

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petitions of SOUTHERN BELL)	DOCKET NO. 880069-TL
TELEPHONE AND TELEGRAPH COMPANY for)	
rate stabilization and implementation)	ORDER NO. 22793
orders and other relief)	DATE 4-10-90
)	

The following Commissioners participated in the disposition of this matter:

MICHAEL MCK. WILSON, Chairman
 THOMAS M. BEARD
 BETTY EASLEY
 GERALD L. GUNTER
 JOHN T. HERNDON

NOTICE OF PROPOSED AGENCY ACTION
ORDER GRANTING IN PART AND DENYING IN PART
SOUTHERN BELL'S MOTION FOR DECLARATORY RULING AND
MODIFYING CERTAIN PROVISIONS OF ORDER NO. 20162

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 formal proceeding pursuant to Rule 25-22.029, Florida Administrative Code.

By Order No. 20162, issued in Docket No. 880069-TL, we set aside \$10 million in 1989 and 1990, respectively, for the implementation of Optional Extended Area Service (OEAS) on twenty-two routes. On July 28, 1989 Southern Bell sold \$300 million of 8.5% debentures due in 2029. On September 5, 1989, \$200 million of the 8.5% debentures were used to refinance \$200 million of 11.75% 40 year debentures which were due April 19, 2023. On November 30, 1989, Southern Bell filed a Motion for Declaratory Ruling (the Motion) requesting that \$6.5 million of the \$10 million set aside for 1989 be used to offset costs incurred refinancing \$200 million of 11.75% debentures with \$200 million of 8.5% debentures. Southern Bell calculated the interest savings for 1989 to be \$650,000 for September through December on a Florida intrastate basis. On an annual basis,

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beginning with 1990, interest savings will be \$1,949,000 for Florida intrastate operations.

Public Counsel filed a response to the Motion on December 18, 1989. Public Counsel's response raised questions as to the proposed accounting treatment of the cost of refinancing and whether the lower interest rates will benefit the ratepayers. Public Counsel points out that Financial Accounting Standards ("FAS") No. 71 gives the Commission discretion to amortize a gain or loss on the extinguishment of debt while FAS No. 4 states that gains and losses shall not be amortized to future periods. Public Counsel further points out that both of these standards fall under Generally Accepted Accounting Procedures (GAAP), therefore the Commission has the discretion of a one time recognition or amortization of these refinancing costs. In addition, Public Counsel questions whether Southern Bell's revenue requirement determination of \$6.5 million is the proper revenue requirement amount rather than \$4.2 million which is net of taxes. Finally, Public Counsel questions whether ratepayers will actually benefit from the interest savings.

Southern Bell filed a reply to Public Counsel's response on January 2, 1990. Southern Bell's reply argues that the Commission's adoption of Part 32 Uniform System of Accounts in 1988 is a major shift towards Generally Accepted Accounting Principles (GAAP) which requires costs to be recognized in the same period in which the debt was refinanced. Southern Bell further argues that the ratepayers will benefit because Order No. 20162 excludes interest savings from refinancing higher cost debt from earnings sharing. The Company also states that it included the tax savings generated by the expense of refinancing in its revenue requirement calculation.

In the motion, Southern Bell estimates of the cost of implementing OEAS in 1989 at \$3.2 million for the twenty-two OEAS routes set forth in Order No. 20162. Although \$10 million had been set aside, several of the larger routes were not implemented until late in 1989. Therefore, their full revenue impact was not experienced. We note that the Yulee to Jacksonville route was not implemented during 1989, saving the expected cost of \$25,800. Removal of this route also reduces the estimated cost to implement OEAS to \$3.15 million for 1989.

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Southern Bell also proposes that any EAS ordered to be implemented during 1989 and extending into 1990 should also come out of the \$10 million. This includes Vero Beach to Ft. Pierce OEAS, Holley-Navarre to Milton OEAS, St. Augustine to Jacksonville/Jacksonville Beach/Ponte Vedre Beach OEAS, Maxville/Middleburg/Orange Park EAS (flat rate). For 1990 this includes other routes which have been ordered but not yet implemented such as Yulee to Jacksonville EAS, Jay to Pensacola and seven other OEAS filings Southern Bell expects to make in early 1990.

In Order No. 21986 regarding Escambia County EAS, the Commission allowed \$136,000 of the available \$10 million set aside for OEAS to be used to offset Southern Bell's costs of implementing EAS in Escambia County. Including all the EAS requests and OEAS filings mentioned above for eligibility for offset with the \$10 million would be consistent with the Commission's decision in the Escambia County EAS Order. Accordingly, we find that the additional routes implemented during 1989 be included as eligible for part of the \$10 million available for EAS. Subtracting the estimate of \$3.15 million for the routes identified in Order No. 20162 and the estimated cost of additional routes implemented during 1989 of \$345,200 from the \$10 million set aside for EAS in 1989 leaves approximately \$6.5 million to be disposed of related to 1989. Note that the dollar amounts for OEAS are estimates only, because the take rates of all routes are not yet known. We also note that Southern Bell has committed to truing up the amount actually used for OEAS by the end of the first quarter of 1990. If, based on the actual take rates, the cost of the OEAS is greater than the estimated \$3.5 million, Southern Bell will absorb it. If it is less, those dollars will be available for further disposition by the Commission.

Upon consideration, we find that Southern Bell's motion should be granted in part and denied in part. In addition we find certain modifications to Southern Bell's requested treatment are appropriate. In Order No. 20162, we recognized that the refinancing of higher cost debt with lower cost debt occurs because interest rates have become more favorable and not because of any action by the company. However, it appears that a disincentive to refinance may exist if the company is required to bear the cost of refinancing higher cost debt. Accordingly, we find it appropriate that Southern Bell shall be allowed to use the estimated 1989 OEAS surplus money to offset

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the cost of debt refinancing in 1989. These refinancing costs should be recognized in the year incurred rather than amortized; this treatment is consistent with the new Uniform System of Accounts (USOA) adopted in 1988. Though the Commission may have amortized such costs in past dockets, these decisions occurred prior to the implementation of the new USOA on January 1, 1988. The cost of refinancing should be a revenue requirements amount of \$6.5 million before interest savings rather than the net of taxes amount of \$4.2 million suggested by Public Counsel. Ratepayers should benefit from this treatment through a reduced cost of capital in future years.

Southern Bell's calculation of the cost of refinancing should be modified to take into account the interest savings experienced in 1989. Southern Bell determined the interest savings for 1989 to be \$650,000 based on a four month period, September through December, 1989. The \$650,000 interest savings should be netted against the \$6.5 million cost of refinancing to arrive at a net cost of financing for 1989 of \$5.85 million. The \$5.85 million is the amount that should be applied against the OEAS surplus for 1989. The interest savings for 1990 of \$1.949 million should be added to the 1990 amount set aside for implementation of OEAS of \$10 million.

In the near future, we anticipate amending some of the existing EAS routes such as Milton to Pensacola, Havana to Tallahassee, Brunson to Gainesville, as well as the point-to-point plans and existing Toll Pac routes. The dollar effect of this is not yet known. If the 1990 OEAS surplus is not used for revising EAS, it will be available for other use by the Commission.

Our treating of the interest savings described above for 1989 and 1990 will result in the ratepayers receiving 100% of the benefit of the debt refinancing. This is fair considering that the ratepayers are paying 100% of the cost of refinancing. Our proposed treatment of the debt refinancing costs and subsequent interest savings also accomplishes the Commission's goal that the ratepayers receive all the benefit from reduced interest rates while at the same time not penalizing the company for making a prudent decision to refinance.

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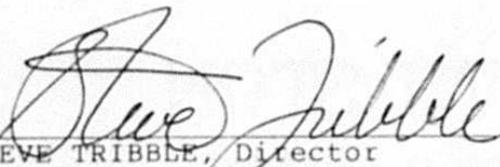
Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Southern Bell Telephone and Telegraph Company's Motion for Declaratory Ruling is granted in part and denied in part as set forth in the body of this Order. It is further

ORDERED that Southern Bell Telephone and Telegraph Company's proposed treatment of the OEAS surplus for 1989 and 1990 is modified as set forth in the body of this Order. It is further

ORDERED that Order No. 20162 is modified as set forth in the body of this Order.

By ORDER of the Florida Public Service Commission,
this 10th day of April, 1990.


STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

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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

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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 May 1, 1990.

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, and as reflected in a subsequent order.

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 sewer 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.