

COMMONWEALTH OF PENNSYLVANIA
PUBLIC UTILITY COMMISSION

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4 Pennsylvania Public Utility Commission : Docket No.
5 versus Commonwealth Telephone Company. : I-00920020
6 Assessment of the impact of significant :
increase in certain operating expenses :
on the common equity return rate. :
:
7 Hearings :
:
8 ----- -x

9 Pages 180 through 413 Hearing Room No. 3
10 North Office Building
11 Harrisburg, Pennsylvania
12 Friday, July 2, 1993

13 Met, pursuant to adjournment, at 10:05 a.m.

14 BEFORE:

15 GEORGE KASHI, Administrative Law Judge

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1 P R O C E E D I N G S

2 ADMINISTRATIVE LAW JUDGE GEORGE KASHI: I call this
3 proceeding back to order.

4 Mr. Kennard, I guess we still have Mr. Burnside on
5 the stand.

6 MR. KENNARD: Yes, we do.

7 JUDGE KASHI: Mr. Burnside.

8 Whereupon,

9 SCOTT BURNSIDE

10 having previously been duly sworn, testified further as
11 follows:

12 JUDGE KASHI: We were on cross-examination by counsel
13 from the Office of Consumer Advocate.

14 Mr. McClelland.

15 MR. McCLELLAND: Your Honor, we left some questions
16 hanging at the end of the day. Essentially, they are some
17 questions about billing and collections and how the charges
18 for those are made, and how those costs are allocated.

19 I think that those would be more properly addressed
20 to Mr. Mazza -- I'm sorry; Mr. Cawley.

21 MR. KENNARD: No. Mr. Laffey is responsible for the
22 stripping out of expenses associated with deregulated
23 services.

24 MR. McCLELLAND: Then we will pose those to Mr.
25 Laffey and not ask additional questions of Mr. Burnside.

1 JUDGE KASHI: All right. Thank you.

2 MR. KENNARD: On the other hand, Mr. Burnside is
3 sponsoring the rationale for the proposed deregulation of
4 intrastate B&C.

5 MR. McCLELLAND: Can I have just a minute?

6 (Pause.)

7 MR. McCLELLAND: Your Honor, after thinking about it
8 some more, perhaps one policy question, if I may pose it to
9 Mr. Burnside.

10 JUDGE KASHI: All right.

11 CROSS-EXAMINATION (Continued)

12 BY MR. McCLELLAND:

13 Q. Mr. Burnside, in your testimony you do discuss
14 the competitive nature of billing and collection services.
15 My question to you would be: would you be able to compete
16 for those services if, in fact, you did not also have a
17 system available to send out communications to your
18 customers which you are also able to use for billing and
19 collection for other companies?

20 A. Will you please repeat that question?

21 Q. Let me try to perhaps refine it some. Is it
22 your testimony that billing and collection is a competitive
23 field and there are other competitors in the marketplace?

24 A. Yes, sir, that is my contention.

25 Q. When you provide billing and collection

1 services, do you use the billing and collection system that
2 you already have, that is that you send bills and collect
3 revenues from your customers, to also engage in billing and
4 collection for other companies?

5 A. Yes, we do.

6 Q. Would you be able to compete for that business
7 if you were not able to also share your billing and
8 collection costs with your existing billing and collection
9 systems?

10 A. I believe we would be able to compete. It
11 assumes that there is some function of data processing
12 facility available, obviously.

13 Q. Mr. Burnside, do you have in place hardware and
14 software systems which you do jointly use for your billing
15 and collection systems work for other telephone companies?

16 A. We do not.

17 Q. When you send out your bills, do you have
18 hardware systems that you use to do that?

19 A. We do not.

20 Q. How do you get that done?

21 A. We contract it to a third party billing system.

22 Q. Whom would that be?

23 A. Today it is Systematics Corporation.

24 Q. Does Systematics then allow you to share those
25 costs between those various functions, that is the billing

1 and collection for Commonwealth and the billing and
2 collection for other companies?

3 A. I can only speak in generalities as to the
4 agreement that we have with Systematics, but I am obviously
5 assuming that there is a volume or usage or whatever it is
6 that determines the fees we are charged.

7 Q. Are you familiar with the manner in which
8 Systematics bills for the billing and collection function?
9 If I can add, the pricing components of the contract.

10 A. I am not.

11 Q. Would that better be a question for Mr. Laffey,
12 perhaps?

13 MR. KENNARD: It would be a better question for
14 another witness. I'm not sure who. I can find out for you
15 and identify the witness at the break. Before they get up
16 on the witness stand is what I'm trying to say.

17 MR. McCLELLAND: Your Honor, in that event we would
18 not ask any further questions of Mr. Burnside.

19 JUDGE KASHI: All right.

20 Redirect, counsel?

21 MR. KENNARD: One item, Your Honor, that came up late
22 yesterday was your request that the responses to Chairman
23 Rolka's questions be introduced into this record. The
24 responses were prepared by Mr. Burnside, so I would seek to
25 identify that and authenticate it at this time, with your

1 permission.

2 JUDGE KASHI: All right. You want it marked as?

3 MR. KENNARD: I have tentatively marked it up in the
4 upper right-hand corner as Commonwealth Hearing Exhibit
5 No. 1.

6 FURTHER DIRECT EXAMINATION

7 BY MR. KENNARD:

8 Q. Mr. Burnside, I show you a document, a multi-
9 page document, consisting of responses to the Chairman's
10 Interrogatories Nos. 1 through 8, and would note that each
11 one, with the exception of the last, has been responded to
12 by yourself.

13 Is the information contained in those responses true
14 and correct to the best of your knowledge, information and
15 belief?

16 (Document shown to witness.)

17 A. Yes, it is.

18 MR. KENNARD: Your Honor, we would ask that it be
19 identified at this time as Commonwealth Hearing Exhibit No.
20 1, and be introduced into the record at this time.

21 JUDGE KASHI: It will be so marked for purposes of
22 identification, and subject to any timely motions and/or
23 objections made pending cross-examination, it will be
24 received into the evidentiary record.

25

1 (Whereupon, the document was marked
2 as Commonwealth Hearing Exhibit No.
1 for identification.)

3 MR. KENNARD: I would defer my redirect examination
4 if there are questions by the parties at this point in time
5 which arise from this document.

6 JUDGE KASHI: Mr. Keffer.

7 MR. KEFFER: No questions.

8 MS. MELILLO: May I see the document, please?

9 (Pause.)

10 MS. MELILLO: I have no questions, Your Honor.

11 JUDGE KASHI: Mr. McClelland.

12 MR. McCLELLAND: If I may just have one more minute,
13 Your Honor.

14 (Pause.)

15 FURTHER CROSS-EXAMINATION

16 BY MR. McCLELLAND:

17 Q. Mr. Burnside, with regard to these questions --
18 and I want to try to summarize some of the information I
19 think that has previously been provided to us in discovery.
20 That is, does Commonwealth Long Distance also offer
21 intralata toll to the Commonwealth Telephone customers?

22 A. They can.

23 Q. In order to do that does the customer then have
24 to dial an access code to make an intralata toll call on
25 Commonwealth Long Distance?

1 A. Either dial an access code or use a provided
2 dialer by the interexchange carrier.

3 Q. And Commonwealth Long Distance does sell the
4 equipment to customers to automatically, when a call is
5 made, send that call to Commonwealth Long Distance?

6 A. I don't know the answer to your question as to
7 whether they sell it or lease it or provide it.

8 Q. Are the Commonwealth Long Distance intralata
9 rates less than the Commonwealth Telephone Company intralata
10 rates?

11 A. No.

12 Q. Oh, they're not?

13 A. I'm sorry; you said are the Commonwealth Long
14 Distance intralata rates --

15 Q. Yes.

16 A. -- different than the CLD intralata rates?

17 Q. I'm sorry if I misspoke. I meant to say are
18 rates provided by the Commonwealth Long Distance Company
19 less than the intralata rates provided by the Commonwealth
20 Telephone Company?

21 A. I don't know the answer to that question.

22 MR. McCLELLAND: I have no other questions.

23 JUDGE KASHI: Thank you.

24 MR. KENNARD: Redirect, Your Honor?

25 JUDGE KASHI: Redirect.

1 REDIRECT EXAMINATION

2 BY MR. KENNARD:

3 Q. Mr. Burnside, you were asked a series of
4 questions late in the day yesterday by Mr. Keffer of AT&T
5 regarding an apparent commonality of 800 numbers as used by
6 CTCo and CLD. Do you recall that exchange, that discussion?

7 A. How could I forget?

8 Q. Since the time of that cross-examination, have
9 you contacted CLD to find out what their 800 number is and
10 what the arrangements were?

11 A. Yes, I did. During the cross-examination I
12 thought but was not certain that that 800 number that is
13 posted behind me on the board was no longer in use, or at
14 least changed.

15 Q. What is the new number now?

16 A. The new number now is 1-800-443-4253.

17 Q. And that is the number that is used by CLD at
18 the present time?

19 A. That is the number that is used by CLD at the
20 present time; correct.

21 Q. Does Commonwealth Telephone continue to use the
22 225-5282 number?

23 A. Yes, it does.

24 Q. So the companies no longer share a common 800
25 number.

1 At what point in time did that division of 800 number
2 occur?

3 A. The most accurate information that I could get
4 was the change was made sometime in the last quarter of
5 1992.

6 Q. Do you know if CLD has been able to totally
7 remove the former 225-5282 number from all of its
8 advertisements and its public presentations?

9 A. Well, as they are currently placing new
10 advertisements, obviously, they are using the new 800
11 number. I don't know whether they have been able to purge
12 it completely from all past advertising. Some advertising
13 lasts longer than others.

14 Q. Based upon your discussions with them, is it
15 their intent to purge that old number?

16 A. It is their intent to eliminate that number that
17 we talked about yesterday.

18 Q. When the number was jointly used, did CLD
19 compensate Commonwealth Telephone for that 800 number?

20 A. Yes. CLD compensated Commonwealth Telephone
21 Company for their portion of the use of that number as well
22 as for the time that a Commonwealth operator was on the line
23 handling the CLD call.

24 Q. If you know, were those revenues associated with
25 the cost of the 800 number, and then the operators that

1 stood behind the number, booked above the so-called
2 regulatory line, in other words, the dollars received used
3 to credit the regulatory operations of Commonwealth
4 Telephone Company?

5 A. All of those dollars received were credited
6 above the line.

7 Q. When a phone call came in to that old 225-5282
8 number, did the operators employed -- the operators that
9 answered that line were employed by Commonwealth Telephone I
10 think we've established.

11 A. That's correct.

12 Q. Did they handle the concerns of the customer
13 dialing that number or did they pass the call off to CLD and
14 were merely operating as an answering service?

15 A. They passed the call off to CLD, or in the case
16 of a repair problem they passed it off to the CLD Repair
17 Service.

18 Q. So it was really in the nature more of an
19 answering service?

20 A. That's correct.

21 Q. In your opinion, did the commonality of 800
22 numbers present CLD with a marketing advantage over another
23 interexchange carrier who published a different 800 number?

24 A. I don't imagine that there was any marketing
25 advantage. There is no way for me to tell for certain, but

1 I cannot imagine that number, not being a vanity number,
2 would be remembered by many people on a regular basis. The
3 new number, in fact, is a vanity number, the last three
4 digits, 253, representing CLD, so I assume it might be a
5 little bit easier to remember.

6 Q. You were also asked a question or series of
7 questions regarding an advertisement which seemed to
8 indicate that there was a 10 percent discount provided to
9 CLD customers, the 10 percent coming off the toll charges of
10 Commonwealth Telephone Company. Do you recall that
11 exchange?

12 A. Yes, I do.

13 Q. Did you know anything about that promotion when
14 you were cross-examined yesterday?

15 A. I had vague recollections of the program but not
16 anything definitive.

17 Q. You are not responsible for that program; you
18 have no responsibilities for CLD whatsoever. It would have
19 been some information you picked up in the industry
20 somewhere along the way that you knew yesterday; correct?

21 A. I am a customer of Commonwealth Telephone
22 Company and by virtue of that would have received
23 advertising from CLD.

24 Q. But since the time of cross-examination, have
25 you had the opportunity to call Commonwealth Long Distance

1 to inquire further of them as to what this program was?

2 A. Yes, I have.

3 Q. Can you please describe for the Judge, from the
4 customers' perspective, what that program meant to them?

5 A. Well, the program was designed to attract and is
6 used during the competition for equal access customers. The
7 program specifically says that if a customer, prior to the
8 Equal Access Ballots being sent out, signs up with CLD, that
9 CLD will give them, the customer, a 10 percent discount on
10 their telephone bill; and then there are some criteria, some
11 detail, which are as follows: you have to be a customer of
12 CLD for three months running, and you have to spend a
13 minimum of \$10 per month with them. Then if you do that,
14 they will credit you on your next bill 10 percent of your
15 intralata charges.

16 Q. Commonwealth Telephone was not crediting charges
17 on its portion of the bill for the customer subscription to
18 CLD; is that correct?

19 A. Commonwealth was not. Commonwealth Telephone
20 Company has nothing to do with this promotion and is fully
21 compensated immediately for its portion of the customer
22 bill.

23 Q. So from Commonwealth Telephone's point of view,
24 it might as well have been toasters that were being handed
25 out by CLD relative to the fact that it was a 10 percent

1 discount off of your bill?

2 A. It was simply a promotional item, yes. It could
3 have been toasters or anything else.

4 Q. Is this a promotion that AT&T could have
5 undertaken itself?

6 A. Yes, it is.

7 MR. KENNARD: I have no other questions on redirect,
8 Your Honor.

9 JUDGE KASHI: Thank you.

10 Anything in follow-up, Mr. Keffer?

11 MR. KEFFER: Yes, a few.

12 RE-CROSS-EXAMINATION

13 BY MR. KEFFER:

14 Q. Mr. Burnside, you certainly learned a lot since
15 yesterday.

16 MR. KENNARD: Haven't we all.

17 BY MR. KEFFER:

18 Q. If today I stepped out into the hall and called
19 1-800-225-5282, which is the number that I kept referring to
20 ad nauseam yesterday, and indicated I wanted to speak to
21 someone about Commonwealth Long Distance, what would happen?

22 A. Well, as I said a moment ago, there is some time
23 period in which that number is being phased out. My guess
24 is that you would be transferred to Commonwealth Long
25 Distance. In fact, I'm quite certain that if you called

1 that number, you would be transferred to Commonwealth Long
2 Distance.

3 Q. I flipped through the ads that you provided me
4 while Mr. Kennard was asking you redirect questions, and
5 none of them have any dates on them. Would it be possible
6 for you to provide me the Commonwealth Long Distance -- the
7 dates for the Commonwealth Long Distance ads that you gave
8 me that have the 225-5282 number featured somewhere in the
9 ad?

10 A. I can't do it today, obviously.

11 Q. Not today, but can we make that an on-the-record
12 data request, to provide --

13 A. Sure.

14 MR. KENNARD: We'll go to CLD and ask them to do
15 that. They would be the only ones that would know.

16 BY MR. KEFFER:

17 Q. Now, in a number of --

18 MR. KENNARD: I hate to interrupt, but those are the
19 dates on the advertisements given to you in response to
20 which interrogatory?

21 MR. KEFFER: There were a couple, I think.

22 THE WITNESS: I think it's 73.

23 MR. KEFFER: Seventy-three, and there were some in
24 the first set.

25 MR. KENNARD: Would you identify which sets they were

1 in so I know exactly which ones you're looking for?

2 MR. KEFFER: Later.

3 MR. KENNARD: Thank you.

4 BY MR. KEFFER:

5 Q. Now, Mr. Burnside, I also note in some of the
6 ads that the 5282 number is given as the number for
7 residential customers to call, and the 4253 number that you
8 discussed with Mr. Kennard earlier is given as the number
9 for business customers to call. How does that work in this
10 phase-out process that you are touting this morning?

11 A. The 253 number, as I understand it from the CLD
12 managers that I talked to this morning, is the primary
13 number today and has been as of the last quarter of '92.
14 Whether or not it was in use partially for residential
15 customers before that, I do not know.

16 MR. KEFFER: That's all I have. Thank you.

17 JUDGE KASHI: Ms. Melillo, do you have any recross?

18 MS. MELILLO: No.

19 JUDGE KASHI: Mr. McClelland.

20 MR. McCLELLAND: No, Your Honor.

21 JUDGE KASHI: Thank you. You are excused, sir.

22 MR. KENNARD: Thank you, Mr. Burnside.

23 (Witness excused.)

24 MR. KEFFER: Your Honor, yesterday I attempted to
25 introduce AT&T Cross Exhibit 1. You indicated that you

1 wanted a complete copy of Commonwealth's response to AT&T
2 Interrogatory 69 to be included in that exhibit, and I have
3 provided that to you and to the reporter and to all the
4 parties today.

5 JUDGE KASHI: I think we already received that
6 yesterday.

7 MR. KEFFER: I just wanted to note for the record
8 that I provided that to everyone.

9 JUDGE KASHI: All right.

10 That which has been marked as Commonwealth Telephone
11 Statement No. 1 with its appended exhibits, together with
12 that which has been marked as Commonwealth Hearing Exhibit
13 No. 1, are received into the evidentiary record, without
14 objection?

15 (No response.)

16 JUDGE KASHI: Without objection.

17 (Whereupon, the documents marked as
18 Commonwealth Statement No. 1,
19 Commonwealth Exhibits Nos. SB-1
20 through SB-20, and Commonwealth
Hearing Exhibit No. 1 were received
in evidence.)

21 JUDGE KASHI: Do you wish to call your next witness,
22 Mr. Kennard?

23 MR. KENNARD: Commonwealth Telephone would call
24 Joseph Laffey to the stand, Your Honor.

25

1 Whereupon,

2 JOSEPH J. LAFFEY

3 having been duly sworn, testified as follows:

4 JUDGE KASHI: Please be seated, sir.

5 DIRECT EXAMINATION

6 BY MR. KENNARD:

7 Q. Would you please state your name for the record?

8 A. Joseph J. Laffey.

9 Q. By whom are you employed, Mr. Laffey?

10 A. Commonwealth Telephone Company.

11 Q. In what capacity, sir?

12 A. I am Commonwealth Telephone Company's Director
13 of Revenue Requirements.

14 Q. Do you have before you a document styled, up in
15 the right-hand corner, Commonwealth Telephone Company
16 Statement No. 2, consisting of 13 pages, to which there are
17 appended three exhibits nominated as JJJ-1 through Exhibit
18 JJJ-3?

19 A. Yes, I do.

20 Q. Was that testimony and were those exhibits
21 prepared by you or under your supervision?

22 A. Yes, they were.

23 Q. Are there any corrections you wish to make to
24 the testimony or exhibits at this time?

25 A. No.

1 Q. Is the information contained in those documents
2 true and correct to the best of your knowledge, information
3 and belief?

4 A. Yes, it is.

5 MR. KENNARD: Your Honor, we would ask that
6 Commonwealth Statement No. 2 and its Exhibits JYL-1, 2 and 3
7 be so identified as marked on the face of those documents
8 and accepted into the record.

9 JUDGE KASHI: They will be so marked for purposes of
10 identification, and pending any timely motions and/or
11 objections on cross-examination, they will be received into
12 the evidentiary record.

13 (Whereupon, the documents were marked
14 as Commonwealth Statement No. 2 and
15 Commonwealth Exhibits Nos. JYL-1
through JYL-3 for identification.)

16 MR. KENNARD: Thank you, Your Honor. Commonwealth
17 has no further direct examination of this witness and he is
18 available for questioning by the parties.

19 JUDGE KASHI: Mr. Keffer.

20 MR. KEFFER: Thank you.

21 CROSS-EXAMINATION

22 BY MR. KEFFER:

23 Q. Good morning, Mr. Laffey. I am Mark Keffer with
24 AT&T.

25 A. Good morning, Mr. Keffer.

1 Q. You were here yesterday when I asked Mr.
2 Burnside if Commonwealth is the 20th largest telephone
3 company in the U.S, and I think he said that's about right.

4 A. Yes, I was here.

5 Q. I believe that in the interstate arena
6 Commonwealth is what is termed an average schedule company.

7 A. That's correct.

8 Q. For the record, what is an average schedule
9 company?

10 A. Average schedules, that would refer to the type
11 of settlement process that Commonwealth has chosen. In
12 fact, there are three options that are out there for all
13 LECs in terms of interchange settlements. Companies can
14 choose to be compensated based on their own costs as defined
15 by Part 36, Part 69 of the FCC's rules. Companies can elect
16 a price cap methodology under which their rates are tied to
17 key indicators with productivity offsets factored in. That
18 option would allow those companies to earn more than the
19 FCC's authorized rate of return, assuming that they can
20 operate in a cost-effective manner.

21 And then finally, average schedules would be the
22 third option whereas companies at that point will be
23 compensated based on nationwide average costs, which would
24 then be applied to certain key indicators like access lines,
25 access minutes, circuit miles and so on. Commonwealth has

1 chosen to use average schedules.

2 Q. Just a minor point of clarification. In your
3 answer you indicated that all LECs can choose which option
4 they want. Isn't it true that what are called the Tier I
5 LECs, the very largest LECs, don't have that option, they
6 have to be what are termed "cost companies"?

7 A. No, that is not true. But there is one
8 clarification I should make. All of the RBOCs as well as
9 GTE had to follow price caps. That is the only criteria
10 that I am aware of. Tier I companies do not have to be cost
11 companies.

12 MR. KENNARD: Just for the record, can you please
13 explain what RBOC stands for?

14 THE WITNESS: Regional Bell Operating Companies.
15 That would be Bell Atlantic, NYNEX and so on.

16 MR. KENNARD: The so-called "Baby Bells"?

17 THE WITNESS: Baby Bells.

18 MR. KENNARD: The Regional Bells. Thank you.

19 Sorry, Mr. Keffer.

20 MR. KEFFER: No. Thank you. Thank you for the
21 clarification.

22 BY MR. KEFFER:

23 Q. Now, Commonwealth's interstate access charges
24 are basically the interstate access charges established by
25 what is called NECA; is that right?

1 A. That's correct.

2 Q. And NECA is the National Exchange Carrier
3 Association; is that right?

4 A. That's correct.

5 Q. Now, the companies that do set their interstate
6 access charges based on costs, what studies do they perform
7 to do that?

8 A. The FCC rules and regulations for cost
9 companies, as to how they would calculate revenue
10 requirements, are contained in FCC's Part 36 and Part 69.

11 Q. So to identify the overall interstate revenue
12 requirements, the cost companies use the FCC's Part 36
13 rules?

14 A. That's correct.

15 Q. And produce what is generally termed a Part 36
16 study?

17 A. That's correct.

18 Q. In this case you have also produced a Part 36
19 study, have you not?

20 A. That's correct. Commonwealth has performed Part
21 36 studies for some time. It was ordered by the PA PUC
22 several years ago that all LECs had to file intrastate as
23 well as total company rate of return. At that point in time
24 I think many companies started to do Part 36 studies as a
25 means to separate total company costs so that they could

1 file intrastate rate of return.

2 Q. In your testimony you make the point that in
3 producing the Part 36 study that is attached to your
4 testimony, that you have followed the FCC rules with some
5 precision and certainty. That is your testimony, is it not?

6 A. That's correct.

7 Q. Now, the Part 36 rules produce what is termed a
8 fully-distributed cost allocation. What does a fully-
9 distributed cost study do in very brief terms?

10 A. Part 36 does calculate revenue requirements on a
11 fully-allocated cost basis. Each and every account would be
12 analyzed as part of the Part 36 process and then allocated
13 to the jurisdictions, state, interstate, as well as other,
14 other being the catch-all, the non-toll category.

15 MR. KEFFER: I'm going to use the board, but I
16 promise not to write any 800 numbers.

17 JUDGE KASHI: All right.

18 BY MR. KEFFER:

19 Q. I hope this is helpful. When you are doing your
20 Part 36 studies, you're starting with total company cost and
21 then you are splitting them between interstate and state; is
22 that correct?

23 (Counsel Keffer writing on board.)

24 A. Correct.

25 Q. In your testimony you make a big point of saying

1 that changes in the rules have been pushing costs from the
2 interstate jurisdiction over to the state jurisdiction. My
3 question to you is: if the costs are leaving the interstate
4 jurisdiction, what is happening to the interstate rates? Is
5 the answer nothing because you are an average schedule
6 company and you are following the NECA tariff?

7 A. That's right. Commonwealth's costs on the
8 interstate side do not really come into play. NECA sets the
9 access rates that are charged on the interstate side for
10 those companies who concur in that tariff.

11 Q. And I accept your point. I think, if I can
12 state it in a shorthand way, your interstate access charges
13 are not necessarily based on your specific cost.

14 A. They are not based on our cost at all.

15 Q. That statement also holds true for your
16 intrastate access charges, does it not?

17 A. That's correct. Commonwealth's intrastate
18 access charges are not cost-based access charges.

19 Q. And on the state side, you are mirroring
20 someone's tariffs. Which tariffs have you been mirroring?

21 A. On the state side Commonwealth concurs in the
22 Pennsylvania Telephone Association access tariff. Those
23 rates are PUC-ordered rates that became effective in June
24 1985.

25 Q. Now, Part 36 rules that we have been talking

1 about also divide these intrastate costs into some other
2 categories. That would be intralata, commonly called "RA,"
3 interlata, and local; is that correct?

4 A. That's correct.

5 Q. And the Part 36 study that is in your testimony
6 takes the costs down to that level of detail; does it not?

7 A. That is correct.

8 MR. KENNARD: Just one point of clarification. It is
9 labeled "exchange service" instead of "local service" in the
10 testimony because it is local plus --

11 MR. KEFFER: I'm using some shorthand, but your point
12 is --

13 MR. KENNARD: Just so we understand that it is not
14 just basic service.

15 THE WITNESS: It should be referred to as "other."
16 It is a catch-all. It is not just basic local service; that
17 is correct.

18 BY MR. KEFFER:

19 Q. With those caveats, people in the industry
20 generally refer to the cost categories the way I've written
21 them here; is that a fair statement?

22 A. With that clarification, yes.

23 Q. In your Part 36 study, though, you also take the
24 interlata costs down another layer of detail, don't you?
25 Refresh my memory. I think you split these into message and

1 private line.

2 A. That is correct.

3 Q. Is it also correct that if you take the FCC's
4 Part 69 rules that you referenced earlier, you can take the
5 message piece of this and divide it into what I will call
6 traffic sensitive -- I'm running out of room, fortunately,
7 I'm out of categories --and non-traffic sensitive? Is that
8 right?

9 A. Actually, Part 69 would --

10 Q. It drives on down into rates for the traffic
11 sensitive.

12 A. Part 69 would take Part 36 revenue requirements
13 for each of the various services and it would redistribute
14 those costs into various service categories. Traffic
15 sensitive is actually a rolled-up version. There are
16 several categories that would fall under that heading of
17 traffic sensitive.

18 Q. That's right. There are several traffic
19 sensitive rate elements that Part 69 drives costs into; is
20 that accurate?

21 A. That's correct.

22 Q. What I want to focus on for a minute is the way
23 that Commonwealth's non-traffic sensitive costs get
24 allocated as we go through the process. Before we start
25 doing that, let's define what we mean by non-traffic

1 sensitive costs.

2 I am going to draw a box with an "x" in it, and I am
3 going to say that that is a Commonwealth central office, and
4 I'm going to draw an access line and a customer's telephone.

5 Now, this access line between Commonwealth's central
6 office and the customer's telephone, or actually, I guess,
7 to be technical, the network demarcation point at the
8 customer's house -- let's make it a residential house --
9 that is what is termed in the industry the local loop?

10 A. That's correct.

11 Q. The customer's dial tone line it is sometimes
12 called, right? And that is primarily what is also referred
13 to as the non-traffic sensitive plant?

14 A. That's correct.

15 Q. Now, let's talk about why it is called non-
16 traffic sensitive for just a minute. If this customer never
17 makes or receives a single call, Commonwealth's costs of
18 putting that line from the central office out to his house
19 are the same.

20 A. That's correct.

21 Q. And if the customer makes all local calls, the
22 costs for that line are the same, right?

23 A. Correct.

24 Q. And if the customer makes all toll calls, talks
25 20 hours a day, those costs are the same, they are non-

1 traffic sensitive; that's the definition.

2 A. Correct.

3 Q. I want to focus on how those costs flow through
4 this process. Now, between state and interstate I think
5 your study uses what is called the 25 percent gross
6 allocator.

7 A. That's correct.

8 Q. Tell the Judge what that means in simple terms.

9 A. Per the FCC's Part 36 rules, 25 percent of NTS
10 costs would be assigned to the interstate jurisdiction. The
11 75 percent balance would then be intrastate assigned.

12 Q. So under the rules there's 25 percent there, 75
13 percent here (indicating). Now, that gross allocator is a
14 change in the FCC's approach, is it not, in recent years?

15 A. Yes, it is.

16 Q. How did the FCC used to allocate costs between
17 state and interstate, non-traffic sensitive costs?

18 A. Interstate non-traffic sensitive costs had been
19 allocated based on the subscriber plant factor, which is
20 also known as the SPF, which is an acronym, S-P-F, up until
21 approximately 1981. At that point in time the SPF on the
22 interstate side was frozen at its then-current level, and
23 beginning in 1986, per the FCC's rules, there was a
24 transition period began to move your SPF from its then-
25 current level to 25 percent.

1 Q. To help the reporter, when you're saying SPF
2 that's S-P-F.

3 A. I did clarify that.

4 Q. Okay. I'm sorry.

5 Would you agree with me that the reason the FCC
6 changed from SPF to gross allocator was because SPF was
7 allocating more non-traffic sensitive costs to interstate
8 access than the FCC believed was appropriate?

9 MR. KENNARD: Judge, the FCC orders are going to have
10 to speak for themselves. They are extensive. The FCC
11 orders are wonderfully detailed and we, I think, can pull
12 that information from their orders as opposed to asking this
13 witness to speculate.

14 MR. KEFFER: I asked him if he agreed with my
15 characterization of the FCC's approach. He is a separations
16 expert.

17 JUDGE KASHI: I like the way that it's coming in. It
18 helps me to understand the entire matter --

19 MR. KENNARD: Very good; I withdraw the objection.

20 MR. KEFFER: I don't pretend to speak for the FCC.

21 BY MR. KEFFER:

22 Q. Do you want me to rephrase the question?

23 A. Yes.

24 Q. Would you agree that the FCC's rationale for
25 changing from this method to the 25 percent gross allocator

1 was because the SPF was allocating too much non-traffic
2 sensitive plant to interstate access charges and they wanted
3 to reduce that cost assignment somewhat?

4 A. Well, I would agree that what the end result of
5 that change is is that there is less NTS cost which is
6 currently assigned to the interstate jurisdiction.
7 Mathematically that's the case. I can't really speak as to
8 whether they thought too much was being allocated.

9 Q. None of us sitting in this room can get inside
10 their heads and know exactly why, but we can read their
11 orders.

12 A. Mathematically, that is the case.

13 Q. Now, you did your study, you took the 25 percent
14 of the NTS plant and sent it to interstate. You have 75
15 percent left in the state. How did you allocate it to these
16 state budgets, the intralata, the interlata and the exchange
17 or other or local, whichever you want to call this third
18 pot.

19 A. That step would have taken the intrastate
20 components of the SPF and then that percentage would have
21 been applied to the balance of the NTS costs.

22 Q. So from here down you basically used the SPF
23 methodology (indicating)?

24 A. Correct.

25 Q. Now, there is also an allocation methodology

1 that is talked about a lot in the industry called SLU. What
2 does SLU stand for? That's S-L-U for the reporter's
3 benefit.

4 A. SLU stands for Subscriber Line Usage. It's a
5 cost allocation factor.

6 Q. What does SLU represent? What is SLU all about?

7 A. SLU would represent relative usage.

8 Q. By relative usage, do you mean that, for example
9 -- I'm using the three boxes that I've set up here -- that
10 if, let's say, 30 percent of the customer's usage was
11 intralata and 20 percent was interlata and 50 percent was
12 local or other, that costs -- and we're still talking about
13 non-traffic sensitive costs -- would be allocated to the
14 three boxes on those percentages?

15 A. That's correct.

16 Q. The cost assignment would follow the relative
17 usage and would match those percentages, right?

18 A. That's correct.

19 Q. Now, with your SPF methodology, would you agree
20 with me that what tends to happen is that -- and continuing
21 with my example -- this 50 percent number is lower and these
22 other two numbers end up being higher?

23 A. Yes, I would agree.

24 MR. KENNARD: Just so the record is clear, the local
25 number tends to be lower and the other two are higher.

1 MR. KEFFER: Thank you. I can always depend on Mr.
2 Kennard to keep me straight.

3 MR. KENNARD: I'm trying to be helpful.

4 BY MR. KEFFER:

5 Q. Now, today in Commonwealth's access tariff -- if
6 you run this on down through the process you can end up with
7 the access charges, and you end up with a non-traffic
8 sensitive access charge that generally is known in the
9 industry as the carrier common line charge; right?

10 A. That's right.

11 Q. Would you agree with me that the carrier common
12 line charge recovers primarily these non-traffic sensitive
13 costs that we have been talking about?

14 A. Yes.

15 Q. Would you also agree with me that today
16 Commonwealth's carrier common line charge is assessed on a
17 traffic sensitive basis, and by that I mean each minute of
18 use that an interexchange carrier places over an access line
19 gets assessed a per minute charge?

20 A. That's correct.

21 Q. And I am also correct that for a number of other
22 local exchange companies in Pennsylvania, in fact, the
23 majority of local exchange companies in Pennsylvania, the
24 Commission has changed from a per minute carrier common line
25 charge to some sort of capped carrier line charge that no

1 longer recovers the CCL on a per minutes of use basis?

2 A. Yes. I think that is true, but there has been
3 no order or no regulatory requirement that says all LECs
4 must cap their carrier common line on a per access line
5 basis.

6 Q. I agree with you. Had there been such an order,
7 Commonwealth would have made the change already.

8 A. That's correct.

9 Q. So far you've been able to hold on and keep your
10 per minute charge.

11 Now, yesterday Mr. Burnside talked with me for a
12 moment about the relative local service charges of the five
13 biggest local companies in Pennsylvania. His information
14 showed that Commonwealth had the lowest residential basic
15 service rates.

16 Do you recall that discussion?

17 A. Yes, I do.

18 MR. KENNARD: Lowest among those that were on the
19 chart. Not the lowest in the state.

20 MR. KEFFER: I said the five largest.

21 BY MR. KEFFER:

22 Q. Now, since you are involved in access charges,
23 have you had an opportunity to compare Commonwealth's access
24 charges with the access charges of some of the other local
25 companies in Pennsylvania?

1 A. No, I have not.

2 Q. Do you know if your access charges are higher
3 than Bell's?

4 A. I believe they are higher than Bell's, yes.

5 Q. Higher than GTE's?

6 A. I don't think they are higher than GTE's or
7 United or several other companies.

8 Q. Rather than belabor this we will put an exhibit
9 in our testimony that will show access rate comparisons
10 among those companies, and it will show that while
11 Commonwealth doesn't have the highest, you have the second
12 highest of the five companies.

13 MR. KENNARD: Of those five companies?

14 MR. KEFFER: Of those five companies. United has the
15 highest, and we are after them, too.

16 BY MR. KEFFER:

17 Q. Now, the cost studies that we are talking about,
18 the fully-distributed cost studies, you have not done any
19 incremental studies of your access costs. I think I asked
20 you a discovery request about that and you said no.

21 A. That's correct.

22 Q. So in the absence of any incremental cost
23 studies, the Part 36 study that you have submitted in your
24 testimony is the only cost information that you have on your
25 access services?

1 A. That's correct.

2 Q. You projected, in one of the exhibits towards
3 the back of your testimony, you projected revenues for your
4 '93 test year.

5 MR. KENNARD: Exhibit JYL-3.

6 BY MR. KEFFER:

7 Q. Now, these are all intrastate revenues on this
8 sheet, are they not?

9 A. That's correct.

10 Q. When you were doing this or at some other time
11 did you also project your '93 interstate access revenues?

12 A. Yes, we have, and I believe we have supplied
13 that to all parties in this case. We have supplied a total
14 company 1993 test year projection.

15 Q. That projects the access revenues? I'm sorry if
16 I missed that. Could you give me a reference to that? Not
17 right now; off the record at some point. I would appreciate
18 it.

19 MR. KENNARD: Yes.

20 (Pause.)

21 MR. KEFFER: A couple of ending clarifying points.

22 BY MR. KEFFER:

23 Q. Commonwealth has always been an average schedule
24 company with the FCC, they have never been a cost company?

25 A. That's correct.

1 Q. Do you know if Commonwealth is the largest
2 average schedule company?

3 A. I don't know that.

4 Q. Of the 19 companies that are bigger than
5 Commonwealth, are you aware of any average schedule?

6 A. I think on that list that shows the top 20
7 there are system companies who would have operating groups
8 in multiple states, so I'm not certain that there's not one
9 on that list who would have a study area state that could be
10 average schedule and that could be larger than Commonwealth
11 Telephone Company. I just don't know.

12 Q. I may have hit this point earlier, but just to
13 make it clear, since divestiture in 1984, and since the time
14 access charges were first implemented, am I correct that
15 this Commission has never taken a look at Commonwealth's
16 access costs?

17 A. That is true not only of Commonwealth Telephone
18 Company, but that is true of all LECs in this state. I
19 don't think any LEC in this state has cost-based access
20 rates. I think it is important --

21 MR. KENNARD: Your question was simply looked at the
22 costs?

23 MR. KEFFER: That's right.

24 MR. KENNARD: We will stipulate that there have been
25 companies -- and you also asked about rate increases -- that

1 have gone through the process and cost information has been
2 provided. Is that what you're looking for?

3 MR. KEFFER: He answered the question. My point was
4 that their access charges have never been cost based, and
5 his response was equally true, that none of the other
6 companies have ever had cost-based access charges either.

7 BY MR. KEFFER:

8 Q. If you had your choice, Mr. Laffey, and you were
9 not constrained by the Commission political considerations,
10 given your very low local rates that Mr. Burnside spoke of
11 and your relatively high access charges, would Commonwealth
12 like to increase its local rates and decrease its access
13 charges so that those charges are moving closer to the
14 underlying costs?

15 A. Well, I haven't considered that scenario, but at
16 this point I would have to say Commonwealth is comfortable
17 that its intrastate access charges are at the correct level.
18 We have not done any studies that would indicate to us that
19 they should change.

20 Q. Are there any market risks associated with
21 keeping access charges too high?

22 A. Well, as I just stated, Commonwealth is not
23 undertaking any studies or any financial-type analysis that
24 would tell me that there would be market risks with our
25 access charges at their current level.

1 Q. Are there any companies operating out there that
2 try to offer access alternatives to the local exchange
3 companies --

4 A. Well, there certainly are --

5 Q. -- in places where access charges are well
6 above cost?

7 A. Well, to the first part of the question, there
8 are companies out there who would offer alternative access.
9 Now, I'm not sure if it is being offered in telephone
10 company areas whose rates are higher than their cost. I
11 don't know.

12 Q. If you were in the alternate access business,
13 first, you would probably target urban areas, and your
14 territory is not an urban area. Secondly, you would tend to
15 target areas where the existing prices were above cost so
16 that you had a potential profit margin. That would just
17 make sense, wouldn't it?

18 A. Like I said, Mr. Keffer, I have not studied the
19 issue; I have never worked on that side of the telephone
20 industry.

21 MR. KEFFER: Fair enough. That's all I have.

22 JUDGE KASHI: Thank you.

23 Before we go further with this, I just wanted to note
24 to the parties that when I issue my briefing order and
25 instructions one of the things that I will ask for in that

1 brief is a glossary of terms with abbreviations, acronyms,
2 industry-specific language and terminology. I just remind
3 you of that now in case you want to keep your own track.

4 MR. KENNARD: We presented, Judge, a glossary of
5 terms, particularly in the access area, in an Enterprise
6 rate case a while ago and I think gave that to Judge
7 Solomon. If that would be helpful to you at this point --

8 JUDGE KASHI: You can append it to your briefs in
9 this case.

10 MR. KENNARD: Would it be helpful if we submitted it
11 at this point?

12 JUDGE KASHI: You certainly may.

13 MR. KENNARD: Okay. We will do that.

14 MR. KEFFER: Could we go off the record for just a
15 second?

16 JUDGE KASHI: Sure. Off the record.

17 (Discussion off the record.)

18 JUDGE KASHI: Back on the record.

19 Ms. Melillo.

20 MS. MELILLO: Thank you, Your Honor.

21 CROSS-EXAMINATION

22 BY MS. MELILLO:

23 Q. Good morning, Mr. Laffey.

24 A. Good morning.

25 Q. Mr. Laffey, I have a few follow-up questions

1 with respect to Mr. Keffer's cross-examination this morning.
2 Am I correct that for determining its interstate revenue
3 requirement before the FCC, Commonwealth uses the average
4 schedule?

5 A. Well, I think I should clarify just a couple of
6 the terms here. Commonwealth's interstate revenue
7 requirement, that kind of terminology would most likely be
8 used by a cost company. As far as any interaction between
9 Commonwealth and the FCC, there is none. Commonwealth is
10 compensated from the NECA pooling process based on average
11 schedule costs.

12 Q. There is no Part 36 separation study used for
13 determining your reimbursement from NECA; is that correct?

14 A. No, not a Commonwealth Part 36 study but part of
15 the average schedule process itself. NECA does a Part 36
16 study to split costs so that they can then work down to the
17 formulas that are then paid out to the schedule companies
18 based on nationwide average costs.

19 Q. Now, in this proceeding, however, Commonwealth
20 is using a cost study for determination of intrastate
21 revenue requirement; is that correct?

22 A. That's correct. Commonwealth has filed
23 intrastate rate of return reports in the state per the order
24 of the PUC, which I believe was in the 1985-1986 time frame.

25 Q. That 1985-1986 Commission order you're referring

1 to, can you give me a docket number on that?

2 A. No, I can't. That kind of ran through my mind
3 as I was saying the words. I cannot tie it back to a PUC
4 order specifically.

5 MR. KENNARD: I believe it was a Secretarial Letter,
6 and we'll see if we can dig up a hard copy if you don't have
7 one.

8 MS. MELILLO: I would like to make an on-the-record
9 data request that the company provide a copy of that
10 Secretarial Letter or order or whatever they're referring to
11 in Mr. Laffey's response.

12 BY MS. MELILLO:

13 Q. On page 3 of your Statement No. 2, Mr. Laffey,
14 beginning on line 5, you talk about the purpose of a Part 36
15 separations study establishing the regulatory boundaries.
16 Is the purpose also to establish a separation of revenue
17 between interstate and intrastate?

18 A. Yes. Part 36 would separate a company's total
19 costs between state and interstate.

20 Q. Mr. Laffey, are you an attorney?

21 A. No, ma'am, I'm not.

22 Q. Then you are not licensed to practice law in the
23 Commonwealth of Pennsylvania?

24 A. No, I'm not.

25 Q. Am I correct then that you don't deem yourself

1 qualified to interpret federal and state statutes and
2 regulations in terms of their legal implications to affected
3 parties?

4 (Pause.)

5 MR. KENNARD: Judge, we will stipulate that Mr.
6 Laffey is not a lawyer, he is not licensed to practice as a
7 lawyer. Regulatory people do, however, utilize
8 regulations --

9 JUDGE KASHI: Yes. We've got a whole bunch of non-
10 lawyers that do that all through the Commission day after
11 day.

12 MS. MELILLO: Well, Your Honor, I am troubled by one
13 sentence in Mr. Laffey's testimony. I'll tell you where it
14 is.

15 JUDGE KASHI: You can argue that in your brief,
16 counsel. I understand that and you understand the
17 background of this witness.

18 MS. MELILLO: Your Honor, I had intended to make a
19 motion to strike this sentence from the testimony.

20 JUDGE KASHI: Go ahead and make your motion.

21 MS. MELILLO: Page 4, beginning at line 18, and
22 continuing through line 20, I move to strike that sentence
23 on the basis that it contains a legal conclusion and Mr.
24 Laffey is not an attorney. We have stipulated to such.

25 JUDGE KASHI: Which --

1 MR. KENNARD: "Preemptively binding."

2 MS. MELILLO: "Preemptively binding," Your Honor.

3 That's a legal conclusion. The sentence says, "FCC
4 decisions referred to a Joint Board are preemptively binding
5 on the states."

6 THE WITNESS: Historically speaking, I believe that
7 has been the case. There have been --

8 MS. MELILLO: Wait a minute. I have moved to strike
9 that sentence and I am waiting, I guess, for a response from
10 counsel on my motion to strike.

11 MR. KENNARD: Maybe we can accomplish this
12 accommodation. The witness just said that as an historical
13 fact the FCC decisions have been preemptively binding. If
14 we could leave it in there for that purpose, and if counsel
15 would like a citation as to that, it's a --

16 JUDGE KASHI: Also, when a witness like this
17 testifies to those particular matters, I am always inclined
18 to believe that the testimony also goes to his reasons for
19 acting the way he does in regard to certain matters, and the
20 fact, the legal fact, is never assumed. If he is acting on
21 that as a presumption of his that they're preemptively
22 binding, whether historical or legal, that is still his
23 basis for acting. Whether or not it is a legal fact, I'm
24 not going to accept that --

25 MS. MELILLO: I'm sorry; I didn't hear you.

1 JUDGE KASHI: I'm not going to accept that from the
2 witness.

3 MS. MELILLO: That's fine. With that understanding I
4 can move on.

5 BY MS. MELILLO:

6 Q. Am I correct, Mr. Laffey, that in deriving
7 Commonwealth's intrastate revenue requirement in this case,
8 Commonwealth did not deduct its intrastate revenue
9 requirement, as determined on this average schedule basis
10 which you discuss, from its total expenses to arrive at its
11 intrastate revenue requirement?

12 A. That's correct, we did not.

13 Q. Please turn to your Exhibit JJL-2, page 1.

14 A. I have it.

15 Q. On line 7 thereon there is a reference to a rate
16 of return of 10.45 percent. Do you see that?

17 A. On page 1?

18 Q. JJL-2, page 1.

19 A. Oh, I'm sorry. Exhibit JJL-2?

20 Q. I'm sorry. Yes, Exhibit JJL-2, line 7.

21 A. Yes, I see that.

22 Q. Could you tell me the source of that rate of
23 return?

24 A. The 10.45 rate of return which was used in this
25 study, that is based on Mr. Hanley's calculations of

1 Commonwealth's rate of return as testified to yesterday
2 here.

3 Q. So then the 10.45 percent capital structure used
4 to obtain that and the debt and equity cost therein would be
5 found in Mr. Hanley's testimony?

6 A. That's correct.

7 Q. Am I correct that in your Exhibit JYL-2 your
8 study period is the 12 months ending 12/31/93?

9 A. That's correct.

10 Q. Is this the usual procedure in conducting these
11 studies to use a study period that is, at least in part, in
12 the future?

13 A. No. Commonwealth's Part 36 studies normally are
14 done on an historical basis. This study was done for the
15 future test year.

16 Q. So that the study was based on a projection of
17 costs then, correct, to get it to a future test year basis?

18 A. That is correct. All of the input to the study
19 came from Commonwealth's future test year forecasts of both
20 rate base and expense.

21 Q. Do the Part 36 separations studies used by the
22 FCC specifically provide for a future test year study period
23 such as you have used in this proceeding?

24 A. No. Part 36 of the FCC's rules purely lays out
25 how to separate state from interstate common costs. It does

1 not speak to the time frames that can be used in the study.

2 Q. Please refer to Exhibit JYL-2, page 1, line 5.
3 Do you see thereon an intrastate rate base number of
4 \$161,808,524?

5 A. Yes, I do.

6 Q. Is that the claimed average rate base using the
7 12 months ending '92 and '93 figure and dividing by two?

8 A. That is the intrastate portion of the average
9 rate base.

10 Q. I'm sorry; I'm having trouble hearing you.

11 A. That is the separated intrastate portion of the
12 average rate base.

13 Q. So when you answered my question by saying it is
14 an average rate base, then it is developed using calendar
15 year end '92 and calendar year end '93 rate base numbers and
16 dividing by two?

17 A. Yes, I believe it is.

18 MR. KENNARD: If you want a definitive answer on
19 that, Mr. Cawley is the source of the future test year
20 numbers. Mr. Laffey is responsible for taking those numbers
21 and doing the Part 36 allocation.

22 BY MS. MELILLO:

23 Q. This might be a question which you may want to
24 defer to Mr. Cawley then, Mr. Laffey, but I will ask you
25 this at this point. Do you have a copy of Mr. Cawley's

1 DPC-2T that he provided to the parties?

2 A. No, I don't have a copy of that with me.

3 Q. Does your counsel have one?

4 MR. KENNARD: I don't think I do.

5 (Counsel Kennard perusing documents.)

6 MR. KENNARD: No, I don't. You are referring to the
7 total company information that was provided in response to a
8 request of the parties?

9 MS. MELILLO: Right.

10 (Document handed to Counsel Kennard by Counsel
11 Melillo.)

12 (Document handed to witness.)

13 MS. MELILLO: Your Honor, I just provided a copy of
14 DPC-2T to the witness, and I will provide one to Your Honor
15 so that Your Honor can have reference to this. I intend to
16 make that an exhibit at a later time. I believe probably
17 Mr. Cawley would be the proper witness to authenticate it.

18 JUDGE KASHI: All right.

19 (Document handed to Judge Kashi.)

20 BY MS. MELILLO:

21 Q. Mr. Laffey, you can defer this question to Mr.
22 Cawley if it is appropriate, but I was wondering, there is a
23 \$207,519,209 number for regulated rate base - normalized
24 shown on DPC-2T. Do you see that number?

25 A. Yes.

1 Q. \$207,519.209?

2 A. Yes.

3 Q. Now, is the \$161,808,524 number that we
4 referenced previously in your Exhibit JJL-2, page 1, line 5,
5 is that \$161 million number the intrastate portion of the
6 \$207 million number shown on DPC-2T?

7 MR. KENNARD: That would be a question for Mr.
8 Cawley.

9 MS. MELILLO: All right. Thank you.

10 MR. KENNARD: I believe the answer is yes, that what
11 is in JJL-2 is intrastate.

12 JUDGE KASHI: We'll have Mr. Cawley testify.

13 MR. KENNARD: All right.

14 MS. MELILLO: We can clarify that.

15 Similarly, would questions then relating to numbers
16 that appear on JJL-2 in relation to numbers that then also
17 appear but are different on DPC-2T be properly referred to
18 Mr. Cawley?

19 MR. KENNARD: Yes.

20 MS. MELILLO: Your Honor, if I could have a moment,
21 that may complete our cross-examination.

22 JUDGE KASHI: All right.

23 (Pause.)

24 MS. MELILLO: That's all we have. Thank you, Mr.
25 Laffey.

1 JUDGE KASHI: Thank you very much. We're going to
2 take our morning recess for 15 minutes at this point. We
3 will come back and I intend to go until 12:30, at which time
4 we will take our lunch recess.

5 We stand in recess for 15 minutes.

6 (Recess.)

7 JUDGE KASHI: Let's go back on the record.

8 Cross-examine, Mr. McClelland.

9 MS. MELILLO: Your Honor, if I may, we have
10 ascertained that there may be a couple of questions which
11 Mr. Laffey would be responsible for answering even though he
12 is not the person providing the numbers on the Schedule JJJL-
13 2, and we thought we had better ask him rather than have it
14 be deferred back to him by Mr. Cawley.

15 JUDGE KASHI: All right.

16 MS. MELILLO: I thank the parties for their
17 indulgence.

18 CROSS-EXAMINATION (Continued)

19 BY MS. MELILLO:

20 Q. Just a couple of questions, Mr. Laffey.
21 Mr. Laffey, do you have a copy of DPC-2T? Do you
22 still have that?

23 A. No, I don't. I believe I gave it back to Mr.
24 Kennard.

25 (Document handed to witness.)

1 Q. And if you would also refer to your Exhibit J JL-
2 2, page 2, at line 34. Do you see the number on your
3 Exhibit J JL-2, page 2, line 34 -- for customer deposits you
4 have total intrastate of \$241,211. Do you see that number?

5 A. Yes.

6 Q. Now, if you will then refer to DPC-2T, under the
7 customer deposits, do you see, under the column "Average,"
8 \$307,484?

9 A. Yes, I do.

10 Q. Mr. Laffey, aren't all the customer deposits
11 related to the provision of regulated utility service in
12 Pennsylvania?

13 MR. KENNARD: This will be a Mr. Cawley question too.

14 BY MS. MELILLO:

15 Q. In other words, you wouldn't be able to answer
16 questions as to why \$241,000 of the customer deposits was
17 allocated intrastate versus \$307,000? That wouldn't be your
18 area?

19 A. No.

20 MS. MELILLO: I'm sorry; I thought --

21 JUDGE KASHI: It sure sounds like it would be his
22 area.

23 MS. MELILLO: Yes, because it's an allocation.

24 MR. KENNARD: Well, the fact that it was allocated
25 was done by Mr. Laffey. Whether it is properly allocated

1 would be Mr. Cawley. He is the accounting witness. It's
2 not immediately obvious but Mr. Cawley can answer these
3 questions.

4 MS. MELILLO: All right. Thank you. I apologize. I
5 thought that this was your area.

6 That's all I have, Your Honor.

7 JUDGE KASHI: Mr. McClelland.

8 MR. McCLELLAND: Thank you, Your Honor.

9 CROSS-EXAMINATION

10 BY MR. McCLELLAND:

11 Q. Good morning, Mr. Laffey. I am Phillip
12 McClelland with the Consumer Advocate's Office.

13 A. Good morning.

14 Q. Mr. Laffey, do you work and hold some positions
15 in the OPATSCO organization?

16 A. Do I work for OPATSCO?

17 Q. No. Do you work with and hold positions in the
18 OPATSCO organization?

19 A. I serve on a Separations and Access Committee
20 for OPATSCO, but I am not employed by OPATSCO.

21 Q. In that context do you deal with average
22 schedule issues?

23 A. Yes.

24 Q. And OPATSCO advocates the interests of smaller
25 telephone companies?

1 A. That's correct.

2 Q. In that context are the average schedule rates
3 intended to provide small telephone companies with an option
4 to allow them to avoid the burden of developing the detailed
5 information required for separations cost studies and also
6 require that that information be filed with the FCC?

7 A. As far as the average schedule participation
8 criteria, I believe it is contained in Part 36. What it
9 says there, I don't have it with me so I won't be able to
10 quote it exactly, but I believe it says any company who was
11 average schedule as of December 1983 can be average schedule
12 in the future. That is the only criteria that exists that I
13 am aware of as far as participation in average schedules.

14 Q. But is the reason for that so that the smaller
15 companies do not have to do the cost separation studies by
16 FCC rules?

17 MR. KENNARD: Is the FCC's reason?

18 MR. McCLELLAND: Yes.

19 MR. KENNARD: You mean with the same caveat that
20 we've had with respect to legal opinions from a lay witness?

21 MR. McCLELLAND: Yes.

22 THE WITNESS: I am not sure what the FCC's philosophy
23 is as far as average schedules. All I know is in the Part
24 36 rules which lay out the criteria, you know, there are no
25 criteria there as far as size of a company.

1 BY MR. McCLELLAND:

2 Q. Through the OPATSCO organization do you ever
3 have occasion to speak with FCC personnel about separations
4 issues and average schedule rates?

5 A. No, I have not spoken to anybody at the FCC.

6 Q. Could Commonwealth, though, if it chose, become
7 a cost company?

8 A. Could Commonwealth, if it chose --

9 Q. Yes, become a cost company, say to the FCC, "I'm
10 not going to do average schedule anymore. We are going to
11 file cost-based rates."

12 A. As I explained earlier, every company has
13 options with the exception of the seven RBOCs as well as
14 GTE. I mean any company has settlement options in the
15 interstate jurisdiction regardless of size.

16 Q. Then Commonwealth could, if it wanted to, file
17 and receive cost-based rates from the FCC?

18 A. Yes.

19 Q. Why has Commonwealth not chose to do that?

20 A. Well, as I explained, there are options out
21 there for all telephone companies in terms of the type of
22 settlements that they choose. I would think most companies,
23 if not all companies, choose their settlement option as a
24 way to maximize revenue. All the companies that are price
25 cap companies today, those who were not mandated, and there

1 are some, clearly they sat down and looked at all their
2 options and felt that they could maximize revenues, maximize
3 profits, by choosing price caps. It works the same way if
4 you are an average schedule company.

5 Q. Then it has that effect for Commonwealth?

6 A. Yes.

7 Q. I would like to ask you to look on one of your
8 interrogatory answers, and that is Set IV, Question 4. I
9 don't mean to go through this in detail, but you did have a
10 discussion in there about how NECA rates are set, and in the
11 lower portion of your answer -- maybe I can just quote that.
12 "The increase in total network access is primarily in the
13 rate of return adjustments received from NECA on interstate
14 settlements. Of the total \$5.8 million growth, \$3.6 million
15 is due to adjustments in residual earnings."

16 Now, could you please just explain what the rate of
17 return adjustments and residual earnings adjustments are
18 that you are talking about there and how they work?

19 A. Sure. Okay. Every average schedule company
20 takes part in the pooling process with NECA. There are two
21 pools. One is the carrier common line pool, one is the
22 track and sensitive pool. The schedule rates, the
23 settlement schedule rates, are set to pay out at the FCC's
24 authorized rate of return, which I believe is currently like
25 11-1/4. However, the pools for any given period may not

1 earn at that level; they can under-earn, they can over-earn.
2 Much of that is going to be based on NECA's access rates,
3 if they were properly set to fund the pool at the correct
4 level.

5 What has happened, especially during 1992, both of
6 the pools have over-earned. Once that happens in any given
7 month those excess earnings are paid out to the
8 participants, however, they are subject to a subsequent
9 refund.

10 So what this is pointing out is that for any given
11 month the pool is not going to earn right on the authorized
12 rate of return. To the extent that it's higher, there will
13 be further dollars paid out to both the cost and the average
14 schedule companies who are part of those pools. However,
15 any given month is also subject to 24-month retroactivity.
16 Companies who participate can come in for a full two-year
17 period and change their settlement input for any given
18 month. If that occurrence were to cause that month's rate
19 of return to decline, then the companies who have been paid
20 something higher in a prior period, they would have to
21 refund those dollars back to the pool.

22 So these excess earnings are temporary. They are
23 paid out to the participants but they are subject to refund.
24 They are also subject to claim by the interexchange
25 carriers. If the pools over-earn, they can take action

1 through the FCC to -- I mean after 24 months expires, they
2 can then seek retroactive adjustments to the access charges
3 that they paid.

4 Q. And the term "residual earnings," how does that
5 play into this?

6 A. Residual is really meant to explain -- if, for
7 example, the pool earned at 13 percent when it was only
8 supposed to earn at 12, 1 percent is -- that's what that
9 would refer to, the difference between the authorized and
10 the actual achieved return for that month.

11 Q. If I could try to then ask you about the
12 specific numbers that you mentioned in your answer.

13 A. Okay.

14 Q. That is, of the total \$5.8 million growth, \$3.6
15 million is due to adjustments in residual earnings. Can you
16 just explain, does that mean the revenue is increasing or
17 decreasing or what?

18 A. During 1992 it was higher by \$3.6 million than
19 what Commonwealth would have been paid if the pool earned at
20 the authorized return. That amount of money is subject to
21 subsequent payback to the pools for the reasons that I just
22 went through.

23 Q. Are you familiar with the total company revenues
24 that have been used in this case for Commonwealth? I
25 suppose used by Mr. Cawley.

1 A. Yes.

2 Q. Do you know, are there any changes projected in
3 the interstate revenue for 1993 in this case?

4 A. Yes. We have factored into our test year
5 revenues in the interstate side -- we expect that effective
6 yesterday, as a matter of fact, there are changes scheduled
7 to the average schedule formulas which will increase what
8 the average schedule payments will be to the participants.
9 Now, that's not tied back to this question 4. That's a
10 totally separate issue.

11 Q. Can you just please explain that separate issue?

12 A. Well, every year NECA restates the average
13 schedule formulas that are then applied to the various key
14 indicators, and that would then create average schedule
15 payments. Each year those formulas are changed, either up
16 or down, to try to simulate more current costs as well as
17 separations changes. That's what happened yesterday. That
18 was filed late last year and accepted by the FCC. Those new
19 formulas took effect July 1 of this year.

20 Q. Do you know what that effect was either for the
21 six-month period or the 12-month period?

22 A. I don't believe I have that number. I'm going
23 to -- I would estimate subject to check that it's worth
24 about \$300,000 in our test year numbers.

25 Q. When you say \$300,000, that's only six months?

1 A. Yes, that's correct.

2 Q. But that change would apply for a 12-month
3 period?

4 A. That's correct.

5 Q. Until next July 1, 1994.

6 A. Commonwealth's test year, though, does include
7 the full effect of a similar change which occurred last year
8 at the same time.

9 Q. Can you just apprise me, was that roughly
10 another \$300,000?

11 A. That would be roughly double that amount. The
12 full year effect of that is in our test year.

13 Q. Mr. Laffey, I appreciate your trying to recall
14 all these numbers for me. I would make a data request that
15 if -- could you more precisely indicate what the effect of
16 those changes were that we just discussed?

17 A. Yes. Sure.

18 Q. Also, are there any other residual earnings or
19 rate of return changes that will be in effect?

20 A. No. We have not factored into our test year
21 numbers rate of return adjustments since those are really
22 temporary revenues that will at some point be paid back to
23 the pool either through changes that would result from
24 retroactive adjustments by the other participants or, at the
25 end of a 24-month period, through a refund to the

1 interexchange carriers. These access charges fund the
2 pools.

3 Q. Mr. Laffey, I believe that Mr. Keffer asked you
4 questions previously about local service rates of
5 Commonwealth versus other local exchange carriers. Do you
6 recall that?

7 A. Yes.

8 Q. And I think a cross-reference was made to some
9 other analysis as to Commonwealth's rates versus the rates
10 of other telephone companies; is that generally correct?

11 A. That's correct.

12 Q. Do you know if Commonwealth has done any other
13 comparable comparison with the toll charges that a customer
14 would receive in any month with the toll charges of other
15 utility customers?

16 A. We have not done any such analysis.

17 Q. Could you also look on I believe it is OCA Set
18 IX, answer to Question 170? This is sort of a general
19 revenue breakdown.

20 MR. KENNARD: I'm sorry, Mr. McClelland, what was
21 your citation?

22 MR. McCLELLAND: OCA Set IX, Question 170.

23 THE WITNESS: I don't have that here in front of me,
24 Mr. McClelland, so just bear with me a minute.

25 MR. KENNARD: Set IX, No. 107?

1 MR. McCLELLAND: 170.

2 THE WITNESS: Oh, 170. I'm sorry. I was looking for
3 170.

4 MR. McCLELLAND: I'm sorry if I misstated it. It is
5 170.

6 THE WITNESS: Yes, I have that.

7 BY MR. McCLELLAND:

8 Q. To get some clarification, first of all, you
9 have here different revenue categories. Can you tell me
10 what a subscriber station revenue is?

11 A. That would include Commonwealth's basic local
12 service revenue, 1R service, 1B service.

13 Q. Anything else in there?

14 A. No.

15 Q. Vertical services on the right of that column,
16 what are your vertical services?

17 A. Vertical services would include Touch Tone,
18 Custom Calling, Call Forwarding, those types of services.

19 Q. Are you also planning on deploying Class
20 services this year?

21 A. Yes, we are.

22 Q. Have you projected any Class service revenues
23 here in vertical services?

24 A. Yes, we have. We have estimated that Class will
25 be offered late in the year 1993, and we have included

1 revenue for that.

2 Q. Do you know what the Class revenues are?

3 A. I believe we have included \$10,000; that's
4 approximately the right number.

5 Q. Over what period of the year are you projecting
6 that revenue?

7 A. Subject to check, it would only be for a couple
8 of months, fourth quarter.

9 Q. Please look down below. Surcharge revenue, what
10 is that?

11 A. Surcharge revenue is a telephone company revenue
12 stream which would be designed to cover increased taxes,
13 state taxes, capital stock taxes and so on. There is a
14 surcharge rate which is applied to certain intrastate
15 customer-billed revenue.

16 Q. And also other local revenue there. Do you know
17 what is in this category?

18 A. Other local revenue is really a catch-all
19 category.

20 Q. Regulated?

21 A. I'm trying to think of an example as I'm sitting
22 here and I can't right now.

23 Q. Would this all be regulated revenue?

24 A. Oh, yes, it's all definitely regulated revenue.
25 Local directory assistance, that is an example of what we

1 call other revenue on this schedule.

2 Q. Mr. Laffey, are you aware of any recent customer
3 additions that Commonwealth anticipates?

4 A. Customer additions?

5 Q. Yes. Substantial accounts that you are
6 acquiring.

7 A. Not that I am aware of.

8 Q. I want to bring to your attention one thing that
9 I heard of and that is that at least in our conversation
10 that we earlier had with Ms. Brody, she was discussing some
11 additional account that was also going to require some
12 deployment of facilities. I really can't tell you what this
13 involves.

14 MR. KENNARD: Did she give you the name of the
15 customer?

16 MR. McCLELLAND: No, she didn't. But I would request
17 that --

18 MR. KENNARD: Did she say it was a new customer?

19 MR. McCLELLAND: It was a new account, I believe, was
20 how she put it.

21 I would ask the company to look into it and tell us
22 if that has been considered in the case and what the effect
23 is. I don't know.

24 THE WITNESS: Well, I can tell you that it was not
25 considered specifically, and I would offer that in our

1 historical test year there may have been major customers
2 added. I'm sure that that's the kind of thing that does
3 occur every year. So as we use that as a base, and if we
4 apply historical growth to that base, I think we've
5 simulated that in our test year revenues.

6 MR. McCLELLAND: I would still ask for that question
7 to be answered, and perhaps if --

8 MR. KENNARD: We'll respond to it.

9 MR. McCLELLAND: -- the company believes it is
10 affected within the existing growth projections, of course,
11 they can explain.

12 MR. KENNARD: We will do that.

13 BY MR. McCLELLAND:

14 Q. Mr. Laffey, I would like to go back to your
15 earlier discussions on the separations and allocations and
16 SPF and SLU factors that you discussed, and particularly as
17 you went through this process you discussed within the
18 intrastate category an allocation of cost to other, I
19 believe you termed it, which also perhaps is considered
20 local, if you will recall that.

21 A. Yes.

22 Q. Do you know under what part that allocation to
23 other within intrastate is made under FCC regulations?

24 A. It is all done in Part 36.

25 Q. Now, within that "other" category, do the

1 regulations also allocate any further than other, that is
2 basic Customer Calling features, Touch Tone, whatever?

3 A. No. No. Part 36 does not delve into the
4 "other" category. It starts with the split between state,
5 interstate and it separates toll. It does not try to
6 further separate what is called other.

7 Q. Does Part 36 then require that within the
8 intrastate category -- and now I am talking about intralata,
9 interlata and other -- does it indicate that those
10 allocations are to be made through a SPF allocator?

11 A. No. Part 36 deals only with the split between
12 state and interstate. Now, in the interstate jurisdiction
13 it does deal with -- once you have separated interstate, it
14 does spell out how you split interstate between interlata
15 and intralata, because you can't have interstate intralata.

16 Our Part 36 study takes the Part 36 procedures and
17 then overlays those in the intrastate jurisdiction.

18 Q. But if I went to Part 36 and looked through the
19 regulations, would I find anything in there that explains
20 how I should also allocate my intrastate costs between these
21 other categories that we talked about?

22 A. No, I don't believe you would.

23 Q. Now, in your study did you use a SPF allocator
24 to make those allocations?

25 A. Yes, we did.

1 Q. Does the FCC use the SPF allocator any longer to
2 make any separations or allocations?

3 A. As of 1993, no. The SPF has been fully
4 transitioned to the 25 percent allocator.

5 Q. Now, the SPF allocator that you were using, do
6 you recall when the last time that SPF allocator was set or
7 determined?

8 A. Yes. Commonwealth's SPF which is used in the
9 Part 36 study is a 1986 SPF.

10 Q. Subsequent to that time, the FCC has not changed
11 that SPF allocator?

12 A. Right. Back in the early '80s it was frozen at
13 its then-current level. So we applied that same logic to
14 the intrastate component of the SPF. We did not continue to
15 transition that SPF downward to a 25 percent allocator. Had
16 we done that, more costs, not less, would have been
17 allocated to the local category.

18 Q. I'm sorry; that is if you use SLU rather than
19 SPF?

20 A. If we totally followed suit with what has
21 happened in the interstate jurisdiction and continued to
22 transition to a 25 percent allocator from the SPF which was
23 used in 1986, we would have been transitioning down to 25
24 percent and, therefore, there would be more costs assigned
25 to the local jurisdiction.

1 We have frozen SPF at its '86 level, which tends to
2 allocate less cost to the "other" category.

3 Q. Now, going back to when the components of SPF
4 were determined, do you know how those various mathematic
5 components were determined at that time?

6 A. Well, SPF was created some time ago, well before
7 my time. It came out of what is referred to as the Ozark
8 Plan. I can't really speak to what the logic was behind the
9 formula.

10 Q. You don't know if there was some study done that
11 came up with these numbers and determined they were
12 appropriate to use in this fashion?

13 A. Well, SPF is a mathematical formula. I mean SPF
14 starts with SLU, and SLU is then run through the conversion
15 formula, and what comes out is SPF. I don't know what all
16 of the rationale was at the time. This is probably 30 years
17 ago. Maybe not quite that much, but it's before my time
18 anyway. I can't speak to what was the FCC's rationale to
19 come to that formula.

20 Q. Let me ask you about one cost component. I will
21 pick Signalling System 7 since we were talking about Class
22 services. Are you aware of the fact that Class services use
23 the Signalling System 7 capability?

24 A. Yes.

25 Q. And Signalling System 7 allows you to do things

1 like Return Call and block a call and so on?

2 A. Right.

3 Q. Now, under the allocation that you have done in
4 your testimony, attached to your testimony, do you know how
5 those Signalling System 7 costs would be allocated within
6 the intrastate jurisdiction?

7 A. Well, SS7 costs are treated in a Part 36 study
8 the same as any other central office investment or outside
9 plant investment. That's what Part 36 does, and that's what
10 was fully intended by the FCC. At that point they said:
11 SS7 costs are the same, it's central office equipment, it's
12 outside plant investment; treat it the same way. Cover
13 those costs through your access charges.

14 Q. Does that mean that there would be non-traffic
15 sensitive and traffic sensitive components of Signalling
16 System 7?

17 A. No. No, I don't believe there are any non-
18 traffic sensitive SS7 type costs. Now, I'm not an SS7
19 expert, but I believe that most of the costs are in the
20 central office and outside plant, interexchange outside
21 plant, not local loop. So they would be categorized more as
22 traffic sensitive-type costs. And they should be because I
23 think the costs would in fact fluctuate based on the usage
24 or the volumes that would be anticipated.

25 Q. From your study can you generalize as to what

1 portion of that Signalling System 7 cost would be allocated
2 to other or local in your study?

3 A. I can't generalize, no. Those costs are not
4 separated in the study. They are rolled in with central
5 office equipment and outside plant. Some of them would be
6 local, but I don't know how much relative to the total.

7 MR. McCLELLAND: If I could have just a minute, Your
8 Honor. I think I'm about done.

9 JUDGE KASHI: Surely.

10 (Pause.)

11 MR. McCLELLAND: Your Honor, I would like to offer
12 one exhibit and would request it be marked as OCA Cross-
13 Examination Exhibit No. 6. I earlier referred with Mr.
14 Burnside to some billing and collection costs, and I would
15 like to then hand Mr. Laffey his response to OCA Set IX,
16 Question 167, which has to do with billing and collection
17 revenues and costs allocated.

18 MR. KENNARD: What exhibit was this, 6?

19 JUDGE KASHI: It will be so marked for purposes of
20 identification as OCA Cross-Examination Exhibit No. 6.

21 MR. McCLELLAND: Yes.

22 (Whereupon, the document was marked
23 as OCA Cross-Examination Exhibit No.
24 6 for identification.)

25 (Document distributed to parties and the witness.)

1 BY MR. McCLELLAND:

2 Q. Mr. Laffey, going through this example that you
3 have provided, I see you have two columns, Interlata and
4 Interstate.

5 A. Correct.

6 Q. Would the interlata calling be entirely
7 intrastate?

8 A. Yes.

9 Q. Mr. Laffey, are you familiar with the FCC Part
10 64 and the requirement for fully-developed cost analysis?

11 A. I am somewhat familiar, yes. I'm not an expert
12 on Part 64.

13 Q. Did you not use Part 64 in doing this costing
14 analysis?

15 A. No, we did not use Part 64. It is my
16 understanding of FCC rules and regulations that they state
17 that this type of cost, B&C cost, should be defined based on
18 Part 69 to the exclusion of Part 64. Part 64 is not to be
19 applied to the B&C area per the FCC's rules and regulations.

20 Q. Now, I also understood from Mr. Burnside's
21 discussion that much of the expense of doing billing and
22 collection for Commonwealth is a Systematics expense which
23 is then billed to Commonwealth. Is that substantially
24 correct?

25 A. That would be part of the expense.

1 Q. Of these expenses here identified, do you know
2 which of those would be Systematics expense?

3 A. Our expenses from Systematics would be included
4 in the 6720 account to general administration expense.

5 Q. How did you allocate your Systematics cost
6 between billing and collection and everything else?

7 A. Well, those dollars that are billed to us by
8 Systematics, that expense is recorded in, I believe, the
9 6724 account, which is included under the control account of
10 6720. At that point that entire 6724 account would be
11 allocated based on Part 69 procedures.

12 Q. And how would Part 69 then apply?

13 A. Part 69 allocates the 6720 account based on what
14 is referred to as Big 3 expenses. Those would include --
15 the Big 3 expenses are considered plant specific, plant non-
16 specific and customer operations expense. Customer
17 operations expense would include local business office as
18 well as revenue accounting, where a large amount of the B&C
19 function is performed.

20 To the extent that within that -- I don't want to say
21 three factor formula -- that three expense formula, to the
22 extent that there are customer service expenses that are
23 allocated to the B&C category, there is -- a percentage
24 would then be applied to the 6720 account. So the
25 percentage of the 6720 account, if it is allocated to the

1 B&C, would be relative to the percentage of expenses that
2 are B&C expenses within the Big 3 expense categories.

3 I understand that that's extremely confusing, but
4 that's the way it works.

5 Q. Can you give me a rough idea, out of all of
6 that, how much of the total billing and collection cost for
7 all the functions would then be apportioned to the billing
8 and collection aspect that we are discussing here?

9 A. I cannot. I cannot estimate it. I mean what
10 you see on this response is only the interlata and the
11 interstate expenses. There are other customer billing,
12 there is local billing, there is CTCO's intralata toll
13 billing as well as all types of miscellaneous billings that
14 are not identified here.

15 Q. I realize there are a lot of things and they are
16 not all shown on this page. This is a partial showing of
17 the allocation result. But as you apply Part 69 to come up
18 with these various divisions, do you know what the allocator
19 is based upon among these various expenses that you've just
20 discussed?

21 MR. KENNARD: What was the resulting percentage?

22 MR. McCLELLAND: Let me try to be more specific.

23 BY MR. McCLELLAND:

24 Q. It might be weight, it might be pages, it might
25 be, I don't know, that's what I'm trying to get a grasp of,

1 how they do that.

2 A. Part 69 only deals with the amount of expense
3 that is interexchange B&C. It doesn't deal with the side of
4 it that's local.

5 Q. For example, there is postage on the bill. Does
6 B&C pick up a portion of that postage?

7 A. Yes, it does. I believe we were asked that
8 question from someone in one of the interrogatories. I'm
9 not sure which.

10 Q. I think there is one, and I did look at it and I
11 still couldn't understand how it was done.

12 MR. KENNARD: Do you remember where it was?

13 MR. McCLELLAND: At the moment I don't. I might be
14 able to find it.

15 THE WITNESS: There was a percentage which was
16 supplied as part of that response.

17 BY MR. McCLELLAND:

18 Q. Yes.

19 A. That percentage would be -- whatever percentage
20 of the total of the expense account which includes postage,
21 that percentage was then allocated to the B&C category
22 through the Part 69 process.

23 Q. While we do a little looking for that, another
24 question I have is we previously were discussing, Set IX,
25 Question 170, and that was categorization of various types

1 of revenues. You do have one revenue category called "Bill
2 and Collect Intra." I believe that has been entirely
3 removed. One question I had was that number that was
4 removed does not seem to conform to the numbers that you
5 show in Set IX, Question 167, and I wanted to get some
6 explanation to reconcile.

7 (Pause.)

8 MR. KENNARD: Mr. Laffey, the same number that is on
9 No. IX-170 is also what's on JLL-3.

10 (Pause.)

11 THE WITNESS: What's the number you were referring
12 to?

13 BY MR. McCLELLAND:

14 Q. Yes, Mr. Laffey. On OCA Cross-Examination
15 Exhibit 6 I have an interlata number of \$2,261,000, and then
16 on the response to Question 170 there is a number, Bill and
17 Collect Intra, which I think is intrastate, of \$2,445,311.
18 They're close but they're not the same.

19 A. Yes. I can see the difference. I'm just unable
20 to explain it at this point in time. It could be that
21 subsequent to the time that Commonwealth -- I don't know.
22 I'm going to have to check that difference.

23 Q. Mr. Laffey, let me try to go back and move along
24 on the other question about how the allocator is done. I
25 think I can help with that to the extent that I did find the

1 interrogatory response that you may have been thinking of.
2 This is in OCA Set XII, Question 9.

3 (Pause.)

4 Q. Mr. Laffey -- I'm sorry; you haven't located
5 that yet?

6 A. No. I don't have it up here with me.

7 Q. This is an answer from Mr. Cawley and Mr. Mazza.

8 MR. KENNARD: And it relates to the charges to CLD
9 for billing and collection.

10 MR. McCLELLAND: That's true.

11 MR. KENNARD: Do you just want to simply ask as a
12 data request what component for U.S. Postal Service charges
13 is removed?

14 MR. McCLELLAND: What I'm wondering now, would it be
15 possible for Mr. Cawley to respond to those questions just
16 as to the method?

17 (Counsel Kennard conferring with Mr. Cawley.)

18 MR. KENNARD: Mr. Laffey removed the deregulated
19 expenses out associated with billing and collection.

20 MR. McCLELLAND: Let me try to summarize the question
21 for Mr. Laffey.

22 MR. KENNARD: The data request? Are you going in
23 that direction?

24 MR. McCLELLAND: I think it would be helpful for him
25 to look at the data request.

1 MR. KENNARD: Okay.

2 (Pause.)

3 THE WITNESS: I'm sorry?

4 MR. KENNARD: Do you want him to be doing something?

5 BY MR. McCLELLAND:

6 Q. Mr. Laffey, do you have the answer to Set XII,
7 Question 9?

8 A. No, I don't. That was not my response.

9 Q. Mr. Laffey, I think, to try to summarize and
10 complete this, I would ask you to take, subject to check,
11 that there is an allocation of cost that has to do with
12 weight and, therefore, only a portion of the postage and
13 bill would be allocated to the billing and collection
14 service; in this case it was a CLD billing and collection
15 service. And I would ask you to take that subject to check.

16 MR. KENNARD: Could I try to restate it because I
17 think we're talking about the same topic but two different
18 issues. The one you are pursuing with Mr. Laffey is
19 different than what is addressed here. What is addressed
20 here is that there is less than the full 29 cents, but some
21 portion of 29 cents is charged by Commonwealth Telephone to
22 interexchange carriers, including CLD, for the billing and
23 collection services they provide.

24 MR. McCLELLAND: Okay. Yes.

25 THE WITNESS: I don't think we're talking apples and

1 apples.

2 BY MR. McCLELLAND:

3 Q. Can you explain?

4 A. That seems to me to be the rate development
5 process under which CLD compensates for bill stuffers, so
6 that is going to create revenue coming into Commonwealth
7 Telephone Company, some of which is postage. What Part 69
8 will do is to allocate postage expense which is associated
9 with interexchange carrier billing out of the regulated
10 operation.

11 Q. Does that mean then that when CLD provides a
12 bill stuffer which Commonwealth puts in its envelope and
13 sends out, that CLD makes a payment to Commonwealth for that
14 service?

15 A. Correct.

16 Q. And you have not removed that payment as a
17 billing and collection charge?

18 A. No.

19 Q. But you have removed the payments that an
20 interexchange carrier would pay to you to insert their bill
21 in that envelope?

22 A. Customer billing of tolls.

23 Q. Customer billing of tolls.

24 A. That's what has been removed.

25 Q. In either event -- and again, I'm trying to

1 summarize -- the expense allocated to the billing and
2 collection function is less than the entire postage, is less
3 than the entire envelope; it's only a portion of it.

4 A. That's correct.

5 Q. And that proportion is calculated following Part
6 69 of FCC rules?

7 A. That's correct.

8 Q. I think you have already explained this but let
9 me just try to reconfirm. Part 69 is not a fully-
10 distributed cost analysis.

11 A. I would suggest that it is a fully-distributed
12 cost analysis. Part 36 and Part 69 both would be fully-
13 allocated cost methodologies.

14 Q. Are there any CTCo costs reflected within this
15 billing and collection cost analysis or is it entirely
16 Systematics?

17 A. No. There would be CTCo costs which would be
18 tied to the Business Office, to the revenue accounting
19 function, the executive side. It is fully allocated, as I
20 said. It is not just data processing expenses.

21 MR. McCLELLAND: Your Honor, we have no further --

22 (Pause.)

23 MR. KENNARD: Your Honor, the OCA appears to be
24 continuing to confer. While they are doing that, the
25 company would request that its interrogatory response which

1 has been marked now as OCA Cross Exhibit 6 be marked
2 confidential since it is a competitive service. It was an
3 oversight on our part not to have so marked it when it was
4 handed out, and with the parties' indulgence we would ask
5 that it be so treated now.

6 JUDGE KASHI: I understand. Cross-Examination
7 Exhibit 6?

8 MR. KENNARD: Yes. Since there was no cross-
9 examination on the detailed expenses, I don't believe the
10 record is a problem, only the exhibit.

11 JUDGE KASHI: All right.

12 MR. McCLELLAND: Your Honor, we would move into
13 evidence, as marked confidential now, OCA Cross-Examination
14 Exhibit 6.

15 JUDGE KASHI: Received without objection?

16 MR. KENNARD: No objection.

17 JUDGE KASHI: Without objection.

18 (Whereupon, the document marked as
19 OCA Cross-Examination Exhibit No. 6
was received in evidence.)

20 JUDGE KASHI: We will now recess for --

21 MR. KEFFER: Your Honor, can I ask an accommodation?
22 When Mr. Laffey is done I am leaving, and I don't think Mr.
23 Kennard has much redirect, if any.

24 JUDGE KASHI: Mr. Kennard.

25 MR. KENNARD: I indicated to Mr. Keffer that I don't

1 think I do, but I would like an opportunity to consult with
2 the witness.

3 JUDGE KASHI: All right. Let's take five minutes.

4 (Recess.)

5 JUDGE KASHI: Back on the record.

6 MR. KENNARD: Just one quick question, Judge.

7 REDIRECT EXAMINATION

8 BY MR. KENNARD:

9 Q. The issue of Class service was brought up, Mr.
10 Laffey. Does the company currently on its tariffs have the
11 authority of the Commission to provide the Class service?

12 A. No.

13 Q. Application was recently made before the
14 Commission?

15 A. Yes.

16 Q. And, obviously, before the service can be
17 offered, the tariff must be approved by the Commission?

18 A. Correct.

19 MR. KENNARD: That's all we have.

20 JUDGE KASHI: Thank you. You are excused, sir.

21 (Witness excused.)

22 JUDGE KASHI: That which has been marked and
23 identified as Commonwealth Telephone Company Statement No. 2
24 and appended Exhibits JJI-1 through 3 are received in the
25 evidentiary record, without objection?

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(No response.)

JUDGE KASHI: Without objection.

(Whereupon, the documents marked as Commonwealth Statement No. 2 and Commonwealth Exhibits Nos. JYL-1 through JYL-3 were received in evidence.)

JUDGE KASHI: We will recess for lunch. Let's return at 1:30.

(Whereupon, at 12:44 p.m., the hearing was adjourned, to be reconvened at 1:30 p.m., this same day.)

AFTERNOON SESSION

(1:33 p.m.)

1 JUDGE KASHI: Let's go back on the record.

2
3 Mr. Kennard, would you call your next witness,
4
5 please?

6 MR. KENNARD: Your Honor, Commonwealth Telephone
7 would call Donald P. Cawley to the stand.
8 Whereupon,

DONALD P. CAWLEY

9
10 having been duly sworn, testified as follows:

11 JUDGE KASHI: Please be seated, sir.

DIRECT EXAMINATION

12
13 BY MR. KENNARD:

14 Q. Would you please state your full name for the
15 record?

16 A. Donald P. Cawley.

17 Q. Mr. Cawley, by whom are you employed?

18 A. Commonwealth Telephone Company.

19 Q. In what capacity, sir?

20 A. Controller.

21 Q. Mr. Cawley, do you have before you testimony
22 styled, up in the upper right-hand corner, as Commonwealth
23 Statement 3, consisting of eight pages, to which there are
24 attached Exhibits DPC-1 through DPC-7?

25 A. Yes.

1 Q. Were those documents prepared by you or under
2 your supervision?

3 A. Yes, they were.

4 Q. Are there any changes you wish to make to those
5 documents at this time?

6 A. No, there are not.

7 MR. KENNARD: Your Honor, we would ask that they be
8 marked as identified?

9 JUDGE KASHI: So marked for purposes of
10 identification.

11 (Whereupon, the documents were marked
12 as Commonwealth Statement No. 3 and
13 Commonwealth Exhibits Nos. DPC-1
through DPC-7 for identification.)

14 BY MR. KENNARD:

15 Q. Do you further, Mr. Cawley, have in front of you
16 a document which is testimony consisting of 15 pages of
17 narrative to which there is appended a rather extensive
18 document entitled DPC-8?

19 A. Yes.

20 MR. KENNARD: I would note for the parties that the
21 original work papers are what is included in DPC-8, and that
22 there was a supplement to that that was sent out under a
23 cover letter of mine dated May 25. Those were additional
24 work papers, supplemental work papers. So DPC-8 would be
25 that which was originally served and dated May 21, and the

1 supplemental information that was contained --

2 JUDGE KASHI: So there are supplemental work papers
3 to DPC-8?

4 MR. KENNARD: Yes.

5 JUDGE KASHI: I don't have it. I don't know why I
6 don't have it, but I don't.

7 MR. KENNARD: I will make sure Your Honor gets that.
8 In fact, I believe I have extra copies.

9 MS. MELILLO: Could we go off the record?

10 JUDGE KASHI: Yes. Off the record.

11 (Discussion off the record.)

12 JUDGE KASHI: Back on the record.

13 (Document handed to Judge Kashi by Counsel Kennard.)

14 BY MR. KENNARD:

15 Q. Are there any changes that you wish to make to
16 either of the two statements or any of the exhibits at this
17 time?

18 A. No, there are not.

19 Q. Is the information contained in Statements 3 and
20 3A and Exhibits DPC-1 through 8 true and correct to the best
21 of your knowledge, information and belief?

22 A. Yes.

23 MR. KENNARD: Your Honor, we would ask that those
24 statements and exhibits be accepted into the record at this
25 time, subject to any timely adverse motions.

1 JUDGE KASHI: Subject to any timely motions and/or
2 objections made pending cross-examination, that which has
3 been marked as Commonwealth Statement Nos. 3 and 3A,
4 together with Exhibits DPC-1 through 8, plus the supplement,
5 will be received into the evidentiary record.

6 (Whereupon, the documents were marked
7 as Commonwealth Statement No. 3A and
8 Commonwealth Exhibit No. DPC-8 for
9 identification.)

10 MR. KENNARD: Thank you, Your Honor. That is the
11 entirety of Commonwealth's direct examination of this
12 witness and he is available for questioning by the parties.

13 JUDGE KASHI: Ms. Pennington.

14 MS. PENNINGTON: Your Honor, I have a few questions
15 for Mr. Cawley concerning some interrogatory responses which
16 he sponsored, and then Ms. Melillo will cross-examine him on
17 the rest of his testimony.

18 JUDGE KASHI: All right.

19 MS. PENNINGTON: Your Honor, I have prepared three
20 cross-examination exhibits. I have placed copies on the
21 bench and given them to the court reporter.

22 I would like to have marked as OTS Cross-Examination
23 Exhibit No. 1 the company's response to OCA Set IX, No. 123.

24 JUDGE KASHI: So marked for purposes of
25 identification.

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(Whereupon, the document was marked as OTS Cross-Examination Exhibit No. 1 for identification.)

MS. PENNINGTON: I would like to have marked as OTS Cross-Examination Exhibit No. 2 the company's response to OCA Set III, No. 26 and 33.

JUDGE KASHI: So marked for purposes of identification.

(Whereupon, the document was marked as OTS Cross-Examination Exhibit No. 2 for identification.)

MS. PENNINGTON: And I would like to then have marked for identification as OTS Cross-Examination Exhibit No. 3 the company's response to OCA Set III, No. 1.

JUDGE KASHI: So marked for purposes of identification.

(Whereupon, the document was marked as OTS Cross-Examination Exhibit No. 3 for identification.)

(Documents distributed to parties and the witness.)

CROSS-EXAMINATION

BY MS. PENNINGTON:

Q. Mr. Cawley, do you have copies of those three cross exhibits?

A. Yes.

Q. If you could just briefly review them. You have sponsored all of those answers, haven't you?

(Witness perusing documents.)

1 MR. KENNARD: Did you hear the question?

2 THE WITNESS: No, I did not.

3 BY MS. PENNINGTON:

4 Q. Did you sponsor the answers to these
5 interrogatories?

6 A. Yes.

7 Q. Mr. Cawley, were you in the hearing room
8 yesterday when Mr. Robinson was being cross-examined?

9 A. Yes, I was.

10 Q. Do you recall that I asked Mr. Robinson about
11 the amount for plant in service for the future test year
12 ended December 31, 1993?

13 A. Yes, I do.

14 Q. And that he referred -- he talked about the fact
15 that you had answered this interrogatory when I asked him
16 about it.

17 (Pause.)

18 JUDGE KASHI: Do you recall that, sir?

19 THE WITNESS: Yes, I do.

20 BY MS. PENNINGTON:

21 Q. I assume, Mr. Cawley, that this response was run
22 off at your direction on May 24, 1993. There is a time and
23 date stamped on the bottom of many of the pages. Do you see
24 that?

25 A. Yes, I do.

1 Q. I would like you to explain a little bit about
2 this. First of all, on the second page, can you explain --
3 first of all, the question that was asked here concerned
4 CWIP. You were asked to provide a description of the CWIP
5 projects included in rate base and to indicate their
6 expected in-service date and whether they relate to current
7 or new customers. You attached this listing of projects,
8 CWIP projects, and you said there was no information
9 available to say whether they were related to current or new
10 customers, but you then had a table of project types, a
11 code.

12 I would like you to just explain some things about
13 this answer.

14 On the next page you have something called Plant in
15 Service Pending Analysis, Telephone Plant in Service Pending
16 Analysis. What does that mean?

17 A. That means that we have telephone plant that is
18 in service that is currently being reviewed by the
19 accounting work order analysts.

20 Q. When something is construction work in progress
21 and the project is completed, what process does it go
22 through in order to be put into rate base, into plant-in-
23 service?

24 A. Well, there's two ways that it could be put into
25 rate base. If a project is over \$100,000, then it would go

1 under telephone plant under construction. In order for it
2 to be transferred into rate base we would have to receive
3 from an engineer a memorandum or whatever have you that says
4 that this equipment is now capable of providing service.

5 Q. When it goes into telephone plant under
6 construction, is that for projects that have been completed
7 already?

8 A. No. These are telephone plant -- these are
9 projects that are still under construction.

10 Q. And then are the ones that are pending analysis,
11 have they been completed?

12 A. They are still not transferred to telephone
13 plant in service.

14 Q. They have not been?

15 A. That is true.

16 Q. They have not been transferred; is that what you
17 said? I didn't hear you.

18 A. Yes, that's correct.

19 Q. But has the project been completed?

20 A. The project is in the process of being
21 completed.

22 Q. But it is still CWIP?

23 A. If it was completed, it would have been
24 transferred to in-service.

25 Q. How long does it take for it to be transferred

1 into plant in service? I mean do you have to assign an
2 account number or whatever to it?

3 A. After the project is actually completed, again,
4 they would receive that notification from the engineer that
5 it is capable of providing service. Plant accounting would
6 receive that notification, and they would go through a
7 process that we call closing a work order. When that work
8 order is closed it would be transferred to telephone plant
9 in service.

10 Q. Does this process occur project-by-project?

11 A. Yes, it does.

12 Q. Could you turn to the next page? Could you
13 explain the headings -- well, first of all, project number
14 is kind of self-explanatory. I notice you have a column
15 with (3) above it, estimated completion date. I would
16 notice that many of the completion dates here are in 1992
17 and also 1991 on some of them. Why do they go back so far?

18 A. Some of these projects that are on here are
19 -- that column (3) that has estimated completion date, that
20 is the original estimate that was provided by the engineer
21 as far as when that construction will actually be in
22 service.

23 This report here doesn't provide any update as to the
24 current status of these projects.

25 Q. How old is this list if it doesn't have a

1 current update?

2 A. This list is updated on a monthly basis. What
3 I'm saying is the estimated completion date isn't updated on
4 this report.

5 Q. Is the fact that a project is on this list, does
6 this mean that it is not yet completed?

7 A. That is correct.

8 Q. Does the fact that this was supplied as an
9 answer to the OCA's question as CWIP that's included in rate
10 base mean that you anticipate that all these projects will
11 be finished by the end of the future test year?

12 A. Yes.

13 Q. When I asked Mr. Robinson about this response he
14 said this is not the same list that he was given when he
15 took on the task of taking the historic test year figures
16 ending December 31, 1992 and updating them to reflect the
17 future test year ending December 31, 1993. Do you know how
18 his list differed from this list?

19 A. This list here is per books 1992. The
20 explanation you just gave me for Earl Robinson is he's
21 making a projection as of the end of the future test year.

22 Q. Yes. You just told me you expect all these
23 things to be in service by the end of the future test year.

24 A. That's correct.

25 Q. But his list is not the same as this list.

1 That's what he told me.

2 A. When you're saying his list, though, are you
3 saying his list of telephone plant under construction as of
4 12/31/93?

5 Q. I'm just trying to reiterate his testimony. He
6 had the -- well, you were here when he testified, and as I
7 recall, of course, his testimony will speak for itself, but
8 he said he was given the figures for the end of the historic
9 test year and then he updated them with figures given to him
10 by the company in order to get the future test year plant in
11 service.

12 Would your department have given him those figures?

13 A. One of my departments would have, yes.

14 Q. As an on-the-record data request could you
15 supply to us the document that was given to Mr. Robinson
16 that he used to update the historic test year plant in
17 service to come up with the future test year plant in
18 service that was in his study that is in this case?

19 A. Yes.

20 Q. Thank you.

21 MR. KENNARD: Just so I'm sure I understand, a list
22 of CWIP projects to bring it from a year-end '92 up to a
23 year-end '93?

24 MS. PENNINGTON: Yes. I want the document that was
25 given to Mr. Robinson.

1 BY MS. PENNINGTON:

2 Q. Getting back to this document here, OTS Cross-
3 Examination Exhibit No. 1, as of the date it was run off,
4 May 24, 1993, were any of those projects that are listed in
5 here in service at that time?

6 A. Were any of these projects on this list in
7 service?

8 Q. At the time this list was run off on May 24,
9 1993.

10 A. Anything that was included under the column
11 Telephone Plant in Service Pending Analysis would be in
12 service.

13 Q. How can you tell from looking at the list which
14 ones in there are under that column versus the other column?

15 A. Account 2003 is telephone plant under
16 construction. The one column that has 2003 is telephone
17 plant under construction. The column that is 2008 is
18 telephone plant in service pending analysis.

19 Q. What is that last column there that says "st"
20 over it?

21 A. That I do not know.

22 Q. It seems to me some are 05 and some are 01. As
23 part of an on-the-record data request, could you just find
24 out what the column is? I think it is mostly 05s and 01s;
25 there are some 03s in there.

1 Can you do that for us?

2 (Pause.)

3 A. Yes. I'm sorry.

4 Q. Can you tell me at this time then how many of
5 the projects that are included in OTS Cross-Examination
6 Exhibit No. 1 would have been included in Mr. Robinson's
7 Table 1, which gives us the figures for the end of the
8 future test year, the plant in service totals by account?

9 A. I cannot make that determination based on
10 looking at this report.

11 Q. Would the material that you supplied Mr.
12 Robinson when he did this update to the end of the future
13 test year have had a project-by-project listing, or would it
14 have been by account?

15 A. Some would have been by project, some would have
16 been based on our capital deployment plans in 1993.

17 Q. Excuse me; your capital --

18 A. Some would have been by project, some would have
19 been based on our capital additions that we anticipated for
20 1993, which may or may not already have a project number.

21 Q. Can you tell me another explanation for -- I
22 notice that in many of these projects there are what appear
23 to be four-letter codes. Do you have any idea what those
24 would be?

25 MR. KENNARD: Which ones?

1 MS. PENNINGTON: Well, for instance, on page 1 there
2 is --

3 MR. KENNARD: CALRS?

4 BY MS. PENNINGTON:

5 Q. Well, actually, next to it, BAPT. Are they
6 areas of the company? There is GVTN.

7 A. Could you repeat that?

8 Q. With some of the projects there are what appear
9 to be four-letter abbreviations or codes or whatever, like,
10 for instance, on the first page on project number 0201207 it
11 ends with BAPT, and then a little further down there is
12 another one ending with 56 that also has BAPT on that. Do
13 you know what BAPT is, or any of the other four-letter
14 codes, what they might relate to?

15 A. I don't know what she's referring to.

16 MR. KENNARD: He's having a hard time following you.
17 May I approach him and point it out to him?

18 MS. PENNINGTON: Sure.

19 (Counsel Kennard conferring with witness.)

20 THE WITNESS: CALRS is the type of equipment, and
21 that four-letter abbreviation would be a district or central
22 office.

23 BY MS. PENNINGTON:

24 Q. Okay; fine. Thank you.

25 Also just a minor point, but back on page 23 of that

1 listing, the page that actually has the 23 at the bottom --
2 do you have page 23?

3 A. Yes, I do.

4 Q. I just wondered, you can see there are a lot of,
5 I guess, Chevy vans that were bought on or about the same
6 time period. Just for purposes of clarification, what are
7 the amounts relating to these vans? What is it for? Were
8 these vans purchased, are they leased? Do you have any
9 idea?

10 A. They would be purchased, and the amount that is
11 applicable to them, subject to check, it looks like we
12 purchased some new vans and we had to add some type of
13 equipment to them.

14 Q. Would you look at OTS Cross-Examination Exhibit
15 No. 2? The first interrogatory response is number 26, where
16 you were asked to submit calculations about storm damage.
17 Your response there was that it was not applicable for the
18 said periods. Yet if you look at your response that is in
19 OTS Cross-Examination Exhibit No. 1, there is a code of 99
20 for storm damage, and way back in the back of that exhibit
21 where the 99s are, indeed, there is --

22 MR. KENNARD: What page does that start on?

23 BY MS. PENNINGTON:

24 Q. -- several entries for storm damage.

25 MS. PENNINGTON: It's on page 33 of OTS Cross-

1 Examination Exhibit No. 1.

2 BY MS. PENNINGTON:

3 Q. Can you please reconcile this exhibit with that
4 answer?

5 A. Well, in response to question number 26, when I
6 read that question I took it to mean is there any expense in
7 the future test period associated with storm damage.

8 Looking at Exhibit No. 1, under the code 99, that is
9 currently just sitting on the balance sheet, so question
10 number 26 I responded in the sense of answering this
11 question as it relates to the operating statement.

12 Q. And the storm damage information that is
13 included on page 33 of the first exhibit, what will
14 eventually happen to those amounts? Will they go into rate
15 base or what?

16 A. Those amounts will eventually get expensed.

17 Q. They will be expensed. •

18 Are there any other items in here that you can tell
19 us about that would be expensed rather than put into plant
20 in service?

21 A. That code 99 is the only thing.

22 Q. The next page in OTS Cross-Examination Exhibit
23 No. 2 is the answer to OCA Set III, No. 33, where you were
24 asked to indicate the expenses that are included in the test
25 year which are due to the placement in operating service of

1 major plant additions or the removal of major plant from
2 operating service, and estimate the expense that will be
3 incurred on a full year's operation. Your response would be
4 that there would be none.

5 Can you please define for me what you mean by
6 "major"?

7 A. I interpreted that to mean extraordinary
8 retirement.

9 Q. Extraordinary?

10 A. Yes.

11 Q. What threshold, what dollar threshold does
12 something have to meet in order to be extraordinary or
13 major?

14 A. To be extraordinary you would have to obtain PUC
15 approval to retire.

16 Q. Is there a dollar threshold to that?

17 A. Not that I'm aware of.

18 Q. But, obviously, it wouldn't be a small item,
19 would it?

20 A. No, it would not. It would be a major plant
21 asset.

22 Q. A major what?

23 A. Plant asset.

24 Q. This question talked about additions as well as
25 removal. Would you have to have PUC approval for adding?

1 A. No, we would not.

2 Q. Could you describe what, in your estimation,
3 would be a major plant addition?

4 A. I would consider what is in Earl Robinson's
5 testimony as plant additions as those additions that we
6 would incur during normal operations, as part of our normal
7 operations and normal plant additions. As far as like a
8 specific example of what I consider extraordinary, it's
9 something that wouldn't happen in the normal course of
10 business.

11 Q. This question is asking really not about
12 extraordinary ones but about major plant additions. What do
13 you consider to be a major plant addition? Because you said
14 there were none.

15 A. Deployment of the Infrastructure Plan.

16 Q. No matter what the size of it? That could be
17 something small too, couldn't it? I mean it talks about
18 additions as well as removals in this question.

19 A. I would think that to be major it would have to
20 be material in the way of money.

21 Q. What is material in the way of money, a million
22 dollars, half a million?

23 A. Five million, ten million.

24 Q. Is there a threshold at which it becomes major?

25 A. I do not have a specific threshold.

1 Q. Doesn't the company have a specific point?

2 A. No. I looked at this question and said that
3 based on the additions that I know that are going in place
4 next year, they are those types of additions that
5 Commonwealth has been for years putting in in the normal
6 course of business.

7 Q. No matter what the price?

8 A. Yes.

9 Q. If you would look at OTS Cross-Examination
10 Exhibit No. 3, you were asked a question here which asked
11 you to provide a comparative balance sheet for the test year
12 and the preceding year which corresponds with the test year.
13 You provided a balance sheet -- you did provide something
14 here; attached to it is, I guess, the Balance Sheet and
15 Operating Statement, Page No. 248.9.

16 Can you tell me today, for the test year, is there
17 any particular account here where CWIP would be included?

18 A. Construction work in process?

19 Q. Yes, where it would be included in any of these
20 accounts here.

21 A. Well, telecommunications plant under
22 construction.

23 MR. KENNARD: Do you see it?

24 MS. PENNINGTON: Where is it?

25 MR. KENNARD: If you look under the third major

1 column that's capitalized, entitled "Property, Plant &
2 Equipment."

3 MS. PENNINGTON: Oh, I see.

4 MR. KENNARD: It's the third line.

5 BY MS. PENNINGTON:

6 Q. The telecommunications plant under construction-
7 short term; is that the category?

8 A. Yes.

9 Q. Is everything that is on that line, the \$6.1
10 million, is all of that CWIP?

11 A. Yes.

12 MS. PENNINGTON: Just one moment, please.

13 (Pause.)

14 BY MS. PENNINGTON:

15 Q. If you could go back to the last page of OTS
16 Cross-Examination Exhibit No. 1, there is a total, a line
17 for total on there. Can you tell me then --

18 MR. KENNARD: Hold on a second. You're on OCA Cross-
19 Examination Exhibit --

20 MS. PENNINGTON: Oh, no. OTS Cross-Examination
21 Exhibit No. 1, the big one.

22 MR. KENNARD: Sorry.

23 BY MS. PENNINGTON:

24 Q. There are totals there, and whether it is --
25 let's see, that column with the 2003, neither of the --

- 1 A. If you turn to this page 1 of 35 --
- 2 Q. Okay; is that the second page?
- 3 A. Yes. This page here (indicating).
- 4 Q. Okay.
- 5 MR. KENNARD: If you look up in the upper right-hand
- 6 corner, it says 1 of 35.
- 7 MS. PENNINGTON: Yes, 1 of 35.
- 8 THE WITNESS: Yes. You'll see the \$6,119,483.
- 9 BY MS. PENNINGTON:
- 10 Q. Okay. And that is the number then that matches
- 11 up with this balance sheet?
- 12 A. Yes. That is the number for the short-term
- 13 plant under construction.
- 14 Q. One last question. Can you tell me, what is the
- 15 company's policy with regard to expensing or capitalizing an
- 16 item?
- 17 A. Five hundred dollars.
- 18 Q. Five hundred dollars?
- 19 A. Yes.
- 20 Q. You mean below \$500 you expense it?
- 21 A. Yes.
- 22 Q. And above you --
- 23 A. Would capitalize it.
- 24 Q. Capitalize it.
- 25 Therefore, going back to OTS Cross-Examination

1 Exhibit No. 1, there are a number of items included in this
2 listing here for CWIP which are less than \$500. Does that
3 mean that everything in here that is less than \$500 will be
4 expensed?

5 A. No. These work orders are probably not
6 complete.

7 Q. But once they are complete -- if they are not
8 complete, does that mean that the amount is going to change?

9 A. Yes, it can change.

10 Q. If they are complete and the amount when
11 complete is less than \$500, will they then be expensed
12 rather than capitalized?

13 A. These projects that are on these sheets here
14 would all be capitalized.

15 Q. No matter what the amount when complete?

16 A. Subject to check, yes.

17 Q. And with the exception of what you talked about
18 earlier, the storm damage?

19 A. Yes.

20 Q. So then your rule about \$500 being the line of
21 demarcation between expensing and capitalizing, that is not
22 a fast rule then?

23 A. It is a hard, fast rule. I do not know what
24 particular projects it pertains to.

25 Q. Can you find out for us, please?

1 A. Yes, I could.

2 Q. If you could provide that as an on-the-record
3 data request?

4 MR. KENNARD: We will look into it.

5 MS. PENNINGTON: Thank you.

6 MR. KENNARD: The question is to which accounts does
7 the \$500 rule apply?

8 MS. PENNINGTON: Yes.

9 MR. KENNARD: We will get that.

10 MS. PENNINGTON: And also, could the company explain
11 the rule as to capitalizing and expensing projects as a
12 general rule.

13 MR. KENNARD: Yes.

14 MS. PENNINGTON: Just one moment, please.

15 (Pause.)

16 BY MS. PENNINGTON:

17 Q. Just one thing that was brought to my attention,
18 Mr. Cawley. Back to OTS Cross-Examination Exhibit No. 1,
19 the second page of the response that says 1 of 35 up in the
20 corner.

21 A. Yes.

22 Q. The first line there says "CWIP Balance at
23 12/31/92" and under that it says "Add: unrecorded
24 liabilities recorded in general ledger" -- I assume that's
25 general ledger -- "as of 12/31/92." Can you explain for me

1 what those unrecorded liabilities are?

2 A. Yes. What they would be is that we would -- if,
3 for example, we received the material on December 31, 1992,
4 it was received into our warehouse, we did not receive a
5 customer's invoice, we would accrue for those at year end.

6 Q. You would accrue?

7 A. Accrue or record the liability associated with
8 the receipt of that equipment.

9 MS. PENNINGTON: I have no other questions. I think
10 Ms. Melillo does, though.

11 JUDGE KASHI: Thank you, Ms. Pennington.

12 Ms. Melillo.

13 MS. MELILLO: Thank you, Your Honor.

14 CROSS-EXAMINATION

15 BY MS. MELILLO:

16 Q. Good afternoon, Mr. Cawley.

17 A. Good afternoon.

18 Q. Mr. Cawley, I am going to be showing you a copy
19 of DPC-2T, which you provided to the Office of Trial Staff
20 and the other parties. Could your counsel hand you a copy,
21 please?

22 (Documents distributed to Counsel Kennard and the
23 witness.)

24 MS. MELILLO: Your Honor, I am providing two copies
25 to the court reporter and a copy to Your Honor and all

1 parties.

2 JUDGE KASHI: You want this marked as OTS Cross
3 Exhibit 4?

4 MS. MELILLO: Yes, Your Honor, I would like this
5 marked as OTS Cross-Examination Exhibit No. 4.

6 JUDGE KASHI: So marked for purposes of
7 identification.

8 MS. MELILLO: Thank you.

9 (Whereupon, the document was marked
10 as OTS Cross-Examination Exhibit No.
4 for identification.)

11 JUDGE KASHI: Haven't we already seen some of this?

12 MS. MELILLO: Yes, Your Honor. I referred to it this
13 morning with Mr. Laffey, but the questions were deferred.

14 BY MS. MELILLO:

15 Q. Mr. Cawley, please take a look at what has been
16 identified for the record now as OTS Cross-Examination
17 Exhibit No. 4. You see in the upper right-hand corner of
18 that sheet a designation "DPC-2T"?

19 A. Yes.

20 Q. Did you prepare this schedule, or was it
21 prepared under your direction and supervision?

22 A. Yes.

23 Q. Does this schedule show, for Commonwealth
24 Telephone Company, the regulated average rate base for the
25 test year ended December 31, 1993 on a total company basis?

1 A. Yes, it does.

2 Q. Now, this morning there were some questions that
3 were deferred to you from Mr. Laffey. Do you have a copy of
4 Mr. Laffey's Exhibit JJJL-2 with you?

5 MR. KENNARD: Are you going to ask him about the
6 customer deposits?

7 MS. MELILLO: Yes, and just to clarify, I'm going to
8 ask him about a rate base question too, because they really
9 were deferred although Mr. Laffey provided an answer. He
10 said that Mr. Cawley was the appropriate witness.

11 BY MS. MELILLO:

12 Q. First of all, I refer you to page 1 --

13 MR. KENNARD: Let me get a copy. I don't think the
14 witness has one.

15 THE WITNESS: No, I do not.

16 (Pause.)

17 (Document handed to witness.)

18 MR. KENNARD: Are you ready?

19 THE WITNESS: Yes.

20 MR. KENNARD: The witness is ready.

21 MS. MELILLO: Thank you.

22 BY MS. MELILLO:

23 Q. Mr. Cawley, do you see on Exhibit JJJL-2, page 1
24 at line 5, an intrastate rate base number of \$161,808,524?

25 A. Yes.

1 Q. Is that the claimed average rate base in this
2 case?

3 MR. KENNARD: Total company?

4 MS. MELILLO: No; intrastate.

5 BY MS. MELILLO:

6 Q. Is that the claimed intrastate rate base in this
7 case?

8 (Pause.)

9 MR. KENNARD: Can I just say something? The source
10 of the accounting documents in Mr. Cawley's testimony, he's
11 got, in the DPC series, income statements, balance sheets,
12 rate base statements and expense claims tied to the test
13 year.

14 MS. MELILLO: I'm just asking the questions that were
15 deferred to him from Mr. Laffey. We're referring to Mr.
16 Laffey's exhibit, and that's why we had asked him the
17 questions originally.

18 MR. KENNARD: But I'm just pointing out that the
19 company's rate base claim for 1993 is set forth at DPC-2.
20 And then you all asked for it restated on a total company
21 basis, and that series was labeled DPC-2 and then a "T"
22 added to it to nominate total company.

23 BY MS. MELILLO:

24 Q. What is the \$161,808,524 shown on Exhibit JJL-2
25 under rate base? What does that designate? Since I see

1 that is not reflected on your DPC-2.

2 A. Well, subject to check, in my DPC-2 the 12
3 months ended 12/31/93 and the 12 months ended 12/31/92, and
4 the average number that I developed, both of those numbers
5 reflected in the columns 12 months ended 12/31/93 and
6 12/31/92 are average numbers. Whereas in Mr. Laffey's
7 testimony, subject to check, he is using one period of time.

8 Q. So would he be using 12/31/93?

9 A. Subject to check, yes.

10 Q. Then if you would look at your DPC-2, you see
11 your number for intrastate rate base-normalized, 12 months
12 ended 12/31/93, of \$168,507,882, and then you added that
13 with the intrastate rate base-normalized for 12 months ended
14 12/31/92 to derive your average. So those numbers don't
15 match either.

16 MR. KENNARD: Do you want to ask us to reconcile it
17 as a data request?

18 MS. MELILLO: Yes, that would be fine. That would be
19 the easiest way to do it. I'll take that as an on-the-
20 record data request.

21 MR. KENNARD: That's reconcile rate base --

22 MS. MELILLO: We just wanted to know the derivation
23 of the \$161,808,524 figure shown on JJJL-2, page 1, line 5,
24 and reconcile that with the number found in Mr. Cawley's
25 Exhibit DPC-2, explain how the \$161 million was derived.

1 MR. KENNARD: I understand.

2 BY MS. MELILLO:

3 Q. Let me ask you this. This was a question, I
4 believe, that was deferred to you, Mr. Cawley, by Mr.
5 Laffey. This has to do again with the \$161 million figure
6 shown on J JL-2, Exhibit J JL-2, for the rate base number.

7 We were wondering whether the \$161,808,524 figure was
8 the intrastate portion of the number shown on DPC-2T, which
9 has now been identified as an OTS cross exhibit, and that
10 number shown there is \$207,519,209.

11 (Pause.)

12 A. That \$161,808,524 is strictly just intrastate.

13 Q. So then the \$207,519,209 figure shown under the
14 column headed "Average" for regulated rate base-normalized
15 on DPC-2T would be the total company number; is that
16 correct?

17 A. That is the total company number, yes.

18 Q. So would you agree subject to check then that
19 the intrastate rate base piece shown on Exhibit J JL-2 that
20 we've been discussing is 77.97 percent of the total company?

21 MR. KENNARD: What's the number?

22 MS. MELILLO: It's a mathematical computation. The
23 approximately \$161 million number is approximately 77.97
24 percent of the total number shown on DPC-2T.

25 MR. KENNARD: Do you want him to run a calculation

1 later to confirm your calculation?

2 MS. MELILLO: Would he accept that subject to check?

3 MR. KENNARD: And what you're doing, so he can follow
4 the math, is --

5 MS. MELILLO: Just taking the percentage, what
6 percentage the \$161 million represents of the \$207 million
7 number.

8 THE WITNESS: Well, to be consistent with the
9 financial statements you should really take the average rate
10 base as reflected on DPC-2 and then divide that by DPC-2T.

11 BY MS. MELILLO:

12 Q. DPC-2T?

13 A. Yes.

14 Q. So then we would be dividing the \$162 million
15 number, approximately, shown on DPC-2 by the \$207 million
16 number?

17 A. Right.

18 Q. What would we come out with if we did that?
19 What is the percentage?

20 (Witness computing on electronic calculator.)

21 A. Subject to check, .78099.

22 Q. So the \$161 million is approximately 78 percent
23 of the \$207 million number; correct?

24 A. The calculation I did is the \$162 million
25 divided by the \$207 million.

1 Q. And from that you derived your 78 percent
2 number; correct?

3 A. That's correct.

4 JUDGE KASHI: Seventy-nine percent, .7899.

5 THE WITNESS: .78099, Your Honor.

6 MS. MELILLO: I'm having trouble hearing; I'm sorry.
7 He said 78 point what?

8 THE WITNESS: .78099.

9 BY MS. MELILLO:

10 Q. Now, also on Exhibit JYL-2, page 2, line 34,
11 there is a showing there of an intrastate customer deposit
12 number of \$241,211. Do you see that?

13 A. Yes.

14 Q. Again, these questions were deferred to you by
15 Mr. Laffey. Aren't all customer deposits related to the
16 provision of regulated utility service in Pennsylvania?

17 A. Mr. Maguire brought that issue up at our
18 informal discovery, and we have not had time to research
19 that issue. If we come back and find out it is all related
20 to local service, then we will restate our exhibits.

21 Q. Then would you restate them such that the number
22 shown for customer deposits would be the number shown on
23 DPC-2T, the total company number, of \$307,484,000?

24 A. Yes.

25 Q. Do you have any idea at this point how long it

1 will take it find out whether those deposits are all related
2 to Pennsylvania service?

3 MR. KENNARD: It shouldn't take that long.

4 MS. MELILLO: Okay. Thank you.

5 JUDGE KASHI: What does that mean?

6 MR. KENNARD: Well, it means we will do our best,
7 Judge. I understand where Staff is coming from. They want
8 the answer before they do their testimony. We will have it
9 to them before then so they have plenty of time. We're only
10 talking about \$60,000 out of a \$300 million rate base.

11 JUDGE KASHI: That's a lot of money.

12 MS. MELILLO: We'll take it.

13 BY MS. MELILLO:

14 Q. Next, Mr. Cawley, I am going to be showing you a
15 schedule which has been designated in the upper right-hand
16 corner DPC-6T, and ask if you could identify that, please.

17 I will show it first to your counsel.

18 MS. MELILLO: I am providing two copies to the court
19 reporter, a copy to Your Honor.

20 JUDGE KASHI: Do you want another exhibit marked?

21 MS. MELILLO: Yes. I would like this marked, Your
22 Honor, as OTS Cross-Examination Exhibit No. 5.

23 JUDGE KASHI: So marked for purposes of
24 identification.

25

1 (Whereupon, the document was marked
2 as OTS Cross-Examination Exhibit No.
3 5 for identification.)

4 (Document distributed to parties and the witness.)

5 BY MS. MELILLO:

6 Q. Mr. Cawley, please take a look at what has now
7 been identified for the record as OTS Cross-Examination
8 Exhibit No. 5.

9 Was this scheduled, which is designated in the upper
10 right-hand corner as DPC-6T, was that prepared by you or
11 under your direction and supervision?

12 A. Yes.

13 Q. Mr. Cawley, does this schedule consist of the
14 Commonwealth Telephone Company Regulated Income Statement
15 for the test year ended December 31, 1993 on a total company
16 basis?

17 A. Yes, it does.

18 Q. I had a clarifying question about the
19 depreciation expense shown on DPC-6T, the \$26,648,491
20 figure. Do you see that?

21 A. Yes.

22 Q. Do you have a copy before you of Mr. Robinson's
23 table, Table 1, page 3?

24 A. Yes, I do.

25 Q. If you would look at Table 1, page 3, of Mr.
Robinson's table, do you see under the column headed "Total

1 Annual Depreciation Accrual," under column -- it's letter
2 (K).

3 A. Yes.

4 Q. The number of \$27,889,271?

5 A. Yes.

6 Q. Do you see that number?

7 A. Yes.

8 Q. Is it correct that that \$27,889,271 number shown
9 on that table is the per books number using annualized rate
10 base, whereas the \$26,648,491 number shown on DPC-6T is an
11 average rate base number?

12 A. Yes.

13 Q. Now, to derive the \$26,648,491 number, Mr.
14 Cawley, am I correct that you took the calendar year-end
15 rate base at 12/31/92 plus the calendar year-end rate base
16 at 12/31/93, added them together and divided by 2 to derive
17 the annual depreciation expense shown on DPC-6T?

18 A. I derived that number from Mr. Robinson's
19 testimony at Table 2, page 3 of 3.

20 Q. I don't have a copy of that with me. Did you
21 perform the mathematics to reach an average number of \$26
22 million, or was that performed by Mr. Robinson?

23 A. That was performed by Mr. Robins.

24 Q. So the \$26,648,491 number is from Mr. Robinson's
25 testimony?

1 A. That's correct.

2 Q. But, to the best of your knowledge, he derived
3 that on an average basis using the computation that I
4 discussed?

5 A. I believe, subject to check, that he actually
6 looked at, over the 12-month period, the actual in-service
7 date of the assets and calculated the depreciation
8 accordingly based on that implementation.

9 Q. Did he use calendar year-end '92 and '93 numbers
10 though, and then divide by 2?

11 A. (No response.)

12 Q. You're not sure?

13 A. That is correct.

14 MR. KENNARD: Just so the record is clear, that is
15 correct, you're not sure, or that is correct, he used them?

16 THE WITNESS: I am not sure.

17 MS. MELILLO: He's not sure. Unfortunately, I wasn't
18 able to be here yesterday when Mr. Robinson was cross-
19 examined. I don't know whether he did answer that and
20 explain that. I would just like an explanation as to how
21 that \$26,648,491 figure is derived.

22 MR. KENNARD: You want us to reconcile -- what is the
23 source of Mr. Robinson's figure? Not the figure itself,
24 what is the source?

25 MS. MELILLO: Well, I believe Mr. Cawley said it was

1 from Mr. Robinson's table.

2 THE WITNESS: Yes. Table 2, page 3 of 3.

3 MR. KENNARD: Is there a line number?

4 THE WITNESS: No.

5 MR. KENNARD: What is the line entitled?

6 THE WITNESS: 2-6, "Summary of Original Cost, Utility
7 Plant in Service as of December 31, 1992."

8 MR. KENNARD: You want to reconcile that with what is
9 in DPC-6T; is that correct?

10 JUDGE KASHI: No. It's the same number. She wants
11 to know how Robinson got his number; is that it?

12 MS. MELILLO: Right.

13 JUDGE KASHI: Did he take '92 plus '93 and divide or
14 what?

15 MS. MELILLO: That's right. I just want a
16 derivation. We had discussed this off the record, and I
17 thought that is how I was told it had been derived. Now I'm
18 being told that that may not be right, so I want that
19 clarified.

20 BY MS. MELILLO:

21 Q. Mr. Cawley, do you anticipate doing any updates
22 to DPC-2T or 6T during the pendency of this proceeding?

23 MR. KENNARD: How do you mean that?

24 MS. MELILLO: Both exhibits are based on December 31,
25 '92, and I'm just wondering if you had anticipated updating

1 these numbers at all during the pendency of the proceeding.

2 MR. KENNARD: We reserve the right to do so.

3 JUDGE KASHI: You had better pick a date.

4 MS. MELILLO: We have to base our testimony on
5 something, so we will have to base it on what we have here,
6 obviously.

7 BY MS. MELILLO:

8 Q. Mr. Cawley, would you please turn to your
9 response to OTS-RE-15, specifically, part (b).

10 MR. KENNARD: RE-15?

11 MS. MELILLO: OTS-RE-15, specifically, part (b).

12 And, Your Honor, I would like to note that this has been
13 designated by the company as a confidential response.

14 JUDGE KASHI: Do you want the record to note it at
15 this point, too? Is that a yes?

16 MS. MELILLO: Your Honor, at this time I would like
17 marked as OTS Cross-Examination Exhibit No. 6 Mr. Cawley's
18 response to OTS-RE-15, part (b). Part (a) was simply
19 referring to an OCA response. This is the only part we got
20 in response to OTS-RE-15.

21 JUDGE KASHI: So marked for purposes of
22 identification.

23 (Whereupon, the document was marked
24 as OTS Cross-Examination Exhibit No.
25 6 for identification.)

MS. MELILLO: I have designated it as confidential on

1 the face of the document.

2 (Document distributed to parties and the witness.)

3 MR. KENNARD: We can withdraw that designation,
4 Judge. It doesn't need to be designated that.

5 JUDGE KASHI: We can?

6 MR. KENNARD: Yes.

7 JUDGE KASHI: It won't be marked confidential.

8 MS. MELILLO: Everybody please scratch out
9 "confidential" from the face sheet.

10 BY MS. MELILLO:

11 Q. Mr. Cawley, please take a look at what has now
12 been designated as OTS Cross-Examination Exhibit No. 6. Am
13 I correct that you prepared this response or that it was
14 prepared under your supervision and direction?

15 A. That is correct.

16 Q. Now, in OTS-RE-15 you were requested to provide
17 a 3-factor allocation formula which would include total
18 payroll wages; is that correct?

19 A. That is correct.

20 Q. Am I correct that in the column headed "Payroll"
21 on OTS Cross-Examination Exhibit 6, for Commonwealth the
22 figure shown is 20,000, which would be 20,838,000, and for
23 other affiliates the number shown is 32,322,000, that those
24 numbers include capitalized items?

25 A. That is correct.

1 Q. Right. We would like to be provided the numbers
2 without the capitalized payroll included. We had requested
3 that informally and I don't believe we were provided it yet.

4 MR. KENNARD: We'll look into that.

5 MS. MELILLO: Hold on just a minute.

6 (Counsel Melillo conferring with Staff.)

7 MS. MELILLO: It would be the budgeted amount, to be
8 consistent with what you provided in OTS Cross-Examination
9 Exhibit 6.

10 MR. KENNARD: So you want a restatement of what is in
11 this exhibit just simply substituting expense payroll for
12 total payroll?

13 MS. MELILLO: Correct. Take out the capitalized
14 payroll; just provide expensed payroll under the column
15 "Payroll" for both CTCo and Other Affiliates.

16 MS. MELILLO: Could I just have a moment, Your Honor?

17 JUDGE KASHI: Sure. Off the record.

18 (Discussion off the record.)

19 JUDGE KASHI: Back on the record.

20 MS. MELILLO: Your Honor, we have another on-the-
21 record data request. We would like the actual for '92 as
22 well as the budget. OTS-RE-15 shows the budget, and we
23 would like the actual as well. In addition, we need the
24 capitalized payroll deleted from the payroll column.

25 MR. KENNARD: We'll see if it is available. We have

1 been asked about any number of variations on the 3-factor
2 formula, we've gone from budget to actual to number of
3 employees to payroll expense. Now we're going within
4 payroll expense to what is capitalized. We'll try to
5 cooperate with this, but at some point you have to stop
6 asking us to -- but we'll try to cooperate with this.

7 JUDGE KASHI: I'm sure you will, Mr. Kennard.

8 MR. KENNARD: Yes, sir, we will.

9 You want your OTS Cross Exhibit 6 restated using
10 actual.

11 MS. MELILLO: Correct.

12 MR. KENNARD: And you want it, again, as total
13 payroll and as expensed payroll.

14 MS. MELILLO: Correct, with capitalized payroll out
15 of it.

16 MR. KENNARD: Right.

17 MS. MELILLO: Your Honor, that concludes our cross-
18 examination for Mr. Cawley. I would like to at this time
19 move into evidence OTS Cross-Examination Exhibits Nos. 1
20 through 6.

21 JUDGE KASHI: Without objection?

22 MR. KENNARD: Without objection, Judge.

23 JUDGE KASHI: Without objection they are received
24 into the evidentiary record.

25 Thank you, Ms. Melillo.

1 (Whereupon, the documents marked as
2 OTS Cross-Examination Exhibits Nos.
3 1 through 6 were received in
4 evidence.)

5 JUDGE KASHI: Mr. McClelland.

6 MR. McCLELLAND: Thank you, Your Honor.

7 Your Honor, I would like to begin with the cross-
8 examination of Mr. Cawley, and then Mr. Shostak will
9 continue on other subjects.

10 JUDGE KASHI: All right.

11 CROSS-EXAMINATION

12 BY MR. McCLELLAND:

13 Q. Mr. Cawley, first of all, I want to go back to
14 an issue that I started with with Mr. Laffey. This
15 concerned what was identified as OCA Exhibit 6, I believe.
16 If you can recall, this was the billing and collection
17 allocation. I'm not going to ask any more questions about
18 how the allocation was done. I believe you were one of the
19 sponsoring witnesses on that interrogatory response.
20 However, I would like to see what the total expense numbers
21 were before they were allocated. In other words, add a left
22 column that was before allocation, and then we will have two
23 right-hand columns, intrastate and interstate. Okay?

24 A. Yes.

25 Q. Now, on another topic, would you please look
at -- I believe this is supplemental work papers that you

1 have provided. In any event, I am looking at a portion of
2 it which is called Intrastate Expenses, DPC-4 Other
3 Adjustments. Then it is Account 6613 Product Advertising,
4 and the dollar amount is \$132,151.

5 A. Yes.

6 Q. Now, if you will turn to the next page, I think
7 it is called Advertising Budget, the total marketing expense
8 on that page is \$499,315. Is all of that expense claimed in
9 this case?

10 A. No, it is not. This is on a total total company
11 basis. This includes dereg also, this schedule here.

12 Q. Can you tell me, and let's look at pages 2 and 3
13 following, which of those categories you have removed as
14 deregulated?

15 A. As far as what I removed as deregulated, I know
16 item number 2, Voice Mail, would be removed.

17 Q. Would you look over I guess it is on page 4,
18 although it is not numbered, the top of the page, number 9,
19 Contact Appreciation, and -- I'm sorry; one further, number
20 10, Customer Handouts. This is for customers who purchase
21 telephone systems. Would that also be a deregulated
22 category?

23 A. Yes.

24 Q. Would you just check and see, subject to check,
25 if you removed that one also?

1 A. Yes.

2 Q. Mr. Cawley, I'm trying to reconcile -- my
3 understanding is that you did do an intrastate factor, and
4 then you also removed some deregulated advertising expense.
5 As we look at the first sheet of that, the total is
6 \$499,315. We are trying to reconcile that to the claim.

7 Do you know what the total advertising claim in this
8 case is?

9 A. There is not one specific area that you could go
10 to and pick out the advertising. For example, this total
11 number here that is \$499,000, I would have backed out the
12 non-reg piece. I would have applied the regulated factors
13 to it and then I would apply the interstate factors. But,
14 more importantly, why I am saying that you can't go to one
15 specific area of my testimony and point it out is that --
16 and I am just going to give an example. The very last item
17 there, the 911 Advertising, that, for example, would not be
18 reflected up in Product Advertising, the category that is
19 reflected in my DPC-4T. That specific item there would be
20 reflected under Regulatory Relations.

21 Q. Mr. Cawley, would you reference your answer to
22 OCA Set IX, Question 48? I think this may help understand.
23 The question there went to the total advertising expense on
24 DPC-6, and then there is a schedule --

25 MR. KENNARD: Wait a minute. Let us find it.

1 (Pause.)

2 THE WITNESS: Okay.

3 BY MR. McCLELLAND:

4 Q. Then there is a schedule which shows product
5 advertising of \$444,300. What is giving us concern is that
6 seems to match total product advertising shown on that
7 summary page plus \$5,000 in manager planning development,
8 and it doesn't appear to us that any of that product
9 advertising has been removed, which we discussed earlier,
10 the non-regulated portions. I wondered if you could
11 explain.

12 (Pause.)

13 A. What is reflected as support for Account No.
14 6613, the \$499,315?

15 Q. Yes.

16 A. This exhibit here. This was what we used as the
17 base for preparing the future test year, and what this
18 \$499,315 is, back in October/November when we prepared our
19 1993 budget, this is the expenditures that we included in
20 the 1993 budget. What is represented in OCA Set IX,
21 Question 48, this was a more current view based on this
22 being prepared as of April of 1993, which included several
23 months of actual and also additional anticipated
24 expenditures that were going to occur in the future test
25 year.

1 Q. You are saying that the \$444,300 shown on Set
2 IX-48 only coincidentally relates to the \$439,315 and the
3 \$5,000 shown in the work papers?

4 A. That's correct. Why I'm saying that is because
5 OCA Set IX, Question 48 is more current information.

6 Q. Then it is your testimony that, in fact, the
7 Voice Mail and Handout advertising has been removed in the
8 \$44,300 number? That's true?

9 A. That's true.

10 Q. Mr. Cawley, would you please look then at OTS
11 Cross-Examination Exhibit No. 1? And also look at DPC-2.
12 Now, at the end of OTS Exhibit 1 there is a number under
13 column 2003 of approximately \$3.57 million, and then on DPC-
14 2 there is a number under telecommunications plant under
15 construction-short term of \$4.8 million. You can reconcile
16 those two?

17 A. Could you go through that one more time?

18 Q. Yes. Page 35 of OTS Exhibit 1, under column
19 2003, there is a number of approximately \$3.57 million.

20 A. Okay.

21 Q. I think that column is construction not yet
22 completed. Then over on DPC-2 there is a line,
23 telecommunications plant under construction-short term at
24 12/31/93 of \$4.8 million. Can you reconcile the difference
25 between those two?

1 A. Yes. First of all, the exhibit from the Office
2 of Trial Staff, Exhibit No. 1, represents total regulated.
3 The Exhibit DPC-2 reflects an amount after the application
4 of intrastate separation factors.

5 Q. So then after you apply separations factors to
6 the \$3.5 million, of course, that number would be smaller?

7 A. You also have to include, if you go back to page
8 1 of 35 --

9 Q. Yes.

10 A. -- you will see that there is the \$3.5 million.
11 There would also be a portion of the \$2,541,000 of
12 unrecorded liabilities that would also be a part of that
13 number.

14 Q. So then are you saying that the \$4.8 million
15 number on DPC-2 is the \$6.1 million number shown on page 1
16 of OTS-1 after the application of separations?

17 A. Yes.

18 Q. On what basis are you including the construction
19 work in progress in column 2003 in your claim?

20 A. You mean whether it is used and useful?

21 Q. Yes, that would be one aspect of it.

22 A. That would be used and useful.

23 MR. KENNARD: If you reference his testimony, he
24 discusses CWIP. Statement 3, the bottom of page 6, line 22,
25 carrying over onto page 7.

1 BY MR. McCLELLAND:

2 Q. Mr. Cawley, are you then referring to or would
3 you refer to the statement that "Telecommunications plant
4 under construction-short term represents non-revenue
5 producing, non-expense reducing plant additions which will
6 be completed shortly after the conclusion of 1993 and which
7 will improve the quality and reliability of telephone
8 service"?

9 A. That is a true statement.

10 Q. Is none of this plant revenue producing?

11 A. Subject to check, I would say no.

12 Q. And none of it is expense reducing?

13 A. Subject to check, I would say no.

14 Q. Mr. Cawley, in general, doesn't your
15 construction represent the modernization of your plant?

16 A. Yes.

17 Q. And don't you think there would be some expense
18 reducing benefits from the modernization?

19 A. I'm sure there would be.

20 Q. Now, Mr. Cawley, I would like to turn your
21 attention then to some affiliate issues.

22 JUDGE KASHI: Before we move to affiliated issues, we
23 will take a 15 minute recess and come back at 3:15.

24 MR. McCLELLAND: Fine. Thank you, Your Honor.

25 (Recess.)

1 JUDGE KASHI: Back on the record.

2 Mr. McClelland.

3 MR. McCLELLAND: Your Honor, if I may, I was reminded
4 that there was one other exhibit I should have used on
5 advertising. If I could, and even though we have marked and
6 distributed an affiliated exhibit as No. 7, and I will get
7 to that, but I would like to go to another exhibit, No. 8,
8 to finish off advertising, if I might.

9 JUDGE KASHI: Sure.

10 MR. McCLELLAND: I would ask the witness to take a
11 look at what has then been marked as No. 8.

12 JUDGE KASHI: So marked for purposes of
13 identification.

14 (Whereupon, the document was marked
15 as OCA Cross-Examination Exhibit No.
16 8 for identification.)

17 (Document distributed to parties and the witness.)

18 BY MR. McCLELLAND:

19 Q. Mr. Cawley, with regard to No. 8 -- and I would
20 also ask you to look back on the question that it
21 references, that probably makes it easier, and that was OCA
22 Set I, Question 15.

23 Now, Mr. Cawley, if you would look at Set I, Question
24 15, we noted the variance in advertising, regulated
25 particularly, from year to year '91 through '89, and then we
asked this question, and it is rather short, if I could just

1 repeat it: "Please explain the reason for the annual
2 variance in regulated advertising as presented in response
3 to OCA Set I, Question 15." Your answer was: "Said annual
4 variance is the result of fluctuations in advertising
5 expenditures during these periods."

6 I wanted to ask again: is there any reason why these
7 variances occurred during that period?

8 A. I cannot give any specific reasons.

9 MR. McCLELLAND: Your Honor, with that I would like
10 to now move on to the affiliated topics. I believe I have
11 distributed what was OCA Exhibit 7 at the break. I hope
12 everyone has one.

13 JUDGE KASHI: I don't see any.

14 (Document handed to Judge Kashi.)

15 JUDGE KASHI: So marked for purposes of
16 identification as OCA Cross-Examination Exhibit No. 7.

17 (Whereupon, the document was marked
18 as OCA Cross-Examination Exhibit No.
19 7 for identification.)

20 BY MR. McCLELLAND:

21 Q. Mr. Cawley, contained within Exhibit 7 are a
22 number of affiliated interest agreements which I will ask
23 you questions on. They are by no means all of the
24 affiliated interest agreements, but only the ones I wish to
25 question on. For your reference you might also want to look
at the response to OTS-RE-5, which these agreements were

1 taken from.

2 First, I would ask you to look at the beginning
3 agreement here and ask you to accept subject to check that
4 this is an agreement between Commonwealth Telephone and C-
5 TEC, which was approved by the PUC at Docket No. G-890183.

6 A. Subject to check, yes.

7 Q. In your testimony you also discuss a 3-factor
8 formula, as you put it, that was mandated by the PUC. In
9 this agreement I would ask you to look at paragraph 1.2.2,
10 which is on page 5.

11 Now, is this the 3-factor formula that you have
12 referred to in your testimony?

13 A. Yes.

14 Q. To the best of your knowledge, does that 3-
15 factor formula appear in any of the other affiliated
16 interest agreements?

17 A. Not to my knowledge.

18 Q. Mr. Cawley, I would also like you to reference
19 another document --

20 MR. McCLELLAND: -- which, Your Honor, we would like
21 to have marked as OCA Cross-Examination Exhibit No. 9.

22 JUDGE KASHI: So marked for purposes of
23 identification.

24 (Whereupon, the document was marked
25 as OCA Cross-Examination Exhibit No.
9 for identification.)

1 MR. McCLELLAND: This is an internal audit by
2 Commonwealth that was provided to OCA in discovery at Set
3 XII, Question 5.

4 (Document distributed to parties and the witness.)

5 BY MR. McCLELLAND:

6 Q. Would you please look at a discussion of the use
7 of that allocation factor which starts at page 5 of the
8 internal audit?

9 (Pause.)

10 Q. Mr. Cawley, perhaps you should read through it
11 on pages 5 and 6 and let me know when you're finished.

12 (Witness perusing document.)

13 JUDGE KASHI: You are talking about the Residual
14 Staff Charges?

15 MR. McCLELLAND: Yes; it's called Residual C-TEC
16 Staff Charges.

17 THE WITNESS: I'm finished.

18 BY MR. McCLELLAND:

19 Q. Is the manner in which this audit describes the
20 application of the 3-factor formula the way that C-TEC
21 currently applies that charge?

22 A. Yes.

23 Q. If you would also turn to page 14 of this audit,
24 and I would read a small part of this at the bottom of page
25 14 where it says, "The three factor formula is based upon

1 budgeted numbers calculated in the previous year. (Example:
2 1989 budgeted numbers calculated in 1988). This formula is
3 used throughout the entire next year." Is that also
4 correct, that this is the way that C-TEC uses the 3-factor
5 formula at the present time?

6 A. Yes.

7 Q. That means then that there is no true-up between
8 budgeted factors and actual factors as they turn out to
9 occur during that year?

10 A. That's true.

11 Q. Now, if you would look further here onto page
12 18 --

13 A. I'm sorry; what was that page?

14 Q. Page 18.

15 And here I will refer to one line -- well, I'll start
16 with one line; excuse me. It states, "Currently C-TEC is
17 calculating the residual factor as shown on page 4. It
18 includes the subtraction of net intangibles from total
19 assets. Internal Audit agrees with C-TEC's method. Since
20 we have had numerous recent acquisitions, all of which
21 include goodwill, the inclusion of net intangibles would not
22 yield a accurate distribution of residual fees." Then it
23 says, "Even though the exclusion of net intangibles appears
24 reasonable, it is not in compliance with the PUC agreement.
25 In order to avoid the possibility of a PUC comment

1 concerning this, it's advisable that the agreement be
2 altered."

3 Now, Mr. Cawley, do you know if any action with
4 regard to altering the agreement was taken subsequent to
5 this internal audit?

6 A. There was not.

7 Q. Do you know why not?

8 A. Management's opinion was that the exclusion of
9 net intangibles from the calculation of the 3-factor formula
10 was reasonable based on the opinion that the intangibles are
11 strictly -- they are not hard assets; they are strictly a
12 piece of paper and accordingly do not require work force to
13 manage them.

14 MR. McCLELLAND: Your Honor, we also wish to
15 distribute another exhibit. We would ask to have this
16 marked as OCA Exhibit 10.

17 JUDGE KASHI: Which is?

18 MR. McCLELLAND: Your Honor, this concerns the 3-
19 factor allocation and is a response to discovery which we
20 recently received I think it was Wednesday.

21 JUDGE KASHI: So marked for purposes of
22 identification.

23 (Whereupon, the document was marked
24 as OCA Cross-Examination Exhibit No.
25 10 for identification.)

(Documents distributed to parties and the witness.)

1 MR. McCLELLAND: I would also add for the record that
2 it has some compensation information in the back of it. We
3 will get to that later.

4 BY MR. McCLELLAND:

5 Q. Mr. Cawley, with regard to OCA Exhibit 10 and
6 the first answer there, which is a question, OCA Set VIII,
7 Question 2, behind that there are some calculations of
8 factors and allocations.

9 MR. McCLELLAND: I think I should also mention for
10 the record that the company has marked this as confidential.

11 JUDGE KASHI: Do you want it still marked that way,
12 Mr. Kennard.

13 MR. KENNARD: We can remove that, Judge.

14 MR. McCLELLAND: We can remove that.

15 JUDGE KASHI: All right.

16 MR. KENNARD: I just see it on the one page -- the
17 last three pages appear to have it as well, and we told the
18 OCA this morning that we were not going to claim salaries as
19 confidential.

20 JUDGE KASHI: All right.

21 BY MR. McCLELLAND:

22 Q. Mr. Cawley, as I understand it these
23 calculations are based upon not budgeted data but actual
24 data, and I think we have calculations here for 1989, 1990,
25 and then actual data from various periods during '91 and

1 '92, and then also I see here actual data for May of 1993.

2 Mr. Cawley, could you just confirm that this
3 represents the use of actual data rather than budgeted data
4 in the same calculation that we have earlier described as to
5 how C-TEC has done the 3-factor formula?

6 A. That is true.

7 Q. Now, is it also true that -- and I want to
8 cross-reference here to the internal audit. I am looking
9 here again at Exhibit 9, page 5 -- that the expenses shown
10 here would be operating expenses minus depreciation and
11 amortization?

12 A. That is true.

13 Q. And also the assets would be total assets plus
14 accumulated depreciation, minus net intangibles?

15 A. That is correct.

16 MR. McCLELLAND: Your Honor, we would ask for a data
17 request along these lines. We appreciate we now have actual
18 not budgeted data. We would still like to see the
19 depreciation, amortization and net intangibles that have
20 been removed from this information.

21 Along that line I would ask that for the tables
22 attached to OCA Set VIII, Question 2, contained within OCA
23 Exhibit 10, that the tables be recalculated and it should
24 show specifically -- we would continue to allow CTCo to lump
25 all the other affiliates in one section, but we would like

1 to see expenses for CTCo and the depreciation and
2 amortization as a separate addition. And the same for the
3 other affiliates, that is, let's see depreciation and
4 amortization, also, on the asset side, to show the addition
5 of net intangibles as a separate category.

6 Do that on each of the columns. Then we can look at
7 how that changes the allocation factor.

8 JUDGE KASHI: Very good.

9 MR. KENNARD: We will look into that, counsel.

10 On the asset side you said you wanted the accumulated
11 depreciation broken out, as well as the net intangibles?

12 MR. McCLELLAND: I think not. No. I think the way
13 it is already that total assets plus accumulated
14 depreciation is in the numbers shown, and I stand corrected
15 if I'm wrong.

16 MR. KENNARD: I wasn't sure if I heard you. I was
17 just reasking. So you just want the net intangibles broken
18 out on the asset side?

19 MR. McCLELLAND: Just a moment, Your Honor, I'm
20 trying to clarify exactly what we would like to see.

21 JUDGE KASHI: All right.

22 (Pause.)

23 MR. McCLELLAND: We would like to get some
24 clarification to make sure we understand how it was done.
25 In the calculations we have -- and I'm looking again at the

1 internal audit -- it says total assets plus accumulated
2 depreciation. We thought that what that meant was the
3 undepreciated asset.

4 THE WITNESS: What page is that on again?

5 JUDGE KASHI: Five.

6 MR. McCLELLAND: If it helps, the internal audit is
7 again OCA Exhibit 9, page 5. As the internal audit
8 describes how C-TEC does it, it says assets equal total
9 assets plus accumulated depreciation minus net intangibles.

10 THE WITNESS: That means gross assets.

11 BY MR. McCLELLAND:

12 Q. Gross assets minus net intangibles?

13 A. Correct.

14 Q. So, in other words, the asset that you start
15 from before you subtract the net intangibles would not be
16 depreciated at all?

17 A. That is correct.

18 MR. McCLELLAND: Then, Your Honor, again, what we
19 would like to have is stated in a separate column the
20 depreciation and amortization so we can see it added back
21 in, and also the net intangibles as they are added back in.

22 BY MR. McCLELLAND:

23 Q. Also, a question on how the actual information
24 was done. For the full-time employees, Mr. Cawley, do you
25 know what period in time those actual full-time employees

1 were calculated?

2 A. Subject to check, I would say at the end of the
3 period.

4 Q. Please advise if it is something else.

5 (Pause.)

6 Q. Mr. Cawley, if you could look at another service
7 agreement in OCA Exhibit 7. I think it may be behind the
8 green divider in the middle. I would ask you to accept that
9 this agreement between Commonwealth Telephone and TEC-AIR,
10 Incorporated was approved by the PUC at Docket No. G-900214.

11 A. Yes.

12 Q. Would you please, in this agreement, turn to
13 paragraph 1.2? Is it correct then, under that agreement,
14 that TEC-AIR charges for the various services used by the C-
15 TEC companies directly for flights taken by them?

16 A. That's correct.

17 Q. And by reference in this case, can you tell us
18 what the claimed cost for the direct flights is for TEC-AIR?

19 A. Subject to check, I believe \$9,000.

20 MR. McCLELLAND: Your Honor, I would also like to
21 have marked an interrogatory response that discusses the
22 TEC-AIR charges to Commonwealth Telephone. We would like to
23 have this marked as OCA Cross-Examination Exhibit No. 11.

24 JUDGE KASHI: So marked for purposes of
25 identification.

1 MR. McCLELLAND: Yes, Your Honor.

2 (Whereupon, the document was marked
3 as OCA Cross-Examination Exhibit No.
4 11 for identification.)

5 (Document distributed to parties and the witness.)

6 BY MR. McCLELLAND:

7 Q. Mr. Cawley, this is a response to OCA Set XII,
8 Question 11. I would like to go through these calculations
9 with you.

10 First of all, what year would this calculation relate
11 to?

12 A. 1992.

13 Q. At the top here, total operating revenues, that
14 would be all the revenues of TEC-AIR; is that correct?

15 A. That's correct.

16 Q. Some \$909,000, and then subtracted from that is
17 direct flight revenue of some \$96,000. Do you see that?

18 A. That's correct.

19 Q. Within that category would the direct charges
20 for 1992 from Commonwealth Telephone be included?

21 A. Yes.

22 Q. As well as all the other affiliates?

23 A. Yes.

24 Q. And then the net amount, I believe, is \$812,000.
25 Do you see that?

A. Yes.

1 Q. How would that amount be charged to
2 Commonwealth?

3 A. Through the parent management fee, C-TEC parent
4 management fee.

5 Q. And that would be represented here, the 52.76
6 percent?

7 A. That's correct.

8 Q. Is that a percentage calculated by the 3-factor
9 formula that we earlier discussed?

10 A. Yes, it is.

11 Q. Then is there also a parent management fee, some
12 \$500,000 here, also added to TEC-AIR?

13 A. Yes.

14 Q. Does this represent management activities of C-
15 TEC with regard to TEC-AIR operations?

16 A. I do not know specifically what it relates to.

17 Q. Would you please look back at the TEC-AIR
18 agreement? Can you explain under the agreement how the
19 allocation of what is termed here "allocated management
20 fees" is charged to Commonwealth?

21 A. They are not charged through TEC-AIR. They are
22 charged through the parent company.

23 Q. Mr. Cawley, do you know, does -- well, let me
24 refer you to a response. Can you look on the response to
25 OCA Set VI, Question 4(c)?

1 A. Yes.

2 Q. With reference to that response, does C-TEC
3 allow the spouses of executives to accompany their spouses
4 on TEC-AIR trips but not require any reimbursement for that
5 trip as it relates to spouse travel?

6 A. As long as it is related to a specific company
7 purpose.

8 Q. In other words, if the trip that is taken --

9 A. Yes.

10 Q. Could you please also look onto another
11 interrogatory for reference, which is OCA Set VI, Question
12 5? Now, does this indicate that there was an analysis done
13 on the comparative cost of using commercial air service
14 versus using TEC-AIR prior to 1989, but in response to this
15 interrogatory CTCO was unable to locate that study?

16 A. That is correct.

17 Q. Could you also look at another interrogatory
18 response? This one is Set V, Question 7(c). Does
19 Commonwealth Telephone not generally solicit competitive
20 bids for air travel related to TEC-AIR flights?

21 A. There is a specific company policy that is
22 followed concerning this matter.

23 Q. Is the policy you refer to, is that generally
24 based on a comparative cost of \$500 an hour for flights?

25 A. (No response.)

1 Q. Maybe if I'm not clear, that the cost of flying
2 commercial would be compared to the cost of flying with TEC-
3 AIR, and assuming a cost of \$500 an hour for TEC-AIR
4 service.

5 A. The policy that I was speaking about is a C-TEC
6 policy, C-TEC travel policy.

7 Q. If I misstated, I meant to say was a C-TEC
8 policy.

9 A. Could you repeat your question?

10 Q. Generally speaking, does that policy indicate
11 that before a TEC-AIR flight is taken, a comparison should
12 be made with the cost of flying commercial, and for
13 comparative purposes the TEC-AIR flight is priced at \$500
14 per hour?

15 A. I do not remember the specifics that's in that
16 policy.

17 Q. Mr. Cawley, I want to reference, although I
18 don't intend to put these documents into evidence, but in
19 the informal discovery that took place with OCA staff at the
20 company headquarters is it correct that the company did
21 provide some flight logs to OCA? And I think Mark is
22 showing you copies of some of them.

23 (Documents shown to witness.)

24 A. That is true.

25 Q. Do those flight logs indicate dates of flight

1 and people who took the flight, and also, was OCA informed
2 as to the company that would have been direct charged for
3 any of those flights?

4 (Witness perusing documents.)

5 A. We specifically identified which affiliate the
6 employee was associated with. This is a flight log. It is
7 not a billing log.

8 Q. Or in some cases were those people
9 representatives of those companies but they were not actual
10 employees?

11 A. What we did was we went through these flight
12 logs and, to the best of our ability, we tried to
13 specifically address which affiliate the trip was applicable
14 to.

15 Q. Do they also give the time that the trip took in
16 hours?

17 A. There is what I believe to be flight time on
18 here.

19 Q. Mr. Cawley, I would like to move along to
20 another affiliated issue, and that is with what I think is
21 called Commonwealth Communications, Inc.

22 First of all, are you familiar with the billing
23 records of CCI?

24 A. Yes.

25 Q. Do you recall that in the informal discovery you

1 also discussed with OCA some of those billing records?

2 A. Yes.

3 Q. Generally speaking, can you just explain what
4 services does CCI provide to Commonwealth Telephone?

5 A. Generally what services they provide?

6 Q. Yes.

7 A. Engineering services.

8 Q. I would ask you to look at this billing sheet as
9 an example to clarify how CCI bills Commonwealth. I believe
10 the first page there that you are looking at represents
11 billing for the month of May 1993. Do you see that?

12 A. Yes.

13 Q. Could you explain what the codes in column 4
14 mean as far as how these charges are calculated?

15 A. Do you mean column 5?

16 Q. If I'm wrong. The column with the 1s and 4s in
17 it.

18 A. Yes. Column 5 is the billing code. One
19 designates a fixed fee project, and a code of 4 would
20 represent an hourly-billed project.

21 Q. So, for example, on that first page I noticed a
22 few charges for \$765, for example. Would that \$765
23 represent a fixed fee for doing some type of work?

24 A. Yes.

25 Q. How would that charge be calculated?

1 A. I do not know specifically how CCI would
2 calculate that.

3 Q. But would that fee be charged on every project
4 of that similar type?

5 A. If it had a code of 1, yes.

6 Q. Okay, on a code of 1. And with regard to some
7 of the other charges, and these are ones that I saw with a 4
8 by them, for example, I noticed on that page a charge of
9 \$68; would that represent some hourly rate for some work
10 done?

11 A. Yes.

12 Q. Can you explain how that charge of \$68 would be
13 calculated?

14 A. I think it would be easier if you went to the
15 very last page.

16 Q. Okay. Go ahead.

17 A. If you look at the -- it's labeled budget item
18 number 98, and you took the project-to-date dollars, \$1,960,
19 divided it be \$56, which is the hourly rate, you would be
20 able to calculate the number of hours.

21 Q. So, in other words, the \$68 that I referred to,
22 that would be some fraction of hours at that hourly rate?

23 A. The \$68 an hour could represent a different
24 caliber of engineer.

25 Q. But it would be calculated based upon the hours

1 taken for some work done?

2 A. Correct.

3 Q. Now, are the majority of the dollars charged in
4 that printout done on a fixed fee basis?

5 A. Yes.

6 Q. Is that typically how CCI bills Commonwealth
7 Telephone for its work?

8 A. Yes, it is.

9 Q. Could I take a look at this again?

10 (Document handed to Counsel McClelland by witness.)

11 Q. Could you also look at I think which is column
12 12, and this is entitled "Pct. Comp." Does that mean
13 percentage complete?

14 A. Yes.

15 Q. And then it is a number of -- I think on that
16 page there are a number of .90s under percentage complete.
17 Would that mean at that point the project was 90 percent
18 complete?

19 A. Yes.

20 Q. Now, Mr. Cawley, I would like you to refer to
21 OCA Exhibit 7, and this would be the third affiliated
22 agreement in that document. This relates to an affiliated
23 agreement between Commonwealth Telephone Company and
24 Commonwealth Communications, Inc. or CCI.

25 Would you accept subject to check that this agreement

1 was approved by the PUC at Docket No. G-920315?

2 A. Subject to check, yes.

3 Q. By the way, here I am using CCI. As I noticed
4 on that billing sheet it was called CSG. Is that the same
5 company?

6 A. Yes.

7 Q. I would ask you to look at paragraph 2.1 of this
8 agreement. I should emphasize this is a bilateral agreement
9 between Commonwealth and CCI; in other words, Commonwealth
10 can provide services to CCI and CCI can provide services to
11 Commonwealth under this agreement.

12 The part I have directed you to at paragraph 2.1 is
13 entitled "Direct Charges." Does this paragraph, and then
14 the subparagraph underneath it, indicate how direct charges
15 should be made between Commonwealth Telephone and CCI?

16 A. Yes.

17 Q. Generally speaking, does it indicate that
18 Commonwealth Telephone should recover its direct costs, its
19 personnel costs, based on a loaded labor rate, its equipment
20 costs, its costs for personal property and also a profit
21 margin calculated based on the Commonwealth Telephone
22 authorized rate of return on real or personal property?

23 A. Yes.

24 Q. And then under paragraph 4 does it indicate that
25 the cost of services and functions to be provided by CCI

1 under this agreement shall also be computed according to the
2 methodology set forth in paragraph 2 above?

3 A. Yes.

4 Q. Now, would you please look at the Commonwealth
5 response to OCA Interrogatory Set III, Question 8?

6 MR. KENNARD: I'm sorry, Phil, Set VI, No. 8?

7 MR. McCLELLAND: No. I'm sorry. Set III, No. 8.

8 BY MR. McCLELLAND:

9 Q. Mr. Cawley, I believe this shows the extent to
10 which Commonwealth has its engineering work done both within
11 the Commonwealth Company by its own employees, by its
12 affiliate companies, and also by outside companies, for the
13 years 1992, 1991 and 1990.

14 A. Yes.

15 Q. Just taking 1992 as an example, in that year
16 Commonwealth did its own engineering work at a cost of \$1.5
17 million; is that correct?

18 A. That's correct.

19 Q. And then it also had affiliated work done in the
20 amount of \$3.9 million. Do you see that?

21 A. Yes.

22 Q. Would all of that work have been done by CCI?

23 A. The affiliate work? yes.

24 Q. Under the "other" line, are there no dollars
25 listed?

1 A. That is correct.

2 Q. And there are no dollars listed for 1990 through
3 1992.

4 A. That is correct.

5 Q. That would mean that there was no engineering
6 work done by companies outside of Commonwealth or C-TEC?

7 A. That is correct.

8 Q. Also, does this indicate that as well as \$3.9
9 million in 1992, that CCI did \$3.9 million of work in 1991
10 and \$3.1 million of work in 1990?

11 A. Yes.

12 Q. Could you please look at another interrogatory
13 response, which was Set V, Question 1? This interrogatory
14 quoted from the 1991 C-TEC annual report and the quote was
15 -- and this comes from page 11 -- for the Communications
16 Services Group, "Results for this group in 1990 were
17 adversely affected by competitive pricing, cost overruns and
18 new service offerings and work force increases to meet
19 anticipated revenue growth and market demands." Do you see
20 that there?

21 A. Yes.

22 MR. KENNARD: Just a point. You are reading the
23 question, which purports to quote something else. You're
24 just representing that that's the question; correct?

25 MR. McCLELLAND: Yes. I am representing also that

1 that is what the C-TEC annual report says at that page.

2 BY MR. McCLELLAND:

3 Q. Mr. Cawley, you responded to this question, and
4 the question was --

5 MR. KENNARD: Judge, I hate to do it, but it takes
6 one sentence out of a long annual report, quotes it in the
7 question, and that's all that we have in front of us. We
8 ought to have the opportunity to look at the original
9 document if the question is being asserted for the facts
10 subsumed in it.

11 JUDGE KASHI: What else do we need?

12 MR. McCLELLAND: Your Honor, I have no objection to
13 that. We can show him the annual report and the context in
14 which that quote was taken.

15 BY MR. McCLELLAND:

16 Q. The quote is taken from the second column on
17 page 11 under "Communications Services Group." And for your
18 study, could you look at that quote in the context in which
19 it applies?

20 (Document handed to witness.)

21 Q. Now, Mr. Cawley, we then ask the question: Did
22 the Commonwealth Telephone Company take competitive bids for
23 all projects for which the Communications Services Group
24 provided service to the Commonwealth Telephone Company for
25 the period January 1, 1990 to date? And --

1 MR. KENNARD: Wait. Do you want to ask if that is an
2 accurate depiction of what was in the annual report?

3 BY MR. McCLELLAND:

4 Q. Is that an accurate reflection of what is in the
5 annual report?

6 A. Yes.

7 Q. My question then as posed was as I previously
8 indicated. I believe your answer was, as stated here, "CTCo
9 believes that this discussion and analysis associated with
10 the Communications Services Group results of operations
11 relates to non-Commonwealth Telephone Company projects."
12 And then it also states, "In accordance with generally
13 accepted accounting principles, operating revenues and
14 losses reflected for this or any other C-TEC operating group
15 in C-TEC's 1991 annual report exclude intra-company
16 transactions."

17 Do you see all of that?

18 A. Yes.

19 Q. I want to get back to the question, though, and
20 that is: from the period 1990 to the present, has
21 Commonwealth competitively bid the services that it paid the
22 Communications Services Group for?

23 A. I believe, subject to check, I provided that
24 response in another interrogatory and said generally we do
25 not.

1 Q. Also with regard to the other point you made in
2 your response -- and let me also try to clarify. When we
3 talk about the Communications Services Group, in 1991 that
4 was its name, in 1993 it's called CCI; is that correct?

5 A. Yes.

6 Q. Now, if we would turn in the same annual report
7 to page 24, under "operating loss" for Communications
8 Services, is there shown there --

9 MR. KENNARD: I have to provide it to him, counsel.

10 MR. McCLELLAND: Okay.

11 (Document handed to witness by Counsel Kennard.)

12 BY MR. McCLELLAND:

13 Q. Is there shown there an operating loss for the
14 Communications Services Group in each year 1989 to 1991?

15 A. Yes.

16 Q. And in 1991 was the operating loss \$6.6 million?

17 A. Yes.

18 Q. Just to be clear about it, without depreciation
19 and amortization that loss was \$6.4 million?

20 A. That is correct.

21 Q. Does your answer mean that this loss was not
22 calculated with regard to any of the intra-company
23 transactions?

24 A. That is correct.

25 Q. To the best of your understanding, does CCI

1 realize a profit on its transactions with the Commonwealth
2 Telephone Company?

3 A. Yes.

4 Q. Mr. Cawley, are you familiar with -- and I
5 believe it is Mr. Mazza's testimony -- the calculation of
6 the profit margin on CCI transactions with Commonwealth
7 Telephone?

8 A. Yes.

9 Q. Is it correct that in his testimony he has
10 calculated a 31 percent profit margin for transactions
11 between CCI and CTCo?

12 A. That is correct.

13 Q. And you understand that margin is calculated as
14 expenses, and then 31 percent of expenses would realize the
15 revenue for those profits?

16 A. Could you explain that again?

17 MR. KENNARD: You may want to ask this of Mr. Mazza.

18 MR. McCLELLAND: I could.

19 MR. KENNARD: Would you, please?

20 MR. McCLELLAND: We will defer that to Mr. Mazza,
21 Your Honor.

22 JUDGE KASHI: All right.

23 MR. KENNARD: Could we go off the record just for a
24 second?

25 JUDGE KASHI: Yes. Off the record.

1 (Discussion off the record.)

2 JUDGE KASHI: Back on the record.

3 BY MR. McCLELLAND:

4 Q. Now, Mr. Cawley, I also wanted to turn your
5 attention to some compensation issues, that is compensation
6 of Commonwealth Telephone Company personnel and also C-TEC
7 company personnel.

8 MR. McCLELLAND: Your Honor, I would ask to have
9 marked as OCA Exhibit 12 a proxy statement of C-TEC
10 Corporation dated April 22, 1993.

11 JUDGE KASHI: Marked as OCA Cross-Examination Exhibit
12 No. 12.

13 (Whereupon, the document was marked
14 as OCA Cross-Examination Exhibit No.
15 12 for identification.)

16 (Document distributed to parties and the witness.)

17 BY MR. McCLELLAND:

18 Q. Mr. Cawley, would you please turn your attention
19 to page 9 of that proxy statement? I would direct you to
20 what is called a Summary Compensation Table. That has
21 compensation for Mr. Parente, the President and Chief
22 Executive Officer, J. Sordoni, Chairman of the Board, B.
23 Sordoni, Vice Chairman, J.H. Thomas and Mr. Mazza. Do you
24 see that?

25 A. Yes.

Q. In these columns it has salary, bonus and LTIP

1 payouts. Do you see that?

2 A. Yes.

3 Q. Under the bonus column, is that related to the
4 short-term incentive plan? I think you can reference
5 footnote (A).

6 A. Yes, footnote (A).

7 Q. And the LTIP payments would be the Long-Term
8 Incentive Plans. Does the Commonwealth Telephone Company
9 contribute to this compensation in accordance with the 3-
10 factor formula that we earlier discussed?

11 A. Well, what is represented in these tables are
12 cash compensation that is paid or payable. The 3-factor
13 formula would be applicable to expense.

14 Q. Is this compensation paid to these individuals
15 through the management fees that C-TEC charges to
16 Commonwealth?

17 A. If you are asking me if the expense will
18 eventually come through the management fee, then the answer
19 is yes. If you are looking at these numbers here and you're
20 asking specifically for 1992 or whatever period this proxy
21 statement is applicable to, again, this amount here is cash
22 compensation paid or payable, not expense.

23 Q. Let's try to go through. Salary, is that a
24 current expense in that year, say 1992?

25 A. This is not accrual accounting on this sheet.

1 This is cash accounting.

2 Q. Maybe I don't quite follow you. If Mr. Parente
3 is paid a salary of \$587,000 in 1992, would that salary in
4 fact flow through the management fee which Commonwealth
5 would pay a portion of?

6 A. That example, yes, but another example would be
7 Long-Term Incentive Plan payout. If that \$1.2 million was,
8 for example, over a period of two years, then this amount
9 here represents actual cash that was paid, not the amount
10 that was expensed. That amount there might, for example, be
11 applicable to two periods.

12 Q. Do you know, in fact, to what periods this LTIP
13 payout would be applicable to?

14 A. No, I do not. This was what actually was paid.

15 Q. But are you saying it would not be expensed in
16 the same period in which it was paid?

17 A. That's a possibility.

18 Q. You are not sure of how that accounting is done
19 then?

20 A. I know that the Long-Term Incentive Plan or any
21 Bonus Plan, there is an accrual; there is a difference
22 between when it is actually paid and when it is actually
23 expensed.

24 Q. With regard to the 1993 management fees that
25 Commonwealth has claimed, for example, it is my

1 understanding that that management fee is smaller in 1993
2 than it was in 1992. Am I correct there?

3 A. That is correct.

4 Q. Does that represent some change in the bonus and
5 Long-Term Incentive Plan?

6 A. I do not know exactly what is represented in
7 that change.

8 Q. Can you explain then how you knew that you had a
9 smaller management fee in '93 than you had in '92?

10 A. That management fee was provided to us by C-TEC
11 Corporate.

12 MR. KENNARD: Mr. Mazza says he can explain, maybe
13 not identify the specific numbers, but why it is lower, why
14 the trend is down.

15 MR. McCLELLAND: Okay.

16 BY MR. McCLELLAND:

17 Q. Mr. Cawley, I would like then to turn your
18 attention to OCA Exhibit 10 again, and particularly some of
19 the later answers. I think in Questions 7 and 8 it refers
20 to some exhibits, which are then shown here toward the end
21 of this exhibit.

22 Would you first look at what is called Exhibit OCA-
23 VIII-7 and 8, page 1?

24 A. Yes.

25 Q. Do you know what year this page refers to, or is

1 related to?

2 A. I believe this was updated information that was
3 provided for 1993.

4 Q. At the bottom I see a charge of \$2.2 million.
5 Would that be charged to Commonwealth in 1993 -- or I should
6 say will be charged in 1993?

7 A. Yes.

8 Q. Can you explain what the budgeted bonus relates
9 to?

10 A. Subject to check, I would assume it is
11 associated with both the Short-Term and Long-Term Bonus
12 Plans.

13 (Pause.)

14 MR. McCLELLAND: Your Honor, I have another Bonus
15 Plan, which we do not have copied. We got it Wednesday
16 night and I'm afraid we haven't copied this one yet. I
17 would still like to question the witness on it, however, if
18 I may.

19 JUDGE KASHI: Sure. You intend to make copies and
20 provide them for the record, is that it?

21 MR. McCLELLAND: Yes, we will. And perhaps I could
22 reserve and ask to have it marked as OCA Cross-Examination
23 Exhibit 13.

24 JUDGE KASHI: Very well. You may have it marked.
25

1 (Whereupon, the document was marked
2 as OCA Cross-Examination Exhibit No.
3 13 for identification.)

4 (Document shown to Counsel Kennard and witness.)

5 BY MR. McCLELLAND:

6 Q. Mr. Cawley, this is another document that we
7 received. I believe this is a Middle Management
8 Compensation Plan and a Bonus Plan. Do you understand how
9 this plan works, and could you explain it, or would that be
10 better a Mazza question?

11 A. Yes. Paul Mazza.

12 MR. McCLELLAND: I would just defer cross to Mr.
13 Mazza.

14 JUDGE KASHI: All right.

15 MR. McCLELLAND: Your Honor, could we go off the
16 record for a moment to talk about the pace of the hearing?

17 JUDGE KASHI: Sure. Off the record.

18 (Discussion off the record.)

19 JUDGE KASHI: Back on the record.

20 Mr. Cawley, you may step down.

(Witness temporarily excused.)

21 Whereupon,

22 PAUL W. MAZZA

23 having been duly sworn, testified as follows:

24 JUDGE KASHI: Please be seated, sir.
25

DIRECT EXAMINATION

1
2 BY MR. KENNARD:

3 Q. Please state your full name for the record.

4 A. Paul W. Mazza.

5 Q. By whom are you employed, Mr. Mazza?

6 A. Commonwealth Telephone Company.

7 Q. In what capacity?

8 A. I am Executive Vice President and Chief
9 Operating Officer.

10 Q. Do you have before you a document styled, in the
11 upper right-hand corner, Commonwealth Telephone Company
12 Statement No. 4, consisting of 25 pages?

13 A. Yes, I do.

14 Q. Attached to that is Exhibit PWM-1. Was that
15 testimony and exhibit prepared by you or under your
16 supervision?

17 A. Yes, it was.

18 Q. Are there any corrections or changes you wish to
19 make to either your testimony or exhibit at this time?

20 A. No.

21 Q. Is the information contained in the testimony
22 and in the exhibit true and correct to the best of your
23 knowledge, information and belief?

24 A. Yes, it is.

25 MR. KENNARD: Your Honor, we would ask that Statement

1 No. 4 and Exhibit PWM-1 be marked and introduced into the
2 record subject to subsequent timely motions.

3 JUDGE KASHI: It will be so marked for purposes of
4 identification, and subject to any timely motions and/or
5 objections made pending cross-examination, it will be
6 received into the evidentiary record.

7 (Whereupon, the documents were marked
8 as Commonwealth Statement No. 4 and
9 Commonwealth Exhibit No. PWM-1 for
10 identification.)

11 MR. KENNARD: Thank you, Your Honor.

12 BY MR. KENNARD:

13 Q. Mr. Mazza, have you reviewed a document
14 submitted by TDS Telecom on their Mahanoy & Mahantango
15 Telephone Company stationery to the Commission dated
16 February 24, 1993, the subject of which is affiliated
17 agreements?

18 A. Yes, I have.

19 MR. KENNARD: Your Honor, we would ask that this
20 tribunal take judicial notice of this document.

21 MR. McCLELLAND: Your Honor, I do not object to the
22 tribunal taking notice that the document was filed.
23 Obviously, we don't have anyone from that company here to
24 cross-examine on the facts alleged therein, but I would not
25 object to counsel for Commonwealth proceeding with that
caveat on the record.

1 JUDGE KASHI: All right. We will note that it has
2 been filed with the Commission.

3 BY MR. KENNARD:

4 Q. Could you please reference your attention, Mr.
5 Mazza, to the third page from the back of that document,
6 which says at the top "Attachment to Table 1 - From 217
7 Paragraph 1," that demonstrates the hourly billing rates for
8 certain engineering personnel at the company, American
9 Communications Consultants by job description?

10 A. Yes, I have that page.

11 Q. Have you or someone under your supervision then
12 written in a column at the extreme right entitled "CCI,"
13 which contains dollar signs and numbers?

14 A. That's correct.

15 Q. What are those notations?

16 A. They are comparisons of CCI hourly rates to the
17 hourly rates filed in this document.

18 Q. And in all cases are the CCI charges no greater
19 than, and at times less than, those rates which American
20 would charge M&M Telephone?

21 A. That's correct.

22 MR. KENNARD: Your Honor, that completes the direct
23 examination by the company of this witness, and he is
24 available for questioning by the parties.

25 JUDGE KASHI: Thank you.

1 Ms. Melillo.

2 MS. MELILLO: Thank you, Your Honor.

3 CROSS-EXAMINATION

4 BY MS. MELILLO:

5 Q. Good afternoon, Mr. Mazza.

6 A. Good afternoon.

7 Q. Mr. Mazza, my questions focus upon the
8 Management Audit that you reference in your testimony. This
9 Management Audit, which was performed by the firm of Temple,
10 Barker & Sloan, when was that audit done?

11 A. It was conducted in 1986.

12 Q. Is that the last Management Audit that was done
13 of Commonwealth Telephone Company?

14 A. Aside from updates of that, that's correct.

15 Q. Am I correct that the report of Temple, Barker &
16 Sloan with regard to that Management Audit was issued in
17 January 1987?

18 A. That's correct.

19 Q. Do you know when Commonwealth Telephone Company
20 is next scheduled for a Management Audit?

21 A. I'm not certain, but subject to check it might
22 be '94, '95.

23 Q. Do you know if you are on any type of schedule,
24 for example, every seven years, every eight years?

25 A. I am not certain. We are on a schedule. I'm

1 not sure what the interval is.

2 Q. Have you received any correspondence to date
3 from the Pennsylvania Public Utility Commission concerning
4 the next Management Audit of Commonwealth Telephone Company?

5 A. I have not. I believe we may be in receipt of
6 some communications relative to an upcoming audit, or at
7 least an indication that we are on a short list for an
8 upcoming audit.

9 Q. Do you have a copy of that audit with you?

10 A. Yes, I do.

11 Q. Is this a copy of the audit?

12 (Document shown to witness.)

13 A. Yes.

14 Q. On page 10 of your testimony, beginning at line
15 31, you talk about the audit detecting certain shortcomings
16 as of 1987 in Commonwealth/C-TEC's corporate affiliate
17 practices. Do you see that reference?

18 A. On page 10?

19 Q. Yes. Beginning at line 31.

20 A. Yes, I do see that.

21 Q. Then you go on to state that all of these
22 shortcomings have been corrected. Do you see that
23 reference?

24 A. Yes, I do.

25 Q. Please turn to page A-16 in the appendix of the

1 audit which you have in front of you.

2 MS. MELILLO: For purposes of reference I am going to
3 be distributing to the parties and Your Honor a copy of two
4 pages of the January 1987 Management Audit. I didn't have
5 any additional copies of the audit, but I did make copies of
6 -- these are the pages I'll be referencing.

7 MR. KENNARD: Are you moving this in as an exhibit at
8 this time, or just --

9 MS. MELILLO: No. Rather than do that I had intended
10 just to have him read the -- there's not a lot of detail on
11 this.

12 (Document distributed to parties.)

13 BY MS. MELILLO:

14 Q. First of all, Mr. Mazza, if you could take a
15 look at -- I'm going to be handing you a copy of page A-16
16 and A-6 which I have Xeroxed from this audit, and I just
17 want you to verify that, in fact, those two pages are
18 contained in the appendix of those pages of the audit to
19 verify that they're correct Xerox copies, that we all know
20 that we are referencing correct copies of the actual audit
21 report.

22 (Document handed to witness.)

23 Q. Can you verify that those are copies of the
24 pages?

25 A. I'm sorry. Yes, they are.

1 Q. Thank you.

2 Now, if you would turn to page A-16 of Appendix A,
3 which is part of the two sheets that I have Xeroxed for
4 everyone to look at, first of all, Mr. Mazza, am I correct
5 that page A-16 in the appendix is one of the pages contained
6 in the auditors' Summary of Recommendations regarding
7 affiliated company relationships?

8 A. Yes, it is.

9 Q. If you would refer to recommendation number 9,
10 could you read that into the record, please?

11 A. "CTCo should develop a cost charging and
12 assignment manual that should be provided to each management
13 employee of the company. The manual should indicate the
14 procedures, policies, and guidelines for cross-charging all
15 entities for products and services. The manual should be
16 reviewed by the internal auditor and approved by the Audit
17 Committee and the Board of Directors."

18 Q. What priority is that recommendation given?

19 A. "A" priority.

20 Q. If you would please refer to the appendix, page
21 A-1, can you read into the record what an "A" priority
22 means?

23 A. The appendix appears where?

24 Q. Page A-1 of Appendix A explains what the
25 priority designations mean.

1 A. Appendix A, page A-1, identifies an "A" priority
2 as "A recommendation to have high priority because of their
3 importance and urgency. This priority has been used for
4 recommendations that offer significant cost savings, major
5 improvements to service or substantial improvements to
6 methods and procedures."

7 Q. Has recommendation 9, which you just read into
8 the record, ever been implemented by Commonwealth Telephone
9 Company?

10 MR. KENNARD: I believe that was asked in an
11 interrogatory.

12 MS. MELILLO: That's correct.

13 MR. KENNARD: RE-13 was the number.

14 Do you have a copy of that?

15 BY MS. MELILLO:

16 Q. Do you have the answer to OTS-RE-13? You and
17 Mr. Cawley are listed as being responsible for the answer.

18 (Pause.)

19 Q. Mr. Mazza, can you verify that recommendation
20 number 9 was never implemented by the company?

21 A. In our response to the interrogatory question we
22 indicated that --

23 Q. Could you please just answer my question? Was
24 recommendation number 9, which you read into the record,
25 ever implemented by the company?

1 A. No, it was not.

2 Q. Thank you.

3 Now, if you would please turn to page A-6 of the
4 appendix, and that is the second sheet that I had
5 distributed to the parties and the Judge for reference,
6 could you please read into the record recommendation number
7 9 contained on page A-6?

8 A. "The Controller should develop a comprehensive
9 cost separation and cross-charging manual and distribute it
10 to all CTEC management employees. (See Recommendation 9 in
11 Chapter III for details of what should be contained in the
12 manual.)"

13 Q. Am I correct that this recommendation is
14 contained in the Summary of Recommendations of the auditors
15 concerning Corporate Management?

16 A. That is correct.

17 Q. Am I correct that recommendation number 9 on
18 page A-6 has been given an "A" priority by the auditors?

19 A. That is correct.

20 Q. Has this recommendation ever been implemented by
21 the company?

22 A. It has not.

23 MR. KENNARD: It is the same one, counsel.

24 MS. MELILLO: It is referenced in two different
25 sections, however.

1 MR. KENNARD: Correct.

2 MS. MELILLO: That's all I have. Thank you, Mr.

3 Mazza.

4 JUDGE KASHI: Thank you very much.

5 MR. KENNARD: Given Ms. Melillo's imminent departure,
6 could we do the limited redirect on that issue at this time?

7 JUDGE KASHI: Sure.

8 MS. MELILLO: That would be fine.

9 REDIRECT EXAMINATION

10 BY MR. KENNARD:

11 Q. Mr. Mazza, what was the response to OTS-RE-13?

12 A. It was the opinion of the company that the Part
13 32 training manual that had been developed provided for
14 policies, procedures and guidelines for cross-charging and
15 was thought to be sufficient and responsive to the
16 recommendation.

17 Q. Did the company state to the PUC auditors that
18 that was their position relative to the Temple, Barker &
19 Sloan recommendations that Ms. Melillo had you read into the
20 record?

21 A. Indeed, it did.

22 Q. What was the company's response as stated to the
23 Commission?

24 A. We cited the recommendation and indicated that a
25 Part 32 training manual had been developed which provided

1 policies, procedures and guidelines for cross-charging
2 C-TEC.

3 Q. And, sir, you just read that item that you
4 stated?

5 A. (No response.)

6 Q. What you were doing was just reading into the
7 record?

8 A. Yes, I was.

9 Q. And you were reading from a document entitled
10 what, sir?

11 A. A document titled "Report to Pennsylvania
12 Utility Commission, 1991, Final Update of Commonwealth
13 Telephone Company's Management Audit Implementation Plan."

14 Q. And the item you just read, which cross-
15 references, I believe, does it not, that to Chapter 3,
16 Recommendation 9?

17 A. That is correct.

18 Q. What was the date it set forth for Part 32, the
19 company's proxy surrogate implementation of the cross-
20 charging manual?

21 A. 12/31/89.

22 Q. Did the company ever receive any indication
23 whatsoever from the Commission auditors that that was an
24 unacceptable implementation of those --

25 A. It did not.

1 MR. KENNARD: That's all I have, Judge.

2 JUDGE KASHI: Any follow-up on that, Ms. Melillo?

3 MS. MELILLO: Yes, Your Honor. Thank you.

4 RECROSS-EXAMINATION

5 BY MS. MELILLO:

6 Q. Mr. Mazza, did the company ever receive any
7 statement from the Commission that the Commission considered
8 Part 32 to be sufficient to fulfill the recommendations of
9 the auditors?

10 A. We received no response of any kind.

11 Q. Is it your position that Part 32 relates to
12 separation of the regulated and unregulated portions of
13 Commonwealth?

14 A. Yes.

15 MS. MELILLO: That's all we have. Thank you, Your
16 Honor.

17 JUDGE KASHI: Thank you very much.

18 MS. MELILLO: I appreciate being able to go out of
19 turn.

20 JUDGE KASHI: Cross-examine, Mr. McClelland.

21 MR. McCLELLAND: Yes, Your Honor.

22 CROSS-EXAMINATION

23 BY MR. McCLELLAND:

24 Q. Mr. Mazza, could I first turn you then to page 9
25 of your testimony?

1 A. Yes, sir.

2 Q. At the bottom of that page it says that one of
3 the Temple, Barker, Sloan recommendations that was
4 implemented was that any employee of C-TEC who provides
5 services, direct or indirectly billable, should keep time
6 sheets showing the time recorded by specific codes
7 representing all activities, entities and services.

8 Do you see that?

9 A. I do.

10 Q. Is it, however, correct, that the C-TEC
11 executives and their secretaries do not keep time sheets?

12 A. I am unaware as to whether or not they do.

13 Q. Earlier I offered as an exhibit I think what was
14 called OCA Exhibit 5. I think I offered that for Mr.
15 Burnside. It is a corporate organizational chart.

16 Could you look on that exhibit, please?

17 MR. KENNARD: Do you have another copy?

18 MR. McCLELLAND: I'm not sure.

19 (Pause.)

20 MR. McCLELLAND: I do have one. If I could please
21 give it to the witness.

22 (Document handed to witness.)

23 BY MR. McCLELLAND:

24 Q. This exhibit contains within it a C-TEC
25 Corporation operating structure, an organizational structure

1 for Commonwealth, and last, an organizational structure for
2 C-TEC. Could you please look at that?

3 Would you agree that these various charts show the
4 corporate structure of C-TEC and Commonwealth?

5 A. Yes, I would agree with that.

6 Q. Could you also look on the Commonwealth
7 organizational chart, and I think you will see there the
8 name of yourself, Mr. Laffey, Ms. Brody, Mr. Cawley and Doug
9 Robinson on that chart. Just with respect to those
10 individuals, could you identify their respective roles in
11 the Commonwealth organization?

12 A. Mr. Laffey is responsible, as Director of
13 Revenue Requirements, for the company's settlements and
14 separations process, estimating and budgeting for revenues,
15 and also certain activities relating to company telephone
16 directories.

17 Mr. Robinson is responsible for support services to
18 field operations. That would include staff functions in the
19 area of plant evaluation, engineering evaluation. He is
20 responsible for interfacing with any third-party
21 contractors, including CCI. He is responsible for
22 housekeeping responsibilities for CTCo. He is also
23 responsible for purchasing and supply.

24 Ms. Brody is responsible for all customer service
25 functions, including business office functions, repair

1 center functions, field operations functions.

2 Q. Mr. Cawley, could you also discuss him?

3 A. I'm sorry. Mr. Cawley is the company's
4 controller. He is responsible for all accounting functions.

5 Q. What responsibility does Ms. Brody have with
6 regard to engineering?

7 A. She has a responsibility for field engineering
8 forces, the actual company employees who implement company
9 engineering policies.

10 Q. Does she determine company engineering policies?

11 A. To the extent that they impact field operations,
12 she does, in concert with Mr. Robinson.

13 Q. Now, I have also included last on there an
14 answer to Set III, Question 5.

15 MR. McCLELLAND: I also want to note for the record
16 that there was a listing of employees which was marked
17 proprietary which I did not include.

18 BY MR. McCLELLAND:

19 Q. Is this then a C-TEC organizational chart?

20 A. Yes, it is.

21 Q. Does this show the C-TEC groups?

22 A. Yes, it does.

23 Q. With regard to those groups, is TEC-AIR its own
24 group?

25 A. Yes, it is.

1 Q. To the best of your knowledge, when was the
2 TEC-AIR group formed?

3 A. I believe late '89 or early '90, subject to
4 check.

5 Q. I also noted there is C-TEC Cable Systems of
6 Pennsylvania there. Do you know where they offer cable
7 service?

8 A. Yes, I do.

9 Q. Whereabouts?

10 A. They have one small property in Forrest City,
11 Pennsylvania, which is within the operating territory of
12 Northeast Telephone Company.

13 Q. Not close to the Commonwealth territory then?

14 MR. KENNARD: I guess it depends how you define
15 close. It's not within. It's still within the cross-
16 ownership rules.

17 THE WITNESS: It's within the territory of a
18 neighboring telephone company.

19 BY MR. McCLELLAND:

20 Q. This may help with the prior question I had.
21 Could you please look on the response to OCA Set XII,
22 Question 6? Do you have that response?

23 A. I do not.

24 MR. KENNARD: We're taking it out.

25 (Document handed to witness by Counsel Kennard.)

1 THE WITNESS: Yes, I have it.

2 BY MR. McCLELLAND:

3 Q. I asked you a previous question as to whether
4 C-TEC corporate officers prepared time sheets. I think this
5 clarifies that C-TEC corporate officers do not prepare time
6 sheets.

7 A. That's correct.

8 Q. I'm sorry. To look back on that question, does
9 this also mean that none of the C-TEC employees prepare time
10 sheets?

11 A. No. I am aware of numerous C-TEC employees who
12 do in fact prepare time sheets -- well, I shouldn't -- when
13 you say C-TEC, you mean C-TEC, the parent corporation, not
14 C-TEC, the other entities; is that correct?

15 Q. Yes. I am focusing now here exclusively on the
16 parent corporation.

17 A. My previous response was taking that to mean
18 other C-TEC entities. As far as C-TEC, the parent, is
19 concerned, I am aware in the past that certain departments
20 have kept specific time sheets. An example being the H.R.
21 Department, when they would negotiate labor contracts on
22 behalf of the company, would maintain records of time spent
23 on those efforts.

24 Q. I guess I am a little uncertain here because the
25 answer in this interrogatory indicated -- in response to a

1 question about C-TEC employees preparing time sheets the
2 answer was: No. All C-TEC employees who provide services,
3 directly or indirectly, billable to CTCo do not prepare time
4 sheets.

5 MR. KENNARD: I think the emphasis is on all
6 employees do not do time sheets instead of all don't do time
7 sheets.

8 BY MR. McCLELLAND:

9 Q. So then some of the C-TEC employees do, in fact,
10 do time sheets?

11 A. It is my understanding that certain C-TEC
12 employees have utilized time sheets.

13 Q. To the best of your understanding, can you
14 categorize which do and which do not?

15 A. I am only aware of H.R. employees, human
16 resources employees, having at some point in time utilized
17 time sheets.

18 MR. McCLELLAND: Your Honor, I would like to mark
19 another exhibit as OCA Cross-Examination Exhibit 14. This
20 is a document which we only received today, but I believe it
21 purports to identify the short-term and long-term C-TEC
22 Corporation Bonus Plan.

23 JUDGE KASHI: It may be so marked for purposes of
24 identification.

25 Did you say 14, counsel?

1 MR. McCLELLAND: Yes. Am I incorrect, Your Honor?

2 JUDGE KASHI: Unless I lost 13.

3 MR. McCLELLAND: I am reminded that we reserved 13
4 for a Bonus Plan copy that we do not presently have copies
5 of.

6 JUDGE KASHI: Okay. This one will be 14.

7 (Whereupon, the document was marked
8 as OCA Cross-Examination Exhibit No.
9 14 for identification.)

10 (Document distributed to parties and the witness.)

11 BY MR. McCLELLAND:

12 Q. Mr. Mazza, can you confirm that the documents we
13 have here explain the Short-Term and Long-Term Incentive
14 Plans?

15 A. They do.

16 Q. I think the Short-Term Plan is the first plan;
17 am I correct?

18 A. That's correct.

19 Q. Could you turn to the third page of the Short-
20 Term Incentive Plan, and I see quite a few numbers on the
21 page. I'm not sure how these numbers work. Can you
22 explain?

23 A. In the middle of the page there is a heading,
24 Operating Group Executives and below it a heading, Staff
25 Group Executives. The operating group executives are those
that have direct operating responsibility. The staff group

1 executives are those who have C-TEC staff responsibility.
2 The Accounting Department at C-TEC, the H.R. Department, the
3 Legal Department, would fall into that particular area.
4 Examples of the operating group executives would be myself,
5 for example.

6 Q. Do you know what the goals are that the
7 "achieves" and "exceeds" parameters would relate to?

8 A. Each operating or staff officer has a list of
9 pre-approved goals which are established in conjunction with
10 the senior management of the company. They are both hard
11 goals and soft goals, hard goals relating to financial
12 performance, soft goals relating to other operating
13 objectives.

14 In the document that we are discussing those hard
15 goals are headed as financial objectives, and the soft goals
16 are headed as non-financial objectives.

17 In addition to that, all officers share a number of
18 common goals, which in this document are referred to as
19 corporate financial objectives.

20 Q. What are the objectives presently?

21 A. The objectives relate to revenue production and
22 earnings, and they differ from operating entity to operating
23 entity. The corporate financial objectives are a roll-up of
24 the operating entities' individual financial objectives.
25 The soft objectives are different for each organization and

1 relate specifically to that particular operation's business.

2 Q. If I understand it then, for a group then there
3 would be a financial objective, and if the group achieved
4 the objective, there would be a 20 percent bonus for the
5 financial group objective. Is it that simple?

6 A. If you would turn to page 5, I think there is a
7 clarification to that page that we were just on. I think if
8 you read the middle paragraph your question will be
9 answered.

10 Q. Actually, I did and I still didn't quite
11 understand it. Let me try to explain what I think it says.
12 It says if the objective is obtained, there will be a 17.5
13 percent compensation bonus provided, and if it is exceeded,
14 there will be a 35 percent bonus provided, not 50 percent.

15 A. That's correct.

16 Q. Is that calculated on salary?

17 A. Yes.

18 Q. Can you also explain what the I think you refer
19 to as soft or non-financial objectives are?

20 A. An example in the telephone company might be the
21 installation of a particular kind of service during the
22 bonus year. We may have established a goal to turn up SS7
23 within 1993. If that were achieved, that particular goal
24 would have been achieved. If it was missed, the goal would
25 be missed.

1 Q. Do you know what those non-financial objectives
2 presently are for Commonwealth?

3 A. I know what they are. I am unable to catalogue
4 them off of the top of my head. They would include, though,
5 such things as inventory system controls will be implemented
6 by year-end, purchasing policies will be reviewed and
7 updated by year-end. They may relate to personnel matters
8 in terms of numbers of employees. They may relate to
9 completion of the digital program by year-end.

10 Q. With regard to the Long-Term Incentive Plan,
11 which I think is the second document, I think perhaps
12 beginning at page 4 it talks about how the bonuses are
13 administered. Can you explain how those bonuses work?

14 A. The long-term plan is a five-year plan, which
15 was implemented, first year, in 1989 and ran from 1989 --
16 will run through 1993. It has as its objective the
17 attainment of certain earnings goals and certain cash flow
18 goals. To the extent that those goals are achieved, the
19 individual participating in the program can earn a specific
20 long-term incentive bonus.

21 Q. How is that bonus calculated based on the goal?

22 A. An award pool is established based on the
23 salaries of the participants. A matrix is developed that
24 allows for an award tied to a level of accomplishment. I
25 believe the maximum amount of award permissible over the

1 entire plan's life of five years is a factor of six times
2 wage, annual wage.

3 Q. Who would this senior management Long-Term
4 Incentive Plan apply to?

5 A. All senior C-TEC officers and the senior
6 officers of the operating entities.

7 Q. With regard to the senior C-TEC officers, who
8 would they be?

9 A. That would include the Chairman, Vice-Chairman,
10 President of the corporation, the Executive Vice-President
11 of the corporation, and the departmental officers of the
12 corporation.

13 Q. Is the financial goal set for the operating
14 groups or C-TEC as a whole?

15 A. It is set for C-TEC as a whole.

16 Q. Could you tell us then what the goal is?

17 A. I'm sorry; I don't have those numbers with me.

18 Q. If you can't recall what the dollar number is,
19 can you explain what the parameter is or what the context of
20 it is, either revenues, earnings, whatever?

21 A. I thought I did that before. It is cash flow
22 and earnings. Actually, EBIDAT earnings, earnings before
23 interest, taxes, amortization and depreciation.

24 Q. Yes. I just want to ask you about EBIDAT.

25 MR. McCLELLAND: Your Honor, this is Exhibit 13

1 again, uncopied, I'm sorry to say.

2 BY MR. McCLELLAND:

3 Q. This is another -- it's called Mid-Management
4 Short-Term Bonus Program. I want to show you that. Could
5 you explain who the mid-management plan would apply to?

6 (Document shown to witness.)

7 A. This particular plan is a copy of the telephone
8 company's plan, and the individuals that this applies to are
9 the department heads that report directly to me, and they
10 are identified in this document.

11 Q. I think one of the terms it uses is EBIDAT.

12 A. That's right.

13 Q. Can you explain what EBIDAT is?

14 A. It's earnings before depreciation, interest,
15 taxes and amortization. It is that portion of the company's
16 results that are directly controllable by the individuals
17 who, in effect, are eligible for these bonuses.

18 Q. I think another term used in the document is
19 home run. Can you explain what a home run is?

20 A. That's an H.R. term and it is used generically
21 to indicate that someone has significantly exceeded
22 established goals.

23 MR. KENNARD: When you say H.R. term, you mean human
24 relations?

25 THE WITNESS: It's a human resource term.

1 BY MR. McCLELLAND:

2 Q. What would those goals be?

3 A. I'm sorry; those goals?

4 Q. The goals for -- the home run goals.

5 A. They would be revenue and EBIDAT goals, absolute
6 revenues and then actual EBIDAT.

7 JUDGE KASHI: We're going to break here. It has been
8 two hours the reporter has been going for us. We'll take a
9 15-minute recess and come back at 5:25.

10 (Recess.)

11 JUDGE KASHI: We're going back on the record.

12 Mr. McClelland.

13 BY MR. McCLELLAND:

14 Q. Mr. Mazza, I want to ask you some questions
15 concerning TEC-AIR. Would you please turn to page 22 of
16 your testimony?

17 (Pause.)

18 A. I have it, Mr. McClelland.

19 Q. Do you make an analogy to the cost of commercial
20 air flights being about \$500 per hour in your testimony --
21 I'm sorry; \$500 per trip, whatever.

22 A. We use an example in the testimony of a rate
23 from the Wilkes-Barre/Scranton area to Washington, which is
24 approximately an hour-long flight, in-air flight.

25 Q. And the rate you are speaking of, though, is

1 that a round-trip rate?

2 A. I believe it is.

3 MR. KENNARD: It says on line 19 "\$500 for a round
4 trip."

5 JUDGE KASHI: But above that it says \$500 per hour.

6 THE WITNESS: The actual one-way flying time is 35 to
7 40 minutes.

8 JUDGE KASHI: Then you are thinking in terms of \$500
9 an hour, sir?

10 THE WITNESS: Yes, sir.

11 BY MR. McCLELLAND:

12 Q. Further, with regard to TEC-Air, I want to
13 clarify an issue of the trips taken on TEC-AIR. I have a
14 couple of interrogatory responses. First, we asked a
15 question -- let me lay this out; then you can refer to it --
16 in Set XII, Question 12. We received an answer that the
17 number of trips taken in 1992 was seven.

18 First I want to ask the question: is that seven for
19 Commonwealth Telephone trips?

20 A. Yes, that's correct.

21 Q. Then we asked another question -- well, I'm
22 sorry; we had an update. In the update the answer was that
23 four other affiliates in 1992 took a total of 29 trips on
24 TEC-AIR. Do you see that?

25 A. Yes, I do.

1 Q. Now, if I add the 29 trips and the 7 trips
2 together, I get 36 trips. Does that mean that all trips
3 taken on TEC-AIR in 1992 was 36, or am I still missing some
4 trips?

5 A. I believe the number would be 36 for the
6 combination of companies. We are talking about Commonwealth
7 and the four other operating entities.

8 Q. Are there other trips that I'm still missing?

9 MR. KENNARD: The source document would be the
10 TEC-AIR logs that you have for 1992 that identify every trip
11 taken, who the passengers were, and what the origination and
12 destination were.

13 BY MR. McCLELLAND:

14 Q. Is the answer, though, there are other trips
15 other than the trips that these affiliates are taking?

16 A. Certainly, I'm sure there are trips taken by
17 C-TEC officers.

18 Q. Mr. Mazza, to follow up on my earlier question,
19 and the question was -- well, my question is: is the 60
20 minutes a direct flight, a one-way flight? And I believe
21 now I found the interrogatory answer, and that was Set IX,
22 Question 179, where the answer was yes, the 60 minutes is
23 only a one-way flight.

24 A. Are you talking about 60 minutes for a one-way
25 commercial flight, or 60 minutes for a one-way C-TEC flight?

1 Q. Well, I'm referring to the 60 minutes referenced
2 in your testimony, page 22, line 20; that is, "The flight
3 time is approximately 60 minutes on a direct flight."

4 A. That would be referring to the commercial
5 flight.

6 Q. I think it is. It says only one per day.

7 A. It does. I was responding to you relative to
8 C-TEC time. The flight to Washington is approximately 35 to
9 40 minutes.

10 Q. On C-TEC.

11 A. On C-TEC.

12 Q. And commercial, it's about 60 minutes?

13 A. About 60 minutes.

14 Q. One way?

15 A. Correct.

16 Q. And again, it is a \$500 round-trip fare,
17 commercial?

18 A. Correct.

19 Q. Is TEC-AIR strictly used for business flights?

20 A. To the best of my knowledge, yes.

21 Q. I want to ask a data request, and that is that
22 as we were looking through the flight logs we have some
23 flights -- and I want to reference particular flights, and I
24 want to find out about this. Mr. Parente traveled to
25 Naples, Florida on January 15, 1992 --

1 MR. KENNARD: Is this something you can reduce to
2 writing if you're going to go through a number of different
3 flights?

4 MR. McCLELLAND: It's not that long. I would rather
5 ask it on the record as a data request.

6 MR. KENNARD: What is the date?

7 MR. McCLELLAND: January 15, 1992, traveled to
8 Naples, Florida, back on January 19, 1992. Also in that
9 year, to Naples, Florida, April 24, 1992, returned April
10 29 --

11 MR. KENNARD: April 24? I have to write this down as
12 you go through it. I'm not as good as the stenographer.

13 MR. McCLELLAND: To --

14 MR. KENNARD: This is Mr. Parente again?

15 MR. McCLELLAND: Again. To Naples April 24, 1992,
16 returned April 29, 1992. Another, to Naples January 26,
17 1991, returned January 31, 1991.

18 MR. KENNARD: Again, Mr. Parente?

19 MR. McCLELLAND: Mr. Parente.

20 What we want to know is what the purpose of the
21 flights were and how the costs of those flights were
22 charged.

23 MR. KENNARD: We will look into it.

24 BY MR. McCLELLAND:

25 Q. Also in your testimony you talk about the CCI 31

1 percent profit margin, and I want to refer you to that and
2 question you about it.

3 Now, I believe you indicated that in 1992
4 Commonwealth contracted with CCI for \$3,929,000 for
5 engineering services.

6 MR. KENNARD: You're referencing his testimony at
7 page 18, lines 19 and 20?

8 MR. McCLELLAND: Yes.

9 MR. KENNARD: Thank you.

10 MR. McCLELLAND: I want to make sure I understand the
11 profit margin calculation correctly.

12 BY MR. McCLELLAND:

13 Q. Of that amount, then, \$2,708,777 would represent
14 expenses, and \$1,220,000, or 31 percent, would represent
15 profit?

16 MR. KENNARD: This is how the expense was booked on
17 Commonwealth's books?

18 MR. McCLELLAND: Well, my question goes to if, as Mr.
19 Mazza is saying, there is a 31 percent profit margin built
20 into CCI charges, does that mean that, as I indicated, so
21 much of it would be profit and so much of it would be cost?

22 MR. KENNARD: If you look, the calculation of the 31
23 percent is on page 21, starting at line 3.

24 BY MR. McCLELLAND:

25 Q. How would the 31 percent then be reflected

1 within the \$3.9 million of costs that I earlier discussed?

2 (Pause.)

3 JUDGE KASHI: Can you answer that, Mr. Mazza?

4 THE WITNESS: I'm sorry; would you repeat the
5 question?

6 BY MR. McCLELLAND:

7 Q. As I understand it, in 1992 Commonwealth
8 contracted for \$3.9 million of services from CCI, and my
9 question is: does that then mean that \$2.7 million of that
10 would represent costs and \$1.2 million of that would
11 represent profit?

12 A. If the mathematics is correct and that second
13 number does represent 31 percent of the number, that would
14 be correct.

15 Q. Now, on the same page you indicate that for
16 similar services to non-affiliates CCI has earned a 45
17 percent margin. Do you see that?

18 A. Yes, I do.

19 Q. Now, without getting into any identities here as
20 to who these parties were, I believe that Commonwealth has
21 responded with some data as to the contract under which a 45
22 percent profit margin was earned. Am I correct that the
23 entire amount of revenue on which that margin was achieved
24 was approximately \$135,000?

25 A. That is correct. We don't calculate these

1 margins for CCI, obviously. We asked CCI to provide us with
2 an example of where they had done work similar to work done
3 for us and to calculate a profit margin on that work, and
4 they supplied the information that we included in my
5 prepared testimony.

6 (Pause.)

7 Q. Mr. Mazza, I also wanted to ask you questions
8 about acquisition activity and C-TEC. Perhaps you could
9 comment as to whether there is any present acquisition
10 activity with regard to C-TEC.

11 A. Acquisitions by C-TEC or --

12 Q. Acquisitions of C-TEC.

13 A. As was publicly announced a short time ago, the
14 control group of C-TEC has decided to sell its interest in
15 C-TEC to a subsidiary of a major construction company.

16 Q. Do you know how large a share of C-TEC that
17 control group comprises?

18 A. I believe, subject to check, it is somewhere in
19 the neighborhood of 34 percent, 35 percent of the
20 outstanding shares.

21 Q. Do you know what effect that may have on C-TEC
22 operations?

23 A. I have no idea at this point in time. The
24 announcement has just been made that an acquirer is in the
25 process of due diligence. We as operating entities have had

1 no discussions with the future owners as to what direction
2 they envision the business taking. Obviously, the published
3 information would indicate that they valued the position
4 highly, and I would expect that they see significant
5 opportunity in the control position of this company.

6 Q. Can you be any more specific about identifying
7 the acquiring party?

8 A. The acquiring party is Peter Kiewit Sons.

9 Q. Can you explain their affiliations?

10 A. As I said before, their primary business, their
11 base business, is a very large diversified construction
12 business involved in brick and mortar construction as well
13 as substantial municipal construction, highway, sewer
14 projects.

15 They diversified a number of years ago and moved into
16 telecommunications-related businesses with another division.
17 They are the parent organization of, for example,
18 Metropolitan Fiber Systems, MFS, which is the largest
19 alternate access provider in the country.

20 Q. To also go back and discuss the terms of the 31
21 percent margin that we previously discussed, if you had \$2.7
22 million of expense, which was in this discussion I
23 previously had, and \$3.9 million of revenue, wouldn't your
24 margin be 45 percent? That is \$1.2 million of profit
25 divided by \$2.7 million of expense.

1 A. As I said, I accepted the mathematics number on
2 the basis of what you said. What I asked for was for them
3 to produce the margin, and that is the margin, the profit
4 margin, that they produced and supplied us with.

5 MR. KENNARD: If you look on page 21 of his
6 testimony, line 8, it says "revenues less expenses," and
7 that number is then divided into revenues to get operating
8 ratio.

9 BY MR. McCLELLAND:

10 Q. The 45 percent margin that we earlier discussed,
11 was that calculated on the same basis as the 31 percent
12 margin?

13 A. That was my request of CCI when they prepared
14 the information.

15 MR. KENNARD: I would note that you have the work
16 papers associated with that.

17 (Pause.)

18 MR. KENNARD: Just looking at it -- you've got the
19 work papers -- it appears that it is.

20 MR. McCLELLAND: Your Honor, I believe that concludes
21 our cross of this witness. I would also ask to move into
22 evidence the present OCA exhibits that are now outstanding.
23 I think we now have outstanding --

24 JUDGE KASHI: You have some outstanding exhibits left
25 from Mr. Cawley. You are just moving Mr. Mazza's exhibits,

1 those associated with Mr. Mazza's testimony? There aren't
2 too many with his testimony. I think 13 was Mr. Cawley's
3 testimony, and 12.

4 MR. McCLELLAND: I think, Your Honor, we have Exhibit
5 14 for this witness, and also Exhibit 5.

6 JUDGE KASHI: All right. They are received into the
7 evidentiary record, without objection?

8 MR. KENNARD: No objection, Judge.

9 JUDGE KASHI: Without objection.

10 (Whereupon, the documents marked as
11 OCA Cross-Examination Exhibits Nos.
5 and 14 were received in evidence.)

12 JUDGE KASHI: Redirect, sir?

13 MR. KENNARD: Could I have several moments, please?

14 JUDGE KASHI: Sure. Off the record.

15 (Discussion off the record.)

16 JUDGE KASHI: Back on the record.

17 MR. KENNARD: I have a limited amount of redirect,
18 Your Honor.

19 JUDGE KASHI: All right. Go ahead.

20 REDIRECT EXAMINATION

21 BY MR. KENNARD:

22 Q. Mr. Mazza, you were asked by Mr. McClelland
23 regarding the time sheet keeping practices of C-TEC. Do you
24 recall that exchange?

25 A. Yes, I do.

1 Q. I believe you stated that to the best of your
2 recollection only the Human Relations Department kept time
3 sheets. Have you thought about that question further and do
4 you have a different response?

5 A. Yes, I have, and yes, I do. In addition to the
6 H.R., human resources, time sheet keeping, the Legal
7 Department keeps time sheets as well, in fact, even more
8 extensively than the H.R. Department.

9 Q. Do you recall --

10 MR. KENNARD: -- or maybe Mr. McClelland can tell us,
11 there was an interrogatory response that you had referenced
12 previously that I did not write down relative to time
13 keeping.

14 MR. McCLELLAND: Could you come again, please?

15 MR. KENNARD: There was an interrogatory that you
16 referenced relative to time keeping. It was the one we
17 stumbled over that all of them don't keep time sheets. Do
18 you remember which number that was?

19 JUDGE KASHI: Set IV, Question 6.

20 (Pause.)

21 MR. KENNARD: It sure was, Judge.

22 BY MR. KENNARD:

23 Q. Does this interrogatory request clarification
24 relative to your testimony at, specifically, page 9, lines
25 31 to 37, relative to who keeps time sheets?

1 A. I'm sorry?

2 Q. Relative to who keeps time sheets. Is that what
3 the question --

4 A. Yes, it is.

5 Q. Could you please read the answer for the record?

6 A. Answer: "No, all C-TEC employees who provide
7 service, directly or indirectly, billable to CTCo do not
8 prepare time sheets. No, C-TEC corporate officers do not
9 prepare time sheets. In management's opinion, C-TEC
10 corporate officers should not be required to complete time
11 sheets, nor is their time susceptible to time sheet
12 reporting."

13 MR. KENNARD: Thank you, Mr. Mazza.

14 There were, Your Honor, questions asked of Mr. Cawley
15 relative to the financial performance of CCI. Mr. Mazza is
16 in a better position to address that area, and with Your
17 Honor's indulgence, and perhaps that of Consumer Advocate,
18 we would like to use Mr. Mazza's position as senior staff,
19 who is a little more informed about CCI, to address that
20 area.

21 MR. McCLELLAND: Could you please explain a little
22 bit more about what that inquiry is about?

23 MR. KENNARD: It has to do with CCI financial
24 performance and their overall losses as a corporation, which
25 I think you sought to compare with profitability from their

1 services provided to Commonwealth Telephone.

2 MR. McCLELLAND: I won't object if counsel would like
3 to do some redirect on that issue with this witness. Of
4 course, I might want to question as well.

5 MR. KENNARD: With Your Honor's indulgence?

6 JUDGE KASHI: If you want to open it up, go ahead.

7 BY MR. KENNARD:

8 Q. Where you here during that cross-examination of
9 Mr. Cawley?

10 A. Yes, I was.

11 Q. He was asked to look at a 1991 annual report for
12 C-TEC, and he read certain loss figures from the third
13 section of page 24 of that report entitled "Communications
14 Services."

15 Can you please indicate, over the three-year period
16 reported on that document, by year, what the increase was in
17 overall revenues and sales for that time?

18 A. Sales in 1989 were \$7,837,000, sales in 1990
19 were \$10,941,000, and sales in 1991 were \$14,325,000.

20 Q. Now, I show you, sir, C-TEC's 1992 annual
21 report. Can you tell me what sales were for CCI in that
22 year?

23 (Document handed to witness.)

24 A. Sales for the Communications Services Group were
25 \$14,015,000.

1 Q. What was their net income in that year, or
2 operating income?

3 A. The operating income was a negative \$891,000.

4 Q. Were you here during the cross-examination of
5 Mr. Cawley when he indicated that during this period of time
6 the level of revenues provided by Commonwealth Telephone to
7 CCI was relatively stable?

8 A. I was.

9 Q. But overall, as a company, CCI's overall sales
10 volume was increasing and perhaps doubled during that period
11 of time, and they dipped down to a loss of over \$6 million
12 but apparently seemed to have recovered somewhat in 1992?

13 A. That is correct.

14 Q. Do you know of any explanation for that
15 financial performance?

16 A. I believe I do.

17 Q. What is the source of that information, sir?

18 A. I participate in a senior management forum and
19 we have periodic regular meetings where operational
20 performance of each group is discussed in a group setting.

21 Q. What explanation has been provided for what CCI
22 has been through?

23 A. CCI has been involved in developing a whole
24 range of business opportunities, and they had some
25 significant start-up costs and operating costs as they

1 developed these other areas of operation. What I mean by
2 other areas of operation is non-teleco related engineering
3 services.

4 As they have progressed up the learning curve they
5 have been able to secure increasing amounts of business and
6 been able to increase return and profitability on existing
7 lines of business.

8 Q. What is the expected performance of CCI during
9 fiscal year 1993?

10 A. We hope that CCI will finish 1993 in the black.
11 They are currently operating in the black.

12 Q. 1993 to date is a positive operating income?

13 A. That's correct.

14 Q. Now, Mr. Cawley was read a question which had a
15 single sentence that came from annual report, but really
16 that is part of several paragraphs of information. It is on
17 page 11 of the 1991 annual report. It is five paragraphs
18 contained under the paragraph "Communications Services
19 Group." Could you please read that for the record?

20 JUDGE KASHI: You're going to have him read five
21 paragraphs?

22 MR. KENNARD: It's maybe six sentences, Judge.

23 JUDGE KASHI: All right.

24 THE WITNESS: "Operating revenues for this group
25 increased \$3,384,000 and \$3,104,000, or 30.93 percent and

1 39.61 percent, in 1991 and 1990, respectively. Prior year's
2 shift in sales mix to lower margin projects because of
3 market pressures to reduce selling prices continued to have
4 an adverse impact on the results of this group in 1991.

5 "While significant progress was made during the year
6 to secure projects with higher profit margins, the company
7 had to initiate cost reduction steps to help offset the
8 effects of certain lower margin contracts.

9 "Operating losses in this group increased by \$2.286
10 million in 1991, and \$2.592 million in 1990. Additional
11 losses in '91 are primarily the result of significant losses
12 incurred on a major telecommunications project and increased
13 parent management fees.

14 "Results for this group in 1990 were adversely
15 affected by competitive pricing, cost overruns in new
16 service offerings, and work force increases to meet
17 anticipated revenue growth and market demands.

18 "While the company's future objective is to secure
19 projects with higher profit margins, market conditions are
20 expected to play a significant role."

21 MR. KENNARD: Thank you, sir.

22 Thank you for the parties' indulgence. We have no
23 further redirect examination of Mr. Mazza.

24 JUDGE KASHI: Do you have anything further in follow-
25 up, Mr. McClelland?

1 MR. McCLELLAND: Maybe one point.

2 RECROSS-EXAMINATION

3 BY MR. McCLELLAND:

4 Q. Mr. Mazza, you just talked about significant
5 losses on a major telecommunications project for this group,
6 but isn't it true that there have never been any losses on
7 any of the Commonwealth projects for this group?

8 A. That is correct, and to the best of my knowledge
9 there have not been losses on jobs for other entities doing
10 similar kinds of work as the work done for Commonwealth.

11 MR. McCLELLAND: No other questions.

12 JUDGE KASHI: Thank you. You're excused, sir.

13 (Witness excused.)

14 JUDGE KASHI: That which has previously been marked
15 and identified as Commonwealth Telephone Statement No. 4,
16 together with the appended exhibit, are received into the
17 evidentiary record, without objection?

18 (No response.)

19 JUDGE KASHI: Without objection.

20 (Whereupon, the documents marked as
21 Commonwealth Statement No. 4 and
22 Commonwealth Exhibit No. PWM-1 were
received in evidence.)

23 JUDGE KASHI: Mr. Cawley.
24
25

1 Whereupon,

2 DONALD P. CAWLEY

3 having previously been duly sworn, testified further as
4 follows:

5 JUDGE KASHI: You were up to OCA Cross-Examination
6 Exhibit No. 13 on Mr. Cawley at the time when we interrupted
7 the cross-examination.

8 Mr. McClelland.

9 MR. McCLELLAND: Your Honor, I believe the present
10 status, just to clarify, 13 was an exhibit we reserved, we
11 had not copied it, 14 was a discussion we had with Mr. Mazza
12 on the Bonus Plan, and our next will be 15.

13 JUDGE KASHI: All right.

14 MR. McCLELLAND: We would like to conclude that
15 discussion that I had, and I would ask then for Mr. Shostak
16 to be allowed to ask questions on other topics with
17 Mr. Cawley.

18 JUDGE KASHI: Sure.

19 CROSS-EXAMINATION

20 BY MR. SHOSTAK:

21 Q. Good evening, Mr. Cawley. I would like to turn
22 your attention to OCA Interrogatory Set III, No. 26, and
23 that concerns property held for future use.

24 MR. KENNARD: I'm sorry, I missed that, counsel.
25 What number?

1 MR. SHOSTAK: The company's response to OCA
2 Interrogatory Set III, No. 26.

3 THE WITNESS: Okay.

4 BY MR. SHOSTAK:

5 Q. This answer indicates that Commonwealth had
6 property held for future use in the amount of \$570,010, and
7 then in 1991 wrote down the property and subsequently
8 discarded it; is that correct?

9 A. The way I read the question is that the net
10 write-down was \$570,000. The cost of the equipment was not
11 \$570,000.

12 Q. Would you please explain what this property was
13 and why it was written down?

14 A. The property at issue primarily consisted of
15 central office and transmission equipment. At December 31,
16 1991, because of technological advancements, the company
17 determined this equipment to be obsolete and accordingly
18 wrote down this equipment to the lower cost of market.

19 Q. Was this property ever placed in service?

20 A. At one time it was.

21 Q. Then I am unclear why it was plant held for
22 future use.

23 A. It was in service. It was taken out of service
24 and placed into plant held for future use because the
25 company, at the time that it was taken out of plant in

1 service and reclassified to plant for future use, the company
2 had definite plans to reuse this equipment.

3 Q. When it was put in plant held for future use,
4 was it left in rate base?

5 A. Yes, it was.

6 Q. Can you please explain any other examples of
7 plant held for future use presently in this account?

8 A. Any property that the equipment has a future use
9 is held for no longer than two years if the company has a
10 definite plan for its use. Otherwise, that plant would be
11 transferred to a non-operating plant account.

12 Q. Could you tell us at this point what the entire
13 balance is for the plant held for future use account?

14 A. As of today's date?

15 MR. KENNARD: Or what is claimed in this case?

16 MR. SHOSTAK: What is claimed in the case would be
17 good.

18 THE WITNESS: Do you want it on an intrastate or
19 total company basis?

20 BY MR. SHOSTAK:

21 Q. Both, please.

22 A. On a total company basis, average rate base,
23 \$504,104. On an intrastate basis, \$403,858.

24 Q. And for these amounts, can you characterize what
25 the nature of this plant is?

1 MR. KENNARD: I believe there is some discussion of
2 it in his testimony. Page 6, line 18.

3 JUDGE KASHI: Would you like to adopt counsel's
4 testimony, sir?

5 MR. KENNARD: He's looking at me like he's not sure.

6 JUDGE KASHI: Just remember, yours doesn't count.

7 MR. KENNARD: Well, --

8 JUDGE KASHI: I understand, but it doesn't count.

9 BY MR. SHOSTAK:

10 Q. Mr. Cawley, at the bottom of page 6 it indicates
11 that you're holding central office switching and
12 transmission equipment. I'm curious why you are holding
13 this equipment and not presently using it.

14 A. Well, what happened was that it was in service,
15 the property was replaced by new equipment, the company has
16 determined that we can utilize this equipment somewhere else
17 in our network as opposed to discarding it.

18 Q. Could you indicate what type of switches these
19 are?

20 A. No.

21 MR. SHOSTAK: Your Honor, at this time I would like
22 to have marked for identification as OCA Cross-Examination
23 Exhibit No. 15 the company's response to OCA Interrogatory
24 Set XII, No. 17. It concerns rate case expense.

25 JUDGE KASHI: So marked for purposes of

1 identification.

2 (Whereupon, the document was marked
3 as OCA Cross-Examination Exhibit No.
4 15 for identification.)

5 (Document distributed to parties and the witness.)

6 BY MR. SHOSTAK:

7 Q. Mr. Cawley, would I be correct that the company
8 has expensed \$350,000 for rate case expense in its cost of
9 service?

10 A. That is correct.

11 Q. Turning to the second page, it indicates that
12 for CTCo labor there is a charge of \$86,000; is that
13 correct?

14 A. That is correct.

15 Q. Could you tell me, has this expense for CTCo
16 labor been taken out of the wage expense that CTCo is also
17 claiming in its cost of service?

18 A. Could you ask that question again, please?

19 Q. You have indicated that there is a charge of
20 \$86,000 in the rate case for CTCo labor.

21 A. Okay. These costs applicable to CTCo are non-
22 incremental costs. The legal fees and the consultant fees
23 are incremental costs that are included in the test year.

24 Q. So then you have total test year expenses of
25 \$350,000 at the bottom, and would I be correct that the
actual amount that you are claiming for rate case expense is

1 only \$250,000?

2 A. Actually, if you look at all of these items, it
3 would be the \$150,000 for legal fees, the \$100,000 for
4 consultant, and there is an incremental cost of \$14,000 for
5 out-of-pocket expenses.

6 Those other two items that you see there for the
7 total CTCo labor, that is non-incremental cost.

8 Q. Have you added, under the total CTCo labor
9 column, the \$86,000, have you added that to your rate case
10 claim in this case?

11 A. No. Those are non-incremental costs.

12 Q. Mr. Cawley, you'll have to give us a minute.

13 Looking at your testimony now, on page 4 it indicates
14 that the costs associated with this proceeding, both
15 internal and external, are anticipated to be approximately
16 \$350,000. And now you are telling me that the actual
17 expense for the rate case is really only about \$264,000.

18 A. No. I am still saying that there are costs of
19 \$350,000 that are expensed in the future test year, but some
20 of it is not incremental cost.

21 JUDGE KASHI: Now you lost me. I was with you up
22 until that last statement. Stay with me. The legal fees
23 and the consultant costs total \$250,000.

24 THE WITNESS: That's correct. Let's look at Account
25 No. 6721. That number, that \$49,000, primarily relates to

1 both my time and other salaried employees that the cost is
2 going to be there regardless.

3 JUDGE KASHI: All right.

4 MR. KENNARD: Since your salary is already in the
5 wages and salaries of the company --

6 THE WITNESS: That's right.

7 MR. KENNARD: -- if you added it in again you would
8 double count it?

9 THE WITNESS: That's true.

10 MR. KENNARD: So all you added in was the \$264,000
11 difference?

12 THE WITNESS: That's correct.

13 MR. SHOSTAK: Your Honor, at this point I would like
14 to have marked as OCA Cross-Examination Exhibit No. 16 the
15 company's response to OCA Interrogatory Set VI, Question 10.

16 JUDGE KASHI: So marked for purposes of
17 identification.

18 MR. SHOSTAK: What this deals with is Commonwealth's
19 sale of offices at Lake Street to an affiliate, SRHC.

20 (Whereupon, the document was marked
21 as OCA Cross-Examination Exhibit No.
16 for identification.)

22 (Document distributed to parties and the witness.)

23 BY MR. SHOSTAK:

24 Q. Mr. Cawley, this indicates that in that sale to
25 an affiliate, that there was a loss of approximately

1 \$583,000 in book value in that sale. It also indicates in
2 response that it was primarily associated with a regulated
3 asset. Accordingly, this amount was charged against
4 accumulated depreciation and therefore had no impact on
5 results of operations.

6 Could you explain that further, please?

7 A. Well, according to regulated accounting, when
8 you retire an asset you would debit the reserve and credit
9 the asset, both of which are balance sheet items.

10 Q. Could you tell us how this sale affected your
11 depreciation reserve?

12 A. I can only answer that for the current period.

13 Q. I'm sorry?

14 A. I can only answer that for the current period.

15 Q. When this transaction occurred, what happened to
16 Commonwealth's depreciation reserve?

17 A. What I just said was that it was a debit to the
18 reserve and a credit to the asset. So the reserve would
19 have been reduced.

20 Q. Was the depreciation reserve reduced by the
21 entire original book value of the property sold?

22 A. The \$1,958,000?

23 Q. Yes.

24 A. No.

25 Q. Was it reduced by the \$1,375,000?

1 A. Okay, let me explain it. There are two pieces
2 to this. As is stated in the answer, the majority of this
3 amount was primarily associated with the regulated asset.
4 The amount that was associated with the regulated asset
5 would have been a debit to the reserve and a credit to the
6 asset. The property of 62 and 120 Lake Street is non-
7 regulated property, and that would be accounted for in
8 accordance with GAP.

9 Q. Would you please explain how those other two
10 properties would be handled?

11 A. On regulated property, there would be no book
12 gain or loss. On non-regulated property you would record
13 the gain or loss.

14 Q. Could you tell us what dollar amount
15 Commonwealth's reserve was reduced by from this transaction?

16 A. Not at this time I couldn't.

17 Q. Well, then, as an on-the-record data request
18 could we please have a book value of the regulated asset
19 included in this sale as well as the book value of the non-
20 regulated assets, and the amount of the sale for each one of
21 these assets, as well as the amount that the reserve was
22 reduced?

23 (Pause.)

24 Q. Is that clear?

25 A. Yes. I know exactly what you're asking for.

1 Q. I have another related question with the sale of
2 this building. At this point the company is renting this
3 property; is that correct?

4 A. That is correct.

5 Q. And the company is planning on moving into a new
6 building; is that also correct?

7 A. That is correct.

8 Q. What is the status on the move into the new
9 building?

10 A. It will not be completed by the end of 1993 or
11 the future test year.

12 Q. Has ground been broken?

13 A. No.

14 Q. There are still approvals that you are seeking?

15 A. I do not know where the approvals stand today.

16 Q. Do you have an estimate of when that new
17 building will be available to be moved into?

18 A. No, I do not.

19 Q. How has that new building been treated for the
20 purposes of rate base in this proceeding?

21 A. It has been included in the future test year
22 rate base.

23 Q. What is the average amount included in rate base
24 for this new building?

25 A. Subject to check, approximately \$1,025,000.

1 That is the average.

2 Q. Would there be other costs associated with that
3 building included in this proceeding?

4 A. It is included in the future test year.

5 Q. Yes?

6 A. Approximately \$17,000 for utilities.

7 Q. And depreciation?

8 A. And depreciation, yes.

9 Q. So the \$17,000 includes depreciation expense?

10 A. No. \$17,000 is strictly just utilities. I do
11 not know what the depreciation amount is.

12 Q. Do you know the amount for taxes?

13 A. Not at this time, I do not.

14 Q. I would like to make an on-the-record data
15 request for all costs associated, all expenses associated
16 with this new building included in the cost of service in
17 the future test year.

18 JUDGE KASHI: Mr. Cawley.

19 THE WITNESS: Yes. I believe we provided that in
20 Set XV.

21 JUDGE KASHI: Set XV?

22 THE WITNESS: Yes.

23 (Pause.)

24 MR. SHOSTAK: We are looking at Set XV. There is --

25 THE WITNESS: Question 6.

1 JUDGE KASHI: Does that give you your answer,
2 counsel?

3 MR. SHOSTAK: It has most of what we were interested
4 in, but it does not show the depreciation.

5 MR. KENNARD: Furthermore, it seems that it doesn't
6 have test year values, and that's really, I think, what
7 you're after.

8 JUDGE KASHI: Right. So you will still provide that?

9 MR. KENNARD: Pardon?

10 JUDGE KASHI: You will still provide it?

11 MR. KENNARD: Yes, the test year values so you can do
12 with it what you will.

13 MR. SHOSTAK: Norm, I'm unclear what you mean by test
14 year values. The witness did give us a number for the rate
15 base inclusion.

16 THE WITNESS: I will answer that. The response to
17 Set XV, Question 6, reflects total company. For example,
18 the capital, you need to apply regulated and an intrastate
19 factor to that and then come up with your average.

20 MR. SHOSTAK: Okay; we would like that.

21 MR. KENNARD: Can I ask one point of clarification
22 too? There is an average amount in rate base; correct?

23 THE WITNESS: Right.

24 MR. KENNARD: So the entire capital cost is not in
25 there?

1 THE WITNESS: They would take whatever the amount is
2 after the separation factors for the capital and just divide
3 it by two.

4 BY MR. SHOSTAK:

5 Q. Now, it is indicated in this response as well
6 that the company had planned to move into the building
7 September 1993. You have indicated in your testimony that
8 the company has made a known change -- that is on page 5 of
9 your May 3rd testimony -- that the company has made a known
10 change for annualizing the rent at 100 Lake Street.

11 Would you please explain that? It would appear to
12 one that the rent at Lake Street would be for 12 months
13 according to that statement.

14 A. I included the rent at the Lake Street property
15 for 12 months because we did not have -- although we
16 estimated the costs for the new facilities, the utilities
17 and the PURTA taxes, I have not included a full year's cost
18 for those types of costs for the new building. So although
19 you're saying I have 12 months of the Lake Street property
20 in my future test year, I do not have a full year of
21 expenses associated with that new building.

22 Q. How many months do you have associated with the
23 new building?

24 A. Well, if it's being occupied in September, I
25 would say four.

1 Q. I want to draw your attention to Set IX,
2 Question 53; that's OCA Set IX, Question 53. If you read
3 the response there it says that Commonwealth contributed
4 \$500 to the Arrowhead Lake property owners. Does this mean
5 that CTCo or Commonwealth is an Arrowhead Lake property
6 owner?

7 A. We have a central office or remote in that
8 development, and what we get for that \$500 is we get police,
9 we get fire protection, and we get snow removal.

10 MR. KENNARD: If you look at the response, counsel,
11 to Set IX, No. 54, that's what it says.

12 BY MR. SHOSTAK:

13 Q. So you are an Arrowhead Lakes property owner?

14 A. We have facilities there, yes.

15 Q. I would like to turn your attention to Set IX,
16 No. 17.

17 MR. KENNARD: Set IX, No. 17?

18 MR. SHOSTAK: Yes.

19 MR. KENNARD: I note that this is sponsored by
20 Mr. Laffey.

21 MR. SHOSTAK: Well, let me ask Mr. Cawley anyway.

22 BY MR. SHOSTAK:

23 Q. Do you know any reason why there has been a
24 significant drop in directory revenues?

25 A. No, I do not.

1 Q. Well, do you have any idea why?

2 A. I am not familiar with the details that are in
3 these numbers.

4 Q. Do you know if CTCo has shown directory revenues
5 above the line in this filing?

6 A. I can't answer that.

7 MR. KENNARD: If they have shown directory above the
8 line?

9 MR. SHOSTAK: Yes.

10 JUDGE KASHI: He said he can't answer it.

11 MR. KENNARD: And you don't want me to either, Judge.

12 JUDGE KASHI: That's right.

13 MR. SHOSTAK: Your Honor, I would like to have two
14 exhibits marked for identification. Those would be OCA
15 Cross-Examination Exhibit No. 17 and OCA Cross-Examination
16 Exhibit No. 18.

17 JUDGE KASHI: Which are?

18 MR. SHOSTAK: OCA Cross-Examination Exhibit No. 17 is
19 the company's response to OCA Interrogatory Set V, No. 3,
20 and OCA Cross-Examination Exhibit No. 18 is work papers
21 provided by the company in support of their supplemental
22 testimony.

23 JUDGE KASHI: So marked for purposes of
24 identification.

25

1 (Whereupon, the documents were marked
2 as OCA Cross-Examination Exhibits
3 Nos. 17 and 18 for identification.)

4 (Documents distributed to parties and the witness.)

5 BY MR. SHOSTAK:

6 Q. Mr. Cawley, both of these exhibits concern MIS
7 information services that Commonwealth receives from
8 Systematics. Would I be correct that Commonwealth used to
9 provide these services for itself?

10 A. Prior to Systematics that service was provided
11 by the C-TEC staff group.

12 Q. And prior to its provision by C-TEC?

13 A. It was provided by CT Company.

14 Q. And CTCo sold those services to C-TEC; would
15 that be correct?

16 A. That is incorrect.

17 Q. Did CTCo simply stop performing those services?
18 Was there any sale involved in that?

19 A. Between CTCo and C-TEC?

20 Q. Yes.

21 A. No.

22 Q. Well, I'm curious. I would assume that CTCo had
23 its own equipment for providing those services. What
24 happened when C-TEC then started providing those services
25 for CTCo?

A. The majority of that equipment was provided

1 under a lease with IBM.

2 Q. So there was a simply a transfer of the function
3 without a sale; would that be correct?

4 A. That's correct.

5 Q. Now, there is a contract that C-TEC has with
6 Systematics; is that correct?

7 A. That's correct.

8 Q. And that is a binding contract for all of
9 C-TEC's MIS services?

10 A. That is correct.

11 Q. Does that contract also bind Commonwealth?

12 MR. KENNARD: Legally? Legally, counsel?

13 THE WITNESS: That's the question, legally or --

14 MR. KENNARD: Is CTCo a part of that agreement?

15 BY MR. SHOSTAK:

16 Q. Is Commonwealth obligated to buy its MIS
17 services from Systematics under the agreement?

18 A. I believe the obligation is between C-TEC and
19 Systematics.

20 Q. Has Commonwealth ever gotten bids for MIS
21 services from any other vendors since the Systematics
22 agreement has been in place?

23 A. To the best of my knowledge, no.

24 Q. I would like to turn your attention to Exhibit
25 No. 18, OCA Cross-Examination Exhibit No. 18.

1 Do you have a copy of the Systematics agreement?

2 MR. KENNARD: I can provide him with one.

3 (Document handed to witness by Counsel Kennard.)

4 BY MR. SHOSTAK:

5 Q. If you could turn to Section C in that
6 agreement, that includes the charges and responsibilities in
7 C-TEC's agreement with Systematics.

8 A. That is Exhibit C?

9 Q. Yes.

10 (Pause.)

11 A. Okay.

12 Q. Would I be correct that included in the charges
13 from Systematics is roughly a \$290,000 a month charge for
14 Systematics' services?

15 A. Where are you getting the \$290,000?

16 Q. C-1.

17 A. Oh.

18 Q. Now, turning to the second page of the exhibit,
19 OCA Cross-Examination Exhibit No. 18, it indicates that
20 Systematics billing -- well, that Commonwealth paid about,
21 roughly, \$220,000 a month in 1992 for Systematics' services.

22 Could you tell us, please, how it was determined that
23 CTCo would pay \$220,000 of the \$290,000 monthly-based fee
24 for Systematics' services?

25 MR. KENNARD: There are interrogatory responses on

1 this topic.

2 MR. SHOSTAK: I'm asking the witness at this point.

3 JUDGE KASHI: Can you answer the question,
4 Mr. Cawley?

5 THE WITNESS: In one of my interrogatory responses I
6 responded that there are no work papers that support that
7 fee.

8 BY MR. SHOSTAK:

9 Q. So there has been no usage study whatsoever to
10 determine the percentage charge to Commonwealth Telephone
11 Company?

12 A. We took the May 1993 activity and we looked at
13 the development hours for both programming and client
14 services and compared that to the charge that the telephone
15 company receives from Systematics. That was approximately
16 78 percent. But we do not have any support for the 76
17 percent number for 1992.

18 The thing you have to understand, too, is that the
19 systems that are run with Systematics, both the development
20 and production system, they are primarily all telephone
21 company systems. The other affiliates, their primary
22 resource for Systematics is their financial statements,
23 their general ledger system.

24 Q. Would the charges from Systematics for billing
25 and collection be included in these amounts shown in OCA

1 Cross-Examination Exhibit No. 18?

2 A. I do not know that.

3 Q. Since you have put billing and collection below
4 the line, have you also removed the charges from Systematics
5 for that service?

6 MR. KENNARD: You would have to ask Mr. Laffey. He
7 was responsible for stripping out. I believe he did answer
8 that this morning.

9 JUDGE KASHI: Can you answer that, Mr. Cawley?

10 THE WITNESS: Through his separation factors he would
11 have removed that and moved it below the line.

12 BY MR. SHOSTAK:

13 Q. Moving down this page I come to -- we are
14 looking at '93 now, and there is a calculation to get to the
15 '93 charge, and it's bracketed, Systematics billing, it's
16 bracketed as 1, and it shows that there is an increase for
17 inflation, and I can identify where that is in the
18 agreement. Then it shows that there is a monthly increase
19 for usage of a little over \$8,000.

20 There is very specific language in the agreement
21 charges for base volumes and for increases in base volumes
22 and how those will be charged. There was an interrogatory
23 asking about this subject, and I would like you to respond
24 to that at this time, that question.

25 JUDGE KASHI: Which question?

1 BY MR. SHOSTAK:

2 Q. The question being: explain the usage charge of
3 \$8,000 a month.

4 A. Could you give me a reference to the
5 interrogatory?

6 (Pause.)

7 Q. While we're looking for that, let me address
8 another question on the same page.

9 It is indicated on bracketed inset 2 that there is an
10 inflation charge included in the total costs for
11 Systematics; is that correct?

12 A. That is correct.

13 Q. And this is indicated under the Corporate-Other
14 account -- well, it's under the "Other" category in the
15 Corporate Information Management account.

16 A. That is correct.

17 Q. Looking at your inflation adjustments for that
18 account, would I be correct that you have multiplied the
19 whole account by a 3.2 percentage inflation factor to get
20 your 1993 cost of service?

21 A. That is correct.

22 Q. But it does show here that there is an inflation
23 factor included in the "Other" category for inflation for
24 1993?

25 A. But if you reference from the footnote to where

1 it is referenced in (2), that \$73,000 is a subtraction from
2 the \$599,000. So I am removing that.

3 Q. Yes. Back to our first question on usage. It's
4 Set XV, the company's response to Set XV, No. 11.

5 (Pause.)

6 A. This question here is not dealing specifically
7 with the \$8,000.

8 Q. Well, let me ask you right now then: could you
9 explain where in the agreement that C-TEC has with
10 Systematics, where in the agreement this charge for
11 increased usage stems from?

12 A. Subject to check, that increase in usage is
13 associated with the company automating their cable records,
14 which was identified in the future test year.

15 Q. Okay. That's exactly what the response says
16 here.

17 MR. KENNARD: No. 10 is what he's looking for, Set
18 XV, No. 10.

19 BY MR. SHOSTAK:

20 Q. But looking at the agreement, I don't see any
21 usage volume increase charge for automating the company's
22 cable records.

23 A. Define "volume usage"

24 MR. KENNARD: Is that a question? You asked him to
25 identify it for you and you agreed with him.

1 MR. SHOSTAK: Yes.

2 JUDGE KASHI: It seems like a reasonable question.

3 THE WITNESS: I mean if your question is how does
4 this increase relate to volume usage, there is development
5 time and programming time associated with...

6 JUDGE KASHI: Where does the agreement say volume
7 usage? Where is that located in the agreement, if you know?

8 THE WITNESS: I do not know.

9 JUDGE KASHI: He doesn't know.

10 BY MR. SHOSTAK:

11 Q. Let me refer you to --

12 JUDGE KASHI: Let's see if maybe we can't get at it
13 some other way. Maybe we can have him provide us with a
14 data request that tells us exactly where it is in the
15 contract, unless you have something that you're going for,
16 counsel. Is there a bottom line to this, or do we really
17 want to know where it is in the contract?

18 MR. SHOSTAK: Well, we would do an on-the-record data
19 request. We asked these same questions during informal
20 discovery and we had thought that we would get responses,
21 and we haven't. We could save time and do it --

22 JUDGE KASHI: You've already asked them in your
23 interrogatories where it is in the contract and they haven't
24 provided it?

25 MR. SHOSTAK: We asked in very informal discovery --

1 MR. KENNARD: Judge, I have no record of being asked
2 that question by them, and I don't think the note they
3 passed me yesterday summarizing what is outstanding says
4 that either.

5 JUDGE KASHI: Can you provide it for us?

6 MR. KENNARD: I sure would, Judge. If they ask for
7 it, we'll provide it.

8 MR. SHOSTAK: Norm, Set XV. Question 10, does ask
9 that.

10 MR. KENNARD: No, it doesn't.

11 JUDGE KASHI: Gentlemen, before we argue about
12 whether it says it or not, the thing we're interested in is
13 the answer, and Mr. Kennard is going to provide us with the
14 answer, so let's move on.

15 MR. KENNARD: You want to know the source in the
16 Systematics agreement for the charge associated with the --

17 JUDGE KASHI: Volume usage.

18 MR. KENNARD: Well, associated with the --

19 JUDGE KASHI: I don't want your testimony.

20 MR. KENNARD: I'm not trying to testify. I'm just
21 trying to understand.

22 JUDGE KASHI: Okay.

23 You want to know where the rate is for Systematics to
24 charge for cable records upgrading?

25 MR. SHOSTAK: We want specific support for this

1 expense of \$8,000 a month for increased usage.

2 MR. KENNARD: You want to know how the number was
3 derived.

4 JUDGE KASHI: No. They want the authority for the
5 charge, for them to charge that number.

6 MR. SHOSTAK: We want the authority.

7 MR. KENNARD: That's what I thought. Thank you.

8 BY MR. SHOSTAK:

9 Q. Mr. Cawley, I would like to turn your attention
10 to the company's response to Interrogatory XV, No. 26. Here
11 we asked: please provide the annual level of right-to-use
12 fees for the most recent three years, and the response was
13 that the annual level of right-to-use fees for the three
14 most recent years is approximately \$887,000.

15 Q. Could we please have that number for each of the most
16 recent three years? That would be '92, '91 and '90.

17 (Pause.)

18 Q. Regarding payroll, would I be correct that there
19 is a 5 percent increase to union wages in your adjustment
20 for the cost of service for the future test year?

21 A. For union wages it is 6.5 percent.

22 Q. Included in cost of service for this --

23 A. The composite increase in payroll is 5 percent
24 throughout the company.

25 Q. Do you currently have an agreement to provide

1 that wage increase for union employees?

2 A. No.

3 Q. Could you tell us why you projected a 6.5
4 percent increase for those employees?

5 A. Because the company is currently under
6 negotiations to settle a union contract that has been in
7 arrears for approximately -- I don't know the exact number
8 of years, but --

9 Q. Could you tell us how long it has been since
10 you've had a union wage increase?

11 A. I don't know the exact year.

12 Q. Has it been a couple of years?

13 A. Subject to check, December of 1990.

14 Q. You also indicate in your testimony that
15 increases in benefits follow the 5 percent increase to
16 wages. Could you explain that?

17 A. I am speaking about payroll distribution, and
18 also as your salaries go up, your associated company income
19 taxes would also increase.

20 Q. Was there a 5 percent increase applied to
21 benefits?

22 A. Actually, if you looked at the future test year,
23 and as I explain in my testimony, there was an additional
24 contribution that was included in my future test year for
25 benefits.

1 Q. But was there also a 5 percent increase to
2 benefits expenses for each employee?

3 A. No.

4 MR. SHOSTAK: If we could have just one minute, we
5 may be done.

6 (Pause.)

7 JUDGE KASHI: Counsel.

8 BY MR. SHOSTAK:

9 Q. Just two more questions. Regarding the number
10 of employees used in this case for Commonwealth, as an on-
11 the-record data request, or if you know right now, could you
12 indicate the number of employees the company has used for
13 this cost --

14 (Pause.)

15 Q. We would like to know the number of total
16 employees for the company as a whole, that is C-TEC --

17 JUDGE KASHI: Total company.

18 MR. SHOSTAK: Total company.

19 MR. KENNARD: Wouldn't that be in the 3-factor
20 allocation formula work papers?

21 MR. SHOSTAK: Let me finish my first question. We
22 may be able to negate the second one.

23 BY MR. SHOSTAK:

24 Q. The number of employees used by Commonwealth for
25 its cost of service in the future test year.

1 (Pause.)

2 JUDGE KASHI: And your last question is, counsel?

3 MR. SHOSTAK: It's been taken care of. We have no
4 further questions.

5 JUDGE KASHI: Thank you.

6 Mr. Kennard, redirect, sir? A little BDA first?

7 MR. KENNARD: BDA?

8 JUDGE KASHI: Bomb damage assessment.

9 MR. KENNARD: Light, but we would like a break,
10 nevertheless.

11 JUDGE KASHI: Sure. Let's take a ten-minute recess.

12 (Recess.)

13 JUDGE KASHI: Back on the record.

14 MR. KENNARD: Your Honor, particularly given the
15 lateness of the hour, we are going to ask a limited line of
16 questioning on one topic, and that relates to the salaries.

17 JUDGE KASHI: Go ahead.

18 REDIRECT EXAMINATION

19 BY MR. KENNARD:

20 Q. Has your recollection been refreshed relative to
21 the date upon which the labor contract ceased?

22 A. Yes, it has.

23 Q. What is that date?

24 A. December of 1991.

25 Q. Has management of the company and the union been

1 in negotiations, or were they in negotiations subsequent to
2 that time?

3 A. Yes, they have.

4 Q. What was management's most recent offer to the
5 union relative to the level of salary increases for
6 unionized employees?

7 A. Six-and-a-half percent.

8 Q. Is that the figure you included in the test
9 year?

10 A. Yes, it is.

11 Q. What was the union's -- what is the name of the
12 union?

13 A. CWA.

14 Q. Communications Workers of America?

15 A. That's right.

16 Q. What is the CWA's most recent and last offer to
17 management relative to the level that it would settle at?

18 A. Twenty-nine percent.

19 Q. Twenty-seven percent?

20 A. I'm sorry; 27 percent.

21 MR. KENNARD: I have no further questions, Your
22 Honor.

23 JUDGE KASHI: Thank you very much, Mr. Kennard.
24 Anything on the 6.5 percent union contract?

25 MR. SHOSTAK: Yes.

1 RE-CROSS-EXAMINATION

2 BY MR. SHOSTAK:

3 Q. Is that an offer for an increase in this year,
4 6.5 percent, to the union? Wages would go up 6.5 percent?

5 A. Yes.

6 MR. SHOSTAK: That's it.

7 JUDGE KASHI: Thank you, sir. You're excused.

8 (Witness excused.)

9 JUDGE KASHI: That which has been marked as Company
10 Statements Nos. 3 and 3A, together with the exhibits
11 appended thereto, and the supplement which was added, are
12 received into the evidentiary record, without objection?

13 (No response.)

14 JUDGE KASHI: Without objection.

15 (Whereupon, the documents marked as
16 Commonwealth Statements Nos. 3 and
17 3A and Commonwealth Exhibits Nos.
DPC-1 through DPC-8 were received in
evidence.)18 JUDGE KASHI: That which have been marked and
19 identified as OCA Cross-Examination Exhibits beginning with
20 No. 6 through 18, minus 13, which will be supplied later,
21 and 5 and 14, which have already been admitted, are received
22 into the evidentiary record, without objection?23 MR. KENNARD: Judge, can I just pull them together
24 for a second?

25 JUDGE KASHI: Sure.

1 (Pause.)

2 JUDGE KASHI: We are looking at 6 through 18, with
3 those exceptions that we used; minus those.

4 MR. McCLELLAND: Your Honor, to clarify, we will copy
5 13 and offer it for admission at a later time.

6 Also, just to clean up, Your Honor, earlier you asked
7 us a question about are there any other interrogatories
8 outstanding, particularly with regard to motions to compel.
9 We will respond to that. I don't propose to do it now.

10 JUDGE KASHI: All right.

11 Mr. Kennard.

12 MR. KENNARD: No, Judge, the company has no
13 objection.

14 JUDGE KASHI: Without objection.

15 (Whereupon, the documents marked as
16 OCA Cross-Examination Exhibits Nos.
17 6 through 12 and 15 through 18 were
received in evidence.)

18 MR. KENNARD: We would note that OCA Cross Exhibit 6
19 is marked confidential.

20 JUDGE KASHI: Right.

21 MR. KENNARD: Thank you.

22 JUDGE KASHI: Thank you very much, gentlemen.

23 MR. KENNARD: Thank you, Judge.

24 MR. McCLELLAND: Thank you, Your Honor.

25 MR. SHOSTAK: Thank you, Your Honor.

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JUDGE KASHI: I'm sorry we had to start the weekend like this.

(Whereupon, at 7:20 p.m., the hearing was adjourned, to be reconvened at 10:00 a.m. on Thursday, August 19, 1993, in Harrisburg, Pennsylvania.)

C E R T I F I C A T E

I hereby certify, as the stenographic reporter, that the foregoing proceedings were taken stenographically by me, and thereafter reduced to typewriting by me or under my direction; and that this transcript is a true and accurate record to the best of my ability.

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Judith A. Valencik
