FLORIDA PUBLIC SERVICE COMMISSION
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MEMORANDUM

April 24, 1997

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

FROM: DIVISION OF COMMUNICATIONS (OLLILA, NORTON)) J.M.O. RA
DIVISION OF LEGAL SERVICES (CULPEPPER) MCB for BC

RE: DOCKET NO. 970274-TP - FLOW-THROUGH OF 1997 LEC SWITCHED ACCESS REDUCTIONS BY IXCS, PURSUANT TO SECTION 364.163(6), F.S.

AGENDA: MAY 6, 1997 - REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: RATE REDUCTIONS EFFECTIVE OCTOBER 1, 1997 PER SECTION 364.163(6), FLORIDA STATUTES

SPECIAL INSTRUCTIONS: S:\PSC\CMU\WP\970274TP.RCM

CASE BACKGROUND

On October 8, 1996, the Commission issued Order No. PSC-96-1265-FOF-TP (Docket No. 960910-TP). This Order set out the requirements for local exchange companies (LECs) to reduce their intrastate switched access rates and for the interexchange carriers (IXCs)to flow through the rate reductions pursuant to Section 364.163 (6), Florida Statutes.

Section 364.163(6), Florida Statutes, requires any LEC whose current intrastate switched access rates are higher than its December 31, 1994 interstate switched access rates to reduce its intrastate switched access rates by 5 percent annually beginning October 1, 1996. Once parity between the intrastate and 1994 interstate rates is reached, no further reductions are required. Any LEC may be relieved of this requirement if it reduces its intrastate rates by a greater percentage by the relevant date or earlier, taking into account any reduction made pursuant to Order No. PSC 94-0172-FOF-TL, issued February 11, 1994.

Section 364.163(6), Florida Statutes, also requires that these intrastate switched access rate reductions be flowed through to long distance customer rates by any telecommunications company (IXC) whose switched access rates are reduced by the section.

Pursuant to this statutory provision, by Order No. PSC-96-1265-FOF-TP, issued October 8, 1996, the Commission required each price-regulated and rate base rate-of-return regulated LEC whose then current intrastate composite switched access rate was higher than its December 31, 1994 interstate composite switched access rate to reduce its intrastate composite switched access rate by 5 percent. Concurrently, facility-based IXCs were ordered to flow through the rate reductions to their customers.

A composite approach to calculating a LEC's intrastate and interstate rates was ordered by the Commission because switched access comprises several elements. The calculation of the December 31, 1994, interstate composite rate was to include any long term support revenue received by the LEC. This had the immediate effect of reducing the number of LECs who were required to reduce their intrastate rates.

The LECs who were required to reduce their rates by 5 percent, effective October 1, 1996, were ALLTEL, Frontier, GTEFL, Sprint (Centel and United), and Vista-United.

BellSouth's intrastate reduction was not the 5 percent, but a different percentage based on the requirements of Order No. PSC-94-0172-FOF-TL. This Order resulted from the Commission's approval of the stipulation in Docket No. 920260-TL resolving BellSouth's last earnings review. The stipulation called for a series of annual switched access rate reductions, the last of which went into effect on October 1, 1996. This reduction, which was 16.2 percent, reduced BellSouth's intrastate switched access rates to its 1/11/94 interstate level, which was the level required by the stipulation.

Only facility-based IXCs were required, by Order PSC-96-1265-FOF-TP, to flow through the effect of the intrastate switched access rate reductions since they are the only ones to receive access reductions. Those IXCs were required to include a calculation of the dollar benefit from the intrastate rate reductions and to demonstrate that their intrastate long distance rates had been reduced by the amount of the dollar reduction. The Order further stated, "To encourage a market driven approach, percentage reductions may vary by long distance service, but must yield the required overall reduction."

The following recommendation addresses the 1997 flow-through.

ISSUE 1: When should LECs be required to file tariffs for their annual 5 percent switched access reduction, and when should the applicable IXCs be required to file their tariffs that flow through this reduction?

RECOMMENDATION: The following five LECs, -- ALLTEL, Frontier, GTEFL, Sprint (Centel and United) and Vista-United -- should be required to file their tariffs no later than August 1, 1997, to become effective October 1, 1997. All applicable IXCs should be required to file their tariffs no later than September 2, 1997, to become effective October 1, 1997.

Each LEC's tariff filing must include a calculation of its current intrastate composite switched access rate per minute. This rate should be calculated using the same methodology that the LEC used to calculate its intrastate composite switched access rate and its December 31, 1994 interstate composite switched access rate, both provided in its October 1, 1996 filing. The tariff filing should also include a demonstration that the LEC's intrastate switched access rate reductions satisfy the requirements of Section 364.163(6), Florida Statutes.

If a 5 percent reduction would take a LEC's intrastate rate below its December 31, 1994 interstate rate, the LEC should only reduce its intrastate rate by the percent required to bring its intrastate rate into parity with its December 31,1994 interstate rate.

The IXC tariffs must include: 1)a calculation of the dollar benefit associated with the LECs' intrastate switched access rate reductions, and 2) a demonstration that customer long distance rates have been reduced by the estimated dollar benefit. A sample worksheet (Attachment A) is attached. Percentage reductions may vary by long distance service, but must yield the required overall reduction.

STAFF ANALYSIS: Ordinarily, price-regulated LECs file their tariffs 15 days in advance, while rate-of-return regulated LECs file their tariffs 30 days in advance. IXC tariffs are required to be filed one day in advance. Based on last year's experience, however, staff recommends that the LECs file their tariffs 60 days in advance (August 1, 1997) and that the IXCs file their tariffs 30 days in advance (September 2, 1997). Last year the IXCs had very little time to review the LECs' tariff filings prior to the IXCs filing their own tariffs to flow through the rate reductions. In addition, staff required time to review each LEC's calculations of its rates and its demonstration that intrastate switched access rates had been reduced by the required amount. Staff required time to then review each IXC's calculation of its benefits, and to verify that the IXC's tariff changes reflected the full amount of the benefit to be flowed through to customers.

If the LECs file their tariffs 60 days in advance, this will provide the IXCs the opportunity to review the rate changes prior to the IXCs' flow-through filings. In addition, this will allow staff sufficient time to evaluate the rate calculations and reductions.

Requiring the IXCs to file their tariffs 30 days in advance will provide staff sufficient time to verify that the IXCs have reduced their rates by the appropriate amounts prior to the effective date of the tariffs.

The tariff filings of each of the following five LECs, -- ALLTEL, Frontier, GTEFL, Sprint (although Sprint now has one tariff, some rates are different for Centel and United) and Vista-United -- should include a calculation of each LEC's current intrastate composite switched access rate per minute. This rate should be calculated using the same methodology that the LEC used to calculate both its intrastate composite switched access rate and its December 31, 1994 interstate composite switched access rate, provided in its October 1, 1996 filing, in order to maintain consistency between filing years. The tariff filing should also include a demonstration that the LEC's intrastate switched access rate reductions satisfy the requirements of Section 364.163(6), Florida Statutes, as discussed in the Case Background.

When a LEC's intrastate switched access rates are less than 5 percent higher than its 1994 interstate rate, the LEC need only reduce its rates by the amount necessary to reach parity. The statute requires annual 5 percent reductions but also states that once parity between intrastate and 1994 interstate rate levels is reached, no further reductions are required.

The IXC tariffs should include: 1) a calculation of the dollar benefit associated with the LECs' intrastate switched access rate reductions, and 2) a demonstration that customer long distance rates have been reduced by the estimated dollar benefit. Order No. PSC-96-1265-FOF-TP, issued October 8, 1996 permitted the IXCs to vary their reductions by long distance service in order to "encourage a market driven approach," but required that the total reductions yield the overall dollar amount to be flowed through. A sample worksheet (Attachment A) is attached.

ISSUE 2: What portion of BellSouth's March 1, 1997 intrastate switched access rate reductions should be flowed through by the IXCs? When should the reductions be flowed through by the IXCs?

RECOMMENDATION: The IXCs should be required to flow through only that amount of BellSouth's March 1, 1997 intrastate switched access rate reduction that brought BellSouth's intrastate composite switched access rate to parity with its December 31, 1994 interstate composite rate. The reduction that brought BellSouth's intrastate composite switched access rate into parity with its December 31, 1994 interstate composite switched access rate was 2.7 percent.

The timing of the flow through should be the same as the timing recommended in Issue 1, i.e., the IXCs should be required to file their tariffs no later than September 2, 1997, to be effective October 1, 1997.

STAFF ANALYSIS: BellSouth's March 1, 1997, intrastate switched access rate reductions, filed pursuant to Order No. PSC-97-0128-FOF-TL, in Docket No. 920260-TL, brought BellSouth's intrastate composite switched access rate below its December 31, 1994, interstate composite switched access rate. The Order required switched access rate reductions of $37.6 million, $16.4 million of which brought BellSouth's intrastate composite switched access rate to parity with its December 31, 1994, interstate composite switched access rate, the level required by statute.

Section 364.163(6), Florida Statutes, states that once parity is reached between intrastate and 1994 interstate switched access rates, no further reduction is required. The statute also states that any telecommunications company (IXC) whose intrastate switched access rate is reduced by this section must decrease its customer long distance rates by the amount necessary to return the benefits of this reduction to its customers.

Staff believes that the flow-through requirement extends only to the level at which a LEC's intrastate composite switched access rate reaches parity with its December 31, 1994 interstate composite rate. Therefore, we recommend that IXCs be required to flow through the impact of a 2.7 percent reduction to BellSouth's switched access rates.

The timing of the tariff filings was discussed in Issue 1. The statute requires that the IXCs' flow-through rate reductions be made on October 1 of each year. Therefore, staff recommends that the timing of the IXCs' tariff filings for BellSouth's reductions and other LEC reductions should be the same. IXCs should file their tariffs (with appropriate documentation as described in Issue 1) 30 days in advance (September 2, 1997), to be effective October 1, 1997.

<u>ISSUE 3</u>: When an IXC calculates its required flow-through, should there be a dollar amount below which an IXC is not required to flow through switched access rate reductions? If so, what should the amount be?

RECOMMENDATION: Yes. When the total dollar amount of an IXC's flow-through rate reduction reduces the IXC's expenses by $100 or less per month, staff recommends that the IXC should not be required to flow through this amount.

STAFF ANALYSIS: When an IXC's reduction in its expenses is so small, e.g., $100 per month, the effect of the benefit to the individual consumer is greatly diluted. Flowing through a reduction of this size is likely to produce rate changes so small that an individual customer might not actually see any benefit. In addition, for small IXCs, the cost of implementation (e.g., the tariff filing, billing changes) may greatly exceed the flow-through amount.

Based upon the tariff filings made for the 1996 reductions, staff would anticipate that, at most, one or two IXCs would be not be required to flow through intrastate switched access rate reductions if the Commission approves this recommendation.

Accordingly, staff recommends that an IXC whose switched access expenses are reduced by $100 or less per month, should not be required to flow through this amount.

ISSUE 4: Should this docket be closed?

RECOMMENDATION: No. This docket should remain open to handle any protests filed in response to the Order from this recommendation and any subsequent tariff filings necessary to ensure compliance with Section 364.163(6), Florida Statutes, for the year 1997. If a protest is filed within 21 days from the issuance of the Order from this recommendation, and the protest is unresolved, the tariffs should be filed as ordered. Those tariffs, filed in response to Section 364.163(6), Florida Statutes, which are effective October 1, 1997, should remain in effect pending the resolution of any protest.

STAFF ANALYSIS: This docket should remain open to handle any protests filed in response to the Order from this recommendation and any subsequent tariff filings necessary to ensure compliance with Section 364.163(6), Florida Statutes, for the year 1997. If a protest is filed within 21 days from the issuance of the Order from this recommendation, and the protest is unresolved, the tariffs should be filed as ordered. Those tariffs, filed in response to Section 364.163(6), Florida Statutes, which are effective October 1, 1997, should remain in effect pending the resolution of any protest.

(Attachment A)

IXC Flow-Through Worksheet (Illustration)

Name of IXC:
Study Period: (one or more months in 1997)

Calculation of $ Savings & Percent Reduction

LEC	% Reduction Sw. Acc. Chges	Study Period Sw. Acc. Chges		Study Period Sw Acc Savings
1. #1	5% (note 1) x	$50,000	=	$2,500
2. #2	5% (note 1) x	$20,000	=	$1,000
3. Study period total savings			=	$3,500
4. Intrastate long distance billable revenue for the study period			=	$150,000
5. Required % reduction in IXC's FL intrastate long distance rates: Line 3/Line 4			=	2.33%

The 2.33% may be applied across-the-board to all of the IXC's intrastate rates
OR
The study period savings may be applied to one or more rate elements such that it is passed through to the IXC's customers. An example is shown below.

Example: Savings Spread Specific Rate Elements

Rate Element	Study Period - # Intrastate Minutes of use (MOUs)	Change in IXC Rate		Study Period Rate Reduction
6. #1	100,000 x	$0.005	=	$500
7. #2	250,000 x	$0.012	=	$3,000
8. Study period total reduction			=	$3,500
9. Line 8 must equal or exceed line 3.				

Note 1: The % reduction for intrastate switched access rates must equal the LEC's reduction in intrastate switched access rates. The illustrative methodology shows the minimum 5% reduction.