

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition of CENTRAL TELEPHONE COMPANY OF FLORIDA for rate increase)	DOCKET NO. 891246-TL
)	
In re: CENTRAL TELEPHONE COMPANY OF FLORIDA - 1988 Depreciation Study)	DOCKET NO. 881543-TL
)	
In re: Petitions of SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY for rate stabilization and implementation orders and other relief)	DOCKET NO. 880069-TL
)	
In re: Resolution by HOLMES COUNTY BOARD OF COUNTY COMMISSIONERS for extended area service in Holmes County, Florida)	DOCKET NO. 870248-TL
)	
In re: Petition for county-wide toll- free calling by the OKALOOSA BOARD OF COUNTY COMMISSIONERS)	DOCKET NO. 900539-TL ORDER NO. 24178
)	ISSUED: 2-28-91

The following Commissioners participated in the disposition of this matter:

THOMAS M. BEARD, Chairman
BETTY EASLEY
GERALD L. GUNTER
FRANK S. MESSERSMITH
MICHAEL McK. WILSON

APPEARANCES:

LEE L. WILLIS, JOHN P. FONS, and KENNETH R. HART, Esquires, Ausley, McMullen, McGehee, Carothers and Proctor, Post Office Box 391, Tallahassee, Florida 32302, and LORELI F. COHN, Esquire, 8745 Higgins Road, Chicago, Illinois 60631, on behalf of CENTRAL TELEPHONE COMPANY OF FLORIDA.

JACK SHREVE, CHARLES J. REHWINKEL, and CHARLES J. BECK, Esquires, Office of Public Counsel, c/o The Florida Legislature, 111 West Madison Street, Room 812, Tallahassee, Florida 32399-1400, on behalf of the CITIZENS OF THE STATE OF FLORIDA.

DOCUMENT NUMBER-DATE

01931 FEB 28 1991

PSC-RECORDS/REPORTING

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition of CENTRAL TELEPHONE) DOCKET NO. 891246-TL
COMPANY OF FLORIDA for rate increase) ORDER NO. 24178-A
_____) ISSUED: 5/20/91

AMENDATORY ORDER

BY THE COMMISSION:

By Order No. 24178, issued February 28, 1991, we took final action on the rate increase requested by Central Telephone Company of Florida (Centel). In addition, we issued a notice of proposed agency action implementing a \$.25 per message intracounty calling plan on certain intercompany routes. The Order specifically stated that the intent of our proposed action was to afford countywide calling within Holmes, Jackson, Okaloosa, and Walton Counties, although all of the particular routes involved were not individually delineated. Our proposed action became final after expiration of the protest period specified within the Order.

On page 59 of Order No. 24178, we directed Southern Bell Telephone and Telegraph Company (Southern Bell) to immediately begin action to obtain a waiver from the Modified Final Judgment for only one interLATA route: the Graceville to Ponce de Leon route. We inadvertently failed to list a second interLATA route: the Graceville to Defuniak Springs route. Accordingly, we hereby direct that Order No. 24178 be amended to include this route.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Order No. 24178 is amended to the extent outlined in the body of this Order. It is further

ORDERED that Order No. 24178 is affirmed in all other respects. It is further

ORDERED that this docket shall remain open.

By ORDER of the Florida Public Service Commission, this
20th day of MAY, 1991.

STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

ABG

by: Kay Selman
Chief, Bureau of Records

DOCUMENT NUMBER-DATE
04978 MAY 20 1991

PSC-RECORDS/REPORTING

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ANGELA B. GREEN, PATRICIA A. KURLIN, and JOHN K. ADAMS, Esquires, Florida Public Service Commission, 101 East Gaines Street, Tallahassee, Florida 32399-0863, on behalf of the Commission Staff.

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FINAL ORDER GRANTING RATE INCREASE TO
CENTRAL TELEPHONE COMPANY OF FLORIDA
AND
NOTICE OF PROPOSED AGENCY ACTION
ORDER IMPLEMENTING \$.25 PER MESSAGE INTRACOUNTY
CALLING PLAN ON INTERCOMPANY ROUTES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that a portion of the action discussed in Section X-DD of this Order is preliminary in nature and will become final unless a person whose interests are adversely affected files a petition

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for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

I. SUMMARY OF DECISION

On June 12, 1990, Central Telephone Company of Florida (Centel or the Company) filed Minimum Filing Requirements (MFRs) with this Commission pursuant to Sections 364.05 and 364.055, Florida Statutes. The Company's MFRs were in support of proposed rate schedules designed to generate increased annual revenues of \$18,087,736. The Company's filing is based on a projected test year of 1991 and proposes that these rates be collected primarily from basic local rates for residential and business customers. Along with its request for a permanent revenue increase, the Company also seeks approval of its proposed Incentive Regulation Plan.

We have found, based upon the record in this proceeding, that Centel has established entitlement to an increase of \$9,363,016 in annual revenues. In making this determination, we have concluded that a fair rate of return on equity (ROE) for this Company is 13.0%, with a range of reasonableness of 12.0% to 14.0%. Based upon that ROE, the Company's overall rate of return is 9.16%. We have approved rates, as discussed in detail herein, that will generate the approved revenue increase. We have denied Centel's proposed Incentive Regulation Plan as filed, but have deferred to a later date our decision as to whether it is appropriate to approve an alternative form of incentive regulation for this Company at this time.

II. BACKGROUND

By letter dated April 19, 1990, Centel sought modification of the MFRs specified in Rule 25-4.141, Florida Administrative Code. By Order No. 22970, issued May 23, 1990, we granted in part the Company's request for modification of the MFRs, to the extent outlined therein. On June 12, 1990, Centel made its initial MFR filing.

Centel's original filing proposed an increase in revenues of \$18,087,736. This was later revised by the Company 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,

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amortization, trunk equivalency charge, Okaloosa County fiber span lease, COPRS, 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.

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

On July 9, 1990, OPC filed its Answer to Centel's Petition. On July 13, 1990, OPC filed a revision to its Answer in which it made several corrections to its July 9th filing.

At our July 31, 1990, Agenda Conference, we 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 were held subject to refund with interest, in accordance with Rule 25-4.114, Florida Administrative Code.

We held customer hearings on this matter in Tallahassee on August 15, 1990, and in Ft. Walton Beach on August 20, 1990. At these hearings, we heard customer testimony regarding the service provided by the Company, the Company's proposed rates and services, and various other customer concerns.

At the Prehearing Conference on October 15, 1990, the procedures to govern the evidentiary hearing were established. These procedures are detailed in Order No. 23686, issued October

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26, 1990. That Order also sets forth the positions of the parties on the issues identified for resolution in this proceeding, as well as the status of several pending motions, and rulings on several other motions.

We held a public hearing at which we heard testimony and received evidence from the parties, in Tallahassee, from October 29 through November 2, 1990. All of the parties were present at the hearing. Witnesses were sponsored by the Company, OPC, ATT-C, and our Staff, and were available for cross-examination by the parties. Our decisions that follow are based upon the substantial record compiled in this proceeding.

III. STIPULATIONS

The following stipulations were agreed to by the Company and OPC, with the support of our Staff, and without objection from any other party.

1. 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:

A. 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.

B. 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.

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

D. 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.

E. Issues 3, 4, 24 and 24a in Docket No. 891246-TL are stipulated and Issue 23j is dropped. Those issues were:

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

Issue 4 - What is the appropriate amount of depreciation reserve?

Issue 23j - What adjustment, if any, should be made to Operating and Maintenance Expense to reflect expenses associated with filing, defending, and correcting the depreciation study in Docket No. 881543-TL?

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?

Issue 24a - Should depreciation and amortization expense be adjusted to replace the Company's budgeted amounts with the amounts contained in Staff's August, 1990, recommendation?

F. 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

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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.

2. 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.

3. 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.

4. The impact of the amortization of the Revenue Accounting Center closing costs and COPRS 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 and the increase in post retirement expense should be considered after the resolution of those issues.

5. 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.

6. 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

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expenses by \$715,250. The intrastate expense decrease is \$544,970. The appropriate working capital adjustment should be made as well.

7. 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.

8. 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 factor determined to be appropriate.

9. 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.

10. 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.

11. 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.]

12. 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.

13. An adjustment to reduce expenses for the adoption of the exception time reporting and a revised method of allocating

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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 to be appropriate.

14. 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 to be appropriate.

15. 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.

16. The appropriate revenue expansion factor is 1.617665.

The following stipulations were agreed to by the Company, OPC, and our Staff, without objection from any other party.

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

18. 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

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

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

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

22. 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.

23. 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.

The following stipulation was agreed to by the Company and FPTA, without objection from any other party.

24. The parties agree that the Commission's determination of issues identified in Order No. 23273, issued July 31, 1990, in Docket No. 860723-TP will govern the determination of those issues and will not be relitigated herein.

We find all of the above stipulations, except number 23, to be appropriate and hereby approve stipulations numbers 1-22 and 24. We will approve stipulation number 23 with the following modification: rate groups 1 and 2 shall be eliminated and the remaining rate groups shall be renumbered as rate groups 1 through 6.

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IV. QUALITY OF SERVICE

Section 364.035, Florida Statutes, requires that this Commission, when fixing rates, consider the efficiency, sufficiency, and adequacy of the facilities provided and the services rendered by the utility. In this proceeding we have fulfilled this statutory requirement through an extensive service evaluation. 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.

There are seventy-five (75) items in our service evaluation for which the local exchange company (LEC) bears full responsibility. Centel met or exceeded 58 of these 75 requirements in the most recent service evaluation performed during the period of February 5, 1990, through April 13, 1990. Two (2) ratings, Vacation Disconnects and Vacant Numbers were rated n/a because there were none available to audit at the time of the evaluation. There were three (3) rule violations and twelve (12) unsatisfactory levels recorded.

Satisfactory or unsatisfactory ratings are given in those instances where the rule requires no specific percentage. In most cases 100% is implied. However, keeping cost of service in mind, our standard is generally a lesser, and more realistic, value. The observed deficiencies follow.

Rule 25-4.040, Florida Administrative Code, requires that the directory shall normally list all subscribers in the exchange in alphabetical order. We employ 99% compliance as a realistic and attainable standard. Centel achieved a rating of 97.4%.

Rule 25-4.076, Florida Administrative Code, applies to public telephone service. There were 4 categories under this Rule in which we found Centel to be lacking. These were Serviceability, Wheelchair/hearing impaired compatibility, Automatic Coin Return operation, and Operator Ring Back capability.

Section 365.171, Florida Statutes, makes telephone companies responsible for the delivery of "911" calls to the answering point. Because this involves public health and safety, we have established

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an objective of 100% call completion. Centel had a 99.1% call completion rate.

Rule 25-4.070, Florida Administrative Code, requires companies to 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 by the Rule for same day clearance, we have established 80% as a reasonable objective. Centel achieved 62.9%.

Rules 25-4.036, and 25-4.038, Florida Administrative Code, apply to safety issues. Under this Rule, it is 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. During the service evaluation, one faulty ground was observed from a recent installation and nine faulty grounds were observed from older installations. A total of three other safety violations also were observed. These violations required an unsatisfactory rating.

Rule 25-4.0185, Florida Administrative Code, requires the filing of periodic reports. Centel filed the first quarter 1990 periodic reports in a timely manner. However, Centel failed to meet our requirement of clearing trouble reports within 24 hours for the months of February and March, 1990. This resulted in an unsatisfactory rating.

Our service evaluation also considers customer service complaints. Our 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.

While the number of deficiencies appears to be significant, we routinely work with companies to correct problems found during a service evaluation. We are satisfied that Centel has corrected or will correct these deficiencies to our satisfaction. Based on the record in this proceeding, Centel is providing adequate service for its customers in Florida.

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PAGE 16V. RATE BASE

The Company's rate base is the investment upon which the Company is entitled to earn a return. Once a test period is determined, the Company's investment and expenses for that period are analyzed in order to establish the investment upon which a rate of return will be permitted. The test year intrastate rate base represented by the MFR Schedules filed by Centel in this proceeding was \$231,250,557. Following the hearing, Centel revised this to \$233,354,153 to reflect its positions on the rate base issues and to include Stipulation No. 1. After our consideration of the issues presented, we have made certain adjustments to the rate base and have determined that the appropriate average rate base for Centel for purposes of this proceeding is \$232,002,437. The adjustments we have made are set forth below.

INTRASTATE RATE BASE

ACHIEVED INTRASTATE RATE BASE PER FILING

Rate Base Per Books

Plant In Service	\$386,463,428
Accumulated Depreciation	<u>(154,864,950)</u>
Net Plant in Service	\$231,598,478
Plant Under Construction	603,987
Allowance for Working Capital	<u>(842,088)</u>

Rate Base Per Books	\$231,360,377
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Company Adjustments

(109,820)

Achieved Intrastate Rate Base Per Filing	\$231,250,557
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COMMISSION ADJUSTMENTS:

Plant Retirements Net of Accumulated Deprecation	\$ (12,474)
Stipulation and Settlement of Issues Relating to Depreciation	1,928,351
Directory Receivables	(1,016,974)
Unamortized Rate Case Expense	(1,090,941)
Amortization Adjustments	<u>943,918</u>

Total Commission Adjustment

\$751,880

ADJUSTED INTRASTATE RATE BASE

\$232,002,437

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A. TEST YEAR PLANT IN SERVICE

Centel asserts that its intrastate plant in service for the test year is \$386,156,000 as shown in its MFR filing. This amount represents gross intrastate plant in service per books of \$386,463,428, less a Company adjustment of \$307,428 to reflect correct regulatory treatment of certain equal access costs pursuant to Order No. 17783.

In reviewing Centel's capital budget, we found seven plant accounts that contained errors in retirement projections for 1990 and 1991. In some instances, the Company omitted upcoming retirements. In other instances, projected retirements were posted to incorrect accounts. There were also instances where plant additions were projected by an incorrect amount in an incorrect account, as well as some accounts with negative investments and some accounts with depreciation reserves in excess of plant balance. The total adjustment to reflect the necessary corrections to these seven accounts is a reduction of \$3,538,627 to the intrastate rate base.

B. DEPRECIATION

Pursuant to our approval of Stipulation No. 1 in Section III of this Order, current depreciation rates prescribed in 1986, as well as 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 as a bottom-line, non-account-specific amount. At the time the next depreciation review is made in 1992, this accumulated two-year amount will be allocated to specific accounts as appropriate. The intrastate depreciation reserve shall be increased by \$2,243,352 in 1991 as a result of the stipulated increase in depreciation expense.

Accordingly, for purposes of this proceeding, intrastate test year depreciation expense and reserve are \$23,864,062 and \$152,738,991, respectively, rather than the amounts shown in the Company's MFRs (which reflect the rates proposed in Docket No. 881543-TL). These amounts must then be reduced to reflect the adjustments we have made to plant in service. Depreciation expense must be decreased by \$12,474, while reserve must be decreased by \$3,526,153.

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Centel shall file its next depreciation study required under Rule 25-4.0175(8)(a), Florida Administrative Code, during the fourth quarter of 1991, with rates proposed to be effective January 1, 1992. Although an effective date of January 1, 1992, for new depreciation rates and recovery schedules is stated in the stipulation, this does not authorize the Company to begin booking proposed rates without specific Commission approval.

C. WORKING CAPITAL

1. Allocation of Unearned Revenues

Centel asserts that unearned revenues should not be allocated 100% to intrastate working capital. We agree. The working capital component of the advanced billings includes not only billings for intrastate service but also billings for interstate end user access charges, switched busy hour minutes, IXC special access, and WATS access line billings. The direct assignment of all advanced billings to the intrastate jurisdiction would understate intrastate working capital. Centel calculated its allowance for working capital by using the balance sheet method, which is consistent with our past practice. We find it appropriate that unearned revenues be allocated between intrastate and interstate services on the same basis as other components of working capital. Therefore, we approve the separation method the Company used to develop the allowance for working capital.

2. Prepaid Pensions

We are in agreement with Centel's position that prepaid pensions should be included in the working capital allowance. This "Other non-current asset" was created in accordance with Internal Revenue Service (IRS) requirements and generally accepted accounting principles (GAAP). The current surplus creating the asset has resulted in negative pension expense to the benefit of the ratepayers.

Centel is following the provisions of the Statement of Financial Accounting Standard 87(SFAS 87). Under SFAS 87, the Company has included negative pension expense in its determination of its test year earnings. This issue was considered in Docket No. 881056-EI. By Order No. 22224, issued November 27, 1989, we held that the prepaid pension working capital component should be allowed. Therefore, we find Centel's inclusion of prepaid pensions

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in working capital is appropriate. Accordingly, the adjustment proposed by OPC is rejected.

3. Directory Receivables

Pursuant to our approval of Stipulation No. 3 in Section III of this Order, intrastate working capital shall be reduced by \$1,214,031 to remove the long-term CenDon directory receivable and increased by \$197,057 to reflect an increase in short-term directory receivable. The net effect of these adjustments is to reduce intrastate rate base by \$1,016,974.

4. Unamortized Rate Case Expense

It has been this Commission's practice to allow a reasonable amount of rate case expense as part of the regulatory process. Centel is proposing to amortize its rate case expense over a four-year period, the period which it proposes the incentive regulation plan to 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.

OPC asserts 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. OPC recommends excluding the entire amount of the unamortized rate case expense from the working capital allowance. In the alternative, OPC suggests that we only allow the average balance to be included in the working capital calculation because by the end of the four-year period, unamortized rate case expense will be reduced to zero.

It has been this 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 Order No. 23573, in Docket No. 891345-EI, (Gulf Power Company) where the unamortized rate case expense was disallowed in the working capital allowance calculation. Additionally, return on unamortized rate case expense has been disallowed in a number of other rate cases: Central

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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. Finally, in the ALLTEL rate case, Docket No. 850064-TL, no unamortized rate case expense was allowed.

Accordingly, we shall remove this expense from working capital. This requires an adjustment to reduce intrastate rate base by \$1,090,942. We believe this result strikes a reasonable balance between the ratepayers and the stockholders. The stockholders receive the benefit of the additional revenues and the ratepayers receive a benefit by having the cost related to the rate case recovered in expense over four years. Additionally, this acts as an incentive to the Company to hold down the cost of a rate case where possible.

5. Other Amortizations

Pursuant to our approval of Stipulation No. 4 in Section III of this Order, intrastate working capital shall be increased by \$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 cost; (b) \$73,461 increase due to impact of Arthur Anderson costs; and (c) decrease of \$20,941 for postretirement expense adjustment.

We find it appropriate to include the debit that was created from the amortization of Arthur Anderson costs discussed in Section VI of this Order. However, we shall only allow a return on the average balance of the unamortized amount of the Phase III costs. We also find it appropriate to reduce working capital to correct the error in the level of expense for postretirement benefits included in the original filing as discussed in Section VI of this Order.

6. Conclusion

The appropriate amount of intrastate working capital allowance for the test year is (\$2,006,085). This amount is derived from Centel's MFR filing of (\$842,088), adjusted by the amounts discussed in subsections 2 through 5, above.

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VI. NET OPERATING INCOME

Having determined Centel's rate base, the next step in the ratemaking process is the determination of the Company's test year Net Operating Income (NOI). Once this amount is determined it can be applied to the test year rate base value to develop the appropriate achieved rate of return for the test period. Centel has submitted an NOI figure of \$12,007,244. Based on our review of the evidence in the record of this proceeding, we find Centel's net operating income for the test year to be \$15,463,441. This amount is derived on the basis of the following adjustments.

INTRASTATE NET OPERATING INCOME

ACHIEVED INTRASTATE NET OPERATING INCOME PER FILING

Net Operating Income Per Books

Operating Revenue	\$110,162,819
Operating Expense	(94,181,588)
Operating Taxes	<u>(5,417,166)</u>

Per Book NOI	\$10,564,065
Company Adjustments	<u>1,443,179</u>

ACHIEVED INTRASTATE NET OPERATING INCOME PER FILING \$12,007,244

COMMISSION ADJUSTMENTS:

1. Trunk Equivalency Charge	\$ 109,265
2. E-911 Services and Tariff Filing Changes	943,966
3. Operation and Maintenance Expenses	
a. Revenue Accounting	
Center Closing	\$111,984
b. CORPS Costs Versus Savings	339,898
c. Accrued Bonuses	327,545
d. IDCP and Stock Option Expense	323,074
e. Okaloosa County	
Fiber Span Lease	94,300
f. Arthur Andersen Fees	61,090
g. Miscellaneous Budget Items	100,152
h. Pension Credit	20,224
i. AA Proposed Adjustments	80,332

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j. Budget Changes	183,290
k. Corporate Philanthropy	6,957
l. Salary Expense	<u>55,357</u>

Total Adjustment	\$1,704,203
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4. Test Year Depreciation Expense	1,002,378
5. Test Year Taxes Other Than Income	(17,177)
6. Parent Debt	(624,205)
7. Interest Synchronization	(2,901)
8. Intercompany Transactions	
a. Corporate Allocation Factor	\$184,618
b. IDCP Information System	21,438
c. Special Executive Compensation	6,051
d. Exception Time Reporting	51,135
e. Corporate Community Relations	72,287
f. Aircraft Insurance	<u>5,139</u>

Total Adjustment	<u>340,668</u>
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Total Commission Adjustment	<u>\$ 3,456,197</u>
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ADJUSTED NET OPERATING INCOME	<u>\$15,463,441</u>
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A. COMMISSION ADJUSTMENTS TO NOI

1. Centrex Trunk Equivalency Charge

Both Centel and OPC agree that 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. We agree that this accounting treatment is necessary to ensure that interstate revenues are reported properly. However, an error made in the model used to calculate the original amount of \$1,943,250. Therefore, we find that the correct amount to be charged to intrastate revenues is \$1,768,062, thus increasing local revenues \$175,188 for the test year, and increasing intrastate NOI \$109,265.

2. E-911 Services and Tariff Filing Changes

Based on our review of the evidence on the record in this proceeding we find that the originally filed revenue amount of

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\$109,115,375 shall be increased by \$1,240,218 for changes made to the tariff filings and \$273,276 for E-911 revenues, for a total adjustment to operating revenue of \$1,513,494, increasing intrastate NOI \$943,966.

3. Operation and Maintenance Expenses

a. Data/Accounting Center Consolidation

See Stipulation No. 5 in Section III. The effect of this adjustment is to increase intrastate NOI \$111,984.

b. COPRS Cost Versus Savings

See Stipulation No. 6 in Section III. The effect of this adjustment is to increase intrastate NOI \$339,898.

c. Accrued Bonuses

Centel proposes that accrued bonuses or short-term incentives should be allowed as test year expense. 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. An employee expects to receive, and the Company expects to pay, this combined compensation amount. The purpose of the short-term incentive is to place a portion of its management employee expected compensation at risk. This risk component is earned when predetermined performance goals are met.

OPC argues that customers should not have to bear the cost of controllable bonuses, with no certainty that actual payments will be made, and would disallow the entire amount.

We believe that there are goals associated with this bonus program that directly relate to benefits to the ratepayers. However, we must ensure that the amount allowed is applicable to the regulated Florida operations. Therefore, we are reducing the cost of these bonuses, resulting in a reduction in intrastate expense of \$525,164, thus increasing NOI \$327,545.

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d. Stock Options and Incentive Deferred Compensation Plan

Centel asserts that the stock option and Incentive Deferred Compensation Plan (IDCP) are an integral part of the Company's market-based employee compensation program, which allow the Company to attract and retain highly qualified personnel. Centel states that the calculations of the expenses for the IDCP and stock options are straight-forward. We agree that the mathematical calculation is reasonably straight-forward; however, the numbers used to do the actual calculation are based on an estimated stock price and an estimated number of participants that will be taking the stock.

We believe that these expenses are speculative and cannot be accurately quantified for the purpose of setting rates. Accordingly, we find that the test year intrastate expenses should be decreased by \$235,930 for the stock option plan and \$282,066 for the IDCP, a total intrastate decrease of \$517,996. This adjustment increases intrastate NOI \$323,074.

e. Okaloosa County Fiber Span Lease

See Stipulation No. 7 in Section III. The effect of this adjustment is to increase intrastate NOI \$94,300.

f. Arthur Andersen Fees

The Company proposes that the amount of Arthur Andersen fees which should be allowed in the test year expense is \$304,550. Of this total, \$108,000 is rate case expense and \$196,800 is Florida's allocation of other Arthur Andersen fees. We have already approved herein the \$108,000 rate case expense.

Central Telephone Company has retained the services of Arthur Andersen to perform a three phase, system-wide review of the budgeting process to be used by the company and its affiliated local exchange companies, including Centel. 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. We do not believe that the level of fees is representative of future costs. Rather, we find that the Phase III costs shall be amortized over a three year period. Of the \$1.2 million, 16.4% is allocated to Centel. When the

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separation factor is applied, the intrastate expense is \$146,922. A one year amortization of this amount over a three year period is \$48,974. Therefore, we find that intrastate expense shall be reduced by \$97,948, and intrastate NOI increased by \$61,090.

g. Miscellaneous Budget Items

See Stipulation No. 8 in Section III. The effect of this adjustment is to increase intrastate NOI \$100,152.

h. Pension Credit

See Stipulation No. 9 in Section III. The effect of this adjustment is to increase intrastate NOI \$20,224.

i. Arthur Andersen "Proposed Adjusting Journal Entries"

Arthur Andersen discovered six adjustments that needed to be made to the MFR budget while it was testing for reasonableness. However, because in the aggregate, the amount was insignificant, the adjustments were never made. The impact of these adjustments are: an increase in intrastate O&M expense of \$111,324, and a decrease in intrastate income tax expense of \$149,765.

Centel asserts that either the effect of all six proposed adjusting journal entries should be reflected in the calculation of the revenue requirement, or none of the six adjustments should be made. OPC argued that adjustment 2 should not be made.

We believe that sufficient explanations for each of the adjustments have been provided by the Company. Therefore, we find that an increase of \$111,324 shall be made to intrastate O&M expense, and a decrease of \$149,765 shall be made to intrastate income tax expenses. The net effect of these adjustments is to increase intrastate NOI \$80,332.

j. Budget Changes

After the initial filing of the MFRs several additional adjustments were discovered in the continuing process of reviewing the MFRs. The adjustments to intrastate expenses which we are allowing are as follows:

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a. Short-term Incentives	\$ 128,179
b. Postretirement	(35,905)
c. Double Loading	(307,269)
d. Function Translation	(66,183)
e. Depreciation & ROR	106,031
f. Nonrecurring Charge-Area 6046	(14,050)
g. Area 1031 Nonutility Legal Fee	(28,521)
h. Nonexisting Responsibility Areas	(8,798)
i. Nonrecurring Charge-Area 6020	<u>(67,359)</u>
Total Intrastate Expense Reduction	(293,875)

The effect of this adjustment increases intrastate NOI \$183,290.

k. Corporate Philanthropy

See Stipulation No. 10 in Section III. The effect of this adjustment is to increase intrastate NOI \$6,957.

l. Projected Salary Expense

Centel's proposed salary expense for 1990 and 1991 was computed assuming a 7% annual increase for exempt employees and a 5.25% annual increase for non-exempt employees. The Company has also assumed a Consumer Price Index (CPI) of 5.0% for 1990 and 1991. The Company has traditionally granted a 1.5% above the rate of inflation to its exempt employees.

We find that the 5.25% salary increase for non-exempt employees is appropriate. However, we believe that an increase of 2% above the Company's CPI (or 7%), for exempt employees is excessive. We, therefore, approve annual increases for exempt employees at 6.5%. This will result in a decrease to intrastate test year expenses of \$88,757, and increase intrastate NOI \$55,357.

4. Depreciation Expense

See Stipulation No. 1 in Section III. The effect of this adjustment is to increase intrastate NOI \$1,002,378.

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5. Test Year Taxes Other Than Income

See Stipulation No. 11 in Section III. The effect of this adjustment is to increase intrastate NOI \$17,177.

6. Parent Debt Adjustment

Rule 25-14.004, Florida Administrative Code, 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 the tax effect. Centel has proposed a parent debt adjustment of \$624,205.

The Internal Revenue Service (IRS) published proposed regulations on November 27, 1990, subsequent to the hearing in this case. The effective date of the proposed regulations is December 20, 1990. Therefore, if such regulations become final, they will be effective for all orders which become final on or after December 20, 1990. 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 Tax 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. Our application of Rule 25-14.004 in this case would likely put Centel in the position of violating the IRS' normalization requirements according to the provisions of the proposed regulations.

The proposed regulations were published after the hearing in this case. Therefore, no party had an opportunity to address the regulations in this proceeding. On January 29, 1991, OPC requested the opportunity to speak to the Commission during the January 30-31 agenda conference. At the agenda, Charles Rehwinkle, on behalf of the Citizens, addressed his concerns to this Commission. OPC asserted that the laws of the state of Florida are in direct conflict with federal laws regarding the collection of income taxes. OPC was concerned that if we do not take action that will

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give this Commission, and any other party that is interested, standing to challenge this action that the adjustment will be forever lost, and that Florida law will have been, by default, pre-empted by federal law without any opportunity to contest it. OPC recommended that we order Centel to comply with our Rule. In addition, OPC asked that we direct Centel to make a private letter ruling request.

Centel also spoke at the agenda conference and asserted that the Commission would protect all parties by refraining from making the adjustment required by Rule 25-14.004, but holding the revenues subject to refund and further disposition.

Although the regulations are not final, and it cannot be determined when, or if, they will become final, we believe that it is necessary to avoid the very serious risk of causing Centel to violate the IRS' normalization requirements. Therefore, we hereby authorize Centel to collect the revenues associated with the parent debt adjustment while placing subject to Commission disposition, an amount that would make it possible for Centel to refund to its ratepayers the revenue, with interest, that would have been removed had a parent debt adjustment been made in this proceeding. The Company is also ordered to request a letter ruling on this matter by the IRS. Upon the later of the issuance of a letter ruling on this matter or final regulations on this subject by the IRS, Centel shall dispose of the revenues and interest in question as directed by this Commission. We find that this is the most appropriate way to protect the ratepayers. Therefore, Centel shall place subject to Commission disposition, \$1,017,731. This amount represents the annual parent debt adjustment of \$624,205 grossed up to a revenue level.

This amount also includes an ITC interest adjustment to the parent debt adjustment. 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 its 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 the related tax deduction is imputed to the regulated utility through the parent debt adjustment.

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We believe that an adjustment for the parent debt effect of the equity component of ITCs is consistent with the ITC interest synchronization and parent debt adjustments. Accordingly, we increase the parent debt adjustment by \$14,276, and the associated revenues by \$23,094.

7. Interest Synchronization

Since the capital structure is reconciled to rate base, every change in rate base results in a corresponding change in the capital components. As the jurisdictional debt components are changed, the jurisdictional interest used to calculate income taxes is changed. The effect of our rate base adjustments increases intrastate income tax expenses and decreases NOI \$2,901.

8. Intercompany Transactions

a. Allocation of Expenses to Florida

Centel has utilized a 12.8% allocation factor in the 1991 MFR budget. The Company maintains that this is the best estimate of what the percentage will be in 1991, and has taken into account the sale of Centel Business Systems. Allocated corporate service costs are those costs which cannot be directly attributed to a specific business unit. Centel believes that it is inappropriate to assume that generally allocated corporate service cost will decline as a result of the sale of a single unit like Business Systems.

We recognize this but believe that if Centel takes into consideration the potential sale of a business unit such as Business Systems, then it must also consider the potential acquisition of other operations as well. Based on our review of the evidence in this proceeding, it appears that corporate restructure will take place in the future. For ratemaking purposes, it is appropriate to either include all sales and acquisitions of business units to take place or exclude them entirely. It is difficult to quantify the effect of expected transactions.

Therefore, we find that the 11.1% allocation factor used in 1990 shall be applied in this rate case. Accordingly, the intrastate expense shall be reduced by \$296,005, increasing intrastate NOI \$184,618.

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b. IDCP Information System

See Stipulation No. 12 in Section III. The effect of this adjustment is to increase intrastate NOI \$21,438.

c. Allocation of Executive Compensation and Pension Benefits

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. The Company believes this compensation package is reasonable, prudent and necessary to attract and retain highly qualified senior officers.

Concurrent with our decisions herein regarding such bonuses, and using an 11.1% general allocator, we find that intrastate expense shall be reduced by \$9,702, and intrastate NOI shall be increased by \$6,051.

d. Exception Time Reporting

See Stipulation No. 13 in Section III. The effect of this adjustment is to increase intrastate NOI \$51,135.

e. Corporate Community Relations

See Stipulation No. 14 in Section III. The effect of this adjustment is to increase intrastate NOI \$72,287.

f. Aircraft Insurance

See Stipulation No. 15 in Section III. The effect of this adjustment is to increase intrastate NOI \$5,139.

B. OTHER ADJUSTMENTS

1. Test Year Operating and Maintenance Expense

Centel's per book test year intrastate operating and maintenance expense is \$68,671,820. The Company has adjusted this amount by \$2,833,427 to reflect the following adjustments: \$646,817 to plant specific operations; \$546,187 to plant non-specific operations; \$179,885 to customer operations expense; and

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\$1,460,538 to corporate operations expense. Centel asserts that its adjusted intrastate amount of operation and maintenance expense is \$65,838,393.

OPC recommends additional adjustments which further reduce the operation and maintenance to \$61,930,641.

In addition to the Company's adjustments, we find it appropriate to make further adjustments to the corporate operations expense. The majority of those adjustments have been made to bonus and stock option accounts as discussed herein. Our adjustments discussed above result in a reduction of intrastate operation and maintenance expense to \$64,183,501.

2. Non-regulated Services That Should Be Regulated Services

Prior to the AT&T divestiture in 1984, Centel was recording the associated revenues and expenses from marketing and selling AT&T services, such as Reach-Out and credit card services, "above the line." Since divestiture, and without Commission approval, Centel has been recording the revenues and expenses "below the line." Currently, Centel is projecting revenues less than expenses from its AT&T-C marketing agreement, resulting in a net loss of \$81,304 from this service.

We believe that it is appropriate to record the associated revenues and expenses from marketing and selling AT&T-C services above the line, and find that the Company shall do so in the future. However, we shall not include the projected net loss of \$81,304 in this proceeding.

3. Rate Case Expense

Centel proposes that the total intrastate rate case expense of \$1,451,491 should be amortized over a four year period, and that the correct amount of rate case expense in the test year period is \$362,873. Of this total, \$108,000 relates to fees paid to Arthur Andersen for preparation of the rate case. Centel contends that the level of Arthur Andersen fees is properly included in rate case expense and reflects reasonable levels of costs traditionally considered recoverable by this Commission.

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OPC proposes that rate case expense should be reduced to remove Arthur Andersen fees related to an overall system-wide budget revision process. OPC also asserts that the rate case preparation performed by Arthur Andersen could have been conducted by Company personnel.

Based on our review of expenses associated with rate case preparation, we will allow the entire amount of \$1,451,491. We believe that the Arthur Andersen fee reflected in the rate case expense is for the actual preparation and participation in the depositions and hearing, and differs from the system-wide budget review process OPC refers to. Therefore, we find that the appropriate amount of test year rate case expense is \$362,873.

Additionally, we note that a portion of the rate case expense relates to the filing of the incentive regulation plan. We find that, in the future, the Company shall segregate rate case expense associated with an incentive regulation plan, from the traditional test year rate case expense.

4. Postretirement Benefits

Centel has included an expense for other postretirement benefits based upon the criteria established in the exposure draft released by the Financial Accounting Standards Board (FASB). The Company believes that the appropriate time to implement the provisions of the draft is concurrent with the effective date of the new rates.

OPC asserts that the current exposure draft has been delayed until years beginning after December 15, 1992; thus test year expense should be reduced by \$978,050.

First, since the time of the hearing associated with this rate case, the exposure draft has become a final standard, Statement of Financial Accounting Standard 106. Centel's Witness Bailor testified that early adoption of the exposure draft before 1993 is strongly encouraged. We agree, and find that Centel shall be allowed to recognize the postretirement benefits expense in test year 1991 under the provisions of FASB Standard 106.

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5. Employee Relocation

The Company proposes that certain costs associated with employee relocation should be allowed as test year expense. These costs include closing costs, realty fees, and a 4% payment to the employee to cover indirect costs associated with the move. Centel asserts that its employee relocation expenses are reasonable, prudent and necessary and should be allowed for ratemaking purposes. We agree, and find that employee relocation expenses in the amount of \$17,141 shall be allowed as a test year expense.

C. INCOME TAX EXPENSE

Centel asserts that its appropriate amount of intrastate income tax expense is \$872,141. The Company's per book intrastate filing showed \$470,629 in state income taxes and (\$338,086) in federal income tax, for a total income tax of \$132,543. The Company made adjustments to state income tax in the amount of \$230,975 for a total of \$701,604. In addition, adjustments in the amount of \$508,623 were made to federal income tax, for a total of \$170,537. Thus, the Company proposes that its adjusted intrastate total income tax expense is \$872,141.

OPC made adjustments to Centel's filed state income tax in the amount of \$395,634 for a total of \$866,263. OPC adjusted federal income taxes \$1,552,479 for a total of \$1,214,393. Thus, OPC asserts that Centel's total intrastate income tax is \$2,080,656.

Given the income tax effect of our adjustments to expenses and revenues herein, including our decision not to allow a parent debt adjustment, we find that the appropriate amount of adjusted state income tax expense is \$880,077, while the proper amount of federal income tax is \$1,903,916. Thus, the total intrastate adjusted income tax amount is \$2,783,993.

VII. REVENUE REQUIREMENT

The revenue requirement of a utility is derived by establishing its rate base, net operating income, and fair rate of return. A test period of operations, traditionally based upon one year of operations, is used to derive these factors. Multiplying the rate base by the fair rate of return provides the net operating income the utility is permitted to earn. Comparing the permitted

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net operating income with the test year net operating income determines the net operating income deficiency or excess. The total test year revenue deficiency or excess is determined by expanding this net operating income deficiency or excess for taxes.

Centel's rate base is \$232,002,437, which multiplied by its authorized rate of return of 9.16% equals the Company's required net operating income of \$21,251,423. The test year net operating income is \$15,463,441, which results in a net operating income deficiency of \$5,787,982. This deficiency multiplied by the revenue expansion factor of 1.617665 produces a required revenue increase of \$9,363,016.

VIII. DISPOSITION OF REVENUES HELD SUBJECT TO REFUND

By Order No. 23454, issued September 10, 1990, we authorized interim rates in the amount of \$1,142,672, pursuant to Section 364.055, Florida Statutes. Centel has been collecting these interim rates subject to refund with interest in accordance with Rule 25-4.114, Florida Administrative Code. 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 of 11.75% rate of return, which is lower than the 13.0% rate of return midpoint we have authorized in this proceeding. Accordingly, the interim increase shall be affirmed, with no further disposition of these revenues required.

IX. COST OF CAPITAL

A. FAIR RATE OF ROE

The Commission must establish the fair rate of return which the Company will be authorized to earn on its investment in rate base. The allowed rate of return shall be established in order to maintain the Company's financial integrity and enable it to attract capital at reasonable costs. The ultimate goal of providing a fair return is to allow an appropriate return on the equity financed

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portion of the investment in rate base. The Commission has traditionally considered all sources of capital (with appropriate adjustments) in establishing a fair rate of return.

The establishment of a utility's capital structure serves to identify the sources of capital employed by the utility, together with the amounts and cost rates associated with each component. After identifying the sources of capital, the weighted average cost of capital is determined by multiplying the relative percentages of the capital structure components by their associated cost rates and then summing the weighted average costs. The net utility rate base multiplied by the weighted average cost of capital produces an appropriate overall return which includes a return on the equity-financed portion of the investment in rate base.

To arrive at a fair overall rate of return, it is necessary that the Commission use its judgment to establish the allowed return on common equity. In this proceeding, two expert witnesses presented testimony concerning the fair rate of return on common equity capital (ROE) for Centel. Witness James A. Vander Weide, testifying on behalf of Centel, recommended an ROE of 14.5%. Witness Mark A. Cicchetti, testifying on behalf of the OPC, recommended an ROE of 12.15%. Witness Vander Weide utilized two methodologies in arriving at his return. First, he 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. Witness Cicchetti also used two methodologies to arrive at his recommended return. First, he performed a DCF analysis on the RBHC index. Next, he performed a RP analysis on the Moody's Natural Gas Distribution Index. Based on our review of the testimony of these witnesses and the extensive analyses they have performed in deriving their recommendations regarding a reasonable cost of equity for Centel, as well as current market conditions, we find it appropriate to set rates for Centel that will produce a 13.0% ROE.

Traditionally, our practice has been to set an ROE and to establish a 100 basis point range above and below this midpoint ROE. This creates a zone of 200 basis points within which the Company's earnings are considered reasonable. We believe that such a range is also appropriate in this case. Therefore, we establish for Centel a 13.0% ROE midpoint for all prospective regulatory

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purposes with a 100 basis point range on either side. This results in a top of the allowed ROE range for Centel of 14.0% and a bottom of the allowed ROE range of 12.0%. However, this range may be affected by our subsequent decision regarding Centel's incentive regulation plan.

B. CAPITAL STRUCTURE

We find that Centel's proposed test year equity ratio, although high, is reasonable. Centel's capital structure, which consists of 62% equity and 38% debt as a percentage of investor-supplied capital, appears 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. Furthermore, while we find that Centel's equity ratio is within a reasonable range, we believe that 62% equity is at the upper end of the reasonable range.

Based upon the proper components, amounts, and cost rates associated with the capital structure for the test year ending December 31, 1991, we conclude that the appropriate weighted average cost of capital for Centel is 9.16%. Based on our review of the record, we find that the capital structure components, amounts and cost rates set out on Attachment 1 hereto are appropriate and hereby approve them. In arriving at this approved capital structure, we have made several adjustments to the Company's proposed capital structure as set forth below.

1. Adjustment to Accumulated Deferred Income Tax

The Company proposes that its appropriate amount of intrastate test year accumulated deferred income taxes is \$47,163,156. The total company deferred income tax balance in the original filing was \$60,122,986. Centel increased this balance by \$82,408 related to nonregulated operations. The Company then removed \$14,133,096 based on the deferred tax intrastate separation factor, and then increased the resulting jurisdictional balance for the effects of the depreciation stipulation and four additional proposed adjustments to working capital.

We have increased the originally filed total company balance of \$60,122,986 for the \$82,408 related to nonregulated operations. We further increased this balance by \$986,536 associated with the depreciation stipulation, and by \$517,712 for the effect of working

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capital adjustments for the CORPS Costs vs. Savings, the Revenue and Data Center Closing, and the Arthur Andersen & Co. Budget Review Expenses. A reduction of \$542,514 was made for the effect of the removal of unamortized rate case expense. Applying the jurisdictional separation factor to the resulting total company balance, we find that the appropriate intrastate deferred income tax balance is \$46,805,449.

2. Cost Rate for Investment Tax Credits

Centel proposes that the appropriate cost rate for Investment Tax Credits (ITCs) is 12.46%. The ITC cost rate is a fall-out number dependent on the other components in the capital structure. Accordingly, we find that the appropriate cost rate for ITCs in the approved capital structure is 11.49%.

3. Adjustment to Accumulated Deferred Investment Tax Credits

No specific adjustments need to be made to accumulated Investment Tax Credits. The appropriate intrastate balance is \$4,188,040, as originally filed.

4. Adjustments to Equity Capital

Consistent with our practice of removing non-regulated investments solely from common equity, we approve the removal of \$5,750,870 of non-utility investment from common equity. We follow this practice because the cost of capital allowed for ratemaking purposes should be the cost of capital associated with the provision of utility service. Further, regulated utilities are of relatively low risk and have correspondingly lower costs of capital. There are few investments a utility can make that are of lower or equal risk. We conclude that removing non-regulated investments solely from equity recognizes their greater risks, prevents financial cross subsidization through the cost of capital, and sends a clear signal to the utility that ratepayers will not subsidize non-utility related costs.

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X. RATE DESIGN

A. PROJECTED UNITS

Centel's forecast of demand for services is a key element in determining projected revenues. Reasonable estimates of unit demand are critical to the integrity of the rate case, since there is a direct correlation between the number of billed units and revenues. For most services, the projected demand (units) and the proposed rate(s) are the two key elements used to determine projected revenues. Projected revenues are simply the product of its proposed rate(s) and its projected demand (units). This method of estimating revenues is called the "bottom up" approach. In the "bottom up" approach, the Company uses a variety of techniques for estimating the growth in units. 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 "top-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 its methods for developing unit forecasts is that such forecasts were based on historic trends, economic condition projections, planned marketing, technology changes, and specific knowledge of the customer, and that the methods used in unit development were appropriate.

Centel prepared its rate case 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 "top-down" approach, used projected revenues to derive projected billing units. However, we have typically reviewed rate cases based upon historic test years using historic billing units. The implicit assumption in using a projected test year is that projected units will more closely approximate the actual units for the projected year than will the historic units. Due to the uncertainty associated with the units developed for a projected test year, a quantitative test to judge the reasonableness of the projected units was utilized. 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

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unit growth falling outside of an established pattern, further investigation to determine why such deviations were projected was conducted. For services expected to have significantly different growth than had been achieved historically, assessments were made as to whether such growth expectations were reflected in the Company's projected units. In this way, it was possible to determine whether the forecast conducted by the Company was reasonable.

Upon consideration, we approve Centel's methods used to develop projected units for the Company's services. However, we find that the units shown in MFR Schedule E-1a shall be amended to reflect additional estimated 1991 units for service order charges as follows: Residential Service Order, New - 40,403; Business Service Order, New - 6,894; Residential Service Order, Change - 21,266; and Business Service Order, Change - 2,080. We further find that the revenue impact of the amended units is \$658,520 and shall be recognized in the test year.

B. GENERAL APPROACH TO SETTING RATES

Traditionally, we have priced non-basic services first, deriving as much revenue as possible from them before looking to local rates for increased revenues.

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. In the course of examining non-basic services we utilize numerous criteria including costs, established policy, the existence and extent of competitive alternatives, customer impact and historic rate relationships. If the revenue requirement is not met after all other services have been analyzed and set, then we 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.

It appears 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.

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C. LOCAL AND INTRALATA DIRECTORY ASSISTANCE

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 of \$.25 was not likely to be changed. However, we recently approved a \$.35 DA rate for United Telephone Company of Florida (Docket No. 891239-TL) and find 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 reflects a Commission determination that DA calls beyond the three free call limit tend to be discretionary and that the current rate of \$.25 does not cover the Company's costs.

D. LOCAL OPERATOR ASSISTANCE

Centel has proposed no changes in the rates for local operator assistance. We find this to be appropriate because the rates are equal to the existing rates for intraLATA toll operator services, except for the Company's local verify and interrupt rates which were recently approved by this Commission. Additionally, the Company's rates, for the most part, match those of the other major LEC's in Florida and there was no compelling cost evidence that the present rates are inappropriate.

E. DIRECTORY LISTINGS

Centel has proposed various changes in its rates for directory listings in order to align its rates more closely to the rates charged by other LECs in Florida. The Company asserts that the increase in rates should be approved in order to help meet the overall revenue requirement. While Centel has provided no cost data in support of its rate changes for directory listings, LECs usually do not develop this cost data and the rates for these services have generally been priced based upon their value. We find that Centel's proposed rates are comparable with other LECs' directory listings rates, although not completely identical, and are appropriate.

F. CUSTOM CALLING FEATURES

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

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1990. The proposed increases range from 20% to 50%, varying by service. The Company also proposed minor decreases of 4.76% for two services which are packages that combine several offerings.

Centel has not submitted cost information for custom calling features to support proposed increases. However, such cost information is not required for these discretionary services as long as the Commission is satisfied that the costs of providing such services are fully recovered. For custom calling features which were in place prior to 1990, we find that the original rates covered costs and that the costs of such services have not changed materially. Features which were newly offered in 1990 are also covering costs as demonstrated in the respective tariff filings. While we find the proposed rates to be acceptable, the Company should consider filing a tariff implementing banded rates for these features.

Additionally, Centel shall provide a waiver of its secondary service order charge for sixty (60) days following the effective date of these price changes to afford customers an opportunity to make changes in their custom calling feature subscriptions without penalty.

G. TOUCH CALLING RATES

Centel has proposed an increase of \$.25 per line for Touch Call service. The Company argues 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. This position is inconsistent with the Commission's decisions in recent years which have approved proposals to lower Touch Call rates whenever possible. Additionally, the Company asserts that Touch Call is competitive with non-pulse telephones. 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.

The Florida Pay Telephone Association (FPTA) argues that cost based rates for bottleneck monopoly inputs are required in order to preclude anticompetitive practices by Centel. The FPTA asserts 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. Although, from a policy perspective, this Commission does not order payphone

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providers to subscribe to Touch Call, there is no other source from which they could reasonably receive the service. The FPTA contends that a price increase for this service is inappropriate. We agree.

Centel currently charges different rates for Touch Call to different business lines. This is inconsistent with the Commission's recent decision to lower the SBT charges for PBX Touch Call to the same level as that charged for B-1 lines. Thus, we find that Centel should lower the rate charged for PBX lines to that charged for B-1 lines.

H. CHARGES APPLICABLE UNDER SPECIAL CONDITIONS

Centel has proposed no changes in its tariff for Charges Applicable Under Special Conditions (Section A5). In Docket 870099-TL, we approved Southern Bell's revised Tariff Section A5 - 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. Centel's current GCST Section A5, subsections A5.1 through A5.2, contains similar vague and repetitive language concerning how and when its provisions are to be applied. Such vague language may be a source of customer confusion and conflict between Centel and its customers if not corrected. Thus, Centel shall refile its GCST Section A5 to reflect the language used in Southern Bell's GSST Section A5. The revised filing must be submitted to the Commission no later than 120 days after the final order in this proceeding is issued.

Centel has proposed no changes for subsections A5.3 through A5.11 and we agree that the continuation of these tariff provisions unchanged is appropriate. Included within these subsections are Special Service Arrangements and Contract Service Arrangements.

I. SEMI-PUBLIC PAY TELEPHONE RATES

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). Centel proposed that rates for semi-public phones, should be set at 100% of the B-1 rate. Centel asserts that such a rate relationship is needed to appropriately reflect the fully distributed cost of such service.

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One of the purposes of 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 neither meets the Company's requirement that a public need be served nor generates 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. It is appropriate for the premises owner to bear the cost of providing telephone service to his or her customers. Thus, we find that Centel's proposed rate of 100% of the B-1 rate is appropriate.

J. MOBILE INTERCONNECTION

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 the carriers, in turn, use to provide end-to-end service to their own subscribers.

1. DID Charges

The only change Centel proposes is to increase the nonrecurring charges for the establishment of trunk groups and to add blocks of numbers. The Company proposes no change in the DID installation rates for PBX customers or for TAS customers.

Centel has provided no evidence to support an increase in the DID installation rates for mobile interconnection. Further, Centel has not differentiated DID installation for mobile interconnection, from DID installation for PBX or TAS, for which no increases were proposed. We find that there is little or no difference between the various classes of DID installation discussed herein. Thus, we find that the proposed increases are inappropriate.

2. Interconnection Rates

Centel has not proposed any reduction in the usage rates to reflect the proposed changes in its switched access rates. However, Order No. 20475 requires that as switched access rates change those changes should be flowed through to the mobile interconnection usage rate. We find that Centel must recompute its

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interconnection rates to comply with Order No. 20475 and to reflect changes in its BHMOC rate.

3. 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, but decided to review the trunk rates in this proceeding. FRTA had argued 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 testified that RCCs did take Type 1 interconnection and should pay the same rates as cellular carriers.

In Docket No. 900079-TL, we considered three options regarding the error in the record of Docket No. 870675-TL and the subsequent concern over the price of trunks for RCCs. First, we 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 our decision in Docket No. 870675-TL. This is because the net effect of the complete decision in that docket was to substantially reduce the total charges assessed to RCCs. Upon further investigation, we find that the trunk charges assessed RCC's, as a result of the investigation, should remain in place. We note that FRTA did not intervene in the instant proceeding.

K. TONE-ONLY AND COMPANY OWNED MOBILE SERVICE

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 asserts that these are declining services because of

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increased competition. Upon examination, we agree that ample competition exists for these two services.

Since these are competitive services with several vendors available to subscribers, since the capital equipment employed has maintenance costs as well as fixed costs, and since no parties opposed the increases, we find the proposed increases to be appropriate.

L. PACKET SWITCHING NETWORK CONTAINED IN SECTION 16 - DATA SERVICE

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. It has been expired since February 13, 1990.

We find that it is inappropriate to have expired tariff sections located within the Company's existing GCST. Thus, Centel shall file to delete the tariff for Centel Packet Switching Network Service by March 3, 1991.

M. VOICE MAILBOX SERVICE

Our policy regarding LEC-provided information services was set forth in Orders Nos. 21815 and 23183. LEC-provided information services are under our jurisdiction and will be regulated; the degree of regulation is to be decided on a case-by-case basis. The decision on exercising our jurisdiction over LEC-provided information services was stayed pending rulings in federal court.

We have not yet addressed how the earnings for voice mail will be treated. United has chosen to account for the revenues as a regulated item; Centel has not. At this point, either method is acceptable.

However, Centel must make a separate accounting on a going-forward basis so that voice mail revenues and expenses can be separated from the Company's other unregulated services. This

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information will be required when the Commission begins its case by case examination of information service offerings.

N. INSTALLATION CHARGE AND MONTHLY RATES FOR DID TRUNKS

Centel's current Direct-in-Dialing (DID) rate structure includes a rate for each group of 20 DID station numbers. These rates are applied in addition to regular PBX trunk charges. Centel has proposed an increase in the monthly rates for the DID trunk rates to match a proposed increase in PBX trunk rates. However, the installation charges and monthly rates for DID trunk termination and DID numbers must also be addressed.

Centel has restructured its Direct-in-Dialing (DID) service. The restructure was done in Docket No. 870310-TL and conforms with the recommended DID rate structure which flowed from the Cellular Interconnection Docket. 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. After consideration, we find that Centel's rates are appropriate.

O. PRIVATE LINE/SPECIAL ACCESS COST STUDY

The Centel Private Line/Special Access Cost Study is inadequate since not all costs have been developed for each Private Line/Special Access Service. The Company shall 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. Centel also must submit per mile interoffice costs. The refiled cost study shall be submitted within 120 days of the issue date of the order for this rate proceeding.

P. PRIVATE LINE RESTRUCTURE AND RATES

In Docket No. 890505-TL, we approved the industry rate structure for Interexchange Private Line and Special Access Services in order to decrease customer confusion and allow like services to be similarly priced between jurisdictions. It was our intent that each of the Florida LECs would eventually adopt the industry structure for its Local Private Line Services.

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Centel has duplicated the approved industry rate structure in every respect but one. Centel deviates by proposing 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. We find that the significant differences in costs between first and additional installations of private line local channels requires that separate rate elements be established for each type of circuit. Thus, the first and additional nonrecurring rate elements shall be included in Centel's tariff for Local Private Line Services.

With an average increase of 95%, the Company's proposed recurring rates are substantially greater than its current rates. The range of increases is from -30% to 364%. 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.

We find that the customer impacts for recurring rates are unacceptably high. Therefore, the proposed recurring rates shall 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 shall be reduced by 20%.

Q. CONSOLIDATION AND RELOCATION: D-4 CHANNEL SERVICES AND DIGITAL ACCESS CROSS CONNECT SERVICE

The Company has proposed to consolidate tariff sections pertaining to D-4 Channel equipment and Digital Access Cross Connect Service (DACS) into the Intraexchange Private Line Section (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. We agree that this central office equipment is used in conjunction with private line services and as such belongs in Section A20.

Like D-4 Channel Service, DACS 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 located in Section A16.2 of the GCST, and the

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Company proposes to merge it into Section A20.5.1. We find that Centel's proposal to move DACS into Section A20 is appropriate.

R. LOCAL DATA TRANSMISSION SERVICE

Local Data Transmission Service (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 along with DACS. Only end-to-end channels appear in Section A20, none of which can accommodate DACS. Since the Company proposes 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 such as Voice Grade Channel Type 2463 or 2464 or Digital Data Service. The Company asserts that this makes the continuation of LDTS unnecessary. The Company also argues that it is appropriate to obsolete LDTS 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. We find that the Company's plan to obsolete Local Data Transmission Service is appropriate.

S. FOREIGN CENTRAL OFFICE SERVICE

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. However, the Company states that the proposed rates for Foreign Central Office Service should have been filed at the level of the interoffice private line rate. We agree 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.

The proposed interoffice private line rates include a fixed monthly interoffice rate and a monthly per mile rate. The Company shall refile its rates for Foreign Central Office Service to equal the resubmitted rates of interoffice private lines (Section X-P of this Order). Thus, we find that the fixed monthly rate shall be \$25.65 per circuit and the per mile rates shall be \$1.50 (1 through 8 miles), \$1.45 (9 through 25 miles), and \$1.40 (over 25 miles).

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T. FOREIGN EXCHANGE SERVICE

Centel does not provide this service independently. The Company relies upon the cooperation of adjacent LECs for coordinating Foreign Exchange (FX) service, and for billing the service. FX service revenues are reported as part of the private line pooled revenues appearing in MFR Schedule E-1a. Under the pooling arrangement, all revenues are submitted to the pool administrator, Southern Bell, who redistributes the revenues based upon the revenue requirement of each LEC. Thus, the units and revenues for this service are not known by the Company. Centel proposes to continue its concurrence with the rates, rules, and regulations of Southern Bell's Foreign Exchange Service. We find this to be appropriate.

Southern Bell has recently begun a series of industry meetings regarding the complete restructure of FX Service 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. If we approve a restructure of the industry tariff, Centel shall submit a Company-specific tariff, and rates which reflect the industry's revised rate structure for the service.

U. REVENUE IMPACT: RESTRUCTURE OF INTEREXCHANGE PRIVATE LINE AND SPECIAL ACCESS

Commission Order No. 23400 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 that the LECs report the current and proposed revenues received from the interexchange private line pool.

Centel provided the required responses and states that special access revenues are expected to increase by \$301,242. However, the final MFR Schedule E-1a shows the increase in special access revenues to be \$348,318. Centel states that the difference in the revenues received from the interexchange private line pool is expected to decrease by \$194,540. Summing the revised revenue changes to Special Access Services with the changes to Private Line Services pooled revenues yields a Net Revenue Increase of \$153,778.

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Thus, we find that the appropriate revenue offsets to Private Line/Special Access Services revenue increases to be \$153,778. The impact of this increase is a reduction in the revenue increases needed in areas other than Private Line/Special Access Services. We find that this is appropriate.

V. CONCURRENCE WITH SOUTHERN BELL: INTEREXCHANGE PRIVATE LINE AND SPECIAL ACCESS RATES AND TARIFFS

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. Centel asserts 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 and that the costs developed for the Centel Private Line Cost Study should apply to all three jurisdictions. We agree that the cost study should be considered in establishing rates for all of Centel's Private Line/Special Access Services, regardless of jurisdiction.

However, establishing a company-specific tariff for Centel's Interexchange Private Line Services is problematic at this time because revenues are pooled. Each company's revenue requirement is calculated using the same rate of return in any given year. There are important ties for all pool participants, and no one participant is currently allowed to abandon the pool.

Meet-point billing is a prerequisite for de-pooling of Interexchange Private Line Services. 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 the service's revenues are in the revenue pool along with Interexchange Private Line Service revenues. Thus, de-pooling of interexchange private line revenues requires a simultaneous de-pooling of FX Service. We find that, until this is accomplished, it is appropriate for Centel to continue its concurrence in the industry tariff.

Conversely, Special Access Services are billed and kept today. Since a company-specific cost study has been produced for these services, there is no reason why Centel can not develop its own tariff. We are concerned that the proposed recurring rates for Special Access Services are not cost-based. Due to the significant

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recurring cost differences between Centel's Special Access Services and Southern Bell's Special Access Services, we find little reason for the Company to continue to concur in industry rates. Thus, the Company must develop a company-specific Special Access tariff with lower recurring rates for Special Access Services than the industry tariff would allow.

We find that allowing the industry's Year 1 recurring rates for Centel's Special Access Services is appropriate since these rate increases are justified. After Year 1, rates for Special Access Services shall be set equal to rates for Centel's Local Private Line Services, since the costs for these services are the same regardless of jurisdiction. In this way, establishing comparable rates for comparable services can be achieved while allowing customers time to adapt to the significant rate increases required. After Year 1, rates, costs, and contribution for Special Access Services shall be identical to those for Local Private Line.

Therefore, we accept Centel's continued concurrence in Southern Bell's Private Line/Special Access Services tariff for the present time, but shall require the Company 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 shall contain the rate structure, language, and rule changes approved in Docket No. 890505-TL for Special Access Services. It also shall provide for rates equal to the rates in effect at that time for Centel's Local Private Line Services. Similarly, when meet-point billing is achieved for Interexchange Private Line Services on an industry-wide basis, a company-specific tariff shall be developed for Centel's Interexchange Private Line Services with rates comparable to its rates for Local Private Line Services.

W. FLEXIBLE PRICING FOR PRIVATE LINE AND SPECIAL ACCESS SERVICES

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 proposed by the Company. There are problems inherent with this approach which are associated with the industry pooling of billing and collection for Private Line Service. Additionally, we do not accept Centel's classification of Special Access Services as nonbasic.

The Company asserts that services are classified as non-basic if there are alternative services available or if the service is

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not essential for ordinary voice local or toll calls. However, we find 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 digital communications more efficiently than voice local or toll calls. With the exception of expensive private networks, this service is provided only by the LEC. Until Alternative Access Vendors are authorized to transport communications on an interLATA basis, no other entity can economically provide interLATA transport of large bandwidth communications. Thus, we find that treating Special Access as nonbasic for the purpose of allowing fluctuating Special Access rates is not appropriate.

X. DIGITAL BUSINESS SERVICE RATES

Digital Business Service is Centel's centrex service offering. It offers basic dial tone, direct inward dialing (DID), and Touchtone as part of the basic service offering. In addition, it can provide a wide variety of features and call management techniques, similar to those provided by private branch exchanges (PBXs) and key systems. Business centrex requires digital central office facilities in addition to special central office software.

Centel's most recent cost study for business centrex indicates that the cost of this service is \$6.79 per line.

The main issue surrounding LEC business centrex type offerings involves competition with PBX equipment providers. Both business centrex and PBX provide access to the local and toll networks, as well as communications between subscriber stations within the system. 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. Our policy is to avoid the repricing of centrex offerings in isolation from competitive, functionally equivalent offerings. Historically, PBX Basic Local Exchange Rates were priced in relation to basic local exchange service for business (B-1 Lines). In order to avoid undue advantage to centrex customers, the percentage increases in PBX

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rates shall not exceed the percentage increases in business centrex rates.

Currently, business centrex has no touchtone rate element whereas PBX trunk rates do. We believe that centrex monopoly elements such as touchtone should be unbundled as directed in Order No. 23872. In the touch calling issue, we have ordered the PBX touchtone rate element reduced from \$4.00 to \$1.00 per trunk. Accordingly, to unbundle touchtone from this service, we shall approve Centel's proposed rates for centrex service, less \$1.00. The approved rates for Centel's centrex services appear below. We note that these rates will allow the Company to achieve the same revenue as those proposed by the Company, while also allowing Centel to recover the cost of providing the service as represented by the Company. In addition, we find that the percentage increase in rates for centrex, given the rates shown below, is greater than the percentage increase in PBX rates approved in this proceeding.

NUMBER OF LINES	MONTHLY RATES
3-6*	\$26.11
7-15	25.86
16-25	25.61
26-50	25.11
51-100	24.61
101-150	24.11
151-200	23.61
201-250	23.11
251-300	22.61
301-500	21.86
501-1,000	20.86
1,001-2,000	18.35
2,001-10,000	14.93
10,001 and up	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. Each of

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these sections features line rates which are similar to those appearing in Section A12 for business centrex. These sections serve as the basis for rates under contract. Ordinarily, comparable rates should be maintained for comparable services. However, the rate changes which appear above for business centrex should not be duplicated in these state centrex tariff sections. These sections were formulated in order to allow the state to enter into stable contract arrangements. Changing these contracts in mid-term would be inappropriate. Instead, the contracts' rates should be analyzed for possible adjustment at the time that the contracts expire. The Company shall submit each section two months prior to its expiration date for state centrex services.

Y. TROUBLE LOCATION CHARGE

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. Centel proposes to increase its trouble location charge 59%, from \$29.50 to \$46.80. Centel justifies this increase on the grounds that it has also proposed a similar increase to its premises visit charge.

Trouble location charges have traditionally been treated similar to service connection charges - cost recovery is appropriate but a large contribution above cost is not. 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, and leave a margin to cover any additional costs.

Z. SERVICE CONNECTION CHARGES

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.

We believe 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

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ones, do not cover the associated costs provided by the Company. Upon consideration, we find that the rates shown below are the appropriate Service Connection Charges.

SERVICE CHARGES	RESIDENCE	BUSINESS
Primary Service Order	\$10.00	\$22.00
Secondary Service Order	\$10.00	\$14.00
Line Connection Charge	\$32.00	\$34.00
Premises Visit Charge	\$21.00	\$30.00

Link-up Florida connection charges will continue to be 50% of the regular rates. The Company is proposing no changes to this policy and we agree that the current policy is appropriate.

We note that 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.

AA. STIMULATION AND REPRESSION

Stimulation and repression refer to increases and decreases in the demand for goods and services in response to changes in the price. Centel has not included any estimates of stimulation or repression that may result from its proposed rate changes. Centel does not believe the data is available to forecast a reliable estimate of the stimulation and repression.

We believe there may be some stimulation and repression which would occur as a result of changing rates. However, such stimulation and repression can not be accurately estimated with any high level of confidence.

BB. INTRALATA MTS TOLL RATES

Centel has proposed no changes in Message Toll Service (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 and United, which have the same structure but lower rates.

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The only party to take a position on the issue of MTS rates 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.

Upon consideration, we believe 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.

It is curious that, in view of the increasing level of toll competition, Centel proposed no MTS reductions. Because of competitive pressures as well as other pressures, we believe a market-based approach would be appropriate for setting MTS rates. Pricing for MTS should reflect rates which are forward looking. Thus, 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. These rates must also be priced to recover switched access charges in the aggregate. Accordingly, Centel's approved MTS rates are as follows:

MILEAGE BAND	MTS RATES	
	FIRST MINUTE	ADDITIONAL MINUTES
0-10	\$0.17	\$0.07
11-22	0.24	0.14
23-55	0.29	0.22
56-124	0.38	0.30
125-292	0.51	0.34

We note that these rates will allow Centel to be more competitive as well as reduce the disparity between interstate and intrastate MTS rates.

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CC. WATS AND 800 SERVICE RATES

1. Installation

Centel proposed no charges to its recurring rates for WATS and 800 Service. No other parties took positions. Historically there has been a cross-elastic demand relationship between MTS and WATS/800 service. Since we have reduced MTS we also find it appropriate to reduce WATS and 800 Service rates. It is appropriate that the existing rate relationship between MTS and WATS continue. Since the cross-elastic relationship between 800 Service and MTS is less than the amount of the reduction need not be as great for 800 service since 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.

In addition, we note that 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 approximately 46%.

The appropriate rates for WATS are as follows:

HOURS	WATS RATES		
	DAY	EVENING	NIGHTS & WEEKEND
0-10	\$13.20	\$9.10	\$5.30
10.1-25	\$12.00	\$8.30	\$5.30
25.1-50	\$10.80	\$7.45	\$5.30
50.1-80	\$9.60	\$6.60	\$5.30
Over 80	\$8.40	\$5.80	\$5.30

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The appropriate rates for 800 Service are as follows:

800 SERVICE RATES			
HOURS	DAY	EVENING	NIGHTS & WEEKEND
0-10	\$14.95	\$10.60	\$6.10
10.1-25	\$13.15	\$9.25	\$6.10
25.1-50	\$11.20	\$7.85	\$6.10
50.1-80	\$10.35	\$7.25	\$6.10
Over 80	\$9.45	\$6.70	\$6.10

2. Nonrecurring Charges

Centel proposed 25% across-the-board increases for nonrecurring WATS/800 service rate elements. 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. Upon consideration, we find that the rates for WATS/800 Primary Service Orders, Secondary Service Orders, and Line Connection Charges, should be equal to the analogous rate elements approved for Basic Business Service.

DD. INTRACOUNTY TOLL-FREE CALLING - AND PROPOSED AGENCY ACTION FOR INTERCOMPANY ROUTES

Centel presently has intracompany toll-free calling within the counties it serves with the exception of Holmes, Jackson, Okaloosa, and Walton Counties. Formal requests for extended area service (EAS) are presently pending in Docket No. 870248-TL for Holmes County and Docket No. 900539-TL for Okaloosa County. Based upon the record in this proceeding, we have determined that it is appropriate to provide toll relief in these four counties. Accordingly, Centel shall be required to implement a \$.25 message rate on all intracounty routes in these four counties where toll rates presently apply. Additionally, we find it appropriate to require Centel to implement a \$.25 message rate between the Seagrove Beach and Ft. Walton Beach exchanges. Centel shall implement this calling plan on the intracompany routes as soon as possible, but no later than June 1, 1991.

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Our action herein shall be in the form of a notice of proposed agency action for those routes included in the above calling plan that involve local exchange companies other than Centel (intercompany routes). These routes are: (1) between Sneads and Chattahoochee (St. Joseph Telephone and Telegraph Company); (2) between Bonifay and Chipley (Southern Bell Telephone and Telegraph Company (Southern Bell)); (3) between Cottondale and Chipley (So. Bell); and (4) between Graceville and Holmes and Jackson counties (So. Bell). Since the route between Graceville and Ponce de Leon is interLATA, Southern Bell shall immediately begin action to obtain a waiver from the Modified Final Judgment to carry this traffic. The intercompany routes shall be implemented no later than July 1, 1991, assuming there is no protest to our proposed action. So. Bell shall provide revenue calculations for each of its routes and shall be allowed to offset its toll and access losses in Docket No. 880069-TL. Dockets Nos. 870248-TL and 900539-TL shall be closed following expiration of the protest period.

We note that some of the intracounty routes for which this plan is being prescribed currently offer the Toll-Pac plan to subscribers. Centel shall eliminate its Toll-Pac offerings simultaneously with the implementation of the \$.25 message rate on all of these routes except Freeport to Ft. Walton Beach.

EE. BUSY HOUR MINUTE OF CAPACITY CHARGE

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. Centel proposes to reduce its BHMOC from \$6.47 to \$5.00.

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. We agree.

AT&T-C argued that the BHMOC should be set at \$4.85; then it should be further reduced by \$1.62 annually until it is completely eliminated.

We agree that Centel's BHMOC should be reduced more than proposed. However, we do not agree that it should be fully

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eliminated in the manner suggested by ATT-C. Accordingly, we find that a BHMO rate of \$4.15 is appropriate.

FF. BILLING AND COLLECTION SERVICE

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. All rates, terms and conditions for the services appear in the Southern Bell Access Tariff, which is the industry tariff.

The Company has experienced decreasing revenues for access Billing and Collection Service since 1989. 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. Centel expects the revenues to continue to decline. Currently, revenues for access Billing and Collection Service do not cover the fully allocated costs of the service as determined in separation studies. The Company intends to 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.

We believe that Centel should be taking steps to restructure its Billing and Collection Service to reverse the trend of declining billing and collection revenues. However, we do not find it appropriate to mandate that the Company file a company-specific tariff Billing and Collection Service at this time. Therefore, we approve Centel's continued concurrence with Southern Bell's tariff for Billing and Collection Services.

GG. OTHER SERVICES

Centel's current rate for restoral or service, nonpay and vacation service is \$10. We believe this should be increased to match the rate approved in the United rate case. Therefore, we approve an increase in the rate for this service to \$15.00. The Company proposed an increase in the rate for restricted send-paid service but provided no justification. Accordingly, the requested increase shall be denied. Additionally, Centel sought to increase the break-in rotary service, which allows some lines or trunks to be removed from the rotary group. Centel's proposed increase was

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from \$9.45 to \$14.05. The Company provided no justification for this increase either and we shall not approve it.

HH. OPTIONAL LOCAL MEASURED SERVICE (LMS)

Centel proposes an optional Local Measured Service (LMS) plan, Option 30, to reduce the effects of the rate increase on customers with fixed incomes who have limited outward calling needs. The Company proposes to offer this service only to residential subscribers, at 60% of the R-1 rate with an allowance of 30 messages per month, and a charge of \$0.10 per message for each message over 30. Centel estimates, based upon the experience of GTE Florida, Inc., that 6-7% of its residential customers will subscribe to Option 30.

We believe that an optional message rate plan will benefit Centel's consumers, and hereby approve Option 30. Centel shall waive its secondary service order charge for this service for the first sixty days it is available to customers.

II. HYBRID KEY SYSTEMS

A Hybrid Key System (hybrid) is a type of CPE that may function as either a key or a PBX. Currently, some LECs charge the PBX rates only, while others charge either the PBX or B-1, depending on the usage of the system as specified by the subscriber. Centel currently charges PBX rates for all hybrids, asserting that since the access arrangement is physically and functionally the same as PBX trunking, the application of PBX trunk rates is appropriate.

Upon consideration, it appears unreasonable to charge the PBX rate to all hybrid users. A customer should be able to choose the appropriate access line based on the nature of his usage. Accordingly, on a going forward basis beginning March 1, 1991, Centel is hereby required to request that new business customers certify the manner in which their hybrid will be used. Such certification may be oral or written. Centel must then charge the appropriate rate. Centel shall also notify PBX customers of this change in policy in a separate mailing to be sent no later than 60 days following this Order. The mailing shall explain the change in policy and request that affected customers contact the Company's business office. This will allow existing hybrid owners who do not use their CPE for access line pooling to be notified of their

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eligibility for a rate decrease. Accordingly, Centel should keep a record of all customers noticed by this mailing.

JJ. PBX MESSAGE RATED TRUNKS

Centel currently has no PBX message rated trunks or usage rates for hotels, motels, hospitals, and other transient locations. Although the Company is generally in favor of measured service, it did not propose such rates in this proceeding. However, we believe, and the Company agrees that it should have message or measured rates for PBX, and message rate trunks for other transient locations.

Therefore, we direct Centel to either file a tariff incorporating message rate trunks for these installation or respond as to why it should not file such a tariff, within 60 days of this Order.

KK. LOCAL EXCHANGE RATE RELATIONSHIPS

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. However, in order to determine rate levels in a systematic fashion, appropriate rate relationships must be established. Traditionally, we have set new basic local exchange rates by calculating them as a function of either the one-party residence (R-1) or one-party business (B-1) rate.

Centel has proposed to change the relationship of basic local service access line rates as a proportion of the B-1 rate in two classes of service: 1) increase the semi-public service line rate from 75% to 100% of the B-1 rate; and 2) increase the long distance trunk rate from 60% to 100% of the B-1 rate.

We believe that Centel's proposal is appropriate and approve the changes in the semi-public service line and long distance trunk rates. For the remaining customer classes, Centel's proposed rates do not substantively change their current relationship to R-1 or B-1. Accordingly, we approve all rate relationships proposed by the Company.

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LL. BASIC LOCAL EXCHANGE ACCESS LINE RATES

Centel proposed to increase basic local exchange access line rates by \$14,389,492 or 56.7%. Centel proposed to raise prices for basic one-party local residential rates in the highest rate group, from \$6.00 to \$9.95, an increase of 66%. The proposed rate levels are based on Centel's projected revenue requirement for local rates of approximately \$14.5 million.

OPC was the only other 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. OPC stated that access and toll rates should not be lowered at the expense of raising local rates.

Consistent with our rate setting philosophy, and our rate setting actions herein, we find it appropriate to increase local rates by \$10,588,873. The authorized R-1 local rates are as follows:

<u>Rate Group</u>	<u>R-1 Rate</u>
1	\$6.90
2	7.30
3	7.70
4	8.10
5	8.55
6	9.00

These rates exclude the Gross Receipts Tax. Thus, to accurately reflect customer impact, an additional 1.5% of the rate must be added. (2.0% effective January 1, 1991).

MM. CURRENT BILL FORMAT

Centel currently meets the bill format requirements of Commission Rule 25-4.100, except as required by Order No. 22741, issued March 27, 1990. In that Order, we set forth certain billing requirements for the provisioning of 900 Service. By Order No. 23619, issued October 15, 1990, Centel was granted an extension until March 1, 1991, to comply with those requirements. Presently

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Centel's billing only includes the billing agent when the agent differs from the 900 provider. We now require the customer's billing to show the name of the IXC providing the 900 service as well as the 900 program name. Therefore, Centel shall be in compliance with our requirements by March 1, 1991.

NN. NOTICE OF RATE CHANGES AND EFFECTIVE DATE

The bill stuffer that is mailed after the decision in this case shall contain an overview of the case. In addition, it shall contain the following specific announcements. First, the effective date of the rates and an explanation of local service charges which may be prorated. It should contain notice of any credit that may be due the customer regarding discontinuance or modification of service before the due date of the bill. An explanation of new services shall be included. Additionally, a summary of services for which rates have been adjusted, including current rates and approved rates. A statement that information on new rates is available from each of the Company's business offices and service centers shall be included. Finally, the bill stuffer shall explain the application of the gross receipts tax. The bill stuffer shall also be submitted to the Staff prior to being mailed.

The effective date of any rate changes shall be 5 days after a complete set of correct tariffs has been filed. The revised tariff shall be filed within 5 days of our final vote. Before the tariffs become effective, we shall have a period of 5 days to review those tariffs in their final proposed form in order to ensure that the rates as filed comply with our vote. Billing shall apply to all service received on or after the effective date, even if not actually billed until the following month.

XI. INCENTIVE REGULATION PLAN

In addition to its request for a permanent revenue increase, Centel also seeks approval of its proposed Incentive Regulation Plan (the Plan). The Plan, as described by Centel, is comprised of five primary components: (1) price-capped rates for basic and non-basic services, with flexible pricing for non-basic services; (2) special treatment for switched access service, until a more favorable price to cost relationship has been achieved; (3) an annual flow-through of exogenous factors; (4) enhanced service commitments; and (5) continued implementation of improved

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technologies. The term of Centel's proposed Plan would be four years (1991 through 1994).

A specific legal issue addressed during this proceeding was whether we have the jurisdiction to grant the Plan proposed by Centel. We have concluded that we cannot approve the Plan consistent with the requirements of Chapter 364, Florida Statutes, as it existed prior to October 1, 1990. 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.

Two sections of the statute are pertinent to addressing the legality of the Plan. Section 364.035(1), Florida Statutes (1989), states that "no telephone company shall be denied a reasonable rate of return upon its rate base..." Additionally, Section 364.14(1), Florida Statutes (1989), 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 that we use rate base/rate of return regulation to prescribe the company's rates. All of the parties except Centel explicitly agree with this conclusion. Even so, it is obvious that Centel agrees because it continually attempts to characterize its plan as meeting those requirements. The only true area of dispute, then, is whether Centel's proposed plan is consistent with that statutory mandate.

Other than Centel, none of the parties believe that the proposed Plan is consistent with the requirements of rate base/rate of return regulation. While the Plan does initially utilize rate base/rate of return regulation to set rates, for the next four years, rates would be subject to an annual price adjustment based upon one of two formulas. This price indexing bears no relationship to Centel's earnings. In addition, the Plan lacks a floor and a ceiling on the Company's earnings. Centel has attempted to save its Plan by comparing it to the plan we

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authorized for Southern Bell Telephone and Telegraph Company (Southern Bell) in Docket No. 880069-TL. However, Centel's proposal is readily distinguishable from the plan we approved for Southern Bell in 1988. Another element of the Centel Plan that is legally problematic is the proposed moratorium on show cause proceedings for the duration of the Plan. We believe that foregoing such proceedings where traditionally deemed appropriate would be a derogation of our duty to regulate telephone utilities consistent with the public interest.

Upon consideration of the above factors, we find it appropriate to reject Centel's proposed Plan because of its clear departure from rate base/rate of return regulation. We are not, however, opposed to the notion of authorizing an alternative regulatory plan for Centel, assuming that the evidence compiled in this proceeding would support such a plan. Accordingly, we shall defer our decision on the issue of whether any form of incentive regulation is appropriate for this Company and if so, what form that regulation should take, until a later date. We hereby direct our Staff to submit a further recommendation to us addressing these questions. This recommendation shall address, in detail, specific elements to be included in an appropriate incentive regulation plan for Centel, at this time, based solely upon the evidence contained in this record. We shall render our decision on this matter by separate order so as not to delay action on the rate case issues that constitute the bulk of Centel's Petition.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that each and every one of the specific findings set forth herein be and the same are hereby approved in every respect. It is further

ORDERED that the Minimum Filing Requirements filed by Central Telephone Company of Florida support an increase in its rates and charges designed to generate \$9,363,016 in additional annual revenues and the Company is hereby authorized to collect such increased revenues. It is further

ORDERED that the Company shall file revised tariffs reflecting the rate adjustments approved herein no later than five days after our vote in this matter. These tariffs shall become effective no later than five days after correct tariffs have been filed and approved by our Staff. It is further

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ORDERED that Central Telephone Company of Florida shall, within sixty days of the issuance date of this Order, request a letter ruling from the Internal Revenue Service (IRS) regarding whether our parent debt adjustment violates the normalization requirements of the IRS' proposed regulations. It is further

ORDERED that the interim increase of \$1,142,672 authorized by Order No. 23454 effective September 16, 1990, is hereby affirmed with no further disposition required. It is further

ORDERED that Central Telephone Company of Florida shall hold subject to refund or other disposition, with interest, the sum of \$1,017,731 annually. These revenues shall be so held until the later of the IRS' issuance of a letter ruling or final regulations regarding the question of a parent debt adjustment violating the IRS' normalization requirements, as set forth herein. It is further

ORDERED that Central Telephone Company of Florida's proposed Incentive Regulation Plan is hereby denied as filed for the reasons discussed herein. It is further

ORDERED that our Staff shall file a recommendation addressing whether an alternative form of incentive regulation plan is appropriate for Centel as set forth herein. We shall consider this issue at our Agenda Conference of February 19, 1991. It is further

ORDERED that Dockets Nos. 891246-TL and 880069-TL shall remain open. It is further

ORDERED that Docket No. 881543-TL is hereby closed. It is further

ORDERED that Dockets Nos. 870248-TL and 900539-TL shall be closed following the expiration of the protest period specified below, if no protest to our proposed agency action is filed in accordance with the requirements set forth below.

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By ORDER of the Florida Public Service Commission, this 28th
day of February, 1991.

STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

ABG/PAK/CWM/JKA/TH

by: Kay Heizer
Chief, Bureau of Records

NOTE: Commissioners Betty Easley and Gerald L. Gunter dissented from the Commission's decision to establish 13.0% as an ROE midpoint in favor of a 12.6% midpoint. Commissioners Easley and Gunter also dissented from the Commission's decision to approve the Company's proposed capital structure.

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

As identified in the body of this order, a portion of our action in Section X-DD of this order is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This

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petition must be received by the Director, Division of Records and Reporting at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on March 21, 1991. In the absence of such a petition, this order shall become effective on the date subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

If the relevant portion of this order becomes final and effective on the date described above, any party adversely affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or sewer utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days of the effective date of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

Any party adversely affected by the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or sewer utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

CENTRAL TELEPHONE COMPANY OF FLORIDA
TEST YEAR ENDED DECEMBER 31, 1991
DOCKET NP. 891246-TL

COST OF CAPITAL

DESCRIPTION	LONG-TERM DEBT	SHORT-TERM DEBT	CUSTOMER DEPOSITS	COMMON EQUITY	TAX CREDITS WEIGHTED COST	DEFERRED INCOME TAXES	TOTAL CAPITAL
Total Company per Budget	\$88,028,542	\$4,779,884	\$833,861	\$154,055,097	\$5,588,531	\$60,122,986	\$313,408,901
Specific Adjustments							
1. Plant Retirements	(\$6,748)	(\$366)	(\$64)	(\$11,809)	\$0	\$0	(\$18,987)
2. Depreciation Rates	565,854	30,726	5,360	990,278	0	986,536	2,578,754
3. Directory Receivables	(292,112)	(15,862)	(2,767)	(511,213)	0	0	(821,954)
4. Unamortized Rate Case Expense	(321,730)	(17,470)	(3,048)	(563,047)	0	(546,196)	(1,451,491)
5. Amortization Adjustments	262,335	14,245	2,485	459,101	0	517,712	1,255,878
6. Non-Utility Investment	0	0	0	(5,750,870)	0	0	(5,750,870)
7. Taxes Related to Non-Reg Operations	0	0	0	(82,408)	0	82,408	0
Total Adjustment	\$207,599	\$11,273	\$1,966	(\$5,469,968)	\$0	\$1,040,460	(\$4,208,670)
Adjusted Capital per Budget	\$88,236,141	\$4,791,157	\$835,827	\$148,585,129	\$5,588,531	\$61,163,446	\$309,200,231
Interstate Capital	(22,360,100)	(1,214,137)	(211,809)	(37,653,260)	(1,400,491)	(14,357,997)	(77,197,794)
Jurisdictional Intrastate Capital	\$65,876,041	\$3,577,020	\$624,018	\$110,931,869	\$4,188,040	\$46,805,449	\$232,002,437
Percent of Total	28.39%	1.54%	0.27%	47.82%	1.81%	20.17%	100.00%
Cost Rate	9.08%	9.00%	7.64%	13.00%	11.49%		
Weighted Cost	2.58%	0.14%	0.02%	6.22%	0.20%		9.16%

ATTACHMENT 1