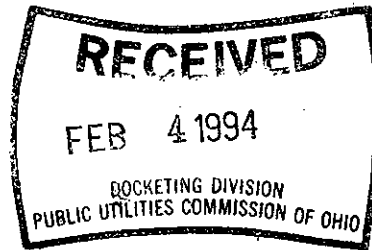


OCC EXHIBIT

7



*Direct Testimony of  
KATHY L. HAGANS*

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

**OHIO BELL TELEPHONE COMPANY**

**Case No. 93-576-TP-CSS**

**FEBRUARY 4, 1994**

1 I. INTRODUCTION

2  
3 Q. PLEASE STATE YOUR NAME, ADDRESS, AND POSITION.  
4

5 A. My name is Kathy Hagans. My business address is 77 South  
6 High Street, 15th Floor, Columbus, Ohio 43266-0550. I am  
7 employed by the Office of the Consumers' Counsel (OCC) as  
8 a Public Utilities Administrator.  
9

10  
11 Q. WOULD YOU PLEASE BRIEFLY SUMMARIZE YOUR EDUCATION AND  
12 PROFESSIONAL EXPERIENCE?  
13

14 A. I am a graduate of The Ohio State University. I received  
15 a Bachelor of Science Degree in Business Administration  
16 with a major in marketing in September 1982. From  
17 September 1982 to April 1983 I was employed by Midwest  
18 Pension Services as a Pension Analyst. In April 1983 I  
19 joined the OCC as a Researcher. During the course of my  
20 employment at OCC, I have held the position of Utility  
21 Rate Analyst and Utility Rate Analyst Supervisor. In May  
22 1988 I was promoted to Public Utilities Administrator.  
23  
24  
25  
26  
27  
28

1 Q. WHAT ARE YOUR RESPONSIBILITIES AS PUBLIC UTILITIES  
2 ADMINISTRATOR?  
3

4 A. My duties include research, investigation, and analysis  
5 of utility applications for rate increases and fuel  
6 cases. I also participate in special projects and  
7 investigations.  
8  
9

10 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?  
11

12 A. Yes, I presented testimony in Cleveland Electric  
13 Illuminating Company, Case No. 88-108-EL-EFC, Ohio Edison  
14 Company, Case No. 89-1001-EL-AIR, and Cincinnati Gas &  
15 Electric Company, Case No. 91-410-EL-AIR.  
16  
17

18 II. PURPOSE OF TESTIMONY  
19

20 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?  
21  
22  
23  
24  
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26  
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28

1 A. I am addressing the issue of Bellcore Expense for the  
2 Ohio Bell Telephone Company (OBT or Company).  
3  
4

5 Q. **WHAT DOCUMENTS HAVE YOU REVIEWED IN THE PREPARATION OF**  
6 **YOUR TESTIMONY?**  
7

8 A. I have reviewed the Company testimony and filings in Case  
9 No. 93-487-TP-ALT, responses to OCC and other  
10 Intervenor's discovery in this case and Case No.  
11 93-487-TP-ALT, certain PUCO Opinions and Orders, and  
12 other documents and data. Since there is still discovery  
13 outstanding at the time of the preparation of my  
14 testimony, I reserve the right to modify, amend, or add  
15 to my testimony based on responses to that discovery.  
16  
17

18 **III. BELL COMMUNICATIONS RESEARCH (BELLCORE) EXPENSE**  
19

20 Q. **WHAT IS BELLCORE?**  
21

22 A. Bellcore is a centralized organization providing  
23 engineering, administrative, and other services which  
24 support the Bell Operating Companies' (BOCs) provision of  
25 telecommunications services. Bellcore is owned  
26 collectively by Ameritech Services, Inc.; Bell Atlantic  
27  
28

1 Network Services, Inc.; BellSouth Services Incorporated;  
2 NYNEX Service Company; Pacific Bell; U S WEST Advanced  
3 Technologies, Inc.; and Southwestern Bell Telephone  
4 Company.  
5  
6

7 **Q. HOW IS THE COST OF BELLCORE SERVICES DETERMINED FOR OBT?**  
8

9 **A.** Bellcore expenses are allocated to OBT by Ameritech. The  
10 Company's response to OCC Interrogatory No. 355 describes  
11 the methodology by which Ameritech's payments to Bellcore  
12 are determined as follows:  
13

14 "Bellcore projects are billed on the basis of whether the  
15 work is classified as infrastructure or elective.

16 Infrastructure work is billed equally among the seven  
17 Regional Bell Operating Companies (RBOCs), with each  
18 paying one-seventh of the project cost. Elective work is  
19 billed on specific usage measures (e.g., training usage),  
20 when they are available, or on the basis of the relative  
21 size of each participant, using a calculation that  
22 includes the Total Operating Expense (TOE) and the Total  
23 Plant In Service (TPIS).  
24  
25  
26  
27  
28

1 The project costs to the RBOCs are reduced by the  
2 cost-sharing revenue credits from non-owner  
3 participation, if any, before being allocated to the  
4 participants. Non-owners, such as Cincinnati Bell and  
5 Southern New England Telephone Company, have the  
6 opportunity to purchase projects. Bellcore also licenses  
7 projects to non-owners, both domestically and abroad.  
8 Revenues from these activities reduce the billing to the  
9 RBOCs."

10  
11  
12 **Q. WHAT AMOUNT DID THE COMPANY INCLUDE IN THE TEST YEAR FOR**  
13 **SERVICES PROVIDED BY BELLCORE?**

14  
15 **A.** As stated in the Company's response to OCC Interrogatory  
16 No. 351, the Company included approximately \$25,000,000  
17 in test year expenses for services provided by Bellcore.  
18 The Company's response to Interrogatory No. 351 states  
19 that Bellcore expense is "...not in a separate account  
20 but is included in the Operating Expense Accounts (6000  
21 Series accounts)." Since Total Operating Expenses  
22 encompass all of the 6000 series accounts (see Case No.  
23 93-487-TP-ALT Exhibit 93C-1, page 6 of 7), I have applied  
24 the Total Operating Expenses jurisdictional allocation  
25 factor of 0.780944 to Bellcore expense. This yields a  
26  
27  
28

1 jurisdictional amount included in test year expenses of  
2 \$19,523,600.  
3  
4

5 **Q. WHAT IS THE NATURE OF THE BELLCORE PROJECTS SUPPORTED BY**  
6 **OHIO BELL'S TEST YEAR BELLCORE EXPENSE?**  
7

8 **A.** The Company has not provided enough information to  
9 determine the nature of the projects supported by OBT's  
10 test year Bellcore expense. OCC has made several  
11 attempts through discovery to obtain additional  
12 information regarding the nature of Bellcore projects for  
13 which expenses are included in the test year. As can be  
14 seen by the Company's response to OCC Interrogatory No.  
15 352 (Attachment KLH-1), the Company objected to providing  
16 descriptions of the Bellcore projects which Ameritech,  
17 and ultimately Ohio Bell, supported. In addition, in  
18 response to OCC Document Request No. 185 (Attachment  
19 KLH-2), the Company objected to providing Bellcore  
20 Project Profiles for the projects supported by test year  
21 Bellcore expense. Bellcore Project Profiles are  
22 multi-page, detailed descriptions of the projects  
23 undertaken by Bellcore.  
24  
25  
26  
27  
28

1     **Q.     WHY IS IT IMPORTANT TO REVIEW DOCUMENTS SUPPORTING OBT'S**  
2     **TEST YEAR BELLCORE EXPENSE?**

3  
4     **A.     Based on my experience in other telephone cases and my**  
5     **general knowledge of the purpose of Bellcore, it is**  
6     **likely that a portion of the \$25,000,000 Bellcore expense**  
7     **should not be included in the revenue requirement for**  
8     **which current ratepayers are responsible. This is**  
9     **because some of Bellcore's work may be for new services**  
10    **that are not yet offered by OBT. An example of such a**  
11    **new service is video on demand. Also, because of the**  
12    **affiliate relationship between Ameritech and Bellcore,**  
13    **and between Ameritech and OBT, I believe that these**  
14    **expenses deserve careful scrutiny in order to determine**  
15    **the proper revenue requirement for current OBT ratepayers.**

16  
17  
18    **Q.     DO YOU HAVE ENOUGH INFORMATION TO RECOMMEND AN**  
19    **ADJUSTMENT IN THIS CASE AT THIS TIME?**

20  
21    **A.     No. However OCC is continuing to attempt to obtain the**  
22    **information necessary so that we can determine whether an**  
23    **adjustment is appropriate. This includes the Bellcore**  
24    **Project Profiles supporting the test year expenses and**



1 the price of each of these projects. I reserve the right  
2 to supplement this testimony when I receive additional  
3 information.

4  
5  
6 **Q. DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?**

7  
8 **A.** Yes. However, if OBT will not or does not provide  
9 sufficient information to determine the portion of  
10 Bellcore expenses which are appropriate for inclusion in  
11 the test year expenses of OBT, I recommend that the  
12 entire \$19,523,600 jurisdictional expense amount be  
13 excluded.

**CERTIFICATE OF SERVICE**

I hereby certify that copies of the Direct Testimony of Kathy L. Hagans, have been served by first class mail, postage prepaid, or hand-delivered to the following parties of record this 4th day of February, 1994.

  
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OCC INTERROGATORIES NO. 5

352. Please provide a list with a description of all projects which Ameritech supported through payments to Bellcore during 1992 and 1993.

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Case No. 93-487-TP-ALT - Objection. The requested information is clearly outside the scope of the application and the Advantage Ohio case filed by Ohio Bell. Advantage Ohio seeks the adoption of a new form of regulation as specifically permitted by Chapter 4927 of the Revised Code. Therefore, the above interrogatory seeks information that is irrelevant, will not lead to the discovery of admissible evidence and is beyond the scope of the proceeding.

Case No. 93-576-TP-CSS - Objection. The requested information is unknown and not readily available. Ohio Admin. Code §4901-1-19(B). Requested information is irrelevant and not reasonably calculated to lead to the discovery of admissible evidence. Ohio Admin. Code §4901-1-16(B).

OCC REQUESTS FOR PRODUCTION OF DOCUMENTS NO. 9

185. Please provide the Bellcore Project Profiles for each project which Ameritech supported through payments to Bellcore in 1992 and 1993.

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Case No. 93-487-TP-ALT - Objection. The requested document is clearly outside the scope of the application and the Advantage Ohio case filed by Ohio Bell. Advantage Ohio seeks the adoption of a new form of regulation as specifically permitted by Chapter 4927 of the Revised Code. The above request for production seeks information that is irrelevant nor will it lead to the discovery of admissible evidence. Ohio Admin. Code §4901-1-16.

Case No. 93-576-TP-CSS - Objection. Requested documents contain trade secrets and/or confidential research, development, commercial or other information which is proprietary. Hartly Pen Co. v. U.S. Dist. Ct., 287 F.2d 324, 331 (9th Cir. 1961); Duplan Corp. v. Deering Milliken, Inc., 397 F. Supp. 1146, 1185 (D.S.C. 1975); Ohio Admin. Code §4901-1-16(B); §4901-1-24(A)(7); Ohio Rev. Code §1333.51(A)(3).

Objection. Requested documents are not relevant nor reasonably calculated to lead to the discovery of admissible evidence. Ohio Admin. Code §4901-1-16(D).

