

IN THE SUPREME COURT OF FLORIDA

GENERAL TELEPHONE COMPANY OF FLORIDA)

Appellant,)

vs.)

JOHN R. MARKS, III, GERALD A. GUNTER,)
KATIE C. NICHOLS, MICHAEL MCK. WILSON,)
& THOMAS HERNDON, AS AND CONSTITUTING)
THE FLORIDA PUBLIC SERVICE COMMISSION)

Appellee.)

CASE NO. 68,691

FILED

Handwritten initials and signature

ON APPEAL FROM THE PUBLIC SERVICE COMMISSION

ANSWER BRIEF OF THE CITIZENS
OF THE STATE OF FLORIDA

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DESIGNATIONS

Appellant General Telephone Company of Florida shall be referred to as "Gentel".

Appellee Florida Public Service Commission shall be referred to as "the Commission".

Appellee Citizens shall be referred to as "Citizens".

"TR _" refers to pages of the hearing transcript.

"App. _" Refers to pages of the appendix of Appellee Citizens' Brief.

All references to statutory sections are to Florida Statutes (1985), unless otherwise noted.

I. QUESTION PRESENTED

The question presented by Gentel's appeal is a narrow one. The Citizens believe the issue is fairly stated as follows:

Whether the Florida Public Service Commission acted within the scope of the authority delegated to it by Sections 350.127(2) and 364.037, Florida Statutes, with regard to the promulgation of Commission Rule 25-4.405.

II. STATEMENT OF CASE AND FACTS

Citizens stipulate to the accuracy of the factual recitation contained in the first two paragraphs of the "Introduction" section of Gentel's brief. The remainder is merely argument reflecting Gentel's opinion as to the propriety of the Commission's action.

Citizens also stipulate to Gentel's straightforward presentation of the procedural history of the case. The first two paragraphs of the section entitled "364.037 Explained" are fairly presented. The third paragraph, however, displays a fundamental misunderstanding of the basic provisions of the statute. The Citizens offer the following description of Section 364.037.

A. Section 364.037 Re-explained

It is undisputed that Section 364.037 is the Legislature's directive that directory advertising revenues in the form of gross profits be shared between the ratepayers and shareholders. The allocation process starts with the calculation of the actual amount of gross profit achieved in 1982. This is, as Gentel correctly notes, the beginning point for the allocation process. Section 364.037(3) regulates the actual calculation of 1982 gross profits. Gentel's initial brief at page 5, footnote 9 is correct

in this respect.1/ Once the 1982 base amount of gross profit is determined, then that number is expanded for customer growth and inflation. See Section 364.037(1) After the trended 1982 base amount is determined, a comparison is made of the trended amount of gross profit and the actual gross profit realized by the company in the test year.2/ There is no comparison between the trended 1982 gross profit and the 1982 base amount as Gentel's explanation suggests.

Section 364.037(2) provides that:

(2) The gross profit derived from directory advertising to be allocated to the nonregulated operation of a company shall be the gross profit which is in excess of the adjusted 1982 amount determined in accordance with subsection (1).

In this manner, Subsection 2 of the statute provides the basis for the allocation of actual test year gross profits which are in excess of the trended 1982 amount.

Once a determination of the two number to be compared has been made, the question becomes what amount if any, is to be allocated to deregulated operations.

1/ It is important to note that the 1982 base gross profit figure for all companies is stated at 60% of revenues. All companies except Southern Bell had actual expense levels reduced to 40%. Southern Bell's gross profit level was restated to 60% for reasons not relevant here. See App at ____.

2/ Essentially the test year is the Commission approved representative period, upon which the Company bases its revenue increase request.

As stated above in Section 364.037(2), the general rule is that the shareholders can take that amount of actual test year gross profits in excess of the trended 1982 amount. However, there are two exceptions: (1) If actual test year gross profits are less than the trended 1982 amount, then the shareholders receive nothing (other than their ordinary achieved return on investment) See 364.037(1); and (2) If the trended 1982 gross profit is less than two-thirds of actual test year gross profit, then the shareholders' take is limited to one-third of actual test year gross profit. See 364.037(5).

Thus, the shareholder can receive a bonus up to, but no more than, one-third of actual test year gross profits, depending upon the efficiency of the operation.

B. Evidence of Record

Citizens also object to Gentel's characterization of the last portion of its introductory section as "Evidence of Record". This portion of the Appellant's initial brief is little more than pure argument with only a very selective recitation of the evidence received.

In this regard, Citizens would briefly point out that Gentel has made two material omission in its statement of the evidence of record. First, Gentel fails to point out that the Commission Staff viewed the language of 364.037(3) as indicative of Legislative intent that white pages expenses shall be included in

the gross profit calculation regardless of whether expenses could be separated (TR. 19, 20). Gentel further fails to mention that Staff witness Livingston re-affirmed, when specifically asked by the hearing officer at the end of the hearing, that white page expenses should be included in the gross profit calculations. In addition, he stated that Staff viewed Section 364.037(3) as controlling inclusion of white pages expenses. (TR. 54).

Citizens would further note that for Southern Bell, Gentel, and United Telephone alone the 1984 effect of Gentel's suggested change to the rule would have been to divert approximately \$26 million in revenue in the form of gross profits from the ratepayers to the shareholders. (App. 5).

III. SUMMARY OF ARGUMENT

It is Citizens' position that Gentel has utterly failed in its burden of demonstrating that the Commission's interpretation of Section 364.037 and ensuing promulgation of Rule 25-4.405 is in any way unlawful. Gentel has posed several theories in support of its attack on the rule, none of which has the slightest merit.

IV. ARGUMENT

A. THE COMMISSION'S RULE IMPLEMENTING THE STATUTE AND INCLUDING WHITE PAGE EXPENSES IN GROSS PROFIT CALCULATIONS NEED ONLY BE REASONABLY RELATED TO THE PURPOSES OF THE STATUTE AND ENABLING LEGISLATION.

The Florida Public Service Commission is "authorized to adopt, by affirmative vote of a majority of the Commission, rules reasonably necessary to implement any law which it administers." See Section 350.127(2). Here there is no doubt about the power of the Commission to promulgate a rule implementing Section 364.037. Gentel's citation to Department of Transportation v. Mayo 354 So.2d 359 (Fla. 1977), is inapposite. In the Department of Transportation case there was a direct and substantial question of the Public Service Commission's authority to act at all in its chosen method of safety regulation of a certain type of motor carrier. The Public Service Commission was granted broad powers to regulate the safety of carriers of road-building aggregates. However, the statute specifically denied the Commission the authority to set rates for those carriers. Since the Commission sought to regulate safety by way of rate-fixing, the Court held that the statutory prohibition evinced an intent that road-building aggregate carriers be free from rate regulation. This clearly delineated intent was what created the reasonable doubt as to the Commission's powers. Thus, the Court

found that there was a reasonable doubt as the Legislature's intent to grant the Commission jurisdiction to regulate safety of those carriers by way of rate-fixing and the Commission's order setting rates was quashed. Department of Transportation, supra at 361, 362.

In the instant case the question does not turn on the Commission's authority to act in allocating directory revenues in the form of gross profits. Indisputably legislative intent was that the Commission so act.

The question is, rather, has Gentel shown that the Commission's discretion in interpreting and implementing Section 364.037 was so unreasonable and so unrelated to the statute as to be arbitrary and capricious. See General Telephone Co. of Florida v. Florida Public Service Commission, 446 So.2d 1063, 1067 (Fla. 1984). Essentially Gentel has the burden of demonstrating to this Court that the Commission's inclusion of white page expense was outside of the scope of the Commission's discretion. Absent such a showing, this Court has made it clear that it will not substitute its judgment for that of the Commission on a discretionary decision. General Telephone Co. of Fla. v. Florida Public Service Commission 446 So.2d 1063, 1067 (Fla 1984); Citizens of Florida v. Mayo, 357 So.2d 731 (Fla. 1978).

Appellant seeks to meet this burden by asking this Court to re-write Section 364.037 in such a manner as to preclude the Commission from acting as it has. Essentially the Company would

have this Court read non-existent prohibitory language into the statute when the facts, the plain language of the statute, and legislative history indicate just the opposite. The thrust of Gentel's appeal is that Section 364.037 forbids inclusion of white pages expense in the gross profit calculations made under the rule.

The Company's contention is concocted from a hodge-podge of theories, none of which hold water. Appellant advances several theories for its case. First, that the statute somehow forbids the Commission's action by making no mention of white pages expense. Second, that this Court has for all practical purposes already decided the issue. Third, that the legislative history of Section 364.037 is contrary to the Commission's interpretation. Fourth, that the rule causes the statute to be violative of the one subject limitation of Article III, Section 6 of the Florida Constitution. Fifth, that the rule is violative of various canons of constructions. Finally, that the rule is contrary to the evidence of record. As will be shown, the above allegations are insufficient, both in sum and independently, to give this Court reason to interfere with the Commission's lawful exercise of power. The various claims will be addressed below.

B. THE PLAIN LANGUAGE OF THE SECTION 364.037 DOES NOT FORBID INCLUSION OF WHITE PAGES EXPENSES.

Rather than bar the Commission's interpretation of Section 364.037, the statute mandates inclusion of white pages expenses in the gross profit calculations. Even so, such a strict interpretation need not have been made by the Commission in order that the promulgation of Rule 25-4.405 be lawful. The Commission's decision need only have rested upon an interpretation having a reasonable relationship to the statute's purposes. General Telephone Co., supra at 1067.

As indicated in a preceding explanation of the provisions of Section 364.037, the statute is merely an allocation of revenues mechanism. The allocation is made on a comparison basis. Trended 1982 gross profit is compared to actual test year gross profit in order that an amount (if any) to be allocated to shareholders can be determined. The allocation can be made no other way. Thus, the starting point in interpreting the statute is determining what revenues and expenses are to be included in the calculation of 1982 gross profit. Section 364.037(3) is controlling:

(3) For the purpose of this section, the amount of gross profit of a company from directory advertising for the year 1982 is the actual gross profit derived from such advertising for that year. If, however, the expense to a company to furnish directories in 1982 exceeded 40 percent of the gross revenue derived

from its directory advertising, the 1982 level of gross profit shall be adjusted to reflect a cost of 40 percent of its 1982 gross revenue. This adjusted 1982 gross profit level shall be utilized in lieu of actual gross profit for 1982 when making the calculations in subsection (1). [emphasis added]

The crucial passage here is the phrase "expense to a company to furnish directories." What does this mean? Gentel provides the answer.

At hearing Gentel witness Barry Johnson testified that "expense incurred in furnishing directories" included white pages expenses:

Q (By Mr. Rehwinkel) What about Section 3 of that Statute, when they --

A (By Mr. Johnson) That is what I was just reading from, I think, Section 3 the first sentence.

Q Okay. What about the second sentence, when they put a cap on expenses they [sic] could offset revenues, weren't they talking about expenses to furnish directories?

A The second sentence, remember, starts, "If, however," the second sentence is a test. It is basically just a test against your expenses, it is not specifically telling you which expenses you should or shouldn't include. If you beat that 40%, this section wouldn't even apply to you.

Q But how do you determine whether you meet the 40%? You have to add all your expenses up, right?

A Well, you would subtract your expenses.

Q To determine whether you hit the 40% level, you have to add up your expenses, is that correct?

A Yes.

Q And those expenses, as you said previously, include white page cost, isn't that correct?

A Yes, and we believe they should exclude them.

Q But they would be expenses incurred in furnishing directories, isn't that correct?

A The white page expense?

Q Yes.

A Yes.

(TR. 34, 35)

The Company attempts to explain away this testimony by suggesting that the phrase can be ignored if expenses don't exceed 40% of revenues. However, Mr. Johnson also admitted that white page expenses are properly included in determining whether the 40% level is reached (TR. 34, 35). Most telling of all is the fact that Gentel's expenses incurred in furnishing directories exceeded 40% and therefore 1982 gross profit was capped at 60% of 1982 revenues.^{3/} (A.1) Stripped to the facts, Gentel's argument collapses. Undoubtably white page expenses are properly includable in the 1982 gross profit calculation.

It should be noted that, while Mr. Johnson agrees that white page expenses are a part of the cost of furnishing directories,

^{3/} See Note 1, Infra at ___.

his belief is that they should be excluded. This one statement is telling Gentel's real beef is with the legislation, not the Commission rule. Gentel is improperly seeking redress before the Commission and this Court on an issue which should be properly taken up before the Legislature.

In any event, once the proper method for calculating 1982 gross profit is determined, the rest is easy. As stated above, the allocation method is done by comparing trended 1982 gross profit to actual test year profit. Reason dictates that the comparison be made on a consistent basis. Apples should be compared to apples. Gross profit calculated by including white page expense should be compared to another gross profit figure calculated by including white page expense. Gentel would have the Commission compare apples to oranges by suggesting that the actual test year gross profit figure, excluding white page expense, should be compared to a trended 1982 gross profit amount which the statute requires (as Gentel acknowledges) be calculated using white page expense.

The upshot is that even though a strong argument can be made that the Commission's inclusion of white pages expenses is compelled by the plain language of the statute, such a conclusion need not be reached. The Commission's interpretation of Section 364.037 need only be reasonably related to the statute's purpose, absent any specific limitation. The record abundantly demonstrates that no such limitation exists. Citizens urge affirmance of the rule.

C. THE COURT HAS NOT PREVIOUSLY INTERPRETED THE MEANING OF THE PHRASE "GROSS PROFIT DERIVED FROM DIRECTORY ADVERTISING" CONTAINED IN SECTION 364.037, FLORIDA STATUTES.

During 1981, the Florida Public Service Commission included all investments, revenues and expenses associated with Southern Bell's directory advertising operations in determining Southern Bell's regulated net operating income and rate base. Southern Bell then appealed to this Court the inclusion of these investments, revenues and expenses in its regulated operations, contending the Florida Public Service Commission had no jurisdiction over these matters when determining the results of Southern Bell's regulated operations.

While Southern Bell's appeal was pending before this Court, the Legislature passed Section 364.037, Florida Statutes. The Commission filed a suggestion of mootness before this Court, and all parties agreed that the issue of directory advertising was moot because of the passage of this legislation. The Court concurred with the parties and held that the issue was moot. Southern Bell Telephone and Telegraph Company v. Florida Public Service Commission, 443 So.2d 92, 94 (Fla. 1983).

The only issue before the Court at that time regarding directory advertising was the jurisdiction of the Commission. The holding of the Court indicated tht the issue of jurisdiction was preempted by the legislation. Nothing regarding the

interpretation or implementation of the statute was before the Court, for the statute was passed after oral argument before the Court. Neither the Commission nor the parties had an opportunity to deal with the implementation of the statute. Nor was such an opportunity sought.

Despite the limited holding of the Court in Southern Bell, Gentel attempts to take that decision far beyond its bounds. Gentel Initial Brief at 12-13 contends that the following language from the Court's decision determines precisely which expenses may be considered when determining gross profits from directory advertising, even though that issue was not before the Court:

"We agree that the yellow-pages issue has been settled by the Legislature, which has determined that investments, revenues, expenses, and tax associated with the publication of the yellow pages are properly included in a telephone utility's net income and rate base. See Ch. 83-73, section 1, Laws of Fla. This issue is, therefore, moot. (Emphasis added). Southern Bell, supra, 443 So.2d at 94.

The Court simply decided that the legislation controlled the jurisdiction of the Commission regarding directory advertising, not the mechanics of how the statute might subsequently be interpreted and implemented by the Commission. Anything else in the Court's opinion is obiter dicta.

When language in a Supreme Court opinion is not essential to a decision in the case, it is obiter dicta and not controlling in a subsequent case. State v. Florida State Improvement

Commission, 60 So.2d 747, 750 (Fla. 1952). It is not even the law of the case in a subsequent appeal of the same case. Myers v. Atlantic Coast Line Railroad Company, 112 So.2d 263, 267 (Fla. 1959). Since the instant case represents the first opportunity for this Court to address the implementation of Section 364.037, Florida Statutes, the Court should disregard any obiter dicta contained in the Southern Bell case, supra, and address the merits in this case. Only now have specific issues concerning the implementation of the statute become ripe for review.

D. THE TITLE OF THE STATUTE COMPLIES WITH
THE REQUIREMENTS OF THE FLORIDA
CONSTITUTION.

Gentel cites no authority for the contention that a rule promulgated by an agency can have the effect of transforming an otherwise valid statute (Gentel admits as much at page 12 of its Initial Brief) into a constitutionally defective one. This proposition would have the practical effect of elevating the agency to a status superior to the Legislature by allowing agency action to invalidate statutes. Such a rule of law could not be tolerated since it would stifle agency implementation of statutes. On this basis alone Gentel's argument should be rejected. Nevertheless, Citizens' response to Gentel's claims assumes arguendo that Gentel's contention is valid.

Section 364.037, Florida Statutes, is entitled "Telephone directory advertising revenues." Broadly speaking, the scheme of the statute allocates directory advertising revenues after a comparison is made between gross profits in the base year -- 1982 -- adjusted for growth, and gross profits in the current year. In each instance, the amount of gross profit is determined by subtracting the expense of furnishing directories in a given year from the directory advertising revenues in that year. Gentel takes the position that the title of the statute gives no one any indication white page expenses would be involved in the calculation. Initial Brief of Appellant at 12.

A statute is clothed with a presumption of constitutional validity, and if fairly possible a statute should be construed to avoid not only an unconstitutional interpretation, but also one which even casts grave doubts upon the statute's validity. With respect to the sufficiency of the title of an act, all the usual presumptions of validity apply. State ex rel. Shevin v. Metz Construction Co., Inc., 285 So.2d 598, 600 (Fla. 1973).

The test of whether a title to a statute complies with Article III, Section 6 of the Florida Constitution is not whether the title adequately apprises a person of average intelligence of the statute's contents. The title of a statute need not index all of the statute's contents. The proper test is whether the title is so worded as not to mislead a person of average intelligency as to the scope of the enactment and is sufficient to put that person on notice and cause him to inquire into the body of the statute itself. Williams v. State, 370 So.2d 1143, 1144 (Fla. 1979); Smith v. City of St. Petersburg, 302 So.2d 756, 757 (Fla. 1974); Florida Power Corporation v. Pinellas Utility Board et. al, 40 So.2d 350, 357 (Fla. 1949), reh. denied, 40 So.2d 844.

The title of Section 364.037, Florida Statutes, easily meets this test. The title "Telephone directory advertising revenues" puts a person of average intelligence on notice that the statute provides special treatment of directory advertising revenues for the purpose of regulating telephone companies. Upon reading the statute, one learns that the cost of furnishing directories is

subtracted from directory advertising revenues in an adjusted base year and a current year to determine the allocation of the revenues between the regulated and unregulated operations at the telephone company. Only one matter is addressed -- the allocation of directory advertising revenues -- and the title gives fair notice concerning the scope of the enactment. Gentel's argument is ill-conceived and should be rejected outright.

E. RULE 25-4.405 COMPORTS WITH RULES OF
STATUTORY CONSTRUCTION

Gentel has suggested that this Court adopt a rule of statutory interpretation which has no basis in fact. The company cites the maxim that where the enumeration of specific things is followed by a general phrase, the general phrase will be construed to refer to the same kind of items as those specifically enumerated. Arnold v. Shumpert, 217 So.2d 116, 119 (Fla. 1968). Also cited is the rule that an inference or implication cannot be substituted for the clear expression of the statute. Carlile v. Game and Fresh Water Fish Commission 354 So.2d 362, 364 (Fla. 1978).

Appellants citations are without factual support. Nowhere are the phrases "directory expense" or "expense associated with directory advertising" found in the statute. Rather, there are only two (clearly expressed, specifically enumerated) references to expenses in the statute. First, Section 364.037(3) refers to "expense to a company to furnish directories"; and second, Section 364.037(4) refers to "expenses associated with providing directory advertising service." [Emphasis added]. The references to providing and furnishing indicate clearly and unequivocally that the Legislature intended all costs, including white pages cost, to be included. The words "providing" and "service" indicates that the Legislature considers the white pages directory to be the vehicle for "getting the advertising in

the door," so-to-speak, and therefore that joint and common costs of the white pages are properly considered.

Futhermore, Gentel's statutory construction issues are nothing more than an effort to create doubt where none exists. Gentel's own suggestions violate the controlling maxim that "when the language of the statute is clear and unambiguous and conveys a clear and definite meaning, there is no occasion for resorting to the rules of statutory interpretation and construction; the statute must be given its plain and obvious meaning. Holly v. Auld, 450 So.2d 217, 219 (Fla. 1984), citing A.R. Douglass, Inc. v. McRainey, 102 Fla. 1141, 1144, 137 So. 157 (1931). The Courts are without power to construe an unambiguous statute in a way which would extend, modify, or limit, its express terms or its reasonable and obvious implication. To do so would be an abrogation of legislative power. Holly v. Auld, supra at 219, citing American Bankers Life Assurance Company of Florida v. Williams 212 So.2d 777, 778 (Fla. 1st DCA 1968) (Emphasis in the original).

F. RULE 25-4.405 IS CONSISTENT WITH THE
INTENT OF THE LEGISLATURE AS EXPRESSED
IN THE STATUTE.

Simply put, the legislative history cited to by Gentel provides some of the most compelling reasons for including white pages expenses. The Company notes that the phrase "furnish" in Section 364.037(3) was substituted for the word "publish" through amendment. The explanation provided was that the amendment was a technical amendment intended to "encompass all the costs." See Initial Brief of Appellant at 17. [Emphasis added]. Not only is the word "furnish" more inclusive than "publish", the explanation evinces a clear intention that it be all inclusive. See Initial Brief of Gentel at 17. Coupled with Gentel's own admission that white page expenses are included in expenses incurred in furnishing directories, the Company's reading of the legislative history is self-defeating and should be rejected outright.

G. GENTEL MISSTATES THE COMMISSION'S STATED REASON FOR INCLUDING WHITE PAGE EXPENSES IN GROSS PROFIT CALCULATIONS.

The record bears out the fact that Gentel has, through omission, grossly misstated the Commission's reason for including white pages expenses. As noted above, the Commission Staff stated, and then reaffirmed, its intent to include white page expenses regardless of whether they could be quantified and separated. (TR. 19, 20, 54). At the conclusion of the hearing process the staff's position, taken in the context of the whole, was that the language of Section 364.037(3) justified inclusion of white page expense. The following exchange is illustrative:

MR. VANDIVER: Mr. Livingston, I would like to clear up the Staff position, if I could. In response to some questions from Public Counsel concerning Subsection 3 of the Statute, you said that the expenses could arguably be included; and then we have been talking about separating out, the companies have been talking about separating out the white page and yellow page expenses. What precisely is the Staff's position on that, I am not exactly clear on that?

MR. LIVINGSTON: We believe the white page expenses should not be excluded, they should be considered in making the calculation.

MR. VANDIVER: Thank you.

MR. LIVINGSTON: And we would support Public Counsel's interpretation of

Section 3 of the proposed rule [sic].4/
(TR. 54)

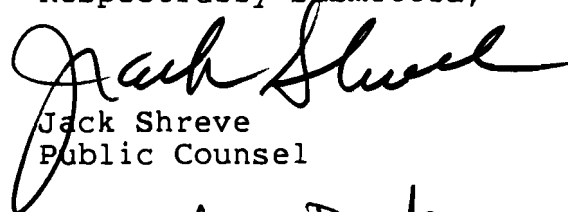
Citizens further note that Gentel has cited no authority other than the dicta in Bowsher v. Synar, 55 L.W. 5064, No. 85-1377 (July 7, 1986) for its contention that the Commission's action falls short of some legal sufficiency standard. Even were such standard to exist, the above cited testimony of staff would be sufficient. Here again, Citizens urge rejection of Gentel's argument.

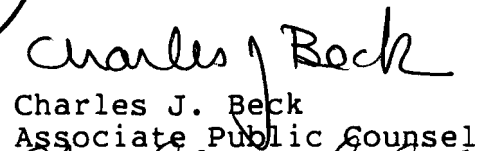
4/ Reference is to Citizens Position that Section 3 of 364.037 justified inclusion of white page expenses. See TR. at 19, 20.

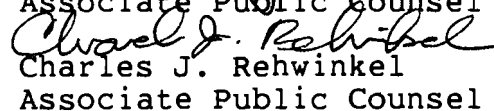
VII. CONCLUSION

Gentel has utterly failed to demonstrate that this Court ought to substitute its judgement for that of the Commission. The Commission acted well within its discretion in promulgating Rule 25-4.405. Gentel's various arguments, while creative, fall far short of carrying the Company's burden. Commission Rule 25-4.405 and Order No. 15924 should be affirmed in all respects.

Respectfully submitted,


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CERTIFICATE OF SERVICE
CASE NO. 66,691

I HEREBY CERTIFY that a copy of the foregoing has been furnished by U.S. Mail or by hand-delivery to the following on this 11th day of August, 1986.

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