

James E. Taylor
General Attorney-Missouri

September 8, 1982

Southwestern Bell

100 North Tucker Boulevard
St. Louis, Missouri 63101
Phone (314) 247-1966

Mr. Harvey G. Hubbs, Secretary
Missouri Public Service Commission
P. O. Box 360
Jefferson City, Missouri 65102

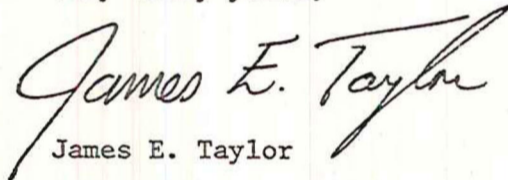
Re: Case No. TR-82-199

Dear Mr. Hubbs:

Enclosed herewith is Southwestern Bell Telephone Company's Motion to Secure Testimony of Witness and Suggestions in Support of the Motion which we would appreciate your filing and bringing to the attention of the Commission.

Copies of the attached have been hand-delivered or mailed this date to all parties of record.

Very truly yours,


James E. Taylor

Enclosures

cc: Mr. Kent M. Ragsdale ✓
Mr. James M. Fischer
All Parties of Record

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Filing by)
Southwestern Bell Telephone)
Company of New Intrastate Rates,)
Tolls and Charges Applicable to) Case No. TR-82-199
Intrastate Telecommunication)
Services Furnished Within the)
State of Missouri)

MOTION TO SECURE TESTIMONY OF WITNESS

Comes now Southwestern Bell Telephone Company and for its
Motion respectfully states:

1. Company requests that the Commission call, as its own
witness in the instant case, a representative of one of the principal
independent bond rating agencies for the purpose of eliciting testimony
regarding:

- a. the criteria employed by such agency in rating
the debt securities of major corporations,
particularly with respect to their assessment
of business and financial risk;
- b. the consideration, if any, given by such agency
as to the effect of a firm's capital structure
on the rating given by such agency to a specific
new issue of debt securities;
- c. the effect of such agency's rating on the cost
of a new issue of debt securities; and
- d. such other matters as the Commission may specify.

2. Company notes that there are several nationally recognized
independent bond rating agencies. The names and addresses of the five
major agencies are listed in the Appendix attached hereto and incor-
porated by reference herein. Company does not take a position as to
which such agency or agencies should be requested to send a representa-
tive, but notes that some of these agencies are willing to testify
on the matters specified above only in response to a Commission invita-
tion, only in an advisory capacity and not on behalf of any party to
the case.

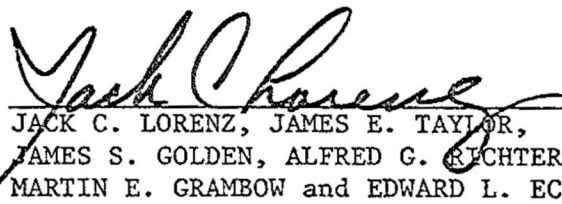
3. For the reasons set forth in detail in Company's Suggestions in Support of Motion to Secure Testimony of Witness, filed herewith, Company submits that the development of a full and objective factual record requires the testimony, on the matters listed above, of a representative of one of the independent bond rating agencies. Company stands ready to assist the Commission in securing the attendance and testimony of such a witness.

WHEREFORE, Company prays that its Motion be granted and that the Commission attempt to secure the attendance of a representative of one of the agencies listed in the Appendix, as one of the Commission's witnesses in this case, to testify on the matters identified in paragraph 1 and on such other matters as appear to the Commission to be appropriate.

Respectfully submitted,

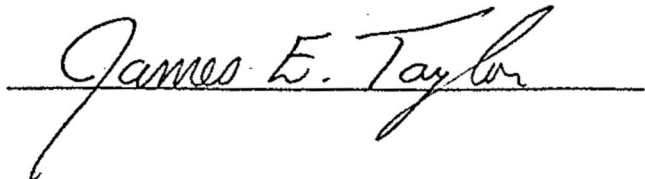
SOUTHWESTERN BELL TELEPHONE COMPANY

By


JACK C. LORENZ, JAMES E. TAYLOR,
JAMES S. GOLDEN, ALFRED G. RICHTER, JR.,
MARTIN E. GRAMBOW and EDWARD L. ECKHART
Attorneys for Southwestern Bell
Telephone Company
100 North Tucker Boulevard, Room 630
St. Louis, Missouri 63101
Phone: 314-247-2788

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Motion to Secure Testimony of Witness was mailed, postage prepaid, to Mr. Kent M. Ragsdale, General Counsel, Missouri Public Service Commission, P. O. Box 360, Jefferson City, Missouri, 65102; Mr. James M. Fischer, Public Counsel, 1014 Northeast Drive, Jefferson City, Missouri, 65101; and to all parties of record this 8th day of September, 1982.



APPENDIX

Principal Independent Bond Rating Agencies:

Duff & Phelps, Inc.
Suite 4000
55 East Monroe Street
Chicago, Illinois 60603

Fitch Investors Services, Inc.
5 Hanover Square
New York, New York 10004

Standard & Poors Corporation
25 Broadway
New York, New York 10004

Moody's Investors Service
99 Church Street
New York, New York 10007

McCarthy, Ried, Crisanti & Maffei, Inc.
160 Broadway
New York, New York 10004

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Filing By)
Southwestern Bell Telephone)
Company of New Intrastate Rates,)
Tolls and Charges Applicable to) Case No. TR-82-199
Intrastate Telecommunication)
Services Furnished Within the)
State of Missouri)

SUGGESTIONS IN SUPPORT OF THE
MOTION OF SOUTHWESTERN BELL TELEPHONE
COMPANY TO SECURE THE TESTIMONY OF A WITNESS

Southwestern Bell Telephone Company ("Company") hereby submits these Suggestions in Support of its Motion To Secure The Testimony of a Witness.

1. Company's Motion requests that the Commission secure, as its own witness, a representative of one of the principal independent bond rating agencies to testify, inter alia, regarding:

- a. the criteria employed by such agencies in rating corporate debt securities;
- b. the effect, if any, of the issuing corporation's capital structure on such rating; and
- c. the effect of an agency's rating on the cost of such debt issues.

The unusual circumstances of this case warrant, indeed require, that such relief be granted.

2. By its Order of July 16, 1982, the Commission directed its Staff to secure, file and offer the testimony of J. W. Wilson and Associates, Inc. on the issue of intrastate rate of return. The Order clearly positions Dr. Wilson as the Commission's own witness, with Staff having no responsibility for redirect examination or briefing regarding Dr. Wilson.

3. Dr. Wilson's testimony has now been filed. It indicates that his background includes "...testimony in proceedings in most regulatory jurisdictions..." (Wilson Direct Testimony, p. 4). Company would add that, to its knowledge, Dr. Wilson's participation in Bell System regulatory proceedings has always been as an opposition witness to the position of the local Bell Operating Company, a fact capable of ascertainment by the Commission prior to its engagement of Dr. Wilson in this case.

4. The engagement of Dr. Wilson by the Commission brings to four the number of state governmental agencies who are, or who have the right to, hire witnesses and present testimony: the Staff of the Commission (which has, in fact, filed testimony of Dr. Michael J. Ileo on the same issue as Dr. Wilson), the Office of the Public Counsel, the Office of the Attorney General and now the Commission itself. The Commission's July 16, 1982 Order thus duplicates the prerogatives of other state agencies. More alarming, however, is the fact that, by engaging a witness on such a controversial issue, the Commission has departed from its assigned role as an impartial finder of fact and has apparently assumed a partisan position as advocate. The choice of the witness, who has consistently testified contrary to Bell System companies throughout his professional career, aggravates the constitutional due process departure of the Commission from its established duty as the initial trier of fact.

5. Wilson assumes that Company's total operations are capable of being disaggregated into separate "lines of business", each with hypothetical capital structures, which will total the Company's capital structure. The aggregate of the intrastate "lines of business", however, carry a hypothetical capital structure with a significantly higher debt ratio than Company's actual capital structure contains. Thus, for example, Wilson proposes an intrastate capital structure with a debt ratio of 55.7% (58.1% if Preferred Stock is included) (Wilson Direct Testimony, p. 33 and Exhibit ___ (J.W. - 4)). The hypothetical capital structures for the allegedly separate "lines of business" in Dr. Wilson's calculation include debt ratios ranging from 30-35% (CPE and interstate toll and private line) to 65% (local exchange and vertical services) (Wilson Direct Testimony, p. 33).

6. Wilson does not even address, much less quantify, the very real problems of the cost of debt and availability of debt capital which would arise under his proposal. Such issues are clearly practical and necessary considerations which must be weighed by any decision maker before serious thought could be given to the Wilson proposal. Wilson does not discuss such issues and the Commission does not appear to be concerned about that void in the testimony of its own witness.

7. In contrast to Wilson's testimony, Judge Harold Greene has recently approved the settlement of U.S. v. AT&T with the firm order that the divested Bell Operating Companies (initially limited to exchange telecommunications, exchange access, intra-LATA services and Directory operations) should be established with debt ratios of approximately 45%. This Order was clearly predicated on the Court's concern for the financial viability of the Bell Operating Companies and followed upon extensive "Tunney Act" proceedings designed to address all aspects of the public interest associated with the proposed Modified Final Judgment.

8. Given the failure of Dr. Wilson's testimony to address the practical consequences of his proposal, it is incumbent on this Commission, having entered into the adversarial part of this proceeding, to at least attempt to provide a balanced, objective approach to the issue which is of such obvious interest to it. Such an approach must include evidence of the workings of the debt security market, and the real-world relationships among capital structure, debt quality ratings, cost of debt and availability of such debt capital in sufficient quantities.

9. As Company noted in its Motion, at least some of the bond rating agencies are willing to appear and testify in response to an invitation from state regulatory commissions, but not in a partisan mode on behalf of any party. They are, in such cases, in the status of an amicus. Such a status is not unlike the rather unique posture of ~~Dr. Wilson~~ in this case. Given the Commission's obvious interest in the subject matter of Dr. Wilson's testimony, and in the appearance of Dr. Wilson himself, objectivity and due process demand that the Commission take a balanced approach in this case. This is particularly true where, as here, certain rating agencies are more responsive to invitations from the Commission than from a party.

10. The prospect of regulation on the basis of hypothetical capital structures with significantly higher debt ratios is frankly alarming to Company. Once taken, a step in the direction suggested by Dr. Wilson will be difficult to reverse, even if Company's fears are realized and demonstrated to this Commission. Caution thus dictates

the need for a full and complete factual record, including the testimony of a rating agency. Fairness and objectivity dictate that such testimony be elicited at the request of the Commission which has already injected into the record a witness who advocates higher debt ratios without any apparent concern for the consequences of that action.

Respectfully submitted,

SOUTHWESTERN BELL TELEPHONE COMPANY

By James S. Golden
JACK C. LORENZ, JAMES E. TAYLOR,
JAMES S. GOLDEN, ALFRED G. RICHTER, JR.,
MARTIN E. GRAMBOW and EDWARD L. ECKHART
Attorneys for Southwestern Bell
Telephone Company
100 North Tucker Boulevard, Room 630
St. Louis, Missouri 63101
Phone: 314-247-2788

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Suggestions in Support of the Motion of Southwestern Bell Telephone Company to Secure the Testimony of a Witness was hand-delivered or mailed, postage prepaid, to Mr. Kent M. Ragsdale, General Counsel, Missouri Public Service Commission, P. O. Box 360, Jefferson City, Missouri, 65102; Mr. James M. Fischer, Public Counsel, 1014 Northeast Drive, Jefferson City, Missouri, 65101; and to all parties of record this 8th day of September, 1982.

James E. Taylor