

RECEIVED

BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO AUG 22 1994

DOCKETING DIVISION
PUBLIC UTILITIES COMMISSION OF OHIO

In the Matters of the Application of)
The Ohio Bell Telephone Company)
for Approval of an Alternative)
Form of Regulation.)

Case No. 93-487-TP-ALT

Prepared Testimony

of

Kerry Stroup

Staff Exhibit 29

1 1. Q. Please state, for the record, your name and business address.

2 A. My name is Kerry Stroup. My business address is the Public Utilities
3 Commission of Ohio, 180 East Broad Street, Columbus, Ohio 43266-
4 0573.

5
6 2. Q. What is your occupation?

7 A. I am an Assistant Director of the Utilities Department of the Public
8 Utilities Commission of Ohio, and am responsible for directing,
9 administering and supervising the Division Chiefs in management
10 and operations of the Telecommunications and Forecasting Divisions
11 of the Department. I became an Assistant Director of the Department
12 in November 1993. Prior to that time I had been Acting Assistant
13 Director in the same capacity for approximately 14 months. Until July
14 1994, I was also Chief of the Division of Forecasting, concomitant with
15 by duties as Assistant Director. I have been employed by the Public
16 Utilities Commission of Ohio since October 1985, at which time the
17 Forecasting and Siting Section of the Energy Division of the Ohio
18 Department of Development was incorporated into the Commission.
19 Prior to becoming Chief of the Forecasting Division, I was employed by
20 the Commission as a Public Utility Administrator in the Forecasting
21 and Performance Analysis Divisions of the Utilities Department.

22
23 3. Q. Please summarize your educational background.

24 A. I received an M.A. in Public Administration in 1978 and a Ph.D. in
25 Cultural Anthropology in 1984 from the Ohio State University.

26
27 4. Q. What role did you play in the current proceeding?

1 A. I coordinated the activities of the Staff of the Commission in
2 development of the Staff Report and in preparation for the hearing on
3 Ameritech Ohio's alternative regulation plan. I also administered the
4 contract with the National Regulatory Research Institute (NRRI) which
5 resulted in the publication of the Addendum to the Staff Report of
6 Investigation (Staff Report) and the submission of testimony by the
7 NRRI Study Team in this proceeding.
8

9 5. Q. What role did you play in the development of the Commission's
10 alternative regulation rules for large local exchange companies?

11 A. I coordinated the activities of the Staff in the development of proposed
12 alternative regulation rules for large local exchange companies, under
13 the supervision of the Director of the Utilities Department.
14

15 6. Q. Have you previously testified in proceedings before the
16 Public Utilities Commission of Ohio (Commission)?

17 A. Yes. I testified in Case Nos. 90-659-EL-FOR and 90-660-EL-FOR.
18

19 7. Q. What is the purpose of your testimony in this proceeding?

20 A. The purpose of my testimony is to respond to various objections to the
21 Staff Report regarding the need for alternative regulation of Ameritech
22 Ohio, and the appropriateness of a price cap plan as an alternative
23 regulatory mechanism. In addition I respond to criticisms of specific
24 procedures or parameters recommended by the Staff under which the
25 Staff's recommended price cap plan would operate.
26

27 8. Q. To which specific objections are you responding?

1 A. I am responding to Ameritech Ohio Objections E1 and E3; to AT&T
2 Objection 10; to OCC Objections 3, 11, 15, and 45; to AARP Objection 45;
3 to the City of Cleveland Objections 1 and 3; to Edgemont Neighborhood
4 Coalition Objections 1, 2 and 13; to Greater Cleveland Welfare Rights
5 Objections 1, 2 and 3; to Ohio Library Council Objection 11; to Ohio
6 Newspaper Association Objection 9; to Time Warner AxS Objections L5
7 and IL1; and to OCTVA Objections 4, 5, 14, 45, 46, 47, 48, 51, and 52.
8

9 9. Q. Ameritech Ohio objects to the Staff recommendation that a price cap
10 plan must be documented to be of more benefit to consumers than
11 traditional rate base, rate of return regulation. Time Warner AxS
12 objects to the Staff Report's failure to find that Ameritech Ohio has not
13 met its burden of proof under alternative regulation rule IV (E) that a
14 non-sharing, non-earnings-based proposal be as beneficial to customers
15 as traditional regulation. How do you respond to these objections? (AO
16 E.1; TWAxS L5)

17 A. It is unclear that Rule IV (E) requires such documentation under the
18 present circumstances, in which no specific rate increase is being
19 proposed. In any event, the Staff is aware of a Company analysis that
20 was submitted to the Staff to establish the relative benefits of
21 traditional rate base regulation and the proposed price cap plan.
22 Regarding the objection of Time Warner AxS, the Staff believes that,
23 with the Staff's proposed modifications of the Company's proposal,
24 consumers would be as well or better off as they would be under
25 traditional rate base, rate of return regulation. This is so because the
26 Staff has recommended a baseline revenue reduction and distribution
27 as it would in a traditional rate case, and has modified the price cap

1 mechanism in order to more closely simulate anticipated costs that the
2 Company will experience over the proposed life of the Plan. In
3 addition, the Staff has recommended an incentive structure whereby
4 the consumer dividend would increase or decrease, depending on
5 actions taken by the Company to eliminate specific barriers that limit
6 competition for the services it provides. Furthermore, although the
7 proposed infrastructure and other commitments of the Company may
8 have been provided in the absence of a non-earnings based, non-
9 sharing plan, there was no guarantee that they would be provided
10 absent agreement on an alternative regulation plan.

11
12 10. Q. Ameritech Ohio objects to the Staff's finding that the proposed price
13 cap framework would allow anti-competitive practices. What is your
14 response to this objection? (AO E3)

15 A. The Staff continues to believe that the price cap framework propose by
16 Ameritech Ohio would allow it to compete unfairly. Many of the Staff
17 recommendations testified to by Staff witnesses Sternisha, Shields, N.
18 Soliman, Potter and Montgomery are offered in order to mitigate the
19 ability of the Company to engage in such practices.

20
21 11. Q. Several intervenors in this proceeding object that any form of
22 alternative regulation for Ameritech Ohio is neither reasonable nor in
23 the public interest; and that in particular for non-competitive
24 monopoly services, traditional rate of return regulation should
25 continue. What is your response to these objections? (GCWRO 1, 2 and
26 3; Cleveland 3; Edgemont 2, OCTVA 14)

1 A. The Staff believes that a form of alternative regulation consistent with
2 the policy goals of the state articulated in Section 4927.02, Revised Code,
3 which does not confer any undue economic, competitive or market
4 advantage upon any telephone company, is in the public interest. In
5 promulgating Section 4927, Revised Code, the General Assembly
6 recognized that alternative regulation may be an appropriate
7 alternative for large local exchange companies, and that rates for non-
8 competitive monopoly services may be established by other than
9 traditional rate base, rate of return methodology.
10

11 12. Q. Several intervenors in this proceeding object that a price cap plan, as a
12 specific means of implementing alternative regulation, is not in the
13 public interest. What is your response to these objections? (OCC 3,
14 Cleveland 3, Edgemont 2)

15 A. With the modifications identified by the Staff, and in conjunction with
16 the other components of the Company's plan as modified by the Staff,
17 the Staff believes that the price cap plan is consistent with the state's
18 telecommunication policy articulated in Section 4927.02, Revised Code,
19 and does not confer any undue economic, competitive or market
20 advantage on Ameritech Ohio. As such it is in the public interest.
21

22 13. Q. Several intervenors objected to the Staff's position that a regulatory
23 mechanism that provides the Applicant with the opportunity to
24 engage in limited Ramsey pricing may be appropriate. What is your
25 response to this objection? (Ohio Library Council 11; Ohio Newspaper
26 Association 9; OCTVA 4 and 5)

1 A. The Staff Report states that limited Ramsey pricing may be appropriate
2 to the extent there may be historical contribution flows to Cell 1
3 monopoly services from other cells. Limited Ramsey pricing,
4 effectuated to eliminate existing cross-subsidies, would facilitate a
5 transition to a broader competitive market. With the safeguards that
6 the Commission Staff has recommended, including but not limited to
7 a Cell 1 fully distributed cost ceiling and a three year cap on basic local
8 exchange service prices with restrictions of price increases for such
9 services through the duration of a five year plan, the Staff believes
10 limited Ramsey pricing is appropriate to more closely align Cell 1 costs
11 and rates.

12
13 14. Q. According to the Commission's alternative regulation rules for Cell 3,
14 monopoly services so classified could be priced according to Ramsey
15 pricing principles since no ceiling price is required for such services.
16 Do you think that is appropriate?

17 A. Yes I do. If a service is classified in Cell 3, it is by definition a service
18 not appropriately classified in another cell, or a new service introduced
19 during the term of the Plan. Alternative regulation Rule XV (A)
20 provides that the Commission may reclassify a new service if it finds,
21 after hearing, that the service as being offered is unjust, unreasonable,
22 or in violation of law. Assuming the Commission will take action to
23 reclassify services inappropriately classified in Cell 3, remaining Cell 3
24 services may be priced at any level above their respective cost floors.
25 From the perspective of the public at large, such services are not
26 essential. While it is true that the contribution that is generated by
27 Ramsey pricing of Cell 3 services could be used to subsidize Cell 2 or 4

1 services as well as Cell 1 services, the magnitude of revenues available
2 for that end is relatively small, as Staff witness Montgomery attests.
3 And services classified in Cells 2 and 4 may not be priced below their
4 respective cost floors.
5

6 15. Q. OCC objects that the maximum price for distinctive ringing, repeat
7 dialing, call forwarding and call waiting should be constrained, because
8 these services enhance the value of the network by increasing the
9 number of completed calls. What is your response to this objection?
10 (OCC 45)

11 A. Each of these services is appropriately classified in Cell 3. The
12 Commission adopted no criterion for Cell I which required the
13 classification therein of any service that increases the number of
14 completed calls.
15

16 16. Q. Several intervenors object to the Staff recommendation that the
17 Company's plan last for a term of five years. What is your response to
18 this objection? (OCC 15, Edgemont 13.

19 A. In view of the three year cap on basic exchange service prices, the Staff
20 believes that an additional two year duration is required in order to
21 provide information necessary to assess the performance of the Plan.
22

23 17. Q. OCTVA objects that the Staff did not sufficiently address the issues of
24 competition, market power and dominance in relation to the
25 migration of services from Cell 1 to Cells 2, 3, and 4. What is your
26 response to this objection? (OCTVA 45)

1 A. Staff witness Sternisha identified various considerations relevant to
2 Commission review of the appropriateness of reclassifying services
3 from Cell 1 to Cell 2, 3 or 4. Interested parties will have the
4 opportunity to comment on the appropriateness of any proposed cell
5 classification after a proposed tariff is docketed with the Commission,
6 or to file a complaint after a tariff is approved.
7

8 18. Q. OCTVA objects that the Staff did not provide the Commission with
9 specific decision rules whereby it could make reasonable judgments as
10 to the degree of competitiveness of a service. What is your response to
11 this objection? (OCTVA 46, 47, 48, and 51)

12 A. The Staff believes that the Commission will be able to make reasonable
13 judgments as to the degree of competitiveness of a service without
14 specific decision rules. Staff witness Sternisha has testified regarding
15 the type of information that the Company must provide for services
16 proposed to be classified in Cell 2 or 4. If the Commission finds the
17 information provided to be insufficient to permit such classification, it
18 should act accordingly.
19

20 19. Q. Time Warner AxS objects to the Staff's failure to recommend that any
21 authorized "benchmark" rate of return be evaluated periodically, and
22 be subject to adjustment based on cost changes and on whether
23 implementation of a plan promotes the public interest and the state's
24 telecommunications policy. What is your response to this objection?
25 (TWAxS II.1)

26 A. Staff does not agree. As modified by the Staff, the price cap framework
27 recognizes anticipated cost changes through the general offset. As I

1 stated earlier, the price cap framework as modified is consistent with
2 the state's telecommunications policy and is in the public interest.
3

4 20. Q. AARP objects to the Staff's failure to recommend that Ameritech Ohio
5 be prohibited under the terms of any adopted plan to file a traditional
6 rate case or emergency rate case. What is your response to this
7 objection? (AARP 45)

8 A. The Staff agrees that Ameritech Ohio should be prohibited from filing
9 a traditional rate case or an emergency rate case during the term of the
10 Plan.
11

12 21. Q. AT&T objects to the expansion of the scope of the Staff Report insofar
13 as it entails litigation in the Ameritech Ohio alternative regulation
14 docket of local competition issues, given the importance and
15 complexity of such issues. What is your response to this objection?


16 A. The Staff agrees with AT&T that local competition issues should be
17 considered in a separate docket. In the Staff's view, such consideration
18 is not inconsistent with the incentive structure proposed by the Staff
19 and described in Staff witness Potter's testimony.
20

21 22. Q. Does this complete your testimony?

22 A. I understand that several questions have been deferred to me from
23 other Staff witnesses, and will address them if asked.

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 22nd day of August, 1994.


STEVEN T. NOURSE
Assistant Attorney General

PARTIES OF RECORD:

Michael Mulcahy
Ameritech Ohio
45 Erieview Plaza, Room 1400
Cleveland, OH 44114

Harry Cohen
Associate Consumers' Counsel
Office of the Consumers' Counsel
77 South High Street, 15th Floor
Columbus, OH 43266-0550

Judith B. Sanders
Bell, Royer & Sanders Co., LPA
33 South Grant Avenue
Columbus, OH 43215-3927

Robin P. Charleston
AT&T Communications of Ohio, Inc.
227 West Monroe Street, 6th Floor
Chicago, IL 60606

Douglas W. Trabaris
MCI
205 N. Michigan Avenue, Suite 3200
Chicago, IL 60601

Mary Hull
Sprint Communications Co., L.P.
8140 Ward Parkway, 5E
Kansas City, MO 64114

William M. Ondrey Gruber
City of Cleveland
601 Lakeside Avenue, Room 106
Cleveland, OH 44114

Gregory Dunn
Crabbe, Brown, Jones, Potts & Schmidt
500 S. Front Street, Suite 1200
Columbus, OH 43215

Maureen Grady
Hahn Loeser & Parks
431 E. Broad Street, Suite 200
Columbus, OH 43215

Janine Migden
Hahn Loeser & Parks
431 E. Broad Street, Suite 1200
Columbus, OH 43215

William S. Newcomb, Jr.
Vorys, Sater, Seymour & Pease
52 East Gay Street
P. O. Box 1008
Columbus, OH 43216-1008

Bruce J. Weston
AARP
169 West Hubbard Avenue
Columbus, OH 43215-1439

Joseph Meissner
Legal Aid Society of Cleveland
1223 West Sixth Street
Cleveland, OH 44113

Karin Riley
Education Section
Office of the Attorney General
30 East Broad Street, 15th Floor
Columbus, OH 43266-0410

Ellis Jacobs
Dayton Legal Aide
333 West 1st Street, Suite 500
Dayton, OH 45402

Samuel C. Randazzo
Emens, Kegler, Brown, Hill & Ritter
65 East State Street, Suite 1800
Columbus, OH 43215

Sally W. Bloomfield
Bricker & Eckler
100 South Third Street
Columbus, OH 43215

Dennis K. Muncy
Meyer, Copel, Hirschfield, Muncy,
Jahn & Aldeen
Athenaeum Building
306 W. Church Street, P.O. Box 6750
Champaign, IL 61826-6750

Cecil O. Simpson, Jr.
Office of The Judge Advocate General
Department of the Army
901 North Stuart Street
Arlington, VA 22203-1837

Daniel Malkoff
Dept. of Administrative Services
30 East Broad Street
Columbus, OH 43215

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

Clyde Kurlander
Teleport
Three First National Plaza
Chicago, IL 60602

Kerry Bruce
City of Toledo
Dept. of Public Utilities
One Government Center, Suite 1520
Toledo, OH 43604

William A. Adams
Arter & Hadden
10 West Broad Street
Columbus, OH 43215