

FLORIDA PUBLIC SERVICE COMMISSION

Fletcher Building
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Tallahassee, Florida 32399-0850

M E M O R A N D U M

March 10, 1994

TO : DIRECTOR, DIVISION OF RECORDS AND REPORTING

FROM : DIVISION OF AUDITING AND FINANCIAL ANALYSIS (WRIGHT) *RJ am*
DIVISION OF COMMUNICATIONS (NORTON) *John*
DIVISION OF LEGAL SERVICES (HATCH) *R*

RE : DOCKET NO. 920260-TL - SOUTHERN BELL TELEPHONE AND
TELEGRAPH COMPANY - COMPREHENSIVE REVIEW OF THE REVENUE
REQUIREMENTS AND RATE STABILIZATION PLAN OF SOUTHERN BELL
TELEPHONE AND TELEGRAPH COMPANY

AGENDA : 03/22/94 - REGULAR AGENDA - PROPOSED AGENCY ACTION -
INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: I:\PSC\AFA\WP\920260.RCM

DISCUSSION OF ISSUES

ISSUE 1: Did Southern Bell earn above 14% Return On Equity (ROE) for 1992 therefore requiring a sharing of earnings between the company and ratepayers per Order No. 20162?

RECOMMENDATION: No, Southern Bell did not earn above a 14% ROE for 1992. (WRIGHT)

STAFF ANALYSIS: By Order No. 20162, issued October 13, 1988, the Commission instructed Southern Bell to share earnings in the 14%-16% ROE range with a 60/40 split in the ratepayers' favor. Order No. 20162 required a review of the year-end surveillance report to determine if any earnings are required to be shared. That review has been completed. Southern Bell filed a revised Surveillance Report on January 24, 1994 for the twelve month period ending December 31, 1992 which reported an ROE of 12.87%. The revisions to the ROE result from final tax adjustments and out of period adjustments related to 1992. Since 12.87% is below the 14% sharing point, there is no sharing required.

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ISSUE 2: Did Southern Bell experience an increase in earnings when netting rate changes against changes in earnings due to exogenous factors and debt refinancings, therefore requiring a refund and/or a permanent disposition for 1992 per Order No. 20162? If so, what is the amount?

RECOMMENDATION: No, Southern Bell did not experience an increase in earnings when netting rate changes against changes in earnings due to exogenous factors and debt refinancings. (WRIGHT)

STAFF ANALYSIS: By Order No. 20162, the Commission excluded from the sharing process the revenue effects of: all rate changes other than regroupings; changes resulting from significant governmental actions with a minimum impact of \$3,000,000 of revenue requirements; refinancing of higher cost debt instruments and major technological changes. These items excluded from sharing are included in what has come to be known as "the Box".

Under the concept of the Box, any rate increases are netted against rate decreases, significant governmental actions, and debt refinancings. If the result is an overall increase in earnings due to the netting process, the net amount will be refunded to ratepayers or disposed of in some other appropriate fashion. If netting produces a decrease in earnings the company absorbs the loss.

The following table shows the final net impact for 1992.

	(000)
I. Rate Changes - Net	\$9,213
II. Exogenous Changes	
A. Depreciation increase due to USOAR Docket	(18,408)
B. Separations Change	(7,422)
C. Depreciation Represcription	12,633
Net	----- (13,197)
III. Debt Refinancing	
A. Difference between forecast and actual	519
Total	----- (\$3,465) =====

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Based on Southern Bell's surveillance report for the twelve month period ending December 31, 1992, the overall netting process resulted in a decrease in earnings of \$3,465,000. Per Order 20162, the company absorbs the decrease in earnings.

ISSUE 3: Should this docket be closed?

RECOMMENDATION: No. (WRIGHT, NORTON)

STAFF ANALYSIS: Rate reductions are scheduled to be implemented on July 1, 1994, therefore the docket should remain open.