

FLORIDA PUBLIC SERVICE COMMISSION
FLETCHER BUILDING
101 EAST GAINES STREET
TALLAHASSEE, FLORIDA 32399-0850

MEMORANDUM

APRIL 18, 1991

TO : DIRECTOR OF RECORDS AND REPORTING

FROM : DIVISION OF COMMUNICATIONS [CHERMAN, WIDELL] *APD*
DIVISION OF LEGAL SERVICES [GREEN] *AW* *W*

RE : DOCKET NO. 900913-TL-EAS - PETITION BY 597 PREFIX
SUBSCRIBERS FOR EXTENDED AREA SERVICE FROM INDIANTOWN
EXCHANGE TO STUART EXCHANGE.

AGENDA: APRIL 30, 1991 - CONTROVERSIAL - PROPOSED AGENCY ACTION -
PARTIES MAY PARTICIPATE

PANEL: FULL COMMISSION

CRITICAL DATES: NONE

CASE BACKGROUND

This docket was initiated pursuant to a petition filed with this Commission by Ann E. Peterson on behalf of 154 Indiantown Telephone System subscribers. The petition was filed November 8, 1990. The petition requested implementation of EAS service between the Indiantown exchange and the Stuart exchange. The Indiantown exchange is served by Indiantown Telephone System, Inc. and the Stuart exchange is served by Southern Bell Telephone and Telegraph Company. Both of the exchanges are located in the Southeast LATA. Attachment A is a map of the involved exchanges. Order No. 23878, issued December 13, 1990 required the companies to conduct traffic studies on these routes.

The Indiantown exchange is composed mainly of a sparsely populated rural area dealing mainly in agricultural pursuits. Indiantown is on the threshold of more growth than the past decades have seen. Several industrial concerns, such as Bay State Milling Company, Eterna Roof Tiles, Inc. and Tampa Farm Service, Inc. have recently moved to Indiantown. In addition Caulkins Grove operates a large plant which produces orange juice concentrate, and Florida Power and Light operates two fossil fuel plants on the outskirts of the exchange.

Stuart is the county seat of Martin County and offers medical facilities, professional services, retail establishments, and

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educational and entertainment opportunities which are unavailable in Indiantown. Indiantown residents conduct most of their commercial activities in Stuart since Indiantown has not yet reached sufficient population to support many retail and service outlets. Students living in Indiantown attend the South Fork schools once they progress beyond the eighth grade. The school complex is located in the Stuart exchange. County governmental offices are also located in the Stuart exchange.

INTEREXCHANGE DAYTIME TOLL RATES			
TO/FROM	MILEAGE	INITIAL MINUTE	ADDITIONAL MINUTE
Indiantown - Stuart	18	\$.28	\$.16
Stuart - Indiantown	18	\$.18	\$.12

DISCUSSION OF ISSUES

ISSUE 1: Does the Indiantown/Stuart route meet the requirements for conducting a survey on non-optional, flat rate, two-way toll free calling?

RECOMMENDATION: Yes. The calling volumes on the Indiantown/Stuart route are sufficient to warrant a survey for non-optional, flat rate, two-way toll free calling. The Commission should order a survey of customers in the Indiantown exchange at the rates shown in issue 2, for the 25/25 plan with regrouping which is a non-optional, flat rate, two-way EAS plan. The survey should begin within thirty (30) days of the final order in this docket. Indiantown Telephone System, Inc. should obtain staff's prior approval of the survey letter.

STAFF ANALYSIS: The calling volumes on the Indiantown/Stuart route are shown below.

EAS CALLING VOLUMES		
ROUTE	CALLING RATE N/M/M	CUSTOMERS MAKING 2+ CALLS PER MONTH
Indiantown - Stuart (combined)	11.12	57%
Indiantown - Stuart (business)	16.67	43%
Indiantown - Stuart (residence)	9.37	62%

In all recent EAS dockets in which calling volumes were sufficient to warrant consideration of non-optional, flat rate, toll free calling the Commission has approved surveys on the 25/25 plan with regrouping rather than regrouping alone. Under the 25/25 plan with regrouping subscribers are charged two additives to their standard monthly rates. The 25/25 additive is twenty-five percent (25%) of the rate group schedule for the number of access lines to be newly included in the exchange's calling scope. The regrouping additive is the difference in rates between the exchange's original rate group and the new rate group into which the exchange will fall with its expanded calling scope.

If two-way EAS were to be implemented on the Indiantown/Stuart route only the Indiantown exchange would change rate groups at this time. The additional calling scope for the Stuart exchange would

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not be enough to bump the Stuart exchange into a higher rate group, thus their rates would not change. This, coupled with the fact that Indiantown is the requesting exchange, and would be the main beneficiary of these changes, leads staff to recommend that only the subscribers of the Indiantown exchange be surveyed.

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ISSUE 2: At what rates should the non-optional, flat rate, two-way, toll free calling be implemented?

RECOMMENDATION: Non-optional, flat rate, two-way, toll free calling should be implemented under the 25/25 plan with regrouping at the following monthly rates:

R-1 \$9.00 B-1 \$21.13 PBX \$42.25

STAFF ANALYSIS: The 25/25 plan is dependent on the existence of rate groups. This is because the formula makes use of the rate differential between rate groups to develop new EAS rates. Since Indiantown Telephone System serves only one exchange the company has not developed rate groups. In order to be consistent with previous EAS dockets staff believes it appropriate to employ the 25/25 plan in this docket. In order to develop reasonable rates staff considered applying the 25/25 formula to the rate groups of either Southern Bell or United Telephone Company.

In determining reasonable rates staff had two objectives; to develop rates which are not unacceptably high from the perspective of the subscribers, and to ensure the company a reasonable amount of cost recovery. Applying the 25/25 formula to Southern Bell's rate groups would result in a local service rate for R-1 subscribers of \$10.50, an increase of greater than 100%. Applying the 25/25 formula to United Telephone Company's rate groups results in an R-1 rate of \$9.00, an increase of 78%. Although the percentage increase under either scenario may seem high, it should be noted that Indiantown subscribers would experience a seventeen fold increase in their calling scope (from 2,506 access lines to 43,491 access lines).

In previous dockets in which the calling rates justified implementation of flat rate EAS, the Commission has ordered that the respective LECs not be allowed to fully recover their costs. This was because full cost recovery would result in unacceptably high local service rates. This is because of the significant amount of lost toll revenue as well as the cost of additional facilities (primarily switching and trunking). Nonetheless, the Commission ordered surveys without full cost recovery in those cases because the community of interest, as demonstrated by calling volumes, was great enough in each case to warrant implementation of flat rate EAS.

While staff believes that 100% cost recovery is not necessary, staff believes that in this particular EAS docket substantial cost recovery is warranted. Primarily, this is because of the uniqueness of Indiantown Telephone System. Indiantown Telephone System is one of only two LECs in Florida whose entire territory is

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made up of only one exchange (Vista-United is the other). The company serves only 2506 access lines. Sources of revenue for the company are very limited. Implementation of flat-rate EAS without substantial cost recovery would quickly put the company in an underearnings position. One percentage point (1%) on equity for this company is approximately \$30,000 (that is one percentage point, not one basis point). Since the annual toll revenue on the Indiantown/Stuart route is in excess of \$175,000 it is clear that the company's earnings could fall sharply without substantial cost recovery.

Staff believes that the rates developed by applying the 25/25 formula to United Telephone Company's rate groups are the best compromise between keeping rates at a reasonable level, while still allowing substantial cost recovery for Indiantown Telephone System. The R-1 rate of \$9.00 compares favorably with the R-1 rate of \$8.80 paid by Stuart subscribers (served by Southern Bell). This rate also allows the company to recover all but approximately \$750-\$800 per month of the lost toll revenue. The \$10.50 rate developed by applying the 25/25 formula to Southern Bell rate groups would recover more than 100% of the lost toll revenue.

If the Commission orders Indiantown Telephone System to survey Indiantown exchange subscribers for non-optional, flat rate, two-way, toll free calling, under the 25/25 plan with regrouping between the Indiantown exchange and the Stuart exchange, the new rates at which Indiantown subscribers should be surveyed are as follows (based on United Telephone Company rate groups):

	<u>Present</u>	<u>25/25 Additive</u>	<u>Regrouping</u>	<u>Total Additive</u>	<u>New Rates</u>
R-1	\$ 5.05	\$ 1.80	\$ 2.15	\$ 3.95	\$ 9.00
B-1	\$11.49	\$ 4.23	\$ 5.41	\$ 9.64	\$21.13
PBX	\$30.00	\$ 8.45	\$ 3.80	\$12.25	\$42.25

The 25/25 additives shown above were derived by first calculating the additional calling scope for the Indiantown exchange. The number of access lines by which the calling scope will increase is simply the number of access lines in the Stuart exchange (40,985). This number of access lines was then applied to United's rate group schedule. The additional calling scope would fall into rate group 2 and the 25/25 additives compute to be R-1 - \$1.80, B-1 - \$4.23, and PBX -\$8.45.

With the addition of 40,985 access lines to the current calling scope in the Indiantown exchange (2,506), the new totals would be 43,491 which would regroup to United's rate group 2 reflecting the following increases:

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		<u>Rate Group</u>		
	<u>1</u>	<u>2</u>	<u>Increase</u>	
R-1	\$ 5.05	\$ 7.20	\$2.15	
B-1	\$11.49	\$16.90	\$5.41	
PBX	\$30.00	\$33.80	\$3.80	

The existing rates, proposed rates, and expected revenue increases are shown below:

INDIANTOWN - STUART EAS					
SERVICE	CUSTOMERS	PRESENT	PROPOSED	INCREASE	ADDED REVENUE
R-1	1906	\$ 5.05	\$ 9.00	\$3.95	\$7,528.70
B-1	550	\$11.49	\$21.13	\$9.64	\$5,302.00
PBX	50	\$30.00	\$42.25	\$12.25	\$ 612.50
				TOTAL	\$13,443.20

The traffic studies filed in this docket report the toll revenue during the period of the study. Indiantown Telephone System reports monthly toll revenue on the Indiantown-Stuart route of \$14,357.43 for direct dialed calls. An additional \$1,735.28 in revenue is reported for operator handled calls on this route. That figure includes both toll charges and operator charges.

In calculating the lost toll revenue from implementation of flat rate EAS there are two additional factors to be considered. The first is access charges, the second is the impact on operator handled calls. Indiantown Telephone System pays terminating access charges to Southern Bell on calls from the Indiantown exchange to the Stuart exchange. Similarly, Southern Bell pays terminating access charges to Indiantown Telephone System for calls in the other direction. Southern Bell's terminating access rate is lower than that of Indiantown Telephone System. However, substantially more calls flow from the Indiantown exchange to the Stuart exchange than in the reverse direction. In minutes of use, for the period of the traffic study, Southern Bell terminated approximately 67% more minutes than did Indiantown Telephone System for traffic on this route. What this means is that Indiantown's access expense will be reduced more than their access revenue if this plan is implemented. Staff has calculated the savings to Indiantown Telephone System to be approximately \$1884 per month.

As to the impact on operator handled calls staff believes that

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the majority of these calls will simply be dialed as seven digit local calls if EAS is implemented. Thus, the company would lose both the toll revenue and the operator charge revenue on these calls. However, some of these calls would continue to be made as operator handled local calls. This is because some locations are restricted to 0+ calling only (confinement facilities, etc.). Therefore, while all of the toll revenue would be lost on these calls, some portion of the operator revenue would be retained. Yet, even that revenue may be in jeopardy depending on the outcome of Southern Bell-Indiantown Telephone System negotiations for operator charges (Southern Bell wants to increase the charge to Indiantown for providing operator services).

Taking into account these additional factors staff's recommended rates would result in a revenue impact to Indiantown Telephone System of between \$0 and \$800 per month, or between \$0 and \$9,600 annually. The expected costs to the company, other than lost toll revenue, include the additional facilities necessary to convert the existing toll traffic to local traffic, the cost of new directories, programming costs, and the cost of balloting the customers. The additional facilities necessary are primarily in the form of additional trunking and switching costs.

The Company has stated that the expected costs of the additional facilities necessary are approximately \$36,900. Other estimated costs include \$8,000 for directories, \$5,000 for programming, and \$1,500 for balloting. The facilities' costs would normally be amortized over a 10 to 15 year period, resulting in an annual cost of between \$2,500 and \$3,700. The programming and balloting costs would be a one-time expenditure. The directory expense would decrease after the initial cost of providing new directories. Therefore, staff's recommendation should result in additional expense to the company, in the first year, of up to \$18,200, followed by additional expense of up to \$5,000 in subsequent years. The \$18,200 figure is the total of the directory, programming and balloting expenses plus facilities costs amortized over a 10 year period. The \$5,000 figure for subsequent years is the total of facilities costs amortized over a 10 year period plus additional recurring directory expense of \$1,300.

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ISSUE 3: Should the Commission require Indiantown Telephone System and Southern Bell to conduct cost studies on these routes?

RECOMMENDATION: No, the Commission should waive Florida Public Service Commission (FPSC) Rule 25-4.061, Determination of Cost requirement on this EAS request and not require Indiantown Telephone System and Southern Bell to conduct cost studies on these routes.

STAFF ANALYSIS: Inasmuch as the traffic studies reflect sufficient community of interest to warrant implementation of an alternative to toll rates, and the alternatives being recommended already take into account the known costs in order to set the rates, the companies should be relieved of the cost studies required by Commission Rule 25-4.061, Determination of Cost Requirement.

ISSUE 4: Should the toll alternative plan permit full recovery of costs and lost revenues, including incremental costs?

RECOMMENDATION: No, the toll alternative plan should not permit full recovery of costs and lost revenues, including incremental costs. The Commission should waive FPSC rule 25-4.062(4), which provides for full recovery of costs from the subscribers in the petitioning exchange.

STAFF ANALYSIS: In situations where the qualification for extended area service relies on the calling interest of the petitioning exchange as well as subscriber approval of the plan, recovery of costs is assigned as follows:

[T]he requested service may still be implemented, provided that the entire incremental cost for the new service, less any additional revenues generated by regrouping in either or both exchanges, shall be borne by the subscribers of the petitioning exchange (Rule 25-4.062(4), F.A.C.).

Therefore, on any two-way plan, according to the Rule, the subscribers in the petitioning exchange should bear the burden and the telephone company will recover the costs in whatever manner the Commission deems.

In virtually every EAS docket (e.g. Docket No. 870436-TL, Hastings-St. Augustine EAS) for which cost information has been submitted, it has been shown that full recovery of cost would

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result in unacceptably high rates to customers. For this, reason, the Commission has waived this rule in every EAS docket for which traditional EAS has been recommended. On the other hand, as noted in Issue 2, the recommended rates allow substantial cost recovery. We therefore recommend that the rule which requires full cost recovery also be waived in this docket.

ISSUE 5: If the Commission approves the recommendation in Issue 1, should the Commission waive the fifty-one percent (51%) favorable vote requirement of FPSC Rule 25-4.063(5)(a) and order that a simple majority of subscribers in the Indiantown exchange, voting favorably, should be considered sufficient for passage of the respective surveys in this docket?

RECOMMENDATION: Yes. A simple majority of subscribers voting favorably should be ordered as sufficient for passage of the respective survey.

STAFF ANALYSIS: FPSC Rule 25-4.063(5)(a) states:

(5) "The requested extended area service shall be approved and ordered by the commission upon a finding that:

(a) Fifty-one percent (51%) of all subscribers in each exchange required to be surveyed vote favorably; or ..."

In all recent EAS dockets (e.g. Docket No. 870436-TL, Hastings-St. Augustine EAS), the Commission has waived the 51% requirement, choosing to interpret the intent of the rule to mean a simple majority, rather than 51%, of those eligible to vote. We therefore recommend a waiver of rule 25-4.063(5)(a) and acceptance of a simple majority of those eligible to vote as criteria for passage of the surveys in this docket.

ISSUE 6: Should this docket be closed?

RECOMMENDATION: No, this docket should remain open until the Indiantown subscribers have been surveyed on the 25/25 plan and the plan, if approved, has been implemented.

STAFF ANALYSIS: It is necessary to keep this docket open until the customers have been surveyed and the 25/25 extended area service plan is implemented, if a simple majority of those surveyed approve the plan. Results of the survey will be available one week after the final ballot mail-in date. The survey results will be presented to the Commission at a subsequent agenda.

MARTIN COUNTY

Docket No 900913-TL
597 SUBSCRIBERS PETITION FOR
FAS BETWEEN INDIANTOWN AND
STUART

INDIANTOWN EXCHANGE

STUART EXCHANGE

