



DEPARTMENT OF THE ARMY  
 UNITED STATES ARMY LEGAL SERVICES AGENCY  
 901 NORTH STUART STREET  
 ARLINGTON, VA 22203-1837



REPLY TO  
 ATTENTION OF

February 8, 1993

Regulatory Law Office  
 U 3741

SUBJECT: Comprehensive review of the Revenue Requirements  
 and Rate Stabilization Plan of Southern Bell Telephone &  
 Telegraph Company, Docket No. ~~920350-11~~

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

Dear Mr. Tribble:

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

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

Sincerely,

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

- ACK \_\_\_\_\_
- AFA 2
- APP \_\_\_\_\_
- CAF 1 Encls
- CMR 2
- CRS \_\_\_\_\_
- ESC \_\_\_\_\_
- LES 1
- LES 6
- CF \_\_\_\_\_
- RF 1
- SD 1
- WAS \_\_\_\_\_
- GTH \_\_\_\_\_

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BEFORE THE  
PUBLIC SERVICE COMMISSION  
OF THE STATE OF FLORIDA

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

Docket No. 920260-TL

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

PETER Q. NYCE, JR.  
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For

THE DEPARTMENT OF DEFENSE  
And  
ALL OTHER FEDERAL EXECUTIVE AGENCIES

February 8, 1992

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FPSC-RECORDS/REPORTING

BEFORE THE  
PUBLIC SERVICE COMMISSION  
OF THE STATE OF FLORIDA

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

Docket No. 920260-TL

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

The Department of Defense ("DOD"), on behalf of all Federal Executive Agencies ("FEA") in the State of Florida, herewith supplements its Prehearing Statement of December 18, 1992. The purpose of this supplement is to state the positions of DOD/FEA on the issues set forth in Appendix "A" Commission's Additional Order on Prehearing Procedures of November 13, 1992. This supplemental statement provides the DOD/FEA position on all issues on which DOD/FEA at this time has taken a position.

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

DOD/FEA POSITION: The cost of Southern Bell's common equity capital is now lower than it was when the present Rate Stabilization Plan was initiated in 1988.

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

DOD/FEA POSITION: If Southern Bell's equity ratio has changed since 1988, it is inappropriate to apply the 1988 equity return as the basis of sharing, even if arguendo, there has been no change in the overall cost of capital.

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?

DOD/FEA POSITION: The weighted average cost of capital is lower now than it was in 1988 when the present rate stabilization plan was initiated.

ISSUE 26a: 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?

DOD/FEA POSITION: A productivity performance measure should be applied, whether through a productivity offset against inflation, as proposed by Southern Bell, or through some alternative measurement scheme.

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

DOD/FEA POSITION: The pros of Southern Bell's plan are that it allows for rate modification in response to inflation, it requires a productivity offset, and it allows for incentives in the form of

retained excess earnings when the Company can exceed the constraints of the price index. The cons are that the plan allows the Company too much freedom in modifying the rate structure, it does not recalibrate rates to the current cost of capital, it improperly treats certain exogenous factors, and it does not allow for an appropriate, Commission-approved rationalization of the rate structure.

ISSUE 28: Does SBT's proposed Price Regulation Plan meet the requirements of S. 364.036(2)(a)-(g) F.S.?

DOD/FEA POSITION: Southern Bell's Price Regulation Plan will meet the statutory requirements cited if, and only if, it is modified according to the recommendations of DOD/FEA with respect to Issue No. 29.

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

DOD/FEA POSITION: The Commission should determine the Company's current cost of capital and recalibrate the Company's rates to generate that cost of capital. Parallel with this recalibration should be a resetting of the sharing bands that were established when the initial incentive regulation plan was approved in 1988. The Commission should accept the Company's proposal for a price regulation index to govern the Company's overall revenue recovery, consisting of GNP price index less a productivity offset adjusted

for exogenous factors. The Commission may wish to consider a productivity offset slightly greater than the Company proposes, possibly 4.5 or 5.0 percent. Additionally, the exogenous factors should exclude depreciation rate adjustments and should include separations factors changes.

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

Finally, the Commission should reconsider the sharing bands whenever the yields on 10-year Treasury bonds vary by more than 150 basis points from their level at the time the sharing bands were last established.

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

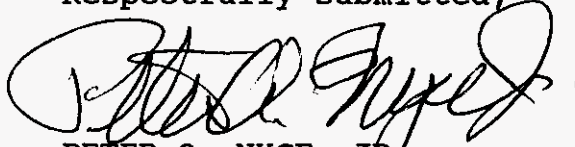
DOD/FEA POSITION: No. All services, regardless of the degree of competition should at least recover their incremental costs.

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?

DOD/FEA POSITION: Southern Bell's proposed restructure should be adopted.

DOD/FEA takes no position on any of the remaining issues at this time.

Respectfully submitted,



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General Attorney

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For

THE DEPARTMENT OF DEFENSE  
AND  
ALL OTHER FEDERAL EXECUTIVE AGENCIES

Dated this 8th day of February 1993

CERTIFICATE OF SERVICE  
Docket No. 920260-TL

I hereby certify that an original and 15 copies of the forgoing document have been sent to the Commission and all parties on the service list by First Class U.S. Mail on February 8, 1993.

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