

FLORIDA PUBLIC SERVICE COMMISSION
Capital Circle Office Center • 2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

M E M O R A N D U M

May 9, 1996

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF AUDITING & FINANCIAL ANALYSIS (WRIGHT) *RW DM 100*
DIVISION OF COMMUNICATIONS (NORTON) *AKD*
DIVISION OF LEGAL SERVICES (CANZANO) *2 PL*

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

AGENDA: 05/21/96 - REGULAR AGENDA - PROPOSED AGENCY ACTION -
INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: S:\PSC\AFA\WP\920260TL.RCM
ATTACHMENT NOT AVAILABLE

DISCUSSION OF ISSUES

ISSUE 1: Should BellSouth Telecommunications, Inc.'s (BellSouth) and the Office of Public Counsel's (OPC) joint motion and stipulation to refund additional 1994 earnings in excess of the sharing point of 12% on equity in the amount of \$7.2 million be approved?

RECOMMENDATION: Yes. (Wright, Norton)

STAFF ANALYSIS: On March 15, 1995 BellSouth refunded \$30.45 million to subscribers due to earnings before sharing in excess of BellSouth's sharing point of 12% on equity per Order No. PSC-95-0562-FOF-TL. The \$30.45 million in earnings above the sharing point was based on BellSouth's preliminary surveillance report for the 12 months ending December 31, 1994. The staff completed an audit of BellSouth's 1994 surveillance report on October 20, 1995.

On April 18, 1996 the Office of Public Counsel (OPC) and BellSouth filed a joint motion to have the Commission approve a stipulation (Attachment A) which would result in a refund of \$7.2 million. BellSouth and OPC have agreed that the final surveillance

DOCUMENT NUMBER DATE
05232 MAY-96

FPSC-RECORDS/REPORTING

DOCKET NO. 920260-TL

DATE: May 9, 1996

report for calendar year 1994 shows an additional amount of approximately \$12 million before sharing in excess of the sharing point of 12% on equity. The additional \$12 million is a result of staff audit adjustments, OPC adjustments, and company adjustments. Sixty percent of \$12 million, or \$7.2 million, is the amount that would be refunded to BellSouth subscribers.

BellSouth proposes that these funds be returned to ratepayers using the same methodology approved by this Commission in Order No. 25367, issued on November 20, 1991, in Docket No 880069-TL. Staff agrees that this is appropriate. Therefore, the 1994 additional amount of approximately \$7.2 million should be refunded to customers of record as of the end of April, 1996. Refunds should be made based on access lines, pro rata according to rate levels. ESSX customers should receive refunds based on applicable Network Access Register rates.

The refund to an R-1 customer in the highest rate group will be approximately \$.96; for a B-1 customer it will be about \$2.62. These amounts reflect the assumption that subscribers who pay usage rates plus some percentage of the equivalent flat rate, will receive refunds based on either a) the flat rate surrogate, if applicable, or b) the full equivalent flat rate. This is equitable since most usage rate subscribers pay more for local service than the flat rate subscribers to the same service. Thus, they should receive refunds that are at least equivalent to those based on flat rates.

In addition, Rule 25-4.114, F.A.C., requires the following:

- a. Refunds must be made within 90 days of the final order.
- b. Motions for reconsideration do not delay refunds unless a stay is requested and granted.
- c. The Company must file refund reports.

In the final report submitted to staff after the refunds are made pursuant to Rule 25-4.114(7), Southern Bell should include documentation (in the form of a priceout) showing the calculations for the actual refund amounts per line.

Refunds should be distributed during the July 1996 billing cycles.

DOCKET NO. 920260-TL
DATE: May 9, 1996

ISSUE 2: Should a refund of \$1.0416 million related to the delayed implementation of BellSouth's scheduled October 1, 1995 \$25 million rate reduction be approved and added to the \$7.2 million refund identified in Issue 1?

RECOMMENDATION: Yes. (Wright, Norton)

STAFF ANALYSIS: On January 5, 1994, a Stipulation and Agreement between OPC and BellSouth was submitted. The Commission voted to approve the terms of the settlement at the January 18, 1994 agenda conference (Order No. PSC-94-0172-FOF-TL). The terms required, among other things, that rate reductions be made to certain Southern Bell services, while other rate reductions were unspecified. An unspecified rate reduction amount of \$25 million was scheduled to be implemented on October 1, 1995. Order No. PSC-95-1391-FOF-TL approved BellSouth's ECS plan effective January 1, 1996 and ordered BellSouth to issue a credit for the period October 1, 1995 through December 31, 1995 since the \$25 million rate reduction was not implemented on October 1, 1995.

By Order No. PSC-96-0020-FOF-TL, dated January 8, 1996, the Commission ordered BellSouth to extend the implementation date of the ECS plan to January 15, 1996. Since rate reductions were not implemented until the middle of January 1996, an additional \$1.0416 million (1/24 of \$25 million) needs to be refunded for the period from January 1, 1996 through January 14, 1996. For ease of administration, the staff recommends that the \$1.0416 refund be added to the \$7.2 million refund identified in issue 1.

BellSouth proposes that these funds be returned to ratepayers using the same methodology approved by this Commission in Order No. 25367, issued on November 20, 1991, in Docket No 880069-TL. Staff agrees that this is appropriate. Therefore, the additional amount of approximately \$1.0416 million should be refunded to customers of record as of the end of April, 1996. Refunds should be made based on access lines, pro rata according to rate levels. ESSX customers should receive refunds based on applicable Network Access Register rates.

The refund to an R-1 customer in the highest rate group will be approximately \$.14; for a B-1 customer it will be about \$.38. These amounts reflect the assumption that subscribers who pay usage rates plus some percentage of the equivalent flat rate, will receive refunds based on either a) the flat rate surrogate, if applicable, or b) the full equivalent flat rate. This is equitable since most usage rate subscribers pay more for local service than the flat rate subscribers to the same service. Thus, they should

DOCKET NO. 920260-TL
DATE: May 9, 1996

receive refunds that are at least equivalent to those based on flat rates.

In addition, Rule 25-4.114, F.A.C., requires the following:

- a. Refunds must be made within 90 days of the final order.
- b. Motions for reconsideration do not delay refunds unless a stay is requested and granted.
- c. The Company must file refund reports.

In the final report submitted to staff after the refunds are made pursuant to Rule 25-4.114(7), Southern Bell should include documentation (in the form of a priceout) showing the calculations for the actual refund amounts per line.

Refunds should be distributed during the July 1996 billing cycles.

DOCKET NO. 920260-TL
DATE: May 9, 1996

ISSUE 3: Should this docket be closed?

RECOMMENDATION: No. (Wright, Norton)

STAFF ANALYSIS: Rate reductions are scheduled to be implemented on October 1, 1996; therefore, the docket should remain open.

Attachment "A"

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Comprehensive Review of)
the Revenue Requirements and Rate) Docket No. 920260-TL
Stabilization Plan of Southern)
Bell Telephone and Telegraph) Filed: April 18, 1996
Company)
_____)

STIPULATION AND AGREEMENT
BETWEEN THE OFFICE OF PUBLIC
COUNSEL AND BELL SOUTH TELECOMMUNICATIONS, INC.

COME NOW, the Office of Public Counsel ("Public Counsel") and BellSouth Telecommunications, Inc. ("BellSouth" or "Company") (sometimes hereinafter referred to as the "Parties") and hereby agree and covenant as follows:

WHEREAS, there is presently pending before the Florida Public Service Commission ("FPSC") the implementation of the provisions of the Stipulation and Agreement between the Office of Public Counsel and BellSouth filed on January 5, 1994 and approved by the Commission in Order No. PSC-94-0172-FOF-TL, issued on February 11, 1994; and

WHEREAS, the issue of BellSouth's return on equity (earnings) for calendar year 1994 and the sharing therefrom remains to be concluded; and

WHEREAS, Public Counsel and BellSouth believe that it is in the best interest of the ratepayers of BellSouth and the Citizens of Florida to amicably resolve the issue of BellSouth's return on equity/earnings for calendar year 1994 without the expenditure of further time, money, and other resources in litigating these issues before the Commission and the courts;

Now therefore, the Parties do hereby agree and covenant as follows:

6. The Parties agree that this Stipulation and Agreement is intended to and shall settle all issues with regard to the determination of BellSouth's return on equity and earnings for calendar year 1994, as well as the appropriate amount of sharing therefrom.

7. The Parties agree that the preliminary Surveillance Report for calendar year 1994 resulted in a refund to BellSouth's Florida Subscribers, which refund was completed during 1995. This refund was pursuant to Order No. PSC-95-0562-FOF-TL, issued on May 8, 1995.

8. The Parties agree that the final Surveillance Report for calendar year 1994 shows that BellSouth's earnings before sharing for that period exceeded 12% on equity by an additional 12.0 million dollars. As a result, BellSouth's Florida subscribers are entitled to receive 60% of the additional earnings above 12% on equity, or 7.2 million dollars.

9. The Parties propose that these refunds be returned to ratepayers using the same methodology approved by this Commission in Order No. PSC-95-0562-FOF-TL. The Parties propose that the 1994 amount of 7.2 million dollars shall be refunded to customers of record as of the end of April, 1996. The Parties propose that refunds shall begin as soon as possible and shall be completed no later than the end of July, 1996.

10. The Parties acknowledge that the issue of BellSouth's level of earnings for calendar 1995 and any sharing therefrom

remains in dispute. The Parties, therefore, believe it is in the public interest to make the refunds for 1994 at the present time, rather than to wait for completion of any review of BellSouth's earnings/return on equity for calendar year 1995.

11. The Parties agree that they shall jointly petition the FPSC to approve this Stipulation and Agreement.

12. The Parties agree that in the event the FPSC does not adopt this Stipulation and Agreement in its entirety, this Stipulation and Agreement shall become null and void and be of no effect.

13. The Stipulation and Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of Florida, without regard to its conflict of laws principles.

14. Public Counsel and BellSouth acknowledge that this Stipulation and Agreement is being entered into for the purposes of settlement only and that the Parties are entering into this Stipulation and Agreement to avoid the expense and length of further legal proceedings, taking into account the uncertainty and risk inherent in any litigation.

IN WITNESS WHEREOF, this Stipulation and Agreement has been executed as of the 18th day of April, 1996, by the undersigned counsel of record for the Parties hereto and/or by the Parties themselves in multiple counterparts, each of which shall be deemed an original.

THE OFFICE OF PUBLIC COUNSEL

BELLSOUTH TELECOMMUNICATIONS, INC.

By: *Jack Shreve*
Jack Shreve
Public Counsel

By: *Joseph P. Lacher*
Joseph P. Lacher
President - Florida