

ORIGINAL
FILE COPY

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 15, 1992
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 RATE OF RETURN

DOCUMENT NUMBER-DATE
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FPSC-RECORDS/REPORTING

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 26
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 FOURTEEN YEARS. I WAS APPOINTED ASSISTANT
4 TREASURER OF THE COMPANY EFFECTIVE DECEMBER 1, 1984.

5
6 IN CONNECTION WITH MY JOB RESPONSIBILITIES, I AM A
7 MEMBER OF THE NATIONAL SOCIETY OF RATE OF RETURN
8 ANALYSTS, THE FINANCIAL MANAGEMENT ASSOCIATION, THE
9 NATIONAL CORPORATE CASH MANAGEMENT ASSOCIATION, THE
10 AMERICAN ECONOMIC DEVELOPMENT COUNCIL, AND THE
11 SOUTHERN INDUSTRIAL DEVELOPMENT COUNCIL.

12

13 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS
14 PROCEEDING?

15

16 A. THE PURPOSE OF MY TESTIMONY IS TO PRESENT EVIDENCE
17 TO THIS COMMISSION AS TO THE APPROPRIATE CAPITAL
18 STRUCTURE AND COST OF DEBT FOR SOUTHERN BELL AS WELL
19 AS TO CALCULATE THE OVERALL COST OF CAPITAL USING
20 THE INFORMATION ON THE COST OF EQUITY CAPITAL FROM
21 THE TESTIMONY OF DR. BILLINGSLEY.

22

23 Q. HAVE YOU PREPARED AN EXHIBIT TO ACCOMPANY THIS
24 TESTIMONY?

25

1 A. YES, MY EXHIBIT CONSISTS OF ONE SCHEDULE WHICH
2 REFLECTS MY CALCULATION OF THE ELEMENTS OF THE
3 CAPITAL STRUCTURE AS WELL AS THE OVERALL WEIGHTED
4 COST OF CAPITAL.

5

6 Q. WHAT COMPONENTS ARE NEEDED TO DETERMINE A COMPANY'S
7 OVERALL COST OF CAPITAL?

8

9 A. THE OVERALL COST OF CAPITAL REFLECTS HOW A COMPANY
10 HAS FINANCED THE ASSETS USED IN ITS OPERATIONS AND
11 AT WHAT COST. THE CAPITAL STRUCTURE REFLECTS THE
12 RELATIVE PROPORTIONS OF DEBT AND EQUITY CAPITAL
13 UTILIZED. THE OVERALL COST OF CAPITAL IS DETERMINED
14 BY WEIGHTING THE CAPITAL COST RATES IN PROPORTION TO
15 THE USE OF THE VARIOUS TYPES OF CAPITAL.

16

17 THE COST RATE FOR A COMPANY'S DEBT IS EASILY
18 DETERMINED BECAUSE DEBT OBLIGATIONS ARE CONTRACTUAL
19 IN NATURE AND USUALLY SPECIFY UP FRONT THE RATE OF
20 INTEREST THAT MUST BE PAID TO THE LENDER.

21

22 THE COST RATE FOR SECURING COMMON EQUITY CAPITAL IS
23 MORE DIFFICULT TO DETERMINE. WHEN A COMMON EQUITY
24 INVESTOR MAKES AN INVESTMENT, HE OR SHE DOES NOT
25 HAVE AN ASSURED RETURN FROM THAT INVESTMENT. IN

1 ORDER FOR THE COMPANY TO BE CHOSEN BY THE INVESTOR,
2 THE COMPANY MUST OFFER THAT COMMON EQUITY INVESTOR
3 AN OPPORTUNITY TO EARN A RETURN ON HIS OR HER
4 INVESTMENT THAT IS ATTRACTIVE RELATIVE TO THE RISKS
5 ASSOCIATED WITH THAT INVESTMENT. SINCE THE
6 INVESTORS' REQUIRED RETURN CANNOT BE MEASURED
7 PRECISELY, IT MUST BE ESTIMATED USING SOUND JUDGMENT
8 AND APPROPRIATE FINANCIAL THEORIES, ANALYSES AND
9 METHODS.

10

11 Q. YOU INDICATED EARLIER THAT THE CAPITAL STRUCTURE
12 REFLECTS THE RELATIVE PROPORTIONS OF DEBT AND COMMON
13 EQUITY CAPITAL UTILIZED TO FINANCE THE COMPANY'S
14 OPERATIONS. WHAT FACTORS INFLUENCE A COMPANY'S
15 MANAGEMENT DECISION REGARDING THE APPROPRIATE LEVEL
16 OF DEBT IN THE CAPITAL STRUCTURE?

17

18 A. THE MAJOR FACTOR AFFECTING THE DETERMINATION OF THE
19 ACCEPTABLE AMOUNT OF DEBT IN THE CAPITAL STRUCTURE
20 IS THE NATURE, MAGNITUDE AND DIRECTION OF THE
21 BUSINESS RISK FACING THE COMPANY. BUSINESS RISK IS
22 DEFINED AS THE VARIABILITY OR VOLATILITY ASSOCIATED
23 WITH A COMPANY'S EARNINGS BEFORE INTEREST AND TAXES.
24 VARIABILITY OF EARNINGS COMES FROM MANY SOURCES, BUT
25 THE IMPACT IS FELT PRIMARILY ON THE REVENUE STREAM.

1 IN FACT, STANDARD AND POOR'S, IN A SEPTEMBER 17,
2 1990 CREDITWEEK ARTICLE ON THE TELECOMMUNICATIONS
3 INDUSTRY, DEFINED BUSINESS RISK SIMPLY AS "THE
4 VOLATILITY OF THE REVENUE STREAM FLOWING FROM THE
5 VARIOUS PRODUCTS AND SERVICES OFFERED."

6
7 THE SOURCES OF BUSINESS RISK ARE NUMEROUS AND
8 VARIED. NATIONAL AND INTERNATIONAL POLITICAL AND
9 ECONOMIC EVENTS THAT AFFECT THE GENERAL STATE OF THE
10 ECONOMY CAN ALSO IMPACT A COMPANY'S REVENUE AND
11 EXPENSES. INDUSTRY-WIDE FACTORS IMPACT THE PROFIT
12 STABILITY OF ITS PARTICIPANTS. HOWEVER, PROBABLY
13 THE MOST DIRECT AND SIGNIFICANT FACTORS THAT AFFECT
14 A COMPANY'S BUSINESS RISK AND ITS REVENUE STREAM ARE
15 (1) THE COMPETITION FACING THE COMPANY'S PRODUCTS
16 AND SERVICES AND (2) THE ELASTICITY OF DEMAND FOR
17 THOSE PRODUCTS AND SERVICES. ADDITIONALLY, NEW
18 TECHNOLOGIES AND INNOVATIONS CAN AFFECT NOT ONLY THE
19 REVENUE STREAM BUT ALSO THE INVESTMENT AND EXPENSES
20 ASSOCIATED WITH THE OPERATIONS OF A BUSINESS.

21
22 IN SUMMARY, THE MAJOR FACTOR AFFECTING THE
23 DETERMINATION OF THE APPROPRIATE CAPITAL STRUCTURE
24 IS THE NATURE, MAGNITUDE AND DIRECTION OF THE
25 BUSINESS RISK FACING A COMPANY.

1

2 Q. WHAT EVIDENCE HAS SOUTHERN BELL PRESENTED REGARDING
3 CHANGES IN THE LEVEL OF BUSINESS RISK FACING THE
4 COMPANY?
5

6 A. A COMPREHENSIVE PRESENTATION ON THE SOURCES OF THE
7 COMPANY'S BUSINESS RISK AND THE INCREASING NATURE OF
8 THAT RISK IS PROVIDED TO THE COMMISSION IN THIS
9 DOCKET IN THE TESTIMONIES OF COMPANY WITNESSES
10 OBUCHOWSKI AND LOMBARDO. MS. OBUCHOWSKI PROVIDES A
11 GLOBAL AND NATIONAL PERSPECTIVE REGARDING THE
12 COMPETITIVE PRESSURES THAT EXIST IN THE
13 TELECOMMUNICATIONS MARKETPLACE. MR. LOMBARDO
14 PRESENTS COMPELLING EVIDENCE THAT THE COMPANY'S
15 BUSINESS RISKS IN FLORIDA ARE SIGNIFICANT AND REAL.
16 THESE TESTIMONIES CLEARLY PROVIDE EVIDENCE THAT THE
17 COMPANY'S BUSINESS RISKS HAVE INCREASED MATERIALLY
18 IN RECENT YEARS AND CAN REASONABLY BE EXPECTED TO
19 CONTINUE TO INCREASE IN THE FUTURE.
20

21 Q. GIVEN THE INCREASED LEVEL OF BUSINESS RISK, SUCH AS
22 THAT WHICH IS NOW FACING THE TELECOMMUNICATIONS
23 INDUSTRY AND SOUTHERN BELL, HOW SHOULD A COMPANY
24 RESPOND TO THIS INCREASED BUSINESS RISK ENVIRONMENT?
25

1 A. WHEN THE REVENUE STREAMS BECOME VULNERABLE TO
2 COMPETITION AND, THEREFORE, MORE VOLATILE AND LESS
3 PREDICTABLE, THE COMPANY'S MANAGEMENT SHOULD RESPOND
4 BY OFFSETTING THIS INCREASED BUSINESS RISK BY
5 REDUCING ITS FINANCIAL RISKS IN ORDER TO ACHIEVE THE
6 LOWEST OVERALL COST OF CAPITAL. THIS IS PRIMARILY
7 ACCOMPLISHED BY LOWERING THE AMOUNT OF DEBT IN THE
8 CAPITAL STRUCTURE.

9

10 Q. ARE THERE ANY OTHER FACTORS, IN ADDITION TO
11 BALANCING BUSINESS RISK CONSIDERATIONS, THAT
12 INFLUENCE A COMPANY'S DECISION AS TO THE AMOUNT OF
13 DEBT IT MAINTAINS?

14

15 A. YES. THERE IS A CLEARLY UNDERSTOOD DIRECT
16 RELATIONSHIP BETWEEN THE RISK AND THE REQUIRED
17 INVESTOR RETURN ASSOCIATED WITH A FINANCIAL
18 INVESTMENT. THE GREATER THE RISKS TO THE INVESTOR
19 OF A PARTICULAR INVESTMENT, THE GREATER WILL BE THE
20 INVESTOR'S REQUIRED RETURN ON THAT INVESTMENT. DUE
21 TO THE CONTRACTUAL NATURE OF DEBT AND THE PRIORITY
22 OF CLAIMS A DEBT INVESTOR HAS ON THE COMPANY'S
23 ASSETS, DEBT CAPITAL REPRESENTS AN ADDITIONAL RISK
24 TO THE EQUITY HOLDER. THIS RESULTS IN THE GENERALLY
25 ACCEPTED IDEA THAT DEBT COSTS LESS THAN EQUITY.

1
2 THIS CAPITAL COST RELATIONSHIP INFLUENCES COMPANIES
3 WHEN THEY DETERMINE THEIR CAPITAL STRUCTURES.
4 THEORY AND COMMON SENSE SUGGEST THAT A COMPANY
5 SHOULD ENDEAVOR TO MINIMIZE ITS COST OF SECURING
6 CAPITAL JUST AS IT TRIES TO MINIMIZE ALL OF ITS
7 OTHER COSTS OF DOING BUSINESS. GIVEN THAT THE COST
8 OF DEBT IS LESS THAN THE COST OF EQUITY, THE USE OF
9 DEBT FINANCING IS APPROPRIATE AND BENEFICIAL, UP TO
10 A POINT, BECAUSE IT CAN LOWER THE COMPANY'S OVERALL
11 COST OF DOING BUSINESS. THE USE OF TOO MUCH DEBT,
12 HOWEVER, CAN DRASTICALLY RAISE A COMPANY'S OVERALL
13 COST OF CAPITAL. THIS IS DUE TO THE FACT THAT TOO
14 MUCH DEBT CAUSES A COMPANY'S COST OF BOTH DEBT AND
15 EQUITY TO RISE. ITS FINANCIAL RISK WILL, IN EFFECT,
16 INCREASE. EVIDENCE OF THIS POINT IS ABUNDANT SINCE,
17 OVER THE PAST SEVERAL YEARS, MANY COMPANIES TOOK ON
18 TOO MUCH DEBT. THEIR REVENUE STREAMS WERE TOO
19 VOLATILE OR JUST NOT STRONG ENOUGH TO SUPPORT THE
20 BURDENS OF THAT DEBT AND THEY HAVE SUFFERED
21 FINANCIALLY. GIVEN THE CURRENT STATE OF THE
22 ECONOMY, PREVAILING WISDOM CALLS FOR A REDUCED
23 RELIANCE UPON DEBT FINANCING.
24
25 ANOTHER FACTOR THAT INFLUENCES THE CAPITAL STRUCTURE

1 DETERMINATION IS THE NEED FOR A LEVEL OF
2 CREDITWORTHINESS AND SUFFICIENT BORROWING MARGIN TO
3 ENABLE THE COMPANY TO OPERATE AS AN ONGOING ENTITY,
4 GIVEN ITS BUSINESS RISKS. SOUTHERN BELL MUST
5 COMPETE FOR FUNDS IN THE CAPITAL MARKETS WITH THE
6 MAJOR U.S. AND FOREIGN INDUSTRIAL AND UTILITY FIRMS.
7 HIGH QUALITY CREDIT RATINGS ENABLE THE COMPANY TO
8 ATTRACT CAPITAL. DUE TO THE CONTINUING GROWTH IN
9 SOUTHERN BELL'S SERVICE TERRITORY, THE COMPANY'S
10 LARGE CAPITAL REQUIREMENTS, AND ITS UTILITY
11 OBLIGATION TO SERVE RATEPAYERS, SOUTHERN BELL MUST
12 BE ABLE TO COMPETE FOR REASONABLY-PRICED FUNDS,
13 REGARDLESS OF CAPITAL MARKET CONDITIONS. HIGH
14 QUALITY CREDIT RATINGS FACILITATE THIS PROCESS.

15

16 Q. WHAT HAS BEEN THE HISTORY OF THIS COMMISSION'S
17 REGULATORY PRACTICE REGARDING THE CAPITAL STRUCTURE
18 ISSUE AS APPLIED TO SOUTHERN BELL?

19

20 A. THIS COMMISSION, SINCE DIVESTITURE, HAS REGULATED
21 SOUTHERN BELL BASED ON THE COMPANY'S ACTUAL AVERAGE
22 CAPITAL STRUCTURE. THE CONTINUED USE OF THE
23 COMPANY'S ACTUAL CAPITAL STRUCTURE IN THIS
24 PROCEEDING IS APPROPRIATE. BY DOING SO, THE
25 COMMISSION IS RECOGNIZING THAT A COMPANY'S ACTUAL

1 CAPITAL STRUCTURE BEST REFLECTS THE REALITIES OF
2 THE COMPANY'S FINANCIAL SITUATION AND IT IS THAT
3 CAPITAL STRUCTURE WHICH IS READILY AVAILABLE TO THE
4 INVESTORS WHEN THEY ARE EVALUATING INVESTMENT
5 OPPORTUNITIES.

6

7 Q. YOU HAVE STATED THAT THE COMPANY'S BUSINESS RISK HAS
8 INCREASED. HAS THE COMPANY REDUCED ITS FINANCIAL
9 RISK SO AS TO OFFSET THIS INCREASE IN BUSINESS RISK?

10

11 A. NO. THE COMPANY'S DEBT RATIO HAS REMAINED FAIRLY
12 STABLE DURING THE PAST SEVERAL YEARS. AS REFLECTED
13 IN THE SURVEILLANCE REPORTS TO THIS COMMISSION,
14 SOUTHERN BELL'S AVERAGE DEBT RATIO HAS VARIED WITHIN
15 A NARROW RANGE:

16

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

24 ASSUMING THAT THE MERGER WHICH RESULTED IN THE
25 CREATION OF BELLSOUTH TELECOMMUNICATIONS, INC. (BST)

1 TOOK PLACE AT THE BEGINNING OF 1991, THE AVERAGE
2 DEBT RATIO FOR BST FOR YEAR 1991 WOULD HAVE BEEN
3 37.66%. FOR YEAR 1992, THE AVERAGE CAPITAL
4 STRUCTURE IS EXPECTED TO BE SIMILAR TO THE 1991
5 LEVEL. THEREFORE, IN SPITE OF INCREASING BUSINESS
6 RISK AND THE MERGER, THE COMPANY HAS MAINTAINED ITS
7 LEVEL OF FINANCIAL RISK. AS A CONSEQUENCE, THE
8 COMPANY'S OVERALL RISK, WHICH IS THE COMBINATION OF
9 THE BUSINESS AND FINANCIAL RISKS, HAS, IN MY
10 OPINION, INCREASED IN RECENT YEARS.

11

12 Q. WHAT IS YOUR RECOMMENDATION TO THIS COMMISSION
13 REGARDING THE APPROPRIATE CAPITAL STRUCTURE AND COST
14 RATES THAT SHOULD BE USED IN CONNECTION WITH THE
15 COMPANY'S NEW PRICE REGULATION PLAN?

16

17 A. CONSISTENT WITH PAST PRACTICES OF THIS COMMISSION
18 AND THE CURRENT FINANCIAL REALTIES OF THE COMPANY, I
19 RECOMMEND THAT THE COMMISSION CONTINUE TO USE THE
20 COMPANY'S ACTUAL AVERAGE CAPITAL STRUCTURE AND COST
21 RATES.

22

23 BESIDES PAST COMMISSION PRACTICE, THERE ARE SEVERAL
24 OTHER REASONS WHY THE COMPANY'S ACTUAL CAPITAL
25 STRUCTURE IS APPROPRIATE. AGAIN, INVESTORS ASSESS

1 THE COMPANY'S FINANCIAL RISK BASED ON ITS ACTUAL
2 CAPITAL STRUCTURE, AS IT IS REFLECTED IN ITS
3 PUBLISHED FINANCIAL STATEMENTS. SECOND, IN A
4 REGULATORY CONTEXT, THE USE OF A PHANTOM, RATHER
5 THAN AN ACTUAL CAPITAL STRUCTURE, CREATES A
6 SITUATION WHERE THE FINANCIAL RESULTS OF RATEMAKING
7 WILL NOT, IN FACT, BE ACHIEVED BY THE INVESTORS.
8 FINALLY, THE SIGNAL THAT WOULD BE SENT TO INVESTORS
9 BY THE USE OF A PHANTOM CAPITAL STRUCTURE WOULD BE
10 NEGATIVE AND COULD ULTIMATELY CAUSE FINANCIAL HARM
11 TO THE COMPANY AND COULD INCREASE THE COST OF
12 TELECOMMUNICATIONS SERVICES.

13

14 Q. WHAT IMPACT DID THE MERGER HAVE ON THE COMPANY'S
15 ACTUAL AVERAGE CAPITAL STRUCTURE AND ITS COST OF
16 DEBT?

17

18 A. THE MERGER CAUSED VERY LITTLE CHANGE IN THE
19 COMPANY'S CAPITAL STRUCTURE AND COST OF DEBT. THE
20 FOLLOWING TABLE DISPLAYS THE FORMER 4-STATE CAPITAL
21 STRUCTURE AND THE ONE FOR THE CURRENT ORGANIZATION
22 FOR THE YEAR 1991, USING THE COMMISSION'S 12-MONTH
23 AVERAGE CONVENTION:

24

25

	<u>SBT&T</u>	<u>BST</u>
<u>CAPITAL STRUCTURE PERCENTAGES</u>		
LONG-TERM DEBT	32.26%	33.59%
SHORT-TERM DEBT	5.01%	4.07%
COMMON EQUITY	62.73%	62.34%

	<u>COST OF DEBT</u>	
LONG-TERM DEBT	8.81%	8.73%
SHORT-TERM DEBT	6.06%	6.05%
TOTAL DEBT	8.45%	8.44%

IF ONE WERE TO COMPUTE AN OVERALL COST OF CAPITAL USING THIS INVESTOR-SUPPLIED DATA AND THE 14.6% MIDPOINT OF THE COST OF EQUITY RANGE SUPPORTED BY DR. BILLINGSLEY'S TESTIMONY, THE OVERALL COST OF CAPITAL FOR THE COMPANY WOULD HAVE DECLINED, DUE TO THE MERGER, FROM 12.30% TO 12.28%.

IF ONE WERE TO COMPUTE AN OVERALL COST OF CAPITAL USING THE 1991 FLORIDA INTRASTATE CAPITAL STRUCTURE, AS REFLECTED ON THE COMPANY'S REVISED 1991 SURVEILLANCE REPORT, AND AGAIN USING THE 14.6%

1 MIDPOINT AS THE COST OF EQUITY, THE OVERALL COST OF
2 CAPITAL FOR THE COMPANY WOULD HAVE DECLINED, DUE TO
3 THE MERGER, FROM 9.97% TO 9.95%.

4

5 Q. WHAT IS THE COMPOSITION OF THE CAPITAL STRUCTURE
6 THAT THE COMPANY IS RECOMMENDING IN CONNECTION WITH
7 THE NEW PRICE REGULATION PLAN?

8

9 A. TO PROVIDE A STARTING POINT FOR THE NEW PRICE
10 REGULATION PLAN, SCHEDULE NO. 1 OF MY EXHIBIT
11 REFLECTS THE APPLICATION OF THE SOUTHERN BELL
12 AVERAGE CAPITAL STRUCTURE RATIOS AND DEBT COST RATES
13 TO THE FLORIDA INTRASTATE CAPITAL FOR YEAR 1991.
14 THE 1991 SOUTHERN BELL CAPITAL STRUCTURE DATA WAS
15 CALCULATED AS IF THE MERGER HAD BEEN IN EFFECT FOR
16 THE ENTIRE YEAR.

17

18 AT THE TOP OF THAT SCHEDULE IS SHOWN THE SOUTHERN
19 BELL AVERAGE CAPITAL STRUCTURE FOR 1991 THAT WAS
20 JUST DISCUSSED. THE LOWER PORTION OF THAT SCHEDULE
21 REFLECTS THE FLORIDA INTRASTATE AVERAGE CAPITAL
22 STRUCTURE FOR 1991 THAT IS RECONCILED WITH THE
23 FLORIDA INTRASTATE RATE BASE PRESENTED IN THE
24 TESTIMONY OF COMPANY WITNESS REID.

25

1 THE COST RATES FOR BOTH THE CUSTOMER DEPOSITS AND
2 INVESTMENT TAX CREDITS WERE COMPUTED ACCORDING TO
3 COMMISSION RULES AND PROCEDURES. THE UNDERLYING
4 DATA FOR THE COST RATES FOR LONG-TERM AND SHORT-TERM
5 DEBT WAS PROVIDED IN THE MINIMUM FILING REQUIREMENTS
6 (MFR), FILED ON MAY 1, 1992.

7
8 THE TESTIMONY AND EXHIBITS OF DR. BILLINGSLEY
9 PROVIDE EVIDENCE THAT THE COMPANY'S CURRENT COST OF
10 EQUITY IS IN THE RANGE OF 14.36% TO 14.80%. THE
11 MIDPOINT OF THIS RANGE IS APPROXIMATELY 14.6%, WHICH
12 IS STILL WITHIN THE PARAMETERS OF THE EXISTING
13 INCENTIVE REGULATION PLAN.

14
15 SINCE THE COMPANY'S EARNINGS LEVEL, WHICH IS
16 SUPPORTED BY COMPANY WITNESS REID'S TESTIMONY, IS
17 BELOW THE COMPANY'S CURRENT COST OF EQUITY BUT
18 WITHIN THE EARNINGS PARAMETERS OF THE INCENTIVE
19 PLAN, THE COMPANY IS PROPOSING NO CHANGE IN THE
20 RETURN PARAMETERS FOR THE INCENTIVE PLAN.

21
22 THEREFORE, ON THAT SCHEDULE, I HAVE COMPUTED THE
23 COMPANY'S OVERALL RATE OF RETURN TO BE 9.96% BY
24 COMBINING THE INDICATED 14.6% MIDPOINT OF THE RANGE
25 OF COST OF EQUITY WITH THE APPROPRIATE CAPITAL

1 STRUCTURE COMPONENTS AND THE VARIOUS OTHER COST
2 COMPONENTS.

3

4 Q. DOES THAT CONCLUDE YOUR TESTIMONY?

5

6 A. YES, IT DOES.

7

8

9

10

11

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Docket No. 920260-TL
 Keck Exhibit No. _____
 Keck Schedule No. 1
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 Capital Structure, Cost Rates
 and Overall Rate of Return

SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY
Average 12 Months Ending 12-31-91

	Amount (\$000)	Percent of Total
Long-Term Debt	\$ 6,166,546	33.59%
Short-Term Debt	747,743	4.07
Common Equity	11,446,288	62.34
TOTAL CAPITAL	<u>\$18,360,577</u>	<u>100.00%</u>

ADJUSTED 1991 FLORIDA INTRASTATE CAPITAL STRUCTURE

	Amount (\$000)	Percent of Total	Cost Rate	Wtd. Cost
Long-Term Debt	\$ 1,068,897	25.75%	8.73%	2.25%
Short-Term Debt	129,515	3.12	6.05	.19
Common Equity	1,983,775	47.80	14.60	6.98
Preferred Stock	0	0.00	0.00	0.00
Customer Deposits	53,304	1.28	8.25	.11
Cost Free Capital	771,809	18.60	0.00	0.00
Investment Tax Credits	143,195	3.45	12.54	.43
TOTAL CAPITAL	<u>\$ 4,150,495</u>	<u>100.00%</u>		<u>9.96%</u>