

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Investigation into ) DOCKET NO. 940196-TL  
authorized return on equity and )  
earning of ALLTEL FLORIDA, INC. )  
In Re: Comprehensive review of ) DOCKET NO. ~~940196~~-TL  
the revenue requirements and ) ORDER NO. PSC-94-0383-FOF-TL  
rate stabilization plan of ) ISSUED: March 31, 1994  
SOUTHERN BELL TELEPHONE AND )  
TELEGRAPH COMPANY. )

The following Commissioners participated in the disposition of this matter:

J. TERRY DEASON, Chairman  
SUSAN F. CLARK  
JULIA L. JOHNSON  
DIANE K. KIESLING  
LUIS J. LAUREDO

NOTICE OF PROPOSED AGENCY ACTION

ORDER APPROVING A NEW AUTHORIZED RETURN ON EQUITY,  
CAP ON EARNINGS, REDUCTION TO INTERLATA SUBSIDY  
AND REDUCTIONS TO CERTAIN RATES

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

In the course of the Commission's monitoring of the earnings levels of the local exchange companies, certain concerns arose over ALLTEL Florida, Inc.'s (ALLTEL or Company) authorized return on equity (ROE) and earnings. Members of our Staff, the Office of Public Counsel and the Company met to address and seek resolution of the concerns. This meeting was followed by numerous conference calls. Based on these discussions our Staff suggested a resolution to which the Company agreed. The proposed resolution includes reducing ALLTEL's authorized ROE, capping 1994 earnings, changing

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certain rates related to extended area service (EAS) and rate regrouping, reducing access charges and reducing ALLTEL's interLATA access charge subsidy. Each of these items is discussed in detail below.

## II. RETURN ON EQUITY AND CAP ON EARNINGS

The proposal provides that effective January 1, 1994, the Company's authorized return on equity is 11.50% +/- 1.0%. A cap on earnings for 1994 is also imposed at 12.50% ROE with any excess earnings to be deferred to 1995.

ALLTEL's ROE was last considered in a hearing held in November 1992 with the decision rendered by the hearing officer in December 1992. At that time, the average yield on 30 year treasury bonds was 7.60% for November and 7.43% for December. Although the 30 year bond yield has risen of late, fluctuating around 6.6% following the decision by the Federal Reserve to increase short-term rates, this level is still well below the yield at the time the record was developed and the decision rendered regarding ALLTEL's allowed ROE. In addition, our Staff's internal cost of equity models indicate that the cost of equity since this time has dropped commensurately. These developments indicate that the cost of equity for ALLTEL has declined since its authorized ROE was last considered.

Upon consideration, we approve the proposed ROE of 11.5% +/- 1% to be effective January 1, 1994. We also find it appropriate to approve the proposed cap on 1994 earnings and the deferral of excess 1994 earnings to 1995. We note that the ROE proposed and accepted here is the result of compromise and might not be the outcome of an evidentiary proceeding. However, within the context of ALLTEL's total offer and the fact that approval of the offer will save litigation costs, the 11.5% ROE is reasonable.

## III. RATE CHANGES

The proposal provides for changes to rates and rate structure as follows:

- A. Eliminate EAS additives on the following routes:
  - Florahome (661) to Keystone Heights
  - White Springs to Lake City
  - Hastings to St. Augustine
  - Lake Butler to Alachua, Brooker, Gainesville.

B. Change rate grouping plan as follows:

		<u>R-1 Rate</u>
Amend Current Rate Group V	40,001+	\$9.95
to Rate Group V	40,001-200,000	9.95
Create New Rate Group VI	200,001-320,000	10.40
Create New Rate Group VII	320,001+	11.00

C. Callahan, which currently has an EAS additive of \$2.60 in addition to a \$9.95 R-1 rate, (\$12.55), will have its additive removed; it will go into new Rate Group VII at the \$11.00 R-1 rate. The net reduction for a Callahan R-1 customer will be \$12.55 - \$11.00 = \$1.55.

D. Effective date of eliminating EAS additives and creating new rate groups is May 1, 1994. Estimated 1994 impact is \$194,000. Estimated 1995 impact is \$291,000.

Typically, when two-way flat rate EAS is implemented, the customers in the requesting exchange are typically assessed whatever regrouping charges apply for the added calling scope, plus an additive which is typically 25 percent of the rate for the stand-alone exchange(s) being added. In the past several years, in rate case or overearnings situations, we have removed the additive on certain routes where EAS has been in place for several years. In the case of ALLTEL, the Company went through an MMFR review in 1992. The EAS additives that were in place at that time were inadvertently overlooked.

Currently the following EAS routes have additives:

<u>ROUTE</u>	<u>IMPLEMENTATION DATE</u>
Callahan to Jacksonville	6/6/87
Florahome (661) to Keystone Heights	3/17/90
White Springs to Lake City	6/29/90
Hastings to St. Augustine	7/6/90
Lake Butler to Alachua/Brooker/Gainesville	10/10/91
Wellborn to Lake City	4/30/93

Upon consideration we approve the removal of the additive for the Florahome (661) to Keystone Heights, White Springs to Lake City, Hastings to St. Augustine and the Lake Butler to Alachua/Brooker/Gainesville routes. The additives on these routes have been in place a sufficient length of time. The customers on these routes will henceforth be paying the same as other ALLTEL customers with similar calling scopes. With respect to the

Wellborn to Lake City route, since the additive has been in place less than a year we find that it should remain.

The Callahan to Jacksonville route has been in place more than long enough to warrant the elimination of the EAS additive. However, the elimination of the additive also raises an equity question. As of December 31, 1993, Callahan has a local calling scope of 365,464. Under ALLTEL's existing rate group structure, its highest rate group, Rate Group V, is 40,001+. ALLTEL today has ten exchanges whose calling scopes fall into that highest rate group. The exchange with the highest calling scope, except for Callahan, is High Springs with 132,131. Removing the additive from Callahan will put its customers in the posture of paying the same rate as exchanges which have a much lower calling scope. In order to avoid the inequity in having exchanges with a substantially smaller calling scope than Callahan paying the same rate, we find it appropriate to approve the modification of ALLTEL's current Rate Group V and the addition of two new rate groups to the top of ALLTEL's existing rate group structure. The proposal restructures ALLTEL's Rate Groups as follows:

		<u>R-1 Rate</u>
Modified Rate Group V	40,001-200,000	9.95
New Rate Group VI	200,001-320,000	10.40
New Rate Group VII	320,001+	11.00

The effect of this restructuring is to recognize the expanded calling scope of Callahan, while making an interim step between the \$9.95 rate of the highest rate group today and the new \$11.00 highest rate (\$9.95 to \$10.40 to \$11.00). This has no impact on any of the current exchanges in the existing rate group V. It removes the current \$2.60 R-1 additive from Callahan's current \$12.55 rate and gives it a permanent rate of \$11.00. Consistent with the changes to the R-1 rate, similar rate reductions will occur with other rates relating to the R-1 rate, such as B-1, PBX, semi-public phones, and PATS phones. These changes are set forth in Appendix A, attached to this Order.

#### IV. ACCESS CHARGES - BHMOC

The proposal provides for the elimination of ALLTEL's BHMOC effective July 1, 1994. Estimated 1994 impact is \$170,000. Estimated 1995 impact is \$340,000.

The BHMOC is one rate element of our intrastate access charge rate structure. Currently ALLTEL's BHMOC rate is \$1.60. Removing ALLTEL's BHMOC reduces its intrastate access charge rates to \$.136

per minute. This reduction will bring ALLTEL's intrastate access charge rates very close to its interstate access rates. ALLTEL uses the NECA tariff for its interstate access charge rates. At last assessment, the NECA rate for originating and terminating access was \$0.1397 per minute.

Upon consideration we find it appropriate to approve the elimination of ALLTEL's BHMOc charge. We note that the estimated annual dollar value of this action is \$548,000. However, due to the scheduled reduction in access charges by Southern Bell on July 1, 1994, ALLTEL will save an estimated \$208,000 annually in access expense. Therefore, the net loss in earnings to ALLTEL is \$340,000 annually. Implementing this change on July 1, 1994, concurrent with the reductions in Southern Bell's access rates, yields a 1994 impact of \$170,000.

V. INTERLATA SUBSIDY

The proposal provides that ALLTEL's interLATA access charge subsidy will be reduced effective January 1, 1995 by \$443,000 annually from the current amount of \$543,000 annually to a new amount of \$100,000 annually. In addition \$450,000 of the current subsidy revenue will be deferred from 1994 to 1995. The remaining \$100,000 of subsidy will be reduced or eliminated, effective July 1, 1995, to the extent that the company earns in excess of 12.5% ROE for 1994.

The interLATA access charge bill and keep subsidy pool was established on July 1, 1985 by Order No. 14452. The subsidy pool was established as a temporary mechanism to ease the transition from a pooling environment to a bill and keep environment. The current status of the interLATA subsidy pool is shown in Appendix B attached to this Order. The subsidy receipts and payments do not change each year except by specific action of the Commission.

Upon consideration we find it appropriate to approve the reduction to the Company's interLATA access charge subsidy. We have reduced subsidies and removed LECs from the interLATA subsidy pool when it appeared that the LEC no longer needed the subsidy; however, this has always been on a case by case basis. It appears that ALLTEL's subsidy can be reduced at the end of 1994 without any serious effect on the company's earnings or ALLTEL's ratepayers.

Accordingly, ALLTEL's interLATA subsidy receipts shall be reduced by \$443,000 annually, effective January 1, 1995. Beginning January 1, 1995, ALLTEL's interLATA subsidy will \$100,000. Concomitant with the reduction, the interLATA subsidy pool receipts

and payments shall also be modified, effective January 1, 1995. The new interLATA subsidy pool receipts are shown on Appendix B attached to this Order.

In addition, we also find it appropriate to approve the deferral of \$450,000 of ALLTEL's 1994 subsidy revenue into 1995. This will mitigate the full year impact of the proposed rate reductions on 1995's earnings and allow the company additional time to absorb the decline in revenue.

Finally, we find it appropriate to approve the proposal that to the extent that ALLTEL's 1994 earnings exceed 12.5 percent ROE, the \$100,000 subsidy will be reduced or eliminated, effective July 1, 1995.

VI. DISPOSITION OF SOUTHERN BELL'S REVENUE RESULTING FROM A REDUCED SUBSIDY PAYMENT

As discussed above, we have reduced ALLTEL's interLATA subsidy receipts by \$430,000. A reduction in subsidy receipts results in a commensurate decrease in subsidy payments by Southern Bell. As a result Southern Bell's earnings will increase by \$443,000. In the past, when a company's payments into the subsidy pool have decreased, we have disposed of the money by applying it to some specific purpose. However, we are not now prepared to make a determination of the final disposition of the revenues resulting from the reduction in subsidy payments by Southern Bell. Therefore, we find it appropriate that Southern Bell's revenues related to the reduction in subsidy payments be held subject to later disposition in Docket No. 920260-TL.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that ALLTEL Florida, Inc.'s proposal to reduce its authorized ROE, cap its 1994 earnings, change certain rates related to extended area service, modify its rate group structure, reduce its access charges and reduce its interLATA access charge subsidy is approved as set forth in the body of this Order. It is further

ORDERED that effective January 1, 1994, ALLTEL's authorized return on equity shall be 11.50% +/- 1.0% as set forth in the body of this Order. It is further

ORDERED that ALLTEL's earnings for 1994 shall be capped at 12.50% ROE with any excess earnings to be deferred to 1995. It is further

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ORDERED that the EAS additives for the Florahome (661) to Keystone Heights, White Springs to Lake City, Hastings to St. Augustine and the Lake Butler to Alachua/Brooker/Gainesville routes shall be eliminated effective May 1, 1994, as set forth in the body of this Order. It is further

ORDERED that ALLTEL's Rate Groups shall be restructured, effective May 1, 1994, as set forth in the body of this Order. It is further

ORDERED that ALLTEL's BHMOC shall be eliminated, effective July 1, 1994, as set forth in the body of this Order. It is further

ORDERED that ALLTEL's interLATA access charge subsidy shall be reduced, effective January 1, 1995, by \$443,000 annually as set forth in the body of this Order. It is further

ORDERED that \$450,000 of ALLTEL's current subsidy revenue will be deferred from 1994 to 1995. It is further

ORDERED that ALLTEL's remaining subsidy of \$100,000 will be reduced or eliminated, effective July 1, 1995, to the extent that the company earns in excess of 12.5% ROE for 1994. It is further

ORDERED that Southern Bell's revenues related to the reduction in interLATA access subsidy payments shall be held subject to later disposition in Docket No. 920260-TL.

By ORDER of the Florida Public Service Commission, this 31st day of March, 1994.

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STEVE TRIBBLE, Director  
Division of Records and Reporting

( S E A L )

TWH

by: Kay Flynn  
\_\_\_\_\_  
Chief, Bureau of Records

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 at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on April 21, 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 adversely 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.



APPENDIX A

PROPOSED RATE GROUP PLAN ALLTEL					
RATE GROUP	CALLING SCOPE	R-1	B-1	PBX	SEMI-PUB
1	0-5,000	\$9.10	\$22.75	\$43.25	\$26.05
2	5,001-10,000	9.35	23.40	44.55	26.75
3	10,001-20,000	9.60	24.10	45.85	27.50
4	20,001-40,000	9.75	24.40	46.50	27.85
*5	40,001-200,000	9.95	24.70	47.20	28.20
**6	200,001-320,000	10.40	26.00	49.40	29.65
**7	320,001+	11.00	27.50	52.25	31.35
* Change in rate group ** New rate group					

APPENDIX B

INTERLATA TOLL BILL AND KEEP  
 CALCULATION OF SUBSIDY PAYMENTS  
 October 1, 1993  
 (\$000)

	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>
			REVENUE EFFECT OF PREVIOUS COMM	TOTAL IMPACT	SUBSIDY CONTRIB	SHORTFALLS REQUIRING SUBSIDY
COMPANY	INTERLATA BILL/KEEP IMPACT	DA & COIN REVENUE	ACTION	(1+2+3)		
ALLTEL	(2,110)	265	1,302 **	(543)		(543)
ST. JOSEPH	(1,674)		151	300 ***	(1,223)	(1,223)
SO. BELL	12,456	19,949	(27,481)	4,924	<u>1,766</u>	
TOTAL					<u>\$1,766</u>	<u>(\$1,766)</u>

\* EXCLUDING CENTRAL, FLORALA, GTE, GULF, INDIANTOWN, NORTHEAST, QUINCY, SOUTHLAND, UNITED AND VISTA-UNITED

\*\* ALLTEL INCLUDES \$472,000 REDUCTION APPROVED IN DOCKET NO. 911108-TL, \$830,000 REDUCTION APPROVED IN DOCKET NO. 920193-TL.

\*\*\* ST. JOSEPH INCLUDES \$300,000 REDUCTION APPROVED IN DOCKET NO. 891238-TL.

APPENDIX B

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

	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>
			REVENUE EFFECT OF PREVIOUS COMM	TOTAL IMPACT	SUBSIDY CONTRIB	SHORTFALLS REQUIRING SUBSIDY
COMPANY	INTERLATA BILL/KEEP IMPACT	DA & COIN REVENUE	ACTION	(1+2+3)		
ALLTEL	(2,110)	265	1,745 **	(100)		(100)
ST. JOSEPH	(1,674)	151	300 ***	(1,223)		(1,223)
SO. BELL	12,456	19,949	(27,481)	4,924	<u>1,323</u>	
TOTAL					<u>\$1,323</u>	<u>(\$1,323)</u>

• EXCLUDING CENTRAL, FLORALA, GTE, GULF, INDIANTOWN, NORTHEAST, QUINCY, SOUTHLAND, UNITED AND VISTA-UNITED

\*\* ALLTEL INCLUDES \$472,000 REDUCTION APPROVED IN DOCKET NO. 911108-TL, \$830,000 REDUCTION APPROVED IN DOCKET NO. 920193-TL AND THE \$443,000 REDUCTION CURRENTLY PROPOSED.

\*\*\* ST. JOSEPH INCLUDES \$300,000 REDUCTION APPROVED IN DOCKET NO. 891238-TL.