

1 SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY  
2 TESTIMONY OF JOSEPH P. LACHER  
3 BEFORE THE  
4 FLORIDA PUBLIC SERVICE COMMISSION  
5 DOCKET NO. 920260-TL  
6 JULY 15, 1992

8 ORIGINAL  
9 COPY

10  
11 Q. PLEASE STATE YOUR NAME AND POSITION WITH SOUTHERN  
12 BELL TELEPHONE AND TELEGRAPH COMPANY.

13  
14 A. MY NAME IS JOSEPH P. LACHER AND I AM SOUTHERN  
15 BELL'S PRESIDENT - FLORIDA. IN THIS CAPACITY, I  
16 HAVE OVERALL RESPONSIBILITY FOR SERVICE AND  
17 FINANCIAL RESULTS IN FLORIDA FOR BELLSOUTH  
18 TELECOMMUNICATIONS, INC. D/B/A SOUTHERN BELL  
19 TELEPHONE AND TELEGRAPH COMPANY ("SOUTHERN BELL" OR  
20 THE "COMPANY").

21  
22 Q. PLEASE GIVE A BRIEF DESCRIPTION OF YOUR BACKGROUND.

23  
24 A. I GRADUATED FROM BELMONT ABBEY COLLEGE WITH A  
25 BACHELOR OF ARTS DEGREE IN 1967, RECEIVED AN MBA

1 DEGREE FROM FAIRLEIGH DICKENSON UNIVERSITY IN 1978  
2 AND WAS A SLOAN FELLOW AT MASSACHUSETTS INSTITUTE  
3 OF TECHNOLOGY IN 1984. I BEGAN MY CAREER WITH  
4 SOUTHERN BELL IN CHARLOTTE, NORTH CAROLINA IN 1967  
5 AND HAVE SINCE HELD VARIOUS POSITIONS OF INCREASING  
6 RESPONSIBILITY. I ASSUMED MY PRESENT POSITION  
7 IN SEPTEMBER OF 1990.

8

9 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

10

11 A. MY TESTIMONY PROVIDES AN OVERVIEW AND DEVELOPS THE  
12 FOUNDATION FOR OTHER TESTIMONY SOUTHERN BELL WILL  
13 PRESENT IN THIS PROCEEDING.

14

15 Q. PLEASE DESCRIBE THE BACKGROUND OF THIS PROCEEDING?

16

17 SOUTHERN BELL HAS OPERATED UNDER ITS CURRENT  
18 RATE STABILIZATION PLAN SINCE OCTOBER OF 1988.  
19 DURING THIS PERIOD, THERE HAVE BEEN MANY CHANGES IN  
20 THE TELECOMMUNICATIONS ENVIRONMENT IN FLORIDA.  
21 INCREASED COMPETITION HAS CREATED MANY BENEFITS FOR  
22 FLORIDA CONSUMERS AND MANY CHALLENGES FOR SOUTHERN  
23 BELL. THE ECONOMIC DOWNTURN OF THE LAST 18 MONTHS  
24 HAS FOCUSED EVEN GREATER ATTENTION TO COST CONTROL  
25 AND EFFICIENCY FOR BUSINESSES AND HOUSEHOLDS ALIKE.

1 SOUTHERN BELL HAS RESPONDED TO BOTH THE  
2 OPPORTUNITIES AND CHALLENGES THAT HAVE ARISEN FROM  
3 INCREASING COMPETITION WITH FOUR MAJOR INITIATIVES.  
4 IT HAS: 1) CONTINUED TO EMPHASIZE CUSTOMER  
5 SERVICE; 2) INCREASED CUSTOMER BENEFITS; 3)  
6 EMPHASIZED EFFICIENCY; AND 4) FOSTERED A NEW  
7 CORPORATE CULTURE. EACH OF THESE HAS BEEN  
8 UNDERTAKEN WITH A VIEW TOWARD THE FUTURE. MY  
9 TESTIMONY WILL ALSO ADDRESS EACH OF THESE  
10 INITIATIVES.

11

12 Q. PLEASE SUMMARIZE THE TESTIMONY THAT SOUTHERN BELL  
13 WILL PRESENT IN THIS PROCEEDING.

14

15 A. SOUTHERN BELL WILL SPONSOR EIGHT OTHER WITNESSES  
16 DURING ITS DIRECT CASE IN THIS PROCEEDING. EACH  
17 WILL ADDRESS A SPECIFIC TOPIC OR ISSUE RELATED  
18 EITHER TO SOUTHERN BELL'S EARNINGS OR TO THE NEED  
19 FOR THIS COMMISSION TO ADOPT OUR PROPOSAL FOR A  
20 REGULATORY PLAN WHICH WILL HEREAFTER BE REFERRED TO  
21 AS THE PRICE REGULATION PLAN. TOPICS RELATED TO  
22 TRADITIONAL REGULATORY ISSUES INCLUDE CAPITAL  
23 STRUCTURE, COST OF CAPITAL, HISTORICAL AND  
24 PROSPECTIVE EARNINGS AND RATE STRUCTURE.

25

1 THE COMPANY'S TESTIMONY WILL DESCRIBE THE SUCCESS  
2 OF OUR CURRENT RATE STABILIZATION PLAN IN TERMS OF  
3 THE BENEFITS CUSTOMERS HAVE DERIVED FROM IT; I.E.,  
4 NEW SERVICES, CUSTOMER SERVICE IMPROVEMENTS, AND  
5 IMPROVEMENTS IN EFFICIENCY WITHIN SOUTHERN BELL.  
6 TESTIMONY WILL ALSO BE PRESENTED DESCRIBING THE  
7 RAPIDLY EXPANDING COMPETITIVE ENVIRONMENT AND THE  
8 IMPLICATIONS THESE LOCAL, NATIONAL AND GLOBAL  
9 COMPETITIVE PRESSURES HAVE FOR FLORIDA. A DETAILED  
10 DESCRIPTION OF OUR PROPOSED PLAN, WHICH RESPONDS TO  
11 THESE ISSUES, WILL BE PROVIDED.

12

13 ALTHOUGH THE CONCEPT OF INCENTIVE REGULATION IS A  
14 SIMPLE ONE, THE ISSUES ASSOCIATED WITH CRAFTING AN  
15 INCENTIVE REGULATION PLAN AND EVALUATING ITS IMPACT  
16 ARE VERY COMPLEX. THE MOST IMPORTANT TESTIMONY IN  
17 THIS DOCKET WILL FOCUS ON OUR CUSTOMERS IN FLORIDA  
18 AND THE CHANGING ENVIRONMENT IN WHICH SOUTHERN BELL  
19 DOES BUSINESS. THIS TESTIMONY WILL DEVELOP OUR  
20 PROPOSAL FOR A REGULATORY PLAN THAT WILL CONTINUE  
21 TO BENEFIT CONSUMERS, PROVIDE APPROPRIATE  
22 INCENTIVES FOR SOUTHERN BELL AND POSITION THE  
23 TELECOMMUNICATIONS INDUSTRY IN FLORIDA FOR THE  
24 FUTURE.

25

1 SOUTHERN BELL'S TESTIMONY WILL THUS SHOW THAT:  
2 SOUTHERN BELL HAS BEEN SUCCESSFUL UNDER THE  
3 EXISTING PLAN; OUR CUSTOMERS AND OTHER  
4 STAKEHOLDERS HAVE BENEFITED; AND OUR PROPOSED  
5 PRICE REGULATION PLAN IS NOT ONLY THE NEXT LOGICAL  
6 STEP FOR THE STATE OF FLORIDA, BUT IS ESSENTIAL IF  
7 SOUTHERN BELL IS TO HAVE THE OPPORTUNITY TO SUCCEED  
8 IN THE PRESENT AND FUTURE COMPETITIVE ENVIRONMENT  
9 IN FLORIDA. IT IS DESIGNED TO OFFER PRICE  
10 STABILITY FOR OUR CUSTOMERS, FOSTER COMPETITION,  
11 AND ENCOURAGE ECONOMIC DEVELOPMENT IN THE STATE.

12

13 Q. WHY DOES SOUTHERN BELL BELIEVE THAT A CHANGE IN  
14 REGULATORY STRUCTURE IS NECESSARY?

15

16 A. THE BASIS FOR OUR REQUEST FOR CONTINUED EVOLUTION  
17 OF THE REGULATORY STRUCTURE IN FLORIDA IS A  
18 RECOGNITION THAT THE ENVIRONMENT IN WHICH WE DO  
19 BUSINESS IS ALSO CHANGING. IN THIS ENVIRONMENT,  
20 TWO KEY FACTORS, TECHNOLOGY AND COMPETITION, ARE  
21 EVOLVING AND GROWING AT A DRAMATIC PACE. THE  
22 REGULATORY STRUCTURE MUST CHANGE TO KEEP PACE WITH  
23 THE CHANGES IN THE OPERATING ENVIRONMENT OR BOTH  
24 THE COMPETITIVE POSITION OF THE STATE AND OUR  
25 CUSTOMERS WILL SUFFER. EXAMPLES OF THE GROWTH OF

1 COMPETITION ARE PROVIDED IN THE TESTIMONY OF  
2 SOUTHERN BELL WITNESSES OBUCHOWSKI AND LOMBARDO.  
3  
4 IN TODAY'S MARKETPLACE, SOUTHERN BELL NEEDS  
5 FLEXIBILITY REGARDING THE TYPES OF SERVICES WE  
6 PROVIDE TO OUR CUSTOMERS AND THE RATES CHARGED FOR  
7 THOSE SERVICES. THE PRICE REGULATION STRUCTURE  
8 PROPOSED BY SOUTHERN BELL WILL MAXIMIZE CUSTOMER  
9 BENEFITS BY FOSTERING THE CONTINUED DEVELOPMENT OF  
10 NEW AND ENHANCED SERVICES WHILE MAINTAINING OUR  
11 TRADITIONAL VALUE OF QUALITY, BASIC SERVICE AT AN  
12 AFFORDABLE PRICE.

13  
14 FINALLY, OUR PROPOSAL PROVIDES A FRAMEWORK FOR  
15 MOVING INTO THE FUTURE. THIS IS AN ESSENTIAL  
16 ELEMENT. THERE ARE VARIOUS VIEWS OF WHAT THAT  
17 FUTURE WILL LOOK LIKE, AND THIS MAKES IT IMPERATIVE  
18 THAT WE PLAN FOR CHANGE. OUR ABILITY TO PLAN CAN  
19 BE AFFECTED EITHER POSITIVELY OR NEGATIVELY BY THE  
20 REGULATORY STRUCTURE TO WHICH WE ARE SUBJECTED. WE  
21 CAN NOT SIMPLY STAND STILL. IF WE DO, OUR  
22 CUSTOMERS, OUR STATE AND OUR COMPANY WILL MISS THE  
23 OPPORTUNITIES OF THE INFORMATION AGE.

24

25 Q. WHAT IS CORPORATE CULTURE AND HOW HAS SOUTHERN

1 BELL'S CHANGED SINCE 1988?

2

3 A. CORPORATE CULTURE CAN BE DEFINED AS THE BELIEFS AND  
4 VALUES OF A COMPANY THAT TRANSCEND LINES OF  
5 ORGANIZATION AND EXTEND THROUGHOUT THE ENTIRE  
6 EMPLOYEE BASE. THESE BELIEFS AND VALUES HAVE A  
7 DRIVING IMPACT ON ATTITUDES AND DECISION MAKING,  
8 BOTH IMMEDIATE AND LONG TERM, REGARDLESS OF WHETHER  
9 THEY REPRESENT PERSONAL, DEPARTMENTAL, OR CORPORATE  
10 ISSUES.

11

12 SINCE DIVESTITURE, THE TELECOMMUNICATIONS  
13 ENVIRONMENT HAS BECOME MORE COMPETITIVE. THIS  
14 CHANGE FROM A REGULATED MONOPOLY TO THAT OF A  
15 REGULATED COMPETITIVE ENTERPRISE HAS REQUIRED  
16 CHANGES TO OUR CORPORATE CULTURE. OUR EMPLOYEES  
17 HAVE BECOME MORE AWARE OF THE COMPETITION OUR  
18 COMPANY FACES IN ALMOST EVERY ASPECT OF ITS  
19 TELECOMMUNICATIONS INFRASTRUCTURE: COMPETITION FOR  
20 SWITCHING OR EQUIPMENT AT THE CUSTOMER'S LOCATION;  
21 FOR VERTICAL SERVICES AND FEATURES; AND FOR  
22 PHYSICAL TRANSPORT ACROSS THE NETWORK. THIS HAS  
23 SHARPENED OUR FOCUS ON THE MARKETPLACE AND MADE US  
24 MORE ACUTELY AWARE THAT THE CUSTOMER IS SUPREME.

25

1 AT A CORPORATE LEVEL, OUR CHANGE IN CORPORATE  
2 CULTURE HAS RESULTED IN A VARIETY OF NEW PROGRAMS  
3 AND WAYS OF DOING BUSINESS. FOR EXAMPLE, WE HAVE  
4 IMPLEMENTED A NEW STATE PLANNING PROCESS, CALLED  
5 MARKET DRIVEN PLANNING (MDP), WHICH TAKES A  
6 COMPREHENSIVE APPROACH TO MARKET PLANNING. UNDER  
7 MDP, AN INTERDEPARTMENTAL PLANNING TEAM WORKS  
8 TOGETHER TO RECOMMEND CAPITAL AND RESOURCE  
9 ALLOCATIONS BASED ON THE NEEDS OF OUR CUSTOMERS AND  
10 MARKET FORECASTS.

11

12 ANOTHER EXAMPLE IS THE TOTAL QUALITY PROCESS WHICH  
13 WAS INTRODUCED IN BELLSOUTH IN 1991. THIS PROGRAM  
14 INCLUDES TRAINING FOR EVERY BELLSOUTH EMPLOYEE AND  
15 ESTABLISHES A FRAMEWORK FOR IMPROVING WORKFLOWS AND  
16 FOR SOLVING PROBLEMS THROUGH THE FORMATION OF  
17 QUALITY ACTION TEAMS.

18

19 AS JUST ONE EXAMPLE OF THE RESULT OF THESE EFFORTS,  
20 A RECENT QUALITY TEAM EFFORT HAS RECOMMENDED A NEW  
21 MISSION FOR OUR DISTRICT OPERATIONS COUNCILS (DOC)  
22 WHICH WILL STRENGTHEN THEIR COMMITMENT TO CUSTOMER  
23 SATISFACTION. THE DOC STRUCTURE, WHICH HAS BEEN IN  
24 PLACE FOR SEVERAL YEARS, PROVIDES A FRAMEWORK FOR  
25 LOCAL COORDINATION, PROBLEM SOLVING AND TEAMWORK.



1 THE TEAM HAS RECOMMENDED THAT THESE  
2 INTERDEPARTMENTAL GROUPS ESTABLISH ENHANCED OVERALL  
3 CUSTOMER SERVICE AS A PRIORITY OVER INDIVIDUAL  
4 DEPARTMENTAL OBJECTIVES.

5

6 Q. HOW HAVE THE CHANGES IN SOUTHERN BELL'S ENVIRONMENT  
7 BEEN COMMUNICATED TO YOUR EMPLOYEES AND WHAT  
8 RESULTS HAVE BEEN OBSERVED?

9

10 A. IN 1988, "INCENTIVE REGULATION" WAS A NEW CONCEPT  
11 TO MANY OF OUR EMPLOYEES, AS WELL AS TO MUCH OF THE  
12 INDUSTRY. FURTHER, HOW TO RESPOND IN A COMPETITIVE  
13 ENVIRONMENT WAS SOMETHING WITH WHICH VERY FEW OF  
14 OUR PEOPLE HAD EXPERIENCE. TODAY COMPETITION IS  
15 PART OF OUR EVERYDAY VOCABULARY AND THE WAY WE DO  
16 BUSINESS. GROWTH IN EMPLOYEE RECOGNITION OF ISSUES  
17 CONCERNING OUR EARNINGS, COMPETITION, AND NATIONAL  
18 AND STATE TELECOMMUNICATIONS ACTIVITIES HAS  
19 OCCURRED. TODAY, THESE TOPICS MAKE UP A LARGE PART  
20 OF THE QUESTIONS EMPLOYEES ASK AT MEETINGS AND IN  
21 PUBLICATIONS. EVEN MORE IMPORTANTLY, OUR EMPLOYEES  
22 ARE REALIZING THAT THEY HAVE AN IMPACT ON THESE  
23 ISSUES.

24

25 MUCH OF THIS AWARENESS HAS COME ABOUT THROUGH

1 FOCUSED EFFORTS BY THE COMPANY TO EDUCATE THE  
2 ENTIRE EMPLOYEE BODY ABOUT THE RELATIONSHIP AMONG  
3 DAY-TO-DAY ACTIVITIES, INCENTIVE REGULATION, AND  
4 SOUTHERN BELL'S SUCCESS IN A COMPETITIVE  
5 MARKETPLACE. FOR EXAMPLE, I FREQUENTLY MEET WITH  
6 OUR EMPLOYEES BOTH FORMALLY AND INFORMALLY TO  
7 DISCUSS THESE ISSUES. IN ADDITION, IN CONTACTS  
8 RANGING FROM EMPLOYEE FORUMS TO SOUTHERN BELL  
9 EMPLOYEE PUBLICATIONS, WE HAVE OPENLY DISCUSSED  
10 THESE ISSUES, THEIR IMPACT ON OUR BUSINESS AND WHAT  
11 THEY MEAN TO EACH INDIVIDUAL EMPLOYEE.

12

13 ONE ASPECT OF THE DYNAMIC CHANGE IN OUR CULTURE IS  
14 THAT THIS COMMUNICATION IS NOT JUST "TOP-DOWN."  
15 PROGRAMS LIKE THE EMPLOYEE SUGGESTION PLAN,  
16 SELF-MANAGED WORK GROUPS, AND PARTICIPATIVE  
17 MANAGEMENT ALLOW IDEAS TO GO BOTH WAYS. WE ARE  
18 ALSO IMPLEMENTING THE PEER PROGRAM TO PROVIDE  
19 SUBORDINATE FEEDBACK TO OUR MANAGERS. WHILE THESE  
20 PROGRAMS ARE NOT UNIQUE TO FLORIDA'S SOUTHERN BELL  
21 OPERATIONS, OUR FLORIDA TEAM IS ENHANCING THIS  
22 ENVIRONMENT BY PURSUING A PHILOSOPHY OF "DON'T  
23 SHOOT THE MESSENGER" AND "CHALLENGE UP."

24

25 Q. HOW WELL HAS SOUTHERN BELL BEEN ABLE TO EARN UNDER

1 ITS CURRENT RATE STABILIZATION PLAN?  
2  
3 A. SOUTHERN BELL HAS MAINTAINED A CONSISTENT EARNINGS  
4 LEVEL THROUGHOUT THE PLAN PERIOD. THESE RESULTS  
5 ARE IN SPITE OF OVERLY OPTIMISTIC FORECASTS,  
6 INCREASED COMPETITION FROM TRADITIONAL AND NEW  
7 PROVIDERS, SEPARATIONS CHANGES AND A SEVERE  
8 ECONOMIC DOWNTURN.  
9  
10 DESPITE THESE FACTORS, SOUTHERN BELL'S ACHIEVED  
11 INTRASTATE EARNINGS IN FLORIDA HAVE BEEN 13.69% IN  
12 1988 AND 1989, 13.81% IN 1990, 12.92% IN 1991, AND  
13 13.56% THROUGH MARCH, 1992. WALTER REID, OUR  
14 ACCOUNTING WITNESS, WILL PROVIDE ADDITIONAL  
15 INFORMATION REGARDING THESE ACHIEVED LEVELS AND  
16 EACH OF THE FACTORS MENTIONED PREVIOUSLY.  
17  
18 Q. WHAT HAVE BEEN THE MOST SIGNIFICANT REASONS FOR  
19 THESE EARNINGS RESULTS?  
20  
21 A. AS MR. LOMBARDO EXPLAINS IN DETAIL IN HIS  
22 TESTIMONY, SOUTHERN BELL'S ABILITY TO MANAGE  
23 EXPENSES AND SUSTAIN REVENUE GROWTH HAS BEEN KEY TO  
24 OUR EARNINGS UNDER THE RATE STABILIZATION PLAN.  
25 OUR EMPLOYEES HAVE LEARNED THAT IN A COMPETITIVE

1 ENVIRONMENT THE MARKET DETERMINES PRICE AND WE MUST  
2 CUT OUR COSTS IF WE ARE TO PRICE TO MEET THE  
3 COMPETITION. INDEED, AS STATED BY DOD/FEA'S WITNESS  
4 KING IN THE FEBRUARY 1992 HEARING BEFORE THIS  
5 COMMISSION: "WHAT I'M SUGGESTING IS THAT INCENTIVE  
6 REGULATION HAS DONE ITS JOB. IT HAS ENCOURAGED THE  
7 COMPANY TO MAINTAIN A HIGH RATE OF RETURN IN THE  
8 FACE OF A RECESSION. AND THAT IS (A) DEMONSTRATION  
9 OF THE BENEFIT OF INCENTIVE REGULATION."

10

11 WHILE I WOULD NOT CHARACTERIZE OUR EARNINGS AS  
12 HIGH, IMPROVEMENTS IN OUR ABILITY TO MANAGE  
13 EXPENSES HAVE CONTRIBUTED SIGNIFICANTLY TO OUR  
14 EARNINGS RESULTS. AS MR. REID EXPLAINS IN HIS  
15 TESTIMONY, IN 1988 OUR EXPENSE PER ACCESS LINE WAS  
16 ABOUT \$276.00 AS COMPARED TO ABOUT \$259.00 IN 1991.  
17 THIS REPRESENTS APPROXIMATELY A \$79 MILLION  
18 REDUCTION IN ANNUAL EXPENSES. THIS IS ESPECIALLY  
19 SIGNIFICANT CONSIDERING INFLATION LEVELS THAT HAVE  
20 BEEN IN THE 3 TO 4 PERCENT RANGE DURING THIS TIME.

21

22 Q. YOU HAVE STATED THAT SOUTHERN BELL'S EARNINGS HAVE  
23 BEEN AFFECTED BY A COMMITMENT TO MANAGING EXPENSES.  
24 WHAT ACTIONS HAS SOUTHERN BELL INITIATED THAT  
25 REFLECT THIS COMMITMENT?

1  
2 A. SOUTHERN BELL HAS MADE A CONCERTED EFFORT TO  
3 IMPROVE EFFICIENCY THROUGH THE INTEGRATION OF  
4 MECHANIZED SYSTEMS, DEVELOPMENT OF NEW AND ENHANCED  
5 PROCESSES AND CONSOLIDATIONS OF OPERATIONS  
6 THROUGHOUT OUR BUSINESS. AS MR. LOMBARDO DESCRIBES  
7 IN DETAIL, THESE EFFORTS HAVE YIELDED SAVINGS IN  
8 EXCESS OF \$94 MILLION SINCE THE BEGINNING OF 1989  
9 AND CONTINUE TO PROVIDE ONGOING COST BENEFITS.  
10 THE MOMENTUM ESTABLISHED BY OUR EFFICIENCY EFFORTS  
11 WILL CONTINUE TO PROVIDE BENEFITS BEYOND THE  
12 PROGRAMS ALREADY IMPLEMENTED. SOUTHERN BELL IS  
13 COMMITTED TO CONTINUE TO DEVELOP AND IMPLEMENT NEW  
14 SYSTEMS AND PROCESSES. WE ALSO EXPECT TO CONTINUE  
15 TO BENEFIT FROM THE IDENTIFICATION OF NEW REVENUES  
16 AND EFFICIENCY OPPORTUNITIES BY THE FLORIDA COST  
17 CONTAINMENT AND REVENUE ENHANCEMENT AND ASSURANCE  
18 COMMITTEES. THESE TEAMS, WHICH MEET REGULARLY,  
19 WERE ESTABLISHED IN FLORIDA AS A RESULT OF OUR  
20 SUCCESS IN OBTAINING THE RATE STABILIZATION PLAN.  
21  
22 WE ANTICIPATE POSITIVE RESULTS FROM THE RECENT  
23 CHANGES IN SOUTHERN BELL'S EMPLOYEE COMPENSATION  
24 PLANS WHICH FURTHER ENCOURAGE EMPLOYEES TO PRACTICE  
25 EXPENSE CONTROL AND, AT THE SAME TIME, DELIVER

1 OUTSTANDING CUSTOMER SERVICE. TODAY, CUSTOMER  
2 SATISFACTION, FROM THE PERSPECTIVE OF OUR  
3 CUSTOMERS, IS OUR PRIMARY MOTIVATION. IN ADDITION,  
4 THE PLAN ENCOURAGES EMPLOYEES TO FOCUS EQUALLY ON  
5 YEAR-TO-YEAR REVENUE AND EXPENSE PERFORMANCE.

6

7 Q. WHAT EFFECT HAS THE CURRENT RATE STABILIZATION PLAN  
8 HAD ON THE LEVEL OF SERVICE THAT SOUTHERN BELL  
9 PROVIDES TO ITS CUSTOMERS?

10

11 A. DURING THE TERM OF THE RATE STABILIZATION PLAN,  
12 SOUTHERN BELL HAS CONTINUED TO PROVIDE A HIGH LEVEL  
13 OF SERVICE TO ITS CUSTOMERS.

14

15 IT WAS A CONCERN OF SOME PARTIES THAT THE RATE  
16 STABILIZATION PLAN WOULD CAUSE SOUTHERN BELL TO  
17 REDUCE OPERATIONAL EXPENSES AND THEREBY ADVERSELY  
18 AFFECT THE QUALITY OF SERVICE. TO THE CONTRARY,  
19 THIS COMMISSION CONCLUDED IN ITS 1991 MANAGEMENT  
20 REVIEW OF SOUTHERN BELL-FLORIDA THAT "CONCERNS  
21 RELATED TO OVER EMPHASIS ON COST CONTROL ARE NOT  
22 CURRENTLY A PROBLEM". THE REVIEW FURTHER STATED  
23 THAT "WE HAVE CONCLUDED THAT EMPHASIS IS NOT ONLY  
24 BEING PLACED ON NETWORK OPERATIONS COST, BUT ON  
25 SERVICE QUALITY AND EMPLOYEE MORALE RELATED ISSUES

1 ALSO".

2

3 Q. HAS THE COMPANY TAKEN ANY OTHER STEPS TO EMPHASIZE  
4 CUSTOMER SERVICE?

5

6 A. WE HAVE TO CONTINUE TO MEET OUR TRADITIONAL VALUES  
7 WHILE RESPONDING TO THE GROWING COMPETITION IN OUR  
8 INDUSTRY. WE HAVE ADOPTED A GOAL OF ACHIEVING A  
9 LEVEL OF CUSTOMER SERVICE WHERE ALL OF OUR  
10 CUSTOMERS' EXPERIENCES ARE POSITIVE. THIS APPROACH  
11 MOVES BEYOND SIMPLY A "SATISFIED" OR "NEUTRAL"  
12 CUSTOMER PERCEPTION TO A LEVEL WHERE WE GIVE  
13 CUSTOMERS MORE THAN THEY EXPECT IN CUSTOMER  
14 SERVICE. OUR GOAL IS TO "DELIGHT" EACH CUSTOMER.  
15 THIS WILL PROVIDE SOUTHERN BELL WITH A COMPETITIVE  
16 EDGE.

17

18 Q. WHAT OTHER STEPS HAS SOUTHERN BELL TAKEN TO PROVIDE  
19 IMPROVED SERVICE TO OUR SUBSCRIBERS?

20

21 A. WITH THE SUPPORT OF THIS COMMISSION, SOUTHERN BELL  
22 HAS BEEN DEVELOPING A TELECOMMUNICATIONS  
23 INFRASTRUCTURE IN FLORIDA WHICH IS FEATURE-RICH,  
24 ROBUST, AND SELF-ADJUSTING. BY FEATURE-RICH, I  
25 MEAN AN INFRASTRUCTURE WHICH IS NOT ONLY CAPABLE OF

1 PROVIDING THE INFORMATION AGE SERVICES DEMANDED BY  
2 BUSINESS CUSTOMERS, BUT ONE WHICH ALSO DELIVERS AN  
3 ARRAY OF NEW SERVICES TO RESIDENCE AND SMALL  
4 BUSINESS CUSTOMERS AT AN AFFORDABLE PRICE. A  
5 ROBUST NETWORK IS ONE WHICH IS CAPABLE OF KEEPING  
6 UP WITH THE RAPID PACE OF TECHNOLOGICAL EVOLUTION  
7 IN OUR INDUSTRY. FINALLY, A SELF-ADJUSTING NETWORK  
8 AUTOMATICALLY PROTECTS AGAINST THE DEGRADATION OR  
9 LOSS OF THE SERVICES ON WHICH OUR CUSTOMERS RELY.

10

11 THE BENEFITS OF SUCH A NETWORK WERE DEMONSTRATED ON  
12 DECEMBER 18, 1991 WHEN WE EXPERIENCED MAJOR SERVICE  
13 PROBLEMS STEMMING FROM A CABLE CUT IN THE  
14 FACILITIES SERVING THE WEST PALM BEACH LATA TANDEM.  
15 DUE TO THE INHERENT DISASTER RECOVERY CAPABILITY  
16 THAT HAD BEEN PLANNED AND BUILT INTO SOUTHERN  
17 BELL'S NETWORK, TRAFFIC WAS IMMEDIATELY REROUTED TO  
18 THE MIAMI LATA TANDEM, WHICH MINIMIZED CUSTOMER  
19 SERVICE DIFFICULTIES.

20

21 Q. HAVE THE INVESTMENTS SOUTHERN BELL HAS MADE TO  
22 PROVIDE SUBSCRIBERS WITH A FEATURE-RICH, ROBUST,  
23 AND SELF-ADJUSTING NETWORK PROVIDED ANY OTHER  
24 BENEFITS TO THE CITIZENS OF FLORIDA?

25



1 A. YES. IN ADDITION TO THE CUSTOMER BENEFITS  
2 DESCRIBED BY OTHER WITNESSES, SOUTHERN BELL'S  
3 INVESTMENT IN FLORIDA HAS AN IMPACT ON THE STATE'S  
4 ECONOMIC DEVELOPMENT WHICH GOES BEYOND THE DIRECT  
5 INVESTMENT. THIS IS OFTEN REFERRED TO AS THE  
6 "MULTIPLIER EFFECT."

7  
8 ONE CALCULATION OF THIS EFFECT IS DESCRIBED IN THE  
9 FLORIDA DEPARTMENT OF COMMERCE'S REPORT ENTITLED  
10 "THE IMPACT OF TELEPHONE COMPANIES' PROVISION OF  
11 TELEPHONE SERVICE (LOCAL AND LONG DISTANCE) ON  
12 FLORIDA'S ECONOMY IN 1990". THIS REPORT IDENTIFIES  
13 SPECIFIC MULTIPLIERS FOR FLORIDA'S  
14 TELECOMMUNICATIONS INDUSTRY WHICH INDICATE THAT A  
15 \$1 MILLION INCREASE IN REVENUE WILL YIELD A \$1.57  
16 MILLION INCREASE IN SALES THROUGHOUT THE STATE.  
17 OTHER MULTIPLIERS CITED IN THE REPORT REFLECT THIS  
18 AS A \$.44 MILLION INCREASE IN HOUSEHOLD EARNINGS OR  
19 AS THE CREATION OF 18.9 JOBS.

20

21 Q. WHY IS THIS IMPORTANT TO THE STATE?

22

23 A. AT SOUTHERN BELL WE BELIEVE THAT NO FLORIDIAN  
24 SHOULD EVER LOSE A JOB OR THE PROSPECT OF A JOB  
25 BECAUSE OF A LACK OF THE MOST SOPHISTICATED

1 TELECOMMUNICATIONS SERVICES. ACCORDING TO A STUDY  
2 BY THE MASSACHUSETTS INSTITUTE OF TECHNOLOGY, THE  
3 AVAILABILITY OF HIGH QUALITY TELECOMMUNICATIONS IS  
4 ONE OF THE TOP FIVE RESOURCES A RELOCATING BUSINESS  
5 LOOKS FOR IN A COMMUNITY. THE PRICE REGULATION  
6 PLAN WILL HELP STRENGTHEN THE FLORIDA ECONOMY AND  
7 GIVE THE STATE A COMPETITIVE ADVANTAGE.

8

9 Q. PLEASE SUMMARIZE YOUR TESTIMONY.

10

11 A. MY TESTIMONY FOCUSES ON OUR CUSTOMERS IN FLORIDA  
12 AND ON THE CHANGING ENVIRONMENT IN WHICH WE LIVE.  
13 WE MUST BE EVER-MINDFUL OF THIS FOCUS AS WE  
14 CONTINUE THE JOURNEY TO A FORM OF FLEXIBLE  
15 REGULATION THAT WILL BENEFIT OUR CUSTOMERS, PROVIDE  
16 NECESSARY INCENTIVES FOR SOUTHERN BELL AND SECURELY  
17 POSITION FLORIDA FOR THE FUTURE.

18 THE EVIDENCE I HAVE PRESENTED DESCRIBES THE  
19 CORPORATE CULTURE CHANGES THAT NOW PERMEATE OUR  
20 ENTIRE EMPLOYEE BODY AND HOW THOSE CHANGES HAVE  
21 FOSTERED A HEIGHTENED AWARENESS OF THE NEED BOTH  
22 FOR COST CONTAINMENT AND EXCELLENT CUSTOMER  
23 SERVICE. FURTHER, THIS EVIDENCE PROVIDES AN  
24 UNDERSTANDING OF HOW THIS WILL ALLOW SOUTHERN BELL  
25 TO REMAIN A VIABLE COMPETITOR IN THE MARKETPLACE.

1  
2 OUR EARNINGS HAVE REMAINED REASONABLE EVEN DURING A  
3 VERY DIFFICULT RECESSIONARY PERIOD, FROM WHICH WE,  
4 LIKE THE REST OF THE STATE OF FLORIDA, ARE JUST  
5 BEGINNING TO RECOVER. IN SPITE OF THIS DIFFICULTY,  
6 WE HAVE CONTINUED OUR EFFORTS TO STIMULATE ECONOMIC  
7 DEVELOPMENT TO THE BENEFIT OF BOTH SOUTHERN BELL  
8 AND THE STATE OF FLORIDA AND ITS CITIZENS.

9  
10 IN THE AREA OF CUSTOMER SERVICE, SOUTHERN BELL  
11 HAS REEMPHASIZED CUSTOMER SATISFACTION AS A PRIMARY  
12 KEY TO OUR SUCCESS IN A RAPIDLY EVOLVING  
13 COMPETITIVE AND TECHNOLOGICAL ENVIRONMENT.

14  
15 IN SUM, THIS TESTIMONY CREATES THE FOUNDATION OF AN  
16 UNDERSTANDING OF THE PROGRESS SOUTHERN BELL HAS  
17 MADE UNDER ITS CURRENT REGULATORY PLAN GIVEN THE  
18 INCENTIVES SOUTHERN BELL HAS HAD UNDER THAT PLAN.  
19 THE NEXT STEP, HOWEVER, IS CRUCIAL IN ORDER TO  
20 MAINTAIN THE POSITIVE MOMENTUM CREATED BY THESE  
21 INCENTIVES. THE TESTIMONY THAT FOLLOWS WILL  
22 SOLIDIFY THE NEED FOR FURTHER FLEXIBILITY AND  
23 OUTLINE WHAT SOUTHERN BELL BELIEVES ARE THE LOGICAL  
24 AND NECESSARY NEXT STEPS.

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1 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

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3 A. YES IT DOES.

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