

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Flow-through of 1997 LEC) DOCKET NO. 970274-TP
switched access reductions by) ORDER NO. PSC-97-0604-FOF-TP
IXCs, pursuant to Section) ISSUED: May 27, 1997
364.163(6), F.S.)
_____)

The following Commissioners participated in the disposition of this matter:

JULIA L. JOHNSON, Chairman
SUSAN F. CLARK
J. TERRY DEASON
JOE GARCIA
DIANE K. KIESLING

NOTICE OF PROPOSED AGENCY ACTION
ORDER ON SWITCHED ACCESS REDUCTIONS

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.

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 the 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. Thus, customer long distance rates must be reduced by the amount necessary to return the benefits of the rate reductions to the customers.

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FPSC-RECORDS/REPORTING

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In accordance with Section 364.163(6), Florida Statutes, we issued Order No. PSC-96-1265-FOF-TP, on October 8, 1996, whereby we 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, we ordered the facilities-based IXCs to pass the rate reductions on to their customers.

We also ordered that a composite approach to calculating a LEC's intrastate and interstate rates be used 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 Florida, Inc., Frontier Communications of the South, Inc., GTE Florida, Incorporated, Sprint-Florida, Incorporated, and Vista-United Telecommunications. BellSouth Telecommunications, Inc. (BellSouth) was not, however, required to reduce its intrastate rates by 5 percent. Instead, a different percentage was applied to BellSouth based on the requirements of Order No. PSC-94-0172-FOF-TL. That Order was the result of our 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 of 16.2 percent, reduced BellSouth's intrastate switched access rates to its January 11, 1994, interstate level, which was the level required by the stipulation.

Only facilities-based IXCs were required by Order PSC-96-1265-FOF-TP to pass the intrastate switched access rate reductions on to their customers, 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."

1997 Flow through

Based on past experience regarding the time necessary to review the tariffs, we shall require the LECs to file their tariffs on or before August 1, 1997, and the IXCs to file their tariffs on or before September 2, 1997. Last year the IXCs had very little time to review the LECs' tariff filings before filing their own tariffs to pass the rate reductions on to customers.

By requiring the LECs to file their tariffs 60 days in advance, the IXCs will have the opportunity to thoroughly review the rate changes before the IXCs file tariffs passing the benefits of the rate reductions on to their customers. In addition, this will give us enough time to evaluate the rate calculations and reductions. Furthermore, by requiring the IXCs to file their tariffs 30 days in advance, we will also have sufficient time to verify that the IXCs have reduced their rates by the appropriate amounts prior to the effective date of the tariffs.

ALLTEL, Frontier, GTEFL, Sprint (Centel and United), and Vista-United shall file tariffs that include a calculation of the LEC's current intrastate composite switched access rate per minute. This rate must 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, as provided in the LEC's October 1, 1996 filing. The tariff filing shall also include a demonstration that the LEC's intrastate switched access rate reductions satisfy the requirements of Section 364.163(6), Florida Statutes. 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. As previously stated, Section 364.163(6), Florida Statutes, 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 shall include a calculation of the dollar benefit associated with the LECs' intrastate switched access rate reductions and a demonstration that customer long distance rates have been reduced by the estimated dollar benefit. In Order No. PSC-96-1265-FOF-TP, issued October 8, 1996, we 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 of the benefit that would be passed on to customers. The information should be filed in the format indicated in Attachment A which is incorporated into this Order. In addition, the IXCs shall disclose how and when the

flow through was completed and shall clearly indicate whether any reductions below parity were flowed through. Attachment B is incorporated into this Order and sets forth the format in which the IXCs should submit this additional information. Using this information, our staff will compile and present to us a report outlining the amount that each IXC flowed through, whether that flow through included any amounts below parity, and when the flow through was accomplished. That report shall be completed by October 1, 1997.

Amount and Timing of Flow through

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. In that Order, we 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 Chapter 364, Florida Statutes.

As we have previously noted, 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 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.

The requirement that the benefits of switched access rate reductions be passed on to long distance customers appears to extend only until a LEC's intrastate composite switched access rate reaches parity with its December 31, 1994, interstate composite rate. Therefore, the IXCs shall be required to flow through the impact of a 2.7 percent reduction to BellSouth's switched access rates. Nevertheless, since BellSouth's switched access reductions that take BellSouth below parity further reduce the IXCs' costs, we strongly encourage the IXCs to also flow through reductions below parity in order to pass these savings on to the consumers. In addition, we encourage all LECs to continue to reduce intrastate switched access charges beyond the statutory requirement, and we encourage IXCs to flow through those reductions beyond the statutory requirement.

As previously noted, the IXCs' flow-through rate reductions must be made on October 1 of each year. Therefore, the IXCs' tariff filings for BellSouth's reductions and other LEC reductions must be made at the same time. We shall, therefore, require the IXCs to file their tariffs, with the appropriate documentation, by September 2, 1997, to be effective October 1, 1997. We do, however, encourage the IXCs to flow through the reductions sooner so that consumers can begin to benefit from the savings.

Although this Order is being issued as a Proposed Agency Action, if a protest is filed within 21 days from the issuance of this Order, and the protest is unresolved by the filing dates set forth herein, the rate reduction and flow-through tariffs shall be filed as ordered and shall remain in effect pending the resolution of the protest.

Flow-through limit

When the switched access rate reductions result in a small reduction in an IXC's expenses, \$100 or less per month, the benefit to the IXC's customers is greatly diluted. Passing the benefits of a reduction of this size on to customers is likely to produce rate changes so small that an individual customer might see little or no benefit. In addition, for small IXCs, the cost of implementation may greatly exceed the flow-through amount. Therefore, we shall not require an IXC whose switched access expenses are reduced by \$100 or less per month, to flow through this amount. Based upon the tariff filings made for the 1996 reductions, we believe that, at most, one or two IXCs will not have to flow through intrastate switched access rate reductions. All facilities-based IXCs that purchased switched access shall, however, be required to submit a completed worksheet in the format indicated by Attachment A which is incorporated by reference into this Order.

Based on the foregoing, it is therefore

ORDERED by the Florida Public Service Commission that the LECs shall file their tariffs on their intrastate switched access rate reduction on or before August 1, 1997, with an effective date of October 1, 1997. It is further

ORDERED that the IXCs shall be required to flow through 2.7 percent of BellSouth's March 1, 1997, intrastate switched access rate reduction. It is further

ORDERED that the IXCs shall file tariffs to flow through the LECs' switched access rate reductions by September 2, 1997, with an effective date of October 1, 1997. It is further

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ORDERED that the IXCs' required tariff filings shall include the necessary additional documentation as set forth in the body of this Order and in the format indicated by Attachments A and B. It is further

ORDERED that any IXC whose switched access expenses are reduced by \$100 or less per month, shall not be required to flow through the amount. It is further

ORDERED that all facilities-based IXCs that purchased switched access shall submit a completed flow-through worksheet in the format indicated by Attachment A. It is further

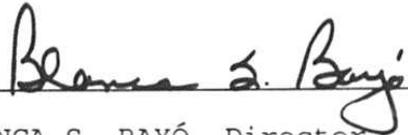
ORDERED that if a protest is filed within 21 days of the issuance of this Order, and the protest is unresolved by the filing dates set forth herein, the rate reduction and flow-through tariffs shall be filed as ordered and shall remain in effect pending the resolution of the protest. It is further

ORDERED that the provisions of this Order, except for the provision whereby the tariffs shall remain in effect pending the resolution of any protest filed, are issued as proposed agency action and shall become final and effective unless an appropriate petition, in the form provided by Rule 25-22.036, Florida Administrative Code, is received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings or Judicial Review" attached hereto. It is further

ORDERED that this docket shall remain open to ensure compliance with Section 364.163(6), Florida Statutes, for the year 1997.

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By ORDER of the Florida Public Service Commission, this 27th
day of May, 1997.



BLANCA S. BAYÓ, Director
Division of Records and Reporting

(S E A L)

BC

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), 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.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

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, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on June 17, 1997.

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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 substantially 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.

IXC Flow-Through Worksheet

Name of IXC:

Study Period: (one or more months in 1997)

Calculation of \$ Savings &

Percent Reduction

<u>LEC</u>	<u>% Reduction</u>	<u>Study Period</u>	<u>Study Period</u>
1.#1	<u>Sw. Acc. Chges</u>	x <u>Sw. Acc. Chges</u>	= <u>Sw Acc Savings</u>
1.#1	see note 1	x	=
2.#2	see note 1	x	=
3.#3	see note 1	x	=
4.#4	see note 1	x	=
5.#5	see note 1	x	= _____
6. Study period total savings = line 1 + line 2 + line 3 + line 4 + line 5			=
7. Intrastate long distance billable revenue for the study period			=
8. Required % reduction in IXC's FL intrastate long distance rates: line 6/line 7			=

The percent reduction from line 8 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

<u>Rate Element</u>	<u>Study Period - #</u>	<u>Intrastate Minutes</u>	<u>Change in</u>	<u>Study Period</u>
9.#1	of use (MOUs)	x <u>IXC Rate</u>	= <u>Rate Reduction</u>	
9.#1		x	=	
10.#2		x	= _____	
11. Study period total reduction = line 9 + line 10			=	

Study period rate reduction in line 11 must equal or exceed that of line 6's study period total savings.

Note 1: The % reduction for intrastate switched access rates must equal the LEC's reduction in intrastate switched access rates.

IXC Summary Information Required per Commission Order

IXC: _____

Dollar amount flowed through as required by 364.163(6), Florida Statutes (a) =
Additional dollar amount flowed through (b) = _____
Total dollar amount flowed through (a+b) = _____

Effective date of flow-through: _____