SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY

UPDATED TESTIMONY OF WALTER S. REID

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 920260-TL

OCTOBER 1, 1993

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND POSITION WITH BELLSOUTH TELECOMMUNICATIONS, INC.

A. MY NAME IS WALTER S. REID, AND MY BUSINESS ADDRESS IS 675 WEST PEACHTREE STREET, ATLANTA, GEORGIA. MY POSITION IS DIRECTOR-REGULATORY MATTERS FOR THE COMPTROLLERS DEPARTMENT OF BELLSOUTH TELECOMMUNICATIONS, INC. D/B/A SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY (SOUTHERN BELL OR THE COMPANY).

Q. HAVE YOU FILED DIRECT TESTIMONY IN THIS DOCKET?

A. YES. I FILED DIRECT TESTIMONY REGARDING THE COMPANY'S HISTORICAL AND GOING LEVEL EARNINGS. I ALSO QUANTIFIED THE FINANCIAL IMPACT OF THE COMPANY'S PROPOSALS IN THIS PROCEEDING.

Q. WHAT IS THE PURPOSE OF YOUR UPDATED TESTIMONY?

A. THE PURPOSE OF MY UPDATED TESTIMONY IS TO PROVIDE ADDITIONAL INFORMATION CONCERNING THE COMPANY'S GOING LEVEL EARNINGS FOR USE IN THIS PROCEEDING. THIS FILING CONTAINS INFORMATION REGARDING NEW EVENTS AND CHANGES IN INFORMATION CONCERNING EXISTING SITUATIONS WHICH WAS NOT AVAILABLE AT THE TIME I FILED MY ORIGINAL TESTIMONY ON JULY 2, 1993. THE MOST NOTABLE CHANGES ARE THE FOLLOWING GOING LEVEL ADJUSTMENTS: 1) THE PASSAGE OF PRESIDENT CLINTON'S DEFICIT REDUCTION PLAN AND ITS' ASSOCIATED INCREASES IN TAX EXPENSE; 2) A REVISED CALCULATION OF HURRICANE ANDREW REPAIR COSTS; 3) A REVISED CALCULATION OF HURRICANE ANDREW EXTRAORDINARY RETIREMENTS AND A CHANGE IN THE COMPANY'S PROPOSAL TO RECORD A DEPRECIATION ENTRY IN 1994 INSTEAD OF 1993 FOR THIS ITEM; 4) ADDITIONAL DEBT REFINANCING UNDERTAKEN BY THE COMPANY SINCE THE JULY 2 FILING; 5) THE DECISION BY THE COMMISSION TO DELAY THE IMPLEMENTATION OF THE DADE/BROWARD 25 CENT PLAN AND TO INCORPORATE IT WITH THE DECISIONS TO BE MADE IN THIS PROCEEDING AND; 6) A REVISED ESTIMATE BY THE COMPANY OF THE

FINANCIAL IMPACT ASSOCIATED WITH THE ADOPTION OF STATEMENT OF FINANCIAL ACCOUNTING STANDARDS (SFAS) 112 AND A CHANGE IN THE COMPANY'S PLANS TO ADOPT SFAS 112 IN 1993 RATHER THAN 1994.

I AM ALSO REVISING CERTAIN ADJUSTMENTS IN ORDER TO CORRECT PREVIOUSLY FILED INFORMATION. IN THE PROCESS OF RESPONDING TO CERTAIN INTERROGATORIES, THE COMPANY DISCOVERED THAT IT HAD NOT USED THE FINAL ANALOG ESS DEPRECIATION SCHEDULE IN ITS DEPRECIATION EXPENSE CALCULATIONS. A CORRECTING ADJUSTMENT WILL BE MADE FOR THIS ITEM. IN ADDITION CERTAIN EXPENSES RELATED TO CORPORATE AIRCRAFT ARE BEING REMOVED THROUGH A CHANGE IN THE "OTHER REGULATORY ADJUSTMENT" PRO FORMA. A CORRECTION IS ALSO BEING MADE TO THE ABANDONED PROJECT PRO FORMA AND TO THE WESTERN ELECTRIC COMPANY (WECO) TAX ADJUSTMENT.

FINALLY, I WILL DISCUSS SOME SIGNIFICANT ACCOUNTING AND FINANCIAL ISSUES RELATED TO POTENTIAL COST AND GAIN RECOGNITIONS ASSOCIATED WITH THE COMPANY'S PLANNED FORCE REDUCTIONS. THESE ISSUES ARE CURRENTLY BEING STUDIED BY THE COMPANY BUT FIRM ESTIMATES FOR THE TIMING AND AMOUNTS OF THE

FINANCIAL IMPACTS ARE NOT YET AVAILABLE.

Q. MR. REID, DID YOU CONSIDER UPDATING THE TEST YEAR WITH ACTUAL RESULTS ACHIEVED FOR 1993 YEAR TO DATE?

A. YES. IN ORDER TO PREPARE FOR THIS UPDATED FILING, I REVIEWED SOUTHERN BELL-FLORIDA'S ACTUAL REVENUE AND EXPENSE RESULTS FOR JANUARY THROUGH JUNE 1993. THIS WAS THE MAXIMUM AMOUNT OF ACTUAL DATA AVAILABLE WHICH COULD POTENTIALLY BE USED TO MEET AN OCTOBER 1, 1993 FILING DATE. BASED ON MY REVIEW OF THIS ACTUAL DATA, I DETERMINED THAT EVEN THOUGH THE COMPANY HAS UNDERRUN ITS FORECASTED COMBINED REVENUES AND OVERRUN ITS COMBINED EXPENSES FOR THIS PERIOD, ITS INTRASTATE OPERATIONS FORECAST MISS IS EITHER SMALL IN THE CASE OF REVENUES, OR CAN BE SUBSTANTIALLY EXPLAINED IN THE CASE OF EXPENSES.

BASED ON THE KNOWLEDGE THAT THE TEST YEAR DATA FILED JULY 2, 1993 WAS ON TARGET WITH ACTUAL RESULTS AND WITH THE EXPECTATION THAT THE REMAINDER OF THE YEAR WILL REMAIN SUBSTANTIALLY ON TARGET THE COMPANY DECIDED THAT THERE WAS NO NEED TO UPDATE THE UNDERLYING TEST YEAR FORECAST DATA. THE COMPANY BELIEVES THAT THIS DECISION WILL FACILITATE

THE TIMELY CONCLUSION OF DISCOVERY IN THIS PROCEEDING SINCE A CONSIDERABLE NUMBER OF INTERROGATORIES AND PRODUCTION OF DOCUMENT REQUESTS HAVE ALREADY BEEN HANDLED RELATED TO THE ORIGINAL FILED DATA.

Q. HOW CLOSE WERE THE ACTUAL RESULTS FOR JANUARY THROUGH JUNE, 1993, TO THE FORECASTED AMOUNTS?

A. THE ACTUAL INTRASTATE REVENUE TOTAL FOR JANUARY THROUGH JUNE MISSED THE COMMITMENT VIEW BY ONLY $779,000. THE ACTUAL INTRASTATE OPERATING REVENUE TOTAL FOR THIS PERIOD WAS $1,196,611,000 AS COMPARED TO $1,195,832,000 FOR THE SAME PERIOD FROM THE COMMITMENT VIEW FORECAST.

ACTUAL INTRASTATE EXPENSE, EXCLUDING DEPRECIATION BUT INCLUDING TAXES OTHER THAN INCOME TAXES, EXCEEDED THE COMMITMENT VIEW FORECAST BY $10,548,000. THIS MISS, HOWEVER, WAS CAUSED PRIMARILY BY THE FACT THAT THE AMORTIZATION EXPENSE FOR HURRICANE ANDREW WAS FORECASTED AS AN ELEMENT OF DEPRECIATION AND AMORTIZATION EXPENSES, BUT ACTUALS ARE BEING RECORDED TO A CORPORATE OPERATIONS EXPENSE ACCOUNT. THIS EXPLANATION

ACCOUNTS FOR APPROXIMATELY $8,857,000 OF THE $10,548,000 OVERALL MISS. FOR THE FILING OF MINIMUM FILING REQUIREMENTS AND TESTIMONY IN THIS PROCEEDING ON JULY 2, 1993, THE COMPANY MOVED THE FORECASTED HURRICANE AMORTIZATION OUT OF THE DEPRECIATION ACCOUNTS AND INTO THE CORPORATE ACCOUNTS. THE FILING DATA, THEREFORE, IS CLOSER TO THE ACTUALS THAN THE COMMITMENT VIEW.

Q. WHAT SIGNIFICANCE DOES THE COMPANY'S FORECAST FOR 1993 HAVE IN THIS PROCEEDING?

A. IN THIS PROCEEDING, THE COMPANY HAS AGREED THAT THE COMMISSION'S FINAL DECISIONS REGARDING THE PARAMETERS OF THE REGULATION PLAN IT APPROVES FOR SOUTHERN BELL CAN BE APPLIED RETROACTIVELY TO JANUARY 1, 1993. THIS AGREEMENT WAS MADE WITH THE UNDERSTANDING THAT THE APPLICATION OF THE PARAMETERS WOULD BE MADE TO THE ACTUAL RESULTS ACHIEVED IN 1993 RATHER THAN THE FORECASTED AMOUNTS. THE SCHEDULE FOR HEARINGS IN THIS PROCEEDING CURRENTLY BEGINS ON JANUARY 24, 1994 AND CONTINUES FOR MOST OF THE MONTH OF FEBRUARY. THE COMMISSION WILL THEREFORE BE MAKING ITS' DECISIONS REGARDING THE ISSUES IN THIS CASE IN THE SPRING OF

1994.

THIS UPDATED FILING WILL NOT BE USED TO DETERMINE ANY REVENUES SUBJECT TO DISPOSITION FOR 1993, SINCE THAT DETERMINATION WILL BE BASED ON 1993 ACTUAL DATA. HOWEVER, THIS FILING SHOULD PROVIDE THE COMMISSION WITH A MORE CURRENT LOOK AT WHAT SOUTHERN BELL'S GOING LEVEL 1994 EARNINGS ARE EXPECTED TO BE.

Q. HAVE YOU PREPARED A FORM WHICH SUMMARIZES THE COMPANY'S GOING LEVEL EARNINGS AFTER THE UPDATED ADJUSTMENTS?

A. YES. UPDATED REID EXHIBIT NO. WSR-2, ATTACHED, PROVIDES THIS INFORMATION.

Q. HOW HAVE YOU ORGANIZED REID EXHIBIT NO. WSR-2 SO THAT THE CHANGES FROM YOUR ORIGINAL SCHEDULE CAN BE FOLLOWED THROUGH TO THE REVISED AMOUNTS?

A. ON REID EXHIBIT NO. WSR-2 PAGES 3 THROUGH 13, I HAVE INCLUDED THE REASON FOR THE CHANGE IN ANY PRO FORMA BELOW THE DESCRIPTION FOR THAT PRO FORMA. I HAVE ALSO SHOWN UNDER EACH REASON, THE INCREMENTAL

CHANGE IN THE PRO FORMA CAUSED BY THE REVISION. MANY OF THE CHANGES TO THE ADJUSTMENTS ARE SIMPLY AS A RESULT OF THE INCOME TAX RATE CHANGE FROM 34% TO 35%.

Q. WOULD YOU DESCRIBE YOUR ADJUSTMENT TO THE TEST YEAR FOR THE TAX INCREASES ASSOCIATED WITH PRESIDENT CLINTON'S DEFICIT REDUCTION PLAN?

A. YES. WITH THE PASSAGE OF THE ADMINISTRATION'S DEFICIT REDUCTION LEGISLATION THIS SUMMER, THERE WERE SEVERAL CHANGES MADE TO THE COUNTRY'S TAX STRUCTURE. THE MOST SIGNIFICANT CHANGE TO SOUTHERN BELL WAS THE INCREASE IN THE FEDERAL INCOME TAX RATE FOR BUSINESSES FROM THE PREVIOUS STATUTORY RATE OF 34% TO THE NEW RATE OF 35% EFFECTIVE RETROACTIVELY TO JANUARY 1, 1993. IN ORDER TO RECOGNIZE THIS CHANGE IN COST OF SERVICE FOR THE TEST YEAR, I SECURED A "PRICE OUT" FROM THE COMPANY'S TAX DEPARTMENT FOR THE INCREMENTAL CHANGE IN TAX EXPENSE RESULTING FROM THIS LEGISLATION. THIS "PRICE OUT" RECOGNIZES FOR THE LEVEL OF TAXABLE INCOME IN THE COMMITMENT VIEW, THE EFFECT OF THE TAX RATE CHANGE ON CURRENT TAX EXPENSE AS WELL AS THE EFFECT ON THE FLOW BACK OF TAXES

PREVIOUSLY DEFERRED. IT ALSO CALCULATES THE IMPACT FOR ANY SIGNIFICANT TAX CHANGES OTHER THAN THE TAX RATE CHANGE. THE INCLUSION OF THIS ADJUSTMENT IN THE PRO FORMED TEST YEAR RESULTS PROPERLY TREATS THE EARNINGS IMPACTS FOR THIS ISSUE RELATED TO THE BASE TEST YEAR DATA. IN ADDITION, THE INCOME TAX EFFECTS OF ALL THE OTHER PRO FORMA ADJUSTMENTS ARE CHANGED WITH THIS UPDATE TO RECOGNIZE THE NEW 35% FEDERAL INCOME TAX RATE.

Q. WHAT IS THE REASON FOR THE REVISION TO YOUR PREVIOUS ESTIMATE OF HURRICANE ANDREW REPAIR COSTS?

A. THE PRIMARY REASON FOR THE CHANGE TO MY ESTIMATE OF HURRICANE ANDREW REPAIR COST IS THE FACT THAT THE REPAIR WORK WAS STILL ONGOING AT THE TIME OF THE COMPANY'S JULY 2, 1993 FILING IN THIS PROCEEDING. APPROXIMATELY 328 EMPLOYEES WERE STILL ON LOAN TO THE SOUTH FLORIDA OPERATING UNITS FROM OTHER STATES AT THE TIME I WAS PREPARING THE FINANCIAL DATA FOR THE JULY 2, FILING. BY JULY 4, 1993, THESE EMPLOYEES HAD RETURNED TO THEIR HOME STATES AND FLORIDA EMPLOYEES ARE NOW HANDLING THE CONTINUED RESTORATION OF THE DAMAGED AREA. THE RETURN OF THESE EMPLOYEES TO THEIR HOME STATES WAS

ANTICIPATED IN MY PREVIOUS ESTIMATE, HOWEVER, NOT ALL OF THE ACTUAL EXPENSE RESULTS FOR MAY, JUNE AND JULY WERE AVAILABLE AT THAT TIME.

Q. WHY ARE YOU REVISING YOUR CALCULATION OF EXTRAORDINARY RETIREMENTS RESULTING FROM HURRICANE ANDREW DAMAGE?

A. IN ITS' TESTIMONY FILED ON JULY 2, 1993 THE COMPANY PROPOSED THAT THE COMMISSION AUTHORIZE IT TO MAKE A DEPRECIATION ENTRY IN 1993 TO RECOGNIZE THAT THE DEPRECIATION RESERVE HAD BEEN IMPACTED BY EXTRAORDINARY RETIREMENTS FORM HURRICANE ANDREW THAT WERE NOT CONSIDERED IN ITS' DEPRECIATION RATES. THIS REVISION IS TO ADJUST THE AMOUNT OF THE REQUESTED DEPRECIATION ENTRY TO RECOGNIZE ADDITIONAL ACTUAL REPORTED RETIREMENTS AND TO REQUEST THAT THE ENTRY BE MADE IN 1994 INSTEAD OF 1993.

IN 1994 THE COMPANY WILL HAVE REDUCED DEPRECIATION EXPENSE RESULTING FROM ITS' LAST REPRESCRIPTION ORDER AND THIS SPECIAL DEPRECIATION ENTRY CAN BE USED TO OFFSET THIS REDUCED DEPRECIATION LEVEL IN 1994.

Q. PLEASE EXPLAIN YOUR ADJUSTMENT FOR ADDITIONAL DEBT REFINANCING.

A. IN THE JULY 2 FILING, I IDENTIFIED THE FINANCIAL IMPACT OF SEVERAL DEBT REFINANCINGS WHICH HAD OCCURRED IN THE FIRST SIX MONTHS OF 1993 AND I PROPOSED AN AMORTIZATION METHOD WHICH WOULD MATCH THE REFINANCING COST WITH INTEREST SAVINGS FROM THESE REFINANCINGS. ON SEPTEMBER 23, 1993 THE COMPANY ISSUED $300 MILLION OF 6 1/8% 15 YEAR BONDS DUE SEPTEMBER 23, 2008 WHICH WILL BE USED TO REPLACE $300 MILLION OF 8% 40 YEAR EXISTING DEBENTURES DUE FEBRUARY 15, 2014. I AM, THEREFORE, REVISING MY ORIGINAL PRO FORMA TO INCORPORATE THE IMPACT OF THIS REFINANCING WITH THE PREVIOUS REFINANCINGS WHILE STILL MAINTAINING THE SAME PROPOSED AMORTIZATION METHODOLOGY.

Q. HOW HAVE YOU REVISED YOUR PRO FORMA FOR THE DADE/BROWARD 25 CENT PLAN OTHERWISE REFERRED TO AS THE ALTERNATIVE TOLL RELIEF PLAN?

A. IN ITS ORDER NO. PSC-93-1301-FOF-TL OF DOCKET NO. 911034-TL, ISSUED ON SEPTEMBER 8, 1993, THE

COMMISSION REVISED ITS PREVIOUSLY ORDERED ALTERNATIVE TOLL RELIEF FOR CERTAIN ROUTES IN DADE AND BROWARD COUNTIES. THE COMMISSION'S DECISION WAS TO CONSIDER THE ISSUES RELATED TO THIS TOLL RELIEF PLAN IN CONNECTION WITH THE PROCEEDINGS FOR DOCKET NO. 920260-TL IN EARLY 1994. DUE TO THE TIME THE COMPANY ANTICIPATES THAT IT WILL TAKE TO IMPLEMENT A PLAN OF THIS NATURE, IT IS UNLIKELY NOW THAT THE REVENUE REDUCTIONS WHICH WERE INCLUDED FOR THIS ISSUE IN MY JULY 2 TESTIMONY WILL BE EXPERIENCED IN 1994. IN RECOGNITION OF THIS FACT, I HAVE REVISED MY GOING LEVEL ADJUSTMENT FOR THIS ISSUE TO ZERO.

Q. WHY HAVE YOU REVISED YOUR ESTIMATE OF THE IMPLEMENTATION COST FOR SFAS 112?

A. THE AMOUNT WHICH I INCLUDED FOR SFAS 112 IN MY TESTIMONY FILED ON JULY 2, 1993 REPRESENTED THE BEST ESTIMATE FOR THIS ISSUE AT THAT TIME. SINCE THEN, THE COMPANY HAS CONTINUED TO GATHER INFORMATION AND TO WORK WITH ITS ACTUARY TO REFINE THE ESTIMATE. THIS UPDATE CHANGES THE ORIGINAL ESTIMATE FOR THE COST OF SFAS 112 TO REFLECT THE LATEST AVAILABLE INFORMATION.

IN ADDITION, THE COMPANY HAS DECIDED TO ADOPT THIS ACCOUNTING STANDARD IN 1993 RATHER THAN IN 1994. MY UPDATED TESTIMONY ADJUSTS THE COMPANY'S GOING LEVEL EARNINGS FOR THIS DECISION.

Q. HAS THE ANTICIPATED STATUS OF THE EXOGENOUS ISSUES AND OTHER BOX ITEMS WHICH YOU REPORTED ON EXHIBIT WSR-3, CHANGED DUE TO THE ADDITIONAL INFORMATION SECURED SINCE THE JULY 2, 1993 FILING?

A. YES. I HAVE PREPARED UPDATED REID EXHIBIT WSR-3, ATTACHED, TO PROVIDE THIS INFORMATION.

Q. HOW HAVE YOU ORGANIZED UPDATED REID EXHIBIT WSR-3 TO EXPLAIN THE CHANGES FROM THE ORIGINAL EXHIBIT?

A. ON UPDATED REID EXHIBIT WSR-3, PAGE 2 OF 2 I HAVE SHOWN AN EXPLANATION FOR EACH CHANGE WHICH I HAVE MADE TO AMOUNTS ON PAGE 1 OF THIS EXHIBIT. THE EXPLANATIONS ARE LISTED WITH THE SAME OUTLINE FORMAT AS USED ON PAGE 1. FOR EXAMPLE, THE EXPLANATION FOR THE CHANGE IN THE DADE/BROWARD $.25 PLAN IS REFERENCED ON PAGE 2 UNDER THE CODE II A.

Q. BASED ON THE UPDATED REPORT OF EXTERNAL FACTOR IMPACTS YOU HAVE PROVIDED WITH YOUR EXHIBIT WSR-3, WHAT DOES THIS INDICATE REGARDING THE COMPANY'S EARNINGS IN 1992, 1993 AND 1994?

A. THE CALCULATION OF THE NET IMPACT OF EXTERNAL FACTORS ON THE COMPANY'S EARNINGS, AS SHOWN ON UPDATED WSR-3, CONTINUES TO INDICATE THAT THE LEVEL OF EARNINGS WHICH THE COMPANY ACHIEVED FOR 1992 AND WILL ACHIEVE IN 1993 AND 1994 ARE OR WILL BE DUE TO THE COMPANY'S OWN EFFORTS AND NOT DUE TO EXTERNAL FACTORS. THE MAJOR EXTERNAL FACTOR CHANGES WHICH HAVE OCCURRED SINCE THE FILING ON JULY 2, 1993 ARE PRIMARILY RELATED TO COST INCREASES TO THE COMPANY. THE MOST SIGNIFICANT CHANGE IS OF COURSE THE INCREASE IN THE FEDERAL INCOME TAX RATE FROM 34% TO 35% EFFECTIVE JANUARY 1, 1993. DUE TO THIS TAX INCREASE, THERE ARE NO AMOUNTS FROM EXTERNAL FACTORS REMAINING IN 1993 FOR USE IN ESTABLISHING A RESERVE FOR CATASTROPHIC LOSSES. FOR THIS REASON, I REDUCED THE AMOUNT FOR THIS ITEM TO ZERO FOR 1993. THE COMPANY'S PROPOSAL TO ESTABLISH THE CASUALTY RESERVE BEGINNING IN 1994 DOES NOT CHANGE EVEN THOUGH THE AMOUNTS FROM EXTERNAL FACTORS DOES NOT COVER THE AMOUNT FOR THE PROPOSED ACCRUAL.

Q. PLEASE EXPLAIN THE NATURE OF THE POTENTIAL ACCOUNTING AND FINANCIAL ISSUES WHICH YOU INDICATED ARE ASSOCIATED WITH THE COMPANY'S PLANNED FORCE REDUCTIONS.

A. IN NOVEMBER, 1992, THE COMPANY ANNOUNCED THAT IT INTENDED TO REDUCE THE SIZE OF ITS WORKFORCE BY 1996. WHILE THE COMPANY DID NOT HAVE THE SPECIFIC PLANS IN PLACE TO ACCOMPLISH THIS REDUCTION, IT INDICATED THAT IT EXPECTED THE REDUCTION COULD BE IN THE RANGE OF 8,000 EMPLOYEES. DURING 1993, THE COMPANY HAS BEEN MOVING FORWARD WITH ITS PLANS BY INITIATING VARIOUS RE-ENGINEERING STUDIES OF ITS WORK PROCESSES. THESE STUDIES, SUCH AS THE ONE FOR THE COMPTROLLERS OPERATIONS ENTITLED "COMPTROLLERS OPTIMIZING RESOURCE EFFECTIVENESS" (CORE), REPRESENT A MAJOR EFFORT ON THE PART OF THE COMPANY TO IMPROVE THE EFFICIENCY OF ITS OPERATIONS AND THUS PARE DOWN THE COST OF PROVIDING SERVICE.

THE FACT THAT THE COMPANY IS REDUCING THE SIZE OF ITS WORKFORCE AND CUTTING ITS COST OF SERVICE IS NOT A NEW ISSUE, AND IN FACT IS ALREADY RECOGNIZED IN THE PRO FORMED TEST YEAR RESULTS THROUGH THE

ATTRITION ADJUSTMENT. THE ATTRITION ADJUSTMENT REFLECTS FORCE REDUCTIONS AND COST SAVINGS BECAUSE THE PERIOD ON WHICH THE STUDY IS BASED, 1989 THROUGH 1992, WAS A PERIOD OF DECLINING FORCE AND COST. HOWEVER, THERE ARE REGULATORY ISSUES WHICH ARISE DUE TO THE TIMING OF COST RECOGNITION AND POTENTIAL SAVINGS ASSOCIATED WITH THE COMPANY'S CURRENT PLANS. THERE IS A GOOD DEAL OF UNCERTAINTY ASSOCIATED WITH THE MAGNITUDE OF THE COSTS WHICH THE COMPANY WILL HAVE TO RECORD TO ACCOMPLISH ITS FORCE REDUCTIONS AND WITH THE IMPACT THAT THESE REDUCTIONS WILL HAVE ON THE COMPANY'S PENSION AND OTHER POST EMPLOYMENT BENEFIT (OPEB) COSTS.

IT IS CERTAIN THAT THE COMPANY WILL BE REQUIRED TO INCUR SIGNIFICANT ONE TIME COSTS IN ORDER TO EFFECTUATE THE ANTICIPATED FORCE REDUCTIONS WHICH WILL PRODUCE FUTURE COST REDUCTIONS. THESE COSTS MUST BE APPROPRIATELY CONSIDERED IN THE DETERMINATION OF THE COMPANY'S EARNINGS FOR REGULATORY ASSESSMENT.

Q. CAN YOU ELABORATE ON THE REGULATORY ISSUES THAT ARISE DUE TO THE TIMING OF COST RECOGNITION AND POTENTIAL SAVINGS?

A. YES. IF THE REGULATORY PLAN WHICH THE COMMISSION AUTHORIZED FOR SOUTHERN BELL IN DOCKET NO. 880069-TL WERE CONTINUED, AS THE COMPANY PROPOSES, THE INCENTIVE WOULD EXIST FOR THE COMPANY TO INCUR FORCE REDUCTION COSTS SINCE THE OPPORTUNITY TO SHARE IN THE COST SAVINGS WOULD BE PRESENT. THE COMPANY WOULD RECOVER ITS INCURRED COSTS AND BENEFIT FROM ITS OWN INITIATIVES THROUGH IMPROVED EARNINGS OPPORTUNITIES IN THE FUTURE. HOWEVER, IF THE COMMISSION RESETS RATES IN THIS PROCEEDING TO CAPTURE ALL OF THE SAVINGS WHICH SOUTHERN BELL HAS BEEN ABLE TO ACHIEVE THROUGH ITS OWN EFFORTS UNDER THE PLAN AND TO CAPTURE FUTURE SAVINGS WHICH THE COMPANY IS ONLY ANTICIPATING AT THIS TIME, IT WILL BE PENALIZING THE COMPANY FOR ITS COST CONTROL EFFORTS RATHER THAN REWARDING IT. UNDER THIS SCENARIO THE COMPANY AND ITS STOCKHOLDERS WOULD BE FORCED TO BEAR THE COST OF EMPLOYEE DOWNSIZING WITHOUT EVEN THE OPPORTUNITY TO BENEFIT FROM INCREASED EFFICIENCY.

Q. PLEASE EXPLAIN THE UNCERTAINTY WHICH EXISTS RELATED TO THE COMPANY'S FORCE REDUCTION PLANS.

A. OVER THE LAST FEW YEARS, THE COMPANY HAS BEEN ABLE TO ACHIEVE FORCE REDUCTIONS THROUGH ATTRITION IN THE WORKFORCE AND THROUGH VOLUNTARY EARLY RETIREMENT OFFERS. AT THIS TIME THE OPPORTUNITIES FOR FURTHER VOLUNTARY REDUCTIONS IS LIMITED DUE TO THE FACT THAT SO MANY OF THOSE WHO WERE RETIREMENT ELIGIBLE HAVE ALREADY LEFT THE COMPANY UNDER PREVIOUS OFFERS. THE AGE AND SERVICE PERIOD FOR THOSE LEAVING THE PAYROLL IN THE FUTURE WILL BE MUCH LESS PREDICTABLE AND THE RELATED IMPACT ON THE COMPANY'S PENSION AND OPEB COST LESS CERTAIN. IN ADDITION THE TIMING OF WHEN THE COMPANY WILL RECORD ANY LIABILITIES ASSOCIATED WITH ITS ANTICIPATED FORCE REDUCTIONS IS UNCERTAIN AT THIS TIME. THE ACCOUNTING GUIDANCE ON THE TIMING ISSUE DEPENDS ON WHETHER MANAGEMENT BELIEVES IT CAN ACCOMPLISH ITS INTENDED REDUCTIONS THROUGH CONTINUED ATTRITION AND FUTURE VOLUNTARY PROGRAMS OR IF IT BELIEVES THAT IT WILL HAVE TO RESORT TO INVOLUNTARY MEASURES. IF MANAGEMENT BELIEVES THAT IT WILL HAVE TO INSTITUTE INVOLUNTARY MEASURES, A RESTRUCTURE CHARGE MAY HAVE TO BE RECORDED AT THE TIME THIS DECISION IS MADE.

ADDITIONAL UNCERTAINTY EXISTS RELATED TO PENSION AND OPEB COSTS DUE TO THE FACT THAT THE COMPANY AND

IT ACTUARY ARE CURRENTLY STUDYING THE ASSUMPTIONS UNDERLYING THE EXPENSE CALCULATIONS AND THE ALLOCATION METHODOLOGIES FOR THESE PLANS. NO SPECIFIC CHANGES IN ASSUMPTIONS HAVE BEEN MADE, HOWEVER, THERE MAY BE SOME CHANGE AS A RESULT OF THE ANALYSIS CURRENTLY ONGOING. THIS ANALYSIS IS ALSO TRYING TO DETERMINE THE EFFECT OF THE POTENTIAL FORCE REDUCTIONS ON THESE PLANS.

Q. HOW DOES THE COMPANY PROPOSE THE COMMISSION SHOULD DEAL WITH THE UNCERTAINTY ASSOCIATED WITH ITS EMPLOYEE COSTS?

A. THE COMPANY BELIEVES THAT THE CONTINUATION OF ITS CURRENT REGULATORY PLAN WITH NO RATE RESETTING WILL BE IN THE BEST INTEREST OF THE COMPANY AND ITS CUSTOMERS. THE COMPANY WILL HAVE THE OPPORTUNITY TO RECOVER COSTS NECESSARY TO ACHIEVE PRODUCTIVITY GAINS AND THE CUSTOMER WILL SHARE IN THE COST SAVINGS RESULTING FROM THESE GAINS.

IF THE COMMISSION, HOWEVER, INSISTS ON RESETTING RATES, IT SHOULD ASSURE THE COMPANY OF AT LEAST THE EXTRAORDINARY COSTS WHICH WILL BE INCURRED TO ACHIEVE THE SAVINGS. THIS COULD BE ACCOMPLISHED BY

IDENTIFYING THESE COSTS AS THEY BECOME MORE CERTAIN AND DEFERRING THE RECOGNITION OF THEM FOR RATEMAKING PURPOSES.

Q. PLEASE SUMMARIZE YOUR CALCULATIONS OF ADJUSTED INTRASTATE RATE BASE AND INTRASTATE NET OPERATING INCOME.

A. AS SHOWN ON EXHIBIT WSR-2, PAGE 1, I BEGAN WITH THE COMPANY'S AVERAGE 1993 FORECASTED INTRASTATE RATE BASE OF $4,150,119,000 AND INTRASTATE NET OPERATING INCOME OF $389,166,000. I THEN ADJUSTED THESE AMOUNTS FOR THE SPECIFIC ITEMS LISTED TO DERIVE ON PAGE 2 AN ADJUSTED INTRASTATE RATE BASE OF $4,045,430,000 AND ADJUSTED INTRASTATE NET OPERATING INCOME OF $366,767,000. THE COMPANY'S RESULTING RETURN ON RATE BASE IS, THEREFORE 9.07% WHICH EQUATES TO A 13.43% RETURN ON EQUITY.

Q. MR. REID, DOES THIS COMPLETE YOUR TESTIMONY?

A. YES, IT DOES.

Adjusted Intrastate Results
Southern Bell
Intrastate Rate Base and Net Operating Income Adjustments
($000)

FPSC EXHIBIT NUMBER ________
FPSC DOCKET 920260-TL
REID EXHIBIT WSR-2 (Revised 10/1/93)
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Line No.	Entry No.	Description	Rate Base Amounts	Operations Effect: Revenues	Operations Effect: Depreciation & Amort.	Operations Effect: Other Expenses & Taxes	Operations Effect: Income Taxes	Operations Effect: Net Operating Income	NOI Effect of Rate Base Adj.	Total NOI Effect	Incr/(Decr) Revenue Requirements
1		1993 Forecast	4,150,119	2,417,939	531,178	1,366,481	131,114	389,166			
2											
3	1	Implementation of SFAS 112	(22,698)	0	0	0	0	0	2,109	2,109	(3,540)
4											
5	2	Impact of 1993 Bond Refinancings	0	0	0	9,247	(3,567)	(5,680)	0	(5,680)	9,536
6											
7	3	Hurricane Expense True-up	32,955	0	0	7,842	(3,025)	(4,817)	(3,062)	(7,879)	13,228
8											
9	4	Capital Recovery Changes:									
10		Expiring Amortizations – 1994	6,476	0	(12,951)	0	4,579	8,372	(602)	7,770	(13,045)
11											
12	5	Company Proposal:									
13		Expanded Local Service Plan	0	0	0	937	(362)	(575)	0	(575)	965
14		Message Rate Restructure	0	1,361		19	518	824	0	824	(1,384)
15		Hunting Service to FX Subscribers	0	174		2	66	105	0	105	(177)
16		Switched Access	0	(4,912)		(67)	(1,869)	(2,976)	0	(2,976)	4,995
17											
18	6	Dade/Broward County $.25 Plan		0		0	0	0	0	0	0
19											
20	7	Attrition	(110,452)	959	4,175	(10,729)	4,000	3,513	10,261	13,774	(23,124)
21											
22	8	Casualty Damage Reserve Accrual	(3,000)	0	0	6,000	(2,315)	(3,685)	279	(3,406)	5,718
23											
24	9	Extraordinary Retirements Expense	(9,926)	0	19,852	0	(7,658)	(12,194)	922	(11,272)	18,923
25											
29	10	Bellcore Investment & Dividend	5,144	792		0	89	703	(478)	225	(379)
30											
31	11	Excess Plug Ins	(16,604)	0	0	0	0	0	1,543	1,543	(2,589)
32											
33	12	WECO Tax Credits	13,416	0	0	0	0	0	(1,246)	(1,246)	2,092
34											
35	13	Out-of-Period Revenue	0	1,475	0	20	561	894	0	894	(1,502)
36											
37	14	Yellow Page Profits	0				0	0	0	0	0
38											
39	15	Gains on Sale	0	(73)		(1)	(28)	(44)	0	(44)	74
40											
41	16	Income Related to Temporary Cash									
42		Investments	0	0	0	0	0	0	0	0	0

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($000)

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REID EXHIBIT WSR-2 (Revised 10/1/93)

Line No.	Entry No.	Description	Rate Base Amounts	Operations Effect: Revenues	Depreciation & Amort.	Expenses & Other Taxes	Income Taxes	Net Operating Income	NOI Effect of Rate Base Adj.	Total NOI Effect	Incr/(Decr) Revenue Requirements
43	17	Interest Reconciliation & AFUDC Debt	0				4,883	(4,883)	0	(4,883)	8,198
44											
45	18	Interest Imputation	0				(1,098)	1,098	0	1,098	(1,843)
46											
47	19	Lobbying Expense	0	0	0	(459)	177	282	0	282	(473)
48											
49	20	Corporate Advertising Expense	0	0	0	(53)	21	32	0	32	(53)
50											
51	21	Abandoned Projects	0	0	0	282	(109)	(173)	0	(173)	291
52											
53	22	Casualty Expense	0	0	0	(74)	28	46	0	46	(78)
54											
55	23	Other Regulatory Adjustments	0	0	0	(2,702)	1,043	1,659	0	1,659	(2,785)
56											
57	24	Impact of 1992 Bond Refinancings	0	0	0	176	(68)	(108)	0	(108)	181
58											
59	25	Income Tax Changes					4,792	(4,792)	0	(4,792)	8,045
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81		Total Adjustments	(104,689)	(224)	11,076	10,440	659	(22,399)	9,726	(12,673)	21,276
82											
83		Adjusted Total	4,045,430	2,417,715	542,254	1,376,921	131,773	366,767	9,726	(12,673)	21,276
84											

Southern Bell
Intrastate Rate Base and Net Operating Income Adjustments

1. Implementation of SFAS 112:
The accounting pronouncement SFAS 112, "Employers' Accounting for Post Employment Benefits" requires accrual accounting for certain postemployment benefits that are not covered under SFAS 106, "Employers' Accounting for Postretirement Benefits other than Pensions". This adjustment reflects the Company proposal to expense the impact of initial adoption of SFAS 112 in 1993 business. The Company originally proposed the adoption of SFAS 112 in 1994 business, but has recently decided to adopt early for 1993 business. The changes below reflect: 1) removal of the expense for SFAS 112 from going level 1994 earnings since it will be booked in 1993; and 2) the effects of the new federal income tax rate.

Impact of Revisions (000)

NOI - Tax Rate Change	0
NOI - Other	9,281
NOI - Total	9,281
Rate Base	(15,258)
Revenue Requirements	(17,742)

2. Impact of 1993 Bond Refinancings:
This adjustment amortizes the cost of 1993 bond refinancings at the same rate that interest savings are accruing to the Company. For 1993, the proforma adjustment to include the interest savings net of bond costs nets to zero. The adjustment of $9.2 million reflects the additional bond cost for 1994; the corresponding interest savings is included in the going level cost rates in the capital structure. The change below is due to the addition of another refinancing of $300 million as explained in the updated testimony and to the effects of the new federal income tax rate.

Impact of Revisions (000)

NOI - Tax Rate Change	87
NOI - Other	(917)
NOI - Total	(830)
Rate Base	0
Revenue Requirements	1,517

3. Hurricane Expense True-up:
This adjustment restates the Hurricane Andrew expense amortization for the latest estimate of the impact of the storm. The primary impacts are an increase in the deferred costs associated with the storm and an increase in the related amortization expense from these deferrals. The change below is due to the availability of more actual data regarding the Hurricane damage and to the effects of the new federal income tax rate.

Impact of Revisions (000)

NOI - Tax Rate Change	74
NOI - Other	(624)
NOI - Total	(550)
Rate Base	3,504
Revenue Requirements	1,650

4. Capital Recovery Changes:
This adjustment quantifies the impacts of amortizations which are scheduled to expire in 1994. The adjustment reduces going level expense by the difference between 1993 and 1994 amortizations. The change below is due to a correction in the analog ESS amortization schedule and to the effects of the new federal income tax rate.

Impact of Revisions (000)

NOI - Tax Rate Change	269
NOI - Other	(2,931)
NOI - Total	(2,662)
Rate Base	(2,349)
Revenue Requirements	3,843

5. Company Proposal:

This adjustment adjusts test period revenues and expenses for the tariff changes that Southern Bell is proposing in this proceeding. The specific changes included are 1) Expanded Local Service Plan; 2) Switched Access rate reduction; 3) Message Rate Restructure; and 4) Hunting on FX. A description of these changes is included in Company Witness Nancy Sims' testimony. The change below relates to the effects of the new federal income tax rate.

Impact of Revisions (000)

NOI - Tax Rate Change	39
NOI - Other	0
NOI - Total	39
Rate Base	0
Revenue Requirements	(1)

6. Alternative Toll Relief Plan:
In its Order No. PSC-93-0842-FOF-TL of Docket No. 911034-TL, the Commission ordered that the Company should implement an alternative toll relief plan for certain routes in Dade and Broward Counties. This adjustment evaluates the revenue decrease resulting from this Commission Order and appropriately reduces the test year going level revenue amounts in anticipation of implementation of the Order. The changes below are due to the decision by the Commission to consider this issue in the hearings to be held for Docket No. 920260-TL in early 1994.

Impact of Revisions (000)

NOI - Tax Rate Change	0
NOI - Other	6,333
NOI - Total	6,333
Rate Base	0
Revenue Requirements	(10,470)

7. Attrition:
This adjustment reflects the results of a study performed by Company Witness John McClellan related to the earnings trend of the Company. Mr. McClellan's study determines the expected revenue requirement improvement for the Company in 1994 relative to 1993 results. The changes below relate to the effects of the new federal income tax rate.

Impact of Revisions (000)

NOI - Tax Rate Change	(98)
NOI - Other	0
NOI - Total	(98)
Rate Base	0
Revenue Requirements	(189)

8. Casualty Damage Reserve Accrual:
This adjustment reflects the Company proposal to accrue $6 million of expense per year beginning in 1994 to a reserve for casualty damages. The reserve balance is included in rate base as part of cash working capital. The changes below relate to the effects of the new federal income tax rate.

Impact of Revisions (000)

NOI - Tax Rate Change	57
NOI - Other	0
NOI - Total	57
Rate Base	0
Revenue Requirements	(8)

9. Extraordinary Retirements Expense:
This adjustment recognizes the rate base impact of expensing the undepreciated value of plant which was retired as a result of Hurricane Andrew damage. The Company is proposing to expense this amount in 1994. The changes in this adjustment are due to: 1) the amount has been revised for more actual data; 2) the Company is proposing to expense this item in 1994 now, rather than in 1993; and 3) the new federal income tax rate.

Impact of Revisions (000)

NOI - Tax Rate Change	188
NOI - Other	(12,382)
NOI - Total	(12,194)
Rate Base	8,772
Revenue Requirements	21,795

10. Bellcore Investment & Dividend:
An adjustment to include Florida's share of the Bellcore dividend in income and Bellcore investment in rate base was previously included in the BellSouth Services, Inc. adjustments on the Company's Surveillance Reports. Since the corporate reorganization effective January 1, 1992, Bellcore stock is owned directly by BellSouth Telecommunications, Inc. Therefore, for 1992 and forward, a specific adjustment for the Bellcore dividend and investment is required. The changes below are due to the effects of the new federal income tax rate.

<u>Impact of Revisions (000)</u>

NOI - Tax Rate Change	(2)
NOI - Other	0
NOI - Total	(2)
Rate Base	0
Revenue Requirements	(4)

11. <u>Excess Plug-In Units</u>:
This adjustment reduces rate base for the excess inventory of plug-in units over a 30-days supply on hand. Although NOI and rate base did not change, the revenue requirement impact changed due to the effects of the new federal income tax rate.

<u>Impact of Revisions (000)</u>

NOI - Tax Rate Change	0
NOI - Other	0
NOI - Total	0
Rate Base	0
Revenue Requirements	(39)

12. <u>WECO Tax Credits</u>:
Per Docket No. 820376-TP, Rule No. 25-14.010, the Florida Commission requires deferred taxes on intercompany transactions to be treated as zero cost capital instead of as a rate base reduction. To comply, this adjustment: (a) restores the original surviving Western Electric Company (WECO) taxes to plant accounts, (b) establishes a deferred tax account balance representing the unamortized WECO tax, and (c) adjusts the depreciation reserve by the cumulative WECO tax restoral. The changes below are due to: 1) a revision in the calculation of the surviving WE deferred taxes resulting from a more accurate methodology; and 2) the effects of the new federal income tax rate.

<u>Impact of Revisions (000)</u>

NOI - Tax Rate Change	0
NOI - Other	0
NOI - Total	0
Rate Base	(6,701)
Revenue Requirements	(998)

13. Out-of-Period Revenue and Settlements (Independent Company):
This adjustment is made to exclude revenue and settlement amounts with independent companies budgeted for the test year that are applicable to prior periods. The changes below are due to the effects of the new federal income tax rate.

Impact of Revisions (000)

NOI - Tax Rate Change	(13)
NOI - Other	0
NOI - Total	(13)
Rate Base	0
Revenue Requirements	(2)

14. Yellow Page Profits:
Per FPSC Rule No. 25-4.0405, a computation is made to determine whether any directory advertising revenues are required to be excluded from regulated income. Because 1993 gross profits are projected to be less than the 1982 adjusted amount, no adjustment is required.

15. Net Gains on Sale of Property:
In Docket No. 820294, Order No. 12221, the Florida Commission (FPSC) ruled that the net gain on sales of property upon disposition should be recorded above the line for rate making purposes. The FPSC determined that a five year average was appropriate to smooth out the erratic nature of these sales. This adjustment is made to comply with the FPSC order. The changes below are due to the effect of the new federal income tax rate.

Impact of Revisions (000)

NOI - Tax Rate Change	1
NOI - Other	0
NOI - Total	1
Rate Base	0
Revenue Requirements	0

16. Income Related to Temporary Cash Investments:
This adjustment is in compliance with Docket No. 820294, Order No. 12221, in which the FPSC ruled that interest income related to temporary cash investments should be moved above the line for rate purposes.

17. Interest Reconciliation & AFUDC Debt:
This adjustment is made to reconcile booked interest to the interest calculated on the debt components of capital structure. The adjustment is for the tax effect of the difference in the interest amounts. The changes below are due to: 1) the changes in debt cost and the debt amounts supporting rate base resulting from additional refinancing and other changes to rate base and capital structure; and 2) the effect of the new federal income tax rate.

Impact of Revisions (000)

NOI - Tax Rate Change	(120)
NOI - Other	(191)
NOI - Total	(311)
Rate Base	0
Revenue Requirements	639

18. Interest Imputation:
This adjustment imputes a hypothetical interest amount and resulting tax savings to the investment credit component of capital structure. The unamortized investment tax credit component is multiplied by the weighted cost of long term debt to determine the interest portion and then the appropriate tax factors are applied to determine the tax impact. This adjustment is in accordance with prior Commission treatment for this issue. The changes below are due to: 1) changes in the long-term debt cost and rate base amounts; and 2) the effect of the new federal income tax rate.

Impact of Revisions (000)

NOI - Tax Rate Change	27
NOI - Other	(2)
NOI - Total	25
Rate Base	0
Revenue Requirements	(69)

19. Lobbying Expense:

In several orders (No. 7926, No. 10449, and No. 12221) the FPSC has disallowed lobbying expense for rate making purposes. Lobbying expense incurred by Florida employees, or allocated to Florida from Southern Bell Headquarters is booked below the line to Account 7370 to the extent it meets the Part 32 Uniform System of Accounts definition of lobbying. However, to meet the more stringent FPSC disallowances, this adjustment is made to move additional amounts out of regulated expense for state purposes. In addition, the Florida intrastate portion of lobbying or legislative liaison expenses included in billings from BellSouth Corporation, BellSouth Communications, Inc. or Bellcore are removed from regulated expenses as part of adjustment No. 23. The changes below are due to the effect of the new federal income tax rate.

Impact of Revisions (000)

NOI - Tax Rate Change	(5)
NOI - Other	0
NOI - Total	(5)
Rate Base	0
Revenue Requirements	2

20. Corporate Advertising Expense:

This adjustment removes corporate advertising expenses incurred by Southern Bell from regulated expense per FPSC rulings in Docket No. 820294-TP. In addition, corporate advertising expense included in billings from BellSouth Corporation, BellSouth Communications, Inc. or Bellcore are removed from regulated expense as part of adjustment No. 23. The changes below are due to the effect of the new federal income tax rate.

Impact of Revisions (000)

NOI - Tax Rate Change	(1)
NOI - Other	0
NOI - Total	(1)
Rate Base	0
Revenue Requirements	2

21. Abandoned Projects:
Abandoned projects in Docket No. 820294-TP and Docket No. 880069-TL were treated as an allowable expense for rate purposes. The purpose of this adjustment is to move expenses recorded below the line into regulated expense for rate purposes. The changes below are due to: 1) a correction in the amount of forecasted abandoned projects expense; and 2) the effects of the new federal income tax rate.

Impact of Revisions (000)

NOI - Tax Rate Change	(94)
NOI - Other	255
NOI - Total	161
Rate Base	0
Revenue Requirements	(261)

22. Casualty Expense:
This adjustment is made in accordance with prior Commission treatment to average the impact of casualty expenses. The adjustment amount is the difference between the five year average and the expense estimated to be incurred in the twelve month period for 1993. As explained in testimony, Hurricane Andrew expense is being amortized on the books over 5 years; therefore, this casualty expense adjustment does not include Hurricane Andrew expense. Although NOI and rate base did not change, revenue requirements changed due to the effects of the new federal income tax rate.

Impact of Revisions (000)

NOI - Tax Rate Change	0
NOI - Other	0
NOI - Total	0
Rate Base	0
Revenue Requirements	(2)

23. Other Regulatory Adjustments:
The purpose of this adjustment is to remove from regulated expense certain costs included in billings from BellSouth Corporation, BellSouth Communications, Inc. and Bellcore. The items being removed are not separately billed by these affiliates, but rather are included in overheads.

Adjustments are made for the Florida intrastate portion of contributions, social and service membership dues, BellSouth Classic expense, Olympics expense, lobbying/legislative liaison expenses, and corporate advertising. The changes below are due to: 1) the removal of certain aircraft expenses by the Company; and 2) the effects of the new federal income tax rate.

Impact of Revisions (000)

NOI - Tax Rate Change	(36)
NOI - Other	26
NOI - Total	(10)
Rate Base	0
Revenue Requirements	(26)

24. Impact of 1992 Bond Refinancings:
This item reflects the impact of the Company's refinancing of bonds in June and July, 1992. The adjustment amount is an increase in expense equal to the portion of these refinancing costs which are being amortized over the 40 year life of the new bond issues as prescribed by Order No. PSC-92-1412-FOF-TL, dated December 7, 1992. The changes below are due to the effect of the new federal income tax rate.

Impact of Revisions (000)

NOI - Tax Rate Change	1
NOI - Other	0
NOI - Total	1
Rate Base	0
Revenue Requirements	1

25. Income Tax Changes:

This item adjusts the 1993 Forecast (top of Page 1) for the change in the federal income tax rate from 34% to 35% effective January 1, 1993. It also incorporates the effect of other provisions of the Omnibus Budget Reconciliation Act of 1993 which are effective on January 1, 1994.

Impact of Revisions (000)

NOI - Tax Rate Change	(4,792)
NOI - Other	0
NOI - Total	(4,792)
Rate Base	0
Revenue Requirements	8,045

Incentive Sharing Plan

Report of Rate Changes/Exogenous Factors/Debt Changes/Technological Changes
Intrastate Amounts - Effective Revenue Requirement Impacts
($ Millions)

All Price Changes, Exogenous Factors>$3 million, Debt Refinancings and Major Technological Changes	1992 Amounts	Estimated 1993 Amounts	Estimated 1994 Amounts
I. Existing Issues: Net Value of all issues as shown on 12/31/92 Earnings Surveillance Report	$(15.7)	$ 0	$ 0
II. New Issues:			
A. Rate Decreases			
(1) Dade/Broward 25 cent Plan			
(2) Company Proposals			(4.4)
B. Exogenous Factors:			
(1) Depreciation Represcription Order	12.3	19.3	30.8
(2) SFAS 112		(23.4)	3.5
(3) Hurricane Extraordinary Retirement Recognition			(18.9)
(4) Accruals to Establish Casualty Loss Reserve			(5.7)
(5) President Clinton's Tax Plan		(8.0)	(8.0)
C. Debt Refinancing			
Interest Savings-1993 Issues	--	4.1	9.5
Debt Refinancing Expense Recognition	--	(4.1)	(9.5)
D. Major Technological Changes None	NA	NA	NA
E. Net Total Impact	(3.4)	(12.1)	(2.7)

The format of Reid Exhibit WSR-3 is the same as described in the July 2 testimony. The first column lists each outstanding item to be tracked. The second column, "1992 amounts", reports the 1992 revenue requirement impact of the external factor in Column One. The third column, "Estimated 1993 Amounts" reports the latest valuation of the external factors. The last column of WSR-3 reports the anticipated 1994 external factor impacts. Following are the changes made to WSR-3:

I. Existing Issues - no changes were made.

II. New Issues

A. Rate Decreases

The amount for the Dade/Broward 25 cent plan was deleted because the Commission decided to delay its implementation and to incorporate it with the decisions to be made in this case.

The Company proposals were revised because of the impact of the tax rate change on the calculation of revenue requirements.

B. Exogenous Factors

The Depreciation Represcription Order impacts for 1992, 1993, and 1994 have been revised to reflect a recent recalculation of the impact of the depreciation Order. In addition, the 1994 impact was revised to correct the Analog ESS amortization schedule.

The SFAS 112 estimate was revised due to a revised actuarial price-out of the financial impact of this accounting change. The updated price-out resulted from the use of claims data which covered a longer period of time and is therefore considered more accurate. In addition, the Company has decided to reflect the impact of this accounting change in 1993. The 1994 impact is a result of the rate base effect on revenue requirements.

The Hurricane Extraordinary Retirement Recognition item was revised due to more current information which was available as clean-up in the aftermath of Hurricane Andrew progressed. In addition, the Company is revising its request to reflect this change in 1994.

B. Exogenous Factors (continued)

The Company's proposal to establish a Casualty Loss Reserve in 1993 was removed. As is evident from the Net Total Impact, there are no funds from which to establish the reserve in 1993. The Company retains its proposal for the loss reserve in 1994.

President Clinton's Tax Plan was quantified as a result of the passage of the Omnibus Budget Reconciliation Act of 1993. Previously, the testimony indicated that there would be a revenue requirement impact but the Company was unable to quantify it. The effect is an $8.0 million revenue requirement increase for Florida intrastate operations.

C. Debt Refinancings

Both the Interest Savings and Debt Refinancing expense issues were revised for two reasons. First, the Company issued an additional $300 million of 6 1/8% 15 year bonds on September 23, 1993 to refinance $300 million of 8% 40 year debentures. Secondly, the change in tax rates revises the calculation of revenue requirements. However, we are still requesting that the debt refinancing expenses be amortized at the same rate as interest savings are incurred, thus having no net impact on revenue requirements.