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Case Number: 96-899-TP-ALT

**Date of Confidential Document:
December 17, 2010**

Today's Date: JAN 18 2011

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Confidential
MCI/AT&T #1

BEFORE THE
OHIO PUBLIC UTILITIES COMMISSION

In the Matter of the Application of)
Cincinnati Bell Telephone Company for)
Approval of a Retail Pricing Plan which) Case No.: 96-899-TP-ALT
May Result in Future Rate Increases and)
for Approval of a New Alternative Regulation)
Plan.)

DIRECT TESTIMONY OF

RICHARD B. LEE

ON BEHALF OF

**AT&T COMMUNICATIONS OF OHIO, INC. AND
MCI TELECOMMUNICATIONS CORPORATION**

December 17, 1997

PROPRIETARY

MCI/ATT - 1

1 **Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.**

2 A. My name is Richard B. Lee. I am Vice President of the economic consulting firm
3 of Snavely King Majoros O'Connor & Lee, Inc. (Snavely King). My business
4 address is 1220 L Street, N.W., Suite 410, Washington, D.C. 20005.

5 **Q. PLEASE DESCRIBE SNAVELY KING.**

6 A. Snavely King, formerly Snavely, King & Associates, Inc., was founded in 1970 to
7 conduct research on a consulting basis into the rates, revenues, costs and
8 economic performance of regulated firms and industries. The firm has a
9 professional staff of 16 economists, accountants, engineers and cost analysts.
10 Most of its work involves the development, preparation and presentation of
11 expert witness testimony before Federal and state regulatory agencies. Over
12 the course of its 27 year history, members of the firm have participated in over
13 500 proceedings before almost all of the state commissions and all Federal
14 commissions that regulate utilities or transportation industries.

15 **Q. PLEASE DESCRIBE THE TYPE OF WORK YOU HAVE PERFORMED WHILE**
16 **AT SNAVELY KING.**

17 A. Since joining Snavely King in 1991, I have assisted clients in proceedings before
18 the Federal Communications Commission (FCC) related to a variety of matters.
19 Attachment 1 is a list of the FCC filings I have prepared on behalf of the General
20 Services Administration (GSA). The GSA represents the customer interests of
21 the Federal Executive Agencies in matters before the FCC.

22 I have also assisted clients in proceedings before various state
23 commissions related to the telephone, cellular telephone and electric industries.

1 Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN ANY REGULATORY
2 PROCEEDING?

3 A. Yes, I have. Attachment 2 is a list of my appearances before regulatory
4 agencies on behalf of various clients.

5 Q. WHAT WAS YOUR EMPLOYMENT PRIOR TO JOINING SNAVELY KING?

6 A. From 1980 to 1990, I was employed by American Telephone and Telegraph
7 Company (AT&T) in its Federal Regulatory Affairs Division. As Regulatory Vice
8 President - Financial and Accounting Matters, I represented AT&T before the
9 FCC in all financial and accounting matters. In that capacity, I directed the
10 preparation and presentation of all AT&T Communications depreciation
11 represcription filings before the FCC. I also conceived and developed a
12 methodology which reduced the administrative burden of AT&T's depreciation
13 filings by over 90 percent. Prior to divestiture, I directed the preparation and
14 presentation of all Bell Operating Company (BOC) depreciation filings before the
15 FCC.

16 Q. WHAT WAS YOUR EMPLOYMENT PRIOR TO 1980?

17 A. From 1963 to 1980, I was employed by the New York Telephone Company. I
18 held a variety of progressively responsible positions leading to a position
19 representing the Company in accounting matters before the New York Public
20 Service Commission. In this capacity, I participated in a number of general rate
21 cases and related proceedings.

22 My complete resume is attached as Attachment 3.

23 Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?

1 A. I earned a Bachelor of Science degree in Industrial Administration with High
2 Honors from Yale University in 1961. I earned a Master of Business
3 Administration degree with Distinction from the Harvard Business School in
4 1963.

5 Q. **FOR WHOM ARE YOU APPEARING IN THIS PROCEEDING?**

6 A. I am appearing on behalf of AT&T Communications of Ohio, Inc., and MCI
7 Telecommunications Corporation ("MCI").

8 Q. **WAS THIS TESTIMONY PREPARED BY YOU OR UNDER YOUR DIRECT**
9 **SUPERVISION?**

10 A. Yes, it was. I should note, however, that this testimony and its analytical
11 framework draws heavily upon work performed by myself and others at Snavelly
12 King on behalf of AT&T, MCI and AT&T Canada LDS for use in other
13 proceedings.

14 Q. **WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

15 A. I will demonstrate that the minimum lives that should be used to set TELRIC-
16 based rates in this proceeding are the lives the FCC staff proposed for
17 Cincinnati Bell Telephone Company ("CBT") in its triennial process completed
18 earlier this year.¹

¹ FCC, Implementation of the Local Competition Provisions in the Telecommunications Act of 1996, CC Docket No. 96-98, First Report and Order, FCC 96-325, released August 8, 1996 (August 8 Order), Appendix B ("Rules"). While it is my understanding that the court has ruled that state commissions are not required to follow the FCC's rules, the detailed guidelines described by the FCC for the calculation of the relevant cost of unbundled network elements continue to represent sound economic costing principles and should be applied in the context of this proceeding. I note that in the Ameritech TELRIC proceeding, this Commission accepted the use of FCC prescribed lives as the proper forward-looking economic lives to be used in calculating Ameritech's TELRIC rates.

1 Q. DOES THE FCC SPECIFY THE PLANT LIVES TO BE USED IN THE PRICING
2 OF UNBUNDLED NETWORK ELEMENTS?

3 A. Yes, indirectly. The FCC's rules require that only forward-looking costs be used
4 in the setting of interconnection prices.² This requires the use of economic
5 depreciation rates.³ To comply with this guideline, the plant lives used must be
6 based upon the expected economic lives of newly placed plant.⁴ In depreciation
7 proceedings, such plant lives are termed "projection lives" to differentiate them
8 from "remaining lives" and "average service lives" which reflect past plant
9 placements.

10 Q. WHAT DO YOU CONSIDER TO BE THE MOST REALISTIC ESTIMATES OF
11 PLANT PROJECTION LIVES?

12 A. In general, I believe the projection lives prescribed by the FCC to be the most
13 realistic estimates of plant projection lives. Pursuant to statutory responsibility,
14 the FCC has been prescribing depreciation rates for telephone companies for
15 over 50 years.⁵ It usually reviews full studies submitted by the largest
16 companies on a triennial basis.⁶ The FCC bases its projection life prescriptions
17 on its analysis of the studies filed by the carriers and in consultation with the

² 47 C.F.R. § 51.505 (a).

³ 47 C.F.R. § 51.505 (b) (3).

⁴ The economic life of an asset is its total revenue producing life. Public Utility Depreciation Practices ("Depreciation Practices"), National Association of Regulatory Utility Commissioners, August 1996, p. 318.

⁵ 47 U.S.C. § 220 (b).

⁶ Interim updates are also performed.

1 various state commission staffs. Since the FCC staff has the responsibility, and
2 the opportunity, to review periodically the plans of every large telephone
3 company, I consider them to be the most knowledgeable individuals on this
4 subject in the Nation.

5 **Q. ARE THE PROJECTION LIVES PRESCRIBED BY THE FCC FORWARD-**
6 **LOOKING?**

7 **A.** Yes, they are. Over a decade ago the FCC directed its staff to put less
8 emphasis on historic data in estimating productive lives, and to pay "closer
9 attention to company plans, technological developments and other future-
10 oriented analyses"⁷

11 Recently, the FCC reaffirmed its forward-looking orientation in connection
12 with the simplification of its depreciation represcription practices. The FCC
13 prescribed a range of projection lives which could be selected by carriers for
14 prescription on a streamlined basis. The FCC stated that these ranges were
15 based upon "statistical studies of the most recently prescribed factors. These
16 statistical studies required detailed analysis of each carrier's most recent
17 retirement patterns, the carriers' plans, and the current technological
18 developments and trends."⁸ As such, this streamlined represcription practice

⁷ Report on Telephone Industry Depreciation, Tax and Capital/Expense Policy, Accounting and Audits Division, Federal Communications Commission, April 15, 1987 ("AAD Report"), p. 3.

⁸ FCC, Simplification of the Depreciation Prescription Process, CC Docket No. 92-296 ("Prescription Simplification" proceeding) Third Report and Order, FCC 95-181, released May 4, 1995, p. 6.

1 assures the development of projection lives that allow forward-looking capital
2 recovery.

3 **Q. DO YOU BELIEVE THE FCC STAFF HAS FOLLOWED THE FCC'S**
4 **DIRECTIVE TO EMPHASIZE FORWARD-LOOKING ANALYSES?**

5 A. Yes, I do. Prior to divestiture I directed the preparation and presentation of all
6 BOC depreciation studies before the FCC. From 1984 to 1990 I directed the
7 preparation and presentation of AT&T's depreciation studies, and personally
8 negotiated AT&T's depreciation rates. I can affirm from personal experience that
9 the FCC staff relied increasingly on forward-looking plans and technologic
10 forecasts during this period in prescribing projection lives. I have no reason to
11 believe they have changed their critical, but unbiased, forward-looking approach
12 to estimating projection lives.

13 **Q. IS THERE EMPIRICAL EVIDENCE THAT THE PROJECTION LIVES**
14 **PRESCRIBED BY THE FCC HAVE BEEN FORWARD-LOOKING?**

15 A. Yes. I would point to recent trends in the depreciation reserve levels in the
16 industry, generally, and Cincinnati Bell Telephone ("CBT") specifically. As the
17 FCC has recognized, "[t]he depreciation reserve is an extremely important
18 indicator of the depreciation process because it is the accumulation of all past
19 depreciation accruals net of plant retirements. As such, it represents the
20 amount of a carrier's original investment that has already been returned to the
21 carrier by its customers."⁹

⁹ AAD Report, pp. 5-6.

1 The FCC's recognition of the reserve level as an indicator of the
2 depreciation process can best be understood by examining a steady state
3 example. Assume that we start with a stable environment in which the average
4 age of plant is 9 years and the expected life of plant is 27 Years. In this case,
5 the add rate, retirement rate and straight-line accrual rate are all 3.7 percent,
6 and the reserve level is stable at 33 percent of plant in service (9 years/27
7 years).¹⁰ As we vary these factors, we can see the effect on the reserve level.

8 For example:

- 9 • If the add rate were to increase above 3.7 percent,
10 the reserve level would go down. This would not be a
11 cause for concern, since the average age of plant
12 would similarly represent a lower percent of its
13 expected life.
- 14 • If the retirement rate were to increase above 3.7
15 percent, the reserve level would go down. This would
16 be a cause for concern, since it would indicate that
17 the expected life of plant is shorter than previously
18 expected. If the expected life is shorter, the average
19 age of plant would represent a higher percent of its
20 expected life, and the reserve should be higher, not
21 lower than 33 percent.
- 22 • If the accrual rate were to increase above 3.7
23 percent, the reserve level would go up. This would
24 not be appropriate absent a reduction in the expected
25 life of the plant, since it would indicate that the age of
26 plant is higher than 33 percent of its expected life.

27
28 In summary, a declining reserve percent would be a reason for concern
29 absent indications that it is merely the result of growth in plant. On the other
30 hand, a rising reserve percent is generally a positive sign that the depreciation

¹⁰ Reserve will stabilize at 33 percent assuming a triangular (straight-line) mortality curve. See Notes for Engineering Economics Courses, American Telephone and Telegraph Company, Engineering Department, 1966, p. 121.

1 process is working well. Indeed, absent indications that the expected life of
2 plant

3 is decreasing, it might be a sign that accrual rates are too high.

4 Attachment 4 to this testimony displays reserve levels and other plant
5 rates since 1946 for all local exchange carriers ("LECs") providing full financial
6 reports to the FCC. As shown on Page 1 of Attachment 4, reserve percents
7 decreased steadily following World War II due to industry growth. These
8 declines continued through the 1970's due in part to accrual rates which were
9 too low.¹¹ As shown on Page 1 of Attachment 4, however, the FCC's change to
10 forward-looking depreciation practices in the early 1980s resulted in a dramatic
11 rise in reserve levels after 1980. The composite reserve level rose from 18.7
12 percent in 1980 to an historic high of 47.1 percent in 1996. This track record
13 indicates that the depreciation process is resulting in adequate depreciation
14 accruals, and that the FCC's projection life estimates have been forward-looking
15 and unbiased.

16 Confirmation of the forward-looking nature of current FCC prescriptions
17 can be gained by comparing the 1996 accrual rate of 7.2 percent (Attachment 4,
18 Page 4, Column l) to the 1996 retirement rate of 3.7 percent (Attachment 4,
19 Page 4, Column k). The prescription of an accrual rate much higher than the
20 current retirement rate indicates an expectation that the retirement rate will be
21 much higher in the future. If the FCC were prescribing depreciation rates based

¹¹ AAD Report, p. 7.

1 upon historical indicators, it would be prescribing depreciation rates in the range
2 of 3 to 5 percent.

3 Attachment 5 confirms that these national trends apply also to CBT. The
4 depreciation reserve level for CBT has risen from 37.0 percent in 1992 to 44.8
5 percent in 1996, despite a growth in plant of over 15 percent. CBT's
6 depreciation rates have averaged 7.0 percent over the last five years, while its
7 retirement rates have averaged only 4.4 percent.

8 A final empirical test of the forward-looking nature of current FCC
9 prescriptions can be performed by comparing recent life indications for BS-NC to
10 FCC prescriptions, as follows:

<u>Account Name</u>	<u>CBT Recent Life Indications¹²</u>	<u>CBT FCC Prescribed</u>
Digital Switch	24.1	15.0
Digital Circuit	12.4	11.0
Poles	41.8	29.0
Aerial - Metallic	36.7	21.0
Underground- Metallic	53.4	24.0
Buried-Metallic	75.3	22.0

11 This data provides confirmation that the FCC's projection life prescriptions are
12 forward-looking and not based upon historical mortality analysis.

13

¹² CBT Depreciation Study, February 18, 1997.

1 The projection lives and future net salvage percents proposed by the FCC staff
2 earlier this year for CBT-Ohio are shown in Column c of Attachment 6 on pages
3 1 and 2 respectively. For comparison purposes, the range of projection lives
4 and future net salvage percents prescribed by the FCC pursuant to its
5 Prescription Simplification proceeding are shown in Columns a and b of
6 Attachment 6 on pages 1 and 2 respectively.

7 **Q. HAVE ANY STATE COMMISSIONS ISSUED ORDERS WHICH ADOPTED FCC**
8 **PRESCRIBED PROJECTION LIVES, OR SIMILAR STATE PRESCRIBED**
9 **LIVES, FOR USE IN TELRIC CALCULATIONS?**

10 A. Yes, indeed. Prescribed projection lives have already been adopted for use
11 in TELRIC calculations by Massachusetts,¹³ New York,¹⁴ West Virginia,¹⁵
12 Wyoming,¹⁶ Delaware,¹⁷ Ohio,¹⁸ Michigan,¹⁹ Colorado,²⁰ Maryland,²¹ and
13 Louisiana.²² In many other states, TELRIC proceedings are in progress. For

¹³ Docket DPU 96-73/74, 96-75, 96-80/81, 96-83, 96-84-Phase 4, December 4, 1996.

¹⁴ Docket 95-C-0657, 94-C-0095, 91-C-1174, April 1, 1997.

¹⁵ Docket 96-1516-T-PC, April 21, 1997.

¹⁶ Docket 70000-TF-96-319, 72000-TF-96-95, April 23, 1997.

¹⁷ Docket 96-324, April 29, 1997.

¹⁸ Docket 96-922-TP-UNC, June 19, 1997.

¹⁹ Docket U11280, July 14, 1997.

²⁰ Docket 96S-331T, July 28, 1997.

²¹ Docket 8731 (Phase II), September 22, 1997.

²² Docket U-22022/22093-A, October 22, 1997.

1 example, the Hearing Examiner in Illinois recently proposed the use of
2 prescribed lives.²³ It is important to note that in Case No. 9C-922-TP-UNC,
3 this Commission concluded that the FCC's lives are forward-looking and take
4 into account the effects of technology changes and competition: "The drive
5 for new switching and related technology has existed for some time and is
6 already reflected in the FCC prescribed depreciation lives It is clear that
7 the FCC realized [the effects of competition] and took them into account in
8 their most recent prescription." (PUCO Entry, June 19, 1997, p. 8). The fact
9 that the Ohio Commission Staff participated in the FCC's recent triennial
10 process for CBT and is now advocating the lives proposed by the FCC staff
11 in this proceeding adds additional credence to my conclusion that the FCC
12 staff's proposed lives are the proper forward-looking economic lives to be
13 used in TELRIC proceedings.

14
15 **Q. DOES THE SUPPORT OF THE FCC LIVES BY STATE COMMISSIONS**
16 **SURPRISE YOU?**

17 **A.** Not at all. In its recent Price Cap decision, the FCC adopted the use of its
18 prescribed lives for use in Total Factor Productivity calculations. The FCC noted
19 that: "We can think of no reason why incumbent LECs should be permitted to
20 use different depreciation rates for different regulatory purposes."²⁴

²³ Docket 96-0486, 96-0569, August 8, 1997.

²⁴ Docket 94-1, 96-262, May 21, 1997, footnote 122.

1
2 Q. DOES THIS CONCLUDE YOUR TESTIMONY?
3 A. Yes, it does.

RICHARD B. LEE

FCC FILINGS ON BEHALF OF GENERAL SERVICES ADMINISTRATION

<u>PROCEEDING</u>	<u>SUBJECT</u>	<u>TYPE</u>	<u>DATE</u>
CC Docket No. 87-568	AT&T Communications Revisions to Tariff FCC No. 12	Reply	3/25/91
CC Docket No. 91-141	Expanded Interconnection with Local Telephone Company Facilities	Comments	8/6/91
		Reply	9/20/91
		Reply	12/10/91
		Comments	1/14/93
		Reply	2/19/93
		Comments	4/2/93
DA Docket No. 91-698	New York Telephone Co. Petition for Waiver of Part 61.49(g) of the Commission's Rules	Reply	4/30/93
		Comments	8/9/91
CC Docket No. 89-79	Amend. of Part 69 of the Commission's Rules Relating to the Creation of Access Charge Supplements for Open Network Architecture	Reply	9/9/91
		Comments	8/26/91
			9/25/91
CC Docket No. 87-313	Policy and Rules Concerning Rates for Dominant Carriers		10/2/91
		Comments	8/26/91
		Reply	9/25/91
		Reply	10/2/91

PROCEEDING
CC Docket No. 91-213

SUBJECT
Transport Rate Structure and Pricing

<u>TYPE</u>	<u>DATE</u>
Comments	11/22/91
Reply	1/22/91
Comments	2/1/93
Reply	3/19/93

Petition

ONA Access Charge Tariff Filings

Petition to Suspend	11/26/91
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DA No. 91-1452

Federal-State Joint Conference on ONA Staff
Report on Uniform Tariffing Guidelines for ONA
Services

Comments	12/20/91
Reply	1/21/92

CC Docket No. 91-346

Intelligent Networks

Reply	4/6/92
Comments	11/1/93
Reply	12/1/93

CC Docket No. 92-133

Amend. of Parts 65 and 69 of the Commission's
Rules to Reform the Interstate Rate of Return
Represcription and Enforcement Processes

Comments	9/11/92
Reply	10/13/92

CC Docket No. 92-91

ONA Tariffs of Bell Operating Companies

Comments	10/16/92
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CC Docket No. 92-222

Amendment of the Part 69 Allocation of General
Support Facility Costs

Comments	12/4/92
Reply	12/18/92

CC Docket No. 92-256

Application of ONA and Nondiscrimination
Safeguards to GTE Corporation

Comments	2/1/93
Reply	3/24/93

<u>PROCEEDING</u>	<u>SUBJECT</u>	<u>TYPE</u>	<u>DATE</u>
CC Docket No. 92-296	Simplification of the Depreciation Prescription Process	Reply Reply Reply	4/13/93 1/21/94 12/14/94
DA 93-481	Ameritech's Petition for Declaratory Ruling and Related Waivers to Establish a New Regulatory Model for the Ameritech Region	Reply	7/12/93
DA 93-687	Rochester Telephone Corp. Petition for Waivers of Part 61 Tariff Rules and Part 69 Access Charge Rules to Implement Its Open Market Plan	Comments Reply	7/19/93 8/9/93
CC Docket No. 91-273	Amendment of Part 63 of the Commission's Rules to Provide for Notifications by Common Carriers	Comments Reply	1/21/94 2/22/94
DA Docket No. 93-1537	NYNEX Transition Plan to Preserve Universal Service in a Competitive Environment	Reply	3/2/94
Petition	Petition for Declaratory Ruling Assigning an N11 Dialing Code for use by the Public in Gaining Access to the Services of the Federal Executive Agencies	Petition	3/11/94

<u>PROCEEDING</u>	<u>SUBJECT</u>	<u>TYPE</u>	<u>DATE</u>
CC Docket No. 94-1	Price Cap Performance Review for Local Exchange Carriers	Comments Reply Comments Comments Comments Reply Comments Reply	5/9/94 6/29/94 1/31/95 4/17/95 10/27/95 11/20/95 12/18/95 3/1/96
CC Docket No. 94-54	Equal Access and Interconnection Obligations Pertaining to Commercial Mobile Radio Services	Comments Reply	8/30/94 10/13/94
IAD File No. 94-101	Requests of Federal Agencies and Others for the Assignment of N11 Codes	Reply	9/23/94
CC Docket No. 80-286	Amendment of Part 36 of the Commission's Rules and Establishment of a Joint Board	Reply Comments Reply	12/2/94 9/12/95 11/9/95
CC Docket No. 92-237	Administration of the North American Numbering Plan	Nomination Application	8/7/95 9/12/95
CC Docket No. 95-115	Amendment of the Commission's Rules and Policies to Increase Subscribership and Usage of the Public	Comments Reply	9/27/95 11/13/95

<u>PROCEEDING</u>	<u>SUBJECT</u>	<u>TYPE</u>	<u>DATE</u>
CC Docket No. 95-155	Toll Free Service Access Codes	Comments Reply	11/1/95 11/20/95
CCB-IAD 95-110	Telecommunications Access Provider Survey	Comments Reply	12/11/95 1/16/96
CC Docket No. 87-124	Access to Telecommunications Equipment and Services by Persons With Disabilities	Comments Reply	1/12/96 2/29/96
AAD 96-28	Rate of Return Inquiry	Comments Reply	3/11/96 4/15/96
CS Docket No. 96-46	Implementation of Section 302 of the Telecommunications Act of 1996	Comments Reply	4/1/96 4/11/96
CC Docket No. 96-45	Federal-State Joint Board on Universal Service	Comments Reply Comments	4/12/96 5/7/96 10/17/97
CC Docket No. 96-61	Policy and Rules Concerning the Interstate, Interexchange Marketplace	Reply	5/3/96
CC Docket No. 96-98	Implementation of the Local Competition Provisions in the Telecommunications Act of 1996	Comments Reply	5/16/96 6/3/96

<u>PROCEEDING</u>	<u>SUBJECT</u>	<u>TYPE</u>	<u>DATE</u>
CC Docket No. 96-112	Allocation of Costs Associated with Local Exchange Carrier Provision of Video Programming Services	Comments Reply	5/28/96 6/12/96
CC Docket No. 96-150	Accounting Safeguards Under the Telecommunications Act of 1996	Comments Reply	8/26/96 9/10/96

11/4/97

RICHARD B. LEE

APPEARANCES BEFORE REGULATORY AGENCIES

<u>STATE</u>	<u>CLIENT</u>	<u>UTILITY</u>	<u>CASE</u>	<u>SUBJECT</u>	<u>TYPE</u>	<u>FILE DATE</u>	<u>CROSS DATE</u>
CA	US Department Of Defense	All LECs	I.87-11-033 Phase III	IntraLATA Competition	Direct Reply	9/23/91 10/2/91	10/7/91 10/7/91
CA	US Department Of Defense	All LECs	I.87-11-033 Phase III	Rate Design	Direct Reply Suppl.	12/16/91 1/17/92 4/18/92	4/28/92 4/28/92 4/28/92
CO	US Department Of Defense	All LECs	92R-050T	Interconnection	Direct	8/20/92	8/31/92
WV	Consumer Advocate Division of WV PSC	C&P	90-424-T-PC	Cost Allocation	Direct Reply	10/6/92 12/18/92	1/14/93 1/14/93
CA	US Department Of Defense	Pacific Bell	A.92-05-004	Incentive Regulation	Direct Reply	4/8/93 5/5/93	6/9/93 6/9/93
DC	US Department Of Defense	C&P	926	Productivity	Direct	7/30/93	10/7/93

<u>STATE</u>	<u>CLIENT</u>	<u>UTILITY</u>	<u>CASES</u>	<u>SUBJECT</u>	<u>TYPE</u>	<u>FILE DATE</u>	<u>CROSS DATE</u>
NJ	US Department Of Defense	All LECs	TX90050349 TE92111047 TE93060211	IntraLATA Competition	Direct Reply	4/5/94 4/25/94	-- --
CT	Connecticut Resellers	Cellular Carriers	94-03-27	Financial Performance	Direct	--	6/7/94
NY	US Executive Agencies	Niagara Mohawk	94-E-0098 94-E-0099 94-G-0100	Incentive Regulation	Direct	8/31/94	10/26/94
DC	DC Office Of People's Counsel	Pepco	939	Productivity	Direct	1/17/95	3/17/95
GA	GA Public Service Commission	Southern Bell	5503-U	Cost Allocation	Direct Reply	1/27/95 4/14/95	2/14/95 4/25/95
HI	US Department Of Defense	GTE Hawaiian	94-0298	Rate Case	Direct	5/7/96	--
CANADA	AT&T Canada	Stentor Companies	96-8	Depreciation	Direct	8/27/96	11/5/96

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<u>STATE</u>	<u>CLIENT</u>	<u>UTILITY</u>	<u>CASE</u>	<u>SUBJECT</u>	<u>TYPE</u>	<u>FILE DATE</u>	<u>CROSS DATE</u>
NJ	AT&T	Bell Atlantic	T096070519	Depreciation	Direct	9/18/96	10/3/96
MA	AT&T	New England Telephone	DPU96-80/81	Depreciation	Direct	10/11/96	—
NY	AT&T	New York Telephone	95-C-0657 94-C-0095 91-C-1174	Depreciation	Rebuttal	10/15/96	11/8/96
VA	AT&T	GTE	PUC960117	Depreciation	Direct	10/30/96	—
NJ	AT&T	All LECs	TX95120631	Depreciation	Direct Rebuttal	11/1/96 12/20/96	1/24/97 1/24/97
PA	AT&T/MCI	Bell Atlantic	A-310203F0002	Depreciation	Rebuttal Direct Surrebuttal	1/13/97 2/7/97 2/21/97	1/28/97 2/25/97 2/25/97
DE	AT&T/MCI	Bell Atlantic	96-324	Depreciation	Rebuttal	2/4/97	2/18/97
WY	AT&T	U S West	7200-TF-96-95 7000-TF-96-319	Depreciation	Direct	2/5/97	2/12/97

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<u>STATE</u>	<u>CLIENT</u>	<u>UTILITY</u>	<u>CASE</u>	<u>SUBJECT</u>	<u>TYPE</u>	<u>FILE DATE</u>	<u>CROSS DATE</u>
WV	AT&T	Bell Atlantic	96-1516-T-PC 96-1561-T-PC 96-1009-T-PC 96-1533-T-T	Depreciation	Direct Rebuttal	2/13/97 2/20/97	2/27/97 2/27/97
MD	AT&T/MCI	Bell Atlantic	8731, Phase II	Depreciation	Direct	3/7/97	4/14/97
UT	AT&T/MCI	U S West	94-999-01	Depreciation	Direct Rebuttal Surrebuttal Sup. Surr.	3/19/97 3/31/97 4/23/97 5/2/97	5/13/97
DC	AT&T/MCI	Bell Atlantic	962	Depreciation	Direct Rebuttal	3/24/97 5/2/97	6/11/97
VA	AT&T/MCI	Bell Atlantic	970005	Depreciation	Affidavit Direct Rebuttal	4/7/97 4/23/97 6/10/97	6/27/97
HI	US Department Of Defense	GTE	7702	Depreciation	Direct Reply	7/03/97 8/28/97	10/22/97
LA	AT&T/MCI	Bell South	22022/22093	Depreciation	Direct	8/25/97	9/16/97

<u>STATE</u>	<u>CLIENT</u>	<u>UTILITY</u>	<u>CASE</u>	<u>SUBJECT</u>	<u>TYPE</u>	<u>FILE DATE</u>	<u>CROSS DATE</u>
ME	AT&T	Bell Atlantic	96-781	Depreciation	Direct	9/15/97	
TENN	AT&T/MCI	Bell Atlantic	97-01262	Depreciation	Direct	10/10/97 10/17/97	
VT	AT&T	Bell Atlantic	5713	Depreciation	Direct	10/30/97	
KY	AT&T/MCI	BellSouth, GTE, CBT	360	Depreciation	Reply	11/4/97	

11/4/97

Experience

**Snavely King Majoros O'Connor
& Lee, Inc.
Washington, DC**

Vice President (1996 to Present)

Senior Consultant (1991 to 1995)

Mr. Lee provides consulting services that reflect his depth of experience with regulated utilities. For over a quarter of a century, he has been extensively involved in regulatory financial and accounting matters.

Mr. Lee has provided expert witness testimony, technical assistance and strategic support to clients in state commission proceedings related to the telephone, cellular telephone and electric industries. His testimony has addressed such matters as intraLATA competition, rate design, interconnection, cost allocation, incentive regulation, productivity, and overall financial performance. Mr. Lee has also conducted a cost allocation and affiliate transaction audit of a major telephone company on behalf of its state commission.

Mr. Lee has assisted clients in proceedings before the Federal Communications Commission (FCC) related to integrated long distance service packages, enhanced services, expanded local exchange interconnection, open network architecture, intelligent networks, rate of return, depreciation, network reliability, incentive regulation, and video dialtone. Recently, Mr. Lee performed a study on plant writedowns in the U.S. telecommunications industry on behalf of the Canadian Radio-Television and Telecommunications Commission.

AT&T, Basking Ridge, NJ

Regulatory Vice President (1988-1990)

Division Manager (1980-1988)

Mr. Lee represented AT&T before the FCC in all financial and accounting matters. In this capacity, he directed the preparation of all financially related AT&T filings and coordinated the analysis of commission and intervenor responses. In addition, he was responsible for the periodic review of AT&T financial operating results and the development of related capital and expense forecasts.

Mr. Lee directed the design and implementation of AT&T's automated system for the reporting of financial information to the FCC. He also was responsible for the implementation of AT&T's manual for the separation of regulated and unregulated costs and the conversion of the company to the revised Uniform System of Accounts.

His responsibilities included liaison with the FCC's audit staff and coordination of their activities with respect to AT&T. During his tenure, Mr. Lee brought scores of FCC investigations involving many billions of dollars to equitable conclusions.

Mr. Lee participated in the strategic development of price cap incentive regulation proposals and performed numerous related financial analyses. He also conceived and developed a methodology which reduced the administrative burden of AT&T's depreciation filings by over 90%.

Prior to divestiture, Mr. Lee coordinated all Bell System depreciation filings, rate of return pleadings and interstate rate cases. He was responsible for securing FCC approval of the accounting entries which implemented the Modified Final Judgment.

New York Telephone Company New York, NY

District Manager (1970-1980)

Accounting Manager (1963-1970)

Mr. Lee held a variety of progressively responsible positions leading to his selection as the Company's accounting representative before the New York Public Service Commission. In this capacity, he participated in numerous general rate cases and related proceedings.

In an earlier assignment, Mr. Lee directed an inter-departmental study of the company's "Lost Telephone Set" problem. The study resulted in both operational improvements and major strategy changes by the company.

While in a rotational assignment to AT&T, Mr. Lee developed a cost accounting and productivity measurement system that was implemented in all Bell System Comptrollers Departments.

Mr. Lee also managed numerous line organizations of up to 200 persons responsible for billing and collection, property and cost and data processing functions.

Education

Yale University, B.S. (High Honors)

Harvard Business School, MBA (Distinction)

Professional Affiliations

Society of Depreciation Professionals

All LEC's Plant Related Rates
(Dollars in Millions)

Attachment 4
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	Telecommunications Plant in Service				<u>Add</u> (e)	<u>Ret</u> (f)	<u>Deprec</u> (g)	<u>EOY</u> <u>Reserve</u> (h)	<u>AVG</u> <u>Reserve</u> (i)	<u>Add</u> <u>Rate</u> (j) = e/a	<u>Retire</u> <u>Rate</u> (k) = f/a	<u>Deprec</u> <u>Rate</u> (l) = g/c	<u>Reserve</u> <u>Percent</u> (m) = h/b
	<u>BOY</u> (a)	<u>EOY</u> (b)	<u>Average</u> (c)=(a+b)/2	<u>Increase</u> (d) = b-a									
1946		6,500	3,250	6,500				2,300					35.4
1947	6,500	7,400	6,950	900				2,500	2,400				33.8
1948	7,400	8,700	8,050	1,300				2,600	2,550				29.9
1949	8,700	9,800	9,250	1,100				2,800	2,700				28.6
1950	9,800	10,500	10,150	700				3,000	2,900				28.8
1951	10,500	11,300	10,900	800				3,200	3,100				28.3
1952	11,300	12,300	11,800	1,000				3,400	3,300				27.6
1953	12,300	13,400	12,850	1,100				3,600	3,500				26.9
1954	13,400	14,600	14,000	1,200				3,800	3,700				26.0
1955	14,600	15,800	15,200	1,200				4,100	3,950				25.9
1956	15,800	17,400	16,600	1,600				4,300	4,200				24.7
1957	17,400	19,600	18,500	2,200				4,600	4,450				23.5
1958	19,600	22,000	20,800	2,400				4,900	4,750				22.3
1959	22,000	23,000	22,500	1,000				5,200	5,050				22.6
1960	23,000	25,000	24,000	2,000	2,700	700	1,100	5,600	5,400	11.7	3.0	4.6	22.4
1961	25,000	27,000	26,000	2,000	2,800	800	1,200	6,000	5,800	11.2	3.2	4.6	22.2
1962	27,000	29,000	28,000	2,000	2,900	900	1,300	6,400	6,200	10.7	3.3	4.8	22.1
1963	29,000	32,000	30,500	3,000	4,000	1,000	1,400	6,800	6,600	13.8	3.4	4.6	21.3
1964	32,000	34,000	33,000	2,000	2,900	900	1,600	7,500	7,150	9.1	2.8	4.8	22.1
1965	34,000	37,000	35,500	3,000	4,100	1,100	1,700	8,100	7,800	12.1	3.2	4.8	21.9

All LEC's Plant Related Rates
(Dollars in Millions)

Attachment 4
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	<u>Telecommunications Plant in Service</u>				<u>Add</u> (e)	<u>Ret</u> (f)	<u>Deprec</u> (g)	<u>EOY</u> <u>Reserve</u> (h)	<u>AVG</u> <u>Reserve</u> (i)	<u>Add</u> <u>Rate</u> (j) = e/a	<u>Retire</u> <u>Rate</u> (k) = f/a	<u>Deprec</u> <u>Rate</u> (l) = g/c	<u>Reserve</u> <u>Percent</u> (m) = h/b
	<u>BOY</u> (a)	<u>EOY</u> (b)	<u>Average</u> (c)=(a+b)/2	<u>Increase</u> (d) = b-a									
1966	37,000	40,000	38,500	3,000	4,100	1,100	1,900	8,900	8,500	11.1	3.0	4.9	22.3
1967	40,000	44,000	42,000	4,000	5,100	1,100	2,100	9,900	9,400	12.8	2.8	5.0	22.5
1968	43,249	47,123	45,186	3,874	5,104	1,230	2,304	10,979	10,440	11.8	2.8	5.1	23.3
1969	47,175	51,724	49,450	4,549	6,022	1,473	2,507	12,072	11,528	12.8	3.1	5.1	23.3
1970	51,723	56,951	54,337	5,228	6,880	1,851	2,751	13,213	12,643	13.3	3.2	5.1	23.2
1971	56,872	63,090	60,031	6,118	8,052	1,933	3,018	14,447	13,830	14.1	3.4	5.0	22.9
1972	63,068	69,870	66,469	6,802	9,044	2,242	3,330	15,643	15,045	14.3	3.6	5.0	22.4
1973	69,951	77,442	73,697	7,491	10,085	2,595	3,659	16,769	16,208	14.4	3.7	5.0	21.7
1974	77,107	84,888	80,998	7,781	11,024	3,243	4,047	17,685	17,227	14.3	4.2	5.0	20.8
1975	84,799	92,284	88,542	7,485	10,881	3,396	4,486	18,809	18,247	12.8	4.0	5.1	20.4
1976	92,591	99,879	96,235	7,288	11,139	3,856	4,934	20,183	19,488	12.0	4.2	5.1	20.2
1977	101,237	109,496	105,367	8,259	12,438	4,136	5,830	21,903	21,033	12.3	4.1	5.3	20.0
1978	109,502	119,336	114,419	9,834	14,549	4,681	6,189	23,474	22,689	13.3	4.3	5.4	19.7
1979	118,612	129,972	124,292	11,360	16,843	5,452	6,820	24,881	24,178	14.2	4.6	5.5	19.1
1980	129,767	142,096	135,932	12,329	18,694	6,378	7,804	26,512	25,697	14.4	4.9	5.7	18.7
1981	142,121	155,845	148,983	13,724	19,482	5,749	8,654	29,932	28,222	13.7	4.0	5.8	19.2
1982	155,907	168,075	161,991	12,168	18,486	6,409	9,757	33,957	31,945	11.8	4.1	6.0	20.2
1983	169,162	178,482	173,822	9,320	16,078	6,664	11,340	39,571	36,764	9.5	3.9	6.5	22.2
1984	152,315	159,798	156,057	7,483	14,994	4,994	10,048	37,996	38,784	9.8	3.3	6.4	23.8
1985	174,218	186,294	180,256	12,076	18,972	6,687	11,469	43,837	40,917	10.9	3.8	6.9	25.7

All LEC's Plant Related Rates
(Dollars in Millions)

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Telecommunications Plant in Service					Add	Ret	Deprec	EOY Reserve	AVG Reserve	Add Rate (j) = e/a	Retire Rate (k) = f/a	Deprec Rate (l) = g/c	Reserve Percent (m) = h/b
BOY (a)	EOY (b)	Average (c)=(a+b)/2	Increase (d) = b-a										
1986	186,972	198,758	192,885	11,786	18,907	8,954	13,142	51,543	47,690	10.1	3.7	7.5	28.4
1987	199,063	209,687	204,375	10,624	18,535	7,886	15,263	61,471	56,507	9.3	4.0	8.1	31.6
1988	210,720	220,395	215,558	9,675	17,947	8,949	16,627	74,123	67,797	8.5	4.2	7.7	33.6
1989	220,126	228,326	224,726	9,200	18,868	8,145	16,839	83,115	78,619	7.7	3.7	7.5	36.2
1990	229,103	235,247	232,175	6,144	18,473	12,360	16,955	88,148	85,631	8.1	5.4	7.3	37.5
1991	236,093	241,620	238,857	5,527	18,322	12,896	16,607	91,427	89,787	7.8	5.5	7.0	37.8
1992	242,599	249,508	246,054	8,909	18,877	12,138	17,036	98,053	94,740	7.8	5.0	6.9	39.3
1993	250,570	258,782	254,676	8,212	18,864	11,217	17,676	106,079	102,066	7.5	4.5	6.9	41.0
1994	259,216	267,443	263,330	8,227	18,781	10,990	18,656	114,598	110,339	7.2	4.2	7.1	42.8
1995	268,555	278,946	273,751	10,391	19,482	9,411	19,393	125,789	120,194	7.3	3.5	7.1	45.1
1996	278,974	291,569	285,272	12,595	22,401	10,271	20,527	137,278	131,534	8.0	3.7	7.2	47.1
Avg.	'60-'71									12.0	3.1	4.9	
	'72-'83									13.1	4.1	5.5	
	'84-'96									8.5	4.2	7.2	

Source: 1948 - 1967 Report on Telephone Industry Depreciation, Tax and Capital/Expense Policy, Accounting and Audits Division, FCC, April 15, 1987, pp.6, 9
1968 - 1983 FCC Statistics of Common Carriers, Tables 12 and 16
1984 - 1987 FCC Statistics of Common Carriers, Tables 10 and 14
1988 - 1996 FCC Statistics of Common Carriers, Tables 2.7 and 2.9

Note 1: 1946 - 1983 includes AT&T

Note 2: From FCC Statistics of Common Carriers, Table 14

Col l = 1985 Col g/165,076

1988 Col g/175,926

1987 Col g/187,920

Col m = 1985 Col h/170,355

1986 Col h/181,496

1987 Col h/194,343

All LEC's Plant Related Rates
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Telecommunications Plant in Service												
<u>BOY</u> (a)	<u>EOY</u> (b)	<u>Average</u> (c)=(a+b)/2	<u>Increase</u> (d) = b-a	<u>Add</u> (e)	<u>Ret</u> (f)	<u>Deprec</u> (g)	<u>EOY Reserve</u> (h)	<u>AVG Reserve</u> (i)	<u>Add Rate</u> (j) = e/a	<u>Retire Rate</u> (k) = f/a	<u>Deprec Rate</u> (l) = g/c	<u>Reserve Percent</u> (m) = h/b

Cincinnati Bell Telephone Plant Related Rates

(Dollars in Millions)

Telecommunications Plant in Service													
BOY (a)	EOY (b)	Average (c)=(a+b)/2	Increase (d) = b-a	Add (e)	Ret (f)	Deprec (g)	EOY Reserve (h)	AVG. Reserve (i)	Add Rate (j) = e/a	Retire Rate (k) = f/a	Deprec Rate (l) = g/c	Reserve Percent (m) = h/b	
1992	1,341	1,390	1,366	49	96	47	89	514	483	7.1	3.5	6.5	37.0
1993	1,390	1,422	1,406	31	123	89	91	526	520	8.8	6.4	6.5	37.0
1994	1,422	1,438	1,430	16	112	95	110	543	535	7.8	6.7	7.7	37.0
1995	1,438	1,500	1,469	62	98	34	104	614	579	6.7	2.4	7.1	40.9
1996	1,500	1,546	1,523	46	95	49	109	662	653	6.3	3.2	7.1	44.8
Avg.									7.4	4.4	7.0		

Source: ARMIS 43-02 Reports, Table B-1, 1992-1996; Table B-5 1992-1996

Note: Excludes Customer Premise Wiring

Projection Life Comparison

	<u>Account Number</u>	<u>Account Name</u>	<u>FCC Range</u>		<u>CBT OH FCC (c)</u>
			<u>Low (a)</u>	<u>High (b)</u>	
1	2112	Motor Vehicles	7.5	9.5	7.9
2	2115	Garage Work Eqpt	12.0	18.0	12.0
3	2116	Other Work Eqpt	12.0	18.0	14.0
4	2121	Buildings	N/A	N/A	46.0
5	2122	Furniture	15.0	20.0	15.0
6	2123.1	Ofc. Support Eqpt	10.0	15.0	12.0
7	2123.2	Co. Comm. Eqpt	7.0	10.0	7.0
8	2124	Gen. Purpose Computers	6.0	8.0	5.5
9	2212	Digital Switching	16.0	18.0	15.0
10	2220	Operator Systems	8.0	12.0	7.5
11	2232	Digital Circuit	11.0	13.0	11.0
12	2351	Public Telephones	7.0	10.0	
13	2411	Poles	25.0	35.0	29.0
14	2421	Aerial Cable - Met	20.0	26.0	21.0
15	2421	Aerial Cable - Fiber	25.0	30.0	25.0
16	2422	Underground Cable - Met	25.0	30.0	24.0
17	2422	Underground Cable - Fiber	25.0	30.0	25.0
18	2423	Buried Cable - Met	20.0	26.0	22.0
19	2423	Buried Cable - Fiber	25.0	30.0	25.0
20	2426	Intrabldg Cable - Met	20.0	25.0	18.0
21	2426	Intrabldg Cable - Fiber	25.0	30.0	25.0
22	2441	Conduit Systems	50.0	60.0	50.0

Source: Col a, b = FCC Docket No. 92-296 Orders released 6/28/94 and 5/4/95
Col c = FCC Parameter Report, July 14, 1997