

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Modified Minimum Filing) DOCKET NO. 910731-TL
Requirements report of NORTHEAST)
FLORIDA TELEPHONE COMPANY, INC.)
_____))
In Re: Comprehensive review of) DOCKET NO. 920260-TL
the revenue requirements and) ORDER NO. PSC-95-0426-FOF-TL
rate stabilization plan of) ISSUED: March 29, 1995
SOUTHERN BELL TELEPHONE AND)
TELEGRAPH COMPANY.)
_____))

The following Commissioners participated in the disposition of this matter:

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

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING SWITCH RETIREMENT AND DISPOSING OF OVERTURNINGS

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

Northeast Florida Telephone Company, Inc. (Northeast) filed its Modified Minimum Filing Requirements on July 22, 1991. By Order No. PSC-92-0337-AS-TL, issued May 12, 1992, we approved, with certain modifications, a settlement agreement (the Agreement) submitted by Northeast and the Office of Public Counsel. The Agreement required rate reductions and addressed earnings until Northeast's Bill and Keep Subsidy is eliminated.

Docket No. 910731-TL has remained open so that we could continue to monitor the results of the rate reductions and monitor compliance with the provisions of the Agreement which address future earnings until Northeast's Bill and Keep Subsidy is eliminated.

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FPSC-RECORDS/REPORTING

This Order disposes of 1993 earnings based on review of Northeast's final 1993 Earnings Surveillance Report (ESR), filed on September 14, 1994. The Agreement provides that to the extent that, subsequent to January 1, 1993, Northeast earns in excess of the 13.20% ceiling established by the Agreement, Northeast will refund such overearnings to the payor of the Bill and Keep Subsidy, BellSouth Telecommunications, Inc. d/b/a Southern Bell Telephone and Telegraph Company (Southern Bell), and will also eliminate future subsidy receipts by a like amount. We also approve Northeast's request to write off the Stromberg-Carlson DCO Processor and associated equipment, submitted on September 13, 1994.

II. OVEREARNINGS

Northeast filed its preliminary 1993 ESR in March 1994 and the final 1993 ESR on September 14, 1994. An audit of Northeast's 1993 earnings was completed by our staff and a report was issued on July 18, 1994. The audit included disclosures concerning jurisdictional revenue and interest reconciliation which prompted adjustments of the final 1993 ESR.

The final ESR incorporated the revised cost study filed with the National Exchange Carrier Association and the audit findings. Based on review and modification of the final ESR, Northeast's earnings above the maximum allowed return on equity of 13.20% for 1993 are \$158,432, which is available for disposition.

We find that \$160,968, consisting of the \$158,432 in intrastate revenue plus \$2,536 in interest accrued through December 31, 1993, using the half year convention, be used to write off part of the present unrecovered investment of the Stromberg-Carlson DCO Processor and associated equipment. The \$160,968 will be treated as a reduction to rate base in 1994.

III. SWITCH RETIREMENT AND WRITE-OFF

Northeast requests that it be allowed to write-off the unrecovered investment in its Siemens-Stromberg-Carlson DCO processor (DCO) and associated equipment. This investment is approximately \$448,700. The DCO was initially installed in 1984 and the original processor was replaced in 1991. The company proposes to convert the current processor to a Siemens Vision ONE Universal Platform (Vision ONE). Northeast claims this platform

will provide increased call processing capabilities and multi-processor functionality with modular growth. Northeast would be able to offer services such as ISDN and have the ability to add Advanced Intelligent Network (AIN) and Personal Communications Services (PCS) for an additional price.

We used two methods to determine whether the upgrade is appropriate: (1) the overall benefits the upgrade and (2) the cost and market demand when determining if the deployment of infrastructure is appropriate. Each method will be discussed in turn.

A. OVERALL BENEFITS OF THE UPGRADE

This method recognizes the move to a competitive network and the desire to develop an advanced infrastructure within the various networks, without regard to locale. We realize the ability to provide cost/benefit justification for rural areas is difficult for some companies since the number of present subscribers who express an interest in these advanced services may be minimal. Forecasting new demand created by residences and businesses migrating into the area is even more difficult due to Northeast's limited resources. For some LECs, the ability to provide advanced services out of other central offices equipped with these types of services is a possible alternative. However, this alternative is virtually impossible for small LECs since they may only have one or two central offices in their service territory, as is the case for Northeast, and none of those may be equipped.

We think it is appropriate to develop an advanced infrastructure that will provide information age services to consumers no matter if the consumer lives in Jacksonville or Macclenny. In order to develop this infrastructure it will be necessary in some cases for companies providing services to rural areas to deploy equipment that may not initially meet the normal economic test, which requires the revenues generated to recover the investment in a reasonable time frame. However, if this economic test is not met, we believe the infrastructure deployment should be a logical progression of the company's network plan. In addition to providing consumers in rural areas with the potential to purchase advanced services, deployment of an advanced infrastructure may even provide an economic boost by attracting new businesses into an area. Therefore, it makes the deployment of advanced infrastructure beneficial not only to Northeast, but to

the consumers located in these rural areas. We believe this upgrade meets the overall benefits test since it introduces potential revenue sources that do not currently have a market demand and provides an advance infrastructure which could potentially provide an economic boost for the area.

B. MARKET DEMAND AND COST SUPPORT

The second method to determine whether the upgrade is beneficial is to require that cost support and market demand justify the deployment of advanced infrastructure within these rural territories. We believe the determination of prudence is a very difficult process due to the capability and upgradability of the telecommunications equipment of today. Therefore, each situation must be handled on a case-by-case basis. Generally due to time and personnel constraints associated with depreciation or rate case proceedings, we only review in detail the large budget items such as switches or outside plant installations for each company, unless a specific concern has been brought to our attention. The information reviewed varies depending on the circumstances surrounding the company's request. For most retirements, we require cost and revenue data for the possible alternatives available to the company, plus any other factors that may affect the retirement of the specific plant such as problems with outages or lack of support by an equipment vendor. This approach ensures the company has evaluated all the alternatives and chosen the best alternative for the company's situation. For the other items identified in a depreciation or rate case proceeding, we generally evaluate the company's overall projections and assumptions for reasonableness in the specific areas being reviewed.

Northeast's current DCO processor is at software Release 17.3 which provides Custom Calling Features, Advanced Calling Features, Equal Access, SS7, Voice Mail, Interchangeable NPA Codes, Four-Digit CIC codes, as well as Basic Local/Long Distance Services to its customers. Siemens has stated that it will provide upgrades to the current processor through Release 21 at a cost of approximately \$50,000 per Release for the base features. The releases between 17.3 and 21 would basically provide enhancements to present services, but would not include all of the services contained in the Vision ONE upgrade.

Northeast has identified six features, Repeat Dialing, Call Return, Priority Ringing, Preferred Call Forwarding, Call Screening and Special Call Acceptance, that it believes will experience an increase in the market demand by 25% - 50% with the deployment of Release 18. This release will cost approximately \$75,000, while

generating revenue of \$26,400 - \$52,800. In addition, Northeast estimates approximately 80 percent of the customers that subscribe to Caller ID have requested Calling Name Delivery which is provided via Release 19 at a cost of approximately \$60,000. Using Southern Bell's Calling Name Delivery rate, \$7.50, we estimate the revenue generated per year is in the range of \$13,230. Northeast has also projected a market demand of 52 business subscribers and one residential subscriber of ISDN, which is provided via the Vision ONE platform, with estimated revenues of \$127,200 per year. This estimate was developed by using Southern Bell's ISDN basic business rate service with 2 ISDN lines with a slow packet switching D channel, approximately \$200 per customer. Adding these revenue sources together provides a possible annual revenue of between \$195,000 and \$222,000. With a cost of \$542,000 for the Vision ONE upgrade, it appears Northeast will recover its investment in at least 5 years assuming projected demand for these services are accurate.

In addition to generating sufficient revenue to recover the investment in a reasonable amount of time, the Vision ONE upgrade will eliminate the need to upgrade the current processor for the projected demand requiring Releases 18 and 19, at a cost of approximately \$135,000. The Vision ONE upgrade will provide all of the base and optional features contained in Releases 17.3 - 21 in addition to ISDN, some enhanced Centrex services and some data and dial-up video conferencing services. Northeast will also have the ability to offer AIN, PCS, Automatic Call Distribution and a SONE transmission standard known as TR-303 at an additional price with the Vision ONE upgrade. We believe the revenues that will be generated justify the upgrade to the Vision ONE platform but we will continue to monitor reserving judgement about the projected demand for ISDN in the rural areas. We intend to monitor the development of these services in order to see if Northeast's projections are correct. Nevertheless, Northeast has provided reasonable assurance that its plan to replace the current processor with the Vision ONE upgrade is reasonable.

As stated earlier, we used two methods to determine whether this upgrade was justified. We find the upgrade to the Vision ONE platform meets both tests and should be approved. The upgrade to the Vision ONE platform is a logical progression of Northeast's switching hierarchy, and therefore is a reasonable investment. In addition, Northeast provided sufficient cost and market demand that would satisfy the second test, as discussed above.

We approve Northeast's request to write off the unrecovered investment associated with its present DCO switch processor and related equipment by the end of 1995. The upgrade to Vision ONE

will require the current processor and some switching hardware and circuit equipment to be retired. The projected December 31, 1995 total company investment and associated reserve of the assets subject to retirement are \$676,578 and \$233,874, respectively. A cost of removal is anticipated in the amount of \$6,000. The company has proposed that the projected unrecovered total company investment of \$448,704 (\$305,119 intrastate) be written off by applying 1993 overearnings with the residual amount to be written off in 1994. This action assumes the present provision for depreciation will continue for 1994 and 1995.

IV. BILL AND KEEP SUBSIDY

On January 1, 1988, the intraLATA LEC toll bill and keep subsidy pool was established in Docket No. 850310-TL, with all LECs except GTE Florida Incorporated (GTE) and Vista-United Telecommunications (Vista-United) participating. GTE and Vista-United, which experienced net losses from the implementation of LEC toll bill and keep, elected not to receive subsidies and do not participate in the pool. Pursuant to Order No. 21597, ALLTEL Florida, Inc., Central Telephone Company of Florida, The Florida Telephone Company, Inc., Gulf Telephone Company, Quincy Telephone Company, and United Telephone Company of Florida were allowed to withdraw from the intraLATA subsidy pool. Pursuant to Order No. 21955, Indiantown Telephone System, Inc. was removed from the intraLATA subsidy pool due to its excess earnings. St. Joseph Telephone and Telegraph Company's subsidy was reduced and then eliminated by Orders Nos. 22418 and 22994, respectively.

The subsidy pool was established as a temporary mechanism to ease the transition from a pooling environment to a pure bill and keep environment. The subsidy amounts were phased down on January 1st of 1989, 1990 and 1991. Through that phase down mechanism, many of the LECs were able to transition out of the intraLATA bill and keep subsidy pool. Since January 1, 1991, the subsidy receipts and payments have not changed and will not change except by specific action of this Commission.

We find that Northeast's intraLATA subsidy receipts should be reduced by \$158,000 on July 1, 1995 in accordance with the Agreement. The intraLATA subsidy pool receipts and payments shown on Attachment A to this Order are approved, effective July 1, 1995. This action will reduce Southern Bell's payment into the intraLATA subsidy pool. Southern Bell's reduction in payments shall be added to the set aside amount to be disposed of in Docket No. 920260-TL. We will continue to monitor Northeast's earnings until Northeast's Bill and Keep subsidy receipts have been eliminated as set forth in the Agreement.

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Based on the foregoing, it is, therefore,

ORDERED by the Florida Public Service Commission that Northeast Florida Telephone Company, Inc. earned \$158,432 in revenue which exceeds 13.20% Return on Equity for 1993. It is further

ORDERED that Northeast Florida Telephone Company, Inc. apply \$160,968, consisting of \$158,432 in revenue and \$2,536 in interest, to the Stromberg-Carlson DCO Processor and associated equipment unrecovered intrastate investment. It is further

ORDERED that Northeast Florida Telephone Company, Inc. will treat \$160,968 as a reduction in rate base in 1994. It is further

ORDERED that Northeast Florida Telephone Company, Inc.'s retirement of the Stromberg-Carlson DCO Processor and upgrade to the Siemens Stromberg-Carlson Vision ONE processor are reasonable. It is further

ORDERED that the request by Northeast Florida Telephone Company, Inc. to write off the unrecovered investment associated with the Stromberg-Carlson DCO Processor is approved. It is further

ORDERED that Northeast Florida Telephone Company, Inc.'s intraLATA bill and keep subsidy receipts will be reduced by \$158,000 annually, effective July 1, 1995. It is further

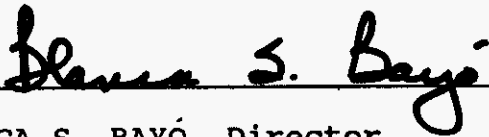
ORDERED that the intraLATA subsidy pool receipts and payments as shown on Attachment A to this Order shall be approved, effective July 1, 1995. It is further

ORDERED that BellSouth Telecommunications, Inc. d/b/a Southern Bell Telephone and Telegraph Company's reduced subsidy payment shall be treated as an additional set aside amount to be disposed of in Docket No. 920260-TL. It is further

ORDERED that, unless a person whose interests are substantially affected by the action proposed herein files a petition in the form and by the date specified in the Notice of Further Proceedings or Judicial Review, below, this Order shall become final and Docket No. 910731-TL shall be closed.

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By ORDER of the Florida Public Service Commission, this 29th
day of March, 1995.



BLANCA S. BAYÓ, Director
Division of Records and Reporting

(S E A L)

LMB

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 April 19, 1995.

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.

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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.

INTRALATA TOLL BILL AND KEEP
 CALCULATION OF SUBSIDY PAYMENTS
 July 1, 1995
 (\$000)

	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>
<u>COMPANY</u>	<u>INTRALATA BILL/KEEP IMPACT</u>	<u>PREVIOUS PHASE DOWN OF SUBSIDY</u>	<u>PREVIOUS COMM ACTION</u>	<u>TOTAL IMPACT (1+2+3)</u>	<u>SUBSIDY CONTRIE</u>	<u>SUBSIDY RECEIPTS</u>
NORTHEAST	(322)	40	158 *	(124)		(124)
SOUTHLAND	(151)	23		(128)		(128)
SO. BELL	10,099				<u>252</u>	
TOTAL					<u>\$252</u>	<u>(\$252)</u>

* NORTHEAST INCLUDES THE \$158,000 REDUCTION PROPOSED IN THIS RECOMMENDATION.