

Staff 25A

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.

Case No. 93-487-TP-ALT

In the Matter of the Complaint of
the Office of the Consumers'
Counsel,

Complainant

v.

Case No. 93-576-TP-CSS

Ohio Bell Telephone Company,

Respondent,

Relative to the Alleged Unjust and
Unreasonable Rates and Charges.

Prepared
Testimony of
David C. Kirk
Accounts and Audits Division

Staff Exhibit 25A

1 1. Q. Please state your name, employer and business address.

2
3 A. My name is David C. Kirk. I am employed by the Public Utilities
4 Commission of Ohio, 180 East Broad Street, Columbus, Ohio 43266-0573.
5

6 2. Q. What is your current position and what are your responsibilities?
7

8 A. I am an Utility Audit Supervisor in the Accounts and Audits Division of
9 the Utilities Department. My working title is Supervisor of the
10 Depreciation Section. I am generally responsible for supervising and
11 reviewing the results of the depreciation analyses as they pertain to rate
12 cases as well as depreciation accrual rate represcriptions. In addition I
13 have developed and presented training material for new employees in
14 the depreciation area.
15

16 3. Q. What is your education and experience?
17

18 A. I received my B.S. from Kent State University in 1972 with a
19 concentration in mathematics. I have also taken post-graduate courses
20 in mathematics. After obtaining my undergraduate degree I taught
21 mathematics for five years in two public school systems in Ohio. I first
22 came to the Commission as a Utility Examiner I in 1977, working in the
23 depreciation area of what was then the Accounts and Valuation
24 Division. I was promoted to Utility Examiner II in 1979, Utility
25 Examiner III in 1981, and to Utility Examiner Supervisor in 1982. In 1984
26 I accepted a position as a Staff Supervisor in Depreciation with
27 Cincinnati Bell Telephone, maintaining that position until returning to

1 the Commission in 1990 in my current position. I have completed
2 Programs I, II, and III-A conducted by Depreciation Programs, Inc. In
3 August, 1992 I attended the Annual Regulatory Studies Program
4 sponsored by National Association of Regulatory Utility Commissioners.
5 In addition, I have attended numerous seminars in depreciation,
6 supervisory techniques, management, computer usage, and basic
7 accounting.

8
9 4. Q. Are you affiliated with any professional organizations?

10
11 A. Yes. I am a senior member of the Society of Depreciation Professionals.

12
13 5. Q. What is the purpose of your testimony in this proceeding?

14
15 A. The purpose of my testimony is to support the Staff's calculations of
16 Depreciation Reserve, Depreciation Expense, and Accrual Rates.

17
18 6. Q. To which objections will you be responding ?

19
20 A. Applicant's Objections 1 and 18, Ohio Consumers' Counsel (OCC)
21 Objection 66, Ohio Cable Television Association's (OCTVA) Objection 1,
22 and American Association of Retired Persons (AARP) Objection 18.

23
24 7. Q. In its Objection 1, Applicant objects to the Staff's recommendation that
25 depreciation rates continue to be prescribed by the Commission under
26 Applicant's Advantage Ohio Plan. Applicant contends that such a

1 recommendation is inconsistent with alternative regulation as proposed
2 by the Applicant. Do you have any comment?
3

4 A. I disagree with the objection. The Staff believes that the Commission
5 has the authority and responsibility to prescribe depreciation rates.
6 Furthermore, the Commission has had an ongoing commitment to the
7 Federal Communications Commission to participate in the triennial
8 represcription process.
9

10 In addition, since the pricing of services in the future would be based on
11 cost studies which would include depreciation expense, some
12 Commission oversight of that expense must be maintained. Similarly, if
13 the Applicant returns to traditional rate of return regulation, the
14 Commission must have the ability to continually monitor the booked
15 depreciation expense.
16

17 8. Q. In its Objection 18, Applicant objects to the Staff's calculation of
18 depreciation expense. The Applicant contends that the Staff used
19 incorrect accrual rates for the Analog Circuit, Underground Cable-
20 Metallic and Nonmetallic, Buried Cable-Metallic and Nonmetallic
21 accounts, as well as erroneously calculating the expense for the various
22 accounts relative to Small Value Items. In addition, the Applicant
23 disagrees with the Staff on proposing to amortize the reserve deficiency
24 for Analog Electronic Switching (Analog ESS) for six years rather than
25 three years, and for not considering any amortization for the remaining
26 accounts. Would you please comment?
27

1 A. Yes. My response will address the Accrual Rates, Small Value Items, and
2 the Amortization of the Depreciation Reserve deficiencies separately.

3
4 Accrual Rates

5
6 The Staff agrees with the Applicant in that the Staff inadvertently
7 applied the incorrect accrual rates for Analog Circuit, Underground Cable
8 Metallic and Nonmetallic, Buried Cable Metallic and Nonmetallic
9 accounts. Schedule B-3.3c should be corrected.

10
11 I have attached a revised Schedule B-3.3c to this testimony. It is marked
12 DCK - 1.

13
14
15 Small Value Items

16
17 Once again, the Staff agrees with the Applicant in that the Staff erred in
18 its methodology in calculating the amortization expense for each affected
19 account relative to Small Value Items (SVI). The correct method is to
20 divide the net book amount by the remaining number of months in the
21 amortization period, which for this case is 60 months or 5 years.

22
23 I have attached a revised Schedule B-3.3b to this testimony. It is marked
24 DCK - 2. This Schedule also includes the changes for the accrual rate
25 corrections mentioned above.

1 Reserve Deficiency Amortization

2

3 The Staff proposes that the reserve deficiency for Analog ESS be

4 amortized over 6 years based on two reasons. First, although the

5 Average Year of Final Retirement (AYFR) for the investment in Analog

6 ESS was determined to be 1995.1 or February, 1995, some investment will

7 remain in the account until the end of 1998 (Applicant's Depreciation

8 Study). The AYFR represents a statistical average point in time for

9 which the last piece of equipment is retired. Second, although for the

10 Applicant's last two depreciation studies completed in 1987 and 1990, the

11 calculated reserve deficiencies were approved to be amortized over 3

12 years, amortizations of reserve deficiencies have been approved for

13 different time periods for other companies. For example, in the last three

14 depreciation studies for Cincinnati Bell Telephone, the reserve

15 deficiencies were approved to be amortized over 5 years.

16

17 The amortization proposed by the Applicant for the remaining accounts

18 is called the Residual Reserve Deficiency as defined by the Applicant in

19 its response to Staff Data Request 27. The Residual Reserve Deficiency is

20 the calculated difference between the FCC reserve and the PUCO reserve

21 balances upon the retirement of an asset category. This amount would

22 essentially represent the difference between the remaining life and the

23 whole life depreciation reserves. The Commission has historically

24 approved an amortization of a reserve deficiency based on a calculated

25 theoretical reserve. The amount of the residual reserve deficiency

26 represents only about 0.3% of the Applicant's plant, which is hardly

27 significant.

1
2 9. Q. Have you reviewed the additional supplemental testimony of Applicant
3 witness Mr. Theodore Kukla for Case No. 93-487-TP-ALT?
4

5 A. Yes, I have.
6

7 10. Q. In his response to Question 39 he makes the implication that at the
8 3-way meeting the Staff agreed to establish an amortization for all
9 accounts. Do you agree?
10

11 A. No, I do not. The Staff only agreed to consider an amortization for the
12 Analog ESS account, however, the amortization period was not
13 discussed. The Applicant stated that the reserve variance in the
14 remaining accounts was not significant.
15

16 11. Q. In its Objection 66, OCC alleges that the Staff erred in its determination of
17 operating expenses by including \$13,531,000 on Schedule B-3.3 for
18 Amortization of Reserve Deficiency for Account 2211, Analog ESS. OCC
19 claims that any depreciation reserve deficiency amortization will lead to
20 an overrecovery of the net plant balance remaining in this account at the
21 time that the rates established in this case go into effect. Do you have
22 any comment?
23

24 A. Yes, I do. OCC erroneously assumes that the investment in Account
25 2211, Analog ESS will remain constant and that \$38.8 million will be the
26 annual depreciation expense each year. Since this is a dying account, the
27 current plant investment will decrease and the associated depreciation

1 expense will decrease accordingly. If an amortization is not authorized,
2 there will be an underrecovery of the plant investment upon the final
3 retirement of the equipment in this account. Therefore, the Staff
4 recommends that the reserve deficiency for Analog ESS be amortized
5 over 6 years, thus allowing for the full recovery of the investment in this
6 account.

7
8 12. Q. In its Objection 1, OCTVA contends that the Staff failed to state in the
9 Staff Report that the depreciation rates will continue to be subject to
10 Commission review and approval beyond the five year initial plan. Do
11 you believe that the Commission should continue to prescribe
12 depreciation accrual rates?

13
14 A. Yes, I do for the reasons stated in my response to question 7.
15 Furthermore, the Staff recommends that the Commission continue to
16 prescribe depreciation accrual rates, but that this issue be reviewed again
17 in five years when the overall price cap proposal is reviewed.

18
19 13. Q. In its Objection 18, AARP alleges that the Staff erred by recommending
20 that the Applicant be permitted to amortize its depreciation reserve
21 deficiency. AARP further states this is against the very cost-plus
22 regulation approach that Ohio Bell proposes. Do you understand the
23 basis for this objection?

24
25 A. No, I do not. As discussed previously, the Staff believes that an
26 amortization of the calculated depreciation reserve deficiency for Analog
27 ESS is necessary.

1 14. Q. Does this conclude your testimony?

2

3 A. Yes, it does.

THE OHIO BELL TELEPHONE COMPANY
Case No. 93-487-TP-ALT
Accrual Rate Comparison

Acct. No.	Description	Current			Staff Proposed		
		Avg. Svc. Life	Net Salvage	Accrual Rate %	Avg. Svc. Life	Net Salvage	Accrual Rate %
				(a)			(b)
	General Support						
2111	Land						
2112	Motor Vehicles	7.5	14	11.5	7.6	14	11.3
2113	Aircraft	10.0	14	8.6	10.0	14	8.6
2114	Special Purpose Vehicles						
2115.7	Gar.Wk.Eq.-Small Value Items						
2115	Gar.Wk.Eq.-All Other	11.9	3	8.2	13.4	(7)	8.0
2116.7	Oth.Wk.Eq.-Small Value Items						
2116	Oth.Wk.Eq.-All Other	10.8	7	8.6	13.7	8	6.7
2121	Buildings	38.0	4	2.5	37.0	5	2.6
2122.1	Furniture	18.4	4	5.2	16.7	4	5.7
2122.2	Art Works						
2122.7	Furniture -Small Value Items						
2123.1	Office Support Equipment	10.9	2	9.0	11.6	4	8.3
2123.2	Company Commun. Equipment	9.0	22	8.7	9.5	19	8.5
2123.7	Office Eq.-Small Value Items						
2124.7	Gen.Purp.Computers-SVI						
2124	Gen.Purp.Computers-All Other	6.6	9	13.8	6.9	9	13.2
	Central Office						
2211.7	Analog Electr. Switch. - SVI						
2211.8	Analog Electr. Switch. - EA	15.1	6	6.2	9.4	2	10.4
2211	Analog Electr. Switch. - AQ	15.1	6	6.2	9.4	2	10.4
2212.7	Dig.Elec.Sw.-SVI						
2212.8	Dig.Elec.Sw.-EA Tandem	13.0	3	7.5	13.5	4	7.1
2212.8	Dig.Elec.Sw.-EA Excl.Tandem	13.0	3	7.5	13.5	4	7.1
2212	Dig.Elec.Sw.-All Other	13.0	3	7.5	13.5	4	7.1
2215.1	Elec.-Mech.Sw.-Step-by-Step	7.0	(3)	14.7			
2215.2	Elec.-Mech.Sw.-Crossbar	7.3	(4)	14.2			
2215.3	Elec.-Mech.Sw.-SVI						
2220.1	Operator Systems	10.1	(2)	10.1	8.4	(1)	12.0
2220.7	Operator Systems - SVI						
2231.1	Radio Systems - SVI						
2231.2	Radio Systems - All Other	11.5	6	8.2	11.7	1	8.5
2232.111	Digital Data Service	7.1	10	12.7	7.7	4	12.5
2232.198	Other Digital Equipment - EA	10.5	2	9.3	11.2	0	8.9
2232.1	Digital Circuit - All Other	10.5	2	9.3	11.2	0	8.9
2232.250	Other Analog - Equal Access	10.5	2	9.3	11.2	0	8.9

THE OHIO BELL TELEPHONE COMPANY
Case No. 93-487-TP-ALT
Accrual Rate Comparison

Acct. No.	Description	Current			Staff Proposed		
		Avg. Svc. Life	Net Salvage	Accrual Rate %	Avg. Svc. Life	Net Salvage	Accrual Rate %
				(a)			(b)
2232.2	Analog Circuit (c)	10.5	2	9.3	11.2	0	8.9
2232.7	Circuit Equipment - SVI						
	Inf. Origin./Termination						
2311	Station Apparatus						
2341	Large Private Branch Exch.						
2351	Pub. Phone Terminal Equip.	11.3	(5)	9.3	11.9	(1)	8.5
2362	Other Terminal Equipment	6.2	10	14.5	6.3	7	14.8
	Cable and Wire Facilities						
2411	Poles	25.0	(75)	7.0	25.0	(74)	7.0
2421	Aerial Cable	20.0	(11)	5.6	20.0	(14)	5.7
2422.1	Undgd. Cable - Nonmetal. (c)	29.0	(15)	4.0	24.0	(17)	4.9
2422.2	Undgd. Cable - Metallic (c)	29.0	(15)	4.0	29.0	(9)	3.8
2423.1	Buried - Nonmetallic (c)	25.0	(9)	4.4	25.0	(6)	4.2
2423.2	Buried - Metallic (c)	25.0	(9)	4.4	24.0	(10)	4.6
2424	Submarine Cable	30.0	(14)	3.8	31.0	(14)	3.7
2426	Intrabuilding Network Cable	19.1	(19)	6.2	19.6	(20)	6.1
2431	Aerial Wire	13.9	(28)	9.2	14.4	(44)	10.0
2441	Conduit Systems	54.0	(18)	2.2	54.0	(18)	2.2
	Amortizable Assets						
2681	Capital Leases						
2682	Leasehold Improvements						
2690	Intangibles						

(a) Case No. 90-1852-TP-AAM

(b) See Text

(c) Applicant's Additional Supplemental Testimony of Theodore W. Kukla, Pages 24 & 25 and nonpaper WP 37 - 13 10, Page 1 of 4

THE OHIO BELL TELEPHONE COMPANY
 Case No. 93-487-TP-ALT
 Calculation of Total Company Depreciation Expense

(000's Omitted)

Acct. No.	Description	Total Co. Adjusted Plt. In Serv.	Accrual Rates	Total Co. Adjusted Depr. Expense
		(a)	(b)	(c)
	General Support			
2111	Land	\$ 17,493	0.00%	0
2112	Motor Vehicles	81,861	11.30%	9,250
2113	Aircraft	2,616	8.60%	225
2114	Special Purpose Vehicles	0	0.00%	
2115.7	Gar.Wk.Eq.-Small Value Items	83	(d)	8
2115	Gar.Wk.Eq.-All Other	3,424	8.00%	274
2116.7	Oth.Wk.Eq.-Small Value Items	508	(d)	47
2116	Oth.Wk.Eq.-All Other	25,286	6.70%	1,694
2121	Buildings	534,715	2.60%	13,903
2122.1	Furniture	7,789	5.70%	444
2122.2	Art Works	255	0.00%	0
2122.7	Furniture -Small Value Items	9,226	(d)	1,239
2123.1	Office Support Equipment	10,756	8.30%	893
2123.2	Company Commun. Equipment	10,157	8.50%	863
2123.7	Office Eq.-Small Value Items	1,228	(d)	318
2124.7	Gen.Purp.Computers-SVI	3,968	(d)	318
2124	Gen.Purp.Computers-All Other	199,760	13.20%	26,368
	Total General	909,123		55,844
	Central Office			
2211.7	Analog Electr. Switch. - SVI	120	(d)	12
2211.8	Analog Electr. Switch. - EA	6,633	10.40%	690
2211	Analog Electr. Switch. - AO	442,377	10.40%	46,007
2212.7	Dig.Elec.Sw.-SVI	43	(d)	5
2212.6	Dig.Elec.Sw.-EA Tandem	4,717	7.10%	335
2212.8	Dig.Elec.Sw.-EA Excl.Tandem	4,581	7.10%	325
2212	Dig.Elec.Sw.-All Other	734,201	7.10%	52,128
2215.1	Elec.-Mech.Sw.-Step-by-Step	0	0.00%	
2215.2	Elec.-Mech.Sw.-Crossbar	0	0.00%	
2215.3	Elec.-Mech.Sw.-SVI	0	0.00%	
2220.1	Operator Systems	20,605	12.00%	2,497
2220.7	Operator Systems - SVI	35	(d)	4
2231.1	Radio Systems - SVI	22	(d)	
2231.2	Radio Systems - All Other	12,630	8.50%	1,074
2232.111	Digital Data Service	11,754	12.50%	1,469
2232.198	Other Digital Equipment - EA	4,271	8.90%	380
2232.1	Digital Circuit - All Other	748,314	8.90%	66,600
2232.298	Other Analog - Equal Access	478	8.90%	43
2232.2	Analog Circuit	\$ 128,487	8.90%	11,524

THE OHIO BELL TELEPHONE COMPANY
Case No. 93-487-TP-ALT
Calculation of Total Company Depreciation Expense

Acct. No.	Description	(000's Omitted)	Total Co. Adjusted Plt. In Serv.	Accrual Rates	Total Co. Adjusted Depr. Expense
			(a)	(b)	(c)
2232.7	Circuit Equipment - SVI	\$	686	(d)	\$ 53
	Total Central Office		2,121,154		183,147
	Inf. Origin./Termination				
2311	Station Apparatus		36	0.00%	0
2341	Large Private Branch Exch.		3,436	0.00%	0
2351	Pub. Phone Terminal Equip.		29,676	3.50%	2,522
2362	Other Terminal Equipment		18,180	14.80%	2,691
	Total Inf. Orig./Term. Plant		51,328		5,213
	Cable and Wire Facilities				
2411	Poles		114,199	7.00%	7,994
2421	Aerial Cable		542,084	5.70%	30,899
2422.1	Underground Cable - Nonmetal.		56,377	4.90%	2,762
2422.2	Underground Cable - Metallic		432,686	3.80%	16,442
2423.1	Buried - Nonmetallic		32,635	4.20%	1,371
2423.2	Buried - Metallic		525,382	4.60%	24,168
2424	Submarine Cable		674	3.70%	25
2426	Intrabuilding Network Cable		91,189	6.10%	5,563
2431	Aerial Wire		2,198	10.00%	220
2441	Conduit Systems		469,591	2.20%	10,331
	Total Cable and Wire Facil.		2,267,015		99,775
	Amortizable Assets				
2681	Capital Leases		7,509	(a)	537
2682	Leasehold Improvements		15,584	(a)	1,459
2690	Intangibles		0	(a)	
	Total Amortizable Assets		23,093		1,996
2211.8	Amort. of Reserve Deficiency			(f)	738
2211	Amort. of Reserve Deficiency			(f)	16,328
	Total Plant in Service	\$	5,371,713		\$ 362,741

(a) Staff's Schedule B-2.1a (d) App. Add'l Supp. Test., Kukla, Pages 24-25, & WP ST-15 16. Pg.2
(b) Staff's Schedule B-3.3c (e) Applicant's WP 92A-4
(c) Columns (a) x (b) (f) Staff's Working Papers

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 12th day of July, 1994.



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