

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Investigation into) DOCKET NO. 940201-TL
authorized return on equity and) ORDER NO. PSC-94-0730-FOF-TL
earnings of UNITED TELEPHONE) ISSUED: June 14, 1994
COMPANY OF FLORIDA)
_____)

The following Commissioners participated in the disposition of this matter:

J. TERRY DEASON, Chairman
SUSAN F. CLARK
JULIA L. JOHNSON
DIANE K. KIESLING

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING CAP ON EARNINGS AND RATE REDUCTIONS

BY THE COMMISSION:

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

I. BACKGROUND

On May 18, 1994, United Telephone Company of Florida (United or the company) submitted a proposal in response to concerns over the company's return on equity (ROE) and earnings. The proposal includes the following:

1. Cap on 1994 earnings of 13.0% ROE with any earnings in excess of that return deferred to 1995. The calculation of earnings gives recognition to the current FPSC imposed cap on equity of 57.5% of total capitalization as well as accounting for Sprint/Centel merger and integration costs incurred on a cash basis in accord with the accounting prescribed by RAO Letter 24 released by the FCC on March 24, 1994.
2. Eliminate EAS additives on the following routes, effective July 1, 1994. Estimated 1994 impact is \$551,000 (\$1,103,000 annualized).

Clermont to Orlando, Lake Buena Vista, Reedy Creek,
Windermere, and Winter Garden
Bonita Springs to Ft. Myers and Naples

05846 JUN 14 1994
FSC-94-0730-FOF-TL

3. Reduce switched access services rates (and related mobile interconnection rates) effective July 1, 1994. Estimated 1994 impact is \$4,849,000 (\$9,698,766 annualized).
4. Reduce intraLATA toll rates effective July 1, 1994. Estimated 1994 impact is \$2,128,000 (\$4,256,000 annualized).
5. Reduce intraLATA interexchange private line and special access rates effective July 1, 1994. Estimated 1994 impact is \$1,249,000 (\$2,498,000 annualized).
6. During 1994 United will record additional depreciation expense such that the intrastate portion will be increased by \$2,051,000. Such depreciation will be applied to the depreciation reserve for circuit analog equipment.
7. Nothing herein shall be construed as to impair Sprint/United's and Sprint/Centel's ability to merge or combine operations; however, for purposes of this agreement, the earnings of Sprint/United will be measured on a stand alone basis for 1994.
8. Nothing herein shall be construed to limit Sprint/United's ability to request approval of additional intraLATA toll and access charge reductions.

As discussed in further detail below we accept United's proposal as submitted.

II. RETURN ON EQUITY

United proposes a cap on 1994 earnings of 13.0% return on equity (ROE) with any earnings in excess of that return deferred to 1995. The cap is below the top of United's currently authorized range of 13.5%. Within the context of United's total offer and the fact that approval of the offer will save litigation costs if the order is not protested, the ROE cap of 13.0% should be considered reasonable.

United proposes that for regulatory purposes it will account for the merger and integration costs, for its merger with Centel, on the cash basis. On March 24, 1994, the FCC released RAO Letter 24, which allows companies to account for these types of costs on a cash basis. This Commission does not usually account for these costs on a cash basis but rather on the accrual basis. However, based on the particular facts and circumstances in this case and the overall proposal by the company, the Commission accepts United's proposed regulatory accounting treatment.

III. RATE REDUCTIONS

As part of its Settlement Offer, United has proposed the following rate reductions, with their value for six months of 1994 (United has proposed a July 1, 1994 effective date):

Eliminate EAS additive	\$ 551,396
Eliminate BHMOC	4,031,333
Reduce Local Transport	591,792
Reduce MTS	2,124,088
Reduce MTS-related	3,659
Reduce Cellular Interconnection	226,258
Reduce Interexchange Private Line and Special Access	1,249,066
TOTAL VALUE FOR 1994 (7/1/94)	\$8,777,592
ANNUAL IMPACT	\$17,555,184

A. EAS Additives

Currently United has 25/25 EAS additives on the Clermont and Bonita Springs exchanges. These additives are part of the total price consumers vote for when they decide whether or not they want flat rate two-way calling on a route or routes. The result of these additives is that within the same company, two local exchange subscribers pay different rates for the same size calling scopes. The additive for Clermont has been in place since December 1991, and for Bonita Springs since June 1992. Upon consideration, we find that these additives should be eliminated. The value of this reduction is \$551,396 in 1994.

B. Access Reductions

United has proposed switched access reductions to become effective July 1, 1994. In conjunction with Southern Bell's \$50 million reduction, and the reductions by some of the smaller LECs already approved by the Commission, there will be a larger decrease at one time, which should result in IXC toll rate reductions to end users.

C. BHMOC

In the past, the Commission has attempted to reduce or eliminate the BHMOC charge whenever the opportunity has presented itself. The Commission has also expressed concern over the disparity between the level of interstate and intrastate switched access charges. With the elimination of its BHMOC, United's intrastate switched access charge rate will still be almost double

its interstate rate. Upon consideration, we find that the BHMOC charge should be eliminated. The revenue impact of this change is \$4,031,333 in 1994.

D. Local Transport

United has proposed to reduce the switched access charge element, Local Transport, which covers the network between the end user's serving central office and the IXC point of presence. United is proposing a reduction from \$.0160 to \$.0153. With the local transport restructure, expanded interconnection, and the possible initiation of competition for local transport services on the intrastate level, it is reasonable that United would want to reduce this element. It still more than covers its incremental cost, and reducing the switched access element lessens the difference between private line rates and switched local transport. Upon consideration, we find that Local Transport rates should be reduced as proposed. With this reduction and the BHMOC reduction, United's price for one minute of intrastate access will drop to \$.1346. The revenue impact of this change is a reduction of \$591,792 in 1994.

E. Cellular Interconnection

As a result of the reduction in switched access rates cellular interconnection rates will be reduced proportionately. This flow-through of access rates to cellular interconnection rates has been approved by the Commission in Order No. 20475. Therefore, upon consideration, we find that cellular interconnection rates should be reduced as proposed. The impact of this reduction is \$178,498 in 1994.

F. IntraLATA MTS and MTS-Related Rates

To preserve the rate relationship between switched access rates and MTS rates, United has proposed a 1994 reduction of \$2,124,088 in its MTS rates. Concurrent with this, United has proposed to reduce MTS-related rates such as OEAS and Toll Pac--an additional \$3,659 in 1994. We agree with this reduction. It is the only part of this Settlement Proposal which has a general, widespread direct impact on end users. The other proposed rate changes affect either a specific group of customers (EAS additives and private lines) or interconnection rates for other companies (cellular, IXCs). We agree with the concept of retaining the relationship between access and toll rates.

In addition to specific MTS reductions, United has proposed proportional reductions in OEAS and Toll Pac services. This is appropriate because it preserves the relationship between these

services and toll rates. Upon consideration, we find that United's proposal to reduce IntraLATA MTS and MTS related rates should be approved. It has a 1994 impact of \$2,127,747.

G. Private Line and Special Access

United proposes to reduce its special access and intraLATA interexchange private line rates to the same level as its local private line rates. This means that all United private line customers will pay the same price for the same element, whether the private line is between points in the same town, or across the service territory, or to an IXC point of presence. We believe this type of intracompany consistency is appropriate. Upon consideration, we find that the proposal to reduce special access and private line rates should be approved. This is a 1994 reduction of \$1,249,066.

IV. Intrastate Depreciation Expense

United proposes to record additional intrastate depreciation expense of \$2,051,000 in 1994. It is further proposed that this expense be booked to the circuit analog account reserve to offset a perceived reserve deficiency. Upon consideration, we find that United's proposal regarding intrastate depreciation expense should be approved.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the proposal by United Telephone Company of Florida to cap its 1994 earnings at 13% Return on Equity with any excess of that return deferred to 1995 is approved as set forth in the body of this Order. It is further

ORDERED that the EAS additives for Clermont and Bonita Springs be eliminated as proposed and set forth in the body of this order. It is further

ORDERED that the BHMOC charge be eliminated as proposed and set forth in the body of this Order. It is further

ORDERED that Local Transport rates be reduced as proposed and set forth in the body of this Order. It is further

ORDERED that Cellular Interconnection rates be reduced as proposed and set forth in the body of this Order. It is further

ORDER NO. PSC-94-0730-FOF-TL
DOCKET NO. 940201-TL
PAGE 6

ORDERED that United's proposal to reduce IntraLATA MTS and MTS-Related rates is approved as set forth in the body of this Order. It is further

ORDERED that United's proposal to reduce Private Line and Special Access rates is approved as set forth in the body of this Order. It is further


ORDERED that United's proposal to record additional intrastate depreciation expense is approved as set forth in the body of this Order. It is further

ORDERED that the Order shall become final and effective unless an appropriate petition is filed in accordance with the requirements herein and as set forth in the "Notice of Further Proceedings or Judicial Review". It is further

ORDERED that parties shall have 14 days in which to file a protest. It is further

ORDERED that in the event this Order becomes final, this Docket should be closed.

By ORDER of the Florida Public Service Commission, this 14th day of June, 1994.



BLANCA S. BAYÓ, Director
Division of Records and Reporting

(S E A L)

WEW

NOTICE OF FURTHER PROCEEDINGS OR 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.

The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on June 28, 1994.

In the absence of such a petition, this order shall become effective on the day subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

If this order becomes final and effective on the date described above, any party adversely affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by 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 of the effective date 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.