

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

Docket No. 930260-TL
Filed: December 20, 1993

**FLORIDA CONSUMER ACTION NETWORK'S (FCAN'S)
PREHEARING STATEMENT**

The Florida Consumer Action Network (FCAN), pursuant to Florida Administrative Code Rule 25-22.038(3), and Order No. PSC-93-1726-PCO-TL, hereby files this Prehearing Statement.

I. Witnesses

FCAN did not prefile testimony for any witnesses in this proceeding.

II. Prefiled Exhibits

FCAN did not prefile any exhibits in this proceeding.

III. Basic Position

It's time to bring Southern Bell's rates into line with the economic and technological realities of the 90's.

While every other telephone company in Florida has rates based on their reasonable and prudent costs plus a fair rate of return on their investment in their network, Bell has enjoyed a special Incentive Regulation Plan. If done right, this plan would have led to improved quality of service, rewarded workers for increased efficiency, and produced shared savings for customers. Instead, the current plan has led to falsified repair orders because of Bell's inability to meet quality of service standards, intimidation of workers to sell services that customers didn't want, and customer rip-offs so blatant that they led to an investigation by the Statewide Grand Jury. The Commission should impose a substantial penalty against Bell for these fraudulent and abusive sales practices and falsified repair orders.

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Southern Bell's current Incentive Regulation Plan has failed to produce any measurable benefit to consumers; the Company should be returned to the same basic rate of return regulation which applies to every other local exchange carrier in Florida. Additionally, Southern Bell's current return on equity is simply obscene in light of today's declining economy; Bell has historically earned near 14% after taxes while its customers are lucky to receive a 3-4% return on their investments before paying Uncle Sam.

Touchtone telephone service charges should be eliminated; there is simply no justification to continue charging \$1 per month per line for a "service" which costs virtually nothing given today's digital networks.

Despite the Company's rhetoric, their proposal for Extended Local Service is not an appropriate response to customer demands for changed calling patterns. What customers want is expanded area flat-rate local calling.

FCAN absolutely opposes the implementation of local measured service, even in the so-called "optional" plan proposed by Southern Bell. To grant this request is to open a Pandora's box which we believe will ultimately lead to "installing a pay phone" in the living room of every Southern Bell customer.

Southern Bell's proposed rate reductions do not go nearly far enough. The Commission should closely scrutinize what Bell submits are "reasonable and prudent costs." We do not believe that ratepayers receive better telephone service because of chauffeur service for executives, sponsorship of major sporting events, lobbying expenses of industry associations, public relations consulting, or the excessive rate case expenses generated by Bell's ongoing foot-dragging in turning over documents to Commission Staff, Public Counsel, and the Attorney General. Whatever rate reductions are ultimately ordered should result in widespread reductions in basic rates and charges, as opposed to narrowly focused cuts in rates which benefit only a select few customers.

Previous Commission's have been overly generous in awarding rates and depreciation schedules to Bell which have allowed the Company to build substantial fiber optic networks at the expense of monopoly ratepayers -- which do not provide noticeably better telephone service to most customers, but rather are designed to compete for future profits with the cable television and data services industries. We urge the Commission to critically analyze this filing to restore fairness to Bell's customers, and leave their stockholders to pay the cost of upgrading Bell's network to compete in non-regulated arenas.

IV. Positions on Issues

FCAN takes the following positions on issues currently identified in this proceeding:

COST OF CAPITAL

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

FCAN: The appropriate cost of common equity capital for Southern Bell is not more than 10.4%.

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

FCAN: No. Southern Bell's equity ratio should be reduced in fairness to its ratepayers.

ISSUE 14e: In the event that the Commission changes the current regulatory practice regarding the inside wire operation, how should that change be treated for ratemaking purposes?

FCAN: The Commission should set aside sufficient revenues subject to refund to protect ratepayers pending the resolution of the inside wire rulemaking docket.

NET OPERATING INCOME

Operation & Maintenance Expense

ISSUE 15b: What adjustment, if any, should be made to expenses for USTA and FTA dues?

FCAN: The expense for USTA and FTA dues should be reduced to remove any amounts allocated to lobbying and public relations activities which have no value to ratepayers.

ISSUE 15c: Is the amount of lobbying and other political expenses included in the Company's intrastate operating expenses appropriate for ratemaking purposes?

FCAN: No amount of lobbying or political expenses are appropriate for ratemaking purposes.

ISSUE 15d: Is the amount of advertising and public relations expenses included in the Company's intrastate operating expenses appropriate for ratemaking purposes?

FCAN: In these tight economic times, advertising and public relations expenses should be carefully scrutinized to ensure that basic telephone service is improved and that there are net positive revenues resulting from any such expenses. Sponsorship of major sporting events and memberships in numerous Chambers of Commerce do not improve basic telephone service, and should be

disallowed, along with any and all expenses which are primarily image-enhancing.

ISSUE 15e: Does the level of legal, injury, and damage claims expense represent a reasonable and necessary ongoing level?

FCAN: No, legal fees and consulting expenses resulting from the Attorney General's investigation should be borne solely by the Company, not its ratepayers.

ISSUE 15f: What is the appropriate treatment of the Company's promotional expenses, sponsorships, charitable contributions and other miscellaneous expenses?

FCAN: Any promotional and charitable contributions which Southern Bell should choose to make should be borne solely at the expense of their shareholders. Such expenses are not appropriate for ratemaking; customers have the right to make their own choices as to which promotional or charitable causes they choose to support. Chauffeur service and the cost of a Club Suite at the Georgia Dome do not improve basic telephone service and are entirely inappropriate.

ISSUE 15g: Are the test year expenses for software reasonable?

FCAN: No. Software additions are capital expenses which should be recovered over a standard five year period, the same as for any other business.

ISSUE 15h: In the event that the Commission requires a different accounting practice for software additions than is currently employed by SBT, how should that change be treated for ratemaking purposes?

FCAN: Software additions are capital expenses which should be recovered over a standard five year period, the same as for any other business.

ISSUE 15k: What is the appropriate expense adjustment for Hurricane Andrew, if any, in the test period?

FCAN: Costs associated with Hurricane Andrew should be written off in 1992. Southern Bell should not be allowed to set future rates to recover past losses, any more than the insurance industry can.

ISSUE 15m: How should the costs associated with debt refinancing be treated for ratemaking purposes?

FCAN: The costs associated with debt refinancing should be amortized over a period of at least four years, which is certainly fair since Southern Bell will continue to see savings in interest costs far into the future.

ISSUE 15p: How should the Commission treat the costs and the savings associated with the Company's labor reduction plan for ratemaking purposes? (combined previous issues 15p, 15q, and 15r)

FCAN: The Commission should first examine the reasonableness of the Company's labor reduction plans to ensure that reliable service will be maintained. Assuming the Company's plan is found to be reasonable, the Commission should order appropriate reductions in future rates.

ISSUE 15u: Should the Company be allowed to recover, through cost of service, the cost of chauffeurs?

FCAN: No, absolutely not.

ISSUE 15v: Are there any out-of-period expenses which should be removed from the test year?

FCAN: Any expenses deferred on account of Hurricane Andrew should not be included in test year expenses.

Nonrecurring Items

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

FCAN: Any expenses deferred on account of Hurricane Andrew should be removed when determining revenue requirements.

Affiliated Transactions

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

FCAN: The Commission should carefully scrutinize such charges and allocations with an eye towards inappropriate advertising, promotional, contribution and lobbying expenses.

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

FCAN: No.

ISSUE 17e: Has the Company properly removed all BSC corporate advertising costs?

FCAN: No. Ratepayers should not be billed a single penny for BSC image advertising.

ISSUE 17f: Should an adjustment be made for BSC Corporate Affairs expenses which are charged to the Company?

FCAN: The Commission should carefully scrutinize BSC Corporate Affairs expenses to insure that ratepayers are not paying for lobbying or image-enhancing activities.

ISSUE 17g: Should an adjustment be made for BSC D.C. Public Relations costs which are charged to the Company?

FCAN: Yes. (See Issue 17f)

ISSUE 17h: Should an adjustment be made to remove BSC sponsorships which are charged to the Company?

FCAN: Absolutely. Ratepayers are capable of making their own individual decisions regarding which charitable sponsorships to support, and don't need BellSouth Corporation to make up their minds for them.

ISSUE 17i: Is the return on investment charged to the Company by BSC reasonable?

FCAN: No. The rate of return on investment set by this Commission should be the only one allowed for ratemaking purposes.

ISSUE 17l: Are any adjustments necessary to remove travel, meals, club dues, gifts, sporting events, other entertainment, and other miscellaneous expenses of BSC which are charged to the Company?

FCAN: Yes. Contributions, gifts and entertainment have nothing to do with the provision of basic telephone service and therefore should not be charged to ratepayers.

ISSUE 17n: Should an adjustment be made to remove BSC donations which are charged to the Company?

FCAN: Yes. Ratepayers should not be billed for Corporate donations, period.

ISSUE 17t: Should the Commission allow the Company to charge its affiliates a return on investment for the use of common plant and equipment?

FCAN: Southern Bell's affiliates should pay the same return on investment for the use of common plant and equipment which Bell would charge its ratepayers.

Depreciation and Amortization Expense

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

FCAN: The Commission should carefully scrutinize the depreciation expense schedule to ensure that it reflects only the actual retirement rates for equipment and networks, and that revenues intended to offset legitimate depreciation expenses are not being used to effectively cross-subsidize future competitive ventures in cable television or data communications.

ISSUE 19a: How and when should the reserve deficit caused by Hurricane Andrew damage be recognized for ratemaking purposes?

FCAN: Losses associated with Hurricane Andrew should be expensed in 1992.

REVENUE REQUIREMENT

ISSUE 24: What is the appropriate amount of revenue increase/decrease for the test year?

FCAN: A substantial revenue decrease is appropriate, which we expect would exceed \$250-million. Additional reductions should be imposed to penalize Bell for mismanagement regarding inside wire maintenance scams and falsified repair order reports, and to revise depreciation schedules.

INCENTIVE REGULATION

ISSUE 25a: What criteria should the Commission use to evaluate Southern Bell's performance under the current form of regulation?

FCAN: The Commission should consider that the current incentive regulation plan has to-date resulted in not one single penny of "sharing" with ratepayers. The only "incentive" appears to have been to rip-off their own customers through falsified repair orders and fraudulent sales of unwanted services. Southern Bell's performance should be compared against that of other large local exchange companies in Florida, both in costs per customer line and quality of service.

ISSUE 25b: Has the current incentive regulation plan under which Southern Bell has been operating achieved the goals as set forth in Order No. 20162? What are the positive and negative results, if any?

FCAN: No, the current incentive regulation plan has been a sad joke on consumers, instead. The negative results are contained in the report of the Statewide Grand Jury investigation into Southern Bell's sales practices. These problems have brought disrepute to the Company and its employees.

ISSUE 26: Should the Commission continue the current form of regulation of SBT? If not, what is the appropriate form of regulation for SBT?

FCAN: No. The current incentive regulation plan should end, and Southern Bell should be returned to the same standard rate base regulation applied to all other Florida local exchange carriers.

POLICY AND PRICING

Proposed Optional Expanded Local Service (ELS) Plan

ISSUE 28: Southern Bell has proposed an "Optional Expanded Local Service" (ELS) plan. Customers who subscribe would pay \$.02 per minute for all calls within the existing local calling area and \$.08 per minute for all intralata calls up to approximately forty miles. The proposed plan includes many components and features including seven-digit dialing, reduced flat-rate buy-ins, and usage caps. It would be available to both business and residence customers.

- a. Should Southern Bell's proposed Optional Expanded Local Service (ELS) plan be approved? If not, what alternative plan, if any, should be approved and what should be the criteria? What is the first year revenue impact?

FCAN: No, absolutely not! The Commission should not open the Pandora's Box to Local Measured Service, even as an "option." It is inappropriate to force customers to accept the equivalent of a pay phone in their living room in order to obtain a discount on local long distance calls. There should be no connection between these two distinct and separate services.

What customers have repeatedly asked for is expanded flat-rate local calling areas, not complicated formulas which may effectively re-monopolize intraLATA toll calls. The Commission should instead look to broader expanded area service (EAS) and simplifying the burdensome process to implement such plans.

b. If the Company's Optional ELS plan or any other alternative is approved, should stimulation be taken into account? If so, how?

FCAN: Yes, stimulation should be taken into account in the case of any rate reductions. The Commission should look to actual stimulation experience with other similar plans.

c. If the Commission approves an OELS or similar plan, what other action should the Commission take, if any? (e.g., route-specific switched access charges, 1+ IntraLATA presubscription).

FCAN: Regardless of any other action in this area, the Commission should consider the adoption of 1+ IntraLATA presubscription.

d. Is Southern Bell's proposal to amend, eliminate, or grandfather various existing measured and message rate offerings appropriate?

FCAN: Grandfathering existing message rate offerings would not be inappropriate.

Toll/Access/Mobile Interconnection

ISSUE 29: Southern Bell has made the following proposals:

- A) To reduce the local transport element for both originating and terminating access from \$.01600 to \$.01289.
- B) To reduce the current FGD originating CCL from \$.02660 to \$.02600.
- C) To reduce the current FGD terminating CCL from \$.03660 to \$.02927.
- D) Not to flow through the switched access reductions to mobile interconnection usage rates.
- E) Not to make any changes to its toll services rates.

Should SBT's proposals be approved? If not, what actions should the Commission take with respect to SBT's switched access, toll, and/or mobile interconnection usage rates? What is the test year revenue impact?

FCAN: Reductions to switched access charges should be flowed through to customers. Reductions in toll services rates should benefit all customers, and not be tied to the implementation of local measured service as the Company has proposed. If the Commission determines that toll reductions are appropriate, rates should only be reduced to meet the current rates of competitors, not to undercut them.

Vertical Services

ISSUE 30b: The Company has made no proposal to change its current Touchtone charges. Is this appropriate? If not, what action should be taken and what is the test year revenue impact?

FCAN: No, the current charge for Touchtone service is totally inappropriate, and should be completely eliminated, as it was in GTE's recent rate case. Given today's technology, there is virtually no cost associated with the provision of Touchtone telephone service.

Extended Area Service

ISSUE 32a: Is a toll relief plan warranted for the routes in Docket No. 911034-TL (Between Ft. Lauderdale and Miami; Ft. Lauderdale and N. Dade; and Hollywood and Miami)? If so, what is the appropriate form of toll relief? What is the revenue impact?

FCAN: Yes, customers have repeatedly requested flat rate extended area service for these routes, and others. At a minimum, customers should be able to call within their local metropolitan area and/or their own county without incurring toll charges. What customers want is expanded local flat-rate calling, not lower local toll rates tied to Local Measured Service.

Basic Local Exchange Rates

ISSUE 33d: The Company has made no other proposals to change its basic local exchange rates. Is this appropriate? If not, what changes should be made?

FCAN: Expanded local flat-rate calling should be implemented instead of the Company's proposal for lower local toll rates tied to Local Measured Service. Rate reductions ordered by the Commission in this case should be used to eliminate the Touchtone charge, reduce basic local exchange rates, reduce access charges, and reduce intraLATA toll rates to meet (not exceed) competition.

Miscellaneous Issues

ISSUE 35: Should Southern Bell be required to itemize customer bills on a monthly basis?

FCAN: Yes.

Effective Date / Customer Notification

ISSUE 38a: What should be the effective date(s) of any rate changes approved in this docket?

FCAN: By previous agreement, rate changes are retroactively effective to January 1, 1993. Customers should receive refunds for any difference between the current monthly credit and the retroactive rate reductions ultimately ordered in this case. A reasonable period of thirty to sixty days following the issuance of the order in this case should be allowed for implementing said rate reductions and issuing refunds.

GENERAL ISSUES PERTAINING TO DNS 910163, 900960, AND 920260

ISSUE 401: Should the Commission penalize SBT for poor quality of service, mismanagement, or violations, if any, of Commission Rules and Florida Statutes for the dockets listed below? If so, how?

- a. Docket No. 900960-TL; Contact and Non-Contact Sales
- b. Docket No. 910163-TL; Repair
- c. Docket No. 910727-TL; Rebate
- d. Docket No. 920260-TL; Quality of Service

FCAN: Yes, the Commission should order a penalty of at least 100 basis points.

DN 920260-TL: Quality of Service

ISSUE 39: Is Southern Bell's quality of service adequate?

FCAN: As pointed out by the Statewide Grand Jury investigation, no.

ISSUE 39a: Do Rules 25-4.070 & 25-4.110 require SBT 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)?

FCAN: Yes.

FCAN takes no position at this time on issues not specifically identified within this statement.

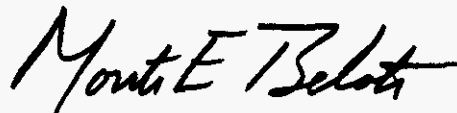
V. Stipulations

The revenue effect of this docket is retroactive to January 1, 1993.

VI. Pending Matters

FCAN has no other pending matters at this time.

Respectfully submitted,



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**CERTIFICATE OF SERVICE
DOCKET NO. 920260-TL**

I HEREBY CERTIFY that a copy of the foregoing has been furnished by U.S. Mail or hand-delivery to the following parties on this 20th day of December, 1993.

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