

Confidential Release

Case Number: 96-899-TP-ALT

**Date of Confidential Document:
12/17/1997**

Today's Date: OCT 25 2011

**Objections of AT&T Communications of Ohio to
the November 17, 1997 staff report of
investigation. (88 pgs)**

Vorys, Sater, Seymour and Pease
83 East Gay Street
Post Office Box 1006
Columbus, Ohio 43261-1006

96-889-TP-ALT
88 App.

CONFIDENTIAL

RECEIVED
DEC 17 1997
DOCKETING DIVISION
Public Utilities Commission of Ohio

CONFIDENTIAL
Daisy Crockron
Chief of Docketing Division
PUCO
180 East Broad Street, 10th Floor
Columbus, Ohio

This is to certify that the images appearing are an accurate and complete reproduction of a case file document delivered in the regular course of business. Technician Donna M. Miller Date Processed Dec 18, 1997

CONFIDENTIAL

RECEIVED DOCKETING DIV
97 DEC 17 PM 5:11
PUCO

00-0507

FILED
APR 17 2000
MARCIA J MENGEL, CLERK
SUPREME COURT OF OHIO

BEFORE

97 DEC 17 PM 5:10

THE PUBLIC UTILITIES COMMISSION OF OHIO

PUCO

In the Matter of the Application of
Cincinnati Bell Telephone Company
for Approval of a Retail Pricing Plan
Which May Result in Future Rate
Increases and for a New Alternative
Regulation Plan.

)
)
)
)
)
)

Case No. 96-899-TP-ALT

CONFIDENTIAL

OBJECTIONS OF
AT&T COMMUNICATIONS OF OHIO, INC.
TO THE NOVEMBER 17, 1997
STAFF REPORT OF INVESTIGATION

Pursuant to Sections 4909.19 and 4927.04 R.C., Rule 4901-1-28 O.A.C. and Rule IX.C. of the Rules for Alternative Regulation of Large Local Exchange Companies ("Large LEC Rules") adopted by the Public Utilities Commission of Ohio ("Commission") in Case No. 92-1149-TP-COI, AT&T Communications of Ohio, Inc. ("AT&T") respectfully submits its objections to the November 17, 1997 Staff Report of Investigation ("Staff Report") in this matter.

Objections to Staff Report Opinions and Recommendations
Regarding Proposed Plan of Alternative Regulation

1. The Application of Cincinnati Bell Telephone Company ("CBT") provides that services that mirror interstate rates, such as switched access, will continue to mirror interstate rates and rate structures. Application, Schedule 1, p. 75. The Staff Report does not specifically address CBT's proposal of continued mirroring of interstate switched access rates and AT&T

can, therefore, only presume that Staff supports this proposal.¹ AT&T objects to the Staff's failure to recommend the elimination of mirroring of interstate switched access rates. As discussed further in subsequent objections, mirroring of interstate switched access rates will allow CBT to continue to collect switched access revenues for which it incurs no costs. These excess revenues confer both an unjust and unreasonable competitive advantage on CBT and hamper the growth of competition in CBT's service territory in violation of the policy goals of Section 4927.02 R.C.

2. AT&T objects to CBT's mirroring of the FCC's proposed market-based interstate switched access rates. Throughout the Staff Report, Staff indicates that CBT is not yet subject to substantial competition and rejects the immediate relaxed regulation requested by CBT on the basis that such relaxation must be contemporaneous with a demonstration of a significant level of competition. CBT maintains bottleneck control and is likely to maintain such control for the foreseeable future, thus making it unjust and unreasonable to rely on market forces and competition to reduce switched access prices in an acceptable time frame.

3. AT&T objects to the Staff's opinion that CBT's proposal to reduce terminating CCLC by approximately \$500,000 is consistent with the development of a competitive market. It is unlikely that the minimal decrease recommended by Staff could meaningfully constrain the competitive edge that excess access revenues give CBT, thus making the recommendation unreasonable in an alternative regulation plan that is to promote diversity and the development of competition. Further, if Staff is recommending that CBT mirror its interstate switched access rates, this reduction is not sufficient to reduce the CCLC to the interstate levels.

¹ The Staff does state that carrier access will not be subject to the proposed price cap index ("PCI"), but rather, will be regulated by parameters established by the FCC. Staff Report, p. 45.

4. AT&T's objects to Staff's failure to recommend that CCLC and RIC (both originating and terminating) and the Information Surcharge rate elements for switched access be eliminated. None of these access elements has any incremental cost basis and, in fact, CBT asserts that switched access revenues subsidize local residential service. CBT has not supported its claim that it needs these excess revenues from access to subsidize residence service. Without such proof, it is unjust and unreasonable to allow the continuance of revenues for which there is not cost basis. Staff specifically determines that CBT is overearning. This finding makes unreasonable Staff's failure to eliminate rate elements for switched access that have no cost basis.

5. As Staff appears to accept the continued mirroring of interstate switched access rates, AT&T objects to the recommendation implied by such continued mirroring that CBT should be allowed to implement new non-cost-based access rate elements such as the federal Presubscribed Interexchange Carrier Charge ("PICC"). Introduction of an intrastate PICC is both unjust and unreasonable as it serves only to maintain a revenue stream for which CBT has no cost basis and, consequently, no need has been established.

6. AT&T objects to Staff's recommendation that further cost analyses in future proceedings is necessary to further reduce switched access rates for CBT. In this very proceeding, the Commission has access to specific TELRIC data for CBT that can be used to order reasonable cost-based access rates.² With this cost information, and no proof by CBT of a need for subsidy elements, cost-based access rates for the elements of local switching and tandem switched transport are necessary to accomplish just and reasonable switched access rates. Further, it would be premature and anticompetitive to award CBT additional regulatory freedom

² Specifically, TELRIC data for reciprocal compensation.

without first requiring CBT to align its costs for its largely noncompetitive access services with their incremental costs.

7. AT&T agrees with Staff's recommendation that carrier access services should remain a Cell 1 service. Staff Report, p. 71. AT&T, however, objects to the Staff's recommendations for the process to be used for price changes and changes to terms and conditions for carrier access. In this emerging competitive market, the process suggested for changes to carrier-to-carrier services should be applied to carrier access services as well. AT&T's recommendation, unlike the Staff's, is consistent with the Large LEC Rules and allows opportunity for input as CBT suggests changes to its carrier access services.

8. The Staff Report specifically recommends that only the residential and non-residential service baskets are to be subject to the PCI and carrier access will be subject to the regulatory parameters developed by the FCC and Commission in other proceedings. Staff Report, p. 45. The Staff further recommends, however, that exogenous impacts be apportioned proportionately between residence and non-residence service groups and potentially the intrastate carrier access basket. Staff Report, p. 56. Based on the Staff's recommendation that carrier access not be subject to the PCI (which incorporates the exogenous factor), AT&T objects to the apportionment of exogenous impact adjustments to the carrier access basket as it is inconsistent and, therefore, unreasonable.

9. AT&T objects to the Staff recommendation that CBT's EAS proposal be incorporated into the alternative regulation plan. Staff Report, p. 65. Staff's recommendation unreasonably further monopolizes the little area of competition in CBT's territory and removes this market from competitive toll service without first ensuring that new entrants will be able to

compete for these customers as local service customers. AT&T's suggested access reductions would better address the issues raised by CBT's customers being served by the Reily, Seven Mile, Hamilton and Harrison central offices, while allowing continuance of the already-existing competitive telecommunications environment which the Commission is to promote.

10. AT&T objects to Staff's recommendation to allow CBT a waiver regarding the offering of individual contracts at wholesale rates, which would eliminate the requirement of Section 251(c)(4) of the 1996 Act that all LECs must offer such contracts at wholesale prices. The FCC, consistent with the procompetitive goals of the 1996 Act, created a presumption that resale restrictions are unreasonable. First Report and Order, CC Docket No. 96-98, August 8, 1996 ("FCC Order"), Para. 939. CBT has failed to overcome this presumption. The FCC specifically addressed discounted offerings and found that "no basis exists for creating a general exemption from the wholesale requirement for all ...discount service offerings made by incumbent LECs." FCC Order, ¶948. The FCC came to this conclusion because it believed a contrary result would permit incumbent LECs, like CBT, to avoid the statutory resale requirements by shifting their customers to nonstandard offerings. The Commission's Local Service Guidelines require that requests for restrictions on resale be narrowly focused. Local Service Guidelines, Section IX.C. CBT's requested waiver is clearly a general exemption from the wholesale requirement for all its discount service offerings and, therefore, cannot be considered narrowly focused. Granting such a waiver request would be unjust, unreasonable and could have anticompetitive results. CBT's request to prohibit the resale of customer-specific contracts would unreasonably restrict the advent of competition for such services. Staff wrongly concluded that there is a significant potential that the resale of contracts at wholesale rates could lead to an undue economic burden

on CBT and would, correspondingly, put the rates of CBT's residential customers at significant risk. As noted by Staff's conclusion regarding CBT's excessive rate of return, CBT has failed to prove the existence of such a burden or risk. Staff's recommendation is, therefore, contrary to the Act and Ohio's public policy to foster competition for all telecommunications services. For the same reasons that Staff rejected each of CBT's other § 251 Suspension/Modification requests, Staff should have rejected CBT's attempt to avoid its clear obligations under the Act to provide its retail services to NECs at wholesale rates.

11. AT&T strongly supports Staff's recommendation that the Commission deny CBT's request to prohibit new entrant carriers ("NECs") from providing telecommunications service by combining unbundled network elements. In addition, AT&T notes that to the extent that CBT would propose unlawful, unreasonable, or wholly inefficient and unnecessary conditions upon NECs who desire to provide local service through UNEs (such as a requirement that the NEC collocate in CBT's end offices) AT&T will object to such restrictions as contrary to the plain terms of the 1996 Telecommunications Act, the Eighth Circuit's recent orders concerning the combination of UNEs, and Ohio's public policy goal of fostering competition in the telecommunications marketplace. Therefore, AT&T intends to investigate at hearing how CBT would propose to allow NECs to provide telecommunications service through unbundled network elements.

Objections to Staff Report Opinions and Recommendations
Regarding Proposed Total Element Long-Run
Incremental Cost Methodology and Studies

In addition to its investigation regarding the various alternative regulation issues noted above, in its Report, Staff also noted its objections to, and support of, CBT's testimony and cost

studies supporting its rates for interconnection, reciprocal compensation, and unbundled network elements (UNEs). In its May 15, 1997 Entry, the Commission directed CBT to file testimony and cost studies for the provisioning of UNEs at TELRIC-based rates.

As an initial matter, AT&T commends the Staff on its investigation into CBT's TELRIC cost studies. On the whole, AT&T supports most of Staff's recommendations relating to the deficiencies in CBT's TELRIC studies. As noted below, however, there are limited issues upon which AT&T disagrees with Staff.³ Furthermore, with Staff's recommendations as a base, along with other interested parties, AT&T has been able to identify further deficiencies in CBT's TELRIC cost studies not yet noted by Staff. To the extent possible, AT&T has highlighted those additional deficiencies in these objections. AT&T will support its positions on these additional issues in the testimony of its TELRIC witness James Webber and AT&T/MCI joint witnesses Richard Lee and John Hirshleifer.

AT&T also notes that its objections to Staff's recommendations on TELRIC issues are not encompassed by the rules governing applications for rate increases under Section 4909.19 or the Ohio Revised Code and O.A.C. Rule 4901-1-28. TELRIC issues have been encompassed into this proceeding pursuant to the Commission's May 15, 1997 Entry and are not part of this proceeding based on any other Ohio statutory or regulatory requirement. Further, these TELRIC issues are not encompassed within the Large LEC Rules.

In order to clarify the issues presented in this case, AT&T has chosen to file objections to Staff's recommendations regarding TELRIC issues. By doing so, however, AT&T is not admitting to the application of the Commission's alternative regulation rules to the TELRIC

³ Many of AT&T's objections relating to Staff's analysis of CBT's TELRIC cost studies apply equally to Staff's analysis of CBT's LRSIC cost studies (Objections Nos. 12-16, 18-20, 23-27, 29 and 31-38).

portion of this proceeding. Specifically, AT&T believes that the Commission's rules relating to what information must be included in its objections to the Staff report, and its ability to raise issues outside of its objections noted herein, do not apply to the TELRIC issues in this proceeding.

TELRIC Objections

12. AT&T agrees with Staff's conclusions relating to the expenses Staff identified as not properly chargeable to common overhead. However, AT&T objects to Staff's recommended 17% common allocation factor. AT&T believes there are other expenses which CBT has improperly allocated to common overhead which Staff has not yet identified. Recently, both Staff and MCI requested that CBT provide the parties with a list of all "function codes" included in the development of its common overhead allocator. Since new information is soon to be available, AT&T has not finalized its recommendations in regard to CBT's common cost allocator. AT&T expects to investigate this issue in greater detail during the hearing.

13. AT&T objects to Staff's conclusion that the use of the NCAT, SCIS and ECONCOST models is reasonable. AT&T objects to the use of these models based on the fact that these models are virtual "black boxes." In other words, these models are not transparent and cannot be recreated and verified by Staff or intervenors. Data is provided into these models, and costs are spit out, but no one, including CBT's cost witnesses, knows for sure how these models generate these costs. Moreover, AT&T objects to CBT's use of "average" as opposed to "marginal" SCIS and NCAT runs. As will be more fully explained in the testimony of AT&T witness James Webber, CBT's reliance on average NCAT runs is inconsistent with a total element, long run, incremental, forward-looking cost methodology.

14. The Staff erred in recommending that the cost of capital analysis it performed to determine CBT's traditional revenue requirement for purposes of the alternative regulation case be used to estimate the TELRIC cost of capital for purposes of pricing unbundled network elements. The 1996 Act and this Commission's Local Service Guidelines (V.B.4.b.3) require that the TELRIC of an element be calculated using the forward-looking economic cost of capital. The Staff's traditional cost of capital analysis utilizes historical debt and embedded debt costs and is, therefore, not properly used for TELRIC purposes. Staff's allowance for flotation costs in its traditional cost of capital analysis is also inconsistent with the forward-looking cost standard because Staff's DCF analysis already captures investor expectations regarding the impact of future financing costs on future cash flows.

15. The Staff has overstated the cost of capital to CBT by using the single-stage DCF model to estimate the cost of equity. The use of the perpetual growth model is clearly inappropriate for firms whose five-year growth rates are expected to exceed the growth rate of the economy by a significant margin because it unreasonably assumes that such growth rate will be sustained in perpetuity. Under these circumstances, the Staff should have employed a multi-stage DCF model of the type accepted by the Commission in the Ameritech Ohio TELRIC proceeding. Case No. 96-922-TP-UNC.

16. The Staff has overstated the cost of equity to CBT by including an allowance for issuance costs particularly since there is no evidence that CBT plans to undertake any large equity financing in the near future to raise capital for CBT.

17. AT&T objects to Staff's conclusion relating to the Direct Administrative Expense Factor based on the fact that AT&T believes that Staff has not yet gone far enough in

investigating the reasonableness of the direct administrative factor recommended by CBT. AT&T notes that there are several other deficiencies in CBT's recommended direct administrative expense factor that Staff did not note. For example, AT&T's preliminary investigation has revealed that CBT's proposed "forward-looking" administrative expense factor is not forward-looking at all but, instead, is based on CBT's embedded investment. CBT has not performed a study to determine whether its embedded administrative expense factor is indeed forward-looking. Furthermore, AT&T notes that the function code data referenced in AT&T's objection to Staff's recommendations relating to common costs is also relevant in determining whether CBT's proposed administrative expense components can be allocated directly to particular elements. For example, with respect to CBT's information management expense, CBT has failed to apportion the expense of particular computer systems to the specific underlying functions of each computer. Since new information is soon to be available, AT&T has not finalized its recommendations in regard to CBT's common cost allocator. AT&T expects to investigate this issue in greater detail during the hearing.

18. AT&T shares Staff's concerns relating to the development of CBT's support, power and equipment, land and building factors. On the whole, AT&T believes that these factors are inappropriate as each is based on CBT's embedded expense and investment. CBT did not conduct a study to determine whether its embedded investments that underlie these factors is consistent with a forward-looking environment.

19. AT&T agrees with Staff's recommendation that CBT recalculate its TELCO Engineering Factor based on today's engineering realities. AT&T does note, however, that such a recalculation of CBT's engineering factor should not be based on CBT's embedded data. To the

contrary, CBT's recalculation of its TELCO engineering factor must be consistent with a forward-looking environment. AT&T reserves further its objections to CBT's TELCO engineering factor based on the new information that CBT may provide relating to this factor.

20. As a general matter, AT&T does not object with Staff's finding that CBT's proposed five year study period is reasonable. However, AT&T does note that CBT has failed to conduct such a forward-looking study. Instead, CBT's cost studies are based on embedded technology, expenses and data that CBT assumes – without support – will continue at their present levels over the next five years.

21. AT&T agrees with the deficiencies in CBT's transport and termination cost studies as identified in the Staff Report. However, AT&T does note several other deficiencies in those cost studies:

First, AT&T objects to CBT's implicit assumption within its Common Transport study that common transport is somehow restricted to the transport of traffic only within local calling areas. Consistent with the FCC Order and the FCC's Third Order on Reconsideration, CBT's Common Transport study should also incorporate traffic that moves to and from unbundled local switching locations for the purposes of originating and terminating interexchange or long distance traffic. See In the Matter of Implementation of the Local Competition Provisions in the Telecommunications Act of 1996, Third Order on Reconsideration, CC Docket No. 96-98.

Second, AT&T notes that CBT's transport and termination cost study utilizes dated traffic data (from 1992 and 1995). To the extent that use of CBT's facilities has increased, CBT's incremental costs should decrease.

Third, AT&T agrees with Staff that CBT's recommended material prices are dated and not forward-looking. AT&T further agrees with Staff's recommendation that CBT supply a new material factor. However, AT&T does not believe that Staff's recommendation that CBT apply the appropriate TPI factor to its 1993 material factor would in and of itself make CBT's material prices forward-looking. CBT should conduct a forward-looking study to determine what its material prices would be in a forward-looking environment. AT&T will continue to investigate this issue at hearing.

22. AT&T objects to Staff's recommendation to rerun the NCAT model using terminating feature group D traffic only. Staff's recommendation in this regard is improperly focused on services, not the underlying functionalities of the switch. Staff's recommendation is also inconsistent with this Commission's Local Service Guidelines, which require that all demand should be accounted for when pricing UNEs. Local Service Guidelines, Section V.B.4.b.11.

23. Staff recommended that CBT go back and include SS7 costs in its cost studies. AT&T objects to this recommendation to the extent that CBT's "setup" costs already include costs which would be avoided if CBT assumed the use of SS7 technology (e.g. trunk seizure).

24. AT&T agrees with Staff's conclusion that CBT's fill factors for DS3, DS1 and DS0 facilities are not forward-looking, as they are based on actual utilization levels as they existed in CBT's outside plant records in 1992. AT&T also supports Staff's recommendation that CBT adjust its fill factor. AT&T reserves its right to object to CBT's adjusted fill factors at the time CBT may adjust those fill factors in accordance with Staff's recommendations. Until AT&T knows what those fill factors are, it is unable to object to those fill factors.

25. As to Staff's recommendations regarding CBT's Local Switching Usage and Common Transport Study, AT&T incorporates its objections to Staff's recommendations relating to CBT's Transport and Termination study noted above (e.g. objections relating to CBT's restrictive definition of common transport and its use of NCAT and SCIS).

26. AT&T objects to Staff's failure to further investigate the vendor discounts CBT uses in its switching studies. AT&T does not believe that these discounts include individual case discounts that CBT may receive from vendors on a "transaction by transaction" basis. Therefore, in AT&T's latest set of discovery requests dated December 1, 1997, AT&T requested certain information from CBT relating to this issue. AT&T will continue to investigate this issue after receiving CBT's responses to those requests and at hearing.

27. AT&T agrees with Staff's conclusion that CBT's switching fill rates are not based on forward-looking fill rates. Therefore, AT&T agrees with Staff that CBT should direct its engineers to reexamine the current switch fills and adjust them so that they are representative of forward-looking fills. Absent such a study, however, AT&T will continue to determine CBT's proper forward-looking fill rates. Furthermore, AT&T has no data which currently indicates that CBT's installed switches, upon which its TELRIC studies are based, are properly sized to correspond to CBT's network. Therefore, AT&T believes that CBT's installed switches do not represent the least-cost and most efficient deployment of CBT's network.

28. Staff recommends a per minute, per mile rate for common transport. AT&T does not object to Staff's proposed pricing of common transport to the extent that CBT's additional costs related to pricing common transport on a per minute, per mile basis are not so significant that pricing common transport in this fashion would essentially outweigh the benefits of doing so.

If that were true, AT&T would recommend that CBT continue to price common transport on a per minute basis. AT&T will investigate this issue further at hearing in this matter.

29. As to Staff's recommendations relating to CBT's Switch Termination, Central Office Line Termination (Single Line) and Custom Calling Feature studies, AT&T incorporates its earlier objections relating to Staff's recommendations relating to CBT's traffic data, underlying investments, vendor data, the use of SCIS and NCAT, and fill rates in its other switching studies. AT&T also notes that it believes that there are numerous other problems with the studies noted above in that the underlying investment and expense assumptions are not forward-looking, but are based upon CBT's embedded expenses and investment. AT&T plans to further investigate this issue at hearing.

30. AT&T agrees with Staff's recommendations relating to the deficiencies in CBT's non-recurring cost studies. In particular, AT&T is concerned that CBT's NRC cost studies fail to consider costs in a forward-looking environment, including the use of automated OSS systems rather than manual processing or use of facsimile machines. CBT's NRC studies also fail to consider efficiencies realized when a NEC orders multiple UNEs for a single end-user customer, similar to the efficiencies assumed by CBT's end-user LRSIC studies.

31. AT&T concurs with the deficiencies in CBT's unbundled loop cost studies as identified by Staff. AT&T also believes that there are numerous other problems with these studies and the underlying investment and expense assumptions which should be further investigated at hearing. AT&T notes several of those specific deficiencies in the objections noted below.

32. AT&T objects to the Staff Report to the extent that the Staff Report did not analyze whether CBT has in fact employed forward-looking assumptions in the costing of the

composite prototype loop for each band, including the break-point between DLC and non-DLC loops, distribution and feeder, mixture of aerial, buried and underground facilities, cable size and type, and fill rates. AT&T also does not necessarily agree with the Staff's recommendation that all non-DLC feeder plant be redesigned to utilize fiber. CBT acknowledged during depositions that it performed an analysis comparing the cost of DLC versus non-DLC loops near the chosen thresholds. The work papers for this analysis were requested at the deposition and have yet to be provided by CBT. Finally, AT&T notes that Staff has not sufficiently considered certain investment assumptions in CBT's studies, including the assumption of a universal digital loop carrier system as compared to the integrated DLC system assumed in CBT's own retail studies.

33. AT&T agrees with Staff's recommendation to reject CBT's proposed fill rates in its loop studies as not being forward-looking or representative of the most efficient fill rate. With respect to fiber fill rates, AT&T does not fully agree with Staff's recommendation to assume a fill of 66% in the feeder, but supports Staff's move in the proper direction away from CBT's assumption of assigning a single 4-strand DLC device to a 12-strand fiber cable. In a forward-looking environment, fiber cable capacity is driven more by the electronics than by the cable itself and AT&T intends to further investigate at hearing whether fiber cable fill should be assumed to be near 100%. With respect to fill rates on the distribution side, AT&T is concerned that CBT is improperly loading costs onto the first line serving any particular customer, thus allowing it to reap enormous margins on a nearly cost-free second line and subsequent lines.

34. AT&T agrees with the deficiencies in CBT's unbundled loop investment as identified by Staff. AT&T also believes that there are numerous other problems with these studies and the underlying investment and expense assumptions which should be further investigated at

hearing. In particular, CBT was unable to sufficiently justify many of the expenses it claims are related to the installation of cable plant. Moreover, CBT was unable to differentiate between the expenses it assigns to the ongoing maintenance, power and common equipment for interoffice facilities as compared to its loop plant.

35. AT&T objects to Staff's recommendation to accept CBT's allocation among aerial, underground and buried plant because the proposed allocation reflects CBT's embedded plant with no demonstrated analysis of how these assumptions might change in a forward-looking environment. Moreover, Staff's analysis fails to recognize that CBT has combined the previously separate accounts for circuit investment with interoffice facilities. AT&T is concerned that this approach unduly assigns costs to the unbundled loop which would be more properly assigned to interoffice facilities.

36. AT&T agrees with the deficiencies in CBT's unbundled loop rate structure as identified by Staff. AT&T also believes that there are numerous other problems with these studies and the underlying investment and expense assumptions which should be further investigated at hearing. In particular, AT&T disagrees with Staff's recommendation to accept the "conditioning" charge rate structure proposed by CBT. CBT has explained that it has costed out a voice grade loop of such quality so as not to need repeaters and so as not to contain load coils. Despite costing out a loop in this manner, CBT then proposes additional charges to actually deliver a loop as specified in its cost models. AT&T agrees with Staff's comments concerning the NID, especially the assumptions about the number of loops assigned per NID in multiple loop orders. AT&T is also concerned about CBT's seemingly arbitrary assumption of 150' per drop/NID.

37. AT&T agrees with the deficiencies in CBT's cost studies relating to its service order and line connection charges as identified by Staff. AT&T also believes that there are

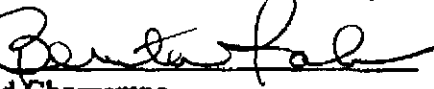
numerous other problems with these studies which should be further investigated at hearing and which Staff did not identify. AT&T notes its support of Staff's recognition that CBT has failed to consider the use of forward-looking electronic ordering and provisioning systems in developing its non-recurring charges. AT&T will conduct further investigation of whether CBT's cost studies fail to assume the use of forward-looking "integrated" and "next generation" DLC technology in place of the more costly and cumbersome "universal" DLC system assumed by CBT.

38. AT&T agrees with the deficiencies in CBT's cost studies relating to unbundled loop qualification and conditioning as identified by Staff. AT&T also believes that there are numerous other problems with these studies which should be further investigated at hearing. As noted above, AT&T believes that it is inappropriate for CBT to have assumed loops of a certain quality for the purpose of conducting its cost study (e.g., a loop without load coils) but to then charge NECs if such a loop free of load-coils is actually needed. NECs should not be charged any additional amount to receive a loop of the quality assumed in the basic study. The hearing should investigate the specifications of the specified basic loop and determine which services such loop could support without further conditioning. To the extent the actual loop cannot support a specified service, NECs should be required to pay only for the conditioning which would be needed to bring the prototype loop up to the needed specifications.

39. AT&T reserves the right to supplement its objections and/or testimony, as may be appropriate, if Staff changes its position on any issue contained within the Staff Report.

Respectfully submitted,

AT&T COMMUNICATIONS OF OHIO, INC.

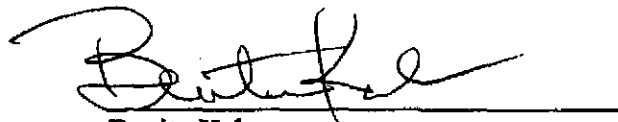
By: 

David Chorzempa
AT&T Corp.
227 West Monroe Street
13th Floor
Chicago, Illinois 60606
(312) 230-3503

Benita A. Kahn
Vorys, Sater, Seymour and Pease
52 East Gay Street
Columbus, Ohio 43216-1008
(614) 464-6400

CERTIFICATE OF SERVICE

I certify that a copy of the foregoing Objections of AT&T Communications of Ohio, Inc. to the November 17, 1997 Staff Report of Investigation were served upon the following persons by U. S. mail, postage prepaid, this 17th day of December, 1997.


Benita Kahn

Cincinnati Bell Telephone Company

David C. Olson
Christopher J. Wilson
Frost & Jacobs
2500 Central Trust Center
P. O. Box 5715
201 E. Fifth Street
Cincinnati OH 45202-4182

Time Warner Communications

Roger P. Sugarman
Attorney at Law
Kegler, Brown, Hill & Ritter
65 East State Street, Suite 1800
Columbus OH 43215

Marsha R. Schermer
Vice President - Regulatory Affairs
Midwest Region
Time Warner Communications
65 E. State Street, Suite 1800
Columbus, Ohio 43215

AT&T Communications of Ohio, Inc.

David Chorzempa
AT&T Communications, Inc.
227 W. Monroe Street, Suite 6N
Chicago IL 60606

Answering Exchange

Stephen M. Howard
Vorys, Sater, Seymour and Pease
52 E. Gay Street
Columbus OH 43216

Cincinnati Zoo and Botanical Gardens

Michael A. Byers
Kristina E. Sung
Taft, Stettinius & Hollister
21 East State Street, 12th Floor
Columbus Ohio 43215

MCI Telecommunications Corporation

Matthew H. Berns
205 N. Michigan Avenue
Chicago IL 60601

Judith B. Sanders
Bath Royer
Bell, Royer & Sanders Co., L.P.A.
33 South Grant Avenue
Columbus OH 43215-3927

Greater Cincinnati Hospital Council

Langdon D. Bell
Bell, Royer & Sanders Co., LPA
33 S. Grant Avenue
Columbus, Ohio 43215

Ohio Community Computing Center Network

Ellis Jacobs
Attorney at Law
Legal Aid Society of Dayton
333 W. First Street, Suite 500
Dayton, Ohio 45402

Sprint Communications Company L. P.

Martha Jenkins
8140 Ward Parkway
Kansas City, Missouri 64114-0417

Communities United for Action

Noel M. Morgan
Legal Aid Society of Cincinnati
901 Elm Street
Cincinnati, Ohio 45202-1016

The Ohio Cable Telecommunications Association

Sheldon A. Taft, Esq.
Vorys, Sater, Seymour and Pease
52 E. Gay Street, P.O. Box 1008
Columbus, Ohio 43216-1008

ICG Telecom Group, Inc.

Boyd B. Ferris
Muldoon & Ferris
2733 W. Dublin-Granville Road
Columbus, Ohio 43235-4268

Ohio Payphone Assn

Henry T. Kelly
O'Keefe, Asheden, Lyons & Ward
30 North LaSalle
Suite 4100
Chicago, Illinois 60602

TCG Cleveland

Bruce Weston
169 W. Hubbard Avenue
Columbus, Ohio 43215

Ohio Consumers' Counsel

David C. Bergmann
Office of Consumers Counsel
77 S. High Street, 15th Floor
Columbus, Ohio 43266-0550

Thomas J. O'Brien
Associate Consumers' Counsel
77 S. High Street, 15th Floor
Columbus, Ohio 43266-0550

Intermedia Communications and
Telecommunications Resellers Association
Sally W. Bloomfield, Esq.
Bricker & Eckler
100 South Third Street
Columbus, Ohio 43215-4291

Dwight Nodes
Attorney Examiner
Legal Department
180 E. Broad Street, 7th Floor
Columbus, Ohio 43215

Steven T. Nourse
Assistant Attorney General
Public Utilities Section
180 East Broad Street, 7th Floor
Columbus, Ohio 43215

Brenda J. Hoskins, President
Answering Exchange, Inc.
120 W. Fifth Street, Suite 1300
Cincinnati, Ohio 45202

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

RECEIVED
9/DEC 17 PM 5:11
PUCO

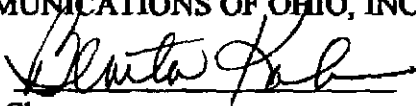
In the Matter of the Application of)
Cincinnati Bell Telephone Company)
for Approval of a Retail Pricing Plan) Case No. 96-899-TP-ALT
Which May Result in Future Rate)
Increases and for a New Alternative)
Regulation Plan.)

AT&T COMMUNICATIONS OF OHIO, INC. DIRECT TESTIMONY

Attached hereto for filing on behalf of AT&T Communications of Ohio, Inc. is the direct testimony of James Webber and Richard B. Lee.

Respectfully submitted,

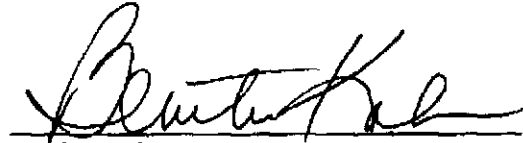
AT&T COMMUNICATIONS OF OHIO, INC.

By: 
David Chorzempa
AT&T Corp.
227 West Monroe Street
13th Floor
Chicago, Illinois 60606
(312) 230-3503

Benita A. Kahn
Vorys, Sater, Seymour and Pease
52 East Gay Street
Columbus, Ohio 43216-1008
(614) 464-6400

CERTIFICATE OF SERVICE

I certify that a copy of the foregoing AT&T Communications of Ohio, Inc. Direct Testimony was served upon the following persons by U. S. mail, postage prepaid, this 17th day of December, 1997.



Benita Kahn

Cincinnati Bell Telephone Company

David C. Olson
Christopher J. Wilson
Frost & Jacobs
2500 Central Trust Center
P. O. Box 5715
201 E. Fifth Street
Cincinnati OH 45202-4182

Time Warner Communications

Roger P. Sugarman
Attorney at Law
Kegler, Brown, Hill & Ritter
65 East State Street, Suite 1800
Columbus OH 43215

Marsha R. Schermer
Vice President - Regulatory Affairs
Midwest Region
Time Warner Communications
65 E. State Street, Suite 1800
Columbus, Ohio 43215

AT&T Communications of Ohio, Inc.

David Chorzempa
AT&T Communications, Inc.
227 W. Monroe Street, Suite 6N
Chicago IL 60606

Answering Exchange

Stephen M. Howard
Vorys, Sater, Seymour and Pease
52 E. Gay Street
Columbus OH 43216

Cincinnati Zoo and Botanical Gardens

Michael A. Byers
Kristina E. Sung
Taft, Stettinius & Hollister
21 East State Street, 12th Floor
Columbus Ohio 43215

MCI Telecommunications Corporation

Matthew H. Berns
205 N. Michigan Avenue
Chicago IL 60601

Judith B. Sanders
Bath Royer
Bell, Royer & Sanders Co., L.P.A.
33 South Grant Avenue
Columbus OH 43215-3927

Greater Cincinnati Hospital Council

Langdon D. Bell
Bell, Royer & Sanders Co., LPA
33 S. Grant Avenue
Columbus, Ohio 43215

Ohio Community Computing Center Network

Ellis Jacobs
Attorney at Law
Legal Aid Society of Dayton
333 W. First Street, Suite 500
Dayton, Ohio 45402

Sprint Communications Company L. P.

Martha Jenkins
8140 Ward Parkway
Kansas City, Missouri 64114-0417

Communities United for Action

Noel M. Morgan
Legal Aid Society of Cincinnati
901 Elm Street
Cincinnati, Ohio 45202-1016

The Ohio Cable Telecommunications Association

Sheldon A. Taft, Esq.
Vorys, Sater, Seymour and Pease
52 E. Gay Street, P.O. Box 1008
Columbus, Ohio 43216-1008

ICG Telecom Group, Inc.

Boyd B. Ferris
Muldoon & Ferris
2733 W. Dublin-Granville Road
Columbus, Ohio 43235-4268

Ohio Payphone Assn

Henry T. Kelly
O'Keefe, Asheden, Lyons & Ward
30 North LaSalle
Suite 4100
Chicago, Illinois 60602

TCG Cleveland

Bruce Weston
169 W. Hubbard Avenue
Columbus, Ohio 43215

Ohio Consumers' Counsel

David C. Bergmann
Office of Consumers Counsel
77 S. High Street, 15th Floor
Columbus, Ohio 43266-0550

Thomas J. O'Brien
Associate Consumers' Counsel
77 S. High Street, 15th Floor
Columbus, Ohio 43266-0550

Intermedia Communications and
Telecommunications Resellers Association
Sally W. Bloomfield, Esq.
Bricker & Eckler
100 South Third Street
Columbus, Ohio 43215-4291

Steven T. Nourse
Assistant Attorney General
Public Utilities Section
180 East Broad Street, 7th Floor
Columbus, Ohio 43215

Brenda J. Hoskins, President
Answering Exchange, Inc.
120 W. Fifth Street, Suite 1300
Cincinnati, Ohio 45202

Dwight Nodes
Attorney Examiner
Legal Department
180 E. Broad Street, 7th Floor
Columbus, Ohio 43215

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

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

DIRECT TESTIMONY OF

JAMES D. WEBBER

ON BEHALF OF

AT&T COMMUNICATIONS OF OHIO, INC.

December 17, 1997

PROPRIETARY

Direct Testimony of James D. Webber
Case No. 96-899-TP-ALT

1

2 **L INTRODUCTION AND PURPOSE.**

3

4 **Q. Please state your name and business address.**

5

6 **A. My names is James D. Webber. My business address is 222 West Adams, Suite**
7 **1360, Chicago, Illinois, 60606.**

8

9 **Q. By whom are you employed and in what capacity?**

10

11 **A. I have been employed by AT&T as a District Manager in the Central Region**
12 **Government Affairs Division since November of 1997.**

13

14 **Q. Please describe your education and professional background.**

15

16 **A. I attended Illinois State University and earned a Bachelor of Science degree in**
17 **Economics in 1990 and a Master of Science degree in Economics in 1993.**

18

19 **Prior to accepting my current position with AT&T, I was employed from July,**
20 **1996 to November, 1997 as a Senior Consultant with the Competitive Strategies**
21 **Group, Ltd. ("CSG"), a Chicago-based consulting firm that specializes in**
22 **competitive issues in the telecommunications industry. While working for CSG, I**
23 **provided expert consulting services to a diverse group of clients including**

Direct Testimony of James D. Webber
Case No. 96-899-TP-ALT

1 telecommunications carriers and financial services firms. Further, I provided
2 expert testimony on behalf of carriers such as AT&T and MCI on numerous
3 occasions regarding economic theory, cost-of-service and pricing issues. A
4 detailed list of the cases in which I have provided such testimony is provided
5 below.

6
7 From 1994 to 1996, I was employed by the Illinois Commerce Commission
8 ("ICC") where I served as an Economic Analyst and ultimately as Manager of the
9 Telecommunications Division's Rates Section. In addition to my supervisory
10 responsibilities, I reviewed Local Exchange Carriers' ("LECs") tariffed and
11 contractual offerings as well as the supporting cost, imputation and aggregate
12 revenue data. I also provided expert testimony with respect to cost-of-service and
13 rate design issues, including the appropriate application of Illinois' statutory
14 requirements.

15
16 I was employed by the Illinois Department of Energy and Natural Resources from
17 1992 to 1994 where I was responsible for modeling electricity and natural gas
18 consumption and analyzing the potential for Demand Side Management ("DSM")
19 programs to offset growth in the demand for, and consumption of, energy. In
20 addition, I was responsible for analyzing policy options regarding Illinois'
21 compliance with environmental legislation.

Direct Testimony of James D. Webber
Case No. 96-899-TP-ALT

1 **Q. Have you previously testified before the Public Utilities Commission of Ohio**
2 **("PUCO" or "Commission") or any other state commission?**
3

4 **A. Yes. I submitted testimony in this Commission's recent proceeding to determine**
5 **the appropriate Total Element Long Run Incremental Costs ("TELRICs") for**
6 **Ameritech Ohio's unbundled network elements (PUCO Case No. 96-922-TP-**
7 **UNC). I also testified on behalf of AT&T in its access complaint proceeding**
8 **against Ameritech Ohio (PUCO Case No. 96-336-TP-CSS and Case No. 96-532-**
9 **TP-UNC).**
10

11 **As both a member of the Illinois Commission Staff and in my position at CSG, I**
12 **sponsored several pieces of testimony before the Illinois Commerce Commission in**
13 **the areas of cost-of-service and rate design, including: (1) Illinois Bell Telephone**
14 **Company's "Customers First" proceedings and the associated rule-makings (ICC**
15 **Docket Nos. 94-0048, 94-0049, 94-0301, 94-0096, 94-0117 and 94-0146); (2)**
16 **Ameritech Illinois' price discrimination proceedings (ICC Docket Nos. 95-0201**
17 **and 95-0202, consol.); (3) the "Customers First" compliance proceedings (ICC**
18 **Docket No. 95-0296); (4) AT&T's petition for wholesale services from Ameritech**
19 **Illinois and Central Telephone Company of Illinois (ICC Docket Nos. 95-0458 and**
20 **95-0531, consol.); and (5) Ameritech Illinois' current TELRIC proceedings (ICC**
21 **Docket No. 96-0486). I also participated in a number of other proceedings in**
22 **Illinois, including Ameritech's 1995 and 1996 Annual Alternative Regulation filings**
23 **(ICC Dockets 95-0182 and 96-0172), as well as the review of negotiated**

Direct Testimony of James D. Webber
Case No. 96-899-TP-ALT

1 agreements between incumbent carriers and new entrants pursuant to Section 252
2 of the Telecommunications Act of 1996 ("the Act").

3
4 I have also testified before the Michigan Public Service Commission and the
5 Indiana Regulatory Commission regarding cost-of-service and pricing issues in
6 MPSC Case Nos. U-11280 and U-11448 and IURC Cause Nos. 40611 and 40785.

7

8 **Q. What is the purpose of the testimony that you have filed today?**

9

10 **A. The purpose of my testimony is (1) to explain why the Commission should require**
11 **Cincinnati Bell Telephone ("CBT") to move its switched access rates toward**
12 **incremental cost as a component of its newly proposed alternative regulation plan;**
13 **and (2) to recommend specific changes to CBT's existing access rates needed to**
14 **move these rates toward incremental cost. My testimony demonstrates the**
15 **reasonableness of using CBT's TELRIC data to establish rates for certain access**
16 **elements. I also explain why the access rate changes that I propose would**
17 **promote the public interest, without jeopardizing residence local exchange service**
18 **or CBT's financial viability.**

19

20 I expect to file additional testimony in this case on December 23rd that addresses
21 the appropriate development of CBT's TELRIC studies for network elements and
22 interconnection functions.

Direct Testimony of James D. Webber
Case No. 96-899-TP-ALT

1

2 **Q. Why should any new alternative regulation plan that is approved for CBT**
3 **include a commitment to cost-based access pricing?**

4

5 **A. There are two primary reasons why it is crucial that any new regulatory plan for**
6 **CBT include a commitment to cost-based access pricing. CBT requests approval**
7 **in this docket of an alternative regulation plan that would extend and expand the**
8 **regulatory flexibility under which it currently operates. CBT is seeking this**
9 **additional regulatory freedom, however, without acknowledging any obligation to**
10 **relinquish the advantages of its current near-monopoly status.**

11

12 **At present, CBT controls the market for switched access services within its**
13 **territory and has generally set rates for these access services at levels that far**
14 **exceed the incremental costs of providing them. This arrangement enables CBT to**
15 **collect excess revenue that it can use to sustain its existing position of market**
16 **dominance and limit the potential for competition in its territory. Reductions to**
17 **CBT's noncompetitive switched access rates must be made concurrent with any**
18 **extension or expansion of CBT's regulatory flexibility or the development of**
19 **competition in CBT's geographic area will suffer. If the Commission approves a**
20 **new CBT alternative regulation plan that does not include meaningful switched**
21 **access reductions, CBT will be unfairly allowed to retain the substantial advantage**
22 **that existing excess switched access revenues give it over its competitors, while**

Direct Testimony of James D. Webber
Case No. 96-899-TP-ALT

1 gaining the regulatory freedom to which it should only be entitled in a competitive
2 environment.

3
4 Additionally, and perhaps more importantly, CBT's inflated switched access prices
5 keep the rates paid by toll customers in its jurisdiction unnecessarily high by
6 artificially inflating the costs incurred by the toll providers that serve these
7 customers. CBT should be required to implement the decreases to switched access
8 rates that I will propose, so that the costs incurred by other toll providers will
9 decrease, and these decreases can be passed on in reductions to the retail rates paid
10 by toll customers. This would ensure that toll customers are not unreasonably
11 deprived of price benefits under CBT's alternative regulation plan and complement
12 any other end-user price benefits the plan may establish. Such an outcome would
13 clearly be consistent with the PUCO's objectives in offering regulatory flexibility to
14 large local exchange companies (LLECs).

15
16 **Q. Please summarize your conclusions and recommendations.**

17
18 **A. AT&T asks the Commission to require CBT to move its current intrastate**
19 switched access rates toward incremental cost. This means that CBT should be
20 obliged, as a prerequisite to any extension of regulatory flexibility, (1) to eliminate
21 entirely several existing switched access rate elements that have no cost basis; (2)
22 to move the charges for other rate elements toward cost-based levels; and (3) to

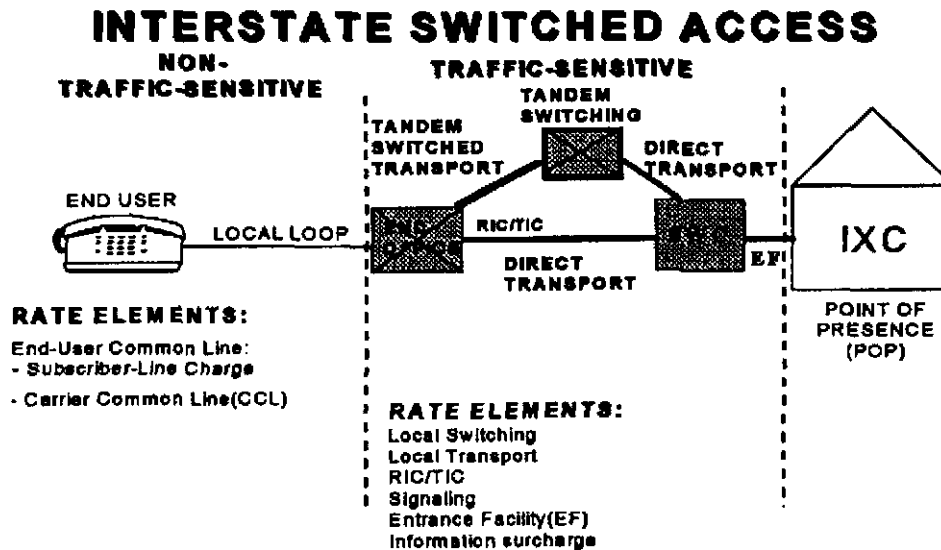
Direct Testimony of James D. Webber
Case No. 96-899-TP-ALT

1 decline mirroring any new non-cost-based federal access rates such as the
2 Presubscribed Interexchange Carrier Charge ("PICC"). For those CBT access
3 elements that should be reduced but not eliminated, I will explain why it is
4 appropriate to price the rate elements on the basis of the TELRIC study for
5 reciprocal compensation that will be approved by the Commission in this case.
6 Using TELRIC as a basis, I will also recommend specific price levels for these
7 remaining switched access rate elements.

8
9 **II. CBT'S EXISTING SWITCHED ACCESS RATE STRUCTURE.**

10
11 **Q. What is CBT's existing switched access rate structure?**
12

13 **A.** The diagram below shows the current structure of CBT's interstate switched
14 access service. Both the Direct Transport and Tandem-Switched Transport
15 options are displayed.
16



1

2 **Q. What rate elements does CBT charge for intrastate switched access service in**
 3 **Ohio?**

4

5 **A. Under its current access structure, CBT imposes the following intrastate charges**
 6 **per minute of switched access use:**

7 **Carrier Common Line Charge (CCLC)**

8 **Local Switching (LS)**

9 **Information Surcharge**

10 **Residual Interconnection Charge (RIC).**

11

12 **In addition, those access customers using Direct Transport Service pay a monthly**
 13 **rate for the use of Entrance Facilities, a monthly rate for each Direct Transport**
 14 **Channel Mileage Termination and a monthly rate per mile for Direct Transport**
 15 **Channel Mileage. Those access customers that elect to use Tandem-Switched**
 16 **Transport Services pay a monthly rate for the use of Entrance Facilities, a per**

Direct Testimony of James D. Webber
Case No. 96-899-TP-ALT

1 minute rate for the use of Tandem-Switched Transport Termination, a per
2 minute/per mile rate for Tandem-Switched Transport Facilities and a per minute
3 rate for Tandem Switching.

4
5 **Q. Are CBT's current rates for switched access cost-based?**

6
7 **A. No. The majority of CBT's intrastate switched access rates mirror its interstate**
8 **rates for the same elements and federal access rates are acknowledged to have no**
9 **incremental cost basis.¹ At best, federal access charges have been set to recover**
10 **embedded costs apportioned through the separations process. At worst, they**
11 **represent pure revenue subsidy for incumbent local exchange carriers.**

12
13 **Q. You stated that CBT's intrastate access rates largely mirror its interstate**
14 **rates. Wouldn't the continued mirroring of interstate access rates be a good**
15 **thing?**

16
17 **A. No, not in the case of CBT. In the past, the practice of making interstate rate**
18 **levels a ceiling for intrastate access prices -- or authorizing LECs to "mirror"**
19 **interstate rates -- was of some use in moving access rates toward the economic**
20 **cost of providing access service and placing some limits on intrastate access prices.**
21 **Mirroring was typically accepted on the grounds that with less documentation and**
22 **fewer resources available for economic costing, capping intrastate rates at**
23 **interstate levels provided at least some sort of benchmark. Consistent with this**

¹ A notable exception to intrastate mirroring is CBT's terminating CCLC rate which exceeds its interstate equivalent.

Direct Testimony of James D. Webber
Case No. 96-899-TP-ALT

1 thinking, mirroring has served as a default pricing mechanism for access service in
2 a number of states.² However, in today's "competition-focused"
3 telecommunications market, if evidence to support the establishment of state-
4 specific cost-based access rates can be developed, cost-based intrastate access
5 rates like those proposed here are necessary to accomplish just and reasonable
6 switched access rates.

7
8 **III. AT&T'S RECOMMENDATIONS FOR ALIGNING CBT ACCESS RATES**
9 **WITH INCREMENTAL COSTS.**
10

11 **Q. What should the Commission consider when establishing rates for CBT's**
12 **switched access service?**
13

14 **A. The Commission should consider several factors when setting the access rates that**
15 **CBT will impose under a new alternative regulation plan. First, the Commission**
16 **should remember that access charges which are well above cost will frustrate the**
17 **development of competition and serve to perpetuate CBT's market dominance.**
18 **Further, the Commission should take note that artificially high access rates deprive**
19 **Ohio's full customers of lower rates for toll services.**
20

21 **It is also important to remember that prices which result from a competitive process**
22 **typically tend toward cost, are efficient and welfare maximizing. Hence, consumers**
23 **are able to properly weigh the benefits derived from consuming goods or services**

² Several states — including Ohio — have already broken with mirroring on one or more rate elements, however.

Direct Testimony of James D. Webber
Case No. 96-899-TP-ALT

1 against the cost of those goods or services, allowing them to consume only to the
2 point where the benefits of consumption equal the costs. Further, producers of the
3 goods or services in question are encouraged to enter/exit the market based upon the
4 appropriate price signals. The less efficient producers (ones that cannot produce
5 goods or services at the same cost as other producers) must typically leave the market
6 while the more efficient (or lower cost) producers will remain in or enter the market.

7
8 CBT's switched access services are subject to very little meaningful competition,
9 however, and, without that competitive pressure, the company has no incentive to
10 price its access services as if they were subject to competition. Good public policy
11 should compensate for this, therefore, and attempt to establish prices for CBT's
12 switched access services that are consistent with the outcome of a competitive
13 market. The Commission should endeavor to establish prices for CBT's switched
14 access services that are based upon the cost of providing those services.

15
16 **Q. Isn't it reasonable to assume that market forces will reduce the price of access**
17 **service as competition begins to develop in the local market?**
18

19 **A. In the case of exchange access, I do not believe that it is currently reasonable to**
20 **rely on market pressures to move prices towards cost. Although "market forces"**
21 **can move prices toward cost in a competitive environment, the bottleneck control**
22 **that CBT has now -- and is likely to have for the foreseeable future -- over the**
23 **provision of switched access makes it unlikely that competition for these services**

Direct Testimony of James D. Webber
Case No. 96-899-TP-ALT

1 can develop quickly enough to reduce prices in an acceptable time frame. This
2 creates an anticompetitive "catch 22." The longer access rates remain at existing
3 levels, the longer incumbents like CBT will be able to slow the development of
4 competition. And, the longer competition is delayed, the longer access rates are
5 likely to remain at inflated levels. Delay will invariably benefit incumbent carriers
6 like CBT, extending the window in which they impose inflated costs on toll
7 providers and fund their own marketing initiatives with unreasonable profits.

8
9 **Q. Won't the FCC's recently enacted access charge reform initiatives address**
10 **the problems that you have identified with CBT's access rates?**
11

12 **A. The FCC's Access Charge Reform Order in CC 96-262, adopted on May 7 and**
13 **released on May 16, 1997, does include changes to the structure for interstate**
14 **access that take another step toward bringing switched access charges closer to**
15 **cost levels and better aligning the recovery of access costs with the way in which**
16 **those costs are incurred. Additionally, in its concurrent Universal Service Order,**
17 **the FCC identifies a plan to begin to remove the separations-based subsidies from**
18 **access charges and place those monies in a separate fund, to comply with the terms**
19 **of the Act. As a carrier regulated by price caps on the federal level, CBT is**
20 **subject to the requirements of the FCC's access and universal service orders and**
21 **will experience access revenue reductions per the price cap index. However,**
22 **consistent with various FCC concerns, the interstate plan will phase in access**
23 **charge reform over several years. Moreover, as evidenced by the fact that the**

Direct Testimony of James D. Webber
Case No. 96-899-TP-ALT

1 FCC has notified price cap LECs that they must produce forward-looking cost
2 studies by 2/1/2001, there is still a question whether access rates will be at cost-
3 based levels by that date.

4
5 There is no need to endorse the same approach in Ohio. First, as I will explain
6 later in my testimony, moving towards cost-based access pricing for CBT will not
7 implicate universal service concerns because CBT has not supported its claim that
8 it needs the excess revenue from access to subsidize its residence service. Second,
9 the Commission here, unlike the FCC, has access to specific TELRIC data for
10 CBT that will allow it to order reasonable cost-based access rates. Finally, the
11 Ohio Commission has a tremendous opportunity to take a leadership role among
12 regulatory agencies by electing not to accept an extended timetable for achieving
13 cost-based access. In taking such a proactive stance, the Commission would be
14 acting in accord with the procompetitive decisions that it has made in other
15 dockets.

16
17 In addition, it is important to note that some of the planned changes to interstate
18 access rates coming out of the FCC's Order would not be appropriate for
19 implementation by CBT in Ohio. The FCC's new Presubscribed Interexchange
20 Carrier Charge is a prime example. When implemented at the interstate level, the
21 PICC will recover on a flat rate basis (1) some of the embedded interstate common
22 line revenues previously recovered by the usage-sensitive CCLC; (2) all or part of

Direct Testimony of James D. Webber
Case No. 96-899-TP-ALT

1 the interstate residual RIC revenue requirement; (3) revenues attributable to the
2 line port (also known as the line termination); and (4) some funding for the federal
3 universal service fund. Because the CCLC and residual RIC have no incremental
4 cost basis, however, introducing an intrastate rate that mirrors these portions of
5 the interstate PICC would serve to maintain a revenue stream for which CBT has
6 no cost basis and for which no incremental cost need has been established. In
7 addition, because the Ohio Commission has previously determined that the cost of
8 line termination is properly recovered through end user charges, there is no
9 justification for mirroring that aspect of the interstate PICC. Finally, because no
10 state universal service fund exists, any attempt by CBT to mirror the portion of an
11 interstate PICC that represents contribution to universal service funding would be
12 unjust and unreasonable. For these reasons, CBT should not be permitted to
13 implement a state PICC.³

14
15 **Q. What is your proposal for aligning CBT's access rates with incremental**
16 **costs?**

17
18 **A. I recommend that certain rates be eliminated in their entirety and that others be**
19 **reduced to levels which are based on incremental cost.**

20
21 **Q. The Staff Report currently endorses CBT's proposal to reduce but not**
22 **eliminate the CCLC. What do you believe the Commission should order?**

³ If, however, CBT is permitted to impose a state PICC for some interim period, it should be imposed on both interLATA and intraLATA presubscribed carriers, at a level that reflects that a bifurcated intrastate PICC charge would be assessed per access line.

Direct Testimony of James D. Webber
Case No. 96-899-TP-ALT

1

2 A. The Commission should require CBT to eliminate the CCLC, as it is not cost-
3 based. Further, the RIC and the Information Surcharge should be eliminated for
4 the same reason. None of these access elements has any incremental cost basis.

5

6 **Q. Please explain why CBT should be required to eliminate its CCLC rather**
7 **than merely reduce it as suggested in the Staff Report.**

8

9 A. The CCLC was originally established by the FCC to provide contribution to the
10 recovery of booked costs incurred in maintaining a local loop between the end-
11 user's network interface and the LEC end office. These loop costs are fixed
12 expenses generated as a consequence of connecting the end-user to the local
13 network. The interexchange toll calls for which access charges are assessed do not
14 result in any additional increment of cost in the provision of the loop. Charging
15 access customers a CCLC for loop related revenue requirements is inconsistent
16 with cost causation principles supported by this Commission given that toll
17 services do not cause those costs.

18

19 **Q. CBT's proposed alternative regulation plan includes a reduction to the**
20 **intrastate CCLC. The Commission Staff found the amount of this reduction**
21 **to be consistent with the development of and entry into a competitive market.**
22 **Why is the decrease proposed by CBT, and apparently found acceptable by**
23 **the Staff, insufficient?**

24

Direct Testimony of James D. Webber
Case No. 96-899-TP-ALT

1 A. Under its alternative regulation plan, CBT proposes to reduce its terminating
2 CCLC rate per minute from \$.0173 to \$.0145, yielding an annual decrease in
3 revenue of approximately \$500,000.⁴ CBT's proposal is insufficient because it
4 reduces only minimally an access element that should be completely eliminated. It
5 is unlikely that so small a decrease would do anything meaningful to constrain the
6 competitive edge that excess access revenues give CBT, nor create any noticeable
7 price benefits for toll customers.

8

9 **Q. Why is it inappropriate to wait for a future proceeding, as the Staff proposes,**
10 **to develop cost analyses to further reduce the CCLC?**
11

12 A. There are a number of reasons why it is inappropriate to defer further CCLC
13 reductions to future proceedings. First, postponing action to a future case is
14 inefficient and unnecessary. By Commission design, this case encompasses the
15 examination and evaluation of the very CBT cost information that must be
16 considered in establishing cost-based switched access rates. Since that data will be
17 presented to the Commission in this proceeding, there is no better time to make
18 essential rate reductions such as the elimination of the CCLC. Second, rate
19 rebalancing and the elimination of "subsidy" is at the heart of the alternative
20 regulation plan that CBT has proposed. Therefore, any "rebalancing" that the
21 Commission approves should reduce CBT's inflated switched access rates and
22 eliminate the excess profit earned on switched access service. Finally, allowing

⁴ Since the initial filing of its alternative regulation proposal, CBT has already reduced its terminating CCLC to \$.0151.

Direct Testimony of James D. Webber
Case No. 96-899-TP-ALT

1 CBT to continue imposing non-cost-based switched access rates like the CCLC for
2 some indefinite, open-ended period gives CBT an open-ended extension of its
3 existing market dominance.

4

5 **Q. In addition to the elimination of the CCLC, why is it reasonable and**
6 **necessary to require CBT to eliminate the RIC and Information Surcharge.**

7

8 **A. The RIC was established by the FCC at the time of the FCC's restructure of**
9 **switched access local transport and was characterized as an interim recovery**
10 **mechanism to ensure that the transition to a more cost-based structure for local**
11 **transport pricing would be "revenue neutral" for LEC access providers. It was**
12 **never intended to be a permanent element of switched access service. There is no**
13 **cost justification for retaining the RIC and there is certainly no excuse for allowing**
14 **this revenue stream to grow.**

15

16 **The Information Surcharge is another "obsolete" access rate. It was originally**
17 **authorized by the FCC as a means of obliging toll providers to pay something**
18 **toward the recovery of expenses incurred by LECs in publishing white page**
19 **directories for their subscribers. In today's environment, however, the Information**
20 **Surcharge serves no financial solvency purpose because the particular directory**
21 **publishing costs it was targeted to offset are recovered in charges imposed by CBT**
22 **in its basic local exchange rates.**

23

Direct Testimony of James D. Webber
Case No. 96-899-TP-ALT

1 **Q. What is your proposal for adjusting the remaining switched access rate**
2 **elements?**
3

4 **A. I recommend that CBT's current switched access rates for Local Switching and**
5 **Tandem-Switched Transport (Termination, Facilities and Tandem Switching) be**
6 **reduced toward cost-based levels, based on the costs for these functions**
7 **established by the TELRIC study for reciprocal compensation that the Commission**
8 **will approve for CBT in this proceeding.⁵**
9

10 **Q. Is it reasonable to use CBT's reciprocal compensation study as a guideline for**
11 **reducing these access elements?**
12

13 **A. Yes. Setting rates for these access elements on the basis of CBT's reciprocal**
14 **compensation study makes good sense because the network capabilities used to**
15 **switch and transport access traffic are functionally identical to the network**
16 **capabilities that perform those same functions for the transport and termination of**
17 **local traffic.**
18

19 **CBT's reciprocal compensation cost study focuses on the elements that are used to**
20 **transport and terminate traffic from a new exchange carrier's ("NEC's") offices to**
21 **CBT's end-user customers. For example, under CBT's pricing scheme, if a NEC**
22 **were to connect with CBT at a tandem office, the NEC would owe reciprocal**
23 **compensation to CBT for tandem switching, tandem switch termination, tandem**

⁵ The access rates that CBT assesses for Entrance Facilities and Direct Trunked Transport should also be reduced toward levels supported by a TELRIC study.

Direct Testimony of James D. Webber
Case No. 96-899-TP-ALT

1 switched transport facilities and local switching. These components of reciprocal
2 compensation are the very same functions that an interexchange carrier ("IXC")
3 obtains when it purchases switched access. The network functions generate the
4 same cost regardless of what kind of carrier uses them. That is, these elements
5 cost what they cost, regardless of whether they are purchased by NECs or IXC's.
6 If the same network capabilities are used to perform the same functions, the same
7 type and level of costs will be incurred, thereby justifying rates to recover those
8 costs that are of the same type and level.

9
10 **Q. Are there any differences between TELRIC and the Long Run Service**
11 **Incremental Cost ("LRSIC") methodologies used to develop service costs**
12 **that would make TELRIC an inappropriate basis for access rates?**
13

14 **A. TELRIC and LRSIC methodologies are essentially compatible. Both are variants**
15 **on the incremental cost standard that this Commission has repeatedly endorsed for**
16 **telecommunications services – in its rules for the flexible regulation of large LECs,**
17 **in the alternative regulation plans it approved for CBT and Ameritech, and in the**
18 **Ameritech TELRIC docket. I believe these two methodologies are essentially**
19 **equivalent and, in this circumstance, either a LRSIC study or a TELRIC study**
20 **could be used to estimate the cost of CBT's switched access services.⁶ Because**
21 **this proceeding will produce TELRIC data for CBT, it is both reasonable and**
22 **efficient to rely on that information to establish rates for CBT switched access.**

⁶ The principal difference between TELRIC and LRSIC is the object being studied. Whereas LRSIC is commonly used to study services, TELRIC is used to study elements. AT&T does not believe that the study assumptions should differ between LRSIC and TELRIC.

Direct Testimony of James D. Webber
Case No. 96-899-TP-ALT

1

2 Further, while it's reasonable to assume that the TELRIC of reciprocal
3 compensation and access elements will be identical, it's also reasonable to assume
4 that the common costs that may be attributed to these functionalities based upon
5 the name under which they are sold (access or reciprocal compensation) would be
6 similar, if not identical.

7

8 **Q. Has CBT acknowledged the comparability of its reciprocal compensation cost**
9 **study and a cost study for switched access?**
10

11 **A. Yes. During a November 25, 1997 deposition, CBT witness Norbert Mette**
12 **described the original reciprocal compensation study prepared under his direction**
13 **as "reflecting originating and terminating access." (Tr. Vol III, p. 37, lns. 6-7)**
14 **He also referred to a later iteration of the reciprocal compensation study,**
15 **developed at the request of the Commission Staff, as a "study looking at**
16 **terminating [access] only." (Tr. Vol III, p. 38, ln. 19)**

17

18 **Q. Does the TELRIC study for reciprocal compensation that CBT has already**
19 **submitted in this proceeding include the information necessary to establish**
20 **cost-based access rates?**
21

22 **A. Yes. The TELRIC study for reciprocal compensation that CBT has prepared**
23 **includes the following elements: (1) local switching, (2) tandem switching, (3)**
24 **tandem switch termination, and (4) tandem switched transport facilities. This**
25 **study, when modified to reflect the adjustments that I will propose in the second**

Direct Testimony of James D. Webber
Case No. 96-899-TP-ALT

1 phase of this proceeding, could be used to estimate the cost of equivalent access
2 elements.⁷

3

4 **Q. Based upon the foregoing testimony, what are your access rate**
5 **recommendations for CBT?**

6

7 **A. Table 1.0 below provides my proposed access rates. Access rates at these levels**
8 **will be cost based and non-discriminatory.⁸**

9

10 Table 1.0

Proposed Price Points For CBT Access Rates		
End Office Switching	\$ 0.004126	CBT Reciprocal Compensation Pricing
CCLC	\$ -	
RIC	\$ -	
Information Surcharge	\$ -	
Tandem Switching	\$ 0.002809	CBT Reciprocal Compensation Pricing
		20.45% of Common transport rate from Reciprocal Compensation Study (Includes CBT's proposed common cost mark-up)
Tandem Switched Term	\$ 0.000072	
		79.55% of Common transport rate from Reciprocal Compensation Study(Includes CBT's proposed common cost mark-up)
Tandem Transport (mou/mile)	\$ 0.000063	

11

12

13

⁷ The specific adjustments that should be made to CBT's TELRIC study for reciprocal compensation will be addressed in my December 23rd testimony.

⁸ These figures are subject to change, however, as a function of the concurrent TELRIC proceeding.

Direct Testimony of James D. Webber
Case No. 96-899-TP-ALT

1 **IV. A COMMISSION RULING OBLIGING CBT TO INCLUDE COST-BASED**
2 **ACCESS RATES IN ANY NEW ALTERNATIVE REGULATION PLAN**
3 **WOULD NOT ENDANGER RESIDENCE LOCAL EXCHANGE SERVICE**
4 **NOR IMPOSE FINANCIAL HARDSHIP ON CBT.**
5

6 **Q. CBT witness Mr. Marshall alleges in his direct testimony that access revenue**
7 **provides a \$13 M subsidy to residential services. (Marshall Direct, p. 8)**
8 **What is your reaction?**
9

10 **A. First, it seems rather self-serving that the Company would knowingly come before**
11 **the Commission asking for a rate restructure while at the same time it proposes no**
12 **action to eliminate the supposed access-to-residential subsidy. Second, it is**
13 **important to consider that ongoing Commission approval of an implicit subsidy**
14 **from access rates to residential service will forestall the development of**
15 **competition for residential service, thus denying residential customers the benefits**
16 **of competition.⁹**
17
18 **AT&T has served three separate data requests on CBT asking for the information**
19 **that supports the subsidy calculation performed by the Company. In his**
20 **December 10, 1997 deposition, Mr. Mette described the study he would conduct**
21 **to determine the extent to which CBT's residential services on the whole are priced**
22 **below cost (Tr. Vol. VI pp. 75-77). Nevertheless, CBT has not provided this**
23 **information and there is no indication that it ever conducted a study as described**
24 **by Mr. Mette. Hence, CBT has failed to even attempt to prove that its residential**
25 **services as a group do not recover their forward looking economic costs. At this**

⁹ Competitors will find it difficult, if not impossible, to compete with CBT services that are subsidized, especially when those very competitors are providing the subsidy.

Direct Testimony of James D. Webber
Case No. 96-899-TP-ALT

1 time, therefore, I simply cannot accept Mr. Marshall's argument that residential
2 services require a \$13M subsidy from access. Further, if such a subsidy was
3 required, I certainly do not believe it should come from access customers.
4

5 **Q. The access reductions proposed by AT&T are at odds with the concerted**
6 **effort made by CBT in its alternative regulation proposal to maintain**
7 **revenue at current levels. Would the access reductions sought by AT&T pose**
8 **any threat to CBT's financial viability?**
9

10 **A. No. CBT's insistence on loading its proposed alternative regulation plan with**
11 **components that would preserve its revenue at current levels – e.g., rate**
12 **rebalancing, the Access Revenue Surcharge, the suspension/modification requests**
13 **– is not founded on any legitimate concern for its financial viability. Rather, it**
14 **appears rooted in an unwillingness to relinquish any of the financial benefit owing**
15 **to its dominant market position, even while it asks for the regulatory freedom of a**
16 **competitive provider. In the Commission Staff's Report of Investigation on CBT's**
17 **plan, the Staff concluded that CBT, far from being in financial jeopardy, is actually**
18 **overearning and recommended a net decrease in CBT revenue of \$5.5M to**
19 **\$10.2M. (Staff Report, p. 8) Therefore, to the extent that the Commission finds**
20 **CBT's proposal preserves excessive earnings, those excessive earnings**
21 **could be reduced simply by lowering access charges. In fact, roughly 2/3 of my**
22 **total access charge reductions could immediately be accounted for in this manner**
23

Direct Testimony of James D. Webber
Case No. 96-899-TP-ALT

1 With all of this said, it is clear to me that there is no legitimate concern that
2 lowering access rates in this proceeding will necessarily implicate universal service
3 concerns as they may pertain to CBT's residential customers.
4

5 **V. COMMISSION APPROVAL OF COST-BASED ACCESS RATES FOR**
6 **CBT WOULD BE CONSISTENT WITH PAST COMMISSION**
7 **DECISIONS AND WOULD PROMOTE THE PUBLIC INTEREST.**
8

9 **Q. Has the Ohio Commission indicated in past proceedings that it supports the**
10 **establishment of company-specific, cost-based rates for access service?**
11

12 **A. Yes. Even in its earliest orders on access, the Commission expressed a conviction**
13 **that the rates for access service should be set on the basis of cost. For example,**
14 **the Commission's May 21, 1984 Opinion and Order in Case No. 83-464-TP-COI**
15 **("464 case") approved the mirroring of interstate access rates, but described this as**
16 **a transition step and acknowledged that its decision was influenced by the fact that**
17 **the record in the case "does not contain properly supported and verifiable cost**
18 **based data upon which to make a determination as to the appropriate levels at**
19 **which to set current rates based on costs." (May 21, 1984 Order, p. 2)**
20

21 The Commission reiterated its support for cost-based pricing in its July 19, 1984
22 Entry on Rehearing in the case, citing the need to "ultimately arrive at cost-based
23 rates to be set forth in company specific access tariffs" and to "exercise due haste
24 in formulating procedures by which to develop such costs." (Entry on Rehearing,
25 p. 5) The Commission also clarified that it had no objection to carriers establishing

Direct Testimony of James D. Webber
Case No. 96-899-TP-ALT

1 rates below interstate levels when it stated in its February 11, 1986 Supplemental
2 Finding and Order that "mirrored, interstate rates shall constitute maximum levels
3 (or individual caps) for the various access rate components for intrastate
4 purposes." (Supplemental Finding, p. 12) (emphasis added) In its March 12, 1987
5 Order in the 464 case, the Commission recognized again the importance of cost
6 data in access rate-making, remarking on its own "unsuccessful effort to obtain
7 information needed to establish company-specific, cost-based access charges" and
8 concluding that "an individual rate case is the appropriate environment in which to
9 adopt such rates for access." (Order, p. 16)

10
11 These statements clearly affirm that the Commission has long believed that access
12 rates should be company-specific and cost-based, and that the most efficient means
13 for achieving that result would be the examination of an individual company's rates
14 and costs in a company-specific proceeding. It is also apparent that because the
15 primary obstacle to achieving cost-based access rates – the long-standing lack of
16 appropriate cost study information – will soon no longer exist for CBT, cost-based
17 pricing can and should be implemented without further delay.

18
19 **Q. The Commission declined to impose cost-based access pricing on Ameritech**
20 **in Case No. 96-336-TP-CSS. Are there any circumstances applicable to**
21 **CBT's situation that especially warrant Commission approval of the access**
22 **decreases that AT&T seeks here?**
23

Direct Testimony of James D. Webber
Case No. 96-899-TP-ALT

1 A. Yes. There are at least two factors which distinguish CBT's situation. First, CBT
2 continues to impose an originating and terminating CCLC. Ameritech has already
3 been obliged to eliminate these intrastate rate elements as a condition of the
4 reinstatement of its own alternative regulation plan. Second, CBT is before this
5 Commission requesting a considerable reduction in its level of regulation on the
6 grounds that it must prepare for competition. The access reductions that AT&T
7 has proposed for CBT are essential to the development of competition in CBT
8 territory. It would be premature and actually anticompetitive to award CBT
9 additional regulatory freedom without first requiring it to align the rates of its
10 largely noncompetitive access services with their incremental cost.

11

12 **Q. Is AT&T's access rate proposal consistent with the current trend in**
13 **telecommunications regulation which encourages cost-based pricing of**
14 **essential network services?**
15

16 A. Yes. The rate changes requested by AT&T are consistent with the prevailing trend
17 in telecommunications regulation to adopt policies and regulations that drive the
18 price of essential network functionalities toward incremental cost. By passage of
19 the 1996 Act, Congress made the attainment of cost-based pricing one of the entire
20 Telecommunication Act's fundamental principles. Section 252 (d) (1) of the Act
21 states that the just and reasonable rates for network elements shall be "based on
22 the cost" of providing the element. Similarly, the Ohio Commission established
23 Local Service Guidelines in Case No. 95-845-TP-COI that endorsed the pricing of
24 interconnection, unbundled network elements, methods of obtaining

Direct Testimony of James D. Webber
Case No. 96-899-TP-ALT

1 interconnection and access to unbundled network elements, and reciprocal
2 compensation on the basis of a forward-looking economic cost-based pricing
3 methodology. (See Ohio Local Service Guidelines, Part V. B.)
4

5 **Q. Please explain how the reductions to CBT access rates that you have**
6 **recommended will serve the public interest.**
7

8 **A. In addition to encouraging competition, obliging CBT to adhere to cost-based**
9 **pricing for its access services will promote the public interest because it will reduce**
10 **the costs paid by toll providers. Reductions for toll providers will, in turn, be**
11 **reflected in price benefits for toll service users. If the decreases requested by**
12 **AT&T are approved, Ohio consumers can expect to realize a corresponding**
13 **benefit in lower rates and better pricing plans for toll services. These decreases**
14 **would undeniably serve the public interest.**
15

16 **Q. Will AT&T flow through to its own toll customers the savings it would realize**
17 **if CBT access rates are adjusted?**
18

19 **A. Yes, unequivocally. AT&T commits to flow through to its own toll customers the**
20 **access savings it would realize from CBT's implementation of cost-based access**
21 **pricing in its alternative regulation plan. In designing its flow-through plan, AT&T**
22 **would propose to positively affect a wide range of its toll customer groups.**
23

24 **Q. Would cost-based access pricing for CBT be consistent with the purpose of**
25 **alternative regulation in Ohio?**

Direct Testimony of James D. Webber
Case No. 96-899-TP-ALT

1

2 **A.** Yes. In establishing the framework for alternative regulation of LLECs, the
3 Commission was guided by the policy goals of Section 4927.02 which include, in
4 part, commitments to "maintain just and reasonable rates" and "promote diversity
5 and options in the supply of public telecommunications services." Aligning CBT's
6 access rates with their incremental costs is consistent with these statutory
7 underpinnings of the alternative regulation rules.

8

9 **V. CONCLUSION.**

10

11 **Q.** Please summarize your testimony.

12

13 **A.** CBT's intrastate access rates must be set at the cost-based levels that I recommend
14 as there is no just and reasonable basis for allowing CBT to continue to collect the
15 excess revenues generated by its existing access charges, while at the same time
16 allowing CBT increased regulatory flexibility. In fact, allowing CBT to continue
17 collecting switched access revenues for which it incurs no incremental costs will
18 confer an unreasonable competitive advantage on CBT, hamper the growth of
19 competition overall and deprive Ohio customers of significant price benefits and
20 competitive choices.

21

22 **Q.** Does this conclude your testimony?

Direct Testimony of James D. Webber
Case No. 96-899-TP-ALT

1

2 A. Yes, it does.

**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

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 Snively
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 prescription 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 prescription 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.

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

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

A final empirical test of the forward-looking nature of current FCC prescriptions can be performed by comparing recent life indications for BS-NC to 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

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

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 Reply Reply Comments Reply Comments Reply	8/6/91 9/20/91 12/10/91 1/14/93 2/19/93 4/2/93 4/30/93
DA Docket No. 91-698	New York Telephone Co. Petition for Waiver of Part 61.49(g) of the Commission's Rules	Comments Reply	8/9/91 9/9/91
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	Comments	8/26/91 9/25/91 10/2/91
CC Docket No. 87-313	Policy and Rules Concerning Rates for Dominant Carriers	Comments Reply Reply	8/26/91 9/25/91 10/2/91

<u>PROCEEDING</u>	<u>SUBJECT</u>	<u>TYPE</u>	<u>DATE</u>
CC Docket No. 91-213	Transport Rate Structure and Pricing	Comments Reply Comments Reply	11/22/91 1/22/91 2/1/93 3/19/93
Petition	ONA Access Charge Tariff Filings	Petition to Suspend	11/26/91
DA No. 91-1452	Federal-State Joint Conference on ONA Staff Report on Uniform Tariffing Guidelines for ONA Services	Comments Reply	12/20/91 1/21/92
CC Docket No. 91-346	Intelligent Networks	Reply Comments Reply	4/6/92 11/1/93 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 Reply	9/11/92 10/13/92
CC Docket No. 92-91	ONA Tariffs of Bell Operating Companies	Comments	10/16/92
CC Docket No. 92-222	Amendment of the Part 69 Allocation of General Support Facility Costs	Comments Reply	12/4/92 12/18/92
CC Docket No. 92-256	Application of ONA and Nondiscrimination Safeguards to GTE Corporation	Comments Reply	2/1/93 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

<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	11/1/96	1/24/97
					Rebuttal	12/20/96	1/24/97
PA	AT&T/MCI	Bell Atlantic	A-310203F0002	Depreciation	Rebuttal	1/13/97	1/28/97
					Direct	2/7/97	2/25/97
					Surrebuttal	2/21/97	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

<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

**Snively 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)

	Telecommunications Plant in Service				Add (e)	Ret (f)	Deprec (g)	EOY Reserve (h)	AVG Reserve (i)	Add Rate (j) = e/i	Refine Rate (k) = f/i	Deprec Rate (l) = g/i	Reserve Percent (m) = h/i
	BOY (a)	EOY (b)	Average (c) = (a+b)/2	Increase (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				28.6
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				28.9
1954	13,400	14,600	14,000	1,200				3,800	3,700				28.0
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	2,800	900	1,300	6,400	6,200	10.7	3.3	4.6	22.1
1963	29,000	32,000	30,500	3,000	4,000	1,000	1,400	6,800	6,600	13.6	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)

BOY (a)	Telecommunications Plant In Service				Add (e)	Ret (f)	Deprac (g)	EOY Reserve (h)	AVG Reserve (i)	Add Rate (j) = e/i	Retire Rate (k) = f/i	Deprac Rate (l) = g/i	Reserve Percent (m) = h/b
	EOY (b)	Average (c) = (a+b)/2	Increase (d) = b-a										
1966	37,000	38,500	3,000		4,100	1,100	1,800	8,900	8,500	11.1	3.0	4.9	22.3
1967	40,000	42,000	4,000		5,100	1,100	2,100	9,800	9,400	12.8	2.8	5.0	22.5
1968	43,249	45,186	3,674		5,104	1,230	2,304	10,979	10,440	11.8	2.8	5.1	23.3
1969	47,175	49,450	4,549		6,022	1,473	2,507	12,072	11,526	12.8	3.1	5.1	23.3
1970	51,723	54,337	5,228		6,880	1,861	2,751	13,213	12,843	13.3	3.2	5.1	23.2
1971	56,972	60,031	6,118		8,052	1,933	3,016	14,447	13,830	14.1	3.4	5.0	22.8
1972	63,068	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	73,697	7,491		10,085	2,596	3,659	16,789	16,206	14.4	3.7	5.0	21.7
1974	77,107	80,998	7,781		11,024	3,243	4,047	17,885	17,227	14.3	4.2	5.0	20.8
1975	84,799	88,542	7,485		10,881	3,398	4,486	18,809	18,247	12.8	4.0	5.1	20.4
1976	92,591	96,235	7,288		11,139	3,858	4,934	20,163	19,486	12.0	4.2	5.1	20.2
1977	101,237	105,367	8,259		12,438	4,136	5,630	21,903	21,033	12.3	4.1	5.3	20.0
1978	109,502	114,419	9,834		14,549	4,881	6,199	23,474	22,889	13.3	4.3	5.4	19.7
1979	118,612	124,282	11,360		16,843	5,452	6,820	24,881	24,178	14.2	4.8	5.5	19.1
1980	128,767	135,932	12,329		18,694	6,378	7,804	26,512	25,897	14.4	4.9	5.7	18.7
1981	142,121	148,983	13,724		19,482	5,749	8,864	28,932	28,222	13.7	4.0	5.8	19.2
1982	155,907	161,981	12,188		18,466	6,409	9,757	33,957	31,945	11.8	4.1	6.0	20.2
1983	169,162	173,822	9,320		16,076	6,664	11,340	39,571	36,784	9.5	3.9	6.5	22.2
1984	152,315	158,057	7,483		14,894	4,994	10,048	37,896	38,784	9.8	3.3	6.4	23.8
1985	174,218	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)

Telecommunications Plant in Service		EOY		Average		Increase		Add		Ret		Deprec		EOY		AVG		Add		Retire		Deprec		Reserve	
BOY	(a)	(b)	(c)=(a+b)/2	(d) = b-a	(e)	(f)	(g)	(h)	(i)	(j) = e/f	(k) = f/a	(l) = g/c	(m) = h/b	(n)	(o)	(p)	(q)	(r) = e/h	(s) = f/h	(t) = g/h	(u) = h/m	(v) = g/l	(w) = h/n	(x) = m/o	(y) = n/p
1986	186,972	188,758	187,865	11,786	18,907	8,954	13,142	51,543	47,690	10.1	3.7	7.5	28.4												
1987	188,063	209,897	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	18,627	74,123	67,787	8.5	4.2	7.7	33.6												
1989	220,126	228,328	224,728	9,200	18,868	8,145	18,839	83,115	78,619	7.7	3.7	7.5	36.2												
1990	228,103	235,247	232,175	6,144	18,473	12,390	18,855	88,146	85,631	8.1	5.4	7.3	37.5												
1991	236,093	241,620	238,857	5,527	18,322	12,896	18,607	91,427	88,787	7.8	5.5	7.0	37.8												
1992	242,599	249,508	246,054	6,909	18,877	12,136	17,036	98,053	94,740	7.6	5.0	6.9	38.3												
1993	250,570	258,782	254,676	8,212	18,884	11,217	17,676	108,079	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	137,276	131,534	8.0	3.7	7.2	47.1												
Avg.	'80-'71									12.0	3.1	4.9													
	'72-'83									13.1	4.1	5.5													
	'84-'96									8.5	4.2	7.2													

Source: 1946 - 1987 Report on Telephone Industry Depreciation, Tax and Capital/Expense Policy, Accounting and Audits Division, FCC, April 15, 1987, pp. 6, 9
1988 - 1993 FCC Statistics of Common Carriers, Tables 12 and 16
1994 - 1997 FCC Statistics of Common Carriers, Tables 10 and 14
1998 - 1998 FCC Statistics of Common Carriers, Tables 2.7 and 2.9

Note 1: 1946 - 1993 Includes AT&T

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

Col l = 1985 Col g/165,078

1986 Col g/175,928

1987 Col g/187,920

Col m = 1985 Col h/170,355

1986 Col h/181,496

1987 Col h/194,343

Cincinnati Bell Telephone Plant Related Rates

(Dollars in Millions)

Telecommunications Plant in Service												
EOY (a)	EOY (b)	Average (c)=(a+b)/2	Increase (d) = b-a	Add (e)	Ret (f)	Deprac (g)	EOY Reserve (h)	AVG. Reserve (i)	Add Rate (j) = e/h	Retire Rate (k) = f/h	Deprec Rate (l) = g/k	Reserve Percent (m) = h/b
1992	1,341	1,390	49	96	47	89	514	493	7.1	3.5	6.5	37.0
1993	1,390	1,422	31	123	89	91	526	520	6.8	6.4	6.5	37.0
1994	1,422	1,438	16	112	95	110	543	535	7.9	6.7	7.7	37.8
1995	1,438	1,500	62	98	34	104	614	579	6.7	2.4	7.1	40.9
1996	1,500	1,546	46	95	49	109	662	653	6.3	3.2	7.1	44.8
Avg.									7.4	4.4	7.0	

Source: ARMS 43-02 Reports, Table B-1, 1992-1996; Table B-3 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	48.0
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

ERROR: IOError
OFFENDING COMMAND: imagemask

STACK:

-dictionary-