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

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DOCKETING DIVISION
PUBLIC UTILITIES COMMISSION OF OHIO

Prepared Testimony

of

Daniel F. Shields

Staff Exhibit 22

1. Q. PLEASE STATE YOUR NAME AND YOUR BUSINESS ADDRESS.

A. My name is Daniel F. Shields, Jr., and my business address is 180 East Broad St. Columbus, Ohio, 43215.

2. Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by the Public Utilities Commission of Ohio as a Utilities Rate Analyst Coordinator in the Telecommunications Division of the Utilities Department.

3. Q. PLEASE SUMMARIZE YOUR EMPLOYMENT AND EDUCATIONAL BACKGROUND.

A. I am a 1982 graduate of Ohio University receiving a Bachelors of Business Administration with a major in Marketing. Since graduating from Ohio University, I also have received continuing education credit hours from the University of Wisconsin, Franklin University, and Columbus State in telecommunications engineering, public utility accounting, and technical writing.

In June 1983 I was employed by the Commission and subsequently assigned to its Docketing Division until January of 1984, when I was promoted to a Managerial Analyst in the Public Interest Center. At the Public Interest Center, I was responsible for answering the Commission's general mail and representing the Commission at public meetings and speaking engagements. In February of 1986 I made a lateral move to a rate analyst position in the Commission's Telecommunications Division where I have been assigned to the Planning Section. Subsequent to my assignment in the Telecommunications Division, I have been reclassified to my current position as a Utilities Rate Analyst Coordinator. In the Telecommunications Division I have been assigned the task of researching, writing, and coordinating various recommendations to the Commission concerning its state-wide generic investigations. Additionally, I have written various recommendations to the Federal Communications Commission (FCC) responding to its Notice of Proposed Rulemakings, and further assisted in drafting state legislation and related supporting testimony.

4. Q. HAVE YOU PREVIOUSLY FILED TESTIMONY WITH THE COMMISSION?

A. No. While I have represented Staff at oral hearings regarding the Commission's generic investigations, I have never testified before the Commission.

5. Q. WHY HAVE YOU FILED TESTIMONY IN THIS PROCEEDING? (AARP 19, 26, AND 37; AMERITECH E2, E4, E6, E7, E8, E17, F7, G2, G3, AND L8; CLEVELAND 5, 15, 17, AND 34; COLUMBUS A1; CLEVELAND 5; DAS 1; DEPT. OF DEF. C1, C3, AND C4; EDGEMONT 4, 6 AND 33; LIBRARY COUNCIL 2 AND 27; MCI 1 AND 2; NEWSPAPER ASSOC. 25; OCC 5, AND 42; OHIO CABLE ASSOC. 8, 9, 11, 13, 28 AND 29; OHIO PUBLIC COMMUNICATIONS ASSOC. 1, 2, 3, AND 5; TIME WARNER 1, 2, 3, AND 4; AND WELFARE RIGHTS 10 AND 11.)

A. The purpose of my testimony is to support, elucidate, and revise the positions represented in the Staff Report of Investigation concerning its proposed amendments to Ameritech Ohio's Advantage Ohio Plan. Specifically, my testimony addresses the changes Staff has recommended occur to the price cap index formula, pricing parameters, service baskets, flat rate service, and the unbundling of pay phone services.

6. Q. PLEASE BRIEFLY EXPLAIN AMERITECH OHIO'S PROPOSED PRICE CAP INDEX FORMULA, AND EXPLAIN WHAT SPECIFIC CHANGES STAFF HAS RECOMMENDED TAKE PLACE IN THE FORMULA.

A. Ameritech Ohio has proposed that the price cap index (PCI) be based on an index representing an annual level of inflation, a productivity offset that represents increases in productivity over and above the general economy as a whole, an element taking into consideration under what circumstances changes in the PCI should be permitted due to exogenous changes, and a reward or penalty based on the level of service quality. This portion of my testimony addresses the first two elements of the PCI: the proposed inflation index and the productivity offset. I also will briefly touch upon Staff's proposal concerning the service quality adjustment. Issues relating to under what circumstances changes to the PCI are warranted due to exogenous circumstances will be addressed by other Staff witnesses.

7. Q. DOES STAFF HAVE ANY RECOMMENDATIONS CONCERNING THE PCI PROPOSED BY AMERITECH OHIO THAT MAY DIFFER FROM THE

STAFF REPORT? (AMERITECH E2, E4, E7, AND E8; DAS 1; MCI 1; OCTVA 8 AND 11; WELFARE RIGHTS 10.)

A. Yes. Based on the record developed thus far in this case Staff believes it is warranted to amend its original proposal regarding Ameritech Ohio's proposed productivity offset and to introduce another concept entitled the "General Adjustment Offset." Staff maintains that the Commission should establish a 4.2% General Adjustment Offset which should be included in Ameritech Ohio's price cap formula. The general adjustment offset should be comprised of the following three elements:

(1) A 2.2% Productivity Offset;

(2) A 1% input price differential component; and,

(3) A 1% consumer dividend.

8. Q. WHAT IS A PRODUCTIVITY OFFSET? ADDITIONALLY, DOES STAFF AGREE WITH THE COMPANY'S PROPOSAL TO ADOPT A 2.2 PERCENT PRODUCTIVITY OFFSET? (AMERITECH E7)

(The Productivity Offset)

A. A productivity offset is a component utilized in a price caps formula that is intended to take into consideration that the annual productivity growth realized by some companies in telecommunications industry exceeds the general economy as a whole. Initially, Ameritech Ohio proposed a 1.9% productivity offset. On February 1, 1994, Ameritech Ohio amended its application to reflect that its adjusted productivity offset should be 1.6%. The Company indicated, however, that it would commit to its original 1.9% offset for purposes of establishing the PCI for Advantage Ohio. As a result of a recent recalculation of the nation's overall level of productivity by the Bureau of Labor and Statistics (BLS), Ameritech Ohio witness Dr. Christensen on July 19, 1994, amended his testimony to reflect that, based on BLS's recalculation, Ameritech Ohio's annual productivity offset should be set equal to 2.2%. Staff maintains that the Commission should adopt the Company's updated 2.2% productivity offset. This component represents Ameritech Ohio's historical productivity gains from (1984 through 1991) in excess of the general economy as a whole.

Staff recognizes that there is one obvious problem associated with adopting a productivity offset based on historical data: the data which were gathered while the Company was subject to rate of return regulation may not be representative of the productivity gains realized under an incentive regulation plan such as price caps. While Staff has not performed an analysis of Dr. Christensen's Ameritech Ohio productivity study, Staff is willing to accept the revised 2.2% as reasonable if the Commission elects, as Staff has recommended, to adopt a General Offset Adjustment.

9. Q. WOULD YOU PLEASE EXPLAIN THE COMPANY'S PROPOSAL TO ADOPT THE GDP-PI AS ITS ANNUAL LEVEL OF INFLATION AND

FURTHER EXPLAIN THE RELATIONSHIP BETWEEN THE GDP-PI AND AMERITECH OHIO'S ACTUAL PRICE INPUTS?

(The Input Price Differential and the GDP-PI)

A. Ameritech Ohio has recommended that it be permitted to use the annual percentage change in the gross domestic product price index (GDP-PI) as its annual measure of inflation. The Staff Report recommended that the GDP-PI be adopted as an adequate measure of inflation for Ameritech Ohio's price cap plan. Based on the record thus far in this matter, however, Staff revises its position to reflect that if the GDP-PI is adopted as the Company's annual measure of inflation, an additional -1% component should be included in the general offset. This additional -1% represents the difference between the Company's actual input price increases and those reflected in the GDP-PI. Specifically, Staff recommended that this adjustment should be made to take into consideration the divergence between economy-wide input price growth and the actual input price growth of Ameritech Ohio.

In support of this conclusion Staff looks to the Illinois Commerce Commission's Alternative Regulation Case for Ameritech-Illinois where the Company's expert witness on this issue (Dr. Christensen) acknowledged that from 1984 to 1991 Illinois Bell's annual input price growth rate was 2.1%, and the input price growth for the economy as a whole was 4.6% per year, a differential of 2.5%. As a compromise position, the Company proposed that an additional 1% be included with its productivity offset for a three-year period. The Hearing Examiner's

Proposed Order to the Illinois Commerce Commission states that an appropriate estimate of input price growth for the purposes of establishing a price regulation formula for Illinois Bell is the GDP-PI minus 2.0%.

Finally, responding to Staff's belief that the Company's increases in productivity had resulted in over earnings under FCC's price caps plan, Dr. Christensen states that "short run differences between input price changes for the U.S. economy and input price changes for the Ameritech Companies have been a major factor in the determination of Ameritech's rate of return under the FCC price caps plan for interstate services" (Ameritech Ohio Exhibit 26S.0, testimony of Dr. Christensen at page 7). Moreover, Dr. Christensen goes on to state that "low input price growth has been mistaken by the Staff Report to reflect productivity gains" (Ameritech Ohio Exhibit 26S.0, testimony of Dr. Christensen at page 7). Staff concludes, therefore, that Dr. Christensen's statements on this matter confirm that there is an input price differential between the GDP-PI and Ameritech Ohio's input prices, and that the GDP-PI overstates the Company's actual costs.

10. Q. DO YOU HAVE ANY ADDITIONAL COMMENTS REGARDING THE COMPANY'S PROPOSAL TO ADOPT THE GDP-PI AS ITS MEASURE OF INFLATION FOR THE PRICE CAPS INDEX? (AMERITECH E6)

A. Yes, I do. The Staff Report recommends that any annual adjustment to the GDP-PI be limited to seven percent. Staff revises its position on this matter and recommends that the annual adjustment to the PCI be limited to seven percent. In the event the PCI for a given year exceeds seven percent, Staff recommends that the Commission should entertain requests from the Company to carry forward to the ensuing year amounts not allowed to be used. Staff maintains that its recommendation on this matter will protect consumers from abrupt upward price increases while simultaneously not unduly penalizing the Company from rate increases it should be afforded under the plan.

11. Q. WHAT IS A CONSUMER DIVIDEND? (AMERITECH E8; COLUMBUS A1; EDGEMONT 4; TIME WARNER III 4; AND WELFARE RIGHTS 11.)

(Consumer Dividend)

A. A consumer dividend is an additional customer safeguard that is added to a company's historical productivity offset. This additional offset is employed to ensure that customers will realize benefits, in excess of historical productivity levels, resulting from increased efficiencies derived from incentive regulation or price caps. The Company has not proposed that the Commission adjust the productivity offset to include a consumer dividend. The FCC, however, currently requires a .5% consumer dividend be included in the productivity offsets for AT&T, the Bell Operating Companies, and GTE. Similarly, the Hearing Examiners report to the Illinois Commerce Commission, concerning Illinois Bell's Alternative Regulation Case, has recommended that the Illinois Commission adopt a .5% consumer dividend. Similar to the FCC's decisions and the Hearing Examiner's recommendation to the ICC, Staff maintains that this Commission should adopt an annual 1.0% consumer dividend to ensure that at least a portion of the gains expected from Ameritech Ohio's increased pricing flexibility and efficiency incentives inherent to a price caps plan directly benefit Ohio's consumers.

Staff believes, however, as the Company achieves each of three (3) milestones concerning barriers to competition, .25% should be removed from the consumer dividend element of the general offset. Other Staff witnesses identify in more detail, these milestones in other testimony.

In the event the Company does not realize an established deadline associated with Milestones (1) and (2), .5% will be added to the consumer dividend for each milestone that is not achieved. In the event the Company does not realize the 3-year timeline established for Milestone (3), .75% will be added to the consumer dividend element of the general offset. When the Company can demonstrate that it has realized a goal, or in the alternative where the Company fails to achieve one of these milestones, the PCI applicable to the next 12 month period will be adjusted accordingly. Since the Company's ability to realize each of the proposed deadlines may be limited or hindered by factors outside its control, the Company should be afforded the option to petition the Commission for temporary relief of the additional .5% or .75% offset.

12. Q. DO YOU HAVE ANY OTHER INFORMATION YOU WOULD LIKE TO SUBMIT IN SUPPORT OF STAFF'S RECOMMENDATIONS REGARDING A GENERAL ADJUSTMENT OFFSET?

A. Yes. The Staff finds additional support in other states' price cap decisions that the Ameritech Ohio's proposed productivity offset is insufficient. As NRRI has indicated in its report to the Commission, its sample of those states that have adopted price caps regulation has shown that these states have employed productivity offsets ranging from 2.0% to 4.5%. Research has also indicated that the state of California's Public Utilities Commission (California PUC) released on October 12, 1989, a price caps decision in Docket No. I.87-11-033, directing Pacific Bell to adopt a 4.5% productivity offset. More recently, the California PUC reaffirmed its 4.5% offset for Pacific Bell, and further required GTE to adopt a price caps formula which includes a 5.0% productivity offset. The Staff also notes that the Hearing Examiners Report to the Illinois Commerce Commission recommended a general offset of 3.8% if the ICC were to adopt the GDP-PI as its measure of inflation. Finally, as mentioned in the Staff Report, Staff points to a recent FCC Notice of Proposed Rulemaking, in CC Docket No. 94-1, which indicates that the average rate of return for all LECs adopting a 3.3% productivity offset is 12.25% (1% in excess of the FCC's authorized rate of return of 11.25%). Moreover, as mentioned in the Staff Report, Staff notes that Ameritech's average interstate rate of return, under the FCC's price caps environment, for years 1991 and 1992, was 12.94% and 12.79% respectively; which results in an average of 1.615% in excess of the FCC's authorized rate of return of 11.25%.

13. Q. ARE THERE ANY FINAL MATTERS YOU WOULD LIKE TO ADDRESS REGARDING THE PROPOSED GENERAL ADJUSTMENT OFFSET?

A. Yes. Concurrent with the Commission's review of the Company's productivity levels, Staff believes that the Commission also should study the Company's input prices. Accordingly, Staff recommends that, in addition to the information it recommended be filed at the end of the fourth year of the plan, that the Company be required to submit a study of its input prices as compared to input prices reflected in the GDP-PI.

14. Q. DOES STAFF AGREE WITH THE COMPANY'S PROPOSAL TO UTILIZE THE GROSS DOMESTIC PRODUCT PRICE INDEX (GDP-PI) AS ITS ANNUAL MEASURE OF INFLATION.

A. Staff believes that if the Commission adopts Staff's proposed 4.2% General Adjustment Offset that the GDP-PI is a suitable measure of inflation. If the Commission rejects Staff proposal concerning the General Adjustment Offset, the GDP-PI may not be an adequate measure of annual inflation since it tends to overstate Ameritech Ohio's actual input prices.

15. Q. ARE YOU FAMILIAR WITH STAFF'S PROPOSED SERVICE QUALITY ADJUSTMENT AS IT CONCERNS THE PRICE CAP INDEX, AND DOES STAFF HAVE ANY PROPOSED MODIFICATIONS TO THIS PORTION OF THE ELEMENT OF THE INDEX?

A. Yes. Staff originally proposed that the Company not be granted any positive points for exceeding the Commission's minimum telephone service standards. Staff also recommended, that the Company be subject to a potential 2.6% negative offset in the event it did not achieve the 13 minimum standards as proposed by the Company.

16. Q. WOULD STAFF LIKE TO AMEND ITS POSITION ON THE SERVICE QUALITY ADJUSTMENT OFFSET?

A. Yes. Staff affirms its original proposal that the Company should not be granted positive service quality point for exceeding any of its proposed 13 service quality standards. After reviewing the record on this matter, however, Staff maintains that the Company should be subject to a potential 1.3% annual offset. That is, a 1/10 of a percent offset for each of the 13 minimum standards proposed by the Company. Staff has amended its original proposal on this matter as it believes that a potential 2.6% offset is a burdensome penalty. How and when this offset is to be levied upon the Company is addressed by Staff witness Reese.

17. Q. ARE YOU FAMILIAR WITH THE COMPANY'S PROPOSAL CONCERNING SERVICE GROUPS OR BASKETS?

A. Yes. Ameritech Ohio's price cap proposal includes three mutually exclusive customer service groups or baskets that would be subject to the PCI. The three customer service groups consist of the following: residence, nonresidence, and carrier customers. The proposed Advantage Ohio Plan price cap index would apply only to the residence and nonresidence service groups. Concerning the carrier service group, Ameritech Ohio states that its intrastate rates will not exceed its interstate access rates determined by the Federal Communications Commission's price cap rules.

18. Q. IS STAFF FAMILIAR WITH THE COMPANY'S PROPOSAL TO EXCLUDE FLAT RATE USAGE FROM THE RESIDENTIAL BASKET?

A. Yes. Ameritech Ohio proposes a separate pricing mechanism for residence flat rate usage. Under the plan, Ameritech Ohio commits that flat rate service will be retained as an option for residence service. As is the case for certain other Cell 1 services, Ameritech Ohio has also proposed that the price for flat rate usage be capped for a three-year period. On an annual basis thereafter, Ameritech Ohio proposes that the price for flat rate usage be subject to a ceiling based on a formula tied to the average usage of service. More specifically, the formula will adjust the ceiling by the same percent as the change over the previous year's average messages (or completed calls) per line for flat rate usage. To limit further the level of potential annual flat rate usage price increases, Ameritech Ohio also proposes to limit the adjustment of the ceiling to a maximum of five percent per year in addition to the adjustment to the price cap index for that year.

19. Q. DOES STAFF AGREE WITH AMERITECH OHIO'S PROPOSAL TO EXCLUDE FLAT RATE SERVICE FROM THE RESIDENTIAL SERVICE BASKET? (CLEVELAND 5 AND DOD C4.)

A. No. Staff maintains that Ameritech Ohio has not supported adequately its proposal excluding flat rate usage from the residence service basket.

As a result, Ameritech Ohio's proposal regarding this matter should be rejected. As an alternative to Ameritech Ohio's proposal, the Staff recommends, consistent with NRRI's recommendation, that flat rate usage be included in the residence service basket subject to Cell 1 pricing parameters. Not to include flat rate usage in the residence basket would enable the Company to raise flat rate usage prices in excess of the PCI without requiring offsetting rate decreases for other residential services. Said another way, if flat rate service is included in the residential basket, offsetting rate decreases would be required for any flat rate increase in excess of the PCI. Moreover, Staff maintains that these weighted offsetting decreases could be significant (depending on the amount of the flat rate increase) since approximately 70.5% of Ameritech Ohio's residence customers currently subscribe to flat rate service.

20. Q. DOES STAFF SUPPORT AMERITECH OHIO'S THREE BASKET APPROACH? (AMERITECH G1; AND OCTVA 8 AND 9.)

A. Staff supports a three basket approach, with some modifications. Staff agrees with Ameritech Ohio's proposal to implement three service baskets: (1) residence, (2) nonresidence, and (3) intrastate access. Staff believes that maintaining three separate baskets will help protect against additional or ongoing cross subsidization among the three service classifications in a price caps environment. Upon further review of Ameritech Ohio's proposal on this matter, Staff would like to make one modification to its original proposal. Specifically, Staff revises its original proposal regarding Ameritech Ohio's basket configuration and recommends that residence and nonresidence Cell 4 service be removed from their respective baskets and not be subject to the PCI. Removing residence and nonresidence Cell 4 services from their respective baskets and the price cap will ensure that Cell 4 rate decreases initiated in response to competitive pressures will not be offset by increases in the Company's less competitive or non-competitive service offerings. As a result of this recommendation, Cell 4 price increases or decreases should have no effect on the Company's Group Price Index for services in Cells 1 through 3.

Staff acknowledges that some Cell 3 services may be purchased by the Company's competitors, but believes its proposed rules on imputation and pricing parameters will adequately protect the Company's competitors purchasing these services. Finally, Staff also does not believe that the Company's baskets should be configured based on their respective levels of competition. As mentioned above, the basket configuration proposed by Ameritech Ohio, which separates services by customer class, provides residential subscribers with the most amount of protection. Staff's approach, which distinguishes among service baskets by customer class, is also consistent with the FCC's price cap decision for AT&T.

21. Q. HAS STAFF'S POSITION REGARDING ANNUAL PRICING PARAMETERS CHANGED? (AARP 26 AND 37; AMERITECH G1, G2, AND G3; DOD C3; EDGEMONT 33 AND 42; LIBRARY COUNCIL 2; OCC 42; OCTVA 28; AND TIME WARNER III 1.)

A. Yes. Upon further review of the record on this matter, Staff would like to amend its position taken in the Staff Report to reflect that the Company, consistent with its own proposal on this matter, should be subject to a 3-year rate cap for basic exchange services (i.e., local usage and access, and related service installation charges). Also, to take into consideration that the PCI may not always be represented by a positive number, Staff amends its position to reflect that annual price increases for Cell 1 services should not exceed 5% or 5% plus the PCI, whichever is higher.

Also, as an additional pricing safeguard for residential subscribers, Staff believes, in theory, that the price ceiling for an individual residential Cell 1 service shall not exceed its fully distributed cost or FDC. In the event an FDC study is not available for a particular residential Cell 1 service, the Company should be required to demonstrate that the total revenues, including the proposed Cell 1 price increase, will not exceed the aggregate FDC for residential Cell 1 services.

Those Cell 1 services not subject to the three-year cap should be afforded pricing flexibility, consistent with these parameters, beginning in year two of the plan. Finally, as it concerns Cell 1 services, Staff believes that the Company should be required to limit all Cell 1 services price decreases to 10% annually. A 10% percent annual limit on Cell 1 price decreases will provide customers of services in other cells with additional price stability. If the Company finds that it is in a situation where it needs to decrease significantly a Cell 1 rate in response to competitive pressures, the Company should petition the Commission to reclassify the service to another Cell.

Upon further review of the record on this matter and taking into consideration the new additional pricing safeguards Staff has proposed for Cell 4, Staff believes that the Company should be afforded 20% upward and 20% downward maximum annual pricing flexibility for Cells 2 and 3 services. In the event the Company achieves Milestone 2 concerning the removal of its barriers to competition, it should be afforded an additional 10% pricing flexibility: That is, annual pricing flexibility equal to 30% upward and 30% downward. Staff believes that limiting Cells 2 and 3 pricing flexibility in this fashion will ensure that price increases and decreases will be distributed more evenly among customers. Moreover, limiting the level of Cells 2 and 3 decreases will limit the amount of price increases that can occur in Cell 1.

Finally, in the event the Company believes that it can justify a rate decrease or increase for a particular Cells 1 through 3 service in excess of the parameters proposed Staff, the Company should be permitted to file with the Commission a motion for waiver of the pricing parameter being proposed. Such a request, however, should be considered an amendment to the alternative regulation plan, which would be subject to the Commission's rules established in Case No. 92-1149-TP-COI concerning a company's request to amend its plan. Staff maintains that the rules for an amendment to an alternative regulatory plan provide both the Company's customers and competitors with adequate safeguards; as a result, it is not necessary for the Commission to arrive at predetermined criteria under which it will consider such a request on behalf of the Company. Moreover, Staff questions whether it is possible to arrive at an exhaustive listing of all circumstances that may come about through the duration of the plan under which such a request might be made.

22. Q. DOES STAFF HAVE ANY COMMENTS CONCERNING AMERITECH OHIO'S PROPOSAL TO ADOPT LONG RUN SERVICE INCREMENTAL COST (LRSIC) AS ITS ULTIMATE PRICE FLOOR FOR A GIVEN SERVICE?

A. Yes. Staff would like to amend its proposal on this matter to reflect, consistent with the NRRI's remarks on this matter, that the Company's price floor for an individual Cell 2 through 4 service should be LRSIC plus a contribution to common overhead. As a result, Staff recommends that the Company be required, at the time it submits a LRSIC study to establish or charge a service rate, to adopt a price floor for an individual Cell 2 through 4 service equal to LRSIC plus 10% of LRSIC. This 10% figure should be applied to LRSIC costs which do not include any family or joint costs. Therefore, the ultimate price floor for an individual Cell 2 through 4 service should be equal to LRSIC less family or joint costs x 1.1, plus any applicable family or joint costs.

Staff maintains that if the Company were required to adopt such an approach to establishing price floors for services in Cells 2, 3, and 4, that it will help to ensure, in a price caps and emerging competitive environment, that noncompetitive services in Cells 1 will not be supporting an inordinate portion of the Company's common overhead costs.

Concerning competitive Cells 2 and 4 services, however, Staff believes that the Company should, in response to competitive pressures, be permitted to lower its price floor, for a service classified in one of these groups, to its LRSIC (which does not include the 10% contribution to common costs) if it can demonstrate that a competitor is furnishing an identical service at or below Staff's proposed price floor of LRSIC + 10%. Finally, as mentioned earlier in my testimony concerning Cell 4 services, Staff is recommending that residential and nonresidential Cell 4 services should not be included in the residence and nonresidence service basket and, therefore, should not be subject to price caps. As a result, Cell 4 services price changes will not influence the group price index of Cells 1 through 3 services.

23. Q. DO YOU HAVE ANY COMMENTS CONCERNING AMERITECH OHIO'S OBJECTION TO STAFF'S RECOMMENDATION TO REMOVE TELEPHONE SERVICE ASSISTANCE FROM THE RESIDENCE BASKET AND TO AFFORD THE SERVICE NO PRICING FLEXIBILITY? (AMERITECH F1) -

A. Yes, I do. Staff would like to amend it previous position on this matter. Specifically, after reviewing ORC 4905.76 which addresses Telephone Service Assistance, Staff affirms that the Company should not be permitted to change the rates assessed to Telephone Service Assistance Plan Customers for the access line (i.e., the $6.70 charge). Staff maintains, however, that the Company should be permitted to change customers' rates for the usage component of local service consistent with Cell 1 pricing parameters.

24. Q. DO YOU HAVE ANY COMMENTS CONCERNING THOSE OBJECTIONS OPPOSING STAFF'S PROPOSAL CONCERNING COIN CHARGES ASSESSED AT PUBLIC AND SEMI-PUBLIC TELEPHONES. (AARP 19 AND AMERITECH G4.)

A. Yes, I do. Staff now supports a three-year freeze in coin access rates assessed at public and semi-public telephones. As discussed in Staff witness Sternisha's testimony, once the Company has a realized Milestone 2 concerning Staff's proposed removal of the barriers to competition, and after the three-year freeze, coin access rates assessed at public and semi-public telephones will be moved into Cell 2 and afforded the associated Cell 2 pricing flexibility. As a result of this revised recommendation, Staff proposed Cell 1 pricing parameters for coin telephone service are no longer necessary and can be disregarded.

25. Q. DO YOU HAVE ANY ADDITIONAL COMMENTS CONCERNING AMERITECH OHIO'S PROPOSED PRICING STRATEGIES? (AMERITECH E17, CLEVELAND 34, DOD C1, LIBRARY COUNCIL 27, MCI 2, NEWSPAPER ASSOC. 25, OCTVA 29, AND TIME WARNER III 2 AND 3.)

A. Yes, Staff would like to address two remaining issues regarding pricing. The Company proposes that it be permitted to carry forward, or bank, from year to year unused pricing flexibility. This unused pricing flexibility would be reflected in the difference between the PCI and the group price index (GPI). Staff is opposed to this proposal. Staff believes that if the Company banked such increases for an extended period of time, the annual pricing safeguards inherent to a traditional price caps plan could be rendered ineffective. Moreover, banking would remove the relationship between price increases and current economic conditions as reflected in the PCI for a given year. Specifically, if the Company's current environs do not permit it to take advantage of its maximum pricing flexibility for that year, the Company should not be permitted to carry forward this unused pricing flexibility to a time when it is more advantageous for it to implement a rate increase.

Finally, concerning new services, Staff supports its original position that the Company should be afforded at least six months of pricing flexibility prior to classifying a service in its appropriate cell. The Staff maintains that the Commission's informal or formal complaint process will adequately protect competitors during this potential 18-month time frame should they believe that the Ameritech Ohio is providing a new service in a discriminatory manner. Additionally, Staff maintains that both customers and competitors of the Company will be afforded additional protection by Staff's proposed requirement that the Company must, when proposing to classify a new service that is a close substitute for or bundles an element of an existing service, place the new service in the most restrictive cell in which the existing service is already classified. In the event the Company believes the new service or a new unbundled service is subject to competition, it should be required to petition the

Commission for a Cell reclassification. Finally, Staff believes that if the Commission were to truncate Ameritech Ohio's proposed 18 month period it could provide the Company with a disincentive to deploy new services in a timely manner.

26. Q. CAN YOU BRIEFLY FAMILIARIZE US WITH STAFF'S RECOMMENDATION THAT THE COMPANY ESTABLISH A PAY TELEPHONE LINE CHARGE?

A. Yes. In its report to the Commission, Staff recommended that Ameritech Ohio, as part of its Advantage Ohio Plan be required to unbundle its public pay station telephone service. Once unbundled, the Company would be required to provide these services uniformly to itself and its competitors. Staff recommended that Ameritech Ohio submit to the Commission, for its approval, an application establishing this service.

27. Q. ARE YOU FAMILIAR WITH THE OHIO PUBLIC COMMUNICATION ASSOCIATION'S OR THE OPCA'S OBJECTIONS FILED ON THIS MATTER?

A. Yes, I am. The OPCA filed objections concerning the six-month time frame Staff proposed for the Company to file proposed tariffs with the Commission, objections concerning Staff's failure to address the inequity between the LEC's pay station rate charged to itself and the rate charges to customer-owned, coin-operated telephone providers, and objections to Staff's failure to acknowledge the effect that this rate disparity has on competition. The OPCA also objects to Staff's failure to recommend that screening services and directory assistance service be provided free of charge to pay telephone providers.

28. Q. CAN YOU ADDRESS THESE OBJECTIONS? (OPCA 1, 2, 3, AND 5.)

A. Yes. The price discrepancy between Ameritech Ohio's rates that it charges to its own pay telephone subscribers and the rates it assesses COCOT providers is the reason for Staff's recommendation on this matter. The pay station line rate, once approved by the Commission, will ensure that the Company's pay telephone services are provided to itself and COCOT providers on a nondiscriminatory basis. Staff recommends that the Company be given six months to establish its proposed tariff, because it is taking into consideration the fact that a pay station line charge is not proposed by the Company as a component of the Company's Advantage Ohio Plan.

Concerning those services that the OPCA recommends be provided free of charge, Staff currently has no opinion as to whether the Company should be required to provide certain services free of charge, such as call screening and directory assistance (DA); Staff is more concerned that the pay station service established by the Company ensures rates that are levied evenly on a nondiscriminatory basis among pay telephone providers. For example, if the Company elects to charge itself for DA, then COCOT providers should also be required to pay the same rate for DA. Likewise, if the Company determines that charges for call screening services are required, then the Company must assess itself and COCOT providers an identical rate for the service. As it concerns the Company's provisioning of terminal equipment, Staff would like to clarify that the Company should be required to develop a cost-based customer premise equipment charge for the lease of its terminal equipment.

29. Q. DOES AMERITECH OHIO EXPRESS ANY ADDITIONAL OBJECTIONS TO STAFF'S PROPOSAL CONCERNING THE COMPANY ESTABLISHING A PAY STATION LINE CHARGE? (AMERITECH L8)

A. Yes, it does. Ameritech maintains that the proposed unbundling of payphone service is not part of its Advantage Ohio Plan and no reason exists to unbundle or reorganize current pay phone services. Staff's reasoning behind the Company's removal of the barriers to competition is addressed by other Staff witnesses.

30. Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing **Prepared Testimony of Daniel F. Sheilds**, 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 4th day of August, 1994.

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