BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

Comprehensive Review of the Revenue) Requirements and Rate Stabilization) Plan of Southern Bell Telephone &) Telegraph Company)	Docket No. 920[illegible]L Filed: November 8, 1993

CONFIDENTIAL

DIRECT TESTIMONY OF
THOMAS C. DE WARD
Witness for the Citizens of the State of Florida

Attachment "B"
copy 2

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1 DIRECT TESTIMONY OF THOMAS C. DE WARD

2 ON BEHALF OF THE CITIZENS OF FLORIDA

3

4 BEFORE THE

5 FLORIDA PUBLIC SERVICE COMMISSION

6

7 SOUTHERN BELL TELEPHONE & TELEGRAPH COMPANY, INC.

8 DOCKET NO. 920260-TL

9

10 I. INTRODUCTION

11 Q. **What is your name, occupation, and business address?**

12 A. Thomas C. DeWard. I am a Certified Public Accountant, licensed in

13 Michigan, and a Senior Regulatory Analyst in the firm of Larkin &

14 Associates, Certified Public Accountants, licensed in Michigan and

15 Florida, with offices at 15728 Farmington Road, Livonia, Michigan 48154.

16

17 A. Qualifications and Experience

18 Q. **Have you prepared an appendix describing your qualifications and**

19 **experience?**

20 A. Yes. I have attached Appendix I which is a summary of my qualifications

21 and experience.

22

1 Q. Please summarize your financial accounting and auditing experience.
2 A. For the past 12 years, I have been employed by Larkin & Associates.
3 During this time period, I have worked primarily on utility matters.
4
5 I spent nine years in public accounting with Peat, Marwick, Mitchell &
6 Co. (PMM&Co.) During that time, I participated in or managed audits of
7 industrial and commercial companies, including two large manufacturing
8 firms. The larger clients required coordination with other PMM&Co.
9 offices, both domestic and foreign. Some work involved registration
10 statements and certain mandatory filings with the SEC.
11
12 I also served as a Vice President-Finance of a manufacturing firm and as
13 Treasurer of a firm involved in packaging, distribution and data
14 processing services. As both of these firms were relatively small, my
15 responsibilities were very broad and included work in virtually all of the
16 accounting and financial areas. I prepared the financial statements,
17 negotiated loans and payment schedules with banks, selected fringe
18 benefit plans, negotiated insurance coverage, and prepared tax returns.
19
20 Q. In how many utility cases have you participated?
21 A. I have participated in approximately 125 utility cases since joining the
22 firm in 1981. This includes multiple phases related to the cases such as

1 partial and interim, final, rebuttal, and rehearing.

2

3 Q. **What issues have you addressed in those cases?**

4 A. I have addressed issues such as revenue requirements, rate base,

5 operating income, capital structure, capital costs, wage levels, employee

6 benefits, fuel accounting, fuel refunds, fuel cost, fuel handling,

7 insurance, O&M, contributions and memberships, advertising, inflation

8 rates, property taxes and state and Federal income taxes including the

9 Tax Reform Act of 1986.

10

11 Q. **In what telephone cases have you participated in?**

12 A. Most recently I testified in Southern New England Telephone Company's

13 request for a rate increase. Previously, I testified in GTE Florida

14 Incorporated, United Telephone Company of Florida, Central Telephone

15 Company's (Nevada) request for rate relief; in the investigation of United

16 Telephone Company of Florida's authorized return on equity and

17 earnings; a request for rate increase made by Central Telephone

18 Company of Florida and in two GTE South-Kentucky hearings. Both of

19 the GTE cases were full rate hearings based on GTE's request for rate

20 relief. I submitted testimony in Central Telephone Company of Florida

21 and Central Telephone Company's (Nevada) requests for rate increases.

22 Both of these cases were settled. I also testified in a limited hearing as

1 to the proper level of refunds of the excess earnings of Quincy
2 Telephone Company in Florida. I submitted testimony in a GTE South-
3 West Virginia request for rate relief. That case was settled. I assisted the
4 Florida Public Counsel in the overearnings investigation of Central
5 Telephone Company of Florida. A settlement was reached which
6 resulted in a rate reduction and a refund. I assisted the Nevada Office of
7 Consumer Advocate in the overearnings investigations of Central
8 Telephone Company (Nevada operations), two Nevada Bell cases and
9 Continental Telephone of California (Nevada operations). All of those
10 cases were settled and resulted in rate reductions.
11
12 Q. What issues did you analyze in those cases?
13 A. I analyzed the accounting issues which included the proper level of local
14 service, toll, access and miscellaneous revenues including the high cost
15 fund (USF) revenues. I analyzed affiliated transactions, including the
16 transfer of the directory operations to a newly established affiliated
17 company, expense levels, advertising costs, the appropriate treatment of
18 expenses for ratemaking purposes, conversion to Part 32, as well as
19 analyzing non-recurring and out-of-period costs. I analyzed rate base
20 including plant in service, working capital allowances and the
21 appropriate level of deferred taxes. I also analyzed the appropriate
22 capital structure for ratemaking purposes.

1 Q. Have you presented any training seminars on the subject of public utility
2 accounting?
3 A. Yes. Along with two other members of the firm, I presented a one day
4 seminar on utility accounting for the Legal Services Regional Utilities
5 Task Force in Atlanta, Georgia. We also presented a two day seminar on
6 utility accounting for the Utility and Rate Intervention Division of the
7 Kentucky Attorney General. Individuals from that division as well as
8 industry and consumer groups attended the seminar. In September,
9 1988, we presented a two day seminar on utility accounting for the
10 office of Consumer Advocate, Attorney General's Office, State of
11 Pennsylvania. Individuals from that division as well as Commission Staff
12 members attended.
13
14 B. <u>By Whom Retained</u>
15 Q. By whom were you retained and what is the purpose of your testimony?
16 A. Our firm was retained by the Florida Office of Public Counsel ("OPC") to
17 assist in a review of the accounting and revenue requirements issues as
18 part of a comprehensive review ordered by the Commission of Southern
19 Bell Telephone & Telegraph Company ("Company" or "Southern Bell").
20
21 C. <u>Revenue Requirement Schedule</u>
22 Q. Have you included schedules of rate base and operating income which

1 incorporate each of your proposed adjustments?

2 A. No, but I have included as Schedule 1 a summary of each of my
3 proposed adjustments. Also included on the Schedule are the
4 recommended adjustments of other witnesses for the Office of Public
5 Counsel. Ms. Dismukes addresses affiliated transactions and Mr. Currin
6 addresses the proper level of depreciation expense for various cable
7 accounts. Schedule 1 lists each adjustment as well as the effect of each
8 adjustment on revenue requirements. I also show the revenue effect of
9 Jim Rothschild's recommended return on equity and capital structure.
10 Mr. Rothschild is another witness for the OPC. The revenue impact
11 shown on Schedule 1 does not include the effect of the penalty
12 proposed by Mr. Poucher, another witness for the OPC.

13

14 D. Exhibit

15 Q. Have you included an exhibit which includes schedules detailing each of
16 your adjustments?

17 A. Yes. Exhibit ___(TCD-1) includes 47 numbered Schedules.

18

19 It is important to review each Schedule in conjunction with the
20 testimony. On many of the Schedules, I include the rationale behind
21 each adjustment. Each Schedule includes a computation of each
22 adjustment as well as references to supporting documentation.

1 E. Organization

2 Q. **How will your testimony be organized?**

3 A. I will sequentially address a number of accounting issues.

4

5 F. Conclusion

6 Q. **What conclusions have you reached after completing your analysis of the**

7 **Company's filing?**

8 A. The Company should be ordered to reduce rates. Schedule 1 shows a

9 reduction in excess of $450 million, before penalty is warranted. The

10 reduction in rates will be effective July 1, 1994, and retroactive to

11 January 1, 1994 for the purposes of determing the refund, if any, for the

12 first six months of 1994. Additionally, Schedule 43 identifies

13 recommended step decreases of $36 million in 1995 and $38 million in

14 1996.

15

16 Refunds, if any, for 1993 will be based on an analysis of the Company's

17 actual results of operations. Many of the adjustments which are being

18 proposed have equal applicability to the 1993 actual results of

19 operations. Examples are directory advertising revenues, affiliated

20 transactions and expenses which are inappropriate for ratemaking

21 purposes. It is my understanding that the actual results of operations

22 will be evaluated and presented before this Commission later in 1994.

1 Q. Schedule 1 shows a proposed reduction in revenues prior to any
2 provision for a penalty in excess of $450 million. The Company's July
3 31, 1993 Surveillance Report shows an adjusted achieved net operating
4 income of $370,968,000. Is your proposal realistic given the Company's
5 actual results of operations?

6 A. Yes. First of all, the reduction in revenues of over $450 million will
7 result in reduced State and Federal income taxes as well as reductions in
8 municipal franchise taxes, gross receipts tax and the PSC tax which are
9 based on revenues. Using a State income tax rate of 5.5% and the
10 Federal income tax rate of 35%, which was effective retroactive to
11 January 1, 1993, the Company will realize tax savings of 38.575% and
12 thus, on a net income basis after taxes, the Company will save nearly
13 $174 million in State and Federal income taxes. ($450,000,000 x 38.575%
14 = $173,587,500). On a net income, after tax, basis the $450 million in
15 revenues equates to $276 million in reduced net operating income.
16
17 Second, it must be kept in mind that a number of the proposed
18 adjustments such as the adjustment for Directory advertising revenues
19 and the affiliated transaction adjustment proposed by Ms. Dismukes are
20 necessary in order to properly reflect the Florida results of operations
21 but, in effect, merely reduce the excessive return or eliminate
22 inappropriate charges from affiliates. In other words, as it relates to the

1 Directory advertising adjustments, BellSouth Advertising and Publishing
2 Corporation (BAPCO) has been allowed to earn excessive rates of return
3 on the Directory operations as they specifically relate to the Florida
4 operation. These excessive returns are not included in the operating
5 revenues of Florida. Therefore, while the proposed adjustment reduces
6 revenues by over $26 million this adjustment merely reduces the
7 excessive returns earned by BAPCO. BAPCO has earned these excessive
8 returns at the expense of the Florida ratepayers. Florida jurisdictional
9 revenues will be increased which will reduce the excessive earnings of
10 BAPCO, which is non-regulated. On a consolidated basis, the total
11 amount of revenues is unchanged. However, on a Florida jurisdictional
12 basis, revenues are increased which increases the overearnings and thus
13 allows for a reduction to rates without any adverse effect on operating
14 income.
15
16 In the case of the affiliated transaction adjustment proposed by Ms.
17 Dismukes, excessive returns and inappropriate expenses incurred at the
18 affiliate level are passed through the allocation process to Florida and
19 result in excessive expenses for Florida. Thus, Florida expenses are
20 overstated. The adjustment proposed by Ms. Dismukes, in effect, restates
21 the Florida results of operation by reducing expenses. Affiliated returns
22 are reduced to a reasonable level and inappropriate expenses are

1 effectively taken "below the line."

2

3 Third, there are a number of adjustments which shift expenses from the
4 intrastate to the interstate jurisdiction. Most notably, the adjustment to
5 properly shift Directory advertising expense to the interstate jurisdiction.
6 My proposal is to change the terms of the agreement between the
7 Company and BAPCO so that the expenses of the Directory operation are
8 included in the results of operations in Florida. These expenses would
9 be offset by an equal amount of revenues and thus there would be no
10 impact on net operating income; however, the interstate jurisdiction
11 would be allocated its fair share of the operating expenses that relate to
12 the production, printing and distribution of the White Pages.

13

14 Fourth, a number of my proposed adjustments merely reverse out the
15 Company's attempt to increase the 1994 going forward level of expense.
16 These adjustments include an attempt to recover refinancing costs
17 associated with the early retirement of debt of over $9.2 million, the
18 establishment of a casualty damage reserve accrual of $6 million and
19 $19.5 million associated with the write-off of the extraordinary
20 retirement of assets damaged during Hurricane Andrew. All of these
21 proposed adjustments merely offset the Company's attempts to recover
22 these amounts in future rates. Thus, none of these adjustments reduce

1 existing revenues but merely offset the Company's attempt to recover
2 such expenses effective in 1994.
3
4 Fifth, I fully expect that if the Company is not allowed to recover the
5 book amount of pension expense, that the Company will be able to
6 revise assumptions that are inherent in the computation of pension
7 expense, shorten amortization periods of the unrecognized gains and the
8 transition amount, so as to completely remove this expense from
9 operating income.
10
11 Sixth, the adjustment to reduce Federal income tax expense for the
12 benefits associated with the leveraged employee stock option plan is
13 similar to the affiliated transaction adjustment. None of these benefits
14 have been flowed from the parent corporation to the Florida operation.
15 Thus, on a total combined basis, this adjustment will have no effect but
16 it properly assigns the tax benefit to Florida.
17
18 Seventh, as identified on Schedule 46, there appears to be certain
19 expenses recorded by the Company during 1993 which are inappropriate
20 for ratemaking purposes or have not been removed as an out-of-period
21 adjustment. Therefore, the Company's net operating income for the 12-
22 months ended July 31, 1993 may be understated.

1 Eighth, I have identified a number of expenses which are inappropriate
2 for ratemaking purposes but which have either been charged directly or
3 allocated to the Company and are included in the results of operation
4 for the 12-months ended July 31, 1993. As shown on Schedules 34
5 through 42, these expenses are clearly inappropriate and thus, should be
6 removed from regulated expense and treated as below-the-line expense.
7
8 Ninth, the Company has included excessive accruals for incentive
9 compensation and thus, the Florida operations do not reflect a true
10 amount of net operating income for the 12-month period ended July 31,
11 1993. Additionally, revenues are understated by the amount of
12 concession revenues offered to employees and expenses are overstated
13 for certain benefits provided to high-level management employees.
14 Revenues should be increased and expenses should be decreased
15 because ratepayers should not have to bear the burden of these costs.
16
17 After carefully analyzing the Company's results for the 12-months ended
18 July 31, 1993 and the proposed adjustments shown on Schedule 1, it is
19 clear that a mere comparison of the proposed reduction in revenues of
20 over $450 million to the Company's reported Florida results of
21 operations is inappropriate. Once all of the facts are reviewed, it is clear
22 that the proposed adjustments shown on Schedule 1 should be adopted.

1 II. ACCOUNTING ISSUES

2 A. Directory Advertising Revenues

3 Q. **Please explain why you are recommending that Directory advertising**

4 **revenues be increased by nearly $27 million.**

5 A. Directory advertising revenues must include the combined revenues, less

6 expenses, generated from Florida operations. In an agreement dated

7 December 30, 1983, Southern Bell Telephone & Telegraph Company

8 entered into an agreement with BellSouth Advertising and Publishing

9 Corporation (BAPCO). Previous to this agreement, the Company

10 internally provided all of the services necessary to generate Directory

11 advertising or Yellow Pages revenues. Beginning in 1984, most of the

12 Directory services, with the exception of billing, were provided to the

13 Company by BAPCO. The Company billed for the services then remitted

14 the proceeds to BAPCO but retained a percentage of the revenues,

15 as a fee. The Company has deemed this percentage to be

16 confidential.

17

18 In Section 364.037, Florida Statutes, Telephone Directory advertising

19 revenues, the Statute provides as follows:

20 The Commission shall consider revenues derived from advertising
21 in telephone directories when establishing rates for
22 telecommunication services. When establishing such rates, the
23 gross profit from all directory advertising in the local franchise
24 area of a telecommunications company shall be allocated between

1 the regulated portion and the nonregulated portion of its
2 operation as provided in this section.
3
4 (1) The gross profit derived from directory advertising to be
5 included in the calculation of earnings for ratemaking
6 purposes shall be the amount of gross profit derived from
7 directory advertising during the year 1982 adjusted, for
8 each subsequent year, by the Consumer Price Index
9 published by the United States Department of Commerce
10 and by customer growth or the amount of gross profit
11 actually derived from directory advertising in the local
12 franchise area for the year, whichever is less.
13
14 (2) The gross profit derived from directory advertising to be
15 allocated to the nonregulated operation of a company shall
16 be the gross profit which is in excess of the adjusted 1982
17 amount determined in accordance with subsection (1).
18
19 (3) For the purpose of this section, the amount of gross profit
20 of a company from directory advertising for the year 1982 is
21 the actual gross profit derived from such advertising for that
22 year. If, however, the expense to a company to furnish
23 directories in 1982 exceeded 40 percent of the gross
24 revenue derived from its directory advertising, the 1982
25 level of gross profit shall be adjusted to reflect a cost of 40
26 percent of its 1982 gross revenue. This adjusted 1982 gross
27 profit level shall be utilized in lieu of actual gross profit for
28 1982 when making the calculations in subsection (1).
29
30 (4) Any profit associated with providing directory advertising
31 service outside the franchise area of a company may not be
32 considered when determining gross profit derived from
33 directory advertising for ratemaking purposes. Any
34 investment or expenses associated with providing directory
35 advertising service outside its franchise area may not be
36 recovered through rates for telephone service.
37
38 (5) Notwithstanding any provisions of this section to the
39 contrary, no less than two-thirds of the total gross profit of
40 a company from directory advertising within its local
41 franchise area for any year shall be included in the
42 regulated portion of the operation when establishing rates.
43

1 In the first paragraph of Section 364.037, the Statute speaks of "...the
2 gross profit from all Directory advertising in the local franchise area of a
3 telecommunications company...". Thus, the Statute clearly envisions that
4 all of the gross profit from Directory advertising within the local
5 franchise area should be considered in setting rates. In Schedule Z-9 of
6 the Annual Report to the Public Service Commission, the Commission
7 now requires companies to report both the actual recorded results of
8 operations for Directory advertising and the combined results of
9 operations which include those results from any affiliate providing
10 Directory advertising services to the Company.
11
12 Q. **Did you analyze the Company's reported results from Directory**
13 **advertising for the years subsequent to 1984?**
14 A. Yes. In each year 1984 through 1990, the Company's reported results of
15 operations for Directory advertising as reported on Schedule Z-9, showed
16 that in each of those years, the reported results exceeded the adjusted
17 1982 base amount -- adjusted for customer growth and the Consumer
18 Price Index -- and thus, the Company reduced regulated income and
19 treated the excess as below-the-line income. These amounts are shown
20 on Schedule 2. As can be seen from that schedule, beginning in 1984,
21 the Company reduced regulated income by $9,510,263. In 1986,
22 regulated income was reduced by $17,285,751. Subsequent to 1986, the

1 amount has steadily declined through 1990 and, in fact, in 1991 and
2 1992 reported net income from Directory advertising was less than the
3 1982 adjusted base period amount. However, the reported results of
4 operations in each year only reflect the Florida reported results of
5 operations and not the combined results of operations, including those
6 of BAPCO.
7
8 The Company is a wholly-owned subsidiary of BellSouth
9 Telecommunications, Inc., which is a wholly-owned subsidiary of
10 BellSouth Corporation. BellSouth Advertising & Publishing Corporation
11 is a wholly-owned subsidiary of BellSouth Enterprises, Inc. which is, in
12 turn, a wholly owned subsidiary of BellSouth Corporation. Thus, the
13 Company and BAPCO are affiliated companies. In turn, BellSouth
14 Advertising & Publishing Corporation owns a number of subsidiaries that
15 provide services to it. Thus, the reported results of operations for
16 BAPCO, as it relates specifically to the Florida operation, includes
17 charges from its wholly-owned subsidiaries. The Company has refused
18 to provide financial information relating to the subsidiaries of BAPCO
19 and has provided only limited information for BAPCO itself.
20
21 Q. Has the Commission ever challenged the amount of net advertising
22 revenues reported by the Company and as included in the Annual Report

1 on Schedule Z-9 or in the Monthly Surveillance Report?

2 A. Not to my knowledge; however, as can be seen from Schedule 2, there

3 has been a dramatic turnaround in that the Company no longer takes

4 any of the Directory advertising revenues below-the-line. This is because

5 the reported results of Directory revenues less expenses, beginning in

6 1991, were less than the 1982 adjusted results. The results of the

7 Company's 1992 Surveillance Report are at issue in this proceeding. I

8 am unaware of whether or not the Commission questioned the 1991

9 Directory advertising results as reported in the Annual Report to the

10 Public Service Commission or as reported in the 1991 Surveillance

11 Report.

12

13 Q. Do any recent decisions lead you to believe that the combined results of

14 operations are the amounts which should be used in calculating the level

15 of Directory advertising revenues in the test period?

16 A. Yes. In the most recent GTE Florida Incorporated Order in Docket No.

17 920188-TL/920939-TL, the following appeared:

18 Section 364.037, Florida Statutes, sets out the regulatory treatment
19 of the gross profits derived by telephone companies from directory
20 advertising. The Statute specifies how much of the gross profit
21 will go to the ratepayers and how much will go to the
22 stockholders. We find that amount of gross profit which GTEFL
23 and its affiliate GTEDC can retain for the benefit of stockholders is
24 limited by Section 364.037. Thus, GTEFL shall report all gross
25 profits derived from directory advertising by GTEFL, its parent
26 company, GTE Directories Corporation and any affiliated company

1 (not merely those amounts retained by GTEFL), for the purpose of
2 calculating the amount of non-regulated gross profit pursuant to
3 Section 364.037, Florida Statutes. If it is subsequently determined
4 by the Commission that Directory revenues are being understated,
5 further action shall be taken.
6
7
8 Clearly, the Commission is looking at the total gross profit from
9 Directory advertising and "...(not merely those amounts retained by
10 GTEFL)..." In this instant proceeding, this means the net revenues,
11 based on the amounts retained by the Company, less expenses, and to
12 include the revenues, less expenses of BAPCO and each of its affiliates
13 that provide services to BAPCO. I previously mentioned that BAPCO
14 owns a number of wholly-owned subsidiaries that provide services to it.
15 Additionally, BAPCO receives charges from other affiliates and thus, the
16 net revenues provided on those services, should also be considered in
17 the calculation.
18
19 Certainly, Section 364.037, Florida Statutes, did not envision that a
20 company would be allowed to enter into a non-arms-length transaction
21 with an affiliate and allow that affiliate to earn excessive returns at the
22 expense of the ratepayer. Thus, it is appropriate and necessary to look
23 at the combined results of operations for the Florida Directory
24 advertising and to compare those amounts with the 1982 adjusted gross
25 profit. The combined results reported by the Company on Schedule Z-9

1 in the 1992 Annual Report show a gross profit of ________ At the
2 same time, the Company realized a net income from Directory of
3 ________ As this amount was less than the 1982 adjusted gross
4 profit (________)the Company and its affiliates merely retained
5 these excessive profits at the affiliate level, namely BAPCO. In 1992,
6 BAPCO earned ____ on equity. In 1991, BAPCO earned ____ on equity.
7 (See response to OPC 1121 PROPRIETARY). Of course, the BAPCO
8 results include charges from wholly-owned subsidiaries and other
9 affiliates which are also allowed to earn unlimited returns on equity.
10 The Company refused to provide any financial statements for BAPCO
11 subsidiaries. However, a review of proprietary information of the results
12 of operations of certain of these subsidiaries for 1991 shows that each of
13 these affiliates also earned excessive returns.
14
15 Q. Doesn't the Company include a footnote reference on Schedule Z-9 that
16 states the consolidated gross profit is not comparable to adjusted 1982
17 because the gross profit excludes uncollectibles, general and
18 administrative expenses, income taxes and interest.
19 A. Yes. On Schedule 2, I fully address the Company's claim that the
20 consolidated gross profit is not comparable to adjusted 1982 results.
21 Even if one were to accept the Company's argument -- which I do not --
22 the Florida gross profit of ________ would be reduced by

1 uncollectible expense and general and administrative expense. This

2 would still leave an adjusted gross profit of [illegible] This amount

3 is almost identical to the 1982 adjusted gross profit bringing that level

4 forward to 1993. Thus, even if the Company's arguments were accepted,

5 the combined gross profit compared with the Company's budgeted net

6 Directory revenues would still yield the adjustment I am proposing on

7 Schedule 2. However, as I have stated before, the Florida gross profit is

8 understated because there has been no adjustment to remove excessive

9 charges from wholly-owned subsidiaries of BAPCO or other affiliates.

10 Additionally, while the Company argues that general and administrative

11 expense should be deducted from the Florida gross profit, there is

12 nothing that I have seen which suggests that gross profit as defined in

13 Section 364.037, Florida Statutes should be reduced by any general

14 overhead allocation factor. On Schedule 2, I analyze the Company's

15 argument in detail and find that the Company's position is without

16 merit.

17

18 Q. **Does the Commission regulate the fees the Company – or BAPCO – can**

19 **charge for Directory or Yellow Page advertising.**

20 A. No. In fact, the Company has consistently increased Directory

21 advertising rates over the period 1985 through 1992 and as projected for

22 1993. The Company believes such information to be proprietary.

1 However, in response to OPC 785, the Company showed the change in
2 rates as follows: PROPRIETARY
3 1985 - ; 1986 ; 1987 ; 1988 ; 1989 ; 1990 -
4 ; 1991 ; 1992 ; 1993
5 Obviously, without regulation, the Company has been able to
6 consistently and significantly increase advertising rates for the Yellow
7 Pages advertising. At the same time, as shown in Schedule 2, the
8 Company has been able to reduce regulated Directory advertising
9 revenues by and report this income as below-the-line. Thus,
10 the Company has been able to retain for its shareholders, nearly $77
11 before taxes, in Directory advertising revenues over the period
12 1984 through 1990. This is in addition to the revenues generated by
13 BAPCO and each of its affiliates.
14
15 Now, with reported net operating revenues falling below the 1982
16 adjusted gross profit amount, the Company no longer reduces regulated
17 income and treats it as below-the-line. However, unless the adjustment
18 which I propose is adopted, BAPCO and the affiliates will be allowed to
19 retain excessive profit at the expense of the ratepayer. In 1992, this
20 amounted to as shown on Schedule 3 and will amount to
21 $ in 1993 as shown on Schedule 2.
22

1 If I was a business customer and needed to rely on Yellow Pages
2 advertising, I would be incensed to find that the revenues generated by
3 the significant annual increases in Yellow Pages advertising rates were
4 not used to increase regulated income in total and that an affiliated
5 company and its subsidiaries, through a non arms-length transaction, has
6 been able to generate excessive returns on equity. While my proposed
7 adjustments will not correct the inequities in the years 1984 through
8 1990, it will insure that the revenues generated from Directory
9 advertising is appropriately used to offset revenue requirements in 1992,
10 1993 and 1994.
11
12 B. Shift of Advertising Expense Dollars - Intrastate to Interstate
13 Q. **Please explain your adjustment where you propose to shift advertising**
14 **expense dollars to the interstate jurisdiction.**
15 A. The adjustment is explained in detail on Schedule 4. The theory behind
16 the adjustment is relatively straight-forward. As I previously discussed,
17 the Company entered into an agreement with BAPCO to provide
18 Directory advertising services to the Company. The Company continued
19 to bill the Directory advertising and remitted the amounts collected to
20 BAPCO less an amount retained as a fee. Previously, the Company
21 performed the Directory advertising functions internally. Prior to the
22 adoption of Part 32 of the Uniform System of Accounts, Directory

1 advertising revenues were recorded in Account 523 and Directory
2 advertising expenses were recorded in Account 649. Revenues from
3 Directory advertising were, and continue to be, intrastate revenues.
4 Thus, the expenses associated with the sales, production and distribution
5 of the Yellow Pages, are considered to be intrastate expenses. However,
6 generally combined with the Yellow Pages advertising, are the White
7 Page listings. A portion of such expense associated with the production
8 and distribution of the White Pages has been, and continues to be,
9 allocated to the interstate jurisdiction.
10
11 Prior to the agreement with BAPCO, when all expenses were recorded in
12 Account 649, expenses were assigned to the interstate jurisdiction, based
13 on a separation factor which attempted to assign to the interstate
14 jurisdiction those costs of producing and distributing the White Pages. I
15 do not have the specific separation factors which were used by the
16 Company to allocate costs in Account 649 to the interstate jurisdiction.
17 In 1992, 9.6166% of Account 6622.1 is separated to the interstate
18 jurisdiction. As BAPCO sells, produces and distributes both the Yellow
19 and White pages, the expenses in connection with these operations are
20 recorded on BAPCO's books. Thus, most costs are no longer recorded
21 on the Company's books. There is a minor amount of expense which is
22 charged to Account 6622.1. In 1993, the Company is projecting

1 ________ of Directory expense in Account 6622.1. Of this, and based
2 on the interstate separation factor for 1992, of ______ , only ________
3 will be separated to the interstate jurisdiction. Thus, only $ ______ of
4 expenses are separated to the interstate jurisdiction for those costs
5 associated with the production and distribution of the White Pages. Had
6 the Company not entered into an arrangement with BAPCO, and
7 continued to produce and sell the Yellow Pages advertising directly, a
8 much larger share of expense would have been allocated to the interstate
9 jurisdiction.
10
11 My adjustment corrects this inequity. In effect, I allocate a fair share of
12 the Directory expenses to the interstate jurisdiction. The details of the
13 adjustment are shown on Schedule 4.
14
15 Q. **If the Commission adopts your adjustment, will the Company have to**
16 **absorb over $12 million in costs because it will be unable to allocate**
17 **these additional costs to the interstate jurisdiction.**
18 A. No. It's obvious that in each year 1984 through 1992, the Company has
19 earned excessive returns on an interstate basis at the expense of the
20 Florida intrastate ratepayer. Had the proper amount of cost associated
21 with producing and distributing the White Pages been separated to the
22 interstate jurisdiction, the net operating income for the interstate

1 jurisdiction would have been reduced while the net operating income
2 for the intrastate jurisdiction would have been increased. The cost of
3 producing and distributing the White Pages did not change merely
4 because the Company entered into the contractual relationship with
5 BAPCO. The costs were merely shifted from the interstate to the
6 intrastate jurisdiction.
7
8 The contractual agreement between the Company and BAPCO can easily
9 be amended as the agreement is between affiliated companies with a
10 common parent. The agreement can be amended so that the cost
11 incurred in selling, producing and distributing both the Yellow and
12 White Pages can be billed or allocated directly to the Company. In turn,
13 the contractual agreement which provides that the Company retain a
14 percentage of Directory revenues, can be revised accordingly. The
15 Company currently retains ______ (proprietary) of all Directory
16 revenues.
17
18 As a simple example, assume that Directory revenues are $1 million.
19 Currently, the Company retains ______ ($1,000,000 x ______). If the
20 Directory expenses were $200,000, the retention percentage could
21 merely be increased to 74.25%. Thus, the Company's revenues would
22 increase to $742,500 and, at the same time, expenses would increase by

1 $200,000. The Company would be left with the same amount of net

2 revenues -- namely, ________ However, the Company would now

3 record $200,000 of Directory expense and thus, a fair amount of the

4 expenses would be allocated to the interstate jurisdiction. Thus, the

5 Company does not suffer any loss but the inequity between the intra and

6 interstate jurisdiction is corrected.

7

8 C. Directory Expenses Not Recorded in Account 6622.1

9 Q. Please explain your adjustment on Schedule 5.

10 A. This adjustment is necessary because, with the adoption of Part 32 of the

11 Uniform System of Accounts, certain expenses previously charged to

12 Account 649 -- Directory advertising expense -- are now charged to other

13 accounts. As shown on Schedule 5, the Company performed a study at

14 the BST level and determined the fully distributed cost of services that

15 are provided to BAPCO that are not reflected in Account 6622.

16

17 Had such expenses been charged to Account 649, the net Directory

18 revenues reflected on MFR Schedule C-27, would have been decreased.

19 Thus, the adjustment I am proposing to increase Directory revenues to

20 the 1982 adjusted level, would also be increased. In other words, if

21 these expenses associated with Directory advertising were charged to

22 Account 6622.1, the net revenues on MFR Schedule C-27, would be

1 reduced by $2,801,456. Thus, the adjustments as shown on Schedule 2,
2 would be increased by a like amount.
3
4 D. Hurricane Andrew
5 1. Amortization
6 Q. **Please explain your adjustments to remove from test period expense, the**
7 **amortization of the Hurricane Andrew losses.**
8 A. I recommend that the cost of Hurricane Andrew be written off in 1992.
9 Furthermore, I recommend that rate base be decreased by the
10 unamortized amounts of Hurricane Andrew deferrals. This accounting
11 treatment is consistent with the Company's treatment for the interstate
12 jurisdiction, the intra and interstate treatment in Louisiana which also
13 suffered damage from Hurricane Andrew, and the treatment afforded
14 nonregulated operations in Florida. Generally accepted accounting
15 principles does not provide for the deferral of such expenses.
16
17 The Company is apparently relying on Commission treatment in prior
18 cases where a five year amortization of casualty losses was allowed.
19 However, the Commission precedent, upon which the Company relies,
20 pre-dates Part 32 of the Uniform System of Accounts. Part 32 adopted
21 Generally Accepted Accounting Principles.
22

1 The Company apparently also relies on the Commission treatment of
2 casualty losses in the Incentive Regulation Docket (Docket No. 880069).
3 In that proceeding, the Company included an amount of casualty
4 expense of $7,000, $8,000 and $9,000 in the three test years, 1988, 1989
5 and 1990 (OPC 730 f.) Apparently, the Company believes that is
6 sufficient precedent to include amortization, including true-up of over
7 $20 million in this proceeding. Additionally, as shown on Schedule 17,
8 the Company is attempting to write off as extraordinary retirement
9 expense, $19,852,000 as a pro forma adjustment for 1994. Also, as
10 shown on Schedule 16, the Company is requesting as a pro forma
11 adjustment, an accrual of $6,000,000 for a casualty damage reserve
12 accrual to be used in the event of similar catastrophic events in the
13 future. Thus, the Company is requesting that rates, which are set on a
14 going forward basis, include over $46 million to recover Hurricane
15 Andrew costs as well as to provide for future events. It's obvious that
16 this would set an inappropriate level of rates for the future.
17
18 On Schedule 6, I analyze and attempt to determine the amount of
19 Hurricane Andrew amortization included in the test year, including the
20 proposed pro forma adjustment to true-up 1993 expense. The
21 Hurricane Andrew amortization expense as explained by the Company, is
22 a combination of actual expenses incurred in the period August, 1992

1 through December, 1992. To that amount, the Company adds an
2 accrual for expenses expected to be incurred in 1993 but which relates
3 to Hurricane damage. From that amount, the Company deducts
4 expected insurance proceeds. The Company then proposes a pro forma
5 adjustment to increase the amortization based on the Company's current
6 higher estimate of expenses to be incurred in 1993 related to Hurricane
7 Andrew. On Schedule 7, I address the Company's allocation of
8 insurance proceeds between the Louisiana and Florida jurisdictions.
9
10 Q. Your proposal is to require the Company to write off the entire amount
11 of Hurricane Andrew expense against earnings in 1992. Why should the
12 Company shareholders be required to absorb the full amount of this
13 expense?
14 A. The shareholders will not be required to absorb the full amount of
15 expense. Under the Company's incentive regulation plan, if the
16 Company earns less than the sharing amount, there are no refunds. If
17 the Company earns less than the floor, the Company can request an
18 adjustment to rates. On Schedule 45, I analyze the 1992 Surveillance
19 Report as submitted by the Company. As can be seen from that
20 schedule, the Company achieved an adjusted rate of return of 8.86%.
21 This was between the floor of 8.43% and the sharing percentage of
22 9.68%. Thus, there was no sharing with ratepayers nor was there a

1 request for a rate adjustment because the Company earned above the
2 floor.
3
4 On that same schedule, I show the Company exceeded the floor by
5 $17,590,345 on a net operating income basis or $28,203,215 on a
6 revenue basis. In other words, before taxes, revenues could have been
7 reduced by $28,203,215 and the Company still would have earned above
8 the floor which includes a return on common equity of 11.50%.
9
10 I carry the $28,203,215 to Schedule 44 which is identified as Impact of
11 Proposed Adjustments on 1992 Surveillance Report. Throughout my
12 testimony, I make various recommendations that affect 1992, 1993 and
13 1994. For instance, I previously discussed Directory revenues. If the
14 Commission adopts my recommendation concerning Directory revenues,
15 it will be appropriate to adjust the 1992 Surveillance Report for
16 increased Directory revenues. Later in my testimony, I address the
17 proper accounting for SFAS 112, the proper accounting for the
18 extraordinary retirement expense, adjustments to Federal income tax and
19 various expenses which are inappropriate for ratemaking purposes.
20 Using as a starting point, the $28,203,215 which I previously discussed,
21 and making the recommended adjustments, the net result is that
22 revenues are $15.3 million less than the floor. In other words, after

1 making all of the proposed adjustments, including the complete write off
2 of Hurricane Andrew -- after adjusting the Hurricane Andrew expense to
3 properly allocate insurance proceeds between Florida and Louisiana --
4 the Company still earns a fair return given the dramatic changes in the
5 cost of debt and equity over the past 5 years. In other words, the
6 Company is allowed to fully recover the amortization of Hurricane
7 Andrew expense.
8
9 Q. How did you calculate the amount of Hurricane Andrew write-off of
10 $76,601,142 as shown on Schedule 44?
11 A. I used as a starting point, the Company response to OPC 1201k. In that
12 response, the Company shows a total intrastate expense amount of
13 $103,974,793. From that amount, I deduct the additional insurance
14 proceeds of $11,453,651 which is the intrastate amount of additional
15 insurance proceeds which should be allocated to Florida. This
16 calculation is shown on Schedule 7. Furthermore, I have assumed the
17 Company has already amortized and therefore has included in expense,
18 $15,920,000 as shown in response to OPC 730e. Subtracting the
19 additional insurance proceeds and the amortization already included in
20 1992 expense from the $103,974,793, yields the $76,601,142 shown on
21 Schedule 44.
22

1 2. Reallocation of Insurance Proceeds Between Florida and Louisiana

2 Q. Please explain why you are recommending a reallocation of insurance
3 proceeds between Florida and Louisiana as it relates to a recovery of
4 Hurricane Andrew expense.

5 A. The insurance proceeds must be reallocated because the Company
6 methodology to allocate insurance proceeds between Louisiana and
7 Florida is inappropriate. As shown on Schedule 7, the total claim
8 damage in Louisiana was $20,863,410. Claim damage in Florida
9 amounted to $265,794,938. Thus, Louisiana damage represented 7.28%
10 of the total claims. In spite of this, the Company allocated 21.61% of the
11 insurance proceeds to Louisiana and thus, Louisiana was allocated
12 $17,784,000 of total insurance proceeds, thus recovering 85.24% of the
13 claimed losses. By contrast, Florida, which represented 92.2% of the
14 total claims, was allocated $64,505,133 of the insurance proceeds,
15 resulting in a net loss of $201,289,805.

16

17 The Company explained the basis for the allocation of insurance
18 proceeds was based on the percentage of insurance premiums paid.
19 According to the Company, Florida paid 73% of the total premiums and
20 Louisiana paid 27%, thus, Louisiana was allocated approximately 27% of
21 the total insurance proceeds. This, of course, totally ignores the relative
22 amount of damage suffered in each jurisdiction.

1 An analogy might be helpful. If the Company were to insure two
2 buildings, one with a value of $100,000 (smaller building) and the other
3 with a value of $900,000 (larger building), the total insurable value
4 would be $1,000,000. Assuming a total deductible of $50,000 and a
5 premium for the smaller building of $1,000 and a premium for the larger
6 building of $4,000, and following the Company methodology, 20% of the
7 deductible would be allocated to the smaller building and 80% would be
8 allocated to the larger building. If a loss of $50,000 was incurred at the
9 smaller building and a loss of $550,000 was incurred at the larger
10 building and the policy limits, after taking into consideration
11 deductibles, was $200,000, the Company would allocate 20% of the
12 $200,000 in proceeds to the smaller building and $160,000 of the
13 proceeds to the larger building. Thus, the smaller building which
14 sustained 8.33% of the total damage, would recover 20% of the insurance
15 proceeds while the larger building which sustained 91.67% of the total
16 damage, would receive only 80% of the insurance proceeds. The net
17 loss for the smaller building would be $10,000 while the net loss to the
18 larger building, would be $390,000.
19
20 Claims, of course, are paid on the amount of damage up to the
21 maximum limit of coverage, after considering applicable deductibles.
22 Insurance proceeds should be allocated in a similar manner and not

1 based on the amount of insurance premiums paid. On Schedule 7, I
2 reallocate the insurance proceeds by assigning the maximum amount of
3 proceeds under the outside plant policy of $70 million between the two
4 jurisdictions, based on the relative amount of damage. I then allocate
5 the inside policy totally to the Florida jurisdiction as the Company stated
6 the claims in the Louisiana jurisdiction under this policy did not reach
7 the deductible limits. As shown on Schedule 7, this reallocation of
8 insurance proceeds, reduces the expense in the Florida jurisdiction by
9 $11,453,651 and reduces the Company amortization over a five year
10 period by $2,290,730 per year.
11
12 I show the amortization over a five year period only for comparative
13 purposes but, as previously stated, recommend that the entire amount of
14 the Hurricane Andrew damage, less the proper amount of insurance
15 proceeds, be written off in 1992.
16
17 E. Corporate Re-Engineering Cost - Force Reductions
18 Q. **Please explain why you are recommending that test period expense be**
19 **reduced by $8,697,063 and furthermore, that the Company reduce rates**
20 **through step decreases in 1995 and 1996.**
21 A. BellSouth Corporation announced planned employee reductions on a
22 corporate level of 8,000 by 1996. This, obviously, will have a significant

1 impact on the Company's operations. The Company will ultimately
2 recognize significant savings in terms of reduced wages and employee
3 benefits. As shown on Schedule 8, the net savings will not begin to
4 materialize until 1994 with substantial savings being recognized in 1995
5 and 1996. In the information provided in response to OPC 988, I have
6 assumed that the savings recognized in 1995 and 1996 are incremental
7 levels of savings and not additional savings to be recognized in each of
8 the years. If my understanding is incorrect, the step decrease in 1996 is
9 significantly understated.
10
11 While the Company will ultimately recognize these significant savings in
12 1994 and beyond, the Company has included in test period expense on
13 an intrastate basis, $8,697,063 in net expense. In other words, the 1993
14 budget includes nearly $8.7 million of expense in excess of projected
15 savings. The breakdown of the expected cost and savings during the test
16 period, is shown on Schedule 8.
17
18 Without any adjustments, rates would be set to include a net expense of
19 nearly $8.7 million, while totally ignoring the expected savings,
20 particularly in the years 1995 and 1996. As the projected 1993 test
21 period is the basis for setting rates in 1994 and beyond, it is necessary to
22 remove from the projected test period the $8,697,063 in order to

1 establish an appropriate going forward level of rates. Should the
2 Company incur this net level of expense in 1993, it is my
3 recommendation that the Company be allowed to recover such expense
4 in 1993 subject to a review of the cost incurred. Thus, any reasonable
5 and prudently incurred expenses will be used to offset refunds, if any,
6 for 1993. Furthermore, I recommend that the additional savings which
7 will be recognized by the Company in 1995 and 1996, when the savings
8 are far in excess of cost, be taken into consideration and the
9 Commission order step decreases in both 1995 and 1996.
10
11 Q. In Mr. Reid's supplemental testimony, he addressed the possible savings
12 the Company will realize as a result of the force reductions. What
13 concerns did Mr. Reid express concerning these potential savings?
14 A. On page 17 of his testimony, Mr. Reid expresses his concerns as follows:
15 If the regulatory plan which the Commission authorized for
16 Southern Bell in Docket No. 880069-TL were continued, as the
17 Company proposes, the incentive would exist for the Company to
18 incur force reduction costs since the opportunity to share in the
19 cost savings would be present. The Company would recover its
20 incurred cost and benefit from its own initiatives through
21 improved earnings opportunities in the future. However, if the
22 Commission resets rates in this proceeding to capture all of the
23 savings which Southern Bell has been able to achieve through its
24 own efforts under the plan and to capture future savings which
25 the Company is only anticipating at this time, it will be penalizing
26 the Company for its cost control efforts rather than rewarding it.
27 Under this scenario, the Company and its stockholder would be
28 forced to bear the cost of employee downsizing without even the
29 opportunity to benefit from increased efficiency.

1
2 Mr. Reid seems to be indicating that the Company will somehow be
3 penalized for its cost-cutting efforts. Mr. Reid suggests that under
4 incentive regulations, there is an incentive for the Company to cut costs
5 because such savings can be shared between the shareholders and the
6 ratepayers.
7
8 Q. Do you agree with Mr. Reid's position?
9 A. No. When costs were increasing and the Company continued to add
10 employees, increase wages and add employee benefits, the Company had
11 the option of cutting other costs, seeking rate relief before this
12 Commission or accepting a lower return on equity than perhaps the
13 Company believed appropriate. I strongly disagree with the argument
14 that somehow, incentive regulations drives cost savings. Certainly, the
15 Company should always strive to keep its costs as low as possible. To
16 argue that without incentive regulations, the Company, for some reason,
17 will not attempt to keep its cost in line, or reduce costs, does not make
18 any sense.
19
20 Later in my testimony, I discuss the Company's incentive compensation
21 plan and levels of employee benefits. I show that the utility industry has
22 the highest cost of employee benefits, per employee, of any industry.

1 Certainly, as these costs were increasing and the Company sought rate
2 increases to cover these increases, the Company did not suggest that
3 there be a sharing of these increased costs between the shareholders and
4 ratepayers. The Company sought to recover what it believed to be all
5 reasonable and prudently incurred expenses.
6
7 Now, the Company is able to reduce its work force. Perhaps the
8 reduction is due to technological changes which has allowed the
9 Company to serve more customers with the same number of employees
10 or to reduce its maintenance costs. Perhaps the Company has merely
11 found its work force to be excessive. In any event, the Company has
12 determined that it can reduce its work force and has a planned
13 reduction on a total corporate basis of 8,000 by the end of 1996. All of
14 these savings should be passed through to the ratepayer just as the costs
15 were passed through to the ratepayer as salaries and wages increased,
16 and the Company added additional employee benefits for its employees.
17 Any technological changes are already reflected in the Company's rate
18 base and thus, ratepayers are being asked to pay a return on and a
19 return of such costs in the current proceeding. There is absolutely no
20 justification that ratepayers should not benefit from the full amount of
21 the employee reductions as planned by the Company.
22

1 F. Maintenance Charges Deferred to 1993 Budget

2 Q. Please explain why you are recommending that the 1993 projected test
3 year be reduced on a total Company basis by $24,900,000 which the
4 Company has identified as amounts added to the 1993 budget due to the
5 postponement of work in 1992 due to Hurricane Andrew.

6 A. According to the Company in response to OPC 936, the original 1993
7 budget for plant labor was understated due to the postponement of
8 1992 work due to Hurricane Andrew. In response to OPC 850, the
9 Company stated:

10 As a result of Hurricane Andrew, work activities planned in 1992
11 to improve the trouble report rate were deferred; therefore not
12 achieving the force and technological savings forecasted in 1993
13 and beyond.
14
15
16 As a result of the postponement of work activities, the Company
17 apparently added $24.9 million to its labor budget and spread these
18 dollars to various accounts.
19
20 In spite of these responses, the Company now claims that the additional
21 $24.9 million was not added to the 1993 budget as a result of the
22 postponement of work activities in 1992 but merely because when the
23 preliminary budget was reviewed, it was obvious that there was not
24 enough labor expense to handle the required work load. Thus, the
25 Company argues that the 1993 budget does not include any additional

1 expense because of the postponement of work activities in 1992.

2

3 As can be seen from Schedule 9, the number of management and
4 nonmanagement personnel involved in repair activities has fluctuated in
5 the period 1982 through 1993. Following a rate case in 1983, there was
6 a substantial reduction in the repair work force in 1984. Another
7 substantial reduction occurred in 1988 following incentive regulation.
8 In 1992 and 1993, the number of employees has increased.

9

10 Previously, I discussed the Company's position that, without incentive
11 regulation and with all savings being passed through to ratepayers, there
12 would be less incentive for the Company to make force reductions. I
13 don't have the facts from the Company's 1983 and 1988-89-90 rate cases
14 to see if the Company forecast the employee reductions that were
15 actually experienced in 1984 and 1988. Presumably, there were a
16 number of valid reasons that allowed the Company to significantly
17 reduce the work force in repair activity following a rate filing. Certainly,
18 the work force was not merely reduced to allow the Company to
19 increase its earnings.

20

21 The question that must be answered in this proceeding is whether the
22 budgeted level of expense, particularly as it relates to repair activities, is

1 appropriate on a going forward basis. If budgeted expenses were
2 increased because work activities planned in 1992 to improve the trouble
3 rate were deferred because of Hurricane Andrew, then obviously, 1993
4 budgeted expense is not representative of a going forward level of
5 expense. If, on the other hand, as the Company states, the $24.9 million
6 was added to the budget because the Company could not complete
7 planned for activities, given the initial level of budgeted labor dollars,
8 then an adjustment is not required.
9
10 Perhaps the appropriate level of expense lies somewhere between zero
11 and the $24.9 million. I find it questionable that no repair activities
12 were deferred from 1992 into 1993. It is difficult to believe that the
13 Company continued its normal level of repair activities, particularly those
14 activities to improve the trouble rates, following the aftermath of
15 Hurricane Andrew. According to Mr. Reid in his supplemental
16 testimony, Hurricane Andrew cleanup occurred well into 1993.
17 Hundreds of employees were involved in the cleanup effort; therefore, I
18 find it probable that there was, in fact, a deferral of maintenance from
19 1992 into 1993 to improve the trouble rate. Furthermore, if the need to
20 improve the trouble rate was caused by an inappropriate reduction in
21 employees in order to increase earnings for the shareholder, it would
22 now be inappropriate to ask ratepayers to support, through rates, the

1 cost necessary to correct these recurring problems. Therefore, it is my
2 recommendation as shown on Schedule 9, to reduce intrastate expense
3 by $18,970,488.
4
5 G. <u>Incentive Compensation</u>
6 Q. **Please explain why you are recommending that incentive compensation**
7 **be reduced on an intrastate basis by $14,653,380.**
8 A. The basis for my adjustment is two fold. I explain the rationale behind
9 my adjustment on Schedule 10. On that schedule, I discuss the
10 numerous problems in attempting to analyze the amount of incentive
11 compensation included in the 1993 budget. The Company provides
12 many management incentive award plans. Most of the plans are
13 available to management employees. Additionally, the Company has a
14 plan for nonmanagement employees which is identified as the Non-
15 Management Team Incentive Award (NTIA). I was unsuccessful in my
16 attempts to determine the amount of incentive compensation included
17 in the projected 1993 test year. The Company provided an explanation
18 which I found to be unacceptable. Certainly, it is inappropriate to set
19 rates based on a budget where the Company itself, cannot determine the
20 dollar amount of incentive compensation included in that budget.
21
22 The Company did provide information relating to the management

1 incentive compensation paid in the years 1989 through 1992. The
2 payouts shown on Schedule 10 represent incentive compensation earned
3 in the prior year. Additionally, as it related to the team awards, the
4 Company showed the incentive award payout percentages for the years
5 1990 through 1992. As can be seen from the schedule, the Florida
6 payout percentages declined from 135.0% in 1990 to 107.3% in 1992.
7 BST Headquarters payout remained near the 135.0% level in 1990 and
8 1991 but declined to 122.2% in 1992. Team award percentage payouts
9 are based on a combination of meeting certain financial and service
10 goals. Throughout the year, an accrual is made estimating the expected
11 level of payout based on actual and expected results for the year.
12 During the year, the accrual is adjusted as additional information
13 becomes available.
14
15 As stated in response to OPC-1172d, the budget was initially set based on
16 a payout percentage of 150%. However, the Company then went on to
17 explain how numerous adjustments could have impacted the incentive
18 compensation amount included in the budget. It is, of course,
19 impossible to recommend a precise adjustment, given the Company's
20 inability to state the amount of incentive compensation included in the
21 1993 budget. However, the Company claimed that the Company will
22 expend $37.7 million in incentive compensation in 1993 with an

1 assumed payout ratio of 120% for BST-Headquarters and 90% for Florida.
2 Based on this information, and the Company's response indicating that
3 initially the team payout percentage was at 150%, I have assumed that at
4 a minimum, the budgeted level of expense is overstated by 25%.
5 Furthermore, I am recommending an additional 25% reduction to reduce
6 the current level of expense in order that there be some sharing in the
7 level of incentive compensation between the ratepayer and shareholder.
8
9 I am aware of the Company position that incentive compensation does
10 not represent a bonus but, in fact, represents "at-risk" compensation. In
11 other words, employees have foregone wage and salary increases and
12 thus their base salaries are less than market driven rates and the
13 incentive compensation merely brings them to a level of compensation
14 equal to salaries for comparable positions. Thus, if the Commission
15 denies the recovery of incentive compensation, it, in effect, is reducing
16 salary levels to below market levels. I find this argument interesting but
17 not compelling.
18
19 The Company has made significant reductions in employee levels over
20 the past few years. An additional reduction of 8,000 employees is
21 planned by the end of the year 1996. I assume many of the reductions
22 have been through early retirements, while some may have been actual

1 terminations. I will not argue that some of the positions may require
2 highly technical skills and thus, the position could not be filled by any
3 individual without the necessary skills. However, I am equally confident
4 that with the termination and early retirements, the number of qualified
5 individuals seeking employment, has increased. A qualified available
6 pool of individuals seeking employment would tend to reduce the levels
7 of market driven salaries. Therefore, I question whether or not, it is
8 reasonable for the Company to recover the full amount of incentive
9 compensation which the Company is required to pay out following the
10 formulas of its many plans. Certainly, the Company can reward its
11 employees through compensation incentive plans and employee benefits
12 in any way it deems appropriate. However, this does not mean that
13 ratepayers should be asked to bear the burden of any payouts deemed
14 excessive, given today's market conditions. Therefore, I believe my
15 adjustments as shown on Schedule 10, are conservative and should be
16 adopted by this Commission.
17
18 If the Company believes that my adjustment is punitive, I offer this
19 challenge to the Company. For any current job openings, offer that
20 position at the current salary level, or even below the current salary
21 level, without any provision for incentive compensation. I offer that
22 given the level of salary and employee benefits offered to its employees

1 and given the number of qualified individuals seeking employment, the
2 Company will have no trouble filling any position.
3
4 H. Pension Expense
5 Q. **Please explain why you are recommending that pension expense be**
6 **reduced by $20,468,806.**
7 A. I am recommending that pension expense be reduced for a number of
8 reasons. Some background information might be helpful. The Company
9 has calculated pension expense in accordance with SFAS 87 which is the
10 Financial Accounting Standard which dictates the basis for computing
11 pension expense following Generally Accepted Accounting Principles.
12 SFAS 87 was effective for years beginning on or after December 15, 1986.
13 Pension expense is actuarially determined and follows certain guidelines
14 established under SFAS 87. Following these guidelines, the Company
15 annually accrues for pension expense, even though none of the funds
16 collected through rates, are used to fund the pension plan Trust. This is
17 because the funding requirement under ERISA has been exceeded.
18 Furthermore, because the pension plan is overfunded, the annual book
19 accrual for pension expense does not result in a tax deduction. Thus,
20 each year, a book accrual is made to expense with a corresponding
21 credit to the pension liability account. While the pension plan liability
22 does serve to offset rate base, this benefit is offset by the combined

1 Federal and State tax deferral which, prior to January 1, 1993, offsets the
2 liability by 37.63%. In other words, for each dollar of liability used to
3 offset rate base, deferred taxes offset this amount by 37.63 cents.
4
5 Q. **On a BellSouth Corporation level, by what dollar amount do the funds**
6 **held in the Pension Trust exceed the projected benefit obligation?**
7 A. As of the end of 1992, the assets in the trust exceeded the accumulated
8 benefit obligation by over $1.63 billion. In other words, the market
9 value of the assets held in the trust exceeded the projected benefit
10 obligation for all employees covered by the pension plan by $1.63
11 billion. Additionally, as I previously stated, the Company has been
12 accruing for pension expense even though no contributions have been
13 made to the pension plan trust over the past few years. While no
14 contributions were made, the Company continued to accrue for the
15 pension plan and recovered these amounts through rates. On a BST
16 basis, the accrued liability for the pension plan now exceeds $473
17 million (OPC-1177).
18
19 Q. **Does the Company foresee any need to fund the trust in the foreseeable**
20 **future?**
21 A. No. In fact, the Company does not anticipate any funding at least
22 through the year 2000.

1 Q. You previously mentioned that the Company calculates pension expense
2 following SFAS 87. Does the Company have any discretion in computing
3 pension plan expense under SFAS 87?
4 A. Yes. There are numerous assumptions in the calculation of pension
5 expense under SFAS 87. Some of the assumptions are the discount rate,
6 the projected earnings rate of the funds held in Trust and the
7 assumption as to future wage increases. Wage levels are one of the
8 drivers of the estimate of pension expense in that an adequate level of
9 funding must be available to make payments from the Trust, such
10 payments being based, in part, on wage levels at retirement.
11 Additionally, when SFAS 87 was first adopted, there was a transition asset
12 which the Company chose to amortize as an offset to expense over 16-17
13 years. Had the Company chosen to amortize this asset over a shorter
14 period, pension expense would have been reduced.
15
16 Q. When will the Company be required to fund the pension plan trust?
17 A. That depends on a number of factors. However, as I stated earlier, there
18 is no intent to fund the plan through at least the year 2000. Also, it
19 should be kept in mind that the Company at a BST level, has accrued
20 over $473 million in amounts due the pension plan. These amounts
21 have already been collected from ratepayers. Presumably, if payments
22 are required, this liability would be reduced with a credit to cash.

1 While I support SFAS 87, it makes little sense to continually collect from
2 ratepayers a provision for pension plan expense when, in fact, a
3 contribution may never be required. In fact, I have reviewed various
4 scenarios of pension plan expense which shows projections of a negative
5 expense in the near future. In my opinion, it is inappropriate to accrue
6 for an expense which may never be paid. Therefore, I am
7 recommending that the expense included in the projected test year, be
8 reversed. I then recommend that the Company meet with its actuaries to
9 determine realistic revisions to the pension plan assumptions so as to
10 negate the need to record pension plan expense for financial reporting
11 purposes. This may include the more rapid amortization of the
12 transition assets, and adopting a more realistic estimate of wage
13 increases given the most recent history of wage increases granted. With
14 changed assumptions, rates can be reduced but the Company will not
15 suffer any financial hardship because the need to record pension
16 expense will be eliminated.
17
18 I. Employee Benefits
19 1. Concession Revenues
20 Q. **Please explain why you are recommending that revenue be increased by**
21 **$5,646,577 as shown on Schedule 12.**
22 A. I am making the recommendation that revenues be increased by the

1 amount of concession revenue granted to its employees because it is my
2 opinion that Company provided employee benefits are adequate, if not
3 excessive, and therefore ratepayers should not bear this additional
4 burden associated with these foregone revenues. In a recent decision in
5 Docket No. 92-09-19 before the State of Connecticut Department of
6 Public Utility Control relating to the application of The Southern New
7 England Telephone Company, the Commission on page 74 stated:

> 8 While the Department has approved of this practice for many
> 9 years, we believe that public acceptance of concession benefits is
> 10 questionable and that these benefits are obsolete for a utility
> 11 subject to public scrutiny and regulation. In the next case no
> 12 concessions will be allowed for ratemaking purposes, so the
> 13 Company should consider this fact when renegotiating contracts
> 14 with bargaining units. In this rate case, the Department concludes
> 15 that ratepayers should not bear the cost of providing free service
> 16 for non-bargaining unit employees and retirees. It appears from
> 17 the data on the record that the amount of foregone revenue in
> 18 concessions to bargaining unit employees is approximately equal
> 19 to that for other employees. Response to Interrogatory OCC-128
> 20 revised; Late Filed Exhibit No. 60. Based on a 50-50 sharing
> 21 between ratepayers and shareholders, revenues are increased by
> 22 $2,207,000.

23
24
25 Basically, the Department disallowed the concession benefit for
26 management employees and retirees. I am recommending that all
27 concession revenues be included as revenues. To my knowledge,
28 telephone companies are the only utility that provide free or discounted
29 service to their employees. The Company provides a wide range of
30 fringe benefits to its employees. As outlined in response to OPC 800,

1 the cost of providing employee benefits to its management employees is
2 $23,419 per management employee and $16,361 per employee for its
3 non-Management employees. The US Chamber Research Center
4 publishes an annual report entitled Employee Benefits. The 1992 report
5 which is based on 1991 employee benefits, shows that utility companies
6 have the highest cost of employee benefits per employee of any industry.
7 The cost per employee is $19,375. The average cost of providing
8 employee benefits for all industries is $13,126. Thus, public utilities
9 exceed the average by $6,249.
10
11 Q. **Is the provision of free or discounted service to the Company's**
12 **employees considered a taxable benefit?**
13 A. The Company does not consider the provision of this free or discounted
14 service to be a taxable benefit. Normally, the provision of a service free
15 or at a discount represents taxable income. However, the Company
16 believes such services are exempt from taxation under Section 132 of the
17 Internal Revenue Code. Section 132 allows an exclusion from gross
18 income for a "no additional-cost service". Section 132(b) defines a "No
19 additional-cost service" if (1) such service is offered for sale to customers
20 in the ordinary course of the line of business of the employer in which
21 the employee is performing services, and (2) the employer incurs no
22 substantial additional cost (including forgone revenue) in providing such

1 service to the employee (determined without regard to any amount paid
2 by the employee for such service). In response to OPC 772, the
3 Company provided the following information. Internal Revenue
4 Regulation Sec. 1.132-2(2) ...provides that "services that are eligible for
5 treatment as no-additional-cost services include excess capacity services
6 such as...telephone services."
7
8 Q. What services does the Company provide free or at a discounted rate to
9 its employees?
10 A. The Company listed the benefits in response to FPSC Staffs 21st
11 Interrogatories, Item No. 456. For employees with over 30 years of
12 service, most of these benefits are provided free of charge. For
13 employees with less than 30 years service, the services are provided at a
14 40% discount; however, an employee is allowed to make $25 of intra-lata
15 sent paid or calling card calls per month, free of charge and for
16 employees with over 30 years of service this increases to $50 per month.
17
18 Q. If an employee lives outside the Company's service territory, does the
19 Company still offer these free or discounted services?
20 A. Yes. However, the employee is required to pay the monthly charges and
21 then seek reimbursement from the Company. (See OPC-1133)
22

1 Q. Have you evaluated the Company's position that the Company's offering
2 of such services does not represent taxable income to the employee?
3 A. Yes. I find the Company's interpretation to be questionable. In order
4 for the service to be non-taxable, the service must be provided from
5 excess capacity. Clearly, in the case of an employee who lives outside
6 the service territory and must pay for the service and then be reimbursed
7 by the Company, this represents taxable income. I strongly suggest that
8 the Company re-evaluate its position and begin reporting the foregone
9 revenue as taxable income for those employees who live outside of the
10 Company's service territory. I also question the Company position that
11 these services are provided from excess capacity. When I questioned the
12 Company as to whether excess capacity existed on the Company's
13 system, the Company responded as follows:
14
15 a. The Company believes that Congress intended that free or
16 discounted telephone services can be provided to
17 employees within existing capacity without income tax
18 consequences to the employees. In support of this belief,
19 we offer the explanation provided by the staff of the Joint
20 Committee on Taxation from the "Blue Book" for the 1984
21 tax act, as follows:
22
23 "Where phone lines, switching capacity, and other overhead
24 already exist, the telephone calls which employees may
25 make without charge or at a reduced price impose no
26 substantial additional cost on the employer. Thus,
27 assuming the telephone service is provided on a
28 nondiscriminatory basis, the requirements of this exclusion
29 category are met, and the fair market value of the service is

1 excluded from gross income and wages." (Note that
2 BellSouth's plan meets the nondiscrimination
3 requirements.)
4
5 Employees are spread throughout the service territory such
6 that no excess capacity has been added to accommodate
7 services for employees. Instead, services are provided
8 within existing capacity determine to be adequate for
9 growth and service requirements for the customer body.
10
11 b. The Company's position is that concession service is
12 provided within existing capacity and that no excess
13 capacity exists or has been created solely for this purpose.
14 (OPC 1133a.b.)
15
16
17 Thus, the Company position is that while no excess capacity exists, these
18 services provided free or at a discounted rate meet the requirement of
19 Code Section 132. As the Company is not seeking a rate increase in this
20 proceeding, the Company has not included any cost studies showing the
21 cost to provide local service. However, in other proceedings, I have seen
22 cost studies where the Company has attempted to justify significant
23 increases in the rates charged for local service. Generally, the cost
24 studies show that the cost to provide local service is far in excess of the
25 current rate. This being the case, I question how the Company can
26 claim that providing free or discounted service can be provided from
27 excess capacity. Furthermore, it is illogical to assume that the $25 or
28 $50 of free intralata calls is without cost to the Company and is provided
29 from excess capacity. Certainly, the Company cannot argue that the
30 installation of modular jacks with associated inside wiring is without

1 cost.

2

3 Q. If the Company can truly provide free or discounted services to its

4 employees based on the premise that such services are provided from

5 excess capacity, do you have a recommendation concerning the

6 provision of service on a universal basis?

7 A. Yes. If the Company is able to provide free or discounted services to its

8 employees at no cost from excess capacity, then the Company should be

9 able to provide similar services to those who are unable to afford even

10 the most basic of services. I therefore recommend that the Company

11 offer free or discounted services to each resident within the Company's

12 service territory after the resident has provided documentation that

13 he/she falls below minimum income levels as established by this

14 Commission. Thus, the Company will truly be able to provide universal

15 service to all residents and at no cost to the Company, because such

16 services will be provided from excess capacity.

17

18 Q. Your recommendation is to increase revenues by $5,646,577. Have you

19 received any other data responses which lead you to believe that this

20 amount may be inaccurate?

21 A. In response to OPC 1188, the Company estimated the amount of

22 concession revenues to be $2,055,992. The following information was

1 provided:

2

3 i. The following estimates of expense were calculated using
4 the ratio of employees in Florida (17,390) to the total
5 number of employees in the plan (87,243) and the number
6 of employees in BST telcos (76,990) to the total number of
7 employees in the plan (87,243). The 1993 projection
8 assumes a 3.0 percent CPI increase in estimated cost.
9
10

	1992	1993
Discounts on Goods and Services:		
Florida (19.9% of total)	$1,999,021	$2,058,992
BST (88.3% of total)	$8,850,182	$9,115,687

18 (OPC 1188a.i.)
19
20
21 However, the Company response to a Staff data request which asked for

22 the intrastate amount of concession revenue, included the $5,646,577

23 which I have included on Schedule 12. Should this amount prove to be

24 inaccurate, an adjustment will be required and will be made with the

25 supplemental filing.

26

27 Q. **Please explain your alternative recommendation on Schedule 12.**

28 A. As concession revenues are truly a form of employee benefits, however,

29 for the most part, represent foregone intrastate revenues, the majority of

30 the burden falls upon the intrastate ratepayer. This, of course, is

31 inappropriate. Therefore, if the Commission does not accept by

1 recommendation to include in revenues, the full amount of the free and
2 discounted services, a portion of the benefit should be allocated to the
3 interstate jurisdiction. While the Company may argue that this allocation
4 to the interstate jurisdiction cannot be recovered from the interstate
5 jurisdiction, I suggest that the Company revise the reporting of
6 concession revenues and that on a monthly basis, employee benefits be
7 charged for the value of the free and discounted services and the
8 appropriate revenue categories credited through a journal entry. This
9 should allow the Company to recover a portion of these expenses from
10 the interstate jurisdiction.
11
12 2. Supplemental Executive Retirement Plan
13 Q. **Please explain why you are recommending that test year expense be**
14 **reduced by the intrastate level of expense attributable to the**
15 **supplemental executive retirement plan.**
16 A. The expense associated with providing the supplemental executive
17 retirement plan (SERP) should not be borne by the ratepayer. As I
18 previously stated, Company employees are provided a wide range of
19 employee benefits. The supplemental executive retirement plan provides
20 additional pension benefits above and beyond the normal pension plan
21 to some of the highest paid employees. Ratepayers have supported
22 through rates, the cost of providing a pension plan for all qualified

1 employees. If the Company believes that these pension benefits are not
2 adequate and do not provide sufficient benefits to its highest paid
3 employees, it certainly has the right to provide additional benefits for
4 these highly compensated employees; however, ratepayers should not
5 have to bear the burden of these costs. A similar benefit is provided to
6 the executives of Nevada Power Company but in rate filings, the
7 Company does not seek recovery for this cost but treats the expense as a
8 below-the-line item. It is my recommendation that the Commission
9 disallow this expense in this proceeding and require the Company to
10 remove such expense in the 1992 and subsequent Surveillance Reports.
11
12 J. SFAS 106
13 Q. Please explain your adjustment to reduce costs associated with the
14 provision of postretirement benefits under SFAS 106.
15 A. I recommend that the Company be required to recalculate the cost
16 under SFAS 106 taking into consideration the reimbursements the
17 Company will receive from AT&T for post-divestiture medical expense
18 for BST employees that were retired at the time of divestiture where the
19 cost of providing the benefits are being shared by AT&T and BellSouth
20 Telecommunications. It is my position that the expected reimbursement
21 from AT&T should have been factored into the Company's accounting
22 when the transition benefit obligation was determined and thus, the

1 amortization of this obligation would be less had the expected present
2 value of these reimbursements been factored into the amount. While the
3 Company believes this amount to be immaterial, ratepayers are being
4 asked to support, through rates, the entire cost of providing these
5 postretirement benefits as dictated by SFAS 106. Although the Company
6 may consider the amount to be immaterial, the Company has the ability
7 to calculate the dollar amount by which expense should be reduced.
8 Absent this, rates will be overstated. Therefore, the Company should be
9 required to recalculate the cost, factoring in the expected
10 reimbursements from AT&T in order to establish a proper level of going
11 forward costs. On Schedule 14, I reduce expense by $500,000 but this is
12 merely an estimate pending information from the Company which
13 quantifies the reduction to expense.
14
15 K. Company Proposed Pro Forma Adjustments
16 1. Bond Refinancing Costs
17 Q. Please explain your adjustment on Schedule 15.
18 A. My adjustment on Schedule 15 reduces the Company's pro forma
19 adjustment to increase the going forward level of expense by $9,247,000
20 which the Company has included as a pro forma adjustment and, in
21 effect, completely negates the interest savings associated with long-term
22 debt which was refinanced during 1993. In refinancing certain debt

1 issues during 1993, the Company incurred costs associated with call
2 premiums, and the Company was left with unamortized premiums,
3 discounts and issuance expense of debt which was retired and replaced
4 with lower cost issues. Normally, such costs are amortized over the life
5 of the new issues. Generally Accepted Accounting Principles requires
6 that such costs be written off in the year in which the debt is retired.
7
8 As a result of the lower cost debt being issued, the Company will
9 recognize reduced interest cost and thus the overall cost of capital will
10 be reduced. In this proceeding, the Company has included the going
11 forward level of debt cost based on the new debt issues. Thus, the
12 ratepayers will benefit from the inclusion of the lower cost of debt in the
13 capital structure which results in a lower overall rate of return.
14 However, the Company then takes away these savings by proposing a
15 pro forma adjustment to completely offset these savings. Thus, there is
16 no net savings to ratepayers.
17
18 However, as the Company will continue to realize these savings in
19 interest costs into the future, the Company will ultimately be the
20 beneficiary because rates will permanently include this $9,247,000 of
21 expense; however the cost will be fully amortized by the end of 1995 or
22 early 1996. At that point, the Company will no longer have the

1 amortization expense but will continue to enjoy the savings from
2 reduced interest cost. Rates, of course, will continue to include the full
3 $9,247,000.
4
5 I recommend the Company's adjustment be reversed and the Company
6 be allowed to recover an amortization of the cost in 1993 and 1994 as if
7 the costs were being amortized over the life of the new debt which I
8 have estimated to be 30 years. Then, I recommend that the remaining
9 amount be amortized equally in the years 1995 and 1996 as an offset to
10 the step decrease which I previously proposed. Using an estimated cost
11 of $20 million, I recommend that the step decrease be reduced by $9.5
12 million in 1995 and an equal amount in 1996. My proposal is outlined
13 on Schedule 15 and the step decreases are shown on Schedule 43.
14
15 2. Casualty Damage Reserve Accrual
16 Q. **Please explain why you are recommending that the Company's attempts**
17 **to establish a casualty damage reserve accrual not be adopted.**
18 A. I recommend against the establishment of this casualty damage reserve
19 accrual because it does not meet the requirements of Generally Accepted
20 Accounting Principles and the establishment of such a reserve leaves
21 many unanswered questions. First, there is no provision under
22 Generally Accepted Accounting Principles to allow for a casualty damage

1 reserve accrual. I realize that many accountants would not question the
2 establishment of such a reserve based on the general policy of
3 conservatism, particularly following an event such as Hurricane Andrew.
4 However, ratepayers are already being asked to bear the burden of
5 providing for postretirement benefits under SFAS 106 and as I discuss
6 later, post employment benefits under SFAS 112.
7 As I discuss on Schedule 16, the establishment of such a reserve has
8 some appeal but, as it does not meet the requirements of Generally
9 Accepted Accounting Principles, I do not favor the establishment of such
10 a reserve. As I point out on Schedule 16, the BellSouth service
11 territories were hit with a Spring Storm in 1993 which was identified as
12 the "Blizzard of '93/Storm of the Century". On a Florida basis, the
13 Company estimates the damage was $3,208,000. These costs will be
14 included in the 1993 results of operations. Thus, refunds, if any,
15 ordered for 1993, will be reduced by these costs.
16
17 Q. **If the Company is allowed to increase rates on a going forward basis for**
18 **this $6 million in proposed accrual for a casualty damage reserve, what**
19 **charges will be made against the accrual?**
20 A. If the Company charges against the reserve, minor storm damage that
21 would normally be charged directly to operations, the Company will be
22 allowed to increase its earnings for the benefit of its shareholders and at

1 the expense of the ratepayer. In other words, the Company will be
2 recovering through rates $6 million to provide for a reserve accrual
3 while, at the same time, the Company can charge against the reserve
4 amounts which normally would be expensed.
5
6 Q. **And at what level does the reserve become excessive and how should the**
7 **reserve be returned to ratepayer?**
8 A. The company offers little information other than a request to increase
9 going forward rates by $6 million. Absent adequate responses to these
10 numerous questions, the Company's attempt to increase expense for a
11 casualty damage reserve accrual should be rejected.
12
13 3. Extraordinary Retirement Expense
14 Q. **Please explain why you are recommending that the Company's attempt**
15 **to increase expenses by over $19.8 million for extraordinary retirement**
16 **expense be rejected.**
17 A. As I previously discussed, the Company has attempted to include in
18 rates, a number of expenses associated with Hurricane Andrew.
19 Hurricane Andrew occurred in 1992. As a result of Hurricane Andrew,
20 certain assets were retired prematurely. The Company has determined
21 that the net book value of these assets which were retired were
22 $19,852,000 on an intrastate basis. The Company has included as a pro

1 forma adjustment, the full $19.8 million in expense. This will become a
2 permanent addition to rates, even though the retirement is a one-time
3 event. Obviously, this is inappropriate. The Company would continue
4 to collect over $19.8 million in each year subsequent to 1994 if the
5 Company's proposal is adopted. I recommend this reserve deficiency be
6 written off in 1992. As I previously explained, this, in effect, allows the
7 Company to recover such costs because, after considering all of the
8 adjustments, the Company still earned near the floor when the 1992
9 actual results of operations are adjusted for the many items I discuss in
10 my testimony.
11
12 Q. **But isn't your recommendation to charge against 1992 earnings amounts**
13 **such as the $19.8 million in extraordinary retirement expense considered**
14 **retroactive ratemaking?**
15 A. No. Obviously, the Company's books and records for 1992 have already
16 been closed. In fact, the Company's books and records for 1993 will
17 have been closed long before the Commission issues a decision in this
18 proceeding. It is my opinion that the Company should have -- following
19 generally accepted accounting principles -- written off the Hurricane
20 Andrew expense and this particular expense in 1992. The Company
21 chose not to. The Company can continue to carry such costs on its
22 books or it can write such costs off in 1993. I show an adjusted

1 Surveillance Report to show that in fact, the Company has already
2 recovered such costs because it was able to earn near the floor in 1992
3 even if it had written off these amounts in 1992. The Company chose
4 not to write off such costs in 1992 and thus, it earned over the floor,
5 thereby increasing returns to its shareholders.
6
7 The Company may choose to write these costs off in 1993 or continue to
8 defer such costs. If the Commission adopts my recommendation and
9 disallows recovery of the extraordinary retirement expense in 1994, the
10 Company will be left with no choice but to write off such expenses in
11 1994. This may adversely impact the Company's earnings in 1994 but
12 this merely balances the excessive earnings recorded by the Company in
13 1992 when such costs should have been written off.
14
15 Q. If the Company decides to write off such costs in 1993, should these
16 costs be used to offset refunds, if any, ordered for 1993?
17 A. No. Such costs should have been written off in 1992. Any reduced
18 earnings levels in 1993 will be balanced against the excessive earnings
19 the Company recorded in 1992 and which flowed directly to the
20 Company's shareholders.
21
22 4. Accounting for Post-Employment Benefits - SFAS 112

1 Q. Please explain your recommended adjustment shown on Schedule 18.

2 A. On Schedule 18, I recommend that the Company write off the cost of
3 providing for post-employment benefits under SFAS 112 over a two year
4 period, namely 1992 and 1993. I discuss the types of costs which the
5 Company accrues for under SFAS 112. I further discuss that the
6 provision for post-employment benefits is similar to the accrual for
7 compensated absences which was provided for under SFAS 43. The
8 provision for post-employment benefits is a one-time catch-up provision
9 which is then adjusted annually, similar to the adjustment for
10 compensated balances. The Company has the option to adopt SFAS 112
11 immediately, but no later than years beginning after December 15, 1993.
12
13
14 For ratemaking purposes and accounting purposes, the Company has
15 chosen to adopt SFAS 112 in 1993. The Company could have chosen to
16 adopt SFAS 112 in 1992. Presumably, the Company expects to offset
17 refunds, if any, ordered for 1993 by the full impact of the accrual for
18 SFAS 112. The Company is estimating the intrastate impact of this
19 accrual to be in excess of $20 million. Thus, the Company will be
20 seeking to reduce refunds, if any, by over $20 million to provide for this
21 book provision.
22

1 Q. Please explain what you mean by book provision.

2 A. This is merely an accounting entry required by SFAS 112. It will not
3 require any additional outlay of funds. In fact, even though the
4 Company expects to adopt SFAS 112 in 1993, the Company has not
5 changed any of its budgeted numbers to reduce payments for workers'
6 compensation, short-term disability or long-term disability already
7 included in the budgeted expenses. In other words, this is merely an
8 accounting entry. Through this accounting entry the Company will seek
9 to reduce refunds by over $20 million. As the Company could have
10 adopted SFAS 112 in 1992, I recommend that one-half of the provision
11 be charged to 1992 with the remaining half being charged to 1993. As I
12 previously stated, the Company earned near the floor in 1992. Had the
13 Company adopted SFAS 112 in 1992, reported earnings would have been
14 reduced but the Company would still have been allowed to earn near
15 the floor.
16
17 By delaying implementation until 1993, the Company is attempting to
18 shift all of the cost to the ratepayer. My recommendation is more
19 equitable and results in a sharing of these costs between the ratepayer
20 and the shareholder. Even with my recommendation, the Company was
21 still able to earn near the floor in 1992.
22

1 L. Compensated Absences

2 Q. Please explain why you are recommending that the Company not be
3 allowed to recover the amortization of compensated absences and
4 furthermore, that the unamortized balance of compensated absences be
5 removed from rate base.

6 A. The accrual for compensated absences as dictated by SFAS 43 was
7 effective for years beginning after December 15, 1980. Prior to the
8 adoption of Part 32 of the uniform System of Accounts, telephone
9 companies did not always follow Generally Accepted Accounting
10 Principles. Thus, the Company did not adopt SFAS 43 in 1980. Had the
11 Company adopted SFAS 43 in 1980 and even following the current 10-
12 year amortization allowed under SFAS 71 with Commission approval,
13 such costs would have been completely written off by 1990 and would
14 not be a factor in this rate case.
15
16 It is the Company's belief that this Commission effectively adopted the
17 10-year amortization by adopting an FCC Decision when it adopted Part
18 32 effective in 1988. Of course, Part 32, in and of itself, did not provide
19 for the amortization of the compensated absence accrual over a 10-year
20 period, nor did it provide for rate base treatment of the unamortized
21 balance. The Company cannot point to any Commission Order where
22 this Commission specifically allowed the accounting treatment which was

1 apparently adopted by the FCC.

2

3 Of course, there are many differences between FCC accounting and the
4 accounting adopted in this jurisdiction. As previously discussed, the
5 Company wrote off all of Hurricane Andrew costs in 1992 for the
6 interstate jurisdiction but is requesting an amortization of such cost over
7 five years in this jurisdiction. The adoption of a 10-year amortization
8 period by the FCC does not compel this jurisdiction to follow similar
9 accounting treatment.

10

11 In the previous section of my testimony, I discuss the Company's request
12 to recover the full cost of providing for post-employment benefits and to
13 offset such costs against any refunds in 1993. However, similar
14 treatment was not considered by the Company in 1990 or 1991 to follow
15 the dictate of SFAS 43. As shown on Schedule 19, I recommend that
16 intrastate expense be reduced by $5,214,200 and intrastate rate base be
17 reduced by $24,225,625. Unless the Company can show and provide a
18 Commission Order which specifically allowed the Company to recover
19 such costs over a 10-year period, the adjustment shown on Schedule 19
20 should be adopted.

21

22 M. <u>Inside Wire Net Income</u>

1 Q. Please explain why you are recommending that revenues be increased by
2 $1,000,000 to bring the net earnings of inside wire above the line.
3 A. The treatment of net earnings from basic inside wire maintenance
4 agreement is the subject of a generic hearing. I will not get into the
5 merits of why the net earnings from inside wire should be treated as
6 regulated income. I will leave those arguments to the generic hearing.
7 However, it is clear to me that the basic inside wire maintenance
8 agreements are an integral part of the regulated operation. To the
9 extent that the inside wire operation generates net earnings, these
10 earnings should be used to offset revenue requirements for the regulated
11 operation.
12
13 Q. Didn't your review of the Company's basic inside wire operations show
14 that the Company lost money for the twelve months ended December
15 31, 1992 and continues to lose money in the first six months of 1993?
16 A. Yes, however, there were, in my opinion, extenuating circumstances
17 which created the losses in both of these periods. First of all, the
18 Company has incurred significant legal and professional fees related to
19 the Attorney General investigation and the Davis Anti-Trust litigation.
20 Additionally, there may be costs in 1992 and 1993 associated with
21 Hurricane Andrew. These costs should not be considered on a going
22 forward basis. Additionally, the results of operations for 1992 and 1993

1 were adversely affected by refunds ordered in connection with the sales
2 investigation and many of the refunds related to periods prior to 1992.
3
4 Pending the receipt of further information from the Company, I have
5 included $1,000,000 as additional revenues in this proceeding. This
6 number will be updated when the Company provides accurate
7 information as to the results of operation and where nonrecurring and
8 inappropriate expenses can be removed from the Company's reported
9 results of operations.
10
11 N. Gross Receipts Tax
12 Q. Please explain your adjustments as detailed on Schedule 21 as they relate
13 to the gross receipts tax.
14 A. My proposed adjustments as shown on Schedule 21 are to increase
15 revenues by $17,617,819 and to reduce intrastate expense by $3,161,942.
16 The gross receipts tax is a tax imposed on the seller and not the
17 purchaser. The gross receipts tax was originally 1.5% and has been
18 increased in increments to 2.5% effective July 1, 1992. The initial 1.5%
19 gross receipts tax is included in the Company's base rates. Utilities are
20 allowed to recover the additional 1% tax as a pass-on tax and is shown as
21 a separate line item on each individual billing. It is also my
22 understanding that the Company is allowed to recover the full 2.5% on

1 the Federally mandated subscriber line charge (CALC) and the tax on the
2 subscriber line charge is included along with the 1% pass-on tax on each
3 individual bill.
4
5 Because the tax is a tax on the seller and the companies record the tax
6 as income either as a part of base rates or as a pass-on tax, the Company
7 must collect more than the stated rates in order to be made whole. In
8 other words, if the tax is 2.5% and the Company collected the 2.5% on a
9 $100 billing, the total bill would be $102.50. If the Company reported
10 the full $102.50 as taxable income, the calculated tax for gross receipts
11 tax purposes would be $2.5625 and therefore, the Company would not
12 be made whole.
13
14 The Company has included $50,757,000 in gross receipts tax as an
15 expense in this filing. I do not have a breakdown of how this tax is
16 separated between the intra and interstate jurisdiction. Most revenues
17 are subject to the tax, however, there are exceptions such as Directory
18 advertising revenues and nonrecurring charges such as one-time
19 installation fees. In addition, the Company can exclude from taxable
20 receipts, revenues which are for resale. In other words, the access
21 charges which the Company collects from interstate carriers are excluded
22 from revenues subject to tax because such services are resold and the tax

1 is collected on the ultimate sale or the billing issued by the
2 interexchange carrier.
3
4 Q. **Could the Company remove the 1.5% which is included in base rates and**
5 **then show the entire 2.5% as a separate line item on each billing?**
6 A. Yes. However, for some reason, the Company has not chosen to ask the
7 Commission for approval to adopt this methodology. I am aware that in
8 the last GTE Florida Incorporated and Central Telephone Company of
9 Florida rate proceeding, those companies sought approval to break out
10 the full amount of the gross receipts tax as a separate line item on each
11 billing. While this does not affect the total bill to the customer, it does
12 reduce the local service charge with a corresponding increase in the
13 gross receipts tax. It seems that this would have some appeal to the
14 Company and I am surprised that they did not request this type of
15 treatment.
16
17 Q. **How does the Company's accounting for the gross receipts tax differ**
18 **from Central Telephone Company of Florida and GTE Florida**
19 **Incorporated?**
20 A. Both of these companies recorded the pass-on tax as a separate line item
21 in revenues. Apparently, the Company does not record the pass-on tax
22 as a separate income item. In OPC 1141, I asked the Company to show

1 the complete break down of the projected $50,757,000 in gross receipts
2 tax and to show the specific revenue account where the Company
3 records the revenues from the gross receipts pass-on tax. The Company
4 merely listed the various revenue accounts. Therefore, I was unable to
5 verify that the Company had included in the budgeted level of revenues,
6 the amount of gross receipts pass-on tax which is included as part of the
7 $50,757,000 of expense.
8
9 I have calculated the intrastate pass-on tax to be $17,617,819. Obviously,
10 it is necessary to ensure that this amount is included in projected 1993
11 revenues. The Company was unable to provide documentation to show
12 that, in fact, this amount is included in test period projected revenues.
13 Certainly, in the Company's budgeting process, the Company should
14 have been able to identify the specific amount of pass-on tax broken out
15 from base revenues. If the Company merely applied a factor to 1992
16 revenues for projected growth, this would not recover the full amount of
17 the pass-on gross receipts tax because the 2.5% tax became effective July
18 1, 1992 while the 2.25% tax rate was effective July 1, 1991 and therefore,
19 was in effect for six months of 1992. Absent the Company's ability to
20 show that the pass-on tax is, in fact, included in test period revenues, the
21 recommendation to increase revenues by $17,617,819 is appropriate.
22

1 Q. Please explain why you are reducing intrastate expense by $3,161,942 as
2 shown on Schedule 21.
3 A. When I asked the Company to provide a breakdown of the $50,757,000
4 in gross receipts tax, the Company stated that $9,197,168 of the total tax
5 related to the interstate pass-on. I attempted to determine how much of
6 the interstate pass-on tax related to the CALC and only calculated
7 $6,035,226. If my calculation is inaccurate and the Company's interstate
8 pass-on tax of $9,197,168 is accurate, then more of the gross receipts tax
9 should be allocated to the interstate jurisdiction. On Schedule 31, I
10 attempt to determine the separation of all taxes, other than income,
11 between the interstate and intrastate jurisdiction. Included on that
12 schedule is the gross receipts tax where I calculated the interstate
13 amount as $6,035,225. If the Company is correct and $9,197,168 of
14 pass-on tax relates to the interstate jurisdiction, then an additional
15 adjustment to reduce intrastate expense is appropriate. That amount is
16 $3,161,942 as shown on Schedule 21.
17
18 O. <u>IntraCompany Investment Compensation</u>
19 Q. Please explain your adjustment as shown on Schedule 22.
20 A. I recommend that the intraCompany investment compensation charge of
21 $43,567,859 be reduced by $8,539,714 on a intrastate basis.
22

1 Q. Please explain what the intraCompany investment compensation is.

2 A. The intraCompany investment compensation is a charge between the
3 State jurisdictions within BellSouth Telecommunications. The Company
4 provided little other detail, other than to state that the net expense on
5 the Company's books is $43,567,859. I would presume that the charge
6 relates to the use of facilities and assets of one entity by another. The
7 Company indicated that the return on investment is one of six
8 components of the carrying charge rate and that the ICIC process does
9 not provide a separate calculation for each component. In OPC 1175, I
10 asked the Company to show how the $43,567,859 was determined,
11 listing each affiliate's investment, return, provision for taxes and all other
12 items which went into the calculation of the $43,567,859. The Company
13 pointed out that the ICIC is charged between State jurisdictions and is
14 not related to affiliated transactions. The Company then went on to
15 state that "The $43,567,859 consists of 1992 actual investment related
16 expenses associated with approximately 100 investment cases and a 3%
17 growth factor."
18
19 The Company then offered that the backup details can be reviewed at
20 the Company's Headquarters location. This response was due the same
21 date I, along with Counsel, was in Atlanta for a deposition of Company
22 employees. Unfortunately, we were not made aware at that time, that

1 there was voluminous material available for review at that location.
2 Time did not permit a return visit to the Company's Headquarters
3 location; however, a charge in excess of $43 million is obviously relevant
4 and requires further analysis.
5
6 Of particular import is, what items are being charged to the Company,
7 and whether these items are necessary in the provision of utility service.
8 One example would be aircraft which is used to transport executives and
9 the Board of Directors. Of equal importance, is what is the rate of
10 return being charged on assets. If the return is excessive due to an
11 excessive return on common equity, an excessive level of common equity
12 in the capital structure, or does not properly recognize deferred income
13 taxes and investment tax credits, the Company may well be overcharged.
14 Without additional information, it is impossible to make a precise
15 calculation; however, absent information from the Company, I am
16 recommending that intrastate expense be reduced by $8,539,714.
17
18 The Company should be required to provide the necessary information.
19 If the full information is, in fact, voluminous, the Company should be
20 required to provide a summary listing, listing the assets or types of assets
21 and each of the components of the carrying charge rate showing how
22 each component is calculated.

1 P. Uncollectible Accounts Expense

2 Q. Please explain why you are recommending that uncollectible accounts

3 expense be reduced by $6,089,493 as shown on Schedule 23.

4 A. The Company has significantly overstated the provision for uncollectible

5 accounts or bad debt expense in its 1993 budget. An analysis prepared

6 by the Company of the reserve for uncollectibles shows that the

7 Company is projecting an accrual for bad debt expense substantially

8 below the level of expense included in the 1993 budget. When this

9 accrual is combined with direct charge offs which the Company

10 experienced in 1992, the provision is significantly less than the amount

11 included in the budget. The adjustment is explained in detail on

12 Schedule 23.

13

14 Q. Did you analyze the Company's actual recorded expense through June

15 30, 1993?

16 A. Yes. In response to OPC 43rd POD, Item No. 662, the Company

17 provided a copy of the trial balance for the six months ended June 30,

18 1993. On a regulated basis, the Company expensed $15,474,721 for the

19 first six months of 1993 which includes both inter and intrastate

20 amounts. This is in line with my calculated expense level of

21 $33,883,507.

22

1 Q. Did you analyze all of the budgeted income and expense items and
2 compare these with actual results through June 30, 1993?
3 A. No. However, I did review various comparisons of budget to actual
4 expense. However, I did not have adequate information to make a
5 complete review. Of course, actual reported results can be misleading
6 because revenues and/or expenses can be positively or negatively
7 impacted by out-of-period or nonrecurring charges. This problem is
8 compounded in that the Company's budget for 1993, as it relates to
9 depreciation expense, was not used in the preparation of the MFRs.
10 Additionally, the Company recorded Hurricane Andrew expense on one
11 basis for budget purposes and on another basis for actual reporting
12 purposes. Therefore, without additional information, it is impossible to
13 analyze all budget variances; however, I am confident the adjustment on
14 Schedule 23 to reduce uncollectible accounts expense by $6,089,493 is
15 appropriate.
16
17 Q. RTU Fees
18 Q. Please explain your adjustment to reduce the budgeted level of RTU fees
19 as shown on Schedule 24.
20 A. I have reduced the budgeted level of expense because the Company
21 admits that the budgeted level of expense is excessive and will not be
22 expended in 1993. However, the Company then goes on to state that

1 the underrun in RTU expenses is being used as a "offset" for the overrun
2 that is occurring in other areas such as overtime work. I previously
3 argued in a United Telephone Company of Florida case that companies
4 have the ability to manage to profit. United Telephone of Florida
5 employees argued that the Company manages to load. In other words, if
6 access line growth exceeds expectations, the Company has the ability to
7 add work force to meet the unexpected load. While I agree with that
8 conceptually, I also believe that the Company has the ability to manage
9 to profit. In other words, there are many discretionary items within the
10 budget that the Company can delay if profits do not meet expectations.
11 Furthermore, expenditures can be accelerated into a current year even
12 though the items were unbudgeted if profits are running above expected
13 levels. Rates will be established in this proceeding on a going forward
14 basis, based on the Company's 1993 budget. The Company admits that
15 the budgeted level of expense for RTU fees is overstated. However, they
16 state this is intentional because other expenses, such as overtime, are
17 running in excess of budgeted amounts.
18
19 I previously discussed the Company's deferral of maintenance expense
20 from 1992 into 1993 because of Hurricane Andrew. In a pro forma
21 adjustment, the Company increases Hurricane Andrew expenses because
22 the original estimates of expense to be incurred in 1993 as it related to

1 Hurricane Andrew damage was understated. The Company has already
2 provided for these costs in its true-up entry. Thus, to the extent the
3 overtime in 1993 is a result of deferrals of maintenance expense from
4 1992, or more than expected expenditures of time for Hurricane Andrew
5 cleanup, the Company has already provided for these items.
6
7 If the Company can merely defer RTU expenditures because of overruns
8 in other areas, it simply means that the budget was overstated and the
9 projected expenditures for these RTU fees was unnecessary. Therefore,
10 the adjustment on Schedule 24 to reduce intrastate expense by
11 $3,390,308 is appropriate.
12
13 R. Depreciation and Amortization Expense
14 1. Amortization Expense
15 Q. **Please explain your adjustment on Schedule 25.**
16 A. On Schedule 25, I attempt to analyze the level of amortization expense
17 included in the Company's filing and compare that amount with various
18 responses to data requests and a Company proposed adjustment which
19 reduces amortization expense for amortizations which expire after 1993
20 and therefore, would be inappropriate on a going forward basis.
21
22 On Schedule 25, I identify specific Company responses to interrogatories

1 and attempt to reconcile these responses with the expiring amortization
2 adjustment. Additionally, the Company admitted that an additional one-
3 month's amortization for some vintages of general purpose computers
4 and corporate communication equipment is included in the Company's
5 filing. Based on the information provided, I calculate that amortization
6 expense is overstated by $7,614,000.
7
8 2. Amortization of Office Equipment/Official Communication
9 Equipment
10 Q. **Please explain your adjustments on Schedule 26.**
11 A. I detail the adjustments on the schedule. In response to OPC 1002
12 supplemental, the Company admitted certain errors in connection with
13 the calculation of the reserve balance associated with office
14 equipment/official communication equipment. The Company transferred
15 equipment from this account to the general purpose computer
16 equipment account during 1992. When this transfer was made, the
17 Company recomputed the reserve balance and originally showed an asset
18 balance of $27,395,000 and a negative reserve balance of $36,660,000.
19 When I questioned this amount, the Company ultimately revised the
20 numbers to show an asset balance of $28,023,746 and a reserve balance
21 of $36,128,645. This, of course, indicates the asset balance was over-
22 depreciated. In other words, depreciation exceeded the asset balance.

1 Furthermore, the Company has included $4,037,000 of amortization
2 expense in the current year related to this account. I recommend that
3 amortization expense be reduced by $4,037,000 and the excess reserve
4 balance be used to offset the Hurricane Andrew write-off which I am
5 proposing for 1992.
6
7 3. Depreciation Expense

8 Q. On Schedule 27, you reduce intrastate depreciation expense by
9 $2,197,184. Please explain the basis for your adjustment.

10 A. The adjustment is explained on the schedule. In response to a data
11 request, the Company stated that the digital circuit equipment which was
12 retired in the period 1990 to 1992 would not be amortized in 1993 but
13 would be depreciated at a rate of 7.5%. As I do not have the details of
14 the Company's calculation of depreciation and amortization expense, I
15 am unsure whether the Company has, in fact, included a provision for
16 depreciation as part of the filing. However, I do note that the account is
17 fully depreciated and as this asset category represents equipment retired
18 in 1990-1992, there should be no additional amounts included in the
19 asset balance. Therefore, if the Company did depreciate the over $41
20 million included in this balance, it would further overstate the excess of
21 the reserve balance over the asset. Therefore, it is my recommendation
22 that depreciation expense be reduced by $2,197,184.

1 S. Federal and State Income Tax Expense

2 1. Federal and State Income Taxes

3 Q. **Please explain your adjustment on Schedule 28.**

4 A. I attempted to analyze the Company's provision for Federal and State

5 income taxes as included in the Company filing. As I pointed out errors

6 in the Company's MFR schedules, the Company after making the error

7 corrections, merely revised other items, changed separation factors and

8 basically calculated the Federal and State income tax expense at the same

9 level as included in the original filing. I also asked the Company to

10 reconcile the Schedule M or timing differences between the current and

11 Federal income tax schedules. At first, the Company stated they did not

12 understand my question. When I explained the question in more detail,

13 the Company reconciled the 1992 or historical year computation but

14 failed to reconcile the 1993 projected year. In reconciling the 1992

15 amount, the Company also uncovered numerous errors. However, once

16 again, this did not impact Federal or state income tax expense according

17 to the Company.

18

19 It is important to reconcile the various timing differences to ensure that

20 an expense which is recorded on the books but is not deductible for tax

21 purposes, is treated consistently in the current and deferred tax

22 provisions. It is also my belief that a timing difference which increases

1 or decreases current tax expense and has the reverse impact on deferred
2 income tax expense should have the same separation factor applied to it.
3 This is not the case in the Company's presentation.
4
5 Without adequate information, I attempted to compute the Federal and
6 State income tax expense, assuming that all timing differences did not
7 impact the ultimate tax provision but only affected current and deferred
8 taxes with the impacts offsetting each other. On Schedule 28, I calculate
9 the State and Federal income tax using the stated statutory rate. I
10 should note that I do use the 34% Federal income tax rate in both 1992
11 and 1993 because this is the amount the Company originally used on its
12 MFR schedules. The Company has now included a pro forma
13 adjustment for the impact of the increase of the Federal income tax to
14 35% retroactive to January 1, 1993. From the calculated tax expense, I
15 deduct investment tax credits and the intrastate amount of the deferred
16 taxes which are in excess of the current 34% tax rate where book
17 depreciation now exceeds tax depreciation. I then compare the
18 calculated amount to the MFR schedule and show the differences which I
19 then carry forward to the adjustments to the 1992 Surveillance Report
20 shown on Schedule 44 and the Revenue Requirement, Schedule 1.
21 Absent a more detailed and thorough analysis by the Company, it is my
22 opinion that Federal and State income tax should be reduced in 1992 by

1 $9,077,006 and by $3,748,486 in 1993.

2

3 2. Employee Stock ownership Plan - Special Tax Benefit

4 Q. **Please explain the special tax benefits associated with the Leveraged**

5 **Employee Stock Ownership Plan (LESOP).**

6 A. In 1990, the Company placed into effect, a Leveraged Employee Stock

7 Ownership Plan. Under that plan, the ESOP Trust borrowed money and

8 purchased Company stock. There are special tax benefits associated with

9 the stock owned by the ESOP Trust, namely, the dividends paid to the

10 Trust are deductible for tax purposes. Dividends on common stock are

11 not deductible for tax purposes except for the provisions under IRC

12 Section 404(k). As a result of these tax deductions, there is a savings of

13 tax at the corporate level. However, even though the Company is

14 charged an expense associated with the LESOP, the Company does not

15 receive any of the benefits from the deductibility of these dividends as

16 the total savings are retained at the corporate level. Obviously, this is

17 inequitable. If ratepayers are required to provide through rates, a

18 provision for the cost of the Leveraged Employee Stock Ownership Plan

19 which, on a total Company Florida basis exceeded $23 million in 1992,

20 the Company should be allocated its fair share of the tax savings, and, in

21 fact, the Company should have been allocated its fair share of these tax

22 savings in each year since the plan was placed in effect.

1 Unfortunately, there is no provision to allow the ratepayer to be made
2 whole in the years 1990 and 1991. In those years, the tax benefits went
3 exclusively to the shareholders. I correct this inequity in 1992 and going
4 forward into 1994. When the actual results of operations are determined
5 for 1993, the calculated tax savings shown on Schedule 29 must be used
6 to offset Federal and State income tax expense.
7
8 T. Separations
9 1. Corporate Operations Separation Factor
10 Q. Please explain your adjustment to reduce intrastate expense by
11 $3,384,625 as shown on Schedule 30.
12 A. In an attempt to determine the various items used to compute the
13 separations factor for corporate operations expense, the Company
14 provided a detailed listing of the accounts as well as the interstate dollar
15 amounts. One particular account namely, Directory Advertising expense,
16 did not agree with the detailed trial balance. I corrected that amount to
17 the amounts appearing on the detailed trial balance and recalculated the
18 separation factor for the interstate jurisdiction. I then attempted to
19 reconcile the reported amount with the calculated separation factor
20 using amounts from the 1992 Surveillance Report. These amounts did
21 not agree. Without information as to where the Company obtained the
22 data in responding to OPC 887 and how the interstate factors calculated

1 from that response compared to the amounts used in the Surveillance
2 Report, I am unable to determine the precise amount of an adjustment.
3 However, using the data from OPC 887, it appears the Company has
4 understated the interstate factor thus, allocating too much money to the
5 intrastate jurisdiction. Using that data, I calculate that intrastate expense
6 should be reduced by $3,384,625.
7
8 2. Taxes, Other Than Income - Separation Factors
9 Q. **Please explain your adjustment on Schedule 31.**
10 A. On Schedule 31, I attempt to reconcile the total Company level of taxes,
11 other than income, with the dollar amount allocated to the intrastate
12 jurisdiction. I show the calculation on the schedule which results in a
13 reduction to intrastate expense of $2,080,235. In making the
14 calculation, I have assumed that property tax is allocated to the intrastate
15 jurisdiction based on a plant in service factor. I then allocate all of the
16 PSC tax and the franchise fees to the intrastate jurisdiction. I previously
17 discussed how I calculated the interstate amount of gross receipts tax
18 and thus, that amount, subtracted from the total Company amount,
19 leaves the intrastate amount shown on Schedule 31. Although there are
20 certain unexplained differences, I believe the differences relate to
21 property taxes allocated to non-regulated and property taxes transferred
22 to non-operating. I allocated the differences based on the calculated

1 intrastate percentage. The net result is a reduction to intrastate expense
2 of $2,080,235.
3
4 3. Universal Service Fund
5 Q. **Please explain your adjustment for the Universal Service Fund shown on**
6 **Schedule 32.**
7 A. On that schedule, I recommend that intrastate expense be reduced by
8 $620,146. I explain the basis for the adjustment on the schedule.
9 Funds received from NECA and identified as the Universal Service Funds
10 or the High Cost Fund are used to offset intrastate revenue
11 requirements. The Company does not treat the revenues as intrastate
12 revenues but instead, reduces the corporate operations expense by the
13 proceeds from the Universal Service Fund.
14
15 I asked the Company to show how the revenues were used to offset
16 intrastate expense. The Company provided a computation showing how
17 the funds were used in 1993 to offset or reduce intrastate expense. In
18 other words, interstate expenses were increased by the amount of the
19 funds while intrastate expense was reduced. However, in analyzing the
20 Company's response, I was unable to reconcile the information provided
21 by the Company. Therefore, I recalculated the amount of interstate
22 expense using the current level of Universal Service Fund revenues and

1 the Company's separation factor for corporate operations expense used
2 in the MFR filings. The net result is a reduction to intrastate expense of
3 $620,146. The computations are shown on Schedule 32.
4
5 U. Deferred Income Taxes
6 Q. **Please explain your adjustment on Schedule 33.**
7 A. I recommend that deferred taxes be increased by $28,828,000. I show
8 this adjustment on Schedule 1 as a decrease in rate base in order to
9 show the revenue impact of this adjustment. However, I am aware that
10 the Commission treats deferred income tax as a cost-free component of
11 the capital structure. Therefore, if my adjustment is accepted, and the
12 Commission calculates the final capital structure, the deferred taxes
13 should be increased by $28,828,000. I make this adjustment because the
14 Company, in its revised filing, reduced deferred taxes for the Hurricane
15 Andrew true-up. I should point out that in the original filing, the
16 Company increased deferred taxes for the Hurricane Andrew true-up.
17
18 Logically, if the Company is deferring expense for book purposes which
19 it will be expensing for tax purposes, the result would be an increase to
20 the deferred income tax liability. However, it is unclear as to how the
21 Company treated Hurricane Andrew expense which was booked and
22 deferred in 1992 based on an accrual of expense where the actual

1 payments would be made in 1993 but which were known and
2 measurable at the end of 1992. I do not know whether the Company
3 treated such expenses as deductible for tax purposes in 1992 or whether
4 they were treated as deductible tax expenses in 1993. The Company
5 should be able to easily clarify this matter and further, to explain why in
6 the original filing, deferred taxes were increased by $13,096,000 and
7 identified as the Hurricane true-up but now are being reduced by
8 $14,414,000 and again, identified as Hurricane true-up.
9
10 V. Inappropriate Expenses for Ratemaking Purposes
11 1. Miscellaneous Expenses
12 Q. Please explain your adjustment to reduce Intrastate Expense by
13 $1,000,000 as shown on Schedule 34.
14 A. Schedule 34 is a six page listing detailing numerous expenses incurred
15 during 1992 and the first six months of 1993. Some expenses may have
16 been incurred directly at the Florida level. Other expenses may have
17 been incurred at BST Headquarter level and a pro-rata share allocated to
18 the Company. Some of these amounts may have already been removed
19 by the Company through a pro forma adjustment referred to as "Other
20 Regulatory Adjustments". Some expenses may be duplicated as the first
21 four pages were obtained from various source documents, whereas the
22 last two pages were identified as external relations expense and

1 advertising expense.

2

3 I have asked the Company in an interrogatory to identify the specific
4 account number charged, the amount directly charged or allocated to
5 Florida and if any amounts have been removed through the "Other
6 Regulatory Adjustments" entry to so identify. The response is due after
7 the date of filing testimony. As can be seen, the total expenses for the
8 first four pages are $3,041,651; the expenses for external relations total
9 $867,325 and the Advertising expenses totals $883,631. I am
10 recommending at this point, that $1,000,000 be removed as expenses
11 which are inappropriate for ratemaking. This number will be redefined
12 when I file supplemental testimony based on the response to the specific
13 inquiry I previously mentioned and after I receive additional invoices
14 which were requested but not received prior to the filing of this
15 testimony.

16

17 I believe it appropriate to carefully review the items listed on these six
18 pages identified as Schedule 34. Certain expenditures stand out. Many,
19 in my opinion, should be recorded below the line as contributions. The
20 Company refers to a number of these donations as sponsorships. An
21 example would be a $40,000 payment to "Forward Atlanta". A payment
22 to the Orange Bowl Committee to sponsor the Presidents' Ball for

1 $25,000 also is noted. A payment of $8,000 to the PGA Seniors
2 Championship to sponsor the PGA Seniors Golf Championship is also
3 included on the list.
4
5 I am not questioning whether the organizations are worthwhile, and I
6 am certainly not recommending that the Company discontinue
7 contributing to these organizations. However, it is obvious that many
8 are contributions and that others are made to promote the corporate
9 image. Contributions and image building expenditures are not
10 appropriate expenses to be recovered from the ratepayers.
11
12 There are also payments such as to the Jacksonville and Greater Fort
13 Lauderdale Chamber of Commerce. Chamber of Commerce dues have
14 been routinely disallowed by the Commission in prior rate proceedings.
15 There are also payments to O.C. Tanner in excess of $1 million for
16 anniversary gifts, service awards and retirement gifts. Again, I do not
17 question the Company's right to provide various items of jewelry to its
18 employees as they reach certain milestones. However, as I explained
19 often during this testimony, the employee benefits offered to each
20 employee are many and costly. I have allowed the Company to recover
21 most of the benefits, even though the Company is basically unable to
22 state the projected cost of each employee benefit included in the

1 projected 1993 expense level. Beyond these ample benefits, I do not
2 believe that ratepayers should be required to provide the extras such as
3 these retirement gifts and as previously discussed, supplemental
4 executive retirement plan payments for the highest paid executives.
5
6 On page 4, there are numerous payments for special rewards for
7 employees. A payment to Just Cruisin of $66,114 for a customer service
8 end of year event is one example. Additionally, there are payments to
9 International Screenprint, Inc., for T-Shirts and baseball caps totalling
10 $52,822. A payment made to Talos Design, Inc. for Hurricane Andrew T-
11 Shirts and baseball caps totals $53,895. While it is nice to reward the
12 employee for the extraordinary efforts put forth in connection with
13 Hurricane Andrew, I do not believe that such costs should be borne by
14 the ratepayer.
15
16 Page 4 also shows that the Company reimburses employees for the
17 capital loss on sale of personal residences. The three examples show
18 total losses of over $100,000. While I have not recommended against
19 disallowing all relocation expense, it is my opinion that these costs be
20 reviewed in detail.
21
22 Page 5 shows costs which were charged to the account identified as

1 External Relations. Included in these expenditures are the sponsorship
2 of a TV Program known as Watch on Washington TV. While I am sure
3 this program is worthwhile, the payment should either be classified as a
4 contribution or as image building advertising and therefore, not
5 recoverable from the ratepayer. I also note the Company spent nearly
6 $200,000 for a family day at the zoo. Certainly, ratepayers should not
7 have to pay for this level of expense. I also note payments to executive
8 expeditions of nearly $100,000 for training known as "The Principals
9 Program". While I am confident this was worthwhile training, I do not
10 believe such costs should be absorbed by ratepayers. I also note a
11 payment to the TABASCO Country Store for tabasco gift boxes to be
12 handed out to attendees at a USTA Convention. I am confident that if
13 an attendee at the USTA Convention could afford the cost of attending,
14 he could certainly afford to purchase his own tabasco sauce.
15
16 On page 6, I list expenses primarily related to the BellSouth Classic.
17 There is a question whether the Company has removed this from
18 regulated expense but there is no question that it should be. As it
19 relates to the BellSouth Classic, I recommend that the Company be
20 required to identify each and every expense including advertising
21 expenses incurred in 1992 and 1993 and to then match these amounts
22 with the Company's pro forma adjustment identified as "Other

1 Regulatory Adjustments" to ensure that all amounts are removed.

2

3 It's easy to see that there are numerous expenses which must be

4 investigated. I recommend that the Commission carefully review this six

5 page listing to gain some insight into the types of expenditures being

6 made by the Company and by BellSouth Telecommunications, Inc.

7

8 2. Legal Fees and Outside Consulting Services

9 Q. **Please explain why you are recommending that Legal Fees and Outside**

10 **Consulting Expenses be reduced by $595,278.**

11 A. I am making this recommendation because I received conflicting

12 information from the Company. I believe it was the Company's intent to

13 record below the line all expenses associated with the Attorney General

14 investigation and the Davis Anti-Trust litigation. However, in response to

15 OPC 1199, it appears that a portion of total expenditures for these

16 matters were recorded above the line. If this is, in fact, the case the

17 adjustment on Schedule 35 is necessary to take these expenses below the

18 line.

19

20 3. Other Miscellaneous Adjustments

21 Q. **Please explain your other miscellaneous adjustments as shown on**

22 **Schedules 36 through 42.**

1 A. On Schedule 36, I recommend that 50% of the dues paid to the United
2 States Telephone Association (USTA) and the Florida Telephone
3 Association be removed from test period expense. This is a conservative
4 amount and removes the dollars attributable to lobbying activities and
5 other campaigns which have no value to ratepayers.
6
7 On Schedule 37, I remove charges for payments made to Burson
8 Marstellar in 1992. I have assumed an equal level of expenditures
9 budgeted for 1993. These expenditures were made to offset the negative
10 impact of the Attorney General investigation. Burson Marstellar is a
11 public relations firm and the invoice description, although not describing
12 the Attorney General investigation per se, uses the terminology "Strategy
13 Development Associated with the Florida Situation." I also recommend,
14 in addition to these charges, that all 1992 and 1993 expenses be carefully
15 scrutinized to ensure that any additional public relation activity and
16 advertising campaigns which the Company launched to offset the
17 negative impacts of the Attorney General investigation be removed from
18 actual expense and treated as below the line expense.
19
20 On Schedule 38, I remove the cost of sponsoring local golf tournaments.
21 These sponsorships would be considered image building and ratepayers
22 should not have to bear the burden of such cost.

1 In 1992, as shown on Schedule 39, the Company was allocated $20,200
2 of expense associated with stock appreciation rights which are rights
3 attached to stock option plans. As the price of the stock increases or
4 decreases in value, adjustments are made to expense. Although the
5 Company claims that a similar expense is not included in the 1993 test
6 year, I recommend that the expense be removed from both 1992 and
7 1993. As of this date, the Company has not been able to adequately
8 identify the employee benefits and the cost included in projected 1993
9 expense. Therefore, it is unclear to me how the Company can be
10 assured that an equal amount of stock appreciation right expense is not
11 included in the 1993 projected test year.
12
13 On Schedule 40, I remove from test period expense the tax and estate
14 planning and legal services provided to officers and key managers.
15 Ratepayers should not have to bear the burden of the cost of providing
16 special services to officers and key managers.
17
18 On Schedule 41, I remove the cost of providing chauffeur service at the
19 headquarter's level with such cost being allocated to the Company.
20 Certainly, ratepayers should not be asked to provide through rates, the
21 cost of providing chauffeur service.
22

1 On Schedule 42, I remove from test period expense, the allocated cost of
2 the Club Suite at the Georgia Dome. Actually, the Club Suite is a fancy
3 name for a skybox. While the Company claims that the Club Suite is
4 used in its marketing activities, unless the Company can identify specific
5 benefits and wishes to identify the employees and customers who have
6 used the Club Suite and the specific benefits derived from its use, the
7 Company should not be allowed to recover any of its cost.
8
9 W. Actual Expenses - 1993
10 Q. Please explain Schedule 46 identified as Actual Expenses - 1993.
11 A. I have included this schedule to point out certain expenses which the
12 Company has incurred in 1993 and which may not be appropriate for
13 ratemaking purposes or which, in fact, are out of period expenses. It is
14 my understanding that this proceeding will set rates for 1994 based on
15 the 1993 budget. However, refunds, if any, for 1993 will be based on
16 the actual results of operations for 1993. Therefore, it is important to
17 carefully scrutinize all actual expenses incurred during 1993 to ensure
18 that all expenses are appropriate for ratemaking purposes and do not
19 include any charges or credits for out of period items.
20
21 Furthermore, it is my understanding that a separate hearing will be
22 required to analyze the actual results for 1993. Adequate time should be

1 allowed to carefully analyze the Company's presentation which, as a
2 starting point, will presumably be the Company's 1993 Surveillance
3 Report. It is my understanding that the Company requires 75 days to
4 complete the Surveillance Report and I recommend at least that amount
5 of time to adequately review the Surveillance Report and the actual
6 revenues and expenses recorded during 1993. The Commission decision
7 which sets the going forward level of rates based on the budgeted 1993
8 test period, will have to be incorporated into the 1993 Surveillance
9 Report to ensure that all items which the Commission deems to be
10 inappropriate for ratemaking purposes, are properly excluded on the
11 Surveillance Report.
12
13 Q. Please explain Schedules 43 through 45 and 47.
14 A. Schedules 43 through 45 have previously been discussed.
15
16 Schedule 43 shows the recommended step decreases in 1995 and 1996.
17
18 Schedule 44 shows the various adjustments I have proposed and the
19 effect on 1992 reported results. Schedule 45 is an analysis of the 1992
20 Surveillance Report showing floor and sharing levels.
21
22 Schedule 47 is a computation of a composite separation factor for use in

1 a number of adjustments.

2

3 Q. Does this conclude your testimony?

4 A. Yes, however, there are a number of open issues. There are numerous
5 interrogatories and requests for production of documents which have
6 not been received as of this date. During an analysis of the various
7 issues, it has become obvious that there are a number of as yet
8 unexplained differences in responses to interrogatories and data
9 included in the Minimum Filing Requirements. These differences must
10 be resolved. During the discovery phase, the Company requested
11 additional time to respond to various data requests. Even with the
12 additional time, numerous interrogatories remained unanswered as of
13 the extended date for responding. This delayed the entire discovery
14 process and thus, many interrogatories are still unanswered as of this
15 date. Additionally, the Company was in many instances, unable to
16 adequately respond to questions as to what specific items were included
17 in the 1993 budget. Of particular concern, is the Company's failure to
18 identify each of the employee benefits and the dollar amount of expense
19 included in the projected 1993 test period. When the Company finally
20 responded to the request for this information filed July 16, 1993 on
21 October 15, 1993, the response was inadequate (OPC 795). Thus, even
22 at this date, I do not have a full understanding of the cost and benefits

1 provided to each employee as included in projected 1993 expense.

2

3 I have attempted to quantify adjustments where information was

4 available. Without adequate information, I have made assumptions or

5 merely incorporated a "ball park" figure. Therefore, it will be necessary

6 for me to supplement my testimony when additional information is

7 received from the Company.

APPENDIX I

APPENDIX I
THOMAS C. DE WARD, C.P.A.

QUALIFICATIONS

Mr. DeWard graduated from the University of Michigan in 1962 with a BBA. In June of 1963 he received his M.B.A. in Accounting from the University of Michigan and immediately began working for the Detroit office of Peat, Marwick, Mitchell & Co., an international firm of certified public accountants. During his nine years at Peat, Marwick he was promoted to various supervisory levels and held the position of Manager for his last two years with the firm, 1971 - 1972.

Mr. DeWard is a member of the American Institute of CPAs and the Michigan Association of CPAs.

During his employment with Peat, Marwick, he supervised and controlled the audits of two of the major manufacturing clients of the office. These audits involved extensive work with inventories, inventory control procedures and related costing methods.

At Peat Marwick, Mr. DeWard was also in charge of the staff training program and presented seminars on accounting principles and theory. Through these activities he acquired an in-depth and comprehensive knowledge of accounting theory. Mr. DeWard received his C.P.A. Certificate in 1966.

During the period 1972 through 1981 he worked as Vice President-Finance for a manufacturing firm of aluminum building products and as a Treasurer for a company which provided packaging, distribution and data processing services.

Since July 1981, Mr. DeWard has been employed by Larkin & Associates, CPA's (formerly Larkin, Chapski & Co., prior to reorganization in September, 1982) and has worked almost exclusively in the area of regulatory matters. Larkin & Associates has been involved in regulatory matters since 1972. The firm has represented consumer groups, attorney generals, industry organizations, governmental agencies, and public service commissions in over 200 regulatory proceedings.

Mr. DeWard plays a major role in the analytical work done by Larkin & Associates in the area of utility ratemaking and regulation, and actively participates in the cases. He has testified and been accepted as an expert witness in the field of regulatory accounting in California, Connecticut, Florida, Kentucky, Michigan, Nevada, Texas and Virginia.

In November, 1985, with two members of the firm, Mr. DeWard presented a seminar on utility accounting for the Legal Services Regional Utilities Task Force in Atlanta, Georgia.

In June, 1986, Mr. DeWard and two members of the firm presented a seminar on utility accounting for the Utility and Rate Intervention Division of the Kentucky Attorney General. Individuals from that division as well as industry and consumers groups attended the seminar.

In September, 1988, Mr. DeWard and two members of the firm presented a seminar on utility accounting for the Office of Consumer Advocate, Attorney General's Office, State of Pennsylvania. Individuals from that division as well as Commission Staff members attended.

Larkin & Associates was retained by Cravath, Swaine & Moore who represented The Columbia Gas System in a civil action brought against Columbia by Allegheny & Western Energy Corporation. Mr. DeWard participated in various aspects of this engagement.

Mr. DeWard has performed a substantial portion of the analytical work for the firm in the cases listed below:

Partial List of Utility Cases Participated in:

TR-81-208*	Southwestern Bell Telephone Company (Missouri Public Service Commission)
U-6794	Michigan Consolidated Gas Company - 16 Refunds (Michigan Public Service Commission)
U-6798	Cogeneration and Small Power Production - PURPA (Michigan Public Service Commission)
Docket No. 810136-EU	Gulf Power Company (Florida Public Service Commission)
Docket No. E-002/ GR-81-342	Northern States Power Company - Minnesota (Minnesota Public Utilities Commission)
8400	East Kentucky Power Cooperative, Inc. (Kentucky Public Service Commission)

Docket No. 18328	Alabama Gas Corporation (Public Service Commission of Alabama)
Docket No. 18416	Alabama Power Company (Public Service Commission of Alabama)
820100-EU	Florida Power Corporation (Florida Public Service Commission)
8624	Kentucky Utilities (Kentucky Public Service Commission)
8648	East Kentucky Power Cooperative, Inc. (Kentucky Public Service Commission)
U-7236	Detroit Edison - Burlington Northern Refund (Michigan Public Service Commission)
U-6633-R	Detroit Edison - MRCS Program (Michigan Public Service Commission)
U-6797-R	Consumers Power Company - MRCS Program (Michigan Public Service Commission)
U-5510-R	Consumers Power Company - Energy Conservation Finance Program (Michigan Public Service Commission)
U-7350	Generic Working Capital Hearing (Michigan Public Serviced Commission)
8738	Columbia Gas of Kentucky, Inc. (Kentucky Public Service Commission)
82-165-EL-EFC	Toledo Edison Company (Public Utilities Commission of Ohio)
ER-83-206*	Arkansas Power & Light Company (Missouri Public Service Commission)
8836	Kentucky American Water Company (Kentucky Public Service Commission)

U-7650	Consumers Power Company - Gas - Partial and Immediate (Michigan Public Service Commission)
U-7650	Consumers Power Company - Gas - Final (Michigan Public Service Commission)
U-15684	Louisiana Power & Light Company (Public Service Commission of the State of Louisiana)
U-7395 & U-7397	Campaign Ballot Proposals (Michigan Public Service Commission)
U-7650 (Reopened)	Consumers Power Company - Gas (Michigan Public Service Commission)
U-7830	Consumers Power Company - Electric - Partial and Immediate (Michigan Public Service Commission)
9003	Columbia Gas of Kentucky, Inc. (Kentucky Public Service Commission)
9006**	Big Rivers Electric Corporation (Kentucky Public Service Commission)
U-7830	Consumers Power Company - Electric Step 3A - Financial Stabilization Rate Relief (Michigan Public Service Commission)
16091	Louisiana Power & Light Company (Public Service Commission of the State of Louisiana)
9163	Big Rivers Electric Corporation (Kentucky Public Service Commission)
9283	Kentucky-American Water Company (Kentucky Public Service Commission)
U-4620	Mississippi Power & Light Company (Mississippi Public Service Commission)

U-7830	Consumers Power Company - Electric - Final (Michigan Public Service Commission)
U-7830	Consumers Power Company - Electric - Final - Rebuttal (Michigan Public Service Commission)
U-8431	Consumers Power Company - Electric - Relief from "Condition 5" (Michigan Public Service Commission)
1345-85-367	Arizona Public Service Company Arizona Corporation Commission
Docket No. 89-08-11	The United Illuminating Company State of Connecticut, Department of Public Utility Control

Cases where Testimony was Submitted,
Cross Examination Complete, or Issues Stipulated

Docket No. 6350	El Paso Electric Company (The Public Utility Regulation Board of the City of El Paso)
Docket No. 6350	El Paso Electric Company (Public Utility Commission of Texas)
U-8249	Consumers Power Company - Disposition of Nuclear Fuel (Michigan Public Service Commission)
Case No. 9430	Leslie County Telephone Company, Inc. (Kentucky Public Service Commission)
U-8055-R	Consumers Power Company - Gas 1985 Gas Cost Reconciliation (Michigan Public Service Commission)
U-8038-R	Michigan Consolidated Gas Company 1985 Gas Cost Reconciliation (Michigan Public Service Commission)

Case No. 9554*	Columbia Gas of Kentucky, Inc. (Kentucky Public Service Commission)
U-8586	Consumers Power Company - Gas (Michigan Public Service Commission)
Case No. 9678	General Telephone of the South-Kentucky (Kentucky Public Service Commission)
Docket No. 850646-SU	Ocean Reef Club, Inc. (Florida Public Service Commission)
850166-WS*	Southern States Utilities, Inc. -Lake County (Florida Public Service Commission)
860325-WS*	Southern States Utilities, Inc. - Seminole County (Florida Public Service Commission)
86-604-G-42*	Mountaineer Gas Company (Public Service Commission of West Virginia)
9796 ***	Alltel Kentucky, Inc. (Kentucky Public Service Commission)
9779	Kentucky Power Company (Kentucky Public Service Commission)
9780	Kentucky Utilities Company (Kentucky Public Service Commission)
9815	Kentucky American Water Company (Kentucky Public Service Commission)
9785	Delta Natural Gas Company, Inc. (Kentucky Public Service Commission)
9798	Cincinnati Bell Telephone Company (Kentucky Public Service Commission)
9803	South Central Bell Telephone Company (Kentucky Public Service Commission)

9781	Louisville Gas and Electric Company (Kentucky Public Service Commission)
9782	Union Light, Heat and Power Company-Electric (Kentucky Public Service Commission)
9788	Union Light, Heat and Power Company-Gas (Kentucky Public Service Commission)
9789	Western Kentucky Gas Company (Kentucky Public Service Commission)
9799	Continental Telephone Company of Kentucky (Kentucky Public Service Commission)
87-01-017	Southern California Edison Company (California Public Utilities Commission)
7460	El Paso Electric Company (Public Utility Regulation Board of the City of El Paso)
7460	El Paso Electric Company (Public Utility Commission of Texas)
Docket No. 860960-WS	St. Johns Service Company (Florida Public Service Commission)
Docket No. 850100-WS*	Du-Lay Utility Company, Inc. (Florida Public Service Commission)
Docket No. 7460	El Paso Electric Company - Supplemental Testimony on Stipulation (Public Utility Commission of Texas)
Docket No. 861338-WS	Ferncrest Utilities, Inc. (Florida Public Service Commission)
Case No. 10069****	Kentucky-American Water Company (Kentucky Public Service Commission)
Docket No. 870249-WS	Atlantic Utilities of Jacksonville (Florida Public Service Commission)

Case No. 10117	GTE South Incorporated - Kentucky (Kentucky Public Service Commission)
Docket No. 871134-WS	Orange Osceola Utilities, Inc. (Florida Public Service Commission)
Case No. 10201	Columbia Gas of Kentucky, Inc. (Kentucky Public Service Commission)
U-7830	Consumers Power Company - Step 3B (Michigan Public Service Commission)
Docket No. 870453-TL	Quincy Telephone Company (Florida Public Service Commission)
U-7660*	Detroit Edison Company - Rehearing on Appeal to Circuit Court (Michigan Public Service Commission)
Docket No. 8363	El Paso Electric Company (Public Utility Regulation Board of the City of El Paso)
Case No. 10117	GTE-South, Incorporated-Kentucky-Rehearing (Kentucky Public Service Commission)
Case No. 10201	Columbia Gas of Kentucky, Inc. - Rehearing (Kentucky Public Service Commission)
Docket No. 8363	El Paso Electric Company (Public Utility Commission of Texas)
Docket No. 88-1156	Centel Network Communications, Inc. (Public Service Commission of Nevada)
Case No. 10481	Kentucky-American Water Company (Kentucky Public Service Commission)
Case No. 88-685-T-42T*	GTE South-West Virginia (Public Service Commission of West Virginia)
Case No. 10498	Columbia Gas of Kentucky, Inc. (Kentucky Public Service Commission)

Docket No. 8588	El Paso Electric Company - Fuel Reconciliation (Public Utility Commission of Texas)
U-7830	Consumers Power Company - Step 3B Rebuttal (Michigan Public Service Commission)
Docket No. 890277-WS	Palm Coast Utility Corporation (Florida Public Service Commission)
Case No. 10498	Columbia Gas of Kentucky, Inc. - Rehearing (Kentucky Public Service Commission)
Docket No. 9165	El Paso Electric Company (Public Utility Regulation Board of the City of El Paso)
Docket No. 9165	El Paso Electric Company (Public Utility Commission of Texas)
Docket Nos. 88-1060 89-318 89-751	Alternative Regulation For Telephones (Public Service Commission of Nevada)
Case No. 89-348	Kentucky-American Water Company (Kentucky Public Service Commission)
Case No. 90-013	Western Kentucky Gas Company (Kentucky Public Service Commission)
Case No. 90-041	Union Light, Heat and Power Company (Kentucky Public Service Commission)
Docket No. 891239-TL	United Telephone of Florida (Florida Public Service Commission)
Docket No. 891246-TL	Central Telephone Company of Florida (Florida Public Service Commission)
Case No. 90-158	Louisville Gas and Electric Company (Kentucky Public Service Commission)

Docket No. 90-1037 (BTER Phase)	Nevada Power Company - Fuel (Public Service Commission of Nevada)
Case No. 90-013	Western Kentucky Gas Company - Rehearing (Kentucky Public Service Commission)
Case No. 90-158	Louisville Gas and Electric Company - Rehearing (Kentucky Public Service Commission)
Case No. 90-158	Louisville Gas and Electric Company - Responsive Testimony (Kentucky Public Service Commission)
Docket No. 9945	El Paso Electric Company (Public Utility Commission of Texas)
Docket No. 900816-WS	Sailfish Point Utility Corporation (Florida Public Service Commission)
Docket No. 90-1037***** (DEAA Phase)	Nevada Power Company - Fuel (Public Service Commission of Nevada)
Case No. 91-066*	Kentucky Power Company (Kentucky Public Service Commission)
Docket No. 91-5055	Nevada Power Company (Public Service Commission of Nevada)
Docket No. 91-7026	Central Telephone Company (Nevada) (Public Service Commission of Nevada)
Docket No. 910477-SU	Florida Cities Water Company - South Fort Meyers (Florida Public Service Commission)
Case No. PUE910047	Virginia Electric and Power Company (State Corporation Commission)
Case No. 91-370	Union Light Heat and Power Company (Kentucky Public Service Commission)

Docket No. 910980-TL	United Telephone Company of Florida (Florida Public Service Commission)
Docket No. 92-1067	Nevada Power Company (Public Service Commission of Nevada)
Case No. 92-043	Joint Petitioners - SFAS 106 (Kentucky Public Service Commission)
Docket No. 920188-TL	GTE Florida Incorporated (Florida Public Service Commission)
Docket No. 92-7069*	Central Telephone Company - Nevada (Public Service Commission of Nevada)
Docket No. 920310-TL*	Central Telephone Company of Florida (Florida Public Service Commission)
Case No. 92-219	Clark Rural Electric Cooperative Corporation (Kentucky Public Service Commission)
Case No. 92-346	Union Light, Heat and Power Company (Kentucky Public Service Commission)
Docket No. 92-09-19	Southern New England Telephone Company (Department of Public Utility Control)
Case No. PUE920041	Virginia Electric and Power Company (State Corporation Commission)
Docket No. 93-3003 93-3004	Southwest Gas Company - Southern and Northern Nevada Divisions (Public Service Commission of Nevada)
Case No. 93-113	Kentucky Utilities Company - Fuel Refund (Kentucky Public Service Commission)
	<u>Oral Testimony</u>
Docket No. 6350	El Paso Electric Company - Application for Temporary Injunction (98th District Court of Travis County, Texas)

Cases Settled Prior to Submission of Testimony

U-8378	Wisconsin Electric Power Company (Michigan Public Service Commission)
U-8475	Lake Superior District Power Company (Michigan Public Service Commission)
Case No. 87-644-T-42T**	Mountain State Telephone Company (West Virginia Public Service Commission)
Docket No. 87-1249	Central Telephone Company (Nevada) (Public Service Commission of Nevada)
Docket No. 88-1001	Nevada Bell (Public Service Commission of Nevada)
Docket No. 89-745	Contel of California, Inc. (Nevada Operations) (Public Service Commission of Nevada)
Docket No. 89-949	Nevada Power Company (Public Service Commission of Nevada)
Docket No. 90-857	Nevada Bell (Public Service Commission of Nevada)
Case No. 90-063	Columbia Gas of Kentucky, Inc. (Kentucky Public Service Commission)
Case No. PUE-900034	Commonwealth Gas Services, Inc. (State Corporation Commission - Commonwealth of Virginia)
(No Docket No.)	Southern Union Gas Company - El Paso Division (Public Utility Regulation Board of the City of El Paso)

Assistance in Analytical Analysis of Filing

Case No. 9482	Kentucky-American Water Company (Kentucky Public Service Commission)
Docket No. 861361-TL	Central Telephone Company of Florida (Florida Public Service Commission)
Case No. 90-321	Kentucky-American Water Company (Kentucky Public Service Commission)
Case No. 91-361*	Kentucky-American Water Company (Kentucky Public Service Commission)
Case No. 90-342*	Delta Natural Gas Company, Inc. (Kentucky Public Service Commission)
Case No. 92-452	Kentucky-American Water Company (Kentucky Public Service Commission)

Assistance in Overearnings Analysis

Docket No. I-00920013*	Murraysville Telephone Company Before the Pennsylvania Public Utility Commission
Docket No. I-00920012*	ALLTEL Pennsylvania, Inc. Before the Pennsylvania Public Utility Commission
Docket No. I-00920016**	United Telephone Company of Pennsylvania Before the Pennsylvania Public Utility Commission

*Issues stipulated.
**Case withdrawn.
***No direct examination.
****Settlement reached between Company and Staff.
*****Certain issues stipulated, portion of testimony withdrawn.

SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY
CASE NO. 920260-TL
SCHEDULES OF
THOMAS C. DEWARD

<u>Description</u> <u>Schedule</u>

Revenue Requirement Impact of Proposed Adjustments 1
Directory Advertising - PROPRIETARY 2
Directory Advertising - 1992 3
Shift of Advertising Expense Dollars - Intrastate to Interstate 4
Directory Expenses Not Recorded in Account 6622.1 5
Hurricane Andrew Amortization 6
Hurricane Andrew - Insurance Recovery 7
Corporate Re-engineering Costs - Force Reduction 8
Maintenance Charges Deferred to 1993 Budget 9
Incentive Compensation 10
Pension Expense 11
Concession Revenues 12
Supplemental Executive Retirement Plan 13
Post Retirement Benefits - SFAS 106 14
Bond Refinancing Costs 15
Casualty Damage Reserve Accrual 16
Extraordinary Retirement Expense 17
Accounting for Post-Employment Benefits - SFAS 112 18
Compensated Absences 19
Inside Wire - PROPRIETARY 20
Gross Receipts Tax 21
IntraCompany Investment Compensation (ICIC) 22
Uncollectible Accounts Expense 23
RTU Fees 24
Amortization Expense 25
Amortization of Office Equipment/Official Communication Equipment 26
Depreciation Expense 27
Federal Income Tax 28
Employee Stock Ownership Plan - Special Tax Benefit 29
Customer Operations Separations Factor 30
Taxes, Other Than Income - Separation Factors 31
Universal Service Fund 32
Deferred Income Taxes 33
Inappropriate Expenses 34
Legal Fees and Outside Consulting Services - PROPRIETARY 35
USTA and Florida Telephone Association Dues 36

SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY
CASE NO. 920260-TL
SCHEDULES OF
THOMAS C. DEWARD

Description | Schedule

Burson Marstellar Charges 37
Golf Tournaments 38
Stock Appreciation Rights 39
Tax and Estate Planning and Legal Services Provided to Officers
and Key Managers 40
Chauffeur Expense 41
Club Suite at the Georgia Dome 42
Proposed Step Decrease 43
Impact of Proposed Adjustments on 1992 Surveillance Report 44
Analysis of 1992 Surveillance Report 45
Actual Expenses - 1993 46
Composite Separation Factor 47

Southern Bell Telephone and Telegraph Company
Revenue Requirement Impact of Proposed Adjustments
Test Year Ended December 31, 1993

Exhibit__(TCD-1)
Docket No. 920260-TL
Schedule 1

	Rate Base Increase (Decrease)	Operating Income Increase (Decrease)	Income Taxes Increase (Decrease)	Revenue Requirement Increase (Decrease)	Schedule
Directory Advertising Revenues		26,918,060		(27,758,041)	2
Shift Directory Advertising Expense to Interstate		12,184,798		(12,565,026)	4
Directory Expenses		2,801,456		(2,888,876)	5
Hurricane Andrew Amortization		21,451,264		(22,120,653)	6
	(76,286,355)			(7,125,146)	6
Hurricane Andrew Insurance Recovery		2,290,730		(2,362,212)	7
Corporate Re-engineering Force Reduction		8,697,063		(8,968,456)	8
Maintenance Charges Deferred to 1993 Budget		18,970,488		(19,562,464)	9
Incentive Compensation		14,653,380		(15,110,640)	10
Pension Expense		20,468,806		(21,107,537)	11
	12,156,183			1,135,387	11
Concession Revenues		5,646,577		(5,822,779)	12
Supplemental Executive Retirement Plan		1,257,000		(1,296,225)	13
SFAS 106		500,000		(515,603)	14
Bond Refinancing Costs		8,580,333		(8,848,083)	15
Casualty Damage Reserve Accrual		6,000,000		(6,187,231)	16
	1,871,100			174,761	16
Extraordinary Retirement Expense		19,852,000		(20,471,484)	17
	(9,926,000)			(927,088)	17
Compensated Absences		5,214,200		(5,376,910)	19
	(24,225,625)			(2,262,673)	19
Inside Wire Net Income		1,000,000		(1,031,205)	20
Gross Receipts Tax:					
[illegible]ss On Tax		17,617,819		(18,167,585)	21
[illegible]trastate Versus Interstate		3,161,942		(3,260,611)	21
Intracompany Investment Compensation		8,539,714		(8,806,197)	22
Uncollectible Accounts Expense		6,089,493		(6,279,516)	23
RTU Fees		3,390,308		(3,496,103)	24
Amortization Expense		7,614,000		(7,851,596)	25
Amortization of Office Equipment/Official				0	
Communication Equipment		4,037,000		(4,162,975)	26
Depreciation Expense		2,197,184		(2,265,747)	27
Federal and State Income Taxes			(3,748,486)	(6,292,972)	28
Federal Tax Benefits – LESOP			(2,938,394)	(4,932,986)	29
Corporate Operations Separation Factor		3,384,625		(3,490,243)	30
Taxes, Other Than Income, Separation Factor		2,080,235		(2,145,149)	31
Universal Service Fund		620,146		(639,498)	32
Deferred Income Taxes	(28,828,000)			(2,692,535)	33
Miscellaneous Expenses–Inappropriate for Ratemaking		1,000,000		(1,031,205)	34
Legal Fees and Outside Consulting Services		595,278		(613,854)	35
USTA and FTA Dues		106,235		(109,550)	36
Burson Marstellar Charges		56,956		(58,733)	37
Golf Tournaments		41,946		(43,255)	38
Stock Appreciation Rights		20,200		(20,830)	39
Legal and Accounting Services for Executives		29,285		(30,199)	40
Chauffeur Expense		5,827		(6,009)	41
Club Suite – Georgia Dome		11,571		(11,932)	42
Subtotal – Accounting Adjustments	(125,238,697)	237,085,919	(6,686,880)	(267,407,464)	

Southern Bell Telephone and Telegraph Company
Revenue Requirement Impact of Proposed Adjustments
Test Year Ended December 31, 1993

Exhibit___(TCD-1)
Docket No. 920260-TL
Schedule 1

	Rate Base Increase (Decrease)	Operating Income Increase (Decrease)	Income Taxes Increase (Decrease)	Revenue Requirement Increase (Decrease)	Schedule
Affiliated Transactions Adjustment Proposed By OPC Witness Dismukes		10,434,000		(10,759,594)	
Depreciation Adjustment Proposed by OPC Witness Currin		19,317,446		(19,920,249)	
	9,658,723			902,125	
Revenue Impact of Capital Structure and Return on Equity Proposed by OPC Witness Rothschild				(176,952,073)(1)	
Company Calculated Revenue Deficiency MFR Schedule A-1a, Line 8, Revised 10/1/93				19,538,000	
Total Adjustments, Without Penalty	(115,579,974)	266,837,365	(6,686,880)	(454,599,255)	

(1) Using the Company proposed capital structure WBK-4 compared to OPC Witness Rothschild capital structure and a revenue expansion factor of .5956623

Revenue Impact as Follows:
Rate base multiplied by the pretax rate of return using OPC Witness Rothschild overall rate of return and grossing up the 3.50% return on equity to 5.70% using the state tax rate of 5.5% and the Federal tax rate of 35% (3.50%/ .61425 = 5.70%). Pretax rate of return = 9.34% (7.14% +5.70% - 3.50% = 9.34%)

Operating income is reduced by the combined Federal and state income taxes of 38.575% and the result is divided revenue expansion multiplier of .5956623 (MFR Schedule C-13, Revised 10/1/93).

Income Taxes are divided by the revenue expansion multiplier of .5956623.

Repairs of furniture and office equipment, and cost and repairs of individual items of small value or short life.
Transportation and distribution of directories, cost of.
Traveling expenses.

Note A: All directory expenses may be inititally charged to account 132, but shall be cleared to account 649 during the months to which such expenses apply.
Note B: Receipts from the sale or furnishing of new directories, either of a company's own issue or directories purchased from other shall be credited to account 523.
Note C: When such directories are prepared and issued by the traffic department, the costs involved shall be included in the appropriate traffic expense accounts.
Note D: Any additional printing and binding costs incurred on account of the company's promotional advertising in its directories, such as colored page inserts, shall be charged to account 642.
[28 FR 13039, Dec. 5, 1963, as amended at 36 FR 8375, May 5, 1971]

As can be seen from the description, there is no mention of uncollectible accounts in Account 523. Certainly Account 649 was not intended to include income taxes and interest. Account 649 very well could have included general and administrative expense under the description of "Directory managers, clerks, advertising, salesmen, and other employees of the directory department, pay and expenses of"; "House service"; and "Office supplies". Therefore there is a question that general and administrative expense may in fact have been included in Account 649, at least to some extent.

In response to OPC 1120, the Company claims expenses related to the Florida directory operations not reflected on Line 15 of Schedule Z-9 are as follows:

26 Uncollectibles
27 General and Administrative
28 Taxes, Other Than Income
29 Interest
30 Income Taxes

Clearly, Account 649 never included taxes, other than income, interest or income taxes. Therefore the remaining items are uncollectible and general and administrative.

This would reduce the Gross Profit as follows:

34	Florida Gross Profit – Schedule Z-9, Line 15	297.268.834
35	Less: Uncollectible	
36	General and Administrative	
37		

This amount is still higher than the per books gross profit of $223,957,880 and thus an adjustment to impute revenues to the adjusted 1982 revenues of $237,033,669 would be appropriate.

Additionally, one has to question a level of General and Adminstrative expense related to Florida
41 ________ In response to OPC 1120, the Company stated:

vii. For the 1982 calculation expense includable in FCC Part 31 Account 649 were

included in the initial gross profit calculation. After Southern Bell pointed out that it had other expenses on its books related to directory operations such as general and administrative and uncollectibles, the Commission ordered that a 40% operating ratio be used for the gross profit calculation. The amounts reported on Schedule Z–9 represent only those expenses which would have been included in FCC Part 31 Account 649.

Thus, the Company was apparently able to reduce the 1982 beginning level of gross profits. In OPC 53rd, Item 800a the Company provided documentation in response to the following question:

a. Provide copies of all documents, supporting workpapers, testimony and other relevant data submitted by the Company in the original docket as required by FPSC Rule 25–4.0405. These documents should show clearly how the Company determined and calculated the 1992 gross profit of $102,215,043 as shown on Schedule Z–9.

The documentation provided supported a gross profit of $107,076,637. Apparently, for some as yet undocumented reason the gross profit was reduced to $102,215,043 based on the 40% gross profit test.

Section 364.037 (B), Florida Statues, reads as follows:

(3) For the purpose of this section, the amount of gross profit of a company from directory advertising for the year 1982 is the actual gross profit derived from such advertising for that year. If, however, the expense to a company to furnish directories in 1982 exceeded 40 percent of the gross revenue derived from its directory advertising, the 1982 level of gross profit shall be adjusted to reflect a cost of 40 percent of its 1982 gross revenue. This adjusted 1982 gross profit level shall be utilized in lieu of actual gross profit for 1982 when making the calculations in subsection (1).

The documentation in P.O.D. 53rd, Item 800a, shows that expenses were 37.14% of revenues, thus on its face no adjustment was appropriate.

The result was that 1982 gross profits were reduced from $107,076,637 to $102,215,043. This reduction of $4,861,594 has allowed, in part, the Company to take directory revenues below the line.

Amounts taken below the line are as follows: (OPC 53rd, Item 800d)

	Non–Regulated	Customer Growth	CPI	$4,861,594 x Growth x CPI
1984	9,510,263	1.0857	1.0761	5,679,906
1985	14,552,623	1.1328	1.1145	6,137,790
1986	17,285,751	1.1892	1.1359	6,567,101
1987	16,000,231	1.2615	1.1774	7,220,877
1988	11,724,921	1.3356	1.2255	7,957,349
1989	7,535,407	1.4135	1.2850	8,830,344
1990	314,882	1.4855	1.3544	9,781,338
1991		1.5387	1.4114	10,558,027
1992 (Schedule Z–9)		1.5950	1.4539	11,273,893

It's easy to see that the as yet undocumented reduction to the 1982 adjusted gross profit to $102,215,043 has benefitted the Company. I do not see a provision in Section 364.037 to allow a reduction down to 40% but only an increase to 40% if actuals result in less gross profits.

In addition, one might question that gross profit envisioned a reduction for general overhead expense such as general and administrative.

I also question that if the $4,861,594 reduction accounted for general and administrative expense, how this amount has now grown to when as shown above using the customer growth and C.P.I., the $4, 861,594 has grown to $11,273,893.

Finally, BAPCO Florida costs include a number of charges from BAPCO subsidaries. The Company has refused to provide the subsidiary financial statements. (Nor did they produce the complete BAPCO financial statements.) Data available for 1991 shows each affiliate earned excessive returns thus increasing BAPCO costs.

In conclusion, the Company has benefitted at the expense of the ratepayer in the years 1984 through 1992. Therefore, it is necessary to impute additional revenues to a minimum level of the 1982 adjusted gross profit adjusted for customer growth and C.P.I.

An adjustment to increase revenues for 1993 is calculated as follows:

	MFR Schedule C-27	
21	1982 Adjusted Gross Profit	
	Amount Included by Company	226,727,678
23	Increase in Revenues	

Southern Bell Telephone and Telegraph Company
Directory Advertising – 1992
Surveillance Year Ended December 31, 1992

Exhibit___(TCD-1)
Docket No. 920260-TL
Schedule 3

To increase 1992 directory advertising revenues to the adjusted 1982 gross profit amount:

1992 Gross Profit as Reflected on Schedule Z-9 of the Annual Report to the PSC	223,957,880
1982 Adjusted Gross Profit Per Schedule Z-9 of the Annual Report to the PSC	237,033,669
Increase in Directory Advertising Revenues	13,075,789

Southern Bell Telephone and Telegraph Company
Shift of Advertising Expense Dollars – Intrastate to Interstate
Test Year Ended December 31, 1993

Exhibit__(TCD–1)
Docket No. 920260–TL
Schedule 4

According to the Company, Account "6622.1 – Published Directory Expense (including BAPCO expenses) consists of Classified Directories (Yellow Pages) which are directly assigned to exchange, Alpha and Street Directories (White Pages) which are apportioned among the operations on the basis of the Subscriber Line Usage (SLU) Factor and Foreign Directories which are apportioned among the operations on the basis of an analysis of the location where the directories are used with respect to the location where the directories were prepared." (OPC–887)

In 1993 the Company is projecting $2,357,322 of directories expense in Account 6622 (MFR Schedule, C–27). According to OPC–887, 9.6166% is allocated to interstate in 1992. Thus the interstate jurisdiction will be charged $226,694.

Prior to transferring the directory operations to BellSouth Advertising and Publishing Corporation (BAPCO), the Company performed the directory functions in house. In 1982, the Company recorded $167,924,690 of Directory Advertising revenue in Account 523 and $60,257,239 of expense in Account 649 (OPC P.O.D. 800a). Under the Uniform System of Accounts, Part 31, Account 649 included:

> This account shall include expenses incurred in preparing copy, printing, binding, and distributing directories, and the cost of securing advertisements for directories. It shall include also the cost of directories of other companies purchased for the use of the company or for distribution or sale to its customers. This account shall be credited with amounts received as salvage on old directories. (Note also account 132.)

After BAPCO was formed, the Company continued to bill for yellow pages advertising; however the Company was required to remit the proceeds to BAPCO, less a retention percentage. BAPCO, incurred most of the expenses previously recorded by the Company in Account 649.

As previously stated, in 1992, 9.6166% of Account 6622.1 is allocated to the interstate jurisdiction. If this same percentage was applicable in 1982, $5,794,697 ($60,257,239 x 9.6166% = $5,794,697) would have been allocated to the interstate jurisdiction.

1982 amounts are grown by 1.6572 for growth and 1.4974 for the Customer Price Index, (MFR Schedule C–27). Thus expenses in 1982 would have grown to $149,527,813 ($60,257,239 x 1.6572 x 1.4974). Of this total $14,379,492 ($149,527,813 x 9.6166%) would have been allocated to interstate jurisdiction. However, total Florida expenses recorded on the BAPCO books were $120,764,835 in 1992 according to Schedule Z–9 of the Annual Report to the PSC.

Based on the 1992 level of expenses of $120,764,835, $11,613,471 ($120,764,835 x 9.6166%) of the operating expenses would have been allocated to the intrastate jurisdiction.

Therefore I recommend that intrastate expenses be reduced by:

1992	$11,613,471 – $226,694 =	11,386,777
1993	$11,386,777 x 1.6572 x 1.4974/1.5950 x 1.4539(1)	12,184,798

(1) Growth and C.P.I. factors for 1993 from MFR Schedule C–27 and 1992 factors from Schedule Z–9 of the Annual Report to the PSC.

Southern Bell Telephone and Telegraph Company
Directory Expenses Not Recorded In Account 6622.1
Test Year Ended December 31, 1993

Exhibit__(TCD-1)
Docket No. 920260-TL
Schedule 5

With the adoption of Part 32 of the Uniform System of Accounts, expenses formerly classified as directory advertising expenses in Account 649 are now classified in Accounts 6623, 6124 and 6724 as well as Account 6622. (See OPC 984)

According to a Company response to OPC 1158, the Company performed a BST level study in 1991 "to determine the fully distributed cost of services provided to BAPCO that are not reflected in A/C 6622." The results at a BST Total Company level were as follows:

Billing and Collecting	12,124,000
Subscriber Listing Data	1,118,000
Directory Delivery Info	291,000
	13,533,000
Florida Share	25%
	3,383,250
Less Interstate at 17.1963%(1)	581,794
Reduction to Expense	2,801,456

(1) MFR Schedule C-24c, Line 24

Southern Bell Telephone and Telegraph Company
Hurricane Andrew Amortization
Test Year Ended December 31, 1993

Exhibit___(TCD-1)
Docket No. 920260-TL
Schedule 6

The Company's many explanations of Hurricane Andrew expense, amortization, and deferrals are incomprehensible.

In OPC 730 b, the Company states the test year amortization expense, including the 1993 true up was $20,795,000. No interstate expense was deferred.

In OPC 730e, the Company summarized the 1992 and 1993 activities as follows:

Actual 1992 Expenses – August, 1992–December, 1992	$122,100,000
Accrual for 1993 Expenses	50,400,000
	172,500,000
Less Insurance Proceeds	65,400,000
Net Cost	107,100,000
Intrastate	79,600,000
Amortization $79,600,000/5	15,920,000
Revision – 1993 True Up Increased Amortization to	20,800,000

The increase to $20,800,000 was referenced to Reid's testimony. However, Reid's testimony identified an increase of $6,840,959 in the amortization. If $6,840,959 were added to $15,920,000 the result would be $22,760,959 not the $20,800,000. However, if the $6,840,959 were added to the budgeted amount of $13,954,000 (OPC 1201 k,i – see following) the amount is $20,794,959.

In OPC 735 b,i the Company provided the following analysis:

	1992 Adjusted
1992 Expenses	145,652,733
Est. 1993 Expense	74,538,457
Est. Insurance Impact	(66,368,000)
Expense Deferral	(103,974,793)
One Year Amortization	20,794,959

Unfortunately the only number that agrees with the analysis provided in this response with the response to OPC 730 is the $20,794,959, which rounds to $20,800,000. In OPC 961 c the Company provided the following analysis:

Total	193,254
Net of Insurance	126,886
Regulated Portion	113,571
Interstate	29,852
Intrastate	83,719

Subtracting the net of insurance from the total yields $66,368,000 which is the insurance proceeds amount provided in a previous response.

However the Company appears to be allocating $13,315,000 or 10.49% of the loss to non regulated. In no other analysis is an allocation to non regulated shown.

In OPC 1201 k,i, the Company states the amortization included in the 1993 budget was $13,954,000. Presumably this amount was adjusted in the MFR's to $15,900,000. Otherwise, what would be

the purpose of Reid's testimony on pages 17 and 18. In fact, in OPC No. 1161a, the Company stated that 1993 budgeted amortization amounts were not used but the MFR's were adjusted to reflect the 1993 represcription rates. It is only logical to assume that the Hurricane Andrew amortization was similarily adjusted given a filing date of July 2, 1993.

In OPC 1201 k, the Company shows the October 1 filing proforma as:

Intrastate Deferral Amount	83,719,000
Overhead Expense	20,255,793
	103,974,793

If this amount is divided by 5 the result is $20,794,959. However, on MFR Schedule C-2b, line 16, Revised 10/1/93, the Company has added $7,842,000 to expense. If the original amortization was $15,900,000, total amortization would be $23,742,000 ($15,900,000 + $7,842,00). I assume that test period expense includes $23,742,000 of amortization.

Furthermore, the Company calculated the average defferal included in rate base as $72,782,355. (See OPC 973) However, this was prior to the October 1, 1993, revised filing. See OPC 975 which showed the calculation of the $72,782,355 and showed the $29,451,000 incremental impact on rate base. In MFR Schedule B-2b, Line 32, Revised 10/1/93 the incremental increase to rate base is $32,955,000. Thus the $72,782,355 must be increased by $3,504,000 ($32,955,000 - $29,451,000) for a total of $76,286,355.

Based on the above analysis I recommend the following:

Reduction to Rate Base	76,286,355
Reduction to Expense ($23,742,000 Less Reduction Proposed for Additional Insurance Proceeds $2,290,736)	21,451,264

My recommendation would be that the Company write off all the expense in 1992 which is in accord with Generally Accepted Accounting Principles and the accounting treatment adopted by the Company for interstate purposes in Florida and for both intrastate and interstate purposes in Louisiana. Based on my previous recommendation that the Company absorb the cost of early retirements in 1992, the adjusted earned return will fall below the floor or 11.50%.

However, the 1992 adjusted earnings on the Surveillance Report will need to be adjusted upward for Directory Advertising revenues, tax savings from the Leveraged ESOP plan, and the removal of inappropriate expenses.

Southern Bell Telephone and Telegraph Company
Hurricane Andrew – Insurance Recovery
Test Year Ended December 31, 1993

Exhibit__(TCD-1)
Docket No. 920260-TL
Schedule 7

The Company allocated insurance proceeds between Florida and Louisiana based on premiums paid by the two states. Thus Florida received 73% and Louisiana received 27% (See OPC 1140 c,d).

This methodology was illustrated by the Company in response to OPC 1140 c,d as follows:

	Total	Louisiana	Florida
Inside Policy			
Deductible	2.818 m	0.407 m	2.411 m
Proceeds	400.000 m	108.000 m	292.000 m
Outside Policy			
Deductible	10.000 m	2.700 m	7.300 m
Proceeds	70.000 m	18.900 m	51.100 m

Following this methodology, Louisiana recovered 85.2401% of its total losses and Florida recovered 24.2688% as shown in response to OPC 1171

	Louisiana	Florida
Total Claim	20,863,410	265,794,938
Insurance Recovery – Expense and Capital	17,784,000	64,505,133

Thus while Louisiana had 7.28% of the total claims ($20,863,410/$20,863,410 + 265,794,938 = 7.28%), they recovered 21.61% of the insurance proceeds ($17,784,000/$17,784,000 +64,505,133 = 21.61%). This allocation methodology is obviously unfair.

I recommend that insurance proceeds be allocated based on the percentage of losses incurred. Although the total proceeds are unknown I have relied on Company responses to OPC 1140 a, b as follows:

Full Proceeds In Excess of Deductible on Outside Policy	70,000,000
Additional Proceeds From Inside Policy in Excess of Deductible	15,852,665
Total Expected Proceeds	85,852,665

Allocation

Florida	
$70,000,000 x ($265,794,938/$20,863,410 + $265,794,938)	64,905,299
$15,852,665 – 100% – (Louisiana did not incur enough damage to exceed deductible – OPC 1140 c,d)	15,905,330
Insurance Proceeds Allocated to Florida	80,810,629
Amount Included by Company (OPC 730)	65,400,000
Increase in Insurance Proceeds Allocated to Florida	15,410,629
Intrastate ($79,600,000/$107,100,000) x $15,410,629 (OPC 730)	11,453,651
Reduction to Expense Over 5 Years	2,290,730

Southern Bell Telephone and Telegraph Company
Corporate Re-engineering Costs - Force Reduction
Test Year Ended December 31, 1993

Exhibit__(TCD-1)
Docket No. 920260-TL
Schedule 8

As part of the Company's 8,000 planned employee reduction by 1996, the Company has projected the savings and costs for 1993 (See OPC 1145).

a. The $43,646,000 planned expense associated with reduction in employee levels is a net amount. It includes numerous cost savings, primarily salary and wages, which were effective in 1993. The savings are offset by costs such as computer systems upgrades, separations and relocations, and other fees and expenses which must be paid up front in order to efficiently reduce staff.

I. Corporate re-engineering projects	$ Millions
Benefits (primarily salary & wages)	($6.0)
Other costs (systems upgrades, separations and relocation, and other fees and expense)	38.7
Comptrollers	1.9
Data Center	9.0
Total	$43.6

II. Each of the preceding costs and benefits identified at the corporate level has been allocated to Florida:

$43,646,000 x 25.60% = $11,173,000

The $11,173,000 is included in projected test period expense.

In response to OPC 988 the Company listed net savings associated with the same program for the years 1994-1996.

The following is the current projection of savings and costs associated with BST Reengineering (excluding AOC/DCD) for the years 1994-1996:

	1994	1995	1996
Savings	128.7	376.9	545.8
Cost	101.4	104.5	35.2
NOR	27.3	272.4	510.6
NOR (FL)	7.0	69.7	130.7

It would obviously be inappropriate to set rates that included costs of $11,173,000 in the test year while ignoring the significant net savings that accrue in the years 1994-1996.

My recommendation is in three parts. First, I recommend that if the Company can document the net costs associated with the re-enigneering program that will be incurred in 1993, that such costs be offset against refunds, if any, in 1993.

Second, I recommend a total Company step decrease in 1995 of 62.7 million ($69.7 - 7.0).

Third, I recommend a total Company step decrease in 1996 of $61 million ($130.7 - 69.7).

Using a composite intrastate separations factor of 77.84% the adjustments are as follows:

Reduce 1994 Expense	$11,173,000 x 77.84% =	8,697,063
Step Decrease 1995	$62,700,000 x 77.84% =	48,805,680
Step Decrease 1996	$61,000,000 x 77.84% =	47,482,400

Southern Bell Telephone and Telegraph Company
Maintenance Charges Deferred to 1993 Budget
Test Year Ended December 31, 1993

Exhibit__(TCD-1)
Docket No. 920260-TL
Schedule 9

The 1993 test year budget was increased because "As a result of Hurricane Andrew, work activities planned in 1992 to improve the trouble report rate were deferred; therefore not achieving the force and technological savings forecasted in 1993 and beyond." (OPC-850)

In response to OPC-936, the Company stated "The 1993 budget for plant labor was understated due to the postponement of 1992 work due to Hurricane Andrew. Therefore an additional $24.9 M was added to the budget and spread to the various accounts."

In response to Staff item 183, the Company provided the level of work force in repair activities broken down between IMC personnel and outside repair personnel. The data for 1982 through August, 1993 is as follows:

	Management and Non-Management	
	IMC	Outside Repair (I&M)
1982	1,089	4,543
1983	1,004	4,208
1984	877	3,756
1985	883	3,723
1986	818	3,700
1987	783	3,517
1988	825	2,875
1989	770	2,803
1990	735	2,686
1991	682	2,437
1992	717	2,637
1993 (Average)	705	2,858

It's obvious from the data, that significant cuts were made in 1984 and 1988 with continuing reductions through 1991. This was a period of incentive regulation.

The Company is requesting ratepayers to pay the full cost of Hurricane Andrew, including a return on unrecovered funds. The Company and not the ratepayer must bear the full cost of these deferred maintenance expenses.

Reduce budgeted expense by $24,900,000 x (100.00% - 23.8133% (1)) 18,970,488

(1) MFR Schedule C-24c, Plant Specific 23.8133%

In spite of what I am confident is a very sophisticated budgeting system, the Company cannot identify the amount of incentive compensation included in the 1993 budget. In response to OPC 1172d the Company stated:

> The payout dollars included in the 1993 budget are not derived through a simple multiplication and neither are they isolated where they can be separately observed. At the beginning of the 1993 budget cycle an estimated payout of 150% was used to prepare budget building assumptions. These assumptions in turn were combined with other compensation-related assumptions so that proper compensation funding could be achieved. As the budget cycle progressed, myriad adjustments were made concerning number of employees, location of employees, etc. These adjustments preclude knowing, at the end of the budget cycle, precisely the amount for incentive awards separately from other employee compensation. The various components of compensation are merged in the final budget numbers in such a manner that the final payout percentage is obscured. See the responses provided to OPC-640 and OPC-962.

During a deposition of Company employees the 150% payout level was confirmed. That was apparently the accrual rate at the beginning of 1993. Subsequently, the payout ratio was reduced to 100%, then increased to 130%.

Rates will be set in this proceeding based on the 1993 budgeted amounts. Refunds, if any, will be based on 1993 actual results. Therefore it is essential to determine the amount of incentive compensation included n the test year.

During the depositions of Company employees, it was determined that the Team Awards were accrued at a BST level and not Company specific. In response to OPC 962, the Company showed the Incentive Award payout percentage as follows:

	1990	1991	1992
Florida	135.0%	127.5%	107.3%
BST Headquarters	133.1%	135.0%	122.2%

Payouts by years and an explanation of the various plans was provided in response to OPC 1172. The payouts listed are for awards earned in the prior years.

> The plans are the Management Team Incentive Award (MTIA) plan and the Individual Incentive Award (IIA) plan through 1991 and the Team Excellence Award for Managers (TEAM) plan, the Special Achievement Bonus (SAB) plan, and the Department Head Award plan beginning in 1992.

Year	Incentive Award	Southern Bell	Florida
1989	MTIA	$24,336,375	$8,753,575
	IIA	13,213,650	5,048,700
1990	MTIA	$26,004,275	$11,718,975
	IIA	15,056,900	5,656,100
1991	MTIA	$24,535,150	$9,067,400
	IIA	12,720,800	4,719,200

Southern Bell Telephone and Telegraph Company
Incentive Compensation
Test Year Ended December 31, 1993

Exhibit__(TCD-1)
Docket No. 920260-TL
Schedule 10

Year	Incentive Award	Southern Bell	Florida
1992	MTIA	63,484,525	8,266,900
	IIA	31,078,000	4,256,200

> The Team Excellence Award for Managers (TEAM) plan, the Special Achievement Bonus (SAB) plan, and the Department Head Award plan were introduced in 1992 but the first payout resulting from these plans occurred in early 1993.

Furthermore, the Company stated that the payouts are expected to decline in 1994 based on 1993 results.

> The current estimated TEAM incentive award in total dollars for Florida to be paid out in 1994 will be smaller than the awards paid in 1993 or 1992. The current estimated TEAM incentive award in total dollars for BST to be paid out in 1994 will be smaller than the awards paid in 1993 or 1992. The amounts that will be paid out in 1994 are being accrued today, in 1993, based on current performance.
> (OPC 1172)

In addition to the Managment Team Incentive Award, Team Excellence Award for Managers, the Special Achievement Bonus and the Department Head Award, the Company has the Non-Management Team Incentive Award (NTIA).

In 1992 the Company expensed $19.5 million for this plan:

> Actual expense incurred at the Florida operation in 1992 for NTIA is estimated to be $19.5 million. However, the estimated amount of expense for Florida also includes the allocation of headquarters NTIA expense to Florida. In addition, an assumption that 11% of the total pay out was ultimately capitalized through normal processes has been included in the calculations of the estimated impact on Florida operation for 1993.
> (OPC 1201d)

Current estimates of 1993 expense are as follows:

> As of October 4, 1993, the dollar amount of TEAM expense projected for 1993 awards (to be paid in 1994) for the Florida operation is approximately $19.4 million. The percentage pay out assumed in that award is 90.$% (sic) for Florida. However, the projected amount of expense for Florida also includes the allocation for headquarters TEAM expense to Florida. The percentage pay out assumed for headquarters is 120.0%. In addition, an assumption that 11% of the total pay out will ultimately be capitalized through normal processes has been included in the calculations of the projected impacts on Florida operation for 1993.

> As of October 4, 1993, the dollar amount of NTIA expense projected for 1993 awards (to be paid in 1994) for the Florida operation for the NTIA award is approximately $18.3 million. The percentage pay out assumed in that award is 120.0% for Florida. However, the projected amount of expense for Florida also includes the allocation of headquarters NTIA expense to Florida. The percentage pay out assumed for headquarters is 120.0%. In addition, an assumption that 11% of the total pay will

Southern Bell Telephone and Telegraph Company
Pension Expense
Test Year Ended December 31, 1993

Exhibit__(TCD-1)
Docket No. 920260-TL
Schedule 11

In response to a deposition request of Walter S. Reid, the Company identified the amount of the expensed portion of pension expense included in the 1993 budget. The amount was $26,296,000. Based on the overfunding that currently exists, the significant accrual (Florida intrastate – $95,456,938, same source as above) that currently exists, and the fact that no funding is anticipated through at least the year 2000, the entire amount should be removed from budgeted expense.

Reduction to Expense	26,296,000
Composite Intrastate Factor	77.84% (1)
Reduction to Intrastate Expense	20,468,806

Increase in Rate Base:

Total Accural Before Capitalization (OPC 970b)	29,546,000
Less Tax Offsets @ 38.575% (2)	11,397,370
	18,148,630
Less Company errors in deferred tax calculation using $36,274,000 of pension expense versus $29,546,000 x tax rate of 37.63% (34% Federal Rate)	(2,531,746)
	15,616,884
Composite Intrastate Factor	77.84%
Increase in Rate Base	12,156,183

(1) Schedule 47
(2) State tax rate of 5.5% and Federal rate of 35%.

To increase test period revenues by the amount of concession revenues offered by the Company. The Company could not provide the amount of concession revenue included in forecasted 1993. The Company provided the amount of concession revenues in 1992 as follows:

Management	505,205
Non Management	1,919,867
Retired	1,517,901
Toll (all)	1,703,604
Total Increase in Revenues	5,646,577

The data was provided in response to OPC 796 (Supplement) dated 10/15/93.

Presumably, this is a Florida amount. In response to Staff 636, the Company provided the same amounts in response to a request for total Company and intrastate.

It is unclear whether the amount includes free or discounted service to employees whose time is allocated to Florida such as from BellSouth Telecommunications.

Alternative
Allocate a portion of the value of the free or discounted service to the interstate jurisdiction as this is in the form of an employee benefit.

Reduction to Expense – Amount above $5,646,577 x 22.16% (100% – 77.84% (1)) 1,251,281

(1) Schedule 47 for composite separation factor.

Southern Bell Telephone and Telegraph Company
Supplemental Executive Retirement Plan
Test Year Ended December 31, 1993

Exhibit__(TCD-1)
Docket No. 920260-TL
Schedule 13

Remove from expense, the cost of providing the SERP (Supplemental Executive Retirement Plan). The Company in response to OPC 1220 identified intrastate expense in 1992 and projected for 1993 as follows:

1992	1,432,000
1993	1,257,000

Southern Bell Telephone and Telegraph Company
Post Retirement Benefits – SFAS 106
Test Year Ended December 31, 1993

Exhibit__(TCD–1)
Docket No. 920260–TL
Schedule 14

In 1993, the Company began recognizing the full cost of post retirement benefits under SFAS 106. This required establishing a transition benefit obligation which the Company is amortizing over 15 years.

As part of the divestiture from AT&T, the Company receives annual reimbursements from AT&T for post–divestiture, medical, dental, and certain ad hoc pension expense for BST employees that were retired at the time of divestiture and are being shared by AT&T and BellSouth Telecommunications.

Thus, some of the transition benefit obligation relates to these employees and thus a portion of the obligation will be reimbursed from AT&T.

The Company did not make an adjustment because:

> When the company was in the process of implementing SFAS 106, consideration was given to including the net present value of cash flows to be received from AT&T for these retirees. The accounting treatment would have been to reduce the transistion benefit obligation thus reducing the annual amortization over the fifteen year period. Considering the age of this retiree group at implementation, the current recognition method allows a larger benefit in the early years, however in total, management believes the impact t (sic) be immaterial. Furthermore, a receivable of this does not meet the definition of an asset under SFAS 106.
>
> The treatment which is suggested in this request, of recording an accounts receivable without offsetting the SFAS 106 transition benefit obligation, would also require establishing a liability since the earning process would not be completed until the claims are incurred. Therefore, no impact on the financial statements would be recognized.
> (OPC 1130 a.i.)

While the Company believes "the impact to be immaterial," ratepayers are being asked to fund all costs under the guidelines of SFAS 106. Some of these future costs will in fact be reimbursed by the AT&T.

The Company must be required to document the savings –– costs which will not be paid by ratepayers. Absent the necessary information, I recommend intrastate expense by reduced by

$500,000

Southern Bell Telephone and Telegraph Company
Bond Refinancing Costs
Test Year Ended December 31, 1993

Exhibit__(TCD-1)
Docket No. 920260-TL
Schedule 15

In 1993, BST refinanced a number of its debt obligations. This resulted in reduced interest expense. As a result of the debt refinancings, the Company incurred costs for call premiums, and the refinanced debt carried with it unamortized premiums, discounts and issuance expense.

The Company proposal is to fully offset any interest savings with these costs. Thus the Company proposes to increase costs by $9,247,000 (MFR Schedule C-2b, page 2 of 3, line 13, Revised 10/1/93.)

Under Generally Accepted Accounting Principles (GAAP), costs incurred in the early extinguishment of debt must be recognized in the year of occurrence (APB 26). SFAS 4 allowed extraordinary treatment of such gains or losses.

Although complete information is not available, the total Florida intrastate costs related to the early extinguishment of debt is under $20 million. The Company plans to write off some costs in 1993, with the remainder to be written off in 1994 and 1995.

If the Company proposal is adopted, ratepayers will not benefit from these refinancings.

My proposed adjustment is to allow amortization of such costs in 1993 and 1994 over the life of the new debt. The remaining costs should then be written off in 1995 and 1996 which will reduce the step decrease I have proposed in connection with the Company's planned work force reduction and re-engineering efforts.

Based on an estimated intrastate cost of $20 million and assuming a 30 year life of the newly issued debt, the adjustment would be as follows:

1993 $20,000,000/30 x 1/2 (assuming debt refinancing in mid year)	333,333	
When 1993 actual results are calculated, an average capital structure (as modified by OPC Witness Rothschild to an optimal capital structure) will be used. Costs will increase by		333,333
1994 $20,000,000/30 =	666,667	
Amount Included by Company	9,247,000	
Reduction to Expense	8,580,333	8,580,333
1995 ($20,000,000 - 333,333 - 666,667)/2 Reduce Step Decrease		9,500,000
1996 Reduce Step Decrease		9,500,000

Southern Bell Telephone and Telegraph Company
Casualty Damage Reserve Accrual
Test Year Ended December 31, 1993

Exhibit__(TCD-1)
Docket No. 920260-TL
Schedule 16

The Company proposes to increase intrastate expense by $6,000,000 to recognize an accrual for possible future storm damage expense. In response to OPC 1116 the Company stated:

> The reason for the Company's request to establish a casualty damage reserve is to prepare for future catastrophic events such as Hurricane Andrew. Due to its geographic location, Florida is certainly subject to risks of this nature. The Company has found it difficult to acquire insurance to cover the risks to its outside plant investments and is therefore seeking to accrue amounts currently to offset potential future catastrophic damage expenses. The basis for the Company's request is not the requirements of a specific Generally Accepted Accouting Principle, but a practical measure to prepare for the future.

The Company, in response to a request as to whether the Company will attempt to recover the accrual on an interstate basis stated:

> Yes. The Company has not requested a rate increase to cover the accrual but it does plan to include the expense in cost of service. (OPC 1116 b.i.)

Of course, if the Company is overearning on the interstate level, this accrual will merely reduce those overearnings.

While the accrual has some appeal, it does not meet the requirements of GAAP. Furthermore, the accrual will not be deductible for tax purposes. Therefore the accrual balance (liability) will be offset by 38.575% in deferred tax charges.

There are also some unanswered questions. In response to OPC 729 the Company stated:

> The Company's intent is to provide a reserve to offset the incremental financial impacts of catastrophic events such as hurricanes, earthquakes, flood, fires, tornadoes or similar events. The reserve would be used to help offset the uninsured incremental cost of these occurrences.

In 1993, the BST service territories were hit with the "Blizzard of '93/Storm of the Century" (See OPC 1201 m). The Florida total Company cost was $3,208,000. Is this the type of catastrophic event the Company envisoned or would the Company attempt to recover both the cost plus the accrual had the Company began the accrual in 1993 as opposed to the planned date of 1994?

If the Company incurs a loss significantly higher than the reserve balance at a given point in time, will the Company seek recovery or an increase in the accrual level?

If no catastrophic events occur and the reserve continues to build, will the Company voluntarily reduce rates to remove the accural or to return the overcollection?

Based on the facts, the Company's proposal to establish a casualty damage reserve must be rejected.

Reduce Expense		6,000,000
Increase Rate Base	3,000,000 (1)	
Less Deferred Tax Offsets At 37.63% (2)	(1,128,900)(2)	
Net Increase In Rate Base	1,871,100	1,871,100

(1) MFR Schedule B-2b, Page 2 of 3, Line 42, Revised 10/1/93
(2) Using a state tax rate of 5.5% and a Federal tax rate of 34%

Southern Bell Telephone and Telegraph Company
Extraordinary Retirement Expense
Test Year Ended December 31, 1993

Exhibit__(TCD-1)
Docket No. 920260-TL
Schedule 17

To reverse the Company's recording of the extraordinary retirement expense in 1994. This adjustment should be recorded in 1992.

Reduce Expense	19,852,000 (1)
Increase Accumulated Depreciation (Reduce Rate Base)	9,926,000 (2)

(1) MFR Schedule C-2b, Line 44, Revised 10/1/93
(2) MFR Schedule B-2b, Line 44, revised 10/1/93. The Company increased depreciation by one-half of the amount based on the half year convention and the entry being recorded in 1994. As the recommendation is to record the adjustment in 1992, the full year impact must be recorded, therefore accumulated depreciation is increased.

Originally the Company planned to adopt SFAS 112 in 1994 with a charge to intrastate expense of $14,880,000 and a reduction to rate base of $7,440,000.

The Company had the option of recognizing the accrual in 1992, 1993 and 1994. The Company now plans to record the charge in 1993. In the Revised Filing the Company has reduced rate base by $22,698,000 (MFR Schedule B-2-b) on an intrastate basis while reducing deferred taxes by $8,755,000 (MFR Schedule D-9, Revised 10/1/93).

If the Company had continued with its proposal to include this one time accrual in 1994, then rates would have been too high because this is a one time event with annual adjustments.

Presumably the Company expects to recover this "expense" in 1993 when actual results for 1993 are determined. Had the Company recorded the full accrual in 1992, the Company would have absorbed the full amount as the Company earned within its authorized range.

This accrual is similar to the compensated absences accrual. SFAS 43 required that

> 6. An employer shall accrue a liability for employees' compensation for future absences if all of the following conditions are met:
> a. The employer's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.
> b. The obligation relates to rights that vest or accumulate,
> c. Payment of the compensation is probable, and
> d. The amount can be reasonably estimated.

SFAS 43 was to be adopted no later than December 15, 1980. The Company did not recognize such accrual until 1988 when it adopted Part 32 of the USOA and is amortizing the initial accrual over 10 years.

Even after the Company makes the initial accrual it will continue to expense the payments for claims covered by SFAS 112. These include payments to workers who are not retired but are receiving workers' compensation and long and short term disability payments. Each year the accrual balance will be adjusted up or down based on current estimates of future claims. In other words, an estimate is made for the total cost of providing payments to current employees receiving these benefits. The next year, a new estimate is made and the reserve adjusted with a charge or credit to Account 6728.

The Company initially estimated a total BST liability as follows (OPC 736)

Workers' Compensation	55,000,000
Short Term Disability	7,238,000
Long Term Disability	17,390,000
	79,628,000

The current estimate is (OPC 1151)

Workers' Compensation	69,282,000
Short Term Disability	5,601,000
Long Term Disability	40,819,000
	115,702,000

Florida's share is approximately 25% with 75% being charged to intrastate. My recommendation is to allow the Company to recover 1/2 in 1992 and 1/2 in 1993.

This will allow the Company recovery of

1992	$115,702,000 x 25% x 75%/2	10,847,063
1993		10,847,063

As an alternative the Company should be allowed to offset the step decrease in 1995 and 1996 by the amounts shown above.

Southern Bell Telephone and Telegraph Company
Compensated Absences
Test Year Ended December 31, 1993

Exhibit__(TCD-1)
Docket No. 920260-TL
Schedule 19

To remove from test period expense the intrastate directly incurred and allocated amount of compensated absence expense. (See OPC 947)

Directly Incurred	4,576,900
Allocated	637,300
Total Intrastate Reduction to Expense	5,214,200

Reduction to Rate Base: (OPC 947)

Balance December 31, 1992	35,745,700
Balance December 31, 1993	28,597,200
Total	64,342,900
Average $64,342,900/2	32,171,450
Intrastate Factor – MFR Schedule B-6c, Line 82	75.301627%
Intrastate Reduction to Rate Base	24,225,625

Southern Bell Telephone and Telegraph Company
Inside Wire – PROPRIETARY
Test Year Ended December 31, 1993

Exhibit__(TCD–1)
Docket No. 920260–TL
Schedule 20

Net revenues from Inside Wire should be recorded as regulated income. In OPC 43rd P.O.D., Item 656, the Company provided a detailed trial balance of the Non–Regulated Operations.

6 Before taxes, inside wire operations lost $________ for the 12 months ended December 31,
7 1992 and $________ for the six months ended June 30, 1993.

Both the year end and 6 months results were obviously effected by legal and professional fees related to the Attorney General investigation and the Davis Anti–trust litigation, expenses associated with Hurricane Andrew, and refunds for services not ordered. It is unclear where the settlement with the Attorney General was recorded, however, it does not appear that the settlement affected the inside wire results.

I assume that once these abnormal items are removed, the basic inside wire operation will be profitable. Additional information will be forthcoming. Pending receipt of this information I recommend that revenues be increased by $1,000,000.

Increase Revenues	1,000,000

Southern Bell Telephone and Telegraph Company
Gross Receipts Tax
Test Year Ended December 31, 1993

Exhibit__(TCD-1)
Docket No. 920260-TL
Schedule 21

The Company failed to show that the amount of gross receipts tax is matched with an equal amount of revenues as it relates to the pass on tax.

The gross receipts tax increased from 1.5% to 2% effective July 1, 1990, 2.25% effective July 1, 1991 and 2.5% effective July 1, 1992 (see response to OPC 960). Chapter 203.01(5) allows the utility to pass on the tax for changes effective after December 31, 1989 without regulatory approval.

The gross receipts tax is a tax imposed on the seller, not the purchaser. In order to recover 1.5% in tax the tax rate must be 1.522843%. In order to recover 2.5% the tax rate must be 2.564103%. In order to recover 1.0% the tax rate must be 1.0101%.

In response to OPC 960 the Company showed revenues subject to gross receipts tax of $2,030,297,000. This included $241,409,000 of CALC. Therefore $1,788,888,000 ($2,030,297,000 - $241,409,000) should be subject to intrastate gross receipts tax.

Theoretically the $1,788,888,000 includes gross receipts tax.

$1,788,888,000/1.02564103 =	1,744,165,793
Rate Inclued in Base Rates	1.522843%
Included in Base Rates	26,560,907
As Above	1,744,165,793
Incremental Rate Subsequent to December 31, 1989	1.0101%
Included as Pass On	17,617,819

The CALC of $241,409,000 theoretically includes gross receipts tax.

$241,409,000/1.02564103 =	235,373,774
Rate Included in Pass On Tax	2.564103%
Included as Pass On	6,035,226

The Company, in response to OPC 1141, provided the following:

Tax-Intra in Base Rates	26,606,819
Intrastate Pass On	13,724,693
Intersate Pass On	9,197,168
Tax on Coin-Tele-Interstate	30,454
Tax on Coin-Tele-Interstate	1,197,866
	50,757,000

The Company did not show how these amounts are included in budgeted revenues.

Therefore the following adjustment is proposed.

Increase revenues by the calculated pass on tax. See above — 17,617,819

s the Company calculated the interstate pass on to be $9,197,168 this is in excess of the amount above.

Therefore reduce intrastate expense by $9,197,168 - $6,035,226 = 3,161,942

Southern Bell Telephone and Telegraph Company
IntraCompany Investment Compensation (ICIC)
Test Year Ended December 31, 1993

Exhibit___(TCD-1)
Docket No. 920260-TL
Schedule 22

According to the Company response to OPC 1175, projected 1993 expense includes $43,567,859 of intracompany investment compensation. In OPC 1175 the Company was asked:

> b. Show how the $43,567,859 was determined listing each affiliate's investment, return, provision for taxes and all other items which went into the calculation of the $43,567,859.
>
> i. Show how the return was calculated.

The Company response was:

> b. As indicated in OPC's 37th Interrogatories, Item No. 968, IntraCompany Investment Compensation (ICIC) is charged between the state jurisdictions within BellSouth Telecommunications and is not related to affiliated transactions. The back-up detail for the calculation of the $43,567,859 is voluminous and would be burdensome to provide. The $43,567,859 consists of 1992 actual investment related expenses associated with approximately 100 investment cases and a three percent growth factor. The back-up details can be reviewed at the Company's Headquarters location.
>
> i. The return on investment is one of six components of the carrying charge rate. ICIC process does not provide a separate calculation for each component.

While material may, in fact, be voluminous, OPC representatives were at the Company offices on October 14, 1993 the due date of the response. No effort was made to inform the OPC that material would be made available for review.

An expense of $43,567,859 cannot be ignored and time does not permit a return visit to the Company offices prior to the testimony due date.

It is important to see all of the elements of expense to insure that the Florida operations are not being overcharged. For instance, the return requirement could be overstated, the return might be calculated using an inappropriate capital structure (i.e., excessive common equity) or without recognizing proper deferred tax offsets, amortization of investment tax credits and numerous other areas of possible overcharges. Additionally, Florida could be charged for costs on property which is not essential in providing utility service such as excess space or exotic aircraft.

Therefore an adjustment to reduce the charges by 25% is appropriate absent more complete documentation.

25% x $43,567,859	10,891,965
Separation Factor	78.4038% (1)
Reduction to Intrastate Expense	8,539,714

(1) Corporate Operations MFR Schedule C-24c, Line 25, 100% - 21.5962% = 78.4038%

Southern Bell Telephone and Telegraph Company
Uncollectible Accounts Expense
Test Year Ended December 31, 1993

Exhibit__(TCD-1)
Docket No. 920260-TL
Schedule 23

The Company has offset 1993 projected revenues with $39,973,000 in bad debt expense on an intrastate basis. (MFR Schedule C-24d, page 4 of 8, line 5, Revised 10/1/93) At the same time an analysis of the reserve for uncollectibles shows an accrual of $30,662,000 for 1993. During a deposition of Mssrs. Reid and Lohman, these individuals stated the accrual did not include a direct charge off of balances due from interexchange carriers for jurisdictional business.

Based on a review of the Company's trial balance (OPC 43rd, 662 Supplement) total expense for 1992 was $40,892,792.

This was broken down as follows:

5301.11-5301.12	Interstate	136,516
5301.21	Intrastate Accrual	35,458,209
5301.22	Intrastate - Direct Charges	2,880,871
5301.3113	Equal Access - Interstate	158
5301.3120	Equal Access - Intrastate	375
5301.4100-5301.4290	Interstate Direct Charges	2,076,402
5301.5100-5301.5290	Intrastate Carrier Access Revenues	340,261
		40,892,792

Of the $40,892,792, $38,679,716 is in intrastate, or 94.5881%.

In OPC 1149, the Company identified the estimated amount of bad debt recoveries which is netted against charge offs and thus in effect reduces the amount necessary to reach an acceptable reserve level. The Company estimated the amount for 1993 at $2,678,079.

Assuming the Company incurs the same level of direct charge offs in 1993 as 1992, the Company's estimate of the accrual for bad debts of $30,662,000 should be increased by intrastate charge offs of $3,221,507 ($2,880,871 + $375 + 340,261).

Thus 1993 intrastate bad debt expense is estimated at	30,662,000
Direct Charge Offs	3,221,507
	33,883,507
Amount Included in MFRs	39,973,000
Increase in Intrastate Revenues	6,089,493

Southern Bell Telephone and Telegraph Company
RTU Fees
Test Year Ended December 31, 1993

Exhibit__(TCD-1)
Docket No. 920260-TL
Schedule 24

The Company admits the 1993 budget overstates the level of RTU fees that will actually be paid. However, the Company states the underrun is intentional "because the underrun in RTU expenses is being used as an "offset" for the overrun that is occurring in other areas such as overtime work." The response as offered by the Company was as follows:

8. Florida has $52.5 million budgeted in 1993 for RTU fees, including CND RTU fees. Through September business, Florida had actually spent $31.2 million versus a budget through September of $40.1 million. Thus the underrun for September year-to-date is $8.9 million. Of the $8.9 million, at least half will not be spent during the remainder of 1993. This is intentional because the underrun in RTU expenses is being used as a "offset" for the overrun that is occurring in other areas such as overtime work.

   a) All of the CND money will be expended, but not all in 1993. CND is an acronym that stands for Calling Name Delivery system. It is the software that operates a telephone switching machine in a switching office and it provides the capability for "caller identification" from distant locations. Orignially, Network had budgeted all of the CND software RTU expense in a single lump sum amount in March, 1993; it was subsequently decided to pay the CND software costs over time as each separate telephone switching machine is updated with the CND capability.
   (OPC 1185, 8)

This supports my theory that the Company has the ability to "manage to profits." Certain expenses can be delayed or accelerated as the Company deems appropriate.

If the increased overtime is necessitated by unexpected growth the revenues should offset the expenses. If the overtime is necessitated by continuing clean up from Hurricane Andrew, the Company is requesting full recovery of such expenses. If the overtime is necessitated by the work activities to improve the trouble report rate, such work should have been completed in prior years.

Therefore it is appropriate to reduce budgeted test period expenses by the excess budget for RTU fees.

$8.9 million /2 =	4,450,000
Intrastate Separation Factor	76.1867% (1)
Reduction to Intrastate Expense	3,390,308

(1) MFR Schedule C-24c, Plant Specific 23.8133%
100% - 23.8133% = 76.1867%

Southern Bell Telephone and Telegraph Company
Amortization Expense
Test Year Ended December 31, 1993

Exhibit__(TCD-1)
Docket No. 920260-TL
Schedule 25

The Company's responses to data requests do not agree with Company MFR Schedule C-22b.

First, the Company calculated an expiring amortization schedule as follows: (OPC 945)

	1993	1994	Difference
Analog ESS	17,497,000	5,174,000	12,323,000
Operator ESS	4,949,000		4,949,000
Digital ESS	678,000	300,000	378,000
			17,650,000

The Company then revised the amount downward to $12,951,000 (OPC 1161a) because the analog ESS was incorrect and "those amounts are $11,543,000 and $3,918,000 for 1993 and 1994 respectively."

MFR Schedule C-22b shows the following:

Analog ESS	13,993,000
Digital ESS	821,000
Operator ESS	Not Located
Operator Systems – Analog	5,682,000

In OPC 1161b the Company provided the following as to projected 1993 amortization expense:

Analog Electronic Switch	13,993,000
Digital Electronic Switch	821,000
Operator Systems – Analog	5,682,000
Operator Systems – Cross bar 1993	1,788,000

In OPC 1161c the Company stated the amount of amortization expense in 1994 for Operator Systems – Analog was 0 and Operator Systems – X bar was 0.

In OPC 1136 the Company admitted that the model used to budget amortization expense "included one additional months' expense for some vintages of general purpose computers and corporate communications equipment." The Company has yet to file an update.

Without additional information the following adjustment is proposed.

Remove Operator Systems – Cross Bar Amortization Expiring in 1993	1,788,000
Adjust Analog ESS Amortization from $11,543,000 to $13,993,000	2,450,000
Assume Operator ESS is Operator Systems–Analog – Increase from $4,949,000 to $5,682,000	733,000
Increase Digital ESS from $678,000 to $821,000	143,000
Estimated Reduction to General Purpose Computer Amortization	2,500,000
Reduction to Expense	7,614,000

As these are amortization amounts, I have assumed 100% intrastate.

Southern Bell Telephone and Telegraph Company
Amortization of Office Equipment/Official Communication Equipment
Test Year Ended December 31, 1993

Exhibit___(TCD-1)
Docket No. 920260-TL
Schedule 26

The Company has included $4,037,000 of amortization expense for office equipment/official communication equipment. Originally the Company showed a plant balance at December 31, 1992 of $27,395,000 and a negative reserve balance of 36,660,000.

In OPC 945, the Company responded that "Because the amortization is based on plant cost, the the monthly expense cannot "overcome" the plant cost over its life."

In OPC 1002 the Company explained how the negative reserve balance was created.

In OPC 1002 Supplemental, the Company admitted that computational errors were made and that a revised MFR Schedule C-22b would be filed. Only historical MFR Schedule C-22b was filed. That schedule showed an asset balance of 28,023,746 and a reserve balance of $36,128,645 at December 31, 1992. Thus the account is overdepreciated by $8,104,899. In addition, test year expense includes $4,037,000 of amortization expense.

Reduce 1993 and 1994 Expense By	4,037,000
Reverse the $8,104,899 in 1992 to Offset Hurricane Andrew Write-Off	8,104,899

Southern Bell Telephone and Telegraph Company
Depreciation Expense
Test Year Ended December 31, 1993

Exhibit__(TCD-1)
Docket No. 920260-TL
Schedule 27

In response to OPC 1002 b the Company stated that Digital Circuit Equipment Retired 1990-1992 would not be amortized in 1993 but would be depreciated at a rate of 7.5%.

According to historical MFR Schedule C-22b, page 21 of 29, Revised 10/1/93, the asset balance at December 31, 1992 was $41,420,822 and the reserve balance was $41,532,785.

As this equipment was all retired in 1992 and is fully depreciated, no depreciation expense would appear appropriate given a positive 2% salvage (MFR Schedule C-22a, page 2 of 5, line 7).

It is unclear whether any depreciation expense is included in the test year as there are no schedules which show average plant balances, depreciation rates and calculated expense. A response to a data request is due subsequent to the due date for the testimony.

In the event depreciation expense is calculated on these fully depreciated balances, the following adjustment is required.

Plant Balance - December 31, 1992	41,420,822
Depreciation Rate	7.5%
Depreciation Expense	3,106,562
Separation Factor (100% - 29.2728%(1))	70.7272%
Reduction to Intrastate Expense	2,197,184

(1) MFR Schedule C-24c, Central Office Transmission

It is impossible to verify the Company's calculation of current and deferred federal and state income tax expense.

In response to OPC 959, the Company admitted that the net income used as a starting point in the computation was overstated by nearly $8,000,000 (MFR Schedule C-23b, line 1, as revised 10/1/93 - $390,281,000 versus MFR Schedule C-23b, line 1 - $398,278,000). The Company also admitted that the fixed charge (interest) deduction should have been $104,790,000 as opposed to the amount of $101,108,000.

In spite of these acknowledged errors, the Company's current tax provision as refiled on 10/1/93 was $150,880,000 as opposed to the $150,780,000 as originally filed.

The Company merely changed other amounts, as well as increasing various separation factors, none of which were documented.

During a deposition, the Company was unable to explain why taxable income was increased by $8,476,701 for pension capitalized, $2,423,639 for payroll taxes capitalized or $941,095 in sales and use tax capitalized. (See MFR Schedule C-23b, page 1 of 2, lines 7,8,9 as revised 10/1/93)

The Company was initially asked to reconcile the numbers between each of the tax schedules. In other words, if an item was shown as an increase to current taxable income, the Company was asked to show where the item reduced taxable income in the calculation of the deferred income taxes. The Company replied that they didn't understand the request.

.herefore OPC 1170 was served as follows:

> Federal Income Taxes. Refer to the Company's response to OPC-959-b. The question asked the Company to take all of the federal income tax schedules associated with the calculation of the current and deferred state and federal income expense. In other words, if as an example current income taxes expense is increased because of an accrual for pension expense which is not deductible for tax purposes in the amount of $10 million then one would expect to see that deferred income tax expense is reduced by the applicable tax rate multiplied by the same $10 million. This reconciliation should be for each line item included in the computation of current and deferred federal income tax expense. In responding, reference each specific item and if there are any differences between the amounts which are used in the computation of current income tax expense and those amounts used in the deferred tax computation, please explain any such differences.

Question 959 clearly related to projected 1993 expense. In responding the Company reconciled the 1992 amounts. In responding the Company noted several errors (see OPC 1170, Pages 2 and 3 of 8).

I also note in reviewing Schedule C-23b for the historical test year (1992) the Company used as a starting point intrastate net income of $362,187,424 while adding back income taxes of $113,266,302 (See MFR Schedule C-23b, page 1 of 2, lines 1 and 2). However, net income on C-2b, page 1 of 2 is $366,589,000 and taxes total $108,762,000.

One would also expect the separation factors for the most part to be the same in the current calculation in the deferred calculation. In other words, the separation factors applied to timing differences that increase or decrease current taxes should be the same in the deferred calculation. Such is not the case.

Southern Bell Telephone and Telegraph Company
Federal Income Tax
Test Year Ended December 31, 1993

Exhibit___(TCD-1)
Docket No. 920260-TL
Schedule 28

Without additional information, a precise calculation of taxes cannot be made. Therefore, I am proposing a calculation which assumes that timing differences will not affect the overall calculation. I also reduce the tax expense by the excess of deferred taxes where the deferrals were provided at rates in excess of 34% and the assets are now in a turn around situation where book depreciation exceeds tax depreciation.

	1992		1993		
Net Income	366,589,000		389,166,000		C-2b
Add – Taxes	108,763,000		131,114,000		C-2b
Less – Fixed Charges	112,053,389		104,790,000		C-23b
Taxable Income	363,298,611		415,490,000		
Less – State Taxes – 5.5%	19,981,424	19,981,424	(22,851,950)	22,851,950	
Federal Taxable Income	343,317,187		392,638,050		
Federal Taxes – 34%	116,727,844	116,727,844	133,496,937	133,496,937	
Less ITC		(18,733,000)		(18,152,000)	C-23a
Less Deferred Taxes in Excess of 34% (OPC 836b) x intrastate factor of 75% (Note Company increased taxes in 1993 to 35% in separate adjustment)		(15,290,734)		(10,831,373)	
		102,685,534		127,365,514	
Taxes Per C-23a		108,763,000		131,114,000	
Non Regulated Adjustment to Reduce Non Regulated Taxes and Increase Regulated Taxes – OPC 1076		2,999,540			
		111,762,540		131,114,000	
Adjustment – Reduce Taxes		9,077,006		3,748,486	

Southern Bell Telephone and Telegraph Company
Employee Stock Ownership Plan – Special Tax Benefit
Test Year Ended December 31, 1993

Exhibit___(TCD-1)
Docket No. 920260-TL
Schedule 29

The Company placed into effect in 1990 a Leveraged Employee Stock Ownership Plan (LESOP). Under the plan, the ESOP Trust borrows funds and purchases Company stock. Special tax benefits are available under IRC Section 404(k). Basically, the dividends paid to the Trust on Company stock are allowable deductions for tax purposes. However, even though the expense of the LESOP is allocated to each operating unit, the parent BSC–HQ, retains all the tax savings associated with this special benefit.

In response to OPC 1144 the Company provided the following information:

	Projected Dividends	Projected Tax Benefits	Amount of Tax Benefit Flowed to Florida
1990	4,206,951	1,430,023	0
1991	40,741,546	14,798,220	0
1992	43,432,025	14,849,994	0
1993	43,575,625	15,251,469	0
1994	46,181,971	16,163,690	0

In response to OPC 53rd P.O.D., Item No. 803a, the Company provided the following information from the 1991 and 1992 tax returns.

Dividends	1991	1992
PAYSOP	9,886,186	8,799,531
ESOP	18,888,656	21,915,712
ESOP	21,608,465	21,852,891
	50,383,307	52,568,134

The PAYSOP was a plan in place prior to the Tax Reform Act of 1986. (TRA 86). While it is my understanding that there was no cost associated with the PAYSOP –– such as is with the LESOP –– the Company obviously received similar benefits.

The dividends shown above are at the BellSouth HQ level. The amount of savings that would be allocated to Florida are estimated based on an allocated factor to BST of 83.44% and a Florida intrastate factor of 18.3%.

The following adjustments are proposed

1992	52,568,134 x 34% x 83.44% x 18.3%	2,729,147
1993	($43,575,625 + $8,799,531 (1)) x 35% x 83.44% x 18.3%	2,799,102
1994	($46,181,971 + 8,799,531 (1)) x 35% x 83.44% x 18.3%	2,938,394

(1) Using the projected LESOP dividends from OPC 1144 and holding the PAYSOP dividends constant at the 1992 amount from OPC 53rd P.O.D., Item No. 803a.

Southern Bell Telephone and Telegraph Company
Customers Operations Separations Factor
Test Year Ended December 31, 1993

Exhibit__(TCD-1)
Docket No. 920260-TL
Schedule 30

In response to OPC-887, the Company provided the data which was used to compute the Customer Operations Separation Factor for 1992. In OPC 43rd P.O.D. Item 662 supplement, the Company provided a detailed trial balance for 1992. A comparison showed that accounts 6621, 6622.2 and 6623 amounts agreed. Account 6610 which is the total of 6611, 6612, and 6613 totalled $95,991,796 in the trial balance but $96,232,940 was used in the response to OPC-887, a difference of $241,144. Account 6622.1 was $2,144,835.63 in the trial balance but $43,119,438 in response to OPC-887. This is the account for Directory Advertising Expense and the amount of $2,144,835 agrees with Schedule Z-9 of the Annual Report to the PSC.

The difference is unexplained. The higher amount of expense with the lowest allocation to interstate understates the interstate separation factor. I have assumed the same error occurred in 1993.

From OPC 887	Unseparated Dollars	Interstate Dollars	Interstate Factor
Total Customer Operations	454,378,580	78,640,058	0.173072
Less Account 6622.1	(43,119,438)	(4,146,615)	0.096166
Add Amount from Trial Balance	2,144,835	206,260 (1)	0.096166
	413,403,977	74,699,703	18.0694% (1)
Amount Per 1992 Surveillance Report Per MFR Schedule C-24d, Page 4 of 23			
	412,573,000	80,198,000	19.4385% (1)
Amount Per 1993 Surveillance Report Per MFR Schedule C-24d, Page 4 of 8, Revised 10/1/93			
	444,060,000	84,949,000	19.1301%
Interstate Factor for 1993 Per MFR Schedule C-24c, Line 24			
			17.1963%

Without the details, it is impossible to reconcile the discrepancies; however it is assumed the 17.3072% (See above interstate factor for customer operations) for 1992 was calculated incorrectly and should be 18.0694%, a difference of .7622%. Multiplying this by the total Corporate Operations expense of $444,060,000 (MFR Schedule C-24d, page 4 of 8, line 11 yields a difference of $3,484,625.

Reduce Intrastate Expense By	3,384,625

Southern Bell Telephone and Telegraph Company
Taxes, Other Than Income – Separation Factors
Test Year Ended December 31, 1993

Exhibit__(TCD-1)
Docket No. 920260-TL
Schedule 31

	Total Company	Intrastate	Intrastate Percentage
Property Tax (1)	107,100,000	81,028,326 (3)	
PSC Tax (2)	4,168,000	4,168,000	
Franchise Fees (2)	9,551,000	9,551,000	
Gross Receipts Tax (2)	50,757,000	44,721,775 (4)	
	171,576,000	139,469,101	81.2871%
Difference–Assumed Allocations to Non Regulated	(1,580,000)	(1,284,336)	81.2871%
Other Taxes, MFR Schedule C–24d, Page 4 of 8, Line 18, Revised 10/1/93	169,996,000	138,184,765	
Amount Per MFR Schedule C–24d, Page 4 of 8, Line 18, Revised 10/1/93		140,265,000	
Difference Reduction to Tax Expense		2,080,235	

Note:
In response to OPC P.O. D. 43rd, Item 662 Supplement, the Company provided a detailed trial balance for 1992. In OPC P.O.D. 32nd, Item 437, the chart of accounts was provided.

Account 7240.1 property taxes showed $816,587.65 allocated to non regulated and 7240.15 property taxes transferred to non operating showed a credit balance of $221,845. Therefore the difference of $1,580,000 is reasonable.

Account 7240.2120 is Gross Receipts Taxes – Interstate and the amount in 1992 was $6,709,472. The calculated amount above is $6,035,225.

(1) MFR Schedule C–21a
(2) Response to OPC 960, Page 3 of 3
(3) Intrastate Plant in Service, MFR Schedule C–24d, Page 2 of 8, Line 6, Revised 10/1/93 $7,134,422/ $9,429,991 = 75.6567% x $107,100,000 = 81,028,326
(4) $50,757,000 – [2.5% (gross receipts tax rate) x $241,409,000 – end user charge – OPC 960, page 3 of 3 = $6,035,225] = $44,721,775

Southern Bell Telephone and Telegraph Company
Universal Service Fund
Test Year Ended December 31, 1993

Exhibit___(TCD-1)
Docket No. 920260-TL
Schedule 32

The Company provided conflicting information about Universal Service Fund Revenues. Universal Service Fund revenues are used to offset intrastate revenue requirements.

The Company does not include the receipts as revenues but uses the amounts to offset corporate operation expenses.

In OPC-1131 the Company stated that $15,907,000 was budgeted for USF revenues in 1993. However, in OPC-744, the Company stated that intrastate expenses were reduced by $14,389,000 in 1993. In OPC-1131, the Company stated the actual revenues for 1993 were $14,389,000. Based on these responses it would appear that intrastate expenses are understated by $1,518,000. In OPC-1131 the Company showed how 1993 intrastate expenses for Corporate Operations of $78,048,000 was determined.

Calculation of Intrastate Corporate Operations Expense:

	Excluding USF	USF	Total
Regulated Combined	297,641	0	297,641
Interstate	62,141	15,907	78,048
Intrastate	235,500	(15,907)	219,593

Calculation of Interstate Corporate Operations Expense:

Regulated Combined	297,641
Offbook Adjustments	16,397
Amount for Separations	281,244
Interstate Factor	21.9077%
Interstate Portion	61,614
Add: USF	15,907
Add: Interstate Offbooks	527
	78,048

Unfortunately, the Company did not explain what was meant by the offbook adjustments or why it was used to reduce regulated expenses. In fact in response to OPC-1138, the Company only shows one offbook adjustment to corporate operations expense which is an increase of $2,444,000. Using the starting point of Corporate Operations expense of $297,641,000 from MFR Schedule C-24d, page 4 of 8, line 12, as revised 10/1/93, a separations factor of 21.5962% from MFR Schedule C-24c, line 25, and actual 1993 USF revenues of $14,389,000 the following result is obtained.

Total Corporate Operations Expense	297,641,000
Separations Factor	21.5962%
Interstate Expense	64,279,146
Add USF Revenues	14,389,000
Interstate Expense	78,668,146
Amount Per Company	78,048,000
Reduce Intrastate Expense	620,146

Southern Bell Telephone and Telegraph Company
Deferred Income Taxes
Test Year Ended December 31, 1993

Exhibit__(TCD-1)
Docket No. 920260-TL
Schedule 33

On MFR Schedule D-9, Revised 10/1/93 the Company reduced deferred taxes for the Hurricane true-up by $14,414,000. Presumably this relates to the additional costs the Company is deferring in 1993 beyond the original estimates. Furthermore based on the Company's proposal to increase rate base (cash working capital), the assumption is that these are additional costs not included in the 1993 budget and in excess of amounts accrued for at December 31, 1992. As the Company will be expensing such costs for tax purposes, but deferring the cost for book purposes, one would expect an increase in the deferred tax liability, not a decrease.

On Schedule D-9, as originally filed, deferred taxes were increased by $13,096,000.

Absent any other information, I assume an error has been made and that deferred taxes should be increased by $14,414,000 and not decreased.

Increase Deferred Taxes	$14,414,000 x 2	28,828,000

Southern Bell Telephone and Telegraph Company
Inappropriate Expenses
Test Year Ended December 31, 1993

Exhibit__(TCD-1)
Docket No. 920260-TL
Schedule 34

Serial No.	Invoice Date	Vendor	Description	Amount
15891	5/1/92, 12/18/92	Marriot Corporation	Reception for HB. Martin	9,056.38
1249	11/10/92	Calloway Gardens Resort	1992 Bell South Governmental Affairs Conference	5,353.68
4635	12/17/92	Westin Canal Place	RNS State Conference for Louisiana	5,393.71
81331	7/29/93	Haywood Park Hotel & Promenade	The Excellent Principal Conference	17,921.54
42978	5/28/93	Executive Recognition	Promotional customer giveaways presented during Bell South Classic	12,110.22
48395	1/16/92	Executive Visions	Design & event planning for '92 golf tournament, '92 Insight, and '96 Olympics	48,750.00
13142	1/14/92	Evergreen Conference Center & Resort	Misc. conference charges: gift shop ($37.08), laser show ($250.00), day trips ($6,300.00), and bus driver ($93.45)	6,680.53
30303	11/17/92	Center for Advance Purchasing Studies	Payment towards CAPS research of purchasing	10,000.00
4419	1/21/92	Cincinnati Ohio 1992 Host Committee	Support for 1992 NCSL meeting	5,000.00
18145	1/27/92	Florida SLC 1992 Host Committee	Support for 1992 Southern Legislative Conference	10,000.00
44735	6/11/92	Georgia Sheriff's Association	Sponsorship of annual banquet	5,000.00
40365	6/17/92	INROADS/Charlotte, Inc.	Payment to national minority student organization	15,000.00
13093	1/22/92	Forward Atlanta	Payment to assist Forward Atlanta	40,000.00
8921	12/17/92	Public Affairs	Event consulting fees paid on behalf of Georgia Chamber of Commerce	10,000.00
39892	5/20/92	Atlanta Chamber of Commerce	Support for 1992 membership campaign	5,000.00
12434	9/15/92	Telephone Pioneers of America	Support for Region 13	34,251.98
5378	4/7/92	Telephone Pioneers of America	Second quarter payment	34,251.97
93856	4/16/93	Beacon Council	Sponsorship of 1993 Business Assistance Expo	10,000.00
3628	1/10/91 rec'd 1/20/92	Partners in Progress	3'rd of 4 annual payments	10,000.00
14816	1/20/92	The Beacon Council	Sponsorship to enhance Dade County's economic development	25,000.00
61141	11/20/92	Jacksonville Chamber of Commerce	Payment to aid in operation of Business Service Center	2,000.00
61142	11/30/92	Globe Com '92	Sponsorship of Telecommunications Conference	5,000.00
83385	8/1/92	Broward Economic Development Council	Membership dues	10,000.00
93840	5/4/93	Greater Miami Neighborhoods	Contribution	7,500.00
33579	4/7/93	The James Madison Institute	Sponsorship of public policy studies	5,000.00
40175	5/24/93	Council for Economic Outreach	Annual pledge	10,000.00

...ial No.	Invoice Date	Vendor	Description	Amount
83385	8/1/92	Broward Economic Development Council	Membership dues	10,000.00
93840	5/4/93	Greater Miami Neighborhoods	Contribution	7,500.00
33579	4/7/93	The James Madison Institute	Sponsorship of public policy studies	5,000.00
40175	5/24/93	Council for Economic Outreach	Annual pledge	10,000.00
30257	1/11/93	Florida TaxWatch, Inc.	Membership dues	10,000.00
28414	1/8/93	Greater Homestead Florida	Contribution	10,000.00
19667	12/31/92	Greater Miami Convention and Visitors Bureau	Contribution	5,000.00
20829	12/16/92	Brevard Economic Development Corp.	4'th of 4 annual contributions	10,000.00
44956	1/15/93	Beacon Council	Sponsorship - economic development	25,000.00
46537	1/26/93	The Florida Sterling Council	Sponsor - conference & awards ceremony	10,000.00
46538	1/29/93	Jacksonville Chamber of Commerce	2'nd of 3 annual contributions	25,000.00
49745	1/20/93	Orange Bowl Committee	Sponsor - President's Ball	25,000.00
2596	2/16/93	Florida TaxWatch, Inc.	Sponsor - study of gross receipts tax	6,000.00
9664	2/11/93	Greater Miami Chamber of Commerce	Sponsor - economic study of Homestead Air Force Base	6,000.00
Y0643	4/1/93	Campaign for Economic Prosperity	Sponsor - economic development	10,000.00
22787	8/19/93	Metropolitan Dade County, Office of Management and Budget	Sponsor - task force for ethical business practices	10,000.00
45535	6/17/93	Metropolitan Dade County, Office of Victim Services	Sponsor - domestic violence awareness	7,500.00
83903	2/15/93	University of Miami	Sponsor - '92-'93 football/baseball print package	5,000.00
14377	7/19/93	WPBT - Channel 2	Sponsor - Reading Rainbow	20,000.00
41	3/25/93	South Florida AFL-CIO	Sponsor - consumer community program	5,000.00
133413	6/14/93	Miller J. Dawkins	Sponsor - 4'th of July picnic	5,000.00
98597	5/20/93	Unlimited Racing Commission	Sponsor - '93 Miami Budweiser Regatta	5,000.00
25560	4/27/93	City of Miami Beach	Sponsor - 4'th of July concert	10,000.00
25560	1/8/93	City of Homestead	Sponsor - Opening day at the ballpark	7,500.00
18017	1/4/92	Dade County Day, Inc.	Sponsor - Dade County Days	5,000.00
5076	2/12/93	Natcom National Communications	Sponsor - American Airline's "Miami Mile"	10,000.00
65183	5/6/93	WXEL TV	Underwriting cost of public TV program	13,500.00
X3586	3/11/93	PGA Seniors Championship	Sponsor - PGA Seniors Golf Championship	8,000.00
87578	5/6/93	Channel 24 - WWFE TV	Sponsor - "Ghostwriter" educational TV program	9,800.00
43799	1/15/93	Jacksonville Business Journal	Sponsor - First Coast Honor Students ad	5,000.00
W2772	1/20/93	Riera-Gomez, E.R.	Sponsor - inaugural reception for congresswoman	9,275.00
32018	6/3/93	Florida Association of Broadcasters	Sponsor - annual convention	5,000.00
33408	12/15/91	Greater Miami Convention and Visitors Bureau	Annual membership dues	5,000.00
43920	1/6/92	Jacksonville Chamber of Commerce	1st of 3 annual payments	25,000.00
6122	8/25/92	United Way of Dade County	Annual dues	25,000.00

...ial No.	Invoice Date	Vendor	Description	Amount
32018	6/3/93	Florida Association of Broadcasters	Sponsor - annual convention	5,000.00
33408	12/15/91	Greater Miami Convention and Visitors Bureau	Annual membership dues	5,000.00
43920	1/6/92	Jacksonville Chamber of Commerce	1st of 3 annual payments	25,000.00
6122	8/25/92	United Way of Dade County	Annual dues	25,000.00
6122	3/26/92	Greater Ft. Lauderdale Chamber of Commerce	3'rd of 5 annual payments	15,000.00
4740	4/1/92	Campaign for Economic Prosperity	2'nd of 3 annual payments	10,000.00
25408	5/5/92	James Madison Institute	1992 sponsorship, public policy studies	5,000.00
33564	5/5/92	Miami Coalition for a drug free community	Sponsor - fight against illegal drugs	10,000.00
3333	4/9/92	Miami Freedom	Sponsor - promotional info.	5,000.00
39562	2/25/92	WPBT - Channel 2	Sponsor - Reading Rainbow	20,000.00
27488	3/11/92	Taglairino Advertising Group	Sponsor - cultural events calendar	5,000.00
27652	3/17/92	Kids Voting - Florida	Sponsor - teaching importance of voting	2,500.00
13986	6/12/92	Miller J. Dawkins	Sponsor - 4'th of July picnic	5,000.00
18537	6/17/92	Cocunut Grove Association, Inc.	Sponsor - arts festival	2,500.00
3935	10/20/92	JCI World Congress	Sponsor - 47'th JCI World Congress	15,000.00
44704	1/10/92	Day County Day, Inc.	Sponsor - Dade Day	5,000.00
4936	12/18/92	Big Orange New Years Eve Celebration	Sponsor - New Years Eve VIP Event	5,000.00
4939	12/18/92	Ft. Lauderdale Marriott	Southern Bell reception for public officials, community & business leaders	7,865.20
13904	3/25/92	53'rd PGA Seniors Championship	Sponsor - '92 PGA Seniors Championship	8,250.00
67875	10/30/92	O.C. Tanner	Anniversary gifts	173,507.64
2306	12/15/92	O.C. Tanner	Mailing cost, purchase of damaged goods	29,967.34
86237	11/30/92 12/1/92 11/25/92	O.C. Tanner	Anniversary gifts	137,173.61
26876	8/31/92 9/15/92 8/19/92 9/11/92	O.C. Tanner	Anniversary gifts	220,952.00
18275	9/30/92 9/28/92 9/22/92	O.C. Tanner	Anniversary gifts	179,221
13910	6/26/92 7/10/92 6/30/92	O.C. Tanner	Anniversary gifts	467,022.72
31523	7/31/92 8/4/92 8/3/92 7/23/92 7/31/92	O.C. Tanner	Anniversary gifts	192,795.75
26813	7/13/92 7/15/92 7/23/92 7/30/92 7/31/92	O.C. Tanner	Anniversary gifts	24,078.58
10022	4/30/92	O.C. Tanner	Correction Voucher - reclassify dollars from ALA to HQ	80,124.64

Southern Bell Telephone and Telegraph Company
Inappropriate Expenses
Test Year Ended December 31, 1993

Exhibit__(TCD-1)
Docket No. 920260-TL
Schedule 34

...al No.	Invoice Date	Vendor	Description	Amount
26813	7/13/92 7/15/92 7/23/92 7/30/92 7/31/92	O.C. Tanner	Anniversary gifts	24,078.58
E0022	4/30/92	O.C. Tanner	Correction Voucher - reclassify dollars from ALA to HQ	80,124.64
37864	12/31/91 2/28/92 2/21/92	O.C. Tanner	Anniversary gifts	117,294.02
2898	12/31/91 12/23/91 12/12/91 12/2/91 10/3/91	O.C. Tanner	Service awards and emblems	62,501.66
6069	11/91 - 1/92	O.C. Tanner	Retirement gifts	123,401.77
5536	3/20/92	Just Cruisin	Customer service end of year event	66,114.62
27369	11/4/92	HSA Enterprises, Inc.	Purchase jackets for appreciation BBQ luch	52,012.40
41960	9/15/92 9/16/92	International Screenprint, Inc.	T-shirts, baseball caps	52,822.58
23021	2/28/92	Ha-Lo Advertising Specialties	Glasses with Spotlight on Excellence emblem	8,382.25
10849	8/29/92	Talos Design, Inc.	Hurricane Andrew T-shirts	9,886.34
39106	8/25/92 8/27/92	Talos Design, Inc.	Hurricane Andrew T-shirts, baseball caps	53,895.97
M0699	10/19/92	H. Gregory Vogel	Capital Loss on sale of personal residence	49,063.32
M0277	8/25/92	Robert L. Barron	Capital Loss on sale of personal residence	30,654.45
M0591	6/8/92	John H. Wright	Capital Loss on sale of personal residence	35,648.05
24741	4/2/93	Sheraton Music City	Expenses for hosting 3-way meeting	9,918.19
19926	12/7/92	Sheraton Colony Square	Holiday reception for AT&T	4,217.00
24335	1/5/93	BellSouth Corporation	BST's portion of officer's Christmas luncheon	14,184.39
33781	12/2/92	National Press Club	Dinner for consultants during ComNet Conference	4,830.00
17790	2/8/93	Fontainebleau Hilton	Food for 91 public school teachers	2,006.89
29116	3/10/93	Antoine's Restaurant	Reception for guests - Region 13 Pioneer training	3,617.89
44266	1/21/93	Stouffer Pineisle Resort	BST Legal Appraisal Conf. - movie and golf fees	1,225.75
84179	11/6/92 11/13/92	Marriott Corporation	Service award luncheons, United Way campaings	9,036.95
40176	8/27/92	Forrest Hills Mountain Resort	Leadership Institute - attended by outside educators	7,629.67
88896	8/18/93	Rolling Hills Hotel & Golf Resort	Mtg. with condo. & community association leaders Re. rate issues	1,504.10
		Total		3,041,651.27

Southern Bell Telephone and Telegraph Company
External Relations Expense
Test Year Ended December 31, 1993

Exhibit__(TCD-1)
Docket No. 920260-TL
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Page 5 of 6

Serial No.	Invoice Date	Vendor	Description	Amount
45763	5/22/92	Something Different Display	Southern Bell Float - Jr. Orange Bowl parade	19,170.00
41960	9/15&16/93	International Screenprint, Inc.	T-shirts - employee recognition, Hurricane Andrew	52,822.58
89068	12/11/92	Hamilton Productions, Inc.	Sponsor - Watch on Washington T.V. series	90,000.00
20828	11/17/92	Jacksonville Chamber of Commerce	Annual membership dues	28,000.00
20677	2/9/93	Economic Development Commission of Mid Florida	Membership dues	10,000.00
X8134	2/12/93	Clarion Group, Inc.	Video - Hurricane Andrew	15,000.00
Y6851	3/25/93	Fun Company	Deposit for Family Day at zoo	21,986.00
105	4/19/93	Fun Company	Family Day at zoo	173,786.00
16149	5/22/92	Hamilton Productions, Inc.	Sponsor - Watch on Washington T.V. series	100,000.00
49162	8/31/92	TABASCO Country Store	Favors for USTA convention	13,820.20
13764	9/3/92	First Frame Video Services	Production expenses - Hurricane Andrew video	5,903.00
49104	8/7/92	First Star Communications, Ltd.	Sponsor - Industry Report TV segment	10,000.00
34366	10/5/92	Greenwich Associates	Bellcore cost/benefit analysis	25,000.00
5839	10/15/92	Greenwich Associates	Bellcore cost/benefit analysis	25,000.00
38311	11/17/92	Greenwich Associates	Bellcore cost/benefit analysis	25,000.00
85607	12/10/92	Alabama Press	Thank you pads	31,687.20
85609	12/10/92	Alabama Press	Thank you pads	31,687.20
13010	12/15/92	Greenwich Associates	Bellcore cost/benefit analysis	25,000.00
Y0293	1/27/93	American Legislative Exchange Council	Support for task force activities	10,000.00
90845	5/12/93	DWJ Television	Underwriting cost of "Information Highway" video news release	17,300.00
17313	5/6/93	Executive Expeditions	Outdoor training modules - The Principals Program	72,000.00
22038	6/2/93	Executive Expeditions	Outdoor training modules - The Principals Program	24,000.00
82330	7/3/93	Keilty, Goldsmith & Company	Consulting - The Principals Program	20,163.55
14850	3/1/93	Ronald L. Brook, P.A.	Professional service - 1993 regular session	20,000.00
		Total		867,325.73

Southern Bell Telephone and Telegraph Company
Advertising Expense
Test Year Ended December 31, 1993

Exhibit__(TCD-1)
Docket No. 920260-TL
Schedule 34

Serial No.	Invoice Date	Vendor	Description	Amount
L9288	5/18/92	BellSouth Corporation	Payment for 50 Pro Am slots - 1992 BellSouth Classic	157,500.00
L9288	8/14/92	BellSouth Corporation	Misc. expenses for 1992 BellSouth Classic	219,174.01
2878	12/18/92	N.C. Department of Ec. & Community Development	Southern Bell/North Carolina joint economic development advertising	10,000.00
68627	2/4/93	Executive Visions	Mardi Gras parties	26,893.00
92017	4/30/93	Executive Recognition	Promotional giveaways - 1993 BellSouth Classic	13,125.00
60800	4/28/93	American Association of Airport Executives	Advertising expense for hospitality suite	10,000.00
31967	5/4/93	Doubletree Hotel at Concourse	Lodging for guests - 1993 BellSouth Classic	223,150.33
81705	5/17/93	Executive Recognition	Promotional giveaways - 1993 BellSouth Classic	129,055.33
18440	5/28/93	Czarnowski	"Jungle theme" trade show exhibits	94,734.00
		Total		883,631.67

During 1992 and 1993, the Company has incurred legal and outside consulting fees in connection with the Attorney General investigation.

Based on the Company explanation found in OPC 41st P.O.D., Item No. 609, it would appear that all such charges are recorded below the line. The explanation of charges was as follows:

> Set forth below are explanations of function codes shown in Section G of the vouchers provided.
>
> FC 080004 Inside Wire/Basic – Antitrust/Legal drives expenses to account 6725 (Legal, Nonregulated – Inside Wire/Basic)
>
> 016404 Inside Wire/Basic – Governmental/Legal drives expenses to account 6725 (Legal, Nonregulated – Inside Wire/Basic)
>
> 5628 Special Charges – Other– Regulated is a special code used with an 899 EXTC (miscellaneous) that drives regulated matters to a nonregulated account.

However in response to OPC 1199 the Company stated:

> A portion of the legal fees for Attorney General investigation were allocated to a non–regulated function code under account 6725. This determination was based on the nature of the underlying matter. The non–regulatory function codes to which these expenses were allocated are:
>
> 080004 Inside Wire/Basic – Antitrust/Legal drives expenses to account 6725 (Legal, Non–regulated – Inside Wire/Basic)
>
> 016404 Inside Wire/Basic – Governmental/Legal drives expenses to account 6725 (Legal, Non–regulated– Inside Wire Basic)

The Company then listed the 1992 expenses and the amount charged to non regulated. The totals were as follows:

28 Total
29 Amount Charged to Non–Regulated
30 Difference

31 Additionally the Company expended $116,600 with Arthur Andersen and Co. in 1992 ________ in 1993
32 to date and ________ with Peat Marwick through September, all in connection with Attorney General investigation. (See OPC 1199 d and 1199 e)

In response to OPC 841 which asked

> Legal Expense. Please itemize the amount of non–rate case legal expense for the year ended December 31, 1992 and as projected for 1993.

Southern Bell Telephone and Telegraph Company
Legal Fees and Outside Consulting Services-- PROPRIETARY
Test Year Ended December 31, 1993

Exhibit__(TCD-1)
Docket No. 920260-TL
Schedule 35

The Company merely reponded:

> Attoneys fees and expenses for 1993 were projected in the amount of $3,306,780 for Florida's Legal Department. Legal expenses incurred through July 1993 for non--rate case related work are itemized on the attached list.

This offers little in that the Florida legal department may be involved in routine legal matters as well as the Attorney General investigation and the Davis Anti Trust litigation.

It is important that ratepayers not pay any of the costs of the Attorney General investigation or the Davis Anti--Trust litigation matters.

Without detail of the Company's budgeted legal expense for regulated operations, it is impossible to determine whether the regulated budget includes any inappropriate items.

However, based on the Company's own representations for 1992, I assume equal amounts are budgeted for 1993. Therefore at a minimum, I recommend budgeted expense be reduced by

16	Legal	[illegible]
17	Outside Services	[illegible]
18		759,246

I have removed all of the 1992 outside services expense because in OPC 55th P.O. D., Item 809, I requested copies of the Arthur Andersen and Peat Marwick invoices. No detail or account distribution was provided. The Arthur Andersen invoice totalled $174,900 so I assume $116,600 was charged to regulated operations.

Total Reduction to Expense	759,246
Separation Factor	78.4038% (1)
Reduction to Intrastate Expense	595,278

(1) MFR Schedule C--24c, Corporate Operations, 21.5962%

Southern Bell Telephone and Telegraph Company
USTA and Florida Telephone Association Dues
Test Year Ended December 31, 1993

Exhibit___(TCD-1)
Docket No. 920260-TL
Schedule 36

To remove from projected test period expense, 50% of the dues paid to the USTA and the Florida Telephone Association.

USTA	145,709 (1)
Florida Telephone Association	66,761 (2)
	212,470
Reduction	50%
Reduction to Intrastate Expense	106,235

(1) OPC 938
(2) OPC 1154

Southern Bell Telephone and Telegraph Company
Burson Marstellar Charges
Test Year Ended December 31, 1993

Exhibit___(TCD-1)
Docket No. 920260-TL
Schedule 37

During 1992, the Company paid Burson Marstellar $72,644.68 (OPC 1017) for "Strategy Development associated with the Florida Situation". One invoice showed a hand written notation "Consultant charge related to FL inside wire case". (See OPC 56th P.O.D., Item No. 821)

Although it is unclear from the account distribution, I have assumed such charges were recorded to above the line accounts. Furthermore, as the AG investigation continued in 1993, I have assumed a comparable level of expenses were budgeted in 1993.

Therefore such expenses should be removed for surveillance reporting purposes in 1992 and 1993 expense should be reduced by	72,644
Separation Factor	78.4038%
Reduction to Intrastate Expense	56,956

(1) MFR Schedule C-24c, Corporate Operations 21.5962%
100% - 21.5962% = 78.4038%

Southern Bell Telephone and Telegraph Company
Golf Tournaments
Test Year Ended December 31, 1993

Exhibit___(TCD-1)
Docket No. 920260-TL
Schedule 38

In response to OPC 1197, the Company identified the cost of sponsoring local golf tournaments. The costs for 1992 and 1993 were as follows:

1992	$37,300 x 77.3057 (1)	28,835
1993	$53,500 x 78.4038% (2)	41,946

(1) MFR Schedule C-24c 1992 Corporate Operations, 22.6943% Interstate = 77.3057% Intrastate
(2) MFR Schedule C-24c 1993 Corporate Operations, 21.5962% Interstate = 78.4038% Intrastate

Southern Bell Telephone and Telegraph Company
Stock Appreciation Rights
Test Year Ended December 31, 1993

Exhibit___(TCD-1)
Docket No. 920260-TL
Schedule 39

To remove from test period expense the intrastate cost of stock appreciation rights expense allocated to Florida per Company response to OPC 883.	20,200 (1)

(1) Represents a 1992 expense level which is presumed to be representative of 1993 expenses.

Southern Bell Telephone and Telegraph Company
Tax and Estate Planning and Legal Services Provided to Officers and Key Managers
Test Year Ended December 31, 1993

Exhibit___(TCD-1)
Docket No. 920260-TL
Schedule 40

Remove from test period expense services provided to BST officers and Key Managers:

Tax and Estate Planning and Tax Preparation Service	36,194 (1)
Legal Services	1,157 (1)
Total Company Reduction	37,351
Separation Factor	78.4038% (2)
Reduction to Intrastate Expense	29,285

(1) OPC 794k and 1
(2) MFR Schedule C-24c, Corporate Operation 21.5962%. 100%-21.5962% = 78.4038%

In response to OPC 810, amended 10/4/93, the Company calculated the cost of two Staff assistants whose time was divided between (1) transporting priority documents and packages (40%); (2) coordinating the servicing of officers' vehicles (40%) and (3) planning and coordinating ground transportation requirements of executives, board members and visiting dignitaries (20%). Using only the 20% the Company calculated the Florida allocation as $2,495.

In OPC 1223, the Company stated that a 1991 Buick Ultra with an original cost of $28,153 is assigned to the BST Board Chairman.

While the amounts are small, ratepayers should not have to bear these costs.

Conservatively, I recommend that intrastate costs be reduced by the 20% identified by the Company and the 40% spent coordinating the servicing of officers' vehicles. This increases the adjustment to $7,486 and on an intrastate basis reduces expense by	$7,486
Composite Separation Factor (1)	77.84%
Reduction to Expense	5,827

(1) Schedule 47

Southern Bell Telephone and Telegraph Company
Club Suite at the Georgia Dome
Test Year Ended December 31, 1993

Exhibit___(TCD-1)
Docket No. 920260-TL
Schedule 42

The Company maintains a 16 seat club suite at the Georgia Dome for marketing purposes. The Company states this is comparable to a sky box. Expenses allocated to BST in 1992 (half year) were $27,678 and $59,033 in 1993.

Using an allocation factor of 25% of BST costs to Florida and the separation factors used on the schedule to remove the cost of local golf tournaments, the following adjustment is appropriate.

1992	$27,678 x 25% x 77.3057%	5,349 (1)
1993	$59,033 x 25% x 78.4038%	11,571 (1)

Southern Bell Telephone and Telegraph Company
Proposed Step Decrease
Test Year Ended December 31, 1993

Exhibit___(TCD-1)
Docket No. 920260-TL
Schedule 43

	1995	1996	Schedule
Incremental Savings From Corporate Re-engineering	45,805,680	47,482,400	8
Write Off Costs Associated With Long Term Debt Refinancing	(9,500,000)	(9,500,000)	15
Step Decrease	36,305,680	37,982,400	

Southern Bell Telephone and Telegraph Company
Impact of Proposed Adjustments on 1992 Surveillance Report
Test Year Ended December 31, 1993

Exhibit___(TCD-1)
Docket No. 920260-TL
Schedule 44

	Schedule	Operating Income Increase (Decrease)	Taxes Increase (Decrease)	Revenues (2)
Based on 1992 Surveillance Report--Revenues in Excess of "Floor"				28,203,215 (1)
Proposed Adjustments:				
SFAS 112	18	(10,847,063)		(11,185,547)
Extraordinary Retirement Expense	17	(19,852,000)		(20,471,485)
Hurricane Andrew Write Off (3)		(76,601,142)		(78,991,493)
Reverse the Excess Amortization of Office Equipment/ Official Communication Equipment	26	8,104,899		8,357,814
Directory Revenues	3	13,075,789		13,483,821
Directory Expense -- Shift to Intrastate	4	11,386,777		11,742,103
Federal Income Tax	28		(9,077,006)	15,007,632
LESOP Tax Benefits	29		(2,729,147)	4,512,285
Miscellaneous Expenses -- Inappropriate for Ratemaking:				
Miscellaneous, Including External Relations and Advertising	34	1,000,000		1,031,205
Legal Fees & Outside Consulting	35	595,278		613,854
Burson Marstellar	37	56,956		58,733
SERP	13	1,432,000		1,476,686
Golf Tournaments	38	28,835		29,735
Club Suite -- Georgia Dome	42	5,349		5,516
Affiliated Transactions		10,434,000		10,759,595
		(61,180,322)	(11,806,153)	(15,366,332)

(1) Schedule 45
(2) Revenue impact is computed as follows:
Operating income is reduced by the combined state (5.5%) and Federal tax rates of 34% and the result is divided by the revenues expansion multiplier of .6048263 (MFR Schedule C-13)
(3) Schedule 6, $103,974,793 total net intrasate expense less $15,920,000 amortization in 1992, less additional insurance proceeds of $11,453,651 (Schedule 7) = $76,601,142.

Southern Bell Telephone and Telegraph Company
Analysis of 1992 Surveillance Report
Test Year Ended December 31, 1993

Exhibit___(TCD-1)
Docket No. 920260-TL
Schedule 45

The Company's 1992 Surveillance Report was provided in historical schedule MFR C-24d.

Adjusted Net Operating Income Page 9 of 23	358,670,000
Adjusted Acheived Rate Base Page 2 of 23	4,046,022,000
Average Adjusted Achieved Rate of Return	8.86%

Average Capital Structure Page 11 of 23

	% of Total	Floor	Weighted Cost	Sharing	Weighted Cost
Long Term Debt	26.32%	8.63%	2.27%	8.63%	2.27%
Short Term Debt	2.92%	3.91%	0.11%	3.91%	0.11%
Customer Deposits	1.36%	8.57%	0.12%	8.57%	0.12%
Common Equity	48.74%	11.50%	5.61%	14.00%	6.82%
Investment Tax Credits	3.08%	10.50%	0.32%	11.60%	0.36%
Cost Free Capital	17.58%				
	100.00%		8.43%		9.68%

N.O.I. at Floor	$4,046,022,000 x .0843 =	341,079,655
N.O.I. at Sharing	$4,046,022,000 x .0968	391,654,930
N.O.I. Reduction to Reach Floor	$358,670,000 – $341,079,655	17,590,345
N.O.I. Increase to Reach Sharing	$391,654,930 – $358,670,000	32,984,930
Reduction in Expense or Increased Revenues		
To Reach Floor	$17,590,345/.6237 (1)	28,203,215
To Reach Sharing	$32,984,930/.6237 (1)	52,885,891

(1) Revenue expansion factor using state income tax rate of 5.5% and Federal income tax rate of 34%. $100.00 – $5.50 = $94.50. $94.50 x 34% = 32.13. $94.50 – 32.13 = $62.37

Southern Bell Telephone and Telegraph Company
Actual Expenses – 1993
Test Year Ended December 31, 1993

Exhibit___(TCD-1)
Docket No. 920260-TL
Schedule 46

1993 actual expenses must be carefully scrutinized to insure that out of period expenses and improper expenses are removed so that the results of operations for 1993 reflect appropriate levels of revenue and expense. In another schedule I discuss legal expense and the necessity to insure that legal and outside consulting fees related to the Attorney General investigation and the Davis Anti-trust litigation are not recorded above the line.

Various other charges have been identified based on a review of budget variance reports and monthly letters identified as "Special Accounting Transactions". Some examples are as follows:

OPC 1185 1	Florida share of a patent infringement lawsuit related to the exterior of the Southern Bell Center building in Atlanta charged to Account 6725 (OPC 1201 o)	
OPC 1185 3	Florida share of pre-divestiture tax case	
OPC 1185 3	Sales and use tax audit – Florida portion charged to 6728.9 (For the period February 1, 1986 to December 31, 1991 – OPC 1201 r)	6,385,399

A review of the Company's Surveillance Report for the 7 months ended July 31, 1993 includes a $1,540,000 increase to Corporate Operations Expense for out of period items. The charges noted above could be netted against credits to yield a net charge of $1.54 million; however, this shows that 1993 actual expenses must be carefully reviewed.

Southern Bell Telephone and Telegraph Company
Composite Separation Factor
Test Year Ended December 31, 1993

Exhibit___(TCD-1)
Docket No. 920260-TL
Schedule 47

	(000)		
	Total Company	Intrastate	Intrastate Factor
Plant Specfic Operation Expense	565,764	429,754	75.96%
Plant Non-Specific Operation Expense	285,492	217,758	76.27%
Customer Operation Expense	444,060	359,111	80.87%
Corporate Operation Expense	297,641	219,593	73.78%
Subtotal	1,592,957	1,226,216	76.98%
Less Corporate Operation Expense		(219,593)	
Add Corporate Operation Using Interstate Separation Factor of 21.5962% (1) (100% – 21.5962% = 78.4038%) 297,641 x 78.4038%		233,362	
Total	1,592,957	1,239,985 0	77.84%

Source: MFR Schedule C-24d, Page 4 of 8, Revised 10/1/93

(1) MFR Schedule C-24c, Line 25