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Testimony of Beth Hixon.

NONPUBLIC VERSION

CASE NO. 93-576-TP-CSS

OHIO BELL TELEPHONE COMPANY

TESTIMONY OF BETH E. HIXON

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

February 4, 1994

CASE NO. 93-576-TP-CSS
OHIO BELL TELEPHONE COMPANY
TESTIMONY OF BETH E. HIXON
TABLE OF CONTENTS

I. STATEMENT OF QUALIFICATIONS

Q. Please state your name and business address.

A. My name is Beth E. Hixon. My business address is 767 Hopetown Rd. C-3, Chillicothe, Ohio 45601.

Q. What is your present occupation?

A. I am employed by Berkshire Consulting Services as a utility rate consultant.

Q. Would you please summarize your educational and professional history?

A. I received a Bachelor of Business Administration degree in Accounting from Ohio University in June, 1980. For the period June, 1980 through April, 1982, I was employed as an Examiner by the Ohio Rehabilitation Services Commission (ORSC). In this position, in the Field Audits Unit of the Commission, I performed compliance audits of ORSC grants to, and contracts with, various service agencies in Ohio.

In May, 1982, I was employed in the position of Researcher by the Ohio Office of the Consumers' Counsel (OCC). I attended the NARUC Regulatory Studies Program at Michigan State University in August, 1983 and the NARUC Advanced Regulatory Studies Program at Williamsburg, Virginia in March, 1986. In 1984, I was promoted to Utility Rate Analyst Supervisor at OCC and held that position until November, 1987 when I joined the firm of Berkshire Consulting Services.

Q. What experience do you have in the area of utility rate proceedings?

A. In my current position and during the five years I was employed at OCC, I performed analysis and research in numerous utilities' base rate and fuel cases. I worked with attorneys, technical staff and consultants in preparation for and litigation of electric, gas, telephone and water utility proceedings. My work included participation in cases involving the following companies: Central Telephone, Cincinnati Gas & Electric, Cleveland Electric Illuminating, Columbia Gas, Lake Erie Utilities, Ohio American Water, Ohio Bell, Ohio Edison, Ohio Gas, Ohio Power and Toledo Edison.

Q. Have you submitted testimony in proceedings before this Commission?

A. While employed by OCC, I submitted testimony in <u>Ohio Power Company</u>, Case No. 83-98-EL-AIR and in <u>Ohio Gas Company</u>, Case No. 83-505-GA-AIR. With Berkshire Consulting Services I have testified on behalf of OCC in <u>Toledo Edison Company</u>, Case No. 88-171-EL-AIR; <u>Cleveland Electric Illuminating Company</u>, Case No. 88-170-EL-AIR; <u>Columbia Gas of Ohio</u>, Case Nos. 88-716-GA-AIR, <u>et al.</u> and <u>Ohio Edison Company</u>, Case No. 89-1001-EL-AIR. I have also presented testimony before the Indiana Utility Regulatory Commission on behalf of the Indiana Office of the Utility Consumer Counselor in <u>Indiana American Water Company</u>, Cause No. 39595.

II. PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony?

A. My testimony will address various issues related to the determination of pro forma rate base and operating income of Ohio Bell Telephone for the date certain December 31, 1992 and the test period October 1, 1992 to September 30, 1993. I have quantified the issues in my testimony and provided this quantification to OCC Witness Chan who has incorporated them in OCC's summary schedules.

Q. What have you reviewed in the preparation of your testimony?

A. I have reviewed the Company testimony and filings in Case No. 93-487-TP-ALT, responses to discovery, Company workpapers, responses to Staff data requests, and certain PUCO Opinions and Orders. I reserve the right to modify, amend, or add to my testimony based on changes which the Company may propose or based on positions taken by the Staff of the Commission in the Staff Report of Investigation in the alternative regulation proceeding, Case No. 93-487-TP-ALT and based on additional or updated responses to discovery by the Company.

III. ISSUES

A. ACCUMULATED DEFERRED TAXES

1. Accelerated Depreciation & Software

Q. What is the Ohio Bell's balance of accumulated deferred taxes related to accelerated depreciation and software as of the date certain?

A. As shown on line 11, column (a) of Company Exhibit 92A-3.1 the total company balance of accumulated deferred taxes in "Account 4340.1000 Property - Accel. Depr. & Software" as of the December 31, 1992 date certain was $575,180,000.

Q. In determining the jurisdictional balance of this account to be deducted from rate base, what adjustments did the Company make to this total company amount?

A. The Company first reduced this amount by $4,790,000 in a total company adjustment to arrive at an adjusted total company balance of $570,390,000. A jurisdictional allocation of .770904 was applied to that balance to determine an unadjusted jurisdictional balance of $439,716,000. Finally, jurisdictional adjustments of $11,796,000 were subtracted to derive an adjusted jurisdictional balance of $427,920,00 which was used as a rate base deduction.

Q. What were the Company's jurisdictional adjustments that reduced the balance by $11,796,000?

A. According to Company Exhibit 92A-3.1B, two jurisdictional adjustments were made. One was to adjust deferred taxes by $5,552,000 for the difference between FCC and PUCO depreciation reserve levels. The other adjustment reduced the balance by $6,244,000 "to adjust deferred taxes to reflect the portion applicable to plant in service."

Q. Should both of these jurisdictional adjustments be accepted by the Commission?

A. No. The adjustment to reflect the portion of deferred taxes applicable to plant in service should not be made. The adjustment reduces deferred taxes based on the ratio of plant in service to total plant as of the date certain.

The Company's adjustment is shown on Exhibit 92A-3.1B, page 3. The $6,244,000 reduction was determined by applying a ratio of .9858 to the jurisdictional deferred tax balance of $439,716,000 to arrive at an adjusted jurisdictional balance of $433,472,000. The .9858 ratio as calculated on Company WP 92A-3.1B.1 represents the ratio of date certain telephone plant in service of $5,318,252,000 to total telephone plant of $5,394,914,000. This workpaper shows that all but $4,000 of the $76,662,000 difference between these two balances is telephone plant under construction.

Since no depreciation is taken on telephone plant under construction, none of the accumulated deferred taxes related to accelerated depreciation is applicable to this telephone plant under construction. By applying the .9858 ratio to deferred taxes related to accelerated depreciation, the Company is assigning a portion of these taxes to plant under construction and away from plant in service. However, because none of the accumulated deferred taxes related to accelerated depreciation relate to plant under construction, no portion of the accumulated deferred taxes should be assigned to plant under construction. In the Company's last rate case, Ohio Bell Telephone Company, Case No. 84-1435-TP-AIR, the Commission rejected the use of the ratio of plant in service to total plant in determining the rate base deduction for accumulated deferred taxes related to accelerated depreciation.

Q. What adjustment do you recommend to reflect that no portion of these deferred taxes should be assigned to plant under construction?

A. I recommend that the Company's adjustment to reduce these deferred taxes by $6,244,000 be eliminated. By eliminating the Company's adjustment, 100%, rather than 98.58%, of these deferred taxes are used as a rate base deduction. My adjustment on Schedule BEH-1 increases the balance of accumulated deferred incomes taxes to be deducted from rate base by $6,244,000.

2. Deferred Tax Balances Short-Term in Nature

Q. What adjustment has the Company made related to accumulated deferred tax balances that are short-term in nature?

A. Company witness Kukla testifies that "deferred tax balances which are short-term in nature" have been eliminated in determining the accumulated deferred taxes used as a rate base deduction because such deferred tax balances do not provide a long-term source of funds available to the Company to finance plant in service. According to the Company's response to OCC Interrogatory No. 476, such deferred taxes of a short-term nature are "deferred tax activity that is reversed or terminated within a short period of time, e.g., one year or less." The amount of deferred taxes eliminated from the rate base deduction is $17,900,000 as shown on Company Exhibit 92A-3.1B. The accounts eliminated are accumulated deferred taxes in Account 4100.2100 Vacation Pay - Current and Account 4100.2310 Lien Date Property Tax - Current.

Q. Should the Commission accept the Company's adjustment to eliminate $17,900,00 in deferred taxes that are short-term in nature?

A. No. Amounts from these two accounts should be used in determining the rate base deduction for accumulated deferred taxes. The Company claims these short-term items should be eliminated since they do not provide a long-term source of funds because their deferral period is one year or less. The one year or less deferral period does mean that at any point in time the outstanding balances of the deferred taxes will be "coming due", or reversed, within a year. However, as these deferred tax balances are reversed, they will be replaced by new deferred taxes related to vacation pay and property taxes. Thus, it is reasonably certain that accumulated deferred tax balances related to these items will continue to exist on the Company's books.

Recognizing these items as rate base deductions is consistent with the Commission's treatment of deferred tax balances related to vacation pay and property taxes in Ohio Bell's last four rate cases. As shown on Schedule BEH-2, reversal of the Company's adjustment increases the balance of accumulated deferred incomes taxes to be deducted from rate base by $17,900,000.

3. SFAS 106

Q. What is the Company's treatment of accumulated deferred taxes related to post retirement employee benefits under SFAS 106?

A. Company Exhibit 92A-3.1, p. 1 shows the calculation of certain deferred credits and taxes that reduce jurisdictional rate base by $432,171,000. The Company's determination of total deferred credits and taxes includes, on line 15 of the Exhibit, a jurisdictional debit balance of $15,404,000 in Account 4340.2910 for deferred income taxes related to SFAS 106.

Q. Should the jurisdictional debit balance of deferred taxes related to SFAS 106 be considered in determining the amount of deferred credits and taxes to be deducted from rate base?

A. No. This deferred tax item should not be considered for rate base purposes, because tax normalization for post retirement employee benefits under SFAS 106 for ratemaking has not been authorized for Ohio Bell by the Commission. As indicated on page 26 of Company witness Kukla's testimony, the Commission has previously authorized normalization for specific items such as capitalized FICA and the debt component of AFUDC.

For example, in the Company's last rate case, Ohio Bell Telephone Company, Case. No. 84-1435-TP-AIR, the Commission authorized normalization for only five items, rejected normalization for additional items, and endorsed the approach that partial normalization should be done on an additions-forward basis. While it is possible that deferred tax accounting might be appropriate for the tax-timing difference related to SFAS 106, the Commission has not yet authorized that deferred tax accounting for ratemaking on a going-forwards basis for Ohio Bell. To be consistent with the Commission's approach in the last rate case, the Company should not be allowed to consider deferred taxes related to post retirement benefits under SFAS 106 for rate base purposes, because normalization has not been authorized for this item.

Q. What adjustment for SFAS 106 deferred taxes do you propose to the Company's calculation of deferred credits and taxes?

A. As shown on Schedule BEH-3, I recommend the debit balance of $15,404,000 of deferred taxes related to SFAS 106 not be included in determining the amount to be deducted from rate base. Eliminating this balance increases deferred credits and taxes to be deducted from rate base by $15,404,000.

B. UNCLAIMED FUNDS

Q. In what accounts does the Company record unclaimed funds?

A. According to the Company's response to OCC Interrogatory No. 376, unclaimed funds are contained in the following accounts:

4010.2921	Outstanding Checks & Drafts - Payroll
4010.2922	Outstanding Checks & Drafts - Field Drafts
4010.2923	Outstanding Checks & Drafts - Commissions, Advances and Subscriber Refund Checks
4010.2929	Outstanding Checks & Drafts - Other
4310.92	Other Long-term Liabilities - Nonaffiliates

Q. What are the sources of the unclaimed funds in these accounts?

A. The unclaimed funds in these accounts are related to the following transactions:

4010.2921 - Payroll
4010.2922 - Accounts Payable
4010.2923 - Customer refund, coin commission, pay station
4010.2929 - Customer refund, coin commission, pay station
4310.92 - Interest on debentures

The balances in the four subaccounts of Account 4010 are relatively constant funds provided by sources other than investors and are available for use by the Company. According to the Company's response to OCC Interrogatory 524, none of the outstanding checks and drafts in these accounts are payable to Company shareholders.

Q. Has the Company made a rate base deduction for these unclaimed funds?

A. No. The Commission should make a rate base deduction for unclaimed funds in this case as it has done in previous rate cases for other utilities. These funds from non-investor sources are available to the Company until such time as they escheat to the state.

Q. What rate base deduction for unclaimed funds do you recommend?

A. I recommend that rate base be reduced by the jurisdictional average balance of unclaimed funds for the 13 months September, 1992 through October, 1993. Using the unclaimed funds balances provided in response to OCC Interrogatories Nos. 376 and 524, I have calculated a rate base deduction of $ 1,706,000 as shown on Schedule BEH-4.

C. <u>ARTWORKS</u>

Q. What artworks has the Company included in plant in service in its filing?

A. The Company's jurisdictional plant in service includes $194,000 in Account 2122.2 - Artworks. The Commission Staff, in its investigation in Ohio Bell's last rate case, found that artworks in the Company's rate base were in an account that had no determinable life, were not subject to depreciation, and had the potential to appreciate in value. The Staff also found artworks contained in the Company's last case not used and useful in providing utility service. In the current case the artworks in Account 2122.2 are "objects possessing aesthetic value that are of an original or limited edition and which do not have a determinable useful life" and are also not subject to depreciation.

Q. Should this artwork be included in rate base in this case?

A. No. The Staff in the last rate case and the Commission in other telephone rate cases has found that the cost of artworks should not be recognized for ratemaking. The Company's artwork continues to be in an account of the same nature as in its last rate case and is not plant necessary for the provision of telephone service to customers. Thus, I recommend the $ 194,000 in artworks be excluded from rate base in this case. (Schedule BEH-5)

D. <u>INCENTIVE COMPENSATION</u>

Q. Do the Company's adjusted test year expenses include costs related to incentive compensation programs for employees?

A. Yes, the Company's expenses for incentive compensation plans are in adjusted test year expenses in this case. OCC Interrogatory No. 175 requested the amounts of monthly test year expenses related to the incentive compensation programs. While the response was that the requested information was unknown and not readily available, the Company did indicate that the total company test year amounts were contained on WPC-1.6a.1.a, page 1.

Based on the referenced workpaper and WP 93C-3.4, I have calculated that unadjusted total company test year expenses included $14,057,000 for incentive compensation programs. (Schedule BEH-6.1) Company adjustments to test year expenses in Exhibit 93C-3.4 reduced incentives by $ 796,000 to remove costs related to employees accepting certain Workforce Resizing Plans. Thus, as shown on Schedule BEH-6.1, adjusted total company test year employee incentive program expenses were $13,261,000, with $4,067,000 for non-management and $9,194,000 for management.

Q. What are the Company's various management and non-management incentive compensation programs?

A. The Company's non-management incentive compensation program is known as the Success Sharing Plan, which provides for awards based on the achievement of Ohio Bell net income objectives.

The Company has the following management incentive programs:

1. Team Award - annual awards based on achievement of the net income and revenue objectives of the Bell Group Strategic Business Unit (SBU) and the net income/service objectives of Ohio Bell; the components of the awards are:

Bell Group SBU - Net Income	65%
Bell Group SBU - Revenue	25%
Ohio Bell - Net Income/Service	35%

For 1993, the amount of the Team Award paid is impacted by percentage attainment of customer service targets that are factored into a "combined net income/service payout matrix"

2. Individual Incentive Award - annual awards based on achievement of annual individual performance objectives; the individual incentive awards are leveraged based on the team incentive award payout

3. Senior Management Short Term Award - annual awards based on achievement of annual Ohio Bell financial and customer service goals

4. Senior Management Long Term Award - stock awards based upon Ameritech's long term financial performance; grants of stock are paid based on Ameritech's performance on cumulative total return to shareholders over a five year period

Q. Should all test year incentive compensation expense be included in pro forma costs used to determine rates in this case?

A. No. I recommend that the expenses be eliminated for the Non-Management Success Sharing Plan, the Senior Management Long Term and the Senior Management Short Term Awards. I also recommend that 65% of the expenses for the Management Team Incentive and Individual Incentive programs be eliminated from pro forma expenses in this case.

Q. Why should the costs for the Non-Management Success Sharing Program and the Senior Management Long and Short Term awards be eliminated?

A. For both the Success Sharing Program and the Senior Long Term Management Awards profitability is the basis for determining payment of incentive compensation to employees. No incentive compensation payments would be made under these programs unless net income goals were achieved.

The net income goal is a shareholder goal since the Company's ability to achieve its net income will benefit its shareholders and to the extent the Company is successful in improving net income, this benefits shareholders, not ratepayers. As such, shareholders should be willing to pay awards that are incentives for achieving net income goals. Payment of such awards should not be the responsibility of ratepayers.

For the Senior Management Short Term Awards, the Company has indicated that awards are based on achievement of financial and service goals. However, the amount of incentive compensation by achievement goal is not specified, the Company's filing does not separate test year costs between Short Term and Long Term Awards, and the documentation provided by the Company does not provide any breakdown between these two types of goals.

I recommend that Adjusted Total Company test year expenses of $4,067,000 for the Success Sharing Program and $745,000 for Senior Management Short and Long Term Awards be eliminated from test year expenses. Schedule BEH-6 shows this elimination which results in a reduction of $3,086,000 to jurisdictional expenses for these three incentive programs.

Q. Why do you recommend that only a portion of the costs for the Management Team Awards and Management Individual Incentive Awards be recognized in rates?

A. In the Management Team Incentive Award program profitability is the primary factor in determining the payment of incentive compensation to employees because 65% of the award component is based on meeting net income and revenue objectives of the Bell Group Strategic Business Unit. Further, the remaining 35% component is also impacted in some manner by meeting Ohio Bell net income objectives. As I stated earlier, a net income goal is a shareholder goal since the Company's ability to achieve its net income will benefit its shareholders and shareholders should be willing to pay awards for achieving net income goals.

Q. Are the Team Incentive and Individual Incentive compensation awards also impacted by achievement of service goals?

A. The Company has indicated that Team Incentive Plan awards are impacted by net income, revenues <u>and/or</u> customer service objectives. The component based on a net income/customer service objectives makes up 35% of the award. There is no indication as to how the different types of objectives in this component impact the award. In addition, the Company has indicated that in 1993 attainment of customer service targets, as measured by customer surveys, was factored into the determination of the payout for the Team Incentive Plan. Since attainment of service goals benefits ratepayers, my recommendation is to eliminate the portion of incentive compensation expenses related to shareholder goals and include in rates that portion related to service goals.

Q. How have you quantified the amount of Team Incentive and Individual Incentive compensation expense to be eliminated?

A. I recommend that pro forma expenses in this case include 35% of the test year incentive compensation expenses for the Team Incentive and Individual Incentive programs. From my review of the programs' documentation I have verified that the Company-determined award amounts under the Team Incentive Plan are at least 65% based on achievement of net income and revenue goals. Since the net income and revenue goals are at least 65% of the Team Incentive award, it is my opinion that it is reasonable to conclude that at least 65% of incentive compensation is related to shareholder goals.

For the Individual Incentive Award, documentation provided by the Company indicates that this award recognizes achievement of "individual performance objectives" but does not provide a description of these objectives. Therefore, I have not been able to determine whether individual objectives are financial or customer service in nature. However, the documentation does provide that "as in prior years, the individual incentive award will be leveraged based on the team payout."

If the Individual Awards are impacted by the payout determined for the Team Incentive Awards, then they are affected by the financial objective components of the Team Incentive Awards. Considering this impact from the Team Incentive Awards and that specifics about individual performance objectives are not known, I recommend the same treatment in this case for Individual Incentive Awards as for the Team Incentive Awards.

I propose to eliminate 65% of these two management incentive compensation programs from cost of service in this case. Eliminating 65% of the Team Incentive and Individual Incentive Awards reduces Unadjusted Total Company expenses by

$5,492,000. Schedule BEH-6, shows this 65% elimination which results in a reduction of $3,809,000 to jurisdictional expenses.

Q. What is the combined effect of your incentive compensation adjustments on test year expenses?

A. As shown on Schedule BEH-6, I have reduced jurisdictional expenses by $ 2,569,000 for the Non-Management Success Sharing Program and by $517,000 for the Senior Management Long Term and Short Term Awards. I have also eliminated 65% of expenses for the two other management incentive programs - $2,276,000 of Team Incentive expenses and $1,533,0000 of Individual Incentive expenses. These adjustments together reduce test year jurisdictional expenses by $6,895,000.

E. <u>MATERIALS AND SUPPLIES EXPENSE</u>

Q. How did the Company determine the test year expenses shown in column (a) on Exhibit 93C-1 as Total Company?

A. As Company witness Kukla explains on pages 31 and 32 of his testimony, amounts shown as total company were obtained from actual amounts on the Company's books for October, 1992 through December, 1992 and a forecast of book amounts for January, 1993 through September, 1993.

Q. What was the Company's source and support for the monthly 1993 forecasted amounts?

A. In supplemental testimony ordered by the Commission in its September 2, 1992 entry, Mr. Kukla provided further explanation, a flow chart, and tables showing the Company's derivations of total company amounts found in the workpaper series WP 93C-1.

Mr. Kukla's Attachment 31S.2, page 1 shows that 1993 total company forecasted amounts were developed using the Company's 1993 Annual Commitment View adjusted for regulatory purposes ("MR basis") and also modified for "view adjustments." According to the response to OCC Interrogatory No. 483 "the Company relied upon the Annual Commitment View, the Monthly Commitments View and historical information in forecasting 1993 expenses."

Q. What view adjustment did the Company make to 1993 forecasted materials and supplies expense?

A. The Company, on WP 93C-1.1b.3.b, made a $5,000,000 view adjustment to increase 1993 total company forecasted materials and supplies from $75,000,000 to $80,000,000.

Q. What was the Company's support for this $5,000,000 increase to its 1993 forecasted material and supplies expense?

A. This adjustment is shown on WP 93C-1.1b.3.b.3. The $75,000,000 is the Company's Annual Commitment View estimate for 1993. The $80,000,000 is a "Kukla View Estimate" for material and supplies which is footnoted as "Conservative

Estimate for Going Level Expenses for 1993." The workpaper also shows an analysis of the actual amounts for last six months of 1992, which would result in an annualized level of $83,708,000.

Q. Should the Commission accept the Company's $5,000,000 view adjustment for material and supplies expense?

A. No. The Company has not indicated why the $75,000,000 Annual Commitment View for materials and supplies was not reliable, why any modification to the view was necessary or why the Kukla View level is more appropriate than the Annual Commitment View. The Company's workpaper shows an annualized expense level using the last six months of 1992 but does not indicate why this period was chosen for analysis. Neither does the Company indicate whether the Kukla view is based on this annualization. If the Kukla view was based on this annualization, the Company does not indicate why the Kukla view is $3,708,000 lower than the annualized level.

I recommend that the Commission eliminate the Company's Kukla View adjustment to the Annual Commitment View to increase materials and supplies expenses. A review of material and supplies for the six months of 1992 which the Company provided in its workpaper may make the Company's $80,000,000 estimate seem "conservative." However, this six month period's costs are skewed by a large December, 1992 expense of $8,794,000 which was $2,182,000 greater than the average expense of $6,612,000 for the other five months.

A review of 1993 actual materials and supplies expense, as provided in response to OCC Interrogatory No. 486, shows that through September monthly materials and supplies expense has averaged $6,097,000. This actual average monthly expense is lower than both the December, 1992 expense and the average expense for the other five months in 1992. If 1993 actual expense were used to annualize materials and supplies, the result would be $73,165,000, closer to the Annual Commitment View of $75,000,000 than to the $80,000,000 Kukla View which the Company proposes.

Q. What is the effect on test year expenses of eliminating the Company's $5,000,000 view adjustment for materials and supplies expense?

A. On Schedule BEH-7 I have calculated that the elimination of the Company's view adjustment to materials and supplies will decrease jurisdictional expenses by $2,806,000.

F. <u>MEDICAL AND DENTAL EXPENSE</u>

Q. How did the Company determine unadjusted total company medical and dental expenses for the test year?

A. Unadjusted total company medical and dental expenses contained in column (a) of Exhibit 93C-1 consists of three months actual 1992 data and nine months forecasted data for 1993.

Q. What were the 1993 annual forecasted amounts used by the Company for medical and dental expenses?

A. As shown on Company WP 93C-1.5a, the Company used its Annual Commitment View amounts of $43,600,000 for 1993 medical expense and $5,717,000 for 1993 dental expense. No "view adjustments" were made to the Annual Commitment View in determining medical and dental expenses for the test year.

Q. Should the Commission accept the Company's 1993 estimates for medical and dental expenses?

A. No. Review of and comparison with 1992 historical expenses and 1993 actual expenses indicates that the Company's 1993 estimated medical and dental expense should not be accepted. Actual expenses were provided in response to OCC Interrogatory No. 491. (Attachment A) The Company's 1993 estimated medical expense of $43,600,000 represents a 16% increase over actual 1992 medical expenses of $37,733,000. For dental expense, the Company's $5,717,000 1993 estimate is an 11% increase over 1992 expenses of $5,145,000.

A review of actual expenses for 1992 and 1993 also shows that in each year the Company has exhibited a tendency to overestimate annual expense levels. The Company has had to reduce prospectively its monthly medical expenses in the second half of the year in order to correct for overestimated monthly medical expenses in the first half of the year. The reduction to monthly expense in the later months of both 1992 and 1993 can be in the response to OCC Interrogatory No. 491. In OCC Interrogatory No. 535, the Company explained that the monthly expense decrease was "to reflect a true-up based upon actual experience." (Attachment B)

For dental expenses, a true-up based upon actual experience was also made to reduce monthly expenses from a September, 1992 level of $435,000 to $380,000 in October, 1992. Dental expense remained at $380,000 a month through the first quarter of 1993. For the second quarter the Company's dental expense dropped to $375,000 a month and then returned to $380,000 for months in the third quarter.

Q. What adjustments to the estimated annual 1993 medical and dental expenses do you propose for this case?

A. I recommend that the Company's annual 1993 estimated medical and dental expenses in the filing not be used because the Company's experience has been to adjust for overestimated medical and dental expenses through true-up adjustments. To correct for this tendency to overestimate, I recommend that the estimated annual expense for 1993 be based on the monthly expenses actually recognized by the Company for January through September 1993. On Schedule BEH-8 I have estimated an 1993 annual medical expense by using actual expenses of $31,196,000 for January through September, 1993 and using the third quarter level of $9,500,000 for October through December, 1993. This calculation results in an annual medical expense level which properly reflects both the Company's estimates and the true-up adjustments to those estimates. As shown on Schedule BEH-8, an annual estimated total company expense of $31,196,000 for 1993 results in a decrease to jurisdictional medical expense of $1,630,000.

I have calculated an estimated 1993 dental expense by annualizing based on a monthly expense level of $380,000 which approximates the Company's average actual dental expense for the test year. This monthly expense results in an annual estimated total company expense of $4,560,000 and a decrease to jurisdictional dental expenses of $649,000. These two adjustments to the Company's estimated 1993 expense reduce jurisdictional medical and dental expenses by $2,279,000. (Schedule BEH-8)

G. PENSION COSTS

Q. What jurisdictional adjustment to test year pension expense is the Company proposing?

A. On Exhibit 93A-3.6, the Company is proposing that test year jurisdictional pension expense be increased by $5,543,000. According to Company witness Kukla, this adjustment is to annualize the effect of January 1, 1993 revisions to pension accruals. The basis for the adjustment is the comparison of total company test year pension costs of ($24,639,000) to total company estimated 1993 pension cost of ($15,996,000). The $8,643,000 cost increase is then adjusted for construction charges and total company adjustments and then allocated to arrive at the jurisdictional increase of $5,543,000.

Q. What is the basis for the Company's estimated 1993 pension costs of ($15,996,000)?

A. The Company's 1993 estimated pension cost of ($15,996,000) is contained on WP 93C-1.5a with its source listed as "Corporate Budget." In OCC Request to Produce No. 127, the Company was asked to provide the actuarial study on which the 1993 pension cost shown on this workpaper was based. The Company's response was "No such study exists."

Given that the Company claimed no such actuarial study exists, OCC Interrogatory No. 459 asked the Company how the 1993 pension cost was determined. The Company's response was "by utilizing historical data as a basis for forecasting future costs." In follow up to this response, OCC Interrogatory No. 526 asked for an explanation of how the historical data was used as a basis for forecasting future pension costs. The Company responded that "historical data was used as reference point, but no specific mathematical calculations using the data are known to exist."

Q. Should the Company's proposed 1993 estimate for pension expense be used in this case?

A. No. The Company has not supported its 1993 estimated pension cost with an actuarial study but instead has indicated its basis as historical data. Recent historical data such as calendar year 1992 indicates a total company pension cost of ($25,316,000) or $9,320,000 less than the Company estimate for 1993. Considering the Company's lack of support for its 1993 estimated pension cost, I recommend that the Commission reject the proposed adjustment to annualize to the Company's 1993 estimate.

Q. What pro forma level of pension expense should be used in this case?

A. The pro forma pension expense should be based upon the most recent actuarial study to determine Ohio Bell's pension costs. While the response to OCC Request to Produce No. 127 indicated that no actuarial study exists to support its 1993 pension cost estimate, the Company in response to OCC Interrogatory No. 358 stated that actuarial studies for pension costs are performed once a year. In response to OCC Interrogatory No. 359, the Company indicated the most recent study was completed in December, 1992. OCC Request to Produce No. 191 requested the December, 1992 study and the Company's response was to make the study available to OCC at the Company's offices, subject to the proprietary agreement.

The Company's response to Request to Produce No. 191 was a January, 1993 Ameritech 1992 Actuarial Report for Pension Expense by Towers Perrin. This report provided the 1992 Pension Expense for Ohio Bell as ($22,834,000), with a management plan expense of $ 731,000 and a non-management plan expense of ($23,565,000). According to calculations provided in response to OCC Request to Produce No. 130, to determine Ohio Bell's gross pension cost, adjustments to both plans should be made to reflect AT&T reimbursements. Based on the reimbursement amounts in that request which were "per Ohio Bell assumptions", I have calculated AT&T reimbursements of $783,000 for the management plan and $1,074,000 for the non-management pension plan. Schedule BEH-9.1 shows a gross pension expense for Ohio Bell of $($24,691,000) based on the January, 1993 actuarial report and reflecting AT&T reimbursements. I recommend that this pension expense based on the Ameritech January, 1993 actuarial study be used in this case. The result is a decreases to total company pension expense of $8,695,000, from ($15,996,000) to ($24,691,000). As shown on Schedule BEH-9, the decrease to jurisdictional pension expense is $5,557,000.

H. OHIO BELL/AMERITECH LOGO CHANGE ACCRUAL

Q. Has the Company included in test year expenses any costs related to the change in name and logo from Ohio Bell to Ameritech?

A. Yes, according to the responses to OCC Interrogatories Nos. 324 and 465, test year total company expenses include $7,696,000 charged to Account 6121 in December, 1992 to accrue for "changing buildings, motor vehicle, and other signage" for the transformation from the Ohio Bell logo to the new Ameritech logo.

Q. Should this $7,696,000 in accrued expense be included in test year expenses in this case?

A. No. These costs related to changing from the Ohio Bell logo to the Ameritech logo should not be included in expenses for ratemaking, because this type of expense is not necessary for the provision of telephone service, is a non-recurring expense and is an estimated accrual for an expected expense.

Transformation of a company's name and logo is not a change that is required for the company to provide telephone service to ratepayers. The Company has not shown that the name change was necessary because of inadequate service to ratepayers under the Ohio Bell name. As I also explain in my testimony on advertising regarding the name change, an ad promoting the change told customers that they would "get the same dependable service."

These expenses should not recur unless the Company were to change it name and logo again. The changes related to the logo transformation expense began in 1993 and are expected to continue in 1994 and the Company has also stated that no similar accruals were made during the period 1988 through 1991.

The December, 1992 $7,696,000 accrual was made to estimate expenses that would be associated with the logo change. However, according to the Company's response to OCC Interrogatory No. 465, charges against this accrual for actual expenses through the end of the test year were only $1,302,000.

Q. What adjustment do you recommend to the Company's expenses related to the logo change accrual?

A. I recommend that total company expenses be reduced by $7,696,000 to eliminate the costs in Account 6121 related to the logo change. As shown on Schedule BEH-10, this results in a $5,815,000 reduction to jurisdictional expenses.

I. <u>WAGES AND BENEFITS</u>

Q. What adjustments has the Company made to annualize test year wages and benefits?

A. The Company has adjusted test year expenses on Exhibits 93C-3.2 and 93C-3.3 to annualize wages increases occurring during the test year for management and non-management employees. These adjustments increase jurisdictional wages and benefits by $6,194,00 for non-management and $763,000 for management.

Q. What employee levels has the Company used in its annualization of wages and benefits?

A. On WP 93C-3.2 and WP 93C-3.3, the Company has use "adjusted test year average employee levels" to annualize wages and benefits. These adjusted average employee levels were determined on WP 93C-3.2b, page 2 and are based on three months of actual 1992 levels adjusted for separated employees and nine months estimated 1993 employee levels. The adjusted average employee levels used by the Company for non-management was 8,750 employee and for management 1,569 employees.

Q. Should the Company's adjusted test year average employee levels be used to determine wages and benefits in this case?

A. No. The actual employee levels as of the end of the test year should be used to annualize wages and benefits. Since the Company's adjusted test year average uses estimated employee levels for 1993, this average includes no consideration of the actual changes in the number of employees that occurred in 1993.

For example, the Company's average was based on 1993 estimates that management employees would increase from 1,567 in January to 1,591 in September. However, actual levels decreased from 1,689 in January to 1,483 in September. For non-management employees, the Company's 1993 estimate was a decrease of 96 employees from 8,774 in January to 8,678 in September. The actual decrease was 90 employees, from a level of 8,800 in January to 8,710 in September. Use of test year end employee levels to annualize wages and benefits will be more representative of prospective employee levels because they reflect the changes in employees levels actually occurring in 1993.

Q. What is the effect of using the end of test year employees levels in annualizing wages and benefits?

A. On Schedule BEH-11, I have calculated that jurisdictional test year expenses for wages, benefits and payroll taxes should be decreased by $4,374,000 to reflect the use of test year end employee levels to annualize wages and benefits.

J. PROPERTY TAXES

Q. What level of pro forma property tax expense is the Company proposing in this case?

A. Ohio Bell's total company pro forma property tax expense is $157,584,000. This amount is $2,595,000 greater than the test year property taxes and results in an increase of $1,961,000 to jurisdictional property taxes. The calculation of this adjustment is shown on Company Workpapers 93C-3.14, 93C-1.9b.1a, and 93C-1.9b.1b. This adjustment calculates property taxes on a date certain lien date of December 31, 1992 and uses estimated tax rates for 1993.

Q. Should the Company's proposed adjustment be used to determine property tax expense?

A. No. Property taxes should be determined using a lien date valuation consistent with the rate base date certain of December 31, 1992 and instead of the Company's projected tax rates, the latest known actual property tax rates should be used. The Company's projected rate for public utility property tax is .0770 and for real estate property tax the projected rate is .0550. According to the Company's responses to OCC Interrogatories Nos. 336, 337, and 471 the latest known actual rates are .07480 for public utility property tax and .05301 for real estate property tax.

Q. What is the effect of using the latest known property tax rates?

A. On Schedule BEH-12 I have calculated total company property taxes of $153,024,000 by using the latest known rates. This level of property tax expense decreases jurisdictional property taxes expense by $3,446,000.

K. AMORTIZATION OF EXCESS DEFERRED INCOME TAXES

Q. Does the Company have any unrestricted excess deferred taxes resulting from the Tax Reform Act of 1986 (TRA 86)?

A. Yes, according to the Company's response to Staff Data Request No. 29, as of December 31, 1992 the Company's "unrestricted deferred tax surplus" related to TRA 86 was $12,448,000. The surplus, or excess, represents the difference in deferred taxes created by the reduction of the federal income tax from the time when the taxes were deferred and collected from ratepayers to when they will be paid as taxes by the Company. The amount is unrestricted as to the flow-back period in determining federal income taxes for ratemaking. In other utilities' rate cases the Commission has accomplished this flow-back by the use of a three year amortization of excess deferred taxes balances.

Q. What should the treatment be in this case for the Company's excess deferred taxes balance?

A. I recommend the Company's $12,448,000 in unrestricted excess deferred taxes resulting from TRA 86 be flowed back over a three year period. Thus, pro forma federal income taxes in this case should reflect one year's amortization amount as a reduction to deferred income taxes. Schedule BEH-13 shows the calculation of the resulting reduction to jurisdictional federal income taxes of $2,994,000.

L. <u>OHIO BELL/AMERITECH LOGO CHANGE ADVERTISING</u>

Q. What is the Company's "Your Link to a Better Life" advertising campaign?

A. According to the Company's response to OCC Interrogatory No. 525, "Your Link to a Better Life" is an advertising campaign which began in November 1992 and continued through May 1993. This campaign "focused on the capabilities and benefits Ohio Bell and Ameritech provide to customers, from individuals to large corporations." Total Company advertising costs of $2,418,000 for this campaign are contained in Account 6613-92 test year expenses.

Q. What types of advertising were presented by the Company under the "Your Link to a Better Life" campaign?

A. OCC Request for Production of Documents No. 193 requested copies of the advertising used in this campaign. In response, the Company provided copy for television and print ads. As can be seen in Attachment C to my testimony, these ads present messages about the capabilities and benefits Ohio Bell and Ameritech provide to customers and also present messages about the change in the Company's name and logo from Ohio Bell to Ameritech. The ads include signs and customer payment checks that "change" from the Ohio Bell name to the Ameritech name.

As I stated in my testimony regarding the Company's accrual for logo change expenses, transformation of the Company's name and logo is not a change that is necessary for the Company to provide telephone service to ratepayers. The ads from this campaign demonstrate that the Company did not change its name because of inadequate service provided under the Ohio Bell name. Instead, the ads call Ohio Bell "a trusted local business partner" and "the phone company you've always depended on" and point out that "you'll get the same dependable service." Thus, the ads show the change was not for the purpose of improving customer service but for giving greater exposure to the Ameritech name.

Q. Should the Company's advertising costs for "Your Link to a Better Life" be included in test year expenses in this case?

A. No. I recommend these costs be eliminated from test year expenses because the campaign is institutional advertising used to enhance the Company's image and advertise a name change which is not necessary for the provision of telephone service. Because the campaign advertises the name change, these costs are also non-recurring because such advertising should not recur unless the Company's name is changed again.

Q. What is the effect on test year expenses of eliminating these advertising costs?

A. On Schedule BEH-14 I have eliminated $2,418,000 in total company test year expenses for "Your Link to a Better Life" advertising. This results in a decrease to jurisdictional expenses of $1,815,000.

OCC INTERROGATORIES NO. 7

491. Referring to Workpaper WP93C-1.5a, for each month January, 1992 until the most recent month available, what are the actual vision, medical, dental, and group life insurance costs incurred?

($000)

Year	Month	Vision	Medical	Dental	Group Life Ins.
1992	January	62	3,751	450	74
	February	62	3,766	450	50
	March	62	3,770	450	119
	April	62	3,747	450	75
	May	62	3,769	450	74
	June	62	3,761	450	73
	July	62	3,613	435	71
	August	62	2,614	435	70
	September	62	2,239	435	70
	October	59	2,167	380	70
	November	59	2,167	380	72
	December	59	2,369	380	72
1993	January	59	3,632	380	66
	February	59	3,636	380	88
	March	59	3,635	380	86
	April	65	3,598	375	102
	May	65	3,592	375	65
	June	65	3,603	375	65
	July	65	3,181	380	65
	August	65	3,158	380	64
	September	65	3,161	380	67

OCC INTERROGATORIES NO. 10

535. Referring to the response to OCC Interrogatory No. 491:

a) Why did the medical costs decrease from $3,613,000 in July, 1992 to $2,614,000 in August, 1992 and $2,239,000 in September, 1992?

b) Why did the medical costs increase from $2,369,000 in December, 1992 to $3,632,000 in January, 1993?

c) Why did the medical costs decrease from $3,603,000 in June, 1993 to $3,181,000 in July 1993?

d) Why did the dental costs decrease from $435,000 in September, 1992 to $380,000 in October, 1992?

e) For each month October, 1993 until the most recent month available, what are the medical and dental costs?

---

a) September, 1992 medical costs reflect a true-up based upon actual experience.

b) December, 1992 medical costs reflect a true-up based upon actual experience.

c) July, 1993 medical costs reflect a true-up based upon actual experience.

d) October, 1992 dental costs reflect a true-up based upon actual experience.

e) Objection. As to months beyond the base year, requested information is irrelevant and not reasonably calculated to lead to the discovery of admissible evidence. Ohio Admin. Code §4901-1-16(B).

ATTACHMENT C

OCC REQUEST FOR PRODUCTION OF DOCUMENTS NO. 10

193. Referring to the response to OCC Interrogatory No. 408, please provide copies of the advertising used in the "Your Link to a Better Life" advertising campaign.

The requested documents are available for inspection and copying at the Central Repository at the offices of The Ohio Bell Telephone Company, 150 East Gay Street, Columbus, Ohio.

CLIENT AMERITECH SERVICES/IDENTITY DATE [illegible] JOB NO. [illegible] COML. YARD [illegible]
TITLE [illegible] LENGTH :15 STATUS REV. 1 1 OF 1

OPEN ON WIDE SHOT OF BUSINESS OFFICE. BILLBOARD IS SEEN THROUGH WINDOWS.

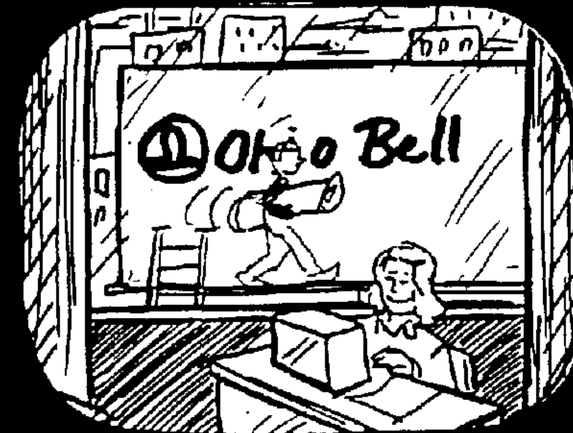
Over the coming weeks, a trusted local business partner will be changing its identity...

-1-

PUSH IN ON WINDOW AS LADDER IS LEANED UP AGAINST BILLBOARD.

from Ohio Bell...to Ameritech.

-2-



WORKER CLIMBS UP LADDER CARRYING A BIG ROLL OF PAPER AND HIS TOOLS.

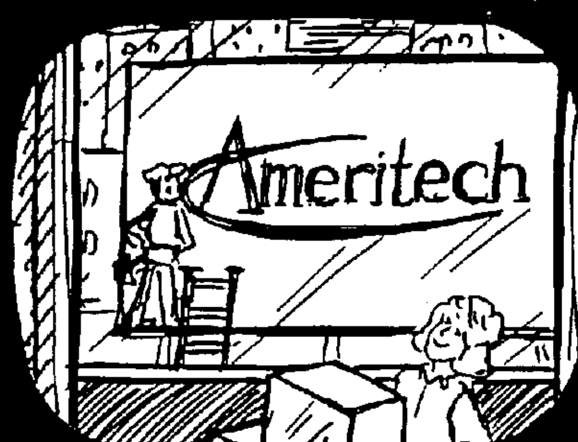
So you'll still get the same dependable service...

-3-

FILM GOES INTO "HYPER-SPEED" AS WORKER PUTS UP NEW BILLBOARD. OFFICE WORKERS ARE OBLIVIOUS TO ACTION.

with a fresh new look.

-4-



NEW BILLBOARD IS COMPLETED WITH AMERITECH LOGO ON IT. OFFICE WORKER LOOKS UP AND REACTS.

Ameritech. More than ever.

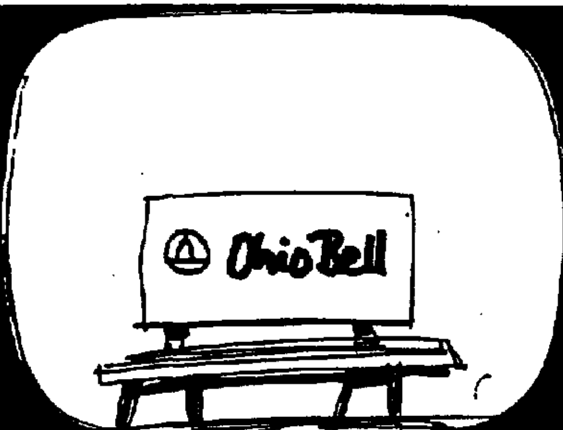
-5-

PUSH IN TOWARD NEW LOGO. WORKER CLIMBS DOWN LADDER

your link to a better life

-6-

CLIENT AMERITECH SERVICES/[illegible] DATE [illegible] JOB NO. [illegible] COMML. [illegible]
TITLE "BENCH-OFF" LENGTH :15 STATUS Rev. 4 1 OF 1



LOCK DOWN CAMERA. BUS BENCH READS OHIO BELL.

(MUSIC & SFX UNDER)

ANNOUNCER: Now the phone company—

-1-

A TEACHER AND GROUP OF SCHOOLGIRLS APPEAR. THIS IS UNDER-CRANKED THROUGHOUT.

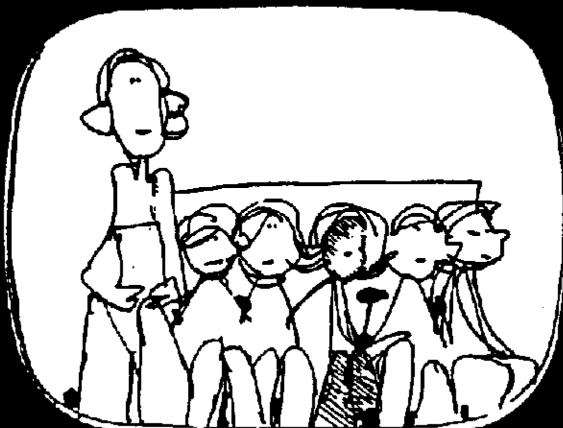
...that you've always depended on...

-2-

KIDS FILE IN AND SIT ON THE BENCH, WIPING OUT OHIO BELL.

...is changing to keep up with the class of 2000...

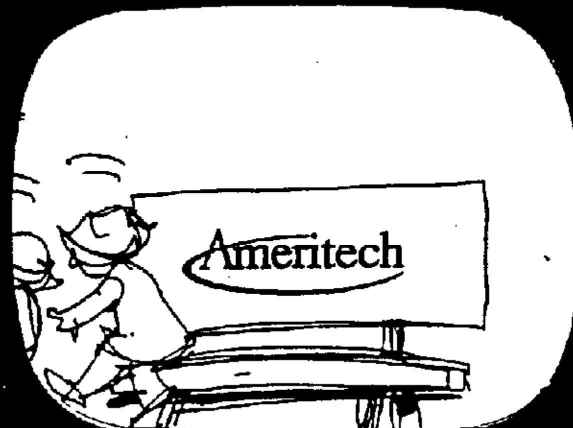
-3-



KIDS ARE FIDGETY. UNDER-CRANKED, THIS LOOKS VERY FUNNY.

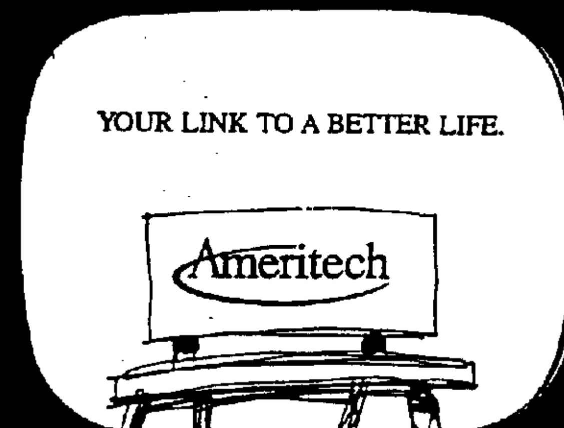
...well into the future. Ohio Bell...

-4-



TEACHER AND KIDS GET UP AND GO, REVEALING SIGN HAS CHANGED TO AMERITECH.

...will be known as...Ameritech.



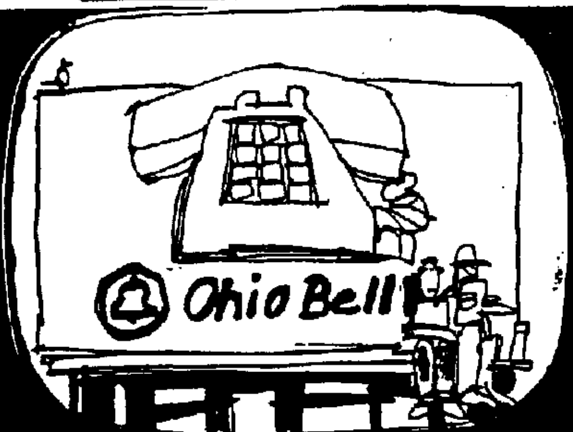
EMPTY BENCH SIGN AS LOGO. SUPER TAG.

More than ever, your link to a better life.

-6-

CLIENT [illegible] SERVICES/IDENTITY — DATE [illegible] — JOB NO. [illegible] — COML. [illegible]

TITLE "[illegible]" — LENGTH :15 — STATUS Rev. 1 — 1 OF 1

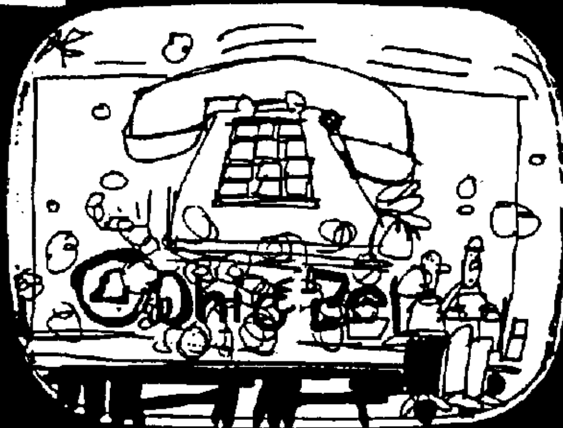


(MUSIC & SFX UNDER)

LOCK DOWN CAMERA. TWO GUYS ON SCAFFOLDING IN FRONT OF A BILLBOARD WITH A GIANT PHONE/OHIO BELL.

ANNCR (VO): Ohio Bell is ringing in...

-1-



PHONE RINGS, SHAKING EVERYTHING.

...a brand new identity.

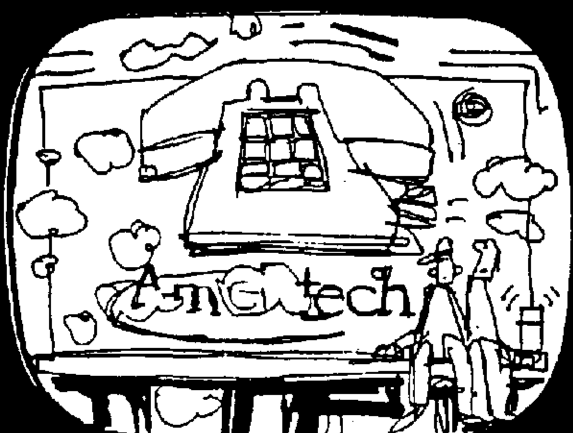
SFX: (PHONE RINGS)

-2-

DUST AND DEBRIS FLY UP, OBSCURING OHIO BELL.

Now you can call us...

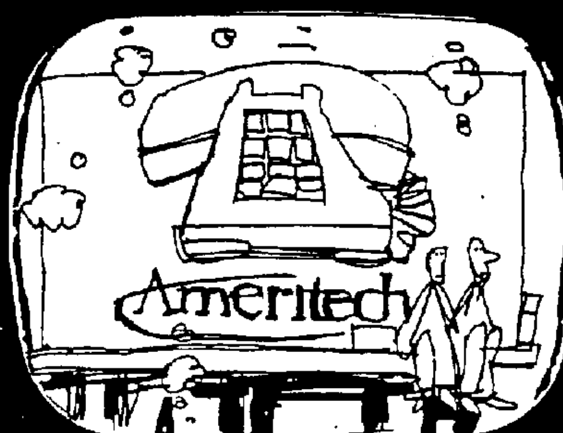
-3-



DUST BEGINS TO CLEAR, REVEALING SIGN HAS CHANGED TO AMERITECH.

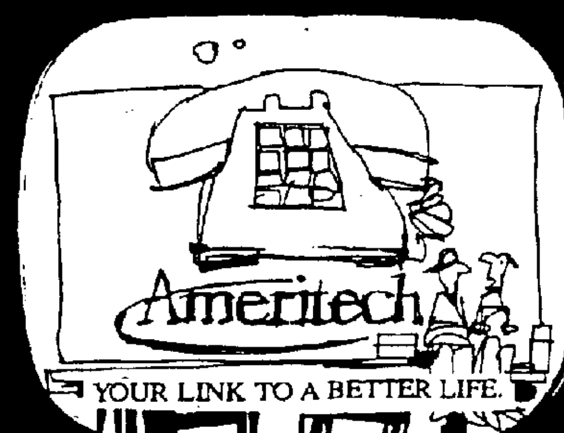
Ameritech.

-4-



DUST CLEARS. TWO GUYS LOOK A BIT STUNNED YET...

-5-



ONE OF THEM NONCHALANTLY DELIVERS A LINE.

MAN (OC): How'd they get this number?

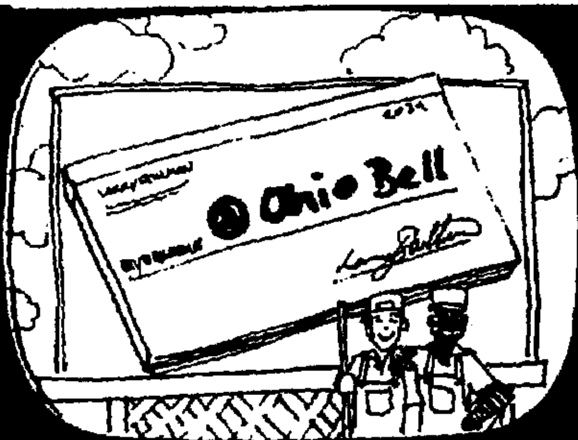
SUPER TAG.

ANNCR (VO): Ameritech. More than ever, your link to a better life.

-6-

CLIENT AMERITECH SERVICES/[illegible] DATE [illegible] JOB NO. [illegible] CODE [illegible]

TITLE "Bill Check-Off" LENGTH :15 STATUS REV. 2 1 OF 1



(MUSIC UP & UNDER)

LOCK DOWN CAMERA. TWO GUYS STANDING BEFORE BIG BILLBOARD CHECK. IT READS OHIO BELL.

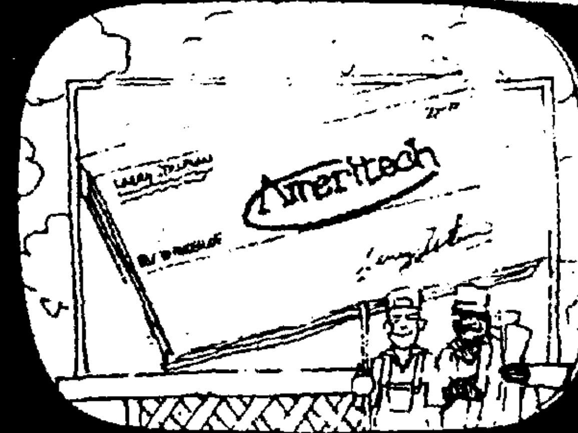
ANNCR (VO): You've just written your last check to Ohio Bell.

-1-

GIANT CHECK BLOWS OFF THE BILLBOARD.

From now on,

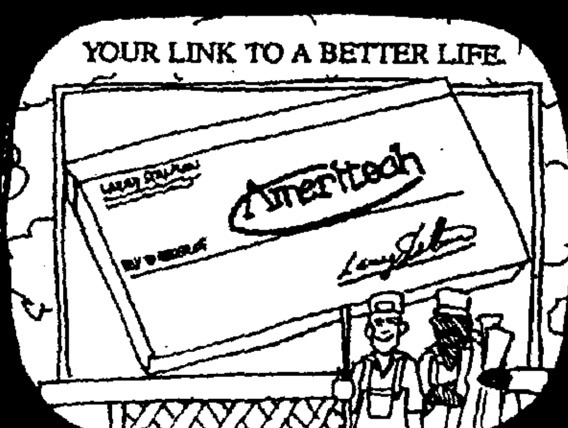
-2-



A NEW CHECK BEHIND IT READS AMERITECH.

you'll be making them out to Ameritech.

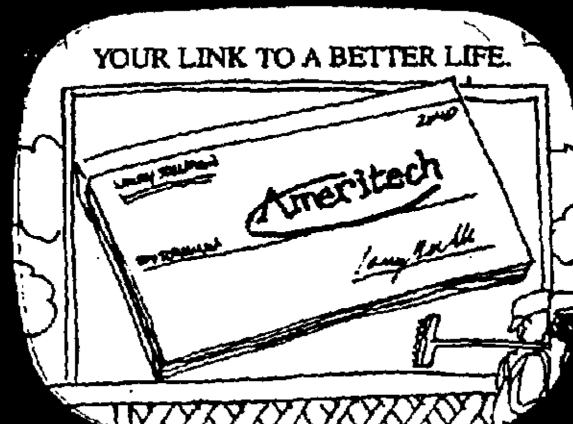
-3-



SUPER TAG.

Ameritech. More than ever, your link to a better life.

-4-



TWO GUYS WALK OFF CAMERA, ONE COMMENTS.

1ST MAN (OC): Got that, Ed?

2ND MAN (OC): Check.

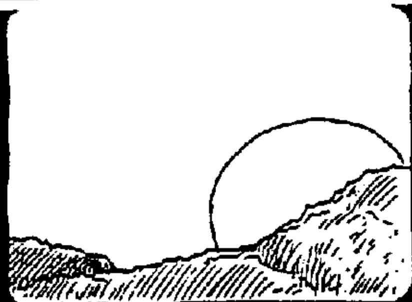
-5-

LATHAM EURO RSCG

OK FOR PRODUCTION

CLIENT AMERITECH SERVICES/CORPORATE DATE 9/23/92 JOB NO. AS23520 COMML. YAKO 6250

TITLE "BETTER LIFE-OH" LENGTH :60 STATUS Rev. 3 1 OF 7



OPEN ON SUNRISE SHOT, STOCK.

SONG: (MUSIC UP)

-1-

CUT TO LS PEOPLE RUNNING DOWN AIRPORT CONCOURSE. BACKLIT.

THE WORLD

-2-

DISS TO MLS FARMER ON CELLULAR PHONE. AMERITECH.

IS MOVING

-3-

DISS TO DOLLY MLS DOWN SMALL TOWN STREET.

FASTER

-4-

DISS TO LS, OVERCRANKED RUSH HOUR EXPRESSWAY.

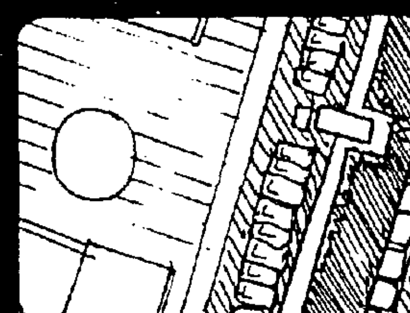
THAN IT EVER

-5-

CUT TO PEDESTRIANS CROSSING STREET. AMERITECH.

HAS BEFORE.

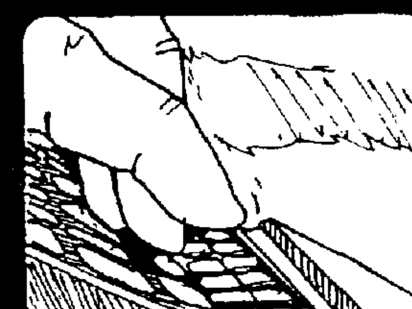
-6-



DISS TO ECU COMPUTER ELEMENTS DOCKING.

THE INFORMATION AGE

-7-



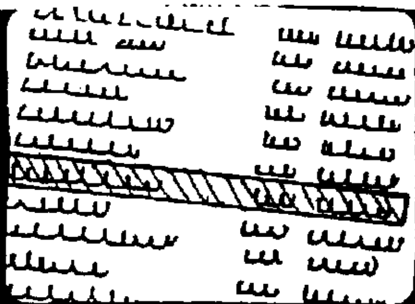
DISS TO ECU FINGERS ON KEYBOARD.

HAS DAWNED.

-8-

D-INT AMERITECH SERVICES/CORPORATE DATE 9/23/92 JOB NO. AS23520 COMML YAKO 6250

TITLE "BETTER LIFE-OH" LENGTH :60 STATUS REV. 3 2 OF 7



DISS TO ELECTRONIC PHONE DIRECTORY.

REVEALING

-9-

DISS TO AMERITECH SCENE AT HOME, VIDEO CALLING.

WHAT'S IN STORE,

-10-

DISS TO AMERITECH INTERACTIVE CLASSROOM.

BETTER WAYS

-11-

DISS TO CU AMERITECH INTERACTIVE CLASSROOM.

OF LEARNING,

-12-

DISS TO BI-PACK STOCK EXCHANGE SCENE, AMERITECH.

BETTER

-13-

DISS TO MLS SMALL MANUFACTURER. ASSOCIATES VIEW MONITOR WITH STOCK INFO.

WAYS

-14-

DISS TO AMERITECH LADY WITH CHILD WORKING AT HOME, MS.

TO GROW,

-15-

DISS TO MS WEDDING SCENE, BRIDE DANCING WITH GROOM.

BETTER LIVES

-16-

CLIENT	AMERITECH SERVICES/CORPORATE	DATE 9/23/92	JOB NO. AS23620 COMML YAKO 6250
TITLE	"BETTER LIFE-OH"	LENGTH :60	STATUS REV. 3 3 OF 7

DISS TO CRANE MLS, DAD AND DAUGHTER ON BEACH.

FOR

-17-

DISS TO MCU DAD HUGS DAUGHTER.

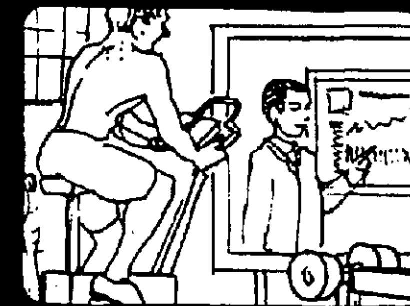
ALL OF US.

-18-

DISS TO MS MAN EXERCISING WITH ELECTRO CARDIOGRAM NODULES ATTACHED.

SO LET THE

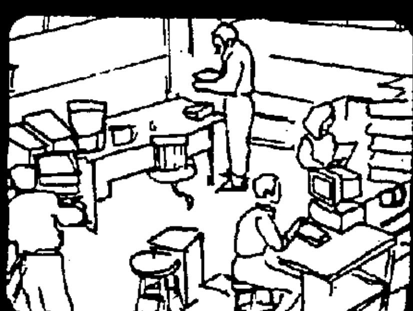
-19-



DISS TO LOW ANGLE MLS, MAN ON EXERCYCLE, VIDEO CONFERENCING WITH HIS PHYSICIAN.

KNOWLEDGE FLOW...

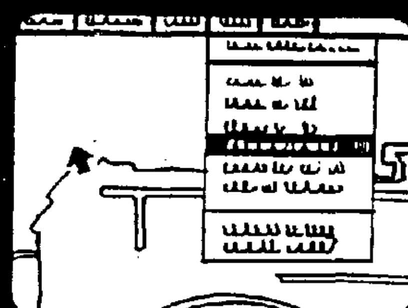
-20-



DISS TO CRANE MLS, LOFT OFFICE SPACE. COMPUTERS EVIDENT.

IT'S THE ROAD...

-21-



CUT TO CU SCREEN GRAPHIC, ICON SHIFT.

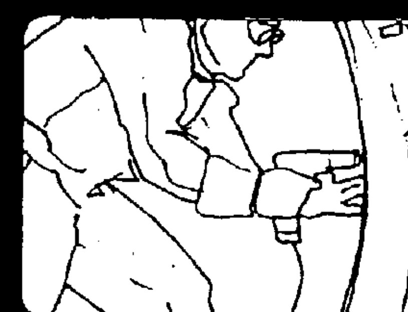
(MUSIC)

-22-

CUT TO CU WOMAN'S REACTION TO COMPUTER INFORMATION.

TO UNDERSTANDING

-23-



DISS TO HIGH TECH CONSTRUCTION SHOT, MS.

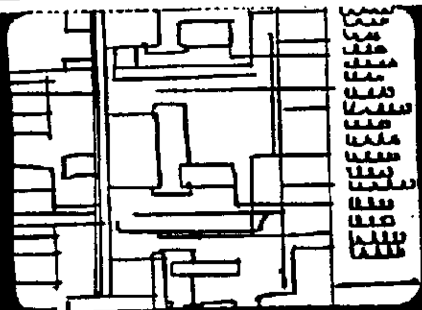
IT'S THE PATHWAY

-24-

M EURO RSCG

OK FOR PRODUCTION

- AMERITECH SERVICES/CORPORATE DATE 9/23/92 JOB NO. AS23630 COMML. YAKO 6250
"BETTER LIFE-OH" LENGTH :60 STATUS REV. 3 4 OF 7



DISS TO CU COMPUTER SCHEMATIC.

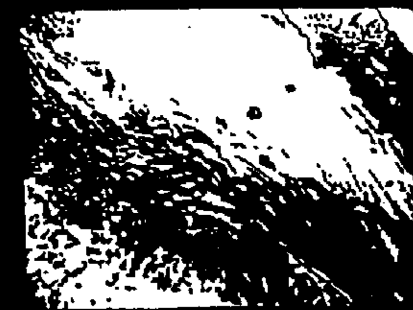
(MUSIC)

-25-

DISS TO SHUTTLE LAUNCH STOCK.

TO THE

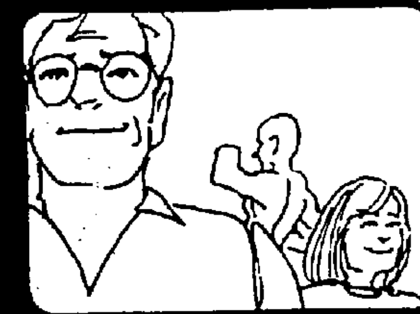
-26-



DISS TO ELS EARTH SHOT FROM SPACE. (STOCK)

STARS

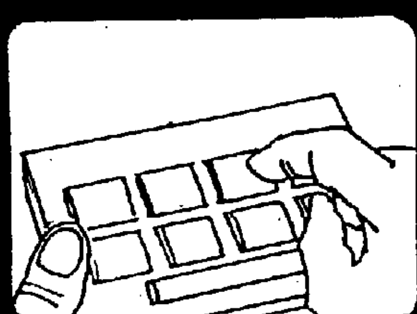
-27-



DISS TO LOW ANGLE MCU COUPLE IN MUSEUM. BI-PACK AMERITECH LOGO OVER NEXT THREE SCENES.

IT'S THE DOORWAY

-28-



DISS TO MAN'S POV WITH CONTROL MODULE. MCU.

(MUSIC)

-29-

DISS TO MLS, BACKLIT WHEELCHAIR COUPLE IN MUSEUM, VIEWING DETAIL OF VAN GOGH SELF-PORTRAIT ON INTERACTIVE VIDEO WALL.

TO ENLIGHTENMENT

-30-

DISS TO CU COMPUTER SCREEN, SIGNATURE BEING DONE ON DOCUMENT. AMERITECH.

IT'S THE

-31-

CUT TO MS MAN SIGNING DOCUMENT VIA INTERACTIVE CONFERENCE. AMERITECH.

FUTURE

-32-

DISS TO LADY PHONING FROM HIGH TECH CAR PHONE, MCU. AMERITECH.

(MUSIC)

-33-

DISS TO MAN IN WHEEL CHAIR, PLAYING WITH YOUNG GIRL.

AND IT'S OURS

-34-

DISS TO MS FAMILY, AMERITECH. BI-PACK AMERITECH LOGO OVER NEXT THREE SCENES.

AMERITECH.

-35-

DISS TO FAMILY ON INTERACTIVE SCREEN, AMERITECH.

(MUSIC)

-36-

PULL BACK TO SHOW GRANDPARENTS TALKING ON VIDEO PHONE, AMERITECH.

(MUSIC)

-37-

DISS TO CU MAN ON AMERITECH CELLULAR PHONE, AMERITECH.

ANNCR(VO): Imagine: bringing knowledge...

-38-

DISS TO ECU FINGERS ON KEYBOARD. AMERITECH.

from every corner...

-39-

DISS TO DOCTOR REVIEWING INFO ON LARGE SCREEN, MS, AMERITECH.

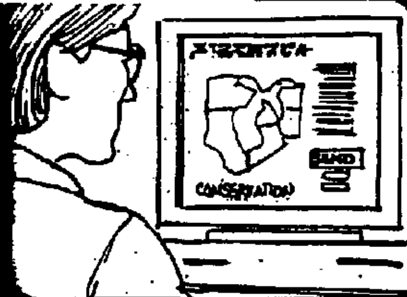
of the globe...

-40-

DISS TO MS FAMILY AT HOME VIEWING MULTI-SCREEN INFORMATION SYSTEM.

Into every home,

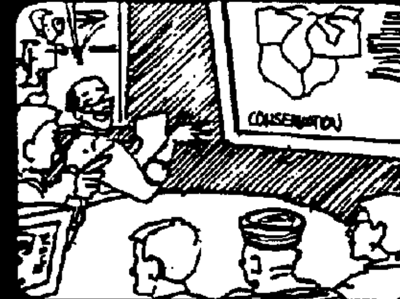
-41-



DISS TO MIDWESTERN MAN, MCU WITH BI-LINGUAL COMPUTER DISPLAY, HITS "SEND" ICON.

every

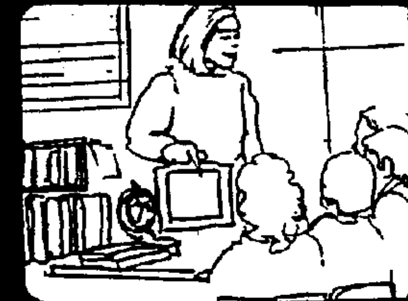
-42-



DISS TO DOWN SHOT, SMALL MANUFACTURER'S CONFERENCE ROOM IN FOREIGN COUNTRY, WITH WIDE SCREEN IMAGE OF BILINGUAL SCREEN.

office,

-43-



DISS TO MS CHILDREN AROUND COMPUTER IN CLASSROOM.

every

-44-

DISS TO MCU KIDS WITH COMPUTER SCREEN.

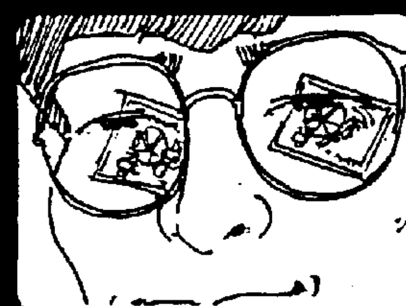
classroom.

-45-

DISS TO ECU KIDS' REACTION TO SCREEN.

(MUSIC)

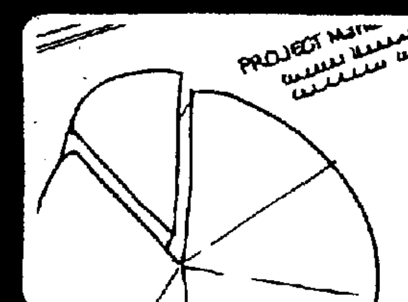
-46-



DISS TO CU, MAN AT COMPUTER. SCREEN IS REFLECTED IN HIS GLASSES.

AMERITECH

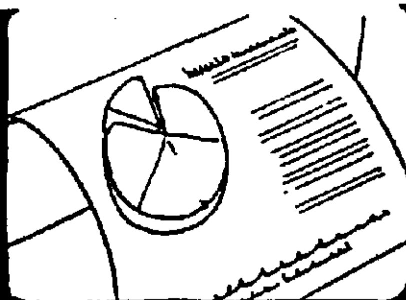
-47-



DISS TO MAN'S SCREEN GRAPHIC, ECU.

IS

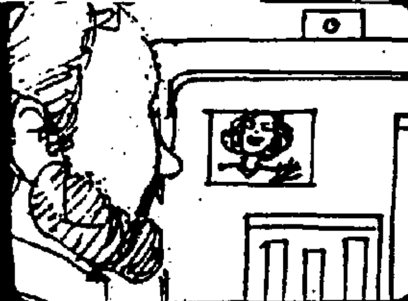
-48-



GRAPHIC IS RECEIVED ON FAX.

READY

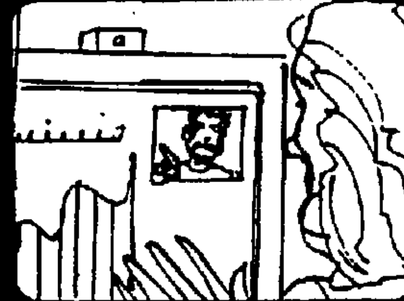
-49-



DISS TO INTERACTIVE P.C. SCREEN AS MAN TALKS TO WOMAN ABOUT GRAPHIC ON THE SCREEN.

TO DO

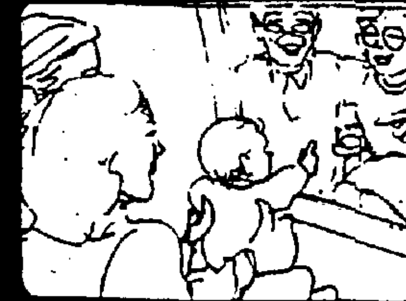
-50-



CUT TO WOMAN ON HER P.C., TALKING TO MAN.

IT NOW.

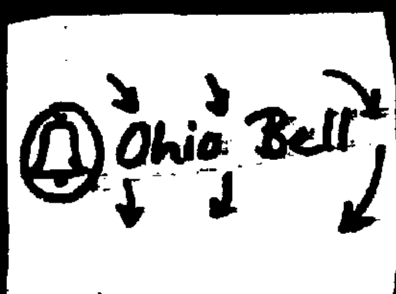
-51-



DISS TO FATHER, DAUGHTER AND MOM INTERACTING WITH VIDEO GRANDPARENTS.

AMERITECH...

-52-



START LOGO GRAPHIC.

AMERITECH...

-53-

CONTINUE LOGO GRAPHIC.

(MUSIC)

-54-

AMERITECH
Your Link to a Better Life

DISS TO LOGO. ADD THEMELINE: "YOUR LINK TO A BETTER LIFE."

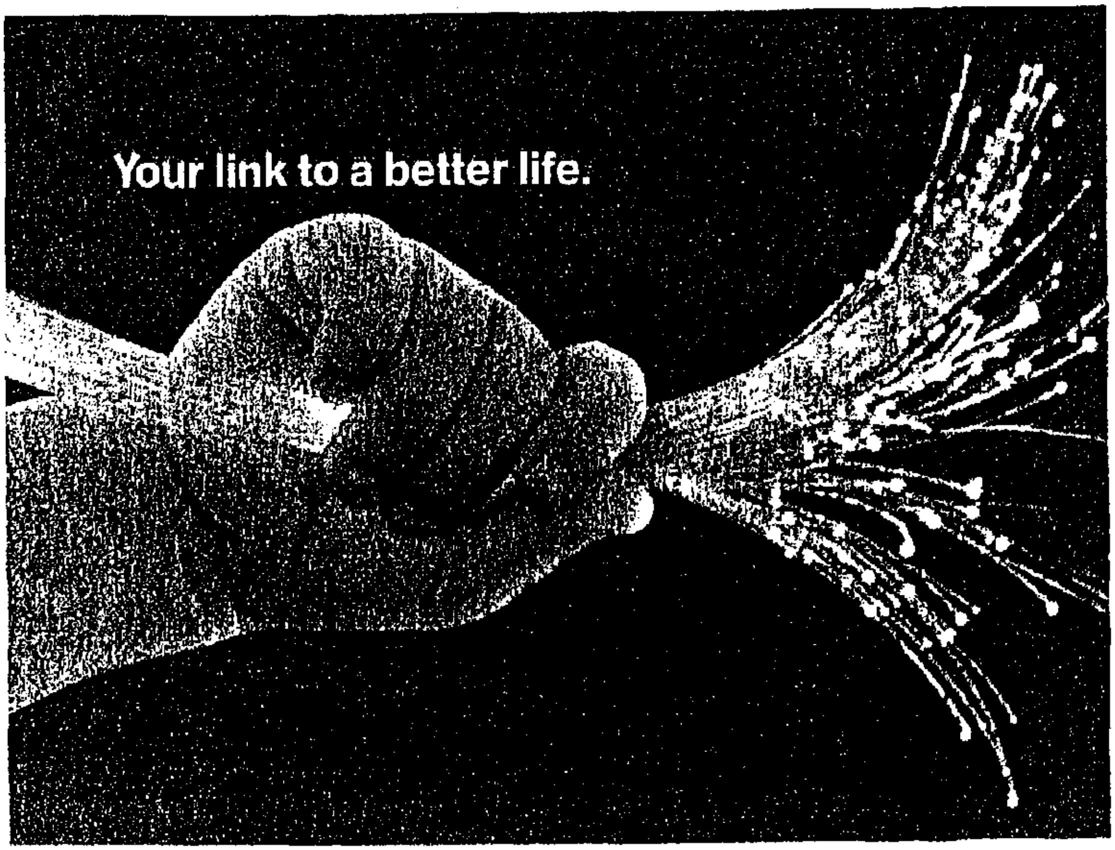
YOUR LINK...TO A

-55-

DISS TO BI-PACK BOY SIGNING TO CAMERA.

...BETTER LIFE.

-56-



Over the coming months, you'll be hearing a lot about Ameritech.

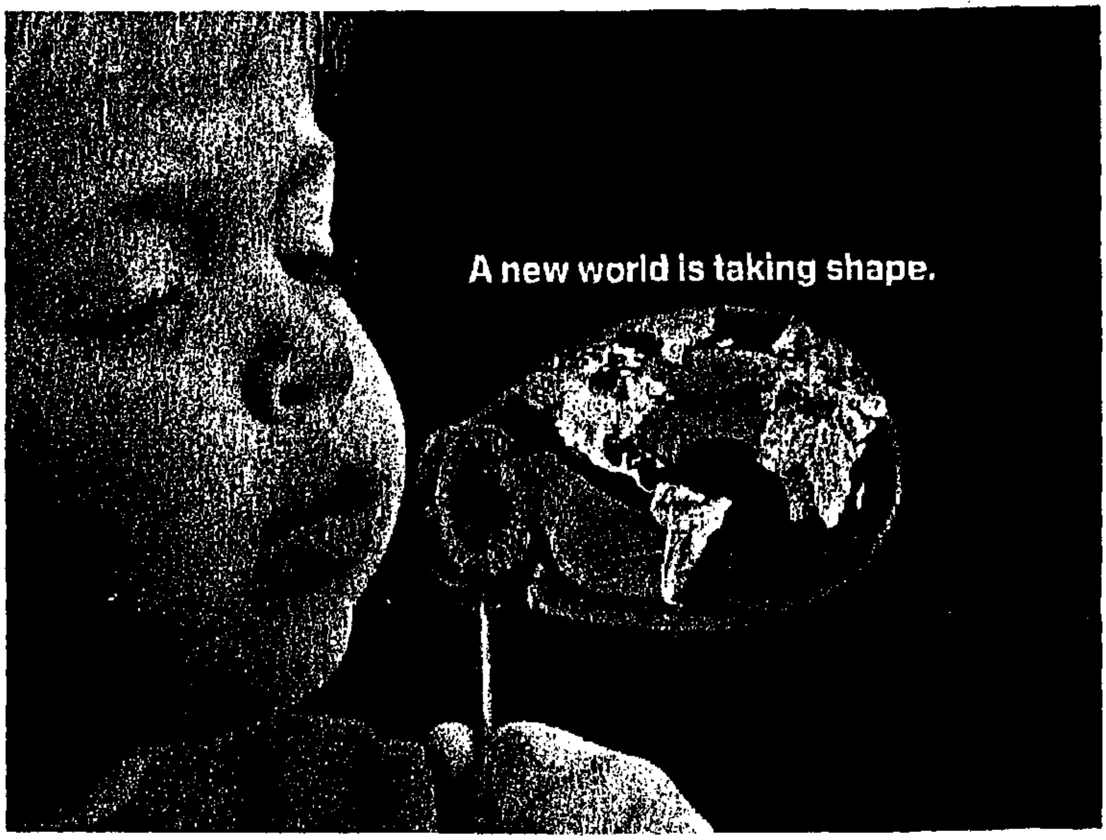
We're committed to becoming the world's premier provider of full-service communications, enabling us all to reach new heights in education, economic development, and quality of life.

Information will be available to everyone as never before. Businesses will become more competitive. Communities will become revitalized.

Ameritech stands poised to usher in this new information age. Because we believe **the more you know, the more you grow.**

AMERITECH
Your link to a better life.

The Ameritech Companies in Ohio	Ohio Bell	Ameritech Services	Ameritech International
	Ameritech Mobile Communications	Ameritech Development	Knowledge Data Systems
	Ameritech Information Systems	Ameritech Credit	NOTIS Systems
	Ameritech Publishing	Ameritech Audiotex Services	Dynix



With all the exciting new breakthroughs in communications, "business as usual" is an outdated concept.

Because today, images and data that once took days or even weeks to reach their destination are now received in seconds. So whether you're part of a start-up business or a major corporation, you can have **ready access to the data** you need to make critical decisions.

Ameritech is leading the way in applying this technology, helping businesses in our communities thrive in this information age. For example, with Ameritech's LAN-to-LAN interconnectivity, companies are managing inventory and sharing information electronically with **real-time savings.**

A computer-aided design application helped one of the world's largest auto-makers **increase productivity** by allowing more than 150 suppliers to transfer design files instantly, with just the push of a button.

A regional health information network, designed by Ameritech, links doctors, hospitals, employers and insurance companies. This not only **improves the quality** of healthcare but also **lowers the cost** of delivering it.

And a fast-food industry giant watched **productivity go up and commute time go down** when Ameritech used ISDN lines to link employees working at home with colleagues at their corporate campus.

Business is indeed changing for the better, and **Ameritech is committed to helping companies large and small run more efficiently and grow profitably.**

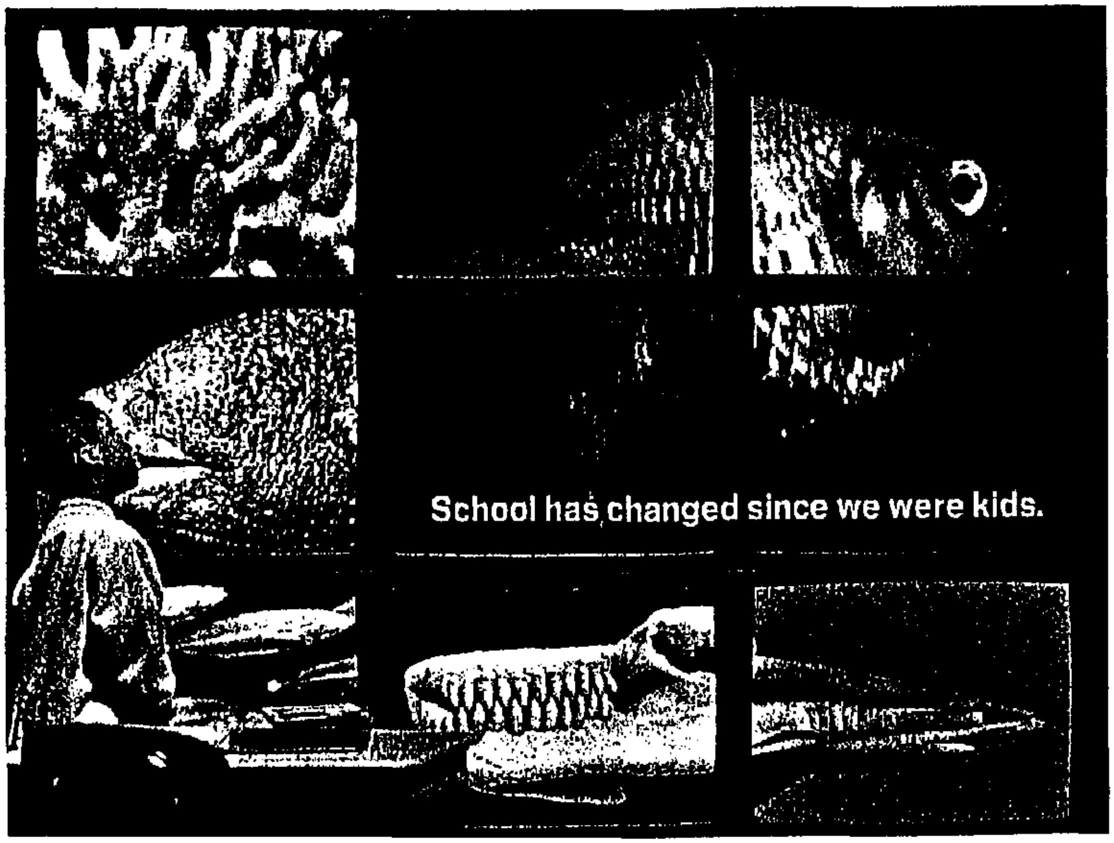
To learn more about how Ameritech's vision is benefiting economic development, call 1-800-786-LINK. (For TDD/TTY access, call 1-800-242-9393.)

AMERITECH

Your link to a better life.

The Ameritech Companies In Ohio

Ohio Bell	Ameritech Services	Ameritech International
Ameritech Mobile Communications	Ameritech Development	Knowledge Data Systems
Ameritech Information Systems	Ameritech Credit	NOTIS Systems
Ameritech Publishing	Ameritech Audiotex Services	Dynix



The traditional classroom we once knew is a thing of the past.

In its place are classrooms without walls, where information from all over the globe is accessible at the touch of a finger.

Ameritech, partnering with educators, is proud to be leading the way in making learning more involving and interactive.

In Ohio's Appalachian region, for example, third and fourth grade teachers in three schools hone their teaching skills through a distance learning link with Ohio University's College of Education.

And in Findlay, Ameritech's fiber optic lines provide two-way video that links schools together to share resources, enhance classroom instruction and tie into best-of-breed training for teachers and students alike.

Ameritech is committed to helping educators improve the quality of education while energizing students, teachers and parents alike.

These are truly exciting times for the field of education. ***And the best is yet to come.***

To learn more about how Ameritech's vision is benefiting education in Ohio, call 1-800-786-LINK. (For TDD/TTY access, call 1-800-242-8393.)

AMERITECH
Your link to a better life.

The Ameritech Companies in Ohio

- Ohio Bell
- Ameritech Mobile Communications
- Ameritech Information Systems
- Ameritech Publishing
- Ameritech Services
- Ameritech Development
- Ameritech Credit
- Ameritech Audiotex Services
- Ameritech International
- Knowledge Data Systems
- NOTIS Systems
- Dynix

Schedule BEH-1

Ohio Bell Telephone Company
Rate Base: Accumulated Deferred Taxes
Accelerated Depreciation & Software
($000)

Eliminate Company adjustment to deferred taxes to reflect the portion of plant applicable to plant in service	(a)	(6,244)
Deduction to Rate Base		($6,244)

(a) Company Exhibit 92A-3.1B, page 3

Ohio Bell Telephone Company
Rate Base: Accumulated Deferred Taxes
Balances Short Term in Nature
($000)

Eliminate Company adjustments to:			
Account 4100.2110	Vacation Pay - Current	(a)	8,679
Account 4100.2310	Lien Date Property Taxes	(a)	(26,579)
Deduction to Rate Base			($17,900)

(a) Company Exhibit 92A-3.1

Schedule BEH-3

Ohio Bell Telephone Company
Rate Base: Accumulated Deferred Taxes
SFAS Post Retirement Benefits
($000)

Eliminate Deferred Income Taxes related to SFAS 106	(a)	(15,404)
Deduction to Rate Base		($15,404)

(a) Company Exhibit 92A-3.1

Ohio Bell Telephone Company
Rate Base: Unclaimed Funds
($000)

Thirteen Month Average Balances 9/92 - 9/93			
	Accounts:		
	4010.2921	(a)	($6)
	4010.2922	(a)	(29)
	4010.2923	(a)	(1,023)
	4020.2929	(a)	(1,292)
Total Company			(2,350)
Total Company Adjustment		(b)	116
Adjusted Total Company			(2,234)
Jursidictional Allocation		(b)	0.763690
Jurisdictional Rate Base Deduction for Unclaimed Funds			($1,706)

(a) Derived from OCC Interrogatory Nos. 376 and 524
(b) Exhibit 92A-3.2 and WP 92A-3.2A ;Total Company adjustment rate of .0492

Ohio Bell Telephone Company
Rate Base: Artworks
($000)

Account 2122.2 - Art works	(a)	(194)
Deduction to Rate Base:		($194)

(a) Exh. 92A-1, page 2

Ohio Bell Telephone Company
Operating Expenses: Incentive Compensation
($000)

			Adjusted Total Company	O & M Allocation	Total Company O&M	Total Company "Adjustments"	Total Company Adjusted	Benefit Loadings	Incentives & Benefit Loadings	Jursidictional Composite Factor	Jurisdictional Adjustment
Eliminate: (c)			(a)	(b)		(b)		(b)		(b)	
Non-Management Sucess Sharing Program			(4,067)	0.8713	(3,544)	230	(3,314)	0	(3,314)	0.775072	(2,569)
Senior Management Short and Long Term Awards			(745)	0.9173	(683)	44	(639)	(28)	(667)	0.775072	(517)
			(4,812)		(4,227)	274	(3,953)	(28)	(3,981)		(3,086)
Eliminate 65% of : (c)	(a)										
Management Team Incentive	5,048	65%	(3,281)	0.9173	(3,010)	195	(2,815)	(122)	(2,937)	0.775072	(2,276)
Management Individual Incentive	3,401	65%	(2,211)	0.9173	(2,028)	132	(1,896)	(82)	(1,978)	0.775072	(1,533)
	8,449		(5,492)		(5,038)	327	(4,711)	(204)	(4,915)		(3,809)
Total Adjustment to Incentive Compensation Expense			(10,304)		(9,265)	601	(8,664)	(232)	(8,896)		($6,895)

(a) Schedule BEH 6.1
(b) WP 93C-3.4, pages 3 and 4
Total Company Adjustment Factor .06492
Benefits Loading Factors .0433
(c) See Testimony

Ohio Bell Telephone Company
Operating Income:Incentive Compensation
Determination of Total Company Test Year Amounts
($000)

		Non-Mgt. Sucess Sharing	Senior Mgt. Short and Long Term	Mgt. Team Incentive	Mgt. Individual Incentive	Total
1993 Estimate	(a)		792	5,991	3,961	
1993 Allocation	(a)		0.7452	0.7452	0.7452	
1993 in Test Year			590	4,464	2,952	
Fourth Quarter 1992	(b)		155	911	666	
Test Year	(c)	4,319	745	5,375	3,618	14,057
C-3.4 Adjustments						
Page 3	(d)			(110)	(73)	(183)
Page 4	(e)	(252)	0	(217)	(144)	(613)
		4,067	745	5,048	3,401	13,261

(a) WP 93C-1.6a.1.a

(b) 4th Quarter Accrual Total Incentive (WP 93C-1.6a.1.a)	1,732
Less: 4th Quarter Accrual Team & Individual (WP 93C-3.4, page 4)	1,577
Equals 4th Quarter Accrual for Senior Mgt. Short and Long Term	155

(c) Non-Mgt. per WP 93C-1.6a.1.a, line 8

(d) WP 93C-3.4, page 3 - Total Company (Whole Dollars)

		Team	Individual
Average Award	(line 1)	3,514	2,323
Employees	(line 2)	127	127
Annual	(line 3)	446,278	295,021
In Test Year	(line 6)	110,041	72,745

(e) WP 93C-3.4, page 4, line 8

Ohio Bell Telephone Company
Operating Income: Materials and Supplies Expense
($000)

Eliminate Company View Adjustment to 1993 Material and Supplies Expense	(a)	(5,000)
1993 Allocation	(b)	0.7452
1993 Materials and Supplies in Test Year		(3,726)
Total Company Adjustments	(c)	133
Total Company Adjusted		(3,593)
Composite Jurisdictional Allocation	(d)	0.780944
		($2,806)

(a) WP 93C-1.1b.3.b.3
(b) WP 93C-1.1b.3 (1/93 - 9/93)
(c) Exh. 93C-1 - Composite Total Adjustment Factor A/C's 6112-6728

Total Company Adjustments	52,465
Total Company	1,472,287
Adjustment Factor	0.0356

(d) Exh. 93C-1

Ohio Bell Telephone Company
Operating Income: Medical and Dental Expenses
($000)

Medical Expense:			
January - June 1993	(a)	21,696	
July - September 1993	(a)	9,500	
Estimated October - December 1993	(a)	9,500	
Annual Medical Expense		40,696	
Company Annual 1993 Medical Expense	(b)	43,600	
Adjustment to Total Company 1993 Annual Medical Expense		(2,904)	
1993 Allocation	(c)	0.7452	
1993 Medical Expense in Test Year		(2,164)	
Total Company Adjustments	(d)	77	
Total Company Adjusted		(2,087)	
Composite Jurisdictional Allocation	(e)	0.780944	
Adjustment to Jurisdictional Medical Expense			(1,630)
Dental Expense:			
Annualized Dental Expense	(f)	4,560	
Company Annual 1993 Dental Expense	(b)	5,717	
Adjustment to Total Company 1993 Annual Medical Expense		(1,157)	
1993 Allocation	(c)	0.7452	
1993 Dental Expense in Test Year		(862)	
Total Company Adjustments	(d)	31	
Total Company Adjusted		(831)	
Composite Jurisdictional Allocation	(e)	0.780944	
Adjustment to Jurisdictional Dental Expense			(649)
Adjustment to Jurisdictional Medical and Dental Expenses			($2,279)

(a) OCC Interrogatory No. 491
(b) WP 93C-1.5a
(c) WP 93C-1.1b.3
(d) Total Company Adjustment Factor .0356 - Schedule BEH-7, footnote (c)
(e) Exh. 93C-1
(f) See Testimony and OCC Interrogatory No. 491 (380 x 12 = 4,560)

Ohio Bell Telephone Company
Operating Income: Pension Expense
($000)

Total Company Pension Cost based on January, 1993 Actuarial Study	(a)	(24,691)
Company Total Company Estimated 1993 Pension Cost	(b)	(15,996)
Adjustment to Total Company Pension Cost		(8,695)
Charged to Construction	(b)	(1,000)
		(7,695)
Total Company Adjustments	(b)	(500)
Ajusted Total Company		(7,195)
Composite Jurisdictional Allocation	(b)	0.775072
Adjustment to Jurisdictional Pension Expense		($5,577)

(a) Schedule BEH 9.1
(b) WP 93C-3.6
Construction charges factor - .1150
Total Company adjustment factor - .06492

Schedule BEH-9.1

Ohio Bell Telephone Company
Operating Income: Pension Expense
Total Company Pension Expense based on January, 1993 Actuarial Study
($000)

		Managment Plan	Non-Management Plan	Total
Ameritech Pension Expense	**(a)**	**6,931**	**(124,123)**	
Allocation to Ohio Bell	**(a)**	**10.5419%**	**18.9848%**	
Ohio Bell Pension Expense	**(a)**	**731**	**(23,565)**	**(22,834)**
AT & T Remibursments	**(b)**	**(783)**	**(1,074)**	**(1,857)**
Ohio Bell Gross Pension		**(52)**	**(24,639)**	**(24,691)**

(a) OCC Request for Production of Documents No. 191
Ameritech 1992 Actuarial Report for Pension Expense (January, 1993)
Exhibit B, pages II-5, II-7
(b) OCC Request for Production of Documents No. 130
AT&T Reimbursments as Percentage of Ameritech Pension:

	Management	Non-Management
1993 Budgeted Pension:		
Ameritech Pension	**10,000**	**(80,000)**
AT&T Reimbursments	**1,129**	**692**
per Oho Bell Assumptions	**11.2900%**	**-0.8650%**
Pension per 1/93 Report:		
Ameritech Pension	**6,931**	**(124,123)**
AT&T Reimbursments	**783**	**1,074**

Schedule BEH-10

Ohio Bell Telephone Company
Operating Income: Ohio Bell/Ameritech Logo Change Accrual
($000)

Eliminate December, 1992 accrual to Account 6121 for changing building, motor vehicle and other signage	(a)	(7,696)
Total Company adjustments	(b)	(194)
Adjusted Total Company		(7,502)
Jurisdictional Allocation	(c)	0.775108
Jurisdictional Adjustment to Account 6121		($5,815)

(a) OCC Interrogatory No. 465
(b) WP 93C-1A.1, page 3, Total Company Adjustment Factor .0252
(c) Exhibit 93C-1, Account 6121

Ohio Bell Telephone Company
Operating Income: Wages and Benefits
($000)

		Non-Management		Managment		Total
Average Number of Test Year Employees as used by Company	(a)	8,750		1,569		
Test Year End Number Employees	(b)	8,710		1,483		
Adjustment to Employee Levels		(40)		(86)		
Average Salary	(a)	33.409		51.291		
Annual Reduction to Wages		(1,336)		(4,411)		
O&M Ratio	(a)	0.87131		0.91731		
Reduction to O& M Wages		(1,164)		(4,046)		
Total Company Adjustments	(c)	(76)		(263)		
		(1,088)		(3,783)		
Overtime & Differential	(d)	(129)		(70)		
Adjustment to Total Company Wages			(1,217)		(3,853)	(5,070)
Benefit Loadings	(e)		(24)		(164)	(188)
Adjustment to Wages and Benefits			(1,241)		(4,017)	(5,258)
Jurisdictional Allocation	(f)		0.775072		0.775072	
Adjustment to Jurisdicitional Wages and Benefits			(962)		(3,113)	($4,075)
Payroll Taxes	(f)		(93)		(293)	(386)
Jurisdictional Allocation	(a)		0.775072		0.775072	
Adjustment to Jurisdicitional Wages and Benefits			(72)		(227)	($299)
Jurisdictional Adjustments			(1,034)		(3,340)	($4,374)

(a) WP 93C-3.2 and WP 93C-3.3
(b) OCC Interrogatory No. 470
(c) WP 93C-3.2 and WP 93C-3.3 Total Company Adjustment Factor .06492
(d) WP 93C-3.2b Non-mgt. 11.85% and Mgt. 1.84%
(e) WP 93C-3.2 Mgt. 2.23% and WP 93C-3.3 Non-mgt. 4.33%
(f) WP 93 C-3.5 Wages Reduction x .0761 (.99451 x .0765)
Portion of Wages subject to FICA x 1993 FICA Rate

Schedule BEH-12

Ohio Bell Telephone Company
Operating Income: Property Taxes
($000)

Public Utility Property Taxes:				
Total Taxable Value	(a)	1,949,054		
Tax Rate	(b)	0.07480		
Tax			145,789	
Real Estate Property Tax:				
Total Taxable Value	(c)	136,487		
Tax Rate	(d)	0.05301		
Tax			7,235	
Total Company Property Taxes				153,024
Test Year Total Company Property Taxes	(e)			157,584
Adjustment to Total Company Property Taxes				(4,560)
Total Company Adjustments	(e)			(37)
Total Company Adjusted				(4,523)
Jurisdictional Allocation	(e)			0.761821
Adjustment to Jurisdictional Property Taxes				($3,446)

(a) WP 93C-1.9b.1a
(b) OCC Interrogatories Nos. 337 and 441
(c) WP 93C-1.9b.1b
(d) OCC Interrogatories Nos. 336 and 441
(e) WP 93C-3.14, Total Company Adjustments Factor .0082

Schedule BEH-13

Ohio Bell Telephone Company
Operating Income: Federal Income Taxes
Amortization of Excess Deferred Taxes
($000)

Unrestricted Deferred Tax Surplus as of 12/31/92 resulting from TRA 86	(a)	12,448
Total Company Adjustments	(b)	(294)
Total Company Adjusted		12,154
Jurisdictional Allocation	(c)	0.739107
Jurisdictional Amount		8,983
Amortization Period - Years	(d)	3
One Year Amortization's reduction to Deferred Taxes		($2,994)

(a) Staff Data Request No. 29
(b) Exh. 93C-2, page 3 Total Company Adjustment Factoı 0.0236
(Total Co. Adjs. Other Tax Deferrals Total Co. Other Tax Deferrals)
(c) Exh. 93C-2, page 3 Composite Factor Total Other Deferrals
(d) See Testimony

Schedule BEH-14

Ohio Bell Telephone Company
Operating Income: Ohio Bell/Ameritech Logo Change Advertising
($000)

Eliminate Account 6613.92 Advertising Expense for "Your Link to A Better Life" Campaign/Promotion	(a)	(2,418)
Total Company Adjustments	(b)	(41)
Total Company Adjusted		(2,377)
Jurisdictional Allocation	(c)	0.763624
Adjustment to Jurisdictional Advertising Expense		($1,815)

(a) OCC Request for Production of Documents No.189
(b) WP 93C-1A.1 Total Company Adjustment Factor .01070
(c) Exh. 93C-1, page 5