days of the issue date of this rate proceeding's final order, to become effective April 1, 1991. In addition, the Commission should recognize FCO test year revenue of $73,287 based on the restructured rates intended by the Company.

POSITION OF PARTIES

CENTEL: No. The proposed rate should have been filed at a level equal to the restructured interoffice facility rate.

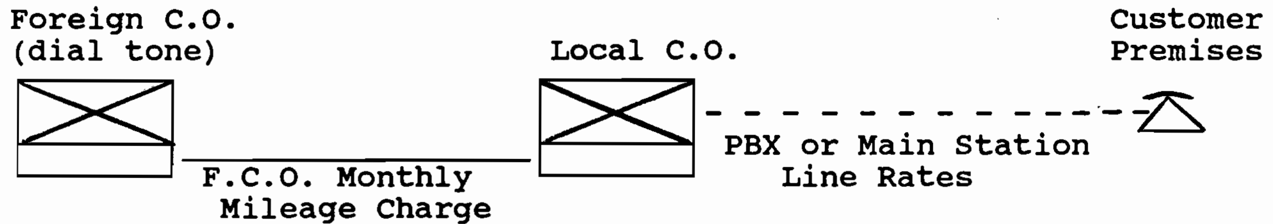
AT&T-C, DGS, FPTA, McCAW & OPC: No position.

STAFF ANALYSIS: Foreign Central Office Service (FCO) is a dedicated facility between central offices within an exchange offered to customers of centrex service, PBX service, and individual line main station service. It allows the customer to receive service from a central office other than the central office from which he or she would normally be served. A business subscribing to this service can appear to their customers to be located in the customer's local area rather than in a distant area within the customer's exchange. This service is available only in the Fort Walton and Tallahassee exchanges. FCO is described and rated in Section A9 of Centel's GCST.

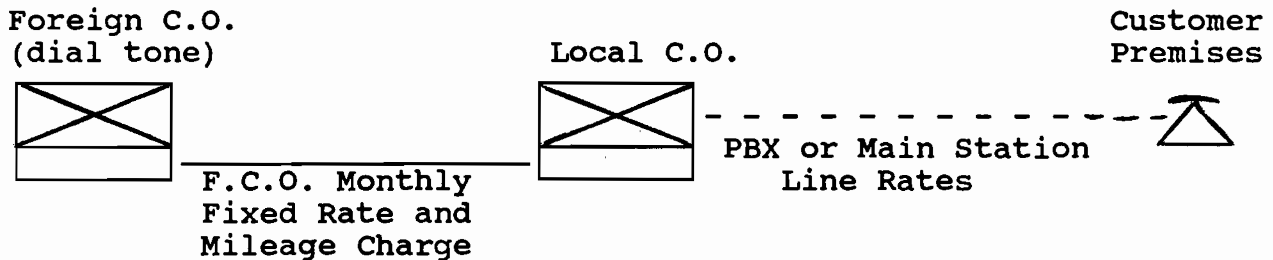
The company has filed conflicting information regarding rates. Current rates are shown in the tariff to be $4.80 per mile per month, and the proposed tariff includes a rate increase to $5.60 per mile per month. (EXH 107, p. 268, Line 197) However, the Company claims in its position statement that the proposed rate should have been filed at the level of the interoffice private line rate. Witness Wahlen confirmed this intention of the Company to offer this service at the proposed voice grade interoffice facility rate. (EXH 106, p. 75) The proposed interoffice private line rates presented in Issue 58, which the Company indicated are the intended rates for FCO service as well, include a fixed interoffice rate of $28.50 per month plus $1.55, $1.60, and $1.65 per mile per month. (EXH 107, P 295, Line 1086 -1089)

The following diagrams show the structure of FCO circuits with the current rate structure and the proposed rate structure consistent with the proposed structure of Local Private Line Service.

CURRENT F.C.O. CIRCUIT



PROPOSED F.C.O. CIRCUIT



For 1991, the Company expects a demand of 913 units (circuit miles), which would amount to $61,353 in revenue if priced out according to their proposed tariff (each circuit rated at $5.60 per mile per month). Staff estimates that the interoffice revenues would amount to $73,287 if the intended interoffice rates shown above were established for the service, using an estimated average of 5.6 miles per interoffice circuit. Staff's estimate was determined as follows:

Mileage Revenue:

913 miles x $1.60 per mile x 12 months	=	$17,529

Fixed Revenue:

913 miles/5.6 miles per circuit x $28.50 per interoffice circuit x 12 months	=	$55,758

Total Revenue, FCO = $73,287

Staff believes that this amount ($73,287) is the appropriate FCO test year revenue to recognize in the current rate proceeding given the restructured rates intended by the Company.

The average customer currently pays $26.88 per month for this service (5.6 miles x $4.8 per mile). If the monthly rate were increased according to the proposed tariff to $5.60 per mile, the average customer would pay $31.36 per month (16% increase). If the rates were increased to the proposed private line tariff rates of $28.50 plus $1.60 per mile at 5.6 miles, then the average customer would pay $37.46 (39% increase).

No other party took a position on this issue.

Staff believes that the Company should rate this service in a manner similar to other interoffice private lines because it is technologically the same as a private line. Staff recommends that the Company refile the FCO portion of their tariff within 30 days of the issue date of this rate proceeding's order, to become effective April 1, 1990, featuring rates which are equivalent to the interoffice rates established in this docket for local voice grade private line interoffice facilities. In addition, staff recommends that the Commission recognize FCO test year revenue of $73,287 based on the restructured rates intended by the Company.

ISSUE 66: Centel has proposed to continue its concurrence in Southern Bell's tariff for Foreign Exchange Service (rates, rules and regulation). Is this appropriate or should Centel develop its own tariff?

RECOMMENDATION: Yes. The Company should continue its concurrence with the industry tariff and rates for Foreign Exchange Service until such time that the Commission approves a restructure of the industry tariff, at which time Centel should submit a company-specific tariff and rates that reflect the industry's revised rate structure for the service.

POSITION OF PARTIES

CENTEL: At the time the Company filed its case, there was uncertainty as to when and to what extent the LECs were going to be permitted to file their own private line/switched access prices and structures. In view of the Commission's recent decision in Docket No. 890505-TL (Order No. 23400, issued August 24, 1990), the Company is now in a position to prepare its own tariffs. However, because this will require substantial revisions, as well as market analysis, the Company will defer this action until the completion of the current proceeding. In the meantime, the Company believes it is appropriate to concur in Southern Bell's rates, which the Company has determined cover the Company's incremental costs of providing private line/switched access service.

AT&T-C, DGS, FPTA, McCAW & OPC: No position.

STAFF ANALYSIS: Centel proposes to continue its concurrence with the rates, rules, and regulations of Southern Bell's Foreign Exchange Service (FX). Reference to the Southern Bell tariff is made in Section A9.2 of Centel's General Customer Subscriber Tariff (GCST). FX Service, as established in Section A9.2 of the Southern Bell tariff, is an intraLATA, interexchange service which allows a customer to establish a presence (via a local telephone number) in an exchange other than the one from which he/she is served. It is a type of service which uses dedicated facilities on the "closed end" of the circuit and switched facilities (local exchange service, PBX Service, or centrex service) on the "open end". It is normally used for voice communications.

Since FX Service often crosses company serving area boundaries within the LATA, Centel does not bill for all of its FX service. The industry coordinates the billing of FX Service such that the company providing the "open end" bills the customer

for the entire service. (EXH 104, p. 333) Witness Wahlen states that all such revenues are included in the private line pooled revenues. (EXH 106, p. 76) Thus, Centel does not provide this service independently, but relies instead upon the cooperation of adjacent LECs for coordinating FX Service as well as for billing such service.

Witness Wahlen indicates that FX Service revenues are reported as part of the private line pooled revenues appearing in MFR Schedule E-1a. (EXH 106, p. 76) Under the pooling arrangement, all revenues are submitted to the pool administrator, Southern Bell, which in turn redistributes the revenues based upon the revenue requirement of each LEC. As such, the units and revenues for this service are not known by the Company.

Southern Bell has recently begun a series of industry meetings regarding the complete restructure of FX Service as it is currently offered in Florida. Substantial revisions in the rate structure of this service are required in order for it to conform to the rate structure adopted for Private Line/Special Access Service in Docket No. 890505-TL. The rate design issues surrounding the restructure of FX are quite complicated. The industry did not attempt to restructure the service within the context of Docket No. 890505-TL so that adequate time could be allowed to conduct a complete and proper analysis of such issues.

The current industry rate structure of FX Service includes a monthly charge per channel of $4.05 per mile. The mileage referred to here is the distance in airline miles from the customer's premises to the central office in the foreign exchange area from which service is to be furnished. However, in cases where it is not economical for the Company to provide the FX Service direct from the foreign exchange to the customer's location by the extension of existing plant, then Station Terminal rate elements apply instead. These rate elements include a nonrecurring charge of $39.00 for single point service plus $24.50 for multipoint service. The recurring rate is $23.45 for Band 1 Station Terminals and $44.95 for Band 2 through Band 4 Station Terminals.

Centel offers a service similar to FX Service which is restricted to a single exchange called Foreign Central Office Service (FCO), also located in Section A9 of the GCST. The Company's proposed rates for FCO Service are addressed in Issue 65 in this docket. As discussed in that issue, the Company intends to revise FCO's rate structure and rates to reflect the Company's proposed voice grade private line rate structure and

rates. The difficulty incurred in the restructure of FX Service regarding intercompany billing arrangements does not exist for FCO Service. Therefore, the Company can pursue restructure of FCO Service independently, unlike FX Service.

Since the Company proposes no change to the current tariff for Foreign Exchange Service, there is no customer or revenue impact related to the Company's continued concurrence with the industry tariff. Staff agrees.

Centel takes the position that the Company's costs for Private Line Services are covered by the rates for Private Line Services. Since Centel concurs in the industry tariff (including its rates and rate structure and services) and since a restructure of the service is now underway, staff believes Centel should file company-specific incremental cost information for FX Service at the same time they establish their own tariff and rates for FX Service.

No other party took a position on this issue.

Staff recommends that the Commission allow the Company to continue its concurrence with the industry tariff and rates for Foreign Exchange Service until such time that the Commission approves a restructure of the industry tariff, at which time Centel should submit a company-specific tariff and rates that reflect the industry's revised rate structure for the service.

ISSUE 59: What will be the revenue impact to Centel of the restructure of interexchange private line and special access and how should that impact be addressed in this docket?

RECOMMENDATION: The revenue impact to Centel of the Private Line/Special Access Service rate increase is an annual increase of $153,778. The impact of this increase in this rate proceeding is a reduction in the revenue increases needed in areas other than Private Line/Special Access Services, which is appropriate.

POSITION OF PARTIES

CENTEL: Based upon the Company's input, Southern Bell has estimated that the annual reduction to Central Telephone-Florida's distribution from the private line pool will be $194,540. Contrasting this reduction against anticipated revenue increases to special access revenue, results in an approximate net decrease offset of $71,975. Individual customer impact statements were sent to Interexchange Private Line/Special Access customers in November, 1990. Rates will be implemented in January, 1991. Southern Bell does not plan to de-pool intraLATA private line until 1992.

AT&T-C, DGS, FPTA, McCAW & OPC: No position.

STAFF ANALYSIS: Commission Order No. 23400, which addressed the Restructure and Repricing of Private Line/Special Access Services (Docket No. 890505-TL), mandated that all LECs in Florida which concur with the industry tariff for Interexchange Private Line/Special Access Services submit 1991 current and proposed revenues for such services by September 28, 1990. Order No. 23400 also mandated the LECs report the current and proposed revenues received from the interexchange private line pool. Finally, the order required the LECs to provide a priceout of services (other than Private Line/Special Access Services) to which a revenue offset should be applied for any additional revenues proposed by the Company as a result of the Interexchange Private Line and Special Access Services. These responses were to be submitted by September 28, 1990. The order's basic requirement in this regard was that all LECs appropriately offset any projected revenue increases resulting from the restructure and repricing of Interexchange Private Line/Special Access Services.

Centel provided these responses to the Commission as required.(EXH 108, pp. 1 - 2) Centel stated that special access revenues were expected to increase by $301,242 and that the difference in the revenues received from the interexchange

private line pool was expected to decrease by $194,540. Netting these two differences in revenues results in additional revenues associated with the restructure and repricing of Interexchange Private Line/Special Access Services of $106,702.

At the December 4, 1990 Agenda Conference, the Commission approved staff's recommendation to address Centel's revenue offsets within the context of this rate case.

Centel's response to Commission Order No. 23400 showed that the Company's proposed revenues exceeded current revenues by $301,242 for Special Access Services. However, the final MFR Schedule E-1a shows the increase to be $348,318 as shown in the Table 59 - 1. (EXH 107, pp. 262 - 356) The difference in revenue stated by the Company in these two documents presented by the Company is the result of Centel's response to Order No. 23400 being made on the basis of a previous demand study, while the final MFR Schedule E-1a study's revenue was based upon the latest demand study.

TABLE 59 - 1

REVENUE TYPE	ANNUAL REVENUE PRESENT	ANNUAL REVENUE PROPOSED	REVENUE INCREASE
SPECIAL ACCESS REV., RECURR.	$820,977	$1,114,776	$293,799
SPECIAL ACCESS REV., NONREC	$412,947	$467,466	$54,519
TOTAL REVENUE/ TOTAL REVENUE INCREASE	$1,233,924	$1,582,242	$348,318

Summing the revised revenue changes to Special Access Services with the changes to Private Line Services pooled revenues yields the following Net Revenue Increase:

Special Access Services Revenue Increase:	$348,318
Private Line Service Revenue Decrease:	$194,540
Net Revenue Increase:	$153,778

Thus, staff calculates the total revenue increase related to the restructure and repricing of Interexchange Private Line/Special Access Services to be $153,778 which must be offset

completely within the context of this docket.

This figure is in contrast to the total revenue increase proposed by Centel of $71,975 in their final position statement, but staff believes the Company derived this number prior to the changes which were required to the Company's Special Access Revenues as represented in the final edition of the MFR Schedule E-1a. (EXH 107, pp. 262 - 356)

In summary, staff believes that the appropriate revenue offsets to Private Line/Special Access Services revenue increases to be $153,778. The impact of this increase in this rate proceeding is a reduction in the revenue increases needed in areas other than Private Line/Special Access Services, which is appropriate.

ISSUE 60: Should Centel submit its own rates and tariffs for interexchange private line and special access, or is it appropriate for the Company to continue in its concurrence with the Southern Bell rates and tariffs?

RECOMMENDATION: Centel's request to continue concurrence in Southern Bell's Private Line/Special Access Services tariffs should be approved for the present time, but Centel should be required to submit a company-specific Special Access Services tariff no later than November 16, 1991 for implementation no later than January 16, 1992. This tariff should reflect the rate structure, language, and rule changes approved in Docket No. 890505-TL for Special Access Services and with rates equal to the rates recommended for Centel's Local Private Line Services as outlined in Issue 58. Similarly, when it is determined that meet-point billing is achieved for Interexchange Private Line Services on an industry-wide basis, a company-specific tariff should be developed for Centel's Interexchange Private Line Services with rates comparable to its rates for Local Private Line Services.

POSITION OF PARTIES

CENTEL: At the time the Company filed its case, there was uncertainty as to when and to what extent the LECs were going to be permitted to file their own private line/switched access prices and structures. In view of the Commission's recent decision in Docket No. 890505-TL (Order No. 23400, issued August 24, 1990), the Company is now in a position to prepare its own tariffs. However, because this will require substantial revisions, as well as market analysis, the Company will defer this action until the completion of the current proceeding. In the meantime, the Company believes it is appropriate to concur in Southern Bell's rates, which the Company has determined cover the Company's incremental costs of providing private line/switched access service.

AT&T-C, DGS, FPTA, McCAW & OPC: No position.

STAFF ANALYSIS: Centel concurs in the rates, rate structure, rules, and regulations for Interexchange Private Line Services and Special Access Services as they appear in the Southern Bell Interexchange Private Line Tariff and Special Access Tariff. In Docket No. 890505-TL, the Commission approved substantial revisions to both of these industry tariffs. These tariff changes are scheduled to go into effect on January 16, 1991. All concurring LECs were required in Order No. 23400 to notify customers of such changes via a letter during September 1990, as

well as dual bills showing the before and after impact of the changes on their monthly bills, which the Company has done. The purpose of this issue is to determine whether Centel's continued concurrence in the industry tariffs is appropriate given the Company's current cost information, billing capabilities, and customer impacts as determined in the context of this rate proceeding.

Southern Bell submitted a cost study providing support for the rates proposed for Private Line/Special Access Services in Docket No. 890505-TL. After certain revisions were made to these costs, the Commission approved the cost study in Order No. 23400. Staff believes the Southern Bell cost study was considered a proxy cost study for other companies until companies submitted their own studies. Centel has submitted an incremental cost study of Private Line/Special Access Services as a part of its rate case filing, which was required in consideration of the Company's proposed changes to its tariff for Local Private Line Services, per Commission Rule 25-4.044. This rule requires submission of cost studies by all companies which submit proposals for rate and rule changes to Private Line/Special Access Services.

Witness Wahlen states that the facilities for private line services are the same regardless of whether the private line is in the intraexchange, interexchange, or Special Access (interLATA) jurisdictions. As such, he claims that the costs as developed per the Centel Private Line Cost Study apply to all three jurisdictions. (EXH. 106, p. 66,67) Staff agrees with this and believes that the cost study should be considered as an input in establishing rates for all Centel's Private Line/Special Access Services, regardless of jurisdiction. Using this cost study and other information such as customer impacts, staff recommends in Issue 58 lower recurring rates for Local Private Line Services than the recurring rates proposed by the Company.

Establishing a company-specific tariff at this time for Centel's Interexchange Private Line Services is impeded by the fact that revenues are pooled. This pool has been in effect for many years and was devised to allow each company to recover its revenue requirement for providing this service and to simplify the billing process. Each company delivers all revenues it bills into a pool which is then redistributed to the companies by the pool administrator (Southern Bell) based on each company's revenue requirement. Each company's revenue requirement is calculated using the same rate of return in any given year. Thus, there are important ties for all pool participants, and no one participant is currently allowed to abandon the pool.

As private line services become more competitive, we believe it is in the companies' interest to develop company-specific tariffs tailored to their individual markets and facilities. In fact, the LECs are working collaboratively to initiate de-pooling through the process of meet-point billing. Under meet-point billing, each company's facility mileage for each circuit would be calculated and used in the application of rates for determining bills and revenues. Some smaller companies would not be capable of meet-point billing Interexchange Private Line Services themselves, so that they may have to contract with larger companies such as Southern Bell to perform such billing for them.

The primary impediment to the implementation of meet-point billing is the ongoing restructure of Foreign Exchange Service (FX). This restructure must be completed prior to implementing meet-point billing since this service's revenues reside in the same revenue pool along with Interexchange Private Line Service revenues. Essentially, de-pooling of interexchange private line revenues requires a simultaneous de-pooling of FX Service. Staff believes that, until this is accomplished, it is appropriate for Centel to continue its concurrence in the industry tariff.

Special Access Services, on the other hand, are billed and kept today. Since a company-specific cost study has been produced for these services, we believe there is no reason why Centel could not develop its own tariff. In staff's view, the Company should develop its own tariff and rates if there exists significant differences between Centel's Special Access Services cost and the industry's costs.

Staff attempted to determine whether Special Access Services costs for Centel were substantially different than similar costs for Southern Bell. Centel's recurring costs for Special Access Services as determined in its Private Line/Special Access cost study are substantially less than Southern Bell's Special Access Services costs as established in Docket No. 890505-TL. Table 60-1 compares Centel's costs for providing selected Special Access Services, featuring circuits with and without 5 mile interoffice channels, with Southern Bell costs for comparable services. As shown, Centel's recurring costs are always lower than Southern Bell's recurring costs by a substantial margin, except in the case of Digital Data Service (DDS). Centel did not provide recurring cost data for DDS.

A comparison of Phase 3 industry recurring rates and Centel's recurring costs for Special Access Services reveals that the Company is proposing substantial contribution margins (Column

G) for these services. The contribution levels as applied to recurring rate elements ranges from 115% to 296%.

It is apparent that Centel represents their costs to provide Special Access Service to be substantially less than similar costs for Southern Bell, at least insofar as recurring costs are concerned, and that Centel's costs are significantly less than its proposed rates. These facts call into question whether it is appropriate for Centel to adopt the Special Access Services rates approved for Southern Bell and the other concurring LECs.

Staff investigated the relationships between Centel's nonrecurring costs and similar industry costs. Centel developed nonrecurring costs for Special Access Services without distinguishing between first and additional nonrecurring costs. In Issue 62, staff recommends that the Company resubmit the Centel Cost Study with First Circuit and Additional Circuit costs. However, as shown in Table 60 - 1, Centel's nonrecurring costs for Special Access Services fall between Southern Bell's First Circuit and Additional Circuit Nonrecurring Costs, except for Channel Type 2463 (with interoffice channel), in which case Centel's costs are lower than both Southern Bell's first and additional costs.

Staff also attempted to compare Centel's proposed Special Access rates and costs, using the stated costs of the Company for both first and additional cost designations. The contribution levels for nonrecurring rate elements applying to First Circuit Installed ranges from 9% to 125% range, and for Additional Circuits Installed ranges from -51% to 6%. Staff believes that, had the Company developed costs on a first and additional nonrecurring cost basis, all such costs would have allowed for some positive level of contribution. It appears to staff that the Company's nonrecurring costs exceed the proposed rates.

TABLE 60 - 1				
A SERVICE TYPE	B SOUTHERN BELL'S COST	C CENTEL'S COSTS	D INDUSTRY PHASE 3 RATE (APPROVED)	E CENTEL'S PROPOSED CONTRIBUTION
Channel Type 2231, different wire center	$63.51 Rec	$19.95	$79.05 Rec	296%
	$714.18 NRC, 1st $287.90 NRC, Add	$317.17 $317.17	$627.00 NRC $287.00 NRC	97% -10%
Channel Type 2231, same wire center	$36.66 Rec	$19.22	$42.30 Rec	120%
	$535.06 NRC, 1st $198.34 NRC, Add	$317.17 $317.17	$540.00 NRC $200.00 NRC	70% -37%
Channel Type 2463, different wire center	$87.87 Rec	$30.19	$100.05 Rec	231%
	$687.78 NRC, 1st $334.80 NRC, Add	$317.17 $317.17	$687.00 NRC $337.00 NRC	117% 6%
Channel Type 2463, same wire center	$61.02 Rec	$29.46	$63.30 Rec	115%
	$598.22 NRC, 1st $245.24 NRC, Add	$317.17 $317.17	$600.00 NRC $250.00 NRC	89% -21%
Hi-Cap 1.544 Mbps, different wire center	$243.80 Rec	$141.71	$495.15 Rec	249%
	$1687.81 NRC, 1st $868.51 NRC, Add	$1362.37 $1362.37	$1690.00 NRC $870.00 NRC	24% -36%
Hi-Cap 1.544 Mbps, same wire center	$150.72 Rec	$124.35	$281.80 Rec	127%
	$1488.36 NRC, 1st $669.06 NRC, Add	$1362.37 $1362.37	$1490.00 NRC $670.00 NRC	9% -51%
DDS 56 Kbs, different wire center	$162.94 Rec	Not Provided	$221.75 Rec	Not Provided
	$941.92 NRC, 1st $373.72, NRC Add	$437.77 $437.77	$987.00 NRC $415.00 NRC	125% -5%
DDS 56 Kbs, same wire center	$ 59.60 Rec	Not Provided	$193.80 Rec	Not Provided
	$912.62 NRC, 1st $344.42 NRC, Add	$437.77 $437.77	$920.00 NRC $348.00 NRC	110% -21%

The rate impact to customers of Centel's Special Access Services has already been estimated in Docket No. 890505-TL. Because the rate impact was considered to be substantial, it was determined that a three year phase-in period for the proposed recurring rates for these services was appropriate. The three year phase-in was approved by the Commission in order to allow customers to react to the changes in the rates and to make changes in their services based on economic conditions. These

substantial rate changes were predicated on the fact that costs for Special Access Services have exceeded rates for years by a substantial margin, and that large increases in rates were essential in order to correct this perverse rate design. Since Centel has provided the Commission with a company-specific cost study including lower recurring costs for these services, these substantial customer impacts might be mitigated by introducing rate increases which are not as substantial as the rate increases approved for the industry.

In summary, staff is concerned that the proposed recurring rates for Special Access are not cost-based. Due to the significant recurring cost differences between Centel's Special Access Services and Southern Bell's Special Access Services, staff believes that there exists little reason for the Company to continue to concur in industry rates. Rather, the Company should develop a company-specific Special Access tariff with lower recurring rates for Special Access Services than the industry tariff would allow. Insofar as the Commission determined in Docket No. 890505-TL that comparable rates should be established for comparable Private Line Services regardless of jurisdiction, staff believes it is important to consider the coordination of rates between Local Private Line Services and Special Access Services within the context of this rate proceeding.

Staff believes that allowing the Year 1 phase-in of recurring rates for Special Access Services is appropriate since these rate increases are justified. After Year 1, staff believes that rates for Special Access Services should be set equal to rates for Local Private Line Services, since the costs are the same regardless of jurisdiction for these services. In this way, staff believes that establishing comparable rates for comparable services could be achieved while also allowing customers time to adapt to the significant rate increases required. Rates, costs, and contribution for Special Access Services would be identical to those represented in Table 58-2 (Issue 58 - Local Private Line).

Therefore, staff recommends that the Commission accept Centel's continued concurrence in Southern Bell's Private Line/Special Access Services tariff for the present time, but require the Company to submit company-specific Special Access Services tariff no later than November, 1991 for implementation no later than January 16, 1992, which reflects the rate structure, language, and rule changes approved in Docket No. 890505-TL for Special Access Services and with rates equal to the rates recommended for Centel's Local Private Line Services as outlined in Issue 58. Similarly, when it is determined that

meet-point billing is achieved for Interexchange Private Line Services on an industry-wide basis, a company-specific tariff should be developed for Centel's Interexchange Private Line Services with rates comparable to its rates for Local Private Line Services.

ISSUE 63: Centel has indicated the Private Line and Special Access Services are non-basic, and therefore their rates may fluctuate upward, individually, up to 10 percent without Commission approval. Is this appropriate, given the concurrence that the Company maintains with the Southern Bell Interexchange Private Line and Special Access Services Tariff?

RECOMMENDATION: No. The Commission should deny Centel the flexibility to change rates for Interexchange Private Line Services in a manner consistent with the Company's proposed incentive plan since the industry does not yet bill and keep the revenues for such services. Also, the Commission should not approve of Centel's proposed flexible pricing plan for Special Access Services since these services are not classifiable as nonbasic.

POSITION OF PARTIES

CENTEL: Yes. Central Telephone-Florida may either ask Southern Bell to file specific rates on its behalf or file its own tariff at a later date.

OPC: Just as Centel's alternative regulation proposal violates Chapter 364.14 and 364.035, Florida Statutes, so, too, does this proposal to fluctuate rates up to 10% without Commission approval violate the same statute because it would allow rates to change independent of the company's fair and reasonable return on investment.

AT&T-C, DGS, FPTA, McCAW: No position.

STAFF ANALYSIS: Centel is pursuing approval of a rate incentive plan which includes a provision that individual rates for non-basic services can fluctuate up to 10% per year as long as the average for all non-basic prices did not increase over the annual price cap index (PCI) approved for the Company (Issue 94). Such pricing flexibility would permit Centel to react rapidly to changes in competitive market conditions. Under the proposed plan, Centel would provide notice of price changes on non-basic services to the Commission, and the new prices would be effective 30 days later. (Cross TR, p. 38)

Centel classifies Interexchange Private Line Service and Special Access Service as non-basic, so that such services would have price flexibility under the rate incentive plan as proposed by the Company. However, Centel proposes to continue its concurrence with the Southern Bell Interexchange Private Line/Special Access rates and tariffs as amended in Docket No.

890505-TL. Witness Wahlen states that should the Company desire to change a rate for Interexchange Private Line Service, the Company need only request that Southern Bell file tariff revisions with company-specific language for the rate element(s) involved. (EXH 104, p. 373)

One of the salient reasons for preserving the industry tariff is to allow rates to be uniform from company to company. The industry does this since its billing and collection of revenues is very interdependent between companies. As such, the industry coordinates revenue distribution through an industry pool for interexchange private line. Should any one company be allowed rate flexibility, it would affect the revenue distribution of the pool for all companies. Staff believes that once companies are in a position to bill and keep interexchange private line services, fluctuating rates for companies' Interexchange Private Line Services becomes much more tenable.

Unlike Interexchange Private Line Service, fluctuations in rates for Special Access Service can be realized at this time since this service is billed and kept, using meet-point billing. Meet-point billing means that each company involved in billing for a particular service bills for only its part of the service rather than the entire service. The meet-point is the geographic location where the facility crosses company service area borders. (EXH 104, p. 333)

However, staff does not agree with Centel's classification of Special Access Services as nonbasic. Witness Wahlen states that services are classified as non-basic if there are alternative services available or if the service is not essential for ordinary voice local or toll calls. (EXH 102, p. 83) However, staff believes that some services, which may be nonessential for ordinary voice local or toll calls, may be basic because they are essential for certain types of interLATA data communication transport. Special Access Service provides basic network facilities for users to transport communications which are digital, many times more efficiently than voice local or toll calls, and such service is for the most part provided by a single source, the LEC. Until such time that Alternative Access Vendors are given authorization to transport communications on an interLATA basis, no other entity can provide interLATA transport of large bandwidth communications except for those customers with the ability to afford expensive private networks. The Commission confirmed this bypass restriction in the Toll Monopoly Area (TMA) Docket (Order 23540). Currently, Contract Service Arrangements, located in Centel's tariff, provide a means for Centel to deal with customers who may be in a position to afford large private

networks. Thus, staff believes that treating Special Access as nonbasic for the purpose of allowing fluctuating Special Access rates is not appropriate.

OPC's position on this issue is that any proposal to allow fluctuating rates for Private Line/Special Access Services, or any other regulated service, is inappropriate since such flexibility would allow rates to change independent of the company's fair and reasonable return on investment. OPC claims this is in violation of Florida Statutes Chapter 364.14 and 364.035. This point is addressed in Issue 93.

Staff recommends that the Commission deny Centel the flexibility to change rates for Interexchange Private Line Services in a manner consistent with the Company's proposed incentive plan since the industry does not yet bill and keep the revenues for such services. Also, staff recommends that the Commission not approve of Centel's proposed flexible pricing plan for Special Access Services since these services are not classifiable as nonbasic.

ISSUE 67: Centel has proposed to increase its rates for Digital Business Service as shown below. Is this appropriate?

NUMBER OF LINES*	**MONTHLY RATES**	
	PRESENT	**PROPOSED**
3-6	$20.30	$27.11
7-15	20.25	26.86
16-25	20.15	26.61
26-50	20.00	26.11
51-100	19.75	25.61
101-150	19.50	25.11
151-200	19.00	24.61
201-250	18.25	24.11
251-300	17.50	23.61
301-500	16.75	22.86
501-1,000	15.75	21.86
1,001-2,000	14.75	19.35
2,001-10,000	13.75	15.93
10,001 and up	12.50	12.50

* Three line minimum service requirement.

RECOMMENDATION: No. The Commission should approve the rates for Centel's Digital Business Service appearing below as well as a $1.00 per line monthly Touchtone rate for this service. In the event that the staff's recommended PBX rates are not approved in Issue 89, then staff recommends that the Commission approve business centrex rates (including Touchtone) which would duplicate the percentage increase to the approved PBX rates. Also, the Commission should approve Centel's current rates for centrex provided to the state per Sections A22, A24, and A25, but require the Company to resubmit each section 2 months prior to its expiration date for state centrex services.

NUMBER OF LINES*	MONTHLY RATES	
	PRESENT	PROPOSED
3-6	$20.30	$26.11
7-15	20.25	25.86
16-25	20.15	25.61
26-50	20.00	25.11
51-100	19.75	24.61
101-150	19.50	24.11
151-200	19.00	23.61
201-250	18.25	23.11
251-300	17.50	22.61
301-500	16.75	21.86
501-1,000	15.75	20.86
1,001-2,000	14.75	18.35
2,001-10,000	13.75	14.93
10,001 and up	12.50	11.50

* Three line minimum service requirement.

POSITION OF PARTIES

CENTEL: Yes. Digital Business Service (i.e., Centrex) is a relatively new service. It was properly priced at its inception in 1988, and has been raised in this case to retain some relationship to business services. Business services such as B-1s have been below attributable cost, and the rates have not been raised since 1976. PBX trunk rates are based on a relationship to the B-1 rate reflecting an estimate of their higher network usage.

AT&T-C, DGS, FPTA, McCAW & OPC: No position.

STAFF ANALYSIS: Digital Business Service (business centrex) is Centel's centrex service offering, and is usually subscribed to by small to medium businesses. It is a basic local exchange offering, providing dial tone, direct inward dialing (DID), and Touchtone as part of the basic service offering. In addition, it provides the customer with a wide variety of features and call management techniques, similar to those provided by unregulated customer premises equipment (CPE) providers through private branch exchanges (PBXs) and key systems. The service features for business centrex are categorized as either station features or attendant features. Examples of the 12 station features available with business centrex include Call Forward, Call Waiting, and Three Way Conference/Transfer. Examples of the 25

attendant features available with business centrex include Paging, Call Selection, and Call Hold.

Business centrex requires digital central office facilities in addition to special central office software. All switching and features are performed by this software. No terminal equipment is provided by the Company.

Business centrex appears in Section A12 of the Company's General Customer Subscriber Tariff (GCST). The Company also offers centrex services in Section A22 (agencies of the State of Florida), Section A24 (Florida State University), and Section A25 (State of Florida - Marianna). The Company was motivated to create these latter three tariff sections by the State of Florida or, in the alternative, relinquish the state's business altogether.

The purpose of Section A12 is to allow centrex services to be purchased by businesses. The aggregate volume of such business service anticipated in 1991 for all service sizes, ranging from "3-6 line service" through "10,001 lines and up service", is 3,900 lines as established in the MFR Schedule E-1a. As a point of comparison, the projected volume for the State of Florida (Section A22) in 1991 is 19,606 lines. Meanwhile, Centel expects to provide 8,300 such lines to FSU, and 450 lines to the State of Florida - Marianna. (EXH 107, pp. 264-356)

Centel performed a cost study for business centrex at the time the service was introduced in 1988. The cost development included incremental costs, including the Company's expected return, required to provide this service, but not including basic local exchange service. In that study, the cost per line for business centrex was determined to be $6.79 based on the forecasted volume of business centrex service.

Centel includes two types of recurring rates for business centrex service. The business centrex line rate varies based upon the volume of service to which the customer subscribes. Current business centrex line rates vary from as low as $12.50 (10,001 lines and up) to as high as $20.30 (3-6 lines). These rate are established to recover the revenue requirements of basic exchange service, DID, Touchtone, and all attendant and station features. Such rates were determined by adding the incremental costs per line to the B-1 rate for business service.

The second rate associated with business centrex service is the Subscriber Line Charge Equivalent Monthly Rate, or SLC charge. This rate is established in compliance with Section 3 of

Centel's Access Tariff FCC NO. 1 for business centrex line charges. As with the business centrex line rate, the SLC charge is based upon the volume of service. Customers are billed a SLC charge for the number of trunk equivalents established to accommodate the number of lines subscribed. Each such trunk is rated at $6.00 per month (see Issue 15A). The SLC Charge per line according to the trunk equivalency table can range from $.40 (over 300 lines, where each additional 15 lines requires an additional $6.00 SLC charge) up to $4.00 (minimum 3 lines requires a $12.00 SLC charge).

The Company proposes to increase the business centrex line rates, as shown in the Table 67 - 1 below. Rate increases apply to all such rate elements except for the "10,001 lines and up" line rate element, which Centel proposed to leave unchanged.

TABLE 67 - 1

NUMBER OF LINES*	MONTHLY RATES	
	PRESENT	PROPOSED
3-6	$20.30	$27.11
7-15	20.25	26.86
16-25	20.15	26.61
26-50	20.00	26.11
51-100	19.75	25.61
101-150	19.50	25.11
151-200	19.00	24.61
201-250	18.25	24.11
251-300	17.50	23.61
301-500	16.75	22.86
501-1,000	15.75	21.86
1,001-2,000	14.75	19.35
2,001-10,000	13.75	15.93
10,001 and up	12.50	12.50

* Three line minimum service requirement.

Since the SLC Charge is imposed by the FCC, no rate increase is proposed for this rate element.

The main issue surrounding LEC business centrex type offerings today involves competition with PBX equipment providers. As stated in Order No. 23872, the Commission's policy is to avoid the repricing of centrex offerings in isolation from competitive, functionally equivalent offerings. Thus, staff found it necessary to analyze business centrex rate adjustments

in the context of staff's recommended PBX rate adjustments addressed in Issue 89.

Both business centrex and PBX provide access to the local and toll networks, as well as communications between subscriber stations within the system. Both services provide inward and outward dialing, intercept, station hunting, plus numerous optional customized calling features including call waiting, call forwarding, call transfer, automatic call back, etc.

The primary difference between business centrex and PBX is that business centrex provides all service features, including network access, from the central office, while the PBX provides the features at the customer's premises. Also, PBX allows the customer more flexibility in the design and use of the system, while business centrex Service precludes the need for heavy investment in equipment and office space, along with the responsibility for repair and maintenance. With the increasing technological sophistication of both PBX equipment and central office switches, the competition between business centrex and PBX has grown fierce. Over the past few years there has been growing concern over the pricing relationships between these two competing services.

At the Tallahassee Service Hearing held August 15, 1990, OPC Witness Carrell stated that he would prefer to see percentage increases in Centel's rates for PBX and business centrex to be equal since his business (PBX vending) would become less competitive if the percentage increase in PBX rates were greater than the percentage increase in business centrex rates, as proposed by the Company. (TR 17-19)

Historically, the Commission has set PBX Basic Local Exchange Rates based on their relationship to basic local exchange service for business (B-1 Lines). Thus, local rates determine PBX rates, and the percentage increases in PBX rates should be accompanied by the same percentage increases in business centrex rates or more in order to insure that PBX vendors are not disadvantaged by the rate change.

Centel's proposed business centrex rate increase for a moderate size service requirement (20 business lines) is shown in Table 67-2 below.

TABLE 67-2
CURRENT AND PROPOSED CENTREX LINE RATE COMPARISON FOR 20 LINES

RATE ELEMENT	CENTREX RATE, CURRENT	CENTREX RATE, PROPOSED (CENTEL)	INCREASE	PERCENT INCREASE
Line Charge	$20.15	$26.61	$6.46	32%

The current medium size business centrex customer's recurring rates would increase by 32 percent in the event the Company's proposed business centrex rates are approved.

Staff's recommended increase in current PBX rates (Issue 89) for a typical PBX Service (20 trunks, Rate Group 6) is shown in Table 67-3 below. In this example, the staff-recommended total PBX recurring rates per trunk would exceed the current PBX rates by only 7%, but the staff-recommended PBX recurring rates which are undergoing rate changes would increase 16% (includes the basic trunk charge plus Touchtone). Comparing the data in Tables 67-2 and 67-3 reveals that Centel proposes to increase the business centrex line rate (32%) to a larger extent than staff recommends increasing the PBX rates (16%). The proposed increase per centrex line is $6.46, whereas the staff recommended increase per PBX trunk is $4.92. Thus, staff believes that the business centrex rates proposed by the Company will not disadvantage PBX vendors in terms of the existing rate relationship between the two services, assuming staff's PBX recommended rates are approved. This provides assurance that the proposed business centrex rates are not so low that they would disadvantage other competitive offerings. Staff does not find it necessary to recommend higher rates for business centrex than what is proposed by Centel.

TABLE 67 - 3
CURRENT AND STAFF RECOMMENDED PBX PER TRUNK
RATE COMPARISON (20 TRUNKS SERVICE, RATE GROUP 6)

RATE ELEMENT	PBX RATE, CURRENT	PBX RATE, RECOMMENDED	INCREASE	PERCENT INCREASE
Trunk Charge	$26.96	$34.88	$7.92	29%
Touchtone	$4.00	$ 1.00	$-3.00	-75%
TOTAL RATE, CHANGING ELEMENTS	30.96	$35.88	$4.92	16%
DID	$.20	$ .20	0.00	0
DID Trunk Termination	$40.00	$40.00	0.00	0
TOTAL RATE FOR SERVICE	$71.16	$76.08	$4.92	7%

However, staff believes it is appropriate that business centrex monopoly elements, such as Touchtone, should be unbundled, in accordance with Order No. 23872. Currently, business centrex has no Touchtone rate element, whereas the PBX rate element is $4.00. Staff's recommendation for PBX rates in Issue 89 includes a reduction of the PBX Touchtone rate to $1.00. Since Centel acts as both a wholesaler and a retailer of monopoly elements, the monopoly elements should feature rates which are similar for both the Company and its competitors (PBX vendors). An equivalent touchtone rate should apply to each service, as the Commission voted in United's recent rate case.

Staff recommends a $1.00 per line Touchtone rate element. Staff also recommends approval of Centel's proposed line rates less $1.00. The line rates for business centrex shown in Table 67-4 shown below plus the $1.00 per line Touchtone rate would allow the Company to achieve the same revenue they would achieve with the rates proposed by the Company.

TABLE 67-4

NUMBER OF LINES*	**MONTHLY RATES**	
	PRESENT	**PROPOSED**
3-6	$20.30	$26.11
7-15	20.25	25.86
16-25	20.15	25.61
26-50	20.00	25.11
51-100	19.75	24.61
101-150	19.50	24.11
151-200	19.00	23.61
201-250	18.25	23.11
251-300	17.50	22.61
301-500	16.75	21.86
501-1,000	15.75	20.86
1,001-2,000	14.75	18.35
2,001-10,000	13.75	14.93
10,001 and up	12.50	11.50

* Three line minimum service requirement.

Centrex service offerings for the State of Florida, Florida State University, and the State of Florida - Marianna appear in Sections A22, A24, and A25 of the GCST, respectively. These sections were established for the state, which is the largest user by far of Centel's centrex services. Each of these sections now feature line rates which are similar to those appearing in Section A12 for business centrex. These sections serve as the basis for rates under contract. The State of Florida contract (Section A22) expires in August 1992, the Florida State University contract (Section A24) expires in July 1993, and the State of Marianna contract (Section A25) expires July 1991. Ordinarily, staff would recommend that comparable rates be maintained for comparable services. However, staff does not recommend that the rate changes which appear above for business centrex be duplicated in these state centrex tariff sections. Staff believes that the Commission formulated these sections in order to allow the state to enter into stable contract arrangements. Changing these contracts in mid-term would be inappropriate. Staff believes that the contracts' rates should be analyzed for possible adjustment at the time that the contracts expire.

No Touchtone rate elements currently exist for Centel's centrex service offering for the State of Florida appearing in Sections A22, A24, and A25. Staff believes that it is

inappropriate to recommend the establishment of a Touchtone rate element for state centrex at this time, even though staff is recommending that a similar rate element be approved for business centrex in Section A12. For the same reasons as apply to the line rates, staff believes that a Touchtone rate should not be considered for state centrex offerings until Centel's state centrex contracts expire.

Centel's annual proposed revenue for business centrex is $1,152,450, which represents a $285,207 increase over current revenue of $867,243. Staff's recommended revenues match the revenues of the Company since the aggregate rate per line (line rate plus Touchtone) recommended by staff is the same as the rate proposed by the Company. (EXH 107, p. 269) Table 67-5 shows the revenues projected using staff's recommended rates for business centrex.

TABLE 67-5
STAFF'S RECOMMENDED CENTREX REVENUES

RATE ELEMENT	PROJECTED UNITS	STAFF'S REC. LINE RATE	STAFF'S REC. T-TONE RATE	STAFF'S RECOMMENDED REVENUE, ANNUAL
3 - 6	285	$26.11	$1.00	$92,716
7 - 15	325	$25.86	$1.00	$104,754
16 - 25	65	$25.61	$1.00	$20,755
26 - 50	235	$25.11	$1.00	$73,630
51 - 100	1,568	$24.61	$1.00	$481,877
101 - 150	0	$24.11	$1.00	$0
151 - 200	9	$23.61	$1.00	$2,657
201 - 250	200	$23.11	$1.00	$57,864
251 - 300	0	$22.61	$1.00	$0
301 - 500	0	$21.86	$1.00	$0
501 - 1000	1,213	$20.86	$1.00	$318,194
1001 - 2000	0	$18.35	$1.00	$0
2001 - 10,000	0	$14.93	$1.00	$0
10,000 and up	0	$11.50	$1.00	$0
TOTAL	3,900			$1,152,450

Since staff recommends that the rates for Centel's centrex provided to the State of Florida, Florida State University, and the State of Florida - Marianna not be changed, the proposed revenues match the current revenues for these services. The revenues for these services are:

State of Florida Centrex (Section A22) -	$3,101,123
Florida State University Centrex (Section A24) -	$1,271,430
State of Florida - Marianna Centrex (Section A25) -	$89,100
TOTAL (Sections A22, A24, A25) -	$4,461,653

Staff agrees that these revenues, as shown in MFR Schedule E-1a, are appropriately stated.

No other party took a position on this issue.

Thus, staff recommends the Commission approve the rates for Centel's business centrex appearing in Table 67-5 above. In the event that the staff's recommended PBX rates are not approved in Issue 89, then staff recommends that the Commission approve business centrex rates (including Touchtone) which would duplicate the percentage increase to the approved PBX rates. Staff also recommends that the Commission approve the current rates for centrex provided to the state per Sections A22, A24, and A25, but require Centel to resubmit each section 2 months prior to its expiration date for state centrex services.

ISSUE 68: Centel has proposed no changes in its current rates for City Wide Service, Northern Telecom Business Terminal, Automatic Call Distribution and Customer Specific Recorded Announcements. Is this appropriate?

RECOMMENDATION: Yes. The proposed rates for City Wide Service, Northern Telecom Business Terminal, Automatic Call Distribution and Customer Specific Recorded Announcements should be approved since each of these service's rates were recently approved by the Commission.

POSITION OF PARTIES

CENTEL: Yes. These are low-volume services, and each has been repriced since 1988.

AT&T-C, DGS, FPTA, McCAW & OPC: No position.

STAFF ANALYSIS: City Wide Service, Northern Telecom Business Terminal, Automatic Call Distribution and Customer Specific Recorded Announcements are all types of services which complement Digital Business Service (DBS), which is Centel's centrex offering. They are optional features subscribed to in conjunction with DBS. City Wide Service and Northern Telecom Business Terminal rates became effective in June 1988, Automatic Call Distribution rates became effective in January 1990, and Customer Specific Recorded Announcement rates became effective March 1990.

City Wide Service (CWS) provides the customer with a channel capability between central offices within a single exchange, thereby allowing him to use the same telephone number or central office prefix at any premises within the exchange. The service is quite similar to Foreign Central Office. The difference between the two services is that CWS is designed for Centrex applications involving multiple premises within a city through the use of T-1 facilities, whereas an FCO circuit is designed primarily for individual main line service applications involving a single user using metallic facilities. The rate for CWS is a flat-rate monthly charge of $9.15 per line, compared to an average monthly rate per FCO of $26.88. The rate per FCO circuit is calculated by multiplying the rate of $4.80 per mile per month for each circuit times the average FCO circuit of 5.6 miles. The fact that the CWS circuit is rated considerably lower than the FCO rate reflects the economies of scale inherent in digital centrex technology. CWS requires that the customer's various locations be served by a digital central office. The

proposed rate is unchanged from the current rate, so there would be no impact to the customer. (EXH 107, p. 269, line 230)

The Company forecasts 135 CWS units will be subscribed in 1991, generating $14,823 in revenue.

The other complementary offerings to Centrex include Northern Telecom Business Terminal, Automatic Call Distribution and Customer Specific Recorded Announcements. The subsection "Northern Telecom Business Terminal" is a service which allows centrex customers to access lines equipped by the customer with such a terminal. The terminal allows the customer to select various centrex station features. Automatic Call Distribution is a feature which provides incoming call distribution to the next available centrex line. Customer Specific Recorded Announcement is a recorded announcement service purchased in conjunction with Automatic Call Distribution, which provides a greeting and hold announcement for incoming callers.

The Company does not expect any subscribers to these services in 1991. Thus, there is no revenue impact associated with these services. Witness Wahlen states that the Company offers these services in the event that demand develops for them in the future. (EXH 106, pp. 76-77)

Because these services have recently been introduced at rates above incremental costs, staff recommends that the Commission approve the proposed rates for City Wide Service, Northern Telecom Business Terminal, Automatic Call Distribution and Customer Specific Recorded Announcements since each of these service's rates were recently approved by the Commission.

ISSUE 70: Centel has proposed to increase the trouble location charge to end users from $29.50 to $46.80. Is this appropriate?

RECOMMENDATION: No, Centel's proposal to increase the trouble location charge to end users from $29.50 to $46.80 is not appropriate and should be denied. Centel's trouble location charge should be increased to $35.00.

POSITION OF PARTIES

CENTEL: Yes. This proposed increase aligns the trouble location charge percent increase with the customer premise charge percent increase, since they are comparable functions.

AT&T-C, DGS, FPTA, McCAW & OPC: No position.

STAFF ANALYSIS: A trouble location charge is assessed when a customer reports a trouble, and the LEC repairman who is dispatched to the premises finds the service difficulty to be caused by the customer-provided equipment and/or lines. This company-specific flat rate exists in all LECs' tariffs.

Centel proposes to increase its trouble location charge 59%, from $29.50 to $46.80. (MFR SCH E1-A) This percentage increase is identical to the percentage increase proposed for the Company's premises visit charge (see Issue 73), which as offered will increase from $9.77 to $15.50. No other party had a position on this issue.

The Company projects that 324 businesses and 756 residences will be charged a trouble location charge in 1991. The estimated total annual revenues in 1991 from this charge are $50,544. (MFR SCH E1-A)

Centel's rationale for this proposal is simple: the premises visit charge and the trouble location charge are rates charged for comparable (but not identical) functions, so the rates should be adjusted at comparable percentages. (Centel Brief, p. 82) While the premises visit charge is simply the average driving time to the premises multiplied by the loaded labor rate, Witness Wahlen explained that the trouble location charge incorporates the costs associated with a premises visit plus additional labor time involved in isolating the trouble condition. (TR 1391)

For comparison, the Trouble Location rates for Southern Bell, Centel and United are listed below:

Table 70-1
Trouble Location Charge - LEC Comparison

Centel Current	Centel Proposed	Staff Rec.	SBT	UTF Approved
$29.50	$46.80	$35.00	$25.00	$30.00

Centel did not provide a cost study to support the proposed increase. The Company did, however, provide cost support for its proposed increase to its premises visit charge (see Issue 73).

The Company is attempting to extrapolate here that, because they are similar functions, a percentage increase to one should dictate a similar percentage increase to the other. Witness Wahlen admitted that many rates were adjusted without direct cost support; many of the Company's proposed increases were either to maintain a rate relationship or rate increase relationship (as here), or an arbitrary increase to arrive at the Company's proposed revenue requirement. (EXH 106, pp. 54-6)

Based on historical data from previously approved trouble location charge rate increases, Centel's proposed rate appears to more than cover its cost. A study conducted in 1985 (T-85-449, Docket No. 860116-TL) showed that the average time spent on the premises finding the cause of the trouble condition was approximately 18 minutes. The Company provided no information in this proceeding as to whether that time interval should be changed.

The Company did provide information in its service connection cost information on the time spent in transit to/from a premises visit. (MFR SCH E3) Travel time of 45-50 minutes was estimated; the historical data showed an approximate travel interval of 20-25 minutes. The Company did not provide any information explaining this difference.

Because no cost study was performed for this service, staff can interpret Centel's cost any of several ways. First, the cost for a premises visit has been reasonably established in MFR Schedule E-3b at approximately $22.69 (weighted average of residence and business). The Company's proposed labor rate for these visits is $29.40/hr. Using these costs and the Company's proposed rate of $46.80, the technician would have approximately 50 minutes to locate the trouble condition, well above 1985's estimate of 18 minutes. Using 1985's estimate of 18 minutes to find the trouble multiplied by Centel's projected labor rate, a

cost of $8.82 may be added to the Company's cost for a premises visit ($22.69), totalling $31.51.

Staff believes that, absent a current trouble location charge cost study from the company, a 50 minute interval to find a trouble condition is excessive. A reasonable cost estimate should be around $32, taking into account current labor rates and travel time, as well as an 18 minute trouble location interval as was established in the Company's 1985 study.

We recognize that there could be other factors included when developing these costs. Items such as depreciation, taxes, rate of return, etc. may have a bearing on the exact final cost estimates. We have no knowledge of the precise level of these costs, but they generally make up a lesser potion of the total cost.

Staff recommends that Centel's proposed rate should be denied. Trouble location charges have traditionally been treated by this Commission like service connection charges - cost recovery is often appropriate but large contribution above cost is not. Staff recommends that a rate of $35.00 will more accurately reflect Centel's costs for finding a trouble condition. A $35.00 rate will cover the Company's costs for a premises visit, 18 minutes of labor time on-site, and leave a margin of approximately $3.50 to cover any additional costs that staff cannot accurately calculate. This rate will result in approximately $5,940 in additional revenue for Centel in 1991.

ISSUE 71: Centel has proposed no increases to the trouble location charge in the Access Tariff. Is this appropriate?

RECOMMENDATION: Yes, the Company's proposal of no increase in the trouble location charge in the access tariff is appropriate.

POSITION OF PARTIES

CENTEL: Yes. This charge is contained in an industry tariff in which the Company concurs. The Company sees no reason to file an exception rate at this time.

AT&T-C, DGS, FPTA, McCAW & OPC: No position.

STAFF ANALYSIS: Centel does not currently operate from its own Access Tariff. It concurs with Southern Bell Telephone and Telegraph Company's (Southern Bell's) Access Tariff along with all other LECs except United Telephone Company of Florida (United). United has filed its own Access Tariff with identical rates, terms, and conditions as Southern Bell's.

The trouble location charge in Southern Bell's Access Tariff is designed to be similar to the trouble location charge in each company's General Subscriber Services Tariff (see Issue 70). The primary difference is this charge is designed to be restricted to long distance circuits. This rate is predominantly charged to IXCs for locating trouble at their interconnection points with LEC facilities; however an end user with a special access connection directly to an IXC's point of presence, or POP, may incur this charge as well if the trouble occurred with the customer's inside wire or CPE connected to the LEC's long distance special access trunk.

The current rates are assessed as follows:

Table 71-1
Trouble Location Charge - Access Tariff

		FIRST HALF HOUR OR FRACTION THEREOF	EACH ADDITIONAL HALF HOUR OR FRACTION THEREOF
a.	Basic time, normally scheduled working hours per technician.	$44.12	$17.91
b.	Overtime, outside of normally scheduled working hours on a scheduled work day, per technician.	$47.22	$21.01
c.	Premium, outside of scheduled work day, per technician.	$50.33	$24.12

Centel's rationale for not proposing any change to this rate is simply that it concurs with Southern Bell's Access Tariff for every other rate (except for its BHMOC, which is company-specific and explored in other issues), and that an exception rate is not warranted. In the Company's MFR Schedule E-1a there are no billing units associated with this service. No other party offered a position on this issue.

Staff agrees that Centel, in concurring with Southern Bell's Access Tariff, should concur with all its rates, terms, and conditions. No other LEC has filed an exception rate for the trouble location charge and we see no reason for Centel to do so. We do encourage each LEC to conduct its own cost studies and to file its own Access Tariff as it becomes able. Centel has not indicated that it is ready to file its own Access Tariff at this time. There is no expected revenue impact from this decision, as no units of this rate element are expected in the test year.

ISSUE 77: Centel has not proposed a Late Payment Charge. Is this appropriate?

RECOMMENDATION: Yes, Centel should not be required to levy a late payment charge.

POSITION OF PARTIES

CENTEL: It is the Company's experience in other jurisdictions that the administrative expense is too high and the deterrent effect is too low to warrant the imposition of a Late Payment charge.

AT&T-C, DGS, FPTA, McCAW & OPC: No position.

STAFF ANALYSIS: The Commission has taken the position that the general body of rate payers should not shoulder the costs attributed to late paying customers. In 1986, Southern Bell Telephone Company (SBT), came before the Commission requesting approval to levy a 1.5% late payment charge on unpaid balances (Order No. 16100). In approving the procedure, the Commission stated that "other companies may file tariffs to charge a late payment charge" (emphasis added) (Order No. 17915). Central Telephone Company of Florida (Centel) has elected not to charge for late payments.

At the August 15, 1990 service hearing held in Tallahassee, Centel witness Cross stated that the average telephone bill is approximately $45.(TR 10) Centel witness Wahlen also stated that over $15 million out of the $136 million in revenues had been paid late for the period January 1, 1990 to September 30, 1990.(EXH 107, p. 2) Using these figures, assuming all late bills were paid, had the company levied a late payment charge of 1.5%, Centel would have collected $225,000 (15 million X .015 = 225,000).

While Centel acknowledges that the figure of $225,000 is significant, the company contends that the revenue collected by imposing a late payment charge is mostly offset by the cost of administering the program.(Wahlen TR 1346, 1348) To recoup some of the costs, both Southern Bell and GTE Florida, Inc. levy a charge of 1.5% on the unpaid balance, as do many of the smaller companies. On the other hand, United Telephone Company of Florida (United) does not currently levy a charge for late payments. United states that to do so would send the message to their customers that payments need not necessarily be made until the "late payment" date as opposed to the "due" date.

Centel estimates that it has roughly 260,000 access lines.(Wahlen TR 1347) Assuming Centel levied a late fee of 1.5% and assuming no cost for collecting late payments, the dollar impact per access line would be a positive $1.25 annually or approximately $.09 per month per line.

Centel has not examined the cost of collecting late payments in this filing, however, when the Commission first approved charging for late payments, at that time, Centel made the determination that the cost of recovering late payments was likely to exceed the ensuing revenues.(Wahlen TR 1348) Because the dollar amount is relatively small even when assuming that no cost is incurred in collecting late payments, staff recommends that Centel be allowed to continue to not levy a late payment charge. However, if the Commission finds that Centel must levy a late payment charge, staff recommends that Centel make a tariff filing and that the appropriate amount for the charge would be 1.5% on any unpaid balance. Any revenues derived from such a charge and costs incurred for administering such a charge should be included in the company's regulated revenues and expenses.

ISSUE 73: Centel has proposed the following changes to the rates for service connection charges:

Service Charges	Residence		Business	
	Current	Proposed	Current	Proposed
Primary Service Order	$10.64	$11.10	$12.16	$22.25
Secondary Service Order	$ 6.08	$ 7.46	$ 7.60	$19.97
Line Connection Charge	$ 9.88	$23.40	$11.40	$27.25
Premises Visit Charge	$ 9.77	$15.50	$ 9.77	$15.50

Should the Company's proposed changes be approved?

RECOMMENDATION: No, the Company's proposed rates should not be approved. The rates should be changed to the following levels:

Service Charges	Residence		Business	
	Current	Recomm.	Current	Recomm.
Primary Service Order	$10.64	$10.00	$12.16	$22.00
Secondary Service Order	$ 6.08	$10.00	$ 7.60	$14.00
Line Connection Charge	$ 9.88	$32.00	$11.40	$34.00
Premises Visit Charge	$ 9.77	$21.00	$ 9.77	$30.00

POSITION OF PARTIES

CENTEL: Yes. The proposed service connection rates are based on a more current cost study than available when the rates were last set in 1987.

AT&T-C, DGS, FPTA, McCAW & OPC: No position.

STAFF ANALYSIS: Centel has proposed to increase its service connection charges to a level which, if approved, would result in an annual revenue increase of approximately $2,070,000. The proposed increases are based on a recent cost study which the Company believes more accurately reflects current costs. (EXH 102, pp. 27-37; EXH 104, p. 210; Brief p. 83) The specific costs, rates, and revenues are outlined in Table 73-1. No other

party offered a position on this issue.

Centel's position that service connection charges should be priced near or at cost is not a new one. The Company has historically set its prices for these charges near cost. (Docket No. 750320-TP, Order No. 7130, p. 17) However, as a result of an overearnings proceeding, this Commission ordered Centel to reduce service connection charges without regard to cost recovery in 1987. (Docket No. 861361-TL, Order No. 17783) It is important to note here that proceeding was to dispose of excess earnings, not to grant rate increases.

Staff's review of Centel's cost support found the costs to be reasonable and not out of line with other companies. Table 73-2 illustrates this point by a comparison of service connection charges among several LECs. The expenses were broken out into labor and capital functions. Each function necessary to complete the installation - order taking, typing, central office work, driving time, materials, computer time, etc., was separately accounted for in the cost development. (EXH 102, pp. 27-37)

Staff believes that the rates charged for service connections should reasonably cover their relevant costs in the aggregate. Although some rates, particularly those for residences, need not necessarily cover their individual costs, the service category as a whole should.

Centel's proposed rates, as well as the current ones, do not cover the associated costs provided by the Company. According to MFR Schedule E3-A combined with staff's recommended billing units (Issue 34), Centel's proposed rates will generate $5,035,946 in total revenues. Total costs for the elements amount to $6,237,513 (see Table 73-1). This leaves an annual revenue shortfall of $1,201,567.

Staff's recommended rates will recover virtually all of their associated costs (see Table 73-1). We did not choose to recommend that each rate cover its own costs, as the increase to residential subscribers will already be substantial. We proposed increases in some business elements to a level above their costs to make up the difference.

Staff also is <u>not</u> recommending that the premises visit charge for installations be rolled into the primary service order charge, as was recently recommended and approved in United's rate case (Docket No. 891239-TL). The reason we are not proposing to combine the two charges here is that unlike United, which estimated that 70-80% of its installations require a premises

visit, Centel cites that only 34.6% of its connections require one. Because the majority of customers in Centel's territory does not require a premises visit for their installations, staff believes that it is inappropriate to bundle the two cost elements in this case.

Staff believes that Centel's proposed rates do not cover their relevant costs and should not be approved. The Company's present rates, as a result of this Commission's actions in previous Centel overearnings dockets, also do not cover their costs. We believe the staff recommended levels outlined in Table 73-1 are more appropriate and should be approved.

Link-up Florida connection charges will continue to be 50% of the regular rates. The Company is proposing no changes to this policy and staff agrees that the current policy is appropriate.

There will be no impact to existing customers as these are nonrecurring charges for new services only. Also, customers have up to six months to pay for any installation charges, reducing the impact any rate increases may have on them. The total annual revenue impact to the company will be an increase of $3,272,028 at staff's recommended rates.

Table 73-1
Service Connection Charges - Present and Proposed Rates

ELEMENT	PROJECTED UNITS	AVERAGE COST	TOTAL COST	PRESENT RATE	COMPANY PROPOSED RATE	STAFF PROPOSED RATE	STAFF PROPOSED REVENUE
Primary Service Order							
residence	82,751	$ 9.96	$ 824,200	$10.64	$11.10	$10.00	$ 827,510
business	13,728	$11.40	$ 156,499	$12.16	$22.25	$22.00	$ 302,016
Secondary Service Order							
residence	87,099	$ 8.00	$ 21,774	$ 6.08	$7.46	$10.00	$ 870,990
business	3,957	$ 9.83	$ 38,897	$ 7.60	$19.97	$14.00	$ 55,398
Line Connection							
residence	89,709	$38.03	$3,411,633	$ 9.88	$23.40	$32.00	$2,870,688
business	25,708	$27.02	$ 694,630	$11.40	$27.25	$34.00	$ 899,780
Premises Visit							
residence	12,462	$21.67	$ 270,052	$ 9.77	$15.50	$21.00	$ 249,240
business	5,825	$24.86	$ 144,810	$ 9.77	$15.50	$30.00	$ 174,750
		Total Costs:	$6,237,513			**Total Revenues:**	$6,237,126

SOURCE: MFR SCH E3-A, E3-B; EXH 102, pp. 27-37

Table 73-2
Service Connection Charges - Intercompany Comparison

ELEMENT	CENTEL PRESENT RATE	COMPANY PROPOSED RATE	STAFF PROPOSED RATE	GTE CURRENT RATE	SBT CURRENT RATE	UNITED APPROVED RATE[1]
Primary Service Order						
residence	$10.64	$11.10	$10.00	$28.25	$25.00	$20.00
business	$12.16	$22.25	$22.00	$33.90	$35.00	$25.00
Secondary Service Order						
residence	$ 6.08	$7.46	$10.00	$11.00	$9.00	$9.50
business	$ 7.60	$19.97	$14.00	$14.00	$12.50	$16.00
Line Connection						
residence	$ 9.88	$23.40	$32.00	$20.00	$19.50	$30.00
business	$11.40	$27.25	$34.00	$20.00	$19.50	$35.00
Premises Visit						
residence	$ 9.77	$15.50	$21.00	$ 6.00	$16.00	$10.00
business	$ 9.77	$15.50	$30.00	$ 6.00	$19.00	$10.00
Total Basic Installation Charges[2]						
residence	$20.52	$34.50	$42.00	$48.25	$44.50	$50.00
business	$23.56	$49.50	$56.00	$53.90	$54.50	$60.00
Total Installation Charges with Premises Visit[3]						
residence	$30.29	$50.00	$63.00	$54.25	$60.50[4]	$50.00[5]
business	$33.33	$65.00	$86.00	$59.90	$73.50[4]	$60.00[5]

SOURCE: MFR SCH E-1A, E-3A, E-3B; Commission Cost Statistics 1/1/90

NOTES:
1 - rates approved in Docket No. 891239-TL at 1/7/91 special agenda
2 - includes Primary Service Order and Line Connect charges; premises visit charges are not included
3 - 34.5% of Centel's installations require a premises visit (EXH 107, p. 348)
4 - Southern Bell also charges $31.50 if connection involves a new (nonexisting) facility; others include this in premises visit charge. This charge would increase installation to $92.00/res, $105.00/bus
5 - premises visit charge for installation for United included in primary service order; approved in Docket No. 891239-TL at 1/7/91 special agenda

ISSUE 80: Should stimulation and/or repression due to rate reductions be considered in determining revenue requirements, and if so, what are the appropriate adjustments?

RECOMMENDATION: No. Stimulation and repression due to rate changes should not be considered in determining revenue requirements.

POSITION OF PARTIES

CENTEL: No. The Company does not believe there are reliable estimates of stimulation or repression available to make adjustments.

AT&T-C, DGS, FPTA, McCAW & OPC: No position.

STAFF ANALYSIS: Stimulation and repression refer to increases and decreases in the demand for goods and services. Price elasticity of demand may cause stimulation and repression. Stimulation may occur when the price of a service is reduced and that reduction in price creates an increase in the demand for that good or service. Likewise, repression may occur when prices for a good or a service are increased causing a decrease in demand. Different goods and services may have different demand elasticities depending on their degrees of sensitivity to price changes. Other factors such as economic conditions in a service territory may cause stimulation and/or repression.

Staff believes the necessary demand studies, measures of elasticity and demand forecasts are not available or not reliable enough to consider stimulation and/or repression. Stimulation and/or repression caused by rate changes has been recently addressed by the Commission in other dockets. In Docket No. 860984-TP (Order No. 19677) the Commission stated:

> Upon consideration, we believe it appropriate to require the LECs to consider stimulation in access reductions. However, we also recognize the difficulty involved in determining the precise amount of stimulation and acknowledge that in some cases no stimulation results. Accordingly, we find it appropriate to require each LEC to include in its petition for an access reduction a stimulation estimate or a statement as to why one is not provided. We will more closely consider stimulation in the context of each LEC's request for an access reduction. (p. 21)

Centel has not included any estimates of stimulation or repression that may result from its proposed rate changes,

including those pertaining to reductions to toll and access rates. Centel does not believe the data is available to forecast a reliable estimate of the stimulation and repression that will occur if its proposed rate changes are approved.

The Office of Public Counsel (OPC) has not taken a position on this issue. However, in the recent United Telephone rate case OPC did take a position on the issue of stimulation and repression. In that docket OPC stated in its position statement that stimulation associated with toll and access reductions should be recognized. However, OPC never identified the amount of stimulation that would occur as a result of the toll and access rate reductions proposed by United. In that docket staff recommended that stimulation and repression not be taken into account, and the Commission agreed. No other parties have taken a position on this issue. Staff notes that OPC, as in the United rate case, argued in Docket No. 880069-TL Southern Bell's Rate Stabilization Docket, that the reduction in access charges, message toll service (MTS) and WATS/800 Service would result in stimulation due to lower prices. The Commission responded to OPC's arguments in the Southern Bell Docket by stating in Order No. 20503:

> We remain unpersuaded that the stimulation levels indicated will occur with any degree of reliability. Our past experience with including stimulation in access charge reductions indicates that even Southern Bell cannot determine with any reliability the degree to which stimulation will occur.

The Commission concluded in Order No. 20503 that "(T)he myriad of factors that can affect stimulation such as overall economic conditions and rate of growth add to the uncertainty surrounding the amount of stimulation" and denied OPC's Motion for Reconsideration for the effect of stimulation on revenues. This decision was upheld in Citizens v. Nichols issued earlier this year.

Staff believes there may be some stimulation and repression which would occur as a result of changing rates for Centel's telecommunication services. However, Staff believes such stimulation and repression can not be accurately estimated with any high level of confidence. While both Centel and OPC believe the rate changes in access proposed by Centel and staff's recommended changes in toll rates, would cause stimulation, neither party offered an estimate of what that stimulation would be.

Furthermore, in this case, Centel has proposed both increases and decreases in rates. Approving these changes could have the effect of repressing some usage and stimulating other usage. While Staff is sympathetic with OPC's desire to see the customer's of Florida receive the full benefit of access and toll reductions, it is very difficult to determine to determine when stimulation (if any) will occur, or how much will occur. Further it is possible that the effects of stimulation and repression may offset one another.

On the other hand, unlike United in its rate case, no major toll reductions have been proposed by Centel (staff, however, has proposed reductions). Since Centel's proposals, if approved, would primarily result in rate increases, repression effects may outweigh stimulation effects. If this were the case Centel's revenue requirement would be increased and OPC's desire to see stimulation and repression effects acknowledged would lead to further rate increases. Therefore, staff recommends that no stimulation and repression be included in determining the revenue requirements of Centel.

ISSUE 74: Centel has proposed no changes to its intraLATA MTS toll rates. Is this appropriate?

RECOMMENDATION: MTS rates should be reduced. The extent of the recommended reduction is shown in Table 74-2.

POSITION OF PARTIES

CENTEL: Central Telephone-Florida set forth several objectives in the development of its proposed rates. One was to keep basic local rates at a comparable level to other phone companies, and the other was to reduce the BHMOC charge. While the Company is not adverse to the reduction of its MTS rates, the Company did not seek MTS reduction in this filing because to do so would require a further increase in basic service rates to offset the lost MTS revenues. It is the Company's belief that any further increase in basic service rates than has been proposed by the Company at this time would result in basic service rate shock.

OPC: Intralata MTS toll rates should not be changed if the effect of changing these rates would be to increase basic local exchange rates.

AT&T-C, DGS, FPTA & McCAW: No position.

STAFF ANALYSIS: Centel has proposed no changes in MTS rates. Centel's intraLATA MTS rates are currently identical in structure and price levels to those of other LECs in Florida, with the exception of Southern Bell Telephone and Telegraph Company (SBT), which has the same structure but lower rates. Although the company has proposed no changes in MTS rates, staff is recommending a reduction in Centel's MTS rates. In the United rate case the Commission approved a reduction in MTS rates as shown in Table 74-2. The Commission also approved a $.25 message rate for all intralata toll routes in the 0-10 mileage band.

Responding to staff's interrogatories the Company stated "While the Company is not averse to the reduction of its MTS rates, the Company did not seek MTS reduction in this filing because to do so would require a further increase in basic service rates to offset the lost MTS revenues." (EXH 102, pg. 318) In recalculating its revenue requirement the Company discovered that the original revenue requirement was too great. Based on the new revenue requirement the Company changed its position at the hearing and in its brief. "The Company believes that a reduction in MTS rates is appropriate in view of impending intraLATA competition, but did not pursue a reduction because, at the time this filing was made, the Company believed to do so

would require a further increase in basic service rates to offset the lost MTS revenues. (TR 1378-79) However, now that the Company's revenue requirement has decreased, the Company agrees that the MTS rates can be reduced and the basic service rates set at the proposed levels." (Brief p. 83)

Staff believes that Centel's MTS rates should be reduced in order to: (1) relieve EAS pressures; (2) alleviate the threat of bypass; (3) price toll to meet competition expected to occur due to the end of the toll transmission monopoly areas on December 31, 1991; and (4) reduce the disparity between intrastate and interstate toll rates while maintaining toll rates in the aggregate above access charges.

The only other party to take a position on Issue 74 was the Office of Public Counsel (OPC). OPC argues that Centel should not be allowed to increase local rates in order to fund reductions in toll rates. OPC notes that all customers must pay local rates to have telephone service but a large percent of Centel's subscribers make little or no use of toll services. Supporting this position is a study performed by Centel during the month of April, 1986, in which a majority (52.35%) of Centel's subscribers made no intraLATA toll calls. (TR 1203)

Table 74-2 shows Centel's current intrastate toll rates with and Table 74-3 shows AT&T-C's interstate toll rates. As shown, there is a significant divergence in the respective rates in the higher mileage bands. While staff proposes to reduce the disparity between intrastate and interstate toll rates, staff does not seek to set Centel's rates equal to interstate rate levels.

The Commission has long been concerned that MTS rates recover toll charges in the aggregate. Although the Florida Interexchange Carriers Association (FIXCA) did not intervene in this docket, they have previously put forth a methodology for calculating whether MTS rates do, in fact, recover access charges in the aggregate. This methodology was first introduced in Docket No. 891374-TL (Southern Bell Market Reach). Although the Commission has not yet adopted this methodology, staff has applied these calculations to determine whether the recommended rates would continue to cover access charges in the aggregate. One might argue that if Centel's current toll rates cover their associated access charges, and MTS rates are reduced by some percentage lower than that of the per minute reduction in access charges, then MTS rates most likely continue to cover access charges in the aggregate. Of course, this would depend upon the distribution of toll calls across the various mileage bands.

Staff believes a market-based approach would be appropriate for setting MTS rates. To position itself for the forthcoming toll competition after the end of toll transmission monopoly areas, staff believes the Company would have needed to thoroughly analyze the unique characteristics of its service area in order to ascertain where it may be vulnerable, and formulated specific rate design solutions targeted to maintain key submarkets. This approach, rather than making proportionate reductions across all mileage bands, would best serve the needs of the Company and its ratepayers.

In performing a market-based analysis, staff has given considerable thought as to what rates are appropriate. Since AT&T-C generally is the price leader in the toll market, staff believes AT&T-C's current intrastate rates are a key benchmark in setting Centel's MTS rates in this proceeding.

Staff believes that pricing for MTS should reflect rates which are forward looking. Thus, staff believes that Centel's MTS rates should be priced and structured in order to meet the competition which will occur with the elimination of the toll transmission monopoly areas on December 31, 1991. Other LECs have sought and obtained approval to reduce their MTS rates. These rate reductions were anticipated by the Commission when it decided to eliminate TMAs. The Commission delayed the effective date of that elimination to provide LECs sufficient time to prepare for the increased competition they are expected to experience.

Southern Bell has already sought and received approval from this Commission to significantly reduce its MTS rates. Currently, Southern Bell's daytime MTS rates are priced below those of AT&T-C. Further, Southern Bell has available an optional discounted toll calling plan, Saver Service, that provides customers a means to reduce their MTS charges; GTEFL also offers a discount toll calling plan, its Suncoast Preferred Plan, that provides customers an alternative pricing mechanism.

It should be noted, that the percentage of revenues derived from toll services versus total revenues is smaller for Centel than for the other major LECs in Florida. Thus, a reduction in Centel's toll rates would result in a smaller proportionate loss in revenue than a comparable decrease in another major LEC's toll rates. Similarly, the potential effect of significant bypass is smaller for Centel than other major LECs. The following table shows the percentage of revenues derived from toll services for the major LECs operating in Florida.

TABLE 74-1

PERCENT REVENUE FROM MTS			
COMPANY	TOLL REVENUE	TOTAL REVENUE	TOLL/TOTAL
Centel	$ 10.5 mil	$ 99.2 mil	10.6%
GTEFL	$116 mil	$ 776 mil	14.9%
Southern Bell	$266 mil	$2155 mil	12.3%
United	$ 54.1 mil	$ 471 mil	11.5%

Source: Monthly Surveillance Reports and Exhibit 107, Sch. E1-a

Notwithstanding the fact that toll services account for a lower percentage of Centel's revenues, it is appropriate to lower Centel's rates to levels which in the aggregate still recover access charges while leaving Centel in a better position to meet IXC competition. Staff believes the rates listed below reflect a constructive move towards more competitive rates for Centel:

TABLE 74-2

TOLL RATES - STAFF VS. CENTEL CURRENT				
MILEAGE BAND	INITIAL MINUTE		ADDITIONAL MINUTE	
	CURRENT	STAFF RECOMMENDED	CURRENT	STAFF RECOMMENDED
0-10	$0.19	$0.17	$0.09	$0.07
11-22	0.28	0.24	0.16	0.14
23-55	0.40	0.32	0.28	0.22
56-124	0.51	0.45	0.37	0.32
125-292	0.58	0.51	0.39	0.34

The rates recommended by staff mirror or are below those which were recently approved for United. The rate levels recommended by staff are targeted to the 23-55 mile rate band, which account for over 72% of total traffic volumes. The 11-22 and 23-55 mileage bands together comprise approximately 93% of calling volumes.

The current rates for the 0-10 band are competitive with

AT&T-C's rates, and Centel has only one intracompany route in this mileage band. However, the Company has several intercompany routes in this mileage band. Staff has recommended, in Issue 78, countywide calling plans for several counties which would have the effect of eliminating all routes in the 0-10 mileage band and several intracompany routes in other mileage bands. The majority of the intrastate toll calls made by Centel's subscribers, over 72% of the total, are calls in the 23-55 mileage band. Staff recommends the greatest decreases to the rates for this key band. Although the resulting charges are not at parity with those of AT&T-C, they narrow the gap between Centel's rates and those of AT&T-C, and thus better position Centel for the advent of competition. Staff believes that its rate design recommendation for MTS is consistent with the conclusion that rates should be market-priced: in this case, this entails reducing them where Centel faces the greatest competitive threats.

Staff estimates that its recommended rates will result in a decrease of $2,033,616 in 1991 revenues. If approved, the rates recommended by staff would compare as follows to AT&T-C's existing intrastate MTS rates:

TABLE 74-3

TOLL RATES - STAFF VS. AT&T-C				
MILEAGE BAND	INITIAL MINUTE		ADDITIONAL MINUTE	
	AT&T-C	STAFF RECOMMENDED	AT&T-C	STAFF RECOMMENDED
0-10	$0.1900	$0.1700	$0.0900	$0.0700
11-22	0.2650	0.2400	0.1600	0.1400
23-55	0.2800	0.3200	0.2200	0.2200
56-124	0.2850	0.4500	0.2300	0.3200
125-292	0.2900	0.5100	0.2380	0.3400

As shown, the rates proposed by staff would substantially reduce but not eliminate the difference in intrastate MTS rates between Centel and AT&T-C. However, consumers do consider other factors besides price in making purchasing decisions. Consumers choose goods and services based on the price and the perceived value associated with the item they are considering purchasing. We believe that consumers will be willing to pay more for toll calls carried by Centel than calls carried by AT&T-C and other IXCs because of the perceived higher quality service connections Centel offers. Due to Centel's ability to provide 1+ dialing, its customers will be able to complete calls using Centel by dialing fewer numbers than if they executed the same calls using AT&T-C or another IXC. This advantage is considerable. In DN 880812-TP Southern Bell submitted a Florida IntraLATA Toll Contribution study prepared by BellSouth Services (BSS). Question No. 5 of this survey asked whether subscribers would choose another carrier if they could do so by dialing a five digit access code; only 19% of residential and 21% of business subscribers said yes.

Assuming no stimulation, staff's recommendation would result in a decrease in toll revenues of $2,033,616. Were the Commission to opt for increases in discretionary services or local exchange service greater than those recommended by staff, however, greater reductions could be made in toll rates. An increase of $.50 for all local service rates would result in a potential reduction of $1.5 million in MTS rates. If staff's recommended MTS rate decrease is not approved then the recommended increase in local service rates could be reduced by approximately $.30. Nevertheless, staff firmly believes that any

revenue reductions to the toll category should be market-based and reflect constructive, targeted changes. Staff believes that its recommended MTS rate levels appropriately embody this pricing philosophy and given the superior dialing arrangement Centel is able to offer, will enable the Company to confront the advent of competition.

ISSUE 75: Centel has proposed no changes to its recurring WATS or 800 Service rates. They have proposed an increase in the installation and nonrecurring charges as shown below. Is this appropriate?

Installation

a. For installation of WATS access lines, extensions or four-wire terminating arrangements.

(1) Access Lines and Extension Lines

	Nonrecurring Charge Present	Proposed
Service Ordering-Primary, each other	$16.00	$20.00
Service Ordering-Secondary, each other	13.00	16.25
Line Connection Charge, each	15.00	18.75
Premises Visit, each visit	16.00	20.00

(2) Four-Wire Terminating Arrangements

Each arrangement	$17.00	$21.15

b. For moving a dedicated access line or extension line

(1) Inside Move

Service Ordering, each order	$13.00	$16.25
Premises Visit, each visit	16.00	20.00

(2) Outside Move, Different Building

Moves to a different building will be treated as a disconnect of the existing access line or extension and installation as specified in Section 19.3.d.1 will be applicable.

c. (1) Changing the 800 Service telephone number to a different number at the request of the customer.

Service Ordering, each order	$13.00	$16.25
Line Connection Charge, each	15.00	18.75

(2) Separating an existing 800 Service into two or more hunting arrangements which contain the same 800

Service access lines as the original hunting arrangement.

	Nonrecurring Charge Present	Proposed
Service Ordering, each order	13.00	16.25
Line Connection Charge, each	15.00	18.75

(3) Combining two or more 800 Service hunting arrangements into a single hunting arrangement containing the same 800 Service access lines

Service Ordering, each order	13.00	16.25
Line Connection Charge, each	15.00	18.75

(4) Conversion to a Four-Wire Termination Arrangement

Each arrangement	85.75	107.19

RECOMMENDATION: If MTS rates are reduced then WATS/800 rates should be lowered such that the approximate rate relationship between MTS rates and WATS/800 rates be maintained. Rates should be lowered by a greater percentage for WATS than for 800 service. The proposed increases in nonrecurring charges are not appropriate. At a minimum each nonrecurring rate element for WATS/800 service should equal the analogous rate element for Basic Business Service. The recommended rates may be found in Table 75-1.

POSITION OF PARTIES

CENTEL: Yes. Central Telephone-Florida set forth several objectives in the development of its proposed rates. One was to keep basic local rates at a comparable level to other phone companies, and the other was to reduce the BHMOC charge. While the Company is not adverse to the reduction of its MTS or WATS rates, the Company did not seek an MTS or WATS reduction in this filing because to do so would require a further increase in basic service rates to offset the lost MTS and WATS revenues. It is the Company's belief that any further increase in basic service rates than has been proposed by the Company at this time would

result in basic service rate shock. As to the proposed increase to installation and non-recurring charges, these increases are designed to bring the charges more in line with costs. The costs would be similar to those incurred for similar local exchange activity.

AT&T-C, DGS, FPTA, McCAW & OPC: No position.

STAFF ANALYSIS: Centel has not proposed any reductions in the recurring charges for WATS or 800 services. Staff, however, has recommended rates which, if approved, would maintain the existing price differential between WATS/800 Services and MTS.

WATS service enables a customer to initiate interexchange communications over a dedicated WATS line to another subscriber. WATS service is a service whereby one can make long distance calls for voice, data, facsimile, image, and other forms of information services and then have them billed on an hourly basis rather than an individual call basis. No parties other than Centel took positions on this issue.

Inbound Wide Area Telecommunications Service (WATS), which is also referred to as 800 Service, is a service that enables the subscriber to receive incoming intraLATA toll calls which will be charged to the subscriber rather than the person initiating the call. Voice, data, facsimile, image and other forms of information services may be communicated using 800 service through use of a dedicated WATS access line.

Demand for WATS and 800 service has been slowly declining in recent years. Centel expects the demand for both WATS and 800 service to decline further in the future. From the 1989 historic figures to the 1991 test year revenue figures, total WATS and 800 usage is expected to decline from $1,338,334 to $717,782, a reduction of $620,522 or 46%.

Staff believes there is a cross-elasticity relationship between WATS and MTS. Staff is concerned that if WATS rates were greatly reduced as compared to MTS rates in order to stimulate demand for WATS, the demand for MTS might fall. Conversely, if MTS rates were lowered without a proportional decrease in WATS rates then the demand for WATS, a declining service, might be further repressed. For this reason staff believes that the existing rate relationships between MTS and WATS are appropriate and should be maintained.

Staff believes that the cross-elasticity between MTS and 800 Service is not as strong as that which exists for MTS/WATS.

Therefore, staff believes that the pricing relationship between 800 service and MTS should be altered at this time. 800 service rates as presently structured have approximately the same relationship with MTS rates as Centel's WATS rates. That relationship is based upon the revenue derived from each service. For example, if MTS rates are reduced such that MTS revenues fall by 10% then WATS rates should be reduced such that revenues fall by 10%. While 800 Service should be offered at a discount to MTS rates, the amount of the reduction need not be as great for 800 service since staff believes that the cross-elasticity between 800 service and MTS is not as great as the cross elasticity between MTS and WATS services. This is primarily due to the differences in billing arrangements. The cost of a MTS call is assessed to the individual or business who initiates the call. Conversely, for 800 service the individual or business who receives the call is assessed the toll charge.

Centel did not propose any changes in MTS rates, however, staff has recommended reductions in MTS rates (Issue 74). Similarly, the Company has not proposed any reductions in WATS rates or 800 service rates. Thus, staff has recommended reductions in rates for WATS which would continue the revenue relationship which now exists between WATS and MTS rates and 800 service and MTS rates. The WATS rates recommended by staff are 10% lower than those which currently exist. The 800 service rates recommended by staff are 5% lower than those which currently exist. Such rates would maintain the existing MTS/WATS revenue relationship and alter the MTS/800 revenue relationship if staff's recommendation in issue 74 for pricing MTS is approved.

Staff's recommendation for pricing WATS usage would generate $14,032 less in test year revenues than the test year revenues projected by Centel. If approved, staff's recommendation for WATS would lower annual usage revenues from $70,211 to $56,179. Staff's recommendation for pricing 800 service would generate approximately $64,607 less in test year revenues than the test year revenues projected by Centel. If approved, staff's recommendation for 800 service would lower annual revenues from $647,571 to $582,964. The current and staff recommended WATS rates and 800 service rates are listed below. The total revenue impact of staff's proposal for recurring WATS/800 service rates would be a reduction of $78,639.

TABLE 75-1

WATS RATES							
CURRENT RATES				RECOMMENDED RATES			
HOURS	DAY	EVENING	NIGHTS & WEEKEND	HOURS	DAY	EVENING	NIGHTS WEEKEND
0-10	$16.50	$11.38	$ 6.60	0-10	$13.20	$9.10	$5.30
10.1-25	$15.00	$10.35	$ 6.60	10.1-25	$12.00	$8.30	$5.30
25.1-50	$13.50	$ 9.31	$ 6.60	25.1-50	$10.80	$7.45	$5.30
50.1-80	$12.00	$ 8.28	$ 6.60	50.1-80	$9.60	$6.60	$5.30
Over 80	$10.50	$ 7.24	$ 6.60	Over 80	$8.40	$5.80	$5.30

TABLE 75-2

800 SERVICE RATES							
CURRENT RATES				RECOMMENDED RATES			
HOURS	DAY	EVENING	NIGHTS & WEEKEND	HOURS	DAY	EVENING	NIGHTS WEEKEND
0-10	$16.60	$11.75	$ 6.80	0-10	$14.95	$10.60	$6.10
10.1-25	$14.60	$10.25	$ 6.80	10.1-25	$13.15	$9.25	$6.10
25.1-50	$12.45	$ 8.71	$ 6.80	25.1-50	$11.20	$7.85	$6.10
50.1-80	$11.50	$ 8.05	$ 6.80	50.1-80	$10.35	$7.25	$6.10
Over 80	$10.50	$ 7.45	$ 6.80	Over 80	$9.45	$6.70	$6.10

Nonrecurring Charges

Centel has proposed 25% across the board increases for nonrecurring WATS/800 service rate elements. The Company has also proposed large increases in service connection charges for Basic Business Service. Centel's proposal would result in the corresponding rate elements for Basic Business Service exceeding those of WATS/800 service, except for the charge for premises visits. No cost justification for such a disparity has been offered.

Current rates for WATS/800 service nonrecurring rate elements are higher in all cases than the corresponding rate elements for Basic Business Service. If the current rates have any cost basis then the implication would be that the costs are greater for WATS/800 service connection and associated work than

for Basic Business Service. If the costs are not greater for WATS/800 service, staff believes that they must, at a minimum, be equal to the costs for Basic Business Service. Therefore, staff recommends that the rates for WATS/800 Primary Service Orders, Secondary Service Orders, and Line Connection Charges, be equal to the analogous rate elements for Basic Business Service.

Staff's recommended rates may be found below:

TABLE 75-3

WATS/800 Nonrecurring Charges			
SERVICE CHARGES	Current	Centel Proposed	Staff Recommended
Primary Service Order	$16.00	$20.00	$22.00
Secondary Service Order	$13.00	$16.25	$14.00
Line Connection Charge	$15.00	$18.75	$34.00
Premises Visit Charge	$16.00	$20.00	$30.00
Four-Wire Termination	$17.00	$21.15	$21.15
Conversion to Four Wire	$85.75	$107.19	$107.19

If the Commission approves service connection charges for Basic Business Service, other than those recommended in Issue 73, then the Commission should approve the same rates for the corresponding rate elements in this issue.

The revenue impact of Centel's proposed rates would be an increase in the test year of $1,251. The revenue impact of staff's recommended rates would be an increase in the test year of $4,812. The combined revenue impact of Centel's proposed rates for both recurring and nonrecurring WATS/800 service rates would be an increase in the test year of $1251. The combined revenue impact of staff's recommended rates for both recurring and nonrecurring WATS/800 service rates would be a reduction in the test year of $73,827.

The impact of staff's recommended reductions in WATS/800 usage rates on an average WATS/800 customer would be a reduction of 10% in the costs of WATS usage and a reduction of 5% in the costs of 800 usage. This impact would be somewhat mitigated by staff's recommended increase in the installation and non-recurring charges for these services.

ISSUE 78: Centel has proposed no changes in its nonoptional or optional intraLATA toll calling rates (EAS). Is this appropriate?

RECOMMENDATION: No. The Commission should:

1. Order countywide nonoptional, two-way toll-free calling in Holmes, Jackson, Okaloosa and Walton counties as discussed in the staff analysis.

2. Nonoptional, two-way, toll-free calling should also be ordered between Seagrove Beach and Ft. Walton Beach in order that Seagrove Beach and Santa Rosa Beach have the same EAS calling scopes.

3. Southern Bell should immediately seek a waiver from Judge Harold Greene on the Ponce DeLeon/Graceville interLATA route.

4. The Graceville/Holmes and Jackson routes and the Bonifay/Cottondale - Chipley routes should be implemented on or before July 1, 1991.

5. The other Centel routes should be implemented by June 1, 1991.

6. The $.25 message plan should be implemented on the Sneads/Chattahoochee route on or before July 1, 1991.

7. Approval of the Centel/St. Joe route and the Centel/Southern Bell routes should be a PAA order.

8. The changes in basic local rates and regrouping resulting from the expanded calling on the Centel intracompany routes can only become effective upon implementation of toll-free calling.

9. Southern Bell's regrouping on the Graceville/Holmes and Jackson routes will become effective simultaneously with implementation of toll-free calling.

10. Southern Bell should provide the revenue calculations and be allowed to offset the toll and access losses in Docket No. 880069-TL.

11. If staff's recommendation is approved as to Holmes and Okaloosa counties, Docket Nos. 870248-TL and 900539-TL should be closed. Staff should place routes approved

on monitor status for compliance with implementation schedule.

12. The Toll-Pac routes discussed in the staff analysis should be eliminated simultaneously with implementation of toll-free calling.

POSITION OF PARTIES

CENTEL: To the extent the Company has realigned and added to its rate groupings, the Company has, in fact, addressed non-optional EAS by more closely aligning the added calling scope with the value to the customers. The Company has not, however, proposed an EAS additive for any existing non-optional EAS.

With respect to optional EAS, the Commission has treated each such situation individually beginning in 1987.

An additional matter, although not formally an issue, was the request by certain South Walton County citizens for revised EAS calling scope (i.e., Destin Exchange, Santa Rosa Beach Exchange and Seagrove Beach Exchange). The Company is fully cognizant of the reasons why some of its South Walton County customers are interested in a different calling scope than currently exists, and is sympathetic to this interest. However, if fully implemented, such a change in calling scope could cause significant changes in customer telephone numbers, customer rates, calling scopes, exchange identification, etc. Thus, the Company believes it is important that all potentially affected customers have an opportunity for input in any decision to change the status quo. In view of the limited record developed in this proceedings, it would be in the best interest of the Company's Walton County customers to have a separate docket opened to consider this matter. In such separate proceeding, customer meetings and meetings with county officials could be held to determine if there is a sufficient focus of interest to offer a specific plan that would satisfy the need of all customers. Furthermore, a separate proceeding would offer the opportunity for customer balloting and other means of discerning customer interest and preferences.

AT&T-C, DGS, FPTA, McCAW & OPC: No position.

STAFF ANALYSIS: Central Telephone Company of Florida (Centel) has intracompany toll-free calling within the counties they serve with the exception of Holmes, Jackson, Okaloosa and Walton counties.

HOLMES COUNTY

Holmes County EAS is presently pending under Docket No. 870248-TL. There are five (5) exchanges in Holmes County, Bonifay, Ponce De Leon, Reynolds Hill and Westville, which are served by Centel. The Graceville exchange, served by Southern Bell, is located in Holmes and Jackson Counties. All exchanges except Ponce De Leon are in the Panama City LATA with Ponce De Leon being in the Pensacola LATA. Therefore traffic between Ponce De Leon and the other four (4) exchanges is interLATA. Staff recommends the Commission order nonoptional, two-way toll-free (local) calling between the five (5) exchanges in Holmes County.

Table No. 78-1 shows the exchanges, LATA, calling scope, current grouping, regrouping and recommended calling scope. The customer impact is reflected in Table No. 78-2. Southern Bell's Graceville customers would receive a regrouping increase in their monthly charges (R1 $.30, B1 $1.00, PBX $2.20). However, their calling scope would increase from 7,224 access lines to 28,263, nearly fourfold.

The intercompany Centel/Southern Bell routes should be issued as a PAA order.

Since the route between Ponce De Leon and Graceville is interLATA and involves Southern Bell it will require a waiver from Judge Harold Greene.

Centel, through regrouping from present rate group III to new rate group IV and VI, will recover the majority of the lost toll revenues and access charges on these routes (Table 78-3). Southern Bell would recover some revenue losses from regrouping and should be allowed to recover the balance from monies set aside in Docket No. 880069-TL. They should provide the revenue calculation when they file the tariff revisions implementing this Holmes County EAS.

JACKSON COUNTY

Jackson County has eight (8) exchanges, Alford, Cottondale, Grand Ridge, Greenwood, Malone, Marianna and Sneads served by Centel and Graceville which is served by Southern Bell. A portion of the Graceville exchange is located in Holmes County. All eight exchanges are in the Panama City LATA. Staff recommends the Commission order nonoptional, two-way toll-free (local) calling between the eight (8) exchanges in Jackson County. Table No. 78-4 shows the exchanges, calling scope,

current grouping, regrouping and recommended calling scope. The customer impact for Centel subscribers is reflected in Table No. 78-5.

The intercompany Centel/Southern Bell routes should be issued as a PAA order.

All Centel Jackson County exchanges will regroup from rate group IV to rate group V which recovers the majority of the lost toll revenues shown in Table No. 78-6. Southern Bell's Graceville customers would receive an increase due to regrouping in their monthly charge (R1 $.30, B1 $1.00, PBX $2.20). However, their calling scope would increase from 7,224 access lines to 28,263. Southern Bell should be allowed to offset their revenue losses other than regrouping in Docket No. 880069-TL. They should provide the revenue calculation when they file the tariff revisions implementing this Jackson County EAS.

OKALOOSA COUNTY

Okaloosa County presently has a request pending in Docket No. 900539-TL for countywide EAS. There are seven (7) exchanges in Okaloosa County and all are in the Pensacola LATA. Centel serves the Baker, Crestview, Destin, Ft. Walton Beach, Shalimar and Valparaiso exchanges. Florala Telephone Company serves the Laurel Hill exchange. Staff recommends the Commission order nonoptional, two-way toll-free (local) calling between all the Centel exchanges in Okaloosa County. Table 78-7 shows the exchanges, calling scope, rate group, regrouping and recommended calling scope. The customer impact is reflected in Table 78-8.

The Baker and Crestview exchanges will regroup for rate group IV to rate group VII. Destin, Ft. Walton Beach, Shalimar and Valparaiso will regroup from rate group VI to rate Group VII. Through this regrouping, Centel will recover the majority of the lost toll revenues (Table 78-9).

WALTON COUNTY

Two citizen groups appeared at the service hearing in Ft. Walton Beach on August 20, 1990 expressing an interest in realigning the Southern Walton exchanges and expanded local calling in Walton County. Witness Wyrough, President of the Walton County Taxpayers Association, presented the Commission with Resolution No. 90-19 (TR 13, EXH 104, pp. 11-15) of the Walton County Board of County Commissioners (Walton County). The other citizens group, the Dolphin Cove Property Owner's Association, (Dolphin) arrived after the hearing had been

adjourned, however, OPC presented their concerns expressed in his letter dated September 12, 1990 which was moved into the record.

Walton County's Resolution 90-19 requests the Commission to combine the Sandestin Beach Resort and the remaining portion of South Walton County (Santa Rosa Beach and Seagrove Beach exchanges) into one telephone exchange to be known as the South Walton exchange. While this appears to be a simple and reasonable request it presents major problems. Witness Wahlen's late filed Exhibit No. 110 delineates the problems. Witness Wahlen contends that while there is no technical impediment to begin assigning all new customers in the proposed exchange area with a Santa Rosa "267" telephone number, the proposal would establish two sets of customers in the same geographic area having different calling scopes. Current customers in Destin exchange physically located in Walton County with the "837" prefix can call Shalimar and Valparaiso in addition to calling Ft. Walton Beach. Destin's new "267" customers would be unable to call Shalimar and Valparaiso toll-free. This would result in neighbors having different telephone numbers, different calling scopes and different basic local rates. If implemented, a pocket would be created in the Destin exchange whereby new customers would be treated like Santa Rosa Beach customers. Staff agrees with these conclusions.

Witness Wyrough indicates they are trying to establish an identity for the South Walton County area for tourism development purposes. Likewise, Destin has spent years promoting the area in the Destin name, an example being the Sandestin area. Staff does not believe the Commission should become involved in the marketing of tourism between the two areas but should be concerned with whether a sufficient community of interest exits for expanded local calling. Staff is recommending nonoptional, two-way toll-free (local) calling between all Centel exchanges in Walton County (DeFuniak Springs, Destin, Freeport, Glendale, Ponce De Leon, Santa Rosa Beach, Seagrove and Valparaiso). In order that Seagrove Beach and Santa Rosa Beach have the same EAS calling scope, staff also recommends toll-free calling between Ft. Walton Beach and Seagrove Beach. Table 78-10 shows the exchanges, calling scope, current grouping, regrouping and recommended calling scope. The customer impact is reflected in Table 78-11. Through regrouping, Centel will recover the majority of lost toll revenues on these routes (Table 78-12).

The above recommended action alleviates the concerns of Dolphin Cove wherein they seek countywide toll-free calling. Staff would point out that this recommendation will provide for nonoptional, two-way toll-free (local) calling between all

Centel's Walton County exchanges. The Paxton exchange served by Florala Telephone Company is located in West Walton County and has local calling to and from DeFuniak Springs only.

INTRALATA 0-10 ROUTES

If the countywide plans are authorized, Centel will have no intracompany toll routes falling into the 0-10 mileage band, however, they do have three (3) intercompany routes in that mileage band.

Route	Mileage	Company
Bonifay-Chipley	9	SBT
Cottondale-Chipley	10	SBT
Sneads-Chattahoochee	5	St. Joe

Staff recommends the Commission order nonoptional flat rate, two-way (local) calling on the two (2) Centel/Southern Bell routes which would not increase the regroupings discussed in the Holmes and Jackson countywide recommendation. These intercompany routes should be implemented on or before July 1, 1991. Centel's revenue impact is reflected in the elimination of the MTS revenue adjustment in the E-1a schedule of the $186,807 in the 0-10 mileage band. Southern Bell should be allowed to offset their toll losses on these two routes in Docket No. 880069-TL. There would be no customer impact other than the regroupings necessary to implement the countywide plans discussed for Holmes and Jackson counties.

On the remaining route between the Sneads exchange and the Chattahoochee exchange, the Commission should order the nonoptional flat $.25 message rate plan. Centel and St. Joseph Telephone Company (St. Joe) should coordinate the effective date which should be no later than July 1, 1991. The revenue impact to Centel on this route would be approximately $12,810 annually, the difference between $41,796 in toll revenue losses and the message charges of $29,166 (116,664 messages @ $.25 = $29,166). St. Joe's revenue impact should be approximately the same. PATS providers would charge an end user $.25 per call, just like any other local call. The LECs would charge the PATS provider the same rate to access the network on calls between the Chattahoochee exchange and the Sneads exchange that they charge PATS provider for local calls.

If the Commission approves staff's recommendation, on these three intercompany routes in the 0-10 mileage band, it should be

issued as a PAA order.

Other

All Centel intracompany routes should be implemented no later than June 1, 1991. Only then can the changes in basic local rates and regrouping discussed in Issues 84 and 88 become effective.

Southern Bell should immediately seek an expedited waiver from Judge Harold Greene on the Ponce De Leon/Graceville interLATA route. The Graceville/Holmes and Jackson routes and the Bonifay/Cottondale - Chipley routes should be implemented on or before July 1, 1991. Centel and St. Joe should coordinate implementation of the Sneads/Chattahoochee route which should be on or before July 1, 1991.

Upon implementation of the Centel routes, the Toll-Pac rates in Section 21 of General Customer Service Tariff should be deleted on the following routes: from Crestview to Ft. Walton Beach, between Destin and Seagrove Beach, from Seagrove Beach and Freeport to Ft. Walton Beach and from Freeport to Valparaiso.

In summary, while the messages per access line are less than 3.0 (Table 78-13) on most routes, staff believes that a rate case proceeding is an appropriate place to adjust EAS. Further, this will place these counties similar to the countywide calling patterns that current exists in Centel's service areas in Leon, Bradford, Clay, Jefferson, Madison and Wakulla Counties.

The revenue impact of this change, based on staff's recommended MTS rates and local rates, is $1,653,485. This includes $2,179,142 in lost toll offset by $525,656 in regrouping revenues. This will be further offset by the $29,166 annual revenue from the $.25 message charge on the Sneads/Chattahoochee route.

TABLE 78-1

HOLMES COUNTY EAS

Exchange	LATA	Access Lines	Calling Scope	Rate Group	Proposed Calling Scope	Prop Rate Group
*Bonifay	PC	3,467	Reynolds Hill, Westville	III	Graceville, Ponce DeLeon, Reynolds Hill, Westville	IV
Graceville (Bell)	PC	2,900	Chipley	III	Alford, Bonifay, Chipley, Cottondale, Grand Ridge, Greenwood, Malone, Marianna, Ponce DeLeon, Reynolds Hills, Sneads, Westville	IV
Ponce DeLeon	Pensa	916	DeFuniak Springs	III	Bonifay, DeFuniak Springs, Destin, Freeport, Glendale, Graceville, Reynolds Hills, Santa Rosa Beach, Seagrove Beach, Valparaiso, Westville	VI
Reynolds Hills	PC	1,168	Bonifay, Westville	III	Bonifay, Graceville, Ponce DeLeon, Westville	IV
Westville	PC	896	Bonifay, Reynolds Hill	III	Bonifay, Graceville, Ponce DeLeon, Reynolds Hill	IV

* County Seat

PC - Panama City

Pensa - Pensacola

TABLE 78-2

CUSTOMER IMPACT COUNTYWIDE

CALLING IN HOLMES COUNTY

	Exchange	Class	Current Rates	Proposed Company Rates	Proposed Staff Rates	Staff Monthly Increase
IV	* Bonifay, Reynolds Hill, Westville	R1	$ 5.00	$ 8.46	$ 6.95	$1.95
		B1	$11.25	$19.04	$15.64	$4.39
		PBX	$22.50	$38.08	$31.28	$8.78
VI	Ponce DeLeon	R1	$ 5.00	$ 9.20	$ 7.75	$ 2.75
		B1	$11.25	$20.70	$17.44	$ 6.19
		PBX	$22.50	$41.40	$34.88	$12.38
	Graceville (Bell)	R1	$ 8.10	N/A	$ 8.40	$ .30
		B1	$21.90	N/A	$22.90	$1.00
		PBX	$49.39	N/A	$51.59	$2.20

* County Seat

N/A - Not Applicable

REVENUE IMPACT
COUNTYWIDE LOCAL CALLING

TABLE 78-3
DOCKET NO.891264-TL

HOLMES COUNTY	STAFF	COMPANY	DIFFERENCE
PONCE DE LEON TO BONIFAY	$12,119	$17,246	($5,127)
PONCE DE LEON TO REYNOLDS HILL	$9,383	$13,831	($4,447)
PONCE DE LEON TO WESTVILLE	$4,971	$7,252	($2,281)
BONIFAY TO PONCE DE LEON	$9,880	$11,444	($1,564)
REYNOLDS HILL TO PONCE DE LEON	$7,755	$7,761	($5)
TOTAL	$44,108	$57,533	($13,425)

TOLL LOSS = $44,108 X 1.15517 = $50,952

TABLE 78-4

JACKSON COUNTY EAS

Prop Exchange	LATA	Access Lines	Calling Scope	Rate Group	Proposed Calling Scope	Rate Group
Alford	PC	1,110	Cottondale, Marianna	IV	Cottondale, Graceville, Grand Ridge, Greenwood, Malone, Marianna, Sneads	V
Cottondale	PC	1,029	Alford, Marianna	IV	Alford, Graceville, Grand Ridge, Greenwood, Malone, Marianna, Sneads	V
Graceville (Bell)	PC	2,900	Chipley	III	Alford, Bonifay, Chipley, Cottondale, Grand Ridge, Greenwood, Malone, Marianna, Ponce DeLeon, Reynolds Hill, Sneads, Westville	IV
Grand Ridge	PC	1,610	Marianna, Sneads	IV	Alford, Cottondale, Graceville, Greenwood, Malone, Marianna, Sneads	V
Greenwood	PC	641	Marianna, Malone	IV	Alford, Cottondale, Graceville, Grand Ridge, Malone, Marianna, Sneads	V
Malone	PC	1,052	Greenwood, Marianna	IV	Alford, Cottondale, Graceville, Grand Ridge, Greenwood, Marianna, Sneads	V
*Marianna	PC	7,759	Alford, Altha, Cottondale, Grand Ridge, Greenwood, Malone, Sneads	IV	Alford, Altha, Cottondale, Graceville, Grand Ridge, Greenwood, Malone, Sneads	V
Sneads	PC	1,391	Grand Ridge, Marianna	IV	Alford, Cottondale, Graceville, Grand Ridge, Greenwood, Malone Marianna	V

* County Seat

PC - Panama City

TABLE 78-5

CUSTOMER IMPACT COUNTYWIDE

CALLING IN JACKSON COUNTY

	Exchange	Class	Current Rates	Proposed Company Rates	Proposed Staff Rates	Staff Monthly Increase
V	Alford, Cottondale, Grand Ridge, Greenwood, Malone, *Marianna, Sneads	R1	$ 5.49	$ 8.82	$ 7.35	$1.86
		B1	$12.35	$19.87	$16.54	$4.19
		PBX	$24.71	$39.74	$33.08	$8.37
	Graceville (Bell)	R1	$ 8.10	N/A	$ 8.40	$ .30
		B1	$21.90	N/A	$22.90	$1.00
		PBX	$49.39	N/A	$51.59	$2.20

* County Seat

N/A - Not Applicable

REVENUE IMPACT
COUNTYWIDE LOCAL CALLING

TABLE 78-6
DOCKET NO.891264-TL

JACKSON COUNTY	STAFF	COMPANY	DIFFERENCE
ALFORD TO GRAND RIDGE	$0	$0	$0
ALFORD TO GREENWOOD	$3,269	$3,410	($141)
ALFORD TO MALONE	$0	$0	$0
ALFORD TO SNEADS	$0	$0	$0
COTTONDALE TO GRAND RIDGE	$0	$0	$0
COTTONDALE TO GREENWOOD	$5,362	$5,491	($129)
COTTONDALE TO MALONE	$8,259	$8,965	($706)
COTTONDALE TO SNEADS	$0	$0	$0
GRAND RIDGE TO ALFORD	$0	$0	$0
GRAND RIDGE TO GREENWOOD	$17,072	$17,492	($419)
GRAND RIDGE TO MALONE	$25,997	$26,089	($92)
GREENWOOD TO ALFORD	$4,071	$4,104	($34)
GREENWOOD TO COTTONDALE	$6,352	$6,604	($252)
GREENWOOD TO GRAND RIDGE	$17,022	$17,899	($877)
GREENWOOD TO SNEADS	$5,013	$5,865	($853)
MALONE TO ALFORD	$0	$0	$0
MALONE TO COTTONDALE	$5,715	$6,799	($1,084)
MALONE TO GRAND RIDGE	$25,274	$25,384	($110)
MALONE TO SNEADS	$0	$0	$0
SNEADS TO ALFORD	$0	$0	$0
SNEADS TO COTTONDALE	$0	$0	$0
SNEADS TO GREENWOOD	$4,643	$5,433	($791)
SNEADS TO MALONE	$0	$0	$0
	------------	--------	------
TOTAL	$128,049	$133,537	($5,488)

TOLL LOSS = $128,049 X 1.15517 = $147,918

TABLE 78-7

OKALOOSA COUNTY EAS

Exchange	LATA	Access Lines	Calling Scope	Rate Group	Proposed Calling Scope	Prop Rate Group
Baker	Pensa	1,784	Crestview	IV	Crestview, Destin, Ft. Walton Beach, Shalimar, Valparaiso,	VII
*Crestview	Pensa	9,140	Baker, Laurel Hill	IV	Baker, Destin, Ft. Walton Beach, Laurel Hill, Shalimar, Valparaiso	VII
Destin	Pensa	10,093	Ft. Walton Beach, Santa Rosa Beach, Shalimar, Valparaiso	VI	Baker, Crestview, DeFuniak Springs, Ft. Walton Beach, Freeport, Glendale, Ponce DeLeon, Santa Rosa Beach, Seagrove Beach, Shalimar, Valparaiso	VII
Ft. Walton Beach	Pensa	32,677	Destin, Holley-Navarre, Santa Rosa Beach, Shalimar, Valparaiso	VI	Baker, Crestview, Destin, Holley-Navarre, Santa Rosa Beach, Seagrove Beach, Shalimar, Valparaiso	VII
Laurel Hill	Florala Telephone Company					
Shalimar	Pensa	6,956	Destin, Ft. Walton Beach, Valparaiso	VI	Baker, Crestview, Destin, Ft. Walton Beach, Valparaiso	VII
Valparaiso	Pensa	13,005	Destin, Ft. Walton Beach, Shalimar	VI	Baker, Crestview, DeFuniak Springs, Destin, Ft. Walton Beach, Freeport, Glendale, Ponce DeLeon, Santa Rosa Beach, Seagrove Beach, Shalimar	VII

* County Seat

Pensa - Pensacola

TABLE 78-8

CUSTOMER IMPACT COUNTYWIDE

CALLING IN OKALOOSA COUNTY

	Exchange	Class	Current Rates	Proposed Company Rates	Proposed Staff Rates	Staff Monthly Increase
VII	Baker, *Crestview	R1	$ 5.49	$ 9.57	$ 8.20	$ 2.71
		B1	$12.35	$21.51	$18.45	$ 6.10
		PBX	$24.71	$43.05	$36.90	$12.19
VII	Destin, Ft. Walton Beach, Shalimar, Valparaiso	R1	$ 6.00	$ 9.57	$ 8.20	$2.20
		B1	$13.48	$21.51	$18.45	$4.97
		PBX	$26.96	$43.05	$36.90	$9.94
	Laurel Hill	Florala Telephone Company				

* County Seat

REVENUE IMPACT
COUNTYWIDE LOCAL CALLING

TABLE 78-9
DOCKET NO.891264-TL

OKALOOSA COUNTY	STAFF	COMPANY	DIFFERENCE
SHALIMAR TO BAKER	$6,870	$7,473	($603)
SHALIMAR TO CRESTVIEW	$48,503	$89,370	($40,867)
FT. WALTON BEACH TO BAKER	$47,943	$56,348	($8,404)
FT. WALTON BEACH TO CRESTVIEW	$380,711	$493,149	($112,439)
CRESTVIEW TO DESTIN	$41,269	$50,961	($9,692)
CRESTVIEW TO FT. WALTON	$473,231	$624,292	($151,060)
CRESTVIEW TO SHALIMAR	$49,089	$90,129	($41,040)
CRESTVIEW TO VALPARISO	$130,808	$159,712	($28,904)
BAKER TO DESTIN	$4,796	$5,195	($399)
BAKER TO FT. WALTON BEACH	$63,107	$53,534	$9,573
BAKER TO SHALIMAR	$7,477	$8,146	($669)
BAKER TO VALPARISO	$18,290	$19,480	($1,190)
VALPARISO TO BAKER	$21,228	$23,668	($2,440)
VALPARISO TO CRESTVIEW	$142,477	$168,715	($26,238)
DESTIN TO BAKER	$5,492	$6,665	($1,173)
DESTIN TO CRESTVIEW	$44,808	$54,986	($10,178)
TOTAL	$1,486,099	$1,911,822	($425,723)

TOLL LOSS = $1,486,099 X 1.15517 = $1,716,697

TABLE 78-10

WALTON COUNTY EAS

Exchange	LATA	Access Lines	Calling Scope	Rate Group	Proposed Calling Scope	Prop Rate Group
*DeFuniak Springs	Pensa	5,606	Freeport, Glendale, Paxton, Ponce DeLeon	IV	Destin, Freeport, Glendale, Paxton, Ponce DeLeon, Santa Rosa Beach, Seagrove Beach, Valparaiso	VI
Destin	Pensa	10,093	Ft. Walton Beach, Santa Rosa Beach, Shalimar, Valparaiso	VI	Baker, Crestview, DeFuniak Springs, Ft. Walton Beach, Freeport, Glendale, Ponce DeLeon, Santa Rosa Beach, Seagrove Beach, Shalimar, Valparaiso	VII
Freeport	Pensa	1,642	DeFuniak Springs	III	DeFuniak Springs, Destin, Glendale, Ponce DeLeon, Santa Rosa Beach, Seagrove Beach, Valparaiso	VI
Glendale	Pensa	597	DeFuniak Springs	III	DeFuniak Springs, Destin, Freeport, Ponce DeLeon, Santa Rosa Beach, Seagrove Beach, Valparaiso	VI
Paxton	Florala Telephone Company					
Ponce DeLeon	Pensa	916	DeFuniak Springs	III	Bonifay, DeFuniak Springs, Destin, Freeport, Glendale, Graceville, Reynolds Hill, Santa Rosa Beach, Seagrove Beach, Valparaiso, Westville	VI
Santa Rosa Beach	Pensa	1,928	Destin, Ft. Walton Beach, Seagrove Beach	VI	DeFuniak Springs, Destin, Ft. Walton Beach, Freeport, Glendale, Ponce DeLeon, Seagrove Beach, Valparaiso	VII
Seagrove Beach	Pensa	2,093	Santa Rosa Beach	II	DeFuniak Springs, Destin, Ft. Walton Beach, Freeport, Glendale, Ponce DeLeon, Santa Rosa Beach, Valparaiso	VII
Valparaiso	Pensa	13,005	Destin, Ft. Walton Beach, Shalimar	VI	Baker, Crestview, DeFuniak Springs, Destin, Ft. Walton Beach, Freeport, Glendale, Ponce DeLeon, Santa Rosa Beach, Seagrove Beach, Shalimar	VII

* County Seat

Pensa - Pensacola

TABLE 78-11

CUSTOMER IMPACT COUNTYWIDE

CALLING IN WALTON COUNTY

	Exchange	Class	Current Rates	Proposed Company Rates	Proposed Staff Rates	Staff Monthly Increase
VI	*DeFuniak Springs	R1	$ 5.49	$ 9.20	$ 7.75	$ 2.26
		B1	$12.35	$20.70	$17.44	$ 5.09
		PBX	$24.71	$41.40	$34.88	$10.17
	Destin, Santa	R1	$ 6.00	$ 9.57	$ 8.20	$2.20
VII	Rosa Beach,	B1	$13.48	$21.51	$18.45	$4.97
	Valparaiso	PBX	$26.96	$43.05	$36.90	$9.94
	Freeport,	R1	$ 5.00	$ 9.20	$ 7.75	$ 2.75
VI	Glendale	B1	$11.25	$20.70	$17.44	$ 6.19
	Ponce DeLeon	PBX	$22.50	$41.40	$34.88	$12.38
VII	Seagrove Beach	R1	$ 4.77	$ 9.57	$ 8.20	$ 3.43
		B1	$10.75	$21.51	$18.45	$ 7.70
		PBX	$21.47	$43.05	$36.90	$15.43
	Paxton	Florala Telehpone Company				

* County Seat

REVENUE IMPACT
COUNTYWIDE LOCAL CALLING

TABLE 78-12
DOCKET NO.891264-TL

WALTON COUNTY	STAFF	COMPANY	DIFFERENCE
SANTA ROSA BEACH TO DEFUNIAK SPRINGS	$30,830	$42,741	($11,911)
SANTA ROSA BEACH TO FREEPORT	$14,663	$36,192	($21,529)
SANTA ROSA BEACH TO GLENDALE	$1,332	$1,691	($359)
SANTA ROSA BEACH TO PONCE DE LEON	$1,835	$2,484	($649)
SANTA ROSA BEACH TO VALPARISO	$14,667	$20,709	($6,042)
SEAGROVE BEACH TO DEFUNIAK SPRINGS	$17,466	$23,857	($6,391)
SEAGROVE BEACH TO DESTIN	$54,707	$49,396	$5,311
SEAGROVE BEACH TO FREEPORT	$11,172	$14,112	($2,940)
SEAGROVE BEACH TO GLENDALE	$1,009	$1,130	($121)
SEAGROVE BEACH TO PONCE DE LEON	$1,685	$2,437	($751)
SEAGROVE BEACH TO VALPARISO	$5,759	$3,985	$1,774
DEFUNIAK SPRINGS TO DESTIN	$23,536	$30,565	($7,029)
DEFUNIAK SORINGS TO SANTA ROSA BEACH	$13,048	$16,787	($3,740)
DEFUNIAK SPRINGS TO SEAGROVE BEACH	$21,273	$28,781	($7,508)
DEFUNIAK SPRINGS TO VALPARISO	$76,372	$92,158	($15,786)
FREEPORT TO DESTIN	$0	$0	$0
FREEPORT TO GLENDALE	$3,775	$4,233	($458)
FREEPORT TO PONCE DE LEON	$6,000	$6,415	($416)
FREEPORT TO SANTA ROSA BEACH	$12,603	$29,174	($16,570)
FREEPORT TO SEAGROVE BEACH	$7,652	$9,819	($2,167)
FREEPORT TO VALPARISO	$45,501	$51,830	($6,329)
GLENDALE TO DESTIN	$1,411	$1,556	($144)
GLENDALE TO FREEPORT	$2,833	$2,688	$146
GLENDALE TO PONCE DE LEON	$5,362	$5,812	($450)
GLENDALE TO SANTA ROSA BEACH	$1,636	$1,600	$37
GLENDALE TO SEAGROVE BEACH	$599	$656	($57)
GLENDALE TO VALPARISO	$4,071	$4,584	($513)
PONCE DE LEON TO FREEPORT	$5,375	$5,842	($467)
PONCE DE LEON TO GLENDALE	$5,356	$5,862	($506)
PONCE DE LEON TO SEAGROVE BEACH	$982	$1,091	($109)
PONCE DE LEON TO SANTA ROSA	$1,382	$1,553	($170)
VALPARISO TO FREEPORT	$46,225	$52,244	($6,019)
VALPARISO TO SANTA ROSA	$13,404	$17,222	($3,818)
	---------	---------	---------
TOTAL	$453,523	$569,205	($115,682)

TOLL LOSS = $453,523 X 1.15517 = $523,896

TABLE 78-13
COUNTYWIDE CALLING JACKSON COUNTY
MESSAGES PER ACCESS LINE

FROM	TO	MILE-AGE	COUNTY	MAIN STATIONS	MESSAGES	MINUTES	REVENUE	REVENUE PER MESSAGE	REVENUE PER MAIN	CALLS PER MAIN
JACKSON COUNTY										
ALFORD	GRAND RIDGE	22	JACKSON	1,148	0	0	$0.00	0.00	0.00	0.0
	GREENWOOD	18	JACKSON	1,148	458	2,084	$284.19	0.62	0.25	0.4
	MALONE	23	JACKSON	1,148	0	0	$0.00	0.00	0.00	0.0
	SNEADS	27	JACKSON	1,148	0	0	$0.00	0.00	0.00	0.0
COTTONDALE	GRAND RIDGE	23	JACKSON	1,048	0	0	$0.00	0.00	0.00	0.0
	GREENWOOD	14	JACKSON	1,048	756	3,415	$457.57	0.61	0.44	0.7
	MALONE	17	JACKSON	1,048	918	5,437	$747.09	0.81	0.71	0.9
	SNEADS	28	JACKSON	1,048	0	0	$0.00	0.00	0.00	0.0
GRAND RIDGE	ALFORD	22	JACKSON/WASHINGTON	1,661	0	0	$0.00	0.00	0.00	0.0
	GREENWOOD	14	JACKSON	1,661	2,383	10,890	$1,457.65	0.61	0.88	1.4
	MALONE	19	JACKSON	1,661	3,491	16,682	$2,174.11	0.62	1.31	2.1
GREENWOOD	ALFORD	15	JACKSON/WASHINGTON	668	573	2,593	$342.03	0.60	0.5.	0.9
	COTTONDALE	14	JACKSON	668	788	4,123	$550.35	0.70	0.82	1.2
	GRAND RIDGE	14	JACKSON	668	2,491	10,775	$1,491.60	0.60	2.23	3.7
	SNEADS	18	JACKSON	668	678	3,213	$488.78	0.72	0.73	1.0
MALONE	ALFORD	23	JACKSON/WASHINGTON	1,093	0	0	$0.00	0.00	0.00	0.0
	COTTONDALE	17	JACKSON	1,093	775	3,662	$566.60	0.73	0.52	0.7
	GRAND RIDGE	19	JACKSON	1,093	3,570	16,091	$2,115.31	0.59	1.94	3.3
	SNEADS	23	JACKSON	1,093	0	0	$0.00	0.00	0.00	0.0
SNEADS	ALFORD	27	JACKSON/WASHINGTON	1,439	0	0	$0.00	0.00	0.00	0.0
	COTTONDALE	28	JACKSON	1,439	0	0	$0.00	0.00	0.00	0.0
	GREENWOOD	18	JACKSON	1,439	575	3,014	$452.78	0.79	0.31	0.4
	MALONE	23	JACKSON	1,439	0	0	$0.00	0.00	0.00	0.0
			Total	11,784	17,456	81,979	11,128	0.64	0.94	1.5

Source: EXH 102, p. 294

TABLE 78-13
COUNTYWIDE CALLING WALTON COUNTY
MESSAGES PER ACCESS LINE

FROM	TO	MILEAGE	COUNTY	MAIN STATIONS	MESSAGES	MINUTES	REVENUE	REVENUE PER MESSAGE	REVENUE PER MAIN	CALLS PER MAIN
WALTON COUNTY										
SANTA ROSA BEACH	DEFUNIAK SPRINGS	24	WALTON/HOLMES	2,042	3,378	12,138	$3,561.73	1.05	1.74	1.7
	FREEPORT	10	WALTON	2,042	4,430	16,770	$3,016.00	0.68	1.48	2.2
	GLENDALE	34	WALTON	2,042	109	543	$140.88	1.29	0.07	0.1
	PONCE DE LEON	29	WALTON/HOLMES	2,042	178	734	$206.98	1.16	0.10	0.1
	VALPARAISO	17	WALTON/OKALOOSA	2,042	2,338	9,147	$1,725.75	0.74	0.85	1.1
SEAGROVE BEACH	DEFUNIAK SPRINGS	27	WALTON/HOLMES	2,269	1,833	6,917	$1,988.05	1.08	0.88	0.8
	DESTIN	24	WALTON/OKALOOSA	2,269	4,310	22,385	$4,116.32	0.96	1.81	1.9
	FREEPORT	13	WALTON	2,269	1,920	6,867	$1,175.96	0.61	0.52	0.8
	GLENDALE	37	WALTON	2,269	79	413	$94.18	1.19	0.04	0.0
	PONCE DE LEON	30	WALTON/HOLMES	2,269	146	683	$203.07	1.39	0.09	0.1
	VALPARAISO	26	WALTON/OKALOOSA	2,269	620	2,273	$332.07	0.54	0.15	0.3
DEFUNIAK SPRINGS	DESTIN	31	OKALOOSA/WALTON	5,731	2,568	9,272	$2,547.12	0.99	0.44	0.4
	SANTA ROSA BEACH	24	WALTON	5,731	1,159	5,273	$1,398.93	1.21	0.24	0.2
	SEAGROVE BEACH	27	WALTON	5,731	2,471	8,305	$2,396.44	0.97	0.42	0.4
	VALPARAISO	27	OKALOOSA/WALTON	5,731	7,174	30,682	$7,679.55	1.07	1.34	1.3
FREEPORT	DESTIN	23	OKALOOSA/WALTON	1,689	0	0	$0.00	0.00	0.00	0.0
	GLENDALE	25	WALTON	1,689	275	1,556	$352.79	1.28	0.21	0.2
	PONCE DE LEON	19	WALTON/HOLMES	1,689	736	3,900	$534.60	0.73	0.32	0.4
	SANTA ROSA BEACH	10	WALTON	1,689	4,138	13,897	$2,431.14	0.59	1.44	2.4
	SEAGROVE BEACH	13	WALTON	1,689	1,286	4,724	$818.24	0.64	0.48	0.8
	VALPARAISO	22	WALTON/OKALOOSA	1,689	7,261	28,370	$4,319.18	0.59	2.56	4.3
GLENDALE	DESTIN	38	WALTON/OKALOOSA	608	136	565	$129.63	0.95	0.21	0.2
	FREEPORT	25	WALTON	608	220	1,161	$223.99	1.02	0.37	0.4
	PONCE DE LEON	15	WALTON/HOLMES	608	606	3,525	$484.32	0.80	0.80	1.0
	SANTA ROSA BEACH	34	WALTON	608	122	673	$133.31	1.09	0.22	0.2
	SEAGROVE BEACH	37	WALTON	608	79	229	$54.65	0.69	0.09	0.1
	VALPARAISO	33	WALTON/OKALOOSA	608	356	1,648	$381.97	1.07	0.63	0.6
PONCE DE LEON	FREEPORT	19	WALTON	946	694	3,469	$486.87	0.70	0.51	0.7
	GLENDALE	15	WALTON	946	730	3,429	$482.51	0.67	0.52	0.8
	SEAGROVE	30	WALTON	946	79	401	$90.93	1.15	0.10	0.1
	SANTA ROSA	29	WALTON	946	146	547	$129.40	0.89	0.14	0.2
VALPARAISO	FREEPORT	22	WALTON	13,286	7,300	26,876	$4,353.69	0.60	0.33	0.5
	SANTA ROSA	17	WALTON	13,286	2,005	8,454	$1,435.30	0.72	0.11	0.2
			Total	12,339	58,862	237,826	$47,433.75	0.81	3.84	4.8

Source: EXH 102, p. 295

TABLE 78-13

COUNTYWIDE CALLING OKALOOSA COUNTY
MESSAGES PER ACCESS LINE

FROM	TO	MILE-AGE	COUNTY	MAIN STATIONS	MESSAGES	MINUTES	REVENUE	REVENUE PER MESSAGE	REVENUE PER MAIN	CALLS PER MAIN
OKALOOSA COUNTY										
SHALIMAR	BAKER	25	OKALOOSA	7,016	569	2,797	$622.72	1.09	0.09	0.1
	CRESTVIEW	22	OKALOOSA	7,016	6,720	30,975	$7,447.47	1.11	1.06	1.0
FT. WALTON BEACH	BAKER	28	OKALOOSA	35,132	4,992	19,007	$4,695.63	0.94	0.13	0.1
	CRESTVIEW	25	OKALOOSA	35,132	41,526	149,984	$41,095.77	0.99	1.17	1.2
CRESTVIEW	DESTIN	24	OKALOOSA/WALTON	9,623	4,136	16,442	$4,246.74	1.03	0.44	0.4
	FT. WALTON BEACH	25	OKALOOSA	9,623	49,185	187,656	$52,024.30	1.06	5.41	5.1
	SHALIMAR	22	OKALOOSA	9,623	6,815	31,339	$7,510.76	1.10	0.78	0.7
	VALPARAISO	18	OKALOOSA/WALTON	9,623	19,863	82,285	$13,309.31	0.67	1.38	2.1
BAKER	DESTIN	29	OKALOOSA/WALTON	1,792	476	1,913	$432.93	0.91	0.24	0.3
	FT. WALTON BEACH	28	OKALOOSA	1,792	5,711	25,451	$4,461.17	0.78	2.49	3.2
	SHALIMAR	25	OKALOOSA	1,792	634	3,037	$678.64	1.07	0.38	0.4
	VALPARAISO	23	OKALOOSA/WALTON	1,792	1,666	7,371	$1,623.35	0.97	0.9[illegible]	0.9
VALPARAISO	BAKER	23	OKALOOSA	13,286	1,790	8,627	$1,972.35	1.10	0.15	0.1
	CRESTVIEW	18	OKALOOSA	13,286	20,821	90,211	$14,059.59	0.68	1.06	1.6
DESTIN	BAKER	29	OKALOOSA	10,590	519	2,204	$555.43	1.07	0.05	0.0
	CRESTVIEW	24	OKALOOSA	10,590	4,560	17,517	$4,532.18	1.00	0.43	0.4
			Total	77,439	169,983	677,116	159,319	0.94	2.06	2.2

Source: EXH 102, p. 296

TABLE 78-13

COUNTYWIDE CALLING HOLMES COUNTY
MESSAGES PER ACCESS LINE

FROM	TO	MILE-AGE	COUNTY	MAIN STATIONS	MESSAGES	MINUTES	REVENUE	REVENUE PER MESSAGE	REVENUE PER MAIN	CALLS PER MAIN
HOLMES COUNTY										
PONCE DE LEON	BONIFAY	16	HOLMES/WASHINGTON	946	2,054	7,470	$1,437.18	0.70	1.52	2.2
	REYNOLDS HILL	14	HOLMES	946	1,548	5,814	$1,152.56	0.74	1.22	1.6
	WESTVILLE	7	WASHINGTON/HOLMES	946	1,511	5,670	$604.30	0.40	0.64	1.6
BONIFAY	PONCE DE LEON	16	HOLMES/WALTON	3,574	1,190	6,438	$953.68	0.80	0.27	0.3
REYNOLDS HILL	PONCE DE LEON	14	WALTON/HOLMES	1,180	1,195	4,866	$646.72	0.54	0.55	1.0
			Total	5,700	7,498	30,258	$4,794.44	0.64	0.84	1.3

Source: EXH 102, p.297

ISSUE 79: Centel has proposed to reduce its BHMOC charge from $6.47 to $5.00. Is this appropriate?

RECOMMENDATION: No. Although, a reduction in the BHMOC charge is appropriate, the reduction should be greater than that proposed by Centel. The BHMOC charge should be reduced by $2.75 to $3.72.

POSITION OF PARTIES

CENTEL: Yes. The BHMOC charge needs to be reduced to reflect the industry consensus that access service is still overpriced. However, the reduction in BHMOC cannot be as large as would otherwise be desired because of the Company's inability to raise the necessary lost revenues from any other categories of services other than basic local exchange services which are already being substantially increased in this proceeding.

AT&T-C: No. Considering the current high level of Centel's access charges in the State of Florida, this proposed reduction is inadequate. At a minimum, the BHMOC charge should initially be reduced to $4.85. Further, a schedule should be established to reduce the BHMOC by an additional $1.62 annually until the charge is completely eliminated.

OPC: The BHMOC charge should not be reduced if the effect of reducing the charge is to increase local exchange rates. The BHMOC charge should only be reduced if doing so does not increase local exchange rates.

DGS, FPTA & McCAW: No position.

STAFF ANALYSIS: The concept of reducing the BHMOC charge is appropriate. The specific amount by which BHMOC should be reduced is another matter. The Busy Hour Minute of Capacity (BHMOC) charge is a rate element designed to encourage trunking efficiency by interexchange carriers (IXCs). Specifically, the BHMOC charge is a fixed monthly rate per busy hour minute of switched access capacity ordered by IXCs. Unlike the Carrier Common Line (CCL) charge, the BHMOC charge is more closely linked to peak usage rather than total usage. The BHMOC charge is calculated and assessed for each IXC connection to a LEC switch. The BHMOC rate is unique to Florida and there is no BHMOC charge for interstate access.

Centel proposes to reduce its annual BHMOC revenues by $2,608,479.72 which will reduce the current rate from $6.47 to $5.00 (EXH 107, p.281). Centel is proposing to reduce its BHMOC

charge as required by Order No. 19677 which stated that the BHMOC shall be the first access element decreased when a LEC proposes a decrease in access.

Centel asserts that the goals of reducing the BHMOC would be to reduce the threat of bypass and to bring intrastate switched access rates more into parity with interstate rates. Staff agrees that the Company's proposal would further these goals. As a result of Centel's proposal, all IXCs would receive reduced access costs and AT&T-C would be required to pass on its savings to its Florida switched toll customers.

Centel's proposal, if approved, would result in one minute of intrastate originating switched access, including the BHMOC charge, declining from $0.0944 to $0.0875. This would be a decrease of 7.4 percent. One minute of intrastate terminating switched access, including the BHMOC charge would decline from $0.1022 to $0.0953. The proposed reduction would narrow the disparity between Centel's interstate and intrastate access rates. Currently, one minute of interstate originating access is only $0.0279, and interstate terminating access is only $0.0327, seventy (70%) percent and sixty-eight (68%) percent less than the current intrastate rate, respectively (both figures assume a ten mile local transport. The revenue impact of Centel's proposal would be a reduction in the test year of $2,608,480.

Staff's recommended BHMOC charge of $3.72, if approved, would result in one minute of intrastate originating switched acces declining from $0.0944 to $0.0815. This would be a decrease of 14 percent. One minute of intrastate terminating switched access, including the BHMOC charge would decline from $0.1022 to $0.0893. The revenue impact of staff's recommendation would be a reduction in the test year of $4,879,809.

In a recent decision in Docket No. 880812-TP, the Toll Monopoly Docket, the LECs were given a great incentive to lower their intrastate access charges. The Order resulting from the Toll Monopoly Docket, Order No 23540, states in part that:

> While the LECs are in a much better position to engage in intraEAEA competition now than they were in 1986, there are still certain facts that persuade us to delay the final implementation of full intraEAEA transmission competition to a future time...In addition, we believe that we should further examine the deloading of NTS recovery from access charges before full competition is allowed. We note that two of the large LECs currently have rate cases pending...Our announcement here is the

last warning to the LECs to prepare for the coming of full toll transmission competition.(p. 17)

When this case was originally filed Centel's BHMOC rate of $6.60 was identical to all of the other LECs except Southern Bell Telephone and Telegraph Company (Southern Bell) and General Telephone Company of Florida (GTEFL). Since then Southern Bell has reduced its BHMOC rate in Docket No. 880069-TL from $1.37 to $.14 and most recently eliminated its BHMOC rate entirely in Docket No. 880069-TL. Meanwhile, GTEFL has lowered its BHMOC rate from $6.60 to $4.95 (in DN 881344-TL, effective February 1, 1989), then to $3.30 (in DN 870171-TL/890216-TL/891199-TL, effective February 1, 1990) and to $3.20 October 1, 1990 (in DN 880812-TP). Additionally, United Telephone Company proposed, and the Commission approved a reduction in the the BHMOC charge in its rate case. United's BHMOC was reduced from $6.39 and $4.33. Thus, it appears that the larger LECs operating in Florida are making a serious attempt to reduce and eliminate the BHMOC charge.

AT&T-C was the only other party which took a position on Issue 79. AT&T-C sponsored testimony by witness Mike Guedel, who argued that Centel's proposed BHMOC reduction was not nearly enough. Specifically, witness Guedel testified that "AT&T recommends that Centel's plan be modified to include the phasing out of the BHMOC element. First, upon implementation of the plan, the BHMOC would be set at $4.85 (6.47 - (.25 * 6.47)). Then at each anniversary of the inception of the plan the BHMOC would be further reduced by $1.62 until it is completely eliminated." (TR 705-706) Staff believes that AT&T-C's proposal is unrealistic. Staff has recommended the maximum BHMOC reduction which we believe is appropriate at this time. AT&T-C's proposal calls for later reductions in BHMOC without taking into account any revenue effects. Staff is unwilling to support a proposal which requires reductions in later years, with no idea of the revenue effect of those proposals.

Staff believes that while this Commission does not require that LEC MTS rates be reduced by an amount proportionate to its switched access rate reductions, it has expressed, from the bench, a desire to see comparable reductions in both. Staff believes Centel's proposed BHMOC reductions with no corresponding MTS reductions is inconsistent with that desire. Staff, however, has recommended MTS reductions in Issue 74.

In Order No. 23540 the Commission stated "... each LEC may reduce its Busy Hour Minute of Capacity (BHMOC) access rate element and ultimately its Carrier Common Line (CCL) rate element

as that LEC's circumstances warrant. The choice to deload now lies with the LEC's. We note that Southern Bell and GTEFL have each significantly reduced their respective BHMOC rates since the issuance of Order No. 18598."

Staff believes that BHMOC reductions will benefit toll users, IXC's, the Company, and ultimately local subscribers. Therefore, staff recommends that Centel's BHMOC rates warrant a reduction in the BHMOC charge and recommends the Company be required to reduce its BHMOC charge from $6.47 to $3.72.

ISSUE 81: Centel has proposed no change in the Billing and Collection Service (E8). Is this appropriate?

RECOMMENDATION: Yes. While staff believes it would be a good managerial decision for the Centel to file a company-specific tariff with company-specific rates, we also believe the Company has the best information about the nature of competition for this service. Therefore, staff recommends that the Commission approve Centel's continued concurrence with Southern Bell's tariff for Billing and Collection Services (Section E8).

POSITION OF PARTIES

CENTEL: Yes. This is an industry tariff.

AT&T-C, DGS, FPTA, McCAW & OPC: No position.

STAFF ANALYSIS: Centel provides Billing and Collection Service both for its own end-user services as well as for other telecommunication companies which rely upon Centel for access to the network. The rates Centel charges for Billing and Collection Service provided directly to its own end-users, such as local telephone service and Centel's toll service, are incorporated into the overall rates for the service in question. For switched access services provided to interexchange companies and AOS companies which use the public network, Centel assesses specific billing and collection charges. All rates, terms, and conditions for such services appear in the Southern Bell Access Tariff, Section E8, since the Company concurs in that industry tariff. This issue addresses whether the Company's continued concurrence in the industry tariff, as proposed by Centel, is appropriate.

Centel provides Access Billing and Collection Service for interexchange carriers, clearinghouse agents (often on behalf of Pay Telephone Providers and noncertified AOS providers) and Operator Service Providers which are certificated as IXCs. (EXH 104, p. 396) The Company expects to bill units for the following four access Billing and Collection Services in 1991:

1) Recording Service - Messages Records on magnetic tape or other media the details of customer messages, such as number called, number that placed the call, time of message, date, etc. for switched access services.

2) Message Processing Service - Messages Transforms recorded messages into rated messages.

3) Bill Processing Service - Messages Billed (with Inquiry)

Accumulates message detail, applies taxes, prints, and mails statements (bills) showing amounts due from end-users for access services provided by the customer. Resolves end-user questions regarding bill, advises customer of bill changes.

4) <u>Bill Processing Service - Bulk Billed (with Inquiry)</u>
Accumulates end-user's rated message detail in the aggregate without the individual message detail, applies taxes, prints, and mails statements (bills) showing amounts due from end-users for access services provided by the customer. Resolves end-user questions regarding bill, advises customer of bill changes.

The Company has experienced decreasing revenues for access Billing and Collection Service since 1989. This trend is expected to continue. Intrastate access billing and collection revenues for 1990 are estimated to be $1.7 million, compared to $1.5 million expected in 1991. (EXH 104, p. 392) The Company relates this decline to the possible AT&T-C takeback of Billing and Collection Service now provided by Centel for certain switched access services, such as 900 Service Rating.

According to Centel, revenues for access Billing and Collection Service do not cover the fully-allocated costs of the service as determined in separation studies. (EXH 104, p. 392) This of course raises the concern of whether this service's revenues meet or exceed its incremental costs. Cross-subsidy is often thought to exist if a services incremental costs are not recovered by the revenues generated by the service's rates. However, as with other LECs in the state, incremental cost data is not available for this service. The Company states that it will perform a cost study to determine whether it should adopt company-specific rates for its Billing and Collection Service when it files its own Access Services Tariff, but does not state when that will be. (EXH 104, p. 388)

No other party took a position on this issue regarding the appropriateness of Centel's filing regarding Access Billing and Collection Services.

In Order No. 21688 issued during August 1989, the Commission found LEC-specific tariffs for Billing and Collection Service to be appropriate. It was also explained in this same order that Billing and Collection Service was not yet effectively competitive, because the LECs had a majority of the market and had a certain strategic advantage in having the ability to disconnect an end-user for nonpayment.

The Company states that the provision of Billing and Collection Service is competitive, such that other service providers or interexchange carriers may provide their own billing and collection or contract with a third party to perform these services. (EXH 102, p. 23) In fact, interstate Billing and Collection Service has been detariffed by the FCC. In addition, Southland has been granted interim authority to detariff its intrastate Billing and Collection Service, and United Telephone of Florida was granted detariffed intrastate Billing and Collection Service in its recent rate proceeding. Whereas LECs had a complete monopoly of this gateway service in earlier years, emerging competition in this market is diminishing the LEC's grip on Billing and Collection Service.

Staff believes that Centel should be taking steps to restructure its Billing and Collection Service and thereby reverse the trend of declining billing and collection revenues. GTE recently restructured its Billing and Collection Services due to declining revenues for these services. In August 1990, the Commission approved GTE's tariff for Access Billing and Collection Service based on the existence of increased competition in the market and the existence of opportunities for national contracts with certain customers for uniform national billing and collection rates (Commission Order No. 23479). Centel has had a similar offer, but has yet to decide whether to pursue it. (EXH 104, p. 391) In GTE's case, an unbundling of the industry tariff's rate structure and adjustment in rates was approved by the Commission in order to allow the Company to reverse its trend of declining billing and collection revenues.

However, staff does not recommend the Commission mandate the Company to file a company-specific tariff Billing and Collection Service. While staff believes it would be a good managerial decision for Centel to file a company-specific tariff with company-specific rates, we also believe the Company has the best information about the nature of competition for this service. Therefore, staff recommends that the Commission approve Centel's continued concurrence with Southern Bell's tariff for Billing and Collection Services (Section E8).

ISSUE 95: The following services have not been addressed in other issues and no changes have been proposed. Is this appropriate?

a) Tariffed items:
- Leaky PBX rates
- Busy Verify and Interrupt
- COCOTS Usage
- Operator Handled
- CPE Paystation Options
- E911
- Miscellaneous Service Arrangements
- Restricted Sent Paid
- Billed number screening
- Late Pay to IXCs
- IntraEAEA compensation
- Carrier Common Line Charge
- Switched Access Charges
- Ordering Options Access Tariff
- Engineering, Labor, etc. Access Tariff
- InterLEC IntraLATA Access Service

b) Nontariffed items:
- Directory Advertising
- InterLATA Operator Services
- IntraLATA Private Line Pooling
- IntraLATA Other (DA other LECs, Repair, etc.)
- Rent Revenues (Pole Attch., IXC Floor Space, etc.)
- Miscellaneous (Late Payment, Sales Alph. Listing, E911 Collection Fees, nontariff services)
- Billing & Collection Interstate
- Access Revenues Interstate

RECOMMENDATION: Yes. Current rates and revenues are appropriate with the following caveats:

BHMOC rate changes will flow through to the LEC Toll Bill & Keep tariff (E16).

BHMOC and toll rate changes will flow through to the intraEAEA compensation rate. The revenue effect of intraEAEA compensation changes should be addressed when the Company restructures its local private line tariff.

In addition, the local access portion of the shared tenant tariff will increase if PBX rates are increased. There will be no revenue effect, however, since Centel has no STS subscribers.

Staff adjustments to correct errors and oversights should be made to EXH 107, pp. 263-322, Schedule E-1a as shown below:

Service Description	COMPANY 1991 REVENUES Present	Proposed	Increase
A4 Service Chgs. (Issue 34)	$658,824	$801,714	$142,890
A10 E911 (Leon and Jefferson)	273,276	273,276	0
E6 LS1 Change (Order 23540)	12,064	12,064	0

The test year revenues as filed in Exhibit No. 107 should be increased by this amount.

POSITION OF PARTIES

CENTEL: No changes should be made.

OPC: The test year revenue should be increased $206,952 to reflect the E-911 revenues.

AT&T-C, DGS, FPTA & McCAW: No position.

STAFF ANALYSIS: This issue addresses all the remaining revenue generating items, both tariffed and non-tariffed, which are not addressed in other issues. Revenues for some of the items, notably leaky PBX rates, Busy Verify and Interrupt, COCOTS Usage, CPE Paystation Options, PATS Surcharge, have been moved into the appropriate issues in the Revenue Summary. Public Counsel's position is that test year revenues should be adjusted to reflect 911 revenues. This and other items are discussed below.

Tariffed Items:

1. $.25 Coin Rate - In moving to a statewide uniform coin rate in 1985 (Docket No. 820537-TP, Order No. 14452), the Commission noted the convenience, practicality, and public acceptance of the single coin requirement throughout the state. Any departure from this policy should not take place in a single company rate case. It was stipulated by the parties that rates governing LEC and non-LEC PATS offerings would be addressed in Docket No. 860723-TP, the PATS docket.

2. E911 - This service is provided to counties and is used to promote the general welfare. It is not available on a uniform basis throughout the Company's territory.

Subscribers are charged an E911 surcharge as authorized by Chapter 365.171, Florida Statutes.

3. <u>Access Related Charges</u> - Rates and the policy governing any rate changes were set forth in Docket No. 820537-TP, the access charge docket, and in Docket No. 860984-TP, the NTS docket. Although LEC-specific access rate levels have been authorized, the Commission has required that all reductions will be made to the BHMOC before changes are allowed to be made to other elements.

4. <u>InterLEC IntraLATA Access Service</u> - This is LEC Toll Bill and Keep. The policy on rates was set in Docket No. 850310. Rate levels are the same as switched access charges. Any change approved for the BHMOC rate (Issue No. 79) will flow through to Section E16 of the Access Tariff.

5. <u>Shared Tenant Services</u> - There are no units in the test year. Centel can initiate a proposal to reduce rates if it wants to encourage that market. Any changes in the PBX trunk rate will flow through to this tariff; however, there are no STS subscribers in Centel's territory, therefore no revenue effect.

6. <u>Restoral of Service, Nonpay and Vacation Service:</u> This rate, at $10, is lower than that recently approved for United. Staff recommends that this rate be increased to $15.00.

7. <u>Toll Busy Verify and Interrupt:</u> These rates were recently set, and are the same as other LECs.

8. <u>Miscellaneous Service Arrangements:</u> This includes the following service: Restricted Sent Paid (restricts outgoing toll calls to those not billable to the calling number), Hot Line Service (automatically forwards and off hook), Billed Number Screening, Permanent Trap and Trace, Automatic Time and Charges, and Special Billing Tapes. These services either give the customer more control over their phone, or are declining technologies for which costs have not increased. The Company has proposed an increase to restricted sent paid service, but the staff recommends that this not be granted.

9. Break in Rotary Service: Allows some lines or trunks to be removed from the rotary group. The Company has proposed to increase this service from the current rate of $9.45 to $14.05. However, no justification was provided for this increase, either in costs or in testimony. Staff recommends that this increase not be approved.

10. Miscellaneous Service Connections Vacation, Link-Up Florida, etc. - These are miscellaneous service charges on which the company did not seek an increase. Link-Up rates are 50% of the B-1 rate and are included in Issue No. 73.

Non-Tariffed Items:

1. Directory Advertising - Existing Commission rules and the Florida Statutes govern Directory Advertising revenues. This is a regulated, non-tariffed offering.

2. InterLATA Operator Services - These are contracted operator services for IXCs.

3. IntraLATA Other (DA other LECS, Repair, etc.) - These are contract arrangements for DA, Repairs, etc, for other LECs.

4. Rent Revenues (Pole Attch, IXC Floor Space, etc.) - These are non-regulated revenues received for pole attachments, IXC floor space rental, etc.

5. Miscellaneous Other operating revenues (Sales Alph. Listings, E911 Collection Fees, nontariff services) - These are revenues from services that are not regulated by the Commission, i.e., collection of E911 fees for county, sale of alphabetical telephone listings, etc.

6. IntraLATA Private Line Pooling - This is the net of billed versus booked intraLATA private line revenues, which are currently pooled.

7. Interstate Access and Billing & Collection - These are revenues derived from the interstate access tariff for access and billing & collection services which are regulated by the FCC.

Staff has made adjustments to EXH 107, pp. 263-322, Schedule

E-1a, which is the priceout for Centel's 1991 projected test year, to account for certain errors and omissions. The first adjustment is to the A4, Service Charges (Issue Nos. 34 and 73), where the Company miscalculated the units which resulted in the revenues being understated. The second adjustment is to account for the A10, E911 revenues that will be effective in 1991, which were omitted in Exhibit No. 107, A10. OPC in its brief, page 19 stated, "The test year local revenues as filed should be increased by $382,140 to reflect the trunk equivalency charge issues and the E911 revenues." Staff agrees that the E911 revenues should be adjusted; however, the amount should be $273,276 rather than $206,952 ($382,140 - $175,188 = $206,952). The following is staff's calculation:

E-911	Month	Annually	
Leon County	$21,576	$258,912	(TR 1361-1363; EXH 107, p. 323)
Jefferson County	$ 1,197	$ 14,364	(TR 1362)
	Total	$273,276	

Finally, the third adjustment is to reflect the change in the LS1 access element which was eliminated in Order No. 23540.

The total test year revenues for the total of this issue listed above are $85,984,419. $9,947,529 of that amount is associated with Directory Advertising. The Company's proposed revenues were $86,083,660. Staff's recommended revenues total $85,808,370.

ISSUE 85: Centel has proposed an optional Local Measured Service (LMS) to residence subscribers. Subscribers will pay the monthly rates shown below and receive a message allowance of 30 calls after which a per message charge of $.10 will apply. Is this appropriate?

Rate Group	Monthly Charge
1	$4.14
2	4.41
3	4.59
4	5.06
5	5.33
6	5.52
7	5.70
8	5.97

RECOMMENDATION: Yes, Centel's offering of a local measured service option to residences should be approved. The rate should equal 60% of the R-1 rate in each rate group with an allowance of 30 messages per month. Each additional message per month should carry a charge of $0.10. The Company should inform its customers of this option through a bill insert during the billing cycle immediately following the effective date of the tariffs, and waive any nonrecurring charges for existing customers for 90 days following the effective date.

POSITION OF PARTIES

CENTEL: Yes. One of the Company's most important goals in the area of rate design is to continue the promotion of universal service. The proposed optional local measured service offering continues this effort by helping to reduce the effects of the proposed rate increase on customers with fixed incomes who have limited outward calling needs.

OPC: An optional message rate service, offered at 60% of the flat rate local exchange rate, and having a message allowance of 30 calls after which a per message charge of 10 cents per message applies, is appropriate.

AT&T-C, DGS, FPTA, MCCAW: No position.

STAFF ANALYSIS: Centel's proposed Option 30 Service is the Company's first attempt at a message rate option for residential customers in Florida. Option 30 Service is nearly identical to a currently approved option from GTE Florida Inc. (GTE). The only difference between the two plans is that Centel is not proposing

that the service option be extended to businesses. (EXH 102, p. 186)

The Company is proposing Option 30 Service to aid the low income families or other customers who may drop off the network should Centel's proposed rate increases be approved. (Wahlen TR 1210-11; EXH 102, pp. 328, 345) Centel believes that a measured option, in this case at 60% of the R-1 rate with an allowance for 30 messages per month ($0.10 per message over 30), will help curb the rate shock of its proposed increases to local service. Centel does not believe that business customers will be as unable as some residence customers to handle the proposed increases. (Wahlen TR 1210-11)

Centel filed its Option 30 Service proposal without conducting any cost or usage studies. The Company, by its own admission, took the GTE residential message rate offering verbatim to facilitate its approval. (EXH 102, p. 343; EXH 104, p. 203) Centel used usage patterns and take-rate data directly from GTE's message rate offering. (EXH 102, pp. 38, 324; EXH 104, p. 204)

GTE reported to Centel the following estimates: 1) approximately 20% of GTE's customers made 30 or fewer calls per month; 2) approximately 7% of GTE's residential customers subscribed to message rate service; and 3) the customers subscribing to message rate service averaged 22 messages per month over the 30 message allowance. (EXH 102, pp. 38, 347) During the interim between the filing date (6/12/90) and the hearing dates, Centel did conduct a usage study to verify GTE's data. Centel, having no information on subscribers to message rate service, could only perform a study to show how many of its customers also made fewer than 30 calls per month.

The data collected in that study resulted in similar calling patterns to GTE's estimates. Centel's study showed that 18.9% of its residential customers made fewer than 30 calls per month, or roughly equivalent to the number supplied by GTE. (EXH 107, pp. 335-347) Centel concluded that GTE's estimates could be reasonably valid for Centel, until actual experience evolved more accurate numbers.

A summary of Centel's, GTE's and other Florida message rate plans are as follows:

Table 85-1
MESSAGE RATE SERVICE COMPARISON

Residence - Highest Rate Group

Company	Flat Rate	Meas. Rate	% of R-1	Allowance	Message Rate
Centel (proposed)*	$ 9.95	5.97	60%	30 msgs.	.10/msg. > 30
Centel (staff prop.)**	8.65	5.19	60%	30 msgs.	.10/msg. > 30
GTE	11.63	6.92	60%	30 msgs.	.10/msg. > 30
United (approved)***	10.20	7.14	70%	30 msgs.	.10/msg. > 30
Southern Bell	not offered to residences				

* at Centel's proposed rates and rate groups
** at staff's proposed rates from recommended revenue requirement
*** approved in Docket No. 891239-TL at 1/7/91 special agenda

Business - Highest Rate Group

Company	Flat Rate	Meas. Rate	% of B-1	Allowance	Message Rate
Centel	not proposed for businesses				
GTE	$29.72	17.84	60%	75 msgs.	.10/msg. > 75
United	not proposed for businesses				
Southern Bell	$29.10	21.69	75%	75 msgs.	.12/msg. > 75

Included in the above comparison are both Centel's proposed rates, and staff's proposed rates taking into account Centel's revised revenue requirement recommendation.

OPC agreed that an optional message rate plan at 60% of the R-1 rate with a 30-message allowance would benefit Centel's customers. AT&T-C, DGS, FPTA, and McCaw took no position on this issue.

Staff also believes that an optional message rate plan will benefit Centel's consumers. Using the data obtained from Centel and GTE, a residential customer paying $6.00/mo. (subtracting gross receipts tax gives an effective rate of $5.91) for basic service today in the highest rate group may actually have her/his bill <u>decrease</u> to $5.97 if Centel's proposed rates are approved and 30 or fewer calls are made per month (or an <u>effective</u> increase of only $0.06). Using staff's proposed R-1 rates which are lower than Centel's proposed rates, the customer's bill would be reduced even further to $5.19.

Staff's main concern was that heavy subscription could severely erode local revenues. However, GTE's service is only

maintaining a 7% penetration rate, while the average calls of those takers exceed the allowance by 22 calls/month, adding $2.20 to the average message rate bill. (EXH 102, p. 38, 347) Staff is satisfied that because Centel's usage characteristics proved to be consistent with GTE's findings, Centel's estimate of a 6-7% take rate will make a reasonable estimate until actual data can be gathered.

Staff recommends that Centel's offering of a local message rate option to residences should be approved. The rate should equal 60% of the R-1 rate in each rate group with an allowance of 30 messages per month. Each additional message per month should carry a charge of $0.10. The Company should inform its customers of this option through a bill insert during the billing cycle immediately following the effective date of the tariffs, and waive any nonrecurring charges for existing customers for a period of 90 days after the tariff becomes effective.

ISSUE 86: Centel currently charges PBX rates for all hybrid key systems. Is this appropriate?

RECOMMENDATION: No. To the extent hybrid key systems function like PBXs, their rates should be comparable. However, if a customer is not using a hybrid key system for PBX-type line pooling, regular business rates are appropriate. We recommend on a going forward basis beginning March 1, 1991, that Centel should request that new business customers certify the manner in which they intend to use the system and treat the customer accordingly. Such certification may be oral or written. Centel should also notify PBX customers of this change in policy by a separate mailing to be sent no later than 60 days following the final order in this docket. The PBX customer shall have 60 days to respond to the mailing. Centel should also keep a record of all customers notified for future reference.

POSITION OF PARTIES

CENTEL: Yes. In cases where Central Telephone-Florida provides service which terminates to known hybrid key systems, PBX trunk rates are charged. Hybrid Key systems utilize pooled trunk groups which are accessed through a SPREE code (e.g., dial "9" type access codes) as opposed to dedicated lines for each station of a traditional key system. As a result, the amount of traffic carried on a single communication path is increased, and the subscriber needs fewer access lines to handle total traffic volumes. This access arrangement is physically and functionally the same as PBX trunking; therefore, PBX rates are appropriate.

AT&T-C, DGS, FPTA, McCAW & OPC: No position.

STAFF ANALYSIS: A hybrid key system (hybrid) is a type of CPE that may function as either a key system, where each access line has a dedicated key on some or all stations, or like a PBX, where lines are pooled and accessed through a SPREE code (e.g., dial "9" type access codes). The functionality of most hybrids can be easily and quickly changed. (Wahlen TR 1397-98)

Centel maintains that because the functionality of a hybrid can be exactly that of a PBX without the knowledge of the LEC, the assumption should be that they are (or can be) used in that fashion. The result of this use is that their network usage per line is much more efficient - closer to that of a PBX, much higher than a regular B-1 or key system. Therefore, Centel believes PBX rates should apply in every case. (TR 1397-98) No other party offered a position on this issue.

The treatment of hybrids is split among the major Florida LECs. Southern Bell and GTE have generally taken the customer at her/his word when applying for service; if the customer stated that the equipment was going to be used as a key system only, the appropriate rate was applied. United and Centel have historically charged PBX rates to all hybrids to date. However, in the United rate case, the Commission voted to change United's policy and charge hybrids according to how the customers say they are using them.

Staff believes that Southern Bell's/GTE's approach is appropriate. Because hybrids may be used either way and the LEC cannot determine which function is being used, this situation resembles the "leaky PBX" dilemma previously addressed by this Commission. In that proceeding, the Commission thought it appropriate for customers to be able to certify that their PBXs did not "leak" so as to avoid a usage charge. Staff believes that Centel should follow that policy with hybrids.

Staff believes that the procedure recommended in the United rate case (Docket No. 891239-TL) just adopted is appropriate. We recommend that Centel, on a going forward basis, request that new business customers state to what use their hybrids are to be put, and charge the appropriate rate. Staff also recommends that a separate mailing be sent to PBX subscribers no later than 60 days following the final order issued in this docket. The mailing should explain this new policy and request customers to contact the Company's business office within 60 days. This will allow existing customers to contact Centel if they are hybrid owners and are not using them for access line pooling. Centel should keep a record of all customers noticed from this mailing to avoid any future misunderstandings with current customers.

ISSUE 87: Centel currently has no PBX message rated trunks nor any usage rates for hotel/motel, hospitals, etc.. Is this appropriate?

RECOMMENDATION: Yes, Centel's proposal of no message rate trunks for hotels, motels, hospitals, and other transient locations is appropriate at this time.

POSITION OF PARTIES

CENTEL'S POSITION: Yes. The Company generally embraces the concept of measured service. However, the Company has not proposed in this proceeding to charge measured rates to providers of shared service to transient end users, as described in Section 23.7 of Central Telephone-Florida's general customer services tariff.

AT&T-C, DGS, FPTA, McCAW & OPC: No position.

STAFF ANALYSIS: Centel has not performed any studies to aid staff in a recommendation on this issue. (EXH 106, p. 59-60) Message rate trunks for transient telephone providers such as hotels, motels, hospitals, etc. are charged by some LECs and not by others. Witness Wahlen stated that although the Company is certainly not adverse to measured service, this particular situation was just "never even considered" in internal discussions. (TR 1398-99, EXH 106, p. 59-60)

As a result, staff has no information on numbers of providers, amount of traffic, or usage data, or numbers of customers affected to determine if message rates trunks are appropriate. Centel has indicated, although not on the record, that the expected revenues from instituting a measured rate for these customers would not be significant. Staff intends to explore, outside of this docket, whether measured rates for these customers are appropriate.

ISSUE 89: Centel proposes to change the relationship between basic local service access line rates as a proportion of the R1 rate, in the following classes of service shown below. Is this appropriate?

Rate Group 6	Present	Proposed
R1	1.00	1.00
B1	2.25	2.25
B1-Rotary	3.37	3.38
PBX	4.49	4.50
Semi Pub	1.69	2.25

It should be noted that minor changes in relationship occur because of Centel's proposal to expand the number of rate groups.

RECOMMENDATION: Yes, Centel's proposed rate relationships are appropriate. In addition, Centel's proposal to increase the long distance trunk relationship from 60% to 100% of the B-1 rate is also appropriate.

POSITION OF PARTIES

CENTEL: Yes. The Company's original approach was to reduce the spread between business and residential rates from the present 2.25 to 1 relationship between business one-party and residential one-party to a relationship of 2.0 to 1. However, in order to meet the Company's ratemaking objective of not raising basic residential service beyond the amount proposed (i.e., $9.95), it was unable to make such change. Therefore, the only change made in the relationships among the rates was to change the semi-public rate from a percentage of the business one-party rate to the business one-party rate. This change was necessitated in order better to align the semi-public rate with the cost of providing semi-public service.

AT&T-C, DGS, FPTA, McCAW & OPC: No position.

STAFF ANALYSIS: After the amount of revenue required from local rates has been determined, this amount must be spread over the residential and business local rate elements for all rate groups. The Commission will address the specific rate levels in Issue 88. In order to determine rate levels in a systematic fashion, appropriate rate relationships should be established. Traditionally, in setting new basic local exchange rates, the Commission has calculated basic rates as a function of either the one-party residence (R-1) or one-party business (B-1) rate.

Table 89-1 below shows a comparison among Centel, GTE,

United, and Southern Bell with regard to basic rate relationships. As can be seen in the table, differences exist in some categories among companies while others are nearly constant industry-wide. Centel's existing relationships are fairly straightforward: the B-1 rate equals 2.25 times the R-1 rate, the B-1 Rotary rate equals 1.5 times the B-1 rate, the PBX rate equals two times the B-1 rate, and the Semi-pub rate equals .75 times the B-1 rate.

Table 89-1
LOCAL RATE RELATIONSHIP COMPARISON - HIGHEST RATE GROUP

Element	Centel (pres)	Centel (prop)	GTE	United (approved)*	Southern Bell
R-1	1.00	1.00	1.00	1.00	1.00
B-1	2.25 x R-1	2.25 x R-1	2.56 x R-1	2.35 x R-1	2.73 x R-1
B-1/Rotary	1.50 x B-1 or 3.38 x R-1	1.50 x B-1 or 3.38 x R-1	1.50 x B-1 or 3.83 x R-1	1.55 x B-1 or 3.60 x R-1	1.5 x B-1 or 4.12 x R-1
PBX	2 x B-1 or 4.5 x R-1	2 x B-1 or 4.5 x R-1	2 x B-1 or 5.11 x R-1	2 x B-1 or 4.70 x R-1	2.24 x B-1 or 6.12 x R-1
Long Distance Trunk	0.6 x B-1 or 1.35 x R-1	1.0 x B-1 or 2.25 x R-1	n/a	n/a	n/a
Semi-Pub	0.75 x B-1 or 1.69 x R-1	**1.00 x B-1 or 2.25 x R-1**	0.70 x B-1 or 1.79 x R-1	1.25 x B-1 or 2.90 x R-1	0.61 x B-1 or 1.67 x R-1

Source: Centel Schedule E1-A, United Schedule E1-A (Docket No. 891239-TL), and 1/1/90 Commission Cost Statistics
* - approved in Docket No. 891239-TL at 1/7/91 agenda

Centel has proposed to maintain the current rate relationships among these elements, as well as others not specifically addressed in this issue such as R-1 rotary service. There are only two exceptions; Centel proposes to increase the semi-public service line rate and the long distance trunk rate to equal the B-1 rate.

The semi-public service proposal is the subject of Issue 49. In that issue, staff has recommended approval of Centel's proposal to increase the semi-public rate relationship from 75% to 100% of the B-1 rate.

Long distance trunks were not specifically identified in this issue; therefore there is little mention of them in the record. They are business lines used solely for completing long distance calls. Access to an operator from a hotel room could be an example of a use of these lines. Companies other than

Centel do not offer these lines; they use regular B-1 lines, PBX trunks, or WATS access lines. Centel is proposing to increase the relationship of these lines from 60% of the B-1 rate to 100% of it. Staff believes that this proposal is appropriate.

Centel initially wanted to change the relationship between business and residence one-party rates, which is currently 2.25:1. However, lowering the difference between the two rates would necessitate a proposal to increase the basic residential rate above $10.00 in order to achieve Centel's proposed revenue requirement. Centel was unwilling to do this, so it proposed to maintain the current relationship between the R-1 and B-1 rates. (Wahlen TR 1237)

Centel's B-1 rates are already closer to the R-1 rate than any other major LEC in Florida (see Table 89-1) because of its dependence on the State of Florida's government offices, Centel's largest single customer. High business rates could encourage the State to leave Centel's network altogether.

Rate relationships serve as a good tool to facilitate ratemaking. They are generally set with relative use characteristics in mind so that higher users of local service pay a somewhat higher rate for that service, but also to recognize the value of service and ability to pay of business versus residential customers. However, based on the study of PBX and ESSX costs in Docket No. 881257-TL, staff would have preferred to consider structuring local rates based on a loop, conditioning, and usage. Unfortunately this study was not completed in time for inclusion in this case.

Staff believes that Centel's proposed relationships, including the change in the semi-public rate, are appropriate. The Company's ratios fall in line with other companies' relationships, and staff sees no reason to change them at this time.

ISSUE 88: Centel proposes to adjust rates upward for basic local exchange services prior to implementing its rate cap proposal. Centel proposes to increase basic local exchange access line rates by $14,389,492 or 56.7% over current rates at proposed test year units. What changes, if any, should be made to local exchange access line rates?

RECOMMENDATION: Based on staff's recommended general approach to rate changes in Issue 35 as well as specific recommendations in other issues, the amount required from basic local exchange rates is $9,192,779. Staff's recommended rate changes are summarized in Tables 88-1 and 88-2. A price out of staff's local exchange rates is attached as Attachment 4 to this recommendation.

POSITION OF PARTIES

CENTEL: The Company's proposed basic local rates should be approved as filed. The proposed rates are below the fully allocated costs of providing the services. The rates should be moved closer to the cost of these services, so that the Company will not have to continue relying so heavily on contributions from access and non-basic services, which are increasingly subject to competition from alternative suppliers, to meet its total revenue requirement.

OPC: Centel has not justified the rate increase of that magnitude. The Commission should refrain from increasing local rates for the purpose of reducing access charges or toll rates. Neither Centel nor any other local exchange company has been able to demonstrate that local rates subsidize toll rates.

AT&T-C, DGS, FPTA & McCAW: No position.

STAFF ANALYSIS: Centel has proposed to raise prices for basic one-party local residential rates from $6.00 in the highest rate group to $9.95, an increase of 66%. (MFR SCH E1-A) The proposed rate levels are based on Centel's projected revenue requirement for local rates of approximately $14.5 million.

Currently, Centel has six rate groups. The R-1 rates range from $4.50 in Rate Group 1 to $6.00 in Rate Group 6. Centel has proposed to expand the total number of Rate Groups to eight and increase R-1 rates such that members of Rate Group 1 would pay $6.90. As mentioned previously, The Company has proposed the rate in the highest proposed Rate Group to be $9.95.

Centel has proposed to retain the current rate relationships of most business rates to residential rates (See Issue 89). In

addition to actual rate increases, the Company proposes to expand its rate groups and introduce Option 30 Service, an optional residential message rate plan (Issue 85). The total revenues produced by the Company's proposals would be approximately $38.7 million based on the revised projected billing units.

Other than Centel, OPC was the only party to comment on this issue. OPC has testified in relation to other issues that Centel has not justified its test year revenue requirements. The Citizens oppose the Company's proposal to shift cost recovery from toll to local, and to fund toll or access reductions with local rate increases. (Brief, p. 40) OPC stated that access and toll rates should not be lowered at the expense of raising local rates.

As was discussed in Issue 35, Centel's approach to pricing local service was similar to established Commission policy. Their approach arrived at a dollar amount to be recovered after other pricing decisions were made, then adjusting local rates to recover the dollar amount while maintaining current rate relationships. (Wahlen TR 1209-11, 1237; EXH 106, pp. 54-5) Centel's justification for increasing local rates at all was its insistence that local service does not recover its full costs. (Wahlen TR 1212) This position is not new among LECs in proceedings such as these. Centel maintained that local service should recover incremental, direct, and embedded costs, while other services should recover only incremental costs. (EXH 102, p. 39)

Staff believes that both embedded and incremental cost studies yield useful information that are important guides in determining appropriate prices. However, in order to make relevant comparisons, we believe it is necessary that cost data submitted for various offerings be calculated equivalently. We have seen too many times the use of incremental costs when LECs wish to price services in which they experience competition. For example, the incremental business loop study was performed in support of Centel's ABC service offerings which, like Southern Bell's ESSX, competes with PBX equipment vendors. On the other hand, embedded cost studies are the only ones produced when LECs, including Centel, are asked to demonstrate proof that local rates are below cost. (EXH 102, pp.39-51) No evidence was presented to show that local rates do not cover their <u>incremental</u> costs. In addition, staff wonders how many services would recover their entire embedded costs, particularly if the cost of the local loop is allocated among the various services which utilize it. We recognize that embedded costs should be recovered when looking at the total company; however there are continuing arguments as to

whether all embedded costs should be recovered from local rates.

It is important to note here that these philosophies do not necessarily have to conflict when setting prices. Centel used the "below-cost" argument simply to add justification when proposing to increase local rates. The method it chose to raise them (not the amount proposed) was consistent with our policy. The significant differential here is simply the amount of money needed. While Centel maintains an increase of $14.5 million is needed for local services, staff is recommending that the residual amount needed for local rates is $9,192,779.

Staff has recommended, and it would appear that Centel would agree, that the Commission retain its existing pricing philosophy for basic local services at this point. It should be noted here that in order to properly calculate the customer impact of the Company's proposed, staff's recommended, or, if different, the Commission's approved rate increases, 1.5% of the total new rate must be added to the amount of the increase to include the effect of the Gross Receipts Tax. The Florida Legislature has authorized the Gross Receipts Tax to be unbundled from the basic rate. (See Stipulation 25, Issue 82) Current rates include 1.5% for Gross Receipts Tax, whereas the Company's proposed and staff's recommended rates do not. Therefore the tax must be added to show the accurate rate impact to the customer (see Table 88-1).

Specific rate changes as proposed by Centel and as recommended by staff are shown in Table 88-1 for local subscribers in the highest recommended rate group. These rates include the effect of the restructure and expansion of rate groups. a price out containing staff's recommended local rates is attached as Attachment 4 to this recommendation.

TABLE 88-1
COMPARISON OF R-1 RATES

RATE GROUPS		R-1 RATES			CUSTOMER IMPACT- CENTEL			CUSTOMER IMPACT-STAFF		
Present	Pro-posed	Current	Pro-posed	Staff Rec.	Diff.	1.5% GRT*	Total	Diff.	1.5% GRT*	Total
1	1	$4.50	$6.90	$5.85	$2.40	.10	2.50	1.35	.09	1.44
2	2	4.77	7.36	6.20	2.59	.11	2.70	1.43	.09	1.52
2	3	4.77	7.63	6.55	2.86	.11	2.97	1.78	.10	1.88
3	3	5.00	7.63	6.55	2.63	.11	2.74	1.55	.10	1.65
4	4	5.49	8.46	6.95	2.97	.13	3.10	1.46	.10	1.56
4	5	5.49	8.82	7.35	3.33	.13	3.46	1.86	.11	1.97
5	5	5.76	8.82	7.35	3.06	.13	3.19	1.59	.11	1.70
6	6	6.00	9.20	7.75	3.20	.14	3.34	1.75	.12	1.87
6	7	6.00	9.57	8.20	3.57	.14	3.71	2.20	.12	2.32
6	8	6.00	9.95	8.65	3.95	.15	4.10	2.65	.13	2.78

* The proposed and staff recommended rates exclude the Gross Receipts Tax. Current rates include 1.5% for Gross Receipts Tax. Thus proper customer impact must include an additional 1.5% of full rate.
Note: Shaded area is staff recommended.

TABLE 88-2
COMPARISON OF BASIC LOCAL EXCHANGES RATES IN HIGHEST RATE GROUP

	CURRENT	PROPOSED	STAFF RECOMMENDED
	RG6	RG8	RG8
R-1	$6.00	$9.95	$8.65
MR-1	N/A	5.97	5.19
MR-1 Usage	N/A	.10[1]	.10[1]
R-Rot	9.00	14.90	12.98
B-1	13.48	22.36	19.46
B-Rot.	20.22	33.58	29.19
B-PBX and DID	26.96	44.71	38.93
B-LD Trunk	8.09	22.36	19.46
Semi-Pub	10.12	22.36	19.46

Source: MFR SCH E-1A; Attachment 4.

[1] - Rate is per local message.

ISSUE 83: Does Centel's current bill format meet the Commission bill format requirements and guidelines?

RECOMMENDATION: No, but Centel has been granted an extension to March 1, 1991 to comply with the requirements for 900 billing, and will be in compliance then.

POSITION OF PARTIES

CENTEL: Central Telephone-Florida complies with all bill format requirements except for those specified in Docket No. 900737-TI.

AT&T-C, DGS, FPTA, McCAW & OPC: No position.

STAFF ANALYSIS: Central Telephone Company of Florida (Centel) currently meets the bill format requirements of Commission Rule 25-4.100, Florida Administrative Code and guidelines set by the Commission, except as required in Docket No. 900737-TI (Investigation into the Billing Requirement for the Provision of 900 Service [Gateway] by Interexchange Carriers.). The Company was granted an extension until March 1, 1991 to comply with Order No. 22741, which contains certain billing requirements for the provisioning of 900 service. Presently Centel's billing only includes the billing agent when the agent differs from the 900 provider. The Commission requires the customer's billing to show the name of the IXC providing the 900 service as well as the 900 program name.

AT&T-C, DGS, FPTA, McCaw and OPC had no position on this issue.

ISSUE 91: What should be contained in the bill stuffer to Centel customers announcing any rate changes?

RECOMMENDATION: The bill stuffer to Centel customer's should contain the following:

1) An overview of the case and a summary of the final order;

2) An explanation of the incentive plan, if approved;

3) Effective date of the rates and explanation of proration of local service charges;

4) Explanation of new service offerings and any other changes such as rate group restructure;

5) Summary of services for which rates have been adjusted (Current rates and approved rates listed side by side);

6) A statement that information on new rates is available from each of the Company's business offices and service centers;

7) An explanation of the application of the gross receipts tax;

8) Explanation of the credit for discontinuance or modification of service and how it may be obtained; and,

9) An explanation of any new services such as Optional Measured Residential Service, if approved.

Further, the bill stuffer should be submitted to staff for review prior to being mailed.

POSITION OF PARTIES

CENTEL: It is inappropriate at this time to attempt to detail the types of information which should be contained in any bill stuffer announcing any rate changes. The Company will work with staff to develop an appropriate bill stuffer once the Commission's decision is known.

AT&T-C, DGS, FPTA, McCAW & OPC: No position.

STAFF ANALYSIS: Central Telephone Company of Florida's (Centel) position is that it is premature to attempt to detail what should be contained in the bill stuffer to customers until the Commission's decision is known. Staff does not totally disagree with this position but believes the Commission should establish some guidelines as to generally what should be required in the stuffer. The other parties did not have a position on this issue.

The bill stuffer that is mailed to customers in the first bill following a final decision in this proceeding should contain basic information about the case and the results of the Commission's decision. If an incentive plan is approved, it should be explained. Although the bill stuffer cannot contain every change that might affect a particular customer, it should contain information that is common to a majority of customers, i.e., basic local rates, directory assistance charges, service charges, touch calling, etc. The bill stuffer should contain a comparison between the rates that were in effect prior to the rate case and those approved in the final order.

Since Centel has different billing dates, the bill stuffer should contain the effective date of the changes and an explanation of how local service charges are to be prorated.

If staff's recommendation in Issue 92 is approved, the bill stuffer should contain notification to the customer that requests for discontinuance or modification, if made on or before the due date of the bill, will enable the customer to receive credit for the rate increase portion of any charge back to the effective date of the increase.

The bill stuffer should contain an explanation of any new services such as optional residential message rate service, if approved. In addition, a summary of services for which rates have been adjusted should appear in the bill stuffer along with changes such as a rate group restructure. Also the bill stuffer should contain a statement that information on the new rates is available from each of Centel's business offices and service centers.

Finally, an explanation of the application of the gross receipts tax should be included which explains that the gross receipts will be billed separately.

The bill stuffer should be submitted to staff for review prior to being mailed.

ISSUE 92: What should be the effective date of any rate changes?

RECOMMENDATION: Revised tariffs should be filed five days after the final vote. The effective date should be five days after a complete set of correct tariffs have been filed. Billing should apply to all service received on or after the effective date even if it is not actually billed until the following month. Any customer requesting discontinuance of all or a portion of service prior to the due date of the first bill reflecting the increased rates should receive a credit back to the effective date of the rate increase for the increased amount.

POSITION OF PARTIES

CENTEL: If the Commission approves the pending tariff pages as filed, Central Telephone-Florida could submit final tariff pages within two days of a Commission order. Should rate design or other extensive changes be made by the Commission, the time required to produce tariff sheets would depend on the complexity of the changes.

AT&T-C, DGS, FPTA, McCAW & OPC: No position.

STAFF ANALYSIS: Central Telephone Company of Florida (Centel) witness Wahlen in response to staff's discovery stated "Central Telephone Florida could submit tariff pages based on its filing within two days of a Commission decision." Wahlen did qualify that should the Commission make rate design or other extensive changes, the time required would be dependent upon the complexity of the changes. (EXH 104, p. 29) None of the other parties took a position on this issue.

Staff believes that because of the recommended changes, the effective date should be five days after a complete set of correct tariffs has been filed. Revised tariffs should be filed within five days after the final vote. Before the tariffs become effective, time is required for the staff to review the tariffs to determine their compliance with the Commission's vote. Billing should apply to all service received on or after the effective date even if it is not actually billed until the following month. Any customer requesting discontinuance or modification of service prior to the effective date should receive a credit back to the effective date of the rate increase for the increased amount.

Company: Central Telephone Company of Florida
Docket No.: 891246-TL
Test Year: December 31, 1991

COMPARATIVE RATE BASES

SCHEDULE 1
11-Jan-91

LN NO	CO ADJ NO	ISSUE NO	DESCRIPTION	COMPANY FILING: REGULATED TOTAL COMPANY	COMPANY FILING: INTRASTATE PER BOOKS	COMPANY FILING: ADJUSTMENTS	COMPANY FILING: INTRASTATE ADJUSTED	STAFF RECOMMENDATION: ADJUSTMENTS	STAFF RECOMMENDATION: INTRASTATE ADJUSTED	CITIZEN'S POSITION: ADJUSTMENTS	CITIZEN'S POSITION: INTRASTATE ADJUSTED
1			PLANT IN SERVICE	$515,236,577	$386,463,428						
2			Company Adjustments								
3	2.		Equal Access			(307,428)					
4											
5											
6			Company position per filing			($307,428)	$386,156,000	($307,428)	$386,156,000	($307,431)	$386,155,997
7											
8			Other Adjustments								
9		2.	Plant in Service			0		(3,538,627)		0	
10											
11											
12			Total Other Adjustments			$0		($3,538,627)		$0	
13											
14											
15			Adjusted plant in service	$515,236,577	$386,463,428	($307,428)	$386,156,000	($3,846,055)	$382,617,373	($307,431)	$386,155,997
16											
17											
18											
19			DEPRECIATION RESERVE	($207,098,507)	($154,864,950)						
20			Company Adjustments								
21	2.		Equal Access			197,608					
22											
23											
24			Company position per filing			$197,608	($154,667,342)	$197,608	($154,667,342)	$197,607	($154,667,343)
25											
26			Other Adjustments								
27		3.	Adjustments to Depreciation Rsv.								
28			Plant Retirements			0		3,526,153		0	
29			Depreciation			1,928,351		1,928,351		0	
30											
31											
32			Total Other Adjustments			$1,928,351		$5,454,504		$0	
33											
34											
35			Adjusted depreciation reserve	($207,098,507)	($154,864,950)	$2,125,959	($152,738,991)	$5,652,112	($149,212,838)	$197,607	($154,667,343)
36											
37											
38											
39			NET PLANT IN SERVICE	$308,138,070	$231,598,478	$1,818,531	$233,417,009	$1,806,057	$233,404,535	($109,824)	$231,488,654
40											

Company: Central Telephone Company of Florida
Docket No.: 891246-TL
Test Year: December 31, 1991

COMPARATIVE RATE BASES

SCHEDULE 1
11-Jan-91

LN NO	CO ADJ NO	ISSUE NO	DESCRIPTION	COMPANY FILING REGULATED TOTAL COMPANY	COMPANY FILING INTRASTATE PER BOOKS	COMPANY FILING ADJUSTMENTS	COMPANY FILING INTRASTATE ADJUSTED	STAFF RECOMMENDATION ADJUSTMENTS	STAFF RECOMMENDATION INTRASTATE ADJUSTED	CITIZEN'S POSITION ADJUSTMENTS	CITIZEN'S POSITION INTRASTATE ADJUSTED
41			PLANT UNDER CONSTRUCTION								
42			Company position per filing	$805,962	$603,987		$603,987		$603,987		$603,987
43											
44											
45											
46			PROPERTY HELD FOR FUTURE USE								
47			Company position per filing	$0	$0		$0		$0		$0
48											
49											
50											
51			TELEPHONE ACQUISITION ADJUSTMENT								
52			Company position per filing	$0	$0		$0		$0		$0
53											
54											
55											
56			ALLOWANCE FOR WORKING CAPITAL								
57			Company position per filing	($1,286,001)	($842,088)	$0	($842,088)	$0	($842,088)	$0	($842,088)
58											
59			Other Adjustments								
60			6a. Unearned Revenue			0		0		(640,933)	
61			7a. Deferred Pension Costs			0		0		(2,134,204)	
62			7b. Directory Receivables			(1,016,974)		(1,016,974)		(1,016,973)	
63			7c. Unamortized Rate Case Expense			179,113		(1,090,941)		(1,090,941)	
64			7d. Amortization Adjustments			1,013,106		943,918		1,394,008	
65											
66											
67			Total Other Adjustments			$175,245		($1,163,997)		($3,489,043)	
68											
69											
70			Adjusted allowance for working capital	($1,286,001)	($842,088)	$175,245	($666,843)	($1,163,997)	($2,006,085)	($3,489,043)	($4,331,131)
71											

Company: Central Telephone Company of Florida
Docket No.: 891246-TL
Test Year: December 31, 1991

COMPARATIVE RATE BASES

SCHEDULE 1
11-Jan-91

LN NO	CO ADJ NO	ISSUE NO	DESCRIPTION	COMPANY FILING: REGULATED TOTAL COMPANY	COMPANY FILING: INTRASTATE PER BOOKS	COMPANY FILING: ADJUSTMENTS	COMPANY FILING: INTRASTATE ADJUSTED	STAFF RECOMMENDATION: ADJUSTMENTS	STAFF RECOMMENDATION: INTRASTATE ADJUSTED	CITIZEN'S POSITION: ADJUSTMENTS	CITIZEN'S POSITION: INTRASTATE ADJUSTED
72			TOTAL RATE BASE:								
73			Plant in Service	$515,236,577	$386,463,428	($307,428)	$386,156,000	($3,846,055)	$382,617,373	($307,431)	$386,155,997
74			Depreciation Reserve	(207,098,507)	(154,864,950)	2,125,959	(152,738,991)	5,652,112	(149,212,838)	197,607	(154,667,343)
75											
76											
77			Net Plant in Service	$308,138,070	$231,598,478	$1,818,531	$233,417,009	$1,806,057	$233,404,535	($109,824)	$231,488,654
78			Plant Under Construction	805,962	603,987	0	603,987	0	603,987	0	603,987
79			Property Held for Future Use	0	0	0	0	0	0	0	0
80			Telephone Acquisition Adjustment	0	0	0	0	0	0	0	0
81			Allowance for Working Capital	(1,286,001)	(842,088)	175,245	(666,843)	(1,163,997)	(2,006,085)	(3,489,043)	(4,331,131)
82											
83											
84			Total Rate Base	$307,658,031	$231,360,377	$1,993,776	$233,354,153	$642,060	$232,002,437	($3,598,867)	$227,761,510
85											

Company: Central Telephone Company of Florida
Docket No.: 891246-TL
Test Year: December 31, 1991

COMPARATIVE NET OPERATING INCOME

SCHEDULE 2
11-Jan-91

LN NO	CO ADJ NO	ISSUE NO	DESCRIPTION	COMPANY FILING				STAFF RECOMMENDATION		CITIZEN'S POSITION	
				COMBINED PER BOOKS	INTRASTATE PER BOOKS	ADJUSTMENTS	INTRASTATE ADJUSTED	ADJUSTMENTS	INTRASTATE ADJUSTED	ADJUSTMENTS	INTRASTATE ADJUSTED
1			OPERATING REVENUE:								
2											
3			BASIC LOCAL SERVICE REVENUE								
4			Company position per filing	$43,725,830	$43,725,830	$0	$43,725,830	$0	$43,725,830	$0	$43,725,830
5											
6			Other Adjustments								
7		15a.	Trunk Equivalency Charge			175,188		175,188		0	
8		95.	E-911 Services & MFR Schedule E-1a			0		1,513,494		0	
9											
10											
11			Total Other Adjustments			$175,188		$1,688,682		$0	
12											
13											
14			Adjusted Local Service	$43,725,830	$43,725,830	$175,188	$43,901,018	$1,688,682	$45,414,512	$0	$43,725,830
15											
16											
17											
18			INTRASTATE TOLL-INTERTERRITORY REVENUE								
19			Company position per filing	$75,427,977	$34,811,301	$0	$34,811,301	$0	$34,811,301	$0	$34,811,301
20											
21											
22											
23			INTRASTATE TOLL-INTRATERRITORY REVENUE								
24			Company position per filing	$19,876,025	$19,876,025	$0	$19,876,025	$0	$19,876,025	$0	$19,876,025
25											
26											
27			LOCAL MISCELLANEOUS REVENUE	$14,827,118	$12,449,151						
28			Company Adjustments								
29	1.		Directory Advertising			(1,047,444)					
30											
31											
32			Company position per filing			($1,047,444)	$11,401,707	($1,047,444)	$11,401,707	($1,047,444)	$11,401,707
33											
34			Other Adjustments								
35		15a.	Trunk Equivalency Charge			0		0		175,188	
36		95.	E-911 Services & MFR Schedule E-1a			0		0		206,960	
37											
38											
39			Total Other Adjustments			$0		$0		$382,148	
40											
41											
42			Adjusted local miscellaneous	$14,827,118	$12,449,151	($1,047,444)	$11,401,707	($1,047,444)	$11,401,707	($665,296)	$11,783,855
43											

Company: Central Telephone Company of Florida
Docket No.: 891246-TL
Test Year: December 31, 1991

COMPARATIVE NET OPERATING INCOME

SCHEDULE 2
11-Jan-91

LN NO	CO ADJ NO	ISSUE NO	DESCRIPTION	COMPANY FILING: COMBINED PER BOOKS	COMPANY FILING: INTRASTATE PER BOOKS	COMPANY FILING: ADJUSTMENTS	COMPANY FILING: INTRASTATE ADJUSTED	STAFF RECOMMENDATION: ADJUSTMENTS	STAFF RECOMMENDATION: INTRASTATE ADJUSTED	CITIZEN'S POSITION: ADJUSTMENTS	CITIZEN'S POSITION: INTRASTATE ADJUSTED
44			OPERATING REVENUE:								
45											
46			UNCOLLECTIBLES								
47			Company position per filing	($768,668)	($699,488)	$0	($699,488)	$0	($699,488)	$0	($699,488)
48											
49			Other Adjustments								
50		15a.	Trunk Equivalency Charge			0		0		(1,552)	
51		95.	E-911 Services & MFR Schedule E-1a			0		0		(1,833)	
52											
53											
54			Total Other Adjustments			$0		$0		($3,385)	
55											
56											
57			Adjusted local miscellaneous	($768,668)	($699,488)	$0	($699,488)	$0	($699,488)	($3,385)	($702,873)
58											
59											
60											
61											
62											
63			TOTAL OPERATING REVENUE:								
64			Basic Local Service Revenue	$43,725,830	$43,725,830	$175,188	$43,901,018	$1,688,682	$45,414,512	$0	$43,725,830
65			Intrastate Toll-Interterritory Revenue	75,427,977	34,811,301	0	34,811,301	0	34,811,301	0	34,811,301
66			Intrastate Toll-Intraterritory Revenue	19,876,025	19,876,025	0	19,876,025	0	19,876,025	0	19,876,025
67			Local Miscellaneous Revenue	14,827,118	12,449,151	(1,047,444)	11,401,707	(1,047,444)	11,401,707	(665,296)	11,783,855
68			Uncollectibles	(768,668)	(699,488)	0	(699,488)	0	(699,488)	0	(702,873)
69											
70											
71			Total Operating Revenues	$153,088,282	$110,162,819	($872,256)	$109,290,563	$641,238	$110,804,057	($665,296)	$109,494,138
72											

Company: Central Telephone Company of Florida
Docket No.: 891246-TL
Test Year: December 31, 1991

COMPARATIVE NET OPERATING INCOME

SCHEDULE 2
11-Jan-91

LN NO	CO ADJ NO	ISSUE NO	DESCRIPTION	COMPANY FILING				STAFF RECOMMENDATION		CITIZEN'S POSITION	
				COMBINED PER BOOKS	INTRASTATE PER BOOKS	ADJUSTMENTS	INTRASTATE ADJUSTED	ADJUSTMENTS	INTRASTATE ADJUSTED	ADJUSTMENTS	INTRASTATE ADJUSTED
73			OPERATING EXPENSES:								
74											
75			PLANT SPECIFIC OPERATION EXPENSE	$34,998,427	$26,124,786						
76			Company Adjustments								
77	8.		Corporate Transportation Expense			(495,622)					
78											
79											
80			Company position per filing			($495,622)	$25,629,164	($495,622)	$25,629,164	($495,623)	$25,629,164
81											
82			Other Adjustments								
83		23b.	COPRS Costs versus Savings			0		0		(544,970)	
84		23f.	Okaloosa County Fiber Span Lease			(151,195)		(151,195)		(151,195)	
85											
86											
87			Total Other Adjustments			($151,195)		($151,195)		($696,165)	
88											
89											
90			Adjusted Plant Specific Operation	$34,998,427	$26,124,786	($646,817)	$25,477,969	($646,817)	$25,477,969	($1,191,788)	$24,932,998
91											
92											
93											
94			PLANT NON-SPECIFIC OPERATION EXPENSE	$14,945,101	$11,944,947						
95			Company Adjustments								
96	5.		Social Club Dues and Expenses			(1,217)					
97											
98											
99			Company position per filing			($1,217)	$11,943,730	($1,217)	$11,943,730	($1,217)	$11,943,730
100											
101			Other Adjustments								
102		23b.	COPRS Costs versus Savings			(544,970)		(544,970)		0	
103											
104											
105			Total Other Adjustments			($544,970)		($544,970)		$0	
106											
107											
108			Adjusted plant non-specific operation	$14,945,101	$11,944,947	($546,187)	$11,398,760	($546,187)	$11,398,760	($1,217)	$11,943,730
109											

Company: Central Telephone Company of Florida
Docket No.: 891246-TL
Test Year: December 31, 1991

COMPARATIVE NET OPERATING INCOME

SCHEDULE 2
11-Jan-91

LN NO	CO ADJ NO	ISSUE NO	DESCRIPTION	COMPANY FILING: COMBINED PER BOOKS	COMPANY FILING: INTRASTATE PER BOOKS	COMPANY FILING: ADJUSTMENTS	COMPANY FILING: INTRASTATE ADJUSTED	STAFF RECOMMENDATION: ADJUSTMENTS	STAFF RECOMMENDATION: INTRASTATE ADJUSTED	CITIZEN'S POSITION: ADJUSTMENTS	CITIZEN'S POSITION: INTRASTATE ADJUSTED
110			OPERATING EXPENSES:								
111											
112			DEPRECIATION AND AMORTIZATION	$33,804,428	$25,509,768						
113			Company Adjustments								
114	2.		Equal Access			(51,033)					
115											
116											
117			Company position per filing			($51,033)	$25,458,735	($51,033)	$25,458,735	($51,033)	$25,458,735
118											
119			Other Adjustments								
120		24.	Test Year Depreciation Expense			(1,594,673)		(1,607,147)		(1,494,673)	
121											
122											
123			Total Other Adjustments			($1,594,673)		($1,607,147)		($1,494,673)	
124											
125											
126			Adjusted Depreciation and Amortization	$33,804,428	$25,509,768	($1,645,706)	$23,864,062	($1,658,180)	$23,851,588	($1,545,706)	$23,964,062
127											
128											
129											
130			CUSTOMER OPERATIONS EXPENSE	$20,668,411	$15,364,793						
131			Company Adjustments								
132	5.		Social Club Dues and Expenses			(337)					
133											
134											
135			Company position per filing			($337)	$15,364,456	($337)	$15,364,456	($337)	$15,364,456
136											
137			Other Adjustments								
138		23.	Pay Phone Change-out Nonrecur.			0		0		(67,359)	
139		23a.	Data/Acctg Center Consolidation			(179,548)		(179,548)		(179,548)	
140											
141											
142			Total Other Adjustments			($179,548)		($179,548)		($246,907)	
143											
144											
145			Adjusted Customer Operations	$20,668,411	$15,364,793	($179,885)	$15,184,908	($179,885)	$15,184,908	($247,244)	$15,117,549
146											

Company: Central Telephone Company of Florida
Docket No.: 891246-TL
Test Year: December 31, 1991

COMPARATIVE NET OPERATING INCOME

SCHEDULE 2
11-Jan-91

LN NO	CO ADJ NO	ISSUE NO	DESCRIPTION	COMPANY FILING: COMBINED PER BOOKS	COMPANY FILING: INTRASTATE PER BOOKS	COMPANY FILING: ADJUSTMENTS	COMPANY FILING: INTRASTATE ADJUSTED	STAFF RECOMMENDATION: ADJUSTMENTS	STAFF RECOMMENDATION: INTRASTATE ADJUSTED	CITIZEN'S POSITION: ADJUSTMENTS	CITIZEN'S POSITION: INTRASTATE ADJUSTED
147			OPERATING EXPENSES:								
148											
149			CORPORATE OPERATIONS	$20,410,143	$15,237,294						
150			Company Adjustments								
151	3.		Image Advertising			(842,826)					
152	5.		Social Club Dues and Expenses			(25,057)					
153	6.		Centel Classic/Western Open			(218,579)					
154	7.		Legislative Monitoring			(229,061)					
155	9.		Rate Case Expense			362,873					
156											
157											
158			Company position per filing			($952,650)	$14,284,644	($952,650)	$14,284,644	($952,649)	$14,284,645
159											
160			Other Adjustments								
161		22.	Rate Case Expense			0		0		(75,962)	
162		23c.	Post Retirement Benefits			0		0		(978,050)	
163		23d.	Accrued Bonuses			0		(1,050,327)		(1,061,438)	
164		23e.	IDCP and Stock Option Expense			0		(517,996)		(521,798)	
165		23g.	Arthur Anderson Fees			(82,313)		(97,948)		(95,792)	
166		23h.	Miscellaneous Budget Items			(174,582)		(160,578)		(164,400)	
167		23i.	Pension Credit			(32,425)		(32,425)		(32,425)	
168		23k.	AA Proposed Adjustments			111,323		111,324		(16,869)	
169		23l.	Budget Changes			(55,226)		(422,054)		(432,394)	
170		23m.	Corporate Philanthropy			(11,155)		(11,155)		(11,155)	
171		23n.	Employee Relocation			0		(17,141)		0	
172		23o.	Salary Expense			0		(355,028)		(358,202)	
173		28a.	Corporate Allocation Factor			0		(296,005)		(296,005)	
174		28b.	IDCP Information System			(34,373)		(34,373)		(34,373)	
175		28c.	Special Executive Compensation			0		(19,403)		(51,669)	
176		28d.	Exception Time Reporting			(87,246)		(81,986)		(92,043)	
177		28e.	Corporate Community Relations			(133,652)		(115,901)		(125,706)	
178		28f.	Aircraft Insurance			(8,239)		(8,239)		0	
179											
180											
181			Total Other Adjustments			($507,888)		($3,109,235)		($4,348,281)	
182											
183											
184			Adjusted Corporate Operations	$20,410,143	$15,237,294	($1,460,538)	$13,776,756	($4,061,885)	$11,175,409	($5,300,930)	$9,936,364
185											

Company: Central Telephone Company of Florida
Docket No.: 891246-TL
Test Year: December 31, 1991

COMPARATIVE NET OPERATING INCOME

SCHEDULE 2
11-Jan-91

LN NO	CO ADJ NO	ISSUE NO	DESCRIPTION	COMPANY FILING: COMBINED PER BOOKS	COMPANY FILING: INTRASTATE PER BOOKS	COMPANY FILING: ADJUSTMENTS	COMPANY FILING: INTRASTATE ADJUSTED	STAFF RECOMMENDATION: ADJUSTMENTS	STAFF RECOMMENDATION: INTRASTATE ADJUSTED	CITIZEN'S POSITION: ADJUSTMENTS	CITIZEN'S POSITION: INTRASTATE ADJUSTED
186			OPERATING EXPENSES:								
187											
188			OTHER INCOME AND EXPENSE								
189			Company position per filing	$0	$0	$0	$0	$0	$0	$0	$0
190											
191											
192											
193			TOTAL OPERATING EXPENSE:								
194			Plant Specific Operation Expense	$34,998,427	$26,124,786	($646,817)	$25,477,969	($646,817)	$25,477,969	($1,191,788)	$24,932,998
195			Plant Non-Specific Operation Expense	14,945,101	11,944,947	(546,187)	11,398,760	(546,187)	11,398,760	(1,217)	11,943,730
196			Customer Operations Expense	20,668,411	15,364,793	(179,885)	15,184,908	(179,885)	15,184,908	(247,244)	15,117,549
197			Corporate Operations Expense	20,410,143	15,237,294	(1,460,538)	13,776,756	(4,061,885)	11,175,409	(5,300,930)	9,936,364
198			Other Income and Expense	0	0	0	0	0	0	0	0
199											
200											
201			Operating Expense	$91,022,082	$68,671,820	($2,833,427)	$65,838,393	($5,434,774)	$63,237,046	($6,741,179)	$61,930,641
202			Depreciation and Amortization	33,804,428	25,509,768	(1,645,706)	23,864,062	(1,658,180)	23,851,588	(1,545,706)	23,964,062
203											
204											
205			Total Operating Expense	$124,826,510	$94,181,588	($4,479,133)	$89,702,455	($7,092,954)	$87,088,634	($8,286,885)	$85,894,703
206											
207											
208											
209			OPERATING TAXES:								
210											
211			OTHER OPERATING TAXES	$6,732,626	$5,284,623						
212			Company Adjustments								
213	4.		Gross Receipts Tax			(790,630)					
214											
215											
216			Company position per filing			($790,630)	$4,493,993	($790,630)	$4,493,993	($790,630)	$4,493,993
217											
218			Other Adjustments								
219		25.	Test Year Taxes Other Than Income			27,541		27,541		27,541	
220											
221											
222			Total Other Adjustments			$27,541		$27,541		$27,541	
223											
224											
225			Adjusted other operating taxes	$6,732,626	$5,284,623	($763,089)	$4,521,534	($763,089)	$4,521,534	($763,089)	$4,521,534
226											

Company: Central Telephone Company of Florida
Docket No.: 891246-TL
Test Year: December 31, 1991

COMPARATIVE NET OPERATING INCOME

SCHEDULE 2
11-Jan-91

LN NO	CO ADJ NO	ISSUE NO	DESCRIPTION	COMPANY FILING				STAFF RECOMMENDATION		CITIZEN'S POSITION	
				COMBINED PER BOOKS	INTRASTATE PER BOOKS	ADJUSTMENTS	INTRASTATE ADJUSTED	ADJUSTMENTS	INTRASTATE ADJUSTED	ADJUSTMENTS	INTRASTATE ADJUSTED
227	OPERATING TAXES:										
228											
229	STATE INCOME TAXES			$1,019,532	$470,629						
230	Company Adjustments										
231	1.		Directory Advertising			(57,609)					
232	2.		Equal Access			2,807					
233	3.		Image Advertising			46,355					
234	4.		Gross Receipts Tax			43,485					
235	5.		Social Club Dues and Expenses			1,464					
236	6.		Centel Classic/Western Open			12,022					
237	7.		Legislative Monitoring			12,598					
238	8.		Corporate Transportation Expense			27,259					
239	9.		Rate Case Expense			(19,958)					
240	10.		Interest Synchronization			1,563					
241	12.		Interest Expense on JDIC			(7,857)					
242											
243											
244	Company position per filing					$62,129	$532,758	$62,129	$532,758	$53,868	$524,497
245											

Company: Central Telephone Company of Florida
Docket No.: 891246-TL
Test Year: December 31, 1991

COMPARATIVE NET OPERATING INCOME

SCHEDULE 2
11-Jan-91

LN NO	CO ADJ NO	ISSUE NO	DESCRIPTION	COMPANY FILING COMBINED PER BOOKS	COMPANY FILING INTRASTATE PER BOOKS	COMPANY FILING ADJUSTMENTS	COMPANY FILING INTRASTATE ADJUSTED	STAFF RECOMMENDATION ADJUSTMENTS	STAFF RECOMMENDATION INTRASTATE ADJUSTED	CITIZEN'S POSITION ADJUSTMENTS	CITIZEN'S POSITION INTRASTATE ADJUSTED
246			OPERATING TAXES:								
247											
248			STATE INCOME TAXES								
249			Company position per filing			$62,129	$532,758	$62,129	$532,758	$53,868	$524,497
250											
251			Other Adjustments								
252	27.	15a.	Trunk Equivalency Charge			9,635		9,635		9,550	
253	27.	95.	E-911 Services & MFR Schedule E-1a			0		83,242		11,282	
254	27.	22.	Rate Case Expense			0		0		4,178	
255	27.	23.	Pay Phone Change-out Nonrecur.			0		0		3,705	
255	27.	23a.	Data/Acctg Center Consolidation			9,875		9,875		9,875	
256	27.	23b.	COPRS Costs versus Savings			29,973		29,973		29,973	
257	27.	23c.	Post Retirement Benefits			0		0		53,793	
258	27.	23d.	Accrued Bonuses			0		57,768		58,379	
259	27.	23e.	IDCP and Stock Option Expense			0		28,490		28,699	
260	27.	23f.	Okaloosa County Fiber Span Lease			8,316		8,316		8,316	
261	27.	23g.	Arthur Anderson Fees			4,527		5,387		5,269	
262	27.	23h.	Miscellaneous Budget Items			9,602		8,832		9,042	
263	27.	23i.	Pension Credit			1,783		1,783		1,783	
264	27.	23k.	AA Proposed Adjustments			(6,123)		(6,123)		928	
265	27.	23l.	Budget Changes			3,037		23,213		23,782	
266	27.	23m.	Corporate Philanthropy			614		614		613	
267	27.	23n.	Employee Relocation			0		943		0	
268	27.	23o.	Salary Expense			0		19,527		19,701	
269	27.	24.	Test Year Depreciation Expense			87,707		88,393		82,207	
270	27.	25.	Test Year Taxes Other Than Income			(1,515)		(1,515)		(1,515)	
271	27.		Interest Synchronization			(3,079)		(40,935)		(50,782)	
272	27.	28a.	Corporate Allocation Factor			0		16,280		16,280	
273	27.	28b.	IDCP Information System			1,891		1,891		1,890	
274	27.	28c.	Special Executive Compensation			0		1,067		2,842	
275	27.	28d.	Exception Time Reporting			4,799		4,509		5,062	
276	27.	28e.	Corporate Community Relations			7,351		6,375		6,914	
277	27.	28f.	Aircraft Insurance			453		453		0	
278											
279											
280			Total Other Adjustments			$168,846		$357,993		$341,766	
281											
282											
283			Adjusted state income taxes	$1,019,532	$470,629	$230,975	$701,604	$420,122	$890,751	$395,634	$866,263
284											

Company: Central Telephone Company of Florida
Docket No.: 891246-TL
Test Year: December 31, 1991

COMPARATIVE NET OPERATING INCOME

SCHEDULE 2
11-Jan-91

LN NO	CO ADJ NO	ISSUE NO	DESCRIPTION	COMPANY FILING				STAFF RECOMMENDATION		CITIZEN'S POSITION	
				COMBINED PER BOOKS	INTRASTATE PER BOOKS	ADJUSTMENTS	INTRASTATE ADJUSTED	ADJUSTMENTS	INTRASTATE ADJUSTED	ADJUSTMENTS	INTRASTATE ADJUSTED
285			OPERATING TAXES:								
286											
287			FEDERAL INCOME TAXES	$1,724,068	($338,086)						
288			Company Adjustments								
289	1.		Directory Advertising			(336,544)					
290	2.		Equal Access			16,397					
291	3.		Image Advertising			270,800					
292	4.		Gross Receipts Tax			254,029					
293	5.		Social Club Dues and Expenses			8,550					
294	6.		Centel Classic/Western Open			70,229					
295	7.		Legislative Monitoring			73,597					
296	8.		Corporate Transportation Expense			159,243					
297	9.		Rate Case Expense			(116,591)					
298	10.		Interest Synchronization			9,132					
299	11.		Impact of Parent Co. Interest			(624,205)					
300	12.		Interest Expense on JDIC			(45,900)					
301											
302											
303			Company position per filing			($261,263)	($599,349)	($261,263)	($599,349)	($300,549)	($638,635)
304											

Company: Central Telephone Company of Florida
Docket No.: 891246-TL
Test Year: December 31, 1991

COMPARATIVE NET OPERATING INCOME

SCHEDULE 2
11-Jan-91

LN NO	CO ADJ NO	ISSUE NO	DESCRIPTION	COMPANY FILING COMBINED PER BOOKS	COMPANY FILING INTRASTATE PER BOOKS	COMPANY FILING ADJUSTMENTS	COMPANY FILING INTRASTATE ADJUSTED	STAFF RECOMMENDATION ADJUSTMENTS	STAFF RECOMMENDATION INTRASTATE ADJUSTED	CITIZEN'S POSITION ADJUSTMENTS	CITIZEN'S POSITION INTRASTATE ADJUSTED
305			OPERATING TAXES:								
306											
307			FEDERAL INCOME TAXES								
308			Company position per filing			($261,263)	($599,349)	($261,263)	($599,349)	($300,549)	($638,635)
309											
310											
311			Other Adjustments								
312	27.	15a.	Trunk Equivalency Charge			56,288		56,288		55,789	
313	27.	95.	E-911 Services & MFR Schedule E-1a			0		486,286		65,907	
314	27.	22.	Rate Case Expense			0		0		24,407	
315	27.	23.	Pay Phone Change-out Nonrecur.			0		0		21,642	
316	27.	23a.	Data/Acctg Center Consolidation			(3,358)		57,689		57,689	
317	27.	23b.	COPRS Costs versus Savings			175,099		175,099		175,099	
318	27.	23c.	Post Retirement Benefits			0		0		314,247	
319	27.	23d.	Accrued Bonuses			0		337,470		341,040	
320	27.	23e.	IDCP and Stock Option Expense			0		166,432		167,654	
321	27.	23f.	Okaloosa County Fiber Span Lease			48,579		48,579		48,579	
322	27.	23g.	Arthur Anderson Fees			26,447		31,471		30,778	
323	27.	23h.	Miscellaneous Budget Items			56,093		51,594		52,822	
324	27.	23i.	Pension Credit			10,418		10,418		10,418	
325	27.	23k.	AA Proposed Adjustments			(185,532)		(185,533)		(138,090)	
326	27.	23l.	Budget Changes			17,744		135,606		138,928	
327	27.	23m.	Corporate Philanthropy			3,584		3,584		3,584	
328	27.	23n.	Employee Relocation			0		5,507		0	
329	27.	23o.	Salary Expense			0		114,070		115,090	
330	27.	24.	Test Year Depreciation Expense			512,368		516,376		480,239	
331	27.	25.	Test Year Taxes Other Than Income			(8,849)		(8,849)		(8,849)	
332		26.	Parent Debt			(5,678)		624,205		0	
333		27.	Interest Synchronization			(17,982)		(239,135)		(296,660)	
334	27.	28a.	Corporate Allocation Factor			0		95,107		95,107	
335	27.	28b.	IDCP Information System			11,044		11,044		11,044	
336	27.	28c.	Special Executive Compensation			0		6,234		16,601	
337	27.	28d.	Exception Time Reporting			28,032		26,342		29,574	
338	27.	28e.	Corporate Community Relations			42,942		37,239		40,389	
339	27.	28f.	Aircraft Insurance			2,647		2,647		0	
340											
341											
342			Total Other Adjustments			$769,886		$2,565,770		$1,853,028	
343											
344											
345			Adjusted Federal Income Taxes	$1,724,068	($338,086)	$508,623	$170,537	$2,304,507	$1,966,421	$1,552,479	$1,214,393
346											

Company: Central Telephone Company of Florida
Docket No.: 891246-TL
Test Year: December 31, 1991

COMPARATIVE NET OPERATING INCOME

SCHEDULE 2
11-Jan-91

LN NO	CO ADJ NO	ISSUE NO	DESCRIPTION	COMPANY FILING				STAFF RECOMMENDATION		CITIZEN'S POSITION	
				COMBINED PER BOOKS	INTRASTATE PER BOOKS	ADJUSTMENTS	INTRASTATE ADJUSTED	ADJUSTMENTS	INTRASTATE ADJUSTED	ADJUSTMENTS	INTRASTATE ADJUSTED
347			TOTAL OPERATING TAXES:								
348			State Income Taxes	$1,019,532	$470,629	$230,975	$701,604	$420,122	$890,751	$395,634	$866,263
349			Federal Income Taxes	1,724,068	(338,086)	508,623	170,537	2,304,507	1,966,421	1,552,479	1,214,393
350											
351											
352			Total Income Taxes	$2,743,600	$132,543	$739,598	$872,141	$2,724,629	$2,857,172	$1,948,113	$2,080,656
353			Other Operating Taxes	6,732,626	5,284,623	(763,089)	4,521,534	(763,089)	4,521,534	(763,089)	4,521,534
354											
355											
356			Total Operating Taxes	$9,476,226	$5,417,166	($23,491)	$5,393,675	$1,961,540	$7,378,706	$1,185,024	$6,602,190
357											
358											
359											
360											
361											
362			NET OPERATING INCOME:								
363			Operating Revenue	$153,088,282	$110,162,819	($872,256)	$109,290,563	$641,238	$110,804,057	($665,296)	$109,494,138
364			Operating Expenses	(91,022,082)	(68,671,820)	2,833,427	(65,838,393)	5,434,774	(63,237,046)	6,741,179	(61,930,641)
365			Depreciation and Amortization	(33,804,428)	(25,509,768)	1,645,706	(23,864,062)	1,658,180	(23,851,588)	1,545,706	(23,964,062)
366			Operating Taxes	(9,476,226)	(5,417,166)	23,491	(5,393,675)	(1,961,540)	(7,378,706)	(1,185,024)	(6,602,190)
367											
368											
369			Net operating income	$18,785,546	$10,564,065	$3,630,368	$14,194,433	$5,772,652	$16,336,717	$6,436,565	$16,997,245
370											

Company: Central Telephone Company of Florida
Docket No.: 891246-TL
Test Year: December 31, 1991

CALCULATION OF O&M BENCHMARK ADUSTMENT

SCHEDULE 3
11-Jan-91

LN NO	DESCRIPTION	PLANT SPECIFIC EXPENSE	PLANT NON-SPECIFIC EXPENSE	CUSTOMER OPERATIONS EXPENSE	CORPORATE OPERATIONS EXPENSE	OTHER INCOME AND EXPENSE	TOTAL EXPENSE
1	Total company test year expenses per books	$34,998,427	$14,945,101	$20,668,411	$20,410,143	$0	$91,022,082
2							
3							
4	Base year adjusted O&M expenses	$25,254,467	$12,780,366	$21,048,450	$13,241,026	$0	$72,324,309
5	Growth factor	1.4162	1.4162	1.4162	1.4162	1.4162	1.4162
6							
7							
8	O&M benchmark	$35,766,481	$18,100,114	$29,809,736	$18,752,520	$0	$102,428,851
9							
10							
11	Differences to be justified	($768,054)	($3,155,013)	($9,141,325)	$1,657,623	$0	($11,406,769)
12	Separations factor	0.746456	0.799255	0.743395	0.746555	1.000000	0.758592
13							
14							
15	Intrastate amount to be justified	($573,319)	($2,521,660)	($6,795,615)	$1,237,507	$0	($8,653,087)
16	Company adjustments	(646,817)	(546,187)	(179,885)	(952,650)	0	(2,325,539)
17							
18							
19	Adjusted intrastate per company	($1,220,136)	($3,067,847)	($6,975,500)	$284,857	$0	($10,978,626)
20	Staff adjustments	0	(546,187)	0	(4,061,885)	0	(4,608,072)
21							
22							
23	Adjusted intrastate per staff	($1,220,136)	($3,614,034)	($6,975,500)	($3,777,028)	$0	($15,586,698)
24	Amount justified	0	0	0	0	0	0
25							
26							
27	Excess O&M expenses	$0	$0	$0	$0	$0	$0
28							

Company: Central Telephone Company of Florida
Docket No.: 891246-TL
Test Year: December 31, 1991

STAFF RECONCILIATION OF AVERAGE RATE BASE AND AVERAGE CAPITAL STRUCTURE

SCHEDULE 4
11-Jan-91
PAGE 1 OF 2

LN NO	CO ADJ NO	ISSUE NO	DESCRIPTION	LONG-TERM DEBT	SHORT-TERM DEBT	CUSTOMER DEPOSITS	COMMON EQUITY	TAX CREDITS WEIGHTED COST	DEFERRED INCOME TAXES	TOTAL CAPITAL
1			Total Company per Books (MFR B-3a)	$88,028,542	$4,779,884	$833,861	$154,055,097	$5,588,531	$60,122,986	$313,408,901
2										
3										
4			Specific Adjustments							
5	2.		Equal Access	(51,927)	(2,820)	(492)	(90,875)	0	0	(146,114)
6		2.	Plant in Service	(1,658,015)	(90,029)	(15,706)	(2,901,623)	0	0	(4,665,373)
7		3.	Adjustments to Depreciation Rsv.							
8			Plant Retirements	1,651,267	89,663	15,642	2,889,814	0	0	4,646,386
9			Depreciation	565,854	30,726	5,360	990,278	0	986,536	2,578,754
10		7b.	Directory Receivables	(292,112)	(15,862)	(2,767)	(511,213)	0	0	(821,954)
11		7c.	Unamortized Rate Case Expense	(323,039)	(17,541)	(3,060)	(565,337)	0	(542,514)	(1,451,491)
12		7d.	Amortization Adjustments	328,306	17,827	3,110	574,556	0	517,712	1,441,511
13		13.	Non-Utility Investment	0	0	0	(5,750,870)	0	0	(5,750,870)
14		13.	Taxes Related to Nonreg Oprns	0	0	0	(82,408)	0	82,408	0
15										
16										
17			Total Adjustments	$220,334	$11,964	$2,087	($5,447,678)	$0	$1,044,142	($4,169,151)
18										
19										
20			Adjusted Capital per Books	$88,248,876	$4,791,848	$835,948	$148,607,419	$5,588,531	$61,167,128	$309,239,750
21			Interstate Capital	(22,374,090)	(1,214,897)	(211,941)	(37,677,033)	(1,400,491)	(14,358,861)	(77,237,313)
22										
23										
24			Intrastate Capital	$65,874,786	$3,576,951	$624,007	$110,930,386	$4,188,040	$46,808,267	$232,002,437
25			Reduce Equity Ratio	7,694,757	417,819	0	(8,112,576)	0	0	0
26										
27										
28			Jurisdictional capital structure	$73,569,543	$3,994,770	$624,007	$102,817,810	$4,188,040	$46,808,267	$232,002,437
29										
30										
31										
32			Ratio of Overall Capital	31.71%	1.72%	0.27%	44.32%	1.81%	20.17%	100.00%
33										
34										
35										
36			Ratio of Investor Capital	40.79%	2.21%		57.00%			100.00%
37										

Company: Central Telephone Company of Florida
Docket No.: 891246-TL
Test Year: December 31, 1991

COMPARITIVE COST OF CAPITAL POSITIONS

SCHEDULE 4
15-Jan-91
Page 2 of 2

LN NO	COMPONENT	COMPANY POSITION AMOUNT	COMPANY POSITION RATIO	COMPANY POSITION COST RATE	COMPANY POSITION WEIGHTED COST	STAFF RECOMMENDATION AMOUNT	STAFF RECOMMENDATION RATIO	STAFF RECOMMENDATION COST RATE	STAFF RECOMMENDATION WEIGHTED COST
1	Long Term Debt (MFR D-1)	$64,316,412	27.68%	9.08%	2.51%	73,569,543	31.71%	9.08%	2.88%
2	Short Term Debt	3,492,333	1.50%	9.00%	0.14%	3,994,770	1.72%	9.00%	0.15%
3	Customer Deposits	623,990	0.27%	7.64%	0.02%	624,007	0.27%	7.64%	0.02%
4	Common Equity	112,557,483	48.44%	14.50%	7.02%	102,817,810	44.32%	12.70%	5.63%
5	Deferred ITC - Weighted Cost	4,188,040	1.81%	12.46%	0.23%	4,188,040	1.81%	11.14%	0.20%
6									
7	Long Term Debt Portion	1,493,404	0.64%	9.08%	0.06%	1,708,108	0.74%	9.08%	0.07%
8	Short Term Debt Portion	81,091	0.04%	9.00%	0.00%	92,749	0.04%	9.00%	0.00%
9	Equity Portion	2,613,545	1.13%	14.50%	0.17%	2,387,183	1.03%	12.70%	0.13%
10									
11	Accumulated Deferred Income Taxes	47,163,156	20.30%		0.00%	46,808,267	20.17%		0.00%
12									
13									
14	Total Capital	$232,341,414	100.00%		9.92%	$232,002,437	100.00%		8.88%
15									
16									
17									
18									
19									
20									
21	COMPONENT	CITIZEN'S POSITION AMOUNT	CITIZEN'S POSITION RATIO	CITIZEN'S POSITION COST RATE	CITIZEN'S POSITION WEIGHTED COST				
22									
23	Long Term Debt	72,453,182	31.81%	9.08%	2.89%				
24	Short Term Debt	3,934,131	1.73%	9.00%	0.16%				
25	Customer Deposits	614,575	0.27%	7.64%	0.02%				
26	Common Equity	101,257,600	44.46%	12.15%	5.40%				
27	Deferred ITC - Weighted Cost	4,124,852	1.81%	10.88%	0.20%				
28									
29	Long Term Debt Portion	1,720,438	0.75%	9.08%	0.07%				
30	Short Term Debt Portion	0	0.00%	9.00%	0.00%				
31	Equity Portion	2,404,414	1.06%	12.15%	0.13%				
32									
33	Accumulated Deferred Income Taxes	45,377,172	19.92%		0.00%				
34									
35									
36		$227,761,512	100.00%		8.67%				
37									

Company: Central Telephone Company of Florida
Docket No.: 891246-TL
Test Year: December 31, 1991

COMPUTATION OF THE REVENUE EXPANSION FACTOR

SCHEDULE 5
11-Jan-91

LN NO	DESCRIPTION (1)	COMPANY FILING (2) RATE	COMPANY FILING (3) AMOUNT	STAFF RECOMMENDATION (4) RATE	STAFF RECOMMENDATION (5) AMOUNT	CITIZEN'S POSITION (6) RATE	CITIZEN'S POSITION (7) AMOUNT
1	Revenue Requirement		1.00000000		1.000000		1.000000
3	Uncollectible Percent of Revenues (MFR C-13)						
4	Local Uncollectibles	(321,764)		(321,764)		(321,764)	
5	Local Revenue	43,725,839		43,725,839		43,725,839	
8	Percent	-0.735867%	-0.00735867	-0.7359%	-0.007359	-0.7359%	-0.007359
11	Revenue Before Gross Reciepts Tax		0.99264133		0.992641		0.992641
13	Gross Reciepts Tax	0.000000%	0.00000000	0.0000%	0.000000	0.0000%	0.000000
15	Regulatory Assessment Fee	0.150000%	0.00150000	0.1500%	0.001500	0.1500%	0.001500
17	Franchise Fees	0.000000%	0.00000000	0.0000%	0.000000	0.0000%	0.000000
20	Net Before Income Taxes		0.99114133		0.991141		0.991141
22	State Income Tax	5.500000%	0.05451277	5.5000%	0.054513	5.5000%	0.054513
25	Net Before Federal Income Taxes		0.93662856		0.936629		0.936629
27	Federal Income Tax	34.000000%	0.31845371	34.0000%	0.318454	34.0000%	0.318454
30	Net Operating Income		0.61817484		0.618175		0.618175
34	Net Operating Income Multiplier		1.617665		1.617665		1.617665

Company: Central Telephone Company of Florida
Docket No.: 891246-TL
Test Year: December 31, 1991

COMPARATIVE REVENUE REQUIREMENTS

SCHEDULE 6
11-Jan-91

LN NO	DESCRIPTION (1)	COMPANY FILING (2)	(3)	STAFF RECOMMENDATION (4)	(5)	CITIZEN'S POSITION (6)	(7)
1	Adjusted Intrastate Rate Base	$233,354,153		$232,002,437		$227,761,512	
2							
3	Required Rate of Return	9.96%		8.88%		8.67%	
4							
5							
6	Required Net Operating Income		$23,252,269		$20,601,816		$19,746,923
7							
8	Adjusted Achieved Test Year						
9	Intrastate Net Operating Income		14,194,433		16,336,717		17,007,244
10							
11							
12	Intrastate NOI Deficiency (Excess)		$9,057,836		$4,265,099		$2,739,679
13							
14	Revenue Expansion Factor		1.617665		1.617665		1.617665
15							
16							
17	Revenue Increase (Decrease) - Test Year		$14,652,544		$6,899,501		$4,431,883
18							
19	Attrition Allowance		0		0		0
20							
21							
22	Total Revenue Increase (Decrease)		$14,652,544		$6,899,501		$4,431,883
23							
24							
25	Previous Revenue Increase				$1,142,672		
26							
27							
28	Revenue Effect of Adjustment				$5,756,829		
29							

Central Telephone Company of Florida
Docket No. 891246-TL Test Year 1991
REVENUE DISTRIBUTION COMPARISON BY ISSUE

			COMPANY PROPOSED				STAFF RECOMMENDED			
Issue Number	Issue Description	Tariff Section	1991 Revenues Current	1991 Revenues Proposed	Revenue Amount	Effect Percent	1991 Revenues: Recommended	Revenue Amount	Effect Percent	Revenue Effect: Staff v. Company
34	Projected Units				NA	NA		NA	NA	
35	General Approach to Changing Rates				NA	NA		NA	NA	
36	Deleted									
37	Deleted									
38	Employee Concessions - Billing Units	A2			NA	NA		NA	NA	
39	Directory Assistance	A3	$987,810	$987,810	$0	0.0%	$1,382,934	$395,124	40.0%	$395,124
40	Local Operator Services	A3	463,455	463,455	0	0.0%	463,455	0	0.0%	0
41	Directory Listings	A6	715,309	946,855	231,545	32.4%	946,855	231,545	32.4%	0
42	Custom Calling Features	A13/113	4,290,496	4,950,808	660,312	15.4%	4,950,808	660,312	15.4%	0
43	Deleted				NA	NA		NA	NA	
44	Miscellaneous Service Arrangements:									
	Extension Line Mileage		Included in Issue 58				Included in Issue 58			
	Tie Line Rates		Included in Issue 58				Included in Issue 58			
45	Deleted				NA	NA		NA	NA	
46	Touch Calling	A13	1,945,776	2,402,097	456,321	23.5%	1,825,284	(120,492)	-6.2%	(576,813)
47	Charges - Special Conditions	A5	422,359	422,359	0	0.0%	422,359	0	0.0%	0
48	Deleted									
49	Semi-Public	A3/7	Included in Issue 88				Included in Issue 88			
	Auxiliary Equipment:	A14/114								
50	TDD Equipment (stip.)		13,997	13,997	0	0.0%	13,997	0	0.0%	0
51	Weatherproof Jack Equipment (stip.)		923	923	0	0.0%	923	0	0.0%	0
52	Mobile Interconnection	A26	376,457	377,181	724	0.2%	356,882	(19,575)	-5.2%	(20,299)
53	Mobile Service	A17	84,103	121,466	37,363	44.4%	121,466	37,363	44.4%	0
54	Information Services (stip.)		0	0	0	---	0	0	---	0

Central Telephone Company of Florida
Docket No. 891246-TL   Test Year 1991
REVENUE DISTRIBUTION COMPARISON BY ISSUE

Issue Number	Issue Description	Tariff Section	COMPANY PROPOSED 1991 Revenues Current	COMPANY PROPOSED 1991 Revenues Proposed	COMPANY PROPOSED Revenue Effect Amount	COMPANY PROPOSED Revenue Effect Percent	STAFF RECOMMENDED 1991 Revenues Recommended	STAFF RECOMMENDED Revenue Effect Amount	STAFF RECOMMENDED Revenue Effect Percent	Revenue Effect: Staff v. Company
55	Deleted	A11			NA	NA		NA	NA	0
56	DID	A11/23	657,552	657,552	0	0.0%	657,552	0	0.0%	0
57	Deleted				NA	NA		NA	NA	0
58	Local Private Line Pricing	A20	2,573,136	4,833,496	2,260,360	87.8%	4,298,654	1,725,518	67.1%	(534,842)
59	Revenue Impact: 890505 Restructure		0	0	0	---	0	0	---	0
60	Own Interexchange Private Line tariff (stip.)		0	0	0	---	0	0	---	0
61	Consolidation of Private Line Services		Included in Issue 58				Included in Issue 58			
62	Private Line: Use of PL/SA Cost Study Manual		0	0	0	---	0	0	---	0
63	Private Line/Special Access Rate Flexibility		0	0	0	---	0	0	---	0
64a	Obsolete Local Data Transmission Service		Included in Issue 58				Included in Issue 58			
64b	Packet Switching	A16	10,374	10,374	0	0.0%	0	(10,374)	-100.0%	(10,374)
65	FCO Rates	A9	52,589	61,354	8,765	16.7%	73,287	20,698	39.4%	11,933
66	FX Rates		Included in Issue 95				Included in Issue 95			
67	Digital Business Service		5,390,817	5,676,024	285,207	5.3%	5,676,024	285,207	5.3%	0
68	City Wide Service/Northern Telecom Business Terminal/ ACD/Customer Recorded Announcements	A12	29,223	29,223	0	0.0%	29,223	0	0.0%	0
69	Deleted									
70	Trouble Location Charge	A4	31,860	50,544	18,684	58.6%	37,800	5,940	18.6%	(12,744)

Central Telephone Company of Florida
Docket No. 891246-TL Test Year 1991
REVENUE DISTRIBUTION COMPARISON BY ISSUE

Issue Number	Issue Description	Tariff Section	COMPANY PROPOSED 1991 Revenues Current	COMPANY PROPOSED 1991 Revenues Proposed	COMPANY PROPOSED Revenue Effect Amount	COMPANY PROPOSED Revenue Effect Percent	STAFF RECOMMENDED 1991 Revenues Recommended	STAFF RECOMMENDED Revenue Effect Amount	STAFF RECOMMENDED Revenue Effect Percent	Revenue Effect: Staff v. Company
71	Trouble Location Charge	E13			0			0		0
72	Return Check Charge (stip.)	A2	Included in Issue 95				Included in Issue 95			
73	Service Connection Charges	A4	2,966,925	5,039,204	2,072,279	69.8%	6,241,236	3,274,311	110.4%	1,202,032
74	MTS	A18	10,462,714	10,462,714	0	0.0%	8,429,111	(2,033,603)	-19.4%	(2,033,603)
75	WATS/800	A19								
	Recurring		1,069,806	1,069,806	0	0.0%	991,167	(78,639)	-7.4%	(78,639)
	Nonrecurring		5,004	6,255	1,251	25.0%	9,816	4,812	96.2%	3,561
76	Deleted				NA			NA		0
77	Late Payment Charge		0	0	0	---	0	0	---	0
78	EAS		9,454	9,454	0	0.0%	(1,624,320)	(1,633,774)	---	---
79	BHMOC	E4	11,480,860	8,872,380	(2,608,480)	-22.7%	6,601,051	(4,879,809)	-42.5%	(2,271,329)
80	Stimulation/repression				NA	NA		NA	NA	
81	Billing & Collection	E8	1,376,467	1,376,467	0	0.0%	1,376,467	0	0.0%	0
82	Gross receipts tax				NA	NA		NA	NA	
83	Bill Format				NA	NA		NA	NA	
84	Rate Groups (stip.)	A3	Included in Issue 88				Included in Issue 88			
86	Hybrid Key Pricing		Included in Issue 88				Included in Issue 88			
87	Message Rate on PBX Trunks	A3	Included in Issue 88				Included in Issue 88			
88	Local Exchange Rates	A3/11/13	24,197,391	38,732,375	14,534,984	60.1%	33,390,170	9,192,779	38.0%	(5,342,205)
89	Changes in Rate Relationships		Included in Issue 88				Included in Issue 88			
90	Voice Mailbox Service	A3	64,230	64,230	0	0.0%	64,230	0	0.0%	0
91	Bill Stuffer				NA	NA		NA	NA	
92	Effective Date				NA	NA		NA	NA	

Central Telephone Company of Florida
Docket No. 891246-TL Test Year 1991
REVENUE DISTRIBUTION COMPARISON BY ISSUE

			COMPANY PROPOSED				STAFF RECOMMENDED			
Issue Number	Issue Description	Tariff Section	1991 Revenues Current	1991 Revenues Proposed	Revenue Effect Amount	Revenue Effect Percent	1991 Revenues Recommended	Revenue Effect Amount	Revenue Effect Percent	Revenue Effect: Staff v. Company
93	Incentive Regulation				NA	NA		NA	NA	
94	Centel Price Cap Plan				NA	NA		NA	NA	
95	Other Revenue Sources		85,984,419	86,083,660	99,241	0.1%	85,808,370	(176,049)	-0.2%	(275,290)
96	Commission Authority and Jurisdiction to Grant Incentive Plan				NA	NA		NA	NA	0
	TOTAL		$155,663,504	$173,722,061	$18,058,556	11.6%	$162,544,799	$6,881,295	4.4%	($11,177,262)

Central Telephone Company of Florida
Docket No. 891246-TL Test Year 1991
REVENUE DISTRIBUTION COMPARISON BY TARIFF SECTION

		COMPANY PROPOSED				STAFF RECOMMENDED			
Tariff Section	Service Description	1991 Revenues Current	1991 Revenues Proposed	Revenue Effect Amount	Revenue Effect Percent	1991 Revenues: Recommended	Revenue Effect Amount	Revenue Effect Percent	Revenue Effect: Staff v. Company
A3	Local Rates: Recurring	$25,300,282	$39,586,204	$14,285,922	56.5%	$35,273,748	$9,973,466	39.4%	($4,312,456)
A3/7	Semi-Public/COCOTS	125,842	228,296	102,454	81.4%	197,018	71,176	56.6%	(31,278)
A4	Service Connection Charges	2,344,945	4,292,754	1,947,810	83.1%	5,627,536	3,282,591	140.0%	1,334,782
A5	Charges Applicable Under Special Conditions	422,359	422,359	0	0.0%	422,359	0	0.0%	0
A6	Directory Listings	715,309	946,855	231,545	32.4%	946,855	231,546	32.4%	0
A7	Coin Telephone								
	Recurring	1,996,604	1,996,604	0	0.0%	1,996,604	0	0.0%	0
A8	TAS								
	Recurring	0	0	0	---		0	---	0
A9	Foreign CO Service								
	Recurring	52,589	61,354	8,765	16.7%	73,287	20,698	39.4%	11,933
A10	E911	244,360	244,360	0	0.0%	244,360	0	0.0%	0
A11	PBX DID								
	Recurring	875,093	1,017,474	142,381	16.3%	970,274	95,181	10.9%	(47,200)
A12	CO Non-Transport Services								
	Recurring	896,946	1,182,153	285,207	31.8%	1,182,153	285,207	31.8%	0
A12/24	Digital Business Services	61,920	61,920	0	0.0%	61,920	0	0.0%	0
A13	Misc. Service Arrangements								
	Recurring	6,562,215	7,714,703	1,152,488	17.6%	7,104,938	542,723	8.3%	(609,765)
	Nonrecurring	1,224	1,263	39	3.2%	1,263	39	3.2%	0
A14	Auxiliary Equipment								
	Recurring	14,978	15,806	828	5.5%	14,978	0	0.0%	(828)
	Nonrecurring	923	923	0	0.0%	923	0	0.0%	0
A16	Data Service								
	Recurring	10,055	10,055	0	0.0%	0	(10,055)	-100.0%	(10,055)
	Nonrecurring	319	319	0	0.0%	0	(319)	-100.0%	(319)
A17	Mobile Telephone								
	Recurring	84,103	121,466	37,363	44.4%	121,466	37,363	44.4%	0
A18	MTS								
	Recurring	10,356,061	10,356,061	0	0.0%	6,143,315	(4,212,746)	-40.7%	(4,212,746)

Central Telephone Company of Florida
Docket No. 891246-TL Test Year 1991
REVENUE DISTRIBUTION COMPARISON BY TARIFF SECTION

Tariff Section	Service Description	1991 Revenues Current	1991 Revenues Proposed	COMPANY PROPOSED Revenue Effect Amount	COMPANY PROPOSED Revenue Effect Percent	STAFF RECOMMENDED 1991 Revenues: Recommended	STAFF RECOMMENDED Revenue Effect Amount	STAFF RECOMMENDED Revenue Effect Percent	Revenue Effect: Staff v. Company
A19	WATS								
	Recurring	1,069,806	1,069,806	0	0.0%	991,167	(78,639)	-7.4%	(78,639)
	Nonrecurring	5,004	6,255	1,251	25.0%	9,816	4,812	96.2%	3,561
A20	Private Line								
	Recurring								
	Local	2,437,847	4,612,099	2,174,252	89.2%	4,077,258	1,639,411	67.2%	(534,841)
	Nonrecurring	135,289 (1)	221,397 (2)	86,108	63.6%	221,396	86,107	63.6%	(1)
A21	Optional Calling Plans	9,454	9,454	0	0.0%	0	(9,454)	-100.0%	(9,454)
A22	Local Service for State Agencies								
	Recurring	3,165,354	3,165,354	0	0.0%	3,165,354	0	0.0%	0
	Nonrecurring	14,400	14,400	0	0.0%	14,400	0	0.0%	0
A24	Fl. State University								
	Recurring	1,271,430	1,271,430	0	0.0%	1,271,430	0	0.0%	0
A25	Centrex	89,100	89,100	0	0.0%	89,100	0	0.0%	0
A26	Interconnection of Mobile Services								
	Recurring	369,062	369,062	0	0.0%	348,763	(20,299)	-5.5%	(20,299)
	Nonrecurring	7,395	8,119	724	9.8%	8,119	724	9.8%	0
A100.14	Auxiliary Equipment	720	720	0	0.0%	720	0	0.0%	0
E3	Carrier Common Line								
	Recurring (3)	11,155,814	11,155,814	0	0.0%	11,155,814	0	0.0%	0
E4	BHMOC	11,480,860	8,872,380	(2,608,480)	-22.7%	6,601,051	(4,879,809)	-42.5%	(2,271,329)
E6	Switched Access Service								
	Recurring (4)	10,757,386	10,757,386	0	0.0%	10,757,386	0	0.0%	0
E7	Special Access Service								
	Recurring	820,977	1,114,776	293,799	35.8%	1,114,776	293,799	35.8%	0
	Nonrecurring	412,947	467,466	54,519	13.2%	467,466	54,519	13.2%	0
E8	Billing and Collection Services								
	Recurring	1,376,467	1,376,467	0	0.0%	1,376,467	0	0.0%	0

(1) Includes $25,775; Ex.107, Schedule E-1a, S100.13, S100.15,and S100.16
(2) Includes $29,449; Ex.107, Schedule 107, S100.13, S100.15, and S100.16.
(3) Includes $(419,465); Company overstated originating CCL, evening & night/weekend.
(4) Includes $(138,555); Company inverted FGA, FGB, FGC, and FGD originating line termination rates.

Central Telephone Company of Florida
Docket No. 891246-TL Test Year 1991
REVENUE DISTRIBUTION COMPARISON BY TARIFF SECTION

Tariff Section	Service Description	COMPANY PROPOSED 1991 Revenues Current	Proposed	Revenue Amount	Effect Percent	STAFF RECOMMENDED 1991 Revenues: Recommended	Revenue Amount	Effect Percent	Revenue Effect: Staff v. Company
E16	IntraLATA Intercompany MTS and WATS Calls (LEC toll bill & keep) Recurring	3,962,067	3,680,498	(281,570)	-7.1%	3,435,321	(526,746)	-13.3%	(245,177)
	Other:								
	InterLATA Operator Services	178,890	178,890	0	0.0%	178,890	0	0.0%	0
	IntraLATA Private Line Pooling	4,174,021	4,174,021	0	0.0%	4,174,021	0	0.0%	0
	IntraLATA Other	234,009	234,009	0	0.0%	234,009	0	0.0%	0
	Directory Revenue	9,647,529	9,647,529	0	0.0%	9,647,529	0	0.0%	0
	Rent Revenue	153,481	153,481	0	0.0%	153,481	0	0.0%	0
	Miscellaneous	671,356	671,356	0	0.0%	671,356	0	0.0%	0
	Billing and Collection-Interstate	2,788,173	2,788,173	0	0.0%	2,788,173	0	0.0%	0
	Access Revenue - Interstate	39,033,347	39,033,347	0	0.0%	39,033,347	0	0.0%	0
	Uncollectibles	(768,668)	(768,668)	0	0.0%	(768,668)	0	0.0%	0
	TOTAL REVENUES	$154,719,644	$172,635,049	$17,915,405	11.6%	$161,600,939	$6,881,295	4.4%	($11,034,110)
	Staff Adjustments:								
A4	Service Charges (5)	658,520	801,674	143,154		658,520			(143,154)
A10	E911 (6)	273,276	273,276	0		273,276			0
E6	Switched Access (7)	12,064	12,064	0		12,064	0	0.0%	0
	Total Adjusted Revenues	$155,663,504	$173,722,063	$18,058,559		$162,544,799	$6,881,295	4.4%	($11,177,264)

(5) Service charge units miscalculated; see Issue 34.
(6) E911 for Leon and Jefferson counties excluded.
(7) Company did not change LS1 per Order No. 23540.

ATTACHMENT 4

Local Exchange Rates - Present, Proposed, and Recommended

Rate Group	R-1			R-Message			R-Rotary			B-1			B-Rotary		
	Cur-rent	Cent. Prop.	Staff Prop.	Cur-rent	Cent. Prop.	Staff Prop.	Cur-rent	Cent. Prop.	Staff Prop.	Cur-rent	Cent. Prop.	Staff Prop.	Cur-rent	Cent. Prop.	Staff Prop.
1	$4.50	$6.90	$5.85	-	$4.14	$3.51	$6.75	$10.39	$ 8.78	$10.13	$15.54	$13.16	$15.20	$23.36	$19.74
2	4.77	7.36	6.20	-	4.41	3.72	7.16	10.94	9.30	10.73	16.56	13.95	16.10	24.83	20.93
3	5.00	7.63	6.55	-	4.59	3.93	7.50	11.49	9.83	11.25	17.20	14.74	16.88	25.85	22.11
4	5.49	8.46	6.95	-	5.06	4.17	8.24	12.60	10.43	12.35	19.04	15.64	18.53	28.61	23.46
5	5.76	8.82	7.35	-	5.33	4.41	8.64	13.24	11.03	12.96	19.87	16.54	19.44	29.81	24.81
6	6.00	9.20	7.75	-	5.52	4.65	9.00	13.80	11.63	13.48	20.70	17.44	20.22	31.09	26.16
7	-	9.57	8.20	-	5.70	4.92	-	14.35	12.30	-	21.51	18.45	-	32.27	27.68
8	-	9.95	8.65	-	5.97	5.19	-	14.90	12.98	-	22.36	19.46	-	33.58	29.19

Rate Group	PBX Trunks			Long Dist. Trunks			DID Trunks			Semi-Pub			PATS		
	Cur-rent	Cent. Prop.	Staff Prop.	Cur-rent	Cent. Prop.	Staff Prop.	Cur-rent	Cent. Prop.	Staff Prop.	Cur-rent	Cent. Prop.	Staff Prop.	Cur-rent	Cent. Prop.	Staff Prop.
1	$20.25	$31.09	$26.33	$10.13	$15.54	$13.16	$20.25	$31.09	$26.33	$10.13	$15.54	$13.16	$ 8.10	$12.45	$10.53
2	21.47	33.12	27.90	10.73	16.56	13.95	21.47	33.12	27.90	10.73	16.56	13.95	$ 8.58	13.24	11.16
3	22.50	34.40	29.48	11.25	17.20	14.74	22.50	34.40	29.48	11.25	17.20	14.74	9.00	13.80	11.79
4	24.71	38.08	31.28	12.35	19.04	15.64	24.71	38.08	31.28	12.35	19.04	15.64	9.88	15.27	12.51
5	25.92	39.74	33.08	12.96	19.87	16.54	25.92	39.74	33.08	12.96	19.87	16.54	10.37	15.91	13.23
6	26.96	41.40	34.88	13.48	20.70	17.44	26.96	41.40	34.88	13.48	20.70	17.44	10.78	16.56	13.95
7	-	43.05	36.90	-	21.51	18.45	-	43.05	36.90	-	21.51	18.45	-	17.20	14.76
8	-	44.71	38.93	-	22.36	19.46	-	44.71	38.93	-	22.36	19.46	-	17.84	15.57