(60)

Legal Department

SIDNEY J. WHITE, JR.
General Attorney

Southern Bell Telephone
and Telegraph Company
Suite 400
150 South Monroe Street
Tallahassee, Florida 32301
(404) 529-5094

FILE COPY

December 18, 1992

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

RE: Docket No. 920260-TL

Dear Mr. Tribble:

Enclosed for filing in the above-referenced docket are an original and fifteen copies of the Prehearing Statement of BellSouth Telecommunications, Inc.

A copy of this letter is enclosed. Please mark it to indicate that the original was filed and return the copy to me. Copies have been served on the parties shown on the attached Certificate of Service.

Sincerely,

Sidney J. White, Jr.

Sidney J. White, Jr.

ACK ✓
AFA 3

Enclosures

~~cc:~~ All Parties of Record
A. M. Lombardo
H. R. Anthony
R. D. Lackey

1
6
1
WAS
OTH

DOCUMENT NUMBER-DATE
14696 DEC 18 1992
FPSC-RECORDS/REPORTING

CERTIFICATE OF SERVICE
Docket No. 920260-TL

I HEREBY CERTIFY that a copy of the foregoing has been furnished by United States Mail this 18th day of December, 1992 to:

Robin Norton
Division of Communications
Florida Public Svc Commission
101 East Gaines Street
Tallahassee, FL 32399-0866

Angela Green
Division of Legal Services
Florida Public Svc Commission
101 East Gaines Street
Tallahassee, FL 32399-0863

Joseph A. McGlothlin
Vicki Gordon Kaufman
McWhirter, Grandoff & Reeves
716 - 315 S. Calhoun Street
Tallahassee, Florida 32301
atty for FIXCA

Patrick K. Wiggins
Wiggins & Villacorta, P.A.
Post Office Drawer 1657
Tallahassee, Florida 32302
atty for Intermedia

Joseph Gillan
J. P. Gillan and Associates
Post Office Box 541038
Orlando, Florida 32854-1038

Floyd Self, Esq.
Messer, Vickers, Caparello,
Madsen, Lewis & Metz, PA
Post Office Box 1876
Tallahassee, FL 32302
atty for US Sprint

Charles J. Beck
Deputy Public Counsel
Office of the Public Counsel
Room 812, 111 W. Madison Street
Tallahassee, FL 32399-1400

Michael J. Henry
MCI Telecommunications Corp.
MCI Center
Three Ravinia Drive
Atlanta, Georgia 30346-2102

Richard D. Melson
Hopping Boyd Green & Sams
Post Office Box 6526
Tallahassee, Florida 32314
atty for MCI

Rick Wright
Regulatory Analyst
Division of Audit and Finance
Florida Public Svc Commission
101 East Gaines Street
Tallahassee, FL 32399-0865

Peter M. Dunbar
Haben, Culpepper, Dunbar
& French, P.A.
Post Office Box 10095
Tallahassee, FL 32301
atty for FCTA

Chanthina R. Bryant
Sprint
3065 Cumberland Circle
Atlanta, GA 30339

Michael W. Tye
AT&T Communications of the
Southern States, Inc.
Suite 1410
106 East College Avenue
Tallahassee, Florida 32301

Dan B. Hendrickson
Post Office Box 1201
Tallahassee, FL 32302
atty for FCAN

Benjamin H. Dickens, Jr.
Blooston, Mordkofsky, Jackson,
& Dickens
2120 L Street, N.W.
Washington, DC 20037

Bill L. Bryant, Jr., Esq.
Foley & Lardner
Suite 450
215 South Monroe Street
Tallahassee, FL 32302-0508

Monte Belote
Florida Consumer Action Network
4100 W. Kennedy Blvd. #128
Tampa, FL 33609

Douglas S. Metcalf (Ad Hoc)
Communications Consultants, Inc.
1600 E. Amelia Street
Orlando, FL 32803

Mr. Cecil O. Simpson
General Attorney
Mr. Peter Q. Nyce, Jr.
General Attorney
Regulatory Law Office
Advocate General
Department of the Army
901 North Stuart Street
Arlington VA 22203-1837

Thomas F. Woods, Esq.
Gatlin, Woods, Carlson, and
Cowdery
1709-D Mahan Drive
Tallahassee, FL 32308
atty for the Florida Hotel and
Motel Association

Michael B. Twomey
Assistant Attorney General
Department of Legal Affairs
Room 1603, The Capitol
Tallahassee, FL 32399-1050

C. Everett Boyd, Jr.
Ervin, Varn, Jacobs, Odom &
Ervin
305 South Gadsen Street
Tallahassee, FL 32302

Florida Pay Telephone
Association, Inc.
c/o Mr. Lance C. Norris
President
202 - 8130 Baymeadows Cir. West
Jacksonville, FL 32256

Laura L. Wilson, Esq.
Messer, Vickers, Caparello,
Madsen, Lewis & Metz, PA
Post Office Box 1876
Tallahassee, FL 32302
atty for FPTA

Sidney J. White, Jr.

FILE COPY

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Comprehensive Review of the Revenue Requirements and Rate Stabilization Plan of Southern Bell Telephone and Telegraph Company	)	Docket No. 920260-TL Filed: December 18, 1992

PREHEARING STATEMENT OF
BELLSOUTH TELECOMMUNICATIONS, INC.

COMES NOW BellSouth Telecommunications, Inc., d/b/a Southern Bell Telephone and Telegraph Company, ("Company" or "Southern Bell") and in compliance with Order No. PSC-92-1195-PCO-TL, issued October 21, 1992, as modified by Order No. PSC-92-1320-PCO-TL, issued November 13, 1992, herewith submits its Prehearing Statement.

A. WITNESSES

Southern Bell proposes to call the following witnesses to offer testimony on the matters indicated below:

Witnesses	Subject/Issues
Joseph A. Lacher (Direct Only)	Mr. Lacher will testify regarding Issues 9a and 31.
Anthony M. Lombardo (Direct & Rebuttal)	Mr. Lombardo will testify regarding Issues 26a-27A, 27E-29, and 30a. He will also present testimony rebutting intervenor witnesses Kahn, Metcalf, Gillan, King, Cresse, Chessler, Guedel, and Cornell.
Walter S. Reid (Direct & Rebuttal)	Mr. Reid will testify regarding Issues 1, 2-8, 11-12, 14-14c, 14e-16b, 18-23, 25-25e and 27B-27D. He will also present testimony rebutting intervenor witnesses Kahn, Brosch, and Allen.
Nancy H. Sims (Direct & Rebuttal)	Ms. Sims will testify regarding Issues 14d, 32-39g, 40-42a, and 44-45c. She will also present testimony rebutting intervenor

	witnesses Chessler, Wood, Gillan, Metcalf, Kapka, Guedel and Cooper.
William B. Keck (Direct & Rebuttal)	Mr. Keck will testify regarding Issues 10 and 13. He will also present testimony rebutting intervenor witness Cicchetti.
Jerry L. Wilson (Rebuttal Only)	Mr. Wilson will testify regarding Issues 17-17a and 17d. He will also present testimony rebutting intervenor witness Brosch.
Wayne Tubaugh (Rebuttal Only)	Mr. Tubaugh will testify regarding Issues 31 and 31a. He will also present testimony rebutting Staff's witnesses.
Randall S. Billingsley (Direct and Rebuttal)	Dr. Billingsley will testify regarding Issue 9. He will also present testimony rebutting intervenor witnesses Rothschild, Cicchetti, and King.
Janice Obuchowski (Direct Only)	Ms. Obuchowski will testify regarding Issue 27 dealing with competitive trends in the telecommunications industry as well as appropriate responses to such trends.
David Sappington (Direct Only)	Dr. Sappington will testify regarding Issue 27 dealing with why Southern Bell's Price Regulation Plan is a sound, progressive regulatory plan.
John D. McClellan (Direct & Rebuttal)	Mr. McClellan will testify regarding Issue 24. He will also present testimony rebutting intervenor witness Allen.
Margaret K. Thompson (Rebuttal Only)	Ms. Thompson will present testimony rebutting intervenor witnesses Chessler, Gillan, Kahn, and Cornell.
H.E. Gray, Jr. (Rebuttal Only)	Mr. Gray will testify regarding Issues 2b and 30e. He will also present testimony rebutting intervenor witness Gillan.

William E. Taylor (Rebuttal Only)	Dr. Taylor will testify regarding Issues 27, 30a, 30b and 30c. He will present testimony addressing the economics of Southern Bell's Price Regulation Plan. He will also present testimony rebutting intervenor witness Kahn, Chessler, Cicchetti, Gillan, Cresse, King, Cornell, and Guedel.

Southern Bell reserves the right to call additional rebuttal witnesses, witnesses to respond to Commission inquiries not addressed in direct testimony and witnesses to address (1) issues not presently designated which may be designated by the Prehearing Officer at the informal prehearing conference to be held on January 6 or at the prehearing conferences to be held on January 8 and January 20, 1993, or (2) issues which may be added by the Commission on reconsideration of any of the Prehearing Officer's Orders.

B. EXHIBITS

Witness	Document Indicator	Title of Exhibit
Joseph P. Lacher	JPL-	None at this time.
Anthony M. Lombardo	(DIRECT) AML-1	Florida 1991 Estimated Revenue Losses to Competition
	AML-2	Category 1 - Basic Service
	(REBUTTAL) AML-3	Article entitled "The Challenge for Incentive Regulation"
Walter S. Reid	(DIRECT) WSR-1	Intrastate "Per Books" Amounts

WSR-2	Intrastate "Achieved" Amounts
WSR-3	Intrastate "Achieved" Amounts Adjusted for Constant Depreciation SBT&T Company Trends in Florida Revenue Requirements 1984-1991
WSR-4	Southern Bell Intrastate Rate Base and Net Operating Income Adjustments
WSR-5	Florida Historical Inflation Less Productivity Analysis
WSR-6	(Appendix 1) Florida Public Service Commission Telephone Earnings Surveillance Reports
(REBUTTAL)	
WSR-7	Intrastate "Per Books" Amounts
WSR-8	Intrastate "Achieved" Amounts
WSR-9	Intrastate "Achieved" Amounts Adjusted for Constant Depreciation
WSR-10	Intrastate Rate Base and Net Operating Income Adjustments
WSR-11	Analysis of Uncollectables
WSR-12	Outside Services Adjustment

	WSR-13	1993 Set Aside Calculation
	WSR-14	Advertising Examples
	WSR-15	Florida Public Service Commission Telephone Earnings Surveillance Report
	WSR-16	Revised MFR Schedules
Nancy H. Sims	(DIRECT) NHS-1	Florida A3. Basic Local Exchange Service Tariff
	NHS-2	1993 UBP Revenue Impacts
	NHS-3	Switched Access Rate Comparison
	NHS-4	Mobile Service Providers Network Usage Rates
	NHS-5	Florida Illustrative General Subscriber Services Tariff - July 2, 1992
	NHS-6	Service Connection Charges - Price Out of Proposed Rates Changes Annualized for 1993 Restructure Proposal
	NHS-7	Proposed Changes in Rates and Annual Revenues Recurring
	NHS-8	Proposed Increases in Monthly Rates and Annual Revenues
	NHS-9	Proposed Changes in Rates and Annual Revenues Recurring

	NHS-10	Florida Illustrative General Subscriber Services Tariff - A2. General Regulations
William B. Keck	(DIRECT) WBK-1	Capital Structure, Cost Rates and Overall Rate of Return
	(REBUTTAL) WBK-2	Keck Rebuttal Schedule No. 1
Jerry L. Wilson	JLW-	None at this time
Wayne Tubaugh	WT-	None at this time
Randall S. Billingsley	RSB-1	List of Schedules
	RSB-2	Discounted Cash Flow Analysis for Comparable Firm Group
	RSB-3	Expected Market Risk Premium
	RSB-4	(Appendix A) Witness Vita
	RSB-5	(Appendix B) Comparable Firm Screening Criteria and Methodology
	RSB-6	(Appendix C) Estimation of the Cost of Equity Capital the Expected Market Risk Premium Approach
Janice Obuchowski	JO-	None at this time
David Sappington	DS-	None at this time
John D. McClellan	(DIRECT)	

JDM-1	Florida Attrition Analysis - Revenue Impact of Attrition
JDM-2	Florida Attrition Analysis - Analysis Data 1989-1991
JDM-3	Florida Attrition Analysis - Trend Line Data
JDM-4	Florida Attrition Analysis - Capital Cost Data
JDM-5	Florida Attrition Analysis - Capital and Investment Data
JDM-6	Florida Attrition Analysis - Depreciation Expenses
JDM-7	Florida Attrition Analysis - Incremental Changes 1993 over 1991
JDM-8	Florida Attrition Analysis - Summary of Components
JDM-9	(Appendix A) Credentials
(REBUTTAL) JDM-10	Florida Attrition Analysis - Revenue Impact of Attrition, Intrastate Operations
JDM-11	Florida Attrition Analysis - Analysis Data 1989-1991, Intrastate Operating Data
JDM-12	Florida Attrition Analysis - Trend Line Data,

		Intrastate Operations-Adjusted
	JDM-13	Florida Attrition Analysis - Capital Cost Data, Intrastate Operations
	JDM-14	Florida Attrition Analysis - Capital & Investment Data, Intrastate Operations
	JDM-15	Florida Attrition Analysis - Depreciation Expenses, Intrastate Operations
	JDM-16	Florida Attrition Analysis - Incremental Changes - 1993 over 1991, Intrastate Operations
	JDM-17	Florida Attrition Analysis - Summary of Components, Intrastate Operations
Margaret K. Thompson	MKT-1	Florida Growth in Access & Toll Minutes
	MKT-2	Florida Competitive Revenues
	MKT-3	Illustrative Example - Contribution
H.E. Gray, Jr.	HEG-1	Southern Bell InterLATA Network Fiber Capacity - Fiber Pairs
	HEG-2	Southern Bell InterLATA Network Fiber Capacity

	HEG-3	Southern Bell InterLATA Network Fiber Capacity
	HEG-4	Florida InterLATA Network
	HEG-5	FCC Annual Fiber Survey Part of Table 9 Other 1991 Fiber Data for Local Operating Companies
William E. Taylor	WET-1	(Figures 1-5)
	WET-2	(Attachment 1) Credentials
	WET-3	(Attachment 2) Productivity Growth in the Price Cap Formula
	WET-4	(Attachment 3) Historical Productivity Growth in the U.S. Telecommunications Industry
	WET-5	(Attachment 4) Incentive Regulation and the Diffusion of New Technology in Telecommunications

C. STATEMENT OF BASIC POSITION

In adopting Southern Bell's Rate Stabilization Plan in 1988, the Florida Public Service Commission took a first step in providing Southern Bell with enhanced incentives to operate with greater efficiency and creativity. This Commission created a framework for the sharing of earnings between Southern Bell and its subscribers in those instances in which greater efficiency resulted in greater Company earnings. This approach has served well the goal of promoting efficiency and has provided benefits to Southern Bell's customers because of increasing competition. This transitional form of regulation should now give way to the next level, one which will allow Southern Bell to meet the needs of emerging competitive markets and which will further promote the goals mandated by the Florida legislature in 1990.

Southern Bell's proposed alternate form of regulation, known as the Price Regulation Plan ("PRP"), has as its primary goals the encouragement of both the introduction of new services and the improvement of operating efficiencies, the enhancement of pricing flexibility, and the streamlining of the regulatory process. At the same time, it will provide appropriate consumer safeguards in the form of aggregate price ceilings, limitations on the price changes of individual services, the avoidance of cross-subsidies, and the sharing between Southern Bell and its customers of earnings above a certain level.

At the starting point of the plan, current rates would be used to establish an initial price regulation index ("PRI"). Once the PRI has been established, it would be adjusted each year according to a set formula. The resulting PRI would then be used to adjust Southern Bell's aggregate prices. One of the most significant features of this formula is the productivity adjustment, which Southern Bell proposes to be set at 4%. This productivity adustment would guarantee a 4% reduction in rates in real terms relative to inflation.

Southern Bell also proposes specific guidelines for adjustments in the prices of individual services. These guidelines would allow the rates for certain basic services to change no more than 5% a year while allowing greater changes in non-basic services. Increases and decreases in prices would occur through a less cumbersome, more streamlined process than the tariffing process that currently exists. The PRP would also call for the further streamlining of the current tariff approval process by use of a presumptive approval of price changes.

Southern Bell's proposed PRP continues to include an earnings sharing mechanism similar to that found in the current Rate Stabilization Plan. However, because of the increased risk Southern Bell faces under the PRP, the Company has proposed a 50/50 sharing between its customers and Southern Bell.

In addition to presenting the PRP, this proceeding also constitutes what historically would have been termed a general rate proceeding. Every aspect of the Company's operations has been available for review. Southern Bell's testimony demonstrates that its activities during the test year have been proper and that its rates are just and reasonable. Southern Bell's witnesses have demonstrated that Southern Bell's cost of equity is in the range of 14.6%, well above the Commission's last ratesetting point of 13.2% and that no rate reductions, other than those necessary to implement past commission orders and Southern Bell's proposed reductions, are necessary or appropriate.

D. SOUTHERN BELL'S POSITION ON THE ISSUES

General Issues

Issue 1: Is the test year ended December 31, 1991 an appropriate test year?

Position: Yes. The test year ended December 31, 1991, properly adjusted, is the most appropriate data for this proceeding.

Rate Base

Plant in Service

Issue 2: What is the appropriate amount of plant in service for the test year?

Position: The appropriate amount of plant in service for the test year is $6,501,364,000 as shown on updated MFR Schedule A-2a dated December 18, 1992.

Issue 2(a): Have the investments and expenses for video transport service been appropriately identified and accounted for?

Position: Yes.

Issue 2(b): Is Southern Bell's investment in its interLATA internal company network prudent? If not, what action should the Commission take?

Position: Yes. Southern Bell's investment is prudent.

Depreciation Reserve

Issue 3: What is the appropriate amount of depreciation reserve for the test year?

Position: The appropriate amount of depreciation reserve for the test year is $2,375,445,000 as shown on updated MFR Schedule A-2a dated December 18, 1992.

Issue 4: What adjustment should be made to the depreciation reserve to reflect new depreciation rates and recovery schedules as approved in Docket No. 920385-TL?

Position: Pending a final decision in Docket No. 920385-TL, the appropriate adjustment to the depreciation reserve for new depreciation rates and recovery schedules should be $(25,749,000) as shown on updated MFR Schedule B-2b dated December 18, 1992. When a final decision is reached in Docket No. 920385-TL, the impact, if any, on depreciation reserve should be recalculated.

Plant Under Construction

Issue 5: What is the appropriate amount of construction work in progress for the test year?

Position: The appropriate amount of construction work in progress for the test year is $42,247,000 as shown on updated MFR Schedule A-2a dated December 18, 1992.

Property Held for Future Use

Issue 6: What is the appropriate amount of property held for future use for the test year?

Position: The appropriate amount of property held for future use for the test year is $244,000 as shown on updated MFR Schedule A-2a dated December 18, 1992.

Working Capital

Issue 7: What is the appropriate amount of working capital allowance for the test year?

Position: The appropriate amount of working capital for the test year is $32,690,000 as shown on updated MFR Schedule A-2a dated December 18, 1992.

Issue 8: What is the appropriate amount of rate base for the test year?

Position: The appropriate adjusted rate base for the test year is $4,201,100,000 as shown on Company Witness Reid's Exhibit WSR-10 filed December 18, 1992.

Cost of Capital

Issue 9: What is the appropriate cost of common equity capital for Southern Bell?

Position: The appropriate point estimate for the cost of common equity capital for Southern Bell is in the range of 14.36%

to 14.80% with a mid-point of 14.58%. Nevertheless, in connection with the proposed new PRP, the Company is proposing no changes to the earnings and sharing parameters of the existing plan. See also: Company's position on Issue No. 27AB.

Issue 9(a): Should there be a penalty imposed for poor quality of service? If so, what should be the penalty?

Position: No. Southern Bell continues to provide its Florida customers with high quality service.

Issue 10: Is Southern Bell's proposed test year equity ratio prudent and reasonable? If not, how should this be treated?

Position: The Company's proposed test year equity ratio, which is based on the actual average Company capital structure, is prudent and reasonable and should be adopted.

Issue 11: Is Southern Bell's balance of accumulated deferred investment tax credits, prior to reconciliation to rate base, appropriate?

Position: Yes.

Issue 12: Is Southern Bell's balance of accumulated deferred taxes, prior to reconciliation to rate base, appropriate?

Position: Yes.

Issue 13: What is the appropriate weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure for the test year?

Position: The appropriate weighted average cost of capital for the test year is 9.92% as shown in Company Witness Keck's

Exhibit WBK-2. The proper components, amounts, and cost rates associated with this cost rate are reflected on Schedule No. 1 of Company Witness Keck's Exhibit WBK-1.

Operating Revenue

Issue 14: What is the appropriate amount of operating revenue for the test year?

Position: The appropriate amount of operating revenue for the test year is $2,214,150,000 as shown on Company Witness Reid's Exhibit WSR-10 filed December 18, 1992.

Issue 14(a): Are all of the revenues from significant tariff revisions or planned tariff filings appropriately reflected in the test year?

Position: Yes.

Issue 14(b): Has the Company accounted for employee concessions appropriately during the test year?

Position: Yes.

Issue 14(c): Should an adjustment be made to intrastate revenues for the test period to recognize adjustments to IXC's percentage interstate usage (PIU)?

Position: The Company has adjusted intrastate revenues for the out-of-period impacts associated with PIU true-ups. No further adjustment is necessary.

Issue 14(d): How often should Southern Bell be required to perform PIU audits?

Position: PIU audits should be conducted no more frequently than once per year except in extreme circumstances.

Issue 14(e): What is the appropriate amount of directory advertising revenue that should be included in the test period?

Position: The appropriate amount of directory advertising revenues for the test year is $219,581,101 as shown on updated MFR Schedule C-27, dated July 15, 1992.

Issue 14(f): Does the Company's uncollectible accounts ratio represent a reasonable and necessary ongoing level?

Position: Yes.

Operation & Maintenance Expense

Issue 15: What is the appropriate amount of O&M expense for the test year?

Position: The appropriate amount of O&M expense for the test year is $1,043,890,000 as shown on MFR Schedule C-1b.

Issue 15(a): Are the allocations to non-regulated operations reasonable?

Position: Yes.

Issue 15(b): What is the appropriate adjustment to revenue requirements related to BellSouth's reorganization?

Position: The appropriate adjustment to revenue requirements related to BellSouth's reorganization is $(11,578,000) as shown on Company Witness Reid's Exhibit WSR-10 filed on December 18, 1992.

Issue 15(c): What adjustment, if any, should be made to expenses for USTA dues?

Position: The Company has made an out-of-period adjustment related to USTA dues to remove a payment in 1991 which was not applicable to the test year. No further adjustment should be made.

Issue 15(d): Is Southern Bell correctly separating the revenues, expenses, and investment in its Line Identification Data Base (LIDB) offering to the appropriate jurisdictions?

Position: Yes. Southern Bell is properly following the established rules (i.e., Part 36 of the Federal Communications Commission's Rules and Regulations) for separating the revenues, expenses, and investment in its Line Identification Data Base (LIDB) offering.

Issue 15(e): Is the amount of lobbying and other political expenses included in the Company's intrastate operating expenses appropriate for ratemaking purposes?

Position: Yes.

Issue 15(f): Is the amount of advertising and public relations expenses included in the Company's intrastate operating expenses appropriate for ratemaking purposes?

Position: Yes.

Issue 15(g): Has the Company properly employed an appropriate expense/capitalization ratio for compensation?

Position: Yes.

Issue 15(h): Does the level of legal, injury, and damage claims expense represent a reasonable and necessary ongoing level?

Position: Yes.

Issue 15(i): What is the appropriate treatment of the Company's promotional and charitable contributions?

Position: The Company has excluded its promotional and charitable contributions from cost of service based on the Commission's order in Southern Bell's last rate case proceeding. No further adjustment is appropriate.

Issue 15(j): Are the test year expenses for software reasonable?

Position: Yes.

Issue 15(k): How should software additions be treated for ratemaking purposes?

Position: Southern Bell's accounting procedures for software additions are in compliance with Part 32 rules as adopted by the Florida Public Service Commission and with Generally Accepted Accounting Principles (GAAP). Test year data reflect this accounting treatment, which is appropriate for ratemaking purposes.

Issue 15(l): How should the Commission treat the Company's incentive compensation/bonus plan payments?

Position: Southern Bell's incentive compensation/bonus plan payments are part of the Company's overall compensation plan which fairly pays its employees for services performed. The

Commission should allow the expense for these plans as reflected in test year cost of service amounts.

Issue 15(m): Are employee benefits expenses reasonable and based on known and measurable events?

Position: Yes. The Company has included a proforma adjustment to test year results which recognizes the adoption of SFAS 106, Other Post Employment Benefit Expense, effective January 1, 1993. With the incorporation of this adjustment, employee benefits expense is properly stated for the test year.

Issue 15(n): How should the Commission treat the Company's abandoned projects?

Position: Abandoned project expense should be allowed in cost of service for the test year. This treatment is consistent with the Commission's decision in Southern Bell's last rate case proceeding.

Issue 15(o): Should ratepayers receive credit for pension collections not funded or paid into the pension plan?

Position: Yes. Florida's balance sheet approach to cash working capital requires that unfunded pension expense be reflected in the cash working capital component of rate base.

Issue 15(p): How should overfunded pension amounts be treated?

Position: The Company's pension expense included in cost of service is computed in accordance with guidelines incorporated in SFAS No. 87 which is a part of GAAP and has been adopted by this Commission. SFAS 87 includes methodologies which adjust expense recognition for differences between actual and assumed criteria and which recognize the level of funding in the pension plan. The Commission should, therefore, allow pension expense as stated in test year cost of service.

Non-recurring Items

Issue 16: Have non-recurring items been removed from the determination of revenue requirements?

Position: Yes. The Company's adjusted test year data as reflected in Company Witness Reid's Exhibit WSR-10 filed December 18, 1992 properly exclude non-recurring items from test year revenue requirements.

Issue 16(a): Does the level of employee relocation expenses represent a reasonable and necessary ongoing level?

Position: Yes. The Company removed extraordinary relocation expense associated with its reorganization in 1991 through a proforma adjustment included on Company Witness Reid's Exhibit WSR-10 filed December 18, 1992. Consequently, relocation expense is stated at the appropriate level in the Company's adjusted test year results.

Issue 16(b): How should the Commission treat the expenses included in the test year related to early retirement?

Position: The Company removed the early retirement expense associated with its reorganization in 1991 through a proforma adjustment included on Company Witness Reid's Exhibit WSR-10 filed December 18, 1992. Consequently, early retirement expense is stated at the appropriate level in the Company's adjusted test year results.

Affiliated Transactions

Issue 17: Are the affiliated charges and overhead allocations to Southern Bell - Florida reasonable, including charges from the central management/service organization?

Position: Yes. The billings from affiliates follow a comprehensive cost assignment and allocation plan prescribed by the FCC and accepted by the FPSC. BellSouth is audited annually for compliance with these rules and has received an unqualified opinion each year.

Issue 17(a): Are the ownership costs incurred at the corporate level appropriate for ratepayers to pay?

Position: Yes. BellSouth Corporation ("BSC") is the holding company and as such performs certain "ownership" functions which are required of every corporation and which benefit all BSC subsidiaries. Some of these expenses are proportionately charged to BSC's regulated and non-regulated subsidiaries. The allocation of these BSC costs to its subsidiaries follow the FCC-prescribed cost assignment and allocation requirements. The portion of the allocated billing from BSC to Southern Bell is then appropriately allocated to the Southern Bell states, including Florida.

Issue 17(b): How should the Commission treat the expenses incurred by BellSouth for supplemental executive retirement, stock appreciation rights, and incentive compensation?

Position: The supplemental executive retirement, stock appreciation rights, and incentive compensation are all part of executive compensation and should be treated much the same as other executive compensation. The BellSouth Corporate executives' compensation is retained or allocated to its subsidiaries using methodologies accepted by state and federal regulators. See discussion in No. 17(a) above.

Issue 17(c): Are the regulated operations being properly compensated for billing and collection services provided to non-affiliated companies and non-regulated and/or affiliated company operations?

Position: Yes. Billing and collections services are provided either at tariffed rates, at fully distributed cost, or at contract rates, each of which fairly compensates regulated operations for the provision of these services.

Issue 17(d): How should the Commission treat BST Research Organization expenses?

Position: The work product of the BST Research Organization helps produce additional revenues and improves the cost effectiveness of the network. The BST Research Organization is an ordinary staff expense and considered as general overhead. There should be no variance in the treatment of such expenses compared to any other staff function.

Issue 17(e): Do Southern Bell's intrastate expenses include Bellcore and BellSouth Services allocated research and development costs which are of no tangible benefit to ratepayers? If so, what adjustment should be made?

Position: No. The benefits derived from research and development are of tangible benefit because through past and present research and development, Southern Bell is able to improve existing services and develop new services, both of which produce additional revenues. Research and development also leads to new technology development that improves the cost effectiveness of the network. Additional revenues from new and existing services and a more cost effective network have resulted in more reliable basic services and new services at an affordable cost to Florida ratepayers.

Issue 17(f): Do Southern Bell's expenditures for Bellcore services cause ratepayers of regulated telephone services to pay inappropriately for future, potentially non-regulated BellSouth products and services? If so, what adjustment should be made?

Position: No. Accounting procedures call for research and development expenses to be expensed in the period in which they are incurred. The Commission determines which services will be deregulated.

Issue 17(g): Are the rental costs incurred by BellSouth Corporation Headquarters ("BSC HQ") and allocated to Southern Bell - Florida reasonable?

Position: Yes. In its bill to Southern Bell, BSC HQ includes expenses associated with rental of floor space in the

Campanile building. The expenses passed on to Southern Bell are based on market rates, which is consistent and in compliance with the Joint Cost Order (JCO).

FAS 106

Issue 18: What is the appropriate amount of expense for post-retirement benefits other than pensions for the test year?

Position: The appropriate amount of expense for post-retirement benefits other than pensions for the test year is the amount calculated by the Company in accordance with the January 1, 1993 adoption of SFAS 106. In order to properly reflect the adoption of SFAS 106 in test year results, it is necessary to adjust 1991 data by $2,791,000 as shown as a proforma on Company Witness Reid's Exhibit WSR-10 filed December 18, 1992.

Depreciation and Amortization Expense

Issue 19: What is the appropriate amount of depreciation expense for the test year?

Position: The appropriate amount of depreciation expense is $536,653,000 as shown on Company Witness Reid's Exhibit WSR-10 filed December 18, 1992. When the Commission reaches a final decision in Docket No. 920385-TL, depreciation expense for the test year should be revised, if necessary, based on that final decision.

Issue 19(a): What adjustment should be made to depreciation expense to reflect the new depreciation rates and recovery schedules as approved in Docket No. 920385-TL?

Position: None at this time. A final order in Docket No. 920385-TL has not yet been issued. See Issue No. 19.

Taxes

Issue 20: What is the appropriate amount of taxes other than income for the test year?

Position: The appropriate amount of taxes other than income is $124,251,000 as shown on updated MFR Schedule A-2b filed December 18, 1992.

Issue 21: What is the appropriate amount of income tax expense for the test year?

Position: The appropriate amount of income tax expense is $111,931,000 as reflected on Company Witness Reid's Exhibit WSR-10 filed December 18, 1992.

Issue 21(a): How should the effect of implementing SFAS 109, Accounting for Income Taxes, be treated by the Commission?

Position: The Commission should adopt the Company's proposed four-year amortization plan for implementing the full effects of SFAS 109 beginning January 1, 1993.

Issue 21(b): How should the unprotected excess deferred income taxes be amortized?

Position: The unfunded excess deferred income taxes should be amortized as proposed by the Company in response to issue 21(a).

Issue 22: Should consolidated tax savings be recognized for ratemaking?

Position: No.

Net Operating Income

Issue 23: What is the appropriate achieved test year net operating income?

Position: The appropriate achieved test year net operating income is $397,434,000 as shown on Company Witness Reid's Exhibit WSR-10 filed December 18, 1992.

Attrition

Issue 24: Is Southern Bell's attrition (accretion) allowance appropriate?

Position: Yes.

Revenue Requirement

Issue 25: What is the appropriate amount of revenue increase/decrease for the test year?

Position: The Company's proposed rate changes should be approved. No further revenue changes are necessary.

Issue 25(a): Did Southern Bell earn above 14% Return on Equity (ROE) for 1991, therefore requiring a sharing of earnings between the Company and ratepayers per Order No. 20162? If so, what is the amount to be shared?

Position: No.

Issue 25(b): Did Southern Bell experience an increase in earnings when netting rate changes against changes in earnings due to exogenous factors and debt refinancing, therefore requiring a refund and/or a permanent disposition for 1991 per Order No. 20162? If so, what is the amount?

Position: No.

Issue 25(c): What amount of revenue is subject to disposition in 1993 due to orders issued in Docket Number 880069?

Position: The amount of revenue subject to disposition in 1993 is $48,156,244 as shown on Company Witness Reid's Exhibit WSR-10 filed December 18, 1992.

Issue 25(d): What amount of revenue, if any, should be refunded?

Position: None.

Issue 25(e): Should Southern Bell be required to file, within 30 days after the date of the final order in this docket, an updated schedule to reflect the actual rate case expense?

Position: No.

Current Rate Stabilization Plan

Issue 26(a): What criteria should the Commission use to evaluate Southern Bell's performance under, and its proposal for, an incentive regulation, price cap, or price regulation plan?

(For example, data provided in MFR Schedules on expenses, productivity, efficiency, comparisons of that or other data with other LECs, etc.)

Position: Southern Bell believes the Price Regulation Plan should produce results which benefit both Southern Bell's customers and its owners. When the FPSC reviews Southern Bell's results, the Commissioners should assure themselves that this plan has produced just and reasonable rates, has fulfilled the FPSC service standards, has created incentives to invest in the network, has improved operational efficiencies, and has encouraged the introduction of new and innovative services. The Commission should acknowledge, however, since it is not possible to replicate the past assuming a different form of regulation, that the determination of whether the criteria are met will necessarily be less than precisely measurable.

Issue 26(b): Has the current incentive regulation plan under which Southern Bell has been operating achieved the goals as set forth in DN 880069-TL? What are the positive and negative results, if any?

Position: Yes. Southern Bell has produced results which have achieved and even exceeded the goals established in Mr. Henry's testimony in Docket No. 880069-TL. The Rate Stabilization Plan has provided incentives for investment by shareholders, efficiency improvements, new revenue opportunities, leadership in providing telecommunications services, and has facilitated the building of a sophisticated voice and data network infrastructure all of which has benefited the ratepayers.

Proposed Price Regulation Plan

Issue 27: Southern Bell proposes to change its current form of regulation. The proposed plan includes the following components. On the basis of these components, what are the pros and cons of this plan?

Price Regulation Index

A. Places ceiling on aggregate prices via a Price Regulation Index (PRI). This index is composed of an inflation measure, less a productivity factor offset, plus or minus any exogenous factors.

Position: Regulating prices directly improves upon traditional regulation. The use of the PRI formula assures price changes in response to external cost changes as would occur in a competitive industry. Use of the PRI ties the Company's earnings to performance and will lead to improved incentives to reduce costs, expand demand, and invest in the network.

B. For inflation, PRI uses the Gross National Product-Price Index (GNP-PI).

Position: The GNP-PI (fixed weight) index is a government-provided, reliable, and appropriate measurement of inflation to compare output price changes for the economy against a historical base period. Unlike the CPI, the GNP-PI includes price changes for capital goods which affect Southern Bell's costs.

C. PRI Productivity Offset set at 4%.

Position: 4% is an aggressive target which is above the productivity of the economy and is set higher than the historical productivity of the telecommunications industry. Customers are guaranteed real price reductions in relation to inflation every year regardless of the Company's earnings.

D. Defines exogenous factors as those measurable expenses beyond Southern Bell's control. This includes changes in regulations or statutes, taxes, separations, accounting practices, and adjustments to depreciation rates.

Position: Exogenous factors are appropriately defined and assure that such changes beyond the Company's control will flow through to shareholders and ratepayers in an equitable manner.

E. PRI initially indexed at 100 as the starting point.

Position: The PRI and the index of actual prices should both equate to 100 as the starting point.

F. PRI is adjusted annually, and aggregate prices are then adjusted accordingly. Downward adjustments are required; upward adjustments are optional. The first adjustment is in 1994.

Position: The PRI should be adjusted annually for inflation and may be adjusted other than annually for unanticipated exogenous cost changes. The PRI will be set at 100 in 1993 and adjusted for the first time for inflation in 1994. Requiring mandatory reductions, but optional increases to maintain prices at or below the PRI assures that customers always benefit from reduced costs.

G. Any changes in aggregate prices during the year must be below or at the PRI of 100.

Position: Aggregate prices must be at or below 100 during the first year unless the PRI is adjusted for exogenous cost changes. Subsequently, the aggregate prices must be equal to or below the adjusted PRI.

H. Regulated services with no tariffed rates are excluded from the PRI.

Position: Services that do not have tariffed rates will be services which have sufficient competition that the Commission no longer reviews or regulates these prices. As such, these services are appropriately excluded from the index of service prices which are regulated.

I. Contract Service Arrangement prices are excluded from PRI.

Position: Services provided under contract service arrangements are governed by such arrangements. Since these service prices cannot be changed, they are appropriately excluded from the index of prices regulated through the PRI. Excluding prices which cannot be changed prevents any distortions that may result in price changes for other prices.

J. New service prices are excluded from the PRI for at least 12 months.

Position: The price index is constructed using the service price and actual demand to determine each service's revenue weight. Prices for new services are excluded from the index for at least 12 months in order to establish the actual demand level and appropriate price prior to placing the services in the index.

K. Restructured services are placed in the PRI upon filing.

Position: Restructured services replace existing services which already carry a revenue weight in the index. Thus, a restructured service and its service price should be included in the index as it is filed to replace the previously existing service and its revenue weight in the index.

L. PRI is to be recalculated annually. Price changes required to bring average prices at or below the PRI would be filed in associated tariffs in an annual May 1 filing and would go into effect 60 days later.

Position: The PRI should be recalculated annually. It may also be adjusted during the year to reflect unanticipated exogenous cost changes. Using a May 1 date would allow enough time to assure that the end-of-year inflation data are available and could also allow the determination of sharable earnings. Tariffs would go into effect upon 60 days notice.

Baskets

M. Proposes two categories of services, basic, and non-basic services.

Position: Two groups of services, one of which includes basic essential items necessary for the provision of telephone service and the other which includes discretionary or competitive services, are sufficient.

N. Defines basic services as those services generally required to provide essential local exchange services to an end user as well as access to providers of basic local services and toll service.

Position: The definition of "basic services" is appropriate. Since these services are required for access to local or long distance service, these service prices should be more constrained than non-basic services. The definition of "basic" reflects the statutory definition.

O. Defines non-basic services as those tariffed services not in the basic category. Includes those that are optional or can be provided by a vendor other than Southern Bell.

Position: The definition of "non-basic" is appropriate and accurately identifies those services which are optional and/or can be provided by another vendor. Non-basic services do not require as much price protection/constraint as basic services.

P. Installs pricing rules for each category.

1. For basic services:

- Sets limit on service category increases at 5%.
- Individual service prices could be raised a maximum of 5% annually, as long as the average for all prices did not exceed the PCI.
- No floor set on reductions.
- Lifeline and Link-up rates could not be changed without Commission approval.

Position: The PRI appropriately permits overall prices to move toward economically efficient levels that enhance overall consumer welfare while constraining specific service prices. A 5% increase limit on individual service groups provides sufficient protection for basic services and also provides the flexibility to rebalance service prices to more adequately reflect costs.

2. For non-basic services:

- Sets limit on service category increases at 20%.
- Individual service prices could be raised a maximum of 20% annually, as long as the average for all prices did not exceed the PCI.
- No floor set on reductions.
- For those services currently having banded rates, the existing maximum and minimum rates will be retained. Price changes can be made anywhere within the range.

Position: Pricing rules are appropriate since the market also provides its own constraint. Customers will not buy a discretionary service which is priced too high or they will seek alternatives to competitive services. Setting long run incremental costs as the price floor assures that competitive services are not subsidized by non-competitive services. Pricing rules provide flexibility to meet competition and set more economic prices.

3. For both:

- Increases and decreases in rates are treated the same for both basic and non-basic services. Increases in rates become effective on 30-day notice. Decreases become effective on 15-day notice. Changes are presumptively valid.

Position: This time period assures sufficient notice to customers and prompt response to market conditions. Presumptive approval is consistent with price regulation by permitting price changes within the established boundaries of the price ceiling and pricing constraints. Presumptive approval improves the current tariff process by reducing the need for detailed cost, demand, and earnings analysis.

Q. Services can be recategorized. Requests for recategorization of services would be ruled upon by the Commission within 60 days.

Position: Increasing competition may change the amount of price regulation or protection needed for specific services. Reclassification of services would be needed to reflect these changes. The sixty-day review provides the Commission with an appropriate time period to evaluate the amount of protection needed for individual services.

R. Services can be removed from price earnings regulation altogether.

Position: Services which have sufficient competition do not need regulation of prices since the market will assure economic prices.

New Services/Restructured Services

S. Defines new services as those not previously offered or not replacing existing services.

Position: The new service definition is appropriate. New services expand customer choices and options.

T. Prices new services above incremental cost.

Position: Requiring prices to generate revenues above incremental costs assures that competitive services are not being subsidized.

U. New service prices are excluded for at least 12 months from the PRI calculation.

Position: See response to J.

V. Effective within 30 days with presumptively valid approval.

W. Floor for rates at incremental cost; no ceiling.

X. Rate changes allowed with 15-day effective date during the first 12 months the service is offered.

Position (V-X): Thirty-day notice and presumptive approval promotes quicker introduction of new services to meet customer needs. Pricing above incremental cost assures no cross-subsidy. Price changes upon 15 days notice will provide needed flexibility to meet customer needs and market conditions.

Y. Defines restructured services as those replacing an existing service.

Z. The rate cannot exceed the rate of the existing service it is replacing.

AA. Restructured services are placed in the PRI upon filing.

Position (Y-AA): A restructured service replaces an existing service or services which carry a revenue weight in the index. The price for the restructured service(s) should not exceed the price otherwise allowed for the same service(s) absent restructuring. This is consistent with the intent of the pricing rules. Placing the services in the index as they are filed will provide adequate documentation to assure that these principles are followed.

Sharing

AB. Sharing ratio is 50/50 split between the company and the ratepayers. No rate setting point was proposed. Floor is to be set a 11.5% ROE. Ceiling is to be set at 16% ROE. Sharing begins at 14% ROE. Any ROE above 16% ROE is to be 100% returned to ratepayers.

Position: Southern Bell's existing rates are just and reasonable, subject to the changes Southern Bell has proposed. Furthermore, the cost of capital for Southern Bell has not changed. As a consequence, no change is warranted in the plan's parameters and no general resetting of rates is required. Indeed, resetting rates would eliminate the Company productivity gains since the plan was implemented. However, the increased risk to the Company requires that sharing should be increased to a point where ratepayers and the Company benefit equally from increased earnings.

Relief

AC. Southern Bell can request rates be moved above PRI under the following circumstances:

1. Earnings fall below the established floor.
2. Structural changes form changes in the industry or Commission orders.
3. Changes in competitive conditions as authorized by the Commission.

Position: The PRP establishes boundaries appropriate for presumptive approval and accelerated procedures in price changes. Full Commission review and approval in circumstances which involve price changes exceeding these boundaries is appropriate and provides safeguards for both ratepayers and shareholders.

Important Dates

AD. Plan goes into effect May 1, 1993.

AE. Plan reviewed after four years for adjustment.

AF. No termination date set.

Position (AD-AF): May 1, 1993 is an appropriate date for the new plan, with any changed rates to be effective on January 1, 1993. Incentive regulation is an evolving process as opposed to a project with a discrete beginning and end, so no termination date should be set. Four years is an appropriate time in which to evaluate whether any changes are required to meet market conditions.

Service Requirements

AG. Service requirements - none proposed.

Position: The Commission has numerous monitoring procedures and rules in place to assure the continuance of high quality service. The proposed price regulation plan does not change any of these requirements. Southern Bell will continue to work with the Commission on refining existing requirements and developing more customer-focused service measurements.

Issue 28: Does Southern Bell's proposed Price Regulation Plan meet the requirements of § 364.036(2)(a)-(g), F.S., as follows:

A. Is the Price Regulation Plan (PRP) consistent with the public interest?

Position: Yes. The proposed plan provides a balance of risks and rewards to both consumers and the Company, provides identifiable benefits beyond traditional ROR, provides pricing flexibility to meet competition, provides just and reasonable rates and safeguards against excessive price increases, provides safeguards against cross-subsidy and encourages long-term investment in the network.

B. Does the PRP jeopardize the availability of reasonably affordable and reliable telecommunications services?

Position: No. The pricing rules assure that overall prices will decline every year in real terms relative to inflation and that prices on individual services are constrained. Additionally, the proposed Lifeline service in conjunction with Link-Up are designed to target assistance to those groups who are in need of such assistance. The PRP will encourage continued investment in the network to support affordable and reliable telecommunications services in the future.

C. Does the PRP provide identifiable benefits to consumers that are not otherwise available under existing regulatory procedures?

Position: Yes. Price regulation expands benefits to consumers as compared to traditional regulation. Real prices will be reduced (relative to inflation) regardless of achieved productivity. Customers may also benefit from increased efficiencies through the potential sharing of earnings above certain earnings thresholds. Pricing flexibility will allow better market response and help expand network utilization, thereby reducing cost of service to customers in the long run.

D. Does the PRP provide effective safeguards to consumers of telecommunications services including consumers of local exchange services?

Position: Yes. The aggregate price ceilings, limitations on price changes of individual services, the avoidance of cross-subsidies through prices above long run incremental costs and the sharing and productivity offset all provide effective safeguards to consumers. Additionally, consumers may still petition the Commission for hearings and use normal complaint procedures as appropriate.

E. Does the PRP assure that rates for monopoly services are just, reasonable, and not unduly discriminatory and do not yield excessive compensation?

Position: Yes. The pricing rules assure that rates will be just, reasonable, and not yield excessive compensation. The sharing mechanism provides an additional safeguard to constrain earnings and will allow sharing of any benefits of improved efficiencies. Moreover, the pricing rules provide appropriate constraints on individual services. Additionally, the Commission still retains its regulatory authority and oversight over Southern Bell's provision of service under the PRP.

F. Does the PRP include adequate safeguards to assure that the rates for monopoly services do not subsidize competitive services?

Position: Yes. Setting prices above long run incremental costs is the appropriate standard to assure that monopoly services are not subsidizing competitive services. In any event, the Commission has not yet found any services to be competitive as that term is used in Chapter 364, Florida Statutes, and thus no safeguards are required at this time.

G. Does the PRP jeopardize the ability of Southern Bell to provide quality, affordable telecommunications services?

Position: No. The PRP also provides improved incentives to invest in the network to assure continued quality service.

Issue 29: Should the Commission approve an incentive regulation plan for Southern Bell? If so, what is the appropriate plan? If not, what is the appropriate form of regulation for Southern Bell? How does the appropriate form of regulation meet the requirements of Chap. 364.036(a)-(g) F.S.?

Position: Yes, the Commission should approve Southern Bell's Plan. Price regulation provides identifiable benefits to ratepayers beyond those provided under sharing or traditional regulation. It assures benefits from long term investments as well as shorter term cost reductions. It provides incentives that more closely resemble a competitive market. It provides more economic and competitive pricing. Finally, real price reductions relative to inflation are guaranteed regardless of earnings.

Cross-Subsidy Issues

Issue 30(a): Should Southern Bell be permitted to cross-subsidize their competitive or effectively competitive services?

Position: No.

Issue 30(b): Should Southern Bell's basic telephone service rates be based on the most cost-effective means of providing basic telephone service?

Position: No. Service prices should reflect costs and market value. In determining the manner in which a service or group of services is to be provided, the most economic means should be selected.

Issue 30(c): Should Southern Bell segregate its intrastate investments and expenses in accordance with an allocation methodology as prescribed by the Commission to ensure that competitive telecommunications services are not subsidized by monopoly telecommunications services?

Position: At this time no services have been found competitive. However, pricing services above their long run incremental costs is the appropriate standard to assure no cross-subsidy.

Issue 30(d): Has the Commission prescribed an allocation methodology to ensure that competitive telecommunications services are not subsidized by monopoly telecommunications services? If so, has Southern Bell followed that prescribed allocation methodology?

Position: No. The Commission has not prescribed an allocation methodology.

Issue 30(e): Has the replacement of copper with fiber since the last depreciation study been accomplished in a cost-effective manner for adequate basic telephone service?

Position: Yes.

Quality of Service

Issue 31: Is Southern Bell's quality of service adequate?

Position: Yes.

Issue 31(a): Do Rules 25-4.070 & 25-4.110 require Southern Bell to provide a rebate for an out-of-service condition when the Company fails to notify, within 24 hours of the trouble report, that the trouble is located in the Customer Premises Equipment (CPE)?

Position: No. These rebate rules do not apply to CPE.

Policy and Pricing Issues

Billing Units

Issue 32: Are Southern Bell's test year billing units appropriate?

Position: Yes.

Issue 32(a): Have billing units for employee concessions been properly accounted for in MFR Schedule E-1a?

Position: Yes. Employee concessions have been accounted for in the billing units.

Proposed Optional Expanded Local Service (ELS) Plan

Issue 33(a): Is it appropriate to combine local measured usage with discounted intraLATA toll offerings?

Position: Yes. Southern Bell's expanded local calling plan is an optional plan that combines usage-based pricing for the basic (existing) local calling area with an expanded local calling area (ELCA) out to forty miles. This is not unlike other local plans that are in effect which combine usage based pricing for the basic local calling area with an expanded local calling area that is priced lower than existing intraLATA toll rates. One of the main reasons for the evolution of these plans is to relieve pressures for extended area service (EAS).

Issue 33(b): Should Southern Bell's proposed optional Expanded Local Service (ELS) plan be approved? If not, what alternative plan, if any, should be approved on intraLATA toll calls? Over what distance?

A. $0.25 Plan

B. $0.25 Plan for Residences; Businesses $0.10 first minute and $0.06 additional minutes

C. Other. Explain.

Position: Yes. Southern Bell's proposed optional ELS plan should be approved as filed.

Issue 33(c): Is Southern Bell's proposal to eliminate or grandfather various existing measured and message rate offerings appropriate?

Position: Yes.

Issue 33(d): If the Company's optional ELS plan or any other alternative is approved, should stimulation be taken into account? If so, how?

Position: Yes. Stimulation effects should be developed based on actual experience with similar plans that are in effect today combined with knowledge about the calling patterns and needs of Florida customers.

Issue 33(e): If the Commission approves an optional ELS or similar plan, what other action should the Commission take, if any (e.g., route-specific switched access charges, 1+ intraLATA presubscription)?

Position: The Commission should approve Southern Bell's optional ELS plan along with all other proposed rate changes included in Southern Bell's PRP filing. No other Commission action is required.

Toll/Access/Mobile Interconnection

Issue 34: Southern Bell has made proposals in the areas of switched access service rates, the interconnection usage rates for mobile service providers and toll services as shown below. Should Southern Bell's proposals be approved? Should there be any other changes in switched access, toll, or mobile interconnection usage rates (e.g., reduce intrastate switched access rates to interstate levels)?

A. To reduce switched access rates in the local transport element for both originating and terminating access from $.01600 to $.01328.

B. To reduce current mobile originating peak usage rate from $.03470 to $.03200.

C. To reduce the optional land-to-mobile intra-company usage charge from $.0597 to $.0572.

D. To reduce the optional land-to-mobile inter-company usage charge from $.1692 to $.1667.

E. To make no changes to its toll services rates.

Position: Yes. Southern Bell's proposals should be approved as filed. If switched access rates were reduced to interstate levels, any additional revenue losses would have to be made up from other sources.

Vertical Services

Issue 35(a): Should the Company's proposal to reduce Residential Call Waiting from $3.50 to $3.35 and the Residential Call Forwarding-Variable from $2.45 to $2.20 be approved?

Position: Yes.

Issue 35(b): The Company has made no proposal to change its current TouchTone charges. Is this appropriate?

Position: Yes.

Issue 35(c): Should customers be allowed to subscribe to Call Forward-Busy in lieu of rotary or hunting service?

Position: No. Call Forward-Busy and hunting were developed as separate services meeting distinctively different customer needs. Hunting was developed to handle as many as 2,000 lines while the technical limits on Call Forward-Busy is 5 lines.

Issue 35(d): What other changes, if any, should be made to services in the Miscellaneous Service Arrangements section of Southern Bell's tariff?

Position: None.

Issue 36: Should Southern Bell be required to provide billing and collection services for others on the same terms and conditions it provides those services to itself or to its affiliated companies?

Position: Southern Bell should not be required to offer billing and collection services except where it is determined that there is a market need for such billing and collecting services.

Service Connection Charges

Issue 37: Southern Bell has proposed to restructure and reduce its Service Connection Charges as shown below. What changes, if any, should be made to Service Connection Charges?

Current		Proposed	
Residential		Residential	
Primary Service Order	$25.00	Line Connection - First	$40.00
Secondary Service Order	$ 9.00	Line Connection - Add'l	$12.00
Access Line Connection Charge - C.O. Work	$19.50	Line Change - First	$24.00
Access Line Connection Charge - New Line	$31.50	Line Change - Add'l	$10.00
Number Change - per S.O.	$ 9.00	Secondary Service Charge	$ 9.00
Number Change - per No.	$11.50		
Business		Business	
Primary Service Order	$35.00	Line Connection - First	$60.00
Secondary Service Order	$12.00	Line Connection - Add'l	$13.00
Access Line Connection Charge - C.O. Work	$19.50	Line Change - First	$38.00
Access Line Connection Charge - New Line	$12.50	Line Change - Add'l	$11.00
Number Change - per S.O.	$12.50	Secondary Service Charge	$19.00
Number Change - per No.	$11.50		

Position: The restructure and changes to the rates for service connection charges should be approved as proposed by Southern Bell. These changes bring service connection charges more in line with costs and simplify the existing structure so that it will be easier for customers to understand.

Extended Area Service

Issue 38(a): Should the EAS additives on the Yulee/Jacksonville, Munson/Pensacola and Century/Pensacola routes be eliminated? If not, why not?

Position: The EAS additives on the Yulee/Jacksonville, Munson/Pensacola and Century/Pensacola routes should be eliminated as proposed by Southern Bell.

Issue 38(b): What alternative toll relief plan should be approved for the routes in Docket No. 911034-TL (between Fort Lauderdale and Miami; Fort Lauderdale and North Dade; and Hollywood and Miami)?

Position: Southern Bell's proposed ELS plan addresses those situations when the calling rates between two exchanges do not meet the Commission's criteria for non-optional, unlimited, two-way flat rate EAS. For that reason, Southern Bell believes that the ELS plan will provide appropriate toll relief for these routes.

Issue 38(c): Should the revenue losses resulting from combining the calling areas of North and South St. Lucie be offset in this proceeding (Docket Number 911011-TL), and if so, how?

<u>Position</u>: The revenue loss should be offset through the use of any unused Commission ordered customer credit amounts. If there is no unused credit amount, then the Commission should decide what changes should be made in Southern Bell's plan to dispose of the credit amount in order to include the losses resulting from the decision on Port St. Lucie.

<u>Issue 38(d)</u>: Should the OEAS and EOEAS plans in § A3.7 of the General Subscriber Service Tariff be eliminated or modified? If modified, how should this be accomplished?

<u>Position</u>: With the exception of the EOEAS premium option which should be continued, the OEAS plan and all other EOEAS options should be grandfathered.

<u>Issue 38(e)</u>: Should any of the "Local Exceptions" in § A3.8 be eliminated or modified? If modified, how should this be accomplished?

<u>Position</u>: Yes. Southern Bell proposes to delete or modify those "local exceptions" impacted by the proposed ELS plan or by the elimination of current EAS additives. These deletions and modifications should be accomplished in accordance with Schedule E-5 of the minimum filing requirements filed in this case.

Basic Local Exchange Rates

Issue 39(a): Southern Bell has proposed no change to its current rate group structure of 12 rate groups. Is this appropriate? If not, what changes should be made?

Position: It is not appropriate to make any changes to the rate group structure at this time.

Issue 39(b): Southern Bell has proposed to reduce the rates and modify the rate relationships between certain of its business access lines as shown below. It has proposed no other changes to business rate relationships? Is this appropriate? What changes, if any, should be made to business access line rate relationships?

Service	Reduction	Curr/Prop B-1 Ratio
Business Rotary (or hunting)	31%	.50/ .35
Residential PBX Trunks	22%	.84/ .66
Business PBX Trunks	24%	2.24/1.70
Network Access Registers	24%	2.24/1.70
NARs - Small, Medium, Large	42%	1.03/ .59

Position: Yes. Southern Bell's proposal brings flat PBX trunk rates closer to parity with line rates; disaggregates hunting service from all flat rate PBX trunks; reduces hunting charges; and adjusts the NAR rate to maintain its relationship with the PBX trunk rate. These changes are appropriate and should be approved as filed.

Issue 39(c): Aside from Network Access Registers, what changes, if any, should be made to Southern Bell's ESSX offerings?

Position: No additional changes are appropriate at this time.

Issue 39(d): Southern Bell has proposed to introduce a new rotary rate for both its ESSX NARs and for PBX trunks. These new elements would be priced identically within each rate group. The proposal rate is 35% of the B-1 rate. Should this proposal be approved?

Position: Yes.

Issue 39(e): The Company has made no other proposals to change its basic local exchange rates. Is this appropriate? If not, what changes should be made?

Position: Southern Bell's proposals are appropriate. No other changes should be made at this time.

Issue 39(f): Southern Bell has proposed to offer a lifeline rate to qualified subscribers composed of a federal credit of $3.50 and a matching credit from the state/Southern Bell. Should this proposal be approved, modified, or rejected?

Position: The lifeline offering proposed by Southern Bell should be approved as filed.

Issue 39(g): Southern Bell has proposed an Economic Development plan by which businesses which locate in "Enterprise Zones" as defined in the Florida Enterprise Zone Statute, would receive a waiver of service connection charges, and a 50% discount off their basic local service charges for one year. Should this proposal be approved?

Position: Yes.

Stimulation

Issue 40: Except for ELS, Southern Bell has proposed no stimulation or repression effects. Is this appropriate?

Position: In addition to the ELS plan, Southern Bell has included the impact of stimulation in the switched access priceout that reduces the transport rate from $.0160 to $.01328. However, this stimulation is contingent on the interexchange carriers flowing through the access reduction into their toll rates.

Miscellaneous Issues

Issue 41: Should the Company be required to identify, notify, and if appropriate, provide refunds to customers that are being billed for non-required Protective Connective Arrangement (PCA) devices?

Position: No. Southern Bell should not be required to take any action with regard to customers with PCA devices. Customers who currently have PCA devices should be responsible for notifying Southern Bell if they no longer have a need for such devices. Southern Bell has no means of determining when a customer needs a PCA device, or when a customer may cease to require such devices.

Issue 42: Should Southern Bell be required to itemize customer bills on a monthly basis?

Position: No. Southern Bell customers presently receive itemization of their normal monthly telephone bill on their first bill rendered anytime a change is made to the billing of their account and at least every 12 months. In addition, Southern Bell's customers in Florida will begin to receive itemization of their bills each month beginning in the first quarter of 1993.

Issue 42(a): Is Southern Bell complying with Rule 25-4.110 concerning customer billing?

Position: Yes.

Issue 43: Is Southern Bell able to reconcile billed revenue to booked revenue for 1991? If not, should any adjustment be made to recognize the inability to reconcile billed and booked revenue?

Position: Yes. As shown on Southern Bell's MFR Schedule E-7, the Company has reconciled billed revenue to booked revenue for 1991.

Issue 44: What other changes, if any, should be approved?

Position: If the proposals filed by Southern Bell are approved, no other changes will be necessary at this time.

Effective Date/Customer Notification/Bill Stuffers

Issue 45(a): What should be the effective date(s) of any rate changes approved in this docket

Position: The effective date for any rate change will depend upon the type of change that is ordered and to what degree the change differs from that proposed in Southern Bell's filing.

Simple rate changes should become effective two months following the final order. Changes to the rates that are associated with the proposed ELS plan should be effective upon implementation of the plan. It is anticipated that if the plan is approved as filed, implementation would occur six months after the order becomes final.

Issue 45(b): When should customers be notified of any rate changes and other Commission decisions in this docket?

Position: When rate changes are approved by the Commission, customers should be notified prior to implementation.

Issue 45(c): What information should be contained in the bill stuffers sent to customers?

Position: The bill insert should contain an explanation of the changes including a comparison of proposed and current rates where a concise and logical comparison can be made.

E. STIPULATIONS

There have been no stipulations entered into at this time.

F. PENDING MOTIONS FILED BY SOUTHERN BELL

The following motions are pending:

(1) Southern Bell has pending Requests for Confidential Classification which were filed on the following dates in 1992:

5/1, 7/9 (and Motion for Permanent Protective Order), 9/4 (and Motion for Permanent Protective Order), 9/14, 10/5, 10/5 (supplemental request), 10/14, 10/16, 10/20, 10/30, 11/5, 11/10, 11/16, 12/4, 12/9, and 12/10.

(2) Southern Bell has pending Motions for Protective Orders which were filed on the following dates in 1992:

8/24 (2), 9/28 (2), 10/28, and 11/23.

(3) Southern Bell has pending Motions for Temporary Protective Orders which were filed on the following dates in 1992:

5/27, 6/1, 6/12, 6/16, 6/22, 6/23, 6/29 (2), 7/23, 7/27, 8/19, 8/24 (3), 9/21, 10/5, 10/12 (2), 10/26 (2), 11/9, and 12/16.

(4) Southern Bell has a pending Motion to Strike Testimony filed on November 25, 1992.

(5) Southern Bell has a pending Motion to Quash Subpoenas filed on December 14, 1992.

Southern Bell knows of no requirements set forth in any prehearing order with which it cannot comply.

Respectfully submitted this 18th day of December, 1992.

SOUTHERN BELL TELEPHONE
AND TELEGRAPH COMPANY

Harris R. Anthony (DJ)

HARRIS R. ANTHONY
c/o Marshall M. Criser, III
400 - 150 South Monroe Street
Tallahassee, Florida 32302
(305) 530-5555

R. Douglas Lackey (DJ)

R. DOUGLAS LACKEY
SIDNEY J. WHITE, JR.
4300 - 675 W. Peachtree Street
Atlanta, Georgia 30375
(404) 529-5094