Southern Bell

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July 15, 1992

ORIGINAL
FILE COPY

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

Re: Docket No. 920260-TL - Rate Stabilization

Dear Mr. Tribble:

Enclosed please find an original and fifteen copies of Southern Bell Telephone and Telegraph Company's Petition for Order Adopting Plan for Alternative Method of Regulation, which we ask that you file in the captioned docket.

A copy of this letter is enclosed. Please mark it to indicate that the original was filed and return the copy to me. Copies have been served to the parties shown on the attached Certificate of Service.

Sincerely yours,

Harris R. Anthony (PJ)

Harris R. Anthony

Enclosures

cc: All Parties of Record
A. M. Lombardo
R. Douglas Lackey

ACK ___
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APP ___
CAF ___
CMU 3
CTR ___
EAG ___
LEG 1 w/m
LIN 6
OPC ___
RCH ___
SEC 1
WAS ___
OTH ___

CERTIFICATE OF SERVICE
Docket No. 920260-TL

I HEREBY CERTIFY that a copy of the foregoing has been furnished by United States Mail this 15th day of July , 1992 to:

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Comprehensive Review of the Revenue Requirements and Rate Stabilization Plan of Southern Bell Telephone & Telegraph Company	Docket No. 920260-TL Filed: July 15, 1992

SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY'S PETITION FOR ORDER ADOPTING PLAN FOR ALTERNATIVE METHOD OF REGULATION

COMES NOW BellSouth Telecommunications, Inc., d/b/a Southern Bell Telephone and Telegraph Company ("Southern Bell" or "Company"), pursuant to Rule 25-22.036, Florida Administrative Code, and files this Petition requesting that the Florida Public Service Commission ("Commission") adopt a plan approving an alternative method of regulation for Southern Bell. Southern Bell states in support thereof the following:

1. In 1990, Chapter 364, Florida Statutes, was amended to require that the Commission exercise its jurisdiction, in part, to encourage cost-effective technological innovation and competition in the telecommunications industry, to eliminate unnecessary regulatory restraints and to recognize the continuing emergence of a competitive telecommunications environment through the flexible regulatory treatment of competitive telecommunications services. Sections 364.01(3)(c)(d)&(e), Florida Statutes.

2. Consistent with these general goals, the Florida legislature subsequently amended Chapter 364 and enacted § 364.036, Florida Statutes, which authorizes the adoption of alternative regulatory methods for local exchange telecom-

munications companies. Southern Bell herein proposes an alternative regulatory method which comports with the provisions of this statute and which will benefit the Company's subscribers.

3. In 1988, this Commission took a first step in providing Southern Bell with enhanced incentives to operate with greater efficiency and creativity. In Order No. 20162, this Commission created a framework for the sharing of earnings between Southern Bell and its subscribers in those instances in which greater efficiency resulted in greater Company earnings. Although this approach has served well the goal of promoting efficiency, it nevertheless remains a variation on traditional cost-based, rate of return regulation. Accordingly, this transitional form of regulation should now give way to the next level, one which will allow Southern Bell to meet the needs of emerging competitive markets and which will further promote the goals mandated by the legislature in 1990.

4. Southern Bell's proposed alternate form of regulation, known as the Price Regulation Plan, has as its primary goals the enhancement of pricing flexibility, the streamlining of the regulatory process and the encouragement of both the introduction of new services and the improvement of operating efficiencies. At the same time, it will provide appropriate consumer safeguards in the form of aggregate price ceilings, limitations on the price changes of individual services, the avoidance of cross-subsidies and the sharing between Southern Bell and its customers of earnings above a certain level.

5. Specifically, the plan proposed by Southern Bell has five primary elements:[1] (1) the setting of an initial price index; (2) a mechanism for adjusting the price index; (3) safeguards in the form of limitations on the level of price adjustments; (4) a quicker, simpler tariffing process; and (5) the continuation of earnings sharing.

6. To elaborate, at the starting point of the plan, current rates would be used to establish an initial price regulation index ("PRI"). Once the PRI has been established, it would be adjusted each year according to the following formula:

> PRI adjustment = adjustment for inflation - offset for productivity +/- exogenous cost changes.[2]

The resulting PRI would then be used to adjust Southern Bell's aggregate prices. One of the most significant features of this formula is the productivity adjustment, which Southern Bell proposes to be set at 4%. This means that subscribers will receive a price reduction of at least 4% each year, as compared to the inflation rate. By way of example, in a year in which there is inflation, as measured by the GNP-PI, of five percent and no exogenous changes, the adjustment to the aggregate PRI

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[1] A more detailed description of the plan proposed by Southern Bell is set forth fully in the testimony of Anthony Lombardo, Assistant Vice President of Regulatory Relations, Southern Bell, which is being prefiled in this docket on this date.

[2] The definition of each element in the formula is set forth in Mr. Lombardo's testimony.

would be an increase of one percent (five percent minus four percent minus zero). If, on the other hand, inflation were three percent, Southern Bell would decrease its aggregate prices by one percent.

7. In addition to this aggregate pricing rule, Southern Bell proposes specific guidelines for adjustments in the prices of individual services. These would allow the rates for certain "basic" services to change no more than 5% a year while allowing greater changes in "non-basic" services. Basic services would be those generally required to provide essential local exchange services to an end user and would include offerings such as residence and business access services, service connection charges, and switched access to an interexchange carrier. All other services would be classified as non-basic.[3]

8. Southern Bell also proposes that increases and deceases in prices would occur through a less cumbersome, more streamlined process than the tariffing process that currently exists. Specifically, all price increases necessary to maintain aggregate prices at or below the adjusted PRI would be filed, along with associated tariffs, on May 1 of each year. These price changes would go into effect on 60 days' notice. Additional tariff filings could be submitted throughout the year, provided that aggregate prices remain at or below the PRI. These tariffs would

[3] A list of the service and pricing rules are set forth in Mr. Lombardo's testimony. In addition, the testimony states how the PRI will provide for the treatment of new services, restructured services and detariffed or proprietary services under the plan.

be effective on 15 or 30 days notice, depending on the service and on whether the change is an increase or decrease. Tariff filings that modified terms and conditions for service would be effective on 60 days notice.

9. Southern Bell also believes that it would be appropriate to further streamline the current tariff approval process by use of a presumptive approval of price changes. In other words, tariff filings would not be suspended if proposed changes are within the pricing rules of the plan and do not result in aggregate prices in excess of the PRI. Nonetheless, the existing complaint procedures and investigative authority of the Florida Public Service Commission would continue to apply.

10. While the proposed plan is innovative in many regards, Southern Bell's proposed Price Regulation Plan continues to include an earnings sharing mechanism similar to that found in the current Rate Stabilization Plan. However, while the current plan provides that subscribers recover 60% of any shared earnings, the proposed plan calls for equal sharing between the Company and its subscribers. Southern Bell proposes the use of an equally balanced sharing ratio under the Price Regulation Plan to reflect the automatic productivity benefit of four percent provided to its customers. This obviates the need for the tilting of the division of earnings that is currently in place.

11. As a complement to the earnings sharing, which provides an important safeguard for subscribers, the plan also provides that if extraordinary events cause earnings to fall below the

established earnings floor, Southern Bell would be allowed to request price changes that could exceed the otherwise mandatory pricing guidelines set forth above. This request would not be presumptively approved, but would, instead, be subject to the traditional tariff, cost support, and approval process.

12. Under the provisions of Section 364.036, the Commission may implement an alternative method of regulation if it finds that the alternative method proposed meets seven criteria that are specifically delineated therein. Southern Bell's proposed plan does so, as the following comments demonstrate.

A. Sections 364.036(a) and (c) require that the proposed plan must be in the public interest and must provide identifiable benefits to the public. As the telecommunications industry evolves, the public interest demands that its form of regulation change as well. Southern Bell's plan meets the public interest by providing enhanced incentives to the Company to develop new technologies and services and to become more efficient. This will allow it to become a more effective competitor and thereby reduce upward pressure on local rates. Further, the mechanism for achieving increased efficiency, the guaranteed yearly four percent reduction in real prices, is a clear example of a benefit not available in the current regulatory scheme.

B. Section 364.036(2)(d) requires that the plan provide effective safeguards for consumers of telecommunications services. The plan does so by including two types of limitations on price increases. First, there is a limitation on the aggregate increase in prices that may occur in any given year. Second, there is a specific limitation on the amount that the price of any service can be increased in a year.

C. Section 364.036(2)(e) requires that the plan assure just, reasonable and nondiscriminatory rates for monopoly services that are also not excessive. The rates proposed by Southern Bell will be based upon those that currently exist and thus have been specifically approved by the Commission. Further, the plan sets forth clear and reasonable standards for any price increases or decreases that may occur. These factors effectively assure that there will be no unreasonable or discriminatory charge for monopoly services.

D. Section 364.036(2)(f) requires the assurance that the rates for monopoly services do not subsidize competitive services. Again, the limitations on the amount that both aggregate and individual prices can be raised in any given year provide a strong and effective deterrent to cross-subsidization. So, too, do the prohibitions against a new service being priced below its incremental cost and the price of an existing service being lowered below such cost.

E. Finally, Sections 364.036(2)(b) and (g) provide that the plan must not jeopardize the ability of the local exchange company to provide quality service that is reasonably affordable. The plan proposed by Southern Bell would do considerably more to ensure the availability of quality, affordable service than does the current method of regulation. The enhanced ability to timely respond to emerging competition will give Southern Bell the means to compete on a more equal basis which will help Southern Bell offer affordable rates for those services not subject to competition.

WHEREFORE, Southern Bell respectfully requests the entry of an order adopting the Price Regulation Plan proposed herein as an alternative method of regulation.

Respectfully submitted,

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TELEPHONE AND TELEGRAPH COMPANY

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