

(Reid)

**FPSC DOCKET 920260-TL  
BELLSOUTH TELECOMMUNICATIONS  
INDEX OF DIRECT TESTIMONY**

**ORIGINAL  
FILE COPY**

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1 SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY  
2 TESTIMONY OF DAVID B. DENTON  
3 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION  
4 DOCKET NO. 920260-TL  
5 JULY 2, 1993  
6  
7  
8

9 Q. PLEASE STATE YOUR NAME, ADDRESS AND POSITION WITH  
10 BELLSOUTH TELECOMMUNICATIONS INCORPORATED.

11

12 A. I AM DAVID B. DENTON. MY BUSINESS ADDRESS IS 675  
13 WEST PEACHTREE STREET, ATLANTA, GEORGIA. MY  
14 POSITION IS OPERATIONS MANAGER IN THE REGULATORY  
15 POLICY AND PLANNING DEPARTMENT OF BELLSOUTH  
16 TELECOMMUNICATIONS INC. D/B/A SOUTHERN BELL  
17 TELEPHONE AND TELEGRAPH COMPANY (SOUTHERN BELL OR  
18 THE COMPANY).

19

20 Q. PLEASE GIVE A BRIEF DESCRIPTION OF YOUR BACKGROUND  
21 AND EXPERIENCE.

22

23 A. I SERVED IN THE UNITED STATES MARINE CORPS FROM  
24 1954 TO 1958. I WAS GRADUATED FROM THE UNIVERSITY  
25 OF MIAMI IN 1961 WITH A BACHELOR OF BUSINESS

1 ADMINISTRATION DEGREE CUM LAUDE IN ECONOMICS AND  
2 WAS AWARDED A MASTER OF ARTS DEGREE IN ECONOMICS IN  
3 1964 FROM THE SAME UNIVERSITY. IN 1979, I WAS  
4 AWARDED A MASTER OF SCIENCE DEGREE IN ADVANCED  
5 MANAGEMENT FROM PACE UNIVERSITY.

6  
7 I BEGAN EMPLOYMENT WITH SOUTHERN BELL IN 1962 AND  
8 HELD VARIOUS POSITIONS IN THE COMMERCIAL DEPARTMENT  
9 BEFORE JOINING THE HEADQUARTERS RATES ORGANIZATION  
10 IN 1966. I HAVE HELD VARIOUS POSITIONS AT SOUTHERN  
11 BELL HEADQUARTERS IN ATLANTA AND AT AT&T  
12 HEADQUARTERS IN NEW YORK CITY IN THE RATES AND  
13 TARIFF AREA. SINCE NOVEMBER 1991, I HAVE BEEN IN  
14 THE BELLSOUTH TELECOMMUNICATIONS HEADQUARTERS  
15 REGULATORY POLICY AND PLANNING DEPARTMENT. I HAVE  
16 TESTIFIED BEFORE THIS COMMISSION AND BEFORE THE  
17 GEORGIA, NORTH CAROLINA, AND SOUTH CAROLINA  
18 COMMISSIONS. ATTACHED TO MY TESTIMONY IS AN  
19 EXHIBIT (DBD-1) LISTING THE SPECIFIC STATE DOCKETS  
20 IN WHICH I HAVE TESTIFIED.

21

22 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

23

24 A. THE PURPOSE OF MY TESTIMONY IS: (1) TO DEMONSTRATE  
25 THE SUCCESS OF THE EXISTING INCENTIVE SHARING PLAN

1 APPROVED BY THE FLORIDA PUBLIC SERVICE COMMISSION  
2 ("FPSC" OR "COMMISSION") ON OCTOBER 13, 1988, IN  
3 ORDER NUMBER 20162; (2) TO OUTLINE THE CHANGES  
4 THAT HAVE OCCURRED IN THE EVOLVING  
5 TELECOMMUNICATIONS INDUSTRY SINCE 1988 AND  
6 PARTICULARLY IN THE LAST FEW YEARS; AND (3) TO  
7 REQUEST AN EXTENSION OF THE CURRENT PLAN.

8

9 Q. PLEASE DESCRIBE THE BACKGROUND OF THIS PROCEEDING.

10

11 A. SOUTHERN BELL HAS OPERATED UNDER ITS CURRENT  
12 INCENTIVE SHARING PLAN SINCE OCTOBER OF 1988. IN  
13 ADOPTING THIS PLAN, THE COMMISSION CLEARLY  
14 RECOGNIZED THE CHANGING ENVIRONMENT IN FLORIDA.  
15 SPECIFICALLY, IN AUTHORIZING SOUTHERN BELL'S  
16 INCENTIVE SHARING PLAN, THE COMMISSION SAID:

17

18 THE TELECOMMUNICATIONS INDUSTRY HAS BEEN AND  
19 CONTINUES TO BE IN A STATE OF CHANGE. MORE AND  
20 MORE ASPECTS OF THE RELEVANT MARKETS ARE  
21 BECOMING COMPETITIVE. A LOCAL EXCHANGE COMPANY,  
22 SUCH AS SOUTHERN BELL, MUST ADAPT TO THE NEW  
23 COMPETITIVE WORLD IN WHICH IT FINDS ITSELF.  
24 THIS COMMISSION MUST ALSO RECOGNIZE THESE  
25 FUNDAMENTAL CHANGES IN THE INDUSTRY AND ALLOW

1 SOUTHERN BELL TO TRANSITION ITSELF FOR THESE  
2 CHANGES. WE THUS BELIEVE THAT THE INCENTIVE  
3 ASPECTS OF THIS PLAN WILL ASSIST IN THIS  
4 TRANSITION PROCESS. (PAGE 6)

5  
6 SINCE 1988 THE TELECOMMUNICATIONS ENVIRONMENT IN  
7 FLORIDA HAS CONTINUED TO CHANGE. THE NEW  
8 TECHNOLOGY, INCREASED COMPETITION AND REGULATORY  
9 POLICY DECISIONS THAT HAVE RESULTED IN MANY  
10 BENEFITS FOR FLORIDA CONSUMERS HAVE, AT THE SAME  
11 TIME, CREATED CHALLENGES FOR SOUTHERN BELL. AS THE  
12 TESTIMONY IN THIS CASE WILL DEMONSTRATE, SOUTHERN  
13 BELL HAS RESPONDED PROPERLY TO BOTH THE  
14 OPPORTUNITIES AND CHALLENGES THAT HAVE ARISEN FROM  
15 INCREASING COMPETITION.

16  
17 SECTION 1: ACCOMPLISHMENTS UNDER THE INCENTIVE  
18 SHARING PLAN

19  
20 Q. WHAT WAS THE INTENT OF THE 1988 INCENTIVE SHARING  
21 PLAN?

22  
23 A. THE INTENT OF THE INCENTIVE SHARING PLAN WAS TO  
24 IMPROVE SOUTHERN BELL'S INCENTIVES TO INCREASE  
25 EFFICIENCIES AND TO SEEK OUT NEW REVENUE

1 OPPORTUNITIES. AS DR. WILLIAM TAYLOR STATED IN HIS  
2 JUNE 10, 1988 REBUTTAL TESTIMONY IN DOCKET NO.  
3 880069-TL:  
4

5 SUCH IMPROVEMENTS IN INCENTIVES WILL PROVIDE  
6 IMMEDIATE AND DIRECT BENEFITS TO FLORIDA  
7 RATEPAYERS IN TERMS OF LOWER COSTS AND IMPROVED  
8 SERVICES. IN ADDITION, THIS PLAN WILL PROMOTE  
9 THE GROWTH OF COMPETITIVE VALUES WITHIN SOUTHERN  
10 BELL'S MANAGEMENT WHICH WILL PRODUCE LONG-RUN  
11 BENEFITS FOR FLORIDA TELECOMMUNICATIONS  
12 CONSUMERS.

13  
14 REGULATORY INCENTIVE PLANS, SUCH AS FLORIDA'S  
15 INCENTIVE SHARING PLAN, ARE DESIGNED TO REWARD BOTH  
16 LONG TERM PLANNING AND SHORT TERM ACTIONS TO REDUCE  
17 COSTS AND IMPROVE SERVICE. THEY MORE CLOSELY  
18 RESEMBLE THE TYPE OF INCENTIVES THAT COMPETITIVE  
19 FIRMS FACE.  
20

21 Q. PLEASE DESCRIBE THE RESULTS AND ACCOMPLISHMENTS  
22 UNDER THE PLAN.

23

24 A. IN ORDER TO BECOME MORE SUCCESSFUL IN THE  
25 INCREASINGLY COMPETITIVE TELECOMMUNICATIONS

1 ENVIRONMENT, SOUTHERN BELL HAS BECOME MORE  
2 EFFICIENT AND HAS PROVIDED EVEN MORE VALUE TO ITS  
3 CUSTOMERS. I WILL DISCUSS EFFICIENCIES IN SOME  
4 DETAIL FIRST AND THEN TURN TO OTHER INITIATIVES.

5  
6 SOUTHERN BELL HAS ACHIEVED SIGNIFICANT COST SAVINGS  
7 SINCE 1988, CREATED MAINLY THROUGH CONSOLIDATING  
8 OPERATIONS, STREAMLINING PROCESSES, INTRODUCING  
9 MECHANIZATION WHEREVER PRACTICAL, REDUCING  
10 MANAGEMENT FORCE AND FURTHER ENCOURAGING  
11 COST-CONSCIOUS DECISIONS.

12  
13 JUST A FEW EXAMPLES INCLUDE THE FOLLOWING:

14  
15 -- IMPLEMENTATION IN 1990 OF AUTOMATED ALTERNATIVE  
16 BILLING SERVICE, WHICH ALLOWS FOR AUTOMATIC  
17 COMPLETION OF STATION COLLECT AND THIRD-NUMBER  
18 BILLED CALLS, HAS RESULTED IN MORE THAN \$13  
19 MILLION IN SAVINGS THROUGH YEAR END 1992.

20  
21 -- MECHANIZING THE ADMINISTRATIVE PROCESSES  
22 ASSOCIATED WITH ENGINEERING WORK ORDERS HAS  
23 REDUCED COST BY APPROXIMATELY \$1.5 MILLION.

24  
25 -- CONSOLIDATION OF THE INTEREXCHANGE CARRIER (IXC)

1 SERVICES CENTER OPERATION IN 1991 HAS CREATED  
2 SAVINGS OF MORE THAN \$3.5 MILLION THROUGH 1992.

3  
4 OTHER EXAMPLES INCLUDE ENHANCEMENTS TO THE  
5 BELLSOUTH DATA NETWORK, REGIONALIZATION OF FLEET  
6 OPERATIONS, PROPERTY AND ADMINISTRATIVE SERVICES,  
7 AND IMPLEMENTATION OF DIGITAL AUTOMATIC CALL  
8 DISTRIBUTORS WHICH REDUCE OPERATOR WORK TIME.  
9 ADDITIONAL DETAIL FOR THESE EXAMPLES CAN BE FOUND  
10 IN THE MINIMUM FILING REQUIREMENTS (MFRS),  
11 SCHEDULES C-19 SUBMITTED IN MAY, 1992 AND JULY,  
12 1993.

13  
14 THE COMPOSITE OF THE VARIOUS EFFICIENCIES  
15 INTRODUCED SINCE 1988 HAVE CONTRIBUTED TO OUR  
16 OVERALL REDUCTION OF COST OF SERVICE PER ACCESS  
17 LINE FROM \$520.10 IN 1988 TO \$501.83 IN 1992. THIS  
18 IS ESPECIALLY SIGNIFICANT CONSIDERING THAT PRICE  
19 INFLATION HAS INCREASED BY JUST OVER 21% DURING  
20 THIS TIME. THESE COSTS PER ACCESS LINE ARE  
21 DESCRIBED BY OUR ACCOUNTING WITNESS, MR. WALTER  
22 REID AND INCLUDE ADJUSTMENTS FOR COMMISSION  
23 ALLOWANCES, DISALLOWANCES AND SPECIAL ACCOUNTING  
24 CONVENTIONS.

25



1 THE "EMPLOYEES PER 10,000 ACCESS LINE" RATIO IS  
2 FURTHER TANGIBLE EVIDENCE OF OUR ENHANCED  
3 EFFICIENCY. THIS MEASURE REFLECTS IMPROVEMENT FROM  
4 48 EMPLOYEES (11 MANAGEMENT, 37 NON-MANAGEMENT) PER  
5 10,000 ACCESS LINES IN 1988 TO ONLY 37.1 (7  
6 MANAGEMENT, 30 NON-MANAGEMENT) IN 1992. THESE  
7 RESULTS ARE CALCULATED BASED ON ACCESS LINE GROWTH  
8 FROM APPROXIMATELY 4.1 MILLION AT YEAR END 1988 TO  
9 MORE THAN 4.8 MILLION AT YEAR END 1992. THEREFORE,  
10 RESULTS HAVE BEEN ACHIEVED NOT ONLY THROUGH A  
11 REDUCTION OF TOTAL EMPLOYEES, BUT ALSO WITH A  
12 SUBSTANTIAL INCREASE IN THE NUMBER OF ACCESS LINES.

13  
14 REFLECTED IN THIS MEASURE ALSO IS AN IMPROVEMENT IN  
15 OUR MANAGEMENT-TO-CRAFT EMPLOYEE RATIO BY NEARLY  
16 27% FROM 1: 3.43 IN 1989 TO 1: 4.35 IN 1992. THIS  
17 REPRESENTS DRAMATIC IMPROVEMENT WHEN COMPARED TO  
18 THE 4% CHANGE FROM 1985 (1: 3.26) TO 1988  
19 (1: 3.39). THESE RESULTS INCLUDE OUR 1990 AND 1991  
20 EARLY RETIREMENT OFFERS THAT WERE TAKEN BY 989  
21 FLORIDA MANAGEMENT EMPLOYEES, THEREBY PROVIDING FOR  
22 ONGOING COST REDUCTIONS AND AN OPPORTUNITY TO  
23 FURTHER IMPROVE EFFICIENCY.

24  
25 Q. IN ADDITION TO THE EFFICIENCIES THE COMPANY HAS

1 ACCOMPLISHED, PLEASE DESCRIBE OTHER INITIATIVES  
2 THAT HAVE ENHANCED VALUE TO CUSTOMERS.

3

4 A. SOUTHERN BELL HAS STRENGTHENED ITS EFFORTS TO ADD  
5 VALUE FOR CUSTOMERS BY INTRODUCING NEW SERVICES,  
6 EXPANDING THE AVAILABILITY OF OPTIONAL VERTICAL  
7 SERVICES, AND IMPLEMENTING COMPETITIVE PRICING.  
8 SUCH EFFORTS HELPED SOUTHERN BELL SUSTAIN ITS  
9 EARNINGS THROUGHOUT THE PLAN PERIOD DESPITE THE  
10 UNEXPECTED RECESSION, A DISASTROUS HURRICANE, AND  
11 THE INCREASING ONSLAUGHT OF COMPETITION.

12

13 SINCE THE IMPLEMENTATION OF THE INCENTIVE SHARING  
14 PLAN, SOUTHERN BELL HAS CONTINUED TO BRING MANY NEW  
15 PRODUCTS AND SERVICES TO THE MARKETPLACE. FROM  
16 1988 TO 1992, NEARLY 80 NEW TARIFF OFFERINGS WERE  
17 INTRODUCED IN FLORIDA, AS COMPARED TO APPROXIMATELY  
18 42 BETWEEN 1983 AND 1987. ALSO, WE HAVE CONDUCTED  
19 MORE THAN 30 SPECIAL PROMOTION AND "GET ACQUAINTED"  
20 OFFERS SINCE 1988 TO INTRODUCE OUR CUSTOMERS TO THE  
21 BENEFITS OUR SERVICES PROVIDE.

22

23 IN ADDITION TO THESE NEW TARIFF OFFERINGS, THE  
24 COMPANY ALSO HAS DEVELOPED INNOVATIVE IDEAS FOR  
25 PACKAGING EXISTING SERVICES. FOR EXAMPLE, THE

1 MULTI-FEATURE DISCOUNT PLAN WAS SUGGESTED BY OUR  
2 CUSTOMER SERVICE REPRESENTATIVES IN FLORIDA TO  
3 SIMPLIFY THE PRICING STRUCTURE FOR MULTIPLE  
4 DISCRETIONARY SERVICES (I.E. CUSTOM CALLING  
5 SERVICES, TOUCHSTAR<sup>R</sup>, RINGMASTER<sup>R</sup>). THE RESULTING  
6 PROPOSAL, WHICH WAS APPROVED BY THIS COMMISSION,  
7 PROVIDES A COMMON, UNDERSTANDABLE RATE STRUCTURE.  
8  
9 FURTHER, WE HAVE INTRODUCED DISCOUNT TOLL PLANS  
10 SUCH AS WATSSAVER<sup>R</sup> AND SAVERSERVICE<sup>R</sup> WHICH WERE  
11 BOTH IMPLEMENTED IN 1989. THESE CALLING PLANS  
12 ENABLE OUR ACCOUNT TEAMS TO OFFER COMPETITIVE TOLL  
13 RATES TO CUSTOMERS BASED ON VOLUME USAGE SIMILAR TO  
14 THE RATE STRUCTURE OF OUR COMPETITION.  
15  
16 SINCE 1988 WE HAVE REDUCED RATES FOR INTRALATA  
17 MESSAGE TELECOMMUNICATIONS SERVICE (MTS) BY 30% TO  
18 BENEFIT OUR TOLL CUSTOMERS. WE ALSO HAVE REDUCED  
19 RATES FOR SWITCHED ACCESS SERVICES BY 40% SINCE  
20 1988. THESE REDUCTIONS TO INTEREXCHANGE CARRIERS  
21 CAN PROVIDE ADDITIONAL BENEFITS TO CUSTOMERS  
22 THROUGH EXPECTED INTEREXCHANGE CARRIER TOLL RATE  
23 REDUCTIONS. FURTHER ACCESS REDUCTIONS ARE PROPOSED  
24 IN THIS PROCEEDING.  
25

1 Q. ARE THERE ADDITIONAL PROGRAMS THAT SOUTHERN BELL  
2 HAS IMPLEMENTED TO BENEFIT CUSTOMERS?

3

4 A. YES. AS SOUTHERN BELL CONTINUES TO FOCUS FIRST  
5 AND FOREMOST ON THE NEEDS OF ITS CUSTOMERS, IT HAS  
6 DEVELOPED AND IMPLEMENTED CUSTOMER-ORIENTED  
7 PROGRAMS. FOR EXAMPLE, "QUICKSERVICE" IS A NEW  
8 PROGRAM WHICH CAN ESTABLISH AND MAINTAIN A WORKING  
9 LINE FROM THE CENTRAL OFFICE TO THE CUSTOMER'S  
10 LOCATION, ALLOWING THE COMPANY TO PROVIDE SAME DAY  
11 SERVICE.

12

13 OUR BUSINESS OFFICE HOURS AND DAYS OF OPERATION  
14 HAVE BEEN EXPANDED TO MEET MORE CLOSELY THE NEEDS  
15 OF OUR CUSTOMERS. OUR RESIDENCE BUSINESS OFFICES  
16 ARE NOW OPEN FROM 7 A.M. TO 10 P.M. MONDAY THROUGH  
17 FRIDAY, AND 7 A.M. TO 6 P.M. ON SATURDAY. OFFICES  
18 THAT SERVE OUR BUSINESS CUSTOMERS ARE NOW OPEN FROM  
19 8 A.M. TO 6 P.M. MONDAY THROUGH FRIDAY, AND 8 A.M.  
20 TO 4:30 P.M. ON SATURDAY.

21

22 AS FURTHER EVIDENCE OF OUR EFFORTS TO IMPROVE  
23 CUSTOMER SERVICE, WE HAVE ESTABLISHED  
24 INTERDEPARTMENTAL TEAMS TO SMOOTH THE INTRODUCTION  
25 AND DELIVERY OF THE COMPANY'S PRODUCTS AND

1 SERVICES. THESE CHANGES, AS WELL AS OTHERS, HAVE  
2 BEEN PUT INTO PLACE TO MAKE OUR SERVICE MORE  
3 CONVENIENT FOR CUSTOMERS AND TO PROVIDE THEM WITH  
4 THE FEATURES THAT THEY DESIRE.

5  
6 ALTHOUGH NOT ALL INCLUSIVE, THESE ARE SOME OF THE  
7 SPECIFIC STEPS THAT WE HAVE TAKEN TO INCREASE  
8 EFFICIENCIES AND ADD VALUE FOR OUR CUSTOMERS.

9  
10 Q. WHILE UNDER THE INCENTIVE SHARING PLAN, HAS THE  
11 COMPANY CONTINUED TO INVEST IN AND ENHANCE ITS  
12 INFRASTRUCTURE?

13  
14 A. YES. THROUGH PRUDENT, WELL PROGRAMMED INVESTMENT  
15 SUPPORTED BY THIS COMMISSION, SOUTHERN BELL  
16 ACCOMPLISHED THE FOLLOWING LEVELS OF INFRASTRUCTURE  
17 DEVELOPMENT BY YEAR END 1992:

18  
19 -- 98% OF ACCESS LINES ARE EQUIPPED WITH SYSTEM  
20 SIGNALING SEVEN (SS7), THE TECHNOLOGY WHICH  
21 ENABLES SUCH SERVICES AS CALL RETURN OR CALLER  
22 ID TO OPERATE BETWEEN CENTRAL OFFICES. IN  
23 1988, ONLY 51% OF ACCESS LINES WERE SO  
24 EQUIPPED.

25

1       -- 97% OF ACCESS LINES ARE EQUIPPED WITH THE  
2       ABILITY FOR OUR CUSTOMERS, THROUGH THEIR  
3       INTEREXCHANGE CARRIERS, TO USE THE ABOVE  
4       REFERENCED FEATURES BEYOND SOUTHERN BELL'S  
5       LATAS. IN 1988, THERE WERE NO ACCESS LINES  
6       WITH THIS CAPABILITY.

7  
8       -- 98.5% OF FLORIDA'S CENTRAL OFFICES HAVE FIBER  
9       OPTIC INTEROFFICE FACILITIES, INCREASING THE  
10      RELIABILITY AND CAPACITY OF THESE ROUTES. IN  
11      1988, ONLY 81% OF CENTRAL OFFICES WERE SO  
12      CONFIGURED.

13  
14      -- 58% OF FLORIDA'S CENTRAL OFFICES HAVE DIVERSE  
15      FIBER OPTIC FACILITIES TO THEIR RESPECTIVE  
16      SERVING TANDEMS, PROVIDING ADDITIONAL NETWORK  
17      RELIABILITY. THIS IS COMPARED TO 14% IN 1988.

18  
19      -- BACK-UP ACCESS TANDEMS FOR NETWORK  
20      SURVIVABILITY NOW SERVE THE SOUTHEAST, ORLANDO  
21      AND JACKSONVILLE LATAS.

22  
23      THESE ENHANCEMENTS BENEFIT CUSTOMERS IN MANY WAYS.  
24      AS AN EXAMPLE, THE VALUE OF BACK-UP AND ALTERNATE  
25      FACILITIES WAS DEMONSTRATED ON DECEMBER 18, 1991,

1           WHEN WE EXPERIENCED A MAJOR CABLE CUT IN THE  
2           FACILITIES SERVING THE WEST PALM BEACH LATA TANDEM.  
3           DUE TO THE INHERENT DISASTER RECOVERY CAPABILITY  
4           THAT HAD BEEN PLANNED AND BUILT INTO SOUTHERN  
5           BELL'S NETWORK, TRAFFIC WAS IMMEDIATELY ROUTED TO  
6           THE MIAMI LATA TANDEM WHICH MINIMIZED CUSTOMER  
7           SERVICE DIFFICULTIES.  SUCH ROUTE DIVERSITY AND  
8           BACK-UP ALTERNATIVES ARE BASICALLY TRANSPARENT TO  
9           CUSTOMERS BUT ALLOW FOR THE PROVISION OF  
10          UNINTERRUPTED TELECOMMUNICATIONS SERVICE.

11

12 Q.   CAN YOU DESCRIBE ADDITIONAL BENEFITS WHICH  
13       CUSTOMERS HAVE RECEIVED WHILE SOUTHERN BELL HAS  
14       OPERATED UNDER THE CURRENT INCENTIVE SHARING PLAN?

15

16 A.   YES.  ONE OF THE MOST IMMEDIATE BENEFITS TO  
17       CUSTOMERS WAS THE RATE REDUCTIONS AND REFUNDS OF  
18       MORE THAN \$1.18 BILLION THROUGH 1992.  OBVIOUSLY,  
19       NOT EVERY CUSTOMER RECEIVED THE SAME BENEFIT,  
20       HOWEVER, ASSUMING APPROXIMATELY 4.5 MILLION ACCESS  
21       LINES IN SERVICE, THIS WAS EQUIVALENT TO \$262 PER  
22       ACCESS LINE.  CUSTOMERS ALSO BENEFITED FROM A CAP  
23       ON RESIDENTIAL LOCAL TELEPHONE RATES, WHICH REMAIN  
24       AMONG THE LOWEST OF ANY STATE IN THE NATION.

25

1 NOT ONLY HAVE OUR CUSTOMERS RECEIVED THESE TANGIBLE  
2 BENEFITS, BUT FLORIDA'S LEVEL OF UNIVERSAL SERVICE,  
3 AS DEFINED BY TELEPHONE PENETRATION, HAS CONTINUED  
4 TO IMPROVE. THE MOST RECENT FCC STATISTICS ON  
5 TELEPHONE SUBSCRIBERSHIP LEVELS INDICATE THAT THE  
6 TELEPHONE PENETRATION IN FLORIDA HAS CONSISTENTLY  
7 SHOWN AN UPWARD TREND FROM AN AVERAGE OF 92.2% IN  
8 NOVEMBER, 1988 TO 93.7% IN NOVEMBER 1992.  
9 SUBSCRIBERSHIP CONTINUED TO INCREASE EVEN DURING  
10 THE RECENT RECESSION, WHEN FLORIDA'S UNEMPLOYMENT  
11 ESCALATED FROM 5.6% IN 1989 TO 8.2% IN 1992.

12

13 Q. WHAT HAVE SOUTHERN BELL'S EARNINGS BEEN UNDER THE  
14 CURRENT INCENTIVE SHARING PLAN?

15

16 A. SOUTHERN BELL'S ACHIEVED INTRASTATE EARNINGS IN  
17 FLORIDA HAVE BEEN 13.69% FOR 1988 AND 1989, 13.81%  
18 FOR 1990, 13.17% FOR 1991, AND 12.36% FOR 1992.

19 MR. WALTER REID, SOUTHERN BELL'S ACCOUNTING  
20 WITNESS, WILL PROVIDE ADDITIONAL INFORMATION  
21 REGARDING SOUTHERN BELL'S EARNINGS.

22

23 THESE RESULTS ARE IN SPITE OF OPTIMISTIC FORECASTS,  
24 INCREASED COMPETITION, SEPARATIONS CHANGES AND A  
25 SEVERE ECONOMIC DOWNTURN. IN ADDITION, SINCE OUR



1 FILING IN 1992, SOUTHERN BELL HAS EXPERIENCED THE  
2 DEVASTATING EFFECTS OF HURRICANE ANDREW, WHOSE  
3 HUMAN AND ECONOMIC COSTS WILL BE BORNE FOR MANY  
4 YEARS TO COME.

5  
6 WITHOUT THE IMPROVEMENTS AND PROGRAMS PREVIOUSLY  
7 DESCRIBED, WE MAY NOT HAVE EARNED WITHIN THE  
8 AUTHORIZED RANGE. INSTEAD WE MIGHT WELL HAVE BEEN  
9 BEFORE THIS COMMISSION ASKING FOR AN OVERALL RATE  
10 INCREASE.

11

12 Q. IN YOUR OPINION, WOULD THE SAME RESULTS HAVE  
13 OCCURRED UNDER TRADITIONAL RATE BASE REGULATION?

14

15 A. NO. WHILE IT IS DIFFICULT TO ATTRIBUTE SPECIFIC  
16 COMPANY PROGRAMS OR ACTIONS SOLELY TO THE INCENTIVE  
17 SHARING PLAN, THE POSITIVE RESULTS LEAD US TO THE  
18 OPINION THAT THESE RESULTS WOULD NOT HAVE OCCURRED  
19 TO THE SAME DEGREE UNDER TRADITIONAL RATE BASE  
20 REGULATION. INDEED, THESE RESULTS WERE ACHIEVED IN  
21 SPITE OF THE NEGATIVE, UNFORESEEN EVENTS WE FACED  
22 DURING THE PLAN'S TERM.

23

24 WHAT IS CERTAIN IS THAT THE INCENTIVE PLAN HAS  
25 ENCOURAGED THE COMPANY TO EVOLVE A 100-YEAR OLD

1 MONOPOLY WAY OF THINKING TO ONE THAT IS BASED ON  
2 COMPETITION. THE PLAN HAS CREATED AN ENVIRONMENT  
3 IN WHICH PROCESS IMPROVEMENT, COST REDUCTION, AND  
4 SERVICE INNOVATION ARE PART OF OUR DAILY  
5 ACTIVITIES. TANGIBLE EVIDENCE DOES EXIST THAT THE  
6 COMPANY HAS BEEN SUCCESSFUL IN THIS EFFORT. THE  
7 BENEFITS AND RESULTS OF INCENTIVE REGULATION HAVE  
8 BEEN DESCRIBED GENERALLY IN MR. WALTER REID'S AND  
9 MY TESTIMONY.

10

11 SECTION 2: CHANGES IN THE TELECOMMUNICATIONS

12 INDUSTRY

13

14 Q. WHAT HAS HAPPENED IN THE TELECOMMUNICATIONS  
15 INDUSTRY SINCE SOUTHERN BELL'S FILING IN 1988?

16

17 A. THE LANDSCAPE OF THE TELECOMMUNICATIONS INDUSTRY  
18 HAS CHANGED DRAMATICALLY. TECHNOLOGY, STRATEGIC  
19 ALLIANCES, AND POLICY DECISIONS HAVE CHANGED THE  
20 STRUCTURE OF THE MARKET. THESE FORCES WILL  
21 ACCELERATE THE PACE OF COMPETITION IN ALL AREAS OF  
22 THE LOCAL TELEPHONE BUSINESS. TO DEMONSTRATE THIS  
23 VERY IMPORTANT POINT, I WILL ADDRESS THESE THREE  
24 AREAS SEPARATELY.

25

1        TECHNOLOGY

2

3 Q.    DO YOU EXPECT THE IMPLEMENTATION OF NEW TECHNOLOGY  
4        TO CONTINUE DURING THE PROPOSED EXTENSION OF THE  
5        CURRENT PLAN, WITH A CONSEQUENT INCREASE IN THE  
6        LEVEL OF COMPETITION FOR SOUTHERN BELL'S SERVICES?

7

8 A.    ABSOLUTELY.    FOR EXAMPLE, TELECOMMUNICATIONS  
9        TECHNOLOGY HAS MADE POSSIBLE PERSONAL  
10       COMMUNICATIONS SERVICE (PCS), A FORM OF WIRELESS  
11       COMMUNICATIONS THAT IS EXPECTED TO HAVE A  
12       SUBSTANTIAL IMPACT ON THE TELECOMMUNICATIONS  
13       INDUSTRY.    TRADITIONALLY, THE BULK OF OUR REVENUES  
14       AT RISK HAVE BEEN ASSOCIATED WITH THE BUSINESS  
15       MARKET.    PCS, THOUGH, MAY BE ATTRACTIVE TO THE  
16       RESIDENTIAL USER AS WELL AND, AS THE TECHNOLOGY  
17       IMPROVES, WIRELESS SERVICES WILL LIKELY NOT ONLY  
18       COMPLEMENT BUT ALSO PROVIDE MANY OF THE SAME  
19       SERVICES OFFERED TODAY BY THE LOCAL EXCHANGE  
20       COMPANY (LEC) WIRELINE.

21

22       THE POTENTIAL IMPACT TO THE LECS IS CLEAR.  
23       CELLULAR IS PROJECTED TO GROW AT ABOUT 33% FOR THE  
24       NEXT YEAR, AND THAT IS BEFORE WIDESPREAD DEPLOYMENT  
25       OF PCS.    AT THAT RATE OF GROWTH, THE "LAST MILE"

1 WILL BE INCREASINGLY SUBJECT TO WIRELESS  
2 COMPETITION.

3  
4 CHANGES IN COST TOGETHER WITH TECHNOLOGICAL CHANGES  
5 ARE NOT ONLY IMPACTING LEC FIBER DEPLOYMENT, BUT  
6 ALSO CABLE TELEVISION (CATV) INDUSTRY FIBER  
7 DEPLOYMENT. THE IMPORTANT RESULT FOR BOTH THE CATV  
8 AND LEC INDUSTRIES IS THAT FIBER ALLOWS MORE THAN  
9 ONE APPLICATION. JUST AS TELEPHONE COMPANIES CAN  
10 CARRY VIDEO OVER FIBER, CATV COMPANIES CAN CARRY  
11 VOICE OR DATA OVER THEIR OWN FIBER.

12  
13 INDEED, THERE MAY BE ENTIRELY NEW TECHNOLOGIES  
14 IMPLEMENTED. AN EXAMPLE IS BEING PROMOTED BY FIRST  
15 PACIFIC NETWORKS, INC., A CALIFORNIA-BASED  
16 MANUFACTURER OFFERING TELEPHONE EQUIPMENT THAT  
17 PROVIDES CATV OPERATORS THE ABILITY TO DELIVER  
18 SWITCHED VOICE SERVICE TO THE HOME OVER EXISTING  
19 COAXIAL CABLE. FIRST PACIFIC'S PATENTED TECHNOLOGY  
20 ENABLES TELEPHONE AND DATA COMMUNICATIONS TO  
21 COEXIST WITH BROADCAST VIDEO TRANSMISSION OVER  
22 HYBRID FIBER/COAXIAL CATV NETWORKS. THIS EQUIPMENT  
23 CAN OPERATE WITHIN A WIDE SERVING AREA AND IS WELL  
24 SUITED TO THE FIBER OPTIC MODERNIZATION PLANS OF  
25 THE CATV INDUSTRY.

1

2 Q. WILL OTHER TECHNOLOGY DEPLOYMENT PLANS WITHIN  
3 SOUTHERN BELL'S NETWORK EXPAND COMPETITION AND THE  
4 AVAILABILITY OF NEW SERVICES?

5

6 A. YES. SOUTHERN BELL IS DEPLOYING AN ADVANCED  
7 INTELLIGENT NETWORK (AIN) TO MEET INCREASING  
8 CUSTOMER NEEDS. IN THE AIN, SERVICE APPLICATIONS  
9 ARE MOVED FROM THEIR TRADITIONAL PLACE IN END  
10 OFFICE SWITCHES TO ADJUNCT COMPUTERS LINKED TO THE  
11 SWITCHES VIA SIGNALING SYSTEM 7 TECHNOLOGY.

12

13 THIS CHANGE ALLOWS FOR MORE RAPID SERVICE  
14 DEVELOPMENT, MORE FLEXIBLE, CUSTOMIZED SERVICE  
15 APPLICATIONS, AND LESS RELIANCE UPON SWITCH VENDORS  
16 FOR SERVICE DEVELOPMENT. 800 SERVICE NUMBER  
17 PORTABILITY AND EXPANDED BILLING VALIDATION  
18 SERVICES ARE AIN SERVICE APPLICATIONS WHICH ARE  
19 ALREADY AVAILABLE. FURTHER, RESIDENTIAL CUSTOMERS  
20 WILL SOON BENEFIT FROM THE INTRODUCTION OF AN AIN  
21 SERVICE, CALLER ID DELUXE, WHICH WILL ALLOW  
22 DELIVERY OF THE DIRECTORY NAME ASSOCIATED WITH AN  
23 INCOMING CALL.

24

25 SINCE SERVICE DEVELOPMENT WILL NO LONGER BE

1 CONTROLLED BY SWITCH VENDORS, DEPLOYMENT OF AIN HAS  
2 THE POTENTIAL FOR EXPANDING COMPETITION FOR THE  
3 PROVISION OF END USER SERVICES ON SOUTHERN BELL'S  
4 NETWORK. BELLSOUTH INTENDS TO FILE WITH THE FCC A  
5 PLAN FOR AIN SERVICES WHICH WILL ALLOW THIRD PARTY  
6 SERVICE PROVIDERS TO DEVELOP AND PROVIDE THESE END  
7 USER SERVICES.

8  
9 IN SUMMARY, THESE TECHNOLOGIES AND MORE ARE ALREADY  
10 MOVING FORWARD RAPIDLY. WE CAN EXPECT THAT THE  
11 PACE WILL CONTINUE AND SIGNIFICANT CHANGES WILL  
12 OCCUR IN THE YEARS TO COME. CONSEQUENTLY, THE  
13 STRENGTH AND SHEER NUMBER OF COMPETITORS, ACTING  
14 ALONE AND IN STRATEGIC ALLIANCES, WILL ALSO GROW.  
15 CORRESPONDINGLY, THE RISKS TO SOUTHERN BELL, AND  
16 INDEED TO EVERY LEC, WILL CONTINUE TO GROW.

17

18 COMPETITORS AND STRATEGIC ALLIANCES

19

20 Q. WHAT ARE SOME OF THE PARTICULAR ACTIONS BY  
21 COMPETITORS IN FORMING STRATEGIC ALLIANCES?

22

23 A. THERE HAS BEEN A DRAMATIC INCREASE IN STRATEGIC  
24 ALLIANCES IN THE TELECOMMUNICATIONS INDUSTRY.

25 THESE ALLIANCES ARE BEING FORGED IN UNPRECEDENTED

1       WAYS, AMONG MANY ALREADY WELL ESTABLISHED  
2       COMPETITORS.   EXAMPLES INCLUDE THE FOLLOWING:

3  
4       (1)   IN MAY, U.S. WEST ANNOUNCED THAT IT WOULD  
5       INVEST \$2.5 BILLION FOR A 25% SHARE OF TIME WARNER  
6       ENTERTAINMENT.   TIME WARNER IS THE COUNTRY'S SECOND  
7       LARGEST CATV OPERATOR WITH SEVEN MILLION  
8       SUBSCRIBERS.   ONE BILLION DOLLARS OF THE INVESTMENT  
9       WILL BE TARGETED TO ACCELERATE THE BUILDING OF FULL  
10      SERVICE NETWORKS, SUCH AS THE ONE ANNOUNCED IN THE  
11      ORLANDO AREA.   THESE NETWORK MODERNIZATION PROJECTS  
12      ARE EXPECTED TO BE COMPLETED BY 1998 FOR THE  
13      MAJORITY OF TIME WARNER'S CATV SYSTEMS.   EARLIER  
14      THIS YEAR, TELE-COMMUNICATIONS INC. (TCI) ANNOUNCED  
15      PLANS TO SPEND \$1.9 BILLION BY 1996 SIMILARLY TO  
16      UPGRADE ITS NETWORK WITH FIBER OPTIC FACILITIES.

17  
18      (2)   TCI AND COX ENTERPRISES, TWO OF THE LARGEST  
19      CATV OPERATORS IN THE COUNTRY, PURCHASED TELEPORT  
20      COMMUNICATIONS GROUP LAST YEAR.   THEN, IN 1993,  
21      THEY SOLD 40% OF TELEPORT TO COMCAST AND  
22      CONTINENTAL CABLEVISION.   THESE TRANSACTIONS HAVE  
23      RESULTED IN THE SECOND LARGEST ALTERNATE ACCESS  
24      VENDOR (AAV) IN THE U.S. BEING OWNED BY CATV  
25      COMPANIES THAT SPAN THE COUNTRY AND HAVE FACILITY

1 BASES IN MANY DISPERSED AREAS.

2

3 (3) IN APRIL OF 1992, CONTINENTAL CABLEVISION OF  
4 JACKSONVILLE ANNOUNCED A JOINT VENTURE WITH  
5 HYPERION TELECOMMUNICATIONS, INC. OF STUART.  
6 HYPERION IS A SUBSIDIARY OF ADELPHIA  
7 COMMUNICATIONS, A CATV COMPANY. THE NEW COMPANY,  
8 OPERATING UNDER THE NAME ALTERNET, IS NOW OFFERING  
9 PRIVATE LINE AND DATA SERVICES, INCLUDING DS-3, TO  
10 JACKSONVILLE CUSTOMERS.

11

12 (4) THE SPRINT/CENTEL TELEPHONE MERGER RESULTED IN  
13 SPRINT BECOMING THE FIRST COMPANY TO OPERATE IN THE  
14 INTERSTATE LONG DISTANCE, LOCAL AND CELLULAR  
15 TELEPHONE BUSINESSES. SPRINT NOW PROVIDES LOCAL  
16 TELEPHONE SERVICE THROUGH 5.9 MILLION ACCESS LINES  
17 IN 19 STATES.

18

19 (5) THE AT&T AND MCCAOW ALLIANCE WILL COMBINE TWO  
20 ALREADY WELL ESTABLISHED SEPARATE COMPETITORS INTO  
21 A SINGLE FORMIDABLE COMPETITOR CAPABLE OF COMPETING  
22 IN THE TRADITIONAL SERVICES, CELLULAR, AND PCS  
23 ARENAS.

24

25 (6) IN EARLY JUNE, BRITISH TELECOM ANNOUNCED PLANS



1 TO INVEST \$4.3 BILLION TO BUY A 20% STAKE IN MCI.  
2 THE TWO COMPANIES WILL FORM A NEW \$1 BILLION JOINT  
3 VENTURE TO DEVELOP AN INTELLIGENT NETWORK PLATFORM  
4 TO PROVIDE A WIDE ARRAY OF SOPHISTICATED SEAMLESS  
5 GLOBAL VOICE AND DATA TELECOMMUNICATIONS SERVICES.  
6 THE CASH INFUSION WILL ALLOW MCI TO PURSUE ITS TWIN  
7 CORE STRATEGIES OF FORMING GLOBAL ALLIANCES AND  
8 EXPANDING ITS PRESENCE IN LOCAL COMPETITION AND NEW  
9 AREAS OF TELECOMMUNICATIONS SUCH AS MULTIMEDIA,  
10 WIRELESS, AND PCS.

11

12 (7) ALSO IN EARLY JUNE, TELEPORT ANNOUNCED JOINT  
13 VENTURES WITH ELEVEN MAJOR CATV OPERATORS TO BUILD  
14 NEW LOCAL FIBER NETWORKS IN CITIES AROUND THE  
15 COUNTRY, INCLUDING IN MIAMI.

16

17 Q. HAS THE PACE AT WHICH COMPETITORS ARE FORMING  
18 STRATEGIC ALLIANCES ACCELERATED IN THE PAST YEAR?  
19

20 A. DEFINITELY. THE ACCELERATED PACE OF COMPETITION IN  
21 OUR INDUSTRY IS STAGGERING EVEN BEYOND THE  
22 EXPECTATIONS OF A YEAR AGO. STRATEGIC ALLIANCES,  
23 AS PREVIOUSLY DESCRIBED, ARE BEING FORMED AMONG  
24 ENTRENCHED COMPETITORS, FURTHER STRENGTHENING THEIR  
25 TECHNOLOGICAL AND COMPETITIVE POSITIONS.

1

2 Q. ARE THERE OTHER EXAMPLES OF INDUSTRY DEVELOPMENTS  
3 THAT MAY HAVE IMPLICATIONS FOR FLORIDA?

4

5 A. YES. CLEARLY, NETWORK MODERNIZATION PLANS BY MAJOR  
6 CATV OPERATORS MAY HAVE SIGNIFICANT IMPLICATIONS  
7 FOR FLORIDA WELL BEYOND TIME WARNER'S FULL SERVICE  
8 NETWORK IN THE ORLANDO AREA. FOR EXAMPLE, TIME  
9 WARNER, ALREADY CERTIFIED AS AN AAV IN FLORIDA, CAN  
10 NOW PROVIDE PRIVATE LINE AND SPECIAL ACCESS  
11 SERVICES. WITH THE RECENT ANNOUNCEMENT OF THE  
12 PURCHASE OF AN AT&T ASYNCHRONOUS TRANSMISSION MODE  
13 (ATM) SWITCH, THE CAPABILITY OF THE ORLANDO FULL  
14 SERVICE NETWORK WILL BE GREATLY ENHANCED.

15

16 INTERMEDIA COMMUNICATIONS, INC., HEADQUARTERED AND  
17 OPERATING IN FLORIDA SINCE 1988, ANNOUNCED THE  
18 ADDITION OF SWITCHING CAPABILITY TO ITS NETWORK  
19 LAST YEAR. IN ADDITION TO INTERMEDIA AND TIME  
20 WARNER, TWELVE OTHER COMPANIES HAVE BEEN CERTIFIED  
21 TO OPERATE AS AAVS IN FLORIDA SINCE JANUARY 1992.

22

23 COMPETITIVE DEVELOPMENTS IN THE LONG DISTANCE  
24 SEGMENT OF THE INDUSTRY WILL AFFECT INTRALATA TOLL  
25 SERVICES. THIS IS EVIDENCED BY THE RUSH OF SERVICE

1 ENHANCEMENTS AND ADVERTISING REGARDING 800 NUMBER  
2 PORTABILITY, ONGOING MERGER AND ACQUISITION  
3 ACTIVITY AMONG THE SMALLER LONG DISTANCE PROVIDERS,  
4 AND THE INTRODUCTION OF NEW CALLING PLANS SUCH AS  
5 AT&T'S "THE i PLAN", MCI'S 1-800-COLLECT SERVICE,  
6 AND SPRINT'S PARTNERING WITH VISA TO PROVIDE  
7 ALTERNATIVE BILLING OF LONG DISTANCE CALLS.

8  
9 ADDITIONALLY, VERY SMALL APERTURE TERMINALS (VSATS)  
10 PRESENT A VIABLE ALTERNATIVE FOR LOW SPEED DATA  
11 TRANSMISSION SUCH AS POINT-OF-SALE TRANSACTIONS.  
12 RECENT TECHNOLOGY IMPROVEMENTS, HOWEVER, PERMIT THE  
13 USE OF VSAT FOR VOICE APPLICATIONS AND  
14 BROADCAST-QUALITY VIDEO AS WELL. AN EXAMPLE OF THE  
15 IMPACT OF VSAT COMPETITION INVOLVES A MAJOR GROCERY  
16 STORE CHAIN IN FLORIDA WHICH IS PLANNING TO TRIAL A  
17 VSAT NETWORK THIS FALL WITH SUBSEQUENT INSTALLATION  
18 AT ALL LOCATIONS EARLY IN 1994. WITH THE FULL  
19 DEPLOYMENT OF THIS NETWORK, SOUTHERN BELL COULD  
20 LOSE NETWORK SERVICES AMOUNTING TO MORE THAN  
21 \$700,000 PER YEAR.

22  
23 AS DISCUSSED, THE NUMBERS OF COMPETITORS AND THEIR  
24 STRATEGIC ALLIANCES CONTINUE TO GROW, AS DOES THE  
25 VIABILITY OF THEIR OFFERINGS. THE PACE AT WHICH

1 THIS IS OCCURRING IS EXTREMELY RAPID AND IS  
2 EXPECTED TO ACCELERATE.

3

4 POLICY DECISIONS

5

6 Q. HAVE FEDERAL COMMUNICATIONS COMMISSION (FCC) POLICY  
7 DECISIONS ENCOURAGED FURTHER COMPETITION SINCE THE  
8 IMPLEMENTATION OF THE INCENTIVE SHARING PLAN?

9

10 A. YES. IN THE FEDERAL ARENA, THE FCC HAS ALLOWED  
11 GREATER COMPETITION THROUGH NUMEROUS POLICY  
12 DECISIONS. ON OCTOBER 19, 1992, FOR EXAMPLE, THE  
13 FCC ORDERED THE LECS TO OFFER PHYSICAL COLLOCATION  
14 TO ALL INTERCONNECTORS WHO REQUEST IT FOR THE  
15 PROVISION OF SPECIAL ACCESS SERVICES. AS A RESULT,  
16 LEC INTERSTATE TARIFFS BECAME EFFECTIVE IN JUNE FOR  
17 EXPANDED INTERCONNECTION SERVICE.

18

19 IN ADDITION, ON OCTOBER 16, 1992, THE FCC RELEASED  
20 A SECOND NOTICE OF PROPOSED RULEMAKING CONCERNING  
21 COLLOCATION OF TRANSMISSION EQUIPMENT FOR THE  
22 PROVISION OF SWITCHED TRANSPORT. THE FCC'S ACTIONS  
23 IN THIS PROCEEDING COULD HAVE SIGNIFICANTLY GREATER  
24 FINANCIAL IMPACT ON LECS BECAUSE THERE ARE  
25 SUBSTANTIALLY LARGER SWITCHED ACCESS REVENUES

1 INVOLVED. THE POTENTIAL EFFECT ON INTRASTATE  
2 SWITCHED AND SPECIAL ACCESS SERVICES WILL GROW AS A  
3 RESULT OF THESE FCC ACTIONS.

4  
5 THE FCC IS NOW WRESTLING WITH PCS ISSUES,  
6 INCLUDING, BUT NOT LIMITED TO, SPECTRUM ALLOCATION.  
7 WHEN RESOLVED, THESE ISSUES PROMISE TO SPARK PCS  
8 GROWTH WITH PROFOUND IMPLICATIONS, AS PCS MIGHT  
9 ULTIMATELY BECOME A RELIABLE AND COST EFFECTIVE  
10 ALTERNATIVE TO LOCAL WIRELINE SERVICES.

11

12 Q. WHAT FPSC DECISIONS IN FLORIDA HAVE ENCOURAGED  
13 COMPETITION?

14

15 A. THE FPSC HAS ESTABLISHED POLICIES THAT ENCOURAGE  
16 COMPETITION IN MANY AREAS. THESE INCLUDE OPERATOR,  
17 PRIVATE LINE, SPECIAL ACCESS, SHARED TENANT AND  
18 INTRALATA TOLL SERVICES.

19

20 SOME EXAMPLES SINCE 1988 INCLUDE FPSC ORDERS  
21 ALLOWING FOR OPERATION OF ALTERNATE OPERATOR  
22 SERVICE PROVIDERS, AUTHORIZING AAVS TO PROVIDE  
23 DEDICATED COMMUNICATIONS SERVICES BETWEEN  
24 AFFILIATED ENTITIES, AUTHORIZING SPECIAL ACCESS  
25 BETWEEN AN END USER AND AN IXC'S SWITCH, AND

1 AUTHORIZING LOCAL SERVICE RESALE FOR KEY SYSTEMS.

2

3 ANOTHER MAJOR FPSC DECISION ELIMINATED FLORIDA'S  
4 TOLL MONOPOLY AREAS, THEREBY ALLOWING IXCS TO  
5 PROVIDE INTRAEAEA INTEREXCHANGE TRANSPORT WITHOUT  
6 COMPENSATION TO SOUTHERN BELL. THE COMMISSION ALSO  
7 HAS OPENED A DOCKET TO CONSIDER INTRALATA  
8 PRESUBSCRIPTION.

9

10 Q. ARE THERE ANY DECISIONS PENDING BEFORE THE FLORIDA  
11 COMMISSION THAT WOULD AFFECT COMPETITION?

12

13 A. YES. THE COMMISSION RECENTLY OPENED THREE DOCKETS  
14 TO ADDRESS SOME KEY ISSUES THAT WILL AFFECT  
15 COMPETITION.

16

17 THE COMMISSION HAS INITIATED A DOCKET TO  
18 INVESTIGATE WHICH LOCAL EXCHANGE COMPANY SERVICES  
19 ARE EFFECTIVELY COMPETITIVE. THIS DOCKET COULD  
20 RESULT IN A CHANGE IN THE TYPE OF REGULATION THAT  
21 IS APPLIED TO ANY SERVICE DETERMINED TO BE  
22 EFFECTIVELY COMPETITIVE. ALSO, THE COMMISSION HAS  
23 INITIATED A DOCKET TO INVESTIGATE INTRALATA  
24 PRESUBSCRIPTION.

25

1        ADDITIONALLY, THE COMMISSION IS CURRENTLY ANALYZING  
2        INTERMEDIA'S PETITION FOR EXPANDED INTERCONNECTION  
3        FOR AAVS WITHIN LEC CENTRAL OFFICES. THIS DOCKET  
4        WILL ADDRESS THE IMPLICATIONS OF THE FCC'S DECISION  
5        AS APPLICABLE TO FLORIDA.

6  
7        THE THREE PENDING FPSC DOCKETS DESCRIBED ABOVE HAVE  
8        THE POTENTIAL TO CHANGE DRAMATICALLY THE PRICING  
9        AND PROVISIONING OF TOLL AND ACCESS SERVICES AS  
10       WELL AS THE VERY MANNER IN WHICH SOME SERVICES MAY  
11       BE REGULATED. SOUTHERN BELL WILL BE ACTIVELY  
12       INVOLVED IN THESE DOCKETS AS THEY UNFOLD.

13

14 Q.    WHAT IS THE OVERALL RESULT OF THESE MANY CHANGES IN  
15       THE TELECOMMUNICATIONS INDUSTRY, INCLUDING ADVANCES  
16       IN TECHNOLOGY, EMERGENCE OF NEW COMPETITORS,  
17       FORMATION OF STRATEGIC ALLIANCES, AND VARIOUS  
18       REGULATORY DECISIONS?

19

20 A.    THESE CHANGES WILL DEFINITELY INCREASE THE AMOUNT  
21       AND EXTENT OF COMPETITION THAT LECS WILL FACE IN  
22       ALL AREAS OF THEIR BUSINESS OPERATIONS. ALONG WITH  
23       THAT INCREASE IN COMPETITION COMES A SIGNIFICANT  
24       INCREASE IN BUSINESS RISK.

25

1        SECTION 3: EXTENDING THE INCENTIVE SHARING PLAN

2

3 Q.    HOW DO ALL OF THE CHANGES YOU HAVE DESCRIBED AFFECT  
4        SOUTHERN BELL'S PROPOSAL TO EXTEND ITS INCENTIVE  
5        SHARING PLAN?

6

7 A.    AS STATED PREVIOUSLY, SIGNIFICANT CHANGES IN  
8        COMPETITION, FEDERAL AND STATE POLICY AND INDUSTRY  
9        STRUCTURE HAVE OCCURRED SINCE 1988 AND HAVE  
10       ACCELERATED OVER THE LAST TWELVE MONTHS. THIS  
11       COMMISSION'S ACTIONS IN PENDING DOCKETS -- EXPANDED  
12       INTERCONNECTION, 1+ PRESUBSCRIPTION, IDENTIFICATION  
13       OF COMPETITIVE SERVICES AND THE APPROPRIATE  
14       REGULATION OF THESE SERVICES -- ALONE COULD  
15       SIGNIFICANTLY AFFECT THE LOCAL TELEPHONE BUSINESS  
16       AS WE KNOW IT TODAY.

17

18       THESE DOCKETS AND THEIR RELATED ISSUES, ALONG WITH  
19       THE EXPLOSION OF OTHER COMPETITIVE EVENTS, LEAD TO  
20       A LOGICAL CONCLUSION THAT REGULATION MUST CHANGE IN  
21       ORDER TO PROTECT THE RATEPAYER AND, AT THE SAME  
22       TIME, PROMOTE FAIR COMPETITION FOR ALL PROVIDERS OF  
23       TELECOMMUNICATIONS SERVICES. SOUTHERN BELL  
24       SUGGESTS THAT THE COMMISSION DEVELOP A  
25       COMPREHENSIVE STRUCTURE THAT ENABLES THE FPSC TO



1 EXAMINE INTERRELATED ISSUES AND DEVELOP APPROPRIATE  
2 INTEGRATED POLICY. AN OVERALL VIEW CANNOT BE  
3 OBTAINED IF EACH DOCKET AND THE RELATED ISSUES ARE  
4 REVIEWED IN ISOLATION. IN THE INTERIM, WE ARE  
5 REQUESTING AN EXTENSION OF THE CURRENT INCENTIVE  
6 SHARING PLAN WITH ITS EXISTING PARAMETERS.

7  
8 Q. WHAT ARE THE CURRENT EARNINGS PARAMETERS FOR THE  
9 INCENTIVE SHARING PLAN?

10

11 A. THEY ARE:

12

13 - 11.5% ROE AUTHORIZED FLOOR  
14 - 14.0% ROE SHARING BEGINS  
15 - 16.0% ROE AUTHORIZED CEILING AFTER SHARING  
16 - 60:40 CUSTOMERS/COMPANY SHARING RATIO

17

18 ADDITIONALLY, THOSE EARNINGS THAT ARE EXCLUDED FROM  
19 SHARING ("IN THE BOX") WOULD REMAIN THE SAME: ALL  
20 RATE CHANGES OTHER THAN REGROUPINGS; CHANGES  
21 RESULTING FROM SIGNIFICANT GOVERNMENTAL ACTIONS,  
22 SUCH AS TAX CHANGES, SEPARATIONS CHANGES AND  
23 DEPRECIATION CHANGES, WITH A MINIMUM IMPACT OF  
24 \$3,000,000 ON REVENUE REQUIREMENT; REFINANCING OF  
25 HIGHER COST DEBT; AND, MAJOR TECHNOLOGICAL CHANGES.

1

2 Q. SHOULD RATES BE RESET AS PART OF THE EXTENSION OF  
3 THE PLAN?

4

5 A. NO. WHEN THE INCENTIVE SHARING PLAN WAS  
6 ESTABLISHED, THE COMMISSION ADOPTED A BROAD RANGE  
7 OF REASONABLENESS (11.5% - 16.0% ROE) IN  
8 CONJUNCTION WITH THE EARNINGS SHARING MECHANISM IN  
9 ITS EFFORT TO ENCOURAGE EFFICIENCY AND INNOVATION.  
10 IF EXISTING RATES, AFTER THE ADOPTION OF THE  
11 CHANGES PROPOSED BY MS. SIMS IN HER TESTIMONY,  
12 PRODUCE EARNINGS WHICH FALL WITHIN THIS ZONE OF  
13 REASONABLENESS, THEN SUCH RATES SHOULD BE DEEMED  
14 JUST AND REASONABLE.

15

16 ADDITIONAL ADJUSTMENTS SHOULD NOT BE REQUIRED  
17 UNLESS ACTUAL EARNINGS TRIGGER ONE OF THE EARNINGS  
18 THRESHOLDS, I.E. THE FLOOR OF 11.5% OR THE  
19 THRESHOLD POINT WHERE SHARING BEGINS AT 14.0%. THE  
20 RANGE BETWEEN THE FLOOR AND THE SHARING THRESHOLD  
21 POINT IS A NEUTRAL ZONE WHERE NO RATE ADJUSTMENTS  
22 ARE NECESSARY.

23

24 AS DESCRIBED IN MR. REID'S TESTIMONY, SOUTHERN  
25 BELL'S PROJECTED EARNINGS FOR 1994 FALL WITHIN THIS

1 NEUTRAL ZONE. IF RATES WERE TO BE ADJUSTED  
2 DOWNWARD TO THE RATESETTING POINT, THEN ANY  
3 EFFICIENCIES GAINED BY SOUTHERN BELL OVER THE LAST  
4 FIVE YEARS WOULD BE TAKEN AWAY. THIS WOULD DENY  
5 THE REWARD SIDE OF INCENTIVE REGULATION.  
6 BASICALLY, WE ARE SAYING LET THE EARNINGS SHARING  
7 MECHANISM WORK AS IT WAS ORIGINALLY STRUCTURED.

8

9 Q. HOW LONG SHOULD THE PLAN BE EXTENDED?

10

11 A. SOUTHERN BELL DOES NOT BELIEVE THAT THERE SHOULD BE  
12 A DEFINED PERIOD FOR THE EXTENSION. THIS EXTENSION  
13 WILL NOT PRECLUDE US FROM SEEKING, NOR THE  
14 COMMISSION FROM ADDRESSING, A MORE COMPREHENSIVE  
15 REGULATORY FRAMEWORK AT AN APPROPRIATE TIME.

16

17 Q. ARE THERE ANY OTHER ISSUES THAT YOU WOULD LIKE TO  
18 ADDRESS?

19

20 A. YES. SOUTHERN BELL'S WITNESS MS. NANCY SIMS  
21 DISCUSSES IN DETAIL THE \$49 MILLION CREDIT TO BE  
22 DISTRIBUTED AND OTHER PROPOSED RATE CHANGES. IN  
23 ADDITION THERE ARE TWO ISSUES THAT I WOULD LIKE TO  
24 ADDRESS BRIEFLY. SOUTHERN BELL'S WITNESS MR.  
25 WALTER REID WILL PROVIDE FURTHER DETAILS.

1

2 FIRST, THE COMPANY PROPOSES THE ESTABLISHMENT OF A  
3 CASUALTY LOSS RESERVE SIMILAR TO THE ONE RECENTLY  
4 APPROVED FOR FLORIDA POWER AND LIGHT. SUCH A  
5 RESERVE WOULD ASSIST IN PREPARING FOR SUCH NATURAL  
6 DISASTERS AS HURRICANE ANDREW, HURRICANE HUGO, AND  
7 THE WINTER STORM OF 1993. DUE TO THE RECENT  
8 INCREASE IN THE SEVERITY AND FREQUENCY OF SUCH  
9 DISASTERS, IT IS BECOMING MORE AND MORE DIFFICULT  
10 FOR COMPANIES TO SECURE REASONABLE INSURANCE ON  
11 OUTSIDE PLANT FACILITIES. AT THIS TIME THE COMPANY  
12 HAS BEEN ABLE TO SECURE ONLY \$20 MILLION IN OUTSIDE  
13 PLANT INSURANCE FOR 1993.

14

15 IT IS EVIDENT FROM THE DAMAGE CAUSED BY HURRICANE  
16 ANDREW THAT THE SIZE OF CASUALTY LOSSES CAN BE  
17 ENORMOUS AND THAT AVAILABLE INSURANCE IS NOT LIKELY  
18 TO BE SUFFICIENT. FOR EXAMPLE, THE COMPANY HAD  
19 \$70 MILLION IN OUTSIDE PLANT INSURANCE WHEN  
20 HURRICANE ANDREW HIT. SINCE THE CASUALTY LOSSES IN  
21 FLORIDA TOTALED IN EXCESS OF \$122 MILLION, THE  
22 COMPANY ABSORBED THE DIFFERENCE, WHICH IN TURN  
23 AFFECTED THE COMPANY'S EARNINGS.

24

25 IF FUNDS DO BECOME AVAILABLE IN THE FUTURE DUE TO

1 AMOUNTS FROM 1993 EXOGENOUS EVENTS, EARNINGS  
2 SHARING OR SET ASIDE AMOUNTS, THE COMMISSION SHOULD  
3 CONSIDER DESIGNATING A PORTION OF THE FUNDS TOWARD  
4 A CASUALTY RESERVE. THE COMPANY ALSO PROPOSES TO  
5 ACCRUE \$6 MILLION OF EXPENSE PER YEAR BEGINNING IN  
6 1994 TO A RESERVE FOR CASUALTY DAMAGES.

7  
8 SECOND, THE COMPANY PROPOSES THAT THE RESERVE  
9 DEFICIT CREATED BY HURRICANE ANDREW BE TREATED AS  
10 AN EXOGENOUS EXPENSE IN 1993. SINCE EXTRAORDINARY  
11 RETIREMENT OF PLANT DUE TO HURRICANE ANDREW WAS NOT  
12 CONSIDERED WHEN DEPRECIATION RATES WERE RESET, THIS  
13 ACTION WOULD ALLOW FOR A PARTIAL OFFSET TO THE  
14 REDUCTION IN DEPRECIATION EXPENSE CREATED BY ORDER  
15 NO. PSC-93-0462-FOF-TL, DATED MARCH 25, 1993, IN  
16 DOCKET NO. 920385-TL.

17  
18 **SECTION 4: SUMMARY OF TESTIMONY**

19  
20 Q. PLEASE SUMMARIZE THE BENEFITS OF EXTENDING SOUTHERN  
21 BELL'S CURRENT INCENTIVE SHARING PLAN.

22  
23 A. IN 1988, THE COMMISSION RECOGNIZED FUNDAMENTAL  
24 CHANGES IN THE TELECOMMUNICATIONS INDUSTRY AND THE  
25 NEED TO PROVIDE ADDITIONAL INCENTIVES BEYOND THOSE

1 PROVIDED THROUGH TRADITIONAL REGULATORY PRACTICES.  
2 THE COMMISSION ADOPTED AN EARNINGS SHARING  
3 FRAMEWORK WHICH BROADENED THE EARNINGS RANGE OF  
4 REASONABLENESS TO ENCOURAGE ADDITIONAL EFFICIENCIES  
5 AND INNOVATION BY SOUTHERN BELL. IF SUCCESSFUL IN  
6 REACHING THE SHARING THRESHOLD, SOUTHERN BELL WOULD  
7 SHARE SUCH EARNINGS WITH CUSTOMERS. AT THE SAME  
8 TIME, CERTAIN UPFRONT BENEFITS WERE PUT INTO PLACE  
9 FOR CONSUMERS.

10

11 SOUTHERN BELL HAS IMPROVED OPERATING EFFICIENCIES,  
12 INTRODUCED NEW SERVICES AND INVESTED IN THE NETWORK  
13 TO MAKE FEATURES MORE WIDELY AVAILABLE AND LAY THE  
14 FOUNDATION FOR FUTURE OPTIONAL SERVICES. WE HAVE  
15 MAINTAINED QUALITY SERVICE, EXPANDED CUSTOMER  
16 SERVICE HOURS, AND MECHANIZED MORE SERVICE  
17 FUNCTIONS TO MEET CUSTOMER NEEDS AND EXPECTATIONS.

18

19 OVER THE PAST FIVE YEARS, CUSTOMERS HAVE BENEFITED  
20 FROM STABLE LOCAL RATES, REDUCTIONS IN PRICES OF  
21 CERTAIN SERVICES, AND THE INTRODUCTION AND  
22 EXPANSION OF NEW SERVICES. CUSTOMERS WILL CONTINUE  
23 TO BENEFIT FROM THESE ACTIONS AND ALSO FROM THE  
24 COMPANY'S INVESTMENT IN ITS NETWORK, WHICH IN TURN  
25 HELPS PROMOTE ECONOMIC DEVELOPMENT FOR THE STATE OF

1 FLORIDA.

2

3 SOUTHERN BELL'S EARNINGS HAVE BEEN WITHIN THE  
4 AUTHORIZED RANGE ESTABLISHED IN THE SHARING  
5 FRAMEWORK. WHILE WE HAVE STREAMLINED PROCEDURES  
6 AND REDUCED COST, WE DID NOT FORESEE THE SEVERITY  
7 OR LENGTH OF THE CURRENT RECESSION OR THE  
8 DEVASTATING DISASTER OF HURRICANE ANDREW. WE  
9 RECOGNIZED FROM THE OUTSET THAT THE INCENTIVE  
10 SHARING PLAN CARRIED ADDITIONAL RISKS AS WELL AS  
11 THE POTENTIAL FOR ADDITIONAL REWARDS. WE HAVE  
12 EXPERIENCED THE RISKS, AND NOW WE MUST BE ALLOWED  
13 TO BENEFIT FROM THE ACCOMPLISHMENTS WE HAVE  
14 ACHIEVED DURING THE LAST FIVE YEARS.

15

16 WE ARE REQUESTING AN EXTENSION OF THE INCENTIVE  
17 SHARING PLAN. WE BELIEVE THAT CURRENT RATES  
18 ADJUSTED FOR OUR PROPOSED CHANGES ARE APPROPRIATE  
19 AND THAT THE EXISTING SHARING PARAMETERS PROVIDE  
20 REASONABLE INCENTIVES AT THIS TIME. WE URGE THE  
21 COMMISSION TO APPROVE THE CONTINUANCE OF THIS PLAN.

22

23 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

24

25 A. YES, IT DOES.

DAVID B. DENTON

STATE DOCKET ACTIVITY

<u>STATE</u>	<u>YEAR</u>	<u>DOCKET</u>	
FLORIDA	1985	No. 820537-TP, Intrastate Access Charges for Toll Use of Local Exchange Services	
	1986	No. 820537-TP, Intrastate Access Charges for Toll Use of Local Exchange Services - Bypass Restriction	
	1987	No. 860984-TP, Intrastate Access Charges for Toll Use of Local Exchange Services - Recovery of Non-traffic Sensitive Costs	
	1988	No. 860984-TP, Investigation into NTS Cost Recovery-Phase II Level	
	1988	No. 880069-TL, Petition for Rate Stabilization and Implementation Orders and Other Relief	
	1988	No. 871394-TP, Alternative Operator Services	
	1988	No. 871254-TL, Investigation into Regulatory Flexibility for LECs	
	1989	No. 880812-TP, Investigation into Equal Access Exchange Areas (EAEAs), Toll Monopoly Areas (TMAs), 1+ Restriction and Elimination of the Access Discount	
	1990	No. 880069-TL, Petition for Rate Stabilization and Implementation Orders and Other Relief	
	1991	No. 890183-TL, General Investigation Into the Operations of Alternate Access Vendors	
	1993	No. 910757-TP, Investigation Into the Regulatory Safe Guards Required to Prevent Cross-Subsidization by Telephone Companies	
	GEORGIA	1974	No. 2632-U, General Rate Application
		1982	No. 3369-U, WATS Restructure and Resale
1984		No. 3494-U, Resale of Local Exchange Service Via Privately Provided Coin Phones	
1985		No. 3430-U, Intrastate Access Charges	
1985		No. 3488-U, Regulation of Intrastate Interexchange Resellers	
1985		No. 3518-U, General Rate Application	
	1986	No. 3550-U, Restructuring of Outward WATS and 800 Services	



STATE DOCKET ACTIVITY, cont.

<b>Georgia</b>	1987	No. 3710-U, Uniform Telephone Charges for Selected Services
	1988	No. 3783-U, Alternative Operator Services
	1988	No. 3765-U, ESSX and Digital ESSX Tariff Filing
	1989	No. 3821-U, IntraLATA Toll Compensation
	1989	No. 3883-U, AT&T's Petition for Investigation of the Level and Structure of Intrastate Access Charges
	1990	No. 3905-U, Rule NISI: Business Risk; BAPCO Contract Issues; MTS and WATS Rate Changes; Proposed Incentive Regulation Plan
	1990	No. 3921-U, Compliance With and Implementation of Senate Bill 524, Issue Related to Incentive Regulation
 <b>NORTH CAROLINA</b>		
	1974	No. P-55, Sub 733, General Rate Application
	1975	No. P-55, Sub 742, General Rate Application
	1975	No. P-100, Sub 34, Application to Change Toll Prices
	1982	No. P-100, Sub 61, Resale of Telecommunication Services
	1985	No. P-100, Sub 72, Resale of InterLATA WATS and MTS
	1985	No. P-100, Sub 72, Resale of IntraLATA WATS and MTS
	1986	No. P-100, Sub 86, Restructuring of Outward WATS and 800 Services
	1986	No. P-140, Sub 9, ATT-C General Rate Application
	1986	No. P-100, Sub 72, IntraLATA Competition
	1986	No. P-100, Sub 65, Access Charges
	1987	No. P-100, Sub 65 and 72, Billing of Dedicated Access Line and the Dedicated Access Line Extender
	1987	No. P-100, Sub 65 and 72, Access Charges and IntraLATA Competition

STATE DOCKET ACTIVITY, cont.

<b>SOUTH CAROLINA</b>	1981	No. 81-28-C, Application of TSI, Inc. for a Certificate of Public Convenience and Necessity
	1984	No. 82-134-C, Exchange Network Access Facilities Tariff
	1985	No. 82-134-C, IntraLATA One-Plus Dialing
	1985	Nos. 84-430C, 431C, 433C, 435C, 452C, Applications of Resellers for Certificates of Public Convenience and Necessity
	1985	No. 85-157-C, Application of PalmettoNet, Inc. for a Certificate of Public Convenience and Necessity
	1986	No. 86-10-C, Proposal of ATT-C to Provide Custom Network Services
	1986	No. 82-134-C, Exchange Network Access Facilities Tariff
	1987	No. 85-398-0, Pricing of Competitive/Supplemental Service Offerings
	1988	No. 88-74-C, ESSX and Digital ESSX Tariff Filing
	1988	No. 88-213-C, SouthernNet's Proposal to Introduce Operator Services
	1990	No. 90-305-C, Proceeding to Consider Allowing Local and IntraLATA 0+ Collect Authority for COCOT Providers Serving Confinement Facilities

1 SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY

2 TESTIMONY OF WALTER S. REID

3 BEFORE THE

4 FLORIDA PUBLIC SERVICE COMMISSION

5 DOCKET NO. 920260-TL

6 JULY 2, 1993

7

8

9 Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND  
10 POSITION WITH BELLSOUTH TELECOMMUNICATIONS, INC.

11

12 A. MY NAME IS WALTER S. REID, AND MY BUSINESS ADDRESS  
13 IS 675 WEST PEACHTREE STREET, ATLANTA, GEORGIA. MY  
14 POSITION IS DIRECTOR-REGULATORY MATTERS FOR THE  
15 COMPTROLLERS DEPARTMENT OF BELLSOUTH  
16 TELECOMMUNICATIONS, INC. D/B/A SOUTHERN BELL  
17 TELEPHONE AND TELEGRAPH COMPANY (SOUTHERN BELL OR  
18 THE COMPANY).

19

20 Q. BRIEFLY OUTLINE YOUR EDUCATIONAL BACKGROUND AND  
21 BUSINESS EXPERIENCE IN THE TELEPHONE INDUSTRY.

22

23 A. I RECEIVED BACHELOR AND MASTER OF SCIENCE DEGREES  
24 IN INDUSTRIAL ENGINEERING IN 1969 AND 1971,  
25 RESPECTIVELY, FROM THE GEORGIA INSTITUTE OF

1 TECHNOLOGY. I WAS EMPLOYED BY SOUTHERN BELL IN  
2 NOVEMBER, 1971, AS A MANAGEMENT TRAINEE IN THE  
3 COMPTROLLERS DEPARTMENT IN JACKSONVILLE, FLORIDA.  
4 SINCE THAT TIME I HAVE HELD VARIOUS POSITIONS OF  
5 INCREASING RESPONSIBILITY IN THE AREAS OF BUDGET  
6 AND FORECAST PREPARATION, COST ACCOUNTING,  
7 SEPARATIONS, AND REGULATORY MATTERS. I WAS  
8 TRANSFERRED TO MY CURRENT POSITION AT COMPANY  
9 HEADQUARTERS IN OCTOBER 1987.

10

11 Q. WHAT ARE YOUR GENERAL AREAS OF RESPONSIBILITIES?

12

13 A. I AM RESPONSIBLE FOR THE PREPARATION AND ANALYSIS  
14 OF THE COMPANY'S INTRASTATE FINANCIAL RESULTS, THE  
15 PROVISION OF ACCOUNTING INFORMATION REQUESTED IN  
16 PROCEEDINGS BEFORE STATE REGULATORY COMMISSIONS AND  
17 THE COORDINATION OF OTHER REGULATORY ACTIVITIES.

18

19 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

20

21 A. IN THIS PROCEEDING THE COMPANY IS REPORTING ITS  
22 PERFORMANCE UNDER AN INCENTIVE SHARING PLAN  
23 ESTABLISHED IN LATE 1988, AND IS PROPOSING TO  
24 CONTINUE TO OPERATE UNDER THIS PLAN FOR 1993 AND  
25 THEREAFTER. MY TESTIMONY ADDRESSES: 1) SOUTHERN

1 BELL'S FINANCIAL PERFORMANCE UNDER THE INCENTIVE  
2 SHARING PLAN, 2) SOUTHERN BELL'S CURRENT GOING  
3 LEVEL EARNINGS POSITION, AND 3) THE EARNINGS  
4 CONSEQUENCES OF EXTENDING THE INCENTIVE SHARING  
5 PLAN AS THE COMPANY PROPOSES.

6  
7 MY TESTIMONY WILL DEMONSTRATE THAT FLORIDA  
8 RATEPAYERS HAVE BENEFITED DURING THE PERIOD OF THE  
9 SHARING PLAN THROUGH THE COMPANY'S DECLINING LEVEL  
10 OF COST OF SERVICE PER ACCESS LINE. WHILE THE  
11 COMPANY HAS NOT REACHED THE EARNINGS LEVEL AT WHICH  
12 SHARING WOULD BE TRIGGERED UNDER THE CURRENT  
13 INCENTIVE PLAN, THE COMPANY HAS BEEN ABLE TO  
14 ACHIEVE REDUCED LEVELS OF COST OF SERVICE IN SPITE  
15 OF JURISDICTIONAL COST OF SERVICE SHIFTS FROM  
16 INTERSTATE TO INTRASTATE OPERATIONS, THE OCCURRENCE  
17 OF THE WORST HURRICANE IN THE NATION'S HISTORY, AND  
18 A GENERAL DOWNTURN IN THE ECONOMY. RATEPAYERS HAVE  
19 BENEFITED THROUGH STABLE RATES DURING THIS TIME.  
20 AN EXTENSION OF THE PLAN AS PROPOSED IN SOUTHERN  
21 BELL WITNESS DAVID B. DENTON'S TESTIMONY IS  
22 THEREFORE APPROPRIATELY SUPPORTED BY THE FINANCIAL  
23 ACHIEVEMENTS OF THE COMPANY DURING THE INITIAL  
24 PERIOD OF THE INCENTIVE SHARING PLAN.

25

1        SOUTHERN BELL'S PERFORMANCE UNDER THE INCENTIVE  
2        SHARING PLAN

3

4 Q.    HOW HAVE YOU QUANTIFIED THE ACHIEVED REGULATED  
5        EARNINGS LEVEL OF THE COMPANY'S FLORIDA OPERATIONS?

6

7 A.    FLORIDA PUBLIC SERVICE COMMISSION (PSC) RULE  
8        25-4.0245 REQUIRES THE COMPANY TO FILE A PERIODIC  
9        EARNINGS REPORT WITH THE COMMISSION. THE PSC STAFF  
10       HAS HISTORICALLY SPECIFIED THE FORMAT FOR THIS  
11       REPORT AND HAS FREQUENTLY REVIEWED UNDERLYING  
12       FINANCIAL RECORDS OF THE COMPANY TO ENSURE THE  
13       ACCURACY OF THE REPORTED INFORMATION. THIS  
14       PERIODIC EARNINGS REPORT IS COMMONLY REFERRED TO AS  
15       THE FLORIDA SURVEILLANCE REPORT. I HAVE INCLUDED  
16       AS APPENDIX NO. 1, EXHIBIT WSR-4, TO MY TESTIMONY  
17       COPIES OF THE CALENDAR YEAR FLORIDA SURVEILLANCE  
18       REPORTS FOR 1984-1992.

19

20       UNDER THE REQUIRED FORMAT FOR THE SURVEILLANCE  
21       REPORT, THE COMPANY MUST REPORT AMOUNTS FROM ITS  
22       BOOKS AND RECORDS FOR REVENUES, EXPENSES, TAXES,  
23       NET OPERATING INCOME, RATE BASE AND CAPITAL  
24       STRUCTURE ITEMS. RATES OF RETURN ON INTRASTATE  
25       RATE BASE AND EQUITY ARE ALSO REPORTED. THE

1 COMPANY ADJUSTS THE REPORTED "PER BOOK" EARNINGS  
2 INFORMATION FOR COMMISSION ALLOWANCES,  
3 DISALLOWANCES, OR SPECIAL ACCOUNTING CONVENTIONS.  
4 THE COMMISSION ADJUSTMENTS ARE GUIDED BY THE  
5 ADJUSTMENTS REQUIRED IN THE COMPANY'S LAST FORMAL  
6 RATE PROCEEDING AND IN COMMISSION RULES. THE  
7 HISTORICAL DATA UTILIZED IN MY TESTIMONY IS  
8 PRIMARILY DERIVED FROM THE SURVEILLANCE REPORTS IN  
9 MY APPENDIX NO. 1.

10

11 Q. HAVE YOU COMPARED THE COMPANY'S FINANCIAL RESULTS  
12 UNDER THE INCENTIVE SHARING PLAN WITH PRIOR PERIODS  
13 UNDER TRADITIONAL REGULATION?

14

15 A. YES. MY EXHIBIT WSR-1, PAGES 1 THROUGH 4, DETAIL  
16 SEVERAL COMPARISONS WHICH I HAVE MADE FOR CERTAIN  
17 KEY INTRASTATE FINANCIAL STATISTICS DURING THE  
18 PERIOD 1984-1992. I HAVE REPORTED THE DATA ON BOTH  
19 A GROSS DOLLAR BASIS AND A DOLLAR PER ACCESS LINE  
20 BASIS. THIS LATTER ANALYSIS REFLECTS THE RELATIVE  
21 GROWTH IN CUSTOMERS BEING SERVED. I HAVE ALSO  
22 CALCULATED A TOTAL INTRASTATE REVENUE REQUIREMENT  
23 PER ACCESS LINE FOR EACH YEAR TO DEMONSTRATE THE  
24 TREND IN TOTAL INTRASTATE COST OF SERVICE PER  
25 CUSTOMER. I PERFORMED THE REVENUE REQUIREMENT PER

1 ACCESS LINE CALCULATIONS ASSUMING A CONSTANT RETURN  
2 ON EQUITY (ROE) REQUIREMENT OVER THE PERIOD TO  
3 ELIMINATE ANY FLUCTUATION DUE TO CHANGES IN  
4 AUTHORIZED ROE.

5  
6 I PERFORMED AN ADDITIONAL SET OF REVENUE  
7 REQUIREMENT PER ACCESS LINE CALCULATIONS ASSUMING  
8 BOTH A CONSTANT ROE REQUIREMENT AND A CONSTANT  
9 COMPOSITE DEPRECIATION RATE TO ELIMINATE  
10 FLUCTUATIONS IN DEPRECIATION EXPENSE. FOR THIS SET  
11 OF CALCULATIONS I ALSO REMOVED THE EXPENSE EFFECTS  
12 OF HURICANE ANDREW FROM 1992 RESULTS.

13

14 Q. WHAT CONCLUSIONS DO YOU REACH REGARDING THE  
15 COMPANY'S COST OF SERVICE PERFORMANCE DURING THE  
16 INCENTIVE SHARING PLAN YEARS AS COMPARED TO THE  
17 YEARS BEFORE THE PLAN?

18

19 A. THE INCENTIVE SHARING PLAN WAS APPROVED BY THE  
20 COMMISSION IN LATE 1988. THE FULL YEARS UNDER THE  
21 PLAN ARE, THEREFORE, 1989-1992. BASED ON MY  
22 ANALYSIS IT IS EVIDENT THAT THE COMPANY'S  
23 INTRASTATE COST OF SERVICE ON A PER CUSTOMER BASIS  
24 IS LOWER FOR THE INCENTIVE PLAN YEARS THAN FOR THE  
25 YEARS PRIOR TO THE PLAN. THIS IS TRUE ON AN



1 ABSOLUTE DOLLAR BASIS EVEN WITHOUT CONSIDERING THAT  
2 INFLATION HAS MADE THE DOLLAR WORTH LESS EACH YEAR  
3 AND THAT THE COMPANY IS PROVIDING MORE SERVICES TO  
4 ITS CUSTOMERS TODAY THAN IN THE PAST.

5  
6 TO VISUALLY DEMONSTRATE THE RESULTS OF MY ANALYSIS,  
7 I PREPARED THE THREE CHARTS AS SHOWN ON WSR-1, PAGE  
8 4. THE FIRST CHART GRAPHICALLY DEPICTS MY ANALYSIS  
9 OF REVENUE REQUIREMENTS PER ACCESS LINE ON A PER  
10 BOOK BASIS. THE SECOND CHART PRESENTS THIS  
11 ANALYSIS ON A COMMISSION ADJUSTED BASIS. THE THIRD  
12 CHART PROVIDES A GRAPH OF REVENUE REQUIREMENTS PER  
13 ACCESS LINE RESTATED ON A CONSTANT DEPRECIATION  
14 BASIS. THE Y-AXIS FOR EACH GRAPH REPRESENTS THE  
15 REVENUE REQUIREMENTS PER ACCESS LINE AMOUNTS  
16 OBTAINED FROM THE THREE ANALYSES SHOWN ON PAGES 1  
17 THROUGH 3 OF WSR-1. THE X-AXIS FOR EACH GRAPH  
18 REPRESENTS THE CALENDAR YEARS UNDER REPORT.  
19 ALTHOUGH EACH CHART REPRESENTS A SOMEWHAT DIFFERENT  
20 ANALYSIS OF THE ACTUAL RESULTS FOR 1984-1992, THEY  
21 ALL DEMONSTRATE THAT THE COMPANY HAS ACHIEVED  
22 SIGNIFICANT IMPROVEMENT IN ITS TOTAL COST OF  
23 SERVICE DURING THE INCENTIVE PLAN YEARS.

24  
25 BASED ON MY ANALYSIS IT APPEARS THAT THE FAVORABLE

1 COST OF SERVICE PERFORMANCE BY THE COMPANY HAS BEEN  
2 ACHIEVED THROUGH A COMBINATION OF EXPENSE CONTROL  
3 AND CAPITAL EFFICIENCIES. BOTH EXPENSES (OTHER  
4 THAN DEPRECIATION) PER ACCESS LINE AND RATE BASE  
5 PER ACCESS LINE AMOUNTS SHOW A TREND OF IMPROVEMENT  
6 OVER THE PERIOD STUDIED.

7

8 Q. TURNING TO THE INDIVIDUAL PAGES, 1 THROUGH 3, OF  
9 YOUR EXHIBIT WSR-1, WILL YOU EXPLAIN WHAT EACH OF  
10 THESE REPRESENTS?

11

12 A. YES. PAGE 1 OF EXHIBIT WSR-1, ENTITLED "TRENDS IN  
13 FLORIDA FINANCIAL STATISTICS - PER BOOK INTRASTATE  
14 AMOUNTS", IS SEPARATED INTO TWO PARTS. THE TOP  
15 HALF OF THE SCHEDULE REFLECTS THE DOLLAR AMOUNT FOR  
16 EACH OF THE MAJOR COMPONENTS OF INTRASTATE COST OF  
17 SERVICE (I.E., TOTAL REVENUE REQUIREMENTS). THE  
18 FIRST COLUMN LISTS SPECIFIC COST OF SERVICE ITEMS.  
19 EACH SUBSEQUENT COLUMN REPORTS THE DOLLAR AMOUNTS  
20 FOR A CALENDAR YEAR CORRESPONDING TO THE ITEMS  
21 LISTED IN THE FIRST COLUMN. THE LOWER HALF OF THE  
22 EXHIBIT REFLECTS THE SAME INFORMATION AS THE TOP  
23 HALF EXCEPT THAT IT IS STATED ON A PER ACCESS LINE  
24 BASIS.

25

1 THE REVENUES, EXPENSES, TAXES, NET OPERATING INCOME  
2 AND RATE BASE NUMBERS PRESENTED ON THIS EXHIBIT  
3 WERE DERIVED DIRECTLY FROM THE FLORIDA SURVEILLANCE  
4 REPORTS. THE NUMBERS ARE PER BOOKS WITH NO  
5 COMMISSION ADJUSTMENTS APPLIED. FOR 1990, 1991 AND  
6 1992 RESULTS, I MADE AN ADJUSTMENT TO REMOVE \$3.7  
7 MILLION, \$9.3 MILLION, AND \$13.2 MILLION  
8 RESPECTIVELY, FROM INTRASTATE REVENUES AND AN EQUAL  
9 AMOUNT FROM OTHER TAXES TO RECOGNIZE THE INCREASES  
10 IN GROSS RECEIPT TAXES IN THESE YEARS. THESE GROSS  
11 RECEIPTS TAX AMOUNTS ARE "PASS ON" TAXES WHICH ARE  
12 NOT INCLUDED IN THE COMPANY'S REVENUE REQUIREMENTS  
13 FOR RATESETTING PURPOSES AND THEREFORE SHOULD BE  
14 REMOVED FOR THIS ANALYSIS. THE ACCESS LINES USED  
15 ARE THE AVERAGE NUMBERS REPORTED ON SCHEDULE Z-10  
16 (OR ITS PREDECESSOR FORM) OF THE ANNUAL REPORT OF  
17 SOUTHERN BELL TO THE FLORIDA PSC (COMMONLY REFERRED  
18 TO AS THE FLORIDA FORM M REPORT). THE AMOUNT  
19 LISTED AS "RETURN REQUIRED" IS THE AMOUNT OF NET  
20 OPERATING INCOME WHICH WOULD HAVE BEEN REQUIRED  
21 GIVEN THE PER BOOKS RATE BASE, THE CAPITAL  
22 STRUCTURE AND COST RATES REPORTED IN THE  
23 SURVEILLANCE REPORT, AND A COST OF EQUITY CAPITAL  
24 OF 15%. FOR PURPOSES OF THIS CALCULATION, I  
25 APPLIED THE CURRENT REGULATORY TREATMENT FOR

1 HANDLING THE EARNINGS REQUIREMENT FOR UNAMORTIZED  
2 INVESTMENT TAX CREDITS TO ALL YEARS.

3

4 THE CALCULATIONS SHOW THAT ON A PER BOOKS BASIS,  
5 INTRASTATE COST OF SERVICE PER ACCESS LINE WAS  
6 \$511.83 IN 1984 AND ONLY \$497.80 IN 1992. THE FULL  
7 CALENDAR YEARS AFTER INCENTIVE REGULATION BEGAN  
8 (I.E., 1989, 1990, 1991 AND 1992) HAVE  
9 SIGNIFICANTLY LOWER COST OF SERVICE PER ACCESS LINE  
10 NUMBERS THAN THE YEARS PRIOR TO INCENTIVE  
11 REGULATION.

12

13 Q. PLEASE EXPLAIN PAGE 2 OF WSR-1, ENTITLED "TRENDS IN  
14 FLORIDA FINANCIAL STATISTICS-COMMISSION ADJUSTED  
15 ACHIEVED BASIS".

16

17 A. THE FORMAT FOR THIS ANALYSIS IS IDENTICAL TO  
18 PAGE 1 OF THE EXHIBIT. THE AMOUNTS INCLUDED IN  
19 EACH COLUMN REPRESENT PER BOOKS INFORMATION  
20 ADJUSTED FOR COMMISSION ALLOWANCES, DISALLOWANCES  
21 OR SPECIAL ACCOUNTING CONVENTIONS. FOR YEARS  
22 1987-1992 THE ADJUSTED AMOUNTS CAN BE FOUND  
23 ON THE SURVEILLANCE REPORTS. I MADE THE SAME  
24 ADJUSTMENT TO THIS DATA TO REMOVE THE AMOUNT OF THE  
25 GROSS RECEIPTS TAX WHICH IS PASSED ON DIRECTLY TO

1 RATEPAYERS AS I DISCUSSED IN THE PER BOOKS  
2 ANALYSIS. FOR YEARS 1984-1986, I HAD TO CALCULATE  
3 THE ADJUSTED TOTALS FROM THE PER BOOKS AND  
4 COMMISSION ADJUSTMENTS ITEMS SINCE THE SURVEILLANCE  
5 REPORT DID NOT REPORT AN ADJUSTED ACHIEVED AMOUNT  
6 DURING THESE YEARS.

7  
8 THE ADJUSTED RESULTS TREAT "OUT OF PERIOD"  
9 ACCOUNTING ENTRIES IN THE PERIOD TO WHICH THEY ARE  
10 APPLICABLE. FOR THIS REASON, THE TREND IN COST OF  
11 SERVICE PER ACCESS LINE SHOWN ON PAGE 2 IS MORE  
12 REPRESENTATIVE OF PURE YEAR TO YEAR OPERATIONS  
13 CHANGES THAN THE CORRESPONDING INFORMATION ON  
14 PAGE 1.

15  
16 BASED ON THE ADJUSTED RESULTS SHOWN ON PAGE 2, IT  
17 IS STILL EVIDENT THAT FLORIDA CUSTOMERS HAVE  
18 BENEFITED BY LOWER COST OF SERVICE PER ACCESS LINE  
19 DURING THE INCENTIVE PLAN YEARS 1989-1992. THE  
20 INTRASTATE COST OF SERVICE PER ACCESS LINE IS  
21 \$510.98, \$521.20, \$522.86, \$502.59, \$520.10,  
22 \$499.03, \$495.74, \$498.58, AND \$501.83 FOR THE  
23 YEARS 1984-1992 RESPECTIVELY. THE DECREASE IN THE  
24 YEAR 1987 WHEN COMPARED TO THE YEAR 1986 IS DUE IN  
25 LARGE PART TO THE CHANGE IN THE FEDERAL INCOME TAX

1 RATE FROM 46% TO 34%. THE INCREASE FOR 1988 IS  
2 PRIMARILY DUE TO INCREASED DEPRECIATION EXPENSE AND  
3 THE IMPLEMENTATION OF PART 32 ACCOUNTING  
4 PROCEDURES. THE INCREASE IN 1991 IS PRIMARILY DUE  
5 TO EXPENSES ASSOCIATED WITH AN EARLY RETIREMENT  
6 PLAN WHICH THE COMPANY IMPLEMENTED AS A MEANS TO  
7 REDUCE COST AND INCREASE PRODUCTIVITY. THE YEAR  
8 1992 IS SIGNIFICANTLY IMPACTED DUE TO HURRICANE  
9 ANDREW EXPENSES WHICH ARE BEING AMORTIZED OVER A  
10 FIVE YEAR PERIOD, 1992-1996.

11

12 Q. WOULD YOU EXPLAIN PAGE 3 OF WSR-1, ENTITLED  
13 "INTRASTATE ACHIEVED AMOUNTS ADJUSTED FOR CONSTANT  
14 DEPRECIATION"?

15

16 A. YES. EXHIBIT WSR-1, PAGE 3, SHOWS A FINAL ANALYSIS  
17 WHICH I PERFORMED ON THE FINANCIAL STATISTICS FOR  
18 1984-1992. THIS ANALYSIS HAS THE SAME FORMAT AS  
19 PAGES 1 AND 2. THE DATA USED IN THIS ANALYSIS IS  
20 PAGE 2 DATA ADJUSTED TO REFLECT DEPRECIATION  
21 EXPENSE FOR EACH YEAR AS IF IT HAD BEEN CALCULATED  
22 TO YIELD A CONSTANT RELATIONSHIP TO PLANT IN  
23 SERVICE (I.E., A CONSTANT COMPOSITE DEPRECIATION  
24 RATE) AND ADJUSTED TO REMOVE HURRICANE ANDREW  
25 EXPENSES FROM 1992 RESULTS. THE PURPOSE OF THIS

1 ANALYSIS IS TO ELIMINATE THE IMPACT OF CHANGING  
2 CAPITAL RECOVERY RATES AND THE IMPACT OF THE  
3 HURRICANE FROM THE COST OF SERVICE TREND.

4

5 THE RESULTS OF THIS ANALYSIS FURTHER SUPPORT THE  
6 FACT THAT INTRASTATE COST OF SERVICE IS  
7 SIGNIFICANTLY LOWER DURING THE INCENTIVE REGULATION  
8 YEARS THAN IN PRIOR PERIODS. USING THIS  
9 METHODOLOGY THE INTRASTATE COST OF SERVICE IS  
10 \$533.71, \$540.96, \$529.48, \$498.48, \$503.30,  
11 \$491.99, \$489.76, \$486.21, AND \$486.02 FOR THE  
12 YEARS 1984-1992, RESPECTIVELY.

13

14 Q. CAN YOU QUANTIFY HOW MUCH OF THE IMPROVEMENT IN  
15 COST OF SERVICE IS DIRECTLY RELATED TO INCENTIVE  
16 REGULATION?

17

18 A. NO, NOT DIRECTLY. SINCE IT IS NOT POSSIBLE TO  
19 RECREATE WHAT "WOULD HAVE BEEN" UNDER A DIFFERENT  
20 SET OF REGULATORY PRACTICES, I CANNOT CALCULATE A  
21 SPECIFIC DOLLAR BENEFIT. HOWEVER, I DO AGREE WITH  
22 THE COMMISSION'S STATEMENT IN ORDER NO. 20162 OF  
23 DOCKET NO. 880069-TL, PAGE 6 WHERE IT READS:

24

25 ...WE DO BELIEVE THAT THIS PROGRAM WILL

1 PROVIDE MORE INCENTIVE TO SOUTHERN BELL THAN  
2 THE PRESENT PRACTICES OF REGULATION. THIS NEW  
3 REGIME SHOULD ENCOURAGE EFFICIENCY AND  
4 INNOVATION BY SOUTHERN BELL...

5  
6 WITH THE BELIEF THAT THIS REGULATORY PLAN DOES  
7 PROVIDE MORE INCENTIVE FOR THE COMPANY TO BE  
8 EFFICIENT AND THE DATA ON EXHIBIT WSR-1 WHICH  
9 DEMONSTRATES THAT INTRASTATE COST OF SERVICE IS  
10 IMPROVING, I THINK IT IS FAIR TO CONCLUDE THAT THE  
11 CONCEPT OF INCENTIVE REGULATION IS WORKING.

12

13 SOUTHERN BELL'S CURRENT GOING LEVEL EARNINGS

14

15 Q. HOW HAVE YOU CALCULATED THE COMPANY'S CURRENT GOING  
16 LEVEL INTRASTATE EARNINGS?

17

18 A. MY EXHIBIT WSR-2 DETAILS MY CALCULATIONS OF THE  
19 COMPANY'S INTRASTATE RATE BASE AND GOING LEVEL  
20 INTRASTATE NET OPERATING INCOME THAT ARE  
21 APPROPRIATE FOR USE IN THIS PROCEEDING TO MEASURE  
22 EXPECTED EARNINGS. FOR THESE CALCULATIONS I HAVE  
23 UTILIZED, AS A STARTING POINT, THE COMPANY'S 1993  
24 COMMITMENT BUDGET VIEW FOR REVENUES, OPERATING  
25 EXPENSES (EXCLUDING DEPRECIATION), CONSTRUCTION,



1 PLANT RETIREMENTS, AND SALVAGE. I CALCULATED  
2 MONTHLY BALANCES FOR PLANT IN SERVICE ACCOUNTS BY  
3 USING THE 1993 BEGINNING OF YEAR BALANCES, THEN  
4 ADDING CONSTRUCTION AMOUNTS FROM THE COMMITMENT  
5 VIEW AND SUBTRACTING THE PLANT RETIREMENTS AS  
6 APPROPRIATE. I CALCULATED DEPRECIATION EXPENSE BY  
7 APPLYING THE RATES AND SCHEDULES APPROVED BY THE  
8 COMMISSION'S ORDER NO. PSC-93-0462-FOF-TL IN DOCKET  
9 NO. 920385-TL WHICH WAS RELEASED ON MARCH 25, 1993.  
10 IN ADDITION I CALCULATED TAX EXPENSES BASED ON THE  
11 NEW DEPRECIATION AMOUNTS.

12  
13 FOR PURPOSES OF DETERMINING THE COMPANY'S GOING  
14 LEVEL EARNINGS, I HAVE UTILIZED FORECASTED 1993  
15 TEST YEAR DATA BECAUSE THE 1993 INFORMATION IS THE  
16 MOST REASONABLE DATA AVAILABLE FOR THIS PROCEEDING.  
17 ACTUAL 1992 RESULTS HAVE BEEN SIGNIFICANTLY  
18 IMPACTED BY HURRICANE ANDREW, AND THEREFORE, USE OF  
19 A HISTORICAL TEST YEAR WOULD NOT BE APPROPRIATE.  
20 THE COMPANY HAS A COMMITMENT VIEW OF 1993 WHICH IS  
21 BEING USED FOR INTERNAL BUDGET AND EARNINGS  
22 ANALYSIS PURPOSES. THE 1993 COMMITMENT VIEW DATA  
23 IS THE BASIC UNDERLYING DATA USED IN MY TESTIMONY.  
24 THE 1993 FORECAST CAN BE SUBSTANTIATED AND  
25 SUPPLEMENTED THROUGHOUT THE PROCEEDING WITH ACTUAL

1 MONTHLY DATA. A FORECAST OF THE YEAR 1994 IS NOT  
2 BEING USED IN THIS PROCEEDING BECAUSE THE COMPANY  
3 DOES NOT CURRENTLY HAVE A COMMITMENT VIEW OF 1994.

4  
5 BASED ON MY CALCULATIONS, THE COMPANY'S GOING LEVEL  
6 INTRASTATE RETURN ON RATE BASE IS 9.18%. THIS IS  
7 DETERMINED BY DIVIDING THE ADJUSTED INTRASTATE  
8 OPERATING INCOME OF \$372,338,000 BY THE ADJUSTED  
9 INTRASTATE RATE BASE OF \$4,057,462. THIS RETURN ON  
10 RATE BASE WOULD RESULT IN A 13.81% RETURN ON EQUITY  
11 USING THE CAPITAL STRUCTURE AND COST RATES IN MR.  
12 KECK'S TESTIMONY.

13

14 Q. PLEASE EXPLAIN THE IMPACT OF HURRICANE ANDREW AND  
15 HOW IT IS REFLECTED IN THE ACCOUNTING DATA FOR YOUR  
16 TESTIMONY?

17

18 A. HURRICANE ANDREW MADE LANDFALL SOUTH OF MIAMI ON  
19 AUGUST 24, 1992. THIS STORM WAS THE MOST  
20 DEVASTATING STORM IN U. S. HISTORY. ITS IMPACT ON  
21 THE PEOPLE OF SOUTH FLORIDA, THE SOUTH FLORIDA  
22 ECONOMY, AND THE COMPANY'S OPERATIONS WILL BE FELT  
23 FOR MANY YEARS. SOUTHERN BELL REACTED IMMEDIATELY  
24 TO THIS NATURAL DISASTER BY ORGANIZING REPAIR  
25 FORCES FROM THROUGHOUT THE 9 STATE BELLSOUTH REGION

1 AS WELL AS SOME FORCES FROM OTHER  
2 TELECOMMUNICATIONS COMPANIES. THE DAMAGE TO THE  
3 COMPANY'S FACILITIES WAS EXTENSIVE. MAJOR REPAIR  
4 EFFORTS INVOLVING HUNDREDS OF LOANED EMPLOYEES AND  
5 LONG HOURS FOR EVERYONE INVOLVED SPANNED THE  
6 REMAINING MONTHS OF 1992 AND CONTINUED THROUGH JUNE  
7 OF 1993.

8  
9 THE INCREMENTAL EXPENSE IMPACT OF REPAIRING THE  
10 HURRICANE DAMAGE WHICH SOUTHERN BELL IDENTIFIED AT  
11 THAT TIME WAS RECORDED IN 1992. THIS EXPENSE  
12 INCLUDED ACTUAL EXPENSES, EVALUATED AT \$122.1  
13 MILLION FOR AUGUST THROUGH DECEMBER 1992, PLUS AN  
14 ACCRUAL OF \$50.4 MILLION FOR THE ESTIMATED  
15 INCREMENTAL EXPENSES WHICH WOULD BE INCURRED IN  
16 1993, LESS INSURANCE PROCEEDS OF \$65.4 MILLION FOR  
17 A NET INCREMENTAL EXPENSE IMPACT OF \$107.1 MILLION.  
18 ON AN INTRASTATE BASIS THE NET INCREMENTAL  
19 HURRICANE RELATED EXPENSES WERE IDENTIFIED AS \$79.6  
20 MILLION.

21  
22 SINCE CASUALTY EXPENSES, SUCH AS STORM DAMAGES,  
23 HAVE HISTORICALLY BEEN TREATED FOR RATEMAKING  
24 PURPOSES BY THE FLORIDA PUBLIC SERVICE COMMISSION  
25 THROUGH A 5 YEAR AVERAGING PROCEDURE, SOUTHERN BELL

1 DETERMINED THAT IT WAS APPROPRIATE TO AMORTIZE THE  
2 INTRASTATE INCREMENTAL EXPENSE IMPACT IDENTIFIED  
3 ABOVE OVER 5 YEARS. TO ACCOMPLISH THIS  
4 AMORTIZATION, THE COMPANY CREDITED 1992 EXPENSES  
5 FOR \$79.6 MILLION TO REMOVE THE TOTAL INTRASTATE  
6 INCREMENTAL EXPENSE WHICH WAS ORIGINALLY IDENTIFIED  
7 AND THEN DEBITED 1992 EXPENSES FOR ONE-FIFTH OF  
8 THIS AMOUNT OR \$15.9 MILLION. INTRASTATE RESULTS  
9 FOR 1992, THEREFORE ONLY REFLECT ONE-FIFTH OF THE  
10 ENTIRE EXPENSE IMPACT OF HURRICANE ANDREW.

11

12 Q. WHAT IS THE ACCOUNTING JUSTIFICATION FOR AMORTIZING  
13 THE INTRASTATE HURRICANE EXPENSE OVER A 5 YEAR  
14 PERIOD?

15

16 A. AS PREVIOUSLY MENTIONED, THE FLORIDA PUBLIC SERVICE  
17 COMMISSION HAS HISTORICALLY REGULATED SOUTHERN  
18 BELL'S EARNINGS WITH A 5 YEAR AVERAGING PROCEDURE  
19 APPLIED TO CASUALTY EXPENSES. IN DOCKET NO.  
20 810035-TP FOR EXAMPLE, THE COMMISSION STATED THE  
21 FOLLOWING REGARDING CASUALTY EXPENSES:

22 IN PRIOR RATE PROCEEDINGS WE HAVE  
23 RECOGNIZED AND INCLUDED AN AVERAGE  
24 CASUALTY EXPENSE CALCULATED BY  
25 DETERMINING A FIVE YEAR AVERAGE OF THE

1 EXPENDITURES. WE DO THIS BECAUSE OF THE  
2 VOLATILE NATURE OF THESE TYPE OF EXPENSES  
3 AND BY UTILIZING A FIVE YEAR AVERAGE THE  
4 EXPENSES TEND TO SMOOTH OUT....

5  
6 SOUTHERN BELL HAS ALSO CONSISTENTLY INCLUDED A 5  
7 YEAR AVERAGING ADJUSTMENT FOR CASUALTIES ON ALL OF  
8 ITS EARNINGS SURVEILLANCE REPORTS. THE COMMISSION  
9 HAS ACCEPTED AND USED THE EARNINGS ON THE  
10 SURVEILLANCE REPORTS FOR VARIOUS REGULATORY  
11 PURPOSES, INCLUDING THE DETERMINATION OF EARNINGS  
12 SUBJECT TO REFUND FOR CALENDAR YEAR 1987 RESULTS  
13 AND FOR MEASURING INCENTIVE PLAN EARNINGS IN  
14 1988-1992.

15  
16 BASED ON THE CLEAR HISTORICAL TREATMENT THAT THE  
17 COMMISSION HAD CONSISTENTLY APPLIED TO CASUALTY  
18 EXPENSES, THE COMPANY DETERMINED THAT IT HAD A  
19 REGULATORY ASSET RELATED TO CASUALTY DAMAGE UNDER  
20 STATEMENT OF FINANCIAL ACCOUNTING STANDARDS (SFAS)  
21 NO. 71. THIS ACCOUNTING STANDARD RECOGNIZES THAT  
22 THE NATURE OF REGULATED ENTERPRISES CAN CAUSE THE  
23 CREATION OF REGULATORY ASSETS OR LIABILITIES DUE TO  
24 THE ACTIONS OF THE REGULATOR. THE COMMISSION'S  
25 REGULATORY DECISIONS RELATED TO CASUALTIES HAS THE

1 SAME EFFECT AS AMORTIZING THESE EXPENSES OVER 5  
2 YEARS. THE COMPANY'S USE OF SFAS NO. 71 TO DEFER  
3 FOUR-FIFTHS OF THE TOTAL HURRICANE COSTS TO FUTURE  
4 YEARS AND TO REFLECT ONLY ONE-FIFTH OF THE COST IN  
5 1992 IS IN ACCORDANCE WITH GENERALLY ACCEPTED  
6 ACCOUNTING PRINCIPLES (GAAP) AND BETTER MATCHES ITS  
7 REVENUE AND EXPENSE STREAMS FOR EARNINGS REPORTING  
8 PURPOSES.

9

10 Q. PLEASE EXPLAIN YOUR EXHIBIT WSR-2 ENTITLED  
11 "ADJUSTED INTRASTATE RESULTS"?

12

13 A. THIS EXHIBIT DETAILS THE CALCULATION OF THE  
14 INTRASTATE RATE BASE AND NET OPERATING INCOME WHICH  
15 I AM PROPOSING FOR USE IN THIS PROCEEDING. ON  
16 PAGES 1 AND 2 OF THIS EXHIBIT I HAVE PRESENTED A  
17 SUMMARY OF THE 1993 TEST YEAR AVERAGE INTRASTATE  
18 RATE BASE, 1993 INTRASTATE NET OPERATING INCOME,  
19 SPECIFIC ACCOUNTING ADJUSTMENTS WHICH I AM  
20 PROPOSING, AND THE RESULTING ADJUSTED INTRASTATE  
21 RATE BASE AND ADJUSTED INTRASTATE NET OPERATING  
22 INCOME.

23

24 FOR PURPOSES OF CALCULATING THE APPROPRIATE  
25 INTRASTATE RESULTS, I HAVE INCORPORATED THE RESULTS

1 OF SOUTHERN BELL WITNESS JOHN MCCLELLAN'S ATTRITION  
2 STUDY AS ONE OF THE ADJUSTMENTS REQUIRED TO REACH  
3 MY ADJUSTED TOTALS. MR. MCCLELLAN'S STUDY  
4 INDICATES THAT THE COMPANY HAS BEEN ABLE TO ACHIEVE  
5 NEGATIVE ATTRITION, OR ACCRETION, IN EARNINGS IN  
6 RECENT YEARS DUE TO EXPENSE CONTROL, CAPITAL  
7 UTILIZATION, AND REVENUE ENHANCEMENT RELATIVE TO  
8 ACCESS LINE GROWTH. THE INCLUSION OF HIS STUDY HAS  
9 THE EFFECT OF INCREASING NET OPERATING INCOME AND  
10 OFFSETTING THE NEGATIVE IMPACT OF OTHER  
11 ADJUSTMENTS.

12  
13 PAGES 3 THROUGH 7 OF EXHIBIT WSR-2 PROVIDE A BRIEF  
14 EXPLANATION FOR EACH OF THE ADJUSTMENTS WHICH I  
15 HAVE MADE TO THE FORECASTED TEST YEAR RESULTS SHOWN  
16 ON LINE 1. THE ADJUSTMENTS INCLUDE A  
17 QUANTIFICATION OF ALL SIGNIFICANT KNOWN AND  
18 MEASURABLE CHANGES IN OPERATING CONDITIONS WHICH  
19 WILL OCCUR BETWEEN 1993 AND 1994, AS WELL AS THE  
20 EFFECTS OF VARIOUS COMPANY PROPOSALS IN THIS  
21 PROCEEDING AND TRADITIONAL COMMISSION ADJUSTMENTS.  
22 SINCE THE COMPANY HAS PROPOSED TO CONTINUE UNDER  
23 THE INCENTIVE SHARING PLAN, I HAVE CONTINUED TO  
24 INCLUDE ALL OF THE COMMISSION ADJUSTMENTS WHICH  
25 WERE UTILIZED IN REPORTING UNDER DOCKET NO.

1 880069-TL WITHOUT DEBATING THESE ISSUES IN THIS  
2 PROCEEDING.

3

4 Q. WHAT SPECIFIC CHANGES IN OPERATING CONDITIONS HAVE  
5 YOU IDENTIFIED AND QUANTIFIED?

6

7 A. I HAVE IDENTIFIED NINE SIGNIFICANT ITEMS WHICH  
8 REQUIRE RECOGNITION IN ORDER TO PROPERLY ADJUST  
9 1993 TEST YEAR DATA TO BE REPRESENTATIVE OF  
10 OPERATING CONDITIONS GOING FORWARD INTO 1994. THE  
11 NINE ITEMS ARE: 1) SFAS 112, "EMPLOYERS' ACCOUNTING  
12 FOR POSTEMPLOYMENT BENEFITS"; 2) VARIOUS BOND  
13 REFINANCINGS UNDERTAKEN BY THE COMPANY IN 1993; 3)  
14 HURRICANE ANDREW TRUE-UP ADJUSTMENT; 4) DIFFERENCES  
15 BETWEEN 1993 AND 1994 DEPRECIATION REPRESCRIPTION  
16 AMOUNTS, 5) COMPANY PROPOSALS FOR TARIFF CHANGES,  
17 6) AN ADJUSTMENT FOR THE COMMISSION'S DECISION  
18 REGARDING A BROWARD COUNTY EXTENDED AREA SERVICE  
19 (EAS) PROPOSAL; 7) AN ANTICIPATED LEVEL OF  
20 ATTRITION BASED ON A STUDY BY MR. MCCLELLAN; 8) AN  
21 ACCRUAL TO ESTABLISH A CASUALTY DAMAGE RESERVE AND;  
22 9) AN ADJUSTMENT TO EXPENSE THE EXTRAORDINARY  
23 RETIREMENTS RESULTING FROM HURRICANE ANDREW.

24

25 Q. WILL YOU EXPLAIN IN FURTHER DETAIL EACH OF THE



1 NINE SIGNIFICANT ITEMS YOU LISTED.

2

3 A. YES. THE FIRST ITEM, SFAS 112, IS AN ACCOUNTING  
4 PRONOUNCEMENT ISSUED NOVEMBER, 1992 WHICH REQUIRES  
5 ACCRUAL ACCOUNTING FOR CERTAIN POSTEMPLOYMENT  
6 BENEFITS THAT ARE NOT COVERED UNDER OTHER  
7 ACCOUNTING PRONOUNCEMENTS SUCH AS SFAS 106,  
8 "EMPLOYERS' ACCOUNTING FOR POSTRETIREMENT BENEFITS  
9 OTHER THAN PENSIONS". SOUTHERN BELL CURRENTLY  
10 ACCOUNTS FOR THE COSTS OF POSTEMPLOYMENT BENEFITS  
11 COVERED BY SFAS 112 ON A CASH BASIS. EXAMPLES OF  
12 THE TYPES OF BENEFITS COVERED BY THE PRONOUNCEMENT  
13 ARE WORKERS' COMPENSATION AND DISABILITY BENEFITS.

14

15 SOUTHERN BELL MUST ADOPT SFAS 112 FOR FINANCIAL  
16 REPORTING PURPOSES NO LATER THAN CALENDAR YEAR  
17 1994. THE CHIEF OF THE ACCOUNTING AND AUDITS  
18 DIVISION OF THE FCC HAS INDICATED IN A LETTER DATED  
19 APRIL 26, 1993 TO U. S. WEST THAT SFAS 112 SHOULD  
20 BE ADOPTED FOR FEDERAL REGULATORY PURPOSES ON A  
21 FLASH-CUT BASIS AT THE SAME TIME A COMPANY ADOPTS  
22 IT FOR FINANCIAL REPORTING PURPOSES. UNDER THE  
23 UNIFORM SYSTEM OF ACCOUNTS (USOA) AND GAAP,  
24 THEREFORE, SOUTHERN BELL WILL HAVE TO ACCRUE  
25 EXPENSES IN 1994 THAT WILL ESTABLISH THE FULL

1       LIABILITY FOR THESE BENEFITS THAT HAVE BEEN EARNED  
2       BY THE COMPANY'S EMPLOYEES.   THE COMPANY IS  
3       PROPOSING THAT FOR FLORIDA INTRASTATE PURPOSES, THE  
4       COMMISSION ALSO ALLOW THE EXPENSE IMPACT FOR  
5       INITIAL ADOPTION OF SFAS 112 TO BE RECORDED IN 1994  
6       BUSINESS.

7  
8       THE COMPANY HAS SECURED ACTUARIAL STUDIES TO  
9       DETERMINE THE BEST CURRENT ESTIMATE OF THE  
10      ADDITIONAL LIABILITY WHICH MUST BE RECOGNIZED IN  
11      1994.   I HAVE INCLUDED THE FLORIDA INTRASTATE  
12      PORTION OF THIS LIABILITY, \$14,880,000, AS AN  
13      ADJUSTMENT TO THE TEST YEAR EXPENSES.   I HAVE ALSO  
14      ADJUSTED THE TEST YEAR RATE BASE TO REFLECT THE  
15      TREATMENT WHICH THIS ITEM WOULD RECEIVE UNDER THE  
16      COMMISSION'S CASH WORKING CAPITAL COMPUTATIONAL  
17      PROCEDURES.

18  
19      THE ACCOUNTING CONCEPT WHICH REQUIRES THE ACCRUAL  
20      OF BENEFIT COSTS AS THE BENEFITS ARE EARNED BY  
21      EMPLOYEES UNDERLIES SFAS 106, WHICH WAS ADOPTED BY  
22      THE FPSC IN RULE 25-14.012, F.A.C.   THIS CONCEPT  
23      SIMILARLY UNDERLIES THE ACCOUNTING REQUIRED BY SFAS  
24      112.   IN ADDITION TO PROVIDING A MORE APPROPRIATE  
25      ACCOUNTING PROCEDURE, THE ACCRUAL OF THESE BENEFIT

1 EXPENSES BETTER MATCHES THE COST OF PROVIDING  
2 SERVICE TO CUSTOMERS WITH THE PERIOD IN WHICH THE  
3 SERVICE IS PROVIDED. BY ACHIEVING THIS MATCHING OF  
4 COSTS TO SERVICE PERIODS, THE ACCRUAL ACCOUNTING  
5 REQUIRED BY SFAS 112 IS EQUITABLE TO DIFFERENT  
6 GENERATIONS OF RATEPAYERS AND RESULTS IN A BETTER  
7 RATEMAKING PROCEDURE.

8

9 Q. PLEASE DESCRIBE YOUR BOND REFINANCING ADJUSTMENT.

10

11 A. SINCE JANUARY 1, 1993, BELLSOUTH  
12 TELECOMMUNICATIONS, INC. HAS REFINANCED  
13 \$1,760,000,000 IN LONG TERM DEBT. ASSOCIATED WITH  
14 THESE BOND REFINANCINGS, THE COMPANY HAS  
15 EXPERIENCED CALL PREMIUM AND OTHER REFINANCING  
16 EXPENSES OF \$18,460,317 ON A FLORIDA INTRASTATE  
17 BASIS. I AM PROPOSING THROUGH THIS ADJUSTMENT THAT  
18 THE COMMISSION ALLOW SOUTHERN BELL TO OFFSET THE  
19 COST OF THE REFINANCING BY AMORTIZING THIS COST AT  
20 THE SAME RATE THAT INTEREST SAVINGS ARE ACCRUING TO  
21 THE COMPANY. USING THIS METHODOLOGY, THE COMPANY  
22 WILL ASSIGN \$3,789,178 OF THE TOTAL \$18,460,317  
23 FLORIDA INTRASTATE BOND REFINANCING COST TO 1993  
24 BUSINESS. THE 1993 EXPENSE AMOUNT WILL BE REPORTED  
25 ON THE SURVEILLANCE REPORT FOR 1993, BUT IS NOT

1 REFLECTED ON MY GOING LEVEL EARNINGS CALCULATION  
2 FOR 1994. THE 1993 COSTS ARE OFFSET BY AN EQUAL  
3 AMOUNT OF INTEREST SAVINGS WHICH ARE BEING REALIZED  
4 AND WILL BE REPORTED THROUGH THE CAPITAL STRUCTURE  
5 AND COST RATES SHOWN ON THE COMPANY'S SURVEILLANCE  
6 REPORTS FOR 1993. THE RESIDUAL AMOUNT OF BOND  
7 REFINANCING COSTS, \$14,671,139, WOULD BE RECOVERED  
8 IN 1994 AND 1995 BUSINESS. SINCE COMPANY WITNESS  
9 WILLIAM KECK HAS REFLECTED THE FULL ANNUAL GOING  
10 FORWARD INTEREST SAVINGS FROM THESE REFINANCINGS IN  
11 THE COST RATES HE IS PROPOSING FOR USE IN THIS  
12 PROCEEDING, I HAVE ADJUSTED GOING LEVEL EXPENSE TO  
13 REFLECT \$7,776,299 OF THE \$14,671,139 RESIDUAL  
14 AMOUNT. THIS EXPENSE ADJUSTMENT MATCHES THE COST  
15 RECOGNITION FOR 1994 WITH THE RELATED INTEREST  
16 SAVINGS.

17

18 Q. WHAT IS YOUR HURRICANE ANDREW TRUE-UP ADJUSTMENT?

19

20 A. THE COMPANY ACCRUED ESTIMATED INCREMENTAL 1993  
21 HURRICANE ANDREW EXPENSES IN 1992 BUSINESS. THIS  
22 ACCRUAL IS BEING REVERSED IN 1993 AND THEORETICALLY  
23 WOULD LEAVE THE 1993 BOOKED LEVEL OF EXPENSE,  
24 EXCLUDING THE AMORTIZATION OF HURRICANE EXPENSE,  
25 WITH NO INCREMENTAL IMPACT FROM THE HURRICANE.

1  
2 NOW THAT SOME ACTUAL 1993 EXPENSES ARE AVAILABLE  
3 AND THE COMPANY HAS HAD TIME TO FURTHER STUDY THE  
4 IMPACT OF THE HURRICANE THROUGH STATISTICAL AND  
5 OTHER TECHNIQUES, REVISED ESTIMATES HAVE BEEN  
6 CALCULATED FOR THE 1992 AND 1993 IMPACTS OF THE  
7 STORM. THIS ADJUSTMENT RESTATES THE HURRICANE  
8 ANDREW EXPENSE AMORTIZATION AND RELATED RATE BASE  
9 IMPACTS FOR THE LATEST ESTIMATE OF THE STORM  
10 IMPACT. THE ADJUSTMENT IS AN INCREASE IN INTRASTATE  
11 TEST PERIOD EXPENSES OF \$6,840,959.

12  
13 AT THE TIME THIS TESTIMONY IS BEING PREPARED,  
14 REPAIR EFFORTS FOR HURRICANE ANDREW DAMAGE, AS WELL  
15 AS THE OUTCOME OF INSURANCE CLAIMS FOR THE STORM  
16 DAMAGE, ARE NOT FINAL. ANY FURTHER TRUE-UP TO THE  
17 INCREMENTAL COST OF THE STORM WILL BE MADE AT THE  
18 TIME UPDATED TESTIMONY IS FILED.

19  
20 Q. WHY ARE YOU INCLUDING AN ADJUSTMENT FOR THE  
21 DIFFERENCE BETWEEN 1993 AND 1994 DEPRECIATION  
22 REPRESRIPTION AMOUNTS?

23  
24 A. THE 1993 FORECASTED TEST YEAR DATA WHICH IS SHOWN  
25 ON LINE 1 OF EXHIBIT WSR-2 PAGE 1, INCLUDES A LEVEL

1 OF DEPRECIATION EXPENSE WHICH IS CALCULATED USING  
2 THE DEPRECIATION RATES AND RECOVERY SCHEDULES  
3 AUTHORIZED BY THE COMMISSION FOR USE IN 1993.  
4 SINCE I AM ADJUSTING THE 1993 TEST YEAR DATA TO A  
5 GOING LEVEL 1994 BASIS, IT IS APPROPRIATE TO ADJUST  
6 THE TEST YEAR DEPRECIATION EXPENSE FOR AUTHORIZED  
7 CHANGES IN RECOVERY SCHEDULES OCCURRING IN 1994.

8  
9 THIS ADJUSTMENT DECREASES GOING LEVEL DEPRECIATION  
10 EXPENSE BY \$17,650,000 AND INCREASES NET OPERATING  
11 INCOME BY \$11,034,000.

12

13 Q. DESCRIBE THE COMPANY PROPOSALS INCLUDED IN YOUR  
14 NEXT ADJUSTMENT.

15

16 A. THE COMPANY IS PROPOSING SEVERAL TARIFF CHANGES FOR  
17 APPROVAL IN THIS PROCEEDING. COMPANY WITNESS NANCY  
18 SIMS DESCRIBES THESE PROPOSALS IN DETAIL IN HER  
19 TESTIMONY. FOR PURPOSES OF THIS ADJUSTMENT I HAVE  
20 ASSUMED THAT THE FOLLOWING TARIFFS WILL BE APPROVED  
21 WITH AN EFFECTIVE DATE OF JULY 1, 1994.

22

- 23 - EXPANDED LOCAL SERVICE PLAN
- 24 - MESSAGE RATE RESTRUCTURE
- 25 - HUNTING SERVICE TO FX SUBSCRIBERS

1 - SWITCHED ACCESS REDUCTION

2

3 THROUGH THIS ADJUSTMENT I AM DECREASING GOING LEVEL  
4 TEST YEAR REVENUES FOR THE 1994 EFFECTIVE PORTION  
5 OF THESE TARIFF PROPOSALS.

6

7 Q. HOW DOES THE COMMISSION'S DECISION REGARDING A  
8 BROWARD COUNTY EAS PROPOSAL AFFECT YOUR TEST YEAR  
9 EARNINGS?

10

11 A. IN ITS ORDER NO. PSC-93-0842-FOF-TL OF DOCKET NO.  
12 911034-TL, THE COMMISSION ORDERED THAT SOUTHERN  
13 BELL SHOULD IMPLEMENT AN ALTERNATIVE TOLL RELIEF  
14 PLAN FOR CERTAIN ROUTES IN DADE AND BROWARD  
15 COUNTIES. THIS ADJUSTMENT EVALUATES THE REVENUE  
16 DECREASE AND EXPENSE INCREASE RESULTING FROM THIS  
17 COMMISSION ORDER AND APPROPRIATELY ADJUSTS THE TEST  
18 YEAR GOING LEVEL EARNINGS AMOUNTS IN ANTICIPATION  
19 OF IMPLEMENTATION OF THE ORDER.

20

21 Q. PLEASE EXPLAIN YOUR NEXT ADJUSTMENT RELATED TO  
22 ATTRITION.

23

24 A. THE ADJUSTMENT I HAVE USED FOR ATTRITION IS BASED  
25 ON A STUDY PERFORMED BY MR. MCCLELLAN ON BEHALF OF

1 THE COMPANY. THE METHODOLOGY WHICH HE UTILIZED IN  
2 CALCULATING THE AMOUNT FOR THIS ITEM IS INCLUDED IN  
3 HIS TESTIMONY. THE DATA WHICH MR. MCCLELLAN USED  
4 TO CALCULATE THE AMOUNT FOR ATTRITION WAS ADJUSTED  
5 TO REMOVE THE NEGATIVE EARNINGS IMPACTS FROM THE  
6 SUBSCRIBER PLANT FACTOR (SPF) AND DIAL EQUIPMENT  
7 MINUTES (DEM) JURISDICTIONAL SHIFTS BECAUSE THE  
8 IMPACT OF THESE SHIFTS REACHES ITS FINAL LEVEL IN  
9 1993.

10

11 Q. WHAT IS THE NATURE OF YOUR EIGHTH ADJUSTMENT?

12

13 A. IN WITNESS DAVID B. DENTON'S TESTIMONY, THE COMPANY  
14 IS PROPOSING THAT THE COMMISSION ALLOW FOR THE  
15 ESTABLISHMENT OF A CASUALTY DAMAGE RESERVE. THIS  
16 ADJUSTMENT INCREASES TEST YEAR OPERATING EXPENSE BY  
17 \$6 MILLION TO RECOGNIZE THE COMPANY'S PROPOSED 1994  
18 ACCRUAL TOWARD THIS RESERVE.

19

20 Q. PLEASE DESCRIBE THE FINAL ADJUSTMENT FOR  
21 EXTRAORDINARY RETIREMENTS.

22

23 A. THE COMPANY IS PROPOSING IN MR. DENTON'S TESTIMONY  
24 THAT THE DEPRECIATION RESERVE IMPACT CAUSED BY THE  
25 EXTRAORDINARY RETIREMENTS FROM HURRICANE ANDREW BE



1       OFFSET TO EXPENSE IN 1993. THIS ADJUSTMENT  
2       RECOGNIZES THAT IF THIS PROPOSAL IS ADOPTED, THE  
3       GOING LEVEL RATE BASE FOR THE COMPANY WILL BE LOWER  
4       BY THE AMOUNT OF THIS EXPENSE ENTRY.

5

6 Q.   ARE THE REMAINING ADJUSTMENTS TO INTRASTATE  
7       OPERATIONS SIMILAR TO TRADITIONAL COMMISSION  
8       ALLOWANCES AND DISALLOWANCES REPORTED BY THE  
9       COMPANY ON SURVEILLANCE REPORTS?

10

11 A.   YES. THE REMAINING ADJUSTMENTS ARE OF THE TYPE  
12       REPORTED BY THE COMPANY ON A RECURRING BASIS. A  
13       BRIEF DESCRIPTION OF EACH ADJUSTMENT IS PROVIDED ON  
14       EXHIBIT WSR-2 PAGES 3 THROUGH 7.

15

16 Q.   PLEASE SUMMARIZE YOUR CALCULATIONS OF ADJUSTED  
17       INTRASTATE RATE BASE AND INTRASTATE NET OPERATING  
18       INCOME.

19

20 A.   AS SHOWN ON EXHIBIT WSR-2, PAGE 1, I BEGAN WITH THE  
21       COMPANY'S AVERAGE 1993 FORECASTED INTRASTATE RATE  
22       BASE OF \$4,150,119,000 AND INTRASTATE NET OPERATING  
23       INCOME OF \$389,166,000. I THEN ADJUSTED THESE  
24       AMOUNTS FOR THE SPECIFIC ITEMS LISTED TO DERIVE ON  
25       PAGE 2 AN ADJUSTED INTRASTATE RATE BASE OF

1 \$4,057,462,000 AND ADJUSTED INTRASTATE NET  
2 OPERATING INCOME OF \$372,338,000. THE COMPANY'S  
3 RESULTING RETURN ON RATE BASE IS, THEREFORE, 9.18%  
4 WHICH EQUATES TO A 13.81% RETURN ON EQUITY.

5

6 EARNINGS CONSEQUENCES ASSOCIATED WITH EXTENDING  
7 THE INCENTIVE SHARING PLAN

8

9 Q. MR. REID, WOULD YOU EXPLAIN THE EARNINGS ISSUES  
10 SURROUNDING THE COMPANY'S PROPOSAL TO CONTINUE TO  
11 BE REGULATED UNDER ITS CURRENT INCENTIVE SHARING  
12 PLAN?

13

14 A. YES. SOUTHERN BELL IS CURRENTLY REGULATED UNDER  
15 THE INCENTIVE PLAN CRITERIA ESTABLISHED IN DOCKET  
16 NO. 880069-TL. THE BASIC STRUCTURE OF THIS PLAN IS  
17 CENTERED ON A RANGE OF ALLOWABLE RATES OF RETURN ON  
18 EQUITY (ROE) FROM A LOW POINT OF 11.5% TO A MAXIMUM  
19 OF 16%. IF THE COMPANY'S EARNINGS REACH 14% ROE  
20 FOR A CALENDAR YEAR, A SHARING CALCULATION IS  
21 ENGAGED WHERE 60% OF THE EARNINGS IN EXCESS OF A  
22 14% ROE ARE DESIGNATED AS RATEPAYER AMOUNTS AND ARE  
23 SUBJECT TO DISPOSITION BY THE COMMISSION. IF THE  
24 COMPANY'S EARNINGS SHOULD REACH 16% ROE ON AN AFTER  
25 SHARING BASIS, (I.E., CONSIDERING THE EARNINGS

1       REQUIRED TO REACH A 14% ROE AND THE 40% OF EARNINGS  
2       OVER 14% RETAINED BY THE COMPANY), THE EARNINGS  
3       WOULD BE CAPPED AT THAT POINT AND ANY ADDITIONAL  
4       AMOUNTS WOULD BE DESIGNATED FOR RATEPAYERS.

5  
6       IN ADDITION, THE PLAN CALLS FOR THE IDENTIFICATION  
7       AND DISPOSITION OF 1) THE IMPACT OF ALL TARIFF  
8       INCREASES AND DECREASES, 2) EXOGENOUS EARNINGS  
9       IMPACTS WHICH AMOUNT TO \$3 MILLION OR MORE IN  
10      REVENUE REQUIREMENTS, 3) THE EARNINGS IMPACT OF  
11      MAJOR TECHNOLOGICAL CHANGES AND 4) THE EARNINGS  
12      IMPACT OF DEBT REFINANCING. ONLY THOSE TARIFF  
13      CHANGES AND EXOGENOUS ITEMS WHICH WERE NOT INCLUDED  
14      IN THE INITIAL EARNINGS CALCULATIONS FOR  
15      RATESETTING PURPOSES IN DOCKET NO. 880069-TL NEED  
16      TO BE IDENTIFIED AND REPORTED. THE EFFECTS OF ALL  
17      FOUR OF THESE EARNINGS IMPACTS, BOTH POSITIVE AND  
18      NEGATIVE, ARE NETTED AGAINST EACH OTHER ON A  
19      CALENDAR YEAR BASIS. IF THE NET EFFECT OF ALL  
20      THESE ITEMS IS AN INCREASE IN CALENDAR YEAR  
21      EARNINGS, THIS INCREASE IS DESIGNATED AS RATEPAYER  
22      AMOUNTS SUBJECT TO DISPOSITION BY THE COMMISSION.  
23      IF THE NET EFFECT OF ALL THESE ITEMS IS A DECREASE  
24      IN CALENDAR YEAR EARNINGS, THE COMPANY ABSORBS THE  
25      LOSS FOR THAT CALENDAR YEAR. THE COMPANY HAS THE

1       OPTION OF FILING FOR INDIVIDUAL TARIFF CHANGES  
2       WHICH WOULD, IF ADOPTED, HELP OFFSET THE NEGATIVE  
3       IMPACTS OF THESE ITEMS.

4  
5       TO FACILITATE THE ADMINISTRATION OF THE PROCESS FOR  
6       SETTING THE EARNINGS IMPACTS OF ALL THESE ITEMS,  
7       THE COMPANY HAS BEEN REQUIRED TO REPORT EACH MONTH  
8       WITH ITS SURVEILLANCE REPORT THE EARNINGS IMPACT OF  
9       EACH OF THESE ITEMS AS WELL AS THE NET TOTAL. THE  
10      TRACKING REPORT FOR THESE ITEMS HAS COMMONLY BEEN  
11      REFERRED TO AS THE "BOX". ITEMS WHICH MEET THE  
12      CRITERIA OF DOCKET NO. 880069-TL FOR SPECIAL  
13      EARNINGS TREATMENT ARE SAID TO BE INCLUDED IN THE  
14      BOX AND ARE TRACKED WITH THE MONTHLY SURVEILLANCE  
15      REPORT.

16  
17      AS SOUTHERN BELL WITNESS DAVID B. DENTON EXPLAINED  
18      IN HIS TESTIMONY, THE COMPANY IS PROPOSING A  
19      CONTINUATION OF THE INCENTIVE SHARING PLAN  
20      ESTABLISHED THROUGH DOCKET NO. 880069-TL. THIS  
21      PROPOSAL MEANS THAT FROM AN EARNINGS STANDPOINT,  
22      THE INCENTIVE PLAN CRITERIA I HAVE JUST DESCRIBED  
23      WOULD BE CONTINUED FOR 1993 AND THEREAFTER, UNTIL  
24      FURTHER MODIFIED BY THE COMMISSION.

25

1 Q. DO YOU HAVE AN EXHIBIT THAT REPORTS THE STATUS OF  
2 THE EXOGENOUS ISSUES AND OTHER BOX ITEMS FOR 1992  
3 AS WELL AS THE ANTICIPATED STATUS OF THESE ISSUES  
4 FOR 1993 AND 1994?

5

6 A. YES. MY EXHIBIT WSR-3, ENTITLED "REPORT OF RATE  
7 CHANGES/EXOGENOUS FACTORS/DEBT  
8 CHANGES/TECHNOLOGICAL CHANGES", WAS PREPARED TO  
9 DEMONSTRATE THE CURRENT STATUS OF THE EXOGENOUS  
10 ISSUES AND OTHER BOX ITEMS. I WILL SUBSEQUENTLY  
11 REFER TO THESE ISSUES AS A GROUP USING THE TERM  
12 EXTERNAL FACTORS.

13

14 Q. PLEASE EXPLAIN YOUR EXHIBIT WSR-3.

15

16 A. THE FIRST COLUMN OF THIS EXHIBIT LISTS EACH  
17 OUTSTANDING ITEM THAT SHOULD BE TRACKED ACCORDING  
18 TO THE COMMISSON'S DEFINITIONS AND CRITERIA  
19 OUTLINED IN ORDER NO. 20162 OF DOCKET NO.  
20 880069-TL. THE SECOND COLUMN HEADED "1992 AMOUNTS"  
21 REPORTS THE 1992 REVENUE REQUIREMENT IMPACT FOR  
22 EACH OF THE EXTERNAL FACTORS LISTED IN COLUMN 1 AND  
23 CALCULATES A NET TOTAL. THE FACT THAT THE 1992 NET  
24 TOTAL IS A NEGATIVE \$2.5 MILLION INDICATES THAT  
25 WHEN ALL EXTERNAL FACTORS ARE CONSIDERED THE EFFECT

1 IS A LOWERING OF THE COMPANY'S EARNINGS FOR 1992.  
2 PER THE DOCKET NO. 880069-TL CRITERIA FOR THE  
3 INCENTIVE SHARING PLAN, THE COMPANY WILL ABSORB  
4 THIS EARNINGS LOSS FOR 1992.

5  
6 THE THIRD COLUMN OF EXHIBIT WSR-3, ENTITLED  
7 "ESTIMATED 1993 AMOUNTS", REPORTS THE CURRENT  
8 STATUS OF ALL EXTERNAL FACTORS ANTICIPATED AT THIS  
9 TIME FOR 1993. I HAVE LISTED THE TAX PROPOSALS  
10 ASSOCIATED WITH PRESIDENT CLINTON'S DEFICIT  
11 REDUCTION PLAN AS AN ITEM BECAUSE IT WILL MEET THE  
12 CRITERIA FOR AN EXOGENOUS ITEM UNDER THE INCENTIVE  
13 SHARING PLAN. HOWEVER, SINCE THIS TAX LEGISLATION  
14 HAS NOT YET PASSED CONGRESS, I AM NOT ABLE TO  
15 QUANTIFY ITS IMPACT AT THIS TIME. WHEN MY  
16 TESTIMONY IS UPDATED FOR ACTUAL RESULTS, I WILL  
17 ALSO UPDATE THE STATUS OF THE ISSUES REPORTABLE ON  
18 WSR-3. AT THIS TIME I HAVE SHOWN ON THE EXHIBIT AN  
19 ACCRUAL TO THE INSURANCE RESERVE FOR THE AMOUNT  
20 REQUIRED TO BRING THE EARNINGS IMPACTS FROM  
21 EXTERNAL FACTORS BACK TO ZERO.

22  
23 THE FINAL COLUMN OF WSR-3 REPORTS THE ANTICIPATED  
24 STATUS OF EXTERNAL FACTOR IMPACTS ON 1994 EARNINGS.  
25 AS THIS REPORT DEMONSTRATES, EXTERNAL ITEMS RESULT

1 IN A NET INCREASE IN THE COMPANY'S EARNINGS FOR  
2 1994. IF THE STATUS OF THE BOX ITEMS DOES NOT  
3 CHANGE UNTIL 1995 WHEN THE FINAL CALCULATION OF  
4 1994 RESULTS ARE COMPUTED, THIS NET INCREASE WOULD  
5 THEN BE SUBJECT TO DISPOSITION BY THE COMMISSION.

6

7 Q. WOULD YOU PLEASE DESCRIBE EACH EXTERNAL FACTOR  
8 LISTED AND EXPLAIN ITS EFFECT ON EACH COLUMN?

9

10 A. YES. AS STATED PREVIOUSLY, THE FIRST FACTOR,  
11 EXISTING ISSUES, REPORTS THE NET VALUE OF ALL  
12 ISSUES REPORTED ON THE 12/31/92 SURVEILLANCE  
13 REPORT. THE DETAIL FOR THOSE ITEMS IS SHOWN ON  
14 EXHIBIT WSR-4, APPENDIX NO. 1 PAGE 15 AS PART OF  
15 THE 1992 SURVEILLANCE REPORT. SIMILAR BALANCES FOR  
16 1993 AND 1994 ARE SHOWN AS ZERO. THIS IS BECAUSE  
17 WE EXPECT THE IMPACT OF ONE OF THE ITEMS, THE  
18 DEPRECIATION INCREASE DUE TO USOAR DOCKET, TO  
19 SIGNIFICANTLY DECREASE IN 1993. ONE OF THE RESULTS  
20 OF THE USOAR DOCKET WAS TO INCREASE DEPRECIATION  
21 EXPENSE IN THE NEAR TERM BY ESTABLISHING  
22 AMORTIZATION OF THE EMBEDDED BASE OF CERTAIN  
23 ASSETS. IN 1992, THE AMORTIZATION OF THOSE ASSETS  
24 WITH FIVE YEAR AMORTIZATIONS ENDED. THEREFORE,  
25 1993 DEPRECIATION EXPENSE WILL BE LOWER. WE

1 ESTIMATE THAT THIS WILL ESSENTIALLY OFFSET THE  
2 IMPACT OF ALL OTHER EXISTING ISSUES IN 1993 AND  
3 1994.

4

5 Q. DO YOU HAVE A SPECIFIC PROPOSAL FOR THESE EXISTING  
6 ISSUES?

7

8 A. YES. THE COMPANY PROPOSES THAT, FOR ADMINISTRATIVE  
9 EASE, THESE EXISTING ISSUES NO LONGER BE REQUIRED  
10 TO BE REPORTED ON THE SURVEILLANCE REPORT. THEY  
11 HAVE BEEN REPORTED, IN SOME CASES, FOR AS LONG AS  
12 FIVE YEARS. WE FEEL THAT, SINCE THEY ARE EXPECTED  
13 TO ESSENTIALLY NET TO ZERO FOR 1993 AND 1994, THAT  
14 THEY SHOULD BE DROPPED AND NO LONGER REPORTED.

15

16 Q. WHAT IS THE NEXT EXTERNAL FACTOR ON THE REPORT?

17

18 A. THE NEXT EXTERNAL FACTOR LISTED, RATE DECREASES,  
19 CONSISTS OF THE DADE/BROWARD ALTERNATIVE TOLL  
20 RELIEF PLAN WHICH HAS BEEN ORDERED BY THE  
21 COMMISSION AND THE COMPANY RATE PROPOSALS WHICH ARE  
22 BEING MADE IN THIS PROCEEDING. COMPANY WITNESS  
23 NANCY SIMS DESCRIBES THE COMPANY'S RATE PROPOSALS  
24 IN HER TESTIMONY. THESE RATE REDUCTIONS IMPACT  
25 1993 AND 1994 AND REDUCE REVENUES BY \$0.3 AND \$14.8



1 MILLION, RESPECTIVELY. RATE INCREASES AND  
2 DECREASES ARE REQUIRED TO BE REPORTED BY ORDER NO.  
3 20162 IN DOCKET NO. 880069-TL.

4

5 Q. PLEASE DESCRIBE THE SECTION OF THE EXHIBIT WHICH  
6 CONTAINS THE EXOGENOUS FACTORS.

7

8 A. THE FIRST EXOGENOUS FACTOR SHOWN IS THE RESULT OF  
9 THE COMMISSION'S ORDER NO. PSC-93-0462-FOF-TL IN  
10 DOCKET NO. 920385-TL DATED MARCH 25, 1993 WHICH SET  
11 SOUTHERN BELL'S DEPRECIATION RATES AND SCHEDULES.  
12 IT REFLECTS OUR CALCULATION THAT THESE RATES  
13 REDUCED THE COMPANY'S REVENUE REQUIREMENTS BY  
14 \$13.2, \$25.7 AND \$38.8 MILLION IN 1992, 1993 AND  
15 1994, RESPECTIVELY. THIS ITEM IS REQUIRED TO BE  
16 REPORTED ON THE SURVEILLANCE REPORT IN ACCORDANCE  
17 WITH ORDER NO. 20162 IN DOCKET NO. 880069-TL, AS A  
18 REGULATORY ACTION AFFECTING DEPRECIATION.

19

20 THE NEXT EXOGENOUS FACTOR IS THE IMPACT OF SFAS 112  
21 WHICH I HAVE PREVIOUSLY DISCUSSED REGARDING ITS  
22 IMPACT ON 1994 EARNINGS. IT REPRESENTS THE IMPACT  
23 OF THE ACCRUAL FOR THESE ADDITIONAL COSTS IN 1994.  
24 THIS ITEM IS ALSO PROPERLY LISTED AS EXOGENOUS AS A  
25 RESULT OF ORDER NO. 20162.

1  
2 THE HURRICANE EXTRAORDINARY RETIREMENT RECOGNITION  
3 REPRESENTS THE PLANT INVESTMENT REPLACED AND  
4 RETIRED AS A RESULT OF HURRICANE ANDREW WHICH WAS  
5 NOT CONSIDERED WHEN DEPRECIATION RATES WERE RESET.  
6 THE COMPANY PROPOSES IN WITNESS DENTON'S TESTIMONY  
7 THAT THIS BE USED TO OFFSET PART OF THE REDUCTION  
8 IN DEPRECIATION FROM ORDER NO. PSC-93-0462-FOF-TL  
9 IN 1993. SHOULD THE COMMISSION APPROVE THIS  
10 PROPOSAL THEN IT WOULD QUALIFY FOR INCLUSION ON THE  
11 REPORT AS AN EXOGENOUS ITEM AS A RESULT OF  
12 REGULATORY ACTION.

13  
14 THE ACCRUALS TO ESTABLISH CASUALTY LOSS RESERVES  
15 REPRESENT USE OF THE REMAINING FUNDS IN 1993 AND A  
16 PORTION OF THE REMAINING FUNDS IN 1994 FOR  
17 ESTABLISHMENT AND FUNDING OF A RESERVE FOR  
18 CATASTROPHIC LOSSES FROM HURRICANES AND SIMILAR  
19 OCCURRENCES. THE ESTABLISHMENT OF SUCH A RESERVE  
20 IS PROPOSED IN THE TESTIMONY OF COMPANY WITNESS  
21 DENTON. THIS ITEM ALSO QUALIFIES AS A REGULATORY  
22 ACTION SHOULD THE COMMISSION APPROVE THE COMPANY'S  
23 PROPOSAL.

24  
25 THE FINANCIAL IMPACTS ASSOCIATED WITH THE NEXT

1 EXOGENOUS FACTOR, PRESIDENT CLINTON'S TAX PLAN, ARE  
2 UNKNOWN AND NOT MEASURABLE AT THIS TIME. WHEN MORE  
3 INFORMATION IS KNOWN ABOUT THE IMPACT OF THIS  
4 LEGISLATION WE WILL UPDATE THE REPORT TO SHOW THE  
5 IMPACT ON SOUTHERN BELL. THIS ITEM QUALIFIES FOR  
6 INCLUSION AS A GOVERNMENTAL TAX CHANGE PER ORDER  
7 NO. 20162.

8

9 Q. DOES THE NEXT EXTERNAL ITEM, DEBT REFINANCING,  
10 QUALIFY FOR INCLUSION ON THE REPORT?

11

12 A. YES. REFINANCING HIGHER COST DEBT IS SPECIFICALLY  
13 REQUIRED TO BE INCLUDED ON THE REPORT BY ORDER NO.  
14 20162. IN THE CASE OF THE REFINANCINGS REFLECTED  
15 HERE, WE ARE REQUESTING THAT THE BOND RECALL  
16 EXPENSES BE AMORTIZED AT THE SAME RATE AS INTEREST  
17 SAVINGS ARE INCURRED, THUS HAVING NO NET IMPACT ON  
18 REVENUE REQUIREMENTS.

19

20 Q. WHAT ABOUT THE CATEGORY OF MAJOR TECHNOLOGICAL  
21 CHANGES? ARE THESE ALSO REQUIRED?

22

23 A. YES. HOWEVER, TO DATE NONE HAVE BEEN IDENTIFIED  
24 AND NONE HAVE BEEN REPORTED.

25

1 Q. BASED ON THE REPORT OF EXTERNAL FACTOR IMPACTS YOU  
2 HAVE PROVIDED WITH YOUR EXHIBIT WSR-3, WHAT DOES  
3 THIS INDICATE REGARDING THE COMPANY'S EARNINGS IN  
4 1992, 1993 AND 1994?

5

6 A. THE CALCULATION OF NET IMPACT OF EXTERNAL FACTORS  
7 ON THE COMPANY'S EARNINGS, AS SHOWN ON WSR-3,  
8 INDICATES THAT THE LEVEL OF EARNINGS WHICH THE  
9 COMPANY HAS ACHIEVED FOR 1992 AND WILL ACHIEVE IN  
10 1993 AND 1994 ARE OR WILL BE DUE TO THE COMPANY'S  
11 OWN EFFORTS AND NOT DUE TO EXTERNAL FACTORS. NO  
12 REFUNDS OR RATE REDUCTIONS ARE THEREFORE NECESSARY  
13 OR CONTEMPLATED UNDER THE CRITERIA OF THE INCENTIVE  
14 SHARING PLAN FOR EXTERNAL FACTORS IN THESE YEARS.  
15 THE 1993 AND 1994 FINAL CALCULATIONS FOR EXTERNAL  
16 FACTORS WILL OF COURSE BE PREPARED AFTER THE CLOSE  
17 OF THOSE RESPECTIVE CALENDAR YEARS. THIS STATUS  
18 REPORT REGARDING 1993 AND 1994 MERELY REPRESENTS A  
19 CURRENT LOOK AT THE ISSUES THAT ARE OUTSTANDING AT  
20 THIS TIME.

21

22 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

23

24 A. YES.

25

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TRENDS IN FLORIDA FINANCIAL STATISTICS -  
 PER BOOK INTRASTATE AMOUNTS  
 SOUTHERN BELL TELEPHONE & TELEGRAPH COMPANY  
 TRENDS IN FLORIDA REVENUE REQUIREMENTS 1984 - 1992

(000)

ITEM	1984	1985	1986	1987	1988	1989	1990	1991	1992
<b>INTRASTATE REVENUE</b>	\$1,665,592	\$1,757,089	\$1,873,460	\$1,944,026	\$2,066,669	\$2,085,758	\$2,156,296	\$2,215,194	\$2,288,003
<b>DEPRECIATION EXPENSE</b>	232,826	249,325	310,125	377,382	478,042	472,114	503,048	546,255	554,348
<b>OTHER EXPENSE &amp; TAX</b>	917,808	963,013	985,860	1,003,860	1,114,148	1,116,809	1,158,412	1,189,137	1,258,303
<b>TOTAL EXPENSES</b>	1,150,734	1,212,338	1,305,985	1,381,242	1,592,190	1,588,923	1,661,460	1,745,392	1,812,651
<b>INCOME TAXES</b>	179,823	196,065	211,854	180,680	108,449	101,077	99,272	91,352	108,763
<b>NET OPERATING INCOME</b>	335,035	348,686	355,621	382,104	366,030	395,758	395,564	378,450	366,589
<b>PLANT IN SERVICE</b>	3,843,753	4,166,294	4,527,174	4,892,415	5,404,008	5,847,093	6,245,469	6,400,778	6,726,946
<b>DEPRECIATION RESERVE</b>	589,835	723,388	909,738	1,177,746	1,505,614	1,881,696	2,229,179	2,315,365	2,658,222
<b>NET PLANT</b>	3,254,068	3,442,908	3,617,438	3,714,669	3,898,392	3,965,397	4,016,290	4,085,413	4,068,724
<b>OTHER INVESTMENTS</b>	89,333	163,925	102,589	57,695	69,266	62,408	74,917	29,096	(34,428)
<b>RATE BASE</b>	3,343,401	3,606,833	3,720,027	3,772,364	3,967,658	4,027,805	4,091,207	4,114,509	4,034,296
<b>AVERAGE ACCESS LINES</b>	3,329,379	3,480,215	3,653,951	3,882,952	4,096,329	4,310,989	4,511,804	4,663,857	4,823,234

PER AVERAGE ACCESS LINE

<b>INTRASTATE REVENUE</b>	\$500.27	\$504.88	\$512.72	\$500.66	\$504.52	\$483.82	\$477.92	\$474.97	\$474.37
<b>DEPRECIATION EXPENSE</b>	69.93	71.64	84.87	97.19	116.70	109.51	111.50	117.13	114.93
<b>OTHER EXPENSE &amp; TAX</b>	275.70	276.71	272.54	258.53	271.99	259.08	256.75	257.11	260.88
<b>TOTAL EXPENSES</b>	345.63	348.35	357.42	355.72	388.69	368.58	368.25	374.24	375.82
<b>INCOME TAXES</b>	54.01	56.34	57.98	46.53	26.47	23.45	22.00	19.59	22.55
<b>NET OPERATING INCOME</b>	100.63	100.19	97.33	98.41	89.36	91.80	87.67	81.15	76.00
<b>PLANT IN SERVICE</b>	1154.50	1197.14	1238.98	1259.97	1319.23	1356.32	1384.25	1372.42	1394.70
<b>DEPRECIATION RESERVE</b>	177.12	207.86	248.97	303.31	367.55	436.49	494.08	496.45	551.13
<b>NET PLANT</b>	977.38	989.28	990.01	956.66	951.68	919.83	890.17	875.97	843.57
<b>OTHER INVESTMENTS</b>	26.83	47.10	28.08	14.86	16.91	14.48	16.60	6.24	-7.14
<b>RATE BASE</b>	1004.21	1036.38	1018.08	971.52	968.59	934.31	906.78	882.21	836.43

REVENUE REQUIREMENTS PER AVERAGE ACCESS LINE

<b>RETURN REQUIRED</b>	\$347,714	\$371,504	\$376,095	\$374,598	\$399,543	\$408,419	\$418,894	\$418,446	\$411,498
<b>ACTUAL RETURN</b>	335,035	348,686	355,621	382,104	366,030	395,758	395,564	378,450	366,589
<b>DIFFERENCE</b>	12,679	22,818	20,474	(7,508)	33,513	12,661	21,330	39,996	44,909
<b>EXPANSION FACTOR</b>	0.50308	0.49835	0.49941	0.55546	0.6093	0.60798	0.60889	0.605084	0.6048263
<b>ADDITIONAL REVENUE</b>	25,203	45,787	40,996	(13,517)	55,002	20,825	35,031	66,100	74,251
<b>REVENUE REQUIREMENT</b>	1,704,987	1,818,057	1,928,647	1,952,898	2,146,455	2,137,734	2,221,143	2,321,235	2,400,992
<b>REVENUE REQ./ACC.LN.</b>	511.83	522.40	527.83	502.94	523.99	495.88	492.30	497.71	497.60

TRENDS IN FLORIDA FINANCIAL STATISTICS-  
 COMMISSION ADJUSTED ACHIEVED BASIS  
 SOUTHERN BELL TELEPHONE & TELEGRAPH COMPANY  
 TRENDS IN FLORIDA REVENUE REQUIREMENTS 1984 - 1992

(000)

ITEM	1984	1985	1986	1987	1988	1989	1990	1991	1992
<b>INTRASTATE REVENUE</b>	\$1,649,564	\$1,745,768	\$1,856,705	\$1,935,421	\$2,064,115	\$2,077,064	\$2,166,520	\$2,222,071	\$2,292,370
<b>DEPRECIATION EXPENSE</b>	232,826	249,325	310,125	378,869	474,955	475,458	502,902	544,815	555,776
<b>OTHER EXPENSE &amp; TAX</b>	917,374	960,983	994,815	1,006,932	1,109,627	1,115,302	1,153,184	1,196,036	1,266,567
<b>TOTAL EXPENSES</b>	1,150,200	1,210,308	1,304,940	1,385,801	1,584,582	1,590,760	1,656,086	1,740,851	1,822,343
<b>INCOME TAXES</b>	171,984	191,110	192,803	167,565	101,821	99,806	112,677	95,911	111,357
<b>NET OPERATING INCOME</b>	327,380	344,350	358,962	382,055	377,712	386,498	397,757	385,309	358,670
<b>PLANT IN SERVICE</b>	3,833,758	4,158,684	4,553,257	4,952,446	5,453,476	5,905,614	6,308,678	6,460,407	6,748,686
<b>DEPRECIATION RESERVE</b>	589,685	723,386	909,736	1,197,407	1,519,283	1,896,888	2,238,972	2,324,055	2,668,217
<b>NET PLANT</b>	3,244,073	3,435,298	3,643,521	3,755,039	3,934,193	4,008,726	4,069,706	4,136,352	4,080,469
<b>OTHER INVESTMENTS</b>	89,333	163,925	102,589	57,843	69,169	62,244	74,878	29,048	(34,447)
<b>RATE BASE</b>	3,333,406	3,599,223	3,746,110	3,812,882	4,003,362	4,070,970	4,144,584	4,165,400	4,046,022
<b>AVERAGE ACCESS LINES</b>	3,329,379	3,480,215	3,653,951	3,882,952	4,096,329	4,310,989	4,511,804	4,663,857	4,823,234

PER AVERAGE ACCESS LINE

<b>INTRASTATE REVENUE</b>	\$495.46	\$501.63	\$508.14	\$498.44	\$503.89	\$481.81	\$480.19	\$476.44	\$475.28
<b>DEPRECIATION EXPENSE</b>	69.93	71.64	84.87	97.57	115.95	110.29	111.46	116.82	115.23
<b>OTHER EXPENSE &amp; TAX</b>	275.54	276.13	272.26	259.32	270.68	258.71	255.59	256.45	262.60
<b>TOTAL EXPENSES</b>	345.47	347.77	357.13	356.89	386.63	369.00	367.06	373.26	377.83
<b>INCOME TAXES</b>	51.66	54.91	52.77	43.15	24.86	23.15	24.97	20.56	23.09
<b>NET OPERATING INCOME</b>	98.33	98.95	98.24	98.39	92.21	89.65	88.16	82.62	74.36
<b>PLANT IN SERVICE</b>	1151.49	1194.95	1246.12	1275.43	1331.31	1369.90	1398.29	1385.21	1399.20
<b>DEPRECIATION RESERVE</b>	177.12	207.86	248.97	308.38	370.89	440.01	496.25	498.31	553.20
<b>NET PLANT</b>	974.38	987.09	997.15	967.06	960.42	929.89	902.01	886.90	846.00
<b>OTHER INVESTMENTS</b>	26.83	47.10	28.05	14.90	18.89	14.44	18.60	6.23	-7.14
<b>RATE BASE</b>	1001.21	1034.20	1025.22	981.95	977.30	944.32	916.61	893.12	838.86

REVENUE REQUIREMENTS PER AVERAGE ACCESS LINE

<b>RETURN REQUIRED</b>	\$346,674	\$370,720	\$378,732	\$378,019	\$403,139	\$412,796	\$422,333	\$423,621	\$412,694
<b>ACTUAL RETURN</b>	327,380	344,350	358,962	382,055	377,712	386,498	397,757	385,309	358,670
<b>DIFFERENCE</b>	19,294	26,370	19,770	(3,436)	25,427	26,298	24,576	38,312	54,024
<b>EXPANSION FACTOR</b>	0.50308	0.49835	0.49941	0.55546	0.6093	0.60798	0.60889	0.605084	0.6048263
<b>ADDITIONAL REVENUE</b>	38,352	52,915	39,586	(6,186)	41,731	43,255	40,362	63,317	89,322
<b>REVENUE REQUIREMENT</b>	1,701,238	1,813,674	1,910,498	1,951,521	2,130,505	2,151,329	2,236,672	2,325,329	2,420,430
<b>REVENUE REQ./ACC.LN.</b>	510.98	521.20	522.86	502.59	520.10	499.03	495.74	498.58	501.83

INTRASTATE ACHIEVED AMOUNTS  
 ADJUSTED FOR CONSTANT DEPRECIATION  
 SOUTHERN BELL TELEPHONE & TELEGRAPH COMPANY  
 TRENDS IN FLORIDA REVENUE REQUIREMENTS 1984 - 1992

(000)

ITEM	1984	1985	1986	1987	1988	1989	1990	1991	1992
INTRASTATE REVENUE	\$1,649,564	\$1,745,768	\$1,856,705	\$1,935,421	\$2,064,115	\$2,077,064	\$2,166,520	\$2,222,071	\$2,292,370
DEPRECIATION EXPENSE	315,902	342,676	375,188	408,082	449,366	486,623	519,835	532,338	555,776
OTHER EXPENSE & TAX	917,374	960,983	994,815	1,006,932	1,109,827	1,115,302	1,153,184	1,198,036	1,235,291
TOTAL EXPENSES	1,233,276	1,303,659	1,370,003	1,415,014	1,558,993	1,601,925	1,673,019	1,728,374	1,791,067
INCOME TAXES	131,302	145,396	160,942	154,930	111,450	95,605	106,305	100,606	123,126
NET OPERATING INCOME	284,986	296,713	325,760	365,477	393,672	379,534	387,196	393,091	378,177
PLANT IN SERVICE	3,833,758	4,158,684	4,553,257	4,952,446	5,453,476	5,905,614	6,308,678	6,460,407	6,748,686
DEPRECIATION RESERVE	631,223	853,138	1,118,695	1,453,504	1,777,192	2,147,585	2,503,718	2,591,029	2,928,952
NET PLANT	3,202,535	3,305,546	3,434,562	3,498,942	3,676,284	3,758,029	3,804,960	3,869,378	3,819,734
OTHER INVESTMENTS	89,333	163,925	102,589	57,843	69,169	62,244	74,878	29,048	(34,447)
RATE BASE	3,291,868	3,469,471	3,537,151	3,556,785	3,745,453	3,820,273	3,879,838	3,898,426	3,785,287
AVERAGE ACCESS LINES	3,329,379	3,480,215	3,653,951	3,882,952	4,096,329	4,310,989	4,511,804	4,663,857	4,823,234

PER AVERAGE ACCESS LINE

INTRASTATE REVENUE	\$495.46	\$501.63	\$508.14	\$498.44	\$503.89	\$481.81	\$480.19	\$476.44	\$475.28
DEPRECIATION EXPENSE	94.88	98.46	102.66	105.10	109.70	112.88	115.22	114.14	115.23
OTHER EXPENSE & TAX	276.54	276.13	272.26	259.32	270.88	258.71	255.59	256.45	258.11
TOTAL EXPENSES	370.42	374.59	374.94	364.42	380.58	371.59	370.81	370.59	371.34
INCOME TAXES	39.44	41.78	44.05	39.90	27.21	22.18	23.56	21.57	25.53
NET OPERATING INCOME	85.60	85.26	89.15	94.12	96.10	88.04	85.82	84.28	78.41
PLANT IN SERVICE	1151.49	1194.95	1246.12	1275.43	1331.31	1369.90	1398.26	1385.21	1399.20
DEPRECIATION RESERVE	189.59	245.14	306.16	374.33	433.85	498.17	554.93	555.55	607.26
NET PLANT	961.90	949.81	939.96	901.10	897.46	871.73	843.33	829.65	791.94
OTHER INVESTMENTS	26.83	47.10	28.06	14.90	18.89	14.44	16.60	6.23	-7.14
RATE BASE	988.73	996.91	968.03	916.00	914.34	886.17	859.93	835.88	784.80

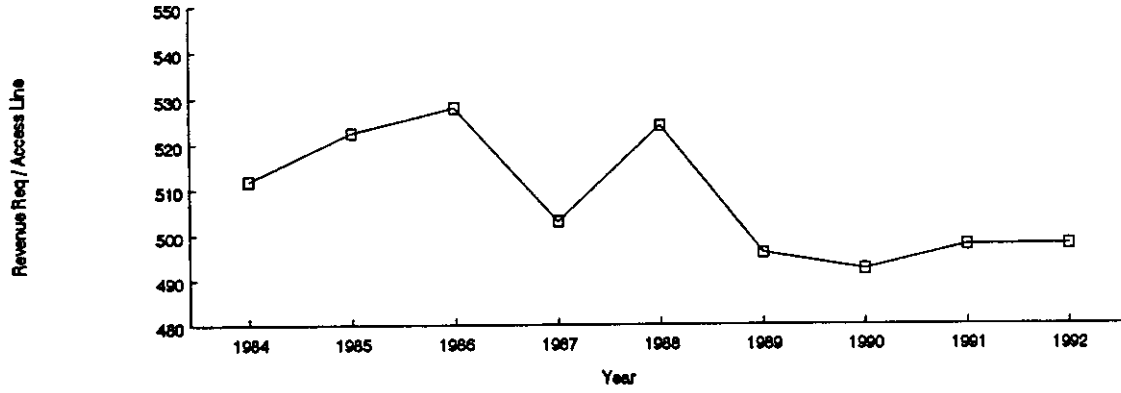
REVENUE REQUIREMENTS PER AVERAGE ACCESS LINE

RETURN REQUIRED	\$342,354	\$357,356	\$357,606	\$353,189	\$377,167	\$387,376	\$395,355	\$396,470	\$386,099
ACTUAL RETURN	284,986	296,713	325,760	365,477	393,672	379,534	387,196	393,091	378,177
DIFFERENCE	57,368	60,643	31,846	(12,288)	(16,505)	7,842	8,159	3,379	7,922
EXPANSION FACTOR	0.50308	0.49835	0.49941	0.55546	0.6093	0.60798	0.60889	0.60584	0.6048263
ADDITIONAL REVENUE	114,034	121,687	63,767	(22,123)	(27,088)	12,898	13,401	5,584	13,099
REVENUE REQUIREMENT	1,776,920	1,882,646	1,934,679	1,935,584	2,061,686	2,120,972	2,209,711	2,267,596	2,344,207
REVENUE REQ./ACC.LN.	533.71	540.96	529.48	498.48	503.30	491.99	489.76	486.21	486.02

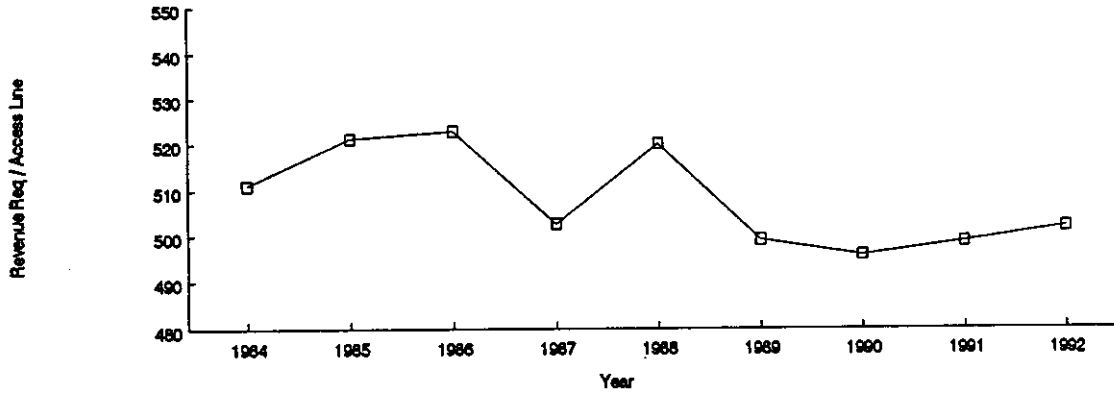


## FLORIDA INTRASTATE REVENUE REQUIREMENT PER AVG ACCESS LINE

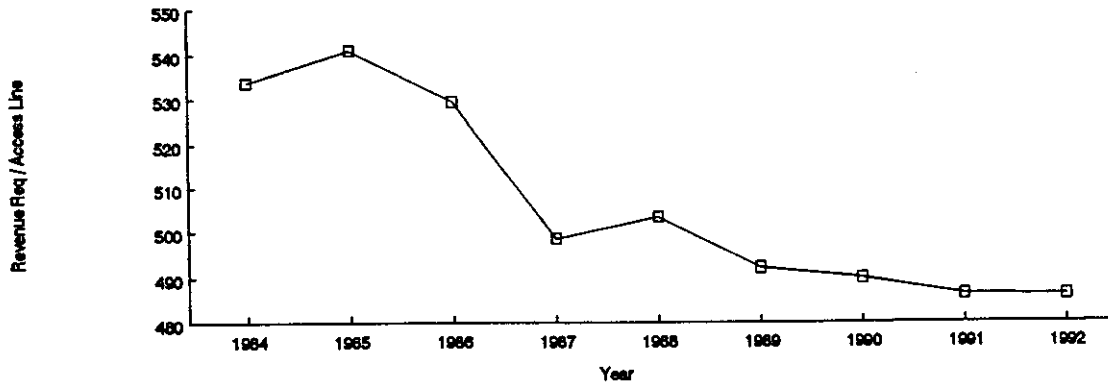
INTRASTATE "PER BOOKS" AMOUNTS



INTRASTATE "ACHIEVED" AMOUNTS



INTRASTATE "ADJUSTED ACHIEVED" AMOUNTS







Southern Bell  
Intrastate Rate Base and Net Operating Income Adjustments

1. Implementation of SFAS 112:  
The accounting pronouncement SFAS 112, "Employers' Accounting for Post Employment Benefits" requires accrual accounting for certain postemployment benefits that are not covered under SFAS 106, "Employers' Accounting for Postretirement Benefits other than Pensions". This adjustment reflects the Company proposal to expense the impact of initial adoption of SFAS 112 in 1994 business.
2. Impact of 1993 Bond Refinancings:  
This adjustment amortizes the cost of 1993 bond refinancings at the same rate that interest savings are accruing to the Company. For 1993, the proforma adjustment to include the interest savings net of bond costs nets to zero. The adjustment of \$7.8 million reflects the additional bond cost for 1994; the corresponding interest savings is included in the going level cost rates in the capital structure.
3. Hurricane Expense True-up:  
This adjustment restates the Hurricane Andrew expense amortization for the latest estimate of the impact of the storm. The primary impacts are an increase in the deferred costs associated with the storm and an increase in the related amortization expense from these deferrals.
4. Capital Recovery Changes:  
This adjustment quantifies the impacts of amortizations which are scheduled to expire in 1994. The adjustment reduces going level expense by the difference between 1993 and 1994 amortizations.
5. Company Proposal:  
This adjustment adjusts test period revenues and expenses for the tariff changes that Southern Bell is proposing in this proceeding. The specific changes included are 1) Expanded Local Service Plan; 2) Switched Access rate reduction; 3) Message Rate Restructure; and 4) Hunting on FX. A description of these changes is included in Company Witness Nancy Sims' testimony.

6. Alternative Toll Relief Plan:

In its Order No. PSC-93-0842-FOF-TL of Docket No. 911034-TL, the Commission ordered that the Company should implement an alternative toll relief plan for certain routes in Dade and Broward Counties. This adjustment evaluates the revenue decrease resulting from this Commission Order and appropriately reduces the test year going level revenue amounts in anticipation of implementation of the Order.

7. Attrition:

This adjustment reflects the results of a study performed by Company Witness John McClellan related to the earnings trend of the Company. Mr. McClellan's study determines the expected revenue requirement improvement for the Company in 1994 relative to 1993 results.

8. Casualty Damage Reserve Accrual:

This adjustment reflects the Company proposal to accrue \$6 million of expense per year beginning in 1994 to a reserve for casualty damages. The reserve balance is included in rate base as part of cash working capital.

9. Extraordinary Retirements Expense:

This adjustment recognizes the rate base impact of expensing the undepreciated value of plant which was retired as a result of Hurricane Andrew damage. The Company is proposing to expense this amount in 1993. Therefore, the rate base impact is the only going level adjustment.

10. Excess Plug-In Units:

This adjustment reduces rate base for the excess inventory of plug-in units over a 30-days supply on hand.

11. WECO Tax Credits:

Per Docket No. 820376-TP, Rule No. 25-14.010, the Florida Commission requires deferred taxes on intercompany transactions to be treated as zero cost capital instead of as a rate base reduction. To comply, this adjustment: (a) restores the original surviving Western Electric Company (WECO) taxes to plant accounts, (b) establishes a deferred tax account balance representing the unamortized WECO tax, and (c) adjusts the depreciation reserve by the cumulative WECO tax restoral.

12. Bellcore Investment & Dividend:

An adjustment to include Florida's share of the Bellcore dividend in income and Bellcore investment in rate base was previously included in the BellSouth Services, Inc. adjustments on the Company's Surveillance Reports. Since the corporate reorganization effective January 1, 1992, Bellcore stock is owned directly by BellSouth Telecommunications, Inc. Therefore, for 1992 and forward, a specific adjustment for the Bellcore dividend and investment is required.

13. Out-of-Period Revenue and Settlements (Independent Company):

This adjustment is made to exclude revenue and settlement amounts with independent companies budgeted for the test year that are applicable to prior periods.

14. Yellow Page Profits:

Per FPSC Rule No. 25-4.0405, a computation is made to determine whether any directory advertising revenues are required to be excluded from regulated income. Because 1993 gross profits are projected to be less than the 1982 adjusted amount, no adjustment is required.

15. Net Gains on Sale of Property:

In Docket No. 820294, Order No. 12221, the Florida Commission (FPSC) ruled that the net gain on sales of property upon disposition should be recorded above the line for rate making purposes. The FPSC determined that a five year average was appropriate to smooth out the erratic nature of these sales. This adjustment is made to comply with the FPSC order.

16. Income Related to Temporary Cash Investments:

This adjustment is in compliance with Docket No. 820294, Order No. 12221, in which the FPSC ruled that interest income related to temporary cash investments should be moved above the line for rate purposes.

17. Interest Reconciliation & AFUDC Debt:

This adjustment is made to reconcile booked interest to the interest calculated on the debt components of capital structure. The adjustment is for the tax effect of the difference in the interest amounts.

18. Interest Imputation:

This adjustment imputes a hypothetical interest amount and resulting tax savings to the investment credit component of capital structure. The unamortized investment tax credit component is multiplied by the weighted cost of long term debt to determine the interest portion and then the appropriate tax factors are applied to determine the tax impact. This adjustment is in accordance with prior Commission treatment for this issue.

19. Lobbying Expense:

In several orders (No. 7926, No. 10449, and No. 12221) the FPSC has disallowed lobbying expense for rate making purposes. Lobbying expense incurred by Florida employees, or allocated to Florida from Southern Bell Headquarters is booked below the line to Account 7370 to the extent it meets the Part 32 Uniform System of Accounts definition of lobbying. However, to meet the more stringent FPSC disallowances, this adjustment is made to move additional amounts out of regulated expense for state purposes. In addition, the Florida intrastate portion of lobbying or legislative liaison expenses included in billings from BellSouth Corporation, BellSouth Communications, Inc. or Bellcore are removed from regulated expenses as part of adjustment No. 23.

20. Corporate Advertising Expense:

This adjustment removes corporate advertising expenses incurred by Southern Bell from regulated expense per FPSC rulings in Docket No. 820294-TP. In addition, corporate advertising expense included in billings from BellSouth Corporation, BellSouth Communications, Inc. or Bellcore are removed from regulated expense as part of adjustment No. 23.

21. Abandoned Projects:

Abandoned projects in Docket No. 820294-TP and Docket No. 880069-TL were treated as an allowable expense for rate purposes. The purpose of this adjustment is to move expenses recorded below the line into regulated expense for rate purposes.

22. Casualty Expense:

This adjustment is made in accordance with prior Commission treatment to average the impact of casualty expenses. The adjustment amount is the difference between the five year average and the expense estimated to be incurred in the twelve month period for 1993. As explained in testimony, Hurricane Andrew expense is being amortized on the books over 5 years; therefore, this casualty expense adjustment does not include Hurricane Andrew expense.

23. Other Regulatory Adjustments:

The purpose of this adjustment is to remove from regulated expense certain costs included in billings from BellSouth Corporation, BellSouth Communications, Inc. and Bellcore. The items being removed are not separately billed by these affiliates, but rather are included in overheads. Adjustments are made for the Florida intrastate portion of contributions, social and service membership dues, BellSouth Classic expense, Olympics expense, lobbying/legislative liaison expenses, and corporate advertising.

24. Impact of 1992 Bond Refinancings:

This item reflects the impact of the Company's refinancing of bonds in June and July, 1992. The adjustment amount is an increase in expense equal to the portion of these refinancing costs which are being amortized over the 40 year life of the new bond issues as prescribed by Order No. PSC-92-1412-FOF-TL, dated December 7, 1992.



Incentive Sharing Plan

Report of Rate Changes/Exogenous Factors/Debt Changes/Technological Changes  
 Intrastate Amounts - Effective Revenue Requirement Impacts  
 (\$ Millions)

(\$ MILLIONS)			
All Price Changes, Exogenous Factors > \$3 million, Debt Refinancings and Major Technological Changes	1992 Amounts	Estimated 1993 Amounts	Estimated 1994 Amounts
<b>I. Existing Issues:</b>			
Net Value of all issues as shown on 12/31/92 Earnings Surveillance Report	\$(15.7)	\$ 0	\$ 0
<b>II. New Issues:</b>			
<b>A. Rate Decreases</b>			
(1) Dade/Broward \$.25 Plan		(0.3)	(10.5)
(2) Company Proposals			(4.3)
(3) Total			(14.8)
<b>B. Exogenous Factors:</b>			
(1) Depreciation Represcription Order	13.2	25.7	38.8
(2) SFAS 112			(14.2)
(3) Hurricane Extraordinary Retirement Recognition		(17.8)	
(4) Accruals to Establish Casualty Loss Reserve		(7.6)	(5.7)
(5) President Clinton's Tax Plan or Other Exogenous		?	?
<b>C. Debt Refinancing</b>			
Interest Savings-1993 Issues	--	3.9	8.0
Debt Refinancing Expense Recognition	--	(3.9)	(8.0)
<b>D. Major Technological Changes</b>			
None	NA	NA	NA
<b>E. Net Total Impact</b>	(2.5)	0	4.1

FLORIDA PUBLIC SERVICE COMMISSION  
TELEPHONE EARNINGS SURVEILLANCE REPORT

FPSC Exhibit Number \_\_\_\_\_  
FPSC Docket 920260-TL  
Reid Exhibit WSR-4  
Appendix No. 1  
Earnings Surveillance Report  
Page 1 of 155

Company : Southern Bell Tel. & Tel. Co.  
12 Months Ended : December 31, 1992

RATE BASE(000)	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Total Company Columns (2 + 3)	Interstate Toll	Total Intrastate Columns (4 + 7)	Intrastate Toll Columns (5 + 6)	IntraToll		Local
					Inter- territory	Intra- territory	
<b>AVERAGE RATE BASE</b>							
1. General Support	\$1,148,756	\$260,128	\$888,628	\$195,542	\$89,823	\$105,719	\$683,086
2. Central Office	3,321,557	835,428	2,486,129	577,102	259,099	318,003	1,909,027
3. Information Orig/Term	184,420	44,317	120,103	23,580	13,916	9,664	96,523
4. Cable and Wire Facilities	4,410,004	1,194,307	3,215,697	722,414	405,616	316,798	2,493,283
5. Amortizable Assets	<u>21,236</u>	<u>4,847</u>	<u>16,389</u>	<u>3,659</u>	<u>1,680</u>	<u>1,979</u>	<u>12,730</u>
6. Plant in Service	\$9,065,973	\$2,339,027	\$6,726,946	\$1,522,297	\$770,134	\$752,163	\$5,204,649
7. Accumulated Depreciation and Amortization	<u>3,598,992</u>	<u>940,770</u>	<u>\$2,658,222</u>	<u>602,342</u>	<u>307,809</u>	<u>294,533</u>	<u>2,055,880</u>
8. Net Plant in Service	\$5,466,981	\$1,398,257	\$4,068,724	\$919,955	\$462,325	\$457,630	\$3,148,769
9. Property Held for Future Use	230	59	171	39	20	19	132
10. TPUC (No IDC)	32,687	8,604	24,083	6,456	2,782	2,674	18,627
11. Acquisition Adjustments	0	0	0	0	0	0	0
12. Working Capital Allowance	<u>(79,430)</u>	<u>(20,748)</u>	<u>(58,682)</u>	<u>(13,329)</u>	<u>(6,326)</u>	<u>(7,003)</u>	<u>(45,353)</u>
13. Per Book Average Rate Base	<u>\$5,420,468</u>	<u>\$1,388,172</u>	<u>\$4,034,296</u>	<u>\$912,121</u>	<u>\$458,801</u>	<u>\$453,320</u>	<u>\$3,122,175</u>

14. % Distribution	100%	25.57%	74.43%	16.83%	8.46%	8.36%	57.60%
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**ADJUSTMENTS TO AVERAGE RATE BASE**

15. Adjustments for Achieved Rate Base \$11,726

16. Adjusted Achieved Rate Base \$4,046,022

**ADJUSTED ANNUALIZED/PRO FORMA YEAR END RATE BASE**

17. Year End Rate Base per Books 4,035,820

18. Adjustments for Year End Rate Base 65,990

19. Adjusted Year End Rate Base \$4,101,810

**RATES OF RETURN**

20. Average Per Book	9.29%	9.88%	9.09%	15.86%	13.74%	18.00%	7.11%
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21. Average Adjusted Achieved 8.86%

22. Adjusted Year End 8.45%

FLORIDA PUBLIC SERVICE COMMISSION  
TELEPHONE EARNINGS SURVEILLANCE REPORT

Company : Southern Bell Tel. & Tel. Co.  
12 Months Ended : December 31, 1992

FPSC Exhibit Number \_\_\_\_\_  
FPSC Docket 920260-TL  
Reid Exhibit WSR-4  
Appendix No. 1  
Earnings Surveillance Report  
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ADJUSTMENTS TO AVERAGE RATE BASE (000)	(1) Plant In Service	(2) Accumulated Depreciation and Amortization	(3) Property Held for Future Use	(4) ST Plant Under Construction	(5) Acquisition Adjustment	(6) Working Capital Allowance	(7) Per Book Average Rate Base
<b>1. Intrastate Rate Base per Books</b>	<b>\$6,726,946</b>	<b>\$2,658,222</b>	<b>\$171</b>	<b>\$24,083</b>	<b>\$0</b>	<b>(\$58,682)</b>	<b>\$4,034,296</b>
<b>INTRASTATE ACHIEVED ADJUSTMENTS</b>							
<b>2. Excess Plug-in Units</b>	<b>(18,100)</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$18,100)</b>
<b>3. WECO Tax Credits</b>	<b>37,125</b>	<b>15,493</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>21,632</b>
<b>4. BELLCORE Investment</b>	<b>5,171</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>5,171</b>
<b>5. ENFIA</b>	<b>(1,237)</b>	<b>(518)</b>	<b>0</b>	<b>(4)</b>	<b>0</b>	<b>(10)</b>	<b>(733)</b>
<b>6. Other Rate Base Adjustments</b>	<b>(1,219)</b>	<b>(4,980)</b>	<b>0</b>	<b>(5)</b>	<b>0</b>	<b>0</b>	<b>3,756</b>
<b>7. Total Accounting Adjustments, Intrastate Achieved</b>	<b>\$21,740</b>	<b>\$9,995</b>	<b>\$0</b>	<b>(\$9)</b>	<b>\$0</b>	<b>(\$10)</b>	<b>\$11,726</b>
<b>8. Achieved Intrastate Rate Base</b>	<b>\$6,748,686</b>	<b>\$2,668,217</b>	<b>\$171</b>	<b>\$24,074</b>	<b>\$0</b>	<b>(\$58,692)</b>	<b>\$4,046,022</b>
<b>9. Intrastate Year End Rate Base per Books</b>	<b>\$6,837,933</b>	<b>\$2,787,761</b>	<b>\$170</b>	<b>\$27,842</b>	<b>\$0</b>	<b>(\$42,384)</b>	<b>\$4,035,820</b>
<b>INTRASTATE ANNUALIZED/PRO FORMA ADJUSTMENTS</b>							
<b>FPSC ADJUSTMENTS:</b>							
<b>10. Excess Plug-in Units</b>	<b>(18,100)</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$18,100)</b>
<b>11. WECO Tax Credits</b>	<b>37,139</b>	<b>15,499</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>21,640</b>
<b>12. BELLCORE Investment</b>	<b>5,150</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>5,150</b>
<b>13. ENFIA</b>	<b>(1,237)</b>	<b>(518)</b>	<b>0</b>	<b>(4)</b>	<b>0</b>	<b>(10)</b>	<b>(733)</b>
<b>ANNUALIZING ADJUSTMENTS:</b>							
<b>14.</b>							
<b>15.</b>							
<b>16.</b>							
<b>17.</b>							
<b>18.</b>							
<b>PRO FORMA ADJUSTMENTS:</b>							
<b>19. Phase Down of SPF</b>	<b>79,945</b>	<b>33,366</b>	<b>2</b>	<b>272</b>		<b>640</b>	<b>47,493</b>
<b>20. Other Separations Changes</b>	<b>16,505</b>	<b>6,021</b>	<b>0</b>	<b>56</b>			<b>10,540</b>
<b>21.</b>							
<b>22. Total Accounting Adjustments, Intrastate Annualized</b>	<b>\$119,402</b>	<b>\$54,368</b>	<b>\$2</b>	<b>\$324</b>	<b>\$0</b>	<b>\$630</b>	<b>\$65,990</b>
<b>23. Intrastate Annualized/Pro Forma Year End Rate Base</b>	<b>\$6,957,335</b>	<b>\$2,842,129</b>	<b>\$172</b>	<b>\$28,166</b>	<b>\$0</b>	<b>(\$41,734)</b>	<b>\$4,101,810</b>

FLORIDA PUBLIC SERVICE COMMISSION  
 TELEPHONE EARNINGS SURVEILLANCE REPORT

Company : Southern Bell Tel. & Tel. Co.  
 12 Months Ended : December 31, 1992

	(1) Total Company Column (2 + 3)	(2) Interstate Toll *	(3) Total Intrastate Column (4 + 7) #	(4) Intrastate Toll Column (5 + 6)	(5) IntraToll Inter- territory	(6) Intra- territory	(7) Local
<b>NET OPERATING INCOME(000)</b>							
<b>BOOKED REVENUE</b>							
1. Basic Local Service Revenue	\$1,395,233	124	\$1,395,109	\$0	0	0	\$1,395,109
2. Network Access Revenue	1,042,698	760,802	281,896	281,896	270,190	11,706	0
3. Long Distance Revenue	347,271	1,834	345,437	345,437	0	345,437	0
4. Miscellaneous Revenue	342,598	25,089	317,508	16,670	13,001	3,669	300,838
5. Uncollectible Revenues	40,951	2,213	38,738	6,943	340	6,602	31,795
6. Net Booked Revenue	<u>\$3,088,849</u>	<u>\$785,636</u>	<u>\$2,301,213</u>	<u>\$637,061</u>	<u>\$282,851</u>	<u>\$354,210</u>	<u>\$1,664,152</u>
<b>OPERATING EXPENSES</b>							
7.							
8. Plant Specific Operation Expense	546,173	153,593	392,580	87,951	43,766	44,185	304,629
9. Plant Non-Specific Operations Exp	276,256	69,658	206,698	56,889	22,572	34,317	149,809
10. Depreciation and Amortization	726,129	171,781	554,348	127,773	62,425	65,348	426,575
11. Customer Operations Expense	412,573	80,198	332,375	82,304	31,184	51,120	250,071
12. Corporate Operations Expense	295,693	85,895	209,798	50,456	23,195	27,261	159,342
13. Other Income and Expense	91	24	67	15	8	7	52
14. Total Operating Expense	<u>\$2,258,915</u>	<u>\$561,049</u>	<u>\$1,695,866</u>	<u>\$405,388</u>	<u>\$183,150</u>	<u>\$222,238</u>	<u>\$1,290,478</u>
15. % Distribution	100%	24.86%	75.14%	17.06%	8.12%	9.85%	57.18%
<b>OPERATING TAXES</b>							
16. Federal Income Tax	126,545	40,757	\$85,788	\$48,030	21,672	26,358	37,758
17. State Income Tax	36,404	13,429	22,975	13,672	5,229	8,443	9,303
18. Other Taxes	163,503	33,508	129,995	25,312	9,742	15,570	104,683
19. Total Operating Taxes	<u>\$326,452</u>	<u>\$87,694</u>	<u>\$238,758</u>	<u>\$87,014</u>	<u>\$36,643</u>	<u>\$50,371</u>	<u>\$151,744</u>
<b>NET OPERATING INCOME</b>							
20. Per Book NOI	<u>\$503,482</u>	<u>\$136,893</u>	<u>\$366,589</u>	<u>\$144,659</u>	<u>\$63,058</u>	<u>\$81,601</u>	<u>221,930</u>
21. NOI Effect of Adjustments(Achieved)			<u>(7,919)</u>				
22. Adjusted Achieved NOI			<u>\$358,670</u>				
23. NOI Effect of Adjustments(Annual/Pro Forma)			<u>(12,267)</u>				
24. Annualized/Pro Forma NOI			<u>\$346,403</u>				

\* Includes \$ 16,531,103 for Universal Service Fund

# Above expenses include regulatory and legislative liaison expenses of \$ 1,219,000. See the Lobbying Expense proforma for the legislative and liaison expenses excluded for rate making purposes.

FLORIDA PUBLIC SERVICE COMMISSION  
TELEPHONE EARNINGS SURVEILLANCE REPORT

Company : Southern Bell Tel. & Tel. Co.  
12 Months Ended : December 31, 1992

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ADJUSTMENTS TO NET OPERATING INCOME INTRASTATE REVENUE (000)	(1) Basic Local Service Revenue	(2) Inter- Territory Revenues	(3) Intra- Territory Revenue	(4) Misc Revenue	(5) Uncollectible Revenues	(6) Net Booked Revenue
1. Total Intrastate Revenue per Books	\$1,395,109	\$283,191	\$360,812	\$300,839	\$38,738	\$2,301,213
<b>INTRASTATE ACHIEVED ADJUSTMENTS</b>						
<b>OUT OF PERIOD ADJUSTMENTS:</b>						
2. Rev & Sett (Ind Co)		1,053	(78)			\$975
3. Expenses				3		3
4. MR & FR Taxes						0
5. Other Out of Period Revenue	6,360	(2,266)	0	(949)	0	3,145
6.						
7.						
8.						
9.						
10. Other Reg/Nonreg Adjustments	(561)					(561)
11. Yellow Page Profits				0	0	0
12. Gains on Sales of Property	(233)				0	(233)
3. Income Related to Temp Cash Inv	248					248
14. Interest Reconciliation						0
15. Interest Imputation						0
16. ENFIA						0
17. Lobbying Expense						0
18. Corporate Advertising Expense						0
19. Abandoned Projects						0
20. Casualty Expense						0
21. Bellcore Dividends	790					790
22. Telephone Franchise Requirement						0
23. Other Regulatory Adjustments						0
24. Total Accounting Adjustments, Intrastate Achieved	\$6,604	(\$1,213)	(\$78)	(\$946)	\$0	\$4,367
25. Total Achieved Intrastate Revenue	\$1,401,713	\$281,978	\$360,734	\$299,893	\$38,738	\$2,305,580

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	(1)	(2)	(3)	(4)	(5)	(6)
ADJUSTMENTS TO NET OPERATING INCOME	Basic Local	Inter-	Intra-	Misc	Uncollectible	Net
INTRASTATE REVENUE	Service	Territory	Territory	Revenue	Revenues	Booked
(000)	Revenue	Revenues	Revenue	Revenue	Revenues	Revenue
25. Total Achieved Intrastate Revenue	\$1,401,713	\$281,978	\$360,734	\$299,893	\$38,738	\$2,305,580

INTRASTATE ANNUALIZED/PRO FORMA ADJUSTMENTS

ANNUALIZING ADJUSTMENTS:

26.						\$0
27.						0
28.						0
29.						0
30.						
31.						
32.						0

FPSC ADJUSTMENTS (PRO FORMA):

33.						0
34.						0

PRO FORMA ADJUSTMENTS:

35. Employee Level Adjustment						0
36. Nonrecurring Items						0
37. High Cost Universal Service Fund						0
38. Phase Down of SPF				24		24
39. Other Separations Changes				1		1

40. Total Accounting Adjustments, Intrastate Annualized	\$0	\$0	\$0	\$25	\$0	\$25
41. Total Annualized Intrastate Revenue	\$1,401,713	\$281,978	\$360,734	\$299,918	\$38,738	\$2,305,606

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	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
		Plant	Other					
ADJUSTMENTS TO NET OPERATING INCOME		Specific	Non-Plant	Depreciation	Customer	Corporate	Other	Total
INTRASTATE OPERATING EXPENSE		Operations	Specific	and	Operations	Operations	Income and	Operating
(000)		Expense	Oper. Exp.	Amortization	Expense	Expenses	Expenses	Expense
1. Total Intrastate Expense per Books	\$0	\$392,580	\$206,698	\$554,348	\$332,375	\$209,798	\$87	\$1,695,868
<b>INTRASTATE ACHIEVED ADJUSTMENTS</b>								
<b>OUT OF PERIOD ADJUSTMENTS:</b>								
2. Rev & Sett (Ind Co)								\$0
3. Expenses		(938)	305	1,411	1,291	4,278		\$8,347
4. MR & FR Taxes								0
5. Other Out of Period Revenue								0
6.								
7.								
8.								
9.								
10. Other Reg/Nonreg Adjustments		12	2,145	17	43	1,586		3,803
11. Yellow Page Profits								0
12. Gains on Sales of Property							1	1
13. Income Related to Temp Cash Inv								0
14. Interest Reconciliation								0
15. Interest Imputation								0
16. ENFIA							(214)	(214)
17. Lobbying Expense						(446)		(446)
18. Corporate Advertising Expense						(280)		(280)
19. Abandoned Projects							399	399
20. Casualty Expense		(16)						(16)
21. Bellcore Dividends								0
22. Telephone Franchise Requirement								0
23. Other Regulatory Adjustments							(1,639)	(1,639)
24. Total Accounting Adjustments, Intrastate Achieved	\$0	(\$942)	\$2,450	\$1,428	\$1,334	\$5,138	(\$1,453)	\$7,955
25. Total Achieved Intrastate Expense	\$0	\$391,638	\$209,148	\$555,776	\$333,709	\$214,936	(\$1,386)	\$1,703,821

FLORIDA PUBLIC SERVICE COMMISSION  
 TELEPHONE EARNINGS SURVEILLANCE REPORT

Company : Southern Bell Tel. & Tel. Co.  
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	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
		Plant Specific Operations Expense	Other Non-Plant Specific Oper. Exp.	Depreciation and Amortization	Customer Operations Expense	Corporate Operations Expenses	Other Income and Expenses	Total Operating Expense
ADJUSTMENTS TO NET OPERATING INCOME								
INTRASTATE OPERATING EXPENSE (000)								
25. Total Achieved Intrastate Expenses	\$0	\$391,638	\$209,148	\$555,776	\$333,709	\$214,938	(\$1,386)	\$1,703,821

INTRASTATE ANNUALIZED/PRO FORMA ADJUSTMENTS

ANNUALIZING ADJUSTMENTS:

26.								\$0
27.								0
28.								0
29.								0
30.								0
31.								0
32.								0

FPSC ADJUSTMENTS (PRO FORMA):

33.								0
34.								0

PRO FORMA ADJUSTMENTS:

35. Employee Level Adjustment								0
36. Nonrecurring Items								0
37. High Cost Universal Service Fund						2,142		2,142
38. Phase Down of SPF		4,751	2,216	5,359		1,486		13,812
39. Other Separations Changes		851	461	1,348		281		2,941
40. Total Accounting Adjustments, Intrastate Annualized	\$0	\$5,602	\$2,677	\$6,707	\$0	\$3,909	\$0	\$18,895
41. Total Annualized Intrastate Expense	\$0	\$397,240	\$211,825	\$562,483	\$333,709	\$218,845	(\$1,386)	\$1,722,716



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	(1)	(2)	(3)	(4)	(5)
ADJUSTMENTS TO NET OPERATING INCOME				Total	
INTRASTATE OPERATING TAXES	Federal	State	Other Taxes	Operating	NOI
(000)	Income Tax	Income Tax		Taxes	
1. Total Intrastate Taxes per Books	\$85,788	\$22,975	\$129,995	\$238,758	\$366,589
<b>INTRASTATE ACHIEVED ADJUSTMENTS</b>					
<b>OUT OF PERIOD ADJUSTMENTS:</b>					
2. Rev & Sett (Ind Co)	309	53	13	\$375	\$600
3. Expenses	(2,050)	(347)	(29)	(2,426)	(3,918)
4. MR & FR Taxes	(1,452)	1,137	1,745	1,430	(1,430)
5. Other Out of Period Revenue	997	171	41	1,209	1,936
6.					
7.					
8.					
9.					
10. Other Reg/Non-reg Adjustments	1,188	171	(5)	1,354	(5,718)
11. Yellow Page Profits	0	0	0	0	0
12. Gains on Sales of Property	(74)	(13)	(3)	(90)	(144)
13. Income Related to Temp Cash Inv	79	14	3	96	152
14. Interest Reconciliation	2,473	423		2,896	(2,896)
15. Interest Imputation	(1,213)	(208)		(1,421)	1,421
16. ENFIA	86	15	(28)	73	141
17. Lobbying Expense	143	25		168	278
18. Corporate Advertising Expense	90	15		105	175
19. Abandoned Projects	(128)	(22)		(150)	(249)
20. Casualty Expense	5	1		6	10
21. Bellcore Dividends	76	13		89	701
22. Telephone Franchise Requirement				0	0
23. Other Regulatory Adjustments	527	90		617	1,022
24. Total Accounting Adjustments, Intrastate Achieved	\$1,056	\$1,538	\$1,737	\$4,331	(\$7,919)
25. Total Achieved Intrastate Taxes	\$86,844	\$24,513	\$131,732	\$243,089	\$358,670

FLORIDA PUBLIC SERVICE COMMISSION  
 TELEPHONE EARNINGS SURVEILLANCE REPORT

Company : Southern Bell Tel. & Tel. Co.  
 12 Months Ended: December 31, 1992

	(1)	(2)	(3)	(4)	(5)
ADJUSTMENTS TO NET OPERATING INCOME				Total	
INTRASTATE OPERATING TAXES	Federal	State	Other Taxes	Operating	NOI
(000)	Income Tax	Income Tax		Taxes	
25. Total Achieved Intrastate Taxes	\$86,844	\$24,513	\$131,732	\$243,089	\$358,670

INTRASTATE ANNUALIZED/PRO FORMA ADJUSTMENTS

ANNUALIZING ADJUSTMENTS:

26.				\$0	\$0
27.				0	0
28.				0	0
29.					
30.					
31.					
32.				0	0
FPSC ADJUSTMENTS (PRO FORMA):					
33.				0	0
4.				0	0
PRO FORMA ADJUSTMENTS:					
35. Employee Level Adjustment				0	0
36. Nonrecurring Items				0	0
37. High Cost Universal Service Fund	(688)	(118)	0	(806)	(1,336)
38. Phase Down of SPF	(4,925)	(811)	960	(4,776)	(9,012)
39. Other Separations Changes	(1,047)	(172)	198	(1,021)	(1,919)
40. Total Accounting Adjustments, Intrastate Annualized	(\$6,660)	(\$1,101)	\$1,158	(\$6,603)	(\$12,267)
41. Total Annualized Intrastate Taxes	\$80,184	\$23,412	\$132,890	\$236,486	\$346,403

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Company : Southern Bell Tel. & Tel. Co.  
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AVERAGE CAPITAL(INTRASTATE) (000)	(1)	(2)	(3) #	(4)	(5)	(6) - Cost Rate -			(7) - Weighted Cost Rate -		
	Average Per Books	Specific Adjustments	Pro Rata Adjustments	Adjusted Amount	% of Total	Floor	Sharing	Ceiling	Floor	Sharing	Ceiling
1. Long Term Debt	1,086,911		(22,176)	\$1,064,735	26.32%		8.63%				2.27%
2. Short Term Debt	115,128	5,647	(2,464)	118,311	2.92%		3.91%				0.11%
3. Preferred Stock	0		0	0	0.00%		0.00%				0.00%
4. Customer Deposits	56,064		(1,144)	54,920	1.36%		8.57%				0.12%
5. Common Equity	1,988,909	24,347	(41,077)	1,972,179	48.74%	11.50%	14.00%	16.00%	5.61%	6.82%	7.80%
6. Investment Tax Credits	127,190		(2,595)	124,595	3.08%	10.50%	11.60%	13.42%	0.32%	0.36%	0.41%
7. Cost Free Capital	701,494	24,603	(14,815)	711,282	17.58%		0.00%				0.00%
8. Total Capital	<u>\$4,076,696</u>	<u>\$54,597</u>	<u>(\$84,271)</u>	<u>\$4,046,022</u>	<u>100.00%</u>				<u>8.43%</u>	<u>9.68%</u>	<u>10.71%</u>

INTERNAL FUNDS

9. % Internal funds to construction expenditures after dividends (Total Company)	90.86%
10. Times interest earned (NI+Interest+Income Tax)/Interest (Total Company)	4.15
11. Long Term Debt / Capital (Intrastate)	33.80%
12. Short Term Debt / Capital (Intrastate)	3.58%
13. Average adjusted achieved return on equity (Intrastate)	12.36%
14. Adjusted year end return on equity (Intrastate)	11.53%

# See Page 6 for details.

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Company : Southern Bell Tel. & Tel. Co.  
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	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
ADJUSTMENTS TO AVERAGE CAPITAL(000)	LONG TERM DEBT	SHORT TERM DEBT	PREFERRED STOCK	CUSTOMER DEPOSITS	COMMON EQUITY	INVESTMENT TAX CREDITS	COST FREE CAPITAL	TOTAL CAPITAL
1. Total Capital Per Books	1,468,328	155,529	0	56,064	2,686,853	167,178	923,742	\$5,457,694
<b>DESCRIPTION OF ADJUSTMENTS TO SPECIFIC SOURCES</b>								
2. Accrued Dividends					32,891			32,891
3. WECCO Tax Credits							33,639	33,639
4. Accrual for Florida Refund		5,647						5,647
5.								0
6. Sub-total of Specific Adjustments to Sources	\$0	\$5,647	\$0	\$0	\$32,891	\$0	\$33,639	\$72,177
7. Adjusted Total Capital	\$1,468,328	\$161,176	\$0	\$56,064	\$2,719,744	\$167,178	\$957,381	\$5,529,871
<b>DESCRIPTION OF PRO RATA ADJUSTMENTS</b>								
8. Various DNI From Rate Base #	(24,532)	(2,693)	0	(937)	(45,440)	(2,793)	(15,996)	(\$92,391)
9.								
10.								
11.								
12. Sub-total of Pro Rata Adjustments to Sources	(\$24,532)	(\$2,693)	\$0	(\$937)	(\$45,440)	(\$2,793)	(\$15,996)	(\$92,391)
13. Subtotal, Pro Rata Adjusted Total Capital	\$1,443,796	\$158,483	\$0	\$55,127	\$2,674,304	\$164,385	\$941,385	\$5,437,480
14. Interstate Separation Factor	\$379,061	\$40,172	\$0	\$207	\$702,125	\$39,790	\$230,103	\$1,381,456
15. Adjusted Jurisdictional Capital	\$1,064,735	\$118,311	\$0	\$54,920	\$1,972,179	\$124,595	\$711,282	\$4,048,022

# See Page 6 for details.

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CUSTOMER BILLING (000)	(1)	(2)	(3)
	Intrastate Toll Columns (2 + 3)	-----Intra toll----- Inter- territory      Intra- territory	
<b>ACCESS CHARGES :</b>			
1. End User Charges	(\$0)	(0)	0
2. Capacity Charges (a)	143	143	0
3. MOU Charges To IXC's (b)	258,177	246,472	11,706
4. Special Access Charges (c)	19,948	19,948	0
5. Other (d)	136	136	(0)
6. Total Access Charges	<u>\$278,404</u>	<u>\$266,699</u>	<u>\$11,706</u>
<b>OTHER CHARGES TO IXC'S :</b>			
7. Operator Services (D.A.)	\$5,505	5,505	0
8. Billing and Collecting	9,273	9,273	0
9. Interexchange Lease	75	0	75
10. Total Other Charges to IXC's	<u>\$14,853</u>	<u>\$14,778</u>	<u>\$75</u>
<b>CUSTOMER CHARGES (e) :</b>			
1. MTS	\$261,751	0	261,751
12. WATS	37,973	0	37,973
13. Private Line-FX	52,112	0	52,112
14. Local Exchange	0	0	0
15. Miscellaneous	0	0	0
16. Total Customer Charges	<u>\$351,837</u>	<u>\$0</u>	<u>\$351,837</u>
17. Total Billing	<u>\$645,094</u>	<u>\$281,477</u>	<u>\$363,617</u>
18. Joint Transport Receipts (Payments)	<u>(\$49)</u>	<u>(\$49)</u>	<u>\$0</u>
19. Subsidy Fund Receipts (Payments)	<u>(\$2,423)</u>	<u>(\$2,013)</u>	<u>(\$410)</u>
20. Out-of-Period Billings	<u>\$115</u>	<u>(\$1,053)</u>	<u>\$1,168</u>
21. Intra-LATA Private Line Pool Revenue			<u>(\$5,989)</u>
22. Access Expense			<u>(\$1,096) *</u>
23. Other Settlements	<u>(\$8,415)</u>	<u>(2,016)</u>	<u>(6,399)</u>

NOTE: The amounts on this schedule reflect, among other things, all payments from IXC's on a composite basis. However, LEC's are expected to maintain individual side records by IXC in the same level of detail found on this schedule.

(a) Busy Hour minutes of Capacity Charge.

(b) Includes Local Switching, Local Transport, Line Termination and Carrier Common Line.

(c) For Intrastate Interterritory Station Terminals.

(d) Includes testing, ordering, labor, etc.

(e) For Lines 11 through 15, include only charges billed to customer and retained by company, not charges billed on behalf of IXC's.

\* MABC Revenues were \$ 11,706 and MABC expenses were \$ 12,802 for twelve months ending December 31, 1992.

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NET OPERATING INCOME FOR THE MONTH ENDED December 31, 1992	(000)	(1)	(2)	(3)	(4)	(5)	(6)	(7)
		Total Company Columns (2 + 3)	Interstate Toll	Total Intrastate Columns (4 + 7)	Intrastate Toll Columns (5 + 6)	IntraToll		Local
						Inter-	Intra-	
						territory	territory	
<b>BOOKED REVENUE</b>								
1. Basic Local Service Revenue		\$120,841	11	\$120,830	\$0	\$0	\$0	\$120,830
2. Network Access Revenue		102,705	78,444	24,261	24,261	23,462	799	0
3. Long Distance Revenue		28,406	186	28,220	28,220	0	28,220	0
4. Miscellaneous Revenue		27,050	2,543	24,507	1,344	1,033	311	23,163
5. Uncollectible Revenues		452	71	381	84	22	62	297
6. Net Booked Revenue		\$278,550	\$81,113	\$197,437	\$53,741	\$24,473	\$29,268	\$143,696
<b>OPERATING EXPENSES</b>								
7.								
8. Plant Specific Operation Expense		52,414	22,336	30,078	6,663	3,239	3,424	23,415
9. Plant Non-Specific Operations Exp		22,974	6,539	16,435	4,429	1,845	2,584	12,006
10. Depreciation and Amortization		60,135	14,394	45,741	10,283	5,066	5,217	35,458
11. Customer Operations Expense		38,293	7,135	31,158	7,514	2,645	4,869	23,644
12. Corporate Operations Expense		29,285	8,636	20,649	4,782	2,197	2,585	15,867
13. Other Income and Expense		15	4	11	2	1	1	9
14. Total Operating Expense		\$203,116	\$59,044	\$144,072	\$33,673	\$14,993	\$18,680	\$110,399
15. % Distribution		100%	28.07%	70.93%	16.58%	7.38%	9.20%	54.35%
<b>OPERATING TAXES</b>								
16. Federal Income Tax		18,660	5,308	13,352	5,046	2,421	2,625	8,306
17. State Income Tax		5,172	2,154	3,018	1,589	600	989	1,429
18. Other Taxes		12,848	2,391	10,457	2,124	687	1,437	8,333
19. Total Operating Taxes		\$36,680	\$9,853	\$26,827	\$8,759	\$3,708	\$5,051	\$18,068
<b>NET OPERATING INCOME</b>								
20. Per Book NOI for the Month		\$38,754	\$12,218	\$26,539	\$11,309	\$5,772	\$5,537	\$15,229

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FLORIDA PUBLIC SERVICE COMMISSION  
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RECONCILIATION OF CAPITAL TO RATE BASE  
(000)

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<u>DESCRIPTION</u>	<u>COMBINED</u>	<u>INTRASTATE</u>
1. Long Term Plant Under Construction	(\$23,811)	(\$17,674)
2. Investments in and Advances to Affiliated Companies	(6,777)	(5,016)
3. Miscellaneous Physical Property	(8,902)	(6,590)
4. Other	(40,495)	(45,085)
5. Rate Base Adjustments		
A. Excess Plug-in Units	(24,182)	(18,100)
B. Bell South Services Investment	6,978	5,171
C. ENFIA	0	(733)
D. Out of Period Items	4,798	3,756
E. Total Rate Base Adjustments	(12,406)	(9,906)
6. Total	(92,391)	(84,271)

FLORIDA PUBLIC SERVICE COMMISSION  
TELEPHONE EARNINGS SURVEILLANCE REPORT

Company : Southern Bell Tel. & Tel. Co.  
12 Months Ended : December 31, 1992

FPSC Exhibit Number \_\_\_\_\_  
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RATE STABILIZATION ORDER  
REPORT OF RATE CHANGES/EXOGENEOUS FACTORS/DEBT CHANGES/TECHNOLOGICAL CHANGES

Intrastate Amounts  
(000's)

	Annual Revenue Requirement Impact	YTD Effective Portion for 1992	Cumulative Effect
<b>All Price Changes, Exogeneous Factors &gt; \$ 3 Million, Debt Refinancings and Major Technological Changes</b>			
<b>I. RATE CHANGES</b>			
A. Rate Increases	\$17,586	\$17,586	\$63,053
B. Rate Decreases	(8,571)	(8,373)	(19,346)
<b>Net</b>	<b>\$9,015</b>	<b>\$9,213</b>	<b>\$43,707</b>
<b>II. EXOGENEOUS FACTORS</b>			
A. Depr increase due to USOAR Docket	(17,997)	(17,997)	(53,301)
B. Separations change	(7,422)	(7,422)	(27,833)
<b>Net</b>	<b>(\$25,419)</b>	<b>(\$25,419)</b>	<b>(\$81,134)</b>
<b>III. DEBT REFINANCING</b>			
A. Difference between forecast and actual	\$519	\$519	(4,776)
<b>IV. MAJOR TECHNOLOGICAL CHANGES</b>			
NONE			
<b>Grand Net</b>	<b>(\$15,885)</b>	<b>(\$15,687)</b>	<b>(\$42,203)</b>



FLORIDA PUBLIC SERVICE COMMISSION  
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RATE STABILIZATION ORDER  
REPORT OF RATE CHANGES/EXOGENEOUS FACTORS/DEBT CHANGES/TECHNOLOGICAL CHANGES  
ADDITIONAL DESCRIPTION OF ITEMS  
(000's)

All Price Changes, Exogeneous Factors > \$ 3 Million, Debt Refinancings and Major Technological Changes	Annual	YTD	Cumulative Effect
	Impact	Effective Portion for 1992	
<b>I.A. Rate increases (by service)</b>			
1. Nonrecurring FX charges. Tariff offering GSST A-9, Eff. 7/11/88	\$2,465	\$2,465	\$11,093
2. Toll Terminals. Tariff offering GSST A-13, Eff. 1/1/89	2,086	2,086	8,344
3. Mobile Service. Tariff offering GSST A-3, Eff. 4/21/89	2,254	2,254	8,265
4. Custom Calling Services. Tariff offering GSST A-13, Eff. 9/1/89	10,000	10,000	33,333
5. Bad check charge. Tariff offering GSST A-2, Eff. 5/21/90	781	781	2,018
	<b>\$17,586</b>	<b>\$17,586</b>	<b>\$63,053</b>
<b>I.B. Rate decreases (by service)</b>			
1. Megalink service reduction. Private Line B-7, Eff. 8/8/88	(\$90)	(\$90)	(\$359)
2. WATS usage charge. Tariff offering GSST A-19, Eff. 10/20/89	(134)	(134)	(424)
3. Telephone Answering Serv DID. Tariff off GSST A-6,A-8, Eff 3/19/90	(182)	(182)	(501)
4. Saver Service. Tariff offering A-18,A-118, Eff. 8/1/90	(4,205)	(4,205)	(10,997)
5. PIC Change Charge. Access Tariff E-13, Eff. 9/4/90	(2,436)	(2,436)	(5,684)
6. Saver Service and WatsSaver Services. GSST Tariff A-18, Eff. 7/1/91	(104)	(104)	(156)
7. Mobile Service Provider Interconnection. GSST Tariff A-35, Eff 11/11/91	(27)	(27)	(30)
8. CLUB Billing Svs - Optional to Standard, GSST Tariff A-13 Eff 1/16/92	(26)	(25)	(25)
9. Public Tel Access Service for CPE - Interconnection rate reduction; GSST Tariff A-7, Eff 2/10/92	(1,078)	(959)	(959)
10. Eliminate \$.75 NRC B&C surcharge for NPATS providers, GSST Tariff A-7.5, Eff. 3-16-92	(219)	(173)	(173)
11. Nonrecurring Switched & Special Access Charges. Access Tariff E-6, E-7, Eff. 3-31-92	(1)	(1)	(1)
12. Discounted Florida Relay Center toll calls, GSST A-18, Eff. 6/1/92	Not quantified		
13. E911 network service rates, GSST A-6, A-24, A-124, Eff. 6/15/92	(69)	(37)	(37)
	<b>(\$8,571)</b>	<b>(\$8,373)</b>	<b>(\$19,346)</b>
<b>II.A. Depreciation differences due to the USOAR Docket.</b>			
<b>B. Separations change for revenue accounting procedures. The FCC mandated this change be effective on 4/1/89.</b>			
<b>III.A. Difference between actual long term debt cost rate and forecasted rate for the current twelve month ending period, adjusted to exclude the effective portion of the current year interest savings associated with the 1989 refinancing of \$200M of 11.75% debentures.</b>			

FLORIDA PUBLIC SERVICE COMMISSION  
TELEPHONE EARNINGS SURVEILLANCE REPORT

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Company : Southern Bell Tel. & Tel. Co.  
12 Months Ended : December 31, 1992

RATE STABILIZATION ORDER  
REPORT OF NEW SERVICES  
Intrastate Amounts (000's)

New Services	Effective Date	Estimated Annual Revenue Impact		
		Year 1	Year 2	Year 3
1. Key System cust allowed to partic as STS providers	3/5/88	\$0	\$0	\$0
2. TouchStar Service	8/8/88	131	6,151	13,775
3. Link-Up Florida	9/12/88	0	0	0
4. Pay Per View (TicketTaker)	5/15/89 *	64	67	
5. Private Line Tariff (Megalink Channel)	4/29/88	296	1,690	3,264
6. GeoServ	7/11/88	129	144	N/A
7. 2 Way Measured Tariff	12/2/88	28	109	
8. AccuPulse Service	1/9/89	3	59	
9. Switched Access AccuPulse Service	1/9/89	520	520	
10. ESSX Multi-Account Service	3/28/89	842	842	
11. Special Calling Features	8/15/89	224	1,409	
12. Intralata Only 800 Service	9/1/89	115	128	
13. Dial Backup Service	9/27/89	9	9	
14. 2400 bps Central Office Data Set	9/27/89	5	6	
15. Automatic Call Distribution(ACD-MIS)	10/9/89	1,847	1,847	
16. Switched Data Service	10/9/89	33	33	
17. Simplified Message Desk Interface(SMDI)	10/9/89	109	109	
18. Customer Network Management	11/13/89	19	58	
19. Station Message Detail Recording - Premises	12/1/89	1,013	1,013	
20. Area Communication Service (ACS)	12/19/89	23	23	
21. Billing & Collecting of Subscriber Surcharge	1/1/90	96		
22. Call Forwarding Busy Line	1/15/90	45		
23. Call Forwarding Don't Answer	1/15/90	108		
24. Inward Operator Services Access Service	2/15/90	154		
25. Central Office Local Area Network (CO LAN)	7/31/90	71		
26. Digital Elect Tandem Switching Features(DETS)	7/31/90	141		
27. IntraLATA 800 Service with DID	7/30/90	22		
28. Enhanced CCS Features	8/6/90	18		
29. Outgoing Only Service	8/31/90	0		
30. Exchange Line Data Service (ELDS)	11/30/90 #	181		
31. Pulselink Protocols (SNA/SDLC & X.32)	12/9/90	68		
32. Option 800 Service to Residence Customers	1/7/91 @	17		
33. New Megalink Svs Opt. Feature: Clear Channel Capability	1/16/91	34		
Subtotal from Page 8A		10,660	0	0
Totals		\$17,025	\$14,217	\$17,039

\* This service was previously provided under a limited service arrangement which was effective 11/16/87. As of 5/15/89, it was available as a permanent statewide offering. The annual revenue impact has been revised to reflect this tariff change.

# This service was previously provided under a limited service arrangement which was effective 9/28/88.

As of 11/30/90, it was available as a permanent statewide offering.

@ This service was previously referred to as IntraLATA Only 800 Service.

FLORIDA PUBLIC SERVICE COMMISSION  
TELEPHONE EARNINGS SURVEILLANCE REPORT

Company : Southern Bell Tel. & Tel. Co.  
12 Months Ended : December 31, 1992

RATE STABILIZATION ORDER  
REPORT OF NEW SERVICES  
Intrastate Amounts (000's)

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New Services (Continued)	Effective Date	Estimated Annual Revenue Impact		
		Year 1	Year 2	Year 3
34. Digital Electronic Business Set (DEBS) Svs	2/25/91	138		
35. New Features for ESSX and Digital ESSX Service	2/28/91	394		
36. New Network Services (DNA)	3/11/91	583		
37. Digital ESSX - Optional Features	3/15/91	1,051		
38. Derived Data Channel Service (Miami LSO)	4/1/91	0		
39. Telecomm Service Priority (TSP) System	4/8/91	61		
40. Coin/Coinless Credit Card Service	5/28/91	304		
41. Operator Transfer Service	6/17/91	1,389		
42. Caller ID with Per Call Blocking	7/1/91		&	
43. Call Tracking - Bulk Calling Line ID	7/1/91	434		
44. Trunk Side Access Facility & ONA Services	9/2/91	783		
45. Public Inmate Calling Service (ICS) and Customer Provided Public Inmate Calling Svs	9/3/91	N/A	>	
46. New Equipment for Disabled Customers(at cost)	9/16/91	N/A		
47. ESSX ISDN Service	10/1/91	573		
48. Administrative Management Service (AMS)	10/4/91	141		
49. Bill Processing Service - Telemessaging	10/21/91	187		
50. ESSX - Caller ID, Blocking, Display	10/21/91	148		
51. Extended Communication Svs. (EXCS)	10/21/91	772		
52. Essx /Digital Essx Service Very Small	12/24/91	327		
53. Caller ID Multi-Line (Touchstar)	2/20/92	39		
54. Diskette Analyzer Bill(DAB) Service	3/17/92	498		
55. Customer List Services (CNA & CCAS)	4/27/92	538		
56. Derived Data Channel Service	4/27/92	69		
57. Electronic White Pages (EWP)	5/20/92	28		
58. 0+900 Dialing Capability for credit calls	6/7/92	Not quantified		
59. Anonymous Call Rejection (ACR)	8/24/92	199		
60. Network Usage Information Service	10/2/92	1,027		
61. 5ESS SMDI, Message Waiting, ACR	10/5/92	7		
62. N11 Service	10/26/92	970		
<b>Total (to Page 8)</b>		<b>\$10,660</b>	<b>\$0</b>	<b>\$0</b>

& We are not able to quantify Caller ID with the effects of per call blocking. Semiannual reports for 24 months will be filed with the Commission.

> Services to be provided as requested by individual facilities to address desired calling limitations.

SOUTHERN BELL - FLORIDA OPERATIONS  
 CALCULATION OF ANNUAL IDC RATE - DECEMBER 31, 1992 DATA

Cost of Capital(000)

	<u>Amount</u>	<u>% of Total</u>	<u>Cost Rate</u>	<u>Weighted Cost</u>
1. Long Term Debt	\$1,064,735	26.32%	8.49%	2.23%
2. Short Term Debt	118,311	2.92%	3.91%	0.11%
3. Equity	1,972,179	48.74%	13.20%	6.43%
4. Customer Deposits	54,920	1.36%	8.57%	0.12%
5. Cost Free Capital	711,282	17.58%	0.00%	0.00%
6. Job Dev. Inv. Credit	<u>124,595</u>	<u>3.08%</u>	0.00%	<u>0.00%</u>
7. Total Capital	<u>\$4,046,022</u>	<u>100.00%</u>		<u>8.89%</u>

Annual Percentage Rate Currently Used by Southern Bell 8.59%

Annual Rate per Calculation 12/31/92 8.89%

**SOUTHERN BELL - FLORIDA OPERATIONS**  
**CALCULATION OF ADJUSTED CAPITAL STRUCTURE**  
 (\$000)

Capital Structure

	Unadjusted Amount -----	Reconciling Adjustment -----	Adjusted Capital Structure -----
1. Long Term Debt	\$1,086,911	(\$22,176)	1,064,735
2. Short Term Debt	120,775	(2,464)	118,311
3. Equity	2,013,256	(41,077)	1,972,179
4. Customer Deposits	56,064	(1,144)	54,920
5. Cost Free Capital	726,097	(14,815)	711,282
6. Job Dev. Inv. Credit	127,190	(2,595)	124,595
	-----	-----	-----
7. Total	\$4,130,293	(\$84,271)	\$4,046,022
Average Rate Base per Books	\$4,034,296		
Accounting Adjustments	<u>11,726</u>		
Average Adjusted Rate Base	4,046,022		

BellSouth Telecommunications, Inc.  
Notification of Written Communications with the  
Federal Communications Commission,  
the Financial Accounting Standards Board, or  
the Internal Revenue Service  
Florida Public Service Commission  
Rule 25-4.017 (7)  
For the month ended February 28, 1993

FILING DATE	AGENCY	SUBJECT	DESCRIPTION
2/22/93	FCC	Review of JCO, CAM, and ARMIS 43 - 03 audit	Letter
2/24/93	FCC	Review of JCO, CAM, and ARMIS 43 - 03 audit	Letter
2/25/93	FCC	Review of JCO, CAM, and ARMIS 43 - 03 audit	Data request

FLORIDA PUBLIC SERVICE COMMISSION  
TELEPHONE EARNINGS SURVEILLANCE REPORT

Company : Southern Bell Tel. & Tel. Co.  
12 Months Ended : December 31, 1992

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The attached Surveillance Report was prepared with reliance on various authoritative statements, rules and orders. Following is a listing of those issues which we have identified in compliance with Order No. PSC-92-0720-FOF-PU dated July 28, 1992, based on our interpretation of the Order.

<u>Issue</u>	<u>Amount (\$000)</u>	<u>Account</u>	<u>Reference</u>
1. Unamortized Debt Issuance Expense	21,467	1407	USOA Part 31, SFAS 76 - Extinguishment of Debt
a) Deferred Tax Related to above	10,488 @	4340.2120 4340.2220	Accounting Principles Board Opinion No. 11, Accounting for Income Taxes
2. Unamortized Premium/Discount on LTD	1,851	4220/4230	USOA Part 31, SFAS 76
a) Deferred Tax Related to above	674 @	4340.2190 4340.2290	APB 11
3. Compensated Absence (Embedded Balance)	29,447	1439.9700	R & O, FCC 84-469, 50 FR 48408 Nov. 25, 1985
a) Deferred Tax Related to above	15,422	4340.2110 4340.2210	APB 11
4. Allowance for Funds Used During Construction	2,532 (A)	Various	Florida Rule 25-4.0171
5. Florida Norm (Unrecorded deferred taxes on previously flowed through items)	32,951	Not Recorded	Order No. 5571, Dkt. 72612-PU
6. Call premium, unamortized discount and unamortized issuance expenses to be amortized over 40 years	8,064	--	FPSC Agenda Decision 10/21/92

@ Estimated

(A) Approximate annual amount of IDC based on 12 months ended May 1992

FLORIDA PUBLIC SERVICE COMMISSION  
 TELEPHONE EARNINGS SURVEILLANCE REPORT

REVISED 12/92

Company : Southern Bell Tel. & Tel. Co.  
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RATE BASE(000)	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Total Company Columns (2 + 3)	Interstate Toll	Total Intrastate Columns (4 + 7)	Intrastate Toll Columns (5 + 6)	IntraToll		Local
					Inter-	Intra-	
					territory	territory	
<b>AVERAGE RATE BASE</b>							
1. General Support	\$1,100,889	\$256,658	\$853,231	\$188,062	\$85,522	\$102,540	\$665,169
2. Central Office	3,190,166	839,793	2,350,373	558,816	255,727	303,089	1,791,557
3. Information Orig/Term	169,650	47,123	122,527	24,522	14,470	10,052	98,005
4. Cable and Wire Facilities	4,272,541	1,213,041	3,059,500	704,369	387,533	316,836	2,355,131
5. Amortizable Assets	19,756	4,609	15,147	3,383	1,540	1,843	11,764
6. Plant in Service	\$8,762,002	\$2,361,224	\$6,400,778	\$1,479,152	\$744,792	\$734,360	\$4,921,626
7. Accumulated Depreciation and Amortization	3,207,528	892,163	2,315,365	535,179	272,006	263,173	1,780,186
8. Net Plant in Service	\$5,554,474	\$1,469,061	\$4,085,413	\$943,973	\$472,786	\$471,187	\$3,141,440
9. Property Held for Future Use	327	88	239	55	28	27	184
10. TPUC (No IDC)	55,546	14,655	40,691	9,382	4,719	4,663	31,209
Acquisition Adjustments	0	0	0	0	0	0	0
Working Capital Allowance	(19,701)	(7,967)	(11,734)	(2,725)	(1,087)	(1,638)	(9,009)
13. Per Book Average Rate Base	\$5,590,646	\$1,476,137	\$4,114,509	\$950,685	\$476,446	\$474,239	\$3,163,824
14. % Distribution	100%	26.40%	73.60%	17.00%	8.52%	8.48%	56.59%

**ADJUSTMENTS TO AVERAGE RATE BASE**

15. Adjustments for Achieved Rate Base	\$50,891
16. Adjusted Achieved Rate Base	\$4,165,400

**ADJUSTED ANNUALIZED/PRO FORMA YEAR END RATE BASE**

17. Year End Rate Base per Books	4,082,213
18. Adjustments for Year End Rate Base	118,118
19. Adjusted Year End Rate Base	\$4,200,331

**RATES OF RETURN**

20. Average Per Book	9.63%	10.83%	9.20%	14.10%	12.83%	15.38%	7.72%
21. Average Adjusted Achieved			9.25%				
22. Adjusted Year End			9.19%				



FLORIDA PUBLIC SERVICE COMMISSION  
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REVISED 12/92

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	(1)	(2)	(3)	(4)	(5)	(6)	(7)
ADJUSTMENTS TO AVERAGE RATE BASE (000)	Plant In Service	Accumulated Depreciation and Amortization	Property Held for Future Use	ST Plant Under Construction	Acquisition Adjustment	Working Capital Allowance	Per Book Average Rate Base
1. Intrastate Rate Base per Books	\$8,400,778	\$2,315,365	\$239	\$40,591	\$0	(\$11,734)	\$4,114,509

INTRASTATE ACHIEVED ADJUSTMENTS

2. Excess Plug-in Units	(13,224)	\$0	\$0	\$0	\$0	\$0	(\$13,224)
3. WECO Tax Credits	48,560	15,194	0	0	0	0	33,366
4. BellSouth Services	28,406	0	0	0	0	0	28,406
5. ENFIA	(2,397)	(934)	0	(18)	0	(16)	(1,497)
6. Other Rate Base Adjustments	(1,716)	(5,570)	0	(14)	0	0	3,840
7. Total Accounting Adjustments, Intrastate Achieved	\$59,629	\$8,690	\$0	(\$32)	\$0	(\$16)	\$50,891
8. Achieved Intrastate Rate Base	\$8,460,407	\$2,324,055	\$239	\$40,559	\$0	(\$11,750)	\$4,165,400

Intrastate Year End Rate Base per Books	\$8,491,752	\$2,423,129	\$168	\$24,432	\$0	(\$11,010)	\$4,082,213
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INTRASTATE ANNUALIZED/PRO FORMA ADJUSTMENTS

FPSC ADJUSTMENTS:

10. Excess Plug-in Units	(\$13,224)	\$0	\$0	\$0	\$0	\$0	(\$13,224)
11. WECO Tax Credits	48,957	15,072	0	0	0	0	33,885
12. BellSouth Services	30,261	0	0	0	0	0	30,261
13. ENFIA	(2,397)	(934)	0	(18)	0	(16)	(1,497)

ANNUALIZING ADJUSTMENTS:

14.  
15.  
16.  
17.  
18.

PRO FORMA ADJUSTMENTS:

19. Phase Down of SPF	78,076	30,206					47,870
20. Other Separations Changes	32,120	11,297					20,823
21.							

22. Total Accounting Adjustments, Intrastate Annualized	\$173,793	\$55,841	\$0	(\$18)	\$0	(\$16)	\$118,118
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23. Intrastate Annualized/Pro Forma Year End Rate Base	\$8,665,545	\$2,478,770	\$168	\$24,414	\$0	(\$11,026)	\$4,200,331
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FLORIDA PUBLIC SERVICE COMMISSION  
 TELEPHONE EARNINGS SURVEILLANCE REPORT

REVISED 12/92

Company : Southern Bell Tel. & Tel. Co.  
 12 Months Ended : December 31, 1991

	(1) Total Company Columns (2 + 3)	(2) Interstate Toll * Toll *	(3) Total Intrastate Columns (4 + 7) # **	(4) Intrastate Toll Columns (5 + 6)	(5) IntraToll Inter- territory	(6) Intra- territory	(7) Local
<b>NET OPERATING INCOME(000)</b>							
<b>BOOKED REVENUE</b>							
1. Basic Local Service Revenue	\$1,347,991	105	\$1,347,886	\$0	0	0	\$1,347,886
2. Network Access Revenue	1,023,387	752,254	271,133	271,133	258,635	12,498	0
3. Long Distance Revenue	331,806	994	330,812	330,812	0	330,812	0
4. Miscellaneous Revenue	347,373	32,774	314,599	19,786	16,249	3,537	294,813
5. Uncollectible Revenues	42,104	2,163	39,941	8,244	265	7,979	31,697
6. Net Booked Revenue	\$3,008,453	\$783,964	\$2,224,489	\$613,487	\$274,619	\$338,868	\$1,611,002
<b>OPERATING EXPENSES</b>							
7.							
8. Plant Specific Operation Expense	\$501,353	131,642	369,711	84,074	41,818	42,256	285,637
9. Plant Non-Specific Operations Exp	265,694	68,949	196,745	56,716	21,593	35,123	140,029
10. Depreciation and Amortization	723,697	177,442	546,255	127,598	63,154	64,444	418,657
11. Customer Operations Expense	380,617	73,120	307,497	74,429	28,012	46,417	233,068
12. Corporate Operations Expense	291,623	79,170	212,453	49,514	22,511	27,003	162,939
13. Other Income and Expense	(671)	(188)	(483)	(113)	(57)	(56)	(370)
14. Total Operating Expense	\$2,162,313	\$530,135	\$1,632,178	\$392,218	\$177,031	\$215,187	\$1,239,960
15. % Distribution	100%	24.52%	75.48%	18.14%	8.19%	9.95%	57.34%
<b>OPERATING TAXES</b>							
16. Federal Income Tax	123,610	47,445	\$76,165	\$48,193	21,477	26,716	27,972
17. State Income Tax	29,912	14,725	15,187	13,699	5,241	8,458	1,488
18. Other Taxes	154,262	31,753	122,509	25,312	9,742	15,570	97,197
19. Total Operating Taxes	\$307,784	\$93,923	\$213,861	\$87,204	\$36,460	\$50,744	\$126,657
<b>NET OPERATING INCOME</b>							
20. Per Book NOI	\$538,356	\$159,906	\$378,450	\$134,065	\$61,128	\$72,937	244,385
21. NOI Effect of Adjustments(Achieved)			6,859				
22. Adjusted Achieved NOI			\$385,309				
23. NOI Effect of Adjustments(Annual/Pro Forma)			510				
24. Annualized/Pro Forma NOI			\$385,819				

\* Includes \$ 9,895,171 for Universal Service Fund

# Above expenses include regulatory and legislative liaison expenses of \$ 835,000. See the Lobbying Expense proforma for the legislative and liaison expenses excluded for rate making purposes.

\*\* This report includes(\$ 29,461,179) in revenue reductions and(\$ 2,500,000) in interest set aside for FPSC disposition.

FLORIDA PUBLIC SERVICE COMMISSION  
 TELEPHONE EARNINGS SURVEILLANCE REPORT

REVISED 12/92

Company : Southern Bell Tel. & Tel. Co.  
 12 Months Ended : December 31, 1991

	(1) Basic Local Service Revenue	(2) Inter- Territory Revenues	(3) Intra- Territory Revenue	(4) Misc Revenue	(5) Uncollectible Revenues	(6) Net Booked Revenue
<b>ADJUSTMENTS TO NET OPERATING INCOME</b>						
<b>INTRASTATE REVENUE</b> (000)						
<b>1. Total Intrastate Revenue per Books</b>	<b>\$1,347,886</b>	<b>\$274,884</b>	<b>\$346,847</b>	<b>\$294,813</b>	<b>\$39,941</b>	<b>\$2,224,489</b>
<b>INTRASTATE ACHIEVED ADJUSTMENTS</b>						
<b>OUT OF PERIOD ADJUSTMENTS:</b>						
2. Rev & Sett (Ind Co)		(320)	538			\$218
3. Expenses				(3)		(3)
4. MR & FR Taxes						0
5. Other Out of Period Revenue	2,093	(1,898)	0	2,956	0	3,151
6. Excess EAS Revenues per FPSC			0			0
7. FAS87				0		0
8.						
9.						
10. Other Reg/Nonreg Adjustments	559					559
11. Yellow Page Profits				0	0	0
12. Gains on Sales of Property	(291)					(291)
Income Related to Temp Cash Inv	1					1
Interest Reconciliation						0
Interest Imputation						0
16. ENFLA				(1)		(1)
17. Lobbying Expense						0
18. Corporate Advertising Expense						0
19. Abandoned Projects						0
20. Casualty Expense						0
21. BellSouth Services	3,243					3,243
22. Telephone Franchise Requirement						0
23. Other Regulatory Adjustments						0
<b>24. Total Accounting Adjustments, Intrastate Achieved</b>	<b>\$5,605</b>	<b>(\$2,218)</b>	<b>\$538</b>	<b>\$2,952</b>	<b>\$0</b>	<b>\$6,877</b>
<b>25. Total Achieved Intrastate Revenue</b>	<b>\$1,353,491</b>	<b>\$272,666</b>	<b>\$347,385</b>	<b>\$297,765</b>	<b>\$39,941</b>	<b>\$2,231,366</b>

FLORIDA PUBLIC SERVICE COMMISSION  
 TELEPHONE EARNINGS SURVEILLANCE REPORT

REVISED 12/92

Company : Southern Bell Tel. & Tel. Co.  
 12 Months Ended : December 31, 1991

	(1)	(2)	(3)	(4)	(5)	(6)
ADJUSTMENTS TO NET OPERATING INCOME	Basic Local	Inter-	Intra-	Misc	Uncollectible	Net
INTRASTATE REVENUE	Service	Territory	Territory	Revenue	Revenues	Booked
(000)	Revenue	Revenues	Revenue			Revenue
25. Total Achieved Intrastate Revenue	\$1,353,491	\$272,666	\$347,385	\$297,765	\$39,941	\$2,231,368

INTRASTATE ANNUALIZED/PRO FORMA ADJUSTMENTS

ANNUALIZING ADJUSTMENTS:

26.						\$0
27.						0
28.						0
29.						0
30.						0
31.						0

32.

FPSC ADJUSTMENTS (PRO FORMA):

33.						0
34.						0

PRO FORMA ADJUSTMENTS:

Employee Level Adjustment						0
Nonrecurring Items						0
37. High Cost Universal Service Fund						0
38. Phase Down of SPF						0
39. Other Separations Changes						0

40. Total Accounting Adjustments, Intrastate Annualized

	\$0	\$0	\$0	\$0	\$0	\$0
41. Total Annualized Intrastate Revenue	\$1,353,491	\$272,666	\$347,385	\$297,765	\$39,941	\$2,231,368

FLORIDA PUBLIC SERVICE COMMISSION  
 TELEPHONE EARNINGS SURVEILLANCE REPORT

REVISED 12/92

Company : Southern Bell Tel. & Tel. Co.  
 12 Months Ended : December 31, 1991

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
ADJUSTMENTS TO NET OPERATING INCOME		Plant	Other	Depreciation	Customer	Corporate	Other	Total
INTRASTATE OPERATING EXPENSE		Specific	Non-Plant	and	Operations	Operations	Income and	Operating
(000)		Operations	Specific	Amortization	Expense	Expenses	Expenses	Expense
		Expense	Oper. Exp.					
1. Total Intrastate Expense per Books	\$0	\$369,711	\$198,745	\$546,255	\$307,497	\$212,453	(\$483)	\$1,632,178
<b>INTRASTATE ACHIEVED ADJUSTMENTS</b>								
<b>OUT OF PERIOD ADJUSTMENTS:</b>								
2. Rev & Sett (Ind Co)								\$0
3. Expenses		1,172	130	(1,402)	(1,471)	187		(\$1,384)
4. MR & FR Taxes								0
5. Other Out of Period Revenue								0
6. Excess EAS Revenues per FPSC								0
7. FAS87								0
8.								
9.								
10. Other Reg/Nonreg Adjustments		(221)		(38)	(19)	(1,473)	2,070	319
11. Yellow Page Profits								0
12. Gains on Sales of Property							(167)	(167)
13. Income Related to Temp Cash Inv								0
Interest Reconciliation								0
Interest Imputation								0
ENFIA							(415)	(415)
17. Lobbying Expense						(530)		(530)
18. Corporate Advertising Expense					(29)			(29)
19. Abandoned Projects							675	675
20. Casualty Expense		(61)						(61)
21. BellSouth Services								0
22. Telephone Franchise Requirement								0
23. Other Regulatory Adjustments							(1,855)	(1,855)
24. Total Accounting Adjustments, Intrastate Achieved	\$0	\$390	\$130	(\$1,440)	(\$1,519)	(\$1,816)	\$308	(\$3,447)
25. Total Achieved Intrastate Expense	\$0	\$370,601	\$198,875	\$544,815	\$305,978	\$210,637	(\$175)	\$1,628,731

RIDA PUBLIC SERVICE COMMISSION  
 PHONE EARNINGS SURVEILLANCE REPORT

REVISED 12/92

FPSC Exhibit Number \_\_\_\_\_  
 FPSC Docket 920260-TL  
 Reid Exhibit WSR-4  
 Appendix No. 1  
 Earnings Surveillance Report  
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Company : Southern Bell Tel. & Tel. Co.  
 12 Months Ended : December 31, 1991

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
ADJUSTMENTS TO NET OPERATING INCOME INTRASTATE OPERATING EXPENSE (000)		Plant Specific Operations Expense	Other Non-Plant Specific Oper. Exp.	Depreciation and Amortization	Customer Operations Expense	Corporate Operations Expenses	Other Income and Expenses	Total Operating Expense
25. Total Achieved Intrastate Expenses	\$0	\$370,601	\$196,875	\$544,815	\$305,978	\$210,637	(\$175)	\$1,628,731

INTRASTATE ANNUALIZED/PRO FORMA ADJUSTMENTS

ANNUALIZING ADJUSTMENTS:

26.								\$0
27.								0
28.								0
29.								0
30.								0
31.								0

32.

FPSC ADJUSTMENTS (PRO FORMA):

								0
								0

FORMA ADJUSTMENTS:

Employee Level Adjustment #								0
36. Nonrecurring Items						(14,947)		(14,947)
37. High Cost Universal Service Fund							(6,577)	(6,577)
38. Phase Down of SPF							14,380	14,380
39. Other Separations Changes							6,288	6,288
40. Total Accounting Adjustments, Intrastate Annualized	\$0	\$0	\$0	\$0	\$0	(\$14,947)	\$14,091	(\$856)

41. Total Annualized Intrastate Expense	\$0	\$370,601	\$196,875	\$544,815	\$305,978	\$195,690	\$13,916	\$1,627,875
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# Due to reorganization this data is still being developed.

FLORIDA PUBLIC SERVICE COMMISSION  
 TELEPHONE EARNINGS SURVEILLANCE REPORT

REVISED 12/92

Company : Southern Bell Tel. & Tel. Co.

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12 Months Ended : December 31, 1991

	(1)	(2)	(3)	(4)	(5)
ADJUSTMENTS TO NET OPERATING INCOME				Total	
INTRASTATE OPERATING TA	Federal	State	Other Taxes	Operating	NOI
(000)	Income Tax	Income Tax		Taxes	
<b>1. Total Intrastate Taxes per Books</b>	<b>\$76,165</b>	<b>\$15,187</b>	<b>\$122,500</b>	<b>\$213,861</b>	<b>\$378,450</b>
<b>INTRASTATE ACHIEVED ADJUSTMENTS</b>					
<b>OUT OF PERIOD ADJUSTMENTS:</b>					
2. Rev & Sett (Ind Co)	69	12	3	\$84	\$134
3. Expenses	504	83	29	616	765
4. MR & FR Taxes	(3,211)	3,426	(1,124)	(909)	909
5. Other Out of Period Revenue	1,080	184	27	1,291	1,860
6. Excess EAS Revenues per FPSC				0	0
7. FAS87				0	0
8.					
9.					
10. Other Reg/Non-reg Adjustments	60	53	7	120	120
11. Yellow Page Profits	0	0	0	0	0
12. Gains on Sales of Property	(38)	(7)	(3)	(48)	(76)
13. Income Related to Temp Cash Inv	0	0	0	0	1
Interest Reconciliation	2,616	448		3,064	(3,064)
Interest Imputation	(1,356)	(232)		(1,588)	1,588
ENFIA	164	27	(33)	158	256
17. Lobbying Expense	170	29		199	331
18. Corporate Advertising Expense	9	2		11	18
19. Abandoned Projects	(217)	(37)		(254)	(421)
20. Casualty Expense	20	3		23	38
21. BellSouth Services				0	3,243
22. Telephone Franchise Requirement				0	0
23. Other Regulatory Adjustments	596	102		698	1,157
24. Total Accounting Adjustments, Intrastate Achieved	\$466	\$4,093	(\$1,094)	\$3,465	\$6,859
<b>25. Total Achieved Intrastate Taxes</b>	<b>\$76,631</b>	<b>\$19,280</b>	<b>\$121,415</b>	<b>\$217,326</b>	<b>\$385,309</b>

FLORIDA PUBLIC SERVICE COMMISSION  
 TELEPHONE EARNINGS SURVEILLANCE REPORT

REVISED 12/92

Company : Southern Bell Tel. & Tel. Co.  
 12 Months Ended : December 31, 1991

	(1)	(2)	(3)	(4)	(5)
ADJUSTMENTS TO NET OPERATING INCOME				Total	
INTRASTATE OPERATING TAXES	Federal	State		Operating	
(000)	Income Tax	Income Tax	Other Taxes	Taxes	NOI
25. Total Achieved Intrastate Taxes..	\$76,631	\$19,280	\$121,415	\$217,326	\$385,309

INTRASTATE ANNUALIZED/PRO FORMA ADJUSTMENTS

ANNUALIZING ADJUSTMENTS:

26.				\$0	\$0
27.				0	0
28.				0	0
29.					
30.					

31.

32.				0	0
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FPSC ADJUSTMENTS (PRO FORMA):

33.				0	0
34.				0	0

PRO FORMA ADJUSTMENTS:

35. Employee Level Adjustment				0	0
36. Nonrecurring Items	4,803	822		5,625	9,322
37. High Cost Universal Service Fund	2,113	382	0	2,475	4,102
38. Phase Down of SPF	(4,620)	(791)	0	(5,411)	(8,969)
39. Other Separations Changes	(2,020)	(346)	0	(2,366)	(3,922)

40. Total Accounting Adjustments, Intrastate Annualized.....	\$278	\$47	\$0	\$323	\$533
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41. Total Annualized Intrastate Taxes..	\$76,907	\$19,327	\$121,415	\$217,649	\$385,842
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FLORIDA PUBLIC SERVICE COMMISSION  
TELEPHONE EARNINGS SURVEILLANCE REPORT

REVISED 12/92

Page 3

Company : Southern Bell Tel. & Tel. Co.

12 Months Ended : December 31, 1991

AVERAGE CAPITAL(INTRASTATE) (000)	(1)	(2)	(3) #	(4)	(5)	(6)	(7)		(8)	(9)	(10)		(11)
	Average Per Books	Specific Adjustments	Pro Rata Adjustments	Adjusted Amount	% of Total	Floor	Cost Rate Sharing		Celling	Floor	Weighted Cost Rate Sharing		Celling
1. Long Term Debt	1,047,327		(28,425)	\$1,018,902	24.46%		8.81%				2.15%		
2. Short Term Debt	182,651	75,516	(6,464)	231,703	5.58%		6.04%				0.34%		
3. Preferred Stock	0		0	0	0.00%		0.00%				0.00%		
4. Customer Deposits	54,382		(1,476)	52,906	1.27%		8.25%				0.10%		
5. Common Equity	2,015,267	21,275	(55,272)	1,981,270	47.57%	11.50%	14.00%		16.00%	5.47%	6.68%		7.61%
6. Investment Tax Credits	145,138	(3)	(3,939)	141,198	3.39%	10.58%	11.71%		13.56%	0.36%	0.40%		0.46%
7. Cost Free Capital	725,383	34,668	(20,628)	739,423	17.75%		0.00%				0.00%		
8. Total Capital	<u>\$4,150,148</u>	<u>\$131,456</u>	<u>(\$116,204)</u>	<u>\$4,165,400</u>	<u>100.00%</u>					8.42%	9.65%		10.66%

INTERNAL FUNDS

9. % Internal funds to construction expenditures after dividends (Total Company)	88.16%
10. Times interest earned (NI+Interest+Income Tax)/Interest (Total Company)	4.16
11. Long Term Debt / Capital (Intrastate)	32.26%
12. Short Term Debt / Capital (Intrastate)	5.01%
13. Average adjusted achieved return on equity (Intrastate)	13.17%
14. Adjusted year end return on equity (Intrastate)	13.04%

# See Page 6 for details.

FPSC Exhibit Number  
FPSC Docket 920260-TL  
Reid Exhibit MSR-4  
Appendix No. 1  
Earnings Surveillance Report  
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FLORIDA PUBLIC SERVICE COMMISSION  
 TELEPHONE EARNINGS SURVEILLANCE REPORT

REVISED 12/92

FPSC Exhibit Number \_\_\_\_\_  
 FPSC Docket 920260-TL  
 Reid Exhibit WSR-4  
 Appendix No. 1  
 Earnings Surveillance Report  
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Company : Southern Bell Tel. & Tel. Co.  
 12 Months Ended : December 31, 1991

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
ADJUSTMENTS TO AVERAGE CAPITAL(000)	LONG TERM DEBT	SHORT TERM DEBT	PREFERRED STOCK	CUSTOMER DEPOSITS	COMMON EQUITY	INVESTMENT TAX CREDITS	COST FREE CAPITAL	TOTAL CAPITAL
1. Total Capital Per Books	1,431,531	222,318	0	54,382	2,754,550	193,824	967,332	\$5,623,937

DESCRIPTION OF ADJUSTMENTS TO SPECIFIC SOURCES

2. Accrued Dividends					29,080			29,080
3. WECO Tax Credits							48,035	48,035
4. Accrual for Florida Refund		75,516						75,516
5. Investment Tax Credit						0		0
6. Sub-total of Specific Adjustments to Source	\$0	\$75,516	\$0	\$0	\$29,080	\$0	\$48,035	\$152,631
Adjusted Total Capital	\$1,431,531	\$297,834	\$0	\$54,382	\$2,783,630	\$193,824	\$1,015,367	\$5,776,568

DESCRIPTION OF PRO RATA ADJUSTMENTS

8. Various Diff From Rate Base #	(28,202)	(5,868)	0	(1,071)	(54,840)	(3,818)	(20,004)	(\$113,803)
9.								
10.								
11.								
12. Sub-total of Pro Rata Adjustments to Source	(\$28,202)	(\$5,868)	\$0	(\$1,071)	(\$54,840)	(\$3,818)	(\$20,004)	(\$113,803)
13. Subtotal, Pro Rata Adjusted Total Capital	\$1,403,329	\$291,966	\$0	\$53,311	\$2,728,790	\$190,006	\$995,363	\$5,662,765
14. Interstate Separation Factor	\$384,427	\$60,263	\$0	\$405	\$747,520	\$48,810	\$255,940	\$1,497,365
15. Adjusted Jurisdictional Capital	\$1,018,902	\$231,703	\$0	\$52,906	\$1,981,270	\$141,196	\$739,423	\$4,165,400

# See Page 6 for details.

FLORIDA PUBLIC SERVICE COMMISSION  
 TELEPHONE EARNINGS SURVEILLANCE REPORT

REVISED 12/92

Company : Southern Bell Tel. & Tel. Co.  
 12 Months Ended : December 31, 1991

CUSTOMER BILLING (000)	(1)	(2)	(3)
	Intrastate Toll Columns (2 + 3)	Inter- territory	Intra- territory
<b>ACCESS CHARGES :</b>			
1. End User Charges	\$0	0	0
2. Capacity Charges (a)	717	717	0
3. MOU Charges To IXC's (b)	248,213	235,713	12,500
4. Special Access Charges (c)	19,276	19,276	0
5. Other (d)	621	622	(1)
6. Total Access Charges	<u>\$268,827</u>	<u>\$256,328</u>	<u>\$12,499</u>
<b>OTHER CHARGES TO IXC'S :</b>			
7. Operator Services (D.A.)	\$4,583	4,583	0
8. Billing and Collecting	13,312	13,312	0
9. Interexchange Lease	119	0	119
10. Total Other Charges to IXC's	<u>\$18,014</u>	<u>\$17,895</u>	<u>\$119</u>
<b>CUSTOMER CHARGES (e) :</b>			
11. MTS	\$255,265	0	255,265
WATS	25,260	0	25,260
Private Line-FX	59,483	0	59,483
Local Exchange	0	0	0
15. Miscellaneous	0	0	0
16. Total Customer Charges	<u>\$340,008</u>	<u>\$0</u>	<u>\$340,008</u>
17. Total Billing	<u>\$626,849</u>	<u>\$274,223</u>	<u>\$352,626</u>
18. Joint Transport Receipts (Payments)	<u>(\$87)</u>	<u>(\$87)</u>	<u>\$0</u>
19. Subsidy Fund Receipts (Payments)	<u>(\$2,676)</u>	<u>(\$2,264)</u>	<u>(\$412)</u>
20. Out-of-Period Billings	<u>(\$174)</u>	<u>(\$139)</u>	<u>(\$35)</u>
21. Intra-LATA Private Line Pool Revenue			<u>(\$11,053)</u>
22. Access Expense			<u>(\$2,048)</u> *
23. Other Settlements	<u>(\$12,111)</u>	<u>(2,261)</u>	<u>(9,850)</u>

NOTE: The amounts on this schedule reflect, among other things, all payments from IXC's on a composite basis. However, LEC's are expected to maintain individual side records by IXC in the same level of detail found on this schedule.

(a) Busy Hour minutes of Capacity Charge.

(b) Includes Local Switching, Local Transport, Line Termination and Carrier Common Line.

(c) For Intrastate Interterritory Station Terminals.

(d) Includes testing, ordering, labor, etc.

(e) For Lines 11 through 15, include only charges billed to customer and retained by company, not charges billed on behalf of IXC's.

\* MABC Revenues were \$ 12,462 and MABC expenses were \$ 14,510 for twelve months ending December 31, 1991.

FLORIDA PUBLIC SERVICE COMMISSION  
 TELEPHONE EARNINGS SURVEILLANCE REPORT

REVISED 12/92

Company : Southern Bell Tel. & Tel. Co.

Month Ended : December 31, 1991

	(1) Total Company Columns (2 + 3)	(2) Interstate Toll	(3) Total Intrastate Columns (4 + 7)	(4) Intrastate Toll Columns (5 + 6)	(5) IntraToll Inter- territory	(6) Intra- territory	(7) Local
<b>NET OPERATING INCOME</b>							
<b>FOR THE MONTH ENDED (000)</b>							
<b>December 31, 1991</b>							
<b>BOOKED REVENUE</b>							
1. Basic Local Service Revenue	\$118,451	9	\$118,442	\$0	\$0	\$0	\$118,442
2. Network Access Revenue	88,867	66,144	22,723	22,723	21,712	1,011	0
3. Long Distance Revenue	29,918	128	29,788	29,788	0	29,788	0
4. Miscellaneous Revenue	21,475	2,199	19,276	754	493	261	18,522
5. Uncollectible Revenues	2,264	69	2,195	448	9	439	1,747
<b>6. Net Booked Revenue</b>	<b>\$256,445</b>	<b>\$68,411</b>	<b>\$188,034</b>	<b>\$52,817</b>	<b>\$22,196</b>	<b>\$30,621</b>	<b>\$135,217</b>
<b>OPERATING EXPENSES</b>							
7.							
2. Plant Specific Operation Expense	40,210	10,415	29,795	6,802	3,272	3,530	22,993
Plant Non-Specific Operations Exp	19,319	4,991	14,328	4,160	1,543	2,617	10,168
Depreciation and Amortization	60,055	14,243	45,812	10,626	5,202	5,424	35,186
Customer Operations Expense	33,215	6,552	26,663	6,455	2,386	4,069	20,208
12. Corporate Operations Expense	27,811	7,368	20,443	4,725	2,071	2,654	15,718
13. Other Income and Expense	1	0	1	0	0	0	1
<b>14. Total Operating Expense</b>	<b>\$180,811</b>	<b>\$43,569</b>	<b>\$137,042</b>	<b>\$32,768</b>	<b>\$14,474</b>	<b>\$18,294</b>	<b>\$104,274</b>
<b>15. % Distribution</b>	<b>100%</b>	<b>24.12%</b>	<b>75.88%</b>	<b>18.14%</b>	<b>8.01%</b>	<b>10.13%</b>	<b>57.73%</b>
<b>OPERATING TAXES</b>							
16. Federal Income Tax	13,562	5,490	\$8,072	\$4,394	1,642	2,752	3,678
17. State Income Tax	2,025	782	1,243	566	193	373	677
18. Other Taxes	7,870	1,965	5,905	1,780	582	1,198	4,125
<b>19. Total Operating Taxes</b>	<b>\$23,457</b>	<b>\$8,237</b>	<b>\$15,220</b>	<b>\$6,740</b>	<b>\$2,417</b>	<b>\$4,323</b>	<b>\$8,480</b>
<b>NET OPERATING INCOME</b>							
<b>20. Per Book NOI for the Month</b>	<b>\$52,377</b>	<b>\$16,605</b>	<b>\$35,772</b>	<b>\$13,309</b>	<b>\$5,305</b>	<b>\$8,004</b>	<b>\$22,463</b>

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FLORIDA PUBLIC SERVICE COMMISSION  
TELEPHONE EARNINGS SURVEILLANCE REPORT

REVISED 12/92

Company : Southern Bell Tel. & Tel. Co.  
12 Months Ended : December 31, 1991

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RECONCILIATION OF CAPITAL TO RATE BASE  
(000)

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<u>DESCRIPTION</u>	<u>COMBINED</u>	<u>INTRASTATE</u>
1. Long Term Plant Under Construction	(\$32,913)	(\$24,053)
2. Investments in and Advances to Affiliated Companies	(42,316)	(30,959)
3. Miscellaneous Physical Property	(7,700)	(5,634)
4. Other	(57,040)	(73,083)
5. Rate Base Adjustments		
A. Excess Plug-in Units	(17,950)	(13,224)
B. Bell South Services Investment	38,789	28,406
C. ENFIA	0	(1,497)
D. Out of Period Items	5,327	3,840
E. Total Rate Base Adjustments	26,166	17,525
Total	(113,803)	(116,204)

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FLORIDA PUBLIC SERVICE COMMISSION  
 TELEPHONE EARNINGS SURVEILLANCE REPORT

REVISED 12/92

Page 7

Company : Southern Bell Tel. & Tel. Co.  
 12 Months Ended : December 31, 1991

RATE STABILIZATION ORDER  
 REPORT OF RATE CHANGES/EXOGENEOUS FACTORS/DEBT CHANGES/TECHNOLOGICAL CHANGES  
 Intrastate Amounts  
 (000's)

	Annual Revenue Requirement Impact	YTD Effective Portion for 1991	Cumulative Effect
<b>All Price Changes, Exogeneous Factors &gt; \$ 3 Million, Debt Refinancings and Major Technological Changes</b>			
<b>I. RATE CHANGES</b>			
A. Rate Increases	\$17,586	\$17,586	\$45,467
B. Rate Decreases	(7,178)	(7,102)	(10,973)
<b>Net</b>	<b>\$10,408</b>	<b>\$10,484</b>	<b>\$34,494</b>
<b>II. EXOGENEOUS FACTORS</b>			
A. Depr increase due to USOAR Docket	(12,409)	(12,409)	(35,304)
B. Separations change	(7,422)	(7,422)	(20,411)
<b>Net</b>	<b>(\$19,831)</b>	<b>(\$19,831)</b>	<b>(\$55,715)</b>
<b>III. DEBT REFINANCING</b>			
A. Difference between forecast and actual	(\$1,319)	(\$1,319)	(5,295)
<b>IV. MAJOR TECHNOLOGICAL CHANGES</b>			
NONE			
<b>Grand Net</b>	<b>(\$10,742)</b>	<b>(\$10,666)</b>	<b>(\$26,516)</b>

FLORIDA PUBLIC SERVICE COMMISSION  
 TELEPHONE EARNINGS SURVEILLANCE REPORT

REVISED 12/92

Page 7..

Company : Southern Bell Tel. & Tel. Co.  
 12 Months Ended : December 31, 1991

RATE STABILIZATION ORDER  
 REPORT OF RATE CHANGES/EXOGENEOUS FACTORS/DEBT CHANGES/TECHNOLOGICAL CHANGES  
 ADDITIONAL DESCRIPTION OF ITEMS  
 (000's)

All Price Changes,  
 Exogeneous Factors > \$ 3 Million,  
 Debt Refinancings and Major  
 Technological Changes

	Annual Impact	YTD Effective Portion for 1991	Cumulative Effect
<b>I.A. Rate increases (by service)</b>			
1. Nonrecurring FX charges. Tariff offering GSST A-9, Eff. 7/11/88	\$2,465	\$2,465	\$8,628
2. Toll Terminals. Tariff offering GSST A-13. Eff. 1/1/89	2,086	2,086	6,258
3. Mobile Service. Tariff offering GSST A-3. Eff. 4/21/89	2,254	2,254	6,011
4. Custom Calling Services. Tariff offering GSST A-13, Eff. 9/1/89	10,000	10,000	23,333
5. Bad check charge. Tariff offering GSST A-2, Eff. 5/21/90	781	781	1,237
	<u>\$17,586</u>	<u>\$17,586</u>	<u>\$45,467</u>
<b>I.B. Rate decreases (by service)</b>			
1. Megalink service reduction. Private Line B-7. Eff. 8/8/88	(\$90)	(\$90)	(\$269)
2. WATS usage charge. Tariff offering GSST A-19, Eff. 10/20/89	(134)	(134)	(290)
3. Telephone Answering Serv DID. Tariff off GSST A-6,A-8. Eff 3/19/90	(182)	(182)	(319)
4. Saver Service. Tariff offering A-18,A-118. Eff. 8/1/90	(4,205)	(4,205)	(6,792)
5. PIC Change Charge. Access Tariff E-13. Eff. 9/4/90	(2,436)	(2,436)	(3,248)
6. Saver Service and WatsSaver Services. GSST Tariff A-18. Eff. 7/1/91	(104)	(52)	(52)
7. Mobile Service Provider Interconnection. GSST Tariff A-35, Eff 11/11/91	(27)	(3)	(3)
	<u>(\$7,178)</u>	<u>(\$7,102)</u>	<u>(\$10,973)</u>

II.A. Depreciation differences due to the USOAR Docket.

B. Separations change for revenue accounting procedures. The  
 FCC mandated this change be effective on 4/1/89.

IIIA. Difference between actual long term debt cost rate and forecasted  
 rate (per 10/19/90 Response to Staff's Interrogatory Item No. 7)  
 for twelve month period ending 12/31/91, adjusted to exclude  
 the effective portion of the 1991 interest savings associated with  
 the 1989 refinancing of \$200M of 11.75% debentures.

FLORIDA PUBLIC SERVICE COMMISSION  
 TELEPHONE EARNINGS SURVEILLANCE REPORT

REVISED 12/92

Company : Southern Bell Tel. & Tel. Co.  
 12 Months Ended : December 31, 1991

RATE STABILIZATION ORDER  
 REPORT OF NEW SERVICES  
 Intrastate Amounts (000's)

New Services	Effective Date	Estimated Annual Revenue Impact		
		Year 1	Year 2	Year 3
1. Key System cust allowed to partic as STS providers	3/5/88	\$0	\$0	\$0
2. TouchStar Service	8/8/88	131	6,151	13,775
3. Link-Up Florida	9/12/88	0	0	0
4. Pay Per View (Tic retaker)	5/15/89 *	64	67	
5. Private Line Tariff (Megalink Channel)	4/29/88	296	1,690	3,264
6. GeoServ	7/11/88	129	144	N/A
7. 2 Way Measured Tariff	12/2/88	28	109	
8. AccuPulse Service	1/9/89	3	59	
9. Switched Access AccuPulse Service	1/9/89	520	520	
10. ESSX Multi-Account Service	3/28/89	842	842	
11. Special Calling Features	8/15/89	224	1,409	
12. Intralata Only 800 Service	9/1/89	115	128	
13. Dial Backup Service	9/27/89	9	9	
14. 2400 bps Central Office Data Set	9/27/89	5	6	
15. Automatic Call Distribution(ACD-MIS)	10/9/89	1,847	1,847	
Switched Data Service	10/9/89	33	33	
Simplified Message Desk Interface(SMDI)	10/9/89	109	109	
16. Customer Network Management	11/13/89	19	58	
19. Station Message Detail Recording - Premises	12/1/89	1,013	1,013	
20. Area Communication Service (ACS)	12/19/89	23	23	
21. Billing & Collecting of Subscriber Surcharge	1/1/90	96		
22. Call Forwarding Busy Line	1/15/90	45		
23. Call Forwarding Don't Answer	1/15/90	108		
24. Inward Operator Services Access Service	2/15/90	154		
25. Central Office Local Area Network (CO LAN)	7/31/90	71		
26. Digital Elect Tandem Switching Features(DETS)	7/31/90	141		
27. IntraLATA 800 Service with DID	7/30/90	22		
28. Enhanced CCS Features	8/6/90	18		
29. Outgoing Only Service	8/31/90	0		
30. Exchange Line Data Service (ELDS)	11/30/90 #	181		
31. Pulselink Protocols (SNA/SDLC & X.32)	12/9/90	68		
32. Option 800 Service to Residence Customers	1/7/91 @	17		
33. New Megalink Svs Opt. Feature: Clear Channel Capabili	1/16/91	34		
Subtotal from Page 8A		7,285	0	0
Totals		\$13,650	\$14,217	\$17,039

\* This service was previously provided under a limited service arrangement which was effective 11/16/87. As of 5/15/89, it was available as a permanent statewide offering. The annual revenue impact has been revised to reflect this tariff change.

# This service was previously provided under a limited service arrangement which was effective 9/28/88. 9/28/88. As of 11/30/90, it was available as a permanent statewide offering.

@ This service was previously referred to as IntraLATA Only 800 Service.



FLORIDA PUBLIC SERVICE COMMISSION  
 EPHONE EARNINGS SURVEILLANCE REPORT

REVISED 12/92

Company : Southern Bell Tel. & Tel. Co.  
 12 Months Ended : December 31, 1991

RATE STABILIZATION ORDER  
 REPORT OF NEW SERVICES  
 Intrastate Amounts (000's)

<u>New Services (Continued)</u>	<u>Effective Date</u>	<u>Estimated Annual Revenue Impact</u>		
		<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
34. Digital Electronic Business Set (DEBS) Svs	2/25/91	138		
35. New Features for ESSX and Digital ESSX Service	2/28/91	394		
36. New Network Services (DNA)	3/11/91	583		
37. Digital ESSX - Optional Features	3/15/91	1,051		
38. Derived Data Channel Service (Miami LSO)	4/1/91	0		
39. Telecomm Service Priority (TSP) System	4/8/91	61		
40. Coin/Coinless Credit Card Service	5/28/91	304		
41. Operator Transfer Service	6/17/91	1,389		
42. Caller ID with Per Call Blocking	7/1/91		&	
43. Call Tracking - Bulk Calling Line ID	7/1/91	434		
44. Trunk Side Access Facility & ONA Services	9/2/91	783		
45. Public Inmate Calling Service (ICS) and Customer Provided Public Inmate Calling Svs	9/3/91	N/A	>	
46. New Equipment for Disabled Customers(at cost)	9/16/91	N/A		
47. ESSX ISDN Service	10/1/91	573		
Administrative Management Service (AMS)	10/4/91	141		
Bill Processing Service - Telemessaging	10/21/91	187		
ESSX - Caller ID, Blocking, Display	10/21/91	148		
51. Extended Communication Svs. (EXCS)	10/21/91	772		
52. Essx /Digital Essx Service Very Small	12/24/91	327		
<b>Total (to Page 8)</b>		<b>\$7,285</b>	<b>\$0</b>	<b>\$0</b>

& We are not able to quantify Caller ID with the effects of per call blocking. Semiannual reports for 24 months will be filed with the Commission.

> Services to be provided as requested by individual facilities to address desired calling limitations.

SOUTHERN BELL - FLORIDA OPERATIONS  
 CALCULATION OF ANNUAL IDC RATE - DECEMBER 31, 1991 DATA  
 REVISED 12/92

Cost of Capital(000)

	<u>Amount</u>	<u>% of Total</u>	<u>Cost Rate</u>	<u>Weighted Cost</u>
1. Long Term Debt	\$1,018,902	24.46%	8.80%	2.15%
2. Short Term Debt	231,703	5.56%	6.04%	0.34%
3. Equity	1,981,270	47.57%	13.20%	6.28%
4. Customer Deposits	52,906	1.27%	8.25%	0.10%
5. Cost Free Capital	739,423	17.75%	0.00%	0.00%
6. Job Dev. Inv. Credit	141,196	3.39%	0.00%	0.00%
7. Total Capital	\$4,165,400	100.00%		8.87%

Annual Percentage Rate Currently Used by Southern Bell 8.59%

Annual Rate per Calculation 12/31/91 8.87%

SOUTHERN BELL - FLORIDA OPERATIONS  
 CALCULATION OF ADJUSTED CAPITAL STRUCTURE  
 (\$000)

REVISED 12/92

Capital Structure

	<u>Unadjusted Amount</u>	<u>Reconciling Adjustment</u>	<u>Adjusted Capital Structure</u>
1. Long Term Debt	\$1,047,327	(\$28,425)	1,018,902
2. Short Term Debt	238,167	(6,464)	231,703
3. Equity	2,036,542	(55,272)	1,981,270
4. Customer Deposits	54,382	(1,476)	52,906
5. Cost Free Capital	760,051	(20,628)	739,423
6. Job Dev. Inv. Credit	<u>145,135</u>	<u>(3,939)</u>	<u>141,196</u>
Total	\$4,281,604	(\$116,204)	\$4,165,400
Average Rate Base per Books	\$4,114,509		
Accounting Adjustments	50,891		
Average Adjusted Rate Base	4,165,400		

BellSouth Telecommunications, Inc.  
Notification of Written Communications with the Federal Communications Commission,  
the Financial Accounting Standards Board, or the Internal Revenue Service  
Florida Public Service Commission Rule 25-4.017(7)  
For the month ended January 31, 1992

REVISED 12/92

FILING DATE	AGENCY	SUBJECT	DESCRIPTION
01/02/92	FCC	Affiliate Transactions	Reply Comments
01/21/92	FCC	FCC Audit Notification Letter	Letter from FCC and Data Request
01/22/92	FCC	Transport Rate Structure & Pricing	Reply Comments
01/27/92	FCC	FCC Audit - Time Reporting	Response to Data Request

Rate Base  
 (000)

FLORIDA PUBLIC SERVICE COMMISSION  
 Company Southern Bell Telephone & Telegraph Co.  
 Docket No. 920260-TL  
 Test Year 1991

Schedule A-2a  
 Page 1 of 1  
 Witness Responsible M. S. Reid

Check Whether Data Is:  
 Historic [X] or Projected [ ]  
 Average [X] or Year End [ ]

Line No.	Account (1)	Last Rate Case † Adjusted Intrastate (2)	Present Rate Case Adjusted Intrastate (3)	Increase Over Last Rate Case (4)	% Increase Over Last Rate Case (5)	Compound Annual Growth Rate (6)
1	General Support	916,593	852,153	(64,440)	-7.03%	-7.03%
2	Central Office	2,167,224	2,371,045	203,821	9.40%	9.40%
3	Info Orig./Term.	244,236	125,076	(119,160)	-48.79%	-48.79%
4	Cable & Wire Fac.	2,866,446	3,135,304	268,858	9.38%	9.38%
5	Amortizable Assets	50,390	17,786	(32,604)	-64.70%	-64.70%
6	Total Plant in Service	6,244,889	6,501,364	256,475	4.11%	4.11%
7	Less: Depreciation Reserve	2,063,852	2,375,445	311,593	15.10%	15.10%
8	Net Plant in Service	4,181,037	4,125,919	(55,118)	-1.32%	-1.32%
9	Plant Under Construction ST	30,879	42,247	11,368	36.82%	36.82%
10	Property Held for Future Use	144	244	100	69.44%	69.44%
11	Net Plant	4,212,060	4,168,411	(43,649)	-1.04%	-1.04%
12	Working Capital	0	32,690	32,690	0.00%	0.00%
13	Rate Base	4,212,060	4,201,100	(10,960)	-0.26%	-0.26%

† Last Rate Case amounts are 1990 forecasted data as reflected in Commission Order 20162 in Docket 880069-TL.

Supporting Schedules: A-2d, A-6a, A-6b, B-1b, B-2b

Recap Schedules: A-1a

Revised 12/18/92

**Index of Intrastate Rate Base and Income Statement Adjustments  
For Rate Case Purposes  
(000)**

FLORIDA PUBLIC SERVICE COMMISSION  
Company Southern Bell  
Docket No. 920260-TL  
Test Year 1991

Schedule A-6a  
Page 1 of 4  
Witness Responsible W. S. Reid

Check Whether Data Is:  
Historic [X] or Projected [ ]  
Average [ ] or Year End [ ]

Line No.	Entry No.	Description	Operations Effect					Total NOI Effect	Increased (decr.) Revenue Requirements	Portion Affecting Interim Period	Method to Define Interim Portion
			Rate Base Effect	Revenues	Expenses	Oper. Taxes	Income Taxes				
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
		1 Excess Plug Ins	1,227	0	0	0	0	1,227	(2,020)	N/A	N/A
		2 NECO Tax Credits	(3,096)	0	0	0	0	(3,096)	5,117	N/A	N/A
		3 BellSouth Services	(2,636)	3,243	0	0	0	3,243	607	(1,003)	N/A
		4 ENFIA	139	(1)	(415)	(33)	191	256	395	(653)	N/A
		5 Other Rate Base Adj.	(357)	0	0	0	0	(357)	589	N/A	N/A
		6 Out of Period Rev & Sell (Ind Co)	0	217	0	3	80	134	134	(222)	N/A
		7 Out of Period Expenses	0	(3)	(1,383)	29	507	764	764	(1,263)	N/A
		8 Out of Period MR & FR Taxes	0	0	0	(1,124)	216	908	908	(1,501)	N/A
		9 Oth Out of Period Revenues	0	3,151	0	27	1,264	1,860	1,860	(3,074)	N/A
		10 1992 Expiring Amortizations	(821)	0	(17,700)	0	7,392	10,308	9,487	(15,679)	N/A
		11 1993 Expiring Amortizations	(1,209)	0	(27,784)	0	11,417	16,367	15,078	(24,918)	N/A
		12 Other Reg./Nonreg. Adjustments	0	559	319	7	113	120	120	(198)	N/A

Supporting Schedules: A-2a, A-2b, A-2d, A-2e, A-6b, B-1b, B-2b, C-1b      Recap Schedules: C-2b

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FPSC Exhibit Number  
FPSC Docket 920260-TL  
Reid Exhibit MSR-4  
Appendix No. 1  
Earnings Surveillance Report  
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Index of Intrastate Rate Base and Income Statement Adjustments  
For Rate Case Purposes  
(000)

FLORIDA PUBLIC SERVICE COMMISSION  
Company Southern Bell  
Docket No. 920260-TL  
Test Year 1991

Schedule A-6a  
Page 2 of 4  
Witness Responsible N. S. Reid

Check Whether Data Is:  
Historic [X] or Projected [ ]  
Average [X] or Year End [ ]

Operations Effect												
Line No.	Entry No.	Description	Rate Base Effect	Revenues	Expenses	Oper. Taxes	Income Taxes	Total	Total NOI Effect	Increased (decr.) Revenue Requirements	Portion Affecting Interim Period	Method to Define Interim Portion
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	
	13	Yellow Page Profits	0	0	0	0	0	0	0	0	N/A	N/A
	14	Gains on Sale of Property	38	109	(147)	2	103	171	209	(346)	N/A	N/A
	15	Inc Rel to Temp Cash Inv	0	1	0	0	0	1	1	(2)	N/A	N/A
	16	Int Reconcil & AFUC Debt	0	0	0	0	3,074	(3,074)	(3,074)	6,402	N/A	N/A
	17	Interest Imputation	0	0	0	0	(1,704)	1,704	1,704	(2,016)	N/A	N/A
	18	Lobbying Expense	0	0	(530)	0	199	331	331	(547)	N/A	N/A
	19	Corporate Advertising Expense	0	0	(29)	0	11	10	10	(30)	N/A	N/A
	20	Abandoned Projects	0	0	475	0	(254)	(421)	(421)	696	N/A	N/A
	21	Casualty Expense	(4,179)	0	13,433	0	(4,747)	(8,486)	(12,865)	21,261	N/A	N/A
	22	Other Regulatory Adj	0	0	(1,855)	0	498	1,157	1,157	(1,912)	N/A	N/A
	23	SPF 1991-1992	(4,489)	31	13,404	976	(6,056)	(8,293)	(12,783)	21,126	N/A	N/A
	24	SPF 1992-1993	(4,489)	31	13,404	976	(6,056)	(8,293)	(12,783)	21,126	N/A	N/A
	25	DEM 1991-1992	(1,932)	0	3,887	401	(2,684)	(3,596)	(3,529)	9,137	N/A	N/A

Supporting Schedules: A-2a, A-2b, A-2d, A-2e, A-6b, D-1b, D-2b, C-1b

Recap Schedules: C-2b

Revised 12/18/92

FPSC Exhibit Number \_\_\_\_\_  
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Reid Exhibit WSR-4  
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**Index of Intrastate Rate Base and Income Statement Adjustments  
For Rate Case Purposes  
(000)**

FLORIDA PUBLIC SERVICE COMMISSION  
Company Southern Bell  
Docket No. 920260-TL  
Test Year 1991

Schedule A-1a  
Page 3 of 4  
Witness Responsible M. S. Reid

Check Whether Data Is:  
Historic [X] or Projected [ ]  
Average [ ] or Year End [ ]

Line No.	Entry No.	Description	Operations Effect						Total MDI Effect	Increased (decr.) Revenue Requirements	Portion Affecting Interim Period	Method to Define Interim Portion
			Rate Base Effect	Revenues	Expenses	Oper. Taxes	Income Taxes	Total				
	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)
	26	BEH 1992-1993	(975)	4	2,944	201	(1,343)	(1,798)	(2,773)	4,583	N/A	N/A
	27	USF 91-92	0	0	(4,577)	0	2,475	4,102	4,102	(4,779)	N/A	N/A
	28	USF 92-93	0	0	2,047	0	(771)	(1,276)	(1,276)	2,109	N/A	N/A
	29	SFAS 104 OPEBS	153	0	2,791	0	(1,050)	(1,741)	(1,588)	2,625	N/A	N/A
	30	Reorganization	2,109	(7,600)	(18,065)	644	4,903	4,897	7,006	(11,378)	N/A	N/A
	31	Bellcore Inv & Divid	(475)	791	0	0	89	702	226	(374)	N/A	N/A
	32	Reverse ENFIA	(139)	1	415	33	(191)	(256)	(395)	653	N/A	N/A
	33	Expiring Amortizations	0	(21,478)	0	(262)	(7,984)	(13,232)	(13,232)	21,868	N/A	N/A
	34	1992 Impact of Represcription	1	0	28	0	(12)	(16)	(15)	24	N/A	N/A
	35	1993 Impact of Represcription	(280)	0	(4,042)	0	2,483	3,559	3,279	(5,419)	N/A	N/A
	36	SFAS 109 Accty for Inc Taxes	0	0	0	0	1,883	(1,883)	(1,883)	3,111	N/A	N/A

Supporting Schedules: A-2a, A-2b, A-2d, A-2e, A-4b, B-1b, B-2b, C-1b

Recap Schedules: C-2b

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Index of Intrastate Rate Base and Income Statement Adjustments  
For Rate Case Purposes  
(000)

FLORIDA PUBLIC SERVICE COMMISSION  
Company Southern Bell  
Bucket No. 920260-TL  
Test Year 1991

Schedule A-6a  
Page 4 of 4  
Witness Responsible W. S. Reid

Check Whether Data Is:  
Historic [X] or Projected [ ]  
Average [X] or Year End [ ]

Line No.	Entry No.	Description	Operations Effect						Total MDI Effect	Increased (decr.) Revenue Requirements	Portion Affecting Interim Period	Method to Define Interim Portion
			Rate Base Effect	Revenues	Expenses	Oper. Taxes	Income Taxes	Total				
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	
	37	Attrition	13,464	23,667	(24,260)	0	19,490	28,437	41,901	(69,249)	N/A	N/A
	38	Propsd Sw Access Reduction	0	(4,911)	0	(60)	(1,026)	(3,025)	(3,025)	4,999	N/A	N/A
	39	Propsd Option Expanded Loc Serv	0	(7,562)	0	(92)	(2,811)	(4,659)	(4,659)	7,699	N/A	N/A
	40	Propsd Interconnect Rate Reduction	0	(589)	0	(7)	(219)	(363)	(363)	600	N/A	N/A
	41	Bond Refinancing	0	0	(2,175)	0	819	1,356	1,356	(2,241)	N/A	N/A
	42	Not used	0	0	0	0	0	0	0	0	N/A	N/A
	43	Not used	0	0	0	0	0	0	0	0	N/A	N/A
	44	Not used	0	0	0	0	0	0	0	0	N/A	N/A
	45	Not used	0	0	0	0	0	0	0	0	N/A	N/A
	46	Not used	0	0	0	0	0	0	0	0	N/A	N/A
	47	Not used	0	0	0	0	0	0	0	0	N/A	N/A
	48	Not used	0	0	0	0	0	0	0	0	N/A	N/A
		Total	(8,029)	(10,330)	(51,635)	1,742	20,579	18,984	10,955	(18,105)	N/A	N/A

Supporting Schedules: A-2a, A-2b, A-2d, A-2e, A-6a, B-1b, B-2b, C-1b

Recap Schedules: C-2b

Revised 12/18/92

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Summary of Adjustments to Rate Base  
 (Intrastate)  
 (000)

FLORIDA PUBLIC SERVICE COMMISSION  
 Company Southern Bell  
 Docket No. 920260-TL  
 Fiscal Year 1991

Schedule B-2b  
 Page 1 of 4  
 Witness Responsible W. S. Reid

Check Whether Data Is:  
 Historic [X] or Projected [ ]  
 Average [X] or Year End [ ]

Line No.	Entry No.	Description	Plant in Service	Depr. Reserve	Plant Under Construction	Property for Future Use	Materials & Supplies	Cash Working Capital	Total Investment Rate Base	Effect on NOI
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
		Unadjusted	6,400,778	2,315,365	40,591	239	27,570	(39,304)	4,114,509	N/A
1		Excess Plug Ins	(13,224)	0	0	0	0	0	(13,224)	1,227
2		NECO Tax Credits	48,560	15,194	0	0	0	0	33,366	(3,096)
3		BellSouth Services	28,406	0	0	0	0	0	28,406	(2,636)
4		ENFIA	(2,397)	(934)	(18)	0	0	(16)	(1,497)	139
5		Other Rate Base Adj.	(1,715)	(5,570)	(14)	0	0	0	3,842	(357)
6		Out of Period Rev & Setl	0	0	0	0	0	0	0	0
7		Out of Period Expenses	0	0	0	0	0	0	0	0
8		Out of Period MR & FR Tax	0	0	0	0	0	0	0	0
9		Other Out of Period Revenue	0	0	0	0	0	0	0	0
10		1992 Expiring Amortizatio	0	(8,850)	0	0	0	0	8,850	(821)
11		1993 Expiring Amortizatio	0	(13,892)	0	0	0	0	13,892	(1,289)
12		Other Reg./Nonreg. Adjust	0	0	0	0	0	0	0	0

Summary of Adjustments to Rate Base  
 (Intrastate)  
 (000)

FLORIDA PUBLIC SERVICE COMMISSION  
 Company Southern Bell  
 Docket No. 920260-TL  
 Test Year 1991

Schedule B-2b  
 Page 2 of 4  
 Witness Responsible W. S. Reid

Check Whether Data Is:  
 Historic [X] or Projected [ ]  
 Average [X] or Year End [ ]

Line No.	Entry No.	Description	Plant in Service	Depr. Reserve	Plant Under Construction	Property for Future Use	Materials & Supplies	Cash Working Capital	Total Investment Rate Base	Effect on NOI
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	13	Yellow Page Profits	0	0	0	0	0	0	0	0
	14	Gains on Sale of Property	(2,296)	(1,889)	0	0	0	0	(407)	38
	15	Inc Rel to Temp Cash Inv	0	0	0	0	0	0	0	0
	16	Int Reconcil & AFUDC Debt	0	0	0	0	0	0	0	0
	17	Interest Imputation	0	0	0	0	0	0	0	0
	18	Lobbying Expense	0	0	0	0	0	0	0	0
	19	Corporate Advertising Exp	0	0	0	0	0	0	0	0
	20	Abandoned Projects	0	0	0	0	0	0	0	0
	21	Casualty Expense	0	0	0	0	0	45,030	45,030	(4,179)
	22	Other Regulatory Adj	0	0	0	0	0	0	0	0
	23	SPF 1991-1992	77,478	30,206	598	2	506	0	48,378	(4,489)
	24	SPF 1992-1993	77,478	30,206	598	2	506	0	48,378	(4,489)
	25	GEN 1991-1992	31,874	11,297	246	1	0	0	20,824	(1,932)

Supporting Schedules: A-2a, A-2b, A-2d, A-2e, A-6a, A-6b, C-1a, C-1b

Recap Schedules: A-1a, B-1a, B-1b

Revised 12/18/92

Summary of Adjustments to Rate Base  
 (Intrastate)  
 (000)

ORIDA PUBLIC SERVICE COMMISSION  
 Company Southern Bell  
 Docket No. 920260-TL  
 Fiscal Year 1991

Schedule B-2b  
 Page 3 of 4  
 Witness Responsible W. S. Reid

Check Whether Data Is:  
 Historic [X] or Projected [ ]  
 Average [X] or Year End [ ]

Line No.	Entry No.	Description	Plant in Service	Depr. Reserve	Plant Under Construction	Property for Future Use	Materials & Supplies	Cash Working Capital	Total Investment Rate Base	Effect on MOI
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	26	DEM 1992-1993	16,035	5,648	123	0	0	0	10,510	(975)
	27	USF 91-92	0	0	0	0	0	0	0	0
	28	USF 92-93	0	0	0	0	0	0	0	0
	29	SFAS 106 OPEBS	441	55	105	0	0	(2,134)	(1,644)	153
	30	Reorganization	(22,554)	683	0	0	4,682	(4,166)	(22,721)	2,109
	31	Bellcore Inv & Divid	5,121	0	0	0	0	0	5,121	(475)
	32	Reverse ENFIA	2,397	934	18	0	0	16	1,497	(139)
	33	Expiring Amortizations	0	0	0	0	0	0	0	0
	34	1992 Impact of Represcrip	0	14	0	0	0	0	(14)	1
	35	1993 Impact of Represcrip	0	(3,021)	0	0	0	0	3,021	(280)
	36	SFAS 109 Acctg for Inc Ta	0	0	0	0	0	0	0	0

Summary of Adjustments to Rate Base  
 (Intrastate)  
 (000)

FLORIDA PUBLIC SERVICE COMMISSION  
 Company Southern Bell  
 Docket No. 920260-TL  
 Test Year 1991

Schedule B-2b  
 Page 4 of 4  
 Witness Responsible W. S. Reid

Check Whether Data Is:  
 Historic  or Projected   
 Average  or Year End

Line No.	Entry No.	Description	Plant in Service	Depr. Reserve	Plant Under Construction	Property for Future Use	Materials & Supplies	Cash Working Capital	Total Investment Rate Base	Effect on NOI
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	37	Attrition	(145,017)	0	0	0	0	0	(145,017)	13,464
	38	Propsd Sw Access Reductio	0	0	0	0	0	0	0	0
	39	Propsd Option Expnded Loc	0	0	0	0	0	0	0	0
	40	Propsd Interconnect Rate	0	0	0	0	0	0	0	0
	41	Bond Refinancing	0	0	0	0	0	0	0	0
	42	Not used	0	0	0	0	0	0	0	0
	43	Not used	0	0	0	0	0	0	0	0
	44	Not used	0	0	0	0	0	0	0	0
	45	Not used	0	0	0	0	0	0	0	0
	46	Not used	0	0	0	0	0	0	0	0
	47	Not used	0	0	0	0	0	0	0	0
	48	Not used	0	0	0	0	0	0	0	0
		Adjusted Results	6,501,364	2,375,446	42,247	244	33,264	(574)	4,201,100	(8,029)

Supporting Schedules: A-2a, A-2b, A-2d, A-2e, A-6a, A-6b, C-1a, C-1b

Recap Schedules: A-1a, B-1a, B-1b

Revised 12/18/92

FLORIDA PUBLIC SERVICE COMMISSION  
 Company Southern Bell Telephone & Telegraph Co.  
 Docket No. 920260-TL  
 Test Year 1991

Operating Income Statement  
 Adjusted  
 Company Basis  
 (000)

Schedule C-1b  
 Page 1 of 1  
 Witness Responsible W. S. Reid

Check Whether Data Is:  
 Historic [X] or Projected [ ]  
 Average [ ] or Year End [ ]

Line No.	Description (1)	(3 + 4) Total Company (2)	Interstate Toll (3)	(5 + 8) Total Intrastate (4)	(6 + 7) Intrastate Toll (5)	Intrastate InterLATA (6)	Toll IntraLATA (7)	Local (8)
1.	Operating revenues	2,998,101	783,942	2,214,159	597,480	271,470	325,809	1,616,679
2.	Operating expenses	1,378,336	334,446	1,043,890	246,773	106,216	140,558	797,116
3.	Depreciation	678,848	142,193	536,653	121,185	59,678	61,507	415,468
4.	Taxes - Other	154,639	30,409	124,231	25,443	9,625	15,818	98,808
5.	Federal Income Taxes	205,490	89,334	116,113	67,376	32,782	34,594	48,737
6.	State Income Taxes	33,853	18,431	15,421	14,762	6,088	8,674	659
7.	Deferred Income Tax Net							
8.	Federal	(19,948)	(15,883)	(4,065)	(10,418)	(5,624)	(4,794)	6,353
9.	State	3,564	(1,306)	4,869	(784)	(468)	(315)	5,633
10.	Investment Tax Credit	(7)	5	(12)	(180)	(93)	(87)	148
11.	Amortization of ITC	(29,971)	(5,573)	(20,396)	(4,441)	(2,233)	(2,206)	(15,955)
12.	Total Operating Expenses and Taxes	2,408,983	592,259	1,816,725	459,717	205,968	253,749	1,357,008
14.	Net Operating Income	589,118	191,684	397,434	137,763	65,702	72,061	259,671
15.	Rate Base	5,572,845	1,371,745	4,201,100	911,290	459,063	452,227	3,289,811
16.	Rate of Return			9.46%	15.12%	14.31%	15.93%	7.89%

Supporting Schedules: A-2d, A-2e, B-2a, B-2b

Recap Schedules: B-1b

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FPSC Exhibit Number \_\_\_\_\_  
 FPSC Docket 920260-TL  
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 Appendix No. 1  
 Earnings Surveillance Report  
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FLORIDA PUBLIC SERVICE COMMISSION  
 Company Southern Bell  
 Docket No. 920260-TL  
 Test Year 1991

Check Whether Data Is:  
 Historic [X] or Projected [ ]  
 Average [ ] or Year End [ ]

Summary of Adjustments to  
 Net Operating Income  
 (Intrastate)  
 (000)

FPSC Exhibit Number \_\_\_\_\_  
 FPSC Docket 920260-TL  
 Reid Exhibit WSR-4  
 Appendix No. 1  
 Earnings Surveillance Report  
 Page 54 of 155

Line No.	Entry No.	Description	Operating Expenses and Taxes														Net Total Oper. Income (7-16)	
			Operating Revenues					Total Exp.	Other Taxes	Income Taxes		Deferred Income Taxes		Inv. Tax Credit	Inv. Amort of ITC	Expenses & Taxes (8 thru 15)		
			Local	Inter LATA	Intra LATA	Misc.	Uncoll			Total (2 thru 6)	State	Federal	State					Federal
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)		
		Unadjusted	1,347,886	274,884	346,847	294,813	39,941	2,224,489	1,432,178	122,309	18,851	156,765	(3,664)	(58,573)	(787)	(21,240)	1,846,039	378,450
		1 Excess Plug Ins	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
		2 NECO Tax Credits	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
		3 BellSouth Services	3,243	0	0	0	0	3,243	0	0	0	0	0	0	0	0	0	3,243
		4 ENFIA	0	0	0	(1)	0	(1)	(413)	(33)	27	157	0	0	0	7	(257)	256
		5 Other Rate Base Adj.	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
		6 Out of Period Rev & Set)	0	(321)	538	0	0	217	0	3	12	68	0	0	0	0	83	134
		7 Out of Period Expenses	0	0	0	(3)	0	(3)	(1,383)	29	83	497	0	0	0	7	(767)	764
		8 Out of Period NR & FR Tax	0	0	0	0	0	0	0	(1,124)	(1,146)	(25,840)	4,371	22,085	775	(229)	(908)	908
		9 Oth Out of Period Revenue	2,093	(1,898)	0	2,956	0	3,151	0	27	184	1,080	0	0	0	0	1,291	1,860
		10 1992 Expiring Amortizatio	0	0	0	0	0	0	(17,700)	0	0	0	444	6,312	0	635	(10,308)	10,308
		11 1993 Expiring Amortizatio	0	0	0	0	0	0	(27,784)	0	0	0	697	9,908	0	811	(16,367)	16,367
		12 Other Reg./Nonreg. Adjust	559	0	0	0	0	559	319	7	53	60	0	0	0	0	439	120

Supporting Schedules: A-6b

Recap Schedules: A-1a, A-2b, A-2c, C-1b

Revised 12/18/92

Summary of Adjustments to  
Net Operating Income  
(Intrastate)  
(000)

FPSC Exhibit Number \_\_\_\_\_  
FPSC Docket 920260-TL  
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FLORIDA PUBLIC SERVICE COMMISSION  
Company Southern Bell  
Docket No. 920260-TL  
Test Year 1991

Check Whether Data Is:  
Historic [X] or Projected [ ]  
Average [X] or Year End [ ]

Line No.	Entry No.	Description	Operating Revenues					Operating Expenses and Taxes											Net Total Oper. Income (7-16)
			Local	Inter LATA	Intra LATA	Misc.	Uncoll	Total (2 thru 6)	Total Exp.	Other Taxes	Income Taxes		Deferred Income Taxes		Inv. Tax Credit	Inv. Annot of ITC	Expenses & Taxes (8 thru 15)		
											State	Federal	State	Federal					
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)			
		13 Yellow Page Profits	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		
		14 Gains on Sale of Property	(292)	0	272	129	0	109	(167)	2	16	92	(1)	(4)	0	0	(62)	171	
		15 Inc Rel to Temp Cash Inv	1	0	0	0	0	1	0	0	0	0	0	0	0	0	0	1	
		16 Int Reconcil & AFUDC Debt	0	0	0	0	0	0	0	0	566	3,308	0	0	0	0	3,874	(3,874)	
		17 Interest Imputation	0	0	0	0	0	0	0	0	(249)	(1,435)	0	0	0	0	(1,704)	1,704	
		18 Lobbying Expense	0	0	0	0	0	0	(530)	0	29	170	0	0	0	0	(331)	331	
		19 Corporate Advertising Exp	0	0	0	0	0	0	(29)	0	2	9	0	0	0	0	(18)	18	
		20 Abandoned Projects	0	0	0	0	0	0	675	0	(37)	(217)	0	0	0	0	421	(421)	
		21 Casualty Expense	0	0	0	0	0	0	13,433	0	3	20	(177)	(4,593)	0	0	8,686	(8,686)	
		22 Other Regulatory Adj	0	0	0	0	0	0	(1,855)	0	102	396	0	0	0	0	(1,157)	1,157	
		23 SPF 1991-1992	0	0	0	32	1	31	13,404	976	(1,698)	(10,363)	909	5,309	0	(213)	8,324	(8,293)	
		24 SPF 1992-1993	0	0	0	32	1	31	13,404	976	(1,698)	(10,363)	909	5,309	0	(213)	8,324	(8,293)	
		25 DEN 1991-1992	0	0	0	8	0	8	5,887	401	(1,149)	(6,947)	804	4,696	0	(88)	3,604	(3,596)	

Supporting Schedules: A-6b

Recap Schedules: A-1a, A-2b, A-2c, C-1b

Revised 12/18/92



FLORIDA PUBLIC SERVICE COMMISSION  
 Company Southern Bell  
 Docket No. 920260-TL  
 Test Year 1991

Summary of Adjustments to  
 Net Operating Income  
 (Intrastate)  
 (000)

FPSC Exhibit Number \_\_\_\_\_  
 FPSC Docket 920260-TL  
 Reid Exhibit WSR-4  
 Appendix No. 1  
 Earnings Surveillance Report  
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Check Whether Data Is:  
 Historic [X] or Projected [ ]  
 Average [X] or Year End [ ]

Line No.	Entry No.	Description	Operating Revenues					Operating Expenses and Taxes										Net Total Oper. Income (7-16)
			Local	Inter LATA	Intra LATA	Misc.	Uncoll	Total (2 thru 6)	Total Exp.	Other Taxes	Income Taxes		Deferred Income Taxes		Inv. Tax Credit	Inv. Amort of ITC	Expenses & Taxes (8 thru 15)	
											State	Federal	State	Federal				
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)		
	26	DEH 1992-1993	0	0	0	4	0	4	2,944	201	(575)	(3,474)	402	2,348	0	(44)	1,802	(1,798)
	27	USF 91-92	0	0	0	0	0	0	(4,577)	0	362	2,113	0	0	0	0	(4,102)	4,102
	28	USF 92-93	0	0	0	0	0	0	2,047	0	(113)	(658)	0	0	0	0	1,276	(1,276)
	29	SFAS 106 OPEBS	0	0	0	0	0	0	2,791	0	0	0	(153)	(897)	0	0	1,741	(1,741)
	30	Reorganization	(5,148)	0	0	(2,331)	(79)	(7,600)	(18,065)	664	719	4,198	40	(56)	0	2	(12,497)	4,897
	31	Delicore Inv & Divid	0	0	0	791	0	791	0	0	13	76	0	0	0	0	89	702
	32	Reverse ENFIA	0	0	0	1	0	1	415	33	(27)	(157)	0	0	0	(7)	257	(236)
	33	Expiring Amortizations	(21,869)	0	0	0	(391)	(21,478)	0	(262)	(1,167)	(4,817)	0	0	0	0	(8,246)	(13,232)
	34	1992 Impact of Represcrip	0	0	0	0	0	0	28	0	0	0	(1)	(10)	0	(1)	16	(16)
	35	1993 Impact of Represcrip	0	0	0	0	0	0	(4,042)	0	0	0	152	2,155	0	176	(3,559)	3,559
	36	SFAS 109 Acctg for Inc Ta	0	0	0	0	0	0	0	0	0	0	(63)	1,945	0	0	1,883	(1,883)

Supporting Schedules: A-44

Recap Schedules: A-1a, A-2b, A-2c, C-1b

Revised 12/18/92

FLORIDA PUBLIC SERVICE COMMISSION  
 Company Southern Bell  
 Docket No. 920260-TL  
 Test Year 1991

Summary of Adjustments to  
 Net Operating Income  
 (Intrastate)  
 (000)

FPSC Exhibit Number \_\_\_\_\_  
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 Earnings Surveillance Report  
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Check Whether Data Is:  
 Historic [X] or Projected [ ]  
 Average [X] or Year End [ ]

Line No.	Entry No.	Description	Operating Expenses and Taxes																
			Operating Revenues					Total Exp.	Other Taxes	Income Taxes		Deferred Income Taxes		Inv. Tax Credit	Inv. Amort of ITC	Expenses & Taxes (8 thru 15)	Net Total Oper. Income (7-16)		
			Local	Inter LATA	Intra LATA	Misc.	Uncoll.			Total (2 thru 6)	State	Federal	State					Federal	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)			
37	Attrition		0	0	0	23,667	0	23,667	(24,260)	0	2,848	16,642	0	0	0	0	0	(4,770)	28,437
38	Propsd Sw Access Reductio		0	(5,000)	0	0	(89)	(4,911)	0	(60)	(267)	(1,559)	0	0	0	0	0	(1,886)	(3,025)
39	Propsd Option Expeded Loc		11,000	0	(18,700)	0	(138)	(7,562)	0	(92)	(411)	(2,400)	0	0	0	0	0	(2,903)	(4,659)
40	Propsd Interconnect Rate		(600)	0	0	0	(11)	(589)	0	(7)	(32)	(187)	0	0	0	0	0	(226)	(363)
41	Bond Refinancing		0	0	0	0	0	0	(2,175)	0	120	699	0	0	0	0	0	(1,356)	1,356
42	Not used		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
43	Not used		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
44	Not used		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
45	Not used		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
46	Not used		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
47	Not used		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
48	Not used		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Adjusted Results		1,336,873	267,665	328,957	319,899	39,233	2,214,159	1,580,343	124,251	15,421	116,113	4,869	(4,065)	(12)	(20,396)	1,816,725	397,434	

Supporting Schedules: A-6b

Recap Schedules: A-1a, A-2b, A-2e, C-1b

Revised 12/18/92

FLORIDA PUBLIC SERVICE COMMISSION  
TELEPHONE EARNINGS SURVEILLANCE REPORT

REVISED 2/13/92

Company : Southern Bell Tel. & Tel. Co.  
12 Months Ended : December 31, 1990

FPSC Exhibit Number  
FPSC Docket 920260-TL  
Reid Exhibit WSR-4  
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Earnings Surveillance Report  
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	(1) Total Company Columns (2 + 3)	(2) Interstate Toll	(3) Total Intrastate Columns (4 + 7)	(4) Intrastate Toll Columns (5 + 6)	(5) IntraToll Inter- territory	(6) Intra- territory	(7) Local
<b>RATE BASE(000)</b>							
<b>AVERAGE RATE BASE</b>							
1. General Support.....	\$1,873,771	\$268,763	\$813,888	\$192,438	\$86,136	\$106,382	\$628,578
2. Central Office.....	2,946,612	821,867	2,124,745	555,831	244,787	318,324	1,569,714
3. Information Orig./Term.....	566,529	168,844	398,685	81,562	48,162	33,400	316,923
4. Cable and Wire Facilities.....	4,188,863	1,215,618	2,885,253	728,942	392,843	328,899	2,164,311
5. Amortizable Assets.....	31,683	7,787	23,978	3,698	2,549	3,149	18,288
6. Plant in Service.....	\$8,719,468	\$2,473,991	\$6,245,469	\$1,555,671	\$773,597	\$782,074	\$4,689,798
7. Accumulated Depreciation and Amortization.....	3,164,782	935,523	2,229,179	548,979	278,182	278,797	1,688,288
8. Net Plant in Service.....	\$5,554,758	\$1,538,468	\$4,816,298	\$1,006,692	\$495,415	\$511,277	\$3,089,598
9. Property Held for Future Use.....	786	288	586	126	62	64	388
10. TPUC (No IDC).....	53,799	15,238	38,569	9,611	4,761	4,858	28,958
11. Acquisition Adjustments.....	0	0	0	0	0	0	0
12. Working Capital Allowance.....	37,811	1,169	35,842	8,945	4,724	4,221	26,897
13. Per Book Average Rate Base.....	\$5,646,274	\$1,555,867	\$4,891,287	\$1,823,374	\$584,962	\$528,412	\$3,865,833
14. X Distribution.....	1881	27,341	72,461	18,161	8,941	9,221	54,381
<b>ADJUSTMENTS TO AVERAGE RATE BASE</b>							
15. Adjustments for Achieved Rate Base.....			\$33,377				
16. Adjusted Achieved Rate Base.....			\$4,144,584				
<b>ADJUSTED ANNUALIZED/PRO FORMA YEAR END RATE BASE</b>							
17. Year End Rate Base per Books.....			4,189,951				
18. Adjustments for Year End Rate Base.....			111,274				
19. Adjusted Year End Rate Base.....			\$4,221,225				
<b>RATES OF RETURN</b>							
20. Average Per Book .....	9.97%	18.74%	9.67%	15.81%	14.21%	17.36%	7.62%
21. Average Adjusted Achieved .....			9.68%				
22. Adjusted Year End.....			9.22%				

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Company : Southern Bell Tel. & Tel. Co.  
12 Months Ended : December 31, 1990

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
ADJUSTMENTS TO AVERAGE RATE BASE (000)	Plant In Service	Accumulated Depreciation and Amortization	Property Held for Future Use	ST Plant Under Construction	Acquisition Adjustment	Working Capital Allowance	Per Book Average Rate Base
1. Intrastate Rate Base per Books.....	\$6,245,469	\$2,229,179	\$506	\$38,569	\$0	\$35,842	\$4,091,207
<b>INTRASTATE ACHIEVED ADJUSTMENTS</b>							
2. Excess Plug-in Units	(13,836)	\$0	\$0	\$0	\$0	\$0	(\$13,836)
3. NECO Tax Credits	49,738	15,666	0	0	0	0	34,064
4. BellSouth Services	29,399	0	0	0	0	0	29,399
5. ENFIA	(3,524)	(1,436)	0	(23)	0	(18)	(2,129)
6. Other Rate Base Adjustments	648	(4,437)		2			5,079
7. Total Accounting Adjustments. Intrastate Achieved.....	\$63,289	\$9,793	\$0	(\$21)	\$0	(\$18)	\$53,377
8. Achieved Intrastate Rate Base.....	\$6,308,678	\$2,238,972	\$506	\$38,548	\$0	\$35,824	\$4,144,584
9. Intrastate Year End Rate Base per Books.....	\$6,138,107	\$2,089,974	\$377	\$40,489	\$0	\$28,952	\$4,109,951
<b>INTRASTATE ANNUALIZED/PRO FORMA ADJUSTMENTS</b>							
<b>FPSC ADJUSTMENTS:</b>							
10. Excess Plug-in Units	(\$13,836)	\$0	\$0	\$0	\$0	\$0	(\$13,836)
11. NECO Tax Credits	58,627	15,737	0	0	0	0	34,890
12. BellSouth Services	26,916	0	0	0	0	0	26,916
13. ENFIA	(3,524)	(1,436)	0	(23)	0	(18)	(2,129)
<b>ANNUALIZING ADJUSTMENTS:</b>							
14.							
15.							
16.							
17.							
18.							
<b>PRO FORMA ADJUSTMENTS:</b>							
19. Phase Down of SPF	74,842	27,795					46,247
20. Other Separations Changes	25,566	7,181					18,385
21.							
22. Total Accounting Adjustments. Intrastate Annualized.....	\$160,592	\$49,277	\$0	(\$23)	\$0	(\$18)	\$111,274
23. Intrastate Annualized/Pro Forma Year End Rate Base.....	\$6,298,699	\$2,139,251	\$377	\$40,466	\$0	\$28,934	\$4,221,225

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Company : Southern Bell Tel. & Tel. Co.  
12 Months Ended : December 31, 1998

	(1) Total Company Columns (2 + 3)	(2) Interstate Total 1	(3) Total Intrastate Columns (4 + 7) 8	(4) Intrastate Total Columns (5 + 6)	(5) Intra-Territory Inter- territory	(6) Intra-Territory	(7) Local
<b>NET OPERATING INCOME(\$000)</b>							
<b>BOOKED REVENUE</b>							
1. Basic Local Service Revenue.....	\$1,344,182	87	\$1,344,895	88	8	8	\$1,344,895
2. Network Access Revenue.....	1,878,492	784,786	285,786	285,786	267,295	18,491	8
3. Long Distance Revenue.....	358,623	489	358,214	358,214	8	358,214	8
4. Miscellaneous Revenue.....	252,721	42,986	289,735	19,478	15,375	4,893	198,265
5. Uncollectible Revenues.....	38,637	821	29,816	6,897	127	5,978	23,719
6. Net Booked Revenue.....	\$2,987,381	\$827,367	\$2,168,014	\$649,373	\$282,543	\$366,838	\$1,518,641
<b>OPERATING EXPENSES</b>							
7.							
8. Plant Specific Operation Expense.....	\$513,827	141,134	371,893 <sup>25</sup>	91,417	44,667	45,758	288,476
9. Plant Non-Specific Operations Exp.....	278,493	72,891	197,602 <sup>13.1</sup>	63,829	22,648	40,381	134,573
10. Depreciation and Amortization.....	781,816	197,968	583,848	126,366	61,797	64,769	376,422
11. Customer Operations Expense.....	361,725	69,833	291,892 <sup>10.77</sup>	73,589	26,668	46,849	218,383
12. Corporate Operations Expense.....	269,596	83,828	186,576 <sup>9.2</sup>	48,178	21,631	26,547	138,399
13. Other Income and Expense.....	566	(21)	568	98	58	48	478
14. Total Operating Expense.....	\$2,116,423	\$564,844	\$1,551,579	\$482,797	\$177,453	\$225,344	\$1,148,782
15. X Distribution.....	188X	26.69X	73.31X	19.83X	8.38X	18.65X	54.28X
<b>OPERATING TAXES</b>							
16. Federal Income Tax.....	132,182	58,596	\$81,586	\$47,796	19,418	28,378	33,718
17. State Income Tax.....	28,834	11,868	17,766	18,274	3,952	6,322	7,492
18. Other Taxes.....	147,369	33,778	113,599 <sup>7.1</sup>	26,421	9,988	16,433	67,176
19. Total Operating Taxes.....	\$308,385	\$95,454	\$212,871	\$84,491	\$33,358	\$51,133	\$128,386
<b>NET OPERATING INCOME</b>							
20. Per Book NOI.....	\$562,633	\$167,889	\$395,564	\$162,885	\$71,732	\$98,353	\$233,479
21. NOI Effect of Adjustments(Achieved).....			2,193				
22. Adjusted Achieved NOI.....			\$397,757				
23. NOI Effect of Adjustments(Annual/Pro Forma).....			(8,511)				
24. Annualized/Pro Forma NOI.....			\$389,246				

\* Includes \$ 16,129,266 for Universal Service Fund

\* Above expenses include regulatory and legislative liaison expenses of \$ 589,888. See the Lobbying Expense schedule for the legislative and liaison expenses excluded for rate making purposes.

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Company : Southern Bell Tel. & Tel. Co.  
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	(1)	(2)	(3)	(4)	(5)	(6)
ADJUSTMENTS TO NET OPERATING INCOME	Basic Local	Network				Net
INTRASTATE REVENUE	Service	Access	Long Distance	Misc	Uncollectible	Booked
(000)	Revenue	Revenues	Revenue	Revenue	Revenues	Revenue
1. Total Intrastate Revenue per Books	\$1,344,895	\$282,678	\$372,888	\$198,265	\$29,815	\$2,168,814
<b>INTRASTATE ACHIEVED ADJUSTMENTS</b>						
<b>OUT OF PERIOD ADJUSTMENTS:</b>						
2. Rev & Sett (Ind Co)		(542)	1,114			\$572
3. Expenses						0
4. MR & FR Taxes						0
5. Other Out of Period Revenue	5,896	(6,848)		4,688	(21)	2,877
6. Excess EAS Revenues per FPSC			1,250			1,250
7. FASB7				2,608		2,608
8.						
9.						
10. Other Reg/Nonreg Adjustments						0
11. Yellow Page Profits				(315)	(4)	(311)
12. Gains on Sales of Property	(69)				(1)	(68)
13. Income Related to Temp Cash Inv	9					9
14. Interest Reconciliation						0
15. Interest Imputation						0
16. ENFIA				(2)		(2)
17. Lobbying Expense						0
18. Corporate Advertising Expense						0
19. Abandoned Projects						0
20. Casualty Expense						0
21. BellSouth Services	3,297					3,297
22. Telephone Franchise Requirement						0
23. Other Regulatory Adjustments						0
24. Total Accounting Adjustments.						
Intrastate Achieved.....	\$8,333	(\$7,398)	\$2,364	\$6,891	(\$26)	\$18,224
25. Total Achieved Intrastate Revenue..	\$1,352,428	\$275,280	\$375,164	\$197,156	\$29,798	\$2,178,238

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Months Ended : December 31, 1990

	(1)	(2)	(3)	(4)	(5)	(6)
ADJUSTMENTS TO NET OPERATING INCOME	Basic Local	Network	Long Distance	Misc	Uncollectible	Net
INTRASTATE REVENUE	Service	Access	Revenue	Revenue	Revenues	Booked
(888)	Revenue	Revenues	Revenue	Revenue	Revenues	Revenue
25. Total Achieved Intrastate Revenue..	\$1,352,428	\$275,288	\$375,164	\$197,156	\$29,798	\$2,170,238

INTRASTATE ANNUALIZED/PRO FORMA ADJUSTMENTS

ANNUALIZING ADJUSTMENTS:

26.						\$0
27.						0
28.						0
29.						0
30.						0

31.

32.

FPSC ADJUSTMENTS (PRO FORMA):

33. 0

34. 0

PRO FORMA ADJUSTMENTS:

35. Employee Level Adjustment 0

36. Nonrecurring Items 0

37. High Cost Universal Service Fund 0

38. Phase Down of SPF 0

39. Other Separations Changes 0

40. Total Accounting Adjustments.  
Intrastate Annualized..... \$0 \$0 \$0 \$0 \$0 \$0

41. Total Annualized Intrastate Revenue \$1,352,428 \$275,288 \$375,164 \$197,156 \$29,798 \$2,170,238

FLORIDA PUBLIC SERVICE COMMISSION  
TELEPHONE EARNINGS SURVEILLANCE REPORT

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	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
ADJUSTMENTS TO NET OPERATING INCOME INTRASTATE OPERATING EXPENSE (000)		Plant Specific Operations Expense	Other Non-Plant Specific Oper. Exc.	Depreciation and Amortization	Customer Operations Expense	Corporate Operations Expenses	Other Income and Expenses	Total Operating Expense
1. Total Intrastate Expense per Books	\$0	\$371,893	\$197,682	\$583,048	\$291,672	\$186,576	\$368	\$1,551,579
<b>INTRASTATE ACHIEVED ADJUSTMENTS</b>								
<b>OUT OF PERIOD ADJUSTMENTS:</b>								
2. Rev & Sett (Ind Co)								\$0
3. Expenses		432		(146)		2,885	(2,618)	\$561
4. MR & FR Taxes								0
5. Other Out of Period Revenue								0
6. Excess EAS Revenues per FPSC								0
7. FASB7								0
8.								0
9.								0
10. Other Reg/Nonreg Adjustments		(463)			11	(345)	(2,078)	(2,967)
11. Yellow Page Profits								0
12. Gains on Sales of Property								0
13. Income Related to Term Cash Inv								0
14. Interest Reconciliation								0
15. Interest Imputation								0
16. ENFIA							(634)	(634)
17. Lobbying Expense						(838)		(838)
18. Corporate Advertising Expense					(31)			(31)
19. Abandoned Projects							515	515
20. Casualty Expense		24						24
21. BellSouth Services								0
22. Telephone Franchise Requirement								0
23. Other Regulatory Adjustments							(1,989)	(1,989)
24. Total Accounting Adjustments. Intrastate Achieved.....	\$0	(\$7)	\$0	(\$146)	(\$20)	\$1,782	(\$6,782)	(\$5,259)
25. Total Achieved Intrastate Expense..	\$0	\$371,886	\$197,682	\$582,902	\$291,672	\$188,279	(\$6,228)	\$1,546,328



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	(1)	(2) Plant Specific Operations Expense	(3) Other Non-Plant Specific Oper. Exp.	(4) Depreciation and Amortization	Customer Operations Expense	Corporate Operations Expenses	Other Income and Expenses	Total Operating Expense
ADJUSTMENTS TO NET OPERATING INCOME								
INTRASTATE OPERATING EXPENSE (888)								
25. Total Achieved Intrastate Expenses	\$8	\$371,886	\$197,682	\$582,982	\$291,872	\$188,275	(\$6,228)	\$1,545,328

INTRASTATE ANNUALIZED/PRO FORMA ADJUSTMENTS

ANNUALIZING ADJUSTMENTS:

26.								\$8
27.								8
28.								8
29.								8
30.								8
31.								8

FPSC ADJUSTMENTS (PRO FORMA):

33.								8
34.								8

PRO FORMA ADJUSTMENTS:

35. Employee Level Adjustment							118,249)	118,249)
36. Nonrecurring Items								8
37. High Cost Universal Service Fund							2,853	2,853
38. Phase Down of SPF							15,385	15,385
39. Other Separations Changes							5,657	5,657

40. Total Accounting Adjustments. Intrastate Annualized	\$8	\$8	\$8	\$8	\$8	\$8	\$13,646	\$13,646
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41. Total Annualized Intrastate Expense	\$8	\$371,886	\$197,682	\$582,982	\$291,872	\$188,275	\$7,426	\$1,559,964
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Company : Southern Bell Tel. & Tel. Co.  
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	(1)	(2)	(3)	(4)	(5)
ADJUSTMENTS TO NET OPERATING INCOME				Total	
INTRASTATE OPERATING TAXES	Federal	State	Other Taxes	Operating	
(888)	Income Tax	Income Tax		Taxes	NOI
1. Total Intrastate Taxes per Books..	\$81,586	\$17,766	\$113,599	\$212,871	\$395,564
<b>INTRASTATE ACHIEVED ADJUSTMENTS</b>					
<b>OUT OF PERIOD ADJUSTMENTS:</b>					
2. Rev & Sett (Ind Co)	182	31	6	\$219	\$353
3. Expenses	(181)	(38)		(211)	(358)
4. MR & FR Taxes	4,657	1,831		6,488	(6,488)
5. Other Out of Period Revenue	1,886	68	(32)	1,922	955
6. Excess EAS Revenues per FPSC	481	69		470	780
7. FAS87	835	143		978	1,622
8.					
9.					
10. Other Reg/Non-reg Adjustments	936	116		1,052	1,815
11. Yellow Page Profits	(188)	(17)	8	(117)	(194)
12. Gains on Sales of Property	(21)	(4)	(1)	(26)	(42)
13. Income Related to Telem Cash Inv	3	1	8	4	5
14. Interest Reconciliation	2,813	482	8	3,295	(3,295)
15. Interest Imputation	(1,596)	(273)		(1,869)	1,869
16. ENFIA	278	44	(88)	226	486
17. Lobbying Expense	269	46		315	523
18. Corporate Advertising Expense	10	2		12	19
19. Abandoned Projects	(166)	(28)		(194)	(321)
20. Casualty Expense	(8)	(1)		(9)	(15)
21. BellSouth Services				8	3,297
22. Telephone Franchise Requirement				8	8
23. Other Regulatory Adjustments	627	188		735	1,254
24. Total Accounting Adjustments.					
Intrastate Achieved.....	\$18,817	\$2,588	(\$115)	\$13,290	\$2,193
25. Total Achieved Intrastate Taxes....	\$92,323	\$20,354	\$113,484	\$226,161	\$397,757

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Company : Southern Bell Tel. & Tel. Co.  
 2 Months Ended : December 31, 1990

	(1)	(2)	(3)	(4)	(5)
ADJUSTMENTS TO NET OPERATING INCOME				Total	
INTRASTATE OPERATING TAXES	Federal	State	Other Taxes	Operating	NOI
(000)	Income Tax	Income Tax		Taxes	
25. Total Achieved Intrastate Taxes..	\$92,323	\$28,354	\$113,484	\$226,161	\$397,757

INTRASTATE ANNUALIZED/PRO FORMA ADJUSTMENTS

ANNUALIZING ADJUSTMENTS:

26.				\$0	\$0
27.				0	0
28.				0	0
29.					
30.					
31.					
32.				0	0
FPSC ADJUSTMENTS (PRO FORMA):					
33.				0	0
34.				0	0
PRO FORMA ADJUSTMENTS:					
35. Employee Level Adjustent	3,293	564		3,857	6,392
36. Nonrecurring Items				0	0
37. High Cost Universal Service Fund	(917)	(157)	0	(1,074)	11,779
38. Phase Down of SPF	(4,943)	(846)	0	(5,789)	(9,596)
39. Other Separations Changes	(1,818)	(311)	0	(2,129)	13,528
40. Total Accounting Adjustments. Intrastate Annualized.....	(\$4,385)	(\$750)	\$0	(\$5,135)	(\$6,511)
41. Total Annualized Intrastate Taxes..	\$87,938	\$19,604	\$113,484	\$221,026	\$389,246

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Company : Southern Bell Tel. & Tel. Co.  
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AVERAGE CAPITAL (INTRASTATE) (000)	(1)	(2)	(3) 0	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	Average Per Docks	Specific Adjustments	Pro Rata Adjustments	Adjusted Amount	% of Total	Floor	Cost Rate Sharing	Ceiling	Floor	Weighted Cost Rate Sharing	Ceiling
1. Long Term Debt.....	1,836,291		(21,205)	41,815,886	24.49%		8.82%				2.65%
2. Short Term Debt.....	137,320	44.88%	(3,712)	177,781	4.29%		8.28%				8.36%
3. Preferred Stock.....	0		0	0	0.00%		8.88%				8.88%
4. Customer Deposits.....	58,657		(1,837)	49,620	1.20%		7.96%				8.18%
5. Common Equity.....	1,972,590	18.83%	(48,732)	1,949,897	47.84%	11.58%	14.88%	16.88%	5.41%	6.59%	7.53%
6. Investment Tax Credits.....	167,920		(3,436)	164,492	3.97%	18.58%	11.78%	13.54%	8.42%	8.46%	8.54%
7. Cost Free Capital.....	778,119	34.12%	(16,457)	787,788	19.81%		8.88%				8.88%
8. Total Capital.....	64,134,913	996.25%	(886,579)	64,144,584	100.00%				8.45%	9.67%	18.69%

INTERNAL FUNDS

9. Internal funds to construction expenditures after dividends (Total Compa.....)	99.46%
10. Times interest earned (NI*Interest+Income Tax)/Interest (Total Company).....	4.45
11. Long Term Debt / Capital (Intrastate).....	32.75%
12. Short Term Debt / Capital (Intrastate).....	4.34%
13. Average adjusted achieved return on equity (Intrastate).....	13.81%
14. Adjusted year end return on equity (Intrastate).....	13.85%

8 See Page 6 for details.

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CUSTOMER BILLING (888)	(1)	(2)	(3)
	Intrastate Toll Columns (2 + 3)	-----Intratoll----- Inter- territory      Intra- territory	
<b>ACCESS CHARGES :</b>			
1. End User Charges.....	\$10	10	0
2. Capacity Charges (a).....	18,184	17,396	788
3. NOU Charges To IXC's (b).....	238,906	227,853	11,853
4. Special Access Charges (c).....	19,893	19,893	0
5. Other (d).....	5,893	14	5,879
6. Total Access Charges.....	\$282,886	\$264,366	\$18,520
<b>OTHER CHARGES TO IXC'S :</b>			
7. Operator Services (D.A.).....	\$4,839	4,839	0
8. Billing and Collecting.....	11,651	11,651	0
9. Interexchange Lease.....	0	0	0
10. Total Other Charges to IXC's.....	\$16,490	\$16,490	\$0
<b>CUSTOMER CHARGES (e) :</b>			
11. NTS.....	\$267,848	0	267,848
12. WATS.....	25,728	0	25,728
13. Private Line-FI.....	68,846	0	68,846
14. Local Exchange.....	0	0	0
15. Miscellaneous.....	0	0	0
16. Total Customer Charges.....	\$361,614	\$0	\$361,614
17. Total Billing.....	\$668,990	\$288,856	\$388,134
18. Joint Transport Receipts (Payments).....	\$182	\$182	\$0
19. Subsidy Fund Receipts (Payments).....	(\$2,872)	(\$2,264)	(\$608)
20. Out-of-Period Billings.....	\$3,138	\$4,459	(\$1,321)
21. Intra-LATA Private Line Pool Revenue.....			(\$18,437)
22. Access Expense.....			(\$5,383) †
23. Other Settlements.....	(\$12,928)	(1,884)	(11,844)

NOTE: The amounts on this schedule reflect, among other things, all payments from IXC's on a composite basis. However, LEC's are expected to maintain individual side records by IXC in the same level of detail found on this schedule.

(a) Busy Hour minutes of Capacity Charge.

(b) Includes Local Switching, Local Transport, Line Termination and Carrier Common Line.

(c) For Intrastate Interterritory Station Terminals.

(d) Includes testing, ordering, labor, etc.

(e) For Lines 11 through 15, include only charges billed to customer and retained by company, not charges billed on behalf of IXC's.

† MABC Revenues were \$ 12,641 and MABC expenses were \$ 18,824 for twelve months ending December 31, 1990.

FLORIDA PUBLIC SERVICE COMMISSION  
TELEPHONE EARNINGS SURVEILLANCE REPORT

REVISED 2/13/92

Company : Southern Bell Tel. & Tel. Co.  
Month Ended : December 31, 1990

FPSC Exhibit Number  
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NET OPERATING INCOME FOR THE MONTH ENDED December 31, 1990	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Total Company Columns (2 + 3)	Interstate Total	Total Intrastate Columns (4 + 7)	Intrastate Toll Columns (5 + 6)	IntraToll		Local
					Inter-	Intra-	
					territory	territory	
<b>BOOKED REVENUE</b>							
1. Basic Local Service Revenue.....	\$114,297	0	\$114,289	0	0	0	\$114,289
2. Network Access Revenue.....	87,404	63,702	23,702	23,702	22,730	972	0
3. Long Distance Revenue.....	26,533	53	26,480	26,480	0	26,480	0
4. Miscellaneous Revenue.....	28,900	3,183	25,717	1,400	1,091	317	24,389
5. Uncollectible Revenues.....	2,995	(164)	3,159	617	(231)	648	2,342
6. Net Booked Revenue.....	\$254,219	\$67,118	\$187,109	\$50,973	\$23,844	\$27,129	\$36,136
<b>OPERATING EXPENSES</b>							
7. 1987 Expenses (excl Depr).....	0	0	0	0	0	0	0
8. Plant Specific Operation Expense.....	42,295	11,562	30,733	7,406	3,672	3,734	23,327
9. Plant Non-Specific Operations Exp.....	21,691	5,910	15,781	4,061	1,037	3,024	10,920
10. Depreciation and Amortization.....	59,114	16,947	42,167	18,435	5,237	3,198	31,732
11. Customer Operations Expense.....	31,302	5,007	26,295	6,164	2,232	3,932	19,331
12. Corporate Operations Expense.....	25,305	7,225	18,080	4,416	1,993	2,423	13,744
13. Other Income and Expense.....	687	195	492	120	61	59	372
14. Total Operating Expense.....	\$180,474	\$47,646	\$132,828	\$33,402	\$15,033	\$10,369	\$99,426
15. 2 Distribution.....	100X	26.40X	73.60X	18.51X	8.33X	10.10X	55.09X
<b>OPERATING TAXES</b>							
16. Federal Income Tax.....	9,981	2,910	97,063	63,468	1,004	1,664	3,595
17. State Income Tax.....	2,596	923	1,673	933	449	484	740
18. Other Taxes.....	11,621	2,682	9,019	1,978	771	1,207	7,041
19. Total Operating Taxes.....	\$24,198	\$6,515	\$107,755	\$66,379	\$3,224	\$3,355	\$11,376
<b>NET OPERATING INCOME</b>							
20. Per Book NOI for the Month.....	\$49,547	\$13,821	\$36,526	\$11,192	\$5,707	\$5,405	\$25,334

Company : Southern Bell Tel. & Tel. Co.  
 12 Months Ended : December 31, 1990

RECONCILIATION OF CAPITAL TO RATE BASE  
 (\$000)

DESCRIPTION	COMBINED	INTRASTATE
1. Long Term Plant Under Construction.....	(\$26,891)	(\$19,278)
2. Investments in and Advances to Affiliated Companies.....	(51,252)	(36,738)
3. Miscellaneous Physical Property.....	(7,988)	(5,721)
4. Other.....	(37,692)	(44,155)
5. Rate Base Adjustments.....		
A. Excess Plug-in Units.....	(18,879)	(13,836)
B. Bell South Services Investment.....	41,814	29,399
C. ENFIA.....	0	(2,129)
D. Out of Period Items.....	4,645	3,879
E. Total Rate Base Adjustments.....	27,588	19,313
6. Total.....	(96,235)	(66,579)



REVISED 2/13/92

Company : Southern Bell Tel. & Tel. Co.  
12 Months Ended : December 31, 1990

RATE STABILIZATION ORDER  
REPORT OF RATE CHANGES/EXOGENEOUS FACTORS/DEBT CHANGES/TECHNOLOGICAL CHANGES  
Intrastate Amounts  
(800's)

	Annual Revenue Requirement Impact	YTD Effective Portion for 1990	Cumulative Effect
<b>All Price Changes, Exogeneous Factors &gt; \$ 3 Million, Debt Refinancings and Major Technological Changes</b>			
<b>I. RATE CHANGES</b>			
A. Rate Increases	\$17,586	\$17,261	\$27,881
B. Rate Decreases	(7,847)	(3,754)	(3,871)
<b>Net</b>	<b>\$18,539</b>	<b>\$13,587</b>	<b>\$24,010</b>
<b>II. EXOGENEOUS FACTORS</b>			
A. Depr increase due to USOAR Docket	(8,862)	(8,862)	(22,895)
B. Separations change	(7,422)	(7,422)	(12,989)
<b>Net</b>	<b>(\$16,284)</b>	<b>(\$16,284)</b>	<b>(\$35,884)</b>
<b>III. DEBT REFINANCING</b>			
A. Difference between forecast and actual	(\$1,316)	(\$1,316)	(3,976)
<b>IV. MAJOR TECHNOLOGICAL CHANGES</b>			
<b>NONE</b>			
<b>Grand Net</b>	<b>(\$7,861)</b>	<b>(\$4,893)</b>	<b>(\$15,858)</b>

REVISED 2/13/92

Company : Southern Bell Tel. & Tel. Co.  
 12 Months Ended : December 31, 1990

RATE STABILIZATION ORDER  
 REPORT OF RATE CHANGES/EXOGENEOUS FACTORS/DEBT CHANGES/TECHNOLOGICAL CHANGES  
 ADDITIONAL DESCRIPTION OF ITEMS  
 (000's)

All Price Changes,  
 Exogenous Factors > \$ 3 Million,  
 Debt Refinancings and Major  
 Technological Changes

	Annual Impact	YTD Effective Portion for 1990	Cumulative Effect
<b>I.A. Rate increases (by service)</b>			
1. Nonrecurring FX charges. Tariff offering GSST A-9, Eff. 7/11/88	\$2,463	\$2,463	96,163
2. Toll Terminals. Tariff offering GSST A-13. Eff. 1/1/89	2,086	2,086	4,172
3. Mobile Service. Tariff offering GSST A-3. Eff. 4/21/89	2,254	2,254	3,757
4. Custom Calling Services. Tariff offering GSST A-13, Eff. 9/1/89	18,088	18,088	13,333
5. Bad check charge. Tariff offering GSST A-2, Eff. 5/21/90	781	456	456
	<u>\$17,586</u>	<u>\$17,261</u>	<u>\$27,881</u>
<b>I.B. Rate decreases (by service)</b>			
1. Megalink service reduction. Private Line B-7. Eff. 8/8/88	(690)	(684)	(6179)
2. WATS usage charge. Tariff offering GSST A-19, Eff. 10/20/89	(134)	(134)	(156)
3. Telephone Answering Serv DID. Tariff off GSST A-6,A-8. Eff 3/19/90	(182)	(137)	(137)
4. Saver Service. Tariff offering A-18,A-118. Eff. 8/1/90	(4,285)	(2,587)	(2,587)
5. PIC Change Charge. Access Tariff E-13. Eff. 9/4/90	(2,436)	(812)	(812)
	<u>(7,847)</u>	<u>(3,754)</u>	<u>(3,871)</u>
<b>II.A. Depreciation differences due to the USOAR Docket.</b>			
B. Separations change for revenue accounting procedures. The FCC mandated this change be effective on 4/1/89.			
<b>III.A. Difference between actual long term debt cost rate and forecasted rate for twelve month period ending 12/31/90, adjusted to exclude the effective portion of the 1990 interest savings associated with the 1989 refinancing of \$200M of 11.75% debentures.</b>			

FLORIDA PUBLIC SERVICE COMMISSION  
TELEPHONE EARNINGS SURVEILLANCE REPORT

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Company : Southern Bell Tel. & Tel. Co.  
12 Months Ended : December 31, 1990

RATE STABILIZATION ORDER  
REPORT OF NEW SERVICES  
Intrastate Amounts (\$00's)

New Services	Effective Date	Estimated Annual Revenue Impact		
		Year 1	Year 2	Year 3
1. Key System cust allowed to partic as STS providers	3/5/88	00	00	00
2. TouchStar Service	8/8/88	131	6,151	13,775
3. Link-Up Florida	9/12/88	0	0	0
4. Pay Per View (TicketTaker)	5/15/89 †	64	67	
5. Private Line Tariff (Megalink Channel)	4/29/88	296	1,690	3,246
6. GeoServ	7/11/88	129	144	
7. 2 Way Measured Tariff	12/2/88	28	109	
8. AccuPulse Service	1/9/89	3	59	
9. Switched Access AccuPulse Service	1/9/89	520	520	
10. ESSX Multi-Account Service	3/28/89	842	842	
11. Special Calling Features	8/15/89	224	1,409	
12. Intralata Only 800 Service	9/1/89	115	128	
13. Dial Backup Service	9/27/89	9	9	
14. 2400 bps Central Office Data Set	9/27/89	5	6	
15. Automatic Call Distribution(ACD-MIS)	10/9/89	1,847	1,847	
16. Switched Data Service	10/9/89	33	33	
17. Simplified Message Desk Interface(SMDI)	10/9/89	109	109	
18. Customer Network Management	11/13/89	19	58	
19. Station Message Detail Recording - Premises	12/1/89	1,013	1,013	
20. Area Communication Service (ACS)	12/19/89	23	23	
21. Billing & Collecting of Subscriber Surcharge	1/1/90	96		
22. Call Forwarding Busy Line	1/15/90	45		
23. Call Forwarding Don't Answer	1/15/90	100		
24. Inward Operator Services Access Service	2/15/90	154		
25. Central Office Local Area Network (CO LAN)	7/31/90	71		
26. Digital Elect Tandem Switching Features(DETS)	7/31/90	141		
27. IntraLATA 800 Service with DID	7/30/90	22		
28. Enhanced CCS Features	8/6/90	10		
29. Outgoing Only Service	8/31/90	0		
30. Exchange Line Data Service (ELDS)	11/30/90 ‡	181		
31. Pulselink Protocols (SNA/SOLC & X.32)	12/9/90	68		
<b>Total</b>		<b>\$6,314</b>	<b>\$14,217</b>	<b>\$17,021</b>

† This service was previously provided under a limited service arrangement which was effective 11/16/87. As of 5/15/89, it was available as a permanent statewide offering. The annual revenue impact has been revised to reflect this tariff change.

‡ This service was previously provided under a limited service arrangement which was effective 9/28/88. As of 11/30/90, it was available as a permanent statewide offering.

SOUTHERN BELL - FLORIDA OPERATIONS  
 CALCULATION OF ANNUAL IDC RATE - DECEMBER 31, 1990 DATA

REVISED 2/13/92

## Cost of Capital(000)

	Amount	% of Total	Cost Rate	Weighted Cost
1. Long Term Debt	\$1,815,886	24.49%	8.82%	2.16%
2. Short Term Debt	177,781	4.29%	8.28%	0.36%
3. Equity	1,949,897	47.84%	13.20%	6.21%
4. Customer Deposits	49,628	1.20%	7.96%	0.10%
5. Cost Free Capital	787,788	19.81%	0.00%	0.00%
6. Job Dev. Inv. Credit	164,492	3.97%	0.00%	0.00%
7. Total Capital	<u>\$4,144,584</u>	<u>100.00%</u>		<u>0.83%</u>

Annual Percentage Rate Currently Used by Southern Bell 8.59%

Annual Rate per Calculation 12/31/90 8.83%

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SOUTHERN BELL - FLORIDA OPERATIONS  
 CALCULATION OF ADJUSTED CAPITAL STRUCTURE  
 (\$000)

REVISED 2/13/92

Capital Structure

	Unadjusted Amount	Reconciling Adjustment	Adjusted Capital Structure
	-----	-----	-----
1. Long Term Debt	\$1,836,291	(\$21,205)	1,815,086
2. Short Term Debt	181,413	(3,712)	177,701
3. Equity	1,998,629	(48,732)	1,949,897
4. Customer Deposits	58,657	(1,837)	49,620
5. Cost Free Capital	884,245	(16,437)	767,788
6. Job Dev. Inv. Credit	167,928	(3,436)	164,492
	-----	-----	-----
7. Total	\$4,231,163	(\$86,579)	\$4,144,584
Average Rate Base per Books	\$4,891,287		
Accounting Adjustments	53,377		
Average Adjusted Rate Base	4,144,584		

	(1) Total Company Columns (2 + 3)	(2) Interstate Toll	(3) Total Intrastate Columns (4 + 7)	(4) Intrastate Toll Columns (5 + 6)	(5) IntraToll Inter- territory	(6) Intra- territory	(7) Local
<b>RATE BASE(000)</b>							
<b>AVERAGE RATE BASE</b>							
1. General Support.....	\$1,854,459	\$268,919	\$785,548	\$199,712	\$87,696	\$112,816	\$585,827
2. Central Office.....	2,722,543	792,857	1,929,686	532,685	224,633	388,852	1,397,881
3. Information Orig./Term.....	574,252	179,284	394,968	84,677	49,854	34,824	318,291
4. Cable and Wire Facilities.....	3,928,545	1,212,151	2,788,394	698,261	372,431	325,838	2,818,133
5. Amortizable Assets.....	38,289	9,784	28,505	7,287	3,196	4,091	21,218
6. Plant in Service.....	\$8,318,888	\$2,462,995	\$5,847,893	\$1,522,622	\$737,818	\$784,813	\$4,324,478
7. Accumulated Depreciation and Amortization.....	2,732,927	851,231	1,881,696	486,164	239,885	246,278	1,395,333
8. Net Plant in Service.....	\$5,577,161	\$1,611,764	\$3,966,397	\$1,036,459	\$497,924	\$538,534	\$2,928,938
9. Property Held for Future Use.....	431	127	304	79	38	41	224
10. TPUC (No IDC).....	64,828	19,286	45,622	11,981	5,764	6,137	33,721
11. Acquisition Adjustments.....	0	0	0	0	0	0	0
12. Working Capital Allowance.....	1,882	(15,488)	16,482	4,195	2,338	1,866	12,286
13. Per Book Average Rate Base.....	\$5,643,422	\$1,615,617	\$4,027,805	\$1,052,634	\$506,856	\$546,577	\$2,975,169
14. % Distribution.....	100%	28.63%	71.37%	18.65%	8.97%	9.69%	32.72%
<b>ADJUSTMENTS TO AVERAGE RATE BASE</b>							
15. Adjustments for Achieved Rate Base.....			\$43,165				
16. Adjusted Achieved Rate Base.....			\$4,070,970				
<b>ADJUSTED ANNUALIZED/PRO FORMA YEAR END RATE BASE</b>							
17. Year End Rate Base per Books.....			4,024,834				
18. Adjustments for Year End Rate Base.....			112,848				
19. Adjusted Year End Rate Base.....			\$4,136,874				
<b>RATES OF RETURN</b>							
20. Average Per Book .....	18.13%	18.98%	9.85%	12.81%	18.78%	13.15%	9.85%
21. Average Adjusted Achieved .....			9.49%				
22. Adjusted Year End.....			9.88%				

FLORIDA PUBLIC SERVICE COMMISSION  
TELEPHONE EARNINGS SURVEILLANCE REPORT

Company : Southern Bell Tel. & Tel. Co.  
12 Months Ended : December 31, 1989

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	(1)	(2)	(3)	(4)	(5)	(6)	(7)
ADJUSTMENTS TO AVERAGE RATE BASE (000)	Plant In Service	Accumulated Depreciation and Amortization	Property Held for Future Use	ST Plant Under Construction	Acquisition Adjustment	Working Capital Allowance	Per Book Average Rate Base
1. Intrastate Rate Base per Books.....	\$5,847,893	\$1,881,696	\$384	\$45,622	\$0	\$16,482	\$4,827,885
<b>INTRASTATE ACHIEVED ADJUSTMENTS</b>							
2. Excess Plug-in Units	(14,365)	\$0	\$0	\$0	\$0	\$0	(\$14,365)
3. WECO Tax Credits	58,782	18,811	0	0	0	0	31,971
4. BellSouth Services	26,943	0	0	0	0	0	26,943
5. ENFIA	(4,491)	(1,663)	0	(42)	0	(24)	(2,894)
6. Other Rate Base Adjustments	(348)	(1,956)		(98)			1,518
7. Total Accounting Adjustments. Intrastate Achieved.....	\$58,521	\$15,192	\$0	(\$140)	\$0	(\$24)	\$43,165
8. Achieved Intrastate Rate Base.....	\$5,985,614	\$1,896,888	\$384	\$45,482	\$0	\$16,458	\$4,878,978
9. Intrastate Year End Rate Base per Books.....	\$5,984,687	\$2,028,664	\$263	\$36,887	\$0	\$24,541	\$4,824,834
<b>INTRASTATE ANNUALIZED/PRO FORMA ADJUSTMENTS</b>							
<b>FPSC ADJUSTMENTS:</b>							
10. Excess Plug-in Units	(\$14,365)	\$0	\$0	\$0	\$0	\$0	(\$14,365)
11. WECO Tax Credits	52,385	18,981	0	0	0	0	33,484
12. BellSouth Services	29,511	0	0	0	0	0	29,511
13. ENFIA	(4,491)	(1,663)	0	(41)	0	(24)	(2,893)
<b>ANNUALIZING ADJUSTMENTS:</b>							
14.							
15.							
16.							
17.							
18.							
<b>PRO FORMA ADJUSTMENTS:</b>							
19. Phase Down of SPF	74,842	27,795					46,247
20. Other Separations Changes	27,964	7,988					28,856
21.							
22. Total Accounting Adjustments. Intrastate Annualized.....	\$165,846	\$52,941	\$0	(\$41)	\$0	(\$24)	\$112,848
23. Intrastate Annualized/Pro Forma Year End Rate Base.....	\$6,149,653	\$2,073,605	\$263	\$36,846	\$0	\$24,517	\$4,136,874

FLORIDA PUBLIC SERVICE COMMISSION  
TELEPHONE EARNINGS SURVEILLANCE REPORT

Company : Southern Bell Tel. & Tel. Co.  
12 Months Ended : December 31, 1989

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NET OPERATING INCOME(000)	(1)	(2)	(3)	(4)	(5)		(7)
	Total Company Columns (2 + 3)	Interstate Toll	Total Intrastate Columns (4 + 7)	Intrastate Toll Columns (5 + 6)	IntraToll		Local
					Inter- territory	Intra- territory	
<b>BOOKED REVENUE</b>							
1. Basic Local Service Revenue.....	\$1,267,222	95	\$1,267,167	98	0	0	\$1,267,167
2. Network Access Revenue.....	1,848,589	798,916	257,672	257,672	246,813	11,659	0
3. Long Distance Revenue.....	338,328	377	338,143	338,143	0	338,143	0
4. Miscellaneous Revenue.....	298,866	44,139	253,927	18,963	14,365	4,598	234,964
5. Uncollectible Revenues.....	32,327	1,176	31,151	6,318	169	6,149	24,833
6. Net Booked Revenue.....	\$2,928,869	834,311	\$2,885,758	\$688,468	\$268,289	\$348,251	\$1,477,298
<b>OPERATING EXPENSES</b>							
7.							
8. Plant Specific Operation Expense.....	\$512,888	147,391	365,417 <sup>1-3</sup>	95,893	44,952	38,141	278,324
9. Plant Non-Specific Operations Exp.....	258,218	72,421	185,797 <sup>7-8</sup>	61,768	21,465	48,383	124,828
10. Depreciation and Amortization.....	678,417	198,382	472,114	124,515	59,576	64,938	347,688
11. Customer Operations Expense.....	338,242	68,858	269,392 <sup>9-10</sup>	77,119	28,812	49,188	192,273
12. Corporate Operations Expense.....	274,281	81,618	192,583 <sup>10-11</sup>	33,811	24,868	28,951	138,772
13. Other Income and Expense.....	(286)	(58)	(228)	(52)	(25)	(27)	(176)
14. Total Operating Expense.....	\$2,833,599	\$548,524	\$1,485,876	\$412,235	\$178,841	\$233,414	\$1,872,821
15. % Distribution.....	1882	27,482	72,321	28,872	8,712	11,372	52,242
<b>OPERATING TAXES</b>							
16. Federal Income Tax.....	125,985	45,137	88,848	\$36,482	13,397	22,883	44,447
17. State Income Tax.....	32,898	11,878	28,229	8,739	3,757	4,982	11,498
18. Other Taxes.....	136,338	32,683	183,847 <sup>12-13</sup>	24,637	9,448	15,189	79,218
19. Total Operating Taxes.....	\$294,613	89,698	\$284,924	\$69,777	\$26,881	\$42,977	\$135,147
<b>NET OPERATING INCOME</b>							
20. Per Book NOI.....	\$571,856	\$176,898	\$395,758	\$126,428	\$54,567	\$71,868	\$269,338
21. NOI Effect of Adjustments(Achieved).....			(9,268)				
22. Adjusted Achieved NOI.....			\$386,498				
23. NOI Effect of Adjustments(Annual/Pro Forma).....			(14,134)				
24. Annualized/Pro Forma NOI.....			\$372,364				



FLORIDA PUBLIC SERVICE COMMISSION  
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Company : Southern Bell Tel. & Tel. Co.  
12 Months Ended : December 31, 1989

ADJUSTMENTS TO NET OPERATING INCOME INTRASTATE REVENUE (000)	(1) Basic Local Service Revenue	(2) Network Access Revenues	(3) Long Distance Revenue	(4) Misc Revenue	(5) Uncollectible Revenues	(6) Net Booked Revenue
1. Total Intrastate Revenue per Books	\$1,267,167	\$268,378	\$354,488	\$234,964	\$31,151	\$2,885,758
<b>INTRASTATE ACHIEVED ADJUSTMENTS</b>						
<b>OUT OF PERIOD ADJUSTMENTS:</b>						
2. Rev & Sett (Ind Co)		752	(982)			(6230)
3. Expenses						0
4. MR & FR Taxes						0
5. Other Out of Period Revenue	(2,859)	1,788		(2,950)	(36)	(3,265)
6. Separations Adjustaent						0
7. Bond Refinancing Expenses						0
8. Excess EAS Revenues per FPSC			(1,258)			(1,258)
9. FAS87	(2,188)					(2,188)
10. Other Non-reg changes						0
11. Yellow Page Profits				(7,535)	(184)	(7,431)
12. Gains on Sales of Property	(47)				(1)	(46)
13. Income Related to Temp Cash Inv	785					785
14. Interest Reconciliation						0
15. Interest Imputation						0
16. ENFIA						0
17. Lobbying Expense						0
18. Corporate Advertising Expense						0
19. Abandoned Projects						0
20. Casualty Expense						0
21. BellSouth Services	4,923					4,923
22. Telephone Franchise Requirement						0
23. Other Regulatory Adjustments						0
24. Total Accounting Adjustments. Intrastate Achieved.....	\$1,422	\$2,468	(\$2,232)	(\$18,485)	(\$141)	(\$8,694)
25. Total Achieved Intrastate Revenue..	\$1,268,589	\$262,838	\$352,168	\$224,479	\$31,010	\$2,877,064

FLORIDA PUBLIC SERVICE COMMISSION  
TELEPHONE EARNINGS SURVEILLANCE REPORT

Company : Southern Bell Tel. & Tel. Co.  
12 Months Ended : December 31, 1989

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ADJUSTMENTS TO NET OPERATING INCOME	(1) Basic Local Service Revenue	(2) Network Access Revenues	(3) Long Distance Revenue	(4) Misc Revenue	(5) Uncollectible Revenues	(6) Net Booked Revenue
INTRASTATE REVENUE (888)						
25. Total Achieved Intrastate Revenue..	\$1,268,589	\$262,838	\$332,168	\$224,479	\$31,818	\$2,077,864

INTRASTATE ANNUALIZED/PRO FORMA ADJUSTMENTS

ANNUALIZING ADJUSTMENTS:

26.						\$8
27.						8
28.						8
29.						8
30.						8

31. Rate Stabilization Order (12 Mos 1998)	2,888	(4,288)	(5,688)		(97)	(6,983)
---	-------	---------	---------	--	------	---------

32.						8
-----	--	--	--	--	--	---

FPSC ADJUSTMENTS (PRO FORMA):

33.						8
34.						8

PRO FORMA ADJUSTMENTS:

35. Employee Level Adjustment						8
36. Nonrecurring Items						8
37. High Cost Universal Service Fund						8
38. Phase Down of SPF						8
39. Other Separations Changes						8

40. Total Accounting Adjustments, Intrastate Annualized.....	\$2,888	(\$4,288)	(\$5,688)	\$8	(\$97)	(\$6,983)
---	---------	-----------	-----------	-----	--------	-----------

41. Total Annualized Intrastate Revenue	\$1,271,389	\$258,638	\$346,568	\$224,479	\$38,913	\$2,078,161
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FLORIDA PUBLIC SERVICE COMMISSION  
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	(1)	(2) Plant Specific Operations Expense	(3) Other Non-Plant Specific Oper. Exp.	Depreciation and Amortization	Customer Operations Expense	Corporate Operations Expenses	Other Income and Expenses	Total Operating Expense
ADJUSTMENTS TO NET OPERATING INCOME								
INTRASTATE OPERATING EXPENSE (000)								
1. Total Intrastate Expense per Books	\$0	\$365,417	\$185,797	\$472,114	\$269,392	\$192,583	(0228)	\$1,485,076
INTRASTATE ACHIEVED ADJUSTMENTS								
OUT OF PERIOD ADJUSTMENTS:								
2. Rev & Sett (Ind Co)								\$0
3. Expenses		(416)		3,538	(768)	(3,699)		(1,337)
4. MR & FR Taxes								0
5. Other Out of Period Revenue								0
6. Separations Adjustment			(47)	(191)		(34)	10	(262)
7. Bond Refinancing Expenses							6,499	6,499
8. Excess EAS Revenues per FPSC								0
9. FASB7								0
10. Other Non-req changes		(1,035)				(49)		(1,084)
11. Yellow Page Profits								0
12. Gains on Sales of Property								0
13. Income Related to Teen Cash Inv								0
14. Interest Reconciliation								0
15. Interest Imputation								0
16. ENFIA							(931)	(931)
17. Lobbying Expense						(815)		(815)
18. Corporate Advertising Expense					(31)			(31)
19. Abandoned Projects							1,697	1,697
20. Casualty Expense		68						68
21. BellSouth Services								0
22. Telephone Franchise Requirement				(3)				(3)
23. Other Regulatory Adjustments							(1,076)	(1,076)
24. Total Accounting Adjustments.								
Intrastate Achieved.....	\$0	(\$1,391)	(\$47)	\$3,344	(\$791)	(\$4,397)	\$5,399	\$1,917
25. Total Achieved Intrastate Expense..	\$0	\$364,026	\$185,750	\$475,458	\$268,601	\$187,986	\$5,171	\$1,486,992

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	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
ADJUSTMENTS TO NET OPERATING INCOME		Plant	Other	Depreciation	Customer	Corporate	Other	Total
INTRASTATE OPERATING EXPENSE		Specific	Non-Plant	and	Operations	Operations	Income and	Operating
(888)		Operations	Specific	Amortization	Expense	Expenses	Expenses	Expense
		Expense	Over. Exp.					
25. Total Achieved Intrastate Expenses	\$0	\$364,826	\$185,758	\$475,458	\$268,681	\$187,986	\$5,171	\$1,486,992
<b>INTRASTATE ANNUALIZED/PRO FORMA ADJUSTMENTS</b>								
<b>ANNUALIZING ADJUSTMENTS:</b>								
26.								\$0
27.								0
28.								0
29.								0
30.								0
31. Rate Stabilization Order (12 Mos 1990)								0
32.								0
<b>FPSC ADJUSTMENTS (PRO FORMA):</b>								
33.								0
34.								0
<b>PRO FORMA ADJUSTMENTS:</b>								
35. Employee Level Adjustment							(7,355)	(7,355)
36. Nonrecurring Items								0
37. High Cost Universal Service Fund							249	249
38. Phase Down of SPF							15,385	15,385
39. Other Separations Changes							7,559	7,559
40. Total Accounting Adjustments. Intrastate Annualized	\$0	\$0	\$0	\$0	\$0	\$0	\$15,839	\$15,839
41. Total Annualized Intrastate Expense	\$0	\$364,826	\$185,758	\$475,458	\$268,681	\$187,986	\$21,889	\$1,502,830

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	(1)	(2)	(3)	(4)	(5)
ADJUSTMENTS TO NET OPERATING INCOME				Total	
INTRASTATE OPERATING TAXES	Federal	State	Other Taxes	Operating	NOI
(000)	Income Tax	Income Tax		Taxes	
1. Total Intrastate Taxes per Books..	\$88,848	\$28,229	\$183,847	\$284,924	\$395,758
<b>INTRASTATE ACHIEVED ADJUSTMENTS</b>					
<b>OUT OF PERIOD ADJUSTMENTS:</b>					
2. Rev & Sett (Ind Co)	(73)	(12)	(3)	(88)	(\$142)
3. Expenses	429	74		503	834
4. MR & FR Taxes	4,779	(1,484)		3,295	(3,295)
5. Other Out of Period Revenue	(1,837)	(178)	(37)	(1,252)	(2,813)
6. Separations Adjustaent	84	14		98	164
7. Bond Refinancing Expenses	(2,888)	(358)		(2,446)	(4,853)
8. Excess EAS Revenues per FPSC	(397)	(68)	(14)	(479)	(771)
9. FASB7	(667)	(114)	(24)	(805)	(1,295)
10. Other Non-reg changes	348	68		488	676
11. Yellow Page Profits	(2,385)	(488)	(9)	(2,882)	(4,629)
12. Gains on Sales of Property	(15)	(2)	(1)	(18)	(28)
13. Income Related to Temp Cash Inv	224	38	8	278	435
14. Interest Reconciliation	2,894	495		3,389	(3,389)
15. Interest Imputation	(1,868)	(328)		(2,188)	2,188
16. ENFIA	344	56		488	531
17. Lobbying Expense	262	45		387	588
18. Corporate Advertising Expense	18	2		12	19
19. Abandoned Projects	(545)	(93)		(639)	(1,858)
20. Casualty Expense	(28)	(3)		(23)	(37)
21. BellSouth Services				8	4,923
22. Telephone Franchise Requirement	1	8		1	2
23. Other Regulatory Adjustments	683	183		786	1,178
24. Total Accounting Adjustments, Intrastate Achieved.....	\$883	(\$2,154)	(\$88)	(\$1,351)	(\$9,268)
25. Total Achieved Intrastate Taxes....	\$81,731	\$18,875	\$183,767	\$283,373	\$386,498

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Company : Southern Bell Tel. & Tel. Co.  
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	(1)	(2)	(3)	(4)	(5)
ADJUSTMENTS TO NET OPERATING INCOME				Total	
INTRASTATE OPERATING TAXES	Federal	State	Other Taxes	Operating	NOI
(888)	Income Tax	Income Tax		Taxes	
25. Total Achieved Intrastate Taxes..	\$81,731	\$18,875	\$183,767	\$283,573	\$386,498

INTRASTATE ANNUALIZED/PRO FORMA ADJUSTMENTS

ANNUALIZING ADJUSTMENTS:

26.				\$8	\$8
27.				8	8
28.				8	8
29.					
30.					
31. Rate Stabilization Order (12 Mos 1998)	(2,192)	(375)	(88)	(2,647)	(4,256)
32.				8	8
FPSC ADJUSTMENTS (PRO FORMA):					
33.				8	8
34.				8	8
PRO FORMA ADJUSTMENTS:					
35. Employee Level Adjustaent	2,363	485		2,768	4,587
36. Nonrecurring Items				8	8
37. High Cost Universal Service Fund	(88)	(14)	8	(94)	(155)
38. Phase Down of SPF	(4,943)	(846)	8	(5,789)	(9,596)
39. Other Separations Changes	(2,429)	(416)	8	(2,845)	(4,714)
40. Total Accounting Adjustments. Intrastate Annualized.....	(\$7,281)	(\$1,246)	(\$88)	(\$8,607)	(\$14,134)
41. Total Annualized Intrastate Taxes..	\$74,458	\$16,829	\$183,687	\$194,966	\$372,364

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Company : Southern Bell Tel. & Tel. Co.  
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AVERAGE CAPITAL (INTRASTATE) (000)	(1)	(2)	(3) #	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	Average Per Book	Specific Adjustments	Pro Rata Adjustments	Adjusted Amount	% of Total	Floor	Cost Rate Sharing	Ceiling	Floor	Weighted Cost Rate Sharing	Ceiling
1. Long Term Debt.....	1,823,794		(14,531)	91,889,263	24.79%		8.89%			2.20%	
2. Short Term Debt.....	127,591	4,967	(1,910)	132,640	3.26%		9.34%			8.38%	
3. Preferred Stock.....	0		0	0	0.00%		8.88%			8.88%	
4. Customer Deposits.....	49,888		(696)	48,312	1.19%		7.53%			8.89%	
5. Common Equity.....	1,896,218	19,485	(27,191)	1,888,312	46.39%	11.50%	14.88%	16.88%	5.33%	6.49%	7.42%
6. Investment Tax Credits.....	198,276		(2,781)	187,575	4.61%	18.59%	13.28%	13.53%	8.49%	8.54%	8.62%
7. Cost Free Capital.....	784,274	31,971	(11,585)	804,660	19.76%		8.88%			8.88%	
<b>8. Total Capital.....</b>	<b>94,871,161</b>	<b>958,423</b>	<b>(958,614)</b>	<b>94,870,970</b>	<b>100.00%</b>				<b>8.41%</b>	<b>9.62%</b>	<b>10.63%</b>

INTERNAL FUNDS

9. % Internal funds to construction expenditures after dividends (Total Company).....	87.63%
10. Times interest earned (NI+Interest+Income Tax)/Interest (Total Company).....	4.32
11. Long Term Debt / Capital (Intrastate).....	33.38%
12. Short Term Debt / Capital (Intrastate).....	4.16%
13. Average adjusted achieved return on equity (Intrastate).....	13.69%
14. Adjusted year end return on equity (Intrastate).....	12.69%

# See Page 6 for details.





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Company : Southern Bell Tel. & Tel. Co.  
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CUSTOMER BILLING (\$000)	(1)	(2)	(3)
	Intrastate Toll Columns (2 + 3)	-----Intratoll----- Inter- territory      Intra- territory	
<b>ACCESS CHARGES :</b>			
1. End User Charges.....	\$6	6	0
2. Capacity Charges (a).....	22,759	21,611	1,149
3. NOU Charges To IXC's (b).....	211,782	200,968	10,814
4. Special Access Charges (c).....	21,688	21,688	0
5. Other (d).....	(756)	(756)	0
<b>6. Total Access Charges.....</b>	<b>\$255,488</b>	<b>\$243,517</b>	<b>\$11,963</b>
<b>OTHER CHARGES TO IXC'S :</b>			
7. Operator Services (D.A.).....	\$3,885	4,189	(384)
8. Billing and Collecting.....	11,328	11,328	0
9. Interexchange Lease.....	0	0	0
<b>10. Total Other Charges to IXC's.....</b>	<b>\$15,213</b>	<b>\$15,517</b>	<b>(\$384)</b>
<b>CUSTOMER CHARGES (e) :</b>			
11. NTS.....	\$251,042	0	251,042
12. WATS.....	36,097	0	36,097
13. Private Line-FX.....	65,001	0	65,001
14. Local Exchange.....	0	0	0
15. Miscellaneous.....	0	0	0
<b>16. Total Customer Charges.....</b>	<b>\$352,140</b>	<b>0</b>	<b>\$352,140</b>
<b>17. Total Billing.....</b>	<b>\$622,833</b>	<b>\$259,034</b>	<b>\$363,799</b>
18. Joint Transport Receipts (Payments).....	\$10	\$10	\$0
19. Subsidy Fund Receipts (Payments).....	(64,849)	(62,133)	(61,916)
20. Out-of-Period Billings.....	(9126)	(9389)	\$183
21. Intra-LATA Private Line Pool Revenue.....			(\$11,798)
22. Access Expense.....			(\$6,042)
23. Other Settlements.....	(\$15,407)	(1,691)	(13,716)

NOTE: The amounts on this schedule reflect, among other things, all payments from IXC's on a composite basis. However, LEC's are expected to maintain individual side records by IXC in the same level of detail found on this schedule.

(a) Busy Hour minutes of Capacity Charge.

(b) Includes Local Switching, Local Transport, Line Termination and Carrier Common Line.

(c) For Intrastate Interterritory Station Terminals.

(d) Includes testing, ordering, labor, etc.

(e) For Lines 11 through 15, include only charges billed to customer and retained by company, not charges billed on behalf of IXC's.

\* NABC Revenues were \$ 11,963 and NABC expenses were \$ 18,005 for twelve months ending December 31, 1989.

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Company : Southern Bell Tel. & Tel. Co.  
Month Ended : December 31, 1989

NET OPERATING INCOME FOR THE MONTH ENDED December 31, 1989	(1) Total Company Columns (2 + 3)	(2) Interstate Toll	(3) Total Intrastate Columns (4 + 7)	(4) Intrastate Toll Columns (5 + 6)	(5)		(7) Local
					IntraToll	Intra- territory	
<b>BOOKED REVENUE</b>							
1. Basic Local Service Revenue.....	\$188,536	6	\$188,529	68	68	0	\$188,529
2. Network Access Revenue.....	98,258	67,822	22,427	22,427	21,467	960	0
3. Long Distance Revenue.....	34,537	21	34,516	34,516	0	34,516	0
4. Miscellaneous Revenue.....	26,158	2,861	23,289	2,689	2,339	350	28,688
5. Uncollectible Revenues.....	3,488	118	3,298	666	4	663	2,632
6. Net Booked Revenue.....	\$256,864	\$78,681	\$185,463	\$38,966	\$23,883	\$35,143	\$126,497
<b>OPERATING EXPENSES</b>							
7. 1987 Expenses (excl Depr).....	68	0	68	68	68	0	68
8. Plant Specific Operation Expense.....	41,391	11,817	29,574	7,748	3,744	4,004	21,825
9. Plant Non-Specific Operations Exp.....	19,973	5,358	14,623	4,858	1,649	3,209	9,565
10. Depreciation and Amortization.....	56,718	16,627	40,082	18,415	5,822	5,393	29,667
11. Customer Operations Expense.....	32,984	6,878	26,106	7,318	3,261	4,049	18,796
12. Corporate Operations Expense.....	19,836	5,762	14,074	4,117	2,157	1,960	9,957
13. Other Income and Expense.....	(14)	4	(10)	(2)	(1)	(1)	(16)
14. Total Operating Expense.....	\$178,888	\$46,639	\$124,241	\$34,446	\$15,832	\$18,614	\$89,795
15. % Distribution.....	188%	27.29%	72.71%	28.16%	9.27%	18.89%	32.35%
<b>OPERATING TAXES</b>							
16. Federal Income Tax.....	15,678	4,789	\$18,968	\$5,972	1,732	4,240	4,988
17. State Income Tax.....	1,985	695	1,291	737	144	593	553
18. Other Taxes.....	11,673	3,193	8,480	2,834	711	1,323	6,446
19. Total Operating Taxes.....	\$29,328	\$8,977	\$28,731	\$8,743	\$2,587	\$6,157	\$11,988
<b>NET OPERATING INCOME</b>							
28. Per Book NOI for the Month.....	\$55,836	\$15,363	\$48,491	\$15,777	\$5,384	\$18,393	\$24,714

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RECONCILIATION OF CAPITAL TO RATE BASE  
(888)

DESCRIPTION	COMBINED	INTRASTATE
1. Long Term Plant Under Construction.....	(627,285)	(619,249)
2. Investments in and Advances to Affiliated Companies.....	(58,691)	(35,581)
3. Miscellaneous Physical Property.....	(9,552)	(6,784)
4. Other.....	(10,998)	(8,274)
5. Rate Base Adjustments		
A. Excess Plug-in Units.....	(28,268)	(14,365)
B. Bell South Services Investment.....	38,384	28,943
C. ENFIA.....	0	(2,894)
D. Out of Period Items.....	1,388	1,518
E. Total Rate Base Adjustments.....	19,424	11,194
6. Total.....	(79,182)	(58,614)

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RATE STABILIZATION ORDER  
REPORT OF RATE CHANGES/EXOGENEOUS FACTORS/DEBT CHANGES/TECHNOLOGICAL CHANGES  
Intrastate Amounts  
(000's)

	Annual Revenue Requirement Impact	YTD Effective Portion for 1989	Cumulative Effect
All Price Changes. Exogeneous Factors > \$ 3 Million. Debt Refinancings and Major Technological Changes			
<b>I. RATE CHANGES</b>			
A. Rate Increases	\$16,885	\$9,387	\$18,628
B. Rate Decreases	(213)	(91)	(117)
<b>Net</b>	<b>\$16,592</b>	<b>\$9,296</b>	<b>\$18,583</b>
<b>II. EXOGENEOUS FACTORS</b>			
A. Depr increase due to USOAR Docket	(9,844)	(9,844)	(14,833)
B. Separations change	(7,422)	(5,567)	(5,567)
<b>Net</b>	<b>(\$16,466)</b>	<b>(\$14,611)</b>	<b>(\$19,688)</b>
<b>III. DEBT REFINANCING</b>			
A. Difference between forecast and actual	(\$1,281)	(\$1,281)	(2,668)
<b>IV. MAJOR TECHNOLOGICAL CHANGES</b>			
NONE			
<b>Grand Net</b>	<b>(\$1,155)</b>	<b>(\$6,596)</b>	<b>(\$11,757)</b>

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RATE STABILIZATION ORDER  
REPORT OF RATE CHANGES/EXOGENEOUS FACTORS/DEBT CHANGES/TECHNOLOGICAL CHANGES  
ADDITIONAL DESCRIPTION OF ITEMS  
(000's)

All Price Changes,  
Exogeneous Factors > \$ 3 Million,  
Debt Refinancings and Major  
Technological Changes

	Annual Impact	YTD Effective Portion for 1989	Cumulative Effect
<b>I.A. Rate increases (by service)</b>			
1. Nonrecurring FX charges. Tariff offering GSST A-9, Eff. 7/11/88	\$2,465	\$2,465	\$3,698
2. Toll Terminals. Tariff offering GSST A-13. Eff. 1/1/89	2,886	2,886	2,886
3. Custoe Calling Services. Tariff offering GSST A-13. Eff 9/1/89	18,000	3,333	3,333
	<u>\$14,551</u>	<u>\$7,884</u>	<u>\$9,117</u>
<b>I.B. Rate decreases (by service)</b>			
1. Megalink service reduction. Private Line B-7. Eff. 8/8/88	(679)	(669)	(695)
2. WATS usage charge. Tariff offering GSST A-19, Eff. 10/20/89	(134)	(22)	(22)
	<u>(213)</u>	<u>(91)</u>	<u>(117)</u>
<b>II.A. Depreciation differences due to the USOAR Docket.</b>			
B. Separations change for revenue accounting procedures. The FCC mandated this change be effective on 4/1/89.			
<b>III.A. Difference between actual long term debt cost rate and forecasted rate for twelve month period ending 12/31/89, adjusted to exclude the 1989 interest savings associated with the 1989 refinancing of \$280M of 11.75% debentures.</b>			

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RATE STABILIZATION ORDER  
REPORT OF NEW SERVICES  
Intrastate Amounts (000's)

New Services	Effective Date	Estimated Annual Revenue Impact	
		Year 1	Year 2
1. Key System customer allowed to participate as STS providers.	3/5/88	98	98
2. TouchStar Service	8/8/88	131	1,914
3. Link-Up Florida	9/12/88	0	0
4. Pay Per View (TicketTaker)	5/15/89	176	
5. Private Line Tariff (Megalink Channel)	4/29/88	296	1,426
6. GeoServ	7/11/88	129	144
7. 2 Way Measured Tariff	12/2/88	141	141
8. AccuPulse Service	1/9/89	719	
9. Switched Access AccuPulse Service	1/9/89	528	
10. ESSX Multi-Account Service	3/28/89	842	
11. Special Calling Features	8/15/89	59	
12. Intralata Only 888 Service	9/1/89	468	
13. Dial Backup Service	9/27/89	17	
14. 2400 bps Central Office Data Set	9/27/89	13	
15. Automatic Call Distribution(ACD-MIS)	10/9/89	1,847	
16. Switched Data Service	10/9/89	33	
17. Simplified Message Desk Interface(SMDI)	10/9/89	189	
18. Customer Network Management	11/13/89	181	
19. Station Message Detail Recording - Premises	12/1/89	1,813	
20. Area Communication Service (ACS)	12/19/89	115	
<b>Total</b>		<b>\$6,721</b>	<b>\$3,625</b>

\* This service was previously provided under a limited service arrangement which was effective 11/16/87. As of 5/15/89, it was available as a permanent statewide offering. The annual revenue impact has been revised to reflect this tariff change.

SOUTHERN BELL - FLORIDA OPERATIONS  
 CALCULATION OF ANNUAL IDC RATE - DECEMBER 31, 1989 DATA

Cost of Capital(000)	REVISED 4/91			
	Amount	% of Total	Cost Rate	Weighted Cost
1. Long Term Debt	\$1,009,263	24.79%	8.82%	2.19%
2. Short Term Debt	132,648	3.26%	9.34%	0.30
3. Equity	1,888,512	46.39%	13.28%	6.12
4. Customer Deposits	48,312	1.19%	7.53%	0.09
5. Cost Free Capital	884,668	19.76%	0.88%	0.88
6. Job Dev. Inv. Credit	187,375	4.61%	11.67%	0.54
7. Total Capital	\$4,078,978	100.00%		9.24%

Cost of JDIC

Long Term Debt	\$1,009,263	34.83%	8.82%	3.07%
Equity	1,888,512	65.17%	13.28%	8.68%
Total	\$2,897,775			11.67%

Annual Percentage Rate Currently Used by Southern Bell	10.24%
Annual Rate per Calculation 12/31/89	9.24%

SOUTHERN BELL - FLORIDA OPERATIONS  
 CALCULATION OF ADJUSTED CAPITAL STRUCTURE  
 (\$888)

REVISED 4/91

Capital Structure

	Unadjusted Amount	Reconciling Adjustment	Adjusted Capital Structure
1. Long Term Debt	\$1,823,794	(\$14,531)	\$1,809,263
2. Short Term Debt	134,558	(1,918)	132,648
3. Equity	1,915,783	(27,191)	1,888,512
4. Customer Deposits	49,888	(696)	48,312
5. Cost Free Capital	816,245	(11,585)	804,668
6. Job Dev. Inv. Credit	198,276	(2,781)	187,575
7. Total	<u>\$4,129,584</u>	<u>(\$58,614)</u>	<u>\$4,078,978</u>
Average Rate Base per Books	\$4,827,885		
Accounting Adjustments	43,165		
Average Adjusted Rate Base	\$4,878,978		



FLORIDA PUBLIC SERVICE COMMISSION  
TELEPHONE EARNINGS SURVEILLANCE REPORT

REVISED 4/91

Company : Southern Bell Tel. & Tel. Co.  
12 Months Ended : December 31, 1988

RATE BASE(\$000)	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Total Company Columns (2 + 3)	Interstate Toll	Total Intrastate Columns (4 + 7)	Intrastate Toll Columns (5 + 6)	-----IntraToll----- Inter- territory      Intra- territory		Local
<b>AVERAGE RATE BASE</b>							
1. General Support.....	\$1,852,193	\$272,573	\$779,628	\$282,514	\$85,438	\$117,876	\$577,186
2. Central Office.....	2,443,733	741,689	1,782,844	497,818	196,773	381,837	1,284,234
3. Information Orig./Term.....	559,382	183,514	373,868	86,487	51,112	35,295	287,461
4. Cable and Wire Facilities.....	3,734,752	1,213,813	2,520,939	658,587	345,888	312,619	1,862,432
5. Amortizable Assets.....	37,192	9,657	27,535	7,135	3,836	4,899	20,488
6. Plant in Service.....	\$7,827,232	\$2,423,246	\$5,404,886	\$1,452,373	\$682,247	\$778,126	\$3,951,633
7. Accumulated Depreciation and Amortization.....	2,242,689	736,995	1,505,614	398,353	198,297	288,856	1,187,261
8. Net Plant in Service.....	\$5,584,643	\$1,686,251	\$3,899,272	\$1,054,020	\$483,950	\$489,270	\$2,764,372
9. Property Held for Future Use.....	321	180	221	68	28	32	161
10. TPUC (No IDC).....	71,832	22,383	49,529	13,397	6,294	7,183	36,132
11. Acquisition Adjustments.....	0	0	0	0	0	0	0
12. Working Capital Allowance.....	294	(19,222)	19,516	5,828	2,718	2,318	14,488
13. Per Book Average Rate Base.....	\$5,657,898	\$1,689,432	\$3,967,658	\$1,872,583	\$588,998	\$571,515	\$2,893,133
14. X Distribution.....	188X	29.86X	78.14X	18.96X	8.86X	18.18X	51.18X
<b>ADJUSTMENTS TO AVERAGE RATE BASE</b>							
15. Adjustments for Achieved Rate Base.....			\$33,784				
16. Adjusted Achieved Rate Base.....			\$4,003,342				
<b>ADJUSTED ANNUALIZED/PRO FORMA YEAR END RATE BASE</b>							
17. Year End Rate Base per Books.....			3,954,861				
18. Adjustments for Year End Rate Base.....			183,247				
19. Adjusted Year End Rate Base.....			\$4,138,108				
<b>RATES OF RETURN</b>							
20. Average Per Book .....	9.91X	11.52X	9.25X	14.19X	14.22X	14.17X	7.39X
21. Average Adjusted Achieved .....			9.43X				
22. Adjusted Year End.....			7.48X				

X Includes the effect of the Rate Stabilization Order.

FLORIDA PUBLIC SERVICE COMMISSION  
TELEPHONE EARNINGS SURVEILLANCE REPORT

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Company : Southern Bell Tel. & Tel. Co.  
12 Months Ended : December 31, 1988

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
ADJUSTMENTS TO AVERAGE RATE BASE (000)	Plant In Service	Accumulated Depreciation and Amortization	Property Held for Future Use	ST Plant Under Construction	Acquisition Adjustment	Working Capital Allowance	Per Book Average Rate Base
1. Intrastate Rate Base per Books.....	\$5,484,886	\$1,585,614	\$221	\$49,529	\$0	\$19,516	\$3,967,658
<b>INTRASTATE ACHIEVED ADJUSTMENTS</b>							
2. Excess Plug-in Units	(69,490)	\$0	\$0	\$0	\$0	\$0	(69,490)
3. MECO Tax Credits	49,982	17,428	\$0	\$0	\$0	\$0	32,554
4. Bell South Services	14,199	\$0	\$0	\$0	\$0	\$0	14,199
5. ENFIA	(5,383)	(1,726)	\$0	(61)	\$0	(36)	(3,674)
6. Out of Period/CAN	82	(2,833)	\$0	\$0	\$0	\$0	2,115
7. Total Accounting Adjustments. Intrastate Achieved.....	\$49,478	\$13,669	\$0	(61)	\$0	(36)	\$35,784
8. Achieved Intrastate Rate Base.....	\$5,453,476	\$1,519,283	\$221	\$49,468	\$0	\$19,480	\$4,883,342
9. Intrastate Year End Rate Base per Books.....	\$5,583,748	\$1,681,534	\$328	\$34,579	\$0	\$17,748	\$3,954,861
<b>INTRASTATE ANNUALIZED/PRO FORMA ADJUSTMENTS</b>							
<b>FPSC ADJUSTMENTS:</b>							
10. Excess Plug-in Units	(69,490)	\$0	\$0	\$0	\$0	\$0	(69,490)
11. MECO Tax Credits	50,934	17,371	\$0	\$0	\$0	\$0	33,563
12. Bell South Services	14,188	\$0	\$0	\$0	\$0	\$0	14,188
13. ENFIA	(5,383)	(1,726)	\$0	(61)	\$0	(36)	(3,674)
<b>ANNUALIZING ADJUSTMENTS:</b>							
14.							\$0
15.							\$0
16.							\$0
17. Rate Stabilization Order		(1,588)					1,588
18.							\$0
<b>PRO FORMA ADJUSTMENTS:</b>							
19. Phase Down of SPF	74,842	27,795					46,247
20. Other Separations Changes	29,883	8,162					28,921
21.							\$0
22. Total Accounting Adjustments. Intrastate Annualized.....	\$153,446	\$58,182	\$0	(61)	\$0	(36)	\$183,247
23. Intrastate Annualized/Pro Forma Year End Rate Base.....	\$5,737,186	\$1,731,636	\$328	\$34,518	\$0	\$17,712	\$4,838,188

FLORIDA PUBLIC SERVICE COMMISSION  
TELEPHONE EARNINGS SURVEILLANCE REPORT

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Company : Southern Bell Tel. & Tel. Co.  
12 Months Ended : December 31, 1988

	(1) Total Company Columns (2 + 3)	(2) Interstate Toll	(3) Total Intrastate Columns (4 + 7) 1	(4) Intrastate Toll Columns (5 + 6)	(5) IntraToll Inter- territory	(6) Intra- territory	(7) Local
<b>NET OPERATING INCOME(\$00)</b>							
<b>BOOKED REVENUE</b>							
1. Basic Local Service Revenue.....	\$1,188,388	615	\$1,188,383	68	68	68	\$1,188,383
2. Network Access Revenue.....	1,128,288	833,833	292,433	292,433	278,997	13,838	8
3. Long Distance Revenue.....	376,183	353	375,830	375,830	8	375,830	8
4. Miscellaneous Revenue.....	277,938	42,733	234,885	15,844	11,415	4,229	219,161
5. Uncollectible Revenues.....	24,644	(148)	24,784	5,463	314	4,949	19,321
6. Net Booked Revenue.....	\$2,945,763	\$879,894	\$2,866,669	\$678,446	\$289,498	\$388,948	\$1,388,223
<b>OPERATING EXPENSES</b>							
7. 1987 Expenses (excl Depr).....	68	68	68	68	68	68	68
8. Plant Specific Operation Expense.....	554,246	165,427	388,819 <sup>70.2%</sup>	185,171	47,786	57,385	283,648
9. Plant Non-Specific Operations Exp.....	266,161	78,471	187,690 <sup>70.5%</sup>	63,236	21,778	41,458	124,434
10. Depreciation and Amortization.....	671,367	193,325	478,042	129,324	59,906	69,418	348,718
11. Customer Operations Expense.....	332,844	67,348	264,496 <sup>79.7%</sup>	85,824	28,549	57,275	178,672
12. Corporate Operations Expense.....	253,883	75,385	177,778 <sup>70.2%</sup>	52,835	21,388	31,349	124,923
13. Other Income and Expense.....	8	8	8	8	8	8	8
14. Total Operating Expense.....	\$2,876,981	\$588,876	\$1,496,823	\$436,418	\$179,325	\$257,885	\$1,868,415
15. % Distribution.....	100%	27.93%	72.87%	21.81%	8.63%	12.38%	31.86%
<b>OPERATING TAXES</b>							
16. Federal Income Tax.....	\$147,378	\$68,247	\$87,123 <sup>70.4%</sup>	\$32,693	\$24,438	\$28,263	\$4,430
17. State Income Tax.....	34,898	12,764	21,326 <sup>70.4%</sup>	13,768	3,946	7,822	7,958
18. Other Taxes.....	126,786	31,341	95,345 <sup>70.4%</sup>	23,386	8,981	14,885	71,979
19. Total Operating Taxes.....	\$308,166	\$112,352	\$283,814	\$69,847	\$38,957	\$50,976	\$113,967
<b>NET OPERATING INCOME</b>							
20. Per Book NOI.....	\$568,696	\$194,666	\$366,830	\$152,189	\$71,216	\$88,973	\$213,841
21. NOI Effect of Adjustments(Achieved).....			11,682				
22. Adjusted Achieved NOI.....			\$377,712				
23. NOI Effect of Adjustments(Annual/Pro Forma).....			(77,518)				
24. Annualized/Pro Forma NOI.....			\$300,202				

1 Southern Bell is accruing monthly for the \$44 million in revenues due to the tax rate change to be disposed of at the Commission's discretion.

FLORIDA PUBLIC SERVICE COMMISSION  
TELEPHONE EARNINGS SURVEILLANCE REPORT

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Company : Southern Bell Tel. & Tel. Co.  
12 Months Ended : December 31, 1988

	(1)	(2)	(3)	(4)	(5)	(6)
ADJUSTMENTS TO NET OPERATING INCOME	Basic Local	Network	Long Distance	Misc	Uncollectible	Net
INTRASTATE REVENUE	Service	Access	Revenue	Revenue	Revenues	Booked
(000)	Revenue	Revenues				Revenue
1. Total Intrastate Revenue per Books	\$1,188,383	\$292,435	\$375,838	\$234,885	\$24,784	\$2,866,669
<b>INTRASTATE ACHIEVED ADJUSTMENTS</b>						
<b>OUT OF PERIOD ADJUSTMENTS:</b>						
2. Rev & Sett (Ind Co)		(678)	(62,285)			(62,363)
3. Expenses						0
4. Reversal of actual vs. accrual for 1987 overearnings	377					377
5. MR & FR Taxes						0
6. Reversal of Accrual for additional intrastate overearnings for 1987	5,986					5,986
7. Other Out of Period Revenue	2,859	1,298		(125)		3,224
8. FASB7		(567)				(567)
9. Other Non-reg changes	136		27	(14)		149
10. Yellow Page Profits				(11,725)	(132)	(11,593)
11. Gains on Sales of Property	646				7	639
12. Income Related to Temp Cash Inv	24				0	24
13. Interest Reconciliation						0
14. Interest Imputation						0
15. ENFIA						0
16. Lobbying Expense						0
17. Corporate Advertising Expense						0
18. Abandoned Projects						0
19. Casualty Expense						0
20. Bell South Services	1,578					1,578
21. Other Regulatory Adjustments						0
22. Total Accounting Adjustments, Intrastate Achieved.....	\$18,798	\$645	(\$2,258)	(\$11,864)	(\$125)	(\$2,554)
23. Total Achieved Intrastate Revenue..	\$1,199,181	\$293,080	\$373,572	\$222,941	\$24,659	\$2,864,115

FLORIDA PUBLIC SERVICE COMMISSION  
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Company : Southern Bell Tel. & Tel. Co.  
12 Months Ended : December 31, 1988

	(1)	(2)	(3)	(4)	(5)	(6)
ADJUSTMENTS TO NET OPERATING INCOME	Basic Local	Network	Long Distance	Misc	Uncollectible	Net
INTRASTATE REVENUE	Service	Access	Revenue	Revenue	Revenues	Booked
(888)	Revenue	Revenues				Revenue
23. Total Achieved Intrastate Revenue..	\$1,199,181	\$293,888	\$373,572	\$222,941	\$24,659	\$2,864,115

INTRASTATE ANNUALIZED/PRO FORMA ADJUSTMENTS

ANNUALIZING ADJUSTMENTS:

24. 1989 Depreciation(12 Mos)						0
25.						0
26.						0
27.						0
28.						0
29. Rate Stabilization Order (12 Mos 1989)	(23,388)	(68,388)	(88,288)		(1,843)	(161,957)
30.						0
FPSC ADJUSTMENTS (PRO FORMA):						
31.						0
32.						0
PRO FORMA ADJUSTMENTS:						
33. Employee Level Adjustaent						0
34. Nonrecurring Itess						0
35. High Cost Universal Service Fund						0
36. Phase Down of SPF						0
37. Other Separations Changes						0
38. Total Accounting Adjustments. Intrastate Annualized.....	(\$23,388)	(\$68,388)	(\$88,288)	0	(\$1,843)	(\$161,957)
39. Total Annualized Intrastate Revenue	\$1,175,881	\$232,788	\$293,372	\$222,941	\$22,816	\$1,982,158

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Company : Southern Bell Tel. & Tel. Co.  
'2 Months Ended : December 31, 1988

	(1) 1987 Expenses Excluding Depreciation	(2) Plant Specific Operations Expense	(3) Other Non-Plant Specific Over. Exp.	(4) Depreciation and Amortization	Customer Operations Expense	Corporate Operations Expenses	Other Income and Expenses	Total Operating Expense
ADJUSTMENTS TO NET OPERATING INCOME								
INTRASTATE OPERATING EXPENSE (888)								
1. Total Intrastate Expense per Books	\$0	\$388,819	\$187,698	\$478,842	\$264,496	\$177,778	\$0	\$1,496,825
INTRASTATE ACHIEVED ADJUSTMENTS								
OUT OF PERIOD ADJUSTMENTS:								
2. Rev & Sett (Ind Co)								\$0
3. Expenses	(1,458)	344		(3,211)		(822)	3	(4,944)
4. Reversal of actual vs. accrual for 1987 overearnings								0
5. NR & FR Taxes								0
6. Reversal of Accrual for additional intrastate overearnings for 1987								0
7. Other Out of Period Revenue								0
8. FASB7								0
9. Other Non-reg changes				124	(338)	(157)	(19)	(382)
10. Yellow Page Profits								0
11. Gains on Sales of Property								0
12. Income Related to Leap Cash Inv								0
13. Interest Reconciliation								0
14. Interest Imputation								0
15. ENFIA							(1,143)	(1,143)
16. Lobbying Expense						(585)		(585)
17. Corporate Advertising Expense					(154)			(154)
18. Abandoned Projects							1,282	1,282
19. Casualty Expense		55						55
20. Bell South Services								0
21. Other Regulatory Adjustments							(1,781)	(1,781)
22. Total Accounting Adjustments. Intrastate Achieved.....	(91,458)	\$599	\$0	(\$3,887)	(6484)	(61,484)	(61,658)	(67,572)
23. Total Achieved Intrastate Expense..	(91,458)	\$389,418	\$187,698	\$474,955	\$264,012	\$176,294	(61,658)	\$1,489,253

FLORIDA PUBLIC SERVICE COMMISSION  
TELEPHONE EARNINGS SURVEILLANCE REPORT

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	(1) 1987	(2) Plant Specific Operations Expense	(3) Other Non-Plant Specific Oper. Exp.	(4) Depreciation and Amortization	(5) Customer Operations Expense	(6) Corporate Operations Expenses	(7) Other Income and Expenses	(8) Total Operating Expense
ADJUSTMENTS TO NET OPERATING INCOME INTRASTATE OPERATING EXPENSE (000)	Expenses Excluding Depreciation	Specific Operations Expense	Non-Plant Specific Oper. Exp.	Depreciation and Amortization	Customer Operations Expense	Corporate Operations Expenses	Other Income and Expenses	Total Operating Expense
23. Total Achieved Intrastate Expenses	(\$1,458)	\$389,418	\$187,698	\$474,955	\$264,812	\$176,294	(\$1,658)	\$1,489,253

INTRASTATE ANNUALIZED/PRO FORMA ADJUSTMENTS

ANNUALIZING ADJUSTMENTS:

24. 1989 Depreciation(12 Mos)				(58,888)				(58,888)
25.								0
26.								0
27.								0
28.								0

29. Rate Stabilization Order  
(12 Mos 1989)

(1,588)

(1,588)

30.

0

FPSC ADJUSTMENTS (PRO FORMA):

31.

0

32.

0

PRO FORMA ADJUSTMENTS:

33. Employee Level Adjustment

(13,153) (13,153)

34. Nonrecurring Items

0

35. High Cost Universal  
Service Fund

(167) (167)

36. Phase Down of SPF

13,385 13,385

37. Other Separations Changes

13,389 13,389

38. Total Accounting Adjustments,  
Intrastate Annualized

00

00

00

(\$51,500)

00

00

\$15,454

(\$36,046)

39. Total Annualized Intrastate Expense

(\$1,458)

\$389,418

\$187,698

\$423,455

\$264,812

\$176,294

\$13,796

\$1,453,287

FLORIDA PUBLIC SERVICE COMMISSION  
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Company : Southern Bell Tel. & Tel. Co.  
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	(1)	(2)	(3)	(4)	(5)
ADJUSTMENTS TO NET OPERATING INCOME				Total	
INTRASTATE OPERATING TAXES (000)	Federal Income Tax	State Income Tax	Other Taxes	Operating Taxes	NOI
1. Total Intrastate Taxes per Books..	\$87,123	\$21,326	\$95,365	\$203,814	\$366,038
<b>INTRASTATE ACHIEVED ADJUSTMENTS</b>					
<b>OUT OF PERIOD ADJUSTMENTS:</b>					
2. Rev & Sett (Ind Co)	(\$758)	(\$129)	(\$28)	(\$907)	(\$1,456)
3. Expenses	1,719	194	(38)	1,875	3,069
4. Reversal of actual vs. accrual for 1987 overearnings	128	28	4	144	233
5. MR & FR Taxes	(7,560)	48		(7,512)	7,512
6. Reversal of Accrual for additional intrastate overearnings for 1987	2,613	163		2,776	3,218
7. Other Out of Period Revenue	1,824	175	39	1,238	1,986
8. FASB7	(188)	(31)	(7)	(218)	(349)
9. Other Non-reg changes	154	17		171	368
10. Yellow Page Profits	(3,728)	(637)	(14)	(4,371)	(7,222)
11. Gains on Sales of Property	283	35	7	245	394
12. Income Related to Teap Cash Inv	8	1	1	18	14
13. Interest Reconciliation	1,158	197	8	1,347	(1,347)
14. Interest Imputation	(2,851)	(351)	8	(2,482)	2,482
15. ENFIA	452	73		525	618
16. Lobbying Expense	163	27		198	315
17. Corporate Advertising Expense	49	9		58	96
18. Abandoned Projects	(412)	(78)		(482)	(888)
19. Casualty Expense	(18)	(3)		(21)	(34)
20. Bell South Services				8	1,578
21. Other Regulatory Adjustments	572	98		678	1,111
22. Total Accounting Adjustments, Intrastate Achieved.....	(\$6,464)	(\$164)	(\$36)	(\$6,664)	\$11,682
23. Total Achieved Intrastate Taxes....	\$88,659	\$21,162	\$95,329	\$197,158	\$377,712



FLORIDA PUBLIC SERVICE COMMISSION  
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12 Months Ended : December 31, 1988

	(1)	(2)	(3)	(4)	(5)
ADJUSTMENTS TO NET OPERATING INCOME				Total	
INTRASTATE OPERATING TAXES (000)	Federal Income Tax	State Income Tax	Other Taxes	Operating Taxes	NOI
23. Total Achieved Intrastate Taxes..	\$88,659	\$21,162	\$95,329	\$197,150	\$377,712

INTRASTATE ANNUALIZED/PRO FORMA ADJUSTMENTS

ANNUALIZING ADJUSTMENTS:

24. 1989 Depreciation(12 Mos)	\$16,865	2,750		\$18,815	\$31,185
25.				0	0
26.				0	0
27.					
28.					

29. Rate Stabilization Order (12 Mos 1989)	(58,771)	(8,691)	(1,939)	(61,401)	(99,856)
30.				0	0

FPSC ADJUSTMENTS (PRO FORMA):

31.				0	0
32.				0	0

PRO FORMA ADJUSTMENTS:

33. Employee Level Adjustment	4,226	723		4,949	8,284
34. Nonrecurring Items				0	0
35. High Cost Universal Service Fund	54	9	0	63	184
36. Phase Down of SPF	(4,943)	(846)	0	(5,789)	(9,996)
37. Other Separations Changes	(4,382)	(736)	0	(5,838)	(8,351)

38. Total Accounting Adjustments. Intrastate Annualized.....	(\$39,671)	(\$6,791)	(\$1,939)	(\$48,401)	(\$77,518)
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39. Total Annualized Intrastate Taxes..	\$48,988	\$14,371	\$93,398	\$146,749	\$388,282
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FLORIDA PUBLIC SERVICE COMMISSION  
TELEPHONE EARNINGS SURVEILLANCE REPORT

REVISED 4/91

Page 3

Company : Southern Bell Tel. & Tel. Co.  
12 Months Ended : December 31, 1988

AVERAGE CAPITAL (INTRASTATE) (000)	(1)	(2)	(3) #	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	Average Per Book	Specific Adjustments	Pro Rata Adjustments	Adjusted Amount	% of Total	Floor	Cost Rate Sharing	Ceiling	Floor	Weighted Cost Rate Sharing	Ceiling
1. Long Term Debt.....	61,029,345		(616,663)	61,012,482	25.38%		0.94%			2.26%	
2. Short Term Debt.....	78,152	25,798	(1,683)	102,259	2.55%		0.10%			0.21%	
3. Preferred Stock.....	0		0	0	0.00%		0.00%			0.00%	
4. Customer Deposits.....	40,334		(782)	47,552	1.19%		7.43%			0.09%	
5. Common Equity.....	1,843,993	18,061	(38,175)	1,823,879	45.81%	11.50%	14.00%	16.00%	5.27%	6.41%	7.33%
6. Investment Tax Credits.....	283,995		(3,302)	280,693	3.01%	10.59%	11.60%	13.49%	0.53%	0.59%	0.68%
7. Cost Free Capital.....	787,810	32,554	(13,267)	806,297	20.14%		0.00%			0.00%	
<b>B. Total Capital.....</b>	<b>63,992,029</b>	<b>976,405</b>	<b>(665,072)</b>	<b>64,003,362</b>	<b>100.00%</b>				<b>0.36%</b>	<b>9.56%</b>	<b>10.57%</b>

INTERNAL FUNDS

9. % Internal funds to construction expenditures after dividends (Total Company).....	06.76%
10. Times interest earned (NI+Interest+Income Tax)/Interest (Total Company).....	4.68
11. Long Term Debt / Capital (Intrastate).....	34.64%
12. Short Term Debt / Capital (Intrastate).....	2.63%
13. Average adjusted achieved return on equity (Intrastate).....	13.69% †
14. Adjusted year end return on equity (Intrastate).....	9.54% †

† See Page 6 for details.

† Includes the effect of the Rate Stabilization Order.

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FLORIDA PUBLIC SERVICE COMMISSION  
TELEPHONE EARNINGS SURVEILLANCE REPORT

Company : Southern Bell Tel. & Tel. Co.  
Year To Date : December 31, 1988

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CUSTOMER BILLING (000)	Intrastate	Intratoll	
	Toll Columns (2 + 3)	Inter- territory †	Intra- territory ‡
<b>ACCESS CHARGES :</b>			
1. End User Charges.....	\$18	\$18	\$0
2. Capacity Charges (a).....	83,362	78,858	4,584
3. MOU Charges To IXC's (b).....	179,388	169,961	9,427
4. Special Access Charges (c).....	24,412	24,397	15
5. Other (d).....	(2,342)	(2,342)	0
6. Total Access Charges.....	\$284,838	\$278,892	\$13,946
<b>OTHER CHARGES TO IXC'S :</b>			
7. Operator Services (D.A.).....	\$2,218	\$2,326	(\$108)
8. Billing and Collecting.....	18,892	18,892	0
9. Interexchange Lease.....	0	0	0
10. Total Other Charges to IXC's.....	\$12,318	\$12,418	(\$108)
<b>CUSTOMER CHARGES (e) :</b>			
11. NTS.....	\$277,896	\$0	\$277,896
12. MATS.....	44,269	0	44,269
13. Private Line-FX.....	66,821	0	66,821
14. Local Exchange.....	0	0	0
15. Miscellaneous.....	0	0	0
16. Total Customer Charges.....	\$388,186	\$0	\$388,186
17. Total Billing.....	\$685,334	\$283,310	\$402,024
18. Joint Transport Receipts (Payments).....	\$26	\$26	\$0
19. Subsidy Fund Receipts (Payments).....	(\$7,242)	(\$2,391)	(\$4,851)
20. Out-of-Period Billings.....	\$2,268	(\$894)	\$3,162
21. Intra-LATA Private Line Pool Revenue.....			(\$18,243)
22. Access Expense.....			(\$3,619) †
23. Other Settlements.....	(\$14,314)	(\$2,882)	(\$12,312)

NOTE: The amounts on this schedule reflect, among other things, all payments from IXC's on a composite basis. However, LEC's are expected to maintain individual side records by IXC in the same level of detail found on this schedule.

(a) Busy Hour minutes of Capacity Charge.

(b) Includes Local Switching, Local Transport, Line Termination and Carrier Common Line.

(c) For Intrastate Interterritory Station Terminals.

(d) Includes testing, ordering, labor, etc.

(e) For Lines 11 through 15, include only charges billed to customer and retained by company, not charges billed on behalf of IXC's.

† NABC December revenues were \$ 1,358 and NABC expenses were \$ (885). Also included is accrual for January revenue \$ 673 and expense \$ 1,861.

FLORIDA PUBLIC SERVICE COMMISSION  
TELEPHONE EARNINGS SURVEILLANCE REPORT

REVISED 4/

Company : Southern Bell Tel. & Tel. Co.  
Month Ended : December 31, 1988

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NET OPERATING INCOME FOR THE MONTH ENDED December 31, 1988	(1) Total Company Columns (2 + 3)	(2) Interstate Toll	(3) Total Intrastate Columns (4 + 7)	(4) Intrastate Toll Columns (5 + 6)	(5) -----IntraToll-----		(7) Local
					Inter- territory	Intra- territory	
<b>BOOKED REVENUE</b>							
1. Basic Local Service Revenue.....	995,399	91	995,398	90	90	90	995,398
2. Network Access Revenue.....	96,659	75,768	20,899	20,899	19,556	1,343	0
3. Long Distance Revenue.....	38,708	35	38,673	38,673	0	38,673	0
4. Miscellaneous Revenue.....	23,913	3,635	20,278	1,452	1,083	369	18,826
5. Uncollectible Revenues.....	2,711	(125)	2,834	651	101	550	2,183
6. Net Booked Revenue.....	<u>\$243,968</u>	<u>\$79,554</u>	<u>\$164,414</u>	<u>\$32,373</u>	<u>\$20,538</u>	<u>\$31,835</u>	<u>\$112,841</u>
<b>OPERATING EXPENSES</b>							
7. 1987 Expenses (excl. Depr).....	0	0	0	0	0	0	0
8. Plant Specific Operation Expense.....	47,861	13,264	33,797	10,484	3,934	6,550	23,313
9. Plant Non-Specific Operations Exp.....	18,164	5,711	12,453	3,496	1,619	1,877	8,957
10. Depreciation and Amortization.....	66,417	16,083	49,334	14,689	5,911	8,778	34,845
11. Customer Operations Expense.....	38,687	6,889	23,878	7,129	2,556	4,573	16,749
12. Corporate Operations Expense.....	21,421	6,212	15,209	4,756	1,799	2,957	10,453
13. Other Income and Expense.....	0	0	0	0	0	0	0
14. Total Operating Expense.....	<u>\$183,758</u>	<u>\$48,879</u>	<u>\$134,871</u>	<u>\$40,554</u>	<u>\$15,819</u>	<u>\$24,735</u>	<u>\$94,317</u>
15. 1 Distribution.....	<u>100Z</u>	<u>26.68Z</u>	<u>73.48Z</u>	<u>22.87Z</u>	<u>8.61Z</u>	<u>13.46Z</u>	<u>51.33Z</u>
<b>OPERATING TAXES</b>							
16. Federal Income Tax.....	67,115	66,938	6185	(61,292)	(6776)	(6516)	1,477
17. State Income Tax.....	2,113	1,286	827	484	3	481	423
18. Other Taxes.....	8,756	2,838	6,718	1,551	551	1,000	5,167
19. Total Operating Taxes.....	<u>\$17,984</u>	<u>\$10,254</u>	<u>\$7,738</u>	<u>\$663</u>	<u>(6222)</u>	<u>6885</u>	<u>\$7,067</u>
<b>NET OPERATING INCOME</b>							
20. Per Book NOI for the Month.....	<u>\$42,234</u>	<u>\$28,421</u>	<u>\$21,813</u>	<u>\$11,156</u>	<u>\$4,941</u>	<u>\$6,215</u>	<u>\$18,657</u>

FLORIDA PUBLIC SERVICE COMMISSION  
TELEPHONE EARNINGS SURVEILLANCE REPORT

Company : Southern Bell Tel. & Tel. Co.  
12 Months Ended : December 31, 1988

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RECONCILIATION OF CAPITAL TO RATE BASE  
(000)

DESCRIPTION	COMBINED	INTRASTATE
1. Long Term Plant Under Construction.....	(638,848)	(626,772)
2. Investments in Affiliated Companies.....	(19,777)	(13,625)
3. Advances to Affiliated Companies.....	(15,418)	(18,622)
4. Miscellaneous Physical Property.....	(6,462)	(4,452)
5. Other.....	(14,946)	(13,551)
6. Rate Base Adjustments		
A. Excess Plug-in Units.....	(13,626)	(9,498)
B. Bell South Services Investment.....	28,611	14,199
C. ENFIA.....	8	(3,674)
D. Out of Period Items.....	3,854	2,115
E. Total Rate Base Adjustments.....	18,839	3,150
7. Total.....	(85,484)	(63,872)

FLORIDA PUBLIC SERVICE COMMISSION  
TELEPHONE EARNINGS SURVEILLANCE REPORT

Company : Southern Bell Tel. & Tel. Co.  
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RATE STABILIZATION ORDER  
REPORT OF RATE CHANGES/EXOGENEOUS FACTORS/DEBT CHANGES/TECHNOLOGICAL CHANGES  
Intrastate Amounts  
(000's)

	Annual Revenue Requirement Impact	Effective Portion for 1988
<b>All Price Changes, Exogeneous Factors &gt; \$ 3 Million, Debt Refinancings and Major Technological Changes</b>		
<b>I. RATE CHANGES</b>		
A. Rate increases	2,465	1,233
B. Rate decreases	(62)	(26)
Net	2,403	1,207
<b>II. EXOGENEOUS FACTORS</b>		
Depr increase due to USQAR Docket	(4,989)	(4,989)
Net	(4,989)	(4,989)
<b>III. DEBT REFINANCING</b>		
Difference between forecast and actual	(1,379)	(1,379)
<b>IV. MAJOR TECHNOLOGICAL CHANGES</b>		
NONE		
Grand Net - Revised	(3,965)	(5,161)

FLORIDA PUBLIC SERVICE COMMISSION  
TELEPHONE EARNINGS SURVEILLANCE REPORT

Company : Southern Bell Tel. & Tel. Co.  
12 Months Ended : December 31, 1988

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RATE STABILIZATION ORDER  
REPORT OF RATE CHANGES/EXOGENEOUS FACTORS/DEBT CHANGES/TECHNOLOGICAL CHANGES  
ADDITIONAL DESCRIPTION OF ITEMS  
(000's)

All Price Changes.  
Exogeneous Factors > \$ 3 Million.  
Debt Refinancings and Major  
Technological Changes

	Annual Impact	Effective Portion For 1988
I.A. Rate increases (by service)		
Nonrecurring FX charges. Tariff offering 6SST A-9. Eff. 7/11/88	2,465	1,233
	-----	-----
	2,465	1,233
	=====	=====
I.B. Rate decreases (by service)		
Megalink service reduction. Private Line B-7. Eff. 8/8/88	62	26
	-----	-----

III. Debt refinancing  
Difference between actual long term debt cost rate and forecasted rate  
for twelve month period ending 12/31/88.



FLORIDA PUBLIC SERVICE COMMISSION  
TELEPHONE EARNINGS SURVEILLANCE REPORT

REVISED 4/91

Company : Southern Bell Tel. & Tel. Co.  
12 Months Ended : December 31, 1988

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RATE STABILIZATION ORDER  
REPORT OF NEW SERVICES  
Intrastate Amounts  
(000's)

	<u>Effective Date</u>	<u>Revenue Impact</u>
<u>New Services</u>		
1. Kev System customer allowed to participate as STS providers	3/5/88	68
2. TouchStar Service	8/8/88	2
3. Link-Up Florida	9/12/88	0
4. Pay Per View (Tickettaker)	11/16/87	60
5. Private Line Tariff (MegaLink Channel)	4/29/88	829
6. GeoServ	7/11/88	39
7. 2 Way Measured Tariff	12/2/88	141
Total		<u>\$1,871</u>

SOUTHERN BELL - FLORIDA OPERATIONS  
 CALCULATION OF ANNUAL IDC RATE - DECEMBER 31, 1988 DATA

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Cost of Capital(000)

REVISED 4/91

	Amount	% of Total	Cost Rate	Weighted Cost
1. Long Term Debt	\$1,012,682	25.30%	8.93%	2.26%
2. Short Term Debt	182,259	2.55%	9.10%	0.21%
3. Equity	1,833,879	45.81%	13.20%	6.05%
4. Customer Deposits	47,552	1.19%	7.43%	0.89%
5. Cost Free Capital	886,297	20.14%	0.00%	0.00%
6. Job Dev. Inv. Credit	288,693	5.81%	11.68%	0.59%
7. Total Capital	\$4,883,362	100.00%		9.20%

Cost of JDIC

Long Term Debt	\$1,012,682	35.50%	8.93%	3.16%
Equity	1,833,879	64.47%	13.20%	8.58%
Total	\$2,846,561			11.68%

Annual Percentage Rate Currently Used by Southern Bell 18.24%

Annual Rate per Calculation 12/31/88 9.20%

SOUTHERN BELL - FLORIDA OPERATIONS  
 CALCULATION OF ADJUSTED CAPITAL STRUCTURE  
 (\$888)

REVISED 4/91

Capital Structure

	Unadjusted Amount	Reconciling Adjustment	Adjusted Capital Structure
	-----	-----	-----
1. Long Term Debt	\$1,829,345	(\$16,663)	\$1,812,682
2. Short Term Debt	183,942	(1,683)	182,259
3. Equity	1,864,854	(38,175)	1,833,879
4. Customer Deposits	48,334	(782)	47,552
5. Cost Free Capital	819,564	(13,267)	806,297
6. Job Dev. Inv. Credit	283,995	(3,382)	280,613
	-----	-----	-----
7. Total	\$4,869,234	(\$65,872)	\$4,803,362

Average Rate Base per Books	\$3,967,658
Accounting Adjustments	35,704
Average Adjusted Rate Base	4,003,362

FLORIDA PUBLIC TELEPHONE MONTHLY EARNINGS SURVEILLANCE REPORT (REVISION B, 3/87) (000)

Revised 2/14/89

LOCAL EXCHANGE COMPANY Southern Bell  
OPERATIONS 12-MONTHS ENDED December 31, 1987

PAGE 1 OF 3

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Total Company (243)	Interstate Totl	Total Intra- State (467) †	Intrastate Toll (566)	-----Intratoll----- Interlata      Intralata		Local
<b>BOOKED REVENUE</b>							
1. Local Network Services	\$1,139,322	65	\$1,139,317	60	60	60	\$1,139,317
2. Network Access Services(A)	1,108,445	841,894	266,551	266,551	266,551	0	0
3. Long Distance Network Services	339,431	38	339,393	339,393	0	339,393	0
4. Inter-Exchange Lease	4,646	0	4,646	0	0	0	4,646
5. Miscellaneous Revenues	254,881	38,373	216,508	12,793	12,793	0	203,715
6. Uncollectibles	24,492	2,103	22,389	5,443	48	5,395	16,946
<b>7. NET BOOKED REVENUE</b>	<b>2,822,233</b>	<b>878,207</b>	<b>1,944,026</b>	<b>613,294</b>	<b>279,296</b>	<b>333,998</b>	<b>1,330,732</b>
<b>OPERATING EXPENSE</b>							
8. Maintenance	\$543,797	\$178,272	\$365,525	\$107,365	\$47,810	\$59,555	\$258,160
9. Depreciation & Amortization	587,433	210,051	377,382	103,714	49,270	57,444	271,668
10. Traffic Expense	74,365	9,854	66,651	19,335	4,171	15,164	47,316
11. Commercial Expense	214,328	46,043	168,285	51,974	18,491	33,483	116,311
12. General Office	221,847	63,804	158,043	51,916	23,080	28,836	106,127
13. Other Operations	189,878	66,589	123,289	43,698	18,000	25,698	79,591
<b>14. TOTAL OPERATING EXP.</b>	<b>1,833,788</b>	<b>574,613</b>	<b>1,259,175</b>	<b>380,002</b>	<b>159,822</b>	<b>220,160</b>	<b>879,173</b>
<b>15. % Distribution</b>	<b>100%</b>	<b>31.33%</b>	<b>68.67%</b>	<b>70.72%</b>	<b>8.72%</b>	<b>12.01%</b>	<b>47.94%</b>
<b>OPERATING TAXES</b>							
16. Federal Income Tax	\$223,354	\$68,908	\$154,446	\$59,274	\$32,483	\$26,791	\$95,372
17. State Income Tax	42,180	16,146	26,034	11,111	6,259	4,852	14,923
18. Other Taxes	164,314	42,247	122,067	31,443	12,028	19,415	90,624
<b>19. TOTAL OPERATING TAXES</b>	<b>430,048</b>	<b>127,301</b>	<b>302,747</b>	<b>101,828</b>	<b>50,770</b>	<b>51,058</b>	<b>200,919</b>
<b>20. % Distribution</b>	<b>100%</b>	<b>29.60%</b>	<b>70.40%</b>	<b>23.68%</b>	<b>11.81%</b>	<b>11.87%</b>	<b>46.72%</b>
<b>NET OPERATING INCOME</b>							
21. PER BOOK NOI	\$358,397	\$176,293	\$382,104	\$131,464	\$60,704	\$62,760	\$250,640
22. NOI EFFECT OF ADJS (ACHIEVED) (B)			(49)				
23. ADJUSTED ACHIEVED NOI			\$382,055				
24. NOI EFFECT OF ADJS (ANNUAL) (C)			(34,874)				
25. ADJUSTED ANNUAL NOI			\$347,181				
26. NOI EFFECT OF ADJS (YEAR END)			(34,923)				
27. ADJUSTED YEAR END NOI			\$347,181				

*Exp. other than  
Acfr 1246355*

*861,793  
70.75%*

*74.8%*

(A) AMOUNTS ON THIS LINE SHOULD INCLUDE ALL MAJOR ACCESS CHARGE ELEMENTS AND OTHER CHARGES.  
(B) FROM "SUBTOTAL ACHIEVED" PAGE 3B COLUMN 21  
(C) FROM "SUBTOTAL ANNUAL" PAGE 3B COLUMN 21

† THIS REPORT INCLUDES THE EFFECT OF AN ACCRUAL OF \$ 19,000,000 FOR EARNINGS OVER 15% RETURN ON EQUITY.

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TELE PUBLIC SERVICE COMMISSION  
MONTHLY EARNINGS SURVEILLANCE REPORT  
(REVISION D, 3/87)  
(000)

Revised 2/14/89

LOCAL EXCHANGE COMPANY Southern Bell  
OPERATIONS 12-MONTHS ENDED December 31, 1987

PAGE 2 OF 3

RATE BASE AVERAGE	(1)	(2)	(3)	(4)	(5)		(6)	(7)
	Total Company (283)	Interstate Toll	Total Intra- State (487)	Intrastate Toll (566)	-----Intrastate----- Interlata Intralata		Local	
1. Land and Buildings	989,692	918,168	941,524	918,968	947,557	971,411	9322,356	
2. C.O.E.	2,156,679	674,269	1,482,410	471,662	176,318	295,344	1,010,748	
3. Station Equipment	556,131	212,025	344,106	92,365	54,000	38,365	251,743	
4. Outside Plant	3,529,970	1,206,639	2,319,331	574,586	320,682	253,904	1,744,745	
5. Other Investment	422,623	117,579	305,044	79,933	34,449	45,486	225,109	
6. Plant in Service	7,271,095	2,378,680	4,892,415	1,337,516	633,006	704,510	3,554,899	
7. Accumulated Depreciation	1,816,730	638,984	1,177,746	322,081	153,910	168,171	855,665	
8. Net Plant (1 thru 5)-7	5,454,365	1,739,696	3,714,669	1,015,435	479,096	536,339	2,699,234	
9. Plant Under Const. (No IDC)	80,076	26,327	53,749	14,640	6,871	7,769	39,109	
10. Future Use Property	456	149	307	86	40	46	221	
11. Acquisition Adjustments	0	0	0	0	0	0	0	
12. Working Capital Allowance	6,507	2,868	3,639	248	728	(480)	3,391	
13. Average Rate Base (8 thru 12)	\$5,541,404	\$1,769,040	\$3,772,364	\$1,030,409	\$486,735	\$543,674	\$2,741,955	
14. % Distribution	100%	31.92%	68.08%	18.59%	8.78%	9.81%	49.48%	
ADJUSTMENTS TO RATE BASE AVERAGE								
15. ADJS FOR ACHIEVED RATE BASE (A)			40,518					
16. ADJUSTED ACHIEVED RATE BASE			\$3,812,882					
17. ADJS FOR ANNUAL RATE BASE (B)			(19,831)					
18. ADJUSTED ANNUAL RATE BASE			\$3,793,051					
YEAR END RATE BASE								
19. UNADJUSTED YEAR END RATE BASE			\$3,805,474					
20. ADJUSTMENTS			30,989					
21. ADJUSTED YEAR END RATE BASE (19+20)			\$3,836,463					
RATES OF RETURN								
22. PER BOOKS (L21, PAGE1)/13	10.08%	9.97%	10.13%	12.76%	14.12%	11.54%	9.14%	
23. ADJUSTED ACHIEVED (L23, PAGE1)/L16			10.02%					
24. ADJ ANNUAL RATE BASE(L25, PAGE1)/L18			9.15%					
25. ADJ YEAR END RATE BASE(L27, PAGE1)/L21			9.05%					

(A) FROM "SUBTOTAL ACHIEVED" ON PAGE 4 COLUMN B

(B) FROM "SUBTOTAL ANNUAL" ON PAGE 4 COLUMN B

(C) ALL INTRASTATE DATA IS ON A SEVEN DAY USAGE BASIS TO BE CONSISTENT WITH INDEPENDENT COMPANY SETTLEMENTS CALCULATIONS

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FLORIDA SERVICE COMMISSION  
TELEPHONE MONTHLY EARNINGS SURVEILLANCE REPORT  
(REVISION B, 3/87)

FPSC Exhibit Number \_\_\_\_\_  
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NET ADJUSTMENTS - INTRASTATE  
(000)

LOCAL EXCHANGE COMPANY (Southern Bell)  
OPERATIONS 12-MONTHS ENDED December 31, 1987

LINE NO.	ADJUSTMENT DESCRIPTION (1)	LOCAL NETWORK SERVICES (2)	NETWORK ACCESS SERVICES (3)	LONG DISTANCE NETWORK SERVICES (4)	INTEREXCHANGE LEASE (5)	MISCELLANEOUS REVENUES (6)	UNCOLLECTIBLE REVENUES (7)	NET BOOKED REVENUES (8)	MAINTENANCE EXPENSE (9)	DEPRECIATION EXPENSE (10)	TRAFFIC EXPENSE (11)	COMMERCIAL EXPENSE (12)	GENERAL OFFICE EXPENSE (13)
1	PER BOOKS AMOUNT	\$1,139,317	\$266,351	\$339,393	\$4,646	\$216,508	\$22,389	\$1,944,026	\$365,525	\$377,382	\$66,651	\$168,285	\$158,043
2	OUT OF PERIOD ITEMS (TOTAL)		(854)	4,575		(14)		3,707	1,563	1,487	1,497	(46)	523
3	NONRECURRING ITEMS (TOTAL)							0					
4	YELLOW PAGE PROFITS #					(16,000)	(117)	(15,883)					
5	GAINS ON SALES OF PROPERTY	1,032					8	1,024					
6	INCOME REL TO TEMP CASH INV	770					6	764					
7	INTEREST RECONCILIATION							0					
8	INTEREST IMPUTATION							0					
9	ENFTA							0					
10	LOBBYING EXPENSE							0					(169)
11	CORPORATE ADVERTISING							0				(160)	
12	ABANDONED PROJECTS							0					
13	CASUALTY EXPENSE							0	(10)				
14	TELEPHONE FRANCHISE REG							0					
15	BELL SOUTH SERVICES	1,783						1,783					
16	IND CO SETT EFF OF 2-14							0					
17	SUBTOTAL ACHIEVED	1,142,902	265,697	343,968	4,646	200,494	22,286	1,935,421	367,078	378,869	68,148	168,029	158,397
18	EMPLOYEE LEVEL ADJUSTMENT							0					
19	NONRECURRING ITEMS (TOTAL)							0					
20	DEPRECIATION REPRESCRIPTION							0		22,662			
21	STIPULATION ITEMS		(2,583)					(2,583)		17,000			
22	PHASE DOWN OF SPF							0					
23	HIGH COST UNIVERSAL SERVICE FUND							0					
24	ADDITIONAL CPE PHASE OUT							0					
25	OTHER SEPARATIONS CHANGES							0					
26	USDA							0					
27	REVERSAL OF ACCRUAL FOR INTRA-STATE OVERTURNINGS	19,000						19,000					
28	SUBTOTAL ANNUAL	1,161,902	263,114	343,968	4,646	200,494	22,286	1,951,838	367,078	418,531	68,148	168,029	158,397

1 ADJUSTMENTS SHOULD BE SHOWN ON A PRETAX BASIS. TAX EFFECT OF ADJUSTMENTS SHOULD BE SHOWN IN COLUMNS 17-20, PAGE 38.  
28 AMOUNTS ON THIS LINE REPRESENT THE 'EXCESS YELLOW PAGE PROFIT' AS DEFINED IN S. 364.037, F.S. IN DETERMINING THIS AMOUNT, USE AN ANNUAL AVERAGE CONSUMER PRICE INDEX (CPI), FOR URBAN WAGE EARNERS AND CLERICAL WORKERS AS PUBLISHED BY THE DEPT OF LABOR, PLUS THE AVERAGE ACCESS LINE GROWTH RATE.

FLORIDA PUBLIC SERVICE CO. .IN  
TELEPHONE MONTHLY EARNINGS SURVEILLANCE REPORT  
(REVISION B, 3/87)

Revised 2/14/89

NOI ADJUSTMENTS - (INTRASTATE  
1988)

LOCAL EXCHANGE COMPANY Southern Bell  
OPERATIONS 12-MONTHS ENDED December 31, 1987

PAGE 38 OF 3

LINE NO.	ADJUSTMENT DESCRIPTION (14)	OTHER OPERATING EXPENSE (15)	TOTAL OPERATING EXPENSES (16)	FEDERAL INCOME TAXES (17)	STATE INCOME TAXES (18)	OTHER TAXES (19)	TOTAL OPERATING TAXES (20)	NET OPERATING INCOME (21)
1	PER BOOKS AMOUNT	\$123,289	\$1,259,173	\$154,646	\$26,034	\$122,067	\$302,747	\$382,104
2	OUT OF PERIOD ITEMS (TOTAL)	(341)	4,683	(2,950)	(1,605)	298	(4,257)	3,281
3	NONRECURRING ITEMS (TOTAL)		0				0	0
4	YELLOW PAGE PROFITS #0		0	(5,989)	(872)	(20)	(6,881)	(9,002)
5	GAINS ON SALES OF PROPERTY		0	381	56	14	451	573
6	INCOME REL TO TEMP CASH INV		0	284	41	11	336	428
7	INTEREST RECONCILIATION		0	147	21		168	(168)
8	INTEREST IMPUTATION		0	(2,455)	(358)		(2,813)	2,813
9	ENFIA	(1,343)	(1,343)	507	74	0	581	762
10	LOBBYING EXPENSE		(149)	64	9	0	73	96
11	CORPORATE ADVERTISING		(360)	60	9	0	69	91
12	ABANDONED PROJECTS	1,289	1,289	(487)	(71)		(558)	(731)
13	CASUALTY EXPENSE		(10)	3	1	0	4	6
14	TELEPHONE FRANCHISE RED	(54)	(34)	13	2	0	15	19
15	BELL SOUTH SERVICES		0				0	1,783
16	IND CD SETT EFF OF 2-14		0				0	0
17	SUBTOTAL ACHIEVED	122,860	1,263,431	144,224	23,341	122,370	289,935	382,055
18	EMPLOYEE LEVEL ADJUSTMENT	(18,051)	(18,051)	6,814	993	0	7,807	10,244
19	NONRECURRING ITEMS (TOTAL)	(19,767)	(19,767)	7,462	1,087		8,549	11,218
20	DEPRECIATION REPRESCRIPTION		22,662	(8,555)	(1,246)		(9,801)	(12,861)
21	STIPULATION ITEMS		17,000	(7,379)	(1,075)	(36)	(8,490)	(11,093)
22	PHASE DOWN OF SPF	21,850	21,850	(8,248)	(1,202)		(9,450)	(12,400)
23	HIGH COST UNIVERSAL SERVICE FUND	4,413	4,413	(1,666)	(243)		(1,909)	(2,504)
24	ADDITIONAL CPE PHASE OUT	6,660	6,660	(2,514)	(366)		(2,880)	(3,780)
25	OTHER SEPARATIONS CHANGES	4,415	4,415	(1,667)	(243)		(1,910)	(2,505)
26	USGA	38,607	38,607	114,574	(2,123)		(16,697)	(21,910)
27	REVERSAL OF ACCRUAL FOR INTRA-STATE OVERTURNINGS		0	7,795	488		8,283	10,717
28	SUBTOTAL ANNUAL	160,987	1,341,220	121,692	19,411	122,334	263,437	347,181

# ADJUSTMENTS SHOULD BE SHOWN ON A PRETAX BASIS. TAX EFFECT OF ADJUSTMENTS SHOULD BE SHOWN IN COLUMNS 17-20, PAGE 38.  
# AMOUNTS ON THIS LINE REPRESENT THE 'EXCESS YELLOW PAGE PROFIT' AS DEFINED IN S. 364.037, F.S. IN DETERMINING THIS AMOUNT, USE AVERAGE CONSUMER PRICE INDEX (CPI), FOR URBAN WAGE EARNERS AND CLERICAL WORKERS AS PUBLISHED BY THE DEPT OF LABOR, PLUS THE ACCESS LINE GROWTH RATE.

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FLD PUBLIC SERVICE COMMISSION  
 TELEPHONE MONTHLY EARNINGS SURVEILLANCE REPORT  
 RATE BASE ADJUSTMENTS - INTRASTATE  
 (REVISION D, 3/87)  
 (000)

Revised 2/14/89

LOCAL EXCHANGE COMPANY Southern Bell  
 OPERATIONS 12-MONTHS ENDED December 31, 1987

PAGE 4 OF 5

LINE NO.	ADJUSTMENT DESCRIPTION (1)	PLANT IN SERVICE (2)	DEPRECIATION RESERVE (3)	ST PLANT UNDER CONSTRUCTION (4)	PROP HELD FOR FUTURE USE (5)	ACQUISITION ADJUSTMENT (6)	WORKING CAPITAL ALLOWANCE (7)	TOTAL RATE BASE (8)
1	PER BOOKS AMOUNTS	94,892,415	91,177,746	153,749	9307	90	93,639	93,772,364
2	EXCESS PLUG-IN UNITS	(7,450)	0	0	0	0	0	(7,450)
3	NECO TAX CREDITS	49,686	15,866	0	0	0	0	33,820
4	BELL SOUTH SERVICES	9,767	0	0	0	0	0	9,767
5	ENFIA	(5,148)	0	0	0	0	0	(5,148)
6	OUT OF PERIOD	13,176	3,795	88	2	0	58	9,529
5	SUBTOTAL ACHIEVED	4,952,446	1,197,407	53,837	309	0	3,697	3,812,882
6	DEPRECIATION REPRESCRIPTION	0	11,331	0	0	0	0	(11,331)
7	STIPULATION	0	8,500	0	0	0	0	(8,500)
8	SUBTOTAL ANNUAL	4,952,446	1,217,238	53,837	309	0	3,697	3,793,051

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FLORIDA PUBLIC SERVICE COMMISSION  
 TELEPHONE MONTHLY EARNINGS SURVEILLANCE REPORT  
 (REVISION B, 3/87)

Revised 2/14/89

(000)  
 COMPANY Southern Bell  
 OPERATIONS 12-MONTHS ENDED December 31, 1987  
 ADJUSTED ACHIEVED CAPITAL STRUCTURE

PAGE 5A OF 5

COST OF CAPITAL	(1) AMOUNT	(2) % OF TOTAL	COST RATE 1			WEIGHTED COST RATE		
			(3) FLOOR	(4) MIDPOINT	(5) CEILING	(6) FLOOR	(7) MIDPOINT	(8) CEILING
1. SHORT TERM DEBT	973,330	1.92%		6.91%			0.13%	
2. LONG TERM DEBT	1,011,901	26.54%		8.85%			2.35%	
3. EQUITY	1,709,810	44.84%	14.00%	15.00%	16.00%	6.28%	6.73%	7.17%
4. PREFERRED STOCK	0	0.00%		0.00%			0.00%	
5. CUSTOMER DEPOSITS	31,155	0.82%		7.64%			0.06%	
6. COST FREE CAPITAL	788,000	20.69%		0.00%			0.00%	
7. JVIC	197,886	5.19%	12.08%	12.71%	13.34%	0.63%	0.66%	0.69%
8. TOTAL CAPITAL (A)	63,812,882	100.00%				9.45%	9.93%	10.40%

1 EQUITY COST RATE EQUALS LAST AUTHORIZED FLOOR, MIDPOINT AND CEILING

INTERNAL FUNDS

9. X INTERNAL FUNDS TO CONSTRUCTION EXPENDITURES AFTER DIVIDENDS (TOTAL COMPANY)	84.76%
10. TIMES INTEREST EARNED (NI+INTEREST+INC.TAX)/INTEREST (TOTAL COMPANY)	5.53
11. LONG TERM DEBT/CAPITAL (INTRASTATE)	36.43%
12. SHORT TERM DEBT/CAPITAL (INTRASTATE)	2.64%
13. JURIS AVG PER BOOKS RETURN ON EQUITY (INTRASTATE) (B)	15.42% 1
14. JURIS AVG ADJ ACHIEVED RETURN ON EQUITY (INTRASTATE) (B)	15.19% 1
15. JURIS AVG ADJ ANNUAL RETURN ON EQUITY (INTRASTATE) (B)	13.39%

(A) CAPITAL STRUCTURE SHOULD BE RECONCILED TO RATE BASE IN ACCORDANCE WITH THE COMMISSION ORDER RENDERED IN THE COMPANY'S LAST RATE CASE.

(B) JURISDICTIONAL EARNED RETURNS ON EQUITY ARE CALCULATED BY USING THE OVERALL EARNED RATES OF RETURN ON LINES 22 THRU 24, COLUMN 3, PAGE 2 OF 5 AND APPLYING THIS TO LINE 8, COLUMN 7, PAGE 5 OF 5. FROM THERE CALCULATE THE WEIGHTED COST OF EQUITY (COLUMN 7) AND COST OF EQUITY (COLUMN 4) ACCORDINGLY FOR JURIS AVG PER BOOKS, JURIS AVG ADJ ACHIEVED AND JURIS AVG ADJ ANNUAL.

1 THIS REPORT INCLUDES THE EFFECT OF AN ACCRUAL OF \$ 19,000,000 FOR EARNINGS OVER 15% RETURN ON EQUITY.

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FLORIDA PUBLIC SERVICE COMMISSION  
 TELEPHONE MONTHLY EARNING. EILLANCE REPORT  
 (REVISION B, 3/87)

Revised 2/14/89

(000)  
 COMPANY Southern Bell  
 OPERATIONS 12-MONTHS ENDED December 31, 1987  
 ADJUSTED ANNUAL CAPITAL STRUCTURE

PAGE 58 OF 5

COST OF CAPITAL	(1) AMOUNT	(2) % OF TOTAL	COST RATE 1			WEIGHTED COST RATE		
			(3) FLOOR	(4) MIDPOINT	(5) CEILING	(6) FLOOR	(7) MIDPOINT	(8) CEILING
1. SHORT TERM DEBT	472,949	1.92%		6.91%			0.13%	
2. LONG TERM DEBT	1,008,638	26.54%		8.85%			2.35%	
3. EQUITY	1,700,917	44.84%	14.00%	15.00%	16.00%	6.28%	6.73%	7.17%
4. PREFERRED STOCK	0	0.00%		0.00%			0.00%	
5. CUSTOMER DEPOSITS	30,993	0.82%		7.64%			0.06%	
6. COST FREE CAPITAL	784,698	20.69%		0.00%			0.00%	
7. JDIC	196,856	5.19%	12.08%	12.71%	13.34%	0.63%	0.66%	0.69%
<b>B. TOTAL CAPITAL (A)</b>	<b>\$3,793,051</b>	<b>100.00%</b>				<b>9.45%</b>	<b>9.93%</b>	<b>10.40%</b>

1 EQUITY COST RATE EQUALS LAST AUTHORIZED FLOOR, MIDPOINT AND CEILING

INTERNAL FUNDS

9. % INTERNAL FUNDS TO CONSTRUCTION EXPENDITURES AFTER DIVIDENDS (TOTAL COMPANY)	84.76%
10. TIMES INTEREST EARNED (NI+INTEREST+INC.TAX)/INTEREST (TOTAL COMPANY)	5.53
11. LONG TERM DEBT/CAPITAL (INTRASTATE)	36.43%
12. SHORT TERM DEBT/CAPITAL (INTRASTATE)	2.64%
13. JURIS AVG PER BOOKS RETURN ON EQUITY (INTRASTATE) (B)	15.42%
14. JURIS AVG ADJ ACHIEVED RETURN ON EQUITY (INTRASTATE) (B)	15.19%
15. JURIS AVG ADJ ANNUAL RETURN ON EQUITY (INTRASTATE) (B)	13.39%

- (A) CAPITAL STRUCTURE SHOULD BE RECONCILED TO RATE BASE IN ACCORDANCE WITH THE COMMISSION ORDER RENDERED IN THE COMPANY'S LAST RATE CASE.  
 (B) JURISDICTIONAL EARNED RETURNS ON EQUITY ARE CALCULATED BY USING THE OVERALL EARNED RATES OF RETURN ON LINES 22 THRU 24, COLUMN 3, PAGE 2 OF 5 AND APPLYING THIS TO LINE 8, COLUMN 7, PAGE 5 OF 5. FROM THERE CALCULATE THE WEIGHTED COST OF EQUITY (COLUMN 7) AND COST OF EQUITY (COLUMN 4) ACCORDINGLY FOR JURIS AVG PER BOOKS, JURIS AVG ADJ ACHIEVED AND JURIS AVG ADJ ANNUAL.

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SOUTHERN BELL - FLORIDA OPERATIONS  
 CALCULATION OF ANNUAL IDC RATE - DECEMBER 31, 1987 DATA

Cost of Capital(000)

	Amount	% of Total	Cost Rate	Weighted Cost
1. Long Term Debt	\$1,006,638	26.54%	8.85%	2.35%
2. Short Term Debt	72,949	1.92%	6.91%	0.13
3. Equity	1,700,917	44.84%	15.00%	6.73
4. Customer Deposits	30,993	0.82%	7.64%	0.06
5. Cost Free Capital	784,698	20.69%	0.00%	0.00
6. Job Dev. Inv. Credit	196,856	5.19%	12.71%	0.66
7. Total Capital	\$3,793,051	100.00%		9.93%

Cost of JDIC

Long Term Debt	\$1,006,638	37.18%	8.85%	3.29%
Equity	1,700,917	62.82	15.00	9.42
Total	\$2,707,555			12.71%

Annual Percentage Rate Currently Used by Southern Bell 10.24%

Annual Rate per Calculation 12/31/87 9.93%

REVISED 2/14/89

SOUTHERN BELL - FLORIDA OPERATIONS  
CALCULATION OF ADJUSTED CAPITAL STRUCTURE  
(\$000)

Capital Structure

	Unadjusted Amount	Reconciling Adjustment	Adjusted Capital Structure
1. Long Term Debt	\$1,028,011	(\$21,373)	\$1,006,638
2. Short Term Debt	74,498	(1,549)	72,949
3. Equity	1,737,031	(36,114)	1,700,917
4. Customer Deposits	31,651	(658)	30,993
5. Cost Free Capital	801,358	(16,660)	784,698
6. Job Dev. Inv. Credit	201,036	(4,180)	196,856
7. Total	\$3,873,585	(\$80,534)	\$3,793,051

Average Rate Base per Books	\$3,772,364
Accounting Adjustments	20,687
Average Adjusted Rate Base	3,793,051

FLORIDA PUBLIC SERVICE COMMISSION  
TELEPHONE MONTHLY EARNINGS SURVEILLANCE REPORT

Appendix A

LOCAL EXCHANGE COMPANY Southern Bell  
OPERATIONS 12 MONTHS ENDING December 31, 1986

Page 1 of 5

In 0000's Description	(263)	Inter- Toll	(487)	(566)	Intrastate		Local
	Total Company		Total Intra- State	Intra- Toll	Inter- Territory	Intra- Territory	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
<b>CUSTOMER BILLING</b>							
<b>ACCESS CHARGES</b>							
1. End User Charges	103,784	103,784	0	0	0	0	0
2. Capacity Charges (a)	82,458	2,036	80,622	80,622	80,622	0	0
3. MSG Charges to IEC's (b)	583,428	428,510	154,918	154,918	154,918	0	0
4. Special Access Charges (c)	101,619	78,357	23,262	23,262	23,262	0	0
5. Other (d)	3,138	3,138	0	0	0	0	0
6. Total Access Charges (1 thru 5)	874,627	615,825	258,802	258,802	258,802	0	0
<b>OTHER CHARGES TO IEC'S</b>							
7. Operator Services (D.A.)	16,407	14,746	1,661	1,661	1,661	0	0
8. Billing and Collecting	48,699	30,990	9,709	9,709	9,709	0	0
9. Interexchange Lease	8,496	0	8,496	0	0	0	8,496
10. Total Other Charges (7 thru 9)	65,602	45,736	19,866	11,370	11,370	0	8,496
<b>CUSTOMER CHARGES</b>							
11. NTS	225,856	249	225,607	225,607	0	225,607	0
12. NATS	53,783	43	53,740	53,740	0	53,740	0
13. Private Line	67,872	24	67,848	67,848	0	67,848	0
14. Local Exchange	1,115,034	(1)	1,115,035	0	0	0	1,115,035
15. Miscellaneous	179,723	0	179,723	0	0	0	179,723
16. Total Customer Charges (11 thru 15)	1,642,268	315	1,641,953	347,195	0	347,195	1,294,758
17. Total Billing (6+(10+16))	2,582,497	661,876	1,920,621	617,367	270,172	347,195	1,303,254

Notes: The amounts on this schedule reflect actual billing to IEC's on a composite basis. However, IEC's are expected to maintain individual side records by IEC in the same level of detail found on this schedule.

(a) Busy hour minute of capacity charge.

(b) Includes local switching, local transport, line termination and carrier common line.

(c) For intrastate, interterritory station terminals; for interstate, would include all special access line charges.

(d) Includes testing, ordering, labor, etc.

(e) Customer charges include only charges for LEC-provided toll; does not include toll monies turned over to IEC's.

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FLORIDA PUBLIC SERVICE TELEPHONE MONTHLY EARNING STATEMENT  
 TELEPHONE MONTHLY EARNING STATEMENT

MISSION STATEMENT REPORT

LOCAL EXCHANGE COMPANY Southern Bell  
 OPERATIONS 12-MONTHS ENDING December 31, 1986

Page 2 of 5

In \$000's Description	(263) Total Company	Inter- Toll	(467) Total Intra- State	(566) Intra- Toll	Intratoll		Local
	(1)	(2)	(3)	(4)	Inter- Territory (5)	Intra- Territory (6)	
<b>BOOKED REVENUES</b>							
1. Access Charges (a)	\$1,109,920	\$850,009	\$259,919	259,919	\$259,919	00	00
2. Intra Territory Toll	324,942	0	324,942	324,942	0	324,942	0
3. Interchange Lease	0,496	0	0,496	0	0	0	0,496
4. Gross Revenue (b)	1,294,181	(113)	1,294,294	0	0	0	1,294,294
5. Uncollectibles	16,042	1,051	14,191	2,441	0	2,441	11,750
6. Net Booked Revenue (1 thru 5)	\$2,721,505	\$848,045	\$1,873,460	\$582,420	259,919	322,501	1,291,040
<b>OPERATING EXPENSE</b>							
7. Maintenance	\$543,275	\$185,862	\$357,413	\$113,854	\$52,913	\$60,941	\$243,559
8. Depreciation & Amortization	474,833	164,308	310,125	100,921	46,461	54,460	209,204
9. Traffic Expense	77,342	8,714	68,628	19,552	4,574	14,978	49,076
10. Commercial Expense	212,307	46,095	166,212	55,213	20,171	35,042	110,999
11. General	214,496	67,134	147,362	49,101	22,523	26,578	98,261
12. Other Operating	186,777	50,282	136,495	40,673	10,003	29,670	87,822
13. Total Operating Expense (7 thru 12)	1,708,630	522,395	1,186,235	387,314	165,445	221,869	790,921
14. % Distribution	100%	30.57%	69.43%	22.67%	9.68%	12.99%	46.76%
<b>OPERATING TAXES</b>							
15. Federal Income Taxes	\$276,501	\$89,689	\$186,812	\$60,949	\$31,032	\$29,917	\$125,863
16. State Income Tax	39,175	14,133	25,042	7,887	3,794	4,093	17,135
17. Other Taxes	161,267	41,517	119,750	31,893	12,186	19,709	87,857
18. Total Operating Taxes (15 thru 17)	476,943	145,339	331,604	100,729	47,010	53,719	230,855
19. % Distribution	100%	30.47%	69.53%	21.12%	9.86%	11.26%	40.41%
<b>NET OPERATING INCOME</b>							
20. Per Book NOI (6-13-18)	\$35,932	\$180,311	\$355,621	\$4,377	\$7,464	\$46,913	\$61,244
21. NOI Effect of Adjustments	17,107	12,724	4,383	8,476	4,420	4,048	(4,093)
22. Adjusted NOI	\$53,039	\$193,035	\$360,004	\$12,853	\$11,884	\$50,961	\$57,151

(a) Amounts on this line should include all major access charge elements and other charges such as those defined on lines 1 through 8 of page 1 of 5 of this report that are part of the "access charge pool".

(b) Amounts on this line should include all "above the line-regulated" booked revenues not included on lines 1 through 3 of this page

GENERAL NOTE:

Data concerning directory operations includes only amounts on Southern Bell's books.

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FLORIDA PUBLIC SERV'  
TELEPHONE MONTHLY EARNINGS

MISSION  
BILLANCE REPORT

LOCAL EXCHANGE COMPANY Southern Bell  
OPERATIONS FOR THE MONTH ENDED December, 1986

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In 000's Description	(2)(3)	Inter- Toll	(4)(7)	(5)(6)	Intratoll		Local
	Total Company		Total Intra- State	Intra- Toll	Inter- Territory	Intra- Territory	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
<b>BOOKED REVENUES</b>							
1. End User Charges	\$10,250	\$10,250	\$0	0	\$0	\$0	\$0
2. Capacity Charges (a)	6,181	78	6,103	6,103	6,103	0	0
3. MOU Charges to ILEs	50,499	45,500	12,991	12,991	12,991	0	0
4. Special Access Charges	10,533	8,593	1,940	1,940	1,940	0	0
5. Other Access Charges	5,757	6,000	(251)	(251)	(251)	0	0
6. Intra Territory Toll	32,871	0	32,871	32,871	0	32,871	0
7. Interexchange Lease	553	0	553	0	0	0	553
8. Coin	7,020	(4)	7,024	1,433	0	1,433	5,591
9. BA	2,798	1,251	1,547	(569)	(721)	352	1,916
10. Other	3,437	2,630	799	799	799	0	0
11. Gross Revenue (b)	104,907	(219)	105,126	0	0	0	105,126
12. Uncollectibles	1,443	129	1,314	179	0	179	1,135
13. Net Booked Revenue (11 thru 12)	241,371	73,982	167,389	55,330	20,861	34,477	112,051
<b>OPERATING EXPENSE</b>							
14. Maintenance	\$51,537	\$17,240	\$34,299	\$10,872	\$4,916	\$5,956	\$23,417
15. Depreciation & Amortization	57,935	14,233	43,722	14,477	6,500	7,009	29,245
16. Traffic Expense	7,212	884	6,328	1,637	440	1,197	4,691
17. Commercial Expense	20,171	4,393	15,778	4,690	1,682	3,008	11,088
18. General	21,071	6,465	14,606	6,743	2,086	2,657	9,863
19. Other Operating	22,452	6,875	15,777	5,537	2,462	3,075	10,240
20. Total Operating Expense (14 thru 19)	180,598	50,098	130,500	41,956	18,174	23,782	88,544
21. % Distribution	100%	27.74%	72.26%	23.23%	10.6%	13.17%	49.03%
<b>OPERATING TAXES</b>							
22. Federal Income Taxes	\$11,537	\$5,627	\$5,930	\$11,549	\$4,362	\$7,187	\$5,619
23. State Income Tax	2,244	939	1,305	951	322	629	334
24. Other Taxes	13,747	3,349	10,398	\$2,702	961	1,741	7,696
25. Total Operating Taxes (22 thru 24)	27,528	9,915	17,633	15,202	5,645	9,557	2,431
26. % Distribution	100%	35.99%	64.01%	55.18%	20.49%	34.69%	8.82%
<b>NET OPERATING INCOME</b>							
27. Per Book NOI (13-20-25)	33,225	13,969	19,256	(1,820)	(2,958)	1,138	21,076
28. NOI Effect of Adjustments	0	0	0	0	0	0	0
29. Adjusted NOI (27+28)	\$33,225	\$13,969	\$19,256	\$(1,820)	\$(2,958)	\$1,138	\$21,076

(a) Amounts on this line should include all major access charge elements and other charges such as those defined on lines 1 through 8 of page 1 of 5 of this report that are part of the "access charge pool".

(b) Amounts on this line should include all "above the line-regulated" booked revenues not included on lines 1 through 3 of this page

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FLORIDA PUBLIC SERVICE COMMISSION  
TELEPHONE MONTHLY EARNINGS SURVEILLANCE REPORT

LOCAL EXCHANGE COMPANY Southern Bell  
OPERATIONS 12-MONTHS ENDING December 31, 1986

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In 000's Description	(263)	(467)	(566)	Intrastate		Local	
	Total Company	Inter- Toll	Total Intra- State	Inter- Toll	Intra- Territory		
	(1)	(2)	(3)	(4)	(5)	(6)	
<b>RATE BASE AVERAGE</b>							
1. Land and Buildings	\$601,566	\$163,896	\$437,670	\$134,096	\$55,019	\$79,077	\$303,574
2. C.O.E.	1,949,670	557,232	1,392,446	513,812	199,843	313,569	879,034
3. Station Equipment	546,501	251,023	295,478	103,919	59,264	44,653	191,559
4. Outside Plant	3,307,163	1,169,914	2,137,249	510,001	290,239	219,762	1,627,248
5. Other Investment	300,593	116,262	264,331	74,921	34,337	40,584	189,410
6. Plant in Service (LI thru LS)	6,785,501	2,250,327	4,527,174	1,336,349	638,702	697,647	3,190,825
7. Accumulated Depreciation	1,427,490	517,754	909,736	273,627	131,075	142,552	636,109
8. Net Plant (LI-L7)	5,358,011	1,740,573	3,617,438	1,062,722	307,627	555,095	2,554,716
9. Plant Under Construction (no ISC)	64,577	17,999	46,578	12,265	5,447	6,818	34,313
10. Future Use Property	619	181	438	132	58	74	306
11. Acquisition Adjustments	0	0	0	0	0	0	0
12. Material and Supplies	52,947	10,741	34,206	8,180	4,642	3,538	26,026
13. Cash Working Capital	30,607	9,320	21,367	6,132	2,957	3,175	15,235
14. Average Rate Base (LI thru L13)	\$5,506,841	\$1,786,814	\$3,720,027	\$1,089,431	\$320,731	\$568,700	\$2,630,596
15. % Distribution	100%	32.45%	67.55%	19.78%	9.46%	10.33%	47.77%
<b>ADJUSTMENTS TO RATE BASE AVERAGE</b>							
16. Accounting Adjustments	35,677	120,905	54,582	30,350	11,864	26,486	19,732
17. Adjusted Rate Base (LI thru L16)	\$5,542,518	\$1,765,909	\$3,776,609	\$1,127,781	\$332,595	\$595,186	\$2,648,828
<b>YEAR END RATE BASE</b>							
18. Achieved Year End Rate Base			3,778,751				
19. Accounting Adjustments			57,614				
20. Adjusted Year End Rate Base			3,836,365				
<b>RATES OF RETURN</b>							
21. Achieved Average Rate Base (L20 (pg 2 of 53/L14))	9.73%	10.09%	9.56%	8.66%	9.11%	8.25%	9.93%
22. Adjusted Average Rate Base (L22 (pg 2 of 53/L17))	9.98% *	10.93% *	9.53% **	9.12%	9.74%	8.56%	9.71%
23. Adjusted Year End Rate Base (L22 (pg 2 of 53/L20))			9.30%				

\* All intra data is on a seven day usage basis to be consistent with Independent Company settlements calculations.

GENERAL NOTE:

Data concerning directory operations includes only accounts on Southern Bell's books.

† Since this interstate toll rate of return includes only the effect of Pro Forma adjustments made for Florida it is not representative of the going rate of return on a nation wide basis.

\*\* The change in ROR is due to \$20 mil. in additional depreciation expense booked in December, 1986 per the stipulation agreed upon by Southern Bell and the FPSC.

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FLORIDA PUBLIC SERV'  
TELEPHONE MONTHLY EARNING

MISSION  
SURVEILLANCE REPORT

LOCAL EXCHANGE COMPANY Southern Bell  
OPERATIONS 12-MONTHS ENDING December 31, 1986

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In 0000's Description	(263)	Inter- Toll	(487)	(516)	Intratoll		Local
	Total Company		Intra- State	Intra- Toll	Inter- Territory	Intra- Territory	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1. Yellow Page profits *	(617,286)	0	(617,286)	0	0	0	(617,286)
2. Out of Period Adjustments	(589)	0	(589)	(589)	(1,557)	968	0
3. Sales on Sales of Property	1,506	428	1,078	0	0	0	1,078
4. Inc. Rel. to Temp. Cash Inv.	1,384	459	925	0	0	0	925
5. Billing Inquiry	(1,135)	(4,000)	2,865	923	(591)	1,514	1,942
6. Sep Change For Closed End Wata	0	(1,853)	1,853	(1,051)	(1,489)	438	2,906
7. Intra-EA Expense Recovery	4,554	0	4,554	0	0	0	4,554
8. Interest Reconciliation	(4,273)	0	(4,273)	(1,226)	(591)	(635)	(3,047)
9. Interest Imputation	8,061	0	8,061	2,314	1,116	1,198	5,747
10. ENFIA	0	(2,217)	2,217	0	0	0	2,217
11. Independent Co. Sett. Effect	(1,305)	0	(1,305)	(1,305)	0	(1,305)	0
12. Lobbying Expense	(223)	(70)	(153)	(51)	(23)	(28)	(102)
13. Corporate Advertising	(293)	(94)	(199)	(81)	(36)	(45)	(110)
14. Abandoned Projects	1,493	290	1,403	263	82	181	1,140
15. Employee Level Adjustment	(5,223)	(1,376)	(3,847)	(1,145)	(483)	(662)	(2,702)
16. Casualty Expense	216	74	142	45	21	24	97
17. Miscellaneous Out-of-Period	(11,906)	(2,324)	(9,582)	(3,301)	(1,923)	(1,370)	(6,281)
18. Telephone Franchise Req.	(106)	(36)	(70)	(22)	(10)	(12)	(48)
19. Phase Out of SPF	0	(14,375)	14,375	0	0	0	14,375
20. High Cost Universal Svc. Fund	0	5,225	(5,225)	0	0	0	(5,225)
21. Removal of CPE Comp from Ind's	15,975	0	15,975	15,975	8,440	7,335	0
22. Additional CPE Phase Out	0	(9,168)	9,168	3,446	2,153	1,493	5,522
23. Late Payment Charge	6,939	0	6,939	0	0	0	6,939
24. Total Adjustments	(2,011)	(29,039)	27,028	14,395	5,309	9,086	12,633
25. NOI Effect	17,107	12,724	4,383	8,476	4,420	4,048	(4,093)

The above amounts shall be those adjustments necessary to reflect Commission policy enumerated in the Company's most recent rate case in accordance with S. 366.071, F.S., (interim rates) procedures.

\*Amounts shown on this line represent the "excess yellow page profit" as defined in S. 364.037, F.S. In determining this amount, use an annual average Consumer Price Index (CPI), for urban wage earners and clerical workers as published by the Department of Labor. Also, use average access line growth rate for this calculation.

All intra toll data is on a seven day usage basis to be consistent with Independent Company settlements calculations.

GENERAL NOTE:

Data concerning directory operations includes only amounts on Southern Bell's books.

Pro forma are not necessary for contributions and membership fees and dues because these amounts have been excluded from operating expenses on a per books basis.

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FLORIDA PUBLIC SERVICE COMMISSION  
TELEPHONE MONTHLY EARNINGS SURVEILLANCE REPORT

LOCAL EXCHANGE COMPANY Southern Bell  
OPERATIONS 12-MONTHS ENDING December 31, 1986

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In 000's Description	(263)	Inter- Toll	(487)	(546)	Intrastoll		Local
	Total Company		Total Intra- State	Intra- Toll	Inter- Territory	Intra- Territory	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1. Excess Plug-in Units	(617,162)	(64,905)	(682,257)	(94,519)	(61,759)	(62,760)	(67,738)
2. Billing Inquiry	0	(1,356)	1,356	697	(200)	897	659
3. Out of Period Amounts	(5,745)	(4,733)	(1,032)	18,687	1,416	17,271	(19,719)
4. Additional CPE Phase Out	0	(29,143)	29,143	11,589	6,844	4,745	17,554
5. NCCD Tax Credits	58,604	19,232	39,372	11,896	5,563	6,333	27,476
6. Total Rate Base Adjustments	35,677	(20,905)	56,582	38,350	11,864	26,486	18,232

The above amounts shall be those adjustments necessary to reflect Commission policy enumerated in the Company's most recent rate case in accordance with S. 366.071, F.S., Interim rates; procedures.

All intra toll data is on a seven day usage basis to be consistent with Independent Company settlements calculations.

GENERAL NOTE:

Data concerning directory operations includes only amounts on Southern Bell's books.

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TELEPHONE MONTHLY EARNINGS SURVEILLANCE REPORT

LOCAL EXCHANGE COMPANY Southern Bell  
OPERATIONS 12-MONTHS ENDING December 31, 1986

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(000's) COST OF CAPITAL (a)	Amount (1)	% of Total (2)	Cost Rate (3)	Weighted Cost Rate (4)
1. Long Term Debt	\$1,033,577	27.37%	9.12%	2.50%
2. Short Term Debt	87,123	2.31%	6.96%	0.16%
3. Equity	1,661,211	43.99%	15.00%	6.60%
4. Customer Deposits	32,544	0.86%	7.58%	0.07%
5. Cost Free Capital	731,839	19.37%	—	—
6. Job Dev. Inv. Cr.	230,315	6.10%	12.75%	0.78%
7. Total Capital	\$3,776,609	100%		10.11%

\*Equity cost rate equals last authorized midpoint.

FLORIDA OPERATIONS  
TOTAL COMPANY

INTERNAL FUNDS

7. Net Income (less IDC)	\$ 377,683,857
8. Depreciation	474,432,950
9. Current Deferred Taxes	106,740,723
10. Current IDC	(14,272,897)
11. Other	429,923
12. Subtotal	944,413,658
13. Construction Expenditures (b)	671,610,794
14. % Internal Funds	140.62%
15. Appropriated dividends	-----
16. % Internal Funds after dividends ((12-15)/13)	140.62%
17. Times Interest Earned	5.31

Also, show overall weighted cost rate on investment at last authorized equity floor 9.63%  
and last authorized equity maximum 10.59%

The per cent of long term debt to total investor capital (total capital excluding customer deposits, deferred taxes and unamortized investment tax credits) is 37.37%

The per cent of short term debt to total investor capital (total capital excluding customer deposits, deferred taxes and unamortized investment tax credits) is 3.15%

The Jurisdictional Adjusted Average Return on Equity is (c) 13.79% \*

- (a) Capital Structure should be reconciled to rate base in accordance with the Commission Order rendered in the Company's last rate case.  
 (b) Construction expenditures to be calculated in the same manner as "Total applications to Const. and Plant Exp." per Annual report Form N, Schedule 12B (Source and Application of Funds).  
 (c) Jurisdictional average per books earned return on equity is calculated by using the overall earned rate of return on line 22, column 3, page 3 of 5 and applying this to line 7, column 4 page 3 of 5. From there calculate the weighted cost of equity (Column 4) and cost of equity (Column 3) accordingly.

GENERAL NOTE:

Data concerning directory operations includes only amounts on Southern Bell's books.

\* The change in ROE is due to \$20 mil. in additional depreciation expense booked in December, 1986 per the stipulation agreed upon by Southern Bell and the FPSC.

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PROFORMA WORKSHEET

LOCAL EXCHANGE COMPANY: Southern Bell Telephone & Telegraph Co.  
 OPERATIONS 12-MONTHS ENDING: December 31, 1986

Page 1 of 4

	Total Company	Interstate	Total Intrastate	Total Intra-Toll	Intra-Toll		Local
					Inter- Territory	Intra- Territory	
1. A. Yellow Page Profits	(17,286)	0	(17,286)	0	0	0	(17,286)
NDI .5103	(8,821)	0	(8,821)	0	0	0	(8,821)
B. Ind. Co. Settlements	0	0	0	0	0	0	0
C. Total NDI	(8,821)	0	(8,821)	0	0	0	(8,821)
2. A. Out-of-Period Adjustments	(589)	0	(589)	(589)	(1,557)	968	0
NDI .5034510	(297)	0	(297)	(297)	(784)	487	0
B. Ind. Co. Settlements	0	0	0	0	0	0	0
C. Total NDI	(297)	0	(297)	(297)	(784)	487	0
3. A. Gains on Sales of Property	1,506	428	1,078	0	0	0	1,078
NDI .4994091	752	214	538	0	0	0	538
B. Ind. Co. Settlements	0	0	0	0	0	0	0
C. Total NDI	752	214	538	0	0	0	538
4. A. Income Related to Temp.							
Cash Inv.	1,384	459	925	0	0	0	925
NDI .4994091	691	229	462	0	0	0	462
B. Ind. Co. Settlements	0	0	0	0	0	0	0
C. Total NDI	691	229	462	0	0	0	462
5. A. Billing Inquiry	(1,135)	(4,000)	2,865	923	(591)	1,514	1,942
NDI	571	2,041	(1,470)	(479)	301	(780)	(991)
B. Ind. Co. Settlements	0	0	0	0	0	0	0
C. Total NDI	571	2,041	(1,470)	(479)	301	(780)	(991)
6. A. Separations Charge for Closed							
End Mats Eff. 6/86	0	(1,855)	1,855	(1,051)	(1,489)	438	2,904
NDI .5034510	0	(934)	934	(529)	(750)	221	1,463
B. Ind. Co. Settlements	174	0	174	174	0	174	0
Ind. Co. NDI	(88)	0	(88)	(88)	0	(88)	0
C. Total NDI	(88)	(934)	846	(617)	(750)	133	1,463
7. A. Intra-EA Expense Recovery	4,554	0	4,554	0	0	0	4,554
NDI .5103	(2,324)	0	(2,324)	0	0	0	(2,324)
B. Ind. Co. Settlements	0	0	0	0	0	0	0
C. Total NDI	(2,324)	0	(2,324)	0	0	0	(2,324)

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PROFORMA WORKSHEET

LOCAL EXCHANGE COMPANY: Southern Bell Telephone & Telegraph Co.  
 OPERATIONS 12-MONTHS ENDING: December 31, 1986

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	Total Company	Interstate	Total Intrastate	Total Intra-Toll	Intra-Toll		Local
					Inter- Territory	Intra- Territory	
8. A. Interest Reconciliation	(4,273)	0	(4,273)	(1,226)	(591)	(635)	(3,047)
MOI .4897	(2,092)	0	(2,092)	(600)	(289)	(311)	(1,492)
B. Ind. Co. Settlements	0	0	0	0	0	0	0
C. Total MOI	(2,092)	0	(2,092)	(600)	(289)	(311)	(1,492)
9. A. Interest Imputation	8,061	0	8,061	2,314	1,116	1,190	5,747
MOI .4897	3,947	0	3,947	1,134	547	587	2,813
B. Ind. Co. Settlements	0	0	0	0	0	0	0
C. Total MOI	3,947	0	3,947	1,134	547	587	2,813
10. A. EMFIA	0	(2,217)	2,217	0	0	0	2,217
MOI .5034510	0	(1,116)	1,116	0	0	0	1,116
B. Ind. Co. Settlements	0	0	0	0	0	0	0
C. Total MOI	0	(1,116)	1,116	0	0	0	1,116
11. A. Lobbying Expense	(223)	(70)	(153)	(51)	(23)	(28)	(102)
MOI .5103	114	36	78	26	12	14	52
B. Ind. Co. Settlements	11	0	11	11	0	11	0
Ind. Co. MOI	(6)	0	(6)	(6)	0	(6)	0
C. Total MOI	108	36	72	20	12	8	52
12. A. Corporate Advertising	(293)	(94)	(199)	(81)	(36)	(45)	(118)
MOI .5103	149	48	101	41	18	23	60
B. Ind. Co. Settlements	18	0	18	18	0	18	0
Ind. Co. MOI	(9)	0	(9)	(9)	0	(9)	0
C. Total MOI	140	48	92	32	18	14	60
13. A. Abandoned Projects	1,493	290	1,403	263	82	181	1,140
MOI .5103	(864)	(148)	(716)	(134)	(42)	(92)	(582)
B. Ind. Co. Settlements	(72)	0	(72)	(72)	0	(72)	0
Ind. Co. MOI	36	0	36	36	0	36	0
C. Total MOI	(828)	(148)	(680)	(98)	(42)	(56)	(582)
14. A. Employee Level Adjustment	(5,223)	(1,376)	(3,847)	(1,145)	(483)	(662)	(2,702)
MOI .5103	2,665	702	1,963	584	246	338	1,379
B. Ind. Co. Settlements	264	0	264	264	0	264	0
Ind. Co. MOI	(133)	0	(133)	(133)	0	(133)	0
C. Total MOI	2,532	702	1,830	451	246	205	1,379

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PROFORMA WORKSHEET

LOCAL EXCHANGE COMPANY: Southern Bell Telephone & Telegraph Co.  
 OPERATIONS 12-MONTHS ENDING: December 31, 1986

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	Total Company	Interstate	Total Intrastate	Total Intra-Toll	Intra-Toll		Local
					Inter- Territory	Intra- Territory	
15. A. Casualty Expense	216	74	142	45	21	24	97
MOI .5103	(110)	(38)	(72)	(23)	(11)	(12)	(49)
B. Ind. Co. Settlements	(10)	0	(10)	(10)	0	(10)	0
Ind. Co. MOI	5	0	5	5	0	5	0
C. Total MOI	(105)	(38)	(67)	(18)	(11)	(7)	(49)
16. A. Miscellaneous Out-of-Period	(11,906)	(2,324)	(9,582)	(3,301)	(1,923)	(1,378)	(6,281)
MOI	11,906	2,324	9,582	3,301	1,923	1,378	6,281
B. Ind. Co. Settlements	915	0	915	915	0	915	0
Ind. Co. MOI	(544)	0	(544)	(544)	0	(544)	0
C. Total MOI	11,362	2,324	9,038	2,757	1,923	834	6,281
17. A. Telephone Franchise Req.	(106)	(36)	(70)	(22)	(10)	(12)	(48)
MOI .5103	34	18	36	11	5	6	25
B. Ind. Co. Settlements	5	0	5	5	0	5	0
Ind. Co. MOI	(3)	0	(3)	(3)	0	(3)	0
C. Total MOI	51	18	33	8	5	3	25
18. A. Phase Down of SPF	0	(14,375)	14,375	0	0	0	14,375
MOI .5103	0	7,336	17,336	0	0	0	(7,336)
B. Ind. Co. Settlements	0	0	0	0	0	0	0
C. Total MOI	0	7,336	(7,336)	0	0	0	(7,336)
19. A. High Cost Universal Service Fund	0	5,225	(5,225)	0	0	0	15,225
MOI .5103	0	(2,666)	2,666	0	0	0	2,666
B. Ind. Co. Settlements	0	0	0	0	0	0	0
C. Total MOI	0	(2,666)	2,666	0	0	0	2,666
20. A. Removal of EPE Compensation from Independents	15,975	0	15,975	15,975	8,640	7,335	0
MOI .5034510	8,043	0	8,043	8,043	4,350	3,693	0
B. Ind. Co. Settlements	0	0	0	0	0	0	0
C. Total MOI	8,043	0	8,043	8,043	4,350	3,693	0

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PROFORMA WORKSHEET

LOCAL EXCHANGE COMPANY: Southern Bell Telephone & Telegraph Co.  
 OPERATIONS 12-MONTHS ENDING: December 31, 1986

Page 4 of 4

	Total Company	Interstate	Total Intrastate	Total Intra-Toll	Intra-Toll		Local	
					Inter- Territory	Intra- Territory		
21. A. Additional CPE Phase Out NOI .5013	0	(9,168)	9,168	3,646	2,153	3,493	3,522	
B. Ind. Co. Settlements	0	4,678	(4,678)	(1,860)	(1,098)	(762)	(2,018)	
C. Total NOI	0	4,678	(4,678)	(1,860)	(1,098)	(762)	(2,018)	
22. A. Late Payment Charge NOI .4994091	6,939	0	6,939	0	0	0	6,939	
B. Ind. Co. Settlements	3,465	0	3,465	0	0	0	3,465	
C. Total NOI	0	0	0	0	0	0	0	
23. A. Ind. Co. Settlement Effect Ind. Co. NOI	1,305	0	1,305	1,305	0	1,305	0	
B. Total NOI	(742)	0	(742)	(742)	0	(742)	0	
			NOI effect is included in each pro-forma.					
24. Total NOI	17,107	12,724	4,383	8,476	4,428	4,048	(4,093)	

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SOUTHERN BELL - FLORIDA OPERATIONS  
 CALCULATION OF ANNUAL IDC RATE - DECEMBER 31, 1986 DATA

Cost of Capital

	<u>Amount</u>	<u>% of Total</u>	<u>Cost Rate</u>	<u>Weighted Cost</u>
1. Long Term Debt	1,033,577	27.37%	9.12%	2.50%
2. Short Term Debt	87,123	2.31	6.96	.16
3. Equity	1,661,211	43.99	15.00	6.60
4. Customer Deposits	32,544	.86	7.58	.07
5. Cost Free Capital	731,839	19.37	-	-
6. Job Dev. Inv. Credit	<u>230,315</u>	<u>6.10</u>	12.75	<u>.78</u>
7. Total Capital	3,776,609	100.00		10.11%

Cost of JDIC

Long Term Debt	1,033,577	38.35%	9.12%	3.50%
Equity	<u>1,661,211</u>	61.65	15.00	<u>9.25</u>
Total	2,694,788			12.75%

Annual Percentage Rate Currently Used by Southern Bell 10.24%  
 Annual Rate per Calculation 12/31/86 10.11%



SOUTHERN BELL - FLORIDA OPERATIONS  
 CALCULATION OF ADJUSTED CAPITAL STRUCTURE  
 (\$000)

Capital Structure

	<u>Unadjusted Amount</u>	<u>Reconciling Adjustment</u>	<u>Adjusted Capital Structure</u>
1. Long Term Debt	\$1,044,128	(10,551)	1,033,577
2. Short Term Debt	88,012	(889)	87,123
3. Equity	1,678,160	(16,949)	1,661,211
4. Customer Deposits	32,871	(327)	32,544
5. Cost Free Capital	739,159	(7,320)	731,839
6. Job Dev. Inv. Credit	<u>232,655</u>	<u>(2,340)</u>	<u>230,315</u>
7. Total	\$3,814,985	(38,376)	3,776,609

Average Rate Base per Books	3,720,027
Accounting Adjustments	56,582
Average Adjusted Rate Base	3,776,609

FLORIDA PUBLIC SERVICE COMMISSION  
TELEPHONE MONTHLY EARNINGS SURVEILLANCE REPORT

Appendix A

LOCAL EXCHANGE COMPANY Southern Bell  
OPERATIONS 12 MONTHS ENDING December 31, 1985

Page 1 of 5

In \$000's Description	(283) Total Company	Inter- Toll	(487)	(546)	Intratoll		Local
			Total Intra- State	Intra- Toll	Inter- Territory	Intra- Territory	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
<b>CUSTOMER BILLING</b>							
<b>ACCESS CHARGES</b>							
1. End User Charges	64,193	64,194	(1)	(1)	(1)	0	0
2. Capacity Charges (a)	36,520	791	35,729	35,729	35,729	0	0
3. NOU Charges to IXC's (b)	706,000	533,987	172,013	172,013	172,013	0	0
4. Special Access Charges (c)	84,678	60,434	24,234	24,234	24,234	0	0
5. Other (d)	0	0	0	0	0	0	0
6. Total Access Charges (1 thru 5)	891,393	659,408	231,975	231,975	231,975	0	0
<b>OTHER CHARGES TO IXC's</b>							
7. Operator Services (D.A.)	13,174	7,360	5,814	5,814	5,814	0	0
8. Billing and Collecting	58,263	49,585	8,680	8,680	8,680	0	0
9. Interexchange Lease	11,325	0	11,325	0	0	0	11,325
10. Total Other Charges (7 thru 9)	82,764	56,945	25,819	14,494	14,494	0	11,325
<b>CUSTOMER CHARGES</b>							
11. NTS	206,517	219	206,298	206,298	0	206,298	0
12. NATS	46,712	32	46,680	46,680	0	46,680	0
13. Private Line	68,378	5,666	62,712	62,712	0	62,712	0
14. Local Exchange	1,031,280	7	1,031,273	0	0	0	1,031,273
15. Miscellaneous	165,071	0	165,071	0	0	0	165,071
16. Total Customer Charges (11 thru 15)	1,517,958	5,924	1,512,034	315,690	0	315,690	1,196,344
17. Total Billing (6+10+16)	2,492,105	722,277	1,769,828	562,159	246,469	315,690	1,207,649

Note: The amounts on this schedule reflect actual billing to IXC's on a composite basis. However, LEC's are expected to maintain individual side records by IXC in the same level of detail found on this schedule.

- (a) Busy hour minute of capacity charge.
- (b) Includes local switching, local transport, line termination and carrier common line.
- (c) For intrastate, interterritory station terminals; for interstate, would include all special access line charges.
- (d) Includes testing, ordering, labor, etc.
- (e) Customer charges include only charges for LEC-provided toll; does not include toll monies turned over to IXC's.

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FLORIDA PUBLIC SERVICE COMMISSION  
TELEPHONE MONTHLY EARNINGS SURVEILLANCE REPORT

LOCAL EXCHANGE COMPANY Southern Bell  
OPERATIONS 12-MONTHS ENDING December 31, 1985

Page 2 of 5

In \$000's Description	(263)	Inter- Toll	(417)	(546)	Intratoll		Local
	Total Company		Total Intra- State	Intra- Toll	Inter- Territory	Intra- Territory	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
<b>BOOKED REVENUES</b>							
1. Access Charges (a)	\$1,072,766	\$826,336	\$246,430	246,430	\$246,430	\$0	\$0
2. Intra Territory Toll	317,572	0	317,572	317,572	0	317,572	0
3. Interexchange Lease	11,325	0	11,325	0	0	0	11,325
4. Gross Revenue (b)	1,202,683	5,740	1,196,943	0	0	0	1,196,943
5. Uncollectibles	16,744	1,563	15,181	2,540	0	2,540	12,641
6. Net Booked Revenue (1 thru 5)	\$2,587,682	\$830,513	\$1,757,089	\$561,462	246,430	315,032	1,195,627
<b>OPERATING EXPENSE</b>							
7. Maintenance	\$350,771	\$190,607	\$360,164	\$116,691	\$55,821	\$60,870	\$243,473
8. Depreciation & Amortization	401,492	152,167	249,325	81,455	38,435	42,820	167,870
9. Traffic Expense	70,640	8,039	62,601	16,742	4,285	12,457	45,859
10. Commercial Expense	196,228	55,746	140,482	45,547	15,767	29,780	94,935
11. General	187,573	58,255	129,318	41,071	18,789	22,282	80,247
12. Other Operating	208,326	47,754	160,572	53,625	18,810	35,615	106,947
13. Total Operating Expense (7 thru 12)	1,615,830	512,568	1,102,462	355,131	151,307	203,824	747,331
14. % Distribution	100%	31.74%	60.26%	21.99%	9.37%	12.62%	46.27%
<b>OPERATING TAXES</b>							
15. Federal Income Taxes	\$257,139	\$85,083	\$172,056	\$58,110	\$27,838	\$30,272	\$113,946
16. State Income Tax	37,086	12,997	24,089	9,745	3,515	6,238	14,264
17. Other Taxes	149,743	39,867	109,876	29,664	11,417	18,249	88,210
18. Total Operating Taxes (15 thru 17)	443,888	137,947	305,941	97,521	42,770	54,751	206,420
19. % Distribution	100%	31.08%	60.92%	21.97%	9.64%	12.33%	46.95%
<b>NET OPERATING INCOME</b>							
20. Per Book NOI (6-13-18)	\$28,684	179,998	348,686	188,810	\$2,353	\$6,457	239,876
21. NOI Effect of Adjustments	17,962	13,454	4,508	(725)	18,247	(10,972)	5,233
22. Adjusted NOI (20+21)	\$46,646	\$193,452	\$353,194	\$188,085	\$22,600	\$45,485	\$245,109

(a) Amounts on this line should include all major access charge elements and other charges such as those defined on lines 1 through 8 of page 1 of 5 of this report that are part of the "access charge pool".

(b) Amounts on this line should include all "above the line-regulated" booked revenues not included on lines 1 through 3 of this page

**GENERAL NOTE:**

Data concerning directory operations includes only amounts on Southern Bell's books.

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FLORIDA PUBLIC SERVICE COMMISSION  
TELEPHONE MONTHLY EARNINGS SURVEILLANCE REPORT

LOCAL EXCHANGE COMPANY Southern Bell  
OPERATIONS FOR THE MONTH ENDED December, 1965

Page 2a of 5

In \$000's Description	(263) Total Company	Inter- Toll	(467)	(546) Intra- Toll	Intratoll		Local
			Total Intra- State		Inter- Territory	Intra- Territory	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
<b>BOOKED REVENUES</b>							
1. End User Charges	\$6,888	\$6,888	\$0	\$0	\$0	\$0	\$0
2. Capacity Charges (a)	401	(527)	928	928	928	0	0
3. NOU Charges to IXCs	62,006	44,272	17,734	17,734	17,734	0	0
4. Special Access Charges	5,271	4,279	992	992	992	0	0
5. Other Access Charges	6,332	6,389	(57)	(57)	(57)	0	0
6. Intra Territory Toll	24,582	0	24,582	24,582	0	24,582	0
7. Interexchange Lease	744	0	744	0	0	0	744
8. Coin	8,283	2	8,281	2,018	0	2,018	6,263
9. BA	3,459	1,117	2,342	619	267	352	1,723
10. Other	(10)	924	(934)	(934)	(934)	0	0
11. Gross Revenue (b)	95,524	(146)	95,670	0	0	0	95,670
12. Uncollectibles	(2,297)	141	(2,438)	(575)	0	(575)	(1,863)
13. Net Booked Revenue (L1 thru L12)	215,769	63,049	152,720	46,457	18,930	27,527	106,263
<b>OPERATING EXPENSE</b>							
14. Maintenance	\$51,709	\$10,463	\$33,246	\$12,105	\$5,644	\$6,461	\$21,141
15. Depreciation & Amortization	34,643	13,308	21,335	7,377	3,281	4,096	13,958
16. Traffic Expense	5,151	867	4,284	677	499	178	3,687
17. Commercial Expense	18,377	4,714	13,663	5,222	1,430	3,792	8,441
18. General	16,328	5,018	11,310	3,706	1,576	2,130	7,684
19. Other Operating	15,578	551	15,027	4,119	1,293	2,826	10,908
20. Total Operating Expense (14 thru 19)	141,778	42,913	98,865	33,206	13,723	19,483	65,659
21. X Distribution	100X	30.27X	69.73X	23.42X	9.68X	13.74X	46.31X
<b>OPERATING TAXES</b>							
22. Federal Income Taxes	\$17,305	\$3,769	\$13,536	\$2,909	\$1,037	\$1,872	\$10,627
23. State Income Tax	1,872	315	1,557	389	119	270	1,168
24. Other Taxes	12,603	2,877	9,726	2,296	825	1,471	7,430
25. Total Operating Taxes (22 thru 24)	31,780	6,961	24,819	5,594	1,981	3,613	19,225
26. X Distribution	180X	21.90X	78.10X	17.60X	6.23X	11.37X	60.49X
<b>NET OPERATING INCOME</b>							
27. Per Book NOI (13-20-25)	42,211	13,175	29,036	7,657	3,226	4,431	21,379
28. NOI Effect of Adjustments	0	0	0	0	0	0	0
29. Adjusted NOI (27+28)	\$42,211	\$13,175	\$29,036	\$7,657	\$3,226	\$4,431	\$21,379

(a) Amounts on this line should include all major access charge elements and other charges such as those defined on lines 1 through 8 of page 1 of 5 of this report that are part of the "access charge pool".  
(b) Amounts on this line should include all "above the line-regulated" booked revenues not included on lines 1 through 3 of this page

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FLORIDA PUBLIC SERVICE COMMISSION  
TELEPHONE MONTHLY EARNINGS SURVEILLANCE REPORT

LOCAL EXCHANGE COMPANY Southern Bell  
OPERATIONS 12-MONTHS ENDING December 31, 1985

Page 3 of 5

In \$000's Description	(263)	Inter- Toll	(467)	(566)	Intratoll		Local
	Total Company		Total Intra- State	Intra- Toll	Inter- territory	Intra- territory	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
<b>RATE BASE AVERAGE</b>							
1. Land and Buildings	\$591,231	\$162,001	\$429,230	\$125,585	\$53,906	\$71,679	\$303,645
2. C.O.E.	1,723,230	469,333	1,253,897	433,301	182,919	250,382	820,596
3. Station Equipment	540,549	289,548	250,981	116,761	65,889	58,872	134,220
4. Outside Plant	3,098,666	1,112,717	1,985,949	524,090	272,274	231,816	1,461,859
5. Other Investment	358,707	112,470	246,237	68,413	31,588	36,825	177,824
6. Accumulated Depreciation	1,152,533	429,147	723,386	232,220	118,003	121,417	491,166
7. Net Plant (L1 thru L5-L6)	5,159,850	1,716,942	3,442,908	1,035,930	495,773	540,157	2,406,970
8. Plant Under Construction (no IDC)	72,729	21,410	51,319	13,310	6,254	7,056	38,009
9. Future Use Property	784	225	559	166	73	93	393
10. Acquisition Adjustments	0	0	0	0	0	0	0
11. Working Capital Adjs.	165,909	53,862	112,047	32,438	15,826	16,612	79,609
12. Average Rate Base(L7 thru L11)	\$5,399,272	\$1,792,439	\$3,606,833	\$1,081,844	\$517,926	\$563,918	\$2,524,989
13. % Distribution	100%	33.20%	66.80%	20.04%	9.59%	10.44%	46.77%
<b>ADJUSTMENTS TO RATE BASE AVERAGE</b>							
14. Accounting Adjustments	(10,458)	(10,160)	(298)	4,692	(2,825)	7,517	(4,990)
15. Adjusted Rate Base (L12+L14)	\$5,388,814	\$1,782,279	\$3,606,535	\$1,086,536	\$515,101	\$571,435	\$2,519,999
<b>YEAR END RATE BASE</b>							
16. Unadjusted year end rate base			3,686,884				
17. Accounting Adjustments			(298)				
18. Adjusted Rate Base (L16+L17)			3,686,586				
<b>RATES OF RETURN</b>							
19. Per Book (L20 (pg 2 of 5)/L12)	9.79%	10.04%	9.67%	10.06%	10.11%	10.01%	9.50%
20. Adj. with Average Rate Base (L22 (pg 2 of 5)/L15)	10.14%	10.85%	9.79%	9.95%	12.15%	7.96%	9.73%
21. Adj. with Year end rate base (L22 (pg 2 of 5)/L18)			9.50%				

\* All intra data is on a seven day usage basis to be consistent with Independent Company settlements calculations.

GENERAL NOTE:

Data concerning directory operations includes only amounts on Southern Bell's books.

# Since this interstate toll rate of return includes only the effect of Pro Forma adjustments made for Florida it is not representative of the going rate of return on a nation wide basis.

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FLORIDA PUBLIC SERVICE COMMISSION  
TELEPHONE MONTHLY EARNINGS SURVEILLANCE REPORT

LOCAL EXCHANGE COMPANY Southern Bell  
OPERATIONS 12-MONTHS ENDING December 31, 1985

Page 4a of 5

In \$000's Description	(213)	Inter- Toll	(407)	(506)	Intratoll		Local
	Total Company		Total Intra- State	Intra- Toll	Inter- Territory	Intra- Territory	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1. Yellow Page profits *	(814,553)	80	(814,553)	80	80	80	(814,553)
2. Out of Period Adjustments	695	0	695	(622)	9,614	(10,236)	1,317
3. Gains on Sales of Property	1,254	357	897	0	0	0	897
4. Inc. Rel. to Temp. Cash Inv.	169	57	112	0	0	0	112
5. Custom Calling & EAS	(215)	0	(215)	0	0	0	(215)
6. Billing Inquiry	(11,543)	(21,555)	10,012	10,012	(4,900)	14,912	0
7. Bill and Keep Order(7/1/85)	13,670	0	13,670	6,110	3,692	2,410	7,560
8. CPE/AMS Refund-Revenue	1,810	0	1,810	0	0	0	1,810
9. Interest Synchronization	(6,089)	0	(6,089)	(1,810)	(865)	(945)	(4,279)
10. EMFTA	0	(2,217)	2,217	0	0	0	2,217
11. Independent Co. Sett. Effect	(1,306)	0	(1,306)	(1,306)	0	(1,306)	0
12. Lobbying Expense	(203)	(63)	(140)	(44)	(20)	(24)	(96)
13. Corporate Advertising	(2,200)	(794)	(1,406)	(589)	(221)	(360)	(897)
14. Abandoned Projects	1,224	297	927	220	80	140	699
15. Employee Level Adjustment	(21,674)	(6,388)	(15,286)	(4,421)	(1,905)	(2,516)	(10,865)
16. Casualty Expense	1,326	459	867	201	134	147	584
17. Miscellaneous Out-of-Period	(3,532)	(31)	(3,501)	(1,043)	(497)	(546)	(2,458)
18. Telephone Franchise Req.	(188)	(38)	(70)	(23)	(11)	(12)	(42)
19. Total Adjustments	(41,247)	(29,070)	(11,369)	6,796	5,120	1,476	(10,165)
20. NOI Effect	17,962	13,454	4,508	(725)	10,247	(10,972)	5,233

The above amounts shall be those adjustments necessary to reflect Commission policy enumerated in the Company's most recent rate case in accordance with S. 366.071, F.S., Interim rates; procedures.

\*Amounts shown on this line represent the "excess yellow page profit" as defined in S. 364.037, F.S. In determining this amount, use an annual average Consumer Price Index(CPI), for urban wage earners and clerical workers as published by the Department of Labor. Also, use average access line growth rate for this calculation.

All intra toll data is on a seven day usage basis to be consistent with Independent Company settlements calculations.

GENERAL NOTE:

Data concerning directory operations includes only amounts on Southern Bell's books.

Pro forma are not necessary for contributions and membership fees and dues because these amounts have been excluded from operating expenses on a per books basis.

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FLORIDA PUBLIC SERVICE COMMISSION  
TELEPHONE MONTHLY EARNINGS SURVEILLANCE REPORT

LOCAL EXCHANGE COMPANY Southern Bell  
OPERATIONS 12-MONTHS ENDING December 31, 1985

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In \$000's Description	(263)	Inter- Toll	(467)	(566)	Intratoll		Local
	Total Company		Total Intra- State	Intra- Toll	Inter- Territory	Intra- Territory	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
✓1. Excess Plug-in Units	(810,458)	(82,818)	(87,610)	(82,620)	(81,100)	(81,520)	(84,990)
✓2. Billing Inquiry	0	(7,312)	7,312	7,312	(1,725)	9,037	0
3. Total Rate Base Adjustments	(10,458)	(10,160)	(298)	4,492	(2,825)	7,517	(4,990)

The above amounts shall be those adjustments necessary to reflect Commission policy enumerated in the Company's most recent rate case in accordance with S. 366.071, F.S., Interim rates; procedures.

All intra toll data is on a seven day usage basis to be consistent with Independent Company settlements calculations.

GENERAL NOTE:

Data concerning directory operations includes only amounts on Southern Bell's books.

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FLORIDA PUBLIC SERVICE COMMISSION  
TELEPHONE MONTHLY EARNINGS SURVEILLANCE REPORT

LOCAL EXCHANGE COMPANY Southern Bell  
OPERATIONS 12-MONTHS ENDING December 31, 1985

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(000's) COST OF CAPITAL (a)	Amount (1)	% of Total (2)	Cost Rate (3)	Weighted Cost Rate (4)
1. Long Term Debt	\$1,074,242	29.78%	9.44%	2.81%
2. Short Term Debt	131,390	3.65%	8.80%	0.29%
3. Equity	1,532,090	42.50%	15.00%	6.38%
4. Customer Deposits	29,508	0.82%	7.62%	0.06%
5. Cost Free Capital	621,678	17.24%		
6. Job Dev. Inv. Cr.	216,627	6.01%	10.15%	0.61%
7. Total Capital	\$3,606,535	100%		10.15%

\*Equity cost rate equals last authorized midpoint.

FLORIDA OPERATIONS  
TOTAL COMPANY

INTERNAL FUNDS	
7. Net Income (less IDC)	\$ 345,539,200
8. Depreciation	401,491,560
9. Current Deferred Taxes	103,406,955
10. Current ITC	24,517,193
11. Other	2,390,862
12. Subtotal	877,345,850
13. Construction Expenditures (b)	668,667,316
14. % Internal Funds	131.21%
15. Appropriated dividends	
16. % Internal Funds after dividends [(12-15)/13]	131.21%
17. Times Interest Earned	4.53

Also, show overall weighted cost rate on investment at last authorized equity floor 9.70%  
and last authorized equity maximum 10.60%

The per cent of long term debt to total investor capital (total capital excluding customer deposits, deferred taxes and unamortized investment tax credits) is 39.43%

The per cent of short term debt to total investor capital (total capital excluding customer deposits, deferred taxes and unamortized investment tax credits) is 4.83%

The Jurisdictional Average Adjusted Return on Equity is 14.21%

- (a) Capital Structure should be reconciled to rate base in accordance with the Commission Order rendered in the Company's last rate case.  
(b) Construction expenditures to be calculated in the same manner as "Total applications to Const. and Plant Exp." per Annual report Form N, Schedule 12B (Source and Application of Funds).  
(c) Jurisdictional average per books earned return on equity is calculated by using the overall earned rate of return on line 20, column 3, page 3 of 5 and applying this to line 7, column 4 page 5 of 5. From there calculate the weighted cost of equity (Column 4) and cost of equity (Column 3) accordingly.

GENERAL NOTE:

Data concerning directory operations includes only amounts on Southern Bell's books.

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PROFORMA WORKSHEET

LOCAL EXCHANGE COMPANY: Southern Bell Telephone & Telegraph Co.  
 OPERATIONS 12-MONTHS ENDING: December 31, 1985

Page 1 of 3

	Total Company	Interstate	Total Intrastate	Total Intra-Toll	Intra-Toll		Local
					Inter- Territory	Intra- Territory	
1. A. Yellow Page Profits	(14,553)	0	(14,553)	0	0	0	(14,553)
NOI .5183	(7,426)	0	(7,426)	0	0	0	(7,426)
B. Ind. Co. Settlements	0	0	0	0	0	0	0
C. Total NOI	(7,426)	0	(7,426)	0	0	0	(7,426)
2. A. Out-of-Period Adjustments	695	0	695	(622)	9,614	(10,236)	1,317
NOI .5023603	349	0	349	(312)	4,830	(5,142)	661
B. Ind. Co. Settlements	0	0	0	0	0	0	0
C. Total NOI	349	0	349	(312)	4,830	(5,142)	661
3. A. Gains on Sales of Property	1,254	357	897	0	0	0	897
NOI .4983453	625	178	447	0	0	0	447
B. Ind. Co. Settlements	0	0	0	0	0	0	0
C. Total NOI	625	178	447	0	0	0	447
4. A. Income Related to Temp. Cash Inv.	169	57	112	0	0	0	112
NOI .4983453	84	28	56	0	0	0	56
B. Ind. Co. Settlements	0	0	0	0	0	0	0
C. Total NOI	84	28	56	0	0	0	56
5. A. Custom Calling & EAS	(215)	0	(215)	0	0	0	(215)
NOI .4983453	(107)	0	(107)	0	0	0	(107)
B. Ind. Co. Settlements	0	0	0	0	0	0	0
C. Total NOI	(107)	0	(107)	0	0	0	(107)
6. A. Billing Inquiry	(11,543)	(21,555)	10,012	10,012	(4,900)	14,912	0
NOI	5,799	11,000	(5,201)	(5,201)	2,502	(7,703)	0
B. Ind. Co. Settlements	0	0	0	0	0	0	0
C. Total NOI	5,799	11,000	(5,201)	(5,201)	2,502	(7,703)	0
7. A. Bill and Keep Order(7/1/85)	13,670	0	13,670	6,110	3,692	2,418	7,560
NOI .5023603	6,867	0	6,867	3,069	1,855	1,214	3,798
B. Ind. Co. Settlements	0	0	0	0	0	0	0
C. Total NOI	6,867	0	6,867	3,069	1,855	1,214	3,798
8. A. CPE/ANPS Refund-Rev.	1,010	0	1,010	0	0	0	1,010
NOI .5023603	909	0	909	0	0	0	909
B. Ind. Co. Settlements	0	0	0	0	0	0	0
C. Total NOI	909	0	909	0	0	0	909

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PROFORMA WORKSHEET

LOCAL EXCHANGE COMPANY: Southern Bell Telephone & Telegraph Co.  
OPERATIONS 12-MONTHS ENDING: December 31, 1985

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	Total Company	Interstate	Total Intrastate	Total Intra-Toll	Intra-Toll		Local
					Inter- Territory	Intra- Territory	
9. A. Interest Synchronization	(6,089)	0	(6,089)	(1,810)	(865)	(945)	(4,279)
MOI .4897	(2,982)	0	(2,982)	(887)	(424)	(463)	(2,095)
B. Ind. Co. Settlements	0	0	0	0	0	0	0
C. Total MOI	(2,982)	0	(2,982)	(887)	(424)	(463)	(2,095)
10. A. ENFTA	0	(2,217)	2,217	0	0	0	2,217
MOI .5023603	0	(1,113)	1,113	0	0	0	1,113
B. Ind. Co. Settlements	0	0	0	0	0	0	0
C. Total MOI	0	(1,113)	1,113	0	0	0	1,113
11. A. Lobbying Expense	(203)	(63)	(148)	(44)	(20)	(24)	(96)
MOI .5103	183	32	71	22	18	12	49
B. Ind. Co. Settlements	10	0	10	10	0	10	0
Ind. Co. MOI	(5)	0	(5)	(5)	0	(5)	0
C. Total MOI	98	32	66	17	18	7	49
12. A. Corporate Advertising	(2,280)	(794)	(1,486)	(589)	(221)	(360)	(897)
MOI .5103	1,163	405	758	300	112	188	458
B. Ind. Co. Settlements	151	0	151	151	0	151	0
Ind. Co. MOI	(76)	0	(76)	(76)	0	(76)	0
C. Total MOI	1,087	405	682	224	112	112	458
13. A. Abandoned Projects	1,224	297	927	228	88	140	699
MOI .5103	(625)	(152)	(473)	(116)	(45)	(71)	(357)
B. Ind. Co. Settlements	(58)	0	(58)	(58)	0	(58)	0
Ind. Co. MOI	29	0	29	29	0	29	0
C. Total MOI	(596)	(152)	(444)	(87)	(45)	(42)	(357)
14. A. Employee Level Adj.	(21,674)	(6,388)	(15,286)	(4,421)	(1,905)	(2,516)	(10,865)
MOI .5103	11,868	3,260	7,800	2,256	972	1,284	5,344
B. Ind. Co. Settlements	1,834	0	1,834	1,834	0	1,834	0
Ind. Co. MOI	(519)	0	(519)	(519)	0	(519)	0
C. Total MOI	10,541	3,260	7,281	1,737	972	765	5,544
15. A. Casualty Expense	1,326	459	867	281	134	147	586
MOI .5103	(476)	(234)	(442)	(143)	(68)	(75)	(299)
B. Ind. Co. Settlements	(60)	0	(60)	(60)	0	(60)	0
Ind. Co. MOI	30	0	30	30	0	30	0
C. Total MOI	(646)	(234)	(412)	(113)	(68)	(45)	(299)

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PROFORMA WORKSHEET

LOCAL EXCHANGE COMPANY: Southern Bell Telephone & Telegraph Co.  
 OPERATIONS 12-MONTHS ENDING: December 31, 1985

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	Total Company	Interstate	Intra-toll				Local
			Total Intrastate	Total Intra-Toll	Inter- Territory	Intra- Territory	
16. A. Miscellaneous Out-of-Period NOI	(3,532)	(31)	(3,501)	(1,043)	(497)	(546)	(2,458)
B. Ind. Co. Settlements	3,532	31	3,501	1,043	497	546	2,458
Ind. Co. NOI	224	0	224	224	0	224	0
C. Total NOI	(224)	0	(224)	(224)	0	(224)	0
	3,308	31	3,277	819	497	322	2,458
17. A. Telephone Franchise Req. NOI 5103	(108)	(38)	(70)	(23)	(11)	(12)	(47)
B. Ind. Co. Settlements	55	19	36	12	6	6	24
Ind. Co. NOI	5	0	5	5	0	5	0
C. Total NOI	(3)	0	(3)	(3)	0	(3)	0
	52	19	33	9	6	3	24
18. A. Ind. Co. Settlement Effect	1,306	0	1,306	1,306	0	1,306	0
Ind. Co. NOI	(768)	0	(768)	(768)	0	(768)	0
B. Total NOI							
NOI effect is included in each pro-forma.							
19. Total NOI	17,962	13,454	4,508	(725)	10,247	(10,972)	5,233

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FLORIDA PUBLIC SERVICE COMMISSION  
TELEPHONE MONTHLY EARNINGS SURVEILLANCE REPORT

Appendix A

LOCAL EXCHANGE COMPANY Southern Bell  
OPERATIONS YEAR-TO-DATE December 31, 1984

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In 000's Description	(263)	Inter- Toll	(487)	(584)	Intrastate		Local
	Total Company		Total Intra- State	Intra- Toll	Inter- Territory	Intra- Territory	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
<b>CUSTOMER BILLING</b>							
<b>ACCESS CHARGES</b>							
1. End User Charges	22461	22461	0	0	0	0	0
2. Capacity Charges (a)	56334	1904	54430	54430	54430	0	0
3. NOU Charges to IEC's (b)	502532	394715	107817	107817	107817	0	0
4. Special Access Charges (c)	68261	34957	31244	31244	31244	0	0
5. Other (d)	40559	40559	0	0	0	0	0
6. Total Access Charges (1 thru 5)	690087	496596	193491	193491	193491	0	0
<b>OTHER CHARGES TO IEC's</b>							
7. Operator Services (E.A.)	19780	9600	10180	10180	10180	0	0
8. Billing and Collecting	54946	33015	21031	21031	21031	0	0
9. Interexchange Lease	12536	0	12536	0	0	0	12536
10. Total Other Charges (7 thru 9)	87170	43415	43753	31219	31219	0	12536
<b>CUSTOMER CHARGES</b>							
11. NTS	235401	39386	196015	196015	0	196015	0
12. NATS	55077	5061	50016	50016	0	50016	0
13. Private Line	75804	6615	69269	69269	0	69269	0
14. Local Exchange	958035	21	958034	0	0	0	958034
15. Miscellaneous	0	0	0	0	0	0	0
16. Total Customer Charges (11 thru 15)	1325217	51003	1274134	315300	0	315300	958034
17. Total Billing (6+10+16)	2162474	591094	1511380	540010	224710	315300	971370

Note: The amounts on this schedule reflect actual billing to IEC's on a composite basis. However, LEC's are expected to maintain individual side records by IEC in the same level of detail found on this schedule.

(a) Busy hour minute of capacity charge.

(b) Includes local switching, local transport, line termination and carrier common line.

(c) For intrastate, interterritory station terminals; for interstate, would include all special access line charges.

(d) Includes testing, ordering, labor, etc.

(e) Customer charges include only charges for LEC-provided toll; does not include toll monies turned over to IEC's.

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TELEPHONE MONTHLY EARNINGS SURVEILLANCE REPORT

LOCAL EXCHANGE COMPANY Southern Bell  
OPERATIONS 12-MONTH ENDING DECEMBER 31, 1980

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In 0000's Description	(263)	Inter- Toll	(467)	(566)	Intratoll		Local
	Total Company		Total Intra- State	Intra- Toll	Inter- Territory	Intra- Territory	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
<b>BOOKED REVENUES</b>							
1. Access Charges (a)	991,751	674,463	927,288 0	927,288 0	927,288 0	0	0
2. Intra Territory Toll	279,744	0	279,744 00	279,744 00	0	279,744 00	0
3. Interexchange Lease	12,536	0	12,536	0	0	0	12,536
4. Gross Revenue (b)	1,140,609	39,293	1,109,316	0	0	0	91,109,316
5. Uncollectibles	13,652	340	13,292	2,243	0	2,243	111,049
6. Net Booked Revenue (1 thru 5)	92,410,988	9753,396	91,665,592	9354,789	277,288	277,501	1,116,803
<b>OPERATING EXPENSE</b>							
7. Maintenance	954,351	9109,464	9354,067	9113,452	949,365	944,067	9240,635
8. Depreciation & Amortization	373,193	140,367	232,826	73,276	33,550	39,726	9159,550
9. Traffic Expense	71,215	7,950	63,257	17,951	3,927	14,024	945,306
10. Commercial Expense	164,045	42,919	121,126	36,074	14,459	21,615	985,052
11. General	933,406	42,052	91,354	20,237	12,437	15,800	963,117
12. Other Operating	232,494	56,320	176,164	97,297	19,109	30,188	9118,049
13. Total Operating Expense (7 thru 12)	91,517,904	9479,090	91,038,816	9326,287	9132,047	9193,440	9712,529
14. % Distribution	100%	31.56%	68.44%	21.50%	8.75%	12.74%	46.94%
<b>OPERATING TAXES</b>							
15. Federal Income Taxes	9237,336	970,316	9167,020	970,248	949,869	920,379	996,772
16. State Income Tax	10,547	5,744	12,803	5,931	3,971	1,960	96,872
17. Other Taxes	150,633	30,115	111,910	32,349	14,625	17,724	979,549
18. Total Operating Taxes (15 thru 17)	9405,916	9116,175	9291,741	9108,528	968,465	940,063	9183,213
19. % Distribution	100%	29.13%	71.87%	26.74%	16.87%	9.87%	45.16%
<b>NET OPERATING INCOME</b>							
20. Per Book NOI (6-13-18)	995,168	160,133	335,035	119,974	75,976	43,998	215,061
21. NOI Effect of Adjustments (6,276)	(6,276)	(312)	(5,964)	(3,283)	(3,493)	210	(2,481)
22. Adjusted NOI (20+21)	988,892	9159,821	9329,071	9116,691	972,483	944,208	9122,580

(a) Accounts on this line should include all major access charge elements and other charges such as those defined on lines 1 through 8 of page 1 of 3 of this report that are part of the "access charge pool".  
 (b) Accounts on this line should include all "above the line-regulated" booked revenues not included on lines 1 through 3 of this page.  
 0 Includes the full annual effect of the \$26.2 million surcharge to ATT-C and \$360 for the interterritory portion of the \$9754 CPE charge to Independents.  
 99 Intra-territory includes \$3994 of the \$9754 CPE charge to Independents.  
 GENERAL NOTE:  
 Data concerning directory operations includes only accounts on Southern Bell's Books for 1980.

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TELEPHONE MONTHLY EARNINGS SURVEILLANCE REPORT

LOCAL EXCHANGE COMPANY Southern Bell  
OPERATIONS 12-MONTH ENDING DECEMBER 31, 1994

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In 0000's Description	(263)		(467)	(566)	Intratoll		
	Total Company	Inter- Toll	Total Intra- State 00	Intra- Toll 00	Inter- Territory 00	Intra- Territory 00	Local
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
<b>RATE BASE AVERAGE</b>							
1. Land and Buildings	9582,493	9155,471	9427,022	9114,660	946,003	968,577	9312,352
2. C.O.E.	1,567,227	895,190	1,158,327	358,347	126,999	231,348	799,789
3. Station Equipment	580,396	343,296	245,010	139,008	79,701	59,307	106,002
4. Outside Plant	2,799,407	1,006,391	1,793,016	469,066	291,763	227,303	1,323,950
5. Other Investment	322,530	101,960	220,570	57,923	26,712	31,211	162,655
6. Accumulated Depreciation	937,257	347,572	589,685	191,006	83,362	106,462	397,001
7. Net Plant (L1 thru L5-L6)	4,918,714	1,664,646	3,254,040	947,200	435,076	511,304	2,306,068
8. Plant Under Construction (no IDC)	70,237	21,306	48,931	16,131	3,633	0,476	34,000
9. Future Use Property	1,153	339	814	221	94	127	593
10. Acquisition Adjustments	0	0	0	0	0	0	0
11. Working Capital Adjs. - Est.	61,197	21,609	39,588	10,534	3,300	5,234	29,054
12. Average Rate Base(L7 thru L11)	95,051,301	91,707,900	93,343,401	9772,006	9446,945	9525,141	92,371,315
13. % Distribution	100%	33.81%	66.19%	19.24%	8.85%	16.46%	46.94%
<b>ADJUSTMENTS TO RATE BASE AVERAGE</b>							
14. Accounting Adjustments	(16,180)	235	(16,415)	(6,757)	(1,944)	(2,813)	(11,650)
15. Adjusted Rate Base (L12+L14)	95,035,121	91,708,135	93,326,986	9765,249	9445,001	9522,328	92,359,665
<b>YEAR END RATE BASE</b>							
16. Unadjusted year end rate base			3,434,934				
17. Accounting Adjustments			(9,172)				
18. Adjusted Rate Base (L16+L17)			3,425,762				
<b>RATES OF RETURN</b>							
19. Per Book (L20 (pg 2 of 53/L12))	9.80%	9.38%	10.02% 000	12.34% 000	17.00% 000	8.38%	9.67%
20. Ad). with Average Rate Base (L22 (pg 2 of 53/L13))	9.71% 0	9.36% 0	9.89%	12.06%	16.29%	8.46%	9.60%
21. Ad). with Year end rate base (L22 (pg 2 of 53/L18))			9.61%				

\* All intra data is on a seven day usage basis to be consistent with Independent Company settlements calculations.

GENERAL NOTE:

Data concerning directory operations includes only amounts on Southern Bell's books for 1994.

0 Since this interstate toll rate of return includes only the effect of Pro Forma adjustments made for Florida it is not representative of the going rate of return on a nation wide basis.

00 Includes the full annual effect of the \$26.2 million surcharge to ATT-C and IntraToll) includes the \$9730 CPE charge to Independents - \$5760 for Interterritory and \$3974 for Intraterritory.

000 Removal of the \$26.2 Million in Revenues would lower the rate of return for Total IntraState by 40 points, Intra Toll by 137 points and Interterritory by 238 points.

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LOCAL EXCHANGE COMPANY Southern Bell  
OPERATIONS 12-MONTH ENDING DECEMBER 31, 1984

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In 000's Description	(263)	Inter- Toll	(467)	(566)	Intrastate		Local
	Total Company		Intra- State	Intra- Toll	Inter- Territory	Intra- Territory	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
✓1. Yellow Page profits *	189,510	00	(69,510)	00	00	00	189,510
✓2. Add'l. Settlements for Dec. 84	(2,678)	0	(2,678)	(2,678)	(7,682)	4,404	0
✓3. Gains on Sales of Property	551	164	387	100	46	42	279
✓4. Inc. Rel. to Temp. Cash Inv.	293	99	194	57	26	31	137
✓5. Custom Calling & EAS	2,126	0	2,126	0	0	0	2,126
✓6. Out of Period Settlements	(4,333)	0	(4,333)	(4,333)	0	(4,333)	0
✓7. ENFA	2,316	0	2,316	0	0	0	2,316
8. Independent Co. Sett. Effect	(221)	0	(221)	(221)	(94)	(127)	0
✓9. Lobbying Expense	(211)	(67)	(144)	(43)	(20)	(23)	(97)
✓10. Corporate Advertising	46	5	41	15	10	5	26
✓11. Abandoned Projects	1,292	358	934	235	106	129	699
✓12. Casualty Expense	1,557	543	1,014	325	141	184	689
✓13. Miscellaneous Out-of-Period	(1,150)	(693)	(457)	(501)	(217)	(284)	44
✓14. Effect of Separations Changes	0	1,361	(1,361)	(371)	(143)	(226)	(990)
15. Total Adjustments	(9,922)	1,770	(11,692)	(7,409)	(7,229)	(1100)	(4,283)
16. NBI Effect	(8,276)	(312)	(5,964)	(3,283)	(3,493)	210	(2,483)

The above amounts shall be those adjustments necessary to reflect Commission policy enumerated in the Company's most recent rate case in accordance with FS 366.071 interim rates procedures.

\*Amounts shown on this line represent the "excess yellow page profit" as defined in FS 366.037. In determining this amount, use an annual average Consumer Price Index (CPI), for all urban as published by the Department of Labor. Also, use average access line growth rate for this calculation. The 69,510 is based on Southern Bell booked data for 1984. All intra toll data is on a seven day usage basis to be consistent with independent Company settlements calculations.

GENERAL NOTE:

Data concerning directory operations includes only amounts on Southern Bell's books for 1984.

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LOCAL EXCHANGE COMPANY Southern Bell  
OPERATIONS 12-MONTHS ENDING DECEMBER 31, 1984

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In 000's Description	(263) Total Company	Inter- Toll	(447) Total	(536) Intra- Toll	Intratoll		Local
			Intra- State	Intra- Territory	Intra- Territory		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1. Excess Plug-in Units	(67,147)	(61,852)	(65,295)	(61,639)	(4581)	(61,050)	(63,656)
2. Effect of Separations Changes	0	3,877	(3,877)	(1,166)	(491)	(615)	(2,371)
3. Additional PSC Depr. Adj.	(2,543)	0	(2,543)	(790)	(365)	(427)	(1,753)
4. Capitalized Leases	(6,490)	(1,790)	(4,700)	(1,221)	(509)	(713)	(3,478)
5. Total Rate Base Adjustments	(16,180)	235	(16,415)	(4,757)	(1,944)	(2,013)	(11,450)

The above amounts shall be those adjustments necessary to reflect Commission policy enumerated in the Company's most recent rate case in accordance with PB 366.071 (interim rates) procedures.

All intra toll data is on a seven day usage basis to be consistent with independent Company settlements calculations.

GENERAL NOTES:

Data concerning directory operations includes only amounts on Southern Bell's books for 1984.

FPSC Exhibit Number \_\_\_\_\_  
FPSC Docket 920260-TL \_\_\_\_\_  
Reid Exhibit WSR-4 \_\_\_\_\_  
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FLORIDA PUBLIC SERVICE COMMISSION  
TELEPHONE MONTHLY EARNINGS SURVEILLANCE REPORT

LOCAL EXCHANGE COMPANY Southern Bell  
OPERATIONS 12-MONTH ENDING DECEMBER 31, 1984

Page 3 of 3

(000's) COST OF CAPITAL (a)	Amount ----- (1)	% of Total ----- (2)	Cost Rate ----- (3)	Weighted Cost Rate ----- (4)
1. Long Term Debt	81,010,202	31.07%	9.43%	3.00%
2. Short Term Debt	73,400	2.71%	10.22%	0.23%
3. Equity	1,400,007	42.32%	15.00%	6.35%
4. Customer Deposits	26,555	0.80%	7.31%	0.06%
5. Cost Free Capital	559,961	16.83%	--	--
6. Job Dev. Inv. Cr.	190,741	5.97%	10.25%	0.61%
7. Total Capital	83,326,986	100%		10.25%

\*Equity cost rate equals last authorized midpoint.

FLORIDA OPERATIONS  
TOTAL COMPANY

INTERNAL FUNDS	
7. Net Income (less IDC)	9,323,631,100 *
8. Depreciation	373,195,311
9. Current Deferred Taxes	89,934,036
10. Current ITC	13,986,076
11. Other	2,165,956
12. Subtotal	9,902,910,479
13. Construction Expenditures (b)	620,016,517
14. % Internal Funds	129.50%
15. Appropriated dividends	
16. % Internal Funds after dividends [(12-13)/13]	129.50%
17. Times Interest Earned (Net Income + Interest + Income Taxes)/Interest)	4.29

Also, show overall weighted cost rate on investment at last authorized equity floor 9.80%  
and last authorized equity minimum 10.70%

The per cent of long term debt to total investor capital (total capital excluding customer deposits, deferred taxes and unamortized investment tax credits) is 41.07%

The per cent of short term debt to total investor capital (total capital excluding customer deposits, deferred taxes and unamortized investment tax credits) is 2.90%

The Jurisdictional Average Per Books Earned Return on Equity is 14.20% . (c)

- (a) Capital Structure should be reconciled to rate base in accordance with the Commission Order rendered in the Company's last rate case.  
(b) Construction expenditures to be calculated in the same manner as "Total applications to Const. and Plant Exp." per Annual report Form D, Schedule 129 (Source and Application of Funds).  
(c) Jurisdictional average per books earned return on equity is calculated by using the overall earned rate of return on line 20, column 3, page 3 of 3 and applying this to line 7, column 4 page 3 of 3. From there calculate the weighted cost of equity (Column 4) and cost of equity (Column 3) accordingly.

GENERAL NOTE:

Data concerning directory operations includes only amounts on Southern Bell's books for 1984.

\* Includes the full annual effect of the \$26.2 million surcharge to ATT-C.

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PROFORMA WORKSHEET

LOCAL EXCHANGE COMPANY: Southern Bell Telephone & Telegraph Co.  
OPERATIONS 12-MONTHS ENDING: December 31, 1984

Page 1 of 3

	Total Company	Interstate	Total Intrastate	Total Intra-Toll	Intra-Toll		Local
					Inter- Territory	Intra- Territory	
1. A. Yellow Page Profits	(9,510)	-	(9,510)	-	-	-	(9,510)
NOI .5166539	(4,914)	-	(4,914)	-	-	-	(4,914)
B. Ind. Co. Settlement	-	-	-	-	-	-	-
C. Total NOI	(4,914)	-	(4,914)	-	-	-	(4,914)
2. A. Additional Settlements for December, 1984	(2,678)	-	(2,678)	(2,678)	(7,082)	4,404	-
NOI .5083689	(1,361)	-	(1,361)	(1,361)	(3,600)	2,239	-
B. Ind. Co. Settlement	-	-	-	-	-	-	-
Ind. Co. NOI	-	-	-	-	-	-	-
C. Total NOI	(1,361)	-	(1,361)	(1,361)	(3,600)	2,239	-
3. A. Gains on Sales of Property	551	164	387	108	46	62	279
NOI .5030763	277	82	195	54	23	31	141
B. Ind. Co. Settlement	47	-	47	47	22	25	-
Ind. Co. NOI	(24)	-	(24)	(24)	(11)	(13)	-
C. Total NOI	253	82	171	30	12	18	141
4. A. Income Related to Temp. Cash Inv.	293	99	194	57	26	31	137
NOI .5030763	148	50	98	29	13	16	69
B. Ind. Co. Settlement	25	-	25	25	12	13	-
Ind. Co. NOI	(13)	-	(13)	(13)	(6)	(7)	-
C. Total NOI	135	50	85	16	7	9	69
5. A. Custom Calling & EAS	2,126	-	2,126	-	-	-	2,126
NOI .5030763	1,070	-	1,070	-	-	-	1,070
B. Ind. Co. Settlement	-	-	-	-	-	-	-
Ind. Co. NOI	-	-	-	-	-	-	-
C. Total	1,070	-	1,070	-	-	-	1,070

FPSC Exhibit Number \_\_\_\_\_  
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PROFORMA      HEET

LOCAL EXCHANGE COMPANY: Southern Bell Telephone & Telegraph Co.  
 OPERATIONS 12-MONTHS ENDING: December 31, 1984

Page 2 of 3

	Total Company	Interstate	Total Intrastate	Total Intra-Toll	Intra-Toll		Local
					Inter-Territory	Intra-Territory	
6. A. Out-of-Period Settlements	(4,333)	-	(4,333)	(4,333)	-	(4,333)	-
NOI .5083689	(2,203)	-	(2,203)	(2,203)	-	(2,203)	-
B. Ind. Co. Settlement	-	-	-	-	-	-	-
Ind. Co. NOI	-	-	-	-	-	-	-
C. Total NOI	(2,203)	-	(2,203)	(2,203)	-	(2,203)	-
7. A. ENFIA	2,316	-	2,316	-	-	-	2,316
NOI .5030763	1,165	-	1,165	-	-	-	1,165
B. Ind. Co. Settlement	-	-	-	-	-	-	-
C. Total NOI	1,165	-	1,165	-	-	-	1,165
8. A. Lobbying Expense	(211)	(67)	(144)	(45)	(20)	(25)	(99)
NOI .5166539	109	35	74	23	10	13	51
B. Ind. Co. Settlement	20	-	20	20	10	10	-
Ind. Co. NOI	(10)	-	(10)	(10)	(5)	(5)	-
C. Total NOI	99	35	64	13	5	8	51
9. A. Corporate Advertising	46	5	41	15	10	5	26
NOI .5166539	(24)	(3)	(21)	(8)	(5)	(3)	(13)
B. Ind. Co. Settlement	(7)	-	(7)	(7)	(5)	(2)	-
Ind. Co. NOI	4	-	4	4	3	1	-
C. Total NOI	(20)	(3)	(17)	(4)	(2)	(2)	(13)
10. A. Abandoned Projects	1,292	358	934	235	106	129	699
NOI .5166539	(668)	(185)	(483)	(122)	(55)	(67)	(361)
B. Ind. Co. Settlement	(104)	-	(104)	(104)	(51)	(53)	-
Ind. Co. NOI	53	-	53	53	26	27	-
C. Total NOI	(615)	(185)	(430)	(69)	(29)	(40)	(361)

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ORIGINAL  
COPY

**VOLUME I**

**FLORIDA DOCKET 920260-TL  
BELLSOUTH TELECOMMUNICATIONS**

**DIRECT TESTIMONIES OF:**

**DENTON  
REID  
MCCLELLAN  
BILLINGSLEY  
KECK  
LACHER  
MADDEN  
IVY  
TUBAUGH**

DOCUMENT NUMBER-DATE

07128 JUL-28

FPSO-RECORDS/REPORTING

1 SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY

2 TESTIMONY OF JOHN D. MCCLELLAN

3 BEFORE THE

4 FLORIDA PUBLIC SERVICE COMMISSION

5 DOCKET NO. 920260-TL

6 JULY 2, 1993

7

8

9

10 Q. PLEASE STATE YOUR NAME AND ADDRESS.

11

12 A. JOHN D. MCCLELLAN, 1001 PENNSYLVANIA AVE. N.W.,

13 SUITE 350 N., WASHINGTON, D.C., 20004.

14

15 Q. WHAT IS YOUR PROFESSIONAL ROLE?

16

17 A. I AM A SELF-EMPLOYED REGULATORY CONSULTANT ENGAGED

18 IN ASSISTING CLIENTS OF THE FIRM OF DELOITTE &

19 TOUCHE IN UTILITY ACCOUNTING AND REGULATORY ISSUES.

20

21 Q. WERE YOU PREVIOUSLY AFFILIATED WITH DELOITTE &

22 TOUCHE?

23

24 A. YES, I AM A FORMER PARTNER OF THE FIRM. I RETIRED

25 IN 1992, BUT CONTINUE TO REPRESENT THE FIRM AS A

1 UTILITY REGULATORY SPECIALIST.

2

3 Q. WHAT WAS YOUR ROLE AS A PARTNER OF DELOITTE &  
4 TOUCHE?

5

6 A. MY PRIMARY ROLE WAS THAT OF A REGULATED INDUSTRIES  
7 SPECIALIST FOR THE FIRM. IN CONJUNCTION WITH THAT  
8 ROLE, I SERVED AS THE FIRM'S NATIONAL REGULATORY  
9 PRACTICES PARTNER, HAVING PRIMARY RESPONSIBILITY  
10 FOR THE REGULATORY ACTIVITIES OF THE FIRM.

11 I AM CONTINUING TO FUNCTION AS A REGULATORY  
12 SPECIALIST ON BEHALF OF THE FIRM, BUT IN THE  
13 CAPACITY OF AN INDIVIDUAL CONTRACTOR.

14

15 Q. WHEN DID YOU JOIN DELOITTE & TOUCHE?

16

17 A. I JOINED THE FIRM IN 1969.

18

19 Q. WITH WHOM WERE YOU AFFILIATED PRIOR TO 1969?

20

21 A. I WAS ON THE STAFF OF THE FLORIDA PUBLIC SERVICE  
22 COMMISSION FROM 1957 TO 1969, AND WAS DIRECTOR OF  
23 THE ACCOUNTING DEPARTMENT AT THE TIME I LEFT THE  
24 COMMISSION.

25

1 Q. ARE YOU LICENSED AS A CERTIFIED PUBLIC ACCOUNTANT?

2

3 A. YES. I HAVE BEEN LICENSED AS A CPA IN A NUMBER OF  
4 STATES.

5

6 Q. HAVE YOU PREVIOUSLY TESTIFIED AS AN EXPERT WITNESS  
7 ON PUBLIC UTILITY INDUSTRY AND REGULATORY ISSUES?

8

9 A. YES, ON NUMEROUS OCCASIONS.

10

11 Q. HAVE YOU PREPARED AN OUTLINE OF YOUR BACKGROUND AND  
12 EXPERIENCE?

13

14 A. YES. THE OUTLINE IS ATTACHED AS APPENDIX A.

15

16 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS  
17 PROCEEDING?

18

19 A. I WAS REQUESTED BY BELLSOUTH TELECOMMUNICATIONS,  
20 INC. ("SOUTHERN BELL" OR "THE COMPANY") TO ANALYZE  
21 THE IMPACT OF EARNINGS ATTRITION IN THE FLORIDA  
22 PORTION ("SOUTHERN BELL-FLORIDA") OF ITS  
23 OPERATIONS, AND TO DETERMINE APPROPRIATE OFFSETTING  
24 PROVISIONS IN MEASURING PROSPECTIVE FLORIDA  
25 INTRASTATE REVENUE REQUIREMENTS. SPECIFICALLY, I



1 WAS REQUESTED TO EVALUATE THE IMPACT OF EARNINGS  
2 ATTRITION ON SOUTHERN BELL-FLORIDA OPERATIONS AND  
3 TO CALCULATE A LEVEL OF ATTRITION WHICH WOULD BE  
4 APPROPRIATE TO CARRY THE 1993 TEST YEAR DATA  
5 THROUGH 1994, THE YEAR FOR WHICH RATE REQUIREMENTS  
6 ARE ACTUALLY BEING EVALUATED IN THIS PROCEEDING.

7

8 Q. WOULD YOU SUMMARIZE THE APPROACH USED IN YOUR  
9 ANALYSIS OF EARNINGS ATTRITION IN SOUTHERN BELL'S  
10 FLORIDA INTRASTATE OPERATIONS, AND THE RESULTS  
11 PRODUCED BY THE ANALYSIS?

12

13 A. THE ANALYSIS FOCUSED UPON THE PATTERN OF CHANGES  
14 PER ACCESS LINE IN THE COMPANY'S FLORIDA INVESTMENT  
15 AND OPERATIONS OVER THE 1989-1992 PERIOD, RESTATED  
16 TO ELIMINATE THOSE CONDITIONS WHICH WERE OF AN  
17 UNUSUAL NATURE AND NOT EXPECTED TO CONTINUE AT THE  
18 SAME RELATIVE LEVELS INTO 1994. THE 1989-1992  
19 NORMALIZED CONDITIONS WERE TRENDED INTO 1994 TO  
20 CAPTURE EXPECTED CHANGES OF AN ONGOING NATURE  
21 (E.G., SYSTEM GROWTH, INCREASING PRICE LEVELS FOR  
22 GOODS AND SERVICES REQUIRED TO MAINTAIN CURRENT  
23 SERVICES AND TO MEET SERVICE GROWTH, AND  
24 IMPROVEMENTS IN OPERATING EFFICIENCIES THAT REDUCE  
25 COSTS OF SERVICE). THE ANALYSIS SHOWS THAT IF THE

1       NORMAL, RECURRING PATTERN IS MAINTAINED INTO 1994,  
2       REVENUES PER ACCESS LINE REQUIRED TO MAINTAIN A  
3       FIXED RETURN ON COMMON EQUITY WILL DECLINE BY  
4       \$4.44 PER ACCESS LINE BETWEEN 1993 AND 1994. THIS  
5       AMOUNT WILL HELP OFFSET THE EXPENSE IMPACTS OF  
6       OTHER ADJUSTMENTS DESCRIBED IN MR. REID'S  
7       TESTIMONY.

8

9 Q.   WHAT WAS THE SOURCE OF THE DATA THAT YOU USED IN  
10       MEASURING THE 1993-1994 CHANGES IN REVENUES,  
11       INVESTMENT AND OPERATING COST LEVELS?

12

13 A.   THESE DATA WERE TAKEN FROM EARNINGS REPORTS FILED  
14       WITH THE COMMISSION AS PART OF RULE 25-4.0245  
15       FILING REQUIREMENTS. EXCEPT IN THOSE AREAS WHERE  
16       EXTERNAL FACTORS ARE KNOWN TO DISTORT THE PATTERN  
17       OF CHANGE, I HAVE ASSUMED THAT THE CHANGE PATTERN  
18       IN THE DATA AS FILED WILL CONTINUE INTO 1994 AND  
19       HAVE MEASURED THE IMPACT OF SUCH CHANGES ON REVENUE  
20       REQUIREMENTS. THE SPECIFIC ADJUSTMENTS TO PAST  
21       CONDITIONS, AND THE IMPACT OF A CONTINUATION OF  
22       THESE ADJUSTED CONDITIONS ARE EXPLAINED IN THE  
23       REMAINDER OF MY TESTIMONY.

24

25 Q.   BEFORE ADDRESSING THE PARTICULARS OF YOUR ATTRITION

1 ANALYSIS, WOULD YOU DESCRIBE THE GENERAL APPROACH  
2 USED?

3

4 A. YES. THE ANALYSIS FOCUSED UPON HISTORIC CHANGES IN  
5 ACCESS LINES, REVENUES, INVESTMENT LEVELS AND  
6 OPERATING EXPENSES AND OTHER TAXES. THESE AREAS OF  
7 ACTIVITY WERE FIRST EXAMINED TO IDENTIFY ANY  
8 CONDITIONS THAT WERE NOT OF AN ONGOING NATURE. THE  
9 ACTUAL DATA WERE THEN ADJUSTED FOR SUCH  
10 ABNORMALITIES. USING LINEAR REGRESSION TECHNIQUES,  
11 THE ADJUSTED DATA FOR THE 1989-1992 PERIOD WERE  
12 TRENDED TO MEASURE THE INVESTMENT, REVENUE, AND  
13 OPERATING EXPENSE CHANGES FROM 1993 THROUGH 1994.  
14 DEPRECIATION EXPENSE CHANGES FROM 1993 THROUGH 1994  
15 WERE COMPUTED BY APPLYING 1993 DEPRECIATION RATES  
16 TO THE INVESTMENT CHANGES FROM 1993 TO 1994.  
17 INCOME TAXES WERE COMPUTED BASED UPON THE 1993-1994  
18 CHANGES IN TAXABLE REVENUES AND TAX DEDUCTIBLE  
19 EXPENSES.

20

21 Q. WHAT CONCLUSIONS HAVE YOU DRAWN FROM YOUR ATTRITION  
22 ANALYSIS?

23

24 A. ASSUMING A CONTINUATION INTO 1994 OF THE RECENT  
25 PATTERN OF CHANGING INVESTMENT REQUIREMENTS AND

1 OPERATIONAL RESULTS, THERE WILL BE AN INCREASE IN  
2 THE 1993 LEVEL OF RETURN ON EQUITY IN 1994. THE  
3 DECLINE IN REQUIRED RATE LEVELS IS PRODUCED BY A  
4 COMBINATION OF INCREASED REVENUES PER ACCESS LINE  
5 AND DECREASED LEVELS OF INVESTMENT AND EXPENSES PER  
6 ACCESS LINE.

7

8 Q. WHAT IS THE AMOUNT OF ATTRITION ADJUSTMENT  
9 INDICATED BY YOUR ANALYSIS?

10

11 A. THE ANALYSIS INDICATES THAT THE COMPANY WILL  
12 EXPERIENCE NEGATIVE EARNINGS ATTRITION (OR EARNINGS  
13 ACCRETION) THAT WILL REDUCE 1994 REVENUE  
14 REQUIREMENTS BY \$22,935,666. AS MENTIONED  
15 PREVIOUSLY, THIS AMOUNT WILL HELP OFFSET THE  
16 EXPENSE IMPACTS OF OTHER ADJUSTMENTS DESCRIBED IN  
17 MR. REID'S TESTIMONY.

18

19 Q. HAVE YOU HAD THE OCCASION TO REVIEW THE COMPANY'S  
20 HISTORIC EARNINGS EXPERIENCE?

21

22 A. YES.

23

24 Q. IS THE ANTICIPATED NEGATIVE ATTRITION CONSISTENT  
25 WITH THE RECENT PATTERN OF CHANGES IN COSTS

1 INCURRED BY THE COMPANY IN PROVIDING SERVICE?

2

3 A. YES. MR. REID HAS SUBMITTED SCHEDULES SHOWING THAT  
4 FROM 1984 THROUGH 1992, THE COMPANY HAS  
5 CONSISTENTLY MANAGED TO REDUCE ITS EARNINGS  
6 REQUIREMENTS. FOR EXAMPLE, IN 1984 THE INTRASTATE  
7 REVENUE REQUIREMENTS WERE \$510.98 PER ACCESS LINE.  
8 IN 1992 THE INTRASTATE REVENUE REQUIREMENTS HAD  
9 DECLINED TO \$501.83. THIS DECLINE HAS BEEN  
10 ACHIEVED IN THE FACE OF CONTINUAL INCREASES IN  
11 PRICES THAT THE COMPANY MUST PAY IN ACQUIRING THE  
12 GOODS AND SERVICES NEEDED TO PROVIDE ITS CUSTOMERS  
13 WITH TELECOMMUNICATIONS SERVICES. THE ATTRITION  
14 ANALYSIS IS PREMISED ON THE ASSUMPTION THAT THESE  
15 CONDITIONS CAN BE MAINTAINED, AND THAT ONGOING COST  
16 REDUCTIONS ARE ACHIEVABLE EVEN THOUGH GENERAL COSTS  
17 ARE PRESUMED TO CONTINUE TO INCREASE.

18

19 Q. ARE THERE PROPOSED ADJUSTMENTS TO THE TEST YEAR  
20 THAT ARE NOT CONSIDERED IN THE ATTRITION ANALYSIS?

21

22 A. YES. THE COMPANY IS PROPOSING A NUMBER OF PROFORMA  
23 ADJUSTMENTS TO THE TEST YEAR. THESE PROFORMA  
24 ADJUSTMENTS ARE NOT CONSIDERED IN THE ATTRITION  
25 ANALYSIS, AND MUST BE EVALUATED SEPARATELY. FOR

1       EXAMPLE, I UNDERSTAND THAT SOUTHERN BELL-FLORIDA  
2       WILL ADOPT SFAS 112 IN 1994. THIS PROPOSED  
3       ADJUSTMENT, AND SIMILAR ADJUSTMENTS TO TEST YEAR  
4       RESULTS, ARE INDEPENDENT OF THE ATTRITION  
5       ADJUSTMENT.

6  
7 Q.   HAVE YOU SUBMITTED A SCHEDULE THAT CONTAINS THE  
8       RESULTS OF YOUR ATTRITION ANALYSIS?

9  
10 A.  YES. THE RESULTS OF THE ATTRITION ANALYSIS ARE  
11       ATTACHED AS SCHEDULE JDM-1. THIS SCHEDULE SHOWS  
12       THE CHANGES IN NET OPERATING INCOME AND INVESTMENT  
13       PER ACCESS LINE FROM THE 1993 TEST YEAR TO 1994.  
14       THE ATTRITION PER ACCESS LINE AMOUNTS ARE CONVERTED  
15       TO A TOTAL EARNINGS ATTRITION AMOUNT AND CONVERTED  
16       TO A REVENUE REQUIREMENTS IMPACT BY APPLYING THE  
17       APPROPRIATE TAX GROSS-UP FACTOR. AS INDICATED ON  
18       THIS SCHEDULE, THE REVENUE REQUIREMENTS WILL  
19       DECLINE BY \$22,935,666 FROM 1993 TO 1994.

20  
21 Q.  HAVE YOU ALSO SUBMITTED SCHEDULES THAT CONTAIN THE  
22       DETAILED ANALYSES SUPPORTING THE RESULTS IN  
23       SCHEDULE JDM-1?

24  
25 A.  YES. THOSE SCHEDULES ARE IDENTIFIED AS SCHEDULES

1 JDM-2 THROUGH JDM-8.

2

3 Q. WOULD YOU BRIEFLY EXPLAIN EACH OF THE SCHEDULES  
4 CONTAINED IN SCHEDULES JDM-2 THROUGH JDM-8?

5

6 A. THE SCHEDULES ARE INDIVIDUALLY IDENTIFIED AND  
7 DESCRIBED AS FOLLOWS:

8 SCHEDULE JDM-2 - SOURCE DATA:

9 THIS SCHEDULE, CONSISTING OF FIVE PAGES, SHOWS THE  
10 1989-1992 INTRASTATE INVESTMENT AND OPERATING DATA  
11 AS TAKEN FROM THE COMPANY'S RECORDS, AND THE  
12 ADJUSTMENTS TO THE RECORDED DATA TO ELIMINATE THE  
13 IMPACT OF CONDITIONS WHICH ARE NOT EXPECTED TO  
14 RECUR ON AN ANNUAL BASIS. PAGES 1 AND 2 CONTAIN  
15 THE RECORDED INVESTMENT AND OPERATING DATA USED IN  
16 PREPARING THE ANALYSIS. ON PAGES 3 AND 4 THE  
17 PROFORMA ADJUSTMENTS TO THE RECORDED DATA ARE  
18 SUMMARIZED BY CATEGORY AND BY YEAR. THE INDIVIDUAL  
19 ADJUSTMENTS THAT PRODUCE THE SUMMARIZED AMOUNTS ARE  
20 SHOWN ON PAGE 5.

21 SCHEDULE JDM-3 - TRENDED DATA:

22 THIS SCHEDULE, CONSISTING OF FOUR PAGES, CONTAINS  
23 THE TRENDING COMPUTATIONS USING LOTUS REGRESSION  
24 PROGRAMS.

25 SCHEDULE JDM-4 - CAPITAL COST DATA:

1 THIS SCHEDULE CONTAINS THE COMPUTATIONS OF THE  
2 WEIGHTED COSTS OF THE VARIOUS CAPITAL COST  
3 COMPONENTS, WHICH ARE THEN USED IN SCHEDULES JDM-5  
4 AND JDM-8.

5 SCHEDULE JDM-5 - INVESTMENT ATTRITION:

6 THIS SCHEDULE, CONSISTING OF TWO PAGES, SHOWS THAT  
7 THERE IS AN ANTICIPATED INCREASE IN THE OUTSTANDING  
8 INVESTMENT IN PLANT IN SERVICE PER ACCESS LINE FROM  
9 1993 TO 1994. FURTHER, THE SCHEDULE RECOGNIZES  
10 THAT FUNDING IS REQUIRED TO REPLACE RETIRED PLANT,  
11 AND THAT SUCH FUNDING IS NOT MEASURED IN THE PLANT  
12 IN SERVICE BALANCE (I.E., AS PLANT IS RETIRED AND  
13 REPLACED, THE PLANT IN SERVICE BALANCE DOES NOT  
14 CHANGE, BUT FUNDING IS NEVERTHELESS REQUIRED).

15 THE SCHEDULE THEN RECOGNIZES THAT AS DEPRECIATION  
16 COSTS ARE RECOVERED THROUGH REVENUES, THE FUNDS MAY  
17 BE REINVESTED WITHOUT ANY ATTRITIONAL IMPACT SINCE  
18 NET PLANT (I.E., THE PRIMARY DETERMINANT OF RATE  
19 BASE) DOES NOT CHANGE. IN THE PERIOD BEING  
20 EVALUATED, THE DEPRECIATION RECOVERY EXCEEDS THE  
21 REQUIREMENT FOR REINVESTMENT IN PLANT AND RESULTS  
22 IN NEGATIVE ATTRITION FOR INVESTMENT. THE EXCESS  
23 AMOUNTS AVAILABLE ARE APPLIED EQUALLY TO DEBT AND  
24 EQUITY CAPITAL (I.E., ASSIGNED TO DEBT AND EQUITY  
25 CAPITAL AT 1992 CAPITAL RATIOS), AND THE CAPITAL



1 COSTS ARE REDUCED ACCORDINGLY.

2 SCHEDULE JDM-6 - DEPRECIATION EXPENSES:

3 THIS COMPUTATION ASSUMES THAT THE 1992 RATES OF  
4 DEPRECIATION ARE IN USE IN 1994. THE 1994  
5 DEPRECIATION EXPENSES ARE DETERMINED BY APPLYING  
6 THE 1992 COMPOSITE DEPRECIATION RATE TO 1994 LEVELS  
7 OF PLANT IN SERVICE.

8 SCHEDULE JDM-7 - INCREMENTAL COSTS, 1993-1994:

9 THE INCREMENTAL 1993-1994 CHANGES PER ACCESS LINE  
10 FOR REVENUES, OPERATING EXPENSES AND OTHER TAXES,  
11 DEPRECIATION EXPENSES AND INVESTMENT ARE COMPUTED  
12 ON THIS SCHEDULE. THE AMOUNTS FOR REVENUES,  
13 OPERATING EXPENSES AND OTHER TAXES ARE TAKEN FROM  
14 THE TRENDED RESULTS ON SCHEDULE JDM-3. THE AMOUNTS  
15 FOR DEPRECIATION EXPENSES ARE TAKEN FROM THE  
16 COMPUTATIONS ON SCHEDULE JDM-6.

17 SCHEDULE JDM-8 - SUMMARY OF ATTRITION COMPONENTS:

18 THIS SCHEDULE COMBINES THE REVENUE AND EXPENSE  
19 COMPONENTS TO COMPUTE THE INCOME TAX EFFECTS, AND  
20 TO DETERMINE THE NET OPERATING INCOME AND  
21 INVESTMENT ATTRITION PER ACCESS LINE.

22

23 Q. DOES THAT COMPLETE YOUR TESTIMONY?

24

25 A. YES. IN CONCLUDING, HOWEVER, I SHOULD REITERATE

1 THAT THE ANALYSIS OF REVENUE REQUIREMENTS CHANGES  
2 BETWEEN 1993 AND 1994 ASSUMES THAT:

3

4 \* SYSTEM GROWTH WILL CONTINUE AT  
5 APPROXIMATELY THE SAME LEVELS AS IN THE  
6 FOUR YEARS UP THROUGH 1992,

7 \* PRICE LEVEL INCREASES (INFLATION) ARE  
8 CONSERVATIVELY ASSUMED TO CONTINUE AT  
9 APPROXIMATELY THE SAME LEVEL, AND

10 \* SOUTHERN BELL-FLORIDA WILL BE ABLE TO  
11 CONTINUE TO REDUCE COSTS THROUGH ANNUAL  
12 INCREASES IN OPERATING EFFICIENCIES.

13

14 IN REVIEWING THE DATA USED IN THE ANALYSIS, I HAVE  
15 NO REASON TO BE CONCERNED AS TO THE REASONABLENESS  
16 OF ASSUMING THAT SUCH CONDITIONS WILL CONTINUE. I  
17 RECOMMEND THAT THE COMMISSION RELY UPON THE  
18 ATTRITION ANALYSIS TO MEASURE THE 1994 IMPACT OF  
19 CONDITIONS THAT HAVE CHANGED SINCE THE END OF THE  
20 TEST YEAR AND MOST SURELY WILL CONTINUE TO CHANGE  
21 THROUGH THE 1994 PERIOD.

22

23

24

25

SOUTHERN BELL  
 FLORIDA ATTRITION ANALYSIS  
 REVENUE IMPACT OF ATTRITION

FPSC EXHIBIT NUMBER \_\_\_\_  
 FPSC DOCKET 920260-TL  
 MCCLELLAN EXHIBIT JDM-1  
 SCHEDULE 1  
 ATTRITION SUMMARY  
 PAGE 1 OF 1

INTRASTATE OPERATIONS

Line	Description	1994
1	Access Lines	5168547 (1)
2	Attrition/Access Line	
3	Net Operating Income	(\$0.70)(2)
4	Investment	(1.99)(3)
5	Total	----- (\$2.68) =====
6	Impact on Earnings (Line 1 x Line 6)	(\$13,872,096)
7	Revenue Expansion Factor	1.653367 (4)
8	Revenue Requirements	(\$22,935,666)

- (1) Schedule 3, page 1
- (2) Schedule 8, line 8
- (3) Schedule 8, line 12
- (4) Based upon a tax rate of 39.52%

SOUTHERN BELL  
 FLORIDA ATTRITION ANALYSIS  
 ANALYSIS DATA 1989-1991

FPSC EXHIBIT NUMBER \_\_\_\_\_  
 FPSC DOCKET 920260-TL  
 MCCLELLAN EXHIBIT JDM-1  
 SCHEDULE 2  
 INTRASTATE OPERATING DATA  
 PAGE 1 OF 5

INTRASTATE OPERATING DATA

	PERIOD			
	1989	1990	1991	1992
Annual Data				
-----				
Access Lines	4310989	4511804	4663857	4823234
Operating Revenues	2077064	2170238	2231366	2305580
Operating Exp. & Other Taxes	1115301	1156902	1205331	1279777
Depreciation	475458	502902	544815	555776
Average Investment:				
Plant	5905614	6308678	6460407	6748686
Depreciation Reserves	1896888	2238972	2324055	2668217
-----				
Net Plant	4008726	4069706	4136352	4080469
-----				
Plant Retirements:				
Florida System (1)	252774	281058	388535	315860
Florida Intrastate (2)	177855	201313	283831	234368
(1) Adj. for abnormal in 1990				
(2) Adj. based on 1989 Plant				
Florida Gross Plant	8310088	8719460	8762002	9065973
Intra Gross Plant	5847093	6245469	6400778	6726946
Ratio	70.36%	71.63%	73.05%	74.20%
Average Rate Base	4070970	4144584	4165400	4046022
Rate of Return	9.49%	9.60%	9.25%	8.86%

Note: All amounts other than Access Lines are in \$000

Average Capital (Intra \$000):	1989	1990	1991	1992
L.T. Debt	1009263	1015086	1018902	1064735
Short Term Debt	132648	177701	231703	118311
Customer Deposits	48312	49620	52906	54920
Common Equity	1888512	1949897	1981270	1972179
I.T.C.	187575	164492	141196	124595
Cost Free Capital	804660	787788	739423	711282
<b>Total</b>	<b>4070970</b>	<b>4144584</b>	<b>4165400</b>	<b>4046022</b>

**Cost Rate:**

L.T. Debt	8.82%	8.82%	8.81%	8.63%
Short Term Debt	9.34%	8.28%	6.04%	3.91%
Customer Deposits	7.53%	7.96%	8.25%	8.57%
Common Equity	13.20%	13.20%	13.20%	13.20%
I.T.C.	11.67%	11.70%	11.71%	11.60%
Cost Free Capital	0.00%	0.00%	0.00%	0.00%

adjustments to recorded data (\$000)

	1989		
	Recorded	Adj.	T/Y
Revenues	2077064	4951	2082015 (1)
Op.Exp.& Taxes	1115301	0	1115301
Depreciation	475458	0	475458
Plant	5905614	-287680	5617934 (4)
Deprec.Reserves	1896888	-287758	1609130 (5)
Rate Base	4070970	78	4071048 (6)

	1990		
	Recorded	Adj.	T/Y
Revenues	2170238	45315	2215553 (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	-86223	4078361 (6)

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

	1991		
	Recorded	Adj.	T/Y
Revenues	2231366	36075	2267441 (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.

	1992		
	Recorded	Adj.	T/Y
Revenues	2305580	36471	2342051 (1)
Op. Exp. & Taxes	1279777	-69115	1210662 (2)
Depreciation	555776	-26815	528961 (3)
Plant	6748686	-311810	6436876 (4)
Deprec. Reserves	2668217	-112182	2556035 (5)
Rate Base	4046022	-199628	3846394 (6)

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

ADJUSTMENTS TO BASE YEAR DATA (\$000)

	1989	1990	1991	1992
<b>(1) Revenues</b>				
(a) To adjust earlier years to level of net rate changes effective in 1991	4,951	45,315	36,075	36,471
<b>(2) Operating Expenses and Taxes</b>				
(a) To remove incremental impact of SPF and DEM over 1989		(13,377)	(25,748)	(37,839)
(b) Remove bond solicitation fees			(1,533)	
(c) Remove early retirement cost			(10,068)	
(d) Remove Hurricane Andrew costs				(31,276)
		(13,377)	(37,349)	(69,115)
<b>(3) Depreciation</b>				
(a) To remove incremental impact of SPF and DEM over 1989		(9,567)	(18,238)	(26,815)
<b>(4) Plant</b>				
(a) To remove incremental impact of SPF and DEM over 1989		(102,006)	(201,614)	(311,810)
(b) To remove inside wire amounts from earlier years to be consistent with 1991	(287,680)	(281,676)	0	0
	(287,680)	(383,682)	(201,614)	(311,810)
<b>(5) Depreciation Reserves</b>				
(a) To remove incremental impact of SPF and DEM over 1989		(35,703)	(70,679)	(112,182)
(b) To remove inside wire amounts from earlier years to be consistent with 1991	(287,758)	(281,756)	0	
	(287,758)	(317,459)	(70,679)	(112,182)
<b>(6) Rate Base</b>				
(a) To remove incremental impact of SPF and DEM over 1989		(66,303)	(130,935)	(199,628)
(b) To remove inside wire amounts from earlier years to be consistent with 1992	78	80		
	78	(66,223)	(130,935)	(199,628)



SOUTHERN BELL  
FLORIDA ATTRITION ANALYSIS

FPSC EXHIBIT NUMBER  
FPSC DOCKET 920260-TL  
MCCLELLAN EXHIBIT JDM-1  
SCHEDULE 3  
TREND LINE DATA  
PAGE 1 OF 4

TREND LINE DATA

INTRASTATE OPERATIONS-ADJUSTED

	Access Lines(1)	Revenues(1)	Oper.Exp. & Taxes(1)	Deprec.(2)	Gross Plant(1)	Plant Retirements(3)
1989	4310989	2082015	1115301	475458	5617934	177855
1990	4511804	2215553	1143525	493335	5924996	201313
1991	4663857	2267441	1167982	526577	6258793	283831
1992	4823234	2342051	1210662	528961	6436876	234368
1993	4999668	2434764	1237003	555293	6757306	224342
1994	5168547	2517964	1268057	578225	7036368	224342
1995	5337426	2601163	1299111	N/A	7315430	224342

- (1) 1993-1995 trended data from Schedule 3, pages 2-4.  
(2) 1993 & 1994 depreciation expense from Schedule 6.  
(3) 1993-1995 retirements based on 1989-1992 average.

Note: All amounts other than Access Lines are in \$000

Regression Analyses:

near Regression Trend Data Base

	Access/Lines	Revenues	Op.Exp.	Plant
1989	4310989	2082015	1115301	5617934
1990	4511804	2215553	1143525	5924996
1991	4663857	2267441	1167982	6258793
1992	4823234	2342051	1210662	6436876
1993	4999668	2434764	1237003	6757306
1994	5168547	2517964	1268057	7036368
1995	5337426	2601163	1299111	7315430

Access Lines

Regression Output:

Constant	-3.32E+08
Std Err of Y Est	17125.404
R Squared	0.9959035
No. of Observations	4
Degrees of Freedom	2

X Coefficient(s)	168878.8
Std Err of Coef.	7658.71353

1993	4999668
1994	5168547
1995	5337426

Revenues

-----  
 Regression Output:  
 Constant -1.63E+08  
 Std Err of Y Est 26578.214  
 R Squared 0.9607812  
 No. of Observations 4  
 Degrees of Freedom 2

X Coefficient(s) 83199.6  
 Std Err of Coef. 11886.1390

1993	2434764
1994	2517964
1995	2601163

Op.Exp. & Taxes

-----  
 Regression Output:  
 Constant -60653619  
 Std Err of Y Est 6181.5042  
 R Squared 0.9843978  
 No. of Observations 4  
 Degrees of Freedom 2

X Coefficient(s) 31054  
 Std Err of Coef. 2764.45273

1993	1237003
1994	1268057
1995	1299111

Plant

-----

Regression Output:

Constant	-5.49E+08
Std Err of Y Est	53959.602
R Squared	0.9852650
No. of Observations	4
Degrees of Freedom	2

X Coefficient(s)	279062.3
Std Err of Coef.	24131.4680 24.660178

1993	6757306
1994	7036368
1995	7315430

Plant Retirements

-----

Due to the variance in retirement patterns,  
an average for the 1989/1992 period is used.

1989/1992 Average	224342
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SOUTHERN BELL  
 FLORIDA ATTRITION ANALYSIS  
 CAPITAL COST DATA

FPSC EXHIBIT NUMBER \_\_\_\_\_  
 FPSC DOCKET 920260-TL  
 MCCLELLAN EXHIBIT JDM-1  
 SCHEDULE 4  
 CAPITAL COST DATA  
 PAGE 1 OF 1

INTRASTATE OPERATIONS

	Amount(1)
<b>Cost of L.T. Debt</b>	
Ratio	26.32%
Embedded Cost	8.63%
Weighted Cost—Current	2.27%
<b>Short Term Debt</b>	
Ratio	2.92%
Current Cost	3.91%
Weighted Current Cost	0.11%
<b>Customer Deposits</b>	
Ratio	1.36%
Cost	8.57%
Weighted Cost	0.12%
<b>I.T.C.</b>	
Ratio	3.08%
Cost	11.60%
Weighted Cost	0.36%
<b>Common Equity</b>	
Ratio	48.74%
Cost	13.20%
Weighted Current Cost	6.43%
Weighted Current Cost + ITC	6.70%

	Debt Cost
Long Term	2.27%
Short Term	0.11%
Cust.Dep.	0.12%
I.T.C.	0.09%
Deferred Taxes	0
	2.59%
	2.59%

(1) Amounts from Schedule 2, page 2

SOUTHERN BELL  
 FLORIDA ATTRITION ANALYSIS  
 CAPITAL AND INVESTMENT DATA

FPSC EXHIBIT NUMBER  
 FPSC DOCKET 920260-TL  
 MCCLELLAN EXHIBIT JDM-1  
 SCHEDULE 5  
 CAPITAL AND INVESTMENT DATA  
 PAGE 1 OF 2

INTRASTATE OPERATIONS

Line	Description	Amount
1.	Funding Requirements:	
2.	Increase in Gross Plant per Access Line	
3.	1993/1994	55.82
4.	Plant Retirements per Access Line	
5.	1994	43.41
6.	Total	99.22
7.	Funding Sources:	
8.	Depreciation Recovery--1994 (1994 Plant x Rate / Access Line)	111.87
9.	Working capital	5.39 (1)
10.	Reused materials	3.33 (1)
11.	Total Internal Funding	120.59
12.	External Funding Requirements	(21.37)

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 9 and 10.

(1) See Schedule 5, page 2

Investment Attrition:

	Debt -----	Common -----	Total -----
1. Weighted Cost (1)	2.59%	6.70%	
2. Funding Requirements (2)	(21.37)	(21.37)	
3. Cost per A/L	(0.55)	(1.43)	(1.99)

(1) Schedule 4

(2) Schedule 5, page 1

Working Capital:

1993/1994 Increased negative amount per access line 5.39

Reused materials ( included in plant additions,  
 but not requiring capital expenditures):

1994 Reused materials per access line 3.33

SOUTHERN BELL  
FLORIDA ATTRITION ANALYSIS  
DEPRECIATION EXPENSES

FPSC EXHIBIT NUMBER \_\_\_\_\_  
FPSC DOCKET 920260-TL  
MCCLELLAN EXHIBIT JDM-1  
SCHEDULE 6  
DEPRECIATION  
PAGE 1 OF 1

INTRASTATE OPERATIONS

Line	Description	Amount
1	Plant in Service -1992	6436876 (1)
2	Depreciation expenses - 1992	528961 (1)
3	Composite Depreciation Rate	8.22% (2)
4	Plant in Service-1993	6757306 (1)
5	Depreciation Expenses - 1993	555293 (3)
6	Plant in Service-1994	7036368 (1)
7	Depreciation Expenses - 1994	578225 (4)

(1) Schedule 3, page 1

(2) Line 2/Line 1

(3) Line 3 x Line 4

(4) Line 3 x Line 6

Note--Amounts in \$000



SOUTHERN BELL  
 FLORIDA ATTRITION ANALYSIS  
 INCREMENTAL CHANGES – 1994 OVER 1993

FPSC EXHIBIT NUMBER \_\_\_\_\_  
 FPSC DOCKET 920260-TL  
 MCCLELLAN EXHIBIT JDM-1  
 SCHEDULE 7  
 INCREMENTAL CHANGES  
 PAGE 1 OF 1

INTRASTATE OPERATIONS

Line	Description	Amount
1	Operating Revenues(1)	
2	Revenues – 1993 (\$000)	2434764
3	Access Lines – 1993	4999668
	Revenues per Access Line–1993	486.99
5	Revenues–1994 (\$000)	2517964
6	Access Lines –1994	5168547
7	Revenues per Access Line–1994	487.17
8	Increment/Access Line	0.19
9	Operating Expenses and Other Taxes(1)	
10	Op.Exp.& Taxes–1993 (\$000)	1237003
11	Amount per Access Line–1993	247.42
12	Op.Exp. & Taxes–1994 (\$000)	1268057
13	Amount per Access Line–1994	245.34
14	Increment/Access Line	-2.08
15	Depreciation Expenses(1)	
16	Depreciation Expense–1993 (\$000)	555293
17	Amount per Access Line–1993	111.07
18	Depreciation Expense–1994 (\$000)	578225
19	Amount per Access Line–1994	111.87
20	Increment/Access Line	0.81
21	Gross Plant Investment(1)	
22	Gross Plant–1993 (\$000)	6757306
23	Amount per Access Line–1993	1351.55
24	Gross Plant–1994 (\$000)	7036368
25	Amount per Access Line–1994	1361.38
26	Increment/Access Line	9.83

Data Source – Schedule 3, page 1

SOUTHERN BELL  
 FLORIDA ATTRITION ANALYSIS  
 SUMMARY OF COMPONENTS

FPSC EXHIBIT NUMBER \_\_\_\_\_  
 FPSC DOCKET 920260-TL  
 MCCLELLAN EXHIBIT JDM-1  
 SCHEDULE 8  
 ATTRITION COMPONENTS  
 PAGE 1 OF 1

INTRASTATE OPERATIONS

Line	Description	Attrition/ Access Line
1	N.O.I. Attrition:	
2	Operating Revenues	(0.19)(1)
3	Oper. Expenses & O/Taxes	(2.08)(2)
4	Depreciation Expenses	0.81 (3)
5	Pre-tax Amount	----- (1.45)
6	Income Taxes	(0.55)(4)
7	Tax Effect of Interest	(0.21)(5)
8	Total	----- (0.70) =====
9	Investment Attrition:	
10	Interest	(0.55)(6)
11	Return to Common	(1.43)(6)
12	Total	----- (1.99) =====

- (1) Schedule 7, line 8
- (2) Schedule 7, line 14
- (3) Schedule 7, line 20
- (4) Line 5 x tax rate of
- (5) Line 10 x tax rate of
- (6) Schedule 5, page 2, line 3

37.63%  
 37.63%

## JOHN D. McCLELLAN

**Affiliation:** Regulatory Consultant  
Deloitte & Touche  
Certified Public Accountants  
1001 Pennsylvania Ave. N.W.  
Washington, D.C. 20004

**Professional:** Certified Public Accountant - licensed by the States of Florida, Minnesota, Iowa, Texas, Louisiana, New York, North Carolina, Virginia, and the District of Columbia.

Member of American Institute of Certified Public Accountants (AICPA)

Served on Various Utility Industry Committees

- NARUC Committee on Accounting
- NARUC Committee on Telephone Separations
- NARUC Committee on Affiliated Company Operations
- AGA Rate Committee
- AICPA Liaison with Federal Power Commission
- AICPA Panel of Advisors to Federal Government
- TSCPA Committee on Regulated Utilities
- Board of Directors-Iowa State Regulatory Conference

**Experience:** *Florida Public Service Commission, 1957 - 1969*

As Director of the Commission's Accounting Department, participated in all rate proceedings and was responsible for all activities requiring accounting and financial expertise.

**Areas of Activity:**

- Accounting procedures development
- Audits of financial records
- Rate base determination
- Test period operating results determination
- Rate of return and cost of capital studies
- Cost allocations by customer class
- Cost allocations by services
- Cost allocations by jurisdictions
- Depreciation requirements
- Rate structure and design
- Automatic adjustment clauses

John D. McClellan  
Page 2

***Deloitte & Touche, 1969 - 1992***

Joined the D&T Public Utilities Department in 1969 as a specialist in public utility accounting and regulatory policies and procedures, providing services to a wide variety of regulatory, consumer, and industry clients in rate proceedings, problem analyses, special studies, and personnel training.

Functioned for a number of years as the firm's National Regulatory Practices Partner, and upon retirement from the partnership in 1992, began serving the firm as a regulatory specialist in a consulting role.

***Regulatory Consultant, 1992 to date***

Presently serving D&T as a regulatory consultant to the firm's utility industry practice, providing utility accounting and ratemaking services to the firm's utility industry clientele.

**Clients Served:**

Clients assisted in regulatory issues include the following, grouped according to the client role in the engagement:

***Operating Utilities:***

Privately and publicly owned electric, gas, telephone, and water and sewer companies throughout the U.S. and Canada.

***Regulators:***

Canadian National Energy Board  
Canadian Transport Commission  
Ontario Energy Board  
New York Public Service Commission  
Texas Public Utility Commission  
Missouri Public Service Commission  
Illinois Commerce Commission  
Vermont Public Service Commission  
Rhode Island Public Utility Commission  
Hillsborough County - Tampa, Florida  
City Council - Port Arthur, Texas  
City Council - San Marcos, Texas

*Consumers:*

Delaware Industrial Group  
Virginia Industrial Group  
Virginia Committee for Fair Rates  
Connecticut Industrial User  
City of Martinsville, Va.  
Southern Union Gas Company  
Group of Texas Electric Cooperatives  
Group of Texas Municipal Electrics  
Attorney General of Virginia  
Public Counsel of Vermont  
Ghanian Aluminum Smelter  
Canadian Industrial Gas User

Assisted a wide variety of clients in the role of an expert witness on utility accounting and ratemaking procedures. Appearances have been made before the following authorities:

Florida Public Service Commission  
Florida Legislative Committee  
Florida Environmental Agency  
Texas Public Utility Commission  
Texas Railroad Commission  
Texas Senate Committee  
Georgia Public Service Commission  
South Carolina Public Service Commission  
South Carolina Legislative Committee  
North Carolina Public Utilities Commission  
Virginia Corporation Commission  
Delaware Public Service Commission  
Connecticut Public Utilities Commission  
Vermont Public Utilities Commission  
New Mexico Public Service Commission  
Mississippi Public Service Commission  
Maryland Public Service Commission  
Arkansas Public Service Commission  
Oklahoma Corporation Commission  
Missouri Public Service Commission

John D. McClellan  
Page 4

Ohio Public Utilities Commission  
Arizona Corporation Commission  
Idaho Public Utilities Commission  
Pennsylvania Public Utilities Commission  
Rhode Island Public Utilities Commission  
Alaska Public Utilities Commission  
Sarasota County Commission - Florida  
New Orleans City Council  
Dade County Water Commission - Florida  
El Paso City Council - Texas  
Port Arthur City Council - Texas  
Waco City Council - Texas  
Arlington City Council - Texas  
San Marcos City Council - Texas  
Hickory City Council - North Carolina  
14th District Court of Texas - Ft. Worth  
48th District Court of Texas - Dallas  
54th District Court of Texas - Tyler  
U.S. District Court - Wheeling, W. Va.  
U.S. District Court - Hartford, Conn.  
U.S. District Court - Raleigh, N.C.  
U.S. District Court - Hammond, Ind.  
U.S. Tax Court - Washington, D.C.  
Federal Energy Regulatory Commission  
Ontario Energy Board  
Canadian National Energy Board

**Miscellaneous:**

Graduate of Florida State University

Prepared training materials and conducted Staff Training Seminars for the staff members of the Federal Energy Regulatory Commission, the Florida P.S.C., the Illinois Commerce Commission, the Missouri P.S.C., the New York P.S.C., the Arkansas P.S.C. and the Texas P.U.C.

Prepared training courses and conducted numerous D&T Staff Training Seminars

Prepared training materials and conducted training seminars for various public utilities

Instructor at Florida P.S.C. Seminar for Servicio Nacionale de Electricidad, San Jose, Costa Rica

Instructor at various Texas Society of CPA's Regulatory Seminars

Instructor at Texas A&M University Program for Management Development

Panelist at Iowa State University Regulatory Conference

Instructor at AGA Gas Rate Fundamentals Course

Co-developer and instructor of the D&T sponsored seminar on the *Tax Aspects of Regulation*

Co-author of D&T *Public Utilities Manual*

Contributing author to *Accounting for Public Utilities*

1 SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY  
2 TESTIMONY OF DR. RANDALL S. BILLINGSLEY  
3 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION  
4 DOCKET NO. 920260-TL  
5 JULY 2, 1993

6  
7  
8  
9

I. INTRODUCTION

10 Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS  
11 ADDRESS.

12

13 A. MY NAME IS RANDALL S. BILLINGSLEY. I AM VICE  
14 PRESIDENT OF THE ASSOCIATION OF INVESTMENT  
15 MANAGEMENT AND RESEARCH (AIMR) IN THE EDUCATION AND  
16 PROGRAMS DEPARTMENT. I AM CURRENTLY ON LEAVE FROM  
17 MY POSITION AS ASSOCIATE PROFESSOR OF FINANCE AT  
18 VIRGINIA POLYTECHNIC INSTITUTE AND STATE  
19 UNIVERSITY. IN ADDITION TO THE DUTIES PERFORMED  
20 FOR THE ABOVE APPOINTMENTS, I ALSO ACT AS A  
21 FINANCIAL CONSULTANT IN THE AREAS OF COST OF  
22 CAPITAL ANALYSIS, FINANCIAL SECURITY ANALYSIS AND  
23 VALUATION, AND INVESTMENT ANALYSIS. MY BUSINESS  
24 ADDRESS IS ASSOCIATION FOR INVESTMENT MANAGEMENT  
25 AND RESEARCH, EDUCATION AND PROGRAMS DEPARTMENT, 5



1 BOAR'S HEAD LANE, P. O. BOX 3668, CHARLOTTESVILLE,  
2 VIRGINIA 22903.

3

4 Q. DESCRIBE YOUR EDUCATIONAL BACKGROUND AND  
5 PROFESSIONAL QUALIFICATIONS.

6

7 A. I RECEIVED A B.A. DEGREE IN ECONOMICS FROM TEXAS  
8 TECH UNIVERSITY IN 1976. I RECEIVED AN M.S. DEGREE  
9 IN ECONOMICS IN 1978 AND A PH.D. DEGREE IN 1982,  
10 BOTH FROM TEXAS A&M UNIVERSITY. WHILE COMPLETING  
11 MY PH.D., I WORKED AS A RESEARCH ASSOCIATE AT THE  
12 TEXAS TRANSPORTATION INSTITUTE DOING ECONOMIC  
13 POLICY RESEARCH. IN 1986, I RECEIVED THE CHARTERED  
14 FINANCIAL ANALYST (CFA) DESIGNATION. IN 1987, I  
15 WAS PROMOTED TO ASSOCIATE PROFESSOR OF FINANCE WITH  
16 TENURE AT VIRGINIA POLYTECHNIC INSTITUTE AND STATE  
17 UNIVERSITY. I HAVE TAUGHT COURSES ON INVESTMENTS,  
18 FINANCIAL MARKETS, BANK MANAGEMENT, AND CORPORATE  
19 FINANCIAL MANAGEMENT. I HAVE BEEN ACTIVE IN  
20 TEACHING AT THE UNDERGRADUATE, MBA, AND PH.D.  
21 LEVELS. IN MID-1992, I EARNED THE CERTIFIED RATE  
22 OF RETURN ANALYST (CRRRA) DESIGNATION. IN JANUARY  
23 OF 1993, I ACCEPTED THE POSITION OF VICE PRESIDENT  
24 AT AIMR. THE ORGANIZATION HAS A MEMBERSHIP OF OVER  
25 22,500 INVESTMENT ANALYSTS, PORTFOLIO MANAGERS, AND

1 OTHER INSTITUTIONAL INVESTMENT DECISION-MAKERS.  
2 OUR MEMBERS ARE EMPLOYED BY BROKER-DEALERS, BANKS,  
3 MUTUAL FUNDS, INVESTMENT MANAGEMENT FIRMS,  
4 INSURANCE COMPANIES, PUBLIC AND PRIVATE PENSION  
5 FUNDS, AND OTHER INVESTMENT ENTERPRISES. AIMR  
6 PROVIDES CONTINUING EDUCATION SEMINARS AND  
7 ADMINISTERS THE CHARTERED FINANCIAL ANALYST  
8 PROGRAM, WHICH IS A WIDELY RECOGNIZED THREE-YEAR  
9 CURRICULUM AND SET OF EXAMINATIONS THAT DEVELOP  
10 INVESTMENT ANALYSIS SKILLS. MY RESPONSIBILITIES  
11 INCLUDE THE DESIGN AND OFFERING OF CONTINUING  
12 EDUCATION PROGRAMS TO MEET THE NEEDS OF AIMR'S  
13 MEMBERS IN PARTICULAR AND THE INVESTMENT INDUSTRY  
14 IN GENERAL. I ALSO DIRECT THE DEVELOPMENT AND  
15 DESIGN OF EDUCATION TECHNOLOGY PROJECTS. THESE  
16 PROJECTS INLCUDE VIDEOS, PERSONAL COMPUTER  
17 SOFTWARE, AND MULTIMEDIA PRODUCTS ON VARIOUS  
18 INVESTMENT TOPICS.

19

20 Q. HAVE YOU PUBLISHED ANY RESEARCH IN THE AREA OF  
21 FINANCE?

22

23 A. YES, I HAVE PUBLISHED OVER TWENTY ARTICLES IN  
24 VARIOUS PROFESSIONAL JOURNALS. MY ARTICLES HAVE  
25 BEEN PUBLISHED IN THE JOURNAL OF BANKING AND

1 FINANCE, JOURNAL OF BANK RESEARCH, JOURNAL OF  
2 FINANCIAL RESEARCH, JOURNAL OF FUTURES MARKETS,  
3 JOURNAL OF THE INSTITUTE OF CERTIFIED FINANCIAL  
4 PLANNERS, JOURNAL OF PORTFOLIO MANAGEMENT,  
5 FINANCIAL MANAGEMENT, FINANCIAL REVIEW, FUTURES,  
6 MANAGERIAL FINANCE, QUARTERLY JOURNAL OF BUSINESS  
7 AND ECONOMICS, AND STRATEGY AND EXECUTIVE ACTION.  
8 MY RESEARCH HAS BEEN CITED IN THE WALL STREET  
9 JOURNAL, ABSTRACTED IN THE JOURNAL OF ECONOMIC  
10 LITERATURE AND THE CFA DIGEST, AND REPRINTED IN CFA  
11 READINGS IN DERIVATIVE SECURITIES.

12

13 Q. DESCRIBE THE NATURE AND SCOPE OF YOUR ACTIVITIES IN  
14 THE FINANCE PROFESSION.

15

16 A. MY WORK WITH AIMR BRINGS ME INTO FREQUENT CONTACT  
17 WITH A VARIETY OF INVESTMENT PROFESSIONALS. I DEAL  
18 WITH PORTFOLIO MANAGERS AND SECURITY ANALYSTS IN  
19 THE COURSE OF PLANNING CONTINUING EDUCATION  
20 PROGRAMS, DEVELOPING EDUCATION TECHNOLOGY PROJECTS,  
21 AND IN DISCUSSING NEW DEVELOPMENTS IN THE  
22 INVESTMENT INDUSTRY.

23

24 IN ADDITION TO CONDUCTING FINANCIAL RESEARCH FOR  
25 PUBLICATION, I HAVE ACTED AS AN ARTICLE REVIEWER

1 FOR NUMEROUS PROFESSIONAL JOURNALS AND HAVE HAD A  
2 NUMBER OF MY STUDIES PRESENTED AT FINANCE  
3 CONFERENCES. FURTHER, I HAVE RECEIVED TEACHING  
4 AWARDS AT BOTH THE UNDERGRADUATE AND GRADUATE  
5 LEVELS. I SERVED AS A MEMBER OF THE CANDIDATE  
6 CURRICULUM COMMITTEE OF THE INSTITUTE OF CHARTERED  
7 FINANCIAL ANALYSTS, THE GOVERNING BODY OF THE CFA  
8 PROGRAM, FOR TWO YEARS. MY FINANCIAL CONSULTING  
9 CLIENTS IN ADDITION TO SOUTHERN BELL TELEPHONE AND  
10 TELEGRAPH COMPANY (SOUTHERN BELL) HAVE INCLUDED  
11 AIMR, BELL ATLANTIC, THE FINANCIAL ANALYSTS' REVIEW  
12 OF THE UNITED STATES, THE INSTITUTE OF CHARTERED  
13 FINANCIAL ANALYSTS, AND UNION BANK OF SWITZERLAND.  
14 IN MY CAPACITY AS A CONSULTANT TO FINANCIAL  
15 ANALYSTS' REVIEW, I HAVE CONDUCTED SEMINARS ON  
16 EQUITY VALUATION AND ANALYSIS IN THE UNITED STATES,  
17 ASIA AND EUROPE.

18  
19 MORE DETAILS ON MY QUALIFICATIONS MAY BE FOUND IN  
20 BILLINGSLEY EXHIBIT RSB-3 (APPENDIX A).

21

22 Q. HAVE YOU PREPARED EXHIBITS TO ACCOMPANY THIS  
23 TESTIMONY?

24

25 A. YES, MY FIVE EXHIBITS CONSIST OF TWO SCHEDULES AND

1 THREE APPENDICES, WHICH WERE PREPARED BY ME OR  
2 UNDER MY DIRECTION AND SUPERVISION.

3

4 II. PURPOSE AND SUMMARY OF CONCLUSIONS

5

6 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?

7

8 A. MY PURPOSE IS TO PROVIDE THE FLORIDA PUBLIC SERVICE  
9 COMMISSION (COMMISSION) WITH A DETERMINATION OF THE  
10 COST OF EQUITY CAPITAL FOR SOUTHERN BELL.

11

12 Q. PLEASE DESCRIBE THE APPROACHES THAT YOU USED TO  
13 DETERMINE SOUTHERN BELL'S COST OF EQUITY CAPITAL  
14 AND SUMMARIZE YOUR CONCLUSIONS.

15

16 A. MY ANALYSIS USES OBJECTIVE MARKET DATA TO DETERMINE  
17 SOUTHERN BELL'S COST OF EQUITY CAPITAL FROM TWO  
18 DISTINCT BUT COMPLEMENTARY APPROACHES. SINCE  
19 BELLSOUTH TELECOMMUNICATIONS, DOING BUSINESS IN  
20 FLORIDA AS SOUTHERN BELL, IS A SUBSIDIARY OF  
21 BELLSOUTH, IT DOES NOT HAVE EQUITY TRADING  
22 IN THE MARKET. THUS, THERE IS NO DIRECT MARKET  
23 EVIDENCE ON SOUTHERN BELL'S COST OF EQUITY CAPITAL.  
24 IN THE FIRST APPROACH I APPLY THE DISCOUNTED CASH  
25 FLOW (DCF) MODEL TO A GROUP OF FIRMS IDENTIFIED TO

1 BE OF COMPARABLE RISK TO SOUTHERN BELL. AN AVERAGE  
2 COST OF EQUITY CAPITAL IS CALCULATED BY APPLYING  
3 THE DCF MODEL TO THIS GROUP OF COMPARABLE FIRMS IN  
4 ORDER TO PROVIDE AN OBJECTIVE, MARKET-DETERMINED  
5 COST OF EQUITY CAPITAL FOR SOUTHERN BELL. THE  
6 SECOND APPROACH I USE IS A RISK PREMIUM APPROACH  
7 THAT INCLUDES EVIDENCE AS TO THE CHANGE IN THE RISK  
8 PREMIUM RESULTING FROM CHANGES IN THE LEVEL OF  
9 INTEREST RATES.

10

11 MY ANALYSIS DETERMINES THE COST OF EQUITY FOR  
12 SOUTHERN BELL TO BE 14.18% TO 14.29% USING THE  
13 COMPARABLE FIRM GROUP DCF MODEL APPROACH. THE RISK  
14 PREMIUM APPROACH, WHICH INCLUDES AN EXPLICIT  
15 ADJUSTMENT TO THE RISK PREMIUM FOR THE RECENT  
16 DECLINE IN INTEREST RATES, INDICATES A COST OF  
17 EQUITY CAPITAL FOR SOUTHERN BELL OF 13.90% TO  
18 14.18%.

19

20 FROM THESE ANALYSES, I CONCLUDE THAT THE CURRENT  
21 COST OF EQUITY CAPITAL FOR SOUTHERN BELL IS WITHIN  
22 THE RANGE OF 13.90% TO 14.29% WITH A MIDPOINT OF  
23 14.10%. BASED ON MY UNDERSTANDING THAT THIS  
24 COMMISSION SET SOUTHERN BELL'S RATES AT AN EQUITY  
25 RETURN OF 13.2% IN 1988 AND 1990, IT IS MY OPINION

1 THAT THE COST OF EQUITY IS ACTUALLY HIGHER THAN  
2 THAT, ALTHOUGH IT STILL REMAINS IN THE RANGE OF  
3 11.5% TO 16.0% ESTABLISHED BY THIS COMMISSION IN  
4 1988.

5

6 III. REGULATORY AND ECONOMIC STANDARDS USED  
7 IN COST OF EQUITY ANALYSIS

8

9 Q. WHAT REGULATORY STANDARDS GUIDE THE DETERMINATION  
10 OF THE COST OF EQUITY CAPITAL FOR A PUBLIC UTILITY?

11

12 A. TWO IMPORTANT SUPREME COURT DECISIONS, BLUEFIELD  
13 AND HOPE, PROVIDE THE ESSENTIAL STANDARDS THAT ARE  
14 APPLIED IN THE REGULATION OF A PUBLIC UTILITY'S  
15 ALLOWED RATE OF RETURN. THE FIRST STANDARD IS THAT  
16 A PUBLIC UTILITY SHOULD BE ALLOWED EARNINGS  
17 OPPORTUNITIES SUFFICIENT TO ENABLE IT TO ATTRACT  
18 CAPITAL ON REASONABLE TERMS. THE SECOND STANDARD  
19 IS THAT A PUBLIC UTILITY SHOULD BE ALLOWED THE  
20 OPPORTUNITY OF EARNING AT A LEVEL COMPARABLE TO  
21 OTHER FIRMS OF CORRESPONDING RISKS.

22

23 Q. PLEASE ELABORATE ON THE FIRST STANDARD.

24

25 A. THE FIRST REGULATORY STANDARD IS BASED ON THE

1        BLUEFIELD CASE, WHICH STATED THAT A PUBLIC  
2        UTILITY'S:

3  
4            "... RETURN SHOULD BE REASONABLY  
5            SUFFICIENT TO ASSURE CONFIDENCE IN THE  
6            FINANCIAL SOUNDNESS OF THE UTILITY AND  
7            SHOULD BE ADEQUATE, UNDER EFFICIENT  
8            AND ECONOMICAL MANAGEMENT, TO MAINTAIN  
9            AND SUPPORT ITS CREDIT AND ENABLE IT  
10          TO RAISE THE MONEY NECESSARY FOR THE  
11          PROPER DISCHARGE OF ITS PUBLIC  
12          DUTIES."

13  
14          THIS CASE ESTABLISHES THE REGULATORY STANDARD THAT  
15          A PUBLIC UTILITY'S ALLOWED RATE OF RETURN SHOULD BE  
16          SUFFICIENT TO PERMIT IT TO ATTRACT THE CAPITAL THAT  
17          IT NEEDS TO MEET ITS RESPONSIBILITIES. IN ORDER TO  
18          MAINTAIN THE ABILITY TO ATTRACT CAPITAL, A PUBLIC  
19          UTILITY MUST ASSURE THAT ITS FINANCIAL INTEGRITY IS  
20          NOT COMPROMISED.

21

22 Q. PLEASE DISCUSS THE SECOND STANDARD.

23

24 A. THE SECOND STANDARD IS BASED ON THE HOPE CASE,  
25        WHICH STATED THAT:



1

2

"... THE RETURN TO THE EQUITY OWNER  
SHOULD BE COMMENSURATE WITH RETURNS ON  
INVESTMENTS IN OTHER ENTERPRISES  
HAVING CORRESPONDING RISKS. THAT  
RETURN, MOREOVER, SHOULD BE SUFFICIENT  
TO ASSURE CONFIDENCE IN THE FINANCIAL  
INTEGRITY OF THE ENTERPRISE, SO AS TO  
MAINTAIN ITS CREDIT AND TO ATTRACT  
CAPITAL."

3

4

5

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12

THE HOPE CASE CONSEQUENTLY ESTABLISHES THE STANDARD  
THAT A PUBLIC UTILITY'S ALLOWED RATE OF RETURN WILL  
NOT BE APPROPRIATE UNLESS IT IS COMPARABLE TO THE  
RETURNS OF INVESTMENTS OF COMPARABLE RISK. IN  
TERMS OF THE CURRENT PROCEEDINGS, THIS STANDARD  
IMPLIES THAT SOUTHERN BELL'S ALLOWED RATE OF RETURN  
SHOULD BE COMMENSURATE WITH THE EXPECTED RATE OF  
RETURN ASSOCIATED WITH THE RISK FACED BY EQUITY  
HOLDERS IN FIRMS OF COMPARABLE RISK.

13

14

15

16

17

18

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20

21

22 Q.

WHAT ECONOMIC STANDARDS ARE RELEVANT IN DETERMINING  
THE COST OF EQUITY CAPITAL?

23

24

25 A.

SEVERAL FUNDAMENTAL ECONOMIC STANDARDS ARE USED TO

1 DETERMINE THE COST OF EQUITY CAPITAL. THESE  
2 STANDARDS ARE IMPLIED BY THE CONCEPTS OF  
3 OPPORTUNITY COST, THE RISK/RETURN TRADE-OFF, AND  
4 MARKET EFFICIENCY. IF THE PROCESS USED TO  
5 ESTABLISH THE COST OF EQUITY IS NOT CONSISTENT WITH  
6 THOSE STANDARDS, THEN THE RESULTING ESTIMATE WILL  
7 BE BIASED. SUCH A COST OF EQUITY WOULD NOT TREAT  
8 RATEPAYERS FAIRLY AND COULD DAMAGE THE ABILITY OF  
9 SOUTHERN BELL TO RAISE FUNDS, THEREBY COMPROMISING  
10 THE FIRM'S CAPACITY TO CONTINUE PROVIDING  
11 APPROPRIATE TELECOMMUNICATIONS SERVICES IN THE  
12 STATE OF FLORIDA.

13

14 Q. WHAT IS THE CONCEPT OF OPPORTUNITY COST AND HOW  
15 DOES THE COST OF EQUITY CAPITAL DEPEND ON ITS  
16 RECOGNITION?

17

18 A. INVESTORS HAVE THE OPPORTUNITY TO PUT THEIR MONEY  
19 TO WORK IN A VARIETY OF DIFFERENT INVESTMENTS. THE  
20 DECISION TO PUT MONEY IN ONE INVESTMENT IMPLIES  
21 THAT ANOTHER INVESTMENT OPPORTUNITY MUST BE GIVEN  
22 UP. THUS, THE OPPORTUNITY COST OF MAKING AN  
23 INVESTMENT IS THE OPPORTUNITY (EXPECTED RETURN)  
24 FOREGONE ON THE NEXT BEST ALTERNATIVE.

25

1 THE OPPORTUNITY AFFORDED BY AN INVESTMENT MUST BE  
2 MEASURED IN LIGHT OF THE TIME VALUE OF MONEY. THIS  
3 ACKNOWLEDGES THAT THE VALUE OF A DOLLAR TO BE  
4 RECEIVED IN A YEAR IS NOT WORTH A DOLLAR TODAY.  
5 THIS IS BECAUSE INVESTORS HAVE THE OPPORTUNITY TO  
6 INVEST LESS THAN A DOLLAR TODAY AT SOME POSITIVE  
7 EXPECTED RETURN IN ORDER TO GENERATE A DOLLAR A  
8 YEAR FROM TODAY. MONEY HAS A TIME VALUE THAT  
9 REFLECTS THE BENEFITS OF AN INVESTOR'S OTHER  
10 COMPETING INVESTMENT ALTERNATIVES.

11

12 THE COST OF EQUITY CAPITAL IS AN OPPORTUNITY COST  
13 FROM THE EQUITY INVESTOR'S VIEWPOINT. WHEN AN  
14 INVESTOR CONSIDERS INVESTING MONEY IN A STOCK, CARE  
15 IS TAKEN TO EVALUATE THE EXPECTED RETURN ON THE  
16 NEXT BEST ALTERNATIVE INVESTMENT THAT MUST BE  
17 FOREGONE IF THE STOCK IS BOUGHT. AN INVESTOR HAS A  
18 TARGET REQUIRED RATE OF RETURN THAT IS INFLUENCED  
19 BY THAT OPPORTUNITY COST. IF AN INVESTOR DOES NOT  
20 EXPECT A STOCK TO MEET THE TARGET OR MINIMALLY  
21 ACCEPTABLE RETURN, THEN THE STOCK WILL NOT BE  
22 PURCHASED BY THAT INVESTOR. IN ORDER TO MEET  
23 INVESTORS' RETURN EXPECTATIONS, THE FIRM MUST  
24 REINVEST THE FUNDS SUPPLIED BY THOSE INVESTORS AT  
25 AN EXPECTED RATE OF RETURN NO LESS THAN THAT

1 EXPECTED BY INVESTORS.

2

3 THE STANDARD THAT EMERGES FOR COST OF EQUITY  
4 CAPITAL ANALYSIS IS THAT ANY ESTIMATE SHOULD  
5 CONSIDER THE OPPORTUNITY COSTS FACED BY EQUITY  
6 INVESTORS. THE COST OF EQUITY CAPITAL CANNOT BE  
7 DETERMINED IN ISOLATION. IT SHOULD RESPECT EQUITY  
8 INVESTORS' OTHER INVESTMENT ALTERNATIVES. IN THE  
9 CASE OF SOUTHERN BELL, THE COMPANY'S ALLOWED RATE  
10 OF RETURN MUST MEET INVESTORS' RETURN REQUIREMENTS,  
11 AS REFLECTED IN THE COST OF EQUITY CAPITAL, OR  
12 INVESTORS WILL NOT SUPPLY THE FIRM WITH THEIR  
13 CAPITAL. THIS WOULD EFFECTIVELY DENY SOUTHERN BELL  
14 ACCESS TO THE CAPITAL MARKET ON REASONABLE TERMS.  
15 THUS, THE REGULATORY STANDARD OF CAPITAL ATTRACTION  
16 DISCUSSED PREVIOUSLY IN MY TESTIMONY WOULD BE  
17 VIOLATED.

18

19 Q. HOW DOES THE RISK/RETURN TRADE-OFF APPLY TO COST OF  
20 EQUITY CAPITAL ANALYSIS?

21

22 A. THE RISK/RETURN TRADE-OFF IS A DESCRIPTION OF HOW  
23 INVESTORS BEHAVE GIVEN WHAT THEY LIKE AND WHAT THEY  
24 DISLIKE ABOUT INVESTMENTS. INVESTORS GENERALLY  
25 PREFER HIGHER TO LOWER RETURNS AND PREFER LESS TO

1 MORE RISK. THIS IMPLIES THAT INVESTORS WILL NOT  
2 TAKE ON ADDITIONAL RISK UNLESS THEY EXPECT TO EARN  
3 HIGHER RETURNS. THUS, INVESTORS TRADE-OFF WHAT  
4 THEY LIKE (HIGHER EXPECTED RETURNS) AGAINST WHAT  
5 THEY DISLIKE (HIGHER RISKS) IN MAKING INVESTMENT  
6 DECISIONS. IN EVERYDAY TERMS, INVESTORS CANNOT GET  
7 MORE OF WHAT THEY LIKE UNLESS THEY ARE WILLING TO  
8 TAKE ON MORE OF WHAT THEY DISLIKE.

9  
10 INVESTORS ARE AWARE OF THE DANGERS OF VIOLATING THE  
11 RISK/RETURN TRADE-OFF. IF AN INVESTMENT'S EXPECTED  
12 RETURN IS NOT COMMENSURATE WITH ITS RISK, INVESTORS  
13 WILL LOOK ELSEWHERE FOR INVESTMENT OPPORTUNITIES.  
14 INVESTORS SEEKING TO MEASURE OPPORTUNITY COSTS MUST  
15 DEVELOP SOME CRITERION FOR JUDGING WHAT MAKES  
16 INVESTMENTS COMPARABLE SO THAT THEY CAN IDENTIFY  
17 THE "NEXT BEST ALTERNATIVE FOREGONE," AS DISCUSSED  
18 ABOVE. THE PRIMARY CRITERION IS RISK. INVESTORS  
19 WILL EVALUATE INVESTMENTS OF COMPARABLE RISK AND  
20 SEEK THE INVESTMENT YIELDING THE HIGHEST EXPECTED  
21 RETURN FOR A GIVEN LEVEL OF RISK. THUS,  
22 OPPORTUNITY COSTS CAN ONLY BE MEASURED ACCURATELY  
23 WHEN THE RISKINESS OF COMPETING INVESTMENTS IS  
24 TAKEN INTO CONSIDERATION.

25

1 THE STANDARD FOR COST OF CAPITAL ANALYSIS IMPLIED  
2 BY THE RISK/RETURN TRADE-OFF IS THAT A FIRM MUST  
3 MEET THE RETURN REQUIREMENTS THAT EQUITY HOLDERS  
4 IMPOSE AFTER HAVING EVALUATED OTHER INVESTMENTS OF  
5 COMPARABLE RISK. IF A FIRM DOES NOT MEET  
6 INVESTORS' RISK-ADJUSTED EXPECTED RETURNS, THOSE  
7 INVESTORS WILL MOVE THEIR MONEY TO ALTERNATIVE  
8 INVESTMENTS OF SIMILAR RISK THAT ARE GENERATING  
9 HIGHER RETURNS. THIS STANDARD ASSERTS THAT  
10 SOUTHERN BELL SHOULD HAVE THE OPPORTUNITY TO EARN A  
11 RETURN THAT IS COMMENSURATE WITH ITS RISK AND, BY  
12 IMPLICATION, COMPARABLE TO THE EXPECTED RETURNS OF  
13 OTHER FIRMS OF COMPARABLE RISK.

14

15 Q. WHAT IMPLICATIONS DO OPPORTUNITY COSTS AND THE  
16 RISK/RETURN TRADE-OFF JOINTLY HAVE FOR DETERMINING  
17 THE COST OF EQUITY?

18

19 A. THE JOINT PRESENCE OF OPPORTUNITY COSTS AND THE  
20 RISK/RETURN TRADE-OFF IMPLIES THE STANDARD THAT  
21 INVESTMENTS OF COMPARABLE RISK ARE EXPECTED TO  
22 GENERATE COMPARABLE RETURNS. IF THEY DO NOT,  
23 INVESTORS WILL PURCHASE THE STOCKS OF FIRMS  
24 YIELDING HIGHER RETURNS AND WILL SELL THE STOCKS OF  
25 FIRMS YIELDING LOWER RETURNS UNTIL THE RETURNS

1 REFLECTED BY THE PRICES ARE THE SAME. THIS  
2 STANDARD IS THE RESULT OF A LARGE NUMBER OF  
3 INVESTORS MEASURING THEIR OPPORTUNITY COSTS BY  
4 COMPARING INVESTMENTS WITH FULL KNOWLEDGE THAT  
5 RELEVANT ALTERNATIVES ARE DEFINED ON THE BASIS OF  
6 COMPARABLE RISKINESS.

7  
8 THIS STANDARD IMPLIES THAT GROUPS OF FIRMS  
9 COMPARABLE IN RISK TO SOUTHERN BELL SHOULD HAVE  
10 AVERAGE EXPECTED COSTS OF EQUITY CAPITAL THAT ARE  
11 COMPARABLE TO SOUTHERN BELL'S EXPECTED COST OF  
12 EQUITY CAPITAL. THIS STANDARD IS THE BASIS FOR THE  
13 COMMON PRACTICE OF APPLYING THE DCF MODEL TO A  
14 GROUP OF COMPARABLE FIRMS.

15

16 Q. WHAT IS MEANT BY THE TERM "MARKET EFFICIENCY" AND  
17 WHAT STANDARD DOES IT IMPLY FOR COST OF EQUITY  
18 CAPITAL ANALYSIS?

19

20 A. IN ITS MOST GENERAL FORM, AN EFFICIENT MARKET IS  
21 ONE IN WHICH ALL INFORMATION THAT IS RELEVANT TO  
22 SECURITY PRICE (EXPECTED RETURN) FORMATION IS  
23 REFLECTED QUICKLY IN PRICES (RETURNS). MARKET  
24 EFFICIENCY IS NOT AN ALL OR NOTHING PROPOSITION,  
25 BUT RATHER IS A MATTER OF DEGREE. RESEARCH

1 FINDINGS SUPPORT A HIGH DEGREE OF EFFICIENCY IN  
2 CONTEMPORARY U.S. FINANCIAL MARKETS. THUS,  
3 SECURITY PRICES ARE ON AVERAGE UNBIASED, OBJECTIVE  
4 ESTIMATES OF WHAT THE INVESTMENT COMMUNITY EXPECTS  
5 TO HAPPEN TO A SECURITY. INDEED, PRICES REFLECT  
6 THE MARKET'S ASSESSMENT OF WHAT A SECURITY SHOULD  
7 YIELD GIVEN ITS RISKINESS RELATIVE TO COMPARABLE  
8 INVESTMENTS.

9  
10 IF A SECURITY'S EXPECTED RETURN IS LESS THAN THE  
11 RETURN ASSOCIATED WITH THE RISK OF THAT SECURITY,  
12 INVESTORS WILL SELL IT. THIS ACT WILL PUSH THE  
13 PRICE OF THAT SECURITY DOWN UNTIL ITS EXPECTED  
14 RETURN IS EQUAL TO THE RETURN ASSOCIATED WITH THE  
15 RISK OF THAT SECURITY.

16  
17 THE IMPLICATION OF A HIGH DEGREE OF MARKET  
18 EFFICIENCY FOR COST OF EQUITY CAPITAL ANALYSIS IS  
19 THAT EQUITY PRICES FOR FIRMS OF COMPARABLE RISK ARE  
20 RELIABLE SOURCES OF OBJECTIVE INFORMATION ABOUT  
21 CAPITAL COSTS.

22

23 **IV. NATURE AND APPLICABILITY OF THE DCF MODEL**

24

25 Q. WHAT IS THE DCF MODEL AND HOW IS IT APPLICABLE TO



1 THE CURRENT PROCEEDINGS?

2

3 A. THE DCF MODEL IS A FORMAL STATEMENT OF COMMON SENSE  
4 AND BASIC FINANCIAL THEORY. THE MODEL ASKS AN  
5 INVESTOR'S MOST BASIC QUESTION: HOW MUCH IS THIS  
6 STOCK WORTH? COMMON SENSE DICTATES THAT THE ANSWER  
7 DEPENDS ON WHAT INVESTORS EXPECT TO GET OUT OF THE  
8 STOCK AND WHEN THEY EXPECT TO GET IT. THE WHAT IS  
9 THE EXPECTED CASH FLOW STREAM GENERATED BY THE  
10 STOCK AND THE WHEN IS THE PROJECTED TIMING OF THOSE  
11 EXPECTED CASH FLOWS.

12

13 DETERMINING HOW MUCH A STOCK IS WORTH DEPENDS ON  
14 ONE MORE CRITICAL CONSIDERATION: THE RISKINESS OR  
15 PROBABILITY THAT INVESTORS ASSOCIATE WITH THEIR  
16 FORECAST OF WHAT THEY WILL RECEIVE FROM THE STOCK.  
17 IN THIS CONTEXT, RISK IS THE POSSIBILITY THAT  
18 INVESTORS' EXPECTATIONS WILL BE FRUSTRATED. RISK  
19 IS REFLECTED BY THE PROBABILITY THAT INVESTORS'  
20 ACTUAL RETURNS WILL DIFFER FROM THEIR EXPECTED  
21 RETURNS. THE DCF MODEL ASSUMES THAT THE AVERAGE  
22 INVESTOR DISLIKES RISK AND CONSEQUENTLY WILL ACCEPT  
23 HIGHER RISK ONLY IF THERE IS A HIGHER EXPECTED  
24 RETURN.

25

1 THE DCF MODEL RECOGNIZES TWO TYPES OF CASH FLOWS:  
2 THE PERIODIC PAYMENT OF CASH DIVIDENDS AND THE  
3 (POSSIBLE) FUTURE SALE OF THE STOCK. IF AN  
4 INVESTOR FACING AN OPPORTUNITY COST OF K PERCENT  
5 EXPECTS TO GET DIVIDENDS  $D_t$  ANNUALLY FOR THE NEXT N  
6 YEARS AND THEN SELLS THE STOCK AT THE END OF YEAR N  
7 FOR A PRICE OF  $P_N$ , THEN THE APPROPRIATE CURRENT  
8 PRICE  $P_0$  IS:

9

$$10 \quad P_0 = \frac{D_1}{(1+K)^1} + \frac{D_2}{(1+K)^2} + \dots + \frac{D_N + P_N}{(1+K)^N}$$

11

12

13 IN SUMMARY, THE APPROPRIATE PRICE OF A STOCK IS  
14 SIMPLY THE PRESENT VALUE OF ALL OF THE CASH  
15 BENEFITS THAT AN INVESTOR EXPECTS TO GET FROM  
16 OWNING IT.

17

18 Q. IS THIS THE FORM OF THE DCF MODEL THAT IS COMMONLY  
19 USED TO DETERMINE THE COST OF EQUITY CAPITAL FOR A  
20 FIRM LIKE SOUTHERN BELL?

21

22 A. NO, IT IS NOT. THE ABOVE FORM IS TYPICALLY  
23 MODIFIED IN AT LEAST TWO WAYS. FIRST, THIS  
24 COMMISSION IS PRESUMABLY NOT CONCERNED WITH  
25 DETERMINING HOW MUCH A STOCK SHOULD SELL FOR. ITS

1 GOAL IS TO DETERMINE WHAT RATE OF RETURN SOUTHERN  
2 BELL'S EQUITY INVESTORS SHOULD REASONABLY EXPECT TO  
3 BE COMPENSATED FOR THE FIRM'S RISK. THUS, THE  
4 COMMISSION IS CONCERNED WITH WHAT THE PRICE IS  
5 RATHER THAN WITH WHAT IT SHOULD BE. THE ACTUAL  
6 PRICE  $P_{\text{mkt}}$  SHOULD CONSEQUENTLY BE USED TO INFER  
7 INVESTORS' REQUIRED RATE OF RETURN.

8  
9 SECOND, THE FORM OF THE DCF PRESENTED ABOVE MAKES  
10 NO EXPLICIT ASSUMPTION CONCERNING THE EXPECTED RATE  
11 OF GROWTH IN DIVIDENDS AND THE STOCK'S PRICE OVER  
12 TIME, NOR ANY ASSUMPTION CONCERNING THE LENGTH OF  
13 AN INVESTOR'S EXPECTED HOLDING PERIOD. THE  
14 SO-CALLED CONSTANT GROWTH FORM OF THE DCF ASSUMES  
15 THAT DIVIDENDS AND PRICE GROW AT A CONSTANT RATE  $G$   
16 OVER TIME, THAT THE GROWTH RATE IS LESS THAN THE  
17 REQUIRED RATE OF RETURN, AND THAT INVESTORS HAVE AN  
18 INFINITE HOLDING PERIOD.

19  
20 WHILE THE ASSUMPTION OF AN INFINITE HOLDING PERIOD  
21 SEEMS QUESTIONABLE INITIALLY, IT IS IMPORTANT TO  
22 REMEMBER THAT THE FUNDAMENTAL SOURCE OF A STOCK'S  
23 VALUE TO INVESTORS IS ITS EXPECTED DIVIDEND STREAM.  
24 WHY WOULD INVESTORS BE WILLING TO TRADE A STOCK  
25 AMONG THEMSELVES IF THE STOCK WAS NOTHING MORE THAN

1 A PIECE OF PAPER THAT WOULD NEVER PAY ANY MONEY?  
2 IF THE CURRENT PRICE OF A STOCK IS THE PRESENT  
3 VALUE OF ALL EXPECTED FUTURE CASH FLOWS, THEN WHY  
4 WOULDN'T THE PRICE AT ANY POINT IN TIME BE THE  
5 PRESENT VALUE OF THE EXPECTED CASH FLOWS BEYOND  
6 THAT POINT IN TIME? WHILE AN INFINITE HOLDING  
7 PERIOD MAY NOT SEEM TO APPLY TO ANY ONE INVESTOR,  
8 THIS ASSUMPTION IS AN ACCURATE WAY OF PORTRAYING  
9 THE BEHAVIOR OF INVESTORS SINCE THEY MUST DETERMINE  
10 ALL PRICES, PRESENT AND FUTURE, BY PROJECTING A  
11 SEEMINGLY ENDLESS SERIES OF FUTURE DIVIDENDS. THEY  
12 MUST MAKE SUCH DIVIDEND PROJECTIONS SINCE ANY  
13 EXPECTED FUTURE PRICE IS DEPENDENT ON THE DIVIDENDS  
14 THAT ARE EXPECTED TO BE PAID ON THAT STOCK AFTER IT  
15 IS PURCHASED.

16  
17 THE CONSTANT GROWTH FORM OF THE DCF MODEL MAKES THE  
18 TWO ABOVE ADJUSTMENTS AND CAN BE EXPRESSED AS:

19  
20  
21  
22

$$K = \frac{D_0(1 + G)}{P_{mkt}} + G = \frac{D_1}{P_{mkt}} + G,$$

23 WHERE  $D_0$  IS THE MOST RECENT DIVIDEND PAID,  $G$  IS THE  
24 EXPECTED GROWTH RATE,  $D_1$  IS THE NEXT ANTICIPATED  
25 DIVIDEND, AND THE REST OF THE VARIABLES ARE AS

1       DEFINED ABOVE.

2

3 Q.   IS IT NECESSARY TO MAKE ANY OTHER MODIFICATIONS  
4       BEFORE THE DCF MODEL CAN BE ACCURATELY APPLIED TO  
5       DETERMINE SOUTHERN BELL'S COST OF EQUITY CAPITAL?

6

7 A.   YES, TWO ADDITIONAL MODIFICATIONS ARE NECESSARY.  
8       FIRST, IT IS APPROPRIATE TO RECOGNIZE THAT  
9       DIVIDENDS ARE PAID BY MOST COMPANIES ON A  
10      QUARTERLY, NOT AN ANNUAL, BASIS.  THE SECOND  
11      ADJUSTMENT TO THE GENERAL DCF MODEL PRESENTED ABOVE  
12      CONSIDERS THE FLOTATION COSTS BORNE BY THE FIRM IN  
13      RAISING EQUITY FUNDS.

14

15 Q.   WHY IS IT IMPORTANT TO ADJUST THE DCF MODEL TO  
16      REFLECT THE QUARTERLY PAYMENT OF DIVIDENDS?

17

18 A.   THE ANNUAL FORM OF THE DCF MODEL ASSUMES THAT  
19      INVESTORS RECEIVE DIVIDENDS ONLY ONCE A YEAR AND  
20      THAT THEY HAVE THE OPPORTUNITY TO REINVEST THOSE  
21      CASH FLOWS IN ALTERNATIVE INVESTMENTS OF THE SAME  
22      RISK.  THE REQUIRED RATE OF RETURN IMPLIED BY THE  
23      ANNUAL FORM OF THE DCF MODEL WILL BE BIASED  
24      DOWNWARD IF INVESTORS ACTUALLY RECEIVE THEIR  
25      DIVIDEND PAYMENTS IN QUARTERLY RATHER THAN IN

1 ANNUAL INSTALLMENTS. THIS BIAS RESULTS BECAUSE  
2 EQUITY INVESTORS HAVE THE OPPORTUNITY TO START  
3 EARNING A RETURN ON THEIR REINVESTED DIVIDENDS  
4 SOONER WHEN THOSE DIVIDENDS ARE RECEIVED QUARTERLY  
5 THAN WHEN THE DIVIDENDS ARE RECEIVED ONLY ANNUALLY.

6  
7 USING THE ANNUAL FORM OF THE DCF MODEL TO DETERMINE  
8 THE RETURN REQUIREMENTS OF EQUITY INVESTORS IN  
9 SOUTHERN BELL WOULD DEPRIVE THOSE INVESTORS OF THE  
10 RETURNS THAT THEY COULD REASONABLY EXPECT TO EARN.  
11 THIS IS BECAUSE THEY GET THEIR DIVIDENDS QUARTERLY  
12 RATHER THAN ANNUALLY. FAILURE TO MAKE THIS  
13 ADJUSTMENT CAN UNDERSTATE THE COST OF EQUITY  
14 CAPITAL. THUS, THIS ADJUSTMENT MUST BE MADE IF AN  
15 ECONOMICALLY CORRECT COST OF EQUITY IS TO BE  
16 DETERMINED FOR SOUTHERN BELL.

17

18 Q. WHAT SPECIFIC ADJUSTMENT FOR QUARTERLY DIVIDENDS DO  
19 YOU MAKE TO THE DCF MODEL?

20

21 A. THERE ARE TWO BASIC WAYS IN WHICH QUARTERLY  
22 DIVIDENDS CAN BE HANDLED. THE FIRST APPROACH MAKES  
23 THE SIMPLIFYING ASSUMPTION THAT DIVIDENDS ARE PAID  
24 QUARTERLY AND GROW QUARTERLY AS WELL. WHILE THIS  
25 APPROACH HAS THE VIRTUE OF SIMPLICITY, IT IS NOT

1 REALISTIC BECAUSE MOST FIRMS ADJUST THEIR DIVIDEND  
2 PAYMENTS ONCE A YEAR, NOT QUARTERLY. THE SECOND  
3 APPROACH ASSUMES THAT FIRMS PAY DIVIDENDS QUARTERLY  
4 BUT THAT THOSE DIVIDENDS ARE ONLY CHANGED BY A FIRM  
5 ANNUALLY. THUS, QUARTERLY REINVESTMENT  
6 OPPORTUNITIES ARE RECOGNIZED AND THE MORE REALISTIC  
7 PATTERN OF ANNUAL DIVIDEND GROWTH IS ACCOUNTED FOR  
8 AS WELL. THIS IS THE APPROACH THAT I USE IN MY  
9 ANALYSIS OF SOUTHERN BELL'S COST OF EQUITY.  
10 FURTHER, I ASSUME THAT FIRMS ON AVERAGE ADJUST THE  
11 LEVEL OF THEIR DIVIDENDS IN THE MIDDLE OF THE YEAR.

12  
13 THE ADJUSTED DCF MODEL CALCULATES A REVISED  
14 DIVIDEND,  $D_1^q$ :

15  
16 
$$D_1^q = d_1(1 + k)^{-.75} + d_2(1 + k)^{-.50} + d_3(1 + k)^{-.25} + d_4.$$

17  
18  
19 WHERE  $d_1$  AND  $d_2$  ARE THE TWO QUARTERLY DIVIDENDS  
20 PAID PRIOR TO THE ASSUMED YEARLY CHANGE IN  
21 DIVIDENDS AND  $d_3$  AND  $d_4$  ARE THE TWO QUARTERLY  
22 DIVIDENDS PAID AFTER THE GIVEN CHANGE IN THE AMOUNT  
23 PAID BY A FIRM. THIS DIVIDEND,  $D_1^q$ , REVISED TO  
24 RECOGNIZE THE QUARTERLY PAYMENT OF DIVIDENDS THAT  
25 GROW AT RATE G ONCE A YEAR (ON AVERAGE FOR ALL

1 FIRMS IN THE MIDDLE OF THE NEXT 12 MONTHS), IS  
2 SUBSTITUTED IN THE PLACE OF  $D_1$  IN THE BASIC FORM OF  
3 THE DCF:

$$K = \frac{(D_1^q)}{P_{mkt}} + G.$$

- 4  
5  
6  
7
- 8 Q. WHY MUST FLOTATION COSTS BE ACCOUNTED FOR IN  
9 DETERMINING THE COST OF EQUITY CAPITAL?
- 10
- 11 A. THE COST OF EQUITY CAPITAL MUST REFLECT WHAT A FIRM  
12 NEEDS TO EARN ON ITS FUNDS IN ORDER TO MEET THE  
13 RETURN REQUIREMENTS OF ITS INVESTORS. FLOTATION  
14 COSTS REDUCE THE AMOUNT OF FUNDS THAT A FIRM HAS TO  
15 INVEST AND THEREBY INCREASE THE RETURN THAT A FIRM  
16 MUST EARN ON THOSE REMAINING FUNDS IF IT IS TO  
17 REMAIN ABLE TO ATTRACT INVESTORS. IF A UTILITY WAS  
18 ALLOWED TO RECOVER ALL OF ITS FLOTATION COSTS AT  
19 THE TIME OF ISSUANCE, THERE WOULD BE NO NEED FOR  
20 THIS ADJUSTMENT. OTHERWISE, IT IS IMPORTANT TO  
21 SUBTRACT THE FLOTATION COSTS FROM THE PRICE USED IN  
22 THE DCF MODEL IN ORDER TO CAPTURE THE FACT THAT A  
23 UTILITY WOULD NOT RECEIVE THE FULL PROCEEDS OF AN  
24 EQUITY ISSUE.

25



1 ACADEMIC STUDIES CONCLUDE THAT A FLOTATION COST OF  
2 FIVE PERCENT IS REASONABLE. THEREFORE, I INCLUDE A  
3 FIVE PERCENT FLOTATION COST ADJUSTMENT THAT IS  
4 IMPLEMENTED AS A FIVE PERCENT REDUCTION TO THE  
5 STOCK PRICES USED IN MY DCF ANALYSIS.

6

7 Q. HOW CAN FLOTATION COSTS BE RELEVANT IN DETERMINING  
8 SOUTHERN BELL'S COST OF EQUITY CAPITAL WHEN IT DOES  
9 NOT SELL SHARES OF STOCK IN THE OPEN MARKET?

10

11 THE FACT THAT SOUTHERN BELL DOES NOT ACTUALLY SELL  
12 EQUITY BY VIRTUE OF ITS AFFILIATION WITH BELLSOUTH  
13 DOES NOT INVALIDATE THE NEED TO ADJUST FOR  
14 FLOTATION COSTS. TAKEN TO ITS LOGICAL EXTREME, IT  
15 COULD BE ARGUED THAT SOUTHERN BELL HAS NO COST OF  
16 EQUITY CAPITAL AT ALL SINCE IT DOES NOT SELL SHARES  
17 OF STOCK ON THE OPEN MARKET. YET SOUTHERN BELL  
18 BEARS SUCH COSTS AND SHOULD BE COMPENSATED  
19 ACCORDINGLY.

20

21 CONSIDER AN EXAMPLE. WHEN A FAMILY SHOPS FOR A  
22 MORTGAGE, IT WILL FIND THAT, IN ADDITION TO THE  
23 STATED INTEREST RATE, IT IS COMMON TO PAY "POINTS"  
24 AT THE TIME THE MORTGAGE IS TAKEN OUT. EACH POINT  
25 IS EQUAL TO ONE PERCENT OF THE FACE VALUE OF THE

1 MORTGAGE. THUS, A MORTGAGE WITH A QUOTED INTEREST  
2 RATE OF TEN PERCENT WILL EFFECTIVELY COST THE  
3 FAMILY MORE THAN TEN PERCENT IF POINTS ARE REQUIRED  
4 TO BE PAID. THIS IS BECAUSE THE FAMILY MUST BORROW  
5 MORE THAN IS ACTUALLY NEEDED TO FINANCE THEIR HOUSE  
6 SINCE THEY MUST ESSENTIALLY ALSO BORROW TO COVER  
7 THE POINTS.

8  
9 ASSUME THAT THE FAMILY TAKES OUT A THIRTY-YEAR  
10 MORTGAGE REQUIRING POINTS AND THAT THEY ARE ASKED  
11 WHAT THEIR RATE IS TWO YEARS LATER. WOULD IT BE  
12 APPROPRIATE TO RESPOND THAT THE COST IS ONLY TEN  
13 PERCENT SINCE THE FAMILY HAS NOT TAKEN OUT A NEW  
14 MORTGAGE OVER THE TWO-YEAR PERIOD? NO, THE COST OF  
15 THE MORTGAGE WAS AND REMAINS IN EXCESS OF THE  
16 QUOTED RATE DUE TO THE FLOTATION COSTS PAID  
17 PREVIOUSLY. INDEED, THE RELEVANT COST OF A  
18 MORTGAGE IS ALWAYS THE POINT-ADJUSTED RATE,  
19 REGARDLESS OF WHETHER ONE CHOOSES TO TAKE THE  
20 MORTGAGE OR NOT.

21  
22 THE OMISSION OF A FLOTATION COST ADJUSTMENT IS  
23 INCORRECT AND IS EQUIVALENT TO COMPARING MORTGAGE  
24 RATES WITHOUT ADJUSTING FOR POINTS. SOUTHERN BELL  
25 WILL NOT GET FAIR TREATMENT IF IT IS ONLY PERMITTED

1 TO EARN A RETURN THAT DOES NOT COVER ALL OF ITS  
2 REASONABLE COSTS, INCLUDING FLOTATION COSTS.

3

4 Q. HOW IS THE GROWTH RATE ESTIMATED FOR USE IN THE DCF  
5 MODEL?

6

7 A. INVESTORS ARE FORWARD-LOOKING. INVESTMENT  
8 DECISIONS ARE MADE ON THE BASIS OF HOW INVESTORS  
9 EXPECT A STOCK TO PERFORM IN THE FUTURE. WHILE HOW  
10 A STOCK HAS PERFORMED IN THE PAST MAY WELL  
11 INFLUENCE AN INVESTOR'S EXPECTATIONS CONCERNING  
12 FUTURE PERFORMANCE, THERE IS NO GUARANTEE THAT THE  
13 FUTURE WILL BE A SIMPLE EXTENSION OF THE PAST.  
14 THUS, IT IS IMPORTANT THAT THE ESTIMATED GROWTH  
15 RATE USED IN THE DCF MODEL BE A PROSPECTIVE OR  
16 EXPECTED, NOT A HISTORICAL, RATE.

17

18 RESEARCH INDICATES THAT THE CONSENSUS GROWTH RATE  
19 FORECASTS OF FINANCIAL ANALYSTS ARE THE MOST  
20 UNBIASED, OBJECTIVE, AND ACCURATE MEASURE OF  
21 INVESTORS' GROWTH EXPECTATIONS FOR A STOCK.  
22 CONSISTENT WITH THIS OBSERVATION, I USE THE GROWTH  
23 RATE ESTIMATES PUBLISHED BY THE INSTITUTIONAL  
24 BROKERS ESTIMATE SYSTEM (IBES) AND ZACKS INVESTMENT  
25 RESEARCH.

1  
2 IN TESTIMONY FILED IN THIS PROCEEDING LAST YEAR,  
3 ONE OF THE WITNESSES WHO TOOK ISSUE WITH MY  
4 ANALYSIS USED ZACKS INSTEAD OF IBES. IN MY  
5 OPINION, IT IS APPROPRIATE TO USE EITHER SOURCE.  
6 THUS, I USE ZACKS AS WELL AS IBES GROWTH RATE  
7 ESTIMATES IN MY DCF ANALYSIS. BOTH IBES AND ZACKS  
8 ARE USED WIDELY WITHIN THE INVESTMENT PROFESSION  
9 AND ARE REVISED FREQUENTLY ENOUGH TO REMAIN  
10 RELEVANT TO INVESTORS EVALUATING THE GROWTH  
11 PROSPECTS OF STOCKS. FURTHER, THE USE OF BOTH  
12 SOURCES PROVIDES BROAD-BASED MEASURES OF LONG-TERM  
13 GROWTH RATE EXPECTATIONS.

14

15 Q. HOW CAN THE DCF MODEL BE APPLIED TO SOUTHERN BELL  
16 IN THE ABSENCE OF AN OBSERVABLE MARKET PRICE FOR  
17 ITS EQUITY?

18

19 A. CONSISTENT WITH THE REGULATORY AND ECONOMIC  
20 STANDARDS DISCUSSED EARLIER, IT IS IMPERATIVE THAT  
21 SOUTHERN BELL BE ALLOWED THE OPPORTUNITY TO EARN A  
22 RETURN COMMENSURATE WITH COMPETING ALTERNATIVE  
23 INVESTMENTS OF COMPARABLE RISK. SINCE SOUTHERN  
24 BELL'S EQUITY DOES NOT HAVE AN OBSERVABLE MARKET  
25 PRICE, IT IS NECESSARY TO IDENTIFY A GROUP OF FIRMS

1 OF COMPARABLE RISK THAT DO HAVE MARKET-TRADED  
2 EQUITY. THE APPLICATION OF THE DCF MODEL TO SUCH A  
3 GROUP OF FIRMS OF COMPARABLE RISK WITH OBSERVABLE  
4 EQUITY PRICES ALLOWS THE INFERENCE OF AN OBJECTIVE,  
5 MARKET-DETERMINED COST OF EQUITY CAPITAL FOR  
6 SOUTHERN BELL. THE AVERAGE COST OF EQUITY FOR THIS  
7 GROUP OF FIRMS IS USED AS A RELIABLE MEASURE OF THE  
8 COST OF EQUITY CAPITAL FOR SOUTHERN BELL.

9

10 Q. WHAT METHOD IS USED TO IDENTIFY FIRMS OF COMPARABLE  
11 RISK TO SOUTHERN BELL?

12

13 A. I USE A CLUSTER ANALYSIS MODEL TO IDENTIFY FIRMS  
14 THAT ARE OF COMPARABLE RISK TO SOUTHERN BELL.  
15 THREE OVERALL DIMENSIONS OF RISK ARE USED TO  
16 COMPARE FIRMS. FIRST, AN OVERALL MEASURE OF THE  
17 VARIABILITY OF A FIRM'S RETURN ON EQUITY IS USED TO  
18 GROUP FIRMS. SECOND, THE FINANCIAL RISK OF FIRMS  
19 IS MEASURED AND USED AS A BASIS OF COMPARISON.  
20 THIRD, THE BUSINESS OR OPERATING RISK OF FIRMS IS  
21 EVALUATED FROM SEVERAL PERSPECTIVES AND COMPARED  
22 AMONG FIRMS. THESE DIMENSIONS ARE, IN EFFECT,  
23 AVERAGED IN A MANNER THAT GENERATES A COMPREHENSIVE  
24 RISK PROFILE. THUS, FIRMS ARE NOT JUST COMPARED ON  
25 A CHARACTERISTIC-BY-CHARACTERISTIC BASIS, THEY ARE

1 COMPARED IN LIGHT OF THOSE CHOSEN CHARACTERISTICS  
2 AND THE RELATIONSHIP AMONG THOSE CHARACTERISTICS.

3  
4 A SUMMARY MEASURE EXPRESSES THE DISTANCE BETWEEN  
5 EACH FIRM AND SOUTHERN BELL. A GROUP OF THE 20  
6 FIRMS THAT ARE CLOSEST TO SOUTHERN BELL IN TERMS OF  
7 THIS SUMMARY DISTANCE MEASURE IS CHOSEN FOR  
8 ANALYSIS. THE DCF MODEL IS APPLIED TO THIS GROUP  
9 OF COMPARABLE FIRMS IN ORDER TO INFER SOUTHERN  
10 BELL'S COST OF EQUITY CAPITAL. THIS ANALYSIS  
11 RESULTS IN A COST OF EQUITY ESTIMATE OF 14.18% TO  
12 14.29%, USING IBES AND ZACKS GROWN RATE ESTIMATES,  
13 RESPECTIVELY.

14  
15 BILLINGSLEY EXHIBIT RSB-1 (SCHEDULE 1) LISTS THE  
16 GROUP OF COMPARABLE FIRMS AND PRESENTS THE DCF  
17 RESULTS. THE DETAILS CONCERNING THE COMPARABLE  
18 FIRM IDENTIFICATION CRITERIA AND METHODOLOGY ARE  
19 PROVIDED IN BILLINGSLEY EXHIBIT RSB-4 (APPENDIX B).

20  
21 WHILE MY CLUSTER ANALYSIS IS EXPLAINED IN DETAIL IN  
22 BILLINGSLEY EXHIBIT RSB-4 (APPENDIX B), THERE IS  
23 ONE POINT I WISH TO EMPHASIZE CONCERNING THIS GROUP  
24 OF FIRMS BECAUSE IT IS COMMONLY MISUNDERSTOOD BY  
25 PEOPLE WHO ARE UNFAMILIAR WITH THE CLUSTER ANALYSIS

1       TECHNIQUE.  SUCH PEOPLE MAY SINGLE OUT ONE COMPANY  
2       IN MY CLUSTER OF COMPARABLE FIRMS AND INCORRECTLY  
3       ATTEMPT TO COMPARE ITS VARIOUS RISK MEASURES  
4       INDIVIDUALLY TO THOSE OF SOUTHERN BELL.  HOWEVER,  
5       NONE OF THE INDIVIDUAL COMPANIES THAT ARE  
6       IDENTIFIED IN THE CLUSTER ARE PRECISELY LIKE  
7       SOUTHERN BELL IN EVERY RESPECT.  THE FIRMS ARE  
8       ALTERNATIVE INVESTMENT OPPORTUNITIES THAT, IN THE  
9       AGGREGATE, HAVE OVERALL RISK CHARACTERISTICS  
10      SIMILAR TO SOUTHERN BELL.

11

12 Q.  WHY DOES YOUR ANALYSIS OF FIRMS COMPARABLE IN RISK  
13      TO SOUTHERN BELL NOT INCLUDE ANY OF THE REGIONAL  
14      BELL HOLDING COMPANIES (RBHCS)?

15

16 A.  IN ORDER TO DETERMINE THE COST OF EQUITY FOR  
17      SOUTHERN BELL, FIRMS MUST BE IDENTIFIED THAT ARE  
18      COMPARABLE IN RISK TO SOUTHERN BELL.  THE RBHCS ARE  
19      NOT, AS A GROUP OR INDIVIDUALLY, COMPARABLE IN RISK  
20      TO SOUTHERN BELL.  ADDITIONALLY, THE RBHCS DO NOT  
21      HAVE SUFFICIENT DATA TO BE INCLUDED IN THE CLUSTER  
22      ANALYSIS BECAUSE THEY LACK BOND RATINGS.  FURTHER,  
23      THE RBHCS POSSESS CHARACTERISTICS THAT ARE  
24      INCONSISTENT WITH THE ASSUMPTIONS UNDERLYING THE  
25      VERSION OF THE DCF MODEL USED IN MY ANALYSIS.  THE

1 SHARE PRICES OF THE RBHCS REFLECT THE EXPECTED  
2 FAVORABLE CURRENT AND FUTURE VALUES OF INVESTMENTS  
3 IN UNREGULATED OPERATIONS. THEREFORE, THE RBHCS  
4 ARE NOT GOOD PROXIES OF RISK FOR SOUTHERN BELL.

5  
6 IF ONE WERE TO APPLY THE CONSTANT GROWTH DCF MODEL  
7 TO THE RBHCS IN THE SAME WAY THAT I HAVE APPLIED IT  
8 TO MY GROUP OF COMPARABLE FIRMS, THERE WOULD BE  
9 SEVERAL PROBLEMS WITH THE RESULTING DCF ESTIMATES.  
10 THE GROWTH RATE DOES NOT FULLY EXPRESS THE EXPECTED  
11 VALUE OF INVESTMENTS IN UNREGULATED LINES OF  
12 BUSINESS LIKE CELLULAR SERVICES. SINCE ANALYSTS'  
13 ESTIMATES OF FUTURE GROWTH ONLY ARE FIVE YEARS IN  
14 LENGTH, THESE UNREGULATED LINES OF BUSINESS DO NOT  
15 CURRENTLY CONFORM TO THE ASSUMPTION OF CONSTANT  
16 GROWTH IN THE DCF APPROACH. SINCE THE OVERALL  
17 GROWTH RATE OF A RBHC IS DEPENDENT ON THE EXPECTED  
18 GROWTH OF ITS SEGMENTS AND ITS UNREGULATED  
19 SUBSIDIARIES' GROWTH RATE IS NOT EXPECTED TO BE  
20 CONSTANT, THE RBHCS' EXPECTED GROWTH RATES ARE  
21 NECESSARILY INCONSISTENT WITH THE CONSTANT GROWTH  
22 RATE ASSUMPTION OF THE DCF MODEL. THUS, THE  
23 APPLICATION OF THE CONSTANT GROWTH VERSION OF THE  
24 DCF MODEL TO A RBHC PRODUCES A COST OF EQUITY  
25 ESTIMATE FOR THE RBHCS THAT IS BIASED DOWNWARDS.



1  
2 IN MY DETERMINATION OF SOUTHERN BELL'S COST OF  
3 EQUITY, I DO NOT USE THE RBHCS AS RISK PROXIES FOR  
4 SOUTHERN BELL BECAUSE THEY DO NOT CONSTITUTE A  
5 COMPARABLE RISK BENCHMARK. THE USE OF THE RBHCS AS  
6 SUCH A BENCHMARK WOULD HOLD SOUTHERN BELL TO A  
7 STANDARD THAT UNDERESTIMATES THE COST OF EQUITY  
8 CAPITAL.

9

10 V. MARKET RISK PREMIUM COST OF CAPITAL ESTIMATES

11

12 Q. HAVE YOU CONDUCTED ANY ADDITIONAL ANALYSIS THAT  
13 SUPPORTS THE REASONABLENESS OF THE RESULTS OF  
14 APPLYING THE DCF MODEL TO A GROUP OF FIRMS  
15 COMPARABLE IN RISK TO SOUTHERN BELL?

16

17 A. YES, I HAVE USED THE MARKET RISK PREMIUM APPROACH  
18 TO CORROBORATE THE REASONABLENESS OF THE COST OF  
19 EQUITY CAPITAL DETERMINED FOR SOUTHERN BELL UNDER  
20 THE DCF COMPARABLE SAMPLE APPROACH.

21

22 Q. WHAT IS THE MARKET RISK PREMIUM APPROACH AND WHAT  
23 IS ITS ECONOMIC JUSTIFICATION?

24

25 A. THE MARKET RISK PREMIUM APPROACH IS A SYSTEMATIC

1 WAY OF QUANTIFYING THE RISK/RETURN TRADE-OFF THAT  
2 WAS DISCUSSED EARLIER IN THE SECTION CONCERNING THE  
3 ECONOMIC STANDARDS USED IN COST OF EQUITY ANALYSIS.  
4 THE MARKET RISK PREMIUM IS DEFINED AS THE  
5 DIFFERENCE BETWEEN THE RETURN ON A BROAD BASKET OF  
6 EQUITY SECURITIES (THE "MARKET") AND THE RETURN ON  
7 A FAR LESS RISKY BENCHMARK SECURITY. THE RETURN ON  
8 LONG-TERM U.S. TREASURY BONDS AND THE RETURN ON  
9 UTILITY BONDS ARE COMMON BENCHMARKS.

10

11 THE ECONOMIC JUSTIFICATION FOR EXAMINING THE  
12 DIFFERENCE BETWEEN THE RETURN ON THE MARKET AND A  
13 BENCHMARK SECURITY'S RETURN IS TO MEASURE THE  
14 PREMIUM THAT IS NECESSARY TO COAX INVESTORS TO MOVE  
15 FROM INVESTING IN A "RISK-FREE" OR LOWER RISK  
16 SECURITY INTO A HIGHER RISK EQUITY INVESTMENT.  
17 THIS PREMIUM IS OFTEN REFERRED TO AS THE EQUITY  
18 RISK PREMIUM.

19

20 THE RETURN ON THE UTILITY BONDS IS USED FREQUENTLY  
21 AS THE BENCHMARK SECURITY BECAUSE IT IS A RELEVANT  
22 REFERENCE POINT IN EVALUATING A UTILITY'S COST OF  
23 EQUITY. THE GOAL OF MY ANALYSIS IS TO IDENTIFY A  
24 MARKET RISK PREMIUM ON PUBLIC UTILITY BONDS AND  
25 THEN TO ADD THAT PREMIUM TO THE CURRENT RETURN ON

1       SUCH BONDS IN ORDER TO DETERMINE A REASONABLE  
2       AVERAGE COST OF EQUITY CAPITAL FOR PUBLIC UTILITIES  
3       OF COMPARABLE BOND RATINGS.

4

5 Q.   HOW IS THE EQUITY RISK PREMIUM ESTIMATED?

6

7 A.   THERE ARE TWO FUNDAMENTAL APPROACHES TO ESTIMATING  
8       THE EQUITY RISK PREMIUM.  THE FIRST APPROACH IS  
9       PROSPECTIVE AND THE SECOND APPROACH IS HISTORICAL.  
10      THE EQUITY RISK PREMIUM CAN BE ESTIMATED BY  
11      SURVEYING INVESTORS' EXPECTATIONS CONCERNING THE  
12      PREMIUM'S MAGNITUDE.  SIMILARLY, A PROSPECTIVE  
13      APPROACH LIKE THE DCF MODEL CAN BE USED TO ESTIMATE  
14      THE EQUITY RISK PREMIUM THAT IS IMPLIED BY THE  
15      RELATIONSHIP AMONG ANALYSTS' CONSENSUS GROWTH  
16      FORECASTS FOR THE MARKET, THE GENERAL LEVEL OF THE  
17      MARKET, AND THE EXPECTED RETURN ON A BENCHMARK  
18      SECURITY.  ALTERNATIVELY, THE HISTORICAL  
19      RELATIONSHIP BETWEEN EARNED RETURNS ON THE EQUITY  
20      MARKET AND EARNED RETURNS ON A BENCHMARK SECURITY  
21      CAN BE MEASURED, THEREBY REVEALING AN AVERAGE  
22      HISTORICAL (EARNED) EQUITY RISK PREMIUM.

23

24      WHILE IT IS CLEAR THAT INVESTORS TRADE ON THE BASIS  
25      OF EXPECTATIONS (I.E., PROSPECTIVE FACTORS), THESE

1 EXPECTATIONS ARE NOT DIRECTLY OBSERVABLE.  
2 CONVERSELY, WHILE IT IS CLEAR THAT THERE CANNOT BE  
3 COMPLETE CONFIDENCE THAT HISTORICAL RETURN PATTERNS  
4 WILL BE REPEATED IN THE FUTURE, AN AVERAGE  
5 HISTORICAL OR EARNED EQUITY RISK PREMIUM HAS THE  
6 VIRTUE OF BEING OBSERVABLE AND OBJECTIVELY  
7 VERIFIABLE.

8

9 Q. WHICH APPROACH TO ESTIMATING THE EQUITY RISK  
10 PREMIUM DO YOU USE IN YOUR ANALYSIS?

11

12 A. MY CHOICE IS DICTATED BY THE DESIRE TO CORROBORATE  
13 THE RESULTS OF MY APPLICATION OF THE DCF MODEL TO A  
14 GROUP OF FIRMS OF COMPARABLE RISK TO SOUTHERN BELL.  
15 SINCE THE DCF MODEL IS PROSPECTIVE IN NATURE, I  
16 HAVE ALSO USED A PROSPECTIVE APPROACH TO ESTIMATING  
17 THE EQUITY RISK PREMIUM. I EXAMINE THE  
18 RELATIONSHIP BETWEEN EXPECTED RETURNS ON THE  
19 STANDARD & POOR'S 500 INDEX (S&P 500), AS ESTIMATED  
20 BY THE DCF MODEL, AND EXPECTED RETURNS ON AN INDEX  
21 OF Aaa-RATED PUBLIC UTILITY BONDS OVER A RECENT  
22 PERIOD. THE RESULTING AVERAGE EXPECTED EQUITY RISK  
23 PREMIUM OF 6.37% [AS SHOWN ON BILLINGSLEY EXHIBIT  
24 RSB-2 (SCHEDULE 2)] IS ADDED TO THE AVERAGE YIELD  
25 OF 7.53% THAT HAS PREVAILED ON Aaa-RATED PUBLIC

1 UTILITY BONDS OVER THE MOST RECENT THREE MONTHS  
2 (MARCH-MAY, 1993) FOR WHICH DATA IS AVAILABLE.  
3 THIS PRODUCES A COST OF EQUITY ESTIMATE OF 13.90%.  
4 A MORE DETAILED DISCUSSION OF THIS METHODOLOGY IS  
5 PRESENTED IN BILLINGSLEY EXHIBIT RSB-5 (APPENDIX  
6 C).

7

8 Q. CAN ANY INSTABILITY IN THE RISK PREMIUM BE ADJUSTED  
9 FOR SO AS TO INCREASE OUR CONFIDENCE IN ITS  
10 REPRESENTATIVENESS?

11

12 A. YES. IT IS TRUE THAT STUDIES OF THE HISTORICAL  
13 BEHAVIOR OF THE EQUITY RISK PREMIUM FIND THAT IT  
14 VARIES CONSIDERABLY OVER TIME. OF PARTICULAR  
15 INTEREST IS THE FINDING THAT THE EQUITY RISK  
16 PREMIUM IS RELATED INVERSELY TO RETURNS ON THE  
17 TRADITIONALLY USED BENCHMARK SECURITIES, NAMELY,  
18 U.S. GOVERNMENT OR CORPORATE DEBT SECURITIES.  
19 THUS, WHEN INTEREST RATES DECLINE, THE EQUITY RISK  
20 PREMIUM WIDENS AND WHEN INTEREST RATES RISE, THE  
21 EQUITY RISK PREMIUM NARROWS.

22

23 THE MOST PLAUSIBLE EXPLANATION FOR THIS INVERSE  
24 RELATIONSHIP IS THAT INVESTORS' ATTITUDES TOWARDS  
25 RISK CHANGE OVER TIME. AS HYPOTHESIZED BY THE

1 NOBEL PRIZE-WINNING FINANCIAL ECONOMIST, WILLIAM F.  
2 SHARPE, WHEN INVESTORS ARE DOING WELL FINANCIALLY,  
3 THEY ARE OPTIMISTIC AND REQUIRE RELATIVELY LOW RISK  
4 PREMIUMS AND WHEN INVESTORS ARE DOING POORLY, THEY  
5 ARE PESSIMISTIC AND REQUIRE RELATIVELY HIGH RISK  
6 PREMIUMS. SINCE THE GENERAL LEVEL OF INTEREST  
7 RATES IS AN INDICATOR OF WHERE THE ECONOMY IS IN A  
8 CYCLE, IT IS REASONABLE TO EXPECT AN INVERSE  
9 RELATIONSHIP BETWEEN INTEREST RATES AND EQUITY RISK  
10 PREMIUMS.

11

12 THE ABOVE OBSERVATION SUGGESTS ANOTHER WAY OF USING  
13 THE RISK PREMIUM APPROACH TO TEST THE  
14 REASONABLENESS OF THE DCF MODEL'S COST OF EQUITY  
15 CAPITAL FOR SOUTHERN BELL. RESEARCH BY DR. R.S.  
16 HARRIS, PUBLISHED IN FINANCIAL MANAGEMENT IN 1986,  
17 FINDS EVIDENCE THAT THE EQUITY RISK PREMIUM TENDS  
18 TO MOVE AN AVERAGE OF  $-.51$  OF CONTEMPORANEOUS  
19 CHANGES IN THE RETURN ON THE BENCHMARK SECURITY  
20 (INDEX). THAT IS, IF INTEREST RATES DECLINE BY 100  
21 BASIS POINTS, THE EQUITY RISK PREMIUM REQUIRED  
22 INCREASES BY APPROXIMATELY 51 BASIS POINTS.

23

24 IN HIS WORK THE BENCHMARK SECURITY IS 20-YEAR  
25 TREASURY BONDS AND THE UTILITY PROXY IS THE

1 STANDARD & POOR'S UTILITY INDEX OF 40 STOCKS. HIS  
2 DATA FOUND AN AVERAGE EXPECTED EQUITY RISK PREMIUM  
3 OF 4.81 PERCENT. THEREFORE, ADJUSTING FOR THE  
4 DIFFERENCE BETWEEN THE LEVEL OF THE RATES ON THE  
5 BENCHMARK SECURITY DURING HIS SAMPLED TIME PERIOD  
6 AND THE CURRENT LEVEL OF SUCH RATES GENERATES AN  
7 EQUITY RISK PREMIUM ESTIMATE THAT IS MODIFIED  
8 EXPLICITLY FOR A PROMINENT SOURCE OF ITS  
9 INSTABILITY OVER TIME. THIS ESTIMATED RISK PREMIUM  
10 IS ADDED TO THE CURRENT LEVEL OF THE BENCHMARK  
11 SECURITY'S RATE IN ORDER TO PROVIDE ANOTHER TEST OF  
12 THE REASONABLENESS OF THE COST OF CAPITAL FOR  
13 SOUTHERN BELL UNDER THE DCF MODEL.

14  
15 DURING THE PERIOD OF DR. HARRIS' STUDY, THE AVERAGE  
16 RISK PREMIUM WAS 4.81% AND THE AVERAGE YIELD OF  
17 20-YEAR TREASURY BONDS WAS 12.25%. AS NOTED ABOVE,  
18 DR. HARRIS FOUND THAT EXPECTED EQUITY RISK PREMIUMS  
19 ON THE STANDARD & POOR'S UTILITY INDEX CHANGE BY AN  
20 AVERAGE OF -.51 OF CHANGES IN THE LEVEL OF  
21 LONG-TERM TREASURY BOND YIELDS. GIVEN THAT THE  
22 CURRENT AVERAGE LEVEL ON 20-YEAR TREASURY BONDS IS  
23 6.38% (MAY 1993), THE APPROPRIATE CURRENT RISK  
24 PREMIUM IS 7.80%. THIS IS DETERMINED BY  
25 MULTIPLYING THE 5.87% DECLINE IN RATES SINCE THE

1 TIME PERIOD OF HIS STUDY BY  $-.51$  AND THEN ADDING  
2 BACK THE AVERAGE RISK PREMIUM OF  $4.81\%$  TO THE  
3 INDICATED CHANGE OF  $2.99\%$ . THIS ALTERNATIVE  
4 APPROACH CONSEQUENTLY PROVIDES A COST OF EQUITY FOR  
5 SOUTHERN BELL OF  $14.18\%$ , WHICH IS THE CURRENT  
6 AVERAGE LEVEL OF 20-YEAR TREASURY YIELDS OF  $6.38\%$   
7 ADDED TO THE ADJUSTED RISK PREMIUM OF  $7.80\%$ .

8

9 Q. WHAT IS YOUR ESTIMATE OF THE COST OF EQUITY FOR  
10 SOUTHERN BELL USING THE RISK PREMIUM APPROACH?

11

12 A. BASED ON MY ANALYSES, THE RISK PREMIUM COST OF  
13 EQUITY FOR SOUTHERN BELL IS IN THE RANGE OF  $13.90\%$   
14 TO  $14.18\%$ .

15

## 16 VII. RECOMMENDATIONS

17

18 Q. WHAT COST OF EQUITY CAPITAL DO YOU RECOMMEND THAT  
19 THIS COMMISSION USE FOR SOUTHERN BELL?

20

21 MY ANALYSIS DETERMINES THE COST OF EQUITY CAPITAL  
22 FROM TWO DISTINCT PERSPECTIVES: 1) THE DCF MODEL,  
23 AS APPLIED TO A GROUP OF FIRMS OF RISK COMPARABLE  
24 TO SOUTHERN BELL, AND 2) THE RISK PREMIUM APPROACH.  
25 I BELIEVE THAT THE COST OF EQUITY CAPITAL FOR



1 SOUTHERN BELL IS IN THE RANGE OF 13.90% TO 14.29%  
2 WITH A MIDPOINT OF 14.10%. I UNDERSTAND THAT THIS  
3 RANGE IS ABOVE THE RATE ESTABLISHED BY THIS  
4 COMMISSION IN 1988 AND 1990 AND IS WITHIN THE RANGE  
5 SET BY THE COMMISSION FOR THE COMPANY'S COST OF  
6 EQUITY. IT IS MY EXPERT OPINION THAT THIS RATE IS  
7 AN OBJECTIVE, MARKET-DETERMINED COST OF EQUITY  
8 CAPITAL THAT IS FAIR TO BOTH SOUTHERN BELL AND TO  
9 ITS RATEPAYERS IN THE STATE OF FLORIDA.

10

11 Q. DO YOU BELIEVE THAT YOUR RECOMMENDED COST OF EQUITY  
12 CAPITAL IS ACCURATE EVEN IN LIGHT OF THE RECENT  
13 DECLINES IN INTEREST RATES?

14

15 A. YES, MY RECOMMENDED RATE IS ACCURATE. IT WAS  
16 DETERMINED BY USING METHODOLOGICAL APPROACHES THAT  
17 TAKE INTO ACCOUNT THE RECENT DECLINE IN INTEREST  
18 RATES. THE DCF MODEL USES MARKET-DETERMINED STOCK  
19 PRICES THAT ARE DETERMINED BY INVESTORS IN LIGHT  
20 OF, AMONG OTHER THINGS, CURRENT AND EXPECTED  
21 INTEREST RATES. THE IBES AND ZACKS CONSENSUS  
22 GROWTH RATE FORECASTS USED IN THE DCF MODEL REFLECT  
23 FINANCIAL ANALYSTS' INTEREST RATE EXPECTATIONS.  
24 THE MARKET RISK PREMIUM APPROACH ADJUSTS EXPLICITLY  
25 FOR THE CURRENT LEVEL OF INTEREST RATES BY ADDING

1 THE RECENT AVERAGE LEVEL OF SUCH RATES TO THE  
2 EQUITY RISK PREMIUM. MY OPINION IS THAT THE  
3 REASONABLENESS OF MY RECOMMENDED RANGE OF 13.90% TO  
4 14.29% IS SUPPORTED BY MORE THAN ONE METHODOLOGICAL  
5 APPROACH, BY THE CLOSENESS OF THE ESTIMATES  
6 PROVIDED BY THESE DISTINCT APPROACHES, AND BY THE  
7 OBJECTIVITY OF THE MARKET-BASED DATA USED IN MY  
8 ANALYSIS.

9

10 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY IN THIS  
11 PROCEEDING?

12

13 A. YES, IT DOES.

14

15

16

17

18

19

20

21

22

23

24

25

DISCOUNTED CASH FLOW ANALYSIS FOR COMPARABLE FIRM GROUP

	<u>IBES</u>	<u>ZACKS</u>
Mobile Corp.	15.60%	14.29%
Amoco Corp.	14.58	15.33
Southern New England Telephone	11.87	11.85
McDonalds Corp.	14.91	13.75
Exxon Corp.	13.73	13.34
Kimberly Clark Corp.	15.31	15.35
DuPont (E.I.) de nemours	14.56	14.78
Anheuser-Busch Cos., Inc.	14.54	14.84
Super Valu Stores, Inc.	15.42	14.74
Chevron Corp.	13.92	13.94
Sara Lee Corp.	16.26	16.09
Emerson Electric Corp.	13.14	13.76
Air Products Chemicals, Inc.	14.00	14.47
Lincoln Telecommunications	9.63	10.80
Hershey Foods Corp.	13.74	13.38
Raytheon Co.	9.81	10.90
Pfizer, Inc.	19.88	20.87
Yellow Freight Systems	15.21	15.32
Armstrong World Inds., Inc.	13.51	14.03
Pitney Bowes, Inc.	14.01	14.08
AVERAGE	14.18%	14.29%

EXPECTED MARKET RISK PREMIUM

Time Period	Standard & Poor's 500 DCF Cost of Equity*	Moody's Aaa Public Utility Bonds	Market Risk Premium
	-----	-----	-----
10/87	14.82%	10.92%	3.90%
11/87	15.06	10.43	4.63
12/87	15.46	10.64	4.82
1/88	15.65	10.39	5.26
2/88	15.52	9.77	5.75
3/88	15.42	9.72	5.70
4/88	15.45	10.07	5.38
5/88	15.42	10.29	5.13
6/88	15.65	10.27	5.38
7/88	15.63	10.50	5.13
8/88	15.72	10.66	5.06
9/88	15.66	10.15	5.51
10/88	15.63	9.62	6.01
11/88	15.64	9.52	6.12
12/88	15.58	9.67	5.91
1/89	15.54	9.71	5.68
2/89	15.39	9.71	5.68
3/89	15.34	9.87	5.47
4/89	15.35	9.88	5.47
5/89	15.40	9.60	5.80

FPSC Exhibit Number \_\_\_\_\_  
FPSC Docket No. 920260-TL  
Billingsley Exhibit RSB-2  
Billingsley Schedule 2  
Expected Market Risk Premium  
Page 2 of 4

EXPECTED MARKET RISK PREMIUM

<u>Time Period</u>	<u>Standard &amp; Poor's 500 DCF Cost of Equity</u>	<u>Moody's Aaa Public Utility Bonds</u>	<u>Market Risk Premium</u>
6/89	15.22	9.13	6.09
7/89	15.36	8.98	6.38
8/89	15.14	9.02	6.12
9/89	14.94	9.10	5.84
10/89	15.02	9.01	6.01
11/89	15.17	8.92	6.25
12/89	15.12	8.92	6.20
1/90	15.18	9.08	6.10
2/90	15.29	9.35	5.94
3/90	15.47	9.48	5.99
4/90	15.62	9.60	6.02
5/90	15.70	9.58	6.12
6/90	15.71	9.38	6.33
7/90	15.81	9.36	6.45
8/90	15.69	9.54	6.15
9/90	15.91	9.73	6.18
10/90	16.04	9.66	6.38
11/90	16.23	9.43	6.80
12/90	16.16	9.18	6.98

EXPECTED MARKET RISK PREMIUM

<u>Time Period</u>	<u>Standard &amp; Poor's 500 DCF Cost of Equity</u>	<u>Moody's Aaa Public Utility Bonds</u>	<u>Market Risk Premium</u>
1/91	16.17	9.17	7.00
2/91	16.01	8.92	7.09
3/91	15.85	9.04	6.81
4/91	15.61	8.95	6.66
5/91	15.55	8.93	6.62
6/91	15.59	9.10	6.49
7/91	15.59	9.10	6.49
8/91	15.62	8.81	6.81
9/91	15.59	8.65	6.94
10/91	15.52	8.57	6.95
11/91	15.58	8.52	7.06
12/91	15.65	8.38	7.27
1/92	15.60	8.22	7.38
2/92	15.71	8.30	7.41
3/92	15.57	8.39	7.18
4/92	15.53	8.36	7.17
5/92	15.54	8.32	7.22
6/92	15.45	8.26	7.19
7/92	15.44	8.12	7.32
8/92	15.46	8.04	7.42

EXPECTED MARKET RISK PREMIUM

<u>Time Period</u>	<u>Standard &amp; Poor's 500 DCF Cost of Equity</u>	<u>Moody's Aaa Public Utility Bonds</u>	<u>Market Risk Premium</u>
9/92	15.57	8.04	7.53
10/92	15.53	8.06	7.47
11/92	15.56	8.11	7.45
12/92	15.57	8.01	7.56
1/93	15.29	7.94	7.35
2/93	15.07	7.75	7.32
3/93	15.00	7.64	7.36
4/93	14.71	7.50	7.21
5/93	14.81	7.44	7.37
<b>AVERAGE</b>	<b>15.50%</b>	<b>9.12%</b>	<b>6.37%</b>

Notes: \*Standard and Poor's 500 DCF Cost of Equity, calculated as described in Appendix C.

\*\*Average risk premium is the average of risk premiums for each month.

## **RESUME**

**RANDALL S. BILLINGSLEY**

May 1993

### **BUSINESS ADDRESS**

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### **APPOINTMENTS**

1993:

#### **VICE PRESIDENT**

Association for Investment Management and Research (AIMR)  
Education and Programs Department

**Duties:** Project director, responsible for the development and design of education technology products. Current projects include videos on options and futures analysis, ethical issues in the investment profession, and financial statement analysis for investment valuation and management.

Responsible for the design and offering of continuing education programs to meet the needs of AIMR members in particular and the investment industry in general. Current seminars under development include "Industry Analysis: The Telecommunication Industries" and "Ethical Issues in Investment Analysis."



**ASSOCIATE PROFESSOR OF FINANCE**  
On Leave of Absence  
Virginia Polytechnic Institute and State University

1987-1992: **ASSOCIATE PROFESSOR OF FINANCE**  
Virginia Polytechnic Institute and State University

1981-1987: **ASSISTANT PROFESSOR OF FINANCE**  
Virginia Polytechnic Institute and State University

1978-1981: **LECTURER OF FINANCE**  
Texas A&M University

1977-1978: **LECTURER OF ECONOMICS**  
Research Assistant in Economics  
Texas A&M University

Summers 1978, 1980: **RESEARCH ASSOCIATE**  
Texas Transportation Institute,  
Texas A&M University

Duties: (1978) Principal researcher and author of a study concerning design of optimal subsidy techniques for public transit projects. (1980) Co-author of research proposal for study of the projected economic impact of user charges on the Texas Gulf Intra-Coastal Waterway (proposal accepted and fully funded). Performed research concerning various policy issues in transportation economics.

#### **PROFESSIONAL DESIGNATIONS**

1986: **Chartered Financial Analyst (CFA)**  
The Institute of Chartered Financial Analysts  
(Association for Investment Management and Research)

1992: **Certified Rate of Return Analyst (CRRA)**  
National Society of Rate of Return Analysts

### EDUCATION

- 1982: Doctor of Philosophy in Finance, supporting field in Economics  
Dissertation Title: "A Multivariate Analysis of Bank Holding Company  
Capital Note and Debenture Ratings"  
Chairman: Dr. Donald R. Fraser  
Texas A&M University
- 1978: Master of Science in Economics, supporting field in Statistics  
Texas A&M University
- 1976: Bachelor of Arts in Economics  
Texas Tech University

### PRIMARY TEACHING AND RESEARCH INTERESTS

- Teaching: Investments, Corporate Finance, Financial Institution Management.
- Research: Investments, valuation methods, cost of capital analysis, primary market pricing of debt instruments, and banking and public utility regulatory issues.

### COURSES TAUGHT

- Graduate: Financial Institutions and Markets (Ph.D.)  
Investment Problems (MBA)  
Financial Cases (MBA)  
Fundamentals of Finance (MBA)  
Financial Institution Management (MBA)
- Management of Financial Resources (MBA)  
Taught as a Visiting Professor at Northeastern  
University, Boston, MA Summer 1984

Undergraduate: Investments I (survey course)  
Investments II (options and financial futures)  
Advanced Financial Management: Cases  
Corporate Finance  
Bank Management  
Financial Markets and Institutions  
Real Estate Finance and Investment

Executive: Equity Valuation and Analysis  
Interest Rate Risk Management  
Economic Analysis for Investment Decision-Making  
Quantitative Analysis for Investment Decision-Making

### TEACHING HONORS

Teaching Excellence Award, The R. B. Pamplin College of Business, Virginia Polytechnic Institute and State University, 1986-1987.

Excellence In Teaching Award, MBA Association, Virginia Polytechnic Institute and State University, 1985-1986.

### PUBLICATIONS

#### Journal Articles - Refereed

"Regional Reciprocal Interstate Banking: The Supreme Court and the Resolution of Uncertainty," *Journal of Banking and Finance*, Vol. 16, No. 1, 1992, pp. 665-686, (Author listing: R. S. Billingsley and R. E. Lamy).

"Integration of the Mortgage Market," *Journal of Financial Services Research*, Vol. 6, 1992, 137-155, (Author listing: R. S. Billingsley, V. A. Bonomo, and S. P. Ferris).

"Units of Debt with Warrants: Evidence of the 'Penalty-Free' Issuance of an Equity-Like Security," *The Journal of Financial Research*, Vol. 13, No. 3, Fall 1990, pp. 187-199, (Author listing: R. S. Billingsley, R. E. Lamy, and D. M. Smith).

"Shareholder Wealth and Stock Repurchases By Bank Holding Companies," *Quarterly Journal of Business and Economics*, Vol. 28, No. 1, Winter 1989, pp. 3-25, (Author listing: R. S. Billingsley, D. R. Fraser and G. R. Thompson).

Abstract: *Journal of Economic Literature*, Vol. 27, No. 3, September 1989, p. 1503.

"The Regulation of International Lending: IMF Support, the Debt Crisis, and Bank Shareholders," *Journal of Banking and Finance*, Vol. 12, No. 2, 1988, pp. 255-274, (Author listing: R. S. Billingsley and R. E. Lamy).

"Put-Call Ratios and Market Timing Effectiveness," *Journal of Portfolio Management*, Vol. 15, No. 1, Fall 1988, pp. 25-28, (Author listing: R. S. Billingsley and D. M. Chance).

Citation: "Using 'Dumb' Money as a Market Guide," Earl C. Gottschalk, Jr., the *Wall Street Journal*, January 17, 1989, p. C1.

"Bankruptcy Avoidance As A Merger Incentive," *Managerial Finance*, Vol. 14, No. 1, November 1988, pp. 25-33, (Author listing: R. S. Billingsley, D. J. Johnson, and R. P. Marquette).

"The Pricing and Performance of Stock Index Futures Spreads," *Journal of Futures Markets*, Vol. 8, No. 3, June 1988, pp. 303-318, (Author listing: R. S. Billingsley and D. M. Chance).

"The Choice Among Debt, Equity, and Convertible Bonds," *The Journal of Financial Research*, Vol. 11, No. 1, Spring 1988, pp. 43-55, (Author listing: R. S. Billingsley, R. E. Lamy, and G. R. Thompson).

"Valuation of Primary Issue Convertible Bonds," *The Journal of Financial Research*, Vol. 9, No. 3, Fall 1986, pp. 251-259, (Author listing: R. S. Billingsley, R. E. Lamy, and G. R. Thompson).

Abridged Reprint: *The CFA Digest*, Vol. 17, No. 2, Spring 1987, pp. 18-19.

"The Reaction of Defense Industry Stocks to World Events," *Akron Business and Economic Review*, Vol. 18, No. 2, Summer 1987, pp. 40-47, (Author listing: R. S. Billingsley, R. E. Lamy, and G. R. Thompson).

"Listed Stock Options and Managerial Strategy," *Strategy and Executive Action*, No. 4, Fall 1986, pp. 17-20, 28, (Author listing: R. S. Billingsley and D. M. Chance).

"Reevaluating Mortgage Refinancing "Rules of Thumb," *Journal of the Institute of Certified Financial Planners*, Vol. 7, No. 1, Spring 1986, pp. 37-45, (Author listing: R. S. Billingsley and D. M. Chance).

"Explaining Yield Savings on New Convertible Bond Issues," *Quarterly Journal of Business and Economics*, Vol. 24, No. 3, Summer 1985, pp. 92-104, (Author listing: R. S. Billingsley, R. E. Lamy, M. W. Marr, and G. R. Thompson).

Abstract: *Journal of Economic Literature*, Vol. 24, No. 2, June 1986, p. 1083.

"Options Market Efficiency and the Box Spread Strategy," *The Financial Review*, Vol. 20, No. 4, November 1985, pp. 287-301, (Author listing: R. S. Billingsley and D. M. Chance).

Reprint: *CFA Readings in Derivative Securities*, pp. 217-231, Charlottesville, VA: The Institute of Chartered Financial Analysts, 1988.

"Determinants of Stock Repurchases by Bank Holding Companies," *Journal of Bank Research*, Vol. 16, No. 3, Autumn 1985, pp. 128-35, (Author listing: R. S. Billingsley and G. R. Thompson).

"The Informational Content of Unrated Industrial Bonds," *Akron Business and Economic Review*, Vol. 16, No. 2, Summer 1985, pp. 53-58, (Author listing: R. S. Billingsley and R. E. Lamy).

"Split Ratings and Bond Reoffering Yields," *Financial Management*, Vol. 14, No. 2, Summer 1985, pp. 59-65, (Author listing: R. S. Billingsley, R. E. Lamy, M. W. Marr, and G. R. Thompson).

"Determinants of Bank Holding Company Bond Ratings," *The Financial Review*, Vol. 19, No. 1, March 1984, pp. 55-66, (Author listing: R. S. Billingsley and D. R. Fraser).

Abstract: *Journal of Economic Literature*, Vol. 22, No. 4, December 1984, p. 2010.

"Market Reaction to the Formation of One-Bank Holding Companies and the 1970 Bank Holding Company Act Amendment," *Journal of Banking and Finance*, Vol. 8, No. 2, 1984, pp. 21-33, (Author listing: R. S. Billingsley and R. E. Lamy).

### **Journal Articles - Other**

"Managing Portfolios Using Index Options," *Futures*, Vol. 14, No. 9, September 1985, pp. 70-74, (Author listing: D. M. Chance and R. S. Billingsley).

### **Monographs & Sponsored Research**

"The Evolution of Depository Institution Regulation In The United States," in *Banking and Monetary Reform: A Conservative Agenda*, Catherine England, pp. 47-56, Washington, D. C.: The Heritage Foundation, 1985, (Author listing: R. S. Billingsley).

*Fare Box and Public Revenue: How to Finance Public Transportation*. State Department of Highways and Public Transportation, Texas Transportation Institute, February 1980, (Author listing: R. S. Billingsley, P. K. Guseman and W. F. McFarland).

### **Proceedings**

"Bankruptcy Avoidance as a Merger Incentive: An Empirical Study of Failing Firms," *The Financial Review*, Vol. 18, No. 3, 1983, p. 94, (Author listing: R. S. Billingsley, D. J. Johnson, and R. P. Marquette).

"A Multivariate Analysis of the Ratings of Bank Holding Company Debt Issues," *The Financial Review*, Vol. 17, No. 2, July 1982, p. 57, (Author listing: R. S. Billingsley and D. R. Fraser).

### **PAPERS PRESENTED AT PROFESSIONAL MEETINGS**

"Estimation Bias in the Application of the Quarterly Discounted Cash Flow Model to Public Utility Cost of Capital Analysis," (Author listing: R. S. Billingsley and V. A. Bonomo). To be presented at the Financial Management Association Meetings, San Francisco, California, October 1992.

"Firm Value and Convertible Debt Issues: Signalling vs. Agency Effects," (Author listing: R. S. Billingsley, R. E. Lamy, and D. M. Smith). Presented at the Eastern Finance Association Meetings, Hot Springs, Virginia, April 1991.

"The Valuation of Simultaneous Debt and Equity Offerings," (Author listing: R. S. Billingsley, R. E. Lamy, and D. M. Smith). Presented at the Financial Management Association Meetings, Orlando, Florida, October 1990.

"The Choice Between Issuing Convertible Bonds and Units of Debt with Warrants," (Author listing: R. S. Billingsley, R. E. Lamy and D. M. Smith). Presented at the Financial Management Association Meetings, New Orleans, Louisiana, October 1988. (Subsequently published in *The Journal of Financial Research*, see article citation.)

"The Choice Among Debt, Equity, and Convertible Bonds," (Author listing: R. S. Billingsley, R. E. Lamy, and G. R. Thompson). Presented at the Financial Management Association Meetings, Las Vegas, Nevada, October 1987. (Subsequently published in *The Journal of Financial Research*, see article citation.)

"The Regulation of International Lending: IMF Support, the Debt Crisis, and Bank Shareholders," (Author listing: R. S. Billingsley and R. E. Lamy). Presented at the Conference on Bank Structure and Competition, Federal Reserve Bank of Chicago, Chicago, Illinois, May 1986. (Subsequently published in the *Journal of Banking and Finance*, see article citation.)

"Valuation of Primary Issue Convertible Bonds," (Author listing: R. S. Billingsley, R. E. Lamy and G. R. Thompson). Presented at the Financial Management Association Meetings, Denver, Colorado, October 1985. (Subsequently published in *The Journal of Financial Research*, see article citation.)

"The Economic Impact of Split Ratings on Bond Reoffering Yields," (Author listing: R. S. Billingsley, R. E. Lamy, M. W. Marr, and G. R. Thompson). Presented at the Financial Management Association Meetings, Toronto, Canada, October 1984. (Subsequently published in *Financial Management*, see article citation.)

"The Informational Content of Unrated Industrial Bonds," (Author listing: R. S. Billingsley and R. E. Lamy). Presented at the Financial Management Association Meetings, Atlanta, Georgia, October 1983. (Subsequently published in *Akron Business and Economic Review*, see article citation.)

"Bankruptcy Avoidance As A Merger Incentive: An Empirical Study of Failing Firms," (Author listing: R. S. Billingsley, R. P. Marquette, and D. J. Johnson). Presented at the Eastern Finance Association Meetings, New York, New York, April 1983. (Subsequently published in *Managerial Finance*, see article citation.)

"A Multivariate Analysis of the Ratings of Bank Holding Company Debt Issues," (Author listing: R. S. Billingsley and D. R. Fraser). Presented at the Eastern Finance Association Meetings, Jacksonville, Florida, April 1982. (Subsequently published in *The Financial Review*, see article citation.)

#### **SESSIONS CHAIRED AT PROFESSIONAL MEETINGS**

"The Effects of New Debt Decisions," Financial Management Association Meeting, New York, New York, October 1986.

#### **PAPERS DISCUSSED AT PROFESSIONAL MEETINGS**

"Behavioral Aspects of the Intra-Industry Capital Structure Decision," M. G. Filbeck, R. F. Gorman, and D. Preece. To be presented at the Financial Management Association Meetings, San Francisco, California, October 1992.

"The Relationship Between the Argentinean Debt Rescheduling Announcement and Bank Equity Returns," Iqbal Mansur, Steven J. Cochran, and David K. Seagers. Presented at the Financial Management Association Meetings, Boston, Massachusetts, October 1989.

"Model Specification In the Statistical Analysis of Bond Ratings," John J. Jackson and James W. Boyd. Presented at the Southern Finance Association Meeting, Washington, D. C., November 1983.

"The Effects of Inflation on Leverage, Risk, and Return," I. Keong Chew. Presented at the Financial Management Association Meeting, San Francisco, California, October 1982.

#### **PROFESSIONAL SERVICE**

**Association for Investment Management and Research Activities**  
(Formally the Institute for Chartered Financial Analysts).

Grading Staff, Institute of Chartered Financial Analysts, June 1987.



Candidate Curriculum Committee, Institute of Chartered Financial Analysts, Quantitative Analysis Sub-Committee, 1987-1989.

CFA Examination Analysis Team, Levels I-III, March 1988.

CFA Examination Grading Review Team, July 1988.

Instructor, CFA Refresher Course, Valuation: Equity, Charlottesville, VA, June 1992.

**Consulting Clients**

Association for Investment Management and Research

Bell Atlantic

BellSouth Telecommunications

The Financial Analysts' Review of the United States

Institut Penembangan Analisis Finansial, Jakarta, Indonesia

Securities Analysts' Association, Bangkok, Thailand

Union Bank of Switzerland, Zürich

**Manuscript Referee**

*Journal of Banking and Finance*

*Journal of Financial Research*

*Journal of Futures Markets*

*Financial Review*

*Quarterly Journal of Business and Economics*

*Quarterly Review of Business and Economics*

*International Review of Economics and Finance*

*Japan and the World Economy*

*Journal of Business Research*

*Journal of Economics and Business*

*Engineering Economist*

Program Committee, 1992 Financial Management Association Meeting.

Program Committee, 1991 Financial Management Association Meeting.

Reviewer for 1992 Eastern Finance Association meeting papers.

Reviewer for 1985 Eastern Finance Association paper competition.

#### **INVITED SPEECHES**

Securities Analysts' Association, "Common Problems in Valuing Equity Securities,"  
Bangkok, Thailand, April 1992.

Virginia Bankers Association, Group Five (Credit Policy Committee), "Want to Sell Your  
Bank?" Interstate Banking in 1987 and Beyond," Credit Policy Conference, Radford, VA,  
April 1987.

#### **EXECUTIVE DEVELOPMENT ACTIVITIES**

Developed continuing education program with Don M. Chance entitled, "Managing Interest  
Rate Risk with Financial Futures." Presented in Roanoke, VA (May 1984) and  
Williamsburg, VA (June 1984).

## UNIVERSITY SERVICE

Department Personnel Committee (1987-1992)  
Department Head Search Committee (1991-1992)  
Department Head Evaluation Committee, Chairman (1988)  
University Scheduling and Registration Committee (1986-1989)  
College of Business Graduate Curriculum Committee, Chairman (1986-1987)  
College of Business Undergraduate Curriculum Committee (1984-1986, 1990-1992)  
College of Business Advisory Committee (1992-current)  
Department Undergraduate Curriculum Committee, Chairman (1990-1992)  
Honors Program in Finance Advisor (1983-1992)  
State Commission on Higher Education in Virginia Visitation Team Interview (1985)  
Member of Departmental Executive Committee (1983-1985, 1986)  
Department Head Search Committee (1982-83)  
Undergraduate Finance Major Advisor (1981-1983, 1985-1992)  
Member of Ph.D. Student Committees (numerous, 1982-current)  
Ph.D. Student Committee Chairman, 1988/89: David M. Smith

### **SERVICE TO STUDENT ORGANIZATIONS**

Financial Advisor to Student Media Board (1983-84)

Founding Faculty Sponsor: Finance Club, Student Chapter of Financial Management Association (1982-84)

Faculty Brother of Alpha Kappa Psi, national business fraternity (1982-current)

### **MEMBERSHIP IN HONORARY AND PROFESSIONAL ORGANIZATIONS**

American Finance Association - national professional society.

Association for Investment Management and Research - international professional society, merger of the Institute of Chartered Financial Analysts and the Financial Analysts Federation.

Financial Management Association - national professional society.

National Society of Rate of Return Analysts - national professional society.

Southern Finance Association - regional professional society.

Omicron Delta Epsilon - international economics honorary society.

Alpha Kappa Psi - national business fraternity.

### **PROFESSIONAL SEMINARS ATTENDED**

"Industry Analysis: The Health Care Industries," The Association for Investment Management and Research, Washington, DC, February 1993.

"The CAPM Controversy: Policy and Strategy," The Association for Investment Management and Research, New York, NY, March 1993.

FPSC Exhibit No. \_\_\_\_\_  
FPSC Docket 920260-TL  
Billingsley Exhibit No. RSB-3  
Billingsley Appendix A  
Billingsley Vita  
Page 14 of 14

"Options and Futures: New Routes to Risk/Return Management," The Institute of Chartered Financial Analysts, Dallas, TX, February 1984.

Financial Futures Seminar. Sponsored by the Chicago Board of Trade, March 1982.

#### **COMMUNITY SERVICE**

Finance Department Representative, Combined Charitable Campaign, 1991.

Board of Directors, Laurel Ridge Homeowners Association, 1987-1989.

## **COMPARABLE FIRM IDENTIFICATION CRITERIA AND METHODOLOGY**

### **I. INTRODUCTION**

Since Southern Bell (SBT) does not have equity trading in the market, no direct market price of equity can be used to infer SBT's cost of equity. Thus, it is necessary to identify a portfolio of firms that are comparable in equity investment risk to SBT. The DCF model will be applied to each of the portfolio's members and an average cost of equity capital will be determined. Given that the portfolio of firms are of comparable risk to SBT, this average cost of equity is an objective, reasonable estimate of SBT's cost of equity. The next section identifies the sources of investment risk and the specific proxies used to identify comparable firms.

### **II. RISK CRITERIA**

The following sources of investment risk are measured and used to identify firms into a group of risk comparable to SBT:

#### **A. Variability of Total Return**

The variability of returns reflects the total risk perceived by the investor. This is measured by the standard deviation of the return on common equity (ROE) over the most recent five years (1988-1992). Higher variability implies higher risk to the equity investor.

## B. Financial Risk

### 1. Relative Amount of Debt

Financial risk is dependent, in part, on the amount of total debt employed by a firm relative to its equity base. Other things being equal, higher debt per dollar of equity implies higher risk. This source of risk is measured by a firm's total assets-to-equity ratio, the so-called "equity multiplier" in fundamental equity analysis.

The most recent annual value (1992) is used in the analysis.

### 2. Ability to Service Debt

Apart from the above descriptive measure of a firm's relative indebtedness, it is important to evaluate the ability of a firm to service its total debt. This is assessed by examining the amount of interest (I) that a firm owes relative to the resources (operating earnings, or earnings before interest and taxes (EBIT)) it has available to meet that commitment. This is measured by the interest coverage ratio,  $EBIT/I$ . Other things being equal, an increase in this ratio reflects greater ability to service debt and consequently implies lower riskiness. The most recent annual value (1992) of this variable is employed.

### 3. Bond Rating

Bond ratings reflect a rating agency's evaluation of the relative probability of default on a firm's given debt security. Ratings are readily accessible to investors and are used commonly to appraise the risk of a firm. Bond ratings are assigned numerical (i.e., dummy variable) values for the purposes of the present analysis. The most recent Standard & Poor's bond rating is used in the identification process.

### 4. Liquidity Risk

An important aspect of a firm's riskiness is its comprehensive ability to service all of its debt, both long- and short-term. The ability of a firm to meet its total debt commitments is captured by the various financial risk variables discussed above. A firm's capacity to cover its short-term indebtedness is measured by the well-known quick or "acid test" ratio:  $(\text{Current Assets} - \text{Inventories}) / \text{Current Liabilities}$ . This variable measures the extent of a firm's short-term, presumably readily convertible into cash, assets available to meet its short-term liabilities. Other things being equal, the higher is the quick ratio, the lower is the perceived risk of investing in a company. The most recent annual value (1992) of this variable is used in the identification process.



## C. Business Risk

### 1. Variability of Cash Flows

The variability of a firm's cash flows characterize the riskiness of a firm's chosen line of business. Cash flows represent a firm's command over goods and services. The risk implications of a given level of cash flows are easiest to interpret when related to an economically meaningful base such as total assets. This source of risk is measured by the standard deviation of the ratio of a firm's cash flows-to-total assets. Higher values of the measure are associated with greater risk. The variable is calculated using the most recent five years of annual data (1988-1992).

### 2. Growth Opportunities

Other things being equal, companies experiencing higher growth are associated with early stages in the life cycle of a firm. The early stages are characterized by rapidly increasing revenues, profit margins, and earnings. Yet such rapid growth is not sustainable over the long-run and movement into a more mature stage of the life cycle usually brings the erosion of a firm's competitive position. Thus, high sales growth is usually an indication that a firm is in a start-up business or moving toward a potential shake-out, either of which proxy for higher operating or business risk. The growth in sales variable is measured using the most recent five years of annual data (1988-1992).

### **III. METHODOLOGY USED IN THE COMPARABLE FIRMS IDENTIFICATION PROCESS**

Comparable firms are identified using a modified cluster analysis model. Classical cluster analysis techniques develop natural groupings of objects based on the relationships among a given set of descriptive variables. The goal is to determine how the object should be assigned to groups so that there will be as much similarity within groups and as much difference among groups as possible. No predetermined reference object is offered to organize the grouping effort. The modified cluster analysis used in this analysis differs from the classical techniques by identifying a target object (firm) characterized by several descriptive (financial) measures. The goal of this application is to find a group of firms that are as similar as possible to the target firm in terms of the identified measures of investment risk. Unlike classical cluster analysis, the goal of maximizing the differences among groups is irrelevant since all dissimilar groups are discarded. Specifically, in this context, only those firms that are identified as comparable to SBT are retained for use in inferring the cost of equity capital for the firm.

As in classical cluster models, similarity is determined by measuring the Euclidian distance between the descriptive variables in a manner that considers the multivariate nature of the problem. The distance  $D_i$  of each firm  $i$  in the sample from the target firm  $T$ , assuming the seven descriptive variables  $V_{ij}$  discussed above, is calculated as:

$$D_i = \sqrt{\sum_{j=1}^7 (V_j - V_T)^2}$$

The distance measure uses the squared differences of a given firm's descriptive variable from that of the target firm T in order to measure distance irrespective of whether it is above (positive) or below (negative) the respective value of the target firm. The group of firms considered to be similar to the target firm, SBT (BellSouth Telecommunications is the actual target since it has published financial data), is identified by balancing the goals of minimizing the distance  $D_i$  of a firm from the target with the desire to have a sample of sufficient size to assure confidence in its representativeness.

#### IV. ISSUES IN APPLYING CLUSTER ANALYSIS

Only firms available on the COMPUSTAT data source also having an IBES consensus growth rate forecast based on at least two analysts' estimates are retained for analysis. Outliers are identified on a variable-by-variable basis. Those firms with variable values greater than or less than two standard deviations from the mean value of the population for each variable are deleted. All outliers must be eliminated before standardizing the variables or the means and standard deviations will be biased. The final population consists of 223 firms.

Since the proxies of investment risk discussed above are denominated in different units of

measurement, they consequently need to be standardized. A Z-statistic is calculated using the mean  $\bar{V}_j$  and the standard deviation  $\sigma_j$  of each variable across all of the firms as:

$$Z_{ij} = \frac{V_{ij} - \bar{V}_j}{\sigma_j}$$

The squared difference between the Z-value for each firm's given variable and the value of the Z-statistic for the target firm for the same given variable across all descriptive variables is then calculated. After generating Z-values for every variable for each firm, squared differences for each firm are summed. The distance measure  $D_i$  is determined by taking the square root of the sum of the squared differences.

The final step in the analysis is the identification of the group of the 20 firms that are the least distant from SBT. Schedule 1 lists the final group of comparable firms. A correlation coefficient matrix for the variables used to identify firms is provided on the following page. It shows that the degree of correlation among the variables is acceptably low and thus that there is no reason to be concerned that any of the variables capture essentially the same source(s) of investment risk and thus double-count effects.

**CLUSTER ANALYSIS CORRELATION MATRIX**

	<u>Bond Rating</u>	<u>ROE Variability</u>	<u>Assets To Equity</u>	<u>Interest Coverage</u>	<u>Quick Ratio</u>	<u>Cash Flow to Assets Variability</u>
ROE Variability	.259					
Assets to Equity	.279	.451				
Interest Coverage	-.475	-.314	-.360			
Quick Ratio	.062	.002	-.105	.047		
Cash Flow to Assets Variability	.180	.647	.099	-.270	.042	
Sales Growth	-.004	-.210	-.018	.223	-.011	-.144

## **ESTIMATION OF THE COST OF EQUITY CAPITAL USING THE EXPECTED MARKET RISK PREMIUM APPROACH**

### **I. INTRODUCTION**

This schedule elaborates on the steps taken in estimating Southern Bell's (SBT's) cost of equity capital using the expected market risk premium approach. The following specific issues and steps are discussed: 1) the rationale for the conceptual approach; 2) the appropriate method for estimating the expected market return; 3) the source of the expected growth rate; 4) the appropriate interest rate reference point; 5) the specific computational procedure used to estimate the cost of equity capital, and 6) the time period covered by the statistical analysis.

### **II. RATIONALE FOR THE CONCEPTUAL APPROACH**

The expected market risk premium approach estimates prospective equity capital costs. This is appropriate since investors' allocate funds among competing investments based on their expectations, not based solely on historical or earned returns. The expected risk premium approach estimates and evaluates the returns that were expected over a given period of time on a broad equity market index relative to a chosen benchmark security return that is relevant to SBT. The average expected risk premium of expected market returns over this interest rate benchmark is used in conjunction with current interest rates to estimate SBT's cost of equity capital.

### III. ESTIMATION OF THE EXPECTED MARKET RETURN

In recognition of the fact that most firms pay dividends on a quarterly basis, the quarterly form of the DCF model is used to estimate the expected market return. As in the discussion of the DCF analysis in the above testimony, it is assumed that dividends grow at a given rate over a year with the yearly change in the amount paid by a firm occurring after the second quarter each year.

### IV. SOURCE OF THE EXPECTED GROWTH RATE

The expected growth rate used in the quarterly version of DCF model is the consensus mean market value-weighted five-year earnings per share estimate published by the Institutional Brokers Estimate Service (IBES) for the Standard & Poor's 500 index (S&P 500). Dividend yield data is obtained from Standard & Poor's Outlook, restated on a quarterly basis.

### V. INTEREST RATE REFERENCE POINT

An index of Aaa public utility bonds is used as the relevant security return benchmark in the analysis. A three month average (March - May, 1993) of the interest rate benchmark is used in the calculation of the expected market risk premium.

## VI. COMPUTATIONAL PROCEDURE

Expected risk premiums  $E(RP_t)$  as of point  $t$  in time are calculated as the simple arithmetic difference between the expected return on the S&P 500 at time  $t$  [ $E(S\&P500_t)$ ], produced by applying the DCF model to the S&P 500, and the average monthly Aaa public utility bond yield at time  $t$  [ $R(UBOND_t)$ ]. Thus, risk premiums are calculated as:

$$E(RP_t) = E(S\&P500_t) - R(UBOND_t)$$

The same procedure is repeated using the New York Stock Exchange Composite Index (NYSE) as the proxy for the overall market.

The average expected risk premium  $\overline{E(RP)}$  for the time period spanning  $N$  months is calculated as:

$$\overline{E(RP)} = \sum_{t=1}^N \frac{E(RP_t)}{N}$$

The cost of equity capital for SBT is estimated by adding the average expected risk premium  $\overline{E(RP)}$ , to the average yield prevailing on Aaa public utility bonds over the period March 1993 to May 1993.

It is important to note that the resulting cost of equity estimates for SBT are not adjusted for flotation costs. Therefore, they are consequently a conservative estimate of SBT's cost of equity.



## VII. TIME PERIOD OF THE ANALYSIS

The statistical analysis uses data on the expected market risk premium and Aaa public utility bond yields over the period from October of 1987 through May of 1993. This time period is dictated by the availability of consistent IBES expected growth rate estimate data. The data is current up to May of 1993.

1 SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY  
2 TESTIMONY OF WILLIAM B. KECK  
3 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION  
4 DOCKET NO. 920260-TL  
5 JULY 2, 1993  
6

7 Q. PLEASE STATE YOUR NAME AND ADDRESS.  
8

9 A. MY NAME IS WILLIAM B. KECK AND MY BUSINESS ADDRESS  
10 IS 675 WEST PEACHTREE STREET, ATLANTA, GEORGIA  
11 30375.  
12

13 Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT POSITION?  
14

15 A. I AM EMPLOYED BY BELLSOUTH TELECOMMUNICATIONS, INC.  
16 D/B/A SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY  
17 (SOUTHERN BELL OR THE COMPANY). MY POSITION IS  
18 DIRECTOR-CORPORATE FINANCE AND ASSISTANT TREASURER.  
19

20 Q. WHAT ARE YOUR PRINCIPAL RESPONSIBILITIES IN THAT  
21 POSITION?  
22

23 A. I AM RESPONSIBLE FOR REGULATORY SUPPORT REGARDING  
24 FINANCIAL MATTERS, INCLUDING CAPITAL MARKET  
25 CONDITIONS, CAPITAL STRUCTURE AND COST OF CAPITAL

1 ISSUES. ADDITIONALLY, I ASSIST WITH THE LIAISON TO  
2 THE CREDIT RATING AGENCIES AND THE INVESTMENT BANKS.  
3 RELATIVE TO THE MANAGEMENT OF THE COMPANY'S  
4 FINANCINGS, I ASSIST IN EVALUATING FINANCING  
5 ALTERNATIVES AND NEW FINANCIAL PRODUCTS. I AM ALSO  
6 RESPONSIBLE FOR DIRECTING THE COMPANY'S EFFORTS IN  
7 THE AREA OF ECONOMIC DEVELOPMENT.

8

9 Q. PLEASE SUMMARIZE YOUR EDUCATIONAL AND BUSINESS  
10 BACKGROUND.

11

12 A. I RECEIVED TWO BACHELOR OF ARTS DEGREES IN 1967 FROM  
13 THE UNIVERSITY OF SOUTH FLORIDA - ONE IN MATHEMATICS  
14 AND ONE IN MANAGEMENT. IN 1975, I RECEIVED A  
15 MASTERS OF BUSINESS ADMINISTRATION WITH HONORS IN  
16 MANAGEMENT SCIENCE FROM PACE UNIVERSITY IN NEW YORK  
17 CITY. ADDITIONALLY, IN 1989, I SUCCESSFULLY  
18 COMPLETED THE EXECUTIVE PROGRAM OF PROFESSIONAL  
19 MANAGEMENT AT THE UNIVERSITY OF NORTH CAROLINA AT  
20 CHAPEL HILL.

21

22 MY TELEPHONE CAREER, WHICH SPANS A PERIOD OF 27  
23 YEARS, HAS BEEN CONCENTRATED PRIMARILY IN  
24 FORECASTING, RATES AND TARIFFS, REVENUE  
25 REQUIREMENTS, FINANCE AND TREASURY. I HAVE BEEN

1 INVOLVED IN TREASURY, COST OF CAPITAL AND THE  
2 REGULATORY PROCESS AT COMPANY HEADQUARTERS FOR THE  
3 PAST FIFTEEN YEARS. I WAS APPOINTED ASSISTANT  
4 TREASURER OF THE COMPANY EFFECTIVE DECEMBER 1, 1984.

5  
6 I AM A MEMBER OF THE NATIONAL SOCIETY OF RATE OF  
7 RETURN ANALYSTS, THE FINANCIAL MANAGEMENT  
8 ASSOCIATION, THE AMERICAN ECONOMIC DEVELOPMENT  
9 COUNCIL, AND THE SOUTHERN INDUSTRIAL DEVELOPMENT  
10 COUNCIL.

11

12 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS  
13 PROCEEDING?

14

15 A. THE PURPOSE OF MY TESTIMONY IS TO PRESENT EVIDENCE  
16 TO THIS COMMISSION AS TO THE APPROPRIATE CAPITAL  
17 STRUCTURE AND DEBT COST RATES FOR SOUTHERN BELL.  
18 ADDITIONALLY, I CALCULATE THE OVERALL COST OF  
19 CAPITAL USING DR. BILLINGSLEY'S ESTIMATE OF THE  
20 COMPANY'S COST OF EQUITY CAPITAL.

21

22 Q. HAVE YOU PREPARED EXHIBITS TO ACCOMPANY THIS  
23 TESTIMONY?

24

25 A. YES, MY FOUR EXHIBITS SHOW THE COMPOSITION OF THE

1 CAPITAL STRUCTURE, THE CALCULATIONS OF THE DEBT COST  
2 RATES, AND THE COMPUTATION OF THE COMPANY'S OVERALL  
3 WEIGHTED COST OF CAPITAL.

4

5 Q. WHAT COMPONENTS ARE NEEDED TO DETERMINE A COMPANY'S  
6 OVERALL COST OF CAPITAL?

7

8 A. THE OVERALL COST OF CAPITAL REFLECTS HOW A COMPANY  
9 HAS FINANCED THE ASSETS USED IN ITS OPERATIONS AND  
10 AT WHAT COST. THE CAPITAL STRUCTURE REFLECTS THE  
11 RELATIVE PROPORTIONS OF DEBT AND EQUITY CAPITAL  
12 UTILIZED. THE OVERALL COST OF CAPITAL IS DETERMINED  
13 BY WEIGHTING THE CAPITAL COST RATES IN PROPORTION TO  
14 THE USE OF THE VARIOUS TYPES OF CAPITAL.

15

16 THE COST RATE FOR A COMPANY'S DEBT IS EASILY  
17 DETERMINED BECAUSE DEBT OBLIGATIONS ARE CONTRACTUAL  
18 IN NATURE AND USUALLY SPECIFY UP FRONT THE RATE OF  
19 INTEREST THAT MUST BE PAID TO THE LENDER.

20

21 THE COST RATE FOR SECURING COMMON EQUITY CAPITAL IS  
22 MORE DIFFICULT TO DETERMINE. WHEN A COMMON EQUITY  
23 INVESTOR MAKES AN INVESTMENT, HE OR SHE DOES NOT  
24 HAVE AN ASSURED RETURN FROM THAT INVESTMENT. IN  
25 ORDER FOR THE COMPANY TO BE CHOSEN BY THE INVESTOR,

1 THE COMPANY MUST OFFER THAT COMMON EQUITY INVESTOR  
2 AN OPPORTUNITY TO EARN A RETURN ON HIS OR HER  
3 INVESTMENT THAT IS ATTRACTIVE RELATIVE TO THE RISKS  
4 ASSOCIATED WITH THAT INVESTMENT. SINCE THE  
5 INVESTORS' REQUIRED RETURN CANNOT BE MEASURED  
6 PRECISELY, IT MUST BE ESTIMATED USING SOUND JUDGMENT  
7 AND APPROPRIATE FINANCIAL THEORIES, ANALYSES AND  
8 METHODS. IN THIS PROCEEDING, DR. BILLINGSLEY'S  
9 TESTIMONY ADDRESSES THE ISSUE OF THE COMPANY'S COST  
10 OF COMMON EQUITY CAPITAL.

11

12 Q. YOU INDICATED EARLIER THAT THE CAPITAL STRUCTURE  
13 REFLECTS THE RELATIVE PROPORTIONS OF DEBT AND COMMON  
14 EQUITY CAPITAL UTILIZED TO FINANCE THE COMPANY'S  
15 OPERATIONS. WHAT FACTORS INFLUENCE A COMPANY'S  
16 MANAGEMENT DECISION REGARDING THE APPROPRIATE LEVEL  
17 OF DEBT IN THE CAPITAL STRUCTURE?

18

19 A. THE MAJOR FACTOR AFFECTING THE DETERMINATION OF THE  
20 ACCEPTABLE AMOUNT OF DEBT IN THE CAPITAL STRUCTURE  
21 IS THE NATURE, MAGNITUDE AND DIRECTION OF THE  
22 BUSINESS RISK FACING THE COMPANY. BUSINESS RISK CAN  
23 BE DEFINED AS THE VARIABILITY OR VOLATILITY  
24 ASSOCIATED WITH A COMPANY'S EARNINGS BEFORE INTEREST  
25 AND TAXES. VARIABILITY OF EARNINGS COMES FROM MANY

1 SOURCES, BUT THE IMPACT IS FELT PRIMARILY ON THE  
2 REVENUE STREAM.

3

4 THE SOURCES OF BUSINESS RISK ARE NUMEROUS AND  
5 VARIED. NATIONAL AND INTERNATIONAL POLITICAL AND  
6 ECONOMIC EVENTS THAT AFFECT THE GENERAL STATE OF THE  
7 ECONOMY CAN ALSO IMPACT A COMPANY'S REVENUE AND  
8 EXPENSES. INDUSTRY-WIDE FACTORS IMPACT THE PROFIT  
9 STABILITY OF ITS PARTICIPANTS. HOWEVER, PROBABLY  
10 THE MOST DIRECT AND SIGNIFICANT FACTORS THAT AFFECT  
11 A COMPANY'S BUSINESS RISK AND ITS REVENUE STREAM ARE  
12 (1) THE COMPETITION FACING THE COMPANY'S PRODUCTS  
13 AND SERVICES AND (2) THE ELASTICITY OF DEMAND FOR  
14 THOSE PRODUCTS AND SERVICES. ADDITIONALLY, NEW  
15 TECHNOLOGIES AND INNOVATIONS CAN AFFECT NOT ONLY THE  
16 REVENUE STREAM BUT ALSO THE INVESTMENT AND EXPENSES  
17 ASSOCIATED WITH THE OPERATIONS OF A BUSINESS.

18

19 IN SUMMARY, THE MAJOR FACTOR AFFECTING THE  
20 DETERMINATION OF THE APPROPRIATE CAPITAL STRUCTURE  
21 IS THE NATURE, MAGNITUDE AND DIRECTION OF THE  
22 BUSINESS RISK FACING A COMPANY.

23

24 Q. WHAT EVIDENCE HAS SOUTHERN BELL PRESENTED REGARDING  
25 CHANGES IN THE LEVEL OF BUSINESS RISK FACING THE

1 COMPANY?

2

3 A. AN OVERVIEW OF THE SOURCES OF THE COMPANY'S BUSINESS  
4 RISK AND THE INCREASING NATURE OF THAT RISK IS  
5 PROVIDED TO THE COMMISSION IN THIS DOCKET IN THE  
6 TESTIMONY OF COMPANY WITNESS DENTON. MR. DENTON  
7 DISCUSSES HOW THE TELECOMMUNICATIONS INDUSTRY HAS  
8 CHANGED SINCE 1988 IN THE AREAS OF TECHNOLOGY,  
9 STRATEGIC ALLIANCES, AND POLICY DECISIONS AT THE FCC  
10 AND BY THIS COMMISSION. HIS TESTIMONY DETAILS  
11 SIGNIFICANT ACTIVITIES THAT HAVE OCCURRED IN EACH OF  
12 THOSE AREAS AND HOW THEY ACCELERATE THE PACE OF  
13 COMPETITION IN THE MARKETPLACE. THE IMPACT OF THESE  
14 ACTIVITIES ON THE FUTURE DIRECTION AND MAGNITUDE OF  
15 THE BUSINESS RISK FACING THE COMPANY IS READILY  
16 APPARENT. THE COMPANY'S BUSINESS RISKS IN FLORIDA  
17 ARE SIGNIFICANT AND REAL. IN SUMMARY, MR. DENTON'S  
18 TESTIMONY PROVIDES EVIDENCE THAT THE COMPANY'S  
19 BUSINESS RISKS HAVE INCREASED MATERIALLY IN RECENT  
20 YEARS AND CAN REASONABLY BE EXPECTED TO CONTINUE TO  
21 INCREASE IN THE FUTURE.

22

23 Q. WHAT EVIDENCE IS AVAILABLE TO INVESTORS REGARDING  
24 THE CURRENT AND FUTURE LEVEL OF BUSINESS RISK FACING  
25 SOUTHERN BELL?



1

2 A. CREDIT RATING AGENCIES AND SECURITY ANALYSTS, WHO  
3 FOLLOW THE TELECOMMUNICATIONS INDUSTRY, HAVE BEEN  
4 REPORTING FOR SOME TIME TO INVESTORS THAT THE  
5 INDUSTRY IS IN A TRANSITION STAGE TOWARD MORE  
6 COMPETITION AND THAT BUSINESS RISKS HAVE BEEN  
7 INCREASING AND WILL, WITHOUT A DOUBT, CONTINUE TO  
8 INCREASE.

9

10 FOR EXAMPLE, BACK IN 1985, STANDARD AND POOR'S (S&P)  
11 STARTED DOCUMENTING THE INCREASED COMPETITION AND  
12 BEGAN MAKING ITS FINANCIAL BENCHMARKS MORE STRINGENT  
13 FOR THE LOCAL EXCHANGE COMPANIES. IT HAS SINCE MADE  
14 ADDITIONAL REFINEMENTS TO ITS BENCHMARKS, ALL OF  
15 WHICH ARE EVEN MORE STRINGENT, BASED ON THE  
16 INCREASING LEVEL OF BUSINESS RISKS FACING THE  
17 INDUSTRY PARTICIPANTS.

18

19 AS ILLUSTRATION, IN A SEPTEMBER 17, 1990 CREDITWEEK  
20 ARTICLE THAT ANNOUNCED RISK CLASSIFICATION CHANGES  
21 FOR THE LOCAL EXCHANGE COMPANIES, STANDARD AND  
22 POOR'S SAID:

23

24 "BOTH TECHNOLOGICAL AND ECONOMIC COMPETITION  
25 ARE NOW PRIME DRIVERS FOR TELECOMMUNICATIONS

1 BUSINESS RISK, AND THEIR EFFECT STEMS IN LARGE  
2 MEASURE FROM THE NATURE OF THE BUSINESS.  
3 TECHNOLOGICAL CHANGE HAS PROVIDED VIABLE  
4 ALTERNATIVES THAT ARE FULLY COMPETITIVE IN  
5 CERTAIN APPLICATIONS. THE GROWING DEPLOYMENT  
6 OF COMPETITIVE COMMUNICATIONS SERVICES IN ALL  
7 SECTORS OF THE TELECOMMUNICATIONS INDUSTRY WILL  
8 CONTINUE TO PUSH BUSINESS RISK TO GREATER  
9 HEIGHTS FOR THE MAJORITY OF INDUSTRY  
10 PARTICIPANTS. ... GOING FORWARD, THE INDUSTRY'S  
11 INEXORABLY GROWING EXPOSURE TO COMPETITION WILL  
12 OCCUR WITH OR WITHOUT THE RECOGNITION OR  
13 ADMISSION BY MANAGER AND REGULATOR."

14  
15 Q. GIVEN THE INCREASED LEVEL OF BUSINESS RISK, SUCH AS  
16 THAT WHICH IS NOW FACING THE TELECOMMUNICATIONS  
17 INDUSTRY AND SOUTHERN BELL, HOW SHOULD A COMPANY  
18 RESPOND TO THIS INCREASED BUSINESS RISK ENVIRONMENT?

19  
20 A. WHEN THE REVENUE STREAMS BECOME VULNERABLE TO  
21 COMPETITION AND, THEREFORE, MORE VOLATILE AND LESS  
22 PREDICTABLE, THE COMPANY'S MANAGEMENT SHOULD RESPOND  
23 BY OFFSETTING THIS INCREASED BUSINESS RISK BY  
24 REDUCING ITS FINANCIAL RISKS. THIS WILL ALLOW IT TO  
25 ACHIEVE THE LOWEST OVERALL COST OF CAPITAL. THIS IS

1        PRIMARILY ACCOMPLISHED BY LOWERING THE AMOUNT OF  
2        DEBT IN THE CAPITAL STRUCTURE.

3

4 Q.    ARE THERE ANY OTHER FACTORS, IN ADDITION TO  
5        BALANCING BUSINESS RISK CONSIDERATIONS, THAT  
6        INFLUENCE A COMPANY'S DECISION AS TO THE AMOUNT OF  
7        DEBT IT MAINTAINS?

8

9 A.    YES.    THERE IS A CLEARLY UNDERSTOOD DIRECT  
10       RELATIONSHIP BETWEEN THE RISK AND THE REQUIRED  
11       INVESTOR RETURN ASSOCIATED WITH A FINANCIAL  
12       INVESTMENT.    THE GREATER THE RISKS TO THE INVESTOR  
13       OF A PARTICULAR INVESTMENT, THE GREATER WILL BE THE  
14       INVESTOR'S REQUIRED RETURN ON THAT INVESTMENT.    DUE  
15       TO THE CONTRACTUAL NATURE OF DEBT AND THE PRIORITY  
16       OF CLAIMS A DEBT INVESTOR HAS ON THE COMPANY'S  
17       ASSETS, DEBT CAPITAL REPRESENTS AN ADDITIONAL RISK  
18       TO THE EQUITY HOLDER.    THIS RESULTS IN THE GENERALLY  
19       ACCEPTED IDEA THAT, FOR A GIVEN FIRM, ITS DEBT COSTS  
20       LESS THAN ITS EQUITY.

21

22       THIS CAPITAL COST RELATIONSHIP INFLUENCES COMPANIES  
23       WHEN THEY DETERMINE THEIR CAPITAL STRUCTURE.    THEORY  
24       AND COMMON SENSE SUGGEST THAT A COMPANY SHOULD  
25       ENDEAVOR TO MINIMIZE ITS COST OF SECURING CAPITAL

1 JUST AS IT TRIES TO MINIMIZE ALL OF ITS OTHER COSTS  
2 OF DOING BUSINESS. GIVEN THAT THE COST OF DEBT IS  
3 LESS THAN THE COST OF EQUITY, THE USE OF DEBT  
4 FINANCING IS APPROPRIATE AND BENEFICIAL, UP TO A  
5 POINT, BECAUSE IT CAN LOWER THE COMPANY'S OVERALL  
6 COST OF DOING BUSINESS. THE USE OF TOO MUCH DEBT,  
7 HOWEVER, CAN DRASTICALLY RAISE A COMPANY'S OVERALL  
8 COST OF CAPITAL. THIS IS DUE TO THE FACT THAT TOO  
9 MUCH DEBT CAUSES A COMPANY'S COST OF BOTH DEBT AND  
10 EQUITY TO RISE. IN THIS SITUATION, THE COMPANY'S  
11 OVERALL FINANCIAL RISK WILL, IN EFFECT, INCREASE.  
12 EVIDENCE OF THIS POINT IS ABUNDANT SINCE, OVER THE  
13 PAST SEVERAL YEARS, MANY COMPANIES TOOK ON TOO MUCH  
14 DEBT. THEIR REVENUE STREAMS WERE TOO VOLATILE OR  
15 JUST NOT STRONG ENOUGH TO SUPPORT THE BURDENS OF  
16 THAT DEBT AND THEY HAVE SUFFERED FINANCIALLY.

17

18 ANOTHER FACTOR THAT INFLUENCES THE CAPITAL STRUCTURE  
19 DETERMINATION IS THE NEED FOR A LEVEL OF  
20 CREDITWORTHINESS AND SUFFICIENT BORROWING MARGIN TO  
21 ENABLE THE COMPANY TO OPERATE AS AN ONGOING ENTITY,  
22 GIVEN ITS BUSINESS RISKS. SOUTHERN BELL MUST  
23 COMPETE FOR FUNDS IN THE CAPITAL MARKETS WITH THE  
24 MAJOR U.S. AND FOREIGN INDUSTRIAL AND UTILITY FIRMS.  
25 HIGH QUALITY CREDIT RATINGS ENABLE THE COMPANY TO

1 ATTRACT CAPITAL. DUE TO THE CONTINUING GROWTH IN  
2 SOUTHERN BELL'S SERVICE TERRITORY, THE COMPANY'S  
3 LARGE CAPITAL REQUIREMENTS, AND ITS UTILITY  
4 OBLIGATION TO SERVE RATEPAYERS, SOUTHERN BELL MUST  
5 BE ABLE TO COMPETE FOR REASONABLY-PRICED FUNDS,  
6 REGARDLESS OF CAPITAL MARKET CONDITIONS. HIGH  
7 QUALITY CREDIT RATINGS FACILITATE THIS PROCESS.

8

9 Q. PLEASE BRIEFLY DESCRIBE THE COMPANY'S CAPITAL  
10 STRUCTURE.

11

12 A. THE COMPANY'S DEBT RATIO HAS REMAINED FAIRLY STABLE  
13 DURING THE PAST SEVERAL YEARS. AS REFLECTED IN THE  
14 SURVEILLANCE REPORTS TO THIS COMMISSION, SOUTHERN  
15 BELL'S AVERAGE DEBT RATIO HAS VARIED WITHIN A NARROW  
16 RANGE:

17		DEBT
18	<u>YEAR</u>	<u>RATIO</u>
19	1988	37.27%
20	1989	37.54
21	1990	37.09
22	1991	37.27
23	1992 (BST)	37.38

24

25 AS SHOWN ON MY EXHIBIT WBK-1, FOR YEAR 1993, THE

1 AVERAGE DEBT RATIO IS EXPECTED TO BE 38.88%.

2

3 IN MY OPINION, GIVEN THE INCREASING BUSINESS RISK  
4 FACING THE COMPANY AND THE RECENT RISE IN THE DEBT  
5 RATIO, THE COMPANY'S OVERALL RISK, WHICH IS THE  
6 COMBINATION OF THE BUSINESS AND FINANCIAL RISKS, HAS  
7 INCREASED IN RECENT YEARS.

8

9 Q. WHAT HAS BEEN THE HISTORY OF THIS COMMISSION'S  
10 REGULATORY PRACTICE REGARDING THE CAPITAL STRUCTURE  
11 ISSUE AS APPLIED TO SOUTHERN BELL?

12

13 A. THIS COMMISSION, SINCE DIVESTITURE, HAS REGULATED  
14 SOUTHERN BELL BASED ON THE COMPANY'S ACTUAL AVERAGE  
15 CAPITAL STRUCTURE. THE CONTINUED USE OF THE  
16 COMPANY'S ACTUAL CAPITAL STRUCTURE IN THIS  
17 PROCEEDING IS APPROPRIATE. BY DOING SO, THE  
18 COMMISSION IS RECOGNIZING THAT A COMPANY'S ACTUAL  
19 CAPITAL STRUCTURE BEST REFLECTS THE REALITIES OF THE  
20 COMPANY'S FINANCIAL SITUATION AND IT IS THAT CAPITAL  
21 STRUCTURE WHICH IS READILY AVAILABLE TO THE  
22 INVESTORS WHEN THEY ARE EVALUATING INVESTMENT  
23 OPPORTUNITIES.

24

25 Q. WHAT IS YOUR RECOMMENDATION TO THIS COMMISSION

1 REGARDS THE APPROPRIATE CAPITAL STRUCTURE AND COST  
2 RATES THAT SHOULD BE USED IN CONNECTION WITH THIS  
3 PROCEEDING?

4

5 A. CONSISTENT WITH PAST PRACTICES OF THIS COMMISSION  
6 AND THE CURRENT FINANCIAL REALITIES OF THE COMPANY,  
7 I RECOMMEND THAT THE COMMISSION CONTINUE TO USE THE  
8 COMPANY'S ACTUAL AVERAGE CAPITAL STRUCTURE AND THE  
9 ACTUAL COST RATES.

10

11 BESIDES PAST COMMISSION PRACTICE, THERE ARE SEVERAL  
12 OTHER REASONS WHY THE COMPANY'S ACTUAL CAPITAL  
13 STRUCTURE IS APPROPRIATE. AGAIN, INVESTORS ASSESS  
14 THE COMPANY'S FINANCIAL RISK BASED ON ITS ACTUAL  
15 CAPITAL STRUCTURE, AS IT IS REFLECTED IN ITS  
16 PUBLISHED FINANCIAL STATEMENTS. SECOND, IN A  
17 REGULATORY CONTEXT, THE USE OF A HYPOTHETICAL,  
18 RATHER THAN AN ACTUAL CAPITAL STRUCTURE, CREATES A  
19 SITUATION WHERE THE FINANCIAL RESULTS OF RATEMAKING  
20 WILL NOT, IN FACT, BE ACHIEVED BY THE INVESTORS.

21

22 AS ILLUSTRATION OF THIS LAST POINT, LET ME PROVIDE  
23 AN EXAMPLE. SUPPOSE THAT THE UTILITY HAS A CAPITAL  
24 STRUCTURE OF 40% DEBT AND 60% EQUITY. IF ITS DEBT  
25 COST RATE WAS 8% AND ITS COST OF EQUITY WAS 14%, ITS

1 OVERALL COST OF CAPITAL WOULD BE 11.6%. IF THE  
2 COMPANY'S RATE BASE WAS \$1,000 AND IT HAD A TAX RATE  
3 OF 40%, THIS WOULD MEAN THAT THE REVENUE  
4 REQUIREMENTS NEEDED TO SATISFY THE INVESTORS'  
5 REQUIREMENTS WOULD BE \$172.00.

6  
7 RATE BASE x [ ((ROE x EQUITY RATIO)/(1 - TAX RATE)) +  
8 (DEBT COST x DEBT RATIO) ]

9  
10 1000 x [ ((.14 x .60)/(1 - .40)) + (.08 x .40) ]

11  
12 NOW SUPPOSE THAT THE COMMISSION WAS TO AUTHORIZE THE  
13 COMPANY'S COST RATES BUT DECIDED TO ADOPT A  
14 HYPOTHETICAL CAPITAL STRUCTURE OF 50% DEBT AND 50%  
15 EQUITY. THIS REGULATORY DECISION WOULD RESULT IN  
16 RATES DESIGNED TO PRODUCE ONLY \$156.67 IN ADDITIONAL  
17 REVENUES. FROM THIS EXAMPLE, YOU CAN SEE THAT A  
18 \$15.33 SHORTFALL WAS CREATED FROM THE INVESTORS'  
19 REQUIRED RETURN TO THE ADDITIONAL REVENUES  
20 AUTHORIZED BECAUSE A HYPOTHETICAL CAPITAL STRUCTURE  
21 WAS USED. THIS SHORTFALL IS WHAT I WAS REFERRING TO  
22 WHEN I INDICATED THAT THE USE OF A HYPOTHETICAL,  
23 RATHER THAN AN ACTUAL CAPITAL STRUCTURE, CREATES A  
24 SITUATION WHERE THE FINANCIAL RESULTS OF RATEMAKING  
25 WILL NOT BE ACHIEVED BY THE INVESTORS.



1

2 Q. DO YOU HAVE ANY OTHER CONCERNS ABOUT THE POSSIBLE  
3 USE OF CAPITAL STRUCTURE DIFFERENT FROM THE  
4 COMPANY'S ACTUAL CAPITAL STRUCTURE?

5

6 A. YES. THE SIGNAL THAT WOULD BE SENT TO INVESTORS BY  
7 THE USE OF A HYPOTHETICAL CAPITAL STRUCTURE WOULD BE  
8 NEGATIVE, COULD ULTIMATELY CAUSE FINANCIAL HARM TO  
9 THE COMPANY, AND COULD INCREASE THE COST OF  
10 TELECOMMUNICATIONS SERVICES. THIS CONCERN WAS  
11 EXPLICITLY RECOGNIZED BY THIS COMMISSION, IN ORDER  
12 20162 IN SOUTHERN BELL DOCKET NO. 880069-TL, DATED  
13 OCTOBER 13, 1988, WHEN IT STATED THAT

14

15 "IMPUTING A LOWER EQUITY RATIO REDUCES THE  
16 COMPANY'S ABILITY TO EARN ON ITS ACTUAL CAPITAL  
17 STRUCTURE. IMPUTING A LOWER EQUITY RATIO COULD  
18 ALSO ADVERSELY AFFECT THE COMPANY'S ABILITY TO  
19 REACT TO CHANGES IN ITS OPERATING ENVIRONMENT  
20 AND COULD POSSIBLY RESULT IN A LOWER BOND  
21 RATING FOR THE COMPANY."

22

23 Q. WHAT IS THE COMPOSITION OF THE CAPITAL STRUCTURE  
24 THAT THE COMPANY IS RECOMMENDING?

25

1 A. MY EXHIBIT WBK-1 REFLECTS THE APPLICATION OF THE  
2 COMPANY'S AVERAGE CAPITAL STRUCTURE RATIOS TO THE  
3 FLORIDA INTRASTATE CAPITAL FOR YEAR 1993.

4

5 AT THE TOP OF THAT EXHIBIT IS SHOWN THE COMPANY'S  
6 AVERAGE CAPITAL STRUCTURE FOR 1993. THE LOWER  
7 PORTION OF THAT EXHIBIT REFLECTS THE FLORIDA  
8 INTRASTATE AVERAGE CAPITAL STRUCTURE FOR 1993 THAT  
9 IS RECONCILED WITH THE FLORIDA INTRASTATE RATE BASE  
10 PRESENTED IN THE TESTIMONY OF COMPANY WITNESS REID.

11

12 Q. PLEASE EXPLAIN HOW THE COMPANY'S AVERAGE 1993  
13 CAPITAL STRUCTURE, SHOWN ON THE TOP OF THAT EXHIBIT,  
14 WAS ESTIMATED.

15

16 A. FOR THE MONTHS UP TO AND INCLUDING APRIL, 1993,  
17 ACTUAL COMPANY DATA WAS USED. THE MONTHLY DATA FOR  
18 MAY THROUGH DECEMBER HAD TO BE ESTIMATED. THE  
19 FOLLOWING APPROACH WAS USED FOR THOSE MONTHS:

20

21 FOR LONG-TERM DEBT

22

23 THE LEVEL OF FUNDED DEBT WAS ESTIMATED MONTHLY  
24 RECOGNIZING THE TWO REFINANCINGS THAT WERE  
25 INITIATED IN MAY AND THE ONE INITIATED IN JUNE.

1 NO OTHER REFINANCINGS WERE ASSUMED TO OCCUR IN  
2 1993. THE AVERAGE LEVEL OF OTHER LONG-TERM  
3 DEBT AND CAPITALIZED LEASES FOR THE PERIOD  
4 JANUARY THROUGH APRIL WAS USED AS THE LEVEL FOR  
5 EACH MONTH, MAY THROUGH DECEMBER.

6

7 FOR SHORT-TERM DEBT

8

9 THE AVERAGE LEVEL OF COMMERCIAL PAPER FOR THE  
10 PERIOD JANUARY THROUGH APRIL WAS USED AS THE  
11 LEVEL FOR EACH MONTH, MAY THROUGH DECEMBER.  
12 THE ESTIMATED LEVEL OF COMMERCIAL PAPER FOR  
13 JUNE THROUGH DECEMBER, HOWEVER, WAS ADJUSTED  
14 SLIGHTLY DOWNWARD TO REFLECT A \$19 MILLION  
15 REDUCTION IN JUNE CAUSED BY THE \$500 MILLION  
16 EUROBOND REFINANCING. THE AVERAGE LEVEL OF  
17 SHORT-TERM CAPITALIZED LEASES FOR THE PERIOD  
18 JANUARY THROUGH APRIL WAS USED AS THE LEVEL FOR  
19 EACH MONTH, MAY THROUGH DECEMBER.

20

21 FOR COMMON EQUITY

22

23 THE AVERAGE LEVEL OF COMMON EQUITY FOR THE  
24 PERIOD JANUARY THROUGH APRIL WAS USED AS THE  
25 LEVEL FOR EACH MONTH, MAY THROUGH DECEMBER.

1  
2 USING THE APPROACH JUST DESCRIBED RESULTS IN AN  
3 ESTIMATED CAPITAL STRUCTURE WHICH IS SLIGHTLY  
4 DIFFERENT FROM THE COMPANY'S 1993 COMMITMENT VIEW.  
5 THE CAPITAL STRUCTURE SHOWN ON THE TOP OF MY EXHIBIT  
6 WBK-1 HAS A SLIGHTLY HIGHER DEBT RATIO PRIMARILY  
7 BECAUSE THE COMMITMENT VIEW DOES NOT REFLECT THE  
8 REFINANCING THAT HAVE OCCURRED IN 1993.

9  
10 THE COMPANY INTENDS TO PROVIDE THIS COMMISSION WITH  
11 AN UPDATE OF THE COMPANY'S CAPITAL STRUCTURE AND  
12 DEBT COST RATES LATER IN THE YEAR. THAT UPDATE WILL  
13 INCLUDE SEVERAL MORE MONTHS OF ACTUAL 1993 DATA.

14  
15 Q. WHAT ARE THE COST RATES THAT THE COMPANY IS  
16 RECOMMENDING?

17  
18 A. THE AVERAGE COST RATE FOR THE COMPANY'S LONG-TERM  
19 DEBT FOR THE YEAR 1993 IS EXPECTED TO BE 8.07%. THE  
20 CALCULATION OF THIS COST RATE IS SHOWN AT THE TOP OF  
21 EXHIBIT WBK-2. IN ARRIVING AT THAT FIGURE, AN  
22 AVERAGE COST RATE FOR FUNDED DEBT WAS ESTIMATED (1)  
23 RECOGNIZING THE FEBRUARY REFINANCING, THE TWO  
24 REFINANCINGS THAT WERE INITIATED IN MAY, AND THE  
25 REFINANCING THAT WAS INITIATED IN JUNE, AND (2)

1       ASSUMING NO ADDITIONAL REFINANCINGS DURING 1993.  
2       THIS IS THE FIGURE THAT THE COMMISSION WOULD  
3       NORMALLY USE.

4  
5       HOWEVER, FOR THIS PARTICULAR PROCEEDING, THE COMPANY  
6       RECOMMENDS THAT THE COMMISSION USE A DIFFERENT COST  
7       RATE FOR LONG-TERM DEBT. SINCE THE BEGINNING OF  
8       1993, THE COMPANY HAS REFINANCED \$1.76 BILLION  
9       (NEARLY 28%) OF ITS DEBT. THESE REFINANCINGS HAVE  
10      REDUCED THE COMPANY'S COST OF FUNDED DEBT FROM 8.48%  
11      TO AN ESTIMATED 7.75% AS OF THE END OF JULY. IN  
12      RECOGNITION OF THESE EVENTS, I HAVE PROVIDED THE  
13      THE CALCULATION OF THE COMPANY'S ESTIMATED COST FOR  
14      LONG-TERM DEBT AS OF JULY 31, 1993 AT THE BOTTOM OF  
15      EXHIBIT WBK-2. THAT COST RATE IS 7.77%. THIS IS  
16      THE COST RATE THAT I WILL USE FOR DETERMINING THE  
17      OVERALL COST OF CAPITAL BECAUSE IT REFLECTS THE  
18      COMPANY'S GOING-FORWARD ACTUAL INTEREST OBLIGATIONS.

19  
20      THE AVERAGE COST RATE FOR THE COMPANY'S SHORT-TERM  
21      DEBT FOR THE YEAR 1993 IS EXPECTED TO BE 3.30%. THE  
22      CALCULATION OF THIS COST RATE IS SHOWN ON EXHIBIT  
23      WBK-3. ACTUAL COST RATES WERE USED FOR MONTHS UP TO  
24      AND INCLUDING APRIL. THE AVERAGE COST RATE FOR THE  
25      PERIOD FROM JANUARY THROUGH APRIL WAS USED AS THE

1 COST RATE FOR THE MONTHS, MAY THROUGH DECEMBER.

2

3 THE COST RATES FOR BOTH THE CUSTOMER DEPOSITS AND  
4 INVESTMENT TAX CREDITS WERE COMPUTED ACCORDING TO  
5 COMMISSION RULES AND PROCEDURES. THE UNDERLYING  
6 DATA FOR CUSTOMER DEPOSITS WAS PROVIDED IN THE  
7 MINIMUM FILING REQUIREMENTS (MFR), FILED ON JULY 2,  
8 1993.

9

10 THE TESTIMONY AND EXHIBITS OF DR. BILLINGSLEY  
11 PROVIDE EVIDENCE THAT THE COMPANY'S CURRENT COST OF  
12 EQUITY IS IN THE RANGE OF 13.90% TO 14.29%. THE  
13 MIDPOINT OF THIS RANGE IS APPROXIMATELY 14.1%, WHICH  
14 IS STILL WITHIN THE PARAMETERS OF THE EXISTING  
15 INCENTIVE SHARING PLAN.

16

17 Q. WHAT IS THE COMPANY'S OVERALL COST OF CAPITAL?

18

19 A. ON EXHIBIT WBK-4, I HAVE COMPUTED THE COMPANY'S  
20 OVERALL COST OF CAPITAL TO BE 9.32% BY COMBINING THE  
21 INDICATED 14.1% MIDPOINT OF THE RANGE OF COST OF  
22 EQUITY WITH THE APPROPRIATE CAPITAL STRUCTURE  
23 COMPONENTS AND THE VARIOUS OTHER COST COMPONENTS.

24

25

1 Q. DOES THAT CONCLUDE YOUR TESTIMONY?

2

3 A. YES, IT DOES.

4

5

6

7

8

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BELLSOUTH TELECOMMUNICATIONS, INC.  
 (D/B/A SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY)  
 AVERAGE CAPITAL STRUCTURE  
Estimated Average 12 Months Ending 12-31-93

	Amount (\$000)	Percent of Total
Long-Term Debt	\$ 6,185,139	33.19%
Short-Term Debt	1,061,015	5.69
Common Equity	<u>11,387,442</u>	<u>61.12</u>
<b>TOTAL CAPITAL</b>	<b>\$18,633,596</b>	<b>100.00%</b>

ADJUSTED 1993 FLORIDA INTRASTATE CAPITAL STRUCTURE

	Amount (\$000)	Percent of Total
Long-Term Debt	\$ 1,053,771	25.97%
Short-Term Debt	180,655	4.45
Common Equity	1,940,538	47.83
Preferred Stock	0	0.00
Customer Deposits	55,182	1.36
Cost Free Capital	723,093	17.82
Investment Tax Credits	<u>104,223</u>	<u>2.57</u>
<b>TOTAL CAPITAL</b>	<b>\$ 4,057,462</b>	<b>100.00%</b>



BELLSOUTH TELECOMMUNICATIONS, INC.  
 (D/B/A SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY)

AVERAGE COST RATE FOR LONG-TERM DEBT  
Estimated Average 12 Months Ending 12-31-93

<u>Long-Term Debt</u>	<u>Amount (\$000)</u>	<u>Annual Interest</u>	<u>Cost Rate</u>
Funded Debt	\$ 6,155,843	\$ 495,297,000	8.05%
Other Long-Term Debt	1,325	118,601	8.95
Capital Leases	27,971	3,489,078	12.47
	<hr/>	<hr/>	<hr/>
TOTAL LONG-TERM DEBT	\$ 6,185,139	\$ 498,904,679	8.07%

COST FOR LONG-TERM DEBT  
Estimated as of JULY 31, 1993

<u>Long-Term Debt</u>	<u>Amount (\$000)</u>	<u>Annual Interest</u>	<u>Cost Rate</u>
Funded Debt	\$ 6,223,604	\$ 482,090,000	7.75%
Other Long-Term Debt	1,321	118,240	8.95
Capital Leases	27,918	3,522,751	12.62
	<hr/>	<hr/>	<hr/>
TOTAL LONG-TERM DEBT	\$ 6,252,843	\$ 485,730,991	7.77%

BELLSOUTH TELECOMMUNICATIONS, INC.  
(D/B/A SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY)  
AVERAGE COST RATE FOR SHORT-TERM DEBT  
Estimated Average 12 Months Ending 12-31-93

<u>Short-Term Debt</u>	<u>Amount (\$000)</u>	<u>Annual Interest</u>	<u>Cost Rate</u>
Commercial Paper	\$ 1,051,359	\$ 33,827,127	3.22%
Capital Leases	9,656	1,204,541	12.47
	<hr/>	<hr/>	<hr/>
TOTAL SHORT-TERM DEBT	\$ 1,061,015	\$ 35,031,668	3.30%

BELLSOUTH TELECOMMUNICATIONS, INC.  
(D/B/A SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY)  
OVERALL COST OF CAPITAL  
Estimated Average 12 Months Ending 12-31-93

	Amount (\$000)	Percent of Total	Cost Rate	Wtd. Cost
Long-Term Debt	\$ 1,053,771	25.97%	7.77%	2.02%
Short-Term Debt	180,655	4.45	3.30	.15
Common Equity	1,940,538	47.83	14.10	6.74
Preferred Stock	0	0.00	0.00	0.00
Customer Deposits	55,182	1.36	8.23	.11
Cost Free Capital	723,093	17.82	0.00	0.00
Investment Tax Credits	104,223	2.57	11.87	.30
<b>TOTAL CAPITAL</b>	<b>\$ 4,057,462</b>	<b>100.00%</b>		<b>9.32%</b>

1 SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY  
2 TESTIMONY OF JOSEPH P. LACHER  
3 BEFORE THE  
4 FLORIDA PUBLIC SERVICE COMMISSION  
5 IN  
6 DOCKET NO. 920260-TL  
7 JULY 2, 1993

8  
9  
10 Q. PLEASE STATE YOUR NAME AND POSITION WITH SOUTHERN  
11 BELL TELEPHONE AND TELEGRAPH COMPANY.

12  
13 A. I AM JOSEPH P. LACHER AND I AM SOUTHERN BELL'S  
14 PRESIDENT - FLORIDA. IN THIS CAPACITY, I HAVE  
15 OVERALL RESPONSIBILITY FOR SERVICE AND FINANCIAL  
16 RESULTS FOR BELLSOUTH TELECOMMUNICATIONS, INC.,  
17 D/B/A SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY  
18 ("SOUTHERN BELL" OR THE "COMPANY") IN FLORIDA.

19  
20 Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF YOUR  
21 BACKGROUND.

22  
23 A. I GRADUATED FROM BELMONT ABBEY COLLEGE WITH A  
24 BACHELOR OF ARTS DEGREE IN 1967, RECEIVED AN MBA  
25 DEGREE FROM FAIRLEIGH DICKENSON UNIVERSITY IN 1978

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

7

8 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

9

10 A. THE FIRST SECTION OF MY TESTIMONY SUMMARIZES THE  
11 TESTIMONY SOUTHERN BELL HAS PRESENTED IN THIS  
12 PROCEEDING. IN ADDITION, I WILL ADDRESS OUR  
13 CORPORATE CULTURE AND ITS FOCUS ON CUSTOMER  
14 SERVICE. THE BALANCE OF MY TESTIMONY ADDRESSES  
15 SOME OF THE ISSUES IDENTIFIED IN THE NON-CONTACT  
16 SALES AND REPAIR INVESTIGATIONS.

17

18 Q. WHY HAS SOUTHERN BELL PROPOSED AN EXTENSION OF ITS  
19 CURRENT INCENTIVE SHARING PLAN IN THIS PROCEEDING?

20

21 A. THE COMPANY'S TESTIMONY HAS DESCRIBED THE SUCCESS  
22 OF OUR CURRENT INCENTIVE SHARING PLAN IN TERMS OF  
23 THE BENEFITS OUR CUSTOMERS HAVE DERIVED FROM IT,  
24 I.E., NEW SERVICES, CUSTOMER SERVICE IMPROVEMENTS,  
25 AND IMPROVEMENTS IN EFFICIENCY WITHIN SOUTHERN

1 BELL. WE HAVE ALSO OUTLINED OUR PERSPECTIVE OF THE  
2 MANY CHANGES IN THE TELECOMMUNICATIONS INDUSTRY  
3 THAT HAVE OCCURRED OVER THE LAST FIVE YEARS AS WELL  
4 AS OUR EXPECTATIONS AS TO HOW THEY WILL CONTINUE.  
5 IT IS OUR BELIEF THAT THESE CHANGES SHOULD BE  
6 REFLECTED IN FURTHER ENHANCEMENTS TO FLORIDA'S  
7 REGULATORY STRUCTURE ONCE THIS COMMISSION HAS HAD  
8 THE OPPORTUNITY TO CONSIDER THE IMPLICATIONS OF  
9 THESE CHANGES.

10

11 I BELIEVE THAT OUR TESTIMONY HAS DEMONSTRATED THAT  
12 SOUTHERN BELL HAS BEEN SUCCESSFUL UNDER OUR  
13 EXISTING PLAN AND THAT OUR CUSTOMERS AND OTHER  
14 STAKEHOLDERS HAVE BENEFITED. CONTINUATION FOR THE  
15 PRESENT OF THE CURRENT REGULATORY STRUCTURE FOR  
16 SOUTHERN BELL IS THE MOST BENEFICIAL COURSE FOR OUR  
17 CUSTOMERS, THE STATE OF FLORIDA, AND OUR COMPANY.

18

19 Q. PLEASE DESCRIBE HOW SOUTHERN BELL'S CORPORATE  
20 CULTURE HAS CHANGED UNDER ITS INCENTIVE SHARING  
21 PLAN.

22

23 A. CORPORATE CULTURE CAN BE DEFINED AS THE BELIEFS AND  
24 VALUES OF A COMPANY THAT TRANSCEND LINES OF  
25 ORGANIZATION AND EXTEND THROUGHOUT THE ENTIRE

1 EMPLOYEE BASE. THESE BELIEFS AND VALUES HAVE A  
2 DRIVING IMPACT ON ATTITUDES AND DECISION MAKING,  
3 BOTH IMMEDIATE AND LONG TERM, REGARDLESS OF WHETHER  
4 THEY REPRESENT PERSONAL, DEPARTMENTAL OR CORPORATE  
5 ISSUES.

6  
7 AS DESCRIBED BY MR. DENTON, THE TELECOMMUNICATIONS  
8 MARKET HAS BECOME MUCH MORE COMPETITIVE OVER THE  
9 LAST FEW YEARS. THIS CHANGE IN OUR COMPETITIVE  
10 ENVIRONMENT FROM A REGULATED MONOPOLY TO THAT OF A  
11 REGULATED COMPETITIVE ENTERPRISE HAS REQUIRED THAT  
12 CHANGES OCCUR IN OUR CORPORATE CULTURE. OUR  
13 EMPLOYEES HAVE BECOME MORE AWARE OF THE COMPETITION  
14 OUR COMPANY FACES IN ALMOST EVERY SEGMENT OF THE  
15 TELECOMMUNICATIONS MARKET: COMPETITION FOR  
16 SWITCHING OR EQUIPMENT AT THE CUSTOMER'S LOCATION;  
17 FOR VERTICAL SERVICES AND FEATURES; AND FOR  
18 PHYSICAL TRANSPORT ACROSS THE NETWORK. THE  
19 COMPETITION HAS SHARPENED OUR FOCUS ON THE  
20 MARKETPLACE AND MADE US MORE ACUTELY AWARE THAT  
21 CUSTOMER SATISFACTION MUST BE THE PRIMARY GOAL OF  
22 OUR SERVICE EFFORTS.

23  
24 AT A CORPORATE LEVEL, A NECESSARY CHANGE TO OUR  
25 CULTURE HAS RESULTED IN A VARIETY OF NEW PROGRAMS

1 AND WAYS OF DOING BUSINESS. FOR EXAMPLE, WE HAVE  
2 IMPLEMENTED A NEW STATE PLANNING PROCESS, CALLED  
3 MARKET DRIVEN PLANNING (MDP), WHICH TAKES A  
4 COMPREHENSIVE APPROACH TO MARKET PLANNING. UNDER  
5 MDP, AN INTERDEPARTMENTAL PLANNING TEAM WORKS  
6 TOGETHER TO RECOMMEND CAPITAL AND RESOURCE  
7 ALLOCATIONS BASED ON THE KNOWN NEEDS OF OUR  
8 CUSTOMERS AND MARKET FORECASTS.  
9  
10 ANOTHER EXAMPLE IS THE QUALITY INITIATIVE WHICH WAS  
11 INTRODUCED IN BELLSOUTH IN 1991. THIS PROGRAM  
12 INCLUDES TRAINING FOR EVERY BELLSOUTH EMPLOYEE AND  
13 ESTABLISHES A FRAMEWORK FOR IMPROVING WORK FLOWS  
14 AND FOR SOLVING PROBLEMS USING PRESCRIBED QUALITY  
15 TOOLS AND CONCEPTS.  
16  
17 AS JUST ONE EXAMPLE OF THE RESULT OF THESE EFFORTS,  
18 A QUALITY TEAM EFFORT HAS RECOMMENDED A NEW MISSION  
19 FOR OUR DISTRICT OPERATIONS COUNCILS (DOC) WHICH  
20 WILL STRENGTHEN THEIR COMMITMENT TO CUSTOMER  
21 SATISFACTION. THE DOC STRUCTURE, WHICH AS BEEN IN  
22 PLACE FOR SEVERAL YEARS, PROVIDES A FRAMEWORK FOR  
23 LOCAL COORDINATION, PROBLEM SOLVING AND TEAMWORK.  
24 THE TEAM HAS RECOMMENDED THAT THESE  
25 INTERDEPARTMENTAL GROUPS ESTABLISH ENHANCED OVERALL



1 CUSTOMER SERVICE AS A PRIORITY OVER INDIVIDUAL  
2 DEPARTMENTAL OBJECTIVES.

3  
4 Q. HOW HAVE THE CHANGES IN SOUTHERN BELL'S ENVIRONMENT  
5 BEEN COMMUNICATED TO YOUR EMPLOYEES AND WHAT  
6 RESULTS HAVE BEEN OBSERVED?

7  
8 A. IN 1988, "INCENTIVE REGULATION" WAS A NEW CONCEPT  
9 NOT ONLY TO MANY OF OUR EMPLOYEES, BUT TO MUCH OF  
10 THE INDUSTRY AS WELL. OUR EMPLOYEES NEEDED TO  
11 LEARN HOW TO RESPOND TO THE NEWLY COMPETITIVE  
12 ENVIRONMENT. TODAY COMPETITION IS PART OF OUR  
13 EVERYDAY VOCABULARY AND IS REFLECTED IN THE WAY WE  
14 DO BUSINESS. GROWTH IN EMPLOYEE RECOGNITION OF  
15 ISSUES CONCERNING OUR EARNINGS, COMPETITION, AND  
16 NATIONAL AND STATE TELECOMMUNICATIONS ACTIVITIES  
17 HAS OCCURRED. TODAY, THESE TOPICS MAKE UP A LARGE  
18 PART OF THE QUESTIONS EMPLOYEES ASK AT MEETINGS AND  
19 IN PUBLICATIONS. EVEN MORE IMPORTANTLY, OUR  
20 EMPLOYEES ARE REALIZING THAT THEY HAVE AN IMPACT ON  
21 THESE ISSUES.

22  
23 MUCH OF THIS AWARENESS HAS COME ABOUT THROUGH  
24 FOCUSED EFFORTS BY THE COMPANY TO EDUCATE THE  
25 ENTIRE EMPLOYEE BODY ABOUT THE RELATIONSHIP AMONG

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

10

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

22

23 Q. PLEASE DISCUSS SOUTHERN BELL'S EARNINGS UNDER ITS  
24 CURRENT INCENTIVE SHARING PLAN.

25

1 A. AS DISCUSSED BY MR. DENTON AND MR. REID, SOUTHERN  
2 BELL HAS MAINTAINED EARNINGS WITHIN THE AUTHORIZED  
3 RANGE DURING THE PLAN PERIOD. THESE RESULTS ARE IN  
4 SPITE OF OPTIMISTIC FORECASTS, INCREASED  
5 COMPETITION FROM TRADITIONAL AND NEW PROVIDERS,  
6 SEPARATIONS CHANGES AND A SEVERE ECONOMIC DOWNTURN.

7

8 Q. WHAT HAVE BEEN THE MOST SIGNIFICANT REASONS FOR  
9 THESE EARNINGS RESULTS?

10

11 A. AS MR. DENTON EXPLAINED IN DETAIL IN HIS  
12 TESTIMONY, SOUTHERN BELL'S ABILITY TO MANAGE  
13 EXPENSES AND DEVELOP NEW SERVICES HAS BEEN KEY TO  
14 OUR EARNINGS UNDER THE RATE STABILIZATION PLAN.  
15 OUR EMPLOYEES HAVE LEARNED THAT, IN A COMPETITIVE  
16 ENVIRONMENT, THE MARKET DETERMINES PRICE AND WE  
17 MUST CUT OUR COSTS IF WE ARE TO PRICE TO MEET THE  
18 COMPETITION. INDEED, AS STATED BY DOD/FEA'S WITNESS  
19 KING IN THE FEBRUARY 1992 HEARING BEFORE THIS  
20 COMMISSION:

21

22 WHAT I'M SUGGESTING IS THAT INCENTIVE  
23 REGULATION HAS DONE ITS JOB. IT HAS  
24 ENCOURAGED THE COMPANY TO MAINTAIN A HIGH  
25 RATE OF RETURN IN THE FACE OF A

1 RECESSIOIN. AND THAT IS (A) DEMONSTRATION  
2 OF THE BENEFIT OF INCENTIVE REGULATION.

3

4 FURTHERMORE, AS EXPLAINED BY MR. REID IN HIS  
5 TESTIMONY, OUR EARNINGS HAVE NOT JUST RESULTED FROM  
6 THE INTRODUCTION OF NEW SERVICES AND THE AVOIDANCE  
7 OF REVENUE LOSSES. TO THE CONTRARY, WE HAVE  
8 REDUCED ANNUAL EXPENSES BY \$87 MILLION.

9

10 Q. WHAT EFFECT HAS THE CURRENT INCENTIVE SHARING PLAN  
11 HAD ON THE LEVEL OF SERVICE THAT SOUTHERN BELL  
12 PROVIDES TO ITS CUSTOMERS?

13

14 A. DURING THE TERM OF THE INCENTIVE SHARING PLAN,  
15 SOUTHERN BELL HAS CONTINUED TO PROVIDE A HIGH LEVEL  
16 OF SERVICE TO ITS CUSTOMERS.

17

18 IT WAS A CONCERN OF SOME PARTIES THAT THE INCENTIVE  
19 SHARING PLAN WOULD CAUSE SOUTHERN BELL TO REDUCE  
20 OPERATIONAL EXPENSES AND THEREBY ADVERSELY AFFECT  
21 THE QUALITY OF SERVICE. HOWEVER, THIS COMMISSION  
22 CONCLUDED IN ITS 1991 MANAGEMENT REVIEW OF SOUTHERN  
23 BELL-FLORIDA THAT "CONCERNS RELATED TO OVER  
24 EMPHASIS ON COST CONTROL ARE NOT CURRENTLY A  
25 PROBLEM". THE REVIEW FURTHER STATED THAT "WE HAVE

1 CONCLUDED THAT EMPHASIS IS NOT ONLY BEING PLACED ON  
2 NETWORK OPERATIONS COST, BUT ON SERVICE QUALITY AND  
3 EMPLOYEE MORALE RELATED ISSUES ALSO".

4

5 Q. HAS THE COMPANY TAKEN ANY OTHER STEPS TO EMPHASIZE  
6 CUSTOMER SERVICE?

7

8 A. YES. WE HAVE TO SUSTAIN OUR TRADITIONAL CORPORATE  
9 VALUES WHICH HAVE SERVED US WELL WHILE CHANGING TO  
10 RESPOND TO THE GROWING COMPETITION IN OUR INDUSTRY.  
11 THUS, WE HAVE ADOPTED A GOAL OF ACHIEVING AND  
12 MAINTAINING A LEVEL OF CUSTOMER SERVICE WHERE ALL  
13 OF OUR CUSTOMERS' EXPERIENCES ARE POSITIVE. THIS  
14 APPROACH MOVES BEYOND SIMPLY A "SATISFIED" OR  
15 "NEUTRAL" CUSTOMER PERCEPTION TO A LEVEL WHERE WE  
16 GIVE CUSTOMERS MORE THAN THEY EXPECT IN CUSTOMER  
17 SERVICE. OUR GOAL IS TO "DELIGHT" EACH CUSTOMER.  
18 THIS WILL PROVIDE SOUTHERN BELL WITH A COMPETITIVE  
19 EDGE BY DEVELOPING ENHANCED CUSTOMER LOYALTY.

20

21 Q. WHAT ABOUT THE SUGGESTION BY A FEW THAT THE CURRENT  
22 PLAN HAS LED TO EMPLOYEE BEHAVIOR THAT IS NOT IN  
23 THE CONSUMERS' INTEREST?

24

25 A. IT IS A SUGGESTION WITH NO SUBSTANCE. THE

1 TESTIMONY WHICH WE WILL PRESENT IN THE FOLLOWING  
2 PORTION OF THIS HEARING CLEARLY SUBSTANTIATES THAT  
3 SUCH ALLEGATIONS DISREGARD THE FACTS. THE MOST  
4 PUBLICIZED EVENT, INVOLVING UNAUTHORIZED SALES,  
5 INVOLVED ONLY A FEW INDIVIDUALS WHO VIOLATED  
6 COMPANY POLICY IN AN EFFORT TO CHEAT BOTH OUR  
7 CUSTOMERS AND THE COMPANY.

8  
9 WHAT HAS NOT BEEN REPORTED CLEARLY IS THE FACT THAT  
10 SOUTHERN BELL EMPLOYEES IDENTIFIED THE PROBLEM AND  
11 WENT TO EXTRAORDINARY LENGTHS TO FIND THE CUSTOMERS  
12 INVOLVED AND REFUND THEIR MONEY WITH INTEREST. THE  
13 APPROPRIATE LEGAL AUTHORITIES WERE NOTIFIED AND ALL  
14 THOSE INVOLVED IN MISCONDUCT WERE SEVERELY  
15 DISCIPLINED. THE PRIMARY FOCUS OF OUR OTHER 18,000  
16 EMPLOYEES WAS SQUARELY ON SEEING THAT OUR CUSTOMERS  
17 WERE TREATED FAIRLY.

18  
19 FURTHERMORE, THE CHANGE IN OUR CORPORATE CULTURE  
20 THAT FOCUSES ATTENTION MORE SPECIFICALLY ON  
21 INDIVIDUAL CUSTOMER NEEDS HELPED US TO IDENTIFY AND  
22 DEAL WITH THE OTHER HIGHLY PUBLICIZED INCIDENT  
23 INVOLVING TROUBLE REPORTS. THUS, RATHER THAN  
24 CAUSING PROBLEMS, INCENTIVE REGULATION HAS HELPED  
25 FOSTER AN ENVIRONMENT FOR IDENTIFYING AND

1 CORRECTING THEM. TO SUGGEST THAT THE MISCONDUCT OF  
2 A FEW SHOULD BESMIRCH THE REPUTATION OF THE TENS OF  
3 THOUSANDS OF FINE MEN AND WOMEN OF SOUTHERN BELL IS  
4 NOT ONLY MISGUIDED, IT IS FACTUALLY WRONG. TO TIE  
5 SUCH ACTS TO INCENTIVE REGULATION IS EQUALLY  
6 ABSURD.

7

8 Q. WHAT OTHER STEPS HAS SOUTHERN BELL TAKEN TO PROVIDE  
9 IMPROVED SERVICE TO ITS SUBSCRIBERS?

10

11 A. WITH THE SUPPORT OF THIS COMMISSION, SOUTHERN BELL  
12 HAS BEEN DEVELOPING A TELECOMMUNICATIONS  
13 INFRASTRUCTURE IN FLORIDA WHICH IS FEATURE-RICH,  
14 ROBUST, AND SELF-ADJUSTING. BY FEATURE-RICH, I  
15 MEAN AN INFRASTRUCTURE WHICH IS NOT ONLY CAPABLE OF  
16 PROVIDING THE INFORMATION AGE SERVICES DEMANDED BY  
17 BUSINESS CUSTOMERS, BUT ONE WHICH ALSO DELIVERS AN  
18 ARRAY OF NEW SERVICES TO RESIDENCE AND SMALL  
19 BUSINESS CUSTOMERS AT AN AFFORDABLE PRICE. A  
20 ROBUST NETWORK IS ONE WHICH IS CAPABLE OF KEEPING  
21 UP WITH THE RAPID PACE OF TECHNOLOGICAL EVOLUTION  
22 IN OUR INDUSTRY. FINALLY, A SELF-ADJUSTING NETWORK  
23 AUTOMATICALLY PROTECTS AGAINST THE DEGRADATION OR  
24 INTERRUPTION OF THE SERVICES ON WHICH OUR CUSTOMERS  
25 RELY.

1

2 THE BENEFITS OF SUCH A NETWORK AND THE CUSTOMER  
3 FOCUS OF OUR EMPLOYEES WERE DEMONSTRATED DURING AND  
4 AFTER HURRICANE ANDREW WHEN SOUTHERN BELL'S NETWORK  
5 SURVIVED, THEREBY ALLOWING US TO SERVE OUR  
6 CUSTOMERS DURING THIS DISASTER AND PROVIDE THEM  
7 WITH A LINK TO THE OUTSIDE WORLD.

8

9 Q. HAVE THE INVESTMENTS SOUTHERN BELL HAS MADE TO  
10 PROVIDE ITS CUSTOMERS WITH THIS ENHANCED NETWORK  
11 PROVIDED ANY OTHER BENEFITS TO THE CITIZENS OF  
12 FLORIDA?

13

14 A. YES. IN ADDITION TO THE CUSTOMER BENEFITS  
15 DESCRIBED BY OTHER WITNESSES, SOUTHERN BELL'S  
16 INVESTMENT IN FLORIDA HAS HAD AN IMPACT ON THE  
17 STATE'S ECONOMIC DEVELOPMENT WHICH TRANSCENDS THE  
18 COMPANY'S DIRECT INVESTMENT. THIS IS OFTEN  
19 REFERRED TO AS THE "MULTIPLIER EFFECT."

20

21 ONE CALCULATION OF THIS EFFECT IS DESCRIBED IN THE  
22 FLORIDA DEPARTMENT OF COMMERCE'S REPORT ENTITLED  
23 "THE IMPACT OF TELEPHONE COMPANIES' PROVISION OF  
24 TELEPHONE SERVICE (LOCAL AND LONG DISTANCE) ON  
25 FLORIDA'S ECONOMY IN 1990". THIS REPORT IDENTIFIES



1 SPECIFIC MULTIPLIERS FOR FLORIDA'S  
2 TELECOMMUNICATIONS INDUSTRY WHICH INDICATE THAT A  
3 \$1 MILLION INCREASE IN REVENUE WILL YIELD A \$1.57  
4 MILLION INCREASE IN SALES THROUGHOUT THE STATE.  
5 OTHER MULTIPLIERS CITED IN THE REPORT REFLECT THIS  
6 AS A \$.44 MILLION INCREASE IN HOUSEHOLD EARNINGS OR  
7 AS THE CREATION OF 18.9 JOBS.

8

9 Q. WHY IS THIS IMPORTANT TO THE STATE?

10

11 A. AT SOUTHERN BELL WE BELIEVE THAT NO FLORIDIAN  
12 SHOULD EVER LOSE A JOB OR THE PROSPECT OF A JOB  
13 BECAUSE OF A LACK OF THE MOST SOPHISTICATED  
14 TELECOMMUNICATIONS SERVICES. AN ILLUSTRATION OF  
15 THIS POINT IS A COMPARISON OF A 1987 AND A 1992  
16 SURVEY BY AREA DEVELOPMENT MAGAZINE OF THE TOP TEN  
17 REASONS WHY BUSINESSES CHOOSE A STATE. FIVE YEARS  
18 AGO, TELECOMMUNICATIONS WAS NOT ON THE LIST. TODAY  
19 IT IS. ANOTHER DRAMATIC ILLUSTRATION IS THE  
20 PREDICTION IN THIS SAME STUDY THAT WHEN AN ENHANCED  
21 NETWORK IS UNIVERSAL, TELECOMMUNICATIONS WILL DROP  
22 FROM THE LIST. THIS EMPHASIZES THE ABILITY OF A  
23 SEAMLESS, PUBLIC TELECOMMUNICATIONS NETWORK TO  
24 REMOVE ECONOMIC BARRIERS TO DEVELOPMENT OF RURAL  
25 AREAS. IT ALSO HIGHLIGHTS THE DANGER TO A STATE OF

1 FALLING BEHIND IN THE DEPLOYMENT OF TECHNOLOGY.  
2  
3 CONTINUATION OF THE INCENTIVE SHARING PLAN WILL  
4 ALLOW SOUTHERN BELL TO CONTINUE TO INVEST IN  
5 FLORIDA AND THUS HELP STRENGTHEN THE FLORIDA  
6 ECONOMY AND GIVE OUR STATE A COMPETITIVE ADVANTAGE.

7

8 Q. PLEASE SUMMARIZE THIS PORTION OF YOUR TESTIMONY.

9

10 A. MY TESTIMONY WITH REGARD TO INCENTIVE REGULATION  
11 HAS FOCUSED ON OUR CUSTOMERS IN FLORIDA  
12 AND ON THE CHANGING ENVIRONMENT IN WHICH WE LIVE.  
13 OUR CURRENT PLAN, WHICH SHOULD NOT BE THE FINAL  
14 STEP OF THE REGULATORY EVOLUTION, BENEFITS OUR  
15 CUSTOMERS, PROVIDES SOME OF THE APPROPRIATE  
16 INCENTIVES FOR SOUTHERN BELL AND CONTINUES TO  
17 POSITION FLORIDA FOR THE FUTURE. THE EVIDENCE I  
18 HAVE PRESENTED DESCRIBES THE CORPORATE CULTURE  
19 CHANGES THAT HAVE OCCURRED IN OUR EMPLOYEE BODY AND  
20 HOW THOSE CHANGES HAVE FOSTERED A HEIGHTENED  
21 AWARENESS OF THE NEED BOTH FOR COST CONTAINMENT AND  
22 EXCELLENT CUSTOMER SERVICE. FURTHER, THIS EVIDENCE  
23 PROVIDES AN UNDERSTANDING OF HOW THIS HELPS  
24 SOUTHERN BELL TO REMAIN A VIABLE COMPETITOR IN THE  
25 MARKETPLACE.

1

2 OUR EARNINGS HAVE NOT FALLEN BELOW THE FLOOR OF THE  
3 PLAN EVEN DURING A VERY DIFFICULT RECESSIONARY  
4 PERIOD, FROM WHICH WE, LIKE THE REST OF THE STATE  
5 OF FLORIDA, ARE BEGINNING TO RECOVER. IN SPITE OF  
6 THIS DIFFICULTY, WE HAVE CONTINUED OUR EFFORTS TO  
7 STIMULATE ECONOMIC DEVELOPMENT TO THE BENEFIT OF  
8 BOTH THE STATE OF FLORIDA AND OUR CITIZENS.

9

10 SOUTHERN BELL HAS ALSO CONTINUED TO EMPHASIZE  
11 CUSTOMER SATISFACTION AS THE KEY TO OUR SUCCESS IN  
12 A RAPIDLY EVOLVING COMPETITIVE AND TECHNOLOGICAL  
13 ENVIRONMENT.

14

15 IN SUM, THIS PORTION OF MY TESTIMONY HAS SHOWN THE  
16 BENEFITS THAT WE AND OUR CUSTOMERS HAVE DERIVED  
17 FROM THE INCENTIVE REGULATION PLAN AND WHY IT IS  
18 APPROPRIATE FOR THIS COMMISSION TO EXTEND THAT  
19 PLAN.

20

21 Q. MR. LACHER, CAN YOU TELL THE COMMISSION WHY YOU, AS  
22 THE PRESIDENT OF SOUTHERN BELL - FLORIDA, ARE  
23 TESTIFYING TODAY CONCERNING THE SALES AND REPAIR  
24 PROBLEMS THE COMPANY EXPERIENCED?

25

1 A. YES. AS THE OFFICER RESPONSIBLE FOR THE COMPANY'S  
2 OPERATIONS IN FLORIDA I BELIEVE IT IS MY DUTY TO  
3 EXPLAIN TO YOU THESE MATTERS SINCE THEY STRIKE AT  
4 THE HEART OF OUR REPUTATION IN THIS STATE. CERTAIN  
5 INAPPROPRIATE ACTIONS OCCURRED PRIOR TO SEPTEMBER,  
6 1990. THESE WERE ACTIONS THAT ALL OF US AT  
7 SOUTHERN BELL REGRET. THESE MATTERS CONCERNED THE  
8 CONDUCT OF SOME INDIVIDUALS AND THEIR HANDLING OF  
9 SALES AND TROUBLE REPORT ACTIVITIES. AS A  
10 CONSEQUENCE OF OUR ADDRESSING THESE PROBLEMS, WE  
11 HAVE BEEN ACCUSED OF BEING A COMPANY THAT HAS,  
12 THROUGH MISMANAGEMENT OR OTHERWISE, ABUSED OUR  
13 SUBSCRIBERS. WHILE I WILL NOT DENY THAT A FEW OF  
14 OUR MORE THAN 18,000 EMPLOYEES IN THIS STATE HAVE  
15 ENGAGED IN CONDUCT THAT IS REPREHENSIBLE TO MY  
16 FELLOW EMPLOYEES AND ME, THIS PROCEEDING HAS CAST A  
17 SHADOW OVER ALL OF US. THAT IS UNFAIR AND  
18 UNWARRANTED BY THE FACTS.  
19  
20 IMPORTANTLY, WERE WE THE KIND OF COMPANY WHICH  
21 WOULD CONDONE THIS CONDUCT OR TO COVER IT UP, THERE  
22 WOULD BE NO HEARING TODAY. SPECIFICALLY, I WANT  
23 THIS COMMISSION TO UNDERSTAND THAT IT WAS MY FELLOW  
24 EMPLOYEES WHO FOUND THAT WE HAD POTENTIAL PROBLEMS  
25 IN OUR NON-CONTACT SALES PROGRAMS. IT WAS OUR

1 COMPANY THAT BROUGHT THIS ISSUE TO THE U.S.  
2 ATTORNEY IN TAMPA AS WELL AS TO THE FLORIDA  
3 ATTORNEY GENERAL AND TO THIS COMMISSION.  
4 SIMILARLY, IT WAS SOUTHERN BELL THAT FIRST  
5 DISCOVERED PROBLEMS IN OUR REPAIR AND TROUBLE  
6 REPORTING OPERATIONS, NOT ANY OUTSIDE ENTITY.  
7 FURTHERMORE, THROUGHOUT THIS DIFFICULT TIME OUR  
8 FOCUS HAS BEEN ON MAKING THINGS RIGHT WITH OUR  
9 CUSTOMERS.

10

11 WHAT IS MOST IMPORTANT, AND INVARIABLY OVERLOOKED  
12 BY THE PARTIES WHO SEEM INTENT ON BRANDING ALL OF  
13 SOUTHERN BELL WITH THE SHORTCOMINGS OF A FEW  
14 INDIVIDUALS, IS THAT THE PRIMARY SOURCE OF THESE  
15 PARTIES' ALLEGATIONS WAS EMPLOYEES TERMINATED FOR  
16 THE VERY ACTS THAT WE ARE BEING ACCUSED OF  
17 FOSTERING AND THEN IGNORING. THE FACT THAT  
18 SOUTHERN BELL TOOK SWIFT AND DECISIVE DISCIPLINARY  
19 ACTION, IN AND OF ITSELF, DEMONSTRATES THE  
20 COMPANY'S EMPHASIS ON ETHICAL CONDUCT BY ITS  
21 EMPLOYEES.

22

23 IT IS IRONIC THAT IF WE HAD NOT TERMINATED THOSE  
24 FORMER EMPLOYEES, OR IF WE HAD GIVEN IN TO THEIR  
25 THINLY VEILED THREATS WHEN THEY SOUGHT

1 REINSTATEMENT, SOUTHERN BELL COULD HAVE AVOIDED  
2 THIS ENTIRE PROCEEDING. INSTEAD, SOUTHERN BELL DID  
3 THE RIGHT THING, IT ACTED WITH INTEGRITY AND DID  
4 WHAT IT KNEW TO BE RIGHT AND PROPER.

5  
6 NOW, ALMOST THREE YEARS LATER, ONE PARTY HAS  
7 SUGGESTED THAT WE BE PENALIZED MILLIONS OF DOLLARS  
8 IN THIS PROCEEDING. I BELIEVE, HOWEVER, THAT THE  
9 FACTS WILL SUPPORT THE CONCLUSION THAT NO PENALTY  
10 IS WARRANTED. AS I WILL DEMONSTRATE, SOUTHERN BELL  
11 HAS ALREADY BEEN PENALIZED. WE HAVE REFUNDED TO  
12 OUR SUBSCRIBERS SUMS IN EXCESS OF ANY ACTUAL  
13 DAMAGES THAT THEY MAY HAVE SUFFERED IN ORDER TO  
14 ENSURE THAT OUR CUSTOMERS HAVE BEEN FULLY  
15 COMPENSATED. WE HAVE ENSURED THAT ALL OF THESE  
16 SUMS, AS WELL AS ANY ASSOCIATED INCREMENTAL COSTS,  
17 HAVE BEEN BORNE BY THE COMPANY AND NOT BY OUR  
18 CUSTOMERS. EACH OF US HAS FELT PERSONALLY THE  
19 PENALTY OF LOST CUSTOMER CONFIDENCE. THE  
20 SUGGESTION THAT WE SHOULD BE PENALIZED FURTHER FOR  
21 HAVING COME FORWARD IS WRONG. IT COULD ACTUALLY  
22 DETER OUR CONTINUING EFFORTS TO ENCOURAGE PROPER  
23 CONDUCT.

24

25 Q. CAN YOU ELABORATE ON YOUR LAST POINT REGARDING

1 FUTURE CONDUCT?

2

3 A. YES. THIS POINT ALSO TOUCHES ON THE PENALTY THAT  
4 HAS BEEN SUGGESTED. IF THIS COMMISSION WANTS TO  
5 ENCOURAGE COMPANIES TO COME FORWARD AND TO CORRECT  
6 PROBLEMS WHEN THEY FIND THEM, NOTHING COULD HAVE A  
7 MORE ADVERSE IMPACT THAN PENALIZING US. WE ARE AN  
8 ETHICAL COMPANY THAT IS CUSTOMER FOCUSED. TO  
9 PENALIZE US FOR BEING FORTHRIGHT IN CORRECTING OUR  
10 PROBLEMS WOULD SEND A CLEAR SIGNAL TO THE INDUSTRY  
11 THAT THE BEST WAY TO AVOID A PENALTY IS TO IGNORE  
12 OR CONCEAL ANY PROBLEM THAT MAY BE FOUND.

13

14 WHILE A PENALTY MAY TEND TO DISCOURAGE  
15 INAPPROPRIATE CONDUCT, IT IS DIFFICULT TO IMAGINE  
16 ANYTHING HAVING A MORE ADVERSE IMPACT THAN WHAT WE  
17 HAVE ENDURED. THE IMPOSITION OF ANY ADDITIONAL  
18 PENALTY WOULD BE COUNTER PRODUCTIVE. OTHER  
19 WITNESSES THAT WILL APPEAR WITH ME CAN SHARE WITH  
20 YOU THE EFFECT THAT THE EVENTS OF THE PAST TWO  
21 YEARS HAVE HAD ON THE MORALE OF OUR EMPLOYEES. ALL  
22 OF US HAVE BEEN PUNISHED BY THESE EVENTS.

23

24 Q. CAN YOU BRIEFLY DESCRIBE THE BALANCE OF YOUR  
25 TESTIMONY?

1  
2 A. YES, THE BALANCE OF MY TESTIMONY WILL DETAIL THE  
3 SPECIFIC PROBLEMS THAT WE DISCOVERED IN CONNECTION  
4 WITH WHAT WE REFERRED TO AS OUR NON-CONTACT SALES  
5 PROGRAM AND WITH OUR TROUBLE REPAIR OPERATIONS. I  
6 WILL DESCRIBE IN MORE DETAIL FOR THE COMMISSION  
7 WHAT OCCURRED, HOW IT WAS DISCOVERED, AND WHAT WE  
8 DID TO CORRECT THE PROBLEMS WE FOUND. I WILL ALSO  
9 DESCRIBE HOW THE COMPANY HAS MORE THAN REIMBURSED  
10 ITS CUSTOMERS FOR ANY REFUNDS TO WHICH THEY WERE  
11 ENTITLED. IN THIS REGARD, I WILL DISCUSS THE  
12 COMPANY'S SETTLEMENT OF AN INVESTIGATION BY THE  
13 OFFICE OF STATEWIDE PROSECUTION IN CONNECTION WITH  
14 OUR NON-CONTACT SALES PROGRAM AND OUR REPAIR AND  
15 TROUBLE REPORTING OPERATIONS. IMPORTANTLY, MY  
16 TESTIMONY WILL DEMONSTRATE THAT THE COMPANY'S  
17 CONTROLS AND MANAGEMENT OF THESE PROBLEMS WERE  
18 REASONABLE. I WILL ALSO DEMONSTRATE THAT INCENTIVE  
19 REGULATION WAS NOT THE CAUSE OF ANY OF THESE  
20 ISSUES. FINALLY, AS I HAVE ALREADY BRIEFLY  
21 DISCUSSED, I WILL SHOW WHY THIS COMMISSION SHOULD  
22 NOT PENALIZE SOUTHERN BELL FOR ALLEGED  
23 MISMANAGEMENT OR FOR ANY PURPORTED VIOLATIONS OF  
24 THE COMMISSION'S RULES OR OF ANY FLORIDA STATUTES.  
25



1 Q. CAN YOU DESCRIBE WHAT CONSTITUTED A NON-CONTACT  
2 SALE?

3

4 A. YES. THE TERM REFERS TO SALES THAT WERE MADE BY  
5 EMPLOYEES WHO WERE NOT EXPECTED TO SELL THE  
6 COMPANY'S SERVICES AS A REGULAR PART OF THEIR  
7 ACTIVITIES. A GOOD ILLUSTRATION WOULD BE A SERVICE  
8 TECHNICIAN WHO IS AN EMPLOYEE DISPATCHED TO INSTALL  
9 NEW SERVICE OR REPAIR A TELEPHONE LINE THAT IS OUT  
10 OF SERVICE. THE EMPLOYEE'S PRIMARY FUNCTION IS TO  
11 INSTALL OR REPAIR TELEPHONE SERVICE, NOT TO SELL  
12 SERVICES. HOWEVER, AS CAN BE EXPECTED, AN EMPLOYEE  
13 DOING THIS TYPE OF WORK DOES HAVE OPPORTUNITIES TO  
14 SELL THE COMPANY'S OPTIONAL SERVICES, E.G., CALL  
15 WAITING OR INSIDE WIRE MAINTENANCE PLANS. WHEN HE  
16 OR SHE DID MAKE SUCH A SALE, IT WAS RECORDED AS A  
17 NON-CONTACT SALE. THIS IS IN CONTRAST TO SALES  
18 MADE BY OUR CUSTOMER SERVICE REPRESENTATIVES, WHO  
19 MAKE SALES DURING THEIR ROUTINE CONTACTS WITH  
20 CUSTOMERS. THESE ARE CALLED CONTACT SALES.

21

22 Q. CAN YOU PROVIDE A BRIEF DESCRIPTION OF WHAT  
23 OCCURRED IN CONNECTION WITH THE NON-CONTACT SALES  
24 INVESTIGATION?

25

1 A. YES. DURING JUNE OF 1990, SEVERAL CUSTOMER SERVICE  
2 REPRESENTATIVES IN OUR BROOKSVILLE OFFICE RECEIVED  
3 COMPLAINTS FROM CUSTOMERS WHO STATED THAT THEY WERE  
4 BEING CHARGED FOR SERVICES THEY HAD NOT ORDERED.  
5 SINCE THESE SALES HAD BEEN MADE BY NETWORK  
6 EMPLOYEES, THE OPERATIONS MANAGER SUPERVISING THE  
7 CUSTOMER SERVICE REPRESENTATIVES CONTACTED HIS  
8 COUNTERPART IN THE NETWORK ORGANIZATION. THE  
9 NETWORK OPERATIONS MANAGER, IN TURN, CONTACTED OUR  
10 SECURITY DEPARTMENT AND REQUESTED AN INVESTIGATION  
11 OF THE MATTER. A SECURITY INVESTIGATION WAS  
12 CONDUCTED WHEREBY IT WAS DETERMINED THAT TWO  
13 EMPLOYEES OF THE COMPANY, LOCATED IN THE ORLANDO  
14 AREA, HAD BEEN ADDING UNORDERED SERVICES TO OUR  
15 CUSTOMERS' BILLS.

16

17 Q. WHAT HAPPENED AFTER THIS DISCOVERY WAS MADE?

18

19 A. THE LEGAL DEPARTMENT WAS ASKED TO COORDINATE A  
20 FURTHER INVESTIGATION TO DETERMINE THE EXTENT OF  
21 THE PROBLEM. THE LEGAL DEPARTMENT REQUESTED THE  
22 ASSISTANCE OF THE INTERNAL AUDITING AND SECURITY  
23 DEPARTMENTS IN THIS EFFORT. THE COMPANY ALSO  
24 CONTACTED THE U.S. ATTORNEY FOR THE MIDDLE DISTRICT  
25 OF FLORIDA, THE FLORIDA ATTORNEY GENERAL'S OFFICE,

1 AND THIS COMMISSION TO NOTIFY THEM OF THE COMPANY'S  
2 DISCOVERY THAT TWO OF ITS EMPLOYEES HAD BEEN ADDING  
3 SERVICES TO OUR CUSTOMERS' BILLS WITHOUT  
4 AUTHORIZATION TO DO SO.

5

6 Q. HOW WAS THE COMPANY'S INVESTIGATION CONDUCTED?

7

8 A. THE INTERNAL AUDITING DEPARTMENT REVIEWED THE  
9 RESULTS OF ALL NON-CONTACT SALES ACTIVITY IN  
10 FLORIDA. THE PURPOSE OF THIS REVIEW WAS TO  
11 IDENTIFY EMPLOYEES WITH RELATIVELY HIGH NUMBERS OF  
12 NON-CONTACT SALES. ONCE THIS WAS COMPLETED, LISTS  
13 OF CUSTOMERS WHO HAD BEEN SOLD SERVICES BY THE  
14 EMPLOYEES IDENTIFIED BY INTERNAL AUDITING WERE  
15 COMPILED. OUR DIRECT MARKETING CENTER THEN  
16 CONTACTED A NUMBER OF THOSE CUSTOMERS TO SEE  
17 WHETHER ANY PATTERN EXISTED THAT MIGHT INDICATE A  
18 PROBLEM. IN CONJUNCTION WITH THIS EFFORT, THE  
19 SECURITY DEPARTMENT CONDUCTED FURTHER INTERVIEWS  
20 REGARDING NON-CONTACT SALES.

21

22 Q. WHAT WAS THE RESULT OF THE COMPANY'S ACTIVITIES  
23 THAT YOU HAVE JUST DESCRIBED?

24

25 A. WE DETERMINED THAT, IN ADDITION TO THE TWO

1 EMPLOYEES IN ORLANDO WHOM I PREVIOUSLY DESCRIBED,  
2 AN EMPLOYEE IN WEST PALM BEACH APPEARED TO HAVE  
3 DONE ESSENTIALLY THE SAME THING, I.E., ADDED  
4 SERVICES TO CUSTOMERS' BILLS WITHOUT AUTHORIZATION.

5

6 Q. WHAT HAPPENED TO THESE THREE EMPLOYEES?

7

8 A. THEY WERE DISCHARGED. IN ADDITION, TWO MANAGERS,  
9 IN EACH INSTANCE A PERSON THAT HAD BEEN EITHER THE  
10 IMMEDIATE SUPERVISOR OR A SECOND LEVEL MANAGER OF  
11 THE TERMINATED EMPLOYEES, WERE FIRED.

12

13 Q. WERE ANY OTHER EMPLOYEES DISCIPLINED AS A RESULT OF  
14 THE NON-CONTACT SALES INVESTIGATIONS?

15

16 A. YES. WE DISCIPLINED ANOTHER 14 EMPLOYEES WHO  
17 EITHER HAD INFORMATION WHICH SHOULD HAVE ALERTED  
18 THEM TO THE EXISTENCE OF A PROBLEM OR WHO COULD  
19 HAVE, IN THE CAREFUL EXERCISE OF THEIR  
20 RESPONSIBILITIES, DISCOVERED THIS PROBLEM EARLIER  
21 THAN IT WAS. THE EMPLOYEES IN THE LATTER GROUP  
22 WERE DISCIPLINED NOT BECAUSE THEY HAD ANY ACTUAL  
23 NOTICE OF THE IMPROPER ACTIVITIES, BUT BECAUSE  
24 THESE ACTIVITIES OCCURRED "ON THEIR WATCH" AND THUS  
25 WHILE THEY WERE IN A REASONABLE POSITION TO LEARN

1 OF AND STOP THEM.

2

3 Q. WHAT KINDS OF SERVICES DID THE TERMINATED EMPLOYEES  
4 ADD TO THE BILLS OF SOUTHERN BELL'S CUSTOMERS?

5

6 A. AT ONE TIME A CUSTOMER COULD BUY EITHER THE TROUBLE  
7 ISOLATION PLAN (TIP) OR THE INSIDE WIRE MAINTENANCE  
8 (IWM) PLAN SEPARATELY. LATER, ALL THAT WAS  
9 AVAILABLE FOR NEW CUSTOMERS WAS A COMBINED PLAN  
10 WHICH INCLUDED BOTH SERVICES. THE TERMINATED  
11 EMPLOYEES WERE ADDING TIP WHERE THE CUSTOMER HAD  
12 IWM AND VICE VERSA. IN LIMITED INSTANCES THEY  
13 ADDED THE COMBINED PLAN.

14

15 Q. CAN YOU EXPLAIN WHAT THE COMPANY DID FOR ITS  
16 CUSTOMERS ONCE IT DISCOVERED THAT THESE EMPLOYEES  
17 HAD ADDED SERVICES TO CUSTOMERS' BILLS?

18

19 A. SEVERAL THINGS HAPPENED. FIRST, WE IDENTIFIED  
20 EVERY CUSTOMER WHOSE BILL CONTAINED SERVICES ADDED  
21 BY THE THREE EMPLOYEES I MENTIONED. OF THE THREE  
22 EMPLOYEES, ONE ADMITTED THAT ALL OF HIS SALES WERE  
23 IMPROPER, ANOTHER CLAIMED THAT ONE-FOURTH OF HER  
24 SALES WERE LEGITIMATE AND THE LAST EMPLOYEE DENIED  
25 ANY WRONGDOING AT ALL. WE ALSO FOUND THAT THE

1 SALES CODE OF A FOURTH EMPLOYEE, UNBEKNOWNST TO  
2 HIM, HAD BEEN CREDITED WITH IMPROPER SALES,  
3 PROBABLY BY ONE OF THE THREE EMPLOYEES WHO WERE  
4 FIRED. NOTWITHSTANDING ASSERTIONS THAT SOME OF THE  
5 SALES WERE PROPER, WE SENT LETTERS EXPLAINING WHAT  
6 HAD HAPPENED TO EACH OF THE CUSTOMERS THAT WE  
7 IDENTIFIED AND PROVIDED EACH OF THEM WITH A FULL  
8 REFUND, PLUS INTEREST, OF THE MONEY THAT THEY HAD  
9 PAID FOR THE SERVICES THAT HAD BEEN ADDED. WE DID  
10 THIS WITHOUT REGARD TO WHETHER THE CUSTOMER CLAIMED  
11 A REFUND. WE ALSO TOLD THOSE CUSTOMERS THAT THEY  
12 COULD CONTINUE THE SERVICE IN QUESTION BY  
13 CONTACTING THE COMPANY AND THAT THERE WOULD BE NO  
14 LAPSE IN COVERAGE IF THE CUSTOMER WANTED THE  
15 SERVICE.

16  
17 SECOND, OUT OF AN ABUNDANCE OF CAUTION, THE COMPANY  
18 USED ITS COMPUTER SYSTEMS IN AN EFFORT TO IDENTIFY  
19 EVERY CUSTOMER WHO HAD BEEN SOLD A SERVICE THROUGH  
20 A NON-CONTACT SALES PROGRAM. APPROXIMATELY 141,000  
21 CUSTOMERS WERE INITIALLY IDENTIFIED AND EACH WAS  
22 SENT A LETTER WHICH LISTED ALL SERVICES TO WHICH  
23 THEY SUBSCRIBED AND ASKED THEM TO REVIEW THEIR LIST  
24 TO CONFIRM THAT THEY HAD ORDERED THOSE SERVICES.  
25 THEY WERE FURTHER TOLD THAT IF THEY FOUND ANY

1 DISCREPANCIES OR HAD ANY QUESTIONS TO CALL AN 800  
2 NUMBER. CUSTOMERS WHO CALLED AND STATED THAT THEY  
3 HAD NOT ORDERED A SERVICE WERE GIVEN A FULL REFUND  
4 WITH INTEREST. THE 800 NUMBER WAS ALSO AVAILABLE  
5 TO ANY OTHER CUSTOMER WHO THOUGHT THERE MIGHT BE A  
6 PROBLEM WITH THE SERVICES THAT THE CUSTOMER WAS  
7 RECEIVING. THIS 800 NUMBER WAS WIDELY DISSEMINATED  
8 BOTH THROUGH THE MEDIA AND THROUGH BILL STUFFERS.  
9 LATER, ADDITIONAL CUSTOMERS WHO HAD BEEN SOLD A  
10 SERVICE THROUGH A NON-CONTACT SALES PROGRAM WERE  
11 ALSO IDENTIFIED AND GIVEN THE SAME OPPORTUNITY TO  
12 CANCEL UNORDERED SERVICES AND RECEIVE A FULL  
13 REFUND.

14

15 Q. HOW MANY CUSTOMERS WERE EITHER IDENTIFIED AS HAVING  
16 BEEN BILLED OR STATED THAT THEY WERE BILLED FOR  
17 SERVICES THEY DID NOT ORDER AND HOW MUCH MONEY WAS  
18 REFUNDED AS A RESULT OF THE COMPANY'S EFFORTS TO  
19 ADDRESS THE NON-CONTACT SALES MATTER?

20

21 A. THE COMPANY REFUNDED ALMOST \$800,000.00 TO OVER  
22 35,000 CUSTOMERS AS A RESULT OF THE IDENTIFICATION  
23 OF SPECIFIC CUSTOMERS WHO APPEARED TO HAVE HAD  
24 SERVICES ADDED TO THEIR BILLS WITHOUT THEIR  
25 AUTHORIZATION BY THE SPECIFIC EMPLOYEES I MENTIONED

1 EARLIER. AGAIN, WE DID NOT INQUIRE AS TO WHETHER  
2 ANY OF THESE CUSTOMERS HAD ACTUALLY ORDERED THE  
3 SERVICES IN QUESTION, BUT RATHER WE GAVE THEM A  
4 REFUND SO AS TO AVOID ANY QUESTION OF OVERLOOKING A  
5 CUSTOMER WHO SHOULD HAVE RECEIVED A REFUND. OTHER  
6 CUSTOMERS, WHO CALLED OUR 800 NUMBER, ALSO RECEIVED  
7 REFUNDS WHEN REQUESTED. THESE CALLERS INCLUDED:  
8 PEOPLE WHO WERE AMONG THE 141,000 CUSTOMERS WHO  
9 ORIGINALLY RECEIVED A LETTER AS A RESULT OF THE  
10 COMPANY'S HAVING IDENTIFIED THEM AS HAVING BEEN  
11 SOLD A SERVICE THROUGH THE NON-CONTACT SALES  
12 PROGRAM; PERSONS WHO RECEIVED SUBSEQUENT LETTERS;  
13 AND OTHER PEOPLE WHO CLAIMED THEY HAD NOT ORDERED A  
14 PARTICULAR SERVICE. ONCE AN INDIVIDUAL CLAIMED  
15 THAT HE HAD NOT ORDERED A SERVICE, THE COMPANY  
16 REMOVED THE SERVICE AND PROVIDED A FULL REFUND,  
17 WITH INTEREST. IN ADDITION, \$10 MILLION OF THE  
18 REFUNDS THAT MAKE UP THE SETTLEMENT THE COMPANY  
19 REACHED WITH THE OFFICE OF STATEWIDE PROSECUTION  
20 WERE RELATED TO THIS MATTER. AS A CONSEQUENCE, THE  
21 COMPANY HAS ACTUALLY REFUNDED MORE TO ITS CUSTOMERS  
22 THAN IT EVER RECEIVED FROM THIS INAPPROPRIATE  
23 BILLING.

24

25 Q. PLEASE DISCUSS WHY SOUTHERN BELL HAD NON-CONTACT



1 SALES PROGRAMS.

2

3 A. A PART OF ENSURING THAT CUSTOMERS GET WHAT THEY  
4 WANT AND NEED IS EDUCATING THEM ABOUT WHAT SERVICES  
5 ARE AVAILABLE. WE DO THIS IN A NUMBER OF WAYS, BUT  
6 AN OBVIOUS ONE IS TO HAVE EMPLOYEES WHO ACTUALLY  
7 HAVE FACE-TO-FACE CONTACT WITH OUR CUSTOMERS SELL  
8 THE PRODUCTS DESIRED BY A CUSTOMER. FOR INSTANCE,  
9 WHEN A SERVICE TECHNICIAN HAS COME TO A CUSTOMER'S  
10 PREMISES TO ADD A SECOND LINE, THAT MAY BE A GOOD  
11 TIME TO ASK IF THE CUSTOMER IS AWARE OF OUR  
12 DISCRETIONARY SERVICES AND TO SELL THEM TO THE  
13 CUSTOMER IF HE WANTS THEM.

14

15 AS SOUTHERN BELL GAINED EXPERIENCE WITH NON-CONTACT  
16 SALES PROGRAMS, IT CONTINUALLY REFINED THEM. THIS  
17 ULTIMATELY LED TO THE GOLDLINE PROGRAM, PURSUANT TO  
18 WHICH FIELD EMPLOYEES REFERRED SALES LEADS TO  
19 EMPLOYEES WHO WERE RESPONSIBLE FOR MAKING SALES  
20 DURING THE ORDINARY COURSE OF THEIR DAILY  
21 ACTIVITIES. THESE LATTER EMPLOYEES THEN CONTACTED  
22 THE CUSTOMER TO CONFIRM AND CLOSE THE SALE. THE  
23 GOLDLINE REFERRAL PROGRAM REPLACED ALL NON-CONTACT  
24 SALES PROGRAMS.

25

1 OUR NON-CONTACT SALES AND REFERRAL PROGRAMS, WHEN  
2 IMPLEMENTED AS DESIGNED, WERE PROPER AND  
3 APPROPRIATE. UNFORTUNATELY, A FEW OF OUR MORE THAN  
4 18,000 EMPLOYEES DISREGARDED THE RULES OF OUR  
5 NON-CONTACT SALES PROGRAMS. AS A RESULT, BOTH OUR  
6 CUSTOMERS AND THE COMPANY SUFFERED. THIS FAILURE  
7 WAS NOT, HOWEVER, A RESULT OF MISMANAGEMENT BY THE  
8 COMPANY NOR WAS IT THE RESULT OF A LACK OF CONTROLS  
9 OVER THE PROGRAMS. I AM NOT SUGGESTING THAT, BY  
10 USING THE CONTROLS THAT WERE AVAILABLE TO THEM,  
11 MANAGERS SHOULD NOT HAVE PREVENTED THE IMPROPER  
12 CONDUCT FROM OCCURRING. RATHER, WHAT I AM SAYING  
13 IS THAT THE MANAGEMENT FAILURES THAT DID OCCUR WERE  
14 NOT SYSTEMIC. THIS CONCLUSION IS CONFIRMED BY OUR  
15 1990 STATEWIDE INVESTIGATION WHICH FOUND PROBLEMS  
16 ONLY IN ORLANDO AND WEST PALM BEACH.

17  
18 Q. PLEASE ELABORATE ON THE CONTROLS THAT WERE  
19 AVAILABLE.

20  
21 A. FIRST, A FORM KNOWN AS THE 2011A SHOULD HAVE  
22 PERMITTED MANAGERS TO IDENTIFY ANY UNUSUAL TRENDS  
23 AND RESULTS. THESE FORMS, WHICH WERE DISSEMINATED  
24 TO LOCAL MANAGEMENT, SHOWED SALES BY DISTRICT AND  
25 BY INDIVIDUAL EMPLOYEES. THERE WERE ALSO SALES

1 COORDINATORS WHO WERE RESPONSIBLE FOR THE NON-  
2 CONTACT SALES PROGRAMS AND FOR THESE FORMS. A  
3 REVIEW OF THESE FORMS WOULD HAVE SHOWN AN UNUSUALLY  
4 HIGH LEVEL OF SALES BY A FEW EMPLOYEES IN THE  
5 ORLANDO AND WEST PALM BEACH DISTRICTS. THIS SHOULD  
6 HAVE CAUSED A REVIEW OF THE SALES MADE BY THESE  
7 EMPLOYEES. SECOND, IN MOST INSTANCES, THESE SALES  
8 WERE PROCESSED THROUGH THE COMPANY BUSINESS OFFICES  
9 BY CUSTOMER SERVICE REPRESENTATIVES WHO SHOULD HAVE  
10 AND, IN SOME INSTANCES, DID RECOGNIZE A  
11 SURPRISINGLY HIGH LEVEL OF SALES BY INDIVIDUAL  
12 EMPLOYEES. THESE FINDINGS SHOULD THEN HAVE BEEN  
13 REFERRED FOR FURTHER INVESTIGATION.

14

15 Q. COULD AUDITS OR SAMPLING HAVE BEEN USED TO CHECK  
16 THESE SALES?

17

18 A. WHILE IN HINDSIGHT THIS MIGHT HAVE BEEN POSSIBLE,  
19 CONTROLS THAT MIGHT APPLY IN OTHER CIRCUMSTANCES  
20 WERE NOT PRACTICAL FOR THE NON-CONTACT SALES  
21 PROGRAMS AS THEY WERE DESIGNED. FOR EXAMPLE, IT  
22 WOULD HAVE BEEN IMPOSSIBLE FOR SUPERVISORS TO HAVE  
23 EFFECTIVELY OBSERVED SALES MADE BY EMPLOYEES IN THE  
24 FIELD.

25

1 SIMILARLY, WHILE SAMPLING AFTER THE FACT SOUNDS  
2 APPEALING, IT IS NOT VERY PRACTICAL. ITS ACCURACY  
3 DEPENDS UPON A NUMBER OF FACTORS, INCLUDING  
4 ASCERTAINING WHICH HOUSEHOLD MEMBER MAY HAVE  
5 SUBSCRIBED TO THE SERVICE IN QUESTION.  
6 NEVERTHELESS, IN RETROSPECT, I WOULD AGREE THAT IF  
7 WE WERE EVER TO REINSTITUTE A NON-CONTACT SALES  
8 PROGRAM, SOME FORM OF SAMPLING MIGHT BE APPROPRIATE  
9 IN ORDER TO DETECT POTENTIAL ABUSES LIKE WE  
10 DISCOVERED HERE. I MUST NOTE, HOWEVER, THAT THIS  
11 POINT IS MOOT BECAUSE IN 1990 WE ELIMINATED ALL  
12 NON-CONTACT SALES PROGRAMS.

13

14 Q. WERE THE CONTROLS SOUTHERN BELL HAD IN PLACE  
15 UNREASONABLE?

16

17 A. NO. AS NOTED, THE BEST WAY TO ENSURE THAT EVERY  
18 SALE WAS PROPER WAS TO OBSERVE THE EMPLOYEE MAKING  
19 THE SALE. YET THIS WAS SUPPOSED TO HAVE BEEN A  
20 SECONDARY ACTIVITY ON THE PART OF THESE EMPLOYEES.  
21 TO ARGUE THAT THE CONTROLS WERE UNREASONABLE WOULD  
22 BE TO IMPUTE TO SOUTHERN BELL THE KNOWLEDGE IT  
23 GARNERED AFTER THE FACT. A REASONABLE PERSON COULD  
24 HAVE CONCLUDED THAT THE CONTROLS WERE SUFFICIENT.

25

1 Q. ISN'T IT TRUE THAT THERE HAD BEEN EARLIER INCIDENTS  
2 WHERE EMPLOYEES WHO MADE NON-CONTACT SALES HAD MADE  
3 THEM IMPROPERLY?

4

5 A. THERE WERE INSTANCES WHEN SOUTHERN BELL FOUND AN  
6 ISOLATED EMPLOYEE WHO MADE A SMALL NUMBER OF  
7 IMPROPER NON-CONTACT SALES. BUT THIS MUST BE PUT  
8 IN CONTEXT. REMEMBER, THERE WERE OVER 2,300  
9 EMPLOYEES WHO WERE ELIGIBLE TO PARTICIPATE IN THE  
10 NON-CONTACT SALES PROGRAM. THE FACT THAT TWO OR  
11 THREE OR EVEN FIVE OR SIX OF THEM VIOLATED THE  
12 TRUST THAT WE PLACED IN THEM IS NOT SUFFICIENT TO  
13 INDICT THE ENTIRE COMPANY OR THE SALES PROGRAM.  
14 THE FACT THAT WE CAUGHT THESE ISOLATED PROBLEMS LED  
15 US REASONABLY TO BELIEVE THAT OUR CONTROLS DID  
16 WORK. THE POINT IS THAT THERE IS NO BASIS TO  
17 CONCLUDE THAT THE PROBLEMS WE EXPERIENCED WERE THE  
18 RESULT OF MISMANAGEMENT ON THE PART OF UPPER  
19 MANAGEMENT OF THIS COMPANY.

20

21 Q. WHAT ABOUT THE SO CALLED "BOILER ROOM" SALES  
22 EFFORTS?

23

24 A. "BOILER ROOM" IS A SLANG TERM ASSOCIATED WITH  
25 TELEMARKETING. THE DESIGN OF OUR NETWORK SALES

1 PROGRAM AND THE CONTROLS IMPLEMENTED DID NOT  
2 ANTICIPATE THIS TYPE OF SALES PROCESS. WHILE THE  
3 USE OF OUTBOUND TELEMARKETING IS NOT INHERENTLY  
4 WRONG, THE LOCAL MANAGERS IN ORLANDO AND WEST PALM  
5 BEACH SHOULD NOT HAVE USED THIS APPROACH WITHOUT  
6 IMPLEMENTING ADDITIONAL CONTROLS TO ASSURE THAT OUR  
7 QUALITY AND ETHICS STANDARDS WERE MET.

8

9 Q. HAS SOUTHERN BELL EXPERIENCED ANY OTHER PROBLEMS  
10 REGARDING THE SALES OF ITS SERVICES?

11

12 A. NO SYSTEMIC PROBLEMS WITH SOUTHERN BELL'S SALES  
13 HAVE BEEN FOUND. LIKE ANY COMPANY WITH A LARGE  
14 SALES ORGANIZATION, WE OCCASIONALLY DISCOVER  
15 PROBLEMS WITH CUSTOMER SALES. SOUTHERN BELL HAS IN  
16 PLACE CONTROLS SUCH AS SALES MONITORING AND  
17 MANAGEMENT SALES REPORTS TO DETECT POTENTIAL  
18 PROBLEMS. WHEN A PROBLEM IS DISCOVERED, IT IS  
19 PROMPTLY CORRECTED AND ANY NECESSARY REFUND TO THE  
20 CUSTOMER TO MAKE HIM WHOLE IS MADE. IN ADDITION,  
21 THE EMPLOYEE AT FAULT IS DISCIPLINED.

22

23 THUS, AT WORST, ANY ACTS OF MISCONDUCT BY SOUTHERN  
24 BELL'S EMPLOYEES WITH RESPECT TO SALES HAVE BEEN  
25 ISOLATED INSTANCES. SINCE SOUTHERN BELL HAS

1 CONTROLS IN PLACE TO FIND SUCH POTENTIAL ACTS AND  
2 DEALS WITH ANY PROBLEMS IT FINDS, NO ADDITIONAL  
3 ACTION IS WARRANTED.

4

5 Q. WHAT HAS SOUTHERN BELL DONE TO PREVENT A  
6 REOCCURRENCE?

7

8 A. THE IRONY IS THAT IN 1990, SOUTHERN BELL BEGAN  
9 IMPLEMENTING MORE EFFECTIVE CONTROLS EVEN BEFORE WE  
10 IDENTIFIED THE PROBLEM. WITH THE INTRODUCTION OF  
11 GOLDLINE, WE STOPPED ALL NETWORK SALES PROGRAMS.  
12 WE HAVE NOW ENDED THIS SALES REFERRAL PROGRAM AS  
13 WELL. SINCE JULY OF 1991, SOUTHERN BELL HAS NOT  
14 HAD ANY NETWORK OR NON-CONTACT SALES PROGRAMS.

15

16 FURTHER, WE HAVE STRENGTHENED OUR EXISTING CONTROLS  
17 ON CONTACT SALES IN SEVERAL WAYS. WE NOW SEND AN  
18 ITEMIZED CONFIRMATION LETTER ON EVERY SALE AND WE  
19 ITEMIZE EVERY CUSTOMER'S BILL EVERY MONTH.

20

21 Q. NOW PLEASE TURN TO THE REPAIR AND TROUBLE REPORTING  
22 OPERATIONS THAT YOU MENTIONED AT THE BEGINNING OF  
23 YOUR TESTIMONY.

24

25 A. AS THE COMMISSION KNOWS, THE COMPANY IS GENERALLY

1       REQUIRED TO CLEAR 95% OF ITS OUT-OF-SERVICE ("OOS")  
2       REPORTS WITHIN 24 HOURS OF RECEIVING THE REPORT.  
3       WITH A FEW EXCEPTIONS, THE COMPANY IS FURTHER  
4       OBLIGATED TO PROVIDE A REFUND WHEN THE  
5       OUT-OF-SERVICE CONDITION GOES OVER 24 HOURS. AS  
6       THE COMMISSION IS ALSO AWARE, SOUTHERN BELL DID  
7       EXPERIENCE CERTAIN PROBLEMS IN THE AREA OF TROUBLE  
8       REPORTING.  
9  
10       IN OCTOBER OF 1990, THE COMPANY IDENTIFIED  
11       IRREGULARITIES IN THE HANDLING OF TROUBLE REPORTS  
12       AS A RESULT OF A ROUTINE NETWORK OPERATIONS REVIEW  
13       IN ITS NORTH DADE INSTALLATION AND MAINTENANCE  
14       CENTER ("IMC"). AS A RESULT OF THAT REVIEW, AN  
15       INTERNAL INVESTIGATION WAS BEGUN. THE COMPANY'S  
16       INVESTIGATION DETERMINED THAT CUSTOMER TROUBLE  
17       REPORTS HAD BEEN DELIBERATELY MISCODED AS OUT-OF-  
18       SERVICE WHEN IN FACT THEY WERE NOT. THE  
19       IDENTIFICATION OF THE NORTH DADE PROBLEM LED THE  
20       COMPANY TO INVESTIGATE STATEWIDE, WHICH RESULTED IN  
21       THE DISCOVERY OF A PROBLEM IN THE GAINESVILLE IMC,  
22       WHERE AN EMPLOYEE HAD CREATED FICTITIOUS TROUBLE  
23       REPORTS. THUS, IN BOTH LOCATIONS, OUT-OF-SERVICE  
24       CUSTOMER REPORTS HAD BEEN CREATED IN AN ATTEMPT TO  
25       FAVORABLY AFFECT THE IMCS' ATTAINMENT OF THEIR GOAL



1 OF CLEARING 95% OF THEIR CUSTOMERS' OUT-OF-SERVICE  
2 TROUBLES WITHIN A 24 HOUR PERIOD. SUCH ACTIVITY TO  
3 "MEET THE INDEX" HAD THE EFFECT OF CAUSING THE  
4 COMPANY UNKNOWINGLY TO FILE INCORRECT LOCAL  
5 EXCHANGE SERVICE PERFORMANCE REPORTS WITH THIS  
6 COMMISSION, BUT DID NOT AFFECT ANY CUSTOMER  
7 REBATES. AS A RESULT OF THESE INVESTIGATIONS, TWO  
8 EMPLOYEES WERE DISCHARGED.

9

10 Q. WHAT OTHER INVESTIGATION EFFORTS WERE UNDERTAKEN BY  
11 THE COMPANY IN THIS REGARD?

12

13 A. BEGINNING IN FEBRUARY OF 1991, AT THE DIRECTION OF  
14 MANAGEMENT, THE COMPANY'S LEGAL DEPARTMENT, WITH  
15 ASSISTANCE FROM NETWORK EXPERTS, INTERNAL AUDITORS,  
16 AND THE SECURITY DEPARTMENT, CONDUCTED AN  
17 EXHAUSTIVE INVESTIGATION OF THE COMPANY'S REPAIR  
18 AND TROUBLE REPORTING OPERATIONS THROUGHOUT  
19 FLORIDA. THIS INVESTIGATION CONSISTED OF  
20 INTERVIEWS OF COMPANY EMPLOYEES AT ALL LEVELS OF  
21 MANAGEMENT, THE PERFORMANCE OF SEVERAL REVIEWS OF  
22 COMPANY SYSTEMS, AND AN ANALYSIS OF THE IMPACT OF  
23 ANY TROUBLE REPORTING PROBLEMS ON THE COMPANY'S  
24 CUSTOMERS.

25

1 Q. WHAT ACTIONS HAS THE COMPANY TAKEN TO CORRECT THE  
2 TROUBLE REPORTING PROBLEMS?

3

4 A. AS A RESULT OF THE INVESTIGATION, IT WAS DECIDED  
5 THAT THE COMPANY SHOULD ENTER INTO A SETTLEMENT  
6 AGREEMENT WITH THE OFFICE OF STATEWIDE PROSECUTION.  
7 AS A PART OF THIS AGREEMENT, THE COMPANY  
8 COMPENSATED ANY CUSTOMER WITH A TROUBLE REPORT  
9 RECORDED AS OUT OF SERVICE WHO COULD HAVE BEEN  
10 AFFECTED BY THE IMPROPER TROUBLE REPORTING  
11 PROCEDURES, AND INSTITUTED ENHANCEMENTS TO ITS  
12 SYSTEMS AND POLICIES AND PROCEDURES TO PREVENT THIS  
13 SITUATION FROM OCCURRING AGAIN. THESE CHANGES ARE  
14 DESCRIBED IN MS. APRIL IVY'S TESTIMONY. THE  
15 COMPANY ALSO DISCIPLINED 112 EMPLOYEES IN THE FORM  
16 OF COUNSELINGS, WARNINGS, AND REPRIMANDS WITH  
17 ADVERSE PAY TREATMENT.

18

19 Q. DID THE COMPANY HAVE CONTROLS IN PLACE DESIGNED TO  
20 PREVENT EMPLOYEES FROM MISREPORTING OR OTHERWISE  
21 MISCODING TROUBLE REPORTS?

22

23 A. YES. VARIOUS CONTROLS WERE IN PLACE THAT  
24 MANAGEMENT REASONABLY BELIEVED WOULD PREVENT  
25 ABUSES. THESE CONTROLS INCLUDED REVIEWS CONDUCTED

1 BY BOTH NETWORK STAFF EMPLOYEES AND LOCAL IMC  
2 MANAGEMENT; DAILY, WEEKLY AND MONTHLY REPORTS  
3 PROVIDED TO MANAGEMENT; AND CONTROLS CONTAINED  
4 WITHIN OUR DATA SYSTEMS. MS. APRIL IVY, CURRENTLY  
5 MANAGER OF THE COMPANY'S SOUTH DADE IMC, WILL  
6 PROVIDE TESTIMONY CONCERNING CUSTOMER TROUBLE  
7 REPORTING AND RESTORATION PROCEDURES AND THE  
8 MAINTENANCE CENTER'S RESPONSIBILITIES REGARDING  
9 THESE ACTIVITIES. SHE WILL ALSO DESCRIBE IN DETAIL  
10 THE CONTROLS THAT WERE IN PLACE PRIOR TO 1992,  
11 INCLUDING THE PURPOSES AND PROCEDURES OF THE  
12 NETWORK OPERATIONAL REVIEW PROCESS, AS WELL AS THE  
13 CONTROLS THAT ARE IN PLACE TODAY.

14

15 Q. DID SOUTHERN BELL'S MANAGEMENT ENCOURAGE BEHAVIOR  
16 THAT LED TO ANY VIOLATIONS OF THIS COMMISSION'S  
17 RULES OR OF FLORIDA STATUTES WITH REGARD TO THE  
18 COMPANY'S TROUBLE REPORTING AND REPAIR OPERATIONS?

19

20 A. ABSOLUTELY NOT. WHILE INDIVIDUAL MANAGERS MAY HAVE  
21 VIOLATED THE COMPANY'S PROCEDURES, SOUTHERN BELL'S  
22 MANAGEMENT TEAM IS ETHICAL AND CUSTOMER FOCUSED.  
23 IT DISCOVERED THE PROBLEMS WITH THE TROUBLE  
24 REPORTING PROCESS AND DEALT WITH THEM IN AN  
25 EFFECTIVE FASHION. THE NETWORK ORGANIZATION IN THE

1 STATE OF FLORIDA HAS SOME 10,000 EMPLOYEES, WITH  
2 2,000 MANAGERS. WHILE I AM DISAPPOINTED THAT  
3 ABUSES OCCURRED, IT IS NOT OUT OF THE QUESTION  
4 THAT, IN AN EMPLOYEE BODY OF THIS SIZE, SOME  
5 EMPLOYEES MAY HAVE TAKEN SHORTCUTS OR THAT SOME  
6 MANAGERS MAY HAVE FAILED TO FOLLOW-THROUGH AND  
7 ATTEND TO THE DETAILS OF THEIR JOBS. MOREOVER,  
8 THIS MATTER MUST BE PLACED IN PERSPECTIVE. THE  
9 IRREGULARITIES IN THE TROUBLE REPORTING PROCESS  
10 WERE FIRST DISCOVERED BY SOUTHERN BELL'S  
11 MANAGEMENT. WE FULLY REIMBURSED OUR CUSTOMERS. WE  
12 HAVE IMPLEMENTED THE APPROPRIATE CHANGES TO THE  
13 PROCESSES IN AN EFFORT TO PREVENT FUTURE PROBLEMS.

14

15

16 WE BELIEVE THAT WE HAD APPROPRIATE CONTROLS IN  
17 PLACE. WE DID NOTHING TO ENCOURAGE ANY IMPROPER  
18 BEHAVIOR THAT MAY HAVE OCCURRED. IN FACT, THE  
19 TRUTH IS QUITE THE OPPOSITE. WHERE WE FOUND  
20 IMPROPER ACTIVITIES, WE TOOK APPROPRIATE  
21 DISCIPLINARY ACTION AND WE TIGHTENED RELEVANT  
22 CONTROLS. IT HAS BEEN A PAINFUL PROCESS BUT I  
23 BELIEVE THE COMPANY HAS DONE THE RIGHT THING.

24

25 Q. DID INCENTIVE REGULATION IN ANY WAY CREATE AN

1 ENVIRONMENT THAT ENCOURAGED EMPLOYEES TO ENGAGE IN  
2 INAPPROPRIATE CONDUCT?

3

4 A. NO. VARIOUS PARTIES HAVE ALLEGED THAT PROBLEMS  
5 WITH NON-CONTACT SALES AND TROUBLE REPORTING BEGAN  
6 BEFORE 1988. IF SO, THEN SUCH PROBLEMS PREDATE  
7 INCENTIVE REGULATION.

8

9 THE FORM OF REGULATION UNDER WHICH SOUTHERN BELL  
10 OPERATES HAS NOT ADVERSELY AFFECTED THE COMPANY'S  
11 EMPHASIS ON ETHICAL AND HONEST CONDUCT. INDEED, IF  
12 ANYTHING, THE EMPHASIS ON THE CUSTOMER THAT IS PART  
13 AND PARCEL OF INCENTIVE REGULATION MAKES IT LESS  
14 LIKELY THAT INAPPROPRIATE ACTIONS WILL OCCUR. THE  
15 UNFORTUNATE ACTIONS OF A FEW EMPLOYEES COULD HAVE  
16 OCCURRED UNDER ANY FORM OF REGULATION AND ARE IN NO  
17 WAY LINKED TO INCENTIVE REGULATION.

18

19 Q. IN LIGHT OF THE EVENTS, WHY SHOULD THIS COMMISSION  
20 ALLOW AN EXTENSION OF SOUTHERN BELL'S INCENTIVE  
21 SHARING PLAN?

22

23 A. IT IS IMPORTANT TO RECOGNIZE THAT THE SAFEGUARDS  
24 AND CONTROLS AVAILABLE TO THIS COMMISSION ARE THE  
25 SAME REGARDLESS OF THE FORM OF REGULATION IMPOSED.

1  
2 FURTHER, THERE IS NO EVIDENCE THAT THE REGULATORY  
3 STRUCTURE PLAYED ANY ROLE IN THE EVENTS UNDER  
4 REVIEW. QUITE TO THE CONTRARY, THE STAFF'S  
5 MANAGEMENT AUDIT OF 1991 STATED THAT THEY FOUND NO  
6 EVIDENCE THAT INCENTIVE REGULATION HAD RESULTED IN  
7 ANY REDUCED EMPHASIS ON SERVICE BY SOUTHERN BELL.  
8 INDEED, THE EVENTS IN QUESTION PREDATED THE  
9 INTRODUCTION OF INCENTIVE REGULATION AND WERE  
10 CORRECTED BY THE COMPANY UNDER INCENTIVE  
11 REGULATION. ANY SUGGESTION THAT THE REGULATORY  
12 STRUCTURE PLAYED ANY ROLE IN THESE EVENTS IS  
13 INCORRECT.

14  
15 IN ADDITION, THE MARKET FORCES THAT ARE CHANGING  
16 THE REGULATORY WORLD STILL EXIST. THIS COMMISSION  
17 RECOGNIZED THIS CHANGING ENVIRONMENT IN 1988.  
18 SINCE THAT TIME, THE PACE OF CHANGE HAS ESCALATED.  
19 NOW IS NOT THE TIME TO RETREAT TO TRADITIONAL RATE  
20 OF RETURN REGULATION.

21  
22 ONLY ONE MAJOR TELEPHONE COMPANY IN FLORIDA HAS NOT  
23 SOUGHT A RATE INCREASE IN THE LAST FOUR YEARS.  
24 THAT COMPANY, SOUTHERN BELL, WAS REGULATED BY  
25 INCENTIVE REGULATION. WE BELIEVE THAT INCENTIVE

1 REGULATION WAS A SIGNIFICANT REASON WHY WE WERE  
2 ABLE TO AVOID ASKING FOR A RATE INCREASE.

3  
4 SECRETARY OF STATE GREG FARMER HAS TESTIFIED BEFORE  
5 THE COMMISSION ON THE IMPORTANCE OF PROGRESSIVE  
6 REGULATORY POLICY IN THE ECONOMIC DEVELOPMENT OF  
7 THIS STATE. WE SHOULD CONTINUE TO ENCOURAGE  
8 ECONOMIC DEVELOPMENT. ADEQUATE CONTROLS ARE IN  
9 PLACE TO PROTECT THE CONSUMER. INCENTIVE  
10 REGULATION IS GOOD FOR THE CONSUMER AND GOOD FOR  
11 THE STATE.

12  
13 Q. IN VIEW OF YOUR PRIOR COMMENTS, WHY DID THE COMPANY  
14 AGREE TO SETTLE THIS MATTER AND OTHER ISSUES WITH  
15 THE OFFICE OF STATEWIDE PROSECUTION?

16  
17 A. QUITE SIMPLY, THE COMPANY SETTLED THIS MATTER IN  
18 ORDER TO FOCUS FULLY ON ITS PRIMARY MISSION: THE  
19 PROVISION OF QUALITY TELECOMMUNICATIONS SERVICES TO  
20 OUR CUSTOMERS. I SIGNED THE SETTLEMENT AGREEMENT  
21 ON OCTOBER 9, 1992, TO BEGIN THE PROCESSES OF  
22 RESTORING OUR CUSTOMERS' CONFIDENCE IN US AND  
23 IMPROVING EMPLOYEE MORALE, WHICH HAD DETERIORATED  
24 BECAUSE OF THE NEGATIVE AND UNJUSTIFIED PUBLICITY  
25 THAT UNFAIRLY ATTACKED OUR EMPLOYEES' REPUTATION

1 FOR INTEGRITY. EQUALLY IMPORTANT, WE ALSO WANTED  
2 TO MAKE OUR CUSTOMERS WHOLE, WHICH WE DID AS A  
3 RESULT OF THE RESTITUTION WE AGREED TO PAY IN THE  
4 SETTLEMENT OF THIS MATTER.

5

6 Q. WHAT DOES THE SETTLEMENT AGREEMENT REQUIRE THE  
7 COMPANY TO DO?

8

9 A. THE SETTLEMENT AGREEMENT WAS A COMPROMISE OF  
10 DISPUTED CLAIMS. IT PROVIDED FOR RESTITUTION TO  
11 CUSTOMERS, THE PAYMENT OF INVESTIGATIVE COSTS TO  
12 THE STATE, AND THE COMPANY'S FULL COOPERATION WITH  
13 THE OFFICE OF STATEWIDE PROSECUTION WITH RESPECT TO  
14 THE INVESTIGATION OF INDIVIDUALS. FINALLY, THE  
15 COMPANY AGREED TO IMPLEMENT VARIOUS SYSTEMS AND  
16 OPERATIONS CHANGES.

17

18 IT IS IMPORTANT TO RECOGNIZE THAT OUR SETTLEMENT  
19 AGREEMENT WITH THE OFFICE OF STATEWIDE PROSECUTION  
20 COMPENSATED CUSTOMERS WHO MAY HAVE BEEN AFFECTED BY  
21 THE NETWORK TROUBLE REPORTING PROBLEMS. THE  
22 COMPANY HAS PAID 622,997 CUSTOMERS \$3.76 FOR EACH  
23 TROUBLE REPORT AFFECTING THEIR LINE. THE CUSTOMERS  
24 WHO RECEIVED THIS AMOUNT WERE DETERMINED BY  
25 IDENTIFYING EACH OUT OF SERVICE TROUBLE REPORT THAT



1 WAS CLOSED, BASED ON COMPUTER TIME, MORE THAN 24  
2 HOURS AFTER IT WAS REPORTED AND WHICH DID NOT HAVE  
3 A REBATE ASSOCIATED WITH IT. THIS UNIVERSE WAS  
4 OVERINCLUSIVE BECAUSE MANY OF THE OUT OF SERVICE  
5 TROUBLE REPORTS THAT RECEIVED A REFUND PAYMENT  
6 PURSUANT TO THE SETTLEMENT AGREEMENT WERE ACTUALLY  
7 CLEARED WITHIN 24 HOURS OR WERE OTHERWISE PROPERLY  
8 EXCLUDED FROM THE REBATE PROCESS. IN ADDITION, THE  
9 \$3.76 PAID PER TROUBLE REPORT IS MORE THAN FOUR  
10 TIMES THE AVERAGE REBATE REQUIRED TO BE PAID  
11 PURSUANT TO COMMISSION RULE 25-4.110(2).

12  
13 THE SAME IS TRUE FOR THE AMOUNT THE COMPANY AGREED  
14 TO PAY TO SETTLE THE NON-CONTACT SALES ISSUE. THE  
15 COMPANY PAID \$74.01 TO EACH CUSTOMER WHO WAS  
16 IDENTIFIED AS HAVING BEEN SOLD A SERVICE THROUGH A  
17 NON-CONTACT SALES PROGRAM BUT WHO DID NOT REQUEST A  
18 REFUND EARLIER. THUS, THE PEOPLE WHO HAD NOT  
19 IDENTIFIED THEMSELVES TO THE COMPANY AS HAVING HAD  
20 A SERVICE ADDED TO THEIR BILL WITHOUT THEIR CONSENT  
21 WERE THE ONES WHO BENEFITED FROM THE SETTLEMENT.  
22 OF COURSE, THOSE WHO DID SELF-IDENTIFY HAVE ALREADY  
23 RECEIVED A FULL REFUND WITH INTEREST.

24  
25 THE COMPANY HAS ALSO IMPLEMENTED AN ETHICS

1 EDUCATION PROGRAM FOR ITS EMPLOYEES, STOPPED ALL  
2 NON-CONTACT SALES AND REFERRAL PROGRAMS, INTRODUCED  
3 NUMEROUS SYSTEMS AND PROCEDURAL CHANGES TO ITS  
4 TROUBLE REPORTING AND REPAIR PROCESSES, AND  
5 DEVELOPED ENHANCED PROCEDURES TO AUDIT AND REVIEW  
6 ITS TROUBLE REPORTING AND RESTORATION PROCESSES.  
7 WE BELIEVE THESE CHANGES WILL PREVENT THE  
8 RECURRENCE OF TROUBLE REPORTING PROBLEMS AND ENSURE  
9 THE ACCURACY OF SERVICE PERFORMANCE REPORTS FILED  
10 WITH THIS COMMISSION.

11

12 Q. SHOULD ADDITIONAL PROCEDURES AND CONTROLS OR  
13 REPORTS BE REQUIRED OF SOUTHERN BELL BY THIS  
14 COMMISSION?

15

16 A. NO. AS MS. IVY DESCRIBES, SOUTHERN BELL HAS  
17 IMPLEMENTED NUMEROUS CHANGES TO ITS PRACTICES,  
18 PROCEDURES, AND SYSTEMS TO ENSURE THE QUALITY AND  
19 ACCURACY OF ITS TROUBLE REPORTING AND REBATE  
20 PROCESSES. THESE CHANGES INCLUDE MORE STRINGENT  
21 ACCESS TO ITS SYSTEMS, STANDARDIZATION OF ITS  
22 TROUBLE REPORTING CODES, ELIMINATION OF THE USE OF  
23 CERTAIN CODES AND ADDITIONAL AUDIT AND REVIEW  
24 PROCESSES. ALL OF THESE REMEDIAL EFFORTS ARE  
25 SUBJECT TO A SEMIANNUAL AUDIT BY AN OUTSIDE

1 ACCOUNTING FIRM DURING A THREE YEAR REVIEW PERIOD.  
2 THEREFORE, I DO NOT BELIEVE THAT ADDITIONAL  
3 PROCEDURES OR COMMISSION REPORTS ARE NECESSARY IN  
4 ORDER TO ENSURE THE ACCURACY OF THE COMPANY'S  
5 SERVICE PERFORMANCE REPORTS FILED WITH THIS  
6 COMMISSION. NOR DO I BELIEVE THAT ADDITIONAL  
7 PROCEDURES ARE NEEDED TO ENSURE THAT OUR CUSTOMERS  
8 ARE PROPERLY CREDITED FOR ANY OUT-OF-SERVICE  
9 CONDITION.

10

11 Q. SHOULD THE COMMISSION PENALIZE SOUTHERN BELL FOR  
12 ITS TROUBLE REPORTING AND REBATE ACTIVITIES?

13

14 A. NO. I DO NOT BELIEVE THAT A PENALTY WOULD BE  
15 APPROPRIATE OR IN ANY WAY JUSTIFIED. THE COMPANY  
16 DISCOVERED THE PROBLEMS IN ITS TROUBLE REPORTING  
17 PROCESSES AS A RESULT OF CONTROLS AND PROCEDURES  
18 DESIGNED TO MONITOR THE QUALITY OF ITS TROUBLE  
19 REPORTING PRACTICES. ONCE THE PROBLEMS WERE  
20 DISCOVERED, DISCIPLINARY ACTION WAS IMPOSED IN A  
21 TIMELY FASHION AND NUMEROUS CORRECTIVE MEASURES  
22 WERE IMPLEMENTED TO PREVENT THE RECURRENCE OF THE  
23 PROBLEMS. MOST IMPORTANTLY, OUR CUSTOMERS HAVE  
24 BEEN FULLY COMPENSATED FOR ANY LOSS THEY MAY HAVE  
25 EXPERIENCED.

1

2 WHILE I UNDERSTAND THAT SOME EMPLOYEES HAVE ALLEGED  
3 OR ASSERTED THAT THEY MAY HAVE ENGAGED IN IMPROPER  
4 CONDUCT, THERE IS NO EVIDENCE THAT MANAGEMENT AS A  
5 WHOLE KNEW OF, CONDONED OR ENCOURAGED SUCH  
6 BEHAVIOR. INDEED, IT WAS THE COMPANY THAT  
7 IDENTIFIED THE NON-CONTACT SALES PROBLEM, REPORTED  
8 IT, AND CORRECTED IT WITH OUR CUSTOMERS.

9

10 WE HAVE IN FACT ALREADY BEEN PENALIZED. THIS  
11 COMPANY HAS LOST THE GOODWILL AND FAITH OF SOME OF  
12 ITS CUSTOMERS. IT HAS ALSO INCURRED THE COSTS  
13 ASSOCIATED WITH ITS SETTLEMENT WITH THE OFFICE OF  
14 STATEWIDE PROSECUTION. NONE OF THESE COSTS HAVE  
15 BEEN OR WILL BE INCLUDED IN OUR CUSTOMERS' SERVICE  
16 RATES. THEREFORE, NO PENALTY OR PUNITIVE ACTION BY  
17 THIS COMMISSION IS NECESSARY OR APPROPRIATE.  
18 FURTHERMORE, AS I HAVE PREVIOUSLY DISCUSSED, A  
19 PENALTY IMPOSED UPON THE COMPANY WOULD SEND THE  
20 WRONG SIGNAL TO SOUTHERN BELL AND ALL OTHER  
21 COMPANIES REGULATED BY THIS COMMISSION. IT WOULD  
22 TELL THEM THAT DEALING PROPERLY WITH PROBLEMS THEY  
23 MAY FIND CAN RESULT IN THE IMPOSITION OF FINANCIAL  
24 LOSS. THIS SIGNAL WOULD BE COUNTER-PRODUCTIVE AND  
25 DETRIMENTAL TO THE INTERESTS OF ALL CONCERNED.

1

2 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

3

4 A. YES IT DOES.

5

6

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1 SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY  
2 TESTIMONY OF ROBIN MADDEN  
3 BEFORE THE  
4 FLORIDA PUBLIC SERVICE COMMISSION  
5 IN  
6 DOCKET NO. 920260-TL  
7 JULY 2, 1993

8  
9  
10 Q. PLEASE STATE YOUR NAME AND POSITION WITH SOUTHERN  
11 BELL TELEPHONE AND TELEGRAPH COMPANY.

12  
13 A. MY NAME IS ROBIN L. MADDEN AND MY CURRENT POSITION  
14 WITH SOUTHERN BELL IS MANAGER - CUSTOMER SERVICES IN  
15 THE STATE OF FLORIDA. MY BUSINESS ADDRESS IS 6451  
16 NORTH FEDERAL HIGHWAY IN FT. LAUDERDALE.

17  
18 Q. PLEASE GIVE A BRIEF DESCRIPTION OF YOUR BACKGROUND  
19 AND EXPERIENCE.

20  
21 A. I BEGAN MY CAREER WITH SOUTHERN BELL IN FT.  
22 LAUDERDALE IN 1971, AS A SERVICE REPRESENTATIVE IN  
23 CUSTOMER SERVICES. AS A SERVICE REPRESENTATIVE, I  
24 WORKED WITH BOTH RESIDENCE AND BUSINESS CUSTOMERS  
25 AND WAS RESPONSIBLE FOR COLLECTING BILLS, HANDLING

1 BILLING INQUIRIES, ISSUING SERVICE ORDERS AND  
2 SELLING PRODUCTS AND SERVICES. I WAS PROMOTED INTO  
3 MANAGEMENT AS A BUSINESS OFFICE SUPERVISOR IN 1977.  
4 AS A SUPERVISOR I WAS RESPONSIBLE FOR MANAGING  
5 SERVICE REPRESENTATIVES.

6  
7 I WAS PROMOTED TO ASSISTANT STAFF MANAGER IN 1980  
8 AND HANDLED VARIOUS STAFF AND FIELD ASSIGNMENTS  
9 UNTIL 1988. I HELD THE POSITION OF DEPARTMENTAL  
10 SALES COORDINATOR FROM 1982 THROUGH 1987. MY DUTIES  
11 INCLUDED ESTABLISHING SALES OBJECTIVES AND  
12 DEVELOPING GUIDELINES FOR RECOGNITION/AWARD  
13 PROGRAMS. IN ADDITION, I HELPED DEVELOP A RECORD  
14 KNOWN AS THE NETWORK SALES REFERRAL (NSR) FORM,  
15 WHICH WAS USED TO DOCUMENT NON-CONTACT SALES. IN  
16 1988, I WAS PROMOTED TO ASSOCIATE MANAGER AND  
17 TRANSFERRED TO THE FLORIDA INTERNAL AUDITING  
18 ORGANIZATION. I WORKED IN INTERNAL AUDITING UNTIL  
19 JANUARY OF 1992, WHEN I ASSUMED THE POSITION OF  
20 FLORIDA CUSTOMER SERVICES DEPARTMENTAL COORDINATOR  
21 FOR QUALITY. IN MAY, 1993 I WAS PROMOTED TO MY  
22 CURRENT POSITION WITH RESPONSIBILITIES FOR MANAGING  
23 THE QUALITY ASSURANCE SPECIALIST UNIT IN FORT  
24 LAUDERDALE. THE GROUP IS RESPONSIBLE FOR PROCESSING  
25 ADJUSTMENTS ASSOCIATED WITH THE SETTLEMENT WITH THE

1 STATEWIDE PROSECUTOR AS WELL AS HANDLING OTHER  
2 BILLING RELATED PROJECTS.

3

4 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

5

6 A. THE PURPOSE OF MY TESTIMONY IS TO EXPLAIN THE  
7 PROCESS USED BY SOUTHERN BELL TO PERFORM ITS  
8 INTERNAL INVESTIGATION OF THE NON-CONTACT SALES  
9 ISSUE. IN THIS REGARD, I WILL DISCUSS THE METHOD WE  
10 USED TO IDENTIFY EMPLOYEES WITH A HIGH NUMBER OF  
11 SALES RELATIVE TO OTHER EMPLOYEES AND THE METHODS WE  
12 USED TO DETERMINE WHETHER THE SALES OF SERVICES WERE  
13 PROPER. I WILL ALSO DISCUSS THE CONTROLS THAT WERE  
14 IN PLACE FOR THE NON-CONTACT SALES PROGRAM.  
15 FINALLY, I WILL PROVIDE SOUTHERN BELL'S POLICIES  
16 WITH REGARD TO INFORMING CUSTOMERS OF THE LEAST  
17 EXPENSIVE SERVICE ALTERNATIVE AVAILABLE TO THEM.

18

19 Q. DID SOUTHERN BELL DETERMINE THAT ANY OF THE  
20 COMPANY'S CUSTOMERS WERE CHARGED FOR SERVICES THEY  
21 DID NOT REQUEST?

22

23 A. YES. AN INTERNAL INVESTIGATION CONDUCTED BY  
24 SOUTHERN BELL IN 1990, REVEALED THAT THREE CRAFT  
25 EMPLOYEES IN THE COMPANY'S NETWORK DEPARTMENT ADDED



1 THE COMBINED INSIDE WIRE MAINTENANCE PLAN,  
2 IDENTIFIED BY THE UNIVERSAL SERVICE ORDER CODE  
3 "SEQ1X," TO OVER 35,000 CUSTOMERS' RECORDS, MOST OF  
4 WHOM ALREADY HAD THE TROUBLE ISOLATION PLAN (TIP) OR  
5 INSIDE WIRE MAINTENANCE PLAN. IT APPEARED THAT A  
6 SUBSTANTIAL NUMBER OF THESE CUSTOMERS HAD THE SEQ1X  
7 SERVICE ADDED WITHOUT THEIR KNOWLEDGE.

8

9 Q. WHAT CAUSED SOUTHERN BELL TO INITIATE AN  
10 INVESTIGATION INTO THIS MATTER?

11

12 A. IN JUNE OF 1990, AN OPERATIONS MANAGER IN CUSTOMER  
13 SERVICES IN THE ORLANDO AREA INFORMED HIS NETWORK  
14 COUNTERPART THAT FOUR BROOKSVILLE CUSTOMERS HAD  
15 STATED THAT THEY HAD BEEN BILLED FOR COMBINED INSIDE  
16 WIRE MAINTENANCE PLANS THEY HAD NOT AUTHORIZED.  
17 ACCORDING TO THE SUBSCRIBERS, THEY HAD NOT  
18 AUTHORIZED AN UPGRADE FROM INSIDE WIRE MAINTENANCE  
19 (WMR) AT \$1.50 PER MONTH TO THE FULL SERVICE PLAN OF  
20 SEQ1X AT \$2.50 PER MONTH. UPON REVIEW, THE CUSTOMER  
21 SERVICES LOCAL MANAGEMENT DETERMINED THAT SEQ1X HAD  
22 BEEN ADDED TO THESE CUSTOMERS' BILLS THROUGH NSRS,  
23 WHICH HAD BEEN FORWARDED BY A NETWORK EMPLOYEE,  
24 GEORGE SLOAN, TO THE CUSTOMER SERVICES SERVICE ORDER  
25 GROUP FOR PROCESSING. THE LOCAL MANAGEMENT THEN

1 OBTAINED ADDITIONAL NSRS FROM THE ORDER GROUP AND  
2 CONTACTED TWENTY ADDITIONAL CUSTOMERS TO DETERMINE  
3 IF THEY HAD AUTHORIZED THE ADDITION OF SEQ1X. OF  
4 THE TWENTY, NINETEEN ADVISED THAT THEY HAD NOT.  
5 THESE "SALES" HAD BEEN MADE BY MR. SLOAN AS WELL AS  
6 BY A SECOND NETWORK EMPLOYEE, MARSHA TAYLOR.

7

8 THE NETWORK OPERATIONS MANAGER REFERRED THIS  
9 INFORMATION TO THE SECURITY DEPARTMENT, WHICH  
10 UNDERTOOK AN INVESTIGATION OF THE CASE. THE INITIAL  
11 SECURITY REPORT OF OCTOBER 3, 1990, WAS REVIEWED BY  
12 THE LEGAL DEPARTMENT AND A STATEWIDE INTERNAL  
13 INVESTIGATION WAS THEREUPON INITIATED. ITS PURPOSE  
14 WAS TO DETERMINE THE EXTENT THROUGHOUT THE STATE OF  
15 ANY CUSTOMER MISBILLING CAUSED BY NON-CONTACT  
16 EMPLOYEES.

17

18 Q. HOW WAS THIS INVESTIGATION CONDUCTED?

19

20 A. AT THE DIRECTION AND UNDER THE SUPERVISION OF THE  
21 LEGAL DEPARTMENT, THE SECURITY DEPARTMENT CONTINUED  
22 WITH ITS INVESTIGATION IN THE ORLANDO AREA. IN  
23 ADDITION, THE INTERNAL AUDITING ORGANIZATION WAS  
24 CALLED UPON TO IDENTIFY OTHER LOCATIONS IN THE STATE  
25 WITH HIGH VOLUMES OF SEQ1X SALES BY NETWORK

1 EMPLOYEES. THIS PROCESS BECAME PART OF THE SCOPE OF  
2 THE AUDIT THAT WAS SUBSEQUENTLY CONDUCTED BETWEEN  
3 OCTOBER AND DECEMBER OF 1990. THE PURPOSE OF THIS  
4 AUDIT WAS TO REVIEW THE CONTROLS OVER THE VALIDITY  
5 OF NON-CONTACT SALES AND THE ADMINISTRATION OF AWARD  
6 PROGRAMS. I CONDUCTED THIS AUDIT.

7  
8 CONCURRENTLY, COORDINATION EFFORTS BEGAN WITH THE  
9 COMPTROLLERS DEPARTMENT AND OTHER GROUPS TO PREPARE  
10 A COMPUTER PROGRAM THAT WOULD EXTRACT ACTUAL SERVICE  
11 ORDER DATA FOR THOSE EMPLOYEES WHO WERE IDENTIFIED  
12 AS HIGH SELLERS OF SEQ1X. THESE DATA WERE TO BE  
13 USED TO CONTACT SUBSCRIBERS TO DETERMINE IF THEY HAD  
14 AUTHORIZED BILLING OF SEQ1X.

15

16 Q. WHAT PROCESS WAS USED TO IDENTIFY EMPLOYEES WHO  
17 MIGHT HAVE ISSUED ORDERS FOR UNAUTHORIZED SALES?

18

19 A. THE INITIAL INVESTIGATION OF THE TWO ORLANDO  
20 EMPLOYEES INDICATED THAT THEY HAD ACCUMULATED  
21 EXTREMELY HIGH SALES OF SEQ1X DURING 1988 AND 1989.  
22 BASED ON THE INFORMATION GAINED FROM THE ORLANDO  
23 INVESTIGATION, WE SEARCHED FOR OTHER EMPLOYEES WITH  
24 HIGH LEVELS OF NON-CONTACT SALES.

25

1 TO PUT WHAT WE DID IN PERSPECTIVE, LET ME BRIEFLY  
2 OUTLINE THE PROCESS FOR ORDER ISSUANCE AND  
3 SUBSEQUENT TRACKING OF RESULTS IN THE NON-CONTACT  
4 SALES PROGRAM. SALES WERE NEGOTIATED WITH CUSTOMERS  
5 BY NETWORK EMPLOYEES AND FORWARDED TO CUSTOMER  
6 SERVICES VIA NSRS FOR ORDER INPUT. CUSTOMER  
7 SERVICES PERSONNEL INPUT THE SERVICE ORDER  
8 INFORMATION, INCLUDING THE NETWORK EMPLOYEE'S SALES  
9 CODE. UPON COMPLETION OF SERVICE ORDERS IN THE  
10 CUSTOMER RECORD INFORMATION SYSTEM, THE TOTAL  
11 SERVICES SOLD AND ASSOCIATED REVENUES WERE  
12 ACCUMULATED FOR TRACKING PURPOSES ON THE CUSTOMER  
13 SERVICES SALES REPORT, FORM 2011A. THE 2011A  
14 TRACKED SALES RESULTS BY INDIVIDUAL EMPLOYEE SALES  
15 CODE AND ALSO SUMMARIZED THE RESULTS BY MANAGEMENT  
16 LEVEL. HIGH SELLERS OF SEQ1X WERE THUS IDENTIFIED  
17 BY REVIEWING 2011AS. RESULTS AT THE DISTRICT LEVEL  
18 WERE ANALYZED FIRST. REPORTS FOR SECOND LEVEL AND  
19 FIRST LEVEL MANAGERS (PAYGRADES 5, 3) AND INDIVIDUAL  
20 NON-MANAGEMENT EMPLOYEE SALES CODES WERE ANALYZED  
21 NEXT TO IDENTIFY INSTANCES OF HIGH SALES AND TO  
22 DETERMINE IF SALES WERE CONCENTRATED IN PARTICULAR  
23 GROUPS OR SPECIFIC INDIVIDUALS. THERE WAS NO  
24 SPECIFIC DOLLAR AMOUNT USED AS A CRITERION; RELATIVE  
25 LEVELS OF SALES WAS THE PERTINENT CONSIDERATION.

1        BASED ON COMPANY RECORDS, EMPLOYEE NAMES WERE  
2        ASSOCIATED WITH THE SALES CODES PROVIDED BY THE  
3        DISTRICTS. AFTER THIS LIST WAS COMPILED AND  
4        REFERRED TO THE LEGAL DEPARTMENT, DISTRICTS WITH  
5        LOWER RESULTS WERE ALSO ANALYZED AND A SECOND LIST  
6        WAS COMPILED AND PROVIDED TO THE LEGAL DEPARTMENT.

7  
8        ADDITIONAL ANALYSIS WAS PERFORMED FOR SALES MADE  
9        UNDER THE GOLDLINE REFERRAL PROGRAM, WHICH HAD  
10       REPLACED ALL NON-CONTACT SALES PROGRAMS IN 1990.  
11       THE FLORIDA GOLDLINE REFERRAL PROGRAM ESTABLISHED A  
12       CENTRALIZED GROUP TO HANDLE SALES REFERRALS FROM ALL  
13       NON-CONTACT EMPLOYEES. GOLDLINE INCLUDED PROCEDURES  
14       FOR CALLING THE CUSTOMERS TO VERIFY AND CLOSE THE  
15       SALE AFTER REFERRAL BY THE EMPLOYEE. A LIST OF  
16       EMPLOYEES WHO HAD 50% OR MORE OF THEIR REFERRALS TO  
17       GOLDLINE REJECTED WAS ALSO PROVIDED TO THE LEGAL  
18       DEPARTMENT.

19

20 Q.    WHAT DID THE COMPANY DO NEXT?

21

22 A.    THE INFORMATION DERIVED FROM MY ANALYSIS WAS  
23       PROVIDED TO THE LEGAL AND SECURITY DEPARTMENTS.  
24       THEY THEN INTERVIEWED INDIVIDUALS BELIEVED TO HAVE  
25       PERTINENT INFORMATION ON THESE MATTERS. IN

1 ADDITION, THE COMPANY CALLED CUSTOMERS WHO HAD  
2 SERVICES ADDED TO THEIR BILLS BY NON-CONTACT SALES  
3 EMPLOYEES. THE PURPOSE OF THESE CALLS WAS TO ASK  
4 THE CUSTOMERS IF THEY REMEMBERED ORDERING THE  
5 SERVICES IN QUESTION.

6

7 Q. WHAT WAS THE RESULT OF THE COMPANY'S INVESTIGATION?

8

9 A. THE COMPANY DETERMINED THAT THREE CRAFT EMPLOYEES,  
10 TWO FROM THE ORLANDO DISTRICT AND ONE FROM THE WEST  
11 PALM BEACH DISTRICT, HAD ADDED SEQ1X TO CUSTOMER  
12 ACCOUNTS WITHOUT THEIR KNOWLEDGE. THE SALES CODE OF  
13 A FOURTH EMPLOYEE WAS ALSO USED IN CONNECTION WITH  
14 UNAUTHORIZED SALES. THIS WAS PROBABLY DONE BY ONE  
15 OF THE DISCIPLINED EMPLOYEES AND WITHOUT THE FOURTH  
16 EMPLOYEE'S KNOWLEDGE. THE FIRST THREE EMPLOYEES  
17 WERE TERMINATED AS WERE ONE PAYGRADE 3 MANAGER IN  
18 ORLANDO AND ONE PAYGRADE 5 MANAGER IN WEST PALM  
19 BEACH. THE OTHER 2300 EMPLOYEES WHO WERE ELIGIBLE  
20 TO PARTICIPATE IN THE COMPANY'S NON-CONTACT SALES  
21 PROGRAM DID NOT APPEAR TO HAVE ACTED IMPROPERLY.

22

23 Q. DID SOUTHERN BELL HAVE CONTROLS IN PLACE THAT SHOULD  
24 HAVE PREVENTED THE ABUSE OF THE NON-CONTACT SALES  
25 PROGRAM THAT OCCURRED?

1  
2 A. YES. SOUTHERN BELL HAD IN PLACE A NUMBER OF  
3 CONTROLS THAT SHOULD HAVE ALERTED LOCAL MANAGEMENT  
4 TO ANY ABUSE OF THE NON-CONTACT SALES PROGRAM. FOR  
5 EXAMPLE, A REVIEW OF THE RESULTS SHOWN ON THE 2011A  
6 FORMS SHOULD HAVE PROMPTED INQUIRIES BY MANAGEMENT  
7 AS TO WHY A FEW EMPLOYEES HAD MUCH HIGHER SALES  
8 LEVELS THAN ALL OTHER EMPLOYEES. THESE SAME FORMS  
9 WERE PROVIDED TO AREA NETWORK SALES COORDINATORS WHO  
10 SHOULD HAVE INQUIRED AS TO WHY SOME SALES LEVELS  
11 WERE SIGNIFICANTLY HIGHER THAN OTHERS. IN ADDITION,  
12 CUSTOMER SERVICE PERSONNEL RESPONSIBLE FOR INPUTTING  
13 THE NSRS SHOULD HAVE RECOGNIZED ABNORMALLY HIGH  
14 VOLUMES OF SALES FOR PARTICULAR EMPLOYEES, OR OTHER  
15 UNUSUAL TRENDS, AND REPORTED THESE TO THEIR  
16 MANAGEMENT TO INVESTIGATE. FINALLY, SINCE INSIDE  
17 WIRE WAS, THROUGHOUT THIS PERIOD, ITEMIZED MONTHLY  
18 ON CUSTOMER BILLS, CUSTOMERS THEMSELVES COULD HAVE  
19 IDENTIFIED ERRORS AND BROUGHT THEM TO SOUTHERN  
20 BELL'S ATTENTION. THIS LAST MEASURE, OF COURSE,  
21 SHOULD NOT HAVE BEEN NECESSARY, BUT IT DID GIVE US  
22 ANOTHER OPPORTUNITY TO DETECT AND CORRECT ANY ERRORS  
23 IN BILLING.

24  
25 THERE CAN BE NO QUESTION THAT, EVEN IN AN

1 ENVIRONMENT THAT IS ADEQUATELY CONTROLLED, THERE IS  
2 A POTENTIAL FOR NOT DETECTING INTENTIONAL DISREGARD  
3 OF ESTABLISHED PROCEDURES. IT IS NOT POSSIBLE FOR A  
4 BUSINESS TO VERIFY THE DETAILS OF EVERY TRANSACTION  
5 ENGAGED IN BY AN EMPLOYEE. THE FACT IS, HOWEVER,  
6 THAT THE CONTROLS SOUTHERN BELL HAD IN PLACE DID  
7 ALLOW IT TO IDENTIFY THE THREE EMPLOYEES WHO  
8 INTENTIONALLY ADDED SERVICES TO CUSTOMERS' BILLS  
9 WITHOUT THE CUSTOMERS' AUTHORIZATION.

10

11 Q. HAS SOUTHERN BELL MADE CHANGES TO HELP PREVENT THE  
12 RECURRENCE OF PROBLEMS WITH NON-CONTACT SALES?

13

14 A. YES. SOUTHERN BELL DISCONTINUED ALL NON-CONTACT  
15 SALES AND REFERRAL PROGRAMS EFFECTIVE JULY 1991.

16

17 Q. WHAT IS SOUTHERN BELL'S POLICY REGARDING THE  
18 OFFERING OF THE LEAST EXPENSIVE SERVICE ALTERNATIVE  
19 AVAILABLE TO ITS CUSTOMERS?

20

21 A. SERVICE REPRESENTATIVES ARE REQUIRED TO ADVISE  
22 CUSTOMERS OF THE LEAST EXPENSIVE SERVICE ALTERNATIVE  
23 AVAILABLE. THIS IS PART OF THEIR FORMAL TRAINING  
24 AND IT IS REINFORCED THROUGH ON-THE-JOB TRAINING.  
25 SERVICE REPRESENTATIVES ARE RESPONSIBLE FOR



1 IMPARTING ACCURATE AND COMPLETE INFORMATION TO  
2 CUSTOMERS WHEN NEGOTIATING ORDERS. IN ADDITION TO  
3 DISCLOSING THE LEAST EXPENSIVE SERVICE ALTERNATIVE  
4 AVAILABLE, THEY MUST DISCLOSE INFORMATION RELATIVE  
5 TO OPTIONAL SERVICES, RATES MUST BE QUOTED FOR  
6 SERVICES ORDERED AND INFORMATION NEGOTIATED MUST BE  
7 VERIFIED. A CONFIRMATION LETTER IS ALSO SENT TO THE  
8 CUSTOMER FOLLOWING SERVICE ORDER ACTIVITY. THE  
9 CONFIRMATION LETTER ITEMIZES THE SERVICES ORDERED  
10 AND THE ASSOCIATED CHARGES. FURTHER, SERVICES ARE  
11 ITEMIZED ON THE CUSTOMER'S MONTHLY BILL. BUSINESS  
12 OFFICE MANAGEMENT AND STAFF MANAGEMENT REGULARLY  
13 MONITOR ALL SERVICE REPRESENTATIVES TO ENSURE  
14 COMPLIANCE WITH THESE REQUIREMENTS, INCLUDING THAT  
15 OF INFORMING CUSTOMERS OF THE LEAST EXPENSIVE  
16 SERVICE ALTERNATIVE AVAILABLE.

17

18 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

19

20 A. YES.

21

22

23

24

25

1 SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY

2 TESTIMONY OF APRIL D. IVY

3 BEFORE THE

4 FLORIDA PUBLIC SERVICE COMMISSION

5 IN

6 DOCKET NO. 920260-TL

7 JULY 2, 1993

8

9

10 Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS  
11 ADDRESS?

12

13 A. MY NAME IS APRIL D. IVY. I AM EMPLOYED BY  
14 BELLSOUTH TELECOMMUNICATIONS, INC., D/B/A SOUTHERN  
15 BELL TELEPHONE AND TELEGRAPH COMPANY ("SOUTHERN  
16 BELL" OR THE "COMPANY") AS A MANAGER -  
17 NETWORK/INSTALLATION AND MAINTENANCE CENTER (IMC).  
18 MY BUSINESS ADDRESS IS 8610 SW 107TH AVENUE, MIAMI,  
19 FLORIDA 33173.

20

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

22

23 A. I BEGAN MY CAREER WITH SOUTHERN BELL IN MIAMI,  
24 FLORIDA IN 1968, AS A COMMERCIAL CLERK. AS A  
25 NON-MANAGEMENT EMPLOYEE, I WORKED IN BOTH THE

1 CUSTOMER SERVICES AND NETWORK DEPARTMENTS. I WAS  
2 PROMOTED INTO MANAGEMENT AS AN ADMINISTRATIVE CLERK  
3 SUPERVISOR IN 1972. I WAS AGAIN PROMOTED IN 1974  
4 TO SERVICE ORDER CLERK SUPERVISOR. I WAS PROMOTED  
5 TO MANAGER IN 1982 AND HAVE HELD VARIOUS JOB  
6 RESPONSIBILITIES IN BOTH THE MARKETING AND NETWORK  
7 DEPARTMENTS. IN 1989, I WAS ASSIGNED  
8 RESPONSIBILITIES FOR THE NETWORK IMC STAFF AND ON  
9 MAY 1, 1990, I ASSUMED MY CURRENT RESPONSIBILITIES  
10 AS MANAGER - NETWORK IMC/SOUTH DADE. MY  
11 RESPONSIBILITIES INCLUDE SUPERVISING MANAGEMENT AND  
12 NON-MANAGEMENT EMPLOYEES' ACTIVITIES IN  
13 IMPLEMENTING CUSTOMERS' REQUESTS FOR SERVICE AND  
14 HANDLING OF CUSTOMER TROUBLE RESTORATION  
15 ACTIVITIES. IN MARCH 1991, I GRADUATED FROM BARRY  
16 UNIVERSITY WITH A BACHELOR OF BUSINESS  
17 ADMINISTRATION DEGREE.

18

19 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

20

21 A. THE PURPOSE OF MY TESTIMONY IS TO PROVIDE THE  
22 COMMISSION WITH AN UNDERSTANDING OF CUSTOMER  
23 TROUBLE REPORT AND RESTORATION PROCEDURES AS WELL  
24 AS MAINTENANCE CENTER RESPONSIBILITIES REGARDING  
25 THESE ACTIVITIES. I WILL GIVE A BRIEF OVERVIEW OF

1 HOW A BASIC TROUBLE REPORT IS HANDLED AND THE  
2 COMPLEXITY INVOLVED IN PROCESSING SUCH REPORTS. I  
3 WILL DISCUSS OUR COMPANY'S EVOLUTION FROM A MANUAL  
4 TO A MECHANIZED ENVIRONMENT IN THE IMC AND THE  
5 EXTENSIVE CLASSROOM AND ON THE JOB TRAINING  
6 REQUIRED TO PERFORM THIS WORK AT A SATISFACTORY  
7 LEVEL. I WILL DESCRIBE OUR REVIEW PROCESS, HOW IT  
8 IS STRUCTURED AND THE RECENT UPDATES IN THAT  
9 PROCESS THAT REFLECT OUR CONTINUED COMMITMENT TO  
10 PROVIDE QUALITY SERVICE TO OUR CUSTOMERS. IT WAS  
11 THIS REVIEW PROCESS THAT ENABLED THE COMPANY TO  
12 DISCOVER THE TROUBLE REPORTING PROBLEMS IN THE  
13 NORTH DADE AND GAINESVILLE IMCS.

14

15 Q. MS. IVY, WOULD YOU PLEASE PROVIDE THE COMMISSION  
16 WITH A BRIEF DESCRIPTION OF HOW A CUSTOMER TROUBLE  
17 REPORT IS HANDLED BY SOUTHERN BELL?

18

19 A. YES. WHEN CUSTOMERS EXPERIENCE TROUBLE WITH THEIR  
20 SERVICE, THEY CALL 611 TO REPORT THE SERVICE  
21 PROBLEM. WHEN DIALING "611," THE CUSTOMER SPEAKS  
22 TO A REPAIR SERVICE ATTENDANT TO COMPLETE THE  
23 TROUBLE REPORT TRANSACTION. THE TELEPHONE NUMBER  
24 IS INPUT INTO THE LOOP MAINTENANCE OPERATIONS  
25 SYSTEM (LMOS), WHEREUPON THE CUSTOMER'S "LINE

1 RECORDS" ARE RETRIEVED. THIS INFORMATION CONSISTS  
2 OF THE SUBSCRIBER'S NAME AND ADDRESS, TELEPHONE  
3 NUMBER, AND UNPOPULATED FIELDS FOR TROUBLE ENTRY  
4 INFORMATION. THE CUSTOMER THEN PROVIDES A TROUBLE  
5 DESCRIPTION WHICH IS ENTERED BY THE REPAIR CLERK  
6 INTO THE TROUBLE DESCRIPTION FIELD. THE CUSTOMER  
7 IS ALSO QUERIED CONCERNING ANY OTHER PERTINENT  
8 INFORMATION, INCLUDING A REQUEST FOR A FOLLOW UP  
9 CONTACT NUMBER.

10

11 ONCE THE CUSTOMER TROUBLE REPORT CONTACT IS  
12 COMPLETED, THE TROUBLE REPORT IS ELECTRONICALLY  
13 TRANSMITTED VIA LMOS TO THE APPROPRIATE IMC FOR  
14 FURTHER ANALYSIS, TESTING, AND DISPATCH. THE  
15 SYSTEM AUTOMATICALLY ENTERS THE DATE AND TIME WHEN  
16 THE REPORT IS RECEIVED AND TRANSMITTED.

17

18 WHEN THE TROUBLE REPORT IS INITIALLY ENTERED, THE  
19 MECHANIZED LOOP TEST (MLT) FUNCTION COMMENCES. MLT  
20 IS A PERIPHERAL SYSTEM TO LMOS WHICH PERFORMS  
21 MECHANICAL TEST FUNCTIONS. VARIOUS MLT TESTS ARE  
22 PERFORMED ON THE CUSTOMER'S LINE TO DETERMINE IF  
23 ANY FAULTS EXIST. EACH MLT TEST HAS AN ASSOCIATED  
24 VERIFICATION (VER) CODE THAT DESCRIBES ANY FAULT ON  
25 THE SUBSCRIBER'S LINE.

1

2 ONCE THE MLT TEST IS PERFORMED, THE TROUBLE IS THEN  
3 TRANSMITTED TO THE APPROPRIATE FRONT END COMPUTER  
4 SERVING THE IMC RESPONSIBLE FOR THE CUSTOMER'S  
5 SERVICE. WITHOUT HUMAN INTERVENTION, THE REPORT IS  
6 SUBJECTED TO SPECIFIC CRITERIA STATEMENTS  
7 CALLED ALGORITHMS. THIS FEATURE IS REFERRED TO AS  
8 "AUTOSCREEN."

9

10 THIS CRITICAL TESTING PROCESS IS USED TO DIRECT THE  
11 CUSTOMER'S TROUBLE REPORT EITHER TO A DISPATCH POOL  
12 OR TO A MAINTENANCE ADMINISTRATOR (MA) IN THE IMC  
13 FOR MANUAL INTERVENTION. MANUAL INTERVENTION IS  
14 NECESSARY IF THE TESTING CRITERIA INDICATE A NEED  
15 FOR ADDITIONAL SCREENING, TESTING, ISOLATION, OR  
16 ANALYSIS.

17

18 A TROUBLE REPORT THAT IS DIRECTED TO THE DISPATCH  
19 POOL IS AUTOMATICALLY DISPATCHED TO A FIELD  
20 TECHNICIAN WHO RETRIEVES THE REPORT WITH A HAND  
21 HELD COMPUTER ACCESS TERMINAL. THE REPORT CONTAINS  
22 THE TEST RESULTS AND PERTINENT INFORMATION  
23 NECESSARY FOR THE TECHNICIAN TO PERFORM THE WORK  
24 NEEDED TO RESTORE THE CUSTOMER'S SERVICE. A REPORT  
25 SENT TO THE DISPATCH POOL IS DISPATCHED BASED ON

1 SPECIFIC SERVICE PRIORITIES, E.G., OUT OF SERVICE,  
2 COMMITMENT TIMES, EMERGENCY RESTORATION, CLASS OF  
3 SERVICE, ETC.

4

5 THE TROUBLE REPORTS THAT ARE DIRECTED TO MAS FOR  
6 MANUAL INTERVENTION ARE ALWAYS RETESTED BY AN MA  
7 PRIOR TO DISPATCH. AN ATTEMPT IS ALSO MADE TO  
8 CONTACT THE CUSTOMER FOR ANY ADDITIONAL NECESSARY  
9 INFORMATION. AFTER THE MA HAS RETESTED THE REPORT,  
10 THE REPORT IS EITHER CLOSED OUT OR SENT TO THE  
11 DISPATCH POOL FOR A TECHNICIAN TO RESTORE THE  
12 SERVICE AND CLOSE OUT THE TROUBLE.

13

14 Q. PLEASE DESCRIBE HOW A TROUBLE IS DETERMINED TO BE  
15 SERVICE AFFECTING (SA) OR OUT OF SERVICE (OOS).

16

17 A. THE METHOD FOR DETERMINING AN OUT OF SERVICE  
18 CONDITION HAS RECENTLY CHANGED. SINCE MAY 28,  
19 1993, A TROUBLE REPORT HAS BEEN CLASSIFIED AS  
20 OOS/SA ONLY BY THE TROUBLE REPORT RECEIPT CENTER  
21 (CRSAB). THUS, AN OUT OF SERVICE STATUS CONDITION  
22 IS BASED ON THE CUSTOMER'S REPORTED INABILITY TO  
23 MAKE OR RECEIVE CALLS. PERSONNEL IN THE  
24 INSTALLATION MAINTENANCE CENTER (IMC) NO LONGER  
25 HAVE THE CAPABILITY OF STATUSING A TROUBLE AS OUT

1 OF SERVICE OR SERVICE AFFECTING.

2

3 Q. HOW DID THE COMPANY PREVIOUSLY DETERMINE IF THE  
4 TROUBLE WAS SA OR OOS?

5

6 A. PREVIOUSLY, IF A REPORT WAS AUTOMATICALLY SCREENED  
7 AND MET THE OOS CRITERIA, IT WAS STATUSED AS OOS AT  
8 THE TIME AND WAS SENT TO THE DISPATCH POOL. THE  
9 OOS CRITERIA CONSIDERED THE DEGREE OF TECHNICAL  
10 FAULT TESTED. WHEN MANUAL INTERVENTION WAS  
11 NECESSARY, THE MA USED THE SAME CRITERIA THAT  
12 AUTO-SCREEN EMPLOYED, AS WELL AS INTERACTION WITH  
13 THE CUSTOMER TO DETERMINE WHETHER OR NOT THE REPORT  
14 SHOULD BE SCORED OOS.

15

16 Q. WHEN AN EMPLOYEE IS SELECTED FOR THE MAINTENANCE  
17 ADMINISTRATOR JOB, WHAT TYPE OF TRAINING DOES THE  
18 EMPLOYEE RECEIVE?

19

20 A. SINCE THE EARLY EIGHTIES, MAINTENANCE ADMINISTRATOR  
21 TRAINING HAS UNDERGONE MANY CHANGES. MOST OF THE  
22 TRAINING UPGRADES HAVE BEEN AS A RESULT OF  
23 MECHANIZATION, CONSOLIDATION OF IMCS AND ADDITIONAL  
24 WORK FUNCTIONS THAT WERE ADDED TO INCREASE TOTAL  
25 QUALITY IN PROVIDING CUSTOMER SERVICE. DURING THIS



1 TIME FRAME, MAINTENANCE ADMINISTRATORS HAVE BEEN  
2 GIVEN A NUMBER OF DIFFERENT TRAINING COURSES. A  
3 GREAT DEAL OF THE TRAINING CENTERS AROUND  
4 SCREENING/DISPATCHING FUNCTIONS, MECHANIZED LOOP  
5 TESTING, AND MECHANIZED MAPPER ASSIGNER. SOME OF  
6 THE COURSES ARE SELF-PACED AND COMPLETED THROUGH  
7 WORK BOOKS, WHILE OTHERS ARE INSTRUCTOR-LED. AS  
8 WITH ANY TRAINING, MAS ARE CLOSELY SUPERVISED AND  
9 GIVEN ON-THE-JOB TRAINING WHEN CHANGES OCCUR.

10

11 CURRENTLY, AN MA MUST COMPLETE THE FOLLOWING SIX  
12 CORE CLASSROOM COURSES: INITIAL MAINTENANCE  
13 TRAINING, MECHANIZED MAPPER ASSIGNER, MECHANIZED  
14 LOOP TESTING, FACILITY ASSIGNMENT CENTER USER  
15 OPERATIONS, RECENT MEMORY ASSIGNMENT SYSTEMS, AND  
16 SERVICE ORDER COMMUNICATIONS SYSTEM. THE FIRST  
17 COURSE PROVIDES THE MA WITH A BASIC UNDERSTANDING  
18 OF LMOS AND THE VARIOUS COMPUTER COMMANDS USED IN  
19 CONNECTION WITH TROUBLE REPORT PROCESSING. IT LAYS  
20 THE FOUNDATION FOR ADDITIONAL TRAINING IN ANALYZING  
21 CUSTOMER TROUBLE REPORTS. THE NEXT TWO COURSES,  
22 MECHANIZED MAPPER ASSIGNER AND MECHANIZED LOOP  
23 TESTING, PREPARE THE MA TO DIRECT THE REPORT TO THE  
24 PROPER WORK GROUP FOR FINAL RESOLUTION. THE FINAL  
25 THREE COURSES GIVE THE MA THE NECESSARY TRAINING TO

1 INTERACT WITH THE DATA BASES THAT TRACK OUR: 1)  
2 CABLE FACILITIES; 2) CENTRAL OFFICE TRANSLATIONS;  
3 AND 3) CUSTOMERS' SERVICE ORDER ACTIVITY.

4  
5 ONCE THE FORMAL TRAINING IS COMPLETED, THE MA IS  
6 ASSIGNED DIFFERENT WORK FUNCTIONS. AN EXPERIENCED  
7 MA OBSERVES AND ASSISTS THE NEW MA IN UNDERSTANDING  
8 EACH TASK, I.E., SCREENING, TESTING, DISPATCH, ETC.  
9 THIS ON-THE-JOB TRAINING IS CLOSELY SUPERVISED BY  
10 AN ASSISTANT MANAGER.

11  
12 AT FIRST, A DAILY REVIEW OF ALL TASKS PERFORMED BY  
13 THE MA IS CONDUCTED. AS THE MA PROGRESSES, SPOT  
14 CHECKS AND FEEDBACK ARE PROVIDED BY THE ASSISTANT  
15 MANAGER RESPONSIBLE FOR TRAINING AND THE MA'S  
16 IMMEDIATE SUPERVISOR.

17  
18 TO SUMMARIZE, TRAINING IN THE IMC IS A CONTINUOUS  
19 PROCESS AS UPDATES ARE MADE TO THE SYSTEM, PRACTICE  
20 AND PROCEDURAL CHANGES OCCUR, AND PUBLIC SERVICE  
21 COMMISSION RULES CHANGE. FOLLOW-UP BY THE TRAINING  
22 SUPERVISOR IS CONSTANT TO ENSURE THAT EACH MA  
23 UNDERSTANDS THE CHANGES.

24  
25 Q. IS AN MA FULLY QUALIFIED TO PERFORM HER ASSIGNED

1 DUTIES UPON COMPLETION OF THE FORMAL TRAINING?

2

3 A. NO. AS WITH MANY TECHNICAL ASSIGNMENTS IN OUR  
4 BUSINESS, THERE IS A LEARNING CURVE ASSOCIATED WITH  
5 AN INDIVIDUAL'S BECOMING PROFICIENT IN HANDLING  
6 TROUBLE REPORTS. BECAUSE OF THE VARIOUS TECHNICAL  
7 AND ENVIRONMENTAL CONDITIONS THAT MAY AFFECT A  
8 CUSTOMER'S SERVICE, THE COMPLEX AND CHANGING  
9 TECHNOLOGY INVOLVED, AND THE DIFFERING ABILITY OF  
10 EACH EMPLOYEE TO BECOME AN EXPERT IN RECOGNIZING  
11 THE MANY DIFFERENT CAUSES OF TROUBLES, EACH  
12 EMPLOYEE VARIES IN THE LENGTH OF TIME IT TAKES HER  
13 TO BECOME SATISFACTORY IN PERFORMING HER DUTIES.  
14 AGAIN, UNTIL SHE IS FULLY PROFICIENT, EACH MA IS  
15 CLOSELY MONITORED BY A SUPERVISOR TO ENSURE THAT  
16 THE JOB IS BEING PERFORMED AT A SATISFACTORY LEVEL.

17

18

19 Q. ONCE AN EMPLOYEE HAS COMPLETED THE FORMAL TRAINING  
20 AND HAS PROGRESSED WITH THE ON-THE-JOB TRAINING,  
21 CAN MISTAKES STILL OCCUR?

22

23 A. YES. PRIOR TO THE INTRODUCTION OF OUR CURRENT  
24 CATEGORIZATION PROCESS, THE PROCESS OF CATEGORIZING  
25 TROUBLE REPORTS WAS MORE OF AN ART THAN A SCIENCE.

1 TWO PEOPLE COULD INTERPRET THE SAME DATA  
2 DIFFERENTLY AND ONE COULD MAKE AN HONEST MISTAKE.  
3 AS I HAVE PREVIOUSLY DESCRIBED, THE PROCESSING OF  
4 CUSTOMER TROUBLE REPORTS IS AN EVER CHANGING,  
5 DYNAMIC, AND COMPLEX PROCESS. THUS, THE POTENTIAL  
6 FOR UNINTENTIONAL ERRORS ALWAYS EXISTS.

7  
8 IN ADDITION, BECAUSE OF THE COMPLEXITY OF THE  
9 PROCESS, THERE IS THE POSSIBILITY OF A  
10 MISUNDERSTANDING OF INSTRUCTIONS.

11

12 Q. DID SOUTHERN BELL EVER FIND EXAMPLES OF ABUSE OF  
13 THE TROUBLE REPORT PROCESS?

14

15 A. YES. IN OCTOBER OF 1990, THE NETWORK STAFF  
16 CONDUCTED A ROUTINE NETWORK OPERATIONS REVIEW IN  
17 THE NORTH DADE IMC. IN THAT REVIEW A NUMBER OF  
18 TROUBLE REPORTS THAT HAD BEEN IMPROPERLY HANDLED  
19 WERE IDENTIFIED. WHEN THE RESULTS OF THE REVIEW  
20 WERE PROVIDED TO THE SOUTH FLORIDA GENERAL MANAGER,  
21 A SECURITY DEPARTMENT INVESTIGATION WAS INITIATED.  
22 THE INVESTIGATION DETERMINED THAT TROUBLE REPORTS  
23 HAD BEEN DELIBERATELY MISCODED AS OUT-OF-SERVICE  
24 WHEN IN FACT THEY SHOULD HAVE BEEN CODED AS SERVICE  
25 AFFECTING. THE INVESTIGATION ALSO IDENTIFIED THE

1 EMPLOYEES RESPONSIBLE FOR THE MISCODING. THE TWO  
2 MANAGEMENT EMPLOYEES INVOLVED WERE DISCHARGED.

3

4 THE COMPANY'S NORTH DADE INVESTIGATION LED TO A  
5 STATEWIDE REVIEW OF TROUBLE REPORT STATUSING.

6 ANOTHER IRREGULARITY WAS DISCOVERED IN THE

7 GAINESVILLE IMC. A SECURITY DEPARTMENT

8 INVESTIGATION WHICH FOLLOWED DISCOVERED THAT ONE OR

9 MORE EMPLOYEES HAD CREATED FICTITIOUS

10 OUT-OF-SERVICE TROUBLE REPORTS THAT WERE THEN

11 CLEARED WITHIN 24 HOURS IN AN ATTEMPT TO IMPROPERLY

12 "BUILD THE BASE" OF OUT OF SERVICE TROUBLES.

13

14 Q. WHAT CONTROLS DID SOUTHERN BELL HAVE IN PLACE TO

15 ENSURE COMPLIANCE WITH ITS TROUBLE HANDLING

16 PRACTICES AND PROCEDURES?

17

18 A. SOUTHERN BELL HAD VARIOUS CONTROLS TO ENSURE

19 ADHERENCE TO ITS PRACTICES AND PROCEDURES. ONE OF

20 THE MOST IMPORTANT CONTROLS WAS THE

21 OPERATIONAL/STANDARDIZATION REVIEW PROCESS. THESE

22 REVIEWS WERE CONDUCTED CONTINUOUSLY TO IDENTIFY FOR

23 MANAGEMENT THOSE AREAS WHERE ERRORS WERE OCCURRING,

24 TO ENSURE COMPLIANCE WITH PRESCRIBED PRACTICES AND

25 PROCEDURES, AND TO DETECT ANY POSSIBLE INTEGRITY

1 ISSUES. ANOTHER CONTROL CONSISTED OF THE VARIOUS  
2 REPORTS PROVIDED TO LOCAL MANAGEMENT THAT SHOULD  
3 HAVE BEEN USED TO IDENTIFY ANY QUESTIONABLE TROUBLE  
4 REPORTING PRACTICES IN THE IMC. THERE WERE ALSO  
5 SIMILAR REPORTS OF NON-MANAGEMENT WORK PERFORMED BY  
6 FIELD EMPLOYEES.

7

8 Q. CAN YOU EXPLAIN THE STANDARDIZATION REVIEW PROCESS  
9 AND DESCRIBE SPECIFICALLY WHAT AREAS ARE REVIEWED?

10

11 A. THERE WERE EIGHT MODULES IN THE STANDARDIZATION  
12 REVIEW PACKAGE. EACH MODULE LOOKED AT SPECIFIC  
13 TYPES OF REPORTS HANDLED BY BOTH IMC AND  
14 INSTALLATION AND MAINTENANCE EMPLOYEES FOR  
15 ACCURACY. THE EIGHT MODULES WERE AS FOLLOWS:

16

17 1. EMPLOYEE REPORTS ISSUED BY THE IMC

18 2. EXCLUDED REPORTS

19 3. CPE CODES

20 4. OUT OF SERVICE STATUSING

21 5. NO-ACCESS STATUSING

22 6. NON-NETWORK CODES

23 7. SPECIAL SERVICE CLASS OF SERVICE

24 (SSMMP)

25 8. CAUSE CODES

1  
2 FOR EACH MODULE, THE REVIEWER LOOKED AT A  
3 MECHANIZED TROUBLE ANALYSIS SYSTEM (MTAS) PRINTOUT  
4 AND THEN SCRUTINIZED THE TOTAL NUMBER OF REPORTS IN  
5 THE SELECTED CATEGORY. ALL REVIEW MODULES HAD  
6 COMMON ITEMS THAT THE REVIEWER CHECKED IN DETAIL.  
7 FOR EXAMPLE, ALL REPORTS MUST HAVE HAD PROPER  
8 DOCUMENTATION IN THE FINAL STATUS NARRATIVE TO  
9 SUBSTANTIATE THE CLOSE OUT; OTHERWISE AN ERROR  
10 (DEVIATION) WAS SCORED IN THE REVIEW.  
11 STANDARDIZATION REVIEW RESULTS WERE PROVIDED TO THE  
12 IMC MANAGEMENT FOR THE EXPRESS PURPOSE OF  
13 IDENTIFYING AREAS WHERE IMPROVEMENT WAS NEEDED.  
14 THIS WAS USED FOR ADDITIONAL TRAINING OR  
15 DISCIPLINARY ACTION WHERE APPROPRIATE. FOLLOW-UP  
16 REVIEWS WERE CONDUCTED WHENEVER THE FIRST REVIEW  
17 FOUND A HIGH ERROR RATE.

18  
19 Q. WHAT WAS THE PRIMARY PURPOSE OF STANDARDIZATION  
20 REVIEWS?

21  
22 A. THE PRIMARY PURPOSE OF STANDARDIZATION REVIEWS WAS  
23 TO PROVIDE INFORMATION TO THE LOCAL IMC MANAGEMENT  
24 AS TO THE AREAS WHERE ENHANCED TRAINING MAY BE  
25 NEEDED. THE LOCAL IMC OPERATIONS WERE EXPECTED TO

1 UTILIZE THE REPORTS FOR IDENTIFYING AND TAKING  
2 CORRECTIVE ACTION. UNUSUAL REVIEW RESULTS WERE  
3 COMMUNICATED TO THE APPROPRIATE GENERAL MANAGER.  
4 IT WAS THIS PROCESS THAT DETECTED THE PROBLEMS IN  
5 THE NORTH DADE IMC IN 1990.

6

7 Q. THERE ARE SOME WHO HAVE ALLEGED THAT UNDUE PRESSURE  
8 WAS PLACED ON IMC PERSONNEL TO MEET THE  
9 COMMISSION'S OBJECTIVES. IS THIS TRUE?

10

11 A. NO. BASED UPON MY EXPERIENCE ON THE STAFF AND IN  
12 THE IMC, THIS IS NOT TRUE. MANAGEMENT AT ALL  
13 LEVELS OF THE COMPANY ARE AWARE OF THE IMPORTANCE  
14 OF ADHERING TO THE COMMISSION'S RULES AND SERVICE  
15 OBJECTIVES. WHILE THE COMPANY IS CLEARLY CONCERNED  
16 WITH COMPLYING WITH ALL COMMISSION RULES, I DO NOT  
17 KNOW OF A MANAGER IN THE COMPANY WHO HAS BEEN  
18 DISCIPLINED, REDUCED IN MANAGEMENT LEVEL OR  
19 RECEIVED DETRIMENTAL PAY TREATMENT AS A RESULT OF  
20 NOT MAKING A COMMISSION OBJECTIVE AFTER GOOD FAITH  
21 EFFORTS TO DO SO. ON THE OTHER HAND, THE COMPANY  
22 DISCIPLINES ANY INDIVIDUAL IT IDENTIFIES AS HAVING  
23 VIOLATED THE COMPANY'S POLICY PROHIBITING THE  
24 MANIPULATION OF ITS SERVICE RECORDS.

25



1 IT IS ALSO IMPORTANT TO UNDERSTAND THAT THE OVERALL  
2 DESIRE OF MY COMPANY'S EMPLOYEES, FROM TOP TO  
3 BOTTOM, IS TO PROVIDE THE BEST CUSTOMER SERVICE  
4 POSSIBLE. THE COMMISSION'S RULES ARE BUT ONE  
5 MEASUREMENT OF THE OVERALL SATISFACTION OF OUR  
6 CUSTOMERS.

7

8 Q. WERE ANY OTHER TYPES OF REVIEWS CONDUCTED TO ENSURE  
9 QUALITY CUSTOMER SERVICE?

10

11 A. YES. THE FLORIDA NETWORK STAFF, DURING 1989 AND  
12 1990, CONDUCTED TECHNICAL PERFORMANCE REVIEWS AND  
13 KEY SERVICE RESULTS REVIEWS. THESE COMPREHENSIVE  
14 REVIEWS WERE PERFORMED TO ENSURE THAT THE ENTIRE  
15 NETWORK OPERATION -- CONSTRUCTION, MAINTENANCE,  
16 INSTALLATION, ENGINEERING, AND SWITCHED SERVICES --  
17 WAS FOLLOWING ESTABLISHED COMPANY PRACTICES AND  
18 PROCEDURES.

19

20 THE REVIEWS WERE CONDUCTED AND FORMALLY PRESENTED  
21 TO THE VICE PRESIDENT-NETWORK FLORIDA, AND THE  
22 GENERAL MANAGER AND OTHER MANAGERS OF THE REVIEWED  
23 OPERATION. DURING 1990 THE TECHNICAL PERFORMANCE  
24 REVIEWS WERE DISCONTINUED AND WE REDIRECTED OUR  
25 RESOURCES BACK TO THE STANDARDIZATION/OPERATIONAL

1 REVIEWS WITH SOME VARIATION AND IMPROVEMENTS.

2

3 Q. IN A FEW OF THE OPERATIONAL/STANDARDIZATION  
4 REVIEWS, SOME OF THE FINDINGS INDICATED A 100%  
5 ERROR RATE. HOW IS THIS POSSIBLE?

6

7 A. THE STANDARDIZATION REVIEWS WERE "SUPER CRITICAL"  
8 BY DESIGN. THE REVIEWERS WERE INSTRUCTED TO BE  
9 "NIT-PICKY" TO IDENTIFY ANY TROUBLE REPORTS THAT  
10 MIGHT BE QUESTIONABLE IN ANY RESPECT. THE GOAL OF  
11 THE REVIEW WAS TO IMPRESS ON THE FIELD OPERATION  
12 THAT EVERY CLOSED TROUBLE REPORT MUST BE DONE  
13 PROPERLY.

14

15 AS AN EXAMPLE, MOST OF THE REVIEWS IDENTIFIED A  
16 HIGH DEVIATION RATE BECAUSE THE NARRATIVES IN  
17 SUPPORT OF THE REASON FOR A TROUBLE BEING EXCLUDED  
18 WERE INSUFFICIENT. THIS DID NOT MEAN THAT EVERY  
19 REPORT WAS DONE INCORRECTLY OR IN ERROR. IN FACT,  
20 EVERY TROUBLE REPORT COULD HAVE BEEN PROPER BUT FOR  
21 THE LACK OF A SUFFICIENTLY DOCUMENTED NARRATIVE TO  
22 SUPPORT THE REPORT. FOR EXAMPLE, IF THE NARRATIVE  
23 FAILED TO IDENTIFY THE NAME OF THE CUSTOMER WHO  
24 REPORTED THE TROUBLE, IT WAS SCORED AS A DEVIATION.  
25 ACCORDINGLY, A HIGH DEVIATION RATE NOTED IN A

1 NETWORK REVIEW DOES NOT NECESSARILY MEAN A HIGH  
2 LEVEL OF SUBSTANTIVE ERRORS. THIS REVIEW EFFORT  
3 WAS DESIGNED TO FOCUS ON EVERY DETAIL TO ENSURE  
4 ACCURACY AND QUALITY IN THE PROVISION OF CUSTOMER  
5 SERVICE.

6

7 Q. WHAT HAS SOUTHERN BELL DONE TO REDUCE THE POTENTIAL  
8 FOR ERRORS IN TROUBLE REPORT PROCESSING?

9

10 A. BECAUSE MANY OF THE IMC PROCESSES HAVE BECOME  
11 COMPUTERIZED, SOUTHERN BELL HAS BEEN ABLE TO  
12 CONSOLIDATE ITS IMCS IN FLORIDA FROM 66 TO 12.  
13 THIS HAS ALLOWED FOR GREATER CONSISTENCY AMONG IMCS  
14 AS TO HOW TROUBLE REPORTS ARE PROCESSED. WE HAVE  
15 ALSO ADDED ADDITIONAL CONTROLS TO DETECT ERRORS AND  
16 PREVENT FALSIFICATION FROM OCCURRING. FOR EXAMPLE,  
17 WE NOW HAVE, FOR SECURITY AND TRACKING PURPOSES,  
18 UNIQUE ID/PASSWORDS, NOT JUST EMPLOYEE CODES. WE  
19 HAVE RESTRICTED WHO CAN ENTER CUSTOMER DIRECT AND  
20 SUBSEQUENT TROUBLE REPORTS TO ONLY THOSE  
21 INDIVIDUALS WHO WORK IN AN AUTOMATED TROUBLE  
22 RECEIPT CENTER (I.E. CRSAB, MAC, COIN, ETC.).  
23 MAINTENANCE CENTER PERSONNEL CAN NO LONGER PERFORM  
24 THIS TRANSACTION. OUR AUTOSCREEN RULES ARE UNIFORM  
25 THROUGHOUT FLORIDA AND CAN ONLY BE CHANGED OR

1       UPDATED WITH HEADQUARTERS STAFF APPROVAL. THE CON  
2       (CARRIED OVER NO) CODE, WHICH WAS USED WHEN  
3       CUSTOMERS ASKED FOR APPOINTMENTS OUTSIDE OUR NORMAL  
4       COMMITMENT, HAS BEEN ELIMINATED. SOFTWARE HAS BEEN  
5       ADDED TO PROVIDE ON-LINE EDITS FOR DISPOSITION AND  
6       CAUSE CODES. FINAL STATUS TIME, I.E., THE ACTUAL  
7       CLOSE TIME, IS NOW USED WHEN DETERMINING WHEN AN  
8       OOS TROUBLE HAS BEEN CLOSED FOR PURPOSES OF THE  
9       COMMISSION'S 24 HOUR RULE. IN ADDITION TO THESE  
10      MECHANIZED CONTROLS, WE CONTINUE TO HAVE QUALITY  
11      REVIEWS BY THE IMC/IM STAFFS. FURTHER,  
12      CERTIFICATION OF THE IMCS AND ITS EMPLOYEES IS AN  
13      ON-GOING PROCESS. CERTIFICATION INVOLVES EDUCATING  
14      THE IMC/I&M FIELD FORCES ON THE SOURCE DOCUMENTS  
15      AVAILABLE TO ASSIST THEM IN HANDLING TROUBLE  
16      REPORTS. EACH EMPLOYEE IS PROVIDED WITH FIELD AIDS  
17      INTENDED FOR THEIR USE WHEN HANDLING A TROUBLE  
18      REPORT. THIS HELPS TO ENSURE THAT IMC/I&M  
19      EMPLOYEES ARE FAMILIAR WITH THE PROPER METHOD OF  
20      HANDLING NEW OR CHANGED PROCEDURES.

21

22 Q.   GIVEN YOUR OPERATIONAL EXPERIENCE AND PERSONAL  
23       INVOLVEMENT WITH OPERATIONAL REVIEWS AS A STAFF  
24       MANAGER, DO YOU KNOW OF ANY INSTANCES WHERE  
25       CUSTOMERS WERE DELIBERATELY DENIED REBATES?

1

2 A. NO. ANY INSTANCE OF MISCODING OF TROUBLE REPORTS  
3 OF WHICH I AM AWARE HAVE INVOLVED CHANGES TO THE  
4 REPORTS THAT DID NOT AFFECT THE REBATE PROCESS. IN  
5 NORTH DADE, SERVICE AFFECTING TROUBLES WERE  
6 MISCODED AS OOS, WHILE IN GAINESVILLE LINES WITHOUT  
7 TROUBLE WERE SHOWN AS OOS. IN EACH INSTANCE THE  
8 MISCODING RELATED TO THE OOS INDEX AND NOT TO  
9 REBATES.

10

11 Q. ARE YOU FAMILIAR WITH THE DEPOSITION TESTIMONY THAT  
12 CERTAIN SOUTHERN BELL EMPLOYEES HAVE GIVEN IN THIS  
13 CASE CONCERNING INAPPROPRIATE CONDUCT IN RELATION  
14 TO TROUBLE REPORTS?

15

16 A. YES. A NUMBER OF IMC EMPLOYEES HAVE TESTIFIED THAT  
17 THEY TOOK CERTAIN ACTIONS THAT WERE CONTRARY TO  
18 COMPANY POLICY. SOME HAVE STATED THAT THEY OR  
19 OTHERS BACKED UP CLEAR TIMES, FAILED TO PROPERLY  
20 CODE OUT OF SERVICE TROUBLES AS OUT OF SERVICE, OR  
21 "BUILT THE BASE." I MUST NOTE THAT, TO THE BEST OF  
22 MY KNOWLEDGE, EACH OF THESE EMPLOYEES HAS INDICATED  
23 THAT SUCH MISCONDUCT CEASED A NUMBER OF YEARS AGO.

24

25 WHEN THE COMPANY DISCOVERED THAT THIS MISCONDUCT

1 MAY HAVE OCCURRED, IT TOOK APPROPRIATE STEPS,  
2 INCLUDING THE DISCIPLINE OF ALL MANAGEMENT PEOPLE  
3 WHO WERE INVOLVED OR ON WHOSE "WATCH" THE  
4 MISCONDUCT MAY HAVE OCCURRED. THE COMPANY  
5 IDENTIFIED THOSE CUSTOMERS WITH OUT OF SERVICE  
6 TROUBLE REPORTS WHO MAY HAVE BEEN AFFECTED AND MORE  
7 THAN FULLY REIMBURSED THEM. FINALLY, THE COMPANY  
8 IMPLEMENTED THE PROCEDURAL CHANGES DESCRIBED  
9 EARLIER IN MY TESTIMONY IN ORDER TO PREVENT FUTURE  
10 MISCODING OF TROUBLE REPORTS.

11

12 WITH REGARD TO THE FILING OF CORRECTED REPORTS WITH  
13 THIS COMMISSION, DEPOSED EMPLOYEES HAVE NOT  
14 PROVIDED SPECIFIC INFORMATION REGARDING THE TIME  
15 PERIOD WHEN SUCH MISCONDUCT HAPPENED OR THE NUMBER  
16 OF REPORTS AFFECTED. THE COMPANY IS, THEREFORE,  
17 UNABLE TO FILE CORRECTED SCHEDULE 11 REPORTS WITH  
18 THE COMMISSION.

19

20 Q. DID SOUTHERN BELL'S MANAGEMENT ENCOURAGE BEHAVIOR  
21 THAT LED TO ANY VIOLATION OF COMMISSION RULES OR  
22 FLORIDA STATUTES?

23

24 A. NO. AS A MANAGER WITH VARIOUS RESPONSIBILITIES IN  
25 THE NETWORK DEPARTMENT FOR THE PAST TEN YEARS, I

1 HAVE NEVER, NOR HAVE MY IMMEDIATE SUPERVISORS OR  
2 HIGHER LEVEL MANAGERS, EVER PROMOTED, ADVOCATED,  
3 DIRECTED OR CONDONED ANY MISREPRESENTATION OR  
4 FALSIFICATION OF ANY CUSTOMER TROUBLE REPORTS OR  
5 TOLERATED ANY ACTIVITIES WHICH WOULD RESULT IN  
6 MISREPORTING OR THE DENIAL OF CUSTOMER OUT-OF-  
7 SERVICE CREDITS. SUCH CONDUCT WOULD BE DIRECTLY  
8 CONTRARY TO SOUTHERN BELL'S EMPHASIS ON CUSTOMER  
9 SERVICE AND ETHICS AND WOULD BE REPREHENSIBLE TO ME  
10 AND, I AM SURE, EACH OF MY COWORKERS.

11

12 Q. CAN YOU DESCRIBE WHAT IMPACT THIS CONTROVERSY HAS  
13 HAD ON YOUR MORALE AND THAT OF THOSE WITH WHOM YOU  
14 WORK?

15

16 A. YES. THESE PAST TWO AND A HALF YEARS HAVE BEEN THE  
17 MOST TRAUMATIC YEARS I HAVE EXPERIENCED SINCE  
18 BEGINNING MY CAREER WITH THE COMPANY TWENTY-FIVE  
19 YEARS AGO. AS A RESULT OF THE ACTS OF A FEW  
20 EMPLOYEES, MY FELLOW EMPLOYEES AND I HAVE BEEN  
21 MALIGNED IN THE MEDIA WITH ALLEGATIONS THAT  
22 SOUTHERN BELL AND ITS EMPLOYEES HAVE ACTED  
23 IMPROPERLY. THESE ALLEGATIONS HAVE ACCUSED ALL OF  
24 US OF INAPPROPRIATE BEHAVIOR. THIS IS ABSOLUTELY  
25 UNTRUE AND UNFAIR TO THE VAST MAJORITY OF SOUTHERN

1 BELL EMPLOYEES WHO WORK DILIGENTLY EACH DAY TO  
2 PROVIDE OUR CUSTOMERS WITH THE BEST SERVICE  
3 POSSIBLE.

4

5 MANAGERS IN THE IMC WHO SEEK TO PROVIDE EXCELLENT  
6 CUSTOMER SERVICE ARE FEARFUL OF BEING DISCIPLINED  
7 FOR MAKING AN HONEST MISTAKE. THIS HAS AFFECTED  
8 OUR PRODUCTIVITY.

9

10 IT WILL TAKE A LONG TIME TO REPAIR THE MORALE OF  
11 EMPLOYEES WHO HAVE BEEN WRONGFULLY DISPARAGED.

12

13 Q. PLEASE SUMMARIZE YOUR TESTIMONY.

14

15 A. MY TESTIMONY HAS FOCUSED ON BASIC OPERATIONAL  
16 ISSUES AND HOW THEY AFFECT CUSTOMER TROUBLE REPORT  
17 HANDLING. I HAVE DESCRIBED A DYNAMIC AND COMPLEX  
18 PROCESS BY WHICH THE COMPANY ACCEPTS, PROCESSES,  
19 AND CORRECTS THE NETWORK PROBLEMS EXPERIENCED BY  
20 OUR CUSTOMERS. I HAVE ALSO DESCRIBED THE CONTROLS  
21 UTILIZED IN THE IMC. THE REVIEW PROCESS UTILIZED  
22 IN THE IMC IDENTIFIED POTENTIAL PROBLEMS WITH THE  
23 TROUBLE HANDLING PROCESS. HAVING BEEN IN A STAFF  
24 CAPACITY AS WELL AS FIELD OPERATIONS, I HAVE NEVER  
25 FELT PRESSURE FROM ANYONE TO FALSIFY CUSTOMER



1       REPORTS.  I AM EMBARRASSED AND PERSONALLY OFFENDED  
2       BY ALL OF THE ADVERSE PUBLICITY AND ACCUSATIONS  
3       DIRECTED TOWARD MY COMPANY.  I DON'T KNOW WHY ANY  
4       EMPLOYEE WOULD FEEL COMPELLED TO FALSIFY REPORTS;  
5       HOWEVER, I CAN ASSURE YOU THAT THIS IS NOT  
6       REFLECTIVE OF THE FINE SOUTHERN BELL EMPLOYEES WHO  
7       PROVIDE QUALITY CUSTOMER SERVICE.

8

9 Q.  DOES THIS CONCLUDE YOUR TESTIMONY?

10

11 A.  YES.

12

13

14

15

16

17

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24

25

1 SOUTHERN BELL TELEGRAPH AND TELEPHONE COMPANY  
2 TESTIMONY OF A. WAYNE TUBAUGH  
3 BEFORE THE  
4 FLORIDA PUBLIC SERVICE COMMISSION  
5 IN  
6 DOCKET NO. 920260-TL  
7 JULY 2, 1993  
8  
9  
10 Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS  
11 ADDRESS.  
12  
13 A. MY NAME IS WAYNE TUBAUGH. I AM EMPLOYED BY  
14 BELLSOUTH TELECOMMUNICATIONS, INC. D/B/A SOUTHERN  
15 BELL TELEPHONE AND TELEGRAPH COMPANY ("SBT" OR "THE  
16 COMPANY"). MY BUSINESS ADDRESS IS SUITE 400, 150  
17 SOUTH MONROE STREET, TALLAHASSEE, FLORIDA 32301.  
18  
19 Q. PLEASE GIVE A BRIEF DESCRIPTION OF YOUR BACKGROUND  
20 AND EXPERIENCE.  
21  
22 A. I WAS GRADUATED FROM FLORIDA STATE UNIVERSITY WITH  
23 A BACHELOR OF SCIENCE DEGREE IN FINANCE AND  
24 MANAGEMENT IN 1973.  
25

1 I BEGAN MY CAREER WITH SOUTHERN BELL IN JULY OF  
2 1973 IN FLORIDA, WHERE I HELD ASSIGNMENTS IN THE  
3 NETWORK AND PERSONNEL DEPARTMENTS. IN 1983 I  
4 ASSUMED RESPONSIBILITY IN SOUTHERN BELL'S  
5 HEADQUARTERS RATES AND TARIFFS DEPARTMENT FOR  
6 ACCESS TARIFF AND REGULATORY MATTERS. IN THAT  
7 CAPACITY, I TESTIFIED BEFORE THE SOUTH CAROLINA  
8 PUBLIC SERVICE COMMISSION ON SEVERAL OCCASIONS  
9 CONCERNING ACCESS SERVICE AND COMPENSATION RELATED  
10 CASES.

11

12 IN 1987 I RETURNED TO THE FLORIDA NETWORK  
13 DEPARTMENT WITH RESPONSIBILITIES FOR INSTALLATION  
14 AND MAINTENANCE ACTIVITIES IN THE GAINESVILLE,  
15 FLORIDA DISTRICT. IN APRIL OF 1989, I ASSUMED MY  
16 CURRENT POSITION.

17

18 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

19

20 A. THE PURPOSE OF MY TESTIMONY IS TO PROVIDE THE  
21 COMMISSION WITH ADDITIONAL INFORMATION, BEYOND THAT  
22 CONTAINED IN THE TESTIMONY OF THE OTHER WITNESSES,  
23 RELATED TO THE QUALITY OF SERVICE THAT WE HAVE  
24 PROVIDED TO OUR CUSTOMERS WHILE OPERATING UNDER THE  
25 INCENTIVE SHARING PLAN.

1

2 Q. HOW WOULD YOU DESCRIBE THE COMPANY'S QUALITY OF  
3 SERVICE UNDER THE INCENTIVE SHARING PLAN?

4

5 A. I BELIEVE, BASED ON MY REVIEW OF THE FACTS, THAT  
6 SOUTHERN BELL'S CUSTOMERS HAVE CONTINUED TO RECEIVE  
7 EXCELLENT SERVICE. AS I WILL DISCUSS IN MORE  
8 DETAIL LATER IN MY TESTIMONY, THERE HAS BEEN  
9 CONSIDERABLE CONCERN RAISED, UNFAIRLY IN MY  
10 OPINION, THAT SOUTHERN BELL'S QUALITY OF SERVICE  
11 HAS DECLINED BECAUSE IT PURPORTEDLY SACRIFICED  
12 SERVICE TO INCREASE EARNINGS. THIS CONCERN IS  
13 REFLECTED IN VARIOUS COMMENTS MADE BY SOME  
14 EMPLOYEES IN STATEMENTS AND DEPOSITIONS THAT HAVE  
15 BEEN TAKEN BY THE OFFICE OF THE ATTORNEY GENERAL  
16 AND THE OFFICE OF PUBLIC COUNSEL. HOWEVER, THE  
17 OBJECTIVE EVIDENCE CONTINUES TO SUPPORT THE  
18 COMPANY'S ASSERTIONS THAT SERVICE REMAINS VERY  
19 GOOD.

20

21 Q. CAN YOU EXPLAIN THE BASIS FOR YOUR ASSERTION THAT  
22 SERVICE CONTINUES TO REMAIN AT A VERY HIGH LEVEL?

23

24 A. PERHAPS THE BEST PLACE TO BEGIN IS WITH THE  
25 COMPANY'S TELSAM RESULTS. AS MR. ROBERT BARRERE

1 STATED IN TESTIMONY FILED IN AN EARLIER PHASE OF  
2 THIS PROCEEDING, IN THE 1971-1972 PERIOD A PROGRAM  
3 CALLED THE "TELEPHONE SERVICE ATTITUDE  
4 MEASUREMENT," OR TELSAM, WAS DEVELOPED TO MEASURE  
5 THE COMPANY'S CUSTOMER SERVICE PERFORMANCE. TELSAM  
6 IS STILL USED BY SOUTHERN BELL TODAY. ESSENTIALLY,  
7 A CUSTOMER IS POLLED SHORTLY AFTER HE OR SHE HAS  
8 CONTACT WITH THE COMPANY TO DETERMINE WHETHER THE  
9 CUSTOMER WAS SATISFIED WITH THE SERVICE PROVIDED.  
10 THE TELSAM RESULTS COVERING THE PERIOD 1988 THROUGH  
11 1991 ARE ATTACHED AS MY EXHIBIT AWT-1. THE RESULTS  
12 SHOW THAT OVER 90% OF OUR CUSTOMERS HAVE  
13 CONSISTENTLY BEEN SATISFIED WITH OUR SERVICE AND,  
14 INDEED, THAT THE PERCENTAGE OF SATISFIED CUSTOMERS  
15 HAS INCREASED DURING THE PERIOD THAT SOUTHERN BELL  
16 HAS BEEN UNDER ITS INCENTIVE SHARING PLAN. WHILE  
17 THE PARTIES CAN DEBATE THE MEANING OF ERRONEOUS  
18 TROUBLE REPORTS AND THEIR IMPACT ON SERVICE, OUR  
19 CUSTOMERS THINK THAT OUR SERVICE TODAY IS FINE.

20

21 Q. DO YOU HAVE ANY MORE SPECIFIC EVIDENCE THAT  
22 CUSTOMERS REMAIN SATISFIED WITH SOUTHERN BELL'S  
23 SERVICE?

24

25 A. YES. DURING THE EARLIER PHASE OF THIS PROCEEDING,

1 THE COMMISSION HELD NUMEROUS HEARINGS AROUND THE  
2 STATE TO HEAR FROM THE PUBLIC CONCERNING SOUTHERN  
3 BELL'S SERVICE. I ATTENDED THE HEARINGS IN  
4 JACKSONVILLE AND WEST PALM BEACH AND HAVE REVIEWED  
5 THE TRANSCRIPTS OF THE PROCEEDINGS OF THE OTHER  
6 HEARINGS. DURING THOSE HEARINGS ONLY TWO CUSTOMERS  
7 (OTHER THAN A CUSTOMER WHO HAD A DENIAL OF SERVICE  
8 ISSUE IN JACKSONVILLE) SPOKE OUT CONCERNING SERVICE  
9 AND THOSE COMPLAINTS HAD TO DO WITH A MISSED  
10 APPOINTMENT AND A DELAY IN REPAIR. MEMBERS OF THIS  
11 COMMISSION ATTENDED THOSE HEARINGS AND KNOW THAT  
12 THERE WERE HUNDREDS, IF NOT THOUSANDS OF  
13 SUBSCRIBERS WHO ATTENDED AND WHO WERE QUITE VOCAL  
14 IN EXPRESSING THEIR FEELINGS REGARDING PROPOSALS BY  
15 THE COMPANY. SURELY IF THERE HAD BEEN A MAJOR  
16 SERVICE DECLINE, THE COMMISSION WOULD HAVE HEARD  
17 FROM THE PEOPLE. THIS HASN'T HAPPENED. AS A  
18 MATTER OF FACT, FOUR SUBSCRIBERS TOOK THE TIME TO  
19 PRAISE OUR EMPLOYEES AND THE SERVICE WE PROVIDE.

20

21 Q. EVEN IF THERE WERE FEW OR NO SERVICE COMPLAINTS AT  
22 THE SERVICE HEARINGS, HAVEN'T THERE BEEN COMPLAINTS  
23 MADE BY SUBSCRIBERS DIRECTLY TO THE COMMISSION?

24

25 A. YES, AND THOSE COMPLAINTS TELL AN INTERESTING STORY

1 AS WELL. FIRST, CONSIDER THE JUSTIFIED COMPLAINTS.  
2 THESE ARE MOST IMPORTANT BECAUSE SIMPLE LOGIC  
3 DICTATES THAT WITH ALL THE ADVERSE PRESS MY COMPANY  
4 HAS EXPERIENCED IN THE PAST FEW YEARS, IT WOULD BE  
5 SURPRISING IF TOTAL COMPLAINTS HAD NOT VARIED  
6 WIDELY. JUSTIFIED COMPLAINTS, ON THE OTHER HAND,  
7 ARE VERIFIABLE AND ARE MORE INDICATIVE OF ACTUAL  
8 SERVICE QUALITY. IN THIS REGARD, SOUTHERN BELL'S  
9 JUSTIFIED COMPLAINTS WERE LOWER IN 1988, 1989 AND  
10 1990 THAN IN 1987. FURTHERMORE, WHILE COMPLAINTS  
11 IN 1991 DID INCREASE, THE 1992 RESULTS SHOWED  
12 ALMOST A 40% DECREASE COMPARED TO 1991. RESULTS  
13 FOR 1993 TO-DATE ARE SIMILAR TO THE RESULTS FOR  
14 1992.

15

16 Q. DIDN'T THE STAFF FIND, IN ITS SERVICE AUDIT  
17 CONDUCTED IN AN EARLIER PHASE OF THIS PROCEEDING,  
18 THAT THERE WERE QUESTIONS ABOUT WHETHER SOUTHERN  
19 BELL'S SERVICE HAD DECLINED?

20

21 A. IT IS TRUE THAT THE STAFF RAISED SEVERAL QUESTIONS  
22 CONCERNING SOUTHERN BELL'S SERVICE AND I HAVE  
23 RESPONDED TO THOSE CONCERNS PREVIOUSLY. PRESUMABLY  
24 THE STAFF WILL DO ANOTHER SERVICE AUDIT BEFORE THIS  
25 CASE IS TRIED AND I WILL ADDRESS THE RESULTS OF

1 THAT AUDIT THEN. HOWEVER, JUST TO KEEP THE FACTS  
2 STRAIGHT, LET ME RECAP WHAT I SAID EARLIER. FIRST,  
3 THE STAFF POINTED OUT IN ITS AUDIT THAT COMPLAINTS  
4 (NOT JUSTIFIED COMPLAINTS, BUT JUST COMPLAINTS)  
5 AGAINST SOUTHERN BELL INCREASED 13% IN 1991 WHEN  
6 COMPARED TO 1990. I POINTED OUT THEN AND SAY  
7 AGAIN, THAT THE TOTAL FOR ALL LECS IN FLORIDA  
8 INCREASED 16% IN 1991 AND THAT TWO OF THE OTHER  
9 LECS HAD INCREASES OF 43% AND 41%. AS I NOTED, WE  
10 WOULD PREFER NO COMPLAINTS, BUT THAT IS SIMPLY  
11 UNREALISTIC. OUR RESULTS WERE NOT OUT OF LINE IN  
12 1991. AS I ALSO INDICATED IN THAT EARLIER  
13 TESTIMONY, WE HAD A NUMBER OF ADVERSE PRESS STORIES  
14 DURING 1991, AND AS MY EXHIBIT AWT-2 SHOWS, SPIKES  
15 IN COMPLAINTS AGAINST SOUTHERN BELL IN 1991 CLOSELY  
16 FOLLOWED THOSE STORIES. OF COURSE, AND AS THE  
17 STAFF ITSELF NOTED, COMPLAINTS AGAINST SOUTHERN  
18 BELL WERE DOWN IN 1992 OVER 1991 BY 25%.

19

20 Q. DIDN'T THE STAFF NOTE THAT COMPLAINTS REGARDING  
21 SOUTHERN BELL'S DELAYED CONNECTIONS WERE  
22 SIGNIFICANT?

23

24 A. YES. BUT AGAIN I HAVE ALREADY POINTED OUT THE  
25 CAUSES OF DELAYED CONNECTIONS AND THAT THERE ARE



1           SIGNIFICANT REASONS WHY ALL OF THE LECS ARE  
2           EXPERIENCING DELAYED CONNECTIONS. AS I NOTED  
3           PREVIOUSLY, WE REPLIED TO AN INQUIRY BY THE STAFF  
4           CONCERNING THIS MATTER IN LATE 1991. WE ANSWERED  
5           THE INQUIRY AND ADVISED THE STAFF OF OUR PLAN TO  
6           IMPROVE OUR PERFORMANCE. I ALSO WOULD NOTE THAT  
7           EVEN THE STAFF ACKNOWLEDGED THAT SOUTHERN BELL'S  
8           DELAYED CONNECTION COMPLAINTS WERE DOWN OVER 50%  
9           WHEN COMPARING 1992 OVER 1991. THUS, OUR PLAN HAS  
10          PROVEN TO BE SUCCESSFUL.

11

12 Q.       WHAT ABOUT THE STAFF'S FINDING IN ITS SERVICE  
13       AUDIT THAT SOUTHERN BELL HAD MISSED 14 OF THE  
14       STAFF'S 71 SERVICE STANDARDS?

15

16 A.       IN OUR OPINION, THIS DOES NOT REFLECT A REDUCTION  
17       IN THE GENERAL LEVEL OF SERVICE THAT WE HAVE BEEN  
18       PROVIDING TO OUR SUBSCRIBERS. FIRST, OF THE 14  
19       STANDARDS THE STAFF NOTED THAT WE MISSED, 8 HAD TO  
20       DO WITH PAY TELEPHONE SERVICE. MORE IMPORTANTLY,  
21       IN EACH CASE THE PAY TELEPHONE STANDARD THAT STAFF  
22       SET FOR SOUTHERN BELL TO MEET WAS 100%. FOR  
23       INSTANCE, 100% OF THE PAY TELEPHONES HAD TO HAVE  
24       DIRECTORIES AT THE TELEPHONE. 100% OF THE PAY  
25       TELEPHONES HAD TO BE IN SERVICE. WE UNDERSTAND

1 THAT THE COMMISSION'S STANDARDS MUST BE MET, BUT AS  
2 A PRACTICAL MATTER, NO ONE CAN ENSURE THAT EVERY  
3 PAY TELEPHONE IN THE STATE OF FLORIDA WILL BE  
4 WORKING 24 HOURS A DAY, SEVEN DAYS A WEEK, 52 WEEKS  
5 A YEAR. IT JUST ISN'T POSSIBLE. THE SAME IS TRUE  
6 WITH REGARD TO DIRECTORIES. THESE PAY TELEPHONES  
7 ARE OUT IN THE OPEN IN MOST INSTANCES AND IT IS  
8 DIFFICULT TO KEEP THE DIRECTORIES IN PLACE,  
9 SOMETHING EVERYONE SHOULD BE ABLE TO APPRECIATE.  
10 AGAIN, I DO NOT INTEND TO BELITTLE THE FINDINGS OF  
11 THE SERVICE AUDIT, BUT I MUST POINT OUT THAT WE DID  
12 MEET OVER 80% OF THE STANDARDS AND A MAJORITY OF  
13 THE ONES WE MISSED COULD NOT BE MET ON A CONTINUAL  
14 BASIS BY ANYONE. THESE RESULTS SIMPLY DO NOT  
15 INDICATE THAT WE ARE PROVIDING POOR SERVICE. TO  
16 THE CONTRARY, WE SUGGEST THAT THEY SHOW THE  
17 OPPOSITE, THAT OUR SERVICE IS FINE.

18

19 Q. CAN YOU SUMMARIZE YOUR POSITION REGARDING THE  
20 QUALITY OF SOUTHERN BELL'S SERVICE TO ITS  
21 SUBSCRIBERS?

22

23 A. I FEEL THAT ALL OF THE OBJECTIVE INDICATORS SAY  
24 THAT OUR SUBSCRIBERS ARE GETTING EXCELLENT SERVICE  
25 AND THAT THERE IS NO INDICATION THAT OUR SERVICE IS

1 DECLINING AS A RESULT OF OUR INCENTIVE SHARING PLAN  
2 OR FOR ANY OTHER REASON. THE COMPANY IS NOT  
3 PERFECT, BUT NO ENTITY PROVIDING TELEPHONE SERVICE  
4 IN FLORIDA OR ANYWHERE ELSE IS. THERE ARE  
5 OCCASIONAL HUMAN FAILURES AND THERE ARE TIMES WHEN  
6 WE WISH THE SERVICE WE PROVIDED WAS BETTER THAN IT  
7 IS. ON BALANCE, THOUGH, OUR CUSTOMERS STATE THAT  
8 THEY ARE SATISFIED OR MORE THAN SATISFIED WITH THE  
9 SERVICE WE ARE PROVIDING.

10

11 Q. CAN YOU COMMENT ON THE QUALITY OF SERVICE REPORTS  
12 THAT ARE FILED WITH THE COMMISSION?

13

14 A. ONE OF MY RESPONSIBILITIES IS TO FILE WITH THIS  
15 COMMISSION THE QUARTERLY QUALITY OF SERVICE  
16 REPORTS. A MAJOR ISSUE HAS BEEN MADE REGARDING THE  
17 ACCURACY OF THOSE REPORTS. AS A CONSEQUENCE OF THE  
18 QUESTIONS THAT HAVE BEEN RAISED, IT IS APPROPRIATE  
19 FOR ME TO COMMENT ON MY RESPONSIBILITIES CONCERNING  
20 THE REPORTS.

21

22 INITIALLY, EVERYONE SHOULD UNDERSTAND THAT THESE  
23 REPORTS ARE A COMPILATION OF DATA THAT BEGINS WITH  
24 THE TROUBLE REPORTING PROCESS ITSELF. THAT PROCESS  
25 HAS BEEN DISCUSSED IN SOME DETAIL BY MS. APRIL IVY.

1 AS SHE DESCRIBES, THE ENTIRE REPORT IS BUILT UPON  
2 THE VERY BASIC INPUTS GENERATED BY OUR SERVICE  
3 TECHNICIANS AND BY THE PEOPLE AND SYSTEMS THAT TAKE  
4 AND CLOSE TROUBLE REPORTS. FROM THOSE VERY BASIC  
5 BUILDING BLOCKS, DATA ARE AGGREGATED FROM ALL OVER  
6 THE STATE OF FLORIDA AND ARE COMPILED AND  
7 SUMMARIZED ON A STATE LEVEL BY OUR STAFF. THE  
8 SUMMARIZED DATA ARE THEN ENTERED ON THE COMPANY'S  
9 QUARTERLY QUALITY OF SERVICE REPORT SCHEDULES FILED  
10 WITH THIS COMMISSION.

11

12 IN PREPARING FOR THIS TESTIMONY, I HAVE TRACED THIS  
13 PROCESS BACK THROUGH THE STATE STAFF TO THE PERSONS  
14 RESPONSIBLE FOR THESE DATA DEVELOPMENT PROCESSES IN  
15 EACH LOCATION THROUGHOUT THE STATE. I HAVE ASKED  
16 EACH OF THEM WHETHER THEY UNDERSTOOD THE PROCESS,  
17 WHETHER THE INFORMATION INPUT AND COMPILED WAS  
18 ACCURATE AND CORRECT TO THE BEST OF THEIR  
19 KNOWLEDGE, AND, IF THEY WERE TO DISCOVER AN ERROR  
20 IN THE DATA THAT AFFECTED THE REPORT, WHETHER THEY  
21 WOULD CONTACT THE COMPANY'S FLORIDA STAFF FOR THE  
22 PURPOSE OF CORRECTING THE REPORT. EACH OF THOSE  
23 PERSONS ASSURED ME THAT THEY DID UNDERSTAND THE  
24 PROCESS, THAT THE DATA PROVIDED WERE CORRECT AND  
25 THAT THEY WOULD INFORM THE FLORIDA STAFF OF ANY

1 ERRORS THAT WOULD HAVE AFFECTED THE REPORTS.

2

3 BASED ON MY RESEARCH, I AM CONVINCED THAT THE  
4 SYSTEM WORKS AS IT SHOULD AND THAT EVERYONE  
5 INVOLVED IN COMPILING THE INFORMATION FURNISHED TO  
6 THIS COMMISSION UNDERSTANDS ITS IMPORTANCE AND THE  
7 NEED TO BE ACCURATE. BASED ON MY ANALYSIS, I  
8 FIRMLY BELIEVE THAT THE PROCESS WORKS.

9

10 OF COURSE, SIMPLY HAVING THE PROCESS WORK CANNOT  
11 AND DOES NOT GUARANTEE THAT THE FINAL PRODUCT IS  
12 PERFECT. ONE OF THE RECURRING THEMES THAT HAS BEEN  
13 ADVANCED IN THIS PROCEEDING IS THAT THE COMPANY'S  
14 EMPLOYEES HAVE INCORRECTLY REPORTED THE BASIC INPUT  
15 DATA WHICH UNDERLIE THIS REPORT. INDEED, AS THIS  
16 TESTIMONY IS BEING PREPARED, DEPOSITIONS ARE  
17 UNDERWAY IN WHICH SOME COMPANY EMPLOYEES HAVE  
18 ADMITTED THAT THEY INTENTIONALLY FALSIFIED TROUBLE  
19 REPORTS. THE EMPLOYEES HAVE STATED THAT THEY  
20 REPORTED TROUBLES AS CLEARED WITHIN 24 HOURS WHEN  
21 THEY WERE NOT OR HAVE CLAIMED THAT THEY WERE TOLD  
22 NOT TO STATUS ANY COMPLAINTS AS "OUT OF SERVICE"  
23 DURING A PARTICULAR TIME PERIOD OR THAT THEY HEARD  
24 OF OTHER EMPLOYEES DELIBERATELY "BUILDING THE BASE"  
25 SO AS TO MAKE THESE REPORTS LOOK BETTER.

1  
2 SOUTHERN BELL CANNOT DENY THAT THIS MAY HAVE  
3 OCCURRED ON OCCASION AND, INDEED, SOUTHERN BELL HAS  
4 DISCHARGED A NUMBER OF EMPLOYEES AS A RESULT OF  
5 CATCHING THEM IN SUCH CONDUCT. HOWEVER, ANY  
6 REASONABLE PERSON SHOULD BE WILLING TO CONCEDE THAT  
7 IT IS VIRTUALLY IMPOSSIBLE TO PREVENT A PERSON FROM  
8 ENGAGING IN AN IMPROPER ACT IF THAT PERSON WISHES  
9 TO DO SO. THIS IS TRUE EVEN WHEN THE MISCONDUCT IS  
10 CONTRARY TO COMPANY POLICY, AS IT WAS HERE. WE  
11 CANNOT ASSIGN WATCHERS TO WATCH THE EMPLOYEES AND  
12 WATCHERS TO WATCH THE WATCHERS. WHAT WE CAN DO,  
13 AND WHAT WE HAVE DONE, IS TO TRY TO ENSURE THAT ALL  
14 OF OUR EMPLOYEES ARE PROPERLY TRAINED AND  
15 SUPERVISED AND THAT THEY HAVE A FIRM UNDERSTANDING  
16 OF THE RIGHT WAY TO DO THINGS. WE HAVE ALSO  
17 ENHANCED OUR CONTROLS TO FURTHER PREVENT MISCODING  
18 OF TROUBLE REPORTS.

19

20 Q. DON'T THE REPORTS OF THE EMPLOYEES THAT THEY HAVE  
21 FALSIFIED THE BASIC INPUT DATA MAKE THE QUARTERLY  
22 REPORTS YOU FILED INACCURATE?

23

24 A. THERE ARE SEVERAL POINTS TO CONSIDER IN THAT  
25 QUESTION. I HAVE READ THE DEPOSITIONS THAT HAVE

1 BEEN TRANSCRIBED AND HAVE TALKED TO PERSONS WHO  
2 ATTENDED THE DEPOSITIONS TO FIND OUT WHAT HAPPENED  
3 IN THOSE THAT WERE NOT TRANSCRIBED. IT IS MY  
4 UNDERSTANDING THAT THERE WAS WIDESPREAD CONFUSION  
5 AMONG THE EMPLOYEES ABOUT BACKING UP "CLEAR" TIMES,  
6 "COMMITMENT" TIMES AND CLOSING TIMES. IT IS ALSO  
7 MY UNDERSTANDING THAT THE EMPLOYEES WERE NOT ABLE,  
8 EVEN WHEN ADMITTING THAT THEY HAD INAPPROPRIATELY  
9 TREATED A TROUBLE REPORT, TO PINPOINT THE YEAR IN  
10 WHICH IT HAPPENED, MUCH LESS IDENTIFY THE EXCHANGE  
11 OR THE CUSTOMER INVOLVED. IN MY VIEW, WHILE SUCH  
12 ACTS SHOULD NOT OCCUR AND CLEARLY WOULD AFFECT THE  
13 QUARTERLY TROUBLE REPORTS TO SOME DEGREE, IT IS  
14 SIMPLY NOT POSSIBLE, WITH A FEW EXCEPTIONS  
15 DESCRIBED BELOW, TO CONCLUDE THAT ANY PARTICULAR  
16 QUARTERLY REPORT THAT HAS BEEN FILED WAS  
17 INACCURATE.

18

19 Q. WHAT ARE THE EXCEPTIONS?

20

21 A. IN SIX CASES THE REPORTS NEED TO BE CORRECTED.

22 THESE ARE: 1) NORTH DADE IN AUGUST 1990, WHEN TEST

23 OK TROUBLE REPORTS WERE STATUSED OOS; 2)

24 GAINESVILLE IN OCTOBER 1990, WHEN A DIRECTORY WAS

25 USED TO CREATE REPORTS IN SMALL EXCHANGES; 3) MIAMI

1 IN THE SECOND QUARTER 1992, WHERE THERE WAS AN  
2 INCORRECT USE OF CAUSE CODE 560; 4) METRO IN  
3 SEPTEMBER 1990, WHEN TROUBLE REPORTS WERE STATUSED  
4 AS CON; 5) THE STATEWIDE USE OF VER CODE 1B FROM  
5 FEBRUARY 1992 THROUGH APRIL 1993; AND 6) THE ST.  
6 LUCIE EXCHANGE DURING A ONE MONTH PERIOD IN 1990  
7 WHERE A CABLE FAILURE WAS CREATED AS OOS. WE HAVE  
8 PROVIDED CORRECTED SCHEDULE 11 INFORMATION FOR THE  
9 CAUSE CODE THAT CREATED THE PROBLEM IN MIAMI DURING  
10 THE SECOND QUARTER 1992. THE COMMISSION STAFF AND  
11 OTHER INTERVENORS ARE AWARE OF THE NORTH DADE AND  
12 GAINESVILLE IMPACTS ON SCHEDULE 11 REPORTS AND I  
13 HAVE RECENTLY INFORMED THE STAFF OF THE OTHER  
14 REPORTS THAT NEED TO BE CORRECTED.

15

16 Q. DO YOU BELIEVE THE SYSTEM IS AS ACCURATE AS IT CAN  
17 BE, GIVEN THE FACT THAT THERE ARE SO MANY PEOPLE  
18 WHO HAVE INPUT INTO THE FINAL RESULT?

19

20 A. YES. THIS SYSTEM IS NEVER GOING TO BE PERFECT. A  
21 SERVICE TECHNICIAN OR A MAINTENANCE ADMINISTRATOR  
22 MAY MAKE AN ERROR. WHEN THAT OCCURS, THE FINAL  
23 REPORT WILL BE INACCURATE. HOWEVER, OTHER THAN  
24 HAVING THE BEST PROCEDURES POSSIBLE, TRAINING  
25 PEOPLE AND DOING THE KINDS OF AUDITS AND REVIEWS



1 MS. IVY DESCRIBES, THERE IS NO WAY TO MAKE THE  
2 REPORTS MORE ACCURATE THAN THEY ARE.

3

4 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

5

6 A. YES.

7

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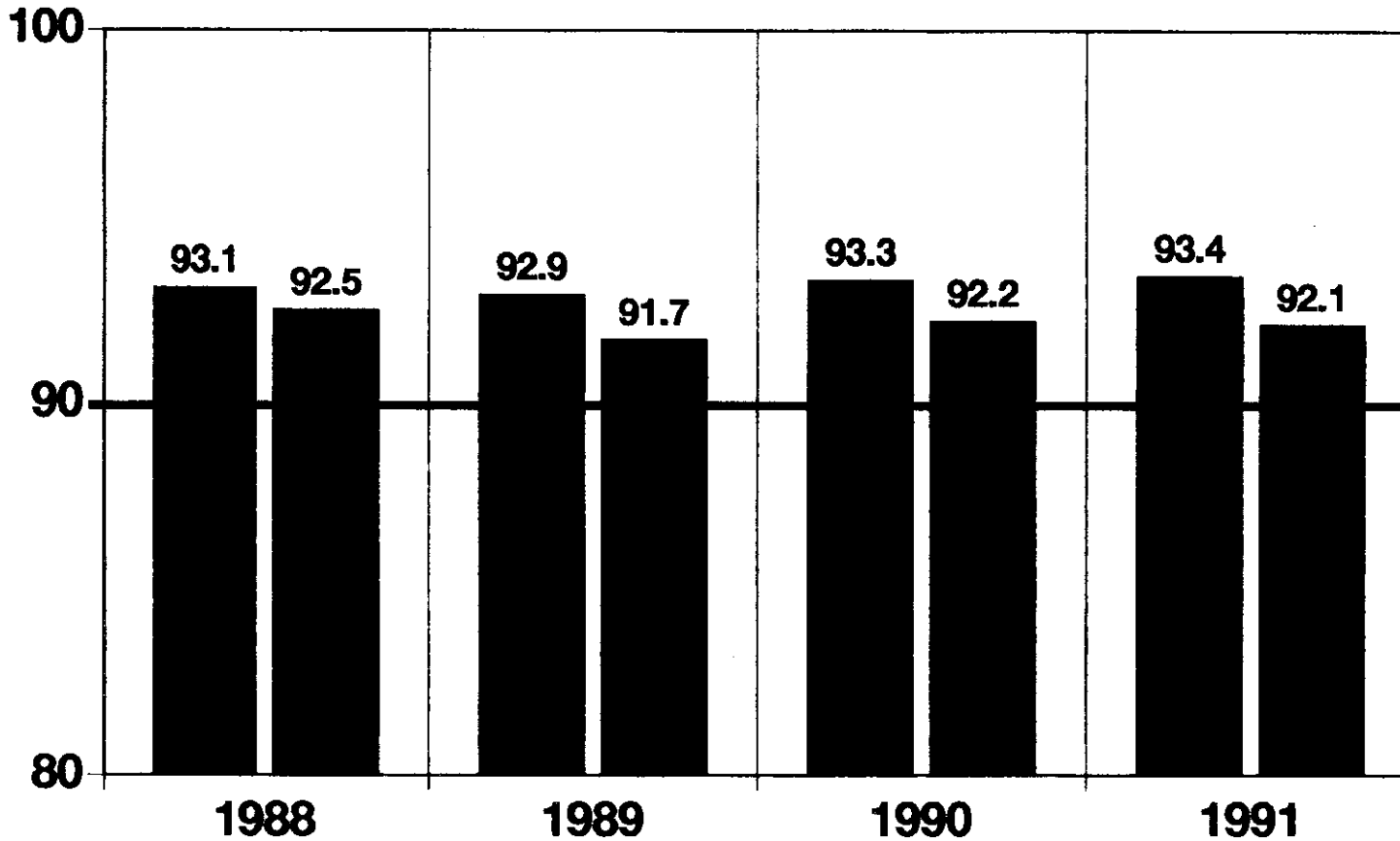
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# **TELSAM RESIDENCE AND BUSINESS**

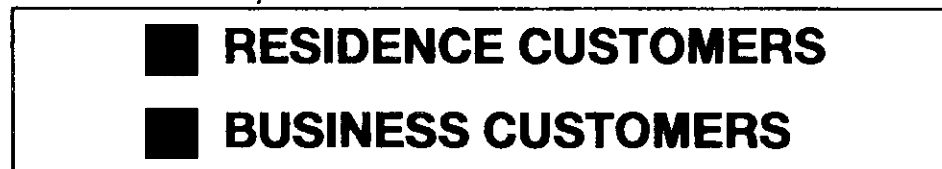
## **OVERALL SATISFIED SOUTHERN BELL 1988 TO 1991**

**% SATISFIED**

**SOUTH OPERATIONS I&M/IMC STAFF**



RESIDENCE/BUSINESS OBJECTIVE PRE-1992 90%



TOTAL RECEIVED CASES  
1989 - 1992  
NEGATIVE MEDIA COVERAGE ●

