

ORIGINAL
FILE COPY

1 SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY
2 REBUTTAL TESTIMONY OF WILLIAM B. KECK
3 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
4 DOCKET NO. 920260-TL
5 DECEMBER 18, 1992
6

7 Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS
8 ADDRESS.

9
10 A. MY NAME IS WILLIAM B. KECK. I AM EMPLOYED BY
11 BELLSOUTH TELECOMMUNICATIONS, INC. AS
12 DIRECTOR-CORPORATE FINANCE AND ASSISTANT TREASURER.
13 MY BUSINESS ADDRESS IS 675 WEST PEACHTREE STREET,
14 ATLANTA, GEORGIA 30375.

15
16 Q. HAVE YOU PREVIOUSLY SUBMITTED DIRECT TESTIMONY IN
17 THIS PROCEEDING?

18
19 A. YES.

20
21 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

22
23 A. THE PURPOSE OF MY REBUTTAL TESTIMONY IS TO REVIEW
24 MR. CICCHETTI'S RECOMMENDATIONS ON CAPITAL STRUCTURE
25 AND THE COST RATES FOR VARIOUS CAPITAL COMPONENTS.

1
2 ADDITIONALLY, SINCE COMPANY WITNESS REID HAS
3 PROVIDED A REVISED FLORIDA INTRASTATE RATE BASE IN
4 HIS REBUTTAL TESTIMONY, IT IS NECESSARY FOR ME TO
5 REVISE THE CAPITAL STRUCTURE TO MATCH THAT RATE BASE
6 AND TO PROVIDE THE COMMISSION WITH A REVISED
7 COMPUTATION OF THE OVERALL COST OF CAPITAL.

8
9 Q. HAVE YOU PREPARED AN EXHIBIT TO ACCOMPANY THIS
10 REBUTTAL TESTIMONY?

11
12 A. YES, MY REBUTTAL EXHIBIT (WBK-2) CONSISTS OF ONE
13 SCHEDULE WHICH REFLECTS THE REVISED CALCULATIONS OF
14 THE ELEMENTS OF THE CAPITAL STRUCTURE AS WELL AS THE
15 OVERALL WEIGHTED COST OF CAPITAL.

16
17 REBUTTAL OF MR. CICCHETTI

18
19 Q. PLEASE COMMENT ON MR. CICCHETTI'S RECOMMENDATIONS
20 REGARDING CAPITAL STRUCTURE AND THE COST RATES FOR
21 THE VARIOUS CAPITAL COMPONENTS.

22
23 A. I HAVE TWO PRIMARY DISAGREEMENTS WITH MR.
24 CICCHETTI'S RECOMMENDATIONS ON THESE ISSUES-- ONE IS
25 AN APPARENT COST RATE ERROR AND THE OTHER IS A

1 DISAGREEMENT REGARDING THE APPROPRIATE LEVEL OF
2 EQUITY IN THE CAPITAL STRUCTURE.

3

4 Q. PLEASE DISCUSS THE APPARENT COST RATE ERROR.

5

6 A. MY FIRST CONCERN IS THAT WHILE MR. CICCHETTI ADOPTED
7 MOST OF THE COMPANY'S DETERMINATIONS REGARDING THE
8 VARIOUS COST RATES, THERE APPEARS TO BE AN ERROR
9 WITH RESPECT TO THE COST RATE FOR SHORT-TERM DEBT.
10 MR. CICCHETTI ADOPTS THE COMPANY'S COST RATE
11 CALCULATIONS FOR LONG-TERM DEBT AND FOR CUSTOMER
12 DEPOSITS. HE ALSO CALCULATES THE COST RATE FOR THE
13 INVESTMENT TAX CREDITS IN THE SAME MANNER AS THE
14 COMPANY. HOWEVER, FOR SHORT-TERM DEBT, MR.
15 CICCHETTI USES A 3.75% COST RATE, RATHER THAN THE
16 COMPANY'S ACTUAL AVERAGE COST RATE FOR 1991 OF
17 6.05%.

18

19 WHILE I CANNOT DETERMINE THE SOURCE OF HIS 3.75%
20 COST RATE, I KNOW THAT THE COMPANY WAS NOT ABLE TO
21 SECURE SHORT-TERM DEBT AT THAT COST RATE IN 1991.
22 CORRECTING HIS SCHEDULE 15 TO REFLECT THE ACTUAL
23 6.05% SHORT-TERM DEBT COST RATE RAISES HIS AFTER-TAX
24 WEIGHTED OVERALL COST RECOMMENDATION BY 7 BASIS
25 POINTS.

1

2 Q. WHAT IS YOUR SECOND DISAGREEMENT REGARDING MR.
3 CICCHETTI'S TESTIMONY?

4

5 A. MY SECOND, AND PRIMARY DISAGREEMENT, REVOLVES AROUND
6 HIS RECOMMENDATION THAT THE COMPANY'S EQUITY RATIO
7 BE SET AT 58% OF INVESTOR CAPITAL FOR RATEMAKING
8 PURPOSES. HIS RECOMMENDATION IS SIMPLY AN ATTEMPT
9 TO CREATE A REVENUE REQUIREMENT ADJUSTMENT THAT WILL
10 BURDEN THE COMPANY FINANCIALLY.

11

12 HIS RECOMMENDATION IS ARBITRARY AND IS NOT BASED ON
13 ANY STUDY. MORE IMPORTANTLY, IT IS CONTRARY TO WHAT
14 HE SAID IN THE PAST ABOUT ESSENTIALLY THE SAME
15 ACTUAL CAPITAL STRUCTURE THAT EXISTS TODAY.

16 FURTHERMORE, THE LOGIC OF HIS RECOMMENDATION RUNS
17 COUNTER TO FINANCIAL THEORY BECAUSE IT IGNORES
18 OVERWHELMING EVIDENCE THAT EXISTS IN TODAY'S
19 TELECOMMUNICATIONS INDUSTRY, EVIDENCE WHICH CLEARLY
20 INDICATES THAT THE LOCAL EXCHANGE COMPANIES OUGHT TO
21 REDUCE FINANCIAL RISK IN LIGHT OF THEIR
22 EVER-INCREASING BUSINESS RISK. FINALLY, HIS
23 RECOMMENDATION IGNORES THE FACT THAT THE ACTUAL
24 CAPITAL STRUCTURE IS THE ONE THAT IS AVAILABLE TO
25 INVESTORS AND IS USED BY THEM WHEN THEY EVALUATE

1 INVESTMENT OPPORTUNITIES.

2

3 Q. WHAT IS THE BASIS FOR HIS 58% EQUITY RATIO
4 RECOMMENDATION?

5

6 A. HE APPEARS TO HAVE ESTABLISHED THE 58%
7 RECOMMENDATION BASED ON ONE OF STANDARD AND POOR'S
8 (S&P) FINANCIAL BENCHMARKS, NAMELY S&P'S TOTAL DEBT
9 TO TOTAL CAPITAL FINANCIAL BENCHMARK FOR A AA-RATED
10 LOCAL EXCHANGE COMPANY.

11

12 Q. IS THAT A VALID BASIS ON WHICH TO PROPOSE AN EQUITY
13 RATIO RECOMMENDATION IN THIS PROCEEDING?

14

15 A. NO, IT IS NOT. THE CHOICE OF THE 58% EQUITY LEVEL
16 IS ARBITRARY AND, THEREFORE, SHOULD BE REJECTED. HE
17 HAS PRESENTED NO STUDY OR EVIDENCE TO SUPPORT THAT
18 THIS EQUITY RATIO IS APPROPRIATE FOR SOUTHERN BELL
19 IN TODAY'S TELECOMMUNICATIONS MARKETPLACE. HE
20 SIMPLY ASSIGNED S&P'S AA CAPITAL STRUCTURE BENCHMARK
21 FOR A LOCAL EXCHANGE COMPANY TO SOUTHERN BELL, A
22 AAA-RATED COMPANY.

23

24 FURTHERMORE, IN MY OPINION, HE HAS MISUSED THIS
25 FINANCIAL BENCHMARK, EVEN IF IT WERE TO BE

1 APPLICABLE TO SOUTHERN BELL. S&P, IN THE
2 PUBLICATION THAT MR. CICHETTI USED TO CREATE HIS
3 SCHEDULE NO. 10, CLEARLY EXPRESSES CAUTION WITH
4 RESPECT TO THE USE OF FINANCIAL RATIOS AND THEIR
5 GUIDELINES ("BENCHMARKS"):

6
7 "ALTHOUGH FINANCIAL RATIOS TELL ONLY A PART
8 OF THE RATING STORY, A COMBINATION OF
9 RATIOS PROVIDES AN INDICATION OF THE
10 OVERALL FINANCIAL PROFILE APPROPRIATE FOR A
11 GIVEN RATING LEVEL. S&P PUBLISHES THESE
12 GUIDELINES TO PROVIDE INSIGHT INTO THE
13 RATING PROCESS. HOWEVER, RATINGS ALSO
14 DEPEND HEAVILY ON QUALITATIVE JUDGMENTS.
15 EVALUATIONS OF BUSINESS RISK, WHICH
16 GENERALLY DETERMINES THE STABILITY OF
17 FINANCIAL PERFORMANCE, ARE NOT NEATLY
18 QUANTIFIABLE. EVEN SOME MEASURES OF
19 FINANCIAL RISK, SUCH AS ASSET QUALITY AND
20 FINANCIAL FLEXIBILITY, CANNOT BE EASILY
21 DETERMINED SOLELY FROM PUBLISHED FINANCIAL
22 REPORTS. SINCE RATINGS ARE FORWARD
23 LOOKING, S&P APPLIES GUIDELINES BASED ON
24 EXPECTED FUTURE FINANCIAL PERFORMANCE, NOT
25 HISTORICAL RESULTS." STANDARD AND POOR'S,

1 CREDITREVIEW- TELECOMMUNICATIONS, FEBRUARY
2 10, 1992, PAGE 4.

3

4 Q. HAS MR. CICCHETTI TESTIFIED BEFORE ON THE
5 APPROPRIATENESS OF THE COMPANY'S ACTUAL CAPITAL
6 STRUCTURE?

7

8 A. YES, HE SUPPORTED, IN 1988 TESTIMONY ON BEHALF OF
9 THE COMMISSION STAFF, THE USE OF SOUTHERN BELL'S
10 ACTUAL CAPITAL STRUCTURE. IN HIS TESTIMONY, HE
11 STATED THAT "...I DO NOT BELIEVE SOUTHERN BELL'S
12 EQUITY RATIO SHOULD BE REDUCED FOR RATEMAKING
13 PURPOSES." THE COMPANY'S ACTUAL EQUITY RATIO FOR
14 THE YEAR 1988 WAS 62.73%. THE COMPANY'S ACTUAL
15 EQUITY RATIO FOR THE YEAR 1991, WHICH IS BEING USED
16 IN THIS PROCEEDING, WAS 62.34%.

17

18 INTERESTINGLY, IN HIS 1988 TESTIMONY, MR. CICCHETTI
19 RELIED UPON AN EARLIER COMMISSION ORDER, ORDER NO.
20 4078 IN DOCKET NO. 7759-EU, INDICATING THAT IT READ
21 AS FOLLOWS:

22

23 "CAPITAL STRUCTURE FALL [SIC] WITHIN THE
24 PREROGATIVES OF MANAGEMENT, AND THIS IS AS
25 IT SHOULD BE, BECAUSE OF THE IMPACT CAPITAL

1 RATIOS EXCERPT [SIC] ON THE ABILITY OF THE
2 UTILITY TO MAINTAIN ITS CREDIT AND ATTRACT
3 CAPITAL. MANAGEMENT LIVES FROM DAY TO DAY
4 WITH THE INTRICATE AND COMPLEX PROBLEMS OF
5 CORPORATE FINANCE, AND HAS THE
6 RESPONSIBILITY OF SEEING THAT THE UTILITY
7 HAS THE FINANCIAL ABILITY TO MEET ITS
8 PUBLIC DUTY. THE INVASION OF THE FIELD OF
9 MANAGEMENT IN SUCH A SENSITIVE AREA IS
10 JUSTIFIED ONLY WHEN THE PUBLIC INTEREST
11 REQUIRES THE EXERCISE OF EXTREME MEASURES
12 FOR ITS PROTECTION AND BENEFIT."

13
14 FPSC DOCKET NO. 880069-TL, TRANSCRIPT AT PAGE 1694.

15
16 IN SUMMARY, BACK IN 1988, MR. CICCHETTI SUPPORTED
17 THE USE OF AN EQUITY RATIO OF ABOUT 62% BUT TODAY,
18 AT A TIME WHEN BUSINESS RISKS ARE CLEARLY GREATER
19 AND INCREASING, HE NOW REJECTS A SIMILAR RATIO AND
20 PROPOSES A CAPITAL STRUCTURE WHICH WOULD INCREASE
21 THE COMPANY'S FINANCIAL RISKS.

22
23 Q. WHAT DID THE COMMISSION DO IN 1988 REGARDING THE
24 APPROPRIATE CAPITAL STRUCTURE FOR SOUTHERN BELL?

25

1 A. CONSISTENT WITH MR. CICCHETTI'S TESTIMONY IN 1988,
2 THE COMMISSION, IN ORDER 20162 IN DOCKET NO.
3 880069-TL, DATED OCTOBER 13, 1988, STATED THAT
4 "IMPUTING A LOWER EQUITY RATIO REDUCES THE COMPANY'S
5 ABILITY TO EARN ON ITS ACTUAL CAPITAL STRUCTURE.
6 IMPUTING A LOWER EQUITY RATIO COULD ALSO ADVERSELY
7 AFFECT THE COMPANY'S ABILITY TO REACT TO CHANGES IN
8 ITS OPERATING ENVIRONMENT AND COULD POSSIBLY RESULT
9 IN A LOWER BOND RATING FOR THE COMPANY," AND
10 REJECTED A HYPOTHETICAL CAPITAL STRUCTURE. IT
11 SHOULD DO SO AGAIN.

12

13 Q. IS MR. CICCHETTI'S EQUITY RATIO RECOMMENDATION
14 APPROPRIATE FOR SOUTHERN BELL, GIVEN TODAY'S
15 TELECOMMUNICATIONS MARKETPLACE?

16

17 A. NO, IT IS NOT. HE IS NOW PROPOSING AN EQUITY RATIO
18 OF 58%, MORE THAN FOUR PERCENTAGE POINTS LOWER THAN
19 THE CURRENT ACTUAL RATIO AND THE ACTUAL RATIO THAT
20 HAS EXISTED SINCE 1988, EVEN THOUGH THE COMPANY'S
21 BUSINESS RISKS HAVE CLEARLY INCREASED DRAMATICALLY
22 OVER THE LAST FIVE YEARS. THE LOGIC OF THIS
23 RECOMMENDATION IS COMPLETELY OPPOSITE OF THAT WHICH
24 BASIC FINANCIAL THEORY WOULD DICTATE.

25

1 ON PAGE 11 OF MY DIRECT TESTIMONY IN THIS
2 PROCEEDING, I PROVIDED EVIDENCE THAT THE COMPANY'S
3 CAPITAL STRUCTURE HAS NOT CHANGED APPRECIABLY SINCE
4 1988. COUPLING THAT FACT WITH THE INCREASED
5 BUSINESS RISK EVIDENCE PRESENTED BY THE TESTIMONIES
6 OF MS. OBUCHOWSKI AND MR. LOMBARDO, IT IS APPARENT
7 THAT THE OVERALL INVESTMENT RISK OF THE COMPANY HAS
8 INCREASED DURING RECENT YEARS.

9
10 IN MY OPINION, MR. CICCHETTI'S EQUITY RATIO
11 RECOMMENDATION IS CLEARLY INCONSISTENT WITH BASIC
12 FINANCIAL THEORY GIVEN THE INCREASINGLY COMPETITIVE
13 TELECOMMUNICATIONS BUSINESS ENVIRONMENT THAT EXISTS
14 TODAY.

15

16 Q. MR. CICCHETTI ALLEGES, IN SUPPORT OF HIS
17 RECOMMENDATION, THAT "UTILITIES CAN MANIPULATE THEIR
18 REVENUE REQUIREMENT AND THEIR EARNINGS LEVEL THROUGH
19 CHANGES TO THEIR EQUITY RATIO." CAN YOU COMMENT ON
20 THIS?

21

22 A. THIS STATEMENT, WHICH HE USES AS SUPPORT TO HIS 58%
23 EQUITY RATIO RECOMMENDATION, APPEARS TO INFER THAT
24 SUCH MANIPULATION MAY HAVE OCCURRED IN THE CASE OF
25 SOUTHERN BELL. THIS ALLEGATION IS UNFOUNDED AND

1 UNSUPPORTED BY ANY FACTS. IT IS CLEAR FROM THE
2 CAPITAL STRUCTURE DATA I PROVIDED ON PAGE 11 OF MY
3 DIRECT TESTIMONY THAT SOUTHERN BELL HAS NOT
4 MANIPULATED ITS REVENUE REQUIREMENT AND EARNINGS BY
5 CHANGING ITS EQUITY RATIO. SOUTHERN BELL EQUITY
6 RATIO HAS NOT CHANGED MATERIALLY SINCE 1988.

7

8 Q. DOES MR. CICCHETTI MAKE ANY OTHER UNFOUNDED
9 ALLEGATIONS IN SUPPORT OF HIS RECOMMENDED
10 HYPOTHETICAL CAPITAL STRUCTURE?

11

12 A. YES. HE COMPARES THE 1991 EQUITY RATIOS OF BST AND
13 BELLSOUTH CONSOLIDATED CORPORATION AND REPORTS THAT
14 BELLSOUTH'S EQUITY RATIO IS LESS THAN BST'S. HE
15 THEN ASSERTS THAT THIS RELATIONSHIP "... INDICATES
16 BELLSOUTH CORP'S RISKY, NON-REGULATED VENTURES, IN
17 TOTAL, ARE NOT FINANCED WITH MORE EQUITY THAN THE
18 LESS RISKY REGULATED OPERATIONS OF BELLSOUTH
19 TELECOMMUNICATIONS INC. AND SOUTHERN BELL,
20 SIGNIFYING RELIANCE ON THE LOCAL EXCHANGE COMPANIES
21 FOR CREDIT SUPPORT BY THE PARENT CORPORATION."
22 PRESUMABLY HE THINKS SOUTHERN BELL HAS MORE EQUITY
23 THAN IT NEEDS SO THAT BELLSOUTH'S UNREGULATED
24 SUBSIDIARIES CAN USE MORE DEBT AND LESS EQUITY
25 FINANCING THAN THEY SHOULD.

1
2 THIS ALLEGATION IS UNSUPPORTED BY FACTS. FIRST OF
3 ALL, MR. CICCHETTI APPEARS TO BE EFFECTIVELY
4 DEFINING THE "TOTAL" RISKY, NON-REGULATED VENTURES
5 BY SUBTRACTING THE TOTAL CAPITAL IN THE BST CAPITAL
6 STRUCTURE FROM THE TOTAL CAPITAL OF BELLSOUTH
7 CONSOLIDATED. THIS OVERSTATES THE IMPACT OF
8 NON-REGULATED VENTURES ON BELLSOUTH'S CAPITAL
9 STRUCTURE BECAUSE IT INCLUDES NOT ONLY THOSE
10 VENTURES BUT ALSO THE EMPLOYEE STOCK OWNERSHIP PLAN
11 (ESOP) DEBT THAT EXISTS AT THE BELLSOUTH CORPORATE
12 LEVEL.

13
14 IF HE HAD USED THE MOST RECENT QUARTERLY BALANCE
15 SHEET DATA FOR JUNE 30, 1992 AND ADJUSTED THE ESOP
16 DEBT OUT OF THE BELLSOUTH CONSOLIDATED CAPITAL
17 STRUCTURE, HE WOULD HAVE FOUND THAT THE EQUITY RATIO
18 FOR THE ADJUSTED BELLSOUTH CONSOLIDATED CAPITAL, THE
19 ONE THAT INCLUDES BST AND THE NON-REGULATED
20 OPERATIONS, IS ACTUALLY HIGHER THAN THE EQUITY RATIO
21 FOR BST. THE ADJUSTED CONSOLIDATED EQUITY RATIO WAS
22 APPROXIMATELY 63.5%, WHILE THE BST RATIO WAS AROUND
23 62.2%. BY RECOGNIZING AND ADJUSTING FOR THE ESOP
24 DEBT, MR. CICCHETTI WOULD HAVE FOUND THAT THE DATA
25 HE USES TO IMPLY THAT BELLSOUTH IS RELYING ON THE

1 LOCAL EXCHANGE COMPANY FOR CREDIT SUPPORT IS
2 INCORRECT.

3
4 SECONDLY, THERE IS OTHER SPECIFIC INFORMATION WHICH
5 IS PUBLICLY AVAILABLE THAT REFUTES MR. CICCHETTI'S
6 ALLEGATION REGARDING THE FINANCING OF BELLSOUTH'S
7 NON-REGULATED VENTURES. BELLSOUTH PUBLISHES THE
8 TOTAL ASSETS AND TOTAL EQUITY FOR BELLSOUTH WIRELESS
9 COMMUNICATIONS. THE WIRELESS COMMUNICATIONS
10 OPERATIONS IS CAPITAL INTENSIVE AND MAKES UP A LARGE
11 PERCENTAGE OF BELLSOUTH'S ASSETS ASSOCIATED WITH
12 NON-REGULATED ACTIVITIES. USING THE RECENTLY
13 PUBLISHED SEPTEMBER 30, 1992 DATA, THE RATIO OF
14 TOTAL EQUITY TO TOTAL ASSETS FOR BELLSOUTH WIRELESS
15 COMMUNICATIONS IS OVER 70%. THIS EQUITY RATIO IS AN
16 OBVIOUS INDICATOR THAT BELLSOUTH IS FINANCING ITS
17 NON-REGULATED VENTURES AT A HIGHER EQUITY RATIO THAN
18 IT DOES FOR ITS REGULATED OPERATIONS.

19
20 IN CONCLUSION, THESE TWO ALLEGATIONS MADE BY MR.
21 CICCHETTI ARE UNSUPPORTED BY FINANCIAL FACTS AND,
22 THEREFORE, PROVIDE NO SUPPORT TO HIS EQUITY RATIO
23 RECOMMENDATION.

24

25 Q. HOW DOES MR. CICCHETTI'S CAPITAL STRUCTURE COMPARE

1 WITH THE CAPITAL STRUCTURE THAT WOULD BE AVAILABLE
2 TO AND WOULD MOST LIKELY BE USED BY INVESTORS?

3

4 A. CLEARLY, SINCE HIS RECOMMENDATION DEVIATES FROM THE
5 COMPANY'S ACTUAL CAPITAL STRUCTURE, HIS CAPITAL
6 STRUCTURE IS DIFFERENT FROM THE ONE THAT THE
7 INVESTORS HAVE AVAILABLE TO THEM WHICH REFLECTS THE
8 REALITIES OF HOW THE COMPANY HAS FINANCED ITS
9 OPERATIONS. IT IS THE ACTUAL CAPITAL STRUCTURE THAT
10 THE INVESTORS USE WHEN THEY EVALUATE INVESTMENT
11 OPPORTUNITIES. IF THE COMMISSION WERE TO IMPUTE A
12 HYPOTHETICAL CAPITAL STRUCTURE, THEN INVESTORS WILL
13 SIMPLY DEMAND A HIGHER RETURN TO OFFSET THE
14 INCREASED FINANCIAL RISK.

15

16 Q. PLEASE SUMMARIZE WHY YOU THINK THE COMMISSION SHOULD
17 REJECT MR. CICHETTI'S RECOMMENDATION TO USE A 58%
18 EQUITY RATIO FOR RATEMAKING PURPOSES.

19

20 A. IN MY OPINION, MR. CICHETTI'S 58% EQUITY RATIO
21 RECOMMENDATION SHOULD BE REJECTED BECAUSE IT IS
22 ARBITRARY, IT IS NOT BASED ON ANY STUDY, AND IT IS
23 ILLOGICAL FROM A FINANCIAL THEORY STANDPOINT IN THE
24 FACE OF THE EVER-INCREASING BUSINESS RISK FACING THE
25 COMPANY. IT IS INCONSISTENT WITH THE REALITIES OF

1 THE COMPANY'S ACTUAL FINANCIAL STRUCTURE AND THE
2 REALITIES OF TODAY'S TELECOMMUNICATIONS MARKETPLACE.

3

4 HIS 58% EQUITY RATIO, WHICH HAS THE EFFECT OF
5 REDUCING HIS OVERALL COST OF CAPITAL RECOMMENDATION
6 BY 9 BASIS POINTS, IS SIMPLY A NEGATIVE REVENUE
7 REQUIREMENT ADJUSTMENT THAT ADDS AN ADDITIONAL
8 FINANCIAL BURDEN ON THE COMPANY AND ADVERSELY
9 AFFECTS ITS ABILITY TO EARN ITS REQUIRED RETURN.
10 THE COMMISSION SHOULD ADOPT THE COMPANY'S ACTUAL
11 AVERAGE CAPITAL STRUCTURE.

12

13 REVISED CAPITAL STRUCTURE AND OVERALL COST OF CAPITAL

14

15 Q. YOU INDICATED EARLIER THAT MR. REID PROVIDED A
16 REVISED RATE BASE IN HIS REBUTTAL TESTIMONY. HAVE
17 YOU PROVIDED A REVISED CAPITAL STRUCTURE?

18

19 A. YES, I HAVE. AS STATED IN MY DIRECT TESTIMONY, THE
20 COMPANY RECOMMENDS THAT THE COMMISSION CONTINUE TO
21 USE THE COMPANY'S ACTUAL AVERAGE CAPITAL STRUCTURE
22 AND COST RATES. CONSEQUENTLY, THE REVISED ACTUAL
23 AVERAGE CAPITAL STRUCTURE THAT MATCHES THE REVISED
24 RATE BASE IS PROVIDED ON EXHIBIT WBK-2, REBUTTAL
25 SCHEDULE NO. 1, ATTACHED TO THIS TESTIMONY.

1

2 Q. WHAT IS THE COMPOSITION OF THE REVISED CAPITAL
3 STRUCTURE THAT THE COMPANY IS NOW RECOMMENDING IN
4 CONNECTION WITH THE NEW PRICE REGULATION PLAN?

5

6 A. THE TOP PORTION OF THIS REBUTTAL SCHEDULE IS
7 IDENTICAL WITH THAT ON SCHEDULE NO. 1 ASSOCIATED
8 WITH MY DIRECT TESTIMONY. IT PROVIDES THE 1991
9 SOUTHERN BELL CAPITAL STRUCTURE DATA CALCULATED AS
10 IF THE MERGER HAD BEEN IN EFFECT FOR THE ENTIRE
11 YEAR.

12

13 THE LOWER PORTION OF THIS REBUTTAL SCHEDULE REFLECTS
14 THE REVISED FLORIDA INTRASTATE AVERAGE CAPITAL
15 STRUCTURE FOR 1991 THAT IS RECONCILED TO THE REVISED
16 FLORIDA INTRASTATE RATE BASE PRESENTED IN THE
17 REBUTTAL TESTIMONY OF COMPANY WITNESS REID.

18

19 THE COST RATES FOR LONG-TERM DEBT, SHORT-TERM DEBT,
20 CUSTOMER DEPOSITS AND INVESTMENT TAX CREDITS ARE THE
21 SAME AS THOSE REFLECTED ON MY ORIGINAL DIRECT
22 TESTIMONY SCHEDULE. LIKE THE ORIGINAL SCHEDULE, DR.
23 BILLINGSLEY'S 14.6% MIDPOINT OF THE RANGE ON THE
24 COMPANY'S CURRENT COST OF EQUITY IS USED TO COMPUTE
25 THE OVERALL COST OF CAPITAL.

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AS A RESULT OF COMBINING THE INDICATED 14.6% MIDPOINT OF THE RANGE OF COST OF EQUITY WITH THE APPROPRIATE CAPITAL STRUCTURE COMPONENTS AND THE VARIOUS OTHER COST COMPONENTS, I HAVE COMPUTED, ON MY EXHIBIT WBK-2, REBUTTAL SCHEDULE NO. 1, THE COMPANY'S REVISED OVERALL RATE OF RETURN TO BE 9.92%.

Q. DOES THAT CONCLUDE YOUR TESTIMONY?

A. YES, IT DOES.

Keck Exhibit No. _____
 WBK-2
 Florida Docket 920260-TL
 Keck Rebuttal Schedule No. 1
 Page 1 of 1
 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>

REVISED ADJUSTED 1991 FLORIDA INTRASTATE CAPITAL STRUCTURE

	Amount (\$000)	Percent of Total	Cost Rate	Wtd. Cost
Long-Term Debt	\$ 1,077,043	25.64%	8.73%	2.24%
Short-Term Debt	130,502	3.11	6.05	.19
Common Equity	1,998,893	47.58	14.60	6.95
Preferred Stock	0	0.00	0.00	0.00
Customer Deposits	53,711	1.28	8.25	.11
Cost Free Capital	796,604	18.96	0.00	0.00
Investment Tax Credits	<u>144,347</u>	<u>3.43</u>	12.54	<u>.43</u>
TOTAL CAPITAL	\$ 4,201,100	100.00%		9.92%