

**PUBLIC VERSION**

THE OHIO BELL TELEPHONE COMPANY

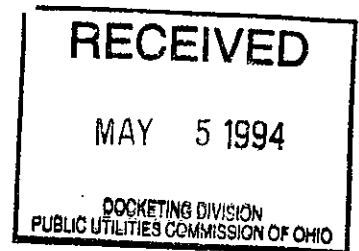
CASE NO. 93-487-TP-ALT  
Direct Testimony

CASE NO. 93-576-TP-CSS  
Supplemental Direct Testimony

OF  
DAVID J. EFFRON

ON BEHALF OF THE  
OFFICE OF THE CONSUMERS' COUNSEL  
STATE OF OHIO

77 South High Street  
15th Floor  
Columbus, OH 43266-0550  
614-466-8574



MAY 5, 1994

1 Q. Please state your name and business address.

2 A. My name is David J. Effron. My business address is 386 Main  
3 Street, Ridgefield, Connecticut 06877.

4

5 Q. Have you previously filed testimony in OCC's complaint case,  
6 Case No. 93-576-TP-CSS?

7 A. Yes. I filed testimony in Case No. 93-576-TP-CSS which  
8 addressed and quantified certain rate base and operating  
9 income issues. I hereby incorporate by reference that  
10 testimony in its entirety into Case No. 93-487-TP-ALT.  
11 References herein to my "previous," "prior," or "initial  
12 direct" testimony are to my testimony filed in OCC's Complaint  
13 case.

14

15 Q. Mr. Effron, is the incorporation of your prior testimony into  
16 Case No. 93-487-TP-ALT the sole purpose of this supplemental  
17 testimony?

18 A. No. In my initial direct testimony, I presented certain  
19 adjustments to the Company's determination of rate base and  
20 operating income which it presented in the standard filing  
21 requirements in Case No. 93-487-TP-ALT. The purpose of this  
22 supplemental testimony is to explain how the adjustments which  
23 I presented in my initial direct testimony relate to the Staff  
24 Report in Case No. 93-487-TP-ALT. The purpose of this  
25 testimony is thus to present certain adjustments to rate base  
26 and operating income as presented by Staff in the Staff

1 Report.

2  
3 Q. Have you prepared schedules which summarize your proposed  
4 adjustments to the Staff Report?

5 A. Yes. I have prepared Schedules DJE-1A through DJE-6A. These  
6 schedules are analogous to Schedules DJE-1 through DJE-6  
7 accompanying my previous testimony. However, Schedules DJE-1A  
8 through DJE-6A quantify adjustments to the rate base and  
9 operating income presented in the Staff Report, rather than  
10 the rate base and operating income as presented by the Company  
11 in the Standard Filing Requirements. These schedules, as  
12 relevant, have been provided to Mr. Chan to incorporate into  
13 his calculation of Ohio Bell's revenue excess.

14  
15 A. DIRECTORY REVENUES

16 Q. Is any adjustment necessary to the Directory Revenue reflected  
17 in the Staff Report?

18 A. No. Staff did not reflect the Company's proposed adjustment  
19 to eliminate API related revenues from the test year. In  
20 fact, Staff proposed an adjustment to increase the test year  
21 Directory Revenue "to reflect a more compensatory rate per  
22 access line." In my opinion, Staff's adjustment to reflect  
23 a more compensatory rate per access line is appropriate.

24  
25 Q. If you believe that Staff's adjustment to reflect a more  
26 compensatory rate per access line is appropriate, why did you

1 not propose any such adjustment in your initial direct  
2 testimony?

3 A. At the time that I prepared my initial direct testimony, I did  
4 not have the information available to quantify such an  
5 adjustment. Since that time I have obtained information which  
6 clearly indicates that an adjustment to increase directory  
7 revenues is proper.

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9 Q. ++++++

10 ++++++

11 (This section is contained in the nonpublic version of

12 A. testimony due to information alleged to be of a confidential  
13 nature)

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10 Q.

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2           Because I am not proposing to substitute my adjustment on  
3 Schedule DJE-1A, page 1 for that of Staff, it is not necessary  
4 to incorporate this adjustment into the determination of  
5 adjusted net operating income that uses the operating income  
6 in the Staff Report as a starting point.

7  
8 B. MANAGEMENT SEPARATION PLAN

9 Q. Is it necessary to make the adjustment which you proposed in  
10 your initial direct testimony, related to the elimination of  
11 the accrual for the management separation plan, to Staff's  
12 determination of adjusted net operating income?

13 A. No. Schedule C-3.7 of the Staff Report reflects an adjustment  
14 to eliminate "Applicant's FASB 106 Curtailment Loss  
15 Amortization." This is the major component of the management  
16 separation plan accrual. Therefore, the adjustment which I  
17 quantified on Schedule DJE-2 of my initial direct testimony is  
18 not necessary. However, if the Commission should, for any  
19 reason, reject Staff's elimination of the curtailment loss,  
20 then the adjustment on Schedule DJE-2 accompanying my initial  
21 direct testimony would be appropriate.

22  
23 C. POST-RETIREMENT BENEFITS EXPENSE OTHER THAN PENSIONS

24 Q. Is it necessary to make an adjustment to the post-retirement  
25 benefits expense other than pensions ("OPEB") reflected by  
26 Staff?

1 A. No. In my initial direct testimony, I quantified an  
2 adjustment to the amortization of the transition obligation  
3 reflected by the Company. However, Staff has eliminated the  
4 amortization of the transition obligation in its entirety.  
5 Therefore, no adjustment is necessary.

6 However, if the Commission should, for any reason,  
7 determine that the amortization of the transition obligation  
8 should be reflected in the cost of service, then I continue to  
9 believe that the twenty year amortization period would be  
10 appropriate, as explained in my initial direct testimony. On  
11 Schedule DJE-3A, I have recalculated the adjustment necessary  
12 to modify the amortization period from the 18 years reflected  
13 by the Company to 20 years, as I am proposing. If the  
14 Commission does determine that a 20 year amortization period  
15 would be appropriate, then the adjustment reflected on my  
16 Schedule DJE-3A, which is a revision to the adjustment on my  
17 original Schedule DJE-3, should be used.

18  
19 D. POST-EMPLOYMENT BENEFITS (SFAS 112)

20 Q. Is any adjustment to Staff's pro forma operating income  
21 necessary to modify the treatment of SFAS 112 in the Staff  
22 Report?

23 A. No. Staff did not reflect the SFAS 112 transitional  
24 obligation in the determination of its pro forma net operating  
25 income. Therefore, no adjustment is necessary to eliminate  
26 or modify the treatment of the SFAS 112 transitional

obligation.

E. DEPRECIATION EXPENSE

Q. Is it necessary to make an adjustment to the depreciation expense presented in the Staff Report?

A. Yes. Jurisdictional depreciation expense is calculated on Schedule B-3.3 of the Staff Report. Page 2 of that schedule indicates a reserve deficiency amortization of \$13,531,000. related to Account 2211 - Analog Electronic Switching, All Other. As I explained in my initial direct testimony, I do not believe that any of the calculated depreciation reserve deficiency in Account 2211 should be subject to special amortization on a prospective basis. Therefore, on my Schedule DJE-5A, I show the effect of eliminating Staff's reserve deficiency amortization for Account 2211 from pro forma depreciation expense. As can be seen on this schedule, eliminating Staff's reserve deficiency amortization for Account 2211 reduces pro forma test year depreciation expense by \$13,531,000.

F. INTEREST DEDUCTION FOR INCOME TAXES

Q. Has Staff used the proper method to calculate the interest deduction for income taxes?

A. Yes. Schedule C-4.1, page 1 of the Staff Report properly synchronizes the interest deduction for income taxes with Staff's calculation of rate base and the weighted cost of debt

1 reflected in Staff's capital structure. Therefore, no  
2 adjustment is necessary to the interest deduction for income  
3 taxes, given Staff's rate base and weighted cost of debt. The  
4 interest deduction for income taxes reflected in the OCC's  
5 determination of operating income incorporates the OCC's rate  
6 base and cost of debt.

7  
8 Q. Does this conclude your testimony?

9 A. Yes. However, I reserve the right to modify or amend my  
10 testimony based on responses to additional discovery, changes  
11 to Staff's position as presented in the Staff Report, and  
12 changes to the Company's position as presented in its filings.

OHIO BELL TELEPHONE COMPANY  
ALTERNATIVE TO STAFF DIRECTORY REVENUE ADJUSTMENT  
(\$000)

**(This schedule and its accompanying testimony are  
contained in the nonpublic version of testimony due  
to information alleged to be of a confidential nature)**

OHIO BELL TELEPHONE COMPANY  
YELLOW PAGE REVENUES  
(\$000)

**(This schedule and its accompanying testimony are  
contained in the nonpublic version of testimony due  
to information alleged to be of a confidential nature)**

Schedule DJE-2A

**OHIO BELL TELEPHONE COMPANY  
MANAGEMENT SEPARATION PLAN AND OUTPLACEMENT COSTS  
(\$000)**

Subsumed in Staff's elimination of curtailment loss on Schedule C-3.7

## Schedule DJE-3A

OHIO BELL TELEPHONE COMPANY  
 ALTERNATIVE TO STAFF TREATMENT OF  
 TRANSITION OBLIGATION AMORTIZATION  
 (\$000)

Amortization of SFAS 106 Transition Obligation	(A)	\$25,773
Company Amortization Period	(B)	<u>18</u>
Transition Obligation		463,914
Proposed Amortization Period		<u>20</u>
Annual Amortization		<u>\$23,196</u>
Adjustment to Annual Amortization		(\$2,577)
Charged to Expense	0.8825 (D)	(\$2,274)
Charged to Regulated Operations	0.9351 (C)	(\$2,127)
Jurisdictional Expense Adjustment	0.7751 (C)	<u>(\$1,648)</u>

## Sources:

- (A) Response to OCC RFPD 130
- (B) Ohio Bell Exhibit 31.0, page 33
- (C) Company Workpaper WP 93C-3.7 (1-.0649)
- (D) Company Workpaper WP 93C-1.5a

Schedule DJE-4A

OHIO BELL TELEPHONE COMPANY  
SFAS 112 (POST-EMPLOYMENT BENEFITS)  
(\$000)

Amortization of SFAS 112 Transition Obligation not reflected in Staff Report.

OHIO BELL TELEPHONE COMPANY  
DEPRECIATION RESERVE DEFICIENCY AMORTIZATION  
(\$000)

Staff Juris. Amort. of Res. Deficiency - A/C 2211	(A)	<u>(\$13,531)</u>
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## Income Tax Adjustments:

Adjustment to Unallowable Depreciation	0.0603	(B)	(816)
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Adjustment to Tax SL Depreciation			<u>(\$12,715)</u>
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Adjustment to ITC Amortization	0.0475	(B)	<u>(\$604)</u>
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## Sources:

(A) Staff Report, Schedule B-3.3, Page 2

(B) Company Workpaper WP 93C-2.2b


Schedule DJE-6A

OHIO BELL TELEPHONE COMPANY  
INTEREST SYNCHRONIZATION  
(\$000)

Staff's interest deduction properly synchronized.

**CERTIFICATE OF SERVICE**

I hereby certify that copies of the *Public Testimony of David J. Effron*, 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

**JOSEPH P. MEISSNER, ESQ.**  
Legal Aid Society of Cleveland  
1223 West Sixth Street  
Cleveland, Ohio 44113

**WILLIAM ONDREY GRUBER, ESQ.**  
Assistant Director of Law  
City of Cleveland  
601 Lakeside Avenue, N.W.  
Cleveland, Ohio 44114

**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

**DOUG TRABARIS, ESQ.**  
MCI Telecommunications  
205 North Michigan Avenue  
Suite 3200  
Chicago, Illinois 60601

**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

**KERRY BRUCE, ESQ.**  
Department of Public Utilities  
City of Toledo  
Suite 1520  
1 Government Center  
Toledo, Ohio 43604

**JOSEPH M. PATCHEN, ESQ.**

Carlile Patchen & Murphy  
366 East Broad 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

**SAMUEL C. RANDAZZO, ESQ.**

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

**DENNIS K. MUNCY, ESQ.**

Meyer, Capel, Hirschfeld, Muncy,  
Jahn & Aldeen  
Athenaeum Building  
306 West Church Street  
P.O. Box 6750  
Champaign, IL 61826-6750

**WILLIAM ADAMS, ESQ.**

Arter & Hadden  
One Columbus Building  
Floor  
10 West Broad Street  
Columbus, Ohio 43215

**ELLIS JACOBS, ESQ.**

Legal Aid Society  
333 West 1st Street  
Suite 500  
Dayton, Ohio 45402

**SUSAN WEINSTOCK**

State Legislation  
American Association of  
Retired Persons  
601 E Street, N.W.  
Washington, D.C. 20049

**GENA M. DOYSCHER, ESQ.**

Enhanced TeleManagement, Inc.  
730 2nd Avenue, South  
Suite 1200  
Minneapolis, MN 55402-2467

**CECIL O. SIMPSON, JR., ESQ.**

General Attorney  
Office of the Judge Advocate  
Department of the Navy  
901 North Stuart Street  
Arlington, VA 22203-1837

**MARY HULL, ESQ.**

Sprint Communications Company,  
L.P.  
8140 Ward Parkway, 5E  
Kansas City, MO 64114

**JONATHAN E. CANIS, ESQ.**

Swidler & Berlin, Chartered  
3000 K St., N.W.  
Suite 300  
Washington, D.C. 20007

**KARIN W. RILLEY, ESQ.**

Assistant Attorney General  
Office of the Attorney General  
Education Section  
30 East Broad Street, 15th  
Columbus, Ohio 43266-0410

**BRUCE J. WESTON, ESQ.**

Attorney and Counselor at Law  
169 West Hubbard Avenue  
Columbus, Ohio 43215-1439

**SHELDON A. TAFT, ESQ.**

Vorys, Sater, Seymour and Pease  
52 East Gay Street  
P.O. Box 1008  
Columbus, Ohio 43216-1008

**GREGORY J. DUNN, ESQ.**

Crabbe, Brown, Jones,  
Potts & Schmidt  
500 South Front Street  
Suite 1200  
P.O. Box 15039  
Columbus, Ohio 43215

**MADELON KURCHERA**

TCG America, Inc.  
c/o TC Systems - Illinois, Inc.  
233 South Wacker, Suite #2100  
Chicago, IL 60606

**DANIEL A. MALKOFF, ESQ.**

Assistant Attorney General  
30 East Broad Street  
Columbus, Ohio 43215-3428

**CLYDE KURLANDER**

Law Offices  
Three First National Plaza  
Suite #4000  
Chicago, IL 60602

**JODIE DONOVAN**

TCG America, Inc.  
c/o Teleport Communications  
Group, Inc.  
One Teleport Drive  
- Staten Island, NY 10311