

FLORIDA PUBLIC SERVICE COMMISSION

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

MEMORANDUM

May 9, 1991

TO : DIRECTOR, DIVISION OF RECORDS AND REPORTING

FROM : DIVISION OF COMMUNICATIONS [MAILHOT, ^{DM}BUCHAN, ^{BBB}MCNULTY] ^{WBM}
DIVISION OF LEGAL SERVICES [GREEN] ^{AS} ^{HP}

RE : DOCKET NO. 910584-TL INVESTIGATION OF THE BHMOC RATES
OF ALLTEL, GULF, NORTHEAST, QUINCY, ST. JOSEPH AND
VISTA-UNITED

AGENDA: MAY 21, 1991 - CONTROVERSIAL - PROPOSED AGENCY ACTION -
PARTIES MAY PARTICIPATE

CRITICAL DATES: NONE

DOCUMENT NUMBER-DATE

04557 MAY-9 1991

FPS-RECORDS/REPORTING

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ISSUE 1: Should the BHMOC rates of Alltel, Gulf, Northeast, Quincy, St. Joseph and Vista-United be reduced?

RECOMMENDATION: Yes. Effective September 1, 1991, the BHMOC rates of ALLTEL, Gulf, Northeast, Quincy, St. Joseph and Vista-United should be reduced by 25% of their current rates to the rates shown in Attachment A.

STAFF ANALYSIS: Staff is recommending a reduction in the BHMOC rate for ALLTEL, Gulf, Northeast, Quincy, St. Joseph and Vista-United. This recommendation is consistent with the Commission's decisions in the NTS Cost Recovery docket in orders Nos. 18598 and 19677. In that docket the Commission identified the BHMOC as an element that contributed to excess earnings for some LECs and was a difficult access element to administer. As a result, this Commission has taken action to reduce and when possible eliminate the BHMOC access rate.

Prior to October 1, 1990, ALLTEL, Centel, Gulf, Indiantown, Northeast, Quincy, St. Joseph, United and Vista-United had a uniform BHMOC rate of \$6.60. On October 1, 1990, each of these companies reduced their BHMOC rates in response to a BHMOC rate reduction by Southern Bell. In early 1991, Centel and United further reduced their BHMOC rates to \$4.15 and \$4.33 respectively, as a result of their rate cases. We believe that ALLTEL, Gulf, Northeast, Quincy, St. Joseph and Vista-United should reduce their BHMOC rates by 25% from the current level. This will result in the BHMOC rates for these six companies ranging from \$3.20 to \$4.55, as shown in Attachment A. These rates are in line with the Commission's decision on the BHMOC rates of \$4.15 and \$4.33 for Centel and United, respectively.

Based on the current level of earnings of each of these companies, we believe that they can absorb this rate reduction without forcing them into a position of underearning. In fact, the Commission currently has dockets open to investigate the earnings of Quincy and St. Joseph. However, this recommendation does not resolve Quincy's and St. Joseph's earnings dockets. Additional action will be taken in those dockets. The proposed reductions for ALLTEL, Gulf, Northeast and Vista-United will result in a 1-2 percentage point decrease in ROE depending on the company. Based on the December 1990 surveillance reports and known changes in earnings, such as the phase-up of the interstate SPF for Gulf and Northeast, we believe that this proposed reduction will not force these companies to earn below their authorized ROE. We believe the 25% BHMOC rate reduction is appropriate based primarily on each company's earnings.

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Floralta, Indiantown and Southland's earnings are 8.67%, 4.62% and -4.38% return on equity, respectively. This is well below their authorized ROE; therefore, we are not recommending, that their BHMOC rates be reduced. This is consistent with the Commission's decision regarding the BHMOC rate reduction last October 1, 1990, in which Floralta and Southland were excluded because of their relatively low earnings.

By reducing the BHMOC rates of several LECs at one time, we are able to produce a large enough access reduction for AT&T to flow through. Access reductions by only one of the smaller LECs is just not significant.

We recommend that ALLTEL, Gulf, Northeast, Quincy, St. Joseph and Vista-United reduce their current BHMOC rate by 25%, effective September 1, 1991 as shown in Attachment A.

ISSUE 2: If Issue 1 is approved, should ATT-C be ordered to file tariff revisions effective September 1, 1991, reducing their rates to reflect a revenue neutral position?

RECOMMENDATION: Yes. ATT-C should file tariff revisions by August 1, 1991, to become effective September 1, 1991, reducing their rates.

STAFF ANALYSIS: ATT-C is required to pass through access reductions in the form of reduced rates. AT&T should reduce its rates in accordance with the distribution of switched access usage in order to reflect its share of the \$845,761 BHMOC reduction by ALLTEL, Gulf, Northeast, Quincy, St. Joseph and Vista-United. Also, ATT-C should further decrease rates in order to flow through to end users ATT-C's \$301,674 decrease in access expenses associated with Southern Bell's decrease in Feature Group D originating access charges approved in Docket 910381-TL which becomes effective May 10, 1991. Tariffs should be filed by August 1, 1991, to be reviewed by staff, and if not controversial, be approved to become effective September 1, 1991.

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ISSUE 3: Should this docket be closed?

RECOMMENDATION: Yes. This docket should be closed at the expiration of the PAA period, if no protest is filed.

STAFF ANALYSIS: This docket should be closed at the expiration of the PAA period, if no protest is filed. No further action is necessary in this docket.