

ORIGINAL  
FILE COPY

1 SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY  
2 TESTIMONY OF JERRY L. WILSON  
3 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION  
4 DOCKET NO. 920260-TL

5

6 Q. PLEASE STATE YOUR NAME, ADDRESS AND BY WHOM YOU ARE  
7 EMPLOYED.

8

9 A. MY NAME IS JERRY L. WILSON AND MY BUSINESS ADDRESS IS  
10 3700 COLONNADE PARKWAY, BIRMINGHAM, ALABAMA. I AM  
11 EMPLOYED BY BELLSOUTH TELECOMMUNICATIONS INC. D/B/A  
12 SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY,  
13 (HEREAFTER REFERRED TO AS "COMPANY" OR "SOUTHERN  
14 BELL").

15

16 Q. PLEASE GIVE A BRIEF DESCRIPTION OF YOUR BACKGROUND  
17 AND EXPERIENCE.

18

19 A. I GRADUATED FROM MISSISSIPPI STATE UNIVERSITY IN 1971  
20 WITH A BACHELOR OF SCIENCE DEGREE IN ELECTRICAL  
21 ENGINEERING AND LATER EARNED A MASTERS DEGREE IN  
22 ADVANCED MANAGEMENT FROM PACE UNIVERSITY IN NEW YORK.  
23 I WAS EMPLOYED FULL-TIME BY SOUTH CENTRAL BELL IN  
24 1971 AND HELD VARIOUS ASSIGNMENTS IN THE PLANT,  
25 ENGINEERING AND MARKETING DEPARTMENTS. IN 1975 I

1 TRANSFERRED TO THE CONSTRUCTION PLANS DEPARTMENT OF  
2 THE AMERICAN TELEPHONE AND TELEGRAPH COMPANY. I  
3 RETURNED TO SOUTH CENTRAL BELL IN 1978 AS DISTRICT  
4 STAFF MANAGER-RATES AND ECONOMICS. SINCE THAT TIME I  
5 HAVE HELD OPERATIONS MANAGER ASSIGNMENTS IN THE  
6 MISSISSIPPI AREA NETWORK ENGINEERING, THE BELLSOUTH  
7 SERVICES PLANNING AND THE SOUTH CENTRAL BELL  
8 REGULATORY ORGANIZATIONS. I ASSUMED MY PRESENT JOB  
9 IN MAY 1989.

10

11 AS DIRECTOR-REGULATORY AFFAIRS, MY RESPONSIBILITIES  
12 INCLUDE REGULATORY MATTERS BETWEEN BELLSOUTH  
13 TELECOMMUNICATIONS (BST) AND ITS BELLSOUTH  
14 AFFILIATES, AS WELL AS THE ADMINISTRATION OF  
15 ACTIVITIES BETWEEN BST AND BELL COMMUNICATIONS  
16 RESEARCH (BELLCORE). I AM ALSO RESPONSIBLE FOR  
17 DIRECTING THE COMPANY'S CAPITAL RECOVERY PROCESS.

18

19 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

20

21 A. THE PURPOSE OF MY TESTIMONY IS TO RESPOND TO MR.  
22 MICHAEL L. BROSCH'S DIRECT TESTIMONY IN WHICH HE  
23 PROPOSES THE DISALLOWANCE OF CERTAIN BELLSOUTH  
24 CORPORATE (BSC) HEADQUARTERS EXPENSES, CERTAIN  
25 BELLCORE PROJECT EXPENSES AND SOME BELLSOUTH SCIENCE

1 AND TECHNOLOGY EXPENSES.

2

3 BELLSOUTH CORPORATE HEADQUARTERS EXPENSES

4

5 Q. IS MR. BROSCHE'S DESCRIPTION OF THE RELATIONSHIP  
6 BETWEEN SOUTHERN BELL AND BELLSOUTH CORPORATE  
7 HEADQUARTERS CORRECT?

8

9 A. NO. MR. BROSCHE'S PORTRAYAL OF BELLSOUTH  
10 CORPORATION'S RELATIONSHIP WITH SOUTHERN BELL IS NOT  
11 ACCURATE AND HIS MISUNDERSTANDING OF THIS  
12 RELATIONSHIP IS NO DOUBT THE SOURCE OF HIS ERRONEOUS  
13 CONCLUSIONS AND RECOMMENDATIONS. TO CLARIFY, I WOULD  
14 LIKE TO GIVE SOME HISTORICAL INFORMATION ON THIS  
15 RELATIONSHIP. MR. BROSCHE SPEAKS OF BELLSOUTH AS IF  
16 IT WERE A CONGLOMERATE THAT SIMPLY PURCHASED THE  
17 SHARES OF SOUTHERN BELL ON THE OPEN MARKET AND  
18 MANAGES IT AS PART OF ITS PORTFOLIO. THIS IS NOT AN  
19 ACCURATE PORTRAYAL OF THE BELLSOUTH CORPORATE  
20 RELATIONSHIP WITH SOUTHERN BELL.

21

22 AS A RESULT OF THE BREAK-UP OF THE FORMER BELL  
23 SYSTEM, THE BELLSOUTH CORPORATE STRUCTURE WAS  
24 ESTABLISHED TO OPERATE SOUTHERN BELL AND SOUTH  
25 CENTRAL BELL AND TO ENGAGE IN OTHER ACTIVITIES AS

1 ALLOWED BY THE MODIFICATION OF FINAL JUDGEMENT (MFJ).  
2 THE BELLSOUTH STRUCTURE WAS DESIGNED AND CREATED BY  
3 OFFICERS AND EMPLOYEES OF SOUTHERN BELL AND SOUTH  
4 CENTRAL BELL AND WAS GENERALLY STAFFED, AT ALL  
5 LEVELS, WITH EMPLOYEES PREVIOUSLY ON THE STAFFS OF  
6 THE TELEPHONE COMPANIES. THERE WERE SEVERAL PRIMARY  
7 CONSIDERATIONS WHICH LED TO THE HOLDING COMPANY  
8 STRUCTURE ADOPTED BY BELLSOUTH:

9  
10 1) CONTINUITY AND STABILITY: THE CORPORATE  
11 STRUCTURE WAS DESIGNED TO ALLOW AND ENSURE THAT  
12 SOUTHERN BELL AND SOUTH CENTRAL BELL CONTINUED TO  
13 PROVIDE SUPERIOR TELEPHONE SERVICE TO THEIR  
14 CUSTOMERS. THE GOAL WAS TO PROCEED THROUGH THE  
15 TRANSITION PROCESS OF DIVESTITURE WHILE CAUSING AS  
16 LITTLE DISRUPTION TO CUSTOMERS AS POSSIBLE. TO DO  
17 THIS, THE CORPORATION HAD TO ENSURE THAT MANY  
18 FUNCTIONS PERFORMED AT AT&T AND IN THE TELEPHONE  
19 COMPANIES WHICH WERE NEEDED TO PROVIDE TELEPHONE  
20 SERVICE CONTINUED TO BE PERFORMED WITHOUT  
21 INTERRUPTION.

22  
23 IN ADDITION, WITH THE LARGE ONGOING CAPITAL  
24 REQUIREMENTS OF THE TELEPHONE COMPANIES, IT WAS  
25 APPARENT THAT WITH THE COMBINED RESOURCES,

1 GEOGRAPHICALLY DIVERSE MARKETS AND LARGE CAPITAL  
2 BASES OF THE COMBINED SOUTHERN BELL AND SOUTH CENTRAL  
3 BELL COMPANIES, ACCESS TO THE EQUITY CAPITAL MARKETS  
4 WOULD BE READILY AVAILABLE AT MORE FAVORABLE RATES.

5  
6 2) EFFICIENCY OF OPERATIONS: PRIOR TO DIVESTITURE,  
7 AT&T PERFORMED MANY CENTRALIZED STAFF FUNCTIONS FOR  
8 ALL THE COMPANIES IN THE BELL SYSTEM, SUCH AS  
9 ADMINISTRATION OF ITS ALMOST TWO MILLION SHAREOWNER  
10 ACCOUNTS, CONSOLIDATED FINANCIAL REPORTING, FEDERAL  
11 GOVERNMENT AND FEDERAL REGULATORY LIAISON ACTIVITIES,  
12 CORPORATE-WIDE COMPENSATION AND BENEFITS PROGRAM  
13 DEVELOPMENT, ETC. WITH DIVESTITURE, EACH COMPANY,  
14 INCLUDING SOUTHERN BELL AND SOUTH CENTRAL BELL, WAS  
15 FACED WITH THE PROSPECT OF HAVING TO PROVIDE EACH OF  
16 THESE SERVICES FOR THEMSELVES. THE EXECUTIVES OF  
17 SOUTHERN BELL AND SOUTH CENTRAL BELL DETERMINED THAT  
18 SUCH FUNCTIONS SHOULD BE PERFORMED IN BELLSOUTH  
19 HEADQUARTERS SO THAT EACH COMPANY WOULD RECEIVE ALL  
20 THE BENEFITS OF THE FUNCTIONS WITH EACH COMPANY ONLY  
21 PAYING A PORTION OF THE COSTS. IN RETROSPECT, THE  
22 BELLSOUTH HOLDING COMPANY STRUCTURE HAS SATISFIED ALL  
23 THE ABOVE CONSIDERATIONS.

24  
25 Q. ARE THE COMMENTS MADE BY MR. BROSCH REGARDING BSC AND

1 ITS BILLINGS TO BST CORRECT?  
2  
3 A. NO. THERE ARE TWO COMMENTS IN PARTICULAR WHICH I  
4 BELIEVE SHOULD BE ADDRESSED. THE FIRST IS ON PAGE 5  
5 OF MR. BROSCHE'S TESTIMONY WHICH REFERS TO BELLSOUTH  
6 CORPORATION'S LARGE CENTRALIZED STAFF. BELLSOUTH  
7 HEADQUARTERS CURRENTLY EMPLOYS APPROXIMATELY 700  
8 PEOPLE WHO SUPPORT A TOTAL CORPORATE EMPLOYEE BODY OF  
9 APPROXIMATELY 97,000. THIS STAFF PERFORMS A VARIETY  
10 OF FUNCTIONS WHICH ARE EITHER (1) LEGALLY REQUIRED TO  
11 BE PERFORMED BY THE CORPORATION, SUCH AS FILING  
12 CONSOLIDATED FEDERAL INCOME TAX RETURNS AND MEETING  
13 SECURITY AND EXCHANGE COMMISSION (SEC) REQUIREMENTS  
14 OR (2) MORE EFFICIENTLY AND ECONOMICALLY PERFORMED  
15 ONCE WITH THE COSTS SHARED AMONG THE SUBSIDIARIES.  
16 AN EXAMPLE OF THESE TYPES OF FUNCTIONS IS THE  
17 RESEARCH, PREPARATION AND FILING OF STATE AND LOCAL  
18 TAX RETURNS.  
19  
20 THE CORPORATION CONTINUOUSLY MONITORS ITS INTERNAL  
21 FUNCTIONS TO DETERMINE THE APPROPRIATE ENTITY TO  
22 PROVIDE NECESSARY SERVICES.  
23  
24 SECOND, MR. BROSCHE STATES ON PAGE 14 THAT "BSC HAS  
25 THE SAME INTERESTS AS ANY INSTITUTIONAL INVESTOR

1 MANAGING A DIVERSE PORTFOLIO OF BUSINESSES." THIS IS  
2 FAR FROM THE TRUTH. INSTITUTIONAL INVESTORS HOLD  
3 ONLY STOCK INVESTMENTS IN THE COMPANIES IN THEIR  
4 PORTFOLIOS. THEY DO NOT SIGNIFICANTLY PARTICIPATE IN  
5 THE PLANNING OR MANAGEMENT OF THE COMPANIES IN WHICH  
6 THEY INVEST. GENERALLY, THEY ARE PRIMARILY  
7 INTERESTED IN THE MARKETABILITY OF THE SECURITIES OF  
8 THE BUSINESSES THEY HOLD AND IN THE DIVIDENDS AND  
9 STOCK APPRECIATION POTENTIAL OF THOSE BUSINESSES.  
10 THEIR MAIN INTEREST IS IN BUYING SECURITIES AT THE  
11 BEST POSSIBLE PRICE AND SELLING THEM AT A PROFIT.  
12 THEIR GOAL IS TO TIME THEIR PURCHASES AND SALES TO  
13 TAKE ADVANTAGE OF THE MOVEMENTS OF THE FINANCIAL  
14 MARKETS. THIS IS VERY DIFFERENT FROM THE  
15 RELATIONSHIP AND INTEREST WHICH BELLSOUTH CORPORATION  
16 HAS WITH SOUTHERN BELL.

17

18 Q. PLEASE QUANTIFY MR. BROSCHE'S PROPOSED BSC  
19 DISALLOWANCES.

20

21 A. MR. BROSCHE PROPOSES TO DISALLOW CERTAIN BELLSOUTH  
22 CORPORATE EXPENSES HE CHARACTERIZES AS EITHER  
23 "OWNERSHIP" OR "PROPRIETARY" EXPENSES. THOSE  
24 EXPENSES ARE AS FOLLOWS:

25

1	<u>EXPENSE</u>	
2		
3	<u>"OWNERSHIP"</u>	<u>AMOUNT (\$K)</u>
4		
5	- 50 PERCENT DISALLOWANCE OF BSC	\$429
6	SENIOR EXECUTIVE EXPENSE	
7	- 50 PERCENT DISALLOWANCE OF BSC	\$447
8	PLANNING DEPARTMENT EXPENSE	
9	- 50 PERCENT DISALLOWANCE OF CASH	\$590
10	MANAGEMENT FUNCTION EXPENSE OF	
11	THE BSC TREASURY DEPARTMENT	
12	- 50 PERCENT DISALLOWANCE OF THE	\$111
13	BSC ASSISTANT SECRETARY EXPENSE	
14		
15		
16	<u>EXPENSE</u>	<u>AMOUNT (\$K)</u>
17		
18	<u>"PROPRIETARY"</u>	
19	- DISALLOWANCE OF ALL BSC LEGAL	\$117
20	COSTS ASSOCIATED WITH ANTITRUST AND	
21	MODIFICATION OF FINAL JUDGEMENT (MFJ)	
22	- TOTAL DISALLOWANCE OF SPECIFIC	\$331
23	BSC ADVERTISING WHICH MR. BROSCH	
24	JUDGED TO BE IMAGE-BUILDING	
25	ADVERTISING AND NOT PRODUCT	



1           ADVERTISING.  
2           - DISALLOWANCE OF THE BSC                                 \$493  
3           CORPORATE AFFAIRS DEPARTMENT  
4           EXPENSE  
5           - DISALLOWANCE OF BELLSOUTH D.C.                         \$233  
6           PUBLIC RELATIONS EXPENSE  
7           - DISALLOWANCE OF THE BSC-VICE                             \$70  
8           PRESIDENT PUBLIC RELATIONS EXPENSE  
9  
10          THE TOTAL DISALLOWANCE PROPOSED BY MR. BROSC OF  
11          BELLSOUTH CORPORATE EXPENSES IS \$2,821,000.  
12  
13 Q.       WILL YOU NOW ADDRESS MR. BROSC'S PROPOSED  
14          DISALLOWANCE OF HIS SO CALLED "OWNERSHIP" EXPENSES?  
15  
16 A.       YES.   BEGINNING ON PAGE 17 OF HIS TESTIMONY, MR.  
17          BROSC DESCRIBES VARIOUS EXPENSES ASSOCIATED WITH THE  
18          OPERATION OF BELLSOUTH CORPORATION.   MR. BROSC  
19          IGNORES IN HIS DISCUSSION THAT IF SOUTHERN BELL WERE  
20          A STAND-ALONE COMPANY, IT WOULD HAVE PRACTICALLY THE  
21          SAME OWNERSHIP COSTS AS BSC - EXCEPT THAT IT WOULD  
22          HAVE TO PAY 100% OF THOSE COSTS RATHER THAN ONLY A  
23          PORTION.   IF SOUTHERN BELL WERE NOT ASSOCIATED WITH  
24          BELLSOUTH, IT WOULD STILL BE REQUIRED TO SERVICE ITS  
25          SHAREHOLDER ACCOUNTS, MAKE ALL APPROPRIATE FILINGS

1 WITH THE SEC, PAY ITS TAXES, MANAGE A MIX OF BOTH  
2 STATE AND FEDERALLY REGULATED AND NON-REGULATED  
3 OPERATIONS TO PROVIDE SERVICES TO ITS CUSTOMERS AND  
4 DEFEND ITSELF AGAINST LAWSUITS, ETC.

5  
6 MR. BROSCHE MISTAKENLY SAYS THAT BELLSOUTH SELLS SUCH  
7 MANAGEMENT SERVICES TO SOUTHERN BELL AND THE OTHER  
8 SUBSIDIARIES. ON THE CONTRARY, THE EXECUTIVES OF THE  
9 ORIGINAL PRINCIPAL SUBSIDIARIES OF BELLSOUTH,  
10 SOUTHERN BELL AND SOUTH CENTRAL BELL, DECIDED THAT  
11 BELLSOUTH SHOULD PERFORM SUCH COMMON STAFF FUNCTIONS  
12 AS WERE NEEDED BY ALL THE SUBSIDIARIES AND HAVE EACH  
13 SUBSIDIARY SHARE IN ITS COST. THE COSTS FOR  
14 PERFORMING FUNCTIONS SUCH AS MAINTAINING RECORDS OF  
15 SHAREOWNER ACCOUNTS, PREPARING AND MAILING DIVIDEND  
16 CHECKS AND ANNUAL REPORTS, DETERMINING THE LONG-TERM  
17 STRATEGIC DIRECTION FOR THE COMPANY OR INVESTING  
18 EXCESS CASH UNTIL DIVIDEND CHECKS ARE WRITTEN ARE  
19 APPROPRIATE BUSINESS COSTS WHICH ARE NECESSARY IN  
20 RUNNING ANY LARGE PUBLIC COMPANY.

21  
22 ADDITIONALLY, MR. BROSCHE HAS APPARENTLY NOT  
23 CONSIDERED THE ACCEPTED METHODOLOGY FOR DEVELOPING A  
24 REGULATORY REVENUE REQUIREMENT. THE RETURN REQUIRED  
25 BY INVESTORS IN A BUSINESS IS MEASURED BY THOSE

1 INVESTORS AFTER ALL EXPENSES OF THE BUSINESS HAVE  
2 BEEN MET AND ALL TAXES PAID. THE EARNINGS OF A  
3 REGULATED UTILITY SHOULD RECOGNIZE ALL BUSINESS  
4 EXPENSES AND TAXES SO THAT THE INVESTOR WILL HAVE THE  
5 OPPORTUNITY TO REALIZE A FAIR RATE OF RETURN. IF  
6 EXPENSES NECESSARY TO RUN THE BUSINESS, SUCH AS THOSE  
7 SUGGESTED BY MR. BROSCH, ARE EXCLUDED ARBITRARILY  
8 FROM THE REVENUE REQUIREMENT DEVELOPMENT, THE  
9 INVESTOR WILL NOT HAVE AN OPPORTUNITY TO EARN A FAIR  
10 RETURN. ALTERNATIVELY, INVESTORS IN SUCH AN  
11 ENTERPRISE WILL SIMPLY DEMAND A HIGHER RETURN TO  
12 OFFSET THESE INAPPROPRIATE ADJUSTMENTS.

13  
14 FINALLY, MR. BROSCH EVIDENTLY IGNORES THE FACT THAT  
15 THE FCC HAS PRESCRIBED A VERY COMPREHENSIVE COST  
16 ASSIGNMENT AND ALLOCATION PLAN IN ITS PART 32  
17 ACCOUNTING RULES ALONG WITH THE JOINT COST ORDER  
18 (JCO). BELLSOUTH'S ACCOUNTING AND COST ALLOCATION  
19 PRACTICES ARE EXAMINED ANNUALLY BY AN INDEPENDENT  
20 OUTSIDE AUDITOR FOR COMPLIANCE WITH THOSE RULES.

21  
22 Q. WOULD YOU PLEASE PROVIDE A SPECIFIC EXAMPLE OF WHY  
23 YOU DISAGREE WITH MR. BROSCH'S PROPOSED DISALLOWANCE  
24 OF "OWNERSHIP" COSTS?

25

1 A. YES. FOR EXAMPLE, IN HIS TESTIMONY, MR. BROSCH  
2 CHARACTERIZED ALL THE COSTS OF THE ASSISTANT  
3 TREASURER - CASH MANAGEMENT AS OWNERSHIP COSTS. MR.  
4 BROSCH RECOMMENDS THE DISALLOWANCE OF 50% OF THESE  
5 COSTS AS RECORDED ON SOUTHERN BELL-FLORIDA'S BOOKS.  
6 THIS RECOMMENDATION IS WITHOUT MERIT AND MAY BE BASED  
7 ON HIS MISUNDERSTANDING OF THE FUNCTIONS PERFORMED BY  
8 THE BSC-HQ CASH MANAGEMENT GROUP AND THE RELATIONSHIP  
9 BETWEEN THESE FUNCTIONS AND THOSE OF THE BST TREASURY  
10 ORGANIZATION.

11  
12 IN 1991, MORE THAN 85% OF THE COSTS INCURRED BY THE  
13 ASSISTANT TREASURER-CASH MANAGEMENT ORGANIZATION WERE  
14 PAYMENTS TO AMERICAN TRANSTECH, BELLSOUTH'S STOCK  
15 TRANSFER AGENT. THE TRANSFER AGENT MAINTAINS THE  
16 RECORDS OF THE COMPANY'S STOCK OWNERSHIP, EXECUTES  
17 STOCK TRANSFERS, CALCULATES DIVIDENDS, ADMINISTERS  
18 DIVIDEND REINVESTMENT, AND DISTRIBUTES PROXIES AND  
19 ANNUAL REPORTS. ADDITIONALLY, MANAGEMENT OF THE  
20 BANKING RELATIONSHIP WHICH ACTUALLY PAYS THE  
21 DIVIDENDS IS A FUNCTION PERFORMED BY THE ASSISTANT  
22 TREASURER. THESE ARE CENTRALIZED FUNCTIONS AND THUS  
23 THE SUBSIDIARIES AVOID DIRECTLY INCURRING SUCH COSTS.  
24 SINCE ALL BELLSOUTH'S SUBSIDIARIES ARE SUPPORTED BY  
25 THE EQUITY INVESTED BY THE SHAREOWNERS, ALL

1 SUBSIDIARIES, INCLUDING SOUTHERN BELL, ARE ALLOCATED  
2 A PORTION OF THESE COSTS. MR. BROSCH STATES IN HIS  
3 TESTIMONY (PAGE 30, LINES 9-13) THAT HE DOES NOT  
4 OPPOSE THE ALLOCATION OF SUCH COSTS. THUS, HIS  
5 RECOMMENDATION, IN EFFECT, WOULD DISALLOW SOME OF THE  
6 VERY EXPENSES HE SPECIFICALLY SAYS ARE APPROPRIATE TO  
7 BE PAID BY RATEPAYERS.

8  
9 THIS IS BUT ONE EXAMPLE. THE SAME PRINCIPLES APPLY  
10 TO THE OTHER BSC "OWNERSHIP" COSTS MR. BROSCH IS  
11 PROPOSING TO DISALLOW. THUS, MR. BROSCH'S PROPOSAL  
12 REGARDING THESE COSTS SHOULD BE REJECTED.

13  
14 Q. WILL YOU NOW ADDRESS MR. BROSCH'S PROPOSED  
15 DISALLOWANCE OF CERTAIN BELLSOUTH CORPORATION  
16 EXPENSES HE CALLS "PROPRIETARY"?

17  
18 A. MR. BROSCH CHARACTERIZES CERTAIN BELLSOUTH  
19 CORPORATION EXPENSES AS "PROPRIETARY" COSTS AS  
20 OPPOSED TO "OWNERSHIP" COSTS. HE DESCRIBES THESE  
21 COSTS AS TYPICAL COSTS THAT A BUSINESS MIGHT CHOOSE  
22 TO INCUR WHICH IN HIS OPINION ARE NOT NECESSARY OR  
23 ESSENTIAL TO PROVIDE REGULATED SERVICES. THE  
24 EXPENSES MR. BROSCH INCLUDES IN THIS CATEGORY ARE  
25 BSC-HQ LEGAL COSTS INCURRED TO DEFEND BELLSOUTH'S

1 POSITION IN ANTITRUST AND MFJ MATTERS, CORPORATE  
2 ADVERTISING NOT ALREADY REMOVED BY SOUTHERN BELL, THE  
3 PORTION OF BSC-HQ CORPORATE AFFAIRS DEPARTMENTAL  
4 EXPENSES NOT ALREADY REMOVED BY SOUTHERN BELL AND THE  
5 EXPENSES ASSOCIATED WITH BELLSOUTH D.C. MEDIA  
6 RELATIONS.

7

8 IN MY OPINION MR. BROSCHE IS IN ERROR IN PROPOSING TO  
9 DISALLOW AN ADDITIONAL PORTION OF THESE "PROPRIETARY"  
10 BSC COSTS BECAUSE THEY ARE NECESSARY AND BENEFICIAL  
11 TO SOUTHERN BELL IN THE PROVISION OF ITS REGULATED  
12 SERVICES.

13

14 Q. WOULD YOU PLEASE PROVIDE SPECIFIC EXAMPLES OF WHY YOU  
15 DISAGREE WITH MR. BROSCHE'S PROPOSED DISALLOWANCE OF  
16 "PROPRIETARY" COSTS?

17

18 A. IN HIS TESTIMONY, MR. BROSCHE RECOMMENDS THE  
19 DISALLOWANCE OF ALL BSC LEGAL EXPENSE ASSOCIATED WITH  
20 MFJ. THE FACT IS, BSC ATTORNEYS PROVIDE SOUTHERN  
21 BELL SUPPORT REGARDING MFJ MATTERS. TWO SPECIFIC  
22 EXAMPLES ARE:

23

24 1) AFTER HURRICANE ANDREW, SOUTHERN BELL SET UP  
25 "EMERGENCY" PUBLIC TELEPHONE BANKS FOR THE CUSTOMERS

1 IN THE DEVASTATED AREA. ESTABLISHING FREE CALLING  
2 REQUIRED OBTAINING AN MFJ WAIVER ASKING THAT ACCESS  
3 CHARGES FOR BELLSOUTH BE WAIVED. BELLSOUTH CORPORATE  
4 ATTORNEYS HANDLED THIS FOR THE COMPANY.

5

6 2) THE FLORIDA PSC RECENTLY ORDERED SOUTHERN BELL TO  
7 IMPLEMENT A 25 CENT EXTENDED AREA SERVICE PLAN. THIS  
8 PLAN INCLUDED CALLS THAT WOULD CROSS LATA BOUNDARIES  
9 WHICH REQUIRES MFJ WAIVERS. BELLSOUTH CORPORATE  
10 ATTORNEYS HAVE FILED SEVEN FLORIDA RELATED WAIVER  
11 REQUESTS.

12

13 IF BSC DID NOT PERFORM THESE FUNCTIONS, BST WOULD  
14 HAVE TO INCREASE ITS STAFF AND DEVELOP THE EXPERTISE  
15 TO HANDLE THESE ACTIVITIES ON ITS OWN RATHER THAN  
16 SHARE THE EXPENSE OF THE BSC GROUP. AGAIN, THIS IS  
17 AN EXAMPLE, BUT THESE SAME PRINCIPLES APPLY TO THE  
18 OTHER "PROPRIETARY" BSC COSTS WHICH MR. BROSCHE  
19 PROPOSED TO DISALLOW. THUS, MR. BROSCHE'S PROPOSAL  
20 REGARDING THESE COSTS SHOULD BE REJECTED.

21

22 BELLCORE AND BELLSOUTH SCIENCE & TECHNOLOGY

23

EXPENSES

24

25 Q. MOVING NOW TO THE BELLCORE AND BELLSOUTH SERVICES

1 SCIENCE AND TECHNOLOGY AREA OF YOUR TESTIMONY, MR.  
2 BROSCH IS PROPOSING TO DEFER OR EXCLUDE FROM  
3 INTRASTATE RATEMAKING THE EXPENSE ASSOCIATED WITH 28  
4 BELLCORE PROJECTS AND CERTAIN SCIENCE AND TECHNOLOGY  
5 PROJECTS. WOULD YOU PLEASE QUANTIFY HIS PROPOSED  
6 BELLCORE AND SCIENCE & TECHNOLOGY DISALLOWANCES?

7  
8 A. MR. BROSCH PROPOSES TO EXCLUDE THE EXPENSES  
9 ASSOCIATED WITH 28 BELLCORE PROJECTS WHICH TOTAL  
10 \$4,183,000. HE ALSO PROPOSES THE DISALLOWANCE OF  
11 CERTAIN BELL SOUTH SERVICES SCIENCE AND TECHNOLOGY  
12 EXPENSES TALLING \$798,000.

13  
14 Q. WHAT IS YOUR POSITION REGARDING MR. BROSCH'S CLAIM  
15 THAT THESE BELLCORE AND SCIENCE & TECHNOLOGY PROJECTS  
16 DO NOT BENEFIT CURRENT RATEPAYERS AND THEREFORE  
17 SHOULD BE EXCLUDED FROM CURRENT INTRASTATE  
18 RATEMAKING?

19  
20 A. I DISAGREE WITH MR. BROSCH FOR TWO PRIMARY REASONS.  
21 FIRST, MR. BROSCH'S PROPOSAL IS SIMPLY UNFAIR TO  
22 RATEPAYERS. IN ATTEMPTING TO OFFER TODAY'S  
23 RATEPAYERS A "FREE RIDE," HE FAILS TO RECOGNIZE THAT  
24 MANY OF THE ADVANTAGES OF TODAY'S HIGHLY FUNCTIONAL  
25 SERVICES AND THEIR INCREASED EFFICIENCIES STEM FROM



1 RESEARCH AND DEVELOPMENT (R&D) WORK THAT WAS  
2 RECOVERED IN PREVIOUS YEARS FROM PAST RATEPAYERS.  
3 THE FLORIDA PSC HAS NOT IN THE PAST, NOR DOES IT  
4 PRESENTLY DEFER OR DISALLOW THE COMPANY'S RECOVERY OF  
5 REASONABLE R&D EXPENSES IN THE PERIOD IN WHICH SUCH  
6 EXPENSES ARE INCURRED. THE COMMISSION SHOULD  
7 CONTINUE TO ALLOW THIS RECOVERY IN ORDER TO MAINTAIN  
8 ONGOING FAIRNESS TO ALL FLORIDA RATEPAYERS - PAST,  
9 PRESENT AND FUTURE.  
10  
11 SECOND, MR. BROSCHE'S PROPOSAL - IF ADOPTED - WOULD BE  
12 A SIGNIFICANT DISINCENTIVE FOR SOUTHERN BELL TO  
13 CONTINUE TO FUND PRUDENT R&D ACTIVITIES. THIS WOULD  
14 LIKELY LEAD TO A "DRAIN" ON POTENTIAL NEW SERVICES  
15 AND COST SAVING APPLICATIONS IN THE NETWORK. THIS IN  
16 TURN WOULD DISADVANTAGE RATEPAYERS BY REDUCING THE  
17 CONTRIBUTION AVAILABLE TO OFFSET THE REVENUE  
18 REQUIREMENTS OF BASIC SERVICE AND DECREASE THE  
19 EFFICIENCY OF PROVIDING NETWORK SERVICES IN THE  
20 FUTURE. ALSO, IF SOUTHERN BELL WERE FORCED TO  
21 CURTAIL A REASONABLE LEVEL OF R&D WORK BY BELLCORE  
22 AND SCIENCE AND TECHNOLOGY, THEN THE COMPANY WOULD BE  
23 MORE DEPENDENT ON ITS EQUIPMENT VENDORS. THIS WOULD  
24 MOST LIKELY LEAD TO HIGHER VENDOR PRICES AND LESS  
25 HEALTHY COMPETITION AMONG VARIOUS VENDORS' PRODUCTS.

1

2 Q. CAN YOU PROVIDE EXAMPLES OF WHERE TODAY'S FLORIDA  
3 CUSTOMERS ARE BENEFITING FROM PREVIOUS RESEARCH AND  
4 DEVELOPMENT?

5

6 A. YES. FOR EXAMPLE, PREVIOUS RESEARCH AND DEVELOPMENT  
7 EFFORTS IN DIGITAL TECHNOLOGY HAVE RESULTED IN  
8 IMPROVED ECONOMIES AND QUALITY OF SERVICES. FLORIDA  
9 CUSTOMERS ARE BENEFITING FROM THIS TECHNOLOGY IN ALL  
10 LOCATIONS THAT HAVE SERVICE PROVIDED BY DIGITAL  
11 SWITCHES AND/OR CIRCUIT FACILITIES.

12

13 IN ADDITION, MANY NEW SERVICES ARE BEING PROVIDED TO  
14 TODAY'S CUSTOMERS AS A RESULT OF DEVELOPMENT WORK IN  
15 THE PAST. THESE SERVICES INCLUDE CLASS SERVICES  
16 (KNOWN IN SOUTHERN BELL AS TOUCHSTAR) SUCH AS CALL  
17 RETURN, CALL TRACING, REPEAT DIALING, ETC. WORK AT  
18 BELLCORE PLAYED A MAJOR ROLE IN DEVELOPMENT OF THESE  
19 SERVICES.

20

21 ALSO, MUCH OF THE R&D WORK PRESENTLY UNDERWAY IN  
22 AREAS SUCH AS AIN (ADVANCED INTELLIGENT NETWORK),  
23 SMDS (SWITCHED MULTIMEGABIT DATA SERVICE) AND ISDN  
24 (INTEGRATED SERVICES DIGITAL NETWORK) IS A  
25 CONTINUATION OF PREVIOUS WORK IN THESE AREAS AND IS

1 NOW AT THE POINT OF IMPACTING TODAY'S MARKETPLACE.

2

3 Q. WILL YOU PLEASE SUMMARIZE YOUR TESTIMONY?

4

5 A. YES. MY TESTIMONY EXPLAINS WHY THE DISALLOWANCES  
6 PROPOSED BY MR. MICHAEL BROSCHE ARE INAPPROPRIATE AND  
7 SHOULD BE REJECTED BY THE FLORIDA PSC.

8

9 I HAVE DISCUSSED THE NATURE AND OBJECTIVES OF THE  
10 BELLSOUTH CORPORATION HEADQUARTERS ORGANIZATION AND  
11 SHOWN THAT THE SERVICES PROVIDED TO SOUTHERN BELL ARE  
12 ADVANTAGEOUS TO SOUTHERN BELL. THIS IS LARGELY  
13 BECAUSE SOUTHERN BELL RECEIVES THE FULL BENEFIT OF  
14 THE PERFORMANCE OF THESE NECESSARY FUNCTIONS WHILE  
15 PAYING ONLY A PORTION OF THE COST OF PROVIDING THEM.

16

17 ALSO, MY TESTIMONY DISCUSSES THE REASONS WHY SOUTHERN  
18 BELL SHOULD BE ALLOWED TO CONTINUE TO RECOVER THE  
19 COST OF ITS SHARE OF BELL CORE AND BST SCIENCE AND  
20 TECHNOLOGY WORK WHICH WILL POSITION THE COMPANY TO  
21 BETTER SERVE ITS CUSTOMERS IN AN ONGOING MANNER.  
22 THERE AGAIN, SOUTHERN BELL RECEIVES FULL BENEFIT OF  
23 THIS WORK WHILE SHARING ITS COSTS WITH OTHER  
24 ENTITIES.

25

1 ADOPTION OF MR. BROSCH'S DISALLOWANCES WOULD BE  
2 UNFAIR TO THE COMPANY AND ITS FLORIDA CUSTOMERS. FOR  
3 ALL OF THE REASONS PRESENTED IN MY TESTIMONY, I URGE  
4 THE FLORIDA PSC TO REJECT MR. BROSCH'S PROPOSALS  
5 REGARDING VARIOUS SERVICES PROVIDED TO SOUTHERN BELL  
6 BY BELLSOUTH CORPORATION, BELLCORE AND BST SCIENCE  
7 AND TECHNOLOGY.

8

9 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

10

11 A. YES, IT DOES.

12

13

14

15

16

17

18

19

20

21

22

23

24

25