

R. Douglas Lackey
General Attorney

Southern Bell Telephone
and Telegraph Company
Suite 4300 - Legal Department
675 West Peachtree Street, N.E.
Atlanta, Georgia 30375
404 529-3862

July 15, 1992

ORIGINAL
FILE COPY

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

Re: Docket No. 920260-TL

Dear Mr. Tribble:

Enclosed for filing in the above-referenced docket, please find an original and fifteen copies of Direct Testimony of Joseph P. Lacher, Anthony M. Lombardo, David Sappington, John D. McClellan, William B. Keck, Nancy H. Sims, Walter S. Reid, Randall S. Billingsley and Janice Obuchowski for Southern Bell Telephone and Telegraph Company.

ACK _____
AFA 3 _____
APP _____
CAF _____
CMU 2 _____
CTR _____
EAG _____
LEG 1 _____
LIN orig 6 _____
OPC Enclosures _____
RCH cc: _____
SEC 1 _____
WAS _____
OTH _____

A copy of this letter is enclosed. Please mark it to indicate that the original was filed and return the copy to me. Copies have been served on the parties shown on the attached Certificate of Service.

Sincerely,

R. Douglas Lackey

R. Douglas Lackey

LACHER- 07718
LOMBARDO- 07719
SAPPINGTON- 07720
MCCLELLAN-07721
KECK- 07722
SIMS - 07723
REID - 07724
BILLINGSLEY-07725
OBUCHOWSKI -07726

RECEIVED & FILED

EPSC-BUREAU OF RECORDS

A BELL SOUTH Company

RECORD NUMBER-DATE

07718 JUL 15 1992

EPSC-RECORDS/REGISTRATION

CERTIFICATE OF SERVICE
Docket No. 920260-TL

I HEREBY CERTIFY that a copy of the foregoing has been
furnished by United States Mail this 15th day of July, 1992 to:

Robin Norton
Division of Communications
Florida Public Service
Commission
101 East Gaines Street
Tallahassee, FL 32399-0866

Charles J. Beck
Deputy Public Counsel
Office of the Public Counsel
111 W. Madison Street
Room 812
Tallahassee, FL 32399-1400

Angela Green
Division of Legal Services
Florida Public Svc. Commission
101 East Gaines Street
Tallahassee, FL 32399-0863

Michael J. Henry
MCI Telecommunications Corp.
MCI Center
Three Ravinia Drive
Atlanta, Georgia 30346-2102

Joseph A. McGlothlin
Vicki Gordon Kaufman
McWhirter, Grandoff & Reeves
522 East Park Avenue,
Suite 200
Tallahassee, Florida 32301
atty for FIXCA

Richard D. Melson
Hopping Boyd Green & Sams
Post Office Box 6526
Tallahassee, Florida 32314
atty for MCI

Joseph Gillan
J. P. Gillan and Associates
Post Office Box 541038
Orlando, Florida 32854-1038

Rick Wright
Regulatory Analyst
Division of Audit and Finance
Florida Public Svc. Commission
101 East Gaines Street
Tallahassee, FL 32399-0865

Patrick K. Wiggins
Wiggins & Villacorta, P.A.
Post Office Drawer 1657
Tallahassee, Florida 32302
atty for Intermedia

Peter M. Dunbar
Haben, Culpepper, Dunbar
& French, P.A.
306 North Monroe Street
Post Office Box 10095
Tallahassee, FL 32301
atty for FCTA

Floyd R. Self, Esq.
Messer, Vickers, Caparello,
Madsen, Lewis & Metz, PA
Post Office Box 1876
Tallahassee, FL 32302
atty for US Sprint

Chanthina R. Bryant
Sprint
3065 Cumberland Circle
Atlanta, GA 30339

Michael W. Tye
AT&T Communications of the
Southern States, Inc.
106 East College Avenue
Suite 1410
Tallahassee, Florida 32301

Dan B. Hendrickson
Post Office Box 1201
Tallahassee, FL 32302
atty for FCAN

Monte Belote
Florida Consumer Action Network
4100 W. Kennedy Blvd. #128
Tampa, FL 33609

R. Douglas Lackey ©

1 SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY
2 TESTIMONY OF JOSEPH P. LACHER
3 BEFORE THE
4 FLORIDA PUBLIC SERVICE COMMISSION
5 DOCKET NO. 920260-TL
6 JULY 15, 1992
7
8
9
10

ORIGINAL
FILE COPY

11 Q. PLEASE STATE YOUR NAME AND POSITION WITH SOUTHERN
12 BELL TELEPHONE AND TELEGRAPH COMPANY.

13

14 A. MY NAME IS JOSEPH P. LACHER AND I AM SOUTHERN
15 BELL'S PRESIDENT - FLORIDA. IN THIS CAPACITY, I
16 HAVE OVERALL RESPONSIBILITY FOR SERVICE AND
17 FINANCIAL RESULTS IN FLORIDA FOR BELLSOUTH
18 TELECOMMUNICATIONS, INC. D/B/A SOUTHERN BELL
19 TELEPHONE AND TELEGRAPH COMPANY ("SOUTHERN BELL" OR
20 THE "COMPANY").

21

22 Q. PLEASE GIVE A BRIEF DESCRIPTION OF YOUR BACKGROUND.

23

24 A. I GRADUATED FROM BELMONT ABBEY COLLEGE WITH A
25 BACHELOR OF ARTS DEGREE IN 1967, RECEIVED AN MBA

1 DEGREE FROM FAIRLEIGH DICKENSON UNIVERSITY IN 1978
2 AND WAS A SLOAN FELLOW AT MASSACHUSETTS INSTITUTE
3 OF TECHNOLOGY IN 1984. I BEGAN MY CAREER WITH
4 SOUTHERN BELL IN CHARLOTTE, NORTH CAROLINA IN 1967
5 AND HAVE SINCE HELD VARIOUS POSITIONS OF INCREASING
6 RESPONSIBILITY. I ASSUMED MY PRESENT POSITION
7 IN SEPTEMBER OF 1990.

8

9 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

10

11 A. MY TESTIMONY PROVIDES AN OVERVIEW AND DEVELOPS THE
12 FOUNDATION FOR OTHER TESTIMONY SOUTHERN BELL WILL
13 PRESENT IN THIS PROCEEDING.

14

15 Q. PLEASE DESCRIBE THE BACKGROUND OF THIS PROCEEDING?

16

17 SOUTHERN BELL HAS OPERATED UNDER ITS CURRENT
18 RATE STABILIZATION PLAN SINCE OCTOBER OF 1988.
19 DURING THIS PERIOD, THERE HAVE BEEN MANY CHANGES IN
20 THE TELECOMMUNICATIONS ENVIRONMENT IN FLORIDA.
21 INCREASED COMPETITION HAS CREATED MANY BENEFITS FOR
22 FLORIDA CONSUMERS AND MANY CHALLENGES FOR SOUTHERN
23 BELL. THE ECONOMIC DOWNTURN OF THE LAST 18 MONTHS
24 HAS FOCUSED EVEN GREATER ATTENTION TO COST CONTROL
25 AND EFFICIENCY FOR BUSINESSES AND HOUSEHOLDS ALIKE.

1 SOUTHERN BELL HAS RESPONDED TO BOTH THE
2 OPPORTUNITIES AND CHALLENGES THAT HAVE ARISEN FROM
3 INCREASING COMPETITION WITH FOUR MAJOR INITIATIVES.
4 IT HAS: 1) CONTINUED TO EMPHASIZE CUSTOMER
5 SERVICE; 2) INCREASED CUSTOMER BENEFITS; 3)
6 EMPHASIZED EFFICIENCY; AND 4) FOSTERED A NEW
7 CORPORATE CULTURE. EACH OF THESE HAS BEEN
8 UNDERTAKEN WITH A VIEW TOWARD THE FUTURE. MY
9 TESTIMONY WILL ALSO ADDRESS EACH OF THESE
10 INITIATIVES.

11

12 Q. PLEASE SUMMARIZE THE TESTIMONY THAT SOUTHERN BELL
13 WILL PRESENT IN THIS PROCEEDING.

14

15 A. SOUTHERN BELL WILL SPONSOR EIGHT OTHER WITNESSES
16 DURING ITS DIRECT CASE IN THIS PROCEEDING. EACH
17 WILL ADDRESS A SPECIFIC TOPIC OR ISSUE RELATED
18 EITHER TO SOUTHERN BELL'S EARNINGS OR TO THE NEED
19 FOR THIS COMMISSION TO ADOPT OUR PROPOSAL FOR A
20 REGULATORY PLAN WHICH WILL HEREAFTER BE REFERRED TO
21 AS THE PRICE REGULATION PLAN. TOPICS RELATED TO
22 TRADITIONAL REGULATORY ISSUES INCLUDE CAPITAL
23 STRUCTURE, COST OF CAPITAL, HISTORICAL AND
24 PROSPECTIVE EARNINGS AND RATE STRUCTURE.

25

1 THE COMPANY'S TESTIMONY WILL DESCRIBE THE SUCCESS
2 OF OUR CURRENT RATE STABILIZATION PLAN IN TERMS OF
3 THE BENEFITS CUSTOMERS HAVE DERIVED FROM IT; I.E.,
4 NEW SERVICES, CUSTOMER SERVICE IMPROVEMENTS, AND
5 IMPROVEMENTS IN EFFICIENCY WITHIN SOUTHERN BELL.
6 TESTIMONY WILL ALSO BE PRESENTED DESCRIBING THE
7 RAPIDLY EXPANDING COMPETITIVE ENVIRONMENT AND THE
8 IMPLICATIONS THESE LOCAL, NATIONAL AND GLOBAL
9 COMPETITIVE PRESSURES HAVE FOR FLORIDA. A DETAILED
10 DESCRIPTION OF OUR PROPOSED PLAN, WHICH RESPONDS TO
11 THESE ISSUES, WILL BE PROVIDED.

12

13 ALTHOUGH THE CONCEPT OF INCENTIVE REGULATION IS A
14 SIMPLE ONE, THE ISSUES ASSOCIATED WITH CRAFTING AN
15 INCENTIVE REGULATION PLAN AND EVALUATING ITS IMPACT
16 ARE VERY COMPLEX. THE MOST IMPORTANT TESTIMONY IN
17 THIS DOCKET WILL FOCUS ON OUR CUSTOMERS IN FLORIDA
18 AND THE CHANGING ENVIRONMENT IN WHICH SOUTHERN BELL
19 DOES BUSINESS. THIS TESTIMONY WILL DEVELOP OUR
20 PROPOSAL FOR A REGULATORY PLAN THAT WILL CONTINUE
21 TO BENEFIT CONSUMERS, PROVIDE APPROPRIATE
22 INCENTIVES FOR SOUTHERN BELL AND POSITION THE
23 TELECOMMUNICATIONS INDUSTRY IN FLORIDA FOR THE
24 FUTURE.

25

1 SOUTHERN BELL'S TESTIMONY WILL THUS SHOW THAT:
2 SOUTHERN BELL HAS BEEN SUCCESSFUL UNDER THE
3 EXISTING PLAN; OUR CUSTOMERS AND OTHER
4 STAKEHOLDERS HAVE BENEFITED; AND OUR PROPOSED
5 PRICE REGULATION PLAN IS NOT ONLY THE NEXT LOGICAL
6 STEP FOR THE STATE OF FLORIDA, BUT IS ESSENTIAL IF
7 SOUTHERN BELL IS TO HAVE THE OPPORTUNITY TO SUCCEED
8 IN THE PRESENT AND FUTURE COMPETITIVE ENVIRONMENT
9 IN FLORIDA. IT IS DESIGNED TO OFFER PRICE
10 STABILITY FOR OUR CUSTOMERS, FOSTER COMPETITION,
11 AND ENCOURAGE ECONOMIC DEVELOPMENT IN THE STATE.

12

13 Q. WHY DOES SOUTHERN BELL BELIEVE THAT A CHANGE IN
14 REGULATORY STRUCTURE IS NECESSARY?

15

16 A. THE BASIS FOR OUR REQUEST FOR CONTINUED EVOLUTION
17 OF THE REGULATORY STRUCTURE IN FLORIDA IS A
18 RECOGNITION THAT THE ENVIRONMENT IN WHICH WE DO
19 BUSINESS IS ALSO CHANGING. IN THIS ENVIRONMENT,
20 TWO KEY FACTORS, TECHNOLOGY AND COMPETITION, ARE
21 EVOLVING AND GROWING AT A DRAMATIC PACE. THE
22 REGULATORY STRUCTURE MUST CHANGE TO KEEP PACE WITH
23 THE CHANGES IN THE OPERATING ENVIRONMENT OR BOTH
24 THE COMPETITIVE POSITION OF THE STATE AND OUR
25 CUSTOMERS WILL SUFFER. EXAMPLES OF THE GROWTH OF

1 COMPETITION ARE PROVIDED IN THE TESTIMONY OF
2 SOUTHERN BELL WITNESSES OBUCHOWSKI AND LOMBARDO.

3
4 IN TODAY'S MARKETPLACE, SOUTHERN BELL NEEDS
5 FLEXIBILITY REGARDING THE TYPES OF SERVICES WE
6 PROVIDE TO OUR CUSTOMERS AND THE RATES CHARGED FOR
7 THOSE SERVICES. THE PRICE REGULATION STRUCTURE
8 PROPOSED BY SOUTHERN BELL WILL MAXIMIZE CUSTOMER
9 BENEFITS BY FOSTERING THE CONTINUED DEVELOPMENT OF
10 NEW AND ENHANCED SERVICES WHILE MAINTAINING OUR
11 TRADITIONAL VALUE OF QUALITY, BASIC SERVICE AT AN
12 AFFORDABLE PRICE.

13
14 FINALLY, OUR PROPOSAL PROVIDES A FRAMEWORK FOR
15 MOVING INTO THE FUTURE. THIS IS AN ESSENTIAL
16 ELEMENT. THERE ARE VARIOUS VIEWS OF WHAT THAT
17 FUTURE WILL LOOK LIKE, AND THIS MAKES IT IMPERATIVE
18 THAT WE PLAN FOR CHANGE. OUR ABILITY TO PLAN CAN
19 BE AFFECTED EITHER POSITIVELY OR NEGATIVELY BY THE
20 REGULATORY STRUCTURE TO WHICH WE ARE SUBJECTED. WE
21 CAN NOT SIMPLY STAND STILL. IF WE DO, OUR
22 CUSTOMERS, OUR STATE AND OUR COMPANY WILL MISS THE
23 OPPORTUNITIES OF THE INFORMATION AGE.

24
25 Q. WHAT IS CORPORATE CULTURE AND HOW HAS SOUTHERN

1 BELL'S CHANGED SINCE 1988?

2

3 A. CORPORATE CULTURE CAN BE DEFINED AS THE BELIEFS AND
4 VALUES OF A COMPANY THAT TRANSCEND LINES OF
5 ORGANIZATION AND EXTEND THROUGHOUT THE ENTIRE
6 EMPLOYEE BASE. THESE BELIEFS AND VALUES HAVE A
7 DRIVING IMPACT ON ATTITUDES AND DECISION MAKING,
8 BOTH IMMEDIATE AND LONG TERM, REGARDLESS OF WHETHER
9 THEY REPRESENT PERSONAL, DEPARTMENTAL, OR CORPORATE
10 ISSUES.

11

12 SINCE DIVESTITURE, THE TELECOMMUNICATIONS
13 ENVIRONMENT HAS BECOME MORE COMPETITIVE. THIS
14 CHANGE FROM A REGULATED MONOPOLY TO THAT OF A
15 REGULATED COMPETITIVE ENTERPRISE HAS REQUIRED
16 CHANGES TO OUR CORPORATE CULTURE. OUR EMPLOYEES
17 HAVE BECOME MORE AWARE OF THE COMPETITION OUR
18 COMPANY FACES IN ALMOST EVERY ASPECT OF ITS
19 TELECOMMUNICATIONS INFRASTRUCTURE: COMPETITION FOR
20 SWITCHING OR EQUIPMENT AT THE CUSTOMER'S LOCATION;
21 FOR VERTICAL SERVICES AND FEATURES; AND FOR
22 PHYSICAL TRANSPORT ACROSS THE NETWORK. THIS HAS
23 SHARPENED OUR FOCUS ON THE MARKETPLACE AND MADE US
24 MORE ACUTELY AWARE THAT THE CUSTOMER IS SUPREME.

25

1 AT A CORPORATE LEVEL, OUR CHANGE IN CORPORATE
2 CULTURE HAS RESULTED IN A VARIETY OF NEW PROGRAMS
3 AND WAYS OF DOING BUSINESS. FOR EXAMPLE, WE HAVE
4 IMPLEMENTED A NEW STATE PLANNING PROCESS, CALLED
5 MARKET DRIVEN PLANNING (MDP), WHICH TAKES A
6 COMPREHENSIVE APPROACH TO MARKET PLANNING. UNDER
7 MDP, AN INTERDEPARTMENTAL PLANNING TEAM WORKS
8 TOGETHER TO RECOMMEND CAPITAL AND RESOURCE
9 ALLOCATIONS BASED ON THE NEEDS OF OUR CUSTOMERS AND
10 MARKET FORECASTS.

11
12 ANOTHER EXAMPLE IS THE TOTAL QUALITY PROCESS WHICH
13 WAS INTRODUCED IN BELLSOUTH IN 1991. THIS PROGRAM
14 INCLUDES TRAINING FOR EVERY BELLSOUTH EMPLOYEE AND
15 ESTABLISHES A FRAMEWORK FOR IMPROVING WORKFLOWS AND
16 FOR SOLVING PROBLEMS THROUGH THE FORMATION OF
17 QUALITY ACTION TEAMS.

18
19 AS JUST ONE EXAMPLE OF THE RESULT OF THESE EFFORTS,
20 A RECENT QUALITY TEAM EFFORT HAS RECOMMENDED A NEW
21 MISSION FOR OUR DISTRICT OPERATIONS COUNCILS (DOC)
22 WHICH WILL STRENGTHEN THEIR COMMITMENT TO CUSTOMER
23 SATISFACTION. THE DOC STRUCTURE, WHICH HAS BEEN IN
24 PLACE FOR SEVERAL YEARS, PROVIDES A FRAMEWORK FOR
25 LOCAL COORDINATION, PROBLEM SOLVING AND TEAMWORK.

1 THE TEAM HAS RECOMMENDED THAT THESE
2 INTERDEPARTMENTAL GROUPS ESTABLISH ENHANCED OVERALL
3 CUSTOMER SERVICE AS A PRIORITY OVER INDIVIDUAL
4 DEPARTMENTAL OBJECTIVES.

5

6 Q. HOW HAVE THE CHANGES IN SOUTHERN BELL'S ENVIRONMENT
7 BEEN COMMUNICATED TO YOUR EMPLOYEES AND WHAT
8 RESULTS HAVE BEEN OBSERVED?

9

10 A. IN 1988, "INCENTIVE REGULATION" WAS A NEW CONCEPT
11 TO MANY OF OUR EMPLOYEES, AS WELL AS TO MUCH OF THE
12 INDUSTRY. FURTHER, HOW TO RESPOND IN A COMPETITIVE
13 ENVIRONMENT WAS SOMETHING WITH WHICH VERY FEW OF
14 OUR PEOPLE HAD EXPERIENCE. TODAY COMPETITION IS
15 PART OF OUR EVERYDAY VOCABULARY AND THE WAY WE DO
16 BUSINESS. GROWTH IN EMPLOYEE RECOGNITION OF ISSUES
17 CONCERNING OUR EARNINGS, COMPETITION, AND NATIONAL
18 AND STATE TELECOMMUNICATIONS ACTIVITIES HAS
19 OCCURRED. TODAY, THESE TOPICS MAKE UP A LARGE PART
20 OF THE QUESTIONS EMPLOYEES ASK AT MEETINGS AND IN
21 PUBLICATIONS. EVEN MORE IMPORTANTLY, OUR EMPLOYEES
22 ARE REALIZING THAT THEY HAVE AN IMPACT ON THESE
23 ISSUES.

24

25 MUCH OF THIS AWARENESS HAS COME ABOUT THROUGH

1 FOCUSED EFFORTS BY THE COMPANY TO EDUCATE THE
2 ENTIRE EMPLOYEE BODY ABOUT THE RELATIONSHIP AMONG
3 DAY-TO-DAY ACTIVITIES, INCENTIVE REGULATION, AND
4 SOUTHERN BELL'S SUCCESS IN A COMPETITIVE
5 MARKETPLACE. FOR EXAMPLE, I FREQUENTLY MEET WITH
6 OUR EMPLOYEES BOTH FORMALLY AND INFORMALLY TO
7 DISCUSS THESE ISSUES. IN ADDITION, IN CONTACTS
8 RANGING FROM EMPLOYEE FORUMS TO SOUTHERN BELL
9 EMPLOYEE PUBLICATIONS, WE HAVE OPENLY DISCUSSED
10 THESE ISSUES, THEIR IMPACT ON OUR BUSINESS AND WHAT
11 THEY MEAN TO EACH INDIVIDUAL EMPLOYEE.

12
13 ONE ASPECT OF THE DYNAMIC CHANGE IN OUR CULTURE IS
14 THAT THIS COMMUNICATION IS NOT JUST "TOP-DOWN."
15 PROGRAMS LIKE THE EMPLOYEE SUGGESTION PLAN,
16 SELF-MANAGED WORK GROUPS, AND PARTICIPATIVE
17 MANAGEMENT ALLOW IDEAS TO GO BOTH WAYS. WE ARE
18 ALSO IMPLEMENTING THE PEER PROGRAM TO PROVIDE
19 SUBORDINATE FEEDBACK TO OUR MANAGERS. WHILE THESE
20 PROGRAMS ARE NOT UNIQUE TO FLORIDA'S SOUTHERN BELL
21 OPERATIONS, OUR FLORIDA TEAM IS ENHANCING THIS
22 ENVIRONMENT BY PURSUING A PHILOSOPHY OF "DON'T
23 SHOOT THE MESSENGER" AND "CHALLENGE UP."

24

25 Q. WHAT ABOUT THE SUGGESTION BY A FEW THAT THE CURRENT

1 PLAN HAS LED TO EMPLOYEE BEHAVIOR THAT IS NOT IN
2 THE CONSUMER'S INTEREST?

3

4 A. IT IS A SUGGESTION WITH NO SUBSTANCE. IT
5 DISREGARDS THE FACTS. THE MOST PUBLICIZED EVENT,
6 INVOLVING UNAUTHORIZED SALES, INVOLVED ONLY A FEW
7 INDIVIDUALS WHO VIOLATED THE COMPANY POLICY IN AN
8 EFFORT TO CHEAT BOTH THE CUSTOMER AND THE COMPANY.

9

10 WHAT HAS ALSO NOT BEEN REPORTED CLEARLY IS THE FACT
11 THAT SOUTHERN BELL EMPLOYEES IDENTIFIED THE
12 PROBLEM, AND WENT TO EXTRAORDINARY LENGTHS TO FIND
13 THE CUSTOMERS INVOLVED AND REFUND THEIR MONEY WITH
14 INTEREST. THE APPROPRIATE LEGAL AUTHORITIES WERE
15 NOTIFIED AND ALL THOSE INVOLVED IN MISCONDUCT WERE
16 SEVERELY DISCIPLINED. THE PRIMARY FOCUS OF OUR
17 OTHER 17,000 EMPLOYEES WAS SQUARELY ON SEEING THAT
18 OUR CUSTOMER WAS TREATED FAIRLY.

19

20 IN FACT, THE CHANGE IN CORPORATE CULTURE TO FOCUS
21 MORE SPECIFICALLY ON INDIVIDUAL CUSTOMER NEEDS,
22 HELPED US TO IDENTIFY AND DEAL WITH THE OTHER
23 HIGHLY PUBLICIZED INCIDENT INVOLVING TROUBLE
24 REPORTS. IMPORTANTLY, RATHER THAN CAUSING
25 PROBLEMS, INCENTIVE REGULATION HAS HELPED FOSTER AN

1 ENVIRONMENT FOR IDENTIFYING AND CORRECTING THEM.
2 TO SUGGEST THAT THE MISCODUCT OF A FEW SHOULD
3 BESMIRCH THE REPUTATION OF THE FINE MEN AND WOMEN
4 OF SOUTHERN BELL IS NOT ONLY MISGUIDED, IT IS
5 FACTUALLY WRONG. TO TIE SUCH ACTS TO INCENTIVE
6 REGULATION IS EQUALLY ABSURD.

7

8 Q. HOW WELL HAS SOUTHERN BELL BEEN ABLE TO EARN UNDER
9 ITS CURRENT RATE STABILIZATION PLAN?

10

11 A. SOUTHERN BELL HAS MAINTAINED A CONSISTENT EARNINGS
12 LEVEL THROUGHOUT THE PLAN PERIOD. THESE RESULTS
13 ARE IN SPITE OF OVERLY OPTIMISTIC FORECASTS,
14 INCREASED COMPETITION FROM TRADITIONAL AND NEW
15 PROVIDERS, SEPARATIONS CHANGES AND A SEVERE
16 ECONOMIC DOWNTURN.

17

18 DESPITE THESE FACTORS, SOUTHERN BELL'S ACHIEVED
19 INTRASTATE EARNINGS IN FLORIDA HAVE BEEN 13.69% IN
20 1988 AND 1989, 13.81% IN 1990, 12.92% IN 1991, AND
21 13.56% THROUGH MARCH, 1992. WALTER REID, OUR
22 ACCOUNTING WITNESS, WILL PROVIDE ADDITIONAL
23 INFORMATION REGARDING THESE ACHIEVED LEVELS AND
24 EACH OF THE FACTORS MENTIONED PREVIOUSLY.

25

1 Q. WHAT HAVE BEEN THE MOST SIGNIFICANT REASONS FOR
2 THESE EARNINGS RESULTS?

3

4 A. AS MR. LOMBARDO EXPLAINS IN DETAIL IN HIS
5 TESTIMONY, SOUTHERN BELL'S ABILITY TO MANAGE
6 EXPENSES AND SUSTAIN REVENUE GROWTH HAS BEEN KEY TO
7 OUR EARNINGS UNDER THE RATE STABILIZATION PLAN.
8 OUR EMPLOYEES HAVE LEARNED THAT IN A COMPETITIVE
9 ENVIRONMENT THE MARKET DETERMINES PRICE AND WE MUST
10 CUT OUR COSTS IF WE ARE TO PRICE TO MEET THE
11 COMPETITION. INDEED, AS STATED BY DOD/FEA'S WITNESS
12 KING IN THE FEBRUARY 1992 HEARING BEFORE THIS
13 COMMISSION: "WHAT I'M SUGGESTING IS THAT INCENTIVE
14 REGULATION HAS DONE ITS JOB. IT HAS ENCOURAGED THE
15 COMPANY TO MAINTAIN A HIGH RATE OF RETURN IN THE
16 FACE OF A RECESSION. AND THAT IS (A) DEMONSTRATION
17 OF THE BENEFIT OF INCENTIVE REGULATION."

18

19 WHILE I WOULD NOT CHARACTERIZE OUR EARNINGS AS
20 HIGH, IMPROVEMENTS IN OUR ABILITY TO MANAGE
21 EXPENSES HAVE CONTRIBUTED SIGNIFICANTLY TO OUR
22 EARNINGS RESULTS. AS MR. REID EXPLAINS IN HIS
23 TESTIMONY, IN 1988 OUR EXPENSE PER ACCESS LINE WAS
24 ABOUT \$276.00 AS COMPARED TO ABOUT \$259.00 IN 1991.
25 THIS REPRESENTS APPROXIMATELY A \$79 MILLION

1 REDUCTION IN ANNUAL EXPENSES. THIS IS ESPECIALLY
2 SIGNIFICANT CONSIDERING INFLATION LEVELS THAT HAVE
3 BEEN IN THE 3 TO 4 PERCENT RANGE DURING THIS TIME.

4

5 Q. YOU HAVE STATED THAT SOUTHERN BELL'S EARNINGS HAVE
6 BEEN AFFECTED BY A COMMITMENT TO MANAGING EXPENSES.
7 WHAT ACTIONS HAS SOUTHERN BELL INITIATED THAT
8 REFLECT THIS COMMITMENT?

9

10 A. SOUTHERN BELL HAS MADE A CONCERTED EFFORT TO
11 IMPROVE EFFICIENCY THROUGH THE INTEGRATION OF
12 MECHANIZED SYSTEMS, DEVELOPMENT OF NEW AND ENHANCED
13 PROCESSES AND CONSOLIDATIONS OF OPERATIONS
14 THROUGHOUT OUR BUSINESS. AS MR. LOMBARDO DESCRIBES
15 IN DETAIL, THESE EFFORTS HAVE YIELDED SAVINGS IN
16 EXCESS OF \$94 MILLION SINCE THE BEGINNING OF 1989
17 AND CONTINUE TO PROVIDE ONGOING COST BENEFITS.
18 THE MOMENTUM ESTABLISHED BY OUR EFFICIENCY EFFORTS
19 WILL CONTINUE TO PROVIDE BENEFITS BEYOND THE
20 PROGRAMS ALREADY IMPLEMENTED. SOUTHERN BELL IS
21 COMMITTED TO CONTINUE TO DEVELOP AND IMPLEMENT NEW
22 SYSTEMS AND PROCESSES. WE ALSO EXPECT TO CONTINUE
23 TO BENEFIT FROM THE IDENTIFICATION OF NEW REVENUES
24 AND EFFICIENCY OPPORTUNITIES BY THE FLORIDA COST
25 CONTAINMENT AND REVENUE ENHANCEMENT AND ASSURANCE

1 COMMITTEES. THESE TEAMS, WHICH MEET REGULARLY,
2 WERE ESTABLISHED IN FLORIDA AS A RESULT OF OUR
3 SUCCESS IN OBTAINING THE RATE STABILIZATION PLAN.

4
5 WE ANTICIPATE POSITIVE RESULTS FROM THE RECENT
6 CHANGES IN SOUTHERN BELL'S EMPLOYEE COMPENSATION
7 PLANS WHICH FURTHER ENCOURAGE EMPLOYEES TO PRACTICE
8 EXPENSE CONTROL AND, AT THE SAME TIME, DELIVER
9 OUTSTANDING CUSTOMER SERVICE. TODAY, CUSTOMER
10 SATISFACTION, FROM THE PERSPECTIVE OF OUR
11 CUSTOMERS, IS OUR PRIMARY MOTIVATION. IN ADDITION,
12 THE PLAN ENCOURAGES EMPLOYEES TO FOCUS EQUALLY ON
13 YEAR-TO-YEAR REVENUE AND EXPENSE PERFORMANCE.

14
15 Q. WHAT EFFECT HAS THE CURRENT RATE STABILIZATION PLAN
16 HAD ON THE LEVEL OF SERVICE THAT SOUTHERN BELL
17 PROVIDES TO ITS CUSTOMERS?

18
19 A. DURING THE TERM OF THE RATE STABILIZATION PLAN,
20 SOUTHERN BELL HAS CONTINUED TO PROVIDE A HIGH LEVEL
21 OF SERVICE TO ITS CUSTOMERS.

22
23 IT WAS A CONCERN OF SOME PARTIES THAT THE RATE
24 STABILIZATION PLAN WOULD CAUSE SOUTHERN BELL TO
25 REDUCE OPERATIONAL EXPENSES AND THEREBY ADVERSELY

1 AFFECT THE QUALITY OF SERVICE. TO THE CONTRARY,
2 THIS COMMISSION CONCLUDED IN ITS 1991 MANAGEMENT
3 REVIEW OF SOUTHERN BELL-FLORIDA THAT "CONCERNS
4 RELATED TO OVER EMPHASIS ON COST CONTROL ARE NOT
5 CURRENTLY A PROBLEM". THE REVIEW FURTHER STATED
6 THAT "WE HAVE CONCLUDED THAT EMPHASIS IS NOT ONLY
7 BEING PLACED ON NETWORK OPERATIONS COST, BUT ON
8 SERVICE QUALITY AND EMPLOYEE MORALE RELATED ISSUES
9 ALSO".

10

11 Q. HAS THE COMPANY TAKEN ANY OTHER STEPS TO EMPHASIZE
12 CUSTOMER SERVICE?

13

14 A. WE HAVE TO CONTINUE TO MEET OUR TRADITIONAL VALUES
15 WHILE RESPONDING TO THE GROWING COMPETITION IN OUR
16 INDUSTRY. WE HAVE ADOPTED A GOAL OF ACHIEVING A
17 LEVEL OF CUSTOMER SERVICE WHERE ALL OF OUR
18 CUSTOMERS' EXPERIENCES ARE POSITIVE. THIS APPROACH
19 MOVES BEYOND SIMPLY A "SATISFIED" OR "NEUTRAL"
20 CUSTOMER PERCEPTION TO A LEVEL WHERE WE GIVE
21 CUSTOMERS MORE THAN THEY EXPECT IN CUSTOMER
22 SERVICE. OUR GOAL IS TO "DELIGHT" EACH CUSTOMER.
23 THIS WILL PROVIDE SOUTHERN BELL WITH A COMPETITIVE
24 EDGE.

25

1 Q. WHAT OTHER STEPS HAS SOUTHERN BELL TAKEN TO PROVIDE
2 IMPROVED SERVICE TO OUR SUBSCRIBERS?

3

4 A. WITH THE SUPPORT OF THIS COMMISSION, SOUTHERN BELL
5 HAS BEEN DEVELOPING A TELECOMMUNICATIONS
6 INFRASTRUCTURE IN FLORIDA WHICH IS FEATURE-RICH,
7 ROBUST, AND SELF-ADJUSTING. BY FEATURE-RICH, I
8 MEAN AN INFRASTRUCTURE WHICH IS NOT ONLY CAPABLE OF
9 PROVIDING THE INFORMATION AGE SERVICES DEMANDED BY
10 BUSINESS CUSTOMERS, BUT ONE WHICH ALSO DELIVERS AN
11 ARRAY OF NEW SERVICES TO RESIDENCE AND SMALL
12 BUSINESS CUSTOMERS AT AN AFFORDABLE PRICE. A
13 ROBUST NETWORK IS ONE WHICH IS CAPABLE OF KEEPING
14 UP WITH THE RAPID PACE OF TECHNOLOGICAL EVOLUTION
15 IN OUR INDUSTRY. FINALLY, A SELF-ADJUSTING NETWORK
16 AUTOMATICALLY PROTECTS AGAINST THE DEGRADATION OR
17 LOSS OF THE SERVICES ON WHICH OUR CUSTOMERS RELY.

18

19 THE BENEFITS OF SUCH A NETWORK WERE DEMONSTRATED ON
20 DECEMBER 18, 1991 WHEN WE EXPERIENCED MAJOR SERVICE
21 PROBLEMS STEMMING FROM A CABLE CUT IN THE
22 FACILITIES SERVING THE WEST PALM BEACH LATA TANDEM.
23 DUE TO THE INHERENT DISASTER RECOVERY CAPABILITY
24 THAT HAD BEEN PLANNED AND BUILT INTO SOUTHERN
25 BELL'S NETWORK, TRAFFIC WAS IMMEDIATELY REROUTED TO

1 THE MIAMI LATA TANDEM, WHICH MINIMIZED CUSTOMER
2 SERVICE DIFFICULTIES.

3

4 Q. HAVE THE INVESTMENTS SOUTHERN BELL HAS MADE TO
5 PROVIDE SUBSCRIBERS WITH A FEATURE-RICH, ROBUST,
6 AND SELF-ADJUSTING NETWORK PROVIDED ANY OTHER
7 BENEFITS TO THE CITIZENS OF FLORIDA?

8

9 A. YES. IN ADDITION TO THE CUSTOMER BENEFITS
10 DESCRIBED BY OTHER WITNESSES, SOUTHERN BELL'S
11 INVESTMENT IN FLORIDA HAS AN IMPACT ON THE STATE'S
12 ECONOMIC DEVELOPMENT WHICH GOES BEYOND THE DIRECT
13 INVESTMENT. THIS IS OFTEN REFERRED TO AS THE
14 "MULTIPLIER EFFECT."

15

16 ONE CALCULATION OF THIS EFFECT IS DESCRIBED IN THE
17 FLORIDA DEPARTMENT OF COMMERCE'S REPORT ENTITLED
18 "THE IMPACT OF TELEPHONE COMPANIES' PROVISION OF
19 TELEPHONE SERVICE (LOCAL AND LONG DISTANCE) ON
20 FLORIDA'S ECONOMY IN 1990". THIS REPORT IDENTIFIES
21 SPECIFIC MULTIPLIERS FOR FLORIDA'S
22 TELECOMMUNICATIONS INDUSTRY WHICH INDICATE THAT A
23 \$1 MILLION INCREASE IN REVENUE WILL YIELD A \$1.57
24 MILLION INCREASE IN SALES THROUGHOUT THE STATE.
25 OTHER MULTIPLIERS CITED IN THE REPORT REFLECT THIS

1 AS A \$.44 MILLION INCREASE IN HOUSEHOLD EARNINGS OR
2 AS THE CREATION OF 18.9 JOBS.

3

4 Q. WHY IS THIS IMPORTANT TO THE STATE?

5

6 A. AT SOUTHERN BELL WE BELIEVE THAT NO FLORIDIAN
7 SHOULD EVER LOSE A JOB OR THE PROSPECT OF A JOB
8 BECAUSE OF A LACK OF THE MOST SOPHISTICATED
9 TELECOMMUNICATIONS SERVICES. ACCORDING TO A STUDY
10 BY THE MASSACHUSETTS INSTITUTE OF TECHNOLOGY, THE
11 AVAILABILITY OF HIGH QUALITY TELECOMMUNICATIONS IS
12 ONE OF THE TOP FIVE RESOURCES A RELOCATING BUSINESS
13 LOOKS FOR IN A COMMUNITY. THE PRICE REGULATION
14 PLAN WILL HELP STRENGTHEN THE FLORIDA ECONOMY AND
15 GIVE THE STATE A COMPETITIVE ADVANTAGE.

16

17 Q. PLEASE SUMMARIZE YOUR TESTIMONY.

18

19 A. MY TESTIMONY FOCUSES ON OUR CUSTOMERS IN FLORIDA
20 AND ON THE CHANGING ENVIRONMENT IN WHICH WE LIVE.
21 WE MUST BE EVER-MINDFUL OF THIS FOCUS AS WE
22 CONTINUE THE JOURNEY TO A FORM OF FLEXIBLE
23 REGULATION THAT WILL BENEFIT OUR CUSTOMERS, PROVIDE
24 NECESSARY INCENTIVES FOR SOUTHERN BELL AND SECURELY
25 POSITION FLORIDA FOR THE FUTURE.

1 THE EVIDENCE I HAVE PRESENTED DESCRIBES THE
2 CORPORATE CULTURE CHANGES THAT NOW PERMEATE OUR
3 ENTIRE EMPLOYEE BODY AND HOW THOSE CHANGES HAVE
4 FOSTERED A HEIGHTENED AWARENESS OF THE NEED BOTH
5 FOR COST CONTAINMENT AND EXCELLENT CUSTOMER
6 SERVICE. FURTHER, THIS EVIDENCE PROVIDES AN
7 UNDERSTANDING OF HOW THIS WILL ALLOW SOUTHERN BELL
8 TO REMAIN A VIABLE COMPETITOR IN THE MARKETPLACE.

9
10 OUR EARNINGS HAVE REMAINED REASONABLE EVEN DURING A
11 VERY DIFFICULT RECESSIONARY PERIOD, FROM WHICH WE,
12 LIKE THE REST OF THE STATE OF FLORIDA, ARE JUST
13 BEGINNING TO RECOVER. IN SPITE OF THIS DIFFICULTY,
14 WE HAVE CONTINUED OUR EFFORTS TO STIMULATE ECONOMIC
15 DEVELOPMENT TO THE BENEFIT OF BOTH SOUTHERN BELL
16 AND THE STATE OF FLORIDA AND ITS CITIZENS.

17
18 IN THE AREA OF CUSTOMER SERVICE, SOUTHERN BELL
19 HAS REEMPHASIZED CUSTOMER SATISFACTION AS A PRIMARY
20 KEY TO OUR SUCCESS IN A RAPIDLY EVOLVING
21 COMPETITIVE AND TECHNOLOGICAL ENVIRONMENT.

22
23 IN SUM, THIS TESTIMONY CREATES THE FOUNDATION OF AN
24 UNDERSTANDING OF THE PROGRESS SOUTHERN BELL HAS
25 MADE UNDER ITS CURRENT REGULATORY PLAN GIVEN THE

1 INCENTIVES SOUTHERN BELL HAS HAD UNDER THAT PLAN.
2 THE NEXT STEP, HOWEVER, IS CRUCIAL IN ORDER TO
3 MAINTAIN THE POSITIVE MOMENTUM CREATED BY THESE
4 INCENTIVES. THE TESTIMONY THAT FOLLOWS WILL
5 SOLIDIFY THE NEED FOR FURTHER FLEXIBILITY AND
6 OUTLINE WHAT SOUTHERN BELL BELIEVES ARE THE LOGICAL
7 AND NECESSARY NEXT STEPS.

8

9 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

10

11 A. YES IT DOES.

12

13

14

15

16

17

18

19

20

21

22

23

24

25