FLORIDA PUBLIC SERVICE COMMISSION

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M E M O R A N D U M

August 6, 1992

TO : **DIRECTOR, DIVISION OF RECORDS AND REPORTING**

FROM : **DIVISION OF COMMUNICATIONS [NORTON, WRIGHT]**
DIVISION OF LEGAL SERVICES [GREEN]

RE : **DOCKET NO. 920260-TL: COMPREHENSIVE REVIEW OF THE REVENUE REQUIREMENTS AND RATE STABILIZATION PLAN OF SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY (T-92-447 filed 7-15-92)**

AGENDA: **AUGUST 18, 1992**

CRITICAL DATES: **60 DAYS EXPIRES SEPTEMBER 13, 1992**

SPECIAL INSTRUCTIONS: **NONE**

CASE BACKGROUND

This docket was opened pursuant to Order No. 25552 in Docket No. 911109-TL, Southern Bell's Modified Minimum Filing Requirements filing. The purpose of this proceeding is to conduct a full revenue requirements analysis and to evaluate the Rate Stabilization Plan under which the Company has been operating since 1988. Order No. 25552 required that they file their Minimum Filing Requirements (MFRs) on May 1, 1992. This was done, however, the Company notified the Commission in its Test Year Request letter of March 25, 1992 that it would not be submitting its testimony or proposals at that time. The Chairman approved a revised case schedule that required Southern Bell to submit its testimony and updated MFRs by July 15. Included in that filing were proposed tariff revisions which are addressed in this recommendation.

DISCUSSION OF ISSUES

ISSUE 1: Should Southern Bell's proposed tariff revisions to reduce, restructure and modify its rates for various local, toll, and access services in connection with this rate case be suspended?

RECOMMENDATION: Yes, Southern Bell's proposed tariff revisions should be suspended.

STAFF ANALYSIS: Staff has recommended to suspend the proposed tariffs in order to allow a complete investigation of Southern Bell's revenue requirements; an assessment of the full impact of its proposed rate reductions; an analysis of its proposed Optional Expanded Local Service Plan; and a thorough evaluation of its proposal to institute Price Cap Regulation in lieu of traditional Rate of Return regulation.

In its filing, Southern Bell has proposed to decrease revenues in 1993 by approximately $13.3 million. In addition, it has proposed permanent revenue reductions of $47.4 million based on amounts identified by the Commission in Docket No. 880069-TL, and which are currently being credited on monthly customer bills per Order No. 25558. The total 1993 impact, based on a July 1, 1993 effective date would therefore be $60.8 million.

The Company has proposed the following changes to achieve this revenue reduction:

Optional Expanded Local Service Plan

Southern Bell is proposing an optional Expanded Local Service (ELS) plan which would be applicable to both residential and business customers. Rates would be a combination of a reduced flat monthly charge and a usage, or per minute, charge. Calls within the current, or basic, local calling area would be charged $.02 per minute with a $3.00 usage allowance and a $10.00 cap on residential usage ($30.00 cap on business). The expanded local calling area is proposed to cover 40 miles from the home exchange, and calls would be charged at $.08 per minute. Seven digit dialing would usually be available. ELS rates would not apply to calling card or operator assisted calls made to points outside the basic calling area; for these calls regular MTS rates would be charged. Certain measured pilot, message rate, and residential low use offerings would be eliminated. Several options would also be offered:

1) Discount Option #1:

   - For $.50 a month for residential ($1.00 business), a 20% discount on basic local calling area usage.

2) Discount Option #2:

   - Available to business only
   - 50% discount on basic local calling area usage
   - Minimum usage charge: $12.00 per month.

Basic Local Exchange Rates

Southern Bell is proposing reductions to certain business basic local exchange rates and the elimination of all flat rate EAS additives. It has also proposed a lifeline offering that would reduce local rates by $7.00 for qualified low income subscribers. The current monthly credit on customer bills ($.40-.58 on R-1s) will be eliminated.

Service Connection Charges

Service connection charges are proposed to be restructured and reduced. The primary service order would be eliminated, access line connection charges would be increased for the first line, and a reduced charge would be assessed for additional lines ordered at the same time. Secondary service order charges for business would be increased.

Other Proposed Reductions

Small reductions have been proposed to residential Call Waiting and residential Call Forwarding Variable. SBT has also proposed reductions in switched access charges and mobile interconnection rates.

Economic Development Plan

Under this plan, SBT would waive nonrecurring charges and reduce basic monthly local rates by 50 percent for 12 months for businesses which locate in economically depressed areas designated as "Enterprise zones" by the Florida Enterprise Zone statute.

A summary of the proposed revenue reductions is included as Attachment 1. For informational purposes, a very brief outline of the Company's price cap regulation proposal is provided in Attachment 2.

ISSUE 2: Should this docket be closed?

RECOMMENDATION: No, this docket should remain open.

STAFF ANALYSIS: This docket should remain open pending final Commission decisions currently scheduled to take place in March, 1993.

920260.RBN

Attachment 1

DN 920260-TL
Southern Bell Rate Case

Summary of Proposed Changes

	Reductions 1993 Impact (millions)
Optional Expanded Local Service	$ 7.7
Switched Access Rates	5.0
Mobile Interconnection	.6
Economic Development Plan	0
	$13.3

The following changes are proposed to replace the current monthly credit on customer bills:

	Reductions 1993 Annualized Effect (millions)	
Service Connection Charges	$11.5	
Custom Calling Features	4.4	
Local Business Rates; Eliminate EAS additives	30.0	
Lifeline Rates	1.5	
		$47.4
Total		$60.3 million

Attachment 2

Price Regulation Plan

Southern Bell is proposing that the Commission modify its current form of regulation from Rate of Return with earnings sharing to a form of Price Caps regulation. The proposal provides for:

1) setting an initial price index;

2) a formula for annually adjusting the price index that includes inflation and productivity factors;

3) constraints on price changes, i.e., "basic" services would increase no more than 5% a year, "non-basic" services would increase no more than 20% a year;

4) a streamlined tariff approval process;

5) continued sharing of earnings, but modifying the terms so that earnings between 14-16% would be divided 50-50 between the Company and ratepayers.