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COMMONWEALTH OF PENNSYLVANIA
PUBLIC UTILITY COMMISSION

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

**DOCUMENT
: FOLDER**

Hearings

Pages 1 through 179 Hearing Room No. 3
North Office Building
Harrisburg, Pennsylvania
Thursday, July 1, 1993

Met, pursuant to notice, at 9:35 a.m.

BEFORE:

GEORGE KASHI, Administrative Law Judge

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P R O C E E D I N G S

1
2 ADMINISTRATIVE LAW JUDGE GEORGE KASHI: This is the
3 time and place set for hearing in the matter of the
4 Pennsylvania Public Utility Commission versus Commonwealth
5 Telephone Company, which has been docketed to I-00920020.

6 Prior to starting this morning I would ask counsel:
7 are there any preliminary matters?

8 Mr. Kennard.

9 MR. KENNARD: No, Your Honor, not on behalf of
10 Commonwealth Telephone.

11 JUDGE KASHI: Mr. Keffer, any preliminary matters?

12 MR. KEFFER: Yes, Your Honor. It appears we do have
13 one preliminary matter relating to discovery.

14 In your order compelling responses dated June 17 you
15 didn't deal with AT&T Interrogatory 103, which asks for
16 three telephone directories. I only received the responses
17 based on your order this morning. The telephone directories
18 weren't there. I asked Mr. Kennard about it, and he said
19 that you didn't order that they be provided. He is right,
20 that number was not listed in the responses.

21 JUDGE KASHI: Is there a problem with providing them,
22 Mr. Kennard? I think it was an oversight on my part.

23 MR. KENNARD: My understanding --

24 JUDGE KASHI: Where are they going to get the phone
25 books? Don't you guys have about a zillion of them stacked

1 up?

2 MR. KENNARD: We'll just give them to AT&T instead of
3 giving them to all the parties, because they are voluminous.

4 JUDGE KASHI: It's not like you've got to reproduce
5 it.

6 MR. KENNARD: I understand that. My further
7 understanding though is that Mr. Keffer is just interested
8 in it for one limited single issue, which is CLD
9 advertising.

10 MR. KEFFER: That is one of my interests. That's
11 what I need it for for this hearing.

12 MR. KENNARD: If the other parties don't mind, if we
13 can just present it to AT&T instead of --

14 JUDGE KASHI: Is it all right if AT&T just gets the
15 telephone directories?

16 MS. PENNINGTON: That's fine with me, Your Honor.

17 MR. McCLELLAND: Yes. I think that would be
18 acceptable.

19 JUDGE KASHI: All right.

20 Ms. Pennington, anything preliminarily?

21 MS. MELILLO: Yes, Your Honor.

22 JUDGE KASHI: Ms. Melillo. Do we not have enough
23 room for counsel at the table?

24 MS. MELILLO: That's all right. I have another
25 hearing at 10:00 and Carol Pennington will be conducting the

1 cross-examination later on.

2 I just wanted to bring the Court up to date on a
3 discovery matter which Your Honor has alluded to earlier
4 this week. We did have some further discussions with the
5 company and were able to cancel the telephonic conference
6 which we had --

7 JUDGE KASHI: I took that to mean that the problems
8 were solved.

9 MS. MELILLO: We are still awaiting one piece of
10 information, Your Honor, which the company has indicated
11 they will provide by July 7 of next week. Other than that
12 we are all right at this point.

13 Thank you.

14 JUDGE KASHI: Okay.

15 Mr. McClelland.

16 MR. McCLELLAND: Your Honor, similarly, we have some
17 discovery problems, that is -- and if you will recall, you
18 have entered a few orders, I think about two, on producing
19 discovery. Some of that discovery we did receive yesterday.
20 We have not had a chance to take a look at it. We think
21 that not all of it was produced. We think there are other
22 sets that have not been produced at all.

23 Of course, this is the time set for cross-
24 examination, and as of yet we don't know what that discovery
25 will indicate once we do receive it. I don't know how

1 important it will be or how much we would need further
2 clarification of it. Nonetheless, I feel that it is
3 important for us to enter on the record here our wish to
4 reserve the right to question these witnesses at a later
5 time based on that discovery if it does require it.

6 JUDGE KASHI: Can you state for the record what that
7 discovery is so that we know what it is going to be relating
8 to?

9 MR. McCLELLAND: I haven't catalogued it all. I
10 think I can highlight a few features.

11 JUDGE KASHI: Sometime before the end of this
12 hearing, let us know.

13 MR. McCLELLAND: Okay. Let me try to go back and be
14 more comprehensive on what we are still missing.

15 JUDGE KASHI: Okay. Have the parties agreed on any
16 kind of order of witnesses this morning?

17 MR. KENNARD: The company previously distributed a
18 letter to the parties and have had conversations relative to
19 the order of witnesses. It will be Mr. Hanley.

20 JUDGE KASHI: Call your first witness then.

21 MR. McCLELLAND: Your Honor, if I might add just on
22 the order of witnesses, we are going to try to accommodate
23 the company today, and we've essentially selected three AUS
24 witnesses for today. I believe on the order that the letter
25 indicates Mr. Robinson, an appreciation witness, was second.

1 We may wish to delay him until third. I wanted to make that
2 known.

3 MR. KENNARD: The company's only concern in that
4 regard, Your Honor, is that --

5 JUDGE KASHI: Is that he be done today.

6 MR. KENNARD: Yes, sir.

7 MR. MELIA: The company would call to the stand Mr.
8 Frank Hanley.

9 Whereupon,

10 FRANK J. HANLEY

11 having been duly sworn, testified as follows:

12 JUDGE KASHI: Please be seated, sir.

13 DIRECT EXAMINATION

14 BY MR MELIA:

15 Q. Would you please state your full name and
16 business address for the record, please?

17 A. Frank J. Hanley. My business address is 155
18 Gaither Drive, Post Office Box 650, Moorestown, New Jersey,
19 08057.

20 Q. Mr. Hanley, do you have before you what has been
21 preliminarily identified as Commonwealth Telephone Company
22 Statement No. 7, captioned the Direct Testimony of Frank J.
23 Hanley, consisting of a cover page and 70 pages of questions
24 and answers?

25 A. Yes, I do.

1 MR. MELIA: Your Honor, at this point I would like to
2 mark for the record Commonwealth Telephone Company Statement
3 No. 7.

4 JUDGE KASHI: So marked for purposes of
5 identification.

6 (Whereupon, the document was marked
7 as Commonwealth Statement No. 7 for
8 identification.)

9 BY MR MELIA:

10 Q. Mr. Hanley, was this direct testimony prepared
11 by you or under your direction?

12 A. Yes.

13 Q. Do you have any changes or corrections to make
14 to your direct testimony at this time?

15 A. I do, yes. This will be on four different
16 locations, the first being at page 14, lines 7 and 8.
17 Beginning with, on line 7, the comma after the word "base"
18 through the comma on line 8 after the word "traded" should
19 be struck. It just doesn't belong there.

20 Also, on line 10 of the same page, the word "both" is
21 incorrect. It just doesn't belong there. In its place
22 should be "the."

23 The next corrections are at page 17 on line 11. The
24 word "included" is incorrect and should read "excluded."

25 The next correction is on page 18 at line 3. After
the word "rate" the following should be inserted; it was

1 inadvertently omitted: comma, "prior to my adjustment of
2 0.20 percent to recognize management efficiency," comma.
3 That ends the insertion and it would continue on as
4 submitted.

5 The last correction to Statement 7 is at page 53 on
6 line 26. After the word "mean" there was an admission and
7 the following should be inserted: "of the two returns, plus
8 30 and minus 10 percent, is also 10 percent. The geometric
9 mean" -- and that's the end of the insertion and it
10 continues on as submitted.

11 That completes the corrections to Statement No. 7.

12 Q. Having made those changes, Mr. Hanley, if I were
13 to ask you those same questions contained in your direct
14 testimony, would your answers be the same as indicated?

15 A. Yes.

16 Q. And is the information contained within Company
17 Statement No. 7 true and correct to the best of your
18 knowledge?

19 A. Yes.

20 Q. Do you also have before you what has been
21 designated preliminarily as Exhibit No. FJH-1 and what we
22 propose to designate for purposes of this proceeding as
23 Company Exhibit No. 1, an exhibit consisting of some 20
24 separate schedules?

25 A. Yes.

1 MR. MELIA: Your Honor, I would like to mark for the
2 record at this time Company Exhibit No. 1, which is the
3 exhibit of Mr. Hanley.

4 JUDGE KASHI: So marked for purposes of
5 identification.

6 (Whereupon, the document was marked
7 as Commonwealth Exhibit No. FJH-1
for identification.)

8 BY MR MELIA:

9 Q. Was this exhibit prepared by you or under your
10 direction?

11 A. Yes.

12 Q. Do you have any changes or corrections to make
13 to this exhibit?

14 A. Yes, I do. The first being at Schedule 6, page
15 1. In note (2), the first line, after the word "rate" the
16 following should be inserted: comma, "prior to adjustment
17 of 0.20 percent to recognize management efficiency," and
18 that would complete the insertion.

19 The next correction is at Schedule 8, page 1, in the
20 heading. It's a typographical error. It reads, at the
21 bottom of the heading, "for the Years 1987-1992." It should
22 read "-1991."

23 Next is at Schedule 16, page 6. The last word in the
24 heading at the top of the page where it says "Per Share by
25 Company" should be "by Group." "Company" should be stricken

1 and the word "Group" should be substituted.

2 Next is at Schedule 17, page 6. The heading at the
3 top of the page ends with the words "by Company." "Company"
4 should be stricken and it should read "Group."

5 Schedule 18, page 1, there was an omission of a note.
6 After note (3) insert the following at the bottom of the
7 page: "(4)" and after that it should read, "From page 6 of
8 Schedule 18."

9 The final one is simply -- and Mr. Melia, you have
10 copies to distribute -- Schedule 20, page 5. I won't call
11 this a revision; it is a correction. Page 5 is just not the
12 correct page 5 of Schedule 20, and Mr. Melia is now
13 distributing the sheet that should be substituted in its
14 stead.

15 (Document distributed to all parties.)

16 Q. Having made those changes to Company Exhibit No.
17 1, is the information contained within true and correct to
18 the best of your knowledge?

19 A. Yes.

20 MR. MELIA: Your Honor, copies of both the testimony
21 and the exhibits of Mr. Hanley have been distributed to the
22 court reporter.

23 At this time I would move for the admission of
24 Company Statement No. 7, the direct testimony of Mr. Hanley,
25 and the associated Company Exhibit No. 1, and we would make

1 the witness available for cross-examination.

2 JUDGE KASHI: Subject to timely motions and/or
3 objections pending cross-examination, that which has been
4 identified as Company Statement No. 7 and Company Exhibit
5 No. 1 will be received into the evidentiary record.

6 Ms. Pennington.

7 MR. MELIA: Your Honor, I would like to make one
8 correction before we start cross-examination. I have been
9 informed that the caption we would like to use for the
10 exhibits in this proceeding would be the caption that
11 appears on the exhibit, which is FJH-1.

12 JUDGE KASHI: Here I thought you were just being
13 really nice and trying to make it easy.

14 MR. MELIA: Well, I was, but --

15 JUDGE KASHI: All right. It's going to be Company
16 Statement FJH-7, is that it?

17 MR. MELIA: Company Statement No. 7 and Exhibit FJH-1
18 consisting of 20 schedules.

19 JUDGE KASHI: All right.

20 Ms. Pennington.

21 MS. PENNINGTON: Thank you, Your Honor.

22 CROSS-EXAMINATION

23 BY MS. PENNINGTON:

24 Q. Good morning, Mr. Hanley.

25 A. Good morning.

1 Q. To get started, Mr. Hanley, in this case you
2 have recommended a hypothetical capital structure of 40.33
3 percent long-term debt, 4.85 percent preferred stock and
4 54.82 percent common equity; isn't that true?

5 A. Yes.

6 Q. And your recommended cost of common equity is 14
7 percent in this case, is it not?

8 A. It is.

9 Q. Commonwealth's actual common equity ratio is
10 39.1 percent, is it not?

11 A. I will accept that. I know it is 39 point
12 something, so I will accept that subject to check.

13 Q. If the Commission were to use Commonwealth's
14 capital structure with a common equity ratio of 39 percent,
15 approximately 39 percent, would you request -- well, first
16 of all, you have characterized this 39 percent common equity
17 ratio, which is the actual common equity ratio, as being too
18 low for ratemaking purposes, have you not?

19 A. Yes.

20 Q. If the Commission were to use the actual common
21 equity ratio of 39 percent, would you request an upward
22 adjustment in the cost of equity to compensate for that?

23 A. Yes. In fact, I have shown that and suggested
24 the same in Statement 7, and it is laid out at Schedule 6,
25 page 1, of Exhibit FJH-1. Also, expected at year-end 1993,

1 I accepted the 39.1 subject to check. I don't know what
2 your point of reference was, but it's expected to be 39.56
3 percent at the end of calendar 1993.

4 Q. I believe the reference for that is your
5 exhibit, Schedule 6, page 1 of 4.

6 A. Yes, ma'am.

7 Q. Suppose, for example, that the common equity
8 ratio that was used was not the 39.1 but was higher, 65
9 percent common equity ratio, for example, would you -- you
10 just indicated if it would be 39 percent you would recommend
11 an upward adjustment to the cost of equity. If it were
12 higher, say 65 percent, would you recommend a downward
13 adjustment to the cost of equity?

14 A. Yes, I would. And if you don't mind my little
15 light, added comment, I can't imagine the Commission would
16 do that. But, yes.

17 Q. Just hypothetical.

18 In your experience as a rate of return witness, have
19 you ever adjusted an equity return recommendation because of
20 common equity ratios that departed from the industry norm?

21 A. Yes.

22 Q. You've submitted testimony in the National Fuel
23 Gas Distribution rate case at Docket No. R-00932548. This
24 is currently being litigated.

25 A. Correct.

1 Q. In that case NFGD, National Fuel Gas
2 Distribution, has a 52.9 percent common equity ratio, does
3 it not?

4 A. I will accept that. I certainly don't memorize
5 these things but it sounds reasonably correct.

6 Q. In that case you have recommended a cost of
7 common equity of 12.4 percent, have you not?

8 A. That's right.

9 Q. Mr. Hanley, here we have a slightly higher
10 common equity ratio with Commonwealth than we have in NFGD
11 yet you have recommended a higher cost of equity of 14
12 percent. How do you account for the difference between your
13 14 percent recommendation for Commonwealth versus the 12.4
14 percent that you have recommended for NFGD, especially with
15 that higher equity ratio?

16 A. That's easy, because there really is no such
17 thing as a generic rate of return. You have to take into
18 account the industry that it is in. This is the
19 telecommunications industry, not the natural gas industry.
20 And two, you have to find companies that reasonably
21 approximate, you can never find the perfect proxy, but the
22 company being regulated. So there is no such thing as a
23 generic return that applies universally across an industry
24 much less transcends and applies to other industries.

25 MS. PENNINGTON: Just one moment, please.

1 (Pause.)

2 BY MS. PENNINGTON:

3 Q. Then is it your opinion that the telephone
4 industry would be riskier than the gas industry, the gas
5 utility?

6 A. In terms of competition or change -- and keep in
7 mind we are talking about a local -- National Fuel is an
8 LDC, a local gas distribution company. It is in the process
9 of -- not just it but I mean LDCs, I believe, are going to
10 be becoming more risky. To what extent, the market, in my
11 opinion, clearly hasn't been able to digest or assimilate
12 the impact of Order 636, FERC's order, simply because there
13 is nothing to assimilate, there's no experience.

14 There is and has been a tremendous degree of
15 competition in the telecommunications industry, and I think
16 the -- and there has been increasing competition in the gas
17 industry; I don't mean to imply there hasn't. But on a
18 relative basis I think that investors are much more
19 cognizant, get much more press every day of all the interest
20 and cross-interests of bypass, cellular, the implications of
21 what kind of competition there is going to be between
22 telephone companies and cable for, you know, people are
23 eventually going to pay bills and whatnot right from their
24 home either through their TV or what-have-you. So there is
25 a lot of difference I think at this point in time that is

1 reflected in the market.

2 Q. How do those two industries, the gas industry
3 and the telephone industry, compare in terms of investment
4 risk? Which would be riskier?

5 A. Of investment risk?

6 Q. Yes. Total investment risk.

7 A. When we are talking principally I think about
8 LDCs, if you think in terms of total investment risk
9 representing both systematic and unsystematic risk, clearly
10 the telecommunications companies, generically speaking, have
11 higher betas and are subject to greater systematic risk.

12 As far as the diversifiable unsystematic risk, I
13 think, with the exception of the pipeline industry for gas
14 pipelines -- and I think they will change as well -- if you
15 were to look at the bond rating criteria, it is pretty tough
16 for telephones in terms of limitations on debt employed,
17 pre-tax interest coverage and so on. So I would have to say
18 probably at this moment, all else equal, considering both
19 systematic and unsystematic risk, the telephone company
20 compared to LDCs would be the more investment risky.

21 Q. However, in your testimony, if you look on pages
22 10 and 11, there on 11 you define total investment risk, I
23 believe, as the sum of business and financial risk, do you
24 not? You don't refer to systematic risk or non-systematic.

25 A. Well, that's true but it is implicit in there

1 because the systematic risk is that which you can't
2 diversify away. Everybody is going to be exposed to that.
3 The diversifiable risk is the sum of business and financial
4 risk.

5 Q. In terms of the definition which you have on
6 page 11, investment risk being the sum and business and
7 financial risk, which business would be more risky, the LDCs
8 or the telephone company?

9 A. I would still have to say the telephone company
10 even on that basis. Certainly at this point in time -- and
11 I'm not a crystal ball about the future -- there are
12 implications that the market hasn't even been able to digest
13 yet.

14 MS. PENNINGTON: Just one moment.

15 (Pause.)

16 BY MS. PENNINGTON:

17 Q. If you refer to your Schedule 4, page 3, you
18 have some bond ratings on this Schedule 4, page 3 of 3.
19 Tell me, would you expect that -- and this is also on
20 Schedule 5, page 3 of 3. Are these bond ratings here for
21 telephone companies higher than the bond ratings you have
22 for the LDCs?

23 A. I can't answer that. I don't know.

24 Q. Did you use bond ratings for comparison --

25 A. I didn't use bond ratings as a criteria for

1 selection here in this instance. The universe of telephone
2 companies with stocks that are actively traded and
3 meaningful information available is a whole lot less than
4 for the natural gas industry, so that the pickings are much
5 smaller. And if we limit it to bond ratings, I'm not so
6 sure that that would have been, in this instance, a totally
7 valid way to approach it anyway simply because Commonwealth
8 Telephone is very unique.

9 In my opinion, one thing that speaks very well of
10 management efficiency, because all of its outstanding long-
11 term debt is basically the lowest cost debt that was
12 possible to obtain. Instead of going out through normal
13 means, selling to institutional investors, it got REA money,
14 RTB money and Federal Financing Bank money. I don't know of
15 another single operating telephone company whose common
16 stock is actively traded that I can get information for that
17 is like that. That's why the embedded costs of its fixed
18 capital are so low compared to other companies.

19 Q. Which has the highest average bond rating,
20 telephones or LDCs, on average?

21 A. I have not made a study of the industry. I
22 don't know.

23 Q. You didn't make a study then of the bond ratings
24 for Natural Gas Distribution --

25 A. Your question was very generic. It implied one

1 industry versus another, and I have made no such study.

2 Q. Did you look at the bond ratings for your
3 barometer group in the National Fuel Gas Distribution case
4 you are currently involved in?

5 A. Yes.

6 Q. Is that average bond rating that you looked at
7 for that case lower than the bond rating in this case?

8 A. You asked me that question already and I said I
9 don't know because I don't remember what it is. If I knew I
10 was going to be cross-examined on National Fuel, I would
11 have brought it with me.

12 Q. On page 10 of your testimony, Mr. Hanley, line
13 4, you stated here that "The bond rating process captures
14 all elements of business and financial risk." Do you have
15 that?

16 A. I see it.

17 Q. And then again, of course, I think you stated
18 earlier that on page 11 you said that investment risk is the
19 sum of business and financial risk. Obviously, I can assume
20 then that you believe both of these statements to be true,
21 to be accurate?

22 A. To the extent I have clarified, qualified,
23 indicated that systematic risk is also a significant part of
24 the risk to a common stock investor, yes. Systematic not
25 being diversifiable.

1 Q. Mr. Hanley, would I be correct that you believe
2 that if you had two telephone utility companies with the
3 same bond rating, that the two firms would have essentially
4 equal investment risk?

5 A. Essential and key to your question is telephone
6 companies, but to clarify on two points. One, systematic
7 risk may very well be significantly different, and moreover,
8 as I say also at the bottom of page 10, beginning at line 26
9 of my testimony, "It is clear that S&P's analysis is credit
10 oriented." Then I go on at the top of page 11 to say "there
11 is no perfect single proxy such as bond rating," et cetera,
12 "by which one can identify identical risk levels," and it
13 goes on. So that is true not only within an industry but it
14 is even more true when you try and cross and make
15 relationships to other industries.

16 Q. Now, if we crossed over to the electric utility
17 industry, would two electric utilities with the same bond
18 rating have essentially equal investment risk?

19 MR. MELIA: Your Honor, I'm going to object at this
20 point on the basis of relevance. I don't believe Mr. Hanley
21 has done the requisite studies and examinations either of
22 the gas industry or the electric industry at this point to
23 really permit him to respond to this series of questions.

24 JUDGE KASHI: If he can't respond to the questions he
25 can tell us he can't respond. I will overrule the

1 objection.

2 THE WITNESS: Can I ask you to repeat the question,
3 please?

4 BY MS. PENNINGTON:

5 Q. I believe you said something about this would
6 spread across to other industries --

7 A. No. What I said was it's even less meaningful
8 when you try to make the relationship going across from one
9 industry to another.

10 Q. Do you think that if two electric utilities had
11 essentially the same bond rating, that they would have
12 essentially the same or equal investment risk?

13 A. In broad dimensions, yes, but it is most
14 meaningful, as I say, in terms of credit rating. There is
15 no perfect single proxy for common stock risk.

16 Q. Mr. Hanley, if you were analyzing two like
17 utilities rated BBB and the first utility had recently cut
18 its dividend but with the second utility there was no
19 indication that there was going to be a dividend cut, which
20 of these two companies would be the riskiest?

21 MR. MELIA: Your Honor, objection. Could she at
22 least define the utility industry on which she is posing the
23 question?

24 MS. PENNINGTON: Two like utilities, or two telephone
25 utilities.

1 THE WITNESS: First of all, if one was a dividend
2 cutter I wouldn't use it in a proxy group. I would
3 eliminate a dividend cutter. You know, bond ratings don't
4 change instantaneously, they change based on a sense of
5 direction, because lots of times some of the individual
6 parameters aren't met at given points in time. The rating
7 financial benchmarks, for instance. A rating often doesn't
8 change simply because if there is reason to believe that
9 it's going to improve based on a responsive regulatory
10 climate, good management that is going to do its duty and so
11 forth, to restore things, do whatever it takes.

12 But clearly the market would react, so you have a
13 timing difference. So I don't think the kind of analogy in
14 that kind of instance -- that the risk is identical.
15 Clearly, it wouldn't be. You've got a lag, just like you've
16 got regulatory lag. You could be under-earning. That
17 doesn't mean that it is a bad commission. The process takes
18 time. The bond rating process takes time, too, until it
19 gets restored.

20 BY MS. PENNINGTON:

21 Q. What effect does a cut in a dividend for a
22 utility -- for instance, if you want to narrow it to
23 telephone utilities, that's fine. What effect would the cut
24 in a dividend for a utility have on the bond rating of the
25 utility?

1 A. I don't know. I can't answer that in a vacuum
2 because a bond rating is a pervasive kind of process. There
3 are lots and lots of inputs that go into a bond rating and
4 the basis of the committee that finally decides and assigns
5 the bond rating. I cannot possibly answer that based on one
6 action in a vacuum. I don't know.

7 JUDGE KASHI: All other things being equal, what
8 would the effect be?

9 THE WITNESS: All other things being equal, very
10 likely, I suspect, there would not be any immediate reaction
11 on the bond rating. Over time, I don't know, it depends on
12 why the dividend was cut, how long it is likely to remain
13 cut, what the prospects are for the earnings or whatever the
14 reason for the cut in the dividend was is going to be
15 remedied.

16 BY MS. PENNINGTON:

17 Q. Would there be a tendency for the bond rating to
18 go up with a dividend cut?

19 A. It is quite possible. It depends on why the
20 dividend was cut. If the dividend was cut because there is
21 no long-range prospect for better earnings and they cannot
22 sustain that level of dividend, and if they reduce the
23 dividend which is going to improve the equity cushion
24 underlying the debt, the rating being credit-oriented, it
25 conceivably could. But that is purely hypothesis. You

1 didn't even present that as a hypothesis so it is difficult
2 to say.

3 Q. Changing the subject, how many risk premium
4 methods did you use in the determination of your cost of
5 equity recommendation?

6 A. Well, I guess if we were working on a computer
7 now I would ask you whether we are in Windows. Are we
8 talking about the parent window or the child window? When
9 you say risk premium applications are you talking about
10 within my application of the risk premium model, or is there
11 some other connotation to the question?

12 Q. In your testimony here. I just wanted to know
13 in your testimony, how many risk premium methods did you
14 use?

15 A. I used two approaches to the determination of
16 the result within my risk premium model.

17 Q. Which two approaches did you use?

18 A. Well, let's go to -- Schedule 18, page 6, is
19 probably the best place to look. One approach was the beta
20 approach, and the other approach was based on holding period
21 returns.

22 Q. Holding period?

23 A. Returns.

24 Q. You had more than two studies in your testimony,
25 didn't you?

1 A. Yes. I understood the question to be how many
2 approaches did I use, not studies.

3 Q. Okay. Well, changing the question --

4 JUDGE KASHI: Wait, I didn't understand. She had
5 asked initially how many risk premium applications you had
6 used, and you changed it to you used two different
7 approaches.

8 THE WITNESS: Well, all right, approaches,
9 applications. I used two different applications to come up
10 with my judgment of what the equity risk premium should be.
11 Those two basic approaches are summarized on Schedule 18,
12 page 6.

13 BY MS. PENNINGTON:

14 Q. Still on Schedule 18, on Schedule 18, page 10.
15 Can you tell me what is on this schedule and how did the
16 studies on this schedule affect your judgment in this case?

17 A. Well, I explained that it didn't affect my
18 judgment. I simply used those studies as a check, and I
19 modified the results; that was the DCF oriented approach to
20 the determination of a risk premium, which I wanted to avoid
21 the circularity of having a DCF based calculation to get the
22 equity risk premium. So I used that only as a check.

23 Q. Is the CAPM a risk premium model?

24 A. I'm sorry; I didn't hear you.

25 Q. Is the CAPM a risk premium model?

1 A. It is in a broad sense. Many people refer to it
2 as that. I wouldn't take exception to it as being
3 characterized as that, but I do point out in my testimony
4 the significant difference between the two, which
5 principally relies on it being based on, if you will, the
6 specific bond yield, that is the risk premium approach, and
7 the other, the CAPM, not capturing nearly as much of the
8 diversifiable unsystematic risk simply because it is
9 centered around a risk-free rate, which is typically a yield
10 on a U.S. government security.

11 Q. How many different DCF methods did you use in
12 coming up with your cost of equity recommendation?

13 A. Well, I wouldn't really call it methods. What I
14 did was -- there is really basically one DCF method, but
15 what I did was tried three different variants, if you will,
16 in determining the growth rate, and of course that had
17 implications on the adjustment of the yield. That's the way
18 I would characterize it rather than different methods.

19 MS. PENNINGTON: Just one second, please.

20 (Pause.)

21 BY MS. PENNINGTON:

22 Q. Could you please refer to Schedule 18, page 6?
23 You have two methods there. Concerning line number 1, the
24 calculated equity risk premium based on the total market
25 using the beta approach, how did you get the historical cost

1 of equity determinations that were used in performing the
2 calculations in line number 1, what method?

3 A. These are, as indicated on page 7, which is the
4 next page, are the arithmetic mean total determinants on the
5 Standard & Poor's 500 Composite Index over the period 1926-
6 1992 from the Ibbotson Associates publication.

7 Q. Can you tell me what goes into determining the
8 S&P 500 Composite Index?

9 A. Basically, it is a result of the year-to-year
10 changes in appreciation, in dividends and appreciation, on a
11 year-to-year basis, and it's the arithmetic mean of those
12 for the whole index.

13 Q. It is the appreciation of what, of dividends or
14 what?

15 A. The value of the stock, whatever caused it.

16 Q. Mr. Hanley, I would like to make a data request
17 now, an on-the-record data request, for the specific formula
18 which went into determining those returns, those S&P
19 Composite Index returns. Can you supply that to me, please?

20 A. Yes.

21 Q. Also, if we could go back to Schedule 18, page
22 6, line number 2. Line number 2 is the mean equity risk
23 premium based on two studies using holding period returns of
24 public utilities. Can you tell me how those holding period
25 returns were determined?

1 A. Well, yes. If you will look at Schedule 18,
2 page 8, note (3).

3 Q. Yes.

4 A. Based upon income; dividends and interest, plus
5 the relative change in market value of a security over a
6 one-year holding period.

7 Q. Do you know if that is the same methodology that
8 is used in calculating the S&P 500 Composite Index return?

9 A. I believe it to be, but we will see in response
10 to your request. I believe it to be, yes.

11 Q. We may want to eliminate some questions.

12 A. I'm sorry; I didn't hear you.

13 Q. We may want to eliminate some questions, if
14 you'll just give me a minute.

15 (Pause.)

16 BY MS. PENNINGTON:

17 Q. Mr. Hanley, I would like to refer you to
18 Schedule 20, page 5 of 5 (Corrected), that was just handed
19 out today.

20 A. Okay.

21 Q. I would like you to look at footnote (1). It
22 says there, "The Non-Utility Proxy Group was selected based
23 upon an unadjusted beta range of 0.67 - 1.39 residual
24 standard deviation range of 3.1878 - 4.1536." Could you
25 please explain how that unadjusted beta range of 0.67 - 1.39

1 was determined?

2 A. Yes. I think the easiest way is to get into the
3 testimony here. A picture is worth a thousand words.

4 Q. Maybe I should clarify that, Mr. Hanley. How
5 did you come up with that range for the unadjusted beta?

6 A. Well, it was based upon the determination of
7 trying to get -- the idea was to get enough companies to be
8 meaningful and capture most of "the supposed universe," so I
9 made the decision -- subjective judgment was we would go
10 plus or minus three standard deviations. And by simply
11 calculating what that was, that range, it just so happens
12 that it is roughly -- and I would carry it to actually more
13 decimal places than that -- about 36 basis points from the
14 actual figures. That widened the range to 0.67 to roughly
15 1.39.

16 Q. When we are doing a standard deviation under a
17 normal curve, we would consider say 100 percent to be the
18 total universe of all companies. When you are going plus or
19 minus three standard deviations from the mean, what
20 percentage of that total universe of 100 percent of all
21 companies are included --

22 A. About 99 percent.

23 Q. About 99 percent?

24 A. Yes.

25 Q. Tell me, Mr. Hanley, did you use the exact same

1 process in National Fuel Gas Distribution Company as the
2 method that you have shown here on Schedule 20, page 5?

3 A. Yes.

4 Q. Did you come up with a different range of betas
5 in that case?

6 A. Yes, because the beginning points were obviously
7 different.

8 MS. PENNINGTON: Mr. Hanley, thank you.

9 That's all the questions I have, Your Honor.

10 JUDGE KASHI: Thank you, Ms. Pennington.

11 Mr. McClelland.

12 MR. McCLELLAND: Yes, Your Honor, we will have some
13 cross. Mr. Shostak will provide that for us.

14 JUDGE KASHI: Very well. Mr. Shostak.

15 CROSS-EXAMINATION

16 BY MR. SHOSTAK:

17 Q. Good morning, Mr. Hanley.

18 A. Good morning.

19 Q. Our first question concerns discovery. We are
20 interested in updates to the actuals regarding capital
21 structure, long-term debt, short-term debt.

22 A. I think I indicated in responses to -- this is
23 your Set XI -- to, specifically, Items 5, 13, 14, 15, 16 and
24 18, that we would be providing updates subsequently. I do
25 have those with me and believe that we are prepared to

1 distribute those.

2 Q. Good. Thank you.

3 And those are updated for 1992?

4 A. Yes, sir; that's correct.

5 Q. Mr. Hanley, in your cost of capital
6 recommendation for C-TEC -- excuse me; for CTCo,
7 Commonwealth -- at page 3, lines 15 to 18, you note that the
8 capital structure of CTCo on a long-term stand-alone basis
9 is inappropriate since "it is not consistent with the
10 capital structure required by investors given the constantly
11 increasing business risk" of local exchange companies; is
12 that correct?

13 A. Yes, sir.

14 Q. Now, at page 12, lines 9 to 11, you acknowledge
15 that owing to the unregulated status of many of C-TEC's
16 activities, that C-TEC is exposed to a greater degree of
17 business risk; is that correct?

18 A. Page 12; what was the line number?

19 Q. Lines 9 to 11. I'm sorry.

20 A. Yes.

21 Q. Will you agree that despite the greater business
22 risk of C-TEC, that it was able to operate with a common
23 equity ratio of 13.6 percent as of the end of 1991?

24 A. Well, that is true, but if one is to draw an
25 inference from my answer in terms of meaningfulness,

1 obviously, it is asked in the context of this hearing for
2 Commonwealth Telephone. Unregulated companies like that, of
3 course, don't have the obligation to serve that an operating
4 utility does and it makes a whole difference in the world.
5 Not to mention the cost of funds.

6 Q. Mr. Hanley, can we presume that a lot of the
7 telecommunications services industries or unregulated
8 operations, such as telemarketing, software development,
9 paging and cellular, can we presume that they are riskier
10 than local exchange services?

11 A. Yes, but the gap seems to be narrowing, although
12 I don't know that it will ever catch up. It is certainly a
13 lot less than it used to be.

14 Q. Now, you are employing a hypothetical capital
15 structure which consists of 40.33 percent long-term debt,
16 4.85 percent preferred stock, and 54.82 percent common
17 equity; is that correct?

18 A. Yes, sir.

19 Q. And you note at page 13, lines 20 to 24, that
20 common equity ratios of C-TEC and CTCo are 13.6 percent and
21 39.1 percent, respectively; is that correct?

22 A. Yes.

23 Q. Is it your opinion that these capital structures
24 which serve as the basis for CTCo to attract capital are of
25 no consequence in this proceeding?

1 A. I want to just make sure; you're using acronyms
2 that I find difficult to use. Your acronym you're using,
3 you're talking about Commonwealth Telephone --

4 Q. Yes.

5 A. -- for CTCO. Okay. I want to make sure I hear
6 right.

7 I think clearly they are relevant. If they weren't
8 relevant I wouldn't have addressed them. The question is:
9 taking notice of that, what is a proper regulatory
10 viewpoint? In my viewpoint, if there is to be an
11 evenhandedness in this thing, one can say, and I think it's
12 right, management has a right to have any capital structure
13 basically that it wants. From a regulatory viewpoint,
14 however, if equity is too thick, equity ratio is too high,
15 let's say, as Ms. Pennington suggested at one point, if it
16 were 65 or 85 percent, whatever the number was, I think it
17 is safe to say that the OCA and the Trial Staff and probably
18 ultimately the Commission wouldn't like that and would say,
19 "Wait a minute, you guys, it's too equity rich. And all
20 else equal, if you want to keep it that way, that's fine,
21 but we want to impute a hypothetical."

22 Now, it seems to me that evenhandedness, because
23 that's what justice is supposed to be about, includes a
24 little wisdom. So it works both ways; that if it is lower
25 than it ought to be and the rest of the industry as well,

1 they're going to look and say how really should it be
2 financed, and that is what I have tried to do.

3 Q. Would you agree that CTCo would actually over-
4 earn your recommended rate of return if rates are set based
5 on your hypothetical capital structure rather than CTCo's
6 actual capital structure?

7 A. No, not at all. I haven't tried to do any kind
8 of calculations in dollars, but I think it is proper based
9 on this capital structure which relates to the proxy group
10 from whence both the capital structure and the cost rates
11 were derived. So if that were what is applicable and if
12 you're saying make the transition to the actual equity
13 ratio, that that lower actual equity ratio would require a
14 higher common equity cost rate in recognition of --

15 Q. Mr. Hanley, I'm sorry; I believe you're getting
16 off the point of the question.

17 A. I'm sorry. Obviously, in my mind I thought I
18 was right on in response to it.

19 Q. Let me repeat the question, please. Would you
20 agree that CTCo would actually over-earn your recommended
21 rate of return if rates are set based on your hypothetical
22 capital structure rather than CTCo's actual capital
23 structure?

24 A. That's exactly what I was answering when you cut
25 me off. My answer would be the same. I think the last

1 couple of words really don't matter, so I would give you the
2 same response.

3 JUDGE KASHI: And your answer was, sir? Did you give
4 him a yes or no on that?

5 THE WITNESS: No. The answer is simple, is no, that
6 they wouldn't, because when you translate, based on my
7 recommended rate of return, relate that to the actual
8 capital structure, what I'm saying is they really need to
9 earn a higher equity return on the lower common equity
10 ratio.

11 BY MR. SHOSTAK:

12 Q. My question is specific in that using CTCo's
13 actual capital structure of 39.1 percent equity as opposed
14 to your recommended capital structure of 54.82 percent,
15 wouldn't your proposed capital structure result in CTCo's
16 over-earning --

17 A. I don't think so, simply because my
18 recommendation wouldn't be as it is here. My recommendation
19 would be, and I think I summarized that on -- I made a
20 correction to it; I forget what schedule. Bear with me a
21 moment.

22 (Witness perusing documents.)

23 Q. Mr. Hanley, I believe my question is very number
24 specific.

25 A. It's on Schedule 6, page 1, of my exhibit.

1 Q. Mr. Hanley, my question is very number specific,
2 and we made need an on-the-record data request for you to
3 actually show me how your equation or your methodology would
4 result in the use of the hypothetical capital structure not
5 resulting in an over-earning for CTCo.

6 A. When you talk about over-earning I presume
7 you're talking about the rate on common equity, and my
8 analysis would indicate that relative to a 39.56 percent
9 common equity, they probably would earn something of about,
10 if you were to include the allowance for recognition of
11 management efficiency of 20 basis points, about 15.5 percent
12 or about 150 basis points more than the 14 percent implicit
13 relative to the 54.82 hypothetical common equity ratio that
14 I recommend.

15 (Pause.)

16 Q. Mr. Hanley, on page 16, lines 4 to 19, you note
17 that CTCo's estimated long-term --

18 A. Excuse me; could I ask you to just give me a
19 second to get to where it is? You're going just a little
20 faster than I can keep up with.

21 Q. Page 16, lines 4 to 19.

22 A. Thank you.

23 Q. You note that CTCo's estimated long-term debt
24 ratio of 60.32 percent is not consistent with those required
25 to meet S&P criteria for an A or AA bond rating, and are not

1 consistent with those of the telephone companies which
2 comprise your barometer group; is that correct?

3 A. Yes.

4 Q. Can you provide us with any insights as to why
5 the managements of C-TEC and CTCo feel that the company is
6 properly capitalized?

7 A. No, I really can't. I have not spoken to, first
8 of all, anybody in C-TEC management, unless they are some of
9 the same officers, and to my knowledge they aren't. So I
10 really can't address that, and I don't know, again, that the
11 typical kind of analogy can really be made, because these
12 ratios I think kind of apply more to a situation where you
13 are going out on a conventional financing basis, on the one
14 hand, and have to really meet these parameters to get a bond
15 rating. The tradeoff to that is that they don't have a bond
16 rating, and in that sense it is probably good simply because
17 all of their -- when I say "their" I'm talking about -- you
18 say CTCo; is that your acronym? These acronyms get to me.

19 Q. CTCo is Commonwealth.

20 A. CTCo. It's easier for me to say Commonwealth,
21 so if you don't mind Commonwealth has raised all of its
22 long-term debt capital through governmental means and has
23 availed itself of the lowest possible cost interest rates at
24 the times the funds were raised. Consequently, that was a
25 very prudent thing to do. So this is not, in many respects,

1 the typical situation. As I said prior during Trial Staff's
2 questioning, I don't know of another operating telephone
3 company that has all of its long-term debt capital from such
4 low-cost funds.

5 Q. Mr. Hanley, while we are talking about long-term
6 capital, with reference to your exhibits, Schedule 1, page
7 1, you are using a long-term debt cost rate of 6.24 percent.
8 Now, on page 2 of Schedule 3 you show the 1991 long-term
9 debt cost rate, long-term debt actual cost rate, to be 6.00
10 percent. Would you please explain the differences in these
11 two rates?

12 A. Well, sure. What I have shown on Schedule 3,
13 page 2, is not meant to be an embedded cost rate calculation
14 at a point in time. It is simply a simple calculation of
15 the average long-term debt during the year relative to the
16 interest charges booked during the year. It's not meant to
17 represent an embedded cost of debt at a given point in time.
18 That simply facilitates comparisons to proxy companies for
19 whom it would be impossible to obtain embedded cost of debt
20 the way it would be required, for example, to support a
21 specific claim in a cost of capital filing.

22 Q. Now, in response to OCA Interrogatory XI-6 --

23 A. If you will bear with me just a moment, please.
24 (Witness perusing documents.)

25 A. Okay.

1 Q. You admitted that you performed no studies
2 comparing the business risk of Commonwealth with either
3 barometer group; is that correct?

4 A. Well, I hardly say I admitted. I simply stated
5 that I haven't.

6 Q. In response to that interrogatory you indicated
7 that you applied your expert judgment in coming to this
8 conclusion; is that correct?

9 A. Yes.

10 Q. And on page 22 of your testimony, line 10, you
11 indicate that the five independent local exchange companies
12 are more similar to CTCo based on the number of lines and
13 capitalization; is that correct?

14 A. Yes.

15 Q. And so can I presume that your entire analysis
16 of the business risk of CTCo relative to the two barometer
17 groups is based on these two criteria, the number of lines
18 and capitalization?

19 A. Plus the fact that the obvious is that they are
20 in the same business, yes. To me, I don't see how it is
21 possible to conclude, for example, that the seven RHCs,
22 which are 74 times the size of Commonwealth and have 75
23 times the number of access lines, could be as remotely
24 comparable, and principally most of the RHCs all serve
25 significant metropolitan, large urban areas and whatnot,

1 whereas in contrast the proxy group of smaller companies
2 more comparable in size serve generally territories more
3 similar to and are more similar in size to Commonwealth.

4 Q. So, Mr. Hanley, I take that as a yes?

5 A. That's correct.

6 Q. In other testimony before this Commission would
7 you agree that you have assessed the business risk of a
8 company by an analysis of the pre-tax income over a ten-year
9 historic period?

10 JUDGE KASHI: Can you tell me what covers " before
11 this Commission"?

12 MR. SHOSTAK: Specifically, NFG Distribution.

13 THE WITNESS: I'm sorry; have you completed the
14 question? I thought you were going to be continuing on.

15 BY MR. SHOSTAK:

16 Q. I can repeat that.

17 A. Please.

18 Q. Would you agree that you have assessed the
19 business risk of a company by an analysis of the pre-tax
20 operating income over a ten-year historic period?

21 A. I would say no, and I'm going to qualify that.
22 What I did in the National Fuel case was I assessed the
23 relative business risk over the same period of time between
24 National Fuel Distribution and a barometer group of
25 companies. The relative business risk, not in the absolute.

1 That's the only way that kind of a study makes sense.

2 I didn't do it in this case because, as I alluded to
3 Ms. Pennington, the universe of companies is much, much
4 smaller. The universe out there in the Compustat data base
5 is 111 telecommunications companies, only approximately one-
6 third of which have common stocks that are actively traded.
7 Now you take out the seven RHCs that are significantly
8 different and you're down to --

9 Q. Excuse me, Mr. Hanley, I want to keep you on the
10 question. Now, you have done that study in other cases as
11 well as NFG; is that correct?

12 A. I have done it in other cases. It is not a
13 universal thing, but if I believe and feel that there is a
14 need to do it, and if I think it is possible to do it --

15 Q. And in each case you're comparing it to the
16 barometer group and not the industry as a whole; is that
17 correct?

18 A. That's correct.

19 Q. And you have a barometer group in this case?

20 A. I do. I was trying to explain in my prior
21 response why I didn't do such a study in this, and if I may,
22 I would like to continue the answer before your
23 interjection. Since you raised the point I think the
24 record, for clarity, deserves the complete response.

25 It is that there is a much smaller universe, much,

1 much smaller; and secondly, as far as comparing to the
2 groups of companies for the seven RHCs, the RBOCs, I don't
3 believe there is still an adequate period of time because
4 the breakup occurred in '84 and the first full year of data
5 wasn't until 1985, so through 1991 at the time of this
6 filing I only had seven data points and I think it is
7 totally inadequate.

8 So for those two reasons I don't think such a study
9 is meaningful in this instance.

10 Q. You mentioned one reason regarding the RBOCs.
11 What about the other group, barometer group, that you used?

12 A. I don't understand your question. What about
13 it? I said my other reason is the universe is too small. I
14 don't think you --

15 Q. That's one reason.

16 A. Right.

17 Q. My question is why didn't you compare
18 Commonwealth to your five-company barometer group?

19 A. Simply because I couldn't compare the whole
20 group between the two groups that I looked at, and I chose
21 not to do it. I didn't think it was relevant because of the
22 size, the small size of the universe, and for at least a
23 portion of the companies that I looked at, that would seem
24 to be sort of a universal model that I looked at in LEC rate
25 cases, the seven RHCs. I believe there is an inadequate

1 historical track record to date in order to make such an
2 analysis.

3 Q. So because you couldn't use your seven barometer
4 group, you didn't use your five barometer group, in
5 comparing Commonwealth to --

6 A. No. My complete response is because the
7 universe is so small and because there is insufficient data.
8 My answer is both.

9 Q. You do have data for those five companies, is
10 that correct, and you have data for Commonwealth? My
11 question is why did you not make that comparison?

12 A. I told you that three times. I will do it
13 again, the fourth. One, the universe is too small, I don't
14 think it is relevant; and two, because we didn't have it for
15 the other proxy group, the RHCs. I didn't do it for both
16 those reasons. That's why. Now, you may not like that, you
17 may not agree with it, but that's my reasoning.

18 Q. Mr. Hanley, I would like to turn your attention
19 to your equity cost rate approaches. Between pages --

20 JUDGE KASHI: Since you're going to start on a new
21 subject here, why don't we take a 15-minute recess at this
22 point and come back and pick up with the new area.

23 We stand in recess for 15 minutes.

24 (Recess.)

25 JUDGE KASHI: Counsel, cross-examine.

1 BY MR. SHOSTAK:

2 Q. As I stated, Mr. Hanley, I would like to turn
3 your attention to the equity cost rate approaches that you
4 used. Between pages 24 and 30 of your testimony you discuss
5 your presumed implications of changing price/earnings ratios
6 on DCF-derived equity cost rates; is that correct?

7 A. Well, within the parameters of the pages that
8 you mentioned I discuss significantly more than that, but
9 certainly that is included within.

10 Q. Now, based on your analysis of Schedule 9, would
11 you agree that if investors expect a decline in
12 price/earnings ratios, that the DCF model overstates equity
13 cost rates?

14 A. No, not necessarily of and by itself; no. I
15 don't know how you can come to that conclusion. It depends
16 on a number of things, including what the market/book ratio
17 is.

18 Q. So your answer is no?

19 A. Given the limitation of the question, yes.

20 Q. And if investors expected price/earnings ratios
21 to rise, would you also say no?

22 A. If that is all you are telling me, it depends.
23 Again, the big play is you can't isolate just that from the
24 relationship to market/book ratios.

25 Q. Mr. Hanley, in preparing for cross-examination

1 today I reviewed some of your old testimony. Two issues
2 arise.

3 JUDGE KASHI: Old testimony where, sir?

4 MR. SHOSTAK: Specifically, Western Pennsylvania
5 Water Company. That's Docket No. R-80061221.

6 MR. MELIA: Could I have that docket again, please,
7 counsel? I didn't quite it all down.

8 MR. SHOSTAK: Docket No. R-80061221.

9 MR. MELIA: Thank you.

10 (Document handed to witness by Counsel Shostak.)

11 MR. MELIA: Do you have an extra copy for me,
12 counsel?

13 BY MR. SHOSTAK:

14 Q. First, in that case you testified that
15 earnings/price ratios are "an excellent indicator of a
16 firm's equity cost rate"; is that correct?

17 A. Well, I don't know. Could I look at this? It
18 was 12, 13 years ago. Could I have a minute to read it? My
19 memory is not that good.

20 (Witness perusing document.)

21 A. Okay.

22 JUDGE KASHI: Do you want to repeat the question,
23 counsel?

24 BY MR. SHOSTAK:

25 Q. In the case indicated before, Western PA Water

1 Company, Docket No. R-80061221, you testified that
2 earnings/price ratios are "an excellent indicator of a
3 firm's equity cost rate"; is that correct?

4 A. I said that with qualifications in the response,
5 yes, essentially.

6 Q. And you are not using earnings/price ratios in
7 this case; is that correct?

8 A. No. As a matter of fact, back at about this
9 time the Commission was still looking at and using
10 earnings/price ratios. That was probably one of the
11 reasons. You didn't have the kind of imbalance that you
12 have in market/book ratios. So in the context of that which
13 I made reference to in my prior responses, that makes all
14 the difference in the world when you have this significant
15 imbalance in the market/book ratios. That is why I have, as
16 an example, Schedule 11 of Exhibit FJH-1, to demonstrate the
17 distorted results that you can get by applying market value
18 determined cost rates to the DCF method to a book value rate
19 base when there is a substantial premium of market value
20 over book value.

21 JUDGE KASHI: You're saying that in 1980 at the
22 Commission, we were not using DCF models at that particular
23 time?

24 THE WITNESS: Well, if they were they were just --
25 Your Honor, it's a long time ago, but certainly, if they

1 were, they were just about into the transition period, so to
2 speak.

3 BY MR. SHOSTAK:

4 Q. Turning our attention to market/book ratios,
5 between pages 30 and 32 of your testimony, and in Schedule
6 11 --

7 A. You say 30 and 32?

8 Q. Yes. Between those pages.

9 A. Okay.

10 Q. You argue that the DCF model provides an
11 inadequate equity cost rate when market/book ratios are
12 greater than 1.0, and provides an excessive equity cost rate
13 when market/book ratios are less than 1.0; is that correct?

14 A. Well, yeah, but you didn't take the whole thing.
15 I also added -- at page 31, I think you're referring to line
16 3, but I would say the complete thing is shown at lines 3
17 through 7. I added, "and where there are factors other than
18 regulated earnings which affect market prices" and so on.
19 So with that qualification, yes, it's correct.

20 Q. Now, turning back to the Western PA Water
21 Company case, in that case you testified that market/book
22 ratios below 1.0 provide prima facie evidence that the
23 achieved levels of earnings are perceived as inadequate by
24 investors. You can turn to page 16, lines 4 to 9, of that
25 case. Is that correct?

1 A. What was your line reference?

2 Q. Page 16. I'm sorry; 7 to 9.

3 A. Oh. Well, see, I agree that I said that in
4 lines 7 to 9, but I want to point you to what I said at
5 lines 4 through 6. I said, "These achieved earnings rates
6 were clearly found inadequate by investors, since the
7 average market/book ratio was below 100 percent in each and
8 every year during the period and averaged only 86.5 percent
9 over the five years." So now when we put that in the
10 context of this record, I said that, all of it.

11 Q. Between pages 32 and 33 you discuss the
12 relevance of the results of a study of Goldman Sachs for DCF
13 results, and at page 33, lines 1 to 8, you suggest that
14 results of this study indicate that only 35 percent of the
15 stock price growth of the 1980s can be attributed to
16 earnings and interest rates; is that correct?

17 A. Page 33 did you say -- oh, I see; it begins at
18 the bottom of page 32.

19 Q. Yes.

20 A. Yes.

21 Q. Mr. Hanley, have you read the actual study which
22 the Wall Street Journal article is based on?

23 A. Yes, I have.

24 Q. Would you agree that Mr. Wigmore indicates in
25 his conclusion on page 15 that the unexplained increase in

1 stock prices may result from a decline in the risk premium?

2 A. I don't recall specifically. If you are making
3 that representation I will accept it subject to check. It
4 was a rather lengthy article. I can't say that I
5 specifically remember that one minor point.

6 Q. In fact, are you aware that the risk premium
7 employed by the Investment Research Division of Goldman
8 Sachs did indeed decline significantly over this period?

9 A. Is this something extra beyond the article? Are
10 you making a representation about this? What is the source
11 of your statement?

12 MR. SHOSTAK: Your Honor, I would like to have marked
13 as OCA Cross-Examination Exhibit No. 1 a four-page article
14 from the Financial Analysts Journal by Steven G. Einhorn.
15 It deals with the market risk premium.

16 JUDGE KASHI: Do you have a date on it, sir?

17 MR. SHOSTAK: It is July to August 1990.

18 JUDGE KASHI: So marked for purposes of
19 identification.

20 (Whereupon, the document was marked
21 as OCA Cross-Examination Exhibit No.
22 1 for identification.)

23 (Pause.)

24 BY MR. SHOSTAK:

25 Q. Mr. Hanley, please let me know when you're done
reviewing the article.

1 A. Well, clearly, I can't sit here and read the
2 whole thing, it's rather lengthy. The best I could do I
3 guess, short of having a real chance to read it, is to scan
4 it.

5 JUDGE KASHI: Have you seen this article before, sir?

6 THE WITNESS: I do not recall this, Your Honor, no.

7 MR. MELIA: Your Honor, I guess at this point then I
8 would request that the witness be given an opportunity to
9 review this at a break or at lunch or something.

10 JUDGE KASHI: Could we postpone the cross-examination
11 on this particular matter and move on if it won't break the
12 sequence? If it's going to break the sequence, we'll take a
13 recess and let the witness read it.

14 MR. SHOSTAK: There was only one point we wanted
15 to --

16 JUDGE KASHI: All right. Let's hold up on it and
17 give him an opportunity over lunch to have reflection on
18 that article. So if you want to move on, counsel.

19 BY MR. SHOSTAK:

20 Q. Mr. Hanley, please turn to pages 33 and 34, and
21 also Schedule 13. In Schedule 13 you discuss a survey of
22 regulatory agencies by NARUC in 1992. You conclude from
23 this survey that most regulatory agencies use the DCF model
24 as well as additional models to ascertain equity cost rates;
25 is that correct?

1 A. Yes.

2 Q. Turning to Schedule 13, have you performed an
3 independent evaluation of this survey?

4 A. I don't even understand the question. Why would
5 I do that? This is an official NARUC publication. Why
6 would I try and evaluate that?

7 Q. So the answer is no?

8 A. Of course it's no.

9 Q. Would you agree that if we look across the row
10 for Pennsylvania, we see that the survey indicates that
11 Pennsylvania employs DCF, comparable earnings,
12 earnings/price ratio, midpoint approach and others; is that
13 correct?

14 A. Look, all I can tell you is -- and I don't know
15 who is responsible for doing it -- NARUC in Washington, Jim
16 Rogers and his crowd that put this thing together, they
17 don't invent these. Some person who is officially
18 responsible for filling out the survey from the Pennsylvania
19 Public Utility Commission filled it out and sent it in.
20 This is the official NARUC publication. I don't have
21 anything else to comment on it besides that.

22 Q. You are relying on it; is that correct?

23 A. Only to the extent that it is perfectly obvious
24 that the multiplicity of commissions in this country do not
25 rely solely upon one method even though the majority of them

1 use DCF.

2 A. Mr. Hanley, can you tell me when was the last
3 time the Pennsylvania Public Utility Commission used the
4 earnings/price ratio in determining an equity cost rate for
5 a public utility?

6 MR. MELIA: Your Honor, I'm going to object. I think
7 Mr. Hanley has made it eminently clear that he received this
8 information from NARUC; he is relying on it to a very
9 limited degree. I don't think one can take the inclusion of
10 this as a wholesale knowledge of what Pennsylvania or any
11 other jurisdiction has done historically.

12 JUDGE KASHI: I would like to know if he understands
13 what other Pennsylvania utilities have done in this regard.

14 Can you answer the question?

15 THE WITNESS: Not to my knowledge, although I must
16 confess I don't read every order that comes out of this
17 Commission.

18 JUDGE KASHI: He cannot answer the question.

19 BY MR. SHOSTAK:

20 Q. Can you tell me when was the last time the
21 Pennsylvania Public Utility Commission used comparable
22 earnings in determining an equity cost rate for a public
23 utility?

24 A. No. As I say, I didn't prepare the response,
25 but somebody --

1 JUDGE KASHI: We understand your response. It is
2 right there in black and white. We understand where you got
3 it, why you put it in there and what it is you don't know,
4 so we don't have to explore it any more.

5 BY MR. SHOSTAK:

6 Q. Let us now turn to your DCF analysis. For the
7 proxy group you used three alternative versions of the DCF
8 model; is that correct?

9 A. Yes.

10 Q. And as summarized in Schedule 14, the average
11 equity cost rates for these methods for the Proxy Group of
12 Five Independent Companies and the Proxy Group of Seven
13 Holding Companies are 12.3 percent and 10.7 percent,
14 respectively; is that correct?

15 A. Yes.

16 Q. Now, on that page we see that the indicated DCF
17 derived equity cost rates for the Proxy Group of Five
18 Independent Operating Companies and the Proxy Group of Seven
19 Holding Companies are 11 percent and 10.3 percent,
20 respectively, using historic and projected dividends and
21 earnings per share; is that correct?

22 MR. MELIA: Could you reference a schedule, Mr.
23 Hanley's schedule?

24 MR. SHOSTAK: Schedule 14.

25 MR. MELIA: Thank you.

1 THE WITNESS: yes.

2 BY MR. SHOSTAK:

3 Q. And the indicated DCF derived equity cost rates
4 for the Proxy Group of Five Independent Operating Companies
5 and the Proxy Group of Seven Holding Companies are 12
6 percent and 10.5 percent, respectively, using only projected
7 dividends and earnings per share; is that correct?

8 A. Yes.

9 Q. And finally, the indicated DCF derived equity
10 cost rates for the Proxy Group of Five Independent Operating
11 Companies and the Proxy Group of Seven Holding Companies are
12 13.9 percent and 11.2 percent, respectively, using the New
13 York Public Service Staff method; is that correct?

14 A. Yes.

15 Q. The New York method provides equity cost rates
16 significantly above those using historic and projected
17 growth rates; is that correct?

18 A. Only partly correct. You said historic and
19 projected growth rates. In earnings and dividends only.

20 Q. Mr. Hanley, other than the recently filed NFG
21 Distribution case, have you ever employed the New York
22 method in Pennsylvania?

23 A. No. I only became aware of this proposed
24 approach recently, although I think the only thing unique
25 about it is that it averages the I/B/E/S earnings forecast

1 with the BR+SV approach to growth, both of which are
2 perfectly legitimate, which just goes to show that there is
3 a variety or multitude of ways to determine growth --

4 Q. Mr. Hanley, I don't mean to cut you off but the
5 question was very specific. Did you use this New York
6 method in the last case where you filed testimony on behalf
7 of a telephone company?

8 A. No. As I say, I only became aware of this
9 recently. In fact, it was only sponsored recently and only
10 in connection with being distributed among energy companies
11 in the New York Generic Financing docket.

12 Q. Mr. Hanley, can you provide any academic
13 references which provide a theoretical and/or empirical
14 basis for the New York method?

15 A. Well, sure. Projected growth in earnings is one
16 part of it. Absolutely. Every textbook talks about
17 expected growth in earnings. The retention growth plus
18 the --

19 Q. Mr. Hanley, the specific New York method.

20 A. I'm addressing that. I don't know what else you
21 want me to do. I'm telling you about the components of the
22 formula. You asked me is there academic support for it and
23 I am trying to answer it.

24 Now, shall I continue?

25 JUDGE KASHI: Before you continue, I think his

1 question is he wants to find if there is a specific academic
2 reference to the New York methodology as it is used in New
3 York as opposed to the various components that go into it.

4 Is that correct, sir?

5 MR. SHOSTAK: Thank you, Your Honor.

6 JUDGE KASHI: I would imagine that is not existent.

7 THE WITNESS: That is not existent, and that is true
8 for most --

9 JUDGE KASHI: Right, for any jurisdiction. For
10 Pennsylvania we don't have an academic reference.

11 THE WITNESS: That's correct. I didn't understand
12 that to be the question. I thought you meant about the
13 specific mechanics of the approach.

14 MR. SHOSTAK: Your Honor, we don't have much more.
15 If we could just have a moment?

16 JUDGE KASHI: Surely.

17 (Pause.)

18 MR. McCLELLAND: Your Honor, while we are working on
19 finalizing rate of return questions -- and I know it is your
20 intent to break at 12:30 for lunch -- we would also suggest,
21 as I earlier indicated, that the next witness should be Mr.
22 McDaniel on cash working capital. We could then cross-
23 examine him with staff, because they may have some
24 questions, and we could take another look at lunch. It may
25 be appropriate then, but I suggest we see at that point.

1 The point is that my witness on depreciation has recently
2 arrived, and I would like to have some time to discuss with
3 him depreciation before we begin that cross of Mr. Robinson.

4 JUDGE KASHI: I have no problem with that.

5 (Pause.)

6 BY MR. SHOSTAK:

7 Q. Mr. Hanley, we're ready. Mr. Hanley, earlier
8 you noted that Commonwealth's long-term debt rate -- you
9 discussed that and how the management has been able to
10 secure financing from various government sources, the RTB,
11 FFB; that being the Rural Telephone Board, I believe, --

12 A. Bank.

13 Q. Bank.

14 -- and the Federal Financing Bank.

15 As an on-the-record data request we would like to
16 know the timing for these long-term loans, the sources and
17 all the requirements for obtaining.

18 A. I could probably sponsor the response. Counsel
19 can address it. That information can best come from
20 somebody in the company. I really don't have all that
21 information readily available to me. I will be glad to
22 sponsor it if it's convenient, I'll make the offer, but I
23 don't know that I'm the best witness to pull it together.

24 MR. MELIA: Your Honor, we will undertake --

25 JUDGE KASHI: To get that information?

1 MR. MELIA: -- to procure that information and supply
2 it.

3 JUDGE KASHI: And have the proper witness present it.

4 MR. MELIA: Yes.

5 JUDGE KASHI: All right?

6 MR. SHOSTAK: Yes.

7 BY MR. SHOSTAK:

8 Q. One final question returning to an issue we
9 addressed earlier concerning your hypothetical capital
10 structure for Commonwealth. If you take the level of return
11 dollars generated under your capital structure
12 recommendation and compare that to the return dollars
13 generated by Commonwealth's actual capital structure, would
14 the results show that the company earned a higher return on
15 equity than you have recommended?

16 A. I don't know. I don't know because there are
17 tax implications. There's a lot, as you know, that goes
18 into the ratemaking formula. I don't know. I am suggesting
19 that about 15.5 really ought to be appropriate relative to
20 39.56. That would be pure speculation on my part off the
21 top of my head.

22 Q. So your answer is simply you don't know?

23 JUDGE KASHI: That's what he said.

24 THE WITNESS: At this moment right now I don't know.
25 I can't give an intelligent response to the question just

1 based on rates. You talked about return in dollars and
2 there is a lot that goes into the calculation of those
3 dollars. How that falls out to the equity and relationship
4 to the equity, I don't know off the top of my head.

5 MR. SHOSTAK: Okay. We have nothing further, Your
6 Honor.

7 JUDGE KASHI: Thank you.

8 Redirect, counsel?

9 MR. MELIA: Your Honor, I would like to have an
10 opportunity to hear what remaining cross there may be on
11 that proposed exhibit.

12 THE WITNESS: I think, if it will help speed things
13 up, Your Honor, I am willing to take a shot, because while
14 Mr. McClelland was discussing with you whatever it was, I
15 didn't really listen to that; I was reading some more. So
16 if it will help expedite things, I am willing to give it a
17 try at this point.

18 JUDGE KASHI: All right. The witness is willing to
19 try. Go ahead. Back to OCA Cross-Examination Exhibit
20 No. 1.

21 BY MR. SHOSTAK:

22 Q. Mr. Hanley, would you please turn to page 13 of
23 that exhibit and look at Figure B in the bottom left-hand
24 corner?

25 A. Okay.

1 Q. Would you agree that the risk premium has
2 significantly declined, as used by Goldman Sachs, for the
3 period 1980 to 1990 from the prior period?

4 A. Well, it is a comparison of the equity risk
5 premium and the real rate of interest, and I would say that
6 certainly, based on that comparison, it has. There is no
7 question about that. Yes. There is a relationship there,
8 no question about it.

9 MR. SHOSTAK: Fine. Thank you.

10 JUDGE KASHI: Redirect, counsel?

11 MR. MELIA: Your Honor, I would like to have a minute
12 or so to consult with the witness.

13 JUDGE KASHI: We will take a five-minute recess.

14 (Recess.)

15 JUDGE KASHI: Back on the record.

16 Redirect, counsel?

17 REDIRECT EXAMINATION

18 BY MR MELIA:

19 Q. Mr. Hanley, you were questioned by Mr. Shostak
20 regarding this article by Mr. Einhorn of Goldman Sachs,
21 specifically on page 13, some graphs which show decline in
22 the equity risk premium relative to the real rate of
23 interest.

24 Having had an opportunity to review that article, do
25 you have any further comments relative to reconciling the

1 conclusions of that article with your testimony and
2 exhibits?

3 A. Yes. With regard to my application of the risk
4 premium method, I would say certainly current trends are
5 clearly taking it into account, and basically in two ways.
6 One, the yield that I used, the bond yield, is a projected
7 or expected bond yield. It takes into account the current
8 market conditions and the fact that they go beyond and
9 reflect trends more current than Mr. Einhorn's, which ended
10 in 1990, because mine really reaches out into 1994. And
11 also in a second way by using the beta approach, which is
12 the product of events over the most recent five years, or
13 roughly 260 or 261 weeks of events. You can see by looking
14 at Mr. Einhorn's graphs there, it certainly encompasses what
15 was shown as his latest trend.

16 So I believe that my analysis basically takes these
17 events into account.

18 Q. Also, Mr. Hanley, you were asked some questions
19 by counsel for OCA regarding other information contained in
20 Mr. Wigmore's article, specifically, I believe, dealing with
21 trends in risk premium. I think the reference was to page
22 15 of that article.

23 Having had an opportunity to review that article, do
24 you have any further comments?

25 A. Yes. I was asked to accept subject to check Mr.

1 Wigmore's statement that the risk premium was declining, I
2 think is the way it was put. I've looked at it, the whole
3 study, and the specific area on page 15, precisely, and I
4 really won't comment more on it, but specifically and
5 exactly what Mr. Wigmore said was, as a question, "Is it a
6 decline in the risk premium, a rise in the propensity to
7 hold stocks, or over-valuation? The unexplained residual
8 plus the over-optimism of analysts corroborate that stock
9 prices are highly influenced by 'social dynamics.'" That's
10 precisely what he said.

11 MR. MELIA: That's all the redirect I have for the
12 witness.

13 JUDGE KASHI: Thank you.

14 Ms. Pennington.

15 MS. PENNINGTON: No questions.

16 JUDGE KASHI: Mr. Shostak.

17 MR. SHOSTAK: No.

18 JUDGE KASHI: Thank you very much. You're excused,
19 sir.

20 (Witness excused.)

21 JUDGE KASHI: That which has been marked and
22 identified as Commonwealth Telephone Company Statement No.
23 7, together with the Exhibit --

24 MR. MELIA: FJH-1.

25 JUDGE KASHI: -- FJH-1, is received into the

1 evidentiary record, without objection?

2 (No response.)

3 JUDGE KASHI: Without objection.

4 (Whereupon, the documents marked as
5 Commonwealth Statement No. 7 and
6 Commonwealth Exhibit No. FJH-1 were
received in evidence.)

7 JUDGE KASHI: OCA Cross-Examination Exhibit No. 1 is
8 received into the evidentiary record, without objection?

9 MR. MELIA: We have no objection.

10 JUDGE KASHI: Without objection.

11 (Whereupon, the document marked as
12 OCA Cross-Examination Exhibit No. 1
was received in evidence.)

13 JUDGE KASHI: Off the record.

14 (Discussion off the record.)

15 JUDGE KASHI: Back on the record.

16 All right. Call your next witness.

17 MR. MELIA: The company would call Stuart McDaniel to
18 the stand.

19 Whereupon,

20 STUART G. McDANIEL

21 having been duly sworn, testified as follows:

22 JUDGE KASHI: Please be seated, sir.

23 Go ahead, counsel.

24 MR. MELIA: Thank you, Your Honor.

25

1 DIRECT EXAMINATION

2 BY MR MELIA:

3 Q. Would you please state your full name and
4 business address for the record?5 A. Yes. My name is Stuart G. McDaniel. I am a
6 senior vice president of AUS Consultants. My business
7 address is P.O. Box 650, Moorestown, New Jersey.8 Q. Mr. McDaniel, do you have before you what has
9 been labeled as Commonwealth Telephone Company Statement No.
10 6 captioned "Direct Testimony of Stuart G. McDaniel,"
11 consisting of a cover page and nine pages of questions and
12 answers?

13 A. Yes.

14 MR. MELIA: Your Honor, could I have that Statement
15 No. 6 marked at this time?16 JUDGE KASHI: So marked for purposes of
17 identification.18 (Whereupon, the document was marked
19 as Commonwealth Statement No. 6 for
identification.)

20 BY MR MELIA:

21 Q. Was this direct testimony prepared by you or
22 under your direction?

23 A. Yes, it was.

24 Q. Do you have any changes or corrections to make
25 to your direct testimony at this time?

1 A. No, I do not.

2 Q. If I were to ask you all the questions contained
3 within your direct testimony, would they be the same as so
4 indicated?

5 A. Yes.

6 Q. Do you also have before you what has been
7 designated as Commonwealth Telephone Company Exhibit SGM-1?

8 A. Yes.

9 Q. Which consists of five schedules, and
10 furthermore, Commonwealth Telephone Exhibit SGM-2, which are
11 your work papers, approximately 110 pages?

12 A. Correct.

13 MR. MELIA: Your Honor, I would note for the record
14 that pages 55 and 56 of Exhibit SGM-2 have been stamped
15 confidential, reflecting some concerns raised by counsel for
16 AT&T.

17 JUDGE KASHI: All right.

18 THE WITNESS: If I may, in the course of preparing
19 for the hearing we discovered that there were some
20 differences in the operating expense figures that were
21 reflected in SGM-1, and I have corrected that based on the
22 company's future test year claims and prepared a new Exhibit
23 SGM-1, Schedule 1.

24 MR. MELIA: I would be prepared to distribute those.

25 JUDGE KASHI: Excuse me, counsel. You said pages 55

1 and 56 are stamped as confidential?

2 MR. MELIA: The court reporter's copies have been
3 stamped. The copies previously provided were not.

4 MR. SHOSTAK: Jim, that's pages?

5 JUDGE KASHI: Fifty-five and 56.

6 (Documents distributed to all parties.)

7 BY MR MELIA:

8 Q. Mr. McDaniel, do you have any further changes to
9 either of your exhibits?

10 A. No.

11 Q. And these exhibits were, of course, prepared
12 under your direction and supervision?

13 A. They were.

14 MR. MELIA: Your Honor, I would request that they
15 both be marked for the record.

16 JUDGE KASHI: As Commonwealth Exhibits SGM-1 and 2?

17 MR. MELIA: Correct.

18 JUDGE KASHI: So marked for purposes of
19 identification.

20 (Whereupon, the documents were marked
21 as Commonwealth Exhibits Nos. SGM-1
and SGM-2 for identification.)

22 MR. MELIA: At this time, your Honor, I would move
23 for the admission of Commonwealth Telephone Company
24 Statement No. 6 and Exhibits SGM-1 and 2, subject to cross-
25 examination of the witness.

1 JUDGE KASHI: Subject to any timely motions and/or
2 objections made pending cross-examination, they will be
3 received into the evidentiary record.

4 MR. MELIA: I would tender the witness for cross-
5 examination.

6 JUDGE KASHI: Mr. Keffer.

7 MR. KEFFER: I do have a couple of questions.

8 CROSS-EXAMINATION

9 BY MR. KEFFER:

10 Q. Good morning, Mr. McDaniel, or good afternoon.
11 Good afternoon, I guess. My name is Mark Keffer and I'm
12 with AT&T. I've got just a couple of reasonably minor
13 questions about how you have used AT&T's access payments to
14 Commonwealth in your lead/lag study.

15 First, let me ask you conceptually, since we are
16 involved in intrastate ratemaking here, when you are looking
17 at AT&T and the other interexchange carriers' access
18 payments to Commonwealth when you're doing your lead/lag,
19 are you looking at intrastate access payments?

20 A. We are looking at both.

21 Q. Both interstate and intrastate?

22 A. Correct. In theory, they're both paid the same
23 time so the payment dates would be identical.

24 Q. So from your perspective, and I am no expert in
25 lead/lag studies, both interstate and intrastate access

1 payments should be factored into the cash working capital
2 calculation that is being used for intrastate ratemaking?

3 A. Well, the payment dates are the same for both
4 interstate and intrastate, but the factor that results from
5 that calculation is only applied to the intrastate expenses.

6 Q. You say expenses.

7 A. Yes.

8 Q. For my questions I'm talking about -- well, I
9 guess it's an expense to AT&T. It's a revenue to
10 Commonwealth.

11 A. Let me say this. If we were to carve out the
12 interstate portion from the study, we would get exactly the
13 same factor, because what we are concerned about is when you
14 are billed and when we receive payment, and there is no
15 difference between intrastate and interstate.

16 Q. But the amounts certainly matter.

17 A. Oh, the amounts certainly are different.

18 Q. I guess that's what I'm getting at. When you
19 have looked at the amounts, you have looked at both inter
20 and intrastate access revenues?

21 A. Correct.

22 Q. That's appropriate for intrastate ratemaking
23 from your perspective?

24 A. Yes.

25 MR. KEFFER: That's all I have.

1 JUDGE KASHI: Thank you.

2 Ms. Pennington.

3 MS. PENNINGTON: I have no questions for
4 Mr. McDaniel.

5 JUDGE KASHI: Mr. Shostak.

6 MR. SHOSTAK: Yes.

7 CROSS-EXAMINATION

8 BY MR. SHOSTAK:

9 Q. Our first question is we would like Mr. McDaniel
10 to please explain the changes that have been made on the new
11 Exhibit SGM-1, Schedule 1.

12 A. There were two changes. The Operation and
13 Maintenance Expenses changed and Other Taxes also changed.

14 Q. They both increased?

15 A. Yes, they did.

16 Q. Was this to correct an original error or is this
17 a new projection by the company?

18 A. No. The cash working capital amount that is
19 included in rate base affects expenses, so when we are in
20 the final stages of putting the case together we have to go
21 through an iteration, and there were changes made to the
22 company's accounting exhibits after we gave them a final
23 cash working capital number. So all this does is conform
24 the cash working capital claim with the company's final
25 expense claim.

1 Q. Thank you.

2 I would like to return to the access revenue issue.
3 Wouldn't the relationship between the intrastate and total
4 company access revenue be different for each company?

5 A. For each company?

6 Q. That being AT&T, U.S. Sprint.

7 A. Oh, there is a difference both in the payment
8 schedule and the billing lag. As you can see from Schedule
9 2 of SGM-1, the billing lag days vary significantly as does
10 the collection lag component of the revenue lag.

11 Q. Mr. McDaniel, let me ask the question again.
12 Wouldn't the relationship between the intrastate and the
13 total company access revenue be different for each company?

14 A. Possibly.

15 Q. Can you or the company provide the data on an
16 intrastate basis for each access company listed that
17 corresponds to the company's revenue description collection
18 lag that is on page 14 of Exhibit SGM -- I believe that's 2;
19 they're not each marked -- yes.

20 MR. MELIA: That was page 14, counsel, of SGM-2?

21 MR. SHOSTAK: Yes.

22 THE WITNESS: Let me say this, that what we are
23 concerned about, if you look at the bottom of page 14 you
24 will see for AT&T, for example, there's a collection lag of
25 20.44 days. That is the number of days that we are

1 concerned about. And since both the intrastate and
2 interstate charges are paid on the same day, in order to
3 carve that out it wouldn't change the 20.44 days.

4 JUDGE KASHI: The witness says that there's no
5 difference in the information. What is it that you need,
6 sir?

7 BY MR. SHOSTAK:

8 Q. Mr. McDaniel, I am interested in the revenues.
9 I am not asking about the days. I made a request to have
10 the company or yourself provide the data on an intrastate
11 basis.

12 A. I can't imagine --

13 Q. For each of those companies.

14 JUDGE KASHI: Can you provide that, sir?

15 THE WITNESS: I don't know if it's available or not.

16 MR. MELIA: Your Honor, we will have to look into it.

17 JUDGE KASHI: All right. Please get back to me.

18 MR. KENNARD: If I might just interject to be sure I
19 understand. You referenced page 14. That is AT&T only?

20 JUDGE KASHI: No, it's for each company. That's for
21 each company.

22 MR. KENNARD: Other companies were subsequent, the
23 other interexchange carriers. You want information for all
24 the interexchange carriers --

25 MR. KEFFER: I'm sorry, but the page number that I'm

1 looking at that has total access dollar amounts for each
2 company is numbered 24.

3 MR. KENNARD: And what you would like is a
4 restatement of the -- is that correct, Mr. Shostak, you're
5 on page 24?

6 MR. SHOSTAK: Yes, we would accept the intrastate
7 amounts in total for each of those companies.

8 MR. KENNARD: In total. On page 24 you want the
9 column titled "Amount" restated so it is intrastate revenues
10 only?

11 MR. SHOSTAK: Yes.

12 MR. KENNARD: Thank you. I understand.

13 BY MR. SHOSTAK:

14 Q. Mr. McDaniel, I would like to refer you to page
15 3, line 12. There you state, "Each component of the revenue
16 lag represents a stand-alone calculation"; is that correct?

17 A. That's correct.

18 Q. Now, I would like us to look at Exhibit SGM-1,
19 Schedule 2, page 2 of 2.

20 JUDGE KASHI: Schedule 2, page 2?

21 MR. SHOSTAK: Yes.

22 BY MR. SHOSTAK:

23 Q. That schedule relates to the access charge
24 revenue billing lag. Now, hypothetically I would like us to
25 calculate what that billing lag would be -- what the working

1 capital requirement for that billing lag would be for AT&T
2 on a stand-alone basis.

3 A. Are you suggesting that instead of 16.71 days it
4 was 17.38? Is that what you're saying?

5 Q. Isn't 17.38 days AT&T's lag?

6 A. Yes.

7 Q. Now, I would like us to calculate the working
8 capital requirement for AT&T's billing lag.

9 A. If we substituted it for the 16.71 shown at the
10 bottom of Schedule 2?

11 Q. We're just calculating AT&T.

12 A. Well, it's calculated. It's right here, 17.38
13 days.

14 JUDGE KASHI: He's talking about the revenue that is
15 associated with that. He is looking for the specific
16 amount.

17 THE WITNESS: The revenue doesn't enter into the
18 calculation of the billing lag at all.

19 BY MR. SHOSTAK:

20 Q. I am specifically asking for the working capital
21 requirement, not the billing lag.

22 A. The working capital requirement.

23 Q. That is the dollar requirement.

24 A. I can't do it that way. You can't pick out a
25 source of revenue and calculate it because the expenses

1 which ultimately result in the calculation of working
2 capital are total intrastate expenses.

3 Q. Mr. McDaniel, let me refer you to the exhibit
4 that we discussed earlier with the on-the-record -- well,
5 with the data request. That is page 24 of Exhibit SGM-2.
6 There there is a total dollar amount given for AT&T for an
7 annual period that comes to \$28,059.764. What would that be
8 on a daily basis?

9 (Witness computing on electronic calculator.)

10 A. Assuming it is not a leap year, it would be
11 \$76,876.

12 Q. Now, Mr. McDaniel, would you please multiply
13 that with the lag for AT&T given on Exhibit SGM-1, Schedule
14 2, page 2?

15 A. Do what?

16 Q. Would you please multiply the daily revenue
17 amount for AT&T by the average billing lag days for AT&T
18 given on Exhibit SGM-1, Schedule 2, page 2?

19 JUDGE KASHI: Do you have a number he can accept
20 subject to check on that? You're talking about the \$76,876
21 times 17.38; is that correct, sir?

22 MR. SHOSTAK: Yes.

23 JUDGE KASHI: Do you have a number?

24 THE WITNESS: It's \$1,284,598.
25

1 BY MR. SHOSTAK:

2 Q. When we did that calculation we got \$1,336,106.

3 A. Wait a minute.

4 (Witness computing on electronic calculator.)

5 A. Right, \$1,336,105.

6 Q. Now, Mr. McDaniel, subject to check, doing the
7 same calculation for Commonwealth, MCI, U.S. Sprint, RCI,
8 CLD and U.S. Intelco, will you accept the following
9 numbers --

10 MR. MELIA: Could you tie whatever number you are
11 proposing to the individual interexchange carrier so it's
12 clear on the record?

13 MR. SHOSTAK: Yes.

14 BY MR. SHOSTAK:

15 Q. For Commonwealth, \$114,259; for MCI, \$245,154;
16 for U.S. Sprint, \$136,541; for RCI, \$34,841; for CLD,
17 \$1,870; and for U.S. Intelco, \$6,019.

18 JUDGE KASHI: Now, you purport that to be the cash
19 working capital requirement per lag day?

20 MR. SHOSTAK: For the billing lag component, yes.

21 BY MR. SHOSTAK:

22 Q. Mr. McDaniel, will you accept subject to check
23 that those figures total to \$1,874,790?

24 A. That looks correct.

25 MR. SHOSTAK: We will be just one moment.

1 (Pause.)

2 BY MR. SHOSTAK:

3 Q. Now, Mr. McDaniel, to calculate from this figure
4 the billing day collection lag, I would like to turn your
5 attention to Exhibit SGM-1, Schedule 2, page 1. There in
6 the first column we have a figure for access charge revenues
7 of \$48,848,000. To get that on a daily basis we divide that
8 by 365?

9 A. Yes.

10 Q. And that comes to \$133,830; is that correct?

11 A. Yes.

12 Q. Now, if you divide that into the working capital
13 number for access charge that we calculated earlier, you
14 would get billing collection day lag for the --

15 A. I haven't any idea what you're talking about.

16 MR. MELIA: Your Honor, at this point I guess I would
17 request --

18 THE WITNESS: I simply don't understand.

19 MR. MELIA: An offer of proof, perhaps, is the
20 appropriate request as to where this is all going. This is
21 obviously something that the OCA's expert can do on their
22 direct case if they feel it is relevant.

23 JUDGE KASHI: That's about where I'm getting to. Why
24 can't we put it in through your witness since the witness
25 here doesn't understand what you're talking about?

1 MR. SHOSTAK: Well, Your Honor, I thought he was
2 following up until this point.

3 JUDGE KASHI: He started at the very beginning saying
4 he didn't agree with your premise as far as the requirement,
5 the monetary requirement being tied to lag days. That's
6 what I recall anyway.

7 Is there some principle that you are trying to get
8 him to agree with here? If you could state it, then he does
9 or doesn't agree with it.

10 MR. SHOSTAK: Your Honor, we will address it in our
11 testimony.

12 JUDGE KASHI: All right. Can we move on then?

13 BY MR. SHOSTAK:

14 Q. Mr. McDaniel, when you calculated your operating
15 and maintenance expense lag days -- and that's shown on
16 Exhibit SGM-1, Schedule 1 -- did you calculate that 16.41
17 days based on the number of invoices or based on dollars?

18 A. Well, the detail of the lag days for operation
19 and maintenance expense is shown on Schedule 3. They were
20 calculated, as I described in my testimony, by examining
21 source data for the categories of expense that were selected
22 for the study, which included both the dollars, the service
23 periods and the payment dates.

24 Q. So the weighting of the lag days shown in the
25 middle column on that Exhibit SGM-1, Schedule 3, is based on

1 dollars; is that correct?

2 A. It is based on the service period to which the
3 expenses apply, the amount of the expense and the payment
4 date.

5 Q. But, Mr. McDaniel, the 16.41 shown at the bottom
6 of that middle column is a weighting; is that right?

7 A. Absolutely.

8 Q. Is that weighted on dollars or the number of
9 invoices?

10 A. It is weighted on dollars.

11 Q. Thank you.

12 A. But the individual factors were calculated as I
13 described.

14 Q. And those individual factors were also weighted
15 on dollars?

16 A. Yes.

17 MR. SHOSTAK: Your Honor, I would like to have marked
18 for identification as OCA Cross-Examination Exhibit No. 2
19 the company's response to OCA Interrogatory Set IX, No. 118.
20 It is just marked AUS Consultants.

21 JUDGE KASHI: So marked for purposes of
22 identification.

23 (Whereupon, the document was marked
24 as OCA Cross-Examination Exhibit No.
25 2 for identification.)

JUDGE KASHI: You don't know if this witness is

1 responsible for the answer?

2 MR. SHOSTAK: We will have to ask him, Your Honor.

3 (Document distributed to all parties and witness.)

4 BY MR. SHOSTAK:

5 Q. Mr. McDaniel, have you had a chance to look at
6 the response?

7 A. Yes.

8 Q. Would you be the sponsoring witness for that
9 response?

10 A. Yes.

11 Q. Thank you.

12 I would like to turn your attention to how you
13 calculated Commonwealth's revenue collection lag in general.
14 Now, would I be correct that you calculated that based upon
15 the assumption that the date upon receipt from customers of
16 a payment from that customer, that that amount would, on
17 that day, be available to the company?

18 A. Well, the revenue lag is comprised of three
19 components. There is a service lag, a billing lag and a
20 collection lag. The collection lag, which I think is what
21 your question is directed to, assumes that the funds are
22 available to the company the day it is received from the
23 customer, which isn't always the case.

24 Q. And, in fact, some of it may not be available
25 until the next day?

1 A. It can be up to three or four days depending on
2 where the check originates.

3 Q. And now when the company is paying its bills,
4 you have assumed in your study that the date upon which that
5 would be credited to Commonwealth's bank account is the date
6 upon which that bill is sent from the company's offices?

7 A. It was measured from the day the check was
8 issued.

9 Q. And, in fact, Mr. McDaniel, doesn't it take time
10 for the check to go through the mail system and then through
11 the banking system?

12 A. It could possibly take a few days.

13 Q. Have you done a study to determine how many days
14 that would take?

15 A. No, but I can tell you it would be incredibly
16 expensive to make the calculation. I have taken the
17 position, and I believe that I am correct, that because we
18 compute the revenue lag by relieving the receivable the day
19 we receive the check, even though we don't have the
20 availability of the cash necessarily, it would be offset by
21 any delay in any float generated by the check clearing
22 process.

23 I would also point out that the company has a legal
24 obligation to have the funds in the bank at the time the
25 check is released whether that check has cleared or not. It

1 is against the law, as I understand it, to write a check
2 without funds in the bank.

3 Q. Mr. McDaniel, you are not a lawyer though?

4 A. No.

5 JUDGE KASHI: Is that because of the principle that
6 you can't write checks if you don't have money in the bank?

7 (Laughter.)

8 JUDGE KASHI: Do you have more cross?

9 MR. SHOSTAK: We don't have much.

10 JUDGE KASHI: All right.

11 BY MR. SHOSTAK:

12 Q. Mr. McDaniel, looking at your formula, isn't it
13 true that you are marking from the date of receipt of
14 revenues, you are also marking from the date of sending
15 revenues? On the one hand -- sending payments; excuse me.
16 On the one hand the mail time has been removed, and on the
17 other hand, the sending of payments, the mail time has not
18 been included?

19 A. We calculate from the day we physically receive
20 the check from the customer.

21 JUDGE KASHI: There is no mail time added.

22 THE WITNESS: It could take two or three days before
23 those funds are available to the company. Similarly, when
24 we release a check, we measure from the date we release the
25 check, recognizing that in some cases it may not clear the

1 account for two or three days. Nevertheless, we are
2 obligated to have money there to cover that check.

3 JUDGE KASHI: So what you're missing on the receipt
4 is the actual time it takes to clear the bank, and on the
5 issuance time what we are talking about is the mailing time
6 and also the time it takes to clear the bank.

7 THE WITNESS: I submit that if one were to do a
8 precise --

9 JUDGE KASHI: I'm not interested in that. Is that
10 what I have here? I am not looking at a precise study.
11 Receipt means we don't have any mailing time up until you've
12 got it, and all we are talking about is the time that it
13 takes for you to clear it through their bank. On the other
14 side, when you say from the date of issuance, I have to add
15 to that the mail time plus time to clear the bank. I mean
16 I'm not interested in the theory. I just want to know what
17 the facts are. You can argue the theory all you want. Is
18 that true or isn't it?

19 THE WITNESS: I submit that one offsets the other;
20 it's a wash.

21 JUDGE KASHI: Sir, that is not the question. Is my
22 statement of fact correct? I'm not concerned whether it's a
23 wash or not. I just want to know what the fact is. The
24 fact is when you say receipt, the mail time has already been
25 gone so we don't have to worry about that. The only thing

1 we have after that is the time that it takes to clear that
2 check. On the other hand, when you say issue date, to that
3 I must add mail plus bank.

4 THE WITNESS: On the collection lag side we measure
5 from the date we receive the check whether it is in person
6 or by mail. On the expense side we measure from the day the
7 check is issued.

8 JUDGE KASHI: All right.

9 Go ahead, counsel.

10 MR. SHOSTAK: We have nothing further.

11 JUDGE KASHI: Redirect?

12 MR. MELIA: If I could have a minute, Your Honor.

13 JUDGE KASHI: Yes.

14 (Pause.)

15 MR. MELIA: The company has no redirect, Your Honor.

16 JUDGE KASHI: Thank you very much, sir. You're
17 excused.

18 THE WITNESS: Thank you.

19 (Witness excused.)

20 JUDGE KASHI: That which has been marked and
21 identified as Commonwealth Statement No. 6, together with
22 the exhibits which were marked as Commonwealth Exhibits SGM-
23 1 and 2, are received into the evidentiary record, without
24 objection?

25 (No response.)

1 JUDGE KASHI: Without objection.

2 (Whereupon, the documents marked as
3 Commonwealth Statement No. 6 and
4 Commonwealth Exhibits Nos. SGM-1 and
SGM-2 were received in evidence.)

5 JUDGE KASHI: That which has been marked as OCA
6 Cross-Examination Exhibit No. 2 is received into the
7 evidentiary record, without objection?

8 (No response.)

9 JUDGE KASHI: Without objection.

10 (Whereupon, the document marked as
11 OCA Cross-Examination Exhibit No. 2
was received in evidence.)

12 JUDGE KASHI: Thank you very much. We will recess
13 until 1:30.

14 (Whereupon, at 12:34 p.m., the hearing was adjourned,
15 to be reconvened at 1:30 p.m., this same day.)

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1 Q. And that you did not consider them in your
2 study?

3 A. I did not consider them because I believe that
4 any impact would be offset and it would have little if no
5 impact on the results of the study.

6 Q. With reference to your Exhibit SGM-1, Schedules
7 3 and 4, do you have a feel for what percentage of the
8 operating expenses reflected there are reflected by wire
9 transfers?

10 A. Yes. Over the lunch hour I calculated that 72
11 percent of the total operating expenses in Other Taxes are
12 paid by wire transfer; therefore, there is no float
13 associated with those transactions.

14 Q. So those particular events that we just
15 discussed wouldn't really impact that portion of expense;
16 correct?

17 A. Yes.

18 MR. MELIA: That's all the redirect I have, Your
19 Honor.

20 JUDGE KASHI: Thank you.

21 MR. McCLELLAND: Your Honor, I think I would have
22 some questions. A few.

23 JUDGE KASHI: On this very limited question?

24 MR. McCLELLAND: Yes.

25 JUDGE KASHI: All right.

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RECROSS-EXAMINATION

BY MR. McCLELLAND:

Q. Mr. McDaniel, I think you said something to the effect that it would be appropriate to consider float, but it would be offset.

A. No. I said that I do not consider float, nor do I consider the lack of availability of funds from customer receipts, because it is my opinion that if such a study were made, those two events would offset each other.

Q. I'm trying to understand the two events.

A. Okay. If we were able to calculate a revenue lag on the basis of when the funds became available as opposed to when the checks were received, the collection lag would be longer, the revenue lag would be longer, and the cash working capital requirement would be higher. Similarly, if we were able to calculate the expense lag on the basis of when the checks cleared the bank as opposed to when they were issued, that would increase the expense lag and reduce cash working capital.

It is my judgment that because the majority of expenses are paid by wire transfer, that the end result of all that would likely result in little if no change to the results of the study.

Q. You are saying the majority of expenses paid by Commonwealth are paid by wire transfer?

1 A. Correct; 72 percent.

2 Q. Is that 72 percent of the transactions or 72
3 percent of the dollars?

4 A. That is 72 percent of the operation and
5 maintenance expenses and taxes other than income taxes.

6 Q. Now, 72 percent of the O&M expenses, is that 72
7 percent of the dollars of O&M expenses?

8 A. Yes.

9 Q. How did you come to determine that 72 percent of
10 the dollars of O&M expense were by wire and not check?

11 A. I discussed the categories of expenses that were
12 reflected in the study with Mr. Cawley, the company's
13 controller, and he indicated to me which of those expenses
14 were paid by wire transfer and which were paid by check.

15 Q. Did you consider any other expenses other than
16 O&M?

17 A. There are no other expenses.

18 Q. In your cash working capital analysis.

19 A. In what I was just referring to, the only other
20 item of expense that is reflected in the study is interest
21 expense. I did not consider that.

22 MR. McCLELLAND: Your Honor, I have no other
23 questions.

24 JUDGE KASHI: Thank you.

25 MR. MELIA: No further questions.

1 JUDGE KASHI: Thank you very much, Mr. McDaniel.
2 you've been very helpful.

3 THE WITNESS: Thank you.

4 JUDGE KASHI: You're excused.

5 (Witness excused.)

6 JUDGE KASHI: Your next witness, Mr. Melia?

7 MR. MELIA: Yes. The company would at this time call
8 to the stand Mr. Earl Robinson, please.

9 Whereupon,

10 EARL M. ROBINSON

11 having been duly sworn, testified as follows:

12 JUDGE KASHI: Please be seated, sir.

13 DIRECT EXAMINATION

14 BY MR MELIA:

15 Q. Would you please state your name and business
16 address for the record?

17 A. My name is Earl M. Robinson. My business
18 address is 1000 North Front Street, Suite 200, Wormleysburg,
19 Pennsylvania.

20 Q. Do you have before you a document that has been
21 labeled Commonwealth Telephone Company Statement No. 5,
22 captioned the Direct Testimony of Earl M. Robinson,
23 consisting of a cover page and 34 pages of questions and
24 answers?

25 A. Yes, I do.

1 MR. MELIA: Your Honor, I would like to have marked
2 at this time Commonwealth Telephone Statement No. 5.

3 JUDGE KASHI: So marked for purposes of
4 identification.

5 (Whereupon, the document was marked
6 as Commonwealth Statement No. 5 for
7 identification.)

8 BY MR MELIA:

9 Q. Was this direct testimony prepared by you or
10 under your direction?

11 A. Yes, it was.

12 Q. Do you have any corrections to make at this time
13 to your direct testimony?

14 A. No, I do not.

15 Q. Is the information contained within the direct
16 testimony true and correct to the best of your knowledge?

17 A. Yes, it is.

18 Q. Do you also have with you what has been
19 designated as Commonwealth Telephone Exhibit EMR-1, a multi-
20 page depreciation study?

21 A. Yes, I do.

22 Q. And that was prepared by you?

23 A. Yes, it was.

24 Q. Do you have any changes or corrections to
25 propose to that exhibit?

A. No, I do not.

1 MR. MELIA: Your Honor, I would also propose to have
2 Commonwealth Telephone Exhibit EMR-1 marked at this time.

3 JUDGE KASHI: So marked for purposes of
4 identification.

5 (Whereupon, the document was marked
6 as Commonwealth Exhibit No. EMR-1
7 for identification.)

8 MR. MELIA: I would at this time move for the
9 admission of Commonwealth Telephone Statement No. 5 and
10 Exhibit EMR-1 subject to any motions to strike which may
11 result from cross-examination, and I would tender the
12 witness.

13 JUDGE KASHI: Subject to any motions and/or
14 objections made pending cross-examination, that which has
15 been identified will be received into the evidentiary
16 record.

17 Mr. Keffer.

18 MR. KEFFER: No questions.

19 JUDGE KASHI: Ms. Pennington.

20 MS. PENNINGTON: I have just a few questions, Your
21 Honor.

22 CROSS-EXAMINATION

23 BY MS. PENNINGTON:

24 Q. Hello, Mr. Robinson.

25 A. Good afternoon.

Q. I would like to refer you to your Table 1, pages

1 1, 2 and 3. When did you prepare this table?

2 A. When did I prepare it?

3 Q. Yes.

4 A. Well, the study is dated April 20th, so it was
5 probably, I'm guessing, a week or so before that. Maybe two
6 weeks before that. I'm not certain.

7 Q. So April?

8 A. Yes.

9 Q. April of '93?

10 A. Yes.

11 Q. I would like to refer you to column (C), which
12 says Original Cost as of December 31, 1993. Are the amounts
13 in this column -- you've got the amounts for all the various
14 accounts of depreciable plant. Do these accounts reflect
15 all that plant which is presently in service or which is
16 expected to be in service by December 31, 1993?

17 A. Table 1 is a future test year exhibit. What
18 that means is that we have started with the historic data at
19 December of '92 and rolled both the plant in service as well
20 as depreciation reserve forward using capital budget
21 information and estimated depreciation to a December 31,
22 1993 level.

23 Q. What I am wondering has to do with construction
24 work in progress or CWIP. Construction work in progress in
25 Pennsylvania is not included in plant in service until it

1 becomes complete, is it not?

2 A. That's correct, except that normally in the
3 course of rate cases, as I'm sure you're well aware, we file
4 exhibits both in the historic as well as the future test
5 year, and the method that we use here is identical to that
6 used in many other cases. What we use is the anticipated
7 level of additions and retirements that will occur during
8 the future test year period to get to the pro forma level of
9 plant in service at December of '93.

10 Q. How did you come by your information about the
11 anticipated additions and retirements in 1993?

12 A. The information relative to additions and
13 retirements was supplied by the company's accounting
14 department, and it relates to the company's '93 budget.

15 Q. The Office of Consumer Advocate asked an
16 interrogatory about CWIP. They asked the company to provide
17 a description of the CWIP projects included in rate base,
18 and they asked the company to indicate their expected in-
19 service date and whether they relate to current or new
20 customers. Mr. Cawley of the company supplied that
21 response. I'm not going to ask you to authenticate it
22 because it's not your response, but I would just like you to
23 take a look at it, please.

24 (Document handed to witness.)

25 Q. I am going to ask you to note that there is a

1 date on the bottom of these pages. It says May 24, 1993, so
2 this document, I presume, was prepared after you had done
3 your study. But did you review a document similar to this
4 when you were preparing your tables and exhibits?

5 A. No, I did not. I was given a specific list of
6 additions and retirements by asset account that I worked
7 from. I did not see a document like this.

8 Q. If you would just peruse that document, and
9 specifically the column which says "Estimated Completion
10 Date." I would note that many of the items here have
11 estimated completion dates in the past, 1991, 1992 and that
12 part of 1993 which is past. I presume it would be
13 appropriate, based on what you said earlier, for all those
14 items -- the projects that have been completed by the dates
15 estimated, that they should be included in plant in service
16 if they are completed by December 31, 1993; is that correct?

17 MR. KENNARD: Can I ask counsel something?

18 Mr. Cawley does address the issue of short-term CWIP
19 in his testimony and sponsors this document. Is this
20 something we could defer until his cross-examination?
21 Because he would be more knowledgeable about what is meant
22 by the column "Est. Completion Date" and so forth.

23 MS. PENNINGTON: Just one last question then.

24 BY MS. PENNINGTON:

25 Q. Is there any way that you could tell me what

1 projects in here were included in your Table 1 under
2 original cost?

3 A. Not specifically because what I asked the
4 company to provide me was a list of the additions that would
5 be closed plant during the 12-month period ending December
6 '93, as well as a list of the retirements that are estimated
7 to occur during that time frame, so that we could update the
8 plant in service.

9 So I did not get a detailed list, and I would not
10 have any way to specifically reconcile this list to what was
11 provided.

12 Q. Did you assume in your study that the historic
13 test year information included all those projects which had
14 been completed on or before December 31, 1992?

15 A. Well, the only clarification that I guess I
16 would need to make would be, for instance, if a project was
17 completed in December of '92 or thereabouts, it might be a
18 situation where you would have a period of delay until
19 completion reports get in and they may be closed to January
20 business or something like that. If it was completed during
21 the course of '92 and earlier months, I can only assume that
22 those were closed, but late in the year they could carry
23 over to '93 closings.

24 MS. PENNINGTON: We have no more questions. Thank
25 you.

1 JUDGE KASHI: Thank you.

2 Mr. McClelland.

3 MR. McCLELLAND: Thank you, Your Honor.

4 CROSS-EXAMINATION

5 BY MR. McCLELLAND:

6 Q. Good afternoon, Mr. Robinson. I am Phillip
7 McClelland with the Consumer Advocate's Office. I will ask
8 you some questions concerning your depreciation study.

9 As a general matter, is the company proposing to
10 reduce the company's December 31, 1992 actual book reserve
11 in these proceedings by \$26.2 million?

12 A. Included with our study is an adjustment to the
13 book reserve, as indicated in my testimony, which represents
14 its accrual of prospective net salvage in the reserve.
15 Because of past policies our exhibit has taken that into
16 account and has made an adjustment to the reserve to exclude
17 that prospective net salvage from the reserve. I believe
18 that is consistent with the treatment that is utilized in
19 various cases, and our exhibit sets forth those numbers with
20 that adjustment.

21 I believe that the company would be right in making
22 that adjustment because they did not receive recovery of
23 that prospective net salvage.

24 Q. Could you briefly explain this difference
25 between the way in which the company has calculated salvage

1 since 1980 and the way the PUC requires salvage to be
2 calculated in the depreciation rates that it approves?

3 A. Throughout many cases within Pennsylvania that I
4 have personally been involved with, as well as others that I
5 am familiar with, the general practice for net salvage
6 allowance in depreciation is what we commonly refer to as a
7 five-year rolling average or a five-year average net
8 salvage; that is net salvage that has actually been
9 experienced during the past five years, the average of that
10 is calculated and that is incorporated with the annual
11 depreciation expense.

12 In booking it's annual depreciation as well in the
13 rate case process, Commonwealth incorporated into its annual
14 depreciation rates an estimate of prospective net salvage
15 based upon estimates of cost removal that have been
16 occurring in recent periods. They have made estimates of
17 say, for instance, 40 percent negative net salvage and
18 they've rolled that into the depreciation rate in developing
19 book depreciation.

20 Q. You also provided to us, and if you would please
21 reference, OCA Set XIV, Question 3. The first page of this
22 sets forth some depreciation rates from a June 30, 1977
23 study that --

24 MR. KENNARD: Counsel, that's XIV, Set XIV?

25 MR. McCLELLAND: Yes. Set XIV, Question 3.

1 MR. KENNARD: Thank you.

2 BY MR. McCLELLAND:

3 Q. You have on the first page there depreciation
4 rates, and can we just confirm that these are the rates that
5 the PUC approved in 1980 that were developed in the 1977
6 study?

7 A. Yes.

8 Q. Those rates that you are showing there, do those
9 rates also contain any salvage with them or is that
10 separate?

11 A. There may be some minor amounts of salvage in
12 there but it is minimal at most.

13 Q. Were there other means of recovering salvage
14 that were included within rates in that 1980 case that are
15 not shown here?

16 A. No.

17 Q. This was the whole depreciation rate including
18 salvage. And to continue, these rates were approved in that
19 rate case?

20 A. That study that was put forth, it's my
21 understanding that the depreciation expense was approved.
22 Of course, the Commission does not describe depreciation
23 rates per se, but that depreciation expense was in the rate
24 case.

25 Q. And that calculation was based upon these

1 depreciation rates?

2 A. To the best of my knowledge.

3 Q. The expense was calculated based on these rates.

4 Now, subsequent to 1980, is it also correct that
5 Commonwealth has changed the depreciation rates that they
6 have applied to their plant in order to calculate their
7 depreciation expense and their depreciation reserve?

8 A. Yes, they have.

9 Q. Could you tell me when they did that during this
10 interim period?

11 A. There were several different studies completed.

12 Q. Would you have a succession of dates at each
13 point at which they changed?

14 A. I was trying to find some information I might
15 have.

16 Q. Please take your time.

17 (Witness perusing documents.)

18 A. I believe there was a study completed in the
19 1982 time frame, something in the '87 time frame, '89, and I
20 think in more recent times it might have been '89, '90 and
21 '91. They have been completing internal studies in recent
22 years more frequently.

23 Q. With regard to those studies, can you tell me
24 when they would have changed their depreciation rates that
25 they use to calculate depreciation expense?

1 A. The first study, which I believe I indicated was
2 '82, they would have then utilized those rates subsequent to
3 the completion of that study, and as they proceeded on and
4 completed new studies, they would have implemented the
5 depreciation rates shortly thereafter.

6 Q. I understand first you study, then you implement
7 the rates, but can you be any more precise about the dates
8 on which they implemented those changes?

9 A. I would have to do some research to find out
10 what those specific dates are, what the effective dates
11 were.

12 Q. To follow up on that, I believe that you have
13 also, in the course of your study, gone back and looked at
14 those changes, those changed depreciation rates, and also
15 examined the salvage calculations that were used to
16 determine depreciation expense, and then you had stated in
17 your testimony that you changed from a prospective salvage
18 calculation to a five-year trailing average calculation.

19 A. That's correct.

20 Q. Now, when you changed those rates, at what point
21 did you consider -- I'm sorry; I hate to be confusing. As
22 you tried to identify points in which new salvage rates went
23 into effect, what points did you use?

24 A. Like I said, those points were -- after the
25 depreciation rates were completed, the actual calculation or

1 the actual specific identification of the dates I don't have
2 with me today, but I can get that information for you. It
3 is reflected in my schedule and I can get those specific
4 dates.

5 Q. When the depreciation rates changed, then the
6 salvage rate also changed?

7 A. That's correct.

8 Q. Simultaneously?

9 A. Yes.

10 Q. Throughout that period, were they in each
11 instance determining salvage based upon prospective salvage
12 determinations?

13 A. Yes.

14 Q. Now, these were all internal studies, were they
15 not, or did anyone from the outside do these studies?

16 A. Initially, the studies were done externally.
17 The more recent studies were completed internally.

18 Q. Could you explain which of the studies were done
19 externally?

20 A. I believe the '82 and the '86 study. The '89
21 study, I believe, was done internally, '89 and subsequent.

22 Q. So the '82 and '86 study were done externally?

23 A. Yes.

24 Q. Who did those studies?

25 A. I believe both of those were done by John

1 Russell Associates.

2 Q. A question I have -- I don't want to get
3 confused here. I think you just referred to an '86 study
4 and I thought previously you had referred to an '87 study.
5 Are they the same?

6 A. Yes. '86 -- let me check something.

7 (Witness perusing document.)

8 A. The study was completed in '87.

9 Q. Excuse me?

10 A. '87.

11 Q. Then subsequent to the '87 study, that is the
12 '89, '90 and '91 studies, they were all done internally?

13 A. To the best of my knowledge.

14 Q. In each of these studies, '82, '87, '89, '90 and
15 '91 -- I'll just call them the five studies -- were any of
16 those depreciation rates approved by the PUC?

17 A. To the best of my knowledge they were not filed
18 with the PUC or approved. As with most companies within
19 Pennsylvania, there is no requirement that they be filed
20 with the Commission. Normally, they would just be filed in
21 the course of a rate case.

22 Q. When they implemented these changed rates, did
23 they book those rates on their books of account?

24 A. Yes.

25 Q. Would they also have used those depreciation

1 rates and expense and reserve in the earnings reports that
2 they would file with the PUC?

3 A. Yes, that would be reflected. I indicated in
4 response to an interrogatory that we also made a general
5 review, and the indications are that the company has not
6 earned its allowed rate of return over a fairly long period
7 of time.

8 Q. When did you become involved in Commonwealth
9 depreciation matters?

10 A. In this case?

11 Q. Well, let's start with this case and I will ask
12 you if there are other instances.

13 A. I can't really recall. It is probably sometime
14 in March. I don't have the file with me. I don't know.

15 Q. With regard to the depreciation rates that you
16 have proposed, is Commonwealth booking those depreciation
17 rates yet?

18 A. Not yet. Our depreciation rates that we
19 produced are prospective in the sense that they are based
20 upon a future test year of December 1993.

21 Q. The company, I believe, also prepares quarterly
22 statements. I assume they would have what, done two
23 quarterly statements since you began work on depreciation
24 issues. Do you know if they reflected any of your
25 depreciation changes in any of their accounting data?

1 A. Well, first of all, I wouldn't expect them to
2 because we are in the middle of a rate proceeding here, or a
3 hearing anyway, investigation. Normally in the course of
4 events clients or companies will implement those rates --
5 when there is some action, when there is a hearing in
6 process, normally they will wait till the outcome of that
7 hearing to implement those rates.

8 Q. So they have not implemented them prior to the
9 conclusion of this case?

10 A. I would expect not.

11 Q. Have you done any review of the depreciation
12 studies, these five studies, and offered any advice as to
13 whether or not you thought that the depreciation changes
14 made at those times were appropriate?

15 A. Well, number one, I wasn't engaged to do that.
16 Number two, that's kind of looking backwards instead of
17 forwards. I don't think there would be a lot of benefit in
18 critiquing something that is five or six years old.

19 Q. If I can back for a moment to the PUC policy on
20 net salvage. I think you've spoken to that and I guess
21 you've had experience with it.

22 Do you know when that policy became effective?

23 A. Well, it is based upon a case that is commonly
24 referred to as the Penn Sheridan case, which dates from the
25 time frame of about 1972.

1 Q. In your experience, and I know you've done a lot
2 of depreciation work before the Commission, can you recall
3 how long the Commission has been applying historic salvage?

4 A. When the Commission actually started to
5 institute that policy as a result of that case, I really
6 can't say. However, dating back to the early '70s when I
7 was involved with various studies, I remember that process
8 and it seems like it has been around for quite some time.

9 Q. To summarize, back in the '70s, as you can
10 recall doing studies, the Commission was implementing
11 historic salvage requirements at that time rather than
12 prospective estimates?

13 A. I just don't when that changed.

14 Q. Let's say by the end of the '70s that was in
15 place.

16 A. It could have been, yes.

17 Q. Just let me go through some questions I think
18 you've already answered, Mr. Robinson.

19 (Pause.)

20 Q. In your discussions with Commonwealth, to the
21 best of your knowledge were they aware of the Commission
22 policy on historic salvage when they were making these
23 changes in these five different studies?

24 A. Well, the management of Commonwealth has changed
25 over a period of time. Whether or not they were

1 specifically aware at that time, I don't know. It was
2 brought to their attention in recent periods of time.
3 Historically, I just don't know.

4 Q. In your view, is it appropriate to reflect
5 prospective salvage and report those on the earnings reports
6 for utilities even though the Commission does not accept
7 prospective salvage for ratemaking purposes?

8 A. Well, I have said many times, in many cases, in
9 my testimony that I don't believe that it is appropriate to
10 utilize prospective net salvage when, in fact, you are only
11 recovering a five-year average, because what you have is a
12 mismatch. You have a claim for cost of recovery of net
13 salvage, or negative net and positive net salvage, that is
14 experienced at the end of life, where the prospective net
15 salvage process seeks to identify the total costs, that
16 being original cost as well as any positive or negative net
17 salvage throughout life, and allocate that over a period of
18 time. So you get a dramatically different answer between
19 those two methods.

20 So, certainly, in my mind it is not appropriate to
21 recover prior amortization in rates and then book
22 prospective net salvage because you will have a mismatch.

23 Q. But do you believe that it is appropriate to
24 reflect prospective salvage in your depreciation expense and
25 report that to the Commission even though the Commission

1 does not approve that method of salvage calculation?

2 A. If you are not recovering it through rates, no,
3 I do not.

4 Q. Do you know if Commonwealth at any time during
5 this period, now, starting in 1982 up until the present, do
6 you know if their earnings reports they provided to the PUC
7 ever indicated that they were using prospective salvage?

8 A. I doubt that it was because that is typically an
9 issue that people involved in the discipline -- you know,
10 professionals in the discipline recognize techniques and
11 procedures and policies. Management oftentimes doesn't have
12 the opportunity to be aware of that situation, and of
13 course, under that scenario, would not be able to report it.

14 Q. Now, in terms of the adjustments you made in
15 going back and calculating salvage under the prospective
16 method and the historic method, did you find in each of
17 those studies that the study reflected specifically the
18 salvage that was reflected in depreciation expense by
19 account?

20 A. Would you restate that, please?

21 Q. As I understand it -- let me try to generalize
22 for a moment -- you faced the task of going back and
23 restating the depreciation expense that the company had
24 accrued over a period from 1982 through 1993. And as I
25 understand your testimony, your indication is you went back

1 and looked at the salvage rates that they were showing and
2 you recalculated those rates, not on the prospective basis
3 that they were done on but on an historic basis that would
4 conform with PUC regulatory policy.

5 In each instance when you looked at those studies,
6 did those studies indicate the salvage rates that they were
7 using for each account?

8 A. Yes. As a matter of fact, we identified the
9 percentage of net salvage attributable to each of the
10 accounts, identified the average plant balance for that
11 specific year, and calculated that out to identify the
12 resulting impact on depreciation expense.

13 We then, of course, as shown in the exhibits -- not
14 exhibits but responses to interrogatories -- we provided a
15 calculation whereby we identified each year's five-year
16 amortization of average net salvage and added that to the
17 reserve. So we deducted one out and we added the other one
18 in.

19 Q. When you went back and looked at these studies
20 -- I want to be clear about what you found -- did you look
21 at salvage rates or did you look at salvage dollar amounts
22 projected or negative amounts projected?

23 A. We looked at salvage percents relative to
24 average remaining life of the property.

25 Q. During this entire period of the five studies,

1 were they using remaining life in each of those studies?

2 A. Yes.

3 (Pause.)

4 A. Let me qualify it. I will have to check 1982.
5 I believe it was, but I will have to qualify that.

6 Q. I guess I would ask you to do that and leave
7 that as a request: please indicate whether or not the '82
8 study was based on remaining life.

9 A. I believe it was.

10 Q. If the Commission approves your proposed
11 depreciation reserve, have you projected any date when that
12 should be applied, or will it occur whenever the Commission
13 approves it?

14 A. I would say when the Commission approves it,
15 then there would be action taken by the accounting
16 department to make any adjustments that are required.

17 Q. Would it be retroactive to the end of '93 or
18 prospective only, or how would it work?

19 A. Would you clarify what you are asking me?

20 Q. Assuming this case goes forward, the Commission
21 renders a decision and it addresses the depreciation issue,
22 they will in some way determine what the appropriate
23 depreciation expense and reserve should be for Commonwealth.

24 Once that is done -- let me focus on the reserve for
25 a minute -- would they apply that reserve after the decision

1 is made to a prospective period or would they go
2 retrospective and apply that to an earlier date?

3 A. Well, the calculation we have is effective as of
4 December -- we start with the historic basis to adjust the
5 reserve, which is December of '92, so that certainly would
6 be an applicable period of time. But, of course, those
7 entries couldn't be made until it was approved by the
8 Commission, so the journal entries would need to be made
9 upon receipt of an order.

10 Q. In your view, it would be appropriate to make
11 those entries in the 1992 period even if the Commission
12 rules at a later date?

13 A. I don't know that the company would have a need
14 to adjust prior year financial statements. It would be an
15 adjustment to the reserve. So whether or not they would
16 have to go back and adjust '92 financial statements for that
17 adjustment, that's something the auditors would have to
18 speak to.

19 Q. The net effect of this, though, would be that
20 once the -- if the Commission approves the depreciation
21 reserve as you have proposed it, the depreciation reserve
22 would be smaller in that future period than it was in the
23 prior period.

24 A. Sure. If you make the adjustment the reserve is
25 going to go down.

1 Q. Now, would that mean that if you only looked at
2 the books of account, that there would be plant that was
3 depreciated during that prior period that subsequent to the
4 Commission decision would be not depreciated?

5 A. I guess I don't understand what you're asking.

6 Q. Let me try to simplify it. I understand; it
7 does get complex.

8 As I understand it, there is a \$26 million adjustment
9 that would be made in the depreciation reserve. That
10 adjustment is effective December 31, 1993 as you have
11 calculated it.

12 A. Well, actually, we made the calculation at '92
13 and then brought the historic down to future test year. So
14 the actual deduction from the reserve was made at '92. That
15 adjustment was made at that point in time because that's
16 when we identified what the amount was. And, of course,
17 starting from the historic numbers, that's when we made the
18 adjustment.

19 Q. For discussion purposes let's assume there would
20 be a \$26 million adjustment at the end of '93, and let's
21 assume that the Commission rules during 1993 in time for the
22 company to make the adjustment as of the end of the calendar
23 year 1993. Then on the books of account of Commonwealth
24 Telephone Company at the end of 1993, the reserve would be
25 \$26 million smaller, whereas at the end of 1992 it would

1 be -- well, a \$26 million difference. So the reserve would
2 have shrunk in a year's time as you would look at it merely
3 from looking at the books of account.

4 Now, would that mean that there was undepreciated
5 property in 1993 that had previously been depreciated in
6 1992?

7 A. No. What it really means is the fact that the
8 company had depreciated or charged to earnings expense that
9 it hadn't recovered, because it had the prospective net
10 salvage in the depreciation rates and was not recovering
11 that through a ratemaking process. So it's really a
12 correction of a prior over-depreciation, if you would.

13 Q. When you discuss failing to recover or did not
14 recover that depreciation expense, do you come to that
15 determination because you have looked at the intrastate
16 earnings of the company during that period?

17 A. Yes. As I've said before, we generally look at
18 the level of earnings over a period of time, and not in a
19 detailed definitive analysis, but they certainly have not
20 been earning their allowed rate of return. So in a sense
21 they have not been recovering their depreciation.

22 Q. Have you made any analysis of the depreciation
23 rates, including salvage, that the Commission had approved
24 in 1980 versus the various rates and salvage that the
25 company booked on their books during this 13-year period?

1 A. Yes. We made a general review of that also.
2 What that showed was that the depreciation rates in
3 subsequent periods of time throughout the '80s were
4 generally, if not measurably, higher than what they were in
5 the last rate case.

6 Q. The rates as the company booked them were
7 greater than the rates the PUC had approved in 1980?

8 A. That's correct.

9 Q. Was that with or without salvage?

10 A. That was the rates they used per books, which
11 included prospective net salvage.

12 Q. Did you do any such analysis without salvage?

13 A. No, I don't believe we did.

14 Q. Mr. Robinson, I would like to enter another area
15 concerning Commonwealth network deployment. My question to
16 you is: did you develop the life analysis used as a basis
17 for the company's current depreciation study?

18 A. You're talking about the underlying service
19 lives?

20 Q. Yes.

21 A. Yes, I did.

22 Q. Is your life forecast included in the study
23 based on specific network deployment plans?

24 A. Let me answer that in this fashion. The lives
25 that we have selected are based upon a number of events.

1 Number one, we analyzed the company's historical data to
2 obtain information relative to what has been experienced in
3 the recent past. We worked with the company's accounting,
4 capital recovery as well as the engineering group to discuss
5 what the plans and what the technology is, how technology is
6 moving along, how it has been advanced in recent years and
7 what impacts might come in the future. Based upon that
8 comprehensive analysis we then estimated useful lives for
9 each of the properties.

10 Q. To your understanding, when does Commonwealth
11 anticipate that it will completely retire its metal cable?

12 A. Commonwealth at this point does not have a
13 specific estimate of a date. However, there are a lot of
14 events going on in that arena. Certainly, the legislation
15 in Pennsylvania essentially mandates the implementation of
16 broadband services by the year 2015. We took that into
17 consideration as well as other industry studies,
18 depreciation background, to estimate what the life might be;
19 took into consideration the company's policy that they
20 stated that they will have 100 percent of their interoffice
21 facilities on nonmetallic facilities by the mid-'90s; the
22 fact that their plans are to convert all of their feeder
23 facilities by the year 2002 -- I think that is now being
24 considered as year 2000. So we, again, weighed all those
25 factors together in estimating the overall life of the

1 copper-based facilities.

2 Q. Did you also participate in some discussions
3 that OCA had with Commonwealth people in Dallas,
4 Pennsylvania three weeks ago, informal discovery that was?

5 A. Yes.

6 Q. Did you also subsequently participate in a
7 telephone call with Ms. Brody? Ms. Brody I believe is the
8 head of Commonwealth engineering.

9 A. Yes. She's director of operations, I believe,
10 yes.

11 Q. Is she responsible for the engineering of
12 Commonwealth plant?

13 A. That is one of her functions, yes.

14 Q. In the course of that conversation was it
15 discussed, Commonwealth's plans for network development and
16 deployment?

17 A. Yes.

18 Q. Mr. Robinson, does your depreciation study
19 forecast that every one of the existing host digital ESS
20 switching machines will be replaced by the end of 2004, with
21 most of them being replaced by the year 2000?

22 A. I would have to check. It might be in that time
23 frame, the late 1900s to the early 2000s.

24 Q. Could you please do that? Could you do such a
25 check? And also, perhaps you could explain somewhat

1 generally what a host digital ESS switching machine is.

2 A. First of all, they don't have any ESS switches.

3 Q. What host machines would you be discussing
4 there?

5 A. The switching technology that Commonwealth
6 principally utilizes is Northern Telecom, the DMS switches.

7 (Pause.)

8 A. I would say yes, the termination dates on the
9 host DMS switches are correctly estimated to be out of
10 service probably by the 2004 range, 2005 range. In speaking
11 with the engineering department, certainly there has been a
12 lot of evolution going on in the switching technology. We
13 completed studies historically. The company has been
14 experiencing a life of about 12 years on its host switching
15 account. Also, there is a lot of discussion about broadband
16 currently. There are a lot of conversions that are ongoing.
17 So there will continue to be evolution of the switching
18 category.

19 Q. Speaking of that evolution -- and I would refer
20 you back to the telephone discussion with Ms. Brody -- is it
21 correct that of the existing eight host machines, that is
22 host digital offices, eventually there will likely be a
23 consolidation into six?

24 A. I believe that's the general plan.

25 Q. Did Ms. Brody also indicate that Wellsboro would

1 likely be one of the offices eliminated even though it was
2 upgraded in 1991?

3 A. I don't know if she specifically said when it
4 was going to be eliminated or if she even said that. I
5 don't recall.

6 Q. I don't mean to say she said when it was going
7 to be eliminated. I meant to say that it would be
8 eliminated eventually; however, it was upgraded in 1991.

9 A. Yes.

10 Q. Are you familiar with the Network Integration
11 Plans which were made available to the OCA during the on-
12 site visit in Dallas?

13 A. I am generally familiar with those, yes.

14 MR. McCLELLAND: Your Honor, we would like to have
15 marked as an OCA Cross-Examination exhibit -- I believe it
16 is No. 3.

17 JUDGE KASHI: It is.

18 (Whereupon, the document was marked
19 as OCA Cross-Examination Exhibit No.
20 3 for identification.)

21 MR. McCLELLAND: Also, let me point out to the
22 company that these are some of the deployment plans and
23 economic analyses that took place with regard to -- I think
24 we have three of these deployment plans.

25 I would also note or I would solicit the company. I
don't know, I'm not sure whether the company considers this

1 proprietary or not. Our copy was not marked. But I thought
2 that they might.

3 MR. MELIA: Could we have an opportunity to take a
4 look at it?

5 MR. McCLELLAND: Sure.

6 MR. KENNARD: I appreciate you bringing that to our
7 attention. Let me ask the company.

8 MR. McCLELLAND: Maybe you need to look at it.

9 JUDGE KASHI: Why don't you show it to them?

10 MR. McCLELLAND: Yes. Let's look at it. I just want
11 to be careful in this instance that if the company does want
12 to do that, that the record be appropriately segregated.

13 (Document handed to Counsel Kennard.)

14 (Pause.)

15 MR. McCLELLAND: Your Honor, perhaps I should also
16 clarify. My expert instructs me that this is not the entire
17 plan for each of these three exchanges. This is an extract
18 of a portion of the plan.

19 MR. KENNARD: Without having the proper people here
20 to make that determination, we are going to be cautious and
21 say let's make it proprietary. We can always check later
22 and have that label removed.

23 MR. McCLELLAND: Your Honor, we are agreeable for the
24 time being with marking it proprietary. I would wish that
25 the company would review it and see if it needs to be so.

1 It doesn't seem to be that sensitive to me. Let's review it
2 later on and see if it has to be.

3 JUDGE KASHI: All right. For the time being we will
4 have the exhibit marked proprietary and also the record at
5 this point.

6 (Whereupon, the following pages 121 through 134
7 contain proprietary information.)

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1 JUDGE KASHI: Back on the record.

2 Cross-examine, counsel.

3 BY MR. McCLELLAND:

4 Q. Mr. Robinson, referring back to the complete
5 retirement of the metal cable, are you aware of any economic
6 feasibility studies performed by the company which analyzes
7 the economic impact of that retirement?

8 A. I know that they look at construction projects
9 and do a present worth calculation of first cost and
10 expenditures and items like that, and they have some other
11 guidelines that they follow relative to fiber versus copper
12 facilities. But certainly that situation will most likely
13 change, not that they won't continue to make economic
14 studies but the drivers for construction I'm assuming will
15 change rather dramatically in future years.

16 Q. You are not aware then of any studies that would
17 encompass this period we have been speaking of, that is
18 until the year 2015?

19 A. Well, there was information provided to the PA
20 PUC for an Infrastructure Study that looked at a couple
21 scenarios relative to conversion to broadband services.

22 Q. Have you discussed with them what those
23 considerations are?

24 A. I believe the one scenario was to be fully
25 converted I want to say 2010.

1 Q. Mr. Robinson, another question I have is -- and
2 I refer back to our telephone discussions with Ms. Brody.
3 Do you recall her statement that she believes that fiber
4 will begin to be deployed in the Commonwealth distribution
5 plant in 2008 and continuing through the 2015 period?

6 A. I believe that she responded something to the
7 effect of 2008 to 2015. In what context, whether that was
8 full implementation or whether that was taken as initial
9 construction, I don't know how Mr. Currin may have taken
10 that response, but I think her intent was that she envisions
11 that certainly 2015 seems to be a target date for the
12 probability that they are going to be obligated to meet
13 that.

14 Q. Do you recall her indicating that she did not
15 anticipate beginning to deploy in the distribution plant
16 until 2008?

17 A. I don't recall that. Maybe that's the way it
18 came across. I don't think that was the intent. Given that
19 their current plans are to complete their construction of
20 fiber in interoffice in the mid-'90s and feeder by the year
21 2000, I rather doubt that they will sit and wait for the
22 year 2015 to start -- or 2008 even -- to initiate the start
23 of construction of fiber in the distribution facilities. I
24 just don't think that's realistic to believe that.

25 Q. You spoke before of building the broadband

1 network. Have you given any consideration to the
2 possibility of building a broadband network, and that is a
3 network that provides services at 1.54 megabits per second
4 or greater, over non-fiber, that is metal cable?

5 A. Well, it has been indicated to me by the company
6 that their interpretation of that is that it is a fiber
7 network, not ADSL or whatever technologies copper-based
8 facilities are based upon.

9 Q. Do you know if Commonwealth presently provides
10 any services at 1.54 megabits per second?

11 A. I would have to check on that.

12 Q. Have you asked them whether they currently
13 provide broadband service?

14 A. Not specifically.

15 Q. Do you know if the company has performed any
16 fiber trials to customers?

17 A. I believe during our conference call that Ms.
18 Brody indicated that they have a fiber trial going on in the
19 Quarryville Exchange. I believe she said that was -- that
20 may have only been to an OPM or some distribution point.

21 Q. My question is: has the company trialed fiber
22 through the distribution plant, that is in close proximity
23 to the customer it provides service?

24 A. I'm not specifically aware of that.

25 Q. Do you have any information as to the number of

1 miles of fiber cable currently in service by the company?

2 A. The number of fiber miles?

3 Q. Yes.

4 A. At this moment, no, I do not.

5 Q. Do you have any information as to the number of
6 metal cable miles?

7 A. As a matter of fact, we just provided that in
8 informal discovery information. I believe interoffice
9 metallic facilities was what we provided in response to Mr.
10 Currin's request. I'm trying to find which one.

11 Q. I think I know what you're referring to here, if
12 I could help with that. It was Informal Discovery Question
13 No. 6.

14 A. Yes. That is a list of the sheath miles of
15 interoffice metallic facilities currently in service as of
16 December '92.

17 Q. Now, that would be sheath miles of metal cable
18 running between central offices in the Commonwealth
19 territory?

20 A. That is correct.

21 Q. Isn't it clear that the vast majority of the
22 cable does not return between the central offices but runs
23 from the central offices to the customers?

24 A. Well, I guess in sheath miles there certainly
25 would be -- a larger quantity of far smaller size cables

1 would run throughout the distribution system as opposed to
2 much larger cables in interoffice facilities.

3 Q. Do you have any estimate on a total basis as to
4 what cable miles the company presently has?

5 A. Not currently, no.

6 MR. McCLELLAND: Just a moment, Your Honor. I'm
7 looking for an exhibit.

8 (Pause.)

9 BY MR. McCLELLAND:

10 Q. Mr. Robinson, I would like to show you another
11 document, which also was a response to an OCA interrogatory.

12 MR. McCLELLAND: Your Honor, I would like to have
13 this marked for identification as OCA Cross-Examination
14 Exhibit No. 4.

15 JUDGE KASHI: So marked for purposes of
16 identification.

17 (Whereupon, the document was marked
18 as OCA Cross-Examination Exhibit No.
19 4 for identification.)

20 (Document distributed to parties and the witness.)

21 BY MR. McCLELLAND:

22 Q. Mr. Robinson, is this a response that you
23 earlier provided to us as an interrogatory answer?

24 A. Yes. This is a response that was provided to me
25 by the company, which was part of a scenario of the
Infrastructure Study, which, it was indicated to me, was

1 part of the infrastructure movement to fiber by the year
2 2010, I believe.

3 Q. Would you look down in your answer there where
4 it states, "the company has been aggressively installing
5 fiber facilities throughout its interexchange and feeder
6 cable system." Do you see that?

7 A. Yes.

8 Q. Presently, do you know how many feeder cables
9 they have converted to fiber optics?

10 A. This question has been asked numerous times and
11 as a response -- well, initially it was asked how many
12 dollars or what was the investment in feeder cables versus
13 interoffice cables versus distribution cables. We responded
14 on several occasions that the company doesn't maintain the
15 investment in that fashion.

16 Q. Today I'm trying not to get at the dollar issue
17 but simply do you know how many routes they actually have
18 finished in fiber optics?

19 A. If I can go ahead. Subsequently I spoke with
20 the engineering department and the problem is this, in the
21 sense of one of interpretation of what is interoffice and
22 which is feeder facilities. By that I mean there are cables
23 that are 100 percent interoffice cables between one CO and
24 another; there are other fiber cables that portions of the
25 fibers within the cable are interoffice while other portions

1 go to remotes.

2 So the response was most of it or a large majority --
3 I think one of the responses was a rough estimate saying
4 most of it was interoffice. Well, some of those fibers
5 within the cable are not necessarily interoffice facilities.
6 So it becomes one of designation and one of identification
7 of which of the fibers are interoffice, which of the fibers
8 are feeder facilities, so it makes the response to that
9 question difficult if not nearly impossible.

10 Q. Mr. Robinson, with regard to the remainder of
11 this exhibit, was this exhibit prepared by Commonwealth in
12 response to questions concerning infrastructure deployment?

13 A. Yes, it was. I asked for an exhibit in support
14 of that. I must plead ignorance in that respect. I did not
15 prepare this exhibit. This response is really information
16 that was provided with the Infrastructure Study.

17 Q. Do you know what the relationship between the
18 revenue and expenses shown here would be to the deployment
19 of fiber optics facilities that you have also discussed?

20 A. I guess I don't understand the question.

21 Q. Isn't this a projection of revenues and expenses
22 that would relate to fiber optic deployment by 2015?

23 A. I was led to believe that it was 2010. As a
24 matter of fact, I think I state so in my --

25 Q. I stand corrected.

1 A. I could be wrong, but that was my understanding.

2 Q. Do you know if or have you studied the extent to
3 which these revenue and expense projections are consistent
4 with anything else that has been provided by the company in
5 this case?

6 A. I have not made an analysis of this exhibit, no.

7 MR. McCLELLAND: Your Honor, if I could have a few
8 moments, I think we are about concluded.

9 JUDGE KASHI: All right.

10 (Pause.)

11 MR. McCLELLAND: Your Honor, we are not going to
12 propose any present questions but we do have some data
13 requests for Mr. Robinson. I would preface it by saying
14 that we are concerned with the rather extensive
15 recalculation of the depreciation reserve since the last
16 time the PUC reviewed depreciation expense and approved that
17 expense. While we have received some information from Mr.
18 Robinson and Commonwealth, that has not been sufficient to
19 do the rather extensive study that we need to do to look
20 back at that entire period. It is, after all, a 13-year
21 period since the Commission approved the depreciation rates.

22 What we would like Mr. Robinson to provide is the
23 depreciation rates that Commonwealth did apply in each year,
24 by account, and the account lives and the salvage components
25 of those depreciation rates during this period. And the

1 period does extend from 1980 up until the present.

2 Also, we would like to review those studies that we
3 talked about in the initial part of the cross-examination,
4 that is -- I don't want to miss them, but I think it started
5 in '85, and '87, and there were five altogether.

6 We would also like --

7 MR. KENNARD: Can you slow down for just a second?

8 MR. McCLELLAND: Sure. I can go back and repeat if
9 it's not clear.

10 MR. KENNARD: Okay. Thank you.

11 MR. McCLELLAND: And all of those studies -- I am
12 reminded, the first one was 1982.

13 We would also request that Commonwealth recalculate
14 its depreciation expense and reserve since January 1, 1980
15 -- that is the time when the PUC approved the depreciation
16 expense for Commonwealth -- based upon the rates that
17 Commonwealth filed in that case in support of the
18 depreciation expense in that case. We would like that also
19 to show the salvage recovery that was included within that
20 depreciation expense.

21 I want to clarify. I think Mr. Robinson has
22 explained he has given us the depreciation rates related to
23 the case; however, those rates do not also include the
24 salvage that occurred at that time. That is a separate
25 calculation, but a closely related one, and to the extent

1 that accounts have changed -- and we recognize from that
2 list of accounts in 1980 that certain accounts have
3 changed -- to explain how he has continued to apply those
4 rates to present day accounts.

5 MR. KENNARD: I'm sorry; I didn't understand that
6 last.

7 MR. McCLELLAND: Okay; can I go over that last part
8 again?

9 MR. KENNARD: I've got CTCO recalculate expense and
10 reserve since PUC approval of the 1978 case based upon the
11 rates that were used and that were finalized in that case,
12 show the salvage recovery piece --

13 MR. McCLELLAND: Yes, starting with that last
14 request, just to try to clarify, to recalculate the
15 depreciation expense and reserve from that period,
16 essentially, that is 1980 through 1992, based upon the
17 depreciation rates that Commonwealth filed in that case, and
18 also separately to show the salvage recovery.

19 MR. KENNARD: That's the point at which I lost you,
20 the point you're going to come to now.

21 MR. McCLELLAND: After that I said to the extent the
22 accounts have changed --

23 MR. KENNARD: The account balances?

24 THE WITNESS: No, the Part 31 and Part 32.

25 MR. McCLELLAND: The accounts are different now than

1 they were in 1980, --

2 THE WITNESS: Sure.

3 MR. McCLELLAND: -- and you have to apply those
4 depreciation rates to different accounts. Some are split,
5 some are changed. However, the company does it, to tell us
6 how they did it and applied that to different accounts.

7 MR. KENNARD: Make the transition to Part 32
8 accounting and then explain, by account, how that transition
9 was made?

10 MR. McCLELLAND: Yes. How those 1980 depreciation
11 rates have been applied to these revised accounts.

12 JUDGE KASHI: You wanted this yesterday?

13 MR. KENNARD: Thank you, Judge.

14 MR. McCLELLAND: Your Honor, we have been asking for
15 this information for awhile. Some of it we have received.
16 I think that, in particular, as we look for depreciation
17 rates in the early part of that period, we have not received
18 that. We want to do this in a comprehensive fashion.
19 Essentially, it is a 13-year problem and it requires a 13-
20 year analysis.

21 THE WITNESS: We provided, in response to informal
22 data requests, specific work papers identifying the support
23 for all the reserve adjustments. As asked for, we provided
24 that information.

25 MR. KENNARD: And you've had the depreciation rates,

1 as you went through in your cross, that were used in the
2 1980 case for quite a while. This is nothing you've asked
3 for before as far as we know.

4 MR. McCLELLAND: We have asked for the depreciation
5 rates, but we have not received -- the depreciation rates
6 and the account lives. We are entitled --

7 THE WITNESS: We gave you a specific, detailed
8 calculation of the impact of the salvage factors and of all
9 the changes in depreciation rates. We gave you 15 pages of
10 calculations to show the impact of that prospective net
11 salvage on reserve, in detail.

12 MR. McCLELLAND: We don't have those depreciation
13 rates in the earlier period.

14 THE WITNESS: For every period since 1980 we gave
15 them to you.

16 MR. McCLELLAND: Your Honor, could we go off the
17 record for a moment?

18 JUDGE KASHI: Sure. Let's go off the record.

19 (Discussion off the record.)

20 JUDGE KASHI: Back on the record.

21 We discussed the matter with counsel off the record.
22 The information is understood and will be provided in
23 keeping with the idea that testimony has to be provided by
24 OCA within several weeks.

25 MR. McCLELLAND: Your Honor, with that we have no

1 further cross-examination. I would move our Cross-
2 Examination Exhibits 3 and 4 into the record.

3 MR. KENNARD: Judge, first off, I checked with the
4 president of Commonwealth Telephone Company. The company's
5 deployment of facilities is an increasingly competitive
6 market and we would like the confidential and protective
7 nature of the label that was affixed to it before to remain.

8 JUDGE KASHI: All right. That is OCA Cross-
9 Examination Exhibit 3.

10 MR. KENNARD: Yes.

11 JUDGE KASHI: All right.

12 MR. KENNARD: And I would ask counsel for OCA what
13 the use is of Exhibit 4. It is a prospective forecast over
14 an extended period of time of income statements and balance
15 sheets that was used in an Infrastructure -- it is all
16 financial, but it was used in an Infrastructure Study that
17 was developed in a very short period of time. It could be
18 used, I suppose, for accounting purposes in this case, which
19 the company thinks would be inappropriate. If the OCA is
20 going to use it for that purpose, we would like some advance
21 notice so we can have our witnesses address that issue.

22 MR. McCLELLAND: I think, Your Honor, the issue is
23 -- and I'm not exactly sure how we're going to come out on
24 it, but we do think that the fiber optic deployment that Mr.
25 Robinson has discussed, and which underlies the OCA

1 Cross-Examination Exhibit 4, is very significant. It takes
2 substantial financial resources to do. We are somewhat
3 skeptical as to whether they fully intend to do it. At
4 least this shows some of the effect of doing it.

5 Mr. Kennard asked for other information about how it
6 can be used. To some extent we are concerned that the type
7 of revenue increases in particular that are being shown
8 there, even in the early years, 1993, 1994, are much higher
9 than those which the company is projecting in this case.
10 That doesn't mean we are going to use those numbers, but we
11 think there is some inconsistency.

12 MR. KENNARD: But it is not being used to impeach the
13 test year data presented by the company in this case, only
14 to impeach the company's forecast relative to fiber
15 deployment, and whether or not that is financially possible
16 is the issue you want to bring to focus in Exhibit 4?

17 MR. McCLELLAND: At the present time, in this
18 depreciation context, that is its purpose.

19 MR. KENNARD: I would only ask you this: if that
20 intention changes, please let us know before the record
21 closes so we don't have to, without a record supported by a
22 witness explaining how this was developed, try to impeach a
23 future test year based upon data provided in the
24 Infrastructure Study. Do you understand what I mean?

25 MR. McCLELLAND: Yes, I think I understand what you

1 mean.

2 JUDGE KASHI: All right. With those notations what
3 have been marked and identified as OCA Cross-Examination
4 Exhibits 3 and 4 are received into the evidentiary record.

5 (Whereupon, the documents marked as
6 OCA Cross-Examination Exhibits Nos.
7 3 and 4 were received in evidence.)

8 JUDGE KASHI: Redirect?

9 MR. MELIA: Your Honor, I would like a minute or so.

10 JUDGE KASHI: Let's take five minutes.

11 (Recess.)

12 JUDGE KASHI: Back on the record.

13 Redirect, counsel?

14 MR. MELIA: No redirect for the witness.

15 JUDGE KASHI: Thank you very much.

16 MR. McCLELLAND: Can I have a moment with counsel?

17 JUDGE KASHI: Yes.

18 (Pause.)

19 JUDGE KASHI: Do you want to move your exhibits, sir?

20 MR. MELIA: Yes, Your Honor.

21 MR. McCLELLAND: Your Honor, I was having a short
22 conversation with counsel for the company. I don't think
23 this is a new matter but before we left deprecation I
24 wanted to raise it. That is, at the time that Mr. Currin
25 made his visit to the company headquarters he had asked for
some other information as a part of informal discovery, some

1 of which he has received, some of which he has not. I
2 wanted to put on the record what we are still looking for.

3 JUDGE KASHI: All right.

4 MR. McCLELLAND: And see if there is any dispute over
5 this.

6 I believe that there is an integrated plan with
7 regard to microwave deployment.

8 THE WITNESS: Excuse me; we gave you a response to
9 Question 16 this morning, and that relates to microwave.

10 MR. McCLELLAND: We are not aware of 16. Our set
11 stops at 15.

12 (Document handed to Counsel McClelland by Counsel
13 Melia.)

14 MR. McCLELLAND: Your Honor, this was what we were
15 looking for.

16 JUDGE KASHI: All right.

17 MR. McCLELLAND: Also, there are some area-wide
18 deployment plans which relate to switching facilities. I am
19 informed there are specific switching plans, and there are
20 area-wide plans. We are still looking for area-wide plans.
21 I believe there are eight of them. We have not yet received
22 them and still would like to do so.

23 THE WITNESS: Eight? More like 72 of them.

24 MR. McCLELLAND: To try to clarify, there may very
25 well be 72 switch plans. I also believe that there are

1 area-wide plans that encompass a number of switches.

2 THE WITNESS: Yes. That is the Integrated Network
3 Plan. We looked at the four we gave you. As a matter of
4 fact, that's what we've been working with with the exhibits
5 here. There are 74 more of them that are in the process of
6 being copied.

7 MR. McCLELLAND: I'll stand corrected, and we will
8 look forward to receiving those.

9 JUDGE KASHI: Is that it, sir?

10 MR. McCLELLAND: That's it.

11 JUDGE KASHI: Thank you very much.

12 That which has been marked and identified as
13 Commonwealth Statement No. 5, together with Commonwealth
14 Exhibit No. EMR-1, shall be received into the evidentiary
15 record, without objection?

16 (No response.)

17 JUDGE KASHI: Without objection.

18 (Whereupon, the documents marked as
19 Commonwealth Statement No. 5 and
20 Commonwealth Exhibit No. EMR-1 were
received in evidence.)

21 JUDGE KASHI: Thank you, sir. You're excused.

22 (Witness excused.)

23 MR. KENNARD: Commonwealth Telephone would call Mr.
24 Scott Burnside to the stand.

25

1 Whereupon,

2 SCOTT BURNSIDE

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. Scott Burnside.

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

10 A. Commonwealth Telephone Company.

11 Q. In what capacity?

12 A. I am Vice President of Regulatory and Public
13 Affairs.

14 Q. Do you have before you a document styled, up in
15 the upper right-hand corner, Commonwealth Statement No. 1,
16 consisting of 13 pages, to which there are appended Exhibits
17 SB-1 through 20?

18 A. I do.

19 MR. KENNARD: Your Honor, we would ask that these
20 documents be identified for the record in the manner marked.

21 JUDGE KASHI: So marked for purposes of
22 identification.

23 (Whereupon, the documents were marked
24 as Commonwealth Statement No. 1 and
25 Commonwealth Exhibits Nos. SB-1
through SB-20 for identification.)

1 BY MR. KENNARD:

2 Q. Was the material in the statement and in the
3 exhibits prepared by you or under your supervision?

4 A. Yes, it was.

5 Q. Do you have any corrections or modifications you
6 wish to make to those documents at this time?

7 A. No, I don't.

8 Q. Is the information contained in Commonwealth
9 Statement No. 1 and Exhibits SB-1 through 20 true and
10 correct to the best of your knowledge, information and
11 belief?

12 A. Yes, it is.

13 MR. KENNARD: Your Honor, we would ask that the
14 documents be introduced into the record at this time as
15 identified.

16 JUDGE KASHI: Subject to timely motions and/or
17 objections pending cross-examination, they will be received
18 into the evidentiary record.

19 MR. KENNARD: That concludes the direct examination
20 by Commonwealth Telephone, Your Honor. The witness is
21 available to answer any questions the parties might have.

22 JUDGE KASHI: Thank you.

23 Mr. Keffer.

24 MR. KEFFER: Yes. Thank you.

25

CROSS-EXAMINATION

1
2 BY MR. KEFFER:

3 Q. Good afternoon, Mr. Burnside. I am Mark Keffer
4 with AT&T.

5 A. Good afternoon.

6 Q. I don't think I need a formal introduction. I
7 believe we've run across one another on several occasions.

8 Just a couple of tonal questions first. I've got an
9 ad here, and I will let you look at it. I don't intend to
10 make it an exhibit. It says that Commonwealth Telephone
11 Company is the 20th largest telephone company in the United
12 States. Clearly, that's what it says; you can agree with
13 that?

14 (Document shown to witness.)

15 A. Yes.

16 Q. How is that measured, by number of access lines,
17 number of customers?

18 MR. KENNARD: Have you ever seen the advertisement
19 before, Mr. Burnside?

20 THE WITNESS: I can't say that I have.

21 MR. KEFFER: I'm just asking does he know if
22 Commonwealth is about the 20th largest telephone company in
23 the United States.

24 THE WITNESS: Generally, those things are measured on
25 access lines, yes.

1 BY MR. KEFFER:

2 Q. Okay. Do you know how many telephone companies
3 there are in the United States?

4 A. Approximately, 1200. We're talking about local
5 exchange carriers, I assume?

6 Q. Yes.

7 A. Yes.

8 Q. Yes; local exchange carriers.

9 Now, in your testimony, towards the back, you have a
10 series of charts. I guess my favorite is CTCo Exhibit SB-
11 18, which is a bar chart showing that compared to the four
12 other largest local exchange companies in Pennsylvania,
13 Commonwealth's 1R line rates are lower than those other
14 companies. Just to make the record clear, what is a 1R line
15 rate?

16 A. A 1R line rate is a residence single party line,
17 and I believe that chart addresses the average.

18 Q. So the \$5.80 is --

19 A. I'm sorry; did you say -- I'm on the previous
20 page.

21 Q. I'm on 18, the one with the dark black.

22 A. I've got it. Well, it's the same thing.

23 Q. It's just a little background thing, but the
24 5.80 indicates that Commonwealth's average residential rate
25 is \$5.80?

1 A. That's correct.

2 Q. And these are the average rates for the other
3 companies shown on the bar chart?

4 A. That's correct.

5 Q. And clearly the chart shows that Commonwealth's
6 rate is lower than the four other large LECs in the state,
7 and that's something that you point to with significant
8 pride in your testimony.

9 A. Yes, sir.

10 Q. Now, have you ever seen any similar bar chart
11 comparing permanent switched access charges?

12 A. No, I don't think I have.

13 Q. In your testimony you -- to make sure I
14 understand your testimony, I think you're making a request
15 that billing and collection be detariffed or deregulated, or
16 both?

17 A. Detariffed -- I'm sorry; deregulated. Pardon
18 me.

19 Q. What does deregulated mean, taken below the line
20 and the earnings from that are not used for ratemaking
21 purposes?

22 A. That's correct.

23 Q. Are you aware of any local telephone companies
24 in Pennsylvania that have had billing and collection
25 deregulated?

1 A. In what jurisdiction are you referring to?

2 Q. Commonwealth of Pennsylvania.

3 MR. KENNARD: Intrastate?

4 THE WITNESS: Intrastate or interstate?

5 BY MR. KEFFER:

6 Q. I'm sorry; intrastate.

7 A. I am not.

8 Q. I'm going to show you a few more ads and ask you
9 a few questions about these. That ad -- I'm not going to
10 make these exhibits. Just for the record, what is that ad
11 intended to convey to the public?

12 (Document shown to witness.)

13 A. It's a Commonwealth Telephone Company ad that
14 indicates that we have invested a certain amount of money to
15 improve the switching and network facilities. It depicts
16 two telephones that are no different, suggesting that before
17 and after you cannot see the difference but you will feel
18 the difference when you use the telephone.

19 Q. Towards the end of the ad it instructs the
20 public that if they have any questions about Commonwealth
21 Telephone Company they should call an 800 number. What is
22 that 800 number?

23 A. The 800 number is 1-800-225-5282.

24 Q. 5282. Okay. Now, if a customer of Commonwealth
25 Telephone Company wants to buy Call Waiting or Call

1 Forwarding or Three-Way Calling or Speed Calling and they
2 are using this ad -- and I will show you the ad -- what 800
3 number would they call?

4 (Document shown to witness.)

5 A. 1-800-225-5282.

6 Q. The same number that was in the prior ad; is
7 that right?

8 A. That's correct.

9 Q. I will show you an ad informing customers that
10 they have an opportunity to choose their long distance
11 company, and this is an ad for Commonwealth Telephone
12 Company. It says, "Questions, call..." an 800 number. What
13 800 number are customers being told to call?

14 (Document shown to witness.)

15 A. I would like to review the ad, if I may, for
16 just a minute.

17 Q. Please take your time.

18 (Witness perusing document.)

19 A. It is an advertisement to tell customers that an
20 Equal Access Ballot will be forthcoming, and the number is
21 1-800-225-5282.

22 Q. The same number as in the prior two ads?

23 A. Yes.

24 Q. And this is an ad for Commonwealth Telephone
25 Company?

1 A. Yes.

2 Q. I have another ad for Commonwealth Telephone
3 Company. What is the service that is being advertised?

4 (Document handed to witness.)

5 A. The service being advertised is Personal Ringing
6 Service.

7 Q. And that is a service offered by Commonwealth
8 Telephone Company?

9 A. It is.

10 Q. If I was a customer and I wanted to buy that
11 service, what number would I call?

12 A. 1-800-225-5282.

13 Q. Again, the same number?

14 A. Exactly.

15 Q. Another Commonwealth Telephone Company ad. What
16 is that ad?

17 (Document shown to witness.)

18 A. "Announcing the most important improvement in
19 telephone service since you were a kid." It's advertising
20 -- well, if you will give me a moment to read the fine print
21 I will tell you.

22 (Witness perusing document.)

23 A. It is an announcement, really, of installation
24 of a new central office in Muhlenberg.

25 Q. And if customers have questions, what number do

1 they call?

2 A. 1-800-225-5282.

3 Q. Again, a Commonwealth Telephone Company ad?

4 A. Again, a Commonwealth Telephone Company ad.

5 Q. Now, here is something a little different. It
6 is an Equal Access Ballot, again, from Commonwealth
7 Telephone Company. It lists a number of long distance
8 companies, does it not?

9 (Document shown to witness.)

10 A. Yes, it does.

11 Q. Is Commonwealth Long Distance listed as one of
12 the long distance companies?

13 A. At the top is AT&T Long Distance, followed by
14 Sprint, then Commonwealth Long Distance, and several others
15 follow.

16 Q. Just so the record is clear, Commonwealth Long
17 Distance and Commonwealth Telephone Company are separate
18 companies; is that correct?

19 A. That's correct.

20 Q. According to this Equal Access Ballot, if a
21 customer wants to sign up for Commonwealth Long Distance,
22 what number should the customer call?

23 A. The number listed on the ballot was, at the
24 time, 1-800-225-5282.

25 Q. The same number as all those ads for

1 Commonwealth Telephone Company.

2 Okay. I'll show you another ad for -- well, which
3 company put out that ad?

4 (Document handed to witness.)

5 A. This is an advertisement for Commonwealth Long
6 Distance's Calling Card, I believe.

7 Q. And if a customer wants Customer Service, what
8 number do they call?

9 A. They call 1-800-225-5282.

10 Q. Our same number here. All right. I've got a
11 couple more ads for Commonwealth Long Distance --

12 MR. KENNARD: We will stipulate that the 800 number
13 is obviously the same.

14 THE WITNESS: I think you've made the point that the
15 800 number is the same.

16 MR. KENNARD: Can I have those when you're done with
17 them just to look at?

18 (Documents handed to Counsel Kennard by Counsel
19 Keffer.)

20 BY MR. KEFFER:

21 Q. Now, Mr. Burnside, I'm going to show you a
22 document and ask you -- I guess first maybe I ought to have
23 it marked for identification.

24 JUDGE KASHI: Would you like to have this marked for
25 identification?

1 MR. KEFFER: Yes, Your Honor, I would like to have it
2 marked as AT&T Cross Exhibit 1.

3 JUDGE KASHI: So marked for purposes of
4 identification.

5 (Whereupon, the document was marked
6 as AT&T Cross-Examination Exhibit
No. 1 for identification.)

7 (Document distributed to parties and the witness.)

8 BY MR. KEFFER:

9 Q. Mr. Burnside, this document was provided to AT&T
10 in response to AT&T Interrogatory 69, I believe.

11 A. Set I?

12 Q. Set I.

13 (Pause.)

14 Q. Have you had an opportunity to review it?

15 A. Yes.

16 Q. Let me ask you a couple of questions to make
17 sure I understand what this is. If a new customer calls
18 Commonwealth Telephone Company to sign up for telephone
19 service and attempts to select as his or her presubscribed
20 carrier a long distance company other than Commonwealth Long
21 Distance, what is going to happen?

22 A. At the end of the Chapter 64 required dialogue
23 the Business Office representative will say as outlined in
24 this document. If they have not chosen CLD, the Business
25 Office rep. will indicate that "In case you want to know

1 more about Commonwealth Long Distance, we can transfer you
2 to their Business Office" in an attempt to influence that
3 decision.

4 Q. In some of the ads -- and I am through with
5 that.

6 A. Well, I think that that was incomplete in that
7 if you also noticed in the response to that Interrogatory
8 69, two pages further back, as part of the very document
9 that you submitted -- if I may, Your Honor, read the
10 additional paragraphs?

11 JUDGE KASHI: This is the rest of the interrogatory
12 answer?

13 THE WITNESS: Yes.

14 JUDGE KASHI: All right. Go ahead.

15 MR. KEFFER: Can I get it in front of me so I can
16 read along? Can I look over your shoulder?

17 MR. KENNARD: Sure. What number was it?

18 THE WITNESS: Sixty-nine.

19 MR. KENNARD: Whereabouts?

20 MR. KEFFER: Two pages after?

21 THE WITNESS: No. The page after the handout.

22 MR. KENNARD: Okay.

23 MR. KEFFER: Why don't I just go up here and look
24 what he's reading from. Can I?

25 THE WITNESS: Sure. There's two I want to read.

1 "We have asked" -- this is a continuation of the
2 document that you handed me the first page of. It is a
3 training document for Business Office Clerks.

4 "We have asked that all employees remain impartial
5 and refrain from recommending (or criticizing) individual
6 carriers or offering specific evaluative details about any
7 carrier's rates, service or other related policies. When on
8 the job acting in official capacity as a company
9 representative, we should provide only the following
10 information when asked about various long distance
11 companies: provide names of companies and their associated
12 telephone numbers; explain customers will have an option to
13 select a primary interexchange carrier."

14 If you then go to the next page, or the page after
15 that, we say, "We share the responsibility to treat
16 competing long distance companies equally. We must refrain
17 from offering specific details about any carrier's rates or
18 services. This is especially applicable to employees who
19 experience a great deal of public contact while on the job.
20 Service Representatives, Repair Clerks, Installation/Repair
21 Technicians should expect to receive numerous customer
22 inquiries."

23 BY MR. KEFFER:

24 Q. I'm a little intrigued by one of the thoughts
25 that you -- can I look at the second sheet there?

1 A. Yes.

2 (Document handed to Counsel Keffer.)

3 Q. The paragraph opens with the notion that, and I
4 will quote, "We share the responsibility to treat competing
5 long distance companies equally." Do Commonwealth Telephone
6 Company business representatives attempt to transfer new
7 Commonwealth Telephone Company customers to any long
8 distance company other than Commonwealth Long Distance?

9 A. They do not. However, I must add that your
10 company and any other long distance company who would have
11 requested that be the case, we would have done so.

12 Q. How would that work?

13 A. A long distance carrier would have to come to us
14 and say, "We would like you, your Business Office, to
15 represent us," and we would have to negotiate some sort of a
16 deal to do that.

17 Q. Let's say that AT&T, MCI and Sprint all wanted
18 the same treatment that you are giving Commonwealth Long
19 Distance, a customer calls in to sign up for service, how is
20 the business rep. going to handle referrals to four
21 different companies?

22 A. Well, first of all, in the choosing process --
23 that's not what we're talking about. In front of the
24 Business Office rep. comes a screen with all the various
25 carriers who provide equal access in that particular office.

1 That is part of the Chapter 64 scripting.

2 Q. And they come up in random order on the screen.

3 A. They come up in random order.

4 But at the end of that, once the requirements of the
5 chapter have been met, the Business Office rep. would simply
6 say, if, hypothetically, such an arrangement were made with
7 your company: We represent AT&T. We'll be happy to
8 transfer you to AT&T. Here's their number, 1-800 something
9 else. And the same would be true with MCI or Sprint or
10 anybody else.

11 Q. Let's shift to something else. Are you aware of
12 a program -- and it was mentioned in some of the ads that
13 you gave to me that I got my hands on this morning -- a
14 program where if a customer signs up for Commonwealth Long
15 Distance, the customer would get a 10 percent discount on
16 Commonwealth Telephone Company long distance service?

17 MR. KENNARD: Can you refer to something, please?
18 That doesn't sound --

19 MR. KEFFER: Just give me a minute to dig for this,
20 because I just got this stuff this morning and I'm having an
21 organizational problem.

22 (Pause.)

23 MR. KEFFER: Here we go.

24 BY MR. KEFFER:

25 Q. Mr. Burnside, I will show you another ad, which

1 part of the response to AT&T Interrogatory 73.

2 MR. KENNARD: If you say so, Mr. Keffer.

3 BY MR. KEFFER:

4 Q. That's my recollection. We can check the
5 number, but let me read you the language. "New Subscriber
6 Special. Selection Commonwealth Long Distance and receive a
7 10 percent discount on your Commonwealth Telephone Company
8 tolls for three months."

9 Did I read that correctly?

10 (Document shown to witness.)

11 A. Yes, You did.

12 Q. Is that program similar to what I described in
13 my original question?

14 A. It is, but I think your original question asked
15 whether I was aware of such a program.

16 Q. And you now are aware?

17 A. And now I am. That is a decision, obviously,
18 made by Commonwealth Long Distance to offer that discount.
19 I would speculate that that discount is on intralata toll.

20 Q. I don't know if this is the same ad or not, but
21 it was stapled to the little piece I was just reading from.
22 On this ad -- and I will show you this and I will read the
23 bold print at the top of the ad. "Special Rates for Special
24 Dates. Use Commonwealth, it Pays."

25 Now, does the headline in that ad distinguish between

1 Commonwealth Telephone Company and Commonwealth Long
2 Distance, or might that be confusing to customers?

3 MR. KENNARD: Or any other Commonwealth, Commonwealth
4 of Pennsylvania.

5 BY MR. KEFFER:

6 Q. Or any other Commonwealth subsidiary.

7 (Document shown to witness.)

8 A. Perhaps, but less than two inches away, in
9 boldface type equally as large, the Commonwealth Long
10 Distance logo and the name "Commonwealth Long Distance
11 Company" is there.

12 Q. Are there any similarities in your view between
13 the Commonwealth Long Distance logo, the C-TEC logo and the
14 Commonwealth Telephone Company logo?

15 A. They all start with "C".

16 Q. Now, recently the Commission has issued a couple
17 of orders, one in a case involving Palmerton Long Distance
18 and one in a case involving Visions Long Distance America,
19 which is a subsidiary or an affiliate of Rochester
20 Telephone. Are you aware of those orders?

21 A. I'm aware of them generally, not specifically.

22 JUDGE KASHI: Do you have docket numbers on those?

23 MR. KEFFER: Yes, Your Honor. One is Docket
24 A.310153; that is the Visions Long Distance America, an
25 order entered June 4, '93. The Palmerton Long Distance case

1 was Docket No. A-310147, and the order was entered April 29,
2 1993.

3 BY MR. KEFFER:

4 Q. My question is this, Mr. Burnside: in the
5 original motion of Chairman Rolka in the Palmerton case, his
6 motion at Public Meeting on April 15, he said that -- let me
7 read the paragraph. "My understanding is that United
8 Telephone Company's long distance subsidiary does not use
9 the word "United" in its name but that Commonwealth's long
10 distance subsidiary does include the word "Commonwealth" in
11 its name pursuant to prior Commission approval. We need to
12 be consistent in our approach to this issue. Law Bureau
13 Staff should make appropriate recommendations regarding the
14 Commonwealth situation."

15 My question is this: has the staff taken any action
16 with regard to Commonwealth Long Distance as a result of
17 Chairman Rolka's motion?

18 A. To my knowledge they have not taken any action
19 as of yet.

20 JUDGE KASHI: Was that motion adopted?

21 MR. KENNARD: I'm sorry, Judge; was that motion?

22 JUDGE KASHI: Was the motion adopted?

23 MR. KENNARD: Yes, it was.

24 JUDGE KASHI: It was?

25 MR. KEFFER: Approved 3 to 1 according to --

1 MR. KENNARD: The motion is incorrect when it says
2 United does not use its name. The name of ULD is United
3 Long Distance Company. There was some confusion in the
4 motion, which was later rectified.

5 BY MR. KEFFER:

6 Q. I will read you a couple of statements from some
7 of the other ads that you provided to me in response to
8 Interrogatory 73. This ad is for Commonwealth Long Distance
9 and it says in part, "Finally Commonwealth Long Distance is
10 a local company. We are affiliated with Commonwealth
11 Telephone Company, the number one rated telephone company in
12 Pennsylvania."

13 Did I read that accurately?

14 (Document shown to witness.)

15 A. Yes.

16 MR. KENNARD: Judge, I would like to object at this
17 point. If this wasn't going to take long it would be
18 tolerable, but there is an order of the Chairman, the matter
19 is under investigation, staff has not yet made a
20 recommendation but the matter will be resolved by the
21 Commission, as directed by the Chairman, by the staff. The
22 Commission has and is developing a policy with respect to
23 use of the name, and that effort -- the effort here will be
24 strictly duplicative of what the Chairman has directed the
25 Law Bureau to undertake.

1 Yes, there are certain uses of the name. It is all
2 being explored. The Commission just recently developed a
3 policy on it, and we will have a resolution at some point in
4 time.

5 MR. KEFFER: Your Honor, these are related points but
6 they are different points. The first point I made was
7 Commonwealth and Commonwealth Long Distance use the same 800
8 number. They use the same name. In their ads they play off
9 the affiliation between the companies. That is another
10 point I want to make. And in a number of the ads they tend
11 to just use the word "Commonwealth" without distinguishing
12 between Commonwealth Telephone Company and Commonwealth Long
13 Distance.

14 If Mr. Kennard will stipulate that the ads convey
15 that information, I will cut this short. These things are
16 going to end up in our testimony in any event. I don't want
17 to belabor that.

18 MR. KENNARD: If we can defer the cross-examination
19 and there is no more, then I will withdraw the objection.

20 MR. KEFFER: It is getting a little tedious.

21 MR. KENNARD: The name is an issue that has been
22 resolved. Logo, use of name and the statement of a
23 disclaimer by Commonwealth and Palmerton is being discussed
24 between the Staff and Commonwealth, although it has not been
25 finalized to the point where the Law Bureau has made a

1 recommendation.

2 JUDGE KASHI: And Mr. Keffer is going to defer
3 further cross-examination on the point?

4 MR. KEFFER: I think I beat this horse to death.

5 JUDGE KASHI: Yes.

6 MR. KEFFER: With that comment, I still stop. That's
7 it.

8 JUDGE KASHI: Thank you.

9 Ms. Pennington.

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

11 JUDGE KASHI: Mr. McClelland.

12 MR. McCLELLAND: Yes, Your Honor.

13 Just a minute, Your Honor.

14 (Pause.)

15 MR. McCLELLAND: Your Honor, if I may we would like
16 to provide for Mr. Burnside an exhibit, and we would like to
17 have that marked as OCA Cross-Examination Exhibit No. 5.

18 JUDGE KASHI: So marked for purposes of
19 identification.

20 (Whereupon, the document was marked
21 as OCA Cross-Examination Exhibit No.
22 5 for identification.)

23 (Document distributed to parties and the witness.)

24 CROSS-EXAMINATION

25 BY MR. McCLELLAND:

Q. Mr. Burnside, it is an organizational chart of

1 C-TEC and was provided in -- we're going to ask you to
2 comment upon how the C-TEC organization works.

3 MR. KENNARD: Mr. McClelland, I would ask you a
4 favor, please, and that is this was presented in the first
5 set of discovery and since that time, as the company has
6 developed its witnesses, Mr. Mazza is in fact --

7 MR. McCLELLAND: He's the witness.

8 MR. KENNARD: Yes. So if you could defer this until
9 his cross, he's the witness, the subject matter of which is
10 addressed in this exhibit, if you don't mind, sir.

11 MR. McCLELLAND: All right. Could we retain the
12 identification, Your Honor, No. 5, and we will defer it to
13 Mr. Mazza?

14 JUDGE KASHI: Yes.

15 MR. McCLELLAND: Mr. Kennard, I also had some
16 questions concerning Commonwealth Telephone contributions to
17 the Pennsylvania Telephone Association. Would that be
18 properly Burnside or Mazza?

19 MR. KENNARD: You mean the dues?

20 MR. McCLELLAND: Yes.

21 MR. KENNARD: The issue being the functions of the
22 PTA?

23 MR. McCLELLAND: Yes.

24 MR. KENNARD: That would be Mr. Burnside.

25 MR. McCLELLAND: All right. Let me try to do that.

1 BY MR. McCLELLAND:

2 Q. Mr. Burnside, if you could please look on,
3 generally, there is an answer that you might want to
4 reference, and that was to OCA Set VI, No. 24.

5 A. Question 24?

6 Q. Yes. Generally speaking -- I don't really want
7 to put this short question and answer in the record -- the
8 question was posed as to whether Commonwealth paid for any
9 of Pennsylvania Telephone Association's legislative
10 activity, and the answer was generally that Commonwealth
11 pays a membership fee; that there are no specific fees paid
12 by Commonwealth to PTA for legislative services.

13 Would you agree with that summary?

14 A. Yes, I would.

15 Q. Mr. Burnside, I would ask you, as you are no
16 doubt aware, the PTA has been lobbying very hard on
17 telecommunications legislation issues. As a PTA member did
18 Commonwealth in some form contribute funds to that
19 legislative activity?

20 A. Mr. McClelland, I think the answer that we gave
21 in Question 24 stands. There is no specific identity with
22 respect to the dues that is allocated to legislative
23 activity, so I really can't answer that any more
24 specifically than we have already answered.

25 Q. Do you know if PTA does use its dues to pay for

1 its legislative activity that it engages in?

2 A. Well, obviously, PTA's only source of revenue is
3 the dues it collects from its membership, so whatever
4 function it performs that has a cost associated with it
5 obviously directly or indirectly comes from that source of
6 revenue.

7 Q. Did Commonwealth spend money on this particular
8 legislative activity that I referred to in any other form?

9 A. Would you repeat the question, please?

10 Q. With regard to recent lobbying by the telephone
11 industry concerning telecommunications legislation, did --

12 MR. KENNARD: Mr. McClelland, just so we are candid,
13 you're talking about legislation that is sitting on the
14 Governor's desk as H.B. 89? That was a monolithic effort --

15 MR. McCLELLAND: To try to be comprehensive about it,
16 and it is somewhat difficult --

17 THE WITNESS: H.B. 84.

18 JUDGE KASHI: Is it 89 or 84?

19 MR. KENNARD: 84. I'm sorry.

20 MR. McCLELLAND: It has been House Bill 84, it has
21 been House Bill 4, it's been Senate Bill 2; it's been a lot
22 of things. I think I would generally attach the rubric of
23 telecommunications infrastructure legislation.

24 MR. KENNARD: Fair enough; thank you.

25

1 BY MR. McCLELLAND:

2 Q. My question goes to: did Commonwealth spend
3 money on this legislative issue in any other form?

4 MR. KENNARD: To the PTA?

5 MR. McCLELLAND: No. I am setting aside the PTA dues
6 for the moment.

7 BY MR. McCLELLAND:

8 Q. I'm asking: did Commonwealth spend money on
9 that legislative activity in any other form?

10 A. Yes, it did.

11 Q. Have you claimed any of that expense above the
12 line in this case?

13 A. All of that expense has occurred in the recent
14 past two or three months, or two months, so I think it's a
15 little premature to ask the question.

16 Q. I take it from that answer that Commonwealth did
17 not, other than possibly through PTA activity, spend money
18 on telecommunications infrastructure legislative activity in
19 1992?

20 A. In 1992 Commonwealth relied exclusively on its
21 membership and relationships in the PTA to carry its message
22 and its position on the proposed, at that time, legislation.

23 Q. And it would be your position that since there
24 were no expenses in 1992, it would not have been carried
25 forward in 1993 in the company's pro forma claim?

1 A. That is correct.

2 MR. McCLELLAND: Your Honor, I would address another
3 question to counsel.

4 I have some questions concerning C-TEC bonuses and
5 I'm not sure who the proper witness for that would be.
6 Perhaps Mr. Burnside, perhaps Mr. Mazza, perhaps Mr. Cawley.

7 MR. KENNARD: Mr. Cawley in the area of inflated
8 interest, and management is responsible for the numbers, so
9 if it is a calculation issue it would be Mr. Cawley, if it
10 is an affiliated transaction or a management issue that you
11 want to discuss why it happened and why the decision was
12 made to incur that expense, that would be Mr. Mazza.

13 MR. McCLELLAND: It sounds like it's not Mr.
14 Burnside.

15 MR. KENNARD: It is definitely not Mr. Burnside.

16 MR. McCLELLAND: I have some other questions
17 concerning the manner in which billing and collection costs
18 are calculated. He speaks to the issue --

19 JUDGE KASHI: Let's hold it one second. Off the
20 record.

21 (Discussion off the record.)

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

23 If you wish to move your exhibit, we can do that.

24 MR. KEFFER: Thank you, Your Honor. I would move for
25 the admission of AT&T Cross Exhibit 1.

1 JUDGE KASHI: I have a problem with it, sir, in its
2 present form and would like to know if, in fact, the record
3 can be provided with the entire answer given that there was
4 so much dialogue that took place as to two additional pages
5 that are not part of the exhibit. Can you do that?

6 MR. KEFFER: I don't have the entire answer with me.

7 JUDGE KASHI: Well, you can make it available for the
8 record.

9 THE WITNESS: You can have mine.

10 JUDGE KASHI: I want to have the whole document for
11 the record.

12 MR. KENNARD: With that caveat, Commonwealth has no
13 objection.

14 JUDGE KASHI: If nothing else, I'm fair.

15 All right. AT&T Cross-Examination Exhibit No. 1 will
16 be received into the evidentiary record.

17 (Whereupon, the document marked as
18 AT&T Cross-Examination Exhibit No. 1
was received in evidence.)

19 JUDGE KASHI: We will then adjourn for the day. What
20 time do counsel wish to pick this up in the morning?

21 MR. McCLELLAND: Your Honor, I would suggest -- we
22 have gotten through quite a bit today, particularly
23 depreciation -- that we could probably start at 10:00
24 tomorrow morning.

25 MR. KENNARD: The company would prefer that too,

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Judge.

JUDGE KASHI: 10:00 is fine with everybody?

(No response.)

JUDGE KASHI: All right. We will adjourn until 10:00 tomorrow morning.

Thank you, counsel.

(Witness temporarily excused.)

(Whereupon, at 4:53 p.m., the hearing was adjourned, to be reconvened at 10:00 a.m. on Friday, July 2, 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.

COMMONWEALTH REPORTING COMPANY, INC.

By: Judith A. Valencik
Judith A. Valencik
