**FLORIDA PUBLIC SERVICE COMMISSION**

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 **M E M O R A N D U M**

 **MARCH 4, 1993**

**TO : DIRECTOR OF RECORDS AND REPORTING**

**FROM : DIVISION OF AUDITING AND FINANCIAL ANALYSIS (MAILHOT, CAUSSEAUX, SALAK)**

 **DIVISION OF COMMUNICATIONS (NORTON)**

 **DIVISION OF LEGAL SERVICES (HATCH)**

**RE : DOCKET NO. 900920-TL MODIFIED MINIMUM FILING REQUIREMENT REPORT OF VISTA-UNITED TELECOMMUNICATIONS**

**AGENDA: MARCH 16, 1993 - CONTROVERSIAL - PARTIES MAY PARTICIPATE - PROPOSED AGENCY ACTION**

**CRITICAL DATES: NONE**

**SPECIAL INSTRUCTIONS: I:\PSC\AFA\WP\900920.RCM**

 **CASE BACKGROUND**

 This item was deferred from the January 7, 1992 agenda at the request of Vista-United (Vista), to allow the company additional time to study the staff's recommendation. The company also agreed to place $1,543,314 subject to refund, effective January 7, 1992.

 By Order No. 23949, issued January 2, 1991, Vista-United was ordered to file certain financial and rate schedules by March 31, 1991. The Company filed the schedules on April 1, 1991, to meet the modified minimum filing requirements.

 Vista-United was originally formed as a partnership in 1969 between Vista Communications, Inc. and Florida Telephone Satellite, Inc. Vista Communications, Inc. is a wholly-owned subsidiary of Walt Disney Company. Florida Telephone Satellite was a wholly-owned subsidiary of Florida Telephone Corporation which was a wholly-owned subsidiary of United Telecommunications, Inc. Currently, Vista-United Telecommunications is a partnership which is 51% owned by Disney and 49% owned by United Telecommunications through subsidiary corporations.

 On September 28, 1992, Vista filed a proposal to resolve this docket. Vista's proposal is discussed in the following issues.

 **DISCUSSION OF ISSUES**

**ISSUE 1:** Should the Commission accept Vista-United's proposal to resolve the issues in this docket?

**RECOMMENDATION:** No. The Commission should not accept Vista- United's proposal to resolve the issues raised in this docket but should instead issue a PAA which includes the remaining issues of this recommendation. (MAILHOT, SALAK)

**STAFF ANALYSIS:** On September 28, 1992, Vista filed a proposal to resolve this docket. In summary, Vista's proposal is to 1) effect certain rate design and tariff proposals made by staff and 2) close this docket.

 In its proposal, the Company gave its position on each of the issues raised in staff's December 23, 1991 recommendation. In addition, Vista included its projection of 1992's earnings. Staff disagrees with Vista's position on several of the issues and with Vista's projection of 1992's earnings. Therefore, staff recommends that Vista's proposal not be accepted and that the issues in this docket be resolved by issuing a PAA on the remaining issues of this recommendation.

**ISSUE 2:**  Should the Commission order Vista-United to change its rates in order to target its earnings at an appropriate authorized return on equity?

**RECOMMENDATION:** No. Staff estimates that Vista's earnings will be below an appropriate authorized return on equity and does not recommend any net increase to revenues without a full investigation of Vista's earnings. (MAILHOT, CAUSSEAUX, SALAK)

**STAFF ANALYSIS:** Vista-United filed its MMFRs on April 1, 1991, based on a 1990 test year. Staff completed its audit of the MMFRs on August 6, 1991. Since then, staff has reviewed calendar year 1991 data and calendar year 1992 data. Staff has used 1992 financial information and 1992 estimated separations factors for its recommendation.

 Staff's estimate of Vista's 1992 earnings has decreased significantly since December 1991 due primarily to two factors. Vista's actual access charge revenue has declined $700,000 from 1990 to 1992. Its interstate SPF has phased down faster than expected, thereby increasing intrastate revenue requirements $250,000 more than expected. In addition, other decreases to revenue and increases to expenses have occurred, which reduce Vista's earnings.

Return on Equity

 Vista-United has never been authorized a return on equity (ROE). In its December 1991 recommendation, staff recommended that Vista-United be authorized a return on equity of 10.9%, to be used for all regulatory purposes. In its proposal, Vista has used a 12.0% return on equity to calculate its 1992 earnings deficiency. The Company has been using 12.0% as its midpoint for surveillance report purposes. The Company has stated that its required ROE is in the range of 11.0% to 13.0%. Staff believes that the determination of an appropriate return on equity is inextricably linked to the issues of an appropriate equity ratio and the allowance or disallowance of income tax expense. Without a decision on income tax expense and the appropriate equity ratio, staff does not recommend that the Commission set an authorized return on equity for Vista.

Accounting Adjustments

 In its December 1991 recommendation, staff proposed five proforma adjustments to 1990's data to more accurately estimate 1992's operations. Since 1992 financial information is now being used to estimate 1992's earnings, these five adjustments are not necessary. Vista agrees that these adjustments no longer need to be made.

 In addition to the five proforma adjustments discussed above, staff proposed the following two adjustments, which Vista disagrees with.

 1). Staff proposed an adjustment to impute gross profits for a portion of the profit from the Central Florida directory. The Central Florida directory is published by Uni-Don, which is a partnership owned in equal shares by Directories America, a subsidiary of United Telecommunications, Inc., and Reuben H. Donnelley Corp., a publishing company that is not affiliated with Vista. By Order No. 21375, issued June 13, 1989, the Commission

 " Ordered that Vista-United Telecommunications shall report 3.5% of the total gross profits as imputed directory advertising revenues from the Central Florida directory for the actual test year for purposes of the calculations contemplated by Section 364.037, Florida Statutes, and Rule 25-4.0405, F.A.C...."

 Vista's position is that 3.5% of only Uni-Don's gross profit should be imputed to Vista. Page 2 of Order No. 21375 sets out the gross profit amounts to be imputed to Vista. The gross profit imputed to Vista is 3.5% of the gross profit included on Uni-Don's books and 3.5% of the gross profit on Directories America's books related to publishing the Central Florida directory. The Commission included the gross profit on Directories America's books because it is an affiliate of Vista. Now, Vista does not agree that 3.5% of Directories America's gross profit should be imputed to Vista.

 2). Staff proposed that Vista not be allowed any income tax expense because it is a partnership and therefore does not itself incur an income tax liability. The tax status of the stockholder or owner has not been a consideration in determining the tax expense allowed a utility.

 The above listed adjustments result in an increase in estimated 1992 earnings. However, even with these adjustments, staff does not expect Vista's earnings to be above an appropriate ROE for 1992. Staff does not recommend that Vista's earnings be increased through a general rate increase without a full investigation of the Company's earnings. Vista has not requested a general rate increase.

 Staff will continue to monitor Vista's earnings through the surveillance program. We will make adjustments to the surveillance report which we believe are necessary to calculate Vista's earnings in a manner consistent with current Commission policy. If Vista's earnings appear to be excessive based on staff's calculations, then staff will take the appropriate action at that time.

**ISSUE 3:** Should the Commission allow Vista-United to bill the Florida Gross Receipts Tax as a separate line item on customers' bills?

**RECOMMENDATION:** Yes, Vista-United should be allowed to bill the Florida Gross Receipts Tax (GRT) as a separate line item on customers' bills. Rule 25-4.110(7)(b) should be waived to the extent that local rates should not be reduced to offset the unbundling of the GRT. The $38,482 revenue effect should be offset by means of the rate changes specified in Issue 4. (NORTON)

**STAFF ANALYSIS:** Historically, the 1.5% Gross Receipts Tax (GRT) has been rolled into customers' base rates. Effective July 1, 1990 the Legislature increased the tax rate from 1.5% to 2.0%. The additional .5% was to be shown separately on the bill and not rolled into the base rate. The GRT was increased to 2.25% effective July 1, 1991, and to 2.5% on July 1, 1992. The separate billing for part of the tax has apparently caused some customer confusion as well as billing problems for some LECs. This is because 1.5% GRT is embedded in some rates but not in others. For example, the federal subscriber line charge has no embedded GRT, whereas intraLATA MTS rates do. This creates the appearance of different GRT rates being charged for different services.

 Section 203.10, F.S., provides that utilities may separately state all the GRT on customer bills. The Commission has approved billing the entire GRT as a separate line item for ALLTEL, Centel, Florala, GTEFL, Gulf, Indiantown, Quincy, and United. Staff recommends that Vista-United also be allowed to bill the entire GRT as a separate line item. The revenue effect of rolling out the currently embedded 1.5% GRT from base rates is approximately $38,482 based on 1992 data.

 Commission Rule 25-4.110(7)(b) requires that tariffed rates which contain embedded GRT must be reduced so as to leave a customer's bill unaffected as a result of separately stating the tax. Staff recommends that the rule be waived only to the extent that local rates should not be reduced in this case. The decrease would be minimal and Vista's current local rates are very low relative to calling scope and the rates charged by other LECs. If the Commission approves staff's recommendation to unbundle the GRT, the $38,482 should be offset as part of the rate changes specified in Issue 4.

**ISSUE 4:** How should the Commission dispose of the revenues identified in Issue 3?

**RECOMMENDATION:** MTS daytime rates should be reduced as follows:

|  |  |  |
| --- | --- | --- |
|  |  **Current** |  **Recommended** |
|  Mileage Band |  1st/Add'l |  1st/Add'l |
|  0 - 10 |  $.19/.09 |  $.25/msg. - local |
|  11 - 22 |  .28/.16 |  $.25/.16 |
|  23 - 55 |  .40/.28 |  $.25/.24 |
|  56 - 124 |  .51/.37 |  $.25/.24 |
|  125 - 292 |  .58/.39 |  Delete |

 The off peak discounts should be modified as follows:

 25% : 5 p.m to 11 p.m. - Weekdays, Sunday

 50% :11 p.m. to 8 a.m. - Every day

 50% : 8 a.m. to 5 p.m. - Saturday

3)Vista-United should be required to notify customers of potential rate changes in billings mailed following the Commission's vote. Notices should include information on MTS rate reductions, Service Connection Charges, and Gross Receipts Tax unbundling. Vista-United should submit a proposed customer notice to staff for approval no later than March 31, 1993.

4)Tariffs should be filed no later than April 26, 1993, assuming no protests are filed against the Commission's decision in this docket, to become effective May 1.

(NORTON)

**STAFF ANALYSIS:** In Issue 3, staff has recommended that the gross receipts tax be billed separately. This would result in a revenue increase of approximately $38,482 unless offset. In this issue, staff recommends that Vista's MTS rates be reduced by approximately $62,532. The reason for the difference between the gross receipts tax offset and the recommended MTS rate reduction is to allow for the expected impact of restructuring Service Connection Charges, as discussed in Issue 5.

 In keeping with recent Commission decisions, staff is recommending decreases to this Company's MTS rates in order to align its rates more closely with those of other toll carriers with whom it competes in the intraLATA toll market. Vista-United's MTS rates have not been reduced since the Commission authorized non-uniform intrastate LEC toll rates in 1988.

 Staff recommends the following changes to Vista-United's MTS daytime rates:

|  |  |  |
| --- | --- | --- |
|  | **Current** | **Recommended** |
|  | 1st/Add'l | 1st/Add'l |
|  0 - 10 | $.19/.09 | $.25/per msg.-local |
|  11 - 22 |  .28/.16 | .25/.16 |
|  23 - 55 |  .40/.28 | .25/.24 |
|  56 - 124 |  .51/.37 | .25/.24 |
|  125 - 292 |  .58/.39 | Delete |

 The off-peak discounts should be modified as follows:

|  |  |  |
| --- | --- | --- |
|  | **Current** | **Recommended** |
| Evening: |  35% | 25% |
| Night/Weekend |  60% | 50% |

 Following is a chart that shows the effect of both the recommended rates and discount periods on a two minute call in the 23-55 mile rate band:

|  |  |  |  |
| --- | --- | --- | --- |
|  | Mon. - Fri. | Saturday | Sunday |
| **Time** | **Cur.** | **Rec.** | **Cur.** | **Rec.** | **Cur.** | **Rec.** |
| 8A-5P | .680 | .490 | .272 | .245 | .272 | .245 |
| 5P-11P | .442 | .368 | .272 | .245 | .442 | .368 |
| 11P-8A | .272 | .245 | .272 | .245 | .272 | .245 |

 The recommended changes would make Vista-United's MTS rates identical to those in effect for United Telephone, which surrounds Vista-United's territory. The change in the off-peak discounts reflects a move toward the structure that is evolving in the IXC industry.

 The change in the 0-10 mileage band reflects the fact that Vista-United's only route in that mileage band, Lake Buena Vista to West Kissimmee, has been converted to local at $.25 per message. Vista-United has no toll routes in the last mileage band, and staff recommends its deletion.

 The revenue effect of these changes is $(62,532) annually based on 1992 data. This amounts to an approximate 14.4% reduction in Vista-United's MTS revenues. The recommended MTS rates will still cover access charges, conforming to the Commission's requirements per Order No. 24859 in DN 900708-TL.

 The Company should be required to notify its customers of potential rate changes in billings mailed following the Commission's vote. They should submit a proposed customer notice to staff for approval no later than March 31, 1993.

 Tariffs should be filed no later than April 26, 1993, assuming no protests are filed against the Commission's decision in this docket, to become effective May 1.

**ISSUE 5:** What other tariff requirements should be imposed on Vista-United in this case?

**RECOMMENDATION:** Vista-United should be required to do the following:

1)Submit a tariff to restructure and reprice its Service

Connection Charges no later than 90 days following the effective date of the final order in this docket.

2)Consolidate its General Exchange Tariff and Local Exchange Tariff, and reissue in standard format no later than six months after the effective date of the final order in this docket.

3)Submit a tariff to restructure and reprice its Local Private Line Service, with the associated revenue impact, no later than six months after the effective date of the final order in this docket.

(NORTON)

**STAFF ANALYSIS:** In addition to any other requirements, Vista-United should be ordered to do the following:

1)Submit a tariff to restructure and reprice their Service Connection Charges.

 Vista-United's current service connection charges have been in place since the Company initiated operations in 1971. They currently appear to be below cost and the rate structure does not follow the manner in which costs are incurred. Moreover, a new city, called Celebration, is being planned for development in Vista-United's territory. As development begins over the next few years, Vista-United will experience a substantial increase in the amount of service connection activity.

 Typical LEC Service Connection Charge tariffs have several rate elements that cover the range of service initiation and rearrangement activities. These elements include: Primary and secondary service order charges, access line connection charges, premises visit charges, premises work charges, plus number and record change charges.

 Vista-United's current tariff only contains new connection charges which are set at $11.00 for residential and $14.00 for business. They are the lowest in Florida. No charges exist for secondary service orders, premises visits or work, or miscellaneous administrative activities.

 Staff believes that steps should be taken as soon as possible to make Vista-United's Service Connection Charges compensatory. Vista-United was unable, within the timeframe of this docket, to develop the necessary cost or billing unit estimates to set up a complete multi-element tariff. However, they have recently completed a service connection cost study, and agree that a restructure is necessary. The Company should be required to file a revised service connection charge tariff within 90 days of the effective date of the final order in this docket.

 Vista-United believes that the estimated revenue increase associated with this restructure will be approximately $25,000 annually. Staff has recommended that this revenue impact estimate be added to the impact of unbundling gross receipts tax (Issue 3) and that the total be offset by decreases in MTS rates (Issue 4). We have recommended this approach in order to make Vista-United's MTS rates comparable to those of United Telephone, whose territory surrounds that of Vista-United's. If, when Vista-United files its revised Service Connection Charge tariff, the revenue effect is calculated to be substantially different from the estimate used here, staff will proceed with a true-up.

 The estimated net revenue effect of staff's recommendations in Issues 3, 4, and the Service Connection restructure is shown below:

 Unbundle Gross Receipts Tax $38,482

 Restructure Service Conn. Chgs. 25,000

 Subtotal $63,482

 **Less:** MTS Rate Reductions 62,532

 Balance **$ 950**

**2)Reissue their General Exchange and Local Exchange tariffs in standard format.**

 Vista-United is one of several LECs whose tariffs are not in standard format. Staff has been encouraging these LECs to standardize their tariffs whenever a practical opportunity arises. Vista-United's tariff was originally approved when the Company began operations in 1971. It was based on the format of the old Florida Telephone Company's tariff, and has essentially remained that way. Exchange tariffs in standard format currently have about 20 common sections, plus additional ones for LEC specific offerings. Vista-United has 38 sections covering the common offerings, which is too many to be efficient and useful to staff or to the general public. Their tariff needs consolidating, rearranging, and general updating. Vista-United believes it will take about six months following the end of this case to complete the necessary revisions.

 In addition, Vista-United's rate structure for Local Private Line Service is quite different from its rate structure for Interexchange Private Line Service and Special Access Service, even though these services are identical in every regard except for their respective jurisdictions. Vista-United concurs in the Southern Bell Interexchange Private Line tariff and the Southern Bell Special Access tariff. The Commission restructured and repriced Southern Bell's Interexchange Private Line and Special Access Services in Docket 890505-TL. The Commission's intent was to convert all of Southern Bell's private line services to a single rate structure in order to reduce customer confusion and provide a common basis for pricing services.

 For the same reasons, staff believes that Vista-United should be required to adopt a single rate structure for its private line services. This would necessitate the restructure of Vista-United's Local Private Line Services.

 Since the Company states that it would require six months to price out all of its Local Private Line Services, and the Company will require a similar amount of time to perform the staff recommended revision of their entire tariff in standard format, staff believes that the Company should be required to submit a filing to restructure and reprice Local Private Line Services at the same time they submit their general tariff revision. The filing should include a Local Private Line Services rate structure similar to the Company's Interexchange Private Line Services and Special Access Services rate structure. In keeping with the decision in Order No. 23400 in DN 890505-TP, Vista-United should be allowed to mirror the rates and structure of another LEC whose tariff has already been approved. They should also provide the revenue impact of the restructure with the filing.

**ISSUE 6:** How should the revenues held subject to refund be disposed of?

**RECOMMENDATION:** Vista-United should not be required to refund any of the revenues held subject to refund. (MAILHOT)

**STAFF ANALYSIS:** In deferring this recommendation from the January 7, 1992 agenda, Vista-United agreed to hold revenue subject to refund, effective January 7, 1992. Based on staff's recommendation in Issue 2, we do not believe that Vista will earn in excess of an appropriate ROE for the period which revenue is being held subject to refund. Therefore, staff recommends that Vista not be required to refund any portion of the revenues held subject to refund.

**ISSUE 7:** Should the docket be closed?

**RECOMMENDATION:** Yes. The docket should be closed at the expiration of the Proposed Agency Action period if no protest is timely filed and after those tariffs required to be filed by April 26, 1993, have been filed. (MAILHOT, NORTON)

**STAFF ANALYSIS:** Staff has reviewed Vista-United's earnings for the 12 months ending December 31, 1990, the test year in the Modified Minimum Filing Requirements docket, as well as estimated earnings for 1992. Staff recommends that the docket be closed at the expiration of the Proposed Agency Action period if no protest is timely filed and after all tariffs required to be filed immediately following the PAA period have been filed. The tariff revisions required in Issue 5 can be handled separately.