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**Testimony of Kenneth N. Rosselet Jr. (37 pgs)**

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CINCINNATI BELL TELEPHONE COMPANY  
CASE NO. 96-899-TP-ALT  
NON-PUBLIC VERSION TESTIMONY  
OF KENNETH N. ROSSELET JR  
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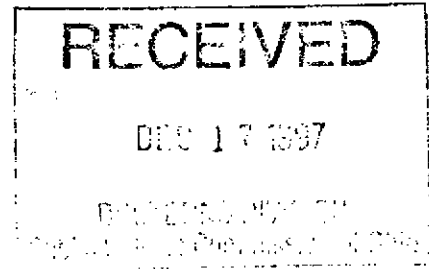
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In The Matter Of The Application Of )  
Cincinnati Bell Telephone Company For )  
Approval Of A Retail Pricing Plan Which )  
May Result In Future Rate Increases And )  
For A New Alternative Regulation Plan )

Case No. 96-899-TP-ALT



**NON-PUBLIC TESTIMONY**

**TESTIMONY**  
of  
**KENNETH N. ROSSELET, JR.**

**ON BEHALF OF**  
**THE OHIO CONSUMERS' COUNSEL**  
*77 South High Street, 15th Floor*  
*Columbus, Ohio 43266-0550*  
*(614) 466-8574*

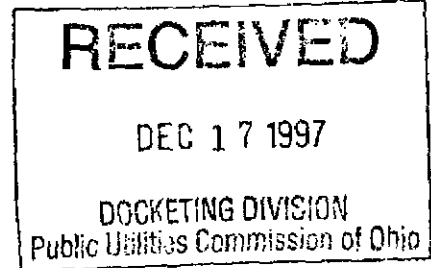
December 17, 1997

**CONTAINS ALLEGEDLY CONFIDENTIAL INFORMATION**

**BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO**

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## SCHEDULES

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## ATTACHMENTS

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1 **I. INTRODUCTION**

2

3 **Q1. PLEASE STATE YOUR NAME, ADDRESS, AND POSITION.**

4 **A1.** My name is Kenneth N. Rosselet, Jr. My business address is 77 South High  
5 Street, 15th Floor, Columbus, Ohio 43266-0550. The Ohio Consumers'  
6 Counsel (Consumers' Counsel, OCC, or Counsel) employs me as a Principal  
7 Regulatory Analyst.

8

9 **Q2. WOULD YOU PLEASE BRIEFLY SUMMARIZE YOUR EDUCATION**  
10 **AND PROFESSIONAL EXPERIENCE?**

11 **A2.** I received my formal education at the Ohio State University, Franklin  
12 University, and LaSalle Extension University. The focus of my education has  
13 been in the area of accounting. My work experience in public utility regulation  
14 and accounting began with my employment at the Public Utilities Commission  
15 of Ohio (PUCO or Commission) in 1970. During my employment with the  
16 Commission, I advanced from an entry-level position of utility examiner in the  
17 Accounts and Valuation Division of the Utilities Department to a supervisory  
18 position as a team leader in the division. As a team leader, my duties primarily  
19 included the supervision of rate audits, preparation of the Accounts and  
20 Valuation section of the Staff Report of Investigation of rate filings, and  
21 presentation of testimony in support of the Accounts and Valuation portion of  
22 the Staff Report of Investigation. During my employment with the

1 Commission, I participated directly or indirectly in approximately seventy-five  
2 rate audits.

3

4 I have been employed by the OCC since June 1977.

5

6 **Q3. WHAT ARE YOUR RESPONSIBILITIES AS A PRINCIPAL**  
7 **REGULATORY ANALYST?**

8 **A3.** My duties include the review and analysis of utility rate applications as well as  
9 other filings before the PUCO; technical evaluations and recommendations on  
10 utility-related matters; the preparation and presentation of written reports and  
11 testimony before the PUCO and other local, state, and federal governmental  
12 bodies; and representation of the OCC on panels and forums.

13

14 **Q4. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE THIS**  
15 **COMMISSION?**

16 **A4.** Yes. In my twenty-six years of regulatory experience, I have provided  
17 testimony in thirty-nine cases before the PUCO and in one case before the  
18 Federal Energy Regulatory Commission (FERC). Five of the cases were during  
19 my employment with the PUCO and thirty-four of the cases have been during  
20 my employment with the OCC. These cases are listed in Attachment 1.

21

22 **Q5. HAVE YOU BEEN A MEMBER OF ANY ORGANIZATION RELATED TO**  
23 **UTILITY REGULATION?**

1     **A5.** I served from 1985 to 1995 as the representative of the National Association of  
2           State Utility Consumer Advocates (NASUCA) to the National Association of  
3           Regulatory Utility Commissions (NARUC) Staff Subcommittee on Accounts. I  
4           also served on that subcommittee's Tax Committee.

5

6     **II. PURPOSE OF TESTIMONY**

7

8     **Q6. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**  
9           **PROCEEDING?**

10    **A6.** I am testifying on the appropriate level of test year labor expense and payroll  
11           taxes to be included for the purpose of establishing a revenue requirement in the  
12           case. I am also offering commentary on the use of a 1995 test year.

13

14    **Q7. WHAT DOCUMENTS HAVE YOU REVIEWED IN THE PREPARATION**  
15           **OF YOUR TESTIMONY?**

16    **A7.** I have reviewed pertinent portions of the Cincinnati Bell Telephone Company's  
17           (CBT or the Company) testimony, standard filing requirements, supporting  
18           workpapers, and responses to PUCO Staff (Staff) data requests. Other items I  
19           have reviewed include the Staff Report of Investigation (Staff Report) and  
20           workpapers supporting the data contained within the Staff Report.



1        **III. LABOR AND PAYROLL TAX EXPENSE ADJUSTMENTS**

2  
3        **Q8. WHAT IS THE APPROPRIATE LEVEL OF TEST YEAR LABOR**  
4        **EXPENSE TO BE INCLUDED IN THIS CASE?**

5        **A8.** It is my opinion that the appropriate level of labor expense to be included in the  
6        test year Jurisdictional Operating Expenses is \$58,996,332 (KNR-1). This is  
7        \$16,937,280 less than the \$75,933,612 recommended by the Staff (Staff  
8        Schedule C-3.6).

9  
10       **Q9. HOW HAS THE STAFF CALCULATED TEST YEAR LABOR EXPENSE?**

11       **A9.** The Staff states on page 16 of its Staff Report that it has annualized labor  
12       expense based on December 1995 payroll data. The Staff has annualized test  
13       year wages for non-management employees by applying an average test year  
14       hourly wage to the total number of yearly hours calculated for the end of the test  
15       year level of non-management employees (2,006 non-management employees  
16       as of December 31, 1995 x 2,080 hours) (Staff Schedule C-3.6a). For  
17       management employees, Staff has calculated an average monthly wage expense  
18       level and multiplied that by 12 (Staff Schedule C-3.6b).

19  
20       To these amounts the Staff has added: 1) a five year average allowance for  
21       overtime (on both non-management and management wages); 2) an allowance  
22       for Success Sharing Awards (non-management wages); 3) an allowance for  
23       Marketing Sales Incentive Awards (management wages); and 4) an allowance

1 for Team Incentive Awards (management wages) (Staff Schedules C-3.6a and  
2 C-3.6b).

3  
4 The total wages were then allocated first to Operating and Maintenance (O&M)  
5 Expenses, then to the Company's regulated operations, and finally to the  
6 jurisdictional level.

7

8 ***Q10. WHAT ARE THE DIFFERENCES BETWEEN YOUR CALCULATION OF***  
9 ***THE TEST YEAR LABOR EXPENSES AND THAT CALCULATED BY***  
10 ***THE STAFF?***

11 ***A10.*** There are six differences. The differences are: 1) the base wages upon which  
12 the total non-management and management wages are calculated; 2) the ratio  
13 used to calculate the overtime wages for both non-management and  
14 management employees; 3) the ratio used to allocate total non-management and  
15 management wages to O&M Expense; 4) the adjusted wages to which the  
16 Success Sharing Award ratio for non-management employees is applied; 5) the  
17 calculation of the Success Sharing, Marketing Sales Incentive Awards, and  
18 Team Incentive Awards ratios; and 6) the assignment of the Success Sharing  
19 and Team Incentive Awards to jurisdictional ratepayers.

20

21 ***Q11. WHAT LEVEL OF BASE WAGES DO YOU RECOMMEND BE USED***  
22 ***FOR THE CALCULATION OF TEST YEAR WAGES?***

1        **A11.** I recommend that \$5,994,981 (KNR-1a) be used for non-management base  
2        wages and \$3,028,839 (KNR-1b) be used for management base wages. The  
3        Staff has used \$6,751,261 for non-management base wages and \$3,894,154 for  
4        management base wages in their calculations.

5  
6        **Q12. WHAT ARE THE DIFFERENCES BETWEEN THE LEVEL OF BASE**  
7        **WAGES YOU RECOMMEND AND THE LEVEL USED BY THE STAFF?**

8        **A12.** The major difference is in the selection of the time period upon which to base  
9        the calculation of the base wages. In addition, I have deducted Termination-  
10        Special Payments from total wages in my calculation of base wages.

11  
12        The Staff has used an average of actual 1995 wage expense (less overtime,  
13        premium-overtime/Sunday, sales and merit award payments, and other special  
14        payments) for both non-management and management employees for their  
15        calculations. It is my opinion that use of average 1995 wage expense is in error  
16        and substantially overstates the test year labor expense and is in conflict with  
17        the statement on page 16 of the Staff Report that "Staff annualized labor  
18        expense based on December 1995 payroll data."

19  
20        The use of average 1995 wage expense is inconsistent with the use of the  
21        December 31, 1995 number of employees. The average wages embody the  
22        wages and wage levels of all employees that were on CBT's payroll throughout  
23        the year. The number of employees in January 1995 was 3,350 (Response to

1 Staff Data Request 7). The number of employees steadily declined until it  
2 reached 2,732 in December 1995. The average number of employees during the  
3 year was 3,090 (Response to Staff Data Request 7). It was on the basis of the  
4 2,732 employees that the Staff states it made its labor expense calculation.

5  
6 The wage levels on which to make the labor calculation should be matched to  
7 the number of employees used as the basis for the calculations. Since the  
8 December 1995 number of employees was used, the December 1995 wage  
9 levels should also be used.

10  
11 ***Q13. WHAT IS THE DIFFERENCE BETWEEN THE 1995 AVERAGE WAGES***  
12 ***USED BY THE STAFF AND THE DECEMBER 1995 WAGES?***

13 ***A13.*** The 1995 average monthly non-management wages used by the Staff are  
14 \$6,751,261. This was derived by dividing the total 1995 non-management  
15 wages (less overtime, premium-overtime/Sunday, sales and merit award  
16 payments, and other special payments) by 12. The December 1995 non-  
17 management wages, with the same categories of payment deducted, amount to  
18 \$5,994,981.

19  
20 The 1995 average monthly management wages (less overtime, premium-  
21 overtime/Sunday, sales and merit award payments, and other special payments)  
22 used by the Staff were \$3,894,154. This wage level was calculated the same  
23 way as non-management wages, by dividing total 1995 management wages by

1           12. The December 1995 wages, with the same categories of payment deducted,  
2           amount to \$3,035,631.

3  
4           If one steps back to view the Staff's methodology it is easier to see its inherent  
5           problem. The Staff's adjusted annual management salary base was calculated by  
6           multiplying the 1995 average monthly management base wages by 12. The  
7           1995 average monthly management base wages had been derived by dividing  
8           actual 1995 wages by 12 (Staff Labor Worksheet C). Therefore, the adjusted  
9           annual management base wages must equal the 1995 actual management base  
10          wages [(actual 1995/12) x 12] = actual 1995.

11  
12          This calculation cannot reflect the wages for the number of management  
13          employees at the end of the test year. It reflects the wages for all management  
14          personnel employed during 1995 which started at 883 at the end of 1994  
15          (Company Schedule C-9.1, Page 2 of 3) and declined to 726 at the end of 1995  
16          (Company Schedule C-9.1, Page 2 of 3). It does not reflect the wage expense  
17          attributable to the number of management employees on the payroll at the end  
18          of the test year.

19

20          ***Q14. WHY HAVE YOU EXCLUDED TERMINATION-SPECIAL PAYMENTS***  
21          ***FROM YOUR DETERMINATION OF BASE WAGES?***

22          ***A14.*** I have excluded the charges to this category in addition to the overtime,  
23          premium-overtime/Sunday, sales and merit award payments, and other special

1 payments also excluded by the Staff in its determination of base wages. This  
2 additional deduction reduces the December 1995 management wages by \$6,792.  
3 The total 1995 charges to this category were \$819,431 for management labor  
4 and \$9,155 for non-management labor.

5  
6 The Company indicated that \$633,056 of the amount is related to severance  
7 payments associated with CBT's restructuring plan (Company Response to  
8 PUCO Data Request No. 29). This cost and other costs associated with the  
9 restructuring plan are already being accounted for in the Staff's Restructuring  
10 Plan adjustment (C-3.5). To include this cost in the Labor Adjustment would be  
11 to include an expense in the labor calculation that has been properly excluded  
12 through the restructuring adjustment on C-3.5. In addition, details of the  
13 components of special payments for 1993 and 1994 provided to the Staff by the  
14 Company show that there have been no previous charges to this category.

15  
16 It is my opinion that because the majority of termination pay is identified as  
17 being associated with the Company's restructuring plan and due to the absence  
18 of termination pay in prior years, it is appropriate to eliminate the total amount  
19 of these wages from the test year calculations.

20  
21 ***Q15. WHAT IS THE ISSUE AS TO THE OVERTIME WAGE RATIO?***

22 ***A15.*** The Staff has used a factor of 0.1263 for non-management wages and 0.0058 for  
23 management wages to calculate overtime wages. The footnotes on Staff's

1 Schedules C-3.6a and C-3.6b state that these amounts were derived from  
2 Applicant's Schedule C-9.1. However, my calculations using Schedule C-9.1  
3 result in an average 1991 - 1995 ratio for non-management overtime of 0.1265  
4 and a ratio of 0.0061 for management overtime. My calculations are presented  
5 on KNR-1c.

6

7 ***Q16. WHAT IS THE ISSUE REGARDING THE O&M ALLOCATION RATIO?***

8 ***A16.*** The Staff's O&M ratio used on Staff Schedules C-3.6a, C-3.6b, C-3.18b, and C-  
9 3.18c is 0.8850. The ratio of 0.82686 that I have used is one that was supplied  
10 to the OCC as part of the Company's response to OCC Interrogatory No. 499.  
11 The OCC has requested verification of this ratio in the currently outstanding  
12 Interrogatory No. 513.

13

14 ***Q17. WHAT IS THE ISSUE REGARDING THE SUCCESS SHARING AWARD***  
15 ***FOR NON-MANAGEMENT EMPLOYEES?***

16 ***A17.*** The Staff has calculated the award level for non-management employees on  
17 only straight-time wages (Staff Schedule C-3.6a). It is my understanding, based  
18 upon the testimony of OCC witness Tanner, that this award is paid on both  
19 straight-time and overtime wages and should therefore be calculated on the basis  
20 of the combined amounts.

21

1       ***Q18. WHAT IS THE ISSUE CONCERNING THE DETERMINATION OF THE***  
2                   ***SUCCESS SHARING, MARKETING SALES INCENTIVE, AND TEAM***  
3                   ***INCENTIVE AWARD RATIOS?***

4       ***A18.*** My calculation of the ratios differs in two respects from the calculations made  
5                   by the Staff. The first is the level of base wages used for the divisor in the  
6                   determination of the ratio. I have used \$95,058,424 as the divisor for the non-  
7                   management Success Sharing Award ratio and \$45,910,420 for the management  
8                   Market Sales Incentive Plan and Team Incentive Awards ratios. The Staff used  
9                   \$84,288,814 as the divisor for the non-management award ratio and  
10                  \$54,525,735 as the divisor for management award ratios.

11  
12                 The second difference is the level of award payments being used as the basis for  
13                 the ratio calculation. I have used \$2,600,000 for the Success Sharing Award  
14                 and \$4,900,000 for the Team Incentive Award. The Staff used \$3,273,666 for  
15                 the Success Sharing Award and \$4,962,278 for the Team Incentive Award.  
16                 Both the Staff and I used \$1,212,469 for the Marketing Sales Incentive Plan.  
17                 The calculation of the ratios and a comparison of my calculation to that of the  
18                 Staff is presented on KNR-1d.

19  
20       ***Q19. WHY DO YOU DIFFER FROM THE STAFF AS TO THE BASE WAGES***  
21                   ***USED AS THE DIVISOR FOR THE CALCULATION OF THE AWARD***  
22                   ***RATIOS?***



1        **A19.** The Staff's methodology did not fully consider the wages upon which the  
2        individual factors will be applied in the development of their ratios. The Staff  
3        developed the divisors for non-management and management awards ratios by  
4        deducting total 1995 Overtime and Premium-Overtime/Sunday payments from  
5        total 1995 wages. However, this fails to recognize that the Success Sharing  
6        Award for non-management employees is awarded on overtime pay. It also  
7        fails to recognize and eliminate other wage categories included in total 1995  
8        wages upon which the award payments are not paid.

9  
10        The adjustments that I have made to the non-management base are to include  
11        Overtime and Premium-Overtime/Sunday payments and exclude Merit Awards,  
12        Termination-Special Payments, and Other Special Payments. I adjusted the  
13        Staff management award ratio base to exclude Sales Compensation Plan, Merit  
14        Awards, Termination-Special Payments, and Other Special Payments.

15  
16        The Staff's methodology effectively understates the level of incentive awards  
17        included in the adjusted labor expense calculation. Failing to match the  
18        categories of labor expense included or excluded in the determination of the  
19        ratios to the categories of labor expense included or excluded in the labor  
20        adjustment calculation, misstates the level of incentive awards in the  
21        adjustment.

22

1       **Q20. WHAT CHANGE HAVE YOU MADE IN THE LEVEL OF AWARD**  
2               **PAYMENTS TO BE USED AS THE BASIS FOR THE RATIO**  
3               **CALCULATIONS?**

4       **A20.** I have used the actual 1995 accruals for the Success Sharing and Team Incentive  
5               Awards made during the test year. The actual 1995 accruals were provided to  
6               me by OCC witness Tanner and are further addressed in her testimony.

7  
8       **Q21. WHAT IS THE ISSUE IN THE ASSIGNMENT OF THE SUCCESS**  
9               **SHARING AND TEAM INCENTIVE AWARDS?**

10       **A21.** Based upon the recommendation of OCC witness Tanner, I have excluded 50%  
11               of the amounts calculated for the non-management Success Sharing Award and  
12               the management Team Incentive Awards. The \$1,209,478 included on KNR-1a  
13               for the Success Sharing Award and the \$1,939,063 included on KNR-1b for the  
14               management Team Incentive Award reflects the 50% exclusion. The Staff has  
15               included the entire amount for each.

16  
17       **Q22 WHAT ADJUSTMENTS HAVE YOU MADE TO THE CALCULATION OF**  
18               **PAYROLL TAXES?**

19       **A22.** I have recalculated all of the payroll taxes to reflect the impact of my  
20               recommended adjusted test year labor. I have also adjusted the O&M allocation  
21               of FUTA and SUTA to utilize the same O&M factor used in the labor  
22               calculations. The impact of my labor adjustment recommendation is to reduce  
23               the Staff's total test year Payroll Taxes of \$5,782,128 (Staff Schedule C-3.18) to

1           \$4,513,225 (KNR-2). Other than my adjustments to the level of test year wages  
2           and the use of a different O&M allocation for the FUTA and SUTA, my  
3           calculations are identical to those presented by the Staff.

4  
5           ***Q23 DO YOU HAVE ANY OTHER COMMENTS REGARDING THE STAFF'S***  
6           ***CALCULATION OF THE LABOR EXPENSE?***

7           ***A23.*** Yes. In addition to the differences I have already identified between our  
8           calculations, there is one additional change which should be made if the Staff's  
9           use of average 1995 base wages for the calculation of test year wages is  
10          adopted. I would recommend that the Staff's methodology used for the  
11          determination of the average non-management straight-time wages per hour be  
12          corrected. The methodology used by the Staff produces an incorrect result and  
13          has overstated the average non-management straight-time wages per hour rate,  
14          which is the basis for Staff's non-management labor expense calculation.

15  
16          On Schedule C-3.6a the Staff has calculated the average non-management  
17          straight-time wages per hour of \$21.03. This amount was calculated by dividing  
18          the 1995 average monthly straight-time wages of \$6,751,261 by 1995 average  
19          monthly hours of 320,960 hours. The 320,960 average monthly hours were  
20          calculated by multiplying the 2,006 end of test year number of non-management  
21          employees by 160 hours. The figure of 160 hours represents the number of  
22          regular straight-time hours which an employee would work in a four week  
23          period (40 hours per week x 4).

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However, the Staff has divided the 1995 average monthly non-management straight-time wages by the 320,960 hour divisor (40 hour per week x 4 weeks x 2,006 end of year non-management employees). The 1995 average non-management straight-time wages were calculated by dividing actual 1995 straight-time wages by 12. The two calculations are not compatible because there are fifty-two weeks in a year. The 1/12 of a year calculation of 1995 average monthly non-management straight-time wages actually equals 4.3 weeks (52 weeks / 12) of straight-time wages and not the 4 weeks assumed by the Staff.

One method to correct the Staff's calculation is to divide the total 1995 straight-time non-management wages by 52 (number of weeks in a year) then multiply that amount by 4. This methodology would properly match the methodology used by the Staff to determine the 320,920 monthly non-management hours.

***Q24. HOW WOULD THIS EFFECT THE STAFF'S CALCULATIONS?***

***A24.*** The effect is to change the Staff's average straight-time hourly wage for non-management employees from the \$21.03 presented on Staff Schedule C-3.6a to \$19.42. Working this through the Staff's labor expense calculation, with none of the other changes I have previously recommended, would reduce jurisdictional labor expense by \$3,853,393. I have presented the calculations supporting this amount on KNR-3.

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I also present on KNR-4 the effect that this adjustment would have on the calculation of the Staff's FICA Tax Expense. The FICA Tax Expense would be reduced by \$158,629. I have only calculated the effect on FICA, because it is the only one of the three payroll taxes being adjusted that is sensitive to wage levels.

The FUTA and SUTA calculations are sensitive to employee levels. The taxable wages for these two payroll taxes were calculated by multiplying the end of year number of full-time employees by fixed maximum wage levels of \$7,000 per year per employee for FUTA, \$9,000 per employee per year for Ohio SUTA, and \$8,000 per employee per year for Kentucky SUTA. The taxable wages for part-time employees were calculated at 50% of that for full-time employees.

**Q25. HAVEN'T YOU USED A METHODOLOGY SIMILAR TO THE STAFF'S  
TO CALCULATE YOUR RECOMMENDED LABOR ADJUSTMENT?**

**A25.** Yes. I have calculated my December 1995-based non-management labor expense on KNR-1 by dividing December 1995 straight-time wages by the same 320,960 hours used by the Staff. However, at this time I believe that the December 1995 non-management labor reported on the Company's detail supporting its Schedule C-9.1, which I have utilized as the basis for my calculation of base wages, reflects two biweekly pay periods and is properly

1           matched with the calculation of the hours. The OCC currently has discovery  
2           outstanding on this issue (OCC Interrogatory No. 518) and plans to follow-up in  
3           its deposition of Company witness Coogan. If it is found that the wages I have  
4           utilized reflect payment for more than two biweekly pay periods, I will adjust  
5           my calculations accordingly.

6  
7    **IV. SUMMARY**

8       **Q26. PLEASE SUMMARIZE YOUR POSITION**

9       **A26.** It is my recommendation that the Staff's labor expense calculations be modified  
10       as follows:

- 11       a)    use December 1995 wages as the basis for the labor adjustment;
- 12       b)    exclude Termination-Special Payments from the calculation of  
13           management and non-management base wages;
- 14       c)    modify the overtime ratio used to reflect a five year average of the  
15           overtime information contained on the Company's Schedule C-9.1;
- 16       d)    use the updated O&M ratio provided in response to OCC Interrogatory  
17           No. 499;
- 18       e)    calculate the Success Sharing Award on non-management adjusted  
19           straight-time and overtime wages;
- 20       f)    determine the Success Sharing, Marketing Sales Incentive Awards, and  
21           Team Incentive Awards ratios in a manner consistent with how they are  
22           applied;

- 1           g)    assign 50% of the costs of the Success Sharing and Team Incentive  
2                    Awards the Company's shareholders; and  
3           h)    if the Staff's average 1995 wage methodology for the calculation of test  
4                    year wages is adopted, the Staff's calculation of the non-management  
5                    average straight-time wage be corrected.

6

7           ***Q27. DO YOU HAVE ANY OTHER COMMENTS REGARDING THIS CASE?***

8           ***A27.*** Yes, I would like to address the time period being used for review in this  
9                    application. This is the most out-of-date and stale test period I have seen used  
10                   for a major company in many years. In fact, I cannot recall a more out-of-date  
11                   period being used for a major utility since the time of implementation of SB 94,  
12                   which established original cost ratemaking and other regulatory reforms in  
13                   1976.

14

15                   The test year in this case is the calendar year 1995. By the time hearings begin  
16                   in early 1998, this time period will be two years out of date. It is my opinion  
17                   that no amount of tinkering and adjusting can make this period, which is so far  
18                   removed from the time when any changes resulting from this application are  
19                   implemented, representative of the implementation period. Selective  
20                   adjustments can be made in an attempt to overcome this significant problem.  
21                   However, tinkering and adjusting this period will not correct its basic inherent  
22                   problem, namely, that it is simply too far out of date.

23

1           There are too many changes occurring in the telecommunications industry and  
2           in the operations of this Company to provide a level of confidence in such stale  
3           data. The danger of making adjustments in an attempt to correct the inherent  
4           problems of an out-of-date period, is that the adjustments are made on a  
5           selective basis and cannot capture the full synergistic effects of the changes  
6           which have occurred.

7  
8           Even in December 1996, when CBT filed its Notice of Intent in this case, the  
9           1995 test period was almost a full year (short by one day) out-of-date. The  
10          Company's Application was filed in February 1997. It has been my experience  
11          that most major utilities request, and are granted, a test period that is based on a  
12          combination of actual and forecasted data. Based on the date of CBT's  
13          Application, there could have been a test period which captured most, if not all,  
14          of 1997. This would have been a period more closely aligned with the period in  
15          which the changes ordered in this case are implemented.

16  
17       ***Q28. DOES THIS CONCLUDE YOUR TESTIMONY?***

18       ***A28.*** Yes. However, I reserve the right to modify, amend, or add to my testimony  
19          based on changes that the Company may propose, changes made to the Staff's  
20          position as presented in the Staff Report, or responses to outstanding discovery  
21          requests.



**CINCINNATI BELL TELEPHONE COMPANY**  
**Case No. 96-899-TP-ALT**  
**Labor Expense Summary**

(1) Non-Management O&M Labor Expense (a)	\$ 73,997,787
(2) Management O&M Labor Expense (b)	32,633,169
(3) Total Company O&M Labor Expense (1) + (2)	<u>106,630,956</u>
(4) Regulated Allocation Factor (c)	89.44%
(5) Regulated Expense (3) x (4)	<u>95,370,727</u>
(6) Jurisdictional Allocation Factor (c)	61.86%
(7) Jurisdictional Labor Expense (5) x (6)	<u>58,996,332</u>
(8) Staff's Test Year Jurisdictional Labor Expense (c)	75,933,612
(9) Adjustment to Staff Report (7) - (8)	<u><u>\$ (16,937,280)</u></u>

(a) KNR-1a

(b) KNR-1b

(c) Per Staff Schedule C-3.6

**CINCINNATI BELL TELEPHONE COMPANY**  
**Case No. 96-899-TP-ALT**  
**Non-Management Labor Expense Calculation**

(1) December 1995 Straight-Time Wage Dollars (a)	\$ 5,994,981
(2) 1995 Average Monthly Straight-Time Hours (b)	320,960
(3) Average Straight-Time Wages Per Hour (1) / (2)	<u>18.68</u>
(4) Number of Full-Time Employees at December 31, 1995 (c)	2,006
(5) Annual Straight-Time Hours for Full-Time Employees (4) x 2,080	4,172,480
(6) Number of Part-Time Employees at December 31, 1995 (c)	22
(7) Annual Straight-Time Hours for Part-Time Employees (6) x 1,040	22,880
(8) Total Straight-Time Hours (5) + (7)	4,195,360
(9) Total Annual Straight-Time Dollars (3) x (8)	78,369,325
(10) Five-Year Average Overtime Ratio (d)	<u>0.1265</u>
(11) Overtime Dollars (9) x (10)	9,913,720
(12) Standard Success Sharing Awards (e)	1,209,478
(13) Total Non-Management Wages (9) + (11) + (12)	<u>89,492,522</u>
(14) O&M Expense Ratio (h)	<u>0.82686</u>
(15) O&M Expense (13) x (14)	<u>\$ 73,997,787</u>
(a) Derived from Applicant's Detail Supporting Schedule C-9.1	
(b) Number of Full-Time Employees at December 31, 1995 (4)	2,006
Monthly Hours (4 weeks x 40 hours per week)	<u>160</u>
1995 Average Monthly Straight-Time Hours	<u>320,960</u>
(c) Per Staff Schedule C-3.6a	
(d) KNR-1c	
(e) Annual Straight-Time Wage Dollars (9)	\$ 78,369,325
Overtime Dollars (11)	<u>9,913,720</u>
Total	88,283,044
Standard Success Sharing Awards Ratio (f)	<u>0.0274</u>
	2,418,955
Percent Assigned to Ratepayers (g)	50.00%
Standard Success Sharing Awards	<u>\$ 1,209,478</u>
(f) KNR-1d	
(g) Testimony of OCC witness Tanner	
(h) Contained in Response to OCC Interrogatory No. 499 and requested in OCC Interrogatory No. 513 (currently outstanding)	

**CINCINNATI BELL TELEPHONE COMPANY**  
**Case No. 96-899-TP-ALT**  
**Management Labor Expense Calculation**

(1) December 1995 Straight-Time Wage Dollars (a)	\$ 3,028,839
(2) Annual Salaries (1) x (12)	36,346,068
(3) Five-Year Average Overtime Ratio (b)	0.0061
(4) Overtime Dollars (2) x (3)	<u>221,711</u>
(5) Marketing Sales Incentive Plan Payment Dollars (c)	959,536
(6) Team Incentive Award Dollars (e)	1,939,063
(7) Total Management Salaries (2)+(4)+(5)+(6)	<u>39,466,378</u>
(8) O&M Expense Ratio (f)	0.82686
(9) O&M Expenses (7) x (8)	<u><u>\$ 32,633,169</u></u>

(a) Derived from Applicant's Detail Supporting Schedule C-9.1

(b) KNR-1c

(c) Marketing Sales Incentive Plan Payment Ratio (d)	0.0264
Total Dollars [ratio x (2)]	<u>\$ 959,536</u>

(d) KNR-1d

(e) Team Incentive Award Ratio (d)	0.1067
Total Dollars [ratio x (2)]	<u>3,878,125</u>
Percentage Assigned to Ratepayers (g)	50.00%
Dollars Assigned to Ratepayers	<u><u>\$ 1,939,063</u></u>

(f) Contained in Response to OCC Interrogatory No. 499 and requested in OCC Interrogatory No. 513 (currently outstanding)

(g) Testimony of OCC witness Tanner

**CINCINNATI BELL TELEPHONE COMPANY**  
**Case No. 96-899-TP-ALT**  
**Overtime Ratio Calculation**

	<b><u>Non-Management</u></b>	<b><u>Management</u></b>
	(a)	(b)
<b><u>Ratio Overtime Dollars to Straight-Time Labor Dollars</u></b>		
1) 1991	0.1026	0.0008
2) 1992	0.1073	0.0055
3) 1993	0.1178	0.0072
4) 1994	0.1380	0.0072
5) 1995	0.1667	0.0100
6) Average [Sum (1) through (5)]/5	0.1265	0.0061

(a) - Applicant's Schedule C-9.1, page 3 of 3

(a) - Applicant's Schedule C-9.1, page 2 of 3

**CINCINNATI BELL TELEPHONE COMPANY**  
**Case No. 96-899-TP-ALT**  
**Incentive Award Ratio Calculation**

		<b>Standard Success Sharing Award</b>	<b>Marketing Sales Incentive Plan</b>	<b>Team Incentive Award</b>
<b><u>PUCO Staff Calculation</u></b>				
1)	Award (a)	\$ 3,273,666	\$ 1,212,469	\$ 4,962,278
2)	Base Wages (a)	84,288,814	54,525,735	54,525,735
3)	Ratio (1) / (2)	0.0388	0.0222	0.0910

<b><u>OCC Calculation</u></b>				
4)	Award (b)	\$ 2,600,000	\$ 1,212,469	\$ 4,900,000
5)	Base Wages (c)	95,058,424	45,910,420	45,910,420
6)	Ratio (4) / (5)	0.0274	0.0264	0.1067

- (a) - PUCO Staff Worksheets  
(b) - Testimony of OCC Witness Tanner  
(c) - Derived from Applicant's Detail Supporting Schedule C-9.1

**CINCINNATI BELL TELEPHONE COMPANY**  
**Case No. 96-899-TP-ALT**  
**Payroll Tax Expense Summary**

(1) FICA (a)	\$ 4,389,586
(2) FUTA (b)	69,607
(3) SUTA (c)	54,032
(4) Total Payroll Tax Expense (1) through (3)	<u>4,513,225</u>
(5) Staff's Test Year Jurisdictional Payroll Tax Expense (d)	5,782,128
(6) Adjustment to Staff Report (4) - (5)	<u><u>\$ (1,268,903)</u></u>

- (a) KNR-2a
- (b) KNR-2b
- (c) KNR-2c
- (d) Per Staff Schedule C-3.18

**CINCINNATI BELL TELEPHONE COMPANY**  
**Case No. 96-899-TP-ALT**  
**FICA Tax Expense Calculation**

(1) Non-Management O&M Labor Expense (a)	\$ 73,997,787
(2) Management Labor Expense (b)	32,633,169
(3) O&M Labor Expense (1) + (2)	<u>106,630,956</u>
(4) Medicare Tax Expense (3) x .0145 (c)	1,546,149
(5) Ratio of Wages Subject to OASDI (c)	0.9662
(6) Wages Subject to OASDI (3) x (5)	103,026,830
(7) OASDI (6) x .0620 (c)	6,387,663
(8) Gross FICA Tax (4) + (7)	<u>7,933,812</u>
(9) Regulated Allocation Factor (c)	89.44%
(10) Regulated Expense (8) x (9)	<u>7,096,001</u>
(11) Jurisdictional Allocation Factor (c)	61.86%
(12) Adjusted Jurisdictional FICA Tax Expense (10) x (11)	<u><u>\$ 4,389,586</u></u>

- (a) KNR-1a  
(b) KNR-1b  
(c) Per Staff Schedule C-3.18a

**CINCINNATI BELL TELEPHONE COMPANY**  
**Case No. 96-899-TP-ALT**  
**FUTA Payroll Tax Expense Calculation**

(1) Number of Full-Time Employees (a)	2,702
(2) Number of Part-Time Employees (a)	30
(3) Total (1) + (2)	<u>2,732</u>
(4) Taxable Wages Per Employee (a)	\$ 7,000
(5) Taxable Wages (3) x (4)	<u>19,124,000</u>
(6) Part-Time Employees Adjustment [(2) x (4) x .5 (a)]	105,000
(7) Adjusted Taxable Wages (5) - (6)	<u>19,019,000</u>
(8) Tax Rate (a)	0.0080
(9) FUTA Taxes (7) x (8)	<u>152,152</u>
(10) O&M Expense Ratio (b)	0.82686
(11) O&M Expense (9) x (10)	<u>125,808</u>
(12) Regulated Allocation Factor (a)	0.8944
(13) Regulated Expense (11) x (12)	<u>112,523</u>
(14) Jurisdictional Allocation Factor (a)	61.86%
(15) Adjusted Jurisdictional FUTA Tax Expense (13) x (14)	<u><u>\$ 69,607</u></u>

(a) Per Staff Schedule C-3.18b

(b) Contained in Response to OCC Interrogatory No. 499 and requested in OCC Interrogatory No. 513 (currently outstanding)



**CINCINNATI BELL TELEPHONE COMPANY**  
**Case No. 96-899-TP-ALT**  
**SUTA Payroll Tax Expense Calculation**

	<u>Ohio</u>	<u>Kentucky</u>	<u>Total</u>
(1) Number of Full-Time Employees (a)	2,504	198	2,702
(2) Number of Part-Time Employees (a)	30	-	30
(3) Total (1) + (2)	<u>2,534</u>	<u>198</u>	<u>2,732</u>
(4) Taxable Wages Per Employee (a)	\$ 9,000	\$ 8,000	
(5) Taxable Wages (3) x (4)	<u>22,806,000</u>	<u>1,584,000</u>	<u>24,390,000</u>
(6) Part-Time Employees Adjustment [(2) x (4) x .5 (a)]	135,000	-	135,000
(7) Adjusted Taxable Wages (5) - (6)	<u>22,671,000</u>	<u>1,584,000</u>	<u>24,255,000</u>
(8) Tax Rate (a)	0.0050	0.0030	
(9) SUTA Taxes (7) x (8)	<u>113,355</u>	<u>4,752</u>	<u>118,107</u>
(10) O&M Expense Ratio (b)			0.82686
(11) O&M Expense (9) x (10)			<u>97,658</u>
(12) Regulated Allocation Factor (a)			0.8944
(13) Regulated Expense (11) x (12)			<u>87,345</u>
(14) Jurisdictional Allocation Factor (a)			61.86%
(15) Adjusted Jurisdictional FUTA Tax Expense (13) x (14)			<u><u>\$ 54,032</u></u>

(a) Per Staff Schedule C-3.18c

(b) Contained in Response to OCC Interrogatory No. 499 and requested in OCC Interrogatory No. 513 (currently outstanding)

CINCINNATI BELL TELEPHONE COMPANY

Case No. 96-899-TP-ALT

Hourly Wage Adjustment to Staff Non-Management Labor Expense Calculation

(1) 1995 Average Straight-Time Wage Dollars (a)	\$ 6,231,936
(2) 1995 Average Monthly Straight-Time Hours (b)	320,960
(3) Average Straight-Time Wages Per Hour (1) / (2)	<u>19.42</u>
(4) Number of Full-Time Employees at December 31, 1995 (c)	2,006
(5) Annual Straight-Time Hours for Full-Time Employees (4) x 2,080	4,172,480
(6) Number of Part-Time Employees at December 31, 1995 (c)	22
(7) Annual Straight-Time Hours for Part-Time Employees (6) x 1,040	22,880
(8) Total Straight-Time Hours (5) + (7)	4,195,360
(9) Total Annual Straight-Time Dollars (3) x (8)	81,473,891
(10) Five-Year Average Overtime Ratio (c)	<u>0.1263</u>
(11) Overtime Dollars (9) x (10)	10,290,152
(12) Standard Success Sharing Awards (d)	<u>3,161,187</u>
(13) Total Non-Management Wages (9) + (11) + (12)	94,925,231
(14) O&M Expense Ratio (c)	<u>0.88500</u>
(15) O&M Expense (13) x (14)	84,008,829
(16) Staff Adjusted O&M Expense (c)	<u>90,973,516</u>
(17) Adjustment (15) - (16)	(6,964,687)
(18) Regulated Allocation Factor (e)	89.44%
(19) Jurisdictional Allocation Factor (e)	61.86%
(20) Jurisdictional Adjustment (17) x (18) x (19)	<u>\$ (3,853,393)</u>

(a) Total 1995 Straight Time Wages (f)	\$ 81,015,147
Weeks in Year	<u>52</u>
Average Weekly	\$ 1,557,984
	<u>4</u>
Average Straight Time Wages for 4 week Period	<u>\$ 6,231,936</u>

(b) Number of Full-Time Employees at December 31, 1995 (4)	2,006
Monthly Hours (4 weeks x 40 hours per week)	<u>160</u>
1995 Average Monthly Straight-Time Hours	<u>320,960</u>

(c) Per Staff Schedule C-3.6a

(d) Annual Straight-Time Wage Dollars (9)	\$ 81,473,891
Standard Success Sharing Awards Percentage (c)	3.88%
Standard Success Sharing Awards	<u>\$ 3,161,187</u>

(e) Per Staff Schedule C-3.6

(f) Per Staff Labor Worksheet C

## CINCINNATI BELL TELEPHONE COMPANY

Case No. 96-899-TP-ALT

**Effect of Non-Management Hourly Wage Adjustment on FICA Tax Expense Calculation**

(1) Non-Management O&M Labor Expense (a)	\$ (3,853,393)
(2) Medicare Tax Expense (1) x .0145 (b)	(55,874)
(3) Ratio of Wages Subject to OASDI (b)	0.9662
(4) Wages Subject to OASDI (1) x (3)	(3,723,148)
(5) OASDI (6) x .0620 (b)	(230,835)
(6) Gross FICA Tax (2) + (5)	<u>(286,709)</u>
(7) Regulated Allocation Factor (b)	89.44%
(8) Regulated Expense (6) x (7)	<u>(256,433)</u>
(9) Jurisdictional Allocation Factor (b)	61.86%
(10) Adjusted Jurisdictional FICA Tax Expense (8) x (9)	<u><u>\$ (158,629)</u></u>

(a) KNR-3

(b) Per Staff Schedule C-3.18a

**ATTACHMENT 1**


**INDEX OF TESTIMONIES  
KENNETH N. ROSSELET, JR.**

CINCINNATI BELL TELEPHONE	80-476-TP-AIR
CINCINNATI GAS & ELECTRIC	79-11-EL-AIR 81-1402-EL-CSS 82-1402-EL-AIR
CLEVELAND ELECTRIC ILLUMINATING	83-1342-EL-ATA
COLUMBIA GAS OF OHIO	76-704-GA-AIR 77-1428-GA-AIR 78-1008-GA-CMR 78-1118-GA-AIR 78-1161-GA-AIR 82-0852-GA-AIR 82-1002-GA-AIR 81-1070-GA-AIR 82-1129-GA-AIR 82-1151-GA-AIR 82-1152-GA-AIR 82-1174-GA-AIR 82-1175-GA-AIR
COLUMBUS SOUTHERN POWER (formerly C&SOE)	78-1439-EL-AEM 81-1508-EL-AIR 83-314-EL-AIR
DAYTON POWER & LIGHT	76-115-HT-AIR 76-823-EL-AIR 76-88-GA-AIR 78-92-EL-AIR 79-372-GA-AIR

EAST OHIO GAS	93-2006-GA-AIR 96-1019-GA-ATA
MONONGAHELA POWER COMPANY	94-1918-EL-AIR
OHIO BELL TELEPHONE COMPANY	83-300-TP-AIR 93-576-TP-CSS
OHIO EDISON COMPANY	75-131-EL-AIR
OHIO GAS COMPANY	83-505-GA-AIR
OHIO POWER COMPANY	83-98-EL-AIR
OXFORD NATURAL GAS CO.	78-1404-GA-AIR 79-292-GA-CMR
PUCO RULE MAKING	80-90-GE-UNC
TENNESSEE GAS PIPELINE	RP-91-203 AND RP-92-132
WEST OHIO GAS	80-256-GA-AIR 89-275-GA-AIR

**CERTIFICATE OF SERVICE**

I hereby certify that copies of the Non-Public Version Testimony of Kenneth N. Rosselet, Jr., on behalf of the Ohio Consumers' Counsel, have been served by first class mail, postage prepaid, or hand-delivered to the following parties of record this 17th day of December 1997.

  
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Assistant Consumers' Counsel

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