BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition by the CITIZENS OF THE STATE OF FLORIDA to permanently reduce the authorized ROE of UNITED TELEPHONE COMPANY OF FLORIDA	DOCKET NO. 891231-TL
In re: Investigation into UNITED TELEPHONE COMPANY OF FLORIDA's authorized ROE and earnings	DOCKET NO. 891239-TL ORDER NO. 24049 ISSUED: 1/31/91

The following Commissioners participated in the disposition of this matter:

THOMAS M. BEARD, Chairman
BETTY EASLEY
GERALD L. GUNTER
FRANK S. MESSERSMITH
MICHAEL McK. WILSON

APPEARANCES: MICHAEL W. TYE, 315 South Calhoun Street, Suite 860, Tallahassee, Florida 32301, appearing on behalf of AT&T Communication of the Southern States, Inc.

JERRY W. JOHNS, KAY WOLF and ALAN BERG, United Telephone Company of Florida, P.O. Box 5000, Altamonte Springs, Florida 32716-5000, appearing on behalf of United Telephone Company of Florida.

FLOYD SELF, DAVID HALLMAN, BRUCE RENARD, and BARRY SELVIDGE of Messer, Vickers, Caparello, French, Madsen & Lewis, P.O. Box 1876, Tallahassee, Florida 32301, appearing on behalf of Florida Pay Telephone Association, Inc.

ROD SMITH, of Smith and Fletcher, P.O. Box 628, Alachua, Florida 32615, appearing on behalf of Communications Workers of America.

CHARLES J. REHWINKEL, JACK SHREVE and CHARLES J. BECK, Office of Public Counsel, Claude Pepper Building, Room 812, 111 West Madison Street, Tallahassee, Florida 32399-1400, appearing on behalf of the Citizens of the State of Florida.

SUZANNE F. SUMMERLIN and JOHN ADAMS, Florida Public Service Commission, 101 East Gaines Street, Tallahassee, Florida 32399-0863, appearing on behalf of the Commission Staff.

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PRENTICE P. PRUITT, Florida Public Service Commission, 101 East Gaines Street, Tallahassee, Florida 32399-0862, appearing as Counsel to the Commissioners.

FINAL ORDER GRANTING RATE INCREASE
TO UNITED TELEPHONE COMPANY OF FLORIDA

AND

NOTICE OF PROPOSED AGENCY ACTION
ORDER IMPLEMENTING $.25 MESSAGE RATE FOR MTS
IN THE 0-10 MILEAGE BAND

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein, implementing the $.25 message rate for Message Toll Service (MTS) in the 0-10 mileage band, is preliminary in nature and will become final unless a person whose interests are adversely affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

I. Summary of Decision

On May 15, 1990, United Telephone Company of Florida (United or the Company) filed Minimum Filing Requirements (MFRs) with this Commission pursuant to our Order No. 22377, issued January 8, 1990. The Company's MFRs were in support of proposed rate schedules designed to generate increased annual revenues of $25,450,000. The Company's filing is based on a projected test year of 1991 and proposes that these rates be collected primarily from basic local rates for business and residential customers.

We have found, based on the record in this proceeding, that United has established that it is entitled to an increase of $4,540,000 in annual revenues. In making this determination, we have concluded that a fair rate of return on equity (ROE) for this Company is 13.0% with a range of reasonableness of 12.0% to 14.0%. Based on that ROE, the Company's overall rate of return is 9.82%. We have approved rates, as discussed in detail herein, that will generate the approved revenue increase.

II. Background

It has been over seven years since this Commission has thoroughly investigated United's earnings and set its authorized ROE. Many changes have occurred in the last seven years in the communications industry. The company has also experienced great changes as evidenced by the merger of four companies into the present United Telephone Company of Florida. The current Company's structure is the result of a November 1982 merger between Winter Park Telephone Company, Inc., Orange City Telephone Company, Inc., Florida Telephone Corporation and United Telephone Company of Florida, with United being the surviving company. The last rate proceeding for United was concluded in 1982 by Order No. 11029 prior to its merger with the other three telephone companies.

Some of the changes that have occurred in this seven year interim period include a phase down of the interstate subscriber plant factor (SPF), the implementation of bill and keep of intraLATA toll for local exchange companies (LECs), the rewrite of the Uniform System of Accounts (USOA) and central office equipment category 3 (CAT 3) separations changes. In the future, at least through 1993, additional changes are expected yearly. In each of the years 1987, 1988 and 1989, significant negative impacts to United's earnings have occurred. Yet for each of the years 1987, 1988 and 1989, the Company's achieved ROE has been 14.59%, 14.28% and in excess of 14.0%, respectively. Various factors, such as access line growth, increased toll volumes and gains in Company efficiency, appear to have contributed to the level of the Company's earnings over these past few years.

Therefore, pursuant to our authority set forth in Section 364.14, Florida Statutes, and by Order No. 22205, issued November 21, 1989, we held a public hearing on Thursday, December 14, 1989, limited to the issues of determining an appropriate allowed return on common equity for United Telephone Company of Florida for the purposes of the limited proceeding and the method by which the revenue to be placed subject to refund, if any, should be calculated.

Based upon our consideration of the testimony and the evidence presented at that hearing, we determined that an allowed return on common equity of 12.8% with a range of 50 basis points, or a low of 12.3% to a high of 13.3%, was appropriate for United for the purposes of the limited proceeding.

In recognition of the Company's excess earnings, the Office of Public Counsel (OPC) had previously filed, on October 19, 1989, a petition to permanently reduce United's authorized ROE. OPC's petition initiated Docket No. 891231-TL. The parties have stipulated, however, that it is appropriate to close Docket No. 891231-TL with this final order, which we hereby do.

Pursuant to the Company's August 31, 1989, surveillance report which reflected an achieved ROE of 13.66% and the four adjustments set out in Order No. 22377, issued January 8, 1990, we found United's achieved ROE to be 14.53%. Based upon our determination that the appropriate allowed ROE for United for purposes of the limited proceeding was 12.8%, with a range from a low of 12.3% to a high of 13.3%, and our determination that United's achieved ROE is 14.53%, we found it appropriate to place a revenue amount subject to refund that would bring United's achieved ROE down to the ceiling of 13.3%. Therefore, in accordance with the provisions of Section 364.055, Florida Statutes, and by Order No. 22377, we required that United hold subject to refund, with interest, $7,605,000 annually of its revenues effective January 1, 1990.

On May 15, 1990, United filed its MFRs requesting an increase in rates and charges to produce additional revenues of $25,450,000 based on a projected 1991 test year. United modified its initial MFR filing on August 22, 1990, to incorporate the Company's October budget view. These modifications to the MFRs increased United's alleged revenue deficiency from $25,450,000 to $26,290,000 for the test year. The Company cited competition, additional business risks and growth as the major factors behind its rate request.

This Commission held service hearings in Altamonte Springs and Ft. Myers at which we heard customer testimony regarding the service provided by the Company, the Company's proposed rates and services, and various other customer concerns.

We held a public hearing, at which we heard testimony and received evidence from all the parties, in Tallahassee on October 1, 3-5, 8, and 9, 1990. The Company, the Office of Public Counsel (OPC), AT&T Communications of the Southern States, Inc. (ATT-C), the Florida Pay Telephone Association (FPTA), and our Staff participated in the hearing. Witnesses were sponsored by the Company, OPC, ATT-C, and our Staff. The witnesses were available for cross examination by the parties. The Communications Workers of America (CWA) was granted intervention to participate on the

operator services issues, although they did not cross examine any witnesses nor submit any testimony or evidence.

III. Stipulations

The following stipulations were agreed to by the Company, OPC and our Staff. ATT-C and FPTA had no objection.

1. United's method of handling non-pension post-retirement benefits for ratemaking purposes in this proceeding on a pay-as-you-go basis is appropriate and since the test year forecast does not implement the Financial Accounting Standards Board (FASB) exposure draft on other post-employment benefits, no adjustment for post-retirement benefits is warranted.

2. Gross receipts tax should not be treated as an expense for ratemaking purposes in this proceeding, but rather may be billed directly to customers as permitted by Section 203.01(5), Florida Statutes.

3. The appropriate amount of test year intrastate Telephone Plant Under Construction (TPUC) to be included in the test year rate base (i.e., short term TPUC) is $13,757,680 as shown on updated MFR Schedule A-2d.

4. The appropriate level of test year universal service fund revenue is $2,338,512 as presented by United's witness McRae.

5. United's intrastate Primary Interexchange Carrier (PIC) change charge has been eliminated, therefore, no revenues associated with that charge are appropriate for the test period.

6. A review and modifications of the Company's tariff is appropriate but should be pursued following the rate case. This will allow the Company 120 days from the issue date of the final order to determine the feasibility and potential revenue impact of implementing a tariff similar to the tariff jointly developed by our Staff and Southern Bell Telephone.

7. United's current bill format is in compliance with Commission bill format rules and guidelines.

8. The final order in this proceeding shall be dispositive of Citizen's Petition in Docket No. 892131-TL and that docket should be closed in the final order entered herein.

The following stipulations 9-11 were proposed by the Company. Staff, OPC, ATT-C and FPTA have no objection.

9. United's Data Transport Service (Switchlink) was tariffed on September 1, 1989, and has been offered for a relatively short period of time, therefore, no change in the rate for this service is appropriate.

10. United's returned check charge should increase from $10 to $15.

11. Given the time constraints of this proceeding, it is not feasible to establish United-specific interexchange Private Line rates at this time. United currently concurs with Southern Bell Telephone's interexchange Private Line tariff.

All parties agreed to the following stipulation.

12. The following issues will be determined in Docket No. 860723-TP: the rate structure and rate levels (except United's B-1 rates which will be set in Docket 891239-TL) governing the nonLEC pay telephone lines provided by United; the regulations governing local and HNPA directory assistance for calls originating at nonLEC pay telephones within United's service territory; the availability, regulations and charges governing screening and blocking services provided by United for nonLEC pay telephone lines; and the availability governing access by nonLEC pay telephone providers to United's toll discount plans.

The Company proposed the following stipulation to which no objection was raised.

13. It is appropriate to eliminate four-party service and two-party zone charges consistent with previous Commission actions and Rule 25-4.068(2)(b), Florida Administrative Code.

We find all of the above stipulations appropriate and hereby approve them.

IV. Adequacy of Service

Section 364.035, Florida Statutes, requires that this Commission, when fixing rates, consider the efficiency, sufficiency, and adequacy of the facilities provided and the services rendered by the utility. In this proceeding, we have fulfilled this statutory requirement through our Staff's performance of a service evaluation consisting of thousands of test calls and the review of hundreds of records over an extended period of time. We have also considered the testimony of the two Staff witnesses, Taylor and Brown, regarding the Company's provision of service and the experience of the Division of Consumer Affairs regarding complaints about this Company, as well as the testimony of Mr. Bruce Reynolds, Vice President, on behalf of the Company. In addition, we have considered the public testimony of the customers who appeared at the two service hearings which were held in Altamonte Springs and Ft. Myers.

At the hearing, Staff Witness Taylor presented the results of the service evaluation and testified that, based on the results achieved, the overall quality of service provided by United is adequate. Although he concluded that the service provided by the Company was good, he did note some specific deficiencies. United met or exceeded 57 of the 76 Commission rule requirements in its most recent service evaluation. In addition, the Division of Consumer Affairs lists United as having the fewest complaints, (.025 complaints per 1000 access lines) of all the local exchange companies (LECs) in Florida.

The service evaluation report revealed 10 rule violations and 8 unsatisfactory levels for a 76.6% compliance rating. Five of the ten rule violations were within 2% or 3% of the requirement. Six of the categories for which United received an unsatisfactory rating have a specified percentage requirement. United's rating for three of them was within 4% of our requirement.

Rule 25-4.040, Florida Administrative Code, requires 100% availability of new numbers from directory assistance within 48 hours after connection excluding weekends and holidays. United scored 99%, missing 2 requests of 198. The Rule also requires the directory to normally list all subscribers in the exchange in alphabetical order. United achieved a score of 98.1%, slightly below our 99% standard. The Company has reported that its operator

force has been instructed regarding this requirement, and we expect no further deficiencies in this area.

There were 10 violations of, or deviations from, Rule 25-4.076, Florida Administrative Code, from a total of 205 public telephones checked. United has either fully corrected the deficiencies or has initiated corrective measures to bring the phones into compliance with Commission rules.

Rule 25-4.115, Florida Administrative Code, requires 100% accuracy in the area of directory assistance billing accuracy. United underbilled 18 of 329 billable directory assistance calls for a 94.5% accuracy rating. United maintains that, according to its records, its billing is accurate.

Rule 25-4.070, Florida Administrative Code, requires 95% restoral of out of service reports within 24 hours after they are reported to the Company. The Rule also states that companies should make every reasonable attempt to restore service on the same day. This Commission has set 80% as a reasonable objective for same day restoral. United achieved 79.7%.

Regarding Rules 25-4.036 and 25-4.038, Florida Administrative Code, three faulty grounds were observed on older installations during the service evaluation. United has corrected the defective grounds and implemented a testing program.

Rule 25-4.0185, Florida Administrative Code, deals with periodic reports required of the Company. United reported failure to meet our Answer Time Rule requirements in two categories for the second quarter of 1990. The first category was the Rule requirement that 90% of Directory Assistance calls be answered within 20 seconds. United's explanation of the Directory Assistance violation in its periodic reports was the retraining of operators following ATT-C's take back of toll calls. The second Rule violation was of the requirement that 80% of business office calls be answered within 20 seconds. United recorded a violation in its periodic report, citing unexpected absenteeism and increased customer calling as reasons for its failure to meet the requirements. We are satisfied with the Company's explanations and note that during the service evaluation, United's compliance rating exceeded Commission requirements for both Answer Time categories.

A total of seven service related complaints resulted from the service hearings held in Altamonte Springs and Ft. Myers. We believe that the Company has taken appropriate corrective action. We are satisfied that the Company has addressed, or will satisfactorily address, all deficiencies which we have identified.

Based on the record before us, we find that the Company is in substantial compliance with this Commission's prescribed service standards. Therefore, we find that the overall level of service provided by the Company is adequate.

V. Rate Base

The Company's rate base is the investment upon which the Company is entitled to earn a return. Once a test period is determined, the Company's investment and expenses for that period are analyzed in order to establish the investment upon which a rate of return will be permitted. The test year intrastate rate base represented by the MFR Schedules filed by United in this proceeding was $923,053,747. United increased this amount by $2,911,958 to account for the transfer of information services and net operating income (NOI) adjustments to working capital. The adjusted total as filed was $925,965,705. During the hearing, United proposed three additional adjustments to NOI. This increased the Company's proposed rate base by $289,000 to $926,254,705. After consideration of the issues presented to us, we have made certain adjustments to the rate base.

A. Test Year Net Plant In Service

United asserts that its intrastate test year plant in service is $1,469,011,946. Although the original MFR schedule submitted by the Company showed the forecast of adjusted test year plant in service to be $1,467,803,379, the Company filed a revised amount of $1,469,011,946 based on its most current forecast of 1991 operations. We find that United's updated budgeted amount of test year plant in service is appropriate and hereby approve it.

United has included depreciation expense related to toll services and directory assistance operator positions which it expects to incur in 1991, over and above its currently approved depreciation rates. The company has not applied for the additional depreciation. We believe it is more appropriate to deal with the expense at the time the company files its depreciation

represcription. The total company depreciation expense for the test year is $680,000, with $469,737 intrastate. The average amount to be removed from the total company reserve is $340,000, with $234,868 intrastate. Therefore, we find it appropriate to reduce United's depreciation reserve of $554,191,119, reflected in its updated MFRs, by $234,868. Thus, we approve the revised amount of test year depreciation reserve of $553,956,251.

The Company's position is that the appropriate amount of intrastate test year net plant in service is $914,820,827. However, we find that the appropriate amount of intrastate net plant in service is equal to the test year plant in service less the depreciation reserve. We have determined that the test year intrastate plant in service is $1,469,011,946 and the depreciation reserve is $553,956,251. Therefore, we find that the intrastate test year net plant in service is $915,055,695.

B. Working Capital

1. Allocation of Unearned Revenues

United asserts that unearned revenues should not be allocated 100% to intrastate working capital. We agree. The working capital component of the advanced billings includes not only billings for intrastate service but also billings for interstate end user access charges, switched busy hour minutes, IXC special access, and WATS access line billings. The direct assignment of all advanced billings to the intrastate jurisdiction would understate intrastate working capital. United calculated its allowance for working capital by using the balance sheet method, which is consistent with our past practice. This calculation included $11,063,000 in advanced billings, which included interstate as well as intrastate and were separated along with the other accounts based on net plant. We find it appropriate that unearned revenues be allocated between intrastate and interstate services on the same basis as other components of working capital. Therefore, we approve the separation method the Company used to develop the allowance for working capital.

2. Prepaid Pensions

We are in agreement with United's position that prepaid pensions should be included in the working capital allowance. United has included $11,870,000 of prepaid pension expense in its

calculation of working capital. This "Other non-current asset" was created in accordance with Internal Revenue Service (IRS) requirements and generally accepted accounting principles (GAAP). The current surplus creating the asset has resulted in negative pension expense to the benefit of the ratepayers.

United began following the provisions of the Statement of Financial Accounting Standard 87 (SFAS 87) in 1988. Under SFAS 87, the Company has included approximately $4.4 million of negative pension expense in its determination of its test year earnings. This issue was considered in Docket No. 881056-EI. By Order No. 22224, issued November 27, 1989, we held that the prepaid pension working capital component should be allowed. Therefore, we find United's inclusion of prepaid pensions in working capital is appropriate.

3. Adjustment For Deferred Taxes Due To Intercompany Profits

United Telecommunications, Inc. (UTI), United's parent company, makes an off-book regulatory adjustment crediting General Services and Licenses Expense (GS&L) and debiting Accounts Receivable - Affiliates. This places United in a similar revenue requirement as if UTI were allowed to pass back deferred taxes under a closing agreement with the U. S. Treasury.

Rule 25-14.010, Florida Administrative Code, requires regulated utilities to include deferred taxes on intercompany profits in their capital structures. To comply with this Rule, United proposes to reverse the GS&L credit, and make another entry debiting Accounts Receivable - Affiliates and crediting Deferred Taxes. The net working capital effect of these two adjustments is an increase of $3,787,577. We disagree with United's reversal of the GS&L credit. However, the debit to Accounts Receivable - Affiliates for the amount of the deferred taxes is appropriate and requires no adjustment. Therefore, we find appropriate an adjustment increasing capital by $455,000.

4. Net Operating Income Adjustments

The Company proposes adjustments to NOI resulting in an adjustment to working capital that would reduce intrastate rate base by $1,220,609. United's adjustments 1, 2, 3, 5, 6, 7, and 9, set forth in MFR Schedule B-2b, were made to show the effect of the

reclassification of retained earnings through adjustment to NOI. The Company reasons that adjustments are made to the capital structure through retained earnings to recognize the twelve month average NOI impacts. In addition, rate base adjustments are made to recognize the working capital effect of increased or decreased net income. The adjustments have the effect of modifying the achieved rate base to match the adjusted achieved capital structure. United asserts that only then can the achieved rate of return represent the return that would have been reported had these adjustments been reported on its books.

We disagree. The components of working capital are separated between jurisdictional and non-jurisdictional rate base using a factor based on net plant, irrespective of the separation of the related NOI components. We find that working capital should be separated in this manner, and that other factors should not be selectively applied to the components of working capital. This is consistent with our treatment of other components of working capital in this docket, such as the allocation of unearned revenues and pension expenses. We, therefore, reverse United's adjustments 1, 2, 3, 5, 6, 7, and 9, thereby increasing intrastate rate base by $1,220,609.

Based on the foregoing adjustments, we find that the appropriate test year intrastate working capital allowance is $502,502. This amount reflects adjustments concerning deferred taxes due to intercompany profit, NOI, and deferred costs related to operator services and customer billing systems.

The Company asserts that the appropriate working capital allowance is ($2,708,895). This reflects the updated MFR amount of ($2,997,895), with adjustments increasing working capital by the following amounts: $26,000 for the increase in the universal service fund; $208,000 for removal of budgeted software expense; and $55,000 reflecting the decrease in the regulatory assessment fee rate.

OPC argues that working capital should be reduced by $17,516,509, resulting in an adjusted working capital of ($20,514,404). OPC did not include any of United's additional adjustments in its calculation. OPC proposed the reduction of United's proposed working capital figure reflected in the MFRs by the following: $3,252,868 for unearned revenues; $8,250,500 for prepaid pension costs; $3,787,577 to remove the adjustment for GS&L

intercompany profit; and $2,225,564 to remove deferred tax debits related to special termination benefits and revenue reserves. We have considered OPC's adjustments and find no reason to modify our working capital amount.

Upon consideration of the record of this proceeding and as a result of the foregoing adjustments, we have determined that the Company's appropriate average rate base for the purpose of this proceeding is $929,700,970.

VI. Net Operating Income

Having determined United's rate base, the next step in the ratemaking process is the determination of the Company's test year net operating income (NOI). Once this amount is determined it can be applied to the test year rate base value to develop the appropriate achieved rate of return for the test period. United has submitted an NOI figure of $79,689,107. Based on our review of the evidence in the record of this proceeding, we find United's net operating income for the test year to be $88,490,876. This amount is derived on the basis of the following adjustments, some of which reflect adjustments to rate base.

SUMMARY OF NET OPERATING INCOME ADJUSTMENTS

PER BOOK NET OPERATING INCOME		
Operating Revenue	$ 469,933,000	
Operating Expense	(347,934,988)	
Operating Taxes	(40,543,905)	
Per Book NOI	$ 81,454,107	
Intrastate Achieved Adjustment	(1,765,000)	
ACHIEVED INTRASTATE NET OPERATING INCOME PER FILING		$79,689,107
COMMISSION ADJUSTMENTS:		
1. GS&L Intercompany Profit	$ 910,000	
2. Universal Service Fund	52,710	
3. Unlisted/Non-Published Revenues	1,949,686	
4. Lobbying and PAC Expenses	1,095	
5. Florida Night Expenses	1,154	
6. Meals & Entertainment of Spouses	4,652	
7. Sporting Event Tickets	7,088	

8. Operator Services		
Severance Pay	785,216	
Accelerated Depreciation	367,723	
9. Charitable Contributions and Civic Memberships	273,804	
10. Institutional and Image Advertising	782,766	
11. Budget Reductions	415,721	
12. Regulatory Assessment Fee Rate	110,395	
13. Interest Synchronization	161,177	
14. Nondepreciable Property Sales	160,847	
15. UTI Owner/Investor Costs	332,893	
16. UTI Proprietary Costs	867,480	
17. Excess Return on UTI Investment	45,452	
18. Customer Billing System Development	1,571,910	
TOTAL ADJUSTMENT		$ 8,801,769
ADJUSTED NET OPERATING INCOME		$88,490,876

A. Operating Revenues

1. Revenues From Planned Tariff Filings or Significant Tariff Revisions

We believe that all revenues from significant tariff revisions or planned tariff filings are appropriately reflected in United's 1991 test year forecast. However, OPC proposes that if we approve United's proposal to detariff billing and collection services, then we should recognize the likely change in the rates United will charge for this service, and calculate the Company's revenue requirement accordingly. It is our view that OPC's proposed adjustment for increased billing and collecting revenue is based on speculation that rates would be increased if we approve detariffing. Therefore, we are not persuaded that any adjustment is appropriate.

2. Universal Service Fund

The Company, OPC and our Staff stipulated that the appropriate level of test year universal service fund revenue is $2,338,512. The amount of universal service fund revenue is based upon the latest data available from the National Exchange Company Association (NECA). We believe this amount is appropriate and hereby approve this stipulation.

3. Unpublished and Unlisted Revenue

United has included unpublished and unlisted revenue as a component of directory revenues in its calculation of directory advertising profits to be reclassified as nonregulated in accordance with Rule 25-4.0405, Florida Administrative Code. Prior to the adoption of Part 32 by the Federal Communications Commission (FCC), these revenues were reflected as local service revenue. Schedule Z-9 of this Commission's annual report form specifically requires the utility to exclude these revenues, which are local service revenue rather than directory advertising. In the process of amending Rule 25-4.0405, Florida Administrative Code, and adopting the new annual report form, United was silent as to the effect of excluding such revenues from the calculations. In addition to the unlisted and unpublished revenue, United also has not included data processing expenses which were formerly recorded as directory expenses, but are no longer included in this account in Part 32. United has calculated the directory advertising profit allocated to nonregulated, and reflected in its MFRs, as $3,090,842. This adjustment reduces miscellaneous revenue. This adjustment should be reduced by $2,976,000 to remove the unlisted and unpublished revenue and $150,000 to include the data processing expenses, which results in an increase in Miscellaneous Revenue of $3,126,000. OPC expressed agreement with this adjustment.

4. Sales of Nondepreciable Property

We have recognized gains and losses from the sales of nondepreciable property above the line in previous telephone company rate cases (including rate cases involving United and one of its pre-merger companies, Florida Telephone Corporation, by Orders Nos. 11028 and 11029, issued July 27, 1982). Such recognition lessens the possibility of cross-subsidy where capital generated from the same sources of capital that provide for telephone operation is used for the purchases of nondepreciable property. The customers' rates are set to recover such capital costs. Telephone companies are not in the real estate business and such purchases are made with the intention of using the properties in their telephone operations.

In the previous rate cases, we amortized these gains and losses over five years. However, we now find it appropriate to require such amortization over four years. This is because of the recently enacted amendments to Section 364.035(3), Florida

Statutes, which require each LEC to file minimum filing requirements or modified minimum filing requirements for rate review proceedings every four years. The legislative intent is that this Commission, OPC and other affected parties must have the information available to review the reasonableness of the rates and the rate of return of the LECs. We believe that the four year amortization period will facilitate these rate review proceedings.

The net gains and losses from 1988 to 1990 were $1,405,238. There were no gains or losses shown for 1987 or 1989 and none were forecast for 1991. These gains and losses, amortized over a four year period, would be $351,310 per year. Using a separation factor of .734084, the intrastate amount of revenue from these sales is $257,891.

United asserts that all gains and losses on the sale of nondepreciable property should accrue to the benefit or detriment of the investor rather than the ratepayer. Ratepayers provide a return on the original cost of the Company's investment in nondepreciable property. They do not provide for the recovery of capital, however, as would be the case if the property were depreciated and the depreciation expense were recovered through rates charged by the Company. We do not agree with the Company's position and, therefore, we increase the Company's test year revenue by $257,891.

5. Test Year Revenues

United's 1991 revised budget estimates intrastate operating revenues per books to be $469,933,000. United adjusted this amount for the non-jurisdictional portion of the directory advertising, universal service fund, reclassification of information services and temporary cash investments revenue. The total of these adjustments increased intrastate operating revenue by $186,000 to $470,119,000. The Company further increased this amount by $84,512 to reflect the most current amount for the universal service fund. Therefore, United's proposed adjusted intrastate test year operating revenues are $470,203,512.

OPC proposed that operating revenues should be adjusted to show annualization of SignalRing revenue, proper billing and collecting revenues, unlisted/non-published revenue and data processing costs properly in the directory advertising adjustment, net gains and losses from property sales and uncollectible revenues

held at the initially filed level. The total adjustment proposed by OPC adjustment is an increase of $5,260,201 in revenues for a total of $475,379,201 in adjusted intrastate operating revenues.

We have accepted the universal service fund stipulation and find the following adjustments to operating revenues to be appropriate: unlisted/non-published revenue and data processing costs properly in the directory advertising adjustment; and net gains and losses from property sales, for a total increase of $3,468,403. We agree with United that the budgeted levels of uncollectible revenues is appropriate and, find that no further adjustments are necessary. We, therefore, find that the appropriate amount of test year intrastate operating revenues are $473,587,403.

B. Operating Expenses

1. Asbestos Removal Expense

United asserts that its $545,000 asbestos removal expense, of which $401,058 is intrastate, has been recorded appropriately and in compliance with Part 32 of the Uniform System of Accounts. The Company also asserts that this expense is of a recurring nature. This expense has been present for a number of years and will continue to be incurred in the future. While it is appropriate to remove expenses from the test year that are nonrecurring, we agree with United that these expenses are recurring. Therefore, we find it appropriate to permit the inclusion of the intrastate expense amount of $401,058 in the Company's test year expenses.

2. Lobbying and Political Action Committee Expenses

Although the MFRs demonstrate that $315,651 of lobbying and political action committee (PAC) related expenses are appropriately recognized below the line and not subject to recovery through jurisdictional rates, United identified at the hearing that $2,094 of PAC costs were left above the line in 1989. OPC proposes an adjustment to remove a forecast of these expenses from the test year. The 1989 expenses are increased by 7% each year yielding a projection of $2,398 to represent similar errors in the test year. However, UTI's latest budget shows growth at 6.7% for 1990 and 6.4% for 1991. Using this growth estimate, the total company test year amount would be $2,378 which would be separated by the corporate expense factor of .738366 producing an adjustment to intrastate

test year expense of $1,756. We find it appropriate to remove this remaining $1,756 amount of lobbying and PAC expenses from the Company's intrastate cost of service and hereby do so.

3. Florida Telephone Association Expenses

OPC identified $2,206.91 of meals and hospitality room expenses associated with the 1989 Florida Telephone Association (FTA) convention in Naples and has objected to these expenses being included in test year expense. OPC recommends removing these expenses from intrastate test year expense. While we agree with United that all costs associated with FTA dues, memberships and Florida Night expenses need not be disallowed, we find that these expenses are not legitimate. We agree with OPC that these costs have no place in regulated expense. The 1991 amount of such expense can be estimated by applying United's latest growth estimates of 6.7% for 1990 and 6.4% for 1991 to the 1989 amount of $2,206.91. The estimated total company expense included in the test year is $2,505.48. After applying the separation factor of .738366, we find it appropriate to reduce the Company's intrastate test year expense by $1,850.

4. Meals and Entertainment Expenses

United asserts that meals and entertainment expenses related to public relations and image building efforts should not be removed from its test year budget. The Company contends that these are expenses incurred in the normal course of business by employees in performing their duties and responsibilities in the Company's Public Relations Department. However, we find that all meals and entertainment expenses related to public relations should be removed from the test year. United has, in fact, removed such expenses and no further adjustment is necessary.

5. Meals and Entertainment for Spouses

United has included meals, entertainment and travel expenses of the spouses of Company officers/executives in the test year as a necessary business function. The Company asserts that, in the normal course of business, spouses are occasionally expected to attend functions. The functions and expenses are of an ordinary and necessary nature as they relate to conducting business. Such expenses are not recognized on the books unless the business

purpose is established. In the course of IRS audits of United these expenses have been reflected as bona fide business expenses.

However, we find that all meals, entertainment and travel expenses of the spouses of Company officers and executives shall be removed from the test year budget. OPC identified three events from 1989 which it asserts should be excluded from jurisdictional expense: the SEARUC convention in Williamsburg, VA.; the ski trip to Utah; and the Boston NARUC Convention. The Williamsburg and Utah trips included expenses of executives and their wives for meals, motels, golf fees, skiing expenses and airfare. The Boston expenses were similar to the hospitality suite expenses we have already disallowed. OPC recommends removal of the estimated 1991 amounts of these expenses in the amount of $10,186, of which $7,336 will be intrastate. We agree with OPC's analysis that these costs are excessive. However, applying our growth estimates of 6.7% in 1990, and 6.4% in 1991, along with our separation factor of .738336, we find it appropriate to remove $7,458 from the intrastate test year expense.

6. Sporting Event Related Expenses

United included costs associated with sporting events in test year operating expense as the costs of entertaining prospective customers and asserted that such expenses are necessary business expenses in the competitive world in which regulated utilities do business.

We find that these costs are incurred generally as public relations programs primarily for the benefit of nonregulated operations and should be removed from operating expense. We have estimated the 1991 test year amount by taking the 1989 total company amount of $13,558 and adjusting it for 1990 and 1991 growth of 6.7% and 6.4% producing an estimated test year total company amount of $15,392. Applying the corporate operations separation factor of .738366, we find the intrastate amount to be $11,365 which should be removed from test year intrastate operating expense. Therefore, the test year projection of total company costs related to sporting events of $15,392, of which $11,365 will be intrastate, is hereby removed from operating expense.

7. Operator Service Revenues and Expenses

United plans to transfer its toll call completion and directory assistance services to Sprint Services in the fourth quarter of 1991. Studies show that Sprint Services can perform the operator services functions at a lower cost than United on a going forward basis. Over the five year transition period, from 1991 to 1995, United expects to receive net benefits from the transfer of $581,000 on a total company basis. As part of the transfer, United will provide severance pay to the current employees that provide this service. The severance pay for the toll call completion operators will be $2,780,000 to be paid in 1991. GAAP directs that this expense be recorded in the current accounting period. At the time the arrangements for the transfer have been finalized, United plans to apply to this Commission to shorten the amortization/recovery period for the remaining operator and directory positions. In 1991, United will incur total company depreciation costs of $154,000, for the toll services, and $526,000 for directory assistance, over and above that which is provided for in the currently approved depreciation rates. An additional $716,000 will be incurred in 1992 providing complete capital recovery in that year.

OPC contends that this transfer is too speculative to consider in the ratemaking process in that a final decision has not been made and there is no contract between the parties. OPC asserts that the proposal for the transfer can be characterized as nebulous. The transfer also causes a gross mismatch between the cost of the project and its benefits in that the severance pay and additional depreciation expense are nonrecurring. OPC also asserts that this affiliated transaction would allow the Company to avoid scrutiny by this Commission. For these reasons, OPC recommends disallowance of the entire transaction for ratemaking purposes during this test year. OPC would have the Commission defer the decision on this issue to another time and case, and remove the $2,780,000 total Company severance pay ($2,045,732 intrastate) from operating expense, and $244,792 from intrastate rate base, and $650,000 ($589,583 intrastate) from total Company depreciation.

Although there is no contract, the record indicates that United is committed to the transfer. There is an estimated cost savings to United and, therefore, a benefit to the ratepayers by consolidating these services. The severance pay, although properly recorded in the 1991 test period, is a nonrecurring, one time cost

of the transfer. Allowing the one time severance pay in operating expense at full cost inflates test year expense as this cost will not be present in future years that the rates will be in effect. United will incur severance pay for its toll call completion operators of $2,780,000 in 1991 and $2,498,000 for its directory assistance operators in 1992. No further severance pay is to be incurred for this project. We find it appropriate to require the Company to amortize the total severance pay costs of $5,278,000 over the five year duration of the transfer at $1,055,600 per year for the total Company, $786,769 per year intrastate. Using this method, of the $2,780,000 in total Company severance pay recorded in the test year, $1,724,000, of which $1,258,964 is intrastate, will be deferred to future periods. Over the five year period of the amortization, a deferred balance will be in rate base and, as such, is a part of allowance for working capital. The average deferral in rate base is $1,611,600. Using the working capital separation factor, .690789 the intrastate portion is $1,113,276.

The Company has not applied for the additional depreciation. However, we find it appropriate to remove it from the test year and address it when the application is filed. Therefore, $650,000 in additional total Company depreciation, of which $589,583 is intrastate, is hereby removed from the test year operating expense. Also, $325,000 is hereby removed from the total Company depreciation reserve, of which $234,868 is intrastate.

8. Signaling System 7

The Signaling System 7 (SS7) technology was developed by United on behalf of the local telephone operating companies. It will be used to access the Line Information Data Base used in United's billing and collection services, replacing the billing validation service currently offered by ATT-C. The Company records monies from the performance of the billing and collection function to the regulated intrastate operations and it is appropriate to charge the expenses related to it to the regulated expense accounts. SS7 will also access the 800 data base, a source of regulated revenues to the Company. This system is a benefit for the local telephone companies and an allocated share of its cost is appropriately charged to operating expense. United's treatment of the development costs is appropriate and no adjustment is necessary.

9. Charitable Contributions and Civic Membership Fees

United asserts that charitable contributions and civic/social/recreational membership fees are necessary and appropriate for the Company to maintain its position as a socially responsible member of the communities which it serves and that the ratepayer, rather than the investor, is the primary beneficiary of such involvement. United has requested that we review and revise our historical policy of not allowing such contributions and fees as appropriate and necessary regulated operating expenses. To this end, United has brought $439,000 in intrastate contributions and membership fees into test year operating expense through its adjustment Number 2, to miscellaneous income charges. In this adjustment, United has also recognized $342,000 for the cost of abandoned and canceled projects which, historically, have been recovered through operating expense.

OPC, on the other hand, takes the position that we should act in accord with past practice and find that it is inappropriate to require customers to involuntarily contribute to charities which may be inconsistent with their beliefs. OPC also points to a recent New York Supreme Court decision in which the court declared that the New York Public Utilities Commission's decision to allow charitable contributions violated the ratepayers' first amendment rights (Cahill v. Public Service Commission, , 556 NYS2d 840). OPC has proposed an adjustment to United's operating expenses to remove these contributions and membership fees.

We have consistently held the position taken by OPC that charitable contributions and civic membership fees should not be included in operating expense. We find that ratepayers should not have their choices of contribution to a charity or civic organization usurped by the monopoly utility which happens to serve them. Therefore, $439,000 of charitable contributions and civic membership fees is hereby removed from United's operating and maintenance expense for miscellaneous income charges.

OPC also recommended removing the $342,000 cost of abandoned and canceled projects from operating expense, but proposed no adjustment in its position on this point. We agree with United that this cost is appropriately included in its test year operating expenses.

10. Institutional or Image Advertising

United has included intrastate institutional or image advertising costs of $848,000 in its proposed test year operating expense. The Company asserts that LECs today are facing various forms of competition and advertising is an effective tool to deal with it. United is receiving payments from UTLD to compensate for the many tangible and intangible benefits it receives from the Company. United contends that, since the ratepayer is being compensated through the payment for the value of United's name, logo and reputation, it is only fair that the ratepayer pay for the expenditures necessary to maintain this value.

OPC does not agree with United's argument; OPC asserts that it is flawed and a misunderstanding of the UTLD docket. The compensating payment was primarily to compensate United for marketing and operation benefits derived by UTLD. OPC recommends that we continue our long-standing, well reasoned policy of assigning the costs of institutional or image advertising to the shareholder.

We agree with OPC that institutional or image advertising benefits the nonregulated portions of the business to a greater extent than the regulated operations and that the UTLD compensating payment is for benefits already funded by the ratepayers. We will continue our policy of excluding institutional or image advertising from the cost of service.

United has made a deliberate and conscientious effort to analyze the intent and content of each advertising campaign to ensure proper allocation in accordance with our policy and its Cost Allocation Manual and has appropriately allocated advertising expenses. With the exception of the "One Phone Company" campaign and institutional advertising, OPC did not specifically address United's allocation policy.

We find that United has properly allocated the costs of its advertising, with the exception of the "One Phone Company" campaign and institutional or image advertising. The Company asserts that the "One Phone Company" campaign is intended to generate revenue and contains both image and promotional aspects. That portion which targets the sale of products is allocated to the product operations, such as switchlink, custom calling features or CPE. The portion which is geared towards building the Company's image is

classified as image advertising. OPC views the "One Phone Company" campaign as improperly causing regulated operations to subsidize nonregulated operations and essentially an image building campaign. The main point of the campaign was the sale or lease of business telephone equipment relying on the image of the local telephone company to support the equipment. Based on our review of the "One Phone Company" campaign, we agree with OPC that, except for individual products sales promotion which is specifically allocated, the campaign is image building and tends to support the nonregulated operations of the Company with the image of the regulated Company and is not appropriate as a regulated operating expense.

United has included $101,638 (of which $74,622 is intrastate, of community affairs advertising) in its test year operating expense. These advertisements fall under the general category of institutional or image advertising and United believes these expenses should be allowed. OPC contends that these advertisements constitute charitable contributions.

United also included community support advertising for the Nestle Pro Am Golf Tournament, the Prudential-Bache Tennis Classic, and other sport events in its operating expenses. United asserts that community support advertising is a necessary business expense and thus warrants inclusion in its operating expenses. OPC contends that these advertisements are institutional or image building. It is our view that these advertisements are institutional or image building.

United has identified $848,000 in intrastate institutional or image advertising and $427,000 in intrastate "One Phone Company" campaign expenses which the Company asserts should remain in test year operating expenses. OPC argues that $848,000 of institutional or image advertising and $407,036 of "One Phone Company" campaign costs should be removed from intrastate operating expenses. As we discussed earlier, we find it appropriate to remove $773,378 of intrastate institutional advertising and $74,622 of intrastate community affairs advertising from operating expense for a total intrastate adjustment of $848,000. We also find that the remaining $407,036 of intrastate advertising expense of the "One Phone Company" campaign should be removed from operating expense. Therefore, we find that $1,255,036 of intrastate operating expense associated with institutional and community affairs advertising shall be removed from regulated operations.

C. Time Reporting

United's method of time reporting is appropriate with respect to the allocation between regulated and nonregulated operations as provided in its Cost Allocation Manual which is filed with the FCC. On January 1, 1990, the Business Services Division sales force was switched from exception to positive time reporting due to over reporting of time to nonregulated operations. Unless similar problems are identified in other areas, United will continue having some employees report on a positive basis and the remainder by exception. Based on the foregoing, we find United's method of time reporting reasonably accurate and cost effective, and therefore, appropriate.

D. Cost Allocation Procedures

United's cost allocation procedures, as set forth in the Cost Allocation Manual, were developed in accordance with FCC guidelines. These guidelines were designed to prevent cross subsidization of nonregulated activities by regulated services. The United procedures have received two unqualified opinions from the Company's outside auditors and are continually verified by internal audit. An unweighted factor in the general allocator is appropriate. Estimating the projected employee levels of the unregulated subsidiaries is speculative and does not consider the relative changes in the other factors. Thus, we find the current allocator to be reasonable.

E. Disclosure of Related Party Transactions

The 1989 records of United do not reveal any significant departures from the requirements of Rule 25-4.018, Florida Administrative Code. The nature and extent of all related party transactions are on Schedule Z-7 of the 1989 Annual Report with the exception of long distance telephone service purchased from UTLD which is excluded from the reporting requirements. Thus, we find that United has adequately disclosed the nature and extent of all related party transactions for 1989 in its annual report, in accordance with Rule 25-4.018, Florida Administrative Code.

F. Affiliated Transactions Between United and UTLD

United maintains that irrespective of the fact that UTLD is an affiliate, the decision to use one carrier or another should be

based on the cost and service provided. United asserts that UTLD is competitive in both of these areas. OPC contends that United has not shown that its calling needs are more cost effectively met through the use of UTLD rather than U.S. Sprint. We agree with United that there would be no benefit to the ratepayers resulting from our requiring United, in purchasing its MTS services, to change from UTLD to another affiliate with comparable tariffed rates.

G. GS&L Costs Associated with UTI's Role as Owner/Investor

United contends that the costs allocated to it by UTI through GS&L, identified by OPC Witness Brosch as owner/investor costs, are more properly defined as management costs and, as such, are beneficial to the ratepayer as a valuable and irreplaceable service. OPC notes that in the last rate case, this Commission disallowed costs allocated to United and its Florida affiliates Florida Telephone and Orange City Telephone by UTI through GS&L allocations as not being a direct benefit to Florida ratepayers. These costs total $1,133,038, with $815,453 applying to the intrastate jurisdiction. OPC Witness Brosch analyzed the GS&L allocations and proposed adjustments in the areas of ownership costs, proprietary disallowances and return on investment. Witness Brosch identified certain allocated costs which are more properly attributable to the owner. These costs would not be recoverable from regulated ratepayers if United were owned by individual investors. The costs Witness Brosch recommends disallowing are the costs allocated to account 6711, the costs of the chief executive and other high level executive departments with the exception of the senior vice presidents for operations and for financial services. He maintains that these departments are only indirectly involved in providing specific detailed technical advice and assistance to the local telephone companies. OPC points to their lengthy cross of Witness Baker on the UTI flight logs in which they attempted to show these executives are spending a great deal of time traveling for the benefit of U.S. Sprint, bolstering UTI's image or attending non-UTI board meetings. The costs allocated to account 6712 are the costs of UTI's mergers and acquisitions, business development and strategic planning departments. The costs allocated to account 6721 are the costs of UTI's treasurer with the exception of the business analysis and strategic planning departments. These costs primarily support management of UTI's consolidated cash, investments and borrowing as well as financing

its equity investment in its subsidiaries and are appropriately considered ownership costs.

The costs allocated to account 6725 are one-half the costs of the corporate secretary, Department 190. The department provides legal support for the purchase, sale and reorganization of subsidiary companies as well as filings and reporting required of UTI by the secretary. Witness Brosch concludes that this department supports activities of the UTI parent legal entity and are redundant in light of the obligation of each subsidiary to perform similar functions. The cost allocated to account 6728 is the intangible tax on subsidiary dividends which would not be recoverable from ratepayers if United was owned by individual investors. We find merit in the Company's argument that these allocated costs do have the character of management costs and are of some benefit to the ratepayer. The arguments of OPC also have merit, especially when taken in the light of our decision on this Company's last rate case and OPC's cross-examination of Witness Baker on the use of the corporate aircraft. Witness Brosch has taken the position that these costs represent the costs of UTI as an owner/investor in United. These costs have attributes of both positions and, therefore, we find it appropriate to disallow one-half the allocated costs of Departments 105, 110, 130, 190, and 260. Based on Witness Brosch's testimony and exhibits, we find it appropriate to fully disallow the allocated costs of departments 131, 135, 136, 195, 197, 203 and the intangible tax on dividends. Therefore, we disallow $533,740 intrastate, of the Company's test year operating expenses.

H. GS&L Costs Not Appropriate if Incurred by United

United asserts that the costs resulting from these four categories of services which are necessary for the Company to fulfill its responsibilities to its customers, community and employees, corporate aircraft, certain legal functions, external relations and incentive compensation. These costs are reasonable, lead to productivity improvements and would have to be absorbed by United in the absence of UTI. OPC Witness Brosch characterizes these costs as proprietary costs not recoverable if directly incurred by United and believes they should be disallowed. The corporate aircraft costs allocated to United in the amount of $401,348, total Company, represent the costs of the two aircraft and aircraft operations not directly assigned to user departments based on passenger travel charged at first class airfare rates.

Witness Brosch contends that the aircraft are utilized "in a relatively inefficient and wasteful manner" based on low passenger loadings. OPC reinforced this argument with a selective small sample of flight logs during the cross-examination of Witness Baker. OPC recommends disallowing the $401,348 allocation of these unrecovered aircraft costs. We agree.

Witness Brosch characterizes operations of the "External Relations" Departments and the "Law and External Affairs" Departments as lobbying and regulatory influencing activities which are of questionable benefit to the ratepayers and considerable benefit to the nonregulated subsidiaries of United. OPC recommends disallowing these activities from departments 161, 165, 166 and 167 as well as disallowing one half the allocated costs of department 162 which provides legal support. The total Company disallowance proposed by OPC is $410,715. Recognizing the limited benefit to the ratepayers, we will allow 25% of departments 161, 165, 166 and 167 and 50% of department 162.

OPC recommends removing the allocation of $972,077 from departments 163, 170, 171, 174 through 176, 178 and 301 which Witness Brosch characterized as corporate image and public relations activities. These activities include national image advertising campaigns and corporate contributions to social service agencies, colleges, fine arts programs and museums less $485,000 already removed as national image advertising. The incentive compensation plan, which Witness Brosch identifies as approximately 85% of the costs from department 552, is $1,053,496. This plan rewards parent company employees for the attainment of goals which are not consistent with the goals of regulation, such as avoiding regulatory scrutiny, abusing affiliated relationships and producing operational inefficiencies. We agree in part with OPC on this issue that these costs are either of marginal or no benefit to United or, if incurred by United, would be disallowed, and therefore we will disallow 50% of the amount remaining in department 552, after the total disallowance of the intangible tax on dividends which was previously discussed. The public relations costs clearly fall in the same categories as those costs which we disallowed for United earlier. The corporate aircraft could be a benefit to Company officials, but the low utilization cited by Witness Brosch and the large amount of costs not directly allocated to user departments leave it a questionable value to the ratepayers of United. We must remove $485,000 total Company expense related directly to image advertising which has already been dealt with.

Using our corporate operations separation factor, the appropriate intrastate disallowance amount is $1,390,860.

I. United's Rate of Return on Parent Company Investment

United asserts that the rate of return on parent company investment allocated to United and the other UTI operating subsidiaries is calculated and charged in a manner that equitably distributes to each affiliate the capital costs associated with the parent's investment. The rate of return utilized is the weighted average pretax cost of capital of all of the telephone subsidiaries combined using the weighted average authorized returns on common equity of each. This allows UTI to recover the same rate of return from each subsidiary using a ROE which reflects decisions made in the various regulatory jurisdictions in which the companies operate. Although the rate will undoubtedly not exactly match the overall allowed returns of most of the companies it has provided a fair, consistent means for UTI to recover a return on its investment supporting the regulated telephone subsidiaries.

OPC argues that we should reduce this allocation by $104,414 to $267,165 to show a return which is composed only of debt, assuming all equity is assigned to U.S. Sprint. We find the GS&L allocations from UTI to United include a return on investment used to support parent company services to its subsidiaries. The return used is the composite allowed return on capital for the UTI local exchange telephone companies. The intrastate amount so allocated is $371,579 which UTI considers fairly apportioned debt and equity components in the composite return. We agree that United should have to pay no more return on parent investment than it does on its own. However, we disagree with OPC that only the debt financing should be recognized because that amounts to tracing of funds which is inconsistent with other return calculations. We have addressed the question of a return on parent investment and have concluded that the return paid to the parent should not exceed the cost the utility recovers on its own investment. We find appropriate a return on parent investment of no more than 9.82% to be appropriate. This represents the weighted average cost of capital in this case. Thus, the appropriate reduction to GS&L allocations is $72,875.

J. Complex Billing Systems Costs

United asserts that it should be authorized to recover costs associated with designing and building a new billing system for United and all other UTI operating telephone companies. The Company contends that its present billing system is becoming increasingly incapable of handling the more complex environment of telecommunications and must be replaced to meet requirements of new services. The Company argues that if a new system were not being designed, significant costs would be required to modify the existing system and that such expense would be an allowable cost in ratemaking. It is a normal recurring expense to develop new, or expand upon existing, systems to meet increased customer and business needs.

The present billing system utilized by United was developed in the late 1970's with older technology. It is not flexible and does not meet today's needs. UTI is developing a new billing system to replace the existing systems for UTI's local exchange telephone companies to enable them to achieve the needed flexibility. The position taken by United is that this system is needed by the local telephone companies and is not for the benefit of unregulated affiliates. The costs of development of the system have been accounted for in accordance with the USOA as the costs are incurred. United expects the projected level of costs to continue.

OPC objects to test year allocation of the projected $21,400,000 in development costs. These costs represent approximately one-half the costs of the project, and thus inflate test year expense. OPC recommends amortizing the entire cost of the project, $41,500,000, over the five year life of the project by reducing operating expense by $3,406,793 ($2,515,613 intrastate).

After review of the testimony of Witnesses Brosch and Baker, we agree with United that the project is necessary, does not subsidize nonjurisdictional affiliates and that the costs should be recovered through rates. However, Witness Brosch does point out that most of the cost of the project falls in the test year which results in an overstatement of operating expense. Therefore, we find amortization of these costs over the four year rate case cycle to be appropriate. To reflect the amortized development cost in operating expense, $2,867,168 of total company billing system development costs is hereby removed from operating expense and deferred to future periods. The intrastate amount is $2,520,298.

Since the costs removed from operating expense will be deferred to future periods, a deferred debit of $711,512 must be added to working capital to show the amount deferred on average over the amortization period.

K. Data Processing Costs Allocated to United by UDSI

United asserts that expenses projected for the test year by United are intended to reflect the expected normal business costs of 1991. The Company states that its projections were based on actual expenses of prior periods and adjusted by the budget department based on known and forecasted data. The Company maintains that its return on investment and other expenses are also normal costs of doing business and should be included and recognized by this Commission. UDSI costs allocated to United have been increased by a 5% inflation factor which United considers reasonable given the 4% to 6% levels of increases over the last three years.

OPC argues for reducing both the direct allocations from UDSI to United by $547,000, and the indirect allocations through GS&L by $302,000, for a total reduction of $849,000. The intrastate impact of this reduction is $611,029. OPC asserts that the inflation rates applied to UDSI costs do not include productivity increases and economies of scope and scale and that the rates are, therefore, overstated. OPC's recommended adjustment holds the UDSI allocation at the 1990 level.

Based on historical inflation rates, we find that the inflation factors applied to UDSI costs are reasonable and, therefore, no adjustment is warranted.

L. Matching Test Year Expenses With Savings on Revenues Generated By the Expenses

United is continually undertaking special projects to enhance service, increase productivity or both. Because such projects are continually undertaken, there is a constant mismatch of costs and savings. To the extent that these projects will incur expenditures in 1991, it is likely that the full impact of anticipated savings will not occur until 1992 or beyond. Conversely, for projects implemented prior to 1991, the full impact of the savings is included in the test year with none of the associated implementation costs. Because these types of projects are

continually in process, it is not appropriate to attempt to match all costs and savings from these projects in this proceeding. However, fairness requires that if an adjustment for savings realized after the test year is to be made, then, to the extent that savings were realized in the test year resulting from costs incurred in prior years, an adjustment should also be made to include those costs in the test year.

United's test year operating expense includes the costs of implementing projects which are designed to increase productivity or generate additional revenue. United continually undertakes such projects and savings are being realized currently which are the result of past expenditures. United sees no adjustment necessary.

OPC is satisfied that many of the product savings adjustments recommended by Witness DeWard have been properly accounted for in the Company's revised MFR filing. However, two projects, SignalRing and Low Bit Error Rate Grooming (LBER), were not. The revised MFRs contain $1,412,000 for software costs for implementation of SignalRing. The completion date for the project is March, 1991. 1991 revenues in the budget are $171,000 while the 1992 revenues are projected to be $820,000. OPC argues in favor of annualizing the projected 1991 revenues to show the ongoing amount of $820,000 by increasing intrastate local service revenue by $649,000. The Company's planning documents show savings from implementation of LBER of $1,000,000 which are not reflected in the budget. OPC argues that we should decrease operating expense by $700,657 to show the intrastate effect of these savings.

We agree with United that the projected savings of LBER are difficult to measure and speculative at this time. The SignalRing project can be considered with the other projects from which United is implementing or receiving revenue. In consideration of the ongoing nature of these projects, we find no adjustment is necessary.

M. Test Year Operating and Maintenance Expense

United's per book test year intrastate operating and maintenance expense is $248,606,498. The Company has adjusted this amount to show canceled and abandoned projects, contributions and memberships, reversal of the GS&L credit for intercompany profits and reclassification of information services. The adjusted amount is $251,521,498. United has further reduced this amount by

$666,540 to remove software development costs which will not be incurred in the test year. Therefore, United asserts that its adjusted intrastate amount of operation and maintenance expense is $250,854,958.

OPC has not recommended any adjustment for the software costs, but does recommend adjustment to show reinstatement of the GS&L intercompany profits credit and removal of lobbying and PAC expenses, meals and entertainment of spouses of company officers and executives, sporting event ticket costs, severance pay and additional depreciation associated with the transfer of operator services, contributions and memberships, institutional or image advertising costs, depreciation associated with excess construction, GS&L allocations due to overstated allocation, GS&L allocations associated with the costs of ownership or investment, proprietary costs allocated through GS&L, excess return on parent investment, customer billing system development costs, UDSI projected cost increases, and the expected saving from LBER. OPC's total adjustment is a decrease of $12,152,394 which leaves a balance of intrastate operation and maintenance expense of $239,369,104, which is $20,682 lower than OPC's position on this issue. The remainder of OPC's calculations are based on this lower amount.

We find appropriate the Company's adjustment for software costs. We also find appropriate portions of OPC's adjustments in several other categories as set out above. Our adjustments discussed above result in a reduction of intrastate operation and maintenance expense to $241,903,756.

N. Test Year Depreciation Expense

United has proposed adjusting plant in service to show the reclassification of information services and has adjusted depreciation expense to reflect this reclassification. Intrastate depreciation expense as filed is $99,436,490.

OPC recommends additional adjustments to utility plant in addition to corollary adjustments to reduce such intrastate depreciation expense by $650,984. OPC further recommends disallowing the entire effect of transferring operator services to U.S. Sprint during the test year. The transfer included $589,583 of intrastate depreciation expense accelerated into the test year.

The two recommended adjustments would reduce test year intrastate depreciation expense by $1,240,567 to $98,195,923.

We do not find OPC's reduction of plant appropriate for reasons stated in our earlier discussion regarding the transfer of operator services to U.S. Sprint and, therefore, we deny OPC's proposed adjustment. However, we find the removal of the additional depreciation charged in the test year resulting from the transfer to be appropriate. Therefore, test year intrastate depreciation expense is hereby reduced by $589,583 to $98,846,907.

O. Taxes Other Than Income for Test Year

United's amount of test year intrastate taxes other than income per its books is $16,736,722. The Company adjusted this amount to show the effects of the reclassification of information systems. The adjusted amount as filed is $16,737,722. In its calculation of the regulatory assessment fee, United estimated that this Commission would raise the rate from 0.125% to 0.1875% which is one-half of the potential increase. When informed of our decision to set the rate at 0.15%, United recalculated the regulatory assessment fee to reflect that rate. Although the Company's brief maintains that the original amount was uncontested, the recalculation is a part of the Company's proposed revenue requirement calculation. The 0.15% rate reduces intrastate taxes other than income by $177,000 to $16,560,722.

The only adjustment sought by OPC represents the effect of OPC's adjustments to revenue on the regulatory assessment fee calculated at 0.125%, the rate in effect prior to our decision to raise the rate to 0.15%. OPC's adjustment increases filed intrastate taxes other than income by $6,620 to $16,744,342. We find the Company's recalculation of the regulatory assessment fee to be appropriate. This recalculation results in taxes other than income of $16,560,722.

P. Parent Debt Adjustment

Rule 25-14.004, Florida Administrative Code, is based on the premise that debt at the parent level supports a portion of the parent's equity investment in the utility. Since the interest expense on such debt is deductible by the parent for income tax purposes, the income tax expense of the regulated subsidiary is reduced by that tax effect.

Under the Rule, it is a rebuttable presumption that the parent's investment in a subsidiary shall be considered to have been made in the same ratios as the parent's capital structure. Company Witness McRae testified under cross-examination that the amount of equity invested by UTI in United has not changed since 1982. While the level of debt of UTI grew from $307 million in 1982 to $1,945 million in 1989, UTI's investment in United's equity was stable at $183 million. The debt component increased significantly because of UTI's investments in other companies. Witness McRae argued that the parent debt adjustment should not change when the parent's capital structure changes, but only when the amount of equity invested by the parent in the subsidiary changes. Witness McRae testified that his primary argument is that the Rule is unfair and therefore should not be applied.

It is OPC's position that to comply with the Rule, the parent debt adjustment should be made by using the current parent company's capital structure. OPC's calculation results in a tax expense decrease of $2,399,000.

It is the policy of this Commission to use the current capital structure of the parent, which supports the current equity investment in the subsidiary. Disagreement with a rule is not an adequate basis for not applying the rule. Normally, we would find it appropriate to make a parent debt adjustment in accordance with our Rule 25-14.004, Florida Administrative Code, where there is a parent/subsidiary relationship and a consolidated federal income tax return is filed.

However, we find we must take administrative notice of the proposed regulations published by the Internal Revenue Service on November 27, 1990, subsequent to the hearing in this case. The effective date of the proposed regulations is December 20, 1990. Therefore, if such regulations become final, they will be effective for all orders which become final after December 20, 1990. These proposed regulations provide that determining a utility's ratemaking tax expense, either current or deferred, by taking into account the income, losses, deductions, or credits of other taxpayers with which it files a consolidated return violates the normalization requirements of the Internal Revenue Code. A regulated utility that violates normalization is prohibited from using accelerated depreciation, both prospectively and retroactively, for income tax purposes. This eliminates all zero cost deferred taxes from the capital structure, resulting in a

higher rate of return and higher revenue requirement. Our application of Rule 25-14.004, Florida Administrative Code, in this case would clearly put United in the position of violating the IRS' normalization requirements according to the provisions of these proposed regulations.

Although the regulations are not final, and it cannot be determined when, or if, they will become final, we believe that it is necessary to avoid the very serious risk of causing United to violate the IRS' normalization requirements. Therefore, we hereby authorize United to collect the revenues associated with the parent debt adjustment while placing subject to refund, or other disposition, an amount that would make it possible for United to refund to its ratepayers the revenues, with interest, that would have been removed had a parent debt adjustment been made in this proceeding. The Company is hereby directed to request a letter ruling on this matter from the IRS within 60 days of the issuance of this Order. Upon the later of the issuance of a letter ruling or final regulations on this subject by the IRS, United shall dispose of the revenues and interest in question as directed by this Commission. We find that this is the most appropriate way to protect the ratepayers. Therefore, United shall place subject to refund or other disposition $3,750,130. This amount represents the annual parent debt adjustment of $2,317,449 grossed up to a revenue level.

Q. Income Tax Expense

United asserts that its appropriate amount of test year intrastate income tax expense is $23,083,409 as revised from its updated MFRs for the tax impact of the Universal Service Fund, software expense and the regulatory assessment fee adjustments.

The amount of income tax requested in the MFRs was $41,442,000. This amount should be adjusted by $(13,618,992) for the tax effect of other NOI adjustments. An adjustment of $(144,644) shall be made for ITC interest synchronization and interest reconciliation. As discussed earlier, no parent debt adjustment shall be made. Based on these adjustments, we find a total intrastate tax expense of $27,785,142.

VII. Revenue Requirement

The revenue requirement of a utility is derived by establishing its rate base, net operating income and fair rate of return. A test period of operations, traditionally based upon one year of operations, is used to derive these factors. Multiplying the rate base by the fair rate of return provides the net operating income the utility is permitted to earn. Comparing the permitted net operating income with the test year net operating income determines the net operating income deficiency or excess. The total test year revenue deficiency or excess is determined by expanding this net operating income deficiency or excess for taxes.

United's rate base is $929,700,970 multiplied by its required rate of return of 9.82% equals the Company's required net operating income of $91,296,635. The test year net operating income is $88,490,876, which results in an NOI deficiency of $381,804. The deficiency multiplied by the revenue expansion multiplier of 1.618215 produces a required increase in revenue of $4,540,000.

VIII. Disposition of United's Revenues Placed Subject to Refund

Order No. 22377, dated January 8, 1990, set the authorized ROE for United at 12.80%, with a range of reasonableness of 12.30% to 13.30%. That Order also required United to place $7,605,000 of its revenues subject to this Commission's disposition, protected by corporate undertaking, in the event that United's 1990 earnings were found to exceed the authorized level. United has asserted that our decision on this issue is not subject to the outcome of this proceeding and that we cannot take further action until the level of earnings for 1990 can be determined. We do not agree. By Order No. 22377, the Commission placed $7,605,000 annually subject to refund with interest effective January 1, 1990. This Commission placed this revenue subject to refund based on our determination of the Company's appropriate ROE resulting from a limited proceeding on December 14, 1989. We took this action pursuant to our authority set forth in Section 364.14, Florida Statutes. In that case, we determined that United's last authorized ROE was too high and therefore placing money subject to refund under the interim statute would not have provided adequate protection to the ratepayers during the pendency of this full rate proceeding. Therefore, the Commission held a hearing on December 14, 1989 to determine a more current ROE for the limited purpose of placing money subject to refund.

In calculating the amount of money to place subject to refund, we paralleled the requirements of the interim statute by placing the amount of revenue in excess of the newly determined authorized ROE ceiling subject to refund. The procedure which we utilized in that case is the same procedure outlined in the interim statute except for our decision to use a current ROE.

United proposes that we wait until 1990 is over and then conduct a separate overearnings review of 1990's financial results. We do not believe that another hearing is necessary or required to true-up the interim period. This Commission does not conduct full reviews of interim periods to determine if interim awards were exactly correct. This Commission has always used surrogate data to approximate the financial results of the interim period.

We believe that the Company's June 30, 1990 earnings surveillance report is the most current information available, and this is the most appropriate surrogate for United's earnings for 1990. This surveillance report shows net operating income for the twelve month period ending June 30, 1990, to be $86,567,784. We have adjusted this NOI to show reversal of the $1,156,248 GS&L credit for deferred taxes on intercompany profits, the June 1990 level of unlisted/nonpublished revenue of $2,556,767, $150,000 as an estimate of the data processing costs and a $706,337 adjustment for the GS&L adjustments from the last rate case. A portion of the GS&L expenses were disallowed in the last rate case, but this is not reflected by the Company on any earnings surveillance reports. United maintains that these expenses were not clearly identified in the order and, as such, could not be calculated. We find it appropriate to use the amount of these disallowances from the last case as a surrogate for current calculations and we have, therefore, applied this amount to 1990. The allowance for working capital was reduced by $379,630 to show reversal of the GS&L credit. The effect of these adjustments, net of taxes, is to increase 1990 NOI by $2,850,356 to $89,418,140. Also, consistent with our discussion in the NOI Section, paragraph P, of this Order regarding the parent debt adjustment and the possible impact of the proposed IRS regulations, we have removed the parent company debt adjustment of $3,689,000 from 1990's estimated earnings. We have annualized the decline in earnings from December 1989 to June 1990 in order to more closely approximate 1990's earnings. This produces an ROE for the period of 13.84% which exceeds the Company's authorized midpoint of 13.0% ROE by .84%. The revenue associated with these excess earnings is $6,151,700. Therefore,

the revenue subject to disposition with interest calculated according to Rule 25-4.114(4), Florida Administrative Code, is $6,406,949. We find it appropriate, however, to establish a deferred credit of $6,151,700 plus $255,249 of interest through December 31, 1990. This amount should continue to accrue interest until the time it is applied in United's next depreciation represcription. In addition, the balance of the $7,605,000 of United's 1990 earnings placed subject to refund at the outset of this proceeding, which totals $1,453,300, shall continue to be held subject to this Commission's disposition. These earnings shall be held, and shall accrue interest, pending the later of the issuance of a letter ruling or final regulations by the IRS regarding the applicability of its proposed regulations to the parent debt adjustment.

IX. Cost of Capital

A. Fair Rate of ROE

The Commission must establish the fair rate of return which the Company will be authorized to earn on its investment in rate base. The allowed rate of return shall be established in order to maintain the Company's financial integrity and enable it to attract capital at reasonable costs.

The ultimate goal of providing a fair return is to allow an appropriate return on the equity-financed portion of the investment in rate base. The Commission has traditionally considered all sources of capital (with appropriate adjustments) in establishing a fair rate of return.

The establishment of a utility's capital structure serves to identify the sources of capital employed by the utility, together with the amounts and cost rates associated with each. After identifying the sources of capital, the weighted average cost of capital is determined by multiplying the relative percentages of the capital structure components by their associated cost rates and then summing the weighted average costs. The net utility rate base multiplied by the weighted average cost of capital produces an appropriate overall return which includes a return on the equity-financed portion of the investment in rate base.

To arrive at a fair overall rate of return, it is necessary that the Commission use its judgment to establish the allowed

return on common equity. In this proceeding, two expert witnesses presented testimony concerning the fair rate of return on common equity (ROE) for United. Witness Charles M. Linke, testifying on behalf of United, recommended an ROE of 14.0%. Witness James A. Rothschild, testifying for OPC, recommended an ROE of 11.4%. Witness Linke utilized two methodologies in arriving at his return. First, he performed a Discounted Cash Flow (DCF) analysis on the Regional Bell Holding Companies (RBHCs). Next, he performed a Risk Premium analysis using the Capital Asset Pricing Model. Witness Rothschild also used two methodologies to arrive at his recommended return. First, he performed a DCF analysis on the RBHCs as well as on UTI, United's parent corporation. Next, he compared the results from the DCF analyses with the ROE earned by the companies in the Dow Jones Industrial Average. Based on our review of the testimony of these witnesses and the extensive analyses they have performed in deriving their recommendations regarding a reasonable cost of equity for United, as well as current market conditions, we find it appropriate to set rates for United that will produce a 13.0% ROE.

Traditionally, our practice has been to set an ROE and to establish a 100 basis point range above and below this midpoint ROE. This creates a zone of 200 basis points within which the Company's earnings are considered reasonable. We believe that such a range is also appropriate in this case. Therefore, we establish for United a 13.0% ROE midpoint for all prospective regulatory purposes with a 100 basis point range on either side. This results in a top of the allowed ROE range for United of 14.0% and a bottom of the allowed ROE range of 12.0%.

B. Capital Structure

We find that United's proposed test year equity ratio is reasonable. United's equity ratio of 60.9% as a percentage of investor-supplied capital appears high when compared to the parent company's equity ratio of 32.8%. However, investors recognize that a high level of equity in a company's capital structure reduces the company's financial risk and take this relationship into account when determining their required ROE. The ROE which we are approving in this proceeding recognizes investors' perception of the lower financial risk associated with United's level of equity capital. Therefore, we find United's test year equity ratio of 60.9% to be reasonable.

Based upon the proper components, amounts, and cost rates associated with the capital structure for the test year ending December 31, 1991, we conclude that the appropriate weighted average cost of capital for United is 9.82%. Based on our review of the record, we find that the capital structure components, amounts and cost rates set out on Attachment A hereto appropriate and hereby approve them. In arriving at this approved capital structure, we have made several adjustments to the Company's proposed capital structure as set forth below.

1. Adjustments to Equity Capital

By Order No. 18939, issued March 2, 1988, we granted United Telephone Long Distance (UTLD) a certificate to operate as an IXC, allowed UTLD to be structured as a subsidiary of United, and authorized United to finance UTLD with both debt and equity capital. United asserts that, because of that Order, its investment in UTLD should be removed pro rata from all elements of investor-provided capital, including both short and long-term debt, preferred stock, and common equity. However, our practice has been to remove non-regulated investments from the capital structure solely from common equity unless the Company can show that to do otherwise would result in a more equitable determination of the cost of capital for regulatory purposes. We follow this practice because the cost of capital allowed for ratemaking purposes should be the cost of capital associated with the provision of utility service. Furthermore, regulated utilities are of relatively low risk and have correspondingly lower costs of capital. There are very few investments a utility can make that are of lower or equal risk. United Witness McRae admitted that UTLD, as a competitive IXC, is subject to more business risk than United. As a result, the UTLD investment will almost certainly increase the utility's cost of capital. We conclude that removing non-regulated investments solely from equity recognizes their greater risks, prevents financial cross subsidization through the cost of capital, and sends a clear signal to utilities that ratepayers will not subsidize non-utility related costs. Therefore, we find it appropriate to remove United's investment in UTLD from its capital structure solely from common equity.

2. Adjustments Related to Deferred Taxes

a. Accumulated Deferred Investment Tax Credits

United proposes that the appropriate amount is $22,147,000, while OPC maintains that the proper amount is $21,543,000. No parties disagree with the total company investment tax credit balance of $32,572,333. However, pro rata adjustments made by the parties in reconciling the total company capital structure to rate base result in differing jurisdictional balances. We find that the total Company pro rata adjustment is $353,161. After the balance is multiplied by the jurisdictional factor, the final jurisdictional balance is $22,234,797. Therefore, we find that the appropriate balance of accumulated deferred investment tax credits (ITC) for the test year is $22,234,797.

b. Accumulated Deferred Income Taxes

The Company has proposed that its appropriate amount of intrastate test year accumulated deferred income taxes is $137,720,000. The accumulated total company deferred income tax balance in its original filing was $184,348,293. This was increased by United to $193,152,502, based on the Company's October budget review. This balance was also increased by $6,140,283 of deferred taxes on intercompany profits. We calculated a pro rata adjustment of $(2,160,806) to reconcile rate base and capital structure. Before making the intrastate jurisdictional separations adjustment, United segregated $6,160,250 totally related to intrastate operations, then added them back intact to the intrastate deferred tax balance. When our jurisdictional factor of 0.688982 is applied to the balance, the result is the intrastate deferred tax balance of $137,951,887. Therefore, we find that the appropriate balance of intrastate test year accumulated deferred income taxes is $137,951,887.

c. Deferred Taxes Due to Intercompany Profits

Rule 15-14.010, Florida Administrative Code, requires regulated utilities to include deferred taxes on intercompany profits in their capital structures. To comply with this Rule, United has proposed that deferred taxes of $6,140,283 due to intercompany profits should be included in its capital structure, with an offsetting debit to Accounts Receivable-Affiliates. In addition, United asserts that the GS&L credit should be reversed.

We discussed the issue of intercompany profits when we determined the allowance for working capital, which we increased by $455,000 to cover the effect of the GS&L credit. Again, we reject United's proposal to reverse the GS&L credit. However, we agree with the Company's adjustment which effectively transfers the deferred taxes to the capital structure. As stated in the testimony of United Witness McRae, under the Department of Treasury tax regulation, the profit made by a manufacturing or sales unit when it sells depreciable property to an affiliate is taxed over the number of years during which the purchasing affiliate depreciates the property. This deferral of gross profits results in United establishing a deferred income tax liability. Although some public utility holding companies entered into a closing agreement with the Treasury Department that allowed them to pass back certain deferrals, United's parent, UTI, did not enter into such an agreement, and is therefore precluded from passing back those deferred taxes to its subsidiaries. However, UTI does grant those affiliates a credit which is designed to represent the revenue requirement impact as if the taxes had been passed back.

A company with a holding agreement reduces plant by the amount of deferred taxes on intercompany profits, resulting in a reduction of rate base, depreciation expense, and revenue requirements. United maintains that the GS&L credit is intended to result in a comparable reduction in revenue requirement. The GS&L credit, also referred to as a "cost of capital credit," is an off-book entry, debiting Accounts Receivable - Affiliates and crediting GS&L. This entry thus increases rate base and increases expenses.

To comply with Rule 25-14.010, Florida Administrative Code, the Company has proposed two additional off-book entries. One is a debit to Accounts Receivable - Affiliates and a credit to Accumulated Deferred Taxes - Intercompany and the other reverses the GS&L credit by a debit to Corporate Operations Expenses - GS&L and a credit to Accounts Payable - Affiliates, with a corresponding adjustment to income taxes. The first of these entries debits Accounts Receivable for the amount of the deferred taxes, and the second credits Accounts Payable for a revenue requirement effect. The two entries do not offset each other. The result of these two proposed adjustments is to include deferred taxes in the capital structure, but also to increase the revenue requirement by an increase in expense.

Witness McRae stated in his testimony that the GS&L credit results in a theoretical transfer of the deferred taxes from the parent company to United, and that it would be improper to recognize both the zero cost deferred taxes in the capital structure and the GS&L credit on the books of the Company. However, since the Company's GS&L credit has the effect of transferring the deferred taxes to the rate base of United as if there were a closing agreement, by adjusting revenue requirement, it is then necessary to make only one further adjustment to move those deferred taxes to the capital structure. This is accomplished by the Company's proposed debit to rate base and credit to deferred taxes.

We, therefore, find it appropriate to accept United's adjustment effectively transferring the deferred taxes to the capital structure, but we reject the Company's position that we should permit reversal of the GS&L credit. Therefore, deferred taxes of $6,140,283 due to intercompany profits shall be included in the capital structure of United.

3. Allocation of Customer Deposits

The Company proposes, and we agree, that customer deposits should not be allocated 100% to intrastate. Such deposits result from both intrastate and interstate operations and should be allocated to intrastate operations based on the composite interstate separation rate. OPC argues that customer deposits should be separated in the capital structure consistent with United's separation of bad debt or uncollectible expense. Since United allocates only 5% of bad debt to the interstate jurisdiction, then only 5% of the customer deposits should be allocated to interstate operations.

We find it appropriate that customer deposits collected by a LEC be associated with the group of ratepayers from which they are collected. However, the evidence discloses that customer deposits are not raised solely from intrastate operations, nor are deposits collected exclusively for the protection of the LEC. In addition, as pointed out by United Witness McRae, most customer deposits never get applied to uncollectible expense. Customer deposits are applied to local and long distance charges billed by United on its own and on behalf of the interexchange carriers with which United has billing and collection contracts. We find no justification for OPC's recommended allocation. Therefore, based on the evidence

presented, we find that United's customer deposits should be allocated based on the separation factor used in the Company's MFR filing.

X. Rate Design

A. General Approach to Setting Rates

United prepared its rate case filing based upon a projected test year (1991) using projected billing units. However, this Commission has typically reviewed rate cases which were based upon historic test years using historical billing units. The implicit assumption in using a projected test year is that the projected units developed by the Company will more closely approximate the actual units for the projected year than will the historical units.

United's forecast of demand for services is a key element in determining projected revenues. Reasonable estimates of unit demand are critical for protecting the integrity of the rate case, since there is a direct correlation between the number of billed units and revenues. The Company's forecasted demand is the projected billing units for each service. For most services, the projected demand (units) and the proposed rate(s) are the two key elements the Company uses to determine projected revenues.

The projected units for each service were developed using one of two different methods. United used the "bottom-up forecasting approach" predominantly in developing units. The "bottom-up" approach is done before the budget is prepared. In the "bottom-up" approach, the Company uses a variety of techniques for estimating the growth in units such as access line growth projections, linear regression of access minutes, and market penetration levels. When the Company was unable to determine units using the "bottom-up" approach, the "top-down" approach was used to estimate the number of projected units. This approach requires first projecting the revenues for the test year, then dividing this quantity by the rate for the service. The Company checks these units by taking actual units for 1989, then assumes a similar distribution for the service and applies a growth factor to develop the projected units.

The unit demand data went through a fairly continuous revision process during the pendency of this case. However, the final billing unit data appears reasonable as a basis for setting rates and determining the revenue effect of the approved rate changes.

United proposed in this case that the Commission, because of the new environment in which LECs operate, depart from its traditional rate setting policy. United's witness Poag proposes that we switch from a system of residual pricing of basic local service and to a residual pricing system for toll and switched toll access service. Under this proposal the price for local service would be "market based." The market price would be whatever the market would bear without causing a significant drop in the penetration rate for local service. Essentially the proposal would set local rates first, deriving as much revenue as possible according to Mr. Poag's criteria. He also proposed increases to other ancillary services such as Directory Assistance, Operator Services, Directory Listings and Local Private Line. We note that Mr. Poag's proposal produced approximately twice as much in increased revenues as the Company's overall request in this case. To dispose of the excess, he proposed reducing toll rates and the BHMOC rate.

No other party took a position on the specific pricing approach proposed by United. However, FPTA advocated that we consider the requirements of the newly revised Chapter 364 of the Florida Statutes. FPTA acknowledged that the new statute does not apply on cases initiated before October 1, 1990. However, FPTA argues that "sound public policy" requires that "the new law not be contravened by the final order in this proceeding."

United argues that it is appropriate to abandon our historic rate setting policy because local rates are too low and because of increased competition. We disagree. The policy of residually pricing local rates was developed long ago in an effort to promote one of our most important regulatory goals, universal service. This concept is generally described as making basic telephone service available to as many as possible at a reasonable price. In view of our experience with the number of households that have telephone service, it appears that there has been considerable success in achieving the goal. We would not like to see this trend reversed.

United's proposal also suffers from other flaws. A "market price" for a monopoly service is seemingly oxymoronic. The "market price" generally refers to the equilibrium price reached for a particular good or service as a result of consumer decisions based on a range of choices. The range of choices constitutes the market. United has selected as its "market" in this case the rates

for basic residential service charged by Southern Bell Telephone in six southeastern states. These "market" prices were set, not by consumer decisions but by regulators in each of those states. Florida's local rates should not be based on decisions made in other states. This is not sound ratemaking.

United clearly desires to remain in the toll market. It also seems clear that a better approach to the ratemaking question would be a "market price" for toll services. Toll rates should be set at prices that would maximize contribution but that would not drive customers away. United should apply its market pricing principle in this arena by analyzing what its competitors are charging for those services. This same policy should apply to United's other competitive and nonbasic services to derive as much revenue from them as is reasonable before looking to raise the prices on local rates. If the revenue requirement has not been met after all other services have been analyzed and priced, then basic local exchange rates should be raised.

B. Local Directory Assistance

United proposed to increase the amount charged for local and intraLATA directory assistance (DA) calls from $.25 to $.35. The purpose of the increase is to cover costs and to generate revenue additional for the Company.

We set the current DA charge in 1984 at $.25 for all local exchange companies based in part on cost recovery and in part on public interest considerations. See Order No. 13934. United has demonstrated, to our satisfaction, that its costs for DA calls have increased. It is appropriate to increase United's DA rates to put the rate more in line with the cost of providing the service. Upon review of the data, it appears that the existing three call allowance should still be adequate to cover most local DA calls without subscribers incurring DA charges. We recognize that approval of United's proposal to increase DA represents a deviation from the current policy of state-wide uniform DA rates for LECs. However, because of the increase in cost, we approve United's proposal to increase its local and intraLATA DA rate to $.35. It is appropriate to recover the cost of DA from this service before raising local rates.

C. Local Operator Assistance

United has proposed to increase the rates for local operator assistance to make them equal to the existing rates for intraLATA toll operator services. United argues that the current rates for busy verification and emergency interrupt services are below incremental cost. Witness Poag stated that many of these calls are discretionary and the cost should be recovered from the cost causers. Upon consideration, we approve United's proposed increase. We note that the proposed rate is similar to those already approved for SBT, GTEFL, Centel, and ALLTEL.

D. Directory Listings

United has provided no cost data in support of its rate changes for directory listings. The rates for these services have generally been priced based on the value of these services. Witness Poag testified that these services are relatively price inelastic within the range of increases proposed. We agree that there will be an insignificant repression effect. We grant United's proposed increase for directory listings since we believe it is appropriate to increase the rates for this service before increasing basic local rates.

E. Miscellaneous Service Arrangements

United has proposed changes to certain of its offerings contained in its Miscellaneous Service Arrangements tariff.

1. Extension Line Mileage Rates

United has proposed to increase its Extension Line rates by 50%. Extension line service is provided when extension lines are needed at a location other than the same building as the main access line or for circuit extensions of similar character. Mileage rates are charged per quarter-mile for the extensions, in addition to the basic rates applicable to the particular service the customer purchased. United argues that extension line service should be treated similar to other dedicated services. United also argued that it intends to restructure extension line service when it restructures local private line services. We agree that this service provided over facilities similar to other dedicated services. Since these services are similar, their rates should

also be similar. United should include extension line mileage in its forthcoming restructure of local private line services.

2. Special Service Arrangements

United has proposed 15% increases to the items provided under the Special Service Arrangements subsection of the Miscellaneous Service Arrangements that are not covered by contractual payment plans. Special Service Arrangements are generally unique technical configurations provided for a specific customer.

United stated that the rates for many of these services have not increased in many years and that the across the board increase is appropriate to recover a portion of inflation related cost increases over time. The Company did not propose a change in contract rates because it is under an agreement for a determined period of time. Upon consideration, we find that United's proposed increase to various non-contract plans provided under the Special Service Arrangement subsection appear appropriate.

3. Other Miscellaneous Service Arrangements

United did not propose any increases for the remaining services offered in its Miscellaneous Services Arrangements Tariff. However, we find that United should increase the rates for Automatic Time/Temperature/Weather, Break-In Rotary, Directory Number Transfer, Fire Alarm Conference System, List Service, Special Billing Service, Magnetic Tape Billing, Single Party Access Line Feature, Remote Call Forwarding, and Custom Code Restriction and WatchAlert by 10%. This is consistent with our policy of maximizing contribution from ancillary service. Custom Code Restrictions, Custom Calling Features, Time and Charges Reporting, Special Identity Number Arrangement, Duplicate Bill, 976 Service, Billed Number Screening, and 900/976 Blocking should remain at current rates.

F. Touch Tone Rates

United proposed no changes to its Touch Tone rates; however, it did propose banded rates for the service with a range from $.50 to $2.00. We have approved banded rate structures on custom calling features in order to give a company the flexibility to modify its rates within an established band upon thirty day's

notice to its subscribers and the Commission. See Order No. 17908.

Witness Poag testified that Touch Tone is discretionary and competitive on the basis that a customer can purchase a switchable pulse Touch Tone phone and access United's Central Processing Equipment (CPE) via the digital tones the office generates. We agree that a set which can send tones as well as pulses will permit access similar to touch tone. However, it is not as convenient as simply having a phone which always sends tones. Further, in a digital central office, Touch Tone is the standard. Furthermore, we do not agree that this is the same as true Touch Tone to which a customer subscribes.

United's penetration rates have been growing constantly since 1984, and the Company had a 70% for residential penetration rate for Touch Tone in 1989. We believe this indicates that customers perceive the service to be a very important part of their basic telephone service.

The Florida Pay Telephone Association (FPTA) asserted that banded rates on Touch Tone are not appropriate. Specifically, the FPTA argued that in order to provide any pay telephone service, competitive pay telephone providers must subscribe to Touch Tone. Although we have not ordered payphone providers to subscribe to Touch Tone from a policy perspective, they argue there is no other source from which they could receive the service.

United's cost to provide Touch Tone is $.00118 per access line per month which is almost zero. We recognize that the service is a major source of revenue. United projects $10,311,192 in revenues for 1991 at the current $1.00 rate. Because Touch Tone is such a major revenue generating source, we will not reduce or eliminate United's rate at this time. In addition, we conclude that Touch Tone is not as discretionary nor as a competitive a service as United witness Poag has argued. We therefore believe the banded rates as proposed by United are not appropriate for this service.

G. Auxiliary Equipment

United proposed no increases to the Auxiliary Equipment section of its tariff. We find, however, that certain increase in various of these rates is appropriate as set forth below.

1. Semi-public Coin Equipment - We find that a 10% increase to shelves and other booth equipment associated with semi public coin telephones is appropriate. The subscriber to semi-public telephone service benefits from having a public paystation on his premises. Therefore, the subscriber should bear the cost of the equipment associated with semi-public service.

2. Long Line Equipment - Specifically these offerings are the Voice Frequency (VF) Repeater and Signaling Package rates. The Company has proposed no increases because with the proposed 50% increase in Local Private Line Services, an increase on Auxiliary Private Line Services would not be appropriate. We disagree. The Company's Long Line Equipment rates should not be immune when other rates are being increased. Therefore, we find that a 10% increase should be applied to these rates.

3. Hearing Impaired Equipment - United has proposed no changes to its offerings Hearing and Speech Impaired equipment. By Order No. 13906, we required that the TDD and other equipment associated with provision of service for the hearing and speech impaired be made available and priced at cost. United's rates for the hearing impaired auxiliary equipment, except for the hearing impaired handset, are based on previously provided cost data. The cost for the hearing impaired handset has been updated. Currently, most of the costs for the hearing impaired equipment are either equal to or slightly higher than the rates currently being charged. These services provide a needed service to a special community of customers. Since the costs are in line with the rates, we find that no change should be made to these rates.

H. <u>Interconnection of Mobile Services</u>

The Interconnection of Mobile Services tariff provides interconnection arrangements for all mobile carriers. This service is separate from United's own mobile telephone service which provides end-to-end service to United's own mobile customers. The only change United proposed is to reduce the usage rates to reflect the proposed changes in United's switched access rates. The other parties did not address this issue.

The current interconnection rate is a flat rate per minute comprised of a local and toll component and is based on switched access charges. See Order No. 20475. Order No. 20475 also, requires that as switched access rates change, those changes should

be reflected in the mobile interconnection usage rate. Consistent with Order No. 20475, we find it appropriate to reduce the interconnection rate by the reduction in BHMOC rate approved herein. Upon consideration, we find that the mobile interconnection usage rate should be reduced to 3.86¢ per minute on-peak and 2.82¢ off-peak.

In Docket No. 900079-TL, the Florida Radio Telephone Association (FRTA) filed a petition which sought to have the Commission implement a separate one-way DID trunk service offering at a reduced rate within the mobile interconnection tariff. We denied the petition; however, we directed our staff to review the trunk rates in this proceeding. FRTA argued in its petition that, contrary to the record on which Order No. 20475 was based, the RCCs' interconnection is inferior to the Type 1 interconnection used by the CMCs, and should therefore be offered at lower rates. In the mobile interconnection proceeding, FRTA testified that RCCs did take Type 1 interconnection and should pay the same rates as cellular carriers. We decline to implement a separate trunk rate for RCCs. We note that trunk rates for RCCs identical to those that PBX trunk subscribers currently pay would raise the trunk rates for RCCs in United's territory. We decline to do that. We further note that FRTA did not intervene in this proceeding.

I. United's Mobile Service

United has proposed to increase the rates for its own mobile service by 15% as well as obsolete the service with no end date proposed. United's mobile telephone service is the Company's own mobile service in which it provides end-to-end service to its own mobile customers. United states it wishes to obsolete this service due to its declining demand. In addition, witness Poag testified that the infrastructure facilities that are required to maintain the service are expensive. The Company proposed to increase its rates to offset the Company's ongoing maintenance costs.

Since there is an alternative service to which customers can move, and because of dramatic decrease in demand, it is appropriate to obsolete this service. When a service is made obsolete the current customers are maintained, however no additional service can be added and new service cannot be installed.

Upon consideration, we approve United's proposed 15% increase in mobile rates. We will also approve the company's request to obsolete the service but will impose an ending date. As of December 31, 1992 all remaining customers will have to change to another service. This will give customers who currently subscribe time to make the appropriate changes.

J. Information Services Investigation

In Docket No. 880423-TP, the information services docket, all LECs were required to submit quarterly reports containing specific information on industry requests for basic service elements (BSEs). According to United's quarterly reports, it has not received any requests for BSEs from Information Services providers.

In addition, we asserted our jurisdiction over Information Services provided by LECs. United has acknowledged our jurisdiction in this case by placing the revenues and expenses from its voice messaging service, called Messageline, above the line. Thus Messageline revenues and expenses are being treated for ratemaking purposes in this case. As yet this Commission has not determined the extent to which it will regulate voice mail services and has not required that LECs submit tariffs.

K. Direct-in-Dialing Service

Direct-in-Dialing service (DID) provides a customer the ability to direct incoming calls directly to a called party instead of having to go through a live operator or receptionist. United proposed to both restructure and reprice its DID service. The Company proposes to separate its current single charge for a block of 100 DID numbers into a trunk termination charge and a block of numbers charge. In addition, United added a 20 number block option. The Company also proposed banded rates. United argues that the charges will make the application of DID rates more consistent among the other services with which it is used.

Upon consideration, we approve of United's proposed restructure/DID rates. This will give the DID tariff the same structure as the mobile interconnection tariff. The addition of the 20 number block will give smaller customers an option and will conserve DID numbers.

While the restructure is appropriate, banded rates are not. Banded rates were not created to phase in rates. Banded rates are intended for services that face a competitive environment. Since DID service is a monopoly service it is inappropriate for banded rates. However, we find the proposed current monthly rates are appropriate without the bands. We also approve of United's proposed NRC of $40.00 for the 20 number blocks.

L. Telephone Answering Service

United proposed two changes in the rates associated with Telephone Answering Service. The first is to modify its directory listings charge assessed to TAS providers from the current charge of 50% of the appropriate PBX trunk rate to $20.00. United's second proposal is to increase its mileage charge for an off-premises extension line or individual access line from $1.20 to $1.80 per quarter-mile. We find that United's proposal to charge $20.00 per number is inappropriate. The charge for a TAS directory listing shall be the same as for all other directory listings. We approve the increase in the mileage charge. The mileage rate increase for TAS is the same as similar extension line offerings.

M. Private Line

The Company proposes a 50% across-the-board increase for its local private line services. The other parties participating in this docket have taken no position on this proposal. The Company currently is not prepared to restructure the private line tariff but proposes the rate increase as one step to be taken in the restructuring process.

United's current rates for local private line services are lower than the rates recently approved for intra/interexchange private line and special access services. The current rates are well below comparable market rates and even though the Company has not provided cost support in the required format, current rates do appear to be below cost. Thus, it is appropriate to phase-in the rates that may result from a restructure. To this end, United's proposal is reasonable and the 50% across-the-board increase is appropriate.

The Company shall file a proposed restructure of its local private line services by July 1, 1991. The restructure shall use a rate structure similar to that which was approved for the

industry for interexchange private line and special access services as outlined in Order No. 23400.

N. Foreign Exchange Service

United proposed to increase the monthly mileage rate for Foreign Exchange Service (FX) by 50%, from $5.39 to $8.09. This mileage charge is applied per mile by airline measurement. The Company proposed to increase its mileage rate for Foreign Central Office Service (FCO) by 50%, from $2.15 per quarter-mile to $3.23 per quarter-mile. This is the same treatment as the Company proposed for other private line services. The Company intends to restructure this portion of FX/FCO services at the same time it restructures intraexchange private line services and proposed no additional changes to its FX/FCO services in this docket.

United asserted that these similar services should be subjected to the same rate changes because they are generally well below cost. We agree. These services are similar to other private line-like services, and should have the same rate changes as other private line-like services. United's proposal to increase the mileage rates for FX/FCO services is appropriate as a way to temporarily reprice these services. However, United must submit a restructure of these mileage rates when the Company restructures its intraexchange (local) private line services.

O. Service Connection Charges

United asserted that service connection charges should, in the aggregate, recover their costs and where possible, the more discretionary charges should provide contribution above their unit costs. United also proposed the introduction of a new element, a $5 record change charge to be assessed when subscribers request changes, other than name and address corrections, in their directory listings. United proposed to move the cost for the premises visit into the access line rate element. Under United's proposal the premises visit charge would be discontinued as a separate element on new installations.

We find that basic costs for connection shall be averaged over all customers as are basic network access charges because whether the Company is required to go to the customer premises on a new connect is outside of the control of the customer and because this is an important part of the universal service policy. With this

decision, the premises visit charge shall only be applied for subsequent customer initiated activities, such as moving the drop wire.

United's costs for residential and business new service connections total $48.84 and $50.88, respectively. We have reviewed the Company's service connection cost study and based on our review, we find that the costs as stated are reasonable. Service connection charges should be set close to costs. Thus, we find that the Company's proposals are appropriate with three exceptions.

First, the business primary service order charge should increase to $25.00 rather than reduce to $20.00. United's proposal establishes identical rates for business and residential primary service order charges. However, the cost of a business primary service order is more than the residence. This higher unit cost, plus the consideration of the value of service for a business versus that for a resident justify a rate which is $5.00 more for business customers than residence subscribers for this element.

Second, the secondary service order charges for business subscribers should increase to an amount higher than that proposed by United. United did not propose that business secondary service order charges be increased even though they are considerably below unit costs. We find that the charges for this service should recover costs. For this reason, we find that the rates for business secondary service charges should be raised to $16.

Third, the restoral of service charge should be increased from $15.00 to $20.00 for business customers. The cost for a business restoral is greater than the cost for residential restoral justifies a rate differential. The $15.00 restoral of service charge for residents should remain at $15.00.

We approve the introduction of a $5.00 record change charge proposed by United. Currently, requests for record changes are made at no charge to the customer with the costs associated with this service borne by the general body of ratepayers. We find that it is more appropriate to assign the costs for this discretionary service to the cost causer rather than to the general body of ratepayers.

With the aforementioned exceptions, we find that the Service Connection Charges proposed by United are appropriate.

P. Advanced Business Connection Service

The only changes that United has proposed for ABC or Enhanced ABC Service are for those rate elements already tied to the B-1 rate or the PBX trunk rate. Any changes approved by the Commission to those rates will flow through to the ABC Services. The Company opposes additional increases because there is already substantial contribution and because of the extremely competitive nature of the service.

Costs for these types of features are generally minor, and they have traditionally been good revenue sources. We note that PBXs are becoming more sophisticated and can provide an increasing number of competitive features. Accordingly, we find that the Company's current pricing relationships on these features are satisfactory.

Touchtone should be viewed in a different light. Unlike the features discussed above, only the LEC can provide Touchtone effectively. Thus, we find that it is appropriate to make Touchtone charges comparable. The $1.00 per line rate currently assessed to other business users should be assessed to ABC users on a per main station line basis as well.

With the changes discussed above, we find that the rates and structure are reasonable and should be continued.

Q. Stimulation and Repression

United has not included any estimates of stimulation or repression that may result from its proposed rate changes, including those pertaining to reductions to toll and access rates.

OPC argues that stimulation associated with toll and access reductions should be recognized. However, OPC never identified the amount of stimulation that would occur as a result of the toll and access rate reductions proposed by United. No other parties have taken a position on this issue.

We recognize that there may be some stimulation and repression which will occur as a result of changing rates for United's

telecommunication services. However, such stimulation and repression cannot be estimated with a reasonable level of confidence. While both United and OPC contend that the rate changes in toll and access proposed by United will cause stimulation, neither party offered an estimate of what that stimulation will be.

While the Commission is sympathetic with OPC's desire to have the customers receive the full benefit of access and toll reductions, no one provided sufficient evidence to determine if, when or how much stimulation will occur. Therefore, we find that no stimulation and repression shall be included in determining the revenue requirements of United.

R. Intrastate MTS Toll Rates

United proposes to reduce its MTS rates and split its two lowest mileage bands (0-10 and 11-22 miles) into three mileage bands (0-8, 9-16, and 17-22 miles). United's intrastate MTS rates currently are identical in structure and price levels to those of the other LECs in Florida, except for Southern Bell.

United contended that it should be allowed to reduce MTS rates and restructure its mileage bands in order to: (1) relieve EAS pressures; (2) alleviate the threat of bypass; (3) price toll to meet competition expected to occur due to the end of the toll transmission monopoly areas on December 31, 1991; and (4) reduce the disparity between intrastate and interstate toll rates while maintaining toll rates in the aggregate above access charges.

The only other party to take a position on this issue was OPC. OPC argues that United should not be allowed to fund reductions in toll rates with increases in local rates. OPC notes that all customers must pay local rates to have telephone service but a large percent of United's subscribers make little or no use of toll services.

In proposing MTS rate reductions, United did not use a "market-based approach"; instead, the Company first determined the excess revenues resulting from changes to local exchange rates and then proportionately decreased intrastate toll and access rates by this amount. Since United's current toll rates cover their associated access charges, the method employed by United would

ensure that its proposed MTS rates, in the aggregate, will cover their access charges.

United argued that EAS pressures would be reduced by splitting the first two mileage bands into three bands and by substantially reducing rates for calls of 22 miles or less. The largest reductions in MTS rates would be in the proposed first mileage band (calls of 8 miles or less), where rates would decline by more than 40%. There are some 16 toll routes under 23 miles that are possible EAS "hot spots." However, the data does not appear to unequivocally support the Company's proposal.

Moreover, although approximately 40% of the Company's traffic volumes are under 23 miles, only 2% occurs in the 0-8 band, 12% in the 9-16 band, and the remaining 27% in the 17-22 mileage band. Unfortunately, the traffic characteristics of the 16 short-haul toll routes which may be subject to EAS pressures are unknown. Absent such data, as well as further detailed analysis, we are unable to ascertain if the large percentage decreases proposed by the Company in the first two mileage bands are an appropriate response to these potential EAS problems. Although some decreases in the lower mileage bands may be warranted, in and of itself this is an insufficient basis to restructure the rate bands. Accordingly, the existing mileage bands shall be retained.

We do not concur with United's rate design proposal for MTS rates and find that a market-based approach would be more appropriate for setting MTS rates. To position itself for the forthcoming toll competition after the end of toll transmission monopoly areas, the Company should have thoroughly analyzed the unique characteristics of its service area in order to ascertain where it may be vulnerable, and formulated specific rate design solutions targeted to maintain key submarkets. Based on the evidence in the record, it does not appear that United has done this.

It is appropriate to lower United's rates to levels which in the aggregate still recover access charges while positioning United to meet IXC competition. We approve the following:

Mileage Band	First Minute	Additional Minute
0-10	.17	.07
11-22	.26	.16
23-55	.35	.25
56-124	.45	.32
125-292	.51	.34

S. Proposed Agency Action Implementing $.25 Message Rate for Message Toll Service

In Paragraph R immediately above, we have approved rates for MTS toll services. However, we find it appropriate to implement an innovative message rate plan for the 0 - 10 mileage band. Under this plan, each telephone call within the 0 - 10 mileage band will be charged $.25 in lieu of the MTS rate approved above. For Pay Telephone Providers, calls in the 0 -10 mileage band shall be treated as local calls for interconnection and end-user rate purposes. This plan recognizes the generally expanding communities of interest in United's various population centers. The plan will help relieve pressure for traditional EAS. We recognize that it is a novel concept that was not thoroughly explored in this proceeding. In addition, because this plan will impact interLEC toll routes between United and both Southern Bell and Vista-United, we will issue this part of this Order as a Proposed Agency Action. A protest of this part shall not prevent any other part of this Order from becoming effective. If our action in this part becomes final, the MTS rate for the 0 - 10 mileage band set forth above shall be modified consistent with this part.

T. Telesaver Toll Calling Plan

United proposed an optional discount intraLATA toll plan named TeleSaver. TeleSaver is targeted for high-volume intraLATA toll users. For a monthly fixed charge of $2 for residence and $6 for business access lines this plan would provide subscribers with a 40% discount on all intraLATA toll calls. United maintained that TeleSaver would serve, along with its proposed MTS reductions, to reduce EAS pressures. Although we have approved Option Calling Plans (OCP) for other LECs, we have serious reservations about the Telesaver plan.

348

First, the Company admitted that this plan fails to cover its associated access charges in the aggregate. We find that an OCP must adequately cover access charges in order not to have an unfair competitive advantage relative to the IXCs with whom it competes and to whom it provides access to the local network. See Order No. 23540.

Second, we have misgivings about the design and support for the proposed TeleSaver OCP. The Company has asserted that this plan will enable it to retain a greater portion of its high-volume toll users; however, it does not appear that the plan is targeted specifically towards this market segment -- or truly targeted to any particular group of customers. The plan merely allows any customer to obtain an additional 40% discount on <u>all</u> toll calls for a minimal recurring monthly charge.

United's proposed TeleSaver is too "broad brush" and may inadvertently result in unanticipated, and perhaps adverse, impacts. Relative to other OCPs which we have approved, the proposed 40% discount on all traffic at all times of day for a very low monthly charge ($2 for residential, $6 for business) seems overly generous. We are concerned that if the forecasted subscribership for TeleSaver assumed by United --2.45% of all access lines -- is too low, a significant revenue shortfall could result. Moreover, if there is migration from other services such as OUTWATS additional losses could occur.

The Company's single proposal appears intended to address a variety of potential competitive problems. However, the Company has presented no market research or any analysis to identify where pricing anomalies may exist with the advent of competition. Absent such information we are unable to determine in which toll submarkets pricing restructure may be warranted and, thus, whether TeleSaver is an appropriate response. Accordingly, United's proposed TeleSaver optional calling plan is hereby denied.

U. Toll Pac, Valu-Pak, and OEAS

United proposed to maintain the same percentage discounts relative to MTS on its optional calling plans which are based on toll rates. United did not propose to change any monthly minimum charges for OEAS or Valu-Pak.

We find the current monthly minimum rates for Toll-Pac are appropriate and shall be maintained. Decreasing the MTS rates, while increasing the minimums, tends to make the break-even point higher.

United also has two optional local calling plans which are route-specific and which are based on a combination of local and toll rates. The first is a flat rate, two-way, optional plan called Optional Extended Local Calling (OELC). This plan exists in only two areas of the state, Ocala-Williston and Bonita Springs-Ft. Myers-Naples. The rates for this plan are based on the local rate for the distant exchange. Accordingly, with a change in local rates, the rates for OELC change.

The other Optional Extended Area (OEAS) Plan is a one-way plan available on seven routes. The service has two options available to residents, flat rate (Option I) or usage rate (Option II). Businesses can only get Option II. Option I is based on a combination of the local rate of the distant exchange and the distance involved. Option II is based on a discount relative to MTS rates. Accordingly, the rates for the OEAS plans will change

V. WATS and 800 Service Rates

United proposed a 13.1% reduction in rates for its Outbound Wide Area Telecommunications Service (OUTWATS). Through this reduction, the Company sought to maintain the existing price differential between OutWATS and MTS. Demand for WATS has been declining as more toll services are introduced to meet specific business needs. We agree that the existing rate relationships between MTS and WATS are appropriate and should be maintained. However, we have approved a lesser reduction in MTS than those proposed by the Company. Therefore, in order to maintain the WATS/MTS relationship, we approve the same reduction in rates for WATS. The approved rates for OUTWATS is as follows:

Hours	Day	Evening	Night/Weekend
0 - 10	$14.97	$10.33	$5.99
10.1 - 25	13.61	9.39	5.99
25.1 - 50	12.25	8.45	5.99
50.1 - 80	10.89	7.51	5.99
Over 80	9.53	6.57	5.99

United has also proposed decreasing INWATS, also referred to as 800 Service, but by a lesser amount than proposed for MTS and OUTWATS. The Company asserts that the elasticity of demand for 800 Service is not as high for MTS or WATS. MTS and OUTWATS charges are assessed to the individual or business who initiates the call, whereas with 800 Service the charges are assessed to the individual or business that receives the call. Thus, we believe a 4% decrease in usage revenues is appropriate. The appropriate 800 Service Rates are as follows:

Hours	Day	Evening	Night/Weekend
0 - 10	$15.94	$11.28	$6.53
10.1 - 25	14.02	9.84	6.53
25.1 - 50	11.95	8.36	6.53
50.1 - 80	11.04	7.73	6.53
Over 80	10.08	7.15	6.53

In addition, United has proposed no changes to its WATS nonrecurring charges. The Company asserts that the current rates for WATS are appropriate. However, we believe that non-recurring charges for WATS subscribers should not be less than those charged for basic business subscribers. Therefore, we find it appropriate to increase the WATS access line service charge to $35.00. We also find that the secondary service charge for WATS subscribers shall be raised to $16.00. Further, the rates for premises work charges shall be increased in the same proportion as they are for basic business rates.

W. BHMOC Charge

United proposed to reduce the Busy Hour Minute of Capacity (BHMOC) charge from $6.39 to $3.53. The Company asserted that this reduction will mitigate uneconomic bypass potential, reduce interstate and intrastate toll rate disparity, and price switched access service more in line with its cost. OPC contended that while it does not oppose lower toll rates, the Commission should not increase local rates in order to fund decreases in toll rates.

In general, the larger LECS operating in Florida have been reducing or eliminating their BHMOC rates. We find that the BHMOC should be reduced to $4.33. We have encouraged BHMOC reductions in order to give the LECs more toll pricing flexibility with respect to their IXC competitors. See Order No. 23540.

X. Billing and Collection Services

United proposed to detariff Billing and Collection (B&C) Service. By Order No. 21688, issued August 4, 1989, we determined that effective competition does not exist in the Billing and Collection market. However, we granted the LECS the authority to file LEC specific tariffs. In this case United contended that B&C Service is competitive because only 36% of the IXCs operating in United's service area subscribe to United's B&C Service. According to the Company, since B&C Service is available from an array of providers, the Company needs the pricing flexibility that detariffing provides.

The Florida Pay Telephone Association (FPTA) argued that United's B&C Service should not be detariffed. The FPTA noted that the Commission investigation into detariffing had just recently concluded and that in that investigation the Commission declined to allow these services to be detariffed. The FPTA notes that nothing has occurred in the short period since Order 21688 was issued in the generic proceeding which would justify a change in the Commission's policy.

ATT-C did not oppose United's proposal to detariff B&C. OPC asserted that if the Commission detariffed B&C that the likely changes in United's rates should be accounted for in revenue projections.

Even though only 36% of the IXCs may use United's B&C Service, that 36% includes the largest IXCs in Florida. Although no specific data was provided by United, we must conclude that the majority of United's customers are billed for their intraLATA toll by United. In our opinion, United has not shown that effective competition exists in the B&C Service market in its territory. We find that United has not provided sufficient information to support its contention that it faces effective competition. Therefore, we find that United's B&C Service should remain tariffed.

Y. Zone Charges

United proposed to reduce the number of zone charge rate areas from 24 to 4, and to generally reduce the zone charge rates. All zone charge customers would receive a decrease except for Zone A subscribers in Orange City who would receive a $.45 increase under the Company's proposal. The Company asserted that reducing the

number of zones will reduce administrative costs and is in step with their eventual total elimination.

Upon consideration, we find that United's proposal to reduce the number of zones and zone charges is appropriate. Even though Orange City will receive a $.45 increase, we believe those customers should pay the same rates as other United customers, and that this increase is reasonable. In addition, we hereby approve United's tariff filing to expand the Orange City base rate area to be effective concurrent with the other rates approved herein. Expanding the Orange City base rate area will reduce the number of subscribers required to pay zone charges. The approved zone charges are as follows:

Zone	Rate
A - B	1.00
C - D	2.00
E - I	3.00
J - X	5.00

Z. Hybrid Key Systems

A Hybrid Key System is a type of CPE that may function as either a key or a PBX. Currently, some LECs charge the PBX rates only, while others charge either the PBX or B-1, depending on the use of the system as specified by the subscriber. United currently charges PBX rates for all Hybrid Key Systems, asserting that since the hybrids incorporate PBX features, the application of PBX trunk rates is appropriate.

In charging the PBX trunk rate to Hybrid Key System users, United may be discouraging smaller customers from purchasing these systems. However, by charging only the PBX trunk rate for these systems United has also reduced its administration costs.

Upon consideration, it appears unreasonable to require subscription to PBX trunks in every case of a Key System. A customer should be able to choose the appropriate access line based on the nature of his usage. Accordingly, on a going forward basis beginning February 1, 1991, United is hereby required to request that new business customers certify the manner in which their Hybrid will be used. United must then charge the appropriate rate. Such certification may be oral or written. United shall also

notify PBX customers of this change in policy in a separate mailing. The mailing shall explain the change in policy and request that affected customers contact a Company business office. This will allow existing hybrid owners who do not use their CPE for access line pooling to be notified of their eligibility for a rate decrease. Any revenue impact of this change will be addressed when United restructures its local private line services. Accordingly, United shall keep track of the units and dollars affected by this change.

AA. SmallTalk - Optional Local Measured Service Plan

United proposed an optional Local Measured Service (LMS) plan named SmallTalk, in part as a response to our Model Senior Plan. The Company proposed to offer this service only to residence subscribers, at a 30% discount to the R-1 rate, and with a measured usage rate of 10¢ for the first ten minutes, and 5¢ for each additional 10 minutes. In addition, the plan would incorporate a $3.00 usage allowance. United estimates 6 percent of its residential customers would subscribe to SmallTalk.

We hereby approve SmallTalk with one modification. Instead of a measured rate as proposed by United, we will approve a message rate of $.10 cents a call. This modification will make the plan conform more closely to the rate structure recommended by our Model Senior Plan and will be easier for users to understand.

BB. Rate Groups

United proposed to reduce the number of local exchange rate groups from 9 to 7 to cut back on the frequency of exchange regroupings and to ease administration. We agree that it may be appropriate to reduce the number of rate groups, but have concerns with the Company's specific proposal which is in direct conflict with Rule 25-4.055, Florida Administrative Code. This rule provides in part that no exchange grouping plan shall contain any group in excess of that which is necessary for the classification of the largest exchange of that company. United proposed its new rate group 7 as an empty rate group, which conflicts with our rule.

We approve United's proposal with the modification that the 7th rate group be eliminated. Thus, rate group 6 will have no upper limit, and the rate group structure will then conform with Rule 25-4.055.

CC. Local Exchange Rate Relationships

After the amount of revenue required from local rates has been determined, this amount must be spread over the residential and business local rate elements for all rate groups. However, in order to establish rate levels in a systematic fashion, we must first decide what is the appropriate relationship that each rate element should bear to the residential one-party (R-1) rate. Traditionally, we have set new basic local exchange rates by calculating them as a function of the R-1 rate.

United proposed to change the relationship of basic local service access line rates as a proportion of the R-1 rate in four classes of service: 1) reduce the ratio of the residential PBX (R-PBX) rate to the R-1 rate to match that of the business PBX (B-PBX) to the B-1 rate; 2) increase the semi-public service trunk rate to 125% of the B-1 rate; 3) increase the rate for message rate PBX trunks to 47% of the flat rate; and 4) realign the rate relationships for the Winter Park exchange with those of the rest of the Company.

1. R-PBX - We decline to reduce the rate relationship for R-PBXs as proposed. The rate for a PBX used for residential purposes shall be the same as a Business PBX.

2. Semi-public Pay Telephone Service - Semi-public Service is furnished in locations where there is an appreciable demand for service by transients yet the demand will not generate sufficient revenues to justify a public payphone. A premises owner that has a semi-public pay telephone currently pays the B-1 rate. United argues that an increase is needed to appropriately reflect the embedded cost of such service. United did not provide any incremental cost data for this service. Based on information provided by United, the average revenues for semi-public service are approximately $32.00 in local coin calls and $18.00 in recurring access line revenues. Increasing the rate to 125% of the business line will increase revenues by an average of $12.05 per station. No other parties have taken a position on this issue.

Upon consideration, we approve United's proposed rate of 125% of the B-1. The primary beneficiary of such service is the premises owner. Therefore, it is appropriate that the premises owner bear more of the cost of providing telephone service to his customers.

3. PBX Message Rate Service - United currently offers message rate PBX Service only in the Winter Park and Orange City exchanges. United proposed to increase the initial and additional monthly trunk rate to 47 percent of the flat PBX trunk rate charge and to increase the PBX message rate in its Orange City exchange from $.03 to the $.07 rate which is currently in effect in Winter Park. United also proposed to waive nonrecurring charges for a 90-day period for those customers desiring to avoid the increase. No other party took a position on this issue.

It is inequitable for the current PBX message rate level to be offered at a substantially lower trunk charge than those offered under flat rates for PBX trunks. We find that United's proposal is appropriate, and hereby approve both the rates and the 90 day grace period.

4. Winter Park - The Winter Park exception area was originally established in connection with the May 10, 1983 "consolidation" of the former Orange City, Florida Telephone Corporation, Winter Park, and United Telephone companies. However, it was anticipated that the Winter Park exception status would be temporary.

At the time of consolidation, uniform local exchange rates were implemented for all of the companies except Winter Park. Since that time, the Winter Park exchange customers have benefitted from lower local service rates relative to other customers with similar calling scopes. However, as discussed above, with the changes we have approved in the rate groups, we find that Winter Park shall move to, and remain in, rate group 6. We also find that Winter Park's local rate relationships must be modified to conform with those in rate group 6. We believe that the impact on the Winter Park customers is within an acceptable range under the Rate Group restructure approved above.

For the remaining customer classes, United's proposed rates do not substantively change their relationship to R-1. Accordingly, we approve the relationships proposed by the Company.

DD. Basic Local Exchange Access Line Rates

United proposed to increase basic local exchange access line rates by $45,667,698, or 32.6%. United proposed to raise prices for basic local residential rates from a weighted average of $7.55 to $10.23. The proposed rate levels are based on a study of

Southern Bell Telephone's residential rates in Alabama, Georgia, Louisiana, Mississippi, North Carolina, and South Carolina. According to United, the weighted average residential rate of those states is $14.85. United's witness Poag then studied the demographic characteristics for his Company and concluded that customers could withstand his proposed rates.

OPC was the only party to comment on this issue. OPC has testified in relation to other issues that United has not justified its test year revenue requirements. The Citizens opposed the Company's proposal to shift cost recovery from toll to local, and to fund toll reductions with local rate increases. In addition, OPC cited evidence that showed that most United customers make few, if any, toll calls.

As discussed earlier, we rejected United's proposal for a "market based" pricing for local service because it is inconsistent with our residual pricing philosophy. The cumulative result of our rate-setting actions herein produces a revenue shortfall of approximately $15.98 million. Consistent with our rate setting philosophy we find it appropriate to increase local rates by this amount. The authorized R-1 local rates are as follows:

Rate group	R-1 Rate
1	6.45
2	7.20
3	7.95
4	8.70
5	9.45
6	10.20

The remaining local rates shall be calculated using the rate relationships set forth above. The final rates shall be rounded to the nearest five cent increment.

EE. Notice of Rate Changes and Effective Date

The bill stuffer that is mailed after the decision in this case shall contain an overview of the case. In addition, it shall contain the following specific announcements. First, the effective date of the rates and an explanation of local service charges which may be prorated. It should explain any credit that may be due the customer regarding discontinuance or modification of service before

the due date of the bill. An explanation of new services shall be included. In addition, a summary of selected widely used services such as Directory Assistance and toll rates, if they have been adjusted, shall be included. Local rates shall show rate changes by exchange. A statement that information on new rates is available from each of the Company's business offices and service centers shall be included. Finally, the bill stuffer shall explain the application of the gross receipts tax. This bill stuffer shall be submitted to the Staff within 5 days of our Commission vote.

The effective date of any rate changes shall be 5 days after a complete set of correct tariffs has been filed. The revised tariffs shall be filed within 5 days of our final vote. Before the tariffs become effective, we shall have a period of 5 days to review those tariffs in their final proposed form in order to ensure that the rates as filed comply with our vote. Billing should apply to all service received on or after the effective date even if it is not actually billed until the following month.

Now, therefore, in consideration of the foregoing, it is

ORDERED by the Florida Public Service Commission that each and all of the specific findings set forth herein be and the same are approved in every respect. It is further

ORDERED that the Minimum Filing Requirements filed by United Telephone Company of Florida support an increase in its rates and charges designed to generate $4,540,000 in additional annual revenues, and the Company is hereby authorized to collect such increased revenues. It is further

ORDERED that the Company shall file revised tariffs reflecting the rate adjustments approved herein no later than five days after the vote. These tariffs shall become effective no later than five days after correct tariffs have been filed and approved by our Staff. It is further

ORDERED that United shall, within 60 days of the issuance of this Order, request a letter ruling from the IRS regarding whether a parent debt adjustment violates the normalization requirements of its proposed regulations. It is further

ORDERED that United shall dispose of $6,151,700 plus $255,249 of interest of the revenues placed subject to refund with interest

358

by Order No. 22377 by booking this $6,406,949 total amount as a deferred credit earning interest until it can be applied to a specific plant reserve at the time of the Company's next depreciation represcription. United shall continue to hold subject to refund with interest the $1,453,300 balance left from the original $7,605,000 placed subject to refund pending the later of the IRS' letter ruling or final decision on the proposed regulations affecting the parent debt adjustment as reflected herein. It is further

ORDERED that United shall hold subject to refund or other disposition, with interest, $3,750,130 annually. These revenues shall be so held until the later of the IRS' issuance of a letter ruling or final regulations regarding the question of a parent debt adjustment violating IRS' normalization requirements. It is further

ORDERED that Docket No. 891231-TL is hereby closed. It is further

ORDERED that Docket No. 891239-TL shall be closed if no protest is filed to the proposed agency action provisions implementing the $.25 message rate for MTS in the 0-10 mileage band in accordance with the requirements set forth below.

By ORDER of the Florida Public Service Commission, this 31st day of JANUARY, 1991.

STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)
SFS/TH/JKA/PAK/CWM

by: Kay Flynn
Chief, Bureau of Records

Note: Chairman Thomas M. Beard dissented from the Commission's decision regarding the following matters:

a) The removal of United's investment in UTLD from United's capital structure directly from common equity;

b) The removal of institutional or image building advertising from United's test year expenses in the categories of the "One Phone Company" advertising campaign, the "Public Relations" campaign, and the business testimonial advertisements related to the "One Phone Company" and "Call on the Strength" ad campaigns and which refer to equipment sales, the rental, maintenance and repair of CPE, and nonregulated sales pitches;

c) The categorization of United's community support advertising as included in institutional or image building advertising and, therefore, excluded from United's test year expenses; and

d) The finding that (by placing its revenues from its voice messaging service above the line) United has complied with the Commission's policy set forth in Orders Nos. 21815 and 23813 in Docket No. 880423-TL. Chairman Beard's opinion was that United's action was not necessarily required by Orders Nos. 21815 and 23183.

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.

As identified in the body of this order, our action implementing the $.25 message rate for MTS in the 0-10 mileage band 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 February 21, 1991. In the absence of such a petition, this order shall become effective on the date 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 the relevant portion of 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.

Any party adversely affected by the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or 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 after the issuance 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.

UNITED TELEPHONE COMPANY OF FLORIDA
TEST YEAR ENDED DECEMBER 31, 1991
COST OF CAPITAL

DESCRIPTION	LONG-TERM DEBT	SHORT-TERM DEBT	PREFERRED STOCK	CUSTOMER DEPOSITS	COMMON EQUITY	TAX CREDITS WEIGHTED COST	DEFERRED INCOME TAXES	TOTAL CAPITAL
Total Company per Budget	$412,894,208	$22,695,833	$10,031,167	$6,014,709	$698,521,500	$32,572,333	$193,152,502	$1,375,882,252
Specific Adjustments								
1. Reclass Info Svcs to Reg	$194,537	$11,641	$0	$0	$328,124	$0	$0	$534,302
2. GS&L Inter-Company Profit	0	0	0	0	647,519	0	6,140,283	6,787,802
3. Investment in UTLD	0	0	0	0	(2,570,125)	0	0	(2,570,125)
4. Non-Regulated Capital	0	0	0	0	(18,691,000)	0	0	(18,691,000)
Total Adjustment	$194,537	$11,641	$0	$0	($20,285,482)	$0	$6,140,283	($13,939,021)
Adjusted Capital per Budget	$413,088,745	$22,707,474	$10,031,167	$6,014,709	$678,236,018	$32,572,333	$199,292,785	$1,361,943,231
Pro Rata Adjustments	(4,478,861)	(246,203)	(108,762)	(65,214)	(7,353,686)	(353,161)	(2,160,806)	(14,766,693)
Adjusted Total Company Capital	$408,609,884	$22,461,271	$9,922,405	$5,949,495	$670,882,332	$32,219,172	$197,131,979	$1,347,176,538
Intrastate Deferred Taxes on CCDC	0	0	0	0	6,160,250	0	(6,160,250)	0
Capital Subject to Separations	$408,609,884	$22,461,271	$9,922,405	$5,949,495	$677,042,582	$32,219,172	$190,971,729	$1,347,176,538
Jurisdictional Factor	0.690111	0.690111	0.690111	0.690111	0.690111	0.690111	0.690111	0.690111
Separated Capital	$281,986,061	$15,500,764	$6,847,558	$4,105,810	$467,234,343	$22,234,797	$131,791,637	$929,700,970
Intrastate Deferred Taxes on CCDC	0	0	0	0	(6,160,250)	0	6,160,250	0
Jurisdictional Intrastate Capital	$281,986,061	$15,500,764	$6,847,558	$4,105,810	$461,074,093	$22,234,797	$137,951,887	$929,700,970
Percent of Total	30.33%	1.67%	0.74%	0.44%	49.59%	2.39%	14.84%	100.00%
Cost Rate	9.37%	9.50%	7.61%	8.20%	13.00%	11.59%		
Weighted Cost	2.84%	0.16%	0.06%	0.04%	6.45%	0.27%		9.82%

362

UNITED TELEPHONE COMPANY OF FLORIDA
TEST YEAR ENDED DECEMBER 31, 1991
COST OF CAPITAL

Pro Rata Adjustments	
a. Telephone Plant Under Construction (IDC)	($18,020,958)
b. Miscellaneous Physical Property	(481,000)
c. UTF Working Capital Adjustments	1,220,609
d. GS&L Intercompany Profit (Rate Base Adjust	455,000
e. Operator Services	
Severance Pay	1,113,276
Accelerated Depreciation	234,868
f. Customer Billing System Development	711,512
Total Pro Rata Adjustment	($14,766,693)