

**DOCKETING DIVISION
PUBLIC UTILITIES COMMISSION OF OHIO**

REBUTTAL TESTIMONY OF RICHARD A. BROWN
AMERITECH OHIO EXHIBIT 14R.0
SUBJECT: INCENTIVE COMPENSATION AND EXTERNAL
RELATIONS EXPENSE RECOMMENDATIONS;
REVENUE DECREASE RECOMMENDATIONS

I. INTRODUCTION

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

A: Richard A. Brown, Ameritech Ohio, 45 Erieview
Plaza-16th Floor, Cleveland, Ohio 44114.

2. Q: PLEASE SUMMARIZE YOUR EDUCATION AND EXPERIENCE IN THE
TELECOMMUNICATIONS INDUSTRY.

A: I received a Bachelor of Science degree in Mathematics
from the University of Dayton in 1967. After
graduation, I joined Ameritech Ohio as a Supervisor of
Accounts Payable in the Data Processing Department. I
moved to general Accounting in 1968 and was appointed
District Manager - Corporate Books and Accounting
Classifications in 1971. In 1975, I accepted a
rotational assignment with American Telephone &
Telegraph Company as Supervisor of Accounting
Classifications. I returned to Ameritech Ohio in 1978
as a Division Manager in the Data Systems Department.
The following year, I transferred to the Operations
organization with responsibility for Budgets, Results,
Service Measurements and Forecasting. In 1982, I moved
to the Comptrollers organization and had responsibility
for Ameritech Ohio's Corporate Books and Financial
Reports, Corporate Budgets, Financial Planning,
Administrative Forecasting, Construction Budgeting and

Integrated Corporate Planning. In April 1993, I became Vice President - Comptroller and in July 1993, I assumed the responsibilities of Vice President - Personnel for Ameritech Ohio.

3. Q: WHAT ARE YOUR RESPONSIBILITIES AS VICE PRESIDENT AND COMPTROLLER?

A: I am responsible for the Company's financial transactions and the preparation of investor, management and other financial reports. The functions I am responsible for include: Corporate Accounting, Accounts Payable, Accounts Receivable, Treasury, Fixed Assets and Personnel.

II. PURPOSE OF TESTIMONY

4. Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A: I will address the testimony of Beth Hixon concerning the Office of the Consumers' Counsel (OCC's) recommendation to adjust the Company's base year expenses by \$6,895,000 by limiting expenses associated with incentive compensation programs. I will also address the testimony of Roy K. Chan concerning OCC's recommendation to adjust the Company's base year expenses by \$6,051,053 by eliminating certain External Relations expenses. In addition, I will address OCC's

contention, as implied by Mr. Chan's testimony, that Ameritech Ohio's earnings were excessive and that the base year revenues should be decreased.

5. Q: DID YOU REVIEW THE TESTIMONY OF BETH E. HIXON?

A: Yes. I have reviewed the testimony of Beth E. Hixon, prepared on behalf of the Office of the Consumer's Council (OCC) of the State of Ohio.

6. Q: WOULD YOU SUMMARIZE MS. HIXON'S TESTIMONY REGARDING INCENTIVE COMPENSATION?

A: Yes. The testimony of Beth E. Hixon states that \$6,895,000 included in the Company's adjusted base year expenses related to part of total cash compensation for employees, e.g. certain incentive compensation programs, be eliminated. Ms. Hixon recommends that the incentive compensation expenses be eliminated for the Non-Management Success Sharing Plan, the Senior Management Long Term and the Senior Management Short Term Awards. She also recommends that 65% of the expenses for the Management Team Incentive and Individual Incentive programs be eliminated from pro forma expenses in this case, because she contends they benefit the shareholder not the customer.

7. Q: DOES MS. HIXON DEMONSTRATE THAT THE TOTAL CASH COMPENSATION, I.E. BASE WAGES PLUS INCENTIVE COMPENSATION, PAID BY THE COMPANY TO ITS NON-MANAGEMENT AND MANAGEMENT EMPLOYEES IS NOT APPROPRIATE?

A: No, Ms. Hixon does not state or attempt to prove that the total compensation paid by the Company is inappropriate. In fact, her testimony only deals with one aspect of total cash compensation, i.e. incentive compensation.

8. Q: WHAT ARE MS. HIXON'S UNDERLYING ASSUMPTIONS FOR HER PROPOSED ADJUSTMENTS?

A: Ms. Hixon argues that the compensation payments to which she proposes adjustments are based, in part or totally, on the achievement of net income goals. She contends that a net income goal is only a shareholder goal, and payment of awards based on achieving net income goals should not be the responsibility of customers.

9. Q: DO YOU AGREE THAT A NET INCOME GOAL IS ONLY A SHAREHOLDER GOAL?

A: No. I completely disagree that net income or other financial objectives are only shareholder goals. Net income goals provide direct benefits to customers. Net income is a measure of how efficiently the Company

utilizes its resources in the provision of services to customers. Setting financial objectives and providing incentives for their achievement are sound business practices. Maintaining financial viability is both the result of serving customers and a benefit to them. Providing quality services requires financial strength. Likewise, achieving net income objectives requires that customers be provided with high quality services in an efficient manner. Net income goals are both customer and shareholder related and achieving those objectives benefits customers as well as investors.

10. Q: SHOULD COSTS FOR THE NON-MANAGEMENT SUCCESS SHARING PROGRAM BE ELIMINATED FROM BASE YEAR EXPENSES AS PROPOSED BY MS. HIXON?

A: No. The total wage and related payments (including Success Sharing amounts) to the company's Non-Management employees were made in accordance with the terms of the contract between the Communications Workers of America (CWA) and the Company. That contract resulted from a negotiated business agreement between the union and the Company and represents the total compensation for the services rendered by the CWA employees that was considered appropriate by both parties. Success Sharing is the compensation delivery mechanism that was determined appropriate for a

specified portion of the total compensation paid. If the Success Sharing component had not been included, an equivalent amount would have been included in another form, e.g. higher base wages. Either way, the total compensation would have been the same. Ms. Hixon did not state nor attempt to prove that the total compensation paid by the Company to its non-management employees was inappropriate. The total compensation, including Success Sharing, paid to non-management employees is appropriate and no adjustment should be made.

11. Q: SHOULD BASE PERIOD EXPENSES ASSOCIATED WITH THE SENIOR MANAGEMENT LONG-TERM, SENIOR-MANAGEMENT SHORT-TERM, MANAGEMENT TEAM AWARDS, AND MANAGEMENT INDIVIDUAL AWARDS BE ADJUSTED AS PROPOSED BY MS. HIXON?

A: No. The adjustments to base period Incentive Compensation expenses proposed by Ms. Hixon are totally inappropriate. The payments included in the Company's base year expenses were made in accordance with the Company's overall management compensation program. That program has been carefully designed to determine and deliver total cash compensation amounts that will enable the Company to attract and retain employees whose skills match those needed by the business. Ms. Hixon incorrectly focuses on components of the plan to

propose adjustments based on theoretical arguments without data or analysis to evaluate the appropriateness of the total compensation paid.

12. Q: HOW DOES THE COMPANY DETERMINE THE TOTAL CASH COMPENSATION AMOUNTS?

A: The Company determines the total cash compensation paid by other industries for similar jobs requiring those skills. Industry surveys conducted by Hewitt Associates, the leading compensation consulting firm, provide the data on which those calculations are based. In addition, Hewitt Associates provide data and assistance to help the Company establish a total compensation structure, including incentive compensation, that is appropriate for our industry.

The Hewitt Associates analyses enable the Company to establish total cash compensation targets for each job grouping that would fall in the mid-range of the survey group of companies.

13. Q: WHAT IS THE FUNDAMENTAL BASIS FOR DELIVERING THAT TOTAL COMPENSATION AMOUNT TO MANAGEMENT EMPLOYEES?

A: The management compensation plan is based on a "pay for performance" principle. A percentage of each management employees total compensation target is put

"at risk", to be delivered based on the attainment of individual and team objectives. That is, base wages have been adjusted to allow Team and Individual Award amounts to be paid, keeping the total compensation at marketplace levels. One of the benefits of this type of "pay for performance" plan is that it reduces the total compensation paid when objectives are not met. In addition, it permits for outstanding achievements to be recognized when objectives are exceeded without building higher amounts in base wages.

14. Q: ARE THERE OTHER ADVANTAGES TO THE COMPANY'S MANAGEMENT COMPENSATION PLAN?

A: Yes. The company's "pay for performance" approach provides greater flexibility to reward individuals within a group based on relative contribution, resulting in improved opportunity to retain outstanding performers without changing the base wage structure for the job being performed.

15. Q: HOW DOES THE COMPANY'S MANAGEMENT COMPENSATION PLAN BENEFIT CUSTOMERS?

A: To insure that quality service, a significant customer benefit, is provided to customers, the company must have qualified employees. The company's management compensation plan assures that the company can attract

and retain qualified employees. The plan attempts to match expense levels with performance through its flexible "pay for performance" provisions.

16. Q: ARE THERE ANY OTHER ASPECTS OF MS. HIXON'S TESTIMONY YOU WOULD LIKE TO COMMENT ON?

A: Yes. On page 13 of her testimony Ms. Hixon states that the OCC's request for monthly base year expenses related to incentive compensation programs was on OCC Interrogatory No. 175. Actually, this request came from OCC Interrogatory No. 375.

Her characterization of the team award's payout matrix on page 14 is also inaccurate. Ms. Hixon states that the weight assigned to the Bell Group SBU-Net Income utilized in calculating the team award's payout is 65% when it actually is 40%. This is a typographical error.

17. Q: HAVE YOU REVIEWED WITNESS CHAN'S TESTIMONY RELATING TO THE ELIMINATION OF EXTERNAL RELATION'S EXPENSES ASSOCIATED WITH PUBLIC RELATIONS, REGULATORY, GOVERNMENT RELATIONS AND AMERITECH CORPORATE?

A: Yes. Witness Chan proposes to reduce the Company's expenses in the base year by \$6,051,053 by eliminating certain External Relations expenses. For example, he

maintains that Public Relations expenses are not appropriate because they help the Company maintain a favorable public image and therefore they should be eliminated. He also recommends that Regulatory/Government Relations expenses be eliminated claiming that they are similar to lobbying. In addition, he recommends that Ameritech Corporate expenses be eliminated claiming that these expenses are "not necessarily related specifically to the Company".

18. Q: DO YOU AGREE WITH THE RATIONALE WITNESS CHAN PROPOSES FOR THIS ACCOUNT?

A: No. Witness Chan simply makes an unsupported declaration that these expenses should not be allowed because they are similar to activities like lobbying. In fact, Witness Chan offers nothing in the way of evidence supporting his claim. The expenses in question are appropriate and should be included.

19. Q: HAS THE COMMISSION INCLUDED THESE TYPES OF EXPENSES IN PRIOR CASES?

A: Yes. The Commission has regularly included External Relations expenses in our prior cases. In the Commission's last Opinion and Order in Case No. 84-1435-TP-AIR, no mention is made to the disallowance of External Relations expenses. External Relations

expenses support numerous functions which have a direct bearing and benefit to our customers. In part, through the Company's External Relations departments, the Company is able to interact with outside parties to give and receive information which in turn helps the Company better serve its customers and operate more efficiently. These contacts with our customers enable the Company to understand and react to the critical issues of our customers. The customers served are reached through the various channels External Relations maintains, i.e., the media, community leaders, and our employees. In fact, Witness Chan's proposal could disallow the expenses which the Staff has proposed in their Report, such as, the Public Input, educational, and partnership commitments. Accordingly, Witness Chan's unsupported testimony is completely without merit, unsupported by the record and ignores the customer support External Relations provides. This proposed adjustment should be rejected.

20. Q: HAVE YOU REVIEWED WITNESS CHAN'S TESTIMONY RELATING TO OCC'S CLAIM THAT AMERITECH OHIO HAD EXCESS EARNINGS DURING THE BASE YEAR AND THAT ITS BASE YEAR REVENUES SHOULD BE DECREASED?

A: Yes.

21. Q: DO YOU AGREE WITH OCC'S CLAIM?

A: Absolutely not. The Company's initial and Supplemental testimony clearly demonstrates that Ameritech Ohio's intrastate regulated earnings are well below the current authorized levels and below the overall cost of capital which includes the cost of equity.

In his supplemental testimony, Mr. Kukla states the Company's operating Income is \$136,033,000 and the Property Used and Useful is \$1,906,855,000. Using these amounts, a calculated return to Property Used and Useful is 7.13%.

22. Q: HOW DOES A 7.13% RETURN ON PROPERTY USED AND USEFUL COMPARE TO THE COMMISSION'S CURRENTLY AUTHORIZED RETURN?

A: In the last order, Case No. 84-1435-TP-AIR, the Commission authorized a rate of return of 12.22%, which the Return to Property Used and Useful calculated in response to the previous question is well below.

23. Q: HOW DOES THE 7.13% RETURN ON PROPERTY USED AND USEFUL COMPARE TO THE SUPPLEMENTAL TESTIMONY FILED BY DR. IBBOTSON?

A: Dr. Ibbotson has filed testimony stating a recommended return to equity of 13.1%, which equates to a 11.23%

Return to Property Used and Useful. Based upon the fact that the Company is earning under the current Commission authorized rate of return, and under the overall return, which includes the cost of equity recommended by Dr. Ibbotson, OCC's complaint of excessive earnings by Ameritech Ohio and its recommendation to decrease Ameritech Ohio's base year revenues must be rejected.

24. Q: DOES THIS CONCLUDE YOUR TESTIMONY?

A: Yes, it does.

Corporate Planning. In April 1993, I became Vice President - Comptroller and in July 1993, I assumed the responsibilities of Vice President - Personnel for Ameritech Ohio.

3. Q: WHAT ARE YOUR RESPONSIBILITIES AS VICE PRESIDENT AND COMPTROLLER?

A: I am responsible for the Company's financial transactions and the preparation of investor, management and other financial reports. The functions I am responsible for include: Corporate Accounting, Accounts Payable, Accounts Receivable, Treasury, Fixed Assets and Personnel.

II. PURPOSE & SCOPE OF TESTIMONY

4. Q: WHAT IS THE PURPOSE AND SCOPE OF YOUR TESTIMONY?

A: The purpose of my testimony is to generally describe Ohio Bell's Alternative Regulation Plan -- Advantage Ohio. Ohio Bell is proposing that The Public Utilities Commission of Ohio (PUCO) adopt, effective January 1, 1994, price regulation in place of the current rate of return regulation. Under Advantage Ohio, rates for regulated services will be limited by a price cap plan that takes into account inflation, previously achieved productivity gains of Ohio Bell, the quality of the