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FPSC - Records/Reporting

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April 16, 1998

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

FROM: DIVISION OF AUDITING & FINANCIAL ANALYSIS (WRIGHT) *W*
DIVISION OF COMMUNICATIONS (NORTON) *RBN*
DIVISION OF LEGAL SERVICES (ELIAS) *RUE*

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

AGENDA: 04/28/98 - REGULAR AGENDA - PROPOSED AGENCY ACTION -
INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

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

CASE BACKGROUND

Order No. PSC-94-0172-FOF-TL, Docket No. 920260-TL, provided that BellSouth Telecommunication Inc.'s (BellSouth) 1997 earnings in excess of 12.5% return on equity (ROE), adjusted for the difference between the 1993 and 1996 average AA Utility Bond Rates for September through November of each year, respectively, would be shared with subscribers. The resulting threshold for 1997 is 13.11% ROE and 18.11% ROE before sharing. Amounts were to be shared as follows: 60% refunded to the customers with the balance retained by BellSouth between 13.11% ROE and 18.11% ROE plus 100% of earnings above 18.11% ROE. BellSouth filed a preliminary surveillance report on March 20, 1998, for the twelve months ending December 31, 1997, along with a proposal on how to treat \$123.5 million in earnings above their sharing threshold.

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DISCUSSION OF ISSUES

ISSUE 1: Should BellSouth's proposal to refund 60% of earnings between 13.11% ROE and 18.11% ROE plus 100% of earnings above 18.11% ROE on a preliminary basis for 1997 in the amount of \$123.5 million be approved?

RECOMMENDATION: Yes, with the modification that interest of \$3.175 million be added to the \$123.5 million resulting in a total refund of \$126.675 million. In the final report submitted after the refunds are made pursuant to Rule 25-4.114(7), Florida Administrative Code, BellSouth should include documentation (in the form of a priceout) showing the calculations for the actual refund amounts per line. (Wright, Norton)

STAFF ANALYSIS: On March 20, 1998 BellSouth filed a proposal to refund \$123.5 million to subscribers due to earnings before sharing in excess of BellSouth's sharing point of 13.11% ROE. BellSouth earned approximately 19.09% ROE before sharing for the 12 month period ending December 31, 1997. BellSouth subscribers are entitled to receive 60% of earnings between 13.11% and 18.11% ROE plus 100% of earnings above 18.11% ROE. Earnings between 13.11% and 18.11% ROE equates to approximately \$155 million. Between 13.11% ROE and 18.11% ROE, 60% of \$155 million or \$93 million is the amount that should be refunded to BellSouth's subscribers. The earnings above 18.11% or \$30.5 should be refunded 100% to subscribers for a total refund of \$123.5 million. The \$123.5 million in earnings to be refunded is based on BellSouth's surveillance report for the 12 months ending December 31, 1997. The \$123.5 million refund is preliminary and would be trued-up after final company adjustments, audit adjustments, and other possible adjustments are included.

Staff recommends that \$3.175 million in interest be added to the preliminary refund amount of \$123.5 million to recognize the time period from January 1, 1998 to the middle of the month refunds are actually made or June 15, 1998. Prior years sharing refunds have resulted in rate base reductions, therefore benefitting subscribers in subsequent years. Since 1997 is the last year of sharing, the subscribers will not receive a benefit from rate base reductions in 1998 and beyond, therefore it is necessary to add interest for the time period between from January 1, 1998 and June 15, 1998, the midpoint of the month which refunds are made. Any future adjustments to 1997 earnings should also include interest from January 1, 1998.

BellSouth proposes that these funds be returned to ratepayers using the same methodology approved by this Commission in Order No.

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25367, issued on November 20, 1991, in Docket No. 880069-TL. Staff agrees that this is appropriate. Therefore, the 1997 amount of \$126.675 million should be refunded to customers of record as of March 27, 1998. 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 \$14.00; for a B-1 customer it will be about \$39.00. 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, Florida Administrative Code, 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), Florida Administrative Code, BellSouth 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 June, 1998 billing cycles.

ISSUE 2: Should BellSouth's proposal on the treatment of any adjustments to the 1997 sharing amount be accepted?

RECOMMENDATION: Yes, with the modification that if the final 1997 sharing amount (after adjustments) is increased, then BellSouth would make another refund to its subscribers with interest from January 1, 1998. The Company will petition the Commission for instructions if the 1997 preliminary refund is reduced or if the

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increase is so small that an additional refund would be impractical. (Wright, Norton)

STAFF ANALYSIS: BellSouth's proposal states that while the surveillance report shows the amount of refund based on the best information that is currently available, certain tax and other adjustments (such as out-of-period) related to the 1997 calendar year will result. Based on the final numbers, the refund amount referred to in Issue 1 may turn out to be too much or too little. Also, there may be audit adjustments that would result in the sharing amount being adjusted.

BellSouth proposes that if the 1997 sharing amount is ultimately increased as a result of company and audit adjustments then the company will make an additional refund. BellSouth also proposes that if the sharing amount is reduced or if the additional sharing amount is so small that it renders an additional refund impractical, then the company will petition the Commission for instructions. The staff believes that this treatment is reasonable for the above stated scenarios and recommends granting BellSouth's proposal, with the modification that interest be included in any additional earnings above the sharing point calculated from January 1, 1998.

ISSUE 3: Should this docket be closed?

RECOMMENDATION: No. (Wright, Norton)

STAFF ANALYSIS: BellSouth's 1997 refund will need to be adjusted based on a revised surveillance report filed by BellSouth at the end of 1998 and the 1996 earnings have not been finalized, therefore the docket should remain open.