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December 10, 1993

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Mr. Steve Tribble
Director, Division of Records and Reporting
Florida Public Service Commission
101 E. Gaines Street
Tallahassee, Florida 32301

Re: Docket No. 930260-TL

Dear Mr. Tribble:

Enclosed for filing in the above-referenced docket is the original and fifteen copies of rebuttal testimony of the following Southern Bell Telephone and Telegraph Company witnesses:

Aniruddha (Andy) Banerjee
Randall S. Billingsley
J. Bradford Branch
Stephen P. Budd
C. L. Cuthbertson
Edward L. Delahanty
Michael Thomas Dowdy
H. E. Gray
Gary M. Hoeltke
Linda C. Isenhour
April Ivy
William B. Keck
Joseph P. Lacher
Robin Madden
Calvin S. Monson
Jerry Moore
Walter S. Reid
C. J. Sanders
David Sappington
Nancy H. Sims
A. Wayne Tubaugh
Dr. Barton A. Weitz
Jerry L. Wilson
William P. Zarakas

ACK

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Mr. Steve Tribble
December 10, 1993
Page Two

Copies of the above listed testimony have been furnished to all parties of record.

A copy of this letter is enclosed. Please indicate on the copy that the original was filed and return the copy to me.

Sincerely,

A handwritten signature in cursive script that reads "Nancy B. White". The signature is written in dark ink and is positioned above the printed name.

Nancy B. White

All parties of record
Mr. A. M. Lombardo
Mr. H. R. Anthony
Mr. R. Douglas Lackey

CERTIFICATE OF SERVICE

Docket No. 920260-TL

Docket No. 900960-TL

Docket No. 910163-TL

Docket No. 910727-TL

I HEREBY CERTIFY that a copy of the foregoing has been
furnished by United States Mail this 10th day of December, 1993
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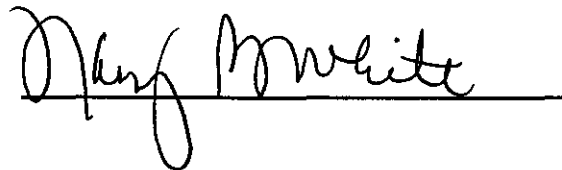
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**BST REBUTTAL
TESTIMONY**

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BST REBUTTAL TESTIMONY

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1 SOUTHERN BELL TELEPHONE & TELEGRAPH COMPANY
2 REBUTTAL TESTIMONY OF H. E. GRAY JR.
3 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
4 FLORIDA DOCKET NO. 920260-TL
5 DECEMBER 10, 1993
6
7

8 Q. PLEASE STATE YOUR NAME, ADDRESS, AND OCCUPATION.

9
10 A. MY NAME IS HAMILTON E. (BOB) GRAY JR. MY BUSINESS
11 ADDRESS IS 600 NORTH 19TH STREET, BIRMINGHAM,
12 ALABAMA, 35203. I AM EMPLOYED BY BELLSOUTH
13 TELECOMMUNICATIONS, INC., D/B/A SOUTHERN BELL
14 TELEPHONE & TELEGRAPH COMPANY ("COMPANY" OR
15 "SOUTHERN BELL"), AS AN OPERATIONS MANAGER IN THE
16 NETWORK PLANNING AND ENGINEERING INTEGRATION
17 DEPARTMENT.

18
19 Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND, WORK
20 EXPERIENCE, AND CURRENT RESPONSIBILITIES.

21
22 A. I RECEIVED A BACHELOR OF SCIENCE DEGREE IN
23 ELECTRICAL ENGINEERING FROM LOUISIANA STATE
24 UNIVERSITY IN 1971, AND A MASTER OF BUSINESS
25 ADMINISTRATION DEGREE FROM THE UNIVERSITY OF

1 ALABAMA - BIRMINGHAM IN 1980. I AM A REGISTERED
2 PROFESSIONAL ENGINEER. FOR THE PAST TWENTY-ONE
3 YEARS I HAVE BEEN AN EMPLOYEE OF BELLSOUTH
4 TELECOMMUNICATIONS, INC. AND ITS PREDECESSORS.
5 FROM 1972 TO 1976, I HELD VARIOUS ASSIGNMENTS
6 WITHIN THE LOUISIANA ENGINEERING DEPARTMENT,
7 INCLUDING DISTRIBUTION ENGINEERING, INTEROFFICE
8 FACILITY PLANNING, AND SWITCHING PLANNING.
9
10 IN 1977, I JOINED THE NETWORK PLANNING DEPARTMENT
11 ON THE SOUTH CENTRAL BELL HEADQUARTERS STAFF AS A
12 SWITCH PLANNING AND ENGINEERING ECONOMIC STUDY
13 ANALYST. I JOINED THE REVENUE REQUIREMENTS
14 DEPARTMENT AS A REGULATORY DOCKET MANAGER IN 1985,
15 AND RETURNED TO THE NETWORK PLANNING STAFF IN 1988.
16 MY CURRENT RESPONSIBILITIES INCLUDE SWITCH
17 PLANNING, TRANSPORT PLANNING, ENGINEERING ECONOMIC
18 ANALYSIS SUPPORT, AND CONSTRUCTION BUDGET
19 DEVELOPMENT SUPPORT FOR THE NINE STATES IN THE
20 BELLSOUTH TERRITORY.

21

22 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

23

24 A. THE PURPOSE OF MY TESTIMONY IS TO PROVIDE REBUTTAL
25 TO THE DIRECT TESTIMONY OF JOSEPH GILLAN CONCERNING

1 SOUTHERN BELL'S CORPORATE NETWORK. IN PROVIDING
2 REBUTTAL TO MR. GILLAN, I AM ALSO SPEAKING TO THE
3 ISSUE OF THE REASONABLENESS, PRUDENCY AND NECESSITY
4 OF SOUTHERN BELL'S INVESTMENT IN OUR INTERNAL
5 COMPANY NETWORK (ISSUE 2B).

6

7 Q. IN DISCUSSING THE SUBJECT OF SOUTHERN BELL'S
8 CORPORATE NETWORK, MR. GILLAN CHARACTERIZED THIS
9 NETWORK AS UNNECESSARY COMPARED TO SOUTHERN BELL'S
10 NEEDS. HE FURTHER SUGGESTED SOUTHERN BELL WAS
11 SUBSIDIZING ITS POTENTIAL RE-ENTRY TO THE INTERLATA
12 TOLL MARKET (PAGE 20). IS THAT A CORRECT
13 CHARACTERIZATION?

14

15 A. ABSOLUTELY NOT. THE CHARACTERIZATION OF THE
16 SOUTHERN BELL NETWORK AS EXCESSIVE AND THE
17 IMPLICATION THAT SOUTHERN BELL HAS EXPLOITED THE
18 MODIFICATION OF FINAL JUDGMENT (MFJ) IS GROSSLY
19 INACCURATE. SOUTHERN BELL HAS PRUDENTLY AND
20 ECONOMICALLY DESIGNED AND ENGINEERED AN INTERLATA
21 CORPORATE NETWORK BASED ON THE OFFICIAL TRAFFIC
22 (VOICE AND DATA) AUTHORIZED BY THE MFJ.

23

24 Q. HOW IS SOUTHERN BELL'S INTERLATA CORPORATE NETWORK
25 USED?

1

2 A. THE SOUTHERN BELL CORPORATE NETWORK IS UTILIZED TO
3 SUPPORT NOT ONLY OFFICIAL VOICE COMMUNICATION, BUT
4 OTHER CRITICAL FUNCTIONS TO ENSURE THE ECONOMIC
5 OPERATION OF THE LOCAL EXCHANGE NETWORK. SIGNALING
6 SYSTEM 7 (SS7) CIRCUITS, EMERGENCY 911 CIRCUITS,
7 AND MAINTENANCE CIRCUITS ARE ALL PART OF THE
8 OFFICIAL NETWORK. IN ADDITION, VOICE LINKS CONNECT
9 CUSTOMERS TO OPERATORS, CUSTOMER SERVICE
10 REPRESENTATIVES, AND REPAIR SERVICE
11 REPRESENTATIVES. DATA LINKS INTERCONNECT COMPUTERS
12 FOR CORPORATE DATA PROCESSING REQUIREMENTS, AND
13 VIDEO LINKS INTERCONNECT MANY SOUTHERN BELL
14 OFFICES. THE INTERLATA FACILITIES DEPLOYED IN
15 FLORIDA ARE AN INTEGRAL AND VITAL PART OF THE
16 OVERALL NINE STATE CORPORATE NETWORK.

17

18 Q. MR. GILLAN PORTRAYS THE SOUTHERN BELL INTERLATA
19 FIBER OPTIC NETWORK AS UNDERUTILIZED WITH A LARGE
20 PERCENTAGE OF THE FIBER AS SPARE. IN FACT,
21 GILLAN'S EXHIBIT JPG-2 DEPICTS 39 SPARE INTERLATA
22 FIBER PAIRS. WHY DID SOUTHERN BELL DEPLOY
23 INTERLATA CABLES WITH SPARE QUANTITIES OF THAT
24 MAGNITUDE?

25

1 A. IT MUST BE REMEMBERED THAT THE SPARE FIBERS
2 CONSTITUTE A SMALL INCREMENT OF THE OVERALL COST OF
3 THE FIBER DEPLOYMENT. THE SIGNIFICANT COST IS
4 INCURRED IN ENGINEERING, RIGHT OF WAY, TRENCHING,
5 CONDUIT, SHEATH INSTALLATION, ROADSIDE
6 RECONDITIONING, AND SO FORTH. THESE COSTS WILL BE
7 INCURRED REGARDLESS OF THE NUMBER OF SPARE FIBERS.
8 IN VIEW OF THE SMALL INCREMENTAL COST OF FIBER, IT
9 WOULD NOT BE PRUDENT FOR SOUTHERN BELL INITIALLY TO
10 DEPLOY "SKINNY" CORPORATE NETWORK CABLES TRAVERSING
11 ITS LATA BOUNDARIES AND, LATER HAVE TO INCUR ALL OF
12 THESE COSTS AGAIN SIMPLY TO ADD ADDITIONAL FIBERS.

13

14 Q. WHAT IS THE RELATIVE COST OF THESE SPARE FIBERS TO
15 THE OVERALL NETWORK COST?

16

17 A. THE TOTAL COST OF SOUTHERN BELL'S INTERLATA
18 TRANSPORT NETWORK IN FLORIDA IS ESTIMATED TO BE \$13
19 MILLION. IN COMPARISON, THE INCREMENTAL COST OF
20 THE ADDITIONAL SPARE FIBERS IS ESTIMATED TO BE ONLY
21 \$1.8 MILLION. OBVIOUSLY, THE SIGNIFICANT COST IN
22 DEPLOYMENT OF FIBER OPTIC CABLE DOES NOT LIE IN THE
23 NUMBER OF SPARE FIBERS.

24

25 Q. IS MR. GILLAN'S TESTIMONY REGARDING THE POTENTIAL

1 CAPACITY OF THE INTERLATA NETWORK ACCURATE (PAGE 22
2 AND EXHIBIT JPG-3)?

3

4 A. NO. MR. GILLAN CONTINUES TO MISCHARACTERIZE THE
5 POTENTIAL CAPACITY OF SOUTHERN BELL'S INTERLATA
6 NETWORK BY IGNORING KEY NETWORK COMPONENTS
7 NECESSARY TO DELIVER TELEPHONE CALLS: THE DS3
8 INTERFACE CIRCUIT PACK, THE DS3/DS1 MULTIPLEXER AND
9 EVEN THE SWITCHING SYSTEM.

10

11 TO ILLUSTRATE THIS POINT, CONSIDER THE DS3/DS1
12 MULTIPLEXER. THE STANDARD INTERFACE FOR SWITCHING
13 SYSTEMS AND MANY OTHER NETWORK ELEMENTS IS A DS1 (A
14 1.5 MEGABITS PER SECOND CHANNEL). THE DS3
15 INTERFACE CIRCUIT IS INSERTED INTO THE LIGHTWAVE
16 TERMINAL TO PROVIDE DS3 ELECTRICAL CONNECTIVITY
17 FROM THE HIGH SPEED OPTIC SYSTEM TO THE DS3/DS1
18 MULTIPLEXER. THE DS3/DS1 MULTIPLEXER IS A STAND-
19 ALONE NETWORK COMPONENT THAT PROVIDES THE NECESSARY
20 INTERFACE AT A DS1 LEVEL TO OTHER NETWORK ELEMENTS
21 (SWITCHING SYSTEMS). IN OTHER WORDS, FOR THE
22 SYSTEM TO WORK, IT HAS TO HAVE THE CAPABILITY TO
23 "STEP DOWN" THE HIGH CAPACITY DS3, TO WHICH MR.
24 GILLAN REFERS, TO A LOWER CAPACITY DS1.

25

1 MR. GILLAN HAS FAILED TO CONSIDER THIS REQUIREMENT
2 IN HIS COMMENTS REGARDING OUR NETWORK. THE
3 EQUIPMENT NECESSARY TO COMPLETE THE NETWORK MR.
4 GILLAN ENVISIONS SIMPLY ISN'T IN PLACE. EXHIBIT
5 JPG-3, SHOWING NETWORK CAPACITY IN AVAILABLE DS3S,
6 CANNOT BE OBTAINED WITHOUT THE ADDITION OF
7 SWITCHING SYSTEM TERMINATION CAPACITY NECESSARY TO
8 DELIVER THE MINUTES OF USE IN CALLING CAPACITY.

9

10 Q. MR. GILLAN DESCRIBES THE POTENTIAL TRAFFIC CARRYING
11 CAPABILITY OF THE NETWORK TO BE 3 BILLION MINUTES
12 PER MONTH (PAGE 23). IS THAT ACCURATE?

13

14 A. NO. A NETWORK WITH CAPACITY FOR 3 BILLION MINUTES
15 OF USE AS DEPICTED IN EXHIBIT JPG-3, COULD ONLY
16 EXIST IF IT WERE ASSUMED THAT CALLERS IN THE
17 SOUTHEAST LATA WOULD PLACE CALLS ONLY TO THE
18 ORLANDO LATA; THAT CALLERS IN THE ORLANDO LATA
19 WOULD PLACE CALLS ONLY TO THE SOUTHEAST AND DAYTONA
20 LATA'S; THAT CALLERS IN THE DAYTONA LATA WOULD
21 PLACE CALLS ONLY TO THE ORLANDO AND JACKSONVILLE
22 LATA'S; AND SO FORTH.

23

24 CLEARLY, THIS IS ABSURD. INTERLATA CALLERS ARE NOT
25 GOING TO LIMIT THEMSELVES TO SIMPLY CALLING

1 ADJACENT LATAS.

2

3 Q. WHAT SIZING CRITERIA ARE USED TO ENSURE THAT THE
4 SIZE OF THE SOUTHERN BELL CORPORATE NETWORK WILL
5 MEET ITS OFFICIAL NEEDS?

6

7 A. THE INTEROFFICE FACILITY (CABLE AND ELECTRONICS)
8 SIZING CRITERIA BASICALLY INCLUDE THE FOLLOWING:

9

10 1. THE ABILITY TO MEET THE 10 YEAR DEMAND WITH THE
11 MOST ECONOMIC MIX OF CABLE SIZE AND LIGHTWAVE
12 TRANSMISSION SPEED. (AN ECONOMIC STUDY IS
13 NECESSARY TO DETERMINE IF IT IS BETTER TO HAVE MORE
14 FIBERS WITH LOW SPEED/CAPACITY ELECTRONICS VERSUS
15 FEWER FIBERS WITH HIGH SPEED/CAPACITY ELECTRONICS.)

16 2. A DETERMINATION OF THE PREFERRED NETWORK
17 ARCHITECTURE (RING, POINT-TO-POINT, HYBRID, ETC.)

18 3. ASSURANCE THAT AT LEAST ONE WORKING/PROTECTION
19 FIBER SYSTEM CAN BE USED FOR MAINTENANCE AND
20 TECHNOLOGY UPGRADES.

21 4. PROVISION OF SUFFICIENT FIBERS TO BUILD A
22 RELIABLE, SELF-HEALING NETWORK.

23

24 Q. WITH REGARD TO THE LAST CRITERION, WHAT IS "SELF-
25 HEALING" CAPABILITY?

1
2 A. SIMPLY PUT, A SELF-HEALING NETWORK WILL
3 AUTOMATICALLY SWITCH ALL CIRCUITS TO A PROTECTION
4 CHANNEL IF A FAILURE OCCURS. A "1X1" (PRONOUNCED
5 "ONE BY ONE") ARCHITECTURE IS SELF-HEALING. THIS
6 ARCHITECTURE REQUIRES MORE FIBERS THAN A DIFFERENT
7 ARCHITECTURE THAT IS NOT SELF-HEALING. IN 1X1
8 PROTECTION, 1 PROTECT CHANNEL IS PROVIDED FOR EACH
9 AND EVERY WORKING CHANNEL. HENCE 1X1 PROVIDES 100%
10 PROTECTION OR A COMPLETE SELF-HEALING NETWORK.

11
12 Q. WOULD YOU PLEASE EXPLAIN WHY SOUTHERN BELL BELIEVES
13 IT IS NECESSARY TO HAVE A RELIABLE, SELF-HEALING
14 NETWORK?

15
16 A. YES. A RELIABLE INTERLATA NETWORK IS ESSENTIAL TO
17 THE SERVICE CONTINUITY OF THE LOCAL EXCHANGE
18 NETWORK. FOR THAT REASON, SOUTHERN BELL'S
19 FUNDAMENTAL PLAN IS TO DEPLOY ROUTE DIVERSE, SELF-
20 HEALING, INTERLATA FACILITIES SO THAT IN THE EVENT
21 OF EQUIPMENT FAILURES OR EQUIPMENT DAMAGE, THE
22 CIRCUITS CAN BE RAPIDLY RESTORED, OR BETTER YET,
23 CUSTOMERS NEVER SEE THE FAILURE DUE TO THE SELF-
24 HEALING DESIGN. EVIDENCE OF SOUTHERN BELL'S STRONG
25 COMMITMENT TO SERVICE CONTINUITY WAS HIGHLIGHTED BY

1 THE HURRICANE ANDREW EXPERIENCE. A 1X1 SYSTEM
2 PROVIDES 100% PROTECTION, IN CONTRAST, BY THE WAY,
3 TO THE SYSTEM MENTIONED BY MR. GILLAN.

4

5 Q. MR. GILLAN GOES ON TO STRONGLY IMPLY THAT SBT HAS
6 ALREADY BUILT A NETWORK TO COMPETE WITH
7 INTEREXCHANGE CARRIERS (PG 21-23). DO YOU AGREE?

8

9 A. NO. I STRONGLY DISAGREE. THE COST TO ACTIVATE THE
10 SPARE CAPACITY WOULD BE A MAJOR INVESTMENT THAT
11 WOULD DWARF THE COST OF THE EMBEDDED BASE. FOR
12 EXAMPLE, THE COST TO ACTIVATE THE EXISTING
13 LIGHTWAVE CAPACITY INDICATED IN MR. GILLAN'S
14 EXHIBIT JPG-2, USING THE SAME LIGHTWAVE
15 TRANSMISSION SPEEDS, IS ESTIMATED TO BE OVER \$20
16 MILLION. THIS COST FAR EXCEEDS THE CURRENT
17 INVESTMENT IN SPARE FIBER OF \$1.8 MILLION.
18 HOWEVER, THIS IS NOT THE END OF THE STORY. USING
19 MR. GILLAN'S EXTREME EXAMPLE, THE COST FOR SWITCH
20 TERMINATIONS ON THE TANDEMS WOULD BE APPROXIMATELY
21 \$160 MILLION.

22

23 MR. GILLAN'S POSITION IS APPARENTLY THAT WITH THIS
24 "NETWORK IN PLACE" SOUTHERN BELL IS READY TO POUNCE
25 ON INTERLATA COMPETITORS BY MERELY ADDING

1 ELECTRONICS. THIS IS A TOTAL MISSTATEMENT OF THE
2 FACTS. THE FACT IS THAT "LIGHTING-UP" DARK
3 INTERLATA FIBERS AND THEN CONNECTING THE CIRCUITS
4 TO A SWITCH WOULD REQUIRE AN EXPENDITURE OF
5 APPROXIMATELY \$180 MILLION, COMPARED TO THE TOTAL
6 OF ONLY \$1.8 MILLION INVESTMENT IN SPARE FIBERS FOR
7 THE STATE. THUS, MR. GILLAN'S POSITION MAKES
8 ABSOLUTELY NO SENSE.

9
10 Q. MR. GILLAN IMPLIES THAT SOUTHERN BELL'S NETWORK
11 CAPACITY IS EXCESSIVE COMPARED TO INTEREXCHANGE
12 CARRIERS (PAGE 24). IS THIS A FAIR COMPARISON?

13
14 A. NO. A COMPARISON OF SOUTHERN BELL'S INTERLATA
15 NETWORK TO THE NETWORK OF AN INTEREXCHANGE
16 CARRIER WOULD BE INAPPROPRIATE. THE TRAFFIC MIX IS
17 DIFFERENT AND THEREFORE THE NETWORK DESIGN WOULD BE
18 DIFFERENT.

19
20 Q. MR. GILLAN HAS SUGGESTED THAT SOUTHERN BELL IS
21 DEPLOYING HIGH SPEED FIBER SYSTEMS UNNECESSARILY
22 (PAGE 24). SHOULD SOUTHERN BELL DEPLOY LOWER SPEED
23 FIBER OPTIC SYSTEMS IN ITS CORPORATE NETWORK?

24
25 A. NO. SOUTHERN BELL HAS CHOSEN, FOR REASONS OF

1 EFFICIENCY AND ECONOMICS, A NETWORK ARCHITECTURE
2 CONSISTING OF HIGH CONCENTRATIONS OF 565 MEGABITS
3 PER SECOND AND 1.2 GIGABITS PER SECOND SYSTEMS.
4 GENERALLY, LOWER SPEED SYSTEMS ARE UNECONOMICAL IN
5 INTEROFFICE FACILITY APPLICATIONS, SINCE THEY
6 REQUIRE MORE LIGHTWAVE TERMINALS.

7

8 Q. MR. GILLAN STATES THAT SOUTHERN BELL'S OFFICIAL
9 NETWORK HAS A CAPACITY EQUAL TO 144 DS3S STATEWIDE,
10 BUT THAT SOUTHERN BELL IS ONLY USING 101 OF THESE
11 (PAGE 24). HE FURTHER STATES THAT THE REMAINING
12 CAPACITY CAN EASILY AND INEXPENSIVELY BE USED TO
13 PROVIDE COMPETITIVE SERVICES. IS THAT CORRECT?

14

15 A. NO. MR. GILLAN'S CONCLUSIONS CONTINUE TO BE BASED
16 ON HIS MISTAKEN BELIEF THAT THE EXISTENCE OF DS3S
17 ON A FIBER OPTIC SYSTEM IS ALL THAT IS NEEDED TO
18 PROVIDE SERVICE. TO THE CONTRARY, A RAW DS3 IS
19 VIRTUALLY USELESS WITHOUT ADDITIONAL NETWORK
20 ELEMENTS NECESSARY TO PROVIDE SERVICE. THESE
21 ADDITIONAL NETWORK ELEMENTS ARE EXPENSIVE AND ARE
22 DEFERRED UNTIL THE NEED ARISES.

23

24 FURTHERMORE, MR. GILLAN'S STATEMENT THAT THE
25 SOUTHERN BELL INTERLATA NETWORK HAS CAPACITY EQUAL

1 TO 144 DS3S IS VERY MISLEADING. IN
2 TELECOMMUNICATION NETWORKS, DS3S ARE OFTEN LINKED
3 TOGETHER TO PROVIDE A SINGLE TRANSMISSION PATH.
4 FOR EXAMPLE, THE PROVISION OF 672 DATA CIRCUITS
5 FROM THE SOUTHERN BELL DATA CENTER IN CHARLOTTE,
6 NORTH CAROLINA TO THE DATA CENTER IN MIAMI COULD BE
7 MULTIPLEXED ON TO A SINGLE DS3. (NOTE, THAT THE
8 DS3 IS USELESS WITHOUT THE ADDITION OF MULTIPLEXING
9 EQUIPMENT.) THAT SINGLE DS3 WOULD USE UP FOUR (4)
10 OF THE 144 DS3'S REFERRED TO IN MR. GILLAN'S
11 TESTIMONY AS IT TRAVERSES THE JACKSONVILLE,
12 DAYTONA, ORLANDO, AND SOUTHEAST LATA'S.

13

14 Q. MR. GILLAN INDICATES THE ACTIVE CAPACITY INCREASE
15 OF 125% ON SOUTHERN BELL'S INTERLATA NETWORK MIGHT
16 BE EXPLAINED BY AN "EXPLOSION" IN NON-SWITCHED
17 DEMAND. IS THAT CORRECT?

18

19 A. YES. THERE HAS BEEN, AND CONTINUES TO BE, AN
20 "EXPLOSION" OF NON-SWITCHED DEMAND ON THE CORPORATE
21 NETWORK. SOUTHERN BELL CORPORATE COMMUNICATIONS
22 UTILIZE NON-SWITCHED LINES EXTENSIVELY. IT IS
23 ESTIMATED THAT 60% TO 70% OF THE DEMANDS PLACED ON
24 THE INTERLATA NETWORK ARE FOR NON-SWITCHED LINES.
25 THESE NON-SWITCHED LINES ARE VARIED IN NATURE.

1 DEDICATED CIRCUITS RANGE FROM 9.6 KBS TO 45 MBS DS3
2 IN THIS NETWORK. THE NON-SWITCHED LINES (AS DO THE
3 SWITCHED MESSAGE TRUNKS) MAY SERVE REQUIREMENTS
4 ENTIRELY WITHIN THE STATE OF FLORIDA OR TRAVERSE
5 PATHS TO ANYWHERE IN THE NINE STATE REGION.

6
7 GROWTH IN THE VOICE CORPORATE NETWORK IS BEING
8 REPLACED WITH DATA COMMUNICATIONS AND VIDEO
9 CONFERENCING. THE MIAMI REGIONAL DATA CENTER ACTS
10 AS A CATALYST TO THIS "EXPLOSION" AS MANY
11 MECHANIZED AND OPERATIONS SYSTEMS ARE RELOCATED TO
12 THIS CENTER.

13

14 Q. PLEASE SUMMARIZE YOUR TESTIMONY.

15

16 A. SOUTHERN BELL HAS PRUDENTLY DESIGNED ITS INTERLATA
17 CORPORATE NETWORK BASED UPON THE OFFICIAL TRAFFIC
18 AUTHORIZED BY THE MFJ. NO MORE, NO LESS.

19

20 MR. GILLAN'S ASSERTIONS THAT THE NETWORK CAPACITY
21 IS EXCESSIVE AND THAT THE IMPLICATION THAT SUCH A
22 DEPLOYMENT WAS MOTIVATED BY A DESIRE FOR RE-ENTRY
23 INTO THE INTERLATA TOLL MARKET AT THE EXPENSE OF
24 RATEPAYERS IS ABSOLUTELY FALSE. THE NOTION THAT
25 SBT HAS AN EMBEDDED NETWORK READY TO COMPETE WITH

1 INTEREXCHANGE CARRIERS IS PATENTLY RIDICULOUS.

2

3 MR. GILLAN'S TESTIMONY ON THIS ISSUE SHOULD BE
4 COMPLETELY DISREGARDED BY THE COMMISSION.

5

6 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

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8 A. YES, IT DOES.

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1 SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY
2 REBUTTAL TESTIMONY OF ANIRUDDHA (ANDY) BANERJEE
3 BEFORE THE
4 FLORIDA PUBLIC SERVICE COMMISSION
5 DOCKET NO. 920260-TL
6 DECEMBER 10, 1993

7
8
9 Q. Please state your name and business address.

10

11 A. I am Aniruddha (Andy) Banerjee. My business
12 address is South E3G1, 3535 Colonnade Parkway,
13 Birmingham, AL 35216.

14

15 Q. Please state your current position and describe
16 your responsibilities.

17

18 A. I am employed by BellSouth Telecommunications,
19 Inc., as a Research Economist in the Economic
20 Analysis Department. I have three principal
21 responsibilities in that position. First, I design
22 original economic and econometric research for
23 demand analysis to quantify/evaluate alternative
24 Company market and product strategies. Second, I
25 conduct economic research and provide policy

1 recommendations to various management entities
2 within BellSouth for use in the Company's planning,
3 regulatory, and pricing processes. Third, I
4 provide expert testimony and economic analysis for
5 use in Public Service Commission or courtroom
6 hearings and represent BellSouth in professional
7 and industry conferences.

8

9 Q. Please state your educational background and
10 previous employment.

11

12 A. I have a Bachelor of Arts (Honors) and Master of
13 Arts in Economics from the University of Delhi,
14 India, and a Ph.D. in Agricultural Economics with
15 special fields in Econometrics, Statistics, and
16 Time Series Analysis from Pennsylvania State
17 University. I have been elected to the Phi Kappa
18 Phi and Gamma Sigma Delta academic national honor
19 societies. I have over 8 years of teaching
20 experience, most of them in the Economics
21 Department at Penn State where I taught courses in
22 economic theory, industrial organization, public
23 finance, statistics, and advanced Ph.D. level
24 econometrics and time series analysis. I have been
25 employed by AT&T in its Market Analysis and

1 Forecasting Division where I designed a dynamic
2 econometric model for modelling outbound business
3 services. After AT&T, I spent 3½ years in
4 Bellcore's Regulatory Economic and Pricing Theory
5 Division where I designed a comprehensive
6 interstate switched and special access econometric
7 model for estimating own- and cross-price
8 elasticities and optimal pricing under interstate
9 price cap guidelines for local exchange carriers.
10 At Bellcore, I also used econometrics for analyzing
11 potential demand for new services and examining the
12 effect of demographics on telephone subscribership
13 rates, created an enhanced version of an
14 econometric software for demand analysis, and wrote
15 draft testimony for local exchange companies on
16 regulatory economics issues. My present research
17 and consulting activity spans a wide range of
18 demand analysis, regulatory economic policy, and
19 pricing issues.

20

21 Q. What is the purpose of your testimony?

22

23 A. The purpose of this testimony is two-fold. First,
24 I wish to establish specific weaknesses and
25 mistakes in Mr. David Dismukes' methodology and

1 econometric modelling effort. Second, I wish to
2 rebut Mr. Dismukes' recommendations and conclusions
3 that emerge from his analysis of what he calls
4 "implementation issues" on page 13 of his
5 testimony.

6
7 My aim is to show that even though, on the surface,
8 the price elasticity estimates presented by Mr.
9 Dismukes and Southern Bell appear to be similar,
10 Mr. Dismukes' methodology suffers from some glaring
11 errors of omission and commission. These errors
12 are significant enough that any future application
13 of Mr. Dismukes' methodology should be regarded by
14 the Commission as being suspect and untenable.

15
16 Moreover, by failing to use an appropriate
17 procedure for evaluating MTS demand (such as the
18 concept of test-year average elasticity proposed by
19 Southern Bell), Mr. Dismukes ends up relying on a
20 price elasticity value that is unrealistic and "too
21 high." The practical implication of an incorrectly
22 high elasticity is that greater-than-necessary rate
23 reductions would be needed to reduce revenues by
24 some targeted amount. Southern Bell has not
25 presently proposed any intraLATA MTS rate

1 reductions. However, if such rate reductions were
2 to become necessary in the future, then Mr.
3 Dismukes' high elasticity will prove to be very
4 detrimental to Southern Bell.

5

6 Q. Would you please give us an overview of Mr.
7 Dismukes' econometric modelling effort?

8

9 A. Yes. Mr. Dismukes has presented two econometric
10 models, one for interLATA MTS demand and the other
11 for intraLATA MTS demand. These are both
12 intrastate models, i.e., for the Southern Bell
13 service territory in Florida. The principal
14 purpose of these models is to produce price
15 elasticities of demand for inter- and intraLATA MTS
16 services. These models generate a "long-run" 6-
17 quarter price elasticity of -0.68 for interLATA MTS
18 service and a price elasticity of -0.56 for
19 intraLATA MTS service. Since the latter is
20 generated from a cross-sectional econometric model
21 it is considered to be a long-run elasticity as
22 well.

23

24 Q. Would you next please give us your assessment of
25 Mr. Dismukes' econometric methodology and how he

1 has used it?

2

3 A. Yes. Mr. Dismukes claims to have followed standard
4 econometric practice in specifying and estimating
5 the two models but certain aspects of his
6 methodology are, at best, questionable and, at
7 worst, flawed. I shall attempt to summarize these
8 problems in my testimony.

9

10 First, Mr. Dismukes does not follow a consistent
11 approach for specifying and estimating the two
12 models. The econometric model for interLATA MTS
13 service is based on time series data alone
14 (quarterly data for the 1987-1992 time period).
15 The stated reason for choosing this approach is to
16 be able to model the dynamics of demand, i.e., "...
17 to explicitly specify how customers react to
18 changes in price and income over time." (pp 6-7)
19 The instrument used for incorporating dynamics is a
20 Polynomial Distributed Lag structure that, Mr.
21 Dismukes claims, "reveals" that customers take five
22 quarters to react completely to changes in price
23 and income. Yet, for intraLATA MTS demand, Mr.
24 Dismukes chooses to use instead an econometric
25 model that utilizes cross-sectional data alone

1 (data on 2,813 MTS routes in Southern Bell's
2 Florida service territory during 1990). The
3 purported reason for this switch in approach is
4 that "a cross-sectional model has several
5 advantages over the typical econometric time series
6 methods commonly used to model MTS demand." (p 11)
7 Mr. Dismukes does not elaborate beyond this
8 apparent repudiation of the time series approach
9 that he himself uses for the interLATA MTS model.
10 If, as Mr. Dismukes states (p 11), the cross-
11 sectional model approach benefits from having "much
12 more" data to work with, then why wasn't that
13 approach considered for the interLATA MTS model?
14 To the contrary, the type of cross-sectional model
15 used for intraLATA MTS by Mr. Dismukes (and other
16 researchers) fails to model customer response to
17 price change (a better indicator of adjustment
18 behavior and a more meaningful basis for a price-
19 elasticity). Instead, such a model picks up
20 customer response to price differences between
21 different toll routes. The use of the same toll
22 route under two different prices better reflects
23 the elasticity than the use of two different routes
24 that may not, in the customer's mind, be in
25 contention. As is stated in the econometrics

1 literature, the main problem with using cross-
2 sectional data is the possibility of
3 misspecification. As customers take time to react
4 to changed circumstances (e.g., prices), the lagged
5 variables that are needed to reflect that
6 adjustment over time are not available to the
7 model. This constitutes an omitted variables bias.

8
9 The choice of modelling approach seems to be driven
10 more by expediency (data availability) than by any
11 specific econometric virtue. In fact, both of Mr.
12 Dismukes' models could have been estimated using
13 the panel data (i.e., pooled time series - cross-
14 sectional) approach. The panel data approach makes
15 available even larger amounts of data, retains both
16 cross-sectional variation and dynamics, and by
17 suitable choice of estimators (fixed- or random-
18 effects) controls for unobservable variations
19 between cross-sectional units. Panel data
20 econometrics has now become a staple of demand
21 analysis (both within and outside the
22 telecommunications industry) and, in fact, is the
23 approach used by Southern Bell in developing its
24 demand studies.

25

1 Second, there are problems with Mr. Dismukes' model
2 specifications. The interLATA MTS model makes no
3 attempt to include marketing variables (such as
4 advertising) or prices of substitutes or
5 complements (WATS or private line services, etc.).
6 The time period in question, 1987-1992, marked an
7 industry in tremendous flux, both for end-user toll
8 services and for carrier access (switched and
9 special access) services. It is conceivable that
10 the estimated own-price elasticity for intraLATA
11 MTS is biased as a result and is reflecting these
12 omitted variables.

13

14 Third, there are problems with the actual model
15 estimation and testing exercise. In the interLATA
16 MTS model, Mr. Dismukes uses Southern Bell's
17 originating switched access minutes-of-use as a
18 proxy for interLATA MTS minutes-of-use. If,
19 however, as Mr. Dismukes argues on p. 16 and in
20 Exhibit DED-1, Schedule 6 of his testimony,
21 Southern Bell's share of switched access minutes in
22 Florida is only around 62%, then the dependent
23 variable in his interLATA MTS model is seriously
24 mismeasured. There is no explanation of this
25 potentially substantial discrepancy anywhere in Mr.

1 Dismukes' testimony. Also, Mr. Dismukes' reliance
2 on a Durbin-Watson test of first-order
3 autocorrelation while using quarterly data is
4 unfathomable. It is well-known that the
5 appropriate test of serial correlation with
6 quarterly data is for fourth-order autocorrelation,
7 a test that is best carried out by use of the
8 Lagrange Multiplier test or the Durbin-Watson-type
9 Wallis test designed for fourth-order
10 autocorrelation. The significance of this
11 discussion is that Mr. Dismukes' use of Ordinary
12 Least Squares (OLS) estimators is potentially
13 flawed. If, in fact, there is fourth-order
14 autocorrelation in the data, then the OLS estimator
15 will underestimate the residual variance and the
16 coefficient standard errors, overestimate R-Square
17 and the t-ratios, and render standard t and F tests
18 invalid. Given that only three (out of nine) of
19 Mr. Dismukes' coefficients in the interLATA model
20 appear statistically significant to begin with, it
21 is possible that even these are artifacts produced
22 by undetected autocorrelation. Mr. Dismukes refers
23 to cointegration in his testimony but never
24 explicitly carries out a Dickey-Fuller or Sargan-
25 Bhargava test to determine whether or not a first-

1 difference model or some error-correcting mechanism
2 is more suitable.

3

4 In sum, Mr. Dismukes has both failed to be
5 consistent in his approach to modelling and
6 committed some significant errors in his execution.
7 In my opinion, that makes Mr. Dismukes' methodology
8 unreliable and unworthy of adoption by the
9 Commission in both its present and possible future
10 applications.

11

12 Q. How do Mr. Dismukes' price elasticity estimates
13 compare with those produced by other researchers?

14

15 A. Mr. Dismukes goes to great lengths to compare his
16 estimates with those from other studies. In his
17 testimony, Exhibit DED-1, Schedules 3 and 4 list
18 price elasticity estimates for both intrastate
19 interLATA MTS and intrastate intraLATA MTS
20 services. Some of these elasticities are for
21 Florida, others for other states or regions, and
22 one (the NTDS study) for nearly the country as a
23 whole. Some of these elasticities were estimated
24 from data in the early to mid-1980s and others from
25 more recent data. Not surprisingly, the elasticity

1 estimates vary widely by study area and study
2 period. Mr. Dismukes' elasticity estimates appear
3 to be on the high end of the range of elasticities
4 from other studies. He compares his intraLATA MTS
5 elasticity of -0.56 to a melded NTDS elasticity of
6 -0.57 (that he obtains by averaging NTDS's business
7 intraLATA MTS and residence intraLATA MTS
8 elasticities). However, it should be remembered
9 that the NTDS elasticity reflects "national" demand
10 data, i.e., intraLATA MTS data from over 40 states
11 served by a variety of local exchange carriers.
12 Strictly speaking, the NTDS elasticity, which cuts
13 across a large number of regulatory jurisdictions
14 reflecting a wide variety of regulatory practices,
15 is not truly comparable to a Florida-specific
16 elasticity such as Mr. Dismukes'. On the other
17 hand, Florida-specific elasticities reported by
18 GTE-FL's Dennis Trimble are considerably lower: -
19 0.41 and -0.39 respectively. Another state
20 demographically similar to Florida, namely,
21 California, has an intraLATA MTS elasticity of -
22 0.38 (Duncan and Perry). Mr. Dismukes does not
23 explicitly compare his elasticities with the much
24 lower values from these other studies, clearly in
25 the interest of benchmarking his numbers against

1 other numbers that appear closest to his.

2

3 A potential hazard associated with benchmarking is
4 that while numbers are being compared, the
5 underlying models and their assumptions and the
6 overall methodology are not. This problem is
7 compounded further when rapid change in the market
8 and regulatory environments alter fundamentally the
9 main drivers of demand. This makes it unwise to
10 compare elasticities based on data from the most
11 recent years to those based on data from, say, the
12 early to mid-1980s.

13

14 Q. Can you comment specifically on Mr. Dismukes'
15 comparison of his intrastate interLATA MTS
16 elasticity with that proposed (as a proxy) by
17 Southern Bell?

18

19 A. Yes. Mr. Dismukes accepts the closeness between
20 his own long-run intrastate interLATA MTS
21 elasticity of -0.68 and Southern Bell's long-run
22 proxy value of -0.69, but rejects Southern Bell's
23 reasoning for selecting that value. In point of
24 fact, Southern Bell estimated a Florida Residence
25 IntraLATA MTS model that yielded a six-quarter

1 long-run (or cumulative) elasticity of -0.76
2 (Clarification to the Company's response to FPSC's
3 13th Set of Interrogatories, Item No. 556).
4 However, Southern Bell also shows that the average
5 "test-year" own-price elasticity is only -0.306 for
6 Residence intraLATA MTS and -0.384 for Business
7 intraLATA MTS. Southern Bell goes on to postulate
8 that since customers' toll price sensitivity may
9 not depend on whether or not the toll call crosses
10 LATA boundaries, the intrastate intraLATA MTS
11 elasticity may be a good proxy for the intrastate
12 interLATA MTS elasticity.

13
14 Mr. Dismukes rejects this reasoning because "...
15 this approach is inconsistent with one of the more
16 commonly held empirical regularities in the
17 analysis of telephone demand." (p. 10) This
18 "regularity," supposedly first observed by Lester
19 Taylor, is that the price elasticity for telephone
20 calls increases with the average length-of-haul.
21 Thus, the price-elasticity for successively longer
22 distances (e.g., interLATA as opposed to intraLATA)
23 should rise. Dr. Taylor believes, and Mr. Dismukes
24 appears to concur, that a customer's community of
25 interest has the shortest average length-of-haul

1 and the price sensitivity within that community of
2 interest is the lowest. As the length-of-haul
3 increases, and the customer starts to call outside
4 the community of interest, that price sensitivity
5 increases. While the reasoning here has some
6 appeal and may even be true, the apparent link
7 between price elasticity and distance could have an
8 alternative explanation: that price elasticity is
9 greater for longer distance calls because calls
10 become more expensive with distance. These
11 competing explanations have not yet been subjected
12 to a formal test. Bridger Mitchell and Ingo
13 Vogelsang propose two such tests in their book,
14 Telecommunications Pricing: Theory and Practice
15 (New York: Cambridge University Press, pp 61-63).
16 First, check whether linear demand curves imply
17 larger or smaller distance-related elasticity
18 increases than those actually observed. Second,
19 check whether reducing the price differentials
20 among different distances causes the elasticity
21 differentials to narrow as well. The question is
22 not whether the volume of calling is greater for
23 short-haul versus long-haul calls but rather
24 whether the sensitivity of calling is different
25 between short- and long-haul calls as prices are

1 changed uniformly. Barring such a test, the ready
2 explanation offered by Dr. Taylor and Mr. Dismukes
3 remains a conjecture, albeit a plausible one.

4
5 My final comment on the elasticity-distance
6 relationship is that another part of Mr. Dismukes'
7 own analysis appears not to support it. In his
8 testimony, Exhibit DED-2, Mr. Dismukes provides
9 correlational and graphical analysis that clearly
10 fails to establish any linear relationship between
11 usage and distance. Since the price elasticity, by
12 definition, reflects the usage behavior of
13 customers in response to price change, this
14 analysis appears to rule out a link between the
15 price elasticity and distance as well.

16
17 Q. Would you please react to Mr. Dismukes' handling of
18 the "implementation issues?"

19
20 A. Yes. My response to this question will be in two
21 parts. The first concerns the manner in which an
22 test-year average price elasticity should be
23 computed. The second concerns some of Mr.
24 Dismukes' recommendations based on his analysis of
25 whether a test-year or a long-run elasticity is

1 more "relevant."
2
3 Deferring any examination of the test-year concept
4 for the moment, assume that a test-year is defined
5 as four quarters from the point a regulatory
6 directive is implemented (such as a price change).
7 Any econometric model of MTS demand that
8 incorporates dynamic customer response relies on
9 being able to identify or estimate the number of
10 (lagged) quarters over which that response occurs.
11 In Mr. Dismukes' dynamic model of interLATA (but
12 not intraLATA) demand, as also in similar dynamic
13 models estimated by Southern Bell and others, the
14 customer response occurs over a period in excess of
15 a test-year as defined here. In other words, not
16 all of the dynamics are captured during the test-
17 year. I am in agreement with Mr. Dismukes on this
18 point. The question then is: how should the
19 elasticity of demand be measured for just the
20 period of the test-year?
21
22 Southern Bell has proposed the concept of the test-
23 year average elasticity. This is a time-weighted
24 average of the short-run or impact elasticities
25 associated with each quarter within the test-year.

1 The time weights decline over time, as is
2 appropriate when the demand response to a single
3 price change is being tracked. MTS minutes-of-use
4 is a "flow" concept, i.e., the number of minutes
5 observed in each quarter represents new minutes
6 unrelated to minutes in the previous quarter. A
7 certain component of those new minutes in each of
8 the four quarters following a price change is the
9 demand response (repression or stimulation). The
10 average such demand response is well represented by
11 Southern Bell's test-year average price elasticity.
12 The value calculated by Southern Bell for the
13 average test-year elasticity for intraLATA MTS in
14 Florida is -0.306 for Residence (-0.384 for
15 Business). Applying the same concept to Mr.
16 Dismukes' interLATA MTS model results, I find that
17 the test-year average elasticity is only -0.287
18 which is considerably below the value he reports
19 for the relevant elasticity and, ironically, in the
20 vicinity of Southern Bell's own reported values.
21 Moreover, if the same procedure is applied to Mr.
22 Dismukes' results to calculate the average price
23 elasticity for the full 6-quarter period (what he
24 calls the "long-run"), the value turns out to be
25 only -0.417, far below his own reported value of

1 -0.68. These revised figures are based on the
2 concept of average price elasticity which I believe
3 to be the appropriate measure of customer response
4 over the time period of interest.
5
6 Second, Mr. Dismukes disputes Southern Bell's use
7 of the 4-quarter test-year concept because, in his
8 opinion, total customer response to a price change
9 lasts longer than 4 quarters. Thus, his view of
10 the long run is at least 6 quarters. There is
11 nothing sacrosanct about the 6-quarter figure.
12 Econometricians know well that the exact lag
13 structure (i.e., the length of time that is Mr.
14 Dismukes' long run) can be different depending on
15 what lag structure scheme is used in the model.
16 For instance, another lag scheme besides the
17 Polynomial Distributed Lag may produce a 8-quarter
18 long run which will simply redistribute the
19 customer responses observed in the 6-quarter scheme
20 into an 8-quarter period. This makes it very
21 difficult to be absolutely precise about the so-
22 called long run; econometric modelling here is not
23 the exact science that some may claim it to be. As
24 a result, I would feel far more comfortable staying
25 within a 4-quarter test span for two reasons. One,

1 because customer response decays as time goes on,
2 most of the relevant response should be captured
3 within the first 4 quarters following a price
4 change. Two, the 4-quarter test period is widely
5 adopted in line with the regulatory convention that
6 most major price changes occur only once a year.

7
8 Mr. Dismukes' insistence on using the long-run
9 price elasticity masks an interesting irony. As
10 Schedule 6 of his Exhibit DED-1 (particularly rows
11 8-10) shows, he is willing to evaluate switched
12 access revenue stimulation over a 4-quarter period
13 using, however, a 6-quarter elasticity. This is
14 not only unfair but plainly wrong. This improper
15 use of the 6-quarter elasticity makes it appear
16 that, over the 4-quarter test-year, Southern Bell
17 seriously overestimates the revenue loss due to an
18 access price reduction. This, however, is an
19 incorrect assertion, as I explain below.

20
21 If a certain target level of revenue has to be
22 "lost" (i.e., returned to customers) by the
23 Company, then this finding is clearly a
24 prescription for further price reduction. In sum,
25 there are two improper uses of the elasticity here:

1 first, the test-year average elasticity is not
2 used; and, second, 6 quarters of demand response
3 are pushed into a 4-quarter test period. Since, on
4 both counts, an elasticity higher than Southern
5 Bell's results, the obvious implication is that
6 Southern Bell does not "lose" enough revenues and
7 must, therefore, reduce rates for MTS service more.
8 This is akin to econometric sleight of hand that I
9 believe must be opposed.

10

11 In sum, Mr. Dismukes' problems with methodology are
12 compounded by faulty use of model results and
13 misleading policy recommendations. This is added
14 reason for the Commission to reject both Mr.
15 Dismukes' methodology and the lessons he draws from
16 it.

17

18 Q. Would you please summarize your analysis of Mr.
19 Dismukes' testimony?

20

21 A. Yes. In econometrics, the Holy Grail of the
22 "perfect" model is almost impossible to achieve.
23 By its nature, econometric modelling requires a
24 judicious blend of objective criteria and
25 subjective specifications of the contents of

1 models. Therefore, models can turn out to be
2 "observationally equivalent," i.e., produce similar
3 results (by sheer coincidence) even if the starting
4 points are different. I believe in some respects
5 the apparent closeness of Southern Bell's numbers
6 to Mr. Dismukes' can be so explained. However, it
7 is important to take care of the "details" without
8 losing sight of the big picture. While Mr.
9 Dismukes' work shows that he has the big picture in
10 view, there are numerous details on which he has
11 taken short cuts or made mistakes. Some of these
12 errors are subtle but significant and, most
13 troubling of all, left unexplained. They diminish
14 greatly our confidence in the ability of Mr.
15 Dismukes' methodology to work reliably in possible
16 future applications. I also find some of his
17 conclusions to be contradictory or otherwise
18 objectionable. The most egregious example is
19 clearly his attempt to inject a so-called long-run
20 and, most importantly, a higher-valued price
21 elasticity into the calculation of revenue loss
22 from a switched access price reduction. Such a
23 recommendation and the accompanying implication of
24 a further rate reduction, if adopted by the
25 Commission, would be unnecessarily detrimental to

1 Southern Bell. Rather, the Commission should use
2 the elasticity proposed by Southern Bell.

3

4 Q. Does this conclude your testimony?

5

6 A. Yes, it does.

7

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1 SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY
2 REBUTTAL TESTIMONY OF JOSEPH P. LACHER
3 BEFORE THE
4 FLORIDA PUBLIC SERVICE COMMISSION
5 DOCKET NO. 920260-TL
6 DECEMBER 10, 1993

7
8
9 Q. PLEASE STATE YOUR NAME, POSITION WITH SOUTHERN
10 BELL TELEPHONE AND TELEGRAPH COMPANY, AND BUSINESS
11 ADDRESS.

12
13 A. MY NAME IS JOSEPH P. LACHER AND I AM SOUTHERN
14 BELL'S PRESIDENT - FLORIDA. IN THIS CAPACITY, I
15 HAVE OVERALL RESPONSIBILITY FOR SERVICE AND
16 FINANCIAL RESULTS FOR BELLSOUTH TELECOMMUNICATIONS,
17 INC., D/B/A SOUTHERN BELL TELEPHONE AND TELEGRAPH
18 COMPANY ("SOUTHERN BELL" OR THE "COMPANY") IN
19 FLORIDA. MY BUSINESS ADDRESS IS 150 WEST FLAGLER
20 STREET IN MIAMI.

21
22 Q. HAVE YOU PREVIOUSLY SUBMITTED DIRECT TESTIMONY IN
23 THIS PROCEEDING?

24
25 A. YES.

1

2 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

3

4 A. THE PURPOSE OF MY TESTIMONY IS TO RESPOND TO THE
5 ERRONEOUS AND MISLEADING STATEMENTS MADE BY MIKE
6 MALOY, MARK COOPER AND R. EARL POUCHER. FIRST, I
7 WILL CORRECT THE ATTEMPTS OF THESE WITNESSES TO
8 INAPPROPRIATELY AND ILLOGICALLY LINK THE COMPANY'S
9 SALES AND NETWORK REPAIR PROBLEMS WITH THE RATE
10 STABILIZATION PLAN. THEN I WILL SPECIFICALLY REBUT
11 THE NUMEROUS ERRORS AND INCONSISTENCIES IN THEIR
12 TESTIMONIES. FINALLY, I WILL DEMONSTRATE THAT THE
13 COMPANY DISCOVERED AND REMEDIED THE PROBLEMS,
14 PROVIDED FULL RESTITUTION TO ITS CUSTOMERS AND
15 THAT, THEREFORE, NO PENALTY IS APPROPRIATE.

16

17 Q. IS THERE ANY CREDIBLE EVIDENCE THAT SOUTHERN BELL'S
18 RATE STABILIZATION PLAN CONTRIBUTED TO MANAGEMENT'S
19 ENCOURAGING ANY ABUSE OF CUSTOMERS OR THE
20 FALSIFICATION OF REPORTS TO THE COMMISSION?

21

22 A. ABSOLUTELY NOT. IN FACT, IT IS ON THIS VERY FAULTY
23 PREMISE, WHICH IS BOTH FALSE AND MISLEADING, THAT
24 THESE WITNESSES BASE MUCH OF THEIR TESTIMONY.
25 SOUTHERN BELL'S RATE STABILIZATION PLAN, HOWEVER,

1 IS A COMPLETELY SEPARATE ISSUE FROM THESE PROBLEMS.

2

3

4 THE RATE STABILIZATION PLAN IS A REGULATORY
5 STRUCTURE THAT ALLOWS THE COMPANY TO POSITION
6 ITSELF IN AN INCREASINGLY COMPETITIVE
7 TELECOMMUNICATIONS MARKETPLACE. THE PLAN
8 ENCOURAGES THE COMPANY TO FOCUS ON CUSTOMERS AND
9 PROVIDE QUALITY SERVICE. THE PLAN RECOGNIZES THAT
10 CUSTOMER SATISFACTION IS CRITICAL IN A COMPETITIVE
11 ENVIRONMENT.

12

13 IN AN EFFORT TO BLUR THE SUCCESS OF THE RATE
14 STABILIZATION PLAN, A FALSE PERCEPTION HAS BEEN
15 MANUFACTURED. IT ALLEGES THAT THE MISDEEDS OF
16 CERTAIN SOUTHERN BELL EMPLOYEES ARE SOMEHOW RELATED
17 TO THE PLAN. THIS IS SIMPLY NOT THE CASE. MR.
18 POUCHER, MR. MALOY AND DR. COOPER DISTORT THE FACTS
19 IN AN ATTEMPT TO FABRICATE EVIDENCE WHERE THERE IS
20 NONE TO SUPPORT SUCH A CLAIM. ANY REASONABLE
21 PERSON WILL RECOGNIZE THAT THE IMPROPER CONDUCT
22 WHICH OCCURRED WAS UNRELATED TO THE RATE
23 STABILIZATION PLAN. IN ANY EVENT, THE MISCONDUCT
24 WAS CONTRARY TO COMPANY POLICY AND WAS FOUND AND
25 CORRECTED BY THE COMPANY.

1
2 WITH THE CUSTOMER FOCUS PROMOTED BY THE RATE
3 STABILIZATION PLAN, IT IS LUDICROUS TO SUGGEST THAT
4 THERE IS A RELATIONSHIP BETWEEN IMPROPER CONDUCT
5 AND THE PLAN. INSTEAD, THE FACTS MAKE IT CLEAR
6 THAT UNETHICAL OR ILLEGAL EMPLOYEE BEHAVIOR IS NOT
7 TOLERATED BY SOUTHERN BELL UNDER ANY CIRCUMSTANCES.
8 FURTHERMORE, AS THE COMPANY CONTINUES TO FACE MORE
9 COMPETITION, ITS VIABILITY IS DEPENDENT ON ITS
10 CUSTOMERS. THEREFORE, IT IS NONSENSICAL TO ASSERT
11 THE COMPANY WOULD TOLERATE OR PROMOTE BEHAVIOR THAT
12 WOULD JEOPARDIZE ITS CUSTOMER RELATIONSHIPS.

13

14 Q. WHAT IS YOUR REACTION TO MR. POUCHER'S STATEMENT
15 THAT THE RATE STABILIZATION PLAN SHOULD BE
16 ABANDONED BECAUSE THE TIME FOR EXPERIMENTS HAS
17 ENDED?

18

19 A. I AM DISMAYED AT MR. POUCHER'S BIAS AS WELL AS HIS
20 IGNORANCE OF THE FACTS.

21

22 LET'S BEGIN WITH THE FIRST OF THE MANY ERRORS IN
23 WITNESS POUCHER'S ALLEGATIONS. HE APPARENTLY
24 ASSUMES THAT THE RATIONALE FOR THE RATE
25 STABILIZATION PLAN WAS SIMPLY TO PROVIDE AN

1 INCENTIVE FOR SOUTHERN BELL TO IMPROVE EARNINGS.
2 THIS IS A GROSS MISCHARACTERIZATION OF THE PLAN.
3
4 WHEN THE COMMISSION ADOPTED THE RATE STABILIZATION
5 PLAN IN 1988, IT WAS IN THE FOREFRONT OF REGULATION
6 BY RECOGNIZING THE RAPIDLY CHANGING NATURE OF THE
7 TELECOMMUNICATIONS INDUSTRY. FURTHER, THE PLAN WAS
8 DESIGNED TO HELP FACILITATE A CHANGE IN CORPORATE
9 CULTURE WHERE EFFICIENCY AND INNOVATION ARE
10 REWARDED AS THE COMPANY FACES INCREASED
11 COMPETITION.
12
13 TRADITIONAL RATE BASE REGULATION IS A SUBSTITUTE
14 FOR COMPETITION. IN A MONOPOLY ENVIRONMENT,
15 REGULATORS HAVE HISTORICALLY PRICED SERVICES SUCH
16 AS TOLL, ACCESS, VERTICAL SERVICES AND OTHER ITEMS
17 TO PROVIDE A SUBSIDY TO KEEP RESIDENTIAL RATES LOW
18 AND THUS TO ENCOURAGE UNIVERSAL SERVICE. DRAMATIC
19 CHANGES IN TECHNOLOGY, THOUGH, HAVE RESULTED IN NEW
20 COMPETITIVE ALTERNATIVES. IT IS, OF COURSE, IN THE
21 CONSUMERS' INTEREST TO ENCOURAGE THESE COMPETITIVE
22 ALTERNATIVES. BUT AS THESE COMPETITIVE
23 ALTERNATIVES BECOME AVAILABLE, IT IS NO LONGER
24 POSSIBLE TO ARTIFICIALLY INFLATE THE PRICE OF THE
25 RELEVANT LOCAL EXCHANGE COMPANY (LEC) OFFERING.

1 EVERY TIME A CONSUMER SELECTS A COMPETITIVE
2 ALTERNATIVE, THE SUBSIDY FOR LOCAL RATES SHRINKS.
3 AS A RESULT, TRADITIONAL RATE BASE REGULATION WITH
4 RESIDUAL PRICING FOR LOCAL RATES DOES NOT WORK IN A
5 COMPETITIVE ENVIRONMENT.

6
7 THE CHALLENGE FOR REGULATORS IS TO MANAGE THIS
8 TRANSITION. THE MORE RAPIDLY THAT TECHNOLOGY
9 CHANGES, OR THE LARGER AND MORE FINANCIALLY VIABLE
10 THE COMPETITION, THE GREATER THE NEED FOR
11 ALTERNATIVES TO TRADITIONAL RATE BASE REGULATION.
12 PRESENTLY, 30 JURISDICTIONS HAVE ADOPTED
13 ALTERNATIVES TO RATE BASE REGULATION AS SOUTHERN
14 BELL WITNESSES DR. DAVID SAPPINGTON AND WILLIAM
15 ZARAKAS INDICATE. IN ADDITION, AS SOUTHERN BELL
16 WITNESS DR. CALVIN MONSON WILL DESCRIBE, HARDLY A
17 WEEK GOES BY WITHOUT AN ANNOUNCEMENT OF EITHER A
18 TECHNOLOGICAL BREAKTHROUGH OR ANOTHER MULTI-MILLION
19 DOLLAR COMPETITOR ENTERING THE MARKETPLACE.

20
21 TO ARGUE THAT TRADITIONAL RATE BASE REGULATION IS
22 APPROPRIATE IN THIS ENVIRONMENT VERGES ON THE
23 ABSURD. THE REASONS FOR REGULATORY CHANGE ARE THE
24 STRUCTURAL CHANGES IN THE INDUSTRY. THESE
25 FUNDAMENTAL CHANGES ARE IRREVERSIBLE. ALL OF

1 WITNESS POUCHER'S ALLEGATIONS OF MISCONDUCT CANNOT
2 ALTER THE FACT THAT THE REGULATION OF THIS INDUSTRY
3 CANNOT REVERT TO TRADITIONAL RATE BASE REGULATION.

4

5 Q. WHAT ABOUT MR. POUCHER'S ALLEGATIONS THAT, UNDER
6 THE RATE STABILIZATION PLAN, SOUTHERN BELL
7 MANAGEMENT OVER-EMPHASIZED THE FINANCIAL GOALS OF
8 THE COMPANY AT THE EXPENSE OF ITS SERVICE
9 RESPONSIBILITIES?

10

11 A. AGAIN, MR. POUCHER HAS EITHER CHOSEN TO IGNORE OR
12 MISCONSTRUE THE FACTS. THERE IS NO TRUTH TO THE
13 ASSERTION THAT THERE WAS AN INCREASE IN EMPHASIS ON
14 FINANCIAL GOALS AS A RESULT OF THE RATE
15 STABILIZATION PLAN. THERE WAS NO SIGNIFICANT
16 REDUCTION IN NETWORK FORCES. THERE HAS BEEN NO
17 DRAMATIC DECLINE IN SERVICE. THE COMPANY DID NOT
18 REDUCE THE ONGOING INVESTMENT REQUIRED TO MAINTAIN
19 HIGH QUALITY SERVICE. SOUTHERN BELL FULLY
20 RECOGNIZES THAT IT CANNOT AFFORD TO PROVIDE SERVICE
21 THAT IS LESS THAN EXCELLENT.

22

23 FURTHERMORE, IT SEEMS INCONGRUOUS TO CONCLUDE, AS
24 DOES MR. POUCHER, THAT THE ESTABLISHMENT OF GOALS
25 AND OBJECTIVES FOR AN ORGANIZATION OR ITS PEOPLE IS

1 INHERENTLY CONTRARY TO SERVICE QUALITY. SOUTHERN
2 BELL HAS ENDEAVORED TO CREATE AN EMPHASIS ON "DOING
3 THE RIGHT THING RIGHT THE FIRST TIME." THIS FOCUS
4 IS BOTH FINANCIALLY PRUDENT AND IN THE BEST
5 INTEREST OF OUR CUSTOMERS.

6

7 Q. IS MR. POUCHER CORRECT WHEN HE ALLEGES THAT THE
8 COMPANY EMPHASIZES FINANCIAL RESULTS OVER SERVICE
9 IN ITS CUSTOMER SERVICES DEPARTMENT?

10

11 A. NO. ALTHOUGH WE EXPECT OUR SERVICE REPRESENTATIVES
12 TO SELL THE COMPANY'S SERVICES WHERE APPROPRIATE
13 AND BASED UPON OUR CUSTOMERS' NEEDS, THE COMPANY'S
14 PRIMARY EMPHASIS, AS EXPLAINED BY SOUTHERN BELL
15 WITNESS, DR. WEITZ, IS ON SERVICE.

16

17 Q. DOES THIS EMPHASIS ON SERVICE APPLY ONLY TO THE
18 BUSINESS OFFICE?

19

20 A. OF COURSE NOT. HIGH QUALITY SERVICE HAS ALWAYS
21 BEEN THE PRE-EMINENT VALUE OF SOUTHERN BELL
22 EMPLOYEES. EVERY ONE OF MY STAFF MEETINGS AND
23 EVERY FLORIDA OPERATIONS COUNCIL SESSION INCLUDES A
24 REVIEW OF THE PERTINENT SERVICE RESULTS. CUSTOMER
25 SERVICE IS THE PRIMARY FOCUS OF OUR EMPLOYEES

1 THROUGHOUT THIS STATE. EVEN A CURSORY REVIEW OF
2 SERVICE FROM A CUSTOMER PERSPECTIVE INDICATES THAT
3 CUSTOMER SERVICE HAS NOT DECLINED. THE TELSAM
4 RESULTS FOR RESIDENCE OVERALL SATISFACTION INDICATE
5 THAT THERE HAS BEEN NO DETERIORATION IN CUSTOMER
6 SERVICE.

7
8 FURTHER, A REVIEW OF THE FLORIDA PUBLIC SERVICE
9 COMMISSION (FPSC) JUSTIFIED COMPLAINTS SHOWS AN
10 IMPROVEMENT OVER THE PERIOD OF THE RATE
11 STABILIZATION PLAN. THIS, COMBINED WITH DR. GARY
12 HOELTKE'S TESTIMONY CONCERNING THE GALLUP
13 ORGANIZATION, INC.'S ANALYSIS OF CUSTOMER
14 SATISFACTION CONFIRMS THAT OUR CUSTOMERS BELIEVE
15 THEY ARE GETTING GOOD SERVICE.

16

17 Q. ARE THERE SPECIFIC MISSTATEMENTS OF FACT OR
18 MISLEADING CLAIMS CONCERNING THE RATE STABILIZATION
19 PLAN THAT YOU WOULD LIKE TO REBUT?

20

21 A. DEFINITELY. I WILL START WITH OFFICE OF PUBLIC
22 COUNSEL WITNESS R. EARL POUCHER'S TESTIMONY.

23

24 Q. WHAT ABOUT MR. POUCHER'S ASSERTION THAT SOUTHERN
25 BELL CUT ITS MAINTENANCE FORCES EXCESSIVELY?

1

2 A. ONCE AGAIN, MR. POUCHER IS SIMPLY WRONG. HIS
3 IGNORANCE OF LEC OPERATIONS HAS RESULTED IN
4 ERRONEOUS CONCLUSIONS.

5

6 THE NUMBER OF OUTSIDE PLANT FORCES, THE PERSONNEL
7 WHO INSTALL AND REPAIR CUSTOMER LINES, DID NOT
8 DECLINE BUT RATHER INCREASED SLIGHTLY OVER THE
9 PERIOD OF THE RATE STABILIZATION PLAN. IN
10 ADDITION, THROUGHOUT THIS PERIOD, NUMEROUS
11 ENHANCEMENTS AND CHANGES WERE IMPLEMENTED SOLELY TO
12 IMPROVE SERVICE.

13

14 Q. DID THE COMPANY REDUCE FORCE LEVELS TO TAKE
15 ADVANTAGE OF THE RATE STABILIZATION PLAN AT THE
16 EXPENSE OF CUSTOMER SERVICE?

17

18 A. NO. INNOVATIONS AND CHANGES IN TECHNOLOGY HAVE
19 PERMITTED SOME REDUCTIONS IN CERTAIN NETWORK
20 FUNCTIONS. HOWEVER, CONTRARY TO MR. POUCHER'S
21 ASSERTIONS, THE OUTSIDE FORCES HAVE REMAINED
22 VIRTUALLY UNCHANGED SINCE 1986.

23

24 Q. DO YOU AGREE WITH MR. POUCHER'S CLAIMS THAT
25 SOUTHERN BELL'S SERVICE DETERIORATED OVER TIME?

1

2 A. NO. QUALITY CUSTOMER SERVICE, AS INDICATED BY THE
3 COMMISSION'S OBJECTIVES AND THE COMPANY'S
4 STANDARDS, HAS ALWAYS BEEN THE FOCUS OF THE
5 COMPANY. SUCH SERVICE IS PROVIDED TODAY AND WAS
6 PROVIDED DURING THE ENTIRE PERIOD OF THE RATE
7 STABILIZATION PLAN, AS DEMONSTRATED BY SOUTHERN
8 BELL'S TELSAM RESULTS. MR. POUCHER HAS OFFERED NO
9 CREDIBLE EVIDENCE TO SUPPORT HIS ALLEGATIONS THAT
10 SERVICE LEVELS HAVE DETERIORATED, PARTICULARLY IN
11 LIGHT OF THE TESTIMONY PROVIDED BY MR. HOELTKE OF
12 THE GALLUP ORGANIZATION, INC. THESE FACTS
13 DEMONSTRATE THAT MR. POUCHER'S ALLEGATIONS ARE
14 FACTUALLY INCORRECT AND TOTALLY LACKING IN MERIT.
15 SOUTHERN BELL, IN FACT, CONTINUED ITS LONG-STANDING
16 COMMITMENT TO SERVICE THROUGHOUT THIS PERIOD.

17

18 Q. IS MR. POUCHER CORRECT WHEN HE ASSERTS THAT THE
19 COMPANY'S RATE STABILIZATION PLAN HAS CONTRIBUTED
20 TO A COMPANY MINDSET THAT ENCOURAGES THE ABUSE OF
21 CUSTOMERS AND THE FILING OF FALSE REPORTS WITH THIS
22 COMMISSION?

23

24 A. NO. TO THE CONTRARY, IT WAS COMPANY MANAGEMENT
25 THAT FIRST DISCOVERED THE PROBLEMS WITH NON-CONTACT

1 SALES AND NETWORK TROUBLE REPORTING. WE HAVE FULLY
2 REIMBURSED OUR CUSTOMERS AND WE HAVE IMPLEMENTED
3 CONTROLS AND CHANGES TO VARIOUS PROCESSES TO
4 PREVENT THE REOCCURRENCE OF SUCH PROBLEMS IN THE
5 FUTURE.

6
7 THE COMPANY DID NOTHING TO ENCOURAGE THE IMPROPER
8 BEHAVIOR WHICH OCCURRED. THE INDIVIDUALS WHO
9 ENGAGED IN MISCONDUCT HAVE BEEN TERMINATED.
10 ALTHOUGH SOME INDIVIDUAL MANAGERS MAY HAVE FAILED
11 TO EXERCISE DUE DILIGENCE, THE COMPANY'S MANAGEMENT
12 TEAM IS ETHICAL AND CUSTOMER FOCUSED. INCENTIVE
13 REGULATION, WHICH RESULTS IN THE COMPANY FOCUSING
14 ON ITS CUSTOMERS AND COMPETITORS, WILL HELP TO
15 ENSURE THAT INAPPROPRIATE ACTIONS WILL NOT OCCUR IN
16 THE FUTURE. THE COMPANY SIMPLY CANNOT WITHSTAND
17 THE LOSS OF THE GOODWILL AND THE TRUST OF ITS
18 CUSTOMERS WHICH RESULTS FROM SUCH OCCURRENCES.
19 MR. POUCHER'S STATEMENTS THAT A LARGE GROUP OF
20 CUSTOMERS WERE ABUSED BY THE COMPANY AS A RESULT OF
21 INCENTIVE REGULATION AND THAT THE COMPANY'S
22 MANAGEMENT ENJOYED EXCESSIVE AND UNDESERVED SALARY
23 INCREASES DURING THE EFFECTIVE PERIOD OF THE RATE
24 STABILIZATION PLAN ARE COMPLETELY FALSE. MR.
25 POUCHER SEEKS TO ATTRIBUTE THE INDIVIDUAL ACTS OF

1 MISCONDUCT OF A FEW EMPLOYEES TO THE COMPANY AS A
2 WHOLE AND TO TIE THESE ISOLATED PROBLEMS TO
3 INCENTIVE REGULATION. YET HIS OWN TESTIMONY CLAIMS
4 THAT THE PROBLEMS PREDATE INCENTIVE REGULATION.
5 THEREFORE, HIS ARGUMENT THAT THE COMPANY ABUSED
6 CUSTOMERS AS A RESULT OF INCENTIVE REGULATION
7 THEREFORE COMPLETELY LACKS CREDIBILITY.

8

9 Q. HAS THE INCENTIVE SHARING PLAN PRODUCED A "NEGATIVE
10 DIVIDEND" AS ALLEGED BY MR. POUCHER?

11

12 A. NO. MR. POUCHER CHOOSES TO DISREGARD THE BENEFITS
13 DESCRIBED BY SOUTHERN BELL WITNESSES DENTON, REID
14 AND OTHERS THAT CONFIRM THE POSITIVE RESULTS THAT
15 HAVE ACCRUED TO SOUTHERN BELL'S RATEPAYERS. THERE
16 IS NO TRUTH TO MR. POUCHER'S CLAIM THAT THE RATE
17 STABILIZATION PLAN AND THE MISCONDUCT OF A FEW
18 EMPLOYEES ARE RELATED.

19

20 Q. DO YOU CONSIDER THE COMPANY'S RATE STABILIZATION
21 PLAN TO BE A FORM OF "LOOSER REGULATION", AS MR.
22 POUCHER DESCRIBES IT?

23

24 A. NO. IF BY "LOOSER" REGULATION, MR. POUCHER MEANS
25 ANY RELAXATION OF THE COMMISSION'S REGULATORY

1 RULES, REQUIREMENTS, STANDARDS, OR PROCEDURES, NONE
2 OF THESE HAVE BEEN RELAXED WITH THE RATE
3 STABILIZATION PLAN. THERE SIMPLY HAS BEEN NO
4 RELAXATION OF THE FPSC'S RULES, AUTHORITY, OR
5 OVERSIGHT IN CONNECTION WITH THE CURRENT RATE
6 STABILIZATION PLAN. IF ANYTHING, THE COMMISSIONS'
7 OVERSIGHT HAS INCREASED AS EVIDENCED BY ITS ORDER
8 NO. 20162, PAGE 26.

9
10 Q. IS THERE ANY CONNECTION BETWEEN THE ADVENT OF
11 INCENTIVE REGULATION FOR SOUTHERN BELL AND ITS NON-
12 CONTACT SALES AND NETWORK REPAIR PROBLEMS AS
13 SUGGESTED BY MR. MALOY AND DR. COOPER IN THEIR
14 TESTIMONY?

15
16 A. NO. CAREFUL REFERENCE TO MR. MALOY'S TESTIMONY AND
17 EXHIBITS REVEALS THAT HE ALLEGES THAT BOTH PROBLEMS
18 PRECEDED APPROVAL OF THE RATE STABILIZATION PLAN IN
19 1988. HIS TESTIMONY AND EXHIBITS ARE COMPLETELY
20 INCONSISTENT. AS I STATED IN MY DIRECT TESTIMONY,
21 INCENTIVE REGULATION HAS HELPED FOSTER AN
22 ENVIRONMENT FOR IDENTIFYING AND CORRECTING PROBLEMS
23 SUCH AS THOSE THE COMPANY EXPERIENCED IN ITS NON-
24 CONTACT SALES AND NETWORK REPAIR MATTERS.

25

1 AS I HAVE STATED, THERE IS NO EVIDENCE THAT THE
2 REGULATORY STRUCTURE PLAYED ANY ROLE IN THE
3 PROBLEMS THE COMPANY INVESTIGATED AND CORRECTED.
4 THE REGULATIONS AND AUTHORITY AVAILABLE TO THIS
5 COMMISSION ARE THE SAME REGARDLESS OF THE FORM OF
6 REGULATION IMPOSED BY IT AND THIS WILL NOT CHANGE
7 AS OF A RESULT OF AN EXTENSION OF THE RATE
8 STABILIZATION PLAN. THE PLAN DOES NOT AFFECT IN
9 ANY WAY THE TERMS AND CONDITIONS OF INDIVIDUAL
10 SERVICE OFFERINGS OF THE COMPANY. THUS, DR. COOPER
11 IS SIMPLY WRONG WHEN HE SUGGESTS OTHERWISE.

12

13 Q. WOULD YOU CONSIDER THE CONTINUATION OF THE
14 RATE STABILIZATION PLAN TO BE A "REWARD," AS
15 CONTENDED BY MR. POUCHER?

16

17 A. NO. I STRONGLY DISAGREE WITH MR. POUCHER'S
18 CHARACTERIZATION. THE CONTINUATION OF THE RATE
19 STABILIZATION PLAN IS NOT A REWARD, BUT RATHER A
20 CRITICAL NECESSITY FOR SOUTHERN BELL TO BE A VIABLE
21 COMPETITOR IN THE TELECOMMUNICATIONS INDUSTRY. THE
22 COMPANY CONTINUES TO MAKE A TRANSITION FROM A
23 MONOPOLY TO A COMPETITIVE FIRM AND THE REGULATORY
24 STRUCTURE UNDER WHICH IT OPERATES MUST ENCOURAGE
25 SUCH CHANGES. WHILE THE CONCEPT OF INCENTIVE

1 REGULATION IS TO PROVIDE INCENTIVES FOR AND REWARD
2 EFFICIENT PERFORMANCE, THE PLAN ITSELF IS NOT A
3 REWARD. RATHER IT IS A REGULATORY STRUCTURE WITH
4 INCENTIVES AND RISKS THAT DEPEND ON A COMPANY'S
5 PERFORMANCE.

6
7 IN ADDITION, INCENTIVE REGULATION PLANS SUCH AS THE
8 COMPANY'S ARE COMMON THROUGHOUT THE UNITED STATES,
9 AS DR. SAPPINGTON AND MR. ZARAKAS DEMONSTRATE.
10 SUCH PLANS REFLECT AN ALREADY ESTABLISHED TREND
11 TOWARD EVEN FURTHER REGULATORY FLEXIBILITY AS
12 TELECOMMUNICATIONS MARKETS EVOLVE. AN EXTENSION OF
13 SOUTHERN BELL'S PLAN WOULD MERELY KEEP THE COMPANY
14 ON TRACK AS IT CONFRONTS AN EVER INCREASING
15 COMPETITIVE ENVIRONMENT.

16

17 Q. HAS THE MANAGEMENT OF SOUTHERN BELL, AS CLAIMED BY
18 DR. COOPER, BOTH CREATED AN ENVIRONMENT THAT WAS
19 PRONE TO CUSTOMER ABUSE AND ARTICULATED A PLAN TO
20 INCREASE PRICES AND SALES OF SERVICE SUCH THAT THE
21 PUBLIC IS EXPLOITED TO THEIR DETRIMENT?

22

23 A. ABSOLUTELY NOT. DR. COOPER HAS PICKED AND CHOSEN
24 AMONG NUMEROUS OUTDATED, MISCELLANEOUS, AND
25 UNRELATED DOCUMENTS TO CREATE A FICTIONAL TALE OF

1 CONSPIRACY IN THE PRICING AND SALES OF THE
2 COMPANY'S OPTIONAL SERVICES. FURTHER, HIS VIEW OF
3 OUR CUSTOMER BODY DISTURBS ME AND SHOULD CONCERN
4 THIS COMMISSION. REFERENCE TO PAGES 23 AND 24 OF
5 HIS TESTIMONY REVEALS THAT HE FIRMLY BELIEVES THAT
6 OUR CUSTOMERS ARE IGNORANT AND SIMPLE, THAT THEY
7 ARE NOT CAPABLE OF MAKING PROPER CHOICES, AND THAT
8 THEY VIEW TELEPHONE SERVICES AS NECESSITIES ONLY.
9 IN MY OPINION, HE HAS NOT STUDIED THE FLORIDA
10 CUSTOMER BODY VERY CLOSELY. OUR CUSTOMERS DEMAND
11 AND RECEIVE QUALITY OPTIONAL TELECOMMUNICATIONS
12 SERVICES IN ORDER TO COMMUNICATE MORE EFFECTIVELY
13 AND CONVENIENTLY.

14
15 I AM EXTREMELY OFFENDED BY THE ARROGANCE THAT DR.
16 COOPER DISPLAYS THROUGHOUT HIS TESTIMONY. FOR
17 EXAMPLE, HE BELIEVES THAT CONSUMERS VIEW OPTIONAL
18 SERVICES AS "FRILLS THAT HAVE NONE OF THE INHERENT
19 QUALITIES OF NECESSITIES" (PG. 23); HE BELIEVES
20 THAT "CUSTOMERS DO NOT KNOW WHAT THEY REALLY NEED
21 AND DO NOT SAY WHAT THEY TRULY MEAN" (PG. 24); AND
22 HE GENERALLY BELIEVES THAT CUSTOMERS CALL THE
23 COMPANY ONLY FOR BASIC SERVICE AND DO NOT SEEK TO
24 SUBSCRIBE TO OPTIONAL SERVICES (PG. 37). DR.
25 COOPER'S VIEWS ARE EXTREME AND HE APPARENTLY SEEKS

1 TO SUBSTITUTE THE TELECOMMUNICATIONS SERVICES TO
2 WHICH HE BELIEVES CUSTOMERS SHOULD SUBSCRIBE FOR
3 THE ACTUAL NEEDS AND DESIRES OF OUR DIVERSE BODY OF
4 CUSTOMERS. WE HAVE RECEIVED VIRTUALLY NO CUSTOMER
5 COMPLAINTS ABOUT OUR CUSTOMER SERVICE SALES EFFORTS
6 AND OUR CUSTOMER SERVICE SURVEYS DO NOT REVEAL A
7 PROBLEM IN THIS AREA. IN ADDITION, THE TESTIMONY
8 OF SOUTHERN BELL WITNESS DR. WEITZ DEMONSTRATES
9 THAT THE COMPANY'S SALES EFFORTS AND METHODS ARE
10 APPROPRIATE.

11

12 Q. WOULD YOU PLEASE SUMMARIZE THIS SECTION OF YOUR
13 TESTIMONY?

14

15 A. YES. I STRONGLY BELIEVE THAT THE COMMISSION SHOULD
16 APPROVE THE CONTINUANCE OF SOUTHERN BELL'S RATE
17 STABILIZATION PLAN. IT HAS BENEFITED CUSTOMERS AND
18 HAS HELPED PREPARE THE COMPANY FOR INCREASED
19 COMPETITION. FURTHER, THE
20 PLAN WAS INTENDED TO BE A TRANSITIONAL STEP IN
21 REGULATION. IT WAS DESIGNED TO INCREASE THE
22 COMPANY'S INCENTIVE TO BECOME MORE EFFICIENT AND
23 INTRODUCE NEW PRODUCTS AND SERVICES, WHILE ALSO
24 MAINTAINING HIGH QUALITY SERVICE. THE COMPANY HAS
25 ACCOMPLISHED THESE GOALS WHILE OPERATING UNDER ITS

1 RATE STABILIZATION PLAN. THE COMMISSION SHOULD
2 EXTEND THE PLAN SO THAT SUCH BENEFITS WILL CONTINUE
3 TO ACCRUE TO RATEPAYERS.

4

5 THE RATIONALE OF MR. POUCHER, MR. MALOY, AND DR.
6 COOPER FOR DENYING THE CONTINUANCE OF THE INCENTIVE
7 SHARING PLAN IS ERRONEOUS AND UNFOUNDED. THERE IS
8 NO CONNECTION BETWEEN THE INCENTIVE SHARING PLAN
9 AND ANY OCCURRENCES OF MISCONDUCT.

10

11 Q. NOW TURNING TO THE SPECIFICS OF HIS TESTIMONY,
12 WOULD YOU PLEASE DISCUSS THE VARIOUS MISLEADING AND
13 INACCURATE STATEMENTS MADE BY DR. COOPER?

14

15 A. YES.

16

17 Q. ARE DR. COOPER'S RECOMMENDATIONS CONCERNING THE
18 SALES OF OPTIONAL SERVICES APPROPRIATE?

19

20 A. NO, THEY ARE NOT. SOUTHERN BELL MUST NECESSARILY
21 DEAL WITH ITS CUSTOMERS OVER THE TELEPHONE SINCE IT
22 PROCESSES HUNDREDS OF THOUSANDS OF SERVICE ORDERS
23 ANNUALLY. OUR CUSTOMERS CONTACT US TO ORDER BOTH
24 BASIC AND OPTIONAL SERVICES, AND TO ARRANGE FOR
25 INTEREXCHANGE AND OTHER SERVICES. OUR BUSINESS

1 OFFICE AND CUSTOMER SERVICES OPERATIONS ARE AN
2 EFFICIENT WAY TO PROVIDE THE SERVICES DESIRED BY
3 OUR CUSTOMERS. TO REQUIRE WRITTEN CONTRACTS AND
4 FOLLOW-UP CALLS SIXTY DAYS LATER IN ORDER TO SELL
5 OPTIONAL SERVICES, AS SUGGESTED BY DR. COOPER,
6 WOULD MAKE IT VIRTUALLY IMPOSSIBLE FOR THE COMPANY
7 TO EFFICIENTLY OFFER THE OPTIONAL SERVICES SOUGHT
8 BY ITS CUSTOMERS. REVENUES FROM THE SALES OF
9 OPTIONAL SERVICES PROVIDE SUBSTANTIAL SUPPORT TO
10 THE LOW LOCAL EXCHANGE RATES FOR CUSTOMERS IN THIS
11 STATE. IF DR. COOPER'S RECOMMENDATIONS WERE
12 ACCEPTED, THIS IMPORTANT SOURCE OF REVENUE SUPPORT
13 WOULD BE SERIOUSLY ERODED.

14

15 Q. DOES DR. COOPER ACCURATELY PORTRAY THE COMPANY'S
16 CUSTOMER SERVICE SALES EFFORTS REGARDING OPTIONAL
17 SERVICES?

18

19 A. NO. HE ATTRIBUTES AN ATTITUDE TO THE COMPANY
20 REGARDING CUSTOMER SERVICE THAT SIMPLY DOES NOT
21 EXIST. ON PAGE 43 OF HIS TESTIMONY, HE ARROGANTLY
22 STATES THAT THE COMPANY KNOWS, "THAT IF IT WERE TO
23 SIMPLY PRESENT BALANCED INFORMATION AND ENCOURAGE
24 CONSUMERS TO TRY THE SERVICES FOR A SHORT PERIOD,
25 IT WOULD SELL FEWER SUBSCRIPTIONS AND MANY MORE

1 CONSUMERS WOULD TERMINATE THE VERTICAL SERVICES IN
2 SHORT ORDER." WHAT DR. COOPER IGNORES IS THAT
3 SOUTHERN BELL DOES DESCRIBE ITS OPTIONAL SERVICES
4 SO THAT CUSTOMERS KNOW THEIR FEATURES AND THE
5 COMPANY DOES ENCOURAGE ITS CUSTOMERS TO TRY THE
6 SERVICES AND TO CANCEL THE SERVICES IF THEY ARE NOT
7 SATISFIED. IN THIS REGARD, THE COMPANY FREQUENTLY
8 WAIVES INSTALLATION AND SERVICE ORDER CHARGES TO
9 ENCOURAGE CUSTOMERS TO TRY ITS SERVICES AND THERE
10 IS, OF COURSE, NO CANCELLATION CHARGE FOR SERVICES
11 THAT ARE DISCONNECTED BY A CUSTOMER.

12
13 THE COMPANY'S SALES PRACTICES REQUIRE ITS SERVICE
14 REPRESENTATIVES TO ORALLY CONFIRM AND SUMMARIZE A
15 CUSTOMER'S ORDER PRIOR TO ITS BEING PLACED AND
16 PRIOR TO ITS BILLING. THE COMPANY FOLLOWS UP ITS
17 PHONE CONTACT WITH ITS CUSTOMERS WITH A
18 CONFIRMATION LETTER WHICH AGAIN SUMMARIZES THE
19 CUSTOMER'S ORDER AND NOTES THAT OPTIONAL SERVICES
20 ARE NOT NECESSARY FOR BASIC TELEPHONE SERVICE. THE
21 LETTER REQUESTS THE CUSTOMER TO CALL IF THEY HAVE
22 ANY QUESTIONS ABOUT THEIR BASIC OR OPTIONAL
23 SERVICES. FINALLY, THE COMPANY ITEMIZES ALL OF THE
24 CUSTOMER'S SERVICES, INCLUDING THOSE THAT ARE
25 OPTIONAL, ON A MONTHLY BASIS IN THE CUSTOMER'S

1 BILL.

2

3 Q. DOES THE COMPANY PUT UNDUE PRESSURE ON ITS CUSTOMER
4 SERVICE REPRESENTATIVES TO SELL OPTIONAL SERVICES?

5

6 A. NO. PLEASE DON'T MISUNDERSTAND ME, A PART OF A
7 CUSTOMER SERVICE REPRESENTATIVE'S JOB IS TO SELL
8 THE SERVICES DESIRED BY OUR CUSTOMERS. WE DO
9 OCCASIONALLY DISCIPLINE AN INDIVIDUAL WHO IS NOT
10 ACHIEVING APPROPRIATE MINIMUM LEVELS OF SALES
11 ACTIVITY. HOWEVER, OUR FOCUS IS ON CUSTOMER
12 SERVICE AND MEETING OUR CUSTOMERS' NEEDS. OUR
13 COMPANY DOES NOT ENCOURAGE, PERMIT, OR CONDONE
14 QUESTIONABLE SALES PRACTICES, AND IT HAS IN PLACE
15 EXTENSIVE METHODS AND PROCEDURES TO PREVENT AND
16 DETECT SUCH OCCURRENCES. THUS, I DO NOT BELIEVE
17 THAT UNDUE PRESSURE TO SELL OPTIONAL SERVICES IS
18 PLACED ON OUR CUSTOMER SERVICE REPRESENTATIVES.

19

20 Q. WOULD YOU PLEASE POINT OUT THE INACCURACIES IN MR.
21 POUCHER'S TESTIMONY REGARDING THE SALES AND NETWORK
22 REPAIR PROBLEMS?

23

24 A. CERTAINLY.

25

1 Q. PLEASE COMMENT ON MR. POUCHER'S ALLEGATIONS
2 REGARDING SUPPOSED MANAGEMENT PRESSURE COMPROMISING
3 THE INTEGRITY OF A LARGE NUMBER OF EMPLOYEES?
4
5 A. MR. POUCHER AGAIN IGNORES THE FACTS AND CREATES AN
6 INTENTIONALLY MISLEADING PICTURE. FIRST, REMEMBER
7 THAT THE COMPANY WAS THE VICTIM IN THE NETWORK
8 SALES ISSUE. THE PEOPLE INVOLVED SET OUT TO STEAL
9 FROM THE COMPANY; THE FACT THAT CUSTOMERS WERE
10 AFFECTED WAS AN UNFORTUNATE CONSEQUENCE OF THAT
11 MISCONDUCT.
12
13 SECOND, HAD THE COMPANY CHOSEN TO COVER UP THIS
14 MATTER, IT COULD HAVE DONE. IT WAS THE COMPANY
15 WHICH UNCOVERED THE MISCONDUCT. IT WAS THE COMPANY
16 THAT SPENT THOUSANDS OF HOURS INVESTIGATING THE
17 CAUSES OF THE PROBLEM, IDENTIFYING THE AFFECTED
18 CUSTOMERS, REFUNDING THE MONEY WITH INTEREST,
19 DISCIPLINING THE EMPLOYEES AT FAULT, AND NOTIFYING
20 THE APPROPRIATE LEGAL AUTHORITIES. THIS IS NOT THE
21 BEHAVIOR PATTERN OF A COMPANY WHICH FOSTERS OR
22 ENCOURAGES MISCONDUCT.
23
24 THIRD, THE PRIMARY VEHICLE USED FOR THIS ACTIVITY
25 WAS INSIDE WIRE MAINTENANCE, WHICH IS AN

1 UNREGULATED SERVICE. TO SUGGEST THAT THE RATE
2 STABILIZATION PLAN, WHICH CONTROLS REGULATED
3 EARNINGS, WOULD MOTIVATE THE COMPANY TO BEND OR
4 EVEN RELAX ITS CONTROLS ON A UNREGULATED SERVICE
5 DEFIES LOGIC.

6

7 FOURTH, THE THEFT BEGAN BEFORE THE RATE
8 STABILIZATION PLAN WAS IMPLEMENTED.

9

10 FIFTH, THE CONTROLS IN PLACE FOR THE SALES PROGRAM
11 WERE ADEQUATE. THE BREAKDOWNS OCCURRED WHEN
12 CERTAIN MANAGERS FAILED TO USE THE CONTROLS THEY
13 WERE PROVIDED.

14

15 IN SUM, MR. POUCHER'S ASSERTION THAT THE COMPANY
16 "ALLOWED" ITS EMPLOYEES TO STEAL FROM IT IS NOT
17 ONLY FALSE, IT IS INSULTING TO EACH OF US WHO WORKS
18 FOR SOUTHERN BELL.

19

20 Q. DID THE COMPANY TURN ITS BACK TO THE NONCONTACT
21 SALES PROBLEM, AS ALLEGED BY MR. POUCHER?

22

23 A. NO. THE COMPANY DISCOVERED THE PROBLEM, THOROUGHLY
24 INVESTIGATED IT, AND PROPERLY DISCLOSED IT TO THE
25 U.S. ATTORNEY, THE FLORIDA ATTORNEY GENERAL'S

1 OFFICE, AND THIS COMMISSION. FURTHER, SOUTHERN
2 BELL HAS MADE NUMEROUS CHANGES TO ITS SALES
3 PRACTICES AND PROCEDURES. THESE EFFORTS WERE NOT
4 MADE AS A RESULT OF EXTERNAL PRESSURES, AS MR.
5 POUCHER WOULD HAVE YOU BELIEVE. INDEED, IT WAS
6 SEVERAL MONTHS FOLLOWING THE DISCLOSURE OF THE
7 PROBLEMS TO EXTERNAL AUTHORITIES BEFORE ANY
8 INVESTIGATION OTHER THAN SOUTHERN BELL'S WAS BEGUN.
9 BY THAT TIME, THE COMPANY HAD ALREADY BEGUN THE
10 REFUND PROCESSES TO MAKE OUR CUSTOMERS WHOLE.

11

12 Q. DID EVERY MANAGER IN THE STATE BENEFIT FROM
13 NONCONTACT SALES AS MR. POUCHER ALLEGES?

14

15 A. NO. THIS ALLEGATION IS ALSO BASELESS. THE ACTS OF
16 THREE EMPLOYEES COULD HARDLY AFFECT THE ENTIRE
17 STATE. MOREOVER, AS A RESULT OF THE COMPANY'S
18 INVESTIGATION AND REFUND EFFORTS, THE COMPANY
19 ACTUALLY REFUNDED MORE MONEY TO ITS CUSTOMERS THAN
20 WAS EVER RECEIVED FROM THIS INAPPROPRIATE BILLING.

21 Q. WHAT ABOUT MR. POUCHER'S CHARACTERIZATION OF THE
22 COMPANY'S NON-CONTACT SALES AUDIT? IS IT ACCURATE?

23

24 A. NO. MR. POUCHER HAS GROSSLY MISCHARACTERIZED THE
25 COMPANY'S INTERNAL AUDIT PERFORMED FOLLOWING THE

1 CONCLUSION OF THE NON-CONTACT SALES PROGRAM. THE
2 AUDIT PRIMARILY CONCERNS THE COMPANY'S
3 ADMINISTRATION OF THE NONCONTACT SALES PROGRAM.
4 LIKE ANY INTERNAL AUDIT, IT IS DESIGNED TO IDENTIFY
5 ANY PROBLEMS SO THAT THE COMPANY CAN CORRECT THEM.
6 THE IMPORTANCE OF THE AUDIT IS THAT THE COMPANY
7 TOOK RESPONSIBILITY FOR THE PROBLEM AND HAS BEEN
8 ACCOUNTABLE TO ITS CUSTOMERS, AND IT HAS FIXED THE
9 PROBLEMS. SOUTHERN BELL'S WITNESS ROBIN MADDEN HAS
10 ADDRESSED THIS AUDIT IN DETAIL IN HER TESTIMONY.

11

12 Q. DID THE COMPANY'S AGREEMENT WITH THE OFFICE OF
13 STATEWIDE PROSECUTION RECOGNIZE CHANGES IN THE
14 COMPANY'S CUSTOMER SERVICE AND BUSINESS OFFICE
15 OPERATIONS AS ALLEGED BY MR. POUCHER?

16

17 A. YES, AND I AM PLEASED TO SAY THAT MOST OF THE
18 CHANGES IN PRACTICES AND PROCEDURES WERE IN PLACE
19 WELL IN ADVANCE OF THE SETTLEMENT BEING REACHED.
20 THUS, THE COMPANY, AT ITS OWN INITIATIVE, MADE
21 CHANGES TO ITS SALES OPERATIONS TO AVOID EVEN THE
22 APPEARANCE OF LESS THAN APPROPRIATE CUSTOMER
23 SERVICE. OUR SALES PRACTICES HAVE ALWAYS
24 EMPHASIZED INTEGRITY AND ETHICAL DEALINGS WITH OUR
25 CUSTOMERS. IN MY OPINION, THE COMPANY'S CUSTOMER

1 SERVICES OPERATION CONTINUES TO BE A SOUND
2 OPERATION.

3

4 Q. SHOULD THE COMPANY BE REQUIRED TO IMPLEMENT
5 ADDITIONAL CHANGES TO ITS CUSTOMER SERVICES AND
6 BUSINESS OFFICE OPERATIONS AS RECOMMENDED BY MR.
7 POUCHER?

8

9 A. NO. I MUST FIRST NOTE THAT THE TYPES OF
10 PROTECTIONS ESPOUSED BY MR. POUCHER TYPICALLY APPLY
11 TO OUTBOUND TYPE TELEPHONE SALES EFFORTS. SOUTHERN
12 BELL'S SALES, HOWEVER, ARE MADE IN RESPONSE TO
13 CUSTOMER CONTACTS. IN ANY EVENT, I BELIEVE THAT
14 THE COMPANY PROVIDES THE INFORMATION NECESSARY TO
15 ALLOW CUSTOMERS TO MAKE INFORMED CHOICES REGARDING
16 THEIR TELECOMMUNICATIONS SERVICES. OUR CUSTOMER
17 SERVICE REPRESENTATIVES DESCRIBE THE LOWEST COST
18 SERVICE AVAILABLE TO THE CUSTOMER, ADDITIONAL
19 FEATURES AND OPTIONAL SERVICES WHICH MAY BE DESIRED
20 BY THE CUSTOMER, AND THE RATES FOR THE VARIOUS
21 SERVICES. THEY THEN SUMMARIZE THE ORDER TO ENSURE
22 THAT THE CUSTOMER UNDERSTANDS THE SERVICES (AND
23 THEIR RATES) THEY HAVE ORDERED. FOLLOWING THE
24 TELEPHONE CONTACT WITH THE CUSTOMER, THE COMPANY
25 CONFIRMS THE SALE IN WRITING WITH A CONFIRMATION

1 LETTER AND REQUESTS THE CUSTOMER TO IMMEDIATELY
2 NOTIFY THE COMPANY IF THE ORDER IS NOT CONSISTENT
3 WITH THE CUSTOMER'S UNDERSTANDING OF THE SERVICES
4 OBTAINED. THE COMPANY THEN ITEMIZES THE CUSTOMER'S
5 SERVICES AND THEIR ASSOCIATED CHARGES, IN THE
6 CUSTOMER'S MONTHLY BILL FOR SERVICES. FURTHER
7 CHANGES TO THE CUSTOMER SERVICE OPERATION WOULD, IN
8 MY OPINION, DELAY THE PROVISION OF SERVICE TO THE
9 CUSTOMER AND CAUSE NEEDLESS FRUSTRATION,
10 MISUNDERSTANDING, AND CONFUSION FOR THE CUSTOMER.
11 IT WOULD ALSO, AS DESCRIBED EARLIER, REDUCE THE
12 AMOUNT OF CONTRIBUTION AVAILABLE TO SUPPORT LOCAL
13 SERVICE.

14

15 Q. HOW DO YOU RESPOND TO MR. POUCHER'S ALLEGATIONS
16 ABOUT TROUBLE REPORTING?

17

18 A. ONCE AGAIN, MR. POUCHER'S ARGUMENTS LACK BASIC
19 LOGIC. ON ONE HAND, HE ARGUES THAT THE ABUSES HAVE
20 BEEN GOING ON SINCE THE EARLY 1980'S AND, ON THE
21 OTHER HAND, HE ARGUES THAT THE RATE STABILIZATION
22 PLAN WAS THE CAUSE OF THE PROBLEM. IT IS APPARENT
23 TO EVEN A CASUAL OBSERVER THAT MR. POUCHER IS
24 SIMPLY GROPING UNSUCCESSFULLY FOR A CONNECTION
25 BETWEEN TWO UNRELATED EVENTS.

1

2 Q. ARE YOU SAYING THAT THIS COMMISSION SHOULD IGNORE
3 THE "FRAUDULENT SALES AND TROUBLE REPORTING
4 ISSUES"?

5

6 A. NO. I AM SAYING THAT THIS COMMISSION SHOULD
7 EVALUATE THESE TWO UNFORTUNATE EVENTS IN THEIR OWN
8 RIGHT. THE COMMISSION SHOULD NOT BE DUPED BY THIS
9 FEEBLE ATTEMPT TO MANUFACTURE A RELATIONSHIP THAT
10 DOES NOT EXIST.

11

12 Q. WHAT CAUSED THE TROUBLE REPORTING INCIDENT?

13

14 A. UNFORTUNATELY, SOME INDIVIDUALS WRONGLY BELIEVED
15 THAT MEETING AN INDEX, OR APPEARING TO MEET IT, WAS
16 OF UTMOST IMPORTANCE. THEIR APPARENT MOTIVE IN
17 ACTING CONTRARY TO COMPANY RULES AND PRINCIPLES WAS
18 TO IMPRESS THEIR BOSS. THEY WERE EVENTUALLY CAUGHT
19 AND PUNISHED BY THE COMPANY.

20

21 Q. ARE MR. POUCHER'S ASSERTIONS ACCURATE THAT
22 MANAGEMENT PUT UNDUE PRESSURE ON PEOPLE AND THEY
23 HAD NO CHOICE BUT TO CHEAT?

24

25 A. NO. AS DEMONSTRATED IN MR. POUCHER'S OWN

1 TESTIMONY, THE COMPANY CONTINUED TO MISS THE
2 SCHEDULE 11 MEASUREMENT FROM TIME TO TIME. MR.
3 POUCHER HAS BEEN UNABLE TO CITE EVEN ONE INSTANCE
4 OF A MANAGER BEING DISCIPLINED, LOSING A BONUS, OR
5 OTHERWISE NEGATIVELY AFFECTED MERELY FOR HAVING
6 MISSED THE OUT-OF-SERVICE OVER 24 HOURS INDEX. THE
7 SIMPLE FACT IS, A FEW EMPLOYEES, FOR THEIR OWN
8 REASONS, ACTED CONTRARY TO THE COMPANY'S RULES AND
9 REQUIREMENTS AND HAVE BEEN PROPERLY DISCIPLINED.

10

11 Q. ARE YOU TRYING TO MINIMIZE THIS INCIDENT?

12

13 A. OF COURSE NOT. THIS ENTIRE AFFAIR HAS BEEN
14 TRAUMATIC TO ALL OF US. BUT BECAUSE IT HAS BEEN
15 TRAUMATIC DOES NOT MAKE IT COMPLICATED. MR.
16 POUCHER WOULD HAVE US BELIEVE THAT IN SOME
17 MACHIAVELLIAN SCHEME, THE MANAGEMENT OF THE COMPANY
18 ONE DAY DECIDED TO THROW OUT A 100-YEAR TRADITION
19 OF SERVICE AND TO SIT BACK IN A ROCKER AND "ALLOW"
20 PEOPLE TO CHEAT AND STEAL. NOT ONLY IS THIS
21 FICTION, IT IS INSULTING. WHAT REALLY HAPPENED IS
22 FAR LESS COMPLICATED. SOME PEOPLE, FOR REASONS I
23 CAN'T COMPREHEND, CHOSE TO CHEAT AND SOME MANAGERS
24 WERE CARELESS ABOUT CHECKING. IN THE END WE CAUGHT
25 THEM. WE ALL HAVE BEEN EMBARRASSED BY THESE

1 EVENTS. WE HAVE NO INTENTION OF MINIMIZING WHAT
2 HAPPENED NEITHER DO WE HAVE ANY INTENTION OF
3 STANDING QUIETLY BY WHILE PEOPLE LIKE MR. POUCHER
4 ATTACK THE FUNDAMENTAL INTEGRITY OF OUR MANAGEMENT
5 TEAM.

6

7 Q. DID NOT THE COMPANY DISCIPLINE MANY MANAGERS IN THE
8 NETWORK ORGANIZATION AS A RESULT OF THE NETWORK
9 TROUBLE REPORTING PROBLEM?

10

11 A. YES. HOWEVER, MR. POUCHER HAS MISREPRESENTED THE
12 NATURE OF THAT DISCIPLINE. A NUMBER OF THESE
13 MANAGERS WERE DISCIPLINED FOR "ON YOUR WATCH"
14 REASONS, AS I STATED IN MY DIRECT TESTIMONY.
15 FURTHER, OVER HALF OF THE OTHERS RECEIVED ONLY
16 COUNSELING ENTRIES, WHICH WERE DESIGNED TO REMIND
17 THEM OF THEIR RESPONSIBILITIES. MOREOVER, MR.
18 POUCHER'S CLAIM THAT THE DISCIPLINED EMPLOYEES
19 REPRESENTED ONE-THIRD OF THE IMC MANAGEMENT
20 OVERSTATES BY A FACTOR OF THREE THE EXTENT OF THE
21 DISCIPLINE. MR. POUCHER'S TESTIMONY IS REplete
22 WITH SUCH MISSTATEMENTS AND INACCURACIES.

23

24 MR. POUCHER HAS ALSO RELIED ON THE STATEMENTS OF A
25 NUMBER OF EX-EMPLOYEES WHO WERE TERMINATED FOR

1 MISCONDUCT. THESE EMPLOYEES WERE DISMISSED BECAUSE
2 THE COMPANY SIMPLY WILL NOT TOLERATE UNETHICAL
3 BEHAVIOR. MR. POUCHER'S RELIANCE UPON THESE
4 EX-EMPLOYEE'S STATEMENTS IS INDICATIVE OF THE
5 CREDIBILITY OF HIS TESTIMONY. IT ALSO SUGGESTS THE
6 MOTIVES OF THE UNDERLYING WITNESSES.

7

8 Q. WHAT ABOUT MR. POUCHER'S ASSERTION THAT IT IS
9 EXTREMELY RARE FOR MANAGEMENT TO BE DISCIPLINED?

10

11 A. IT IS OBVIOUS THAT MR. POUCHER IS LIVING IN THE
12 PAST. DURING HIS ERA, IT WAS POSSIBLE FOR A
13 MANAGER TO BE DISCIPLINED, EVEN DEMOTED OR FORCED
14 TO RESIGN OR RETIRE, WITHOUT A PERSONNEL ENTRY
15 NOTING SUCH. THAT HAS CHANGED, HOWEVER. WHILE IT
16 IS NOT AN EVERY DAY OCCURRENCE, MANAGEMENT TODAY IS
17 BOTH THE SUBJECT AND RECIPIENT OF DISCIPLINE. THE
18 COMPANY, THOUGH, DOES NOT PUBLICIZE THE DISCIPLINE
19 OF ITS MANAGEMENT OR CRAFT PERSONNEL. THUS, IT IS
20 UNDERSTANDABLE THAT MR. POUCHER WOULD BE UNAWARE OF
21 THE EXTENT OF DISCIPLINE IN THE COMPANY.

22

23 Q. ARE THERE OTHER FACTS WHICH DEMONSTRATE THAT MR.
24 POUCHER'S ASSERTIONS ABOUT COMPANY MANAGEMENT ARE
25 FALSE?

1

2 A. YES. HAD SOUTHERN BELL'S MANAGEMENT TEAM BEEN
3 ANYWHERE NEAR AS DECEITFUL AS MR. POUCHER ASSERTS,
4 THEN ONE OF ITS PRIME OBJECTIVES WOULD HAVE BEEN TO
5 KEEP EVIDENCE OF ITS WRONGDOING SECRET. YET EACH
6 OF THESE TWO INSTANCES CAME TO LIGHT AFTER SOUTHERN
7 BELL MANAGEMENT IDENTIFIED THE PROBLEMS AND MOVED
8 AGGRESSIVELY TO CORRECT THEM.

9

10 THE OFFICE OF PUBLIC COUNSEL BECAME INVOLVED IN
11 THIS ISSUE ONLY AFTER SOUTHERN BELL MANAGEMENT
12 FIRED EMPLOYEES AND THEREAFTER REFUSED TO BEND IN
13 RESPONSE TO PRESSURE BY THEM, ESPECIALLY FROM MR.
14 BABAIR WHO OFFERED TO TRADE HIS SILENCE FOR A
15 PENSION. MS. D'ALESSIO SIMILARLY PLED HER CASE TO
16 THE COMPANY. IF THE COMPANY HAD INDEED SOUGHT TO
17 ABUSE ITS CUSTOMERS AND DECEIVE THIS COMMISSION, IT
18 COULD HAVE "BOUGHT OFF" THESE EMPLOYEES. THE FACT
19 THAT IT DID NOT DEMONSTRATES FAR MORE THAN MR.
20 POUCHER'S CONSPIRACY THEORIES. HAD MANAGEMENT BEEN
21 THE CORRUPT GROUP THAT MR. POUCHER ASSERTS, THE
22 OFFICE OF PUBLIC COUNSEL WOULD NEVER HAVE RECEIVED
23 A COMPLAINT TO INVESTIGATE. I AM PROUD OF THE FACT
24 THAT THIS COMPANY BELIEVED IN DOING THE RIGHT THING
25 FOR ITS CUSTOMERS. NOT ONCE DID THE COMPANY

1 CONSIDER ANY COURSE THAT WAS LESS THAN HONORABLE.

2

3 FURTHER, I STRONGLY REFUTE MR. POUCHER'S PORTRAYAL
4 OF HIGHER MANAGEMENT AS TURNING ITS BACK ON DEVIANT
5 BEHAVIOR. THIS WAS SIMPLY NOT TRUE, BOTH PRIOR TO
6 AND DURING THE RATE STABILIZATION PLAN. IT WAS,
7 AFTER ALL, THE DISCIPLINARY STEPS TAKEN BY SOUTHERN
8 BELL AND THE CONCURRENT NOTIFICATION OF STATE
9 AUTHORITIES WHICH INITIATED THE PUBLIC SCRUTINY OF
10 THESE ISSUES.

11

12 Q. ARE THE COMPANY'S CODE OF CONDUCT AND OTHER ETHICS
13 POLICIES SET FORTH IN THE BOOKLET "A PERSONAL
14 RESPONSIBILITY" JUST ANOTHER "FORM" AS ALLEGED BY
15 MR. POUCHER?

16

17 A. "A PERSONAL RESPONSIBILITY" MAY HAVE BEEN JUST
18 ANOTHER FORM TO MR. POUCHER, BUT IT IS CERTAINLY
19 NOT VIEWED AS SUCH BY THE COMPANY AND THE VAST
20 MAJORITY OF ITS EMPLOYEES. THE COMPANY'S EMPHASIS
21 ON ETHICAL BEHAVIOR IS CONSISTENT WITH FOCUSING ON
22 THE CUSTOMER, WHICH IS THE FOUNDATION OF INCENTIVE
23 REGULATION.

24

25 Q. ARE SOUTHERN BELL EMPLOYEES CONCERNED ABOUT

1 RETRIBUTION FOR REPORTING PROBLEMS TO THE COMPANY,
2 AS STATED BY MR. POUCHER?

3

4 A. WHILE A FEW EMPLOYEES MAY BELIEVE THAT RETRIBUTION
5 WOULD OCCUR IF THEY REPORT PROBLEMS, I BELIEVE THAT
6 INCORRECT PERCEPTION HAS BEEN ADDRESSED BY CHANGES
7 IN OUR CORPORATE CULTURE. THE COMPANY'S EMPLOYEE
8 REPORTING LINES ARE WELL PUBLICIZED. SOME CALLERS
9 CHOOSE TO REMAIN ANONYMOUS AND THEIR ANONYMITY IS
10 PROTECTED. OTHER CALLERS IDENTIFY THEMSELVES. IN
11 ANY EVENT, ALL REPORTS ARE INVESTIGATED. MANY
12 CALLS TO THE EMPLOYEE REPORTING LINES SEEK ADVICE
13 ABOUT PROSPECTIVE ACTIVITY AND ETHICS ISSUES.
14 THUS, I BELIEVE THAT EMPLOYEES FEEL THAT THEY CAN
15 REPORT PROBLEMS WHICH REQUIRE MANAGEMENT ATTENTION.
16 MR. POUCHER'S ALLEGATIONS TO THE CONTRARY ARE
17 UNFOUNDED.

18

19 Q. DID MR. POUCHER MAKE ANY ERRONEOUS STATEMENTS
20 REGARDING AN ETHICS ASSESSMENT SURVEY?

21

22 A. YES. MR. POUCHER HAS MISCHARACTERIZED VERBATIMS
23 AND RESPONSES FROM AN ETHICS ASSESSMENT SURVEY
24 PERFORMED BY THE ETHICS RESOURCE CENTER, INC. WHICH
25 WAS USED TO DEVELOP ETHICS TRAINING MATERIALS FOR

1 THE COMPANY'S TRAINING PROGRAM. MR. POUCHER HAS
2 SELECTIVELY CHOSEN ONLY NEGATIVE COMMENTS SUBMITTED
3 DURING THE ETHICS ASSESSMENT PROCESS AND HAS
4 MISCHARACTERIZED THE SELECTED COMMENTS AS
5 "SUMMARIES" OF THE COMMENTS RECEIVED. HE HAS ALSO
6 SEVERELY DISTORTED SURVEY RESULTS CONCERNING THE
7 COMPANY'S COMMITMENT TO ETHICS. MR. POUCHER IS
8 CLEARLY ATTEMPTING TO DISTORT THE NATURE OF THE
9 ETHICS RESOURCE CENTER'S UNDERTAKING ON BEHALF OF
10 THE COMPANY.

11
12 THE ETHICS ASSESSMENT SURVEY WAS CONDUCTED IN ORDER
13 TO GAUGE THE EMPLOYEE BODY'S UNDERSTANDING OF
14 BUSINESS CONDUCT AND TO DEVELOP ETHICS AWARENESS
15 TRAINING AND WORKSHOPS WITHIN THE COMPANY. THUS,
16 THE PURPOSE OF THE ETHICS ASSESSMENT WAS TO
17 IDENTIFY PERCEIVED AREAS REQUIRING ATTENTION AND
18 IMPROVEMENT AND THE SURVEY WAS PURPOSEFULLY
19 DESIGNED TO ELICIT THIS TYPE OF INFORMATION. AT A
20 MINIMUM, THE COMPANY'S DECISION TO HAVE THE ETHICS
21 RESOURCE CENTER CONDUCT THE ASSESSMENT UNDERSCORES
22 THE COMPANY'S COMMITMENT TO ETHICAL BUSINESS
23 PRACTICES. MR. POUCHER HAS MERELY DISTORTED THE
24 NATURE OF THIS COMMITMENT AND PROCESS.
25

1 Q. WHAT ABOUT THE STATEMENTS OF THE GRAND JURY?

2

3 A. AS YOU KNOW, THE GRAND JURY MEETS IN SECRET. I CAN
4 ONLY PRESUME THAT THEY RECEIVED A DISTORTED PICTURE
5 FROM WHOMEVER TESTIFIED ON THESE MATTERS. THIS IS
6 ESPECIALLY SO SINCE THE GRAND JURY PROCESS IS
7 DESIGNED SO THAT THE JURORS HEAR ONLY ONE SIDE OF
8 THE STORY.

9

10 Q. DO YOU AGREE WITH MR. POUCHER THAT PRIOR TO THE TWO
11 INVESTIGATION DOCKETS, THE COMPANY DEVOTED LITTLE,
12 IF ANY, ATTENTION TO ETHICS?

13

14 A. NO. MR. POUCHER'S CHARACTERIZATION IS INACCURATE.
15 SOUTHERN BELL DOES NOT NOW, NOR HAS IT EVER,
16 CONSIDERED ETHICAL BEHAVIOR TO BE OPTIONAL. THE
17 COMPANY ADVOCATES THE HIGHEST OF ETHICAL STANDARDS
18 AND REINFORCES SUCH STANDARDS. OUR EMPLOYEES ARE
19 INDIVIDUALLY COVERED ON THE PERSONAL RESPONSIBILITY
20 HANDBOOK WHICH EMPHASIZES THIS ISSUE. WE HAVE
21 ALWAYS VIEWED INTEGRITY AS A TERM OF EMPLOYMENT,
22 NOT AN OPTION.

23

24 WHILE MR. POUCHER, OR OTHER FORMER EMPLOYEES,
25 BELITTLE THIS COMMITMENT, THEIR CURRENT EMPLOYMENT

1 STATUS UNDERSCORES THE COMPANY'S INSISTENCE ON
2 ETHICAL BEHAVIOR.

3

4 Q. SHOULD THE COMPANY BE RETURNED TO TRADITIONAL RATE
5 OF RETURN REGULATION AS A RESULT OF THE NONCONTACT
6 SALES AND NETWORK REPAIR PROBLEMS?

7

8 A. NO. MR. POUCHER ALLEGES THAT THERE WERE NETWORK
9 REPAIR IRREGULARITIES OCCURRING WHEN HE WAS AN
10 EMPLOYEE OF THE COMPANY IN THE 1970'S AND THAT
11 NONCONTACT SALES PROBLEMS OCCURRED IN 1987. MR.
12 MALOY ALSO CONTENDS THAT THESE PROBLEMS PREDATE
13 SOUTHERN BELL'S RATE STABILIZATION PLAN. CLEARLY
14 THERE IS NO CONNECTION BETWEEN THE TWO. THE
15 COMMISSION SHOULD PERMIT THE CONTINUANCE OF
16 SOUTHERN BELL'S RATE STABILIZATION PLAN BECAUSE IT
17 HAS BENEFITED OUR CUSTOMERS AND HAS HELPED TO
18 PREPARE THE COMPANY FOR THE INCREASED COMPETITION
19 IN THE TELECOMMUNICATIONS MARKET IN FLORIDA. THE
20 PLAN IS A TRANSITIONAL STEP IN REGULATION THAT
21 INCREASES THE COMPANY'S INCENTIVES TO BECOME MORE
22 EFFICIENT AND TO INTRODUCE NEW PRODUCTS AND
23 SERVICES WHILE ALSO MAINTAINING HIGH QUALITY
24 SERVICE. THE COMPANY HAS ACCOMPLISHED THESE GOALS
25 WHILE OPERATING UNDER THE RATE STABILIZATION PLAN.

1 THE COMMISSION SHOULD EXTEND THE PLAN SO THAT SUCH
2 BENEFITS WILL CONTINUE TO ACCRUE TO THE COMPANY'S
3 CUSTOMERS.

4

5 Q. SHOULD THE COMPANY BE PENALIZED AS PROPOSED BY MR.
6 POUCHER?

7

8 A. NO. AS I STATED IN MY DIRECT TESTIMONY, I DO NOT
9 BELIEVE THAT A PENALTY WOULD BE APPROPRIATE OR IN
10 ANY WAY JUSTIFIED. THIS COMMISSION HAS CONSIDERED
11 SEVERAL PRIOR CASES WHERE LOCAL EXCHANGE TELEPHONE
12 COMPANIES ALLEGEDLY VIOLATED THIS COMMISSION'S
13 RULES REGARDING THE TREATMENT OF OUT OF SERVICE
14 CONDITIONS, REBATES, AND OTHER NETWORK REPAIR
15 ISSUES. THOSE TELEPHONE COMPANIES WERE NOT
16 PENALIZED AND NOR SHOULD SOUTHERN BELL.

17

18 SECOND, THE NONCONTACT SALES PROBLEM EXPERIENCED BY
19 THE COMPANY CLEARLY RESULTED FROM THE MISGUIDED
20 ACTIONS OF A FEW EMPLOYEES WHO VIOLATED THE
21 COMPANY'S POLICIES TO THE DETRIMENT OF OUR
22 CUSTOMERS. THE SAME IS TRUE FOR THE TROUBLE
23 REPORTING ISSUES. ONCE THE COMPANY DISCOVERED
24 THESE PROBLEMS, DISCIPLINARY ACTION WAS IMPOSED IN
25 A TIMELY FASHION AND NUMEROUS CORRECTIVE MEASURES

1 WERE IMPLEMENTED TO PREVENT THE REOCCURRENCE OF THE
2 PROBLEMS. ALTHOUGH SEVERAL EMPLOYEES CHOSE TO
3 VIOLATE POLICIES AND PROCEDURES, THE COMPANY TOOK
4 RESPONSIBILITY FOR THE PROBLEMS AND COMPENSATED ITS
5 CUSTOMERS FOR ANY LOSSES THEY MAY HAVE EXPERIENCED
6 AS A RESULT OF THOSE EMPLOYEES' ACTIONS. THERE IS
7 NO EVIDENCE THAT COMPANY MANAGEMENT AS A WHOLE KNEW
8 OF, CONDONED, OR ENCOURAGED THE IMPROPER BEHAVIOR
9 EXHIBITED BY SOME COMPANY EMPLOYEES. AS I
10 PREVIOUSLY STATED IN MY DIRECT TESTIMONY, THIS
11 COMPANY HAS ALREADY BEEN PENALIZED BOTH FINANCIALLY
12 AND AS A RESULT OF THE LOSS OF THE GOODWILL AND
13 TRUST OF ITS CUSTOMERS. I DO NOT BELIEVE ANY
14 ADDITIONAL PENALTY OR SANCTION IS EITHER
15 APPROPRIATE OR NECESSARY.

16

17 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

18

19 A. YES IT DOES.

20

21

22

23

24

25

1 SOUTHERN BELL TELEGRAPH AND TELEPHONE COMPANY
2 REBUTTAL TESTIMONY OF MICHAEL THOMAS DOWDY
3 BEFORE THE
4 FLORIDA PUBLIC SERVICE COMMISSION
5 IN
6 DOCKET NO. 920260-TL
7 DECEMBER 10, 1993

8
9 Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS
10 ADDRESS.

11
12 A. MY NAME IS MICHAEL THOMAS DOWDY. I AM EMPLOYED BY
13 BELLSOUTH TELECOMMUNICATIONS, INC., D/B/A SOUTHERN
14 BELL TELEPHONE AND TELEGRAPH COMPANY ("SBT" OR "THE
15 COMPANY") AS A SERVICES TECHNICIAN. MY BUSINESS
16 ADDRESS IS 520 WESTOVER ROAD, P.O. BOX 1947, ALBANY,
17 GEORGIA 31702.

18
19 Q. PLEASE GIVE A BRIEF DESCRIPTION OF YOUR BACKGROUND.

20
21 A. I BEGAN MY CAREER WITH SOUTHERN BELL IN AUGUST OF
22 1972, IN THE WEST PALM BEACH, FLORIDA, INSTALLATION
23 AND MAINTENANCE CENTER ("IMC"). IN MY TWENTY-ONE
24 YEARS OF SERVICE WITH THE COMPANY, EXCEPT FOR A
25 BRIEF PERIOD DURING WHICH I JOINED THE U.S. AIR

1 FORCE, I HAVE BEEN EMPLOYED AS A SERVICES TECHNICIAN
2 IN THE NETWORK DEPARTMENT. AT VARIOUS TIMES DURING
3 MY TENURE IN THE WEST PALM BEACH IMC, I SERVED AS
4 RELIEVING SUPERVISOR. IN THAT CAPACITY, I ACQUIRED
5 RESPONSIBILITIES THAT WERE LARGELY ADMINISTRATIVE IN
6 NATURE. IN 1990, I MOVED TO MY CURRENT LOCATION IN
7 ALBANY, GEORGIA, WHERE I CONTINUE TO WORK AS A
8 SERVICES TECHNICIAN. AS SUCH, I HANDLE THE
9 INSTALLATION AND REPAIR OF SMALL BUSINESS AND
10 RESIDENTIAL SERVICE.

11

12 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

13

14 A. THE PURPOSE OF MY TESTIMONY IS TO REBUT THE
15 ALLEGATIONS MADE BY R. EARL POUCHER THAT THE
16 TRAINING MANUAL THAT I DEVELOPED IN THE WEST PALM
17 BEACH IMC WAS INTENDED TO INSTRUCT TECHNICIANS TO
18 BACK-UP THE CLEAR TIME ON TROUBLE REPORTS IN ORDER
19 TO MEET THE PSC OBJECTIVE. I WILL DEMONSTRATE WHY
20 THIS ASSERTION IS BASELESS AND WHY IT IS IN TOTAL
21 DISREGARD OF THE EVIDENCE.

22

23 Q. MR. POUCHER CONTENDS THAT A MANUAL WAS DEVELOPED IN
24 WEST PALM BEACH THAT INSTRUCTED TECHNICIANS ON HOW
25 TO BACK-UP THE CLEAR TIME ON TROUBLE REPORTS TO MEET

1 THE OUT-OF-SERVICE OVER TWENTY-FOUR OBJECTIVE. IS
2 THIS ASSERTION CORRECT?
3
4 A. NO. ON MARCH 5, 1993, I PROVIDED DEPOSITION
5 TESTIMONY TO THE OFFICE OF PUBLIC COUNSEL IN WHICH I
6 CLEARLY EXPLAINED WHY THE TRAINING MANUAL WAS
7 CREATED AND WHY ITS CREATION WAS PROPER. THAT IS
8 WHY MR. POUCHER'S CONTINUED ASSERTION THAT MY
9 CONDUCT IN CREATING THE MANUAL WAS IMPROPER, IS JUST
10 UNBELIEVABLE.
11
12 ALTHOUGH NUMEROUS PRACTICES AND MANUALS HAVE BEEN
13 DEVELOPED AND CODIFIED TO INSTRUCT TECHNICIANS IN
14 THE PROPER HANDLING OF SERVICE ORDERS, NO MANUAL
15 EXISTED IN THE WEST PALM BEACH IMC WHICH DISCUSSED,
16 ENCOURAGED, OR CONDONED THE FALSIFICATION OF
17 CUSTOMER TROUBLE REPORTS. THE ALLEGATION THAT SUCH
18 A MANUAL DID EXIST FIRST CAME TO LIGHT THROUGH
19 COMMUNICATIONS FROM THE OFFICE OF PUBLIC COUNSEL.
20 THEREAFTER, A SEARCH WAS CONDUCTED OF THE COMPANY
21 WORK VANS IN WEST PALM BEACH. ULTIMATELY, THE
22 SEARCH UNCOVERED A NUMBER OF THE MANUALS THAT HAD
23 BEEN DEVELOPED IN 1988, BY ME. THESE MANUALS
24 CONTAINED VARIOUS SOUTHERN BELL OFFICIAL PRACTICES
25 AND PROCEDURES ALONG WITH INFORMATION ON THE PROPER

1 STATUSING OF CUSTOMER REPORTS THROUGH THE COMPUTER
2 ACCESS SYSTEM.

3
4 THIS LATTER PORTION EXPLAINS HOW TO BACK-UP THE
5 CLEAR TIME TO CAPTURE THE ACTUAL TIME A TROUBLE IS
6 REPAIRED WHEN CLOSING A REPORT. FOR EXAMPLE, WHEN A
7 CUSTOMER'S SERVICE IS RESTORED, THE TECHNICIAN WILL
8 CLEAN UP THE WORK SITE, AND PERFORM ROUTINE
9 PREVENTATIVE MAINTENANCE. AFTER ADVISING THE
10 CUSTOMER THAT SERVICE HAS BEEN RESTORED, THE
11 TECHNICIAN WILL USE A SUBSCRIBER'S LINE TO DIAL INTO
12 THE MECHANIZED SYSTEM IN ORDER TO CLOSE THE REPORT.
13 ONE OF THE ENTRIES REQUIRED WHEN CLOSING THE REPORT
14 IS THE ACTUAL CLEARED TIME. IF THE TECHNICIAN FAILS
15 TO ACCURATELY ENTER THE CLEARED TIME, THE CURRENT
16 "REAL TIME" WILL BE ENTERED ON THE REPORT.

17
18 AFTER INSTALLING THE CRAFT ACCESS SYSTEM, A MAJOR
19 PROBLEM AROSE AS TECHNICIANS OFTEN FAILED TO ENTER
20 THE ACTUAL CLEARED TIME. THUS, THE REPORT WOULD
21 REFLECT THE ACTUAL TIME THE REPORT WAS BEING CLOSED
22 RATHER THAN THE TIME IT WAS CLEARED. WHEN I BECAME
23 AWARE OF THIS PROBLEM I DESIGNED A PORTION OF THE
24 MANUAL TO BRING TO THE ATTENTION OF TECHNICIANS THE
25 NEED TO INPUT THE ACTUAL RESTORAL TIME.

1 TECHNICIANS WHO WERE GIVEN THESE MANUALS WERE
2 INSTRUCTED ON MY INTENT TO REPORT THE CORRECT CLEAR
3 TIME ON ALL TROUBLE REPORTS AND THE PURPOSE THAT THE
4 INFORMATION WAS DESIGNED TO ACHIEVE. ALL OF THEM
5 WERE TOLD, AND THEY FULLY UNDERSTOOD MY INTENT. TO
6 MY KNOWLEDGE NONE OF THESE TECHNICIANS FELT THAT
7 THEY WERE BEING ENCOURAGED TO BACK-UP TIME
8 IMPROPERLY. ANY CLAIM BY MR. POUCHER TO THE
9 CONTRARY IS FALSE.

10

11 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

12

13 A. YES.

14

15

16

17

18

19

20

21

22

23

24

1 SOUTHERN BELL TELEGRAPH AND TELEPHONE COMPANY
2 REBUTTAL TESTIMONY OF JERRY MOORE
3 BEFORE THE
4 FLORIDA PUBLIC SERVICE COMMISSION
5 IN
6 DOCKET NO. 920260-TL
7 DECEMBER 10, 1993

8
9 Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS
10 ADDRESS.

11
12 A. MY NAME IS JERRY MOORE. I AM EMPLOYED BY BELLSOUTH
13 TELECOMMUNICATIONS, INC., D/B/A SOUTHERN BELL
14 TELEPHONE AND TELEGRAPH COMPANY ("SBT" OR "THE
15 COMPANY") AS A MANAGER. I PROVIDE SUPPORT TO THE
16 VICE PRESIDENT-NETWORK, SOUTH OPERATIONS. MY
17 BUSINESS ADDRESS IS 301 W. BAY STREET, 15TH FLOOR,
18 JACKSONVILLE, FLORIDA 32202.

19
20 Q. PLEASE GIVE A BRIEF DESCRIPTION OF YOUR BACKGROUND.

21
22 A. I BEGAN MY CAREER WITH SOUTHERN BELL IN SEPTEMBER OF
23 1964. IN OVER 29 YEARS OF SERVICE WITH THE COMPANY,
24 I HAVE HELD VARIOUS NONMANAGEMENT AND MANAGEMENT
25 POSITIONS THAT HAVE PRIMARILY BEEN IN THE NETWORK

1 DEPARTMENT. I HAVE WORKED AS A SECOND LEVEL MANAGER
2 IN NETWORK IN THE MILTON, DAYTONA BEACH, AND
3 JACKSONVILLE, FLORIDA AREAS. IN THESE LOCATIONS I
4 HAVE MANAGED THE INSTALLATION AND MAINTENANCE
5 CENTERS (IMC) AND THE FIELD REPAIR FORCES. I HAVE
6 MANAGED SEVEN IMC OPERATIONS IN THESE THREE AREAS
7 AND HAVE PARTICIPATED IN THE TRANSITION OF FLORIDA
8 IMCS FROM A TOTALLY MANUAL ENVIRONMENT TO A HIGHLY
9 MECHANIZED ENVIRONMENT. I ALSO SPENT TWO YEARS IN
10 THE SECURITY DEPARTMENT DURING THE EARLY 1970'S. I
11 HAVE HAD FOUR NETWORK STAFF ASSIGNMENTS, THE MOST
12 NOTEWORTHY OF WHICH WAS HAVING THE RESPONSIBILITY
13 FOR THE IMPLEMENTATION OF THE LMOS MAPPER TRACKER
14 SYSTEM AND THE FIELD CRAFT ACCESS SYSTEM.

15

16 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

17

18 A. THE PURPOSE OF MY TESTIMONY IS TO REBUT THE
19 TESTIMONY OF MICHAEL R. MALOY REGARDING THE
20 GAINESVILLE INVESTIGATION AND STANDARDIZATION
21 REVIEWS. SPECIFICALLY, I WILL CLARIFY WHY ONLY
22 CERTAIN MONTHS OF TROUBLE REPORTS WERE REVIEWED IN
23 THE GAINESVILLE INVESTIGATION, AND THE SIGNIFICANCE
24 OF ERRORS SCORED IN STANDARDIZATION REVIEWS. I ALSO
25 REBUT PORTIONS OF EARL POUCHER'S AND ELTON HOWELL'S

1 DIRECT TESTIMONY.

2

3 Q. MR. MALOY STATED THAT WHEN THE COMPANY DISCOVERED
4 THE FRAUDULENT OUT OF SERVICE TEST OK REPORTS IN
5 GAINESVILLE DURING SEPTEMBER OF 1990, ONLY ONE OTHER
6 MONTH'S REPORTS WERE INVESTIGATED. IS HE CORRECT?

7

8 A. NO. MR. MALOY INSINUATES THAT SOUTHERN BELL'S
9 INTERNAL INVESTIGATION IN GAINESVILLE WAS
10 INADEQUATE. HOWEVER, MR. MALOY FAILS TO RECOUNT ALL
11 OF THE PERTINENT FACTS.

12

13 DURING A STATEWIDE REVIEW OF TEST OK REPORTS THAT
14 WERE STATUSED AS OUT-OF-SERVICE, THERE APPEARED TO
15 BE A NUMBER OF REPORTS THAT HAD BEEN HANDLED
16 IMPROPERLY IN THE GAINESVILLE IMC. THESE REPORTS
17 APPEARED TO HAVE BEEN STATUSED IMPROPERLY IN ORDER
18 TO SATISFY THE SCHEDULE 11A COMMISSION INDEX FOR
19 TROUBLE OUT OF SERVICE OVER 24 HOURS. BASED UPON
20 THESE FINDINGS, IN NOVEMBER OF 1990, AN
21 INVESTIGATION WAS BEGUN. INITIALLY, TROUBLE REPORTS
22 FOR THE MONTH OF OCTOBER OF 1990, WERE REVIEWED.
23 THE REVIEW OF THESE REPORTS CONFIRMED THAT ONE OR
24 MORE EMPLOYEES IN THE GAINESVILLE IMC HAD CREATED
25 FALSE TROUBLE REPORTS BASED UPON TELEPHONE NUMBERS

1 THAT HAD APPARENTLY BEEN RETRIEVED FROM LOCAL PHONE
2 BOOKS. THE REVIEW ALSO DISCLOSED THAT THE
3 EMPLOYEE(S) WHO PERFORMED THIS ACT ENTERED FALSE
4 EMPLOYEE CODES IN STATUSING THE REPORTS. THIS
5 APPEARS TO HAVE BEEN DONE BECAUSE, ALTHOUGH THE
6 PROPER USE OF AN EMPLOYEE CODE WHILE PROCESSING A
7 TROUBLE REPORT CREATES AN AUDIT TRAIL, THE USE OF A
8 FALSE CODE DOES NOT. ACCORDINGLY, NO DOCUMENTS WERE
9 AVAILABLE THAT COULD IDENTIFY THE EMPLOYEE(S)
10 RESPONSIBLE FOR THIS ACTIVITY. IN A CONTINUING
11 EFFORT TO DETERMINE THE MAGNITUDE OF THE PROBLEM,
12 AND TO IDENTIFY THE RESPONSIBLE EMPLOYEE(S), TROUBLE
13 REPORTS FOR THE MONTH OF SEPTEMBER AND THEN NOVEMBER
14 WERE REVIEWED. THE TROUBLE REPORTS FOR SEPTEMBER
15 REVEALED SIMILAR FALSE TROUBLE REPORTS. AGAIN, THE
16 RESPONSIBLE EMPLOYEE(S) HAD USED FALSE EMPLOYEE
17 CODES. THE REPORTS FOR THE MONTH OF NOVEMBER WERE
18 STATUSED PROPERLY.

19
20 ALTHOUGH THE RECORDS FROM THE FICTITIOUS REPORTS DID
21 NOT IDENTIFY THE RESPONSIBLE EMPLOYEE(S), OUR
22 INVESTIGATORS PURSUED EVERY AVAILABLE AVENUE TO
23 IDENTIFY WHO WAS RESPONSIBLE. IN SPITE OF THESE
24 EFFORTS, SOUTHERN BELL WAS UNABLE TO UNCOVER THE
25 IDENTITY OF THE EMPLOYEE(S).

1 Q. COULD SOUTHERN BELL INVESTIGATORS HAVE REVIEWED
2 TROUBLE REPORTS FROM AUGUST OF 1990?
3
4 A. YES. HOWEVER, AT THE TIME OF THE INVESTIGATION ONLY
5 A LIMITED AMOUNT OF DATA WAS AVAILABLE FOR REVIEW.
6 WHEN TROUBLE REPORTS ARE CLOSED, THEY ARE FILED IN
7 AN ANALYTICAL SYSTEM CALLED THE MECHANIZED TROUBLE
8 ANALYSIS SYSTEM ("MTAS"). THE TROUBLE REPORT DATA
9 ARE RETAINED IN MTAS FOR ONLY 65 DAYS. THEREAFTER,
10 THE DATA ARE NOT AVAILABLE FOR REVIEW. THUS, IN
11 NOVEMBER OF 1990, WHEN THE INVESTIGATION IN
12 GAINESVILLE BEGAN, TROUBLE REPORTS WERE AVAILABLE
13 ONLY THROUGH A PORTION OF SEPTEMBER.
14
15 Q. IF MTAS IS A 65 DAY DATA BASE, HOW WAS MR. MALOY
16 ABLE TO EXAMINE DATA ON GAINESVILLE EARLIER THAN
17 SEPTEMBER OF 1990?
18
19 A. IN FEBRUARY OF 1991, I WAS ASKED TO SECURE AS MUCH
20 CLOSED CUSTOMER TROUBLE REPORT INFORMATION AS
21 POSSIBLE. AFTER CONTACTING A NUMBER OF EMPLOYEES IN
22 OUR REGIONAL NETWORK STAFF AND DATA CENTERS IN
23 BIRMINGHAM, ALABAMA, AND ATLANTA, GEORGIA, WE FOUND
24 THAT THERE WERE APPROXIMATELY FIVE YEARS OF THE
25 EXTENDED TROUBLE HISTORY REPORTS STORED ON COMPUTER

1 TAPES. WE WERE NOT PREVIOUSLY AWARE OF THE
2 EXISTENCE OF THESE REPORTS. GENERALLY, THESE
3 COMPUTER TAPES RETAIN TROUBLE REPORT DATA FOR A
4 SHORT PERIOD OF TIME AND ARE THEN REUSED TO STORE
5 ADDITIONAL TROUBLE REPORT INFORMATION. I REQUESTED
6 THAT THE TAPES BE DUPLICATED AND THAT THE ORIGINALS
7 BE MOVED TO AN OFF PREMISE INDEPENDENT STORAGE
8 FACILITY FOR SAFEKEEPING.

9
10 THE INFORMATION FROM THESE TAPES WAS USED IN
11 CONDUCTING OUR INTERNAL INVESTIGATION. SUBSEQUENTLY,
12 THIS INFORMATION WAS ALSO SUPPLIED TO THE OFFICE OF
13 THE STATEWIDE PROSECUTOR.

14

15 Q. BASED UPON THE ADDITIONAL FIVE YEARS OF TROUBLE
16 REPORT DATA ON THE TAPES, WERE YOU ABLE TO IDENTIFY
17 THE EMPLOYEE(S) WHO WERE RESPONSIBLE FOR CREATING
18 THE FICTITIOUS REPORTS?

19

20 A. NO. SOUTHERN BELL'S INVESTIGATORS REVIEWED ALL OF
21 THE RECORDS THAT WERE AVAILABLE. IN SPITE OF THIS
22 EFFORT AND THE NUMEROUS ADDITIONAL INTERVIEWS OF
23 GAINESVILLE EMPLOYEES, THE RESPONSIBLE EMPLOYEE(S)
24 WERE ABLE TO EVADE DETECTION.

25

1 WHILE MR. MALOY IS CRITICAL OF SOUTHERN BELL'S
2 INVESTIGATION, HIS AGENCY WAS SIMILARLY UNABLE TO
3 IDENTIFY, WITH CERTAINTY, THE RESPONSIBLE EMPLOYEES.

4
5

6 Q. IN HIS TESTIMONY, MR. MALOY STATES THAT SOUTHERN
7 BELL'S STANDARDIZATION REVIEWS ARE PROOF THAT THE
8 COMPANY KNEW THAT TROUBLE REPORTS WERE BEING
9 FALSIFIED. IS THIS STATEMENT CORRECT?

10

11 A. NO. STANDARDIZATION REVIEWS WERE DEVELOPED DURING
12 THE EARLY AND MIDDLE 1980'S AS A RESULT OF
13 OPERATIONAL CHANGES WHICH CONVERTED OUR MANUAL
14 SYSTEMS TO MECHANIZED SYSTEMS.

15

16 THE STANDARDIZATION REVIEWS WERE DEVELOPED TO CREATE
17 UNIFORMITY IN THE QUALITY OF PERFORMANCE OF
18 EMPLOYEES IN ALL OF THE IMC'S. THEY WERE DESIGNED
19 TO BE EXTREMELY CRITICAL OF THE INFORMATION OR THE
20 LACK OF COMPLETE EXPLANATIONS PROVIDED BY EMPLOYEES
21 WHEN HANDLING TROUBLE REPORTS. FROM THE OUTSET, THE
22 REVIEWERS WERE REQUIRED TO SCORE AN ERROR IF THE
23 NARRATIVE INFORMATION, I.E., THE EXPLANATION, WAS
24 ABBREVIATED OR INCOMPLETE. THIS WAS DONE TO ASSIST
25 IN THE TRAINING OF MAINTENANCE ADMINISTRATORS AND

1 FIELD TECHNICIANS AND AS A MEANS OF ENSURING QUALITY
2 SERVICE TO OUR CUSTOMERS.

3
4 THE SCORING OF AN ERROR SIMPLY MEANT THAT THE
5 INFORMATION WAS EITHER INCOMPLETE, UNCLEAR, OR
6 PERHAPS INCORRECT. THUS, TO INFER THAT A HIGH ERROR
7 RATE INDICATES THE PRESENCE OF TROUBLE REPORT
8 FALSIFICATIONS, AS DOES MR. MALOY, IS SIMPLY
9 INCORRECT.

10

11 Q. HAVE YOU REVIEWED THE DIRECT TESTIMONY OF EARL
12 POUCHER?

13

14 A. YES.

15

16 Q. MR. POUCHER RAISES AN ISSUE REGARDING THE
17 CALCULATION OF REBATES FOR SERVICE THAT IS OUT MORE
18 THAN 24 HOURS. CAN YOU COMMENT?

19

20 A. YES. THE COMPANY FOLLOWS THE COMMISSION'S RULES IN
21 THIS REGARD. MR POUCHER WANTS TO HAVE THE RULE
22 CHANGED, BUT OUR CURRENT PRACTICE, WHICH FOLLOWS THE
23 RULE, IS TO REBATE FOR "THE PERIOD OF DAYS" THAT THE
24 SERVICE IS INOPERATIVE. WE DO NOT CALCULATE REBATES
25 BASED ON MINUTES OR HOURS THAT THE SERVICE IS OUT,

1 BECAUSE THE CURRENT RULE DOES NOT REQUIRE THIS.

2

3 Q. MR. POUCHER RAISES A NUMBER OF OTHER ISSUES
4 REGARDING REBATES. CAN YOU COMMENT GENERALLY ON
5 THEM?

6

7 A. YES. FIRST LET ME SAY THAT WE HAVE HAD SOME
8 MISUNDERSTANDINGS REGARDING REBATES AND WE HAVE
9 TRIED TO ADDRESS THEM AS WE LEARNED OF THEM. THE
10 ISSUE OF "BULK" DISPATCHES IS A GOOD EXAMPLE.
11 HISTORICALLY "BULK DISPATCHES" WERE USED TO ASSIGN A
12 NUMBER OF GEOGRAPHICALLY LOCATED TROUBLES, THAT WERE
13 NOT OUT OF SERVICE, TO THE SAME TECHNICIAN. THE
14 GOAL WAS EFFICIENCY. WHEN WE DISCOVERED THAT OUT OF
15 SERVICE CONDITIONS WERE BEING INCLUDED, WE CORRECTED
16 THE SYSTEM AND ISSUED REBATES TO CUSTOMERS.

17

18 ON THE OTHER HAND, MR. POUCHER ALSO CLAIMS THAT WE
19 DENIED CUSTOMER REBATES WHEN A CONDITION IDENTIFIED
20 AS FOUND OK-PREMISE WAS THE ASSIGNED REASON FOR THE
21 OUT OF SERVICE CONDITION. MR. POUCHER IS CORRECT
22 THAT WE HAVE STOPPED USING THIS LABEL AND ARE
23 CURRENTLY REBATING ALL FOUND OKS IF THEY ARE OVER 24
24 HOURS. HOWEVER, THE ORIGINAL USE OF FOUND OK-
25 PREMISE WAS TO BE USED ONLY WHEN THE TECHNICIAN HAD

1 A REASON TO BELIEVE THAT THE ORIGINAL CONDITION
2 WHICH RESULTED IN NO SERVICE WAS CAUSED BY A
3 CONDITION INSIDE THE CUSTOMER'S PREMISE. AT THE
4 SAME TIME THE FOUND OK-PREMISE LABEL WAS USED, WE
5 ALSO HAD A FOUND OK-NETWORK LABEL WHICH DID RESULT
6 IN REBATES. WHILE IT MAY HAVE BEEN DIFFICULT TO
7 RECLASSIFY AN OUT OF SERVICE OVER 24 HOURS IN ONE OF
8 THESE CATEGORIES AS OPPOSED TO THE OTHER, IT WAS THE
9 TECHNICIAN'S JOB TO DO SO IF HE COULD. THERE WAS NO
10 INTENT TO DEPRIVE CUSTOMERS OF REBATES, BUT RATHER
11 TO ACCURATELY REPORT THE CAUSE OF THE TROUBLE. AS I
12 NOTED, SUCH A DIFFERENTIATION IS DIFFICULT; THE
13 COMPANY HAS STOPPED TRYING TO DO SO AND ACCORDINGLY
14 REBATES ALL SUCH OCCURRENCES. THE POINT, HOWEVER,
15 IS THAT THERE WAS NO INTENT TO DENY OUR SUBSCRIBERS
16 A REBATE TO WHICH THEY WERE ENTITLED.

17

18 Q. MR. HOWELL, IN HIS AUDIT, RAISES ISSUES ABOUT
19 REBATES FOR CUSTOMERS THAT ARE OUT OF SERVICE OVER
20 24 HOURS, WHEN THE PROBLEM IS LOCATED IN THE
21 CUSTOMER'S EQUIPMENT OR WIRING. CAN YOU COMMENT?

22

23 A. YES. THE OBJECTIVE AS MANDATED BY PSC RULE 25-
24 4.070, F.A.C., IS TO NOTIFY CUSTOMERS WITHIN 24
25 HOURS AFTER THE TROUBLE WAS REPORTED WHERE THE

1 PROBLEM IS IN THEIR EQUIPMENT OR WIRING. THERE HAS
2 BEEN A DISAGREEMENT FOR SEVERAL YEARS WITH THE PSC
3 STAFF ABOUT WHETHER THESE CUSTOMERS SHOULD RECEIVE A
4 REBATE IF THE NOTIFICATION IS NOT GIVEN WITHIN 24
5 HOURS. IT IS SOUTHERN BELL'S POSITION THAT CUSTOMER
6 EQUIPMENT AND WIRING IS NOT CURRENTLY REGULATED BY
7 THIS COMMISSION AND PROBLEMS WITH WIRING AND
8 EQUIPMENT SHOULD NOT RESULT IN A REBATE. THE STAFF
9 HAS A PROPOSED RULE TO CLARIFY THE RULE TO SUPPORT
10 THEIR INTERPRETATION, BUT UNTIL THE RULE IS AMENDED,
11 THE STAFF'S POSITION IS SIMPLY UNSUPPORTABLE.

12

13 Q. MR. HOWELL MAKES SEVERAL OTHER REMARKS CONCERNING
14 SOUTHERN BELL'S REBATE POLICY. CAN YOU COMMENT?

15

16 A. YES. WE HAVE BEEN UNABLE TO IDENTIFY THE SPECIFIC
17 TROUBLE REPORTS MR. HOWELL MAKES REFERENCE TO IN HIS
18 TESTIMONY OTHER THAN THE LIMITED EXAMPLE HE
19 INCLUDED. WE ARE ENGAGING IN DISCOVERY TO ATTEMPT
20 TO IDENTIFY WITH SPECIFICITY THE REPORTS MR. HOWELL
21 HAS APPARENTLY USED TO SUPPORT HIS CONCLUSION.
22 UNTIL WE DO THAT, WE CAN'T BE CERTAIN ABOUT THE
23 BASIS FOR MR. HOWELL'S CONCLUSION. WE BELIEVE,
24 HOWEVER, THAT WE WILL FIND THAT MR. HOWELL HAS
25 INCLUDED REPORTS, FOR INSTANCE, WHERE THE CUSTOMER

1 WAS RESPONSIBLE FOR THE PARTICULAR PROBLEM AND THUS
2 WAS NOT ENTITLED TO A REBATE.

3
4 UNTIL WE GET THIS INFORMATION, WE ARE NOT IN A
5 POSITION TO COMMENT MUCH FURTHER, OTHER THAN TO
6 REITERATE THAT IT IS OUR POLICY TO PROVIDE REBATES
7 WHERE THEY ARE DUE. FOR INSTANCE, IF A CUSTOMER HAS
8 PROBLEMS WITH HIS SERVICE ON SUCCESSIVE DAYS AND THE
9 TROUBLE IS FIXED EACH DAY SO THAT SERVICE IS
10 RESTORED, NO REBATE IS DUE. IF THE CUSTOMER IS OUT
11 OF SERVICE FOR SEVERAL CONSECUTIVE DAYS AND SERVICE
12 IS NOT RESTORED, A REBATE FOR THE ENTIRE PERIOD IS
13 DUE. ONLY BY EXAMINING THE TROUBLE REPORTS THAT MR.
14 HOWELL HAS RELIED UPON CAN WE DEMONSTRATE THAT WE
15 HAVE FOLLOWED OUR POLICY.

16
17 Q. DOES THIS CONCLUDE YOUR TESTIMONY

18

19 A. YES.

20

21

22

23

24

25

1 SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY
2 REBUTTAL TESTIMONY OF C.J. SANDERS
3 BEFORE THE
4 FLORIDA PUBLIC SERVICE COMMISSION
5 IN
6 DOCKET NO. 920260-TL
7 DECEMBER 10, 1993

8
9 Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS
10 ADDRESS.

11
12 A. MY NAME IS C.J. SANDERS. I AM EMPLOYED BY BELLSOUTH
13 TELECOMMUNICATIONS, INC., D/B/A SOUTHERN BELL
14 TELEPHONE AND TELEGRAPH COMPANY ("SBT" OR "THE
15 COMPANY"). I HAVE BEEN SOUTHERN BELL'S VICE
16 PRESIDENT - NETWORK OPERATIONS/SOUTH. IN THAT
17 CAPACITY, I HAVE HAD OVERALL RESPONSIBILITY FOR
18 NETWORK OPERATIONS IN FLORIDA AND ALABAMA. MY
19 BUSINESS ADDRESS IS 20TH FLOOR, SOUTHERN BELL TOWER,
20 301 BAY STREET, JACKSONVILLE, FLORIDA 32202.

21
22 Q. PLEASE GIVE A BRIEF DESCRIPTION OF YOUR BACKGROUND
23 AND EXPERIENCE.

24
25 A. I GRADUATED FROM MISSISSIPPI STATE UNIVERSITY WITH A
26 BACHELOR OF SCIENCE DEGREE IN 1959, AND COMPLETED

1 THE MIT SENIOR EXECUTIVE PROGRAM IN 1986. I BEGAN
2 MY CAREER WITH SOUTHERN BELL IN JACKSON, MISSISSIPPI
3 IN 1959, AND HAVE HELD POSITIONS OF INCREASING
4 RESPONSIBILITY. IN MY POSITION WHICH I HELD AS VICE
5 PRESIDENT NETWORK SOUTH FROM 1991 THROUGH NOVEMBER
6 OF 1993, I HAD OVERALL RESPONSIBILITY FOR THE
7 PLANNING, PROVISIONING, AND MAINTENANCE OF EFFECTIVE
8 AND EFFICIENT TELECOMMUNICATIONS SERVICES IN
9 FLORIDA. MY SPECIFIC RESPONSIBILITIES RELATED TO
10 OUTSIDE PLANT FACILITY PLANNING AND DESIGN,
11 CONSTRUCTION, INSTALLATION, MAINTENANCE, SWITCHING,
12 AND SPECIAL SERVICES OPERATIONS OF RESIDENCE AND
13 BUSINESS SERVICES.

14
15 Q. MR. SANDERS, PLEASE TELL THE COMMISSION THE PURPOSE
16 OF YOUR TESTIMONY.

17
18 A. SURELY. SINCE THE BEGINNING OF MY TENURE AS VICE
19 PRESIDENT-NETWORK/OPERATIONS, FLORIDA, I HAVE HEARD
20 ACCUSATIONS OF IMPROPRIETY AND ETHICAL SHORTCOMINGS
21 LEVELED AT OUR COMPANY, AND MORE SPECIFICALLY AT MY
22 DEPARTMENT AND ITS EMPLOYEES. I HAVE HEARD SOME
23 ARGUE THAT ANY PROBLEMS THAT HAVE OCCURRED ARE THE
24 RESULT OF INCENTIVE REGULATION OR A CORPORATE INTENT
25 EITHER TO CHEAT OUR CUSTOMERS OR MISREPORT RESULTS

1 TO THE COMMISSION. THESE CLAIMS ARE FALSE AND HAVE
2 WRONGLY IMPUGNED THE INTEGRITY OF ALL OF SOUTHERN
3 BELL'S EMPLOYEES IN FLORIDA. AS THE OFFICER WHO WAS
4 RESPONSIBLE FOR FLORIDA NETWORK OPERATIONS, I
5 BELIEVE IT IS MY DUTY TO SET THE RECORD STRAIGHT.

6
7 WHILE A FEW OF OUR EMPLOYEES MAY HAVE ACTED IN A
8 FASHION ABSOLUTELY CONTRARY TO THE POLICIES AND
9 DIRECTIVES OF SOUTHERN BELL, IT IS WRONG TO ASSERT
10 THAT OUR COMPANY OR THE REST OF OUR 18,000 EMPLOYEES
11 ARE GUILTY OF MISCONDUCT.

12
13 DURING THE TWO YEARS OF MY TENURE HERE IN FLORIDA, I
14 CAME TO KNOW THE EMPLOYEES WHO ARE RESPONSIBLE FOR
15 PROVIDING TELEPHONE SERVICE. I HAVE SEEN THEM
16 PERFORM UNDER THE STRESS OF HURRICANE ANDREW, THE
17 "STORM OF THE CENTURY," AND UNUSUALLY HEAVY RAINS.
18 I ALSO WITNESSED THEIR PERFORMANCE DURING TIMES OF
19 RELATIVE CALM AND I AM CONVINCED THAT THE CALIBER OF
20 OUR EMPLOYEES IS SECOND-TO-NONE.

21
22 THE PROBLEMS WE HAVE ENCOUNTERED OVER THE PAST FEW
23 YEARS, STEMMING FROM THE IMPROPER CONDUCT OF A FEW
24 OF OUR EMPLOYEES, HAVE UNFORTUNATELY OVERSHADOWED
25 THE EFFORTS OF THE VAST MAJORITY. IMPORTANTLY,

1 HOWEVER, OUR CORPORATION HAS ADDRESSED THESE
2 PROBLEMS AGGRESSIVELY AND APPROPRIATELY. RATHER
3 THAN TRYING TO CONCEAL THESE ISSUES FROM PUBLIC
4 SCRUTINY, OUR CORPORATION INFORMED THE APPROPRIATE
5 LAW ENFORCEMENT AUTHORITIES AND THIS COMMISSION OF
6 IMPROPRIETIES THAT WE DISCOVERED. WE ALSO
7 DISCIPLINED THOSE EMPLOYEES WHO MAY HAVE ENGAGED IN
8 IMPROPER CONDUCT OR WHO MAY HAVE FAILED TO DISCOVER
9 SUCH IN A TIMELY FASHION. FURTHER, AS THESE
10 PROBLEMS WERE IDENTIFIED, WE REIMBURSED OUR
11 CUSTOMERS FOR ANY LOSS THEY MAY HAVE INCURRED. OUR
12 RESPONSE HAS CONSISTENTLY BEEN SWIFT AND SURE.
13 ACCORDINGLY, WE DESERVE RECOGNITION FOR OUR EFFORT
14 TO PROVIDE THE BEST SERVICE POSSIBLE TO OUR
15 CUSTOMERS.

16
17 MY TESTIMONY PROVIDES A VIEW OF THE INTERNAL
18 WORKINGS OF SOUTHERN BELL FROM THE PERSPECTIVE OF
19 ONE WHO HAS HAD THE RESPONSIBILITY TO ENSURE THE
20 QUALITY OF NETWORK SERVICE. FROM THIS PERSPECTIVE,
21 I DISCUSS THE EVENTS THAT OCCURRED A NUMBER OF YEARS
22 AGO WITHIN THE NETWORK DEPARTMENT. I WILL EXPLAIN
23 MY BELIEF AS TO WHY A FEW OF OUR EMPLOYEES ENGAGED
24 IN IMPROPER CONDUCT, AS WELL AS THE IMPACT OF THEIR
25 CONDUCT. I WILL ALSO EXPLAIN THAT, WHILE THE

1 CONDUCT OF SOME OF OUR EMPLOYEES WAS REPREHENSIBLE,
2 THE COMPANY, AS EVIDENCED BY WHAT OUR CUSTOMERS HAVE
3 TOLD US, HAS CONTINUED TO PROVIDE HIGH QUALITY
4 SERVICE. IMPORTANTLY, I WILL EXPLAIN WHY THE
5 PERCEPTION OF OUR CUSTOMERS AS TO WHETHER OR NOT
6 THEY ARE SATISFIED WITH SOUTHERN BELL'S SERVICE
7 SHOULD BE THE DETERMINANT OF GOOD SERVICE. I WILL
8 THEN EXPLAIN WHY IMPOSING A PENALTY UPON THE COMPANY
9 WOULD BE UNFAIR AND UNWARRANTED.

10

11 Q. PLEASE DESCRIBE WHY YOU BELIEVE THAT MISREPORTING
12 MAY HAVE OCCURRED AT THE LOWER LEVELS OF THE NETWORK
13 DEPARTMENT.

14

15 A. TO UNDERSTAND WHY MISREPORTING OR MISCODING MAY HAVE
16 OCCURRED, I BELIEVE THAT ONE HAS TO CONSIDER THE
17 ENVIRONMENT IN WHICH THESE EMPLOYEES OPERATED. MANY
18 OF MY FINDINGS ARE TRUE OF THIS COMPANY AND ANY
19 OTHER LARGE COMPANY.

20

21 THE COMPANY HAD STRINGENT OBJECTIVES THAT WOULD
22 STRETCH THE NETWORK DEPARTMENT TO PROVIDE THE BEST
23 SERVICE POSSIBLE. THE MEASURE OF HOW WELL THIS WAS
24 ACCOMPLISHED INVOLVED THE INDICES THE DEPARTMENT
25 HAD. UNFORTUNATELY, DEMANDING EXCELLENCE IN THIS

1 MANNER EVIDENTLY PLACED TOO MUCH STRESS ON SOME OF
2 OUR MANAGEMENT AND CRAFT EMPLOYEES. IN SHORT, SOME
3 GOOD PEOPLE TOOK THE WRONG WAY OUT AND MISCODED
4 TROUBLE REPORTS.

5
6 I FOUND ABSOLUTELY NO INDICATION THAT SENIOR
7 MANAGEMENT FOSTERED, ENCOURAGED OR WAS WILLING TO
8 TOLERATE CHEATING. I FOUND NO INDICATION THAT THE
9 STAFF OR MID LEVEL MANAGEMENT WAS INTENTIONALLY
10 COVERING UP CHEATING OR FAILED TO ACT WHEN THEY
11 BECAME AWARE OF MISCONDUCT. I DID FIND, HOWEVER, A
12 FAILURE TO BE ALERT TO THE POSSIBILITY OF CHEATING
13 AND TOO LITTLE EFFORT TO CHECK FOR THE POSSIBILITY.
14 THERE WAS NO LESSENING OF A COMMITMENT TO SERVICE.
15 THERE WAS IN FACT A HEIGHTENED COMMITMENT TO SERVICE
16 AS MEASURED BY MANY OF THESE INDICES. THE FAILURE
17 WAS TO RECOGNIZE THAT SOME INDIVIDUALS MIGHT CHEAT
18 AND TO TAKE STEPS TO LESSEN THIS RISK.

19
20 Q. MR. POUCHER CONTENDS THAT HIGHER MANAGEMENT IN THE
21 NETWORK DEPARTMENT ENCOURAGED EMPLOYEES TO MISREPORT
22 OR MISCODE TROUBLE REPORTS OR OTHERWISE CONDONED
23 SUCH BEHAVIOR. IS THIS TRUE?

24
25 A. ABSOLUTELY NOT. NO ONE IN HIGHER MANAGEMENT, NOR

1 THE VAST MAJORITY OF OTHER MANAGEMENT EMPLOYEES,
2 EVER TOLERATED, CONDONED, OR IN ANY WAY ENCOURAGED
3 FALSE REPORTING OF RESULTS. IN FACT, WHENEVER THESE
4 MANAGERS IDENTIFIED MISREPORTING ACTIVITY, THE
5 EMPLOYEE RESPONSIBLE FOR THE MISREPORTING RECEIVED
6 APPROPRIATE DISCIPLINE, UP TO AND INCLUDING
7 DISCHARGE.

8
9 IT DOES NOT LOGICALLY FOLLOW THAT THE MERE PRESENCE
10 OF MISREPORTING INDICATES THAT OUR MANAGERS WANTED
11 THESE ACTIVITIES TO OCCUR. RATHER, TO THE CONTRARY,
12 THE EVIDENCE CONFIRMS THAT OUR MANAGERS CONSISTENTLY
13 REAFFIRMED THEIR EXPECTATION THAT RESULTS WERE TO BE
14 OBTAINED HONESTLY.

15
16 Q. IF THESE MANAGERS EMPHASIZED HONESTY IN ACHIEVING
17 RESULTS AND NEVER TOLERATED CHEATING, WHY DID
18 MISREPORTING OCCUR?

19
20 A. MISREPORTING OCCURRED WHEN SOME EMPLOYEES MISTAKENLY
21 BELIEVED THAT MEETING INTERNAL INDICES WAS OF
22 PARAMOUNT IMPORTANCE. UNFORTUNATELY, A FEW OF OUR
23 MANAGERS FELT THAT THE WAY TO MEET THESE NUMERICAL
24 OBJECTIVES, WAS TO TAKE INAPPROPRIATE SHORTCUTS THAT
25 WERE IN DIRECT VIOLATION OF COMPANY POLICY. FOR

1 EXAMPLE, IF CHANGING THE CLEAR TIME ON A TROUBLE
2 REPORT FROM THE CORRECT TIME OF 3:00 P.M. TO 2:45
3 P.M. ENABLED THE EMPLOYEE TO MEET THE INTERNAL
4 INDEX, IT APPEARS THAT THE EMPLOYEE MAY HAVE TAKEN
5 THAT INAPPROPRIATE STEP OF BACKING UP TIME
6 IMPROPERLY. IT APPEARED THAT THE 15 MINUTE
7 DEVIATION WAS, IN THE EMPLOYEE'S MIND, RELATIVELY
8 INCONSEQUENTIAL AND THEREFORE, ACCEPTABLE.

9
10 SUCH AN EMPLOYEE APPARENTLY SAW ONLY THAT THE IMPACT
11 OF HIS DEVIATION WAS IMPERCEPTIBLY SMALL. HE
12 APPARENTLY DID NOT CONSIDER THE EFFECT IN THE
13 AGGREGATE OR UPON THE COMPANY REPORTS. THUS,
14 ALTHOUGH THE VAST MAJORITY OF MANAGERS CONSISTENTLY
15 REAFFIRMED THE REQUIREMENT OF HONESTY AND INTEGRITY,
16 AND ACTED PROPERLY IN ALL RESPECTS, A FEW APPEAR TO
17 HAVE CONCLUDED THAT THE NEED TO MEET INTERNAL
18 INDICES SOMEHOW CAME TO "JUSTIFY" THESE "SLIGHT"
19 DEVIATIONS.

20
21 Q. DID EMPLOYEES WHO MAY HAVE MISREPORTED THE STATUS OF
22 TROUBLE REPORTS INTEND TO DEPRIVE CUSTOMERS OF
23 REBATES?

24
25 A. BASED UPON THE EVIDENCE IN THIS PROCEEDING,

1 ABSOLUTELY NOT. THOSE WHO UNDERSTAND THE TELEPHONE
2 INDUSTRY KNOW THAT THE COMPLEXITY OF OUR BUSINESS
3 REQUIRES SPECIALIZATION BY EMPLOYEES IN THE AREA OF
4 THEIR RESPONSIBILITY. BARGAINING UNIT EMPLOYEES ARE
5 TRAINED TO PERFORM SPECIFIC JOB TASKS WHICH DO NOT
6 REQUIRE THEM TO UNDERSTAND COMMISSION INDICES, HOW
7 THEY ARE COMPILED, OR THEIR CONSEQUENCES.
8 THEREFORE, THESE EMPLOYEES HAD NO KNOWLEDGE OF THE
9 CIRCUMSTANCES THAT CAUSE CUSTOMERS TO RECEIVE
10 SERVICE REBATES. ALTHOUGH MANY OF OUR EMPLOYEES
11 HAVE BEEN EDUCATED ABOUT THE REBATE PROCESS SINCE
12 OUR INTERNAL INVESTIGATION OF THESE MATTERS BEGAN,
13 THERE IS NO EVIDENCE THAT OUR EMPLOYEES WERE
14 GENERALLY AWARE THAT THEIR CONDUCT MAY HAVE AFFECTED
15 CUSTOMERS OR THAT THEY INTENDED TO DO SO.

16
17 Q. DID THE COMPANY EVER INTEND FOR ITS EMPLOYEES TO
18 REPORT INACCURATE RESULTS TO THE PUBLIC SERVICE
19 COMMISSION?

20
21 A. NO. IF THIS OCCURRED, IT WAS AS A RESULT OF THE
22 ACTIONS OF A FEW COMPANY EMPLOYEES. AGAIN, OUR
23 EMPLOYEES' KNOWLEDGE OF TELEPHONE OPERATIONS IS
24 GENERALLY LIMITED TO THE AREAS OF THEIR
25 RESPONSIBILITY. ONLY A SELECT GROUP OF NETWORK

1 DEPARTMENT EMPLOYEES HAVE THE DAY-TO-DAY
2 RESPONSIBILITY OF INTERACTING, THROUGH REPORTS, WITH
3 THE PUBLIC SERVICE COMMISSION. THE TYPE OF SPECIFIC
4 KNOWLEDGE NECESSARY TO UNDERSTAND THE DOWNSTREAM
5 CONSEQUENCES OF THEIR CONDUCT WAS GENERALLY NOT
6 KNOWN TO THE VAST MAJORITY OF OUR EMPLOYEES. ANY
7 MISREPORTING TO THE COMMISSION WAS UNINTENTIONAL.

8

9 Q. MR. POUCHER ASSERTS THAT SOUTHERN BELL'S PURPORTED
10 MISREPORTING OF TROUBLE REPORTS AFFECTED THE QUALITY
11 OF SERVICE PROVIDED TO ITS CUSTOMERS. IS THIS TRUE?

12

13 A. NO. THE QUALITY OF SERVICE OUR CUSTOMERS RECEIVE IS
14 BASED ON A VARIETY OF PRACTICAL CONCERNS THAT RELATE
15 TO THE CUSTOMERS' ABILITY TO USE THEIR TELEPHONE
16 SERVICE. FACTORS SUCH AS CONSISTENCY IN SERVICE
17 QUALITY, THE INFREQUENCY OF SERVICE OUTAGES,
18 ATTITUDES OF COMPANY SERVICE PERSONNEL, SATISFYING
19 CUSTOMERS' EXPECTATIONS, FLEXIBILITY IN SCHEDULING
20 REPAIRS, COMMUNICATION REGARDING AND AWARENESS OF
21 SERVICE RESTORAL DIFFICULTIES AND THE LIKE, ALL
22 CONTRIBUTE TO WHETHER OR NOT OUR CUSTOMERS ARE
23 SATISFIED WITH THEIR TELEPHONE SERVICE. THESE ARE
24 AMONG THE TRUE QUALITY OF SERVICE INDICATORS WHICH
25 REFLECT CUSTOMER SATISFACTION. THEY ARE ALSO NOT

1 NECESSARILY REFLECTED IN THE COMMISSION'S CURRENT
2 SERVICE QUALITY RULES. ALTHOUGH SOUTHERN BELL MAKES
3 EVERY EFFORT TO COMPLY WITH COMMISSION MANDATED
4 INDICES, OUR FOCUS ON CUSTOMER SATISFACTION GOES
5 WELL BEYOND THOSE REQUIREMENTS.

6
7 THE COMPANY'S COMPLIANCE WITH THESE SERVICE RULES IS
8 NOT NECESSARILY AN INDICATION OF GOOD SERVICE, AND
9 THE FAILURE TO MEET SERVICE STANDARDS DOES NOT MEAN
10 THAT THE COMPANY IS NOT PROVIDING HIGH QUALITY
11 SERVICE. INDEED, TELSAM RESULTS COVERING THE PERIOD
12 OF 1988 THROUGH 1992, TELL AN IMPORTANT STORY:
13 DURING THIS PERIOD, OVER 90% OF OUR CUSTOMERS HAVE
14 BEEN CONSISTENTLY SATISFIED OR MORE THAN SATISFIED
15 WITH OUR SERVICE. IN THE SAME FASHION, THE RESULTS
16 OF THE POLL TAKEN BY GALLUP ORGANIZATION, INC., AS
17 DISCUSSED IN THE TESTIMONY OF DR. HOELTKE,
18 DEMONSTRATE THAT OUR SERVICE LEVELS ARE EQUAL TO
19 THAT OF THE OTHER LOCAL EXCHANGE COMPANIES IN
20 FLORIDA.

21
22 Q. MR. POUCHER TESTIFIED IN DOCKET NO. 910163-TL THAT
23 SOUTHERN BELL'S REPAIR INVESTIGATION CULMINATED IN A
24 PURGE OF THE "BAD APPLES" WHEN THE COMPANY
25 DISCIPLINED ONE-THIRD OF THE NETWORK DEPARTMENT'S

1 MAINTENANCE MANAGERS FOR ENGAGING IN FALSIFYING AND
2 MANIPULATING COMMISSION REPORTS. ARE MR. POUCHER'S
3 STATEMENTS ACCURATE?

4
5 A. ABSOLUTELY NOT. ALTHOUGH MR. POUCHER WAS INFORMED
6 THROUGH DISCOVERY OF THE PARTICULARS OF THE
7 DISCIPLINE ADMINISTERED TO OUR EMPLOYEES IN THE
8 REPAIR INVESTIGATION, HIS CHARACTERIZATION OF THE
9 FACTS IS DESIGNED TO MISLEAD. ACTUALLY, ONLY 44
10 MANAGERS WERE DISCIPLINED BECAUSE OF THEIR HANDLING
11 OF REPAIR SERVICE. THERE WERE ANOTHER 31 MANAGERS
12 WHO WERE REMINDED OF THEIR RESPONSIBILITIES AS
13 COVERED BY THE PERSONAL RESPONSIBILITY BOOKLET.
14 THIS WAS DONE THROUGH EITHER INFORMAL DISCUSSIONS OR
15 A COUNSELLING ENTRY IN THEIR RECORD. THESE 31
16 PEOPLE WERE NOT ACCUSED BY THE COMPANY OF IMPROPER
17 ACTIVITY.

18
19 I WOULD ALSO POINT OUT THAT ANOTHER GROUP OF
20 MANAGERS WAS DISCIPLINED, NOT AS A RESULT OF ANY
21 WRONGDOING ON THEIR PART, BUT BECAUSE THEY WERE NOT
22 ALERT TO THE POSSIBILITY OF WRONGDOING IN THEIR AREA
23 OF RESPONSIBILITY. SIXTEEN PEOPLE RECEIVED EITHER A
24 REPRIMAND OR A REPRIMAND AND A FINANCIAL PENALTY FOR
25 THEIR FAILURE IN THIS AREA. ANOTHER 12 MANAGERS

1 WERE REMINDED THROUGH INFORMAL DISCUSSIONS OR
2 COUNSELLING ENTRIES OF THEIR OBLIGATION TO ENSURE
3 ETHICAL BEHAVIOR IN THEIR ORGANIZATION.

4
5 APPLYING THE BROADEST POSSIBLE DEFINITION OF THE
6 WORD "DISCIPLINE," THERE WERE ABOUT 100 PEOPLE WHO
7 RECEIVED SOME TYPE OF TREATMENT. HOWEVER, ONLY 44
8 WERE DISCIPLINED FOR WRONGDOING.

9
10 I HAVE PREVIOUSLY TESTIFIED IN DEPOSITIONS IN THIS
11 PROCEEDING THAT I STRONGLY SUPPORT THE ACTIONS TAKEN
12 BY THE COMPANY TO IDENTIFY OUR PROBLEMS AND TO METE
13 OUT DISCIPLINE TO DESERVING EMPLOYEES. NO ONE IN
14 HIGHER MANAGEMENT EVER TOLERATED, CONDONED, OR IN
15 ANY WAY ENCOURAGED FALSE REPORTING OF RESULTS. IN
16 FACT, FLORIDA MANAGEMENT HAS BEEN CONSISTENTLY
17 DILIGENT IN FERRETING OUT IMPROPER CONDUCT AND, WHEN
18 APPROPRIATE, ADMINISTERING DISCIPLINE UP TO AND
19 INCLUDING DISCHARGE.

20
21 Q. IN DOCKET NO. 920260-TL, MR. POUCHER CONTENDS THAT A
22 REDUCTION IN SOUTHERN BELL'S MAINTENANCE FORCES
23 CONTRIBUTED TO A DECLINE IN SERVICE QUALITY. IS
24 THIS TRUE?

25

1 A. NO. AGAIN, MR. POUCHER HAS FAILED TO ACCURATELY
2 REPORT THE FACTS. BEGINNING IN OCTOBER OF 1988,
3 CHANGES IN CERTAIN NON-MANAGEMENT MAINTENANCE
4 FUNCTION CODES LED TO A MERGER OF THE CABLE SPLICING
5 AND THE CABLE REPAIR TITLES. THE NEW TITLE,
6 FACILITY TECHNICIAN, BECAME ALIGNED WITH THE
7 CONSTRUCTION FUNCTION CODE. NOTWITHSTANDING THIS
8 CHANGE, FACILITY TECHNICIANS REMAINED AVAILABLE FOR
9 MAINTENANCE FUNCTIONS SUCH AS CABLE REPAIRS. IN
10 EFFECT, THE FORCES AVAILABLE TO PERFORM THE
11 MAINTENANCE FUNCTION REMAINED RELATIVELY CONSTANT.

12
13 Q. PLEASE EXPAND UPON YOUR STATEMENT REGARDING THE
14 NUMBER OF OUTSIDE PLANT EMPLOYEES IN FLORIDA.

15
16 A. CERTAINLY. MR. POUCHER ERRONEOUSLY CLAIMS THAT WITH
17 THE ADVENT OF INCENTIVE REGULATION IN 1988, SOUTHERN
18 BELL REDUCED ITS MAINTENANCE FORCES BY 524
19 EMPLOYEES. HOWEVER, IN FACT, THE REDUCTION WAS
20 LIMITED TO A MERE 9 EMPLOYEES. THEREAFTER, THE
21 NUMBER OF OUTSIDE PLANT FORCES SHOWED AN UPWARD
22 TREND.

23
24 MOREOVER, AS PREVIOUSLY STATED, SOUTHERN BELL DID
25 NOT SUFFER A DECLINE IN SERVICE QUALITY. INDEED,

1 OUR CUSTOMERS HAVE CONSISTENTLY TOLD US THAT THE
2 QUALITY OF OUR SERVICE IS SATISFACTORY OR BETTER.

3

4 Q. IN TESTIMONY OFFERED IN DOCKET NO. 920260-TL, MR.
5 POUCHER CONCLUDED THAT THE CURTAILMENT OF SOUTHERN
6 BELL'S PROGRAM TO REHABILITATE ITS OUTSIDE PLANT LED
7 TO REDUCED LEVELS OF SERVICE. IS THIS TRUE?

8

9 A. ABSOLUTELY NOT. MR. POUCHER IS INCAPABLE OF
10 PROVIDING ANY SUBSTANTIATION FOR THIS CLAIM BECAUSE
11 NONE EXISTS. IN FACT, SOUTHERN BELL HAS EXPENDED
12 TREMENDOUS AMOUNTS ON REHABILITATING ITS OUTSIDE
13 PLANT. DURING THE FIVE YEAR PERIOD FROM 1988
14 THROUGH AUGUST OF 1993, SOUTHERN BELL INVESTED \$98.2
15 MILLION IN ITS OUTSIDE PLANT. IN EACH YEAR THE
16 FOLLOWING INVESTMENTS WERE MADE:

17	1988	\$10.1 M
18	1989	\$ 8.7 M
19	1990	\$12.6 M
20	1991	\$21.0 M
21	1992	\$22.3 M
22	1993	\$23.5 M THROUGH AUGUST

23

24 IT SHOULD BE NOTED THAT ADDITIONAL MONIES IN THE
25 HUNDREDS OF MILLIONS OF DOLLARS WERE EXPENDED FOR

1 CAPITAL IMPROVEMENTS.

2

3 Q. MR. POUCHER ALSO CLAIMS THAT FLORIDA FELL BEHIND IN
4 NEW TECHNOLOGY. IS THIS CORRECT?

5

6 A. NO. SOUTHERN BELL IN FLORIDA HAS MADE TREMENDOUS
7 STRIDES IN DEVELOPING ITS INFRASTRUCTURE. FOR
8 EXAMPLE, IN 1988, ONLY 51% OF ACCESS LINES IN
9 SOUTHERN BELL TERRITORY WERE EQUIPPED WITH SYSTEM
10 SIGNALING SEVEN, THE TECHNOLOGY WHICH PERMITS SUCH
11 SERVICES AS CALL RETURN OR CALLER ID TO OPERATE. BY
12 1992, 98% OF ACCESS LINES WERE EQUIPPED WITH THIS
13 SYSTEM. OTHER EXAMPLES ARE AVAILABLE AND HAVE BEEN
14 CITED IN THE TESTIMONY OF MR. DENTON. IMPORTANTLY,
15 THE ESSENCE OF OUR COMMITMENT TO IMPROVE SERVICE TO
16 OUR CUSTOMERS IS EVIDENCED BY THE FACT THAT SINCE
17 1988, SOUTHERN BELL'S INVESTMENT IN NEW TECHNOLOGY
18 HAS TOTALLED MORE THAN \$1.7 BILLION.

19

20 CLEARLY, THE MAGNITUDE OF THE COMPANY'S INVESTMENT
21 COULD NOT REASONABLY BE CONSTRUED AS "CURTAILMENT OF
22 THE REHABILITATION PROGRAM." RATHER, THIS LEVEL OF
23 INVESTMENT EVIDENCES MANAGEMENT'S RECOGNITION OF THE
24 INHERENT NEXUS BETWEEN CAPITAL INVESTMENT, PLANT
25 MAINTENANCE, AND SERVICE QUALITY.

1 Q. THE COMPANY HAS RECENTLY FILED REPORTS WITH THE
2 COMMISSION WHICH APPEAR TO REFLECT A DETERIORATION
3 IN SERVICE RESULTS. IS THIS A CORRECT
4 INTERPRETATION OF THOSE REPORTS?

5
6 A. NO. ALTHOUGH IT IS CORRECT THAT THE COMPANY'S
7 RESULTS ON SOME SCHEDULES HAVE DETERIORATED IN 1993,
8 ANY EFFORT TO ATTRIBUTE THIS DECLINE TO A REDUCTION
9 IN QUALITY OF SERVICE WOULD BE A MISTAKE. FIRST, I
10 MUST EMPHASIZE THAT THESE REPORTS DO NOT REFLECT ANY
11 REDUCTION IN THE HIGH LEVEL OF SERVICE THAT SOUTHERN
12 BELL HAS CONSISTENTLY PROVIDED TO ITS CUSTOMERS.
13 THIS IS SHOWN BY A. WAYNE TUBAUGH'S TESTIMONY.
14 RATHER, THE REAL CAUSES OF THIS APPARENT DECLINE ARE
15 TO BE FOUND IN THE CHANGES ADOPTED BY SOUTHERN BELL
16 WITH REGARD TO THE PROCESSING OF CUSTOMER REPORTS.

17
18 EXAMPLES OF THESE MODIFICATIONS INCLUDE: 1)
19 REPLACING THE USE OF CLEAR TIME WITH A COMPUTER
20 GENERATED FINAL STATUS (OR CLOSE) TIME, THE NET
21 EFFECT OF WHICH IS TO LENGTHEN THE TROUBLE REPAIR
22 TIME TO INCLUDE ROUTINE WORK (E.G., CLEANING THE
23 WORK AREA ON THE CUSTOMER'S PREMISES) EVEN THOUGH
24 SERVICE WAS RESTORED EARLIER; 2) ELIMINATING THE USE
25 OF THE CARRY OVER NO (CON) TRANSACTION, THEREBY

1 REQUIRING THE OUT OF SERVICE OVER 24 HOURS RULE TO
2 APPLY EVEN WHEN THE CUSTOMER HAS REQUESTED AN
3 APPOINTMENT DATE THAT IS BEYOND 24 HOURS FROM THE
4 INITIAL COMPLAINT; AND 3) ELIMINATING AN EMPLOYEE'S
5 ABILITY TO STOP THE CLOCK ON NO ACCESS SUBSCRIBER
6 (NAS), THUS REQUIRING THE OUT OF SERVICE OVER 24
7 HOURS RULE TO APPLY EVEN WHEN NEEDED ACCESS TO A
8 CUSTOMER'S PREMISES IS DENIED FOR REASONS
9 ATTRIBUTABLE TO THE CUSTOMER.

10

11 IN ANOTHER EFFORT TO BE CUSTOMER FOCUSED, RATHER
12 THAN TESTING A CUSTOMER'S LINE TO DETERMINE WHETHER
13 A TROUBLE RENDERS THAT LINE OUT OF SERVICE OR IS
14 MERELY SERVICE AFFECTING, THE COMPANY NOW ACCEPTS
15 THE CUSTOMER'S STATEMENT AS TO WHETHER OR NOT HIS OR
16 HER LINE IS OUT OF SERVICE. THIS HAS SIGNIFICANTLY
17 INCREASED THE TOTAL TROUBLES THAT ARE STATUSED AS
18 OUT-OF-SERVICE. THESE NEW PROGRAMS AND CONTROLS,
19 AND OTHERS THAT ARE EXPLAINED IN DETAIL IN THE
20 TESTIMONY OF APRIL IVY, WHILE DESIGNED TO ENSURE
21 ACCURATE REPORTING, HAVE SIMPLY MADE IT MORE
22 DIFFICULT FOR THE COMPANY TO COMPLY WITH A NUMBER OF
23 THE COMMISSION'S RULES.

24

25 THESE, AND OTHER CHANGES, PROPERLY EMPHASIZE

1 CUSTOMER SATISFACTION AS OPPOSED TO RESULTS REPORTED
2 ON COMMISSION SCHEDULES. ALTHOUGH THIS SHIFT IN
3 FOCUS IS IN NO WAY INTENDED TO MINIMIZE THE
4 IMPORTANCE OF COMMISSION RULES, WE ANTICIPATED THIS
5 DECLINE IN REPORTED RESULTS. WE BELIEVE, THOUGH,
6 THAT THE CUSTOMER'S PERCEPTION OF THE COMPANY'S
7 QUALITY OF SERVICE, AS REVEALED IN TELSAM RESULTS
8 AND THE GALLUP ORGANIZATION, INC. SURVEY RESULTS,
9 RATHER THAN PERFORMANCE ON COMMISSION INDICES, IS
10 THE PROPER DETERMINANT OF GOOD SERVICE. AS STATED
11 ABOVE, THESE SURVEYS SHOW THAT OUR SERVICE HAS
12 REMAINED CONSISTENTLY HIGH. INDEED, OUR CUSTOMERS
13 HAVE SAID THAT, EVEN THROUGH THE RAVAGES OF
14 HURRICANE ANDREW AND THE MARCH, 1993 "STORM OF THE
15 CENTURY," THE QUALITY OF OUR SERVICE REMAINED HIGH.
16 ACCORDINGLY, WE BELIEVE THAT THE SERVICE WE HAVE
17 PROVIDED IN FLORIDA HAS REMAINED EXCELLENT DESPITE
18 THE APPARENT DECLINE REFLECTED IN COMMISSION INDEX
19 RESULTS.

20

21 Q. IN DOCKET NO. 920260-TL, MR. McDONALD ASSERTS THAT A
22 PENALTY SHOULD BE IMPOSED UPON SOUTHERN BELL BECAUSE
23 OF THE DECLINE IN RESULTS SHOWN IN OUR THIRD
24 QUARTER, 1993 PERIODIC REPORT. DO YOU AGREE WITH
25 MR. McDONALD'S ASSERTION?

1 A. ABSOLUTELY NOT. AGAIN, AS I PREVIOUSLY STATED, ANY
2 EFFORT TO ATTRIBUTE SOUTHERN BELL'S DECLINE IN
3 COMMISSION SERVICE RESULTS TO A REDUCTION IN QUALITY
4 OF SERVICE WOULD BE A MISTAKE. THE TELSAM RESULTS
5 AND THE GALLUP ORGANIZATION, INC. SURVEY RESULTS,
6 MAKE IT ABUNDANTLY CLEAR THAT OUR SERVICE QUALITY IS
7 GOOD. FOR THIS REASON MR. McDONALD'S REQUEST FOR A
8 10 BASIS POINT PENALTY SHOULD BE REJECTED.
9
10 Q. IN DOCKET NO. 920260-TL, MR. DEWARD CONTENDS THAT
11 SOUTHERN BELL PAYS ITS EMPLOYEES INCENTIVE
12 COMPENSATION AND EMPLOYEE BENEFITS THAT ARE
13 EXCESSIVE. IS THIS ACCURATE?
14
15 A. NO. MR. DEWARD'S CONCLUSION IS FOUNDED ON THE
16 ERRONEOUS PREMISE THAT BECAUSE A POOL OF QUALIFIED
17 INDIVIDUALS IS READILY AVAILABLE FOR EMPLOYMENT AT
18 SOUTHERN BELL, THE LEVEL OF MARKET DRIVEN SALARIES
19 SHOULD BE REDUCED. IN FACT, A POOL OF QUALIFIED
20 CANDIDATES IS NOT READILY AVAILABLE.
21
22 EACH APPLICANT SEEKING A TECHNICAL POSITION WITH
23 SOUTHERNELL IS REQUIRED TO PASS A TECHNICAL
24 ABILITY TEST. DURING 1993, TO DATE, A TOTAL OF
25 1,032 APPLICANTS TOOK THE TEST IN OUR SOUTH FLORIDA

1 OFFICE; ONLY 184 ACTUALLY PASSED. APPLICANTS FOR
2 PERMANENT JOBS MUST ALSO PASS A BASIC ELECTRICITY
3 TEST. THIS TEST REDUCED THE 184 EVEN FURTHER. THE
4 NUMBER OF APPLICANTS WHO WERE SUBSEQUENTLY HIRED
5 TOTALED 100. THUS, FOR EVERY POSITION THE COMPANY
6 SEEKS TO FILL, APPROXIMATELY TEN APPLICANTS MUST BE
7 PROCESSED. THIS TEN-TO-ONE RATIO MAKES IT
8 EXCEEDINGLY DIFFICULT TO FIND QUALIFIED CANDIDATES
9 FOR EMPLOYMENT. OBVIOUSLY, MR. DEWARD DOES NOT
10 FULLY UNDERSTAND THE LEVEL OF EXPERTISE REQUIRED FOR
11 MANY OF OUR TECHNICAL POSITIONS. MOREOVER,
12 MAINTAINING THESE EMPLOYEES ON THE PAYROLL IS
13 FACILITATED THROUGH INCENTIVE COMPENSATION THAT
14 RECOGNIZES THEIR UTILITY TO THE COMPANY AND THE
15 MARKETABILITY OF THEIR EXPERTISE. MR. DELAHANTY
16 DISCUSSES IN MORE DETAIL THE INACCURACIES IN MR.
17 DEWARD'S TESTIMONY IN THIS REGARD.

18

19 Q. SHOULD THE COMMISSION IMPOSE A PENALTY ON THE
20 COMPANY RELATED TO THE NON-CONTACT SALES AND TROUBLE
21 REPORTING ISSUES?

22

23 A. ABSOLUTELY NOT. ALTHOUGH MR. LACHER'S TESTIMONY
24 EXPLAINS WHY IMPOSITION OF A PENALTY WOULD BE
25 UNWARRANTED AND UNFAIR, A FEW POINTS DESERVE

1 REPEATING. FIRST, IDENTIFICATION AND DISCLOSURE OF
2 BOTH THE NON-CONTACT SALES AND TROUBLE REPORTING
3 PROBLEMS WERE ACHIEVED THROUGH INTERNAL COMPANY
4 EFFORTS. SECOND, THE COMPANY HAS DISCIPLINED ITS
5 EMPLOYEES AND, INDEED, IT IS THOSE WHO WERE FIRED
6 FOR THEIR OWN MISCONDUCT WHO APPEAR TO BE OUR
7 LOUDEST CRITICS. THIRD, THE COMPANY HAS
8 CONSISTENTLY MADE EVERY EFFORT TO REIMBURSE ALL
9 CUSTOMERS WHO MAY HAVE BEEN AFFECTED. MOREOVER, IT
10 IS MY UNDERSTANDING THAT IN EACH CATEGORY OF
11 PAYMENTS MADE TO CUSTOMERS UNDER THE TERMS OF THE
12 COMPANY'S SETTLEMENT AGREEMENT WITH THE OFFICE OF
13 STATEWIDE PROSECUTION, THE COMPANY PAID MONEY TO
14 THESE CUSTOMERS IN AMOUNTS DESIGNED TO FULLY
15 COMPENSATE THEM. INDEED, THROUGHOUT THESE MATTERS,
16 THE COMPANY HAS CONSISTENTLY AND INTENTIONALLY
17 RESOLVED DISPUTES IN FAVOR OF THE CUSTOMER.
18
19 QUALITY OF SERVICE IS THE DETERMINANT OF THE OVERALL
20 SUCCESS OF SOUTHERN BELL. ALL OF THE RELEVANT
21 EVIDENCE POINTS TO THE INESCAPABLE CONCLUSION THAT
22 WE HAVE SUCCESSFULLY PROVIDED QUALITY TELEPHONE
23 SERVICE TO THE RESIDENTS OF THIS STATE. TO IMPOSE A
24 PENALTY, IN THE FACE OF SUCH ACHIEVEMENT, WOULD BE
25 INCONSISTENT WITH THE REAL INTERESTS OF OUR

1 CUSTOMERS AND INCONSISTENT WITH FAIRNESS.

2

3 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

4

5 A. YES.

6

1 SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY
2 REBUTTAL TESTIMONY OF C. L. CUTHBERTSON JR.
3 BEFORE THE
4 FLORIDA PUBLIC SERVICE COMMISSION
5 IN
6 DOCKET NO. 920260-TL
7 DECEMBER 10, 1993
8

9 Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS
10 ADDRESS.

11
12

13 A. MY NAME IS C.L. CUTHBERTSON JR. I AM EMPLOYED BY
14 BELLSOUTH TELECOMMUNICATIONS, INC., D/B/A SOUTHERN
15 BELL TELEPHONE AND TELEGRAPH COMPANY ("SOUTHERN
16 BELL" OR "THE COMPANY") AS GENERAL MANAGER-HUMAN
17 RESOURCES. MY BUSINESS ADDRESS IS 301 WEST BAY
18 STREET, JACKSONVILLE, FLORIDA 32202.

19

20 Q. PLEASE GIVE A SUMMARY OF YOUR WORK EXPERIENCE WITH
21 SOUTHERN BELL.

22

23 A. I BEGAN MY CAREER WITH SOUTHERN BELL IN 1962, IN THE
24 MANAGEMENT TRAINING PROGRAM. I HELD VARIOUS JOBS IN
25 THE OPERATING DEPARTMENTS IN WHAT IS NOW CALLED
26 OPERATOR SERVICES, AND THE SWITCHING PART OF

1 NETWORK. I WAS A SUPERVISOR IN RATES AND FORECASTS
2 FOR NORTH FLORIDA BETWEEN 1976 AND 1979. IN 1979, I
3 BECAME DIVISION PERSONNEL MANAGER FOR NORTH FLORIDA.
4 I WAS NAMED GENERAL PERSONNEL MANAGER FOR GEORGIA IN
5 1985. I RETURNED TO JACKSONVILLE IN 1989, AS
6 GENERAL PERSONNEL MANAGER FOR FLORIDA. IN 1991, THE
7 PERSONNEL FUNCTIONS FOR ALABAMA WERE ADDED TO MY
8 RESPONSIBILITIES AND SHORTLY THEREAFTER THE TITLE
9 WAS CHANGED TO GENERAL MANAGER-HUMAN RESOURCES.

10

11 Q. MR. CUTHBERTSON, PLEASE TELL US THE PURPOSE OF YOUR
12 TESTIMONY.

13

14 A. PUBLIC COUNSEL, THROUGH THE TESTIMONY OF MR.
15 POUCHER, HAS MADE A NUMBER OF ALLEGATIONS REGARDING
16 THE COMPANY WHICH ARE BASED IN WHOLE OR IN PART ON
17 INFORMATION PROVIDED BY SOME OF SOUTHERN BELL'S
18 FORMER EMPLOYEES. I WANT TO PROVIDE THE COMMISSION
19 WITH INFORMATION REGARDING THE CIRCUMSTANCES UNDER
20 WHICH THESE PEOPLE LEFT SOUTHERN BELL SO THAT THE
21 INFORMATION PROVIDED BY THEM CAN BE VIEWED IN THE
22 PROPER CONTEXT.

23

24 Q. YOU HAVE STATED THAT YOUR JOB TITLE IS GENERAL
25 MANAGER-HUMAN RESOURCES. BRIEFLY, WHAT ARE YOUR

1 DUTIES?

2

3 A. I OVERSEE THE COMPANY'S HUMAN RESOURCE FUNCTIONS
4 WITHIN THE STATE SUCH AS EMPLOYMENT, THE SELECTION
5 OF EXISTING EMPLOYEES FOR OTHER JOBS, LABOR
6 RELATIONS, OUR AFFIRMATIVE ACTION PROGRAM, AND THE
7 SAFETY PROGRAM.

8

9 Q. WHAT RESPONSIBILITY, IF ANY, DO YOU HAVE FOR
10 EMPLOYEE DISCIPLINE?

11

12 A. I HAVE THE RESPONSIBILITY FOR SEEING THAT DISCIPLINE
13 IS APPROPRIATELY APPLIED TO PROTECT THE COMPANY'S
14 INTEREST AND ALSO TO ENSURE THAT EMPLOYEES ARE
15 FAIRLY TREATED.

16

17 Q. WHAT ARE SOME OF THE ACTIVITIES YOU PERFORM IN
18 CARRYING OUT YOUR DISCIPLINE RESPONSIBILITIES?

19

20 A. SOMETIMES I PARTICIPATE DIRECTLY IN MAKING
21 DISCIPLINE RECOMMENDATIONS TO THE OPERATING
22 DEPARTMENT. I ALSO REVIEW PERSONNEL RECORDS,
23 INVESTIGATIVE REPORTS, AND OTHER INFORMATION TO
24 ENSURE THAT DISCIPLINE IS BEING APPROPRIATELY
25 ADMINISTERED.

1 Q. CAN YOU DETERMINE WHETHER AN EMPLOYEE'S DEPARTURE
2 FROM THE COMPANY RESULTED FROM DISCIPLINE OR FOR
3 SOME OTHER REASON?
4

5 A. GENERALLY, YES.
6

7 Q. THE OFFICE OF PUBLIC COUNSEL HAS INTRODUCED
8 INFORMATION PROVIDED BY SOME FORMER SOUTHERN BELL
9 EMPLOYEES. I WANT TO ASK YOU SOME QUESTIONS ABOUT
10 THESE FORMER EMPLOYEES AND OBTAIN FROM YOU ANY
11 INFORMATION YOU MAY HAVE REGARDING THE EVENTS
12 ASSOCIATED WITH THEIR LEAVING SOUTHERN BELL. WHAT
13 RECORDS OF THESE FORMER EMPLOYEES DID YOU REVIEW AND
14 HOW ARE THESE RECORDS MAINTAINED BY THE COMPANY?
15

16 A. AS THE GENERAL MANAGER - HUMAN RESOURCES FOR
17 FLORIDA, I AM RESPONSIBLE FOR ENSURING THAT ALL
18 PERSONNEL RELATED FILES ARE MAINTAINED IN ACCORDANCE
19 WITH COMPANY PRACTICES. THESE FILES INCLUDED ALL
20 MEMORANDA, RECORDS, DOCUMENTS, AND DATA COMPILATIONS
21 IN ANY FORM, THAT REFLECT THE ACTS, EVENTS,
22 OPINIONS, EVALUATIONS, AND RELATED EMPLOYMENT STATUS
23 INFORMATION OF ALL SOUTHERN BELL EMPLOYEES IN
24 FLORIDA. I HAVE REVIEWED NUMEROUS DOCUMENTS
25 RELATING TO THE EMPLOYMENT STATUS OF FRANK FALSETTI,

1 MARTHA THOMAS, NANCY D'ALESSIO, DONALD J. -BABAIR,
2 AND JAMES POWELL. FOR EACH OF THESE FORMER
3 EMPLOYEES, I HAVE REVIEWED THE APPLICABLE PORTIONS
4 OF THEIR PERSONNEL FILES, SECURITY DEPARTMENT
5 INVESTIGATION REPORTS, LETTERS, MEMORANDA, AND
6 RELATED DOCUMENTS WHERE SUCH WERE AVAILABLE. THESE
7 DOCUMENTS WERE EITHER AUTHORED BY THE FORMER
8 EMPLOYEES OR WERE PREPARED BY OR ON BEHALF OF
9 COMPANY EMPLOYEES WHO, WITH KNOWLEDGE OF THE EVENTS,
10 PREPARED THE DOCUMENTS AT OR NEAR THE TIME OF THE
11 EVENTS RELATED IN THOSE DOCUMENTS. EACH OF THESE
12 DOCUMENTS ARE KEPT BY OUR COMPANY IN THE NORMAL
13 COURSE OF BUSINESS FOR REASONS RELATED TO
14 MAINTAINING, EDUCATING, TRAINING, AND GENERALLY
15 OVERSEEING OUR WORK FORCE. MAINTAINING THESE
16 RECORDS IS A REGULAR PRACTICE OF OUR BUSINESS
17 BECAUSE OUR EMPLOYEES ARE OUR PRIMARY ASSET.

18

19 Q. FIRST, I WOULD ASK IF YOU HAVE ANY INFORMATION
20 REGARDING MR. FRANK FALSETTI?

21

22 A. YES, I DO.

23

24 Q. WHAT WERE THE CIRCUMSTANCES THAT LED TO MR.
25 FALSETTI'S DEPARTURE FROM SOUTHERN BELL?

1 A. MR. FALSETTI WAS ABSENT FROM WORK FOR ONE-YEAR
2 BEGINNING AROUND APRIL 1, 1989, DUE TO A PSYCHIATRIC
3 ILLNESS. HIS SICK PAY BENEFITS EXPIRED AT THE END
4 OF THE ONE-YEAR PERIOD. SINCE HE WAS UNABLE TO
5 RETURN TO WORK, HE WAS REMOVED FROM THE PAYROLL.
6

7 Q. DID MR. FALSETTI CHALLENGE THAT ACTION?
8

9 A. YES, HE DID. HIS BARGAINING AGENT FILED A GRIEVANCE
10 ON HIS BEHALF CLAIMING "UNJUST TERMINATION." HE
11 ALSO MADE AN APPEAL TO THE EMPLOYEE BENEFITS
12 COMMITTEE.
13

14 Q. WHAT WERE THE RESULTS OF THOSE ACTIONS?
15

16 A. THE BENEFITS APPEAL WAS DENIED AND THE GRIEVANCE WAS
17 SETTLED BY THE COMPANY GIVING HIM A TERMINATION
18 ALLOWANCE.
19

20 Q. WHAT TYPE OF RELATIONSHIP DID MR. FALSETTI HAVE WITH
21 THE COMPANY PRIOR TO THE FINAL EVENTS WHICH YOU HAVE
22 DESCRIBED.
23

24 A. I WOULD DESCRIBE THE RELATIONSHIP AS "ADVERSARIAL."
25 IN 1982, HE BEGAN A PROTRACTED PROTEST REGARDING

1 WHAT HE APPARENTLY VIEWED AS MISTREATMENT BY THE
2 COMPANY. MR. FALSETTI HAD BEEN A TESTBOARD
3 TECHNICIAN. IN THE EARLY 1980'S THAT JOB WAS
4 ELIMINATED COMPANYWIDE. MR. FALSETTI WAS PLACED IN
5 THE JOB OF MAINTENANCE ADMINISTRATOR AND HIS PAY WAS
6 REDUCED PER AN AGREEMENT WITH THE UNION WHICH ALSO
7 APPLIED COMPANY-WIDE. IT APPEARS MR. FALSETTI NEVER
8 ACCEPTED THIS CHANGE.

9

10 Q. I WOULD LIKE TO ASK YOU SOME QUESTIONS ABOUT FORMER
11 EMPLOYEE MARTHA THOMAS. ARE YOU FAMILIAR WITH THE
12 CIRCUMSTANCES THAT LED TO HER DEPARTURE FROM
13 SOUTHERN BELL?

14

15 A. YES, I AM.

16

17 Q. WHY DID MS. THOMAS LEAVE HER JOB AT SOUTHERN BELL?

18

19 A. SHE WAS TERMINATED IN AUGUST OF 1993.

20

21 Q. WHY WAS SHE TERMINATED?

22

23 A. SHE MADE HARASSING CALLS TO CUSTOMERS, SHE MADE
24 IMPROPER USE OF PROPRIETARY INFORMATION, AND SHE
25 MONITORED OR "LISTENED IN" ON CUSTOMERS' TELEPHONE

1 CONVERSATIONS.

2

3 Q. HAD THE COMPANY EXPERIENCED PRIOR PROBLEMS WITH MS.
4 THOMAS?

5

6 A. YES. SHE WAS SUSPENDED IN MARCH OF 1992, FOR
7 DISRUPTING A CUSTOMER'S SERVICE.

8

9 Q. I WOULD NOW LIKE TO ASK YOU SOME QUESTIONS REGARDING
10 MS. NANCY D'ALESSIO. ARE YOU FAMILIAR WITH THE
11 CIRCUMSTANCES THAT LED TO MS. D'ALESSIO LEAVING
12 SOUTHERN BELL?

13

14 A. YES, I AM.

15

16 Q. PLEASE TELL US WHAT YOU KNOW ABOUT THOSE
17 CIRCUMSTANCES.

18

19 A. DURING 1990, MS. D'ALESSIO WAS INVOLVED IN THE
20 MISHANDLING OF CUSTOMER TROUBLE REPORTS IN THE NORTH
21 DADE INSTALLATION AND MAINTENANCE CENTER. SHE
22 PARTICIPATED IN WHAT WE CALL "BUILDING THE BASE" IN
23 ORDER TO MAKE THE CENTER'S RESULTS APPEAR TO BE
24 BETTER THAN THEY ACTUALLY WERE.

25

1 Q. WHAT ACTION DID THE COMPANY TAKE REGARDING MS.
2 D'ALESSIO?
3
4 A. SHE WAS TERMINATED.
5
6 Q. DID YOU PARTICIPATE IN THE DISCIPLINE DECISION?
7
8 A. YES. I RECOMMENDED TO HER DEPARTMENT THAT SHE BE
9 TERMINATED.
10
11 Q. I WILL NOW ASK YOU SOME QUESTIONS ABOUT FORMER
12 EMPLOYEE DONALD J. BABAIR. ARE YOU FAMILIAR WITH
13 THE CIRCUMSTANCES THAT LED TO HIS LEAVING SOUTHERN
14 BELL?
15
16 A. YES, I AM.
17
18 Q. PLEASE TELL US WHAT YOU KNOW ABOUT THOSE
19 CIRCUMSTANCES.
20
21 A. MR. BABAIR WAS TERMINATED IN LATE 1990, BECAUSE OF
22 HIS INVOLVEMENT WITH A SALES PROGRAM IN ORLANDO IN
23 WHICH CUSTOMERS WERE BILLED FOR SERVICES THEY DID
24 NOT ORDER.
25

1 Q. WHAT WAS YOUR ROLE, IF ANY, IN MR. BABAIR-BEING
2 TERMINATED?
3
4 A. I RECOMMENDED THAT HE BE TERMINATED.
5
6 Q. WHAT INVOLVEMENT, IF ANY, HAVE YOU HAD WITH MR.
7 BABAIR SINCE HIS TERMINATION?
8
9 A. FOLLOWING HIS TERMINATION, MR. BABAIR WROTE A LETTER
10 TO THE COMPANY ASKING THAT HIS SITUATION BE RESOLVED
11 IN ORDER TO SAVE "EXPENSE AND AGGRAVATION." HE
12 IMPLIED THAT IF THE COMPANY FAILED TO REACH SOME
13 AGREEMENT WITH HIM THAT HE WOULD REVEAL TO THE
14 PUBLIC SERVICE COMMISSION INFORMATION THAT WOULD BE
15 HARMFUL TO SOUTHERN BELL. I CALLED MR. BABAIR AND
16 MADE ARRANGEMENTS TO MEET WITH HIM IN ORLANDO WITH
17 THE COMPANY'S GENERAL SECURITY MANAGER.
18
19 Q. PLEASE STATE WHAT HAPPENED DURING YOUR MEETING IN
20 ORLANDO.
21
22 A. BRIEFLY, MR. BABAIR DEMANDED THAT THE COMPANY AWARD
23 HIM A SERVICE PENSION. OTHERWISE, HE WOULD MAKE
24 CERTAIN INFORMATION AVAILABLE TO THE PUBLIC SERVICE
25 COMMISSION AND HIS ATTORNEY.

1 Q. WHAT DID YOU SAY?
2
3 A. I EXPLAINED THAT HE DID NOT QUALIFY FOR AN IMMEDIATE
4 PENSION AND THAT WE SIMPLY COULD NOT GIVE HIM A
5 PENSION. I THEN ASKED HIM TO PROVIDE ANY
6 INFORMATION HE HAD ABOUT IMPROPER ACTIVITIES SO THE
7 COMPANY COULD INVESTIGATE.
8
9 Q. DID MR. BABAIR PROVIDE YOU WITH ANY INFORMATION?
10
11 A. HE MADE A NUMBER OF RATHER VAGUE CHARGES, BUT HE DID
12 NOT PROVIDE SUFFICIENT DETAIL FOR US TO INVESTIGATE.
13
14 Q. HOW DID THE MEETING END?
15
16 A. MR. BABAIR SAID OUR REFUSAL TO HELP HIM WITH HIS
17 FINANCIAL NEEDS WAS GOING TO COST US A LOT OF MONEY
18 AND EMBARRASSMENT.
19
20 Q. I WOULD NOW LIKE TO ASK YOU SOME QUESTIONS ABOUT
21 FORMER EMPLOYEE JAMES POWELL. ARE YOU FAMILIAR WITH
22 THE CIRCUMSTANCES THAT LED TO MR. POWELL LEAVING
23 SOUTHERN BELL?
24
25 A. YES, I AM.

1 Q. WHAT WAS YOUR INVOLVEMENT IN HIS LEAVING SOUTHERN
2 BELL?
3
4 A. I CONSULTED WITH HIS DEPARTMENT ON THE HANDLING OF
5 MR. POWELL.
6
7 Q. WHY DID MR. POWELL LEAVE SOUTHERN BELL?
8
9 A. HE RESIGNED IN LIEU OF BEING TERMINATED.
10
11 Q. WHY DID THE COMPANY DECIDE TO TERMINATE MR. POWELL'S
12 EMPLOYMENT?
13
14 A. EARLY IN 1991, THE COMPANY DECIDED TO TERMINATE MR.
15 POWELL BECAUSE OF HIS REPEATED FAILURE TO REPORT TO
16 WORK. HE HAD EARLIER BEEN SUSPENDED FOR THE SAME
17 OFFENSE, BUT THE PROBLEM PERSISTED.
18
19 Q. WHAT INVOLVEMENT, IF ANY, DID YOU HAVE WITH MR.
20 POWELL PRIOR TO THE DECISION TO TERMINATE HIM?
21
22 A. I, ALONG WITH MR. RANDY PERRY, THE GENERAL MANAGER-
23 NETWORK, INTERVIEWED MR. POWELL SHORTLY BEFORE HE
24 LEFT THE BUSINESS. WE ALSO INTERVIEWED OTHER
25 EMPLOYEES IN GAINESVILLE.

1 Q. WHY DID YOU CONDUCT THESE INTERVIEWS?
2
3 A. AN INTERNAL COMPANY REVIEW OF THE GAINESVILLE
4 INSTALLATION AND MAINTENANCE CENTER REVEALED SOME
5 INSTANCES OF FALSE TROUBLE REPORTS OR "BUILDING THE
6 BASE" IN THAT CENTER. A SECURITY INVESTIGATION
7 FAILED TO DETERMINE WHO CREATED THE FALSE TROUBLE
8 REPORTS. MR. PERRY AND I THEN WENT TO GAINESVILLE
9 TO INTERVIEW THE MANAGERS IN THE OFFICE.
10
11 Q. WHAT DID YOU ASK MR. POWELL WHEN YOU INTERVIEWED
12 HIM?
13
14 A. HE WAS ASKED FIVE SPECIFIC QUESTIONS. DID YOU
15 FALSIFY ANY OF THESE REPORTS? DID YOU TELL ANYONE
16 TO FALSIFY REPORTS? DO YOU HAVE ANY KNOWLEDGE OF
17 ANYONE FALSIFYING REPORTS? HAS ANYONE TOLD YOU TO
18 FALSIFY REPORTS? HAS ANYONE, INCLUDING RANDY PERRY,
19 EVER SAID ANYTHING THAT WOULD LEAD YOU TO BELIEVE
20 THAT YOU SHOULD FALSIFY REPORTS?
21
22 Q. WHAT DID MR. POWELL TELL YOU WHEN YOU ASKED THESE
23 QUESTIONS?
24
25 A. HE ANSWERED "NO" TO EACH OF THE FIVE QUESTIONS.

1 Q. WERE YOU ABLE TO DETERMINE WHO MADE THE FALSE
2 REPORTS?
3
4 A. WE WERE NOT ABLE TO DETERMINE THE GUILTY PERSON OR
5 PERSONS.
6
7 Q. WHAT OTHER INFORMATION DO YOU HAVE ABOUT MR. POWELL
8 OF WHICH MANAGEMENT WAS AWARE?
9
10 A. MANAGEMENT WAS AWARE THAT ON TWO OCCASIONS MR.
11 POWELL WAS ARRESTED BY THE GAINESVILLE POLICE. HE
12 WAS ARRESTED IN 1987, FOR DRIVING UNDER THE
13 INFLUENCE. HE WAS ALSO CHARGED IN THE INCIDENT WITH
14 POSSESSION OF MARIJUANA. HE WAS CONVICTED ON BOTH
15 COUNTS. HE LOST HIS DRIVER'S LICENSE FOR THREE
16 MONTHS AND WAS PLACED ON PROBATION FOR ONE YEAR.
17
18 Q. PLEASE TELL US WHAT YOU KNOW ABOUT THE SECOND
19 ARREST.
20
21 A. MR. POWELL WAS ARRESTED AGAIN IN NOVEMBER OF 1990,
22 AND WAS CHARGED WITH POSSESSION OF COCAINE AND
23 AGGRAVATED ASSAULT. THE ARREST WAS THE RESULT OF A
24 COMPLAINT FROM A FEMALE WHO SAID THAT MR. POWELL
25 OFFERED HER A RIDE AND THEN TRIED TO TRADE CRACK

1 COCAINE FOR SEX. SHE DECLINED THE OFFER AND AN
2 ARGUMENT ENSUED OVER A CIGARETTE LIGHTER THAT SHE
3 LOANED TO POWELL TO LIGHT THE CRACK COCAINE HE WAS
4 SMOKING. POWELL THEN THREATENED HER WITH A .357
5 MAGNUM HANDGUN HE HAD IN HIS VEHICLE.

6

7 Q. WHAT WAS THE DISPOSITION OF THESE CHARGES?

8

9 A. EXCEPT FOR THE POSSESSION CHARGE WHICH WAS DROPPED,
10 THE CHARGES WERE STILL PENDING WHEN MR. POWELL LEFT
11 THE COMPANY. MR. POWELL ENTERED A GUILTY PLEA TO
12 LESSER CHARGES. HE WAS SENTENCED TO THREE YEARS
13 PROBATION. AS PART OF HIS SENTENCE, HE WAS REQUIRED
14 TO SERVE 60 HOURS OF COMMUNITY SERVICE, RECEIVE
15 SUBSTANCE ABUSE AND ALCOHOL ABUSE COUNSELING, AND
16 PAY \$225.00. HE WAS ALSO ORDERED TO BE AVAILABLE
17 FOR RANDOM DRUG TESTING AND HE WAS PROHIBITED FROM
18 POSSESSING A FIREARM.

19

20 Q. YOU HAVE PREVIOUSLY TESTIFIED THAT YOU HAVE BEEN IN
21 HUMAN RESOURCES SINCE JANUARY, 1979. BASED ON YOUR
22 EXPERIENCE, HOW DO PEOPLE RESPOND WHEN THEY LEAVE
23 THE COMPANY INVOLUNTARILY?

24

25 A. CLEARLY, EVERYONE WHO LEAVES THE EMPLOY OF THE

1 COMPANY INVOLUNTARILY DOES NOT REACT IN THE SAME
2 WAY, BUT MANY WHO LEAVE INVOLUNTARILY ARE
3 DISGRUNTLED AND THEY SEEK WAYS TO STRIKE BACK AT
4 THEIR EMPLOYER. I CAN'T TESTIFY SPECIFICALLY TO THE
5 MOTIVATION OF THE EX-EMPLOYEES WHOSE SEPARATION I
6 HAVE DESCRIBED. HOWEVER, I DO FIND IT STRANGE THAT
7 OF THE HUNDREDS OF PEOPLE WHO HAVE LEFT SOUTHERN
8 BELL OVER THE PAST FEW YEARS, PUBLIC COUNSEL RELIES
9 ONLY ON INFORMATION FROM A FEW THAT WE NO LONGER
10 WANTED TO WORK FOR US.

11

12 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

13

14 A. YES, IT DOES.

15

16

1 SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY
2 REBUTTAL TESTIMONY OF EDWARD L. DELAHANTY
3 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
4 DOCKET NO. 920260-TL
5 DECEMBER 10, 1993
6
7

8 Q. PLEASE STATE YOUR NAME, TITLE, AND BUSINESS
9 ADDRESS.

10

11 A. MY NAME IS EDWARD L. DELAHANTY. I AM A PARTNER IN
12 HEWITT ASSOCIATES AND MANAGER OF SOUTHEAST REGION
13 CONSULTING SERVICES FOR THE FIRM. MY BUSINESS
14 ADDRESS IS 2100 RIVEREDGE PARKWAY, ATLANTA, GEORGIA
15 30328.

16

17 Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND
18 BUSINESS EXPERIENCE.

19

20 A. I AM A FELLOW IN THE SOCIETY OF ACTUARIES, MEMBER
21 OF THE AMERICAN ACADEMY OF ACTUARIES, AN ENROLLED
22 ACTUARY, AND A MEMBER OF THE AMERICAN COMPENSATION
23 ASSOCIATION. I GRADUATED FROM THE UNIVERSITY OF
24 NOTRE DAME. MY PRIMARY CONSULTING ACTIVITIES ARE IN
25 THE AREAS OF EXECUTIVE COMPENSATION AND QUALIFIED

1 PLANS.

2

3 I JOINED HEWITT ASSOCIATES IN 1970, AND HAVE BEEN A
4 PARTNER SINCE 1972. I AM A MEMBER OF THE FIRM'S
5 EXECUTIVE COMMITTEE. I MANAGED THE FIRM'S
6 MINNEAPOLIS OFFICE FROM 1971 TO 1985, WHERE CLIENTS
7 SERVED INCLUDED 3M, FIRST BANK SYSTEM, HONEYWELL,
8 MINNEGASCO, MINNESOTA POWER CORPORATION, NORTHERN
9 STATES POWER, AND US WEST, INC., AMONG OTHERS.
10 CLIENTS SERVED SINCE MOVING TO THE SOUTHEAST HAVE
11 INCLUDED ATLANTA GAS LIGHT, BELLSOUTH CORPORATION,
12 FLORIDA POWER CORPORATION, SCANA CORPORATION, THE
13 SOUTHERN COMPANY, SUNTRUST BANKS, AND THE WORLD
14 BANK AMONG OTHERS.

15

16 Q. IN WHAT BUSINESS IS HEWITT ASSOCIATES ENGAGED?

17

18 A. HEWITT ASSOCIATES IS AN INTERNATIONAL CONSULTING
19 FIRM SPECIALIZING IN THE DESIGN, FINANCING,
20 COMMUNICATION, AND ADMINISTRATION OF EMPLOYEE
21 BENEFIT AND COMPENSATION PROGRAMS. SINCE 1940,
22 HEWITT ASSOCIATES HAS PROVIDED OVER 5,500
23 ORGANIZATIONS WITH A BROAD RANGE OF SERVICES
24 RELATED TO TOTAL COMPENSATION. WE ARE CONSULTANTS
25 TO MANY MEDIUM AND LARGE COMPANIES, INCLUDING 75%

1 OF THE FORTUNE 500 COMPANIES AND 75% OF THE TOP
2 FORTUNE 50 UTILITIES. WE WORK WITH MANY DIFFERENT
3 TYPES OF ORGANIZATIONS, SUCH AS COLLEGES AND
4 UNIVERSITIES; FINANCIAL INSTITUTIONS; HOSPITALS;
5 INDUSTRIAL FIRMS; RETAILERS; SERVICE FIRMS;
6 TRANSPORTATION COMPANIES; AND UTILITIES. A LISTING
7 OF SELECTED UTILITY CLIENTS OF HEWITT ASSOCIATES
8 APPEARS IN EXHIBIT ELD-1.

9

10 Q. PLEASE DESCRIBE YOUR WORK AT HEWITT ASSOCIATES.

11

12 A. I AM A PARTNER AND MANAGER OF THE SOUTHEAST REGION
13 CONSULTING SERVICES FOR THE FIRM IN OUR ATLANTA,
14 GEORGIA OFFICE. MY RESPONSIBILITIES IN THE
15 EXECUTIVE COMPENSATION AREA INCLUDE PROVIDING
16 CONSULTING SERVICES TO A WIDE VARIETY OF COMPANIES,
17 INCLUDING MANY IN THE UTILITY INDUSTRY. THE
18 CONSULTING SERVICES I PROVIDE TO CLIENTS INCLUDE:

19

20 O ASSESSING THE VALUE AND COMPETITIVENESS OF THE
21 TOTAL COMPENSATION PACKAGE (BASE SALARY, ANNUAL
22 BONUS, LONG-TERM INCENTIVES, PERQUISITES, AND
23 BENEFITS) PROVIDED TO ALL EMPLOYEES.

24

25 O DEFINING OR SHARPENING THE FOCUS OF AN

1 ORGANIZATION'S COMPENSATION PHILOSOPHIES AND
2 OBJECTIVES. THIS TYPICALLY INCLUDES ASSESSING
3 WHETHER EXISTING PLANS ARE WORKING TO ACHIEVE
4 THOSE GOALS OR IF REDESIGN IS NECESSARY TO MAKE
5 PLANS MORE EFFECTIVE.

6

7 O DESIGNING AND IMPLEMENTING ALL COMPONENTS OF
8 EXECUTIVE COMPENSATION INCLUDING:

9

10 - ESTABLISHING BASE SALARY STRUCTURES THAT
11 ALIGN WITH THE COMPETITIVE MARKETPLACE.

12

13 - DESIGNING OR REDESIGNING SHORT- AND LONG-TERM
14 INCENTIVE PLANS, SUPPLEMENTAL EXECUTIVE
15 BENEFIT PLANS, PERQUISITE PROGRAMS, AND
16 CHANGE-IN-CONTROL ARRANGEMENTS.

17

18 MY RESPONSIBILITIES ALSO INCLUDE EXTENSIVE
19 CONSULTING WITH CLIENTS REGARDING QUALIFIED AND
20 NONQUALIFIED BENEFIT PROGRAMS.

21

22 O VALUATING THE COMPETITIVENESS OF CLIENT
23 ORGANIZATION'S EMPLOYEE BENEFIT PLANS USING
24 HEWITT ASSOCIATES PROPRIETARY BENEFIT INDEX^R
25 MEASUREMENT DEVICE.

1

2 Q. HAVE YOU TESTIFIED IN OTHER REGULATORY PROCEEDINGS?

3

4 A. YES. I HAVE TESTIFIED THREE TIMES BEFORE ABOUT
5 EXECUTIVE COMPENSATION AND EMPLOYEE BENEFITS
6 PROVIDED BY A REGULATED COMPANY.

7

8 HOWEVER, I SHOULD STRESS THAT I AM NOT A
9 PROFESSIONAL WITNESS AND TESTIMONY ON BEHALF OF
10 CLIENT ORGANIZATIONS IS DONE ONLY ON THOSE RARE
11 OCCASIONS WHEN THERE HAVE BEEN MISUNDERSTANDINGS OR
12 MISINTERPRETATIONS ABOUT THE COMPETITIVENESS OF A
13 PARTICULAR CLIENT'S COMPENSATION OR BENEFIT
14 PROGRAMS. I AM A PROFESSIONAL IN THE FIELD OF
15 COMPENSATION AND BENEFITS, AND HAVE SPENT MY ENTIRE
16 WORKING CAREER OF OVER 30 YEARS WORKING IN THE
17 COMPENSATION AND BENEFITS ARENA.

18

19 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

20

21 A. THE PURPOSE OF MY TESTIMONY IS TO COMMENT ON THE
22 DIRECT TESTIMONY OF THOMAS C. DEWARD ON BEHALF OF
23 OFFICE OF PUBLIC COUNSEL REGARDING THE COMPENSATION
24 AND BENEFIT PROGRAMS OF BELLSOUTH
25 TELECOMMUNICATIONS, INC. (BST). BELLSOUTH

1 CORPORATION, WHICH SPONSORS AND MAINTAINS THE
2 BENEFIT PROGRAMS FOR BST, IS A CLIENT OF OUR FIRM.
3 OVER THE YEARS WE HAVE ASSISTED THEM IN EVALUATING
4 THE COMPETITIVENESS OF THEIR VARIOUS PROGRAMS
5 RELATIVE TO OTHER SIMILAR ORGANIZATIONS. MR.
6 DEWARD'S TESTIMONY CONTAINS MUCH CONJECTURE ABOUT
7 THE COMPETITIVE LEVEL OF THESE PROGRAMS AND THEIR
8 GENEROSITY, AND ALSO A FEW MISLEADING STATISTICS
9 ABOUT THESE LEVELS. MY TESTIMONY WILL BE BASED ON
10 COMPETITIVE STUDIES WE HAVE PERFORMED, USING
11 FACTUAL DATA, AND WILL REFUTE MANY OF MR. DEWARD'S
12 CONJECTURES.

13

14 WHILE MR. DEWARD APPEARS TO BE A PROFESSIONAL
15 ACCOUNTING WITNESS, HE DOES NOT APPEAR TO BE A
16 PROFESSIONAL IN THE AREA OF COMPENSATION AND
17 BENEFITS.

18

19 Q. PLEASE DESCRIBE THE ENGAGEMENT OF HEWITT ASSOCIATES
20 BY BELLSOUTH CORPORATION.

21

22 A. HEWITT ASSOCIATES HAS BEEN ENGAGED BY BELLSOUTH
23 CORPORATION TO CONDUCT PERIODIC COMPETITIVE REVIEWS
24 OF ITS EXECUTIVE AND GENERAL MANAGEMENT
25 COMPENSATION PROGRAMS AND ITS EMPLOYEE BENEFIT

1 PROGRAMS. BECAUSE OF TIME LIMITATIONS, WE HAVE NOT
2 CONDUCTED A COMPREHENSIVE STUDY EXCLUSIVELY FOR THE
3 PURPOSE OF RESPONDING TO MR. DEWARD'S TESTIMONY.
4 INSTEAD, THE TESTIMONY WILL CITE DATA FROM OUR
5 THREE MOST RECENT COMPETITIVE STUDIES.

6
7 THESE THREE STUDIES HAVE SHOWN THAT THE COMPANY'S
8 BENEFIT AND COMPENSATION PRACTICES ARE IN THE
9 MAINSTREAM OF COMPETITIVE PRACTICE. INDEED, AT
10 EXECUTIVE LEVELS, THE PROGRAMS ARE CONSERVATIVE
11 RELATIVE TO OTHER COMPANIES.

12
13 THE SPECIFIC STUDIES ARE:

14
15 O STUDY 1: 1993 BENEFIT INDEX^R STUDY

16
17 EARLIER IN 1993, WE COMPARED BELLSOUTH'S
18 MANAGEMENT BENEFITS AGAINST THOSE SAME BENEFITS
19 FOR OTHER COMPANIES. THE GROUP OF 46 OTHER
20 COMPANIES INCLUDED OTHER TELEPHONE COMPANIES,
21 HI-TECH COMPANIES, SERVICE COMPANIES,
22 MANUFACTURING COMPANIES, LOCAL SOUTHEASTERN
23 EMPLOYERS, ELECTRONICS MANUFACTURERS, ETC. DATA
24 WILL BE CITED FROM THIS STUDY.

25

1 THE BENEFITS COMPARED ARE THE BENEFIT PLANS IN
2 WHICH ALL SALARIED EMPLOYEES OF BELLSOUTH
3 CORPORATION, AND BELLSOUTH TELECOMMUNICATIONS,
4 INC., PARTICIPATE. THIS DOES NOT INCLUDE UNION
5 PLANS, NOR DOES IT INCLUDE ANY SPECIAL PLANS FOR
6 EXECUTIVES.

7
8 HEWITT ASSOCIATES MAINTAINS A COMPUTERIZED
9 DATABASE OF APPROXIMATELY 1,000 MAJOR EMPLOYERS
10 IN THE UNITED STATES FROM WHICH WE SELECTED THE
11 46 ORGANIZATIONS AGAINST WHICH TO COMPARE. IT IS
12 THE LARGEST DATABASE OF ITS TYPE IN THE COUNTRY.

13
14 THE APPROACH USED TO MEASURE BENEFITS UTILIZES A
15 STANDARDIZED EMPLOYEE POPULATION AND COMMON
16 ACTUARIAL ASSUMPTIONS AND INSURANCE PREMIUMS FOR
17 ALL ORGANIZATIONS. BY USING THIS TECHNIQUE WE
18 ARE ABLE TO ELIMINATE FROM THE COMPARISONS
19 EXTRANEOUS DATA THAT MIGHT CAUSE DIFFERENCES IN
20 THE APPARENT COST OF BENEFIT PLANS DUE TO
21 DIFFERENCES IN FUNDING TECHNIQUES, INSURANCE
22 TECHNIQUES, AND EMPLOYEE POPULATIONS. THUS, THE
23 BENEFIT INDEX TECHNIQUE MEASURES ONLY THE
24 DIFFERENCES IN THE VALUE OF THE BENEFIT PROGRAMS
25 THEMSELVES TO A BROADBASED GROUP OF EMPLOYEES.

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O STUDY 2: 1993 TELECOMMUNICATIONS ROUNDTABLE
SURVEY

HEWITT ASSOCIATES IS JUST COMPLETING A STUDY OF THE COMPENSATION PRACTICES AMONG A GROUP OF NINE COMPANIES. THE NINE COMPANIES INCLUDE SIX OF THE BHCS (INCLUDING BELLSOUTH CORPORATION), PLUS AT&T, MCI, AND GTE. THUS, IT IS BASICALLY A GROUP OF LARGE TELEPHONE COMPANIES.

THE SURVEY WAS DONE IN TWO PARTS. THE FIRST PART WAS FOR EXECUTIVE AND UPPER-MANAGEMENT POSITIONS, GOING DOWN TO APPROXIMATELY \$125,000 BASE-SALARY LEVEL. THE SECOND PART WAS FOR A GROUP OF MIDDLE-MANAGEMENT/SUPERVISORY/ PROFESSIONAL POSITIONS WITH SALARY LEVELS RANGING FROM MID-\$40,000 TO APPROXIMATELY \$80,000. EMPLOYEE BENEFITS WERE NOT INCLUDED IN EITHER OF THESE TWO SURVEYS.

THE FIRST SURVEY OF THE HIGHER-LEVEL POSITIONS INCLUDED THREE MAJOR COMPONENTS OF THE TOTAL COMPENSATION PACKAGE: BASE SALARIES; BONUSES; AND LONG-TERM INCENTIVES (STOCK OPTIONS,

1 RESTRICTED STOCK, LONG-TERM PERFORMANCE PLANS,
2 ETC.). THE STUDY THEN SUMMED THOSE THREE PARTS
3 BY VALUING THE VARIOUS PLANS ON AN ANNUALIZED
4 SALARY-EQUIVALENT BASIS SO THAT THREE NUMBERS
5 CAN BE ADDED TOGETHER TO PRODUCE AN EVALUATION
6 OF THE TOTAL COMPENSATION FOR THESE THREE
7 COMPONENTS.

8
9 THE SECOND SURVEY, OF THE MID-LEVEL POSITIONS,
10 INCLUDED BASE SALARIES AND BONUSES ONLY. THE
11 REASON IS THAT LONG-TERM INCENTIVES ARE VERY
12 SELDOM USED FOR POSITIONS AT THIS LEVEL IN THE
13 VARIOUS ORGANIZATIONS. THIS STUDY DID NOT VALUE
14 EMPLOYEE BENEFIT PLANS.

15
16 THE HIGHER-LEVEL SURVEY COVERED 28 EXECUTIVE
17 POSITIONS; THE MID-LEVEL SURVEY COVERED ABOUT
18 50. THUS, THESE SURVEYS ARE REASONABLY
19 ILLUSTRATIVE OF SAMPLE POINTS OF VARIOUS PAY
20 LEVELS WITHIN AND THROUGHOUT THE ORGANIZATION.

21
22 O STUDY 3: 1992 EXECUTIVE TOTAL COMPENSATION
23 MEASUREMENTTM STUDY (TCMTM)

24
25 LAST YEAR WE COMPARED APPROXIMATELY 20 OF

1 BELL SOUTH'S EXECUTIVE POSITIONS AGAINST A GROUP
2 OF COMPARATOR COMPANIES THAT INCLUDED THE OTHER
3 BHCS PLUS AT&T, DIGITAL EQUIPMENT CORPORATION,
4 GTE, HEWLETT PACKARD, MCI, MOTOROLA, NORTHERN
5 TELECOM, SPRINT, AND XEROX. THERE WERE FIFTEEN
6 COMPANIES IN TOTAL. IN THIS STUDY WE REVIEWED
7 ALL ELEMENTS OF EXECUTIVE COMPENSATION AS
8 FOLLOWS:

9
10 ELEMENTS OF EXECUTIVE COMPENSATION

11
12 . BASE SALARIES
13
14 . BONUSES ANNUAL INCENTIVES
15
16 . TOTAL DIRECT SUM OF THE ABOVE TWO
17 COMPENSATION COMPONENTS
18
19 . EMPLOYEE BENEFITS INCLUDING SPECIAL
20 EXECUTIVE SUPPLEMENTS
21
22 . LONG-TERM INCENTIVES STOCK OPTIONS, RESTRICTED
23 STOCK, LONG-TERM
24 PERFORMANCE PLANS, ETC.
25

1 . PERQUISITES COMPANY CARS, CLUBS,
2 FIRST-CLASS AIR TRAVEL,
3 ETC.
4
5 TOTAL COMPENSATION SUM OF THE ABOVE
6

7 THE COMPARATOR COMPANIES IN THIS STUDY WERE
8 SELECTED FROM APPROXIMATELY 600 ORGANIZATIONS IN
9 ANOTHER COMPUTERIZED DATABASE THAT HEWITT
10 ASSOCIATES MAINTAINS. THIS DATABASE ALSO IS THE
11 LARGEST OF ITS TYPE IN THE COMPENSATION AND
12 BENEFITS FIELD, AND OUR PROPRIETARY METHODOLOGY
13 USED IN THIS STUDY FACTORS OUT DIFFERENCES IN THE
14 WAY ORGANIZATIONS MIGHT ACCOUNT FOR THESE PLANS AND
15 ALSO DIFFERENCES IN THE COMPOSITION OF THE VARIOUS
16 EMPLOYEE GROUPS FOR WHICH THESE PLANS ARE
17 MAINTAINED.

18
19 THESE ARE THE STUDIES TO WHICH I WILL REFER LATER
20 IN MY TESTIMONY.

21

22 Q. WHY DID YOU NOT CONDUCT A SPECIAL STUDY
23 SPECIFICALLY FOR PURPOSES OF THIS DIRECT TESTIMONY?

24

25 A. TO CONDUCT A STUDY SIMILAR TO THE TYPES DESCRIBED

1 ABOVE, REQUIRES SEVERAL MONTHS OF PREPARATION AND
2 VALUATION TIME. IT IS ALSO VERY EXPENSIVE FOR AN
3 ORGANIZATION TO DO THESE STUDIES. HOWEVER, I
4 BELIEVE THAT EXAMINING THE RESULTS OF THOSE STUDIES
5 DONE OVER THE LAST THREE YEARS PRESENTS A
6 REASONABLE ASSESSMENT OF THE COMPETITIVENESS OF THE
7 BELLSOUTH PROGRAMS WITHOUT DOING A SPECIAL STUDY AT
8 THIS TIME.

9
10 THE ONLY MAJOR CHANGE OF WHICH I AM AWARE IN THE
11 COMPENSATION AND BENEFIT PROGRAMS THAT HAS BEEN
12 MADE AT BELLSOUTH SINCE THESE STUDIES WERE
13 CONDUCTED WAS THE MID-1993 CHANGE IN THE BELLSOUTH
14 MANAGEMENT PENSION PLAN TO A NEW PLAN CALLED THE
15 PRA PLAN. ALTHOUGH WE HAVE NOT SPECIFICALLY
16 EVALUATED THIS PLAN, THE NEW PLAN WOULD NOT ENHANCE
17 BELLSOUTH'S POSITION. MANAGEMENT HAS STATED THAT
18 THE TWO PLANS ARE EQUIVALENT FOR MOST CURRENT
19 EMPLOYEES.

20

21 Q. PLEASE COMMENT ON THE TECHNIQUES USED BY
22 HEWITT ASSOCIATES IN CONDUCTING THESE STUDIES.

23

24 A. IN THE CASE OF THE TCM STUDIES AND THE BENEFIT
25 INDEX STUDIES, THE DATA FOR BELLSOUTH CORPORATION

1 AND ALL THE COMPARATOR COMPANIES WAS EXTRACTED FROM
2 OUR COMPUTERIZED DATABASES. THESE DATABASES ARE
3 UPDATED ANNUALLY BY HEWITT ASSOCIATES BASED ON
4 DIRECT INPUT FROM THE ORGANIZATIONS PARTICIPATING
5 IN THE DATABASE. HEWITT ASSOCIATES CAREFULLY
6 EXAMINES AND EDITS THE DATA AND CALLS COMPANIES
7 SPECIFICALLY WITH ANY QUESTIONS OR INCONSISTENCIES.
8 WHERE DATA ARE BEING MATCHED FOR SPECIFIC POSITIONS
9 (I.E., THE TCM STUDIES), WE DO NOT SIMPLY MATCH
10 POSITIONS BASED ON TITLES. INSTEAD, WE EXAMINE THE
11 VARIOUS RESPONSIBILITIES SUPERVISED BY THESE
12 POSITIONS, THE POSITIONS REPORTING TO THESE
13 POSITIONS, AND THE POSITIONS TO WHICH THESE
14 POSITIONS REPORT, IN ORDER TO ENSURE THAT WE HAVE
15 SIGNIFICANT EQUALITY IN THE JOB COMPOSITION AND
16 DUTIES OF THE POSITIONS.

17
18 THE TELECOMMUNICATIONS ROUNDTABLE SURVEY WAS A
19 PRIVATE SURVEY THAT WAS DONE ON AN AD HOC BASIS. IN
20 THE TELECOMMUNICATIONS ROUNDTABLE SURVEY, ALL THE
21 PARTICIPATING COMPANIES DIRECTLY PARTICIPATED IN
22 THE FORMATION OF THE GROUP FOR COMPARISON PURPOSES
23 AND THE POSITIONS TO BE STUDIED, AND CAREFULLY
24 EDITED ALL DATA TO ASSURE ACCURACY.

25

1 Q. CAN YOU COMMENT ON THE COMPARATOR GROUPS USED IN
2 THESE VARIOUS STUDIES?

3
4 A. OUR VAST EXPERIENCE IN CONDUCTING SUCH STUDIES
5 SHOWS THAT THE MOST APPROPRIATE MARKETPLACE FOR
6 COMPARING A GIVEN ORGANIZATION'S COMPENSATION AND
7 BENEFIT PROGRAMS IS OTHER COMPANIES REASONABLY
8 COMPARABLE IN SIZE (GENERALLY MEASURED BY REVENUES)
9 AND IN INDUSTRIES THAT TEND TO EMPLOY THE PEOPLE
10 WITH THE SAME KINDS OF SKILLS. THREE OF THE STUDIES
11 DESCRIBED ABOVE (EXCLUDING THE 1993 BENEFIT INDEX
12 STUDY) HAD THE COMPARATOR GROUPS CHOSEN ON THIS
13 BASIS.

14
15 IN THE 1993 BENEFIT INDEX STUDY, WE WANTED TO
16 MEASURE THE COMPETITIVENESS NOT ONLY AGAINST
17 COMPANIES IN SIMILAR INDUSTRIES, BUT ALSO OTHER
18 MAJOR EMPLOYERS THAT WERE OF SIMILAR SIZE, PERHAPS
19 NOT IN THE SAME INDUSTRY, AND ALSO SOME
20 ORGANIZATIONS THAT ARE SIGNIFICANT EMPLOYERS IN
21 BST'S GEOGRAPHICAL AREA. THUS, THERE WERE A NUMBER
22 OF COMPANIES ADDED FOR THIS PURPOSE. WE DID,
23 HOWEVER, SUBGROUP 46 COMPANIES AND FORM SEVERAL
24 SMALLER GROUPS FOR COMPARISON PURPOSES, AND I WILL
25 COMMENT ON THOSE COMPARISONS LATER IN THIS

1 TESTIMONY.

2

3 Q. WHAT TECHNIQUE WILL YOU USE TO PRESENT THE MASSIVE
4 DATA FROM THESE STUDIES IN A WAY THAT WILL DEAL
5 WITH MR. DEWARD'S TESTIMONY SINCE A DIRECT STUDY
6 WAS NOT MADE FOR THE PURPOSES OF THIS TESTIMONY?

7

8 A. SINCE EACH OF THESE STUDIES RESULTS IS PRESENTED IN
9 AS MANY AS SEVERAL LARGE VOLUMES OF PRINTED
10 MATERIAL, IT MAY BE MOST APPROPRIATE FOR ME TO
11 SUMMARIZE THE PERTINENT POINTS FROM EACH STUDY.
12 THEN, THOSE SUMMARIES CAN BE APPLIED AGAINST MR.
13 DEWARD'S SPECIFIC CHALLENGES.

14

15 Q. PLEASE DESCRIBE THE RESULTS OF STUDY 1, 1993
16 BENEFIT INDEX STUDY.

17

18 A. AS MEASURED AGAINST THE ENTIRE GROUP OF COMPANIES
19 (47 COMPANIES INCLUDING BELLSOUTH CORPORATION), THE
20 BELLSOUTH BENEFIT PROGRAM WAS 19TH OUT OF THE 47 IN
21 TOTAL VALUE, AND ABOUT 6% ABOVE THE AVERAGE OF
22 THOSE 46 OTHER COMPANIES. THIS INDICATES A BENEFIT
23 PROGRAM THAT IS RIGHT IN THE "MIDDLE OF THE PACK."
24 AGAIN, THIS INCLUDES THE OLD BELLSOUTH MANAGEMENT
25 EMPLOYEES PENSION PLAN.

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A LISTING OF THE 46 OTHER COMPANIES IS INCLUDED AS EXHIBIT ELD-2 TO MY TESTIMONY.

WE ALSO DID SEVERAL SUBGROUPINGS WITHIN THE GROUP OF 46, WITH THE FOLLOWING RESULTS.

ONE SUBGROUPING WAS PREPARED TO COMPARE BELLSOUTH AGAINST THE OTHER SIX BHCS. AMONG THIS GROUP OF SEVEN, BELLSOUTH'S BENEFITS ARE IN 7TH PLACE (LOWEST), 3% BELOW THE AVERAGE OF THE GROUP.

ANOTHER GROUPING WE CONSTRUCTED WAS TO ADD SOME TELECOMMUNICATIONS COMPANIES TO THE LIST OF BHCS. THIS INCLUDED COMPANIES LIKE AT&T, MCI, ETC. AMONG THIS GROUP, BELLSOUTH'S BENEFITS ARE 8TH OUT OF 12 COMPANIES, BUT 1% ABOVE THE AVERAGE. AGAIN, THIS INDICATES A MIDDLE OF THE ROAD BENEFIT PROGRAM COMPARED TO THESE COMPANIES.

ANOTHER GROUPING WE EXAMINED WAS A GROUP OF HI-TECH COMPANIES, TO REFLECT SOME ORGANIZATIONS THAT ARE LIKELY COMPETITORS FOR THE BHCS AND BELLSOUTH IN THE FUTURE AS THE TELECOMMUNICATIONS INDUSTRY EVOLVES. THIS INCLUDED COMPANIES LIKE DIGITAL

1 EQUIPMENT CORPORATION, HEWLETT PACKARD, IBM,
2 MOTOROLA, ROCKWELL, AND XEROX. AMONG THIS GROUP OF
3 SEVEN, BELLSOUTH'S BENEFITS WERE 3RD AND 8% ABOVE
4 THE AVERAGE.

5
6 AGAIN, THE BENEFITS VALUED HERE ARE THE BENEFIT
7 PLANS IN WHICH ALL SALARIED EMPLOYEES PARTICIPATE.
8 THIS DOES NOT INCLUDE UNION PLANS, NOR DOES IT
9 INCLUDE ANY SPECIAL PLANS FOR EXECUTIVES.

10

11 THESE COMPARISONS WERE ALSO DONE BEFORE THE JULY 1,
12 1993 CHANGE TO THE NEW BELLSOUTH PENSION PLAN
13 (PRA). THAT CHANGE WAS INTENDED TO BE NEUTRAL IN
14 TERMS OF BENEFITS TO CURRENT EMPLOYEES.

15

16 Q. DESCRIBE THE RESULTS OF STUDY 2, 1993
17 TELECOMMUNICATIONS ROUNDTABLE SURVEY.

18

19 A. THIS STUDY WAS DONE IN TWO PARTS. THE FIRST PART
20 WAS FOR HIGHER EXECUTIVE-LEVEL POSITIONS (SEE
21 EXHIBIT ELD-3 FOR THESE POSITIONS). THE SECOND
22 SURVEY WAS FOR A GROUP OF MID-LEVEL POSITIONS (SEE
23 EXHIBIT ELD-4 FOR THESE POSITIONS). THE RESULTS OF
24 THIS SURVEY WERE AS FOLLOWS FOR THE BELLSOUTH
25 PROGRAM.

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TELECOMMUNICATIONS ROUNDTABLE SURVEY
HIGHER EXECUTIVE-LEVEL POSITION

BASE SALARIES	-7%
BONUSES (ANNUAL INCENTIVES)	-22%
LONG-TERM INCENTIVES	-65%
TOTAL COMPENSATION (INCLUDES ALL 3 COMPONENTS)	-29%

AS CAN BE SEEN, THIS STUDY SHOWS THAT BELLSOUTH'S EXECUTIVE POSITIONS ARE LOW AGAINST THESE COMPARATIVE COMPANIES IN EACH INDIVIDUAL COMPONENT, AND THUS, IN TOTAL COMPENSATION. IN FACT, THE 29% BELOW-AVERAGE POSITION FOR TOTAL COMPENSATION IS A SIGNIFICANT DEVIATION FROM THE NORM AND WOULD NOT BE CONSIDERED WITHIN NORMAL COMPETITIVE RANGES. WITHOUT INCLUDING INCENTIVES, THE TOTAL COMPENSATION PACKAGE OF THE COMPANY WOULD BE WOEFULLY INADEQUATE.

1 THE SECOND SURVEY OF THE MID-LEVEL POSITIONS,
2 SHOWED THE FOLLOWING RESULTS.

3

4 TELECOMMUNICATIONS ROUNDTABLE SURVEY
5 MID-LEVEL POSITIONS

6

7 BASE SALARIES -7%

8

9 BONUSES +9%
10 (ANNUAL INCENTIVES)

11

12 TOTAL COMPENSATION -6%
13 (BASE, BONUS, AND
14 LONG-TERM INCENTIVES)

15

16 AGAIN, IN THIS STUDY WE DID NOT VALUE EMPLOYEE
17 BENEFIT PLANS. LONG-TERM INCENTIVES ARE INCLUDED,
18 BUT ARE NOT OF SIGNIFICANT VALUE TO POSITIONS IN
19 THIS GROUPING.

20

21 THE RESULTS OF THIS SURVEY INDICATE THAT THE
22 COMPANY'S MIDDLE-MANAGEMENT COMPENSATION PROGRAM IS
23 BELOW THE AVERAGE OF THIS GROUP OF COMPANIES.

24

25 Q. PLEASE DESCRIBE THE RESULTS OF STUDY 3, THE 1992

1 EXECUTIVE TOTAL COMPENSATION MEASUREMENT STUDY.

2

3 A. THIS STUDY WAS CONDUCTED AGAINST A GROUP OF 15
4 OTHER COMPANIES FOR APPROXIMATELY 20 OF BELLSOUTH'S
5 EXECUTIVE POSITIONS (SEE EXHIBIT ELD-5 FOR THE
6 COMPANIES AND POSITIONS INCLUDED IN THIS STUDY).

7

8 FOLLOWING ARE THE RESULTS OF THIS STUDY FOR ALL 20
9 POSITIONS COMBINED:

10

11 THE 1992 EXECUTIVE TOTAL COMPENSATION
12 MEASUREMENT STUDY

13

14	BASE SALARIES	-7%
15	BONUSES	+7%
16	TOTAL DIRECT COMPENSATION	-2%
17	EMPLOYEE BENEFITS	-1%
18	LONG-TERM INCENTIVES	-38%
19	PERQUISITES	+46%
20	TOTAL COMPENSATION	-11%

21

22 THIS STUDY SHOWS THAT THE BELLSOUTH EXECUTIVE
23 COMPENSATION PROGRAM, IN TOTAL, INCLUDING BENEFITS,
24 AND ALSO INCLUDING SPECIAL EXECUTIVE BENEFITS LIKE
25 SERPS AND DEFERRED COMPENSATION PLANS, IS 11% BELOW

1 AVERAGE RELATIVE TO THE COMPARABLE POSITIONS IN
2 THESE OTHER COMPANIES.

3
4 A SIGNIFICANT POINT IN THIS SURVEY IS THAT EVERY
5 ONE OF THE 15 COMPARATOR COMPANIES HAS A SERP WHICH
6 MAKES UP FOR BENEFITS LOST DUE TO IRS REGULATIONS
7 ON BENEFITS IN QUALIFIED PLANS. THAT IS BASICALLY
8 WHAT THE BELLSOUTH SERP PROVIDES, SO IT IS NOT AN
9 UNCOMMON PRACTICE AT ALL. THE ADDITION OF THIS SERP
10 BENEFIT DOES NOT PRODUCE BENEFIT LEVELS FOR
11 BELLSOUTH EXECUTIVES THAT ARE OUT OF LINE RELATIVE
12 TO COMPETITION.

13
14 Q. BASED ON THE RESULTS OF THESE STUDIES, WHAT
15 COMMENTS WOULD YOU HAVE ON MR. DEWARD'S QUESTION,
16 BEGINNING ON PAGE 42, REGARDING INCENTIVE
17 COMPENSATION?

18
19 A. THE POINT THAT THESE VARIOUS STUDIES MAKE IS THAT
20 THE INCENTIVE COMPENSATION PRACTICES OF THE COMPANY
21 ARE BY NO MEANS OUT OF LINE WITH COMPETITIVE
22 PRACTICES. THIS IS PARTICULARLY TRUE AS YOU GO
23 HIGHER IN THE ORGANIZATION TO VARIOUS SENIOR
24 MANAGEMENT AND EXECUTIVE LEVEL POSITIONS, WHERE THE
25 COMPANY ACTUALLY LAGS COMPETITIVE PRACTICE. AT THE

1 MID-LEVELS, THE COMPANY IS IN THE MIDDLE OF THE
2 PACK.

3
4 MR. DEWARD'S COMMENT ON PAGE 44, LINES 5-7,
5 "FURTHERMORE, I AM RECOMMENDING AN ADDITIONAL 25%
6 REDUCTION TO REDUCE THE CURRENT LEVEL OF EXPENSE IN
7 ORDER THAT THERE BE SOME SHARING IN THE LEVEL OF
8 INCENTIVE COMPENSATION BETWEEN THE RATEPAYER AND
9 SHAREHOLDER," IS TOTALLY SUBJECTIVE AND NOT BASED
10 ON ANY FACT. IT IS PURELY HIS OPINION. HOWEVER, OUR
11 DATA SHOWS THAT IF THE COMPANY'S INCENTIVE
12 COMPENSATION AWARDS WERE REDUCED BY 25%, THEY WOULD
13 BE VERY UNCOMPETITIVE RELATIVE TO OTHER COMPANIES'
14 PRACTICES.

15
16 ON PAGE 44, LINE 9-17, MR. DEWARD MAKES AN
17 INCORRECT STATEMENT. HE STATES THAT THE COMPANY'S
18 INCENTIVES ARE DESIGNED, WHEN ADDED TO BASE
19 SALARIES, TO PRODUCE A LEVEL OF COMPENSATION THAT
20 IS EQUAL TO SALARIES ALONE FOR COMPARABLE POSITIONS
21 IN OTHER COMPANIES. OUR DATA SHOWS THAT THIS IS NOT
22 TRUE. IN FACT, THE COMPANY ATTEMPTS TO AND DOES SET
23 BOTH ITS SALARIES AND INCENTIVE LEVELS TO BE
24 RELATIVELY SIMILAR TO THOSE OF OTHER COMPANIES.

25

1 ON PAGE 45, LINES 12-14, MR. DEWARD USES THE TERM
2 "EXCESSIVE" RELATIVE TO THE COMPANY'S INCENTIVE
3 PRACTICES. THAT SIMPLY IS NOT THE CASE BASED ON OUR
4 SURVEY DATA. IN FACT, THE COMPANY'S INCENTIVE PLANS
5 APPEAR TO BE VERY SIMILAR TO THOSE IN OTHER
6 ORGANIZATIONS.

7
8 ON PAGE 45, LINES 5-7, MR. DEWARD STATES THAT "A
9 QUALIFIED AVAILABLE POOL OF INDIVIDUALS SEEKING
10 EMPLOYMENT WOULD TEND TO REDUCE THE LEVELS OF
11 MARKET-DRIVEN SALARIES." THERE IS SIMPLY NO DATA
12 TO CORROBORATE THIS CONJECTURE. INDEED, THE BELIEF
13 OF MOST COMPENSATION PROFESSIONALS WOULD BE EXACTLY
14 THE OPPOSITE. WHEN COMPANIES REDUCE THEIR
15 WORKFORCES, THEY DO NOT RELEASE THEIR BEST
16 PERFORMERS WHO ARE THEORETICALLY EARNING THE
17 HIGHEST SALARIES AND INCENTIVES. THUS, A MORE
18 LOGICAL ARGUMENT WOULD BE THAT, IN A TIME OF
19 WORKFORCE REDUCTIONS, MARKET-DRIVEN SALARIES WOULD
20 ACTUALLY GO UP IF A SURVEY WERE CONDUCTED OF
21 POSITIONS IMMEDIATELY BEFORE AND AFTER WORKFORCE
22 REDUCTIONS.

23
24 ON PAGE 45, LINES 18-22, AND CONTINUING ON PAGE 46,
25 LINES 1 AND 2, MR. DEWARD OFFERS THE COMPANY A

1 CHALLENGE THAT IS MEANINGLESS. IN A TIME OF
2 SUBSTANTIAL DOWNSIZING, WHAT COMPANY IS GOING TO BE
3 LOOKING TO HIRE EMPLOYEES FROM A POOL OF FORMER
4 EMPLOYEES WHO HAVE BEEN RELEASED, WHETHER THEY ARE
5 WILLING TO TAKE A LOWER SALARY OR NOT? IN FACT,
6 WHAT COMPANY IS GOING TO BE LOOKING TO HIRE ANY
7 SUBSTANTIAL NUMBER OF EMPLOYEES AT ALL DURING A
8 PERIOD OF WORKFORCE REDUCTIONS? THUS, THIS
9 CHALLENGE IS IRRELEVANT.

10

11 Q. CAN YOU COMMENT ON MR. DEWARD'S OPINIONS ABOUT
12 CONCESSION REVENUES, BEGINNING ON PAGE 49, LINE 20,
13 AND CONTINUING THROUGH PAGE 51, LINE 9, WHICH
14 STATES THAT THE CONCESSION EXPENDITURES SHOULD BE
15 DISALLOWED BECAUSE THEY REPRESENT AN UNREASONABLE
16 BENEFIT PRACTICE?

17

18 A. ON PAGE 50, LINES 1 AND 2, MR. DEWARD AGAIN STATES
19 AN OPINION NOT BASED ON FACT. HIS OPINION IS THAT
20 "COMPANY-PROVIDED EMPLOYEE BENEFITS ARE ADEQUATE,
21 IF NOT EXCESSIVE."

22

23 IN FACT, OUR DATA FROM STUDY 1, THE BENEFIT INDEX
24 STUDY, SHOWS THAT EMPLOYEE BENEFITS ARE AVERAGE AND
25 COULD NOT IN ANY WAY BE DEEMED TO BE EXCESSIVE.

1 ON PAGE 50, LINES 27-29, MR. DEWARD COMMENTS THAT
2 "TELEPHONE COMPANIES ARE THE ONLY UTILITIES THAT
3 PROVIDE FREE OR DISCOUNTED SERVICE TO THEIR
4 EMPLOYEES." AGAIN, THIS COMMENT IS BASED ON
5 CONJECTURE, BUT IT'S HARD TO BELIEVE THAT IT COULD
6 POSSIBLY BE TRUE. DO YOU THINK THAT XEROX, FOR
7 EXAMPLE, DOESN'T PROVIDE DISCOUNTS ON COPIERS TO
8 ITS EMPLOYEES? DO YOU BELIEVE THAT IBM DOES NOT
9 PROVIDE DISCOUNTS ON COMPUTERS FOR ITS EMPLOYEES?
10 AIRLINES DO NOT ALLOW FREE TRAVEL FOR THEIR
11 EMPLOYEES? CONCESSIONS FOR TELEPHONE COMPANIES ARE
12 VERY SIMILAR TO THESE TYPES OF ITEMS. IT WOULD BE
13 ALMOST IMPOSSIBLE TO PROVIDE ANY MEANINGFUL SURVEY
14 DATA ON THIS POINT. BUT, AS MOST PEOPLE ARE AWARE,
15 MOST MAJOR EMPLOYERS PROVIDE DISCOUNTS ON THEIR OWN
16 PRODUCTS AND SERVICES TO THEIR OWN EMPLOYEES.
17 GENERAL MOTORS' EMPLOYEES CAN PURCHASE AUTOMOBILES
18 FOR SUBSTANTIALLY LESS THAN THEY COULD BE PURCHASED
19 IN THE OPEN MARKETPLACE. THUS, SOUTHERN BELL'S
20 CONCESSION PRACTICE APPEARS TO BE IN KEEPING WITH
21 BUSINESS PRACTICES AND IS ENTIRELY REASONABLE.

22

23 Q. MR. DEWARD COMMENTS ON THE U.S. CHAMBER RESEARCH
24 CENTER'S ANNUAL REPORT ON EMPLOYEE BENEFITS ON PAGE
25 51, LINES 3-9. DO YOU HAVE ANY COMMENTS ABOUT THE

1 DATA HE CITES?
2
3 A. IN THIS CASE, MR. DEWARD DID ATTEMPT TO UTILIZE
4 DATA TO MAKE A POINT. HOWEVER, THE DATA HE USES IS
5 WIDELY CONSIDERED TO BE MOST MISLEADING AND
6 INACCURATE, AMONG BENEFITS PROFESSIONALS. THERE ARE
7 TWO REASONS FOR THIS.
8
9 FOR ONE, THE DATA HE CITES ARE BASED ON COST. COST
10 IS NOT AN ACCURATE COMPARISON OF BENEFIT PLANS
11 PROVIDED BETWEEN COMPANIES. FOR EXAMPLE, TWO
12 COMPARATOR COMPANIES COULD BE PROVIDING EXACTLY THE
13 SAME PENSION PLAN FOR THEIR RESPECTIVE EMPLOYEES.
14 ONE COMPANY COULD HAVE RECENTLY INTRODUCED THE
15 PLAN, AND THUS BE FUNDING IT, AND EXPENSING FOR IT,
16 AT FULL NORMAL COST LEVELS. THE OTHER COMPANY MIGHT
17 HAVE HAD THE PROGRAM IN EFFECT FOR MANY YEARS, AND
18 BEEN ABLE TO PARTICIPATE IN THE RECENT DRAMATIC
19 RISE OF THE STOCK MARKETS IN THE INVESTMENT FUNDS
20 FOR THE PLAN. THIS COMPANY WOULD SHOW A
21 DRAMATICALLY LOWER LEVEL OF COST, OR PERHAPS EVEN
22 ZERO COST, FOR EXACTLY THE SAME BENEFIT PROGRAM.
23 DOES THAT MEAN THAT THE FIRST COMPANY SHOULD BE
24 REQUIRED TO TERMINATE ITS PLAN BECAUSE ITS COST IS
25 HIGHER? OF COURSE, NOT!

1

2 OUR BENEFIT INDEX METHODOLOGY, AS STATED BEFORE,
3 ELIMINATES THESE INCONSISTENCIES BETWEEN COMPANIES
4 AND EVALUATES THE PLANS BASED ON ONLY THE BENEFITS
5 PROVIDED, NOT HOW THEY ARE FUNDED OR EXPENSED.

6

7 THE SECOND REASON THAT BENEFITS PROFESSIONALS
8 IGNORE THE U.S. CHAMBER DATA IS THAT THERE IS NO
9 ATTEMPT TO ASSURE CONSISTENCY IN REPORTING AMONG
10 THE THOUSANDS OF COMPANIES THAT RESPOND TO THEIR
11 QUESTIONNAIRE. THEY SIMPLY TAKE THE DATA THAT IS
12 REPORTED, DO A SIMPLE AVERAGE OF THE DATA, AVERAGE
13 THE DATA, AND PUBLISH IT IN THEIR STUDIES. THEY
14 ALSO DO NOT TAKE INTO ACCOUNT DEMOGRAPHICS OF THE
15 INDIVIDUAL COMPANIES WHICH CAN GREATLY IMPACT THE
16 COST. AS MENTIONED BEFORE, HEWITT ASSOCIATES GOES
17 THROUGH A SIGNIFICANT AMOUNT OF EFFORT TO ASSURE
18 CONSISTENCY IN REPORTING AND ACCURACY OF ALL
19 DETAILS.

20

21 THUS, THE COST COMPARISON DATA CITED BY MR. DEWARD
22 ARE NOT MEANINGFUL FROM WHICH TO DRAW ANY
23 CONCLUSIONS.

24

25 Q. DO YOU HAVE ANY COMMENTS ABOUT MR. DEWARD'S

1 SUGGESTION ON PAGE 57, LINES 13-22, AND PAGE 58,
2 LINES 1-10, THAT THE COMPANY'S EXPENSE FOR ITS SERP
3 BENEFIT NOT BE ALLOWED?

4

5 A. MR. DEWARD IS INCORRECT IN HIS CONCLUSIONS FOR A
6 NUMBER OF REASONS. THERE ARE SEVERAL POINTS WITH
7 RESPECT TO THE COMPANY'S SERP.

8

9 FIRST, EVERY COMPANY IN THE GROUPS AGAINST WHICH WE
10 COMPARED BELLSOUTH'S EXECUTIVE COMPENSATION
11 PROGRAMS ALSO PROVIDES SOME FORM OF SERP TO ITS
12 EXECUTIVES. SOME OF THE SERPS PROVIDED BY OTHER
13 COMPANIES ACTUALLY PROVIDE BENEFITS THAT PRODUCE
14 PENSION LEVELS WELL BEYOND THE COMPANIES' QUALIFIED
15 PLANS FOR OTHER EMPLOYEES. OTHER SERPS SIMPLY MAKE
16 UP FOR RESTRICTIONS THAT ARE PLACED ON QUALIFIED
17 PLANS FOR EMPLOYEES EARNING COMPENSATION IN EXCESS
18 OF CERTAIN LEVELS. THUS, BELLSOUTH'S PRACTICE OF
19 PROVIDING A SERP IS NORMAL, AND, IN FACT, STUDY 3
20 SHOWED THAT THE COMPANY'S EMPLOYEE BENEFIT PLANS
21 FOR EXECUTIVES ARE ACTUALLY SLIGHTLY LOWER THAN
22 AVERAGE EVEN WHEN INCLUDING THE SERP. THUS,
23 ELIMINATION OF THE SERP WOULD PRODUCE A
24 DISADVANTAGE FOR THE COMPANY RELATIVE TO NORMAL
25 PRACTICES.

1
2 SECONDLY, EXECUTIVE RETIREMENT BENEFIT LEVELS ARE
3 ACTUALLY LOWER (AS A PERCENT OF TOTAL COMPENSATION)
4 THAN THOSE OF ALL OTHER EMPLOYEES WHEN COMPANY-
5 PROVIDED PENSION BENEFITS ARE COMBINED WITH SOCIAL
6 SECURITY BENEFITS. THIS WOULD BE TRUE EVEN IF THE
7 ARTIFICIAL LIMITS IMPOSED BY THE IRS FOR CERTAIN
8 HIGHLY-COMPENSATED EXECUTIVES WERE NOT IN PLACE.
9 THUS, EVEN WITH THE ADDITION OF THE SERP, EXECUTIVE
10 RETIREMENT BENEFIT LEVELS ARE BELOW THOSE OF OTHER
11 EMPLOYEES, AS A PERCENTAGE OF COMPENSATION. WITHOUT
12 THE SERP BENEFITS, THEY WOULD BE EVEN DRAMATICALLY
13 LOWER STILL.

14
15 Q. DO YOU HAVE ANY COMMENTS ON MR. DEWARD'S TESTIMONY
16 ON PAGE 58, LINES 13-22, AND PAGE 59, LINES 1-13,
17 WHICH STATES THAT "AMORTIZATION OF THIS OBLIGATION
18 WOULD BE LESS HAD THE EXPECTED PRESENT VALUE OF
19 THESE REIMBURSEMENTS BEEN FACTORED INTO THE AMOUNT.
20 WHILE THE COMPANY BELIEVES THIS AMOUNT TO BE
21 IMMATERIAL, RATEPAYERS ARE BEING ASKED TO SUPPORT,
22 THROUGH RATES, THE ENTIRE COST OF PROVIDING THESE
23 POSTRETIREMENT BENEFITS AS DICTATED BY SFAS 106.
24 ALTHOUGH THE COMPANY MAY CONSIDER THE AMOUNT TO BE
25 IMMATERIAL, THE COMPANY HAS THE ABILITY TO

1 CALCULATE THE DOLLAR AMOUNT BY WHICH EXPENSE SHOULD
2 BE REDUCED. ABSENT THIS, RATES WILL BE OVERSTATED.
3 THEREFORE, THE COMPANY SHOULD BE REQUIRED TO
4 RECALCULATE THE COST, FACTORING IN THE EXPECTED
5 REIMBURSEMENTS FROM AT&T IN ORDER TO ESTABLISH A
6 PROPER LEVEL OF GOING FORWARD COSTS. ON SCHEDULE
7 14, I REDUCE EXPENSE BY \$500,000 BUT THIS IS MERELY
8 AN ESTIMATE PENDING INFORMATION FROM THE COMPANY
9 WHICH QUANTIFIES THE REDUCTION TO EXPENSE,"
10 RELATIVE TO SFAS 106?

11

12 A. YES! THE RETIREE BENEFITS PROVIDED BY BELLSOUTH
13 CORPORATION, WHICH ARE EXPENSED UNDER SFAS 106, ARE
14 INCLUDED IN THE BENEFITS VALUED IN STUDY 1, OUR
15 BENEFIT INDEX SURVEY. THUS, EVEN WITH THE ADDITION
16 OF THESE BENEFITS, THE BELLSOUTH BENEFIT PROGRAM IN
17 ITS ENTIRETY IS WITHIN NORMAL COMPETITIVE RANGES.
18 THUS, THE EXPENSE FOR SFAS 106, IN GENERAL, SHOULD
19 BE A LEGITIMATE EXPENSE FOR THE COMPANY. IN ANY
20 EVENT, MR. DEWARD'S SUGGESTED DISALLOWANCE IS
21 PURELY ARBITRARY WITH NO APPARENT BASIS IN FACT.

22

23 Q. DO YOU HAVE ANY COMMENTS, IN GENERAL, ABOUT THE
24 COMPANY'S BENEFIT AND COMPENSATION PROGRAMS IN
25 LIGHT OF THE CURRENT SEVERE WORKFORCE REDUCTIONS

1 AND BUSINESS CONDITIONS?

2

3 A. IN GENERAL, MOST MAJOR EMPLOYERS TRY TO PROVIDE
4 BENEFIT PROGRAMS WHICH, IN TOTAL, ARE SIMILAR TO
5 OTHER ORGANIZATIONS AGAINST WHICH THEY COMPETE FOR
6 EMPLOYEE TALENT. BELLSOUTH HAS GENERALLY TRIED TO
7 PROVIDE BENEFIT AND COMPENSATION PROGRAMS THAT ARE
8 NOT EXCESSIVE AND ARE WELL WITHIN NORMAL BOUNDS OF
9 OTHER COMPANIES THAT ARE SIMILAR TO IT IN THE
10 MARKETPLACE AND MEET THE DEMANDS OF ORGANIZED
11 LABOR.

12

13 THE COMPANY WILL FACE A DRAMATIC CHANGE IN ITS
14 BUSINESS COMPETITORS OVER THE COURSE OF THE NEXT
15 DECADE. FUTURE COMPETITORS ARE GOING TO INCLUDE
16 TELECOMMUNICATIONS MANUFACTURERS, WIRELESS
17 COMPANIES, CABLE COMPANIES, ETC. BELLSOUTH MUST
18 STRIVE TO MAINTAIN THE ABSOLUTE BEST AND MOST
19 TALENTED EMPLOYEES POSSIBLE BECAUSE THE BUSINESS
20 CHALLENGES OF THE FUTURE ARE SO DRAMATICALLY
21 DIFFERENT THAN THEY HAVE BEEN IN THE PAST. AN
22 ATTEMPT TO REDUCE BENEFIT AND COMPENSATION PROGRAMS
23 COULD HAVE AN EFFECT ON THE COMPANY'S ABILITY TO
24 RETAIN THE MOST TALENTED EMPLOYEES. IN THE LONG-
25 TERM, HAVING THE MOST TALENTED EMPLOYEES SHOULD

1 ASSURE A COMPANY OF REMAINING COMPETITIVE,
2 PRODUCING ADVANCED TECHNOLOGY AND PRODUCTS, WHICH,
3 OVER THE LONG-TERM, SHOULD REDUCE THE COMPANY'S
4 COSTS OF DOING BUSINESS. WITH THE RAPID ESCALATION
5 OF TECHNOLOGY, ARBITRARY REDUCTIONS IN BENEFITS
6 WITHOUT REFERENCE TO COMPETITIVE PRACTICES IN THE
7 TELECOMMUNICATIONS FIELD, WILL NOT PRODUCE LONG-
8 TERM ACCEPTABLE BUSINESS RESULTS WHICH ARE
9 ADVANTAGEOUS TO BOTH RATE-PAYERS AND SHAREHOLDERS.

10

11 Q. PLEASE SUMMARIZE YOUR TESTIMONY.

12

13 A. MR. DEWARD HAS CHALLENGED THE COMPANY'S BENEFIT AND
14 COMPENSATION PRACTICES, BASED ON SOME CONJECTURE
15 AND SOME MISLEADING FACTS. HEWITT ASSOCIATES HAS
16 CONDUCTED SEVERAL STUDIES OVER RECENT YEARS WHICH
17 SHOW THAT THE PROGRAMS ARE RIGHT IN THE MAINSTREAM
18 OF COMPETITIVE PRACTICE, AND EVEN CONSERVATIVE IN
19 MANY RESPECTS. THUS, MR. DEWARD'S CHALLENGES, BASED
20 ON UNREASONABLE BENEFIT AND COMPENSATION LEVELS,
21 ARE UNFOUNDED.

22

23 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

24

25 A. YES.

**Selected Utility Clients of Hewitt Associates
Executive Compensation Practice**

Boston Edison Company
Carolina Power & Light Company
Diversified Energies, Inc.
Duke Power Company
Duquesne Light Company
El Paso Electric Company
Florida Power Corporation
Houston Industries Incorporated
Louisville Gas and Electric Company
Minnesota Power
Northern Indiana Public Service Company
Northern States Power Company
Ohio Edison
Pacific Enterprises
Pacific Gas and Electric Company
Portland General Corporation
Public Service Company of Colorado
Public Service Company of Indiana
Public Service Company of New Mexico
SCANA Corporation
SCECorp
The Southern Company
Washington Energy Company
Wisconsin Energy
Wisconsin Power and Light Company

1993 Benefit Index Study Comparator Group

AT&T
American Brands
Ameritech
Bell Atlantic
Caterpillar
Colgate-Palmolive
Delta Air Lines
Du Pont
Eastman Kodak
GTE
General Motors
Harris Corporation
IBM
Life of Georgia
MCI Communications
Motorola
Northern Telecom
Pacific Telesis
Southern Company
Sprint Corporation
USX
Warner-Lambert
Whirlpool

Alcoa
American National Can
Arthur Andersen
Burlington Industries
Coca-Cola
Contel (Telephone)
Digital Equipment
Duke Power
Exxon
General Electric
Goodyear
Hewlett-Packard
Kraft General Foods
Lockheed
Mobil Corporation
NYNEX
Owens-Illinois
Rockwell Aerospace
Southwestern Bell
U S WEST
Wachovia Corporation
Weyerhaeuser
Xerox

**Telecommunications Roundtable Survey
Executive/Upper Management Positions**

Survey Participants

American Telephone and Telegraph Company
Ameritech Corporation
BellSouth Corporation
GTE Corporation
MCI Communications Corporation
NYNEX Corporation
Pacific Telesis Group
Southwestern Bell Corporation
U S WEST, Inc.

Survey Positions

Corporate Positions (from Hewitt Associates Total Compensation DataBase™)
Chief Executive Officer (DataBase position #1)
Chief Financial Officer (DataBase position #2)
Controller (DataBase position #5)
Treasurer (DataBase position #6)
Long-Range Planning & Business Development (DataBase position #7)
Tax (DataBase position #8)
Internal Audit (DataBase position #9)
Law (DataBase position #10)
Human Resources (DataBase position #11)
Public Relations (DataBase position #15)
Government Relations (DataBase position #16)

Corporate Staff Positions

Investor Relations Head
Retirement Plan Investments Head
Budgeting/Internal Financial Planning Head

Unit Head Positions

Head of Telecommunications Operations
Head of Cellular Operations
Head of Publishing Operations
Profit Center Head

**Telecommunications Roundtable Survey
Executive/Upper Management Positions**

Survey Positions (continued)

Telecommunications/Profit Center Staff Functions

Telecommunications Comptroller
Telecommunications General Accounting Manager
Telecommunications MIS Head
Major MIS Applications Head
Head of Data Operations Center(s)
Profit Center Financial Head
Telecommunications Sales Head
Telecommunications Marketing Head
Major/Large Accounts Top Executive(s)
Public Sector Accounts Top Executive(s)
"Middle Market" Accounts Top Executive(s)
Residential/Small Accounts Top Executive(s)

Government Relations Positions

Washington, DC Legislative Manager
Washington, DC Regulatory Manager
State Legislative Head
State Regulatory Head

Network Positions

Head of All Network
Head of Network Operations
General Manager of Network Operations
Head of Network Design/Engineering
General Manager of Network Design/Engineering

**Telecommunications Roundtable Survey
Middle Management/Supervisory/Professional Positions**

Survey Participants

American Telephone and Telegraph Company
Ameritech Corporation
BellSouth Corporation
GTE Corporation
MCI Communications Corporation
NYNEX Corporation
Pacific Telesis Group
Southwestern Bell Corporation
U S WEST, Inc.

Survey Positions

Sales and Marketing Positions

Branch Manager, State/Federal Sales
Coin Operations Account Executive
Coin Operations Sales Manager
Coin Operations Branch Manager
Applications Consultant
Interexchange Account Executive
Interexchange Account Manager
Interexchange Marketing Director B
Interexchange Marketing Director A
Product Manager
Senior Product Manager
Group Product Manager

Customer Service Positions

Customer Service Supervisor
Customer Service Manager
Customer Service Operations Manager

**Telecommunications Roundtable Survey
Middle Management/Supervisory/Professional Positions**

Survey Positions (continued)

Government and Community Relations Positions

State Regulatory Manager
State Legislative Manager
External Affairs Manager
Rates & Tariffs Manager

Network Positions

OSP Engineer B
OSP Engineer A
OSP Manager B
OSP Manager A
Traffic Engineer
Traffic Engineering Manager
Equipment Engineer
Equipment Engineering Manager
Transmission Engineer
Transmission Engineering Manager
Network Planner
Senior Network Planner
Integrated Planning Manager
I&M Supervisor
I&M Manager
Central Office Operations Supervisor
Switching Control Center Supervisor
Central Office Operations Manager
Technical Support Engineer B
Technical Support Engineer A

Cellular Positions

Cellular Engineer
Cellular Engineering Manager

1992 Total Compensation Measurement™ Study

Study Companies

Ameritech
American Telephone and Telegraph Company
Bell Atlantic Corporation
Digital Equipment Corporation
GTE Corporation
Hewlett-Packard Company
MCI Communications Corporation
Motorola, Inc.
Northern Telecom Limited
NYNEX Corporation
Pacific Bell
Southwestern Bell Corporation
Sprint
U S WEST, Inc.
Xerox Corporation

Study Positions

Chief Executive Officer
Chief Administrative Officer/Chief Financial Officer
Controller
Treasurer
Long-Range Planning and Business Development
Law
Human Resources
Public Relations
Government Relations
Group Chief Executive
Group Controller
Group Human Resources
Subgroup Chief Executive
Division Chief Executive

1 SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY
2 REBUTTAL TESTIMONY OF WILLIAM B. KECK
3 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
4 DOCKET NO. 920260-TL
5 DECEMBER 10, 1993
6

7 Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS
8 ADDRESS.

9
10 A. MY NAME IS WILLIAM B. KECK. I AM EMPLOYED BY
11 BELLSOUTH TELECOMMUNICATIONS, INC. D/B/A SOUTHERN
12 BELL TELEPHONE AND TELEGRAPH COMPANY (SOUTHERN BELL
13 OR THE COMPANY). MY POSITION IS DIRECTOR-CORPORATE
14 FINANCE AND ASSISTANT TREASURER. MY BUSINESS
15 ADDRESS IS 675 WEST PEACHTREE STREET, ATLANTA,
16 GEORGIA 30375.

17

18 Q. HAVE YOU PREVIOUSLY SUBMITTED DIRECT TESTIMONY IN
19 THIS PROCEEDING?

20

21 A. YES.

22

23 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

24

25 A. THE PURPOSE OF THIS TESTIMONY IS TO REBUT THE

1 HYPOTHETICAL CAPITAL STRUCTURE RECOMMENDATIONS MADE
2 BY MR. ROTHSCHILD AND MR. CICCHETTI IN THIS
3 PROCEEDING.

4

5

REBUTTAL OF MR. ROTHSCHILD

6

7 Q. PLEASE COMMENT ON MR. ROTHSCHILD'S RECOMMENDATION
8 REGARDING THE APPROPRIATE LEVEL OF EQUITY IN THE
9 CAPITAL STRUCTURE.

10

11 A. I STRONGLY DISAGREE WITH HIS RECOMMENDATION THAT THE
12 COMPANY'S EQUITY RATIO BE SET AT 42.5% OF INVESTOR
13 CAPITAL FOR RATEMAKING PURPOSES. HIS RECOMMENDATION
14 IS EXTREME. NONE OF THE MAJOR LOCAL EXCHANGE
15 COMPANIES HAVE CAPITAL STRUCTURES WHICH INCLUDE AS
16 GREAT A PROPORTION OF DEBT AS MR. ROTHSCHILD IS
17 RECOMMENDING HERE. HE APPEARS TO BE COMPLETELY
18 IGNORING THE INCREASING LEVEL OF BUSINESS RISK THAT
19 IS FACING SOUTHERN BELL AND THAT THE COMPANY OUGHT
20 TO RESPOND TO SUCH AN ENVIRONMENT BY DECREASING, NOT
21 INCREASING, ITS RELIANCE UPON DEBT. HIS POSITION IN
22 THIS PROCEEDING IS ALSO INCONSISTENT WITH HIS
23 PREVIOUS CAPITAL STRUCTURE POSITIONS FOR SOUTHERN
24 BELL BEFORE THIS COMMISSION. HIS 42.5% EQUITY RATIO
25 PROPOSAL IS NOT ONLY ABSURD, BUT ALSO HIGHLY

1 UNLIKELY TO OCCUR. IF ACCEPTED BY THIS COMMISSION,
2 SOUTHERN BELL WOULD BEGIN WITH REVENUES THAT WOULD
3 BE SHORT, BY \$65.9 MILLION, OF THAT NECESSARY TO
4 SERVICE ITS DEBT AND EQUITY.

5

6 Q. IS MR. ROTHSCHILD'S EQUITY RATIO RECOMMENDATION
7 APPROPRIATE FOR SOUTHERN BELL, GIVEN TODAY'S
8 TELECOMMUNICATIONS MARKETPLACE?

9

10 A. NO, IT IS NOT. HE IS PROPOSING AN EQUITY RATIO OF
11 42.5%, MORE THAN EIGHTEEN AND ONE HALF PERCENTAGE
12 POINTS LOWER THAN THE CURRENT ACTUAL RATIO. HE IS
13 DISCARDING AN ACTUAL CAPITAL STRUCTURE WHICH HAS
14 BEEN STABLE SINCE 1988, EVEN THOUGH THE COMPANY'S
15 BUSINESS RISKS HAVE CLEARLY INCREASED DRAMATICALLY
16 OVER THE LAST FIVE YEARS.

17

18 THE LOGIC OF THIS RECOMMENDATION IS COMPLETELY
19 OPPOSITE OF THAT WHICH BASIC FINANCIAL THEORY WOULD
20 DICTATE. HE APPEARS TO BE COMPLETELY IGNORING THE
21 INCREASING LEVEL OF BUSINESS RISK THAT IS FACING
22 SOUTHERN BELL. HE ALSO APPEARS TO BE COMPLETELY
23 IGNORING THE FACT THAT THE COMPANY OUGHT TO RESPOND
24 TO SUCH AN ENVIRONMENT BY DECREASING, NOT
25 INCREASING, ITS RELIANCE UPON DEBT. LOOKING AHEAD,

1 IT IS CLEAR THAT THE INDUSTRY NEEDS TO FURTHER
2 REDUCE ITS RELIANCE ON DEBT. IN FACT, VALUE LINE, A
3 SOURCE OF DATA USED EXTENSIVELY BY MR. ROTHSCHILD,
4 IS PROJECTING A FOUR PERCENTAGE POINT INCREASE IN
5 THE AVERAGE EQUITY RATIO FOR THE TELECOMMUNICATIONS
6 SERVICES INDUSTRY FIRMS (1996-1998 VERSUS 1992).

7
8 IF THIS COMMISSION WERE TO ADOPT HIS RECOMMENDATION,
9 IT WOULD BE EFFECTIVELY REDUCING THE COMPANY'S
10 FLORIDA INTRASTATE EQUITY AMOUNT BY NEARLY \$593
11 MILLION AND REPLACE IT WITH A COMPARABLE AMOUNT OF
12 DEBT. THAT WOULD INCREASE THE AMOUNT OF
13 JURISDICTIONAL DEBT BY ALMOST 50% (47.5%). TO PUT
14 THIS IN PERSPECTIVE, BELLSOUTH TELECOMMUNICATIONS
15 WOULD HAVE TO SECURE AN ADDITIONAL \$3.45 BILLION IN
16 DEBT (ON A BASE OF \$7.3 BILLION) IN ORDER TO HAVE
17 THE \$593 MILLION AVAILABLE AT THE FLORIDA INTRASTATE
18 LEVEL.

19
20 ON PAGE 13 OF MY DIRECT TESTIMONY IN THIS
21 PROCEEDING, I PROVIDED EVIDENCE THAT THE COMPANY'S
22 CAPITAL STRUCTURE HAS NOT CHANGED APPRECIABLY SINCE
23 1988. COUPLING THAT FACT WITH THE INCREASED
24 BUSINESS RISK FACING SOUTHERN BELL, IT IS APPARENT
25 THAT THE OVERALL INVESTMENT RISK OF THE COMPANY HAS

1 INCREASED DURING RECENT YEARS.

2

3 IN MY OPINION, MR. ROTHSCHILD'S EQUITY RATIO
4 RECOMMENDATION IS CLEARLY INCONSISTENT WITH BASIC
5 FINANCIAL THEORY GIVEN THE INCREASINGLY COMPETITIVE
6 TELECOMMUNICATIONS BUSINESS ENVIRONMENT THAT EXISTS
7 TODAY.

8

9 Q. WHAT SUPPORT DOES MR. ROTHSCHILD OFFER REGARDING HIS
10 42.5% EQUITY RATIO RECOMMENDATION?

11

12 A. BESIDES HIS STUDY, WHICH DR. BILLINGSLEY WILL
13 ADDRESS IN HIS REBUTTAL TESTIMONY, MR. ROTHSCHILD
14 ATTEMPTS TO SUPPORT FOR HIS EXTREME POSITION BY
15 ASSERTING THAT "MANIPULATION" OF THE CAPITAL
16 STRUCTURE IS COMMON WITHIN THE TELECOMMUNICATIONS
17 INDUSTRY. HOWEVER, THERE IS NO EVIDENCE OFFERED BY
18 MR. ROTHSCHILD THAT ANY MANIPULATION HAS OCCURRED
19 EITHER AT THE OPERATING TELEPHONE COMPANY LEVEL OR
20 AT THE CONSOLIDATED HOLDING COMPANY LEVEL. HIS
21 ASSERTIONS OF "MANIPULATION" ARE UNFOUNDED AND
22 UNWARRANTED. INDEED, BASED ON MR. ROTHSCHILD'S
23 PRIOR TESTIMONY, HIS CONCLUSIONS REGARDING CAPITAL
24 STRUCTURE DEMONSTRATES THAT HIS TESTIMONY HERE IS
25 CONTRIVED, WITH THE PURPOSE BEING TO CREATE A

1 SIGNIFICANT NEGATIVE REVENUE REQUIREMENT ADJUSTMENT.

2

3 Q. WHY HAVE YOU REACHED THIS CONCLUSION?

4

5 A. MR. ROTHSCHILD HAS FILED TWO RELATIVELY RECENT
6 TESTIMONIES IN SOUTHERN BELL DOCKETS BEFORE THIS
7 COMMISSION.

8

9 IN AN EARLIER PHASE OF THIS DOCKET, HE FILED COST OF
10 CAPITAL TESTIMONY ON NOVEMBER 16, 1992. IN THAT
11 TESTIMONY, ON PAGE 14, LINE 4, HE STATED "I HAVE
12 ADOPTED THE CAPITAL STRUCTURE PROPOSED BY THE
13 COMPANY." AT THAT TIME, THE COMPANY WAS PROPOSING
14 THAT THE COMMISSION UTILIZE THE COMPANY'S ACTUAL
15 AVERAGE CAPITAL STRUCTURE. THAT CAPITAL STRUCTURE
16 WAS FOR THE YEAR 1991 AND HAD AN EQUITY RATIO OF
17 62.73%.

18

19 EARLIER, ON JANUARY 16, 1992, MR. ROTHSCHILD FILED
20 COST OF CAPITAL TESTIMONY IN SOUTHERN BELL DOCKET
21 880069-TL. HIS CAPITAL STRUCTURE RECOMMENDATION IN
22 THAT TESTIMONY CONTAINED AN EQUITY RATIO OF 59.67%.
23 HE DEVELOPED THAT RATIO BY STARTING WITH SOUTHERN
24 BELL'S ACTUAL CAPITAL STRUCTURE AS OF DECEMBER 31,
25 1990, AND THEN HE MADE ADJUSTMENTS.

1
2 AS EVIDENCED BY THE ABOVE, MR. ROTHSCHILD'S CURRENT
3 RECOMMENDATION THAT THE COMMISSION SHOULD USE AN
4 EQUITY RATIO OF 42.5% IS INCREDIBLY INCONSISTENT
5 WITH HIS PREVIOUS RECOMMENDATIONS. IT IS OBVIOUSLY
6 OFFERED FOR THE PURPOSE OF PRODUCING A SIGNIFICANT
7 NEGATIVE REVENUE REQUIREMENT ADJUSTMENT AND,
8 THEREFORE, IT SHOULD BE REJECTED.

9
10 Q. PLEASE SUMMARIZE WHY YOU THINK THE COMMISSION SHOULD
11 REJECT MR. ROTHSCHILD'S RECOMMENDATION TO USE A
12 42.5% EQUITY RATIO FOR RATEMAKING PURPOSES.

13
14 A. MR. ROTHSCHILD'S RECOMMENDATION TO IMPUTE A 42.5%
15 HYPOTHETICAL EQUITY RATIO TO SOUTHERN BELL FOR
16 RATEMAKING PURPOSES SHOULD BE REJECTED. IT IS AN
17 EXTREME RECOMMENDATION AND CANNOT BE TAKEN
18 SERIOUSLY. IF ADOPTED, THE HYPOTHETICAL CAPITAL
19 STRUCTURE WILL CAUSE A REVENUE SHORTFALL OF \$65.9
20 MILLION NECESSARY TO SERVE SOUTHERN BELL'S ACTUAL
21 DEBT AND EQUITY.

22
23 SUCH AN ADJUSTMENT WOULD CREATE A SIGNIFICANT
24 FINANCIAL BURDEN, AND A BURDEN THAT WOULD NOT GO
25 UNNOTICED. IF THE COMMISSION WERE TO ADOPT THIS

1 RECOMMENDATION, IT WOULD SURELY RAISE SERIOUS
2 CONCERNS FROM CREDIT RATING AGENCIES AND INVESTORS
3 ALIKE REGARDING THE REGULATORY ENVIRONMENT THAT
4 EXISTS IN THIS STATE. ADOPTION OF SUCH AN EXTREME
5 CAPITAL STRUCTURE WOULD CAUSE INVESTORS TO DEMAND A
6 HIGHER RETURN TO OFFSET THE RESULTANT FINANCIAL
7 RISK.

8

9

REBUTTAL OF MR. CICHETTI

10

11 Q. PLEASE COMMENT ON MR. CICHETTI'S RECOMMENDATION
12 REGARDING THE APPROPRIATE LEVEL OF EQUITY IN THE
13 CAPITAL STRUCTURE.

14

15 A. I DISAGREE WITH HIS RECOMMENDATION THAT THE
16 COMPANY'S EQUITY RATIO BE SET AT 58% OF INVESTOR
17 CAPITAL FOR RATEMAKING PURPOSES. HIS RECOMMENDATION
18 IS SIMPLY AN ARBITRARY ATTEMPT TO CREATE A REVENUE
19 REQUIREMENT ADJUSTMENT THAT WILL BURDEN THE COMPANY
20 FINANCIALLY.

21

22 HIS RECOMMENDATION IS NOT BASED ON ANY CREDIBLE
23 STUDY. MORE IMPORTANTLY, IT IS CONTRARY TO WHAT HE
24 SAID IN THE PAST ABOUT AN ACTUAL CAPITAL STRUCTURE
25 SIMILAR TO THAT WHICH EXISTS TODAY. FURTHERMORE,

1 THE LOGIC OF HIS RECOMMENDATION RUNS COUNTER TO
2 FINANCIAL THEORY BECAUSE IT IGNORES OVERWHELMING
3 EVIDENCE THAT EXISTS IN TODAY'S TELECOMMUNICATIONS
4 INDUSTRY, EVIDENCE WHICH CLEARLY INDICATES THAT THE
5 LOCAL EXCHANGE COMPANIES OUGHT TO REDUCE FINANCIAL
6 RISK IN LIGHT OF THEIR EVER-INCREASING BUSINESS
7 RISK. TO SOME EXTENT, LOCAL EXCHANGE FIRMS,
8 INCLUDING SOUTHERN BELL, HAVE REDUCED THEIR
9 FINANCIAL RISK BY REFINANCING A PORTION OF THEIR
10 DEBT AT THE LOWER INTEREST RATES, BUT TO ADD
11 ADDITIONAL DEBT TO THEIR CAPITAL STRUCTURE WOULD BE,
12 IN MY OPINION, INADVISABLE AND DANGEROUS. FINALLY,
13 HIS RECOMMENDATION IGNORES THE FACT THAT THE ACTUAL
14 CAPITAL STRUCTURE IS THE ONE THAT IS AVAILABLE TO
15 INVESTORS AND IS USED BY THEM WHEN THEY EVALUATE
16 INVESTMENT OPPORTUNITIES.

17

18 Q. WHAT IS THE BASIS FOR HIS 58% EQUITY RATIO
19 RECOMMENDATION?

20

21 A. HE APPEARS TO HAVE ESTABLISHED THE 58%
22 RECOMMENDATION BASED ON ONE OF STANDARD AND POOR'S
23 (S&P) FINANCIAL BENCHMARKS, NAMELY S&P'S TOTAL DEBT
24 TO TOTAL CAPITAL FINANCIAL BENCHMARK FOR A AA-RATED
25 LOCAL EXCHANGE COMPANY.

1

2 Q. IS THAT A VALID BASIS ON WHICH TO PROPOSE AN EQUITY
3 RATIO RECOMMENDATION IN THIS PROCEEDING?

4

5 A. NO, IT IS NOT. THE CHOICE OF THE 58% EQUITY LEVEL
6 IS ARBITRARY AND, THEREFORE, SHOULD BE REJECTED. HE
7 HAS PRESENTED NO STUDY OR EVIDENCE TO SUPPORT THAT
8 THIS EQUITY RATIO IS APPROPRIATE FOR SOUTHERN BELL
9 IN TODAY'S TELECOMMUNICATIONS MARKETPLACE. HE
10 SIMPLY ASSIGNED S&P'S AA CAPITAL STRUCTURE BENCHMARK
11 FOR A LOCAL EXCHANGE COMPANY TO SOUTHERN BELL, A
12 AAA-RATED COMPANY.

13

14 FURTHERMORE, IN MY OPINION, HE HAS MISUSED THIS
15 FINANCIAL BENCHMARK, EVEN IF IT WERE TO BE
16 APPLICABLE TO SOUTHERN BELL. S&P, IN THE
17 PUBLICATION THAT ESTABLISHED THE REVISED BENCHMARKS
18 SHOWN ON MR. CICCHETTI'S SCHEDULE NO. 9, CLEARLY
19 EXPRESSES CAUTION WITH RESPECT TO THE USE OF
20 FINANCIAL RATIOS AND THEIR GUIDELINES
21 ("BENCHMARKS"):

22

23 "ALTHOUGH FINANCIAL RATIOS TELL ONLY A PART
24 OF THE RATING STORY, A COMBINATION OF
25 RATIOS PROVIDES AN INDICATION OF THE

1 OVERALL FINANCIAL PROFILE APPROPRIATE FOR A
2 GIVEN RATING LEVEL. S&P PUBLISHES THESE
3 GUIDELINES TO PROVIDE INSIGHT INTO THE
4 RATING PROCESS. HOWEVER, RATINGS ALSO
5 DEPEND HEAVILY ON QUALITATIVE JUDGMENTS.
6 EVALUATIONS OF BUSINESS RISK, WHICH
7 GENERALLY DETERMINES THE STABILITY OF
8 FINANCIAL PERFORMANCE, ARE NOT NEATLY
9 QUANTIFIABLE. EVEN SOME MEASURES OF
10 FINANCIAL RISK, SUCH AS ASSET QUALITY AND
11 FINANCIAL FLEXIBILITY, CANNOT BE EASILY
12 DETERMINED SOLELY FROM PUBLISHED FINANCIAL
13 REPORTS. SINCE RATINGS ARE FORWARD
14 LOOKING, S&P APPLIES GUIDELINES BASED ON
15 EXPECTED FUTURE FINANCIAL PERFORMANCE, NOT
16 HISTORICAL RESULTS." STANDARD AND POOR'S,
17 CREDITREVIEW- TELECOMMUNICATIONS, FEBRUARY
18 10, 1992, PAGE 4.

19

20 Q. HAS MR. CICHETTI TESTIFIED BEFORE ON THE
21 APPROPRIATENESS OF THE COMPANY'S ACTUAL CAPITAL
22 STRUCTURE?

23

24 A. YES. IN 1988 HE FILED TESTIMONY ON BEHALF OF THE
25 COMMISSION STAFF SUPPORTING THE USE OF SOUTHERN

1 BELL'S ACTUAL CAPITAL STRUCTURE. IN HIS TESTIMONY,
2 HE STATED THAT "...I DO NOT BELIEVE SOUTHERN BELL'S
3 EQUITY RATIO SHOULD BE REDUCED FOR RATEMAKING
4 PURPOSES." THE COMPANY'S ACTUAL EQUITY RATIO FOR
5 THE YEAR 1988 WAS 62.73%. THE COMPANY'S ACTUAL
6 EQUITY RATIO FOR THE YEAR 1993, WHICH IS BEING USED
7 IN THIS PROCEEDING, IS 61.01%.

8

9 INTERESTINGLY, IN HIS 1988 TESTIMONY, MR. CICCHETTI
10 RELIED UPON AN EARLIER COMMISSION ORDER, ORDER NO.
11 4078 IN DOCKET NO. 7759-EU, INDICATING THAT IT READ
12 AS FOLLOWS:

13

14 "CAPITAL STRUCTURE FALL [SIC] WITHIN THE
15 PREROGATIVES OF MANAGEMENT, AND THIS IS AS
16 IT SHOULD BE, BECAUSE OF THE IMPACT CAPITAL
17 RATIOS EXCERPT [SIC] ON THE ABILITY OF THE
18 UTILITY TO MAINTAIN ITS CREDIT AND ATTRACT
19 CAPITAL. MANAGEMENT LIVES FROM DAY TO DAY
20 WITH THE INTRICATE AND COMPLEX PROBLEMS OF
21 CORPORATE FINANCE, AND HAS THE
22 RESPONSIBILITY OF SEEING THAT THE UTILITY
23 HAS THE FINANCIAL ABILITY TO MEET ITS
24 PUBLIC DUTY. THE INVASION OF THE FIELD OF
25 MANAGEMENT IN SUCH A SENSITIVE AREA IS

1 JUSTIFIED ONLY WHEN THE PUBLIC INTEREST
2 REQUIRES THE EXERCISE OF EXTREME MEASURES
3 FOR ITS PROTECTION AND BENEFIT."
4

5 FPSC DOCKET NO. 880069-TL, TRANSCRIPT AT PAGE 1694.
6

7 IN SUMMARY, IN 1988, MR. CICCHETTI SUPPORTED THE USE
8 OF AN EQUITY RATIO OF ABOUT 62%, BUT TODAY, AT A
9 TIME WHEN BUSINESS RISKS ARE CLEARLY GREATER AND
10 INCREASING, HE NOW REJECTS A 61% EQUITY RATIO AND
11 PROPOSES A CAPITAL STRUCTURE WHICH WOULD INCREASE
12 THE COMPANY'S FINANCIAL RISKS.
13

14 Q. WHAT DID THE COMMISSION DO IN 1988 REGARDING THE
15 APPROPRIATE CAPITAL STRUCTURE FOR SOUTHERN BELL?
16

17 A. CONSISTENT WITH MR. CICCHETTI'S TESTIMONY IN 1988,
18 THE COMMISSION, IN ORDER 20162 IN DOCKET NO.
19 880069-TL, DATED OCTOBER 13, 1988, STATED THAT
20 "IMPUTING A LOWER EQUITY RATIO REDUCES THE COMPANY'S
21 ABILITY TO EARN ON ITS ACTUAL CAPITAL STRUCTURE.
22 IMPUTING A LOWER EQUITY RATIO COULD ALSO ADVERSELY
23 AFFECT THE COMPANY'S ABILITY TO REACT TO CHANGES IN
24 ITS OPERATING ENVIRONMENT AND COULD POSSIBLY RESULT
25 IN A LOWER BOND RATING FOR THE COMPANY," AND

1 REJECTED A HYPOTHETICAL CAPITAL STRUCTURE. - IT
2 SHOULD DO SO AGAIN.

3

4 Q. IS MR. CICCHETTI'S EQUITY RATIO RECOMMENDATION
5 APPROPRIATE FOR SOUTHERN BELL, GIVEN TODAY'S
6 TELECOMMUNICATIONS MARKETPLACE?

7

8 A. NO, IT IS NOT. HE IS NOW PROPOSING AN EQUITY RATIO
9 OF 58%, MORE THAN THREE PERCENTAGE POINTS LOWER THAN
10 THE CURRENT ACTUAL RATIO. HE IS DISCARDING AN
11 ACTUAL CAPITAL STRUCTURE WHICH HAS BEEN STABLE SINCE
12 1988, EVEN THOUGH THE COMPANY'S BUSINESS RISKS HAVE
13 CLEARLY INCREASED DRAMATICALLY OVER THE LAST FIVE
14 YEARS. THE LOGIC OF THIS RECOMMENDATION IS
15 COMPLETELY OPPOSITE OF THAT WHICH BASIC FINANCIAL
16 THEORY WOULD DICTATE.

17

18 ON PAGE 13 OF MY DIRECT TESTIMONY IN THIS
19 PROCEEDING, I PROVIDED EVIDENCE THAT THE COMPANY'S
20 CAPITAL STRUCTURE HAS NOT CHANGED APPRECIABLY SINCE
21 1988. COUPLING THAT FACT WITH THE INCREASED
22 BUSINESS RISK FACING SOUTHERN BELL, IT IS APPARENT
23 THAT THE OVERALL INVESTMENT RISK OF THE COMPANY HAS
24 INCREASED DURING RECENT YEARS.

25

1 IN MY OPINION, MR. CICCHETTI'S EQUITY RATIO
2 RECOMMENDATION IS CLEARLY INCONSISTENT WITH BASIC
3 FINANCIAL THEORY GIVEN THE INCREASINGLY COMPETITIVE
4 TELECOMMUNICATIONS BUSINESS ENVIRONMENT THAT EXISTS
5 TODAY.

6

7 Q. MR. CICCHETTI ALLEGES, IN SUPPORT OF HIS
8 RECOMMENDATION, THAT "UTILITIES CAN MANIPULATE THEIR
9 REVENUE REQUIREMENT AND THEIR EARNINGS LEVEL THROUGH
10 CHANGES TO THEIR EQUITY RATIO." CAN YOU COMMENT ON
11 THIS?

12

13 A. THIS STATEMENT, WHICH HE USES AS SUPPORT TO HIS 58%
14 EQUITY RATIO RECOMMENDATION, APPEARS TO IMPLY THAT
15 SUCH MANIPULATION MAY HAVE OCCURRED IN THE CASE OF
16 SOUTHERN BELL. THIS ALLEGATION IS UNFOUNDED AND
17 UNSUPPORTED BY ANY FACTS. IT IS CLEAR FROM THE
18 CAPITAL STRUCTURE DATA I PROVIDED ON PAGE 13 OF MY
19 DIRECT TESTIMONY THAT SOUTHERN BELL HAS NOT
20 MANIPULATED ITS REVENUE REQUIREMENT AND EARNINGS BY
21 CHANGING ITS EQUITY RATIO. SOUTHERN BELL'S EQUITY
22 RATIO HAS NOT CHANGED MATERIALLY SINCE 1988. IN
23 FACT, DURING 1993, THE COMPANY HAS INCREASED ITS
24 DEBT RATIO BY APPROXIMATELY ONE AND A HALF
25 PERCENTAGE POINTS.

1

2 Q. DOES MR. CICHETTI MAKE ANY OTHER UNFOUNDED
3 ALLEGATIONS IN SUPPORT OF HIS RECOMMENDED
4 HYPOTHETICAL CAPITAL STRUCTURE?

5

6 A. YES. HE COMPARES THE 1992 EQUITY RATIOS OF BST
7 (61%) WITH THE 60.5% RATIO OF THE BELLSOUTH
8 CONSOLIDATED CORPORATION. HE ASSERTS THAT "THIS
9 INDICATES BELLSOUTH CORP'S RISKY, NON-REGULATED
10 VENTURES, IN TOTAL, ARE NOT FINANCED WITH MORE
11 EQUITY THAN THE LESS RISKY REGULATED TELEPHONE
12 OPERATIONS OF BELLSOUTH TELECOMMUNICATIONS INC. AND
13 SOUTHERN BELL, SIGNIFYING RELIANCE ON THE LOCAL
14 EXCHANGE COMPANIES FOR CREDIT SUPPORT BY THE PARENT
15 CORPORATION." PRESUMABLY HE THINKS SOUTHERN BELL
16 HAS MORE EQUITY THAN IT NEEDS SO THAT BELLSOUTH'S
17 UNREGULATED SUBSIDIARIES CAN USE MORE DEBT AND LESS
18 EQUITY FINANCING THAN THEY SHOULD.

19

20 THIS ALLEGATION IS UNSUPPORTED BY FACTS. MR.
21 CICHETTI APPEARS TO BE EFFECTIVELY DEFINING THE
22 "TOTAL" RISKY, NON-REGULATED VENTURES BY SUBTRACTING
23 THE TOTAL CAPITAL IN THE BST CAPITAL STRUCTURE FROM
24 THE TOTAL CAPITAL OF BELLSOUTH CONSOLIDATED. THIS
25 OVERSTATES THE IMPACT OF NON-REGULATED VENTURES ON

1 BELL SOUTH'S CAPITAL STRUCTURE BECAUSE IT INCLUDES
2 NOT ONLY THOSE VENTURES BUT ALSO THE EMPLOYEE STOCK
3 OWNERSHIP PLAN (ESOP) DEBT THAT EXISTS AT THE
4 BELL SOUTH CORPORATE LEVEL.

5
6 IF HE HAD USED THE MOST RECENT QUARTERLY BALANCE
7 SHEET DATA FOR SEPTEMBER 30, 1993 AND ADJUSTED THE
8 ESOP DEBT OUT OF THE BELL SOUTH CONSOLIDATED CAPITAL
9 STRUCTURE, HE WOULD HAVE FOUND THAT THE EQUITY RATIO
10 FOR THE ADJUSTED BELL SOUTH CONSOLIDATED CAPITAL, THE
11 ONE THAT INCLUDES BST AND THE NON-REGULATED
12 OPERATIONS, IS ACTUALLY HIGHER THAN THE EQUITY RATIO
13 FOR BST. THE ADJUSTED CONSOLIDATED EQUITY RATIO WAS
14 APPROXIMATELY 64.0%, WHILE THE BST RATIO WAS AROUND
15 60.5%. BY RECOGNIZING AND ADJUSTING FOR THE ESOP
16 DEBT, MR. CICHETTI WOULD HAVE FOUND THAT THE DATA
17 HE USES TO IMPLY THAT BELL SOUTH IS RELYING ON THE
18 LOCAL EXCHANGE COMPANY FOR CREDIT SUPPORT IS
19 INCORRECT.

20
21 SECONDLY, THERE IS OTHER SPECIFIC INFORMATION WHICH
22 IS AVAILABLE THAT REFUTES MR. CICHETTI'S ALLEGATION
23 REGARDING THE FINANCING OF BELL SOUTH'S NON-REGULATED
24 VENTURES. BELL SOUTH PUBLISHES THE TOTAL ASSETS AND
25 TOTAL EQUITY FOR BELL SOUTH WIRELESS COMMUNICATIONS.

1 THE WIRELESS COMMUNICATIONS OPERATIONS ARE CAPITAL
2 INTENSIVE AND MAKE UP A LARGE PERCENTAGE OF
3 BELLSOUTH'S ASSETS ASSOCIATED WITH NON-REGULATED
4 ACTIVITIES. USING THE RECENTLY PUBLISHED SEPTEMBER
5 30, 1993 DATA AND RECOGNIZING RECENT CONSOLIDATIONS
6 THAT OCCURRED FOR ACCOUNTING PURPOSES ONLY, IT CAN
7 BE DETERMINED THAT BELLSOUTH'S WIRELESS OPERATIONS
8 HAVE A CAPITAL STRUCTURE CONSISTING OF 72.2% EQUITY
9 AND 27.8% DEBT. THIS EQUITY RATIO CLEARLY INDICATES
10 THAT BELLSOUTH IS FINANCING ITS NON-REGULATED
11 VENTURES AT A HIGHER EQUITY RATIO THAN IT DOES FOR
12 ITS REGULATED OPERATIONS.

13

14 Q. HOW DOES MR. CICHETTI'S CAPITAL STRUCTURE COMPARE
15 WITH THE CAPITAL STRUCTURE THAT WOULD BE AVAILABLE
16 TO AND WOULD MOST LIKELY BE USED BY INVESTORS?

17

18 A. CLEARLY, SINCE HIS RECOMMENDATION DEVIATES FROM THE
19 COMPANY'S ACTUAL CAPITAL STRUCTURE, HIS CAPITAL
20 STRUCTURE IS DIFFERENT FROM THE ONE THAT THE
21 INVESTORS HAVE AVAILABLE TO THEM WHICH REFLECTS THE
22 REALITIES OF HOW THE COMPANY HAS FINANCED ITS
23 OPERATIONS. IT IS THE ACTUAL CAPITAL STRUCTURE THAT
24 THE INVESTORS USE WHEN THEY EVALUATE INVESTMENT
25 OPPORTUNITIES. IF THE COMMISSION WERE TO IMPUTE A

1 HYPOTHETICAL CAPITAL STRUCTURE, THEN INVESTORS WILL
2 SIMPLY DEMAND A HIGHER RETURN TO OFFSET THE
3 INCREASED FINANCIAL RISK.

4

5 Q. PLEASE SUMMARIZE WHY YOU THINK THE COMMISSION SHOULD
6 REJECT MR. CICCHETTI'S RECOMMENDATION TO USE A 58%
7 EQUITY RATIO FOR RATEMAKING PURPOSES.

8

9 A. IN MY OPINION, MR. CICCHETTI'S 58% EQUITY RATIO
10 RECOMMENDATION SHOULD BE REJECTED BECAUSE IT IS
11 ARBITRARY, IT IS NOT BASED ON ANY CREDIBLE STUDY,
12 AND IT IS ILLOGICAL FROM A FINANCIAL THEORY
13 STANDPOINT IN LIGHT OF THE EVER-INCREASING BUSINESS
14 RISK FACING THE COMPANY. IT IS INCONSISTENT WITH
15 THE REALITIES OF THE COMPANY'S ACTUAL FINANCIAL
16 STRUCTURE AND THE REALITIES OF TODAY'S
17 TELECOMMUNICATIONS MARKETPLACE.

18

19 HIS 58% EQUITY RATIO, WHICH HAS THE EFFECT OF
20 REDUCING HIS OVERALL COST OF CAPITAL RECOMMENDATION
21 BY 16 BASIS POINTS, IS SIMPLY A NEGATIVE REVENUE
22 REQUIREMENT ADJUSTMENT THAT ADDS AN ADDITIONAL
23 FINANCIAL BURDEN OF \$10.9 MILLION ON THE COMPANY AND
24 ADVERSELY AFFECTS ITS ABILITY TO EARN ITS REQUIRED
25 RETURN. THEREFORE, THE COMMISSION SHOULD ADOPT THE

1 COMPANY'S ACTUAL AVERAGE CAPITAL STRUCTURE.

2

3 Q. PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY.

4

5 A. THE COMMISSION SHOULD DISREGARD THE HYPOTHETICAL
6 CAPITAL STRUCTURE PROPOSALS OF MR. ROTHSCHILD AND
7 MR. CICCHETTI. THE COMMISSION SHOULD CONTINUE ITS
8 POLICY OF ADOPTING SOUTHERN BELL'S ACTUAL AVERAGE
9 CAPITAL STRUCTURE. BY DOING SO, IT AVOIDS CREATING
10 AN UNWARRANTED REVENUE REQUIREMENT ADJUSTMENT THAT
11 WOULD ADD TO THE FINANCIAL BURDENS OF THE COMPANY
12 AND COULD ADVERSELY AFFECT IT ABILITY TO EARN ITS
13 REQUIRED RETURN.

14

15 THE COMMISSION SHOULD KEEP IN MIND THE POTENTIAL
16 EFFECTS OF A HYPOTHETICAL CAPITAL STRUCTURE
17 DECISION, JUST AS IT DID IN 1988. "IMPUTING A LOWER
18 EQUITY RATIO REDUCES THE COMPANY'S ABILITY TO EARN
19 ON ITS ACTUAL CAPITAL STRUCTURE. IMPUTING A LOWER
20 EQUITY RATIO COULD ALSO ADVERSELY AFFECT THE
21 COMPANY'S ABILITY TO REACT TO CHANGES IN ITS
22 OPERATING ENVIRONMENT AND COULD POSSIBLY RESULT IN A
23 LOWER BOND RATING FOR THE COMPANY," (COMMISSION
24 ORDER 20162 IN DOCKET NO. 880069-TL, DATED OCTOBER
25 13, 1988). IN THAT ORDER, THE COMMISSION REJECTED A

1 HYPOTHETICAL CAPITAL STRUCTURE. IT SHOULD DO SO
2 AGAIN.

3

4 Q. DOES THAT CONCLUDE YOUR TESTIMONY?

5

6 A. YES, IT DOES.

7

8

9

10

11

12

13

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25

1 SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY
2 REBUTTAL TESTIMONY OF LINDA C. ISENHOUR
3 BEFORE THE
4 FLORIDA PUBLIC SERVICE COMMISSION
5 IN
6 DOCKET NO. 920260-TL
7 DECEMBER 10, 1993

8
9 Q. PLEASE STATE YOUR NAME, POSITION WITH SOUTHERN BELL
10 TELEPHONE AND TELEGRAPH COMPANY, AND BUSINESS
11 ADDRESS.

12
13 A. MY NAME IS LINDA C. ISENHOUR, AND I AM GENERAL
14 MANAGER-NETWORK FOR SOUTH FLORIDA. IN THIS
15 CAPACITY, I HAVE OVERALL RESPONSIBILITY FOR
16 INSTALLATION, MAINTENANCE, CONSTRUCTION,
17 ENGINEERING, AND SWITCHING OPERATIONS IN DADE AND
18 MONROE COUNTIES, WITH OVERSIGHT OF 2,600 EMPLOYEES.
19 MY BUSINESS ADDRESS IS 666 NW 79TH AVENUE, MIAMI,
20 FLORIDA 33126.

21
22 Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF YOUR
23 BACKGROUND.

24
25 A. I GRADUATED FROM NORTH GEORGIA COLLEGE IN 1969, WITH

1 A BACHELOR OF ARTS DEGREE, I RECEIVED AN M.ED.
2 DEGREE FROM GEORGIA STATE UNIVERSITY IN 1975, AND I
3 RECEIVED AN M.S. DEGREE IN MANAGEMENT AS A SLOAN
4 FELLOW AT THE MASSACHUSETTS INSTITUTE OF TECHNOLOGY
5 IN 1986. I BEGAN MY CAREER WITH SOUTHERN BELL IN
6 1971, IN ATLANTA, GEORGIA, AND HAVE SINCE HELD
7 VARIOUS POSITIONS OF INCREASING RESPONSIBILITY. I
8 ASSUMED MY PRESENT POSITION IN SEPTEMBER OF 1987.

9

10 Q. MRS. ISENHOUR, CAN YOU TELL THE COMMISSION WHY YOU
11 ARE HERE TODAY TO TESTIFY?

12

13 A. YES. I AM HERE TO REBUT TESTIMONY PREVIOUSLY
14 PROVIDED TO THIS COMMISSION BY MICHAEL R. MALOY AND
15 R. EARL POUCHER REGARDING THE REPAIR SERVICE
16 INVESTIGATIONS, STAFF REVIEWS WHICH ALLEGEDLY
17 PROVIDED AN EARLY INDICATION OF REPORT
18 FALSIFICATION, AND VARIOUS FORMER EMPLOYEES WHO HAVE
19 MADE A VARIETY OF ACCUSATIONS AGAINST SOUTHERN BELL
20 AND ITS EMPLOYEES.

21

22 Q. DO YOU AGREE WITH TESTIMONY BY MICHAEL R. MALOY AT
23 PAGE 15, LINES 15-25, THAT SOUTHERN BELL ENDLESSLY
24 REMINDED ITS MANAGERS AND CRAFT WORKERS THAT ITS
25 PROFITS AND THEIR SALARIES, WAGES AND POTENTIAL

1 BONUSES AND RAISES WERE INEXORABLY TIED TO THE
2 COMPANY'S ABILITY TO MEET OR EXCEED PSC'S CRITERIA?
3
4 A. NO, I DO NOT AGREE. WHILE MEETING INTERNAL AND
5 EXTERNAL INDICES IS IMPORTANT, IT IS NOT THE PRIMARY
6 FOCUS OF OUR DAY-TO-DAY EFFORTS. AS A SOUTHERN BELL
7 MANAGER I HAVE OFTEN REMINDED MY SUBORDINATES THAT
8 OUR MISSION WAS TO PROVIDE THE HIGHEST QUALITY OF
9 SERVICE TO OUR CUSTOMERS. ALTHOUGH I BELIEVE THAT
10 THE TRUE MEASURE OF SERVICE QUALITY SHOULD BE
11 DETERMINED BASED UPON WHAT WE ARE TOLD BY OUR
12 CUSTOMERS, TRADITIONALLY, SERVICE EXCELLENCE HAS
13 BEEN MEASURED BY SEVERAL CRITERIA: PUBLIC SERVICE
14 COMMISSION COMPLAINTS; STATISTICALLY VALID, RANDOM
15 TELEPHONE INTERVIEWS CONDUCTED WITH CUSTOMERS
16 INDICATING THEIR DEGREE OF SATISFACTION
17 (TELSAM/CSP); AND PUBLIC SERVICE COMMISSION
18 CRITERIA. NO SINGLE MEASUREMENT WOULD AFFECT A
19 MANAGER'S EVALUATION; EACH HAS FROM 8 TO 15
20 DIFFERENT OBJECTIVES. CRAFT EMPLOYEES ARE EVALUATED
21 ON A QUALITY AND QUANTITY OF WORK BASIS, WHICH DOES
22 NOT INCLUDE PUBLIC SERVICE COMMISSION CRITERIA.
23
24 Q. WHAT IS YOUR ASSESSMENT OF MR. MALOY'S COMMENT ON
25 PAGE 19, LINES 1-20, THAT THERE ARE LITERALLY

1 THOUSANDS OF INSTANCES WHERE TROUBLE REPORTS WERE
2 CLEARLY MANIPULATED?

3
4 A. WHILE MANIPULATION OF EVEN ONE REPORT IS
5 UNACCEPTABLE BEHAVIOR BY EMPLOYEES, THE "THOUSANDS"
6 OF REPORTS REFERRED TO BY MR. MALOY IS A VERY SMALL
7 PERCENTAGE OF THE TOTAL VOLUME HANDLED BY THE
8 COMPANY. DURING THE PERIOD INVOLVED, 1985 TO 1991,
9 THE COMPANY HANDLED MORE THAN 35 MILLION TROUBLE
10 REPORTS. THUS, MR. MALOY'S ALLEGATION OF
11 "THOUSANDS" OF REPORTS BEING MANIPULATED IN RELATION
12 TO THE TOTAL UNIVERSE OF REPORTS, IS MINUSCULE;
13 INDEED, THE TOTAL IS LESS THAN THREE, ONE
14 THOUSANDTH'S OF ONE PERCENT.

15
16 Q. ON PAGE 40, LINES 12-25, MR. MALOY NOTES THAT A
17 STAFF REVIEW CONDUCTED IN THE MIAMI METRO CENTER
18 FOUND THAT IN MANY OF THE MIAMI CASES THE VER CODES
19 DID NOT SUPPORT THE INITIAL OOS STATUS. WOULD THIS
20 NECESSARILY INDICATE THAT THE STATUSING WAS
21 INCORRECT?

22
23 A. NO. AS MS. IVY NOTED IN HER EARLIER TESTIMONY, VER
24 CODES ARE AN AID IN DETERMINING THE SOURCE OF THE
25 CUSTOMER'S PROBLEM. WHEN THE INITIAL VER CODE DOES

1 NOT INDICATE A TROUBLE ON THE LINE, AS IN THE CASE
2 OF A "TEST OK," ADDITIONAL ANALYSIS AND DISCUSSIONS
3 WITH THE CUSTOMER BY THE MAINTENANCE ADMINISTRATOR
4 WOULD BE NECESSARY TO DETERMINE THE PROPER STATUS OF
5 THE TROUBLE. THE MAINTENANCE ADMINISTRATOR WAS
6 REQUIRED TO CONFIRM THE STATUS CODE THROUGH A PROPER
7 NARRATIVE, WHICH THEN SERVES AS THE BASIS FOR AN
8 AUDIT TRAIL. IT IS POSSIBLE FOR A TROUBLE TO BE OOS
9 EVEN IF THE INITIAL VER CODE DOES NOT SO INDICATE.
10 THUS, THE VER CODE IS JUST ONE INDICATION OF THE
11 PROPER STATUS OF THE TROUBLE.

12

13 Q. ON PAGE 43, LINES 18-25, AND PAGE 49, LINES 18-25,
14 MR. MALOY TESTIFIED THAT YOU RECEIVED INFORMAL STAFF
15 REVIEW REPORTS ON AT LEAST TWO AND MAYBE THREE
16 OCCASIONS. IS THAT ACCURATE?

17

18 A. NO. I DO NOT RECALL RECEIVING THE INFORMAL REVIEWS
19 REFERENCED BY MALOY. INFORMAL STAFF REVIEWS WERE
20 CONDUCTED TO ASSIST IMC MANAGERS IN THE PERFORMANCE
21 OF THEIR JOBS. THE RESULTS OF THESE INFORMAL
22 REVIEWS WERE NOT FORWARDED TO ME ROUTINELY SO THAT
23 LINE MANAGERS WOULD SEE THE STAFF EFFORTS AS A HELP,
24 NOT AS AN AUDIT. HOWEVER, IF I HAD BEEN APPRISED OF
25 AN INTEGRITY PROBLEM INDICATED BY AN INFORMAL

1 REVIEW, I WOULD HAVE TAKEN THE SAME ACTION I TOOK
2 WHEN MS. IVY NOTIFIED ME OF A POTENTIAL PROBLEM IN
3 1990, IN NORTH DADE; I WOULD NOTE THE CIRCUMSTANCES,
4 INITIATE AN INVESTIGATION, AND TAKE APPROPRIATE
5 ACTION BASED ON THE RESULTS.

6
7 THE STAFF MANAGERS DID, FROM TIME TO TIME, PROVIDE
8 ORAL OVERVIEWS OF THE FEEDBACK, BUT THEY NEVER
9 INDICATED TO ME THAT THERE WERE ANY POTENTIAL
10 INTEGRITY PROBLEMS. HOWEVER, THEY DID INDICATE A
11 NEED FOR ONGOING TRAINING BECAUSE OF THE COMPLEXITY
12 OF THE TROUBLE REPORTING PROCESS AND THE FREQUENT
13 CHANGES AND SYSTEM UPGRADES EXPERIENCED BY THE
14 MAINTENANCE ADMINISTRATORS.

15
16 Q. MRS. ISENHOUR, DO YOU AGREE WITH THE ASSERTION BY
17 MR. MALOY ON PAGE 45, LINES 12-17, PAGE 49, LINES 4-
18 15, THAT ONCE THE FALSIFICATION WAS OBSERVED IT WAS
19 NOT CORRECTED?

20
21 A. ABSOLUTELY NOT. UPON DISCOVERY OF A POSSIBLE
22 PROBLEM IN NORTH DADE, I REQUESTED THE SECURITY
23 INVESTIGATION WHICH REVEALED WRONGDOING THAT
24 ULTIMATELY LED TO MY DISMISSAL OF TWO MANAGERS. THE
25 STAFF IMMEDIATELY RETRAINED ALL IMC MANAGEMENT AND

1 CRAFT PERSONNEL ON THE PROPER STATUSING OF TROUBLE
2 REPORTS. PRIOR TO THAT REVIEW, I HAD NO EVIDENCE OF
3 ANY INTEGRITY PROBLEMS.

4

5 Q. DO YOU AGREE, MRS. ISENHOUR, WITH MR. MALOY'S
6 ASSERTION ON PAGE 50, LINES 11-15, 17-25, AND PAGE
7 52, LINES 1-20, THAT YOU LEARNED ABOUT TROUBLE
8 REPORT FALSIFICATIONS FROM SHIRLEY PERRING OR OTHERS
9 PRIOR TO THE 1990 NORTH DADE REVIEW?

10

11 A. NO. AGAIN, I WAS NEVER NOTIFIED BY SHIRLEY PERRING
12 OR ANYONE ELSE OF ANY FALSIFICATION OF INFORMATION
13 PRIOR TO THE 1990 NORTH DADE REVIEW. THE STAFF DID,
14 FROM TIME TO TIME, DISCUSS WITH ME A VARIETY OF
15 SUBJECTS, INCLUDING REVIEWS AND THEY CONTINUED TO
16 RECOMMEND RETRAINING FOR THE MAINTENANCE
17 ADMINISTRATORS TO ENSURE COMPLIANCE WITH CONTINUOUS
18 CHANGES IN METHODS AND PROCEDURES. I CONCURRED IN
19 AND SUPPORTED THE CONTINUOUS TRAINING WHICH WAS
20 ADMINISTERED BY THE STAFF AND LINE MANAGERS.
21 HOWEVER, IN NONE OF THESE INSTANCES DID ANYONE
22 INDICATE TO ME ANY INTEGRITY PROBLEMS.

23

24 Q. PLEASE DESCRIBE FOR THE COMMISSIONERS YOUR MEETINGS
25 WITH FRANK FALSETTI AND THE ENSUING SECURITY

1 INVESTIGATIONS REFERRED TO IN MR. MALOY'S TESTIMONY
2 ON PAGES 54-58.

3
4 A. I FIRST BECAME ACQUAINTED WITH FRANK FALSETTI IN
5 1989, WHEN HE WAS REFUSED A POSITION AS A
6 MAINTENANCE ADMINISTRATOR IN MY MAJOR ACCOUNTS
7 CENTER. WHEN PERSONNEL ATTEMPTED TO PLACE HIM IN
8 THAT POSITION, THE OPERATIONS MANAGER REFUSED TO
9 ACCEPT HIM AS A RESULT OF HIS POOR ATTENDANCE
10 RECORD. THE OPERATIONS MANAGER, PERSONNEL, THEN
11 REQUESTED THAT I GIVE MR. FALSETTI A CHANCE SINCE HE
12 HAD BEEN CONTINUALLY DISSATISFIED WITH ALL OF THE
13 PREVIOUS JOBS HE HAD HELD AFTER HE WAS DOWNGRADED
14 FROM THE POSITION OF TESTDESK TECHNICIAN IN THE
15 EARLY 1980'S. I AGREED TO ACCEPT MR. FALSETTI ON
16 LOAN FROM THE PUBLIC COMMUNICATIONS DEPARTMENT TO
17 DETERMINE IF HE COULD DO THE WORK AND IMPROVE HIS
18 ATTENDANCE. UNFORTUNATELY, AFTER SEVERAL WEEKS MR.
19 FALSETTI WAS AGAIN ABSENT FROM HIS JOB. I THEN
20 RETURNED HIM TO HIS PERMANENT POSITION.

21
22 THEREAFTER, HE REQUESTED A MEETING WITH ME. I
23 AGREED AND REQUESTED THAT A PERSONNEL REPRESENTATIVE
24 ATTEND. DURING THE MEETING MR. FALSETTI REQUESTED
25 THAT I GIVE HIM ANOTHER CHANCE, AND I EXPLAINED THAT

1 I COULD NOT BECAUSE OF HIS POOR ATTENDANCE RECORD
2 AND HIS DEMONSTRATION AFTER ONLY A FEW WEEKS ON LOAN
3 THAT HE COULD NOT BE RELIED UPON TO COME TO WORK
4 REGULARLY. HOWEVER, I DID AGREE THAT I WOULD ACCEPT
5 HIM IN THE POSITION IF HE, IN THE PRESENCE OF A CWA
6 REPRESENTATIVE, WOULD WAIVE ANY RIGHT TO APPEAL ANY
7 FUTURE TERMINATION, SINCE I QUITE POSSIBLY WOULD BE
8 REQUIRED TO TERMINATE HIM FOR ATTENDANCE SHOULD HE
9 COME TO WORK FOR ME. MR. FALSETTI REFUSED TO ACCEPT
10 MY OFFER.

11
12 HE THEN STATED THAT, AS A RESULT OF THE DEGRADATION
13 HE HAD FELT WHEN HIS JOB AS A TESTDESK TECHNICIAN
14 WAS ELIMINATED, HE HAD BEEN HAVING PROBLEMS AND HAD
15 BEEN SEEING A PSYCHIATRIST. HE FURTHER INDICATED
16 THAT HE COULD NOT GUARANTEE THAT HE WOULD NOT BE
17 ABSENT IN THE FUTURE. HE THEN RETURNED TO HIS
18 PERMANENT JOB.

19
20 MR. FALSETTI CONTACTED ME SHORTLY THEREAFTER AND
21 ASKED TO SPEAK TO ME ALONE. I AGREED. AT THAT
22 MEETING HE REITERATED HIS BELIEF THAT SOUTHERN BELL
23 HAD STRIPPED HIM OF HIS PRIDE WHEN THEY ELIMINATED
24 THE TESTDESK TECHNICIAN TITLE. I EXPLAINED THAT
25 OTHERS HAD EXPERIENCED THE SAME SITUATION, AND THEY

1 HAD BEEN ABLE TO FUNCTION EFFECTIVELY IN THE NEW
2 TITLE. I SUGGESTED THAT HE NEEDED TO LEARN TO DO SO
3 AS WELL. MR. FALSETTI WAS OBVIOUSLY DISTRAUGHT
4 ABOUT ALL THE "THINGS" WHICH HAD BEEN "DONE TO HIM"
5 BY SOUTHERN BELL AND HE BECAME VERY EMOTIONAL DURING
6 THE SESSION. I TRIED TO CALM HIM DOWN, BUT
7 REITERATED OUR POSITION REGARDING HIS SUITABILITY
8 FOR THE POSITION IN THE MAJOR ACCOUNTS CENTER. AS
9 HE LEFT THE MEETING, MR. FALSETTI SAID THAT HE KNEW
10 OF SOME WRONGDOING IN THE PAST AND PROCEEDED TO GIVE
11 ME A LETTER THAT HE HAD ALLEGEDLY WRITTEN TO A HOST
12 OF TELEVISION, COMPANY AND PSC OFFICIALS CLAIMING
13 KNOWLEDGE OF SUCH EVENTS. I ASKED MR. FALSETTI IF
14 HE KNEW OF ANY PROBLEMS AT THE CURRENT TIME AND HE
15 SAID THAT HE DID NOT. I THEN ASKED HIM TO DETAIL
16 THE PROBLEMS SINCE THE LETTER WAS NOT SPECIFIC. HE
17 THEN GAVE ME COPIES OF SEVERAL LETTERS FROM THE
18 NETWORK STAFF THAT HAD BEEN WRITTEN IN THE EARLY
19 1980'S, BUT WITH ONLY THE HEADER SHOWING. IN
20 APPARENT ACCORDANCE WITH THE INSTRUCTIONS FROM MR.
21 FALSETTI'S ATTORNEY, THE ACTUAL CONTENT OF THE
22 LETTERS WAS NOT COPIED.
23
24 I TOLD MR. FALSETTI THAT I WOULD REFER HIS LETTER TO
25 SECURITY FOR FURTHER INVESTIGATION. I FURTHER

1 ADVISED HIM THAT HE WOULD BE EXPECTED TO COOPERATE
2 AND PROVIDE A STATEMENT. MR. FALSETTI THEN LEFT THE
3 MEETING. IMMEDIATELY AFTERWARD, I CONTACTED
4 SECURITY. HARRY VAN GORDON WAS ASSIGNED TO CONDUCT
5 THE INVESTIGATION.

6
7 AS PART OF THE INVESTIGATION, MR. VAN GORDON
8 INTERVIEWED ME AND ASKED IF I KNEW OF ANY REPORT OF
9 FALSIFICATION. I ADVISED THAT I DID NOT. HE WAS
10 UNABLE TO LOCATE THE TEXT OF THE LETTERS THAT MR.
11 FALSETTI ALLEGEDLY HAD AND MR. FALSETTI REFUSED IN
12 HIS STATEMENT TO COOPERATE AND REVEAL ANY RELEVANT
13 INFORMATION. MR. VAN GORDON THEN ASKED ME WHAT ELSE
14 WE COULD DO TO LEARN THE SUBSTANCE OF MR. FALSETTI'S
15 ALLEGATIONS. I TOLD MR. VAN GORDON THAT I KNEW OF
16 NO OTHER AVENUE TO PURSUE AND ASKED THAT HE CONFIRM
17 THROUGH OUR MEDICAL DIRECTOR THAT MR. FALSETTI WAS
18 NOT A DANGER TO HIMSELF OR OTHERS. MR. VAN GORDON
19 DID SO AND ADVISED ME THAT MR. FALSETTI'S
20 PSYCHIATRIST DID NOT CONSIDER HIM DANGEROUS.

21
22 WITH MR. FALSETTI'S REFUSAL TO COOPERATE, APPARENTLY
23 ON THE RECOMMENDATION OF COUNSEL, THE COMPANY WROTE
24 A LETTER TO HIS ATTORNEY IN WHICH WE OFFERED TO
25 CONTINUE THE INVESTIGATION WHEN MR. FALSETTI

1 PROVIDED THE COMPANY WITH SOME CONCRETE INFORMATION.
2 THAT WAS THE LAST TIME I HEARD FROM MR. FALSETTI
3 UNTIL AFTER I TERMINATED THE TWO MANAGEMENT
4 EMPLOYEES, ONE OF WHOM WAS NANCY D'ALESSIO. MR.
5 FALSETTI THEN PROVIDED INFORMATION THAT WAS DESIGNED
6 TO CORROBORATE D'ALESSIO'S ALLEGATIONS.

7
8 MR. VAN GORDON WAS AN EXPERIENCED INVESTIGATOR, AND
9 I BELIEVE HE WOULD HAVE PURSUED THE CASE WITH OR
10 WITHOUT FURTHER DIRECTION FROM ME IF HE HAD BELIEVED
11 THAT THERE WAS ANYTHING TO PURSUE. IN SUMMARY, AS A
12 RESULT OF MR. FALSETTI'S REFUSAL TO COOPERATE OR
13 PROVIDE DETAILS AND BASED ON THE LIMITED INFORMATION
14 THAT WAS AVAILABLE, WE COULD NOT REASONABLY PURSUE
15 THE MATTER FURTHER.

16

17 Q. DO YOU AGREE WITH MR. MALOY'S STATEMENT ON PAGE 59,
18 LINES 17-25, THAT YOU WERE GIVEN INFORMATION PRIOR
19 TO THE 1990 NORTH DADE REVIEW, AND THAT THERE WERE
20 PROBLEMS REGARDING INTENTIONAL BUILDING OF THE BASE
21 IN SOUTH FLORIDA?

22

23 A. ABSOLUTELY NOT. I RECEIVED NO INFORMATION FROM ANY
24 SOURCE, INCLUDING MR. FALSETTI, THAT THERE WAS ANY
25 FALSIFICATION OR INTENTIONAL BUILDING OF THE BASE IN

1 SOUTH FLORIDA.

2

3 Q. DO YOU AGREE WITH MR. MALOY'S TESTIMONY ON PAGE 62,
4 LINES 5-18, THAT YOU WERE PRESENT AT THE FEEDBACK
5 SESSION FOR NORTH DADE IN 1990, WHEN THE NETWORK
6 STAFF FOUND THAT TROUBLE REPORTS WERE IMPROPERLY
7 SCORED IN ORDER TO MEET AN OBJECTIVE?

8

9 A. YES. I DID ATTEND THE FEEDBACK SESSION. THIS
10 SESSION RELATED TO ONE OF A SERIES OF INFORMAL
11 REVIEWS CONDUCTED AT MY REQUEST BY THE HEADQUARTERS
12 STAFF. STAFF MANAGER APRIL IVY REQUESTED THAT I
13 ATTEND BECAUSE OF THE DISCOVERY OF A POTENTIAL
14 INTEGRITY PROBLEM.

15

16 WHEN I LEARNED ABOUT THE STAFF FINDINGS DURING THE
17 FEEDBACK SESSION, I ASKED FOR AN EXPLANATION. JOE
18 LESKO, IMC MANAGER IN NORTH DADE, FINALLY OFFERED
19 THAT ONE OF HIS ASSISTANT MANAGERS, WHOM HE DID NOT
20 NAME, HAD BEEN INVOLVED. I THEN REBUKED THE GROUP
21 FOR EVEN THE POSSIBILITY OF SUCH BEHAVIOR, AND I
22 REITERATED THAT WE MUST HAVE ACCURATE INFORMATION IN
23 ALL REPORTING PROCESSES. I THEN MET SEPARATELY WITH
24 JACK SELLERS AND JOE LESKO. I ADVISED HIM THAT I
25 WOULD REQUEST A FORMAL INVESTIGATION OF THE

1 FINDINGS. I FURTHER ADVISED JACK SELLERS, THE
2 OPERATIONS MANAGER, AND MR. LESKO THAT SHOULD ANYONE
3 BE INVOLVED IN DELIBERATELY FALSIFYING REPORTS,
4 WHETHER CRAFT OR MANAGEMENT, I WOULD FIRE THEM.
5
6 SUBSEQUENTLY, I NOTIFIED PERSONNEL, SECURITY, AND MY
7 BOSS, EARL CRITTENDEN, OF THE REVIEW FINDINGS AND MY
8 REQUEST FOR AN INVESTIGATION. I ALSO REQUESTED THAT
9 MS. IVY RETAIN ALL OF THE DATA CONTAINED IN LMOS FOR
10 THE PREVIOUS 65 DAYS AND I DIRECTED HER TO NOTIFY ME
11 IF DURING HER REMAINING REVIEWS SHE FOUND ANY
12 EVIDENCE OF OTHER IRREGULARITIES. I ALSO
13 RECOMMENDED TO MR. CRITTENDEN THAT HE DIRECT ONE OF
14 HIS STAFF MANAGERS TO SAVE SIMILAR DATA FOR THE
15 STATE SHOULD THERE BE THE NEED TO EXPAND THE
16 INVESTIGATION INTO OTHER AREAS. MS. IVY CONTINUED
17 HER SOUTH FLORIDA REVIEWS AND LATER NOTIFIED ME OF A
18 PROBLEM WITH THE CON TRANSACTION. HER INVESTIGATION
19 SHOWED, HOWEVER, THAT THE PROBLEM WAS CAUSED BY ONE
20 MAINTENANCE ADMINISTRATOR WHO HAD A MISUNDERSTANDING
21 OF THE FUNCTION. WHEN NOTIFIED OF THE PROBLEM, THE
22 EMPLOYEE'S SUPERVISOR ADVISED THAT THE MAINTENANCE
23 ADMINISTRATOR WAS NO LONGER IN THE ORGANIZATION AND
24 THAT ALL OTHER MAINTENANCE ADMINISTRATORS WOULD BE
25 RETRAINED ON THE PROPER USE OF CON. MS. IVY'S

1 REVIEWS REVEALED NO OTHER PROBLEMS.

2

3 Q. ON PAGE 14, LINES 5-25, MR. POUCHER IDENTIFIES
4 SEVERAL FACTORS WHICH HE SAYS SHOWED THAT HIGHER
5 MANAGEMENT IGNORED CLEAR SIGNS THAT SOMETHING WAS
6 WRONG. PLEASE COMMENT BOTH ON THE COMPANY'S
7 RESPONSE TO ALLEGATIONS MADE BY MR. FALSETTI IN
8 1989, AND IN THE 88% ERROR RATE IN THE HANDLING OF
9 TEST OK TROUBLES THAT WAS IDENTIFIED IN A 1988
10 INFORMAL STAFF REVIEW CONDUCTED BY SHIRLEY PERRING.

11

12 A. AS I STATED PREVIOUSLY, AND AS MR. POUCHER
13 ACKNOWLEDGES IN HIS TESTIMONY, MR. FALSETTI REFUSED,
14 APPARENTLY ON ADVICE OR COUNSEL, TO COOPERATE IN THE
15 INVESTIGATION OF IRREGULARITIES ABOUT WHICH HE
16 PURPORTED TO HAVE INFORMATION. EVEN WHEN HIS
17 ATTORNEY WAS ASSURED THAT THE COMPANY WOULD PURSUE
18 AN INVESTIGATION IF FALSETTI PROVIDED ANY DATA,
19 FALSETTI DID NOT COOPERATE. WITHOUT SPECIFIC
20 INFORMATION, THE COMPANY HAD NO WAY OF KNOWING WHAT
21 TO INVESTIGATE.

22

23 MRS. PERRING, WHEN QUESTIONED OVER AND OVER ABOUT
24 HER OPINIONS OF THE TEST OK ISSUE IN THE INFORMAL
25 1988 NORTH DADE REVIEW, REPORTED THAT OVER THE

1 YEARS SHE HAD OBSERVED A SMALL AMOUNT OF
2 QUESTIONABLE STATUSING BUT IT WAS NOT CLEAR TO HER
3 WHETHER THE CAUSE OF THE STATUSING WAS ATTRIBUTABLE
4 TO MISUNDERSTANDINGS OR INTENTIONAL MISCONDUCT.
5 MRS. PERRING NOTES THAT SHE NEVER IDENTIFIED TO ME
6 THAT SHE BELIEVED THERE WAS CHEATING IN NORTH DADE
7 OR ANYWHERE ELSE. WHEN SHE REQUESTED SUPPORT ON
8 ISSUING A LETTER DEALING WITH PROPER CODING OF
9 SERVICE ORDERS BASED ON AN INFORMAL REVIEW FINDING,
10 I SUPPORTED HER BY SIGNING THE LETTER AND DISCUSSING
11 THE IMPORTANCE OF IT WITH MY SUBORDINATES. I NEVER
12 SAW EVIDENCE OF, NOR WAS I ADVISED OF, ANY
13 POSSIBILITY OF INTEGRITY PROBLEMS PRIOR TO THE 1990
14 NORTH DADE REVIEW. INDEED, MS. D'ALESSIO, IN HER
15 ORIGINAL STATEMENT TO SECURITY, NOTED THAT SHE HAD
16 NEVER BEFORE BEEN ASKED TO FALSIFY REPORTS. ONLY
17 AFTER SHE WAS TERMINATED DID SHE FOLLOW THROUGH ON
18 HER THREAT TO "DO WHATEVER WAS NECESSARY" TO GET HER
19 JOB BACK. APPARENTLY THAT WAS HER MOTIVATION FOR
20 CHANGING HER ORIGINAL STATEMENT.

21
22 Q. ON PAGE 16, LINES 5-7, MR. POUCHER DECLARED THAT HE
23 INTERPRETED THE 1988 INFORMAL REVIEW RESULTS TO MEAN
24 "YOU PEOPLE ARE CHEATING ON THE RESULTS AND IT IS
25 IMPOSSIBLE TO ANALYZE YOUR PERFORMANCE." IS THERE

1 ANOTHER EXPLANATION?

2

3 A. YES. AS MS. IVY HAS STATED IN HER TESTIMONY, WE
4 HAVE ALWAYS BEEN ESPECIALLY CRITICAL OF ALL ERRORS,
5 WHICH INCLUDED NO NARRATIVE, INSUFFICIENT NARRATIVE
6 OR IMPROPER OR INADEQUATE TESTS. THE STATEMENT MAY
7 MEAN THAT THE DATA DID NOT PERMIT ADEQUATE
8 EVALUATION OF WHETHER THE DISTRICT WAS OR WAS NOT
9 PROPERLY HANDLING TEST OK REPORTS. MRS. PERRING
10 COULD NOT SUBSTANTIATE THE EXISTENCE OF AN INTEGRITY
11 PROBLEM, THOUGH SHE WAS CONCERNED ABOUT THE ERROR
12 RATE.

13

14 Q. ON PAGE 16, LINE 8, MR. POUCHER STATES THAT MRS.
15 PERRING REPORTED THE RESULTS OF THE 1988 INFORMAL
16 REVIEW TO YOU AND NOTED THAT 39% IS "...A TERRIBLE
17 DEVIATION. THAT'S WHY WE'RE OUT THERE." DO YOU
18 RECALL ANY SUCH CONVERSATION?

19

20 A. NO. I DO NOT RECALL ANY SPECIFIC CONVERSATION WITH
21 MRS. PERRING REGARDING A NORTH DADE REVIEW IN 1988.
22 HOWEVER, WE FREQUENTLY DISCUSSED BUSINESS ISSUES AND
23 I ASSISTED HER WHENEVER SHE NEEDED MY HELP.
24 CERTAINLY, WE WERE ALWAYS CONCERNED ABOUT ERRORS
25 MADE BY THE MAINTENANCE ADMINISTRATORS AND WE

1 CONTINUED TO CONDUCT TRAINING SESSIONS TO IMPROVE
2 THEIR PERFORMANCE.

3
4 Q. ON PAGE 16, LINES 12-17, MR. POUCHER STATES THAT
5 PERRING "TOOK THE PROBLEM TO HER GENERAL MANAGER,
6 ISENHOUR, ASKING HER FOR HELP. INSTEAD OF TAKING
7 ACTION TO STOP THE PROBLEM IN 1988, IT WAS ALLOWED
8 TO CONTINUE. PERRING WAS TRANSFERRED AND APRIL IVY
9 TOOK HER PLACE." PLEASE COMMENT ON THIS INCIDENT
10 AND MRS. PERRING'S SUBSEQUENT TRANSFER.

11
12 A. I DO NOT RECALL ANY SPECIFIC CONVERSATIONS WITH MRS.
13 PERRING REGARDING A NORTH DADE REVIEW IN 1988.
14 THUS, I COULD NOT HAVE ALLOWED ANY PURPORTED
15 PROBLEMS TO CONTINUE.

16
17 AS PART OF A COMPANY ROTATIONAL PROGRAM, MRS.
18 PERRING ASKED TO HAVE AN OPPORTUNITY TO OVERSEE AN
19 OUTSIDE GROUP AS PART OF HER DEVELOPMENT. HER
20 GENERAL MANAGER, GEORGE FORTNER, AND I AGREED TO
21 MAKE THE STAFF MANAGER JOB A 2-4 YEAR ROTATIONAL
22 ASSIGNMENT. BECAUSE I HAD JUST COMBINED SEVERAL
23 MAINTENANCE CENTERS, HOWEVER, I NEEDED A STRONG IMC
24 MANAGER IN SOUTH DADE. I ASKED MRS. PERRING IF SHE
25 WOULD TAKE THE SOUTH DADE IMC FOR 1 YEAR AND THEN

1 MOVE TO AN OUTSIDE MANAGERIAL ASSIGNMENT. SHE
2 ACCEPTED, AND MR. FORTNER AND I SELECTED APRIL IVY
3 AS MRS. PERRING'S REPLACEMENT. IN TURN, MS. IVY WAS
4 REPLACED IN THE CENTRAL DADE IMC WITH ROBERT SUAREZ,
5 WHO HAD MOVED FROM AN OUTSIDE MANAGERIAL POSITION.
6 THESE ROTATIONAL ASSIGNMENTS WERE MADE AVAILABLE TO
7 SEVERAL HIGH POTENTIAL MANAGERS EACH YEAR TO ENSURE
8 ADEQUATE CROSS-TRAINING AND DEVELOPMENT. AFTER 30
9 MONTHS, MS. IVY WAS REPLACED BY MR. SUAREZ.

10

11 Q. ON PAGE 17, LINES 1-2, MR. POUCHER REFERS TO A
12 STATEMENT BY BRENDA MITCHELL IN WHICH SHE CLAIMS SHE
13 ASKED TO BE TERMINATED BECAUSE OF WHAT SHE ALLEGEDLY
14 DESCRIBED AS "PROBLEMS IN THE TEST CENTER." CAN YOU
15 DISCUSS THE CONVERSATION BETWEEN YOU AND BRENDA
16 MITCHELL?

17

18 A. YES. BRENDA INDICATED A DESIRE TO PARTICIPATE IN
19 OUR ROTATIONAL PROGRAM AND VOLUNTEERED TO MOVE FROM
20 THE RCMAC (RECENT CHANGE MEMORY CENTER) TO THE
21 SOUTH DADE IMC, WHERE SHE WORKED FOR MRS. PERRING.
22 AFTER ABOUT A YEAR ON THE JOB, BRENDA'S PERFORMANCE
23 BEGAN TO DETERIORATE AND MRS. PERRING PUT HER INTO
24 A FORMAL PERFORMANCE IMPROVEMENT PROGRAM, UNDER THE
25 GUIDANCE OF PERSONNEL. THE PROGRAM WAS AIMED AT

1 ACHIEVING CONSISTENT SATISFACTORY PERFORMANCE OR
2 ULTIMATE TERMINATION IF SATISFACTORY PERFORMANCE
3 COULD NOT BE ACHIEVED AND SUSTAINED.

4
5 FOLLOWING A SUSPENSION BASED ON HER CONTINUED POOR
6 PERFORMANCE, BRENDA REQUESTED TO SEE ME IN EARLY
7 1990, ON THE FIRST DAY AFTER RETURNING FROM THE
8 SUSPENSION. AT THAT MEETING, BRENDA REQUESTED THAT
9 I TERMINATE HER AND GIVE HER TERMINATION PAY. I
10 EXPLAINED THAT TERMINATION PAY WAS FOR CRAFT
11 EMPLOYEES ONLY. MANAGERS COULD BE TERMINATED
12 WITHOUT COMPENSATION OR THEY COULD RESIGN. I
13 INQUIRED AS TO WHY BRENDA WANTED TO BE TERMINATED
14 AND SHE EXPLAINED THAT SHE WAS EMBARRASSED TO RETURN
15 TO HER WORK GROUP WHERE "EVERYONE KNEW THAT SHE HAD
16 BEEN SUSPENDED." I EXPLAINED THAT NO ONE WOULD KNOW
17 WHY BRENDA HAD BEEN AWAY FROM THE OFFICE UNLESS
18 BRENDA TOLD THEM. SUCH INFORMATION IS PRIVATE.
19 BRENDA EXPLAINED THAT SHE REALLY DID NOT WANT TO
20 CONTINUE DOING HER JOB IN THE IMC. SHE HAD BEEN
21 WORKING AT REAL ESTATE ON THE SIDE. SHE HAD HOPED
22 TO GET TERMINATION MONEY WHICH WOULD SUPPORT HER
23 WHILE SHE DEVELOPED HER NEW CAREER.

24
25 BRENDA FURTHER CONFIDED THAT SHE WAS AGAIN LIVING

1 WITH HER EX-HUSBAND, WITH HOPES OF "GETTING BACK
2 TOGETHER." SHE ADVISED THAT SHE COULD USE HIS
3 MEDICAL BENEFITS (HE WORKED FOR SOUTHERN BELL IN
4 MARKETING) AND WOULD NOT LOSE ANYTHING BY ENDING HER
5 EMPLOYMENT. DURING THE MEETING, I ENCOURAGED BRENDA
6 TO THINK CAREFULLY ABOUT THROWING AWAY HER 20 YEAR
7 CAREER AND I URGED HER TO SEEK PROFESSIONAL
8 COUNSELING THROUGH OUR EMPLOYEE ASSISTANCE PROGRAM.
9 I THEN ASKED WHETHER SHE HAD ANY VACATION LEFT. SHE
10 SAID SHE DID, AND I AGREED TO GRANT IT TO ALLOW HER
11 TIME TO RETHINK HER REQUEST TO BE TERMINATED. I
12 ADVISED HER, HOWEVER, THAT SHE WOULD BE PERMITTED TO
13 RETURN TO HER ASSIGNMENT ONLY IF SHE AGREED TO FULLY
14 COMMIT TO BECOMING A SATISFACTORY PERFORMER AND IF
15 SHE AGREED TO MAINTAIN THE STANDARDS OUTLINED IN HER
16 DEVELOPMENT PLAN.

17

18 DURING BRENDA'S VACATION, I DISCUSSED BRENDA'S
19 SITUATION WITH HER SUPERVISOR, MRS. PERRING, AND
20 WITH PERSONNEL. MRS. PERRING DID NOT BELIEVE THAT
21 BRENDA COULD BECOME A SATISFACTORY SUPERVISOR.
22 PERSONNEL ADVISED THAT IF SHE WOULD NOT AGREE TO
23 ABIDE BY THE DEVELOPMENTAL PROGRAM SHE SHOULD BE
24 DISMISSED FOR POOR PERFORMANCE. AT THE END OF HER
25 VACATION, BRENDA CALLED AND ADVISED THAT SHE DID NOT

1 WISH TO RETURN AND WOULD NOT COMMIT TO IMPROVING HER
2 PERFORMANCE. SHE CAME TO MY OFFICE, TURNED IN HER
3 KEYS AND IDENTIFICATION CARD, AND WAS OFFICIALLY
4 SEPARATED FROM THE COMPANY. AT NO TIME DID BRENDA
5 MENTION TO ME ANYTHING ABOUT CHEATING OR IMPROPER
6 TROUBLE REPORT HANDLING IN THE SOUTH DADE IMC. THE
7 INFORMATION SHE PROVIDED IS FALSE.

8

9 Q. ON PAGES 17 AND 18, MR. POUCHER DESCRIBES REVIEWS
10 PERFORMED IN 1990, WHICH SHOWED HIGH ERROR RATES IN
11 OTHER TEST CENTERS BESIDES NORTH DADE. WERE THOSE
12 ERROR RATES INDICATIVE OF INTEGRITY PROBLEMS?

13

14 A. NO. AS MS. IVY INDICATED IN HER TESTIMONY, WE
15 CONTINUED TO LOOK CRITICALLY AT ALL ITEMS TO
16 IDENTIFY TRAINING PROBLEMS AND PRACTICE
17 INTERPRETATIONS WHICH WERE INCONSISTENT WITH OUR
18 EXPECTATIONS. AT NO TIME PRIOR TO THE NORTH DADE
19 REVIEW DID THE REVIEWS INDICATE ANY INTEGRITY
20 PROBLEMS. IN EVERY CASE CITED BY MR. POUCHER, HE
21 NOTED THAT NONE OF THE REVIEWS IN 1990 MENTIONED
22 CHEATING. (PG 19 LINES 18-20)

23

24 Q. ON PAGES 34 AND 35 MR. POUCHER TALKS ABOUT NANCY
25 D'ALESSIO'S BUILDING THE BASE BY STATUSING TEST OK

1 TROUBLES AS OOS AND STATES THAT SHE WAS SIMPLY
2 FOLLOWING LOCAL PROCEDURES. HE FURTHER STATES THAT
3 MRS. PERRING NOTED THIS AS A COMMON PROBLEM WHICH
4 SHE DISCUSSED WITH YOU IN 1988. IS THIS ASSERTION
5 CORRECT?

6
7 A. NO. THIS WAS NOT AN ACCEPTABLE PRACTICE. THE RULES
8 FOR PROPERLY CLOSING TEST OK REPORTS AND PROPERLY
9 STATUSING OOS REPORTS WERE THE BASIS FOR NUMEROUS
10 TRAINING SESSIONS IN ALL OF THE SOUTH FLORIDA
11 DISTRICTS. IN MS. D'ALESSIO'S INITIAL STATEMENT TO
12 SECURITY, SHE ADMITTED KNOWING THAT WHAT SHE HAD
13 DONE WAS WRONG, BUT SHE CHOSE TO EXCUSE HER
14 MISCONDUCT BY CLAIMING THAT HER SUPERVISOR TOLD HER
15 TO FALSIFY REPORTS. THAT DEFENSE WAS NOT ACCEPTED
16 AND MS. D'ALESSIO WAS TERMINATED.

17
18 AT NO POINT IN MRS. PERRING'S STATEMENT DID SHE SAY
19 THAT SHE DISCUSSED ANY INTEGRITY PROBLEMS WITH ME.
20 SHE INDICATES THAT SHE DISCUSSED RESULTS AND ASKED
21 FOR HELP ON A NUMBER OF ITEMS, WHICH SHE RECEIVED.
22 BUT AT NO TIME DID SHE INDICATE TO ME THAT SHE KNEW
23 OF ANY INTEGRITY PROBLEMS.

24
25 Q. ON PAGE 37, LINES 1-17, MR. POUCHER INDICATES THAT

1 IT IS "INCONCEIVABLE THAT HIGHER MANAGEMENT COULD
2 HAVE BEEN TOTALLY UNAWARE OF PROBLEMS OF CREDIBILITY
3 IN THE BASIC REPORTS OF REPAIR RESULTS" AND HE GOES
4 ON TO OFFER, AS SUBSTANTIATION FOR HIS ASSERTION, A
5 STATEMENT BY SHIRLEY PERRING REGARDING YOUR
6 KNOWLEDGE OF DLETH AND TELSAM COMMENTS. DO YOU
7 CONCUR IN HIS CONCLUSION?

8
9 A. NO. MR. POUCHER IS TOTALLY INCORRECT. IN EVERY
10 CASE WHERE I WAS INFORMED OF POTENTIAL INTEGRITY
11 PROBLEMS, I ORDERED A SECURITY INVESTIGATION. THE
12 QUOTE HE CITES FROM MRS. PERRING'S TESTIMONY IS
13 TAKEN OUT OF CONTEXT. MRS. PERRING DISCUSSES THE
14 RELATIONSHIP BETWEEN TELSAM AND TROUBLE REPORTS.
15 SHE NOTES THAT I DO KNOW WHAT A DLETH IS--AND SHE IS
16 CORRECT. SHE FURTHER NOTES THAT THE SOURCE OF SOME
17 TELSAM COMMENTS MAY BE REPEAT REPORTS. JUST BECAUSE
18 SOME DLETH'S INDICATE THE TROUBLE WAS FOUND DOES
19 NOT, HOWEVER, INDICATE THAT THERE WILL NOT BE
20 ADDITIONAL CUSTOMER PROBLEMS, SINCE CUSTOMER LINES
21 CAN HAVE MULTIPLE PROBLEMS AND TECHNICIANS CAN FAIL
22 IN THEIR JOB RESPONSIBILITIES. SUCH A FAR-FETCHED
23 ATTEMPT TO DRAW SUCH CONCLUSIONS FROM MRS. PERRING'S
24 STATEMENT DEMONSTRATES THAT MR. POUCHER DOES NOT
25 HAVE ANY SUBSTANTIATION FOR HIS POSITION THAT HIGHER

1 MANAGEMENT MUST HAVE BEEN AWARE OF CREDIBILITY
2 PROBLEMS.

3

4 Q. DO YOU HAVE ANY ADDITIONAL TESTIMONY?

5

6 A. I DO NOT.

1 SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY
2 REBUTTAL TESTIMONY OF APRIL IVY
3 BEFORE THE
4 FLORIDA PUBLIC SERVICE COMMISSION
5 IN
6 DOCKET NO. 920260-TL
7 DECEMBER 10, 1993
8

9 Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS
10 ADDRESS.

11
12 A. MY NAME IS APRIL D. IVY. I AM EMPLOYED BY BELLSOUTH
13 TELECOMMUNICATIONS INC., D/B/A SOUTHERN BELL
14 TELEPHONE AND TELEGRAPH COMPANY ("SOUTHERN BELL" OR
15 "THE COMPANY") AS A MANAGER - NETWORK/INSTALLATION
16 AND MAINTENANCE CENTER (IMC). MY BUSINESS ADDRESS
17 IS 8610 SW 107 AVENUE, MIAMI, FLORIDA 33173.

18
19 Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS
20 PROCEEDING?

21
22 A. YES. I FILED DIRECT TESTIMONY ON JULY 2, 1993.
23

24 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

25
26 A. THE PURPOSE OF MY TESTIMONY IS TO REBUT DIRECT

1 TESTIMONY FILED ON NOVEMBER 8, 1993, BY R. EARL
2 POUCHER AND MICHAEL R. MALOY IN DOCKET NO. 920260-
3 TL.

4
5 Q. CAN YOU EXPLAIN THE HIGH ERROR RATE FOUND IN SOME OF
6 THE STANDARDIZATION REVIEWS CONDUCTED BY THE
7 COMPANY'S NETWORK STAFF?

8
9 A. YES. A COMMON ERROR IDENTIFIED IN ALL OF THE
10 REVIEWS OCCURRED BECAUSE THE NARRATIVE THAT WAS
11 PROVIDED BY THE IMC EMPLOYEE, TO STATUS OR CLOSE THE
12 TROUBLE REPORT, DID NOT ADEQUATELY EXPLAIN OR
13 SUBSTANTIATE THE ACTION TAKEN. FREQUENTLY, ERRORS
14 WERE SCORED BECAUSE OF REASONS RELATING TO THE NEED
15 FOR ADDITIONAL TRAINING. FOR EXAMPLE, IF A
16 MAINTENANCE ADMINISTRATOR ("MA") STATUSED A TROUBLE
17 REPORT AS OUT-OF-SERVICE AND THE EXPLANATION HE
18 PROVIDED FOR THE STATUS WAS "DIFFICULTY WITH
19 SERVICE," THIS REPORT WOULD BE SCORED AS AN ERROR
20 WITH THE MA BECAUSE THE NARRATIVE DID NOT ADEQUATELY
21 EXPLAIN THE NATURE OF THE TROUBLE. THE IMC MANAGER
22 WOULD REVIEW WITH THE MAINTENANCE ADMINISTRATOR THE
23 NEED TO PROVIDE A CLEARER NARRATIVE THAT WOULD
24 EXPLAIN THE CONDITION OF THE LINE. IMC MANAGEMENT
25 STRESSED THAT FOR EVERY DECISION MADE BY THE MA,

1 COMPLETE DOCUMENTATION OR SUPPORT FOR THAT DECISION
2 WAS NECESSARY. AS I HAVE PREVIOUSLY TESTIFIED,
3 TROUBLE REPORT PROCESSING IS A DYNAMIC AND COMPLEX
4 PROCESS, WHICH IS CONSTANTLY CHANGING AS TECHNOLOGY
5 IMPROVES. THUS, CONTINUOUS TRAINING IS REQUIRED.

6
7 TO IMPLY THAT THE REPORTED ERRORS REVEALED
8 EMPLOYEES' DIRECT ATTEMPTS TO MANIPULATE THE RESULTS
9 IS JUST NOT TRUE! IN FACT IN THE DEPOSITION OF MRS.
10 PERRING SHE ACKNOWLEDGES THE DIFFICULTY OF
11 IDENTIFYING THE EXACT CAUSE OF THE ERRORS AND SHE
12 REAFFIRMS THAT NEW SOFTWARE CHANGES, A LACK OF
13 ADEQUATE TRAINING, OR OTHER FACTORS MAY AFFECT THE
14 QUANTITY AND TYPE OF ERRORS THAT APPEAR. MRS.
15 PERRING STATES, "IT WAS BECAUSE THE DOCUMENTATION
16 WAS LACKING TO SUPPORT WHY THEY DID IT....AND AGAIN
17 I COULD NOT SAY THAT HE CHEATED OR THEY CHEATED."

18
19 Q. MR. POUCHER, ON PAGE 4 OF HIS TESTIMONY STATES THAT
20 THE REVIEWS DEMONSTRATED THAT THE COMPANY WAS HAVING
21 SIGNIFICANT PROBLEMS AND BASED ON FALSETTI'S
22 COMPLAINT, SOMEONE SHOULD HAVE BEEN LISTENING. IS
23 THIS AN ACCURATE ACCOUNT?

24
25 A. NO. IT DIDN'T TAKE THE RAVINGS OF A DISGRUNTLED

1 EMPLOYEE FOR MANAGEMENT TO REACT TO THESE FINDINGS
2 IN THE REVIEWS. MR. POUCHER WOULD HAVE YOU BELIEVE
3 THAT WE CONDUCTED THESE REVIEWS, HELD THE RESULTS,
4 AND DID NOTHING WITH THE INFORMATION; BUT THIS IS
5 JUST NOT TRUE.

6
7 REVIEWS ARE TAKEN VERY SERIOUSLY AT ALL LEVELS OF
8 MANAGEMENT. ALL THE RECOMMENDATIONS BY STAFF WERE
9 ROUTED BACK TO THE OPERATIONS MANAGER AND THE IMC
10 MANAGERS AND, DEPENDING UPON THE SIGNIFICANCE OF THE
11 FINDINGS, FOLLOW-UP WAS CONDUCTED BY THE STAFF.
12 WHEN CORRECTIVE ACTION WAS REQUIRED, JOB AIDS,
13 RETRAINING, ADDITIONAL COVERAGE ON PRACTICES AND
14 POLICIES, EMPLOYEE MONITORING, AND DAILY SPOT CHECKS
15 WERE SOME OF THE CORRECTIVE STEPS TAKEN. CLEARLY,
16 MR. POUCHER SIMPLY DOES NOT UNDERSTAND THE REVIEW
17 PROCESS.

18
19 AS I HAVE PREVIOUSLY TESTIFIED, THE REVIEWS WERE
20 "NIT-PICKY" BY DESIGN AND THE HIGH ERROR RATES DID
21 NOT NECESSARILY INDICATE THE PRESENCE OF FRAUDULENT
22 ACTIVITY. STAFF REVIEWERS WERE CHARGED WITH THE
23 RESPONSIBILITY OF ENSURING THAT EMPLOYEES FOLLOWED
24 COMPANY PRACTICES TO THE LETTER. THE REVIEWS
25 TYPICALLY INDICATED ONLY THAT SOME OF THE EMPLOYEES

1 NEEDED TO DO A BETTER JOB OF EXPLAINING THEIR
2 ACTION.

3
4 SHIRLEY PERRING TESTIFIED THAT AS PART OF THE REVIEW
5 PROCESS MS. ISENHOUR, IN MEETINGS WITH HER
6 OPERATIONS MANAGERS AND SECOND LEVELS, CONTINUALLY
7 EMPHASIZED OUT-OF-SERVICES IN GENERAL. (PERRING'S
8 DEPOSITION PAGE 6, LINE 9) MS. PERRING ALSO
9 TESTIFIED THAT MS. ISENHOUR WROTE LETTERS TO THE
10 OPERATIONS MANAGERS HIGHLIGHTING THE FINDINGS AND
11 REQUESTING FEEDBACK ON CORRECTIVE ACTION TAKEN.
12 THIS WAS ALSO THE CASE WHEN I WAS ON THE STAFF.
13 ADDITIONALLY, AT THE NETWORK OPERATIONS MEETINGS WE
14 DISCUSSED RESULTS AND PROBLEM AREAS THAT CENTERED
15 AROUND PROVIDING QUALITY CUSTOMER SERVICE. IN
16 SHORT, THE REVIEW PROCESS WAS THE VEHICLE BY WHICH A
17 HIGHER LEVEL OF SERVICE QUALITY WAS ACHIEVED.

18

19 Q. DID ANY OF THE REVIEWS INDICATE THERE WAS CHEATING
20 GOING ON?

21

22 A. YES. THE NORTH DADE REVIEW, WHICH I CONDUCTED IN
23 AUGUST OF 1990, INDICATED THAT INDIVIDUALS WERE
24 USING OUT-OF-SERVICE STATUSING ON TEST OK REPORTS
25 IMPROPERLY. IT WAS THE REVIEW TEAM THAT FOUND THE

1 CHEATING, NOT SECURITY AS MR. POUCHER WOULD HAVE YOU
2 BELIEVE. ONCE DISCOVERED, THE RESULTS WERE REPORTED
3 TO MS. ISENHOUR WHOSE RESPONSE PROVIDED A CLEAR
4 INDICATION THAT THE REVIEW PROCESS WORKS. HER
5 INQUIRIES LED TO THE DISCLOSURE OF INTENTIONAL
6 MISCONDUCT BY NORTH DADE EMPLOYEES. BASED UPON
7 THESE DISCLOSURES, SHE ACTED SWIFTLY AND
8 APPROPRIATELY TO FURTHER IDENTIFY THE SCOPE OF THE
9 PROBLEM.

10

11 Q. WERE ANY EMPLOYEES TERMINATED FOR MISCONDUCT AS A
12 RESULT OF THE NORTH DADE REVIEW AND THE SUBSEQUENT
13 SECURITY INVESTIGATION?

14

15 A. YES. ONE MANAGER AND ONE ASSISTANT MANAGER WERE
16 TERMINATED.

17

18 Q. MR. POUCHER IMPLIES THAT CHANGES IN NETWORK
19 PRACTICES AND PROCEDURES WERE IMPLEMENTED SOLELY AS
20 A RESULT OF THE PROBLEMS DISCOVERED IN THE
21 INVESTIGATION. IS THIS CORRECT?

22

23 A. MR. POUCHER IS ONLY PARTIALLY CORRECT. BASED ON OUR
24 OWN INTERNAL INVESTIGATION, AND WELL IN ADVANCE OF
25 THE SETTLEMENT AGREEMENT WITH THE OFFICE OF THE

1 STATEWIDE PROSECUTOR, CHANGES WERE MADE TO TIGHTEN
2 THE CONTROLS AND IMPROVE THE TROUBLE REPORT HANDLING
3 PROCEDURES. SOME OF THESE CHANGES WERE ONGOING AND
4 HAD BEEN IN THE PLANNING STAGE FOR SOME TIME. FOR
5 EXAMPLE, AS I STATED IN MY DIRECT TESTIMONY, THE
6 DEVELOPMENT OF UNIQUE/ID PASSWORDS HAD BEEN IN
7 VARIOUS STAGES OF DEVELOPMENT AS A SECURITY MEASURE
8 SINCE 1987. THIS WAS PART OF THE ACCESS NETWORK
9 SYSTEM, WHICH INCORPORATES INTO THE EXISTING
10 COMPUTER NETWORK THE ABILITY TO CONTROL AND LIMIT
11 SYSTEM ENTRY. IN FACT, FLORIDA WAS THE FIRST TO
12 CONVERT TO THIS SYSTEM IN THE BELLSOUTH NINE STATE
13 REGION. THE POINT HERE IS THAT SOME CHANGES IN
14 NETWORK REPAIR PROCEDURES WERE MADE AFTER THE
15 COMPANY'S OWN INVESTIGATION AND IN ORDER TO
16 STREAMLINE THE REPAIR OPERATION TO PROVIDE BETTER
17 CUSTOMER SERVICE, AND TO TIGHTEN CONTROLS.

18

19 Q. IN MR. POUCHER'S TESTIMONY ON PAGE 23 AND THROUGHOUT
20 MR. MALOY'S TESTIMONY THEY ALLEGE THAT THE COMPANY
21 ENGAGED IN EIGHT ACTIVITIES THAT RESULTED IN THE
22 MANIPULATION OR FALSIFICATION OF TROUBLE REPORTS:

23

24 1-BACKING UP TIMES

25 2-EXEMPTING OR EXCLUDING REPORTS

- 1 3-USING THE CON CODE
- 2 4-BUILDING THE BASE
- 3 5-CHANGING COMMITMENTS OR DUE DATES
- 4 6-USING THE NO ACCESS CODE TO STOP THE CLOCK
- 5 7-IMPROPER STATUSING TO MEET PSC INDICES
- 6 8-USE OF FICTITIOUS EMPLOYEE CODES

7

8 WOULD YOU PLEASE ADDRESS EACH OF THESE ITEMS?

9

- 10 A. YES. FIRST, THE TESTIMONY ALLEGES THAT "BACKING-UP
11 TIMES" ON TROUBLE REPORTS WAS DESIGNED TO DENY
12 CUSTOMERS REBATES AND WAS USED AS A METHOD TO
13 ACHIEVE COMPLIANCE WITH THE OUT-OF-SERVICE OVER
14 TWENTY-FOUR HOUR OBJECTIVE.

15

16 I FIND THIS ALLEGATION TO BE MISLEADING. ALTHOUGH A
17 FEW EMPLOYEES ACTED INAPPROPRIATELY, EVERY EMPLOYEE
18 WAS INSTRUCTED TO CLOSE CUSTOMER REPORTS WITH THE
19 CORRECT SERVICE RESTORATION TIME. SOMETIMES, IN
20 ORDER TO CAPTURE THE CORRECT TIME, TECHNICIANS WERE
21 ACTUALLY REQUIRED TO BACK-UP THE TIME. FOR EXAMPLE,
22 A CENTRAL OFFICE FAILURE OR A CABLE FAILURE THAT
23 OCCURRED AND WAS CLEARED OUTSIDE OF THE NORMAL
24 BUSINESS HOURS WOULD OBVIOUSLY HAVE DIFFERENT CLEAR
25 AND CLOSE TIMES. ANOTHER SIMPLE BUT COMMON EXAMPLE

1 IS WHEN A TECHNICIAN BACKS UP TIME TO THE ACTUAL
2 RESTORAL TIME BECAUSE HIS BEHAVIOR ON THE JOBSITE
3 CAUSED THE CLOSURE OF THE REPORT TO BE DELAYED,
4 I.E., TAKING A BREAK, GOING TO LUNCH, INCIDENTAL
5 TIME LOSS, AND CLEANING-UP THE JOB SITE. THIS IS
6 COMMONLY REFERRED TO AS ROUTINE TIME.

7
8 THERE MAY HAVE BEEN SOME UNEXPLAINED DIFFERENCES
9 BETWEEN CLEAR AND CLOSE TIMES WHICH TEND TO INDICATE
10 THAT SOME EMPLOYEES HAVE ENGAGED IN IMPROPER
11 CONDUCT. BUT WHENEVER HIGHER MANAGEMENT BECAME
12 AWARE OF THIS KIND OF ACTIVITY, OR ANY KIND OF
13 INAPPROPRIATE ACTIVITY, CORRECTIVE ACTION WAS
14 IMMEDIATELY TAKEN.

15
16

17 Q. MR. POUCHER AND MR. MALOY REFER TO EXEMPTING OR
18 EXCLUDING REPORTS AS A METHOD BY WHICH THE COMPANY
19 SEEKS TO CIRCUMVENT PSC MEASUREMENT. IS THIS
20 CORRECT?

21

22 A. NO. THEY ATTEMPT TO MAKE THE POINT THAT OUR
23 EMPLOYEES ELIMINATED TROUBLE REPORTS SIMPLY BY
24 PLACING AN EXCLUDE COMMAND ON THE REPORT WHEN IT WAS
25 CLOSED. ALTHOUGH A FEW OF OUR EMPLOYEES MAY HAVE

1 ENGAGED IN SUCH ACTIVITY, TO SUGGEST THAT THERE IS
2 NO APPROPRIATE USE FOR THESE COMMANDS IS SIMPLY
3 WRONG. BELLSOUTH PRACTICES ARE VERY SPECIFIC ON
4 WHAT CONSTITUTES A VALID EXCLUDE. SOME EXAMPLES
5 ARE, CUSTOMER REQUESTS FOR ASSISTANCE FROM BUSINESS
6 OFFICE, CUSTOMER REPORTED A NON-BILLED FEATURE, THE
7 PREMISE IS VACANT OR THE LINE IS PROPERLY
8 INTERCEPTED, OR OTHER COMMON CARRIER TROUBLES, JUST
9 TO NAME A FEW. EXEMPT CAUSE CODES EXIST TO HANDLE
10 EMERGENCY SITUATIONS, I.E., ACTS OF GOD OR
11 UNAVOIDABLE CASUALTIES WHERE AT LEAST TEN PERCENT OF
12 ANY EXCHANGE IS OUT OF SERVICE, OR THE REPORTED
13 TROUBLES ARE BEYOND THE CONTROL OF THE TELEPHONE
14 COMPANY.

15

16 Q. MR. POUCHER AND MR. MALOY ALSO REFER TO EMPLOYEE
17 REPORTS AS A METHOD BY WHICH THE COMPANY SEEKS TO
18 CIRCUMVENT PSC MEASUREMENT. IS THIS CORRECT?

19

20 A. NO. BY SUGGESTING THAT EMPLOYEE REPORTS WERE
21 CREATED OR ARE USED SOLELY FOR THE PURPOSE OF
22 MANIPULATING TROUBLE REPORTS, MR. POUCHER AND MR.
23 MALOY HAVE ONCE AGAIN ATTEMPTED TO MISLEAD THIS
24 COMMISSION. EMPLOYEE REPORTS HAVE ALWAYS BEEN AND
25 WILL CONTINUE TO BE A VEHICLE USED TO CLEAR TROUBLE

1 CAUSING CONDITIONS THAT ARE DETECTED BY MAINTENANCE
2 PERSONNEL INDEPENDENT OF ANY CONVERSATIONS WITH THE
3 CUSTOMER. SOME OF THE BENEFITS OF USING EMPLOYEE
4 REPORTS INCLUDE FACILITATING DIAGNOSTIC TESTING
5 PERFORMED BY THE CENTRAL ANALYSIS BUREAU (CAB), AND
6 SERVICE REPAIR INFORMATION GAINED THROUGH TELSAM
7 INTERVIEWS THAT PERMIT EARLY INTERVENTION OF OUR
8 MAINTENANCE CREWS. USE OF EMPLOYEE REPORTS IS YET
9 ANOTHER WAY TO ENSURE THAT OUR NETWORK IS MAINTAINED
10 AND THAT OUR CUSTOMERS RECEIVE QUALITY SERVICE.

11

12 Q. MR. POUCHER AND MR. MALOY SUGGEST THAT THE CON CODE
13 WAS DEVELOPED AS A MEANS TO ACHIEVE PSC INDEX
14 COMPLIANCE. IS THIS CORRECT?

15

16 A. NO. THE CON CODE WAS USED TO ACCOMMODATE THE
17 CUSTOMERS. THE CON CODE WAS AUTOMATICALLY STATUSED
18 BY AUTO-SCREEN WHENEVER A CUSTOMER REQUESTED AN
19 APPOINTMENT DATE THAT WAS LATER THAN THE DATE
20 SCHEDULED BY THE COMPANY. ITS PURPOSE WAS TO AVOID
21 PENALIZING THE COMPANY FOR SUCH APPOINTMENT DELAYS.
22 CON WAS NEVER INTENDED TO BE USED TO STOP THE CLOCK
23 ON APPOINTMENTS.

24

25 IN 1992, SOUTHERN BELL ELIMINATED THE USE OF CON.

1 ALTHOUGH, MR. POUCHER IS CORRECT THAT PRIOR TO ITS
2 ELIMINATION, THE CUSTOMER REPORT WOULD BE EXEMPT
3 FROM THE PSC SCHEDULE 11A MEASUREMENT, HE IS
4 ABSOLUTELY INCORRECT WITH REGARD TO THE PAYMENT OF
5 THE CUSTOMER'S REBATE. THE USE OF THE CON CODE DID
6 NOT PREVENT A REBATE ON AN OUT-OF-SERVICE CONDITION
7 THAT EXCEEDED TWENTY-FOUR HOURS.

8

9 Q. MR. POUCHER AND MR. MALOY STATE THAT SOME EMPLOYEES
10 MANIPULATED AND FALSIFIED TROUBLE REPORTS IN AN
11 EFFORT TO BUILD THE BASE OF OUT-OF-SERVICE REPAIRS
12 THAT CLEARED WITHIN TWENTY-FOUR HOURS IN ORDER TO
13 MEET THE COMMISSION INDEX. IS THIS TRUE?

14

15 A. YES. WHILE BUILDING THE BASE BY INTRODUCING FALSE
16 TROUBLE REPORTS INTO THE SYSTEM DID IN FACT OCCUR,
17 WHEN IT WAS DETECTED, THE EMPLOYEES WHO WERE
18 INVOLVED IN THIS UNETHICAL BEHAVIOR WERE
19 DISCIPLINED. MOREOVER, WHEN THIS WAS FOUND TO HAVE
20 OCCURRED IN THE NORTH DADE IMC, THE COMPANY'S
21 INVESTIGATION WAS EXPANDED TO THE ENTIRE STATE OF
22 FLORIDA INCLUDING GAINESVILLE.

23

24 Q. MR. POUCHER AND MR. MALOY INDICATE THAT COMMITMENTS
25 OR DUE DATES WERE CHANGED TO AVOID MISSING AN

1 ORIGINAL APPOINTMENT DATE? CAN THIS BE DONE?

2

3 A. NO, THE ORIGINAL APPOINTMENT DATE IS ALWAYS USED FOR
4 SCORING A MISSED APPOINTMENT. A MISSED APPOINTMENT
5 ON SERVICE ORDERS IS ALSO BASED ON THE ORIGINALLY
6 NEGOTIATED DUE DATE. IN ANY EVENT THE APPOINTMENT
7 DATE HAS NOTHING TO WITH REBATES. I AM AWARE THAT
8 IN SEVERAL PUBLIC COUNSEL DEPOSITIONS EMPLOYEES
9 INDICATED THAT THEY WERE TOLD TO CHANGE DUE DATES.
10 IF THIS OCCURRED, IT APPEARS TO HAVE BEEN DONE
11 SIMPLY TO UPDATE THE MECHANIZED SYSTEM TO REFLECT
12 THE NEW APPOINTMENT DATE THAT THE COMPANY AND THE
13 CUSTOMER AGREED UPON.

14

15 Q. MR. POUCHER AND MR. MALOY CONTEND THAT BY SIMPLY
16 USING THE NO ACCESS CODE, CUSTOMERS WOULD NOT
17 RECEIVE REBATES. IS THIS ANALYSIS CORRECT?

18

19 A. MR. POUCHER AND MR. MALOY ARE PARTIALLY CORRECT. IF
20 THE REPORT WAS NO ACCESSED PRIOR TO TWENTY-FOUR
21 HOURS, HE IS CORRECT, NO REBATE IS DUE. IF THE
22 REPORT WAS NO ACCESSED AFTER TWENTY-FOUR HOURS, IT
23 WAS SUBJECT TO A REBATE.

24

25 THERE ARE TWO OTHER TYPES OF CIRCUMSTANCES WHICH

1 PERMIT THE USE OF THE NO ACCESS CODE. FIRST, IF THE
2 REPAIRMAN WAS DENIED ACCESS TO THE CUSTOMER'S
3 PREMISES FOR REASONS ATTRIBUTABLE TO THE CUSTOMER,
4 THE NO ACCESS CODE WOULD APPLY. IN THIS EVENT, THE
5 CUSTOMER WOULD BE DENIED A REBATE. SECOND, IF THE
6 NO ACCESS IS BEYOND THE SCOPE OF THE CUSTOMER'S
7 CONTROL, I.E. LOCKED METER ROOM OR A TERMINAL BEHIND
8 A LOCKED AREA IN A CONDOMINIUM COMPLEX, DOGS IN
9 NEIGHBOR'S YARD, ETC., THEN THE REPORT WOULD BE
10 STATUSED NO ACCESS OTHER. IN THIS EVENT, THE
11 CUSTOMER IS GIVEN A REBATE IF THE RESTORAL OF THEIR
12 SERVICE EXCEEDS TWENTY-FOUR HOURS.

13
14 Q. MR. POUCHER AND MR. MALOY HAVE DESCRIBED A NUMBER OF
15 METHODS ALLEGEDLY USED TO STATUS REPORTS IMPROPERLY
16 IN ORDER TO MEET THE PSC INDEX. THEY SUGGEST THAT
17 STATUSING TROUBLE REPORTS AT THE END OF THE PROCESS
18 WAS THE MOST PREVALENT ACTIVITY. IS THIS PROCEDURE
19 DESIGNED TO CHEAT?

20
21 A. NO. STATUSING TROUBLE REPORTS AT THE POINT THAT
22 THEY ARE BEING CLOSED WAS NOT NECESSARILY IMPROPER.
23 IN FACT, MOST CABLE FAILURES WERE STATUSED AT THE
24 END WHEN THE REPORTS WERE ABOUT TO BE CLOSED. LET
25 ME EXPLAIN. THE PROCESSING OF CABLE FAILURES BEGINS

1 WITH THE FIRST FEW TROUBLE REPORTS THAT ARE RECEIVED
2 BY THE MAINTENANCE CENTER. ONCE THE CABLE IS
3 REPAIRED AND THE TELEPHONE LINES THAT ARE ASSOCIATED
4 WITH THAT CABLE ARE TESTED, ONLY THEN CAN THE
5 STATUSING OF EACH REPORT OCCUR. THIS STEP IN THE
6 DURATION OF THE REPORT, OCCURS AT THE CLOSE OF THE
7 CABLE FAILURE. THIS PROCESS EMBODIES AN EFFORT TO
8 CAPTURE THE PROPER STATUS OF ALL OF THE TROUBLE
9 REPORTS ATTACHED TO THE FAILURE.

10

11 Q. MR. POUCHER AND MR. MALOY CONTEND THAT THERE WERE NO
12 CONTROLS IN PLACE TO PREVENT THE USE OF FICTITIOUS
13 EMPLOYEE CODES AND, CONSEQUENTLY, SUCH CODES WERE
14 USED TO FALSIFY REPORTS. IS THIS CORRECT?

15

16 A. MR. POUCHER AND MR. MALOY ARE PARTIALLY CORRECT.
17 EMPLOYEE CODES ARE ADMINISTERED REGION WIDE BY
18 BELLSOUTH SYSTEM PRACTICES. THESE CODES ARE
19 ASSIGNED TO SPECIFIC WORK GROUPS IN ORDER TO
20 FACILITATE THE EVALUATION OF EACH EMPLOYEE'S
21 PERFORMANCE. WHEN EMPLOYEES PROPERLY USE THEIR
22 CODES, AN AUDIT TRAIL IS CREATED. THIS PROCESS
23 HELPS MANAGERS TO ASSESS THE NEED FOR ADDITIONAL
24 EMPLOYEE TRAINING AND HELPS US TO PROVIDE BETTER
25 SERVICE TO OUR CUSTOMERS. MR. POUCHER AND MR. MALOY

1 ARE CORRECT THAT THE CONTROLS WERE INADEQUATE TO
2 PREVENT INTENTIONAL ABUSE. HOWEVER, THEY ARE
3 CLEARLY INCORRECT IN THEIR ASSERTION THAT NO
4 CONTROLS EXIST. A FEW EMPLOYEES APPARENTLY USED THE
5 EMPLOYEE CODES OF OTHERS OR USED FALSE EMPLOYEE
6 CODES FOR IMPROPER PURPOSES. THIS CONDUCT VIOLATED
7 THE APPLICABLE BELLSOUTH SYSTEM PRACTICES AND THE
8 ETHICS OF OUR COMPANY.

9
10 RECENTLY, HOWEVER, WE HAVE DEVELOPED A SYSTEM OF
11 UNIQUE IDENTIFICATION PASSWORDS FOR EACH EMPLOYEE.
12 THIS WILL HELP IN OUR CONTINUING EFFORT TO ENSURE A
13 HIGH QUALITY OF SERVICE TO OUR CUSTOMERS.

14

15 Q. MR. POUCHER ALLEGES THAT THE COMPANY CREATED A
16 MAINTENANCE REPORT THAT IDENTIFIED THE NUMBER OF
17 OUT-OF-SERVICE TROUBLES NEEDED TO MEET THE INDEX IN
18 A PARTICULAR EXCHANGE AND THAT ENABLED THE COMPANY
19 TO DETERMINE THE NUMBER OF FALSE REPORTS NEEDED TO
20 BE ADDED TO THE SYSTEM. IS THIS ALLEGATION CORRECT?

21

22 A. ABSOLUTELY NOT. MR. POUCHER'S OVERZEALOUS ADVOCACY
23 REVEALS HIS LACK OF OBJECTIVITY. THIS REPORT
24 PROVIDED A DAILY INDICATION OF WHERE THE CENTER
25 STOOD ON ITS SCHEDULE 11A PERFORMANCE. IT WAS

1 IMPORTANT, ESPECIALLY IN THE SMALLER EXCHANGES WHERE
2 THE VOLUME OF TOTAL REPORTS WAS SMALL, TO MONITOR
3 THE REPORTS THAT MAY BE IN JEOPARDY OF EXCEEDING
4 TWENTY-FOUR HOURS. THE REPORT WOULD ALERT THE
5 CENTER MANAGERS THAT WITHOUT ACTION, THE OBJECTIVE
6 WOULD BE MISSED. THUS, THE MANAGER WOULD MOVE
7 FORCES, WORK OVERTIME, OR ADD ADDITIONAL MANPOWER IF
8 NECESSARY TO MEET THE LOAD. THUS, THE IMPLICATION
9 RAISED BY MR. POUCHER THAT THE REASON WHY WE CREATED
10 THE REPORT WAS TO FACILITATE THE INTRODUCTION OF
11 FALSE TROUBLE REPORTS INTO THE SYSTEM IS SIMPLY
12 INCREDIBLE!

13
14 Q. MR. POUCHER STATES IN HIS TESTIMONY THAT THE
15 HANDWRITTEN NOTE ON HIS EXHIBIT 17 THAT STATES "I
16 DON'T UNDERSTAND HOW WE CONTINUE TO LET THIS HAPPEN
17 --EVERYONE KNOWS THAT YOU CAN'T MISS ANY O/S
18 TROUBLES IN THE KEYS. CAN YOU EXPLAIN THIS -?"
19 CAUSED EMPLOYEES TO FEEL INTIMIDATED AND PRESSURED
20 TO FALSIFY AND MANIPULATE TROUBLE REPORTS. IS THIS
21 STATEMENT CORRECT?

22
23 A. MR. POUCHER IS INCORRECT. NOTES OF THIS TYPE WERE
24 USED TO COMMUNICATE THAT THE MAINTENANCE OPERATION
25 NEEDED TO COMMIT THE NECESSARY RESOURCES TO IMPROVE

1 THE OUT-OF-SERVICE RESULTS. IF THE LOAD REQUIRED
2 EMPLOYEES TO WORK OVERTIME, MANAGERS WERE REQUIRED
3 TO COMMIT THE NECESSARY RESOURCES TO ASSIST, EVEN IF
4 IT REQUIRED SCHEDULING THE USE OF CONSTRUCTION
5 FORCES. ADDITIONALLY, IF A CHANGE IN TECHNICIAN
6 DISPATCH STRATEGY WAS REQUIRED, THE MANAGER
7 EXERCISED THAT OPTION. THE MAINTENANCE OPERATION
8 HAD A NUMBER OF METHODS AT ITS DISPOSAL TO IMPROVE
9 CUSTOMER SERVICE, AND A MANAGER'S RESPONSIBILITY WAS
10 TO ENSURE THAT EVERY RESOURCE THAT COULD BE
11 COMMITTED, WAS COMMITTED.

12

13 Q. GENERALLY, WAS THERE IMPROPER PRESSURE PLACED ON
14 MANAGERS TO RESTORE OUT OF SERVICE TROUBLES WITHIN
15 TWENTY-FOUR HOURS?

16

17 A. NO. AS I STATED IN MY DIRECT TESTIMONY, THIS IS A
18 COMPLEX BUSINESS AND IT CERTAINLY CAN BE STRESSFUL
19 AT TIMES. OUR EMPLOYEES HAVE CONSISTENTLY BEEN
20 INSTRUCTED TO OPERATE WITHIN THE GUIDELINES,
21 PRACTICES, AND PROCEDURES PRESCRIBED BY THE COMPANY
22 AND BY HIGHER MANAGEMENT. AT NO TIME DID HIGHER
23 MANAGEMENT ENCOURAGE, CONDONE, OR TOLERATE ANY FORM
24 OF MANIPULATION OF RESULTS. WHEN SUCH ACTIVITY WAS
25 DETECTED, SEVERE DISCIPLINARY ACTION WAS IMPOSED.

1 Q. ON PAGE 16, MR. MALOY STATES THAT THE PSC INDICES
2 WERE CONSIDERED A HIGH PRIORITY FOR ALL OF THE
3 MANAGEMENT PEOPLE WITH WHOM HE HAS SPOKEN. IS THIS
4 CORRECT?

5
6 A. YES, BUT MR. MALOY MISSES THE POINT. DURING MY
7 TENURE IN NETWORK AND IN THE IMC, I HAVE
8 CONSISTENTLY MONITORED THE PSC MEASUREMENTS AS ONE
9 OF MY HIGH PRIORITY COMMITMENTS. BUT TO IMPLY THAT
10 THERE WAS EXCESSIVE PRESSURE TO MISREPRESENT WHAT
11 WAS REPORTED TO THE PSC IS SIMPLY NOT TRUE. MEETING
12 THESE IMPORTANT OBJECTIVES WAS CHALLENGING AND WE
13 ALL UNDERSTOOD THEIR IMPORTANCE. MOST
14 SIGNIFICANTLY, WE ALL UNDERSTOOD THAT ETHICS AND
15 INTEGRITY IN ALL THAT WE DID, WAS OF PARAMOUNT
16 IMPORTANCE.

17
18 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

19
20 A. YES.

21

1 SOUTHERN BELL TELEGRAPH AND TELEPHONE COMPANY
2 REBUTTAL TESTIMONY OF ROBIN MADDEN
3 BEFORE THE
4 FLORIDA PUBLIC SERVICE COMMISSION
5 IN
6 DOCKET NO. 920260-TL
7 DECEMBER 10, 1993

8

9 Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS
10 ADDRESS.

11

12 A. MY NAME IS ROBIN L. MADDEN, I AM EMPLOYED BY
13 BELLSOUTH TELECOMMUNICATIONS, INC. D/B/A SOUTHERN
14 BELL TELEPHONE AND TELEGRAPH COMPANY ("SBT" OR "THE
15 COMPANY") AS A MANAGER-CUSTOMER SERVICES IN THE
16 STATE OF FLORIDA. MY BUSINESS ADDRESS IS 6451 NORTH
17 FEDERAL HIGHWAY IN FT. LAUDERDALE.

18

19 Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS
20 PROCEEDING?

21

22 A. YES, I HAVE FILED DIRECT TESTIMONY.

23

24 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

25

1 A. THE PURPOSE OF MY TESTIMONY IS TO REBUT THE DIRECT
2 TESTIMONY FILED BY R. EARL POUCHER AND MARK COOPER
3 WITH REGARD TO BOTH NON-CONTACT AND CONTACT SALES
4 ACTIVITIES. I WILL CLARIFY STATEMENTS PRESENTED IN
5 MR. POUCHER'S TESTIMONY REGARDING THE CONTACT AND
6 NON-CONTACT SALES ACTIVITIES AND THE EXISTENCE OF
7 ADMINISTRATIVE CONTROLS IN OUR SALES EFFORT. I WILL
8 ALSO ADDRESS THE ISSUES RAISED BY BOTH MR. POUCHER
9 AND DR. COOPER REGARDING SALES TRAINING FOR SERVICES
10 REPRESENTATIVES IN OUR CUSTOMER SERVICES DEPARTMENT.

11

12 Q. MR. POUCHER FREQUENTLY QUOTES FROM THE INTERNAL
13 AUDIT AND THE SECURITY REPORTS THAT WERE GENERATED
14 AS A RESULT OF SOUTHERN BELL'S INTERNAL
15 INVESTIGATION OF NON-CONTACT SALES. DOES HE PORTRAY
16 THE FACTS DERIVED FROM THESE REPORTS ACCURATELY?

17

18 A. NO. THROUGHOUT MR. POUCHER'S TESTIMONY HE HAS
19 PAINTED AN INACCURATE PICTURE AND HE HAS REACHED
20 CONCLUSIONS THAT HAVE NO BASIS IN FACT. HE HAS ALSO
21 TAKEN THE FINDINGS OF THE AUDIT AND OTHER
22 INVESTIGATION DOCUMENTS AND DISTORTED THEIR MEANING
23 IN AN ATTEMPT TO JUSTIFY HIS ERRONEOUS OPINIONS.

24

25 Q. MR. POUCHER STATES THAT THE COMPANY WAS GUILTY OF

1 ALLOWING "WIDESPREAD CUSTOMER ABUSE AND FRAUD" TO
2 GROW. DO YOU AGREE WITH THIS STATEMENT?

3
4 A. ABSOLUTELY NOT. MR. POUCHER IS WELL AWARE THAT WHEN
5 SOUTHERN BELL'S MANAGERS IN BROOKSVILLE FIRST LEARNED
6 THAT A FEW CUSTOMERS HAD REPORTED UNAUTHORIZED SALES
7 OF SERVICES, THEY RESPONDED IMMEDIATELY. FIRST,
8 SOME PRELIMINARY VERIFICATION OF THE PROBLEM WAS
9 PERFORMED. SECOND, THE BROOKSVILLE MANAGERS
10 REFERRED THE MATTER TO OUR STAFF MANAGERS IN
11 CUSTOMER SERVICES. THIRD, THE MATTER WAS REFERRED
12 TO THE NETWORK DEPARTMENT THAT HAD RESPONSIBILITY
13 FOR THE GEOGRAPHIC AREA WHERE THE AFFECTED CUSTOMERS
14 RESIDE. FINALLY, THE MATTER WAS REFERRED TO OUR
15 SECURITY DEPARTMENT WHERE A FULL SCALE INVESTIGATION
16 WAS CONDUCTED. THUS, IT WAS THROUGH OUR OWN
17 INVESTIGATION THAT WE IDENTIFIED THE EMPLOYEES WHO
18 WERE RESPONSIBLE FOR IMPROPERLY ADDING SERVICES TO
19 CUSTOMER ACCOUNTS. CLEARLY, THE THOROUGH AND QUICK
20 RESPONSE OF OUR MANAGERS IS POSITIVE PROOF OF
21 SOUTHERN BELL'S CONTINUING EFFORT TO IDENTIFY
22 PROBLEMS IN OUR SALES OPERATION AND TO STOP
23 IMMEDIATELY THE DEVELOPMENT OF ANY ACTIVITY THAT HAS
24 THE POTENTIAL TO HARM OUR CUSTOMERS.

25

1 Q. IN MR. POUCHER'S TESTIMONY IN DOCKET NO. 900960-TL
2 ON PAGE 9, HE STATES THAT THE ENTIRE NETWORK SALES
3 PROGRAM WAS MISMANAGED AND ORLANDO WAS SIMPLY THE
4 TIP OF THE ICEBERG. IS THIS CHARACTERIZATION
5 CORRECT?

6
7 A. NO. THERE IS ABSOLUTELY NO EVIDENCE THAT THE ENTIRE
8 SALES PROGRAM IN FLORIDA WAS ENCOMPASSED BY THE
9 UNAUTHORIZED SALES ACTIVITY. IN FACT, THERE IS
10 ABSOLUTELY NO EVIDENCE THAT THE UNAUTHORIZED SALES
11 ACTIVITY AFFECTED THE ENTIRE SALES PROGRAM IN
12 ORLANDO. MR. POUCHER SEEMS TO HAVE CONVENIENTLY
13 FORGOTTEN THAT, EVEN AFTER AN EXHAUSTIVE
14 INVESTIGATION OF SALES PRACTICES THROUGHOUT THE
15 STATE, IT WAS FOUND THAT ONLY TWO EMPLOYEES IN
16 ORLANDO AND ONE EMPLOYEE IN WEST PALM BEACH HAD
17 ACTUALLY ENGAGED IN UNAUTHORIZED SALES.

18
19 THE COMMISSION SHOULD NOT BE MISLED BY MR. POUCHER'S
20 OVERZEALOUS ADVOCACY. THE UNAUTHORIZED SALES WERE
21 LIMITED TO THE EMPLOYEES IDENTIFIED AND TO THE
22 CUSTOMERS THEY AFFECTED.

23
24 Q. DOES MR. POUCHER ACCURATELY STATE THE TOTAL NUMBER
25 OF CUSTOMERS WHO WERE AFFECTED BY THE EMPLOYEES WHO

1 FALSIFIED SALES?

2

3 A. NO. MR. POUCHER OVERSTATES THE NUMBER OF CUSTOMERS
4 WHO WERE AFFECTED BY THE UNAUTHORIZED SALES BY MORE
5 THAN 60,000. THE FACT IS THAT A TOTAL OF 36,000
6 CUSTOMERS WERE VICTIMIZED BY ONE OF THE THREE
7 EMPLOYEES IN QUESTION. OF THE 36,000, 23,000 WERE
8 ATTRIBUTED TO THE TWO EMPLOYEES IN ORLANDO AND
9 13,000 WERE ATTRIBUTED TO THE ONE EMPLOYEE IN WEST
10 PALM BEACH. EACH OF THESE CUSTOMERS RECEIVED A FULL
11 REFUND, PLUS INTEREST.

12

13 Q. IN MR. POUCHER'S TESTIMONY IN DOCKET NO. 900960-TL
14 ON PAGES 9 AND 10, HE ASSERTS THAT SOUTHERN BELL'S
15 AUDIT OF THE NETWORK SALES PROGRAM DOCUMENTED ELEVEN
16 WEAKNESSES IN THE PROGRAM THAT FAILED TO PROTECT THE
17 CUSTOMERS FROM ABUSE. CAN YOU ADDRESS HOW THESE
18 FINDINGS RELATE TO THE FALSIFICATION OF SALES?

19

20 A. YES. OF THE ELEVEN FINDINGS, TEN RELATED TO THE
21 ADMINISTRATION OF THE AWARD PROGRAMS. FOR EXAMPLE,
22 DEFICIENCIES WERE IDENTIFIED IN AREAS SUCH AS
23 IMBALANCES IN THE AWARD BUDGET, DOCUMENT RETENTION,
24 PROCESSING OF SERVICE ORDERS, AND AWARD PLAN
25 CRITERIA. WHILE EACH OF THESE AREAS IS IMPORTANT TO

1 THE SYSTEM OF INTERNAL CONTROLS, THEY DID NOT AFFECT
2 THE EXTERNAL CUSTOMER IN TERMS OF A POTENTIAL FOR
3 FALSIFICATION OF SALES. THE MAJOR, AND OBVIOUSLY
4 MOST CRITICAL FINDING IN THE AUDIT REPORT, RELATES
5 SPECIFICALLY TO THE EMPLOYEES WHO ADDED SERVICES TO
6 CUSTOMER ACCOUNTS WITHOUT THEIR KNOWLEDGE. IN THAT
7 REGARD, THE AUDIT FINDING WAS CONSISTENT WITH THE
8 CONCLUSIONS REACHED BY OUR SECURITY DEPARTMENT IN
9 ITS INVESTIGATION OF UNAUTHORIZED SALES.

10

11 Q. IN MR. POUCHER'S TESTIMONY IN DOCKET NO. 900960-TL,
12 ON PAGE 7, HE STATES THAT DOUBLE BILLING WAS
13 UNCOVERED AS A RESULT OF THE INVESTIGATIONS THAT
14 WERE CONDUCTED INTERNALLY, AND THE COMPANY HAD TO
15 REFUND \$1.7 MILLION TO THOSE CUSTOMERS. IS THIS
16 ASSERTION CORRECT?

17

18 A. NO. HE IS CONFUSING THE BILLING RECONCILIATION
19 MENTIONED IN THE SETTLEMENT AGREEMENT WITH THE
20 RECONCILIATION CONDUCTED IN CONJUNCTION WITH THE
21 INTERNAL AUDIT. THE SETTLEMENT AGREEMENT SPECIFIED
22 THAT SOUTHERN BELL WOULD REFUND \$1.7 MILLION TO
23 SUBSCRIBERS WHO WERE "IDENTIFIED DURING THE
24 RECONCILIATION PROGRAM AS HAVING BEEN DOUBLE BILLED
25 OR OVERBILLED FOR CERTAIN OPTIONAL SERVICES AND WHO

1 RECEIVED PREVIOUSLY ONLY PARTIAL RESTITUTION." THIS
2 REFUND WAS DIRECTED TO CUSTOMERS WHO HAD NOT
3 PREVIOUSLY RECEIVED A FULL REFUND FOR CUSTOM CALLING
4 OR TOUCHTONE SERVICES IN THE INITIAL RECONCILIATION
5 PROCESS PERFORMED BY THE COMPANY, AT ITS OWN
6 INITIATIVE, FOR THE PURPOSE OF CORRECTING CUSTOMER
7 BILLING. IT DID NOT INCLUDE CUSTOMERS WHO WERE
8 MISBILLED FOR THE WIRE MAINTENANCE PLAN.

9
10 Q. IN MR. POUCHER'S TESTIMONY IN DOCKET NO. 900960-TL,
11 ON PAGE 18, HE STATES THAT THE COMPANY REFUNDED
12 ALMOST \$2 MILLION TO APPROXIMATELY 24,000 CUSTOMERS
13 WHO WERE DOUBLE BILLED. IS MR. POUCHER CORRECT?

14
15 A. NO. FIRST, IT APPEARS THAT MR. POUCHER IS TRYING TO
16 TIE IN THE RECONCILIATION OF MAINTENANCE PLANS
17 CONDUCTED DURING THE INTERNAL AUDIT TO THE \$1.7
18 MILLION THAT WAS REFUNDED IN ACCORDANCE WITH THE
19 SETTLEMENT AGREEMENT. BY DOING SO, HE CLAIMS THAT
20 THE ERRORS ARE FOR OVERBILLING AND OTHER ERRORS. AS
21 I PREVIOUSLY STATED, THESE RECONCILIATION EFFORTS
22 ARE TWO SEPARATE ISSUES. LET ME ALSO CLARIFY THAT
23 OF THE 24,000 ERRORS IDENTIFIED IN THE
24 RECONCILIATION OF INSIDE WIRE MAINTENANCE PLANS,
25 ONLY 8,000, OR 33%, REPRESENTED AN OVERBILLING

1 CONDITION WHILE THE REMAINING 16,000 OR 67%
2 REPRESENTED AN UNDERBILLING CONDITION.

3
4 Q. MR. POUCHER STATES ON PAGE 25, THAT A 1988 INTERNAL
5 AUDIT REVEALED SIGNIFICANT PROBLEMS WITH NON-CONTACT
6 SALES. CAN YOU EXPLAIN THE SCOPE OF THE 1988 AUDIT?

7
8 A. YES. THE SCOPE OF THE AUDIT COMPLETED IN MAY OF
9 1988, WAS TO EXAMINE AND EVALUATE THE INTERNAL
10 CONTROLS FOR SPECIAL SALARIES AND WAGE PAYMENTS TO
11 EMPLOYEES AND TO ENSURE THAT EMPLOYEE INCENTIVE
12 AWARD PROGRAMS WERE PROPERLY ADMINISTERED. THE
13 AUDIT WAS RATED SATISFACTORY WITH FINDINGS. AS WITH
14 THE 1990 AUDIT, THE DEFICIENCIES FOUND IN THE
15 INTERNAL CONTROLS WERE RELATED TO THE ADMINISTRATION
16 OF AWARD PROGRAMS. HOWEVER, CONTRARY TO MR.
17 POUCHER'S IMPLICATION, A REASONABLE PERSON REVIEWING
18 THIS AUDIT, COULD NOT CONCLUDE THAT THERE WAS ANY
19 EVIDENCE OR INDICATION OF SALES FRAUD.

20
21 Q. DO YOU AGREE WITH MR. POUCHER'S TESTIMONY (PAGE 16)
22 THAT "MOST CUSTOMERS ARE TOTALLY IGNORANT REGARDING
23 THE PLETHORA OF CHARGES THEY FIND ON THEIR TELEPHONE
24 BILLS AND THAT CONSUMERS SELDOM, IF EVER, READ THEIR
25 BILLS CLOSELY"?

1 A. ABSOLUTELY NOT. TO THE CONTRARY, I HAVE FOUND THAT
2 MOST CUSTOMERS READ THEIR BILLS. SERVICE
3 REPRESENTATIVES SPEAK ON A DAILY BASIS TO CUSTOMERS
4 WHO CALL US FOR EXPLANATIONS OF MONTHLY AND
5 NON-RECURRING CHARGES, WITH REQUESTS FOR INFORMATION
6 ON TOLL CHARGES THEY HAVE INCURRED, TO DISPUTE
7 CHARGES THEY HAVE NOT INCURRED, OR FOR EXPLANATIONS
8 OF TAX ASSESSMENTS. OBVIOUSLY, THERE ARE EXCEPTIONS
9 TO EVERY RULE. HOWEVER, I TOTALLY DISAGREE WITH MR.
10 POUCHER'S ASSUMPTION IN THIS REGARD.

11
12 Q. IS MR. POUCHER'S CONCLUSION THAT HIGHER MANAGEMENT
13 HAD NUMEROUS INDICATIONS OF PROBLEMS IN THE
14 NON-CONTACT SALES PROGRAMS AND THAT THE COMPANY
15 MISMANAGED ITS NON-CONTACT SALES OPERATIONS IN
16 FLORIDA?

17
18 A. NO. IN THE PAST SEVERAL YEARS, THERE HAVE BEEN
19 ISOLATED INSTANCES WHERE EMPLOYEES HAVE BEEN
20 TERMINATED FOR FALSIFYING SALES. WHILE IT IS
21 OBVIOUS FROM THE INTERNAL REVIEWS CONDUCTED BY OUR
22 COMPANY THAT BETTER PROGRAM ADMINISTRATION WAS
23 NEEDED AND THAT TIGHTER CONTROLS COULD HAVE EXISTED,
24 THE PLANS WERE ESTABLISHED ON THE REASONABLE PREMISE
25 THAT OUR EMPLOYEES WOULD ACT IN AN ETHICAL MANNER.

1 UNFORTUNATELY, A FEW OF OUR EMPLOYEES FOUND WAYS TO
2 BYPASS THE CONTROLS IN PLACE. IN ANY EVENT, THE
3 COMPANY TOOK ACTION WHEN IT BECAME AWARE OF
4 WRONGDOING AND REFUNDS WERE GIVEN TO CUSTOMERS WHO
5 HAD BEEN AFFECTED.

6

7 Q. WOULD YOU PLEASE DISCUSS THE 1985 PSC DOCKET 850116,
8 REFERENCED BY MR. POUCHER ON PAGES 4 AND 5 OF HIS
9 TESTIMONY?

10

11 A. YES. THE DOCKET CITED BY MR. POUCHER RELATES TO
12 CONTACT SALES ACTIVITIES WHERE THE COMMISSION
13 CONCLUDED THAT THERE WAS NO RULE VIOLATION BY THE
14 COMPANY. WHEN THE PERTINENT RULE WAS REVISED,
15 COMPANY PROCEDURES WERE REVISED ACCORDINGLY. THE
16 PROCEDURE THEN, AS IT IS TODAY, IS TO QUOTE
17 INDIVIDUAL PRICES FOR SERVICES DURING THE CONTACT
18 WITH THE CUSTOMER. IT WAS ALSO A REQUIREMENT THEN,
19 AS IT IS NOW, TO VERIFY OR RECAP THE ORDER WITH THE
20 CUSTOMER BEFORE ENDING THE CONTACT.

21

22 Q. MR. POUCHER FURTHER STATES ON PAGE 5, THAT THE
23 COMMISSION NOW HAS AN OPPORTUNITY TO TAKE ADDITIONAL
24 STEPS TO SAFEGUARD THE RIGHTS OF CONSUMERS. ARE
25 SUCH ADDITIONAL STEPS NEEDED?

1 A. NO. EXTENSIVE CONTROLS CURRENTLY EXIST OVER CONTACT
2 SALES ACTIVITIES. THESE CONTROLS INCLUDE: MAILING
3 OF CONFIRMATION LETTERS TO CUSTOMERS TO CONFIRM
4 SERVICES ORDERED; ITEMIZATION OF CUSTOMER BILLING ON
5 A MONTHLY BASIS; PERFORMANCE OF COMPANY INTERNAL
6 AUDITS; DELIVERY OF ETHICS TRAINING TO ALL
7 EMPLOYEES; DEVELOPMENT AND DELIVERY OF A FULL
8 DISCLOSURE TRAINING VIDEO; DISCIPLINE OF SERVICE
9 REPRESENTATIVE FOR UNETHICAL SALES BEHAVIOR IF SUCH
10 OCCURS; DEVELOPMENT OF AN ASSISTANT MANAGER WORK
11 CONTENT REDUCTION PLAN THAT IS DESIGNED TO INCREASE
12 THEIR TIME SPENT ON COACHING AND DEVELOPING SERVICE
13 REPRESENTATIVES' SKILLS; AND REVISION TO THE SERVICE
14 REPRESENTATIVE APPRAISAL PLAN.

15
16 MOREOVER, THE CONTROLS OVER MONITORING OF SERVICE
17 REPRESENTATIVE CONTACTS WITH CUSTOMERS ARE QUITE
18 EXTENSIVE AND INCLUDE:

- 19
- 20 • EVALUATIVE, DIAGNOSTIC AND SERVICE LEVEL
21 MONITORING CONDUCTED BY LOCAL MANAGEMENT.
 - 22
 - 23 • SERVICE LEVEL MONITORING CONDUCTED BY THE
24 FLORIDA CENTRALIZED OBSERVING TEAM (COT).

25

1 • SERVICE LEVEL MONITORING CONDUCTED BY THE
2 HEADQUARTERS QUALITY EFFICIENCY SKILL TEAM
3 (QUEST) .

4
5 • SERVICE LEVEL MONITORING CONDUCTED BY THE
6 FLORIDA SELF INSPECTION TEAM.

7
8 Q. DO YOU THEN AGREE WITH MR. POUCHER'S ASSERTION (SEE
9 PAGE 32, LINES 4-5) "THAT IT WOULD APPEAR THAT THE
10 COMPANY HAD ONLY MINIMAL CONTROLS IN PLACE TO ENSURE
11 THAT CUSTOMERS WERE TREATED FAIRLY AND HONESTLY"?

12
13 A. ABSOLUTELY NOT. THE CONTROLS WE HAVE HAD IN PLACE,
14 SUCH AS MONITORING, HAVE BEEN EXTREMELY EFFECTIVE IN
15 HELPING US TO FERRET OUT EMPLOYEES WHO ENGAGE IN
16 UNETHICAL BEHAVIOR. DR. BARTON WEITZ WILL FURTHER
17 ADDRESS THE EFFECTIVENESS OF OUR ABILITY TO MONITOR
18 EMPLOYEES IN HIS TESTIMONY. CONTROLS HAVE BEEN
19 ENHANCED OVER THE YEARS. AS THE BUSINESS
20 ENVIRONMENT CHANGES, SO SHOULD THE CONTROLS. THE
21 COMPANY'S INTERNAL AUDIT REPORT ON CONTACT SALES
22 ACTIVITIES STATES, "CONTROLS FOR DETECTING IMPROPER
23 SALES NEED STRENGTHENING" - IT DID NOT STATE, "THERE
24 WERE MINIMAL CONTROLS IN PLACE."

25

1 Q. CAN YOU ADDRESS MR. POUCHER'S CONCLUSION ON PAGE 33
2 THAT THERE IS LITTLE OR NO DOCUMENTATION IN THE OLD
3 PRACTICES TO INDICATE THAT THE COMPANY SET A HIGH
4 PRIORITY ON ETHICAL, HONEST DEALINGS WITH ITS
5 CUSTOMERS?

6
7 A. YES. MR. POUCHER IS REFERRING TO THE BELLSOUTH
8 PRACTICE (SEE MR. POUCHER'S EXHIBIT REP-19, PAGES
9 1-34) WHICH WAS PREVIOUSLY USED TO ASSIST FIELD
10 MANAGEMENT IN CONDUCTING EVALUATIVE OBSERVATIONS
11 WITH THEIR SERVICE REPRESENTATIVES. THE PRACTICE
12 PROVIDED GUIDELINES FOR MEASURING THE PERFORMANCE OF
13 SERVICE REPRESENTATIVES WHO INTERACTED WITH
14 CUSTOMERS. THE PRACTICE ALSO PROVIDED GUIDELINES TO
15 ASSIST SERVICE REPRESENTATIVES IN THE DEVELOPMENT OF
16 THE SKILLS NEEDED TO ACHIEVE CUSTOMER SATISFACTION.
17 BY DEFINING ACCEPTABLE BEHAVIOR AND BY FOSTERING AN
18 EMPLOYEE FOCUS ON CUSTOMER SATISFACTION, THIS
19 PRACTICE, LIKE ALL SOUTHERN BELL PRACTICES,
20 CONTRIBUTE TO AN ETHICAL APPROACH TOWARD CUSTOMER
21 SERVICE.

22
23 Q. DO YOU AGREE WITH MR. POUCHER'S OPINION THAT THE
24 COMPANY'S PERSONAL RESPONSIBILITY BOOKLET WHICH
25 STATES BELLSOUTH'S CODE OF CONDUCT IS "SIMPLY

1 PAPERWORK"?

2

3 A. NO. EMPLOYEES WORKING FOR THIS COMPANY ARE EXPECTED
4 TO EXHIBIT ETHICAL BEHAVIOR. THIS IS REINFORCED NOT
5 ONLY BY THE NEWLY IMPLEMENTED ETHICS TRAINING, BUT
6 ALSO BY THE PERSONAL RESPONSIBILITY BOOKLET. AS
7 EMPLOYEES, WE TAKE THE ISSUE OF ETHICS VERY
8 SERIOUSLY. AS A MANAGER, I ALSO EXPECT ALL 90 OF MY
9 MANAGEMENT AND CRAFT EMPLOYEES TO TAKE THIS ISSUE
10 VERY SERIOUSLY. MR. POUCHER APPARENTLY BELIEVES
11 THAT BECAUSE THE BOOKLET IS THE "SAME OLD FORM THE
12 COMPANY HAS PASSED OUT FOR YEARS," IT IS NOT SOMEHOW
13 MEANINGFUL. HE IS WRONG. EVEN THOUGH OUR BUSINESS
14 PROCESSES HAVE CHANGED THROUGHOUT THE YEARS, THE
15 EXPECTATION FOR ALL EMPLOYEES TO EXHIBIT ETHICAL
16 BEHAVIOR HAS NOT.

17

18 Q. MR. POUCHER STATES ON PAGE 37 AND 38 THAT LONG AFTER
19 THE COMPLETION OF THE 1990 INTERNAL AUDIT, THE
20 ADVERSE FINDINGS IN THE 1991 AUDIT PROVIDE PROOF
21 THAT, EVEN AFTER THE INTERNAL INVESTIGATION INTO
22 SALES, THE COMPANY DID NOT "CLEAN UP ITS ACT." CAN
23 YOU ADDRESS THIS?

24

25 A. YES. MR. POUCHER APPEARS TO INSINUATE THAT THE

1 COMPANY RECOGNIZED THE EXISTENCE OF A SALES PROBLEM,
2 BUT DID NOTHING TO SOLVE THE PROBLEM FOR AN ENTIRE
3 YEAR. TO SET THE RECORD STRAIGHT, THE NON-CONTACT
4 SALES AUDIT WAS COMPLETED IN DECEMBER OF 1990, AND
5 WAS RELEASED TO THE DEPARTMENTS IN FEBRUARY OF 1991.
6 THE CONTACT SALES AUDIT WAS COMPLETED IN SEPTEMBER
7 OF 1991, AND WAS RELEASED TO THE DEPARTMENTS IN
8 OCTOBER OF 1991. NON-CONTACT AND CONTACT SALES ARE
9 TWO COMPLETELY DIFFERENT PROCESSES AND CANNOT BE
10 COMPARED AS MR. POUCHER IS TRYING TO DO. THE
11 UNAUTHORIZED SALES OCCURRED IN THE NON-CONTACT SALES
12 PROGRAM, WHICH WAS ELIMINATED IN JULY OF 1991. THE
13 COMPANY ACTED PROMPTLY TO CORRECT ANY AND ALL
14 PROBLEMS THAT WERE IDENTIFIED.

15
16 Q. LET'S DISCUSS THE CONTACT SALES AUDIT. DID MR.
17 POUCHER ACCURATELY PORTRAY THE FACTS SET FORTH IN
18 THIS AUDIT?

19
20 A. NO. MR. POUCHER MISREPRESENTS THE FACTS IN THIS
21 AUDIT BY INFLATING THE PERCENTAGE OF ERRORS (SEE
22 PAGE 38, LINES 7-14) FOR SERVICE REPRESENTATIVES WHO
23 WERE FOUND TO HAVE ADDED SERVICES TO CUSTOMER
24 RECORDS WITHOUT THEIR PERMISSION. THE AUDIT FOUND
25 THAT 6% OF THE SERVICE REPRESENTATIVES OBSERVED

1 ADDED SERVICES WITHOUT NEGOTIATING WITH CUSTOMERS.
2 MR. POUCHER USES A FIGURE OF 9% OR 17% AND HE
3 EXTRAPOLATES THIS TO THE NUMBER OF CONTACTS TAKEN BY
4 SERVICE REPRESENTATIVES ANNUALLY. NOT ONLY DOES HE
5 USE AN INCORRECT PERCENTAGE, HE ALSO APPLIES IT TO
6 WHAT HE DESCRIBES AS OUR ANNUAL NUMBER OF CONTACTS.
7 THIS NUMBER IS NOT ACCURATE. IN ORDER TO PLACE
8 THESE NUMBERS IN THE CORRECT PERSPECTIVE, IT WOULD
9 BE APPROPRIATE TO COMPARE THE 6% TO THE TOTAL NUMBER
10 OF SERVICE REPRESENTATIVES, NOT CONTACTS. CLEARLY,
11 THE SERVICE REPRESENTATIVES INVOLVED DID NOT ADD
12 SERVICES WITHOUT NEGOTIATING WITH CUSTOMERS ON ALL
13 OBSERVED CONTACTS. THEREFORE, MR. POUCHER'S
14 CONCLUSION IS INCORRECT.

15
16 IN ADDITION, MR. POUCHER MISSTATED OTHER FACTS. HIS
17 INTENTION APPEARS TO BE TO INFLATE THE NUMBER OF
18 OCCURRENCES OF ETHICS VIOLATIONS. FOR EXAMPLE, ON
19 PAGE 38, WHEN DISCUSSING SERVICE REPRESENTATIVES WHO
20 USED QUESTIONABLE TECHNIQUES, HE STATES ON LINES 3-4
21 THAT THESE DEVIATIONS INCLUDED ETHICS VIOLATIONS,
22 SUCH AS TAKING ADVANTAGE OF CUSTOMERS WHO DID NOT
23 UNDERSTAND OR WHO HAD LANGUAGE BARRIERS. REFERRING
24 TO MR. POUCHER'S EXHIBIT REP-23, THERE WAS ONLY ONE
25 INSTANCE NOTED WHERE THERE APPEARED TO BE A LANGUAGE

1 BARRIER BETWEEN THE CUSTOMER AND THE SERVICE
2 REPRESENTATIVE. FURTHERMORE, ADDITIONAL
3 INVESTIGATION WOULD BE REQUIRED BEFORE CONCLUDING
4 THAT THIS OR ANY OF THE OTHER ERRORS WERE ETHICAL
5 VIOLATIONS. THE SECOND EXAMPLE CAN BE FOUND ON PAGE
6 38, LINE 9 WHERE MR. POUCHER INDICATES THAT SERVICE
7 REPRESENTATIVES WHO DEVIATED FROM PROCEDURES (SEE
8 EXHIBIT REP-24) FAILED TO GAIN THE CUSTOMER'S
9 CONSENT TO INCLUDE SERVICES SUCH AS WIRE MAINTENANCE
10 ON THE ORDER. AGAIN, ADDITIONAL INVESTIGATION WOULD
11 BE REQUIRED BEFORE CONCLUDING THAT ETHICAL
12 VIOLATIONS OCCURRED.

13
14 Q. IN MR. POUCHER'S TESTIMONY ON PAGE 40, HE STATES
15 THAT OF THE 5 MILLION CUSTOMER CONTACTS HANDLED
16 YEARLY BY SERVICE REPRESENTATIVES IN FLORIDA, "MANY
17 OF THESE CUSTOMERS HAVE LANGUAGE DIFFICULTIES, OR
18 ARE DISADVANTAGED. IF THE COMPANY IS ONLY
19 INTERESTED IN ITS REVENUES, THEN THESE ARE THE
20 PEOPLE WHO ARE PRIME TARGETS OF OVER-AGGRESSIVE
21 SALES PROGRAMS." IS THIS AN ACCURATE ACCOUNT?

22
23 A. NO. FIRST, THERE IS NO BASIS FOR STATING THAT MANY
24 OF OUR CUSTOMERS HAVE LANGUAGE DIFFICULTIES.
25 SECOND, SOUTHERN BELL HAS PROCEDURES IN PLACE TO

1 DEAL WITH SUCH CUSTOMERS. IN THE SOUTHERN PART OF
2 THE STATE, WHERE THERE IS A HIGH NUMBER OF HISPANIC
3 CUSTOMERS, WE HAVE AN OFFICE OF BILINGUAL SERVICE
4 REPRESENTATIVES WHO ARE AVAILABLE TO SPEAK TO THEM
5 IN SPANISH. IN ADDITION, PLANS ARE UNDERWAY TO
6 EXPAND THIS CENTER TO ACCOMMODATE CUSTOMERS WHO
7 SPEAK OTHER LANGUAGES.

8

9 Q. ARE SERVICE REPRESENTATIVES REQUIRED TO BRIDGE ON
10 EVERY CONTACT?

11

12 A. NO. A "BRIDGE" IS ASKING THE CUSTOMER FOR
13 PERMISSION TO ASK A FEW QUESTIONS, WHILE YOU HAVE
14 THEM ON THE LINE. BOTH MR. POUCHER AND DR. COOPER
15 STATE IN THEIR TESTIMONY THAT SERVICE
16 REPRESENTATIVES ARE REQUIRED TO BRIDGE ON EVERY
17 CONTACT. THE FACT IS THAT SERVICE REPRESENTATIVES
18 ARE EXPECTED TO BRIDGE AT EVERY OPPORTUNITY.
19 OPPORTUNITIES ARE PRESENT ON MOST TYPES OF CALLS BUT
20 NOT ALL. THE RESIDENCE SEGMENTATION TRAINING
21 MATERIAL STATES (SEE DR. COOPER'S EXHIBIT MNC 27 OF
22 33) "NO OPPORTUNITY EXISTS ON THE FOLLOWING CALLS IN
23 MOST CASES: IRATE CUSTOMERS, DENIED ACCOUNTS, AND
24 DISCONNECTED SERVICE." DR. COOPER FAILS TO QUOTE
25 THE FOLLOWING FROM THE SAME PAGE: "INDIVIDUAL

1 JUDGMENT MUST BE USED TO DETERMINE THE ADVISABILITY
2 ON THESE CALLS: MISDIRECTED CALLS, ANNOYANCE CALLS,
3 UNSATISFIED IRATE CUSTOMERS, AND INQUIRIES
4 CONCERNING SUSPEND VS. DISCONNECTION OF SERVICE."

5
6 THE KEY WORD IS JUDGMENT. BRIDGING BEGINS AFTER THE
7 CUSTOMER'S INITIAL REQUEST IS HANDLED. IF, FOR SOME
8 REASON, THE CUSTOMER IS NOT SATISFIED OR DOES NOT
9 WANT TO ENGAGE IN FURTHER DISCUSSION, THE SERVICE
10 REPRESENTATIVE IS NOT REQUIRED TO PROCEED. IF A
11 CUSTOMER SAYS YES, WE WILL EXPLAIN MORE ABOUT OUR
12 PRODUCTS. PROVIDING THIS INFORMATION TO OUR
13 CUSTOMERS IS GOOD CUSTOMER SERVICE. DR. BARTON
14 WEITZ ALSO ADDRESSES BRIDGING CONCEPTS IN HIS
15 TESTIMONY.

16

17 Q. DO YOU AGREE WITH DR. COOPER'S OVERALL OPINIONS
18 RELATIVE TO THE COMPANY'S SALES TRAINING PROGRAM?

19

20 A. NO. I DO NOT AGREE THAT THE PUBLIC HAS BEEN
21 PRESSURED, MANIPULATED AND DECEIVED INTO
22 OVERCONSUMING OPTIONAL SERVICES (PAGE 4, LINES
23 21-23) OR THAT THE CUSTOMER DOES NOT INTEND TO MAKE
24 A PURCHASE FROM US WHEN THEY CALL US (PAGE 10, LINES
25 5-6). CUSTOMERS TODAY ARE QUITE SOPHISTICATED WITH

1 REGARD TO TECHNOLOGY AND THEIR COMMUNICATIONS NEEDS.
2 THEY DO NOT JUST CALL US FOR THE BASIC SERVICE, BUT
3 MANY HAVE QUESTIONS ABOUT THE AVAILABILITY OF OTHER
4 SERVICES. CUSTOMERS SHOULD BE GIVEN THE OPPORTUNITY
5 TO PURCHASE OPTIONAL SERVICES.

6

7 Q. DR. COOPER STATES ON PAGE 10 THAT THE SERVICE
8 REPRESENTATIVE SHOULD ASK THE CUSTOMER IF HE OR SHE
9 WANTS A DESCRIPTION OF THE SERVICES EITHER VERBALLY
10 OR IN WRITING AND THAT THERE SHOULD BE A 60 DAY
11 GRACE PERIOD FOR THESE PURCHASES. IS THIS
12 REASONABLE?

13

14 A. WE ALREADY GIVE CUSTOMERS A COMPLETE DESCRIPTION OF
15 SERVICES VERBALLY BEFORE THEY MAKE A PURCHASE
16 DECISION. DR. COOPER IS UNCLEAR REGARDING HIS
17 STATEMENT THAT THERE SHOULD BE A 60 DAY WAITING
18 PERIOD. DOES THIS MEAN THAT THE CUSTOMER HAS TO
19 WAIT 60 DAYS TO RECEIVE THE SERVICE THEY PURCHASE?
20 IF SO, DR. COOPER'S PLAN IS NOT REALISTIC.
21 CUSTOMERS WILL NOT WANT TO WAIT 60 DAYS BEFORE THEY
22 CAN USE A SERVICE. CUSTOMERS WANT US TO HANDLE
23 THEIR REQUESTS AS SOON AS POSSIBLE AND BE ABLE TO
24 CONNECT THEIR SERVICE ON THE SAME DAY. DOES THE 60
25 DAY GRACE PERIOD MEAN THAT THE CUSTOMER CAN TRY IT

1 FOR 60 DAYS AND CANCEL WITHOUT A CHARGE? IF SO, THE
2 CUSTOMER CAN CANCEL TODAY AT ANY TIME WITHOUT A
3 NON-RECURRING CHARGE FOR REMOVAL. THEY ARE,
4 HOWEVER, BILLED FOR THE MONTHLY SERVICE THEY INCUR.
5 IF DR. COOPER IS SUGGESTING THAT THE CUSTOMER CAN
6 CALL BACK WITHIN 60 DAYS AND REMOVE THE SERVICE AND
7 PAY NO MONTHLY CHARGES, THAT IS NOT REALISTIC.

8

9 Q. ON PAGE 11 OF HIS TESTIMONY, DR. COOPER STATES "THE
10 SALES REPRESENTATIVE DRAGS THE CUSTOMER THROUGH A
11 LONG SERIES OF QUESTIONS." IS THIS TRUE?

12

13 A. NO. THE COMPANY'S TRAINING MANUALS LIST ONLY FIVE
14 SUGGESTED QUESTIONS THAT SERVICE REPRESENTATIVES
15 SHOULD USE TO "DISCOVER" ENOUGH CUSTOMER INFORMATION
16 TO BE ABLE TO IDENTIFY THE NEED FOR ADDITIONAL
17 SERVICES. (SEE DR. COOPER'S TESTIMONY PAGE 32,
18 LINES 22-25 AND PAGE 33, LINES 1-4). IN SOME
19 INSTANCES, THE INFORMATION MAY BE OBTAINED WITHOUT
20 ASKING ANY ADDITIONAL QUESTIONS DURING THE NORMAL
21 CONTACT CONVERSATION. BUT IDENTIFYING THIS PROCESS
22 AS ONE THAT IS "LONG" IS NOT CORRECT. AS DR. WEITZ
23 STATED IN HIS TESTIMONY, IT TAKES THE SERVICE
24 REPRESENTATIVE ABOUT TWO TO THREE MINUTES TO WORK
25 THROUGH THIS PROCESS.

1 DR. COOPER ALSO STATES ON PAGE 37 THAT THE CUSTOMER
2 "NEEDS" TO WRAP-UP THE TRANSACTION WITH US QUICKLY
3 AND THAT THEY DO NOT EXPECT ADDITIONAL SERVICES.
4 HOWEVER, STUDIES CONDUCTED BY EXTERNAL COMPANIES FOR
5 BELLSOUTH HAVE REVEALED THAT CUSTOMERS DO NOT OBJECT
6 TO THE PRACTICE OF OUR SERVICE REPRESENTATIVES
7 GATHERING INFORMATION ABOUT THEIR HOUSEHOLD FOR USE
8 IN ALERTING THEM ABOUT SPECIALTY SERVICES. AS
9 CONSUMERS, WE ARE EXPOSED TO A MYRIAD OF ATTEMPTS TO
10 TELL US ABOUT PRODUCTS AND SERVICES THAT BUSINESSES
11 HAVE TO OFFER. THIS IS AN EDUCATIONAL PROCESS WHICH
12 AFFORDS THE CONSUMER AN OPPORTUNITY TO MAKE A
13 "BUYING" DECISION.

14
15 Q. DO YOU AGREE WITH DR. COOPER'S STATEMENTS ON PAGES
16 41 AND 42 THAT THE COMPANY EXPLOITS ITS POWER BY
17 "PACKAGE SELLING" AND THAT SALES REPRESENTATIVES ARE
18 INSTRUCTED TO PRESENT ONLY SERVICES IN PACKAGES AND
19 TO RESIST UNBUNDLING THEM?

20
21 A. NO. SERVICE REPRESENTATIVES ARE TRAINED TO IDENTIFY
22 NEEDS AND PRESENT RECOMMENDATIONS FOR SERVICES BASED
23 ON THOSE NEEDS. THE SEGMENTATION TRAINING IS A
24 "TOOL" WHICH, IF USED IN CONJUNCTION WITH NEEDS
25 BASED SELLING SKILLS, SUCH AS THOSE TAUGHT IN

1 CUSTOMER CENTERED SALES AND SERVICE, CAN HELP THE
2 SERVICE REPRESENTATIVES FOCUS MORE QUICKLY ON
3 SERVICES THE CUSTOMER IS MORE LIKELY TO PURCHASE.
4 THE DISCOVERY QUESTIONS MUST BE POSED TO THE
5 CUSTOMER BEFORE RECOMMENDING SERVICES AND THE
6 INFORMATION GAINED THROUGH THIS DISCOVERY PROCESS IS
7 USED TO SUPPORT THE RECOMMENDATION. SERVICE
8 REPRESENTATIVES ARE NEITHER TRAINED TO SELL PACKAGES
9 NOR TO RESIST UNBUNDLING.

10

11 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

12

13 A. YES.

14

15

16

17

18

19

20

21

22

23

24

25

1 BELLSOUTH TELECOMMUNICATIONS, INC.
2 REBUTTAL TESTIMONY OF NANCY H. SIMS
3 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
4 DOCKET NO. 920260-TL
5 DECEMBER 10, 1993
6
7

8 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

9

10 A. I AM NANCY H. SIMS. MY BUSINESS ADDRESS IS 675
11 WEST PEACHTREE STREET, N.E., ATLANTA, GEORGIA.

12

13 Q. BY WHOM ARE YOU EMPLOYED?

14

15 A. I AM EMPLOYED BY BELLSOUTH TELECOMMUNICATIONS, INC.
16 D/B/A SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY
17 (COMPANY OR SOUTHERN BELL).

18

19 Q. ARE YOU THE SAME NANCY H. SIMS THAT PREFILED DIRECT
20 TESTIMONY IN THIS DOCKET?

21

22 A. YES, I AM.

23

24 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

25

1 A. THE PURPOSE OF MY TESTIMONY IS TWO-FOLD. THE FIRST
2 PART OF MY TESTIMONY IS DEVOTED TO THE REBUTTAL OF
3 STATEMENTS MADE BY DON WOOD, JOSEPH GILLAN, DOUGLAS
4 METCALF, MIKE GUEDEL, FRED ROCK, HARRY GILDEA AND
5 DAVID DISMUKES PERTAINING TO SOUTHERN BELL'S
6 PROPOSED RATE CHANGES. IT SHOULD BE NOTED THAT
7 MOST OF THE CONCERNS RAISED BY THESE INTERVENORS
8 ARE THE SAME ONES THAT I ADDRESSED PREVIOUSLY IN
9 THIS DOCKET.

10

11 SECOND, SINCE THE ISSUES IN THIS DOCKET WERE
12 DETERMINED AFTER SOUTHERN BELL'S DIRECT TESTIMONY
13 WAS FILED, THERE ARE SOME ISSUES THAT HAVE NOT BEEN
14 ADDRESSED BY SOUTHERN BELL WHICH FALL WITHIN MY
15 AREA OF RESPONSIBILITY. SPECIFICALLY, I WILL
16 PROVIDE THE COMPANY'S POSITION ON ISSUE NUMBERS 27,
17 27A, 28B, 28C, 30B, 30C, 30D, 32A, 33B, 33C, 33D,
18 35, 37, 38A, AND 38B.

19

20

21 PART ONE: REBUTTAL

22

23 Q. PLEASE REFER TO PAGES 14 THROUGH 17 OF MR. WOOD'S
24 TESTIMONY. HE CITES EXPERIENCES WITH A PLAN IN
25 ANOTHER STATE (LOUISIANA) TO CONCLUDE THAT THE

1 IMPOSITION OF USAGE CHARGES ON CALLS DIALED WITH
2 SEVEN DIGITS CREATES CUSTOMER CONFUSION. COULD YOU
3 COMMENT ON THIS?

4
5 A. I STRONGLY DISAGREE WITH MR. WOOD'S CONCLUSION.
6 FIRST, CUSTOMERS CURRENTLY SUBSCRIBING TO OUR LOCAL
7 MESSAGE OR MEASURED RATE SERVICE INCUR USAGE
8 CHARGES EVERY TIME THEY DIAL A LOCAL CALL. THESE
9 CUSTOMERS KNOW THAT THERE IS A CHARGE ASSOCIATED
10 WITH EVERY SEVEN-DIGIT DIALED CALL THEY MAKE AND
11 THEY EXPERIENCE NO CONFUSION.

12
13 SECONDLY, MR. WOOD IS STILL MAKING THE SAME
14 ARGUMENTS REGARDING LOUISIANA AS HE DID BEFORE.
15 ONCE AGAIN HE IGNORES THE FACT THAT, UNLIKE THE
16 PROPOSED OPTIONAL ELS PLAN, THE SPECIFIC PLAN HE
17 MENTIONS APPLIED TO ALL CUSTOMERS, ON ALL CALLS
18 DIALED WITHIN A CERTAIN DISTANCE. IN OTHER WORDS,
19 THE "SIMILAR" LOUISIANA PLAN IS NOT SIMILAR AT ALL
20 TO THE OPTIONAL ELS PLAN. THE LOUISIANA PLAN WAS
21 ACTUALLY MORE SIMILAR TO THE "EXTENDED CALLING
22 SERVICE" (ECS) PLAN CURRENTLY IN EFFECT IN THE
23 TAMPA BAY AREA IN GENERAL TELEPHONE'S SERVICE
24 TERRITORY, AND TO THE \$.25 PLAN VERSIONS (I.E.,
25 LOCAL CALLING PLUS OR ECS) THAT HAVE BEEN

1 IMPLEMENTED ON A NUMBER OF ROUTES IN SOUTHERN BELL
2 TERRITORY. AGAIN, THE PLAN REFERRED TO BY MR. WOOD
3 WAS MANDATORY FOR ALL CUSTOMERS; THE ELS PLAN IS
4 NOT. AN INDIVIDUAL WILL SUBSCRIBE TO THE ELS PLAN
5 BECAUSE SHE KNOWS WHAT CALLS HAVE BEEN TOLL AND
6 BECAUSE SHE PERCEIVES A BENEFIT FROM THE NEW RATES
7 FOR THOSE CALLS. THOSE WHO DO NOT SUBSCRIBE TO THE
8 ELS PLAN WILL SEE NO CHANGE IN THEIR DIALING OR
9 CHARGES FOR LONG DISTANCE SERVICE.
10
11 I MIGHT ADD THAT THERE ARE TWO OPTIONAL PLANS IN
12 EFFECT TODAY IN BELLSOUTH'S LOUISIANA SERVICE
13 TERRITORY WHICH IMPOSE USAGE CHARGES ON SEVEN-DIGIT
14 DIALED CALLS TO AN EXPANDED LOCAL CALLING AREA.
15 OTHER BELLSOUTH OPTIONAL EXPANDED LOCAL CALLING
16 PLANS WHICH IMPOSE USAGE CHARGES ON SEVEN-DIGIT
17 DIALED EXPANDED LOCAL CALLS ARE AVAILABLE IN
18 GEORGIA, ALABAMA, MISSISSIPPI, KENTUCKY AND
19 TENNESSEE. ANOTHER PLAN HAS RECENTLY BEEN APPROVED
20 IN SOUTH CAROLINA. THESE PLANS HAVE NOT CAUSED
21 CUSTOMER CONFUSION. IT SIMPLY IS NOT CORRECT TO
22 ASSUME THAT THE IMPOSITION OF USAGE CHARGES ON
23 SEVEN-DIGIT DIALED CALLS CAUSES CUSTOMER CONFUSION
24 OR INCONVENIENCE.
25

1 Q. ON PAGES 16 AND 17 OF HIS TESTIMONY, MR. WOOD ALSO
2 COMMENTED ON LOUISIANA BUSINESS CUSTOMER COMPLAINTS
3 RESULTING FROM EXTENDED SEVEN-DIGIT DIALING WHICH
4 "RENDERED INEFFECTIVE THEIR BILLING CONTROL, COST
5 CONTAINMENT, AND ANTI-FRAUD SYSTEMS." HE CONCLUDED
6 THAT THE SAME WOULD HAPPEN IN FLORIDA WITH THE ELS
7 PLAN. AD-HOC WITNESS MR. METCALF EXPRESSES SIMILAR
8 CONCERNS. COULD YOU ALSO COMMENT ON THIS?

9
10 A. YES. IT IS EVIDENT THAT MR. WOOD AND MR. METCALF
11 HAVE NOT REVISED THEIR TESTIMONY TO KEEP UP WITH
12 CURRENT EVENTS. MR. WOOD AGAIN ALLUDES TO THE
13 NON-OPTIONAL LOUISIANA PLAN AND THE YEAR 1991. WE
14 ARE NOW IN 1993 DISCUSSING AN OPTIONAL PLAN IN
15 FLORIDA.

16
17 ELS IS AN OPTIONAL TARIFF, THEREFORE, THE CUSTOMER
18 DOES NOT HAVE TO SUBSCRIBE TO THE PLAN IF IT DOES
19 NOT MEET HIS CALLING NEEDS. EVEN THOUGH IT HAS
20 BEEN OUR EXPERIENCE THAT THERE IS LITTLE IF ANY
21 DEMAND FOR OUTDIALING RESTRICTIONS ON AN OPTIONAL
22 EXPANDED LOCAL CALLING PLAN, WE NOW HAVE THE
23 CAPABILITY TO MEET THE OPTIONAL ELS CUSTOMER'S
24 NEEDS IF WARRANTED.

25

1 WE EXPECT THAT MOST CUSTOMERS SUBSCRIBING TO ELS
2 WILL WANT TO BENEFIT FROM THE LOWER RATES FOR CALLS
3 INTO THE EXPANDED AREA. THEREFORE, WE EXPECT
4 LITTLE OR NO MARKET DEMAND FOR THE CONTROL OF FRAUD
5 BY RESTRICTING OUTDIALING USING CUSTOMIZED CODE
6 RESTRICTION (CCR) ON ELS. HOWEVER, WE DO INTEND TO
7 SATISFY MARKET NEEDS AS THEY DEVELOP AND WOULD
8 OFFER CCR, EITHER ON A SPECIAL ASSEMBLY BASIS OR AS
9 A GENERAL TARIFF OFFERING, IF FLORIDA ELS CUSTOMERS
10 REQUEST IT. WE ALSO EXPECT TO OFFER LOCAL USAGE
11 DETAIL (LUD) TO ELS CUSTOMERS WHEN THE ELS TARIFF
12 IS APPROVED.

13

14 TO UPDATE MR. WOOD AND MR. METCALF, IN JUNE OF THIS
15 YEAR, WE AMENDED OUR FLORIDA CCR TARIFF TO PROVIDE
16 NON-OPTIONAL \$.25 PLAN CUSTOMERS WITH THE SAME CALL
17 CONTROL CAPABILITIES THEY ENJOYED BEFORE THOSE TOLL
18 ROUTES WERE CONVERTED TO EXTENDED SEVEN-DIGIT LOCAL
19 DIALING. IN SECOND QUARTER 1994, WE ALSO PLAN TO
20 FILE A LUD TARIFF FOR \$.25 PLAN CUSTOMERS WHICH
21 WILL PROVIDE THEM WITH THE SAME TYPE OF CALL DETAIL
22 INFORMATION THEY NOW GET WITH THEIR LONG DISTANCE
23 BILL.

24

25 Q. ON PAGES 6 THROUGH 7 OF MR. WOOD'S TESTIMONY, HE

1 EQUATES FLAT RATE SERVICE WITH LOCAL SERVICE AND
2 USAGE CHARGES WITH LONG DISTANCE SERVICE. IS IT
3 CORRECT TO ASSUME THAT CUSTOMERS ALWAYS EXPECT
4 LOCAL SERVICE FOR A FLAT MONTHLY CHARGE?

5
6 A. NO. AS I MENTIONED EARLIER, THERE ARE A NUMBER OF
7 ALTERNATIVES TO FLAT RATE SERVICE AVAILABLE TO
8 CUSTOMERS FOR THEIR LOCAL CALLING. MESSAGE RATE
9 SERVICE HAS BEEN AVAILABLE TO BUSINESS CUSTOMERS IN
10 THE STATE OF FLORIDA FOR A NUMBER OF YEARS AND TO
11 RESIDENCE CUSTOMERS SINCE OCTOBER 1991. MEASURED
12 SERVICE, WHICH CHARGES FOR LOCAL USAGE IN A SIMILAR
13 MANNER AS MESSAGE TOLL SERVICE (MTS), HAS ALSO BEEN
14 AVAILABLE FOR MANY YEARS IN A NUMBER OF EXCHANGES.

15
16 ADDITIONALLY, MOST OF THE OPTIONAL EXTENDED AREA
17 SERVICE PLANS FOUND IN THE "BASIC LOCAL EXCHANGE
18 SERVICE" SECTION A3. OF SOUTHERN BELL'S FLORIDA
19 G.S.S.T. CHARGE FOR LOCAL USAGE TO CERTAIN
20 SPECIFIED EXCHANGES ON A MEASURED OR USAGE
21 SENSITIVE BASIS. EXAMPLES ARE TOLL PAC, BASIC
22 OPTIONAL EXTENDED AREA SERVICE (OEAS) AND THE
23 DISCOUNT OPTION OF ENHANCED OEAS.

24
25 Q. ON PAGE 11 OF HIS TESTIMONY MR. WOOD STATES THAT

1 THE ELS PLAN "IS SIGNIFICANTLY MORE COMPLEX THAN
2 THE LOCAL AND TOLL SERVICE ARRANGEMENTS THAT MOST
3 CUSTOMERS RECEIVE TODAY." DO YOU AGREE?

4
5 A. I MUST DISAGREE ONCE AGAIN WITH MR. WOOD. THIS IS
6 ACTUALLY A CUSTOMER FRIENDLY PLAN. FOR INSTANCE,
7 PROVISIONS UNDER THE PROPOSED ELS TARIFF ALLOW
8 CUSTOMERS TO SWITCH BACK AND FORTH BETWEEN FLAT
9 RATE SERVICE AND ELS AT NO CHARGE. IT WOULD BE
10 VERY EASY AND INEXPENSIVE FOR CUSTOMERS TO TRY ELS
11 FOR A PERIOD OF A FEW MONTHS, AND TO COMPARE THEIR
12 BILLS FOR ELS WITH BILLS FOR THEIR FORMER LOCAL AND
13 TOLL SERVICE. THEREFORE, THERE IS NO MERIT IN MR.
14 WOOD'S ARGUMENT THAT CUSTOMERS WOULD NEED TO KNOW,
15 IN ADVANCE, INFORMATION ON THEIR ANTICIPATED
16 CALLING PATTERNS TO DETERMINE IF THEY ARE LIKELY TO
17 BENEFIT UNDER THE ELS PLAN.

18
19 MR. WOOD ADDS THAT THE PLAN IS FURTHER COMPLICATED
20 BECAUSE THE USAGE CAPS AND USAGE DISCOUNT OPTIONS
21 ONLY APPLY WITHIN THE BASIC CALLING AREA AND NOT
22 THE EXPANDED CALLING AREA. IN MY OPINION, THE
23 USAGE CAPS ACTUALLY ADD AN ELEMENT OF PROTECTION TO
24 CUSTOMERS IN THAT THE CHARGES FOR CALLS WITHIN THE
25 BASIC LOCAL CALLING AREA WILL BE CAPPED AT A

1 RELATIVELY LOW LEVEL. THIS IS A FEATURE WHICH IS
2 NOT AVAILABLE, FOR EXAMPLE, WITH MESSAGE RATE
3 SERVICE.
4
5 WHEN CUSTOMERS SELECT FLAT RATE SERVICE TODAY THEIR
6 CALLS TO THE BASIC LOCAL CALLING AREA ARE
7 EFFECTIVELY CAPPED AT THE FLAT MONTHLY RATE. THESE
8 ARE THE SAME CALLS CAPPED BY THE PROPOSED ELS PLAN.
9 TOLL SERVICE IS NOT OFFERED ON A FLAT RATE OR
10 CAPPED BASIS AND, WITH THE EXCEPTION OF THE PREMIUM
11 OPTION FOR RESIDENCE, NEITHER ARE THE USAGE CHARGES
12 FOR EXPANDED (FORMERLY TOLL) CALLS. THUS, THERE
13 ARE MANY SIMILARITIES BETWEEN EXISTING LOCAL/TOLL
14 ARRANGEMENTS AND ELS.
15
16 ADDITIONALLY, CHARGES FOR TOLL OR LONG DISTANCE
17 SERVICE PROVIDED BY SOUTHERN BELL, AND I SUSPECT BY
18 MOST INTEREXCHANGE CARRIERS (IXC'S), DEPEND ON CALL
19 DURATION, MILEAGE, FREQUENCY, TIME OF DAY, AND
20 SOMETIMES VOLUME. IN CONTRAST, THE ELS PLAN IS
21 MUCH SIMPLER SINCE IT ELIMINATES TIME OF DAY
22 DISCOUNTS AND ALL MILEAGE BANDS IN THE EXPANDED
23 LOCAL CALLING AREA. ALL ELS PLAN USAGE FOR CALLS
24 TO THE 40 MILE EXPANDED LOCAL CALLING AREA IS RATED
25 AT \$.08 PER MINUTE REGARDLESS OF TIME OF DAY OR

1 DISTANCE.

2

3 IT IS HARD TO UNDERSTAND HOW MCI CAN ARGUE THAT THE
4 ELS PLAN IS MORE COMPLEX THAN EXISTING ARRANGEMENTS
5 FOR LOCAL AND TOLL SERVICE. MCI'S CUSTOMERS HAVE
6 TO KNOW THE SPECIFIC CHARACTERISTICS OF THEIR
7 INDIVIDUAL LONG DISTANCE PLANS, INCLUDING CHARGES
8 FOR CALL DURATION, MILEAGE, FREQUENCY, TIME OF DAY,
9 ETC. IN ORDER TO DETERMINE WHAT THEIR BILLS WILL BE
10 AT THE END OF THE MONTH. MCI ALSO OFFERS SEVERAL
11 DIFFERENT DISCOUNT PLANS INCLUDING CALL DISCOUNTS
12 TO THEIR CUSTOMERS WHEN THEY CALL OTHER MCI
13 CUSTOMERS. THEREFORE, MCI'S CUSTOMERS NEED TO KNOW
14 NOT ONLY ALL OF THE ABOVE, BUT ALSO CALL VOLUME AND
15 THE CALLED PARTY'S PRIMARY LONG DISTANCE CARRIER IN
16 ORDER TO DETERMINE THE PRICE OF THEIR CALLS.

17

18 THE ELS USAGE DISCOUNT OPTIONS PROVIDE CUSTOMERS
19 DIFFERENT CHOICES TO ECONOMIZE ON CALLS WITHIN THE
20 BASIC LOCAL CALLING AREA ACCORDING TO THEIR OWN
21 USAGE CHARACTERISTICS. SOME CUSTOMERS WILL BENEFIT
22 FROM THOSE OPTIONS, SOME WILL NOT. BUT, THEY ARE
23 ALL OPTIONS THAT PROVIDE CHOICES TO CUSTOMERS.
24 THIS CAN BE COMPARED TO THE IXC'S, INCLUDING MCI,
25 WHICH OFFER CUSTOMERS MANY CHOICES AMONG LONG

1 DISTANCE PLANS. AND WE MUST NOT FORGET THAT ELS
2 OFFERS THE SIMPLEST OF ALL OPTIONS FOR RESIDENCE
3 CUSTOMERS: THE PREMIUM OPTION WHICH IS FLAT RATE
4 OUT TO 40 MILES.

5

6 Q. IS THE 40 MILE RADIUS PROPOSED IN THE ELS PLAN AN
7 OVER INCLUSIVE RESPONSE TO EAS PRESSURES AS IMPLIED
8 BY MR. GILLAN AND MR. WOOD?

9

10 A. NO. FOR INSTANCE, THE COMMISSION HAS ORDERED
11 SOUTHERN BELL TO CONDUCT TRAFFIC STUDIES ON A TOTAL
12 OF 290 TOLL ROUTES FROM 1990 TO DATE IN RESPONSE TO
13 EAS PRESSURES. THE AVERAGE MILEAGE PER ROUTE WAS
14 ABOUT 29 MILES. OF THESE ROUTES, ONLY 6 WERE LESS
15 THAN 10 MILES WHILE 123 WERE GREATER THAN 30 MILES.

16

17 Q. DOES THE ELS EXPANDED LOCAL CALLING AREA (ELCA)
18 BOUNDARY HAVE TO MEET THE COMMISSION'S EAS STANDARD
19 AS DESCRIBED IN RULES 25-4.057 THROUGH 25-4.064?

20

21 A. NO. WHILE ONE OF THE OBJECTIVES OF THE ELS PLAN IS
22 TO RELIEVE EAS PRESSURES BY MINIMIZING THE NUMBER
23 OF EAS REQUESTS TO THE COMMISSION, THE PLAN IS NOT
24 INTENDED AS A REPLACEMENT FOR NON-OPTIONAL,
25 UNLIMITED, TWO-WAY FLAT RATE CALLING ADDRESSED IN

1 THESE RULES. THE ELS PLAN PRECISELY ADDRESSES
2 THOSE SITUATIONS WHEN THE CALLING RATES BETWEEN TWO
3 EXCHANGES DO NOT MEET THE COMMISSION'S CRITERIA, OR
4 WHEN IT MAY BE COST PROHIBITIVE TO PROVIDE TWO-WAY
5 NON-OPTIONAL FLAT RATE CALLING BETWEEN TWO
6 EXCHANGES.

7
8 I SHOULD MENTION THAT THE COMMISSION HAS WAIVED ITS
9 OWN RULES ON MANY OCCASIONS, UNDER THE
10 CIRCUMSTANCES I JUST MENTIONED, TO ORDER
11 ALTERNATIVES TO NON-OPTIONAL, UNLIMITED, TWO-WAY
12 FLAT RATE EAS. MANY OF THE ALTERNATIVES ORDERED IN
13 THE PAST HAVE BEEN OPTIONAL LOCAL CALLING PLANS,
14 SUCH AS TOLL PAC, BASIC OEAS AND ENHANCED OEAS, AS
15 WELL AS THE NON-OPTIONAL \$.25 PLAN.

16
17 Q. WILL THE ELS PLAN ELIMINATE INTRALATA TOLL
18 COMPETITION WITHIN 40 MILES OR RE-MONOPOLIZE ANY OF
19 THE EXISTING TOLL MARKET, AS SOME OF THE PARTIES TO
20 THIS CASE CLAIM?

21
22 A. NO. UNLIKE THE \$.25 PLAN, ELS IS AN OPTIONAL PLAN
23 DESIGNED TO OFFER FLORIDA CUSTOMERS FLEXIBILITY AND
24 CHOICES TO MEET THEIR PARTICULAR CALLING NEEDS. WE
25 WOULD EXPECT CUSTOMERS WHO BENEFIT FROM THE PLAN TO

1 SUBSCRIBE IF THEY DETERMINE THAT THE ELS PLAN IS
2 MORE BENEFICIAL THAN A PLAN OFFERED BY THE
3 INTEREXCHANGE CARRIERS. ALL CUSTOMERS, WHETHER
4 THEY SUBSCRIBE TO ELS OR NOT, WILL BE ABLE TO
5 ACCESS INTEREXCHANGE CARRIERS JUST AS THEY DO
6 TODAY. IN ADDITION, CARRIERS COULD PROVIDE LONG
7 DISTANCE PACKAGES INCLUDING INTRALATA, INTERLATA
8 AND INTERSTATE CALLING, WHICH SOUTHERN BELL CANNOT
9 OFFER, AS AN ALTERNATIVE TO THE ELS PLAN.

10

11 Q. WHAT IS YOUR REACTION TO MR. WOOD'S "SOLUTION" ON
12 PAGES 18 THROUGH 23 OF HIS TESTIMONY CONCERNING THE
13 EXTENSION OF FLAT RATE LOCAL CALLING AREAS TO A 10
14 MILE RADIUS?

15

16 A. MR. WOOD'S PROPOSAL IS MEANINGLESS AND MISLEADING.
17 HIS PROPOSAL WILL ONLY BENEFIT A TOTAL OF TEN
18 ROUTES IN ALL OF SOUTHERN BELL'S SERVICE TERRITORY.
19 OF THE TEN, SIX ALREADY ENJOY THE BENEFITS OF THE
20 LOCAL \$.25 PLAN. AS PART OF THIS PROCEEDING,
21 SOUTHERN BELL HAS ALREADY PROPOSED TO ADD TWO-WAY
22 FLAT RATE CALLING ON ONE MORE OF THESE ROUTES,
23 GREEN COVE SPRINGS TO JULINGTON, LEAVING ONLY THREE
24 ROUTES: MICANOPY/MCINTOSH, OLD TOWN/TRENTON AND
25 CHIPLEY/COTTONDALE. THEREFORE, THE BENEFIT TO THE

1 TOTAL BODY OF RATEPAYERS WILL BE MINISCULE.

2

3 Q. ON PAGE 18 OF DAVID DISMUKES' TESTIMONY SUBMITTED
4 ON BEHALF OF THE COMMISSION STAFF, HE STATES THAT
5 "THERE IS LITTLE EMPIRICAL SUPPORT BACKING UP THE
6 COMPANY'S EXTENDED LOCAL SERVICE (ELS) PROPOSAL.
7 COULD YOU GIVE US YOUR REACTION TO THIS COMMENT?

8

9 A. YES. SUMMARY STATISTICS, SUCH AS THOSE DEVELOPED
10 BY MR. DISMUKES, ARE OF LIMITED USEFULNESS IN
11 DEVELOPING REVENUE EFFECTS FOR OPTIONAL PLANS SUCH
12 AS THE ELS PROPOSAL. AVERAGE TOLL CALLING
13 CHARACTERISTICS ARE NOT THE BEST BASIS FOR
14 DEVELOPING TAKE RATE AND STIMULATION PROJECTIONS
15 FOR PLANS THAT BILL FOR BASIC LOCAL CALLING AS WELL
16 AS EXPANDED LOCAL CALLING, OFFER VOLUME DISCOUNTS
17 AND VARY THE ACCESS LINE RATE BY CLASS OF SERVICE.

18

19 AS DESCRIBED IN THE TEST YEAR SCHEDULE E-1C, THE
20 REVENUE EFFECTS FOR THE PROPOSED ELS PLAN WERE
21 DEVELOPED USING A MODEL THAT PROJECTS CUSTOMER TAKE
22 RATES AND REVENUE EFFECTS BY CLASS OF SERVICE USING
23 A SAMPLE OF ACTUAL CUSTOMER BILLS. IN THIS MODEL,
24 INDIVIDUAL CUSTOMER BILLS ARE PRICED OUT UNDER EACH
25 OF THE PROPOSED OPTIONS AND ASSIGNED A PROBABILITY

1 OF TAKING THE PLAN ALONG WITH THE REVENUE EFFECTS
2 THAT WOULD RESULT FROM THEIR DECISION. THE RESULTS
3 FROM THE SAMPLE ARE SUMMARIZED AND THEN PROJECTED
4 TO THE TOTAL LINE COUNTS IN FLORIDA. THE TAKE
5 RATE TABLES AND STIMULATION TABLES USED IN THIS
6 MODEL ARE THE SAME ONES THAT WERE PROVIDED TO STAFF
7 IN RESPONSE TO STAFF'S 13TH SET OF INTERROGATORIES,
8 ITEMS 365 AND 366.

9

10 Q. WHAT COMMENTS DO YOU HAVE CONCERNING MR. DISMUKES'
11 STATISTICAL ANALYSIS USING A "GREATER THAN 3"
12 COMMUNITY OF INTEREST FACTOR (CIF) ASSUMPTION?

13

14 A. IN DISCUSSING THE ELS PROPOSAL, MR. DISMUKES
15 CENTERS MOST OF HIS ANALYSIS ON ROUTES HAVING A CIF
16 GREATER THAN THREE. FRANKLY, I AM REALLY SURPRISED
17 BY THIS APPROACH. THE "GREATER THAN 3" CIF
18 CRITERION IS ONE OF TWO COMMISSION STANDARDS USED
19 TO GRANT NON-OPTIONAL TWO-WAY FLAT RATE CALLING
20 BETWEEN TWO POINTS. SINCE THE LEVEL OF CIF SHOULD
21 BE USED IN ASSOCIATION WITH NON-OPTIONAL EAS
22 DECISIONS, THE WHOLE CIF ISSUE IS IRRELEVANT IN
23 THIS PROCEEDING SINCE WE ARE TALKING ABOUT AN
24 OPTIONAL PLAN. RECALLING MY DIRECT TESTIMONY (PAGE
25 14, LINES 13 THROUGH 16), I CLEARLY STATE THAT

1 SOUTHERN BELL VIEWS THE ELS PLAN AS A DEVICE THAT
2 WILL HELP ALLEVIATE FUTURE PRESSURES FOR NEW EAS
3 ROUTES, "PARTICULARLY IN AREAS WHERE THE COMMUNITY
4 OF INTEREST DOES NOT MEET THE COMMISSION'S
5 STANDARDS FOR NON-OPTIONAL FLAT RATE CALLING."
6

7 MR. DISMUKES PRESENTS A THEORETICAL EXERCISE FOR
8 USING THE "GREATER THAN 3" CIF ASSUMPTION THAT
9 OVERLOOKS MANY OF THE REALITIES THIS COMMISSION AND
10 THE COMPANY FACE EVERY DAY CONCERNING EAS REQUESTS.
11 IT SEEMS THAT EVERY AGENDA SESSION HAS ONE OR MORE
12 EAS REQUESTS SLATED FOR THE COMMISSION TO ACT UPON.
13 IN FACT, THE NUMBER OF EAS REQUESTS HAS GROWN
14 DRAMATICALLY OVER THE LAST FOUR YEARS: FROM 18
15 ROUTES IN 1990, 32 IN 1991, 49 IN 1992 AND 191 IN
16 1993. VERY FEW OF THESE ROUTES HAVE HAD A CIF EQUAL
17 TO OR GREATER THAN THREE, BUT THEY ARE ALL
18 CONSIDERED INITIALLY AS "EAS THREATS".
19

20 IT HAS BEEN AND STILL IS SOUTHERN BELL'S POSITION
21 THAT TOLL ROUTES THAT DO NOT MEET THE COMMISSION'S
22 CRITERIA FOR NON-OPTIONAL TWO-WAY FLAT RATE EAS
23 SHOULD BE GIVEN AN EXPANDED CALLING PLAN THAT IS
24 OPTIONAL AND WILL ADDRESS THE INDIVIDUAL CUSTOMER'S
25 CALLING NEEDS. IT APPEARS THAT MR. DISMUKES'

1 ANALYSIS PROVIDES SUPPORT FOR OUR POSITION, AS HE
2 ALSO INFERS THROUGH THE USE OF THE CIF BENCHMARK
3 THAT IF THE CRITERION FOR EAS IS NOT MET, THEN AN
4 OPTIONAL PLAN, NOT A NON-OPTIONAL PLAN SHOULD BE
5 IMPLEMENTED.

6

7 Q. IS IT APPROPRIATE TO REQUIRE SOUTHERN BELL TO
8 IMPUTE ACCESS CHARGES ON EXPANDED ELS CALLS?

9

10 A. NO. THE FLORIDA COMMISSION DOES NOT REQUIRE
11 IMPUTATION OF ACCESS CHARGES ON ANY OF THE OPTIONAL
12 EXTENDED LOCAL CALLING PLANS (E.G. TOLL PAC, BASIC
13 OEAS, ENHANCED OEAS, FLAT RATE OPTIONAL EXTENDED
14 LOCAL PLANS, ETC.) FOUND IN SECTION A3. OF THE
15 G.S.S.T. ELS IS ALSO AN OPTIONAL EXTENDED LOCAL
16 CALLING PLAN AND SHOULD NOT BE TREATED ANY
17 DIFFERENTLY.

18

19 Q. ON PAGE 11, LINES 19 THROUGH 21, MR. GILLAN ARGUES
20 THAT THE ELS RATE FOR CALLS TO THE EXPANDED LOCAL
21 CALLING AREA "VIOLATES THE COMMISSION'S REQUIREMENT
22 THAT SOUTHERN BELL IMPUTE" ACCESS CHARGES ON ITS
23 OWN TOLL SERVICES. IS THIS CORRECT?

24

25 A. NO. SINCE ELS IS A LOCAL PLAN, NOT A TOLL PLAN, IT

1 IS CONSISTENT WITH THE COMMISSION'S POLICY IN THE
2 PAST NOT TO IMPUTE SWITCHED ACCESS CHARGES IN THE
3 RATES FOR THE LOCAL PLANS. ELS IS AN OPTIONAL
4 LOCAL PLAN THAT ADDRESSES NEEDS THAT ARE COMMONLY
5 PRESENTED TO THE COMMISSION.
6

7 Q. IS SOUTHERN BELL'S RATE FOR ELS EXPANDED CALLING
8 "SUBSIDIZED" BY LOCAL REVENUES AS CLAIMED BY
9 WITNESS GILLAN ON PAGE 14 OF HIS TESTIMONY?
10

11 A. NO. THIS IS A RIDICULOUS CLAIM AND IT HAS NO MERIT
12 WHATSOEVER. THE ELS RATE OF \$.08 PER MINUTE FOR
13 CALLING INTO THE EXPANDED LOCAL CALLING AREA IS
14 WELL ABOVE ITS INCREMENTAL COST.
15

16 Q. MR. METCALF STATES THAT BUSINESS LINE AND PBX TRUNK
17 RATES SHOULD BE DISAGGREGATED. DO YOU AGREE?
18

19 A. YES, BUT ONLY WHEN IT MAKES SENSE. FOR EXAMPLE, IT
20 MAKES SENSE TO DISAGGREGATE USAGE FROM THE LOOP
21 WHEN THE CUSTOMER'S BILL FOR LOCAL SERVICE IS BASED
22 ON THE CUSTOMER'S ACTUAL USAGE AND NOT ON AN
23 AVERAGE AMOUNT. SOUTHERN BELL'S ELS PROPOSAL
24 DISAGGREGATES BUSINESS LINE AND PBX TRUNK RATES
25 INTO THE THREE RATE ELEMENTS PROPOSED BY MR.

1 METCALF: THE LOCAL LOOP OR INTERCONNECTION ELEMENT,
2 THE FUNCTIONALITIES (I.E. HUNTING) ELEMENT AND THE
3 USAGE ELEMENT. SOUTHERN BELL'S EXISTING MESSAGE
4 RATE SERVICE ALSO CHARGES FOR USAGE SEPARATE FROM
5 THE MONTHLY LINE CHARGE.

6
7 ADDITIONALLY, SOUTHERN BELL PROPOSES TO
8 DISAGGREGATE HUNTING FROM THE FLAT MONTHLY PBX
9 TRUNK CHARGE BECAUSE ALL TRUNKS (I.E. OUTGOING
10 TRUNKS) DO NOT REQUIRE HUNTING. THIS UNBUNDLING
11 ALLOWS THE CUSTOMER TO CHOOSE THE SERVICE THAT HE
12 NEEDS AND TO PAY ONLY FOR THE SERVICE THAT HE USES.
13 THE CUSTOMER CAN MODEL THE SERVICE TO FIT HIS
14 BUSINESS. THEREFORE, IT MAKES SENSE TO
15 DISAGGREGATE HUNTING FROM THE PBX TRUNK CHARGE
16 BECAUSE IT IS BENEFICIAL TO THE CUSTOMER.

17
18 ON THE OTHER HAND, ALL LINES AND TRUNKS REQUIRE AN
19 INTERCONNECTION ELEMENT AND A USAGE ELEMENT. IT
20 DOES NOT MAKE SENSE TO DISAGGREGATE THESE ELEMENTS
21 WHEN USAGE IS CHARGED ON A FLAT RATE BASIS SINCE
22 THE SUM OF THE PARTS WILL STILL EQUAL THE WHOLE
23 (I.E. THE FORMER FLAT RATE TOTAL).

24
25 WHILE THERE WILL BE NO APPARENT ECONOMIC BENEFIT TO

1 THE CUSTOMER FROM ADDITIONAL UNBUNDLING OF FLAT
2 RATE SERVICE, SUCH AN UNBUNDLING WOULD ADD
3 COMPLEXITIES TO OUR PROVISIONING AND BILLING
4 SYSTEMS. THIS PROPOSAL WOULD ADD EXPENSE IN
5 BILLING COSTS. ADDITIONAL EXPENDITURES FOR
6 TRAINING, AND REWRITING OF PRACTICES, METHODS AND
7 PROCEDURES WOULD BE REQUIRED.

8
9 AS A FINAL OBSERVATION ON THIS ISSUE, MANY OF
10 SOUTHERN BELL'S NEW DIGITAL SERVICES (E.G.
11 MEGALINK^R SERVICE, CHANNELIZED MEGALINK^R,
12 LIGHTGATE^R SERVICE AND MEGALINK^R ISDN) ALREADY
13 DISAGGREGATE THE LINE RATE ELEMENT FROM THE USAGE
14 RATE ELEMENT. TODAY, PRIVATE LINE CUSTOMERS, PBX
15 CUSTOMERS AND ESSX^R CUSTOMERS CAN BUY THEIR
16 MEGALINK^R OR LIGHTGATE^R CHANNELS (I.E. LOOP
17 EQUIVALENTS) FROM THE SAME TARIFF AT THE SAME
18 RATES. THE USAGE ELEMENT OR NETWORK ACCESS
19 REGISTER (NAR) IS ALSO PROVIDED AT THE SAME RATE TO
20 PBX AND ESSX^R CUSTOMERS.

21

22 Q. ON PAGES 13 AND 14 OF MR. WOOD'S TESTIMONY, HE
23 ASSERTS THAT "... A GENERAL REDUCTION IN THE RATES

24

25 (R registered service mark of BellSouth Corp.)

1 FOR ALL MILEAGE BANDS OF INTRALATA TOLL SERVICE
2 WOULD BENEFIT SUBSCRIBERS REGARDLESS OF THEIR
3 CALLING PATTERNS.AND FOR CUSTOMERS OF OTHER
4 CARRIERS THROUGH A REDUCTION IN THE LEVEL OF
5 INTRASTATE SWITCHED ACCESS CHARGES." DOES SOUTHERN
6 BELL SUPPORT MCI'S ASSERTIONS?

7
8 A. SOUTHERN BELL WOULD AGREE THAT IF TOLL RATE
9 REDUCTIONS ARE MADE IN ALL RATE BANDS, THOSE
10 CUSTOMERS WHO MAKE TOLL CALLS WILL BENEFIT.
11 HOWEVER, THIS DOES NOT ALLEVIATE FUTURE PRESSURES
12 FOR NEW EAS ROUTES TO THE EXTENT THAT SOUTHERN
13 BELL'S ELS PROPOSAL DOES.

14
15 SECONDLY, WITH SWITCHED ACCESS REDUCTIONS AND A
16 FLOW THROUGH BY THE INTEREXCHANGE CARRIERS, THERE
17 IS NO WAY OF GUARANTEEING THAT THE FOCUS IS GIVEN
18 TO THE APPROPRIATE MARKET SEGMENT. IN SOME CASES,
19 THE HIGH VOLUME BUSINESS CUSTOMER AND NOT THE
20 ORDINARY MTS CUSTOMER BENEFITS FROM THE SWITCHED
21 ACCESS FLOW THROUGH. THIS DOES LITTLE TO ADDRESS
22 THE EAS PRESSURES THAT ARE TARGETED WITH SOUTHERN
23 BELL'S OPTIONAL EXPANDED LOCAL SERVICE PLAN.

24
25 Q. IN THE DIRECT TESTIMONY OF FRED ROCK, ON PAGES 7

1 THROUGH 9, HE DISCUSSES HOW CONSUMERS BENEFIT FROM
2 LOWER ACCESS PRICES. ON PAGE 9 HE STATES THAT,
3 "...IF LEC ACCESS SERVICES, ESPECIALLY SWITCHED
4 ACCESS SERVICES, ARE PRICED CLOSER TO COST,
5 COMPETITIVE FORCES IN THE LONG-DISTANCE MARKET
6 SHOULD FORCE DOWNWARD PRESSURE ON TOLL PRICES."
7 HAS THIS BEEN TRUE IN THE INTRALATA MARKET, WHEN
8 SOUTHERN BELL RATES ARE COMPARED WITH SPRINT'S
9 MESSAGE TOLL RATES?
10
11 A. NO. THE PRICE OF AN AVERAGE 3 MINUTE INTRASTATE
12 CALL OF 30 MILES IN FLORIDA IS \$.57 FOR SOUTHERN
13 BELL, AND APPROXIMATELY \$.69 FOR AT&T, MCI AND
14 SPRINT. IF SPRINT WANTS TO BRING THE BENEFITS OF
15 COMPETITION TO THE CONSUMERS OF THE STATE OF
16 FLORIDA, PERHAPS A STARTING POINT WOULD BE TO
17 REDUCE MTS RATES CLOSER TO THOSE OF SOUTHERN BELL.
18 SINCE SOUTHERN BELL'S MTS RATES IMPUTE SWITCHED
19 ACCESS RATES, THE INTEREXCHANGE CARRIERS CAN REDUCE
20 THEIR MTS RATES AND STILL PROVIDE THEIR SERVICE
21 ABOVE THEIR COST.
22
23 Q. MR. ROCK PROPOSES A SYSTEMATIC METHODOLOGY FOR
24 ALLOCATING FUTURE REVENUE REDUCTIONS BY SOUTHERN
25 BELL. DO YOU AGREE WITH HIS APPROACH?

1 A. NO. MR. ROCK APPEARS TO BE TRYING TO CONJURE UP A
2 NEAT FORMULA THAT THE COMMISSION CAN USE ON AN
3 ONGOING BASIS THAT WILL SOLVE ANY FUTURE PROBLEM
4 CONCERNING THE AGE-OLD QUESTION OF "HOW TO
5 PRIORITIZE RATE REDUCTIONS?" THE ANSWER IS NOT AS
6 SIMPLE AS MR. ROCK WOULD LEAD YOU TO BELIEVE. IN
7 FACT, MR. ROCK IS TAKING THE LIBERTY OF MAKING
8 RECOMMENDATIONS ON THE PRICING OF SOUTHERN BELL'S
9 SERVICES WHEN HE FREELY ADMITS HE DOES NOT
10 UNDERSTAND THE BASICS AS TO "WHY LEC [LOCAL
11 EXCHANGE COMPANY] ACCESS ELEMENTS ARE PRICED SO
12 MUCH HIGHER THAN THE UNDERLYING ECONOMIC COST OF
13 THE SERVICE" (PAGE 7, LINES 4 THROUGH 6).

14
15 MR. ROCK CONVENIENTLY IGNORES THE FACT THAT
16 SOUTHERN BELL PROVIDES A MULTITUDE OF PRODUCTS AND
17 SERVICES TO MANY DIVERSE CUSTOMERS AND THE
18 RATIONALE THAT SUPPORTS THE PRICING OF THESE
19 SERVICES, IF LOOKED AT ON AN INDIVIDUAL SERVICE
20 BASIS, VARIES. IT CAN RANGE FROM RESIDUAL PRICING
21 USED FOR THE BASIC LOCAL EXCHANGE SERVICES TO
22 SUBSIDY PRICING FOUND IN ACCESS AND TOLL, TO
23 "CUSTOMER WILLINGNESS TO PAY," WHICH IS COMMONLY
24 ASSOCIATED WITH ANCILLARY OFFERINGS SUCH AS CUSTOM
25 CALLING SERVICES. THUS, THE LEVEL OF CONTRIBUTION

1 RECEIVED FROM OUR PRODUCTS AND SERVICES CAN VARY.
2
3 USING MR. ROCK'S APPROACH, HE WOULD HAVE US IGNORE
4 THESE PRICING VARIABLES AND REDUCE ONLY THOSE
5 SERVICES WHICH HAVE A HIGH CONTRIBUTION LEVEL
6 COMBINED WITH A HIGH GROWTH FACTOR. OF COURSE,
7 THIS APPROACH, WHICH IS TO SPRINT'S ADVANTAGE,
8 APPEARS TO TARGET INTRALATA ACCESS CHARGES AND
9 INTRALATA TOLL RATES AND OVERLOOKS OTHER SERVICES
10 THAT MAY DESERVE EQUAL CONSIDERATION.

11
12 I WOULD URGE THE COMMISSION TO DISMISS MR. ROCK'S
13 "FORMULA" AND TO MAKE DECISIONS ON THE DISTRIBUTION
14 OF ANY RATE REDUCTIONS BASED ON WHAT IS BEST FOR
15 BOTH SOUTHERN BELL'S CUSTOMERS IN GENERAL AND FOR
16 THE COMPANY. THE PROPOSAL PRESENTED IN MY DIRECT
17 TESTIMONY GIVES BENEFITS TO MOST, IF NOT ALL, OF
18 SOUTHERN BELL'S CUSTOMERS AND ALLOWS THE COMPANY TO
19 MORE STRATEGICALLY ALIGN OUR SERVICES.

20
21 Q. THE U.S. DEPARTMENT OF DEFENSE (DOD) WITNESS MR.
22 HARRY GILDEA STATES THAT SOUTHERN BELL HAS NOT
23 PROVIDED COST DATA TO SUPPORT ITS PROPOSAL. IS
24 THIS CORRECT?

25

1 A. NO. MR. GILDEA HAS EVIDENTLY OVERLOOKED THE FACT
2 THAT THE COST DATA THAT SUPPORTS SOUTHERN BELL'S
3 PROPOSED RATE CHANGES IS PROVIDED IN SOUTHERN
4 BELL'S MINIMUM FILING REQUIREMENT (MFR) FILING.
5 MORE SPECIFICALLY, THE COST INFORMATION CAN BE
6 FOUND IN MFR SCHEDULES E-1A AND E-3. IN ADDITION,
7 IF THE DEPARTMENT OF DEFENSE HAD NEED OF ANY
8 SPECIFIC DATA THAT WAS NOT AVAILABLE THROUGH THE
9 MFR'S, THEN IT HAD THE RIGHT TO SERVE DISCOVERY ON
10 SOUTHERN BELL, WHICH THE DOD DID NOT DO.

11

12 Q. BOTH FIXCA AND MCI ADVOCATE THE IMPLEMENTATION OF
13 1+ INTRALATA PRESUBSCRIPTION IN THEIR TESTIMONY IN
14 THIS DOCKET. SHOULD THE COMMISSION ADDRESS 1+
15 INTRALATA PRESUBSCRIPTION IN THIS PROCEEDING?

16

17 A. NO. THE COMMISSION SHOULD CONFINE THE DISCUSSION
18 OF 1+ INTRALATA PRESUBSCRIPTION TO DOCKET NO.
19 930330-TP. PRIOR TO SOUTHERN BELL BEING REQUIRED
20 TO IMPLEMENT 1+ PRESUBSCRIPTION, THE COMMISSION
21 MUST FIRST ADDRESS THE MANY SERIOUS QUESTIONS THAT
22 ARE INHERENT IN DETERMINING WHETHER INTRALATA
23 PRESUBSCRIPTION WOULD BE IN THE PUBLIC INTEREST.

24

25

1 PART TWO: DISCUSSION OF ISSUES

2

3

4 Q. ARE SOUTHERN BELL'S TEST YEAR BILLING UNITS
5 APPROPRIATE? (ISSUE NO.27)

6

7 A. YES.

8

9 Q. HAVE BILLING UNITS FOR EMPLOYEE CONCESSIONS BEEN
10 PROPERLY ACCOUNTED FOR IN MFR SCHEDULE E-1A? (ISSUE
11 NO.27A)

12

13 A. YES. EMPLOYEE CONCESSIONS HAVE BEEN ACCOUNTED FOR
14 IN THE BILLING UNITS; THEREFORE, REAL CHANGES IN
15 REVENUE ARE REFLECTED.

16

17 Q. IF THE COMPANY'S OPTIONAL ELS PLAN OR ANY OTHER
18 ALTERNATIVE IS APPROVED, SHOULD STIMULATION BE
19 TAKEN INTO ACCOUNT? IF SO, HOW? (ISSUE NO. 28B)

20

21 A. YES. STIMULATION EFFECTS SHOULD BE TAKEN INTO
22 CONSIDERATION WITH THE APPROVAL OF SOUTHERN BELL'S
23 ELS PLAN. THE COMPANY'S FILED MFR SCHEDULES E-1A
24 AND E-2 REFLECT THE APPROPRIATE LEVEL OF
25 STIMULATION RESULTING FROM THE ELS PROPOSAL. THESE

1 EFFECTS WERE DEVELOPED BASED ON ACTUAL EXPERIENCE
2 WITH SIMILAR PLANS THAT ARE IN EFFECT TODAY,
3 COMBINED WITH KNOWLEDGE ABOUT THE CALLING PATTERNS
4 AND NEEDS OF OUR FLORIDA CUSTOMERS.

5

6 Q. IF THE COMMISSION APPROVES SOUTHERN BELL'S PROPOSED
7 ELS PLAN OR A SIMILAR PLAN, WHAT OTHER ACTION
8 SHOULD THE COMMISSION TAKE, IF ANY? (ISSUE NO.28C)

9

10 A. IF SOUTHERN BELL'S ELS PLAN IS APPROVED AS FILED,
11 THE COMMISSION WILL NOT HAVE TO TAKE ANY FURTHER
12 ACTION AS A RESULT OF THE PLAN. SINCE THIS PLAN IS
13 OPTIONAL, THE CUSTOMER WILL HAVE ANOTHER CHOICE
14 ADDED TO THE MENU OF OFFERINGS CURRENTLY AVAILABLE
15 THROUGH SOUTHERN BELL AND THROUGH INTEREXCHANGE
16 CARRIERS.

17

18 Q. THE COMPANY HAS MADE NO PROPOSAL TO CHANGE ITS
19 CURRENT TOUCH-TONE CHARGES. IS THIS APPROPRIATE?
20 (ISSUE NO.30B)

21

22 A. YES. IN OUR PROPOSAL, WE HAVE NOT REQUESTED ANY
23 CHANGE IN THE CHARGE FOR TOUCH-TONE SERVICE.

24

25 IF TOUCH-TONE CHARGES WERE ELIMINATED, THE 1993

1 ESTIMATED REVENUE LOSS WOULD BE \$52 MILLION. SINCE
2 TOUCH-TONE REVENUES PROVIDE A CONTRIBUTION TO BASIC
3 LOCAL EXCHANGE RATES, THE RECOVERY OF THIS LOST
4 REVENUE WOULD HAVE TO ADDRESSED.

5

6 Q. SHOULD CUSTOMERS BE ALLOWED TO SUBSCRIBE TO CALL
7 FORWARD-BUSY IN LIEU OF ROTARY OR HUNTING SERVICES?
8 (ISSUE NO.30C)

9

10 A. NO. EVEN THOUGH IN LIMITED SITUATIONS THE CALL
11 FORWARD-BUSY FEATURE CAN BE A SUBSTITUTE FOR
12 HUNTING SERVICE, CALL FORWARD-BUSY AND HUNTING
13 SERVICE ARE TWO SEPARATE AND DISTINCT SERVICES THAT
14 ARE DESIGNED TO SATISFY DIFFERENT NEEDS. IN
15 ADDITION, HUNTING SERVICE PROVIDES A GREATER
16 CONTRIBUTION TO SUPPORT BASIC LOCAL SERVICE, THE
17 MAJORITY OF WHICH IS FROM BUSINESS APPLICATIONS.

18

19 CALL FORWARD-BUSY IS A SERVICE DESIGNED TO ALLOW
20 CALLS TO BE FORWARDED TO ANOTHER NUMBER THAT IS NOT
21 AT THE SAME LOCATION AS THE NUMBER BEING CALLED, IN
22 OTHER WORDS, A REMOTE LOCATION. THIS IS ESPECIALLY
23 USEFUL WITH VOICE MAIL SERVICE OR SINGLE LINE
24 RESIDENCE OR BUSINESS APPLICATION. CALL
25 FORWARD-BUSY IS LIMITED IN THAT IT CAN ONLY BE

1 PROGRAMMED TO FORWARD TO A MAXIMUM OF 5 LINES.
2
3 ROTARY OR HUNTING SERVICE IS DESIGNED FOR
4 MULTI-LINE OPERATION TO ALLOW CALLS TO OVERFLOW
5 FROM ONE LINE TO ANOTHER LINE WHERE THE LINES ARE
6 AT THE SAME LOCATION. THIS OVERFLOW CAN BE
7 DESIGNED AT THE REQUEST OF THE CUSTOMER TO STOP AT
8 A SPECIFIC NUMBER, OR IT CAN PERFORM A CIRCULAR OR
9 CONTINUOUS HUNTING APPLICATION. HUNTING SERVICE
10 CAN BE PROGRAMMED TO WORK ON OVER 2000 LINES.
11
12 Q. SHOULD SOUTHERN BELL BE REQUIRED TO OFFER BILLED
13 NUMBER SCREENING FOR COLLECT AND THIRD NUMBER
14 BILLED CALLS AT NO CHARGE TO SUBSCRIBERS? (ISSUE
15 NO.30D)
16
17 A. SOUTHERN BELL IS NOT OPPOSED TO ELIMINATING THE
18 CHARGES CURRENTLY IN PLACE FOR BILLED NUMBER
19 SCREENING. DURING THE PERIOD OCTOBER 1992 THROUGH
20 SEPTEMBER 1993, SOUTHERN BELL RECEIVED
21 APPROXIMATELY \$1.9 MILLION IN REVENUE FROM BILLED
22 NUMBER SCREENING. IF SOUTHERN BELL IS REQUIRED TO
23 ELIMINATE THIS CHARGE, THE LOSS OF REVENUE WILL
24 HAVE TO BE ADDRESSED.
25

1 Q. WHAT ALTERNATIVE TOLL RELIEF PLAN SHOULD BE
2 APPROVED FOR THE ROUTES IN DOCKET NO. 911034-TL
3 (BETWEEN FT. LAUDERDALE AND MIAMI; FT. LAUDERDALE
4 AND N. DADE; AND HOLLYWOOD AND MIAMI)? (ISSUE
5 NO.32A)
6
7 A. SOUTHERN BELL'S PROPOSED ELS PLAN ADDRESSES THOSE
8 SITUATIONS WHEN THE CALLING RATES BETWEEN TWO
9 EXCHANGES DO NOT MEET THE COMMISSION'S CRITERIA FOR
10 NON-OPTIONAL, UNLIMITED, TWO-WAY FLAT RATE EAS.
11 FOR THAT REASON, SOUTHERN BELL BELIEVES THAT THE
12 ELS PLAN WILL PROVIDE APPROPRIATE TOLL RELIEF FOR
13 THESE ROUTES.
14
15 BASED ON OUR STUDIES OF THE FT. LAUDERDALE/MIAMI,
16 FT. LAUDERDALE/N. DADE AND HOLLYWOOD/MIAMI ROUTES,
17 THE PERCENT OF CUSTOMERS MAKING CALLS DOES NOT MEET
18 THE COMMISSION'S CRITERIA FOR NON-OPTIONAL TWO-WAY
19 FLAT RATE EAS. AS REQUIRED BY COMMISSION RULE
20 25-4.061, THE CALLING INFORMATION ALONG WITH THE
21 NET REVENUE EFFECT ON THE COMPANY SHOULD EITHER
22 NON-OPTIONAL TWO-WAY FLAT RATE EAS OR EXTENDED
23 CALLING SERVICE BE ORDERED BY THE COMMISSION ON
24 THESE ROUTES WILL BE FILED SHORTLY.
25

1 Q. SHOULD SOUTHERN BELL BE REQUIRED TO REVISE ITS
2 TARIFF TO CHANGE THE DIRECTORY ASSISTANCE (DA) CALL
3 ALLOWANCE FROM ONE DA CALL PER CENTREX/ESSX^R MAIN
4 STATION LINE TO THREE DA CALLS PER NETWORK ACCESS
5 REGISTER (NAR) SO AS TO BE COMPARABLE WITH DA CALL
6 ALLOWANCES ON PBX TRUNKS? (ISSUE NO.33B)
7
8 A. SOUTHERN BELL WOULD NOT BE OPPOSED TO CHANGING THE
9 TARIFF TO ALLOW THREE DA CALL ALLOWANCES PER
10 NETWORK ACCESS REGISTER (NAR) IN ORDER TO MAKE
11 ESSX^R SERVICE COMPATIBLE WITH THE DA APPLICATION
12 FOR PBX TRUNKS. ESSX^R SERVICE NARS PROVIDE THE
13 EQUIVALENT ACCESS TO AN ESSX^R SERVICE SYSTEM THAT
14 PBX TRUNKS DO FOR A SIMILARLY CONFIGURED PBX. IT
15 IS ESTIMATED THAT THE 1993 ANNUAL REVENUE IMPACT OF
16 THIS CHANGE WOULD BE AN INCREASE OF \$760,000.
17
18 ON THE OTHER HAND, THE DA ALLOWANCE OF ONE DA CALL
19 PER CENTREX LINE SHOULD NOT BE CHANGED AS CENTREX
20 SERVICE CAN ONLY BE ORDERED AND PROVISIONED ON A
21 PER LINE BASIS. IN ADDITION, THIS SERVICE HAS BEEN
22 GRANDFATHERED SINCE 1976.
23
24 Q. SOUTHERN BELL'S CURRENT RATES FOR CUSTOMIZED CODE
25 RESTRICTION (CCR) FOR BUSINESS LINE AND PBX

1 SUBSCRIBERS ARE GREATER THAN THE RATES FOR
2 EQUIVALENT SERVICES TO THE COMPANY'S ESSX^R
3 SUBSCRIBERS. IS THIS APPROPRIATE? (ISSUE NO.33C)
4
5 A. YES. THE RATE STRUCTURES AND LEVELS FOR CUSTOMIZED
6 CODE RESTRICTION (CCR) FOR BUSINESS LINE, PBX AND
7 ESSXR SUBSCRIBERS ARE APPROPRIATE. THESE SERVICES
8 ARE PRICED BASED UPON THE CUSTOMER'S PERCEIVED
9 WILLINGNESS TO PAY AND THE RELATIVE VALUE OF THE
10 SERVICE.
11
12 SINCE ESSX^R SERVICE IS CENTRAL OFFICE BASED, THE
13 SUBSCRIBER NORMALLY HAS NO OTHER OPTION FOR
14 RESTRICTING CERTAIN OUTDIALING EXCEPT THROUGH THE
15 USE OF CUSTOMIZED CODE RESTRICTION. UNLIKE THE
16 ESSX^R SUBSCRIBER, THE PBX AND BUSINESS LINE
17 SUBSCRIBERS CAN HAVE THE OPTION OF USING THEIR
18 PREMISES EQUIPMENT TO PERFORM THE OUTDIALING
19 RESTRICTION.
20
21 IN FURTHER COMPARISON, CCR IS PROVISIONED ON EACH
22 ESSXR MAIN STATION WHICH NORMALLY HAS ONE USER PER
23 MAIN STATION. ON THE OTHER HAND, CCR USED WITH A
24 PBX IS PROVISIONED ON THE PBX TRUNK. THERE CAN BE
25 SEVERAL STATIONS WORKING BEHIND THE PBX TRUNK WITH

1 MULTIPLE USERS; THEREFORE, THE PRICE FOR CCR ON A
2 PBX TRUNK APPROPRIATELY REFLECTS THIS ABILITY TO
3 HAVE A CONCENTRATION OF USAGE.

4
5 IN SUMMARY, THE CURRENT RATES FOR CCR FOR ESSX^R,
6 BUSINESS LINES AND PBX TRUNKS ARE APPROPRIATE.

7
8 Q. SHOULD SOUTHERN BELL BE REQUIRED TO ITEMIZE
9 CUSTOMER BILLS ON A MONTHLY BASIS? (ISSUE NO.35)

10
11 A. NO. IT IS NOT NECESSARY TO REQUIRE SOUTHERN BELL
12 TO ITEMIZE CUSTOMER BILLS ON A MONTHLY BASIS AS
13 SOUTHERN BELL CUSTOMERS ARE ALREADY RECEIVING AN
14 ITEMIZATION OF THEIR BILLS EACH MONTH.

15
16 Q. WHAT OTHER RATE CHANGES, IF ANY, SHOULD BE
17 APPROVED? (ISSUES NO.37 & NO.33D)

18
19 A. SOUTHERN BELL HAS NO ADDITIONAL PROPOSALS FOR
20 CHANGES IN RATES OR RATE STRUCTURE AT THIS TIME.

21
22 Q. WHAT SHOULD BE THE EFFECTIVE DATE(S) OF ANY RATE
23 CHANGES APPROVED IN THIS DOCKET? (ISSUE NO.38A)

24
25 A. THE EFFECTIVE DATE FOR ANY RATE CHANGE WILL DEPEND

1 UPON THE TYPE OF CHANGE THAT IS ORDERED AND TO WHAT
2 DEGREE THE CHANGE DIFFERS FROM THAT PROPOSED IN
3 SOUTHERN BELL'S FILING. IF THE SIMPLE RATE CHANGES
4 AND THE STRUCTURAL CHANGES TO SERVICE ORDERING
5 CHARGES ARE APPROVED AS PROPOSED BY SOUTHERN BELL,
6 THEY SHOULD BECOME EFFECTIVE TWO MONTHS FOLLOWING
7 THE FINAL ORDER.

8
9 CHANGES TO THE RATES THAT ARE ASSOCIATED WITH THE
10 PROPOSED EXPANDED LOCAL SERVICE (ELS) PLAN SHOULD
11 BE EFFECTIVE UPON IMPLEMENTATION OF THE PLAN. IT
12 IS ANTICIPATED THAT, IF THE PLAN IS APPROVED AS
13 FILED, IMPLEMENTATION WOULD OCCUR SIX MONTHS AFTER
14 THE ORDER BECOMES FINAL. IF A PLAN OTHER THAN THE
15 ONE PROPOSED BY SOUTHERN BELL IS ORDERED, THE
16 IMPLEMENTATION COULD TAKE AS LONG AS TWELVE TO
17 FIFTEEN MONTHS DEPENDING UPON THE PARAMETERS OF THE
18 PLAN.

19
20 Q. WHAT INFORMATION SHOULD BE CONTAINED IN THE BILL
21 INSERTS SENT TO CUSTOMERS AND WHEN SHOULD SUCH
22 NOTIFICATION TAKE PLACE? (ISSUE NO.38B)

23
24 A. THE BILL INSERT SHOULD CONTAIN AN EXPLANATION OF
25 THE CHANGES INCLUDING A COMPARISON OF NEW AND

1 EXISTING RATES WHERE A CONCISE AND LOGICAL
2 COMPARISON CAN BE MADE. FOR INSTANCE, A COMPARISON
3 OF RATES COULD BE MADE FOR CHANGES IN CUSTOM
4 CALLING OR PBX OR HUNTING, BUT WOULD NOT BE
5 APPROPRIATE FOR THE ELS OPTION IN A GENERAL BILL
6 INSERT. NONETHELESS, A DESCRIPTION OF THE ELS PLAN
7 WOULD BE APPROPRIATE.

8

9 WHEN RATE CHANGES ARE APPROVED BY THE COMMISSION,
10 CUSTOMERS SHOULD BE NOTIFIED A REASONABLE TIME
11 PRIOR TO IMPLEMENTATION.

12

13 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

14

15 A. YES, IT DOES.

16

17

18

19

20

21

22

23

24

25

1 SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY
2 TESTIMONY OF JERRY L. WILSON
3 BEFORE THE
4 FLORIDA PUBLIC SERVICE COMMISSION
5 DOCKET NO. 920260-TL
6 DECEMBER 10, 1993
7

8 Q. PLEASE STATE YOUR NAME, POSITION WITH SOUTHERN
9 BELL, AND BUSINESS ADDRESS.

10

11 A. MY NAME IS JERRY L. WILSON AND I AM EMPLOYED BY
12 BELLSOUTH TELECOMMUNICATIONS, INC. D/B/A SOUTHERN
13 BELL TELEPHONE AND TELEGRAPH COMPANY, (HEREAFTER
14 REFERRED TO AS "COMPANY" OR "SOUTHERN BELL") AS
15 DIRECTOR - REGULATORY AFFAIRS. MY BUSINESS ADDRESS
16 IS 3700 COLONNADE PARKWAY, BIRMINGHAM, ALABAMA.

17

18 Q. PLEASE GIVE A BRIEF DESCRIPTION OF YOUR BACKGROUND
19 AND EXPERIENCE.

20

21 A. I GRADUATED FROM MISSISSIPPI STATE UNIVERSITY IN
22 1971, WITH A BACHELOR OF ELECTRICAL ENGINEERING
23 DEGREE AND LATER EARNED A MASTERS DEGREE IN
24 ADVANCED MANAGEMENT FROM PACE UNIVERSITY IN NEW
25 YORK. I WAS EMPLOYED FULL-TIME BY SOUTH CENTRAL

1 BELL IN 1971, AND HELD VARIOUS ASSIGNMENTS IN THE
2 PLANT, ENGINEERING AND MARKETING DEPARTMENTS. IN
3 1975, I TRANSFERRED TO THE CONSTRUCTION PLANS
4 DEPARTMENT OF THE AMERICAN TELEPHONE AND TELEGRAPH
5 COMPANY. I RETURNED TO SOUTH CENTRAL BELL IN 1978,
6 AS DISTRICT STAFF MANAGER - RATES AND ECONOMICS.
7 SINCE THAT TIME, I HAVE HELD OPERATIONS MANAGER
8 ASSIGNMENTS IN MISSISSIPPI, IN AREA NETWORK
9 ENGINEERING, IN BELLSOUTH SERVICES PLANNING, AND
10 IN THE SOUTH CENTRAL BELL REGULATORY ORGANIZATIONS.
11 I ASSUMED MY PRESENT JOB IN MAY OF 1989.

12
13 AS DIRECTOR-REGULATORY AFFAIRS, MY RESPONSIBILITIES
14 INCLUDE REGULATORY MATTERS BETWEEN BELLSOUTH
15 TELECOMMUNICATIONS (BST) AND ITS BELLSOUTH
16 AFFILIATES, AS WELL AS THE ADMINISTRATION OF
17 ACTIVITIES BETWEEN THE COMPANY AND BELL
18 COMMUNICATIONS RESEARCH (BELLCORE). I AM ALSO
19 RESPONSIBLE FOR DIRECTING THE DEVELOPMENT OF THE
20 DEPRECIATION STUDIES FOR CAPITAL RECOVERY
21 REQUIREMENTS FOR BELLSOUTH'S NINE-STATE TERRITORY
22 AND FOR SUPPORTING THE IMPLEMENTATION OF
23 APPROPRIATE DEPRECIATION RATES.

24

25 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

1

2 A. THE PURPOSE OF MY REBUTTAL TESTIMONY IS TWOFOLD.

3 FIRST, I WILL COMMENT ON THE TESTIMONY FILED BY MR.

4 JAMES CURRIN CONCERNING DEPRECIATION ISSUES IN THIS

5 DOCKET. I WILL SHOW THAT THE POSITION TAKEN BY MR.

6 CURRIN IS FLAWED AND SHOULD BE REJECTED. INDEED,

7 THE ISSUES HE RAISES WERE ALL PREVIOUSLY REVIEWED

8 AND ADDRESSED BY THIS COMMISSION IN DOCKET NO.

9 920385-TL. MR. CURRIN IS SIMPLY TRYING TO HAVE

10 ANOTHER "BITE AT THE APPLE."

11

12 SECOND, MY REBUTTAL TESTIMONY WILL RESPOND TO THE

13 DIRECT TESTIMONY FILED IN THIS DOCKET BY MS.

14 KIMBERLY H. DISMUKES. I WILL EXPLAIN WHY CERTAIN

15 RECOMMENDATIONS OF MS. DISMUKES CONCERNING THE

16 COMPANY'S EXPENSES SHOULD BE REJECTED.

17

18 THE PORTIONS OF MS. DISMUKES' TESTIMONY CONCERNING

19 BELLSOUTH CORPORATION AND REAL ESTATE MATTERS WILL

20 BE ADDRESSED BY COMPANY WITNESSES STEPHEN BUDD OF

21 THEODORE BARRY & ASSOCIATES AND BRADFORD BRANCH OF

22 DELOITTE AND TOUCHE, RESPECTIVELY. ALSO, COMPANY

23 WITNESS WALTER REID WILL RESPOND TO MS. DISMUKES'

24 PROPOSAL FOR BELLSOUTH TRAVEL SERVICES.

25

1 Q. DID MR. CURRIN FILE TESTIMONY IN DOCKET NO.
2 920385-TL, THE DOCKET IN WHICH DEPRECIATION RATES
3 WERE PROPOSED BY SOUTHERN BELL AND PRESCRIBED BY
4 THE FPSC?

5

6 A. YES. MR. CURRIN DID FILE TESTIMONY IN THAT DOCKET.

7

8 Q. HOW DID THE FLORIDA COMMISSION RULE IN DOCKET NO.
9 920385-TL REGARDING THE ARGUMENTS PRESENTED BY
10 SOUTHERN BELL AND THOSE PRESENTED BY MR. CURRIN
11 RELATED TO RETIREMENTS OF METALLIC CABLE?

12

13 A. IN THE ORDER ISSUED MARCH 25, 1993, IN DOCKET NO.
14 920385-TL, THE FPSC ACKNOWLEDGED "DIFFERENCES IN
15 POSITION" IN CLAIMS MADE BY THE OPC'S WITNESS AND
16 SOUTHERN BELL'S EXPLANATION REGARDING PROPER
17 CONSIDERATION OF RETIREMENTS. THE FPSC REVIEWED
18 THE PARTIES' ARGUMENTS, INCLUDING THOSE MADE BY MR.
19 CURRIN, AND MADE ITS DECISION. MR. CURRIN IS NOW
20 OBVIOUSLY TRYING TO REVISIT SOME OF THE SAME ISSUES
21 IN THIS DOCKET THAT WERE PREVIOUSLY DECIDED
22 CONTRARY TO HIS POSITION IN DOCKET NO. 920385-TL.

23

24 Q. DID MR. CURRIN AGREE WITH THE FPSC'S DECISION IN
25 THE AFOREMENTIONED DEPRECIATION DOCKET?

1

2 A. APPARENTLY NOT. MR. CURRIN FILED TESTIMONY IN A
3 RECENT ILLINOIS BELL TELEPHONE COMPANY CASE (DOCKET
4 NO. 92-0448 AND 93-0239 CONSOLIDATED) WHERE HE
5 COMMENTED AS FOLLOWS:

6

7 "THE FLORIDA COMMISSION IGNORED ALL OF THE
8 INTERVENORS AND GRANTED THE LIVES PROPOSED BY
9 BELLSOUTH FOR THE CABLE ACCOUNTS WITHOUT
10 CHANGE. SINCE THAT DECISION, MR. THOMAS BEARD,
11 THE CHAIRMAN OF THE FLORIDA COMMISSION AT THE
12 TIME, HAS BEEN SUBJECT TO A CRIMINAL
13 INVESTIGATION AND FORCED TO RESIGN BECAUSE OF
14 NUMEROUS IMPROPRIETIES INVOLVING BELLSOUTH'S
15 MANAGEMENT (INCLUDING FINANCIAL DEALINGS,
16 ACCEPTANCE OF GIFTS, TRIPS AND PERSONAL
17 RELATIONSHIPS WITH BELLSOUTH EMPLOYEES). THE
18 ACCEPTANCE OF THE FISHER-PRY MODEL AS A STUDY
19 METHOD BY FLORIDA SHOULD NOT IN ANY WAY
20 INFLUENCE THIS COMMISSION GIVEN THE SERIOUS
21 IMPROPRIETIES UNCOVERED IN CONNECTION WITH THE
22 BELLSOUTH'S CASE IN FLORIDA."

23

24 MR. CURRIN'S STATEMENT TO THE ILLINOIS COMMERCE
25 COMMISSION AND HIS TESTIMONY IN THIS PROCEEDING

1 DEMONSTRATE NOT ONLY A MISSTATEMENT OF THE FACTS,
2 AND AN ERROR IN JUDGMENT, BUT ALSO A CASE OF "SOUR
3 GRAPES."

4

5 Q. WILL YOU SUMMARIZE YOUR FUNDAMENTAL DISAGREEMENT
6 WITH MR. CURRIN'S POSITION IN THIS FLORIDA DOCKET?

7

8 A. YES. MR. CURRIN'S TESTIMONY IN THIS DOCKET RELATES
9 TO THE RETIREMENT OF METALLIC CABLE AND THE
10 DEPRECIATION EXPENSE ASSOCIATED WITH THE METALLIC
11 CABLE ACCOUNTS. AS THE COMMISSION WILL RECALL, MR.
12 CURRIN IS APPARENTLY OF THE OPINION THAT THE
13 COMPANY SHOULD CONSIDER ONLY PAST BOOKED AND
14 CURRENTLY BUDGETED RETIREMENTS IN DEVELOPING
15 DEPRECIATION RATES. ON THE OTHER HAND, THE COMPANY
16 RECOGNIZES THE NEED TO CONSIDER FUTURE LIFE CYCLE
17 IMPACTS ON METALLIC CABLE IN DETERMINING THE
18 REMAINING LIFE AND ASSOCIATED DEPRECIATION RATE.
19 THE COMPANY ACCOMPLISHES THIS BY USING TECHNIQUES,
20 SUCH AS THE FISHER-PRY ANALYSIS, TO CONSIDER THE
21 TECHNOLOGICAL SUBSTITUTION IMPACTS THAT WILL OCCUR
22 IN THE FUTURE. THE VALIDITY OF THE COMPANY'S
23 APPROACH WAS RECOGNIZED BY THE FPSC IN ITS DECISION
24 IN ORDER NO. PSC-93-0462-FOF-TL IN FPSC DOCKET NO.
25 920385-TL, WHERE THE COMPANY'S POSITION WAS

1 ACCEPTED AND MR. CURRIN'S POSITION WAS REJECTED.
2 THE COMPANY'S APPROACH IS NECESSARY GIVEN THE
3 TREMENDOUS TECHNOLOGICAL AND MARKETPLACE CHANGES
4 IMPACTING THE CABLE ACCOUNTS. OTHERWISE, THE
5 COMPANY WOULD BE PUT AT RISK IN ITS ABILITY TO
6 RECOVER ITS CAPITAL.

7
8 MR. CURRIN'S REJECTED PHILOSOPHY ASSUMES THAT THE
9 FUTURE IS NO MORE THAN A TREND OF THE RECENT PAST
10 AND NEAR-TERM CABLE RETIREMENTS. DOING SO, AS WAS
11 POINTED OUT IN DOCKET NO. 920385-TL, IGNORES THE
12 FACT THAT CABLE IS NOT RETIRED ONE PAIR AT A TIME.
13 PHYSICAL RETIREMENTS ARE OCCURRING AT A RATE THAT
14 IS LESS THAN THE RATE AT WHICH FIBER CABLE IS
15 SUBSTITUTING FOR METALLIC CABLE ON A WORKING
16 CIRCUIT BASIS. SINCE APPROPRIATE CAPITAL RECOVERY
17 DEPENDS ON PROPERLY TIMING THE RECOVERY OF THE
18 INVESTMENT IN METALLIC CABLE WITH THE CONSUMPTION
19 OF THAT INVESTMENT OVER TIME, MR. CURRIN'S APPROACH
20 IS INADEQUATE FOR PROPER CAPITAL RECOVERY.

21

22 Q. CAN YOU DESCRIBE IN DETAIL THE FLAW IN MR. CURRIN'S
23 CALCULATION OF A DEPRECIATION EXPENSE DISALLOWANCE
24 FOR METALLIC CABLE?

25

1 A. YES. DEPRECIATION EXPENSE IS CALCULATED BY
2 MULTIPLYING THE DEPRECIATION RATE THAT WAS
3 ESTABLISHED BY THIS COMMISSION IN DOCKET NO.
4 920385-TL, TIMES THE BOOK INVESTMENT IN THE
5 ACCOUNT. IN DOCKET NO. 920385-TL, MR. CURRIN
6 PROPOSED DIFFERENT DEPRECIATION RATES FOR THE
7 METALLIC ACCOUNTS THAN WERE ULTIMATELY SET BY THIS
8 COMMISSION. HAVING LOST THAT ARGUMENT, MR. CURRIN
9 IS NOW TRYING TO REDUCE THE BOOK INVESTMENT IN
10 THESE ACCOUNTS SO THAT THE DEPRECIATION EXPENSE FOR
11 THESE ACCOUNTS WOULD BE REDUCED. IN EFFECT, IF THE
12 COMMISSION FOLLOWS MR. CURRIN'S LOGIC, IT WOULD BE
13 AKIN TO ACCEPTING A REDUCED DEPRECIATION RATE WHICH
14 THE COMMISSION CHOSE NOT TO DO IN DOCKET NO.
15 920385-TL.

16
17 TO ACCOMPLISH THIS, MR. CURRIN SIMPLY PROPOSES TO
18 DISALLOW OUR DEPRECIATION ACCRUALS ON THE
19 DIFFERENCE BETWEEN 1992 THROUGH 1994 PHYSICAL CABLE
20 RETIREMENTS, AND THE COMPANY'S FORECASTED
21 EQUIVALENT RETIREMENTS FOR THE 1992 THROUGH 1994
22 PERIOD. HIS THEORY APPARENTLY IS THAT RATES SHOULD
23 BE SET ON THE BASIS OF THE PHYSICAL RETIREMENTS WE
24 EXPERIENCED AND PROJECTED FOR THAT THREE-YEAR
25 PERIOD. WHAT MR. CURRIN FAILS TO RECOGNIZE IS THAT

1 THE DEPRECIATION RATES THAT SOUTHERN BELL PROPOSED
2 TO THE FPSC IN DOCKET NO. 920385-TL, WERE BASED ON
3 FORECASTED EQUIVALENT RETIREMENTS OVER THE ENTIRE
4 LIFE CYCLE OF THE ACCOUNTS, NOT MERELY THESE THREE
5 YEARS. AS EXPLAINED IN THAT DOCKET, EQUIVALENT
6 RETIREMENTS ARE INTENDED TO REPRESENT THE RATE OF
7 SUBSTITUTION OF FIBER CABLE FOR METALLIC CABLE AND
8 METALLIC CABLE'S CORRESPONDING LOSS IN ECONOMIC
9 VALUE, EVEN IF THE CABLE ITSELF HAS NOT BEEN
10 RETIRED. THE EQUIVALENT CIRCUIT RETIREMENTS
11 ACCURATELY REFLECT THE ACTUAL CONSUMPTION OF THE
12 METALLIC CABLE ACCOUNTS AND ARE THE CORRECT BASIS
13 FOR CALCULATING THE AVERAGE REMAINING LIFE FOR THE
14 ASSETS IN THESE ACCOUNTS.

15
16 USING A HYPOTHETICAL EXAMPLE TO ILLUSTRATE, ASSUME
17 THAT THE COMPANY HAS IN SERVICE A 600 PAIR METALLIC
18 CABLE WITH A BOOK INVESTMENT OF \$10,000. FURTHER,
19 ASSUME THAT THE COMMISSION HAS PREVIOUSLY
20 PRESCRIBED A 10% DEPRECIATION RATE FOR THE ACCOUNT
21 REPRESENTED BY THIS CABLE INVESTMENT. IN A GIVEN
22 YEAR, SUPPOSE THAT 500 WORKING PAIRS OF THIS 600
23 PAIR CABLE ARE TRANSFERRED TO AN ADJACENT FIBER
24 CABLE OR OTHERWISE RENDERED IDLE. SINCE THE CABLE
25 STILL HAS 100 WORKING PAIRS, IT REMAINS IN SERVICE.

1 THIS IS BECAUSE ACCOUNTING RULES ALLOW US TO RETIRE
2 A UNIT OF PLANT, WHICH IN THE CASE OF METALLIC
3 CABLE IS A SECTION OF CABLE, NOT AN INDIVIDUAL
4 CIRCUIT WITHIN A SECTION OF CABLE. THEREFORE, THE
5 600 PAIR CABLE COULD NOT BE RETIRED IN THIS YEAR,
6 EVEN THOUGH ITS ECONOMIC VALUE HAS DECLINED
7 SIGNIFICANTLY. (SINCE 500 OF THE 600 PAIRS ARE NO
8 LONGER WORKING IN THE METALLIC CABLE, THE DECLINE
9 IN ECONOMIC VALUE CAN BE EVALUATED AS 5/6 OF THE
10 \$10,000 INVESTMENT, OR APPROXIMATELY \$8,500.)
11 USING MR. CURRIN'S APPROACH OF DISALLOWING THE
12 DIFFERENCE IN EQUIVALENT RETIREMENTS AND ACTUAL
13 PHYSICAL RETIREMENTS, THE 10% PRESCRIBED
14 DEPRECIATION RATE WOULD BE MULTIPLIED BY \$8,500
15 EQUIVALENT RETIREMENTS MINUS \$0 PHYSICAL
16 RETIREMENTS, RESULTING IN A \$850 ACCRUAL
17 DISALLOWANCE ON THIS METALLIC CABLE IN THIS YEAR.
18 THE COMPANY NEEDS, AND THE COMMISSION HAD INTENDED,
19 ACCRUALS IN THIS YEAR BE \$1,000, NOT \$150. MR.
20 CURRIN'S APPROACH WOULD RESULT IN AN 85% REDUCTION
21 OF CAPITAL RECOVERY FOR THIS CABLE IN THIS PERIOD.
22 OBVIOUSLY, THIS APPROACH WOULD LEAVE THE COMPANY
23 WITH AN INADEQUATE RESERVE WHEN THE CABLE IS
24 RETIRED. THIS RESERVE DEFICIENCY WOULD RESULT IN
25 AN UNFAIR FINANCIAL RISK TO THE COMPANY AND AN

1 UNFAIR BURDEN ON FUTURE RATEPAYERS.

2

3 Q. WHAT COMMENTS DO YOU HAVE REGARDING MR. CURRIN'S
4 ASSESSMENT OF THE LOGIC OF RETIREMENTS OF STRANDED
5 PAIR INVESTMENT?

6

7 A. MR. CURRIN CONFUSES THE LOSS OF ECONOMIC VALUE WITH
8 WHETHER PLANT IS USED AND USEFUL. ALTHOUGH THE
9 ECONOMIC VALUE OF A SECTION OF METALLIC CABLE
10 DECLINES AS CIRCUITS ARE TRANSFERRED FROM THE
11 METALLIC CABLE TO FIBER CABLE, THE PLANT IS STILL
12 USED AND USEFUL AS LONG AS IT HAS WORKING PAIRS.

13

14 THE COMPANY IS GUIDED BY ECONOMICS IN BOTH PLACING
15 AND RETIRING METALLIC CABLES. MR. CURRIN'S
16 STATEMENT REGARDING ONLY CAPITALIZING THE WORKING
17 PORTION OF A NEW CABLE PLACED BY THE COMPANY IS
18 ABSURD. IF SUCH WERE DONE, THE COMPANY WOULD HAVE
19 NO POSSIBILITY OF RECOVERING THE CAPITAL OR EARNING
20 ON IT A FAIR RETURN. MR. CURRIN IS PROPOSING THAT
21 THE COMPANY BE ALLOWED TO EARN A RETURN ON ONLY A
22 PORTION OF ITS INVESTMENT IN METALLIC CABLE.
23 FURTHER, HE PROPOSES THAT THE COMPANY BE ALLOWED TO
24 DEPRECIATE ONLY A PORTION OF ITS INVESTMENT. HE
25 IGNORES THE PRINCIPLE THAT THE DEPRECIATION RATE

1 AND THE INVESTMENT GO HAND-IN-HAND. MR. CURRIN IS
2 USING A "BACK DOOR APPROACH" TO DISALLOW
3 DEPRECIATION ACCRUALS. SINCE DEPRECIATION RATES
4 HAVE BEEN SET AND MR. CURRIN CANNOT CHANGE THEM, HE
5 PROPOSES TO CHANGE THE BASE TO WHICH DEPRECIATION
6 RATES ARE APPLIED. THIS EFFECTIVELY GIVES HIM
7 ANOTHER SHOT AT REDUCING OUR RATE OF CAPITAL
8 RECOVERY FOR METALLIC CABLE, EVEN THOUGH THE
9 COMMISSION HAS ALREADY ADDRESSED THIS MATTER IN
10 DETAIL AND REJECTED MR. CURRIN'S POSITION.

11

12 Q. DO YOU HAVE COMMENTS REGARDING MR. CURRIN'S EXHIBIT
13 NO. 1?

14

15 A. YES. AGAIN, THIS APPEARS TO BE AN ATTEMPT BY MR.
16 CURRIN TO REHASH ISSUES PREVIOUSLY RESOLVED BY THIS
17 COMMISSION. MR. CURRIN'S EXHIBIT 1 PURPORTS TO
18 DEMONSTRATE THAT DEPRECIATION RATES FOR METALLIC
19 CABLE ACCOUNTS ARE EXCESSIVE BECAUSE LIFE
20 ASSUMPTIONS WERE NOT BASED SOLELY UPON ACTUAL AND
21 BUDGETED RETIREMENTS. AS PREVIOUSLY STATED, THE
22 COMPANY USES EQUIVALENT RETIREMENTS TO MORE
23 APPROPRIATELY REFLECT THE LOSS OF ECONOMIC VALUE.

24

25 IN ADDITION, MR. CURRIN IGNORES THE FACT THAT OVER

1 TIME OUR LEVEL OF DEPRECIATION EXPENSE IS PROPERLY
2 ADJUSTED THROUGH USE OF THE REMAINING LIFE
3 METHODOLOGY WHICH ESTABLISHES DEPRECIATION RATES BY
4 USE OF THE FORMULA:
5 DEPRECIATION RATE = $(100\% - \text{RESERVE}\% - \text{FNS}\%) + \text{ARL}$
6 (WHERE FNS = FUTURE NET SALVAGE AND ARL = AVERAGE
7 REMAINING LIFE). THE RESERVE PERCENT IS A FUNCTION
8 OF THE RESERVE DOLLARS AND INVESTMENT CALCULATED AT
9 THE DEPRECIATION STUDY DATE. THE REMAINING LIFE IS
10 REVIEWED AND ADJUSTED AT LEAST EVERY THREE YEARS.
11 THEREFORE, MR. CURRIN'S ILLUSTRATION THAT THE
12 COMPANY MAY OVER ACCRUE IS INVALID. IN THE EXAMPLE
13 IN HIS EXHIBIT NO. 1, PAGE 2 OF 4, HE FAILS TO
14 RECOGNIZE THAT AT THE END OF THE THIRD YEAR THE
15 DEPRECIATION RATE WOULD HAVE BEEN RECALCULATED
16 USING THE REMAINING LIFE FORMULA TO YIELD
17 $(100\% - 100\% - 0\%) + \text{ARL} = 0\%$ DEPRECIATION RATE. THUS,
18 THERE WOULD BE NO FURTHER DEPRECIATION ACCRUALS
19 AFTER YEAR THREE. IT IS VERY MISLEADING FOR MR.
20 CURRIN TO SUGGEST THAT THE COMPANY WOULD SEEK TO
21 RECOVER \$620 WHEN ONLY \$500 WAS INVESTED.

22

23 Q. HOW WOULD YOU RESPOND TO MR. CURRIN'S COMMENTS
24 ABOUT SPECIAL TREATMENT OF HURRICANE ANDREW
25 RETIREMENTS?

1

2 A. MR. CURRIN'S "PRUDENCE" COMMENTS AND ASSERTIONS OF
3 PREMATURE RETIREMENTS STRETCH REALITY. THE
4 COMPANY'S RETIREMENT OF CABLE IS DRIVEN BY NETWORK
5 PLANS BASED ON ECONOMIC DECISIONS. OUR PROPOSED
6 DEPRECIATION RATES RECOGNIZE THOSE PLANS. NATURAL
7 DISASTERS SUCH AS HURRICANE ANDREW MAY FORCE
8 RETIREMENTS OF PLANT AHEAD OF THE PLANNED SCHEDULE.
9 HOWEVER, THESE SITUATIONS SHOULD BE HANDLED ON A
10 CASE BY CASE BASIS AND ARE NOT RELEVANT TO THIS
11 DISCUSSION.

12

13 Q. HOW DO YOU RESPOND TO MR. CURRIN'S SUMMARY?

14

15 A. MR. CURRIN'S COMMENT REGARDING THE COMPANY'S "LACK
16 OF RETIREMENTS OF INVESTMENT" IS RIDICULOUS. THE
17 COMPANY MADE MILLIONS OF DOLLARS OF RETIREMENTS
18 BASED ON ECONOMIC DECISIONS, INCLUDING THOSE
19 RESULTING FROM METALLIC CABLE CIRCUITS BEING
20 REPLACED BY FIBER CIRCUITS. AS SUCH, THERE IS NO
21 "LACK" OF RETIREMENTS.

22

23 Q. WOULD YOU COMMENT ON THE ALLEGATION MADE BY MS.
24 DISMUKES CONCERNING INCENTIVE REGULATION AND ITS
25 IMPACT ON COST SHIFTING?

1
2 A YES. MS. DISMUKES STATES ON PAGE 7 OF HER
3 TESTIMONY THAT THERE IS A HIGHER PROBABILITY THAT
4 THE COMPANY CAN GET AWAY WITH SHIFTING COSTS TO ITS
5 REGULATED OPERATIONS BECAUSE THE COMPANY'S
6 OPERATIONS ARE NOT THOROUGHLY EXAMINED UNDER
7 INCENTIVE REGULATION. HOWEVER, IN REALITY, THE
8 COMMISSION HAS THE AUTHORITY TO MONITOR THE
9 COMPANY'S OPERATIONS UNDER EITHER INCENTIVE
10 REGULATION OR TRADITIONAL RATE OF RETURN REGULATION
11 AND CONTINUOUSLY DOES SO. FOR EXAMPLE, THE
12 COMMISSION STAFF HAS ISSUED OVER 1,100 REQUESTS FOR
13 INFORMATION OR DOCUMENTS AS PART OF THE DISCOVERY
14 PROCESS IN THIS DOCKET. IN ADDITION TO THIS
15 DISCOVERY, THE STAFF HAS CONDUCTED THREE RATE CASE
16 AUDITS AND A MULTI-STATE AUDIT. IN CONNECTION WITH
17 THESE AUDITS, THE STAFF HAS ISSUED APPROXIMATELY
18 1,100 REQUESTS FOR INFORMATION AND DOCUMENTS AND
19 HAS CONDUCTED OVER 100 INTERVIEWS. THE OPC HAS HAD
20 ACCESS TO THE INFORMATION PROVIDED TO THE STAFF AND
21 HAS ISSUED MORE THAN 2,300 REQUESTS FOR INFORMATION
22 OR DOCUMENTS. BASED ON THE AMOUNT OF INFORMATION
23 REQUESTED IN THIS DOCKET, I DISAGREE WITH MS.
24 DISMUKES' ALLEGATION THAT THE COMPANY'S OPERATIONS
25 ARE NOT CLOSELY SCRUTINIZED UNDER INCENTIVE

1 REGULATION. FURTHER DISCUSSION CONCERNING MS.
2 DISMUKES' ALLEGATION IN THIS AREA WILL BE ADDRESSED
3 BY DR. SAPPINGTON.

4

5 Q. CAN YOU ADDRESS THE COMMENTS MADE BY MS. DISMUKES
6 RELATED TO THE BELLSOUTH COST ALLOCATION MANUAL
7 (CAM)?

8

9 A. YES. THE BELLSOUTH CAM WAS DEVELOPED AT THE
10 DIRECTION OF THE FCC FOR USE AT THE FEDERAL LEVEL.
11 MS. DISMUKES STATES THAT THE FPSC IS NOT BOUND BY
12 THE FCC'S RULES OR BY THE CAM FOR PURPOSES OF
13 REGULATING THE COMPANY. WHILE THIS IS A CORRECT
14 STATEMENT, THE FPSC IN ITS ORDER NO. 25218 IN
15 DOCKET NO. 890190-TL, FOUND, "SOUTHERN BELL
16 TELEPHONE AND TELEGRAPH COMPANY'S USE OF THE
17 BELLSOUTH COST ALLOCATION MANUAL (CAM) APPEARS TO
18 BE A REASONABLE MEANS OF DISTRIBUTING COSTS BETWEEN
19 REGULATED AND NONREGULATED OPERATIONS." MS.
20 DISMUKES STATES THAT SHE BELIEVES THIS COMMISSION
21 COULD NOT BE CERTAIN THAT SOUTHERN BELL'S REGULATED
22 OPERATIONS WERE NOT UNFAIRLY BURDENED BY THE
23 AFFILIATE RELATIONSHIPS. IN FACT, CONTRARY TO HER
24 BELIEF, THE FPSC FOUND IN ORDER 25218 THAT THE
25 MECHANISMS ARE IN PLACE TO DETERMINE COMPLIANCE

1 WITH THE COMPANY'S CAM.

2

3 Q. HOW DOES THE FCC ENSURE THAT THE COMPANY IS
4 COMPLYING WITH ITS COST ALLOCATION MANUAL (CAM)?

5

6 A. THE FCC REQUIRES THAT AN ANNUAL ATTESTATION AUDIT
7 BE CONDUCTED BY EXTERNAL AUDITORS TO DETERMINE
8 WHETHER OR NOT THE COMPANY IS COMPLYING WITH ITS
9 COST ALLOCATION MANUAL. ADDITIONALLY, THE FPSC
10 STAFF DOES NOT RELY SOLELY ON THE FINDINGS OF THE
11 EXTERNAL AUDITOR BUT RATHER HAS ACCESS TO THE
12 WORKPAPERS OF THE EXTERNAL AUDITORS AND HAS
13 REVIEWED THEM ON MANY OCCASIONS.

14

15 Q. MS. DISMUKES STATES, "THE CAM IS WOEFULLY
16 INADEQUATE FOR PURPOSES OF DETERMINING WHAT METHODS
17 THE COMPANY IS USING AND CANNOT BE RELIED UPON FOR
18 EVALUATING THE REASONABLENESS OF AFFILIATE
19 TRANSACTIONS." WOULD YOU PLEASE COMMENT ON THIS
20 STATEMENT.

21

22 A. YES. MS. DISMUKES IS IN ERROR AND HER BELIEF IS
23 CONTRARY TO THE FINDINGS OF THIS COMMISSION IN THE
24 ORDER JUST CITED. THE ANNUAL ATTESTATION AUDIT
25 PERFORMED BY THE COMPANY'S EXTERNAL AUDITOR

1 PROVIDES AN IN-DEPTH REVIEW OF THE COMPANY'S
2 AFFILIATE TRANSACTIONS. THIS REVIEW RESULTS IN
3 VOLUMES OF WORKPAPERS WHICH CONTAIN SUFFICIENT
4 INFORMATION TO ESTABLISH THE PRICING METHODOLOGY
5 AND THE REASONABLENESS OF TRANSACTIONS. AS NOTED
6 IN FPSC ORDER NO. 25218 IN DOCKET NO. 890190-TL,
7 THE COMMISSION RECEIVES A COPY OF THE ANNUAL REPORT
8 RESULTING FROM THIS AUDIT. IN ADDITION TO THE
9 EXTERNAL AUDITS, THERE ARE INTERNAL AUDITS
10 PERFORMED BY THE COMPANY, AS WELL AS AUDITS
11 PERFORMED BY THE FPSC STAFF. MR. STEVEN BUDD WILL
12 FURTHER ADDRESS THE ISSUE OF THE CAM AS IT RELATES
13 TO THE COMPANY'S TRANSACTIONS WITH BELLSOUTH
14 CORPORATION.

15

16 Q. WOULD YOU PLEASE COMMENT ON MS. DISMUKES'
17 RECOMMENDED ADJUSTMENT TO THE COMPANY'S EXPENSES
18 FOR USAGE OF ITS AIRCRAFT?

19

20 A. WHILE MS. DISMUKES RECOGNIZES THAT CORPORATE
21 AIRCRAFT PLAYS A CRUCIAL ROLE IN THE EFFICIENT
22 MANAGEMENT OF THE COMPANY'S OPERATIONS, SHE
23 RECOMMENDS AN ARBITRARY DISALLOWANCE OF THESE
24 EXPENSES. HER ADJUSTMENT SHOULD BE REJECTED.

25

1 MOST LARGE CORPORATIONS MAKE SOME USE OF NON-
2 COMMERCIAL AIRCRAFT FOR MANY OF THE SAME REASONS
3 THAT SOUTHERN BELL DOES. INDEED, WE UNDERSTAND
4 THAT THE STATE OF FLORIDA ALSO HAS A FLEET OF
5 AIRCRAFT. BECAUSE OF TIME LIMITATIONS, WE HAVE
6 BEEN ABLE TO EXAMINE ONLY A FEW OF THE STATE OF
7 FLORIDA AIRCRAFT LOGS. HOWEVER, IT IS CLEAR FROM
8 OUR LIMITED REVIEW THAT THE STATE AIRCRAFT RECEIVES
9 EXTENSIVE USE BY STATE EMPLOYEES, INCLUDING
10 EMPLOYEES OF AT LEAST ONE OF THE PARTIES IN THIS
11 PROCEEDING. NO DOUBT, THE REASONS FOR THE USE OF
12 THESE NON-COMMERCIAL AIRCRAFT BY STATE EMPLOYEES
13 ARE JUSTIFIED ON THE SAME BASIS OURS ARE. THESE
14 REASONS INCLUDE SAVING VALUABLE TIME FOR KEY
15 OFFICERS OF THE BUSINESS, BEING ABLE TO QUICKLY
16 RESPOND IN EMERGENCY SITUATIONS, AND THE
17 FLEXIBILITY OF AIRCRAFT SCHEDULES. CLEARLY,
18 SOUTHERN BELL SHOULD NOT BE SINGLED OUT AND
19 UNJUSTLY PENALIZED FOR USING ITS AIRCRAFT. MS.
20 DISMUKES' ARBITRARY DISALLOWANCE OF THE COMPANY'S
21 AIRCRAFT EXPENSES SHOULD BE DENIED.

22

23 Q. WILL YOU NOW ADDRESS MS. DISMUKES' PROPOSED
24 ADJUSTMENT TO THE COMPANY'S TEST YEAR EXPENSES FOR
25 THE RETURN ON INVESTMENT (ROI) COMPONENT INCLUDED

1 IN BILLINGS FROM BELLSOUTH CORPORATION (BSC),
2 BELLSOUTH COMMUNICATIONS INCORPORATED (BCI), AND
3 BELLSOUTH COMMUNICATIONS SERVICES (BCS) TO THE
4 COMPANY?

5
6 A. YES. THE CHARGES FROM BSC AND BCI TO THE COMPANY
7 INCLUDE A RETURN ON INVESTMENT OF 11.25% WHICH IS
8 THE RATE OF RETURN AUTHORIZED BY THE FCC. THIS
9 RETURN IS IN STRICT COMPLIANCE WITH THE FCC'S RULES
10 GOVERNING AFFILIATE TRANSACTIONS. MS. DISMUKES'
11 RECOMMENDATION TO ADJUST THIS RETURN TO THE REDUCED
12 LEVEL PROPOSED BY AN INTERVENOR WITNESS IN THIS
13 CASE IS INAPPROPRIATE AND SHOULD BE REJECTED.

14
15 FURTHER, MS. DISMUKES BASES HER ADJUSTMENT FOR THE
16 BCS RETURN ON INVESTMENT ON ITEM 2-155 WHICH SOUGHT
17 THE ROI CHARGED TO BST BY EACH AFFILIATE. THE
18 INFORMATION PROVIDED IN RESPONSE TO THIS ITEM DID
19 NOT INCLUDE INFORMATION RELATED TO BCS, BUT RATHER
20 BCI AND BSC. THE FACT IS, BCS DOES NOT CHARGE THE
21 COMPANY A RETURN ON INVESTMENT. AGAIN, MS.
22 DISMUKES' DISALLOWANCE IS INAPPROPRIATE AND SHOULD
23 BE REJECTED.

24
25 Q. WILL YOU NOW ADDRESS MS. DISMUKES' ALLEGATION THAT

1 BST DOES NOT INCLUDE A RETURN ON INVESTMENT
2 COMPONENT IN ITS BILLINGS TO ITS AFFILIATES?
3
4 A. YES. MS. DISMUKES IS INCORRECT WHEN SHE STATES
5 THAT THE COMPANY DOES NOT INCLUDE A RETURN ON
6 INVESTMENT COMPONENT IN ITS BILLINGS TO ITS
7 AFFILIATES. TO THE CONTRARY, THE COMPANY DOES
8 CHARGE RETURN ON INVESTMENT (ROI) WHEN THE SERVICE
9 BEING PROVIDED TO THE AFFILIATE INVOLVES THE USE OF
10 COMPANY INVESTMENT. WHEN THERE IS NO COMPANY
11 INVESTMENT USED IN THE PROVISION OF SERVICE TO THE
12 AFFILIATE, A FLOAT CHARGE, RATHER THAN ROI IS
13 INCLUDED IN ITS BILLINGS TO AFFILIATES. MS.
14 DISMUKES BASES HER COMMENTS AND SUBSEQUENT
15 ADJUSTMENT ON INFORMATION PROVIDED BY THE COMPANY
16 IN TWO INTERROGATORIES, OPC ITEMS 1063 AND 1277,
17 WHICH DEAL WITH ROI CHARGED TO THE COMPANY'S OWN
18 UNREGULATED OPERATIONS, NOT THE COMPANY'S CHARGES
19 TO ITS AFFILIATES. CONSEQUENTLY, MS. DISMUKES'
20 PROPOSED ADJUSTMENT IS ERRONEOUS AND SHOULD BE
21 REJECTED.
22
23 Q. MS. DISMUKES ADDRESSES OTHER DISALLOWANCES IN HER
24 TESTIMONY. FOR EXAMPLE, SHE RECOMMENDS THAT ALL
25 BELLSOUTH CORPORATE LEGAL EXPENSES BE DISALLOWED.

1 WILL YOU DISCUSS YOUR POSITION ON THIS
2 RECOMMENDATION?
3
4 A. YES. I DO NOT AGREE WITH MS. DISMUKES'
5 RECOMMENDATION THAT ALL OF THE BSC LEGAL EXPENSES
6 BE DISALLOWED. SHE BASES THIS RECOMMENDATION ON
7 HER CLAIMS THAT THE COMPANY REDACTED FROM VOUCHERS
8 THE DESCRIPTIONS OF THE LEGAL BILLS FROM OUTSIDE
9 FIRMS AND THAT THE COMPANY DID NOT PROVIDE THE
10 REQUESTED BSC TRANSACTION JOURNALS.
11
12 ORIGINALLY, THE COMPANY DID REDACT CONSIDERABLE
13 INFORMATION FROM THE VOUCHERS PROVIDED TO MS.
14 DISMUKES. SINCE THAT TIME, HOWEVER, THE COMPANY
15 HAS PROVIDED SUFFICIENT INFORMATION TO ENABLE MS.
16 DISMUKES TO MAKE A DETERMINATION AS TO WHETHER
17 THESE EXPENSES SHOULD BE RECOVERED FROM RATEPAYERS.
18
19 ADDITIONALLY, THE TRANSACTION JOURNALS WERE
20 PROVIDED PRIOR TO THE FILING OF MS. DISMUKES'
21 TESTIMONY, AND HER CHARACTERIZATION THAT THE
22 TRANSACTION JOURNALS HAD NOT BEEN PROVIDED IS
23 INCORRECT.
24
25 MS. DISMUKES' PROPOSED DISALLOWANCE OF ALL BSC

1 LEGAL EXPENSES IS BROAD, SWEEPING AND INAPPROPRIATE
2 AND SHOULD BE REJECTED, SINCE MS. DISMUKES NOW HAS
3 THE ADDITIONAL INFORMATION NECESSARY TO MAKE AN
4 INFORMED PROPOSAL.

5

6 Q. WHAT IS YOUR RESPONSE TO MS. DISMUKES'
7 RECOMMENDATION TO DISALLOW \$100,000 IN BELLSOUTH
8 CORPORATION EXPENSES RELATED TO VARIOUS EXPENSE
9 VOUCHERS WHICH SHE REVIEWED?

10

11 A. I DISAGREE WITH MS. DISMUKES' ARBITRARY \$100,000
12 ADJUSTMENT WHICH IS, AS SHE STATES IN HER TESTIMONY
13 ON PAGE 62, BASED ON AN INCOMPLETE ANALYSIS. AS
14 MS. DISMUKES' NOTES, THE COMPANY HAS AGREED THAT
15 SOME OF THE EXPENSES SHE IDENTIFIES WERE INCLUDED
16 INADVERTENTLY AND SHOULD BE EXCLUDED. WE WILL DO
17 SO IN MR. REID'S TESTIMONY; HOWEVER, ARBITRARILY
18 PICKING A FIGURE IS INAPPROPRIATE AND SHOULD BE
19 REJECTED.

20

21 Q. MS. DISMUKES RECOMMENDS THAT THE RECOVERY OF
22 CHARGES FOR SELECTED BELLCORE CHARGES BE DEFERRED.
23 WOULD YOU PLEASE COMMENT?

24

25 A. YES. FIRST, IT IS APPARENT THAT MS. DISMUKES DRAWS

1 SUPPORT FOR HER ACCOUNTING RECOMMENDATIONS FROM TWO
2 PAST AUDITS OF BELLCORE, COMMONLY KNOWN AS THE 1988
3 NARUC, AND THE 1992 NARUC-FCC AUDITS. TO MY
4 KNOWLEDGE, NEITHER OF THESE AUDITS WAS OFFICIALLY
5 ADOPTED BY NARUC OR THE FCC. THIS MEANS THE
6 POSITIONS QUOTED BY MS. DISMUKES ARE ONLY PERSONAL
7 OPINIONS OF THOSE WHO PARTICIPATED IN THE AUDITS.
8 FURTHER, THESE OPINIONS RUN CONTRARY TO PRESENT
9 POLICIES FOLLOWED BY THIS COMMISSION, FCC RULES,
10 THE UNIFORM SYSTEM OF ACCOUNTS (USOA), AND
11 GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP).

12
13 SECOND, MS. DISMUKES MISCHARACTERIZES THE NATURE OF
14 THE WORK BY BELLCORE AND ITS VALUE TO THE COMPANY.
15 HER BASIS FOR THE SELECTION OF PROJECTS FOR
16 DEFERRAL WAS APPARENTLY BASED ON HER READING OF
17 SUMMARY INFORMATION SUCH AS PROJECT PROFILES. FOR
18 EXAMPLE, ON PAGE 106, MS. DISMUKES STATES, "AS CAN
19 BE DETERMINED FROM READING THE TITLES OF THESE
20 PROJECTS..." I AM CONCERNED THAT SHE LACKS A REAL
21 APPRECIATION FOR THE PURPOSE AND BENEFITS OF THE
22 BELLCORE WORK IN QUESTION BECAUSE SHE HAS NOT DONE
23 AN IN-DEPTH ANALYSIS.

24

25 Q. WOULD YOU PLEASE DISCUSS MS. DISMUKES' PROPOSAL TO

1 DEFER THE COMPANY'S RECOVERY OF BELLCORE COSTS FOR
2 CERTAIN BELLCORE PROJECTS?

3
4 A. YES. AS I PREVIOUSLY STATED, NEITHER OF THE
5 NARUC-FCC AUDITS CONCERNING BELLCORE WERE
6 OFFICIALLY ADOPTED BY THE SPONSORING BODIES.
7 INDEED, THE FCC ISSUED ITS OWN STATEMENT ON PHASE
8 II OF THE 1992 AUDIT: "...WE ARE NOT ADOPTING THE
9 FEDERAL/STATE STAFF REPORT OR ENDORSING ANY OF THE
10 ANALYSIS, CONCLUSION(S), AND RECOMMENDATIONS IN
11 IT." SEE IN THE MATTER OF BELL COMMUNICATIONS
12 RESEARCH, INC. PUBLIC RELEASE OF INFORMATION
13 OBTAINED DURING JOINT AUDIT, AAD 91-78, FCC 92-33,
14 AT PARA. 1, RELEASED JANUARY 24, 1992. IN SOME
15 RESPECTS, THESE EFFORTS WERE NOT AUDITS, BUT RATHER
16 SERVED AS PLATFORMS TO LAUNCH NEW AND UNPROVEN
17 RATEMAKING THEORIES OF THE INDIVIDUAL AUDIT
18 MEMBERS.

19
20 Q. DO YOU HAVE ANY ADDITIONAL COMMENTS ON MS.
21 DISMUKES' ACCOUNTING TREATMENT FOR CERTAIN OF THE
22 COMPANY'S BELLCORE COSTS?

23
24 A. YES. MS. DISMUKES MAKES CERTAIN SPECIFIC PROPOSALS
25 FOR ACCOUNTING TREATMENT FOR SELECTED R&D AND OTHER

1 PROJECTS, WHICH INCLUDES DEFERRED RECOVERY. THIS
2 PROPOSAL RUNS CONTRARY TO GAAP AND USOA, WHICH HOLD
3 THAT ALL R&D SHOULD BE EXPENSED IN THE YEAR IN
4 WHICH IT IS INCURRED. THUS, MS. DISMUKES' PROPOSAL
5 TO DEFER A PORTION OF THE COMPANY'S R&D EXPENSES
6 REPRESENTS IMPROPER ACCOUNTING TREATMENT AND SHOULD
7 BE REJECTED.

8

9 Q. WHAT WOULD BE THE PRACTICAL RESULTS OF ANY EFFORT
10 TO IMPLEMENT MS. DISMUKES' PROPOSAL TO DEFER
11 RECOVERY OF CERTAIN BELLCORE COSTS?

12

13 A. MS. DISMUKES' CONCEPT OF DEFERRAL ASSUMES THAT
14 BENEFITS FROM THIS BELLCORE WORK CAN BE DISCRETELY
15 IDENTIFIED. THIS IS NOT ALWAYS TRUE. OVER TIME,
16 NEW RESEARCH SUPPLEMENTS AND BLENDS WITH THE OLD.
17 NOT ONLY IS MS. DISMUKES' PROPOSAL UNWORKABLE, BUT
18 ANY ATTEMPT TO MAKE IT WORK WOULD ADD COMPLEXITY
19 AND ADDITIONAL COSTS TO BE BORNE BY THE RATEPAYER.

20

21 Q. DO YOU AGREE WITH MS. DISMUKES' ASSERTION THAT HER
22 PROPOSAL WOULD BE FAIR TO CURRENT RATEPAYERS?

23

24 A. NO. CONTRARY TO MS. DISMUKES' ASSERTIONS, THE
25 RECOVERY OF R&D COSTS ON A CURRENT BASIS IS NOT

1 UNFAIR TO CURRENT RATEPAYERS. TODAY'S CUSTOMERS
2 ARE NOW RECEIVING BENEFITS FUNDED BY CUSTOMERS IN
3 PAST YEARS. TO DISALLOW OR DEFER RECOVERY OF R&D
4 COSTS WOULD RESULT IN TODAY'S CUSTOMERS GETTING A
5 "FREE RIDE." THEY WOULD BE BENEFITING FROM
6 PREVIOUS WORK AND NOT PAYING FOR IT, WHILE ALSO
7 DEFERRING CURRENT R&D EXPENSES TO FUTURE CUSTOMERS.
8 THIS PROPOSAL CANNOT BE JUSTIFIED ON THE BASIS OF
9 FAIRNESS.

10

11 Q. DO YOU HAVE ANY ADDITIONAL COMMENTS ON MS.
12 DISMUKES' PROPOSAL?

13

14 A. YES. THIS PROPOSAL WOULD CREATE A FINANCIAL
15 UNCERTAINTY FOR THE COMPANY. THIS RISK WOULD BE A
16 DISINCENTIVE TO THE COMPANY'S FUNDING OF AN
17 APPROPRIATE LEVEL OF R&D.

18

19 THIS COMMISSION WILL DETERMINE THE SERVICES THAT
20 WILL BE DEREGULATED IN THE FUTURE. THE BEST TIME
21 TO DETERMINE WHETHER RATEPAYER FUNDED R&D EXPENSES
22 BENEFITED A DEREGULATED SERVICE IS WHEN SUCH A
23 SERVICE IS ORDERED DEREGULATED. SPECULATIVE PRE-
24 JUDGMENT OF THE COMPANY'S R&D WORK IS UNNECESSARY.

25

1 Q. WILL YOU NOW IDENTIFY THE BELLCORE PROJECTS MS.
2 DISMUKES THINKS SHOULD BE DEFERRED FROM RECOVERY IN
3 THE CURRENT YEAR?
4
5 A. YES. MS. DISMUKES IS PROPOSING THAT THE FLORIDA
6 INTRASTATE EXPENSE ASSOCIATED WITH 42 SELECTED
7 BELLCORE PROJECTS BE EFFECTIVELY DISALLOWED. SHE
8 HAS BROKEN THESE PROJECTS INTO TWO MAIN CATEGORIES,
9 (1) APPLIED RESEARCH, AND (2) OTHER. UNDER THE
10 APPLIED RESEARCH CATEGORY, SHE IDENTIFIES FOUR
11 SUBCATEGORIES: (1) PERSONAL COMMUNICATIONS/
12 WIRELESS, (2) INFORMATION SERVICES, (3) SONET/ATM/
13 INFORMATION NETWORKING ARCHITECTURE/VIDEO, AND (4)
14 FIBER/BROADBAND. IN THE CATEGORY SHE REFERS TO AS
15 OTHER, SHE IDENTIFIES FIVE SUBCATEGORIES: (1)
16 PERSONAL COMMUNICATIONS/WIRELESS, (2) FIBER, (3)
17 INFORMATION NETWORKING ARCHITECTURE, (4) ADVANCED
18 INTELLIGENT NETWORK, AND (5) VIDEO/BISDN. I WILL
19 ADDRESS EACH OF THE NINE SUBCATEGORIES LISTED ABOVE
20 AND EXPLAIN WHY MS. DISMUKES' RECOMMENDATION TO
21 DEFER THE CHARGES FOR THE PROJECTS SHOULD BE
22 REJECTED.
23
24 Q. WILL YOU PLEASE DISCUSS MS. DISMUKES' FIRST
25 SUBCATEGORY?

1
2 A. YES. THE FIRST SUBCATEGORY UNDER HER APPLIED
3 RESEARCH CATEGORY IS PERSONAL COMMUNICATIONS/
4 WIRELESS. THIS RESEARCH RELATES TO FORWARD-
5 LOOKING, NETWORK-BASED EXCHANGE ACCESS SERVICES
6 THAT PROVIDE NEW FUNCTIONAL CAPABILITIES TO
7 WIRELESS NETWORKS. FOR DATA NETWORKS AND MESSAGING
8 SYSTEMS, THESE SERVICES WOULD ENABLE CONNECTIVITY
9 BETWEEN WIRELESS AND WIRELINE NETWORKS AS SUCH, WE
10 EXPECT THIS SERVICE TO BE A TARIFFED OFFERING. IN
11 DISCUSSING THE WORK CONTAINED IN THE PROJECT,
12 PERSONAL COMMUNICATIONS APPLICATIONS (321408), MS.
13 DISMUKES QUOTES FROM THE PROJECT PROFILE THAT THE
14 PROJECT IDENTIFIES NEW AND EMERGING VOICE, DATA,
15 AND MULTIMEDIA APPLICATIONS. HER QUOTE IS INTENDED
16 TO SHOW THAT THIS WORK SUPPORTS NONREGULATED
17 SERVICES. HOWEVER, MS. DISMUKES' QUOTE FAILED TO
18 INCLUDE THE FOLLOWING SENTENCE: "WE ANALYZE THE
19 COMMUNICATIONS NEEDS OF THESE APPLICATIONS AND
20 PROPOSE COST EFFECTIVE EXCHANGE NETWORK
21 IMPLEMENTATIONS IN SUPPORT OF THESE APPLICATIONS."
22 IN OTHER WORDS, THIS PROJECT ENTAILS RESEARCH
23 REGARDING IMPROVEMENT IN REVENUES FOR ACCESS TO THE
24 REGULATED NETWORK. THE OTHER PROJECT, WIRELESS
25 ACCESS (321302), ALSO SUPPORTS ACCESS TO OUR

1 REGULATED EXCHANGE NETWORK BY THE WIRELESS
2 CUSTOMER. THUS, BOTH OF THESE PROJECTS WILL
3 SUPPORT REGULATED SERVICES AND SHOULD BE INCLUDED
4 IN RATEMAKING.

5

6 Q. WILL YOU NOW PLEASE DISCUSS THE SECOND SUBCATEGORY
7 UNDER THE APPLIED RESEARCH CATEGORY WHICH MS.
8 DISMUKES CALLS INFORMATION SERVICES?

9

10 A. YES. MS. DISMUKES MAKES THE BROAD STATEMENT, "EACH
11 OF THESE PROJECTS DEALS WITH POTENTIAL INFORMATION
12 SERVICES." THIS STATEMENT IS NOT TRUE. IN FACT,
13 EACH OF THESE PROJECTS SUPPORTS THE PUBLIC SWITCHED
14 TELEPHONE NETWORK OR REGULATED SERVICES PROVIDED
15 OVER THAT NETWORK.

16

17 AN EXAMPLE OF A PROJECT IN THIS SUBCATEGORY IS
18 SPEECH TECHNOLOGY (321406). THIS PROJECT HAS THE
19 POTENTIAL TO IMPACT MANY CUSTOMERS. BELLCORE IS
20 RESEARCHING IMPROVEMENTS IN SPEECH SYNTHESIS AND
21 RECOGNITION, WHICH MAY BE USED FOR VOICE ACTIVATED
22 DIALING (SPEAKING A NAME INSTEAD OF DIALING A PHONE
23 NUMBER) AND VOICE ACTIVATED NETWORK CONTROL (SPOKEN
24 CONTROL OF NETWORK SERVICES). ANOTHER APPLICATION
25 UNDER DEVELOPMENT IS CITY NAME RECOGNITION FOR

1 DIRECTORY ASSISTANCE WHICH IS A REGULATED SERVICE
2 IN FLORIDA. THESE SERVICES HAVE HIGH POTENTIAL
3 USAGE FOR THE ELDERLY OR FOR DISABLED CUSTOMERS IN
4 FLORIDA AND ELSEWHERE. BELLCORE PLANS TO INTRODUCE
5 A "NATURAL SOUNDING" SPANISH LANGUAGE VOICE THAT
6 WOULD BE PARTICULARLY BENEFICIAL TO OUR REGULATED
7 OPERATIONS IN FLORIDA.

8

9 Q. WILL YOU PLEASE ADDRESS THE PROJECTS IDENTIFIED
10 UNDER THE SUBCATEGORY CALLED SONET/ATM/INFORMATION
11 NETWORKING ARCHITECTURE/VIDEO?

12

13 A. YES. THIS SUBCATEGORY CONTAINS A MIX OF PROJECTS
14 THAT SUPPORT REGULATED SERVICES. MS. DISMUKES
15 EXPRESSES CONCERN THAT THESE PROJECTS PRIMARILY
16 BENEFIT UNREGULATED SERVICES. HER CONCERN IS
17 UNFOUNDED.

18

19 FOR EXAMPLE, TELEPRESENCE NETWORK APPLICATIONS
20 (321404) CONSISTS OF SEVERAL DELIVERABLES AIMED AT
21 IMPROVING VIDEO CONFERENCING SERVICES, SUCH AS
22 DISTANCE LEARNING, A REGULATED SERVICE. DISTANCE
23 LEARNING IS A TECHNOLOGY THAT ALLOWS TWO OR MORE
24 SCHOOLS TO COMMUNICATE VIA TWO-WAY INTERACTIVE
25 AUDIO AND VIDEO. THIS SERVICE ENABLE SCHOOLS TO

1 SHARE TEACHING RESOURCES AND ENABLES STUDENTS TO
2 TAKE COURSES SUCH AS ADVANCED MATH AND SCIENCE OR
3 COLLEGE LEVEL COURSES, ETC. DISTANCE LEARNING IS
4 ALREADY BEING USED IN SEVERAL STATES, INCLUDING
5 FLORIDA.

6
7 IN ADDITION TO EDUCATION, VIDEO CONFERENCING
8 SERVICES ARE CURRENTLY BEING USED BY MANY
9 BUSINESSES TO IMPROVE PRODUCTIVITY AND REDUCE
10 TRAVEL EXPENDITURES AND TO ENABLE GREATER USE OF
11 WORK-AT-HOME. VIDEO CONFERENCING SERVICES ARE
12 REGULATED.

13
14 Q. THE FINAL SUBCATEGORY IN APPLIED RESEARCH IS
15 FIBER/BROADBAND. WOULD YOU PROVIDE DETAILS ABOUT
16 THE RESEARCH BEING CONDUCTED IN THIS AREA?

17
18 A. YES. RESEARCH IN THE FIBER/BROADBAND AREA PROVIDES
19 PLANNING AND ENGINEERING TOOLS THAT WILL ENABLE THE
20 COMPANY TO DESIGN NETWORKS MORE COST EFFECTIVELY.
21 THIS WORK RESEARCHES NEW TECHNOLOGIES THAT ARE NOW
22 BECOMING AVAILABLE FOR DEPLOYMENT IN THE COMPANY'S
23 DISTRIBUTION NETWORK. THIS INCLUDES
24 FIBER-IN-THE-LOOP SYSTEMS THAT ARE MORE ECONOMIC
25 THAN COPPER-BASED SYSTEMS, IN CERTAIN APPLICATIONS.

1 IN ADDITION, NEW TECHNOLOGIES LIKE WAVELENGTH
2 DIVISION MULTIPLEXING THAT ENABLES SONET SYSTEMS TO
3 BECOME EVEN MORE COST EFFECTIVE ARE BEING
4 RESEARCHED. ALSO, WORK IS INCLUDED WHICH ADDRESSES
5 TECHNICAL AND COST ISSUES RELATED TO POWERING OF
6 FIBER-IN-THE-LOOP SYSTEMS TODAY.

7
8 AS A SPECIFIC EXAMPLE, WORK BEING DONE IN THE HIGH
9 SPEED NETWORKING PROJECT (321403) WILL HAVE A MAJOR
10 IMPACT ON THE COMPANY'S ABILITY TO POSITIVELY
11 RESPOND TO THE GROWING MARKET DEMAND FOR REGULATED
12 ADVANCED DATA NETWORKING SERVICES. THIS POSITIVE
13 RESPONSE WILL ADD ADDITIONAL REVENUES, THUS HELPING
14 HOLD DOWN THE COST OF BASIC REGULATED SERVICE.
15 FURTHER, SPECIFICATIONS FOR INTERFACES DEVELOPED
16 UNDER THIS PROJECT ARE CURRENTLY BEING USED BY MANY
17 CUSTOMER PROVIDED EQUIPMENT VENDORS.

18

19 Q. THAT COMPLETES THE CATEGORY, APPLIED RESEARCH. YOU
20 MENTIONED THAT THE CATEGORY, "OTHER," HAD FIVE
21 SUBCATEGORIES. WHAT IS THE FIRST SUBCATEGORY AND
22 WOULD YOU MAKE COMMENTS?

23

24 A. YES. THE FIRST SUBCATEGORY IS PERSONAL
25 COMMUNICATIONS/WIRELESS. EVEN MS. DISMUKES

1 RECOGNIZES THAT "ACCESS WILL MOST LIKELY BE
2 PROVIDED IN THE REGULATED ENVIRONMENT." IT IS
3 EXPECTED THAT PCS OR WIRELESS COMMUNICATION WILL
4 BE A REALITY BY 1995. THIS WILL PROVIDE SEVERAL
5 OPPORTUNITIES FOR CUSTOMERS TO HAVE SERVICE THAT IS
6 TRULY PORTABLE AT A COST ANTICIPATED TO BE
7 COMPARABLE WITH WIRELINE TYPE SERVICE.
8
9 BY PARTICIPATING IN THIS EFFORT WITH BELLCORE, THE
10 COMPANY IS BETTER POSITIONED TO FUND AND DEVELOP
11 MECHANIZED SOLUTIONS TO SUPPORT WIRELESS ACCESS AND
12 ASSOCIATED INTERACTIONS OF ACCESS BETWEEN A
13 WIRELINE AND A WIRELESS NETWORK ARCHITECTURE. THE
14 PROTOTYPE THAT IS BEING DEVELOPED IS UTILIZED TO
15 TEST REQUIREMENTS IN A LIMITED SCOPE AND THUS
16 REDUCE COST BEFORE BEGINNING DEVELOPMENT OF
17 SOFTWARE CODE FOR OUR OPERATIONS SYSTEMS.
18 AN EXAMPLE OF A PROJECT CATEGORIZED IN PC/WIRELESS
19 IS WIRELESS INTERCONNECTION SERVICE DEVELOPMENT
20 (222M04). BELLCORE REPRESENTS THE COMPANY IN
21 NATIONAL FORUMS THROUGH THE FUNDING OF THIS
22 PROJECT. BELLCORE'S REPRESENTATION BENEFITS THE
23 EXCHANGE AND/OR EXCHANGE ACCESS BUSINESS IN THAT IT
24 ALLOWS INPUT TO THE INTERFACE REQUIREMENTS BETWEEN
25 THE REGULATED NETWORKS AND THE WIRELESS NETWORKS,

1 BOTH EXISTING AND EMERGING. BY EXERTING THIS
2 INFLUENCE THROUGH BELLCORE, THE COMPANY IS ABLE TO
3 ANTICIPATE NETWORK NEEDS FOR THE GENERAL PUBLIC,
4 TO POSITION OUR NETWORK TO MEET THOSE NEEDS, AND TO
5 DO SO IN THE SHORTEST TIME FRAME AND AT THE MOST
6 ECONOMICAL COST.

7

8 Q. WILL YOU DISCUSS THE PROJECTS MS. DISMUKES HAS
9 PLACED IN THE SUBCATEGORY CALLED FIBER?

10

11 A. YES. THREE OF THESE PROJECTS ARE SUPPORTING
12 FIBER-IN-THE-LOOP DEPLOYMENT. MS. DISMUKES STATES,
13 "THE USE OF FIBER-IN-THE-LOOP AND TO-THE-CURB IS
14 NOT NECESSARY FOR THE PROVISION OF BASIC
15 TELECOMMUNICATIONS SERVICE". THE USE OF FIBER
16 RESULTS IN A MORE RELIABLE AND ECONOMICAL "BASIC
17 TELECOMMUNICATION SERVICE." FIBER HAS BECOME THE
18 ECONOMICAL CHOICE OVER COPPER FOR ALL INTEROFFICE
19 CABLES AND MOST FEEDER CABLES OUT OF THE CENTRAL
20 OFFICES. IT IS THE ECONOMIC CHOICE FOR SOME
21 DISTRIBUTION CABLE AND AS COSTS OF FIBER FACILITIES
22 BECOME MORE FAVORABLE, FIBER WILL BECOME THE MEDIUM
23 OF CHOICE FOR ALL DISTRIBUTION CABLE.

24

25 AS A SPECIFIC EXAMPLE, MANAGEMENT OF OPERATION

1 SYSTEMS (OS) SUPPORT FOR NEW TECHNOLOGY (324105),
2 IS WORK THAT HELPS COORDINATE THE EVOLUTION OF
3 OPERATION SYSTEMS AS THE NETWORK BECOMES MORE
4 SOPHISTICATED. THIS WORK SUPPORTS THE PUBLIC
5 SWITCHED TELEPHONE NETWORK AND THE EXPENSE
6 ASSOCIATED WITH THIS PROJECT SHOULD BE INCLUDED IN
7 RATEMAKING, AS SHOULD ALL PROJECTS IN THIS
8 SUBCATEGORY.

9
10 Q. WOULD YOU DISCUSS THE PROJECT IN THE SUBCATEGORY
11 ENTITLED INFORMATION NETWORKING ARCHITECTURE?

12
13 A. YES. INFORMATION NETWORKING ARCHITECTURE (INA)
14 (1R501N) PROVIDES RESOURCES TO WORK WITH THE
15 INDUSTRY TO DEVELOP ARCHITECTURES AND
16 SPECIFICATIONS TO SUPPORT NEW TECHNOLOGIES, SUCH AS
17 SYNCHRONOUS OPTICAL NETWORK (SONET) AND
18 ASYNCHRONOUS TRANSFER MODE (ATM). THESE
19 SPECIFICATIONS ARE USED BY VENDORS TO DEVELOP
20 PRODUCTS/EQUIPMENT. THE COMPANY THEN IS ABLE TO
21 DEVELOP COST EFFICIENT OPERATIONS TO SUPPORT THE
22 NEW TECHNOLOGIES BY BEING ABLE TO INTEGRATE
23 PRODUCTS FROM MORE THAN ONE VENDOR. ALSO, BY
24 COORDINATING THIS EFFORT, THE AVAILABILITY OF
25 VENDOR PRODUCTS IS OFTEN ACCELERATED.

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SUPPORT OF THIS PROJECT RESULTS IN THE COMPANY MEETING EXCHANGE AND EXCHANGE ACCESS SERVICE NEEDS IN AN INCREASINGLY COST-EFFECTIVE AND TIMELY MANNER.

Q. WILL YOU PLEASE DISCUSS THE ADVANCED INTELLIGENT NETWORK (AIN) PROJECTS WHICH ARE INCLUDED IN THE NEXT SUBCATEGORY IN MS. DISMUKES' TESTIMONY?

A. YES. AIN IS THE NEXT STEP IN THE NATURAL EVOLUTION OF THE CURRENT VOICE NETWORK. AS SUCH IT PROVIDES GREATER FLEXIBILITY AND COST EFFECTIVENESS IN THE CREATION AND IMPLEMENTATION OF VOICE SERVICES IN THE EXISTING REGULATED NETWORK. AN EXAMPLE OF ONE OF THE PRIMARY OUTPUTS OF THE AIN PROJECTS MS. DISMUKES PROPOSES TO DISALLOW IS AIN PLANNING AND REQUIREMENTS (1R4111). WORK IN THIS PROJECT DEVELOPS AIN GENERIC REQUIREMENTS/SPECIFICATIONS FOR CENTRAL OFFICE SWITCHES. THE COMPANY HAS PURCHASED SOFTWARE DESIGNED IN CONFORMANCE WITH THE BELLCORE SPECIFICATIONS FROM EACH OF ITS SWITCH VENDORS AND HAS INTRODUCED ITS FIRST AIN SERVICE IN A NUMBER OF STATES. THIS INITIAL AIN SERVICE, CALLING NAME DELIVERY, HAS BEEN TARIFFED IN FLORIDA

1 AND FOUR OTHER STATES WITH PLANS FOR THE REMAINING
2 FOUR STATES IN THE NEAR TERM. FURTHER, AN AIN
3 PERSONAL NUMBER CALLING TRIAL BEGINS IN FEBRUARY OF
4 1994. CONSIDERABLE WORK IS ALREADY UNDER WAY FOR
5 EXTENSIONS TO AIN PERSONAL NUMBER CALLING AND
6 PROVISION OF AIN COMPUTER ACCESS RESTRICTIONS.
7 ALSO, WORK IS UNDER WAY TO PROVIDE USERS WITH BASIC
8 AIN PROGRAMABILITY AND AIN MEDIATED ACCESS TO A
9 SERVICE CONTROL POINT. THESE SERVICES ARE PLANNED
10 FOR DEPLOYMENT IN THE 1994-97 TIME FRAME. ALL OF
11 THESE SERVICES BENEFIT CURRENT AND FUTURE
12 RATEPAYERS.

13

14 THE AIN PLANNING AND REQUIREMENTS PROJECT IS BUT
15 ONE EXAMPLE OF THE AIN PROJECTS MS. DISMUKES
16 PROPOSED TO DISALLOW FOR RATEMAKING. THE OTHER
17 THREE AIN PROJECTS IN MS. DISMUKES' TESTIMONY ALSO
18 BENEFIT RATEPAYERS AND SHOULD BE ALLOWED FOR
19 RATEMAKING.

20

21 Q. WILL YOU NOW DISCUSS THE LAST SUBCATEGORY,
22 VIDEO/BISDN?

23

24 A. YES. IT IS INCORRECT TO SEE THE WORD "VIDEO" AND
25 IMMEDIATELY DETERMINE IT TO BE AN UNREGULATED

1 SERVICE. I AM AFRAID THAT IS WHAT MS. DISMUKES HAS
2 DONE. MANY OF TODAY'S APPLICATIONS USING VIDEO
3 ARE REGULATED SERVICES. A GOOD EXAMPLE IS THE WORK
4 BEING DONE IN THE PROJECT, CURRENT SUPPORT
5 VIDEO/PROGRAM AUDIO (924466), WHICH PROVIDES
6 DAY-TO-DAY ASSISTANCE TO THE COMPANY WITH EXISTING
7 REGULATED VIDEO SERVICES. THESE SERVICES INCLUDE
8 THE DISTANCE LEARNING PROJECTS IN THE WEST PALM
9 BEACH, ORANGE COUNTY, AND ESCAMBIA COUNTY SCHOOL
10 SYSTEMS, AND AT FLORIDA INTERNATIONAL UNIVERSITY.
11 THE PROJECT ALSO PROVIDES INPUT TO OUR DESIGNING OF
12 THE COMMERCIAL QUALITY VIDEO SYSTEM THAT HAS BEEN
13 REQUESTED BY THE STATE GOVERNMENT OF FLORIDA.

14

15 IN ADDITION, THIS PROJECT ALLOWS THE COMPANY TO
16 HAVE ACCESS TO ADDITIONAL TRANSMISSION EQUIPMENT
17 NEEDED IN EMERGENCY SITUATIONS, SUCH AS HURRICANE
18 ANDREW AND FOR SPECIAL MEDIA EVENTS, SUCH AS ORANGE
19 BOWL GAMES AND OTHER SPORTING EVENTS. THIS
20 ALLEVIATES THE NEED FOR THE COMPANY TO PURCHASE
21 ADDITIONAL VIDEO TRANSMISSION EQUIPMENT.

22

23 Q. WILL YOU PLEASE SUMMARIZE YOUR TESTIMONY REGARDING
24 MS. DISMUKES' PROPOSALS CONCERNING SELECTED
25 BELLCORE PROJECTS?

1

2 A. YES. MS. DISMUKES' PROPOSAL SHOULD BE REJECTED FOR
3 SEVERAL REASONS:

4

5 FIRST, HER RECOMMENDATION FOR BELLCORE EXPENSE
6 DEFERRAL IS SIMPLY BAD ACCOUNTING.

7

8 SECOND, THESE RECOMMENDATIONS ARE UNFAIR.

9

10 THIRD, THESE PROPOSALS WOULD CREATE A FINANCIAL
11 UNCERTAINTY FOR THE COMPANY AND CREATE
12 DISINCENTIVES FOR THE COMPANY TO CONTINUE TO ENGAGE
13 IN DEVELOPMENTAL WORK.

14

15 FINALLY, MS. DISMUKES HAS MISCHARACTERIZED AND
16 FAILED TO UNDERSTAND THE NATURE OF THE BELLCORE
17 WORK WHICH SHE QUESTIONS. I HAVE SHOWN SPECIFIC
18 EXAMPLES OF BENEFITS TO REGULATED SERVICES. THE
19 SAME IS TRUE FOR ALL OF THE BELLCORE PROJECTS
20 CHALLENGED BY MS. DISMUKES.

21

22 THE COMPANY'S BELLCORE PROJECTS QUESTIONED BY MS.
23 DISMUKES ARE BENEFICIAL TO THE REGULATED OPERATIONS
24 OF THE COMPANY. ACCORDINGLY, THE EXPENSES
25 ASSOCIATED WITH THESE PROJECTS SHOULD NOT BE

1 DEFERRED AS PROPOSED BY MS. DISMUKES.
2
3 Q. WILL YOU COMMENT ON THE ISSUE RAISED BY MS.
4 DISMUKES CONCERNING VIDEO WINDOWS?
5
6 A. YES. MS. DISMUKES ALLEGES THAT THE COMPANY
7 SUPPORTED BELLCORE'S DESIGN OF A PRODUCT THAT THE
8 COMPANY IS PROHIBITED FROM OFFERING DUE TO
9 RESTRICTIONS OF THE MODIFICATION OF FINAL JUDGMENT
10 (MFJ). THE PRODUCT REFERRED TO IN MS. DISMUKES'
11 TESTIMONY IS "VIDEO WINDOWS." THE VIDEO WINDOW
12 EXPERIMENTAL RESEARCH PROTOTYPE SYSTEM WAS CREATED
13 AS A RESULT OF BELLCORE RESEARCH ACTIVITY DIRECTED
14 AT MAKING LARGE SCREEN TELECONFERENCING
15 APPLICATIONS A SUBSTITUTE FOR TRAVEL.
16 CONTRARY TO MS. DISMUKES' ALLEGATION, BELLCORE DID
17 NOT DESIGN A PRODUCT THAT THE RBOCS ARE PROHIBITED
18 FROM OFFERING. BELLCORE'S INVESTIGATION OF THIS
19 TECHNOLOGY WAS PART OF ITS AUTHORIZED RESEARCH
20 ACTIVITIES. BELLCORE HAS NOT ENGAGED IN ANY
21 MANUFACTURING, INCLUDING PRODUCT DESIGN OR
22 DEVELOPMENT, AS THAT TERM IS DEFINED IN THE MFJ AND
23 SUBSEQUENT INTERPRETATIONS BY THE DECREE COURT AND
24 THE DEPARTMENT OF JUSTICE.
25

1 Q. ARE THERE ANY ADDITIONAL ISSUES REGARDING BELLCORE
2 THAT REQUIRE COMMENTS?

3

4 A. YES. AN ADDITIONAL ISSUE RAISED BY MS. DISMUKES IS
5 BELLCORE'S MEMBERSHIPS. BELLCORE HAS MEMBERSHIPS
6 IN ORGANIZATIONS THAT EITHER SUPPORT BELLCORE'S
7 BUSINESS INTERESTS OR FROM WHICH BELLCORE CAN
8 EXPECT TO DERIVE BENEFIT. IN ORDER TO BE SPONSORED
9 BY BELLCORE, A MEMBERSHIP MUST MEET ONE OR MORE OF
10 THE FOLLOWING CRITERIA:

11

- 12 - THE MEMBERSHIP IS CONSIDERED PART OF THE
13 EMPLOYEE'S JOB
- 14 - BELLCORE HAS A FUNDAMENTAL OBLIGATION OR NEED
15 TO BE REPRESENTED IN THE ORGANIZATION, AND/OR
- 16 - BELLCORE'S BUSINESS INTERESTS WILL BE
17 EXPLICITLY ENHANCED BY THE EMPLOYEE'S
18 MEMBERSHIP.

19

20 MS. DISMUKES PROPOSES DISALLOWING VARIOUS
21 MEMBERSHIPS BASED ON THE FACT THAT SHE WAS UNAWARE
22 OF WHAT THE MEMBERSHIP REPRESENTED OR, OF THE
23 MEMBERSHIP'S BENEFITS TO BELLCORE. FOR EXAMPLE,
24 SHE PROPOSES TO DISALLOW A MEMBERSHIP TO THE STATE
25 OF NEW JERSEY-ATTORNEY CLIENT PROTECTION FUND

1 (APF). THIS FEE IS A MANDATORY TAX THAT EVERY
2 PRACTICING ATTORNEY IN NEW JERSEY MUST PAY - IN
3 ADDITION TO THE NEW JERSEY BAR ASSOCIATION FEES.
4 THIS MANDATORY TAX IS APPLIED TO THE FUND.
5
6 AS OTHER EXAMPLES, MANY UNIVERSITIES HAVE
7 ESTABLISHED RESEARCH CENTERS THAT FOCUS ON SPECIFIC
8 AREAS OF INTEREST TO BELLCORE, SUCH AS
9 OPTOELECTRONICS, WIRELESS COMMUNICATIONS, AND
10 SOFTWARE ENGINEERING. MOST OF THESE CENTERS ARE
11 MULTIDISCIPLINARY AND PROVIDE BELLCORE WITH DIRECT
12 ACCESS TO RESEARCH. IN MANY CASES, BELLCORE AND
13 OTHER RESEARCH CENTER MEMBERS FOCUS THE RESEARCH IN
14 THE DIRECTIONS THEY CONSIDER MOST BENEFICIAL.
15 ALSO, THROUGH MEMBERSHIPS IN INDUSTRIAL AFFILIATE
16 PROGRAMS AT MAJOR ACADEMIC INSTITUTIONS, BELLCORE
17 RECEIVES SIGNIFICANT BENEFITS. THESE BENEFITS
18 INCLUDE PARTICIPATION IN DEPARTMENTAL RESEARCH
19 REVIEWS, ACCESS TO FACULTY MEMBERS AND INFORMATION
20 ABOUT THEIR RESEARCH, AND A STRONG CORPORATE
21 IDENTITY ON CAMPUS WHICH ENHANCES BELLCORE'S
22 ABILITY TO ATTRACT OUTSTANDING GRADUATES.
23
24 FOR REASONS SUCH AS THESE, MS. DISMUKES' ARBITRARY
25 PROPOSAL TO DISALLOW VARIOUS BELLCORE MEMBERSHIP

1 EXPENSES IS INAPPROPRIATE AND SHOULD BE REJECTED.

2

3 Q. WILL YOU PLEASE SUMMARIZE YOUR TESTIMONY?

4

5 A. IN SUMMARY, I HAVE FIRST SHOWN THAT MR. CURRIN'S
6 TESTIMONY WITH REGARD TO DEPRECIATION EXPENSE IS
7 ESSENTIALLY A RESTATEMENT OF THE SAME ISSUES HE
8 PRESENTED IN DOCKET NO. 920385-TL. THESE ISSUES
9 WERE REVIEWED AND RULED UPON BY THIS COMMISSION,
10 AND DEPRECIATION RATES HAVE BEEN SET. BY MR.
11 CURRIN'S OWN ADMISSION, THIS DOCKET IS NOT A FORUM
12 FOR REVISING THE COMPANY'S DEPRECIATION RATES. MR.
13 CURRIN'S TESTIMONY BRINGS NOTHING NEW TO THIS
14 DOCKET. INSTEAD, HE SEEKS ONLY TO REHASH ISSUES
15 WHICH HAVE ALREADY BEEN RESOLVED. HIS "BACK DOOR
16 APPROACH" IS UNFAIR AND INAPPROPRIATE. FURTHER,
17 MR. CURRIN'S TESTIMONY CONTAINS STATEMENTS AND
18 ILLUSTRATIONS WHICH ARE MISLEADING. HIS
19 RECOMMENDATIONS ARE FLAWED AND SHOULD BE REJECTED.

20

21 MY TESTIMONY HAS ALSO ADDRESSED VARIOUS ALLEGATIONS
22 MADE AND EXPENSE DISALLOWANCES RECOMMENDED BY MS.
23 KIMBERLY DISMUKES. I HAVE EXPLAINED THAT HER
24 CONCERNS WITH THE COMPANY'S AFFILIATE TRANSACTIONS
25 AND COST ALLOCATION RULES, INCLUDING RETURN ON

1 INVESTMENT CHARGES, ARE UNFOUNDED. FURTHER, I HAVE
2 DEMONSTRATED THAT MS. DISMUKES' PROPOSED
3 DISALLOWANCE OF A PORTION OF THE COMPANY'S EXPENSES
4 RELATED TO AIRCRAFT, BELLSOUTH CORPORATION AND
5 BELLCORE IS INAPPROPRIATE AND SHOULD BE REJECTED.

6

7 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

8

9 A. YES.

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1 SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY
2 REBUTTAL TESTIMONY OF DR. RANDALL S. BILLINGSLEY
3 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
4 DOCKET NO. 920260-TL
5 DECEMBER 10, 1993
6

7 I. INTRODUCTION
8

9 Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS
10 ADDRESS.
11

12 A. MY NAME IS RANDALL S. BILLINGSLEY. I AM VICE
13 PRESIDENT OF THE ASSOCIATION FOR INVESTMENT
14 MANAGEMENT AND RESEARCH (AIMR) IN THE EDUCATION AND
15 PROGRAMS DEPARTMENT. I AM CURRENTLY ON LEAVE FROM
16 MY POSITION AS ASSOCIATE PROFESSOR OF FINANCE AT
17 VIRGINIA POLYTECHNIC INSTITUTE AND STATE
18 UNIVERSITY. IN ADDITION TO THE DUTIES PERFORMED
19 FOR THE ABOVE APPOINTMENTS, I ALSO ACT AS A
20 FINANCIAL CONSULTANT IN THE AREAS OF COST OF
21 CAPITAL ANALYSIS, SECURITY ANALYSIS AND VALUATION,
22 AND INVESTMENT ANALYSIS. MY BUSINESS ADDRESS IS:
23 ASSOCIATION FOR INVESTMENT MANAGEMENT AND RESEARCH,
24 EDUCATION AND PROGRAMS DEPARTMENT, 5 BOAR'S HEAD
25 LANE, P.O. BOX 3668, CHARLOTTESVILLE, VIRGINIA

1 22903.

2

3 Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS
4 PROCEEDING ON BEHALF OF SOUTHERN BELL TELEPHONE AND
5 TELEGRAPH COMPANY (SOUTHERN BELL OR THE COMPANY)?

6

7 A. YES, I HAVE.

8

9 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

10

11 A. I HAVE BEEN ASKED BY SOUTHERN BELL TO REVIEW THE
12 TESTIMONIES OF MR. MARK A. CICCHETTI, MR. JAMES A.
13 ROTHSCHILD, AND MR. RONALD D. NEIL WITH RESPECT TO
14 THEIR DETERMINATION OF SOUTHERN BELL'S REQUIRED
15 RATE OF RETURN ON EQUITY CAPITAL. FURTHER, I WILL
16 REVIEW MR. ROTHSCHILD'S AND MR. CICCHETTI'S
17 TESTIMONIES CONCERNING SOUTHERN BELL'S APPROPRIATE
18 CAPITAL STRUCTURE FOR RATEMAKING PURPOSES.
19 FINALLY, I WILL PROVIDE AN UPDATED ESTIMATE OF
20 SOUTHERN BELL'S COST OF EQUITY CAPITAL.

21

22 Q. HOW IS YOUR TESTIMONY ORGANIZED?

23

24 A. FIRST, I PROVIDE A REBUTTAL OF MR. CICCHETTI'S
25 TESTIMONY, FILED ON BEHALF OF THE FLORIDA CABLE

1 TELEVISION ASSOCIATION, WHEREIN HE ERRONEOUSLY
2 ESTIMATES A COST OF EQUITY CAPITAL OF 9.90% FOR
3 SOUTHERN BELL. I EXPLAIN THE REASONS FOR MR.
4 CICCHETTI'S UNDERESTIMATION OF THE COST OF EQUITY
5 CAPITAL.

6
7 SECOND, I PROVIDE A REBUTTAL OF MR. ROTHSCHILD'S
8 TESTIMONY, FILED ON BEHALF OF THE CITIZENS OF THE
9 STATE OF FLORIDA, WHEREIN HE INCORRECTLY ESTIMATES
10 A COST OF EQUITY CAPITAL FOR SOUTHERN BELL OF
11 10.40% USING HIS RECOMMENDED CAPITAL STRUCTURE, AND
12 9.70% USING THE COMPANY'S REQUESTED CAPITAL
13 STRUCTURE. I DEMONSTRATE THAT THE UNDERLYING
14 ASSUMPTIONS OF HIS ANALYSIS ARE INCORRECT AND THAT
15 THE APPLICATION OF HIS METHODOLOGICAL APPROACHES IS
16 INHERENTLY FLAWED. THUS, HIS COST OF EQUITY
17 CAPITAL ESTIMATE IS SHOWN TO BE SIGNIFICANTLY
18 BIASED DOWNWARD.

19
20 THIRD, I REBUT MR. RONALD D. NEIL'S TESTIMONY ON
21 BEHALF OF THE FLORIDA PUBLIC SERVICE COMMISSION
22 WHEREIN HE INCORRECTLY ESTIMATES A COST OF EQUITY
23 CAPITAL OF 10.80% FOR SOUTHERN BELL. I SHOW THAT,
24 WHILE HE GENERALLY ACCEPTS MY METHODOLOGY FOR
25 IDENTIFYING FIRMS COMPARABLE IN RISK TO SOUTHERN

1 BELL, HIS APPLICATION OF MY APPROACH IS INCOMPLETE
2 AND INCORRECT. THIS MISAPPLICATION RESULTS IN HIS
3 SIGNIFICANT UNDERESTIMATION OF SOUTHERN BELL'S COST
4 OF EQUITY.

5
6 FOURTH, I REBUT THE INCORRECT AND INSUFFICIENTLY
7 SUPPORTED RECOMMENDATIONS BY MR. ROTHSCHILD AND MR.
8 CICCHETTI CONCERNING THE APPROPRIATE CAPITAL
9 STRUCTURE FOR SOUTHERN BELL. I SHOW THAT MR.
10 ROTHSCHILD'S EXTREME RECOMMENDATION THAT SOUTHERN
11 BELL'S EQUITY RATIO FOR RATEMAKING PURPOSES BE
12 REDUCED FROM THE ACTUAL LEVEL OF 61.01% TO A
13 SUPPOSEDLY OPTIMAL LEVEL OF 42.5% IS BASED ON
14 INCORRECT, IRREVELANT ASSUMPTIONS AND INCONSISTENT,
15 IMPROPER STATISTICAL ANALYSES. I ALSO REBUT MR.
16 CICCHETTI'S UNCONVINCING RECOMMENDATION THAT
17 SOUTHERN BELL'S EQUITY RATIO FOR RATEMAKING
18 PURPOSES BE REDUCED FROM THE ACTUAL LEVEL OF 61.01%
19 TO A 58.0% HYPOTHETICAL LEVEL. I DEMONSTRATE THAT
20 MR. CICCHETTI'S SEVEN CITED REASONS FOR HIS
21 RECOMMENDATION ARE ONLY IRRELEVANT OBSERVATIONS
22 THAT ARE NOT VALID REASONS FOR CHANGING SOUTHERN
23 BELL'S CAPITAL STRUCTURE FOR RATEMAKING PURPOSES.
24
25 AT THE END OF MY TESTIMONY, I PROVIDE AN UPDATE OF

1 MY ESTIMATION OF SOUTHERN BELL'S COST OF EQUITY.

2

3 II. SUMMARY OF REBUTTAL TESTIMONY

4

5 Q. PLEASE SUMMARIZE YOUR REBUTTAL OF MR. CICCHETTI'S
6 TESTIMONY CONCERNING SOUTHERN BELL'S COST OF
7 EQUITY.

8

9 A. MY EVALUATION OF MR. CICCHETTI'S DIRECT TESTIMONY
10 ON THE COST OF EQUITY DISCUSSES HIS INCORRECT
11 ASSUMPTIONS AND THE FLAWED APPLICATION OF HIS COST
12 OF EQUITY CAPITAL ESTIMATION METHODOLOGIES. HIS
13 MOST PROMINENT ERRORS FALL INTO THREE CATEGORIES:
14 A) AN INCORRECT AND HIGHLY SUBJECTIVE APPLICATION
15 OF THE MULTI-STAGE VERSION OF THE DISCOUNTED CASH
16 FLOW (DCF) MODEL; B) THE USE OF A GROUP OF FIRMS IN
17 BOTH HIS DCF AND HIS RISK PREMIUM ANALYSES THAT ARE
18 NOT COMPARABLE IN RISK TO SOUTHERN BELL, AND C) A
19 FAILURE TO PROPERLY RECOGNIZE THE IMPLICATIONS OF
20 THE INCREASINGLY COMPETITIVE ENVIRONMENT FACED BY
21 ALL OF THE TELEPHONE COMPANIES IN GENERAL AND
22 SOUTHERN BELL IN PARTICULAR. I WILL SHOW HOW MR.
23 CICCHETTI'S ERRORS HAVE RESULTED IN AN
24 UNREALISTICALLY LOW ESTIMATE OF SOUTHERN BELL'S
25 COST OF EQUITY CAPITAL. FURTHER, I WILL RESPOND TO

1 MR. CICHETTI'S SPECIFIC CRITICISMS OF MY
2 APPROACHES TO ESTIMATING THE COST OF EQUITY AND
3 SHOW THAT THEY ARE BASED ON HIS INCORRECT
4 ASSUMPTIONS AND HIS INCOMPLETE UNDERSTANDING OF HOW
5 THESE APPROACHES SHOULD BE IMPLEMENTED.

6

7 Q. WHAT ISSUES DOES YOUR REBUTTAL FOCUS ON IN MR.
8 ROTHSCHILD'S DIRECT TESTIMONY CONCERNING SOUTHERN
9 BELL'S COST OF EQUITY?

10

11 A. MY REBUTTAL FOCUSES ON FOUR PRIMARY ERRORS AND/OR
12 MISCONCEPTIONS IN MR. ROTHSCHILD'S APPROACHES TO
13 ESTIMATING THE COST OF EQUITY FOR SOUTHERN BELL.
14 THESE ERRORS INCLUDE: A) NUMEROUS MISTAKES IN
15 APPLYING THE DCF MODEL; B) INAPPROPRIATE RELIANCE
16 ON ELECTRIC UTILITIES AND THE RBHCS AS SUPPOSEDLY
17 COMPARABLE IN RISK TO SOUTHERN BELL; C) INCORRECT
18 DEPENDENCE ON THE CRITERION THAT THE EQUITY
19 PRICE-TO-BOOK RATIO OF A REGULATED UTILITY SHOULD
20 BE EQUAL TO ONE UNDER EFFICIENT REGULATION, AND D)
21 MISUNDERSTANDING OF THE EFFECT OF QUARTERLY
22 DIVIDENDS ON STOCK PRICES. FURTHER, I WILL RESPOND
23 TO MR. ROTHSCHILD'S INACCURATE CRITICISMS OF THE
24 RESULTS PRESENTED IN MY DIRECT TESTIMONY. I SHOW
25 THAT MR. ROTHSCHILD'S CRITICISMS ARE NOT ONLY

1 INCORRECT BUT THAT THEY ALSO REVEAL HIS SERIOUS
2 MISUNDERSTANDING OF IMPORTANT STATISTICAL CONCEPTS
3 AND FINANCIAL THEORY. THUS, MY REBUTTAL WILL SHOW
4 THAT MR. ROTHSCHILD'S ERRORS AND MISCONCEPTIONS
5 EXPLAIN HIS SIGNIFICANT UNDERESTIMATION OF SOUTHERN
6 BELL'S COST OF EQUITY CAPITAL.

7

8 Q. WHAT ISSUES DOES YOUR REBUTTAL CONSIDER IN MR.
9 NEIL'S DIRECT TESTIMONY CONCERNING SOUTHERN BELL'S
10 COST OF EQUITY?

11

12 A. MY ANALYSIS OF MR. NEIL'S TESTIMONY DISCUSSES THREE
13 GENERAL ERRORS IN HIS APPROACHES TO ESTIMATING THE
14 COST OF EQUITY FOR SOUTHERN BELL: A) INCOMPLETE
15 AND INCORRECT APPLICATION OF MY METHODOLOGY FOR
16 IDENTIFYING FIRMS COMPARABLE IN RISK TO SOUTHERN
17 BELL; B) MISTAKES IN APPLYING THE DCF MODEL, AND C)
18 INAPPROPRIATE LEVERAGE ADJUSTMENT TO THIS COST OF
19 EQUITY ESTIMATE. FURTHER, I WILL RESPOND TO MR.
20 NEIL'S CRITICISMS OF MY APPROACHES TO ESTIMATING
21 THE COST OF EQUITY CAPITAL FOR SOUTHERN BELL.

22

23 Q. WHAT ELEMENTS DO YOU CONCENTRATE ON IN YOUR
24 REBUTTAL OF MR. CICCETTI'S AND MR. ROTHSCHILD'S
25 RECOMMENDATIONS CONCERNING SOUTHERN BELL'S

1 APPROPRIATE CAPITAL STRUCTURE FOR RATEMAKING
2 PURPOSES?

3
4 A. MY REBUTTAL OF MR. CICHETTI'S TESTIMONY EXAMINES
5 EACH OF HIS SEVEN REASONS FOR HIS RECOMMENDATION
6 AND SHOWS THAT THEY ARE REALLY ONLY OBSERVATIONS
7 THAT REFLECT HIS UNSUBSTANTIATED OPINION THAT
8 SOUTHERN BELL'S APPROPRIATE EQUITY RATIO IS 58%.
9 MY REBUTTAL OF MR. ROTHSCHILD'S TESTIMONY SHOWS
10 THAT HIS RECOMMENDED EQUITY RATIO OF 42.5% IS
11 EXTREME, ECONOMICALLY UNJUSTIFIED, AND BASED ON
12 INVALID, IRRELEVANT STATISTICAL ANALYSIS.

13
14 Q. PLEASE SUMMARIZE THE RESULTS OF YOUR UPDATED
15 ESTIMATION OF SOUTHERN BELL'S COST OF EQUITY.

16
17 A. MY ANALYSIS DETERMINES THE COST OF EQUITY CAPITAL
18 FROM TWO DISTINCT PERSPECTIVES: 1) THE DCF MODEL,
19 AS APPLIED TO A GROUP OF FIRMS OF RISK COMPARABLE
20 TO SOUTHERN BELL, AND 2) THE RISK PREMIUM APPROACH.
21 I BELIEVE THAT THE COST OF EQUITY CAPITAL FOR
22 SOUTHERN BELL IS IN THE RANGE OF 13.27% TO 14.11%
23 WITH A MIDPOINT OF 13.69%. I UNDERSTAND THAT THIS
24 RANGE IS ABOVE THE RATE ESTABLISHED BY THIS
25 COMMISSION IN 1988 AND 1990 AND IS WITHIN THE RANGE

1 SET BY THE COMMISSION FOR THE COMPANY'S COST OF
2 EQUITY. IT IS MY EXPERT OPINION THAT THIS RATE
3 REPRESENTS THE CURRENT OBJECTIVE, MARKET-DETERMINED
4 COST OF EQUITY CAPITAL THAT IS FAIR TO BOTH
5 SOUTHERN BELL AND TO ITS RATEPAYERS IN THE STATE OF
6 FLORIDA.

7

8 III. REBUTTAL OF MR. CICHETTI'S DIRECT TESTIMONY
9 ON SOUTHERN BELL'S COST EQUITY

10

11 A. INCORRECT APPLICATION OF THE DCF MODEL

12

13 Q. WHAT SPECIFIC ERRORS DOES MR. CICHETTI MAKE IN
14 APPLYING A MULTI-STAGE DCF MODEL THAT RESULT IN THE
15 UNDERESTIMATION OF SOUTHERN BELL'S COST OF EQUITY
16 CAPITAL?

17

18 A. MR. CICHETTI'S ERRORS INCLUDE: 1) EXCLUSIVE
19 RELIANCE ON VALUE LINE FOR GROWTH RATE FORECASTS;
20 2) INCORRECT FOCUS ON EXPECTED GROWTH RATE
21 FORECASTS FOR DIVIDENDS RATHER THAN THE MORE
22 BROAD-BASED EARNINGS RATE FORECASTS; 3) INCORRECT
23 APPLICATION OF THE B X R GROWTH RATE FORECAST
24 APPROACH; 4) INCOMPLETE AND UNSUPPORTED
25 JUSTIFICATION FOR USING A MULTI-STAGE MODEL; 5)

1 INCORRECT USE OF THE ANNUAL FORM OF THE DCF MODEL
2 EVEN THOUGH THE FIRMS IN HIS SAMPLE ALL PAY
3 DIVIDENDS QUARTERLY; 6) INCORRECT ASSERTION THAT
4 THE EFFECTIVE RATE OF RETURN UNDER A QUARTERLY DCF
5 MODEL SHOULD BE CONVERTED INTO A NOMINAL RATE OF
6 RETURN; 7) USE OF A FLOTATION COST ESTIMATE THAT IS
7 CONTRADICTED BY PUBLISHED EMPIRICAL EVIDENCE, AND
8 8) INAPPROPRIATE DEPENDENCE ON THE GROUP OF RBHCS,
9 WHICH ARE NOT RELEVANT RISK PROXIES FOR SOUTHERN
10 BELL.

11

12 Q. WOULD YOU PLEASE ELABORATE ON THE NATURE AND
13 SIGNIFICANCE OF MR. CICHETTI'S ERRORS IN
14 ESTIMATING FUTURE GROWTH?

15

16 A. YES. MR. CICHETTI OBTAINS ALL OF HIS GROWTH RATE
17 FORECASTS FROM VALUE LINE. WHILE IT IS TRUE THAT
18 THIS PUBLICATION IS FREQUENTLY RELIED ON BY
19 INVESTORS, IT IS NOT THE MOST OBJECTIVE AND
20 BROAD-BASED SOURCE OF INVESTORS' EXPECTATIONS.
21 VALUE LINE PUBLISHES ITS OWN FORECAST OF A
22 COMPANY'S GROWTH. IN CONTRAST, THE INSTITUTIONAL
23 BROKERS ESTIMATE SYSTEM (IBES) AND ZACKS INVESTMENT
24 RESEARCH (ZACKS) OFFER AN AVERAGE OF SECURITY
25 ANALYSTS' FORECASTED GROWTH RATES ON A

1 COMPANY-BY-COMPANY BASIS. AS SUCH, IBES AND ZACKS
2 PROVIDE MORE BROAD-BASED FORECASTS OF GROWTH THAN
3 DOES VALUE LINE. CONSEQUENTLY, MY USE OF IBES AND
4 ZACKS IN ESTIMATING EXPECTED GROWTH PROVIDES A MORE
5 REPRESENTATIVE MEASURE OF INVESTORS' EXPECTATIONS
6 THAN DOES MR. CICHETTI'S RELIANCE ON A SINGLE
7 ESTIMATE SUCH AS VALUE LINE.

8

9 Q. MR. CICHETTI ARGUES ON PAGE 51, LINES 16-19, OF
10 HIS DIRECT TESTIMONY THAT "THE EXPECTED GROWTH IN
11 EARNINGS IS NOT A VALID PROXY FOR THE EXPECTED
12 GROWTH IN DIVIDENDS BECAUSE ALL EARNINGS ARE NOT
13 PAID OUT AS DIVIDENDS WHEN THEY ARE EARNED." DO
14 YOU AGREE WITH HIS POSITION ON THE IMPORTANCE OF
15 DIVIDENDS?

16

17 A. NO, I DO NOT AGREE WITH HIS POSITION. WHILE IT IS
18 TRUE THAT THE DCF MODEL FOCUSES ON DIVIDENDS, THE
19 RELATIONSHIP BETWEEN DIVIDENDS AND EARNINGS OVER
20 THE LONG-RUN MAKES THE EXPECTED RATE OF GROWTH IN
21 EARNINGS OF KEY IMPORTANCE IN COST OF EQUITY
22 ESTIMATION. OVER TIME, THE AVERAGE GROWTH RATES OF
23 EARNINGS AND DIVIDENDS SHOULD BE EQUIVALENT. OF
24 COURSE, EARNINGS ARE THE SOURCE OF THE DIVIDENDS
25 PAID TO INVESTORS. ANY EARNINGS THAT ARE NOT PAID

1 OUT AS DIVIDENDS ARE REINVESTED IN THE FIRM AND
2 SHOULD CONTRIBUTE TO AN INVESTOR'S RETURN THROUGH
3 THE APPRECIATION OF THE STOCK'S PRICE THAT RESULTS
4 FROM SUCH REINVESTMENT.

5
6 IT IS IMPORTANT IN COST OF EQUITY ANALYSIS TO RELY
7 ON THE MOST OBJECTIVE DATA AVAILABLE. MOST ALL
8 ANALYSTS' GROWTH FORECASTS ARE IN TERMS OF EARNINGS
9 RATHER THAN DIVIDENDS. THUS, THE MOST RELIABLE AND
10 OBJECTIVE FORECASTS ARE FOR FUTURE EARNINGS.

11
12 MR. CICHETTI'S APPROACH IS TOO SIMPLISTIC IN
13 REQUIRING THAT THE DCF MODEL FOCUS EXCLUSIVELY ON
14 DIVIDENDS RATHER THAN ON THEIR SOURCE, EARNINGS.
15 HIS RELIANCE ON DIVIDEND FORECASTS INTRODUCES
16 ADDITIONAL ESTIMATION BIAS BY USING A DIVIDEND
17 PAYOUT RATIO FORECAST TO DERIVE A DIVIDEND GROWTH
18 RATE FROM VALUE LINE'S EARNINGS FORECASTS. THE
19 BEST AND MOST WIDELY AVAILABLE DATA IN THE
20 INVESTMENT COMMUNITY IS FOR EXPECTED EARNINGS, NOT
21 EXPECTED DIVIDENDS.

22
23 Q. WHAT IS YOUR OPINION OF MR. CICHETTI'S USE OF THE
24 SO-CALLED B X R APPROACH TO ESTIMATING GROWTH?

25

1 A. THE B X R APPROACH TO ESTIMATING GROWTH DOES NOT
2 PRODUCE AN OBJECTIVE, REPRESENTATIVE MEASURE OF
3 INVESTORS' LONG-TERM GROWTH EXPECTATIONS. THE
4 OBSERVATION THAT GROWTH IS EQUAL TO A FIRM'S
5 RETENTION RATE (B) TIMES ITS RETURN ON BOOK EQUITY
6 (R) IS ONLY AN ACCOUNTING DEFINITION. THE
7 EMPIRICAL EVIDENCE INDICATES THAT INVESTORS USE
8 ANALYSTS' OVERALL GROWTH RATE FORECASTS IN VALUING
9 EQUITY SECURITIES AND THAT A SURVEY OF ANALYSTS
10 PRODUCES THE MOST OBJECTIVE ASSESSMENT OF SUCH
11 EXPECTATIONS. RELIANCE ON B X R FORECASTS BY ONLY
12 A SINGLE FORECASTING ENTITY LIKE VALUE LINE REDUCES
13 THE RELIABILITY OF SUCH FORECASTS BY INCLUDING THE
14 ESTIMATION OF TWO VARIABLES (B AND R) INSTEAD OF
15 ONE (G) AND BY DEPENDING ON A SINGLE FORECAST
16 RATHER THAN A BROAD SURVEY SERVICE SUCH AS IBES.
17

18 Q. WHAT JUSTIFICATION DOES MR. CICCHETTI OFFER FOR
19 USING THE MULTI-STAGE VERSION OF THE DCF MODEL?
20

21 A. MR. CICCHETTI MERELY OBSERVES THAT "IF...THE FUTURE
22 GROWTH RATE IS EXPECTED TO CHANGE, A TWO-STAGE OR
23 VARIABLE GROWTH RATE MODEL SHOULD BE USED. I HAVE
24 RELIED ON A TWO-STAGE VARIABLE GROWTH RATE MODEL IN
25 ORDER TO USE THE SPECIFIC DIVIDEND FORECASTS FOR

1 THE NEXT FIVE YEARS PROVIDED BY VALUE LINE" (DIRECT
2 TESTIMONY, PAGE 42, LINES 19-24). IT APPEARS THAT
3 MR. CICCHETTI'S RELIANCE ON VALUE LINE AS A
4 CONVENIENT, ALTHOUGH LIMITED, SOURCE OF DATA FORCED
5 HIM TO USE A MULTI-STAGE APPROACH.

6
7 THE ESTIMATION OF MULTIPLE GROWTH RATES INTRODUCES
8 GREATER SUBJECTIVITY INTO COST OF EQUITY
9 ESTIMATION, ESPECIALLY WHEN THE FORECASTS RELY ONLY
10 ON A SINGLE FORECASTING ENTITY SUCH AS VALUE LINE.
11 FOR THESE REASONS I BELIEVE THAT MR. CICCHETTI'S
12 MULTI-STAGE DCF MODEL IS NOT SUFFICIENTLY OBJECTIVE
13 OR ACCURATE TO BE CONSIDERED SERIOUSLY BY THIS
14 COMMISSION IN DETERMINING SOUTHERN BELL'S COST OF
15 EQUITY CAPITAL.

16
17 Q. IS MR. CICCHETTI'S DCF MODEL CONSISTENT WITH THE
18 INVESTOR'S PERSPECTIVE ON VALUING EQUITY
19 SECURITIES?

20
21 A. NO, IT IS NOT. MR. CICCHETTI USES THE ANNUAL FORM
22 OF THE DCF MODEL EVEN THOUGH THE RBHCS IN HIS GROUP
23 OF COMPARABLE FIRMS PAY DIVIDENDS ON A QUARTERLY
24 BASIS. INVESTORS VALUE EQUITY SECURITIES IN LIGHT
25 OF NOT ONLY WHAT THEY EXPECT TO GET (I.E.,

1 DIVIDENDS AND/OR FUTURE PRICE), BUT ALSO IN LIGHT
2 OF WHEN THEY EXPECT TO GET IT. OTHER THINGS BEING
3 EQUAL, INVESTORS WILL PAY A HIGHER PRICE FOR A
4 STOCK THAT PAYS DIVIDENDS QUARTERLY THAN FOR A
5 STOCK THAT PAYS DIVIDENDS ANNUALLY. THIS IS DUE TO
6 THE INVESTOR'S ABILITY TO EARN A HIGHER RETURN WITH
7 QUARTERLY DIVIDENDS THROUGH THE MORE FREQUENT
8 OPPORTUNITY TO REINVEST DIVIDENDS THAN IS THE CASE
9 WITH THE ANNUAL PAYMENT OF DIVIDENDS. THUS, MR.
10 CICCHETTI'S USE OF THE ANNUAL FORM OF THE DCF MODEL
11 DOES NOT ACCURATELY PORTRAY THE INVESTOR'S
12 PERSPECTIVE AND CONSEQUENTLY SIGNIFICANTLY
13 UNDERESTIMATES SOUTHERN BELL'S COST OF EQUITY
14 CAPITAL.

15
16 THE IMPORTANCE OF THIS ERROR IS DRAMATIZED BY LINKE
17 AND ZUMWALT'S PUBLISHED ESTIMATE THAT FAILURE TO
18 ADJUST FOR THE QUARTERLY PAYMENT OF DIVIDENDS CAN
19 UNDERESTIMATE A UTILITY'S COST OF EQUITY CAPITAL BY
20 50 TO OVER 200 BASIS POINTS (FINANCIAL MANAGEMENT,
21 AUTUMN, 1984, PP. 15 - 20).

22
23 Q. ON PAGE 55 (LINE 4) OF HIS DIRECT TESTIMONY, MR.
24 CICCHETTI ARGUES THAT NOT CONVERTING THE EFFECTIVE
25 RETURN PRODUCED BY A QUARTERLY DCF MODEL INTO A

1 NOMINAL RETURN IS "INCONSISTENT AND UNFAIR TO
2 RATEPAYERS." WHAT IS HIS ESSENTIAL POINT AND WHY
3 IS IT INCORRECT?
4

5 A. MR. CICCHETTI'S ESSENTIAL POINT IS THAT THE
6 OPPORTUNITY TO REINVEST DIVIDENDS QUARTERLY IMPLIES
7 AN EFFECTIVE OR AN ECONOMICALLY MEANINGFUL RATE OF
8 RETURN THAT IS IN EXCESS OF THE STATED OR NOMINAL
9 RATE OF RETURN THAT MUST BE EARNED PERIODICALLY IN
10 ORDER FOR THE EFFECTIVE RATE OF RETURN TO BE
11 REALIZED. THUS, MR. CICCHETTI ARGUES THAT GRANTING
12 A UTILITY THE EFFECTIVE ANNUAL RATE OF RETURN THAT
13 DROPS IS RELEVANT TO INVESTORS, OVERSTATES THE
14 APPROPRIATE NOMINAL RATE OF RETURN THAT ALLOWS
15 INVESTORS TO EARN THE GIVEN EFFECTIVE RATE OF
16 RETURN. HIS RECOMMENDATION IS INCORRECT DUE TO THE
17 WAY IN WHICH UTILITIES ARE REGULATED.

18
19 MR. CICCHETTI'S RECOMMENDED ADJUSTMENT WOULD BE
20 CORRECT IF THE REGULATORY PROCESS REFLECTED THE
21 ASSUMPTIONS NECESSARY FOR HIS ADJUSTMENT TO BE
22 REQUIRED, THAT IS, A PERFECTLY AND COMPLETELY
23 REGULATED UTILITY. MR. CICCHETTI STATES ON PAGE 55
24 OF HIS DIRECT TESTIMONY THAT THE COMPANY IS EARNING
25 A RETURN ON RATEPAYERS' MONTHLY PAYMENT OF BILLS

1 OVER THE YEAR, WHICH IS REFLECTED IN THE COMPANY'S
2 12-MONTH AVERAGE EQUITY BALANCE. HE THUS ARGUES
3 THAT THE EFFECTIVE RATE OF RETURN PRODUCED BY THE
4 QUARTERLY DCF MODEL MUST BE REDUCED IN RECOGNITION
5 OF THE COMPANY'S EARNINGS ON THE MONTHLY RECEIPT OF
6 CUSTOMERS' BILLS. YET THIS POSITION IS INCORRECT
7 BECAUSE MR. CICHETTI HAS FAILED TO CONSIDER THAT
8 SOUTHERN BELL'S CAPITAL STRUCTURE AND DEBT COSTS
9 ARE HISTORICAL, NOT PROSPECTIVE. AS SHOWN IN THE
10 LINKE AND ZUMWALT ARTICLE CITED BY MR. CICHETTI,
11 THE USE OF A HISTORICAL FINANCIAL STRUCTURE
12 REQUIRES AN UPWARD ADJUSTMENT TO THE QUARTERLY DCF
13 RESULT.

14
15 I HAVE USED THE QUARTERLY DCF MODEL BECAUSE IT
16 REFLECTS THE INVESTOR'S PERSPECTIVE MORE
17 REALISTICALLY THAN DOES MR. CICHETTI'S ANNUAL FORM
18 OF THE DCF. MOST FIRMS DO NOT PAY DIVIDENDS
19 ANNUALLY AND THE APPROPRIATE FORM OF THE DCF MODEL
20 MUST BE CONSISTENT WITH THE ACTUAL TIMING OF THE
21 DIVIDEND STREAM RECEIVED BY INVESTORS. MR.
22 CICHETTI'S RECOMMENDED ADJUSTMENT IS INCORRECT
23 SINCE SOUTHERN BELL IS NOT REGULATED IN THE MANNER
24 NECESSARY FOR THIS ADJUSTMENT TO BE REQUIRED AS SET
25 FORTH IN THE LINKE AND ZUMWALT ARTICLE.

1
2 CONTRARY TO MR. CICHETTI'S POSITION, IT WOULD BE
3 "INCORRECT AND UNFAIR TO RATEPAYERS" TO MAKE SUCH
4 AN ADJUSTMENT SINCE IT WOULD UNDERESTIMATE A
5 UTILITY'S COST OF EQUITY CAPITAL AND THEREBY IMPAIR
6 ITS ABILITY TO ATTRACT CAPITAL ON REASONABLE TERMS.
7 FURTHERMORE, IF THE COMMISSION WERE TO ADOPT MR.
8 CICHETTI'S ADJUSTMENT TO THE ALLOWED RATE OF
9 RETURN, INVESTORS WILL SIMPLY DEMAND A HIGHER
10 RETURN TO OFFSET THE COST OF THIS ADJUSTMENT.

11

12 Q. WHAT JUSTIFICATION DOES MR. CICHETTI OFFER FOR THE
13 3% FLOTATION COST ESTIMATE USED IN HIS DCF MODEL
14 ANALYSIS?

15

16 A. MR. CICHETTI CORRECTLY RECOGNIZED THAT AN
17 ALLOWANCE FOR FLOTATION COSTS IS REQUIRED, BUT NO
18 EVIDENCE IS PROVIDED TO SUPPORT THE REASONABLENESS
19 OF THE 3% COST USED IN HIS ANALYSIS.

20

21 Q. DO YOU HAVE REASON TO BELIEVE THAT THE 3% ESTIMATE
22 PROVIDES EQUITY INVESTORS WITH ADEQUATE
23 COMPENSATION FOR THE COST OF SELLING STOCK?

24

25 A. NO, I BELIEVE THAT 3% IS UNREALISTICALLY LOW AND

1 THAT THE USE OF THIS FIGURE CONTRIBUTES TO MR.
2 CICCHETTI'S UNDERESTIMATION OF SOUTHERN BELL'S COST
3 OF EQUITY CAPITAL. TWO EMPIRICAL STUDIES INDICATE
4 THAT A 5% FLOTATION COST IS REALISTIC. RESEARCH BY
5 SMITH (JOURNAL OF FINANCIAL ECONOMICS, 1977, PP.
6 273-307) FINDS THAT EXPLICIT FLOTATION COSTS AMOUNT
7 TO BETWEEN 4% AND 5% OF THE AMOUNT OF AN EQUITY
8 ISSUE. FOCUSING ON THE UTILITY INDUSTRY, RESEARCH
9 BY PETTWAY (PUBLIC UTILITY FORTNIGHTLY, MAY 10,
10 1984, PP. 35-39) FINDS THAT THE SALE OF EQUITY
11 SECURITIES GENERALLY ALSO INVOLVES IMPLICIT
12 FLOTATION COSTS IN THE FORM OF A 2% TO 3% DECLINE
13 IN THE PRICE OF THE STOCK THAT RESULTS FROM MARKET
14 PRESSURE. THUS, A TOTAL FLOTATION COST OF 5% IS A
15 CONSERVATIVE ESTIMATE. MR. CICCHETTI'S 3% ESTIMATE
16 IS LOW IN LIGHT OF THE AVAILABLE EVIDENCE.

17

18 Q. TURNING TO MR. CICCHETTI'S GROUP OF COMPANIES USED
19 AS PROXIES IN ESTIMATING SOUTHERN BELL'S COST OF
20 EQUITY, WHAT JUSTIFICATION DOES MR. CICCHETTI
21 PROVIDE FOR USING THE RBHCS IN HIS ANALYSIS?

22

23 A. NO JUSTIFICATION IS PROVIDED. MR. CICCHETTI HAS
24 ASSUMED RATHER THAN PROVEN THAT THE RBHCS ARE
25 COMPARABLE IN RISK TO SOUTHERN BELL. HE HAS

1 OFFERED ONLY HIS UNSUPPORTED OPINION AND NO
2 EVIDENCE OF SUCH COMPARABILITY. SINCE HE HAS
3 OFFERED NOTHING AT ALL TO SUPPORT HIS CONCLUSION,
4 THERE IS NO INFORMATION FOR THE COMMISSION TO USE
5 IN DECIDING WHETHER TO ACCEPT THE CONCLUSION.
6

7 B. INCORRECT RISK PREMIUM ANALYSIS
8

9 Q. MR. CICCHETTI'S RISK PREMIUM ANALYSIS USES A DCF
10 MODEL TO ESTIMATE THE COST OF EQUITY CAPITAL FOR
11 THE INDEX OF THE RBHCS. WHAT IS YOUR ASSESSMENT OF
12 MR. CICCHETTI'S APPLICATION OF THE DCF METHODOLOGY
13 IN THIS CONTEXT?
14

15 A. MR. CICCHETTI'S RISK PREMIUM ANALYSIS IS FLAWED BY
16 THE INCORRECT APPLICATION OF THE DCF MODEL. ALL OF
17 THE MISTAKES MADE IN HIS MULTI-STAGE DCF MODEL ARE
18 REPEATED IN THE APPLICATION OF THE DCF MODEL TO THE
19 RISK PREMIUM ANALYSIS. THUS, MR. CICCHETTI MAKES
20 NUMEROUS ERRORS IN ESTIMATING EXPECTED GROWTH, USES
21 A LOW FLOTATION COST ESTIMATE, FAILS TO RECOGNIZE
22 THE QUARTERLY PAYMENT OF DIVIDENDS, AND INCORRECTLY
23 ASSUMES THAT THE RBHCS ARE COMPARABLE IN RISK TO
24 SOUTHERN BELL.
25

1 C. MISINTERPRETATION OF
2 THE COMPETITIVE ENVIRONMENT
3 FACING TELEPHONE COMPANIES
4

5 Q. ON PAGE 33, LINES 17-21, OF HIS DIRECT TESTIMONY
6 MR. CICCHETTI ACKNOWLEDGES THAT "...LOCAL EXCHANGE
7 COMPANIES ARE FACING INCREASED COMPETITION" BUT
8 SPECULATES THAT"...MEANINGFUL COMPETITION WITHIN
9 THE LOCAL LOOP IS STILL UNCERTAIN AND IS YEARS AWAY
10 AT BEST." DO YOU AGREE WITH MR. CICCHETTI'S
11 INTERPRETATION OF THE COMPETITIVE ENVIRONMENT FACED
12 BY LOCAL EXCHANGE COMPANIES?
13

14 A. NO. AS A COST OF EQUITY ANALYST I CONCERN MYSELF
15 ONLY WITH THE OPINIONS OF INVESTORS CONCERNING THE
16 IMPACT OF COMPETITION ON THE VALUATION OF EQUITY
17 SECURITIES. THE INVESTMENT COMMUNITY DOES NOT
18 AGREE WITH MR. CICCHETTI'S CASUAL APPRAISAL OF
19 COMPETITION IN THE LOCAL LOOP. FOR EXAMPLE, A
20 RECENT EQUITY RESEARCH STUDY DONE BY SALOMON
21 BROTHERS ("THE BELL REGIONAL HOLDING COMPANIES --
22 PUTTING COMPETITION IN PERSPECTIVE," S. GEORGES,
23 JUNE 1992) INDICATES THAT INVESTORS HAVE BECOME
24 FIXATED ON "...THE INCREASING THREAT OF COMPETITION
25 IN THE BASIC LOCAL TELEPHONE BUSINESS" (P.1).

1
2 FURTHER, MR. CICHETTI IGNORES THE IMPLICATIONS OF
3 AT&T'S RECENT EFFORTS TO ACQUIRE MCCA W CELLULAR
4 COMMUNICATIONS. THIS DEVELOPMENT DRAMATIZES HOW
5 IMMINENT IS DIRECT COMPETITION BETWEEN THE RBHCS
6 AND AT&T. MCCA W IS THE DOMINANT PROVIDER OF
7 WIRELESS SERVICES IN A NUMBER OF METROPOLITAN
8 AREAS. THIS TRANSACTION CONSEQUENTLY WILL BRING
9 AT&T INTO SIGNIFICANT COMPETITION WITH THE RBHCS IN
10 THE AREA OF WIRELESS SERVICES. INDEED, ACCORDING
11 TO A WALL STREET JOURNAL ARTICLE ("AT&T SEEKING TO
12 ENTER THE CELLULAR ERA," NOVEMBER 5, 1992, P. A3),
13 AT&T CHAIRMAN ROBERT E. ALLEN HAS REPEATEDLY SPOKEN
14 OF THE GROWTH OPPORTUNITIES IN LOCAL SERVICES.
15 THUS, THE EVIDENCE CONTRADICTS MR. CICHETTI'S
16 ASSERTION THAT "...MEANINGFUL COMPETITION WITHIN
17 THE LOCAL LOOP IS STILL UNCERTAIN AND IS YEARS AWAY
18 AT BEST." THE INVESTMENT COMMUNITY AND AT&T HAVE A
19 DIFFERENT OPINION THAN MR. CICHETTI.

20

21 D. RESPONSES TO MR. CICHETTI'S
22 CRITICISMS OF DR. BILLINGSLEY'S
23 DIRECT TESTIMONY

24

25 Q. WHAT ARE MR. CICHETTI'S CRITICISMS OF YOUR

1 APPLICATION OF THE DCF MODEL TO ESTIMATE THE COST
2 OF EQUITY CAPITAL FOR SOUTHERN BELL?

3
4 A. MR. CICCHETTI ARGUES ON PAGE 50, LINES 4-18, OF HIS
5 DIRECT TESTIMONY THAT I: 1) INCORRECTLY RELIED ON
6 ESTIMATES OF EARNINGS GROWTH INSTEAD OF DIVIDEND
7 GROWTH; 2) PERFORMED MY DCF ANALYSIS ON COMPANIES
8 THAT ARE NOT COMPARABLE IN RISK TO SOUTHERN BELL,
9 AND 3) RELIED ON A QUARTERLY DCF MODEL THAT
10 PRODUCED AN EFFECTIVE COST OF EQUITY ESTIMATE THAT
11 SHOULD HAVE BEEN CONVERTED INTO A NOMINAL RATE.

12
13 Q. HOW DO YOU RESPOND TO THESE CRITICISMS?

14
15 A. MY REBUTTAL TESTIMONY HAS ALREADY EXPLAINED WHY IT
16 IS APPROPRIATE AND DESIRABLE TO USE THE MORE
17 PREVALENT ESTIMATES OF EXPECTED EARNINGS GROWTH
18 RATHER THAN THE LIMITED ESTIMATES OF EXPECTED
19 DIVIDEND GROWTH AND HAS DISCUSSED WHY CURRENT
20 REGULATORY PRACTICES RENDER THE
21 EFFECTIVE-TO-NOMINAL RATE CONVERSION UNNECESSARY.
22 THUS, I WILL FOCUS MY RESPONSE ON MR. CICCHETTI'S
23 CRITICISM OF MY GROUP OF FIRMS COMPARABLE IN RISK
24 TO SOUTHERN BELL.

25

1 MR. CICCHETTI'S PRIMARY OBJECTION TO THE GROUP OF
2 FIRMS USED IN MY DCF ANALYSIS IS THAT BECAUSE THEY
3 "...ARE NON-REGULATED INDICATES THE FIRMS ARE NOT
4 "CLOSE ENOUGH" TO BE COMPARABLE TO SOUTHERN BELL"
5 (DIRECT TESTIMONY, P. 52, LINES 19-20). YET MR.
6 CICCHETTI PROVIDES NO EVIDENCE THAT THE GROUP OF
7 FIRMS ARE NOT COMPARABLE TO SOUTHERN BELL.

8
9 MR. CICCHETTI FAILS TO APPRECIATE THAT MY CLUSTER
10 OF FIRMS WAS IDENTIFIED FROM A BROAD AND UNBIASED
11 UNIVERSE OF FIRMS THAT WERE BOTH REGULATED AND
12 UNREGULATED. THE COMPREHENSIVE SET OF RISK
13 CRITERIA GROUPED FIRMS OF COMPARABLE RISK WITHOUT
14 PURPOSELY INCLUDING OR EXCLUDING REGULATED FIRMS.
15 THUS, FIRMS WERE IDENTIFIED WITHOUT ANY
16 PRECONCEIVED ASSUMPTIONS OR BIASES CONCERNING THE
17 RELATIVE RISKINESS OF REGULATED VS. UNREGULATED
18 FIRMS. I USED THE DATA TO DETERMINE COMPARABILITY
19 WITH GENERALLY ACCEPTED MEASURES OF RISK RATHER
20 THAN DEPEND UNCRITICALLY ON CONVENTIONAL WISDOM TO
21 ESTABLISH A GROUP OF SUPPOSEDLY COMPARABLE FIRMS.
22 OBJECTIVITY DEMANDS NOTHING LESS.

23

24 Q. WHAT IS MR. CICCHETTI'S CRITICISM OF YOUR RISK
25 PREMIUM ANALYSIS?

1

2 A. MR. CICCHETTI'S CRITICISM IS ESSENTIALLY THE SAME
3 AS THAT AIMED AT MY DCF ANALYSIS. HE CRITICIZES MY
4 USE OF THE S&P 500 INDEX ON THE GROUNDS THAT
5 "INDUSTRIAL COMPANIES IN GENERAL, AND THE COMPANIES
6 THAT COMPRISE THE S&P 500 IN PARTICULAR, ARE
7 RISKIER THAN SOUTHERN BELL" (DIRECT TESTIMONY,
8 P. 52, LINES 21-23). YET NO EVIDENCE IS PROVIDED
9 TO SUPPORT THIS SPECULATION. I BELIEVE THAT THE
10 EXPECTATIONAL RISK PREMIUM OF THE S&P 500 OVER
11 Aaa-RATED UTILITY BOND YIELDS PROVIDES A USEFUL
12 BASIS FOR ASSESSING THE REASONABLENESS OF MY DCF
13 COST OF EQUITY ESTIMATE FOR SOUTHERN BELL.

14

15 IV. REBUTTAL OF MR. ROTHSCHILD'S DIRECT TESTIMONY ON
16 SOUTHERN BELL'S COST OF EQUITY

17

18 A. INCORRECT APPLICATION OF THE DCF MODEL

19

20 Q. DO YOU AGREE WITH THE WAY IN WHICH MR. ROTHSCHILD
21 APPLIED THE DCF MODEL TO ESTIMATE THE COST OF
22 EQUITY CAPITAL FOR SOUTHERN BELL?

23

24 A. NO. MR. ROTHSCHILD MAKES NUMEROUS CONCEPTUAL
25 ERRORS IN HIS APPLICATION OF THE DCF MODEL. THESE

1 ERRORS CONTRIBUTE TO HIS SIGNIFICANT
2 UNDERESTIMATION OF SOUTHERN BELL'S COST OF EQUITY
3 CAPITAL.

4

5 Q. WHAT ERRORS DOES MR. ROTHSCHILD MAKE IN HIS DCF
6 ANALYSIS?

7

8 A. MR. ROTHSCHILD MAKES FIVE TYPES OF MAJOR CONCEPTUAL
9 ERRORS IN HIS DCF ANALYSIS. THESE ERRORS INCLUDE:
10 1) MISTAKES IN ESTIMATING EXPECTED GROWTH; 2)
11 INCORRECT USE OF THE ANNUAL FORM OF THE DCF MODEL
12 IN THE PRESENCE OF QUARTERLY DIVIDEND PAYMENTS; 3)
13 IMPROPER RELIANCE ON THE RBHCS AND BELLSOUTH AS
14 COMPARABLE IN RISK TO SOUTHERN BELL; 4) INCORRECT
15 ASSERTION THAT HIS COMPLEX DCF MODEL ACCURATELY
16 EVALUATES THE RBHCS, AND 5) NO ALLOWANCE FOR EQUITY
17 FLOTATION COSTS.

18

19 Q. HOW DOES MR. ROTHSCHILD ESTIMATE THE EXPECTED
20 GROWTH RATE USED IN HIS SIMPLE AND COMPLEX
21 APPLICATIONS OF THE DCF MODEL?

22

23 A. IN HIS SIMPLE DCF MODEL HE USES THE B X R METHOD
24 UNDER THE ASSUMPTION THAT IS IT "...THE PROPER WAY
25 TO ESTIMATE SUSTAINABLE GROWTH..." AND OTHER

1 METHODS ARE "MORE SUBJECTIVE" (DIRECT TESTIMONY,
2 P. 19, LINES 19-25). THE PROJECTED R OR RETURN ON
3 BOOK EQUITY IS OBTAINED FROM VALUE LINE AND IS ALSO
4 INFERRED FROM DATA PROVIDED BY ZACK'S RESEARCH.
5 THE DECISION TO USE ZACK'S ESTIMATED GROWTH RATE
6 INDIRECTLY IS BASED ON THE ASSUMPTION THAT SUCH
7 RATES "...ARE NOT SUSTAINABLE GROWTH RATES" (DIRECT
8 TESTIMONY, P. 31, LINES 20-22). FURTHER, MR.
9 ROTHSCHILD CONTENDS THAT THE FORMATION OF ANALYSTS'
10 FORECASTS DURING AN "ATYPICALLY GOOD OR ATYPICALLY
11 BAD YEAR" WOULD PRODUCE ATYPICAL FORECASTS. THUS,
12 HE ARGUES THAT THE FORECASTS CANNOT BE USED
13 DIRECTLY. FUTURE RETURNS ON BOOK EQUITY IN THE
14 COMPLEX DCF MODEL ARE ALSO DETERMINED USING THE B X
15 R APPROACH. THE PROJECTED RETENTION RATE (B) IN
16 BOTH THE SIMPLE AND THE COMPLEX DCF MODELS IS THE
17 AVERAGE RATE FOR THE RBHCS.

18

19 Q. DO YOU AGREE WITH MR. ROTHSCHILD'S RELIANCE ON THE
20 B X R APPROACH FOR ESTIMATING THE EXPECTED RATE OF
21 EARNINGS GROWTH?

22

23 A. NO, I DO NOT. AS ELABORATED ON IN MY REBUTTAL OF
24 MR. CICHETTI'S DIRECT TESTIMONY ON THE COST OF
25 EQUITY, THE B X R APPROACH DOES NOT PRODUCE AN

1 OBJECTIVE, REPRESENTATIVE MEASURE OF INVESTORS'
2 LONG-TERM GROWTH EXPECTATIONS. MR. ROTHSCHILD'S
3 USE OF VALUE LINE'S B AND R FORECASTS SUFFERS FROM
4 ALL OF THE SHORTCOMINGS NOTED PREVIOUSLY. VALUE
5 LINE DOES NOT PROVIDE THE MOST OBJECTIVE,
6 BROAD-BASED MEASURE OF INVESTORS' EXPECTATIONS.
7 INDEED, MR. ROTHSCHILD'S USE OF VALUE LINE'S
8 PROJECTIONS IN HIS B X R ANALYSIS, A SINGLE
9 FORECASTING SOURCE, IS MORE SUBJECTIVE THAN THE USE
10 OF ANALYSTS' CONSENSUS FORECAST.

11
12 ADDITIONALLY, MR. ROTHSCHILD'S USE OF ZACK'S
13 EARNINGS FORECASTS IS INCONSISTENT WITH HIS
14 ARGUMENT THAT ANALYSTS' FORECASTS CANNOT BE USED
15 BECAUSE THEY REFLECT ANY "ATYPICAL" CONDITIONS
16 PRESENT AT THE TIME THE FORECAST IS MADE. THE FACT
17 THAT MR. ROTHSCHILD USES ZACK'S GROWTH FORECASTS
18 INDIRECTLY DOES NOT FREE HIM FROM HIS OWN
19 CRITICISM.

20
21 Q. ABSTRACTING FROM MR. ROTHSCHILD'S INCONSISTENT
22 DEPENDENCE ON ZACK'S EARNINGS FORECASTS, DO YOU
23 AGREE THAT SUCH FORECASTS CANNOT BE USED BECAUSE
24 THEY CAN REFLECT ATYPICAL CONDITIONS THAT
25 INVALIDATE THEIR USE AS A LONG-TERM, STEADY-STATE

1 RATE OF EARNINGS GROWTH?

2

3 A. ABSOLUTELY NOT. IT IS COMMON PRACTICE FOR SECURITY
4 ANALYSTS TO NORMALIZE BASE YEAR EARNINGS IF THOSE
5 EARNINGS DEPART FROM THE "NORM". INDEED, THE IBES
6 AND ZACKS SURVEYS OF ANALYSTS' EARNINGS FORECASTS
7 EXPLICITLY REQUEST A LONG-TERM NORMALIZED ANNUAL
8 GROWTH RATE. SIMILARLY, WHILE NOT A SURVEY OF
9 ANALYSTS' EXPECTATIONS, VALUE LINE INDICATES THAT
10 IT TOO NORMALIZES THE EARNINGS THAT ARE RELIED ON
11 IN ITS LONG-TERM GROWTH FORECASTS. THUS, IT IS
12 DIFFICULT TO UNDERSTAND HOW MR. ROTHSCHILD CAN
13 ARGUE THAT ANALYSTS' GROWTH RATE FORECASTS REFLECT
14 ANY CURRENT ATYPICAL CONDITIONS WHEN THE GENERAL,
15 DOCUMENTED PRACTICE IS TO NORMALIZE BASE YEAR
16 EARNINGS TO REMOVE ANY SUCH ATYPICAL EFFECTS.

17

18 Q. APART FROM YOUR CONCERNS ABOUT MR. ROTHSCHILD'S
19 MISESTIMATION OF GROWTH, DO YOU AGREE WITH THE WAY
20 IN WHICH THE GROWTH RATE IS USED IN HIS DCF MODEL?

21

22 A. NO. MR. ROTHSCHILD MULTIPLIES THE FIRST DIVIDEND BY
23 $(1 + .5G)$ RATHER THAN BY THE MORE CONVENTIONAL $(1 +$
24 $G)$, WHERE G IS THE EXPECTED RATE OF GROWTH IN
25 EARNINGS. THIS APPROACH SYSTEMATICALLY

1 UNDERESTIMATES THE RESULTING COST OF EQUITY
2 CAPITAL. THE COMMON ANNUAL FORM OF THE DCF MODEL
3 IS $K = [D(1 + G)/P] + G$, WHERE D IS THE MOST RECENT
4 ANNUAL DIVIDEND AND P IS THE MARKET PRICE OF THE
5 EQUITY SECURITY. THUS, USING ONLY ONE-HALF OF G IN
6 THE FIRST PART OF THE EQUATION CLEARLY BIASES THE
7 ESTIMATED COST OF EQUITY FOR SOUTHERN BELL
8 DOWNWARD.
9
10 Q. WHAT IS MR. ROTHSCHILD'S JUSTIFICATION FOR USING
11 THE ANNUAL FORM OF THE DCF MODEL IN BOTH HIS SIMPLE
12 AND HIS COMPLEX ANALYSIS?
13
14 A. NO JUSTIFICATION IS GIVEN IN HIS DIRECT TESTIMONY.
15
16 Q. UNDER WHAT CIRCUMSTANCES WOULD IT BE APPROPRIATE TO
17 USE THE ANNUAL FORM OF THE DCF MODEL?
18
19 A. ONLY WHEN THE FIRMS BEING EVALUATED PAY DIVIDENDS
20 ANNUALLY. THUS, MR. ROTHSCHILD'S ANALYSIS IS
21 FLAWED SINCE THE FIRMS USED IN HIS COST OF CAPITAL
22 ESTIMATION PROCESS PAY DIVIDENDS ON A QUARTERLY
23 BASIS. CONSISTENT WITH MY OBSERVATIONS CONCERNING
24 MR. CICCHETTI'S MISTAKES IN THIS AREA, THE USE OF
25 THE ANNUAL DCF MODEL IN THE PRESENCE OF THE

1 QUARTERLY PAYMENT OF DIVIDENDS SERIOUSLY
2 UNDERESTIMATES THE COST OF EQUITY CAPITAL. THIS,
3 IN PART, EXPLAINS MR. ROTHSCHILD'S UNREASONABLY LOW
4 ESTIMATE OF SOUTHERN BELL'S COST OF EQUITY CAPITAL.

5

6 Q. WHAT REASONS DOES MR. ROTHSCHILD GIVE FOR APPLYING
7 HIS DCF ANALYSES TO THE RBHCS AND TO BELLSOUTH AS
8 FIRMS OF COMPARABLE RISK TO SOUTHERN BELL?

9

10 A. NO CLEAR RATIONALE IS OFFERED IN HIS DIRECT
11 TESTIMONY. THE ONLY JUSTIFICATION GIVEN FOR USING
12 THE RBHCS AND BELLSOUTH IS THAT THEY ARE
13 "...REPRESENTATIVE OF THE TELEPHONE INDUSTRY IN THE
14 UNITED STATES" (DIRECT TESTIMONY, P. 26, LINES
15 9-10). THUS, AS IN MR. CICCHETTI'S FLAWED
16 ANALYSIS, NO EFFORT IS MADE TO SYSTEMATICALLY
17 COMPARE SOUTHERN BELL WITH EITHER THE RBHCS OR WITH
18 BELLSOUTH TO EMPIRICALLY PROVE THE ASSUMED
19 COMPARABILITY.

20

21 OBJECTIVE COST OF CAPITAL ANALYSIS DEMANDS MORE
22 THAN UNDOCUMENTED SPECULATION THAT THE MARKET VIEWS
23 THE RBHCS, BELLSOUTH AND SOUTHERN BELL AS
24 COMPARABLE IN RISK SIMPLY BECAUSE THEY ARE ALL IN
25 THE SAME GENERAL INDUSTRY. MR. ROTHSCHILD'S

1 ANALYSIS DEFIES COMMON SENSE BY IMPLICITLY ARGUING
2 THAT ALL OF THE FIRMS IN A GIVEN INDUSTRY ARE OF
3 COMPARABLE RISK SIMPLY BY VIRTUE OF THEIR
4 MEMBERSHIP IN THAT COMMON INDUSTRY.

5

6 Q. ARE THERE ANY REASONS WHY THE RBHCS AND BELLSOUTH
7 SHOULD NOT BE USED IN ESTIMATING SOUTHERN BELL'S
8 COST OF EQUITY CAPITAL USING THE DCF METHOD?

9

10 A. YES. AS DISCUSSED IN MY DIRECT TESTIMONY (PP.
11 32-34), THE RBHCS POSSESS CHARACTERISTICS THAT ARE
12 INCONSISTENT WITH THE ASSUMPTIONS UNDERLYING THE
13 CONSTANT GROWTH DCF MODEL. THE RBHCS ARE INVOLVED
14 IN A WIDE VARIETY OF NEW AND UNREGULATED
15 ACTIVITIES. OF PARTICULAR RELEVANCE IS THEIR
16 SIGNIFICANT INVESTMENT IN WIRELESS COMMUNICATIONS.
17 WHILE THIS INVESTMENT IN AN INFANT TECHNOLOGY IS
18 CURRENTLY GENERATING LITTLE INCOME, IT IS WIDELY
19 EXPECTED TO CONTRIBUTE SIGNIFICANTLY OVER THE
20 LONG-RUN. AS SUCH, MANY ANALYSTS HAVE TRIED TO
21 ESTIMATE THE PORTION OF A RBHC'S STOCK PRICE THAT
22 IS ATTRIBUTABLE TO THE MARKET'S EXPECTATIONS
23 CONCERNING THE FUTURE PROFITS TO BE CONTRIBUTED BY
24 WIRELESS. HOWEVER, THE GROWTH PROSPECTS OF
25 EARNINGS FROM WIRELESS ARE THOUGHT TO EXTEND BEYOND

1 THE TIME HORIZON THAT IS EXPLICITLY IDENTIFIED IN
2 PUBLISHED LONG-TERM GROWTH FORECASTS. THUS, THE
3 PRICE AND THE EXPECTED GROWTH RATE USED IN THE DCF
4 MODEL ARE MISMATCHED AND THE IMPLIED COST OF EQUITY
5 IS UNDERSTATED DUE TO THE VIOLATION OF THE CONSTANT
6 GROWTH RATE ASSUMPTION INHERENT IN THE DCF MODEL.

7
8 Q. DOES THE USE OF MR. ROTHSCHILD'S COMPLEX DCF MODEL
9 MAKE IT ACCEPTABLE TO ANALYZE THE RBHCS AND
10 BELLSOUTH EVEN IN LIGHT OF THE PROBLEMS THAT YOU
11 HAVE IDENTIFIED?

12
13 A. NO. WHILE MR. ROTHSCHILD'S COMPLEX MODEL FORECASTS
14 EARNINGS, DIVIDENDS, AND BOOK VALUES FOR THE NEXT
15 40 YEARS, IT IS STILL TIED TO THE SAME B X R
16 APPROACH USED IN HIS SIMPLIFIED DCF MODEL. THE
17 ONLY SIGNIFICANT DISTINCTION IS IN APPEARING TO
18 ACCOMMODATE INITIAL SUPPOSEDLY ATYPICAL CONDITIONS
19 BY ALLOWING BOOK VALUE TO GROW AT A DIFFERENT RATE
20 FROM THAT OF EARNINGS AND DIVIDENDS. HOWEVER, THE
21 B X R ANALYSIS STILL INDIRECTLY RELIES ON ANALYSTS'
22 FORECASTS (ZACK'S) AND VALUE LINE AND THUS
23 CONTINUES TO VIOLATE THE ASSUMPTIONS OF THE DCF
24 MODEL.

25

1 Q. DO YOU AGREE THAT MR. ROTHSCHILD'S COMPLEX DCF
2 MODEL SERVES AS A CHECK ON THE VALIDITY OF THE
3 SIMPLE DCF MODEL?

4

5 A. NO, I DO NOT. I DISAGREE WITH MR. ROTHSCHILD'S
6 ASSERTION THAT HIS COMPLEX DCF MODEL "...SERVES AS
7 A CHECK TO SHOW THAT THE GROWTH RATE USED IN THE
8 SIMPLIFIED VERSION IS CREDIBLE" (DIRECT TESTIMONY,
9 P. 37, LINES 10-11). SINCE BOTH THE SIMPLE AND THE
10 COMPLEX DCF MODELS ULTIMATELY MAKE THE SAME
11 UNDERLYING ASSUMPTIONS, AND BOTH ARE APPLIED TO THE
12 RBHCS AND TO BELLSOUTH, THE COMPLEX DCF IS INVALID
13 FOR THE SAME REASONS AS HIS SIMPLE DCF MODEL. AS
14 SUCH, MR. ROTHSCHILD'S COMPLEX MODEL DOES NOT SERVE
15 AS AN INDEPENDENT CHECK ON THE VALIDITY OF HIS
16 SIMPLE DCF MODEL. NEITHER OF MR. ROTHSCHILD'S DCF
17 MODELS PROVIDE AN ACCURATE ESTIMATE OF SOUTHERN
18 BELL'S COST OF EQUITY CAPITAL.

19

20 Q. WHAT ADJUSTMENT DOES MR. ROTHSCHILD MAKE IN HIS DCF
21 ANALYSIS FOR THE IMPACT OF FLOTATION COSTS ON THE
22 COST OF SOUTHERN BELL'S COST OF EQUITY CAPITAL?

23

24 A. NO ADJUSTMENT IS MADE, WHICH IS INCORRECT.

25

1 Q. WHAT EFFECT DOES MR. ROTHSCHILD'S OMISSION HAVE ON
2 HIS ESTIMATE OF SOUTHERN BELL'S COST OF EQUITY
3 CAPITAL?

4

5 A. CONSISTENT WITH THE OBSERVATIONS IN MY DIRECT
6 TESTIMONY (PP. 25-28), MR. ROTHSCHILD'S FAILURE TO
7 ADJUST FOR FLOTATION COSTS IS ONE REASON THAT HE
8 UNDERESTIMATES SOUTHERN BELL'S COST OF EQUITY
9 CAPITAL.

10

11 Q. WHAT JUSTIFICATION IS PROVIDED FOR IGNORING
12 FLOTATION COSTS?

13

14 A. NO JUSTIFICATION IS PROVIDED. THIS IS ESPECIALLY
15 CURIOUS GIVEN MR. ROTHSCHILD'S EXPLICIT ADJUSTMENT
16 FOR FLOTATION COSTS IN HIS ESTIMATE OF SOUTHERN
17 BELL'S COST OF EQUITY CAPITAL IN DOCKET NO.
18 880069-TL (DIRECT TESTIMONY, JANUARY 16, 1992, PP.
19 43-44, AND SCHEDULE 7). I DO NOT UNDERSTAND WHY
20 MR. ROTHSCHILD RECOGNIZED FLOTATION COSTS IN A
21 PREVIOUS ANALYSIS OF SOUTHERN BELL BUT IGNORES THEM
22 IN THE CURRENT PROCEEDING. HIS CURRENT APPROACH TO
23 ESTIMATING THE COST OF EQUITY CAPITAL IS
24 INCONSISTENT WITH HIS PRIOR APPROACH.

25

1 B. INAPPROPRIATE RELIANCE ON ELECTRIC UTILITIES
2 IN THE RISK PREMIUM ANALYSIS

3
4 Q. WHAT TYPE OF FIRMS DOES MR. ROTHSCHILD USE TO
5 ESTIMATE SOUTHERN BELL'S COST OF EQUITY IN HIS
6 APPLICATION OF THE RISK PREMIUM APPROACH?

7
8 A. ON PAGE 43, LINES 1-2, OF HIS DIRECT TESTIMONY MR.
9 ROTHSCHILD INDICATES THAT HE EVALUATES "...THE COST
10 OF EQUITY FOR EACH OF THE TELEPHONE UTILITIES
11 COVERED BY VALUE LINE." YET ON PAGE 45, LINES 2-3,
12 HE INCONSISTENTLY OBSERVES THAT "...ELECTRIC
13 UTILITIES ARE USED IN HIS RISK PREMIUM ANALYSIS."
14 THUS, WHILE HIS DIRECT TESTIMONY MAKES INCORRECT
15 AND INCONSISTENT REFERENCES TO BOTH ELECTRIC AND
16 TELEPHONE UTILITIES, SCHEDULE 8 OF HIS TESTIMONY
17 SHOWS THAT HE ACTUALLY RELIED ON THE ELECTRIC
18 UTILITIES COVERED IN VALUE LINE.

19
20 Q. CAN THE RESULTS OF MR. ROTHSCHILD'S RISK PREMIUM
21 ANALYSIS BE DEPENDED ON TO PRODUCE AN OBJECTIVE,
22 ECONOMICALLY RELEVANT ESTIMATE OF SOUTHERN BELL'S
23 COST OF EQUITY?

24
25 A. NO, HIS RESULTS ARE UNDEPENDABLE BECAUSE HE USES

1 FIRMS THAT ARE NOT COMPARABLE IN RISK TO SOUTHERN
2 BELL, BASES HIS ESTIMATES EXCLUSIVELY ON VALUE LINE
3 FORECASTS OF FUTURE RETURNS ON BOOK EQUITY, RELIES
4 ON THE SAME FLAWED DCF APPROACH USED TO PRODUCE HIS
5 OTHER ESTIMATED COST OF EQUITY FOR SOUTHERN BELL,
6 AND ARTIFICIALLY DEPRESSES HIS COST ESTIMATE BY
7 AVERAGING MEASURES BASED ON SHORT-TERM,
8 INTERMEDIATE-TERM, AND LONG-TERM U.S. TREASURY DEBT
9 INTEREST RATES.

10

11 MR. ROTHSCHILD PROVIDES NO EVIDENCE THAT ELECTRIC
12 UTILITIES ARE COMPARABLE IN RISK TO SOUTHERN BELL.
13 INTERESTINGLY, HE ADMITS THAT "THE COST OF EQUITY
14 FOR A REGULATED TELEPHONE UTILITY IS NOT
15 NECESSARILY THE SAME AS AN ELECTRIC UTILITY"
16 (DIRECT TESTIMONY, PAGE 39, LINES 9-20). FURTHER,
17 HE RELIES AGAIN ON VALUE LINE FORECASTS THAT ARE
18 NARROWER AND LESS OBJECTIVE THAN ANALYSTS'
19 CONSENSUS FORECASTS. THUS, THE RESULTS OF HIS RISK
20 PREMIUM ANALYSIS ARE INACCURATE.

21

22 Q. WHAT JUSTIFICATION DOES MR. ROTHSCHILD PROVIDE FOR
23 BASING HIS COST OF EQUITY ESTIMATE ON THE AVERAGE
24 OF SHORT-, INTERMEDIATE-, AND LONG-TERM INTEREST
25 RATES AND WHAT EFFECT DOES THIS APPROACH HAVE ON

1 HIS ANALYSIS?

2

3 A. NO EXPLANATION OR JUSTIFICATION IS PROVIDED. THIS
4 APPROACH CLEARLY BIASES HIS COST OF EQUITY ESTIMATE
5 FOR SOUTHERN BELL DOWNWARD. THIS IS BECAUSE THE
6 LONGER-TERM INTEREST RATES USED BY MR. ROTHSCHILD
7 WERE HIGHER THAN THE SHORTER-TERM INTEREST RATES
8 PREVAILING AT THE TIME OF HIS ANALYSIS (SEPTEMBER
9 30, 1993).

10

11 Q. ARE SHORT-TERM OR LONG-TERM INTEREST RATES MOST
12 APPROPRIATE IN RISK PREMIUM ANALYSIS?

13

14 A. LONGER-TERM INTEREST RATES ARE MOST APPROPRIATE
15 SINCE THEIR MATURITY IS MORE CONSISTENT WITH THE
16 EFFECTIVE MATURITY OF SOUTHERN BELL'S EQUITY
17 SECURITIES, WHICH HAVE NO DEFINED MATURITY (I.E.,
18 AN INFINITE MATURITY). MR. ROTHSCHILD'S AVERAGING
19 OF LONGER- AND SHORTER-TERM RATES IS NOT JUSTIFIED
20 ON THEORETICAL OR PRACTICAL GROUNDS AND SERVES NO
21 OTHER PURPOSE THAN TO SIGNIFICANTLY UNDERESTIMATE
22 SOUTHERN BELL'S COST OF EQUITY.

23

24 C. IMPROPER RELIANCE ON THE PRICE-TO-BOOK

25

EQUAL TO ONE CRITERION

1

2 Q. DO YOU AGREE WITH MR. ROTHSCHILD'S ARGUMENT THAT A
3 PRICE-TO-BOOK RATIO OF ONE INDICATES THAT A
4 REGULATED UTILITY IS EARNING A RETURN ON BOOK
5 EQUITY THAT IS EQUAL TO ITS COST OF EQUITY?

6

7 A. NO. THE USEFULNESS OF THE MARKET-TO-BOOK RATIO
8 DEPENDS ON A UTILITY BEING FULLY AND PERFECTLY
9 REGULATED. HOWEVER, WHEN ALL OF A UTILITY'S
10 ACTIVITIES ARE NOT COMPLETELY AND PERFECTLY
11 REGULATED, ITS STOCK PRICE WILL REFLECT THE
12 ANTICIPATED RETURNS ON BOTH REGULATED AND
13 UNREGULATED BUSINESS VENTURES. FURTHER, THE BOOK
14 VALUE OF EQUITY IS AN ACCOUNTING MEASURE THAT NEED
15 NOT BEAR MUCH RESEMBLANCE TO THE ECONOMIC OR MARKET
16 VALUE OF THAT EQUITY. THUS, THE MARKET-TO-BOOK
17 RATIO CANNOT BE RELIABLY USED TO DRAW INFERENCES
18 CONCERNING THE RELATIONSHIP BETWEEN A UTILITY'S
19 MARKET-DETERMINED COST OF EQUITY AND ITS RETURN ON
20 EQUITY.

21

22 MR. ROTHSCHILD'S CONFUSION CONCERNING THE
23 IRRELEVANCE OF THE PRICE-TO-BOOK RATIO IS REVEALED
24 BY HIS CONTRADICTORY STATEMENTS CONCERNING THE
25 RELATIONSHIP BETWEEN MARKET AND BOOK VALUES. FOR

1 EXAMPLE, HE STATES THAT "THE RESULT OF THE
2 REGULATORY PROCESS IS FOR THE RETURN DEMANDED BY
3 INVESTORS ON THEIR MARKET PRICE INVESTMENT TO
4 BECOME THE ALLOWED RETURN ON AN ORIGINAL COST RATE
5 BASE" (DIRECT TESTIMONY, PAGE 64, LINES 4-6).
6 HOWEVER, ON LINES 9-11 OF THE SAME PAGE HE
7 CONTRADICTS HIMSELF BY ALSO ACKNOWLEDGING THAT
8 "...MARKET VALUE MAY NEVER GET TO ITS ORIGINAL
9 COST, OR BOOK VALUE, BECAUSE OF...THE IMPACT OF
10 UNREGULATED OPERATIONS AND...INVESTORS'
11 EXPECTATIONS FOR A FUTURE EARNED RETURN ARE NOT
12 NECESSARILY EQUAL TO WHATEVER COST OF EQUITY IS
13 AUTHORIZED BY THE COMMISSION."

14
15 IN THE ABSENCE OF A FULLY AND PERFECTLY REGULATED
16 UTILITY, THE ALLOWED RETURN ON EQUITY SHOULD SIMPLY
17 BE SET EQUAL TO THE MARKET-DETERMINED COST OF
18 EQUITY. THE LEVEL OF THE PRICE-TO-BOOK RATIO IS NO
19 LONGER A RELEVANT CRITERION OF EFFECTIVE REGULATORY
20 SUPERVISION.

21
22 D. MISUNDERSTANDING OF THE TIME
23 VALUE OF MONEY: STOCK PRICES
24 AND QUARTERLY DIVIDENDS

25

1 Q. DO YOU AGREE WITH MR. ROTHSCHILD'S OPINION THAT THE
2 PRICES OF STOCKS PAYING DIVIDENDS QUARTERLY "...ARE
3 LOWER THAN IF DIVIDENDS WERE PAID ANNUALLY" (DIRECT
4 TESTIMONY, PAGE 67, LINES 7-8)?

5

6 A. NO. MOST SURPRISINGLY, MR. ROTHSCHILD REVEALS A
7 MISUNDERSTANDING OF THE TIME VALUE OF MONEY WHEN HE
8 EFFECTIVELY ARGUES THAT INVESTORS PREFER TO RECEIVE
9 DIVIDENDS ANNUALLY RATHER THAN QUARTERLY.
10 INVESTORS ARE WILLING TO PAY HIGHER, NOT LOWER
11 PRICES FOR STOCKS THAT PAY DIVIDENDS QUARTERLY
12 RATHER THAN ANNUALLY. THIS IS DUE TO INVESTORS'
13 IMPROVED REINVESTMENT OPPORTUNITIES UNDER QUARTERLY
14 COMPOUNDING. MR. ROTHSCHILD IS ARGUING THAT THE
15 OPPOSITE HOLDS: INVESTORS WILL PENALIZE STOCKS THAT
16 PAY DIVIDENDS QUARTERLY. IF THAT STRANGE RESULT
17 WERE TO OCCUR, THEN THE LOWER PRICE WOULD BE
18 ASSOCIATED WITH A HIGHER COST OF EQUITY TO THE
19 AFFECTED FIRM. HOWEVER, INVESTORS DO NOT LIVE IN
20 SUCH A WORLD.

21

22 E. RESPONSES TO MR. ROTHSCHILD'S CRITICISMS
23 OF DR. BILLINGSLEY'S DIRECT TESTIMONY

24

25 Q. WHAT ARE MR. ROTHSCHILD'S SPECIFIC CRITICISMS OF

1 YOUR APPROACHES TO ESTIMATING SOUTHERN BELL'S COST
2 OF EQUITY?
3
4 A. MR. ROTHSCHILD INCORRECTLY ARGUES ON PAGES 49-67 OF
5 HIS DIRECT TESTIMONY THAT: 1) THE EXPECTED GROWTH
6 RATES USED IN MY DCF ANALYSIS ARE "...OFTEN VERY
7 DIFFERENT THAN THE LONG-TERM SUSTAINABLE GROWTH
8 RATE THAT IS ANTICIPATED BY INVESTORS" (DIRECT
9 TESTIMONY PAGE 49, LINES 23-25); 2) MY RISK PREMIUM
10 ANALYSIS IS LIMITED BY ITS USE OF MY DCF PROCEDURE;
11 3) MY RECOMMENDED COST OF EQUITY FOR SOUTHERN BELL
12 IS SO HIGH THAT ITS ACCEPTANCE WOULD LEAD TO A
13 "STAMPEDE TO BUY THE STOCK" (DIRECT TESTIMONY, PAGE
14 49, LINES 13-14); 4) THE Z-STATISTIC USED IN MY
15 CLUSTER ANALYSIS TO IDENTIFY FIRMS COMPARABLE IN
16 RISK TO SOUTHERN BELL IS FLAWED; 5) THE
17 RELATIONSHIP BETWEEN HISTORICAL DEBT COSTS AND MY
18 DCF-BASED COST OF EQUITY ESTIMATES REVEALS SOME
19 (IMAGINED) INCONSISTENCY; 6) THE DOCUMENTED
20 RELATIONSHIP BETWEEN EQUITY RISK PREMIUMS AND
21 INTEREST RATES SUPPOSEDLY DOES NOT HOLD FOR THE
22 PURPOSES OF THESE PROCEEDINGS, AND 7) MY
23 RECOMMENDED COST OF EQUITY WOULD VIOLATE THE
24 SUPPOSEDLY APPROPRIATE GOAL OF MAINTAINING A
25 PRICE-TO-BOOK RATIO OF ONE.

1

2 I WILL SHOW THAT THESE CRITICISMS ARE INVALID AND
3 MERELY REFLECT MR. ROTHSCHILD'S MISCONCEPTIONS AND
4 ERRORS IN ESTIMATING THE COST OF EQUITY CAPITAL.

5

6 Q. WHAT ARE YOUR REASONS FOR BELIEVING THAT THE
7 EXPECTED EARNINGS GROWTH RATES EMPLOYED IN YOUR DCF
8 MODEL ARE REPRESENTATIVE OF THE LONG-TERM GROWTH
9 RATES EXPECTED BY INVESTORS?

10

11 A. AS NOTED PREVIOUSLY, THE IBES AND ZACKS MEASURES
12 OF ANALYSTS' EARNINGS FORECASTS USED IN MY DCF
13 ANALYSIS ARE BASED ON SURVEYS THAT EXPLICITLY
14 REQUEST ANALYSTS TO NORMALIZE THEIR EARNINGS DATA
15 IN LIGHT OF CURRENT ECONOMIC CONDITIONS. THUS,
16 THERE IS NO REASON TO BELIEVE THAT ANY "ATYPICAL"
17 CONDITIONS HAVE BIASED THESE EARNINGS FORECASTS.
18 FURTHER, MY GROUP OF 20 FIRMS COMPARABLE IN RISK TO
19 SOUTHERN BELL OFFER NO REASON TO EXPECT THAT
20 CURRENT ANALYSTS' LONG-TERM GROWTH RATE FORECASTS
21 WILL NOT BE SUSTAINABLE.

22

23 Q. MR. ROTHSCHILD ARGUES THAT YOUR RISK PREMIUM
24 ANALYSIS IS INCORRECT BECAUSE IT RELIES ON "...THE
25 VERY SAME FAULTY APPROACH TO THE DCF METHOD THAT

1 GOT HIM INTO TROUBLE IN HIS DCF MODEL" (DIRECT
2 TESTIMONY, P. 50, LINES 1-2). HOW DO YOU RESPOND
3 TO THIS CRITICISM?
4
5 A. MY REBUTTAL OF MR. ROTHSCHILD'S METHODOLOGICAL
6 APPROACHES HAS DEMONSTRATED THAT MY DCF MODEL IS
7 CORRECT AND ACCURATE IN THE CONTEXT OF MY RISK
8 PREMIUM ANALYSIS. HIS INCORRECT CRITICISMS
9 CONTEND THAT I HAVE OVERSTATED THE DIVIDEND YIELD
10 DUE TO AN INCORRECT HANDLING OF THE QUARTERLY
11 DIVIDEND EFFECT AND THAT I HAVE USED GROWTH RATES
12 THAT ARE UNREPRESENTATIVE OF LONG-TERM
13 EXPECTATIONS. YET MY REBUTTAL TESTIMONY HAS SHOWN
14 THAT MR. ROTHSCHILD MISUNDERSTANDS THE EFFECT OF
15 QUARTERLY DIVIDEND PAYMENTS BECAUSE HE INCORRECTLY
16 BELIEVES THAT STOCKHOLDERS PENALIZE FIRMS THAT
17 CHOOSE TO PAY DIVIDENDS QUARTERLY RATHER THAN
18 ANNUALLY. FURTHER, I HAVE EXPLAINED THAT THE IBES
19 GROWTH RATES RELIED ON IN MY DCF AND RISK PREMIUM
20 ANALYSES ARE FORMED USING NORMALIZED EARNINGS THAT
21 INVALIDATE MR. ROTHSCHILD'S CRITICISMS CONCERNING
22 THE EFFECTS ANY SUPPOSEDLY "ATYPICAL" CONDITIONS ON
23 THE USEFULNESS OF SUCH FORECASTS. MR. ROTHSCHILD'S
24 CRITICISMS OF THE DCF ASPECT OF MY RISK PREMIUM
25 ANALYSIS ARE AS INCORRECT IN THIS CONTEXT AS THEY

1 WERE IN CRITICIZING MY CLUSTER-BASED DCF ANALYSIS.

2

3 Q. DO YOU BELIEVE THAT THE ACCEPTANCE OF YOUR
4 RECOMMENDED COST OF EQUITY BY THIS COMMISSION
5 WOULD, AS MR. ROTHSCHILD CONTENDS, LEAD TO A
6 "STAMPEDE TO BUY THE STOCK?"

7

8 A. NO, THERE IS NO BASIS FOR MR. ROTHSCHILD'S EXTREME
9 POSITION THAT "IF INVESTORS THOUGHT THAT A RETURN
10 ANYWHERE CLOSE TO 13.90% TO 14.18% COULD BE
11 OBTAINED...THERE WOULD LITERALLY BE A STAMPEDE TO
12 BUY THE STOCK" (DIRECT TESTIMONY, PAGE 49, LINES
13 11-14). THE UNREASONABLENESS OF HIS OPINION IS
14 SHOWN BY CONSIDERING THE VALUE LINE PROJECTIONS FOR
15 THE RBHCS RELIED ON BY MR. ROTHSCHILD IN HIS
16 ANALYSIS. IN SCHEDULE 5, PAGE 3, OF HIS DIRECT
17 TESTIMONY HE INDICATES THAT THE AVERAGE RETURN ON
18 BOOK EQUITY IN 1992 FOR THE RBHCS WAS 14.94% AND
19 THAT IT IS PROJECTED TO BE 16.21% FROM 1996 TO
20 1998. FURTHER, IN SCHEDULE 6, PAGE 4, MR.
21 ROTHSCHILD CALCULATES THE RETURN ON BOOK EQUITY
22 THAT IS NECESSARY TO ACHIEVE ZACK'S CONSENSUS
23 GROWTH RATE TO BE AN AVERAGE OF 16.53% FOR THE
24 RBHCS. THUS, MR. ROTHSCHILD CITES EVIDENCE IN HIS
25 OWN ANALYSIS THAT DEMONSTRATES THE REASONABLENESS

1 OF MY COST OF EQUITY ESTIMATE FOR SOUTHERN BELL
2 RELATIVE TO VALUE LINE'S PROJECTIONS.

3

4 Q. MR. ROTHSCHILD ALLEGES THAT IN THE CLUSTER ANALYSIS
5 YOU COMPUTED A "...Z" STATISTIC, WHICH IS SUPPOSED
6 TO BE AN OVERALL MEASUREMENT OF A COMPANY'S
7 RELATIVE RISK" AND THAT THIS STATISTIC "MUST BE
8 CAPABLE OF QUANTIFYING RELATIVE RISK" (DIRECT
9 TESTIMONY, PAGE 51, LINES 2-10). IS THE
10 Z-STATISTIC USED AS A MEASURE OF RELATIVE RISK IN
11 YOUR ANALYSIS AND WHAT IS ITS SIGNIFICANCE?

12

13 A. NO. THE Z-STATISTIC DESCRIBED ON PAGES 6-7 OF
14 APPENDIX B OF MY DIRECT TESTIMONY IS NOT PRESENTED
15 AS, NOR IS IT INTENDED TO BE, A MEASURE OF RELATIVE
16 RISK. MR. ROTHSCHILD'S INCORRECT STATEMENT REVEALS
17 HIS LACK OF UNDERSTANDING OF STATISTICAL TECHNIQUES
18 IN GENERAL AND MY RISK ANALYSIS IN PARTICULAR. THE
19 Z-STATISTIC USED IN MY ANALYSIS IS A COMMONLY USED
20 STATISTIC THAT STANDARDIZES THE FINANCIAL VARIABLES
21 USED TO IDENTIFY FIRMS OF COMPARABLE RISK TO
22 SOUTHERN BELL FOR DIFFERENCES IN THEIR UNITS OF
23 MEASUREMENT. FOR EXAMPLE, THE USE OF Z-STATISTICS
24 MAKES IT POSSIBLE TO MEANINGFULLY RELATE FINANCIAL
25 RATIOS TO VARIANCE MEASURES OR TO GROWTH RATES,

1 WHICH ARE QUANTIFIED USING DIFFERENT UNITS OF
2 MEASUREMENT. MR. ROTHSCHILD'S OBSERVATION IS
3 INCORRECT SINCE THE Z-STATISTIC ONLY TRANSFORMS
4 VARIABLES AND FACILITATES ACCURATE RELATIVE RISK
5 MEASUREMENT. THE STATISTIC ITSELF IS NOT A MEASURE
6 OF RELATIVE RISK.

7
8 Q. GRANTING THAT MR. ROTHSCHILD DOES NOT UNDERSTAND
9 THE NATURE OR FUNCTION OF THE Z-STATISTIC IN YOUR
10 ANALYSIS, HOW DO YOU RESPOND TO HIS GENERAL
11 ARGUMENT THAT "...THE COST OF EQUITY AS QUANTIFIED
12 BY DR. BILLINGSLEY IS TOTALLY UNRELATED TO DR.
13 BILLINGSLEY'S QUANTIFICATION OF RISK" (DIRECT
14 TESTIMONY, PAGE 52, LINES 9-11)?

15
16 A. MR. ROTHSCHILD'S CONFUSION CONCERNING THE
17 MEASUREMENT OF RELATIVE RISK AND ITS RELATIONSHIP
18 TO MY COST OF EQUITY ESTIMATION METHODOLOGY IS
19 SURPRISING. HIS ARGUMENT IS BASED ON THE INCORRECT
20 PREMISE THAT "...SINCE THE COST OF EQUITY IS
21 RELATED TO RISK, BOTH THE DCF METHOD AND THE Z
22 STATISTIC, IF VALID, SHOULD BE EXPECTED TO QUANTIFY
23 RISK" (DIRECT TESTIMONY, PAGE 51, LINES 19-20).
24 WHILE IT IS TRUE THAT THE COST OF EQUITY IS RELATED
25 TO RISK, THE Z-STATISTIC IS A STATISTICAL

1 TRANSFORMATION METHOD THAT HAS NOTHING TO DO WITH
2 RISK. FURTHER, MR. ROTHSCHILD ERRONEOUSLY ASSERTS
3 THAT "...THE DCF SHOULD INDICATE A LOWER COST OF
4 EQUITY FOR COMPANIES WITH A Z-STATISTIC THAT
5 INDICATES LOW RISK" (DIRECT TESTIMONY, PAGE 51,
6 LINES 23-26). SINCE THE Z-STATISTIC HAS NOTHING TO
7 DO WITH RISK, THERE IS NO REASON TO EXPECT A
8 MEANINGFUL RELATIONSHIP BETWEEN IT AND ANY RISK
9 MEASURE.

10

11 MR. ROTHSCHILD'S INCORRECT CRITICISMS ABOUT MY
12 QUANTIFICATION OF RISK APPEAR ALSO TO BE BASED ON A
13 MISUNDERSTANDING OF THE NATURE AND IMPLICATIONS OF
14 THE DISTANCE MEASURE (D) PRESENTED ON PAGE 6 OF
15 APPENDIX B OF MY DIRECT TESTIMONY. THIS STATISTIC
16 SUMMARIZES THE DEGREE OF SIMILARITY OF FIRMS TO
17 SOUTHERN BELL IN TERMS OF A NUMBER OF RISK FACTORS.
18 THE 20 FIRMS THAT ARE CLOSEST, IN TERMS OF D, TO
19 THE COMPREHENSIVE RISK PROFILE OF SOUTHERN BELL ARE
20 USED AS A GROUP OF FIRMS COMPARABLE IN RISK TO
21 SOUTHERN BELL. AS SUCH, THEY PROVIDE INSIGHT INTO
22 SOUTHERN BELL'S COST OF EQUITY. HOWEVER, WHILE D
23 CAPTURES AND SUMMARIZES THE RISK IMPLICATIONS OF
24 EACH OF THE FINANCIAL VARIABLES, IT CANNOT BE
25 INTERPRETED AS A MEASURE OF RELATIVE RISK.

1
2 THE D STATISTIC ONLY INDICATES HOW DIFFERENT A
3 GIVEN FIRM'S RISK PROFILE IS FROM THAT OF THE
4 TARGET FIRM. AS D INCREASES, IT IS ONLY POSSIBLE
5 TO CONCLUDE THAT A FIRM BECOMES LESS SIMILAR TO
6 SOUTHERN BELL. IT IS NOT POSSIBLE TO CONCLUDE THAT
7 HIGHER D STATISTICS ARE ASSOCIATED WITH HIGHER
8 RISK. THIS IS BECAUSE, AS DESCRIBED ON PAGES 5-6
9 OF APPENDIX B OF MY DIRECT TESTIMONY, D MEASURES
10 THE SQUARED DEVIATIONS OF EACH RISK INDICATOR FROM
11 THAT OF SOUTHERN BELL. THUS, ALL DEVIATIONS MUST
12 BE POSITIVE SINCE THEY ARE SQUARED. SOME VARIABLE
13 DEVIATIONS IMPLY HIGHER RISK THAN SOUTHERN BELL AND
14 SOME IMPLY LOWER RISK THAN SOUTHERN BELL.

15
16 CONSIDER A SIMPLE EXAMPLE CONSISTING OF ONLY TWO
17 RISK MEASURES: THE QUICK RATIO AND THE
18 ASSETS-TO-EQUITY RATIO. AN INCREASE (POSITIVE
19 DEVIATION FROM THE VALUE OF THE TARGET FIRM) IN THE
20 QUICK RATIO IS INTERPRETED AS RISK-REDUCING SINCE
21 IT IMPLIES MORE CURRENT ASSETS RELATIVE TO THE
22 FIRM'S CURRENT LIABILITIES. HOWEVER, AN INCREASE
23 IN THE ASSETS-TO-EQUITY RATIO (ALSO A POSITIVE
24 DEVIATION FROM THE VALUE OF THE TARGET FIRM) IS
25 INTERPRETED AS RISK-INCREASING SINCE IT IMPLIES

1 MORE DEBT RELATIVE TO THE FIRM'S ASSETS. THE
2 D-STATISTIC CONSEQUENTLY ONLY INDICATES THE DEGREE
3 TO WHICH FIRMS ARE DIFFERENT FROM SOUTHERN BELL AND
4 CANNOT BE VIEWED OR INTERPRETED AS A RELATIVE RISK
5 MEASURE.

6
7 MR. ROTHSCHILD'S ARGUMENT THAT THE "...Z STATISTIC
8 MUST BE CAPABLE OF QUANTIFYING RELATIVE RISK"
9 (DIRECT TESTIMONY, PAGE 51, LINES 9-10) IS
10 INCORRECT, MISLEADING, AND IS SIGNIFICANT ONLY
11 BECAUSE IT REFLECTS HIS LACK OF UNDERSTANDING OF MY
12 COMPARABLE FIRM IDENTIFICATION METHODOLOGY AND
13 STATISTICAL ANALYSIS. HIS ARGUMENTS DO NOT DRAW
14 INTO QUESTION ANY ELEMENT OF MY COMPARATIVE RISK
15 ANALYSIS.

16
17 Q. WHAT IS YOUR ASSESSMENT OF THE ACCURACY AND
18 RELEVANCE OF MR. ROTHSCHILD'S COMPARISON OF YOUR
19 COST OF EQUITY ESTIMATES AND YOUR SUPPOSED
20 "QUANTIFICATION OF RISK?"

21
22 A. ONCE AGAIN MR. ROTHSCHILD INCORRECTLY ARGUES THAT
23 THERE SHOULD BE A RELATIONSHIP BETWEEN THE
24 Z-STATISTICS USED IN MY ANALYSIS AND MY COST OF
25 EQUITY ESTIMATES. AS DISCUSSED ABOVE, THE

1 Z-STATISTIC HAS NOTHING TO DO WITH RISK
2 MEASUREMENT. MR. ROTHSCHILD PERFORMS A
3 FLAWED "...SIMPLE REGRESSION IN WHICH THE DCF COST
4 OF EQUITY, OBTAINED BY DR. BILLINGSLEY, WAS THE
5 DEPENDENT VARIABLE AND THE RISK, AS INDICATED BY
6 DR. BILLINGSLEY'S Z STATISTIC, WAS THE INDEPENDENT
7 VARIABLE" (DIRECT TESTIMONY, PAGE 52, LINES 5-7).
8 HE OBSERVES THAT "THE RESULTANT r^2 WAS ZERO, AND
9 THE T-STATISTIC ALSO SHOWED A STATISTICALLY
10 INSIGNIFICANT RELATIONSHIP BETWEEN DR.
11 BILLINGSLEY'S Z STATISTIC AND HIS DCF RESULT" (PAGE
12 52, LINES 7-9).

13

14 MR. ROTHSCHILD'S REGRESSION USES A MEASURE (Z) THAT
15 HAS NOTHING TO DO WITH RISK AND THUS HIS FINDINGS
16 ARE IRRELEVANT TO THE ANALYSIS OF SOUTHERN BELL'S
17 COST OF EQUITY.

18

19 THE PURPOSE OF MY COMPARABLE FIRM IDENTIFICATION
20 ANALYSIS IS TO CLUSTER FIRMS THAT ARE MOST SIMILAR
21 TO SOUTHERN BELL IN TERMS OF A COMPREHENSIVE SET OF
22 RISK MEASURES, WHICH ARE SUMMARIZED BY THE DISTANCE
23 MEASURE D. THIS MEASURE CANNOT BE INTERPRETED AS A
24 RELATIVE RISK MEASURE AND THERE IS NO REASON TO
25 BELIEVE THAT IT WOULD EXHIBIT ENOUGH VARIABILITY TO

1 PRODUCE A STATISTICALLY SIGNIFICANT r^2 EVEN IF MR.
2 ROTHSCHILD HAD SPECIFIED HIS REGRESSION TO INCLUDE
3 THE D-STATISTIC INSTEAD OF THE INCORRECT
4 Z-STATISTIC.

5
6 Q. MR. ROTHSCHILD ARGUES THAT YOUR DCF-BASED COST OF
7 EQUITY SHOULD SHOW "...A MEANINGFUL TENDENCY TO
8 CORRELATE TO CHANGES IN INTEREST RATES" (DIRECT
9 TESTIMONY, PAGE 54, LINE 5). HOWEVER, HE ALLEGES
10 THAT YOUR COST OF EQUITY ESTIMATES FOR THE S&P 500
11 INDEX ARE NOT CORRELATED WITH THE INTEREST RATE ON
12 Aaa-RATED MOODY'S PUBLIC UTILITY BONDS FROM OCTOBER
13 OF 1987 TO APRIL OF 1993. DO YOU AGREE WITH MR.
14 ROTHSCHILD'S POSITION CONCERNING THE RELATIONSHIP
15 BETWEEN THE COST OF EQUITY AND RETURNS ON Aaa-RATED
16 UTILITY BONDS?

17
18 A. NO, HIS POSITION IS INCORRECT AND INCONSISTENT WITH
19 THE VIEWS EXPRESSED IN HIS OWN DIRECT TESTIMONY.
20 IT IS GENERALLY ACCEPTED THAT THE EXPECTED RETURNS
21 ON EQUITIES ARE HIGHER THAN THE EXPECTED RETURNS ON
22 BONDS BECAUSE EQUITIES ARE VIEWED AS RISKIER THAN
23 BONDS. HOWEVER, THE EXTENT TO WHICH EXPECTED
24 EQUITY RETURNS EXCEED EXPECTED DEBT RETURNS VARIES
25 OVER TIME. THUS, MR. ROTHSCHILD'S POSITION THAT

1 CHANGES IN MY COST OF EQUITY DO NOT PERFECTLY MATCH
2 CHANGES IN Aaa-RATED PUBLIC UTILITY RATES IS TO BE
3 EXPECTED AND DOES NOT CONTRADICT THE VALIDITY OF MY
4 DCF APPROACH TO ESTIMATING THE COST OF EQUITY.

5
6 INTERESTINGLY, MR. ROTHSCHILD AGREES THAT THE RISK
7 PREMIUM CHANGES OVER TIME (DIRECT TESTIMONY, PAGE
8 40, LINES 13-17). THE CHANGING RELATIONSHIP
9 BETWEEN EQUITY AND DEBT RETURNS OBSERVED BY MR.
10 ROTHSCHILD IN HIS MISPLACED CRITICISM OF MY
11 ANALYSIS MERELY REFLECTS CHANGES IN THE RISK
12 PREMIUM BETWEEN THE RETURNS ON THOSE SECURITIES
13 OVER TIME. THUS, MR. ROTHSCHILD CONTRADICTS HIS
14 OWN TESTIMONY WITH HIS INVALID AND INACCURATE
15 CRITICISM OF MY DCF ANALYSIS.

16

17 Q. HAVE MR. ROTHSCHILD'S DCF ESTIMATES CLOSELY TRACKED
18 THE CHANGES IN INTEREST RATES OVER TIME?

19

20 A. NO, THEY HAVE NOT. ON JANUARY 10, 1992, MR.
21 ROTHSCHILD FILED TESTIMONY BEFORE THIS COMMISSION
22 REGARDING SOUTHERN BELL'S COST OF EQUITY. HE
23 PERFORMED HIS DCF ANALYSIS ON THE RBHCs AND
24 BELLSOUTH USING BOTH HIS SIMPLE AND COMPLEX DCF
25 MODELS IN THE SAME MANNER AS IN HIS CURRENT

1 TESTIMONY IN THIS PROCEEDING. AS SHOWN IN EXHIBIT
2 RSB-8 (SCHEDULE 8), FROM HIS JANUARY 1992 TESTIMONY
3 TO HIS CURRENT TESTIMONY, HIS DCF RESULTS HAVE
4 DECREASED ON AVERAGE BY 0.63% WHILE Aaa PUBLIC
5 UTILITY BOND YIELDS HAVE DECREASED 1.62%. THE
6 AVERAGE DECLINE IN HIS DCF RESULTS WAS ONLY 39% OF
7 THE DROP IN INTEREST RATES OVER THIS TIME PERIOD.
8 THEREFORE, MR. ROTHSCHILD'S DCF RESULTS BEHAVE IN
9 THE SAME GENERAL MANNER AS MINE: THEY DO NOT FOLLOW
10 CHANGES IN INTEREST RATES ON A ONE FOR ONE BASIS.

11

12 Q. ON PAGES 60-63 OF HIS DIRECT TESTIMONY, MR.
13 ROTHSCHILD STATES THAT YOUR OBSERVATIONS CONCERNING
14 THE INVERSE RELATIONSHIP BETWEEN INTEREST RATE
15 CHANGES AND THE EQUITY RISK PREMIUM ARE INCORRECT.
16 INDEED, HE ARGUES FOR THE OPPOSITE CASE WHEREIN
17 "...INVESTORS ARE WILLING TO SETTLE FOR A LOWER
18 RISK PREMIUM WHEN INTEREST RATES ARE LOW THAN WHEN
19 INTEREST RATES ARE HIGH" (DIRECT TESTIMONY, PAGE
20 61, LINES 2-3). WHAT JUSTIFICATION DOES MR.
21 ROTHSCHILD OFFER FOR HIS POSITION AND WHAT IS YOUR
22 RESPONSE TO IT?

23

24 A. MR. ROTHSCHILD OFFERS NO THEORY OR STATISTICAL
25 EVIDENCE TO SUPPORT HIS SPECULATION THAT THE EQUITY

1 RISK PREMIUM INCREASES WITH INTEREST RATES. HE
2 MERELY OFFERS HIS OPINION THAT THE EQUITY RISK
3 PREMIUM SHOULD BE CONSIDERED AS A PERCENTAGE OF THE
4 RETURN PREVAILING ON THE LOW RISK INVESTMENT
5 ALTERNATIVE TO EQUITIES. BASED ON THAT OPINION HE
6 CONCLUDES THAT INVESTORS ACCEPT LOWER RISK PREMIUMS
7 WHEN INTEREST RATES ARE LOW THAN WHEN THEY ARE
8 HIGH. THUS, HE ASSUMES HIS CONCLUSION WITHOUT
9 EXPLAINING OR CITING ANY SUPPORTING THEORY OF
10 INVESTOR BEHAVIOR.

11
12 MY POSITION THAT THE EQUITY RISK PREMIUM IS
13 INVERSELY RELATED TO INTEREST RATES IS BASED ON THE
14 THEORY ADVANCED BY THE NOBEL PRIZE-WINNING
15 FINANCIAL ECONOMIST, WILLIAM F. SHARPE, AND THE
16 RESULTS OF PROFESSOR R. S. HARRIS' STATISTICAL
17 STUDY OF THE BEHAVIOR OF THE EQUITY RISK PREMIUM,
18 AS CITED AND DISCUSSED ON PAGES 38-40 OF MY DIRECT
19 TESTIMONY. MR. ROTHSCHILD'S ONLY REASON FOR
20 REJECTING THE RESULTS OF PROFESSOR HARRIS' STUDY IS
21 THAT IT USES IBES FIVE-YEAR GROWTH RATES (DIRECT
22 TESTIMONY, PAGE 62, LINES 7-12). THIS CRITICISM IS
23 UNCONVINCING SINCE IBES FORECASTS ARE VIEWED AS AN
24 EXCELLENT MEASURE OF THE CONSENSUS GROWTH RATE
25 FORECAST.

1

2 Q. MR. ROTHSCHILD REFERS TO A STUDY BY PROFESSOR
3 EUGENE BRIGHAM THAT SUGGESTS THAT PRIOR TO 1980
4 UTILITY RISK PREMIA INCREASED WITH THE LEVEL OF
5 INTEREST RATES BUT ALSO SUGGESTS THAT THIS PATTERN
6 REVERSED ITSELF AFTER THAT TIME, RESULTING IN AN
7 INVERSE CORRELATION BETWEEN RISK PREMIA AND
8 INTEREST RATES (DIRECT TESTIMONY, PAGE 61, LINES
9 20-25). HIS DISCUSSION SUGGESTS THAT THIS EVIDENCE
10 SOMEHOW DEMONSTRATES THE INAPPROPRIATENESS OF YOUR
11 ADJUSTMENT TO THE EQUITY RISK PREMIUM FOR THE LEVEL
12 OF INTEREST RATES. WOULD YOU ELABORATE ON HIS
13 ARGUMENT AND COMMENT ON ITS SIGNIFICANCE TO YOUR
14 ANALYTICAL APPROACH?

15

16 A. YES. MR. ROTHSCHILD'S REFERENCE TO THE ABOVE-NOTED
17 EVIDENCE IS APPARENTLY INTENDED TO ARGUE THAT THE
18 PERIOD OF TIME BEFORE 1980 IS MORE REPRESENTATIVE
19 OF THE LONG-TERM RELATIONSHIP BETWEEN INTEREST
20 RATES THAN THE PERIOD OF TIME SINCE 1980. HIS ONLY
21 SUPPORT IS HIS OPINION THAT THE HARRIS STUDY
22 "...WAS WRITTEN IN 1986, A TIME JUST PRIOR TO A
23 MAJOR CHANGE IN THE FEDERAL INCOME TAX LAWS" AND
24 THAT THE DATA USED IN THE STUDY IS FROM "...A TIME
25 THAT COVERS A MAJOR CHANGE IN THE OVERALL TREND IN

1 INTEREST RATES" (DIRECT TESTIMONY, PAGES 61-62),
2 HOWEVER, MR. ROTHSCHILD PROVIDES NO CLEAR THEORY OR
3 EMPIRICAL EVIDENCE THAT AN INVERSE RELATIONSHIP
4 BETWEEN INTEREST RATES AND THE EQUITY RISK PREMIUM
5 IS NOT "NORMAL" OR THAT IT IS NOT CURRENTLY IN
6 EFFECT.

7
8 INTERESTINGLY, EVIDENCE SUPPORTING THE INVERSE
9 RELATIONSHIP BETWEEN INTEREST RATES AND THE EQUITY
10 RISK PREMIUM SINCE 1980 HAS BEEN PROVIDED BY
11 PROFESSORS R. S. HARRIS AND F. C. MARSTON IN A
12 RECENT STUDY ("ESTIMATING SHAREHOLDER RISK PREMIA
13 USING ANALYSTS' GROWTH FORECASTS," FINANCIAL
14 MANAGEMENT, SUMMER 1992, PP. 63-70). USING DATA
15 FROM 1982 TO 1991 AND STRONGER STATISTICAL TESTS
16 THAN IN HARRIS' 1986 STUDY, THE AUTHORS FIND THAT
17 "...RISK PREMIA ARE NEGATIVELY RELATED TO THE LEVEL
18 OF INTEREST RATES" AND THAT "...THIS NEGATIVE
19 RELATIONSHIP IS TRUE FOR EACH OF THE SUBPERIODS"
20 EVALUATED DURING THAT OVERALL PERIOD OF TIME
21 (HARRIS AND MARSTON, 1992, PAGE 69). THUS, HARRIS
22 AND MARSTON'S RESULTS INDICATE THAT THE NEGATIVE
23 RELATIONSHIP BETWEEN INTEREST RATES AND THE EQUITY
24 RISK PREMIUM IS A DURABLE EFFECT AND THEREFORE
25 CONTRADICTS MR. ROTHSCHILD'S UNSUBSTANTIATED

1 CONTRARY OPINION.

2

3 Q. MR. ROTHSCHILD ARGUES THAT THE HISTORICAL
4 RELATIONSHIP BETWEEN THE DIVIDEND YIELDS ON
5 ELECTRIC UTILITY STOCKS AND THE RISK PREMIUM
6 DEMONSTRATE THAT YOUR "...VIEW OF THE BEHAVIOR OF
7 HOW THE RISK PREMIUM CHANGES AS INTEREST RATES
8 CHANGE IS INCORRECT" (DIRECT TESTIMONY, PAGES
9 62-63). WHAT THEORY OR EVIDENCE DOES HE OFFER TO
10 SUPPORT HIS POSITION?

11

12 A. MR. ROTHSCHILD CITES NO GENERALLY ACCEPTED THEORY
13 CONCERNING THE RELATIONSHIP BETWEEN ELECTRIC
14 UTILITY STOCK DIVIDEND YIELDS AND THE RISK PREMIUM
15 NOR DOES HE PROVIDE ANY CONVINCING EVIDENCE THAT A
16 MEANINGFUL, SYSTEMATIC RELATIONSHIP EXISTS. HE
17 MERELY EXAMINES A GRAPH OF THE HISTORICAL
18 PERFORMANCE OF Aa-RATED PUBLIC UTILITY BONDS AND
19 THE DIVIDEND YIELD ON ELECTRIC UTILITY STOCKS. MR.
20 ROTHSCHILD ARGUES THAT "...BECAUSE DIVIDEND YIELDS
21 TRACK INTEREST RATES SO WELL, AND BECAUSE GROWTH
22 VARIES WITH INTEREST RATES, THE RISK PREMIUM MUST
23 BE LOWER WHEN INTEREST RATES ARE LOW AND HIGHER
24 WHEN INTEREST RATES ARE HIGH" (DIRECT TESTIMONY,
25 PAGE 63, LINES 2-4).

1

2 MR. ROTHSCHILD ASSUMES WITHOUT THE BENEFIT OF
3 STATISTICAL EVIDENCE THAT DIVIDEND YIELDS AND
4 INTEREST RATES ARE SIGNIFICANTLY RELATED. FURTHER,
5 HE ASSUMES THAT THE EQUITY RISK PREMIUM IS RELATED
6 POSITIVELY TO INTEREST RATES. YET, AS I HAVE SHOWN
7 ABOVE, THERE IS AMPLE EVIDENCE THAT THE EQUITY RISK
8 PREMIUM IS RELATED NEGATIVELY, NOT POSITIVELY, TO
9 INTEREST RATES.

10

11 IN SUMMARY, MR. ROTHSCHILD'S SUPPOSED "EMPIRICAL
12 EVIDENCE" CONSISTS OF A UNIQUE THEORY THAT IS NOT
13 PROVEN BY STATISTICAL EVIDENCE AND A DEMONSTRABLY
14 WRONG ASSUMPTION CONCERNING THE BEHAVIOR OF THE
15 EQUITY RISK PREMIUM. THUS, HIS THEORY AND HIS
16 EVIDENCE AMOUNT TO NOTHING MORE THAN
17 UNSUBSTANTIATED SPECULATION.

18

19 V. REBUTTAL OF MR. NEIL'S DIRECT TESTIMONY
20 ON SOUTHERN BELL'S COST OF EQUITY

21

22 A. INCORRECT APPLICATION OF MY COMPARABLE
23 FIRM IDENTIFICATION METHODOLOGY

24

25 Q. MR. NEIL STATES THAT HE "...USED SIX OF THE SEVEN

1 SAME RISK CRITERIA THAT THE COMPANY WITNESS HAS
2 USED TO CHOOSE COMPANIES CONSIDERED SIMILAR IN RISK
3 TO SOUTHERN BELL" (DIRECT TESTIMONY, PAGE 4, LINES
4 19-20). IS MR. NEIL'S APPROACH TO IDENTIFYING
5 FIRMS COMPARABLE IN RISK TO SOUTHERN BELL THE SAME
6 AS YOURS?

7
8 A. NO, WHILE MR. NEIL USES SOME OF THE SAME RISK
9 CRITERIA THAT I DO IN MY ANALYSIS, HIS MODEL IS
10 INCOMPLETE AND IS APPLIED INCORRECTLY. HIS MODEL
11 IS INCOMPLETE SINCE IT PURPOSELY OMITTS ONE OF MY
12 RISK CRITERIA, THE BOND RATING VARIABLE. MR. NEIL
13 MISAPPLIES THE METHODOLOGY BY FAILING TO CALCULATE
14 AN APPROPRIATE MEASURE OF "DISTANCE" FROM SOUTHERN
15 BELL. HIS APPROACH DOES NOT SUMMARIZE THE RISK
16 PROFILE OF FIRMS BUT RATHER INCORRECTLY EXAMINES
17 THE DIFFERENCES BETWEEN EACH FIRM IN HIS CLUSTER
18 AND SOUTHERN BELL IN TERMS OF EACH RISK CRITERION
19 INDIVIDUALLY AND IN ISOLATION FROM THE OTHER RISK
20 CRITERIA.

21
22 MR. NEIL, IN EFFECT, PUTS THE CART BEFORE THE
23 HORSE. HE SELECTS HIS FIRMS AND THEN EXAMINES THE
24 RISK CRITERIA TO SEE IF HIS SELECTED FIRMS ARE
25 COMPARABLE. IT IS DIFFICULT TO CONCLUDE THAT SUCH

1 A PROCESS COULD BE OBJECTIVE.

2

3 Q. HOW DID MR. NEIL CHOOSE THE NINE COMPANIES THAT ARE
4 SUPPOSEDLY COMPARABLE IN RISK TO SOUTHERN BELL?

5

6 A. AS NOTED, MR. NEIL APPARENTLY FIRST ASSUMED THAT
7 THE NINE FIRMS WERE COMPARABLE IN RISK TO SOUTHERN
8 BELL AND THEN ATTEMPTED TO CONFIRM SUCH
9 COMPARABILITY AFTER THE FACT. THIS APPROACH IS
10 REVEALED BY HIS OBSERVATION THAT "THE COMMON
11 CHARACTERISTIC OF THE NINE COMPANIES I SELECTED IS
12 REGULATED LOCAL EXCHANGE SERVICE" AND "...ALL HAVE
13 THEIR OPERATIONS BASED IN THE U.S., ARE LISTED IN
14 STANDARD & POOR'S (S&P) STOCK GUIDE, AND ARE
15 REPORTED IN VALUE LINE" (DIRECT TESTIMONY, PAGE 4,
16 LINES 10-13). THUS, MR. NEIL CHOSE FIRMS THAT HE
17 BELIEVED TO BE COMPARABLE IN RISK TO SOUTHERN BELL
18 ON THE BASIS OF HIS OPINION ALONE AND APPARENTLY ON
19 THE EASY AVAILABILITY OF PUBLISHED INFORMATION.

20

21 Q. DOES MR. NEIL'S CHOICE OF ONLY NINE ALLEGEDLY
22 COMPARABLE FIRMS ON THE BASIS OF HIS OPINION ALONE
23 INTRODUCE ANY BIAS INTO HIS ESTIMATION OF THE COST
24 OF EQUITY FOR SOUTHERN BELL?

25

1 A. YES, HIS CHOICE INTRODUCES TWO SIGNIFICANT SOURCES
2 OF BIAS. THE FIRST BIAS RESULTS FROM THE FACT THAT
3 IT IS NOT SAFE TO DRAW GENERALIZATIONS CONCERNING
4 THE COST OF EQUITY FOR SOUTHERN BELL ON THE BASIS
5 OF ONLY NINE FIRMS. A LARGER GROUP OF FIRMS WOULD
6 BETTER CONTROL FOR ANY ESTIMATION ERROR IN THE
7 VARIABLES ASSOCIATED WITH CAPITAL COSTS FOR EACH OF
8 THE INDIVIDUAL FIRMS IN THE SUPPOSEDLY COMPARABLE
9 GROUP. THE SECOND BIAS IN MR. NEIL'S APPROACH
10 RESULTS FROM THE FACT THAT HE HAS SUBJECTIVELY
11 ASSUMED COMPARABILITY IN COMPILING A GROUP OF FIRMS
12 RATHER THAN OBJECTIVELY LET THE RISK CRITERIA
13 DETERMINE THE GROUP OF COMPARABLE FIRMS WITHOUT THE
14 INFLUENCE OF PRECONCEIVED NOTIONS.

15

16 Q. REGARDLESS OF HOW MR. NEIL CAME UP WITH HIS GROUP
17 OF FIRMS, DOES HE NOT USE YOUR MODEL TO DEMONSTRATE
18 THAT THIS GROUP IS INDEED COMPARABLE TO SOUTHERN
19 BELL IN A MEANINGFUL WAY?

20

21 A. NO, HE MISAPPLIES MY MODEL AND THEREFORE DOES NOT
22 SHOW THAT HIS GROUP OF FIRMS ARE TRULY COMPARABLE
23 TO SOUTHERN BELL IN A WAY THAT ALLOWS THE ACCURATE
24 ESTIMATION OF ITS COST OF EQUITY. MR. NEIL MAKES
25 TWO MAJOR MISTAKES IN ATTEMPTING TO APPLY MY MODEL.

1 FIRST, AS DISCUSSED ABOVE, HE CHOSE THE NINE FIRMS
2 IN HIS COMPARABLE GROUP ON THE BASIS OF HIS
3 OPINION. THUS, WHILE MY GROUP OF 20 FIRMS IS
4 CHOSEN RANDOMLY, HIS GROUP OF NINE FIRMS IS CHOSEN
5 NON-RANDOMLY. NON-RANDOM SAMPLES DO NOT PROVIDE AS
6 MUCH CONFIDENCE IN THE RESULTS OF THE STATISTICAL
7 ANALYSIS AS DO RANDOM SAMPLES. SECOND, MR. NEIL'S
8 INDEX OF "CLOSENESS" TO SOUTHERN BELL IS CALCULATED
9 ON A VARIABLE-BY-VARIABLE BASIS RATHER THAN ON AN
10 OVERALL PROFILE BASIS, AS IN MY ANALYSIS.
11 THEREFORE, HIS MEASURE OF CLOSENESS IS NOT THE SAME
12 AS MINE.

13
14 IN SUMMARY, MR. NEIL MISAPPLIES MY COMPARABLE FIRM
15 IDENTIFICATION METHODOLOGY BY NON-RANDOMLY CHOOSING
16 A GROUP OF ONLY NINE FIRMS THAT ARE SUPPOSEDLY
17 COMPARABLE TO SOUTHERN BELL AND BY MISDEFINING
18 COMPARABILITY IN TERMS OF INDIVIDUAL VARIABLE
19 COMPARISONS RATHER THAN ON THE BASIS OF THE
20 COMPREHENSIVE DISTANCE MEASURE USED IN MY ANALYSIS.

21

22 B. MISTAKES IN APPLYING THE DCF MODEL

23

24 Q. WHAT MISTAKES DOES MR. NEIL MAKE IN USING THE DCF
25 MODEL TO ESTIMATE THE COST OF EQUITY CAPITAL FOR

1 SOUTHERN BELL?

2

3 A. MR. NEIL'S GROUP OF NINE FIRMS SUPPOSEDLY
4 COMPARABLE IN RISK TO SOUTHERN BELL CONTAINS SIX OF
5 THE SEVEN RBHCS. EVEN THOUGH MR. NEIL'S DIRECT
6 TESTIMONY ARGUES THAT THE ASSUMPTIONS OF THE DCF
7 MODEL ARE VIOLATED FOR THESE FIRMS, HE INCORRECTLY
8 APPLIES THE DCF MODEL TO ESTIMATE THEIR COSTS OF
9 EQUITY. FURTHER, MR. NEIL USES A FLOTATION COST
10 ESTIMATE THAT IS DEMONSTRABLY TOO LOW IN HIS
11 APPROACH, WHICH UNDERESTIMATES THE COST OF EQUITY
12 FOR SOUTHERN BELL.

13

14 Q. WHAT EVIDENCE DOES MR. NEIL'S DIRECT TESTIMONY
15 PROVIDE CONCERNING THE INAPPROPRIATENESS OF THE DCF
16 MODEL IN ESTIMATING THE COST OF EQUITY FOR THE
17 RBHCS?

18

19 A. MR. NEIL ACKNOWLEDGES THAT "IT IS CONCEIVABLE THAT
20 INVESTORS ARE VALUING CELLULAR OPERATIONS AND OTHER
21 POTENTIAL OPPORTUNITIES SUCH AS CABLE TELEVISION
22 AND LONG-DISTANCE SERVICE IN THE STOCK PRICES FOR
23 MY [MR. NEIL'S] INDEX OF TELEPHONE COMPANIES" AND
24 OBSERVES THAT "THE AMOUNT OF ADJUSTMENT NECESSARY
25 TO COMPENSATE FOR THIS POSSIBILITY WOULD BE

1 DIFFICULT TO QUANTIFY" (DIRECT TESTIMONY, PAGE 9,
2 LINES 15-22). SIMILARLY, MR. NEIL EXPLICITLY NOTES
3 THAT "...GROWTH OPPORTUNITIES IN UNREGULATED AREAS
4 SUCH AS CELLULAR OPERATIONS AND INFORMATION
5 SERVICES SHOULD NOT BE CONSIDERED WHEN DETERMINING
6 THE EARNINGS OR DIVIDEND GROWTH OF SOUTHERN BELL'S
7 REGULATED LOCAL EXCHANGE SERVICE" (DIRECT
8 TESTIMONY, PAGE 10, LINES 5-8).

9
10 MR. NEIL APPLIES THE DCF MODEL TO THE RBHCS IN HIS
11 COMPARABLE GROUP OF FIRMS EVEN THOUGH HIS OWN
12 TESTIMONY PROVIDES REASON TO BELIEVE THAT THE MODEL
13 IS UNRELIABLE WHEN APPLIED TO SUCH FIRMS.

14

15 Q. WHY DO YOU BELIEVE THAT MR. NEIL'S 3% FLOTATION
16 COST IS UNREASONABLY LOW?

17

18 A. SCHEDULE 4 OF MR. NEIL'S DIRECT TESTIMONY PROVIDES
19 HIS RATIONALE FOR ESTIMATING FLOTATION COSTS AT
20 ONLY 3%. I AGREE THAT EXPLICIT FLOTATION COSTS
21 SUCH AS UNDERWRITING AND VARIOUS INVESTMENT BANKING
22 FEES AMOUNT TO ABOUT 3%. HOWEVER, I ALSO BELIEVE
23 THAT THE SALE OF EQUITY SECURITIES ALSO GENERALLY
24 INVOLVES IMPLICIT FLOTATION COSTS IN THE FORM OF A
25 2% TO 3% DECLINE IN THE PRICE OF THE STOCK

1 RESULTING FROM MARKET PRESSURE. THUS, A 5% TOTAL
2 FLOTATION COST, WHICH INCLUDES BOTH EXPLICIT AND
3 IMPLICIT COSTS, IS MORE REALISTIC THAN MR. NEIL'S
4 3% ESTIMATE. MR. NEIL IGNORES IMPORTANT PRICE
5 PRESSURE EFFECTS.

6

7 C. INAPPROPRIATE ADJUSTMENT TO THE
8 COST OF EQUITY ESTIMATE

9

10 Q. DO YOU BELIEVE THAT MR. NEIL'S LEVERAGE FORMULA
11 ADJUSTMENT TO HIS DCF RESULT IS APPROPRIATE?

12

13 A. NO. MR. NEIL COMPUTES THE FOLLOWING EQUATION:

14

15 COST OF EQUITY = Aaa BOND YIELD + (X $\frac{1}{2}$ COMMON
16 EQUITY RATIO)

17 11.02% = 6.75% + (X $\frac{1}{2}$ 0.5733)

18 X = 2.448.

19

20 X IS HIS SO-CALLED LEVERAGE FORMULA COEFFICIENT.
21 IT HAS NO MEANING IN FINANCIAL THEORY OR PRACTICE.

22 MR. NEIL THEN USES THIS EQUATION TO CALCULATE A
23 COST OF EQUITY FOR SOUTHERN BELL BASED ON ITS
24 ACTUAL CAPITAL STRUCTURE OF 61% COMMON EQUITY AS
25 FOLLOWS:

1

2 COST OF EQUITY = 6.75% + (2.448 x 61%)

3 COST OF EQUITY = 10.76%

4

5 THIS IS MR. NEIL'S RECOMMENDED COST OF EQUITY FOR
6 SOUTHERN BELL AT 10.8% (ROUNDED). MR. NEIL GIVES
7 NO THEORETICAL OR EMPIRICAL SUPPORT FOR THIS
8 ADJUSTMENT AND IT SHOULD BE IGNORED BY THIS
9 COMMISSION.

10

11 D. RESPONSES TO MR. NEIL'S CRITICISM OF

12 DR. BILLINGSLEY'S DIRECT TESTIMONY

13

14 Q. WHAT ARE MR. NEIL'S CRITICISMS OF YOUR APPROACH TO
15 ESTIMATING SOUTHERN BELL'S COST OF EQUITY CAPITAL?

16

17 A. MR. NEIL'S PRIMARY CRITICISM IS HIS INCORRECT
18 ASSERTION THAT THE GROWTH RATE FORECASTS FOR MY
19 GROUP OF COMPARABLE FIRMS CANNOT BE SUSTAINABLE.

20

21 Q. WHAT EVIDENCE DOES MR. NEIL PROVIDE CONCERNING THE
22 GROWTH RATES OF YOUR GROUP OF COMPARABLE FIRMS AND
23 HOW RELEVANT IS HIS ASSOCIATED CRITICISM OF YOUR
24 DCF ANALYSIS?

25

1 A. MR. NEIL ARGUES THAT THE FORECASTED GROWTH RATES
2 FOR MY GROUP OF COMPARABLE FIRMS ARE UNLIKELY TO BE
3 REPRESENTATIVE OF INVESTORS' LONG-TERM GROWTH RATE
4 EXPECTATIONS. THIS POSITION IS SUPPOSEDLY
5 CONFIRMED BY MR. NEIL'S OBSERVATION THAT "...IBES
6 EARNINGS GROWTH FORECASTS FOR THE CLUSTER COMPANIES
7 DIVERGE FROM HISTORICAL EARNINGS GROWTH" AND THUS
8 THESE COMPANIES "...DO NOT DEMONSTRATE A HISTORY OF
9 CONSTANT GROWTH AND ARE NOT FORECASTED TO CONTINUE
10 THE SAME RATE OF GROWTH" (DIRECT TESTIMONY, PAGE
11 14, LINES 14-18). MR. NEIL'S OBSERVATIONS
12 CONCERNING THE RELATIONSHIP BETWEEN HISTORICAL AND
13 PROJECTED GROWTH RATES DO NOT PROVE THAT THESE
14 PROJECTIONS ARE UNREPRESENTATIVE OF INVESTORS'
15 LONG-TERM GROWTH RATE EXPECTATIONS. THUS, HIS
16 CRITICISM OF MY DCF ANALYSIS ON THE BASIS OF THESE
17 OBSERVATIONS IS IRRELEVANT.

18
19 THE RATIONALE FOR RELYING ON ANALYSTS' FORECASTED
20 GROWTH RATES IS TO OBTAIN OBJECTIVE CONSENSUS
21 PROJECTIONS THAT ARE REPRESENTATIVE OF INVESTORS'
22 EXPECTATIONS. IBES AND ZACKS FORECASTS ARE
23 BROAD-BASED AND USED WIDELY BY INVESTORS. THE FACT
24 THAT HISTORICAL GROWTH RATES HAVE NOT BEEN CONSTANT
25 FOR A GIVEN FIRM OR THAT THE HISTORICAL GROWTH

1 RATES DIFFER FROM THE CONSENSUS FORECAST DOES NOT
2 NECESSARILY IMPLY THAT THE CONSENSUS GROWTH RATE
3 FORECAST IS NOT CONSTANT. FURTHER, MR. NEIL
4 ULTIMATELY MAKES AN ASSUMPTION CONCERNING LONG-TERM
5 GROWTH RATE FORECASTS USING HIS B X R APPROACH.
6 YET HE RELIES ONLY ON VALUE LINE, A SINGLE
7 FORECASTING ENTITY, RATHER THAN ON A SOURCE OF
8 CONSENSUS FORECASTS LIKE IBES OR ZACK'S. HE FALLS
9 VICTIM TO HIS OWN CRITICISM IN RELYING ON THE
10 TENUOUS ASSUMPTION THAT THE VALUE LINE FORECASTS OF
11 GROWTH FOR THE SIX RBHCS IN HIS GROUP OF NINE
12 COMPANIES ARE CONSTANT LONG-TERM RATES.

13
14 IN EVALUATING MR. NEIL'S CRITICISM OF MY DCF
15 ANALYSIS, IT IS IMPORTANT TO NOTE THE
16 INCONSISTENCIES IN HIS DIRECT TESTIMONY. ON PAGE
17 8, LINES 16-20, OF HIS TESTIMONY HE STATES THAT ONE
18 CAN ASSUME THAT FORECASTS SUCH AS THOSE FOUND IN
19 VALUE LINE, IBES, AND ZACK'S PROVIDE REASONABLE
20 ESTIMATES OF LONG-TERM GROWTH. MR. NEIL ALSO
21 STATES THAT HE IS "...ASSUMING THAT THE FORECASTED
22 THREE TO FIVE YEAR GROWTH FOR MY [MR. NEIL'S] PROXY
23 GROUP OF COMPANIES IS A REASONABLE ESTIMATE TO
24 ASSUME FOR LONG-TERM GROWTH" (DIRECT TESTIMONY,
25 PAGE 8, LINES 18-20. HOWEVER, HE ADMITS THAT

1 A. MR. CICCHETTI'S REASONS ARE JUST GENERAL
2 OBSERVATIONS THAT DO NOT ADEQUATELY SUPPORT HIS
3 CAPITAL STRUCTURE RECOMMENDATION. ULTIMATELY, THE
4 ONLY SUPPORT OFFERED IS MR. CICCHETTI'S OBSERVATION
5 THAT "AN EQUITY RATIO OF 58% IS THE MINIMUM
6 REQUIREMENT INHERENT IN STANDARD AND POOR'S TOTAL
7 DEBT TO TOTAL CAPITAL FINANCIAL BENCHMARK FOR AA
8 RATED LOCAL EXCHANGE COMPANY" (DIRECT TESTIMONY,
9 PAGE 39, LINE 25 - PAGE 40, LINE 3). NO EVIDENCE
10 IS PROVIDED TO SUPPORT THE RELEVANCE OF THIS
11 OBJECTIVE NOR THE OVERALL FINANCIAL IMPLICATIONS OF
12 ITS PURSUIT. BELOW I CRITICALLY EVALUATE EACH OF
13 MR. CICCHETTI'S SEVEN "REASONS" FOR HIS
14 RECOMMENDATION AND SHOW THAT THEY ARE MERELY
15 OBSERVATIONS THAT DO NOT OFFER SUFFICIENT SUPPORT
16 FOR HIS POSITION.

17
18 REASON 1 IS THAT "...RATEPAYERS SHOULD PAY ONLY THE
19 REASONABLE AND PRUDENT COSTS ASSOCIATED WITH THE
20 PROVISION OF UTILITY SERVICE" (DIRECT TESTIMONY,
21 PAGE 39, LINE 3-6). MR. CICCHETTI PROVIDES NO
22 EVIDENCE THAT THE SOUTHERN BELL'S CURRENT CAPITAL
23 STRUCTURE IS UNREASONABLE OR IMPRUDENT. HE OFFERS
24 ONLY HIS UNSUPPORTED OPINION THAT SOUTHERN BELL CAN
25 HANDLE MORE DEBT.

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REASON 2 IS THAT "...A UTILITY'S EQUITY RATIO SHOULD BE REASONABLE AND ALLOW THE COMPANY TO ATTRACT CAPITAL AT A REASONABLE COST" (DIRECT TESTIMONY, PAGE 39, LINES 6-8). MR. CICCHETTI PROVIDES NO EVIDENCE THAT SOUTHERN BELL'S CURRENT CAPITAL COSTS ARE UNREASONABLE.

REASON 3 IS "...INCREASED INVESTMENT BY SOUTHERN BELL'S AFFILIATES INTO NON-REGULATED LINES OF BUSINESS" (DIRECT TESTIMONY, PAGE 39, LINES 8-10). MR. CICCHETTI'S "REASON" FOR LOWERING THE EQUITY RATIO IS THE ASSUMPTION THAT RATEPAYERS ARE SOMEHOW SUBSIDIZING SOUTHERN BELL'S UNREGULATED LINES OF BUSINESS. YET THE NATURE OF THESE UNREGULATED LINES OF BUSINESS IS NOT DESCRIBED, THE IMPLICATIONS OF THESE ACTIVITIES ON THE APPROPRIATE CAPITAL STRUCTURE ARE LARGELY UNEXPLORED, AND NO EVIDENCE OF CROSS-SUBSIDIZATION IS PROVIDED. THUS, MR. CICCHETTI OBSERVES IN PASSING THAT THIS IS A REASON TO LOWER THE EQUITY RATIO BUT PROVIDES NO EVIDENCE OF ANY PROBLEM NOR ANY QUANTIFICATION OF HOW, EVEN IF IT WERE PRESENT, IT INFLUENCES CAPITAL STRUCTURE.

1 REASON 4 IS "...THE ABILITY OF THE COMPANY TO
2 MANIPULATE ITS EQUITY RATIO TO THE DETRIMENT OF ITS
3 RATEPAYERS AND COMPETITORS AND TO THE BENEFIT OF
4 ITSELF AND ITS AFFILIATES" (DIRECT TESTIMONY, PAGE
5 39, LINES 10-13). MR. CICCHETTI ONLY OBSERVES THAT
6 MANIPULATION IS POSSIBLE BUT PROVIDES NO EVIDENCE
7 THAT SUCH MANIPULATION HAS ACTUALLY OCCURRED.
8 FURTHER, MR. CICCHETTI IGNORES THE FACT THAT
9 INVESTORS AND BOND RATING AGENCIES EFFECTIVELY
10 CONSTRAIN ACTIONS THAT DISTORT CAPITAL STRUCTURE
11 DECISIONS.

12
13 REASON 5 IS "...THE FACT THAT SOUTHERN BELL'S
14 EQUITY RATIO IS ABOVE THE INDUSTRY AVERAGE AND WELL
15 ABOVE THE MINIMUM REQUIREMENT INHERENT IN STANDARD
16 AND POOR'S TOTAL DEBT TO TOTAL CAPITAL BENCHMARK
17 FOR A AA RATED LOCAL EXCHANGE COMPANY" (DIRECT
18 TESTIMONY, PAGE 39, LINES 13-18). MR. CICCHETTI'S
19 ARGUMENT IGNORES ANY POSSIBLE BENEFITS OF BEING
20 ABOVE THE MINIMUM STANDARDS AND INCORRECTLY,
21 IMPLICITLY ASSUMES THAT THE ONLY REQUIREMENT FOR A
22 GIVEN BOND RATING IS THE EQUITY RATIO.

23
24 REASON 6 IS "...SOUTHERN BELL'S RISKIER AFFILIATES
25 HAVE NOT BEEN FINANCED WITH MORE EQUITY INDICATING

1 RELIANCE ON THE LOCAL EXCHANGE COMPANY FOR CREDIT
2 SUPPORT" (DIRECT TESTIMONY, PAGE 29, LINES 18-21).
3 MR. CICCHETTI'S REASON 6 IS ESSENTIALLY THE SAME AS
4 REASON 3 CONCERNING INCREASED INVESTMENT IN
5 UNREGULATED BUSINESSES. AS DISCUSSED IN MR. KECK'S
6 REBUTTAL TESTIMONY, MR. CICCHETTI'S ASSERTION THAT
7 BELLSOUTH HAS FUNDED UNREGULATED OPERATIONS WITH
8 MORE DEBT THAN REGULATED OPERATIONS IS FALSE.

9
10 REASON 7 IS "...THE COMPANY HAS NOT JUSTIFIED THE
11 NEED FOR SUCH A COSTLY CAPITAL STRUCTURE..."
12 (DIRECT TESTIMONY, PAGE 39, LINES 21-23). MR.
13 CICCHETTI PROVIDES NO EVIDENCE THAT SOUTHERN BELL'S
14 CURRENT CAPITAL STRUCTURE IS "COSTLY."

15
16 IN SUMMARY, MR. CICCHETTI'S SEVEN REASONS FOR
17 RECOMMENDING THAT THE COMMISSION ADOPT A 58% EQUITY
18 RATIO FOR RATEMAKING PURPOSES WITH SOUTHERN BELL
19 ARE SIMPLY OBSERVATIONS THAT REFLECT HIS
20 UNSUBSTANTIATED OPINION THAT SOUTHERN BELL CAN
21 HANDLE MORE DEBT. THE FAIR AND EFFECTIVE
22 REGULATION OF SOUTHERN BELL DEMANDS MORE.

23
24 B. REBUTTAL OR MR. ROTHSCHILD'S RECOMMENDED
25 CAPITAL STRUCTURE

1

2 Q. MR. ROTHSCHILD RECOMMENDS THAT THE COMMISSION
3 REDUCE SOUTHERN BELL'S EQUITY RATIO FOR RATEMAKING
4 PURPOSES FROM THE COMPANY'S REQUESTED LEVEL OF
5 61.01% TO A HYPOTHETICAL LEVEL OF 42.5%. WHAT IS
6 YOUR EVALUATION OF MR. ROTHSCHILD'S RECOMMENDATION
7 AND HIS STATED RATIONALE FOR IT?

8

9 A. MR. ROTHSCHILD'S RECOMMENDATION IS EXTREME,
10 ECONOMICALLY UNJUSTIFIED, AND IS CONTRADICTED BY
11 THE VALUE LINE INVESTMENT ADVISORY SOURCE THAT HE
12 RELIES ON. IF ADOPTED BY THIS COMMISSION, HIS
13 RECOMMENDATION WOULD ALSO CONTRADICT THE ACCEPTED
14 REGULATORY STANDARD THAT SOUTHERN BELL BE ALLOWED
15 TO ATTRACT CAPITAL AT REASONABLE COSTS. MR.
16 ROTHSCHILD'S RECOMMENDATION IS BASED ON INCORRECT
17 ASSUMPTIONS AND INVALID, IRRELEVANT STATISTICAL
18 ANALYSIS. FURTHER, HIS RECOMMENDATION IS BASED, IN
19 PART, ON THE RESULTS OF HIS DEMONSTRABLY FLAWED DCF
20 ANALYSIS, AS EXPLAINED ABOVE IN MY REBUTTAL OF HIS
21 RECOMMENDED COST OF EQUITY CAPITAL.

22

23 Q. IN WHAT WAYS IS MR. ROTHSCHILD'S RECOMMENDED
24 CAPITAL STRUCTURE EXTREME AND ECONOMICALLY
25 UNJUSTIFIED?

1
2 A. MR. ROTHSCHILD'S RECOMMENDATION THAT AN EQUITY
3 RATIO OF 42.5% BE ADOPTED BY THIS COMMISSION FOR
4 RATEMAKING PURPOSES IS BASED, IN PART, ON THE
5 ASSUMPTION THAT SOUTHERN BELL'S REQUESTED EQUITY
6 RATIO OF 61.01% IS SIMPLY TOO DIFFERENT FROM THE
7 52.90% AVERAGE RATIO FOR THE RBHCS. INDEED, HE
8 EVEN SPECULATES THAT THE SIMILARITY BETWEEN
9 BELLSOUTH'S EQUITY RATIO AND THAT REQUESTED BY
10 SOUTHERN BELL INDICATES THAT "...THE REQUESTED
11 CAPITAL STRUCTURE MUST HAVE BEEN MANIPULATED"
12 (DIRECT TESTIMONY, PAGE 10, LINE 25). HOWEVER, AS
13 I HAVE SHOWN IN MY REBUTTAL OF MR. ROTHSCHILD'S
14 COST OF EQUITY TESTIMONY, THE RBHCS ARE NOT
15 COMPARABLE IN RISK TO SOUTHERN BELL. THUS, THE
16 RBHCS ARE NOT A RELIABLE BENCHMARK FOR EVALUATING
17 SOUTHERN BELL'S CAPITAL STRUCTURE. FURTHER,
18 ALTHOUGH MR. ROTHSCHILD ALLEGES THAT SOUTHERN BELL
19 HAS MANIPULATED ITS CAPITAL STRUCTURE, HE PROVIDES
20 ABSOLUTELY NO EVIDENCE TO SUPPORT THIS SPECULATION
21 NOR DOES HE EVEN EXPLAIN HOW THIS ALLEGED
22 MANIPULATION COULD HAVE BEEN EFFECTED.
23
24 THE EXTREME NATURE OF MR. ROTHSCHILD'S
25 RECOMMENDATION IS DRAMATIZED BY CONSIDERING THE

1 UNREASONABLENESS OF HIS IMPLICIT ASSUMPTION
2 CONCERNING BELLSOUTH'S HISTORICAL CAPITAL
3 STRUCTURE. HE IS PRESUMING THAT BELLSOUTH HAS
4 MAINTAINED AN UNECONOMICAL CAPITAL STRUCTURE OVER
5 THE YEARS AND THAT ALL OF THE OTHER RBHCS HAVE
6 MANIPULATED THEIR CAPITAL STRUCTURES. THUS, BY
7 IMPLICATION, SOUTHERN BELL HAS SOMEHOW BEEN ABLE TO
8 DO THE SAME THING. COMPANY CAPITAL STRUCTURE
9 WITNESS KECK PROVIDES EVIDENCE THAT SOUTHERN BELL'S
10 DEBT RATIO HAS REMAINED FAIRLY STABLE DURING THE
11 PAST SEVERAL YEARS AND OBSERVES THAT THIS
12 COMMISSION HAS REGULATED SOUTHERN BELL ON THE BASIS
13 OF ITS ACTUAL AVERAGE CAPITAL STRUCTURE (DIRECT
14 TESTIMONY, PAGES 12-13).

15
16 MR. ROTHSCHILD PROVIDES NO INSIGHT INTO HOW THE
17 FINANCIAL MARKETS WOULD ALLOW BELLSOUTH TO MAINTAIN
18 A RADICALLY UNECONOMICAL CAPITAL STRUCTURE WITHOUT
19 PENALTY OVER THE YEARS, NO EVIDENCE THAT BELLSOUTH
20 OR THE OTHER RBHCS HAVE MANIPULATED THEIR CAPITAL
21 STRUCTURE, AND NO EXPLANATION FOR WHY THIS
22 COMMISSION WOULD ALLOW SUCH AN ABERRATION TO GO
23 UNCORRECTED FOR YEARS IN ITS REGULATION OF SOUTHERN
24 BELL. IN SHORT, MR. ROTHSCHILD'S RECOMMENDATION IS
25 BASED ON UNREASONABLE ASSUMPTIONS AND CONJECTURE.

1

2 Q. HOW IS MR. ROTHSCHILD'S CAPITAL STRUCTURE
3 RECOMMENDATION CONTRADICTED BY THE VALUE LINE
4 INVESTMENT ADVISORY SERVICE THAT HE RELIES ON?
5

6 A. MR. ROTHSCHILD CITES THE FACT THAT GTE CORPORATION
7 HAS 37.14% EQUITY IN ITS CAPITAL STRUCTURE IN
8 ATTEMPTING TO ARGUE THAT HIS 42.5% RECOMMENDATION
9 FOR SOUTHERN BELL IS NOT EXTREME. HE ALSO
10 ACKNOWLEDGES THAT VALUE LINE CONSIDERS GTE TO BE
11 "CONSERVATIVE." HOWEVER, MR. ROTHSCHILD'S
12 FRAMEWORK FOR EVALUATING CAPITAL STRUCTURE AND COST
13 OF EQUITY ISSUES IS INCONSISTENT WITH THE
14 PROJECTIONS FOR GTE PUBLISHED BY VALUE LINE.
15

16 VALUE LINE PROJECTS THAT GTE WILL EARN 19% ON ITS
17 EQUITY IN 1993 AND 1994 AND 21% FROM 1996 TO 1998
18 (OCTOBER 15, 1993, PAGE 758). HOWEVER, UNDER MR.
19 ROTHSCHILD'S RECOMMENDED CAPITAL STRUCTURE HE WOULD
20 ALLOW ONLY A 10.40% RETURN ON EQUITY, WHICH IS LESS
21 THAN HALF OF WHAT VALUE LINE EXPECTS "CONSERVATIVE"
22 GTE TO ACHIEVE WITHIN A FEW YEARS. IT IS UNCLEAR
23 HOW GTE COULD ACHIEVE SUCH PROJECTED RETURNS IF MR.
24 ROTHSCHILD'S RECOMMENDATIONS WERE TAKEN SERIOUSLY.
25 THUS, THE REASONABLENESS OF MR. ROTHSCHILD'S

1 ANALYTICAL FRAMEWORK IS DRAWN INTO QUESTION BY HIS
2 INCONSISTENT RELIANCE ON VALUE LINE.

3

4 Q. WHY DO YOU BELIEVE THAT THE COMMISSION'S ADOPTION
5 OF MR. ROTHSCHILD'S RECOMMENDED CAPITAL STRUCTURE
6 FOR RATEMAKING PURPOSES IS INCONSISTENT WITH THE
7 STANDARD THAT SOUTHERN BELL SHOULD BE ALLOWED TO
8 ATTRACT FUNDS AT REASONABLE COSTS.

9

10 A. MR. ROTHSCHILD RECOMMENDS A CAPITAL STRUCTURE THAT
11 IS ROUGHLY COMPARABLE WITH A BB TO BBB RATING BY
12 STANDARD & POOR'S. HE CONSEQUENTLY, THOUGH
13 IMPLAUSIBLY, ARGUES THAT THE OPTIMAL CAPITAL
14 STRUCTURE FOR A TELEPHONE COMPANY IS ASSOCIATED
15 WITH ROUGHLY "JUNK"-RATED DEBT. SUCH LOWER-RATED
16 DEBT CARRIES A PROHIBITIVELY HIGHER COST THAN
17 SOUTHERN BELL NOW EXPERIENCES. THUS, MR.
18 ROTHSCHILD'S EXTREME RECOMMENDATION, IF ADOPTED,
19 WOULD CONTRADICT THE ACCEPTED STANDARD THAT A
20 UTILITY SHOULD BE ALLOWED TO ATTRACT CAPITAL AT
21 REASONABLE COSTS.

22

23 Q. WHAT IS YOUR OPINION OF THE STATISTICAL ANALYSIS
24 OFFERED BY MR. ROTHSCHILD AS JUSTIFICATION FOR HIS
25 RECOMMENDED CAPITAL STRUCTURE FOR SOUTHERN BELL?

1

2 A. MR. ROTHSCHILD'S STATISTICAL ANALYSIS IS INVALID
3 AND IRRELEVANT TO SOUTHERN BELL'S CAPITAL
4 STRUCTURE. HIS STATISTICAL MODEL USES FIRMS THAT
5 ARE NOT COMPARABLE TO SOUTHERN BELL, IS INCORRECTLY
6 SPECIFIED, IS BASED ON INCORRECT ASSUMPTIONS, AND
7 RELIES ON HIS INAPPROPRIATE AND INACCURATE COST OF
8 EQUITY ESTIMATES.

9

10 MR. ROTHSCHILD CONDUCTED A MULTIPLE REGRESSION
11 ANALYSIS IN WHICH HIS INACCURATE DCF COST OF EQUITY
12 ESTIMATES FOR ELECTRIC UTILITIES WAS THE DEPENDENT
13 VARIABLE AND "...OTHER FACTORS INCLUDING THE
14 INTEREST RATE ON 30-YEAR TREASURY BONDS, THE
15 PERCENTAGE OF COMMON EQUITY IN THE CAPITAL
16 STRUCTURE, THE PERCENTAGE OF INCOME DERIVED FROM
17 ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION, THE
18 SUSTAINABLE RETENTION RATE, THE EXTERNAL FINANCING
19 RATE, AND THE DIVIDEND-TO-BOOK RATIO WERE EVALUATED
20 AS INDEPENDENT VARIABLES" (DIRECT TESTIMONY, PAGE
21 15, LINES 9-13). HE INCORRECTLY CONCLUDES THAT
22 "...INVESTORS BELIEVE THAT THE COST OF EQUITY FOR
23 AN ELECTRIC UTILITY INCREASES BY BETWEEN .0167% AND
24 .045% FOR EACH 1% DECREASE IN THE LEVEL OF COMMON
25 EQUITY IN THE CAPITAL STRUCTURE" (DIRECT TESTIMONY,

1 PAGE 15, LINES 14-16).

2

3 MR. ROTHSCHILD'S REGRESSION USES ELECTRIC

4 UTILITIES, WHICH ARE NOT COMPARABLE IN RISK TO

5 SOUTHERN BELL AND ARE THEREFORE UNRELIABLE

6 BENCHMARKS FOR EVALUATING SOUTHERN BELL'S CAPITAL

7 STRUCTURE. FURTHER, THE REGRESSION SPECIFIES

8 VARIABLES IN AN AD HOC MANNER. NO JUSTIFICATION IS

9 PROVIDED FOR INCLUDING THE INDICATED EXPLANATORY

10 VARIABLES. INDEED, THE ALLOWANCE FOR FUNDS USED

11 DURING CONSTRUCTION VARIABLE IS NOT EVEN

12 FINANCIALLY RELEVANT FOR TELEPHONE COMPANIES.

13 CAREFUL INSPECTION OF THE RESULTS PRESENTED ON PAGE

14 2 OF SCHEDULE 9 OF MR. ROTHSCHILD'S DIRECT

15 TESTIMONY REVEALS THAT HE HAS REALLY RUN A SERIES

16 OF REGRESSIONS WITH A DIFFERENT NUMBER OF VARIABLES

17 PRESENT IN EACH EQUATION. SUCH AN APPROACH BEGS

18 THE QUESTION OF WHICH SPECIFICATION IS TRULY

19 CORRECT. APPARENTLY MR. ROTHSCHILD DOES NOT KNOW

20 WHICH VARIABLES SHOULD BE INCLUDED IN THE

21 REGRESSION AND THUS TRIES DIFFERENT COMBINATIONS

22 AND THEN EFFECTIVELY AVERAGES THE RESULTS. THIS

23 APPROACH IS AN UNSOUND STATISTICAL PROCEDURE AND

24 HIS RESULTS CANNOT BE DEPENDED ON WITH ANY

25 CONFIDENCE.

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VII. COST OF EQUITY UPDATE

Q. PLEASE DESCRIBE THE APPROACHES THAT YOU USED TO UPDATE SOUTHERN BELL'S COST OF EQUITY CAPITAL AND SUMMARIZE YOUR CONCLUSIONS.

A. MY ANALYSIS USES THE SAME TWO DISTINCT BUT COMPLEMENTARY APPROACHES I USED IN MY JULY, 1993 TESTIMONY. IN THE FIRST APPROACH I APPLY THE DCF MODEL TO A GROUP OF FIRMS IDENTIFIED TO BE OF COMPARABLE RISK TO SOUTHERN BELL. AN AVERAGE COST OF EQUITY CAPITAL IS CALCULATED BY APPLYING THE DCF MODEL TO THIS GROUP OF COMPARABLE FIRMS IN ORDER TO PROVIDE AN OBJECTIVE, MARKET-DETERMINED COST OF EQUITY CAPITAL FOR SOUTHERN BELL. THE SECOND APPROACH I USE IS A RISK PREMIUM APPROACH THAT INCLUDES EVIDENCE AS TO THE CHANGE IN THE RISK PREMIUM RESULTING FROM CHANGES IN THE LEVEL OF INTEREST RATES.

MY ANALYSIS DETERMINES THE COST OF EQUITY FOR SOUTHERN BELL TO BE 13.89% TO 14.11% USING THE COMPARABLE FIRM GROUP DCF MODEL APPROACH. THE RISK PREMIUM APPROACH, WHICH INCLUDES AN EXPLICIT

1 ADJUSTMENT TO THE RISK PREMIUM FOR THE RECENT
2 DECLINE IN INTEREST RATES, INDICATES A COST OF
3 EQUITY CAPITAL FOR SOUTHERN BELL OF 13.27% TO
4 13.78%.

5
6 FROM THESE ANALYSES, I CONCLUDE THAT THE CURRENT
7 COST OF EQUITY CAPITAL FOR SOUTHERN BELL IS WITHIN
8 THE RANGE OF 13.27% TO 14.11% WITH A MIDPOINT OF
9 13.69%. BASED ON MY UNDERSTANDING THAT THIS
10 COMMISSION SET SOUTHERN BELL'S RATES AT AN EQUITY
11 RETURN OF 13.2% IN 1988 AND 1990, IT IS MY OPINION
12 THAT THE COST OF EQUITY IS ACTUALLY HIGHER THAN
13 THAT, ALTHOUGH IT STILL REMAINS IN THE RANGE OF
14 11.5% TO 16.0% ESTABLISHED BY THIS COMMISSION IN
15 1988.

16

17 Q. WHAT METHOD IS USED TO IDENTIFY FIRMS OF COMPARABLE
18 RISK TO SOUTHERN BELL?

19

20 A. I USE A CLUSTER ANALYSIS MODEL TO IDENTIFY FIRMS
21 THAT ARE OF COMPARABLE RISK TO SOUTHERN BELL IN THE
22 SAME FASHION AS DESCRIBED IN MY JULY, 1993
23 TESTIMONY, UPDATED FOR DATA THROUGH OCTOBER 1993.
24 THIS ANALYSIS RESULTS IN A COST OF EQUITY ESTIMATE
25 OF 13.89% TO 14.11%, USING IBES AND ZACKS GROWTH

1 RATE ESTIMATES, RESPECTIVELY.

2

3 BILLINGSLEY EXHIBIT RSB-6 (SCHEDULE 6) LISTS THE
4 GROUP OF COMPARABLE FIRMS AND PRESENTS THE DCF
5 RESULTS. THE DETAILS CONCERNING THE COMPARABLE
6 FIRM IDENTIFICATION CRITERIA AND METHODOLOGY WERE
7 PROVIDED IN BILLINGSLEY EXHIBIT RSB-4 (APPENDIX B).

8

9 Q. HAVE YOU CONDUCTED ANY ADDITIONAL ANALYSIS THAT
10 SUPPORTS THE REASONABLENESS OF THE RESULTS OF
11 APPLYING THE DCF MODEL TO A GROUP OF FIRMS
12 COMPARABLE IN RISK TO SOUTHERN BELL?

13

14 A. YES, I HAVE USED THE MARKET RISK PREMIUM APPROACH
15 TO CORPORATE THE REASONABLENESS OF THE COST OF
16 EQUITY CAPITAL DETERMINED FOR SOUTHERN BELL UNDER
17 THE DCF COMPARABLE SAMPLE APPROACH.

18

19 Q. WHICH APPROACH TO ESTIMATING THE EQUITY RISK
20 PREMIUM DO YOU USE IN YOUR ANALYSIS?

21

22 A. I EXAMINE THE RELATIONSHIP BETWEEN EXPECTED RETURNS
23 ON THE STANDARD & POOR'S 500 INDEX (S&P 500), AS
24 ESTIMATED BY THE DCF MODEL, AND EXPECTED RETURNS ON
25 AN INDEX OF Aaa-RATED PUBLIC UTILITY BONDS OVER A

1 RECENT PERIOD. THE RESULTING AVERAGE EXPECTED
2 EQUITY RISK PREMIUM OF 6.45% [AS SHOWN ON
3 BILLINGSLEY EXHIBIT RSB-7 (SCHEDULE 7)] IS ADDED TO
4 THE AVERAGE YIELD OF 6.82% THAT HAS PREVAILED ON
5 Aaa-RATED PUBLIC UTILITY BONDS OVER THE MOST RECENT
6 THREE MONTHS (AUGUST-OCTOBER, 1993) FOR WHICH DATA
7 IS AVAILABLE. THIS PRODUCES A COST OF EQUITY
8 ESTIMATE OF 13.27%. A MORE DETAILED DISCUSSION OF
9 THIS METHODOLOGY WAS PRESENTED IN BILLINGSLEY
10 EXHIBIT RSB-5 (APPENDIX C).

11

12 Q. WHAT OTHER RISK PREMIUM APPROACH DID YOU USE?

13

14 A. I USED THE RESULTS OF DR. HARRIS' STUDY, WHICH WERE
15 DESCRIBED IN MY JULY, 1993 TESTIMONY (PAGES 38-41).

16

17 DURING THE PERIOD OF DR. HARRIS' STUDY, THE AVERAGE
18 RISK PREMIUM WAS 4.81% AND THE AVERAGE YIELD OF
19 20-YEAR TREASURY BONDS WAS 12.25%. DR. HARRIS
20 FOUND THAT EXPECTED EQUITY RISK PREMIUMS ON THE
21 STANDARD & POOR'S UTILITY INDEX CHANGE BY AN
22 AVERAGE OF -.51 OF CHANGES IN THE LEVEL OF
23 LONG-TERM TREASURY BOND YIELDS. GIVEN THAT THE
24 CURRENT AVERAGE LEVEL ON 20-YEAR TREASURY BONDS IS
25 5.55% (OCTOBER, 1993), THE APPROPRIATE CURRENT RISK

1 PREMIUM IS 8.23%. THIS IS DETERMINED BY
2 MULTIPLYING THE 6.70% DECLINE IN RATES SINCE THE
3 TIME PERIOD OF HIS STUDY BY $-.51$, WHICH IS 3.42%,
4 AND ADDING THIS CHANGE IN THE RISK PREMIUM TO THE
5 AVERAGE RISK PREMIUM OF 4.81%. THIS ALTERNATIVE
6 APPROACH CONSEQUENTLY PROVIDES A COST OF EQUITY FOR
7 SOUTHERN BELL OF 13.78%, WHICH IS THE CURRENT
8 AVERAGE LEVEL OF 20-YEAR TREASURY YIELDS OF 5.55%
9 ADDED TO THE ADJUSTED RISK PREMIUM OF 8.23%.

10

11 Q. WHAT IS YOUR ESTIMATE OF THE COST OF EQUITY FOR
12 SOUTHERN BELL USING THE RISK PREMIUM APPROACH?

13

14 A. BASED ON MY ANALYSES, THE RISK PREMIUM COST OF
15 EQUITY FOR SOUTHERN BELL IS IN THE RANGE OF 13.27%
16 TO 13.78%.

17

18 Q. WHAT COST OF EQUITY CAPITAL DO YOU RECOMMEND THAT
19 THIS COMMISSION USED FOR SOUTHERN BELL?

20

21 A. MY ANALYSIS DETERMINES THE COST OF EQUITY CAPITAL
22 FROM TWO DISTINCT PERSPECTIVES: 1) THE DCF MODEL,
23 AS APPLIED TO A GROUP OF FIRMS OF RISK COMPARABLE
24 TO SOUTHERN BELL, AND 2) THE RISK PREMIUM APPROACH.
25 I BELIEVE THAT THE COST OF EQUITY CAPITAL FOR

1 SOUTHERN BELL IS IN THE RANGE OF 13.27% TO 14.11%
2 WITH A MIDPOINT OF 13.69%. I UNDERSTAND THAT THIS
3 RANGE IS ABOVE THE RATE ESTABLISHED BY THIS
4 COMMISSION IN 1988 AND 1990 AND IS WITHIN THE RANGE
5 SET BY THE COMMISSION FOR THE COMPANY'S COST OF
6 EQUITY. IT IS MY EXPERT OPINION THAT THIS RATE IS
7 AN OBJECTIVE, MARKET-DETERMINED COST OF EQUITY
8 CAPITAL THAT IS FAIR TO BOTH SOUTHERN BELL AND TO
9 ITS RATEPAYERS IN THE STATE OF FLORIDA.

10

11

12 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

13

14 A. YES, IT DOES.

15

16

17

18

19

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25

DISCOUNTED CASH FLOW ANALYSIS FOR COMPARABLE FIRM GROUP

	<u>IBES</u>	<u>ZACKS</u>
Mobil Corp.	13.86%	14.65%
Exxon Corp.	13.27%	13.31%
Southern New England Tel.	11.58%	11.50%
McDonalds Corp.	14.44%	14.11%
Kimberly-Clark Corp.	14.83%	14.67%
Amoco Corp.	14.18%	15.59%
Sara Lee Corp.	16.12%	16.00%
Anheuser-Busch Cos., Inc.	14.68%	14.48%
Du Pont (e.i.) de nemours	13.64%	14.06%
Hershey Foods Corp.	13.75%	13.68%
Emerson Electric Corp.	12.82%	14.11%
Chevron Crop.	14.32%	13.81%
Pitney Bowes, Inc.	14.06%	14.14%
Air Products Chemicals, Inc.	13.99%	14.53%
Dover Corp.	9.96%	13.26%
Becton Dickinson	13.91%	13.65%
Norfolk Southern	13.02%	13.11%
Texaco	15.12%	14.38%
Proctor & Gamble	15.39%	15.41%
Echlin, Inc.	14.85%	13.64%
AVERAGE	13.89%	14.11%

FPSC Exhibit Number _____
FPSC Docket 920260-TL
Billingsley Exhibit RSB-7
Billingsley Schedule 7
Expected Market Risk Premium
Page 1 of 4

EXPECTED MARKET RISK PREMIUM

<u>Time Period</u>	<u>Standard & Poor's 500 DCF Cost of Equity*</u>	<u>Moody's Aaa Public Utility Bonds</u>	<u>Market Risk Premium</u>
10/87	14.82%	10.92%	3.90%
11/87	15.06	10.43	4.63
12/87	15.46	10.64	4.82
1/88	15.65	10.39	5.26
2/88	15.52	9.77	5.75
3/88	15.42	9.72	5.70
4/88	15.45	10.07	5.38
5/88	15.42	10.29	5.13
6/88	15.65	10.27	5.38
7/88	15.63	10.50	5.13
8/88	15.72	10.66	5.06
9/88	15.66	10.15	5.51
10/88	15.63	9.62	6.01
11/88	15.64	9.52	6.12
12/88	15.58	9.67	5.91
1/89	15.54	9.72	5.82
2/89	15.39	9.71	5.68
3/89	15.34	9.87	5.47
4/89	15.35	9.88	5.47
5/89	15.40	9.60	5.80

EXPECTED MARKET RISK PREMIUM

<u>Time Period</u>	<u>Standard & Poor's 500 DCF Cost of Equity</u>	<u>Moody's Aaa Public Utility Bonds</u>	<u>Market Risk Premium</u>
6/89	15.22	9.13	6.09
7/89	15.36	8.98	6.38
8/89	15.14	9.02	6.12
9/89	14.94	9.10	5.84
10/89	15.02	9.01	6.01
11/89	15.17	8.92	6.25
12/89	15.12	8.92	6.20
1/90	15.18	9.08	6.10
2/90	15.29	9.35	5.94
3/90	15.47	9.48	5.99
4/90	15.62	9.60	6.02
5/90	15.70	9.58	6.12
6/90	15.71	9.38	6.33
7/90	15.81	9.36	6.45
8/90	15.69	9.54	6.15
9/90	15.91	9.73	6.18
10/90	16.04	9.66	6.38
11/90	16.23	9.43	6.80
12/90	16.16	9.18	6.98

EXPECTED MARKET RISK PREMIUM

<u>Time Period</u>	<u>Standard & Poor's 500 DCF Cost of Equity</u>	<u>Moody's Aaa Public Utility Bonds</u>	<u>Market Risk Premium</u>
1/91	16.17	9.17	7.00
2/91	16.01	8.92	7.09
3/91	15.85	9.04	6.81
4/91	15.61	8.95	6.66
5/91	15.55	8.93	6.62
6/91	15.59	9.10	6.49
7/91	15.59	9.10	6.49
8/91	15.62	8.81	6.81
9/91	15.59	8.65	6.94
10/91	15.52	8.57	6.95
11/91	15.58	8.52	7.06
12/91	15.65	8.38	7.27
1/92	15.60	8.22	7.38
2/92	15.71	8.30	7.41
3/92	15.57	8.39	7.18
4/92	15.53	8.36	7.17
5/92	15.54	8.32	7.22
6/92	15.45	8.26	7.19
7/92	15.44	8.12	7.32
8/92	15.46	8.04	7.42

EXPECTED MARKET RISK PREMIUM

<u>Time Period</u>	<u>Standard & Poor's 500 DCF Cost of Equity</u>	<u>Moody's Aaa Public Utility Bonds</u>	<u>Market Risk Premium</u>
9/92	15.57	8.04	7.53
10/92	15.53	8.06	7.47
11/92	15.56	8.11	7.45
12/92	15.57	8.01	7.56
1/93	15.29	7.94	7.35
2/93	15.07	7.75	7.32
3/93	15.00	7.64	7.36
4/93	14.71	7.50	7.21
5/93	14.81	7.44	7.37
6/93	14.73	7.37	7.36
7/93	14.61	7.25	7.36
8/93	14.59	6.94	7.65
9/93	14.43	6.76	7.67
10/93	14.50	6.75	7.75
AVERAGE	15.43%	8.98%	6.45%

Notes: *Standard and Poor's 500 DCF Cost of Equity, calculated as described in Appendix C.

**Average risk premium is the average of risk premiums for each month.

Comparison of Mr. Rothschild's DCF Results

<u>Spot Price Results</u>			
<u>Simple DCF Model</u>	<u>1/16/92*</u>	<u>11/8/93</u>	<u>Change</u>
RBHCs	10.54%	9.84%	-9.70%
BellSouth	10.06%	9.59%	-0.57%
<u>Complex DCF Model</u>			
RBHCs	10.69%	9.61%	-1.08%
BellSouth	10.32%	9.70%	-0.62%
<u>Average Price Results</u>			
<u>Simple DCF Model</u>	<u>1/16/92*</u>	<u>11/8/93</u>	<u>Change</u>
RBHCs	10.75%	10.48%	-0.27%
BellSouth	10.71%	10.01%	-0.50%
<u>Complex DCF Model</u>			
RBHCs	10.89%	10.24%	-0.65%
BellSouth	10.75%	10.06%	-0.69%
Average change			-0.63%
Aaa Public Utility Bonds	8.38% (12/91)	6.76% (10/93)	-1.62%

*This information is taken from Mr. Rothchild's Exhibit 1, Schedules 2 and 3 filed with his testimony in Docket No. 880069-TL, on January 16, 1992.

1 SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY
2 REBUTTAL TESTIMONY OF PROFESSOR DAVID SAPPINGTON
3 BEFORE THE
4 FLORIDA PUBLIC SERVICE COMMISSION
5 DOCKET NO. 920260-TL
6 DECEMBER 10, 1993
7

8 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

9
10 A. MY NAME IS DAVID SAPPINGTON. MY BUSINESS ADDRESS
11 IS THE DEPARTMENT OF ECONOMICS AT THE UNIVERSITY OF
12 FLORIDA IN GAINESVILLE, FLORIDA, 32611.

13
14 Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL
15 QUALIFICATIONS.

16
17 A. I RECEIVED MY BACHELOR'S DEGREE IN ECONOMICS FROM
18 HAVERFORD COLLEGE IN 1976, AND MY MASTER'S DEGREE
19 IN ECONOMICS FROM PRINCETON UNIVERSITY IN 1978. I
20 EARNED MY PHD IN ECONOMICS FROM PRINCETON
21 UNIVERSITY IN 1980. SINCE THAT TIME, I HAVE SERVED
22 ON THE FACULTIES OF THE UNIVERSITY OF MICHIGAN, THE
23 UNIVERSITY OF PENNSYLVANIA, AND PRINCETON
24 UNIVERSITY. I HAVE ALSO SERVED ON THE TECHNICAL
25 STAFF OF BELL COMMUNICATIONS RESEARCH (BELLCORE),

1 FIRST AS A MEMBER OF THE MATHEMATICAL AND
2 STATISTICS RESEARCH LABORATORY, AND LATER AS THE
3 MANAGER OF THE ECONOMICS RESEARCH GROUP. IN 1989,
4 I JOINED THE FACULTY AT THE UNIVERSITY OF FLORIDA
5 AS THE MATHERLY PROFESSOR OF ECONOMICS. IN 1991, I
6 WAS PROMOTED TO THE RANK OF EMINENT SCHOLAR, WHICH
7 IS THE UNIVERSITY'S HIGHEST ACADEMIC RANK. I ALSO
8 CURRENTLY SERVE AS THE ASSOCIATE DIRECTOR OF THE
9 UNIVERSITY'S PUBLIC POLICY RESEARCH CENTER.

10

11 THROUGHOUT MY CAREER AS AN ECONOMIST, MY RESEARCH
12 HAS FOCUSED ON THE DESIGN OF REGULATORY POLICY,
13 WITH A PARTICULAR EMPHASIS ON INCENTIVE REGULATION.
14 I HAVE PUBLISHED MORE THAN FIFTY ARTICLES IN THE
15 LEADING JOURNALS OF MY PROFESSION. I HAVE ALSO
16 SERVED ON THE EDITORIAL BOARDS OF SOME OF THE
17 PROFESSION'S TOP JOURNALS, INCLUDING THE AMERICAN
18 ECONOMIC REVIEW, THE JOURNAL OF REGULATORY
19 ECONOMICS, AND INFORMATION ECONOMICS AND POLICY,
20 WHICH IS THE JOURNAL OF THE INTERNATIONAL
21 TELECOMMUNICATIONS SOCIETY. IN ADDITION, I HAVE
22 ADVISED SUCH INFLUENTIAL ORGANIZATIONS AS THE WORLD
23 BANK ON THE DESIGN OF REGULATORY POLICY.

24

25 MORE DETAILS ON MY CREDENTIALS AND PROFESSIONAL

1 EXPERIENCE CAN BE FOUND IN EXHIBIT DS-1.

2

3 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

4

5 A. THE PRIMARY PURPOSE OF MY TESTIMONY IS TO EXPLAIN
6 WHY FLORIDA'S CITIZENS IN GENERAL AND SOUTHERN
7 BELL'S RATEPAYERS IN PARTICULAR WILL BE BETTER OFF
8 IF SOUTHERN BELL'S INCENTIVE SHARING PLAN IS
9 EXTENDED THAN IF STANDARD RATE OF RETURN REGULATION
10 IS REIMPOSED ON SOUTHERN BELL, AS ADVOCATED BY THE
11 OFFICE OF PUBLIC COUNSEL. A SECOND PURPOSE OF MY
12 TESTIMONY IS TO EXPLAIN THE DRAWBACKS TO THE
13 REGULATORY PLAN ADVOCATED BY MR. CICCHETTI OF THE
14 FLORIDA CABLE TELEVISION ASSOCIATION (FCTA), AND TO
15 POINT OUT AN ERROR IN THE TESTIMONY OF MS. DISMUKES
16 FROM THE OFFICE OF PUBLIC COUNSEL.

17

18 Q. WOULD YOU PLEASE SUMMARIZE YOUR TESTIMONY?

19

20 A. MY TESTIMONY REVIEWS THE INHERENT DRAWBACKS TO
21 STANDARD OR TRADITIONAL RATE OF RETURN REGULATION,
22 WHICH I HEREINAFTER REFER TO AS RATE OF RETURN
23 REGULATION. MY TESTIMONY ALSO EXPLAINS HOW
24 SOUTHERN BELL'S INCENTIVE SHARING PLAN ALLEVIATES
25 THESE DRAWBACKS. I EXPLAIN HOW THE INCENTIVE

1 SHARING PLAN PROVIDES ENHANCED INCENTIVES FOR
2 SOUTHERN BELL TO REDUCE ITS OPERATING COSTS, TO
3 MODERNIZE ITS NETWORK, TO FULFILL THE NEEDS AND
4 DESIRES OF ITS CUSTOMERS, AND TO OTHERWISE ACT AS
5 AN INNOVATIVE COMPETITOR. I CONCLUDE THAT, BECAUSE
6 OF THESE STRENGTHS, SOUTHERN BELL'S INCENTIVE
7 SHARING PLAN WILL SERVE BETTER THAN RATE OF RETURN
8 REGULATION AS A TRANSITIONAL REGULATORY PLAN UNTIL
9 A NEW, COMPREHENSIVE PLAN IS FORMULATED THAT IS
10 WELL-SUITED FOR TODAY'S MORE COMPETITIVE
11 TELECOMMUNICATIONS INDUSTRY IN FLORIDA.

12

13 Q. WHY IS THE FORM OF REGULATION ADOPTED FOR SOUTHERN
14 BELL IN FLORIDA IMPORTANT FOR THE STATE?

15

16 A. THE TELECOMMUNICATIONS SECTOR IN FLORIDA IS VITAL
17 TO THE STATE'S ECONOMIC SUCCESS AND WELL BEING.
18 BUSINESSES OF ALL SORTS AND SIZES RELY ON
19 TELECOMMUNICATIONS SERVICES FOR THEIR EVERYDAY
20 OPERATIONS. INDIVIDUALS ALSO RELY ON THE
21 TELECOMMUNICATIONS NETWORK FOR PROMPT, RELIABLE
22 SERVICE. VIRTUALLY EVERY CITIZEN IN THE STATE IS
23 AFFECTED, BOTH DIRECTLY AND INDIRECTLY, BY THE
24 PERFORMANCE OF THE TELECOMMUNICATIONS INDUSTRY.

25

1 THIS UNDERSCORES THE IMPORTANCE OF THE PERFORMANCE
2 OF THE MAJOR SUPPLIER OF TELECOMMUNICATIONS
3 SERVICES IN THE STATE, SOUTHERN BELL. SOUTHERN
4 BELL'S PERFORMANCE, IN TURN, WILL BE INFLUENCED
5 STRONGLY BY THE REGULATORY MANDATES UNDER WHICH IT
6 OPERATES. A REGULATORY PLAN THAT PROVIDES SOUTHERN
7 BELL WITH STRONG INCENTIVES TO MINIMIZE PRODUCTION
8 COSTS, TO ENHANCE REVENUES, TO INVEST IN NEW
9 TECHNOLOGIES, TO MODERNIZE ITS NETWORK, AND TO MEET
10 THE COMPETITIVE CHALLENGES IT FACES IS A PLAN THAT
11 WILL BEST SERVE THE NEEDS OF THE STATE OF FLORIDA.

12

13 Q. WOULD SOUTHERN BELL'S INCENTIVES TO MINIMIZE
14 PRODUCTION COSTS, TO ENHANCE REVENUES, AND TO
15 INVEST IN NETWORK MODERNIZATION BE GREATER UNDER
16 RATE OF RETURN REGULATION OR UNDER AN EXTENSION OF
17 THE CURRENT INCENTIVE SHARING PLAN?

18

19 A. THESE INCENTIVES WOULD BE MORE PRONOUNCED UNDER AN
20 EXTENSION OF SOUTHERN BELL'S INCENTIVE SHARING
21 PLAN. RATE OF RETURN REGULATION PROVIDES LESS
22 INCENTIVE TO REDUCE PRODUCTION COSTS, TO ENHANCE
23 REVENUES, AND TO UNDERTAKE RISKY INVESTMENTS IN
24 NETWORK MODERNIZATION.

25

1 Q. WHY DOES THE INCENTIVE SHARING PLAN PROVIDE GREATER
2 INCENTIVE TO REDUCE PRODUCTION COSTS THAN RATE OF
3 RETURN REGULATION?

4

5 A. RATE OF RETURN REGULATION PROVIDES LESS INCENTIVE
6 TO REDUCE PRODUCTION COSTS BECAUSE IT TIES ALLOWED
7 REVENUES MORE CLOSELY TO REALIZED COSTS. IN
8 ESSENCE, RATE OF RETURN REGULATION IS A PROCESS IN
9 WHICH THE FIRM'S TOTAL COSTS (INCLUDING A
10 REASONABLE RETURN ON INVESTMENTS) ARE ESTIMATED,
11 AND PRICES ARE SET TO GENERATE REVENUES THAT
12 RECOVER THOSE COSTS. CONSEQUENTLY, WHEN IT
13 OPERATES UNDER RATE OF RETURN REGULATION, A FIRM'S
14 ALLOWED REVENUES DECREASE AS COSTS DECLINE. BY
15 MATCHING ALLOWED REVENUES TO REALIZED COSTS IN THIS
16 MANNER, RATE OF RETURN REGULATION PROVIDES THE
17 REGULATED FIRM WITH LIMITED INCENTIVE TO KEEP COSTS
18 TO A MINIMUM.

19

20 Q. WHY WOULD AN EXTENSION OF SOUTHERN BELL'S INCENTIVE
21 SHARING PLAN CONTINUE TO PROVIDE INCREASED
22 INCENTIVE FOR THE COMPANY TO MINIMIZE PRODUCTION
23 COSTS AND TO ENHANCE REVENUES?

24

25 A. AN EXTENSION OF THE INCENTIVE SHARING PLAN WOULD

1 CONTINUE TO PROVIDE INCREASED INCENTIVE FOR COST
2 REDUCTION AND REVENUE ENHANCEMENT RELATIVE TO RATE
3 OF RETURN REGULATION BECAUSE SOUTHERN BELL'S
4 EARNINGS ARE MORE SENSITIVE TO ITS PERFORMANCE
5 UNDER THE INCENTIVE SHARING PLAN THAN UNDER RATE OF
6 RETURN REGULATION. UNDER THE INCENTIVE SHARING
7 PLAN, SOUTHERN BELL IS HELD FULLY RESPONSIBLE FOR
8 VARIATIONS IN EARNINGS AS LONG AS THESE EARNINGS
9 CONSTITUTE A RATE OF RETURN ABOVE 11.5% AND BELOW
10 14%. WITHIN THIS RANGE, SOUTHERN BELL GAINS ONE
11 DOLLAR FOR EACH ADDITIONAL DOLLAR OF EARNINGS THAT
12 IT GENERATES, EITHER BY REDUCING PRODUCTION COSTS
13 OR BY INCREASING REVENUES. SIMILARLY, SOUTHERN
14 BELL'S EARNINGS FALL BY ONE DOLLAR WHENEVER ITS
15 REVENUES FALL OR ITS COSTS RISE BY ONE DOLLAR IN
16 THIS RANGE. THIS COMPENSATION ARRANGEMENT MAKES
17 SOUTHERN BELL FULLY RESPONSIBLE FOR ITS PERFORMANCE
18 IN THIS RANGE, A RANGE WHICH IS GREATER THAN THAT
19 UNDER RATE OF RETURN REGULATION, AND THEREBY
20 PROVIDES GREATER INCENTIVE FOR THE COMPANY TO
21 MINIMIZE PRODUCTION COSTS AND TO ENHANCE REVENUES.
22 IN CONTRAST, RATE OF RETURN REGULATION DULLS
23 INCENTIVES BY RENDERING THE COMPANY'S EARNINGS LESS
24 SENSITIVE TO ITS PERFORMANCE IN THE MARKETPLACE.
25

1 THE INCENTIVE SHARING PLAN ALSO PROVIDES SOME
2 INCENTIVE FOR COST REDUCTION AND REVENUE
3 ENHANCEMENT IN THE RANGE WHERE EARNINGS SHARING
4 TAKES EFFECT. WHEN REALIZED RETURNS EXCEED 14%
5 BUT, AFTER SHARING, ARE STILL BELOW 16%, SOUTHERN
6 BELL'S SHAREHOLDERS RECEIVE FORTY CENTS FOR EVERY
7 DOLLAR OF EXTRA EARNINGS THE COMPANY ACHIEVES.
8 SOUTHERN BELL'S CUSTOMERS ARE AWARDED THE REMAINING
9 SIXTY CENTS. IN THIS RANGE, THE COMPANY
10 EFFECTIVELY FACES A SIXTY PERCENT MARGINAL TAX RATE
11 ON EARNINGS. WHILE THIS TAX RATE WILL DIMINISH THE
12 FINANCIAL INCENTIVE FOR COST REDUCTION AND REVENUE
13 ENHANCEMENT RELATIVE TO A ZERO TAX RATE, IT
14 PROVIDES ENHANCED INCENTIVE RELATIVE TO THE ONE
15 HUNDRED PERCENT EFFECTIVE TAX RATE ON EARNINGS THAT
16 RATE OF RETURN REGULATION IMPOSES.

17
18 IN SUMMARY, THE CLOSER LINK THAT THE INCENTIVE
19 SHARING PLAN FORGES BETWEEN SOUTHERN BELL'S
20 FINANCIAL REWARDS AND THE EARNINGS THE COMPANY
21 GENERATES IN THE MARKETPLACE EXPLAINS WHY THE PLAN
22 WILL CONTINUE TO PROVIDE SOUTHERN BELL WITH
23 INCREASED INCENTIVE TO MINIMIZE PRODUCTION COSTS
24 AND ENHANCE REVENUES.

25

1 Q. HOW DO SOUTHERN BELL'S CUSTOMERS BENEFIT FROM THE
2 COMPANY'S INCREASED INCENTIVE TO REDUCE PRODUCTION
3 COSTS AND ENHANCE REVENUES?
4
5 A. SOUTHERN BELL'S CUSTOMERS CAN BENEFIT IN TWO
6 DISTINCT WAYS WHEN THE COMPANY'S INCENTIVE TO
7 MINIMIZE PRODUCTION COSTS AND ENHANCE REVENUES IS
8 INCREASED. CUSTOMERS CAN BENEFIT FROM SHARED
9 EARNINGS AND FROM AVOIDED RATE INCREASES.
10
11 CUSTOMERS BENEFIT DIRECTLY WHEN INDUCED COST
12 REDUCTIONS OR NEW REVENUES LEAD TO RETURNS ABOVE
13 14%. WHEN SOUTHERN BELL'S EARNINGS FALL BETWEEN
14 14% AND 16% AFTER SHARING, SOUTHERN BELL'S
15 CUSTOMERS ARE AWARDED SIXTY CENTS OUT OF EVERY
16 ADDITIONAL DOLLAR OF EARNINGS THE COMPANY
17 GENERATES. THESE SHARED EARNINGS PROVIDE DIRECT
18 BENEFITS TO SOUTHERN BELL'S CUSTOMERS. THESE
19 BENEFITS ARE UNLIKELY TO ARISE UNDER RATE OF RETURN
20 REGULATION BECAUSE RATE OF RETURN REGULATION
21 PROVIDES LITTLE FINANCIAL INCENTIVE FOR A FIRM TO
22 GENERATE EARNINGS THAT EXCEED ITS ALLOWED RATE OF
23 RETURN.
24
25 SOUTHERN BELL'S CUSTOMERS CAN ALSO BENEFIT WHEN

1 MORE PRONOUNCED INCENTIVES FOR COST REDUCTION AND
2 REVENUE ENHANCEMENT ENABLE THE COMPANY TO SECURE
3 REASONABLE RETURNS IN DIFFICULT ECONOMIC TIMES AND
4 THEREBY REFRAIN FROM REQUESTING A RATE INCREASE.
5 EVEN THOUGH CUSTOMERS DON'T RECEIVE DIRECT PAYOFFS
6 IN THE FORM OF EARNINGS SHARING WHEN SOUTHERN
7 BELL'S REALIZED RETURNS ARE BETWEEN 11.5% AND 14%,
8 CUSTOMERS BENEFIT FROM THE ABSENCE OF RATE
9 INCREASES. AS MR. LACHER POINTS OUT IN HIS
10 TESTIMONY, SOUTHERN BELL IS THE ONLY MAJOR
11 TELEPHONE COMPANY IN FLORIDA THAT HAS NOT SOUGHT A
12 RATE INCREASE SINCE INCENTIVE REGULATION WAS
13 IMPLEMENTED FOR SOUTHERN BELL IN 1988. THE RECENT
14 RECESSION, INCREASED COMPETITION IN THE
15 TELECOMMUNICATIONS INDUSTRY, AND THE DEVASTATION OF
16 HURRICANE ANDREW MIGHT WELL HAVE LED TO A RATE
17 INCREASE FOR SOUTHERN BELL'S CUSTOMERS HAD THE
18 COMPANY NOT ACHIEVED THE SIZABLE COST REDUCTIONS IT
19 HAS UNDER THE INCENTIVE SHARING PLAN.

20

21 IN SUMMARY, SOUTHERN BELL'S CUSTOMERS BENEFIT FROM
22 INCREASED INCENTIVES FOR COST REDUCTION AND REVENUE
23 ENHANCEMENT WHEN EARNINGS ARE SHARED AND WHEN RATE
24 INCREASES ARE AVOIDED.

25

1 Q. DOES RATE OF RETURN REGULATION LIMIT INCENTIVES FOR
2 NETWORK MODERNIZATION?

3

4 A. RATE OF RETURN REGULATION CAN LIMIT INCENTIVES FOR
5 NETWORK MODERNIZATION, AND FOR INVESTMENT IN
6 GENERAL, BECAUSE OF ITS ASYMMETRIC TREATMENT OF THE
7 RETURNS FROM INVESTMENT. UNDER RATE OF RETURN
8 REGULATION, AN ALLOWED RATE OF RETURN IS SPECIFIED.
9 THE FIRM IS GENERALLY NOT PERMITTED TO RETAIN
10 RETURNS FROM SUCCESSFUL INVESTMENTS THAT EXCEED
11 THIS ALLOWED LEVEL, EXCEPT PERHAPS TEMPORARILY DUE
12 TO REGULATORY LAG. IN CONTRAST, THE FIRM IS OFTEN
13 REQUIRED TO BEAR THE LOW RETURNS OR LOSSES THAT
14 ARISE WHEN INVESTMENTS TURN OUT TO BE LESS
15 SUCCESSFUL THAN ORIGINALLY ANTICIPATED.
16 CONSEQUENTLY, RATE OF RETURN REGULATION COUPLES
17 LIMITED UPSIDE POTENTIAL WITH SIGNIFICANT DOWNSIDE
18 RISK. THIS ASYMMETRIC TREATMENT OF THE RETURNS
19 FROM INVESTMENT EXPLAINS WHY RATE OF RETURN
20 REGULATION LIMITS INCENTIVES FOR THE REGULATED FIRM
21 TO UNDERTAKE INVESTMENTS WHOSE RETURNS ARE
22 UNCERTAIN.

23

24 Q. WOULD AN EXTENSION OF SOUTHERN BELL'S INCENTIVE
25 SHARING PLAN CONTINUE TO PROVIDE THE COMPANY WITH

1 ENHANCED INCENTIVES TO INVEST IN NEW TECHNOLOGIES
2 AND TO MODERNIZE ITS NETWORK RELATIVE TO RATE OF
3 RETURN REGULATION?

4

5 A. YES. AN EXTENSION OF THE INCENTIVE SHARING PLAN
6 WOULD CONTINUE TO PROVIDE SOUTHERN BELL WITH
7 ENHANCED INCENTIVES TO UNDERTAKE DESIRABLE
8 INVESTMENT PROJECTS BY REDUCING THE DEBILITATING
9 ASYMMETRY IN RETURNS FROM INVESTMENT THAT RATE OF
10 RETURN REGULATION INTRODUCES.

11

12 AS I HAVE INDICATED, THE REGULATED FIRM BEARS MUCH
13 OF THE DOWNSIDE RISK ASSOCIATED WITH INVESTMENT
14 PROJECTS THAT TURN OUT TO BE UNPROFITABLE UNDER
15 RATE OF RETURN REGULATION. AT THE SAME TIME, THE
16 UPSIDE POTENTIAL FOR THE REGULATED FIRM IS LIMITED
17 BY THE CEILING IMPOSED ON ALLOWED EARNINGS. THIS
18 ASYMMETRY CAN CAUSE THE REGULATED FIRM TO SHY AWAY
19 FROM RISKY INVESTMENT PROJECTS, EVEN WHEN THE
20 EXPECTED BENEFITS OF THESE PROJECTS TO SOCIETY
21 OUTWEIGH THEIR EXPECTED COSTS.

22

23 SOUTHERN BELL'S INCENTIVE SHARING PLAN REDUCES THE
24 ASYMMETRY IN RETURNS FROM INVESTMENT. IT DOES SO
25 BY ALLOWING SOUTHERN BELL TO RETAIN SOME OF THE

1 FINANCIAL RETURNS FROM SUCCESSFUL INVESTMENT
2 PROJECTS. THE PROSPECT OF GREATER FINANCIAL REWARD
3 FOR SUPERIOR PERFORMANCE ENCOURAGES SOUTHERN BELL
4 TO PURSUE BENEFICIAL INVESTMENT PROJECTS, EVEN
5 THOUGH THE PROJECTS MAY IMPOSE GREATER RISK ON THE
6 COMPANY.

7
8 THUS, RELATIVE TO RATE OF RETURN REGULATION, THE
9 INCENTIVE SHARING PLAN ENHANCES SOUTHERN BELL'S
10 INCENTIVE TO CREATE, IDENTIFY, AND UNDERTAKE SUCH
11 BENEFICIAL INVESTMENT PROJECTS AS NETWORK
12 MODERNIZATION.

13
14 Q. ARE THERE ADDITIONAL REASONS TO EXTEND SOUTHERN
15 BELL'S INCENTIVE SHARING PLAN RATHER THAN REIMPOSE
16 RATE OF RETURN REGULATION?

17
18 A. YES. AS MR. DENTON AND OTHERS HAVE EXPLAINED, THE
19 KEY ADDITIONAL REASON IS THE REASON THIS COMMISSION
20 CITED SO APPROPRIATELY WHEN IT IMPLEMENTED SOUTHERN
21 BELL'S INCENTIVE SHARING PLAN IN 1988. THE
22 COMMISSION POINTED OUT THE INCREASINGLY COMPETITIVE
23 ENVIRONMENT IN WHICH SOUTHERN BELL MUST OPERATE,
24 AND RECOGNIZED THAT THE INCENTIVE EFFECTS OF THE
25 INCENTIVE SHARING PLAN WOULD HELP SOUTHERN BELL

1 "TRANSITION ITSELF" FOR ITS NEW ENVIRONMENT.
2
3 AS MR. DENTON AND MR. MONSON HAVE NOTED, SOUTHERN
4 BELL CONTINUES TO FACE EVER-INCREASING COMPETITIVE
5 PRESSURES. TO ANTICIPATE AND EFFECTIVELY MEET
6 THESE COMPETITIVE CHALLENGES, SOUTHERN BELL MUST
7 REMAIN FOCUSED ON THE MARKETPLACE AND ON THE NEEDS
8 OF ITS CUSTOMERS. THE INCENTIVE SHARING PLAN
9 FACILITATES THIS FOCUS BY EFFECTING A CLOSER LINK
10 BETWEEN SOUTHERN BELL'S MARKET PERFORMANCE AND ITS
11 FINANCIAL WELL-BEING. IN DOING SO, THE INCENTIVE
12 SHARING PLAN STIMULATES THE CREATIVE ENERGIES OF
13 THE STATE'S MAJOR PROVIDER OF TELECOMMUNICATIONS
14 SERVICES. IT THEREBY HELPS ENSURE A
15 TECHNOLOGICALLY ADVANCED AND EFFICIENT
16 TELECOMMUNICATIONS INFRASTRUCTURE IN THE STATE OF
17 FLORIDA. SUCH AN INFRASTRUCTURE IS CRUCIAL TO THE
18 STATE'S ECONOMIC DEVELOPMENT.
19
20 IN SUMMARY, THE MAIN ADDITIONAL REASON TO EXTEND
21 SOUTHERN BELL'S INCENTIVE SHARING PLAN IS BECAUSE
22 THE PLAN BETTER ACCLIMATES SOUTHERN BELL TO THE
23 MORE COMPETITIVE ENVIRONMENT IN WHICH IT MUST
24 OPERATE. THE PLAN THEREBY HELPS ENSURE A RELIABLE
25 AND PROGRESSIVE TELECOMMUNICATIONS STRUCTURE FOR

1 THE STATE OF FLORIDA.

2

3 Q. SHOULD SOUTHERN BELL BE ALLOWED TO RETAIN THE
4 EFFICIENCIES AND PRODUCTIVITY GAINS IT HAS ACHIEVED
5 SINCE 1988?

6

7 A. YES. SOUTHERN BELL SHOULD BE REWARDED, NOT
8 PUNISHED, FOR THE PRODUCTIVITY GAINS IT HAS
9 ACHIEVED UNDER THE INCENTIVE SHARING PLAN. IF
10 SOUTHERN BELL'S ACTIONS SINCE 1988 HAVE RESULTED IN
11 REDUCED OPERATING COSTS, THESE REALIZED COST
12 REDUCTIONS SHOULD NOT BE USED TO JUSTIFY LOWER
13 REVENUES FOR THE COMPANY IN THE EXTENSION OF ITS
14 PLAN. TO DO SO WOULD CONSTITUTE A RETURN TO
15 TRADITIONAL RATE OF RETURN REGULATION, AND WOULD
16 LIMIT THE COMPANY'S INCENTIVE TO OPERATE
17 EFFICIENTLY IN THE FUTURE.

18

19 Q. IS YOUR RECOMMENDATION TO EXTEND SOUTHERN BELL'S
20 INCENTIVE SHARING PLAN CONSISTENT WITH RECENT
21 TRENDS IN THE TELECOMMUNICATIONS INDUSTRY?

22

23 A. YES. THE TREND IN THE UNITED STATES'
24 TELECOMMUNICATIONS INDUSTRY IS DEFINITELY TOWARD
25 INCENTIVE REGULATION AND AWAY FROM RATE OF RETURN

1 REGULATION. THIS TREND IS EVIDENT AT BOTH THE
2 FEDERAL AND STATE LEVELS.

3
4 AT THE FEDERAL LEVEL, THE FEDERAL COMMUNICATIONS
5 COMMISSION HAS REPLACED RATE OF RETURN REGULATION
6 WITH PRICE CAP REGULATION FOR AT&T. THE FCC ALSO
7 REGULATES THE TIER 1 LOCAL EXCHANGE CARRIERS'
8 INTERSTATE ACCESS CHARGES WITH A FORM OF PRICE CAP
9 REGULATION THAT INCORPORATES EARNINGS SHARING.
10 PRICE CAP REGULATION REDUCES THE DEPENDENCE OF
11 REGULATED PRICES ON THE REGULATED FIRM'S REALIZED
12 COSTS OF PRODUCTION, OFTEN TO A GREATER EXTENT THAN
13 SOUTHERN BELL'S INCENTIVE SHARING PLAN. IN DOING
14 SO, PRICE CAP REGULATION, LIKE SOUTHERN BELL'S
15 INCENTIVE SHARING PLAN, ENCOURAGES THE REGULATED
16 FIRM TO REDUCE PRODUCTION COSTS AND UNDERTAKE SUCH
17 BENEFICIAL INVESTMENT PROJECTS AS NETWORK
18 MODERNIZATION.

19
20 AT THE STATE LEVEL, MANY REGULATORY COMMISSIONS
21 HAVE IMPLEMENTED ALTERNATIVES TO RATE OF RETURN
22 REGULATION. IN ITS 1991-1992 REVIEW OF REGULATORY
23 POLICY IN THE UNITED STATES, THE NATIONAL
24 ASSOCIATION OF REGULATORY UTILITY COMMISSIONERS
25 REPORTED THAT A MAJORITY OF STATES HAD ADOPTED

1 INCENTIVE REGULATION PLANS FOR THEIR
2 TELECOMMUNICATIONS INDUSTRY. ADDITIONAL INCENTIVE
3 REGULATION PLANS HAVE BEEN PROPOSED IN OTHER STATES
4 SINCE 1992, AND MANY STATES HAVE ALREADY RENEWED OR
5 EXTENDED THEIR INITIAL INCENTIVE REGULATION PLANS.
6
7 SOME OF THE STATE PLANS THAT HAVE BEEN IMPLEMENTED
8 CLOSELY PARALLEL SOUTHERN BELL'S INCENTIVE SHARING
9 PLAN. OTHER PLANS INVOLVE MORE DRAMATIC DEPARTURES
10 FROM RATE OF RETURN REGULATION. NEBRASKA, FOR
11 EXAMPLE, HAS ESSENTIALLY DEREGULATED THE PROVISION
12 OF INTRASTATE TELECOMMUNICATIONS SERVICES.
13
14 SUPPORT FOR THE MOVEMENT TO INCENTIVE REGULATION AT
15 THE STATE LEVEL IS WIDESPREAD. TO ILLUSTRATE, MANY
16 STATE LEGISLATURES, INCLUDING FLORIDA'S
17 LEGISLATURE, HAVE PASSED LAWS THAT AUTHORIZE AND
18 ENCOURAGE ALTERNATIVES TO RATE OF RETURN
19 REGULATION. IN ADDITION, SUCH ORGANIZATIONS AS THE
20 NATIONAL TELECOMMUNICATIONS AND INFORMATION
21 ADMINISTRATION (NTIA) HAVE GONE ON RECORD AS
22 "STRONGLY SUPPORT[ING] THE CONTINUED REPLACEMENT BY
23 THE STATES OF RATE OF RETURN REGULATION WITH SOME
24 FORM OF INCENTIVE REGULATION". (SEE THE NTIA'S
25 1991 INFRASTRUCTURE REPORT, SPECIAL PUBLICATION 91-

1 26, P.248.)

2

3 IN SUMMARY, THE TREND TOWARD INCENTIVE REGULATION
4 IN THE TELECOMMUNICATIONS INDUSTRY IS WIDESPREAD
5 AND GROWING. THIS TREND IS DISCUSSED IN GREATER
6 DETAIL BY MR. ZARAKAS OF THEODORE BARRY &
7 ASSOCIATES.

8

9 Q. IS THERE ANY EVIDENCE THAT INCENTIVE REGULATION
10 ACTUALLY PROVIDES ANY OF ITS INTENDED BENEFITS?

11

12 A. YES. INITIAL REPORTS ON AT&T'S PERFORMANCE UNDER
13 PRICE CAP REGULATION AND OBSERVATIONS ABOUT
14 SOUTHERN BELL'S PERFORMANCE UNDER THE INCENTIVE
15 SHARING PLAN IN FLORIDA PROVIDE EVIDENCE OF THE
16 BENEFITS OF INCENTIVE REGULATION.

17

18 THE KEY INITIAL REPORT ON AT&T'S PERFORMANCE UNDER
19 PRICE-CAP REGULATION WAS RELEASED BY THE FEDERAL
20 COMMUNICATIONS COMMISSION ON JULY 23, 1993 (CC
21 DOCKET NO. 92-134). IN THAT REPORT, THE FCC
22 CONCLUDES THAT PRICE CAP REGULATION "REPRESENTS AN
23 IMPROVEMENT OVER RATE OF RETURN REGULATION,
24 COMBINING LOWER RATES WITH EFFECTIVE INCENTIVES FOR
25 IMPROVED EFFICIENCY AND INNOVATIVE SERVICES" (P.

1 1). THE FCC REPORT ALSO CITES EVIDENCE OF
2 SIGNIFICANT PRODUCTIVITY GROWTH AND INFRASTRUCTURE
3 IMPROVEMENT UNDER PRICE CAP REGULATION. OVERALL,
4 THE REPORT SUGGESTS THAT INCENTIVE REGULATION AND
5 COMPETITIVE MARKET FORCES ARE PROVIDING SUBSTANTIAL
6 BENEFITS FOR CONSUMERS IN THE MARKET FOR INTERSTATE
7 TELECOMMUNICATIONS SERVICES.

8
9 IN ADDITION, MR. LACHER, MR. DENTON, AND MR. REID
10 HAVE CITED FIVE IMPORTANT PIECES OF EVIDENCE WHICH
11 SUGGEST THAT INCENTIVE REGULATION IS WORKING IN
12 FLORIDA. ACCORDING TO THESE WITNESSES: 1)
13 SOUTHERN BELL HAS REDUCED ITS INTRASTATE OPERATING
14 COSTS BY MORE THAN EIGHTEEN DOLLARS PER ACCESS LINE
15 SINCE 1988; 2) SOUTHERN BELL HAS ACHIEVED
16 REASONABLE EARNINGS SINCE 1988 DESPITE ECONOMIC
17 RECESSION AND NATURAL DISASTER IN FLORIDA; 3)
18 SOUTHERN BELL HAS INTRODUCED MANY NEW AND IMPROVED
19 PRODUCTS AND SERVICES UNDER THE INCENTIVE SHARING
20 PLAN; 4) SOUTHERN BELL HAS ACHIEVED A MORE
21 COMPETITIVE AND MARKET-ORIENTED CORPORATE CULTURE
22 SINCE 1988; AND, 5) THE COMPANY HAS CONTINUED TO
23 MODERNIZE ITS NETWORK. THESE FIVE PIECES OF
24 EVIDENCE ALL SUGGEST THAT INCENTIVE REGULATION HAS
25 BEEN SUCCESSFUL IN FLORIDA.

1
2 OF COURSE, IT IS DIFFICULT TO BE ABSOLUTELY CERTAIN
3 THAT ALL OF THE GAINS ACHIEVED UNDER INCENTIVE
4 REGULATION ARE DUE ENTIRELY TO ITS PRESENCE, AND
5 THAT THE GAINS WOULD NOT HAVE OCCURRED IN ITS
6 ABSENCE. BY ITS VERY NATURE, AN EXPERIMENT WITH
7 INCENTIVE REGULATION PRECLUDES THE PERFECT
8 SCIENTIFIC CONTROL, WHICH IS THE SIMULTANEOUS
9 IMPLEMENTATION OF RATE OF RETURN REGULATION ON THE
10 SAME FIRM IN THE SAME MARKET SETTING. ABSENT SUCH
11 A PERFECT CONTROL, WE ARE LEFT TO MAKE INFORMED
12 INFERENCES ABOUT THE SUCCESS OF INCENTIVE
13 REGULATION FROM THE AVAILABLE DATA. THE
14 PRELIMINARY DATA AVAILABLE TO DATE SUGGEST THAT
15 INCENTIVE REGULATION DOES WORK IN THE
16 TELECOMMUNICATIONS INDUSTRY.

17

18 Q. MR. POUCHER OF THE OFFICE OF PUBLIC COUNSEL SEEMS
19 TO SUGGEST THAT WHENEVER THE EARNINGS OF A
20 REGULATED COMPANY ARE PERMITTED TO MORE CLOSELY
21 PARALLEL THE COMPANY'S PERFORMANCE IN THE
22 MARKETPLACE, THE COMPANY WILL REDUCE THE QUALITY OF
23 THE SERVICES IT PROVIDES. DO YOU AGREE WITH THIS
24 ASSESSMENT?

25

1 A. NO, ABSOLUTELY NOT. IN FACT, THE OPPOSITE IS OFTEN
2 TRUE: AN INCREASED FOCUS ON EARNINGS WILL OFTEN
3 LEAD THE REGULATED FIRM TO SUPPLY HIGHER LEVELS OF
4 QUALITY TO ITS CUSTOMERS. THERE ARE THREE MAIN
5 REASONS FOR THIS CONCLUSION. FIRST, HIGHER
6 EARNINGS MAY FLOW FROM THE HIGHER REVENUES THAT
7 INCREASED QUALITY GENERATES. SECOND, HIGHER
8 EARNINGS MAY ARISE FROM THE LOWER COSTS THAT
9 ENHANCED QUALITY CAN PROMOTE. THIRD, HIGHER
10 EARNINGS CAN RESULT FROM QUALITY-ENHANCING
11 INVESTMENTS THAT BECOME MORE LIKELY WHEN THE
12 REGULATED FIRM'S FINANCIAL WELFARE MORE CLOSELY
13 PARALLELS ITS MARKET PERFORMANCE. EACH OF THESE
14 THREE REASONS WARRANTS BRIEF EXPLANATION.

15
16 FIRST, EARNINGS ARE THE DIFFERENCE BETWEEN REVENUES
17 AND COSTS. THEREFORE, HIGHER EARNINGS CAN RESULT
18 FROM HIGHER REVENUES, AS WELL AS FROM LOWER COSTS.
19 REVENUES TEND TO INCREASE AS QUALITY INCREASES,
20 BECAUSE THE NUMBER OF CUSTOMERS WILLING TO PURCHASE
21 A PRODUCT INCREASES AS THE QUALITY OF THE PRODUCT
22 INCREASES. CONSEQUENTLY, AN ENHANCED FOCUS ON
23 EARNINGS CAN MOTIVATE A REGULATED FIRM TO INCREASE
24 THE QUALITY OF ITS PRODUCTS AND SERVICES BECAUSE OF
25 THE HIGHER REVENUES AND THE RESULTING HIGHER

1 EARNINGS THAT CAN FLOW FROM ENHANCED QUALITY. JUST
2 AS AN UNREGULATED PROFIT-MAXIMIZING FIRM IS OFTEN
3 DRIVEN TO IMPROVE THE QUALITY OF ITS PRODUCTS WHEN
4 COMPETITORS PUT PRESSURE ON THE FIRM'S BOTTOM LINE,
5 A REGULATED FIRM WITH A HEIGHTENED FOCUS ON
6 EARNINGS IS OFTEN SIMILARLY DRIVEN TO ENHANCE THE
7 QUALITY OF ITS PRODUCTS AND SERVICES.

8
9 SECOND, HIGHER LEVELS OF QUALITY CAN RESULT WHEN
10 COST REDUCTIONS ARE ACHIEVED. IT IS NOT ALWAYS
11 TRUE THAT A REGULATED FIRM REDUCES ITS OPERATING
12 COSTS IF IT REDUCES THE QUALITY OF ITS PRODUCTS AND
13 SERVICES. TO ILLUSTRATE, CONSIDER THE DEGREE OF
14 AUTOMATION OF THE TELEPHONE NETWORK. A MORE HIGHLY
15 AUTOMATED NETWORK CAN BE LESS EXPENSIVE TO BUILD
16 AND TO OPERATE IN THE LONG RUN. IT CAN ALSO
17 PROVIDE MORE RAPID AND MORE RELIABLE SERVICE TO
18 CUSTOMERS. THIS IS JUST ONE EXAMPLE OF HOW QUALITY
19 ENHANCEMENT AND COST REDUCTION CAN BE COMPLEMENTARY
20 ACTIVITIES.

21
22 THIRD, AS I STATED EARLIER, SOUTHERN BELL'S
23 INCENTIVE SHARING PLAN PROVIDES ENHANCED INCENTIVES
24 TO UNDERTAKE DESIRABLE INVESTMENTS. AMONG THESE
25 INVESTMENTS ARE RISKY ONES THAT, IF SUCCESSFUL,

1 WILL IMPROVE THE QUALITY OF SOUTHERN BELL'S
2 PRODUCTS AND SERVICES. UNDER A REGULATORY PLAN
3 LIKE SOUTHERN BELL'S INCENTIVE SHARING PLAN, THE
4 PROSPECT OF HIGHER EARNINGS FROM SUCCESSFUL
5 INVESTMENTS CAN ENCOURAGE THE REGULATED FIRM TO
6 UNDERTAKE DESIRABLE PROJECTS THAT IT MIGHT
7 OTHERWISE CHOOSE NOT TO PURSUE. BECAUSE THESE
8 PROJECTS CAN FACILITATE THE INTRODUCTION OF HIGHER
9 QUALITY PRODUCTS AND SERVICES, ENHANCED QUALITY CAN
10 RESULT FROM AN INCREASED FOCUS ON EARNINGS.

11

12 FOR THESE THREE REASONS -- BECAUSE ENHANCED QUALITY
13 CAN INCREASE REVENUES, BECAUSE COST REDUCTION AND
14 QUALITY ENHANCEMENT CAN BE COMPLEMENTARY
15 ACTIVITIES, AND BECAUSE INCREASED INCENTIVES FOR
16 QUALITY-ENHANCING INVESTMENT ARISE UNDER A PLAN
17 LIKE SOUTHERN BELL'S INCENTIVE SHARING PLAN -- A
18 REGULATORY PLAN THAT PROMOTES AN INCREASED FOCUS ON
19 EARNINGS WILL OFTEN, AT THE SAME TIME, MOTIVATE THE
20 REGULATED FIRM TO INCREASE THE QUALITY OF ITS
21 PRODUCTS AND SERVICES.

22

23 Q. IN AN EARLIER FILING, YOU SUPPORTED SOUTHERN BELL'S
24 PRICE REGULATION PLAN. WHY ARE YOU NOW SUPPORTING
25 AN EXTENSION OF SOUTHERN BELL'S INCENTIVE SHARING

1 PLAN?

2

3 A. I FEEL STRONGLY THAT THE CITIZENS OF FLORIDA WILL
4 BE BETTER SERVED IF SOUTHERN BELL'S INCENTIVE
5 SHARING PLAN IS EXTENDED THAN IF RATE OF RETURN
6 REGULATION IS REIMPOSED ON SOUTHERN BELL, AS THE
7 OFFICE OF PUBLIC COUNSEL ADVOCATES. THE
8 REIMPOSITION OF RATE OF RETURN REGULATION WOULD BE
9 A STEP IN THE WRONG DIRECTION FOR THE REASONS I
10 HAVE IDENTIFIED. IN THIS RAPIDLY-CHANGING
11 TELECOMMUNICATIONS INDUSTRY, IT IS IMPORTANT THAT
12 REGULATORY PLANS CONTINUE TO EVOLVE TO KEEP PACE
13 WITH CHANGING INDUSTRY CONDITIONS. IN MY OPINION,
14 THE INCENTIVE SHARING PLAN IS NOT THE FINAL STEP IN
15 THE PROPER EVOLUTION OF REGULATORY PLANS. THE NEXT
16 LOGICAL STEP IN THIS EVOLUTION MAY WELL BE A PLAN
17 LIKE SOUTHERN BELL'S PRICE REGULATION PLAN. WHILE
18 A COMPREHENSIVE, FORWARD-LOOKING REGULATORY PLAN
19 FOR THE TELECOMMUNICATIONS INDUSTRY IN FLORIDA IS
20 BEING FORMULATED, IT IS BETTER TO EXTEND THE
21 INCENTIVE SHARING PLAN THAN TO STEP BACKWARD TO
22 RATE OF RETURN REGULATION.

23

24 Q. IS THE REGULATORY PLAN PROPOSED BY THE FCTA IN MR.
25 CICCHETTI'S TESTIMONY A BETTER REGULATORY PLAN THAN

1 SOUTHERN BELL'S INCENTIVE SHARING PLAN?

2

3 A. NO, IT IS NOT. THERE ARE TWO IMPORTANT DRAWBACKS
4 TO THE FCTA PLAN. FIRST, THE FCTA PLAN PROVIDES
5 INAPPROPRIATE INCENTIVES TO THE REGULATED FIRM.
6 SECOND, MR. CICCHETTI'S PROPOSAL DOES NOT EXPLAIN
7 HOW TO "LEVEL THE PLAYING FIELD", WHICH IS CRITICAL
8 FOR THE PLAN'S OPERATION.

9

10 THE FCTA PLAN PROPOSES TO REWARD A REGULATED
11 TELECOMMUNICATIONS FIRM ACCORDING TO THE EXTENT TO
12 WHICH ITS COSTS PER ACCESS LINE FALL BELOW THE
13 CORRESPONDING COSTS OF COMPARABLE FIRMS. THE FIRST
14 AND MOST FUNDAMENTAL DRAWBACK TO THIS SCHEME IS THE
15 INAPPROPRIATE INCENTIVES IT CREATES FOR THE
16 REGULATED FIRM. BY CONCENTRATING REWARDS ON A
17 SINGLE DIMENSION OF PERFORMANCE -- RELATIVE COST
18 PER ACCESS LINE -- THE FCTA PLAN CREATES STRONG
19 INCENTIVES TO REDUCE COSTS, EVEN IF DOING SO
20 RESULTS IN SIGNIFICANT DECLINES IN THE QUALITY OR
21 VARIETY OF SERVICES PROVIDED BY THE FIRM. IN THIS
22 MANNER, THE FCTA PLAN DISCOURAGES THE REGULATED
23 FIRM FROM MAKING COMPLETE AND INNOVATIVE USE OF ITS
24 NETWORK. IN CONTRAST, SOUTHERN BELL'S INCENTIVE
25 SHARING PLAN CREATES INCENTIVES FOR EXPANDED AND

1 INNOVATIVE USE OF THE NETWORK BY ALLOWING THE
2 COMPANY TO SHARE IN THE ENHANCED REVENUES THAT FLOW
3 FROM NEW AND IMPROVED SERVICES, AS WELL AS FROM THE
4 COST SAVINGS THE COMPANY ACHIEVES.

5
6 THE SECOND DRAWBACK TO THE FCTA PLAN IS THE GREAT
7 PRACTICAL DIFFICULTY IN CREATING A LEVEL PLAYING
8 FIELD. PRODUCTION COSTS CAN DIFFER ACROSS FIRMS
9 FOR REASONS THAT ARE LARGELY BEYOND THEIR CONTROL.
10 POPULATION DENSITIES, GEOGRAPHIC CONDITIONS,
11 WEATHER PATTERNS, AND CUSTOMER CHARACTERISTICS, FOR
12 EXAMPLE, ALL DIFFER ACROSS FIRMS AND ALL AFFECT
13 OPERATING COSTS. UNLESS THESE UNAVOIDABLE
14 DIFFERENCES IN COSTS ARE FULLY ACCOUNTED FOR, A
15 REGULATORY PLAN LIKE THE FCTA PLAN THAT REWARDS
16 FIRMS ON THE BASIS OF OBSERVED COST DIFFERENCES
17 WILL UNFAIRLY REWARD SOME FIRMS AND UNFAIRLY
18 PENALIZE OTHERS. MR. CICCHETTI ACKNOWLEDGES THIS
19 FACT IN HIS TESTIMONY, BUT DOES NOT PRESCRIBE A
20 SOLUTION FOR THIS TROUBLING PROBLEM WITH THE FCTA
21 PLAN.

22
23 IN SUMMARY, BECAUSE THE FCTA PLAN CREATES PERVERSE
24 INCENTIVES AND DOES NOT ENSURE A LEVEL PLAYING
25 FIELD, THE FCTA PLAN IS NOT AN APPROPRIATE

1 REGULATORY PLAN.

2

3 Q. MS. DISMUKES OF THE OFFICE OF PUBLIC COUNSEL
4 EXPRESSES THE BELIEF (ON PAGES 7 AND 8 OF HER
5 TESTIMONY) THAT INCENTIVE REGULATION INCREASES THE
6 INCENTIVE A REGULATED FIRM HAS TO SHIFT COSTS FROM
7 ITS NONREGULATED OPERATIONS TO ITS REGULATED
8 OPERATIONS. DO YOU SHARE THIS BELIEF?

9

10 A. NO, ABSOLUTELY NOT. IN FACT, THE OPPOSITE IS TRUE.
11 INCENTIVE REGULATION PLANS LIKE SOUTHERN BELL'S
12 INCENTIVE SHARING PLAN REDUCE THE INCENTIVE A
13 REGULATED FIRM MIGHT HAVE TO SHIFT COSTS FROM ITS
14 NONREGULATED TO ITS REGULATED OPERATIONS. TO SEE
15 WHY MOST SIMPLY, COMPARE THE FOLLOWING TWO EXTREME
16 SETTINGS.

17

18 FIRST, CONSIDER A PARTICULARLY PRONOUNCED FORM OF
19 INCENTIVE REGULATION IN WHICH THE FIRM'S FINANCIAL
20 RETURNS VARY DOLLAR FOR DOLLAR WITH ITS EARNINGS IN
21 THE MARKETPLACE. UNDER SUCH A REGULATORY PLAN, THE
22 REGULATED FIRM HAS NO INCENTIVE TO SHIFT COSTS FROM
23 ITS NONREGULATED TO ITS REGULATED OPERATIONS. EACH
24 DOLLAR OF SHIFTED COSTS RAISES THE FIRM'S REALIZED
25 RETURNS FROM NONREGULATED OPERATIONS BY ONE DOLLAR,

1 BUT LOWERS ITS RETURNS FROM REGULATED OPERATIONS BY
2 THE SAME DOLLAR. THE FIRM GAINS NOTHING FROM
3 SHIFTING COSTS UNDER THIS PRONOUNCED FORM OF
4 INCENTIVE REGULATION.

5
6 NOW CONSIDER A PARTICULARLY STRICT FORM OF RATE OF
7 RETURN REGULATION THAT PERMITS THE FIRM TO RECOVER
8 EXACTLY ITS MEASURED COSTS FROM REGULATED
9 OPERATIONS. SUPPOSE THE REGULATED FIRM MANAGES TO
10 SHIFT A DOLLAR OF COSTS FROM ITS NONREGULATED TO
11 ITS REGULATED OPERATIONS UNDER THIS STRICT RATE OF
12 RETURN REGIME. THE FIRM'S RETURNS FROM
13 NONREGULATED OPERATIONS RISE BY ONE DOLLAR, BECAUSE
14 MEASURED COSTS HAVE FALLEN BY ONE DOLLAR. THE
15 FIRM'S RETURNS FROM REGULATED OPERATIONS ALSO
16 INCREASE BY ONE DOLLAR, BECAUSE THE FIRM'S REVENUES
17 ARE PERMITTED TO RISE BY A DOLLAR TO COMPENSATE FOR
18 THE DOLLAR INCREASE IN MEASURED COSTS. THUS, THE
19 FIRM GAINS FINANCIALLY IF IT CAN SHIFT COSTS FROM
20 ITS NONREGULATED TO ITS REGULATED OPERATIONS UNDER
21 THIS STRICT FORM OF RATE OF RETURN REGULATION.

22
23 THIS SIMPLE COMPARISON ILLUSTRATES A GENERAL
24 CONCLUSION: THE MORE CLOSELY THE FINANCIAL RETURNS
25 OF A REGULATED FIRM PARALLEL ITS EARNINGS RATHER

1 THAN ITS COSTS FROM REGULATED OPERATIONS, THE LESS
2 INCENTIVE THE FIRM HAS TO SHIFT COSTS FROM ITS
3 NONREGULATED TO ITS REGULATED OPERATIONS.

4 THEREFORE, DEPARTURES FROM STRICT RATE OF RETURN
5 REGULATION, SUCH AS THE DEPARTURE INCORPORATED IN
6 SOUTHERN BELL'S INCENTIVE SHARING PLAN, REDUCE THE
7 INCENTIVE A REGULATED FIRM MIGHT HAVE TO SHIFT
8 COSTS FROM NONREGULATED TO REGULATED OPERATIONS.

9
10 Q. PLEASE SUMMARIZE YOUR TESTIMONY.

11
12 A. MY TESTIMONY HAS EXPLAINED WHY IT WOULD BE AN
13 UNFORTUNATE MISTAKE FOR THE STATE OF FLORIDA IF, AS
14 THE OFFICE OF PUBLIC COUNSEL ADVOCATES, RATE OF
15 RETURN REGULATION WERE REIMPOSED ON SOUTHERN BELL.
16 A RETURN TO RATE OF RETURN REGULATION WOULD BE OUT
17 OF STEP WITH NATIONAL TRENDS AND WOULD DIMINISH
18 INCENTIVES FOR EFFICIENT PRODUCTION AND
19 TECHNOLOGICAL PROGRESS IN FLORIDA'S
20 TELECOMMUNICATIONS INDUSTRY. THE REIMPOSITION OF
21 RATE OF RETURN REGULATION WOULD ALSO HINDER
22 SOUTHERN BELL'S ONGOING TRANSFORMATION FROM A
23 REGULATED MONOPOLY SUPPLIER OF BASIC TELEPHONE
24 SERVICE TO A COMPETITIVE PROVIDER OF MODERN
25 TELECOMMUNICATIONS SERVICES.

1

2 IN SHORT, A RETURN TO RATE OF RETURN REGULATION
3 WOULD BE A STEP IN THE WRONG DIRECTION. AN
4 EXTENSION OF SOUTHERN BELL'S INCENTIVE SHARING PLAN
5 IS A BETTER TRANSITIONAL STEP UNTIL A NEW,
6 COMPREHENSIVE REGULATORY PLAN CAN BE FASHIONED THAT
7 IS WELL SUITED FOR TODAY'S AND TOMORROW'S MORE
8 COMPETITIVE TELECOMMUNICATIONS INDUSTRY IN FLORIDA.

9

10 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

11

12 A. YES IT DOES.

13

14

15

16

17

18

19

20

21

22

23

24

25

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1976	B.A.,	Economics, Haverford College.

PROFESSIONAL EXPERIENCE:

1991-Present	Lanzillotti-McKethan Eminent Scholar, Department of Economics, University of Florida.
1989-1990	Matherly Professor of Economics, Department of Economics, University of Florida.
1989-1990	District Manager, Economics Research Group, Bell Communications Research.
1988-1989	Visiting Lecturer with Title of Full Professor, Department of Economics, Princeton University.
1984-1989	Member of Technical Staff, Economics Research Group, Bell Communications Research.
1982-1986	Assistant Professor, Department of Economics, University of Pennsylvania.
1981-1982	Assistant Professor, Institute of Public Policy Studies, University of Michigan.
1980-1982	Assistant Professor, Department of Economics, University of Michigan.

ADDITIONAL ACADEMIC POSITIONS:

1993-Present	Associate Director, Public Policy Research Center, University of Florida.
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SERVICE ON EDITORIAL BOARDS:

1993-Present Journal of Economics and Management Strategy.
1992-Present Information Economics and Policy.
1991-Present The Journal of Industrial Economics.
1991-Present The Journal of Regulatory Economics.
1983-Present Economics Letters.
1988-1992 The American Economic Review.

OTHER POSITIONS HELD:

1992-Present Consultant on Incentive Regulation in the Telecommunications Industry to
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1993 Advisor on the Design of Regulatory Policy for
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1993 Advisor on Designing State Policy For Endowed University Chairs for
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1992 Advisor on Incentive Regulation in the Electric Power Industry for
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1991-1992 Research Consultant on Incentive Regulation in Telecommunications for
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1988-1989 Advisor on The Design of Market-Based Pricing of Electricity for
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1983-1984 Consultant on Designing Incentives for Efficient Industry Operations to
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1981-1983 Economic Expert in Antitrust Proceedings.
1979-1980 Economic Advisor on Optimal Pricing and Service Decisions for
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1977-1978 Research Consultant to the Federal Reserve Bank of Boston.

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- 1982-1983 National Science Foundation Research Grant.
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- 1978-1980 Sloan Foundation Research Grant.
Support through the Department of Economics at
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 and Control
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Journal of Economics and
 Management Strategy
 Journal of Industrial Economics
 Journal of International Economics
 Journal of Law, Economics and
 Organization
 Journal of Marketing Research
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 Information Sciences
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 Princeton University Press
 Quarterly Journal of Economics
 Quarterly Review of Economics
 and Business
 Rand Journal of Economics
 Review of Economic Studies
 Southern Economic Journal
 The Journal of Economic Theory

1 SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY
2 REBUTTAL TESTIMONY OF DR. BARTON A. WEITZ
3 BEFORE THE
4 FLORIDA PUBLIC SERVICE COMMISSION
5 DOCKET NO. 920260-TL
6 DECEMBER 10, 1993

7
8 Q. PLEASE STATE YOUR NAME, OCCUPATION, AND CURRENT
9 ADDRESS.

10

11 A. MY NAME IS BARTON A. WEITZ. I HOLD THE POSITIONS
12 OF PROFESSOR OF MARKETING AND J. C. PENNEY EMINENT
13 SCHOLAR CHAIR, AS WELL AS DIRECTOR OF THE CENTER
14 FOR RETAILING EDUCATION AND RESEARCH AT THE
15 UNIVERSITY OF FLORIDA. MY BUSINESS ADDRESS IS 200
16 BRYAN HALL, COLLEGE OF BUSINESS ADMINISTRATION,
17 UNIVERSITY OF FLORIDA, GAINESVILLE, FLORIDA 32611.

18

19 Q. PLEASE GIVE A BRIEF DESCRIPTION OF YOUR BACKGROUND
20 AND EXPERIENCE.

21

22 A. IN ADDITION TO MY CURRENT POSITION, I HAVE BEEN AN
23 ASSOCIATE PROFESSOR OF MARKETING AT THE WHARTON
24 SCHOOL OF BUSINESS, UNIVERSITY OF PENNSYLVANIA AND
25 AT THE UNIVERSITY OF CALIFORNIA AT LOS ANGELES. I

1 GRADUATED FROM THE MASSACHUSETTS INSTITUTE OF
2 TECHNOLOGY WITH A BACHELOR OF SCIENCE AND
3 ENGINEERING DEGREE IN 1963. I RECEIVED AN MBA IN
4 1967 AND A PH.D IN 1977 FROM STANFORD UNIVERSITY.
5 I HAVE SERVED AS A MARKETING CONSULTANT TO SEVERAL
6 CORPORATIONS AND PARTICIPATE IN THE EXECUTIVE
7 EDUCATION PROGRAMS AT WHARTON AND NORTHWESTERN ON
8 MARKETING STRATEGY AND SALES FORCE MANAGEMENT. I
9 HAVE ALSO BEEN EMPLOYED AS A MARKETING AND SALES
10 MANAGER IN PRIVATE INDUSTRY. I HAVE PUBLISHED
11 NUMEROUS ARTICLES ON PERSONAL SELLING
12 EFFECTIVENESS, SALES FORCE MANAGEMENT, AND CHANNEL
13 MANAGEMENT. I AM PRESENTLY THE EDITOR OF THE
14 JOURNAL OF MARKETING RESEARCH WHICH IS THE LEADING
15 ACADEMIC JOURNAL ON MARKETING. I HAVE CO-AUTHORED
16 TEXTBOOKS ON PERSONAL SELLING AND RETAIL MANAGEMENT
17 THAT ARE USED IN OVER 200 COLLEGES IN THE UNITED
18 STATES AND CANADA. THE PERSONAL SELLING TEXTBOOK
19 HAS BEEN TRANSLATED INTO SPANISH AND SOLD IN LATIN
20 AMERICA.

21
22 MORE DETAILS ON MY CREDENTIALS AND PROFESSIONAL
23 EXPERIENCE CAN BE FOUND IN EXHIBIT BAW-1.

24

25 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

1

2 A. I DESCRIBE THE PURPOSE OF MARKETING, EXPLAIN WHY
3 MARKETING IS REASONABLE AND APPROPRIATE FOR A
4 COMPANY SUCH AS SOUTHERN BELL, AND CORRECT THE
5 MISSTATEMENTS OF DR. MARK N. COOPER, SPECIFICALLY
6 AS THEY RELATE TO SOUTHERN BELL'S MARKETING
7 PRACTICES.

8

9 Q. WILL YOU PLEASE SUMMARIZE YOUR TESTIMONY?

10

11 A. YES. CONTRARY TO DR. COOPER'S VIEW, MARKETING IS AN
12 IMPORTANT BUSINESS ACTIVITY THAT PROVIDES
13 CONSIDERABLE BENEFITS TO CONSUMERS. THROUGH ITS
14 MARKETING EFFORTS, SOUTHERN BELL INFORMS CONSUMERS
15 ABOUT USEFUL SERVICES THAT IT OFFERS. THE PROGRAMS
16 SOUTHERN BELL USES FOR SELLING THESE SERVICES ARE
17 SIMILAR TO SALES PROGRAMS COMMONLY USED BY OTHER
18 MAJOR CORPORATIONS. SOUTHERN BELL'S SALES TRAINING
19 EMPHASIZES DETERMINING CUSTOMER NEEDS AND
20 PRESENTING SERVICES DESIGNED TO SATISFY THOSE
21 NEEDS. LIKE MOST COMPANIES, SOUTHERN BELL USES
22 SOME INCENTIVES, SALES CONTESTS, AND SALES QUOTAS
23 TO MOTIVATE SERVICE REPRESENTATIVES TO PRESENT ITS
24 SERVICES TO CUSTOMERS AND TO ENCOURAGE THEM TO BUY
25 THE SERVICES. THE INCENTIVE REWARDS AND SALES

1 GOALS USED BY SOUTHERN BELL ARE QUITE MODEST
2 COMPARED TO INDUSTRY NORMS. THEY ARE NOT DESIGNED
3 TO MOTIVATE SERVICE REPRESENTATIVES TO ENGAGE IN
4 UNETHICAL OR ILLEGAL SALES PRACTICES. NONETHELESS,
5 TO ENSURE THAT SERVICE REPRESENTATIVES FOLLOW
6 COMPANY POLICIES, SOUTHERN BELL HAS DEVELOPED A
7 CONTROL SYSTEM TO IDENTIFY AND DISCIPLINE SERVICE
8 REPRESENTATIVES WHO DEVIATE FROM COMPANY POLICIES.
9 THIS SYSTEM IS SUPERIOR TO THE CONTROL SYSTEMS
10 COMMONLY FOUND IN INDUSTRY. IT IS AN EFFECTIVE
11 SYSTEM FOR REDUCING POTENTIAL DEVIANT BEHAVIOR BY
12 SERVICE REPRESENTATIVES. IN CONCLUSION, THE
13 BENEFITS THAT SOUTHERN BELL'S CUSTOMERS RECEIVE
14 FROM THE COMPANY WOULD BE REDUCED IF THE COMPANY'S
15 MARKETING PROGRAMS WERE DISCONTINUED.

16

17 Q. WHAT IS MARKETING?

18

19 A. MARKETING IS THE SET OF ACTIVITIES UNDERTAKEN BY
20 FIRMS TO FACILITATE EXCHANGES BETWEEN THE FIRM AND
21 ITS CUSTOMERS. TYPICALLY, FIRMS OFFER GOODS OR
22 SERVICES OR BOTH AND CUSTOMERS PAY MONEY IN
23 EXCHANGE FOR THE BENEFITS PROVIDED BY THE GOODS AND
24 SERVICES.

25

1 Q. PLEASE DESCRIBE YOUR AREA OF EXPERTISE IN THE FIELD
2 OF MARKETING.

3
4 A. AS A MARKETING EXPERT, I STUDY THE FACTORS
5 AFFECTING THE EXCHANGES BETWEEN FIRMS AND THEIR
6 CUSTOMERS AND EDUCATE STUDENTS AND EXECUTIVES ON
7 HOW TO MAKE THIS EXCHANGE PROCESS WORK BETTER,
8 WHICH INCLUDES INCREASING THE BENEFITS OFFERED,
9 PROVIDING BETTER INFORMATION TO CUSTOMERS ABOUT THE
10 POTENTIAL BENEFITS AND ENSURING THAT CUSTOMERS ARE
11 SATISFIED WITH THEIR PURCHASE DECISIONS. I ALSO
12 HAVE CONSIDERABLE EXPERIENCE AS A MARKETING
13 PRACTITIONER AND THUS HAVE HAD AN OPPORTUNITY TO
14 OBSERVE THE MARKETING PRACTICES OF FIRMS AND SEE
15 HOW THESE PRACTICES AFFECT THEIR CUSTOMERS. WITHIN
16 THE DOMAIN OF MARKETING, MY PRIMARY AREA OF
17 EXPERTISE IS PERSONAL SELLING AND SALES FORCE
18 MANAGEMENT. MOST OF MY BUSINESS EXPERIENCE HAS
19 BEEN IN THIS AREA ALSO.

20
21 Q. IS IT AN APPROPRIATE AND COMMON PRACTICE FOR
22 COMPANIES TO USE MARKETING AS A TOOL TO PROMOTE
23 PRODUCTS AND SERVICES?

24
25 A. IT IS NOT ONLY APPROPRIATE, BUT NECESSARY FOR

1 COMPANIES TO ENGAGE IN MARKETING ACTIVITIES. ALL
2 COMPANIES, REGULATED AND NONREGULATED, PROFIT AND
3 NONPROFIT, NEED TO AND DO ENGAGE IN MARKETING.
4 MARKETING IS NEEDED TO MATCH THE CONSUMERS' DEMAND
5 AND THE MANUFACTURERS' SUPPLY CAPABILITY. THE LACK
6 OF MARKETING ACTIVITIES WAS A MAJOR FACTOR IN THE
7 COLLAPSE OF PLANNED ECONOMIES IN EASTERN EUROPE AND
8 THE FORMER SOVIET UNION. SIMPLY DEVELOPING AND
9 IMPLEMENTING A PLAN TO MANUFACTURE GOODS AND
10 SERVICES DOES NOT ENSURE THAT CUSTOMERS FIND THESE
11 GOODS AND SERVICES BENEFICIAL.

12
13 EMERSON CLAIMED, "IF A MAN CAN WRITE A BETTER BOOK,
14 PREACH A BETTER SERMON, OR MAKE A BETTER MOUSETRAP
15 THAN HIS NEIGHBOR, THOUGH HE BUILDS HIS HOUSE IN
16 THE WOODS, THE WORLD WILL MAKE A BEATEN PATH TO HIS
17 DOOR." EMERSON WAS A GREAT POET AND PHILOSOPHER,
18 BUT A BIT NAIVE ABOUT BUSINESS. CUSTOMERS WILL NOT
19 BEAT A PATH TO YOUR DOOR IF THEY DO NOT KNOW ABOUT
20 THE BETTER MOUSETRAP, DON'T UNDERSTAND THE SUPERIOR
21 FEATURES OF THE MOUSETRAP AND HOW THOSE FEATURES
22 WILL BENEFIT THEM, AND DON'T KNOW HOW TO BUY THE
23 MOUSETRAP (WHERE YOUR HOUSE IS).

24

25 Q. DO CUSTOMERS BENEFIT FROM MARKETING?

1

2 A. CERTAINLY. EACH TIME AN EXCHANGE OCCURS, BOTH THE
3 FIRM AND THE CUSTOMER BENEFIT. THE CUSTOMER
4 RECEIVES THE BENEFITS FROM THE SERVICE, AND THE
5 FIRM RECEIVES SUFFICIENT PAYMENT SO THAT IT CAN
6 PROVIDE A FAIR RETURN ON THE INVESTMENT IT HAS
7 MADE.

8

9 THE AMOUNT CUSTOMERS PAY FOR GOODS OR SERVICES IS
10 AN INDICATION OF THE VALUE THEY RECEIVE FROM THE
11 GOODS OR SERVICES. CUSTOMERS WILL PAY MORE FOR
12 GOODS AND SERVICES THAT OFFER MORE VALUE TO THEM.
13 IF A GOOD OR SERVICE IS PRICED TOO HIGH, CUSTOMERS
14 WILL NOT PURCHASE IT BECAUSE IT DOES NOT OFFER
15 SUFFICIENT VALUE TO JUSTIFY ITS PRICE. THE FIRM'S
16 REVENUES WILL DECREASE BECAUSE OF A DECREASE IN
17 CONSUMER DEMAND.

18

19 Q. IS IT APPROPRIATE FOR SOUTHERN BELL TO EMPLOY
20 MARKETING PROGRAMS?

21

22 A. ABSOLUTELY. CONTRARY TO DR. COOPER'S APPARENT
23 BELIEF, MARKETING IS NOT DYSFUNCTIONAL TO SOCIETY
24 AND, IN FACT, IS REASONABLE AND APPROPRIATE FOR
25 SOUTHERN BELL TO EMPLOY. MANY NONPROFIT

1 INSTITUTIONS AND GOVERNMENT ORGANIZATIONS USE
2 MARKETING PRINCIPLES TO BENEFIT SOCIETY. THE
3 DEFENSE DEPARTMENT USES MARKETING PROGRAMS TO
4 INFORM AND TO ENCOURAGE MEN AND WOMEN TO JOIN THE
5 ARMED FORCES. WITHOUT THESE MARKETING PROGRAMS, AN
6 ALL VOLUNTEER ARMED FORCES WOULD NOT BE POSSIBLE.
7 ART MUSEUMS, COLLEGES AND UNIVERSITIES, AND
8 CHARITABLE ORGANIZATIONS ALL USE MARKETING PROGRAMS
9 TO INFORM PEOPLE ABOUT THE BENEFITS PROVIDED BY
10 THEIR ORGANIZATIONS. PERHAPS THE FASTEST GROWING
11 MARKETING AREA IS HEALTH CARE MARKETING.

12
13 ALSO, IT IS OBVIOUS THAT ALL FIRMS, INCLUDING
14 REGULATED COMPANIES AND NONPROFIT ORGANIZATIONS,
15 STAY IN BUSINESS BY GENERATING REVENUES. TO
16 GENERATE THESE REVENUES, THEY MUST SATISFY CUSTOMER
17 NEEDS BY PROVIDING BENEFITS AT A PRICE CONSIDERED
18 FAIR BY CUSTOMERS. MARKETING FACILITATES EXCHANGES
19 BY USING MARKET RESEARCH TO DESIGN PRODUCTS AND
20 SERVICES THAT CONSUMERS WANT AND TO DETERMINE WHAT
21 THEY WILL PAY. MARKETING IS THEN INVOLVED IN
22 COMMUNICATING THE AVAILABILITY AND BENEFITS OF
23 THESE SERVICES TO CUSTOMERS.

24
25 Q. ARE SOUTHERN BELL'S MARKETING PROGRAMS BENEFICIAL

1 TO THE COMPANY'S CUSTOMERS?

2

3 A. CERTAINLY. SOUTHERN BELL'S MARKETING PROGRAMS
4 IDENTIFY NEEDS THE PUBLIC HAS FOR TELECOMMUNICATION
5 SERVICES AND DETERMINES WHICH OF THESE NEEDS CAN BE
6 SATISFIED ECONOMICALLY. MARKETING PROGRAMS ARE
7 THEN DEVELOPED TO INFORM CUSTOMERS ABOUT THE NEW
8 SERVICES THAT ARE AVAILABLE AND EXPLAIN THE
9 BENEFITS OFFERED BY THESE SERVICES. THE SERVICES
10 ARE PRICED TO PROVIDE A FAIR RETURN TO BOTH
11 SOUTHERN BELL AND ITS CUSTOMERS. THE CUSTOMERS
12 INDICATE THE PRICE IS FAIR WHEN THEY BUY THE
13 SERVICE. WITHOUT MARKETING, MANY OF SOUTHERN
14 BELL'S CUSTOMERS WOULD BE UNAWARE OF THE AVAILABLE
15 SERVICES THAT COULD MEET THEIR NEEDS.

16

17 Q. ARE THE COMPANY'S MARKETING PROGRAMS DIFFERENT FROM
18 THOSE YOU HAVE OBSERVED IN OTHER COMPANIES?

19

20 A. BASED ON MY READING OF THE SOUTHERN BELL SALES
21 TRAINING PROGRAM MATERIALS, THE CONTACT SALES
22 METHOD AND CONTROL REPORT BY CARL VINSON OF THE
23 FPSC STAFF, AND BY MONITORING CUSTOMER CONTACTS
24 WITH SERVICE REPRESENTATIVES, I FIND SOUTHERN
25 BELL'S MARKETING PROGRAMS TO BE QUITE SIMILAR TO

1 THE MARKETING PROGRAMS ENGAGED IN BY PROFIT AND
2 NONPROFIT FIRMS. SOUTHERN BELL PROVIDES A COMMONLY
3 USED SALES TRAINING PROGRAM TO EDUCATE SERVICE
4 REPRESENTATIVES ON HOW TO COMMUNICATE EFFECTIVELY
5 WITH CUSTOMERS. THE COMPANY'S AWARDS PROGRAM
6 INCLUDES SOME VERY MODEST INCENTIVES WHICH ARE
7 EMPLOYED TO MOTIVATE SERVICE REPRESENTATIVES TO
8 ENGAGE IN THE PRACTICES OUTLINED IN THE TRAINING
9 PROGRAM. CONTROLS ARE EMPLOYED TO MINIMIZE
10 POSSIBLE ABUSES OF CUSTOMERS BY THE SERVICE
11 REPRESENTATIVES.

12

13 Q. DO YOU AGREE WITH DR. COOPER'S CHARACTERIZATIONS OF
14 SOUTHERN BELL'S MARKETING PRACTICES?

15

16 A. NO. DR. COOPER'S TESTIMONY MISCHARACTERIZES
17 SOUTHERN BELL'S MARKETING PRACTICES AS AN UNFAIR
18 EXPLOITATION OF CONSUMERS WHICH WORKS TO THE
19 DETRIMENT OF THE PUBLIC INTEREST (MNC P. 3, LN. 9-
20 13). IN SUPPORT OF THIS CONCLUSION, DR. COOPER
21 APPEARS TO HAVE ADOPTED A VERY NARROW AND NEGATIVE
22 DEFINITION OF MARKETING. HE CHARACTERIZES THE
23 OBJECTIVE OF MARKETING PROGRAMS AS A MANIPULATION
24 OF CUSTOMERS TO GET THEM TO BUY SERVICES AT
25 EXCESSIVE PRICES (MNC P. 4, LN. 4-5, 12-13). HE

1 IGNORES THE ROLE OF MARKETING IN DEVELOPING
2 SERVICES AND INFORMING CUSTOMERS ABOUT THESE
3 SERVICES.

4
5 DR. COOPER ALSO EVIDENCES A VERY LOW CONFIDENCE
6 LEVEL IN CONSUMERS' ABILITY TO MAKE DECISIONS THAT
7 ARE BEST FOR THEM. FURTHER, HE REACHES THE
8 ERRONEOUS CONCLUSION THAT PURCHASERS OF OPTIONAL
9 SERVICES WILL BEHAVE DIFFERENTLY BASED ON THE
10 STATUS OF THE VENDOR (I.E., REGULATED VERSUS
11 COMPETITIVE). CONSUMERS WILL BUY OR NOT BUY
12 DEPENDING ON THE BENEFITS THEY SEE IN THE PRODUCT.
13 THEY DON'T CARE IF THE SERVICE IS PROVIDED BY
14 SOUTHERN BELL OR AN UNREGULATED CORPORATION.

15
16 FINALLY, DR. COOPER ATTRIBUTES A SINISTER STRATEGY
17 TO THE EXISTENCE OF MARKETING PROGRAMS IN GENERAL
18 AND SOUTHERN BELL'S SPECIFICALLY. TO THE CONTRARY,
19 SOUTHERN BELL'S MARKETING PROGRAM PROVIDES
20 GUIDELINES AND CONTROLS FOR THE VALID MARKETING OF
21 THE COMPANY'S SERVICES, PARTICULARLY BY EDUCATING
22 CONSUMERS.

23
24 Q. DO YOU THINK THAT DR. COOPER'S TESTIMONY PROVIDES
25 AN ACCURATE AND BALANCED DISCUSSION OF SOUTHERN

1 BELL'S MARKETING PRACTICES?

2

3 A. NO. I WAS QUITE SURPRISED BY THE NUMBER OF
4 FACTUALLY INCORRECT STATEMENTS, AS WELL AS
5 EXAGGERATIONS, IN DR. COOPER'S TESTIMONY. IN
6 ADDITION, HE MAKES A NUMBER OF STATEMENTS THAT
7 DISTORT THE NATURE OF THE SALES AND SALES CONTROL
8 PROGRAMS. FINALLY, SOME OF HIS CONTENTIONS ABOUT
9 CONSUMER NEEDS, CONSUMER DECISION MAKING AND
10 EMPLOYEE BEHAVIOR ARE BASED STRICTLY ON HIS
11 PERSONAL OPINION AND ARE TOTALLY UNSUPPORTED BY
12 RESEARCH OR FACTS.

13

14 HIS TESTIMONY IS REplete WITH MISINFORMATION AND
15 MANIPULATION OF INFORMATION. FOR EXAMPLE, HE
16 CLAIMS THAT, "THE COMPANY STRATEGY IS
17 INSTITUTIONALIZED AND REINFORCED THROUGH TRAINING,
18 REWARDS, AND A CORPORATE CULTURE THAT DRIVES SALES
19 REPRESENTATIVES TO MAKE SALES AT ALL COST" (PAGE 3,
20 LINE 23-25 - PAGE 4, LINE 1). THIS IS A GROSS
21 EXAGGERATION. WHILE SERVICE REPRESENTATIVES ARE
22 REQUIRED TO MAKE SALES, IT IS NOT "AT ALL COSTS".
23 COMPANY STUDIES AND MY OBSERVATIONS SUGGEST THAT
24 SERVICE REPRESENTATIVES MAKE PRESENTATIONS ABOUT
25 OPTIONAL SERVICES IN ONLY 20% TO 30% OF THE

1 SUGGESTED POSSIBLE OPPORTUNITIES.

2

3 THE EVALUATION OF SERVICE REPRESENTATIVES IS BASED
4 30% ON SALES AND 70% ON SERVICE. MOREOVER, THERE
5 IS NO INCENTIVE COMPENSATION FOR SALES AS PART OF
6 THE COMPENSATION PLAN FOR SERVICE REPRESENTATIVES.
7 WHILE THERE ARE SALES CONTESTS, MAXIMUM CONTEST
8 PAYOFFS FOR SERVICE REPRESENTATIVES ARE NO MORE
9 THAN 10% OF THEIR SALARY. THIS DEMONSTRATES THE
10 FALLACY OF DR. COOPER'S STATEMENT.

11

12 Q. WILL YOU PLEASE DESCRIBE THE MISUNDERSTANDINGS AND
13 FACTUAL MISSTATEMENTS THAT DR. COOPER MAKES IN HIS
14 TESTIMONY?

15

16 A. YES. I HAVE CATEGORIZED DR. COOPER'S INCORRECT
17 COMMENTS INTO THE FOLLOWING GROUPS:

18 I. THE TRAINING PROGRAM.

19 II. REACTIONS OF CONSUMERS TO SERVICE
20 REPRESENTATIVES.

21 III. THE INCENTIVES AND QUOTAS USED BY SOUTHERN
22 BELL TO MOTIVATE ITS SERVICE REPRESENTATIVES.

23 IV. THE CONTROL SYSTEMS USED BY SOUTHERN BELL.

24

25 I. THE TRAINING PROGRAM

1

2 A. HAVE YOU HAD AN OPPORTUNITY TO REVIEW THE TRAINING
3 MATERIAL FOR SOUTHERN BELL'S SERVICE
4 REPRESENTATIVES?

5

6 A. YES.

7

8 Q. WHAT IS THE MARKETING APPROACH THAT IS USED IN
9 SOUTHERN BELL'S METHOD OF TRAINING ITS SERVICE
10 REPRESENTATIVES?

11

12 A. SOUTHERN BELL'S MARKETING APPROACH IS TO INFORM
13 CUSTOMERS ABOUT THE SERVICES OFFERED AND THE
14 BENEFITS PROVIDED. SERVICE REPRESENTATIVES ARE
15 TAUGHT THAT EFFECTIVE COMMUNICATION AND EDUCATION
16 FOR CUSTOMERS IS NECESSARY SO THAT CUSTOMERS HAVE
17 THE OPPORTUNITY TO UNDERSTAND WHAT BENEFITS ARE
18 OFFERED BY THE COMPANY'S SERVICES. IF CUSTOMERS
19 ARE UNINFORMED OR MISINFORMED, THEY WILL NOT HAVE
20 THE OPPORTUNITY TO TAKE ADVANTAGE OF THOSE SERVICES
21 THAT THEY BELIEVE WILL BE ADVANTAGEOUS TO THEM.

22

23 THE SALES APPROACH OUTLINED IN THE TRAINING
24 MATERIAL IS BUILT AROUND FOUR ACTIVITIES; (1) FACT
25 FINDING, (2) RECOMMENDING (3) HANDLING OBJECTIONS

1 AND (4) CLOSING. THIS IS A STANDARD APPROACH USED
2 FOR TRAINING SALESPeOPLE IN ALL INDUSTRIES. IT IS
3 QUITE SIMILAR TO APPROACHES OUTLINED IN ACCEPTED
4 TEXTBOOKS USED TO TEACH COLLEGE STUDENTS SUCH AS
5 THE TEXTBOOK I CO-AUTHORED WITH STEVE CASTLEBERRY
6 AND JEFF TANNER, SELLING: BUILDING RELATIONSHIPS,
7 AS WELL AS IN PROFESSIONAL PERSONAL SELLING BY
8 ROLPH ANDERSON, AND FUNDAMENTALS OF SELLING BY
9 CHARLES FUTRELL. THESE TEXTBOOKS DEVOTE
10 CONSIDERABLE ATTENTION TO THE SAME FOUR ACTIVITIES,
11 ALTHOUGH THEY USE DIFFERENT NAMES FOR THESE
12 ACTIVITIES. FOR EXAMPLE, IN OUR TEXTBOOK, WE CALL
13 THESE ACTIVITIES (1) PROSPECTING AND GAINING
14 PRECALL INFORMATION, (2) MAKING THE SALES CALL,
15 (3) RESPONDING TO OBJECTIONS, AND (4) GAINING
16 COMMITMENT. ANDERSON'S TEXTBOOK LABELS THE
17 ACTIVITIES AS (1) PROSPECTING AND QUALIFYING
18 PROSPECTS, (2) SALES PRESENTATION AND
19 DEMONSTRATION, (3) NEGOTIATING SALES RESISTANCE AND
20 OBJECTIONS, AND (4) CONFIRMING AND CLOSING THE
21 SALE.

22
23 SOUTHERN BELL'S SALES APPROACH IS SIMILAR TO THE
24 SELLING PROGRAMS USED THROUGHOUT THE WORLD. THE
25 MAJOR COMPANIES THAT PROVIDE SALES TRAINING, WILSON

1 LEARNING AND LEARNING SYSTEMS INTERNATIONAL, FOCUS
2 ON THESE ACTIVITIES IN THEIR TRAINING PROGRAMS.
3 ONE OF THE MOST POPULAR PROGRAMS OFFERED BY
4 LEARNING SYSTEMS INTERNATIONAL CONCENTRATES ON HOW
5 TO PROBE FOR INFORMATION ABOUT CUSTOMER NEEDS --
6 ACTIVITIES THAT ARE SIMILAR TO THE FACT FINDING
7 ACTIVITIES IN THE SOUTHERN BELL TRAINING PROGRAM.

8
9 THE OBJECTIVE OF THE SOUTHERN BELL SALES TRAINING,
10 AND SALES TRAINING PROGRAMS IN GENERAL, IS TO
11 FACILITATE COMMUNICATIONS AND TO INFORM CUSTOMERS
12 ABOUT THE AVAILABILITY OF A SERVICE AND ITS
13 BENEFITS. THE SALES APPROACH USED BY SOUTHERN BELL
14 EMPHASIZES IDENTIFYING AND SATISFYING CUSTOMER
15 NEEDS. MORE THAN HALF OF THE TRAINING PROGRAM
16 INVOLVES ACTIVE LISTENING, WHICH INCLUDES ASKING
17 QUESTIONS TO DETERMINE THE CONSUMER'S NEEDS AND
18 LISTENING TO THE CONSUMER'S RESPONSES. THE SKILLS
19 TAUGHT IN THE PROGRAM ARE VALUABLE TO ALL PEOPLE --
20 NOT JUST SOUTHERN BELL SERVICE REPRESENTATIVES. IF
21 THESE COMMUNICATION SKILLS WERE WIDELY KNOWN AND
22 PRACTICED, THERE WOULD BE A LOT LESS
23 MISUNDERSTANDING AND CONFLICT IN OUR SOCIETY.

24

25 Q. DO YOU AGREE WITH DR. COOPER'S ASSERTIONS THAT THE

1 TRAINING OF SERVICE REPRESENTATIVES MAKES THEM TRY
2 TO SELL A SERVICE ON EVERY CALL?
3
4 A. NO. DR. COOPER MAKES THE FOLLOWING STATEMENTS
5 WHICH ARE SIMPLY INCORRECT:
6
7 "THE COMPANY DEFINES EACH ENCOUNTER WITH A RATE
8 PAYER AS A MARKETING OPPORTUNITY, NO MATTER HOW
9 CENTRAL THE TRANSACTION IS TO THE FRANCHISE
10 MONOPOLY SERVICES IT PROVIDES" (PAGE 4, LINE 1-4).
11
12 " . . . THE SALES REPRESENTATIVES ARE TOLD TO
13 BRIDGE ON EVERY CALL" (PAGE 33, LINE 23-24).
14
15 AS MS. MADDEN DESCRIBES IN HER TESTIMONY, A BRIDGE
16 IS WHEN THE SERVICE REPRESENTATIVE REQUESTS THE
17 CUSTOMER'S PERMISSION TO ASK ADDITIONAL QUESTIONS.
18 SOUTHERN BELL'S TRAINING MATERIAL SPECIFICALLY
19 STATES THAT SERVICE REPRESENTATIVES SHOULD NOT
20 ATTEMPT TO INFORM CUSTOMERS ABOUT ADDITIONAL
21 SERVICES DURING SOME CUSTOMER CONTACTS SUCH AS
22 WHEN THEY RECEIVE CALLS FROM DISCONNECTED
23 CUSTOMERS, DENIED ACCOUNTS AND IRATE CUSTOMERS.
24
25 IN FACT, DR. COOPER CONTRADICTS HIS INCORRECT

1 ASSERTIONS AT THE BEGINNING OF HIS TESTIMONY WITH
2 DATA PROVIDED FURTHER ON IN HIS TESTIMONY. ON PAGE
3 47 OF HIS TESTIMONY, HE QUOTES A STUDY OF 82
4 CUSTOMER CALLS. ONLY 50 WERE ELIGIBLE FOR A SALES
5 PRESENTATION UNDER SOUTHERN BELL'S CRITERIA AND
6 EFFORTS WERE MADE TO PRESENT SERVICES IN 38 -- LESS
7 THAN HALF OF THE CUSTOMER CONTACTS. I MIGHT ADD,
8 BASED ON MY MONITORING OF SOUTHERN BELL'S SERVICE
9 REPRESENTATIVES' CUSTOMER CONTACTS, THAT THE
10 PERCENTAGE OF ATTEMPTED SALES PRESENTATIONS IN
11 DESIGNATED OPPORTUNITIES IS FAR LESS THAN THE 76%
12 REPORTED IN THE STUDY REFERENCED BY DR. COOPER.

13

14 Q. ANOTHER ASSERTION DR. COOPER MAKES ABOUT SOUTHERN
15 BELL'S TRAINING IS THAT "SALES REPRESENTATIVES ARE
16 TRAINED TO MANIPULATE THE PRESENTATION OF
17 INFORMATION IN THAT ENCOUNTER" (PAGE 4, LINES 4-5).
18 IS THIS TRUE?

19

20 A. NO. SOUTHERN BELL'S SERVICE REPRESENTATIVES ARE
21 TRAINED TO COMMUNICATE INFORMATION ABOUT OPTIONAL
22 SERVICES EFFECTIVELY. PRESENTING FALSE OR
23 MISLEADING INFORMATION IS CERTAINLY NOT PART OF THE
24 TRAINING PROGRAM. IF SUPERVISORS FIND OUT THAT A
25 SERVICE REPRESENTATIVE IS PRESENTING FALSE OR

1 MISLEADING INFORMATION, THE REPRESENTATIVE RECEIVES
2 PROGRESSIVE DISCIPLINE, UP TO AND INCLUDING
3 DISMISSAL.

4

5 Q. DR. COOPER ALSO CONTENDS THAT "NOTE THAT THE SALES
6 REPRESENTATIVE IS TOLD TO DISBELIEVE THE CUSTOMER'S
7 STATEMENT AND FIND THE 'REAL' OR 'TRUE' OBJECTIONS.
8 THE CUSTOMER IS NOT TAKEN AT HIS OR HER WORD" (PAGE
9 27, LINES 7-11). IS THIS CORRECT?

10

11 A. NO. SERVICE REPRESENTATIVES ARE NOT TOLD TO
12 DISBELIEVE CUSTOMERS. THEY ARE TRAINED TO
13 FACILITATE COMMUNICATION BY ATTEMPTING TO UNCOVER
14 THE CUSTOMER'S ACTUAL BELIEFS AND ATTITUDES.
15 FREQUENTLY, WHEN CUSTOMERS DO NOT UNDERSTAND
16 SOMETHING SAID BY A SALESPERSON, THEY WILL RESPOND
17 BY SHOWING DISINTEREST IN THE SERVICE. TO PREVENT
18 MISUNDERSTANDINGS, SERVICE REPRESENTATIVES MIGHT
19 ASK CUSTOMERS WHY THEY MADE STATEMENTS OR WHAT THEY
20 MEANT BY A STATEMENT. THIS IS A COMMON PRACTICE
21 AMONG ALL COMPANIES AND THERE IS NOTHING
22 INAPPROPRIATE ABOUT THIS PROCESS.

23

24 Q. DOES DR. COOPER MAKE ANY OTHER ERRONEOUS COMMENTS
25 ABOUT SOUTHERN BELL'S TRAINING?

1
2 A. YES. DR. COOPER ALLEGES THAT "THE SALES
3 REPRESENTATIVE IS TRAINED TO DRAG THE CUSTOMER
4 THROUGH A LONG SERIES OF QUESTIONS" (PAGE 32, LINE
5 12-13). THIS STATEMENT IS UNFOUNDED. THE TIME
6 SPENT ON SALES PRESENTATIONS IS TYPICALLY TWO TO
7 THREE MINUTES. THUS, THE NUMBER OF SALES QUESTIONS
8 IS QUITE LIMITED AND IN NO WAY UNFAIR OR
9 INAPPROPRIATE. ANY QUESTIONS ASKED DEPEND ON THE
10 NATURAL FLOW OF THE INTERACTION.

11
12 FURTHER, DR. COOPER STATES THAT "THERE IS NO SENSE
13 IN WHICH THE INFORMATION THAT THE SALES
14 REPRESENTATIVE SEEKS HAS ANYTHING TO DO WITH WHAT
15 THE CUSTOMER WANTS OR NEEDS" (PAGE 33, LINE 11-13).
16 DR. COOPER OBVIOUSLY DOES NOT UNDERSTAND THE NATURE
17 OF SOUTHERN BELL'S TRAINING PROGRAM, WHICH IS BASED
18 ON UNCOVERING NEEDS AND MATCHING SERVICES WITH
19 THOSE NEEDS. THE MARKET SEGMENTATION APPROACH, TO
20 WHICH DR. COOPER OBJECTS, IS BASED ON MARKET
21 RESEARCH THAT HAS UNCOVERED THE TYPES OF OPTIONAL
22 SERVICES THAT POTENTIALLY COULD SATISFY THE NEEDS
23 OF CUSTOMERS IN EACH SEGMENT. SEGMENTATION IS THE
24 PROCESS OF GROUPING CUSTOMERS BASED ON COMMON
25 TENDENCIES. FOR EXAMPLE, SEGMENTS OF RESIDENTIAL

1 CUSTOMERS ARE BUILT UPON VARIABLES SUCH AS KNOWN
2 PURCHASING BEHAVIOR, MARKET RESEARCH, DEMOGRAPHICS
3 AND GEOGRAPHY. THIS ENABLES THE COMPANY TO INFORM
4 EACH CUSTOMER OF THE SPECIFIC SERVICES THAT THE
5 CUSTOMER MIGHT FIND MOST USEFUL. IF ANYTHING, THIS
6 ELIMINATES WASTED TIME FOR THE CUSTOMER, AS WELL AS
7 THE SERVICE REPRESENTATIVE, BY AVOIDING THE
8 DISCUSSION OF SERVICES THAT ARE LIKELY TO BE OF NO
9 INTEREST TO THE CUSTOMERS.

10

11 Q. WHAT OTHER INCORRECT ASSERTIONS DOES DR. COOPER
12 MAKE ABOUT SOUTHERN BELL'S TRAINING PRACTICES?

13

14 A. DR. COOPER CLAIMS "THE CUSTOMER MUST FIGHT HIS WAY
15 THROUGH AN AGGRESSIVE SALES PITCH TO OBTAIN PHONE
16 SERVICE" (PAGE 35, LINE 4-6). THIS IS NOT THE
17 CASE. SALES PRESENTATIONS ARE MADE FOLLOWING THE
18 SATISFACTION OF THE CUSTOMER'S PRIMARY REASON FOR
19 CALLING. IN ADDITION, SOUTHERN BELL'S TRAINING
20 REQUIRES THE SALES PRESENTATION TO BE TERMINATED IF
21 THE CUSTOMER SIMPLY SAYS HE OR SHE IS NOT
22 INTERESTED IN DISCUSSING ADDITIONAL SERVICES. WHEN
23 THE CUSTOMER SAYS NO, THAT PART OF THE CONTACT IS
24 TERMINATED. THIS PRACTICE WAS ADHERED TO DURING MY
25 MONITORING OF CALLS.

1

2 Q. IS DR. COOPER ACCURATE IN THE DEPICTION THAT "TO
3 MAKE MATTERS WORSE, AS THE TRANSACTION HAS BEEN
4 STRUCTURED BY THE COMPANY, THE CUSTOMER HAS ALMOST
5 NOTHING TO WORK WITH IN TRYING TO GET THE PACKAGE
6 HE REALLY WANTS" (PAGE 35, LINE 19-22).

7

8 A. DEFINITELY NOT. THE TRANSACTION IS STRUCTURED BY
9 THE SERVICE REPRESENTATIVE TO FACILITATE THE
10 EXCHANGE OF INFORMATION IN A SHORT PERIOD OF TIME
11 OVER THE TELEPHONE. HOWEVER, THE DIRECTION THE
12 CALL TAKES IS DETERMINED BY THE CUSTOMER'S NEEDS.
13 THE SERVICE REPRESENTATIVE PRESENTS OPTIONS BASED
14 ON QUESTIONS ASKED TO ASSESS THE CUSTOMER'S NEEDS.
15 IF THE CUSTOMER STATES THAT HE OR SHE NEEDS A
16 SPECIFIC SERVICE, AND NO OTHER, OF COURSE THAT
17 DESIRE IS MET.

18

19 Q. IS DR. COOPER CORRECT IN HIS CLAIM THAT THE
20 COMPANY'S SALES TRAINING IS OVERLY AGGRESSIVE AND
21 MANIPULATIVE IN THE AREA OF "OVERCOMING
22 RESISTANCE"?

23

24 A. NO. DR. COOPER IS INCORRECT. SOME PEOPLE MAY VIEW
25 THE TERMINOLOGY "OVERCOMING RESISTANCE" AS SOMEWHAT

1 PEJORATIVE. THEREFORE, SOME PERSONAL SELLING
2 TEXTBOOKS NOW REFER TO THIS PART OF THE SALES
3 PROCESS AS "ADDRESSING RESERVATIONS". HOWEVER, THE
4 CONCEPTS ARE IDENTICAL. THEY DEAL WITH EXAMINING
5 THE REASONS WHY CUSTOMERS ARE UNINTERESTED IN A
6 SERVICE, DETERMINING WHETHER THESE REASONS ARE
7 BASED ON MISINFORMATION OR A MISUNDERSTANDING, AND
8 THEN CORRECTING ANY MISINFORMATION.

9

10 Q. CAN YOU PROVIDE EXAMPLES OF DR. COOPER'S INCORRECT
11 ASSERTIONS THAT OVERCOMING RESISTANCE IS OVERLY
12 AGGRESSIVE AND MANIPULATIVE?

13

14 A. YES. DR. COOPER STATES, "WHILE THE COMPANY STRESSES
15 MEETING CUSTOMER 'NEEDS' IN FACT THE SALES TRAINING
16 IS ABOUT SELLING OVER CUSTOMER OBJECTIONS AND
17 RESISTANCE" (PAGE 23, LINES 9-11). THIS IS SIMPLY
18 INCORRECT. APPROXIMATELY 10% OF THE SALES TRAINING
19 ADDRESSES HOW TO DEAL WITH CUSTOMER RESERVATIONS.
20 ALMOST ALL OF THE TRAINING IS DIRECTED TOWARD
21 UNCOVERING CUSTOMER NEEDS AND PRESENTING
22 INFORMATION ON HOW THE UNCOVERED NEEDS WILL BE
23 SATISFIED BY THE BENEFITS OF THE SERVICES PROPOSED.
24 THIS IS FAR DIFFERENT FROM DR. COOPER'S MISPLACED
25 ASSERTION.

1
2 ADDITIONALLY, DR. COOPER CLAIMS "THERE IS
3 VIRTUALLY NOTHING THE CUSTOMER CAN SAY THAT THE
4 SALES REPRESENTATIVE IS TOLD TO TREAT AS A NO"
5 (PAGE 25, LINES 24-25). THIS IS NOT TRUE EITHER.
6 SOUTHERN BELL'S TRAINING MATERIAL CLEARLY INDICATES
7 THAT WHEN A CUSTOMER SAYS THEY DON'T WANT A
8 SERVICE, THE PRESENTATION SHOULD BE TERMINATED.
9
10 Q. DR. COOPER ASSERTS THAT THE MARKET SEGMENTATION
11 PROGRAM IS MANIPULATIVE IN PRE-SELECTING THE
12 SERVICES OFFERED TO A CUSTOMER BASED ON THE
13 CUSTOMER'S PROFILE. IS THIS TRUE?
14
15 A. NO. SEGMENTING THE MARKET IMPROVES THE EFFICIENCY
16 OF THE MARKETING PROGRAM AND COMMUNICATION PROCESS.
17 THE SERVICES FOR WHICH THE CUSTOMER HAS THE
18 GREATEST NEED ARE DISCUSSED AND THE SERVICES FOR
19 WHICH THE CUSTOMER MOST LIKELY HAS LITTLE NEED ARE
20 NOT DISCUSSED. THUS THE COMMUNICATIONS AND
21 INFORMATION INTERCHANGE ARE TAILORED TO THE NEEDS
22 OF THE CUSTOMER. IF THE CUSTOMER EXPRESSES
23 INTEREST IN SOME OTHER TYPE OF SERVICE, THAT WILL
24 ALSO BE DISCUSSED.
25

1 Q. DR. COOPER CLAIMS THAT "THE SALES REPRESENTATIVES
2 ARE INSTRUCTED BY THE SCRIPT TO PRESENT ONLY
3 PACKAGES AND RESIST UNBUNDLING THEM" (PAGE 41, LINE
4 25 - PAGE 42, LINE 3). IS THIS TRUE?

5
6 A. NO. SOUTHERN BELL SERVICE REPRESENTATIVES ARE NOT
7 TRAINED TO SELL PACKAGES. FURTHER, DR. COOPER
8 CLAIMS THAT "THE SMALLEST NUMBER OF SERVICES THAT
9 THE SALES REPRESENTATIVE IS REQUIRED TO OFFER IS
10 THREE. THE LARGEST IS 14" (PAGE 31, LINES 1-3).
11 THIS STATEMENT IS BASED ON A MISUNDERSTANDING BY
12 DR. COOPER. THE SERVICES ASSOCIATED WITH EACH
13 SEGMENT ON PAGES 29-30 OF HIS TESTIMONY ARE
14 SUGGESTIONS FOR THE SERVICE REPRESENTATIVES. WHEN
15 I MONITORED CALLS BETWEEN CUSTOMERS AND SOUTHERN
16 BELL'S FLORIDA SERVICE REPRESENTATIVES, IN NO
17 SITUATION DID I HEAR A SERVICE REPRESENTATIVE
18 DISCUSS MORE THAN TWO SERVICES FOR A CALL THAT DID
19 NOT INCLUDE A NEW CONNECTION. SERVICE
20 REPRESENTATIVES RARELY PRESENT MORE THAN ONE OR TWO
21 OPTIONAL SERVICES TO A CUSTOMER.

22

23 II. REACTIONS OF CONSUMERS TO SERVICE
24 REPRESENTATIVES

25

1 Q. DR. COOPER INDICATES THAT SOUTHERN BELL'S NEEDS
2 ASSESSMENT SALES APPROACH IS "PATERNALISTIC" TOWARD
3 CUSTOMERS. DO YOU AGREE?
4
5 A. NO. SOUTHERN BELL'S NEEDS BASED PROGRAM DOES A GOOD
6 JOB OF PROVIDING USEFUL INFORMATION ABOUT SERVICES
7 TO CONSUMERS. IT ASSUMES THAT CONSUMERS KNOW THEIR
8 NEEDS AND CAN MAKE DECISIONS ABOUT WHICH SERVICES
9 TO BUY AND WHICH NOT TO BUY. CONSUMERS ARE TREATED
10 AS KNOWLEDGEABLE ADULTS CAPABLE OF MAKING THEIR OWN
11 DECISIONS.
12
13 IF ANYONE SHOWS A PATERNALISTIC BENT, IT IS DR.
14 COOPER IN HIS TESTIMONY AND RECOMMENDATIONS. HE
15 ASSUMES THAT CONSUMERS ARE NOT CAPABLE OF MAKING
16 THEIR OWN DECISIONS AND NEED TO BE "PROTECTED" FROM
17 THEMSELVES. HE SEEMS TO THINK THAT HE SHOULD
18 SUBSTITUTE HIMSELF FOR THE COMPANY AND THE CUSTOMER
19 AND DECIDE WHAT MARKETING APPROACH IS IN THE
20 CUSTOMERS' BEST INTEREST. HOWEVER, SOUTHERN BELL
21 THINKS CONSUMERS KNOW BEST WHAT THEY WANT AND WHAT
22 THEY ARE WILLING TO PAY. I AGREE. WHY SHOULD DR.
23 COOPER BE THE ONE TO DETERMINE WHAT INFORMATION IS
24 PRESENTED TO CONSUMERS, WHEN IT SHOULD BE
25 PRESENTED, HOW IT SHOULD BE PRESENTED, AND WHAT

1 SERVICES ARE "FRILLS" AND WHICH ARE NECESSITIES?

2 THE ANSWER IS THAT HE SHOULDN'T.

3

4 Q. HOW DOES DR. COOPER VIEW CONSUMERS AND THEIR
5 ABILITIES TO MAKE DECISIONS ABOUT WHAT TO BUY?

6

7 A. DR. COOPER APPEARS TO VIEW CONSUMERS AS INCAPABLE
8 OF KNOWING WHAT TO PURCHASE AND INCAPABLE OF
9 DEALING WITH SALESPEOPLE. FOR EXAMPLE, HE STATES
10 THAT "BY AND LARGE, CONSUMERS SEE THESE SERVICES
11 AS FRILLS THAT HAVE NONE OF THE INHERENT QUALITIES
12 OF NECESSITIES" (PAGE 23, LINE 13-15).

13

14 WHAT IS A FRILL AND WHAT IS A NECESSITY IS IN THE
15 EYES OF THE BEHOLDER. EVEN IF SOME PEOPLE VIEW
16 SOME SERVICES AS A "FRILL," THEY MAY STILL DESIRE
17 TO PURCHASE THEM. SHOULD ALL CONSUMERS BE FORCED
18 TO BUY A STANDARD BLACK TELEPHONE BECAUSE DR.
19 COOPER THINKS THAT FANCY DESIGNER TELEPHONES ARE
20 FRILLS? OF COURSE NOT.

21

22 Q. DO YOU HAVE ANY OTHER EXAMPLES OF DR. COOPER'S
23 OPINION REGARDING CONSUMERS' REACTIONS TO SERVICE
24 REPRESENTATIVES?

25

1 A. YES. REFERENCING CONSUMERS, DR. COOPER STATES THAT
2 "THEIR ABILITY TO DISTINGUISH BETWEEN MONOPOLY
3 SERVICES, WHICH THEY CANNOT DELAY, AND THE OPTIONAL
4 SERVICES WHICH THEY DO NOT 'NEED', MAY BE LIMITED,
5 PARTICULARLY WHEN CONFRONTED WITH THE OBFUSCATION
6 AND PRESSURE MARKETING OF THE COMPANY" (PAGE 36,
7 LINE 8-11).

8
9 THIS STATEMENT ILLUSTRATES DR. COOPER'S VIEW OF
10 CONSUMERS AS INCAPABLE OF MAKING THEIR OWN
11 DECISIONS. WHAT IS THE EVIDENCE THAT AN INDIVIDUAL
12 CANNOT DISTINGUISH OPTIONAL SERVICES? SERVICE
13 REPRESENTATIVES ARE REQUIRED TO SPECIFICALLY STATE
14 WHICH SERVICES ARE OPTIONAL. THERE IS NO EVIDENCE
15 THAT CONSUMERS CANNOT UNDERSTAND THIS INFORMATION.

16

17 Q. DO YOU HAVE ANY OTHER EXAMPLES OF DR. COOPER'S
18 IMPRESSION OF CONSUMERS?

19

20 A. YES. DR. COOPER TESTIFIES THAT HE BELIEVES "...
21 THAT THE CUSTOMER IS ESPECIALLY VULNERABLE TO THE
22 COMPANY'S PRESSURE TACTICS; THE COMPANY'S EXPLICIT
23 EXPLOITATION OF THIS SITUATION IS LIKELY TO LEAD TO
24 OVER CONSUMPTION OF THESE SERVICES" (PAGE 37, LINE
25 7-11).

1

2 DR. COOPER'S OPINION HAS NO SUPPORT. RESEARCH
3 INDICATES THAT PEOPLE UNDER TIME PRESSURE ARE MORE
4 DIFFICULT TO CONVINCED TO BUY A SERVICE. THEY ARE
5 LESS LIKELY TO RESPOND TO QUESTIONS, BUT RATHER TO
6 GET TO THE REASON FOR THEIR CALL TO THE COMPANY.

7

8 FURTHER, DR. COOPER STATES THAT "WHEN THEY [AUDIO
9 WARNINGS] ARE CONTRARY TO EXPECTATION, THEY ARE
10 ESPECIALLY LIKELY TO BE DISREGARDED OR IGNORED"
11 (PAGE 37, LINE 24-25 - PAGE 38, LINE 1). THERE IS
12 A CONSIDERABLE AMOUNT OF RESEARCH ON CONSUMER
13 BEHAVIOR THAT INDICATES JUST THE OPPOSITE
14 CONCLUSIONS. WHEN CONFRONTED WITH UNEXPECTED
15 INFORMATION, CONSUMERS ARE MORE ATTENTIVE, NOT LESS
16 ATTENTIVE.

17

18 Q. DR. COOPER'S TESTIMONY CONCLUDES THAT SOUTHERN
19 BELL'S MARKETING PROGRAMS ENCOURAGE CUSTOMERS TO
20 "OVER CONSUME" OPTIONAL SERVICES THAT ARE
21 "OVERPRICED". DO YOU AGREE WITH THIS CONCLUSION?

22

23 A. NO. THE STATUS OF A SERVICE AS OPTIONAL, BY ITS
24 VERY DEFINITION, IMPLIES THAT A CUSTOMER HAS A
25 CHOICE AS TO WHETHER TO PURCHASE AND USE IT. HE OR

1 SHE MAY ALSO HAVE ALTERNATIVES FROM OTHER
2 SUPPLIERS. AS A GENERAL RULE, CONSUMERS WHO HAVE A
3 CHOICE WILL MAKE DECISIONS BASED ON THEIR
4 PERCEPTION OF THE VALUE OF A PRODUCT OR SERVICE.
5 THAT VALUE DECISION CONSIDERS THE NEED OR DESIRE
6 FOR A SERVICE VERSUS THE PRICE. THROUGH THIS
7 DECISION PROCESS, CONSUMERS SEEK TO MAXIMIZE VALUE
8 AND WILL NOT "OVER CONSUME". THEY WILL BUY
9 SERVICES THAT OFFER VALUED BENEFITS, AND WILL NOT
10 BUY SERVICES THAT LACK THESE VALUED BENEFITS.

11
12 AS PREVIOUSLY STATED, SOUTHERN BELL'S SERVICE
13 REPRESENTATIVES ARE INSTRUCTED TO INFORM CUSTOMERS
14 AS TO WHAT SERVICES ARE OPTIONAL. THIS INFORMATION
15 IS CONFIRMED IN A LETTER SENT TO CUSTOMERS. THUS,
16 CUSTOMERS HAVE SUFFICIENT INFORMATION ON NOT ONLY
17 WHAT THEY HAVE PURCHASED, AT THE TIME OF THE
18 PURCHASE, BUT WILL ALSO HAVE IT CONFIRMED IN
19 WRITING.

20
21 III. INCENTIVES AND QUOTAS USED TO MOTIVATE
22 SERVICE REPRESENTATIVES

23
24 Q. WHAT ARE THE PROGRAMS USED BY SOUTHERN BELL TO
25 MOTIVATE SERVICE REPRESENTATIVES?

1

2 A. SOUTHERN BELL SETS A SALES QUOTA FOR EACH SERVICE
3 REPRESENTATIVE. IN ADDITION, IT OFTEN HOLDS
4 CONTESTS FOR SERVICE REPRESENTATIVES. THE PRIZES
5 IN THE SALES CONTEST ARE AWARDED BASED ON SALES
6 PERFORMANCE.

7

8 Q. HAVE YOU HAD AN OPPORTUNITY TO REVIEW THESE
9 INCENTIVE PROGRAMS FOR SOUTHERN BELL'S SERVICE
10 REPRESENTATIVES?

11

12 A. YES.

13

14 Q. DO THESE PROGRAMS MOTIVATE SERVICE REPRESENTATIVES
15 TO OVERSELL OR TO ENGAGE IN MANIPULATIVE,
16 UNETHICAL, OR ILLEGAL SELLING?

17

18 A. NO. SALES OBJECTIVES AND SALES CONTESTS ARE
19 COMMONLY USED METHODS TO MOTIVATE SERVICE
20 REPRESENTATIVES TO COMMUNICATE WITH CUSTOMERS IN
21 THE MANNER DESCRIBED IN THE SALES TRAINING
22 MATERIAL. THEY MOTIVATE SERVICE REPRESENTATIVES TO
23 INFORM CUSTOMERS ABOUT THE SERVICES AND THE
24 BENEFITS OFFERED, AS WELL AS TO CLEAR UP
25 MISUNDERSTANDINGS.

1

2 MOST SERVICE ORGANIZATIONS ARE NOW USING INCENTIVES
3 TO ENCOURAGE THEIR REPRESENTATIVES TO PROVIDE
4 BETTER SERVICE AND MORE INFORMATION ABOUT THE
5 SERVICES OFFERED. GENERALLY, EMPLOYEES DON'T
6 PROVIDE THIS SERVICE NATURALLY. ALL OF US HAVE
7 ENCOUNTERED SALES ASSOCIATES IN DEPARTMENT STORES
8 WHO SEEM TO BE UNWILLING TO EVEN RING UP THE SALE
9 AND TAKE YOUR MONEY.

10

11 SOUTHERN BELL'S INCENTIVES PROVIDE A REWARD TO
12 SERVICE REPRESENTATIVES WHO PROVIDE BETTER SERVICE
13 AND MORE INFORMATION, THUS BENEFITING CUSTOMERS AND
14 THE COMPANY. WITHOUT THESE INCENTIVES, HUMAN
15 NATURE BEING WHAT IT IS, THE SERVICE
16 REPRESENTATIVES WILL BE LESS MOTIVATED TO PROVIDE
17 THESE SERVICES.

18

19 Q. DO YOU AGREE WITH DR. COOPER'S CLAIMS ABOUT THE
20 IMPACT OF THE QUOTAS AND INCENTIVES?

21

22 A. NO. DR. COOPER'S CLAIMS ABOUT THE EFFECTS OF THE
23 QUOTAS IS REALLY INCONSISTENT WITH MY INDUSTRY
24 EXPERIENCE. FOR EXAMPLE, HE SAYS, "THE INTENSE
25 PRESSURE PLACED ON EMPLOYEES RESULTS IN A

1 COMBINATION OF LEGAL AND ILLEGAL ACTIVITIES IN AN
2 ATTEMPT TO ACHIEVE THE GOALS SET BY MANAGEMENT"
3 (PAGE 8, LINE 11-13).
4

5 FIRST, APPROXIMATELY 70% OF THE SOUTHERN BELL
6 SERVICE REPRESENTATIVES MEET OR EXCEED THEIR SALES
7 GOALS. THIS PERCENTAGE IS HIGHER THAN THE
8 PERCENTAGE OF SALESPEOPLE ACHIEVING GOALS IN MOST
9 FIRMS AND THUS SOUTHERN BELL'S GOALS ARE
10 REASONABLE. SECOND, THE TRAINING MATERIAL
11 CERTAINLY DOES NOT ENCOURAGE IMPROPER BEHAVIOR. TO
12 THE CONTRARY, THE COMPANY EMPHASIZES THE NEED FOR
13 PROPER SALES CONDUCT IN ALL CASES. FURTHER, PROPER
14 CONTROLS ARE IN PLACE TO MONITOR SERVICE
15 REPRESENTATIVES AND TO IDENTIFY SITUATIONS WHICH
16 REQUIRE CORRECTION.
17

18 Q. BUT DR. COOPER CONTENDS THAT ". . . A SURVEY OF
19 SALES REPRESENTATIVES SHOWS THAT SALES OBJECTIVES
20 BEING SET TOO HIGH WERE THE LARGEST ISSUE..." (PAGE
21 46, LINE 1-3). WHAT DO YOU THINK OF THE EVIDENCE
22 HE PROVIDES TO SUPPORT HIS POSITION?
23

24 A. I QUESTION THE OBJECTIVITY OF THE STUDIES.
25 REGARDLESS, THE REACTION BY SOUTHERN BELL'S SERVICE

1 REPRESENTATIVES IS NOT SURPRISING, FOR SURVEYS OF
2 SALES PEOPLE IN OTHER COMPANIES WOULD INDICATE
3 SIMILAR RESULTS. MANY SALES PEOPLE BELIEVE THAT
4 THEIR OBJECTIVES ARE SET AT TOO HIGH A LEVEL. HOWE
5 IT IS MY EXPERIENCE THAT THE TYPICAL COMPANY SETS
6 QUOTAS AT A LEVEL THAT ONLY 60% OF THEIR
7 SALESPEOPLE ACHIEVE. APPROXIMATELY 70% OF THE
8 SOUTHERN BELL SERVICE REPRESENTATIVES ACHIEVE OR
9 EXCEED THEIR OBJECTIVES, AND SO ONE MUST QUESTION
10 WHETHER SOUTHERN BELL'S OBJECTIVES AREN'T SET TOO
11 LOW.

12

13 Q. PLEASE DESCRIBE YOUR ASSESSMENT OF THE IMPACT OF
14 THE INCENTIVES OFFERED THROUGH THE SALES CONTEST.

15

16 A. THE INCENTIVES REALLY ARE QUITE SMALL. IN NO CASE
17 DOES A SOUTHERN BELL SERVICE REPRESENTATIVE EARN
18 MORE THAN 10% ADDITIONAL INCOME FROM THE SALES
19 CONTESTS. I WOULD BE QUITE SURPRISED TO FIND
20 SERVICE REPRESENTATIVES ENGAGED IN NON-SANCTIONED
21 SELLING PRACTICES TO GAIN SUCH A SMALL REWARD AND
22 THEREBY RISK LOSING THEIR JOB WHEN IT IS DETECTED
23 IN THE MONITORING PROGRAM.

24

25 Q. WHAT IS YOUR OPINION OF DR. COOPER'S ASSERTIONS

1 THAT GOLDLINE WAS A "SCHEME" ON THE PART OF THE
2 COMPANY TO ENHANCE REVENUES?

3
4 A. THERE IS NOTHING INHERENTLY WRONG WITH A COMPANY
5 TRYING TO ENHANCE ITS REVENUES. FURTHER, THERE IS
6 ABSOLUTELY NO INDICATION THAT GOLDLINE WAS DESIGNED
7 TO BE OR WAS USED IMPROPERLY. IN ADDITION, THIS
8 PROGRAM, ALTHOUGH DESIGNED TO ALLOW COMPANIES TO
9 PURSUE POTENTIAL SALES OPPORTUNITIES, HAD MANY
10 SAFEGUARDS BUILT INTO IT.

11

12 IV. CONTROL SYSTEMS USED BY SOUTHERN BELL

13

14 Q. HOW WOULD YOU EVALUATE THE CONTROL SYSTEM USED BY
15 SOUTHERN BELL?

16

17 A. EFFECTIVE MOTIVATION PROGRAMS REQUIRE A NUMBER OF
18 ELEMENTS. INCENTIVES ALONE ARE NOT SUFFICIENT TO
19 ENSURE THAT EMPLOYEES UNDERTAKE APPROPRIATE
20 BEHAVIORS. THEREFORE, SOUTHERN BELL HAS A PROGRAM
21 FOR MONITORING THE BEHAVIOR OF SERVICE
22 REPRESENTATIVES AND DISCIPLINING THOSE WHO DO NOT
23 PERFORM THEIR JOB DUTIES IN AN APPROPRIATE MANNER.
24 IN MANY SALES SITUATIONS, FIRMS DO NOT HAVE THE
25 OPPORTUNITY TO MONITOR THE ACTIVITIES OF THEIR

1 SALESPEOPLE TO MAKE SURE THAT THEY ARE CONFORMING
2 WITH COMPANY POLICIES. BECAUSE SOUTHERN BELL'S
3 SERVICE REPRESENTATIVES WORK IN THE OFFICE USING
4 TELEPHONES THAT CAN BE MONITORED, SOUTHERN BELL HAS
5 A UNIQUE OPPORTUNITY TO CONTROL THE ACTIVITIES OF
6 THEIR SERVICE REPRESENTATIVES.

7
8 THE SOUTHERN BELL CONTROL SYSTEM CONSISTS OF
9 EVALUATIVE AND DIAGNOSTIC EVALUATIONS AND
10 MONITORING OF CALLS PERFORMED BY LOCAL MANAGEMENT;
11 MONITORING OF CALLS FROM REMOTE LOCATIONS BY THE
12 STAFFS TO EVALUATE SERVICE LEVELS, AND INTERNAL
13 SELF INSPECTION CONDUCTED TO EVALUATE THE
14 PROFICIENCY OF CUSTOMER SERVICE WITH THE PRIMARY
15 FOCUS GEARED TO FULL DISCLOSURE OF OPTIONAL
16 SERVICES; AND, CONFIRMATION LETTERS SENT TO
17 CUSTOMERS WHEN ORDERS ARE ISSUED. CUSTOMERS ALSO
18 RECEIVE MONTHLY ITEMIZED BILLS. THESE ACTIVITIES
19 HELP TO MINIMIZE DEVIATIONS FROM COMPANY POLICIES
20 AND INSURE THAT SERVICE REPRESENTATIVES ENGAGE IN
21 THE APPROPRIATE BEHAVIOR.

22

23 Q. DOES DR. COOPER'S TESTIMONY QUESTION THE CONTROL
24 SYSTEM USED BY SOUTHERN BELL?

25

1 A. NO. DR. COOPER'S TESTIMONY DOES NOT DISAGREE WITH
2 THE PROGRAM FOR MONITORING SERVICE REPRESENTATIVES.
3 HE SIMPLY ASSUMES THAT THE PROGRAM IS NOT VERY
4 EFFECTIVE. DR. COOPER'S ASSUMPTION IS THAT MANY
5 EMPLOYEES ARE ENGAGING IN INAPPROPRIATE BEHAVIOR
6 AND NOT ENOUGH EMPLOYEES ARE REPRIMANDED OR FIRED
7 FOR THIS BEHAVIOR. FOR EXAMPLE, HE CLAIMS "TAKING
8 DISCIPLINARY ACTIONS AND FILING GRIEVANCES ARE
9 CERTAINLY THE MOST EXTREME FINAL STEP AND REPRESENT
10 ONLY THE TIP OF THE ICEBERG..." (PAGE 50, LINE 18-
11 19).

12
13 THERE IS ABSOLUTELY NO EVIDENCE TO SUPPORT THIS
14 CLAIM. RATHER, TAKING DISCIPLINARY ACTION IS THE
15 FIRST, NORMAL STEP UNDERTAKEN WHEN SUPERVISORS
16 UNCOVER UNETHICAL BEHAVIOR BY SERVICE
17 REPRESENTATIVES. SIMILARLY, THE FILING OF
18 GRIEVANCES IS A COMMON OCCURRENCE. IN ANY
19 ENVIRONMENT, THE REPRESENTED EMPLOYEE HAS THE RIGHT
20 TO GRIEVE, WHETHER THE DISCIPLINE WAS FOR
21 ATTENDANCE, JOB PERFORMANCE OR FOR UNETHICAL
22 BEHAVIOR.

23
24 FINALLY, THERE ARE SOME COMMENTS THAT ARE PURE
25 SPECULATION BY DR. COOPER. DR. COOPER PROVIDES NO

1 RESEARCH, EITHER ACADEMIC RESEARCH OR RESEARCH
2 UNDERTAKEN BY HIS OWN ORGANIZATION, TO SUPPORT HIS
3 CONTENTIONS.

4
5 DR. COOPER STATES "FIRING A FEW EMPLOYEES AND
6 SENDING OUT CORRECTION LETTERS WILL DO LITTLE TO
7 PREVENT FUTURE ABUSES" (PAGE 9, LINE 11-13)? FIRST
8 OF ALL, THE NUMBER OF ABUSES APPEARS TO BE LOW.
9 HOWEVER, I THINK THAT FIRING SERVICE
10 REPRESENTATIVES WHO ENGAGE IN ABUSIVE BEHAVIOR WILL
11 CERTAINLY HAVE A SOBERING EFFECT ON THE REST OF THE
12 EMPLOYEE BODY. JOBS ARE NOT THAT EASY TO COME BY
13 AND THIS TYPE OF A DISMISSAL CAN JEOPARDIZE
14 ALTERNATIVE EMPLOYMENT OPPORTUNITIES. I AM
15 CONFIDENT THAT WHEN A SERVICE REPRESENTATIVE IS
16 FIRED, THE WORD GETS AROUND AND SERVICE
17 REPRESENTATIVES THINK LONG AND HARD ABOUT ENGAGING
18 IN IMPROPER BEHAVIORS. FINALLY, THE COMPANY'S
19 WILLINGNESS TO FIRE EMPLOYEES WHO MAKE IMPROPER
20 SALES SENDS THE STRONGEST MESSAGE POSSIBLE THAT
21 SOUTHERN BELL NEITHER CONDONES NOR ENCOURAGES SUCH
22 BEHAVIOR.

23

24 Q. DO YOU BELIEVE THAT SOUTHERN BELL'S CUSTOMERS
25 BENEFIT FROM ITS MARKETING PROGRAM?

1
2 A. YES. DR. COOPER'S TESTIMONY IMPLIES THAT
3 MARKETING, AS WELL AS INCREASING REVENUES, IS BAD
4 FOR CUSTOMERS. FOR EXAMPLE, DR. COOPER IS CRITICAL
5 OF SOUTHERN BELL'S MISSION STATEMENT. HE SAYS, "NO
6 SINGLE STATEMENT BETTER SUMMARIZES THE CUSTOMER'S
7 PHILOSOPHY. EVERYONE IS A MARKETEEER, EVERY CONTACT
8 IS A MARKETING OPPORTUNITY, AND THE UBIQUITOUS
9 PRESENCE IN THE MARKETPLACE IS A COMPETITIVE
10 ADVANTAGE" (PAGE 14, LINES 13-16). I THINK WE ALL
11 WOULD LIKE FOR SERVICE PROVIDERS IN RESTAURANTS,
12 HOTELS, AND RETAIL STORES TO BE MARKETEERS AND HAVE
13 AN OBJECTIVE OF SATISFYING OUR NEEDS. THE
14 WILLINGNESS OF CUSTOMERS TO PAY FOR THE SERVICES
15 OFFERED BY SOUTHERN BELL INDICATES THEY ARE GETTING
16 A VALUE FOR THE SERVICES EQUAL TO THE AMOUNT THEY
17 PAY. INCREASING REVENUES MEANS THAT SOUTHERN BELL
18 IS ALSO INCREASING THE VALUE ITS CUSTOMERS ARE
19 GETTING. EACH NEW "REVENUE SOURCE" CREATED BY
20 SOUTHERN BELL IS ALSO A NEW BENEFIT THAT CUSTOMERS
21 CAN ELECT TO USE.
22
23 FURTHERMORE, SINCE BASIC LOCAL EXCHANGE SERVICE IS
24 RESIDUALLY PRICED, THE ADDITIONAL REVENUE THAT
25 SOUTHERN BELL DERIVES FROM THESE SERVICES HELPS

1 KEEP THE COST OF LOCAL SERVICE DOWN. THUS,
2 SOUTHERN BELL SHOULD BE ENCOURAGED TO INCREASE ITS
3 REVENUE BY DEVELOPING NEW SERVICES. THESE
4 INCREASED REVENUES REFLECT MORE BENEFITS OFFERED
5 NOT ONLY TO CUSTOMERS WILLING TO PAY FOR THESE
6 SERVICES BUT ALSO TO ALL RATEPAYERS.

7
8 SOUTHERN BELL'S MARKETING PROGRAM CREATES NEW
9 SERVICES THAT ARE VALUED BY CONSUMERS. IF SOUTHERN
10 BELL ABANDONED ITS MARKETING EFFORTS, WE WOULD
11 RETURN TO THE ERA OF THE BLACK MODEL T FORD. IN
12 THE EARLY PART OF THE CENTURY, HENRY FORD FOCUSED
13 HIS EFFORT ON BUILDING A VERY ECONOMICAL CAR, THE
14 MODEL T FORD. TO MAKE IT AT THE LOWEST POSSIBLE
15 COST AND OFFER THE LOWEST PRICE, HE MADE ONE MODEL
16 IN ONE COLOR WITHOUT ANY OF THE "FRILLS" THAT DR.
17 COOPER WANTS TO ELIMINATE. IT WAS A BASIC CAR TO
18 PROVIDE BASIC TRANSPORTATION.

19
20 GENERAL MOTORS TOOK A DIFFERENT APPROACH AND ADDED
21 "FRILLS" THAT CUSTOMERS WERE WILLING TO PAY MORE
22 MONEY FOR, LIKE ENCLOSED CABS AND ELECTRICAL
23 STARTERS AND DIFFERENT COLORS AND STYLES.
24 CONSUMERS VOTED WITH THEIR DOLLARS FOR THE HIGHER
25 PRICED GENERAL MOTORS CARS. WERE THESE CUSTOMERS

1 AS NAIVE AS DR. COOPER THINKS? SHOULD THE
2 GOVERNMENT HAVE REGULATED THE AUTO INDUSTRY TO JUST
3 PROVIDE THE BASIC CARS OR PREVENT SALESPEOPLE FROM
4 PRESENTING ALTERNATIVES TO CUSTOMERS? I DO NOT
5 THINK THAT CUSTOMERS WOULD HAVE BENEFITED FROM
6 THESE REGULATIONS.

7
8 Q. YOUR TESTIMONY SEEMS TO SUGGEST THAT CUSTOMERS
9 ALWAYS MAKE GOOD DECISIONS, ALWAYS BUY GOODS AND
10 SERVICES THEY WANT, AND NEVER PAY TOO MUCH FOR
11 THESE PURCHASES. ISN'T THE GOAL OF A MARKETING
12 PROGRAM TO GET CUSTOMERS TO BUY MORE EVEN IF THEY
13 DON'T NEED IT?

14
15 A. FIRST, CUSTOMERS DO NOT ALWAYS MAKE GOOD PURCHASE
16 DECISIONS. HOWEVER, PEOPLE ARE REMARKABLY GOOD AT
17 PROCESSING INFORMATION ABOUT PRODUCTS AND SERVICES
18 AND MAKING GOOD CHOICES. JUST CONSIDER THE AMOUNT
19 OF INFORMATION ABOUT PRODUCTS AND SERVICES
20 CONSUMERS RECEIVE EACH DAY. IT IS ESTIMATED THAT
21 THE TYPICAL CONSUMER RECEIVES 300 COMMERCIAL
22 MESSAGES DAILY. PEOPLE ARE GENERALLY CAPABLE OF
23 ANALYZING THE INFORMATION PROVIDED TO THEM AND
24 MAKING DECISIONS ABOUT WHAT THEY WISH TO PURCHASE.
25 SIMILARLY, CONSIDER THE NUMBER OF DECISIONS A

1 CONSUMER MAKES IN A SUPERMARKET AND HOW THEY ARE
2 GENERALLY SATISFIED WITH THESE DECISIONS.
3 CONSUMERS IN A FREE MARKET ECONOMY ARE QUITE
4 SOPHISTICATED. THEY ARE NOT EASILY MISLED OR
5 COERCED INTO BUYING THINGS THEY DON'T WANT.

6
7 SECOND, MARKETING PROGRAMS ARE DESIGNED TO DEVELOP
8 LONG TERM RELATIONSHIPS WITH CUSTOMERS, NOT SIMPLY
9 MAKE A ONE-SHOT SALE. THE OBJECTIVE OF MARKETING
10 PROGRAMS IS TO MAKE MANY SALES OVER A PERIOD OF
11 TIME. SOUTHERN BELL WANTS TO SELL NEW SERVICES TO
12 CUSTOMERS IN THE FUTURE. COERCING CUSTOMERS TO BUY
13 SERVICES THEY DON'T WANT WOULD LESSEN THE
14 LIKELIHOOD OF FUTURE SALES.

15
16 FINALLY, CUSTOMERS HAVE RECOURSE IF THEY BUY
17 SOMETHING THEY DON'T WANT. THEY CAN HAVE THE
18 SERVICE TERMINATED AND THEY CAN COMPLAIN TO THE
19 COMPANY.

20
21 Q. DOES SOUTHERN BELL HAVE TO WORRY ABOUT SATISFYING
22 CUSTOMERS, IF, AS DR. COOPER SAYS, "...THE CORE OF
23 MONOPOLY POWER AVAILABLE TO THE COMPANY PROVIDES A
24 WIDE AVENUE FOR ABUSE OF CUSTOMERS IN THE MARKETING
25 OF SERVICES" (PAGE 7, LINE 5-7)?

1

2 A. WHILE ANY FIRM, REGULATED OR NOT, CAN ABUSE
3 CUSTOMERS, SOUTHERN BELL'S SUPERVISORY MONITORING
4 REPORTS OF SERVICE REPRESENTATIVES, SERVICE
5 REPRESENTATIVES' GRIEVANCES, AND CUSTOMER
6 COMPLAINTS CERTAINLY INDICATE THAT ANY SUCH ABUSES
7 TAKE PLACE IN A VERY FEW, ISOLATED CASES. THESE
8 ABUSES AMONG SOUTHERN BELL'S SERVICE
9 REPRESENTATIVES UNFORTUNATELY STILL SOMETIMES
10 OCCUR, BUT GIVEN THE SIZE OF THE LABOR FORCE ARE
11 NONETHELESS NOT WIDE SPREAD.

12

13 Q. DO YOU THINK THE PROGRAM SUGGESTED BY DR. COOPER
14 WILL INCREASE OR DECREASE THE BENEFITS OFFERED TO
15 SOUTHERN BELL CUSTOMERS?

16

17 A. IT WILL DECREASE THE BENEFITS FOR SEVERAL REASONS.
18 FIRST, CUSTOMERS WILL NOT HAVE INFORMATION ABOUT
19 THE SERVICES AVAILABLE.
20
21 SECOND, COSTS OF PROVIDING THE SERVICES WILL BE
22 INCREASED. ADDITIONAL COSTS WILL BE REQUIRED TO
23 OBTAIN WRITTEN CONTRACTS. THESE COSTS WILL BE
24 PASSED ALONG TO THE CUSTOMERS WHO WANT THE SERVICE.
25 IF THESE COSTS BECOME TOO HIGH, FEWER CUSTOMERS

1 WILL SIGN UP.

2

3 THIRD, DUE TO A LACK OF INFORMATION AND THE
4 INCREASED EFFORT TO CONFIRM SERVICES OFFERED, FEWER
5 CUSTOMERS WILL SIGN UP FOR THE SERVICE AND THE
6 PRICE WILL RISE DUE TO THE NEED TO COVER THE
7 INCREMENTAL COST FOR PROVIDING SERVICE WITH FEWER
8 CUSTOMERS.

9

10 FOURTH, INCREASING THE LEVEL OF MONITORING
11 INCREASES COSTS AND WILL INCREASE PROCESSING COSTS
12 TO CUSTOMERS. THE ISSUE BECOMES IS THE INCREASED
13 COSTS ASSOCIATED WITH MORE REGULATION PROVIDING A
14 SUFFICIENT BENEFIT TO CUSTOMERS? I THINK NOT.

15

16 FINALLY, BY INTRODUCING REQUIREMENTS THAT MAKE IT
17 DIFFICULT FOR SOUTHERN BELL TO INCREASE REVENUE BY
18 OFFERING NEW SERVICES, SOUTHERN BELL WILL NOT HAVE
19 AN INCENTIVE TO INNOVATE AND SEARCH FOR NEW
20 SERVICES. IN THE LONG RUN, MANY CUSTOMERS WILL
21 SUFFER BECAUSE THEY WILL NOT BE ABLE TO GET THE
22 BENEFITS OF NEW SERVICES.

23

24 Q. DO YOU HAVE A CONCLUDING SUMMARY FOR YOUR
25 TESTIMONY?

1

2 A. YES. SOUTHERN BELL'S MARKETING PROGRAM DELIVERS
3 SIGNIFICANT BENEFITS TO ITS CUSTOMERS. IT OFFERS
4 NEW AND USEFUL SERVICES TO ITS CUSTOMERS, WHO ARE
5 QUITE CAPABLE OF DECIDING WHAT IS GOOD FOR THEM.
6 RESTRICTING SOUTHERN BELL'S MARKETING PROGRAM WILL
7 REDUCE THE COMPANY'S INCENTIVE TO PROVIDE
8 INNOVATIVE SERVICES AND THE OPPORTUNITIES FOR ITS
9 CUSTOMERS TO LEARN ABOUT AND USE THESE SERVICES.

10

11 I DO NOT WANT TO LEAVE THE IMPRESSION THAT ALL OF
12 SOUTHERN BELL'S MARKETING PROGRAMS ARE IMPLEMENTED
13 PERFECTLY, THAT THERE ARE NO ABUSES UNDERTAKEN BY
14 SERVICE REPRESENTATIVES, AND THAT NO CUSTOMERS MAKE
15 POOR DECISIONS AND BUY SERVICES THEY REALLY DON'T
16 NEED. NO BUSINESS OR MARKETING PROGRAM IS PERFECT.
17 PROBLEMS ARE ALWAYS GOING TO ARISE. HOWEVER,
18 SOUTHERN BELL'S MARKETING PROGRAM IS FAR LESS PRONE
19 TO PROBLEMS THAN MARKETING PROGRAMS UNDERTAKEN BY
20 OTHER FIRMS. THE BENEFITS THAT THE MARKETING
21 PROGRAM OFFERS CUSTOMERS FAR OUTWEIGH THE LIMITED
22 NUMBER OF PROBLEMS THAT MIGHT ARISE.

23

24 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

25

1 A. YES.

2

3

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- 1976 - Present Executive Education on marketing strategy, sales force management, industrial marketing, and new product development. Faculty member in executive education programs for:
- U.S. Postal Service, Roche Laboratories, Continental Airlines, Steel Service Center Institute, American Hospital Supply, UCLA Medical Marketing Program, Wharton New Product Development Program, Wharton Marketing Strategy Program, Wharton Sales Force Management Program, Biomedical Marketing Association, AT&T Communications, Bell Laboratories, GE Sales Force Management Program, GE Advanced Marketing Management Seminar, AT&T Technologies, Stromberg Carlson, Harris, Northwestern Salesforce Management Program, J.C. Penney University Executive Education Program, Belgium Marketing Association.
- 1978 - Present Expert Witness. Recent clients include Smith and Hulsey, Fish and Neve; Center for Law in Public Interest; Rivkin, Radler, Dunne and Bagh; Dewitt, Porter, Hugget, and Shuman; Davis, Markel and Edwards (U.S. vs Brown, Ehrling, DeBella, and Reizen); Bell South Rate Hearing
- 1971 - 1973 Marketing Manager, Hickok Electrical Instrument Company, Cleveland, Ohio. Responsible for all marketing and sales efforts with budget responsibility.
- 1967 - 1971 Sales Manager, Dana Laboratories, Inc., Irvine, California. Responsible for selection assessment, and direction of field sales representative.
- Product Manager, responsible for marketing research and the development of advertising campaigns and sales aids.
- Regional Sales Manager, interface between company and field representatives.
- 1963 - 1965 Systems Engineer, Lockheed Missile and Space Co., Sunnyvale, California.

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and Why." AMA Winter Educators Conference St. Petersburg,
February 1986.

"Knowledge, Creativity, and Non-Weird Science." AMA Winter
Educators Conference, St. Petersburg, February 1986.

"Commitment in Conventional Distribution Channels." ORSA/TIMS
Marketing Science Conference, Dallas, March 1985.

"Research on Marketing Strategy." AMA Faculty Consortium,
University of Tennessee, July 1986.

"Sales Force Management Research Streams.", AMA Doctoral
Consortium, Notre Dame University, August 1986.

"Incentive Compensation: An Empirical Examination of Agency
Theory." Colloquium Series, University of North Carolina, April
1987.

"Trends in Retailing Research," 1987 AMA Faculty Consortium,
University of Alabama, July 1987.

"Research on Salesforce Management," AMA Doctoral Consortium,
NYU, August, 1987.

"Developing Long-Term Relationships in Distribution Channels,"
MSI Business Marketing Steering Group, Boston, February 1987.

"MARKSTRAT: An Experiential Learning Game," Academy of Marketing
Science National Meeting, Miami Beach, May 1987.

"Incentive Compensation, Risk Preference, and Salesperson
Motivation", TIMS/ORSA National Meeting, Denver, November 1988.

"Issues in Retailing Research", Southern Marketing Association,
Atlanta, November 1988.

"Role of a Retail Center", Retail Consumer Patronage Conference,
LSU, Baton Rouge, May 1989.

"Relationships in Marketing", Seminar Series, Catholic University
at Leuven, Belgium, April 1990.

"Building Commitment in Channel Relationship", Board of Trustees
Meeting, Marketing Science Institute, Cambridge, MA, October
1990.

"The Use of Control Mechanisms to Improve Service Quality",
Marketing Science Institute Conference on Marketing Organization,
Cambridge, MA, November 1990.

"Building Relationships Between Universities and the Retail
Community", National Meeting of National Retail Federation, New
York, January 1991.

"Measuring Service Quality", Marketing Science Conference,
University of Delaware, March 1991.

"Commitment and Channel Relationships", Seminar Series,
University of Arizona, April 1991.

"1991 National Retail Security Survey Result", NRF Annual
Meeting, January 1992.

"Developing Strategic Advantage Through Marketing Relationships",
P&G Distinguish Speaker Series, February 1992.

"Measuring Service Quality", University of Delaware Distinguished
Speaker Series, March 1992

"Working Smarter: Antecedents and Consequences", University of
Delaware, March 1992

"Measuring Service Quality", Washington University, April 1992.

"Issues in Direct Selling", National Meeting, Direct Selling
Association, Indian Wells, CA June 1992.

"A Research Agenda for Retailing in the 1990's", American Marketing Association Summer Educators Conference, Chicago, August 1992.

"Retailing in the 90's", Georgia State University Retail Executive Advisory Board, September 1992

"Research Issues in Services Marketing", MSI International Conference, London, November 1992

"Assessing Service Quality", Penn State University, November 1992

"Successful Retailing in the 90's", Dallas Retail Financial Executives, January 1993

"Working Smarter versus Harder:", University of Illinois, February 1993

Other Professional Activities

American Marketing Association
Fall Educators' Meeting

Paper Referee - 1979-1988

Marketing Management Track Chair, 1982

Co-Chairman of Educators Conference, 1989

Winter Educators' Meeting

Interpersonal Communication and Industrial Marketing
Track Chair, 1985.

Marketing Management Track Chair, 1987

Selection Committee for O'Dell Award - 1984, 1991

Member, Task Force on the Development of Marketing Thought -
1985-1988

Member, Task Force on Marketing Definitions - 1986-1988

Dissertation Competition Judge - 1980-1985

Doctoral Consortium Faculty - 1985, 1986, 1988, 1990, 1991

Faculty Consortium Faculty - 1982, 1984, 1986, 1987, 1990,
1991, 1992, 1993

Association for Consumer Research

Annual Meeting: Paper Referee 1980-1990

Marketing Science Institute

Member, Academic Advisory Board, 1985 to 1989
Industrial Marketing Board, 1985 to 1988
Board of Directors, Academic Trustee, 1989 to present

TIMS/ORSA Marketing Science Conference
Special Session Chair - Developments in Marketing Strategy,
1988

MEMBERSHIP IN PROFESSIONAL SOCIETIES

American Marketing Association
The Institute of Management Science
American Psychological Association
Association for Consumer Research

AWARDS/GRANTS

AMA Doctoral Consortium Fellow, 1975.
AMA Doctoral Dissertation Competition--Honorable
mention--1977.
George Robbins Distinguished Teaching Award, UCLA, 1979.
Marketing Science Institute Research Grants - 1979, 1981,
1984, 1985.
Wharton Strategic Marketing Center Research Grant - 1982,
1983, 1984.
UCLA Academic Senate Research Grant - 1979, 1980, 1981.
Direct Selling Foundation - 1985.

UNIVERSITY COURSE TAUGHT

Undergraduate and MBA: Marketing Principles, Marketing
Management, Sales Force Management, Marketing Strategy,
Retail Management.

Ph.D.: Research Methodology, Seminar in Marketing
Management Research, Marketing Proseminar.

DOCTORAL THESIS COMMITTEES

U.C.L.A. - Chairman
Erin Anderson - Associate Professor - Wharton School,
University of Pennsylvania

Harish Sujan - Associate Professor - Pennsylvania State University

Robert Saxe - Consultant

David Arch - Blistex

U.C.L.A. - Committee Member

Hubert Gatignon - Associate Professor, Wharton School, University of Pennsylvania

Marion Burke - Associate Professor, Duke University

John Swazy - Associate Professor, American University

University of Florida - Chairman

Alan Dick - Assistant Professor, State University of New York at Buffalo

Jhinuk Chowdhury - Assistant Professor, University of North Texas

Howard Marmorstein - Assistant Professor, University of Miami

Shankar Ganesan - Assistant Professor, State University of New York - Buffalo

Ramarao Desiraju - Assistant Professor, University of Delaware

Corinne Faure -

Sandra Jap -

University of Florida - Committee Member

Michael Zenor - University of Texas, Austin

Anusree Mitra - American University

Susan Broniarczyk - University of Texas, Austin

Stephen Holden - EISSEC

A. Muthukrishnan - Farrleigh Dickerson

Lance Brothers - Texas Christen

Michael Guiry

Susan Fournier

SCHOOL SERVICE

UCLA

Marketing Ph.D. Coordinator 1980-82
Director of Marketing Study Center, 1979-1982
Member of Business School Research Committee 1979-81
Staffing Committee, 1979-80
Doctoral Admissions Committee, 1980-82.

Wharton

Co-chairman of Marketing Department Recruiting
Committee, 1983-84
Doctoral Program Coordinator 1983-85
Member, Wharton School Doctoral Admissions Committee
1983-85
Member, Research Policy Committee, 1984-85.

University of Florida

Member, Tenure and Promotion Committee, College of
Business, 1985-1986, 1987-present, Chairman 1988-89.
Member, Executive Education Committee - 1987-88.
Chairman, Committee to Develop Plan for Retail
Concentration, Department of Marketing, 1986.
Chairman, MBA Program Committee, 1986-88.
Director, Center for Retailing Education and Research,
1986 to present.
Member, Search Committee for MBA Placement Director.
Member, Search Committee for Jim Walter Eminent Scholar
Chair, 1987 to 1990.
Member, Sub-Committee on Student Internship, 1989.
Member, Provost Search Committee, 1989.
Member, University Library Committee, 1989 to 1991,
Chair 1991 to present.
Chair, Lanzillotti-McKeithan Eminent Scholar Chair
Search Committee 1990-1991.
Member, Russ Berrie Eminent Scholar Chair Search
Committee, 1990-1991.
Member, Long Range Planning Committee, University of
Florida Foundation, 1991 to present.
Member, Library Sub-Committee for University
Accreditation, 1991-1992

1 SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY
2 REBUTTAL TESTIMONY OF CALVIN S. MONSON
3 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
4 DOCKET NO. 920260-TL
5 DECEMBER 10, 1993

6
7
8
9 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

10

11 A. MY NAME IS CALVIN S. MONSON. I AM A PRINCIPAL OF
12 STRATEGIC POLICY RESEARCH, INC., 7500 OLD GEORGETOWN
13 RD., BETHESDA, MARYLAND 20814. MY TELEPHONE NUMBER
14 IS (301) 215-4029.

15

16 Q. PLEASE STATE YOUR EDUCATIONAL AND PROFESSIONAL
17 BACKGROUND.

18

19 A. I RECEIVED THE B.A. DEGREE CUM LAUDE FROM BRIGHAM
20 YOUNG UNIVERSITY IN ECONOMICS. I RECEIVED THE A.M.
21 DEGREE IN ECONOMICS FROM THE UNIVERSITY OF CHICAGO.
22 IN ADDITION, I AM A PH.D. CANDIDATE IN ECONOMICS AT
23 WASHINGTON UNIVERSITY IN ST. LOUIS.

24

25 I WORKED AT THE ILLINOIS COMMERCE COMMISSION FROM

1 1984 TO 1986 AS A TECHNICAL ADVISOR AND EXECUTIVE
2 ASSISTANT TO THE COMMISSIONERS. FROM 1986 TO 1990 I
3 WAS EMPLOYED BY SOUTHWESTERN BELL TELEPHONE COMPANY
4 AS AN ECONOMIST. BEGINNING IN 1990 UNTIL LATE 1992,
5 I WAS THE DIRECTOR OF TELECOMMUNICATIONS POLICY AT
6 THE ILLINOIS COMMERCE COMMISSION, WITH
7 RESPONSIBILITY FOR DEVELOPING THE ILLINOIS
8 COMMISSION'S POLICIES ON TELECOMMUNICATIONS ISSUES
9 AND PRESENTING THOSE POSITIONS BEFORE THE FEDERAL
10 COMMUNICATIONS COMMISSION, IN CASES AT THE ILLINOIS
11 COMMERCE COMMISSION, AND TO OTHER GROUPS.

12
13 ONE ISSUE I WORKED ON EXTENSIVELY AS DIRECTOR OF
14 TELECOMMUNICATIONS POLICY FOR THE ILLINOIS COMMERCE
15 COMMISSION WAS OVERSEEING THE RAPIDLY DEVELOPING
16 COMPETITION FOR LOCAL EXCHANGE SERVICES THAT IS
17 HAPPENING IN ILLINOIS, ESPECIALLY IN AND AROUND
18 CHICAGO. I CO-AUTHORED A PROPOSAL FOR THE ILLINOIS
19 COMMERCE COMMISSION TO ESTABLISH A
20 "TELECOMMUNICATIONS FREE TRADE ZONE" IN DOWNTOWN
21 CHICAGO. THIS PROPOSAL ATTRACTED SUBSTANTIAL
22 ATTENTION AND LED TO THE COMMISSION INITIATING A
23 RULEMAKING ON INTERCONNECTION THAT IS NOW UNDERWAY.
24 THE KEY ELEMENTS OF THIS PROPOSAL WERE RECENTLY
25 ENDORSED BY THE GOVERNOR AND KEY LEGISLATIVE LEADERS

1 IN CALIFORNIA. THEY HAVE CHARGED A GROUP COMPRISED
2 OF THE CALIFORNIA PUBLIC UTILITIES COMMISSION AND
3 INDUSTRY REPRESENTATIVES TO IDENTIFY THE LOCATION(S)
4 IN CALIFORNIA WHERE TELECOMMUNICATIONS FREE TRADE
5 ZONES WILL BE ESTABLISHED AND TO WORK OUT OTHER
6 IMPLEMENTATION DETAILS.

7
8 A STAFF GROUP THAT I LED WROTE A LENGTHY REPORT TO
9 THE ILLINOIS COMMISSION IN 1992 ON LOCAL COMPETITION
10 AND INTERCONNECTION THAT RECOMMENDED AN AGGRESSIVE
11 COURSE OF ACTION FOR ILLINOIS.

12
13 SEVERAL MONTHS AGO MY COLLEAGUE JEFFREY ROHLFS AND I
14 WROTE "THE \$20 BILLION IMPACT OF LOCAL COMPETITION
15 IN TELECOMMUNICATIONS," WHICH CALCULATED THAT THE
16 ANNUAL CONTRIBUTION CURRENTLY BEING COLLECTED ON
17 SWITCHED ACCESS AND TOLL SERVICES OFFERED BY LOCAL
18 TELEPHONE COMPANIES IS APPROXIMATELY \$20 BILLION
19 NATIONALLY. THIS CONTRIBUTION HAS BEEN PUT AT RISK
20 BY INCREASED COMPETITION, TECHNOLOGICAL
21 BREAKTHROUGHS, AND BY FEDERAL AND STATE REGULATORY
22 ACTIONS. WE CONCLUDED THAT EFFECTIVE COMPETITION
23 WILL CAUSE THE COLLAPSE OF TODAY'S ARTIFICIAL
24 PRICING STRUCTURE.

25

1 IN ADDITION, I HAVE GIVEN SPEECHES AND BEEN
2 PUBLISHED ON MANY TELECOMMUNICATIONS ISSUES. THIS
3 WORK IS SUMMARIZED IN MY VITA, WHICH IS ATTACHED AS
4 EXHIBIT CSM-1.

5

6 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

7

8 A. THE PURPOSE OF MY TESTIMONY IS TO DEMONSTRATE,
9 CONTRARY TO THE ASSERTION OF SOME PARTIES IN THIS
10 PROCEEDING, THAT SIGNIFICANT COMPETITION FOR
11 SERVICES OFFERED BY LOCAL EXCHANGE CARRIERS IS
12 QUICKLY EMERGING. MY ANALYSIS IS DRAWN FROM EVENTS
13 TAKING PLACE THROUGHOUT THE NATION AND INCLUDES
14 ACTIVITY TAKING PLACE IN FLORIDA. IN ADDITION, I
15 WILL ANALYZE THE REGULATORY POLICY IMPLICATIONS OF
16 COMPETITION FOR SERVICES THAT LOCAL EXCHANGE
17 CARRIERS OFFER AND WILL MAKE SOME RECOMMENDATIONS
18 FOR HOW THE FLORIDA PUBLIC SERVICE COMMISSION SHOULD
19 CONTINUE SOUTHERN BELL'S RATE STABILIZATION PLAN.

20

21 Q. WHY IS A CORRECT UNDERSTANDING OF THIS EMERGING
22 COMPETITION IMPORTANT TO THIS CASE?

23

24 A. INCREASED COMPETITION IS A MOMENTOUS CHANGE IN LOCAL
25 TELECOMMUNICATIONS. SUCH A MOMENTOUS CHANGE CALLS

1 INTO QUESTION WHETHER THE TRADITIONAL METHODS OF
2 REGULATION ARE STILL APPROPRIATE IN THE CHANGED
3 ENVIRONMENT. THE FLORIDA LEGISLATURE REALIZED THIS
4 BACK IN 1990 WHEN IT FOUND THAT "TECHNOLOGY AND
5 COMPETITION IN THE TELECOMMUNICATIONS INDUSTRY ARE
6 DEVELOPING RAPIDLY."¹ BECAUSE OF THE RAPIDLY
7 CHANGING TECHNOLOGY AND COMPETITION IT FORESAW
8 UNFOLDING, IT AUTHORIZED THE COMMISSION TO ADOPT
9 ALTERNATE METHODS OF REGULATING TELECOMMUNICATIONS
10 CARRIERS. COMPETITIVE DEVELOPMENTS HAVE ADVANCED
11 DRAMATICALLY SINCE 1990 WHEN THE LEGISLATURE REACHED
12 THIS CONCLUSION. I WILL PRESENT A CURRENT VIEW OF
13 COMPETITIVE DEVELOPMENTS FOR LOCAL
14 TELECOMMUNICATIONS. THIS CHANGING COMPETITIVE
15 ENVIRONMENT IMPLIES THAT TRADITIONAL REGULATION
16 SHOULD BE MODIFIED TO REFLECT THESE CHANGES.
17 INCREASING COMPETITION RAISES A COMPLEX SET OF
18 ISSUES. THE COMMISSION SHOULD BE APPRISED OF THESE
19 ISSUES AND HAVE A PLAN TO RESPOND IN A WAY THAT WILL
20 MAXIMIZE THE BENEFITS TO THE PUBLIC FROM COMPETITION
21 AND SERVE THE PUBLIC INTEREST.

22

23 Q. WOULD YOU PLEASE SUMMARIZE YOUR TESTIMONY?

24

25 A. COMPETITION IS EMERGING RAPIDLY FOR THE SERVICES

1 THAT LOCAL TELEPHONE COMPANIES OFFER. IT IS COMING
2 FROM FIBER OPTICS, WIRELESS AND SATELLITE
3 TECHNOLOGIES, CABLE TELEVISION COMPANIES,
4 COMPETITIVE ACCESS PROVIDERS, ELECTRIC UTILITIES,
5 AND CELLULAR AND PCS (PERSONAL COMMUNICATIONS
6 SERVICE) PROVIDERS. A WIDE VARIETY OF BUSINESSES
7 ARE INSTALLING VERY SMALL APERTURE TERMINALS (VSATS)
8 TO REPLACE LOCAL TELEPHONE COMPANY LINES AND LONG
9 DISTANCE USAGE. BECAUSE OF THE CURRENT PRICING
10 STRUCTURE, SOME COMPETITIVE ENTRY IS INEVITABLE,
11 REGARDLESS OF WHETHER SOME REGULATORS MIGHT ATTEMPT
12 TO STOP IT. RATHER, THE COMMISSION SHOULD MAXIMIZE
13 THE BENEFITS FROM COMPETITION AND MINIMIZE ANY
14 EVENTUAL DISLOCATIONS. THIS IT CAN DO BY ALLOWING
15 FLEXIBILITY IN REGULATION AND BY INCREASING THE
16 INCENTIVES TO LOWER COSTS.

17

18 WIDESPREAD COMPETITIVE ENTRY WILL TAKE PLACE,
19 ESPECIALLY GIVEN THE CONTRIBUTION BUILT INTO TODAY'S
20 RATE STRUCTURE. ONLY BY PERMITTING THE TRADITIONAL
21 LOCAL EXCHANGE COMPANY TO COMPETE FULLY CAN THE
22 COMMISSION ASSURE THAT THIS COMPETITIVE ENTRY SERVES
23 THE PUBLIC INTEREST. IN THIS WAY EFFECTIVE
24 COMPETITION, THE KIND THAT TRULY BENEFITS CONSUMERS,
25 WILL BE FOSTERED. INEFFICIENT COMPETITORS THAT

1 WOULD ONLY EXIST BECAUSE REGULATORS DO NOT PERMIT A
2 TRADITIONAL LOCAL EXCHANGE COMPANY TO RESPOND THEN
3 WOULD NO LONGER BE CREATED. THE COMMISSION'S
4 CURRENT INCENTIVE REGULATION PLAN HAS BEEN A GOOD
5 FIRST STEP IN REVISING REGULATORY INCENTIVES TO BE
6 MORE CONSISTENT WITH EMERGING LOCAL COMPETITION.
7 THE COMMISSION SHOULD NOT RETURN TO TRADITIONAL
8 REGULATORY METHODS THAT WERE DEVELOPED FOR AN
9 ENTIRELY DIFFERENT ENVIRONMENT.

10

11 Q. MCI'S WITNESS DR. NINA CORNELL CLAIMS IN HER
12 TESTIMONY THAT "COMPETITION FOR BASIC LOCAL
13 EXCHANGE, HOWEVER, DOES NOT EXIST NOW AND IS AT BEST
14 ONLY POTENTIAL, NOT ACTUAL." (CORNELL DIRECT AT 4.)
15 SHE ALSO STATES THAT SHE DOES "NOT KNOW WHETHER OR
16 NOT THERE WILL BE COMPETITION FOR BASIC LOCAL
17 EXCHANGE SERVICES, BUT EVEN IF IT COMES, IT WILL
18 COME RELATIVELY SLOWLY" (CORNELL DIRECT AT
19 4.) WHAT IS YOUR RESPONSE TO THESE STATEMENTS?

20

21 A. COMPETITION DOES EXIST NOW AS DESCRIBED IN THE
22 TESTIMONY THAT FOLLOWS. COMPETITIVE PRESSURE IS
23 RAPIDLY INCREASING DUE TO THE ACTUAL INVESTMENTS
24 BEING MADE BY CABLE TELEVISION PROVIDERS,
25 COMPETITIVE ACCESS PROVIDERS, WIRELESS PROVIDERS,

1 AND OTHERS. WHILE ONLY A RELATIVELY SMALL NUMBER OF
2 CURRENT TELEPHONE COMPANY CUSTOMERS CAN TODAY
3 PURCHASE THEIR SERVICE FROM SOMEONE ELSE, THAT IS
4 NOT TO SAY THAT COMPETITION IS ONLY A POTENTIAL.
5 LARGE INVESTMENTS ARE BEING MADE NOW THAT WILL SOON
6 CHANGE THIS. THE RISKIEST COURSE OF ACTION THE
7 COMMISSION COULD PURSUE WOULD BE TO BELIEVE DR.
8 CORNELL AND SIMPLY IGNORE THE SIGNIFICANT
9 DEVELOPMENTS THAT ARE HAPPENING IN THIS INDUSTRY.

10

11 Q. PLEASE DESCRIBE YOUR VIEW OF THE COMPETITION THAT IS
12 EMERGING FOR SERVICES OFFERED BY LOCAL EXCHANGE
13 COMPANIES.

14

15 A. LOCAL EXCHANGE CARRIERS WILL FACE SIGNIFICANTLY
16 INCREASING LEVELS OF COMPETITION OVER THE NEXT FEW
17 YEARS. IN SOME AREAS AND FOR SOME CUSTOMERS, THIS
18 COMPETITION IS ALREADY PRESENT. COMPETITION IS
19 GROWING FROM ENTITIES THAT ARE WELL INTO THE PROCESS
20 OF DEPLOYING FIBER OPTIC TRANSMISSION TECHNOLOGY AND
21 NEW DIGITAL WIRELESS TECHNOLOGIES. COMPETITIVE
22 ACCESS PROVIDERS, CABLE TELEVISION COMPANIES,
23 ELECTRIC UTILITIES, AND WIRELESS PROVIDERS ARE AMONG
24 THE ENTITIES DEPLOYING THESE TECHNOLOGIES.

25

1 THE COMPETITION IS COMING FROM SEVERAL ANGLES. LET
2 ME BEGIN WITH INTEREXCHANGE COMPETITION. OF COURSE,
3 COMPETITION FOR INTEREXCHANGE CALLING IS WELL
4 ESTABLISHED THROUGHOUT THE COUNTRY. INTEREXCHANGE
5 CARRIERS ARE ESTABLISHING MORE POINTS OF PRESENCE
6 WITH THEIR NETWORKS. THEY ARE FINDING SUBSTITUTES
7 FOR LOCAL TELEPHONE COMPANY ACCESS SERVICES AND ARE
8 INCREASINGLY CARRYING INTRALATA CALLS IN ADDITION TO
9 THE INTERLATA CALLS THAT HAVE BEEN THE MAINSTAY OF
10 THEIR BUSINESS. FROM ANOTHER SIDE, PRIVATE BRANCH
11 EXCHANGES HAVE LONG COMPETED WITH LOCAL TELEPHONE
12 COMPANIES' CENTREX SERVICES. RECENTLY, SIGNIFICANT
13 COMPETITION BY COMPETITIVE ACCESS PROVIDERS HAS
14 BEGUN TO FLOURISH. COMPETITIVE ACCESS PROVIDERS ARE
15 BUILDING SOPHISTICATED FIBER OPTIC NETWORKS ACROSS
16 THE COUNTRY IN A BURGEONING LIST OF CITIES. THESE
17 VERY CAPABLE NETWORKS INITIALLY COMPETE DIRECTLY
18 WITH PRIVATE LINE AND SPECIAL ACCESS SERVICES
19 OFFERED BY LOCAL TELEPHONE COMPANIES. FOR EXAMPLE,
20 CUSTOMERS PURCHASE SPECIAL ACCESS FROM COMPETITIVE
21 ACCESS PROVIDERS TO CONNECT PRIVATE BRANCH EXCHANGES
22 DIRECTLY TO INTEREXCHANGE CARRIERS, AVOIDING THE
23 LOCAL TELEPHONE COMPANY. HOWEVER, THE NETWORKS
24 BEING CONSTRUCTED CAN DO FAR MORE THAN JUST PROVIDE
25 COMPETITIVE ACCESS TO LONG DISTANCE CARRIERS.

1

2 Q. PLEASE DESCRIBE THE CAPABILITIES PROVIDED BY
3 COMPETITIVE ACCESS PROVIDERS' NETWORKS.

4

5 A. AS I MENTIONED EARLIER, PRIVATE BRANCH EXCHANGES
6 PROVIDED BY EQUIPMENT VENDORS ARE COMMONLY USED BY
7 LARGE AND MEDIUM-SIZED BUSINESS CUSTOMERS. A LARGE
8 OR MEDIUM-SIZED BUSINESS (OR A LANDLORD, IN THE CASE
9 OF SHARED TENANT SERVICES) CAN PURCHASE A PRIVATE
10 BRANCH EXCHANGE, AGGREGATE TRAFFIC, AND REPLACE THE
11 USE OF THE TELEPHONE COMPANY SWITCH FOR INTERNAL
12 CALLING. THESE AGGREGATIONS OF TRAFFIC HAVE BEEN
13 ATTRACTIVE TO THE INTEREXCHANGE CARRIERS AS WELL.
14 THEY OFFER ATTRACTIVE DISCOUNTS FOR TRAFFIC THAT
15 BYPASSES THE USE OF LOCAL TELEPHONE COMPANY SWITCHED
16 ACCESS SERVICES. LARGE AND MEDIUM-SIZED CUSTOMERS
17 WITH PRIVATE BRANCH EXCHANGES THUS GENERALLY FIND IT
18 ECONOMICAL TO PURCHASE SPECIAL ACCESS CONNECTIONS
19 BETWEEN THE PRIVATE BRANCH EXCHANGE AND THEIR
20 INTEREXCHANGE CARRIERS. THESE CUSTOMERS HAVE
21 THEREBY SUBSTITUTED LOWER COST PRIVATE BRANCH
22 EXCHANGE EQUIPMENT FOR TELEPHONE COMPANY CENTREX
23 SERVICES AND LOWER COST TELEPHONE COMPANY SPECIAL
24 ACCESS SERVICE FOR TELEPHONE COMPANY SWITCHED
25 ACCESS.

1
2 THESE LARGER CUSTOMERS NOW OFTEN HAVE AN ALTERNATIVE
3 TO THE LOCAL TELEPHONE COMPANY SPECIAL ACCESS
4 SERVICE. COMPETITIVE ACCESS PROVIDERS OFFER
5 NONSWITCHED CIRCUITS THAT CONNECT A CUSTOMER'S
6 PRIVATE BRANCH EXCHANGE WITH AN INTEREXCHANGE
7 CARRIER'S NETWORK. COMPETITIVE CIRCUITS ARE OFTEN
8 PURCHASED IN ADDITION TO LOCAL TELEPHONE COMPANY
9 CIRCUITS TO SAFEGUARD AGAINST SERVICE OUTAGES
10 BECAUSE SERVICE IS PROVIDED OVER A DIFFERENT ROUTE,
11 BY A DIFFERENT PROVIDER, AND OFTEN TO A DIFFERENT
12 INTEREXCHANGE CARRIER OR TO A DIFFERENT
13 INTEREXCHANGE CARRIER NETWORK LOCATION.

14

15 Q. HOW DOES THE RECENT FCC ACTION REGARDING SPECIAL
16 ACCESS INTERCONNECTION AFFECT THE COMPETITION
17 PROVIDED BY COMPETITIVE ACCESS PROVIDERS?

18

19 A. IN 1992 THE FCC ORDERED LOCAL TELEPHONE COMPANIES,
20 SUCH AS SOUTHERN BELL, TO OFFER COLLOCATION AND
21 EXPANDED INTERCONNECTION TO SPECIAL ACCESS.² THIS
22 MEANS THAT A COMPETITIVE ACCESS PROVIDER (ALTHOUGH
23 THE FCC ORDER DOES NOT LIMIT AVAILABILITY TO
24 COMPETITIVE ACCESS PROVIDERS) WILL BE ABLE TO EXTEND
25 THE EFFECTIVE REACH OF ITS FACILITIES.

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FIGURE 1 ILLUSTRATES THIS.

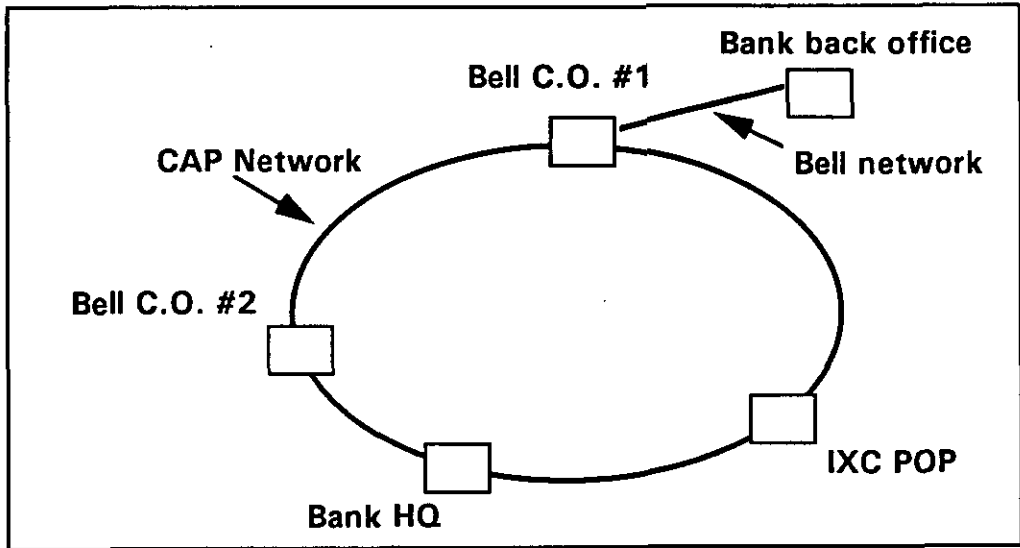


Figure 1

IN THIS EXAMPLE, A COMPETITIVE ACCESS PROVIDER HAS CONSTRUCTED A NETWORK IN AND AROUND A CENTRAL BUSINESS DISTRICT ("CAP NETWORK" IN FIGURE 1). IT MARKETS ITS SERVICES TO A BANK LOCATED IN THE CENTRAL BUSINESS DISTRICT AND CONNECTS THE BANK'S PRIVATE BRANCH EXCHANGE ("BANK HQ" IN FIGURE 1) TO VARIOUS INTEREXCHANGE CARRIERS THAT THE BANK USES ("IXC POP" IN FIGURE 1). ADDITIONALLY, THE BANK HAS AN ADMINISTRATIVE BACK OFFICE OPERATION ("BANK BACK OFFICE" IN FIGURE 1) LOCATED SOME DISTANCE FROM THE COMPETITIVE ACCESS PROVIDER'S NETWORK. BECAUSE OF THE FCC'S SPECIAL ACCESS COLLOCATION AND EXPANDED

1 INTERCONNECTION ORDER, THE BANK OR THE COMPETITIVE
2 ACCESS PROVIDER CAN PURCHASE ONE CHANNEL TERMINATION
3 (AND MILEAGE, IF NECESSARY) FROM SOUTHERN BELL
4 (USING "BELL NETWORK" IN FIGURE 1) GOING FROM THE
5 ADMINISTRATIVE BACK OFFICE LOCATION TO A SOUTHERN
6 BELL CENTRAL OFFICE LOCATED CLOSE TO THE COMPETITIVE
7 ACCESS PROVIDER NETWORK ("BELL C.O. #1" IN FIGURE
8 1), AND INSTALL INTERCONNECTION FACILITIES IN THAT
9 SOUTHERN BELL CENTRAL OFFICE. BY PURCHASING ONLY A
10 PORTION OF A SPECIAL ACCESS CIRCUIT FROM THE
11 ESTABLISHED TELEPHONE COMPANY AND PROVIDING THE REST
12 ITSELF, A COMPETITOR CAN EXTEND THE REACH OF ITS
13 NETWORK TO LOCATIONS WHERE COMPETITIVE FACILITIES
14 HAVE NOT BEEN CONSTRUCTED. IT THUS CAN MARKET ITS
15 SERVICES TO MANY MORE CUSTOMERS FOR MANY MORE USES.

16
17 THE FCC-MANDATED COLLOCATION HAS ANOTHER IMPORTANT
18 IMPLICATION AS WELL. THE COMPETITIVE ACCESS
19 PROVIDERS' NETWORKS ARE COMPOSED, IN PART, OF DS1
20 AND DS3 CIRCUITS EXTENDING FROM LOCAL TELEPHONE
21 COMPANY CENTRAL OFFICES TO INTEREXCHANGE CARRIER
22 NETWORKS. PHYSICALLY, THESE DS1 AND DS3 CONNECTIONS
23 ARE IDENTICAL TO THE LOCAL TELEPHONE COMPANY
24 FACILITIES USED TO PROVIDE SWITCHED TRANSPORT
25 SERVICE. INDEED, THE FCC HAS ALREADY ADOPTED RULES

1 TO REQUIRE THAT LOCAL TELEPHONE COMPANIES OFFER
2 COLLOCATION AND EXPANDED INTERCONNECTION TO SWITCHED
3 ACCESS SERVICES.³ THE FLORIDA COMMISSION HAS
4 ALREADY HELD A HEARING TO DECIDE WHETHER OR NOT TO
5 PROVIDE COLLOCATION FOR SPECIAL ACCESS AND ALSO HAS
6 PENDING A PROCEEDING TO DETERMINE WHETHER THE SAME
7 SHOULD APPLY FOR SWITCHED ACCESS.

8
9 COMPETITIVE ACCESS PROVIDERS ARGUE THAT THEY SHOULD
10 BE PERMITTED TO USE THE FACILITIES THEY HAVE
11 CONSTRUCTED TO THEIR FULLEST CAPABILITIES. THE FCC
12 AND OTHER REGULATORS SEEM INCLINED TO AGREE. FOR
13 EXAMPLE, THE NEW YORK PUBLIC SERVICE COMMISSION HAS
14 RECOGNIZED THAT COMPETITIVE ACCESS PROVIDER
15 FACILITIES COULD BE USED TO CONNECT TO THE LINE SIDE
16 OF TELEPHONE COMPANY SWITCHES AND REPLACE TELEPHONE
17 COMPANY "LOOPS" OR "LINKS" AS WELL AS CONNECTING TO
18 THE TRUNK SIDE AND REPLACE TELEPHONE COMPANY
19 TRANSPORT FACILITIES. IT HAS ORDERED NEW YORK
20 TELEPHONE TO UNBUNDLE "LINK" AND "PORT" ELEMENTS OF
21 CENTREX AND PBX TRUNK SERVICES. IT ORDERED NEW YORK
22 TELEPHONE TO PROVIDE COMPARABLY EFFICIENT
23 INTERCONNECTION ARRANGEMENTS FOR COMPETITIVE CENTREX
24 AND PBX TRUNK LINKS.⁴ THIS YEAR THE NEW YORK PUBLIC
25 SERVICE COMMISSION GRANTED MFS INTELENET

1 "CO-CARRIER" STATUS, REQUIRING NEW YORK TELEPHONE TO
2 TREAT MFS AS IT WOULD ANY OTHER LOCAL EXCHANGE
3 COMPANY IN TERMS OF ISSUING TELEPHONE NUMBERS AND
4 ESTABLISHING INTERCONNECTIONS.⁵ SIMILAR ACTIONS ARE
5 UNDER CONSIDERATION IN OTHER JURISDICTIONS. IT IS
6 ONLY A MATTER OF TIME BEFORE OTHER INTERCONNECTIONS
7 AND UNBUNDLING WILL BE ORDERED.

8
9 SWITCHED ACCESS IS A MUCH LARGER BUSINESS THAN
10 SPECIAL ACCESS. THE ABILITY TO COMPETE FOR SWITCHED
11 ACCESS IN ADDITION TO SPECIAL ACCESS WILL MAKE
12 INVESTMENT BY COMPETITIVE ACCESS PROVIDERS MUCH MORE
13 ATTRACTIVE. ACCORDING TO INFORMATION PROVIDED TO
14 THE FCC, COMPETITIVE ACCESS PROVIDERS HAVE ALREADY
15 INDICATED AN INTEREST IN HAVING BELLSOUTH OFFER THE
16 FCC-MANDATED COLLOCATION AND INTERCONNECTION AT 141
17 CENTRAL OFFICES, 33 OF WHICH ARE IN FLORIDA:
18 BAYMEADOWS (1), BOCA RATON (1), CHIPLEY (1), COCOA
19 (1), DAYTONA BEACH (1), FT. LAUDERDALE (4), FT.
20 PIERCE (1), GAINESVILLE (1), HEATHROW (LAKE MARY)
21 (1), HOLLYWOOD (1), JACKSONVILLE (4), LYNN HAVEN
22 (1), MELBOURNE (1), MIAMI (4), NORTH DADE (2),
23 ORLANDO (3), PENSACOLA (2), ST. AUGUSTINE (1) AND
24 WEST PALM BEACH (2).

25

1 MIXED JURISDICTIONAL USE OF SPECIAL ACCESS CIRCUITS
2 IS PERMITTED BY THE FCC. THUS, ANOTHER EFFECT OF
3 THE FCC ACTION IS THAT THE FCC-ORDERED SPECIAL
4 ACCESS INTERCONNECTIONS WILL BE ABLE TO BE USED FOR
5 INTRASTATE CALLS ALSO.

6

7 Q. CAN COMPETITIVE ACCESS PROVIDERS' NETWORKS BE USED
8 TO COMPETE IN OTHER WAYS WITH LOCAL TELEPHONE
9 COMPANIES?

10

11 A. YES. THE SAME NETWORKS THE COMPETITIVE ACCESS
12 PROVIDERS ARE OSTENSIBLY CONSTRUCTING FOR SPECIAL
13 ACCESS SERVICE CAN ALSO BE USED FOR MANY OTHER
14 PURPOSES. AS I MENTIONED EARLIER, COMPETITORS HAVE
15 REQUESTED IN SEVERAL JURISDICTIONS THAT LOCAL
16 SERVICE BE UNBUNDLED SO THAT THEIR OWN LOOPS CAN BE
17 CONNECTED TO LOCAL TELEPHONE COMPANY SWITCHES.
18 CONSIDER AN EXTENSION OF MY EARLIER EXAMPLE OF A
19 DOWNTOWN BANK. ONCE THE COMPETITIVE ACCESS
20 PROVIDER'S NETWORK EXTENDS FROM THE BANK BUILDING
21 ("BANK HQ" IN FIGURE 1) TO ONE OR MORE OF THE
22 TELEPHONE COMPANY'S CENTRAL OFFICES ("BELL C.O. #1"
23 AND "BELL C.O. #2" IN FIGURE 1), THEN THE
24 COMPETITIVE ACCESS PROVIDER WILL BE INTERESTED IN
25 USING ITS NETWORK ("CAP NETWORK" IN FIGURE 1) TO

1 REPLACE THE LINKS THAT THE TELEPHONE COMPANY
2 PROVIDES WITH ITS OWN NETWORK AS PBX TRUNKS. IN
3 MANY CASES, PBX TRUNKS ARE ESSENTIALLY DS1 PRIVATE
4 LINES BETWEEN A PBX AND THE LINE SIDE OF A TELEPHONE
5 COMPANY SWITCH. AGAIN, THE COMPETITIVE ACCESS
6 PROVIDER WILL THEN REQUEST PERMISSION TO USE, TO
7 FULL CAPABILITY, A NETWORK IT HAS BUILT ALREADY.
8 THE NEXT LOGICAL STEP, WHICH IS ALREADY BEING TAKEN
9 IN PLACES SUCH AS CHICAGO AND NEW YORK, IS FOR A
10 COMPETITIVE ACCESS PROVIDER TO INSTALL SWITCHING
11 EQUIPMENT ON ITS NETWORK.

12

13 Q. HOW IS THE CABLE TELEVISION INDUSTRY PREPARING TO
14 COMPETE WITH LOCAL TELEPHONE COMPANIES?

15

16 A. TECHNOLOGY IS AVAILABLE TO ENABLE A CABLE TELEVISION
17 COMPANY'S NETWORK TO PROVIDE VOICE GRADE TELEPHONY.
18 COAXIAL CABLE PROVIDES BROADBAND CAPABILITIES. FOR
19 EXAMPLE, A RECENT NEW YORK TIMES ARTICLE CITED
20 ESTIMATES THAT CABLE COMPANIES COULD UPGRADE THEIR
21 FIBER OPTICS AND COAXIAL CABLE NETWORKS OVER THE
22 SHORT TERM AT A COST OF \$50-300 PER CUSTOMER AND
23 PROVIDE TELEPHONY, DATA, AND CABLE TV SERVICES.⁶
24 AT&T, FIRST PACIFIC, AND SCIENTIFIC-ATLANTA ARE SOME
25 VENDORS THAT I AM FAMILIAR WITH THAT OFFER THIS

1 TECHNOLOGICAL CAPABILITY.⁷ EVEN A SMALL MUNICIPAL
2 ELECTRIC UTILITY IN GLASGOW, KENTUCKY HAS DEPLOYED
3 COAXIAL CABLE TECHNOLOGY TO PROVIDE CABLE TELEVISION
4 SERVICE (IN DIRECT COMPETITION WITH A PRIVATE CABLE
5 TELEVISION COMPANY) AND TELEPHONY.⁸

6
7 ALSO, CABLE TELEVISION COMPANIES ARE AGGRESSIVELY
8 DEPLOYING FIBER OPTIC EQUIPMENT IN THEIR NETWORKS,
9 ACKNOWLEDGING THAT A PRINCIPAL MOTIVATION FOR THIS
10 INVESTMENT IS TO COMPETE DIRECTLY WITH LOCAL
11 TELEPHONE COMPANIES. ACCORDING TO THE LATEST
12 INFORMATION I HAVE SEEN, FLORIDA IS SERVED BY 293
13 CABLE TELEVISION SYSTEMS THAT OPERATE IN 905
14 COMMUNITIES, WITH A TOTAL OF 3,292,364 SUBSCRIBERS.⁹
15 IN FLORIDA IT IS ESTIMATED THAT CABLE TELEVISION
16 SYSTEMS PASS MORE THAN 90 PERCENT OF HOUSEHOLDS.
17 THIS COMPETITIVE PRESSURE FROM CABLE COMPANIES WILL
18 NOT BE LIMITED TO LARGE METROPOLITAN AREAS WHERE
19 COMPETITIVE ACCESS PROVIDERS ARE COMPETING BUT WILL
20 AFFECT COMMUNITIES OF ALL SIZES. MY EXHIBIT CSM-2
21 LISTS THE COMMUNITIES IN FLORIDA SERVED BY SOME OF
22 THE LARGER CABLE MULTIPLE SYSTEM OPERATORS (MSOS).
23 OF THE MORE THAN 3 MILLION CABLE SUBSCRIBERS IN
24 FLORIDA, ROUGHLY ONE-THIRD ARE SERVED BY ONE OF
25 THESE LARGE MSOS, ALL OF WHOM ARE ACTIVELY INVESTING

1 TO COMPETE WITH LOCAL TELEPHONE COMPANIES.

2

3 TO COMPETE, CABLE TELEVISION OPERATORS ARE FORMING

4 ALLIANCES WITH COMPETITIVE ACCESS PROVIDERS AND WITH

5 LARGE TELEPHONE COMPANIES. FOR EXAMPLE, TCI, COX,

6 COMCAST, CONTINENTAL, AND TIME WARNER TOGETHER NOW

7 OWN TELEPORT COMMUNICATIONS, ONE OF THE TWO LARGEST

8 COMPETITIVE ACCESS PROVIDERS.¹⁰ JONES INTERCABLE

9 HAS A COMPETITIVE ACCESS PROVIDER AFFILIATE, JONES

10 LIGHTWAVE. BCE, THE PARENT OF BELL CANADA,

11 ANNOUNCED THAT IT IS PURCHASING 30 PERCENT OF JONES

12 WITH AN OPTION TO PURCHASE UP TO 75 PERCENT.¹¹ TCI

13 IS MERGING WITH BELL ATLANTIC. BELL ATLANTIC AND

14 TCI RECENTLY ANNOUNCED THEY WILL BE SPENDING \$15

15 BILLION OVER THE NEXT FIVE YEARS TO BUILD THE

16 "INFORMATION SUPERHIGHWAY."¹² ONE OF TCI'S LARGER

17 CABLE SYSTEMS IS IN MIAMI, FLORIDA. US WEST IS

18 INVESTING \$2.5 BILLION TO PURCHASE 25.5 PERCENT OF

19 TIME WARNER COMMUNICATIONS TO BUILD "FULL SERVICE

20 NETWORKS."¹³

21

22 THE FIRST LARGE SCALE "FULL SERVICE NETWORK" OF THIS

23 PARTNERSHIP IS BEING CONSTRUCTED IN ORLANDO,

24 FLORIDA. SOUTHWESTERN BELL HAS PURCHASED TWO LARGE

25 CABLE SYSTEMS IN SUBURBAN WASHINGTON, D.C.¹⁴

1 SOUTHWESTERN BELL AND COX JUST AGREED TO FORM A \$4.9
2 BILLION PARTNERSHIP TO EXPLOIT CABLE TELEVISION,
3 TELEPHONE AND INTERACTIVE MEDIA OPPORTUNITIES IN
4 EACH OTHER'S MARKETS. THEY PLAN TO ACQUIRE OTHER
5 CABLE SYSTEMS SO AS TO ENLARGE THEIR CABLE
6 SUBSCRIBER BASE FROM 1.6 MILLION TO AT LEAST 4
7 MILLION, WHICH WOULD MAKE THEM THE THIRD LARGEST
8 CABLE SYSTEM OPERATOR.¹⁵

9
10 THESE ALLIANCES WILL BE IMPORTANT SOURCES OF NEW
11 COMPETITION. AS CABLE TELEVISION COMPANIES DEPLOY
12 ADDITIONAL TECHNOLOGY AND OFFER TELEPHONY, THE
13 COMPETITIVE ACCESS PROVIDERS CAN CONNECT THESE
14 ISOLATED SYSTEMS. THUS, A CALL COULD ORIGINATE ON
15 ONE CABLE SYSTEM IN ONE PART OF A METROPOLITAN AREA,
16 BE CARRIED BY THE COMPETITIVE ACCESS PROVIDER ACROSS
17 THE AREA AND HANDED OFF TO THE LOCAL TELEPHONE
18 COMPANY AT THE TERMINATING CENTRAL OFFICE (IF THE
19 CALL WERE MADE TO A TELEPHONE COMPANY SUBSCRIBER) OR
20 TO SUBSCRIBERS OF ANOTHER CABLE, CELLULAR, OR
21 PERSONAL COMMUNICATIONS SERVICE PROVIDER. TELEPORT,
22 A COMPETITIVE ACCESS PROVIDER OWNED BY FIVE CABLE
23 PROVIDERS, ANNOUNCED THIS MONTH AT THE WESTERN CABLE
24 SHOW THAT IT IS EMBARKING ON A VENTURE TO FACILITATE
25 NEIGHBORING CABLE SYSTEMS JOINING FORCES TO COMPETE

1 AGAINST THE LOCAL TELEPHONE COMPANY. THIS WOULD
2 GIVE THE CABLE COMPANIES THE SAME SORT OF REACH
3 THROUGHOUT A CITY AND ITS SUBURBS THAT A TELEPHONE
4 COMPANY TYPICALLY HAS WHEN DEVELOPING NETWORKS FOR
5 REGIONAL BUSINESS NETWORKS.¹⁶ SEVERAL CABLE SYSTEMS
6 IN MONMOUTH AND OCEAN COUNTIES IN NEW JERSEY
7 RECENTLY ESTABLISHED A SIMILAR INTERCONNECTION.¹⁷

8
9 Q. ARE ELECTRIC UTILITIES PROVIDING COMPETITION FOR
10 SERVICES OFFERED BY LOCAL TELEPHONE COMPANIES?

11
12 A. YES. THERE IS INCREASING ACTIVITY AND INTEREST BY
13 ELECTRIC POWER UTILITIES TO BUILD BROADBAND NETWORKS
14 AND OFFER A WIDE VARIETY OF SERVICES. I HAVE
15 ALREADY MENTIONED THE NETWORK BUILT BY THE SMALL
16 MUNICIPAL UTILITY IN GLASGOW, KENTUCKY. A LARGER
17 SCALE EXAMPLE IS THE EFFORT UNDERWAY BY ENTERGY TO
18 BUILD A BROADBAND NETWORK TO ITS SUBSCRIBERS IN
19 ARKANSAS, MISSISSIPPI, AND LOUISIANA. ENTERGY FILED
20 REQUESTS IN THOSE STATES IN DECEMBER, 1992, TO BUILD
21 THIS SOPHISTICATED NETWORK. IT CLAIMS THAT THE
22 ENTIRE COST OF CONSTRUCTING THIS NETWORK WILL BE
23 PAID FOR WITH THE SAVINGS IT WILL REALIZE THROUGH
24 USING THE NETWORK TO MANAGE ITS ELECTRIC LOAD. THAT
25 IS, DEVICES WOULD BE INSTALLED ON VARIOUS HOME AND

1 BUSINESS APPLIANCES, SUCH AS AIR CONDITIONERS AND
2 WATER HEATERS, THAT WOULD CURTAIL THE USE OF THE
3 APPLIANCES SELECTIVELY FOR SHORT PERIODS TO AVOID
4 DISPATCHING ADDITIONAL GENERATING CAPACITY DURING
5 PEAK TIMES. THE NETWORK WOULD ALSO AUTOMATE METER
6 READING. OF COURSE, A BROADBAND NETWORK TO HOMES
7 AND BUSINESSES COULD ALSO PROVIDE TELEPHONY AND
8 VIDEO SERVICES IN COMPETITION WITH THE LOCAL
9 TELEPHONE COMPANY AND CABLE TELEVISION COMPANIES.

10

11 Q. HOW WILL CELLULAR TECHNOLOGIES AND PERSONAL
12 COMMUNICATIONS SERVICE COMPETE WITH LOCAL TELEPHONE
13 COMPANIES?

14

15 A. CELLULAR SERVICE IS OFFERED IN MOST AREAS NOW.
16 CELLULAR MARKET PENETRATION RATES ARE STILL
17 MODEST,¹⁸ OWING LARGELY TO LIMITED CAPACITY AND TO
18 RELATIVELY HIGH PRICES. THIS IS CHANGING QUICKLY,
19 HOWEVER. PRICES FOR PORTABLE CELLULAR PHONES ARE
20 NOW, FOR THE MOST PART, COMPARABLE TO CORDLESS PHONE
21 PRICES. USAGE PRICES ARE FALLING ALSO.

22

23 GROWTH IN SUBSCRIBERSHIP AND USAGE HAS BEEN QUITE
24 RAPID, ON THE ORDER OF 30 TO 40 PERCENT PER YEAR.
25 CELLULAR PROVIDERS ARE ADOPTING NEW DIGITAL

1 TECHNOLOGY. THIS WILL GREATLY INCREASE THE
2 AVAILABLE CAPACITY.
3
4 THE FEDERAL COMMUNICATIONS COMMISSION HAS DECIDED TO
5 ALLOCATE 160 MHZ OF SPECTRUM SO THAT PERSONAL
6 COMMUNICATIONS SERVICES CAN BE OFFERED.¹⁹ THIS IS
7 MORE THAN THREE TIMES THE AMOUNT OF SPECTRUM
8 ALLOCATED TO CELLULAR (50MHZ). CABLE TELEVISION
9 COMPANIES, LONG DISTANCE COMPANIES, AS WELL AS
10 TRADITIONAL LANDLINE TELEPHONE COMPANIES, ARE ALL
11 SEEKING TO PURCHASE LICENSES TO USE THIS SPECTRUM TO
12 OFFER DIGITAL WIRELESS SERVICES. A CABLE
13 TELEVISION COMPANY COULD USE THE FIBER OPTIC CABLES
14 IN ITS FEEDER PLANT TO CONNECT RADIO MICROCELLS
15 LOCATED THROUGHOUT THE NEIGHBORHOODS IT SERVES.
16 FROM THESE MICROCELLS IT COULD OFFER PCS TO
17 BUSINESSES AND RESIDENTIAL CUSTOMERS. THIS SERVICE
18 WOULD COMPETE DIRECTLY WITH THE LOCAL TELEPHONE
19 COMPANY'S SERVICES.
20
21 THESE DEVELOPMENTS ARE WELL KNOWN. IT IS USEFUL TO
22 CONSIDER THEM, HOWEVER, IN LIGHT OF MCI'S WITNESS
23 DR. CORNELL'S STATEMENT THAT SUCH SERVICES WILL, AT
24 MOST, SUPPLEMENT TRADITIONAL TELEPHONE SERVICE. THE
25 IMPLICATION OF THE ADDITIONAL CAPACITY FOR CELLULAR

1 AND ADDITION OF PERSONAL COMMUNICATIONS SERVICES
2 PROVIDERS WILL CREATE PRESSURE FOR PRICES TO BE
3 LOWER THAN CURRENT CELLULAR RATES. AS THIS HAPPENS,
4 MORE CUSTOMERS WILL CHOOSE THE CONVENIENCE OF MOBILE
5 SERVICE OVER THE TRADITIONAL TELEPHONE SERVICE.

6
7 Q. DR. CORNELL CLAIMS THAT "IF THE PAYMENT FOR THE
8 [PCS] LICENSES IS TOO HIGH, THE SERVICE TOO MAY BE
9 LIMITED TO BEING A SUPPLEMENTARY SERVICE..."
10 (CORNELL DIRECT AT 5.) DO YOU AGREE?

11
12 A. NOT ENTIRELY. AT ONE LEVEL, DR. CORNELL'S CLAIM
13 AMOUNTS TO A STATEMENT THAT IF PCS SPECTRUM IS
14 EXPENSIVE THEN PCS REVENUES MUST BE HIGH ENOUGH TO
15 RECOVER THAT EXPENSE. HOWEVER, WHAT IS MISSING IN
16 HER ANALYSIS IS A RECOGNITION THAT THE PCS SPECTRUM
17 LICENSES WILL BE SOLD IN AN AUCTION PROCESS. THOSE
18 BIDDERS WHO WILL PUT IT TO THE MOST PROFITABLE USES
19 WILL BE WILLING TO PAY HIGHER PRICES TO OBTAIN IT.
20 THAT DOES NOT NECESSARILY MEAN THAT THE MOST
21 PROFITABLE USE WILL BE TO MARKET PCS AT PRICES SO
22 HIGH THAT THE SERVICE IS ONLY A SUPPLEMENT TO
23 WIRELINE SERVICE. GIVEN THE ENORMOUS AMOUNT OF
24 SPECTRUM BEING LICENSED, IT SEEMS MORE LIKELY THAT
25 PCS WILL BE MARKETED MORE AS A SUBSTITUTE FOR

1 WIRELINE SERVICE THAN MERELY AS A SUPPLEMENT.

2

3 Q. HOW IS VSAT TECHNOLOGY COMPETING WITH LOCAL
4 TELEPHONE COMPANIES?

5

6 A. MANY BUSINESSES, ESPECIALLY RETAIL BUSINESSES, ARE
7 INSTALLING VERY SMALL APERTURE TERMINAL (VSAT)
8 TECHNOLOGY TO REPLACE SERVICES THEY PREVIOUSLY WOULD
9 HAVE PROCURED FROM THE LOCAL TELEPHONE COMPANY.
10 GROCERY STORES, GAS STATIONS, DISCOUNT RETAILERS,
11 AND MANY OTHER TYPES OF BUSINESSES ARE VERIFYING
12 CREDIT CARD TRANSACTIONS, TRANSMITTING SALES AND
13 INVENTORY INFORMATION, AND EXCHANGING OTHER DATA
14 WITHOUT USING THE LOCAL TELEPHONE COMPANY'S
15 FACILITIES OR SERVICES. BUSINESSES SUCH AS BARNETT
16 BANK, FIRST UNION BANK, WALGREEN'S, OFFICE DEPOT,
17 7-11, CHEVRON, FORD, CHRYSLER, K-MART, WAL-MART,
18 HOLIDAY INNS, AND DAYS INN ALL HAVE IMPLEMENTED VSAT
19 TECHNOLOGY IN FLORIDA. BECAUSE OF RECENT
20 TECHNOLOGICAL DEVELOPMENTS, VSAT TECHNOLOGY WILL
21 ALSO BE ABLE TO BE USED FOR VOICE AND COMPRESSED
22 VIDEO COMMUNICATIONS.

23

24 Q. HOW ARE TELEPHONE NUMBERING ISSUES IMPORTANT TO THE
25 DEVELOPMENT OF COMPETITION FOR SERVICES THAT LOCAL

1 EXCHANGE CARRIERS OFFER?
2
3 A. FOR A COMPETITOR NETWORK TO OFFER SWITCHED SERVICES,
4 IT MUST ESTABLISH RELATIONSHIPS WITH THE REST OF THE
5 SWITCHED SERVICES PROVIDERS, SUCH AS THE LOCAL
6 TELEPHONE COMPANIES AND THE LONG DISTANCE PROVIDERS.
7 PROMINENT ON THE LIST OF THESE ARRANGEMENTS IS THE
8 ISSUE OF ASSIGNING LOCAL TELEPHONE NUMBERS. OF
9 COURSE, A KEY FEATURE OF LOCAL SERVICE IS THE
10 TELEPHONE NUMBER. WHEN A CUSTOMER CONTACTS SOUTHERN
11 BELL AND ORDERS LOCAL SERVICE, HE OR SHE IS ASSIGNED
12 A TELEPHONE NUMBER AS A PART OF THAT SERVICE. WHEN
13 HE OR SHE DISCONNECTS LOCAL SERVICE, THE NUMBER IS
14 EVENTUALLY REASSIGNED TO ANOTHER CUSTOMER. THE
15 COMPETITORS, ESPECIALLY THE COMPETITIVE ACCESS
16 PROVIDERS, ARE ARGUING THAT TELEPHONE NUMBERS SHOULD
17 BE SEVERED FROM LOCAL SERVICE. THAT WOULD PERMIT A
18 CUSTOMER TO RETAIN A PARTICULAR TELEPHONE NUMBER BUT
19 OBTAIN DIAL TONE AND LOCAL SERVICE FROM ANOTHER
20 PROVIDER. THIS WOULD BE A SIGNIFICANT STEP FOR
21 LOCAL EXCHANGE COMPETITION. THE IDEA IS THAT LOCAL
22 NUMBERS WOULD BECOME PORTABLE, MUCH AS WAS DONE FOR
23 800 NUMBERS STARTING IN 1993. THE COSTS OF SETTING
24 UP THIS PORTABILITY NEED TO BE EXAMINED MUCH MORE
25 THOROUGHLY BEFORE THIS OPTION CAN BE PURSUED.

1
2 COMPETITORS ARE ASKING, IN THE MEANTIME, THAT THEY
3 SHOULD BE TREATED AS PEERS BY LOCAL TELEPHONE
4 COMPANIES AND BE ABLE TO OFFER TELEPHONE NUMBERS ON
5 THE SAME TERMS AND CONDITIONS AS LOCAL TELEPHONE
6 COMPANIES. THESE ACCESS AND INTERCONNECTION ISSUES
7 WILL DEMAND SUBSTANTIAL ATTENTION FROM STATE
8 REGULATORS IN THE NEXT FEW YEARS. SINCE MANY OF THE
9 ISSUES INVOLVE UNBUNDLING AND INTERCONNECTION TO
10 SERVICES THAT ARE NOW REGULATED BY STATES, IT IS
11 EASY TO CONTEMPLATE A SIGNIFICANT ROLE FOR STATE
12 REGULATORS IN RESOLVING THESE ISSUES. SOME STATES
13 ARE TAKING THE INITIATIVE TO UNDERSTAND AND DESIGN
14 SOLUTIONS IN THIS AREA. HOWEVER, IT IS EQUALLY EASY
15 TO CONTEMPLATE A SIGNIFICANT FEDERAL ROLE HERE ALSO,
16 GIVEN THE FCC'S RECENT INITIATIVES ON
17 INTERCONNECTION AND THE USE OF LOCAL LOOPS AND LOCAL
18 NUMBERS TO COMPLETE INTERSTATE CALLS.

19

20 Q. HOW MANY OF THE COMPETITIVE TRENDS THAT YOU HAVE
21 DESCRIBED ARE TAKING PLACE IN FLORIDA TODAY?

22

23 A. MR. DENTON'S DIRECT TESTIMONY DESCRIBES SOME
24 EXAMPLES OF THE DIRECT COMPETITION THAT SOUTHERN
25 BELL IS SEEING NOW. WHILE MY OWN EXPERIENCE IN

1 UNDERSTANDING COMPETITION BEGAN IN ILLINOIS AND
2 OTHER MIDWESTERN STATES, I SEE THE SAME EVENTS
3 UNFOLDING IN FLORIDA. HERE ARE TWO SIGNIFICANT
4 EXAMPLES:

5

6 O 14 COMPETITIVE ACCESS PROVIDERS HAVE
7 BEEN APPROVED BY THE COMMISSION TO
8 OFFER SERVICES IN FLORIDA AND ARE
9 OPERATING OR BUILDING NETWORKS IN
10 BOYNTON BEACH, DELRAY BEACH, FORT
11 LAUDERDALE, GAINESVILLE,
12 JACKSONVILLE, MELBOURNE, MIAMI, AND
13 ORLANDO.

14

15 O TIME WARNER ANNOUNCED THIS YEAR THAT
16 BY YEAR'S END IT WILL HAVE COMPLETED
17 CONSTRUCTION OF ITS "FULL SERVICE
18 NETWORK" SERVING THE ORLANDO AREA,
19 INCLUDING THE COMMUNITIES OF WEKIVA,
20 LAKE BRANTLEY, SWEETWATER, AND SPRING
21 VALLEY. IT WILL BE READY TO OFFER
22 SERVICES DURING THE FIRST QUARTER OF
23 1994. WITH THIS NETWORK IT IS
24 PLANNING TO OFFER A FULL RANGE OF
25 ENTERTAINMENT AND COMMUNICATIONS

1 SERVICES. TIME WARNER PLANS TO
2 ACCELERATE CAPITAL, SPENDING OVER THE
3 NEXT FIVE YEARS TO MAKE SIMILAR
4 SERVICES AVAILABLE BY 1998 TO THE 12
5 MILLION HOMES IT SERVES IN THE UNITED
6 STATES.²⁰ TIME WARNER SERVES NEARLY
7 400,000 HOMES IN FLORIDA (SEE EXHIBIT
8 CSM-2).

9
10 IN GENERAL, CABLE TELEVISION NETWORKS, CELLULAR AND
11 WIRELESS PROVIDERS, AND OTHER COMPETITORS HAVE THE
12 SAME ABILITY TO COMPETE WITH SERVICES OFFERED BY
13 LOCAL TELEPHONE COMPANIES IN FLORIDA AS THEY DO IN
14 OTHER PLACES. THE COMPETITIVE SCENARIOS I HAVE
15 OUTLINED ARE CLEARLY PRESENT IN FLORIDA.

16

17 Q. HOW SHOULD REGULATORS RESPOND TO THESE EMERGING
18 COMPETITIVE FORCES? SHOULD REGULATORS ATTEMPT TO
19 SUPPRESS COMPETITION?

20

21 A. A KEY REGULATORY QUESTION IS TO WHAT EXTENT CAN (OR
22 SHOULD) REGULATORS ATTEMPT TO ALTER THESE RAPIDLY
23 DEVELOPING COMPETITIVE FORCES. MY EXPERIENCE IS
24 THAT COMPETITIVE ENTRY IS GOING TO HAPPEN REGARDLESS
25 OF REGULATION. FOR EXAMPLE, THE LARGEST CUSTOMERS

1 ARE SEEKING AND OBTAINING COMPETITIVE ALTERNATIVES.
2 THEY EITHER BUILD A PRIVATE NETWORK, SEEK OUT THE
3 SERVICES OF A COMPETITIVE ACCESS PROVIDER, CONSTRUCT
4 A VSAT NETWORK, OR CONTRACT WITH A CABLE TELEVISION
5 NETWORK. THESE LARGE USERS DO NOT SEEK REGULATORY
6 APPROVAL TO USE THESE ALTERNATIVES. ALSO,
7 TECHNOLOGY IS ADVANCING SO RAPIDLY THAT ECONOMIC
8 ALTERNATIVES ARE QUICKLY BECOMING AVAILABLE TO MUCH
9 SMALLER CUSTOMERS. FEDERAL REGULATION HAS ENABLED
10 COMPETITIVE ALTERNATIVES BY ORDERING SPECIAL AND
11 SWITCHED ACCESS INTERCONNECTION AND EXPANDED
12 COLLOCATION. ALSO, FEDERAL ACTION HAS ENABLED
13 PERSONAL COMMUNICATIONS SERVICES TO BE A BIG
14 COMPETITIVE FORCE BY ALLOCATING 160 MHZ OF SPECTRUM.
15 A STATE COMMISSION FACING THIS HAS A DIFFICULT JOB
16 TO UNDERSTAND AND MANAGE ALL THESE DEVELOPMENTS AND
17 SEE THAT THE CUSTOMERS WITH THE FEWEST ALTERNATIVES
18 ARE PROTECTED. HOWEVER, IT WILL FIND IT
19 INCREASINGLY DIFFICULT IF IT ATTEMPTS TO LIMIT THE
20 PROLIFERATING ARRAY OF COMPETITIVE ALTERNATIVES. IN
21 THE CASE OF PERSONAL COMMUNICATIONS SERVICES, SUCH
22 STATE REGULATORY LIMITS HAVE EXPLICITLY BEEN
23 PREEMPTED BY THE CONGRESS.
24
25 Q. MCI'S WITNESS DR. CORNELL IS SKEPTICAL OF LOCAL

1 COMPETITION BECAUSE SHE SEES VARIOUS BARRIERS TO
2 ENTRY. WHAT ABOUT BARRIERS TO ENTRY?
3
4 A. TO BE SURE, THERE ARE SOME REMAINING REGULATORY
5 BARRIERS TO ENTRY. IN MY VIEW, THESE ARE THE MOST
6 SIGNIFICANT BARRIERS TO ENTRY REMAINING IN MANY
7 AREAS. FOR EXAMPLE, LOCAL COMPETITION WOULD MOVE
8 AHEAD MUCH MORE RAPIDLY IF COMPETITIVE RESTRAINTS ON
9 LOCAL EXCHANGE COMPANIES WERE LIFTED AND THE
10 NUMBERING AND INTERCONNECTION ISSUES WERE ALREADY
11 RESOLVED. HOWEVER, THESE BARRIERS ARE BY NO MEANS
12 INSURMOUNTABLE. THE MOST COMPELLING EVIDENCE OF
13 THIS IS THE INCREASING STREAM OF ENTRANTS THAT
14 SOMEHOW FIND MONEY, BUILD NETWORKS AND START
15 OFFERING SERVICES. IF IT WERE TRUE, AS DR. CORNELL
16 HAS CLAIMED, THAT A COMPETITOR MUST OFFER UBIQUITY
17 BEFORE IT CAN SELL ANY SERVICE, THEN COMPETITIVE
18 ACCESS PROVIDERS COULD NOT POSSIBLY EXIST. YET THEY
19 DO, AND SO DO OTHER COMPETITORS. IT HAPPENS THAT
20 OFFERING SERVICES THAT CONNECT LARGE USERS,
21 INTEREXCHANGE CARRIERS, AND NOW LOCAL EXCHANGE
22 CARRIER CENTRAL OFFICES IS ENOUGH TO WARRANT
23 CONSIDERABLE INVESTMENT. BY ONE SOURCE, COMPETITIVE
24 ACCESS PROVIDERS' REVENUE IS ESTIMATED TO BE GROWING
25 AT 43 PERCENT PER YEAR. COMPETITIVE NETWORKS,

1 WHETHER EFFICIENT OR INEFFICIENT, ARE DEVELOPING IN
2 SPITE OF THE EXISTENCE OF REGULATORY BARRIERS.
3 TECHNOLOGY AND GROWING DEMAND ARE REMOVING MOST OF
4 THE OTHERS. FINALLY, NONDISCRIMINATORY TARIFFING
5 REQUIREMENTS WORK TO DISTRIBUTE THE BENEFITS OF
6 COMPETITIVE ENTRY MORE BROADLY THAN TO JUST THOSE
7 CUSTOMERS WITHIN THE "REACH" OF THE COMPETITORS.

8

9 Q. WHAT THEN SHOULD REGULATORS DO TO ENSURE THAT
10 COMPETITION SERVES THE PUBLIC INTEREST?

11

12 A. REGULATORS CAN INFLUENCE WHETHER THIS INEVITABLE
13 COMPETITION WILL DEVELOP TO SERVE THE PUBLIC
14 INTEREST. REGULATORS CAN AND SHOULD TAKE POSITIVE
15 STEPS TO ENSURE THAT COMPETITION WILL SERVE THE
16 PUBLIC INTEREST. THE MAIN AREAS FOR POSITIVE
17 REGULATORY ACTION THAT CAN BE TAKEN IN THIS DOCKET
18 TO PROMOTE THE PUBLIC INTEREST IS TO ALLOW
19 REGULATORY FLEXIBILITY TO SOUTHERN BELL AND
20 RECOGNIZE THAT WITH INCREASED COMPETITION COMES
21 SIGNIFICANTLY INCREASED RISK.

22

23 Q. HOW DOES INCREASING COMPETITION AFFECT THE RISKINESS
24 OF INVESTMENTS MADE BY LOCAL TELEPHONE COMPANIES?

25

1 A. RECOGNIZING INCREASED RISK COMES FROM A REALIZATION
2 THAT "SAFE" INVESTMENTS IN TELECOMMUNICATIONS OF THE
3 SORT THAT EXISTED A FEW YEARS AGO NO LONGER EXIST.
4 THE COMMISSION NEEDS TO RECOGNIZE THAT INVESTMENTS
5 IN THE TELECOMMUNICATIONS INFRASTRUCTURE THAT ARE
6 NEEDED TO SERVE THE NEEDS OF FLORIDA'S CUSTOMERS ARE
7 NOT ATTRACTIVE UNDER TRADITIONAL REGULATION IN
8 TODAY'S ENVIRONMENT. THEREFORE, THE COMMISSION
9 SHOULD REJECT ATTEMPTS BY SOME INTERVENORS IN THIS
10 CASE TO RETURN TO TRADITIONAL RATE OF RETURN
11 REGULATION.

12
13 BY ADOPTING THE CURRENT INCENTIVE PLAN IN 1988, THE
14 COMMISSION TOOK AN IMPORTANT FIRST STEP. THE
15 COMMISSION CORRECTLY CONCLUDED THAT:

16
17 THE TELECOMMUNICATIONS INDUSTRY HAS BEEN
18 AND CONTINUES TO BE IN A STATE OF CHANGE.
19 MORE AND MORE ASPECTS OF THE RELEVANT
20 MARKETS ARE BECOMING COMPETITIVE. A LOCAL
21 EXCHANGE COMPANY, SUCH AS SOUTHERN BELL,
22 MUST ADAPT TO THE NEW COMPETITIVE WORLD IN
23 WHICH IT FIND ITSELF. THIS COMMISSION MUST
24 ALSO RECOGNIZE THESE FUNDAMENTAL CHANGES IN
25 THE INDUSTRY AND ALLOW SOUTHERN BELL TO

1 TRANSITION ITSELF FOR THESE CHANGES. WE
2 THUS BELIEVE THAT THE INCENTIVE ASPECTS OF
3 THIS PLAN WILL ASSIST IN THIS TRANSITION
4 PROCESS.²¹

5
6 THE COMMISSION HEADED IN THE RIGHT DIRECTION IN
7 1988. BECAUSE COMPETITIVE DEVELOPMENTS ARE EVEN
8 MORE ADVANCED TODAY, IT IS CRITICALLY IMPORTANT FOR
9 FLORIDA THAT THE COMMISSION CONTINUE TO ALLOW
10 SOUTHERN BELL THE INCENTIVES TO PREPARE TO FACE
11 THESE CHANGES. BY DOING SO, IT WILL HAVE TAKEN A
12 POSITIVE STEP TO ENSURE THAT FLORIDA CONTINUES TO BE
13 THE FOCUS OF IMPORTANT INFRASTRUCTURE INVESTMENT
14 THAT IS CRITICAL TO FLORIDA'S ECONOMIC GROWTH. THIS
15 INFRASTRUCTURE WILL ATTRACT ECONOMIC ACTIVITY AND
16 STRENGTHEN THE COMPETITIVENESS OF FLORIDA PRODUCERS.
17 WIDESPREAD ACCESS TO THIS INFRASTRUCTURE WILL
18 FACILITATE THE PROVISION OF EDUCATION AND HEALTH
19 CARE AND PERMIT ALL CONSUMERS AND PRODUCERS IN
20 FLORIDA TO PARTICIPATE FULLY IN THE INFORMATION AGE.
21 THE COMMISSION HAS CORRECTLY DECIDED THAT ITS
22 CURRENT INCENTIVE PLAN IS NEEDED TO SEE THAT A WIDER
23 ARRAY OF SERVICES IS AVAILABLE TO THE PUBLIC AT THE
24 LOWEST POSSIBLE COST. YET, INCREASING COMPETITION
25 MAKES THE CRUCIAL INFRASTRUCTURE INVESTMENT NEEDED

1 TO BRING THIS TO PASS SIGNIFICANTLY MORE RISKY.
2 TIGHTLY REGULATING EARNINGS, SUCH AS THAT ENVISIONED
3 BY SOME OF THE INTERVENORS, WOULD BE INAPPROPRIATE
4 AND COUNTERPRODUCTIVE. INSTEAD, INCREASED
5 FLEXIBILITY IN EARNINGS IS CALLED FOR BECAUSE OF
6 INCREASING COMPETITION. ONE REASON THIS IS SO IS
7 THAT THIS COMPETITION DOES NOT PERMIT A GUARANTEED
8 RETURN OF AND RETURN ON INVESTMENTS MADE. GIVEN
9 THAT, ANOTHER REASON INCREASED EARNINGS FLEXIBILITY
10 IS NEEDED IS THAT TIGHTLY LIMITED EARNINGS ON RISKY
11 INVESTMENTS REDUCES THE INCENTIVE TO MAKE THE
12 INVESTMENTS. FLEXIBILITY IN EARNINGS CREATES AN
13 ENVIRONMENT WHERE THE RESOURCES TO MAKE THESE
14 CRITICAL, BUT RISKY, INFRASTRUCTURE INVESTMENTS CAN
15 BE MARSHALLED BECAUSE OF THE POTENTIAL TO EARN WELL
16 IF THE INVESTMENTS PROVE SUCCESSFUL. THE
17 COMMISSION COULD EXPRESS SUPPORT FOR THE
18 INFRASTRUCTURE INVESTMENTS. THAT WOULD BE HELPFUL,
19 BUT REGULATORY ENCOURAGEMENT ALONE DOES NOT
20 GUARANTEE THAT SUCCESS. THAT SUCCESS DEPENDS ON THE
21 INCENTIVES AVAILABLE FROM THE REGULATORY PLAN AND ON
22 SOUTHERN BELL'S EFFORTS TO CAPITALIZE ON THESE
23 INCENTIVES.

24

25 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

1

2 A. YES.

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End Notes

¹Florida Stat. Section 364.036(1).

²Federal Communications Commission, In the matter of Expanded Interconnection with Local Telephone Company facilities, CC Docket No. 91-141, In the matter of Amendment of Part 69 Allocation of General Support Facility Costs, CC Docket No. 92-222, Report and Order and Notice of Proposed Rulemaking (adopted September 17, 1992, released October 19, 1992).

³Federal Communications Commission, In the matter of Expanded Interconnection with Local Telephone Company Facilities, CC Docket No. 91-141 Transport Phases I & II, In the matter of Amendment of Part 36 of the Commission's Rules and Establishment of a Joint Board, Second Report and Order and Third Notice of Proposed Rulemaking (adopted August 3, 1993, released September 2, 1993).

⁴New York Public Service Commission, Case 88-C-004, Proceeding on Motion of the Commission to Review Telecommunications Industry Interconnection Arrangements, Open Network Architecture, and Comparably Efficient Interconnection, Case 88-C-063, Proceeding on Motion of the Commission to Review Intellipath II Digital Centrex Service Pricing and Rate Design, Case 91-C-1174, Proceeding on Motion of the Commission Regarding Comparably Efficient Interconnection Arrangements for Residential and Business Links, Opinion and Order Concerning Comparably Efficient Interconnection Arrangements, and Instituting Proceedings, November 25, 1991.

⁵PR Newswire (October 12, 1993).

⁶Edmund L. Andrews, "A Baby Bell Primed for the Big Fight," New York Times (February 21, 1993), Section 3, pp. 1, 6.

⁷AT&T is, of course, a well known vendor. Several years ago First Pacific was a subsidiary of Southwestern Bell Corporation, until reinterpretations of the MFJ forced it to be divested. It then focused its efforts on developing its technology to enable coaxial cable networks to offer telephony. Of late, its ownership has begun to change again as large electric utilities, including Southern Company and Entergy Corporation, have begun taking equity positions in return for use of First Pacific's technology. Scientific-Atlanta's entry is the most recent. This fall, it announced the introduction of its CoAccess system to provide switched telephone, video, data, and interactive TV over broadband cable TV networks.

⁸Bob Deitel, "Cable City," Louisville Courier-Journal (March 16, 1992).

End Notes, continued

⁹Television and Cable Factbook: Cable Systems 1993 (Washington, D.C., Warren Publishing, Inc., 1993), D-242.

¹⁰Communications Daily (December 2, 1993), 1.

¹¹Communications Daily (December 6, 1993), 1.

¹²Telecommunications Reports (November 1, 1992), 1.

¹³Telecommunications Reports (May 24, 1993), 3.

¹⁴Telecommunications Reports (February 15, 1993), 9.

¹⁵Wall Street Journal (December 8, 1993), A3.

¹⁶Associated Press (December 2, 1993).

¹⁷Business Wire (October 5, 1993).

¹⁸Cellular now serves 13 million subscribers. That appears small but not insignificant when compared to the 130 million or so telephone access liners in this country.

¹⁹Federal Communications Commission, In the matter of Amendment of the Commission's Rules to Establish New Personal Communications Services, GEN Docket No. 90-314, RM-7140. RM-7175, RM-7618, Second Report and Order (adopted September 23, 1993, released October 22, 1993).

²⁰Dow Jones News Retrieval (June 30, 1993).

²¹Florida Public Service Commission, In re: Petitions of Southern Bell Telephone and Telegraph Company for Rate Stabilization and Implementation Orders and Other Relief, Docket No. 880069-TL, In re: Petition of the Citizens of the State of Florida for a Limited Proceeding to Reduce Southern Bell Telephone and Telegraph Company's Authorized Return on Equity, Docket No. 870832-TL, Order No. 20162 (issued October 13, 1988).

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Received a B.A. in economics from Brigham Young University, an A.M. in economics from the University of Chicago, and is a Ph.D. candidate in economics from Washington University in St. Louis.

Prior to joining SPR, Mr. Monson was Director of Telecommunications Policy at the Illinois Commerce Commission in Chicago. In earlier employment, Mr. Monson was an economist with Southwestern Bell Telephone Co. in St. Louis, Missouri and was an executive assistant to the commissioners with the Illinois Commerce Commission in Chicago. He has also taught courses in economics at Southern Illinois University at Edwardsville.

Mr. Monson has testified before state public utility commissions. He has researched and published his economic and policy recommendations for many telecommunications issues. Over the last few years he has worked actively on local exchange telecommunications issues. He co-authored a proposal to establish a "telecommunications free trade zone" for downtown Chicago, allowing competitors to offer a full array of services and allowing Illinois Bell the flexibility to respond to the competition.

EDUCATION

WASHINGTON UNIVERSITY
Ph.D. candidate, Economics, Industrial Organization, Public Finance

UNIVERSITY OF CHICAGO
A.M., Economics, 1985

BRIGHAM YOUNG UNIVERSITY
B.A., Economics, *cum laude*, 1981

EMPLOYMENT

- 1992- STRATEGIC POLICY RESEARCH, INC.--Bethesda, Maryland
Principal. Telecommunications and public policy consulting services for a variety of clients in the telecommunications industry.
- 1992 NATIONAL ECONOMIC RESEARCH ASSOCIATES, INC. (NERA)--
Washington, D.C.
Senior Consultant. Telecommunications and public policy consulting services.
- 1990-1992 ILLINOIS COMMERCE COMMISSION--Chicago and Springfield, Illinois
Director of Telecommunications Policy. Responsible for the development of telecommunications regulatory policy for the utility regulatory agency in Illinois.
- 1986-1990 SOUTHWESTERN BELL TELEPHONE COMPANY--St. Louis, Missouri
Economist. Responsible for the economist analysis of telecommunications policy issues.
- 1988-1990 SOUTHERN ILLINOIS UNIVERSITY--Edwardsville, Illinois
Adjunct Faculty, Economics Department. Responsible for teaching courses in principles of microeconomics and macroeconomics.
- 1984-1986 ILLINOIS COMMERCE COMMISSION--Chicago, Illinois
Technical Advisor and Executive Assistant to Commissioners. Responsible for the economic analysis of public utility regulation issues. Assisted the commissioners in understanding and deciding cases and in analyzing policy questions.
- 1985 ILLINOIS INDUSTRIAL COMMISSION--Chicago, Illinois
Management Consultant. Responsible for analysis of the commission's processing of appeals of workers' compensation cases.

- 1981-1984 ILLINOIS INDUSTRIAL COMMISSION--Chicago, Illinois
Assistant to the Chairman. Responsible for assistance in deciding appeals of workers' compensation cases.
- 1983-1984 UNION ASSOCIATES--Brooklyn, New York
Consultant. Responsible for econometric and statistical analysis for testimony before the New York Public Service Commission regarding the cost of Long Island Lighting Company's Shoreham nuclear power plant.
- 1977-1979 THE CHURCH OF JESUS CHRIST OF LATTER-DAY SAINTS
Missionary, Spain Seville Mission.

RESEARCH, PUBLICATIONS AND PRESENTATIONS

With Harry M. Shooshan III. Petition for Reconsideration. Prepared for Chickasaw Telephone Co., Cincinnati Bell Telephone Co., Illinois Consolidated Telephone Company, Millington Telephone Co., and Roseville Telephone Co., In the Matter of Amendment of the Commission's Rules to Establish New Personal Communications Services, GEN Docket No. 90-314, RM-7140, RM-7175, RM-7618. December 8, 1993.

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With Terrence Barnich and Craig Clausen. *Telecommunications Free Trade Zones: Crafting a Model for Local Exchange Competition* (Springfield, Illinois: Illinois Commerce Commission, 1992). Subject paper of Annenberg Washington Program symposium held at Northwestern University on March 30, 1992.

“Competitive Switched Access and Local Interconnection,” lecture presented at the Advanced Regulatory Workshop sponsored by Michigan State University and the National Association of Regulatory Utility Commissioners (1992).

“State and Local Regulation of Telecommunications,” 12th National Legislative Conference on Small Business Issues, U.S. Small Business Administration (1991).

“Local Exchange Interconnection: A State Regulator’s View,” University of Kansas, 1991 Stakeholders Symposium on Telecommunications (1991).

Expert testimony on behalf of the Staff of the Illinois Commerce Commission, Docket No. 88-0412 [In the matter of Independent Coin Payphone Association and Total Communication Services, Inc. v. Illinois Bell Telephone Company, complaint to reclassify Illinois Bell Telephone Company pay telephone service in Illinois market service area 1 (MSA 1)] (1991).

Expert testimony on behalf of the Staff of the Illinois Commerce Commission, Docket Nos. 90-0465 and 90-0466 (In the matter of Central Telephone Company of Illinois, Proposed establishment of Custom Calling II Service referred to as Caller Identification Service; In the matter of Illinois Bell Telephone Company, Proposed establishment of Custom Calling Service referred to as Caller ID) (1991).

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December 8, 1993

Florida Cable Subscribers Served by Major MSOs

<u>MSO</u>	<u>Community</u> (1)	<u>Number of</u> <u>Subscribers</u> (2)	<u>Date</u> (3)
Comcast Corporation	Boca Raton	14,386	12/01/90
	Jupiter	3,290	12/01/90
	Marianna	1,814	12/01/90
	Panama City	24,657	12/01/90
	Perry	3,699	12/01/90
	Quincy	2,442	12/01/90
	Tallahassee	49,241	12/01/90
	West Palm Beach	70,000	01/01/92

Total		169,529	
Cox Cable Communications	Gainesville	44,966	11/01/91
	Ocala	27,089	5/01/92
	Pensacola	70,934	06/20/92

Total		142,989	
Jones Intercable Inc.	Broward County	43,500	08/27/91
	Fort Myers	34,238	12/01/91
	Tampa	56,000	02/01/92

Total		133,738	
Tele-Communications Inc. (TCI)	Barefoot Bay	3,093	07/09/92
	Cantonment	3,285	07/09/92
	Century	1,489	07/09/92
	Daytona Beach	40,218	07/09/92
	Dunedin	16,328	07/09/92
	Fort Pierce	22,032	07/09/92
	Islamorada	4,258	07/09/92
	Key Colony Beach	5,299	07/09/92
	Key Largo	4,473	07/09/92
	Key West	13,134	07/09/92
	Little Torch Key	3,561	07/09/92
	Miami	40,668	07/09/92
	Port Richey	50,951	07/09/92
	Tarpon Springs	4,852	07/09/92
	Titusville	13,115	07/09/92
Vero Beach	26,172	07/09/92	

Total		252,928	

Florida Cable Subscribers Served by Major MSOs

<u>MSO</u>	<u>Community</u> (1)	<u>Number of</u> <u>Subscribers</u> (2)	<u>Date</u> (3)
Time Warner Cable	Bowling Green	287	01/01/91
	Bunnell	1,808	01/01/87
	Cedar Key	406	01/01/87
	Citrus County	21,600	01/01/90
	Cocoa Beach	12,858	01/01/90
	Crestview	5,969	12/01/91
	Fort Walton Beach [1]	38,490	12/01/91
	Freeport	477	12/01/91
	Grand Island	478	01/01/90
	Hernando County	22,170	01/01/90
	Isla Del Sol	3,828	01/01/91
	Lake City/Columbia County	8,321	12/01/91
	Lakeland	21,000	02/12/91
	Marion Oaks	4,574	12/01/89
	Melbourne	NA	-
	Niceville	8,557	12/01/91
	Orlando	178,856	01/01/90
	Ormond Beach	17,957	01/01/90
	Polk County (eastern Portion)	2,254	01/01/91
	St. Petersburg (portion)	NA	-
Sumter County	4,942	01/01/90	
Wildwood	717	01/01/91	
Winter Haven	27,041	01/01/91	

Total		382,590	
Grand Total		1,081,774	

NA not available
 - not applicable

[1] Cox Cable Communications is also an MSO serving Fort Walton Beach.

Source: Jerrold Communications, Television & Cable Factbook, Vol. No. 61, 1993.