

1 SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY
2 REBUTTAL TESTIMONY OF JOHN D. MCCLELLAN
3 BEFORE THE
4 FLORIDA PUBLIC SERVICE COMMISSION
5 DOCKET NO. 920260-TL
6 DECEMBER 18, 1992

ORIGINAL
FILE COPY

7
8
9 Q. PLEASE STATE YOUR NAME AND ADDRESS.

10

11 A. JOHN D. MCCLELLAN, 1001 PENNSYLVANIA AVENUE, N.W.,
12 SUITE 350N., WASHINGTON, D.C. 20004

13

14 Q. ARE YOU THE SAME JOHN D. MCCLELLAN THAT PREVIOUSLY
15 FILED DIRECT TESTIMONY IN THIS CASE?

16

17 A. YES.

18

19 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

20

21 A. BELLSOUTH COMMUNICATIONS, INC. ("SOUTHERN BELL" OR
22 "THE COMPANY") REQUESTED ME TO REVIEW AND RESPOND
23 TO TESTIMONY FILED IN THE CASE BY RANDY M. ALLEN,
24 REPRESENTING THE OFFICE OF PUBLIC COUNSEL.

25

1 Q. HAVE YOU REVIEWED MR. ALLEN'S TESTIMONY?

2

3 A. YES, AND THIS REBUTTAL TESTIMONY WAS PREPARED TO
4 PROVIDE MY RESPONSES THERETO.

5

6 Q. MR. ALLEN PERCEIVES, AS EXPRESSED ON PAGE 44 OF HIS
7 PREFILED DIRECT TESTIMONY, THAT THERE IS A MAJOR
8 PROBLEM WITH YOUR ATTRITION ANALYSIS BECAUSE
9 HISTORIC TRENDS IN THE 1989-1991 INFLATION RATES
10 ARE NOT EXPECTED TO CONTINUE AT THE SAME PACE INTO
11 1993. WOULD YOU COMMENT?

12

13 A. THERE HAS BEEN A FURTHER DECLINE IN INFLATION RATES
14 OVER THE PAST FEW MONTHS. THAT DECLINE HAS BEEN
15 LESS THAN ONE PERCENTAGE POINT, HOWEVER, AND THERE
16 IS NO WAY TO DETERMINE WHETHER CURRENT INFLATION
17 RATES WILL CONTINUE TO DECLINE, LEVEL OUT, OR
18 REVERSE COURSE IN 1993. FOR PURPOSES THIS CASE IT
19 IS REASONABLE TO ASSUME THAT THE RATE OF INFLATIONS
20 WILL NOT CHANGE MATERIALLY IN EITHER DIRECTION.

21

22 Q. ON THE SAME PAGE HE STATES THAT THE 1989-1991
23 PERIOD WAS ONE OF A DECLINING RATE OF ACCESS LINE
24 GROWTH, BUT THAT THE COMPANY'S STRATEGIC
25 IMPLEMENTATION PLAN SHOWS A STEADY INCREASE

1 BEGINNING IN 1992. WOULD YOU COMMENT ON THIS
2 OBSERVATION?

3
4 A. IT IS MY UNDERSTANDING THAT THE COMPANY'S STRATEGIC
5 IMPLEMENTATION PLAN ASSUMED THAT THE CURRENT
6 RECESSION WOULD END IN THE EARLY PART OF 1992, AND
7 THAT AN INCREASE IN ACCESS LINE GROWTH WAS
8 PROJECTED UNDER THAT ASSUMPTION. BASED ON ACTUAL
9 DATA THROUGH JUNE OF 1992, HOWEVER, IT IS CLEAR
10 THAT ACCESS LINE GROWTH WILL NOT MEET THE
11 EXPECTATIONS OF THE STRATEGIC IMPLEMENTATION PLAN.

12
13 Q. DOES THE ACTUAL ACCESS LINE GROWTH THROUGH JUNE OF
14 1992 FALL BELOW THE GROWTH LEVELS TRENDED IN THE
15 ATTRITION STUDY?

16
17 A. YES. THE ACTUAL GROWTH RATE FOR 1991 WAS 3.37%.
18 THE ANNUALIZED GROWTH RATE FOR THE FIRST SIX MONTHS
19 OF 1992 (THE MOST RECENT PERIOD FOR WHICH DATA IS
20 AVAILABLE) WAS 3.02%. THE TRENDED ACCESS LINE
21 GROWTH FOR 1992 IS 3.96%. TO DATE, THE ACTUAL RATE
22 OF GROWTH IN ACCESS LINES IS BELOW BOTH THE
23 STRATEGIC IMPLEMENTATION PLAN AND THE TRENDED
24 AMOUNTS USED IN THE ATTRITION ANALYSIS.

25

1 Q. HE FURTHER OBSERVES THAT THE STRATEGIC PLAN
2 ANTICIPATES EVOLVING TECHNOLOGY THAT WILL BRING
3 ADDITIONAL REVENUES AND EXPENSE REDUCTION
4 OPPORTUNITIES. DOES THE ATTRITION ANALYSIS ALSO
5 ANTICIPATE THESE OPPORTUNITIES?

6
7 A. YES. THE ATTRITION ANALYSIS DOES NOT ASSUME STATIC
8 CONDITIONS. RATHER, IT ASSUMES THAT THE MAGNITUDE
9 OF THE CHANGES THAT WERE OCCURRING DURING THE BASE
10 PERIOD CONTINUE TO OCCUR IN THE TRENDED DATA.
11 THERE WERE REVENUE ADDITIONS AND EXPENSE REDUCTIONS
12 EMBEDDED IN THE 1989-1991 DATA BASE USED IN THE
13 ATTRITION ANALYSIS. ACCORDINGLY, THE TRENDING OF
14 THE DATA IMPUTES ADDITIONAL REVENUES AND FURTHER
15 OPERATING EFFICIENCIES TO THE 1992 AND 1993
16 PERIODS.

17
18 Q. AT THE TOP OF PAGE 45 OF HIS PREPARED TESTIMONY,
19 MR. ALLEN STATES THAT THE FINANCIAL PLANNING
20 ASSUMPTIONS USED FOR THE 1991 PRE-COMMITMENT VIEW
21 OF 1992-1994 SHOW A TURNAROUND IN THE 1992 ECONOMY,
22 BUT THAT YOUR TREND ANALYSIS "IGNORES THESE BASIC
23 CHANGES". DOES YOUR TREND ANALYSIS ANTICIPATE A
24 BASIC TURNAROUND IN THE 1992 ECONOMY?

25

1 A. NO, AND THESE "BASIC CHANGES" TO WHICH HE REFERS
2 HAVE NOT OCCURRED. THE ATTRITION ANALYSIS HAS
3 PROVEN CORRECT IN THIS REGARD.

4

5 Q. IN THE NEXT FEW LINES OF TESTIMONY, HE DISCUSSES
6 THE "LEARNING CURVE" OF INCENTIVE REGULATION AND AT
7 THE TOP OF PAGE 46 IS CRITICAL OF YOUR ATTRITION
8 ANALYSIS FOR NOT MEASURING THE PROSPECTIVE EFFECTS
9 OF INCENTIVE REGULATION. WOULD YOU RESPOND TO THIS
10 CRITICISM?

11

12 A. THERE IS A TIME PERIOD INVOLVED IN THE DEVELOPMENT
13 AND IMPLEMENTATION OF EFFICIENCIES AND IN THE
14 RESULTING BENEFITS PRODUCED BY THE EFFICIENCIES.
15 TO THE EXTENT, HOWEVER, THAT THE DEVELOPMENT,
16 IMPLEMENTATION AND BENEFIT CYCLES HAVE OCCURRED IN
17 THE BASE PERIOD, THE EFFECTS OF EFFICIENCIES ARE
18 MEASURED AND TRENDED FOR PROSPECTIVE RECURRENCE.

19

20 Q. CAN YOU ILLUSTRATE HOW SUCH A CYCLE WOULD BE
21 COMPREHENDED IN THE TRENDING ANALYSIS?

22

23 A. YES. ASSUME A CONDITION IN WHICH AN ACTIVITY WAS
24 RESTRUCTURED IN 1989 AT A COST OF \$2 MILLION, AND
25 THAT ITS IMPLEMENTATION PRODUCED SAVINGS OF \$1.0

1 MILLION IN 1990, \$2.0 MILLION IN 1991 AND \$2.0
2 MILLION ANNUALLY THEREAFTER. FIRST, THE TRENDED
3 DATA WOULD MEASURE THE DECREASE IN IMPLEMENTATION
4 COSTS BETWEEN 1989 AND 1990. IN ADDITION, THE
5 TRENDED DATA WOULD MEASURE THE BENEFITS GENERATED
6 IN 1990 AND 1991. NOT ONLY DOES THE TRENDING
7 MEASURE SUCH BENEFITS, BUT IT ASSUMES ADDITIONAL
8 BENEFITS OF THE SAME MAGNITUDE FROM NEW
9 EFFICIENCIES IMPLEMENTED IN FUTURE PERIODS.
10 FURTHERMORE, TO ADJUST THE ATTRITION MEASURE TO
11 INCLUDE PROSPECTIVE EFFICIENCIES WOULD UNDERMINE
12 THE ROLE OF INCENTIVE REGULATION.

13

14 Q. WOULD YOU EXPLAIN WHY INCENTIVE REGULATION WOULD BE
15 UNDERMINED BY ADJUSTING THE ATTRITION MEASURE FOR
16 PROSPECTIVE EFFICIENCIES?

17

18 A. INCENTIVE REGULATION IS INTENDED TO RESULT IN THE
19 SHARING OF BENEFITS PRODUCED BY ACHIEVED
20 EFFICIENCIES. IF THE ATTRITION STUDY DATA BASE IS
21 ADJUSTED FOR THE UNREALIZED RESULTS OF EFFICIENCIES
22 DEVELOPED AND IMPLEMENTED DURING THE PERIOD, THE
23 ENTIRE AMOUNT OF THE ANTICIPATED BENEFITS FROM
24 EFFICIENCIES WOULD GO TO RATEPAYERS AND THE SHARING
25 WOULD NOT BE ACHIEVED.

1

2 Q. WOULD SUCH AN ADJUSTMENT ALSO INTRODUCE A PENALTY
3 FEATURE IN THE INCENTIVE RATE APPROACH?
4

5 A. YES. RATHER THAN PROVIDING A POTENTIAL BENEFIT
6 FROM HIGHER RETURNS REALIZED THROUGH ACHIEVING
7 THESE EFFICIENCIES, THE ADJUSTMENT TO THE ATTRITION
8 AMOUNT TO ANTICIPATE FUTURE EFFICIENCY BENEFITS
9 WOULD REQUIRE THAT THE SPECIFIC EFFICIENCIES BE
10 REALIZED IN ORDER TO REACH THE AUTHORIZED RATE OF
11 RETURN.
12

13 Q. MR. ALLEN STATES AT LINE 11 OF PAGE 46 THAT THE
14 ATTRITION ANALYSIS ADDRESSED "...THE LEVELS OF
15 CHANGE, NOT THE RATES OF CHANGE...", AND THAT THE
16 ANALYSIS "...IGNORED THE RATE OF CHANGE EXPERIENCED
17 AND INSTEAD USED A SET AMOUNT OF CHANGE PER YEAR."
18 WOULD YOU RESPOND?
19

20 A. HE IS CORRECT IN OBSERVING THAT ABSOLUTE AMOUNTS
21 WERE USED IN THE ATTRITION ANALYSIS. HE IS
22 INCORRECT, HOWEVER, IN HIS CLAIM THAT THE USE OF
23 ABSOLUTE DATA IGNORES THE RELATED RATES OF CHANGE.
24 THE TWO SETS OF DATA ARE INTERTWINED AND CANNOT BE
25 SEPARATED. THE ABSOLUTE CHANGES FROM YEAR TO YEAR

1 HAVE RATES OF CHANGE EMBEDDED IN THEM AND THE
2 TRENDING OF EITHER SET OF DATA WOULD BE
3 APPROPRIATE. THE RELATIONSHIP BETWEEN THE TWO CAN
4 BE SHOWN BY A SIMPLE EXAMPLE.

			CHANGE	CHANGE
	<u>YEAR</u>	<u>AMOUNT</u>	<u>AMOUNT</u>	<u>RATE</u>
5				
6				
7	1	1000		
8	2	1100	100	10.00%
9	3	1200	100	9.09%
10	4	1300	100	8.33%
11	5	1400	100	7.69%

12
13 AS INDICATED IN THE ABOVE DATA, A CONSTANT CHANGE
14 IN THE ABSOLUTE AMOUNTS REFLECTS A DECLINING RATE
15 OF CHANGE. SIMILARLY, A CONSTANT RATE OF CHANGE
16 WOULD REQUIRE AN INCREASING AMOUNT OF ABSOLUTE
17 CHANGE. HOWEVER, THE SIGNIFICANT POINT IS THAT
18 EITHER SET OF DATA WOULD BE APPROPRIATE AS A
19 TRENDING BASE AND WOULD PRODUCE SIMILAR RESULTS.

20
21 Q. MR. ALLEN CLAIMS AT LINE 15 OF PAGE 46 THAT YOUR
22 ATTRITION RESULTS CAN BE OBTAINED SIMPLY BY
23 AVERAGING THE CHANGE FROM 1989 TO 1991 AND THAT THE
24 ATTRITION STUDY RESULTS ARE NOT AFFECTED BY 1990
25 DATA (I.E., THE MIDDLE YEAR OF THE DATA BASE). IS

1 HE CORRECT?

2

3 A. NO. HE IS WRONG ON BOTH COUNTS, HE HAS ONLY LOOKED
4 AT THE SECOND YEAR OF TRENDED CHANGE, WHICH IS THE
5 SAME AS THE AVERAGE OF THE BASE PERIOD DATA. HE HAS
6 FAILED TO RECOGNIZE THAT THE FIRST YEAR OF TRENDED
7 CHANGE IS DIFFERENT. HE ALSO HAS FAILED TO
8 RECOGNIZE THAT THE 1990 DATA (THE MIDDLE YEAR)
9 IMPACTS THE TRENDED RESULTS OF BOTH 1992 AND 1993.

10

11 Q. CAN YOU ILLUSTRATE HOW A CHANGE IN THE 1990 AMOUNT
12 WOULD AFFECT THE TRENDED DATA?

13

14 A. YES. THE FOLLOWING TABLE COMPARES THE TRENDED
15 REVENUE DATA FROM MY EXHIBIT TO THE RESULTS OF
16 TRENDED DATA WITH A CHANGE IN 1990 REVENUES. THE
17 COMPARATIVE DATA ASSUME THE SAME AMOUNTS FOR 1989
18 AND 1991, BUT DECREASES THE 1990 AMOUNT BY
19 APPROXIMATELY \$265,000. AS IS EVIDENT, THE CHANGE
20 IN THE 1990 DATA BASE AMOUNT DOES IN FACT AFFECT
21 THE TRENDED DATA.

22

23

24

25

	<u>REVENUES</u>		
	<u>YEAR</u>	<u>ACTUAL</u>	<u>REVISED</u>
1			
2			
3	1989	2,081,687	2,081,687
4	1990	2,214,619	1,950,000
5	1991	2,267,625	2,267,625
6			
7	TRENDED AMOUNTS:		
8	1992	2,373,915	2,285,709
9	1993	2,466,884	2,378,678
10			
11	Q.	AT THE TOP OF PAGE 47, MR. ALLEN PRESENTS A TABLE	
12		TO ILLUSTRATE THE FACT THAT A FIXED GROWTH IN	
13		REVENUES PRODUCES A DECLINING <u>RATE</u> OF GROWTH. THE	
14		PURPOSE OF THIS TABLE APPEARS TO BE TO GIVE	
15		CREDENCE TO HIS STATEMENT ON THE PRECEDING PAGE (AT	
16		LINE 20) THAT YOUR TRENDING APPROACH "...RESULTS IN	
17		A DECLINING GROWTH OVER TIME BECAUSE THE SET AMOUNT	
18		OF CHANGE BECOMES PROPORTIONATELY SMALLER AS THE	
19		TOTAL REVENUES INCREASE." DOES THE FACT THAT FIXED	
20		LEVELS OF REVENUE GROWTH REFLECT A DECLINING RATE	
21		OF GROWTH HAVE ANY MEANING OR APPLICATION TO THE	
22		ATTRITION STUDY?	
23			
24	A.	NO. IT IS NOTHING MORE THAN AN EXERCISE IN	
25		MATHEMATICS WHICH CORRECTLY PROVES THAT A FIXED	

1 GROWTH IN ABSOLUTE AMOUNTS SIMULTANEOUSLY REFLECTS
2 A DECLINING RATE OF GROWTH AS IS SHOWN IN THE
3 PRECEDING SIMPLIFIED EXAMPLE.

4

5 Q. IS THE DECLINE IN THE RATE OF GROWTH INDICATED IN
6 OUR ATTRITION STUDY CREATED BY THE TRENDING
7 APPROACH USED IN THE STUDY?

8

9 A. NO. MR. ALLEN'S CONCLUSION (LINE 20 OF PAGE 46) IS
10 THAT THE USE OF THE TRENDING APPROACH RESULTED IN
11 DECLINING GROWTH (I.E., THAT THE DECLINE WAS
12 CREATED BY THE METHOD USED). HE IS WRONG.
13 ALTHOUGH THE DECLINE IS MEASURED BY THE TRENDING OF
14 1989/1991 DATA, IT IS THE ACTUAL DECLINE IN REVENUE
15 GROWTH DURING THAT PERIOD THAT PRODUCED THE
16 DECLINE. AS TO WHETHER IT IS MORE APPROPRIATE TO
17 TREND ABSOLUTE AMOUNTS OR RATES OF GROWTH, EITHER
18 WOULD BE APPROPRIATE. ALSO, IT SHOULD BE NOTED
19 THAT THE TRENDING MEASURES ARE USED FOR ALL ITEMS
20 ANALYZED (I.E., ACCESS LINES, REVENUES, EXPENSES,
21 AND PLANT), AND ANY VARIATION PRODUCED BY AN
22 ALTERNATIVE APPROACH WOULD AFFECT EACH OF THE
23 COMPONENTS EQUALLY, WITH OFFSETTING EFFECTS.

24

25 Q. IN THE MIDDLE OF PAGE 47, MR. ALLEN HAS INCLUDED A

1 COMPUTATION OF PROJECTED REVENUES BASED UPON AN
2 "HISTORICAL ANNUAL RATE OF GROWTH" (LINE 10) OF
3 4.37%. IS THE SOURCE OF THIS FACTOR IDENTIFIED?

4
5 A. NO. HOWEVER, HIS COMPUTATION APPEARS TO BE BASED
6 UPON AN AVERAGE OF THE RATES OF GROWTH FOR 1989/90
7 AND 1990/91. THE ACTUAL REVENUE AMOUNTS FOR THESE
8 PERIODS, SHOWN ON SCHEDULE 3, PAGE 1 OF MY
9 ATTRITION STUDY AS PREVIOUSLY FILED, SHOW REVENUE
10 GROWTH RATES OF 6.39% BETWEEN 1989 AND 1990, AND
11 2.39% BETWEEN 1990 AND 1991. THE AVERAGE OF THESE
12 TWO AMOUNTS IS 4.39% WHICH CLOSELY APPROXIMATES THE
13 4.37% USED BY MR. ALLEN.

14
15 Q. WOULD THE USE OF AN AVERAGE OF THESE GROWTH RATES
16 OVERSTATE THE LEVELS OF REVENUES THAT MAY
17 REASONABLY BE ANTICIPATED IN 1992 AND 1993?

18
19 A. YES. THE ACTUAL GROWTH RATES FOR THE 1989/1990 AND
20 199/1991 PERIODS ARE AS FOLLOWS:

	GROWTH IN	RATE OF
<u>PERIOD</u>	<u>REVENUES</u>	<u>REVENUE GROWTH</u>
1989/1990	\$132,932	6.4%
1990/1991	53,006	2.4%

25 AN AVERAGE OF THESE TWO PERIODS DOES NOT REFLECT

1 THE HISTORIC PATTERN OF REVENUE GROWTH, WHICH IN
2 FACT REFLECTS DECLINES IN BOTH ABSOLUTE LEVELS AND
3 RATE OF GROWTH LEVELS OF REVENUES.

4

5 Q. CAN YOU PROVIDE A SIMPLE ILLUSTRATION OF HOW THE
6 USE OF AN AVERAGE TENDS TO MISSTATE A TREND?

7

8 A. YES. THE MISSTATEMENT CAN BE ILLUSTRATED USING THE
9 SAME DATA PREVIOUSLY USED TO COMPARE THE
10 RELATIONSHIP BETWEEN ABSOLUTE CHANGE LEVELS AND
11 RATES OF CHANGE. ASSUME THE FOLLOWING:

			CHANGE	CHANGE
	<u>YEAR</u>	<u>AMOUNT</u>	<u>AMOUNT</u>	<u>RATE</u>
12				
13				
14	ACTUAL:			
15	1	1000		
16	2	1100	100	10.00%
17	3	1200	100	9.09%
18	4	1300	100	8.33%
19	5	1400	100	7.69%

20

21 NEXT ASSUME THAT AT THE END OF YEAR NUMBER THREE,
22 YEARS FOUR AND FIVE WERE PROJECTED. IF THE
23 PROJECTIONS WERE BASED ON TRENDED ABSOLUTE DATE,
24 THE RESULTS WOULD BE AS FOLLOWS:

25

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<u>YEAR</u>	<u>AMOUNT</u>	<u>CHANGE</u> <u>AMOUNT</u>	<u>CHANGE</u> <u>RATE</u>
4	1300	100	8.33%
5	1400	100	7.69%

IF THE PROJECTIONS WERE BASED ON THE AVERAGE OF THE GROWTH RATES IN YEARS TWO AND THREE (I.E., $10.00 + 9.09/2=9.55\%$), THE RESULTS WOULD BE AS FOLLOWS:

<u>YEAR</u>	<u>AMOUNT</u>	<u>CHANGE</u> <u>AMOUNT</u>	<u>CHANGE</u> <u>RATE</u>
4	1315	115	9.55%
5	1441	126	9.55%

UNDER THE ABOVE PATTERN OF CHANGE, THE USE OF AN AVERAGE RATE OF GROWTH DURING THE BASE PERIOD SUBSTANTIALLY OVERSTATES THE PROJECTION. IT IS RECOGNIZED THAT BOTH TRENDED DATA AND AVERAGED DATA REFLECT FORECASTS, AND ONLY THE ACTUAL RESULTS WILL SUBSTANTIATE THE ACCURACY OF EITHER. HOWEVER, IN THE ABSENCE OF SPECIFIC EVIDENCE OF A CHANGE IN THE RECENT PATTERNS, WHETHER UPWARD OR DOWNWARD, IT IS QUITE CLEAR THAT TRENDING IS PREFERABLE TO AVERAGING.

1

2 Q. IN THE ABOVE ILLUSTRATION, THE ABSOLUTE AMOUNTS OF
3 CHANGE WERE LEVEL. WOULD THE INDICATED DISTORTION
4 FROM THE USE OF AVERAGES BE EVEN GREATER IF THE
5 ABSOLUTE AMOUNTS HAD BEEN DECLINING?

6

7 A. YES, IT SHOULD BE NOTED THAT THE ABSOLUTE AMOUNTS
8 WERE DECLINING IN THE ATTRITION DATA PERIOD. ALSO,
9 IT SHOULD BE OBSERVED THAT THE COMPONENT PARTS OF
10 AN ANALYSIS SHOULD BE CONSISTENTLY MEASURED.
11 THEREFORE, THE IMPACT OF A CHANGE IN MEASURING
12 REVENUE DATA WOULD HAVE TO BE COMPARED TO THE
13 IMPACTS OF SIMILAR CHANGES IN MEASURING ACCESS
14 LINES, EXPENSES, AND INVESTMENT.

15

16 Q. IN SUMMARIZING HIS CONCERN REGARDING THE REVENUE
17 ESTIMATES, HE STATES AT LINE 19 THAT THE TRENDING
18 ANALYSIS "...RESULTS IN AN ONGOING DECREASE IN THE
19 RATE OF GROWTH. THIS IS SIMPLY UNREASONABLE GIVEN
20 THE GROWTH EXPERIENCED CURRENTLY IN THE TELEPHONE
21 INDUSTRY." WOULD YOU RESPOND TO THIS STATEMENT?

22

23 A. THE TRENDING ANALYSIS INDEED SHOWS AN ONGOING
24 DECREASE IN THE RATE OF GROWTH, AND IT SHOULD. THE
25 TRENDED RESULTS ARE BASED UPON ACTUAL CONDITIONS;

1 CONDITIONS THAT IN FACT INDICATE DECREASING LEVELS
2 OF REVENUE GROWTH, WHETHER IN ABSOLUTE AMOUNTS OR
3 IN RATES OF GROWTH. IN THE ABSENCE OF KNOWN
4 DEVELOPMENTS SHOWING A REVERSAL OF THIS PATTERN, IT
5 WOULD BE TOTALLY INAPPROPRIATE TO IGNORE THE ACTUAL
6 RESULTS AND TO REVERSE THE TREND.

7

8 Q. HAVE THERE BEEN ANY KNOWN DEVELOPMENTS THAT ARE
9 REVERSING THE PATTERN INDICATED BY YOUR ATTRITION
10 ANALYSIS?

11

12 A. NO. TO THE EXTENT THAT FURTHER DEVELOPMENTS CAN BE
13 MEASURED, THE PATTERN SHOWN BY THE ATTRITION
14 ANALYSIS IS CONFIRMED. AS INDICATED EARLIER, THE
15 UPDATE OF GROWTH PATTERNS THROUGH JUNE OF 1992 SHOW
16 A CONTINUATION OF THE TRENDS INDICATED IN THE
17 ATTRITION STUDY.

18

19 Q. YOU STATED THAT YOU WERE SUBMITTING AN UPDATED
20 ATTRITION ANALYSIS DUE TO CHANGES IN REPORTED
21 OPERATING RESULTS FOR 1991. WHAT IS THE IMPACT OF
22 THIS UPDATE?

23

24 A. AS SHOWN IN THE UPDATED STUDY, WHICH IS ATTACHED AS
25 MCELLEN EXHIBIT JDM-10, THROUGH EXHIBIT JDM-17,

1 THE ATTRITION PER ACCESS LINE CHANGED FROM (\$8.22)
2 TO (\$8.34), AND THE REVENUE IMPACT OF ATTRITION
3 FROM (\$68,279,671) TO (\$69,248,517).
4

5 Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?
6

7 A. YES.
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25

SOUTHERN BELL
FLORIDA ATTRITION ANALYSIS
REVENUE IMPACT OF ATTRITION

McClellan Exhibit No.
JDM - 10
Florida Docket 920260-TL
Page 1 of 1

INTRASTATE OPERATIONS

Line	Description	1993
1	Access Lines	5024852 (1)
2	Attrition/Access Line	
3	Net Operating Income	(5.66)(2)
4	Investment	(2.68)(3)
5	Total	(8.34)
6	Impact on Earnings (Line 1 x Line 6)	(\$41,900,234)
7	Revenue Expansion Factor	1.6527 (4)
8	Revenue Requirements	(\$69,248,517)

- (1) Schedule 3, page 1
(2) Schedule 8, line 8
(3) Schedule 8, line 12
(4) Based upon a tax rate of 39.49%

SOUTHERN BELL
 FLORIDA ATTRITION ANALYSIS
 ANALYSIS DATA 1989-1991

McClellan Exhibit No.
 JDM - 11
 Florida Docket 920260-TL
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INTRASTATE OPERATING DATA

	P E R I O D		
	1989	1990	1991
Annual Data	-----	-----	-----
Access Lines	4310989	4511804	4663857
Operating Revenues	2077064	2170238	2231366
Operating Exp. & Other Taxes	1115301	1156902	1205331
Depreciation	475458	502902	544815
Average Investment:			
Plant	5905614	6308678	6460407
Depreciation Reserves	1896888	2238972	2324055
Net Plant	4008726	4069706	4136352
	=====	=====	=====
Plant Retirements:			
Florida System (1)	252774	281058	388535
Florida Intrastate (2)	176566	196322	271396
(1) Adj. for abnormal in 1990			
(2) Adj. based on 1989 Plant			
Florida Gross Plant	8370780		
Intra Gross Plant	5847093		
Ratio	69.85%		
Average Rate Base	4070970	4144584	4167686
Rate of Return	9.49%	9.60%	9.14%

Average Capital (Intra):

L.T. Debt	1009263	1015086	1019773
Short Term Debt	132648	177701	231901
Customer Deposits	48312	49620	52951
Common Equity	1888512	1949897	1982963
I.T.C.	187575	164492	141320
Cost Free Capital	804660	787788	738778
	-----	-----	-----
Total	4070970	4144584	4167686
	=====	=====	=====

Cost Rate:

L.T. Debt	8.82%	8.82%	8.81%
Short Term Debt	9.34%	8.28%	6.04%
Customer Deposits	7.53%	7.96%	8.25%
Common Equity	13.20%	13.20%	13.20%
I.T.C.	11.67%	11.70%	11.71%
Cost Free Capital	0.00%	0.00%	0.00%

Composite Embedded Cost
 of Non-Equity Capital

L.T.D., S.T.D., Cust.Dep., I.T.C., and Cost Free (Intra-State)	3.12%	3.07%	2.99%
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Composite cost of L.T. Debt and Equity

L.T. Debt	2.99%
Equity	8.72%

Total	11.71%
	=====

Adjustments to recorded data

	1989		
	Recorded	Adj.	T/Y
Access Lines	4310989	0	4310989
Revenues	2077064	4623	2081687 (1)
Op.Exp.& Taxes	1115301	0	1115301
Depreciation	475458	0	475458
Plant	5905614	-287680	5617934 (5)
Deprec.Reserves	1896888	-287758	1609130
Rate Base	4070970	0	4070970

	1990		
	Recorded	Adj.	T/Y
Access Lines	4511804	0	4511804
Revenues	2170238	44381	2214619 (1)
Op.Exp.& Taxes	1156902	-13377	1143525 (2)
Depreciation	502902	-9567	493335 (3)
Plant	6308678	-383682	5924996 (4)
Deprec.Reserves	2238972	-317459	1921513 (5)
Rate Base	4144584	-66303	4078281 (6)

Notes (1) through (6) - See Schedule 2, page 5 for supporting details.

	1991		
	Recorded	Adj.	T/Y
Access Lines	4663857	0	4663857
Revenues	2231366	36165	2267531 (1)
Op.Exp.& Taxes	1205331	-37349	1167982 (2)
Depreciation	544815	-18238	526577 (3)
Plant	6460407	-201614	6258793 (4)
Deprec.Reserves	2324055	-70679	2253376 (5)
Rate Base	4165400	-130935	4034465 (6)

Notes (1) through (6) - See Schedule 2, page 5 for supporting details.

ADJUSTMENTS TO BASE YEAR DATA

	1989	1990	1991
(1) Revenues:			
(a) To adjust earlier years to level of net rate changes effective in 1991	4,623	44,381	36,165
(2) Operating Expenses and Taxes			
(a) To remove incremental impact of SPF and DEM over 1989		(13,377)	(25,748)
(b) Remove bond solicitation fees			(1,533)
(c) Remove early retirement cost			(10,068)
		(13,377)	(37,349)
(3) Depreciation			
(a) To remove incremental impact of SPF and DEM over 1989		(9,567)	(18,238)
(4) Plant			
(a) To remove incremental impact of SPF and DEM over 1989		(102,006)	(201,614)
(b) To remove inside wire amounts from earlier years to be consistent with 1991	(287,680)	(281,676)	0
	(287,680)	(383,682)	(201,614)
(5) Depreciation Reserves			
(a) To remove incremental impact of SPF and DEM over 1989		(35,703)	(70,679)
(b) To remove inside wire amounts from earlier years to be consistent with 1991	(287,750)	(281,756)	0
	(287,750)	(317,459)	(70,679)
(6) Rate Base			
(a) To remove incremental impact of SPF and DEM over 1989		(66,303)	(130,935)

SOUTHERN BELL
 FLORIDA ATTRITION ANALYSIS
 TREND LINE DATA

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INTRASTATE OPERATIONS-ADJUSTED

	Access Lines(1)	Revenues(1) & Taxes	Oper. Exp. (1) & Taxes	Deprec. (2)	Gross Plant(1)	Plant Retirements(3)
1989	4310989	2081687	1115301	475456	5617934	176566
1990	4511804	2214619	1143525	493335	5924996	196322
1991	4663857	2267531	1167982	526577	6258793	271396
1992	4848418	2373790	1194950	N/A	6574767	214762
1993	5024852	2466712	1221291	580120	6895196	214762
1994	5201286	2559634	1247631	N/A	7215626	N/A
1995	5377720	2652556	1273972	N/A	7536055	N/A

(1) 1992-1995 trended data from Schedule 3, page 2.
 (2) 1993 depreciation expense from Schedule 6, line 7.
 (3) 1993 retirements based on 1989-1991 average.

Regression Analyses:

Linear Regression Trend Data Base

	Access/L	Revenues	Op.Exp.	Plant
1989	4310989	2081687	1115301	5617934
1990	4511804	2214619	1143525	5924996
1991	4663857	2267531	1167982	6258793
1992	4848418	2373790	1194950	6574767
1993	5024852	2466712	1221291	6895196
1994	5201286	2559634	1247631	7215626
1995	5377720	2652556	1273972	7536055

Access Lines

Regression Output:

Constant	-3.47E+08
Std Err of Y Est	19907.003
R Squared	0.9936749
No. of Observations	3
Degrees of Freedom	1
X Coefficient(s)	176434
Std Err of Coef.	14076.3769

1992	4848418
1993	5024852
1994	5201286
1995	5377720

Revenues

Regression Output:

Constant	-1.83E+08
Std Err of Y Est	32668.028
R Squared	0.9417981
No. of Observations	3
Degrees of Freedom	1

X Coefficient(s)	92922
Std Err of Coef.	23099.7842

1992	2373790
1993	2466712
1994	2559634
1995	2652556

Op.Exp. & Taxes

Regression Output:

Constant	-51275325
Std Err of Y Est	1537.8713
R Squared	0.9982985
No. of Observations	3
Degrees of Freedom	1

X Coefficient(s)	26340.5
Std Err of Coef.	1087.43922

1992	1194950
1993	1221291
1994	1247631
1995	1273972

Plant

Regression Output:

Constant	-6.32E+08
Std Err of Y Est	10914.518
R Squared	0.9994202
No. of Observations	3
Degrees of Freedom	1

X Coefficient(s)	320429.5
Std Err of Coef.	7717.72976 24.660178

1992	6574767
1993	6895196
1994	7215626
1995	7536055

SOUTHERN BELL
 FLORIDA ATTRITION ANALYSIS
 CAPITAL COST DATA

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INTRASTATE OPERATIONS

	Amount(1)

Cost of L.T. Debt	
Ratio	24.47%
Embedded Cost	8.81%
Weighted Cost-Current	2.16%
Short Term Debt	
Ratio	5.56%
Current Cost	6.04%
Weighted Current Cost	0.34%
Customer Deposits	
Ratio	1.27%
Cost	8.25%
Weighted Cost	0.10%
I.T.C.	
Ratio	3.39%
Cost	11.71%
Weighted Cost	0.40%
Common Equity	
Ratio	47.58%
Cost	13.20%
Weighted Current Cost	6.28%
Weighted Current Cost + ITC	6.58%
Debt Cost	

Long Term	2.16%
Short Term	0.34%
Cust.Dep.	0.10%
I.T.C.	0.10%
Deferred Taxes	0

	2.70%
	====

(1) Amounts from Schedule 2, page 2

SOUTHERN BELL
 FLORIDA ATTRITION ANALYSIS
 CAPITAL AND INVESTMENT DATA

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INTRASTATE OPERATIONS

Line	Description	Amount
1.	Funding Requirements:	
2.	Increase in Gross Plant per Access Line	
3.	1991/1992	67.75
4.	1992/1993	66.09
5.	Plant Retirements per Access Line	
6.	1991/1992	44.30
7.	1992/1993	42.74
8.	Total	220.87
8.	Funding Sources:	
9.	Depreciation Recovery-1992 (1992 Plant x Rate / Access Lines)	114.09
10.	Depreciation Recovery-1993 (1993 Plant x Rate / Access Lines)	115.45
11.	Working capital increase	13.02 (2)
12.	Reused materials	7.17 (2)
13.	Total Internal Funding	249.73
14.	External Funding Requirements (1)	(28.86)

(1) This Schedule is designed to measure the additional plant funded over the period and the sources of depreciation funds available to fund the additions, converted to access line amounts. The computations are based on the plant and depreciation data on Schedule 3, page 1 for all amounts except lines 11 and 12.

(2) See Schedule 5, page 2

Investment Attrition:

	Debt -----	Common -----	Total -----
1. Weighted Cost	2.70%	6.58%	(1)
2. Funding Requirements	(28.86)	(28.86)	(2)
3. Cost per A/L	(0.78)	(1.90)	(2.68)

(1) Schedule 4
 (2) Schedule 5, page 1

Working Capital:

1991/1992 Increased negative amount per access line	5.54
1992/1993 Increased negative amount per access line	7.48

	13.02

Reused materials:

Reused materials are included in plant additions, but do not require capital expenditures:

1992 Reused materials per access line	3.91
1993 Reused materials per access line	3.26

	7.17

SOUTHERN BELL
FLORIDA ATTRITION ANALYSIS
DEPRECIATION EXPENSES

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INTRASTATE OPERATIONS

Line	Description	Amount
1	Plant in Service -1991	6258793 (1)
2	Depreciation expenses - 1991	526577 (1)
3	Composite Depreciation Rate	8.41% (2)
4	Plant in Service-1992	6574767 (1)
5	Depreciation Expenses - 1992	553161 (3)
6	Plant in Service-1993	6895196 (1)
7	Depreciation Expenses - 1993	580120 (4)

- (1) Schedule 3, page 1
- (2) Line 2/Line 1
- (3) Line 3 x Line 4
- (4) Line 3 x Line 6

SOUTHERN BELL

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FLORIDA ATTRITION ANALYSIS

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INCREMENTAL CHANGES - 1993 OVER 1991

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INTRASTATE OPERATIONS

Line	Description	Amount
1	Operating Revenues(1)	
2	Revenues - 1991(000)	2267531
3	Access Lines - 1991	4663857
	Revenues per Access Line-1991	486.19
5	Revenues-1993	2466712
6	Access Lines -1993	5024852
7	Revenues per Access Line-1993	490.90
8	Increment/Access Line	4.71
9	Operating Expenses and Other Taxes(1)	
10	Op.Exp.& Taxes-1991(000)	1167982
11	Amount per Access Line-1991	250.43
12	Op.Exp. & Taxes-1993	1221291
13	Amount per Access Line-1993	243.05
14	Increment/Access Line	-7.38
15	Depreciation Expenses(1)(2)	
16	Depreciation Expense-1991(000)	526577
17	Amount per Access Line-1991	112.91
18	Depreciation Expense-1993	580120
19	Amount per Access Line-1993	115.45
20	Increment/Access Line	2.54
21	Gross Plant Investment(1)	
22	Gross Plant-1991(000)	6258793
23	Amount per Access Line-1991	1341.98
24	Gross Plant-1993	6895196
25	Amount per Access Line-1993	1372.22
26	Increment/Access Line	30.24

(1) Data from Schedule 3, page 1

(2) 1993 depreciation expenses from Schedule 6

SOUTHERN BELL
FLORIDA ATTRITION ANALYSIS
SUMMARY OF COMPONENTS

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INTRASTATE OPERATIONS

Line	Description	Attrition/ Access Line
1	N.O.I. Attrition:	
2	Operating Revenues	(4.71)(1)
3	Oper. Expenses & D/Taxes	(7.38)(2)
4	Depreciation Expenses	2.54 (3)
5	Pre-tax Amount	(9.55)
6	Income Taxes	(3.59)(4)
7	Tax Effect of Interest	(0.29)(5)
8	Total	(5.66)