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1   BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

2   DIRECT TESTIMONY

3   OF

4   JOHN D. QUACKENBUSH

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5

6   Q.   Please state your name and business address.

7   A.   My name is John D. Quackenbush. I am currently employed

8   as the Manager, Capital Markets in the Treasury

9   Department of Sprint Corporation. My business address is

10   2330 Shawnee Mission Parkway, Westwood, Kansas 66205.

11

12   Q.   Please state your work experience, educational

13   background, and professional qualifications.

14

15   A.   I began employment with Sprint Corporation (formerly

16   named United Telecommunications, Inc.) in the Local

17   Telecommunications Division in May 1986. In February

18   1995, I began my present duties in the Treasury

19   Department. My present duties include raising capital in

20   the public and private markets, liability management,

21   debt payment and paying agent functions, indenture

22   compliance, debt refinancing analysis, debt rating agency

23   relationships, and the preparation of cost of capital

24   studies and testimony presented on behalf of Sprint local

25   exchange companies. Additionally, I currently serve as

1   the Treasurer of SprintPAC, the political action

2   committee that provides Sprint employees a forum to

3   support candidates for the U.S. Congress.

4   I have previously testified concerning cost of capital on

5   behalf of Sprint local exchange companies before the

6   South Carolina Public Service Commission, the Kansas

7   Corporation Commission, the Tennessee Public Service

8   Commission, the New Jersey Board of Public Utilities, the

9   Oregon Public Utility Commission, the Missouri Public

10   Service Commission, the Nevada Public Service Commission.

11

12   I was employed by the Illinois Commerce Commission from

13   January 1982 through May 1986. During my commission

14   employment, I held the titles of Financial Analyst,

15   Senior Financial Analyst, Chief Financial Analyst, and

16   Supervisor of the Rate of Return Section.

17

18   I testified before the Illinois Commerce Commission in

19   approximately thirty proceedings on topics including cost

20   of capital, rate of return, capital structure, interim

21   rate relief, phase-in plans, in-service criteria for

22   electric generating units, diversification, holding

23   company formation, mergers, and affiliated interest

24   transactions. I also served as Governor James R.

25   Thompson's representative on the National Governors

1   Association Task Force on Nuclear Power Plant Financing.

2

3   I received the designation of Chartered Financial Analyst

4   (CFA) in September 1993. Investment professionals earn

5   the right to use the CFA designation by passing a series

6   of three comprehensive, rigorous examinations over a

7   minimum of three years. The CFA examination process

8   challenges participants to remain current with today's

9   rapidly changing investment environment. The CFA Body of

10   Knowledge includes ethical and professional standards,

11   investment tools, valuation, and portfolio management.

12

13   In December 1981, I received a Master of Business

14   Administration degree with a concentration in Finance

15   from Michigan State University. In May 1980, I graduated

16   from Calvin College in Grand Rapids, Michigan with a

17   Bachelor of Arts degree in Business Economics.

18

19   I am a member of the Association for Investment

20   Management and Research, the National Society of Rate of

21   Return Analysts, the Financial Management Association,

22   the Eastern Finance Association, the Southern Finance

23   Association, the Southwestern Finance Association, the

24   Midwest Finance Association, and the Kansas City Society

25   of Financial Analysts.

1   Q.   What is the purpose of your testimony?

2

3   A.   I quantify the weighted average cost of capital for

4   Sprint - Florida, Incorporated (Sprint - Florida). My

5   analysis demonstrates the appropriateness of Company

6   witness Dickerson's use of the FCC authorized rate of

7   return of 11.25% in determining the annual charge factor,

8   which is used in the forward-looking cost studies for

9   unbundled network elements in this proceeding.   My

10   testimony also provides the Commission with a basis for

11   using an adequate cost of capital for Sprint - Florida if

12   the Commission chooses not to use the FCC authorized rate

13   of return of 11.25% as recommended by the Company.

14

15   Q.   What is your recommendation concerning the cost of

16   capital for Sprint - Florida?

17

18   A.   I recommend primary reliance on the weighted market value

19   cost of capital that is consistent with Section 252(d)(1)

20   of the Telecommunications Act of 1996, which states that

21   rates for interconnection and access to unbundled

22   elements "may include a reasonable profit." The weighted

23   average cost of capital for Sprint - Florida is 12.42%

24   based on the market value capital structure shown on

25   Exhibit Q-14. The weighted average cost of capital for

1   Sprint - Florida is 10.80% based the book value capital

2   structure shown on Exhibit Q-13. The FCC authorized rate

3   of return of 11.25% approximates Sprint - Florida's

4   weighted book value cost of capital and is conservative

5   when viewed in light of the appropriate weighted market

6   value cost of capital. I therefore conclude that the FCC

7   authorized rate of return of 11.25% used to develop the

8   annual charge factor reasonable based on current capital

9   market conditions.

10

11   **II. BASIC FINANCIAL CONCEPTS**

12

13   Q.   What financial concepts do you rely on in developing your

14   cost of capital recommendation?

15

16   A.   My recommendation is based on fundamental financial

17   concepts that demonstrate that the appropriate cost of

18   capital for a local exchange company is the weighted

19   average cost rate of investor-supplied capital. If the

20   cost of capital in a forward-looking cost study is set

21   equal to the company's weighted average cost of capital,

22   investors will be afforded an opportunity to earn the

23   minimum return that they require. The weighted average

24   cost of capital is the sum of the costs of the components

25   of   investor-supplied   capital,   weighted   by   each

1   component's relative proportion. The investor-supplied

2   capital structure components include debt and equity.

3

4   Investors supply capital with the expectation of

5   receiving a return on their investment. Investors

6   require a return on a potential investment based on the

7   risk of that investment in relation to the risk of other

8   potential investments. Investors make and continue only

9   those investments that are expected to provide returns

10   that meet or exceed their required returns. In order to

11   attract capital, a firm must provide investors with a

12   return equal to or exceeding their required return. If

13   a local exchange company makes investments that are not

14   expected to achieve at least its cost of capital,

15   investors will be unwilling to provide capital and will

16   look elsewhere for alternative investments.

17

18 Q.   Are these financial concepts consistent with the FCC

19   interconnection order?

20

21 A.   Yes, the FCC interconnection order (First Report and

22   Order in CC Docket Nos. 96-98 and 96-195 released August

23   8, 1996) is consistent with these financial concepts.

24   The FCC interconnection order states:

25   The concept of normal profit is embodied in

6

1   forward-looking costs because the forward-

2   looking cost of capital, i.e. the cost of

3   obtaining debt and equity financing, is one of

4   the forward-looking costs of providing the

5   network elements. This forward-looking cost

6   is equal to a normal profit. (Paragraph 700).

7

8   Q.   How do the cost rates and ratios of the capital structure

9   components in a forward-looking cost study differ from

10   the cost rates and ratios typically developed in the past

11   for conventional cost of service ratemaking?

12

13   A.   Not surprisingly, forward-looking cost rates and ratios

14   are required in developing a forward-looking cost of

15   capital. The cost of common equity is conceptually

16   similar because conventional ratemaking has generally

17   focused on the forward-looking cost of common equity.

18   The primary conceptual differences are in the cost of

19   debt and the capital structure ratios. The forward-

20   looking cost of debt is conceptually different from the

21   embedded cost of debt typically developed in the past for

22   conventional cost of service ratemaking. The forward-

23   looking debt cost rate is the rate at which new debt can

24   be issued under prevailing market conditions, whereas the

25   embedded cost of debt is the rate at which existing debt

1   was issued under past market conditions. Likewise,

2   forward-looking capital structure ratios are based on

3   market values, not the book values used in the past for

4   conventional cost of service ratemaking.

5

6   Q.   What practical challenge arises in attempting to apply

7   these financial concepts?

8

9   A.   The principal practical challenge lies in determining the

10   cost of common equity. The market value capital

11   structure component amounts and ratios are readily

12   obtainable from the local exchange company's books and

13   records and current market prices. The market cost of

14   debt is readily observable from the financial

15   marketplace. On the other hand, the cost of common

16   equity is not easily measurable or directly observable.

17   The determination of the cost of common equity requires

18   the implementation of financial models and reasoned

19   judgment to estimate investors' required return on common

20   equity as well as an appropriate issuance cost increment.

21

22   **III. CAPITAL STRUCTURE**

23

24   Q.   What capital structures do you use in determining the

25   cost of capital for Sprint - Florida in this proceeding?

1   A.   I use both the Sprint - Florida market value capital

2   structure shown on Exhibit Q-2 and the Sprint - Florida

3   book value capital structure shown on Exhibit Q-1. These

4   company-specific capital structures are determined as of

5   December 31, 1997, are the most recent capital structure

6   data available, and are representative of the market and

7   book value ratios that I expect to exist in near-term

8   future periods when the interconnection rates of Sprint -

9   Florida will be in effect. I place primary reliance on

10   the market value capital structure approach, which

11   incorporates capital structure weights based on the value

12   of debt and equity in the financial marketplace, rather

13   than the accounting values of debt and equity that appear

14   on the balance sheet.

15

16   Q.   Why do you place primary reliance on the market value

17   capital structure in this proceeding?

18

19   A.   The use of market value weights in determining the cost

20   of capital in this proceeding is justified on conceptual

21   and practical grounds.   The market value capital

22   structure approach is conceptually appropriate and

23   consistent with establishing a forward-looking cost of

24   capital. The FCC interconnection order (First Report and

25   Order in CC Docket Nos. 96-98 and 96-195 released August

1   8, 1996) states:

2

3   [T]he forward-looking costs of capital (debt

4   and equity) needed to support investments

5   required to produce a given element shall be

6   included in the forward-looking direct cost of

7   that element. (Paragraph 691).

8

9   A forward-looking cost study that uses forward-looking

10   competitive market assumptions in the expense and

11   investment components also requires forward-looking

12   competitive market assumptions in the cost of capital

13   component. The use of accounting-based book values is

14   less consistent with the goals of a forward-looking cost

15   study.

16

17   Basic, intermediate, and advanced finance textbooks

18   address the cost of capital issue by defining capital

19   structure weights as market value weights. These same

20   textbooks address capital structure challenges from a

21   market value perspective. Academic theories of optimal

22   capital structure apply to market value, rather than book

23   value, capital structures. The fundamental financial

24   concepts of using the cost of capital in decision making

25   and capital budgeting to maximize shareholder value and

1   invest only in projects that provide returns equal to or

2   in excess of the cost of capital, are predicated on using

3   market value capital structure weights. Dr. Michael C.

4   Ehrhardt, on page 75 of The Search for Value: Measuring

5   the Company's Cost of Capital (Boston, Massachusetts:

6   Harvard School Business Press, 1994), states "using book

7   values instead of market values can lead to substantial

8   errors in estimating the weights."

9

10   Market values are dynamically determined in the financial

11   marketplace by investors, while book values are

12   determined by historical accounting practices. One-time

13   accounting events that do not change market values can

14   significantly alter book values. Examples of one-time

15   accounting events include restructuring charges, the

16   adoption of SFAS 106 for Other Post-Employment Benefits,

17   and the discontinuance of regulatory accounting under

18   SFAS 71. Additionally, the point in time at which a

19   company issued common stock in the past does not impact

20   forward-looking market values, but may significantly

21   impact backward-looking book values. Over time, market

22   values vary from book values as stock prices change. If

23   a new event or announcement significantly enhances or

24   detracts from shareholder value, that change is

25   immediately translated into a market value change, while

1   there is likely to be no immediate change in book value.

2   Practically, differences between market and book values

3   are typical rather than the exception.

4

5   Competitive firms in competitive industries rely on

6   market value weights, as finance textbooks widely

7   demonstrate to be appropriate. Conventional cost of

8   service ratemaking was one past forum in which book value

9   weights were widely accepted. One goal under

10   conventional ratemaking was to identify the book value

11   capital on the balance sheet that supported the book

12   value rate base. However, the goal of a forward-looking

13   cost study is vastly different, as indicated by the FCC

14   interconnection order. It would be inappropriate to use

15   book value weights exclusively in this proceeding simply

16   because they were used exclusively under conventional

17   ratemaking.

18

19   Q.   How did you determine the market value capital structure

20   ratios for Sprint - Florida?

21

22   A.   I began with the Sprint - Florida book value capital

23   structure shown on Exhibit Q-1. Secondly, I adjusted the

24   book value of debt to market value based on market prices

25   as of December 31, 1997 available from Bloomberg

1   Financial Services as shown on Exhibit Q-3. Thirdly, I

2   adjusted the book value of common equity to market value

3   based on market-to-book ratios of a comparable group of

4   telecommunications firms as shown on Exhibit Q-4. The

5   identification of these comparable firms is detailed in

6   the Market-Traded Group section of my testimony.

7   Finally, I used these capital structure amounts to

8   compute the market value capital structure ratios shown

9   on Exhibit Q-2. As a check, Sprint - Florida's estimated

10   total market value of $4.7 billion is reasonable when

11   viewed on a per access line basis. The estimated market

12   value of Sprint - Florida implies a market value per

13   access line of approximately $2,400, within the $1,200 to

14   $4,100 per access line range paid in recent market

15   acquisitions.

16

17   Q.   Is Sprint - Florida's common equity ratio appropriate for

18   a local exchange company?

19

20   A.   Yes, it is, on both a book and market value basis. A

21   local exchange company must be permitted wide latitude in

22   managing to appropriate capital structure ratios. Since

23   there is no practical methodology available to pinpoint

24   theoretically optimal capital structure ratios, targeted

25   ratios can only be broadly conceptualized. Appropriate

1   ratios may shift over time as capital market conditions

2   or business risk characteristics change. Additionally,

3   the timing of upcoming issuances and maturities may also

4   influence the capital structure ratios because both the

5   size and frequency of issuances are affected by the

6   relative cost-effectiveness of various issuance

7   increments. Given these practical considerations,

8   capital structure ratios cannot be deemed to be

9   inappropriate unless the ratios greatly diverge from

10   sound industry practice and cause a lack of financial

11   flexibility that may lead to higher overall capital

12   costs. The Sprint - Florida market value common equity

13   ratio of 85.21% shown on Exhibit Q-2 is consistent with

14   comparable telecommunications companies. The market value

15   of equity of most market-traded telecommunications

16   companies is significantly above the book value of

17   equity, while the market value of debt more closely

18   approximates book value of debt. The Sprint - Florida

19   book value common equity ratio of 59.58% shown on Exhibit

20   Q-1 does not diverge from sound industry practice by any

21   standard of comparison and maintains an adequate degree

22   of financial flexibility.

23

24   Q.   What standards of comparison indicate that Sprint -

25   Florida's book value common equity ratio is appropriate

1   for a local exchange company?

3 A. Industry common equity ratios for local exchange
4   companies, the U.S. District Court AT&T divestiture
5   order, and Standard & Poor's debt rating financial ratio
6   guidelines all indicate that the Sprint - Florida common
7   equity ratio is appropriate for a local exchange company.

9 Q. Please discuss the industry book value common equity
10   ratios for local exchange companies.

12 A. Industry capital structures for local exchange companies
13   are appropriate for industry comparisons because they
14   reflect the business and financial risk profile of local
15   exchange companies. The composite common equity ratio
16   for all reporting local exchange companies increased from
17   54.3% in 1985 to 58.6% in 1996 according to data from
18   United States Telephone Association (USTA) reports, as
19   shown on Exhibit Q-5. The composite common equity ratio
20   specifically for independent local exchange companies
21   increased from 53.7% in 1987 to 62.8% in 1996.

23 Q. Please discuss the capital structure significance of the
24   U.S. District Court AT&T divestiture order.

1   A.   In the August 24, 1982 Modification of Final Judgment in

2   the <u>United States v. American Telephone & Tel. Co.</u> 552 F.

3   Supp. 131 (D.D.C. 1982) antitrust case, Judge Harold

4   Greene ordered AT&T to divest the Bell regional companies

5   with 55% equity ratios, except for Pacific Telesis with

6   a 50% ratio. This mandate provides an indication of the

7   book value equity ratio deemed appropriate at that time

8   by the U.S. District Court for the Bell regional

9   companies. Due to increasing business risk, the

10   currently appropriate equity ratios would be higher than

11   those appropriate at divestiture.

12

13   Q.   Please discuss the Standard & Poor's debt rating

14   financial ratio guidelines.

15

16   A.   Moody's, Standard & Poor's, Duff & Phelps, and Fitch are

17   organizations that rate telecommunications debt. Sprint

18   – Florida is rated by three organizations: Moody's (A1),

19   Standard & Poor's (A+), and Duff & Phelps (AA-). Only

20   Standard & Poor's (S&P) publishes financial ratio

21   guidelines used in establishing telecommunications debt

22   ratings. These guidelines are not intended to provide an

23   absolute determination of the rating assigned to a debt

24   issue, since they are only one part of the S&P debt

25   rating process. The debt rating process must necessarily

1   incorporate a degree of subjective judgment. Moreover,

2   strength in one financial ratio may be offset by weakness

3   in another. However, the financial ratio guidelines

4   provide an indication of appropriate ranges for relative

5   risk measures as viewed by S&P. One S&P financial ratio

6   guideline is the total debt to total capitalization

7   ratio, or debt ratio.

8

9   In the debt rating process, S&P assesses the business

10 risk inherent in the telecommunications industry and

11 establishes a set of debt ratio guidelines that are shown

12 on Exhibit Q-6. Business risk is the risk associated

13 with the variability of operating income due to the

14 fundamental nature of the firm's business, including

15 sales volatility and operating expense uncertainty. In

16 contrast, financial risk is the risk associated with the

17 variability of earnings available to common stockholders

18 due to the introduction of capital components other than

19 common equity, such as debt and preferred stock, into the

20 capital structure. The debt ratio is a measure of

21 financial risk.

22

23 The debt ratio guidelines shown on Exhibit Q-6 provide a

24 general indication of the S&P bond rating associated with

25 certain debt ratios. Obviously, a higher bond rating

1   corresponds to a higher degree of financial flexibility
2   and a lower bond rating corresponds to a lower degree of
3   financial flexibility. In the AA debt rating category,
4   the telecommunications debt ratio guideline shown on
5   Exhibit Q-6 is "under 42%." This debt ratio guideline
6   implies an equity ratio of over 58%. In other words,
7   telecommunications companies with average cash flow and
8   interest coverage measures would require equity ratios
9   above 58%, in order to be consistent with an AA debt
10   rating. For telecommunications companies that exhibit
11   weakness in other risk measures, an even higher equity
12   ratio threshold would be required in order to maintain an
13   AA debt rating.

14

15   In the A debt rating category, the telecommunications
16   debt ratio guideline shown on Exhibit Q-6 is "40% to
17   52%." This debt ratio guideline implies an equity ratio
18   of 48% to 60%. Thus, telecommunications companies that
19   exhibit average cash flow and interest coverage measures
20   would require equity ratios in the range of 48% to 60% in
21   order to be consistent with an A debt rating.   For
22   telecommunications companies that exhibit weakness in
23   other risk measures, an equity ratio at or near the 60%
24   high end of the range would be required in order to
25   maintain an A debt rating.

18

1   Q.   What changes in business risk characteristics have

2   occurred and are occurring in the telecommunications

3   industry?

4

5   A.   Competition and technological change dominate the current

6   telecommunications environment. Competitive threats are

7   emerging and anticipated to continue to emerge.

8

9   Historically, the telecommunications industry was

10   operated as a regulated monopoly. The absence of

11   competition and slow technological change produced a long

12   period of relatively low business risk in the post-World

13   War II era. The industry's financial profile reflected

14   these relatively low business risk conditions through the

15   use of a relatively high degree of financial risk. The

16   industry relied on debt financing to a greater extent

17   than non-utility industries. However, the environment

18   that historically characterized the telecommunications

19   industry has changed and will continue to change rapidly.

20

21   In the 1980s, the Modification of Final Judgment

22   fundamentally restructured the predominant company and

23   altered the environment of the industry by requiring AT&T

24   to divest itself of the Bell operating companies. This

25   restructuring, as well as technological advances,

1   accommodated both increasing competition and

2   deregulation.

3

4   More recently, competitive local exchange carriers

5   (CLECS), cable television companies, Personal

6   Communications Services (PCS) and other wireless

7   providers, long distance carriers, and even electric

8   utilities are actual or potential competitors of local

9   exchange companies. Specifically, CLECs compete for

10   local exchange companies' large customers that generally

11   are high margin, as well as high revenue customers

12   located in densely packed metropolitan areas such as

13   metropolitan Orlando. Cable television companies may

14   upgrade their networks to target local exchange

15   companies' small business and residential customers.

16   Wireless providers are adding customers at a faster rate

17   than local exchange companies and are expected to

18   cannibalize local exchange company customers. PCS

19   providers are intensifying wireless competition as they

20   increase the number of wireless providers beyond the

21   previously existing two cellular carriers in each market.

22   Electric utilities can make use of their existing

23   distribution facilities to compete with local exchange

24   companies. Long distance companies can bypass the local

25   loop to directly serve their customers. For example,

1   AT&T provides Digital Link for business customers in
2   approximately 48 states and makes Total Simple Resale
3   available in seven markets. AT&T is planning to acquire
4   Teleport, the largest CLEC in the United States.
5   Teleport serves 490,000 access lines in 66 cities through
6   41 switches around the country. MCImetro currently
7   operates local city networks in 39 cities, has installed
8   29 Class 5 switches serving 31 cities, and has been
9   granted authority to offer local exchange services in 42
10   states with applications pending in 7 other states.

11

12   Sprint - Florida is exposed to the competitive nature of
13   the telecommunications industry.   Sprint - Florida's
14   competitive environment is, in part, illustrated by the
15   existence of this proceeding. Other entities, including
16   MCI, are interested in providing LEC services in
17   competition with Sprint - Florida.   There are 164
18   certified CLECs in the state of Florida with requests
19   pending for an additional 21 companies. Sprint - Florida
20   has identified approximately 8,500 dial tone lines lost
21   to CLEC competitors, not including losses to competitors
22   that have their own networks and are now operating as
23   CLECs.   Wireless providers in Florida include AT&T
24   Wireless, 360 Communications, BellSouth Mobility, Alltel
25   Wireless, Wireless One, as well as PCS providers

1   PowerTel, Primeco and Sprint PCS. There are
2   approximately 1,100 payphone providers certified in
3   Florida. It is clear that Sprint - Florida has not been
4   exempted from the general industry trend toward greater
5   competition.

7   These technological and competitive developments provide
8   an environment in which local exchange companies confront
9   both increasing competition and the potential for new
10   avenues for future growth. The telecommunications
11   industry is no longer a relatively isolated monopoly
12   business, and it is becoming increasingly less so over
13   time. This altered environment makes less certain what
14   once was considered a relatively secure, solid revenue
15   stream. The resulting increased business risk has direct
16   implications for financial risk tolerance and capital
17   structure management.

19 Q. What are the financial risk and capital structure
20   implications of the business risk developments for local
21   exchange companies?

23 A. It is evident that the industry's traditional financial
24   policies have changed in response to increased business
25   risk. In particular, the industry's traditional reliance

22

1   on a relatively high degree of financial risk cannot be
2   and will not be continued in the face of competition. It
3   is hardly surprising that local exchange companies have
4   generally increased their equity ratios, thereby
5   decreasing financial risk in an attempt to partially
6   offset increased and increasing business risk.
7
8 Q. Please summarize your view of the appropriateness of the
9   capital structure of Sprint - Florida.
10
11 A. After reviewing Sprint - Florida's capital structure, the
12   industry capital structures for local exchange companies,
13   the capital structures deemed appropriate by the U.S.
14   District Court for the Bell regional companies, the S&P
15   debt ratio guidelines, the relative level of business
16   risk in the industry, and the market-to-book ratios of
17   comparable companies, I conclude that the capital
18   structure of Sprint - Florida is currently appropriate.
19
20   IV. DEBT COST RATE
21
22 Q. What is the forward-looking cost of debt for Sprint -
23   Florida?
24
25 A. The forward-looking cost of debt for Sprint - Florida is

23

1   7.02% as of late December 1997, as shown on Exhibit Q-7.

2   This rate represents the rate at which Sprint - Florida

3   could issue debt in late December 1997 and has three

4   components: the risk-free return, a credit spread, and an

5   issuance cost increment. The forward-looking risk-free

6   return on twenty year U.S. Treasury bonds implied by

7   futures prices of 6.23% is described in the Risk Premium

8   Analysis portion of my testimony and developed on Exhibit

9   Q-11. The current credit spread for twenty year "A1"

10   rated telephone bonds over twenty-year U.S. Treasury

11   bonds is estimated at 71 basis points based on prevailing

12   market data provided by Bloomberg Financial Markets. The

13   estimated issuance cost increment for twenty-year debt is

14   8 basis points.

15

16   V.   MARKET-TRADED GROUP

17

18   Q.   How did you estimate the cost of common equity for Sprint

19   - Florida?

20

21   A.   The cost of common equity is based on investors' required

22   return on common equity. The required return on common

23   equity   must   be   estimated   with   market-based

24   forward-looking financial models. I used the discounted

25   cash flow (DCF) model and the risk premium model, both of

1   which are market-based forward-looking models, to

2   estimate the required return on common equity.   I

3   determined the cost of common equity by adding an

4   appropriate issuance cost increment to the required

5   return on common equity.

6

7   Q.   How did you apply the DCF and risk premium models to

8   Sprint - Florida?

9

10 A.   The implementation of market-based models requires the

11   use of stock market prices. Sprint - Florida does not

12   have stock traded on a stock market as a separate entity

13   and thus, there is no way to directly observe the value

14   that investors would place on it. As a result, it is not

15   possible to apply market-based models directly to Sprint

16   - Florida. Instead, I applied the market-based models to

17   a group of market-traded companies that, on average, are

18   comparable in risk to Sprint - Florida.   Since the

19   capital structure and debt cost rates have been

20   determined for Sprint - Florida, consistency requires

21   that the associated common equity cost rate also be

22   determined for Sprint - Florida.

23

24 Q.   How did you identify a group of market-traded companies

25   that are comparable in risk to Sprint - Florida?

1   A.   Financial theory indicates that the cost of common equity

2   is a function of risk.   No precise formula exists to

3   directly measure risk.   However, various risk measures

4   can be used to estimate risk levels.   I identified four

5   risk measures consisting of the common equity ratio, the

6   cash flow-to-capital ratio, the pre-tax fixed charge

7   coverage ratio, and the revenues-to-net plant ratio.   I

8   then identified six market-traded telecommunications

9   companies that, on average, have risk measures comparable

10   to the risk measures of Sprint - Florida.

11

12   Q.   How do the four risk measures indicate relative risk

13   levels?

14

15   A.   The common equity ratio provides a direct indication of

16   financial risk by measuring the degree of financial

17   leverage.   This ratio demonstrates the percentage of

18   total capital supplied by common stockholders rather than

19   preferred stockholders and debt holders.   All else equal,

20   the higher the common equity ratio, the lower the risk to

21   the stockholder.

22

23   The cash flow-to-capital ratio provides an indication of

24   both business and financial risk by measuring the

25   adequacy of cash flow to the providers of capital.   This

26

1   ratio demonstrates the quality of reported earnings

2   levels.   All   else   equal,   the   higher   the   cash

3   flow-to-capital ratio, the lower the risk to the

4   stockholder.

5

6   The pre-tax fixed charge coverage ratio provides an

7   indication of both business and financial risk by

8   measuring the number of times that fixed charges,

9   including interest and preferred dividends, are earned.

10 This ratio demonstrates the adequacy of earnings levels.

11 All else equal, the higher the fixed charge coverage

12 ratio, the lower the risk to the stockholder.

13

14 The revenues-to-net plant ratio provides an indication of

15 business risk by measuring the ability to generate

16 revenues from fixed assets.   This ratio demonstrates the

17 net plant turnover and the degree to which resources are

18 employed to generate revenues.   All else equal, the

19 higher the revenues-to-net plant ratio, the lower the

20 risk to the stockholder.

21

22 Finally, the limitation of the group companies to

23 companies   that   are   involved   in   providing

24 telecommunications   services   also   facilitates   the

25 selection of a comparable risk group by ensuring that all

27

1   companies in the group are generally facing the same

2   types of business risk as those faced by Sprint -

3   Florida.

4

5 Q. How did you identify the six market-traded

6   telecommunications firms closest in risk to Sprint -

7   Florida?

8

9 A. I used cluster analysis to identify the six companies.

10   Cluster analysis is a statistical approach to narrow a

11   large universe down to a relatively small group of firms

12   that is closest in risk to the targeted company. In this

13   application, cluster analysis measures closeness in risk

14   of market-traded telecommunications companies to Sprint -

15   Florida.

16

17   I began with all telecommunications firms available from

18   Standard & Poor's Compustat PC Plus. I initially screened

19   the telecommunications firms to include only market-

20   traded, United States-based, dividend-paying companies

21   with adequate data available to calculate the risk

22   measures and required return on common equity estimates.

23   Sixteen market-traded telecommunications companies were

24   identified as candidates for the cluster analysis. After

25   determining the risk measures of each company, the risk

28

1   measures for all sixteen companies were standardized (for

2   each risk measure, the difference between each company's

3   risk measure and the mean risk measure of all sixteen

4   companies was divided by one standard deviation). The

5   distance between the standardized risk measures for each

6   company and Sprint - Florida was calculated and compared

7   to identify the shortest distances. The resulting

8   comparable group consists of the six companies with risk

9   measures clustering around, and thus, closest to, the

10   risk measures of Sprint - Florida. All six companies

11   have a major business segment that provides local

12   exchange services.

13

14 Q. How do Sprint - Florida's risk measures compare to the

15   risk measures of the group of six companies?

16

17 A. The comparable group of six companies is shown on Exhibit

18   Q-8, along with the risk measures for each company. The

19   common equity ratios are determined as of September 30,

20   1997. The other three risk measures are average risk

21   measures for 1995 and 1996. It is important to quantify

22   the revenues, earnings, and cash flow risk measures over

23   a time period long enough so that possible aberrations

24   are avoided, yet short enough so that the measures can

25   still be considered current. A two-year time period

1   adequately balances these offsetting concerns.

2

3   Since the required returns on common equity for the group

4   will be averaged, the appropriate comparison is between

5   Sprint - Florida and the group average, rather than

6   Sprint - Florida and individual companies within the

7   group. The Sprint - Florida common equity ratio of 56.6%

8   is higher than the group average of 55.6%. The Sprint -

9   Florida cash flow-to-capital ratio of 19.9% is higher

10   than the group average of 18.7%. The Sprint - Florida

11   pre-tax fixed charge coverage ratio of 6.22x is higher

12   than the group average of 5.71 times. The Sprint -

13   Florida revenues-to-net plant ratio of 74.7% is lower

14   than the group average of 97.9%.

15

16   After reviewing the differences between the Sprint -

17   Florida and group average risk measures and the relative

18   magnitude of the differences, I conclude that the group,

19   on average, is comparable in risk to Sprint - Florida.

20

21   VI.   DISCOUNTED CASH FLOW ANALYSIS

22

23 Q. Please describe the discounted cash flow (DCF) approach

24   used in determining the required return on common equity.

25

1   A.   The DCF approach is based on the fundamental financial

2   concept of the time value of money and provides a

3   conceptually correct and straightforward approach for

4   determining investors' required return on common equity.

5   The DCF approach captures investors' consensus required

6   return on common equity, since the market consensus risk

7   analysis is embodied in the market price of the stock.

8   The DCF model directly establishes investors' required

9   return on common equity and is both market-based and

10   forward-looking.

11

12   The DCF model implies that the value of an asset is the

13   expected cash flow generated by the asset, discounted by

14   the investors' required return. Specifically, the market

15   value of common stock is equal to the present value of

16   the expected stream of future dividends. Exhibit Q-9

17   demonstrates that the quarterly required return on common

18   equity for companies that pay dividends quarterly is

19   determined with Equation (5) and the corresponding annual

20   required return on common equity results from Equation

21   (8).

22

23   The DCF model shown on Exhibit Q-9 is sometimes referred

24   to as the quarterly DCF model. The use of the quarterly

25   DCF model does not indicate that dividends are expected

1   to increase quarterly. Rather, the use of the quarterly

2   DCF model reflects the reality that quarterly dividend

3   payments are expected to increase annually at a rate

4   equal to the average compounded quarterly growth rate.

5

6 Q. How did you determine the current dividend yield for the

7   companies in the comparable group?

8

9 A. The current stock price represents the assessment by

10   investors, based on all available information, of the

11   current market value of that stock. It is important to

12   note that an observed change in the market price does not

13   necessarily indicate a change in the required return on

14   common equity, since the price change may simply reflect

15   investors' reevaluation of the growth rate or the

16   expected dividends. When using the DCF approach to

17   estimate the required return on common equity, it is

18   necessary to determine the current dividend yield and the

19   expected growth rate simultaneously. Therefore,

20   utilizing an outdated average historical stock price

21   along with current growth expectations, or "updating" a

22   DCF analysis merely by combining an updated stock price

23   with past growth expectations may produce a biased

24   estimate of the required return on common equity.

25   Similarly, utilizing an outdated historical average stock

1 price along with outdated historical growth expectations

2 will produce only an outdated historical estimate of the

3 required return on common equity.

4

5 For each company, I utilized the most recent quarterly

6 dividend and the average closing stock market price

7 during December 19 through 31, 1997. This two-week time

8 period is current enough to avoid the use of outdated

9 historical stock prices and corresponds to the time

10 period of growth rate determination. The resulting

11 current quarterly dividend yields are presented on

12 Exhibit Q-10.

13

14 Q. Is the growth rate that is expected by investors directly

15 observable?

16

17 A. No, it is not. The DCF methodology requires a growth

18 rate that reflects the long run dividend growth rate

19 expectation of investors. Although the current market

20 price reflects aggregate investor expectations, no method

21 exists to directly measure market-consensus expected long

22 run dividend growth rates. Therefore, it is necessary to

23 develop an expected long run dividend growth rate

24 estimate based on sound financial theory. There are a

25 variety of approaches to estimate the expected growth

1   rate and the use of each approach introduces a certain

2   amount of subjectivity.

3

4   Q.   What approach did you use to estimate the growth rates of

5   the companies in the comparable group?

6

7   A.   I used the Institutional Brokers Estimate System

8   (I/B/E/S) consensus analysts growth rate estimates.

9   I/B/E/S is an investment research service of I/B/E/S Inc.

10   I/B/E/S is a frequently cited, readily accessible, timely

11   and objective source of analysts' forecast data. On a

12   monthly basis, I/B/E/S summarizes the consensus earnings

13   growth expectations of financial analysts employed by the

14   research departments of investment brokerage firms.

15   I/B/E/S growth rates are forward-looking, expectational-

16   based estimates of earnings growth. The five-year mean

17   I/B/E/S earnings per share growth rate estimates for the

18   companies in the comparable group as of December 18, 1997

19   are shown on Exhibit Q-10. These growth rates are the

20   most recent estimates available at the time of my

21   analysis. For the comparable group, there is an average

22   of thirteen analyst estimates compiled per company to

23   develop the consensus growth rate.

24

25   In order to understand the value of I/B/E/S earnings

34

1   growth estimates as proxies for dividend growth, it is

2   useful to examine the relationship between dividends and

3   earnings. The expected growth in dividends is a function

4   of the expected growth in earnings. In the short run,

5   dividends may grow at a rate greater or less than

6   earnings. This short run relationship is observable when

7   a company maintains a relatively steady dividend policy

8   even if earnings are quite volatile. However, dividends

9   and earnings must grow at the same rate in the long run.

10

11

12   A company that increases dividends at a higher rate than

13   earnings in the long run would ultimately pay out more in

14   dividends than it would earn. Long run dividend growth

15   cannot be sustained without the support of underlying

16   earnings growth. Since the DCF model is based on long

17   run relationships, it is the long run, rather than the

18   short run, relationship between earnings and dividends

19   that is important.

20

21   Q.   What is the average required return on common equity for

22   the comparable group based on your DCF analysis?

23

24   A.   As shown on Exhibit Q-10, the average required return on

25   common equity estimate for the comparable group based on

1   DCF analysis is 13.45%.

2

3   VI. **RISK PREMIUM ANALYSIS**

4

5   Q. Please describe the risk premium approach used in
6   determining the required return on common equity.

7

8   A. The risk premium approach is based upon the relationship
9   between the risk and return of market-traded securities.
10   I used a form of the risk premium approach often referred
11   to as the Capital Asset Pricing Model (CAPM). Two
12   financial economists who provided the foundation for and
13   developed the CAPM shared the 1990 Nobel Memorial Prize
14   in Economic Science. The CAPM is based on the theory
15   that the required return for a given security is equal to
16   the risk-free return plus a risk premium.

17

18   The risk premium approach is consistent with the
19   observation that investors are risk averse. That is, if
20   an investor has the opportunity of purchasing one of two
21   securities with equal expected returns, one would expect
22   the investor to purchase the security with the least
23   risk. Conversely, if an investor had an opportunity to
24   purchase one of two securities with equal risk, one would
25   expect the investor to purchase the security with the

1 highest expected return.

2

3 Financial theory provides the CAPM relationship as:

4

5   $R_j = R_f + B_j(R_m - R_f)$

6 Where:

7   R_j = the required return on stock j;

8   R_f = the risk-free return;

9   R_m = the required return on the market portfolio;

10   and

11   B_j = the measure of risk for stock j.

12

13 In order to implement this model, it is necessary to

14 estimate the risk-free return, the market risk premium

15 $(R_m - R_f)$, and the appropriate company-specific risk

16 measure, or beta. While the risk-free return is directly

17 observable, the implementational challenge of this

18 approach arises in the estimation of the market risk

19 premium and the company-specific risk measure.

20

21 Q. What did you use as the risk-free return?

22

23 A. I used the 6.23% average interest rate implied by the

24   prices of U.S. Treasury bond futures contracts for

25   delivery during the period March 1998 through March 1999

1   as traded on the Chicago Board of Trade as of December 19

2   through 31, 1997. These interest rates are shown on

3   Exhibit Q-11. In general, the interest rates implied by

4   the prices on U.S. Treasury bond futures contracts

5   represent forward-looking assessments by the market as to

6   the risk-free return during near term future periods when

7   Sprint - Florida's new interconnection rates will be in

8   effect. The use of forward-looking interest rates

9   implied by the prices on futures contracts is preferable

10 to the use of current interest rates because both capital

11 cost estimation and the application of the new

12 interconnection rates are prospective in nature.

13

14 Q. Why did you use U.S. Treasury bonds in measuring the

15   risk-free return rather than U.S. Treasury bills?

16

17 A. To begin with, U.S. Treasury securities are appropriate

18   to use in estimating the risk-free return because of

19   minimal default risk. Default risk pertains to the

20   possibility of principal default. U.S. Treasury

21   securities are considered to be virtually free of default

22   risk because of the U.S. Government's fiscal and monetary

23   authority.

24

25   In selecting the type of U.S. Treasury security to use,

38

1   it is desirable to select a security with a duration, or

2   maturity period at issuance, similar to common equity.

3   U.S. Treasury bills have maturity periods at issuance

4   ranging from three months to one year. U.S. Treasury

5   bonds are generally used for long-term financing. U.S.

6   Treasury bonds have maturity periods at issuance in

7   excess of fifteen years, commonly twenty or thirty years.

8   The U.S. Treasury bond yield that I used as the risk-free

9   rate is based on a twenty-year maturity period. Since

10   common equity has a long-term time horizon, or in other

11   words, an infinite maturity period, U.S. Treasury bonds

12   are closer than U.S. Treasury bills to matching the

13   duration of common equity.

14

15   Q.   What did you use as the market risk premium?

16

17   A.   I used the 7.36% risk premium for the Standard & Poor's

18   Composite Index over U.S. Treasury bonds based on data

19   from the Roger G. Ibbotson series of risk premium

20   studies. Specifically, I used Stocks, Bonds, Bills and

21   Inflation: 1997 Yearbook (Chicago, Illinois: Ibbotson

22   Associates, Inc., 1997) and the Stock, Bonds, Bills, and

23   Inflation Year-End Summary Report 1997 (Chicago,

24   Illinois: Ibbotson Associates, Inc, 1998). This risk

25   premium of common stock returns over U.S. Treasury bond

1   returns is based on market results for 1926 through 1997.

2   Admittedly, different market risk premiums can be

3   calculated by subjectively varying the time period over

4   which the return comparison is made. The realized market

5   risk premium can vary from year-to-year and

6   decade-to-decade. I used the entire period for which

7   data is available, thus avoiding the introduction of

8   additional subjectivity and capturing a wide variety of

9   economic circumstances. The 7.36% market risk premium

10   and the 6.23% risk-free return imply a current required

11   return on the market portfolio of 13.59%.

12

13   Q. Is the 7.36% market risk premium based on arithmetic mean

14   returns or geometric mean returns?

15

16   A. The 7.36% market risk premium is based on arithmetic mean

17   returns. The arithmetic mean is a simple average while

18   the geometric mean is a compounded average. In

19   determining the required return on common equity, the

20   risk premium based on arithmetic mean returns is the

21   appropriate risk premium to use because the arithmetic

22   mean, or simple average, returns provide a more direct

23   indication of expected year-by-year returns. The

24   geometric mean, or compounded average, returns provide a

25   more direct indication of changes in investor wealth over

1 more than one annual period, and thus should be achieved

2 in the long run. However, the geometric mean returns

3 will understate the expected year-by-year returns. The

4 expected year-by-year returns must be earned in each year

5 in order for an investor to earn the geometric mean

6 return in the long run. If the geometric mean return is

7 mistakenly used to estimate the required return on common

8 equity, the required return on common equity estimate

9 will be biased downward and the geometric mean return

10 cannot be achieved in the long run.

11

12 Q. What measure of risk did you use to determine the

13 comparable group risk premium?

14

15 A. The implementation of the CAPM approach requires an

16 objective measure of risk. I used beta as the appropriate

17 measure of risk. Beta is widely recognized by the

18 financial community as an objective measure of risk in a

19 portfolio context. A beta of 1.0 indicates a risk level

20 equal to the market average risk level. A beta greater

21 than 1.0 indicates a risk level greater than the market

22 average risk level. Similarly, a beta less than 1.0

23 indicates a risk level lower than the market average risk

24 level.

25

1   Q.   What beta estimates did you use for the comparable group?

2

3   A.   I used Value Line beta estimates published in The Value

4   Line Investment Survey Summary and Index of December 26,

5   1997.   The Value Line betas are computed with sixty

6   months of weekly returns, and with the New York Stock

7   Exchange Composite Index as the market index.   Value

8   Line's current estimated betas for the companies in the

9   comparable group are shown on Exhibit Q-11.   The average

10   comparable group beta is 0.93.Q39. What is the average

11   required return on common equity of the comparable group

12   based on your risk premium analysis?

13

14   A.   As shown on Exhibit Q-11, the required return on common

15   equity for the comparable group is 13.07% based on risk

16   premium analysis.

17

18   **VIII.   REQUIRED RETURN ON COMMON EQUITY**

19

20   Q.   What is the required return on common equity for Sprint -

21   Florida based on the market-based analyses?

22

23   A.   A required return on common equity analysis requires both

24   the   application   of   financial   models   and   the   use   of

25   *informed   judgment*.   A   return   on   common   equity

42

1   recommendation based solely on judgment would be

2   inappropriate, as would be sole reliance on the

3   mechanistic and arbitrary application of financial

4   models. My comparable group DCF analysis indicates a

5   required return on common equity of 13.45%, while my

6   comparable group risk premium analysis indicates a

7   required return on common equity of 13.07%.

8

9   In my judgment, the range of 13.07% to 13.45% represents

10   my best estimate of an appropriate range for the required

11   return on common equity for Sprint - Florida.

12

13   Q.   Does the required return on common equity range of 13.07%

14   to 13.45% represent the cost of common equity range for

15   Sprint - Florida?

16

17   A.   No, it does not. To determine the cost of common equity,

18   it is necessary to add an increment for issuance costs to

19   the required return on common equity.

20

21   IX. ISSUANCE COST INCREMENT

22

23   Q.   Why is an increment for issuance costs necessary?

24

25   A.   When a company raises common equity capital, it

43

1   experiences costs of issuance including an underwriting
2   fee as well as legal, accounting, printing, and other
3   out-of-pocket costs. Although Sprint - Florida does not
4   issue common stock directly to the public, Sprint -
5   Florida's ultimate parent company, Sprint Corporation,
6   does make public issuances of common stock. Exhibit Q-12
7   shows the Sprint Corporation common equity issues and
8   associated costs for 1967 through the present. The
9   weighted average issuance cost as a percent of net
10   proceeds is 4.7%. Because Sprint Corporation raises
11   equity capital for the benefit of its subsidiary
12   entities, investors expect each subsidiary entity,
13   including Sprint - Florida, to invest in projects that
14   provide a return that covers the associated issuance
15   costs.

16

17   Without explicit recognition of issuance costs, neither
18   existing nor potential investors would have an
19   opportunity to recover all costs of common equity and
20   Sprint - Florida might be unable to attract capital at a
21   reasonable cost. Since a cost of capital increment is an
22   ongoing requirement, the actual timing of issuances has
23   no bearing on the need for a cost of capital increment
24   and it is required even if there are no recent issuances
25   or plans for future issuances.

44

1   Q. How did you quantify the rate of return increment for

2   issuance costs?

3

4   A. An issuance cost increment can be quantified within the

5   framework of the DCF model. Issuance costs are deducted

6   from the market price at the time of issuance to

7   determine the net proceeds available. The current

8   issuance cost increment can be quantified by applying the

9   issuance cost ratio, 4.7% for Sprint Corporation as shown

10   on Exhibit Q-12, to the current market price within the

11   framework of the DCF model. In other words, the stock

12   price component should be reduced by 4.7% to determine

13   the net proceeds per share under current market

14   conditions. By holding all other DCF variables constant,

15   the DCF result with this adjustment will be higher than

16   the DCF result without adjustment. The difference

17   between the two DCF results represents the appropriate

18   issuance cost increment. For Sprint Corporation and its

19   subsidiary entities, the appropriate issuance cost

20   increment is currently 10 basis points. This increment

21   is based on the 4.7% issuance cost ratio, the DCF model

22   shown on Exhibit Q-9, the current quarterly dividend of

23     $0.25, the current stock price as of December 19 through

24   31, 1997 of $56.82, and the I/B/E/S growth rate as of

25   December 18, 1997, of 11.41%.

1   Q.   After incorporating the 10 basis point issuance cost

2   increment, what is your estimate of the cost of common

3   equity range for Sprint - Florida?

4

5   A.   My estimate of the cost of common equity range for Sprint

6   - Florida is 13.17% to 13.55%, 10 basis points greater

7   than the required return on common equity range. My best

8   point estimate of the cost of common equity is the 13.36%

9   midpoint of the range.

10

11   **X.   RECOMMENDED COST OF CAPITAL**

12

13   Q.   In summary, what is your recommendation concerning the

14   cost of capital for Sprint - Florida in this proceeding?

15

16   A.   I recommend primary reliance on the weighted market value

17   cost of capital. The weighted average cost of capital

18   for Sprint - Florida is 12.42% based on the market value

19   capital structure shown on Exhibit Q-14. The weighted

20   average cost of capital for Sprint - Florida is 10.80%

21   based the book value capital structure shown on Exhibit

22   Q-13. The FCC authorized rate of return of 11.25%

23   approximates Sprint - Florida's weighted book value cost

24   of capital and is less than the conceptually superior

25   weighted market value cost of capital. I therefore

1 conclude that the FCC authorized rate of return of 11.25%

2 used to develop the annual charge factor is reasonable

3 based on current capital market conditions.

4

5 Q. Does this conclude your testimony?

6

7 A. Yes, it does.

Exhibit Q-1

SPRINT - FLORIDA, INCORPORATED
BOOK VALUE CAPITAL STRUCTURE
AS OF DECEMBER 31, 1997

Component	Amount	Book Value Ratio
Debt	$625,513,104	40.42%
Common Equity	$922,068,651	59.58%
Total	$1,547,581,755	100.00%

Exhibit Q-2

SPRINT - FLORIDA, INCORPORATED
MARKET VALUE CAPITAL STRUCTURE
AS OF DECEMBER 31, 1997

Component	Amount	Market Value Ratio
Debt	$688,342,441	14.79%
Common Equity	$3,964,895,199	85.21%
TOTAL	$4,653,237,640	100.00%

SPRINT - FLORIDA, INCORPORATED
MARKET VALUE OF DEBT
AS OF DECEMBER 31, 1997

Debt Issue	Interest Rate	Maturity Date	Face Amount Outstanding	Unamortized Discount	Unamortized Debt Expense	Book Value	Market Price	Market Value
Series CC	9.25%	9/15/19	$115,000,000	-$425,800	-$1,923,757	$112,650,443	1.0576	$121,624,000
Series DD	7.25%	12/15/04	$50,000,000	-$389,027	-$423,906	$49,187,067	1.0547	$52,735,000
Series EE	6.25%	5/1/03	$70,000,000	-$341,543	-$956,504	$68,701,953	1.0002	$70,014,000
Series FF	6.88%	7/15/13	$60,000,000	-$1,089,899	-$13,568,149	$45,341,952	1.0267	$61,602,000
Series GG	7.13%	7/15/23	$75,000,000	-$1,822,992	-$9,780,932	$63,396,076	1.0529	$78,967,500
Series HH	8.38%	1/15/25	$70,000,000	-$1,099,093	-$581,888	$68,319,019	1.2057	$84,399,000
Series BB	9.89%	2/1/21	$18,800,000	$0	-$154,687	$18,645,313	1.0495	$19,729,660
Advances			$198,999,225	$0	$0	$198,999,225	1.0000	$198,999,225
Leases			$272,056	$0	$0	$272,056	1.0000	$272,056
Total			$658,071,281	-$5,168,354	-$27,389,823	$625,513,104		$688,342,441

Source: Bloomberg Financial Markets, Series BB market price estimated.

Exhibit Q-4

COMPARABLE GROUP
MARKET-TO-BOOK RATIOS
AS OF DECEMBER 19 THROUGH 31, 1997

Company	Market Price	Number of Shares as of 9/30/97 (in Millions)	Market Value of Equity (in Millions)	Book Value of Equity as of 9/30/97 (in Millions)	Market to Book Ratio (x)
ALLTEL	$40.54	185.340	$7,513.7	$2,269.0	3.3
Ameritech	$41.26	1,094.088	$45,142.1	$7,998.0	5.6
Bell Atlantic	$89.91	776.639	$69,827.6	$12,549.4	5.6
BellSouth	$56.58	992.000	$56,127.4	$14,815.0	3.8
Century Telephone Enterprises	$48.64	60.519	$2,943.6	$1,239.5	2.4
Cincinnati Bell	$29.85	135.992	$4,059.4	$770.7	5.3
Average					4.3

Sources: Bloomberg Financial Markets and Compustat PC Plus.

LOCAL EXCHANGE COMPANIES
INDUSTRY COMPOSITE COMMON EQUITY RATIOS
BASED ON USTA DATA

Year	All Reporting LECs Common Equity Ratio	Independent LECs Common Equity Ratio
1985	54.3%	
1986	56.2%	
1987	56.9%	53.7%
1988	58.8%	58.1%
1989	58.6%	58.6%
1990	59.5%	59.5%
1991	59.7%	59.8%
1992	60.1%	60.4%
1993	59.1%	60.1%
1994	58.3%	60.6%
1995	58.5%	62.5%
1996	58.6%	62.8%

Sources: United States Telephone Association 1988 Statistics of the Telephone Industry and 1989
through 1997 Statistics of the Local Exchange Carriers.

Exhibit Q-6

STANDARD AND POOR'S CORPORATION
TELEPHONE FINANCIAL RATIO GUIDELINES
TOTAL DEBT TO TOTAL CAPITAL

Bond Rating	Total Debt to Total Capital Ratio
AA	Under 42%
A	40% - 52%
BBB	50% - 62%

Source: Standard and Poor's CreditWeek; October 11, 1993, page 8.

Exhibit Q-7

SPRINT - FLORIDA, INCORPORATED
COST OF DEBT
AS OF DECEMBER 19 THROUGH 31, 1997

Component	Cost Rate
Risk-Free Return	6.23%
Credit Spread	0.71%
Issuance Cost Increment	0.08%
Total	7.02%

Sources: Exhibit Q-11 and Bloomberg Financial Markets.

Exhibit Q-8

COMPARABLE GROUP
RISK MEASURES

Company	Common Equity Ratio (1)	Cash Flow to Capital Ratio (2)	Pre-Tax Fixed Charge Coverage Ratio (x) (2)	Revenues to Net Plant Ratio (2)
Sprint - Florida	56.6%	19.9%	6.22	74.7%
Comparable Group				
ALLTEL	54.7%	15.2%	5.03	105.5%
Ameritech	52.5%	22.0%	6.65	105.2%
Bell Atlantic	44.0%	20.3%	5.19	82.0%
BellSouth	58.7%	20.5%	6.25	83.0%
Century Telephone Enterprises	64.5%	15.7%	4.96	66.4%
Cincinnati Bell	59.4%	18.5%	6.15	145.3%
Average	55.6%	18.7%	5.71	97.9%

(1) The common equity ratios are as of September 30, 1997.

(2) The other three risk measures are two-year averages for 1995 and 1996.

Sources: Compustat PC Plus.

THE DISCOUNTED CASH FLOW MODEL
GENERAL FORM AND QUARTERLY MODEL

In its general form, the discounted cash flow (DCF) model is stated as follows:

$$(1) \quad P_o = \frac{D_1}{(1+k_e)} + \frac{D_2}{(1+k_e)^2} + ... + \frac{D_t}{(1+k_e)^t} + ... + \frac{D_n}{(1+k_e)^n}$$

where P_o = the current market price;

D_t = the expected dividend at the end of period t;

n = infinity; and

k_e = the required return on common equity.

If it is anticipated that dividends will grow at the rate of g each period, then Equation (1) reduces to:

$$(2) \quad P_o = \frac{D_1}{(k_e - g)}$$

where g = the expected growth rate.

Solving Equation (2) for k_e results in:

$$(3) \quad k_e = \frac{D_1}{P_o} + g$$

and

$$(4) \quad k_e = \frac{D_o(1+g)}{P_o} + g$$

where D_o = the most recent dividend.

It is important to note that Equations (1) through (4) are generic as to time period. Equation (4) should be implemented for the time period that best reflects actual dividend payments. For companies that pay dividends quarterly, a quarterly DCF model is required.

THE DISCOUNTED CASH FLOW MODEL
GENERAL FORM AND QUARTERLY MODEL

To emphasize that dividends are paid quarterly, Equation (4) can be restated with time period subscripts as follows:

$$(5) \quad k_{eq} = \frac{D_{oq}(1+g_q)}{P_o} + g_q$$

where k_{eq} = the quarterly required return on common equity;

D_{oq} = the most recent quarterly dividend; and

g_q = the expected quarterly growth rate.

Quarterly and annual variables are related as follows:

$$(6) \quad k_{eq} = (1+k_{ea})^{0.25} - 1$$

$$(7) \quad g_q = (1+g_a)^{0.25} - 1$$

where k_{ea} = the annual required return on common equity; and

g_a = the expected annual growth rate.

Solving for k_{ea} results in:

$$(8) \quad k_{ea} = (1+k_{eq})^4 - 1.$$

Exhibit Q-10

COMPARABLE GROUP
DISCOUNTED CASH FLOW ANALYSIS
AS OF DECEMBER 19 THROUGH 31, 1997

Company	Current Quarterly Dividend	Current Stock Price	Current Quarterly Dividend Yield	I/B/E/S Annual Growth Rate	Number of Estimates	Quarterly Growth Rate	DCF Required Return on Common Equity
ALLTEL	$0.290	$40.54	0.72%	9.86%	7	2.38%	13.06%
Ameritech	$0.300	$41.26	0.73%	8.03%	20	1.95%	11.22%
Bell Atlantic	$0.770	$89.91	0.86%	7.83%	17	1.90%	11.58%
BellSouth	$0.360	$56.58	0.64%	8.23%	19	2.00%	11.04%
Century Telephone Enterprises	$0.095	$48.64	0.20%	14.33%	7	3.40%	15.23%
Cincinnati Bell	$0.100	$29.85	0.34%	17.00%	7	4.00%	18.58%
Average					13		13.45%

Sources: Bloomberg Financial Markets, and Institutional Brokers Estimate System Custom Report,
        Utility Industry/Company LTG Report, December 18, 1997.

Exhibit Q-11

RISK PREMIUM ANALYSIS
AS OF DECEMBER 19 THROUGH 31, 1997

	Risk-free Return	Beta	Market Risk Premium	CAPM Required Return on Common Equity
Sprint - Florida	6.23%	0.93	7.36%	13.07%

INTEREST RATES IMPLIED BY PRICES
ON U.S. TREASURY BOND FUTURES CONTRACTS
AS OF DECEMBER 19 THROUGH 31, 1997

Delivery Month	Interest Rate
March-98	6.19%
June-98	6.21%
September-98	6.23%
December-98	6.25%
March-98	6.27%
Average	6.23%

Source: The Wall Street Journal, December 22, 1997 through January 2, 1998.

VALUE LINE BETAS
AS OF DECEMBER 26, 1997

Company	Beta
ALLTEL	
Ameritech	0.90
Bell Atlantic	0.90
BellSouth	0.95
Century Telephone Enterprises	1.00
Cincinnati Bell	0.95
	0.90
Average	0.93

Source: The Value Line Investment Survey Summary and Index, December 26, 1997.

Exhibit Q-12

SPRINT CORPORATION
COMMON STOCK ISSUANCE COSTS
JANUARY 1967 THROUGH DECEMBER 1997

Date of Issue	Number of Shares (Millions)	Offering Price Per Share	Issuance Costs Per Share	Net Proceeds Per Share	Issuance Costs as a Percent of Net Proceeds
6/21/85	5.000	$23.625	$0.732	$22.893	3.2%
9/12/75	2.500	$13.000	$0.593	$12.407	4.8%
10/31/74	2.300	$12.625	$0.807	$11.818	6.8%
12/8/71	1.500	$18.000	$0.789	$17.211	4.6%
10/6/70	1.500	$17.500	$1.091	$16.409	6.6%
12/2/69	1.000	$22.000	$1.076	$20.924	5.1%
6/6/67	1.200	$30.000	$1.116	$28.884	3.9%
SIMPLE AVERAGE					5.0%
WEIGHTED AVERAGE					4.7%

Note: The data has not been adjusted for the 1989 two-for-one stock split.
The data excludes issuances through the Employee Stock Purchase Plan,
the Employee Stock Ownership Plan, the Automatic Dividend Reinvestment
Plan, and incentive stock option plans, as well as stock issued for acquisitions.

Source: Sprint Corporation (formerly United Telecommunications, Inc.) Prospectuses.

Exhibit Q-13

SPRINT - FLORIDA, INCORPORATED
WEIGHTED BOOK VALUE COST OF CAPITAL
BOOK VALUE CAPITAL STRUCTURE AND COST RATES
AS OF DECEMBER 31, 1997

Component	Amount	Book Value Ratio	Cost Rate	Weighted Pre-Tax Cost Rate	After Tax Cost Rate	Weighted After Tax Cost Rate
Debt	$625,513,104	40.42%	7.02%	2.84%	4.31%	1.74%
Common Equity	$922,068,651	59.58%	13.36%	7.96%	13.36%	7.96%
Total	$1,547,581,755	100.00%		10.80%		9.70%

Exhibit Q-14

SPRINT - FLORIDA, INCORPORATED
WEIGHTED MARKET COST OF CAPITAL
MARKET VALUE CAPITAL STRUCTURE AND COST RATES
AS OF DECEMBER 31, 1997

Component	Amount	Market Value Ratio	Cost Rate	Weighted Pre-Tax Cost Rate	After Tax Cost Rate	Weighted After Tax Cost Rate
Debt	$688,342,441	14.79%	7.02%	1.04%	4.31%	0.64%
Common Equity	$3,964,895,199	85.21%	13.36%	11.38%	13.36%	11.38%
Total	$4,653,237,640	100.00%		12.42%		12.02%