

Confidential Material

OCC EXHIBIT 8

NON-PUBLIC VERSION

OHIO BELL TELEPHONE COMPANY

***Case No. 93-487-TP-ALT
Direct Testimony***

***Case No. 93-576-TP-CSS
Supplemental Direct Testimony***

of

KATHY L. HAGANS

**STATE OF OHIO
OFFICE OF THE CONSUMERS' COUNSEL
77 South High Street
15th Floor
Columbus, Ohio 43266-0550
(614) 466-8574**

MAY 5, 1994

1 Q. PLEASE STATE YOUR NAME.

2
3 A. My name is Kathy L. Hagans.
4
5

6 Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN CASE NO.
7 93-576-TP-CSS?
8

9 A. Yes. On February 4, 1994 I filed testimony in Case No.
10 93-576-TP-CSS which addressed the issue of Bellcore
11 expense. I hereby incorporate by reference that
12 testimony in its entirety into Case No. 93-487-TP-ALT.
13 References herein to my "previous" or "initial direct"
14 testimony are to my testimony filed in OCC's complaint
15 case.
16
17

18 Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?
19

20 A. This testimony supplements my previous testimony, based
21 on additional information received subsequent to the
22 filing of that testimony. In addition, this testimony
23 addresses my recommended Bellcore expense adjustment as
24 it relates to the Staff Report in Case No. 93-487-TP-ALT.
25
26
27
28

1 Q. WHAT ADDITIONAL INFORMATION HAVE YOU RECEIVED?

2
3 A. In response to OCC Document Request No. 204, the Company
4 provided copies of Bellcore Project Profiles for 1992 and
5 1993. These profiles are detailed descriptions of the
6 projects for which costs are included in the test year.
7 In addition, in response to OCC Document Request No. 212,
8 the Company provided its cost for each Bellcore project
9 included in the \$25,000,000 test year Bellcore expense.
10

11
12 Q. WHAT IS YOUR POSITION REGARDING BELLCORE EXPENSES?

13
14 A. Based on my review of the project profiles included in
15 the test year, I have identified certain projects which
16 should not be included in operating expenses for purposes
17 of determining the Company's revenue requirement. The
18 projects which should be excluded deal with new services
19 not yet offered by OBT, charitable contributions,
20 lobbying, and *National Security/Emergency Preparedness (NSEP)*.
21

22 There are numerous 1992 and 1993 Bellcore projects which
23 deal with new services which are not yet offered by OBT,
24 or with combinations of new and existing services.
25 Examples of new services which are the subject of various
26 Bellcore projects include, but are not limited to,
27
28

1 *Personal Communication Service (PCS); Video-on-Demand; and Broadband*
2 *Integrated Switched Digital Networks (BISDN) which, according to Bellcore*
3 *Project No. 1R3011, "will enable the BCCs (Bellcore Client Companies) to*
4 *support emerging broadband information networking services."*

5
6 These "new services" are services which may or may not be
7 offered by OBT in the future. Costs associated with the
8 development of such services should be recovered from
9 future customers of those services (if any) and therefore
10 should not be included in the Company's current revenue
11 requirements. Current captive customers should not bear
12 the risk of the success or failure of future services.
13 The proper bearers of such risk are the company and its
14 stockholders.

15
16 In addition, to the extent that these services will be
17 subject to competition in the future, current monopoly
18 ratepayers should not subsidize the research,
19 development, and planning activities associated with
20 future competitive offerings. This would confer an
21 unfair advantage to OBT because, in a competitive
22 environment, other service providers do not have the
23 luxury of charging research and development costs of
24 future products to captive customers. This is another
25 reason for excluding the costs of these projects from
26 current revenue requirements.

1 I have also identified a project which is in actuality a
2 charitable contribution and should therefore be
3 excluded. Project Number 881INI involves the sponsorship of
4 educational programs for students at Carnegie-Mellon University, which is
5 located outside the Ameritech service area, in the areas of Information
6 Networking and Advanced Technology Innovation. This represents a
7 charitable contribution which benefits OBT and its
8 stockholders. The Commission's past practice has been to
9 exclude these expenses from test year operating
10 expenses. Also, on advice of counsel, it is my
11 understanding that the Ohio Supreme Court has prohibited
12 the inclusion of charitable contributions such as
13 contributions to educational institutions in utility
14 operating expenses.

15
16 In addition, 1993 Project Number 382302 involves lobbying
17 activities by Bellcore and the BCCs and therefore should be excluded. This
18 project suggests that surveys of legislators, regulators, consumer groups, and
19 others be used "...to facilitate the regulatory approval and public acceptance of
20 new technologies, new services and network capabilities."

1 *Finally, Bellcore recovers the costs associated with NSEP projects from*
2 *government agencies. Therefore, to prevent ratepayers from paying costs*
3 *which are already paid by government agencies, Project Nos. 431801 and 53141*
4 *should be excluded.*

5
6
7 **Q. WHICH BELLCORE PROJECTS SHOULD BE EXCLUDED FROM REVENUE**
8 **REQUIREMENTS FOR THE REASONS YOU HAVE INDICATED?**

9
10 **A. Those Bellcore projects which support potential new**
11 **services, are in actuality charitable contributions,**
12 **involve lobbying activities, or are NSEP projects,**
13 **should be excluded from revenue requirements. Projects**
14 **which fall into these categories are shown on Attachment**
15 **KLH-1.**

16
17
18 **Q. DID THE STAFF ADDRESS THE ISSUE OF BELLCORE EXPENSES IN CASE**
19 **NO. 93-487-TP-ALT?**

20
21 **A. No .**
22
23
24
25
26
27
28

1 Q. WHAT ADJUSTMENT DO YOU PROPOSE TO REVENUE
2 REQUIREMENTS?
3

4 A. As can be seen on Schedule KLH-1, I propose an adjustment
5 to jurisdictional expense of \$3,561,000. In calculating
6 the Bellcore expense exclusion, all costs of projects
7 dealing primarily with new services were excluded.
8 However, the information provided to me provides no basis
9 for allocating the cost of projects which deal with
10 combinations of new and existing services. Accordingly,
11 I have excluded one-half of the cost of projects dealing
12 with combinations of new and existing services.
13
14

15 Q. DOES THIS CONCLUDE YOUR TESTIMONY?
16

17 A. Yes. However, I reserve the right to modify or amend my
18 testimony based on additional or supplemental responses
19 to discovery, changes to the Staff's position as
20 presented in the Staff Report, and changes to the
21 Company's position as presented in its filings.
22
23
24
25
26
27
28

CERTIFICATE OF SERVICE

I hereby certify that copies of the *Non-Public Version* *Direct/Supplemental Testimony of Kathy L. Hagans*, have been served by first class mail, postage prepaid, or hand-delivered to the following parties of record this 5th day of May, 1994.



Barry Cohen
Associate Consumers' Counsel

PARTIES OF RECORD

JAMES B. GAINER, ESQ.

Assistant Attorney General
Chief, Public Utilities Section
180 East Broad Street
Columbus, Ohio 43266-0573

DOUG TRABARIS, ESQ.

MCI Telecommunications
205 North Michigan Avenue
Suite 3200
Chicago, Illinois 60601

RANDY J. HART, ESQ.

Hahn, Loeser & Parks
3300 BP America Building
200 Public Square
Cleveland, Ohio 44114

SALLY BLOOMFIELD, ESQ.

Bricker & Eckler
100 South Third Street
Columbus, Ohio 43215-4291

MICHAEL MULCAHY, ESQ.

Ohio Bell Telephone Company
45 Erieview Plaza
Room 1400
Cleveland, Ohio 44114

JUDITH B SANDERS, ESQ.

Bell, Royer & Sanders
33 South Grant Avenue
Columbus, Ohio 43215-3927

ROBIN P. CHARLESTON, ESQ.

AT&T Communications of Ohio
227 West Monroe Street
6th Floor
Chicago, Illinois 60606

SAMUEL C. RANDAZZO, ESQ.

Emens, Kegler, Brown, Hill
& Ritter
65 East State Street
Columbus, Ohio 43215

WILLIAM S. NEWCOMB, ESQ.

STEPHEN M. HOWARD, ESQ.

Vorys, Sater, Seymour & Pease

52 East Gay Street

P.O. Box 1008

Columbus, Ohio 43216-1008

WILLIAM ADAMS, ESQ.

Arter & Hadden

One Columbus Building

10 West Broad Street

Columbus, Ohio 43215

SHELDON A. TAFT, ESQ.

Vorys, Sater, Seymour and Pease

52 East Gay Street

P.O. Box 1008

Columbus, Ohio 43216-1008

CECIL O. SIMPSON, JR., ESQ.

General Attorney

Office of the Judge Advocate

Department of the Navy

901 North Stuart Street

Arlington, VA 22203-1837

BRUCE J. WESTON, ESQ.

Attorney and Counselor at Law

169 West Hubbard Avenue

Columbus, Ohio 43215-1439

**OHIO BELL TELEPHONE COMPANY
BELLCORE EXPENSE
(\$000)**

(Begin Confidential Information)

(1) Test Year Excludable Bellcore Expense (a)	\$4,715
(2) Total Company Adjustments (b)	<u>(162)</u>
(3) Adjusted Total Company Excludable Bellcore Expense	\$4,553
(4) Jurisdictional Allocation (c)	<u>0.782139</u>
(5) Jurisdictional Excludable Bellcore Expense	\$3,561

Sources:

- (a) OCC Document Request No. 212.
- (b) Staff Schedule C-2.1, Total Operating Expenses Nonreg, CATV, and SNFA Factor:
0.0344 (\$48,838/\$1,419,644)
- (c) Staff Schedule C-2, Total O & M Separation Factor:
0.782139 (\$1,072,161/\$1,370,806)

(End Confidential Information)

**OHIO BELL TELEPHONE COMPANY
1992 BELLCORE PROJECTS EXCLUDED**

PROJECT NUMBER	PROJECT NAME
(Begin Confidential Information)	
021411	SYSTEMS INTEGRATION
022250 *	CCS NTWK ARCH EVAL & PROTOCOL STANDARDS
0243NP *	SERVICE NEGOTIATION-PROV INTEGRATION
082350	ECR NEW SERVICES SUPPORT
082704	AM NEW SVCS BILLING SUPP
10NS2X	OPERATIONS PLANNING FOR NETWORK PRODUCTS
1243LA *	LFACS COMMON APPLICATION
1243LC *	SOAC COMMON APPLICATION
124430	OPERATIONS SYSTEMS ENGINEERING
125USO	REQUEST-DRIVEN USOC WORK
126330 *	OPERATOR SERVICES SYSTEM GENERIC REQMTS
1R1012	ISDN STANDARDS MANAGEMENT
1R1013	ISDN PRODUCT AND PROJECT MANAGEMENT
1R1027 *	CPE STIMULATION
1R1028	EMERGENCY POWERING & EXTENSIONS
1R1111	ISDN TECHNOLOGY REQUIREMENTS
1R1112 *	ISDN COMPATIBILITY SUPPORT
1R111D	ISDN PRIMARY RATE GENERIC REQUIREMENTS
1R2011	SMDS PHASE 1 PLNG & REQUIREMENTS
1R2112	SMDS PHASE 2 PLNG & REQUIREMENTS
1R3011	BISDN PHASE 1 PLANNING & REQUIREMENTS
1R4111	AIN PLANNING & REQUIREMENTS
1R501N	INFORMATION NETWORKING ARCHITEC (INA)
1R502X	INTEGRATED OPERATIONS SUPPORT OF INA
1W1511 *	FITL BASIC PLATFORM AND EVOL REQ
1W2023	ADSL GENERIC TRANSPORT REQ
1W2024	HIGH-BIT-RATE LOOP TRANS FUND
1W3611	NETWORK & SERVICE PERFORMANCE QUALITY
1W4611	PERSONAL COMMUNICATIONS SERVICES
1Y6512	END-USER/CUSTOMER IDEA GENERATION
1Y6513	OPPORTUNITY PROP(OP)/OPPOR ANALY (OA)
1Y6514	PROSPECTUS
2243KB	SOAC SUPT FOR ADVANCED INTEL NTWK (AIN)
22441Z	MARCH SUPPORT FOR AIN
224485	NSDB ENHANCEMENTS - AIN
224487	WFA/C ENHANCEMENTS - AIN
2R1110	ISDN SVC IMPLEMENTATION SUPPORT FOR NI-2
2R1111	NATIONAL ISDN-2 TECHNICAL ANALYSIS
2R4125	GENERIC SMS/SOAC INTERF REQMTS TO SUP AIN

**OHIO BELL TELEPHONE COMPANY
1992 BELLCORE PROJECTS EXCLUDED**

PROJECT NUMBER	PROJECT NAME
2R4181	AIN TRIAL SUPPORT FOR AMERITECH
2R6011	INFORMATION NETWORKING TRANSITION PLNG
2Y9611	FUNDAMENTAL MARKET ANALYSIS
421301 *	LIGHTWAVE SYSTEMS
421302	RADIO RESEARCH
421303	TRANSWITCHING TECHNOLOGY
421306	VIDEO SYSTEMS & SIGNAL PROCESSING
422241 *	DIGITAL NTWK TRANSITION ENG-TRANSMISSION
423104 *	TECHNICAL ANALYSIS OF SWITCHING
423228 *	NETWORK PERFORMANCE GENERIC REQUIREMENTS
424322	PROVIS NEW SVCS & TECHNOLOGY SUPPORT
425EXP	COMPUTING TECHNOLOGY TRANSFER
431801	NATIONAL SECURITY EMERGENCY PREPAREDNESS
531401	NATL SECURITY TELE ADVISORY COMMITTEE
621204 *	SYSTEMS PRINCIPLES
621307	NETWORK CONTROL
621405	NETWORK SYSTEMS
621406	MULTIMEDIA COMMUNICATIONS
621408	SPEECH AND IMAGE PROCESSING
621409	COMPUTER NETWORKING
821101	PHOTONIC SCIENCE AND TECHNOLOGY
8811NI	INFORMATION NETWORKING INSTITUTE (INI)
923457	SVC NEGOTIATION & MGMT INTERFACE REQ'TS
924575 *	BROADCAST & NON-BROADCAST VIDEO SERVICES

* Indicates 1/2 exclusion.

SOURCE: OCC Document Request No. 204.

**OHIO BELL TELEPHONE COMPANY
1993 BELLCORE PROJECTS EXCLUDED**

PROJECT NUMBER	PROJECT NAME
0243NP *	SERVICE NEGOTIATION-PROV INTEGRATION
106300 *	P&E GUIDELINES FOR NEW TECHNO
10NS2X	OPERATIONS PLANNING FOR NETWORK PRODUCTS
1243LA *	LFACS COMMON APPLICATION
1243LC *	SOAC/SOAC INTERFACES COMMON
124522 *	WIRELESS INTERCONNECTION
125USO	REQUEST-DRIVEN USOC WORK
1R1012	ISDN INDUSTRY FORUM LIAISON
1R1013	ISDN PRODUCT AND PROJECT MANAGEMENT
1R1027 *	CPE STIMULATION
1R111D	ISDN PRIMARY RATE GENERIC REQUIREMENTS
1R1111	ISDN TECHNOLOGY REQUIREMENTS
1R1112	ISDN COMPATIBILITY SUPPORT
1R3011	BISDN PHASE 1 PLANNING & REQUIREMENTS
1R4111	AIN PLANNING & REQUIREMENTS
1R501N	INFORMATION NETWORKING ARCHITEC (INA)
1W1511 *	FITL BASIC PLATFORM AND EVOL REQ
1W3611	NETWORK & SERVICE PERFORMANCE QUALITY
1W4611	PCS ACCESS SERVICES
1Y2024 *	CLASS & CCS SVCS REQUIREMENTS
222M05	WIRELESS INTERCONNECTION SVC DEVELOPMENT
2R1110	ISDN SVC IMPLEMENTATION SUPPORT FOR NI-2
2R4181	AIN TESTING & TRIAL SUPPORT FOR AM
321107	LOOP COMPONENT TECHNOLOGY
321203 *	INFORMATION SYSTEMS
321204 *	COMPUTER SYSTEMS & NETWORKS
321205	DESIGN OF BROADBAND MULTIMEDIA NETWORKS
321210	ECONOMIC BUSINESS DECISION SUPPORT
321302	WIRELESS ACCESS
321305	DIGITAL SUBSCRIBER LINE TECHNOLOGY
321306	SONET/ATM TECHNOLOGY
321307 *	LIGHTWAVE SYSTEMS
321308	VISUAL COMMUNICATIONS SYSTEMS
321401	NETWORK OPERATING SYSTEMS
321402	INTERNETWORKING
321403	HIGH-SPEED NETWORKING
321404	TELEPRESENCE NETWORKING APPLICATIONS
321405	MESSAGING & INFO ACCESS APPLICATIONS
321406 *	SPEECH TECHNOLOGY APPLICATIONS
321408	PERSONAL COMMUNICATIONS APPLICATIONS
324101	P&E GUIDELINES FOR SERVICES AND ARCHITEC

**OHIO BELL TELEPHONE COMPANY
1993 BELLCORE PROJECTS EXCLUDED**

PROJECT NUMBER	PROJECT NAME
324105	MGMT OF OS SUPPORT FOR NEW TECHNOLOGY
382302	PUBLIC POLICY/STAKEHOLDER ANALYSIS
3R1111	NATIONAL ISDN-2 GENERIC REQ
3W4611	PCS DEMO TESTING
3Y6511	PROD CONCEPTS & OPPTY ANALY
422241 *	DIGITAL NEWK TRANSITION ENG-TRANSMISSION
423104 *	TECHNICAL ANALYSIS OF SWITCHING
423228 *	NETWORK PERFORMANCE GENERIC REQUIREMENTS
431801	NATIONAL SECURITY EMERGENCY PREPAREDNESS
531401	NATL SECURITY TELE ADVISORY COMMITTEE
8811NI	INFORMATION NETWORKING INSTITUTE (INI)

* Indicates 1/2 exclusion.

SOURCE: OCC Document Request No. 204.

(End Confidential Information)