

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 15, 1992  
7  
8  
9

ORIGINAL  
FILE COPY

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 EARLIER THIS YEAR, BUT CONTINUE TO REPRESENT THE

RECEIVED PER DATE  
JUL 15 1992  
FPC-REGULATORY DEPT.

1 FIRM AS A 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 FROM  
3 THE END OF THE 1991 TEST YEAR THROUGH 1993, THE  
4 YEAR FOR WHICH RATE REQUIREMENTS ARE ACTUALLY BEING  
5 EVALUATED IN THIS PROCEEDING.

6

7 Q. WOULD YOU SUMMARIZE THE APPROACH USED IN YOUR  
8 ANALYSIS OF EARNINGS ATTRITION IN SOUTHERN BELL'S  
9 FLORIDA INTRASTATE OPERATIONS, AND THE RESULTS  
10 PRODUCED BY THE ANALYSIS?

11

12 A. THE ANALYSIS FOCUSED UPON THE PATTERN OF CHANGES  
13 PER ACCESS LINE IN THE COMPANY'S FLORIDA INVESTMENT  
14 AND OPERATIONS OVER THE 1989-1991 PERIOD, RESTATED  
15 TO ELIMINATE THOSE CONDITIONS WHICH WERE OF AN  
16 UNUSUAL NATURE AND NOT EXPECTED TO CONTINUE AT THE  
17 SAME RELATIVE LEVELS INTO 1993. THE 1989-1991  
18 NORMALIZED CONDITIONS WERE TRENDED INTO 1993 TO  
19 CAPTURE EXPECTED CHANGES OF AN ONGOING NATURE  
20 (E.G., SYSTEM GROWTH, INCREASING PRICE LEVELS FOR  
21 GOODS AND SERVICES REQUIRED TO MAINTAIN CURRENT  
22 SERVICES AND TO MEET SERVICE GROWTH, AND  
23 IMPROVEMENTS IN OPERATING EFFICIENCIES THAT REDUCE  
24 COSTS OF SERVICE). THE ANALYSIS SHOWS THAT IF THE  
25 NORMAL, RECURRING PATTERN IS MAINTAINED INTO 1993,

1 REVENUES PER ACCESS LINE REQUIRED TO MAINTAIN A  
2 FIXED RETURN ON COMMON EQUITY WILL DECLINE BY  
3 APPROXIMATELY \$13.59. THIS AMOUNT WILL HELP OFFSET  
4 THE EXPENSE IMPACTS OF JURISDICTIONAL SEPARATIONS  
5 SHIFTS AND OTHER ADJUSTMENTS DESCRIBED IN MR.  
6 REID'S TESTIMONY.

7

8 Q. IN PREVIOUS RATE PROCEEDINGS, HAS SOUTHERN BELL-  
9 FLORIDA RELIED UPON BUDGET DATA IN MEASURING  
10 PROSPECTIVE FLORIDA INTRASTATE EARNINGS  
11 REQUIREMENTS?

12

13 A. YES.

14

15 Q. WHY ARE SUCH BUDGET DATA NOT BEING UTILIZED IN THE  
16 SAME MANNER IN THIS PROCEEDING?

17

18 A. UNDER NORMAL CIRCUMSTANCES THE SOUTHERN BELL  
19 BUDGETING PROCEDURES, AND THE RESULTS PRODUCED  
20 THEREBY, WOULD BE THE PRIMARY SOURCE OF DATA FOR  
21 MEASURING ANTICIPATED SOUTHERN BELL-FLORIDA'S 1993  
22 EARNINGS RESULTS. BECAUSE OF RECENT CHANGES IN  
23 DIVISIONAL AND DEPARTMENTAL STRUCTURING, HOWEVER,  
24 THE COMPANY IS RELUCTANT TO USE THE BUDGET RESULTS  
25 FOR INVESTMENT RELATED DEVELOPMENTS AND FOR

1 ESTIMATING REVENUES AND OPERATING EXPENSES AND  
2 OTHER TAXES. THERE IS SOME QUESTION AS TO WHETHER  
3 THE BUDGETING PROCEDURES BROUGHT FORWARD FROM THE  
4 PRECEDING DEPARTMENTAL ALIGNMENT IS FOR THE MOMENT  
5 EQUALLY EFFECTIVE UNDER THE REALIGNED SYSTEM.  
6 ACCORDINGLY, SOUTHERN BELL-FLORIDA HAS CHOSEN TO  
7 SUBSTITUTE THE BUDGET DATA WITH A SIMPLIFIED, BUT  
8 UNDER THE CIRCUMSTANCES MORE ACCEPTABLE, TRENDING  
9 OF THE COMPANY'S 1988-1991 FLORIDA INTRASTATE  
10 REVENUES, INVESTMENT AND OPERATING COSTS. I HAVE  
11 PREPARED THE ATTRITION ANALYSIS TO MEASURE THESE  
12 CHANGES, AND COMBINED THE RESULTS FOR 1993 TO  
13 MEASURE THE IMPACT OF ATTRITION OVER THE 1991-1993  
14 PERIOD.

15

16 Q. WHAT WAS THE SOURCE OF THE DATA THAT YOU USED IN  
17 MEASURING THE 1991-1993 CHANGES IN REVENUES,  
18 INVESTMENT AND OPERATING COST LEVELS?

19

20 A. THESE DATA WERE TAKEN FROM EARNINGS REPORTS FILED  
21 WITH THE COMMISSION AS PART OF RULE 25-4.0245  
22 FILING REQUIREMENTS. EXCEPT IN THOSE AREAS WHERE  
23 EXTERNAL FACTORS ARE KNOWN TO DISTORT THE PATTERN  
24 OF CHANGE, I HAVE ASSUMED THAT THE CHANGE PATTERN  
25 IN THE DATA AS FILED WILL CONTINUE INTO 1993 AND

1 HAVE MEASURED THE IMPACT OF SUCH CHANGES ON REVENUE  
2 REQUIREMENTS. THE SPECIFIC ADJUSTMENTS TO PAST  
3 CONDITIONS, AND THE IMPACT OF A CONTINUATION OF  
4 THESE ADJUSTED CONDITIONS ARE EXPLAINED IN THE  
5 REMAINDER OF MY TESTIMONY.

6

7 Q. BEFORE ADDRESSING THE PARTICULARS OF YOUR ATTRITION  
8 ANALYSIS, WOULD YOU DESCRIBE THE GENERAL APPROACH  
9 USED?

10

11 A. YES. THE ANALYSIS FOCUSED UPON HISTORIC CHANGES IN  
12 ACCESS LINES, REVENUES, INVESTMENT LEVELS AND  
13 OPERATING EXPENSES AND OTHER TAXES. THESE AREAS OF  
14 ACTIVITY WERE FIRST EXAMINED TO IDENTIFY ANY  
15 CONDITIONS THAT WERE NOT OF AN ONGOING NATURE. THE  
16 ACTUAL DATA WERE THEN ADJUSTED FOR SUCH  
17 ABNORMALITIES. USING LINEAR REGRESSION TECHNIQUES,  
18 THE ADJUSTED DATA FOR THE 1989-1991 PERIOD WERE  
19 TRENDED TO MEASURE THE INVESTMENT, REVENUE, AND  
20 OPERATING EXPENSE CHANGES FROM 1991 THROUGH 1993.  
21 DEPRECIATION EXPENSE CHANGES FROM 1991 THROUGH 1993  
22 WERE COMPUTED BY APPLYING 1991 DEPRECIATION RATES  
23 TO THE INVESTMENT CHANGES FOR THE PERIOD. INCOME  
24 TAXES WERE COMPUTED BASED UPON THE 1991-1993  
25 CHANGES IN TAXABLE REVENUES AND TAX DEDUCTIBLE

1 EXPENSES.

2

3 Q. WHAT CONCLUSIONS HAVE YOU DRAWN FROM YOUR ATTRITION  
4 ANALYSIS?

5

6 A. ASSUMING A CONTINUATION INTO 1993 OF THE RECENT  
7 PATTERN OF CHANGING INVESTMENT REQUIREMENTS AND  
8 OPERATIONAL RESULTS, THERE WILL BE AN INCREASE IN  
9 THE 1991 LEVEL OF RETURN ON EQUITY IN 1993. THE  
10 DECLINE IN REQUIRED RATE LEVELS IS PRODUCED BY A  
11 COMBINATION OF INCREASED REVENUES PER ACCESS LINE  
12 AND DECREASED LEVELS OF INVESTMENT AND EXPENSES PER  
13 ACCESS LINE.

14

15 Q. WHAT IS THE AMOUNT OF ATTRITION ADJUSTMENT  
16 INDICATED BY YOUR ANALYSIS?

17

18 A. THE ANALYSIS INDICATES THAT THE COMPANY WILL  
19 EXPERIENCE NEGATIVE EARNINGS ATTRITION (OR EARNINGS  
20 ACCRETION) THAT WILL REDUCE 1993 REVENUE  
21 REQUIREMENTS BY \$68,279,671. AS MENTIONED  
22 PREVIOUSLY, THIS AMOUNT WILL HELP OFFSET THE  
23 EXPENSE IMPACTS OF JURISDICTIONAL SEPARATIONS  
24 SHIFTS AND OTHER ADJUSTMENTS DESCRIBED IN MR.  
25 REID'S TESTIMONY.



1

2 Q. HAVE YOU HAD THE OCCASION TO REVIEW THE COMPANY'S  
3 HISTORIC EARNINGS EXPERIENCE?

4

5 A. YES.

6

7

8 Q. IS THE ANTICIPATED NEGATIVE ATTRITION CONSISTENT  
9 WITH THE RECENT PATTERN OF CHANGES IN COSTS  
10 INCURRED BY THE COMPANY IN PROVIDING SERVICE?

11

12 A. YES. MR. REID HAS SUBMITTED SCHEDULES SHOWING THAT  
13 FROM 1984 THROUGH 1991, THE COMPANY HAS  
14 CONSISTENTLY MANAGED TO REDUCE ITS EARNINGS  
15 REQUIREMENTS. FOR EXAMPLE, IN 1984 THE INTRASTATE  
16 REVENUE REQUIREMENTS WERE \$510.98 PER ACCESS LINE.  
17 IN 1991 THE INTRASTATE REVENUE REQUIREMENTS HAD  
18 DECLINED TO \$502.43. THIS DECLINE HAS BEEN  
19 ACHIEVED IN THE FACE OF CONTINUAL INCREASES IN  
20 PRICES THAT THE COMPANY MUST PAY IN ACQUIRING THE  
21 GOODS AND SERVICES NEEDED TO PROVIDE ITS CUSTOMERS  
22 WITH TELECOMMUNICATIONS SERVICES. THE ATTRITION  
23 ANALYSIS IS PREMISED ON THE ASSUMPTION THAT THESE  
24 CONDITIONS CAN BE MAINTAINED, AND THAT ONGOING COST  
25 REDUCTIONS ARE ACHIEVABLE EVEN THOUGH GENERAL COSTS

1 ARE PRESUMED TO CONTINUE TO INCREASE.

2

3 Q. ARE THERE PROPOSED ADJUSTMENTS TO THE TEST YEAR  
4 THAT ARE NOT CONSIDERED IN THE ATTRITION ANALYSIS?

5

6 A. YES. THE COMPANY IS PROPOSING A NUMBER OF PROFORMA  
7 ADJUSTMENTS TO THE TEST YEAR. THESE PROFORMA  
8 ADJUSTMENTS ARE NOT CONSIDERED IN THE ATTRITION  
9 ANALYSIS, AND MUST BE EVALUATED SEPARATELY. FOR  
10 EXAMPLE, I UNDERSTAND THAT SOUTHERN BELL-FLORIDA IS  
11 SEEKING A CHANGE IN DEPRECIATION RATES ON A  
12 PROSPECTIVE BASIS. THIS PROPOSED ADJUSTMENT, AND  
13 SIMILAR ADJUSTMENTS TO TEST YEAR RESULTS, ARE  
14 INDEPENDENT OF THE ATTRITION ADJUSTMENT.

15

16 Q. HAVE YOU SUBMITTED A SCHEDULE THAT CONTAINS THE  
17 RESULTS OF YOUR ATTRITION ANALYSIS?

18

19 A. YES. THE RESULTS OF THE ATTRITION ANALYSIS ARE  
20 ATTACHED AS SCHEDULE 1. THIS SCHEDULE SHOWS THE  
21 CHANGES IN NET OPERATING INCOME AND INVESTMENT PER  
22 ACCESS LINE FROM THE 1991 TEST YEAR TO 1993. THE  
23 ATTRITION PER ACCESS LINE AMOUNTS ARE CONVERTED TO  
24 A TOTAL EARNINGS ATTRITION AMOUNT AND CONVERTED TO  
25 A REVENUE REQUIREMENTS IMPACT BY APPLYING THE

1 APPROPRIATE TAX GROSS-UP FACTOR. AS INDICATED ON  
2 THIS SCHEDULE, THE REVENUE REQUIREMENTS WILL  
3 DECLINE BY \$68,279,671 FROM 1991 TO 1993.

4

5 Q. HAVE YOU ALSO SUBMITTED SCHEDULES THAT CONTAIN THE  
6 DETAILED ANALYSES SUPPORTING THE RESULTS IN  
7 SCHEDULE 1?

8

9 A. YES. THOSE SCHEDULES ARE IDENTIFIED AS SCHEDULES 2  
10 THROUGH 8.

11

12 Q. WOULD YOU BRIEFLY EXPLAIN EACH OF THE SCHEDULES  
13 CONTAINED IN SCHEDULES 2 THROUGH 8?

14

15 A. THE SCHEDULES ARE INDIVIDUALLY IDENTIFIED AND  
16 DESCRIBED AS FOLLOWS:

17 SCHEDULE 2 - SOURCE DATA:

18 THIS SCHEDULE, CONSISTING OF FIVE PAGES, SHOWS THE  
19 1989-1991 INTRASTATE INVESTMENT AND OPERATING DATA  
20 AS TAKEN FROM THE COMPANY'S RECORDS, AND THE  
21 ADJUSTMENTS TO THE RECORDED DATA TO ELIMINATE THE  
22 IMPACT OF NONRECURRING CONDITIONS THAT DISTORT THE  
23 PATTERN OF ONGOING CHANGES. PAGES 1 AND 2 CONTAIN  
24 THE RECORDED INVESTMENT AND OPERATING DATA USED IN  
25 PREPARING THE ANALYSIS. ON PAGES 3 AND 4 THE

1 PROFORMA ADJUSTMENTS TO THE RECORDED DATA ARE  
2 SUMMARIZED BY CATEGORY AND BY YEAR. THE INDIVIDUAL  
3 ADJUSTMENTS THAT PRODUCE THE SUMMARIZED AMOUNTS ARE  
4 SHOWN ON PAGE 5.

5 SCHEDULE 3 - TRENDED DATA:

6 THIS SCHEDULE, CONSISTING OF FOUR PAGES, CONTAINS  
7 THE TRENDING COMPUTATIONS USING LOTUS REGRESSION  
8 PROGRAMS.

9 SCHEDULE 4 - CAPITAL COST DATA:

10 THIS SCHEDULE CONTAINS THE COMPUTATIONS OF THE  
11 WEIGHTED COSTS OF THE VARIOUS CAPITAL COST  
12 COMPONENTS, WHICH ARE THEN USED IN SCHEDULES 5 AND  
13 8.

14 SCHEDULE 5 - INVESTMENT ATTRITION:

15 THIS SCHEDULE, CONSISTING OF TWO PAGES, SHOWS THAT  
16 THERE IS AN ANTICIPATED INCREASE IN THE OUTSTANDING  
17 INVESTMENT IN PLANT IN SERVICE PER ACCESS LINE FROM  
18 1991 THROUGH 1993. FURTHER, THE SCHEDULE  
19 RECOGNIZES THAT FUNDING IS REQUIRED TO REPLACE  
20 RETIRED PLANT, AND THAT SUCH FUNDING IS NOT  
21 MEASURED IN THE PLANT IN SERVICE BALANCE (I.E., AS  
22 PLANT IS RETIRED AND REPLACED, THE PLANT IN SERVICE  
23 BALANCE DOES NOT CHANGE, BUT FUNDING IS  
24 NEVERTHELESS REQUIRED).

25 THE SCHEDULE THEN RECOGNIZES THAT AS DEPRECIATION

1 COSTS ARE RECOVERED THROUGH REVENUES, THE FUNDS MAY  
2 BE REINVESTED WITHOUT ANY ATTRITIONAL IMPACT SINCE  
3 NET PLANT (I.E., THE PRIMARY DETERMINANT OF RATE  
4 BASE) DOES NOT CHANGE. IN THE PERIOD BEING  
5 EVALUATED, THE DEPRECIATION RECOVERY EXCEEDS THE  
6 REQUIREMENT FOR REINVESTMENT IN PLANT AND RESULTS  
7 IN NEGATIVE ATTRITION FOR INVESTMENT. THE EXCESS  
8 AMOUNTS AVAILABLE ARE APPLIED EQUALLY TO DEBT AND  
9 EQUITY CAPITAL (I.E., ASSIGNED TO DEBT AND EQUITY  
10 CAPITAL AT TEST YEAR CAPITAL RATIOS), AND THE  
11 CAPITAL COSTS ARE REDUCED ACCORDINGLY.

12 SCHEDULE 6 - DEPRECIATION EXPENSES:

13 THIS COMPUTATION ASSUMES THAT THE 1991 RATES OF  
14 DEPRECIATION ARE IN USE IN 1993. THE 1993  
15 DEPRECIATION EXPENSES ARE DETERMINED BY APPLYING  
16 THE 1991 COMPOSITE DEPRECIATION RATE TO 1993 LEVELS  
17 OF PLANT IN SERVICE.

18 SCHEDULE 7 - INCREMENTAL COSTS, 1991-1993:

19 THE INCREMENTAL 1991-1993 CHANGES PER ACCESS LINE  
20 FOR REVENUES, OPERATING EXPENSES AND OTHER TAXES,  
21 DEPRECIATION EXPENSES AND INVESTMENT ARE COMPUTED  
22 ON THIS SCHEDULE. THE AMOUNTS FOR REVENUES,  
23 OPERATING EXPENSES AND OTHER TAXES ARE TAKEN FROM  
24 THE TRENDED RESULTS ON SCHEDULE 3. THE AMOUNTS FOR  
25 DEPRECIATION EXPENSES ARE TAKEN FROM THE

1 COMPUTATIONS ON SCHEDULE 6.

2 SCHEDULE 8 - SUMMARY OF ATTRITION COMPONENTS:

3 THIS SCHEDULE COMBINES THE REVENUE AND EXPENSE  
4 COMPONENTS TO COMPUTE THE INCOME TAX EFFECTS, AND  
5 TO DETERMINE THE NET OPERATING INCOME AND  
6 INVESTMENT ATTRITION PER ACCESS LINE.

7

8 Q. DOES THAT COMPLETE YOUR TESTIMONY?

9

10 A. YES. IN CONCLUDING, HOWEVER, I SHOULD REITERATE  
11 THAT THE ANALYSIS OF REVENUE REQUIREMENTS CHANGES  
12 BETWEEN 1991 AND 1993 ASSUMES THAT:

13

14 \* SYSTEM GROWTH WILL CONTINUE AT APPROXIMATELY  
15 THE SAME LEVELS AS IN THE THREE YEARS UP  
16 THROUGH 1991,

17 \* PRICE INCREASES (INFLATION) WILL CONTINUE AT  
18 APPROXIMATELY THE SAME LEVEL, AND

19 \* SOUTHERN BELL-FLORIDA WILL BE ABLE TO CONTINUE  
20 TO REDUCE COSTS ANNUALLY THROUGH ANNUAL  
21 INCREASES IN OPERATING EFFICIENCIES.

22

23 IN REVIEWING THE DATA USED IN THE ANALYSIS, I HAVE  
24 NO REASON TO BE CONCERNED AS TO THE REASONABLENESS  
25 OF ASSUMING THAT SUCH CONDITIONS WILL CONTINUE. I

1 RECOMMEND THAT THE COMMISSION RELY UPON THE  
2 ATTRITION ANALYSIS TO MEASURE THE 1993 IMPACT OF  
3 CONDITIONS THAT HAVE CHANGED SINCE THE END OF THE  
4 TEST YEAR AND MOST SURELY WILL CONTINUE TO CHANGE  
5 THROUGH THE 1993 PERIOD.

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SOUTHERN BELL  
FLORIDA ATTRITION ANALYSIS  
REVENUE IMPACT OF ATTRITION

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

INTRASTATE OPERATIONS

Line	Description	1993
1	Access Lines	5024852 (1)
2	Attrition/Access Line	
3	Net Operating Income	(5.56)(2)
4	Investment	(2.66)(3)
5	Total	(8.22)
6	Impact on Earnings (Line 1 x Line 6)	(\$41,314,014)
7	Revenue Expansion Factor	1.6527 (4)
8	Revenue Requirements	(\$68,279,671)

(1) Schedule 3, page 1

(2) Schedule 8, line 8

(3) Schedule 8, line 12

(4) Based upon a tax rate of 39.49%



SOUTHERN BELL  
 FLORIDA ATTRITION ANALYSIS  
 ANALYSIS DATA 1989-1991

McClellan Exhibit No.  
 Schedule 2  
 Florida Docket 920260-TL  
 Page 1 of 5

INTRASTATE OPERATING DATA

	P E R I O D		
	1989	1990	1991
-----	-----	-----	-----
Annual Data			
-----			
Access Lines	4310989	4511804	4663857
Operating Revenues	2077064	2170238	2231460
Operating Exp. & Other Taxes	1115301	1156902	1209686
Depreciation	475458	502902	545252
Average Investment:			
Plant	5905614	6308678	6462693
Depreciation Reserves	1896888	2238972	2324950
-----	-----	-----	-----
Net Plant	4008726	4069706	4137743
=====	=====	=====	=====
Plant Retirements:			
Florida System (1)	252774	281058	388535
Florida Intrastate (2)	176566	196322	271396
(1) Adj. for abnormal in 1990			
(2) Adj. based on 1989 Plant			
Florida Gross Plant	8370780		
Intra Gross Plant	5847093		
Ratio	69.85%		
Average Rate Base	4070970	4144584	4167686
Rate of Return	9.49%	9.60%	9.14%

Average Capital (Intra):

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

Cost Rate:

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

Composite Embedded Cost  
 of Non-Equity Capital  
 -----

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

Composite cost of L.T. Debt and Equity  
 -----

L.T. Debt		2.99%
Equity		8.72%
		-----
Total		11.71%
		=====

Adjustments to recorded data  
 -----

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

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

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

	1991		
	Recorded	Adj.	T/Y
Access Lines	4663857	0	4663857
Revenues	2231460	36165	2267625 (1)
Op.Exp.& Taxes	1209586	-40716	1168970 (2)
Depreciation	545252	-18238	527014 (3)
Plant	6462693	-201614	6261079 (4)
Deprec.Reserves	2324950	-70679	2254271 (5)
Rate Base	4167686	-130935	4036751 (6)

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

ADJUSTMENTS TO BASE YEAR DATA

	1989	1990	1991
(1) Revenues			
(a) To adjust earlier years to level of net rate changes effective in 1991	4,623	44,381	36,165
(2) Operating Expenses and Taxes			
(a) To remove incremental impact of SPF and DEM over 1989		(13,377)	(25,748)
(b) Remove bond solicitation fees			(1,533)
(c) Remove early retirement cost			(13,435)
		(13,377)	(40,716)
(3) Depreciation			
(a) To remove incremental impact of SPF and DEM over 1989		(9,567)	(18,238)
(4) Plant			
(a) To remove incremental impact of SPF and DEM over 1989		(102,006)	(201,614)
(b) To remove inside wire amounts from earlier years to be consistent with 1991	(287,680)	(281,676)	0
	(287,680)	(383,682)	(201,614)
(5) Depreciation Reserves			
(a) To remove incremental impact of SPF and DEM over 1989		(35,703)	(70,679)
(b) To remove inside wire amounts from earlier years to be consistent with 1991	(287,758)	(281,756)	0
	(287,758)	(317,459)	(70,679)
(6) Rate Base			
(a) To remove incremental impact of SPF and DEM over 1989		(66,303)	(130,935)

SOUTHERN BELL  
FLORIDA ATTRITION ANALYSIS

McClellan Exhibit No.  
Schedule 3  
Florida Docket 920260-TL  
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	2081687	1115301	475458	5617934	176566
1990	4511804	2214619	1143525	493335	5924996	196322
1991	4663857	2267625	1168970	527014	6261079	271396
1992	4848418	2373915	1196268	N/A	6577815	214762
1993	5024852	2466884	1223102	580742	6899387	214762
1994	5201286	2559853	1249937	N/A	7220960	N/A
1995	5377720	2652822	1276771	N/A	7542532	N/A

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

Regression Analyses:

Linear Regression Trend Data Base

	Access/L	Revenues	Op.Exp.	Plant
1989	4310989	2081687	1115301	5617934
1990	4511804	2214619	1143525	5924996
1991	4663857	2267625	1168970	6261079
1992	4848418	2373915	1196268	6577815
1993	5024852	2466884	1223102	6899387
1994	5201286	2559853	1249937	7220960
1995	5377720	2652822	1276771	7542532

Access Lines

Regression Output:

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

1992	4848418
1993	5024852
1994	5201286
1995	5377720

Revenues

-----  
Regression Output:  
Constant -1.83E+08  
Std Err of Y Est 32629.652  
R Squared 0.9419821  
No. of Observations 3  
Degrees of Freedom 1

X Coefficient(s) 92969  
Std Err of Coef. 23072.6488

1992	2373915
1993	2466884
1994	2559853
1995	2652822

Op. Exp. & Taxes

-----  
Regression Output:  
Constant -52258056  
Std Err of Y Est 1134.5220  
R Squared 0.9991070  
No. of Observations 3  
Degrees of Freedom 1

X Coefficient(s) 26834.5  
Std Err of Coef. 802.228206

1992	1196268
1993	1223102
1994	1249937
1995	1276771



Plant  
-----

Regression Output:

Constant	-6.34E+08
Std Err of Y Est	11847.773
R Squared	0.9993217
No. of Observations	3
Degrees of Freedom	1

X Coefficient(s)	321572.5
Std Err of Coef.	8377.64111 24.660178

1992	6577815
1993	6899387
1994	7220960
1995	7542532

SOUTHERN BELL  
 FLORIDA ATTRITION ANALYSIS

McClellan Exhibit No.  
 Schedule 4  
 Florida Docket 920260-TL  
 Page 1 of 1

CAPITAL COST DATA

INTRASTATE OPERATIONS

	Amount(1)
	-----
Cost of L.T. Debt	
Ratio	24.47%
Embedded Cost	8.81%
Weighted Cost-Current	2.16%
Short Term Debt	
Ratio	5.56%
Current Cost	6.04%
Weighted Current Cost	0.34%
Customer Deposits	
Ratio	1.27%
Cost	8.25%
Weighted Cost	0.10%
I.T.C.	
Ratio	3.39%
Cost	11.71%
Weighted Cost	0.40%
Common Equity	
Ratio	47.58%
Cost	13.20%
Weighted Current Cost	6.28%
Weighted Current Cost + ITC	6.58%

Debt Cost

	-----
Long Term	2.16%
Short Term	0.34%
Cust.Dep.	0.10%
I.T.C.	0.10%
Deferred Taxes	0
	-----
	2.70%
	=====

(1) Amounts from Schedule 2, page 2

SOUTHERN BELL  
 FLORIDA ATTRITION ANALYSIS  
 CAPITAL AND INVESTMENT DATA

McClellan Exhibit No.  
 Schedule 5  
 Florida Docket 920260-TL  
 Page 1 of 2

INTRASTATE OPERATIONS

Line	Description	Amount
1.	Funding Requirements:	
2.	Increase in Gross Plant per Access Line	
3.	1991/1992	67.91
4.	1992/1993	66.33
5.	Plant Retirements per Access Line	
6.	1991/1992	44.30
7.	1992/1993	42.74
8.	Total	221.27
8.	Funding Sources:	
9.	Depreciation Recovery-1992 (1992 Plant x Rate / Access Lines)	114.20
10.	Depreciation Recovery-1993 (1993 Plant x Rate / Access Lines)	115.57
11.	Working capital increase	13.02 (2)
12.	Reused materials	7.17 (2)
13.	Total Internal Funding	249.96
14.	External Funding Requirements (1)	(28.69)

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

(2) See Schedule 5, page 2

Investment Attrition:

	Debt -----	Common -----	Total -----
1. Weighted Cost	2.70%	6.58%	(1)
2. Funding Requirements	(28.69)	(28.69)	(2)
3. Cost per A/L	(0.77)	(1.89)	(2.66)

(1) Schedule 4

(2) Schedule 5, page 1

Working Capital:

1991/1992 Increased negative amount per access line	5.54
1992/1993 Increased negative amount per access line	7.48
	-----
	13.02
	-----

Reused materials:

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

1992 Reused materials per access line	3.91
1993 Reused materials per access line	3.26
	-----
	7.17
	-----

SOUTHERN BELL  
FLORIDA ATTRITION ANALYSIS

McClellan Exhibit No.  
Schedule 6  
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DEPRECIATION EXPENSES

INTRASTATE OPERATIONS

Line	Description	Amount
1	Plant in Service -1991	6261079 (1)
2	Depreciation expenses - 1991	527014 (1)
3	Composite Depreciation Rate	8.42% (2)
4	Plant in Service-1992	6577815 (1)
5	Depreciation Expenses - 1992	553675 (3)
6	Plant in Service-1993	6899397 (1)
7	Depreciation Expenses - 1993	580742 (4)

(1) Schedule 3, page 1

(2) Line 2/Line 1

(3) Line 3 x Line 4

(4) Line 3 x Line 6

SOUTHERN BELL  
 FLORIDA ATTRITION ANALYSIS  
 INCREMENTAL CHANGES - 1993 OVER 1991

McClellan Exhibit No.  
 Schedule 7  
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 Page 1 of 1

INTRASTATE OPERATIONS

Line	Description	Amount
1	Operating Revenues(1)	
2	Revenues - 1991(000)	2267625
3	Access Lines - 1991	4663857
	Revenues per Access Line-1991	486.21
5	Revenues-1993	2466894
6	Access Lines -1993	5024852
7	Revenues per Access Line-1993	490.94
8	Increment/Access Line	4.72
9	Operating Expenses and Other Taxes(1)	
10	Op.Exp.& Taxes-1991(000)	1168970
11	Amount per Access Line-1991	250.64
12	Op.Exp. & Taxes-1993	1223102
13	Amount per Access Line-1993	243.41
14	Increment/Access Line	-7.23
15	Depreciation Expenses(1)(2)	
16	Depreciation Expense-1991(000)	527014
17	Amount per Access Line-1991	113.00
18	Depreciation Expense-1993	580742
19	Amount per Access Line-1993	115.57
20	Increment/Access Line	2.57
21	Gross Plant Investment(1)	
22	Gross Plant-1991(000)	6261079
23	Amount per Access Line-1991	1342.47
24	Gross Plant-1993	6899387
25	Amount per Access Line-1993	1373.05
26	Increment/Access Line	30.58

(1) Data from Schedule 3, page 1

(2) 1993 depreciation expenses from Schedule 6

SOUTHERN BELL  
 FLORIDA ATTRITION ANALYSIS  
 SUMMARY OF COMPONENTS

McClellan Exhibit No.  
 Schedule 8  
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 Page 1 of 1

INTRASTATE OPERATIONS

Line	Description	Attrition/ Access Line
1	N.O.I. Attrition:	
2	Operating Revenues	(4.72)(1)
3	Oper. Expenses & O/Taxes	(7.23)(2)
4	Depreciation Expenses	2.57 (3)
5	Pre-tax Amount	(9.38)
6	Income Taxes	(3.53)(4)
7	Tax Effect of Interest	(0.29)(5)
8	Total	(5.56)
9	Investment Attrition:	
10	Interest	(0.77)(6)
11	Return to Common	(1.89)(6)
12	Total	(2.66)

- (1) Schedule 7, line 8
- (2) Schedule 7, line 14
- (3) Schedule 7, line 20
- (4) Line 5 x 37.63% tax rate
- (5) Line 10 x 37.63% tax rate
- (6) Schedule 5, page 2, line 3

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 Reg. Conf.

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

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 an expert witness on utility accounting  
and ratemaking procedures. Appearances have

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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

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

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

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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 Nacional 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