

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

Comprehensive Review of the) Docket No. 920260-TL
Revenue Requirements and Rate)
Stabilization Plan of Southern)
Bell Telephone and Telegraph)
Company)
_____)

In re: Investigation into the)
Integrity of Southern Bell's) Docket No. 910163-TL
Repair Service Activities and)
Reports)
_____)

Show Cause Proceeding Against)
Southern Bell Telephone and) Docket No. 900960-TL
Telegraph Company for Misbilling)
Customers)
_____)

Investigation into Southern Bell)
Telephone and Telegraph) Docket No. 910727-TL
Company's Compliance with Rule)
25-4.110(2), F.A.C.)
_____)

Date filed: February 19, 1993

MOTION TO ACCEPT TESTIMONY AND ADD ISSUES
RELATING TO THE TREATMENT OF COSTS FROM HURRICANE ANDREW

The Citizens of Florida ("Citizens"), by and through Jack Shreve, Public Counsel, respectfully move the Commission to accept testimony and add issues relating to the treatment of costs from Hurricane Andrew.

1. Southern Bell's rebuttal testimony filed on December 18, 1993 contained proposals for the first time that would charge customers over \$20 million per year for five years to reimburse

Southern Bell for costs incurred during 1992 as a result of Hurricane Andrew.

2. Hurricane Andrew occurred after Southern Bell filed its direct testimony, so naturally the company was unable to address this matter in direct testimony. Nonetheless, the inclusion of the proposal in Southern Bell's "rebuttal" testimony does not change the reality that it is, in fact, direct testimony.

3. The order on procedure contained no mechanism for parties to respond to Southern Bell's rebuttal testimony, even if the testimony raised matters for the first time. A copy of the proposed testimony of Victoria A. Montanaro attached to this motion contains rebuttal to Southern Bell's proposal.

4. We propose the following additional issues, and state our positions, relating to the costs of Hurricane Andrew:

Issue (i): How should Southern Bell's insurance proceeds from Hurricane Andrew be apportioned between Louisiana and Florida?

Citizens' Position: The proceeds of insurance should be apportioned based on the relative amount of damage from the hurricane in the two states.

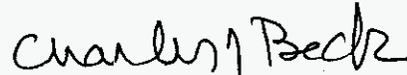
Issue (ii): How should Southern Bell account for the net cost of Hurricane Andrew?

Citizens' Position: Southern Bell should follow generally accepted accounting principles (GAAP) and reflect the net cost in the year incurred -- 1992. This is the same way Southern Bell accounted for net hurricane costs allocated to unregulated operations, the Florida and Louisiana regulated hurricane costs allocated to the interstate jurisdiction, and the Louisiana regulated hurricane costs allocated to the intrastate jurisdiction.

WHEREFORE, the Citizens respectfully request the Commission to accept then prefiled testimony of Victoria A. Montanaro and add issues related to the treatment of costs from Hurricane Andrew.

Respectfully submitted,

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Public Counsel



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the State of Florida

DIRECT TESTIMONY
OF
VICTORIA A. MONTANARO

DOCKET NO. 920260-TL

1 Q. Please state your name and business address.

2

3 A. My name is Victoria A. Montanaro. My business address is
4 111 West Madison Street, Room 812, Tallahassee, Florida,
5 32399-1400.

6

7 Q. What is your occupation?

8

9 A. I am employed by the Office of the Public Counsel,
10 Florida Legislature as a legislative analyst. My
11 responsibilities are primarily related to special
12 assignments in the area of telecommunication.

13

14 Q. Will you summarize your educational background and your
15 professional experience in the field of utility
16 regulation?

17

18 A. I earned my Masters in Accounting from Florida State
19 University in 1983. I hold a CPA certificate in the
20 state of Florida and am a member of the American

1 Institute of Certified Public Accountants. From 1983 -
2 1987 I served as regulatory utility analyst with the
3 Staff of the Florida Public Service Commission. While
4 employed by the Florida Commission, I participated in
5 rate case examinations involving the water and sewer and
6 the telecommunications utilities operating in Florida.
7 In 1987, I accepted employment with the Office of Public
8 Counsel. Since that time, I have presented testimony to
9 this Commission and participated in depositions and
10 hearings as a class B practitioner.

11
12 Q. What is the purpose of your testimony?

13
14 A. My testimony addresses the appropriate accounting
15 treatment for the costs associated with Hurricane Andrew.

16
17 Whether or not the loss associated with Hurricane Andrew
18 are classified as extraordinary loss or not, the loss
19 should be recognized in the year in which it occurs under
20 generally accepted accounting principles "GAAP"). Thus,
21 for public financial statements, losses from hurricanes
22 are recognized in the year in which they occur. The
23 authority for this treatment is Accounting Principles
24 Board Opinions (APB) 9.

25

1 Q. How does BellSouth Telecommunications, Inc., propose to
2 account for the loss from Hurricane Andrew?

3

4 A. The answer to that question depends on the jurisdiction.
5 The loss was recognized in the year it occurred for the
6 interstate purposes. It was recognized in the year in
7 which it occurred in all other states, except for
8 Florida. In Florida, the company proposes to amortize
9 the costs over a five year period for intrastate purpose
10 only.

11

12 Q. What was the reason the company recognized the cost in
13 the year in which it occurred for interstate purposes?

14

15 A. The company recognized the full loss in the year in which
16 it occurred (1992) because the FCC had adopted the
17 Uniform Systems of Accounts (USOA) which requires
18 generally accepted accounting principles to be followed.

19

20 Q. What was the accounting treatment used by BellSouth
21 Telecommunications for nonregulated purposes?

22

23 A. Because the nonregulated costs must be recognized in
24 accordance with generally accepted accounting principles,
25 the company recognized the full loss in the year in which

1 it occurred -- 1992.

2

3 Q. Why does the company propose different accounting
4 treatment only at the Florida Public Service Commission
5 for the same loss?

6

7 A. The company is relying on a commission decision from its
8 1981 rate case. In that case the company had asked for
9 a storm damage reserve. The commission instead amortized
10 the loss of the 1979 hurricane over a five year period.

11

12 Q. What is the difference between the 1981 decision to
13 amortize a hurricane loss over five years and the
14 company's decision to amortize the losses associated with
15 Hurricane Andrew?

16

17 A. Since 1981, the Commission adopted the uniform system of
18 accounts (USOA) also used at the FCC. The same rationale
19 for recognizing the interstate losses in the year in
20 which it occurred for interstate purposes exists for
21 recognizing the losses in the year in which it occurred
22 for intrastate purposes.

23

24 Q Has the Florida Public Service Commission approved a rule
25 adopting generally accepted accounting principles for the

1 purpose of regulatory accounting?

2
3 A. Yes. The Florida Public Service Commission adopted the
4 Uniform System of Accounts. FPSC rule, 25-017, Uniform
5 System of Accounts, states:

6
7 each telecommunications company shall maintain its
8 accounts and records in conformity with the Uniform
9 System and Classification of Accounts (USOA) as
10 prescribed by the Federal Communications Commission
11 in Title 47, Code of Federal Regulations, Part 32
12 Class A as adopted on December 2, 1986, and revised
13 as of October 1, 1991, and as modified below.

14
15 The background section states:

16
17 The revised Uniform System of Accounts (USOA) is a
18 historical financial accounting system which
19 reports the results of operational and financial
20 events in a manner which enables both management
21 and regulators to assess these results within a
22 specified accounting period. The USOA also
23 provides the financial community and others with
24 financial performance results. In order for an
25 accounting system to fulfill these proposes, it

1 must exhibit consistency and stability in financial
2 reporting (including the results published for
3 regulatory purposes). Accordingly, the USOA has
4 been designed to reflect stable, recurring
5 financial data based to the extent regulatory
6 considerations permit upon the consistency of the
7 well established body of accounting theories and
8 principles commonly referred to as generally
9 accepted accounting principles.

10
11 Q. Did the commission adopt Rule 25-017 following the
12 commission's decision in the 1981 Southern Bell rate
13 case?

14
15 A. Yes. In 1981, the Commission ruled in docket 810035-TP,
16 Order 10449, that a five year amortization schedule
17 should be set up for casualty expense litigated in that
18 case. However, this five year amortization authorized in
19 Order 10499 ended before the Commission adopted rule 25-
20 017 in 1987.

21
22 Q. According to GAAP and the Commission's rule, what is the
23 correct treatment of this cost?

24
25 A. The costs of the storm, offset by any insurance

1 settlement, should be recorded in the income statement
2 for 1992.

3
4 Q. If there are costs associated with the hurricane incurred
5 in 1993, how would those costs be treated under generally
6 accepted accounting principles?

7
8 A. The costs are accrued in 1992. According to BellSouth
9 Telecommunications Inc., estimates of the 1993 costs
10 associated with the storm were accrued on the 1992 books.

11
12 Q. Did BellSouth Telecommunications have insurance coverage
13 for hurricane damage?

14
15 A. Yes, BellSouth had two types of coverage. There was
16 outside plant insurance and "all risk" insurance relating
17 to losses associated with inside plant. The coverage was
18 for BellSouth Corporation, including but not limited to
19 BellSouth Telecommunications, Inc.

20
21 The outside plant policies provided \$70,000,000 in
22 coverage per occurrence. There was a \$10,000,000 per
23 occurrence deductible. The other insurance, "all risk
24 insurance," provided up to \$400,000,000 per occurrence
25 for "all risk" coverage, including flood and earthquake.

1 Q. Was most of the damage from the hurricane sustained in
2 Florida?

3
4 A. Yes. The estimate of the net expense costs for Florida
5 and Louisiana is \$172.5M and 12.2M, respectively. The
6 gross expenses for Florida and Louisiana is \$219.3M and
7 \$15.8M, respectively. [See attachment 1]

8

9 Q. Please explain the difference between net and gross
10 expense.

11

12 A. The gross costs represent all costs associated with the
13 repair of damage caused by Hurricane Andrew. The net
14 expense is the incremental cost the company experienced
15 because of the storm. For example, a lineman in Florida
16 would be repairing or installing equipment whether a
17 storm had hit or not. The cost associated with this
18 worker was included in the gross expense, but not the net
19 expense.

20

21 Q. Did the insurance cover net or gross costs?

22

23 A. The insurance paid on net costs only. The difference in
24 gross expenses and net expenses would have been already
25 been included in the company's budget.

1 Q. How did the company apportion the insurance proceeds?
2
3 A. The company allocated the insurance proceeds based upon
4 the relative total net plant in service in each of the
5 two states.
6
7 Q. Do you believe this is the appropriate allocation basis?
8
9 A. No. I believe actual damage sustained is a more
10 appropriate basis for allocating insurance proceeds.
11
12 Q. What was the basis for the allocation of the deductible?
13
14 A. The company used the same basis for the allocation of the
15 deductible.
16
17 Q. What was the effect of BellSouth's method of apportioning
18 the insurance proceeds?
19
20 A. Under the allocation method used, Louisiana's insurance
21 proceeds exceeded its losses. All losses except the
22 deductible were covered in Louisiana. The same is not
23 true for Florida.
24
25 Q. Are you proposing an adjustment to recognize a change in

1 the allocation of insurance proceeds between the two
2 states?

3

4 A. Yes. Florida's loss from Hurricane Andrew represents
5 93.4% of the net expense and 93.3% of the gross expense.
6 However BellSouth Telecommunications Inc. methodology
7 assigned only 86.2% of the insurance proceeds to Florida.
8 The insurance proceeds should be assigned based on the
9 relative amount of damage in Louisiana and Florida, with
10 93.4% assigned to Florida. This represents a \$5,430,000
11 increase in the insurance proceeds assigned to Florida.

12

13 Q. Besides the expenses already discussed, are there capital
14 cost associated with Hurricane Andrew?

15

16 A. Yes. The company had \$45M of early retirements. [See
17 attachment 2] BellSouth Telecommunications is proposing
18 for Florida intrastate regulatory purposes this amount be
19 capitalized and amortized over a five year period.

20

21 Q. What is the correct accounting treatment of this cost
22 under GAAP.

23

24 A. The total loss is recognized in the year in which it has
25 occurred. This cost should also be recognized in 1992.

1

2 Q. Does this conclude your testimony?

3

4 A. Yes.

Attachment 1
Docket No. 920260-TL
V. Montanaro Exhibit No. ____
Hurricane Expense Summary

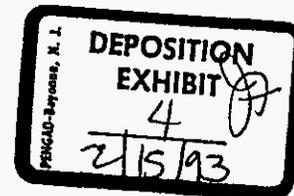
HURRICANE ANDREW
 CAPITAL & EXPENSE SUMMARY
 ORIGINAL COST ESTIMATE & REVISIONS
 \$(M)

EXPENSE	GROSS EXPENSE			NET TO BUDGET		
	LA	FLA	TOTAL	LA	FLA	TOTAL
1992						
A/O 9/25/92	12.0	113.5	125.5	11.0	107.5	118.5
A/O 10/9/92	12.0	139.0	152.0	11.0	112.6	123.6
A/O 11/2/93 (ACT)	15.1	139.6	154.7	12.2	122.9	135.1
A/O 2/1/93 (Revised)	15.1	141.1	156.2	12.2	122.1	134.3
		141.6	156.7			

1993						
A/O 9/25/92	0	37.5	37.5	N/A	N/A	N/A
A/O 10/9/92	1.0	38.5	38.5	0	33.0	33.0
A/O 1/12/93	.7	77.7	78.4	0	50.4	50.4

TOTAL EXPENSE (92+93)

A/O 9/25/92	12.0	151.0	163.0			N/A
A/O 10/9/92	13.0	177.5	190.5			156.6
A/O 1/12/93	15.8	217.3	233.1	12.2	173.5	185.5
A/O 2/1/93	15.8	218.8	234.6	12.2	172.5	184.7
		219.3	235.1			



Attachment 2
Docket No. 920260-TL
V. Montanaro Exhibit No. ____
Early Retirement Summary

(2)

HURRICANE ANDREW
CAPITAL & EXPENSE SUMMARY
ORIGINAL COST ESTIMATE & REVISIONS
\$(M)

CAPITAL	TOTAL CAPITAL						NET TO BUDGET					
	GROSS			MR NET			GROSS			MR NET		
	LA	FLA	TOTAL	LA	FLA	TOTAL	LA	FLA	TOT	LA	FLA	TOT
<u>1992</u>												
A/O 9/25/92	8.1	45.7	53.8	-	-	N/A	-	-	N/A	-	-	N/A
A/O 10/9/92	8.1	45.7	53.8	8.1	41.9	50.0	-	-	N/A	-	-	N/A
A/O 1/21/93	7.2	54.4	61.6	7.2	54.4	61.1	0	9.0	9.0	0	9.0	9.0
<u>1993</u>												
A/O 9/25/92	4.2	37.8	42.0	-	-	N/A	-	-	N/A	-	-	N/A
A/O 10/9/92	4.2	37.8	42.0	4.2	34.8	39.0	-	-	N/A	-	-	N/A
A/O 1/21/93	3.8	36.1	39.9	3.8	36.1	39.9	3.8	36.1	39.9	3.8	36.1	39.1
<u>TOTAL CAPITAL</u>												
A/O 9/25/92	12.3	83.5	95.8	-	-	89.0	-	-	N/A	-	-	N/A
A/O 10/9/92	12.3	83.5	95.8	12.3	76.7	89.0	-	-	N/A	-	-	N/A
A/O 1/21/93	11.0	90.5	101.5	11.0	90.5	101.0	3.8	45.1	48.9	3.8	45.1	48.1

DEPOSITION
EXHIBIT
5
2/15/93

**CERTIFICATE OF SERVICE
DOCKET NO. 920260-TL**

I HEREBY CERTIFY that a copy of the foregoing has been furnished by U.S. Mail or hand-delivery to the following parties on this 19th day of February, 1993.

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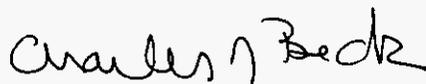
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