

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the matter of the Application of
The Ohio Bell Telephone Company for
approval of an alternative form of
regulation

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Case No. 93-487-TP-ALT

TESTIMONY
of
HISHAM M. CHOUEIKI
Submitted on behalf of
The Public Utilities Commission of Ohio

STAFF EXHIBIT 13

Dated July 12, 1994.

1. Q. What is your name, current position, and business address?

A. My name is Hisham M. Choueiki. I am an Energy Specialist in the Forecasting Division of the Utilities Department at the Public Utilities Commission of Ohio. My business address is 180 East Broad Street, Columbus, Ohio 43215.

2. Q. What is the purpose of your testimony?

A. The purpose of my testimony is to respond to objections raised by Ameritech Ohio and other parties concerning the Staff's assessment of the Ameritech Ohio infrastructure deployment commitments.

3. Q. What are your qualifications to present this testimony?

A. I am a Ph.D. candidate in the Department of Industrial and Systems Engineering at The Ohio State University. I am also a registered professional engineer in the State of Ohio. I have been employed by the PUCO for the last six and a half years. My professional experience at the PUCO includes the following: a) administering utility rate analysts involved in research and investigations of the forecasting, planning, and accounting functions of Ohio utilities, b) conducting independent research in the areas of technology forecasting, telecommunications engineering and planning, linear and nonlinear splines, and artificial neural networks, c) leading the Enhanced Traditional Regulation team in the design of draft rules for regulating the large local exchange companies in Ohio, d) contributing to the development of the Alternative Regulation Commission rules for regulating large local exchange companies in Ohio,

1 e) evaluating the infrastructure deployment commitments in Case Nos.
2 93-230-TP-ALT and 93-432-TP-ALT, f) forecasting energy demand (natural gas,
3 electricity, petroleum products, coal and nuclear) for Ohio and the U.S., g) submitting
4 written and oral testimony in IRP hearings, h) characterizing the historical and
5 forecast time paths of economic, demographic and energy systems and relations, in
6 terms of linear and nonlinear spline models, and i) integrating the business cycle,
7 demographic trends, and socio-economic shocks into sectoral energy forecasts and
8 analyses.

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10 Before joining the PUCO, I was employed by the National Regulatory Research
11 Institute as a Graduate Research Associate in telecommunications for one and a half
12 years. My professional experience at NRRI included: a) formulating a mathematical
13 model to compute the cost of a 1AESS central office expansion at Ohio Bell, b)
14 coding SAS and Fortran computer algorithms to compute blocking and delay
15 probabilities at Southwestern Bell, and c) constructing a CAPCOST model that was
16 used in telephone cost of service studies.

17 I have coauthored, and contributed to, a number of articles and reports in the energy
18 and telecommunications fields. Some of the reports in the telecommunications field
19 are the following:

20
21 Pollard, W., Mount-Campbell, C., Neuhardt, J., Chang, S., Choueiki, H., Lee, B.,
22 Tau, Y., and Yuan, M. (1990), An Examination of the Application of Peak Methods
to Allocate a Revenue Requirement for Intrastate Telephone Services, The National
Regulatory Research Institute.

23 Mount-Campbell, C., and Choueiki, H. (1987), A Method to Estimate Long-Run
24 Marginal Cost of Switching for Basic Telephone Service Customers, The National
Regulatory Research Institute.

25 Choueiki, H. (1987), The Evaluation of an Experimental Design and Analysis
26 Strategy when the Underlying Model is Unknown, Master's Thesis, Department of
Industrial and Systems Engineering, The Ohio State University.

1 Pollard, W., Burghlea, A., Choueiki, H., and Ferng, L. (1987), A Model for
2 Estimating the Marginal Cost of Switching: An Example Using Digital Switching,
3 The National Regulatory Research Institute.

4 4. Q. What was your role in the Staff's analysis of the Ameritech Ohio Alternative
5 Regulation Plan and in the development of the Staff Report?

6
7 A. I was responsible for evaluating the infrastructure commitments in the Ameritech
8 Ohio Application, and was responsible for writing the Infrastructure Commitments
9 Section of the Staff Report (pages 100-105).

10
11 5. Q. What definition did the Staff use for the term "commitment" in evaluating the
12 Ameritech Ohio infrastructure commitments?

13
14 A. The Staff used the Commission's definition of a commitment: A commitment is
15 defined as an obligation to provide services or enhance their value to customers
16 pursuant to a company's approved alternative regulation plan. As the Commission
17 noted in its Entry on Rehearing in Case No. 92-1149-TP-COI at Finding 14,
18 enhancements to infrastructure can mean to provide or enhance the value of services
19 to customers. Furthermore, in its Finding and Order in Case no. 92-1149-TP-COI
20 on page 18, the Commission required that a commitment be demonstrated to be in
21 addition to what is required of a large local exchange company under Minimum
22 Telephone Service Standards (MTSS).

23
24 6. Q. What guidelines did the Staff use in evaluating the Ameritech Ohio infrastructure
25 commitments?

1 A. The Staff used the Alternative Regulation Rules Section X(B)(2) of the Commission's
2 Finding and Order in Case No. 92-1149-TP-COI, as guidelines in evaluating the
3 infrastructure commitments.

4
5 7. Q. What was the Staff's recommendation regarding the Ameritech Ohio infrastructure
6 commitments?

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8 A. The Staff recommended that the Ameritech Ohio infrastructure commitments listed
9 in Table 4 of the Staff Report be included in any Plan approved by the Commission.

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11 It is the Staff's opinion that the infrastructure implementation schedule described in
12 Table 4 would enhance the quality, reliability, and survivability of the public switched
13 network. Additionally, such a schedule would result in an increased availability of
14 advanced telecommunications services across the Ameritech Ohio service territory,
15 and would be consistent with the public policy goals set forth in 4927.02, ORC.

16
17 8. Q. Does the Staff recognize that the costs associated with deploying the Ameritech Ohio
18 infrastructure commitments (Table 5, Staff Report) are estimates of the real costs
19 that would be incurred?

20
21 A. Yes, the Staff recognizes that the costs associated with the Applicant's proposed
22 infrastructure deployment could be more or less than what was initially estimated by
23 the Applicant. The Staff has focused its investigation on the achievement of the
24 levels of advanced telecommunications services resulting from the implementation
25 of the modernization schedules in Table 4 of the Staff Report, rather than their
26

1 associated costs.

2
3 9. Q. Why did the Staff recognize only \$382.2-\$476.2 million in infrastructure investment
4 in the Ameritech Ohio Plan?

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6 A. In its Application, Ameritech Ohio committed \$1.6 billion to infrastructure
7 deployment. After their investigations, the Staff and its consultant determined that
8 the cost associated with the modernization schedules was \$382.2 to \$476.2 million.
9 Another \$800 million was necessary for maintaining common carrier obligations,
10 including Minimum Telephone Service Standards (MTSS). The Applicant was not
11 able, however, to identify what portion of the \$800 million was for MTSS, nor was
12 it able to adequately explain where the remaining \$323.8 million was going to be
13 spent. Consequently, the Staff was only able to recognize \$382.2 to \$476.2 million
14 out of the total \$1.6 billion infrastructure investment claimed by the Applicant as a
15 commitment.

16
17 10. Q. Is the Ameritech Ohio recommended progress report sufficient for the Staff to monitor
18 the infrastructure commitment's progress during the term of the Plan?

19
20 A. No, it is not. It is the Staff's opinion that Attachment 23.14 of the Applicant's Exhibit
21 23 is necessary but not sufficient for the Staff to adequately monitor the Plan and to
22 assure that its objectives are properly being followed during its term. As a result,
23 the Staff recommended that, in addition to completing Attachment 23.14, the
24 Applicant should also file Appendix 2 of the Staff Report on an annual basis.

1 11. Q. Will the \$382.2 to \$476.2 million recognized by the Staff as a commitment in the
2 Ameritech Ohio Plan be considered a part of the rate base should Ameritech Ohio
3 file a rate case?

4
5 A. The Staff believes that the value of the Applicant's infrastructure commitments would
6 only prevail under a properly designed price cap framework. In other words, the
7 infrastructure commitments would have no value if the Applicant files with the
8 Commission a rate case, an amendment, or a termination of its Plan during or at the
9 conclusion of its term. Should any of the latter circumstances take place, the Staff
10 would have to conduct a prudence review and a used and useful test in order to
11 determine what proportion of the recognized \$382.2 to \$476.2 million infrastructure
12 investment would be added to the rate base.

13
14 12. Q. Will the Ameritech Ohio service rates be affected by the infrastructure deployment
15 commitments under a properly designed price cap framework?

16
17 A. No, they will not. The NRRI study team concluded that a properly designed price
18 cap framework would relieve the ratepayer from any risk associated with an
19 infrastructure deployment commitment. Unlike the case under traditional rate base
20 rate of return regulation, the Applicant's rates under a price cap regulatory regime
21 would be a function of an agreed upon set of economic indicators and pricing
22 parameters, rather than a function of the Applicant's rate base. The Staff also stated
23 in its Report that the value of the infrastructure commitments are realized as long as
24 the Ameritech Ohio ratepayers are shielded from the risk of rates increasing due to
25 the failure of the Applicant to recover its investments under price cap regulation.
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1 Finally, the Applicant stated that its price cap Plan "eliminates the debate over who
2 should pay for modernization and advanced services since the burden associated with
3 the recovery of that investment shifts from the customer to the investor." [Testimony
4 of Richard Brown, Ohio Bell Exhibit 14.0].
5

6 13. Q. Are the Applicant's infrastructure commitments sufficient for the Staff to recommend
7 Alternative Regulation?
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9 A. The Applicant's infrastructure commitments, as modified by the Staff, are necessary
10 for granting Alternative Regulation, however, they are not sufficient. As a matter
11 of fact, given the Staff's review of the Applicant's financial status, the Staff
12 considered the Applicant's commitments, in total, to be inadequate for granting
13 alternative regulation, when considered in conjunction with the various components
14 of the proposed Plan.
15

16 14. Q. What is the Staff's opinion of the ISDN deployment schedule described in Table 4
17 of the Staff Report?
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19 A. It is the Staff's opinion that the modernization schedule described in Table 4 of the
20 Staff Report, which includes 100% availability of ISDN by the end of the five year
21 plan, is appropriate.
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1 15. Q. Since only a portion of the Staff's recommended infrastructure investment may be
2 considered as an additional investment associated with the Applicant being regulated
3 under an alternative regulation regime, should that portion be the only investment
4 recognized as a commitment in the approved Alternative Regulation Plan?
5

6 A. No. Given the Commission's definition of a commitment, the Staff rejects the
7 argument that a commitment must be something that the Applicant would not
8 otherwise undertake. Consequently, the Staff's recognized infrastructure investment,
9 in total, should be included in the Applicant's approved Alternative Regulation Plan.
10

11 16. Q. Should the Applicant be forced to spend a minimum of \$1.6 billion on specific
12 infrastructure investments above and beyond what is necessary for common carrier
13 obligations, in order to be granted the pricing flexibility of price caps?
14

15 A. No. Pricing flexibility is not granted to the Applicant solely on the basis of how much
16 money the Applicant intends to spend on network modernization. It is the assessment
17 that the Applicant's Plan, in its entirety, is in the public interest that grants pricing
18 flexibility.
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20 17. Q. Was the public clearly informed in the Staff Report regarding the nature of Ameritech
21 Ohio's proposed investment commitment?
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1 A. Yes, it was. The Staff stated clearly in its Report that \$800 million of the proposed
2 amount would be spent on common carrier obligations, including MTSS. The rest
3 of the amount, also an \$800 million investment, would be spent on projects above
4 and beyond common carrier obligations and MTSS.
5

6 18. Q. Is it the Staff's responsibility to insure that telecommunications service market
7 demand is the factor that drives infrastructure deployment decisions?
8

9 A. Under a properly design price cap regulatory model, it is not the responsibility of the
10 Staff to insure that market demand is the factor that drives infrastructure deployment
11 decisions. Since the Applicant's investors are willing to take all the investment risks,
12 the Applicant should be responsible for conducting market demand studies and
13 insuring that the results of such studies are used in infrastructure deployment
14 decisions. It is Staff's responsibility, however, to determine whether or not the
15 deployment decisions are consistent with the Alternative Regulation rules and the
16 public policy goals set forth in 4927.02, ORC.
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18 19. Q. What is the difference between the infrastructure deployment commitments in the
19 Advantage Ohio Plan and the video dialtone network that Ameritech filed with the
20 Federal Communications Commission (FCC)?
21

22 A. The infrastructure deployment commitments in the Advantage Ohio Plan are all
23 directed toward modernizing the public switched network. The video dialtone
24 network that was submitted to the FCC, according to Ameritech Ohio, is an
25 independent stand alone network that provides access to video programming only.
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1 20. Q. Why didn't the Staff take a position on NRRI recommendation 9.4?

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3 A. The alternative regulation rules do not require the Staff to compare an applicant's
4 telecommunications network with that of other local exchange carriers (LEC) in or
5 outside Ohio. In fact, the rules recognize the uniqueness of each LEC, and require
6 that each applicant be evaluated independently in the context of its overall plan.
7

8 It is also Staff's opinion that valid conclusions could not be drawn from the NRRI
9 comparisons. Variables such as population density in the LECs' service areas, traffic
10 data, level of competition, percent of access lines in the state served by each LEC,
11 which all play an important role in each LEC's decision to deploy infrastructure,
12 were not examined by NRRI.
13

14 21. Q. Why did the Staff exclude from its analysis an evaluation of the Applicant's economic
15 development claims?
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17 A. There is an opinion in the telecommunications industry that suggests the presence
18 of a positive correlation between economic development and the modernization of
19 a telecommunications network. There is, however, major disagreements on the size
20 of that correlation. The intent of the Staff's evaluation of the Plan was not to settle
21 such disagreements nor was it to take a position. It is for this reason that the Staff
22 decided not make an independent evaluation of the Applicant's economic
23 development claims. In addition, the Staff was not specifically concerned with
24 whether or not the enhancements in the economic development in Ohio due to the
25 Ameritech Ohio infrastructure deployment commitments were exaggerated. The
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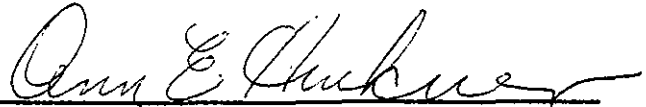
1 main concern to the Staff was whether or not the infrastructure commitments, within
2 the context of the recommended Plan, were in the public interest, and whether or not
3 they were consistent with the public policy goals set forth in 4927.02, ORC.
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5 22. Q. Does this conclude your testimony?
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7 A. Yes, it does.
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CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing Prepared Testimony submitted on behalf of the Public Utilities Commission of Ohio was served by regular, U.S. mail, postage prepaid or hand delivered to the parties of record on this 13th day of July, 1994.



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