BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for a rate increase by GTE FLORIDA INCORPORATED.	DOCKET NO. 920188-TL ORDER NO. PSC-93-0818-FOF-TL ISSUED: May 27, 1993

The following Commissioners participated in the disposition of this matter:

THOMAS M. BEARD
SUSAN F. CLARK

FINAL ORDER

I. BACKGROUND

On May 1, 1992, GTE Florida Incorporated (GTEFL or the Company) filed its MFRs in this rate proceeding. In its original rate case filing GTEFL requested an annual increase in revenues of $110,997,618. On September 3, 1992, GTEFL filed revised testimony and exhibits in which it modified its original rate increase request downward, to $65,994,207.

On January 21, 1993, we issued Order No. PSC-93-0108-FOF-TL in this docket, which reflects our decisions on matters relating to the Company's rate request. Among other decisions, we approved a return of common equity of 12.2% and found that an annual revenue reduction of $14,475,000 was appropriate.

On February 4, 1993, GTEFL filed a Motion for Reconsideration (Motion) of Order No. PSC-93-0108-FOF-TL, accompanied by a Request for Oral Argument. On February 11, 1993, AT&T Communications of the Southern States, Inc. (ATT-C) and the Office of Public Counsel (OPC) each responded to the Motion for Reconsideration. OPC also responded to GTEFL's Request for Oral Argument. The Company's Request for Oral Argument was denied on March 16, 1993, and an Order subsequently issued. On March 30, 1993, GTEFL requested Oral argument on reconsideration regarding certain FX data. This request for Oral Argument was denied by a panel vote at the May 4, 1993, Agenda Conference.

The standard for reconsideration is set forth in Diamond Cab of Miami v. King, 146 So. 2d 889 (Fla. 1962). In that decision, the Florida Supreme Court reasoned that the purpose of a petition for reconsideration is to bring to the attention of the administrative agency "some point which it overlooked or failed to consider when it rendered its order in the first instance. It is not intended as a procedure for re-arguing the whole case merely because the losing party disagrees with the judgment or the order." Id., at 891 (citations omitted). OPC would have us deny reconsideration for failure to meet the aforementioned standard. While it does appear that many aspects of the Company's Motion fail under Diamond Cab, we shall address the merits of the Company's arguments as set forth below.

II. THE ARGUMENTS

The sections of this Order numbered A. through Q. represent subjects which the Company requests that we reconsider. At section R, we address the revenue requirement impact of our decisions on the issues raised by the Company. At section S, we determine how to recover the identified change in revenues.

A. GTE Data Services

GTEFL has asked for reconsideration of our decision regarding GTE Data Services ("GTEDS") in which we reduced the allowable charges from GTEDS to GTEFL to the FCC's allowed rate of return of 11.25%. GTEFL asserts the following six points:

1) The adjustment is not supported by competent and substantial evidence.

GTEFL argues that the GTEDS decision was made even though GTEFL produced substantial uncontroverted proof at the hearing that the charges from GTEDS are necessary, reasonable, are among the lowest in the industry and could not be obtained from another outside source at a cheaper rate. GTEFL asserts that despite these key facts, we made an adjustment which is improper. The Company claims that the only evidence in the record concerning GTEDS' operations and efficiencies came from witness Banta, witness Reed and witness Scudder, all GTEFL witnesses. GTEFL further contends that there is no evidence to support the conclusion that GTEDS is earning an excessive return from its transactions with GTEFL and there is no evidence to support the conclusion that GTEDS' nonaffiliated business is not substantial.

We note that the evidence cited by the company regarding the quality of the services provided was never an issue, was not disputed, and is not the basis of the adjustment.

OPC witness DeWard testified that GTEDS earned 24% on shareholder investment from transactions with affiliates which was not contested by the Company. We agreed that charges from GTEDS should be at cost, which includes a reasonable return on investment. This is consistent with our decision set forth in Order No 10418, issued in the last GTE rate case, where we announced that we would require better costs and price justification for affiliate purchases in subsequent proceedings. The decision also is consistent with that of a recent case involving United Telephone Company of Florida (United).

In its argument, GTEFL sidesteps the real issue of pricing "at cost." We agreed with witness DeWard that charges from GTEDS should be at cost, which includes a reasonable return on investment. The FCC standard, as set forth at 47 CFR Ch. I, Part 32.27(d), requires that the affiliate charge the utility at cost when substantially all of the service is to regulated affiliates. In the instant case, the record indicates that GTEDS does 90% of its business with its affiliates.

GTEFL asserts that our reliance on FCC criteria is improper because we stated at the agenda conference that FCC requirements were not to be used as a basis for the decision. However, we note that this was stated in the context of a discussion about the amount of outside sales made by GTE Supply (GTES) and the Chairman was requesting our staff's opinion regarding the proper amount, not a summary of the FCC's criteria, which was already accepted.

2) <u>The Commission's Order improperly creates a new policy.</u>

GTEFL asserts that the GTEDS adjustment creates a new affiliated policy and that the adjustment failed to provide GTEFL with adequate notice of a change in the standard it must satisfy in order to include affiliated transactions in the revenue requirement.

However, our decision in this regard does not represent a policy determination; it is simply an adjustment which is consistent with prior decisions rendered in previous cases. Our decision regarding this adjustment is based on the record, which includes the evidence presented by OPC and the rebuttal evidence presented by the Company.

3) The Commission's new policy creates an impossible burden of proof. The written Order is contrary to the oral decision.

GTEFL asserts that it must meet an impossible burden of proof based on the interpretation the FCC requirement (47 CFR Ch. I, Part 32.27(d)) that an affiliate charge the utility at cost when substantially all of the service is to regulated affiliates. Because we did not announce precisely what constitutes substantially all of the service, GTEFL argues that the finding is insufficient and that it is faced with an unknown burden of proof in the future.

While GTEDS does a large dollar amount of business with outside parties, the phrase in question is "substantially all." The record indicates that GTEDS does 90% of its business with its affiliates; we found this to be substantially all. On review, we find that demonstrating that substantially all business is not with affiliates is a reasonable task without specific guideline amounts.

4) The GTEFL/GTEDS relationship is "arm's-length".

GTEFL asserts that the Commission overlooked the "arm's-length" nature of the transactions between GTEFL and GTEDS. However, OPC testified that the transaction was not "arms-length." Indeed, we note again that 90% of the total transactions occur between GTEDS and GTOCs. Our decision was based on the record which included considerable testimony and cross examination on the nature of these transactions.

5) Predatory pricing has no relevance to this issue.

In Order No. PSC-93-0108-FOF-TL, p. 70, we expressed concerns with respect to predatory pricing regarding both GTEDS and GTE Supply. GTEFL argues that this concept is irrelevant to the issue and is not a valid basis for our decision. We agree that the issue here is not "predatory pricing", it is cross-subsidization. The issue of predatory pricing is not central to our decision and we hereby strike the term as irrelevant to our decision.

6) The adjustment is inconsistent with the GTE Supply adjustment.

GTEFL asserts that there is an inconsistency between the treatment given GTE Supply and GTEDS. We agree. Based on the record, we made a decision to allow one-half of GTE Supply's embedded return on investment over the current FCC authorized overall rate of return of 11.25%, whereas we disallowed the entire amount of return in excess of 11.25% for GTEDS. The Company argues that the same modification should apply to GTEDS if an adjustment is to be made at all to correct the inconsistency. We disagree. Based on the record, we decided GTE Supply needed an incentive and decided that a similar treatment was not warranted for GTEDS.

Having considered the foregoing arguments raised by the Company, we shall deny the Company's request for reconsideration of our decision to reduce data processing expenses.

B. GTE Supply

GTEFL has asked for reconsideration of our decision concerning GTE Supply. We disallowed one-half of GTE Supply's embedded return on investment over the current FCC authorized overall rate of 11.25%. The Company asserts that we overlooked or failed to consider the following five points:

1) The adjustment to GTEFL's expenses is not supported by competent and substantial evidence.

GTEFL argues that evidence was presented that the prices charged to GTEFL are equal to, or lower than, the most favorable rate offered to any non-affiliate and that the rates charged to GTEFL are derived by reference to actual transactions consummated between GTE Supply and non-affiliated customers. The Company contends that there is no evidence to support the conclusion that GTE Supply's non-affiliated business is not substantial or that it is earning an excessive return from its transactions with GTEFL. However, we note that the issue of whether the rates charged to GTE telephone operating companies (GTOCs), are equal to or lower than the most favorable rates offered to any non-affiliate, is not in dispute. The contract between GTEFL and GTE Supply guarantees such rates.

During cross examination, witness Bastain emphasized that annual sales to approximately 2,000 non-affiliates amount to $100 million. He stated that $100 million in sales to third parties should not be characterized as insignificant. We agree that the $100 million amount may appear to be significant. However, witness Bastain failed to point out that the $100 million in sales to non-affiliates is one sixth of the total sales revenue, $600 million.

When compared to the relative sales volume, only 15% of the total volume is derived from the transactions with the non-affiliates. Based on GTEFL's argument, 15% is significant enough to derive the market price, and yet the remaining 85% is not significant enough raise concerns regarding the prices being charged. It is our view that the purchases from the GTOCs drive the volume and that our decision is supported by the record.

The Company also argues that there is no evidence that GTE Supply is earning an excessive return from its transactions with GTEFL. However, the test year includes $64,206,000 as the cost of material and supply purchases from GTE Supply. Those purchases recalculated based on cost which includes a rate of return for GTE Supply of 11.25% amount to $62,776,000. The 11.25% is the allowed rate of return set by the FCC. The difference of $1,430,000 represents the mark-up or additional rate of return to GTE Supply over and above the FCC's 11.25% allowed rate of return. On review, we find that our decision in this regard is supported by the record.

2) <u>The Order creates a new policy without advance notice, thus prohibiting the Company from presenting vital evidence.</u>

The Company's argument on this point is substantially the same as that set forth above as point 2 of GTEFL's request regarding GTEDS. We find no merit to the argument as it applies to GTE Supply.

3) <u>The Order places an impossible burden of proof on the Company.</u>

This argument is substantially the same as that set forth above as point 3 of GTEFL's request regarding GTEDS. We find no merit to the argument as it applies to GTE Supply.

4) <u>The Order overlooked that the relationship with GTE Supply is an "arm's-length" transaction.</u>

GTEFL asserts that the Commission failed to consider that the relationship with GTE Supply is "arm's-length." We disagree. When questioned by OPC at the hearing regarding the arbitration of price dispute, witness Bastain testified that all parties, GTE Supply, GTEFL, and the arbitrator are accountable to the same boss, namely GTE. Again, we note that 85% of the total transactions occur between GTE Supply and GTOCs and find that GTE has failed to demonstrate that this type of transaction is "arm's-length."

5) Predatory pricing is not relevant to this adjustment.

As in our review of the Company's argument regarding GTEDS, we agree that the term "predatory pricing" is not relevant to our decision regarding GTE Supply. However, we did not base the adjustment on predatory pricing and shall strike the term, as it applies to GTE Supply, from the Order at issue.

Having considered the foregoing arguments regarding GTE Supply, we shall deny the Company's request for reconsideration regarding GTE Supply. However, regarding GTE Supply, we note that the last phrase under Supplies/GTE Supply on page 70 of the Order should read "and depreciation expense by $78,012." We shall amend the Order to reflect this scrivener's error.

C. Treatment of SFAS 106 costs

The Company has requested reconsideration of our decision to defer $10,000,000 of Other Postretirement Benefits (OPEB) costs associated with Statement of Financial Accounting Standards 106 (SFAS 106). The Company argues that the Commission failed to consider and overlooked the following points:

1) Violation of test year concepts.

GTEFL argues that it followed Rule 25-4.140, F.A.C., Test Year Notifications, by filing the test period it intended to use and why it is representative for ratemaking purposes. By Order No. PSC-93-0108-FOF-TL we approved the test year as follows:

> The Company utilized the historical period for the twelve months ending December 31, 1991, as adjusted for appropriate projected annualized rate changes from January 1, 1993, through December 31, 1993.
>
> Upon review, we find that the test year is appropriate. The projected test year better matches revenues with cost of service and the investment required to provide customers service during the period following the order in this case. The use of only a historical 1991 test year would fail to capture the results of GTEFL's depreciation represcription in Docket No. 920284-

between GTE Supply and GTOCs and find that GTE has failed to demonstrate that this type of transaction is "arm's-length."

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> TL, and implementation of FASB 106, accounting for post retirement benefits; both are significant events occurring in 1992 and 1993.

By deferring a portion of the SFAS 106 costs into the future, the Company argues that we violated our test year determination and that 1993 takes SFAS 106 into account.

GTEFL then defines the purpose of a test year as matching all items of revenue, expense, and investment to produce a year typical of what the company may face the first year rates are in effect. The Company argues further that the test year is used to measure the adequacy and reasonableness of the utility's rates.

GTEFL argues that "the Commission is ignoring a known liability in a rate year by relying on unknown and speculative facts beyond the rate year without any learned analysis." The Company continues by stating that "this violates the prohibition against the Commission making adjustments based on out-of-period general economic decisions." GTEFL concludes that we have disallowed a known and ascertainable liability based on speculation of the general economy or earnings position of the Company in 1994.

We accept GTEFL's definition of a test year and agree that we found 1993 to be the appropriate rate year. However, we disagree with the Company in its assessment that we violated the principles of the test year concept or based the deferral of SFAS 106 costs upon "general economic decisions" or "ignored a known liability ... without a learned analysis."

On review, we find that the test year concept has not been violated. While the Company implies that the Commission cannot look beyond the first year that new rates will go into effect, if this were the case, then we could not allow step increases beyond a year, could not allow dual test periods, could not look at attrition (or any other adjustment more than a year away). However, we do allow step increases (FPC, Order No. PSC-92-1197-FOF-EI; TECO Order No. PSC-93-0165-FOF-EI), do allow dual test periods (Id.), and do look at attrition. Indeed, it is our view that it is our obligation to make appropriate adjustments to earnings based upon the competent and substantial evidence of each case.

On review, we find that we did not ignore the SFAS 106 liability; rather, we recognized the SFAS 106 costs through two mechanisms. Incremental (above pay-as-you-go) SFAS 106 costs of $11,264,765 were included in the 1993 rates directly. The Company then has the opportunity to defer up to $10,000,000 of additional SFAS 106 costs to be recovered from 1994 through 1998. Since we approved the deferral and amortization of the additional SFAS 106 costs, it should not impact the Company's income statement for external financial purposes.

2) <u>The deferral of SFAS 106 costs is bad public policy.</u>

The Company argues that we are setting a precedent to allow items to be "extracted from the test year and deferred to future years" and that we have not delineated the rules or requirements for such an action. GTEFL asserts that the driving factor of our decision is to reduce revenue requirements arbitrarily. The Company is concerned that if the we defer SFAS 106 costs, we might also defer central office costs. GTEFL argues that it is not appropriate to defer costs and urges the us to take no action until a "complete policy regarding deferring expenses to future periods" has been established. GTEFL questions whether we would "add a separate rate increase to accommodate a decrease" in earnings.

It is our view that it is not necessary to study the policy of whether costs should be deferred into the future. Rather, a case-by-case record must be developed before any cost can be deferred. In response to GTEFL's inquiry, historically we have added a separate rate increase to "accommodate a decrease" in earnings, namely, step increases and attrition. On review, we find that the our decision to defer the OPEB expenses was appropriate based upon the specific record in this case.

3) <u>There are no parameters for the use of SFAS 71 set out in the order.</u>

GTEFL fails to explain exactly what this statement means. We can interpret this two ways. First, the Company could mean that the we do not have set standards for when SFAS 71 is to be used. In other words, we do not have a policy of when items will be deferred. If that is the appropriate interpretation, then this argument mirrors the argument addressed directly above. In this regard, we reiterate that it is our view that a policy is not necessary. Rather, we find it more appropriate to base such decisions on the specific record presented by each unique each case.

The other interpretation of GTEFL's argument is that we did not tell the Company how to book the deferral at issue under SFAS 71. However, this is an unlikely interpretation because the Company discusses the booking of the deferral in its Motion for Reconsideration. Indeed, we ordered the Company "to defer the excess of the incremental intrastate FAS 106 costs above $11,264,765, the amount included in cost of service. . . . The deferred amount is recorded as a regulatory asset . . . the amortization period for this regulatory asset should also be 4 years."

GTEFL asserts that it was ordered to defer $10,000,000. In reality, the we ordered that GTEFL could defer up to $10,000,000, adding that the Company "shall not be required to defer more than $10,000,000." We clarify that the Company cannot book more than a $10,000,000 deferral and the deferral shall be reduced to reflect any savings that reduce the OPEB costs to less than the incremental OPEB costs of $21,264,765 reflected in the Company's filing.

4) The deferral results in confiscation of the Company's property and is a violation of the Company's constitutional procedural and substantive due process rights.

GTEFL argues that its procedural due process as guaranteed by the Fourteenth Amendment to the United States Constitution and the Florida Constitution were violated because the Company did not get a fair hearing on this issue. The Company asserts that there was not much hearing time spent on this issue and that our staff's position was not known at the time of the hearing. GTEFL contends that the deferral of the OPEB costs only became known after the evidentiary and briefing portions of the case were over. Therefore, GTEFL asserts that it was not allowed the opportunity to "learn and rebut the allegations raised" which violates the "rudiments of fair play." GTEFL then argues that Section 120.57 gives the Company the statutory right to respond to issues and present evidence and argument on all issues before the Commission. GTEFL contends that it could not address positions that were not known at the time of the hearing, so its procedural due process rights were violated.

We note that one of the issues set forth in the prehearing order in this case is "Should the Company be allowed to recover the cost of providing post-retirement benefits other than pensions, beginning in 1993, showing expected earnings and returns in 1994?"

Moreover, in its brief, GTEFL's position on this issue begins "GTEFL assumes that the intent of this issue is to determine whether there are earnings available beyond the rate year in which to offset OPEBs expenses in the same manner as was done for United Telephone Company in Docket No. 910980-TL." We find that the issue itself should have notified GTEFL that the 1994 earnings level and the recovery of the OPEB costs were interrelated. Although GTEFL states the opposite in its Motion for Reconsideration, the Company was clearly aware that deferral was an option because that option is discussed in the Company's posthearing brief.

At the hearing, witness DeWard agreed that deferral of SFAS 106 costs were appropriate in 1994 if there were increased earnings. GTEFL witness Johnson took the stand for rebuttal after witness DeWard, so the Company was provided an opportunity to rebut witness DeWard's testimony. Also, official recognition was taken of the United Telephone Company of Florida Order (Order No. PSC-92-0708-FOF-TL) which discusses the deferral of OPEB costs based on a record supporting an increase in earnings. At that time, the counsel for GTEFL asked for official recognition of the FPC order which did not defer the OPEB costs. In addition, SFAS 106 was included in the record. SFAS 106 discusses using SFAS 71 if the Commission's OPEB allowance is different from the Company's OPEB costs under SFAS 106. Thus, we find that there is adequate testimony and evidence to support the our decision in the case. Moreover, GTEFL had an opportunity to be heard on the matter which was clearly at issue in this case.

GTEFL also argues that its due process rights were violated because its property has been confiscated through the SFAS 106 deferral. GTEFL asserts that if anticipated earnings in 1994 are not present, then the shareholders will absorb the additional OPEB costs. The Company contends that its only remedy is to file a rate proceeding, but that it will never be able to recoup its money since there is a prohibition against retroactive ratemaking. GTEFL concludes that the "proper approach" is to allow all of the OPEB costs in cost of service and monitor earnings through surveillance.

Based on the record in this case, we anticipate that GTEFL's earnings will increase by $23,000,000 in 1994. If we do not defer the OPEB costs, evidence indicates that the Company will receive a windfall of that amount. United Telephone of Florida asked for reconsideration of our decision to defer a portion of United's OPEB costs based upon the grounds that its property would be confiscated. In our decision in that case, we stated:

> We do not believe that United's stockholders will be harmed by our decision. The Other Post Retirement Benefits (OPEBs) deferral and expense amounts for future periods are offset by the decline in depreciation amortization schedules and earnings growth.....Whether the FAS 106 amounts are offset by the growth in earnings or the decline in depreciation amortization expense, we do not believe that the stockholders are harmed. (Order No. PSC-92-1277-FOF-TL)

Upon review, we find that the same rationale applies equally to GTEFL's circumstance. The evidence indicates that there will be an increase in 1994 earnings which can support the deferral of the OPEB expense.

5) <u>There is no competent and substantial evidence to support a deferral.</u>

The Company argues that we did not base our decision to defer SFAS 106 costs on competent and substantial evidence. GTEFL contends that "no reasonable person would base his or her personal or business affairs on the evidence utilized by this Commission to remove $10 million from the revenue requirement in this case."

While the Company contends that there is no meaningful evidence in the record to support the assumption that the growth relationships in revenue, expense and rate base will remain constant in the future. Company witness Johnson was asked whether he was aware of any changes occurring in 1994 relative to the 1993 rate year, and whether he would expect the revenues, expenses, and investments to grow in the same manner as the calendar year 1993. He testified that he was not aware of anything that would cause those relationships to change significantly in such a manner as to produce additional net income for the period.

However, contrary to his testimony, the Company experienced a significant growth in operating revenues, whereas, it experienced a slight decrease in operating and maintenance (O&M) expenses during the period 1988 through 1991. In addition, during the period 1991 through 1993, the Company projected the operating revenues to grow at a much faster rate than the growth rate of operating and maintenance expenses.

Therefore, based on the Company's history and its own projection, the growth rates of operating revenues have been much greater than the growth rates of O&M expenses for the five years reviewed. No evidence in the record exists that leads us to believe that this occurrence which has held true for five consecutive years will suddenly change.

Thus, we expect the revenues, expenses, and investments to grow at the same rate as in calendar year 1993 and produce additional net income for 1994. Indeed, this growth rate of revenues in excess of expense is evident in GTEFL witness Wellemeyer's direct testimony:

> Most of the pro forma impact is caused by changes in the Part 36 rules for calculating the subscriber plant factor and the dial equipment minutes factor, which both shift costs from the interstate to the intrastate jurisdiction.... However, no tariffs have been filed in the State of Florida, until now, to recover increased revenue requirement caused by the Part 36 rule changes. Due to these changes alone, the Company has absorbed additional revenue requirements of approximately $102 million without a rate increase.

We note that the Company has been able to absorb much of the increasing intrastate revenue requirement due to Subscriber Plant Factor (SPF) and Dial Equipment Minute (DEM) changes through achieving higher growth rates in operating revenues than O&M expenses. Moreover, the record indicates that there will no longer be any phase-down or shifts in SPF and DEM. Logically, there will be no additional decline in intrastate earnings due to SPF and DEM changes.

The Company also questions the evidentiary base of the numbers utilized in our decision. We find this argument to be without merit. Other than depreciation numbers obtained from Order No. PSC-92-0976-S-TL, all remaining numbers used in the 1994 earnings calculation were based on Company provided data in the record. Based on witnesses Johnson and Wellemeyer's testimony, along with the financial information in the record which were provided by the Company, we calculated a reasonable estimate of the changes in the Company's earnings in 1994.

The Company argues that 1994 is full of unknown events which can affect the Company's earnings. The examples given by the Company are an increase in the federal corporate income tax rate, implementation of family leave legislation, socialized health care tax, new accounting pronouncements, collocation issues, and separations changes. While there is no evidence in the record which discusses or quantifies any of these uncertainties, we agree with the Company that the uncertainties listed above exist. Based on the record, estimated improved earnings in 1994 are $23 million. To recognize uncertainties, we were conservative in deferring SFAS 106 costs, limiting the amount of deferral to $10 million. All of the LECs face uncertainties. Should any of GTEFL's parade of horribles come to pass, all companies and not just GTEFL will be impacted. If significant, we will address these matters for all companies if and when they occur.

The Company argues that the technique employed in this case is substantially different than that used in the United Telephone Company rate proceeding. We disagree. The deferral of SFAS 106 costs to a period other than the first year the rates will be in effect is the same in both cases. The only difference is that United provided its own budget, whereas, GTEFL did not.

Finally, the Company asserts that we considered that GTEFL's parent had not decided whether to amortize or immediately recognize the transition obligation which added uncertainty to the SFAS cost. The Company contends that the parent's decisions on OPEBs do not impact GTEFL's OPEB cost. However, we observe that discussion of the parent's position was a small portion of a consideration of the uncertainties surrounding GTEFL's OPEB expense.

Upon review, we find that the Commission's decision regarding SFAS 106 is appropriate based on the record in this proceeding. We shall deny GTEFL's motion for reconsideration regarding the deferral of SFAS 106 costs.

D. <u>GTE Communications Corporation</u>

During the test year, GTEFL made payments of $9,731,765 to GTE Communication Corporation (GTECC), a wholly owned subsidiary. The payments were primarily for the sale of regulated network services.

We allowed the Company to recover 75 percent of the network sales expense, or $7,298,824. This amount exceeds the $3.76 million of additional revenue that OPC witness DeWard estimated would be derived from GTECC's sales effort. The Company argued that its existing revenue level has been maintained as a result of marketing. However, it did not make any effort in the record to quantify the value of the GTECC services. We note that the additional amount which we granted---above that which was recommended by witness DeWard---recognizes that the GTECC services have some value, and that our decision actually favors the Company's position more than OPC's position.

GTEFL requests that we reconsider our decision and asserts that we failed to consider or overlooked the fact that the Company did provide us with the basis to determine the annualized amount of revenues realized from the sales activities of GTECC and concludes that our finding which supports the disallowance is improper. The Company asserts that it provided information in OPC Interrogatory No. 839 pertaining to the increase in network sales made by GTECC for certain years. However, upon review, we find that this information was not entered into the record. Moreover, we note that since this issue was raised by OPC early in the case, the Company had an adequate opportunity to rebut witness DeWard and to move the information into the record.

The Company also asserts that the annualized revenue figure was the cornerstone of the disallowance. However, the annualized revenue figure was only part of the record which formed the basis of our decision. The Company argued in its brief that GTECC provides substantial service in retaining customers on the network, that there are economies of scale present and that the customer benefits from being able to deal with one entity in obtaining service, that the costs pertaining to GTECC reflect the costs that are produced based upon the FCC's Docket 86-111 guidelines, and that there was a study which showed that it was cost efficient to have the sales force reside at GTECC. These unquantified thoughts were only briefly discussed in the record, and were not elaborated upon by the Company or by any of the parties. Each point was considered in reaching our decision.

Upon review, we find that we overlooked no facts in the record in reaching our decision. Thus, the Company's request for reconsideration regarding GTE Communications Corporation shall be denied.

E. Return on Equity

GTEFL requests that we reconsider our determination that a prospective ROE of 12.2% is appropriate for the Company. GTEFL argues that we overlooked or failed to consider that the return will not support the Company's capital needs or its current bond rating, that this return does not meet the legal criteria set forth in case law and that the determination of this return was inappropriately based on the relative risk of GTEFL as compared to United Telephone Company of Florida (UTF) and Florida Power Corporation (FPC).

In its petition, the Company quoted a passage from a Supreme Court decision which discusses the requirement of establishing a return which will maintain the utility's financial integrity and is commensurate with returns on investments of comparable risk. However, the Company does not demonstrate how we failed to meet the criteria established by the quoted decision. Moreover, the Company has failed to demonstrate how the approved return will not support the Company's capital needs or its current bond rating. Indeed, given the decline in capital costs over the past two years, it is difficult to understand why GTEFL believes a 10 basis point reduction in its ROE from 12.3% to 12.2% will render the Company unable to support its credit needs or its credit rating under efficient and economical management. The cost of equity witnesses in this proceeding recommended returns ranging from 11.3% to 13.6% based on their application of generally accepted market pricing models to indices of companies demonstrated to be of comparable risk to GTEFL. Because we relied on this testimony in reaching our decision, it is clear that the return established in this proceeding is commensurate with the returns on investments in other enterprises having corresponding risks and is supported by competent, substantial evidence.

Finally, the Company argues that our determination of the 12.2% return was inappropriately based on the relative risk of GTEFL as compared to UTF and FPC. Although there was discussion at the December 16, 1992 Agenda Conference regarding the relative riskiness of these companies, our decision was based on the testimony filed in the GTEFL rate case. A thorough review of the Agenda transcript reveals that our decision was based on several factors in the record. The decision was not based on the perceived relative riskiness of GTEFL as compared to UTF or FPC. However, we do acknowledge that comparisons to recent ROE decisions are routinely employed by the Commission as a "sanity check" to required ROEs which are recommended by our staff based on the record of a proceeding.

Upon review, we find that our decision is appropriate based on the record in this case. We therefore deny GTEFL's request that we reconsider our decision regarding the Company's authorized ROE.

F. <u>Equity Ratio</u>

GTEFL requests that we reconsider removing nonregulated investments 100% from the equity component in the capital structure. GTEFL argues that our decision is inconsistent with the decision in United Telephone Company of Florida's (UTF) rate proceeding and places an unfair burden on GTEFL's nonregulated investment.

The Company asserts that as a matter of consistency and proper accounting application, the pro-rata methodology applied by the Commission in the UTF rate proceeding should be applied to GTEFL. The Company contends that if we do not reconsider this decision we will unnecessarily and unfairly punish GTEFL's shareholders for investing in nonregulated operations.

We note that in UTF's rate case, the equity in the capital structure was adjusted for the purpose of reducing the equity ratio to 57.5% of investor sources. However, in GTEFL's rate case, nonregulated investments were removed 100% from equity for a different reason. The reason being investors in regulated local exchange service companies require a more conservative financial structure (higher equity cushion) as a company becomes involved in higher risk nonregulated operations. All else being equal, more equity in a capital structure increases revenue requirements. It is our view that ratepayers should only pay for the cost of regulated local exchange service. In the instant case, we did not make an equity ratio adjustment for the purpose of reducing the equity ratio to 54.9% as proposed by OPC witness Cicchetti. We did, however, remove non-regulated investments 100% from equity. In the UTF proceeding, because the equity ratio adjustment was in excess of the amount of the nonregulated investment which could have been removed from equity, the nonregulated investments from equity adjustment was unnecessary.

Finally, the Company contends that GTEFL's proposed 58.25% equity ratio is well within the range of equity ratios of companies with comparable credit ratings. However, telephone utilities can maintain their bond ratings when their equity ratios are below benchmark levels. Witness Cicchetti testified that a particular benchmark does not have to be reached to maintain a given bond rating. This was demonstrated by the fact that Bell Atlantic maintains a AA bond rating with a 50% equity ratio.

Upon review, we find that our decision regarding GTEFL's equity ratio is appropriate based on the record. We deny GTEFL's motion to reconsider removal of nonregulated investments 100% from equity.

G. Extended Calling Service Billing Units

GTEFL has asked for reconsideration of the amount of its revenues related to Extended Calling Service (ECS), Expanded Extended Calling Service (EECS) and Paso County ECS. The Company asserts that we overlooked the proper billing units (minutes of use) to apply in its ECS revenue calculation. As a result, the Company contends that the 1993 revenues for these services have been overstated by $2,015,957.

We determined that the actual stimulation factors calculated from July 1991 toll data and July 1992 ECS data on approved ECS routes were appropriately employed to determine 1993 ECS forecasts. The approved factors were: +151% for ECS Business Messages; +98% for ECS Business Minutes; and +60% for ECS Residential Messages. These factors were used as inputs to determine the level of stimulation which would occur during 1993, given the Company's assumptions regarding the 1992 and 1993 toll service and ECS steady state growth rates.

The Company contends that the approved stimulation factor for ECS was calculated by dividing the July 1992 ECS billing units (which includes converted MTS, FX, and 10XXX billing units) for existing ECS routes by the July 1991 MTS units for those same routes. It is the Company's view that we applied this stimulation factor to the average 1991 MTS and FX billing units to determine our forecast for 1993 ECS billing units. As the Company contends, this would have the effect of double-counting the migration of FX traffic to ECS when computing 1993 billing units. Essentially, FX migration would have been accounted for once in the development of the stimulation factor, and again in the development of the 1993 forecast.

We agree that these calculations, as described above, would lead to double-counting of the FX migration. However, the record does not substantiate that such double-counting occurred. Regarding the approved stimulation factor, the Company states that "The July, 1991 base includes only MTS traffic" Contrary to this, the 1991 billing units we employed to calculate the stimulation factor included both MTS and FX units. In order to confirm this, we inquired whether FX units were included in the 1991 data, to which the Company responded in the affirmative. Thus, our development of 1993 forecasted MTS revenues does not include double-counting of FX migration.

Upon review, we find that, based on the record, our forecast of ECS revenues is appropriate. We shall deny GTEFL's request that we reconsider the revenues attributable to Extended Calling Service, Expanded Calling Service, and Pasco County Extended Calling Service.

H. Use of Four-Digit MTS rates

In its rate case filings GTEFL proposed decreases to its MTS rates; although differing from the Company as to the specific dollar amount of rate reductions, we approved MTS rate decreases. However, while GTEFL's proposed rate structure for daytime MTS rates reflected two-digit rates (e.g., \$.17 for the initial minute in the 0-10 mile band), we approved four-digit rates (e.g., \$.1397).

The Company contends that we should reconsider this decision because we failed to consider that GTEFL's operator system is unable to "...offer the toll information in the ordered level of detail to customers on a real time basis." GTEFL states that it currently uses Northern Telecom's Traffic Operator Position System (TOPS) to provide toll operator assistance. TOPS is a computerized system that enables GTEFL's operator's to quote toll rates to customers. However, according to the Company, TOPS is designed to use two-digit toll rates and cannot be modified to produce four-digit toll rates. GTEFL thus concludes that its operator system is unable to fulfill the requirements which we required.

A second but related point raised by the Company concerns those situations involving hotels and motels which use GTEFL's operator toll service. Under the four digit rates, and given GTEFL's technological limitations, the hotel or motel would obtain toll rates that have been rounded to two-digits and use these rates to bill their guests; however, since the hotel or motel would be billed by GTEFL using four-digit rates, it might realize profits from such calls. Consequently, the Company concludes that "[t]his may place the hotel/motel in the position of a reseller of toll services when in fact the hotel/motel had no intention of becoming a reseller."

We note that there is no discussion in the record regarding the propriety of using of two-digit versus four-digit toll rates. This issue only arose after the fact, based on our decision to use MTS rates carried out to four decimal places. We opted to compute toll rates to four decimal places for two reasons. First, toll was treated as a residual service (that is, the last service for which rates were set); accordingly, in recomputing toll rates the specific dollar amount of revenue to be generated was known at the outset. In our calculations we were attempting to produce a uniform overall decrease simultaneously for both toll and WATS/800 services. For technical reasons use of four-digit toll rates simplified the process. Second, although no other Florida LEC had four-digit toll rates in their tariffs, MTS rates to four decimal places are common among interexchange carriers. In particular, ATT-C, presumably GTEFL's major toll competitor, has four-digit toll rates.

We were unaware of any limitations associated with GTEFL's TOPS system at the time we made our decision, and did not envision that our use of four-digit toll rates would prove objectionable. Upon review, we shall reconsider our decision and grant GTEFL's request to use two-digit toll rates.

Given the manner in which we originally computed toll rates in this proceeding, we were unclear how to alter the approved rates to a two-digit basis. (For example, we did not know if only the MTS rates needed to be revised, or all toll-like rates that are a function of the MTS rates.) With the agreement of counsel for GTEFL and the Office of Public Counsel, we contacted the Company in order to clarify these technical points. Subsequent to this conversation, GTEFL provided us with a set of two-digit MTS rates which are set forth below. We have reviewed the Company's proposed toll rates and authorize their adoption. Due to the change from two-digits to four-digits, the rates shown below generate $5,366 less revenues than were previously approved. This revenue difference will be addressed at section S. of this Order.

APPROVED MTS RATES				
BAND	MIN.	DAY	EVENING	NIGHT
0-10	1st	$.1400	$.1050	$.0700
	addl.	$.0700	$.0525	$.0350

APPROVED MTS RATES				
BAND	MIN.	DAY	EVENING	NIGHT
11-22	1st	$.2100	$.1575	$.1050
	addl.	$.1200	$.0900	$.0600
23-55	1st	$.2800	$.2100	$.1400
	addl.	$.2100	$.1575	$.1050
56-124	1st	$.3700	$.2775	$.1850
	addl.	$.2700	$.2025	$.1350

I. <u>Tariff Price-Out Reconciliation Adjustment</u>

The Company has asked for reconsideration of the expense adjustment in the amount of $181,000. The Company asserts that certain Community Affairs expenses were indeed removed twice.

We agree that the Community Affairs adjustment has been double counted by its inclusion in the tariff price-out reconciliation adjustment. Upon reconsideration we shall increase operating expense by $181,000.

J. <u>Working Capital</u>

GTEFL has asked for reconsideration of our decision regarding the appropriate amount of working capital. The Company asserts that we have adjusted the working capital to an incorrect average amount with respect to Accrued Common Dividends (Account 4124.10) and various Deferred Charge accounts (Accounts 1439.65, .70, .71, .78, and .95).

With respect to Accrued Common Dividends, Account 4124.10, the Company asserts that we did not correct for the error contained in MFR Schedule B-6d. As discussed by GTEFL witness Johnson during his deposition, the Company discovered that the filing had an error in account 4124. The correct average balance for Account 4124.10 was $12,760,125. However, the Company asserts that we used the incorrect average balance of $11,144,500, contained in the MFR Schedule B-6c, page 3 of 4, to recalculate the working capital. We agree. Therefore, upon reconsideration, we find that working capital allowance shall be increased by $1,615,625, total company and $1,269,074, intrastate.

With respect to Deferred Charge accounts 1439.65, .70, .71, .78, and .95, we disallowed the average balances of these subaccounts for rate making purposes due to the nature of the accounts. The Company asserts that in our removal of these subaccounts we inadvertently removed a clearing account balance. The Company also refers to the statement made by witness Johnson that these deferred charge accounts needed to be "cleaned-up" before any adjustment was made.

We found that the total average balance of these five subaccounts totals $12,001,575. We arrived at this total average balance by adding up the amounts in lines I143965, I143970, I143971, I143978, and I143995 found on page 7 of Exhibit No. 47, BAJ-S16. It appears that the clearing account is in Account 1439.90, Deferred Charge-Clearing Account, in line I143990. This account was not included in the calculation of the $12,001,575 average balance. Other than Account 1439.90, there is no evidence in the record which supports the contention that these five subaccounts include any clearing activities. Moreover, GTEFL witness Johnson testified the exhibit which we utilized in calculating the appropriate average balance of working capital reflects the average calculated balance for each of these five subaccounts. Upon review, we find that the Company has failed to provide support in the record for the contention that we excluded a clearing account in its working capital calculation. Thus, we shall deny the Company's request for reconsideration on this point.

For the foregoing reasons, we grant in part and deny in part the Company's request for reconsideration regarding the appropriate amount of working capital for the test year. As a result, test year working capital shall be increased by $1,615,625, total company and $1,269,074, intrastate.

K. Interest Synchronization

GTEFL contends that our interest synchronization adjustment to income tax expense is incorrectly quantified. It is the Company's position that the error occurs through the compounding effect of using an incremental approach which separately adjusts for each step of the interest synchronization calculation. GTEFL asserts that a much better approach is to take the end product rate base and capital structure and do one all-encompassing interest synchronization.

In addition, the Company contends that embedded in our methodology is the weighted cost of the debt component of investment tax credits (ITCs). The result of this inclusion, argues GTEFL, is that the interest synchronization adjustment incorporates the ITC adjustment which the Company treated separately in its filing. Thus, the Company concludes that its ITC interest synchronization adjustment must be reversed to avoid a double count. GTEFL asks that we reconsider our adjustment to income tax expense due to interest synchronization and that income tax expense be increased by $804,628.

Upon review, we find that the adjustment has been incorrectly quantified. However, we do not find that the method of calculating the adjustment is the cause of the error, nor are we persuaded that there is a double count of GTEFL's ITC interest synchronization adjustment. As reflected in the calculation set forth below, we considered the ITC interest adjustment as a separate component in our calculation.

We have reviewed the schedules employed to make our determination regarding this matter and numerous errors in the tax calculation were discovered. Additionally, GTEFL's ITC interest synchronization adjustment was calculated incorrectly. As a result of these errors, GTEFL's income tax expense is understated.

We reduced income tax expense as follows:

	Increase/(Decrease) Income Tax Expense
Parent Debt Adjustment	227,000
Full Interest Sync	(6,575,000)
Interest Reconciliation	(319,000)
Total	$(6,667,000)

However, income tax expense should have been adjusted as follows:

	Increase/(Decrease) Income Tax Expense
ITC Interest Synchronization	44,000
Parent Debt Adjustment	218,000
Full Interest Synchronization	(6,575,000)
Interest Reconciliation	429,000
Total	$(5,884,000)

Upon review, we find that our adjustment to income tax expense due to interest synchronization understates GTEFL's income tax expense by $783,000. Accordingly, shall grant GTEFL's request for reconsideration of this issue and increase GTEFL's income tax expense by the aforementioned amount. We note that any changes made as the result of the reconsideration of other issues will require that income tax expense be adjusted accordingly.

L. SmartCall revenues

GTEFL has asked us to reconsider our decision regarding its SmartCall package revenues because these revenues will not exist based on the elimination of the Touch Call rate. SmartCall is a package consisting of Touch Call and Call Waiting. There is no discount for the packaged service; the Company simply chose to combine the components for marketing purposes. With the elimination of the Touch Call rate, this package is uneconomical for GTEFL's customers.

Upon review, we shall grant GTEFL's request for reconsideration regarding Smart Call revenues. As asserted by the Company, when we eliminated the Touch Call rate we did not consider the effect of this decision on SmartCall. As a result, we failed to consider the decrease in revenues associated with the Touch Call rate included in the that package. We find that it is appropriate for the Company to eliminate SmartCall from its General Subscribers Services Tariff and shall adjust revenues accordingly. GTEFL projected that its SmartCall package would produce annual local revenues of $11,782,272. Converting the SmartCall package to Call Waiting as a stand alone service will produce approximately $10,259,256 on an annual basis. This is $1,523,016 less than would have been produced by the SmartCall package. Therefore, the Company's revenues have been overstated by approximately $1,523,016.

M. Busy Hour Minute of Capacity Charge

Both GTEFL and AT&T Communications of the Southern States, Inc. (ATT-C) have asked us to reconsider our decision regarding the Busy Hour Minute of Capacity (BHMOC) charge. GTEFL reargues its position regarding the elimination of this rate element. The Company reiterates that competitive pressures from AAVs and bypass make the elimination of the BHMOC imperative. GTEFL asserts that we ignored or overlooked the testimony of its and other parties' witnesses in making our decision. GTEFL also contends that no witnesses disagreed with the Company's position on this matter.

ATT-C filed a response to GTEFL's Motion for Reconsideration dealing solely with the BHMOC issue. ATT-C also reargues its hearing position that competitive pressures and the lack of a cost-based rate structure necessitate the removal of the BHMOC. ATT-C also asserts that we ignored or failed to consider evidence submitted by several witnesses, and that its use of the term "relatively low" in the Commission's order was an improper characterization of GTEFL's BHMOC rate.

We agree that no intervenor refuted GTEFL's position, and that several supported it. However, in setting rates, we must weigh competing interests. The relative importance and immediacy of EAS issues, toll competition, bypass, local rates, and vertical services are just a few areas of concern. The relative importance of such concerns are not always addressed by the parties to a rate proceeding. While the gradual elimination of the BHMOC has been a trend evidenced by our previous decisions, the fact remains that revenues lost by the elimination of the BHMOC would have to be made up by rate increases, or smaller rate reductions, in other areas. We also agree that the BHMOC is not a cost-based rate. However, that characteristic does not make the BHMOC unique. It is one of dozens of non-cost based rates set by this Commission. Ultimately, we agree that it should be eliminated, as circumstances permit.

We disagree with ATT-C's exception to our characterization of GTEFL's BHMOC rate of $1.73 as "relatively low." In this regard, ATT-C cited Southern Bell's zero rate, yet failed to discuss that United's rate is currently $3.45, Centel's is $3.71, or that the statewide rate began at $6.60. Regarding comparisons to Southern Bell's BHMOC rate, we note that Southern Bell's BHMOC charge was eliminated only after Southern Bell's toll, access, and local rates - all high priority areas - were at levels substantially below GTEFL's current rates.

Upon review, we note that we have substantially reduced the BHMOC from $2.33 to $1.73 in this proceeding. However, other priorities such as intraLATA toll rates and EAS concerns required revenues to be allocated among several services. We find that we have not failed to consider any evidence, nor have we committed an error in our decision to reduce the BHMOC to $1.73. Therefore, reconsideration on this point is denied for both GTEFL and ATT-C.

N. Digital Channel Services

GTEFL has asked us to reconsider our decision regarding its Digital Channel Service capacity charge. The Company asserts that the rate reductions to PBX trunks caused this rate element to fall below its cost. The Company and would have us raise the Digital Channel Service capacity charge above the Company's cost to provide it.

Initially, we note that we have maintained the relationship of Digital Channel Service capacity charge to the PBX trunk rate. As the PBX rate moved lower towards the B-1 rate, the Digital Channel Service charge was lowered as well. While the Company may be correct in asserting that some rates for this element are now below cost, such information is not contained in the record of this proceeding. Because no cost information for this rate element was provided by the Company, no analysis could be made.

Upon review, we find that, based upon the record in this proceeding, we made no error or omission regarding the Digital Channel Services capacity charge. Therefore, we shall deny GTEFL's request that we reconsider the matter. However, the rates for Digital Channel Service capacity should be reviewed and adjusted. Thus, we encourage the Company to file a tariff, with cost support, for our review outside of this proceeding.

O. North Port/Sarasota EAS

GTEFL has asked that we reconsider the annual revenue associated with the North Port/Sarasota EAS route. The Company asserts that the annual revenue which it will receive if the EAS route is implemented is $442,510 rather than $546,204. The Company contends that the difference between their number and ours is that we failed to use units which support the E-1a filed in the rate case and failed to use the approved rates.

The Company used access line units from a forecast which supports the E-1a and is specific to North Port, while we employed forecasted access line units from the MFR Schedule F-2. GTEFL argues that the access lines it used are more accurate because the MFR Schedule F-2 was submitted by Engineering and not Forecasting. However, the units GTEFL employed are from a forecast which supports the E-1a and not from the E-1a itself. The forecast is not a part of the record. Therefore, based on the record in this docket, the units which we utilized are appropriate.

However, we inadvertently used the incorrect rates when calculating the revenue which GTEFL will receive from the proposed North Port/Sarasota EAS. We used the access line rates from the tariff in effect prior to the rate case. Thus, we shall grant reconsideration of the revenues associated with North Port/Sarasota EAS. Using the rates approved in the rate case, we now calculate that if the North Port/Sarasota EAS is implemented, GTEFL will receive annual revenues of $532,466.

The Company points out that the North Port to Sarasota route, which was identified in the rate case by GTEFL as qualifying for flat rate EAS, did not satisfy our requirements for EAS. GTEFL contends that our staff's Interrogatory 195 misstated the Commission rule and the Company compounded the error by answering the interrogatory. The interrogatory mistakenly stated the EAS rules at "3 M/A/M's and 50% of the customers making 1 or more calls". The interrogatory should have stated "3 M/A/M's and 50% of the customers making 2 or more calls." Based on the erroneous standard, GTEFL identified the North Port to Sarasota route as qualifying for flat rate EAS. GTEFL suggests that since our Order has already been entered and since the public is aware of this finding, that the proper approach is to waive the rule.

Upon review, we find that our decision that the North Port to Sarasota route qualified for nonoptional, flat rate, two-way EAS was correct based on the information provided in the rate case. However, we understand that there was confusion as to the standard to apply to testimony regarding EAS. Under the circumstances, we shall waive Rule 24-4.060(1)(a), Florida Administrative Code, which requires a one-way calling rate of 3 M/A/M's and 50% of the customers making 2 or more calls.

P. Plant City/Tampa EAS

The Company asserts that we have overstated revenue by $157,000. The Company contends that we erred by: (1) not using units which support the E-1a filed in the rate case, (2) not using the approved rates, and (3) erroneously including rate group movement due to exchange growth, which occurred prior to the rate case decision.

The Company used access line units from a forecast that supports the E-1a and is specific to Plant City, while we used June 1992 access line units and grew the lines by 3.22% to estimate June 1993 access lines. The Company states that the access lines it used are more accurate because they are based on a forecast specific to Plant City, and that our method distorts the number of access lines since it is based on access line growth for all exchanges. However, the units which GTEFL would have us employ are from a forecast which supports the E-1a and not the E-1a itself; they are not a part of the record. We find that, based on the record in this proceeding, we employed the appropriate units.

GTEFL's second argument is that we failed to use the approved rates to calculate the annual revenue for the Plant City/Tampa EAS route. We agree. Upon review, it is evident that we used the access line rates from the tariff that was in effect at the beginning of the rate case.

GTEFL's third argument is that we used improper rate group movement when calculating the annual revenue for the Plant City/Tampa EAS route. We agree. Upon review, it appears that we moved Plant City from old Rate Group 5 to old Rate Group 7 as a result of the EAS. We did not include the proper rate group movement since Plant City had already moved to old Rate Group 6 due to growth effective October 1992. Using the rates approved in the rate case and the appropriate rate group movement, we calculate that if the Plant City/Tampa EAS is implemented, GTEFL will receive an annual revenue of $176,778.

Based on the foregoing, we shall reconsider the revenue associated with the Plant City/Tampa EAS route. Based on 1993 units, the appropriate annual revenue is $176,778 instead of $357,511.

Q. MARK Migrate costs

GTEFL has a Mechanized Assignment and Record Keeping (MARK) system. The Company included expenses in its rate year for the implementation of the MARK Migration. GTEFL has asked that we reconsider our decision regarding MARK Migrate costs. The Company argues that the MARK Migrate costs are being expended by the Company to reduce data processing and storage costs by moving the processing function from GEIS computers to GTEDS' computers. GTEFL asserts that it is not justifiable to select one system's cost, MARK Migrate, for exclusion from the revenue requirement and include the savings in the test year from other systems. The Company asserts that we have ignored the fact that major system implementation costs and savings rarely occur within the same year due to the time frames associated with start up activity.

Initially, we observe that the purpose of the MARK Migration is to gain in-house control of MARK. MARK is currently operated, maintained and enhanced for GTE by General Electric Information Services (GEIS). The Company stated in its case that by bringing MARK in-house, data processing costs will be reduced and the Company would be operating, maintaining and enhancing the system which will provide control necessary to meet future needs. We note that "in-house" actually refers to GTE Data Services (GTEDS), not GTEFL. Further, once the transition occurs, GTEFL will simply pay the costs to GTEDS instead of GEIS.

GTEFL included $21,579,265 for the 1993 expenses associated with MARK in its rate year. Of this amount, $4,655,000 ($3,567,842 intrastate) represents the projected 1993 program implementation costs pertaining to MARK Migrate. The entire increase in MARK costs for 1993 is due to the implementation of the Migrate. The Company will incur the MARK implementation costs in 1993 and thus asserts that it is appropriate to reflect these costs in the Company's rate year level of expenses. Beginning in 1995, the Company will incur the cost necessary to have the MARK system run by GTEDS. Company witness Bryce testified that GEIS data processing costs will continue until year end 1994. He stated that in 1995, GTEFL will transition MARK to GTEDS computers and incur ongoing expenses from GTEDS for MARK data processing. It was his view that the operating expenses currently being incurred should remain in their entirety.

Upon review, we find that while there is a question as to the timing of any savings, there is also a question of whether there will be any savings at all. In its request for reconsideration, the Company has missed the point that it failed, in its original case, to demonstrate the savings that the MARK Migrate will produce. It appears from the record that a large expenditure is being made to implement the MARK Migrate, which will simply transfer control of the operation of the system to a GTEFL affiliate, GTEDS, with no demonstrated savings to the ratepayers. GTEFL's request for reconsideration of MARK Migrate implementation costs shall be denied.

R. Summary of Resulting Changes in Revenue Requirements

This is a mathematical calculation or a fall-out issue based on the decisions set forth previously in this Order and the elimination of GTEFL's subsidy pool payment approved at our March 16, 1993 agenda conference.

Although GTEFL has not quantified its position on the amounts of the components in this calculation, GTEFL argues that cumulatively the adjustments it proposes indicate that GTEFL's rates should be increased.

In Docket No. 920193-TL, ALLTEL Florida, Inc., (ALLTEL) MMFR, we determined at the March 16, 1993 agenda conference that ALLTEL's receipts from the subsidy pool should be reduced. This action allowed us to remove GTEFL from the subsidy pool, thereby eliminating GTEFL's subsidy pool payment of $690,000, which, in effect, increases GTEFL's jurisdictional revenue on a going forward basis. We also decided that the reduction in subsidy pool payments by GTEFL should be disposed of when we addressed GTEFL's motion for reconsideration in this docket. We therefore, include the elimination of the subsidy pool payment as an adjustment to operating revenue in this calculation of GTEFL's revenue requirement.

Based on the level of rate base, rate of return, revenues and expenses approved in this proceeding and the elimination of GTEFL's subsidy pool payment, the appropriate amount of the revenue increase for the test year is calculated as follows (all amounts rounded):

Intrastate Rate Base:	
Order No. PSC-93-0108-FOF-TL	$1,902,319,000
1439.xx Accounts	1,269,000
Intrastate Rate Base	$1,903,588,000
Rate of Return	8.82%
Required Net Operating Income	$ 167,850,000
Achieved Net Operating Income:	
Order No. PSC-93-0108-FOF-TL	$ 176,672,000
Adjustments:	
Tariff Price-Out Expenses	($ 113,000)
Tax Changes	(783,000)
InterLATA Subsidy Pool Payment	430,000
Income Tax Effect of Rate Base and Capital Adjustments	14,000
Effect of Capital Adjustments on the Parent Debt Adjustment	4,000
Total Adjustment	($ 448,000)
Adjusted Achieved Net Operating Income	176,224,000
Intrastate NOI Deficiency (Excess)	($ 8,374,000)
Revenue Expansion Factor	1.628987
Revenue Increase (Decrease)	($ 13,641,000)
Change from Order No. PSC-93-0108-FOF-TL	($ 834,000)

S. Recovery of the Identified Changes in Revenues

In addition to changed revenue requirements identified above, further rate increases are required to offset the revisions to the revenue effects of those rate proposals addressed at sections H, L, O, and P. The total dollar amount for rates which must be adjusted is summarized below.

Change in Revenue Requirements (including elimination of interLATA subsidy payment)	$834,000
Revised Rate Impacts:	
Two-digit MTS rates	5,366
SmartCall	1,523,016
North Port/Sarasota EAS	13,738
Plant City/Tampa EAS	180,733
TOTAL	$2,556,853

In the rate case the Company proposed changes to local and toll operator-assisted surcharges. In our initial review, we denied GTEFL's proposal for two related reasons. First, the Company's current rates for operator-handled surcharges are comparable to those assessed by other Florida LECs; GTEFL's proposed rates would be approximately $.50 higher than other LECs' charges. Second, since we were dealing with a larger rate decrease at that time, we saw no compelling reason to increase them at that time. However, since additional revenues are needed, rather than revise rates to those services which were previously restructured or increase local rates, we find it more appropriate to recover the change in revenues set forth above by increasing rates for discretionary services. Accordingly, rates for station to station calls shall be increased from $1.00 to $1.50, while the rates for person-to-person shall be increased from $2.50 to $3.00. Taking into account the previously approved price elasticities for these services, we estimate that these rate proposals will generate approximately $3,382,297 in annual revenues.

Since the revenues generated by the increases in operator-assisted surcharges exceed the target revenue amount, we find it appropriate to treat BHMOC as the residual element in order to further reduce this rate. Thus, the BHMOC rate shall be reduced to $1.64.

Based upon the foregoing, it is

ORDERED by the Florida Public Service Commission that GTEFL's request for reconsideration regarding GTE Data Services is denied. It is further

ORDERED that GTEFL's request for reconsideration regarding GTE Supply is denied. It is further

ORDERED that the last phrase under Supplies/GTE Supply on page 70 of Order No. PSC-93-0108-FOF-TL, is amended to read: "and depreciation expense by $78,012." It is further

ORDERED GTEFL's request for reconsideration of the deferral of SFAS 106 costs is denied. It is further

ORDERED that GTEFL's request for reconsideration of test year charges from GTE Communications for network commissions and expenses is denied. It is further

ORDERED that GTEFL's request to reconsider a return on equity of 12.2% is denied. It is further

ORDERED that GTEFL's request to reconsider removal of the Company's nonregulated investments from equity is denied. It is further

ORDERED that GTEFL's request to reconsider the revenues attributable to Extended Calling Service, Expanded Calling Service, and Pasco County Extended Calling Service is denied. It is further

ORDERED that, GTEFL's request for reconsideration regarding four-digit MTS rates is granted as set forth in the body of this Order. The Company shall use the approved 2 digit rates. It is further

ORDERED that GTEFL's request for reconsideration of the adjustment for tariff price-out reconciliation is granted as set forth in the body of this Order. It is further

ORDERED that GTEFL's request for reconsideration regarding the appropriate amount of working capital for the test year is granted in part, and denied in part, as set forth in the body of this Order. Test year working capital allowance shall be increased by $1,615,625, total company and $1,269,074, intrastate. It is further

ORDERED that GTEFL's request for reconsideration of the income tax expense adjustment due to interest synchronization is granted as set forth in the body of this Order. Income tax expense shall be increased by $783,000 to appropriately reflect the effect of income tax expense. It is further

ORDERED that GTEFL's request for reconsideration regarding SmartCall revenues is granted as set forth in the body of this Order. The Company shall file corrected tariff pages to convert the SmartCall package to Call Waiting as a stand alone feature. It is further

ORDERED that GTEFL's request for reconsideration and ATT-C's response, regarding the Busy Hour Minutes of Capacity charge are denied. It is further

ORDERED that GTEFL's request for reconsideration regarding Digital Channel Service capacity charges is denied. The Company is encouraged to file a tariff, with cost support, for our review outside of this proceeding. It is further

ORDERED that GTEFL's request for reconsideration of revenue associated with the North Port/Sarasota EAS route is granted. The appropriate annual revenue, based on 1993 units, is $532,466. It is further

ORDERED that Rule 25-4.060(1)(a), Florida Administrative Code, which involved community of interest considerations, is waived for the North Port/Sarasota EAS route. It is further

ORDERED that GTEFL's request for reconsideration of revenue associated with the Plant City/Tampa EAS route is granted. The appropriate annual revenue, based on 1993 units, is $176,778. It is further

ORDERED that GTEFL's request for reconsideration of MARK Migrate implementation costs is denied. It is further.

ORDERED that, based on adjustments set forth in this Order, and the elimination of GTEFL's interLATA access charge bill and keep subsidy pool payments which was approved at our March 16, 1993 agenda conference, the appropriate amount of the revenue decrease for the test year is $13,641,000 (rounded). This is $834,000 less than the $14,475,000 decrease set forth in Order No. PSC-93-0108-FOF-TL. It is further

ORDERED that rates for local and toll station-to-station and person-to-person operator assisted calls shall be increased to $1.50 and $3.00. The BHMOC rate shall be reduced to $1.64. It is further

ORDERED that while Docket 920939-TL was closed by separate Order, Docket 920188-TL shall remain open to address remaining EAS matters.

By ORDER of the Florida Public Service Commission this 27th y ynday of May, 1993.

STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

CWM

by: Kay Flynn
Chief, Bureau of Records

NOTICE OF JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by the Commission's final action in this matter may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.