

# Large Filing Separator Sheet

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1 that couldn't change after the first year.

2 Q. Well, I was unclear how 911 is handled under the  
3 plan. Is 911 subject to the price cap then?

4 A. Yes, it is.

5 Q. After the first 12 months?

6 A. Yes, it is. It's included -- I've included it in  
7 my Cell 1 service list.

8 Q. What about a multi-line business customer; would  
9 they -- they would be -- would they be receiving  
10 increases after the first 12 months potentially?

11 A. For some services. Again, if they bought toll,  
12 they would see potentially, potentially, an increase  
13 for toll. They would not see an increase for their  
14 basic local usage.

15 Q. So if they have a PBX unit, for example, and are  
16 buying services from -- basic access from that, that  
17 would not increase?

18 A. No. The -- The PBX trunk and the price for the  
19 local usage on that trunk would not go up for the full  
20 36 months. But anything else that they bought, such as  
21 Message Toll, such as -- as -- I guess that would be  
22 the primary thing that they would probably buy -- that  
23 would be subject to go up after the first 12 months.

24 Q. And how about directory assistance?

25 A. Directory assistance is under the 12-month

1 limitation. It could go up, theoretically, after the  
2 first year.

3 Q. And what about service connection -- installation  
4 charges?

5 A. Since those are really tied to the basic line, it  
6 would not go up for the full three years, those would  
7 also not go up for the full three years. We're talking  
8 like a residence or a -- you know, a business that's  
9 buying basic access lines from us.

10 Now, service and equipment charges that may be  
11 associated with some other feature or something else  
12 that they buy could go up. But, the service and  
13 equipment associated with the basic access would be  
14 under the same provisions as the service it goes with.  
15 So since the basic access is under the three-year  
16 limitation, then the service and equipment charges  
17 associated with -- with that would also be under the  
18 three-year limitation.

19 Q. Okay. And after the three years, those services  
20 are subject to the price cap?

21 A. Yes.

22 Q. And they are in Cell 1?

23 A. I have service and equipment charges essentially  
24 in all the cells because it depends on the service that  
25 it goes with.

1 Q. Okay.

2 A. So that -- that if it's the service and equipment  
3 charge associated with the basic line, which is in Cell  
4 1, then those particular service and equipment charges  
5 would also be in Cell 1.

6 Q. Okay.

7 A. If it's a service and equipment charge associated  
8 with a competitive service, then that service and  
9 equipment charge would also be in that same cell as the  
10 competitive service.

11 Q. You've got a limit, I believe, of no more than 5  
12 percent increase in addition to the -- the price change  
13 under the price cap for any given service within the  
14 cell; is that right?

15 A. For Cell 1, yes.

16 Q. Cell 1.

17 A. There is a limitation that the price could not go  
18 up more than 5 percent above how much the price cap  
19 index goes up for that year.

20 Q. You're tying the installation -- And I understand  
21 why. You're tying the installation charges to the  
22 residence access line and say those would go together.

23 But do they go together for purposes of that 5  
24 percent limitation, or could they -- or is it one that  
25 as a package they don't increase more than 5 percent,

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1 or individually they can both go up 5 percent?

2 A. Individually, they could -- they would each be  
3 subject to the same price -- the same price rule  
4 individually that they could -- one could go up 5 -- 5  
5 percent above -- I'm not saying that it will, but the  
6 theoretical limit to the cap will allow, for example,  
7 maybe the service and equipment charges to go up, but  
8 not the line, or vice-versa, or one could go up and one  
9 could go down.

10 Q. You've said no -- no service can go up more than  
11 5 percent.

12 A. Above the -- the change in the index, right.

13 Q. Right. But when you've got a basic access line  
14 and then a service connection charge along with it,  
15 you're saying each of those are treated individually  
16 and that neither of them can go up 5 percent, or that  
17 they both can go up so long as they average out to be  
18 no more than a 5 percent increase?

19 A. Both of them could go up the full 5 percent plus  
20 the change in the index. If, for example, a line  
21 charge -- a line, just pick an easy number, costs \$10,  
22 and the installation costs \$20, each of those could go  
23 up 5 percent more than the price index went up, which  
24 means then in the aggregate if you looked at them  
25 together, they would go up 5 percent more than the

1 index. And that's the limit.

2 Q. But one can't go up 7 percent and the other one 3  
3 percent?

4 A. Assuming that the price cap index didn't change  
5 in --

6 Q. Right.

7 A. -- a year.

8 Q. Right.

9 A. One couldn't go up 7 and the other one not go up  
10 at all. I couldn't say 5 percent on this one, 5  
11 percent -- or I'm going to put 10 percent on service A  
12 and zero on service B.

13 Q. Okay.

14 A. No. Each individual one will be subject to, in  
15 this case, the 5 percent number.

16 Q. In your testimony, in your Supplemental  
17 Testimony, you talk -- you -- as I understand it, the  
18 Staff raised this issue of not having Cell 1 go above  
19 cost; and you disagreed with that and said, well, if  
20 it's above long-run service incremental cost, then  
21 clearly it can do that.

22 You never answered the question, as I read it,  
23 unless I read it wrong, can a service exceed, Cell 1  
24 service, exceed also fully distributed cost.

25 A. Theoretically, it could, because I don't feel

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1 this a fully distributed cost for the reasons that it's  
2 not forward looking, it's not avoidable, the things  
3 that Dr. Currie really talks about in his testimony,  
4 I -- I don't believe that it is the appropriate measure  
5 for determining how you would set prices.

6 Q. Including as a cap?

7 A. Including as a cap.

8 One of the problems I have with it is the  
9 arbitrary nature of how you do a fully distributed cost  
10 study.

11 Q. Well, is it reasonable, in your opinion, as a  
12 theoretical matter, before we get into practicalities  
13 of how you do it, which is difficult, but as a  
14 theoretical matter, do you think it's appropriate that  
15 a Cell 1 service can exceed its fully distributed cost,  
16 as a theoretical matter?

17 A. As a theoretical matter, since I don't consider  
18 fully distributed cost a reasonable thing that should  
19 be looked at in determining prices, I don't see why it  
20 should form a ceiling.

21 Q. Isn't that a form of cross-subsidy, then, if a  
22 service -- if a monopoly service is being provided  
23 above its fully distributed cost? Isn't that, in  
24 fact -- and that -- those revenues being used to  
25 subsidize a competitive service, isn't that a form of

1 cross-subsidy?

2 A. Are you saying that one service would generate a  
3 greater contribution than another?

4 Q. Right. Over and above its fully distributed  
5 cost.

6 A. It's surely the case that different services  
7 would -- could generate different contributions. And  
8 it's possible that a Cell 1 service, while I'm not  
9 saying that all Cell 1 services are necessarily  
10 monopoly services, that a Cell 1 service might generate  
11 a greater contribution than a service in another cell.

12 Q. But to the extent that's above the -- its fully  
13 distributed cost, in fact, it's generating revenues --  
14 it's sort of opposite the theory that -- that rates  
15 should be based on cost because, in fact, this is a  
16 rate that is exceeding cost, and thus generating, some  
17 might argue, monopoly profits?

18 A. The fact that there is generally less competition  
19 for Cell 1 services is why I have proposed the 5  
20 percent plus the change in the price cap index for Cell  
21 1.

22 But since I really don't feel that fully  
23 distributed cost is the appropriate -- is an  
24 appropriate thing to be used for determining the price,  
25 I just don't feel it should be used as a ceiling or



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1 anything else.

2 I hope I'm making myself clear.

3 Q. Did the Company do any fully distributed cost  
4 studies for purposes of this proceeding?

5 A. Mr. Hollinger, who is, I believe, testifying --  
6 or scheduled to testify Monday, I believe at the  
7 request of the Staff, did some fully distributed  
8 analysis, yes.

9 Q. Let me ask you on the subject of increases to pay  
10 telephone service, and what -- I mean, I don't know the  
11 exact term, but I'm meaning the 25-cent charge.

12 A. Yes.

13 Q. Are there any limitations on the amount that that  
14 can increase, other than the price cap formula itself;  
15 but are there any ceilings with regard to that  
16 particular service?

17 A. I have proposed that the -- the usage, the 25  
18 percent local usage, for public and semi-public  
19 telephones, be classified in Cell 2. And, as such, the  
20 current 25-cent rate would become the minimum. And the  
21 maximum would be twice the minimum, or 50 cents.

22 All Cell 2 services have a minimum and a maximum  
23 under our proposal, the maximum being twice the  
24 minimum. If a service is not currently flexibly  
25 priced, then I'm proposing that the current price

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1           become the minimum. And so the maximum would  
2           automatically be twice that.

3                    Again, any -- any change, though, would have to  
4           be done in the context of the overall price cap.

5           Q.       So that -- that 50-cent maximum then would  
6           increase over time with the price cap, assuming --

7           A.       No.

8           Q.       -- the price cap goes up?

9           A.       No. The price cap would allow in the aggregate,  
10          assuming it went up --

11          Q.       Right.

12          A.       -- all the prices to go up to some extent; but,  
13          once we've established the 25 cents as the minimum for  
14          a Cell 2 service, the max would be set at 50 cents, we  
15          would have to stay within that range or make a filing  
16          to change the range, which I discuss in my testimony.

17          Q.       Okay.

18          A.       And any change -- Assuming we were to increase  
19          the price, we would have to make sure that we could  
20          still do that within the constructs of the overall  
21          price cap.

22          Q.       Would you have to -- Do you envision this, that  
23          you'd have to come back to the Commission to be able to  
24          get authority to go above 50 cents for a pay phone  
25          call?

1 A. Yes. Yes. As I lay out in my testimony, we  
2 would file -- if we wanted to change that range, we  
3 would file on 30 days' notice to do that, that we  
4 would -- especially the first time that we would -- we  
5 would change the price, we would file a LRSIC with  
6 that.

7 Q. What other information would you provide? You  
8 would provide a LRSIC which would determine what the  
9 floor is, but would you provide any other information  
10 with regard to that?

11 A. I haven't laid out in my testimony that we  
12 necessarily would. But, obviously, we would work with  
13 the Staff to answer the questions that they have.

14 Q. Does the Company have any -- Has the Company done  
15 any studies of the extent to which people use pay  
16 telephone service as a substitute for basic exchange  
17 service?

18 A. I haven't seen any. That's not to say somebody  
19 hasn't done one, but I'm not aware of it.

20 Q. So you didn't take that into account specifically  
21 in devising the -- that part of the plan?

22 A. No. I recognize that there are coin telephones  
23 provided by Ameritech, there are coin telephones  
24 provided by other parties, the COCOTs, and the lines  
25 for those telephones in either case would be Cell 1,

1 but I'm -- and I'm -- but I'm proposing the message  
2 charges would be in Cell 2 based on that competitive  
3 aspect.

4 But I did not do a study to look at what  
5 percentage of people or anything like that that would  
6 use it for basic.

7 Q. I guess I'm trying to understand. You would make  
8 a filing with the Commission to exceed the 50 cents,  
9 but I'm trying to fit that in with the authority that  
10 the Commission would have granted you under the price  
11 cap formula as you've proposed it.

12 Would you be saying to the Commission that we're  
13 doing this, but you've already approved it by virtue of  
14 having approved the price cap formula, here,  
15 Commission, see, we have this flexibility under the  
16 price cap formula; or does the Commission retain some  
17 discretion to look at that issue of the reasonableness  
18 of exceeding, in this case, the 50-cent cap?

19 A. Let me just verify what I said.

20 I state, and this is at Page 14 in my original  
21 testimony, Exhibit 24.0, that, "Whenever a change in  
22 the range of rates is proposed, an application will be  
23 filed with the Commission 30 days prior to the  
24 affective date of the price change. Such change will  
25 become effective on the 31st day unless suspended by

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1 the Commission."

2 So I am anticipating that the Commission would  
3 review that change and determine its reasonableness.

4 Q. Notwithstanding the fact that it would have  
5 already approved the price cap, it still would have had  
6 discretion to determine whether that increase in the  
7 cap was reasonable or not?

8 A. That's correct.

9 Q. And bear with me, because I'm skipping around,  
10 but there are just some clarifications here.

11 You talk about the period for review of contracts  
12 or new service offerings in your Supplemental Testimony  
13 and are opposed to the Staff's 30-day review period  
14 recommendation on that. Am I right on that?

15 A. You're correct.

16 Q. How does the Company anticipate the complaint  
17 process working into this whole thing if, in fact, it  
18 was on a zero-day or a 30-day filing, for that matter?

19 A. Well, we're anticipating that the complaint  
20 process would be essentially the same process that we  
21 have today, that a customer could bring a complaint and  
22 the Commission would -- would investigate that  
23 complaint.

24 The issue with regards to 30 days versus zero  
25 days versus the 90 days for contracts or 60 days for

1 new services that we have today, for competitives, is  
2 one of our competition can do it on zero days' notice,  
3 and I feel we should have the same flexibility.

4 We're not in any way asking the Commission to  
5 give up jurisdiction over -- over these services. We  
6 are anticipating that the Staff would still do whatever  
7 review they think is necessary. All we're really  
8 asking for is the permission to go ahead and serve the  
9 customer from day one, just like our competition could  
10 do. If the Staff should uncover a problem with  
11 something we've done, or if a complaint should be filed  
12 and the Commission entertains that complaint, we would  
13 have to deal with it at that point.

14 Q. Would the Company argue in that complaint case  
15 that the Staff or the Commission would have "approved"  
16 the filing by virtue of it having given you the  
17 authority in the price cap plan to let it go into  
18 effect on zero days' notice or even 30 days' notice; or  
19 would it -- would it be -- the issue be sort of open  
20 for complete review without somebody saying the Staff  
21 or the Commission has approved this?

22 A. Maybe the best way to answer that is that I'm not  
23 anticipating that the Staff would have any -- and the  
24 Commission have any less oversight than they do today.  
25 All I'm asking is to allow us to put it forth up front.

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1 I'm not an attorney, so I'm not sure all the things  
2 that might be argued in a legal proceeding.

3 But my intention is that we would just put it in  
4 effective immediately, the Staff would still go through  
5 the same review process, the Commission would still  
6 have the same complaint process available to it if they  
7 thought, for example, we were -- we were pricing below  
8 cost, below LRSIC and somebody were to complain, or the  
9 Staff would most likely, I would presume, uncover that  
10 in their review, that we would be called to task for  
11 that and we would have to fix it. And we would not be  
12 in a position to say, well, it already went in, so it's  
13 too late.

14 Q. Would you add a provision to the contracts,  
15 basically a regulatory out clause, that says that this  
16 contract is subject to -- or this contract could, even  
17 though it's going into effect, could be subject to  
18 jurisdiction and possible -- possibly being overturned,  
19 for lack of a better word, by the Commission?

20 A. I hadn't really thought about what we might do.  
21 I am concerned, and we discussed in my  
22 cross-examination this morning a little bit, the  
23 unpleasant situation we would have with a customer if  
24 it -- We're talking competitive services here.

25 Q. Right.

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1 A. So we're talking about competitive customers that  
2 have options.

3 That if we entered into a contract with them and  
4 then found out after the fact that we had to change the  
5 terms and conditions of the contract, our customer  
6 would probably not be very happy with us. I don't know  
7 legally whether we would put a clause into the contract  
8 or not. I haven't thought about that.

9 Q. Don't you invite that potential even more on a  
10 zero-day basis than at least if you had some Staff  
11 review of it on a 30-day basis?

12 A. We might. On the other hand, the 30 days, if our  
13 competition can do it on zero days, is a risk in the  
14 other direction.

15 So kind of the balance that I'm trying to seek  
16 with this proposal is that we would like to go in on  
17 zero days just like our competition, and we bear some  
18 risk that the Commission may come back and force us to  
19 change the terms and conditions. And that's just  
20 something we would need to deal with.

21 Q. How would you -- Since this is part of a plan,  
22 I'm just trying to think out, how would you propose  
23 that if the Commission adopted your proposal, we would  
24 handle the question of the customer's right to the  
25 rates in that contract on an ongoing basis, or even the



1 question of whether there's any refunds available? How  
2 would -- What would we say in the Order with regard to  
3 this issue?

4 A. I haven't proposed any -- any wording or -- You  
5 know, I think that's something that the attorneys would  
6 obviously have to work towards.

7 I would anticipate, though, that if the  
8 Commission found that a contract was invalid, we would  
9 have to go back to the customer and deal with it. I  
10 don't know how you would -- you would want to write it  
11 up in the Order.

12 Q. Just a couple of other questions I had.

13 One is you talk on Page 16 of your testimony, you  
14 agree with the Staff recommendation to lift the resale  
15 on -- the restriction on resale of Message Rate Centrex  
16 service.

17 A. This is Page 16 of my Supplemental Testimony?

18 Q. Supplemental Testimony, right.

19 A. Yes. That was part of our -- The originally  
20 filed tariffs in this proceeding deletes the -- the  
21 restriction which is present in our current tariffs  
22 that that would have presented it.

23 Q. Right now under tariffs you can only resell on a  
24 measured-rate basis, right?

25 A. I believe that's the case. I don't recall that

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1 we've actually filed the tariff revision that would  
2 remove that. I don't believe we have. But the  
3 proposed tariffs that we filed in Exhibit 7 as part of  
4 this case deleted that restriction.

5 Q. We had a hotly contested case some time ago with  
6 ETI and Centex on this very issue. How would this  
7 change affect those arrangements which are in place?

8 A. They would be allowed to purchase under either  
9 scenario. They could purchase measured or they could  
10 purchase the message.

11 Q. Notwithstanding that they've signed a contract  
12 with you previously for measured-rate service?

13 A. I'm really not familiar with the terms of the  
14 contract, I don't know how long they have to go or  
15 anything like that, either, so --

16 Q. I don't either.

17 A. I'm envisioning on a going-forward basis, at any  
18 rate, that that restriction, which as I understand it  
19 would still apply today, would be lifted in the future.

20 Q. If that is lifted, what are the remaining resale  
21 restrictions in your transfers?

22 A. There would -- Really wouldn't be too many.

23 If I go back to my original testimony, at Pages  
24 42 and 43, I talk about resale, and I say as part of  
25 this proceeding, "Previously, private line services and

1 nonresidence vertical services were not available for  
2 resale and sharing. Now, all of our services, except  
3 for residence exchange service and message rate foreign  
4 exchange service, will be available for resale and  
5 sharing."

6 I go on to talk a little bit about Centrex  
7 because there are a couple of particular restrictions  
8 within Centrex that would still be there; but,  
9 basically, as a policy go on to say that all of our  
10 services should be available to be resold or shared as  
11 long as the rates are above their costs and they don't  
12 contain flat-rate usage provisions.

13 Q. Why did you leave out foreign exchange service?

14 A. I left out message-rate foreign exchange service  
15 because we charge for that on a message basis. And it  
16 could be used in place of a private line service, incur  
17 one message and use it like a private line.

18 Q. Explain how that would -- how that would operate,  
19 somebody could do that.

20 A. Once you placed the message and utilized the  
21 facility, there would be no incremental charges if you  
22 kept that message going on for an extended period of  
23 time; as opposed to running individual messages over --

24 Q. Oh, but there would be multiple customers,  
25 though, wouldn't there, so each one would be a separate

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1 message? It's not like there's one message and then  
2 lots of different customers on the other end of the PBX  
3 can take off that same message.

4 A. No. My concern was that once a message was  
5 begun, it could be kept up just like a private line.  
6 You could place one message on Friday and continue to  
7 send, for example, data back and forth, or whatever,  
8 for weeks on end.

9 Q. For one customer.

10 A. For one customer.

11 Q. All right. I understand.

12 You exempted residence exchange service, but not  
13 business exchange service. Can you explain that?

14 A. Well, part of it is because I talk about above  
15 cost, is it's -- the public policy issues, et cetera,  
16 associated with residence exchange service on part of  
17 it, you know, even as part of this proceeding we  
18 recognize that residence access lines in some areas are  
19 priced below cost, below LRSIC, and we're not proposing  
20 to increase those; so they would violate the -- as long  
21 as those services are priced above their cost  
22 provision.

23 The other concern is that we don't and I don't  
24 view residence resale -- I don't review resale as a  
25 residence activity, it doesn't fit within the

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1 definition of what a residence service is. So to buy  
2 something for resale where you're going to engage in a  
3 business to sell it to somebody else, that is a  
4 business use.

5 So, therefore, if somebody wanted to buy business  
6 lines and resell those to residential customers, I  
7 wouldn't have a problem. But I would have a problem  
8 with them buying residential lines at residential  
9 prices and reselling those.

10 Q. Primarily because of the cost issue? I'm not  
11 sure from a policy point of view what the difference  
12 is.

13 A. From the -- From the price issue, the price that  
14 we would charge?

15 Q. Because you're saying it's below LRSIC. That's  
16 the key issue, that's the key differentiation that  
17 you're making?

18 A. That's -- That is one of them.

19 The other is the tariff definition for what  
20 constitutes a residence service versus a nonresidence  
21 service. The reseller is our customer, they are buying  
22 that service not to serve their house, they are buying  
23 that service for a business activity and, therefore,  
24 they should pay a nonresidence rate or nonresidence  
25 price.

1 Q. So I understand from this then somebody could  
2 come into downtown Columbus and -- and resell business  
3 exchange local service in downtown Columbus under this  
4 tariff?

5 A. That's correct.

6 Q. And the Company would not say that that violated  
7 any franchise right; in fact, it would be providing  
8 that service under this tariff?

9 A. The Company would be providing the service, yes.

10 Q. All right. And the fact that the reseller is  
11 providing the service and has a relationship with the  
12 customer, that, to you, is not a franchise violation?

13 A. To me, it isn't. I'm not sure my attorneys would  
14 necessarily agree with that.

15 But -- But from a strictly a -- a pricing and --  
16 from a pricing perspective, I don't have a concern with  
17 that. There may be other legal concerns that I'm not  
18 aware of. But I don't personally have a concern.

19 Q. Would this allow -- this lifting of the resale  
20 restriction allow an IXC to resell measured service in  
21 an EAS area?

22 A. Are we talking to business customers?

23 Q. Say to business customers.

24 A. I know of nothing that would prevent one of the  
25 IXCs from going into the resale business.

1 Q. And providing effectively local service to  
2 business in an EAS area?

3 A. EAS area or a local area, either way. I don't  
4 see a distinction.

5 Q. But there would still be a restriction on them  
6 doing it for residential -- ultimate -- residential  
7 customer as the ultimate customer, right?

8 A. I'm not so much concerned that the -- who the  
9 ultimate customer is, as I am that I wouldn't want to  
10 make available at residence prices, with the public  
11 policy discounts, if you will, that have been built  
12 into pricing over time, if -- if resell -- a reseller  
13 wanted to buy business lines and resell them to  
14 residence customers, I don't have a problem with that.  
15 But I would charge them the business prices, not the  
16 residence prices.

17 Q. I just have just two other areas real briefly.

18 You say on Page 14 of your Supplemental  
19 Testimony, you're talking about the two wire centers in  
20 Cleveland and Columbus, and you want the dedicated  
21 digital services from those to be in Cell 4.

22 A. That's correct, I do. Yes.

23 Q. All right. You say on -- You say in the middle,  
24 "Additional providers such as Time Warner AxS and TCG  
25 America, Inc., continue to announce plans or seek

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1 Commission certification to provide service in these  
2 areas."

3 What Commission certification or announcement are  
4 you referring to?

5 A. I'm aware that in order to provide service within  
6 an area, a company would have to come to the  
7 Commission, presumably under the 563 process, to seek a  
8 certificate to provide that service where there is  
9 activity in that area.

10 There have been a number of -- of certification  
11 proceedings for various areas around the state. We  
12 know that in these two particular areas there is  
13 already -- there are already competitors providing  
14 services; and there are, as I say, kind of an ongoing  
15 flow of certification proceedings before the  
16 Commission. So that's really what I was referring to.

17 Q. All right. And this is a service that would be  
18 class- -- would be provided -- that is being provided  
19 by these competitors under their existing Commission  
20 certificates?

21 A. That's correct. This is a dedicated digital  
22 service that would be provided by these competitors  
23 under their existing certificates.

24 Q. And so, as a result of that, you're saying this  
25 is a fully competitive service, the Commission



1 certified these new entrants, and, therefore, the  
2 service ought to be in Cell 4 for Ameritech?

3 A. Yes. If -- If there are competitors out there  
4 that have Commission authority and are actual --  
5 especially in these two locations, are actually selling  
6 their services to customers, we feel that there is a  
7 high level of competition in those geographic areas.

8 We're only talking about these two wire centers,  
9 again --

10 Q. I understand.

11 A. -- downtown Cleveland, downtown Columbus.

12 Q. I understand.

13 A. We're not saying that competition is ubiquitous  
14 across the state or ubiquitous across Cleveland and  
15 Columbus.

16 But in those two wire centers we know that there  
17 are competitors out there that have facilities, are  
18 making sales, and are dealing with the same customers  
19 that we have.

20 Q. Do you have an analysis of the relative market  
21 share of these competitors' share of the market, as  
22 opposed to Ameritech's share of the market, today in  
23 these two wire centers?

24 A. I do not. Carol Kline, who testified, I guess  
25 the end of last week and the beginning of this week, is

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1 the person that was really more familiar with who those  
2 competitors were, exactly where they were, things of  
3 that nature. I have not seen any market share  
4 information.

5 One -- One of the problems is while I know what  
6 we've sold, I'm not sure what they have sold. I can  
7 look at a customer that we used to provide service for  
8 that we no longer provide service to that customer; but  
9 I'm not really sure what it is that that competitor is  
10 selling them in terms of, yeah, we know that they were  
11 a digital private line customer of ours before,  
12 presumably that's what they're doing now, but I don't  
13 know at what capacity they're buying, maybe they  
14 increased the size over what -- what they had when they  
15 bought from us.

16 I know of no reporting requirements that require  
17 those competitors to report what their sales are, so I  
18 really don't have readily available the information  
19 which would allow me to calculate a market -- market  
20 share.

21 Q. Well, you -- you have information relative to  
22 Ohio Bell's -- the customer -- the amount of  
23 information that the customers -- excuse me, the amount  
24 of sales customers have had with Ohio Bell?

25 A. What they had historically, yes, we could gather

1 that type of information.

2 Q. And you have ongoing contact with these customers  
3 that are your major customers, right?

4 A. Yes. In most cases we do, yes.

5 Q. But you relied on the testimony that is presented  
6 by Ms. Kline on this issue?

7 A. Ms. Kline and Ms. Lanz both.

8 Q. Okay. All right.

9 You're aware that the Company has appealed to the  
10 Ohio Supreme Court the certifications that this  
11 Commission granted to Time Warner and TCG for this type  
12 of service?

13 A. Are we talking a franchise?

14 Q. Yeah.

15 A. I'm aware that there is a dispute --

16 Q. Right.

17 A. -- going on, yes.

18 Q. Okay. And, in fact, one of the issues is that --  
19 whether or not the Company has a franchise right to the  
20 service such that the Commission should not have  
21 certified these two carriers.

22 A. I believe that's the case, yes.

23 Q. Should the Supreme Court sustain the Company's  
24 position, accept the Company's position, and overturn  
25 the certifications and determine that, in fact, the

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1 Company has an exclusive franchise, would it be your  
2 recommendation that we continue to leave the service in  
3 Cell 4?

4 A. Are we talking switched services, or are we  
5 talking --

6 Q. These services that were relative to the  
7 dedicated digital services.

8 A. Would the result from that order mean that these  
9 companies would have to stop providing the services?

10 Q. Presumably.

11 A. If those companies were not providing services,  
12 and we were then the only provider of those services, I  
13 would have a hard time justifying retaining a Cell 4  
14 competitive classification if there was, indeed, no  
15 competition.

16 Q. So it would require some reopening of this issue  
17 in the context of the plan to see if, in fact, that's  
18 still an appropriate classification?

19 A. The -- The plan provides a process to move  
20 services between cells. I mean, that's part of the --  
21 of what the plan is about, is to set up the framework  
22 so that we won't have to go through a separate  
23 proceeding every time we want to -- to examine one of  
24 these things; it provides us a framework to move a  
25 service from one cell to another.

1           So within -- I don't think you'd necessarily have  
2           to reopen the plan, if that was -- was your words;  
3           rather, we could rely upon the process set up as part  
4           of the plan to look at the move- -- the movement,  
5           whether that would be appropriate to move it between  
6           cells.

7           Q.     But a Commission would have to have some  
8           authority to go in and look at that particular issue,  
9           if the Company did not present it to us through its  
10          filing, the Commission would have to have some  
11          authority of saying, "Now there's a change, we need to  
12          look at this classification and the resulting impacts  
13          of that Supreme Court decision"?

14          A.     Presuming we didn't do it ourselves?

15          Q.     Right.

16          A.     I would presume that to be the case.

17          Q.     Okay. The last issue I have, and I appreciate  
18          your patience, is on the issue of the classification of  
19          directory assistance.

20          A.     Yes.

21          Q.     And you say that that's a discretionary service.

22          A.     Yes, I do.

23          Q.     You're aware that this Commission some years ago  
24          lifted the requirements that there be directories at  
25          pay stations?

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1 A. That's my understanding. We still try to provide  
2 them, but I -- my understanding is that the Commission  
3 recognized that's sometimes pretty difficult to do.

4 Q. Because people rip them up or use them as note  
5 pads or did various things with them; it was very  
6 costly to maintain.

7 How do you -- Tell me how you squared the concept  
8 that directory assistance is discretionary at a pay  
9 phone where there, in fact, is no phone book available?  
10 What can the customer do?

11 A. Well, keep in mind from a pay phone, we don't  
12 charge for it; it's free.

13 Q. Okay.

14 A. Okay. So absent some change to the plan -- Let  
15 me state it another way.

16 We don't charge for it. I know of no intention  
17 to charge for it from a pay phone. That's not to say  
18 we might not want to at some point in time investigate  
19 that issue.

20 But I know of no plans to begin -- to begin  
21 charging for it.

22 Q. Okay. So that that Commission Rule which  
23 basically says that you shall not charge DA from a pay  
24 phone, that's not affected by the plan, I guess that  
25 was my -- that's my question. You'd have to make a

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1 separate filing if, in fact, you wanted to start  
2 charging for DA from pay phones?

3 A. To the extent the Commission would -- we wished  
4 to charge from pay phones, again, I'm not aware  
5 procedurally what we would need to do. But it would be  
6 my intention that we would -- we would have to seek  
7 Commission approval to do that.

8 Q. So it's not -- In short, it's not subject to the  
9 price cap where we start at zero but we start  
10 increasing it to some level; it stays at zero absent a  
11 specific filing and Commission approval?

12 A. From pay phones?

13 Q. From pay phones.

14 A. That's my intention.

15 CHAIRMAN GLAZER: Okay. That's all I  
16 have. Thank you very much.

17 THE WITNESS: You're very welcome.

18 CHAIRMAN GLAZER: Appreciate it.

19 EXAMINER FENLON: Thank you.

20 Why don't we break till 1:45.

21 (Luncheon recess taken.)

22 - - -

23

24

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P R O C E E D I N G S

- - -

Friday, July 22, 1994

Afternoon Session

- - -

MR. LUCKEY: At this time, your Honor, the Staff would like to make an additional appearance in this case, that being the appearance of Duane Luckey, Assistant Attorney General, on behalf of the Staff.

EXAMINER FENLON: Thank you, Mr. Luckey.

Mr. Newcomb.

MR. NEWCOMB: Thank you, your Honor.

- - -

CROSS-EXAMINATION

BY MR. NEWCOMB:

Q. Good afternoon, Mr. McKenzie.

A. Good afternoon.

Q. Nice to see you.

Mr. McKenzie, if I might, I'd like to turn to Page 3 of your testimony where you have answered some questions this morning of Mr. Royer having to do with developing revenue estimates.



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1 But without going over ground that he's covered,  
2 I think I would like to ask you a couple of questions  
3 with respect to that.

4 Based upon your -- your estimates of volumes of  
5 business as determined by you based upon business and  
6 tariffed rates, your -- your ability to reach  
7 conclusions with respect to that is, as I understand  
8 it, based upon your -- your knowledge and your  
9 experience with Ohio Bell; is that correct?

10 A. Obviously, my knowledge and experience with Ohio  
11 Bell is a major part of what went into my  
12 determination, yes.

13 Q. And you have other aids that assist you in making  
14 these predictions?

15 A. Are we talking about strictly the revenue  
16 forecasts or the testimony that I sponsored?

17 Q. Yes, the revenue forecasts, yes.

18 A. Just for clarification, the only revenue forecast  
19 that I've worked on in conjunction with this case is  
20 some information I provided to Mr. Kukla with regards  
21 to a five-year forecast.

22 What I was talking about on Pages 2 and then 3  
23 is -- is my general knowledge and experience in the  
24 business. In some of my prior positions, I was in a  
25 position to actually do revenue forecasts on a

1 recurring basis, but that's not my current  
2 responsibility.

3 Q. So you -- you have not made any estimates of  
4 revenues to be generated under this price cap plan?

5 A. Exhibit 3.1/4.1 -- I'm sorry, 3.2/4.2 that's part  
6 of Exhibit 3, which I sponsor, does indicate revenues  
7 based on quantities for calendar year 1994 on both a  
8 with Advantage Ohio and without, a pre and a post  
9 basis. So that is under my sponsorship, if that's what  
10 you mean.

11 Q. Okay. And in developing that, did you rely on  
12 anything other than your experience? For example, did  
13 you use customer demand studies in developing those  
14 projections?

15 A. No, I did not.

16 Q. Did you use market share information?

17 A. No, I did not.

18 Q. And did you use price elasticity information?

19 A. No, I did not.

20 Q. And did you use any information having to do with  
21 cost of service in arriving at these -- these numbers?

22 A. I would not have used cost-of-service  
23 information.

24 Q. And in developing your -- your revenues, did you  
25 have a target number that you were trying to achieve

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1 for the Company?

2 A. No. What I did was estimate the quantities that  
3 would be in place on a forecasted basis, apply the --  
4 the proposed and the current prices to those; and then  
5 I performed a reasonableness check by conferring with  
6 Mr. Kukla. But I had no particular target in mind.

7 Q. Who would make the determination as to whether  
8 your number that you ultimately arrived at was  
9 appropriate, was a number that Ameritech was satisfied  
10 with?

11 A. I'm not aware that I reviewed the bottom line  
12 revenue number with anyone in particular. As I  
13 indicated, I conferred with Mr. Kukla to be sure that  
14 it was in the ballpark with what he was proposing,  
15 since he was doing -- anything he would do would be an  
16 aggregate type of a forecast.

17 Now, again, we're just talking about the 3.2/4.2  
18 schedules?

19 Q. Right.

20 A. Okay.

21 Q. In developing your pricing scheme, did you take  
22 into account on an individual service-by-service basis  
23 the level of competition that would be faced in that  
24 service?

25 A. To some extent, I did on a very aggregate basis.

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1 Q. Would you explain what you mean by that?

2 A. What I was doing was looking at the quantities of  
3 service, the quantities were in place, and essentially  
4 trending them forward from the 19- -- from the base  
5 period, which was the 12 months ending September 30th,  
6 1993, into the 1994 period.

7 So to the extent that quantities would be, or the  
8 rate of change between any two periods, would be  
9 affected by competition, that would have been  
10 essentially included in that -- in that process.

11 Q. And where did you get that information on  
12 competition; was that Ms. Kline?

13 A. I received a great deal of competition  
14 information from Ms. Kline. Also, I had available the  
15 information from at that time Mr. Hudzik that  
16 ultimately became Ms. Lanz. But that's not really what  
17 I used in doing those quantities; what I was really  
18 looking more towards was the recent trends.

19 Q. But -- But wouldn't those recent trends have to  
20 be based on the real world in Ohio?

21 A. Correct.

22 Q. And I'm still -- I'm still not understanding  
23 where that information came from.

24 A. What we did was take a snapshot of the data that  
25 we had, the quantities in service as of a point in

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1 time; and based on some general indicators, such as  
2 revenue changes, trended those quantities into 1994.

3 If you're asking me whether I did any overt  
4 adjustments to reflect increased competition between  
5 the 1993 base period and 1994, my analysis was not that  
6 sophisticated.

7 Q. Would you expect to perform such an analysis on a  
8 going-forward basis if this price cap plan is approved?

9 A. I am not anticipating that I would go through a  
10 forecasting process.

11 However, the same type of information would have  
12 to be gathered on an annual basis and submitted to the  
13 Commission Staff as part of the -- the information that  
14 they would use to be sure that the prices we are  
15 charging would be below the price cap.

16 Q. And -- But I'm talking -- I understand that. But  
17 from an internal standpoint, would you -- would you  
18 anticipate using such things as elasticity studies  
19 to -- to set your prices?

20 A. Would I? Personally, no.

21 Q. I take it you are in charge; or someone under  
22 your direction.

23 A. I have not used any elasticity studies and I  
24 don't have any immediate plans to do so.

25 Q. Moving to your testimony at Page 5, if I might,

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1 Mr. McKenzie.

2 I believe -- Let me just verify what -- what I  
3 think you had indicated; and if I am wrong, just  
4 obviously, tell me so.

5 You had indicated that -- that you had relied on  
6 Ms. Kline and, I believe, Mr. Hudzik, you just  
7 indicated, with respect to the competitive analysis  
8 justifications in reaching your cell assignment  
9 conclusions; is that correct?

10 A. That was information which I took into account,  
11 that's correct. That's not necessarily all that I --  
12 that I relied upon, because as I think I testified  
13 earlier, I have my own experience from various  
14 positions and from other information that I've obtained  
15 from other methods, such as business periodicals and  
16 things like that. So I use that as -- as a source of  
17 input, but not the only source.

18 Q. Did you -- Did you reach these conclusions on a  
19 service-by-service basis, or is your -- your conclusion  
20 relating to individual services based upon a generic  
21 conclusion?

22 A. If by "generic," you mean based on like a group  
23 of services --

24 Q. No. I'm sorry. Let me explain "generic" at  
25 least as I would use it.

1           Your reading of periodicals, what you view as the  
2           competition that exists in Ohio, generally, those kinds  
3           of generic considerations.

4           A.     Obviously, what I read in periodicals goes beyond  
5           what would be happening in Ohio.

6           I'm not sure if I've answered your question.

7           Q.     Well, I'm just trying to reach a conclusion as  
8           to -- to what you used in evaluating the level of  
9           competition in addition to Ms. Kline and Mr. Hudzik in  
10          making those cell assignments.

11          A.     Oh. Okay. In some of my previous positions, I  
12          think I've already indicated I was responsible for  
13          revenue forecasting and analysis; obviously, as a  
14          result of that, we would be looking at services or  
15          service groups such as dedicated communication  
16          services, private-line type services. And I would have  
17          my experience with those areas, which I combined then  
18          with the information I received from Ms. Kline and Ms.  
19          Lanz now --

20          Q.     Yes.

21          A.     -- in reaching the cell assignments that I made.

22          Q.     Did you independently verify the -- the levels of  
23          competition that would exist for these various  
24          services?

25          A.     When you say, "verify," do you mean like did I do

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1 a study?

2 Q. Yes, or make independent contacts of either your  
3 customers or -- or competitors to determine where they  
4 were operating?

5 A. I did not make a study, nor did I contact any  
6 individual customers; but, obviously, I had to  
7 interpret the information which I received from Miss  
8 Kline and Ms. Lanz or Mr. Hudzik in light of my own  
9 personal experience, and it seemed to be reasonable.

10 Q. Are you aware of the -- of the NRRI  
11 recommendations with respect to cell assignments  
12 specifically for 2 and 4 in the NRRI Report?

13 A. I don't the have them with, me but I've read  
14 them.

15 Q. Do you feel that these -- the services that you  
16 have assigned to Cell 2 would meet the -- the  
17 requirements as outlined in the NRRI Report?

18 A. And by "requirements," do you mean the particular  
19 market share type requirements?

20 Q. Correct.

21 A. Well, I don't have market information, so I can't  
22 say absolutely for sure. My suspicion is that they  
23 probably, in some cases anyway, might not.

24 Q. How about for Cell 4? Would it help you if I  
25 showed you a copy of that?



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1 A. That would.

2 Q. It's on Pages 171 and 172.

3 MR. RAWLINGS: May I approach the  
4 witness, your Honor, to deliver a copy of this?

5 EXAMINER FENLON: Yes.

6 THE WITNESS: Sorry, Mr. Newcomb,  
7 that page reference again?

8 BY MR. NEWCOMB:

9 Q. I'm sorry, Pages 171 and 172.

10 A. I have them.

11 Q. In looking at those, would you feel that the  
12 cells -- I'm sorry, the services that you've classified  
13 as Cell 4 services, would they meet the test as  
14 proposed by the NRRI?

15 A. Again, I'm focusing on the market share criteria,  
16 and I don't have the market share information.

17 And things such as the Herfindahl-Hirschman  
18 index, as I understand it, would also require market  
19 share information. So I have not been able to perform  
20 that analysis to know for sure.

21 Q. If we were to ignore the market share criteria,  
22 would you meet the other criteria listed?

23 A. Do you -- By that, you mean both columns, both  
24 the Number of Competitors and Other Criteria columns?

25 Q. Yes, please.

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1 (Pause.)

2 A. I'm troubled by -- Are we talking Cell 2 here --

3 Q. Yes, that's fine.

4 A. -- or Cell 4? It really doesn't matter.

5 Q. Either.

6 A. I'm troubled under the Number of Competitors  
7 where we're talking -- Subitem B is competitors  
8 actively soliciting business throughout the relevant  
9 geographic area there.

10 Q. Yes.

11 A. I don't know that in every single instance there  
12 is a competitor for every single customer.

13 I know that those service -- there are  
14 competitors widely throughout our service territory,  
15 but I haven't done an exhaustive examination to be sure  
16 whether or not they're in every -- or available to  
17 every single customer.

18 Q. Does the second paragraph help you or not?  
19 Does that meet your....

20 A. No. The second paragraph really doesn't because  
21 I wasn't referring whether which competitor it would  
22 be.

23 Q. Okay.

24 A. I believe that -- that there are competitive  
25 alternatives in the vast majority, could very well be

1 that in all cases; that's not to say I couldn't come  
2 out and find somebody that doesn't perceive they have a  
3 competitive alternative.

4 Q. So it is conceivable there could be gaps in the  
5 service?

6 A. I would expect them to be very minor, but it's  
7 possible we could find one or two.

8 Q. And if I might, would you look at then Cell 4?

9 A. I think my answer would be the same, Mr. Newcomb.

10 Q. Thank you.

11 And as understand it, on a going-forward basis,  
12 you would intend to supply the competitive information  
13 to the Staff in support of your -- your cell  
14 assignments; is that correct?

15 A. Assuming we wanted to put a service into Cells 2  
16 or 4?

17 Q. Yes.

18 A. That's correct.

19 Q. If I might, I'd like to refer you to Page 6 of  
20 your testimony, Question and Answer 17.

21 And again, I know you've answered some questions  
22 on some of these, but I will try to be discrete in  
23 terms of my questions.

24 Just as a matter of information, when you propose  
25 to move a service into Cell 4, I understand that you

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1 will be supplying a LRSIC study justifying the pricing  
2 of that service.

3 A. That's true.

4 Q. Have you supplied LRSIC studies for the Cell 4  
5 services that you have currently assigned to that cell?

6 A. Not as part of this proceeding. I don't know if  
7 we may have provided some in the past.

8 Q. But not as a -- as a matter of this case?

9 A. Not that I'm aware of.

10 Q. At Page 12 of your testimony, Mr. McKenzie, you  
11 indicate that a -- at the top of the page in the  
12 sentence, I guess starts on the previous page, "If a  
13 rate decrease is proposed for Cell 1 service, a long  
14 run service incremental cost study also will be  
15 submitted showing that the price is above its relevant  
16 cost." Do you see that?

17 A. Yes, I do.

18 Q. Would you intend to provide a LRSIC study for  
19 each Cell 1 decrease each time you do it?

20 A. Yes.

21 Now, I mean, realistically, if I were to decrease  
22 the same rate element twice in a fairly short period of  
23 time, it might turn out to be the same study, if it is  
24 still relevant; and I would discuss that with Dr.  
25 Currie in terms of the information contained therein.

1 But my intention is that the filing would include  
2 a LRSIC. When I say, "the filing," just to be clear, I  
3 would submit the LRSIC to the Staff, I would not file  
4 it for the public record.

5 Q. I think we've gotten that.

6 A. Okay.

7 Q. Thank you for explaining that again.

8 (Laughter.)

9 At Page 20 of your testimony, at Question and  
10 Answer 40, let me just see if I understand what your  
11 proposal is.

12 You would submit the notice to the Commission on  
13 a date that the Cell 4 service is to be withdrawn, and  
14 at that time, the filing would include a notice used to  
15 notify customers that the service would be withdrawn.

16 In that instance, your customer would have no  
17 prior notice that you were withdrawing a competitive  
18 service; is that correct?

19 A. I'm not proposing that there be a requirement  
20 that the customer have a notice. We may choose as a  
21 normal course of business events to notify the  
22 customers, in fact that would probably be a pretty good  
23 idea; but I'm not required -- proposing a requirement  
24 that we do that in advance.

25 Q. Well, the reason I was asking is this plan, as

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1       you know, is supposed to be in the public interest; and  
2       I would think that the customers would be entitled to  
3       notice if you were going to withdraw a service, but  
4       that's -- that's why I was asking you that question.

5               Mr. McKenzie, at Page 25, Question 50 -- Question  
6       and Answer 50, you indicate that, "The basic purpose is  
7       to create a pricing structure that closely corresponds  
8       to relevant cost elements..."

9               What are -- What is your meaning of "relevant  
10      cost elements"?

11      A.      The relevant cost elements would be the costs  
12      associated with the particular service or the  
13      particular part of the network which we are making  
14      available.

15      Q.      And would those include joint costs?

16      A.      Are you asking me when I do my pricing would I,  
17      for example, for the network access line, include joint  
18      costs in my pricing decision?

19      Q.      Well, I guess I'm -- I'm asking you what you mean  
20      in the context of your answer there, how -- how joint  
21      costs would enter into this -- this statement, if at  
22      all.

23      A.      What I'm saying is I'm trying to have a pricing  
24      structure that reflects the parts of the network which  
25      we are providing. Up until now we've provided it as a

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1 single service; and proposing that we break that down  
2 into two component parts and have each part -- have the  
3 price for each part based, at least in part, on the  
4 cost for that piece of the network.

5 Q. Would that include joint costs?

6 A. The LRSIC study that Dr. Currie would perform may  
7 or may not include joint costs. And I testify  
8 elsewhere in the same testimony that when I was doing  
9 my pricing for the network access line, I tried to set  
10 the prices so that they would not only cover the LRSIC,  
11 but also the average joint costs.

12 Q. And really you jumped to my next line of  
13 questioning. I was wondering if you were making a  
14 distinction between your nonresidence network access  
15 testimony, which does say what you just said, versus  
16 other portions of your testimony or other -- What I  
17 want to know is whether or not that is a consistent  
18 pricing scheme that you would -- you would envision for  
19 all of your services.

20 A. That I would include joint costs in that process?

21 Q. Yes.

22 A. Not necessarily.

23 Q. And why -- why would you not include it?

24 A. LRSIC, as I've testified and, obviously as Dr.  
25 Currie has testified, is the appropriate measure. As

1 long as we price above LRSIC, we are not engaging in  
2 predatory pricing or cross-subsidy. That is the  
3 relevant cost standard.

4 However, I do take other factors into account in  
5 setting prices. And in the case of network access  
6 lines, there is a fairly substantial part of joint  
7 costs associated with those. So in consult with Dr.  
8 Currie, I determined that it would be reasonable, since  
9 if you did not have the network access lines, you  
10 wouldn't need the conduits, the poles, those types of  
11 supporting structures, that it was reasonable to also  
12 attempt, not that I could necessarily do it in every  
13 case, but attempt to set the price high enough to  
14 recover those joint costs.

15 Q. So you're making a distinction between the  
16 pricing of nonresidential network access and virtually  
17 all your other services, or you may be?

18 A. What I'm saying, and not necessarily  
19 nonresidential, I'm talking about access lines in  
20 general, that the joint costs associated with those are  
21 fairly substantial. And while the LRSIC is the price  
22 floor for all of the services, I wanted to, to the  
23 extent that I could, make the price for the access  
24 lines recover not only the cost -- and I should say  
25 cover, not recover -- cover the cost of the access



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1 lines, as well as the poles and support structures.

2 Q. So it would be your -- your view that if -- if  
3 the joint costs for a particular service or family of  
4 services -- if the joint costs were, as you said,  
5 fairly substantial, you would attempt to cover those  
6 joint costs; and if they were not fairly substantial,  
7 it would not be of concern to you, is that your  
8 differentiation?

9 A. I'm not saying that's always the -- might not --  
10 might always be the case. What -- What I'm saying was  
11 in this instance it seemed to be the appropriate thing  
12 to do. I don't have in mind a hard and fast mechanical  
13 calculation for how I would set the prices.

14 Q. How would you define "fairly substantial"?

15 A. In reviewing the data which is on Dr. Currie's  
16 attachment. And I'm pausing because I may be getting  
17 into proprietary data here.

18 Q. Keep quiet.

19 (Laughter.)

20 A. That that display, without mentioning any  
21 numbers, that display indicates the LRSIC, it also  
22 indicates the LRSIC plus the average joint cost. And  
23 looking at the difference between those two gives --  
24 gives you an indication of what the average joint cost  
25 is.

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1           It seemed appropriate to me, given the magnitude  
2 of those numbers, to try to set the line price to cover  
3 those.

4           Keep in mind one of the other things I'm doing  
5 with this disaggregation is I'm trying to make sure  
6 that no customer receives a price increase. So what I  
7 was able to do, based on the current prices that I'm  
8 charging, I was able to set the price for the line high  
9 enough to exceed the LRSIC, and also exceed the average  
10 joint costs which Dr. Currie identified.

11       Q.     Mr. McKenzie, I am curious as to how you feel  
12 a -- a person, an interested party, be it a competitor,  
13 be it a customer, would go about determining whether  
14 a -- a service was fairly priced given the -- the great  
15 deal of discretion that I believe you've described in  
16 terms of assigning costs to a particular service; and  
17 by that I mean LRSIC plus joint costs or -- or not plus  
18 joint costs, depending upon again I think your  
19 discretion, not yours, but Ameritech's discretion. How  
20 does a customer or an interested party assure  
21 themselves of the -- of the appropriateness of the  
22 service pricing?

23                   MR. RAWLINGS:           I'm going to object.  
24 The question contains several predicates, misconstrues  
25 what's gone before, at least as I heard it.

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1 EXAMINER FENLON: Overruled.

2 THE WITNESS: Customers make  
3 decisions every day for services that they buy, and I  
4 think it's safe to say that it's extremely rare that  
5 the customer has any idea what the actual cost is to  
6 provide the item that they're buying.

7 The Advantage Ohio plan sets forth a  
8 structure that would give the Company some latitude  
9 with setting prices. And it's not based on a strict  
10 relationship to the LRSIC, with the exception that we  
11 tried to set our prices above the LRSIC; so I'm not  
12 sure that whether the customer has the LRSIC  
13 information or not would be at all useful to them in  
14 determining whether that's an appropriate price.

15 BY MR. NEWCOMB:

16 Q. Well, just bear with me and assume that the  
17 customer wanted to know; how would the customer find  
18 out?

19 A. I don't know why the customer would want to know.  
20 I mean, when I buy a gallon of gasoline, I don't ask  
21 Shell how much it really costs them. I don't care.  
22 What's relevant is how much I have to pay for it.

23 Q. What about a competitor?

24 A. I'm even more troubled if a competitor wants to  
25 know what my cost is.

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1 Q. In your view, that's not the customers'  
2 business -- or, I mean, the competitors' business?

3 A. Any more than the customer would be willing to  
4 tell me what his costs are. I don't think that would  
5 be proper.

6 Q. Mr. McKenzie, at Page 35 of your testimony, at  
7 the top of the page, you state that customers  
8 understand that competition will tend to drive prices  
9 for services lower than they would otherwise be if  
10 there were no competition.

11 You mean by that that customers can expect Cell 1  
12 services to be priced higher than, for example, a Cell  
13 4 service, all things being equal?

14 A. All things would not be equal. That would be a  
15 real apples and oranges comparison.

16 What I'm talking about is that, again, more or  
17 less generically, absent regulation, that customers  
18 would understand that if there is competition, prices  
19 would tend to be lower; but that doesn't say anything  
20 about the relationship of prices between a Cell 1  
21 service and a Cell 4 service.

22 Q. And you don't feel that that -- that principle  
23 would at all impact how you would price your services,  
24 "you" being Ameritech?

25 A. I think the level of competition has a definite

1 bearing on how we would price our services; and that is  
2 why I've proposed the price guidelines based on cell  
3 classification.

4 In the Cell 4 service, where we're saying there  
5 is a high level of competition, I'm proposing a price  
6 floor that would be at or above LRSIC and that's it.

7 Whereas, for a Cell 1 service, I put very  
8 specific pricing parameters in there with regard to PCI  
9 plus 5 percent; I've also put restrictions in there  
10 regarding no more than one increase per year. I put a  
11 longer guarantee period that there would not be  
12 increases on a number of Cell 1 services; and I have  
13 not done that for services in any of the other cells.

14 So I think that the level of competition does  
15 have an effect upon the pricing flexibility that the  
16 Company would have.

17 Q. But the Cell 1 rates are not -- are not tied to  
18 cost, are they?

19 A. If by "tied to costs," you mean are they set at  
20 cost plus 'X' percent, they are not. The same  
21 principle, though, does apply in most cases to my  
22 desire to have all prices set above LRSIC. Again, the  
23 exception being the residence access line.

24 So they are, in that sense, tied to costs; but  
25 it's not a mechanical process whereby if you know the

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1 cost, you can generate the price.

2 Q. Turning to your contract proposals section at  
3 Page 41. I know you've been asked some questions on  
4 this area, as well.

5 But I'd like to ask you, when you talk about when  
6 it can be demonstrated there is a competitive  
7 alternative, are you talking about the fact that a --  
8 that a competitor happens to be out there, or are you  
9 saying that the competitor has actually made a proposal  
10 to your -- your prospective customer or your current  
11 customer? How are you going to determine whether or  
12 not there is a competitive alternative?

13 A. What I mean by that, Mr. Newcomb, is that I have  
14 very good reason to believe that the customer feels  
15 that they have a competitive alternative. In many  
16 cases they will tell us, we will know they would like  
17 to see us enter into a contract as opposed to buying  
18 the same service out of tariff, presumably because they  
19 think they can get it for a lower price under the  
20 contract.

21 One of the things I'm sure that they would make  
22 known to us in trying to negotiate for a lower price is  
23 that they have some alternative for the service that  
24 they are seeking to obtain. Whether they have actually  
25 been handed a bid by a competitor, I don't really think

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1 is relevant. The issue is whether or not that customer  
2 feels that they have a competitive alternative.

3 Q. Whether or not there is, in fact, an alternative  
4 out there, you're not going to try to verify whether  
5 that's the case?

6 A. We'd have to use some judgment to see whether  
7 that's realistic that they do have a competitor.  
8 Obviously, as part of the negotiation process, that  
9 would be one of the things that would enter into our  
10 judgment.

11 Q. How would you convince the Commission that this  
12 alternative exists?

13 A. I would presume that we would provide an  
14 affidavit similar to what we do today if we file a  
15 competitive service; and that that would be submitted  
16 to the Staff along with the LRSIC and the other  
17 information.

18 Q. With respect to the LRSIC, are you indicating  
19 that the -- that the components that would comprise the  
20 contract, each individual component, say you had a Cell  
21 1 service and a Cell 2 service and a Cell 4 service are  
22 all combined to provide the service under your  
23 contract, would you provide a LRSIC study that would  
24 show that each individual component is above LRSIC, or  
25 would your study show that the LRSIC is exceeded in the

1 total price of the contract?

2 THE WITNESS: Could you read that  
3 back, please?

4 (Question read back as requested.)

5 THE WITNESS: Obviously, if the  
6 prices for the individual components are above their  
7 respective LRSICs, then you would know that the overall  
8 contract was above its LRSIC.

9 And I am proposing the more restrictive  
10 test. I'm proposing that each element would be priced  
11 above its LRSIC.

12 BY MR. NEWCOMB:

13 Q. So -- So by your definition of cost, each -- each  
14 individual component would be above cost; the cost  
15 components may be below the tariffed rate, but they  
16 would still be above your definition of cost?

17 A. That's correct. The contract prices for each  
18 element would be above their respective costs.

19 Q. And would you factor in joint costs in that kind  
20 of a determination?

21 A. I'm proposing a LRSIC standard, so unless Dr.  
22 Currie -- and I think he indicated that there may be  
23 some instances where some joint costs would be included  
24 in his LRSIC calculation. So to the extent that he  
25 does that, then I would propose that the prices for



1 those elements be priced above that cost.

2 I am not proposing an additional adjustment over  
3 and above what Dr. Currie would -- would prepare for  
4 that particular contract.

5 Q. And Dr. Currie would actually be the person that  
6 would decide the pricing of that, not you?

7 A. No, Dr. Currie wouldn't determine the pricing;  
8 Dr. Currie would direct the preparation of the cost  
9 support that I would then look at to be sure that the  
10 pricing was in excess of the cost.

11 Q. Okay. If I might turn you to your supplemental  
12 testimony, Mr. McKenzie, Page 4.

13 And you've already answered this, I believe, in  
14 part, but I'd like to just clarify it in my mind, where  
15 you talk about there in that middle paragraph that  
16 LRSIC studies would be submitted with price decreases  
17 for Cell 1 and Cell 4.

18 If you were to decrease Cell 4 services, you  
19 would supply a LRSIC study each time you decreased the  
20 price; is that correct?

21 A. As I think I answered before, that's my  
22 intention. To the extent that we have a recently  
23 submitted LRSIC that's still appropriate, we might not  
24 redo the study, but each time that I would seek to  
25 reduce a price for a Cell 1 or Cell 4 service, a LRSIC

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1 would be provided, submitted to the Commission Staff.

2 Q. In terms of responding to the contract matter at  
3 Page 6 in your supplemental testimony, and I know you  
4 have already talked about it in the previous  
5 cross-examination, but I'm curious, how long do you  
6 anticipate it will take Dr. Currie to develop a LRSIC  
7 study in these competitive contract instances? Do you  
8 have any sense of that?

9 A. That would be really a better question for him.  
10 To some extent, it's going to depend on what work he  
11 has already done. It could very well be that he would  
12 have a LRSIC study available that would -- would handle  
13 it and no additional work need be done.

14 Q. But you don't have any sense, you haven't talked  
15 to Dr. Currie about what he would anticipate in terms  
16 of meeting competitive challenges?

17 A. Actually, I asked Dr. Currie that, and he said it  
18 in terms of how long it might take, it would really  
19 depend upon the nature of the service and what work he  
20 had done in the past.

21 Q. So he didn't give you any time frame?

22 A. No, he did not.

23 Q. But, presumably, he would have to do LRSIC  
24 studies for some of these cost components from time to  
25 time, would he not?

1 A. I'm sure that he would be doing LRSIC studies  
2 from time to time, yes.

3 Q. Now, at Question and Answer 9, you talk about  
4 customers do not understand why they should be expected  
5 to wait for their contracts or new services.

6 Have you spoken with customers about these  
7 issues?

8 A. Personally, no, I have not.

9 If I may continue with that answer. I know that  
10 I personally, if I were going to enter into an  
11 agreement, I would not expect to wait.

12 Q. But you haven't gotten that information from any  
13 customers?

14 A. I've not specifically asked any customers of  
15 Ameritech Ohio with regards to Ameritech Ohio services,  
16 no, I have not.

17 Q. At Page 14, Question 19 -- Question and Answer  
18 19, to just quickly go over some ground that the  
19 Chairman covered this morning.

20 Am I to understand that you believe that an  
21 announcement to seek competition or an announcement of  
22 future plans provides a justification for a competitive  
23 offering?

24 A. Not necessarily, no.

25 Q. Would you feel that -- that if a -- if you had

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1 information that a competitor was going to seek  
2 certification, that you would feel that might be  
3 justification to seek a cell classification into a Cell  
4 2 or Cell 4 if they have no plant existing?

5 A. If that was the only competitor?

6 Q. Well, for Cell 2, I suppose.

7 A. Again, that might be premature at that point in  
8 time.

9 Q. Would you -- Would you say that were you to view  
10 a -- a competitor as a viable competitor for purposes  
11 of cell classification, that the competitor would have  
12 to be in business, doing business?

13 A. My criteria for what a viable competitor would  
14 be, would be somebody that would be in a position to be  
15 out selling their services to customers, whether they  
16 have actually put all the facilities in place or not.  
17 If the customer feels that they have a competitive  
18 choice, based on whatever representations that  
19 competitor might make, then I feel at that time it  
20 would be appropriate to consider a competitive cell  
21 classification.

22 Q. Even if that competitor couldn't actually provide  
23 the service?

24 A. Well, if the customer -- if the customer feels  
25 that they have a competitive choice, that's going to

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1 determine whether the customer buys service from us or  
2 not. If they turn to a competitor and then the  
3 competitor can't deliver, then I presume the customer  
4 would come back to us.

5 So I can't believe that the competitors are out  
6 there making great promises that they cannot fulfill,  
7 or they're not going to have any customers for any  
8 length of time; but they are out making representations  
9 to customers that they can provide the service, and the  
10 customer feels that they have a competitive choice, at  
11 that point I feel we need to be competitive.

12 Q. And again, under your scenario, that may or may  
13 not be actual competition. You're talking about  
14 customer perception, are you not?

15 A. I am.

16 Q. At Page 15, Question and Answer 21, you make the  
17 statement the Company has no incentive to reclassify a  
18 service unless it can demonstrate to the Commission  
19 that it can justify that designation.

20 Generally, and I know we touched upon this in  
21 terms of contracts this morning, but what -- what  
22 penalties does -- does Ameritech face if -- if it makes  
23 a filing, be it a contract, be it a cell  
24 classification, be it a LRSIC study, what penalties  
25 does Ameritech incur by an incorrect filing?

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1 A. I think I touched on that earlier where I talked  
2 about two potential ramifications.

3 I was talking at that time specifically about a  
4 contract situation, and I think it applies here as  
5 well, that if we are to propose a price which would  
6 require a Cell 4 classification and promise that price  
7 to the customer, and the Commission decides that the  
8 proposed classification is not appropriate, I have two  
9 problems: I have a Commission that's not happy with  
10 what I have done; and I have a customer who is not  
11 happy with what I have done.

12 By virtue of being a service that I would even  
13 consider putting in Cell 4, it's the customer that I  
14 feel definitely has viable competitive alternatives.

15 My take is the penalty we would face is we would  
16 lose that customer.

17 Q. But if you assigned a service from Cell 2 to Cell  
18 4, your pricing to that customer may or may not change;  
19 isn't that correct?

20 A. It is possible that we may seek to do that  
21 without changing the price just to change the cell  
22 classification. And if the Commission should decide  
23 that, no, we think Cell 2 is more appropriate, then at  
24 least the customer is not then harmed. You know, I  
25 would still have to work with the Staff to work -- to

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1 work out the ramifications of that classification.

2 But, the customer has not been harmed and I don't  
3 see how the competitor has been harmed either, if I  
4 haven't changed the price.

5 Q. Well, that's the initial assignment; once you go  
6 into Cell 4, you don't list those prices anymore,  
7 right?

8 A. In terms of an official list, no, we do not,  
9 other than to assure the Staff that they are priced  
10 above cost.

11 Q. Mr. McKenzie, I'd like to turn to Page 20 of your  
12 supplemental testimony with respect to the educational  
13 tariff that you discussed earlier. And I believe you  
14 indicated that you -- you have some -- some things to  
15 work out with the video service tariff, the interactive  
16 video service tariff.

17 In your testimony this morning you indicated, I  
18 believe, that this would be a tariff that would not  
19 just be an educational tariff; it would be a broader  
20 tariff than that; is that correct?

21 A. That's correct.

22 Q. Who would you intend to provide service to under  
23 this tariff?

24 A. Anyone that wanted to buy it.

25 Q. In what instance?

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1 A. Anyone that would want video connectivity between  
2 two locations.

3 Q. So this would be a general tariff that would then  
4 contain a 10 percent discount for educational -- well,  
5 the primary and secondary schools?

6 A. It would carry at least a 10 percent discount. I  
7 think I indicated in my testimony a 10 percent discount.  
8 And, again, the final pricing is going to be dependent  
9 upon, in part, the cost work which has yet to be  
10 finalized, but I suspect that the discount will be at  
11 least 10 percent.

12 Q. And under that scenario, if I understand you  
13 correctly, it is possible that -- that at least with  
14 respect to some of the schools, the service may be  
15 below LRSIC?

16 A. That's not correct.

17 Q. It is not? I'm sorry, what is correct?

18 A. It is not. I'm not proposing to do a  
19 customer-by-customer LRSIC study; but, in the  
20 aggregate, the price including the educational discount  
21 would still be above LRSIC.

22 Q. For each location, or as a total service?

23 A. As a total service.

24 Q. As a total service.

25 By that, that would be the educational service,



1 or would it be to a school district or -- I'm not  
2 trying to -- I'm just trying to understand.

3 A. It would not be on a school district by school  
4 district basis. So it would be based on -- It would  
5 not be on a school district by school district or  
6 customer-specific basis; as I indicated, we wouldn't do  
7 a study -- separate study for each customer.

8 But assuming average customer configurations as  
9 we would expect them, the price, and the price would be  
10 the same for all the institutions whether the actual  
11 cost of providing service to that particular customer  
12 happened to be a little bit below the average or a  
13 little bit above the average, but for the service in  
14 total, the price would still be, including the  
15 educational discounts, would still be above the LRSIC.

16 Q. With respect to this service, would you -- would  
17 you intend to or would Ameritech intend to provide this  
18 video service over existing network, or is this going  
19 to be a new network; if you know?

20 A. I don't really know to what extent existing  
21 facilities may be utilized in the process. Ms. Klais  
22 testified about how the network would be built and how  
23 it would work. I don't know the specific answer to  
24 your question.

25 Q. Now, Mr. McKenzie, under -- This is just a

1 general question. In terms of evaluating your plan,  
2 how are you going to evaluate the continuance or  
3 growing or lessening of competition in response to your  
4 services?

5 A. Well, in general, I do not anticipate that there  
6 will be a lessening of competition for any of our  
7 services.

8 As time goes on, if we realize that we need more  
9 pricing flexibility for a service, and maybe it's a  
10 service in a specific location, because of the  
11 marketplace realities at that time, we may seek to  
12 reclassify that service into a more competitive cell.

13 Q. What plans do you have for regression, if you  
14 will, for example, if -- if you have a service that is  
15 classified as a Cell 2 service and the viable  
16 competitor goes away, what -- what procedures do you  
17 have in place to monitor that and -- and seek  
18 reclassification in that instance?

19 A. I don't have in mind something like an annual  
20 review of all cell classifications. I really do not  
21 expect that competition is going to lessen. If I  
22 should become aware that competition has lessened in an  
23 area, that's something I would review in the general  
24 course of my business; and if it is appropriate to  
25 reclassify it, we would pursue that.

1 Q. You would take the affirmative steps to  
2 reclassify in that instance?

3 A. That's correct.

4 Q. And with respect to LRSIC changes, what  
5 procedures do you have in place or would you anticipate  
6 taking to assure that as the costs of providing that  
7 service would increase, that you would modify the --  
8 the price floors with respect to those services?

9 A. If we have a LRSIC that indicates that the  
10 current price we are charging is below the LRSIC, and  
11 again excluding public policy issues surrounding  
12 residence access lines, my general response would be to  
13 seek a price increase, to the extent I could do that,  
14 under the constraints of the cell pricing rules and the  
15 overall price cap.

16 I might not be able to instantly raise the price  
17 all the way to the LRSIC because of the cell pricing  
18 rules. But my general goal would be to have all  
19 services priced above LRSIC, so I would anticipate  
20 moving those prices as quickly as I could in that  
21 direction.

22 Q. If you had a Cell 4 service that was below LRSIC,  
23 would you also intend to move that service?

24 A. I would.

25 MR. NEWCOMB: Thank you, Mr.

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1 McKenzie.

2 That's all I have, your Honor.

3 THE WITNESS: You're welcome.

4 EXAMINER FENLON: Department of  
5 Education have any cross?

6 - - -

7 CROSS-EXAMINATION

8 BY MR. WARE:

9 Q. Good afternoon, Mr. McKenzie. My name is John  
10 Ware. I represent the Ohio Department of Education.

11 A. Good afternoon.

12 Q. I'd like to ask you a few questions regarding  
13 your educational tariffs.

14 Specifically turning your attention to Page 20 of  
15 your Supplemental Testimony, Exhibit 24S.0, where you  
16 identify the 10 percent discounts that would be  
17 provided to state-chartered primary and secondary  
18 schools.

19 A. Yes.

20 Q. Could you explain how Ameritech reached this 10  
21 percent figure; in other words, what did you look at to  
22 determine that a 10 percent discount was appropriate?

23 A. It's really based upon the commitment we made as  
24 part of the original filing that we would propose a  
25 discount that would generate at least \$1 million of

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1 savings on an annual basis based on current quantities  
2 that the schools are buying from us.

3 In reviewing recent billing information, it was  
4 determined that a 10 percent reduction would result in  
5 slightly more than a \$1 million savings or price  
6 reduction, if you will, to the schools based on their  
7 current quantities.

8 Q. Do the schools currently receive any discounts on  
9 the services they use?

10 A. The only discount that schools receive presently  
11 is, to the extent that they have measured usage for  
12 local service, there is a cap that's placed upon the  
13 charges; so that once they get up to a certain number  
14 of calls, they are not billed for any additional calls  
15 over and above that cap.

16 Q. And does that discount apply to schools only?

17 A. Yes, it does.

18 Q. And do you have any idea of what the dollar  
19 savings for schools is for that discount?

20 A. I do not.

21 Q. I believe when you were speaking with the  
22 Chairman earlier, you mentioned that the video tariff,  
23 one of the items you're looking at in terms of setting  
24 the video tariff is -- is the amount of usage that  
25 schools will have; in other words, that you want a

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1 set -- or that the price will be based on how much the  
2 schools use the service; is that correct?

3 A. To some extent, that's true. I want to make sure  
4 that the price, as I was discussing with Mr. Newcomb  
5 earlier, that the price that the schools pay would be  
6 at least enough to cover the long-run service  
7 incremental cost.

8 Q. So would that mean then that the schools would  
9 have to use the video service for a minimum amount of,  
10 say, hours or minutes in order to cover this cost?

11 A. No.

12 Q. Well, what do you mean when you say you want to  
13 look at the usage, then?

14 A. Okay. What I think I indicated to the -- to the  
15 Chairman was that I need to be able to set the price in  
16 such a way that it covers the cost, because that's one  
17 of our other commitments.

18 There are various ways of doing that. And one  
19 way to do that is to set essentially a flat-rate type  
20 of an arrangement. So the school that's subscribed to  
21 it wouldn't have to use it at all, they would still pay  
22 a price which would be commensurate with at least  
23 enough money to cover the cost, but it doesn't imply  
24 that they used it.

25 Now, I realize that may be a problem for schools

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1 who initially might not be fully up to speed in terms  
2 of ready to use that. So what I am envisioning is a  
3 couple options for schools.

4 One option would be the one I mentioned, that  
5 they would pay a flat amount of money per month, and  
6 that would entitle them to 'X' number of hours of  
7 usage. If they didn't use it at all, they would still  
8 pay that amount; and then additional hours over and  
9 above that would be priced at a rate per hour.

10 Another way to do it would be to make sure that,  
11 over some period of time, that the schools used  
12 enough -- or at least paid for enough to cover the  
13 LRSIC, but it wouldn't require them to use or pay for  
14 the full number of hours in the first month when they  
15 were just getting their program up and running; but  
16 over the period of time it would assure that the  
17 revenues of the Company would be enough to cover the  
18 cost.

19 Q. Have you made any determination -- or how do you  
20 determine how much you think schools will use this  
21 service?

22 A. I anticipate schools are going to use the service  
23 heavily, and I base that largely upon our experiences  
24 in Columbiana County.

25 Q. And in order to use the service, wouldn't it be

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1 true that schools would have to first be able to afford  
2 the equipment to actually implement the service?

3 A. I would agree that schools are going to  
4 require -- be required to acquire some equipment and  
5 upgrade some classrooms and things like that in order  
6 to make use of the service. And that's the reason for  
7 one of our other commitments as part of Advantage Ohio  
8 with regards to the educational support team.

9 Q. Do you have any idea how many of the 500 schools  
10 that have been identified previously, currently have  
11 the capability to use distance learning technology; in  
12 other words, they have the actual equipment and the  
13 wiring in the school?

14 A. I've not made a study of that, no.

15 Q. Okay. My understanding is in terms of the  
16 discount, the 10 percent discount, that that applies  
17 across the board to all schools; is that correct?

18 A. Are we off the video tariff now to the other  
19 tariff?

20 Q. To both the video tariff and the other tariff.

21 A. The -- I think of them as two distinct tariffs.

22 The 10 percent discount would apply to the other  
23 things besides the video, which the schools would buy  
24 from Ameritech Ohio.

25 I'm proposing separately as part of the video



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1 tariff a specific pricing structure for the schools;  
2 and I'm not proposing that the general 10 percent would  
3 apply to that in addition to the discount contained in  
4 that tariff. What I'm saying is that the price within  
5 the video tariff will be at least a 10 percent  
6 discount; but I'm not intending to have a 10 percent  
7 discount on top of a discount, if you know what I mean.

8 Q. Maybe.

9 So if you -- if you're going to set a tariff for  
10 the use of video services for people besides -- or  
11 institutions besides schools, then you're not  
12 necessarily saying that that will be the tariff and  
13 that the schools will get a 10 percent discount off  
14 that?

15 A. That's correct, I'm not saying that.

16 What I am envisioning is the tariff will contain  
17 specific wording, specific options and specific prices  
18 available only to primary and secondary schools that  
19 are chartered by the State Board of Education and  
20 higher learning institutions that are accredited by the  
21 Board of Regents. Since they will already include its  
22 own discount mechanism off the general tariff rate by  
23 having specific rates and options specified in that  
24 tariff, I'm not -- I do not want to apply the 10  
25 percent general discount to that specific service.

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1 Q. Now, in terms of the video tariff, will any  
2 adjustments be made for the rates based upon the wealth  
3 of the school district?

4 A. That's not my intention, no.

5 Q. And in terms of the general tariff, will any  
6 dis- -- changes be made based upon the wealth of the  
7 school district?

8 A. The general tariff?

9 Q. Oh, I'm sorry, the general discount.

10 A. No, it will not. Ten percent -- In that case, 10  
11 percent will apply to all schools regardless of their  
12 individual financial status. Ten percent off of what  
13 they pay us.

14 Q. And I believe you told the Chairman earlier that  
15 you hope to be able to identify exactly what the video  
16 tariff will be at some point during this proceeding?

17 A. That's surely my intention, yes.

18 MR. WARE: I have no further  
19 questions.

20 - - -

21 EXAMINATION

22 BY EXAMINER PIRIK:

23 Q. Mr. McKenzie --

24 A. Yes.

25 Q. -- before we move on, because I think Mr. Ware

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1 brought up an issue that the Bench is still confused  
2 about with regard to the discounts, and you have your  
3 two discount proposals; you have your general 10  
4 percent discount proposal, and then you have your video  
5 tariff that hasn't been submitted yet that will have  
6 discounts in it of some type.

7 A. Correct. It will have a discrete discount in it,  
8 separate prices and options available to the  
9 appropriate educational institutions only.

10 Q. Now, with regard to both of those tariffs, both  
11 of the tariffs are going to be available to all schools  
12 if -- Well, the 10 percent general discount is  
13 available to primary and secondary schools?

14 A. Right. That's correct.

15 Q. And the video tariff available to all educational  
16 associations?

17 A. As I indicated, either accredited or state  
18 chartered.

19 Q. Okay.

20 A. Correct.

21 Q. So if I'm a secondary school and I purchase out  
22 of the video tariff --

23 A. Okay.

24 Q. -- and I consequently get the discount that's  
25 associated with that video tariff --

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1 A. You would --

2 Q. -- I'm no longer eligible to receive the 10  
3 percent discount out of your general education tariff?

4 A. No. That's not what I meant.

5 What I meant was you would be allowed -- you  
6 would get the 10 percent on all the other services that  
7 you bought from us. But since I'm already within the  
8 video tariff including a specific discount for video,  
9 I'm not intending to set that price and then discount  
10 the price for the video another 10 percent.

11 Q. So with regard to that video service for that  
12 school, they get the discounts of the video tariff and  
13 all the other services?

14 A. They get 10 percent.

15 Q. They get the 10 percent.

16 A. Correct.

17 Q. That makes sense. Thank you.

18 A. You're welcome.

19 EXAMINER FENLON: DAS.

20 MR. KASAI: Thank you, your

21 Honor.

22 - - -

23 CROSS-EXAMINATION

24 BY MR. KASAI:

25 Q. Mr. McKenzie, my name is Jerry Kasai. I'm with

1 the State of Ohio --

2 A. Good afternoon.

3 Q. -- Department of Administrative Services.

4 Just to clarify with respect to the video tariff,  
5 the video tariff is not available just to educational  
6 institutions; it would be available to any users that  
7 wanted to use the video tariff?

8 A. That's correct.

9 Q. Okay. And as part of the tariff, the 10 percent  
10 discounts would be for educational institutions, state  
11 chartered?

12 A. Are we talking the video tariff?

13 Q. Yes.

14 A. The video tariff will contain specific discounts  
15 for schools, either state chartered primary and  
16 secondary schools or colleges, universities, junior  
17 colleges that are accredited by the Board of Regents.  
18 And the discount from the normal, if you will, from the  
19 general tariffed price for that video service will be  
20 at least 10 percent.

21 Q. Okay.

22 A. I anticipate it will be in excess of 10 percent.

23 Q. Other users could utilize the video tariff,  
24 though; is that right?

25 A. They could, but they wouldn't get the educational

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1 discount.

2 Q. Okay. And you mentioned that you anticipated  
3 heavy usage of the video tariff by educational  
4 institutions.

5 Do you know -- Do you have any anticipation of  
6 what usage there will be of the proposed video tariff  
7 by noneducational entities?

8 A. I don't know.

9 Q. Okay. And I believe you said that, and I wasn't  
10 clear on it, that you found that you came to your  
11 conclusion there had been heavy usage of the video  
12 tariff by educational institutions through the pilot  
13 projects that are currently going on?

14 A. Specifically the Columbiana County trial that's  
15 going on, yes.

16 Q. And just the one trial in Columbiana County,  
17 that's what you based your conclusion on?

18 A. Yes, it is.

19 Q. Okay. And what did you look at within the  
20 context of that Columbiana County trial?

21 A. When we originally began the Columbiana County  
22 trial, we were providing service to six locations; I  
23 believe it was five high schools and one career center,  
24 I believe.

25 Since that time, we have been asked -- Since it

1 was a trial, we were not charging Columbiana County for  
2 those initial installations. We indicated, though,  
3 that we would be charging them if they wanted to add  
4 any additional sites. And we are entering into  
5 contracts, in fact the contracts may have already been  
6 signed, to add six more sites to that trial at the  
7 expense of those schools.

8 So it seemed pretty clear to me that if the  
9 schools were willing to pay to double the size of the  
10 trial, that there was some significant interest there.

11 Q. You said at the expense of the schools.

12 What exactly were those six schools in Columbiana  
13 County purchasing?

14 A. They were being connected to the video network,  
15 which would allow them to transmit and receive signals  
16 from the other schools.

17 Q. So they were paying for the -- the interface, so  
18 to speak, with the network?

19 A. They were paying for the network to come to the  
20 school and the usage on that network.

21 Q. Were they paying also for the video equipment  
22 which would be used in each individual school?

23 A. I presume they are, but I'm not aware they are  
24 getting that from us.

25 Q. They aren't getting it from your Company?

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1 A. I don't know if they are or not. The individual  
2 equipment in the rooms, I do not know.

3 Q. Certainly, the cost of the individual equipment  
4 would be a factor to consider when you are forecasting  
5 to get your usage of that tariff, isn't it?

6 A. I think all the relevant costs that a customer  
7 would face would -- would bear on the potential usage  
8 of any service.

9 Q. All right. When you forecasted the -- your  
10 projected demand of the video tariff by educational  
11 institutions, did you look at the relative funds  
12 available to -- to individual school districts?

13 A. Just so we're clear, I didn't forecast the demand  
14 for every individual school district.

15 Q. Okay.

16 A. What I'm saying, I anticipate the usage is going  
17 to be heavy; but I did not personally prepare a  
18 detailed forecast of what schools and how much usage,  
19 et cetera.

20 But going to what I think was the intent of your  
21 question, I did not take into account the -- as I think  
22 Mr. Ware was mentioning, the wealth of the respective  
23 school districts. But I recognize as part of our  
24 Advantage Ohio team, we are -- or part of our Advantage  
25 Ohio plan, we are committing to the formation of the



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1 educational support team, which will seek to obtain  
2 grants, et cetera, various ways to help the schools  
3 obtain funding to pay for that equipment.

4 Q. Okay. Did you look at the individual wealth of  
5 the Columbiana school district?

6 A. I did not, no.

7 Q. Okay. And just to clarify, you mentioned a  
8 number of times that the tariff would always be priced  
9 above LRSIC, and maybe I missed it at some point in  
10 time, but am I to assume that there is currently one --  
11 or there has been a LRSIC study performed of the cost  
12 of the proposed video tariff?

13 A. There is a study underway, it's not completed  
14 yet.

15 Q. Is there any anticipated date when the study will  
16 be finished, completed?

17 A. About the same time I have the tariff done.

18 Q. Okay. I had asked you a question a couple  
19 minutes ago about other users besides the educational  
20 users of the video tariff. Are there currently users  
21 on your network that use video services like that?

22 A. On our network?

23 Q. Yeah.

24 A. I'm not aware that we're providing video service  
25 to anyone other than to the trials that are currently

1           underway.

2           Q.     And, specifically, who might, other than a  
3           school, use video services?

4           A.     I would anticipate businesses may for video  
5           conferencing or other things that they may want to do.

6           Q.     And if you are currently performing a LRSIC study  
7           to determine what the costs should be of a video  
8           tariff, wouldn't the other user of video services,  
9           besides educational institutions, wouldn't they be  
10          relevant to study?

11          A.     I'm not performing the cost, Dr. Currie and his  
12          organization would be doing the cost; so exactly what  
13          they would take into account in doing their study, I'm  
14          really not an expert in that.

15          Q.     Okay. Have you given Dr. Currie any information  
16          concerning what you anticipate the usage of a video  
17          tariff will be?

18          A.     I have not provided information. We have other  
19          people within Ameritech Ohio that deal with the  
20          educational community; I suspect they have been  
21          providing that sort of input.

22          Q.     Okay. Now, you have categorized different  
23          services between Cell 2 and Cell 4. And I take it from  
24          your testimony that you differentiated between Cell 2  
25          and Cell 4 services by a level of competition for that

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1 particular service; is that right?

2 A. The level of competition for that particular  
3 service, or in some cases for that particular service  
4 in that particular geographic location, yes.

5 Q. Okay. And with respect to digital private lines,  
6 you have classified digital private lines for within  
7 the Cleveland and Columbus Central Offices that  
8 originate and terminate there to be within Cell 4?

9 A. Well, when you say the Columbus and Cleveland  
10 Offices, just to be clear, I mean the Cleveland 62 and  
11 the Columbus 11 offices, not the entire Columbus  
12 calling area or the entire Columbus exchange.

13 Q. Okay. And just to make sure that I'm clear,  
14 what's the Columbus 11 office?

15 A. I don't know that I can -- In fact, I know I  
16 cannot tell you that it serves an area that runs to  
17 this street, et cetera. The Chairman has asked that we  
18 provide maps that will indicate where the respective  
19 offices are.

20 But I can tell you that the Cleveland 62 office  
21 is served out of a Central Office in downtown  
22 Cleveland, and the Columbus 11 is served out of the  
23 Central Office in downtown Columbus, and that they  
24 serve those respective immediate downtown areas. I  
25 can't tell you exactly where the Columbus 11 ends --

1 Q. That's fine.

2 A. -- and begins.

3 Q. And I believe you mentioned to Mr. Newcomb that  
4 you relied on information provided to you by Miss  
5 Kline; is that right?

6 A. I relied for various things that I did in terms  
7 of cell classification on the information I got from  
8 Mr. Hudzik, later adopted by Ms. Lanz, and also Ms.  
9 Kline.

10 Most of the specific information that I got with  
11 regards to the competition in these two particular wire  
12 centers I received from Ms. Kline, that's correct.

13 Q. Okay. And when you were making your decision to  
14 classify those two small geographic areas of digital  
15 private lines into Cell 4, did you utilize only Ms.  
16 Kline's information she provided to you, or was there  
17 other information that you utilized?

18 A. That was the primary source. I have my own  
19 observations which are somewhat limited, especially in  
20 the Cleveland area, though, since I work in that  
21 location, and walk around downtown at lunch, I see  
22 things such as spray paint on the streets and the  
23 sidewalks where people are marking to put conduit and  
24 cable and things like that, so I'm generally aware of  
25 things like that, too; but I did rely primarily on Ms.

1 Kline's information.

2 Q. Okay. And in your reliance on Miss Kline's  
3 information, you're not able to verify the accuracy of  
4 the information she provided to you; you just relied on  
5 it as it was provided to you?

6 A. Well, I looked at it, and based on my knowledge  
7 determined that it appeared to me to be reasonable. I  
8 didn't just accept it at face value.

9 Q. You didn't make any independent analysis of her  
10 information independent of what she did; is that right?

11 MR. RAWLINGS: Excuse me, your  
12 Honor. I'm going to object on the grounds that this is  
13 a repetition of questions and answers that are already,  
14 I think, firmly in the record.

15 MR. KASAI: I don't think it's  
16 repetition with respect to this one issue on digital  
17 private lines; although if it is, I apologize. I was  
18 not here for the entire testimony of Mr. McKenzie, and  
19 if it's already been answered, I'll withdraw the  
20 question.

21 EXAMINER FENLON: I will allow the  
22 question.

23 THE WITNESS: If you're asking did  
24 I go out and pry up manhole covers and look to see who  
25 was running cable and the exact extent to where, for

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1 example, the maps that are behind Ms. Kline's  
2 testimony, whether they were accurate, whether the  
3 facilities were actually there in place, no, I didn't.

4 Although, as I discussed with Mr.  
5 Newcomb, I don't know that that's really all that  
6 critical. What really matters is whether or not the  
7 customers in that location feel that they have the  
8 competitive alternatives available to them or available  
9 to them in the very near future.

10 BY MR. KASAI:

11 Q. Now, those were the questions he asked you  
12 concerning customer perception?

13 A. Exactly.

14 MR. KASAI: Okay. Thanks, Mr.  
15 McKenzie. I don't have any further questions.

16 THE WITNESS: You're welcome.

17 EXAMINER FENLON: Let's go off the  
18 record.

19 (Discussion held off the record.)

20 EXAMINER FENLON: Let's take a  
21 15-minute break.

22 (Brief recess taken.)

23 EXAMINER FENLON: Let's go on the  
24 record.

25 Miss Bloomfield.

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CROSS-EXAMINATION

BY MS. BLOOMFIELD:

Q. Mr. McKenzie, my name is Sally Bloomfield, and I represent the New Par Companies, which is a group of cellular companies that have operations in both Ohio and in Michigan and they do business under the name Cellular One.

I have just a few general questions about the rates that Ameritech Ohio proposes to charge cellular companies and who are cellular customers; by that I mean your cellular companies -- who are your cellular customers, okay?

A. Okay.

Q. As you have -- As your testimony states, you have grouped services into what you call baskets, and one of those baskets is a carrier basket; is that correct?

A. That's correct.

Q. Okay. And is it correct that the rates that are in the carrier baskets would apply to cellular companies?

A. The rates that are in the carrier baskets would apply to anyone -- the rates really apply to the services, not to the baskets.

If -- If carriers are purchasing our services out

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1 of the access tariff, those are the services which  
2 would be in the carrier basket. To the best of my  
3 knowledge, the cellular companies are not purchasing  
4 interconnection from us under tariff, per se; rather,  
5 they are under contract arrangements.

6 Q. Right.

7 But the -- Your understanding and my  
8 understanding is correct, Mr. McKenzie. I mean, we  
9 have the same understanding, I should say.

10 A. Okay. Good.

11 Q. I don't know if it's correct, but we have the  
12 same understanding.

13 But is it not the case that those services for  
14 access that are included in contract are carrier access  
15 services?

16 A. That is true.

17 Q. And would not the -- Are these services then --  
18 Would these services be included in carrier basket that  
19 you are proposing?

20 A. What I'm proposing with regards to the carrier  
21 basket, what I had in mind where the carrier basket  
22 would be the services purchased out of the access  
23 tariff, not necessarily the services purchased through  
24 contract by the cellular companies.

25 Q. Even if those services taken under the contract



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1       pertain to access?

2       A.     We really provide access to residence customers,  
3       we provide access to business customers, and those  
4       would be in the residence and nonresidence baskets.

5             We provide access to cellular customers and that  
6       would general- -- I'm sorry, interexchange carrier  
7       customers out of the access tariff, and that would be  
8       in the carrier basket.

9             The service -- The interconnection service that  
10      we provide to the cellular customers is done under  
11      contract.

12      Q.     So then are you saying that the services provided  
13      to cellular companies pursuant to interconnection  
14      arrangements, even though they comprehend or include  
15      access services, are not included anywhere in the  
16      Advantage Ohio plan that -- that Ameritech Ohio is  
17      proposing in this case?

18      A.     I don't really think that's a fair  
19      characterization. We would need to include them.  
20      Talking about how the baskets work, the price cap  
21      formula that Mr. Romo testifies to in terms of the caps  
22      for the individual baskets applies to the residence and  
23      nonresidence baskets.

24             The carrier category includes the access bought  
25      by the interexchange carriers out of the access tariff.

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1 It's not under the price cap, per se, it has -- it has  
2 a separate process.

3 If I had to classify the interconnection  
4 contracts into one group or another, my inclination  
5 would be that they are probably most like the cellular  
6 but they are surely not the same because they're not  
7 purchased out of the cellular contract.

8 Q. Okay. Let me repeat that so I understand.

9 In other words, you're saying that the access  
10 that is provided to cellular carriers is most like that  
11 access that is provided to interexchange carriers, is  
12 that correct, if you had to put it anyplace?

13 A. I think that's correct.

14 Q. Are the revenues from interconnection contracts  
15 with cellular companies included any place in the  
16 Ameritech Ohio alt. reg. plan -- or, in this case, I  
17 should say?

18 A. I'm not sure.

19 Q. Are you aware that cellular carriers do take  
20 other services other than access services from  
21 Ameritech Ohio?

22 A. I wasn't aware of that, but that certainly could  
23 be the case.

24 Q. Are you familiar with the charges that Ameritech  
25 Ohio makes to cellular carriers?

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1 A. I'm aware that we have interconnection  
2 agreements, but that's about the extent of my  
3 knowledge.

4 Q. And to the extent that there are services in  
5 those agreements, are those -- and rates charged for  
6 those services, do you have any responsibility for  
7 supervision or okaying those rates, or how does that  
8 happen?

9 A. I presume that I would. I'm not aware in the  
10 time that I've been on this job that we have  
11 renegotiated any of those contracts.

12 Q. You're not aware that you've renegotiated. Okay.  
13 Are you aware that new interconnection contracts  
14 have been proposed to various cellular carriers in  
15 Ohio?

16 A. I'm aware that that's going on, yes.

17 Q. Okay. And are you aware that those  
18 interconnection contracts include rates?

19 A. I presume they do.

20 Q. And have you reviewed those rates?

21 A. No, I have not.

22 Q. And at what point, if any, would you expect to  
23 review those rates?

24 A. Presumably near the end of negotiations. I would  
25 hope before the end of negotiations.

1 (Laughter.)

2 Q. Okay. Would you say that you are the person that  
3 basically has ultimate -- ultimate sign-off authority  
4 with respect to those interconnection rates that would  
5 be charged pursuant to contract?

6 A. To the extent that we would submit those  
7 contracts to the Commission?

8 Q. Yes.

9 A. I would anticipate that I would be asked to  
10 review them prior to submission.

11 Q. And what would be your standards for review of  
12 those contracts and those rates, particularly in those  
13 contracts?

14 A. Presumably like our other services, we would wish  
15 to be sure that, where at all possible, the services  
16 would be priced above LRSIC.

17 Q. Would you compare those rate elements with any  
18 other -- with any rate elements that are similar in  
19 Ohio Bell's -- or, rather, Ameritech Ohio's tariffs?

20 A. Are we talking about services other than  
21 interconnection or --

22 Q. No. Let's limit it to interconnection services  
23 at this point.

24 A. To the extent that we were providing those same  
25 services to others, that is something I would look at,

1 yes.

2 Q. Would your answer be the same if you were looking  
3 at the same rate -- access rate elements that are  
4 contained in the carrier access tariff?

5 A. I don't know that that's the case; but, if we  
6 were charging a same rate for a same -- or a rate for a  
7 same service to another customer, that's something I  
8 would attempt to look at, yes.

9 Q. If you were a representative of a cellular  
10 carrier, and you as the representative of the cellular  
11 carrier were charged with knowing or explaining to your  
12 superiors exactly how Ameritech Ohio was charging or  
13 proposed to charge interconnection rates, who would you  
14 want to see at Ameritech Ohio to get all your answers?

15 A. I presume the person that you were negotiating  
16 the contract with.

17 Q. Let us assume that in those discussions you did  
18 not get responses and you needed to go further.

19 A. I'm not sure specifically who you would talk to.

20 MS. BLOOMFIELD: Your Honor, I don't  
21 have any more questions.

22 EXAMINER FENLON: Ms. Clayton.

23 MS. CLAYTON: Yes, your Honor.

24 At this time I'd like to indicate for the  
25 Bench that my co-counsel has a couple questions,

1           unfortunately I think more than a couple, on an exhibit  
2           he's becoming rather fond of, and that's Time Warner  
3           Exhibit 5. If I might just signal to him.

4                       And as a preliminary matter, we docketed  
5           shortly, or a little while ago, a motion that we  
6           distributed to the parties and have copies for the  
7           Bench, my co-counsel has copies for the Bench, which he  
8           will provide to you; and it was for issuance of a  
9           subpoena, and he will be able to address that right  
10          now.

11                       EXAMINER FENLON:       Mr. Rosenberry.

12                       MR. ROSENBERRY:       Your Honor, yes.

13                       We earlier docketed an application for  
14          the issuance of two subpoenas. The application is  
15          self-explanatory.

16                       Typically, when the application is filed,  
17          at that point the parties also get the subpoenas  
18          issued. At this point we will forego that step to  
19          permit the parties at this point, as I understand it,  
20          who are going to be negotiating potentially next week  
21          to pursue that course, so I don't think that the  
22          application needs to be addressed posthaste, despite  
23          the date that we're asking for the appearance of the  
24          two persons included within the application to be  
25          presented as we have requested.

1                   So we're not going to go ahead with the  
2                   issuance of subpoena and memorandum in support, that  
3                   the subpoenas be issued, but give the Company the  
4                   appropriate time under the Commission's Rules to  
5                   respond to the application itself.

6                   And we've served the parties who are here  
7                   this afternoon with a copy of the application and the  
8                   others will be served by mail. So that's where it  
9                   stands right now.

10                   EXAMINER FENLON:     Do you have -- Maybe  
11                   I missed this, do you have copies of the applications  
12                   for us?

13                   MR. ROSENBERRY:     Yes, I do. I do.

14                   EXAMINER FENLON:     Okay.

15                   MR. ROSENBERRY:     After we get done  
16                   with the afternoon's proceedings, we'll provide those  
17                   to the Bench.

18                   MR. MULCAHY:        For the record, your  
19                   Honor, we intend to respond to the application for  
20                   issuance of subpoena and memorandum in support and have  
21                   that application denied. We don't feel it's  
22                   appropriate, and we'll be glad to explain that in our  
23                   response to the application.

24                   EXAMINER FENLON:     I believe under the  
25                   Rules it's five days.

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1 MR. ROSENBERRY: I don't recall, your  
2 Honor. We have the Rules, but --

3 EXAMINER FENLON: It's calendar days,  
4 too.

5 MR. ROSENBERRY: Given the fact that  
6 we may be off next week, in any event, after the  
7 Company rests its case, if additional time is  
8 necessary, especially in light of the fact it's being  
9 filed on Friday, we don't have a problem with that.

10 MR. MULCAHY: Your Honor, I'd like  
11 to ask at this time, just so we get it done, we would  
12 like to respond by next Friday, your Honor, if that's  
13 acceptable to Time Warner and the Bench.

14 MR. ROSENBERRY: That's fine. It's up  
15 to the Company. If they need more time --

16 EXAMINER FENLON: That's fine.

17 MR. ROSENBERRY: -- they can have it.

18 MR. MULCAHY: Thank you.

19 MR. ROSENBERRY: Your Honor, I don't  
20 know whether Ms. Clayton has indicated, but we wish to  
21 both ask questions of the right honorable Mr. McKenzie.

22 Mr. Brown, as I recall, some weeks ago  
23 when this hearing began, deferred questions on Time  
24 Warner Exhibit No. 5 to Mr. McKenzie. Well, let me  
25 restate that. I was advised by counsel that Mr. Brown



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1 would not be familiar with Time Warner Exhibit No. 5,  
2 but that Mr. McKenzie would be. So I have delayed  
3 moving the introduction of that exhibit until we have  
4 had an opportunity to discuss it with Mr. McKenzie. I  
5 would be asking questions of Mr. McKenzie regarding the  
6 exhibit and all other areas of cross-examination will  
7 be pursued by Ms. Clayton.

8 EXAMINER FENLON: All right.

9 - - -

10 CROSS-EXAMINATION

11 BY MR. ROSENBERRY:

12 Q. Mr. McKenzie, I'd like to hand you what has been  
13 marked previously as Time Warner Exhibit No. 5.

14 MR. ROSENBERRY: And I would note for  
15 the record, your Honor, that the Bench and the parties  
16 will see in the bottom right-hand corner numbers  
17 circled in handwriting. I put those on the copy of the  
18 exhibit since the pages were unnumbered, since I  
19 thought it might be easier to refer to numbered pages  
20 during the cross-examination; so those -- those marks  
21 were made by me in preparing the exhibit.

22 BY MR. ROSENBERRY:

23 Q. Mr. McKenzie, have you seen Time Warner Exhibit  
24 No. 5 previously?

25 A. Yes, I have.

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1 Q. I hope.

2 A. Yes.

3 Q. Would I be correct, Mr. McKenzie, that the Staff  
4 requested that the Company prepare a projection of the  
5 effect on total Company revenues if Advantage Ohio was  
6 approved as compared to the circumstances in which  
7 Advantage Ohio was not approved?

8 A. I think the Staff actually asked for more than  
9 just revenues, but a portion of the information they  
10 requested would include revenues, yes.

11 Q. Okay. And Time Warner Exhibit No. 5 represents a  
12 portion of the Company's response to a Staff request  
13 for information, doesn't it?

14 A. I'm not exactly sure how this particular document  
15 was presented to Staff.

16 Q. Okay.

17 A. It does underlie the data -- It is the data  
18 provided to Mr. Kukla so that he could prepare his  
19 Schedule H, I believe it was, that was prepared at the  
20 request of Staff.

21 Q. Okay. Thank you.

22 So it was you or people who worked for you that  
23 prepared Time Warner Exhibit No. 5?

24 A. That's correct.

25 Q. Okay. And the first page, as I understand, Time

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1 Warner Exhibit No. 5, represents the overall impact on  
2 total Company regulated revenues with and without  
3 Advantage Ohio; and it's based on the succeeding Pages  
4 2 through 16, isn't it?

5 A. I believe it is, yes.

6 Q. Okay. At Pages 2 through 13 reflect comparisons  
7 with and without Advantage Ohio for various categories  
8 of services from which the total Company regulated  
9 revenues are derived; is that right?

10 A. That's a fair characterization, yes.

11 Q. Now, the copies that the parties and Bench have  
12 today that we received on various pages have lines that  
13 reflect, for example, with and without Advantage Ohio,  
14 and they appear at various places to intersect lines --  
15 some lines going down to different degrees than other  
16 lines. Were they colored in the original so you could  
17 distinguish with and without Advantage Ohio?

18 A. They weren't colored on the copies, but there was  
19 a distinction in the lines.

20 Q. Okay. Well, let's look at Page 2, please,  
21 exchange revenue.

22 A. Okay.

23 Q. There is a line in the graph that goes down from  
24 '93 to '94 and then begins to climb in sort of a -- and  
25 rise slightly and then decline. Is that the line that

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1 reflects with Advantage Ohio?

2 A. The line that ends up higher at the end?

3 Q. Yes.

4 A. Yes, it is.

5 Q. And then the line that ends up lower at the end  
6 is without Advantage Ohio?

7 A. Without. And you can verify that because right  
8 above the graph are the respective numbers which are  
9 plotted on the graph, and it indicates to the left side  
10 of those numbers by a line which is with and without.

11 Q. And could we make the same comparison on Pages 3  
12 through 13 in order to identify the line that is with  
13 Advantage Ohio and the line that is without Advantage  
14 Ohio?

15 A. Yes, you could.

16 Q. Okay. Thank you.

17 Now, would you please look at the first page of  
18 the exhibit? And I want to direct your attention to  
19 the information in parentheses at the bottom of the top  
20 graph that is captioned "Without Advantage Ohio." Do  
21 you see the words "(Total equals Base plus New  
22 Services)"?

23 A. Yes, I do.

24 Q. Now, what does base mean in the context of this  
25 exhibit?

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1 A. Base means that revenue which would be expected  
2 without the introduction of new services and with no  
3 price changes.

4 Q. Okay. So would I be correct then that in the  
5 Without Advantage Ohio graph on Page 1 of Time Warner  
6 Exhibit No. 5, the forecasted revenues do not reflect  
7 any rate increases?

8 A. That is correct.

9 Q. And new services would be what?

10 A. Revenues from the introduction of new services.

11 Q. And did the Company attempt to identify what new  
12 services it anticipated introducing that would generate  
13 the revenues that are forecasted here?

14 A. No. That was not the process that was used.

15 Q. Okay. What process did you use?

16 A. You'll see the new services revenue, and new  
17 services revenue only appears on the first page of  
18 these first 13 pages, is shown separately at the top of  
19 the page for Without Advantage Ohio and shown down  
20 below With Advantage Ohio.

21 One of the -- or, part of the process that we  
22 used to prepare this document was to go to people who  
23 are responsible for managing the products and services  
24 in these respective categories on the succeeding pages.

25 When we would ask them about new service revenue,

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1 one of the first questions we always got back was,  
2 "Well, how much money do I have to spend in terms of  
3 capital or expense?" Not really having an answer to  
4 that so that they could forecast new service revenue on  
5 a product family basis, what we did was forecast new  
6 service revenue on an aggregate basis as shown on Page  
7 1.

8 Q. So would the forecast of new service revenue on  
9 an aggregate basis have applied to both the with and  
10 without Advantage Ohio projections?

11 A. It does, but to differing degrees.

12 Q. Okay. And that can be determined by comparing  
13 the New Service Revenues lines under Without Advantage  
14 Ohio and With Advantage Ohio; is that right?

15 A. That is correct.

16 Q. And it appears that the New Service Revenues  
17 under the With Advantage Ohio are approximately double  
18 the Without Advantage Ohio New Service Revenues; am I  
19 reading that appropriately?

20 A. That's the assumption, yes.

21 Q. Okay. And would I be correct that the data for  
22 1990, 1991 and 1992 would be actual data in terms of  
23 revenues?

24 A. Yes.

25 Q. Is 1993 projected data?

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1 A. It may have been. I'm not exactly sure of the  
2 exact timing of when this was prepared. It was around  
3 the first of the year. We may have had December  
4 actuals, we may not have. I just don't recall.

5 Q. Okay. But certainly 1994 through the end of the  
6 forecast period in 1998 would all be projected?

7 A. That's correct.

8 Q. Now, let me direct your attention still on the  
9 first page of the exhibit to 1994 in the line under  
10 Without Advantage Ohio, Total Revenue Without Advantage  
11 Ohio.

12 A. Yes.

13 Q. And the number is 1.966 billion. Am I reading  
14 that right?

15 A. 1,966,000,000, yes.

16 Q. Okay. And the number under the With Advantage  
17 Ohio is 1.951 billion, if I'm reading that right; is  
18 that right?

19 A. That's correct.

20 Q. What caused the difference in revenues there?

21 A. Well, you will notice that the difference is  
22 approximately \$15 million.

23 Q. And that ties to the miscellaneous note on Page 2  
24 regarding a \$15 million revenue decrease reflecting  
25 network access deaveraging and quantity discounts.

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1 A. That is the same \$15 million which appeared in my  
2 original testimony, yes.

3 Q. Okay. Now, would you turn to Page 2 of the  
4 exhibit, please?

5 A. Okay.

6 Q. And what kind of services are exchange? What  
7 does that category represent?

8 A. Normal residence, business, local usage, that  
9 sort of thing. Lines usage, et cetera.

10 Q. Okay. Is that different from local usage on Page  
11 4?

12 A. It is. The local usage is on Page 4. Let me  
13 just verify what other groupings we have, because we  
14 went through a couple iterations to try to do this.

15 I don't believe local usage is included on Page

16 1. Local usage is broken out separately on Page 4.

17 Q. Okay. Thank you.

18 Now, still on Page 2.

19 A. Page 2.

20 Q. Excuse me. May I have the answer read back,  
21 please?

22 A. I meant to say Page 2.

23 Q. I think that's right.

24 Okay. On Page 2, I see no entries for spending  
25 (Inv.) and New Services and deployment. Is that a



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1 reflection of the assumption you couldn't identify  
2 potential new capital investment, the new services?

3 A. No. When we had done -- prepared this, our -- my  
4 original intention was that we would receive input from  
5 each of the groups responsible for the managing of  
6 these products, and they would give us percent changes  
7 we could then build into a spread sheet. So our  
8 original intention was that the people we dealt with  
9 for each of these pages would essentially populate the  
10 grid above.

11 What ended up happening is we discussed with the  
12 different groups, is that some of them had forecasts of  
13 differing length, sometimes they had dollar amounts,  
14 sometimes they had percent changes.

15 So we ended up, rather than taking their input in  
16 one common format, we ended up taking their input in  
17 whatever form they had it and then converting it into  
18 the spread sheet. So that's why you'll see blanks,  
19 you'll see numbers in some cases that are not in  
20 others.

21 Q. Can you tell us what the Trend Growth in the  
22 upper right-hand corner is meant to illustrate?

23 A. That would indicate an ongoing -- just an ongoing  
24 trend in the revenue stream, absent any other  
25 considerations.

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1 Q. Would that be at the 0.8 percent growth rate?

2 A. That's correct.

3 Q. And where there is Trend Growth on other pages,  
4 the same answer would apply; whatever that figure is it  
5 would be intended to imply growth rate in revenues?

6 A. That's correct.

7 Q. Now, next would you look, still on Page 2,  
8 under -- down at the bottom third of the page where it  
9 refers to Competition?

10 A. Yes.

11 Q. The note indicates, does it not, that an  
12 assumption is that competitive access providers and  
13 cable TV companies will deploy switches between 1995  
14 and 1998.

15 A. I see that note, yes.

16 Q. Okay. And the effect of that competition would  
17 be to reduce revenues; is that right?

18 A. That's correct.

19 Q. And can you explain the extent to which the  
20 Company adjusted revenues based on the assumed  
21 competition that would develop between 1995 and 1998?

22 A. When you say explain it --

23 Q. Well, what assumptions did the Company use to  
24 identify the extent to which revenues would be affected  
25 by the development of that competition?

1 A. What we relied upon was each of the groups that  
2 manage this particular revenue stream to assess what  
3 the impact of deployment of these competing facilities  
4 would have on their respective revenue streams.

5 Q. Okay. So there is no way from the document  
6 itself we can identify, for example, that exchange  
7 revenues would be affected by \$25 million in 1996?  
8 That's simply an example.

9 A. Yes. That's -- In some cases you may see at the  
10 top -- In the top grid you may see some numbers which  
11 might allow you to get a feel for what -- the  
12 anticipated impact. But, in other cases, as I explain,  
13 we may not have gotten it in that format, so you may  
14 see nothing; like, for example, in the next page where  
15 we're talking toll, there is no data up there in terms  
16 of competition because the groups used differing  
17 processes depending on what data they had readily  
18 available.

19 Q. Now, let's look at Page 2.

20 Would it be fair to assume that absent the  
21 competition from CAPs and cable TV, that in 1995 the  
22 assumed negative .25 percent effect on revenues would  
23 not have occurred at least within the parameters of  
24 this study?

25 A. I don't know for sure that the people that were

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1 assessing that were basing their projection of  
2 competition on only that item. But I would definitely  
3 presume that if that competition which was assumed did  
4 not occur, that the decrease in revenue would not be as  
5 severe.

6 Q. Okay. If the competition that was anticipated  
7 does not develop, for example, if, for example, the  
8 Ohio Supreme Court should affirm the Company's argument  
9 that it has an exclusive service area right and no  
10 competitors are allowed, then the negative impact on  
11 revenues identified in this study would not occur at  
12 least from CAPs and cable TV companies, right?

13 A. I'm not sure that if the Supreme Court takes that  
14 action, that that would necessarily be the case. And  
15 the reason I say that is because Ameritech has a  
16 Customers First proposal that's been filed with the FCC  
17 and Department of Justice that could result in  
18 Ameritech waiving such a franchise requirement, which  
19 would then allow this very competition to take place.

20 Q. Right.

21 If, for some reason, notwithstanding approval of  
22 Customers First, Ameritech Ohio decides to stand on its  
23 service area right, again assuming that the Supreme  
24 Court finds favor with the Company's position, then  
25 this competition wouldn't take place and the assumed

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1 impact on revenues from that competition wouldn't  
2 occur?

3 A. I would agree that, all else equal, if that were  
4 to be the case, that the losses due to competition  
5 would be less; but, again, that's all else equal.

6 Q. Right.

7 Now, still on Page 1, the very first supporting  
8 assumption refers to flexible pricing and --

9 MR. BERGMANN: Page 2.

10 MR. ROSENBERRY: I'm sorry, Page 2.  
11 Thank you. Thank you. I didn't mean to confuse  
12 everybody.

13 BY MR. ROSENBERRY:

14 Q. On Page 2, there's a reference to 1 percent  
15 growth in business lines caused by decreased rates.

16 Is the growth in business lines caused by  
17 decreased rates tied to the \$15 million revenue  
18 increase -- decrease that's referred to at the bottom  
19 of the page?

20 A. That's exactly what it is.

21 Q. Okay. Would you look at Page 3, please?

22 A. Yes.

23 Q. And at the bottom of the page, the very last  
24 assumption in the Miscellaneous category refers to no  
25 intraLATA presubscription and whatever impact it might

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1 have on toll usage.

2 If 1+ presubscription is approved, would that  
3 have a negative effect on toll revenue as projected  
4 here on Page 3?

5 A. I presume that it would, yes.

6 That was not presubscribed for purposes of this  
7 analysis.

8 Q. That's why it says, "Assumes no intraLATA  
9 Presubscription"?

10 A. That's correct.

11 Q. And again on this page and succeeding pages where  
12 the reference to competition from CAPs and cable TV is  
13 referred to, the answers that -- to the questions that  
14 I gave you with respect to Page 2 would apply to those  
15 pages as well, wouldn't it?

16 A. They would.

17 Q. Now, on Page 3, the first Miscellaneous  
18 supporting assumption says, "Res, R-e-s, 1993 Best  
19 Guess."

20 Does that refer to residential best guess?

21 A. I believe it does, yes.

22 Q. And on the second line after the semicolon there  
23 is a "Res 1994 PCV" reference. Is that residential  
24 1994 preliminary commitment view?

25 A. That's correct.

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1 Q. And why was the preliminary commitment view  
2 lowered by 3 million with respect to EAS; if you know?

3 A. One of the things we did as part of this analysis  
4 was look at the view, the 199- -- the view of 1994 as a  
5 starting point. And if we knew that there was  
6 something that needed to be adjusted, we attempted to  
7 true that up, and this was one of those adjustments.

8 Q. Now, would you briefly identify for the record  
9 what the category toll usage is?

10 A. Toll revenue?

11 Q. Well, on the top of Page 3 Under Group  
12 description is the phrase Toll Usage.

13 A. Oh.

14 Q. That's what I'm referring to.

15 A. Toll usage and toll revenue are synonymous.

16 Q. So these would be toll revenues to the Company?

17 A. Correct.

18 Q. Now, on Page 4, and also on Page 3, for that  
19 matter, under Spending Investment under the Supporting  
20 Assumptions, there is a reference to the fact that the  
21 fiber and digital switches will make your services more  
22 attractive to customers. What effect did that  
23 assumption have on the system? Calculation of revenues  
24 for toll usage, for example.

25 A. That was one of the assumptions that the group

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1       felt would impact the revenue stream from that  
2       particular product; but exactly how much of an impact,  
3       I cannot tell from this exhibit.

4       Q.     Okay. Would you look at Page 5, please? And the  
5       Group Description here is CO Features. Is that a  
6       reference to Central Office features?

7       A.     Yes, it is.

8       Q.     Can you give us an indication of the type of  
9       features that are included within the services that  
10      would generate those revenues?

11      A.     Things such as custom calling features.

12      Q.     Okay. And on Page 6, would you please indicate  
13      what switched services are and the kind of services  
14      that would generate the revenues that are projected on  
15      this page?

16      A.     You'll see beyond switched services revenue in  
17      parentheses it says CTX.

18      Q.     Yes.

19      A.     That's an abbreviation for Centrex.

20      Q.     This would be Centrex revenue?

21      A.     This is Centrex.

22      Q.     And would you look at Page 7, please?

23      A.     Yes.

24      Q.     Could you indicate what the Group Description  
25      Switched Access means and the type of services that



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1 would be found under that group?

2 A. These are the switched access services that we  
3 provide to generally the interexchange carriers.

4 Q. And can you indicate briefly why it appears that  
5 switched access revenues are going to decline  
6 irrespective of the approval or nonapproval of  
7 Advantage Ohio?

8 A. That was the forecast of the group. You can see  
9 they had an estimated trend growth of zero. The  
10 assumption was that digital switched transport --

11 Q. Which is the DST reference?

12 A. DST reference.

13 Q. Thank you.

14 A. -- would result in lesser revenue in the 1993,  
15 1994 time frame.

16 Q. What does -- I don't mean to interrupt you.  
17 But what does DST, digital switched transport,  
18 mean?

19 A. It reflects the restructure of the local  
20 transport portion of the access tariff.

21 Q. All right. Now, the next line under -- We've  
22 been looking at the Pricing Restructure under Flexible  
23 Pricing.

24 The next line refers to annual filing, if I'm  
25 reading that correctly. Can you tell us what that

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1 means?

2 A. Each year, Ameritech is required to refile its  
3 access prices with the FCC. And the assumption was  
4 that price increases, to the extent that there are any,  
5 would offset volume growth.

6 Q. Okay.

7 A. All right. I should say price decreases.

8 Q. Even if your volumes were increasing, the  
9 decreased prices would offset that growth to such an  
10 extent that revenues might be negatively affected?

11 A. Correct. Or at least would not show an increase.

12 Q. Okay. What does GSF refer to on Page 7?

13 A. General support facilities.

14 Q. What are those?

15 A. That refers to a change that the FCC ordered with  
16 regards to the prices for certain of our services.

17 Q. And the GSF negative effect is only from 1993 to  
18 1994, correct?

19 A. I believe that's right. It's a one-time effect,  
20 as I recall.

21 Q. And on Page 8, could you indicate for us what the  
22 group Other refers to?

23 A. This is a very small group, as you can see by the  
24 magnitude of the numbers. Primarily included in there  
25 are things such as 911, 976, audiotext. We can see

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1 down below in the note under Miscellaneous, the  
2 payments to the NECA pool are also included in the  
3 category.

4 Q. And the next page refers -- or identifies  
5 revenues derived from public or operator services?

6 A. It does.

7 Q. And those are what?

8 A. Public refers to coin telephone.

9 Q. So somebody using a coin telephone to call the  
10 operator?

11 A. Well, or using a coin telephone to place a call.

12 Q. Okay.

13 A. Or operator services, which would involve  
14 services which would involve the use of an operator,  
15 such as charges to use credit cards or add additional  
16 charges associated with placing person-to-person  
17 calls --

18 Q. Collect calls.

19 A. -- all those sorts of things.

20 Q. Okay. Now, could you, on Page 11, indicate what  
21 DS -- DCS revenues refer to?

22 A. Dedicated communications services.

23 Q. What are those?

24 A. Private lines, special access, point-to-point  
25 services, as opposed to switched services.

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1 Q. And DCS revenues even with Advantage Ohio appear  
2 to be on the decline, as forecasted in this analysis,  
3 right?

4 A. That's correct.

5 Q. And what's the cause of that; if you know?

6 A. Competition, primarily.

7 Q. And then the deployment by CAPs and cable TV in  
8 1995 to '98 of switches would accelerate the decline in  
9 that revenue, as I read this; is that what it is  
10 saying, in effect?

11 A. Not necessarily only switches, but the deployment  
12 of those networks in the connectivity that, for  
13 example, CATV companies or CAPs would provide would  
14 accelerate that decline, yes. That's the anticipated  
15 result.

16 Q. Okay. Could you indicate what number services  
17 are on Page 12?

18 A. Directory assistance.

19 Q. And on Page 13, does this page reflect the  
20 calculation of baseline revenues that were used back on  
21 Page 1 for With and Without Advantage Ohio?

22 A. Actually, this page represents the summation of  
23 Pages 2 through 12, and then formed the baseline which  
24 then transferred to Page 1.

25 Q. And then the Page 1 revenues with and without

1 Advantage Ohio would reflect the new service?

2 A. That's correct. Those were not done, as I  
3 explained before, on a service grouping basis; that was  
4 done in the aggregate.

5 Q. And, if you know, was the GDPPI forecast that's  
6 reflected on Page 13 the same one that the Company has  
7 used for other purposes in its Advantage Ohio proposal?

8 A. For other purposes?

9 Q. If it used the GDPPI forecast for any other  
10 purposes than Advantage Ohio.

11 A. I don't know for a fact whether that would be the  
12 same one we might have used. I don't recall where we  
13 might have used one.

14 Q. As reflected in the last note on Page 13, the  
15 forecast of revenues under the price cap would not --  
16 does not assume any exogenous effects and no positive  
17 or negative effect resulting from service quality  
18 adjustments in price cap; is that right?

19 A. That's correct.

20 Q. Let me direct your attention to Page 15, please.

21 There is on this page a line that says Required  
22 New Service Revenue; do you see that? Under the With  
23 Advantage Ohio and, I think, Price Cap line.

24 A. I see it.

25 Q. Okay. Now, let me back up.

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1 Did I read that right, that's price cap in that  
2 first line, with Advantage Ohio and Price Cap?

3 A. I believe that's what it -- Obviously, it's CA,  
4 so I believe that's what it was intended to be.

5 Q. Okay. Could you indicate what required new  
6 service revenue means?

7 A. Not having new service revenue forecasted by the  
8 individual product groups, I attempted to quantify what  
9 new service revenue we might be able to raise. And the  
10 way I did that was I looked in the aggregate and said,  
11 "Well, what kind of revenue growth might we expect?"

12 And for those out years, 1996 through 1998, you  
13 can see the percent increases that I show there. And  
14 if that's -- that's the case, then you would need a  
15 certain amount of revenue from new services in order to  
16 make those -- that level of a revenue percent growth.

17 Q. Okay. Now, the number here for '97 and '98 for  
18 new service revenues, by my reading, does not tie to  
19 Page 1 under either With or Without Advantage Ohio,  
20 and -- if I'm reading that right; could you explain the  
21 apparent difference?

22 A. Off the top of my head, I can't, Mr. Rosenberry.

23 Q. Okay.

24 MR. ROSENBERY: Your Honor, at this  
25 time, I would move for the admission, now that I think

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1 we've qualified it, of Time Warner Exhibit No. 5; and  
2 assuming that it's admitted, I have no further  
3 questions.

4 MR. RAWLINGS: We have no objection.

5 MR. ROSENBERRY: Thank you, Mr.

6 McKenzie.

7 THE WITNESS: You're welcome.

8 EXAMINER FENLON: The exhibit is so  
9 admitted.

10 - - -

11 Thereupon, Time Warner Exhibit No. 5  
12 was received into evidence.

13 - - -

14 CROSS-EXAMINATION

15 BY MS. CLAYTON:

16 Q. Good afternoon, Mr. McKenzie. My name is Denise  
17 Clayton. I'm the other half of the Time Warner team.

18 A. Good afternoon.

19 Q. I'm going to try very hard not to duplicate any  
20 questions that have already been asked.

21 You've been discussing revenue projections with  
22 Mr. Rosenberry. And, just in sum, is it accurate to  
23 say for most new services, if not all, that Ameritech  
24 Ohio anticipates to offer, it will have a projection of  
25 revenues and expenses associated with those new

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1 services?

2 A. I think it's a fair assumption that any company  
3 that's going to offer a new service would do it in  
4 anticipation of raising revenue, and there would in  
5 most cases be expenses associated with it.

6 Q. What are the revenue projections for the  
7 interactive video services proposed in Advantage Ohio?

8 A. Well, seeing as how I haven't yet set the prices,  
9 I don't know.

10 Q. Do you have a projection of expenses associated  
11 with the provision of that service?

12 A. No, I do not.

13 Q. There have been several questions posed to you  
14 regarding your proposition that if Ameritech Ohio is  
15 planning on retaining a current price for a service be  
16 it in Cells 1 through 4, it has not submitted a LRSIC  
17 for that particular service; is that an accurate  
18 generalization?

19 A. I think a more appropriate way to say it is that  
20 we may have submitted LRSICs for some of those  
21 services, but we have not submitted LRSICs recently for  
22 all of those services.

23 Q. And have submitted LRSICs probably in the past,  
24 correct?

25 A. In the past or as part of this proceeding.



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1 Q. Okay. For those services that you have not  
2 submitted LRSICs or for those that are in this  
3 proceeding, because as I understand your explanation to  
4 Mr. Royer, I believe, because the Commission has at one  
5 time determined that those prices were not  
6 unreasonable, it's the Company's position that you're  
7 not required to provide the LRSIC; is that right?

8 A. I think I said it a little more affirmatively. I  
9 thought that the Commission found them to be  
10 reasonable, but --

11 Q. There is a distinction.

12 A. -- as Dr. Currie testified, there can be,  
13 depending on the nature of the service, a great deal of  
14 work involved with the preparation of the LRSIC, so he  
15 does not routinely prepare LRSICs for all services.

16 I've laid out in my testimony the situations in  
17 which case the Company would file a LRSIC, which  
18 included price decreases for Cell 1 and Cell 4  
19 services, and each time we would decrease them we would  
20 file a LRSIC.

21 I've also indicated that the first time we  
22 changed the price for any service in Cell 2 or 3, that  
23 we would -- would also submit; and, again, just to be  
24 very clear, what I mean is we will submit these to the  
25 Staff, not file them for the public record.

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1 Q. But for purposes of services that are categorized  
2 in any of the cells, and you indicate the minimum price  
3 will be the current price, you are not submitting the  
4 LRSIC for those particular services?

5 A. When we talk about a minimum price, we're talking  
6 about Cells 2 and 3?

7 Q. Yes.

8 A. And I am not proposing that we submit a LRSIC now  
9 over and above the ones we've already submitted as part  
10 this case. What I'm submitting, though, the first time  
11 we change any of those prices, even if it is within the  
12 band between the min and max, that we would submit a  
13 LRSIC at that time.

14 Q. Is it accurate to say, Mr. McKenzie, that for  
15 some of the services proposed in your Advantage Ohio  
16 plan, the Company has not submitted a LRSIC in this  
17 proceeding?

18 A. That's definitely accurate, yes.

19 Q. And would you agree with me that the prices that  
20 have been established for those existing services, they  
21 were established under traditional rate of return  
22 regulation?

23 A. We have been under traditional rate of return  
24 regulation for as long as I can remember.

25 Q. So the answer to my question is yes?

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1 A. Well, I think -- I think so. But, to the extent  
2 that we introduced a service last year and we may have  
3 introduced -- sent the Staff a LRSIC along with it,  
4 that really isn't reflective of the fact that we are  
5 under rate of return regulation. So I hope you didn't  
6 mean by -- by your question that all the rates were set  
7 in accordance with our last general rate case, which  
8 was under rate of return.

9 Q. No, I did not mean to imply that.

10 What I'm getting at is, for purposes of this  
11 proceeding for those services that you have not  
12 submitted recent or new LRSIC studies, we are to  
13 assume, are we not, that those -- those prices are  
14 reasonable?

15 A. I believe they are reasonable, yes.

16 Q. If one of your monopoly or Cell 1 services  
17 experiences a change in technology or efficiency or  
18 changes in demands such that it significantly affects  
19 the profits and/or usage for those particular services,  
20 will your price cap plan identify and pass on the  
21 benefits of those increased earnings and reduced costs  
22 to customers?

23 A. I'm afraid I got lost partway through your  
24 question.

25 You indicated monopoly services in Cell 1, and I

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1 think I've testified before that just because a service  
2 is in Cell 1 does not mean it's necessarily a monopoly  
3 service.

4 Q. I think I said -- I meant to say no monopoly or  
5 Cell 1 service.

6 A. To the extent that we change technologies, which  
7 might result in lower costs, as a result of the  
8 investment we would make to obtain those technologies,  
9 lower maybe maintenance costs or something like that,  
10 there is nothing in the Advantage Ohio plan  
11 specifically that would translate those specific  
12 reductions into prices for customers; however, in the  
13 overall price cap formula, there is a productivity  
14 offset, which reflects the historical effects of those  
15 same types of activities.

16 So to the extent that in the past we have  
17 invested in new technologies, et cetera, and obtained  
18 productivity levels, that's built into the cap in the  
19 aggregate, but not for a specific investment  
20 replacement.

21 Q. Thank you.

22 And what do you plan to do from a pricing  
23 perspective if a family of services or product-specific  
24 revenue levels do not recover their costs?

25 A. I've laid out in my testimony those price changes

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1 that I'm proposing as part of this plan at this time.

2 And, obviously, we are committing to the fact  
3 that we would not increase any prices in the first  
4 year, and some prices we would not touch until at least  
5 the end of three years.

6 As a general case, and again, absent public  
7 policy concerns, specifically over residential access  
8 line prices, to the extent that I become aware that  
9 specific products are now priced below their LRSIC, my  
10 general intent would be over time, because of the  
11 constraints of the cap and the other things that we  
12 discussed, to bring them up to a point where they would  
13 be above their LRSIC.

14 Q. But it is feasible that that may not occur  
15 simultaneously; in other words, that change within the  
16 price cap to bring it above the LRSIC may not occur at  
17 the same time that the -- you discover that the  
18 revenues are not covering costs?

19 A. Well, I think looking at residence access lines,  
20 we know now that the price in Access Areas C and D is  
21 not covering its costs. I'm not making any proposal as  
22 a part of this proceeding to increase it.

23 So obviously, any price changes going forward  
24 would have to be done in the construct of the  
25 individual cell pricing limits and under the umbrella

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1 of the overall price cap.

2 Q. So your answer to my question is yes?

3 A. My answer is, given those constraints -- or those  
4 constraints would have to be taken into account in  
5 determining how rapidly we could change prices, so I  
6 presume there may be a situation where I could not  
7 immediately increase the price due to the overall price  
8 cap and cell pricing limits.

9 Q. On Page 14 of your original testimony and Page 6  
10 of your Supplemental Testimony, you reference the  
11 necessity of immediate provision of new services or  
12 entering into contracts immediately or having price  
13 changes effective immediately in order to meet  
14 competitive circumstances; is that right?

15 A. For most cell classifications, that's correct.  
16 That's not the case, for example, for Cell 1.

17 Q. Are you aware of whether or not in the last five  
18 to six years the Company was unable to meet or lost  
19 customers because it could not react quickly enough  
20 under the present regulatory scheme to offset the  
21 effect of others seeking those same customers?

22 A. I think I indicated to Mr. Newcomb earlier in the  
23 day that I cannot name a specific customer who has told  
24 me that we lost their business due to that fact.

25 Q. I believe -- I don't know if it was today or

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1 yesterday, you indicated, I think, that you and Ms.  
2 Kline together produced Company Exhibit 8; is that  
3 right.

4 A. That's correct. It's co-sponsored by us.

5 Q. If I could direct your attention, please, to  
6 Company Exhibit 8, Page 3.

7 A. I have it.

8 Q. If I could direct your attention specifically to  
9 Subpart A, there is a discussion therein of CAPs; and  
10 I'm wondering if you are aware of whether all four CAPs  
11 mentioned therein are providing service currently in  
12 Ohio Bell's service territory.

13 A. I don't know that personally.

14 Q. Are you aware of whether all four CAPs were  
15 providing services in Ohio Bell's territory at the time  
16 of the filing of Advantage Ohio?

17 A. No, I'm not. I relied upon Ms. Kline for that  
18 type of information.

19 Q. Are you aware of the number of customers any of  
20 those CAPs currently have?

21 A. No, I'm not. As I indicated, I think in my  
22 discussion with the Chairman, I'm not aware that that  
23 information is made publicly available.

24 Q. And I believe you indicated in the past that you  
25 do not have an estimate of lost revenues due to the

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1 presence of these particular CAPs; is that right?

2 A. I don't know that I said that. I don't know that  
3 I was asked that question.

4 Q. Well, I'll ask you that question.

5 A. I don't personally have an estimate. I've not  
6 gone back and studied it and determined how much  
7 revenue we have lost specifically to these CAPs. No, I  
8 have not done that.

9 Q. So would your answer be the same for actual lost  
10 revenues, as opposed to an estimate of lost revenues?

11 A. Oh, that's definitely the case, yes.

12 Q. With respect to Subpart B on Page 3 of Exhibit  
13 8 --

14 A. Yes.

15 Q. -- I believe you have conceded that Ameritech  
16 Ohio is currently proposing to remove CAPS  
17 certification for at least one of those service areas,  
18 Cleveland or Columbus; is that right?

19 A. I don't think I said that.

20 Q. Well, Time Warner AxS, I believe you indicated  
21 before, and as you indicate up here in Subpart A,  
22 having been granted authority to operate in the  
23 Cleveland, Columbus areas; is that right?

24 A. What I say in Subpart A, that alternative  
25 providers are in those areas. I don't --



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1 Q. Let me ask you this question: Are you aware of  
2 whether Time Warner AxS is currently operating in both  
3 Cleveland and Columbus wire centers, I believe it's 62  
4 and 11?

5 A. Six-two and 11.

6 I'm not personally aware, other than the  
7 information provided by Ms. Kline, who the individual  
8 providers are.

9 Q. So is it accurate to say that it's not important  
10 whether or not those -- those companies are actually  
11 operating with respect to your analysis of competition?

12 A. I think that's definitely a factor to be  
13 considered; and if they are operating, it is further  
14 proof that the customer has a competitive choice.

15 I think what I indicated earlier, that there may  
16 be situations where a customer perceives that they have  
17 a choice even though that company is not, in fact,  
18 operating, because that company is out marketing itself  
19 and telling the customer they have a competitive  
20 choice.

21 Q. How has Ameritech Ohio measured that customer  
22 perception, or quantified it, or recorded it?

23 A. I don't know that we've done a study. If we know  
24 in certain areas that competitors are operating or  
25 competitors are attempting to sell their services to

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1 customers, that that affects our interaction with that  
2 same customer; but I haven't done a study to count the  
3 number of customers that have been contacted or  
4 anything like that.

5 Q. Would you agree with me, Mr. McKenzie, that if --  
6 if Time Warner AxS and Ohio Bell or Ameritech Ohio were  
7 to approach the same customer to provide, for instance,  
8 private line dedicated point-to-point service, and the  
9 customer was aware that Time Warner's certifiante was  
10 being challenged at the Supreme Court, Ameritech Ohio  
11 may, in fact, have a competitive advantage over that  
12 customer?

13 A. If the customer knew that, that might enter into  
14 their decision, yes.

15 On the other hand, they may use, and they  
16 probably would use, the fact that Time Warner was an  
17 alternative provider to them in their negotiations with  
18 us.

19 Q. In Subpart C on Page 3 of Exhibit 8, you indicate  
20 that customers located in the downtown Cleveland and  
21 Columbus wire centers are MCI, et cetera, and you list  
22 those customers.

23 How have you determined competitive rates, terms  
24 and conditions available to those particular customers?

25 A. I have not done a study of what these particular

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1 customers have bought. Again, the competitive  
2 information on here was provided by Ms. Kline. I think  
3 it's indicative of the fact that they bought the  
4 service from somebody else, that they felt that the  
5 rates, terms and conditions were comparable to ours.

6 Q. Well, are you aware of whether you or Ms. Kline  
7 has done an analysis of what constitutes functionally  
8 equivalent or substitute services?

9 A. Part of the -- I don't want to get hung up on by  
10 what you mean by "analysis."

11 I think we recognize that customers can get the  
12 same, in this case, a digital private line like service  
13 a number of ways; they can get it from us, they can get  
14 it from a competitor, they can get it from us in  
15 various ways. They could buy a private line, they  
16 could buy special access.

17 So in doing the cell classifications, I had to  
18 consider what is it that this particular service is  
19 providing.

20 But if by "analysis" you mean a study or a  
21 document, I didn't prepare that.

22 Q. Okay. In Subpart D, you indicate size and  
23 financial resources of participants, you list that as  
24 an indication of market power; is that right?

25 A. That's correct.

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1 Q. How are you aware of what financial resources any  
2 of those alleged alternative providers have?

3 A. I did not do a study of the financial size of the  
4 individual companies. I believe Ms. Kline has done  
5 some of that and I think some of that is contained in  
6 her testimony. I believe it was probably also  
7 contained in the testimony of a couple other witnesses.

8 Q. I believe you indicated before that you are not  
9 aware of, nor do you provide anywhere in your  
10 testimony, market share or growth of market for  
11 alternative providers.

12 A. In my testimony?

13 Q. Yes.

14 A. I don't believe I provide market share  
15 information. That's not to say that other witnesses in  
16 this proceeding have not done that. I mean we've been  
17 talking about the -- the toll information for medium  
18 and large business customers, Ms. Kline talks about  
19 market share for Centrex, but I don't believe I've  
20 quoted any market share statistics within my testimony.

21 Q. But you and Ms. Kline are -- and Ms. Lanz to some  
22 extent are the witnesses responsible for cell  
23 classification, correct?

24 A. I'm the witness that's responsible for cell  
25 classification. They are the witnesses that were

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1 responsible for assessing and advising me of the  
2 competitive aspects of the various services.

3 Q. So presumably any knowledge that either those two  
4 witnesses have regarding competitive circumstances as  
5 it relates to cell classification, you would have been  
6 aware of that, correct?

7 A. I can't say that I necessarily know everything  
8 that they know, but they sure provided me with  
9 information that allowed me to determine what a  
10 reasonable cell classification was.

11 Q. If I could direct your attention to Page 6 of  
12 Exhibit 8.

13 A. Yes.

14 Q. Are Ohio Bell's or Ameritech Ohio's mobile and  
15 improved mobile telephone services regulated?

16 A. Yes, they are.

17 Q. How about paging and signaling systems?

18 A. I believe it is.

19 Q. Again, would your answers be the same with  
20 respect to Subpart D on Page 6, that they were  
21 regarding that same subpart on Page 3, if I were to ask  
22 you the same questions regarding financial resource and  
23 market growth, market share?

24 A. They would.

25 MR. BERGMANN: Excuse me. We were

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1 referring to Page 6 or 5?  
2 MS. CLAYTON: Five, sorry.  
3 MR. BERGMANN: Okay.  
4 THE WITNESS: I was wondering if  
5 there was a connection between those services, packet  
6 switched services.  
7 BY MS. CLAYTON:  
8 Q. Then would your answers be the same with respect  
9 to packet switched services on Page 6 of Exhibit 8?  
10 A. I think I already answered that.  
11 Q. I meant -- Well, okay, then Page 5. Sorry.  
12 A. We're looking at Page 5, Paragraph D.  
13 Q. C and D -- I mean D, yes.  
14 A. I think the other two pages we were talking about  
15 the size and financial resources of the participants.  
16 On Page 5, we're going into other information.  
17 Q. Well, in Subpart D, you indicate financial  
18 resources which have allowed them to become major  
19 competitors; do you not?  
20 A. With regards to financial resources, I didn't do  
21 the analysis of that personally, that's correct.  
22 Q. If I could direct your attention to Page 8 of  
23 your direct testimony.  
24 A. My original?  
25 Q. Yes.

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1           And specifically if I could refer you to the  
2           answer to Question 20 and your reference to Attachment  
3           24.1.

4           If we go to Attachment 24.1, you would be able to  
5           describe the competitive characteristics of each of  
6           those services listed in that attachment?

7           A.     At the time I did the classification into the  
8           cells, again, working with Ms. Kline and with the  
9           information that's now sponsored by Ms. Lanz, I went  
10          through and analyzed each service in light of those  
11          competitive items.

12          I think I've indicated that they are the experts  
13          with regard to who the particular providers are, et  
14          cetera. I could go through and talk to you about the  
15          types of services and things that are there that are in  
16          competition; but as to who the specific competitors are  
17          and the financial information and the other specific  
18          details that you've been talking about, those really  
19          are questions that should have been addressed to Ms.  
20          Kline.

21          Q.     And, again, you indicate you analyzed the service  
22          of the competitive characteristics. You do not have a  
23          standard list of -- competitive list of that you use  
24          for these services?

25          A.     No, I don't. I looked at the service to

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1 determine what other things are out there that  
2 customers might use in place of this that would  
3 essentially do the same thing for the customer.

4 Q. And I think you indicated to Miss Charleston that  
5 that was partly attributed to your judgment, your  
6 review of trade journals, publications, et cetera?

7 A. In part, yes.

8 Q. Not necessary -- Not necessarily an analytical  
9 quantifiable assessment, correct.

10 MR. RAWLINGS: I'm going to object.  
11 This has been gone over.

12 EXAMINER FENLON: Where are you going  
13 with this line? I think it is very similar.

14 MS. CLAYTON: That was my last  
15 question on that.

16 EXAMINER FENLON: I will allow the  
17 question.

18 THE WITNESS: I think I testified  
19 that I did not do a quantified study; but rather, it  
20 was based largely upon my judgment and the information  
21 that I've received both from Ms. Lanz and Ms. Kline and  
22 from other sources.

23 BY MS. CLAYTON:

24 Q. I apologize, it may take a while to ask the  
25 questions. I'm trying not to repeat them.



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1 Page 10 of your testimony --

2 MR. RAWLINGS: I'm sorry, could I  
3 have the page reference again?

4 BY MS. CLAYTON:

5 Q. Page 10, Exhibit 24.0, bottom of Page 9 and the  
6 top of Page 10, you indicate, "...Ohio Bell needs the  
7 flexibility to be able to adjust prices below that  
8 ceiling as business conditions dictate."

9 By "business conditions," do you mean reception  
10 by customers of services, or what do you mean?

11 A. Okay. Here we're talking about access services.  
12 And the primary example that I believe I explained  
13 earlier would be competition.

14 Q. On Page 12, you reference the fact that, "A  
15 different mechanism is being proposed for flat-rate  
16 residence usage," and I realize that you explain your  
17 proposal for flat-rate usage later.

18 My question is simply this: Do you have a cost  
19 basis for justification for retaining flat-rate  
20 service?

21 A. I don't understand your question.

22 Q. Why has the Company chosen to retain flat-rate  
23 service?

24 A. Because customers want it. It's a commitment  
25 we're making as part of this plan.

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1 Q. Yes, I recognize that.

2 Is it accurate to say that that also is one of  
3 Ameritech Ohio's significant sources of revenue?

4 A. We receive a great deal of revenue from the  
5 flat-rate usage package that residence customers buy,  
6 yes.

7 Q. Page 14 of your testimony, you reference  
8 documentation which will be provided when a Cell 2  
9 price change is made.

10 Will that documentation include size of  
11 alternative providers and number of alternative  
12 providers, ability of those providers to make  
13 comparable costs available, et cetera? And I'm  
14 referencing the Commission's Alt. Reg. Rules.

15 A. Are you talking about when we would change a  
16 price?

17 Q. Yes.

18 A. I'm not anticipating that I would do that when I  
19 change a price, assuming the service is already  
20 classified in Cell 2.

21 Q. How about for when you change a service from one  
22 cell to another, would you anticipate providing that  
23 documentation?

24 A. I would provide to the Staff information which  
25 would demonstrate why the new cell classification was

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1 appropriate, yes.

2 Q. Do you consider potential competitors customers  
3 of Ameritech Ohio in some circumstances?

4 A. They often are, yes.

5 Q. And I know you discussed with Mr. Newcomb how you  
6 do not intend to provide cost justification for prices  
7 or change in service prices or cell changes to  
8 customers; is that right?

9 A. That's correct.

10 Q. On Page 16, you reference introduction of new  
11 services in Cell 3, and on Page 41 you reference  
12 contract services, and I believe with reference to Cell  
13 2 you repeatedly reference the need for Ohio Bell to  
14 have flexibility to be able to provide customers with  
15 services immediately; is that right?

16 A. With regards to Cell 2?

17 Q. Cell 2, Cell 3 and contracts.

18 A. With regards to contracts, I indicate that we  
19 need to be able to provide contracts to customers who  
20 want them on the same basis that our competitors can,  
21 yes.

22 Q. And one of the reasons you need to be able to  
23 introduce new services into Cell 2 immediately is in  
24 order to meet your competition, correct?

25 A. My testimony doesn't specifically talk about

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1 introducing new services into Cell 2, I don't believe.

2 Q. Price changes for Cell 2, they are supposed to be  
3 effective immediately, are they not?

4 A. They are.

5 Q. Is it true that part of the reason you gave for  
6 that immediate price change was in order to be  
7 competitive?

8 A. Yes, our competitors can make those changes on  
9 zero days' notice.

10 Q. Why do you need both the ability to enter into  
11 contracts to meet competitive circumstances on zero  
12 days' notice and the ability to change prices for Cell  
13 2 services on zero days' notice?

14 A. Well, I don't intend to deal with all of our  
15 customers on a contract basis. That is a fairly  
16 laborious process, especially considering the  
17 information that would need to be negotiated between  
18 the parties, et cetera.

19 If competition is present, we would need to be  
20 able to adjust our prices for anyone buying out of our  
21 tariffs, so that would be the general price change.  
22 And if that same competition is present and a customer  
23 is in a contractual arrangement with us, we need to be  
24 able to respond to that, as well.

25 Again, our customers -- our competitors can do

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1 both of those things on zero days' notice.

2 Q. And I think you indicated before that none of  
3 your competitors -- or your competitors do not have  
4 reporting requirements; do you recall that?

5 A. I don't know that I said they don't have any  
6 reporting requirements.

7 I'm not aware that they make publicly available  
8 the types of information we were talking about in terms  
9 of market share, their sales, their quantities, those  
10 sorts of things.

11 I presume they do -- they go through a  
12 certification process with the Commission; I presume  
13 they do have some form of reporting to the Commission,  
14 but I'm really not familiar with the details.

15 Q. It's likely that some, if not all, of your  
16 competitors have to file annual reports with the  
17 Commission?

18 A. I would I think it's highly likely.

19 Q. When you are discussing the minimum levels for  
20 Cell 3 services on Page 15, you indicate that there are  
21 some services that are flexibly priced now and the  
22 minimum rate level is at the current rate, and then you  
23 indicate that no other minimums can be established  
24 because the LRSIC studies are not available.

25 The reason LRSIC studies are not available yet is

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1 because they have never been run; is that right?

2 A. Well, either they have not ever been done or they  
3 have not been done recently enough that Dr. Currie  
4 would consider them representative of the current  
5 situation.

6 Q. Bottom of Page 17, you indicate -- you're  
7 proposing a minimum of six months for a new service  
8 that would not be subject to the price cap; is that  
9 right?

10 A. That's correct.

11 Q. Will you notify the Commission and/or interested  
12 parties of when a new service becomes subject to the  
13 price cap?

14 A. I wasn't planning on the notification process.  
15 It would be included automatically in the first price  
16 cap update that would occur at least six months after  
17 the service was introduced. So if the Commission knew  
18 when the service was introduced, they could figure out  
19 when it would be included in the price cap.

20 Q. So they have to figure it out on their own,  
21 essentially?

22 A. If they call and ask, we'd been glad to tell  
23 them; but I wasn't planning to file any formal  
24 notification.

25 Q. And you discuss the need to be able to flex your

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1 prices in response to customer demand for a new Cell 3  
2 services for six months.

3 Is it accurate to say if the service -- new Cell  
4 3 service is very well received and you're not subject  
5 to a price cap, it's very likely the Company may  
6 experience very high profits for that new service for  
7 that six-month period?

8 THE WITNESS: Could you read that  
9 back, please?

10 (Question read back as requested.)

11 THE WITNESS: I don't know if I can  
12 say it's very likely.

13 I don't know if the introduction of the  
14 new service -- There may be some substantial start-up  
15 costs, advertising and other things. It could very  
16 well be that if you actually looked at the bottom line  
17 for that service, including all the relevant costs,  
18 we'd actually lose money up front.

19 I think when companies go into business,  
20 that's often the case; they don't expect to make a lot  
21 of money up front. It would vary by service to  
22 service.

23 BY MS. CLAYTON:

24 Q. Would you agree with me that's a possibility?

25 A. It's probably not very likely, but I suppose it

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1 might be a possibility.

2 Q. Page 19 you discuss the process you propose for  
3 reclassification of services into another cell.

4 Is the Company allowing for any objections to be  
5 filed within 14 days of that proposed reclassification?

6 A. Are we talking about among Cells 1, 2 and 3 or  
7 Cell 4, or what specifically are you referring to?

8 Q. I would say in reference to any of them.

9 A. If we are filing for a reclassification among  
10 Cells 1, 2 and 3 there would be a 30-day interval  
11 before that change would be in effect. If a customer  
12 felt that that was not warranted, they would have the  
13 remedies of the complaint process available to them.

14 With a Cell 4 service, I'm asking that the  
15 reclassification take place immediately; but I believe  
16 that they would still have the same remedies.

17 Q. And are you aware of whether the Company's  
18 requested a waiver for the requirement that notice of a  
19 movement of a service to Cell 4 should be served upon  
20 all parties?

21 A. Off the top of my head, I don't recall.

22 (Pause.)

23 Q. On Page 22 of your testimony, in the last  
24 paragraph you are discussing the price cap formula and  
25 how it will adjust the ceiling by the same percent as



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1 the change over the previous year in the average  
2 messages per line for flat-rate usage service. Do you  
3 see that?

4 A. I think that's a fair assumption, yes.

5 Q. Does that mean the Company is assuming an  
6 increase every year after the three-year freeze?

7 A. Again, we're talking an increase in the ceiling?

8 Q. Yes.

9 A. I don't think that's historically been the case,  
10 no. It might go up, it might go down.

11 Q. So the Company is not necessarily projecting  
12 increases above the ceiling at this time?

13 A. On a year-by-year basis, I don't know what it  
14 will do.

15 Q. Could go up or could go down?

16 A. Could go up, could go down.

17 Q. Page 23, response to answer -- Question 45, you  
18 indicate, "Ohio Bell also needs to have its price  
19 structure adequately reflect changes in usage," and I  
20 believe your reference is to flat-rate service.

21 Does this --

22 A. This entire discussion is with regard to the  
23 flat-rate usage proposal.

24 Q. Does that concept apply to other cell services,  
25 as well?

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1 A. There are services in -- various services that  
2 are across all four cells, some of which are priced  
3 based on usage and some of which are not, such as  
4 dedicated communications service; the link is there  
5 whether data or what have you is being sent over it or  
6 not, so it really varies by service.

7 Q. So the answer to my question would be it depends?

8 A. It depends on the nature of the service.

9 EXAMINER FENLON: Let's go off the  
10 record.

11 (Discussion held off the record.)

12 EXAMINER FENLON: Let's go back on the  
13 record.

14 BY MS. CLAYTON:

15 Q. On Page 24 you discuss your proposal to  
16 disaggregate exchange access rates.

17 A. Yes, I do.

18 Q. And network access line rate, correct?

19 A. Yes.

20 Q. Would you agree that this deaveraging is an  
21 unbundling of sorts?

22 A. With the qualification of sorts, yes, I would.

23 I'm not proposing that we would sell the  
24 individual components independently, but I'm breaking  
25 the prices into two distinct elements as opposed to

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1 having one price.

2 Q. Page 27, you discuss that, "Access Area A is  
3 being reserved for future use..."

4 What does the Company plan to do when it's going  
5 to establish these rates for Access Area A?

6 A. I presume we would come back in to the Commission  
7 with a cost showing similar to what we provided as part  
8 of this case to show that, for instance, certain access  
9 areas than are included in B, that there would be a  
10 cost distinction and, therefore, a change in price  
11 might be appropriate.

12 Q. And would you notify interested parties and  
13 customers, or only Commission Staff?

14 A. I don't know.

15 Q. To be determined.

16 A. I hadn't thought about it.

17 Q. In your discussion in response to Question 56 on  
18 Page 28, is it accurate to say that the experience is  
19 basically proposed to be revenue neutral to the  
20 Company?

21 THE WITNESS: I'm sorry, could you  
22 repeat that or read it back?

23 (Question read back as requested.)

24 THE WITNESS: No.

25 BY MS. CLAYTON:

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1 Q. Why is that not accurate?

2 A. Well, as I say in, I believe, the last sentence  
3 on that page, "Access Area B and C, the two access  
4 areas which have greater density, the sum of the  
5 proposed network access rate and the proposed central  
6 office termination rate are less than the current rate  
7 for exchange access."

8 Q. And "least density," do you mean population, or  
9 usage?

10 A. Neither.

11 Q. What do you mean "in the Central Office"? What  
12 does that refer to?

13 A. It refers to the number of DS-0 equivalent  
14 circuits per square mile, which was the basis that Dr.  
15 Currie used in his cost analysis.

16 Q. Would you agree that your proposal for  
17 disaggregation and deaveraging of Centrex services is  
18 also an unbundling of sorts?

19 A. With the same caveats that we had before, yes.

20 Q. Who other than Ameritech or its affiliates  
21 provides intercommunication lines?

22 A. I'm not sure that anyone else does. That's not  
23 to say there aren't functional equivalents.

24 Q. What would those -- What would an example of  
25 functional equivalents be?

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1 A. The best example would be a PBX system where the  
2 PBX would typically be located on the customer's  
3 premises. Since our switching capability is located in  
4 our Central Office, it's necessary to run lines out to  
5 the individual telephone sets, in the simplest example.

6 Whereas, in a PBX example, we would run a fewer  
7 number of PBX trunks out to the PBX, which is  
8 essentially a switch located on the customer's premise,  
9 and then those lines -- those calls that go across  
10 those trunks would be switched to the respective  
11 telephone number that was called.

12 Q. And have you qualified that service in your  
13 communication lines in Cell 4 because customers can own  
14 their own PBXs?

15 A. That's correct. We've assumed that -- Maybe  
16 that's not the right word.

17 The design of the Centrex arrangement is that if  
18 the competitor were to provide the service, they would  
19 install a PBX and they would install a certain number  
20 of PBX trunks. In our instance, we would provide a  
21 greater number of lines; but we have chosen to classify  
22 those lines in two groups:

23 The first group, which would be Cell 1, is  
24 equivalent to the PBX trunks that would go to the  
25 competing PBX switch.

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1 All the remaining lines are considered  
2 intercommunication lines, and they would be Cell 4.

3 Q. But no one can provide a Centrex service -- I  
4 mean a PBX service without some connection from  
5 Ameritech Ohio; is that right?

6 A. I suppose you could. In the general case, that  
7 would not be the case. They would still want to  
8 connect with the outside world, presumably through us,  
9 but they would use the PBX trunks to do that.

10 And so an example of a ten-line Centrex may be  
11 you might have two or three PBX trunks, if you're going  
12 to serve ten lines off of a PBX; whereas, in the  
13 Centrex arrangement, you would have ten lines.

14 So the same first two or three lines that we  
15 would provide in the Centrex arrangement, just like in  
16 the PBX arrangement, would be classified to Cell 1; all  
17 the remaining lines would be classified to Cell 4, they  
18 wouldn't be needed for the PBX.

19 Q. Is it accurate to say that most of the  
20 disaggregation or disaveraging proposed by the Company  
21 occurs for services to businesses?

22 A. I'm having trouble with the word "most."

23 Q. The proposals.

24 A. The disaggregation of the basic exchange access  
25 into a line in Central Office termination occurs for

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1 business or residence?

2 The classification of the network access lines  
3 into Access Areas B, C and D occurs for residence and  
4 nonresidence. The Centrex proposals are primarily  
5 nonresidence.

6 Q. Page 41 of your original testimony, and I'm  
7 finishing up here, you indicate that customers need to  
8 receive prompt and accurate proposals and they will not  
9 accept regulatory uncertainty.

10 Would you agree with me, Mr. McKenzie, that the  
11 regulatory process is generally transparent to  
12 customers?

13 A. While customers may not have appreciation for all  
14 that goes on in the regulatory process, to the extent  
15 that a competitor can offer a contract effective  
16 immediately, and we would have to offer one that could  
17 not take effect for 90 days, I think they would be very  
18 much aware of that part of regulation.

19 Again, I would agree that they don't really  
20 realize all the details of the regulatory process, but  
21 they would know how it affects them in terms of their  
22 ability to get service.

23 (Pause.)

24 Q. On Page 15 of 24S, you express your disagreement  
25 with Staff's proposal to classify any new service

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1 containing bundled elements in the most restrictive  
2 cell.

3 And you state as part of that reason that, "As  
4 long as customers have the option of purchasing the  
5 original service, they are not harmed by the presence  
6 of the substitute or bundled service."

7 What do you mean by "harmed"?

8 A. It doesn't matter to them in terms of the prices  
9 they would pay for the pieces. If they were not  
10 interested in buying the entire bundled service, but  
11 rather they are interested in buying only pieces of it,  
12 assuming that those pieces are available and would be  
13 classified in the appropriate cell for that particular  
14 piece, that having a cell classification on the bundled  
15 service which provides the Company a greater degree of  
16 pricing flexibility would not harm those customers that  
17 only wished to buy the pieces.

18 Q. Same page, response to Question 21, you somewhere  
19 in there state, "Ameritech Ohio requires the same  
20 flexibility as its competitors have if it is to have a  
21 meaningful opportunity to compete."

22 What do you mean by "meaningful opportunity to  
23 compete"?

24 A. To the extent that customers would rather deal  
25 with somebody that could change prices or what have you



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1 on an immediate basis, as opposed to somebody that  
2 requires 30 days to do it, that would be a handicap for  
3 us. And so to the extent that the customers would like  
4 to get something up and running and they have  
5 competitive alternatives, as I would expect in the case  
6 of a Cell 4 service or a service being reclassified to  
7 Cell 4, that they might not want to wait 30 days, and  
8 so in order to not be at a competitive disadvantage, we  
9 need the same timing flexibility that our competitors  
10 have.

11 Q. Would you agree with me, Mr. McKenzie, that the  
12 opportunity for, say, a competitive access provider to  
13 obtain physical colocation may, to that competitive  
14 access provider, constitute a meaningful opportunity to  
15 compete?

16 THE WITNESS: Could you read that  
17 back, please?

18 (Question read back as requested.)

19 THE WITNESS: Are you asking me  
20 what the competitor would think?

21 BY MS. CLAYTON:

22 Q. No; I'm asking you if you personally consider the  
23 ability of a CAP to physically colocate in one of your  
24 Central Offices -- Offices a meaningful opportunity to  
25 compete for that CAP.

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1 A. I don't think it's necessary, no. We've had  
2 CAPs --

3 Q. That wasn't my question.

4 MR. RAWLINGS: Excuse me. Could he  
5 be permitted to finish his answer?

6 EXAMINER FENLON: Yes.

7 THE WITNESS: We have had CAPs in  
8 business and obviously making sales to customers.  
9 That's not to say they might not prefer to locate in  
10 our offices as opposed to outside of our offices; but  
11 it's not something that prevented them from being in  
12 business as a barrier to entry, if that's what you  
13 mean.

14 BY MS. CLAYTON:

15 Q. That's not what I meant.

16 A. Could you maybe rephrase your question?

17 Q. No. I will leave it.

18 MS. CLAYTON: That's all I have.

19 EXAMINER FENLON: Okay. We will break,  
20 and reconvene Monday morning at 9:00 o'clock.

21 - - -

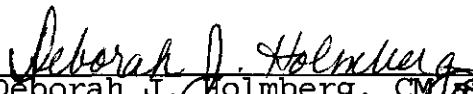
22 (Thereupon, the hearing adjourned at 5:20  
23 o'clock p.m. on Friday, July 22, 1994,  
24 to be reconvened at 9:00 o'clock a.m. on  
25 Monday, July 25, 1994.)


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C E R T I F I C A T E

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We, Deborah J. Holmberg, CM and  
Registered Professional Reporter, and Linda D. Riffle,  
CM and Registered Professional Reporter, hereby certify  
that the foregoing is a true and correct transcript of  
the proceedings before the Public Utilities Commission,  
State of Ohio, on Friday, July 22, 1994, as reported in  
stenotype by us and transcribed by us or under our  
supervision.

  
Deborah J. Holmberg, CM and  
Registered Professional  
Reporter

  
Linda D. Riffle, CM and  
Registered Professional  
Reporter

- - -

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I N D E X

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EXHIBITS

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|   |        |         |
|---|--------|---------|
| IXC/MCI/Sprint Exhibit No. 1 -<br>Document Entitled "Measured EAS<br>Rates and MTS Day Rates" | XIX-33 | --      |
| Time Warner Exhibit No. 5 -   | --     | XIX-242 |