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December 6, 1993

Steve Tribble, Director
Division of Records and Reporting
Florida Public Service Commission
101 East Gaines Street
Tallahassee, FL 32399-0850

Re: Docket No. 920260-TL

Dear Mr. Tribble:

Enclosed for filing in the above-referenced docket on behalf of the Citizens of the State of Florida are the original and 15 copies of the Citizens' Prehearing Statement.

Please indicate the time and date of receipt on the enclosed duplicate of this letter and return it to our office.

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Sincerely,

Charles J. Beck
Charles J. Beck
Deputy Public Counsel

Enclosures

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DOCUMENT NUMBER-DATE
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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

Docket No. 920260-TL
Filed: December 6, 1993

CITIZENS' PREHEARING STATEMENT

The Citizens of Florida ("Citizens"), by and through Jack Shreve, Public Counsel, file this prehearing statement pursuant to (1) the prehearing officer's order establishing procedure, order no. PSC-93-0644-PCO-TL issued April 23, 1993, 2) the prehearing officer's additional order on prehearing procedure, order no. PSC-93-1567-PCO-TL, issued October 26, 1993, and (3) the prehearing officer's additional order on prehearing procedure resulting from the November 22, 1993 status conference, order no. PSC-93-1726-PCO-TL, issued December 1, 1993.

Witnesses

The Citizens' prefiled testimony by the following persons:

1. Dr. Mark Cooper. Dr. Cooper addresses the sales practices of Southern Bell.

2. James W. Currin. Mr. Currin addresses Southern Bell's depreciation expense for three outside plant metallic cable accounts.

3. Thomas C. DeWard. Mr. DeWard addresses accounting issues and summarizes the overall revenue requirements of Southern Bell.

4. Kimberly H. Dismukes. Ms. Dismukes addresses affiliated transactions.

5. R. Earl Poucher. Mr. Poucher filed three separate testimonies and exhibits.

The testimony filed in docket no. 900960-TL describes the sales activities of Southern Bell which led to the abuse of its customers. The first part of that testimony deals with the non-contact sales programs, and the second part deals with business office sales.

The testimony filed in docket no. 910163-TL describes the results of the Citizens' investigation into the repair activities of Southern Bell. It shows that falsification and manipulation of repair records and reports has been condoned at Southern Bell for a significant time. Pressures for acceptable results accelerated in the late 1980's as a result of continuing force reduction and the priorities imposed by incentive regulation. Top management

failed to act in the late 1980's when faced with clear indications and solid evidence that the results Southern Bell was reporting to the Commission were being manipulated or falsified in order to achieve objectives. Finally, when given little choice, the Company belatedly engaged in an investigation of its operations.

The testimony filed in docket 920260-TL recommends that the Commission abandon the incentive regulation uniquely granted to Southern Bell and to regulate Southern Bell the same way as the Commission regulates the other large local exchange companies in Florida.

6. James A. Rothschild. Mr. Rothschild addresses return on equity and capital structure.

7. Mr. Stewart addresses Southern Bell's performance during the incentive plan period based on various measures of efficiency. He also addresses Southern Bell's projected cost savings in the years of 1995 and 1996 associated with its re-engineering plan and supports a step decrease in rates for each of these years.

Subpoenaed Witnesses

In addition to our prefiled testimony, we have subpoenaed a number of witnesses to appear in the proceeding. The witnesses have been subpoenaed to appear during two separate time periods:

one group to appear beginning Wednesday, February 2, 1994, and a second group to appear beginning Monday, February 7, 1994.

Those persons subpoenaed to appear beginning Wednesday, February 2, 1994, are as follows:

1. C. L. Cuthbertson. Mr. Cuthbertson is General Manager-Human Resources for Southern Bell's Florida area. Mr. Cuthbertson will describe the disciplinary process following Southern Bell's investigation into the falsification of sales and repair reports by Southern Bell and will discuss other matters discussed in his two deposition.

2. C. J. Sanders, previously Vice President Network, South Operations for Southern Bell. Mr. Sanders will also describe Southern Bell's disciplinary process following its investigation into the falsification of sales and repair reports, his responsibilities as head of Southern Bell's Network Operations in Florida, and other matters discussed in his two depositions.

3. James Powell, previously employed as a manager in Southern Bell's Gainesville installation and maintenance center. He will describe a number of ways repair reports were falsified in the Gainesville area and discuss other matters contained in his statement given to the Attorney General.

4. Michael Mann. Mr. Mann is a Special Agent with the Florida Department of Law Enforcement and a qualified polygraph examiner. He will discuss the result of a polygraph exam.

5. Evelyn Kilgore. Ms. Kilgore is an employee of Southern Bell and will discuss repair practices in the Jacksonville area.

6. Katherine Roberts. Katherine Roberts is also an employee of Southern Bell located in the Jacksonville area. She has taken the fifth amendment in the response to questions during depositions, but we expect her to testify about repair practices in the Jacksonville area.

7. Brenda E. Mitchell. Ms. Mitchell will discuss Southern Bell's repair practices in the Miami area and other matters discussed in the deposition given by her in the case of Davis vs. Southern Bell.

8. Robert Herndon. Mr. Herndon is an ex-employee of Southern Bell and will discuss repair practices in and around the Ft. Pierce and the St. Lucie area.

9. Michael Jansen. Mr. Jansen is an employee of Southern Bell who will discuss repair practices in the Key West area and other matters contained in his statement given to the Attorney General.

10. Jerry Sontag. Mr. Sontag is an employee of Southern Bell who will discuss repair practices of Southern Bell a number of years ago and other matters discussed in his deposition.

11. John Sainz. Mr. Sainz will discuss Southern Bell's repair practices from a number of years ago and other matters discussed in his deposition.

12. Paul White. Mr. White is a manager of Southern Bell who previously took the fifth amendment at a deposition. We expect Mr. White to address matters concerning Southern Bell's repair practices.

13. Gary Maser. Mr. Maser is a manager of Southern Bell who took the fifth amendment in response to deposition questions. We expect him to answer questions concerning Southern Bell's repair practices.

14. Nicole Maxfield. Ms. Maxfield took the fifth amendment at a deposition, but we expect her to answer questions concerning Southern Bell's repair practices.

15. Shirley Johnson. Ms. Johnson is a Southern Bell employee, and we expect her answer questions concerning a MOOSA audit and other matters addressed in her previous deposition.

16. Gary Swilley. Mr. Swilley is the manager at Southern Bell's installation maintenance center in Gainesville who took the fifth amendment at a previous deposition. We expect Mr. Swilley to answer questions concerning Southern Bell's repair practices in the Gainesville area.

17. Larry W. Mixon, Jr. Mr. Mixon is an operations manager in Southern Bell's customer service area in West Palm Beach. We expect Mr. Mixon to address matters concerning his discovery of sales falsification in the West Palm Beach area, his notification of that to high management at Southern Bell, the lack of inaction in Southern Bell for approximately 18 months after that notification, and the investigation that ultimately followed. In addition, we expect Mr. Mixon to address other matters addressed at his deposition.

18. Shelba S. Hartley. Ms. Hartley is a service representative and CWA official from the Jacksonville area. We expect Ms. Hartley to address the falsification of sales in the Jacksonville area, her notification about that to a Southern Bell assistant vice president in 1987, and other matters discussed at her deposition.

Witnesses subpoenaed to appear beginning on Monday, February 7, 1994 are as follows:

1. Martha Thomas. Ms. Thomas was a maintenance administrator with Southern Bell in the Cocoa/Titusville area until August, 1993. We expect Ms. Thomas to testify that widespread falsification connected with Southern Bell's repair reports continued in her installation maintenance center, under the direction of control of the managers there, at least through and including August, 1993, when her employment was terminated.

2. Mr. Denny Conners. Mr. Conners is a detective, polygraphist, and behavior analyst with the major case unit of the Orange County Sheriff's Office. Mr. Conners will discuss a polygraph examination he administered.

3. Howard Adams, Jr., a manager in the Gainesville's installation maintenance center. Mr. Adams took the fifth amendment at a previous deposition, but we expect him to address repair practices in Gainesville.

4. Cynthia Armel. Ms. Armel took the fifth amendment at a deposition, but we expect her to address Southern Bell's repair practices in Gainesville.

5. James Ramsey. Mr. Ramsey took the fifth amendment at a prior deposition, but we expect him to address Southern Bell's repair practices.

6. Marsha Stewart. Ms. Stewart is a service representative in the Fort Pierce area. She took the fifth amendment at a deposition, but we expect her to address Southern Bell's sales practices in the Fort Pierce area and other information she may have connected with repair practices.

7. Wanda Futch. Ms. Futch is a service representative in the Fort Pierce area, but she took the fifth amendment in a prior deposition. We expect her to address Southern Bell's sales practices in the Fort Pierce area and any other information she may have about Southern Bell's repair practices.

8. Nancy Gorniewicz. Ms. Gorniewicz is a service representative in the Fort Pierce area who took the fifth amendment at a prior deposition. We expect her to address Southern Bell's sales practices and any other information she may have about Southern Bell's repair practices.

9. Linda Hunt. Ms. Hunt is a service representative in Southern Bell's Fort Pierce Office. She took the fifth amendment at a prior deposition, but we expect her to address Southern Bell's

sales practices and any other information she may have about Southern Bell's repair practices.

10. Donna Johnson. Ms. Johnson is a service representative in Southern Bell's Fort Pierce area. She took the fifth amendment at a prior deposition, but we expect her to address Southern Bell's sales practices and any other information she may have about Southern Bell's repair practices.

11. Glovine Williams. Ms. Williams works for Southern Bell but took the fifth amendment at a deposition. We expect her to address Southern Bell's repair practices.

12. Derrell R. Wilcox. Mr. Wilcox works for Southern Bell but took the fifth amendment at a deposition. We expect him to address Southern Bell's repair practices.

13. Barbara Wichman. Ms. Wichman is employed by Southern Bell but took the fifth amendment at a deposition. We expect her to address Southern Bell's repair practices.

14. Judith Rote. Ms. Rote works for Southern Bell but took the fifth amendment at a deposition. We expect her to address Southern Bell's repair practices.

15. Ivan Roberts. Mr. Roberts works for Southern Bell but took the fifth amendment at a deposition. We expect him to address Southern Bell's repair practices.

16. Linda G. Moniz. Ms. Moniz is employed by Southern Bell but took the fifth amendment at a deposition. We expect Ms. Moniz to address Southern Bell's sales practices.

17. Robert Minahan. Mr. Minahan is employed by Southern Bell but took the fifth amendment at a deposition. We expect him to address Southern Bell's repair practices.

18. Denise E. Crosby. Ms. Crosby works for Southern Bell but took the fifth amendment at a deposition. We expect her to address Southern Bell's repair practices.

19. Andrew J. Walker, III. Mr. Walker works for Southern Bell but took the fifth amendment at a deposition. We expect him to address Southern Bell's repair practices.

20. Lawrence Potish. Mr. Potish is employed by Southern Bell but took the fifth amendment at a deposition. We expect him to address Southern Bell's repair practices.

21. Allen McKeand. Mr. McKeand works for Southern Bell but took the fifth amendment at a deposition. We expect him to address Southern Bell's repair practices.

22. Maria D. Lee. Ms. Lee is employed by Southern Bell but took the fifth amendment at a deposition. We expect her to address Southern Bell's repair practices.

23. Michael Jones. Mr. Jones is employed by Southern Bell but took the fifth amendment at a deposition. We expect Mr. Jones to address Southern Bell's repair practices.

24. Annie Bush. Ms. Bush is employed by Southern Bell but refused to be deposed. Her attorney stated that she would take the fifth amendment if she were deposed. We expect her to address Southern Bell's repair and/or sales practices.

25. Veronica Brady. Ms. Brady is employed by Southern Bell but took the fifth amendment at a deposition. We expect Ms. Brady to address Southern Bell's repair and/or sales practices.

26. Helen C. Vought. Ms. Vought is employed by Southern Bell but took the fifth amendment at a deposition. We expect Ms. Vought to address Southern Bell's repair and/or sales practices.

27. Crystal Smith. Ms. Smith is employed by Southern Bell but took the fifth amendment at a deposition. We expect Ms. Smith to address Southern Bell's repair and/or sales practices.

28. Betty Moore. Ms. Moore is employed by Southern Bell but took the fifth amendment at a deposition. We expect Ms. Moore to address Southern Bell's repair and/or sales practices.

29. Susan Eckhoff. Ms. Eckhoff is employed by Southern Bell but took the fifth amendment at a deposition. We expect Ms. Eckhoff to address Southern Bell's repair and/or sales practices.

30. Mary Dunn. Ms. Dunn is employed by Southern Bell but took the fifth amendment at a deposition. We expect Ms. Dunn to address Southern Bell's repair and/or sales practices.

31. Peter Murray. Mr. Murray is employed by Southern Bell but took the fifth amendment at a deposition. We expect Mr. Murray to address Southern Bell's repair and/or sales practices.

32. Mark Sheaf. Mr. Sheaf is employed by Southern Bell but took the fifth amendment at a deposition. We expect Mr. Sheaf to address Southern Bell's repair and/or sales practices.

33. Geraldine H. Littles. Ms. Littles is employed by Southern Bell but took the fifth amendment at a deposition. We

expect Mr. Littles to address Southern Bell's repair and/or sales practices.

34. JoAnne Knowles. Ms. Knowles is employed by Southern Bell but took the fifth amendment at a deposition. We expect Mr. Knowles to address Southern Bell's repair and/or sales practices.

35. Mr. Don LaRotonda. Mr. LaRotonda is president of CWA local 3104 in Ft. Lauderdale. We expect him to address Southern Bell's subcontracting practices, repair practices and sales practices.

36. Susan Castro. Ms. Castro was previously a service representative for Southern Bell. We expect her to address Southern Bell's sales practices.

Exhibits

Each of the witnesses prefiling testimony on behalf of the Citizens has exhibits attached to their testimony. The exhibits of each of our witnesses prefiling testimony may be identified on a composite basis.

Statement of Basic Position

When uniquely provided incentive regulation by this Commission, Southern Bell engaged in fraudulent sales techniques and engaged in widespread falsification of the quality of service reports it submits to this Commission.

Southern Bell's quality of service during the incentive period compares poorly to the other large local exchange companies. In addition, comparisons of efficiency to the other local exchange companies in Florida based on operational revenue per average access line, O&M expense per average access line, and O&M expense to total operating revenues shows poor performance by Southern Bell. Finally, Southern Bell's quality of service in Florida compares poorly to the quality of service provided in the other states served by BellSouth Telecommunications.

The Commission must not reward Southern Bell for poor performance, abuse of its customers, and falsification of quality of service reports submitted to this Commission.

Even though long term bonds have declined by about 300 basis points since the Commission set Southern Bell's incentive return on equity range in November, 1988, Southern Bell unfairly seeks continuation of those same authorized returns. The Commission should reset the authorized return on equity of Southern Bell and

use an optimal capital structure in doing so. As it exists now, the capital structure of Southern Bell contains far too much expensive equity capital.

Numerous adjustments should be made to the way Southern Bell computes its regulated earnings.

For example, with the creation of BellSouth Advertising and Publishing Company (BAPCO) after the legislature passed the directory advertising statute (§364.037, Florida Statutes (1993)), BellSouth shifted profits from regulated operations to unregulated operations. The Commission should consider the Florida directory advertising operation as a whole and recompute regulated earnings to reflect the 1982 level of directory advertising profits, adjusted for access line growth and the C.P.I., as contemplated by the legislature.

As another example, BellSouth dramatically lowered its interest costs by refinancing a large amount of debt in 1993. Southern Bell, however, seeks to quickly recognize issuance costs associated with the new debt so that the cost of issuance exactly offsets the savings in interest, thereby insuring that customers receive no benefit from the lower interest costs when the Commission sets Southern Bell's rates. The Commission should not allow that result.

Southern Bell's rates should be decreased by at least \$454 million dollars. A penalty should be imposed for fraudulent and/or abusive sales techniques, as well as falsification of quality of service reports submitted to this Commission.

Finally, the Commission should order a step decrease in rates during 1995 and 1996. By 1996 Southern Bell projects savings in excess of cost from its reengineering program of over \$130 million dollars on a Florida combined basis. Step decreases to recognize these near term savings are consistent with Commission decisions over the last two years. For example, in the last two major electric rate cases the Commission allowed step increases to recognize projected cost. In this case Southern Bell is projecting reductions in costs that are not needed to provide reliable service in the near future. The Commission should recognize these large, near term expense reductions by ordering step decreases in rates, just as the Commission has ordered near term rate increases in electric cases.

ISSUES AND POSITIONS

Issue 1: Is the test year ended December 31, 1993, and appropriate test year?

Citizens' Position: Yes, but only if maintenance expenses deferred from 1992 to 1993 on account of Hurricane Andrew are eliminated from the 1993 budget. (DeWard).

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

Citizens' Position: Southern Bell's budgeted rate base should be adjusted for those items shown on DeWard's Schedule 1. (DeWard)

Issue 2a: What adjustment, if any, should be made to plant in service, depreciation reserve and expense to account for plant investments shown on Southern Bell's continuing Property Record System (CPR) for Circuit Other Account that does not represent physical plant in service?

Citizens' Position: No position at this time.

Issue 2b: Is Southern Bell's investment in its interLATA internal company network prudent, reasonable, and necessary to enable it to provide service to ratepayers? If not, what action should the Commission take?

Citizens' Position: No position at this time.

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

Citizens' Position: Southern Bell's budgeted depreciation reserve should be adjusted for the large variance between actual retirements and budgeted retirements. (Currin).

Issue 4: What is the appropriate amount of construction work in progress for the test year?

Citizens' Position: No position at this time.

Issue 5: What is the appropriate amount of property held for future use for the test year?

Citizens' Position: No position at this time.

Issue 6: What is the appropriate amount of working capital allowance for the test year?

Citizens' Position: Working capital should be adjusted by those applicable ratebase items shown in DeWard's Schedule 1. (DeWard).

Issue 6a: Should the Company be allowed to include the unamortized portion of deferred Hurricane Andrew expenses in working capital?

Citizens' Position: The cost of Hurricane Andrew should be written off in 1992 in accordance with generally accepted accounting principles. Accordingly, Southern Bell's proposed ratebase should be decreased by the unamortized amounts of Hurricane Andrew deferrals. This accounting treatment is consistent with Southern Bell's treatment of Hurricane Andrew for the Florida interstate jurisdiction, the intra and interstate treatment in Louisiana (the other state sustaining damage from Hurricane Andrew), and the treatment afforded non-regulated operations in Florida. (DeWard).

Issue 6b: Should the Company be allowed to include the balance for unamortized deferred compensation absences in working capital?

Citizens' Position: For financial reporting purposes, generally accepted accounting principles required the adoption of SFAS 43 for compensated absences for years beginning after December 15, 1980. Had Southern Bell followed generally accepted accounting principles in its PSC financial reports, there would be no unamortized balance for compensated absences now. Without gaining permission of the Commission, Southern Bell started following SFAS 43 only in 1988. Since Southern Bell chose not to follow SFAS 43 when it became part of generally accepted accounting principles and did not receive permission from the PSC to start following SFAS 43 seven years later, the amount of unamortized deferred compensated absences should not be allowed in working capital. (DeWard).

Issue 6c: Should accrued dividends be added back in the computation of the working capital?

Citizens' Position: No position at this time.

Issue 7. Should the unfunded FAS 106 liability reduce rate base?

Citizens' Position: Yes.

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

Citizens' Position: Southern Bell's budgeted ratebase should be adjusted for those adjustments shown in DeWard's Schedule 1. (DeWard).

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

Citizens' Position: Southern Bell's cost of common equity capital is 10.4% only if the Commission adopts an optimal capital structure of 42.5% equity. Otherwise, the appropriate cost of equity for Southern Bell is 9.7%. (Rothschild).

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

Citizens' Position: No, Southern Bell's capital structure contains far too much equity at the expense of its ratepayers. The Commission should adopt an optimal equity ratio of 42.5%.

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

Citizens' Position: No position at this time.

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

Citizens' Position: No position at this time.

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

Citizens' Position: The Commission should adopt the optimal capital structure for Southern Bell described in the testimony of James Rothschild. (Rothschild).

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

Citizens' Position: The Commission should adopt those adjustment to operating revenue shown on DeWard Schedule 1. (DeWard).

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

Citizens' Position: No position at this time.

Issue 14b: How should employee concessions be treated for ratemaking purposes?

Citizens' Position: The Commission should increase revenues for foregone concession revenue because Southern Bell's employee benefits are already adequate, if not excessive, and ratepayers should not bear the additional burden associated with these foregone revenues. Telephone companies are the only utilities providing free or discounted service to their employees, and utility companies have the highest cost of employee benefits per employee of any industry. (DeWard).

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

Citizens' Position: Yes.

Issue 14d: What is the appropriate amount of gross directory advertising profit that should be included in the test period?

Citizens' Position: The Commission should make three adjustments to gross directory advertising profit.

First, the Commission should compute directory advertising revenues and expenses generated from Florida operations without regard to BAPCO. When the Florida Legislature passed section 364.037, Florida Statutes, BAPCO did not even exist. Southern Bell used the creation of this company to syphon off grossly excessive profits to its non-regulated affiliated BAPCO at the expense of regulated ratepayers. This is a classic case of the Company attempting to shift profits from regulated operations to non-regulated operations solely to avoid recognition of those profits in a rate case. Once the Florida operations are considered in their entirety, ratepayers are entitled to the full amount of directory advertising revenues as defined in Section 364.037, Florida Statutes, adjusted to 1993 for growth in the consumer price index and in access lines. This would be consistent with the Commission most recent order in the GTE rate case.

Second, by recognizing expenses at BAPCO instead of at the regulated company, Southern Bell fails to separate expenses between the intrastate and interstate jurisdictions. In effect, all the expenses remain intrastate. An adjustment should be made to recognize the separation of these expenses between the interstate and intrastate jurisdiction that would be made if the company had not shifted the expenses to BAPCO.

Third, an adjustment should be made for direct expenses not recorded in account 6622.1. (DeWard)

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

Citizens' Position: The Commission should set aside sufficient revenues subject to refund to protect ratepayers pending the resolution of the inside wire rule making docket. In addition, the Commission should designate specific rate reductions to be put into effect should the Commission impute the revenues and expenses associated with simple inside wire maintenance in the rulemaking docket. (DeWard).

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

Citizens' Position: The Commission should adopt those adjustment to O&M expense indicated on DeWard's Schedule 1. (DeWard).

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

Citizens' Position: No position at this time.

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

Citizens' Position: Fifty percent of the dues paid to the United States Telephone Association (USTA) and the Florida Telephone Associate (FTA) should be removed from test period expense. This is a conservative amount and removes the dollars attributable to lobbying activities and other campaigns which have no value to ratepayers. (DeWard).

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

Citizens' Position: No, certain expenses should be removed from the test year. For example, sponsorship of a T.V. program known as Watch on Washington should not be charged to ratepayers. It should be classified either as a contribution or as image building advertising. Also, payments made to Burson Marsteller, made to

offset the negative public impact of the Attorney General's investigation, should not be passed through to ratepayers. See DeWard, Schedules 34 and 37. (DeWard).

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

Citizens' Position: No, a number of expenses for advertising and public relations should not be charged to ratepayers. For example, payments such as a payment to "Forward Atlanta" and a payment to the Orange Bowl committee to sponsor the president's ball should not be allowed. Numerous other sponsorship, such as the to the PGA Seniors Tennis Championship to sponsor a PGA Seniors Golf Championship, should not be included. In addition, payments to Chambers of Commerce should not be allowed. Extravagant charges to the Tabasco Country Store for tabasco gift boxes handed out to attendees at a USTA conference should not be allowed. See DeWard Schedules 34, 37 and 38. (DeWard).

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

Citizens' Position: No, certain legal fees and outside consulting expenses related to the Attorney General investigation and the Davis Antitrust Case should not be allowed. See DeWard Schedule 35. (DeWard).

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

Citizens' Position: No, the large variety of sponsorship and payments to Chambers of Commerce should not be charged to ratepayers. Additional payments to O.C. Tanner for anniversary gifts, service awards and retirement gifts also should not be passed on to ratepayers. Neither should the cost of sponsoring local golf tournaments be charged to ratepayers, nor the cost of chauffeur service or the allocated cost of the Club Suite at the Georgia Dome. See DeWard Schedules 34, 38, 41 and 42. (DeWard).

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

Citizens' Position: No, test year expenses for software are unreasonable. Companies should not be allowed to expense in its entirety all software related costs, particular those for operating

systems, where the benefits from the software extend over several years.

In addition, the company has admitted that its budgeted level of expense for right-to-use fees exceed the amount currently expected to be spent on right-to-use fees. An adjustment should be made to software expense to reflect the more recent estimate of right-to-use fee expense. (DeWard).

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

Citizens' Position: Operating systems software should be capitalized and amortized over a period of not less than three years.

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

Citizens' Position: Incentive compensation expense should be reduced. Even under the terms of its own plan, Florida operations are earning much less than the budgeted payout for the incentive compensation plan. The company's payout is excessive, particularly given today's market conditions. The budgeted level of expense is overstated by a minimum of 25%. An additional 25% reduction in the expense to ratepayers should be removed from test year expenses in order to have some sharing in the level of incentive compensation between ratepayers and shareholders. (DeWard).

Issue 15j: Should the Commission allow the Company to establish a casualty damage reserve? If so, what is the appropriate amount of annual expenses?

Citizens' Position: No, it should not be allowed. The casualty damage reserve accrual does not meet the requirements of generally accepted accounting principles. Moreover, the establishment of such a reserve leaves many unanswered questions. For example, damage from the "Blizzard of 1993/Storm of the Century" was \$3.2 million dollars on a Florida basis. With the storm damage accrual, the company could manipulate its earnings in any given year by deciding whether or not to charge such expenses against the casualty damage reserve. (DeWard).

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

Citizens' Position: The cost of Hurricane Andrew should be written off in 1992. This treatment would be consistent with generally accepted accounting principles, consistent with Southern Bell treatment of such expenses in the Florida interstate jurisdiction, consistent with Southern Bell's treatment of the expense for Florida non-regulated operations, and consistent with the treatment for both intrastate and interstate purposes in Louisiana, which also suffered damage from Hurricane Andrew. Part 32 of the uniform systems of accounts, adopted by the Commission in 1988, adopted general accepted accounting principles. In addition to a yearly amortization of over \$20 million dollars, the company is also injecting an extraordinary retirement of almost \$20 million dollars as a pro-forma adjustment to 1994 and has requested \$6 million dollars for a casualty damage reserve accrual. Thus the Company is requesting that rates, which are set on a going forward basis, include over \$46 million dollars per year to recover Hurricane Andrew costs and to provide for future events. This would set an entirely inappropriate level of rates in the future.

Additionally, insurance proceeds between Florida and Louisiana have been inappropriately allocated by Company. Even though Louisiana damage represented 7.28% of the total claims related to Hurricane Andrew, Southern Bell allocated 21.61% of the insurance proceeds to Louisiana, where the company was required to follow generally accepted accounting principles and write-off uninsured costs in 1992. The insurance proceeds should be allocated based on relative damage. (DeWard).

Issue 15l: Has Southern Bell's ESOP been treated appropriately for regulatory purposes?

Citizens' Position: Under the leveraged employee stock ownership plan placed into effect in 1990, the company's ESOP trust borrowed money and purchased company stock. This enabled the company to receive special tax benefits, allowing dividends paid to the trust to be deductible for tax purposes. Even though Southern Bell is charging expense associated with the LESOP to ratepayers, Southern Bell does not receive any of the benefits from the deductibility of the dividends because the company retains these savings at the parent corporate level. If ratepayers are required to provide through rates a provision for the cost of the LESOP, which on a total company Florida basis exceed \$23 million dollars in 1992, Southern Bell ratepayers should be allocated a fair share of the tax savings. These tax savings should be used to offset federal and state income tax expense. See DeWard Schedule 29. (DeWard).

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

Citizens' Position: Southern Bell's adjustment to increase expense by \$9.2 million dollars exactly and completely negates the interest savings associated with long-term debt which the company refinanced during 1993. Since Southern Bell will continue to realize savings in interest costs into the future, it should not be allowed to negate the savings associated with lower interest costs by quickly amortizing refinancing cost and including the very quick amortization as part of permanent rates. The company should amortize the cost of refinancing in 1993 and 1994 as if the cost were being amortized over the life of the new debt, approximately 30 years. The remaining amount could be amortized equally in 1995 and 1996 as an offset to the step decrease associated with company's re-engineering effort. (DeWard).

Issue 15n: Has the Company properly recorded legal and professional services in connection with the Attorney General's investigation and the Davis anti-trust lawsuit as below the line expenses?

Citizens' Position: No. Although Southern Bell's intent was to record below the line all expenses associated with the Attorney General's investigation and the Davis anti-trust litigation, a portion of the total expenditure for these matters were recorded above the line. These amounts should be eliminated from the test year. See DeWard Schedule 35. (DeWard).

Issue 15o: Should the Company be allowed to recover a provision for pension expense in cost of service?

Citizens' Position: No. On a BellSouth basis, at the end of 1992 assets in the pension trust exceeded the accumulated benefit obligation by over \$1.63 billion dollars. In other words, the market value of the assets held in trust exceeded the projected benefit obligations for all employees covered by the pension plan by \$1.63 billion dollars. The company does not anticipate any funding at least through the turn of the century. The Commission should eliminate the pension accrual of \$20.468 million dollars in the test year.

Various scenarios of pension plan expense show projections of a negative pension expense in the near future. The company should make realistic revisions to the assumptions used in its pension plan to negate the need to record a pension plan expense for financial reporting purposes. For example, the company could more rapidly amortize the transition assets and could adopt a more realistic estimate of wage increases, given the most recent history of wage increases granted. In any event, ratepayers should not be made to pay over \$20 million dollars per year expense in permanent rates for an already vastly overfunded pension plan. (DeWard).

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

Citizens' Position: The Commission should order step rate decreases in 1995 and 1996. The company included in test period expense approximately \$8.7 million dollars in net expense for its re-engineering plan, even though by 1996 the company projects savings in excess of cost on a Florida total basis of over \$130 million dollars.

Step decreases to recognize these near term savings are consistent with Commission decisions over the last two years. For example, in the last two major electric rate cases the Commission allowed step increases to recognize projected increases in cost. In this case, Southern Bell projects reductions in cost that are not needed to provide reliable service in the near future. The Commission should recognize these large, near term expense reductions by ordering step decreases in rates, just as the Commission has recognized near term rate increases in electric cases. (DeWard, Stewart).

Issue 15q: Is the budgeted level of maintenance expense appropriate for ratemaking purposes?

Citizens' Position: Test year maintenance expenses include \$24.9 million dollars (on a total Florida basis) that was added to the budget to handle work activities postponed from 1992 until 1993 on account of Hurricane Andrew. This amount should be eliminated from the test year. (DeWard).

Issue 15r: Should an adjustment be made to uncollectible account expenses?

Citizens' Position: Southern Bell significantly overstated the provision for uncollectible accounts in its 1993 budget. The Company is now projecting an accrual for bad debt expense substantially below the level of expense included in the 1993 budget. Uncollectible accounts expense should be reduced to a more realistic level. See DeWard Schedule 23. (DeWard).

Issue 15s: Should the Company be allowed to recover, in cost of service, the cost of the Supplemental Executive Retirement Plan (SERP)?

Citizens' Position: The Company's supplemental executive retirement plan provides additional pension benefits above and beyond the

normal pension plan to some of the highest paid employees. Company employees are already provided a wide range of employee benefits. A similar benefit to the Company's Supplemental Employee Retirement Plan is provided to executives of Nevada Power Company. However, in rate filings Nevada Power Company does not seek recovery of this cost; instead, it treats the expense as a below-the-line item. The cost of the supplemental executive retirement plan should not be borne by ratepayers here. (DeWard).

Issue 15t: How should the Commission treat costs associated with Stock Appreciation Rights for ratemaking purposes?

Citizens' Position: In 1992 the Company allocated \$20,200.00 of expense associated with stock appreciation rights. As a price of stock increases or decreases in value, adjustments are made to expense. The Company can not adequately identify whether a similar expense was included in the 1993 test year; therefore, the amount of expense in 1992 of \$20,200.00 should be eliminated from the 1993 test year. (DeWard).

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

Citizens' Position: No, the cost for providing chauffeur service at the company headquarters should not be charged to ratepayers. See DeWard Schedule 41. (DeWard).

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

Citizens' Position: Yes, maintenance expenses deferred from 1992 to 1993 on account of Hurricane Andrew should be removed from test year expense. (DeWard).

Issue 15w: Is the Company's proforma adjustment to remove certain aircraft expenses reasonable?

Citizens' Position: No, the adjustment is inadequate. The cost of executive aircraft service far exceeds the cost of commercial flights. Moreover, the flights are often used for purposes which should not be paid for by ratepayers, such as the cost of attending luncheons in Washington, Board of Trustees' meetings, attendance at retirements functions, speaking at rotary functions, and others. An adjustment should be made to reduce the recoverable expense to \$1.00 per mile per passenger. (Dismukes).

Issue 15x: Should an adjustment be made to the separations factor for the Corporate Operations Expense?

Citizens' Position: Yes, the Company allocated insufficient Corporate Operations Expense to the interstate jurisdiction. An adjustment should be made to this expense. See DeWard Schedule 30. (DeWard).

Issue 15y: Should an adjustment be made to the separations factor related to the Universal Service Fund?

Citizens' Position: Yes. Instead of treating the universal service fund as intrastate revenues, Southern Bell reduces corporate operations expense by the proceeds from the Universal Service Fund. An adjustment to this amount should be made. See DeWard Schedule 32. (DeWard).

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

Citizens' Position: Deferred maintenance expenses on account of Hurricane Andrew, shifting expenses from 1992 to 1993, should be removed. (DeWard).

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

Citizens' Position: No. In particular, the general allocator, an allocator largely based on size, allocates an unreasonable amount to regulated operations. Since it is largely size driven, the bulk of "unattributable" cost allocated based on a general allocator charges very little to unregulated operations. The use of size based allocator is an analogous to charging a 210 pound man twice as much to see movie as a 105 pound woman is charged, merely because he's double her weight. It also ignores the possibility that relatively new competitive affiliates might benefit disproportionately from corporate public relations and advertising. Under the general allocation approach, regulated telephone operations absorb vastly more public relations cost than BellSouth's numerous unregulated subsidiaries.

A better alternative would be the use of a factor which gives some percentage weight to a equal distribution of cost to the receiving entities. For example, a more reasonable factor would be one that gives 50% weight to net operating expenses and 50% weight to an equal sharing among the major companies (25% to BellSouth Enterprises, 25% to Southern Bell, 25% to South Central Bell, and 25% to BellSouth Business Systems). The allocator should be

changed, and expenses should be reallocated based upon this allocation method. (Dismukes).

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

Citizens' Position: No, ratepayers should not pay for ownership costs incurred at the corporate level. Ownership costs are those which are a function of the parent company's investor role. Examples include the expenses for senior executives who are concerned with managing the overall diversified group of company owned by BellSouth Corporation and with providing overall guidance to BellSouth Corporation and its subsidiaries.

Additionally, many of these executives perform a significant amount of corporate public relations work which is more beneficial to the non-regulated subsidiaries of BellSouth Corporation than to Southern Bell. Other ownership costs are duplicative of the costs already incurred by BellSouth Telecommunications. The Commission should not pass these costs along to ratepayers. (Dismukes).

Issue 17b: Are the regulated operations being properly compensated for billing and collection services provided to nonaffiliated companies, and nonregulated and/or affiliated company operations?

Citizens' Position: No position at this time.

Issue 17c: How should the Commission treat BST Research Organization expenses?

Citizens' Position: No position at this time.

Issue 17d: Should the Company be allowed to recover as expenses, the return on affiliated assets designated as Intracompany Investment Compensation (ICIC)?

Citizens' Position: The company has not adequately supported the expense for intra-company investment compensation. Absent adequate justification, the expense should be reduced by 25%. See DeWard Schedule 22. (DeWard).

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

Citizens' Position: No. The company made an adjustment to remove \$552,000.00 of BSC image advertising. However, the remainder of these BSC advertisements are just as much designed to boost BSC's image as those that the company itself disallowed. The Commission should disallow the remaining expense. See Dismukes Schedule 13. (Dismukes).

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

Citizens' Position: Yes. Within the BellSouth Public Relations Department there are four sections which incur some costs that should not be charged to ratepayers: corporate affairs, educational affairs, executive support and external affairs. An adjustment should be made for media relations sections within public relations department and one for the vice president of public relations. These expenses involve promoting the corporate image of BellSouth Corporation, which is not an expense which should be recovered from ratepayers. (Dismukes).

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

Citizens' Position: Yes. See the Citizen's position on Issue 17F.

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

Citizens' Position: Yes. BellSouth sponsored a host of special events in 1992 and 1993. There is little difference between contributing money to the sponsorships and making a charitable contribution or sponsoring the BellSouth Golf Classic or the Olympics. These costs should be disallowed. See Dismukes Schedule 12. (Dismukes).

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

Citizens' Position: No. The Commission should not require Florida ratepayers to provide higher return on investment to BellSouth Corporation than the return otherwise allowed by this Commission. See Dismukes Schedule 15. (Dismukes).

Issue 17j: Should an adjustment be made for BSC's lease of the Campanile Building which is charged to the Company?

Citizens' Position: Yes. The parent corporation charges Southern Bell comparably more to lease the premises in the Campanile Building than it charges the accounting firm Coopers and Lybrand.

Two adjustments should be made. First, the Commission should reduce the lease charged to BSC by 10% to reflect the fact that the marketing cost and business risk associated with lease should be minimal. Second, the Commission should reduce the lease amount allocated to the Company to reflect a retainage that would put the BSC lease terms comparable to the Coopers and Lybrand lease. (Dismukes).

Issue 17k: Should an adjustment be made to the 1993 budgeted BSC project costs charged to the Company?

Citizens' Position: Yes. One of the projects budgeted for 1993 was canceled. Accordingly, that project should be removed from test year expenses. See Dismukes Schedule 19. (Dismukes).

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

Citizens' Position: Yes. Dismukes Schedule 11 shows a number of expenses which should not be charged to ratepayers. These expenses includes items such as a large contribution to the Carter Center Pavilion, commemorative gifts to retiring board members, spouse travel, golf green fees, sporting events tickets, and foreign travel.

Issue 17m: Is the Company's adjustment to remove BSC dues reasonable?

Citizens' Position: No, an adjustment should be made to disallow BellCore memberships which have been charged to Southern Bell. See Dismukes Schedule 13. (Dismukes).

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

Citizens' Position: Yes. Donations should not be charged to ratepayers. See Dismukes Schedule 12. (Dismukes).

Issue 17o: Should an adjustment be made for BSC legal expenses charged to the Company?

Citizens' Position: Yes, an adjustment should be made for BSC legal expenses. See Dismukes Schedule 11. (Dismukes).

Issue 17p: Are any adjustments necessary to costs allocated or charged to the Company from BellCore?

Citizens' Position: Yes. Many of the costs for long-term projects at BellCore are design to result in or enhance services and products that are unregulated. Many of the projects budgeted by

Southern Bell for 1993 are not properly recovered from current customer. See Dismukes' Schedule 18. Certain projects will largely benefit personal communications in wireless areas, information services, information network architecture and video and broad band. These expenses should not be recovered from current ratepayers. (Dismukes).

Issue 17q: Should certain Research and Development costs charged to the Company be deferred or capitalized?

Citizens' Position: The costs identified in response to 17p should be deferred for either recovery at a later date or expensing below the line at a later date. A proper determination may be made when there is more certainty with respect to the condition under which the resulting services and products will offered. An accrual analogous to AFUDC would be appropriate pending that determination. (Dismukes).

Issue 17r: How should the Commission treat the lease agreement with Sunlink for ratemaking purposes?

Citizens' Position: An adjustment should be made to the cost of the Sunlink leases in order to make the cost of the leases equal to or less than fully distributed cost. There are a number of problems about the lease arrangements between Sunlink and Southern Bell. The comparison provided by the company fails to take into consideration the time value of money. The comparison also improperly used the FCC authorized overall rate of return, even though about 75% of the operations are intrastate. The comparison improperly include allocated cost. A critical error was the failure of the comparison to take into account years beyond 1992. Finally, the comparison should have included property taxes. See Dismukes Schedule 17. (Dismukes).

Issue 17s: How should the Commission treat the agreement with BellSouth Travel Service for ratemaking purposes?

Citizens' Position: The test year budget fails to include any revenues for the profits from BellSouth Travel Services. Intrastate revenues should be increased to take this into account. (Dismukes).

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

Citizens' Position: Southern Bell should charge its affiliates a return on investment for the use of common plant and equipment. Otherwise, Southern Bell's affiliates obtain use of the common

plant and equipment without compensation to Southern Bell. Test year revenues should be increased for this amount. (Dismukes).

Issue 18: Should the Commission adopt FAS 112 for ratemaking purposes?

Citizens' Position: Yes.

Issue 18a: What adjustment, if any, should be made for postemployment benefits for the test year related to FAS 112?

Citizens' Position: Southern Bell should be required to write off the cost of SFAS 112 over the two year period 1992 through 1993. Southern Bell could have chosen to adopt SFAS 112 in 1992, but instead chose 1993. Presumably, Southern Bell expects to offset refunds ordered for 1993 by the full impact of the accrual for SFAS 112. There is no cash cost to the Company associated with the adoption of SFAS 112. Instead of shifting all of the cost to ratepayers in 1993 as proposed by Southern Bell, a more equitable result which shares the cost between ratepayer and shareholder would require the cost of adoption to be spread out over a two year period. (DeWard).

Issue 18b: Does the recognition of FAS 112 expense in 1993 duplicate budgeted expenses in 1993?

Citizens' Position: Yes. (DeWard).

Issue 18c: What adjustment, if any, should be made for postretirement benefits other than pensions for the test year related to FAS 106?

Citizens' Position: Southern Bell should be required to recalculate the cost under SFAS 106 taking into consideration the reimbursement it will receive from AT&T for postdivestiture medical expense for BellSouth Telecommunications employees who are retired at the time of postdivestiture. (DeWard).

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

Citizens' Position: The test year depreciation expense should be adjusted to reflect the actual retirement in the metallic cable accounts. The actual retirements are averaging only 41% of the forecast which was presented to, and accepted in total by, the Commission. (Currin). In addition, the account for digital

circuit equipment is fully depreciated. Depreciation expense for this account should be eliminated. (DeWard).

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

Citizens' Position: The loss associated with Hurricane Andrew should be written off in 1992 in accordance with generally accepted accounting principles. (DeWard).

Issue 19b: Has the Company properly computed the adjustment for expiring amortization? If not, what is the appropriate adjustment?

Citizens' Position: An adjustment should be made to amortization expense to reflect the expiration of amortization schedules in 1993. See DeWard Schedule 25. In addition, the asset balance in equipment/official communication equipment shows that it is over depreciated. The amortization expense included in the test year should be eliminated since the account is already over depreciated. See DeWard Schedule 26. (DeWard).

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

Citizens' Position: Adjustments consistent with other issues should be made to taxes other than income. In addition, the Company has not adequately explained its computation of federal income tax. A different computation shows that income tax should be reduced in 1992 and 1993. (DeWard).

Issue 20a: Should an adjustment be made to the gross receipts tax expense?

Citizens' Position: Southern has so far been unable to show that the test year includes the appropriate amount of gross receipts tax expense. Absent the Company's ability to show the passed-on tax is, in fact, included in test period revenues, an adjustment should be made. (DeWard).

Issue 20b: Should an adjustment be made to the separation factor for taxes, other than income?

Citizens' Position: Yes, a recalculation of taxes other than income show that a reduction to intrastate expense should be made. (DeWard).

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

Citizens' Position: Adjustment to income tax expense should be made as described in the following issues. (DeWard).

Issue 21a: Has the Company implemented FAS 109, Accounting for Income Taxes, in accordance with Rule 25-14.013, Florida Administrative Code?

Citizens' Position: No position at this time.

Issue 21b: Should the tax savings that BellSouth Corporation retains in connection with the PAYSOP and LESOP plans be allocated to Florida?

Citizens' Position: Yes, the tax savings from the PAYSOP and LESOP should be allocated to Florida. If ratepayers are required to provide through rates a provision for the cost of a leveraged employee stock ownership plan which, on a total company Florida basis exceeded \$23 million dollars in 1992, Southern Bell should be allocated its fair share of the tax savings. (DeWard).

Issue 21c: Should a parent Company debt adjustment be made because of: (1) the debt issued by BellSouth Capital Funding Corporation and (2) the debt issued by the trust which holds the shares for the LESOP?

Citizens' Position: The Commission should adopt the optimal capital structure proposed by the Citizens' witness James Rothschild, in which case no adjustment would be necessary for the debt issued by BellSouth Capital Funding Corporation. If, however, the Commission does not adopt this optimal capital structure, a parent company debt adjustment should be made. The same is true for the debt issued by the trust which holds the share for the LESOP. (DeWard).

Issue 22: What is the appropriate achieved test year net operating income?

Citizens' Position: This a fall out from the Commission's decision on the other issues in the case.

Issue 23: Is Southern Bell's attrition (accretion) allowance appropriate?

Citizens' Position: Southern Bells proposed accretion allowance is inappropriately biased downward because it uses trends established during a recessionary period. The Commission should eliminate the 1992 recessionary period from the analysis made by Southern Bell witness McClennan.

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

Citizens' Position: Southern Bell's rates should be decreased by at least \$454 million dollars. In addition, a penalty should be imposed for fraudulent and abusive sales techniques, as well as falsification of quality of service reports submitted to this Commission.

Issue 24a: Did Southern Bell earn above 14% Return on Equity (ROE) for 1992 therefore requiring a sharing of earnings between the company and ratepayers per Order No. 20162 in DN 880069-TL? If so, what is the amount to be shared?

Citizens' Position: No position at this time.

Issue 24b: Did Southern Bell experience an increase in earnings when netting rate changes against changes in earnings due to exogenous factors and debt refinancing, therefore requiring a refund and/or a permanent disposition for 1992 per Order No. 20162? If so, what is the amount?

Citizens' Position: No position at this time.

Issue 24c: What amount of revenue, if any, is subject to disposition for 1993 due to orders issued in DN 920260? How should this revenue be disposed of?

Citizens' Position: In accordance with the company's agreement, actual earnings should be used with all Commission adjustments applied to determine the amount due customers. An additional hearing will be necessary to determine the amount. (DeWard).

Issue 24d: What is the appropriate revenue expansion factor to be used in determining revenue requirements?

Citizens' Position: No position at this time.

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

Citizens' Position: The Commission should primarily compare Southern Bell's performance during its incentive plan to the other local exchange companies in Florida which were governed by the traditional regulation of this Commission. During the incentive period Southern Bell engaged in the falsification of sales to its customers and engaged in widespread falsification of the quality of service reports it submits to this Commission. Even falsify reported, Southern Bell's quality of service during the incentive period was extremely poor compared to the other large local exchange companies. In addition, comparison to the other local exchange companies based on operational revenue per average access lines, O&M expense per average access lines, and the ratio of O&M expense to total operating revenue shows Southern Bell performing poorly. Finally, Southern Bell's quality of service in Florida compares poorly even to the quality of service provided by Southern Bell and South Central Bell to the other states served by BellSouth Telecommunications.

The Commission must not reward Southern Bell for poor performance and abuse of its customers. (Poucher, Stewart).

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

Citizens' Position: No, the incentive plan has been a dismal failure. During the plan Southern Bell compared poorly to the other local exchange companies, abused its customers, and falsified its reports on quality of service provided to the Commission. (Poucher).

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

Citizens' Position: No, the Commission should not reward Southern Bell for the poor quality of service compared to other companies, abuse of its customers, and a falsification of reports on quality of service submitted to this Commission. The Commission should regulate Southern Bell the same way it regulates the other large local exchange companies in Florida. (Poucher).

Issue 27: Are Southern Bell's test year billing units appropriate?

Citizens' Position: No position at this time.

Issue 27a: Have billing units for employee concessions been properly accounted for in MFR Schedule E-1a?

Citizens' Position: No position at this time.

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

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

Citizens' Position: No, the Commission should reject Southern Bell's proposal which would require customers to give up their flat rate local exchange service in order to obtain lower toll rates out to forty miles. There should be no "tie-in" between lower toll rates and local measured service. Instead, the Commission should lower toll rates for all customers.

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

Citizens' Position: Stimulation must be taken into account on all rate reductions. It should be calculated consistent with the models sponsored by Staff witness Dismukes.

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

Citizens' Position: No position at this time.

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

Citizens' Position: No position at this time.

Issue 29: Southern Bell has made the following proposal:

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

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

Citizens' Position: No position at this time.

Issue 30a: Should the Company's proposal to reduce Residential Call Waiting from \$3.50 to \$3.35 and the Residential Call Forwarding-Variable from \$2.45 to \$2.20 be approved? If so, what is the test year revenue impact?

Citizens' Position: No position at this time.

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

Citizens' Position: The Commission should completely eliminate touchtone charges, consistent with action taken in the recent GTEFL rate case.

Issue 30c: Should customers be allowed to subscribe to Call Forward-Busy in lieu of rotary or hunting service? If so, what is the test year revenue impact?

Citizens' Position: No position at this time.

Issue 30d: Should SBT be required to offer Billed Number Screening for collect and third number billed calls at no charge to subscribers? If so, what is the test year revenue impact?

Citizens' Position: No position at this time.

Issue 31: Southern Bell has proposed to restructure and reduce its Service Connection Charges as shown below. What changes, if any, should be made to Service Connection Charges? What is the test year revenue impact?

<u>Current Residential</u>		<u>Proposed Residential</u>	
Primary Service Order	\$25.00	Line Connection-First	\$40.00
Secondary Service Order	\$ 9.00	Line Connection-Add'l	\$12.00
Access Line Connection Charge-C.O. Work	\$19.50	Line Charge-First	\$23.00
Access Line Connection Charge-New Line	\$31.50	Line Charge-Add'l	\$11.00
Number Change-per S.O.	\$ 9.00	Secondary Service Charge	\$10.00
Number Change-per No.	\$11.50		
<u>Business</u>		<u>Business</u>	
Primary Service Order	\$35.00	Line Connection-First	\$56.00
Secondary Service Order	\$12.50	Line Connection-Add'l	\$12.00
Access Line Connection Charge-C.O. Work	\$19.50	Line Charge-First	\$38.00
Access Line Connection Charge-New Line	\$31.50	Line Charge-Add'l	\$11.00
Number Change-per S.O.	\$12.50	Secondary Service Charge	\$19.00
Number Change-per No.	\$11.50		

Citizens' Position: No position at this time.

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

Citizens' Position: Yes, toll relief is warranted for the routes in Docket No. 911034-TL.

Issue 32b: Should the modifications to the OEAS and EOEAS plans in Section A3.7 of the General Subscriber Service Tariff be approved as proposed? If not,

what action, if any, should be taken? What is the test year revenue impact?

Citizens' Position: No position at this time.

Issue 32c: Should the proposed modifications to the "Local Exceptions" in Section A3.8 of the GSST be approved? If not, what actions, if any, should be taken? What is the test year revenue impact?

Citizens' Position: No position at this time.

Issue 33a: Southern Bell has proposed to reduce the rates and modify the rate relationships between certain of its business access lines services as shown below. It has proposed no other changes to business rate relationships. Is this appropriate? If not, what changes, if any, should be made to business access line rate relationships? What is the test year revenue impact?

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

Citizens' Position: No position at this time.

Issue 33b: Should SBT be required to revise its tariff to change the Directory Assistance (DA) call allowance from one DA call per Centrex/ESSX main station line to 3 DA calls per NAR so as to be comparable with DA call allowances on PBX trunks? If so, what is the test year revenue impact?

Citizens' Position: No position at this time.

Issue 33c: SBT's current rates for Customized Code Restriction (CCR) for B-1 and PBX subscribers are greater than the rates for equivalent services to the company's ESSX subscribers. Is this appropriate? If not, what adjustment(s) should be made?

Citizens' Position: No position at this time.

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

Citizen's Position: The Commission should consider reductions to local exchange rates, intraLATA toll rates, and access charges in this docket. Expanded flat rate calling should be implemented.

Issue 34: Are Southern Bell's proposed stimulation rates and levels appropriate? If not, what is appropriate?

Citizens' Position: No. Stimulation should be approved consistent with the models proposed by staff witness Dismukes.

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

Citizens' Position: Yes.

Issue 36: Should SBT be allowed to unbundle the Gross Receipts Tax from base rates and bill it as a separate line item on customer bills? If so, what is the test year revenue impact of doing so?

Citizens' Position: No position at this time.

Issue 37: What other rate changes, if any, should be approved?

Citizens' Position: No position at this time.

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

Citizens' Position: By agreement, the revenue effect is retroactive to January 1, 1993. Refunds should be made for the period preceding the actual rate changes.

Issue 38b: What information should be contained in the bill stuffers sent to customers and when should such notification take place?

Citizens' Position: No position at this time.

Issue 201: Has SBT charged customers through non-contract sales for services not requested?

Citizens' Position: Southern Bell has been responsible for the billing of customers through non-contact sales programs for services they did not order and did not want. (Poucher).

Issue 202: Did SBT misbill its customers by misinforming them or misleading them with respect to what was the most economic or least expensive service, with the result that the customers were billed for services they did not desire?

Citizens' Position: Southern Bell service representatives have failed to fully inform customers of the least expensive services available and have been responsible for the billing of customers for services they did not desire. (Poucher).

Issue 203: How many customers were charged for services not requested through non-contact sales and what is the total amount of such charges that has been collected from SBT customers? Have these charges been refunded appropriately?

Citizens' Position: No position at this time. The Company has failed to file meaningful weekly statements of its refunds. (Poucher).

Issue 204: Did SBT's management know or should they have known that customers were being billed through non-contact sales for services not ordered and were appropriate actions taken?

Citizens' Position: Southern Bell's higher management was knowledgeable of improper billing of customers in the conduct of non-contact sales programs and failed to take action to impose proper controls and deal with customers who had been billed improperly. (Poucher).

Issue 205: Did SBT have adequate internal controls for non-contact sales to prevent customers from being misbilled?

Citizens' Position: Southern Bell failed to enact adequate controls in its non-contact sales programs to insure that customers were not billed improperly for services they did not order and did not want. (Poucher).

Issue 206: Did SBT's employees take any other inappropriate actions in regard to marketing and sales of telephone services? If so, what was the impact and what action should the Commission take?

Citizens' Position: Southern Bell Service Representatives have continued to abuse customers by their "hard sell tactics," to the detriment of the service representatives' primary responsibility, which is to provide service to the public. The Commission should impose specific new controls to protect customers from the company's "hard sell tactics" and its emphasis of sales above service. (Cooper, Poucher).

Issue 207: If SBT did charge customers through non-contact sales for services not requested and/or took any other inappropriate actions in its marketing and sales of telephone services, did these actions violate Chapter 364, Florida Statutes, or Commission Rules?

Citizens' Position: Chapter 364.03 of the Florida Statutes requires that all charges made by telephone companies should be fair, just, reasonable and sufficient. In addition, it requires that Telephone Company service shall be adequate and sufficient. PSC rule 25-4.107(1) requires that the customer be informed of each optional service and its price. By allowing customers to be billed for services they did not order and did not want, the company violated Florida Statutes and the rules of this Commission. (Poucher).

Issue 301: Did any of SBT's employees misreport or otherwise miscode trouble reports?

a. If so, how?

Citizens' Position: Southern Bell employees miscoded trouble reports through a wide variety of methods and procedures, resulting in the filing of false reports with the PSC. (Poucher).

b. How widespread were such activities?

Citizens' Position: Miscoding (falsification) of trouble reports and the resulting misreporting of results to the PSC was widespread, affecting subscribers throughout the state and significantly misstating the service reports provided by the company to the PSC. (Poucher).

c. Did Southern Bell take timely action to stop the practices?

Citizens' Position: Southern Bell failed to take timely action to deal with improper activities of its maintenance organization in the handling of trouble reports and repair performance. (Poucher).

Issue 302: Has SBT violated any Commission Rules or Florida Statutes in regard to its repair and rebate operations? If so, what?

Citizens' Position: Chapter 364.03(1) of the Florida Statutes requires that all services rendered by Telephone Companies should be fair, just, reasonable and sufficient. The company violated Florida Statutes and PSC rule 25-4.070(1), (3), (5) and (9) requiring telephone companies to meet specific repair standards, keep accurate records and make periodic reports to the PSC. (Poucher).

Issue 303: Did SBT's management encourage behavior that led to any violations of Commission Rules or Florida Statutes in regard to its repair and rebate operations? If so, how?

Citizens' Position: Southern Bell management created and condoned a working environment that allowed and encouraged employees to falsify repair records and rebates to customers. (Poucher).

Issue 304: Has SBT filed any inaccurate Commission Forms PSC/CMU 28 (12/86) or Schedules 2, 11, 17, or 18?

Citizens' Position: Southern Bell filed incorrect service reports to the PSC that included falsified repair records. In addition, the company manipulated the reports provided the Commission to its own advantage and failed to impose suitable management controls to attain a satisfactory level of confidence in the accuracy of its reports and records. (Poucher).

Issue 305: Did SBT have sufficient controls in place to detect or prevent any possible repair and rebate falsification from occurring? If not, where and how were the controls insufficient?

Citizens' Position: Southern Bell did not have adequate controls in place to prevent falsification of trouble reports and repair records. Internal controls within the maintenance operating system (LMOS) were insufficient, allowing certain individuals to easily

compromise the system. System controls, such as audits and service observing, were inadequate to prevent wide-scale abuse and falsification to occur. (Poucher).

Issue 306: Under what circumstances have rebates been improperly denied to SBT's customers, if any?

Citizens' Position: Rebates have been denied customers who were out of service over 24 hours and not notified until after the initial 24 hour period that the fault was in the customer's equipment. Rebates have been denied to customers by closing out trouble reports before the trouble was repaired. Rebates have been denied customers by classification of service outages as "service affecting" troubles, not subject to rebates. Rebates have been denied customers due to internal coding of the company that precluded a rebate, even though it was due. (Poucher).

Issue 307: Were customers denied rebates due to mismanagement, if any, by SBT?

Citizens' Position: Customers were denied rebates because of mismanagement. The falsification of repair records was intended to falsely give the appearance of meeting PSC standards, but these activities also resulted in failure to rebate customers for service outages. (Poucher).

Issue 308: Should SBT be prospectively required to rebate out-of-service over 24 hours reports for the full period of the outage under Rule 25-4.110(2) by rounding up each pro rata portion of a 24 hour period to equal one full day?

Citizens' Position: The Commission should clarify the intent of Rule 25-4.110(2) to require that Southern Bell and all other Telephone Companies calculate rebates to provide 1/30th of the monthly rate for each day, or fraction thereof, when the company fails to repair a service outage within the objective 24 hour interval. (Poucher).

Issue 309: Should SBT be required to file a report with the Commission for rebates given to customers due to these investigation dockets? If so, what should be contained in the report?

Citizens' Position: Southern Bell should be required to file a report of all rebates provided to customers as a result of the investigative dockets, including the telephone number, the date of the rebate, the amount of the rebate, the reason for the rebate and

the time period when the error occurred. Due to the passage of time and the absence of all records, it is impossible for this Commission to determine all instances where customers may have been overbilled by the company. (Poucher).

Issue 310: Should the Commission modify SBT's reporting requirements, document retention policy, or make any other changes?

Citizens' Position: The Commission should require the company to retain all repair and rebate documents for a minimum of five years, including all documentation of internal and external review, service observations and audits. In addition, the Company should be required to retain customer service records for five years, in order to deal with problems resulting from overbilling of customers.

The Commission should hold this docket open for the Company, the PSC Staff and Intervenor to engage in workshops in an attempt to mutually develop new and adequate controls to protect consumers and insure a satisfactory level of confidence and integrity in maintenance of service. (Poucher).

Issue 401: Has SBT refunded the appropriate amounts due in order to make its customers whole for the Dockets listed below? If not, what action should the Commission take?

- a. Docket No. 900960-TL; Non-Contact Sales
- b. Docket No. 910163-TL; Repair
- c. Docket No. 910727-TL; Rebate

Citizens' Position: Because of widespread falsification of reports and records, it is impossible to determine whether customers have been made whole. (Poucher).

Issue 402: Has SBT taken adequate steps to prevent any recurrence of these inappropriate activities, if any, and, if not, what should the Commission require SBT to do to prevent these inappropriate activities from occurring again for the dockets listed below?

- a. Docket No. 900960-TL; Contact and Non-Contact Sales
- b. Docket No. 910163-TL; Repair
- c. Docket No. 910727-TL; Rebate

Citizens' Position: Not only has SBT failed to take adequate steps to prevent recurrence of such activities; these activities have

continued at least in part during 1993. The Commission should hold this docket open for the company, the PSC staff and intervenors to engage in workshops in an attempt to mutually develop new and adequate controls to protect consumers and insure a satisfactory level of confidence and integrity in maintenance of service. (Poucher).

Issue 403: Should the Commission penalize SBT for poor quality of service, mismanagement, or violations, if any, of Commission Rules and Florida Statutes for the dockets listed below? If so, how?

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

Citizens' Position: Yes, the Commission should order a mismanagement penalty of 100 basis points for falsification of repair records and reports, and an additional 100 basis point mismanagement penalty for fraudulent sales practices. A penalty for poor quality of service is also appropriate. (Poucher).

Issue 404: Did SBT's settlement with the Office of Statewide Prosecutor sufficiently compensate potentially affected subscribers so that no additional compensation for subscribers is warranted for the dockets listed below?

- a. Docket No. 900960-TL; Non-Contact Sales
- b. Docket No. 910163-TL; Repair
- c. Docket No. 910727-TL; Rebate

Citizens' Position: Because of widespread falsification of reports and records, it is impossible to determine whether customers have been sufficiently compensated. (Poucher).

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

Citizens' Position: No. The current quality of service of Southern Bell violates Commission rules and is woefully inadequate. The Commission should not close this docket until the company provides a satisfactory quality of service. (Poucher).

Issue 39a: Do Rules 25-4.070 & 25-4.110 require SBT to provide a rebate for an out-of-service condition when the company fails to notify, within 24 hours of the

trouble report, that the trouble is located in the Customer Premises Equipment (CPE)?

Citizens' Position: Yes.

Stipulations

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

Pending matters

There are a number of appeals concerning discovery matters currently awaiting a ruling from the Florida Supreme Court. Should the Commission and the Citizens prevail in whole or in part, the Citizens will need additional time to review the documents and deposition answers withheld so far by Southern Bell, follow up on

those documents and answers with additional discovery, and file additional testimony.

Respectfully submitted,

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

I HEREBY CERTIFY that a copy of the foregoing has been furnished by U.S. Mail or hand-delivery to the following parties on this 6th day of December, 1993.

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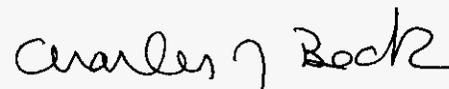
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