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93-576-TP-CSS

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Direct Testimony of David Effron.

OCC EXHIBIT _____

NONPUBLIC VERSION

THE OHIO BELL TELEPHONE COMPANY

CASE NO. 93-487-TP-ALT
Direct Testimony

CASE NO. 93-576-TP-CSS
Supplemental Direct Testimony

OF
DAVID J. EFFRON

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

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MAY 5, 1994

Q. Please state your name and business address.

A. My name is David J. Effron. My business address is 386 Main Street, Ridgefield, Connecticut 06877.

Q. Have you previously filed testimony in OCC's complaint case, Case No. 93-576-TP-CSS?

A. Yes. I filed testimony in Case No. 93-576-TP-CSS which addressed and quantified certain rate base and operating income issues. I hereby incorporate by reference that testimony in its entirety into Case No. 93-487-TP-ALT. References herein to my "previous," "prior," or "initial direct" testimony are to my testimony filed in OCC's Complaint case.

Q. Mr. Effron, is the incorporation of your prior testimony into Case No. 93-487-TP-ALT the sole purpose of this supplemental testimony?

A. No. In my initial direct testimony, I presented certain adjustments to the Company's determination of rate base and operating income which it presented in the standard filing requirements in Case No. 93-487-TP-ALT. The purpose of this supplemental testimony is to explain how the adjustments which I presented in my initial direct testimony relate to the Staff Report in Case No. 93-487-TP-ALT. The purpose of this testimony is thus to present certain adjustments to rate base and operating income as presented by Staff in the Staff

Report.

Q. Have you prepared schedules which summarize your proposed adjustments to the Staff Report?

A. Yes. I have prepared Schedules DJE-1A through DJE-6A. These schedules are analogous to Schedules DJE-1 through DJE-6 accompanying my previous testimony. However, Schedules DJE-1A through DJE-6A quantify adjustments to the rate base and operating income presented in the Staff Report, rather than the rate base and operating income as presented by the Company in the Standard Filing Requirements. These schedules, as relevant, have been provided to Mr. Chan to incorporate into his calculation of Ohio Bell's revenue excess.

A. <u>DIRECTORY REVENUES</u>

Q. Is any adjustment necessary to the Directory Revenue reflected in the Staff Report?

A. No. Staff did not reflect the Company's proposed adjustment to eliminate API related revenues from the test year. In fact, Staff proposed an adjustment to increase the test year Directory Revenue "to reflect a more compensatory rate per access line." In my opinion, Staff's adjustment to reflect a more compensatory rate per access line is appropriate.

Q. If you believe that Staff's adjustment to reflect a more compensatory rate per access line is appropriate, why did you not propose any such adjustment in your initial direct testimony?

A. At the time that I prepared my initial direct testimony, I did not have the information available to quantify such an adjustment. Since that time I have obtained information which clearly indicates that an adjustment to increase directory revenues is proper.

Q. What information have you obtained that would indicate that Staff's adjustment to reflect a more compensatory rate per access line is appropriate?

A. This information is summarized on Schedule DJE-1A, page 2. As can be seen on this schedule, the agreement between API and Ohio Bell has resulted in a steadily declining percentage of API net billings for directory advertising in the Ohio Bell service territory being remitted to Ohio Bell. The Ohio Bell compensation (sum certain) as a percentage of API net billings has declined from 56.79% in 1986 to 44.44% in 1993. This decline has resulted in a reduction of the contribution from directory advertising to Ohio Bell's net income. This results in an increase to the level of revenues that must be generated by Ohio Bell's regulated services.

As I stated in my initial direct testimony, as a matter of policy, a regulated utility company should not be able to unilaterally transfer one of the most profitable segments of its business to an unregulated subsidiary or affiliate, thereby increasing the level of revenues that must be generated by its regulated services. If the payment to Ohio Bell had been maintained at a percentage of API net billings equal to the percentage at the time of the transfer of Yellow Pages to API, the payment would be significantly greater than that actually received by OBT. Therefore, I believe that Staff's adjustment to reflect a more compensatory rate per access line is appropriate.

Q. Since you believe that Staff's adjustment to reflect a more compensatory rate per access line is appropriate, then what does your calculation on Schedule DJE-1A, page 1 represent?

A. My calculation on Schedule DJE-1A, page 1, represents an alternative to Staff's adjustment on Schedule C-3.3 of the Staff Report. There are different methods for computing an adjustment to test year directory revenues to reflect a more compensatory rate per access line. My adjustment on Schedule DJE-1A, page 1 reflects what the adjustment to test year directory revenues would be if the sum certain paid to Ohio Bell for the twelve months ended September 30, 1993 was equal to 55.27% of the API net billings for that period. The 55.27% figure represents the sum certain as a percentage of API net billings for the years 1985 - 1987, which were the first three full years after the transfer of Yellow Pages to API. While I do not believe that Staff's adjustment is inappropriate, I believe that the alternative which appears on my Schedule DJE-

1A is also reasonable.

Because I am not proposing to substitute my adjustment on Schedule DJE-1A, page 1 for that of Staff, it is not necessary to incorporate this adjustment into the determination of adjusted net operating income that uses the operating income in the Staff Report as a starting point.

B. MANAGEMENT SEPARATION PLAN

Q. Is it necessary to make the adjustment which you proposed in your initial direct testimony, related to the elimination of the accrual for the management separation plan, to Staff's determination of adjusted net operating income?

A. No. Schedule C-3.7 of the Staff Report reflects an adjustment to eliminate "Applicant's FASB 106 Curtailment Loss Amortization." This is the major component of the management separation plan accrual. Therefore, the adjustment which I quantified on Schedule DJE-2 of my initial direct testimony is not necessary. However, if the Commission should, for any reason, reject Staff's elimination of the curtailment loss, then the adjustment on Schedule DJE-2 accompanying my initial direct testimony would be appropriate.

C. POST-RETIREMENT BENEFITS EXPENSE OTHER THAN PENSIONS

Q. Is it necessary to make an adjustment to the post-retirement benefits expense other than pensions ("OPEB") reflected by Staff?

A. No. In my initial direct testimony, I quantified an adjustment to the amortization of the transition obligation reflected by the Company. However, Staff has eliminated the amortization of the transition obligation in its entirety. Therefore, no adjustment is necessary.

However, if the Commission should, for any reason, determine that the amortization of the transition obligation should be reflected in the cost of service, then I continue to believe that the twenty year amortization period would be appropriate, as explained in my initial direct testimony. On Schedule DJE-3A, I have recalculated the adjustment necessary to modify the amortization period from the 18 years reflected by the Company to 20 years, as I am proposing. If the Commission does determine that a 20 year amortization period would be appropriate, then the adjustment reflected on my Schedule DJE-3A, which is a revision to the adjustment on my original Schedule DJE-3, should be used.

D. <u>POST-EMPLOYMENT BENEFITS (SFAS 112)</u>

Q. Is any adjustment to Staff's pro forma operating income necessary to modify the treatment of SFAS 112 in the Staff Report?

A. No. Staff did not reflect the SFAS 112 transitional obligation in the determination of its pro forma net operating income. Therefore, no adjustment is necessary to eliminate or modify the treatment of the SFAS 112 transitional obligation.

E. DEPRECIATION EXPENSE

Q. Is it necessary to make an adjustment to the depreciation expense presented in the Staff Report?

A. Yes. Jurisdictional depreciation expense is calculated on Schedule B-3.3 of the Staff Report. Page 2 of that schedule indicates a reserve deficiency amortization of $13,531,000. related to Account 2211 - Analog Electronic Switching, All Other. As I explained in my initial direct testimony, I do not believe that any of the calculated depreciation reserve deficiency in Account 2211 should be subject to special amortization on a prospective basis. Therefore, on my Schedule DJE-5A, I show the effect of eliminating Staff's reserve deficiency amortization for Account 2211 from pro forma depreciation expense. As can be seen on this schedule, eliminating Staff's reserve deficiency amortization for Account 2211 reduces pro forma test year depreciation expense by $13,531,000.

F. INTEREST DEDUCTION FOR INCOME TAXES

Q. Has Staff used the proper method to calculate the interest deduction for income taxes?

A. Yes. Schedule C-4.1, page 1 of the Staff Report properly synchronizes the interest deduction for income taxes with Staff's calculation of rate base and the weighted cost of debt reflected in Staff's capital structure. Therefore, no adjustment is necessary to the interest deduction for income taxes, given Staff's rate base and weighted cost of debt. The interest deduction for income taxes reflected in the OCC's determination of operating income incorporates the OCC's rate base and cost of debt.

Q. Does this conclude your testimony?

A. Yes. However, I reserve the right to modify or amend my testimony based on responses to additional discovery, changes to Staff's position as presented in the Staff Report, and changes to the Company's position as presented in its filings.

OHIO BELL TELEPHONE COMPANY
ALTERNATIVE TO STAFF DIRECTORY REVENUE ADJUSTMENT
($000)

API Net Billings - OBT Yellow Pages 12 Mos. Ended 9/93	(A)	$191,680
Average Sum Certain Percentage of API Billings 1985-87	(B)	55.27%
Adjusted API Revenues to OBT		105,937
Test Year API Revenue to OBT, per Books	(C)	85,598
Adjustment to API Revenue		$20,339

Sources:
(A) Response to Staff Data Request 40
(B) Schedule DJE-1A, Page 2
(C) Company Exhibit 93C-3.13

OHIO BELL TELEPHONE COMPANY
YELLOW PAGE REVENUES
($000)

YEAR	API Net Billings	OBT Sum Certain	Sum Certain Percent
1985	124,641	69,681	55.91%
1986	127,673	72,500	56.79%
1987	141,190	75,300	53.33%
1988	153,052	78,100	51.03%
1989	165,254	80,700	48.83%
1990	175,464	83,400	47.53%
1991	181,201	83,986	46.35%
1992	185,507	84,810	45.72%
1993*	177,515	78,881	44.44%
Avg. Annual Growth 1985-1993	5.66%	2.67%	
1986-1993	6.13%	2.48%	
Average 1985-1987			55.27%

* 11 Months

Source: Response to Staff Data Request 40

Schedule DJE-2A

OHIO BELL TELEPHONE COMPANY
MANAGEMENT SEPARATION PLAN AND OUTPLACEMENT COSTS
($000)

Subsumed in Staff's elimination of curtailment loss on Schedule C-3.7

Schedule DJE-3A

OHIO BELL TELEPHONE COMPANY
ALTERNATIVE TO STAFF TREATMENT OF
TRANSITION OBLIGATION AMORTIZATION
($000)

Amortization of SFAS 106 Transition Obligation		(A)	$25,773
Company Amortization Period		(B)	18
Transition Obligation			463,914
Proposed Amortization Period			20
Annual Amortization			$23,196
Adjustment to Annual Amortization			($2,577)
Charged to Expense	0.8825	(D)	($2,274)
Charged to Regulated Operations	0.9351	(C)	($2,127)
Jurisdictional Expense Adjustment	0.7751	(C)	($1,648)

Sources:
(A) Response to OCC RFPD 130
(B) Ohio Bell Exhibit 31.0, page 33
(C) Company Workpaper WP 93C-3.7 (1-.0649)
(D) Company Workpaper WP 93C-1.5a

Schedule DJE-4A

OHIO BELL TELEPHONE COMPANY
SFAS 112 (POST-EMPLOYMENT BENEFITS)
($000)

Amortization of SFAS 112 Transition Obligation not reflected in Staff Report.

Schedule DJE-5A

OHIO BELL TELEPHONE COMPANY
DEPRECIATION RESERVE DEFICIENCY AMORTIZATION
($000)

Staff Juris. Amort. of Res. Deficiency - A/C 2211		(A)	($13,531)
Income Tax Adjustments:			
Adjustment to Unallowable Depreciation	0.0603	(B)	(816)
Adjustment to Tax SL Depreciation			($12,715)
Adjustment to ITC Amortization	0.0475	(B)	($604)

Sources:
(A) Staff Report, Schedule B-3.3, Page 2
(B) Company Workpaper WP 93C-2.2b

Schedule DJE-6A

OHIO BELL TELEPHONE COMPANY
INTEREST SYNCHRONIZATION
($000)

Staff's interest deduction properly synchronized.

CERTIFICATE OF SERVICE

I hereby certify that copies of the ***Non-Public Version Direct/Supplemental Testimony of David J. Effron,*** have been served by first class mail, postage prepaid, or hand-delivered to the following parties of record this 5th day of May, 1994.

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