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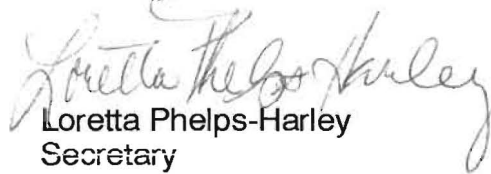
December 30, 1992

Steve Tribble, Director
Records and Reporting
Public Service Commission of Florida
Fletcher Building
101 East Gaines Street
Tallahassee, Florida 32399-0850

Dear Mr. Tribble:

As requested, I have enclosed a diskette recorded in WordPerfect 5.1 of the Prehearing Statement of the Department of Defense in Docket 920260-TL, involving the review of the revenue requirements and rate stabilization plans of Southern Bell.

Sincerely,



Loretta Phelps-Harley
Secretary

14651-92

DOCUMENT NO.
14651-92



DEPARTMENT OF THE ARMY
 OFFICE OF THE JUDGE ADVOCATE GENERAL
 901 NORTH STUART STREET
 ARLINGTON, VA 22203-1837



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REPLY TO
 ATTENTION OF

December 17, 1992

Regulatory Law Office
 U 3741

SUBJECT: Comprehensive review of the Revenue Requirements
 and Rate Stabilization Plan of Southern Bell Telephone &
 Telegraph Company, Docket No. 920260-TL

Mr. Steve C. Tribble
 Director, Division of Records and Reporting
 Florida Public Service Commission
 101 East Gaines Street
 Tallahassee, Florida 32301

Dear Mr. Tribble:

Enclosed for filing in this proceeding are an original
 and 15 copies of the Prehearing Statement, on behalf of the
 U.S. Department of Defense and All Other Federal Executive
 Agencies of the Federal Government, in the above-styled
 proceeding.

Copies have been served in accordance with the attached
 Certificate of Service.

Sincerely,

PETER Q. NYCE, JR.
 General Attorney
 Regulatory Law Office

- ACK 1
- AFA 3
- APC _____
- CAF _____
- CIW 1
- CTR _____
- EAG _____
- LEG 1
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- WAS _____
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Encls

DOCUMENT NUMBER-DATE

14651 DEC 18 1992

FPSC-RECORDS/REPORTING

**BEFORE THE
PUBLIC SERVICE COMMISSION
OF THE STATE OF FLORIDA**

* * *

**Comprehensive Review of the Revenue
Requirements and Rate Stabilization Plan
of Southern Bell Telephone & Telegraph
Company**

Docket No. 920260-TL

**PREHEARING STATEMENT
OF THE DEPARTMENT OF DEFENSE AND
ALL OTHER FEDERAL EXECUTIVE AGENCIES**

**PETER Q. NYCE, JR.
General Attorney, Regulatory Law Office
Office of The Judge Advocate General
Department of The Army
901 North Stuart Street
Arlington, VA 22203-1837**

For

**THE DEPARTMENT OF DEFENSE
And
ALL OTHER FEDERAL EXECUTIVE AGENCIES**

Date Due: December 18, 1992

DOCUMENT NUMBER-DATE

14651 DEC 18 1992

FPSC-RECORDS/REPORTING

**BEFORE THE
PUBLIC SERVICE COMMISSION
OF THE STATE OF FLORIDA**

* * *

**Comprehensive Review of the Revenue
Requirements and Rate Stabilization Plan
of Southern Bell Telephone & Telegraph
Company**

Docket No. 920260-TL

**Prehearing Statement
Of The Department Of Defense And
All Other Federal Executive Agencies**

The Department of Defense ("DOD"), on behalf of all Federal Executive Agencies ("FEA") in the State of Florida, submits this Prehearing Statement pursuant to Rule 25-22.038(3), Florida Administration Code, and to Order No. PSC-92-1195-PCO-TL, issued October 21, 1992. The information required in the Commission's Order is set forth as follows:

- (a) The name of all known witnesses that may be called by the party, and the subject matter of their testimony;**

DOD/FEA will call Charles W. King, President of the economic consulting firm of Snavely, King & Associates, Inc., to testify on the appropriate modifications that should be made to the current rate stabilization plan and to Southern Bell's proposed price stabilization plan. Mr. King may also testify on Commission Staff's recommendations concerning these plans.

(b) A description of all known exhibits that may be used by the party, whether they may be identified on a composite basis, and the witness sponsoring each;

DOD/FEA witness Charles W. King will sponsor at least four exhibits, characterized as attachments to his testimony.

Attachment A describes Mr. King's qualifications and experience.

Attachment B lists Mr. King's appearances before regulatory agencies.

Attachment C displays the yields on 10-year Treasury bonds and Moody's Aa public utility bonds between July, 1988 and September, 1992.

Attachment D contains prioritized lists of rate increases and decreases that were approved by the regulatory commissions of Alabama, Kentucky and Mississippi in connection with rate stabilization plans in those states.

Mr. King may present further exhibits in response to Staff testimony scheduled for December 11 and 15.

(c) A statement of basic position in the proceeding;

DOD/FEA recommends that the Commission determine the Company's current cost of capital and, if appropriate, recalibrate the Company's rates to generate that cost of capital. Parallel to this recalibration would be a resetting of the sharing bands that were established when the initial incentive regulation plan was approved in 1988. Second, DOD/FEA recommends that the Commission accept the Company's proposal for a price regulation index to govern the Company's overall revenue recovery. That index should consist of the GNP price index less a productivity offset and adjusted for exogenous factors. The Commission should consider a productivity offset slightly greater than the Company proposes, possibly 4.5 or 5.0 percent. Additionally, the exogenous factors should exclude depreciation rate adjustments and should include separations factor changes.

Third, DOD/FEA recommends that the Commission adjust rates as indicated either by the PRI or the sharing mechanism each year based on a predetermined, prioritized list of rate increases and, alternatively, decreases that have been established in a separate inquiry decoupled from the rate adjustment mechanism.

Fourth, DOD/FEA recommends that the Commission reconsider the sharing bands whenever the yields on 10-year Treasury bonds vary by more than 150 basis points from their level at the time the sharing bands were last established.

Finally, DOD/FEA recommends that the pricing flexibility sought for Southern Bell be granted only for services that are actually competitive. For services that are only potentially competitive, Southern Bell should be allowed downward pricing flexibility only.

(d) A statement of each question of fact the party considers at issue, the party's position on each such issue, and which of the party's witnesses will address the issue;

DOD/FEA considered the following issues of fact at issue:

- Whether the rate of return found appropriate in 1988 continues to be appropriate. DOD/FEA believes that it does not.
- Whether a productivity offset of 4.0 percent is appropriate to Southern Bell. DOD/FEA believes that a higher offset might be appropriate.
- Whether depreciation rate changes are exogenous, that is, beyond management control. DOD/FEA believes they are not.
- Whether separations factor changes are exogenous. DOD/FEA believes that they are.

Charles King will address each of these questions of fact.

- (e) A statement of each question of law the party considers at issue and the party's position on each such issue;**

At this point, DOD/FEA has not identified any issues of law in this proceeding.

- (f) A statement of each policy question the party considers at issue, the party's position on each such issue, and which of the party's witnesses will address the issue;**

DOD/FEA considers the following to be issues of policy:

- Whether a rate or price stabilization plan is desirable. DOD/FEA believes that such a plan is desirable as long as the utility is in a condition of declining unit costs.
- Whether a price index cap such as Southern Bell has proposed is desirable. DOD/FEA believes that a price cap can be beneficial when overlaid on an earnings sharing program, as Southern Bell proposes.
- Whether it is necessary to recalibrate rates before beginning a new price stability plan. DOD/FEA believes that it is.
- Whether the 60/40 sharing ratio for excess earnings should be converted to 50/50. DOD/FEA accepts Southern Bell's argument that it should.
- Whether services should be separated into basic and non-basic categories with differing degrees of pricing flexibility allowed for each. DOD/FEA believes that there should be three service categories: (1) actually competitive, (2) potentially competitive, and (3) non-competitive. Pricing flexibility should be allowed only for the actually competitive services. Downward pricing flexibility should be allowed for potentially competitive services.
- How should the ratepayers' share of overearnings and underearnings be distributed? DOD/FEA recommends that the Commission establish, in a separate inquiry, prioritized lists of rate increases and rate decreases which would be applied to the ratepayers' share of overearnings and underearnings as soon as they are quantified.

Charles W. King will testify as to all of the foregoing policy issues:

- (g) A statement of issues that have been stipulated to by the parties;**

DOD/FEA has stipulated to no issues at this time.

- (h) **A statement of all pending motions or other matters the party seeks action upon; and**

At this time, DOD/FEA has no pending motions or other matters requiring action.

- (i) **A statement as to any requirement set forth in this order that cannot be complied with, and the reasons therefore.**

There are no requirements in the order with which DOD/FEA cannot comply.

Respectfully submitted,



PETER Q. NYCE, JR.
General Attorney

Regulatory Law Office
Office of The Judge Advocate General
Department of The Army
US Litigation Center
901 North Stuart Street
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For

THE DEPARTMENT OF DEFENSE
AND
ALL OTHER FEDERAL EXECUTIVE AGENCIES

Dated this 17th day of December, 1992

CERTIFICATE OF SERVICE
Docket No. 920260-TL

I hereby certify that an original and 15 copies of the forgoing document have been sent to the Commission by Federal Express, and that copies have been sent by First Class U.S. Mail on December 17, 1992, to all parties on the service list.

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Dated at Arlington, VA, this 17th day of December, 1992.



PETER Q. NYCE, JR.