

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In RE: Investigation of ) DOCKET NO. 940879-TL  
ratemaking treatment of Long- ) ORDER NO. PSC-94-1179-FOF-TL  
Term Plant Under Construction of ) ISSUED: September 27, 1994  
ALLTEL FLORIDA, INC., CENTRAL )  
TELEPHONE COMPANY OF FLORIDA, )  
and UNITED TELEPHONE COMPANY OF )  
FLORIDA. )

The following Commissioners participated in the disposition of this matter:

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

NOTICE OF PROPOSED AGENCY ACTION  
ORDER MODIFYING ACCOUNTING TREATMENT FOR  
TELEPHONE PLANT UNDER CONSTRUCTION

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.

In Statement of Financial Accounting Standards (SFAS) 34 and SFAS 42, the issue of materiality is discussed extensively and Allowance For Funds Used During Construction (AFUDC) capitalization is not required if the amount is immaterial to the financial statements. Based on data submitted to the FPSC by Southern Bell, FPSC staff has calculated that the total long term and short term Telephone Plant Under Construction (TPUC) combined is only one percent of rate base. Even if AFUDC is capitalized on long term and short term TPUC combined, the impact on total revenue requirements is less than two tenths of one percent. The amount of AFUDC which may be recorded on TPUC in the telecommunications industry is simply immaterial. Therefore, in accordance with SFAS 34 and SFAS 42 immaterial amounts of AFUDC should not be capitalized.

DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

Furthermore, capitalizing AFUDC may encourage companies to delay the closing of TPUC to the plant in service account. FPSC audits indicate that TPUC is often not closed to plant in service when the project is complete. This results in the accrual of AFUDC at the same time the plant is actually in service. Thus, capitalizing AFUDC provides the company with a disincentive to account for plant in a timely manner.

Including TPUC in rate base is the most appropriate approach for ratemaking purposes in today's environment. The amount of time needed for the construction of most telecommunications plant has decreased significantly in recent years. A review of "long term" TPUC projects indicates that almost no plant under construction takes longer than one year to complete from the time construction actually commences. It is only the current interpretation of longer than one year from the time a project is approved which results in TPUC being classified as long term. The industrywide change in the time needed to complete construction projects leaves little, if any, rationale for the intergenerational inequity argument for recording AFUDC.

Including all TPUC in rate base results in simpler accounting and lower revenue requirements in the long run. Only one of the nine smallest local exchange companies in Florida has ever recorded AFUDC. In addition to recording AFUDC, the companies have to keep additional records related to the tax timing differences associated with interest expense. These additional records have been made even more complex by the adoption of SFAS 109. From both a theoretical and a practical perspective, we believe that it is appropriate to include all TPUC in rate base for ratemaking purposes.

In 1993, ALLTEL, Centel and United recorded \$0, \$19,568 and \$368,910 respectively, of AFUDC. The financial impact of eliminating AFUDC and including all TPUC in rate base is very small for these three companies. Yet, the administrative and accounting work for these companies and FPSC staff can be reduced by eliminating AFUDC.

Rule 25-4.0171(1) F.A.C. states that TPUC not included in rate base may accrue AFUDC. By requiring ALLTEL, Centel and United to include all TPUC in rate base, the companies will not record AFUDC.

Upon consideration, we find that ALLTEL Florida, Inc., Central Telephone Company of Florida and United Telephone Company of Florida shall be required to include all telephone plant under

ORDER NO. PSC-94-1179-FOF-TL  
DOCKET NO. 940879-TL  
PAGE 3

construction in rate base for all future purposes effective November 1, 1994. In addition, we find that these companies' allowance for funds used during construction rates shall be eliminated effective November 1, 1994.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that ALLTEL Florida, Inc., Central Telephone Company of Florida and United Telephone Company of Florida shall be required to include all telephone plant under construction in rate base for all future purposes, effective November 1, 1994. It is further

ORDERED that ALLTEL, Centel and United shall eliminate rates for allowance for funds used during construction, effective November 1, 1994. It is further

ORDERED that if no protest is filed in accordance with the requirements set forth below, this docket shall be closed.

By ORDER of the Florida Public Service Commission, this 27th day of September, 1994.

BLANCA S. BAYÓ, Director  
Division of Records and Reporting

by: Kay Flynn  
Chief, Bureau of Records

( S E A L )

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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, 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on October 18, 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 substantially 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.