

FLORIDA PUBLIC SERVICE COMMISSION

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

M E M O R A N D U M

January 7, 1993

TO : DIRECTOR OF RECORDS AND REPORTING

FROM : DIVISION OF AUDITING AND FINANCIAL ANALYSIS (MAILHOT, DM 1993)
DAVIS) *MD*
DIVISION OF COMMUNICATIONS (LONG) *1/19/93 RMT*
DIVISION OF LEGAL SERVICES (KURLIN) *PK* *H*

RE : DOCKET NO. 910731-TL, NORTHEAST FLORIDA TELEPHONE
COMPANY, INC. MODIFIED MINIMUM FILING REQUIREMENTS
DOCKET NO. 920260-TL, SOUTHERN BELL TELEPHONE AND
TELEGRAPH COMPANY, REVIEW OF REVENUE REQUIREMENTS AND
RATE STABILIZATION PLAN

AGENDA: JANUARY 19, 1993 - CONTROVERSIAL - PROPOSED AGENCY ACTION
PARTIES MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: I:\PSC\AFA\WP\910731.RCM

CASE BACKGROUND

Northeast Florida Telephone Company (Northeast, the Company) filed Modified Minimum Filing Requirements (MMFR) with the Commission on July 22, 1991. Staff audit of the filing is complete. Northeast and OPC met and reached a settlement agreement which was accepted by the Commission with modification in Order No. PSC-92-0337-AS-TL. The settlement agreement identified preliminary overearnings of \$484,200 for 1991. The exact amount would be identified after completion of the Company's 1991 annual cost study. The cost study has been completed and the Company has submitted a revised surveillance report incorporating the results of the cost study and the staff audit. This recommendation addresses the amount of 1991 overearnings to be refunded to the customers.

00226-93
DOCUMENT NUMBER-DATE
00226 JAN-7 93
FPSC-RECORDS/REPORTING

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DISCUSSION OF ISSUES

ISSUE 1: What amount of 1991 earnings are in excess of Northeast's 14.40% maximum authorized ROE?

RECOMMENDATION: The Commission should recognize 1991 earnings in excess of the 14.40% maximum authorized ROE of \$435,636 as a final settlement of Northeast's 1991 earnings. The utility should refund the \$435,636 plus \$31,724 in interest accrued through December 31, 1992, a total of \$467,360, in accordance with the provisions of the settlement agreement accepted by the Commission. [DAVIS]

STAFF ANALYSIS: Northeast filed its 1991 earnings surveillance report (ESR) in March, 1992. Based on staff's initial review of the ESR, Northeast's earnings above its maximum authorized ROE of 14.40% for 1991 were estimated to be \$484,200. This amount was incorporated into the settlement agreement as a preliminary estimate of 1991 overearnings. Northeast began refunding this amount plus interest to its customers in July, 1992. The total amount refunded in 1992 was \$230,559.73.

The staff audit of Northeast was completed and a revised ESR was submitted on November 12, 1992 showing that Northeast's ROE for 1991 is 28.69% and the Company has received revenue in excess of the 14.40% maximum authorized ROE of \$435,636. The utility should continue refunding the \$435,636 plus interest in accordance with the provisions of the settlement agreement as accepted by the Commission.

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ISSUE 2: Should Northeast's interLATA access charge bill and keep subsidy be eliminated?

RECOMMENDATION: Yes. Effective January 1, 1993, Northeast's current interLATA subsidy of \$23,000 annually, should be eliminated and Northeast should be removed from the interLATA access charge bill and keep subsidy pool. [MAILHOT]

STAFF ANALYSIS: The interLATA access bill and keep subsidy pool was established on July 1, 1985 by Order No. 14452. The subsidy pool was established as a temporary mechanism to ease the transition from a pooling environment to a bill and keep environment. Originally, all 13 LECs participated in this pool. By Order No. 21678, Gulf's subsidy was eliminated, effective July 1, 1989. By Order No. 21954, Indiantown's subsidy was eliminated and Florala, Gulf, Indiantown, Quincy, Southland, United, and Vista-United were removed from the subsidy pool, effective September 1, 1989. By Order No. 22421, St. Joseph's subsidy was reduced and Centel was removed from the pool, effective January 1, 1990. By Order No. PSC-92-0337-AS-TL, Northeast's subsidy was reduced to its current level of \$23,000, effective July 1, 1992. The current status of the interLATA subsidy pool is shown in ATTACHMENT A. The subsidy receipts and payments do not change each year except by specific action of the Commission.

By Order No. PSC-92-0337-AS-TL, the Commission accepted a stipulation which requires further reductions in Northeast's subsidies to the extent that Northeast's earnings exceed 13.2% return on equity. Based on Northeast's level of earnings and the stimulation which is occurring with the \$0.25 calling plan from Macclenny to Jacksonville, staff recommends that Northeast's remaining interLATA subsidy be eliminated and that Northeast be removed from the interLATA subsidy pool, effective January 1, 1993, as shown in ATTACHMENT B.

This recommendation does not address Northeast's intraLATA subsidy which is currently \$282,000 annually. Staff will make a subsequent recommendation concerning Northeast's intraLATA subsidy after a more complete review of the Company's earnings.

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ISSUE 3: Should Southern Bell's reduced subsidy payment be treated as an additional set aside amount in Docket No. 920260-TL?

RECOMMENDATION: Yes. The Commission should treat Southern Bell's reduced subsidy payment as an additional set aside amount to be disposed of in Docket No. 920260-TL. [MAILHOT]

STAFF ANALYSIS: If the Commission approves Issue 2, then the amount paid into the interLATA subsidy pool by Southern Bell will decrease. In the past, when a company's payments into the subsidy pool have decreased the Commission has disposed of the money by applying it to some specific purpose. Consistent with prior actions of the Commission, staff recommends that the reduction in subsidy payments by Southern Bell be added to the set aside amount to be disposed of in Docket No. 920260-TL.

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ISSUE 4: Should this docket be closed?

RECOMMENDATION: No. This docket should remain open to allow staff to monitor the effects of the rate reductions implemented in 1992, monitor compliance with the settlement agreement which addresses earnings through 1993 and resolve the MMFR. [DAVIS]

STAFF ANALYSIS: Staff recommends that this docket remain open to allow staff to monitor the results of the rate reductions in 1992, monitor compliance with the settlement agreement which addresses earnings through 1993 and to conduct further staff review of the MMFR.

INTERLATA TOLL BILL AND KEEP
CALCULATION OF SUBSIDY PAYMENTS *
July 1, 1992
(\$000)

COMPANY	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>
	INTERLATA BILL/KEEP IMPACT	DA & COIN REVENUE	REVENUE EFFECT OF PREVIOUS COMM ACTION	TOTAL IMPACT (1-2+3)	SUBSIDY CONTRIB	SHORTFALLS REQUIRING SUBSIDY
ALLTEL	(2,110)	265	472***	(1,374)		(1,374)
GTE	(1,271)	18,136	0	16,865	690	
NORTHEAST	(176)	42	111 #	(23)		(23)
ST. JOSEPH	(1,674)	151	300 **	(1,223)		(1,223)
SOUTHERN BELL	<u>12,456</u>	<u>19,949</u>	<u>(27,481)</u>	<u>4,924</u>	<u>1,930</u>	
TOTAL	<u>\$7,225</u>	<u>\$38,543</u>	<u>(\$26,598)</u>	<u>\$19,169</u>	<u>\$2,620</u>	<u>(\$2,620)</u>

* EXCLUDING CENTRAL, FLORALA, GULF, INDIANTOWN, QUINCY, SOUTHLAND, UNITED AND VISTA-UNITED

** ST. JOSEPH INCLUDES \$300,000 REDUCTION APPROVED IN DOCKET NO. 891238-TL.

*** ALLTEL INCLUDES \$472,000 REDUCTION APPROVED IN DOCKET NO. 911108-TL.

NORTHEAST INCLUDES \$111,000 REDUCTION APPROVED IN DOCKET NO. 910731-TL.

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January 7, 1992

ATTACHMENT B

INTERLATA TOLL BILL AND KEEP
CALCULATION OF SUBSIDY PAYMENTS *
January 1, 1993
(\$000)

COMPANY	1	2	3	4	5	6
	INTERLATA BILL/KEEP IMPACT	DA & COIN REVENUE	REVENUE EFFECT OF PREVIOUS COMM ACTION	TOTAL IMPACT (1+2+3)	SUBSIDY CONTRIB	SHORTFALLS REQUIRING SUBSIDY
ALLTEL	(2,110)	265	472 ***	(1,374)		(1,374)
GTE	(1,271)	18,136	0	16,865	690	
ST. JOSEPH	(1,674)	151	300 **	(1,223)		(1,223)
SOUTHERN BELL	12,456	19,949	(27,481)	4,924	1,907	
TOTAL	\$7,401	\$38,501	(\$26,709)	\$19,192	\$2,597	(\$2,597)

* EXCLUDING CENTRAL, FLORALA, GULF, INDIANTOWN, NORTHEAST, QUINCY, SOUTHLAND, UNITED AND VISTA-UNITED

** ST. JOSEPH INCLUDES \$300,000 REDUCTION APPROVED IN DOCKET NO. 891238-TL.

*** ALLTEL INCLUDES \$472,000 REDUCTION APPROVED IN DOCKET NO. 911108-TL.