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BEFORE THE
ILLINOIS COMMERCE COMMISSION

IN THE MATTER OF:)
ILLINOIS BELL TELEPHONE COMPANY)
Application for review of alternative) 98 -0252
regulation plan.)
ILLINOIS BELL TELEPHONE COMPANY)
Petition to rebalance Illinois Bell) 98 -0335
Telephone Company's carrier access)
and network access line rates.)
CITIZENS UTILITY BOARD and)
THE PEOPLE OF THE STATE OF ILLINOIS)
vs) 00 -0764
ILLINOIS BELL TELEPHONE COMPANY)
Verified complaint for a reduction in)
Illinois Bell Telephone Company's)
rates and other relief.)

Chicago, Illinois
February 13, 2001

Met, pursuant to notice.

BEFORE:
MR. PHIL CASEY, Administrative Law Judge
MS. EVE MORAN, Administrative Law Judge

1 APPEARANCES:

2 MS. LOUISE A. SUNDERLAND
MR. KARL B. ANDERSON
3 225 West Randolph Street, Suite 25D
Chicago, IL 60601
4 -and-
MR. EDWARD A. BUTTS
5 1800 West Ameritech Center Drive, Room 102
West Chicago, IL 60185
6 for Ameritech;

7 MS. CHERYL L. Hamill
MS. JOAN MARSH
8 222 West Adams, Suite 1500
Chicago, IL 60606
9 for AT&T Communications of Illinois,
Inc.;

10
11 SCHIFF, HARDIN & WAITE
MS. CARRIE J. HIGHTMAN
MS. TERRI BRIESKE
12 6600 Sears Tower
Chicago, IL 60606
13 for McLeod USA
Telecommunications Services, Inc.;

14
15 MANSHIO & WALLACE
MR. CALVIN MANSHIO
4753 N. Broadway Avenue, Suite 732
16 for Cable Television and
Communications Association of
17 Illinois;

18 MR. JACK PACE
30 North LaSalle, Suite 900
19 Chicago, IL 60602
for the City of Chicago;

20
21 MS. SUSAN L. SATTER
100 West Randolph Street
Chicago, IL 60601
22 for the People of the State of
Illinois;

1 APPEARANCES: (Continued)

2 MR. MATTHEW L. HARVEY
3 MR. DAVID L. NIXON
4 MR. SEAN R. BRADY
5 160 North LaSalle Street, Suite C800
6 Chicago, IL 60601
7 for the Staff of the Illinois Commerce
8 Commission;

9 MS. KAREN L. LUSSON
10 349 S. Kensington Avenue
11 LaGrange, IL 60525
12 for Citizens Utility Board;

13 MR. PETER Q. NYCE, JR.
14 901 North Stuart Street, Suite 713
15 Arlington, VA 22203
16 for Department of Defense & Federal
17 Executive Agencies;

18 MR. ALLAN GOLDENBERG
19 MS. ANN BLOSS
20 MR. DAVID L. HEATON
21 69 West Washington, Suite 700
22 Chicago, IL 60602
for the Cook County State's
Attorney's Office.

23 SULLIVAN REPORTING COMPANY, by
24 MICHAEL R. URBANSKI, C.S.R.
25 BARBARA PERKOVICH, C.S.R.
26 STEVEN STEFANIK, C.S.R.

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I N D E X

Witnesses:	Direct	Cross	Re - direct	Re- cross	By Examiner
D. GEBHARDT, JR	362				
	417				
	422				
	450				
	476				
	482				
					499
	545				
	550				
	555				
					557
	561				
				564	
ROBERT KOCH	566				
		570			
			612		
THOMAS O'BRIEN	617				
		620			
		624			
					653
					666

1	E X H I B I T S		
2	APPLICANT'S	For Identification	In Evidence
3	AMERITECH		
4	#1.0,1.1,1.2,		
	#1.3,1.4,1.5,		
	AND 1.6	350	370
5	DEPT OF DEFENSE		
	#1,2	350	
6	SAO CROSS		
	#1	476	
7	CITY CROSS		
	#2,3,4,5	508	521
8	CITY CROSS		
	#6	530	540
9	STAFF		
	#13.0,13.O-P,27.0		
10	#27.O-P & 33	565	570
	AMERITECH		
11	#3.0,3.1,3.2,3.3,		
12	and 3.4	617	619
13			
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1 (Whereupon, Ameritech
2 Exhibits 1.0, 1.1, 1.2,
3 1.3, 1.4, 1.5 and 1.6 were marked
4 for identification.)

5 (Whereupon, Dept. of Defense
6 Exhibits 1 and 2 were marked
7 for identification.)

8 JUDGE CASEY: We can go on the record.

9 Pursuant to the authority and direction
10 of the Illinois Commerce Commission, I now call
11 Docket 98-0252, consolidated with Docket 98-0335 and
12 Docket 00-0764.

13 This is Illinois Bell Telephone Company,
14 its application for review of alternative regulation
15 plan; additionally Illinois Bell Telephone Company,
16 its petition to rebalance Illinois Bell Telephone
17 Company's carrier access and network access line
18 rates, and Citizens Utility Board and the People of
19 the State of Illinois versus Illinois Bell Telephone
20 Company doing business as Ameritech Illinois, its
21 petition for reduction in rates and other relief.

22 May I have the appearances for the record

1 beginning with staff, please.

2 MR. HARVEY: Appearing for the staff of the
3 Illinois Commerce Commission, Matthew L. Harvey,
4 David L. Nixon, and Sean R. Brady, 160 North LaSalle
5 Street, Suite C800, Chicago, Illinois, 60601-3104.

6 JUDGE CASEY: Next.

7 MS. SUNDERLAND: Me next?

8 On behalf of Illinois Bell Telephone
9 Company, Louise A. Sunderland, Karl Anderson and
10 Mark Kerber, 225 West Randolph Street, Chicago,
11 Illinois, 60606.

12 And then there's an additional appearance
13 on behalf of Ameritech.

14 MR. BUTTS: Edward A. Butts on behalf of Illinois
15 Bell Telephone Company, 1800 West Hawthorne Lane,
16 Room 102, West Chicago, Illinois, 60185.

17 MR. PACE: On behalf of the City of Chicago, Jack
18 Pace, 30 North LaSalle Street, Suite 900, Chicago,
19 Illinois 60602.

20 MS. SATTER: Susan L. Satter appearing on behalf
21 of the People of the State of Illinois, 100 West
22 Randolph, 11th Floor, Chicago, Illinois, 60601.

1 MR. GOLDENBERG: Appearing on behalf of the Cook
2 County State's Attorney's Office, Allan Goldenberg,
3 Ann Bloss, David L. Heaton, assistant state's
4 attorneys, 69 West Washington, Chicago, Illinois,
5 60602, and Suite 700.

6 MS. HIGHTMAN: Appearing on behalf of McLeod USA
7 Telecommunications Services, Inc., Carrie J.
8 Hightman and Terri L. Brieske, B-r-i-e-s-k-e,
9 Schiff, Hardin & Waite, 6600 Sears Tower, Chicago,
10 Illinois.

11 MR. MANSPIO: Appearing on behalf of the Cable
12 Television and Communications Association of
13 Illinois, Calvin Manshio, firm Manshio & Wallace,
14 4753 North Broadway, Suite 732, Chicago, Illinois,
15 60640.

16 MS. HAMILL: Appearing on behalf of AT&T
17 Communications of Illinois, Inc., Cheryl Hamill,
18 H-a-m-i-l-l, 222 West Adams, Suite 1500, Chicago,
19 Illinois, 60606.

20 MR. NYCE: Appearing on behalf of the Department
21 of Defense and the Federal Executive Agencies, Peter
22 Q. Nyce, spelled N-y-c-e, Jr., Regulatory Law

1 Office, U.S. Army Litigation Center, 901 North
2 Stuart Street, spelled S-t-u-a-r-t, Suite 713,
3 Arlington, Virginia, 22203-1837.

4 JUDGE CASEY: Are there any further appearances?

5 Let the record reflect that there are no
6 further appearances.

7 This matter comes before me today upon
8 hearing for the consolidated matter.

9 Prior to swearing in the witnesses, there
10 was -- there is a pending motion for leave to submit
11 additional surrebuttal testimony filed by Illinois
12 Bell Telephone Company.

13 Are there any objections to that motion?

14 MR. HARVEY: Staff has none.

15 MR. PACE: Mr. Hearing Examiner, on behalf of the
16 City of Chicago, as you know, we just received the
17 motion this morning, we don't think we're going to
18 have any objection to the additional testimony.
19 However our experts are reviewing it and we'll
20 probably have some cross of Mr. Gebhardt but it
21 won't be ready until this afternoon.

22 We'd like to reserve any objection until

1 then.

2 JUDGE CASEY: I note that in the motion there is
3 some -- does the motion envision that there's going
4 to be additional testimony for Mr. Gebhardt,
5 Miss Sunderland?

6 MS. SUNDERLAND: Excuse me, yes, there is a piece
7 of additional testimony for Mr. Gebhardt.

8 JUDGE CASEY: Okay.

9 MS. SUNDERLAND: It's very brief.

10 JUDGE CASEY: All right.

11 MS. SUNDERLAND: And the parties have that.
12 That's what his expert is reviewing right now.

13 JUDGE CASEY: Okay.

14 MS. SUNDERLAND: And we have no objection to
15 Mr. Pace addressing whatever issues he may wish to
16 raise in cross after lunch because I'm sure we'll
17 still be here after lunch with Mr. Gebhardt.

18 JUDGE CASEY: What I'll do is I'll reserve ruling
19 on that motion until after we adjourn for lunch
20 today and then we can revisit it then.

21 Would that give your expert sufficient
22 time, Mr. Pace?

1 MR. PACE: It should, yes.

2 JUDGE CASEY: Is there anything else before we
3 begin testimony?

4 MR. HARVEY: There's one other matter,
5 Mr. Examiner, and this is probably my fault for not
6 having seen that it got circulated by e-mail.

7 The staff filed a motion to strike
8 certain portions of Mr. Gebhardt's supplemental
9 surrebuttal. That being, I believe, now up to
10 Ameritech Exhibit No. 1.5.

11 I think it would be dry gulching
12 Ameritech to expect them to respond to it at this
13 point and I would suggest that that motion be taken
14 with the case and Ameritech could respond at such
15 time as they -- you know, in the normal practice,
16 especially in light of the fact that I am confident
17 that the Hearing Examiners will not be inflamed and
18 prejudiced by the testimony that would be the
19 subject of the motion.

20 JUDGE CASEY: Given your position, Mr. Harvey,
21 then what we'll do is then prior to marking the
22 matter heard and taken, if you will re-bring up that

1 motion again at the end and we can have a ruling
2 prior.

3 MR. HARVEY: If that will give Ameritech the
4 reasonable amount of time to respond --

5 JUDGE CASEY: We're going to be here a couple
6 weeks.

7 MS. SUNDERLAND: We'll get a response hopefully
8 out.

9 MR. HARVEY: Fair enough.

10 JUDGE CASEY: Thank you, Mr. Harvey.

11 MR. PACE: Mr. Hearing Examiner.

12 JUDGE CASEY: Yes, Mr. Pace.

13 MR. PACE: There's another issue with respect to
14 the motion in limine. I believe last week the
15 Hearing Examiner reserved ruling to today.

16 I believe since the last status hearing
17 staff has filed a motion to withdraw certain
18 testimony of Mr. Hanson and since the last status
19 hearing I sent a letter to the Hearing Examiners
20 outlining additional testimony that GCI and
21 Ameritech would find to be consistent -- let me
22 rephrase that -- I filed a letter identifying

1 additional testimony in both GCI and Ameritech's
2 testimony that if the Hearing Examiners grant
3 staff's motion, this additional testimony -- this
4 additional testimony should be stricken and would be
5 consistent with the Hearing Examiner's decision to
6 strike Mr. Hanson's testimony.

7 Also it's been brought to my attention
8 there was some testimony in AT&T's witness Kate
9 Hegstrom's testimony that relates to Mr. Sorenson as
10 well, and AT&T has agreed to withdraw a sentence in
11 her testimony, and I haven't looked at the testimony
12 yet, but that's another piece that should also be
13 withdrawn.

14 JUDGE CASEY: Mr. Pace, since -- I acknowledge
15 receipt of your February 8 correspondence.

16 Since that -- the content of that letter
17 and the Hearing Examiner's previous ruling does not
18 affect Mr. Gebhardt's testimony today, what I'm
19 going to do is Ms. Moran has been looking into that
20 particular issue and when she returns prior to those
21 witnesses, or hopefully by the end of today, then
22 you will have resolution of that issue.

1 But at this time I'm not going to be
2 making a ruling with respect to the additional
3 testimony which may have been affected by the
4 previous Examiner's rulings.

5 MR. PACE: I just want to bring up another issue.

6 At the last status, I represented that I
7 would be filing another motion in limine regarding
8 additional testimony filed by Mr. Palmer.

9 Pursuant to an agreement with Ameritech,
10 I am not going to be filing that motion.

11 Ameritech has agreed that I would be
12 allowed to ask a couple of questions of Mr. Dunkle
13 in response to this additional data provided by
14 Mr. Palmer to resolve that matter.

15 JUDGE CASEY: Okay.

16 MR. PACE: One last preliminary issue.

17 There's question about outstanding
18 discovery, and -- I'm sure among a few parties --
19 but there's some outstanding discovery that GCI has
20 propounded on Ameritech.

21 I had a conversation with counsel for
22 Ameritech discussing how those data responses might

1 be incorporated into the record if they are tendered
2 after the appropriate witness has testified that
3 would be the sponsor of that data request.

4 And there's been at least an informal
5 agreement that some provision for admission of
6 late-filed exhibits could be arranged for those
7 late-filed responses to the data requests.

8 MS. SUNDERLAND: In --

9 MR. PACE: With, of course, the approval of the
10 Hearing Examiner.

11 MS. SUNDERLAND: In past proceedings, the same
12 issue arises with what we call hearing data requests
13 where a party asks a witness a question for which
14 the witness doesn't have the information at hand but
15 we supply it after the hearing.

16 And typically what happens is that the
17 Examiner simply provides that if the party wants to
18 submit that, they do so as an exhibit in that
19 party's own sequence and it just comes in as a
20 late-filed exhibit.

21 And that seems to have worked well in the
22 past. And I would think that that same process

1 would apply here.

2 JUDGE CASEY: Based on that scenario, that's a
3 document that would have already existed that the
4 witness has relied upon.

5 At this point we don't have that
6 document; is that right? It hasn't been compiled
7 yet?

8 MS. SUNDERLAND: Well, the same is true of
9 hearing data requests.

10 At the time that the question is asked,
11 the response has not been compiled. The company
12 goes back and compiles a response, provides it to
13 the party who asked for it, the party then makes a
14 judgment as to whether they want it in the record or
15 not; and if they do, then it comes in as a
16 late-filed exhibit typically after the record has
17 been closed.

18 The record is closed subject to any
19 late-filed exhibits of that nature.

20 JUDGE CASEY: During the course of the hearing
21 then do the parties intend to make a notation during
22 the course that this is where we expect this

1 additional data to be derived from?

2 MS. SUNDERLAND: Typically, if the question is
3 asked of the witness, the witness needs to obtain
4 the information. We simply make a note and it's
5 reflected in the transcript that we owe that party a
6 response in the form of a data request response. We
7 do so, and then that party makes a judgment as to
8 whether they want it in the record.

9 JUDGE CASEY: All right. Then what we'll do
10 during the course of the hearing, if that situation
11 arises, each party that is required to provide some
12 additional data or additional testimony will make a
13 notation and we'll go through, before we mark the
14 matter heard and taken, go through and determine
15 exactly what's outstanding so that we're not left
16 hanging waiting for something or not knowing whether
17 or not something else is coming.

18 MS. SUNDERLAND: Okay.

19 MR. PACE: Thank you.

20 JUDGE CASEY: Given that that was your last
21 preliminary thing, Mr. Pace, you're done now?

22 MR. PACE: Yes.

1 JUDGE CASEY: Then we'll call the first witness.

2 And based on the witness list that was
3 provided to the Hearing Examiners, it will be
4 Mr. Gebhardt; is that correct --

5 MS. SUNDERLAND: Yes.

6 JUDGE CASEY: -- Ms. Sunderland?

7 MS. SUNDERLAND: I'm sorry.

8 (Witness sworn.)

9 DAVID H. GEBHARDT, JR.,

10 having been called as a witness herein, after having
11 been first duly sworn, was examined and testified as
12 follows:

13 DIRECT EXAMINATION

14 BY

15 MS. SUNDERLAND:

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

18 A. David H. Gebhardt. My address is 1017 East
19 Hawthorne Boulevard, Wheaton, Illinois, 60187.

20 Q. The court reporter has marked for the record
21 Ameritech Illinois Exhibits 1.0, 1.1, 1.2, 1.3, 1.4,
22 1.5, and 1.6.

1 Do these exhibits represent your direct,
2 rebuttal and surrebuttal testimony in this
3 proceeding?

4 A. Yes, they do.

5 Q. Do the record copies contain any changes or
6 corrections from the copies that were distributed to
7 the parties?

8 A. I believe they do.

9 Q. Could you please explain what those changes
10 and corrections were.

11 A. I will try.

12 There is nothing in 1.0.

13 In -- and nothing in 1.1.

14 In Exhibit 1.2, Page 3, second line from
15 the top, I changed Mr. Paul Van Lieshout (phonetic)
16 to David Sorenson who is the replacement witness.

17 That also reflects the direct testimony
18 that also has been changed -- name changed to Mr.
19 Sorenson.

20 That same exhibit, Page 8, about the
21 middle of the answer, where the sentence says,
22 however, as explained in detail by Mr. Palmer, and,

1 again, Mr. Van Lieshout now is changed to
2 Mr. Sorenson.

3 Moving on to Page 25, second line from
4 the bottom, again, the substitution of Sorenson for
5 Van Lieshout.

6 Page 26, first full paragraph at the top,
7 Van Lieshout gets taken out and Mr. Sorenson gets
8 substituted.

9 The first answer, second line, same
10 substitution, Sorenson for Van Lieshout.

11 Page 27, in the answer, first line,
12 Sorenson gets substituted for Van Lieshout.

13 And that is the end of those corrections.

14 Moving on to Exhibit 1.3, Page 16, first
15 full paragraph, last line -- second to the last
16 line, excuse me, where it says "in that contest"
17 should be "in that context."

18 Page 20 of that exhibit, first full
19 paragraph, first line, inserted word "as" between
20 moreover and demonstrated.

21 MR. HARVEY: I'm sorry, Mr. Gebhardt, I can't
22 find this.

1 THE WITNESS: First full paragraph, first line,
2 Page 20. It says "moreover demonstrated." It
3 should be "moreover as demonstrated."

4 MS. SUNDERLAND: Are you in the right one?

5 MR. HARVEY: Pagination issue. No problem, I'll
6 find it.

7 THE WITNESS: Page 41, the first answer -- the
8 answer on that page, take out the "no" and add the
9 word "yes."

10 MR. HARVEY: So it would read yes, first comments
11 Dr. Selwyn counts against?

12 MS. SUNDERLAND: Yes.

13 THE WITNESS: No. It says "yes," the Commission
14 concluded.

15 JUDGE CASEY: That's Page 41?

16 THE WITNESS: 41, correct.

17 Moving onto Page 60, the last partial
18 paragraph on that page, the first line, it says
19 therefore a symmetrical 200 to 400 basis points
20 should be 200 to 600 basis points.

21 The next page, Page 61, the same change
22 applies here. First line says similarly below

1 400 -- and it should -- it says "basic points." It
2 should be "600 basis points."

3 So two changes there: "400" becomes
4 "600" and "basic" becomes "basis."

5 Page 93, third line from the bottom of
6 that page, the word "subscribe" should be changed to
7 "subscribed," past tense.

8 Next page, Page 94, the sixth line in
9 the -- from the top of the answer, it says the
10 "company's support staff's position" should be
11 plural, "supports staff's position."

12 Page 105, the first question says
13 "Mr. Dunkle claims" and then the rates shown on
14 Ameritech Exhibit 1.1, Exhibit 8, change the word
15 "exhibit" to "schedule."

16 The same change down in the answer, first
17 line, should be "Schedule 8."

18 Page 136, bottom of the page, Staff
19 Exhibit "8.0" should be "9.0," and that ends the
20 corrections in Exhibit 1.3.

21 Moving onto 1.4, Page 16, about the
22 middle of the first full paragraph on that page

1 where it says "hundreds of millions of dollars,"
2 there's brackets around "hundreds of millions."
3 That should be removed.

4 Page 81 of that exhibit, the first full
5 paragraph that begins with the word to the -- words
6 "to the extent," further on in that line, says
7 "minor cost study," there's a word missing, and that
8 word is "issues," so it should read: "To the extent
9 that relatively minor cost study issues."

10 And that's the extent of corrections in
11 Exhibit 1.4.

12 In Exhibit 1.5, Page 9, there is a
13 comment that was put in -- that I put in the
14 testimony that needs to come out. It's in brackets
15 it's right below the answer on that where it says,
16 "I presume this is coming from Degnan," that should
17 be removed.

18 Then moving onto Page 32, this is the
19 area that I believe Miss Sunderland talked to
20 everybody in terms of the blocking errors that
21 occurred, the formatting errors that occurred in the
22 testimony.

1 Basically under the quote, everything at
2 the bottom of the page continuing over onto the next
3 page, 33, should be block spaced and block indented
4 and single spaced as part of the quote that's
5 contained earlier.

6 JUDGE CASEY: Does that begin with the
7 "Commission has always included"?

8 THE WITNESS: Yes. And it ends with the words,
9 "that will count against IBT's revenue requirements"
10 on the next page.

11 On Page 36, the same formatting
12 error occurred with the sentence beginning
13 "Mr. Willenborg" and ending at the bottom of the
14 page with the cite to the Commission's order.

15 That should also be all single spaced and
16 put in indentation form.

17 MR. HARVEY: Does that end with the citation?

18 THE WITNESS: Yes.

19 Those are the extent of the corrections
20 to Exhibit 1.5.

21 However, the formatting change does
22 change the pagination and you all should have gotten

1 new copies.

2 And that is the extent of the corrections

3 BY MS. SUNDERLAND:

4 Q. With those changes and corrections, if I
5 were to ask you the questions in your testimony,
6 direct, rebuttal and surrebuttal orally here today,
7 would your answers be the same?

8 A. Yes.

9 MS. SUNDERLAND: I would move for the admission
10 of Ameritech Illinois Exhibits 1.0 through 1.6 with
11 attached schedules and make Mr. Gebhardt available
12 for cross-examination.

13 JUDGE CASEY: Are there any objections?

14 MR. HARVEY: Subject to the one that staff filed,
15 none from staff.

16 The staff has filed a motion to strike.
17 Obviously subject to the resolution of that, we
18 would have no other objections.

19 We would note for the record that --
20 well, we won't even worry about that.

21 And I'll go first.

22 JUDGE CASEY: All right. No other objections, it

1 will be admitted subject to cross.

2 (Whereupon, Ameritech
3 Exhibits 1.0, 1.1, 1.2, 1.3,
4 1.4, 1.5 and 1.6 were admitted
5 into evidence subject to
6 cross-examination.)

7 JUDGE CASEY: Miss Sunderland, do you have an
8 extra copy of 1.6? I don't have it in my file.
9 Thank you.

10 With respect to cross-examination of this
11 witness, staff, you wish to go first?

12 MR. HARVEY: I have been sort of dragooned into
13 going first.

14 JUDGE CASEY: You anticipate your
15 cross-examination to take how long?

16 MR. HARVEY: I would -- I hope I can keep this to
17 a half an hour.

18 I may be somewhat optimistic about that,
19 but I'll put my watch down here and we'll just see.

20 JUDGE CASEY: Please proceed.

21

22

1 CROSS -EXAMINATION

2 BY

3 MR. HARVEY:

4 Q. Well, Mr. Gebhardt, it's always good to see
5 you. It seems to me you were retiring the last time
6 we spoke at the merger hearings two years ago, and I
7 think I speak for everybody when I say that we no
8 longer believe you when you tell us you're retiring.

9 A. Well, I actually did retire, Mr. Harvey, but
10 certain issues have developed that, you know, it
11 works best if I come back and take care of them.

12 Q. I hope we didn't cause any of those for you.
13 Although I suspect that if you answer that I won't
14 like it.

15 I'm going to ask you a few general
16 questions about your involvement with the whole
17 alternative regulation process.

18 Now, you have described yourself as the
19 original architect of the 1994 plan; is that
20 correct?

21 A. That is.

22 Q. Okay. And you, in fact, gave extensive

1 testimony at the Commission proceeding that led to
2 the formulation and the adoption of that plan, did
3 you not?

4 A. I did, but I think this is even greater.

5 Q. Certainly by volume. And probably by
6 weight, too.

7 So your testimony in this proceeding
8 purports, among other things, to offer a historical
9 perspective on how the plan was formulated and how
10 it's functioned, correct?

11 A. That's correct.

12 Q. Okay. And your testimony also describes
13 what, in your opinion, the Commission's policy goals
14 were in adopting the original plan?

15 A. Correct.

16 Q. Okay. Now, in the testimony you have filed
17 in this proceeding, you make extensive reference to
18 the Commission's order in -- well, what -- the
19 Commission's order in Dockets 92-0448 and 93-0239,
20 which authorized the plan, do you not?

21 A. Yes.

22 Q. Okay. So if I were to ask you -- to ask you

1 today whether you were quite familiar with this
2 order, and for the record, this is the order in
3 92-0448, et cetera, you would probably say that,
4 yes, indeed, you were quite familiar with that
5 order?

6 A. Yes.

7 Q. Okay. Let's talk a little bit about sort of
8 the functioning of the plan in general.

9 It's your testimony that the Commission
10 has the authority to rescind this plan if the plan
11 proves to have, I believe your words are, utterly
12 failed to meet the required statutory and regulatory
13 goals, correct?

14 A. That's correct.

15 Q. Okay. And hypothetically if the Commission
16 were to determine that Ameritech had -- and I'm not
17 expecting you to agree with me that it has or
18 hasn't -- if the Commission were to determine that
19 Ameritech had utterly failed to meet the plan's
20 objectives, it could conceivably rescind the plan,
21 could it not?

22 A. Yes, it can.

1 Q. Okay. And we're still talking
2 hypothetically here, the Commission could order that
3 Ameritech be placed under rate of return on a
4 going-forward basis if it found, as you suggest,
5 that there's -- there had been an utter failure to
6 meet the policy objectives?

7 A. Yes. I would agree that they could do that.

8 Q. Okay. And, again, this is hypothetical,
9 were the Commission to do so, it would need to
10 determine what a revenue requirement was for
11 Ameritech Illinois?

12 I mean, you wouldn't let us do it
13 otherwise, right?

14 A. I would let you just leave things the way
15 they were, but. . .

16 Q. Okay. Let's say that we're officious
17 bureaucrats and the Commission decides not to do
18 that.

19 You'd want a revenue requirement at least
20 on a going forward basis if you returning to
21 alternative regulation?

22 MS. SUNDERLAND: Wait. Wait. Wait.

1 I think the question is a little confused
2 as to whether we're going back to rate of return or
3 going forward with alt reg.

4 MR. HARVEY: I agree with you, Ms. Sunderland,
5 and I will withdraw the question and pose it what I
6 hope is a bit more artfully.

7 BY MR. HARVEY:

8 Q. Were the company to be returned to
9 traditional rate of return regulation, you would
10 want a revenue requirement, wouldn't you?

11 A. No.

12 Q. Okay. And that is because?

13 A. Because I don't see any need to have a
14 revenue requirement.

15 I mean, the Commission would want a
16 revenue requirement, but I would not want a revenue
17 requirement.

18 Q. Okay. Fair enough. I guess I see your
19 point there.

20 Now, I'm going to ask you some questions
21 about something that seems to me to be very dull but
22 maybe you can help me understand it better. It's

1 this FAS-71 adjustment. You may have some thoughts
2 on that and I'm hoping you'll work with me a little
3 on it.

4 I'm going to ask you if you can put your
5 architect of the plan hat back on, if you can.

6 Now, you're familiar with Mr. Dominak?
7 And I'm pronouncing that correctly?

8 A. Yes.

9 Q. You're familiar with his testimony in this
10 proceeding?

11 A. I couldn't swear to every word in there,
12 but. . .

13 Q. I don't expect you to.

14 I mean you're vaguely familiar with it,
15 I'm assuming?

16 A. Yes. I used some of his numbers.

17 Q. Okay. Now, he presents some testimony
18 regarding certain accounting issues?

19 A. Yes.

20 Q. Okay. And some of these issues have to do
21 with something called the FAS-71 adjustment,
22 correct?

1 A. That's correct.

2 Q. And just for the benefit of the lawyers in
3 the room, that has to do, among other things, with
4 the amortization of something called a reserve
5 deficiency account, right?

6 A. I don't know that I would characterize it
7 exactly that way, but it certainly is the result of
8 a write-down of the company's -- the value of the
9 company's reserves -- a write-up of the reserves or
10 write-down of the net value of the company's
11 assets --

12 Q. Okay.

13 A. -- that occurred in 1994 as a consequence
14 of basically the competitive environment that we --
15 that the company saw going forward and as a
16 consequence of the fact that the Commission granted
17 depreciation freedom for the company.

18 On the regulatory books of the company,
19 we elected -- I elected to amortize that difference
20 or that write-down of the value over an eight-year
21 period so that the recovery would occur over that
22 period which we felt was reasonable -- I felt was

1 reasonable at the time.

2 Q. Okay. Just to clarify it, it was the
3 eight-year period for this write-down was your
4 decision?

5 A. Yes.

6 Q. And that was presumably ratified by whoever
7 does such things at Ameritech Illinois?

8 A. Yes.

9 Q. Okay. Now, you're familiar with a gentleman
10 who rejoices in the name of Quentin J. Kosner?

11 A. Yes.

12 Q. Okay.

13 A. Mr. Kosner.

14 Q. Okay. Thank you. I'm dismal at names and I
15 will defer to you on that issue.

16 And it's Mr. Kosner, I believe, not
17 doctor?

18 A. It is mister.

19 Q. All right. And in 1993 and '94, Mr. Kosner
20 was Ameritech Illinois's manager of capital
21 recovery, was he not?

22 A. I believe that's correct.

1 Q. And he presented evidence in the original
2 alternative regulation case on the issue of the
3 amortization of this reserve deficiency that we're
4 talking about, correct?

5 A. Yes, he did.

6 Q. Okay.

7 A. The company made the -- made -- because in
8 that case, there was like a rate case going into the
9 case to determine whether or not rates were, in
10 quotes, reasonable.

11 Q. Okay.

12 A. And part of the company's presentation of,
13 in quotes, a revenue requirement --

14 Q. Was Mr. --

15 A. -- included a proposal to amortize a
16 reserve deficiency.

17 Q. Okay. And I'm confident and I think we can
18 both assure the Commission, can we not, that
19 Mr. Kosner's analysis that he presented to the
20 Commission was detailed on this point and --

21 A. It was, as I recall, generally steeped in
22 the traditional things that regulators look at in

1 determining the value of going forward with an
2 amortization of a reserve deficiency.

3 It was couched in terms of what I'll call
4 classical regulatory tools to determine these
5 things.

6 Q. Fair enough.

7 In that context, you'd agree with me that
8 Mr. Kosner did a pretty good job, right?

9 A. Based on the techniques that historically
10 have been used.

11 Q. Okay.

12 A. I believe he even worked for me, so. . .

13 Q. And so we can naturally assume that he did a
14 great job, can we not?

15 And you don't have to answer that.

16 Now, Mr. Kosner performed an analysis of
17 each depreciable account that would have fallen
18 under the rubric of this reserve deficiency?

19 A. Yes.

20 Q. Okay. And that would have included average
21 remaining life of the asset?

22 A. Classical regulatory tools that are -- that

1 you look at depreciation.

2 Q. And one of those classical regulatory tools
3 is average remaining life?

4 A. Yes.

5 Q. And one is future net salvage value,
6 whatever that is?

7 A. Yes.

8 Q. And the cost of removal of the asset after
9 you have salvaged it?

10 A. Yes.

11 Q. And on all of these fascinating points,
12 Mr. Kosner gave testimony in 199 - --

13 A. Probably 1992.

14 Q. Okay.

15 A. Or three.

16 Q. 1992 or three, and that was with regard to
17 the formulation of the current plan?

18 A. That was for purposes of determining the
19 going in, in quotes, revenue requirement.

20 Q. Okay. That's what I thought.

21 Now, Mr. Kosner proposed amortizing this
22 account over a five-year period, did he not?

1 A. Yes, he did.

2 Q. Okay. Fair enough.

3 Now, here's another really dull subject:

4 Exogenous changes. I'd like to discuss the

5 exogenous changes.

6 And that's what we call the Z factor,

7 right?

8 A. It certainly is.

9 Q. Now, an exogenous change is a change in

10 costs over which Ameritech has no control,

11 basically?

12 A. That's it, and also that it's not reflected

13 or reflected disproportionately on Ameritech as

14 compared to the industry which would be reflected in

15 a GDPPI.

16 Q. Okay. So it's a situation in which not only

17 is it out of Ameritech's control, but it is

18 exclusive to Ameritech?

19 A. Or disproportionate.

20 Q. Disproportionate to Ameritech. Fair enough.

21 Well, let's talk about this just so I

22 understand.

1 It's outside the company's control. We
2 have already established that?

3 A. Correct.

4 Q. And the costs are such as won't be picked up
5 in the economy-wide inflation factor?

6 A. That's correct.

7 Q. Okay. I'm glad I'm making myself clear.

8 And the economic effects have to be
9 something you can verify and quantify?

10 A. That's also correct.

11 Q. And for purposes of this plan, it's got to
12 exceed 3 million bucks, right?

13 A. That is the minimum, yes.

14 Q. Okay. Now, let me get myself back to where
15 I belong here.

16 The reason for one of these exogenous
17 changes would typically be a change in a law,
18 regulations; would that be a fair characterization?

19 A. They could certainly be in that area.

20 Q. It -- would changes in the rules or
21 administrative rules or administrative orders fall
22 into that category, you think?

1 A. They could.

2 Q. Legislative or judicial changes?

3 A. They could.

4 Q. Okay. Now, under the alt reg plan, and I'll
5 just call it that from now on, the Commission has
6 approved only those -- well, let me withdraw that
7 and start over.

8 It is your testimony that under the plan
9 as it's been administered in the past, the
10 Commission has approved only the proposed exogenous
11 changes that resulted in a lower PCI, correct?

12 A. Yeah, I think there was only one, as I
13 remember.

14 Q. You remember correctly, if you'll forgive me
15 for saying so.

16 And --

17 A. And it was down.

18 Q. Okay. Why don't we -- that's your testimony
19 so I just kind of want to go over how this happens
20 so I understand it.

21 The company submits an annual rate filing
22 under the plan?

1 A. Yes.

2 Q. And this includes current data showing the
3 calculation for the Z factor of the previous
4 calendar year and that includes a recitation of the
5 events causing the Z factor to change, correct?

6 A. Well, the Z factor is zero unless the
7 company makes a request or potentially the staff
8 could say, you forgot to put one in and you should
9 have.

10 Q. Okay. That's fair.

11 And you would have to -- whoever was
12 sponsoring a change in the Z factor would have to
13 say what that change was attributable to, correct?

14 A. That's correct.

15 Q. Okay. And then the Commission issues an
16 order which, among other things, permits or rejects
17 the exogenous treatment of the events, if you will,
18 that took place?

19 A. The Commission disposes, yes.

20 Q. Disposes, that's -- and you propose, is, I
21 guess, what you're saying?

22 A. Us or someone else might propose.

1 Q. Okay. Now, if we wanted to see why the
2 Commission saw fit to grant or deny, dispose or --
3 dispose favorably or unfavorably of a request for
4 exogenous treatment by Ameritech or somebody else,
5 we just have to look at those orders, right?

6 A. Yes.

7 Q. And you're generally familiar with the
8 orders -- these -- the price cap orders, are you
9 not?

10 A. Generally.

11 Q. Okay. And each of these orders would
12 contain the Commission's rationale for its decision
13 to, as you say, dispose or -- favorably or
14 unfavorably of this exogenous treatment?

15 A. Yes, the Commission usually puts forth its
16 rationale.

17 Q. Okay. And I take it from your tone that you
18 are perhaps skeptical of this?

19 A. I'm not skeptical. I just think they're
20 wrong in some cases, that's all.

21 Q. Fair enough.

22 Now, the four factors we discussed, the

1 out of the company's control, not picked up in the
2 economy-wide inflation, over \$3 million, and
3 quantifiable and verifiable, now, the Commission has
4 described those as screening factors, haven't they?

5 A. Yes, they have.

6 Q. Okay. And if that means essentially that if
7 the exogenous change does not satisfy one of those,
8 it automatically gets denied exogenous treatment,
9 fair?

10 A. I don't know that I'd use the word
11 automatically.

12 I think if it didn't, at least from my
13 perspective as a -- during the period when I filed
14 these things, I felt that the ones that we submitted
15 passed those screens.

16 Q. So you're saying that the company at least
17 wouldn't file anything that didn't satisfy at least
18 those four criteria?

19 A. I think that's correct.

20 Q. And that would apply to those circumstances
21 under which you were directing the filing of the
22 price cap review --

1 A. Yes.

2 Q. -- or whatever?

3 A. Yes.

4 Q. Now, the Commission pretty much said that
5 it's -- it would use those as screening factors as
6 you did at Ameritech Illinois; and further, it would
7 conduct its review based on whether the rates
8 resulting from exogenous treatment or the denial of
9 exogenous treatment would be unjust and
10 unreasonable, correct?

11 A. I seem to recall those words in one of the
12 orders.

13 Q. Okay. And I'll skip all of this stuff about
14 the orders, because -- well, yeah, I'll skip all the
15 stuff about the orders. We'll argue about this, Ms.
16 Sunderland and I will argue about them.

17 But here's one thing, in each case, the
18 Commission indicated why it declined to permit or
19 permitted exogenous treatment, correct?

20 A. They generally or I think in all cases put
21 forth a rationale.

22 Q. Okay. Well, let me just ask a couple

1 questions.

2 You remember the 1997 order?

3 A. You're taxing my memory more than --

4 Q. Would the terms "that ingenuity Ameritech

5 has exhibited --

6 A. Oh, I remember --

7 Q. -- in proposing exogenous --

8 A. -- that.

9 Q. -- changes," does that ring a bell?

10 A. I think that was Mr. Rebey's order.

11 Q. Okay. And the -- it would be fair to

12 characterize that as perhaps -- well, I won't even

13 characterize it.

14 You do remember the Commission did

15 indicate that Ameritech had used a great deal of

16 ingenuity in proposing exogenous changes?

17 A. I think I would say the Commission left in

18 the words that Mr. Rebey put in his draft order.

19 Q. Fair enough.

20 But the Commission at no point indicated

21 that its decision regarding proposed exogenous

22 changes was based on whether or not such a change

1 raised or lowered the PCI, did it, to your
2 recollection?

3 A. No.

4 Q. Okay.

5 A. No. It just as a -- it does effectively --
6 I mean, actually lower or raise the PCI.

7 But, no, they don't make their rationale
8 saying that PCI was going to go up so we're going to
9 cut them off at the heels, no.

10 Q. Okay. Fair enough. Yeah, I was trying --

11 A. I think we probably would appeal one of
12 those.

13 Q. I would certainly hope you would have.

14 Here's another fascinating area, the
15 embedded cost per loop. I bet you wanted to come to
16 Chicago on a cold Tuesday morning to talk about the
17 embedded cost per loop.

18 A. Actually I came in on a much colder
19 Saturday, but it's because the airfares were
20 cheaper.

21 Q. That's -- you're a responsible corporate
22 fiduciary, Mr. Gebhardt.

1 Would it be fair to say that you don't
2 have a great deal of experience in preparing cost of
3 service studies?

4 A. No, I wouldn't say that.

5 Q. Have you ever, yourself, prepared one, I
6 guess?

7 A. I have supervised them.

8 Q. So you, yourself, haven't gone down in the
9 trenches and --

10 A. I haven't done time in motion studies and
11 all those things that go into a LRSIC study.

12 I have certainly done revenue requirement
13 studies in my career, and I have certainly done
14 access charge cost studies in a fully distributed
15 cost environment.

16 I have done a lot of stuff.

17 Q. Okay. Well, that's a good answer.

18 Now, you attached a calculation to the
19 back of your supplemental surrebuttal testimony as
20 Schedule 1, correct?

21 MS. SUNDERLAND: I think it was the additional --
22 the one that we just sent out last night.

1 MR. HARVEY: Is that the corrected version?

2 MS. SUNDERLAND: Yeah.

3 MR. HARVEY: Okay.

4 MS. SUNDERLAND: No, I'm sorry I'm mixed up. I'm
5 sorry. Never mind.

6 THE WITNESS: Counselor.

7 MS. SUNDERLAND: Counselor, shut up.

8 JUDGE CASEY: You want to refer to an exhibit
9 number?

10 MR. HARVEY: Exhibit No. 1.5. You refer to it at
11 9 and then it is Schedule 1 attached thereto.

12 THE WITNESS: Okay.

13 BY MR. HARVEY:

14 Q. And I'm assuming that this has not been in
15 any way -- is this the subject of any revisions?

16 A. This 1.5, you say?

17 Q. Yes. That would be what purports to be your
18 supplemental surrebuttal?

19 A. I remember the schedule but I don't see it.

20 MS. SUNDERLAND: I'm going to have to
21 double-check the schedules to these.

22 The record copies are missing that

1 schedule, but here's -- here it is.

2 THE WITNESS: Okay, I apologize. I do remember
3 the schedule.

4 BY MR. HARVEY:

5 Q. Now, this is an embedded cost study, is it
6 not?

7 A. It is.

8 Q. Okay. And --

9 A. Also could be known as a fully distributed
10 cost study.

11 Q. Let's assume you're talking to lawyers and I
12 barely know what an embedded cost study is, so we
13 will stick with an embedded cost study just for my
14 benefit.

15 A. I'm okay with that.

16 Q. Okay. Now, the data in this is for 1999?

17 A. Correct.

18 Q. Okay. Now, Line 1 of your calculation, I'm
19 told, includes all of Ameritech Illinois's operating
20 expenses, correct?

21 A. In the common line category.

22 Q. Okay. And so it doesn't include other

1 operating expenses not in the common line category?

2 A. No.

3 Q. Okay. Could you tell me what other
4 operating expenses the company would have, just so I
5 know?

6 A. This is interstate data.

7 Q. Okay.

8 A. Understand that. It is the common line
9 category of the interstate data. So there are other
10 categories in the interstate jurisdiction, switched
11 access, special access, that have different costs
12 associated with them.

13 Q. Okay.

14 A. Keep in mind that when you do the separation
15 to interstate, then there's another FCC rule that
16 takes those costs and divides them into broad
17 categories of services in the FCC's jurisdiction.

18 Q. I have been given to understand that,
19 although I have always run screaming from the
20 proposition.

21 Now, could you -- I assume there are
22 allocations of embedded costs to other services

1 besides carrier common line, correct?

2 A. I just said switched access, special access,
3 miscellaneous in there. I can't remember the other
4 categories.

5 Q. Okay. All right.

6 A. Interexchange is another category.

7 Q. Okay. We just wanted to understand better
8 what you were saying there.

9 Let's move on to something else. It's
10 your testimony that Ameritech Illinois customers
11 have benefitted from the plan in real economic
12 terms?

13 A. Yes.

14 Q. Okay. And, in fact, your testimony is that
15 customers benefitted to the extent of nearly \$950
16 million, correct?

17 A. In the -- in just the cumulative amount of
18 rate reductions, yes, at the then current demand.

19 Q. And this relates to your supplemental direct
20 at 13, and I was wondering if you could explain to
21 me how you conducted this calculation, just --

22 A. Supplemental direct?

1 Q. Which I believe is 1.1 for our purposes.

2 MR. PACE: Page 13?

3 MR. HARVEY: Yes.

4 THE WITNESS: Okay, I'm there.

5 BY MR. HARVEY:

6 Q. Okay. Now, you've got -- you make reference
7 to the manner in which you crank this number, and I
8 was just wondering if you could explain this to me.

9 How was this number 400 -- \$943 million
10 arrived at?

11 A. Basically you take the rate reductions in
12 each of the price cap filings, we also took and
13 included in this number the initial upfront rate
14 reduction that the Commission required.

15 Q. Okay.

16 A. And you essentially say -- let's say in year
17 one, that reduction was -- had a value of \$30
18 million.

19 Q. Okay.

20 A. That 30 million carries over to year two,
21 three, four, five, so you -- basically that
22 particular reduction is worth \$150 million.

1 Q. So -- okay.

2 A. Then you do each sequential year where you
3 have four years of value, three years of value, two
4 years of value, one year of value, add them all down
5 and that's how you get the -- that's how I got the
6 943.

7 Q. Okay. That's what I wanted to get straight.

8 Now, I don't know whether you can tell me
9 this, but were any of the rates that figured into
10 this calculation subsequently declared -- or were
11 any of the services that gave rise to these rates
12 subsequently declared competitive after you included
13 them in the --

14 A. I'm sure that there were.

15 Q. Do you have any idea which ones?

16 A. Business access lines --

17 Q. Okay.

18 A. -- I believe would -- well, let's see.

19 They were reclassified. I just don't
20 know whether or not in the price cap plan we took a
21 reduction in those, so I don't know that I can
22 specifically answer your question.

1 Q. Well, fair enough. I mean, there are
2 probably many questions that many of us can't
3 answer.

4 Now, it's been your position that, and
5 Ameritech's, I guess, that rates for service
6 declared competitive are completely irrelevant to
7 this inquiry that we're involved in today?

8 A. I believe that they are irrelevant.

9 Q. So we can assume that when you cranked this
10 \$950 million number, you didn't include decreases in
11 rates for services that were declared competitive,
12 right?

13 A. I'm not sure that that's not the other --
14 the other side of the question you just asked me.

15 Could you clarify what you want me to
16 answer?

17 Q. Sure.

18 Since you -- since we agreed that it's
19 your position that there's no -- that the non- --
20 that competitive rates don't matter in this
21 proceeding, I would assume that the \$950 million
22 doesn't include any decreases in rates that took

1 place outside the plan, i.e. competitive rates?

2 A. That's correct.

3 Q. Okay. And, likewise, we can assume that you
4 didn't factor in any increases in rates for
5 competitive services in calculating this number?

6 A. That were outside the plan again, I would
7 agree.

8 Q. Okay. Good enough. Let's go into one -- a
9 couple of other areas here real quick, Mr. Gebhardt,
10 and I'll try to stick to my time allotment.

11 Could you take a look, please, at your --
12 I want to say rebuttal testimony at 87. This would
13 be --

14 A. 1.3?

15 Q. -- 1.3. It may very well be that my 87 is
16 different from your 87, but if it is, maybe you can
17 help me find where I belong.

18 You make -- you use the term headroom,
19 correct?

20 A. I don't know that we have the right page.

21 Q. It's very possible. I'm using the
22 computer-generated version of this.

1 MS. SUNDERLAND: I think you're over in the
2 re-initialization of the API/PCI starting at
3 Page 89.

4 MR. HARVEY: Yes, ma'am, that's exactly where I
5 am.

6 BY MR. HARVEY:

7 Q. You make a -- it's part 4 of --

8 A. I'm there.

9 Q. Okay. Now, you use the term headroom,
10 correct?

11 A. Yes.

12 Q. And this is -- by this term headroom, you
13 mean that Ameritech's revenues in one or more of the
14 service baskets are less than they could lawfully be
15 under the price cap, correct?

16 A. That's correct.

17 Q. Now, you --

18 A. Or said another way, the API is less than
19 the PCI.

20 Q. Much more lucid.

21 Now, you refer specifically to the
22 carrier basket as a basket in which there is

1 headroom, i.e., the API is less than the PCI,
2 correct?

3 A. That's correct.

4 Q. Now, there are four baskets, right? There's
5 business, residential, carrier and other, correct?

6 A. That's also correct.

7 Q. Okay. Now, there's not a whole lot of
8 headroom in the business basket right now, is there?

9 A. I think there's marginal headroom, as I
10 remember, but there's not a lot.

11 Q. In fact, by marginal, do you mean by any
12 chance that there's about \$2.9 million?

13 A. I didn't calculate it. I just remember
14 looking at the data and seeing that the API appeared
15 to be below the PCI for that basket.

16 Q. Okay. Can we agree that there aren't a
17 whole lot of services left in the business basket?

18 A. Yes. I think we can agree on that.

19 Q. All right. Now, would it be also fair to
20 say that there's not a whole lot of headroom in the
21 residence basket?

22 A. That's a true statement.

1 Q. Now, it's your testimony that the company
2 has reduced rates by more than was required under
3 the price index -- I'll withdraw that.

4 It's your testimony that the company has
5 reduced rates more than it was required to by the
6 price index in the carrier basket, correct?

7 A. That's what results in the API being less
8 than the PCI.

9 Q. Right.

10 And what results in this concept of
11 headroom that we have evolved in this proceeding?

12 A. That's correct.

13 Q. Now, would it be fair to say, Mr. Gebhardt,
14 that any headroom or differential between the API
15 and PCI in the carrier basket is substantially the
16 result of access charge reductions ordered by the
17 Commission in Dockets 97-0601, 0602?

18 A. The carrier basket has always had
19 significant headroom in it, as I recall, looking
20 back at the time.

21 So it is not only the result of that.
22 It's the result of other initiatives where the

1 company has lowered its rates.

2 Q. Could we say that a significant portion of
3 the headroom is due to those reductions in rates?

4 A. I'm trying to think whether the last price
5 cap index even had in it the \$33 million reduction,
6 which I think is the one you're referring to, and
7 I'm not certain about that.

8 Based on the timing, that would have been
9 July of 2000, and I'm not sure when the 0601, 0602
10 rate reductions went into effect.

11 Q. I'm not either. I'm hoping that you would
12 be able to enlighten me somewhat, but -- would you
13 accept that they are in effect now?

14 A. I would accept they're in effect now.

15 Q. Okay. Now, the Commission didn't really
16 intend for those particular rate reductions to be
17 revenue neutral, did they?

18 A. I think that they did not forestall revenue
19 neutrality in their order.

20 Q. Okay. Let's assume for the sake of argument
21 that the Commission had spoken to that issue and
22 they determined that it did not intend to -- for

1 those reductions to be revenue neutral.

2 Will you --

3 MS. SUNDERLAND: I have trouble with that as a
4 hypothetical since apparently, you know, the
5 parties -- I mean, the order says what it says. The
6 parties apparently disagree on what it says. And I
7 don't know that it's appropriate to ask as a
8 hypothetical that the order says something other
9 than what we think it says.

10 MR. HARVEY: Well, I think the --

11 JUDGE CASEY: Hold on. Hold on. So your
12 objection is?

13 MS. SUNDERLAND: I'm objecting to the form of the
14 question.

15 MR. HARVEY: I think Mr. Gebhardt said that he
16 didn't believe that it spoke to this and he said --

17 MS. SUNDERLAND: Excuse me, he said he didn't
18 forestall it.

19 MR. HARVEY: He said that he didn't believe that
20 the order prevented it.

21 He also, by extension, I assume, meant
22 that he didn't think that the order specifically

1 spoke to it.

2 I want to see what he thinks about this
3 concept of headroom that he's come up.

4 MS. SUNDERLAND: I believe that he's
5 mischaracterized Mr. Gebhardt's testimony.

6 You know, the statement that the order
7 does not preclude it does not mean the same thing as
8 the order didn't address it.

9 MR. HARVEY: Well, I still think that the -- we
10 ask hypothetical questions around here all the time.

11 JUDGE CASEY: Okay. Here's what we're going to
12 do.

13 You're going to re-ask your hypothetical
14 and I'll give another listen.

15 MR. HARVEY: Okay.

16 (Change of reporters.)

17

18

19

20

21

22

1 (Change of reporters.)

2 MR. HARVEY: Let us assume for the sake of
3 argument, Mr. Gebhardt, and I'm not expecting you to
4 accept this as true, that the Commission did not
5 intend rate reductions coming out of 97-0601, 0602
6 to be revenue neutral. That is the hypothetical I'm
7 asking the witness to accept for arguments sake.

8 MS. SUNDERLAND: I still have an objection to a
9 hypothetical that requires us to accept an
10 interpretation of an order that is out there that we
11 don't agree with.

12 JUDGE CASEY: Mr. Harvey, you are asking him to
13 interpret an order.

14 MR. HARVEY: I'm not asking him to interpret an
15 order, I'm asking him to deal hypothetically with
16 one possible interpretation of an order, that's a
17 different matter.

18 JUDGE CASEY: Then delete your reference to a
19 specific order.

20 BY MR. HARVEY:

21 Q. Let us assume, Mr. Gebhardt, for the sake of
22 argument, that the Commission ordered a rate

1 reduction, attributable to no particular historic
2 docket, in the carrier revenue basket, can we assume
3 that?

4 A. They ordered a reduction in the carrier
5 basket.

6 Q. They ordered a reduction of a rate that
7 happened to fall in the carrier revenue basket?

8 A. Okay, assume they did.

9 Q. And let's further assume that the order
10 explicitly stated or did not specifically foreclose
11 that revenue neutrality was not to be sought in
12 this.

13 MS. SUNDERLAND: Excuse me, you've got two
14 completely different concepts in your question. You
15 said assume that the order does not foreclose, and
16 does not preclude.

17 BY MR. HARVEY:

18 Q. I will withdraw the question and rephrase
19 it, hopefully more artfully. Let us assume again,
20 hypothetically, that the Commission ordered a
21 reduction in a rate that happened to be in the
22 carrier revenue basket, and indicated explicitly

1 that it was not to be revenue neutral can. We
2 accept that?

3 JUDGE CASEY: Is that a yes, Mr. Gebhardt?

4 THE WITNESS: I understand it.

5 BY MR. HARVEY:

6 Q. Now, it would be improper for the company to
7 raise rates for other services based on that head
8 room right, that was afforded by the rate reduction
9 that I just described?

10 A. Is that the only head room that was created
11 by that action?

12 Q. Let us assume that it was.

13 A. Then I would presume in doing their order,
14 the Commission would also have mandated a lower PCI
15 or something so that the API/PCI interaction would
16 be able to basically not allow any increase, or
17 essentially have zero head room. Because otherwise,
18 you know, then the company that is operating under
19 the alternative regulatory plan would be foreclosed
20 from doing what it is -- what it can do. So I guess
21 you could potentially have conflicting orders.

22 Q. That's something you, of course, would

1 abhor, and never happens around here. Well, I think
2 I've got about as far with that as I'm going to get.

3 Now, Ameritech proposes to combine
4 service baskets in this proceeding, don't they?

5 A. Yes.

6 Q. Okay. This would, of course, afford the
7 company increased pricing flexibility, as you've
8 said?

9 A. It would afford additional pricing
10 flexibility, particularly if there was some a
11 additional latitude granted by the Commission on
12 what we could and couldn't do relative to price
13 changes.

14 Q. And by that you mean the amount that you are
15 allowed to raise a rate?

16 A. Correct.

17 Q. In any given filing?

18 A. Correct.

19 Q. Now, it's your testimony that under the plan
20 where the API is below the PCI, consumers have
21 benefited from, I believe you describe it as early
22 and excessive rate reductions?

1 A. That is the way I described it, yes.

2 Q. And just -- this is your rebuttal at my
3 version of your rebuttal at 89, so you may want to
4 check to see if that's correct. But you also used
5 the term somewhere down the page, early and
6 aggressive, and I'm just wondering which you mean,
7 or if you mean both.

8 MS. SATTER: If the page is different than what
9 Mr. Harvey states, would you mind clarifying that?

10 MS. SUNDERLAND: It is on the bottom of 89 and
11 the top of 90.

12 THE WITNESS: I'm sorry, I didn't catch the
13 question.

14 BY MR. HARVEY:

15 Q. Well, it's just that I'm noticing that you
16 used the term early and excessive, and you then go
17 on and use the term early and aggressive, and I'm
18 wondering which you mean, or if you mean both.

19 A. I think that it's just a descriptor. I
20 didn't mean anything more by using aggressive as
21 opposed to excessive.

22 Q. I just wanted to make certain that excessive

1 wasn't a transcription error.

2 A. The total purpose was to describe the
3 situation where the API was significantly below the
4 PCI, which means that the company had acted to lower
5 rates before it needed to lower rates.

6 Q. I just wanted to understand what those --
7 what you meant there. Since you described things as
8 early and excessive or aggressive, I'm wondering if
9 you can tell me which rate reduction specifically
10 you characterize as such?

11 A. That's a general descriptor of the fact that
12 there is this difference between the PCI, which can
13 only mean that rate reductions were taken early, and
14 they were large, larger than needed to be. And the
15 obvious point of that is that customers benefited in
16 advance and the fact that, you know, people wish to
17 reinitialize all of these indices, basically takes,
18 in my view, punishes the company for good things.

19 Q. One final line of questioning,
20 Mr. Gebhardt. I think we agree that in certain
21 respects Ameritech Illinois' service quality has not
22 been satisfactory, either to the Commission, the

1 company, or the general public, correct?

2 A. In certain circumstances.

3 Q. And it's your testimony that the problems
4 associated with service quality factors don't result
5 from the plan, but rather from factors, if you will,
6 extraneous from the plan?

7 A. Yes.

8 Q. Now, your colleague, Mr. Hudzik points to a
9 couple of factors that may have contributed to this,
10 larger than anticipated number of retirements among
11 the employees that do, for example, installation and
12 repair?

13 A. I believe that's correct.

14 Q. And a significant increase in digital
15 subscriber line orders?

16 A. I don't remember that being one of his
17 reasons, but it very well could have been.

18 Q. Let's -- could we take a look at each of
19 those, just briefly. The company offered the
20 retirement to these employees, right?

21 A. I don't know that you use the word offer. I
22 mean certain instances it's offered, certain

1 instances people just get to that age and have
2 enough service, and they leave.

3 Q. Do you know of anything that the company did
4 to make the retirement more attractive to people,
5 let's ask it what way?

6 A. There might have been some instances where
7 consolidations or whatever brought about surpluses,
8 where those folks were given certain packages to
9 cushion the loss of their jobs. I think Mr. Hudzik
10 could probably address it better than I could.

11 Q. No, that's fair enough.

12 A. I can tell you I didn't get any package, I
13 just reached that magic age in service.

14 Q. And you became a consultant. Let's try the
15 DSL orders, here.

16 MS. SUNDERLAND: He testified that he didn't even
17 recall that from Mr. Hudzik's testimony, so I think
18 further cross on that would be inappropriate. I
19 mean, it's not even in his testimony.

20 MR. HARVEY: Fair enough, I'll withdraw the
21 question.

22 BY MR. HARVEY:

1 Q. I lied to you, Mr. Gebhardt, I have several
2 other questions here. This is going to be the last
3 three or four, and these are again questions that I
4 -- well, let me ask one more question, it would be
5 your testimony here today that if I wanted to find
6 out about DSL's, whether DSL orders affected the
7 company's repair and maintenance times, I would
8 pretty much have to talk to
9 Mr. Hudzik about that, correct?

10 A. I think that would be a good idea.

11 Q. And here's some more questions pretty much
12 along the same lines, these have to do with capital
13 structure, and if you don't feel qualified to
14 answer, you are sort of the main witness so I'm
15 assuming you are going to be able to tell me who
16 can.

17 A. If I don't know, I'll try to give you
18 somebody who can.

19 Q. Do you agree that for purposes of a LRSIC
20 study, it's appropriate to use a company's target
21 capital structure, assuming that that's reasonable?

22 A. Yes.

1 Q. Do you agree that a capital structure is
2 meant to reflect the relative proportions of capital
3 that a company intends to raise in future?

4 A. Can I have the question back, again?

5 JUDGE CASEY: Can you read that back?

6 (Whereupon, the record
7 was read, as requested.)

8 BY MR. HARVEY:

9 Q. And I'm sorry, Mr. Gebhardt, if we could say
10 target capital structure, would that help you answer
11 the question?

12 A. That would help me answer the question. And
13 I would agree with that.

14 Q. Do you agree that Ameritech Illinois has
15 stated that its target capital structure is that of
16 its publically traded pure group companies?

17 A. Yes.

18 Q. Do you degree that Ameritech Illinois'
19 target capital structure consists of 75.09 percent
20 equity, and I believe that this is incorrect, but
21 24.91 percent debt?

22 A. I think it's generally 75/25.

1 Q. Who would I ask to get the hard and fast
2 number on this, do you suppose?

3 A. I think Dr. Ibbotson makes reference to what
4 he perceived or was told about what the target
5 capital structure is, and I think it might even be
6 somewhere in mine, but 75/25 is the right number.

7 Q. And if I had further questions,
8 Dr. Ibbotson?

9 A. You could ask Dr. Ibbotson.

10 MS. SUNDERLAND: Is this for LRSIC studies? Is
11 this specific to LRSIC studies, that's where you
12 started off? Or is this a more general question?

13 MR. HARVEY: I think this is a more general
14 question.

15 THE WITNESS: Why don't you just try me on the
16 questions.

17 BY MR. HARVEY:

18 Q. That was the question, so you've passed with
19 flying --

20 A. 75/25.

21 Q. Do you agree that new common equity capital
22 is recorded on a company's books at market value

1 ignoring issuance costs?

2 A. I would agree with that.

3 Q. Fair enough. That, sir, is all I have for
4 you, and I thank you for your patience.

5 JUDGE CASEY: Additional cross?

6 MR. PACE: I have some. I don't know if this is
7 logical, I would have additional cross, probably
8 related to the last file testimony. But I'm not
9 sure if we want to split up.

10 JUDGE CASEY: Mr. Pace, since you may have
11 additional cross later, why don't we skip you at
12 this point and come back to you this afternoon.
13 Anybody else have cross?

14 MS. SATTER: I have some.

15 CROSS EXAMINATION

16 BY

17 MS. SATTER:

18 Q. Good morning, Mr. Gebhardt, my name is Susan
19 Satter, I'm with the Illinois Attorney General's
20 office.

21 A. Good morning.

22 Q. I just have a couple of questions

1 specifically concerning Exhibit 1.4. On Page 7, you
2 talk about the simplifying call pack services that
3 you offer?

4 JUDGE CASEY: What page was that, Ms. Satter?

5 MS. SATTER: It was Page 7.

6 THE WITNESS: Yes.

7 BY MS. SATTER:

8 Q. Let me ask you, do you agree that all access
9 customers pay for the local calls they make either
10 on basic rates or on a calling plan?

11 A. Local service customers?

12 Q. Yes.

13 A. You had another word in there.

14 Q. Access. I said all access customers, I
15 should say residential or business access customers.

16 A. You mean they have an access line?

17 Q. They have access line, and when they make
18 local calls they pay for those local calls?

19 A. If that happens to be the rate structure of
20 the carrier that is serving them.

21 Q. Assuming what you are serving them,
22 Ameritech is serving them.

1 A. Then they would pay for local calls.

2 Q. On either basic rates or on a calling plan?

3 A. Yes.

4 Q. Now, the company expected some customers to
5 pay less on the calling plans, as compared to basic
6 service, and marketed the plans to emphasize
7 savings; is that correct?

8 MS. SUNDERLAND: Well, I think there is a whole
9 order as to whether the primary message of the
10 marketing campaigns were savings or not savings,
11 whether it was savings or simplicity. And I think
12 that order stands for itself, so I object to him
13 being asked specific questions about marketing
14 campaigns which he did not address in his testimony
15 anyway.

16 BY MS. SATTER:

17 Q. Let me strike the question and ask it
18 differently.

19 JUDGE CASEY: So the objection would be beyond the
20 scope?

21 MS. SUNDERLAND: Beyond the scope and already the
22 subject of a Commission order.

1 B Y MS. SATTER:

2 Q. Is it correct that the company expected that
3 some consumers would pay less on the calling plans
4 as compared to basic rates?

5 A. I think they did. I think the evidence
6 shows that some customers did.

7 Q. But that was the company's expectation,
8 correct?

9 A. I am not sure what the company's expectation
10 was.

11 Q. Did the company determine that the
12 simplified and call pack plans were economically
13 rational for the companies?

14 A. I can't answer that question.

15 Q. Are you saying in your testimony that the
16 company received less revenue overall from
17 simplified and call pack customers than they would
18 have received under basic rates. Do you recall
19 saying that?

20 A. That's correct.

21 Q. Do you know how many customers who were on
22 those rates paid more than they would have paid?

1 A. I do not know that.

2 Q. Do you know whether the company is still
3 marketing these plans?

4 A. I don't know that either.

5 Q. Now you, on Page 27 and 28, you say that
6 Ameritech Illinois was asked to revise its equity
7 numbers by the FCC?

8 A. That's correct.

9 Q. And then you say when you compare the data,
10 it shows that Ameritech -- this is on Page 28,
11 Ameritech Illinois's financial --

12 JUDGE CASEY: What page.

13 MS. SATTER: 28.

14 BY MS. SATTER:

15 Q. You say that Ameritech Illinois' financial
16 performance is far closer than that of other
17 incumbent LEC's. Do you have the equity numbers for
18 that?

19 A. I said that on 28 it shows that the
20 correction will reduce the company's return on
21 shareowner's equity by 1,405 points. So if you take
22 Ms. TerKeurst's numbers she had and you reduce it by

1 1,405 basis points, that would be the number.

2 Q. Let me ask you just one question about 911
3 rates. Are those set by contract? How are those
4 set?

5 A. I know in some cases they are, I just don't
6 know in all cases if they are.

7 Q. Ordinarily, those 911 rates are set with a
8 municipality; is that correct?

9 A. Usually a 911 answer location. It can be a
10 municipality, but many municipalities have one 911
11 agency that serves multiple communities.

12 MS. SATTER: That's all I have.

13 MR. GOLDENBERG: Alan Goldenberg and David Heaton
14 on behalf of the Cook County State's Attorney's
15 Office. I'm going to try to do more general
16 questions and then Dave is going to do some service
17 quality.

18 CROSS EXAMINATION

19 BY

20 MR. GOLDENBERG:

21 Q. You talk about in your testimony that in
22 general the first order basically replaced rate of

1 return regulation in Illinois with alternative
2 regulation, correct?

3 A. The 92-0448 record?

4 Q. Yes, the original.

5 A. Yes.

6 Q. And in it you indicate that it was basically
7 a break in sort of regulatory approaches that there
8 are -- you pointed out various differences that you
9 felt were appropriate to one and not appropriate to
10 the other; is that correct?

11 A. It was clearly a different method or way in
12 which the company should be regulated for its
13 noncompetitive services.

14 Q. And because of this you feel that sort of
15 rate case type of analysis is inappropriate?

16 A. I definitely do.

17 Q. Would you agree that competition is one way
18 to keep a price at a reasonable level?

19 A. I think competition will normally drive the
20 prices to the market.

21 Q. But that's one way of judging
22 reasonableness, correct?

1 A. If people aren't buying, then they must not
2 consider it to be reasonable. So there could be
3 some pricing actions taken in response to that.

4 Q. So if you took something like basic phone
5 service, the dial tone for example, and gave
6 somebody four or five choices, that would serve to
7 keep pricing reasonable, if somebody could go from
8 one carrier to the next without any an appreciable
9 difference?

10 A. Well, you'll get maybe the same kind of
11 service, okay, moving from one provider to another.
12 I don't know what the price might be. For example,
13 one of my exhibits I showed a letter that I got from
14 MCI wanting to sell me local service. And I called
15 MCI, and they want 19.99 for unlimited local calling
16 and the access line.

17 So I look at that, and then I compare
18 that to how much I pay for Ameritech Illinois'
19 access line, and then I say, how many local calls do
20 I do. And you can make a price comparison, and then
21 you can make a choice.

22 Q. Do most residential customers currently in

1 the Cook County area have that choice?

2 A. I don't live in cook County, but I live in
3 DuPage County --

4 Q. The question was with respect to Cook?

5 A. Cook County there are some alternative
6 providers here, as well, that would provide
7 residential service.

8 Q. But most people can't switch to a facilities
9 based carrier, would you agree with that statement?

10 A. I don't know that most, some cannot, I would
11 agree with that.

12 Q. Well, what other facility based carriers
13 could somebody in Cook County switch to?

14 A. The one that comes to mind is Century 21,
15 which is now RCN bought them out. So that would be
16 one that I can think of off the top of my head that
17 are facilities based providers.

18 Q. And are they serving all of Cook County?

19 A. I don't know which portions. I did talk to
20 their engineer at the bar one night and he wouldn't
21 tell me.

22 Q. Under alternative regulation in Illinois,

1 could the company seek modification of the plan if
2 it determined that its earnings were too low?

3 A. Yes, I believe we could have petitions for
4 some modification.

5 Q. So you would agree at some point if earnings
6 were deemed by the Commission to be too high that
7 they could modify it downward also?

8 A. I wouldn't agree with that.

9 Q. Okay. What authority -- at what point do
10 you think the Commission can modify rates downward?

11 A. If the Commission found that the goals that
12 it established had not been met it can rescind the
13 plan under the statute, it could modify the plan
14 under the statute.

15 Q. You would agree that rates have to be just
16 and reasonable under the plan at all times?

17 A. I believe that the rates are just and
18 reasonable under the plan, because the company's
19 follow the plan as outlined by the Commission.

20 Q. You are familiar with the original alt reg
21 order, aren't you?

22 A. Yes.

1 Q. Did the order have certain things in which
2 the Commission articulated were there to protect
3 ratepayers and insure that rates were just and
4 reasonable?

5 A. I think that --

6 Q. And I'm not asking whether you agree with
7 them.

8 A. I don't remember all of the words in that
9 order, but, you know, generally speaking, the
10 Commission found that its expectation was that
11 noncompetitive rates would be just and reasonable
12 under the price index plan that it put forth. It
13 also, you know, put in a consumer dividend and a
14 price freeze and a few other things that were
15 additional, what I'll call benefits, that the
16 Commission perceived to be for consumers.

17 Q. Those are things you are looking to remove
18 in your current proposal?

19 A. The cap period has expired, so in extending
20 the plan, we would not think that it would be
21 appropriate to put forth another cap, particularly
22 when our rates are in a situation where they need to

1 be increased.

2 Q. Well, why don't we talk about the cap for a
3 second. Your view is that it expired at the end of
4 five years, correct?

5 A. Yes.

6 Q. However, the order indicates we conclude
7 that its appropriate to impose the statute mandated
8 cap on residential basic services, and then
9 parenthetically, access and band A, for the full
10 five-year period of the alternative regulation plan,
11 and that's found on Page 64 of the order in 92-0448,
12 93-0239.

13 Now, looking at the language that the
14 Commission used, didn't the Commission assume that
15 it would have evaluated the plan before the five
16 years was over, when it issued the original order?
17 I'll withdraw that question. The time line in the
18 original order presumed or provided for a review
19 before the five years was over; is that correct?

20 A. I think that the way that the Commission
21 basically required the company to file its
22 application for review in March of '98, that there

1 might have been some expectation that the review
2 would take place over the subsequent couple of
3 years.

4 Q. But doesn't the cap itself protect consumers
5 in the sense, and again this is on, I believe, Page
6 64 of the order, that customers whose demands are
7 the most inelastic will be protected from the
8 exercise of monopoly power during the pendency of
9 this plan. Yet it's your -- is it your contention
10 that they didn't intend to have a cap during the
11 entire plan?

12 A. It's my view that they intended to have a
13 cap for five years, and that five years expired in
14 October of 1999, I guess.

15 Q. Without the price cap, what protection under
16 your new plan would residential ratepayers have?

17 MS. SUNDERLAND: Excuse me, the rate cap are you
18 talking about?

19 MR. GOLDENBERG: Yes.

20 THE WITNESS: Under the proposed revisions that
21 the company is offering here.

22 BY MR. GOLDENBERG:

1 Q. Correct. You are suggesting that the plan
2 not have that protection that was both statutorily
3 and extended by the Commission for the full five
4 year length of the plan, and I'm asking you what in
5 its place would protect the residential customer in
6 the same way that that did, under your current
7 proposal?

8 A. I think that the customers are protected
9 from a price cap plan that as long as inflation
10 stays low is going to drive prices down overall.
11 And most of the services that are noncompetitive are
12 residential services, and those prices will decline.

13 Q. Yet it's equally possible under your pricing
14 flexibility that they can go up?

15 A. I think you have to look at what's -- in the
16 context of what would be left as subject to the
17 price cap. And if you are looking at a residential
18 customer, you've got residential access lines,
19 you've got usage for residential customers and
20 you've got features.

21 Now it's entirely possible, and if the
22 Commission doesn't do anything relative to giving us

1 some upward pricing on the network access lines,
2 that pricing flexibility that we are asking for
3 would be used, in the context, under the plan, to
4 move network access line prices upward and we would
5 have to reduce something else. And that something
6 else could be features, or usage.

7 Q. But they would be your choices as a company,
8 not necessarily policy decisions made by the
9 Commission?

10 A. I think the company then would be in a
11 position to make the appropriate judgments, yes.

12 Q. Now, do you agree with the Commission's
13 statement in the original order, 92-0448, 93-0239,
14 again, this is around, I think, Page 49, that
15 whether to adopt a sharing provision as a component
16 of alternative form of regulation of noncompetitive
17 services is one of the most significant decisions
18 that the Commission will make in this proceeding?

19 A. I seem to recall words to that effect.

20 Q. Do you agree with that statement?

21 A. No. I agree that they made a decision, and
22 I think they made the right decision by not having

1 earnings sharing.

2 Q. Would you also agree that the Commission
3 left open in the order the possibility that it would
4 entertain policy consideration regarding earnings
5 sharing as a future proceeding?

6 A. Yes, I seem to recall that's in there.

7 Q. Are you familiar with earnings sharing?

8 A. Unfortunately, yes. It's rate of return by
9 another name.

10 Q. From a policy point of view, are there
11 consumer benefits to earning sharing?

12 A. There are consumer benefits to pure price
13 cap plan.

14 Q. Again, are there from a policy --

15 A. If you are defining consumer benefits as
16 price reductions, and that's the total context of
17 your definition, then I think you could say that
18 earnings sharing, to the extent the company was able
19 to earn well, would benefit consumers.

20 Q. Now, isn't there a risk with any kind of
21 price cap mechanism that you can have a wide swing
22 in earnings, that at some point would be

1 characterized as excessive, you know? And, again,
2 for this hypothetical, you can assume that
3 management is brilliant, they are doing a great job,
4 and quite possibly the price cap index might have
5 been set wrong, people might have under estimated
6 productivity or other factors. And isn't there a
7 risk that this can result in excessive earnings?

8 A. That's why we went through a lot of the data
9 that we went through here, and we basically
10 demonstrated conclusively that there was no missed
11 specification by the Commission.

12 Q. But if there were though in the
13 hypothetical?

14 A. In the hypothetical, if there were some
15 missed specifications, yeah, there could have been
16 problems, but I don't think that necessarily means
17 that it's high earnings.

18 Q. Wouldn't earnings sharing would be one
19 mechanism that could serve as a protection that
20 would kind of protect consumers if that would have
21 happened? I'm not asking you whether you agree with
22 it, we know you don't, but wouldn't it be a tool if

1 the Commission made a choice other than yours?

2 A. Let me have the question again.

3 Q. I'll reask it. Won't you agree that
4 earnings sharing would provide a degree of
5 protection to consumers in the event that somehow
6 there were excessive earnings, and by excessive, as
7 a result of brilliant management, incorrectly set
8 price caps or underestimates in productivity or
9 other factors?

10 A. I don't think I can agree to that.

11 Q. So you don't believe it would provide any
12 protection to consumers?

13 A. It would provide a hammer for sharing with
14 customers if earnings became at some presubscribed
15 level. Where I'm having trouble with your question
16 is high earnings. We've got companies in this
17 economy that earn 240 percent on equity. Is that
18 high? I don't think it is.

19 Q. You would agree at some point earnings
20 become excessive and therefore unjust and
21 unreasonable?

22 A. I can't swallow that.

1 Q. So is it your position under alternative reg
2 that the company can earn sky's the limit?

3 A. Yes.

4 Q. And is that view supported by policy experts
5 in your field?

6 A. I think that policy people would say that,
7 you know, what the Commission attempted to do is
8 separate and divide -- separate the company from a
9 cost plus mentality, and put it on its own, and
10 basically sever the ties to earnings, that's what
11 price regulation did.

12 The company earned well, I admit it. As
13 well as a lot of companies out there? Hm-mmm. But
14 I mean, I do not consider the earnings that the
15 company had achieved to be excessive. And I know we
16 disagree on that.

17 Q. Now, let's turn to competition. In your
18 opinion, is the plan supposed to be some type of
19 transition towards competition?

20 A. It's a plan that allows the company -- to
21 allow the company to put itself in a position to get
22 ready for competition.

1 Q. Is it your view that the plan has not
2 negatively affected potential competition in the
3 residential market?

4 A. I don't believe that the plan has impacted
5 competition at all, with the one caveat. That if we
6 had a little more pricing flexibility I think it
7 would be an encourager -- more of an encourager of
8 competition.

9 Q. In your testimony in Exhibit 1.1 at Page 47,
10 you indicate there are a number of reasons why
11 residential competition has been relatively slow to
12 emerge. They include unrealistic expectations over
13 the pace at which facilities based competitors would
14 enter the market and extend their offerings broadly
15 to the entire customer base. And possibly strategic
16 decisions by the IXE's to delay entry in order to
17 maintain existing TA-96 long distance restrictions
18 on ARBOC's, including Ameritech Illinois?

19 A. Yes.

20 Q. Now, given that view, you also -- are you
21 also familiar with the percentage of the residential
22 market that in terms of lines, are you able to give

1 us a percentage of resold and a percentage of lines
2 that are available on an UNE loop basis?

3 A. I can't as I sit here. I would imagine that
4 Ameritech Illinois probably has -- I mean the
5 competition to date in Illinois has been primarily
6 driven by business market. So I would not expect a
7 huge market share loss for Ameritech Illinois on the
8 residential side.

9 Q. Now, are you also aware of sort of current
10 trends in the residential market in terms of the
11 competitors, do you still keep up on that?

12 A. As I indicated, I myself even received a
13 letter from MCI, and I am aware that in areas,
14 particularly like New York and Texas, where the
15 incumbent carrier has gotten in the long distance,
16 the residential competition became rather robust for
17 local.

18 Q. Are you aware of companies pulling back in
19 the Chicagoland region?

20 A. I never got a letter from MCI before, and it
21 is an attractive deal if you make a lot of local
22 calls.

1 Q. Now, are you familiar with band C usage
2 prices just in general?

3 A. In general, yes.

4 Q. Would you agree that under the plan that
5 they have increased to roughly 4 cents to about 10
6 cents a minute when purchased on a stand alone
7 basis?

8 A. I don't know whether I recall the 4 cents,
9 but I think today's rate is 10 cents a minute.

10 Q. Now, was band C competitive or
11 noncompetitive when the plan started?

12 A. When the plan started it was a
13 noncompetitive service and remained so until equal
14 access was introduced, in which case it became
15 competitive because that traffic could be
16 presubscribed to other carriers.

17 Q. Now, is it competitive currently?

18 A. Yes.

19 Q. Now, how would you explain the service being
20 declared competitive and continuing to rise, what
21 some would view significantly, over the life of the
22 plan?

1 A. I think in competitive markets prices go
2 upward and downward and you price to the market and
3 then you do some contracts off of that, or you offer
4 calling plans in an attempt to, you know, secure,
5 better secure, your customer loyalties.

6 Q. But at some point if that doesn't affect the
7 price consumers buy, would you suggest that there is
8 a problem?

9 A. No, I would suggest that if a company is out
10 there, and they are offering a price substantially
11 above the market, that people are going to switch.

12 Q. Well, what about the proposed plan that you
13 have, given the lack of competition here in Illinois
14 would provide a check on earnings?

15 A. The plan proposed if there is no
16 competition, their basic residential services are
17 going to be under the price cap. And based on the
18 formulas that are being proffered here, it's a
19 declining price every year. Just like it has been
20 for the last five, six years.

21 Q. Now, when the plan started, are you familiar
22 with what percentage of your intrastate revenues

1 were from services classified as competitive?

2 A. Approximately 7 percent, as I recall.

3 Q. And then in 1999, what would you suggest is
4 the proximate percentage of intrastate revenues from
5 services classified as competitive?

6 A. It's approximately 58 percent.

7 Q. Now, turning to network infrastructure
8 commitment, in the original plan did Ameritech
9 Illinois volunteer a particular commitment in
10 Illinois?

11 A. Yes, the company offered to spend \$3 billion
12 over five years in its infrastructure on the basis
13 that the Commission would approve a non-earnings
14 based plan.

15 Q. And are you familiar with the dollar amount
16 that Ameritech Illinois spent on network
17 infrastructure since 1995?

18 A. It's approximately 3.7 billion from the
19 1995 through 1999 period, excluding the expenditures
20 of the other Ameritech family of companies.

21 Q. You testified in the SBC Ameritech merger
22 docket, correct?

1 A. Yes, I did.

2 Q. And did that docket, to your knowledge
3 result in a continuation of the merger -- of the
4 infrastructure commitment?

5 A. It did.

6 Q. And what is the current dollar amount?

7 A. Well, by the Commission's wording, it's the
8 3 billion gets extended, so that's five years,
9 unless it's modified in this proceeding.

10 Q. Now, is Ameritech Illinois's position that
11 it should be modified or just clarified?

12 A. That's something that you need to ask
13 Mr. O'Brien about, I don't work for the company any
14 more, as an employee, so he's the policy guy you
15 need to talk about that with.

16 Q. Now, with respect to pricing flexibility,
17 noncompetitive services are divided currently in
18 four baskets?

19 A. That's correct.

20 Q. And Ameritech Illinois' proposal is placing
21 them all in one basket?

22 A. That's correct.

1 Q. Now, doesn't putting them in one basket
2 really allow the -- I'll withdraw that question.

3 Why did the company propose eliminating
4 the four baskets?

5 A. Predominant -- this is again in
6 Mr. O'Brien's testimony, but predominantly it's on
7 the basis that virtually some of these services like
8 carrier access services, the Commission has already
9 prescribed the prices on those. UNE's they provided
10 the prices on those, so that takes services out of
11 the price cap plan all together.

12 Then you've got virtually all business
13 services have been reclassified, so you've
14 eliminated the business basket, for all practical
15 purposes. You've eliminated the carrier access
16 basket for all particular purposes. And that leaves
17 you with the other basket and the residential basket
18 and most of those are residential service. So it
19 doesn't make any sense to have multiple baskets, in
20 my judgment. But you could ask Mr. O'Brien, because
21 he's the proponent proposal.

22 Q. Do you know from a policy perspective why

1 they were put in four baskets?

2 A. I think I proposed it.

3 Q. Okay. That's -- then you are a good person
4 to ask why.

5 A. At the time it was proposed in that way to,
6 although I will tell you one thing that was turned
7 out a little different, but it was proposed as a way
8 to keep customer classes separate so that each one
9 of the customer classes would be a beneficiary of
10 the plan. The Commission put some things in the
11 other basket that I had originally proposed to go in
12 the residential basket, such as vertical features
13 and the like.

14 So there are some things in the other
15 basket, and I just want to make that distinction,
16 that I would have proposed -- I did propose be in
17 the residential basket. But basically it was done
18 so that classes of customers were basically
19 distinction, and would get, in quotes, equal
20 benefits under the plan.

21 Q. Now, referring back to the original 92-0448
22 case, do you recall what you proposed the price

1 increase to be with respect to the PCI and the
2 baskets?

3 A. I basically -- individual pricing
4 flexibility per service?

5 Q. Correct.

6 A. I believe I proposed a 5 percent pricing
7 flexibility.

8 Q. And why did you choose 5 percent at that
9 point?

10 A. Well, actually when I originally thought
11 about it, I thought it should be 10, but I elected
12 to be conservative and said that 5 would have been
13 okay.

14 Q. But you felt back when the original case was
15 designed that 5 was a fair number?

16 A. Sure, because I didn't expect that it was
17 the way it turned out was the Commission took the 5
18 and gave me 2, and then they did plus or minus the
19 PCI which meant -- I had always thought that we
20 would be able to make some progress on increasing
21 some residential network access lines, in
22 particular, because they need to come up in a

1 revenue neutral basis in the constructive plan. The
2 way things turned out it didn't work.

3 But 5 under the conditions that I thought
4 things might turn out, 5 would have been okay. I
5 could have made some progress toward rationalizing
6 some rate structures in the context of plan. But
7 the Commission lowered the pricing flexibility, A,
8 and B they extended the price cap on the thing -- or
9 put a cap on things I needed to change the price on.

10 Q. So you don't always get what you want?

11 A. I try. But as a result of that my
12 conclusion is we've made no progress since basically
13 1990.

14 Q. Turning to universal service, you note on
15 Page 64 of your testimony found in Exhibit 1.1 that,
16 and I believe you state, I would note, however, that
17 Illinois' standing and comparison to the rest of the
18 nation appears to be below. Whether one looks at
19 current or historic data. I know this is a matter
20 of concern, not only for the Commission, but for the
21 industry as well. Yet you really don't go on to
22 provide policy proposals that would, in the context

1 of this proceeding, deal with that?

2 A. I think I say at other places that, you
3 know, what needs to be done is some studying of the
4 universal service or the reasons for homelessness
5 before you should take some action.

6 MS. SUNDERLAND: You mean subscriberlessness?

7 THE WITNESS: Thank you. Phonelessness is what I
8 meant. The ITA, the industry is looking at this and
9 they have commissioned a study that is in progress
10 at this time. And I think what you need to do is
11 figure out after the study results come out, what
12 actions ought to be taken.

13

14 BY MR. GOLDENBERG:

15 Q. Now do you really need a study to determine
16 that raising the basic amount that somebody pays for
17 a dial tone is going to result in less
18 subscribership when economics alone are the factor?

19 A. I don't believe that the rates are the
20 villain here.

21 Q. But they are a factor, aren't they?

22 A. I don't believe they are the villain and I

1 don't believe -- I don't know what the -- but it
2 would be surprising to my that since Illinois has
3 fairly low rates, or Ameritech Illinois has fairly
4 low rates, that it is going to be a big deal in the
5 study.

6 I believe there are other factors at work
7 here, and it's important that the industry, and I
8 think the industry is addressing it through this
9 study, and the Commission will then have some facts
10 upon which to base its forward looking view on how
11 to correct the problem if there indeed is one and
12 statistics would say that there is.

13 Q. Now turning to network access line pricing.
14 On Page 6 of your testimony, and I'm referring this
15 time to Exhibit 1.5, you point out that loop costs
16 are the single largest element in Ameritech
17 Illinois' price structure.

18 JUDGE MORAN: Can you repeat the page?

19 MR. GOLDENBERG: Page 6 of Ameritech Illinois
20 Exhibit 1.5.

21 THE WITNESS: Yes, I see it.

22

1 BY MR. GOLDENBERG:

2 Q. Now, can you just give us a brief snapshot
3 on how loop cost is recovered?

4 A. Loop costs are recovered by the network
5 access line price that is charged by Ameritech
6 Illinois, and it is recovered by the end user common
7 line charge that is subject to the FCC's
8 jurisdiction.

9 Q. Okay, now maybe you can help me understand
10 something. Are you familiar with DSL?

11 A. Somewhat.

12 Q. Can you just tell us briefly what that
13 refers to?

14 A. It's a method by which you can increase the
15 band width on a copper pair of wires.

16 Q. On a very basic level, is it possible to
17 share the line between basic phone service and DSL?

18 A. There is a concept of line sharing.

19 Q. Does Ameritech Illinois when they provide
20 basic service and DSL provide them over the same
21 line for people?

22 A. I can't answer what question, I don't know.

1 Q. In looking at it from the point of view of
2 rate design, do you know how DSL costs are
3 recovered?

4 A. I believe there are -- that you take the
5 incremental cost of the electronics, but I probably
6 shouldn't even answer because I'm not positive.

7 MS. SUNDERLAND: I believe the current price that
8 Ameritech Illinois is allowed to charge for line
9 sharing to CLEC's is zero.

10 BY MR. GOLDENBERG:

11 Q. Is that your understanding?

12 JUDGE CASEY: Let the record reflect that
13 Mr. Gebhardt didn't know the answer to that
14 question.

15 MS. SUNDERLAND: This is a matter of public
16 record and Commission orders having to do with line
17 charge.

18 JUDGE CASEY: Mr. Gebhardt didn't know the answer
19 to the question.

20 BY MR. GOLDENBERG:

21 Q. Can you maybe tell me which Ameritech
22 Illinois witness can answer questions on loop cost

1 line sharing, and how the pricing works when DSL and
2 residential?

3 MS. SUNDERLAND: I think Mr. O'Brien would
4 probably be the logical witness.

5 MR. GOLDENBERG: I'll let Mr. Heaton finish up
6 with some questions on service calling and we are
7 done.

8 CROSS EXAMINATION

9 BY

10 MR. HEATON:

11 Q. Hi, Mr. Gebhardt, I'm Dave Heaton.
12 Referencing your rebuttal testimony bottom of Page
13 12 --

14 MR. HEATON: By the way, I may not necessarily be
15 just service quality questions that I ask.

16 JUDGE CASEY: Are you referring specifically to
17 which exhibit that you want Mr. Gebhart --

18 JUDGE MORAN: That's 1.3 and what page?

19 MR. HEATON: Bottom of Page 12.

20 B Y MR. HEATON:

21 Q. There you state alternative regulation plan
22 created an environment which incited the company to

1 invest in its network. No party disputes the
2 substantial investments made in additional fibers
3 facilities, SS-7 and AIN, which improve network
4 efficiency and reliability.

5 A. I'm not finding that on 12.

6 MS. SUNDERLAND: Where are we?

7 BY MR. HEATON:

8 Q. How about Exhibit 1.1, Page 14?

9 A. I have it.

10 Q. And I'm just going to refer you to the first
11 question on that page, did the alternative
12 regulation plan create an environment which incented
13 Ameritech Illinois to invest in its network and then
14 you gave an answer, is that on Page 14?

15 A. Yes, starts on 14.

16 Q. On Page 14, 15, 16, you mention a few things
17 that you provide examples of investments that the
18 alternative regulation plan has resulted in; is that
19 correct? You talk about fiber facilities, SS-7
20 capabilities, a few other things. Are those
21 examples that support your answer to that question
22 on Page 14?

1 A. Those are examples of the investments what
2 were made.

3 Q. And do you hold those out as examples that
4 support your answer to the question whether it
5 incented Ameritech Illinois to invest in its
6 network?

7 A. Can I have the question again, please?

8 Q. Sure. Those examples I gave you, the fiber
9 facilities, SS-7 capabilities, two PIC capabilities,
10 these are all examples that you cite on pages 14,
11 15, and 16 in Exhibit 1.1. You site those after the
12 question that asks this: Did the alternative
13 regulation plan create an environment which incented
14 Ameritech Illinois to invest in its network? And my
15 question for you is, are those examples for
16 investments, are you holding those out as examples
17 of how the alternative regulation plan incented
18 Ameritech to invest in its network?

19 A. Those are examples of investments that were
20 made by Ameritech.

21 Q. Yes, you said that before, but my question
22 calls for a yes or a no. Are you holding them out

1 as examples of investments that Ameritech made that
2 were resulted from the incentives of the alternative
3 regulation plan?

4 A. I think I would, yes.

5 Q. And by the answer on Page 14, you are not
6 suggesting that because the company is invested many
7 fiber facilities, and SS-7, and AIN during the five
8 plan years, you are not suggesting that that was
9 caused by the alternative regulation plan?

10 A. No, I look at the alternative regulation
11 plan being the enabler, to allow the company to
12 invest in things that it believed would be good for
13 the network, and its customer.

14 Q. But they are not the, to use the legal term,
15 proximate cause, so to speak.

16 MS. SUNDERLAND: Object to the use of the legal
17 term in this context.

18 BY MR. HEATON:

19 Q. They are not the cause of them?

20 A. Not the cause of.

21 Q. The alt reg plan is not the cause of
22 Ameritech's making those investments, correct?

1 A. I think it's very difficult to say Ameritech
2 would have invested in those particular items not
3 been there alternative regulation. The commitment
4 the company made was for 3 billion, it spent more
5 than 3 billion.

6 What would have occurred under
7 traditional or rate of return regulation, I don't
8 know what portion of those investments would have
9 been made.

10 Q. Were it not for the alternative regulation
11 plan being in place, would you preclude the
12 possibility that Ameritech would have made these
13 same investments?

14 A. I would not preclude it, but I also did not
15 know that it would occur.

16 Q. Okay, thank you. And in fact, there is a
17 lot of other conditions that could have also been
18 enablers for these types of investments during that
19 five year alt reg; isn't that correct?

20 A. I'm not sure what you mean.

21 Q. Well, for example, due to the conditions in
22 the SBC Ameritech merger, there were conditions in

1 that merger that required, as you stated before, in
2 answer to Mr. Goldenberg's question, required some
3 \$3 billion in investments?

4 A. A continuation.

5 Q. And at this point, that continuation is
6 still going, correct?

7 A. Right. The five years ended in '99, and so
8 we continued to spend in 2,000.

9 Q. But in fact there are a great many other
10 bench marks -- strike that.

11 Now, as far as -- let's talk about
12 Project Pronto on Page 15 of your Exhibit 1.1. It's
13 at the bottom.

14 A. I've got it.

15 Q. And that was another -- the project pronto
16 investments that you discuss, starting on Page 15,
17 and through about 17, that's another example of the
18 types of investments for which the alternative
19 regulation plan was an enabler according to you; is
20 that correct?

21 A. It's basically, you know, what -- I was
22 trying to address the question of what kinds of

1 things is the company going to be spending its
2 dollars on going forward. I've told you, in part of
3 this, what we spent it on in the past, as part of
4 the five year instance. And this is explaining the
5 part, as does Mr. Jacobs explain what the company's
6 intentions are if we are going to be going forward.

7 I don't know, you know, again, what
8 portion of those projects that are contained in my
9 going forward view, or Mr. Jacobs', I can't tell you
10 without alternative regulation what portion, if any,
11 of that kind of stuff would be done.

12 Q. Well, that's not my question, but I'll
13 rephrase it. On Page 14, and I'm going to repeat
14 this question again, the question asks does the
15 alternative regulation plan create an environment
16 which incented Ameritech Illinois to invest in its
17 network, that's the question.

18 After that question, there are one, two,
19 three, four, five, six paragraphs that comprise the
20 answer to that question. In the fourth paragraph,
21 as part of the answer to that question, you say more
22 recently SBC announced that it will spend 3.9

1 billion in Project Pronto, correct?

2 A. That's what it says.

3 Q. And for Ameritech Illinois, that's going to
4 be about \$900,000?

5 A. 900 million.

6 Q. 900 million, sorry. Now, part of the
7 services that are going to be included in Project
8 Pronto -- strike that.

9 In fact, on Page 16, top of the page, you
10 state Project Pronto is an SBC strategy that will
11 enable broad band capabilities to be available to 80
12 percent of its customer base, correct?

13 A. Correct.

14 Q. Now, broad band capabilities, those are
15 capabilities that allow several different types of
16 information to -- data, to be transferred across the
17 same lines at the same time, correct?

18 A. Yes.

19 Q. In a general --

20 A. Basically you get more stream of bites, or
21 X's and O's going across the stuff.

22 Q. Would you agree with this statement, broad

1 band is a vehicle for incorporating more than one
2 channel into a communications transmission?

3 A. Yes.

4 Q. And would you agree that an example of broad
5 band is, now let me know if you are not familiar
6 with these specific technologies, but T-1, are you
7 familiar with that?

8 A. That's broad band, yes.

9 Q. And that T-1, for example, you can hold 24
10 conversations over maybe four wires, is that a fair
11 statement of what T-1 does?

12 A. It's got the equivalent of four circuits.

13 Q. And cable TV, that's another example of a
14 broad band technology?

15 A. It is coaxial cable.

16 Q. And that carries a whole bunch of TV
17 channels on the same coax?

18 A. And it can carry other things.

19 Q. ATM, is that another example of broad band
20 capability?

21 A. ATM switches, yes, I guess I would put it in
22 that camp.

1 Q. Would you agree that ATM is the ability --
2 allows the ability to carry many different types of
3 data at the same time, for example video, voice, and
4 anything basically capable of being digitalized; is
5 that a fair statement?

6 A. I think that's correct.

7 Q. And just one more, I'm going to throw out
8 ISDN, is that another example of a broad band
9 capability?

10 A. It's not as rich as some of the others that
11 you mentioned, but yes.

12 Q. And these examples of broad band would be
13 the type of services that the Project Pronto would
14 bring to consumers of Illinois, correct?

15 A. It would have that capability.

16 Q. Well, isn't that the main purpose behind
17 Project Pronto?

18 A. I think it's an enabler of DSL.

19 Q. DSL, again, that's another broad band?

20 A. Right.

21 Q. Now, none of those services, T-1, cable TV,
22 ATM, ISDN, all of those services we just discussed,

1 none of those are noncompetitive services, are they?

2 A. No, I don't think they are, in Illinois .

3 Q. And none of those services are related or
4 are used in the provisioning of plain old telephone
5 service, are they?

6 A. They could be, but generally speaking, I
7 mean T-1, a T-1 can serve basic telephone service.

8 Q. It can, but that's not the general purpose
9 that T-1?

10 A. For business customers it is. It is often
11 times used for that application.

12 Q. And business customers would be types of
13 customers more inclined to use T-1 or ATM, or even
14 ISDN, correct?

15 A. Well, I don't know that I would put ISDN
16 there, but yeah.

17 Q. They need a lot of different lines to funnel
18 a lot of different communications to make a profit?

19 A. That is generally correct.

20 Q. Now, in your testimony on Pages 14, 15, 16,
21 we discussed these investments that we've been
22 talking about. You don't mention whether Project

1 Pronto or any of those other investments are going
2 to be applied to help maintain plain old telephone
3 service, do you?

4 A. I don't think I ever made that statement.

5 Q. Yeah, that's my question. So your answer is
6 no?

7 A. I did not make that statement. But clearly
8 some portion of the \$3 billion is going to be to
9 support basic telephone service just as it was in
10 the 1995 through 1999 period.

11 Q. Some portion, but you don't articulate in
12 your testimony what portion, do you?

13 A. No, I do not. It is a large portion,
14 though, I can tell you that.

15 Q. And I'm going to go -- I'm going to ask you
16 about some specific Ameritech network facilities
17 that you may or may not be familiar with. Are you
18 familiar with some of the switches that -- the types
19 of switches that Ameritech is using in Illinois to
20 provide for plain old telephone service?

21 A. Yes.

22 Q. Would you agree that a substantial portion

1 of those switches are -- would be considered
2 outdated relative to other technologies for
3 switching that are available today? Would you agree
4 with that statement?

5 A. No, I would not.

6 Q. Would you agree that, for example, 185 ESS,
7 are you familiar with a 185 ESS?

8 A. No, I'm not.

9 Q. Are you familiar with the 5 ESS switches?

10 A. It's a type of switch.

11 Q. And there are about 18 of them that
12 Ameritech uses in Illinois, correct?

13 A. I don't know whether there are 18 or 6. I
14 think Mr. Jacobs.

15 Q. And let me know if these questions are
16 better posed to somebody else.

17 A. But I think, even if 18 was the right
18 number, I think that's a small percentage of the
19 total switches that Ameritech Illinois has.

20 Q. I understand. And are you familiar with the
21 Ameritech Seimen's switches?

22 A. I'm aware that Seimen's -- some of our

1 central offices are Seimen's switches.

2 Q. Would you agree that there have been
3 problems associated with these switches that
4 negatively impact the provisioning of plain old
5 telephone service to Illinois consumers?

6 A. I'm not aware.

7 Q. Is there -- would Mr. Jacobs be somebody
8 that may be more knowledgeable of these?

9 A. I think you could address it to him or
10 potentially Mr. Hudzik might know what kind of
11 quality problems, if there are any, have arisen.

12 Q. Are you familiar with the current docket
13 that is addressing area code issues at this
14 Commission?

15 A. It seems like we've been dealing with area
16 codes for years, but I'm not -- let me just go on
17 and say I'm not familiar precisely with what is
18 going on at the present time in that regard.

19 Q. I'm going to show you a document and I'm
20 going to ask you to review it. I'm showing the
21 document to counsel.

22 JUDGE MORAN: And you want this marked?

1 MR. HEATON: I haven't marked it yet, but I will
2 mark it as SAO Cross Exhibit 1.

3 MR. PACE: In terms of cross exhibits, should we
4 establish some sort of guidance on this? We have
5 some cross exhibits as well.

6 JUDGE MORAN: They will be numerical in order.
7 The proponent will be SAO, in this instance, the
8 witness will be Gebhardt and the cross exhibit
9 number is 1 and we will follow in sequence. So
10 identify the proponent and the witness to whom the
11 cross exhibit is being directed.

12 MS. SUNDERLAND: I don't know where this is
13 going, but I suppose he can ask his question, but
14 I'm going to -- unless he surprises me with the
15 question, I'm going to object to this being admitted
16 for any purpose, and I don't think questioning on
17 this document is going to go anywhere.

18 JUDGE MORAN: Do you want to tie this in,
19 Mr. Heaton, the relevancy of this document to this
20 proceeding?

21 MR. HEATON: Yeah, I would.

22 BY MR. HEATON:

1 Q. At the top of the page the caption is
2 Illinois 847 Relief NPA 224 implementation status
3 update of 847 unassignable NXX's. That's what it
4 says at the top, right?

5 A. It also says this is a conference call, so
6 somebody did this?

7 Q. Well, I can't testify, but --

8 JUDGE MORAN: You can't testify, but you are the
9 proponent of this document, and there is no
10 background as to where this document comes from.

11 MR. HEATON: I was just going to ask
12 Mr. Gebhardt some questions about the document, he
13 didn't have to necessarily know where it came from.

14 JUDGE CASEY: Before we go any further --

15 MS. SUNDERLAND: I think it's proper to start by
16 asking him if he's ever seen this document.

17 JUDGE MORAN: You have to put in your foundation.

18 JUDGE CASEY: Is there any testimony in
19 Mr. Gebhardt's direct or rebuttal, surrebuttal, that
20 refers to area code exhaustion?

21 MS. SUNDERLAND: There is none.

22 MR. HEATON: Well, Mr. Gebhardt does refer in the

1 same pages that we've been talking about --

2 JUDGE CASEY: Okay, direct my attention to it.

3 MR. HEATON: He does, on Page 15 of Exhibit 1.1,
4 as one of the five paragraph answers to the question
5 I read several times, middle of the page, he says
6 company has also expended many millions of dollars
7 modifying its network to open it fully to
8 competition. This included establishing two PIC
9 capabilities for local toll calls, making number
10 portability feasible for local exchange service and
11 establishing co-location facilities.

12 These questions relate directly to number
13 portability and they also relate to Mr. Gebhardt's
14 comments that some of these investments permitted
15 competitors to provide high quality innovative
16 services to their customers on that same page.

17 MS. SUNDERLAND: I'm at a loss as to what that
18 has to do with area code exhaust.

19 MR. HEATON: I'm not going to talk about area
20 code exhaust, per se. That happens to be the
21 context the case that this document was made. In
22 fact, this document is already part of a record in

1 Docket 01-0066. However, I did just ask Mr.
2 Gebhardt several questions about 5 ESS switches, and
3 and the Seimen switches, and that's what I'm getting
4 at because these switches are discussed on the first
5 page of this document.

6 MS. SUNDERLAND: I'm sorry, he can't -- I object
7 to him trying to get this information into the
8 record through Mr. Gebhardt who has already told
9 everything he knows. And this document is not a
10 document that he has seen. It's from some other
11 docket, it's not even an Ameritech document. It is
12 well outside the scope of Mr. Gebhardt's testimony.

13 MR. HEATON: I would respond that Mr. Gebhardt
14 has not yet said that he cannot answer the questions
15 related to this. I have not been able to ask him
16 any questions.

17 JUDGE MORAN: In the first place, this document
18 has not been identified. If it is in fact an
19 exhibit, then it should have a caption of the case.
20 I mean, this is not presented in any type of proper
21 form.

22 Secondly, there is writing on this

1 document which we don't know if this is attorney
2 work product, if this is how it was put in as an
3 exhibit in this document. Are you saying this is
4 part of 0066?

5 MR. HEATON: It is a document that is of record
6 in 0066, but I haven't asked that this document even
7 be admitted into evidence yet. I was simply going
8 to ask Mr. Gebhardt some questions related to it.
9 If there is some foundation issues that come up and
10 we do want to enter it into the record, I can
11 provide witnesses that can establish the foundation
12 for it.

13 But in the past the Commission has not
14 strictly adhered to the rules of evidence as it
15 relates to establishing foundations for documents.
16 I mean, I would happy to bring in a witness who will
17 testify as to what this document is.

18 JUDGE MORAN: Are you trying to impeach him with
19 this document?

20 MR. HEATON: Yes.

21 JUDGE MORAN: As to something he said in his
22 testimony?

1 MR. HEATON: Yes.

2 JUDGE MORAN: And that testimony being this Page
3 15 of Exhibit 1.1?

4 MR. HEATON: His general testimony in answer to
5 --

6 JUDGE MORAN: No, not general testimony. If you
7 want to impeach, you have to impeach on specific
8 testimony. I see nothing here about area codes or
9 number assignability. I'm really at a loss. So
10 maybe you can explain that. What precisely are you
11 looking to impeach on this testimony by this
12 document?

13 MR. HEATON: Madam Examiner, I asked
14 Mr. Gebhardt a few minutes ago some questions
15 relating to some switches that Ameritech uses. In
16 his testimony --

17 JUDGE MORAN: And he referred you to another
18 witness on those switches, as I recall.

19 MR. HEATON: He said that I could ask questions
20 of Mr. Jacobs.

21 MS. SUNDERLAND: And Mr. Hudzik.

22 MR. HEATON: If the hearing examiner prefer to I

1 address these questions with another witness, that's
2 fine, but I was talking about these issues with Mr.
3 Gebhardt, I felt it was a good time to bring it up.
4 It's not imperative whether
5 Mr. Gebhardt speaks to this, or --

6 JUDGE MORAN: So does this go to the switches, or
7 does this go to this paragraph on Page 15, that's, I
8 guess, my question?

9 MR. HEATON: The switches relates to the
10 paragraph on Page 15.

11 JUDGE MORAN: I'm going to allow you to try and
12 establish a foundation with Mr. Gebhardt.

13 MR. HEATON: Foundation for this document? I
14 doubt Mr. Gebhardt is going to be able to provide
15 that foundation, but I will try.

16 BY MR. HEATON:

17 Q. Mr. Gebhardt, have you ever seen this
18 document before?

19 A. No.

20 Q. That pretty much ends the foundation. I can
21 bring in somebody if that's really necessary.

22 JUDGE CASEY: Counsel, you said it was an

1 admitted exhibit in another record?

2 MR. HEATON: It is of record of docket 01-0066.

3 JUDGE CASEY: That's not what I asked. Is it an
4 admitted exhibit or is it an attachment to?

5 MR. HEATON: It is an attachment to, not a
6 pleading, some comments pursuant to a hearing
7 examiner's request.

8 MS. SUNDERLAND: I mean, you can't just put it
9 any document you want from another record because
10 he'd like to put it in. It has to be somehow
11 related to this witness' testimony.

12 JUDGE MORAN: It has to be related and it has to
13 be relevant.

14 MR. HEATON: I haven't heard an objection for
15 relevance on this document yet.

16 MS. SUNDERLAND: Well, it's improper from the get
17 go so we haven't gotten to the relevance yet.

18 MR. HEATON: Improper is not a legal basis for an
19 objection. If there is objection for relevance, I
20 will establish the relevance. But again if this is
21 not the time to address this, apparently this is
22 causing a bit of a stir, which I really wasn't

1 expecting.

2 MS. SUNDERLAND: And I don't want to suggest that
3 we are going to be amenable to this being introduced
4 in connection with another witness either, just so
5 we are clear here. Whatever is going on in the area
6 code docket is completely separate from this
7 proceeding.

8 JUDGE MORAN: I have a problem in that I don't
9 see anything in Mr. Gebhardt's testimony that
10 relates to area code, and I'm asking if you can
11 point that out to me.

12 MR. HEATON: It doesn't relate, per se, to area
13 code. It relates to the switches that Ameritech
14 network facilities that Mr. Gebhardt has said in his
15 testimony, he's given several examples of how the
16 alternative regulation plan has allowed or been the
17 enabler for substantial investments in the Ameritech
18 network.

19 I asked him several questions about broad
20 band capabilities, and none of which were related to
21 plain old telephone service. A lot of his
22 testimony, especially the Project Pronto

1 investments, those are related to noncompetitive --
2 or rather competitive executive services, they are
3 not related to POTS.

4 What I was trying to do is ask
5 Mr. Gebhardt some questions, and he in fact said on
6 cross examination, he said that there has been some
7 investments in, you know, plain old telephone
8 service, he just said that.

9 THE WITNESS: I said substantial, actually.

10 MR. HEATON: And he said substantial. So I was
11 trying to get at if part of that substantial
12 investments, any of that went to the switches that,
13 if I were allowed to continue, would show these
14 switches have been causing problems within the
15 network, and they have affected the services for
16 consumers.

17 JUDGE CASEY: All right, but I do recall you did
18 ask him if he was aware if there were problems with
19 the switches, and he said he was not aware.

20 MR. HEATON: Yes, he did.

21 JUDGE CASEY: So what are we going to impeach him
22 on?

1 MR. HEATON: I can bring another witness.

2 JUDGE MORAN: That's not the problem,
3 Mr. Heaton.

4 MR. HEATON: I'm going to withdraw this line of
5 questioning at this time. And if we need to, we
6 will bring it up later.

7 JUDGE CASEY: Okay. Any other questions?

8

9 BY MR. HEATON:

10 Q. I just have have a few questions about, and
11 I don't have exact quotes to your testimony, so you
12 will either remember it or not. In your testimony,
13 you stated, you've taken issue with some of Ms.
14 TerKeurst's statements that the effects of the SBC
15 merger are relevant to this docketing, do you recall
16 that?

17 A. The effects of the merger are relevant?

18 Q. Yes.

19 A. I don't.

20 Q. Do you recall stating in your testimony that
21 only -- I'm going to withdraw the question.

22 JUDGE MORAN: Mr. Heaton, since you can't direct

1 him specifically to a page, why don't you state your
2 understanding of what you believe was in Mr.
3 Gebhardt's testimony, and see if he agrees with
4 that.

5 MS. SUNDERLAND: I really think he should have a
6 reference if he's going to characterize the
7 testimony and then ask Mr. Gebhardt whether that
8 fairly characterizes his testimony.

9 JUDGE CASEY: I have another suggestion. We are
10 going to break for lunch now. And if you want to
11 refer back to the testimony, you can pick it up when
12 we get back.

13 (Luncheon recess.)

14 (Change of reporters.)

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1 (Change of reporters.)

2 (Whereupon, SAO Cross

3 Exhibit No. 1 was

4 marked for identification

5 as of this date.)

6 JUDGE CASEY: We're going to continue then with
7 the cross-examination of Mr. Gebhardt who's back in
8 the room.

9 Mr. Gebhardt, I remind you that you're
10 still under oath.

11 MR. HEATON: Thank you, your Honor.

12 FURTHER CROSS-EXAMINATION

13 BY

14 MR. HEATON:

15 Q. Mr. Gebhardt, could I refer you to Page 17
16 of Exhibit 1.3, your Exhibit 1.3, and that's
17 rebuttal testimony of David H. Gebhardt.

18 Okay. At the top of --

19 A. We're on Page 17; is that correct?

20 Q. Yeah. At the top --

21 A. Okay.

22 Q. The top of that Page 17, bottom of that

1 first paragraph, in your testimony you state, "A
2 sharp decline in both out of service greater than 24
3 and --

4 MS. SUNDERLAND: Wait, wait, wait, wait. We're
5 on the wrong page.

6 There must be a pagination issue between
7 you guys and us.

8 MR. HEATON: Oh, okay.

9 MS. SUNDERLAND: What's the --

10 MR. HEATON: One minute. It's after --

11 MS. SUNDERLAND: What's the header that we're
12 at?

13 MR. HEATON: Yeah, it's under No. 1, service
14 quality.

15 MS. SUNDERLAND: Yes.

16 MR. HEATON: Okay? And after that, the answer,
17 it is about five paragraphs into that answer.

18 The top of the page, it says, "Third, the
19 most severe service problem."

20 MS. SUNDERLAND: Okay. Are we in that
21 paragraph? Are we in the paragraph that begins
22 "third"?

1 MR. HEATON: Yeah.

2 MS. SUNDERLAND: Okay.

3 JUDGE MORAN: It's Page 14 on my copy.

4 MS. SUNDERLAND: Yes.

5 BY MR. HEATON:

6 Q. Okay. And it's 17 on mine. So...

7 You state in that testimony, "Ameritech
8 Illinois made the out of service greater than 24
9 standard for calendar year 1999 and it also made it
10 for the first five months of 2000.

11 "The sharp decline in both out of service
12 greater than 24 and installation intervals in the
13 June to October 2000 period was unexpected."

14 And then after that, you state, "I would
15 also note that it falls outside the five-year period
16 which is the subject of this review."

17 Are we on the same page then?

18 A. Yes.

19 Q. Okay. Now, when you speak of the five years
20 which is the subject of the review, are you
21 referring to the period from October 11th, 1994 to
22 October 11th, 1999?

1 A. Actually, I look at it as '95 through '99
2 calendar years.

3 Q. Okay. Calendars years '95 through '99.

4 Now, isn't it true that the five-year
5 period you refer to is -- strike that.

6 Okay. Since the ending of that five-year
7 period that you referred to, there has not been a
8 new alt reg order issued since October 11th, 1999,
9 which is the end of that period; isn't that correct?

10 A. There has been no new alt reg order since
11 the 92-0448 order.

12 Q. Okay. In effect then, Ameritech Illinois is
13 still operating under substantially the same pricing
14 mechanism and regulatory scheme as it was during the
15 alt reg period, correct?

16 A. During the 1995, '99 period, the price cap
17 plan continues in effect.

18 Q. And it is in effect today as we speak?

19 A. Yes. We will be making another annual
20 filing in March of 2001.

21 Q. Okay. Well, isn't it true then that --
22 again, referencing you back to, I believe, on your

1 copy, Page 14 at the top, when you're discussing the
2 2000 service quality problems -- or, rather, more
3 specifically, when you discuss the decline in both
4 out of service greater than 24 and installation
5 intervals, isn't it true that that period of decline
6 in service quality occurred under substantially the
7 same pricing and regulatory scheme that is still in
8 place today, correct?

9 A. Yes.

10 MR. HEATON: And I have no further questions,
11 Mr. Gebhardt.

12 Thank you.

13 JUDGE CASEY: Mr. Pace?

14 MR. PACE: Good afternoon, Mr. Gebhardt. I'm
15 Jack Pace with the City of Chicago.

16 Your Honors, this morning, as you know,
17 Ameritech filed a motion to file additional
18 supplemental testimony of Mr. Dominak and
19 Mr. Gebhardt and I mentioned at that time that that
20 was under review by our office.

21 We do have some objections to the filing
22 of that testimony.

1 JUDGE CASEY: When you say "that," do you refer
2 to Mr. Gebhardt's or both?

3 MR. PACE: As it turns out, both.

4 Now, Mr. Dominak is not going to be up
5 for cross until Thursday. And I think that with
6 respect to that testimony, I'd like to have an
7 opportunity to talk with Ameritech's counsel and
8 maybe we can remedy that problem. But, if not, we
9 can come back to the Hearing Examiners and give them
10 a status as to the progress or, you know, the lack
11 of progress.

12 JUDGE CASEY: Okay. With respect to Gebhardt,
13 however, what's the basis of the objection?

14 MR. PACE: Well, I'd like to do some cross of
15 that testimony which I think will form the basis for
16 one of our objections to the testimony.

17 Basically, the numbers that he has in
18 that testimony, we can't figure out where they come
19 and we can't -- we don't see any association to the
20 testimony of Mr. Dominak that they would like to
21 have admitted despite the fact that Mr. Gebhardt
22 purports to get those numbers from Mr. Dominak's

1 testimony.

2 JUDGE MORAN: So you want to voir dire the
3 witness on this piece of testimony; is that it?

4 MR. PACE: That's what I'd like to do.

5 MS. SUNDERLAND: Why don't we just proceed with
6 cross. And then if he wants to move to strike at
7 the end of the cross for that piece of testimony,
8 we'll just do it that way.

9 JUDGE MORAN: All right.

10 MR. PACE: Yeah, that's probably --

11 JUDGE MORAN: Okay. Proceed, Mr. Pace.

12 CROSS-EXAMINATION

13 BY

14 MR. PACE:

15 Q. Mr. Gebhardt, I'd like to reference you to
16 Illinois -- Ameritech Illinois Exhibit 1.6 titled
17 Additional Surrebuttal Testimony of David H.
18 Gebhardt.

19 A. Okay.

20 Q. Now, that's the testimony that was served on
21 the parties this morning; is that correct?

22 A. Last evening, I believe, but --

1 Q. Okay. And as you know, that has not been
2 admitted into the record at this point, correct?

3 MS. SUNDERLAND: I'm sorry. Excuse me?

4 MR. PACE: That testimony has not been admitted
5 into the record at this point, correct?

6 MS. SUNDERLAND: That is true.

7 BY MR. PACE:

8 Q. Okay. Now, I'd like to refer you to Page 3
9 of that testimony, Exhibit 1.6.

10 And you have a depreciation rate of 6.3
11 percent, correct?

12 A. Correct.

13 Q. Okay. Now, as you heard, we're trying to
14 figure out where that number comes from and that --
15 these series of questions are trying to get to that.

16 Now, you say that that 6.3 percent is
17 Ameritech's composite depreciation rate based on Mr.
18 Dominak's revised schedule?

19 A. It is the composite rate excluding
20 amortization for FAS 71.

21 Q. Now, would you say that that composite
22 depreciation rate is calculated by taking the

1 overall depreciation rate you get by dividing the
2 depreciation and amortization expense by the
3 plant-in-service investment?

4 A. The way that number is calcu- -- was
5 calculated was to take the depreciation expense that
6 Mr. Dominak last submitted, subtracting the
7 depreciation accruals associated with the FAS 71 and
8 divide it by plant in service.

9 Q. So is your answer to the last question, no?

10 A. I didn't know that it called for a yes or no
11 answer.

12 Q. Okay. So the question is, is that rate
13 calculated by taking the overall depreciation rate
14 divided -- dividing the depreciation expense and
15 amortization by the plant-in-service investment?

16 A. I explained to you how it was calculated.
17 You're missing some words in your description.

18 So if you want me to answer your
19 question, it's no.

20 Q. The answer is no?

21 A. (Nodding.)

22 Q. Okay. And the reason why it's, no, is that

1 in the numerator I've included amortization and
2 you're saying --

3 A. Well, you talk about rate.

4 Q. Excuse me. It'd be a lot easier if I can
5 just finish the question and then you can answer.
6 That way, the record is clear.

7 Is it because that I included in the
8 equation amortization the numerator, and you've said
9 that you've taken certain amortizations out?

10 A. It is because you used the term rate instead
11 of depreciation expense.

12 Q. So, in other words, it should be the
13 definition is the overall depreciation expense --
14 okay. Let me go to the next question.

15 On Mr. Dominak's Schedule 2 to his new
16 testimony, Exhibit 7.3; do you have that?

17 A. I have his Exhibit 7.3.

18 Q. Do you have that?

19 And Schedule 2?

20 A. I have Schedule 2.

21 Q. Now, what is the plant in service shown on
22 Schedule 2 there?

1 What is the number?

2 A. 7,880,849,000.

3 Q. Okay. And what is the new -- referring you
4 now to Schedule 3 of Mr. Dominak's Exhibit 7.3; do
5 you have that?

6 A. I have it.

7 Q. Okay. What is the new depreciation and
8 amortization expense shown on that Schedule 3?

9 A. 607,758,000.

10 Q. Now, would you be able to divide right now
11 the 607,758,000 by 7,880,849,000?

12 A. Certainly, you're able to make that
13 division.

14 Q. Pardon me?

15 A. You are certainly able to make that
16 division, yes.

17 Q. And if I gave you a calculator, would you be
18 able to do that right now?

19 A. It's not going to give you 6.3.

20 Q. Right. Can you calculate that for me?

21 A. It's about 7.3, I think.

22 Excuse me. It's 7.7.

1 Q. Now, as you just stated, that number is
2 different than the 6.3 percent that you now included
3 on Page 3 of Exhibit 1.6, correct?

4 A. That's correct.

5 Q. Would you agree that the calculation that I
6 had you perform is the correct way to determine the
7 composite depreciation rate?

8 A. Not based on the assumptions that I used in
9 calculating the original depreciation rate that I
10 have now updated.

11 Q. And that assumption is?

12 A. No inclusion of amortization, because it was
13 done for comparative purposes for other -- to other
14 rates that do not include amortization.

15 Q. Now, is it -- where in Mr. Dominak's
16 schedules have you -- strike that.

17 Where in Mr. Dominak's revised testimony
18 and schedules have you used data to come up with
19 that 6.3 percent?

20 A. It's data underlying these schedules that I
21 used to determine what the amortization amount was.

22 Q. So from just looking at Mr. Dominak's

1 testimony and schedules, we wouldn't know that,
2 right?

3 A. I think if you knew that I described in my
4 testimony what I was using or how I was calculating
5 the rate, you would necessarily assume, since I was
6 doing an update of that rate based on Mr. Dominak's
7 testimony, that the amortization would also have
8 been removed.

9 Q. I'd like to refer you to Page 2 of
10 Exhibit 1.6 --

11 A. Yes, sir.

12 Q. -- where you state, "Applying the same
13 methodology to interesting data in Mr. Dominak's
14 Schedules 1 and 2 to his Exhibit 7.3, the earned
15 return for noncompetitive services in 1999 was 5.5
16 percent as compared to the 3.88 percent in my
17 supplemental direct testimony"; is that what it
18 says?

19 A. Yes, sir.

20 Q. Now, Mr. Gebhardt, I'd like you to -- I'd
21 like you to refer to Mr. Dominak's Schedules 1 and 2
22 which you allege support the 5.5 figure that you

1 present in your additional surrebuttal.

2 A. The 5.55 percent?

3 Q. Yes.

4 A. Yes, sir.

5 Q. Is it correct, Mr. Gebhardt, that the 5.5
6 percent does not appear anywhere in these schedules?

7 A. It is, because it's for noncompetitive
8 services' earned return which is -- which is earlier
9 described in my testimony as to the methodology.

10 All I'm doing here is taking
11 Mr. Dominak's new numbers, flowing them through the
12 same model and producing the higher return.

13 MR. PACE: I make motion to strike that answer
14 as being nonresponsive.

15 MS. SUNDERLAND: Excuse me. He was entitled to
16 explain how -- where that number came from. That
17 was the gist of Mr. Pace's question.

18 MR. PACE: The whole purpose of this
19 questioning --

20 JUDGE MORAN: Is?

21 MR. PACE: -- is whether we should allow the
22 additional testimony to be filed at this late date.

1 Mr. Gebhardt is asserting that his
2 testimony needs to go into the record now because
3 it's based on Mr. Dominak's additional testimony
4 that's being filed now.

5 JUDGE MORAN: But I think he's saying --

6 MR. PACE: To the extent that he is relying not
7 on Mr. Dominak's schedules, but on testimony that he
8 previously filed, it is improper surrebuttal at this
9 late date.

10 MS. SUNDERLAND: In his original testimony when
11 he provided this calculation, he said very clearly
12 that starting point was Mr. Dominak's income
13 statement and rate base schedules. He then
14 described how he put them through a model and came
15 up with a result.

16 He has simply taken the updated schedules
17 for the income statement and the rate base, run them
18 through the same model to come up with an updated
19 number. There's nothing new here. It's just an
20 update.

21 JUDGE MORAN: The objection is overruled.

22 Mr. Pace, do you understand what's going

1 on here?

2 The methodology was first set out by
3 Mr. Gebhardt in his testimony. This is only an
4 update to the numbers, not a change to the
5 methodology.

6 MR. PACE: It is an update on the eve of the
7 hearings, Miss Hearing Examiner. That's the whole
8 point of this: We have no opportunity to conduct
9 any discovery and cross-examine him effectively on
10 this new data on the eve of the hearings.

11 He is referring to additional testimony
12 that they want to file and we cannot discern from
13 this additional testimony where this data comes
14 from. I think it is improper to file this at this
15 late date, give us no opportunity to explore how he
16 came up with these new numbers.

17 MS. SUNDERLAND: One further --

18 JUDGE MORAN: Mr. Pace --

19 MS. SUNDERLAND: I was going to say one
20 additional point.

21 JUDGE MORAN: Excuse me. Okay.

22 As I understand it, the numbers -- the

1 numbers are the numbers. The methodology has not
2 changed. There's an update to those numbers.

3 You certainly can through
4 cross-examination explore how Mr. Dominak got these
5 numbers that Mr. Gebhardt is simply inputting into
6 his methodology.

7 So I fail to see the prejudice.

8 MR. PACE: I'll continue with my
9 cross-examination.

10 BY MR. PACE:

11 Q. If you can, Mr. Gebhardt, can you please
12 refer to Mr. Dominak's Schedules 1 and 2.

13 And does the 5.5 percent -- well, isn't
14 it correct, Mr. Gebhardt, that the 5.5 percent does
15 not appear anywhere on Mr. Dominak's Schedules 1 and
16 2?

17 A. I would agree with that.

18 Q. Does the word "noncompetitive" even show up
19 anywhere on schedules -- on any of the schedules of
20 Mr. Dominak, 7.3 --

21 A. No.

22 Q. -- attached to 7.3?

1 So there's no breakdown of data shown
2 separately for noncompetitive services on either of
3 these schedules, correct?

4 A. That's right, because I did the breakdown.

5 Q. Now, what numbers from Mr. Dominak's
6 Schedules 1 -- or Mr. Dominak's schedules attached
7 to Illinois (sic) Exhibit 7.3 would I use to get to
8 the 5.5 percent figure?

9 A. You have to use the rate base number that
10 Mr. Dominak has contained on Schedule 2.

11 Q. And what -- where is that number?

12 A. You use the Column E, net original cost
13 number is one of the inputs to the model.

14 Q. Is that the 7 -- 7,922,598,000?

15 A. No, that's plant in service. You use net
16 original cost. It's 3,133,235,000.

17 Q. I'm sorry?

18 A. It's 3,133,320 -- 234,000.

19 Q. Okay.

20 A. That's the rate base.

21 Q. Okay. Start with that number.

22 A. No, you don't start with that number. I'm

1 saying that's one of the inputs that I used from Mr.
2 Dominak's schedules.

3 The other input is to the operating
4 expenses contained on Schedule 1, the operating and
5 other taxes contained on --

6 Q. Hold on. Excuse me.

7 Operating expenses on Schedule 1. Can
8 you please give us the number?

9 A. Total operating expenses, 2,038,554.

10 Q. And can you just for the record state --
11 tell us what column that is?

12 A. Column I.

13 Q. And that is cross total operating expenses?

14 A. Total operating expenses.

15 Q. Under Column I?

16 And what other data from Mr. Dominak's
17 schedules?

18 A. Other operating taxes; that is, 15,945,

19 Column I.

20 Q. On Schedule 1?

21 A. On Schedule 1.

22 Q. Can you tell us -- can you tell us how you

1 calculated this using this data that you're
2 referring to?

3 A. The model is described in my testimony.

4 Q. No, I'm saying, out of the numbers that you
5 referred to on Mr. Dominak's schedule here, how did
6 you come up with the 5.5 percent?

7 A. You create ratios and you apply those ratios
8 to a portion of Mr. Dominak's embedded cost analysis
9 into competitive and noncompetitive split. And then
10 you divide the split number, the rate base split,
11 divide it into the balance available split to arrive
12 at 5.55.

13 Q. So these are calculations that you've done
14 that are not reflected on either your testimony 1.6
15 or Mr. Dominak's Schedule 7.3 --

16 A. It's not --

17 Q. -- is that correct?

18 A. It's not reflected on my schedules. It's
19 reflected in the description in my previous
20 testimony.

21 Q. But it's not reflected in Exhibit 1.6 or
22 7.3, correct?

1 A. Those individual calculations are not in
2 there; that is correct.

3 Q. So we couldn't get to that 5.5 percent
4 figure just looking at 7.3 -- Exhibits 7.3 and 1.6;
5 is that correct?

6 A. It's correct you couldn't get there from
7 there. But with the work papers that you have, you
8 could have taken these numbers and gotten to that
9 number.

10 Q. And when could we have done that?

11 A. It's not that difficult.

12 Q. When could we have done that, Mr. Gebhardt?

13 MS. SUNDERLAND: Well, in fact, you did ask for
14 the work papers associated with the original
15 calculations. You've had them for a long time.
16 Your witnesses have more or less ignored them.

17 MR. PACE: Excuse me. I don't hear an
18 objection.

19 JUDGE CASEY: That's a very good point,
20 Mr. Pace.

21 Ms. Sunderland, do you have an objection?

22 BY MR. PACE:

1 Q. Do you have the question in mind,

2 Mr. Gebhardt?

3 A. No.

4 Q. When could we have used these work papers
5 that you say that we have to verify this 5.5 percent
6 number?

7 A. You could have done it this morning when
8 your witnesses had the information. It -- you could
9 have done it easily this morning before we came into
10 the hearing this afternoon.

11 Q. And you did not file any work papers along
12 with Exhibit 1.6 that show how you supposedly
13 calculated the 5.5 percent, correct?

14 A. I did not.

15 Q. So you filed this testimony on the day you
16 were set to take the stand; calculate a 5.5 percent
17 figure with no supporting work papers tendered to
18 the -- referred to schedules of another witness that
19 also do not show the 5.5 percent or how it was
20 calculated; and you assert that we should have
21 verified this this morning.

22 Does that pretty much sum up the

1 situation, Mr. Gebhardt?

2 A. I don't know that I'd characterize it
3 exactly that way, but --

4 JUDGE MORAN: Counsel, this seems a little bit
5 more like argument than cross.

6 BY MR. PACE:

7 Q. Is that basically the situation?

8 A. I think the situation is I've updated the
9 number to reflect the current information.

10 If you want me to use 3.88, the lower
11 return, then I'm fine. It's worse than it is.

12 MR. PACE: Mr. and Mrs. -- Ms. Hearing Examiner,
13 based on the -- your Honors --

14 JUDGE CASEY: Let's go with that, Mr. Pace.

15 MR. PACE: Based on the answer of Mr. Gebhardt,
16 I would make a motion right now that the additional
17 testimony of David Gebhardt, Exhibit 1.6, not be
18 allowed into the record.

19 JUDGE MORAN: Okay. I have some questions.

20 We've going to hold your motion.

21

22

1 EXAMINATION

2 BY

3 JUDGE MORAN:

4 Q. Mr. Gebhardt, I think I see some clumsiness
5 in the language here and let me get around it.

6 On Page 2 of your testimony, you say in
7 the second sentence, "With the adoption of several
8 adjustments proposed by the parties."

9 And who would those parties be, if you
10 recall?

11 A. In most cases, it's the GCI witness,
12 Mr. Dunkel.

13 Q. Okay. And what you're saying here, that
14 there were several adjustments proposed by these
15 parties in this proceeding and that the depreciation
16 amortization expense adjustments that were accepted
17 in Mr. Dominak's additional surrebuttal testimony
18 based on those adjustments proposed by the parties,
19 correct?

20 A. Right.

21 Q. So he made changes in his additional
22 surrebuttal based on --

1 A. Acceptance of certain adjustments proposed
2 by the --

3 Q. Proposed by GCI or maybe Staff?

4 A. Well, Staff was also on the bandwagon on
5 this one, too. So...

6 Q. Okay. So then Mr. Dominak accepted those
7 adjustments and made those corrections to his
8 surrebuttal -- in his surrebuttal testimony, right?

9 A. That's correct.

10 Q. Okay. Because, in previous testimony, you
11 had relied on Mr. Dominak's numbers --

12 A. Correct.

13 Q. -- am I right? You then because he made
14 these changes now had to revise your testimony?

15 A. That's correct.

16 Q. Is that a clear picture of what happened
17 here?

18 A. Yes, ma'am.

19 Q. Okay. So if Mr. Pace is concerned about
20 those underlying numbers that you have inputted,
21 would it be not proper to question Mr. Dominak about
22 that?

1 A. You could, but Mr. Dominak doesn't know my
2 model.

3 JUDGE MORAN: Okay. So -- so -- but Mr. Pace is
4 not questioning your model in terms of this
5 testimony when he's questioning this testimony; am I
6 correct, Mr. Pace?

7 Are you questioning the model -- the
8 underlying model or are you questioning these
9 additional changes that were inputted as a result of
10 Mr. Dominak's testimony?

11 MR. PACE: I'm objecting to having to deal with
12 new testimony filed at the date of hearing --

13 JUDGE MORAN: No, that is not the question I'm
14 putting to you, Mr. Pace.

15 I want to know --

16 MR. PACE: Well, that's my answer.

17 JUDGE MORAN: I understand that -- that issue.
18 I'm trying to understand the substance of your
19 objection to this testimony other than it being
20 somehow unfair to you to give it to you at this late
21 minute. I'm trying to get -- do you -- because you
22 were questioning, in fact, these numbers and Mr.

1 Gebhardt's use of these numbers.

2 So I'm trying to understand. Are you
3 really objecting to these updates that -- that
4 Mr. Gebhardt is putting in now or are you objecting
5 to the model?

6 MR. PACE: We're objecting that we have no way
7 of verifying the numbers in this testimony based on
8 Mr. Gebhardt's 1.6 and Mr. Dominak's 7.3.

9 JUDGE MORAN: Mr. Dominak is not here for
10 cross-examination today, so you will have an
11 opportunity to review those numbers and
12 cross-examine him on that when he comes in.

13 This'll be our ruling in response to the
14 City's motion:

15 Mr. Gebhardt will prepare a work paper.
16 We will consider it an on-the-record data request
17 showing how you have used Mr. Dominak's numbers.

18 We will ask that Mr. Gebhardt be
19 available for cross-examination by the City at some
20 other point in this hearing after the City has had
21 an opportunity.

22 And how soon can you do that, Mr. Pace?

1 Well, yeah. Okay. Let's start with that.

2 When can you get the work paper?

3 THE WITNESS: I can -- depending if I get it
4 early enough today, I can have it first thing in the
5 morning for you.

6 JUDGE MORAN: Okay.

7 THE WITNESS: I do wish to inform the Examiners
8 that I am leaving town on Friday.

9 JUDGE MORAN: Okay. What's today? Tuesday.
10 You would have it tomorrow. That's Wednesday.
11 Could you come in Thursday?

12 THE WITNESS: Certainly.

13 JUDGE MORAN: Mr. Pace, you will have the work
14 paper tomorrow. If you have further
15 cross-examination on this testimony and that work
16 paper, Mr. Gebhardt will be available Thursday to
17 come in for cross-examination.

18 If you are satisfied, however, then you
19 will inform us and we will excuse Mr. Gebhardt.

20 MR. PACE: I understand your ruling. I'll just
21 say I don't accept the ruling, but I understand I
22 will be able to cross work papers and I would have

1 an opportunity to cross-examine Mr. Gebhardt if I
2 need to on Thursday.

3 JUDGE MORAN: Yes.

4 MR. PACE: Okay.

5 BY MR. PACE:

6 Q. Mr. Gebhardt, on Exhibit 1.6, Page 3, the
7 6.3 percent number that you use?

8 A. Yes, sir.

9 Q. I just wanted to clarify. You said that
10 that number did not include the FAS 71 amortization?

11 A. It did not.

12 Q. Did it also exclude any other amortizations?

13 A. It did not.

14 Q. Okay. I'm done with those -- with that
15 exhibit.

16 JUDGE CASEY: Mr. Pace, you want to hold on for
17 one second?

18 We have some technical matters to go to
19 and I'll let you know when we're ready to pick up
20 again, okay?

21 MR. PACE: Okay.

22 (Pause.)

1 JUDGE CASEY: Okay. Mr. Pace, we're ready when
2 you are.

3 BY MR. PACE:

4 Q. Okay. I just want to get a clarification
5 with respect to one question and answer that
6 Mr. Harvey of Staff asked you this morning, if I
7 may, because I didn't quite fully understand the
8 answer.

9 It had to do with whether rate reductions
10 that you calculated -- I think the number's
11 somewhere a little over \$900 million over the life
12 of the plan?

13 A. Correct.

14 Q. Okay. Whether the services that were later
15 reclassified, whether those rate reductions were
16 included in that \$900 million number. And I think
17 your answer was, no, that they were not included,
18 but let me just ask you -- give you an example here
19 to further clarify this. And this is just a
20 hypothetical as an example.

21 Say, Year 1, the service --
22 noncompetitive service, there was a \$10 million rate

1 reduction related to that service.

2 A. Okay.

3 Q. Year 2, no other changes. So you're still a
4 noncompetitive service. You added another \$10
5 million to your calculation, right?

6 A. Correct.

7 Q. Year 3, the service becomes reclassified.
8 Therefore, that \$10 million number that you added
9 for Years 1 and 2 is no longer added to that \$900
10 million number, correct?

11 A. It is still added.

12 Q. It is still added.

13 Okay. Then that proves I didn't
14 understand the answer when Mr. Harvey was asking the
15 questions.

16 So you're saying that despite the fact
17 that the service is reclassified, you continue to
18 calculate -- add the \$10 million rate reduction for
19 purposes of determining the total rate reductions
20 for consumers that's found in your testimony?

21 A. Yes. Basically, we take whatever annual
22 rate reductions were taken in every given year and

1 just assume that those continue.

2 Q. But in my example -- maybe I'm not
3 understanding this and let me know if I'm not.

4 So by Year 3, when the service is
5 reclassified and taken out of the constraints of the
6 price index, how are you -- what's the rationale for
7 including those rate reductions if they're outside
8 the plan? And, for that matter, those rates could
9 have been increased subsequently.

10 A. That's why I answered -- you know, somebody
11 asked me that question about things that were
12 class- -- reclassified and what if the price went up
13 and I didn't recall -- couldn't recall any of the
14 details of that.

15 I'm just telling you, methodologically,
16 the way the 943 was calculated was to take the
17 annual rate reduction that was made each year and in
18 Year 1, if it was 30 million, that 30 million goes
19 for five years. In Year 2, it was 25. That 25 goes
20 for four years. And you add everything down and
21 that's how you get to the 943.

22 Q. Okay. And it's your testimony today that

1 including those rate reductions of services that
2 were reclassified or taken out is proper?

3 A. I think for purposes that we were attempting
4 to demonstrate or I was attempting to demonstrate,
5 it's fine.

6 MR. PACE: Okay. Okay. I have some cross
7 exhibits I just want to hand out.

8 MS. SUNDERLAND: So this is now, in fact,
9 Gebhardt Cross Exhibit 2?

10 JUDGE MORAN: Yes.

11 JUDGE CASEY: This will be City Cross Exhibit 2.

12 (Whereupon, City Cross
13 Exhibit Nos. 2, 3, 4 and 5 were
14 marked for identification
15 as of this date.)

16 JUDGE MORAN: City Cross Gebhardt 2.

17 BY MR. PACE:

18 Q. Okay. I've handed the witness and counsel
19 several cross exhibits that I will renumber, given
20 that we already have Cross Exhibit 1.

21 This would be City Cross Exhibit -- City
22 Gebhardt Cross Exhibit 2, City Gebhardt Cross

1 Exhibit 3, City Gebhardt Cross Exhibit 4, City
2 Gebhardt Cross Exhibit 5. Give you a moment or two
3 to look at those and I'm going to be asking
4 questions starting with Cross Exhibit 2.

5 A. Starting on No. 2.

6 Q. Okay. Now, just as background --
7 background, on Pages 56 and 57 of your supplemental
8 rebuttal, you argue or assert that customers do not
9 associate the Ameritech brand name on the
10 directories with Ameritech Illinois, correct?

11 A. Could I have that reference, Exhibit and
12 page number, please?

13 Q. Sure. Sure.

14 Pages 56 and 57 on your supplemental
15 rebuttal, I believe.

16 A. Do you have an exhibit number?

17 JUDGE MORAN: Mr. Pace, these are all different
18 exhibits?

19 MR. PACE: I'm sorry?

20 JUDGE MORAN: These are all different exhibits?

21 MR. PACE: I just stapled them for convenience
22 of managing them right here.

1 JUDGE MORAN: Oh, I see. So you're all going to
2 deal with them separately.

3 MR. PACE: Yes, there are several exhibits here.

4 JUDGE MORAN: That's -- thank you.

5 BY MR. PACE:

6 Q. Just take a moment. I thought I had the
7 right reference.

8 Supplemental surrebuttal. I believe it's
9 Exhibit 1.5.

10 A. And the page?

11 Q. 56 and 57, starting, I think, on the bottom
12 of 56.

13 A. Yes, sir.

14 Q. Okay. In there you assert that customers do
15 not associate the Ameritech brand name on the
16 directories with Ameritech Illinois, correct?

17 A. Yes. I basically state that Ameritech
18 Illinois -- I mean, the Ameritech brand name on the
19 directories with Ameri- -- doesn't lead to a direct
20 association to Ameritech Illinois.

21 Q. So put another way, when the directory shows
22 up on a customer's door and says Ameritech's

1 directory, that customer does not associate the name
2 Ameritech on the directory with the company that
3 provides their telephone service , if it happens to
4 be Ameritech Illinois?

5 A. I think that that as a general proposition
6 is true, yes.

7 Q. Now, on Page 57 of Exhibit 1.5, you state
8 that Ameritech's name was used on the directories
9 published by the Donnelly/API Partnership for ten
10 years before Illinois Bell began using the Ameritech
11 Illinois assumed name or the Ameritech brand ,"
12 correct?

13 A. Correct.

14 Q. Now, back before Illinois Bell -- excuse me,
15 Illinois Bell began using the Ameritech Illinois
16 assumed name or the Ameritech brand, did the
17 Illinois Bell logo appear on the directory?

18 A. This would be prior to 1994?

19 Q. Whenever -- whenever they started using
20 Ameritech Illinois. I think it might have been a
21 little bit later than that, but I'm not sure.

22 A. I'm sorry. And the question was?

1 Q. The question is, back before Illinois Bell
2 began using the Ameritech Illinois assumed name or
3 the Ameritech brand, did the Illinois Bell logo
4 appear on the directory?

5 A. I can't recall.

6 Q. Okay. Now, Mr. Gebhardt, I've handed you a
7 series of exhibits. The first one is City Gebhardt
8 Cross Exhibit 2.

9 I'll represent to you that that's the
10 copy of the cover of the 1993 to 1994 directory for
11 the City of Springfield; do you see that?

12 A. Yes, sir.

13 Q. Okay. And do you see the Illinois Bell logo
14 on the cover of the directory?

15 A. Yes, sir.

16 Q. And just before -- excuse me, just below the
17 Illinois Bell logo, do you see what it says, "An
18 Ameritech company"?

19 A. Yes, sir.

20 Q. Now, would you agree that when customers
21 looked at that logo, '93, '94, it is reasonable to
22 assume when the cover says, "Illinois Bell, an

1 Ameritech Company," that the customer might
2 associate Ameritech with the company that provided
3 them with telephone services, which at that time was
4 called Illinois Bell?

5 A. I don't see the relationship.

6 Q. I'm asking you if the customer --

7 A. If I'm --

8 Q. From the customer's perspective, is it -- is
9 it reasonable -- is it reasonable to assume that
10 when the cover says, "Illinois Bell, an Ameritech
11 Company," that the customer might associate
12 Ameritech with the company that provided them with
13 telephone services, which at that time was called
14 Illinois Bell?

15 A. It might, but I don't think it was
16 necessarily true.

17 Q. Now, I don't know if you know this or not,
18 but the next year, 1994, 1995, isn't it true that
19 the Illinois Bell logo was removed and only the
20 Ameritech logo was used on the cover?

21 A. Are you pointing me to the next page in
22 this?

1 Q. Yes. The next page would be City Gebhardt
2 Cross Exhibit 3.

3 A. Okay. And this is the directory issued
4 December 1994?

5 Q. Right. That would be the cover of the
6 directory -- copy of the cover of the directory of
7 the 1994, '95 Ameritech directory in Springfield.

8 JUDGE MORAN: This?

9 MR. PACE: Yes, that's City Gebhardt Cross
10 Exhibit 3, your Honor.

11 JUDGE MORAN: Just turn to.

12 THE WITNESS: Okay.

13 BY MR. PACE:

14 Q. Would you agree that that's the case?

15 A. Agree that it's the Ameritech's name on
16 there?

17 Q. Do you see the Ameritech logo on it?

18 A. I see the Ameritech logo, yes.

19 Q. Okay. And you -- and the Illinois Bell logo
20 no longer appears on the cover, correct?

21 A. I don't see any reference to Illinois
22 Bell -- or wait. I do. I do.

1 Q. Well, the logo doesn't appear, though,
2 correct?

3 A. Correct.

4 Q. Okay. But as you've just said, on City
5 Gebhardt Cross Exhibit 3, you do see the words, "The
6 official telephone directory of Illinois Bell,"
7 correct?

8 A. I see those words, yes.

9 Q. Okay. Now, Mr. Gebhardt, back to your claim
10 that the directory doesn't say Ameritech Illinois on
11 it and your claim that this somehow results in the
12 customer making a distinction between the Ameritech
13 the publisher and Ameritech the local telephone
14 company.

15 Now, when an Ameritech customer receives
16 their monthly bill for local telephone service, does
17 the envelope the customer receive say Ameritech
18 Illinois on it or does it simply say Ameritech?

19 A. My recollection is it says Ameritech.

20 Q. And referring you to what's been marked as
21 City Gebhardt Cross Exhibit 4, Page 1, does that
22 look like a copy of an Ameritech Illinois customer's

1 local service envelope?

2 A. Yes.

3 Q. And can you verify it does not contain the
4 words Ameritech Illinois anywhere on it, correct?

5 A. Correct.

6 Q. And refer you to City Gebhardt Cross
7 Exhibit 4, Page 2. And I'll represent to you that
8 that is a billing statement from Ameritech Illinois.

9 Would you agree that that looks like one
10 and is, in fact, a copy of one?

11 A. Yes.

12 Q. Okay. Now, just as Ameritech it just says
13 Ameritech on it, doesn't it?

14 A. Yes.

15 Q. And nowhere on this page does it say,
16 "Ameritech Illinois," correct?

17 A. It does not.

18 Q. So, Mr. Gebhardt, is it your position that
19 when a customer receives their bill with the word
20 "Ameritech," they do not associate this bill with
21 the company that provides them with telephone
22 service since it just says Ameritech rather than

1 Ameritech Illinois?

2 A. No, because they know this is their
3 telephone bill.

4 Q. Because?

5 A. You're paying for telephone service. So ,
6 obviously, the local telephone company is Ameritech
7 Illinois.

8 Q. So you don't -- you're -- it's your position
9 that the customer doesn't get confused by having
10 just the Ameritech name on it instead of Ameritech
11 Illinois?

12 A. No, I don't think they get confused. They
13 write their check to Ameritech, hopefully.

14 Q. I'm going to be referring to City Gebhardt
15 Cross Exhibit 5 that you have.

16 On Page 58 of your supplemental
17 surrebuttal, you state -- I'll give you an
18 opportunity to look at that.

19 Okay. Mr. Gebhardt, do you have Page 58
20 of your supplemental surrebuttal in front of you?

21 A. Yes.

22 Q. Exhibit 1.5.

1 You state, "Finally, the directory cover
2 displays the SBC Global Communications logo, but it
3 does not contain the Ameritech logo. This is yet
4 another reason why customers would be unlikely to
5 associate Ameritech Illinois with the directory."

6 That's your testimony, correct?

7 A. That's what I said.

8 Q. Now, you have in front of you City Gebhardt
9 Cross Exhibit 5, correct?

10 A. Correct.

11 Q. Page 1?

12 A. Yes.

13 Q. Now, that is a cover -- copy of a cover of
14 the most recent directory in Springfield, correct?

15 A. That's what it purports to be.

16 Q. And --

17 A. I don't know that it's the most -- well, it
18 says, "Keep until December 2001."

19 Q. And that would be an example of a directory
20 that you claim does not contain the Ameritech logo?

21 A. It would be.

22 Q. But, in actuality, at the top left corner,

1 you do see a very large Ameritech logo, don't you?

2 A. Yes, but I'm looking at this and I'm -- I
3 mean -- I'm assuming that you have represented this
4 as the cover of the book. And I did not look at the
5 Springfield book.

6 Q. Okay. Switching a little bit back to 50 --
7 Page 57 of your supplemental surrebuttal. We're
8 done with the --

9 A. We're done with what?

10 Q. City Gebhardt Cross Exhibits 1 through 5, I
11 believe. Excuse me. We're not.

12 City Gebhardt Cross Exhibit 5, Page 2.

13 On Page 57 of your supplemental
14 surrebuttal, you state being, "Furthermore, if the
15 customer opens the directory to the third page
16 labeled Telephone Provider Information, the customer
17 sees several local telephone companies listed in
18 alphabetical order"; is that correct?

19 A. I'm trying to find it.

20 Q. Oh, sorry. Page 57.

21 A. Okay. I'm with you.

22 Q. Okay. Now, referencing City Gebhardt Cross

1 Exhibit 5, Page 2, which is a copy of that page --
2 the third page in the directory which is titled
3 Telephone Provider Information; do you see that?

4 A. Yes.

5 Q. And, Mr. Gebhardt, the name for the local
6 telephone companies listed there are Ameritech, AT&T
7 and McLeod, USA; correct?

8 A. Correct.

9 Q. Now, where is the name Ameritech Illinois on
10 that list?

11 A. It is not on the list.

12 Q. So you would agree that the word Ameritech
13 there is the name that is used to describe the local
14 telephone company; isn't that correct?

15 A. A local telephone company.

16 Q. And do you have any idea what that telephone
17 company might be?

18 A. In this case, it would be Ameritech Illinois
19 for that -- these telephone numbers
20 would -- if you called those telephone numbers, you
21 would reach Ameritech Illinois.

22 Q. Okay. Great. That was my next question.

1 And keeping this City Gebhardt Cross
2 Exhibit 5, Page 2, in front of you; looking back at
3 the billing statement, which is City Gebhardt Cross
4 Exhibit 4, Page 2, would you agree that the
5 telephone numbers that are listed under Ameritech on
6 City Gebhardt Cross Exhibit 5, Page 2, are also
7 found on the monthly statement which is labeled City
8 Gebhardt Cross Exhibit 4, Page 2?

9 A. They appear to be, yes.

10 MR. PACE: Okay. I'm done with that set of
11 exhibits.

12 So I don't forget, I'm moving for the
13 admission into the record of City Gebhardt Cross
14 Exhibits 2, 3, 4, and 5.

15 MS. SUNDERLAND: No objection.

16 JUDGE CASEY: City Cross Exhibits 2, 3, 4, and 5
17 will be admitted.

18 (Whereupon, City Cross
19 Exhibit Nos. 2, 3, 4 and 5 were
20 admitted into evidence as
21 of this date.)

22

1 BY MR. PACE:

2 Q. Okay. Mr. Gebhardt, I'm going to ask you a
3 series of questions regarding the FAS 71
4 amortization.

5 A. Yes, sir.

6 Q. Okay. I'm sure you're familiar with the
7 term below the line in the context of regulatory
8 proceedings?

9 A. I've heard the term.

10 Q. Now, wouldn't you agree that if an expense
11 is placed above the line, for example, that means it
12 is included in the company's books for regulatory
13 purposes, whereas if an expense is placed below the
14 line, that means it is an expense not considered for
15 regulatory purposes in terms of revenue requirement
16 analysis?

17 A. In the classical sense, that 's true.

18 Q. Now, on Page -- I believe it's Page 15 of
19 your surrebuttal testimony. This is where you refer
20 to the FCC order 99-370 -- excuse me, 397 in which
21 the FCC discussed FAS 71.

22 A. Can you -- do you have a page?

1 Q. I believe it's 15 of your surrebuttal.

2 MS. SUNDERLAND: I don't think so.

3 BY MR. PACE:

4 Q. I apologize. It's in Exhibit 1.5, your
5 supplemental surrebuttal, Page 15, the very top of
6 the page.

7 A. Page 15?

8 Q. 15.

9 A. I'm there.

10 Q. Okay. Is it your testimony that the order
11 you reference, the FCC order you reference there --
12 withdraw the question. Let me rephrase it.

13 Do you deny that the FCC in the order
14 that you cite, Page 15 of Exhibit 1.5, specifically
15 stated that if the companies want to do a FAS 71
16 write-down -- that's F-A-S 71 -- that expense would
17 be a below-the-line expense?

18 A. Certainly, because they didn't want
19 rate-making to be impacted by the effect.

20 Q. In this proceeding, if the Illinois Commerce
21 Commission accepted the FAS 71 amortization expense
22 that you propose, but accepted it as a

1 below-the-line expense, would that be acceptable to
2 you?

3 A. I need the question back again.

4 (Record read as requested.)

5 THE WITNESS: No.

6 BY MR. PACE:

7 Q. So are you proposing that the FAS 71 expense
8 should be above the line?

9 A. I'm proposing that it doesn't -- it is
10 recorded above the line because the company had
11 depreciation freedom and it exercised that freedom.

12 Q. I think you acknowledge on Page 14 -- I
13 believe it's your surrebuttal, but it may be
14 supplemental. Let me state the question, see if you
15 need a reference.

16 That you acknowledge in your testimony
17 that the company does not amortize FAS 71 amounts in
18 the interstate jurisdiction; isn't that correct?

19 A. That is a correct statement. I don't know
20 where it is, but...

21 Q. And also in your testimony, you claim -- I
22 have to get a reference for this one.

1 I believe it's Page 21 of Exhibit 1.5, if
2 you could go to that .

3 A. I'm at 21.

4 Q. Okay. That question and answer.

5 In the answer, you claim that Mr. Dunkel
6 calculates the depreciation expense using the FCC
7 depreciation rates last prescribed in 1995; is that
8 your testimony on Page 21?

9 A. Yes, sir.

10 Q. Now, first of all, just to clarify, isn't it
11 a correct statement that the FCC rates you are
12 referring to are currently being used -- are
13 currently being used to calculate the depreciation
14 expense for your company in the interstate
15 jurisdiction?

16 A. I believe that's true.

17 Q. Now, going back to your statement that
18 Mr. Dunkel used the FCC depreciation rates last
19 prescribed in 1995, is -- is that a correct
20 statement, as you sit here today, or, in fact,
21 didn't Mr. Dunkel use certain parameters that the
22 FCC has approved, but applied those parameters to

1 the 1/1/99 investments of Ameritech and the 1/1/99
2 reserve percents of Ameritech and calculated new
3 rates using the FCC-approved parameters?

4 A. That would probably be a better description
5 of what Mr. Dunkel did than mine.

6 Q. Okay. On Page 27 -- I believe it's of
7 Exhibit 1.5. Let me make this statement and if you
8 need -- if we need to, we'll go look in your
9 testimony. It's on Page 27 in one of these pieces.

10 You talk about the low end of the FCC
11 range of service lives; do you recall that
12 testimony?

13 A. On Page 27?

14 Q. I believe it's on Page 27 of one of the
15 pieces of testimony and I'm just seeking a
16 clarification of what that means.

17 A. Well, I believe the low end description is
18 the FCC issued parameters with low end and high end
19 ranges, and low end is one descriptive indication of
20 what the FCC did.

21 Q. And just so the record is clear on what low
22 end means, isn't it true that using the low end of

1 the service lives produces a higher depreciation
2 expense and, conversely, using the high end of the
3 service lives would produce a lower depreciation
4 expense?

5 A. I believe that's correct.

6 Q. So in your testimony, by selecting the low
7 end of the FCC range of service lives, you
8 essentially selected the highest possible
9 depreciation expense as compared to using the
10 mid-range or the high end of the lives?

11 A. I don't understand the question.

12 I mean, you said I used the high end?

13 Q. When you refer -- yes, I did say that.

14 By selecting the low -- excuse me, by
15 selecting the low end.

16 A. By me selecting the low end of -- I don't
17 believe I selected the low end.

18 Q. Okay. Mr. Gebhardt, I want to refer you to
19 Page 50 of your supplemental surrebuttal testimony,
20 Exhibit 1.5, I believe.

21 Now, again, this is 1.5. So I guess we
22 might be a little bit off on the pagination.

1 MS. SUNDERLAND: Page 50 of 1.4?

2 MR. PACE: I thought it was 1.5.

3 MS. SUNDERLAND: Oh.

4 MR. PACE: Yes. Excuse me. It's 1.5 and it has
5 to do with the publishing fees of the independent
6 publishers, the data requests that you submitted to
7 Mr. Dunkel. That's 1.5, Page 50 in the old version.
8 I'm not sure what page that turns up on the version
9 given today.

10 BY MR. PACE:

11 Q. Also starts on Page 50 of the new version;
12 do you see that?

13 JUDGE CASEY: Begins with the question: "If
14 your position"; is that what you're referring to,
15 Mr. Pace?

16 MR. PACE: Yes.

17 THE WITNESS: Okay. I'm there.

18 BY MR. PACE:

19 Q. Now, there, you quote Mr. Dunkel's testimony
20 or Mr. Dunkel claimed that independent publisher s
21 bid for an independent ILEC's directory business,
22 are willing to pay the ILEC's publishing fees,

1 correct?

2 A. Yes.

3 Q. And on Page 51, you discuss data requests
4 where Ameritech asked Mr. Dunkel to identify
5 independent directory publishers that pay
6 independent ILECs a publishing fee to publish the
7 ILEC's directory?

8 A. Yes, sir.

9 Q. Now, also on Page 51, you claim that GCI
10 rejected those data requests?

11 A. Yes, sir.

12 MR. PACE: I want to have another cross exhibit.
13 This would be City Gebhardt Cross
14 Exhibit 6.

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1 (Whereupon, City Cross
2 Exhibit No. 6 was
3 marked for identification
4 as of this date.)

5 BY MR. PACE:

6 Q. I'd like to make this fairly quick. I'd
7 like to get City Gebhardt Cross Exhibit 6 admitted
8 into the record.

9 On Page 51 of Exhibit 1 -- Ameritech
10 Exhibit 1.5, you quote an objection by GCI, correct?

11 A. Correct.

12 Q. And I was looking through the responses to
13 certain data requests in Ameritech's fifth set,
14 which is identified as City Gebhardt Cross
15 Exhibit 6.

16 And I believe the portion that you quoted
17 was a response to Request No. 3 of Ameritech's fifth
18 set.

19 A. That appears to be the quote.

20 (Change of Reporters.)

21

22

1 (Change of reporter.)

2 BY MR. PACE:

3 Q. You would agree that that quote is only a
4 portion of the response to Data Request 3?

5 A. Yes, I would agree.

6 Q. And would you also agree that the response
7 to Data Request No. 3 also refers Ameritech to GCI's
8 response to the Request No. 1 of this set?

9 A. It refers to Attorney General's Request
10 172B.

11 Q. And the last -- the last paragraph.

12 A. Oh. Please see response to Request 1.

13 Q. So essentially the -- you omitted the full
14 data request answer in your testimony on Page 51,
15 correct?

16 A. Yes.

17 Q. And Request No. 1 of the fifth set is a
18 six-part question, and didn't GCI respond to each of
19 those parts of Request No. 1?

20 A. It set out in its response six subparagraphs
21 to the question posed by the company.

22 MR. PACE: Okay.

1 Just to save time, I would move for the
2 introduction of City Gebhardt Cross Exhibit
3 No. 6.

4 MS. SUNDERLAND: Well, can we have a moment?

5 MR. PACE: Let me just say, trying to make this a
6 little faster, you have attached to Exhibit 1.5,
7 Schedule 2, all of the questions of that data
8 request fifth set, and I would like all the answers
9 put into the record since you have referred to the
10 answers and you have not included the entire
11 response.

12 MS. SUNDERLAND: I believe we have referred to
13 one answer, so I just want to consult for a moment.

14 MR. PACE: Sure.

15 JUDGE CASEY: We can go off the record.

16 (Whereupon, a discussion was
17 had off the record.)

18 THE COURT: We'll go back on the record.

19 MS. SUNDERLAND: As I understand what Mr. Pace is
20 asking, because Mr. Gebhardt referred to GCI's
21 response to Data Request 3 and he believes it was
22 incomplete, his concern was that it was incomplete,

1 and I think to that extent it's certainly
2 appropriate to include the entire response to Data
3 Request 3.

4 Since Data Request 3 also refers to Data
5 Request 1, I wouldn't object to inclusion of that
6 one.

7 However --

8 MR. PACE: Did you say you would object?

9 MS. SUNDERLAND: I would not object.

10 I would object to the inclusion of any of
11 these other data requests as being well beyond the
12 cross-examination that Mr. Pace just conducted.

13 JUDGE CASEY: I would tend to agree.

14 I do know that you were trying to do
15 something in the interest of brevity, so. . .

16 MR. PACE: Right. Well, I'll have to go through
17 all the questions and answers, but I think the gist
18 of it is that Mr. Gebhardt's testimony Exhibit
19 1.5, starting at Page 50, gives the impression that
20 GCI objected to all the data requests essentially.

21 And, in fact, Ameritech attached all of
22 the data request questions as a schedule to its

1 testimony, and I think that it would be prejudicial
2 to GCI if not all of the answers are provided.

3 MS. SUNDERLAND: Well, the testimony was specific
4 that the company only asked about the independent
5 directory publisher's that paid publishing fees.

6 I don't see any basis to extend that to
7 every other data request that happened to be in that
8 set.

9 JUDGE CASEY: Based on the question and answers
10 that have taken place thus far, City's Cross
11 Exhibit 6, the question and answers with respect to
12 Request 1 and 3, will be admitted. The remainder
13 will not at least at this point.

14 MR. PACE: Just give me one moment.

15 JUDGE CASEY: Sure.

16 Mr. Pace, when you give the court
17 reporter copies, please delete those other requests
18 and responses.

19 MR. PACE: In an effort to save time, what I
20 would request in response to your ruling, Mr.
21 Hearing Examiner, is that Ameritech Illinois's
22 Exhibit 1.5, Schedule 2, be deleted with respect to

1 Questions 2, 4, 5, 6, 7, 8, which counsel for
2 Ameritech has said has not been the subject of the
3 testimony in Exhibit 1.5.

4 MS. SUNDERLAND: Well, I'm saying subject of your
5 cross, I haven't heard any basis on which the rest
6 of these data requests should come in.

7 MR. PACE: Well, I think it just follows if I
8 can't put the responses in, they shouldn't be able
9 to put the questions in.

10 How does it --

11 JUDGE CASEY: Are you concerned that there's some
12 negative inference that your response to the data
13 requests isn't in?

14 MR. PACE: My concern is that the testimony gives
15 a misleading impression of what GCI's response to
16 these series of data requests were, and that's why I
17 have moved to have all of the responses admitted and
18 they found it appropriate to attach all the
19 questions as a schedule to their testimony.

20 If I can't file responses, I don't see
21 why they should be able to have the questions in
22 there.

1 JUDGE CASEY: Your motion to strike that is
2 denied.

3 The Hearing Examiner's previous ruling
4 takes into consideration the fact that the city had
5 a more lengthy response than what Ameritech
6 originally had shown in the testimony so I think
7 what you're -- your concern is addressed by the
8 Hearing Examiner's previous ruling.

9 Continue with your cross.

10 MR. PACE: Just to clarify your ruling,
11 Mr. Hearing Examiner, you said the response to
12 Request No. 1 would be allowed. That includes all
13 the attachments that Request No. 1 refers to,
14 correct?

15 JUDGE CASEY: Yes. The attachments to Questions
16 1 and 3.

17 MR. PACE: Okay. Thank you.

18 Just so I don't forget this later, you
19 have admitted City Gebhardt Cross Exhibit 6 limited
20 to the -- limited to the responses to Data Request 1
21 and 3 and the attachments; is that correct?

22 In other words, City Gebhardt Cross

1 Exhibit 6 --

2 JUDGE CASEY: Yes, City Cross -- City Cross
3 Gebhardt No. 6 is admitted with respect to the
4 answer and response to the question -- and response
5 to the Questions No. 1 and 3, including the
6 attachments.

7 BY MR. PACE:

8 Q. Mr. Gebhardt, I want to refer you to City
9 Gebhardt Cross Exhibit 6 which we just discussed,
10 Question 2, which is not admitted into the record at
11 this time. I'd like to refer you to it.

12 Do you have it in front of you?

13 MS. SUNDERLAND: Are we doing this just to get
14 the rest of the data requests in?

15 MR. PACE: Is that an objection?

16 MS. SUNDERLAND: Well, let's proceed.

17 BY MR. PACE:

18 Q. Do you have it in front of you?

19 A. I do.

20 Q. And isn't it true that in response to
21 Question No. 2, that GCI responded to that question
22 in part by referring the reader to its response to

1 Request No. 1 of this set?

2 A. Yes.

3 Q. And refer you to Request No. 5 of that set
4 of the data requests, reflected at City Gebhardt
5 Cross Exhibit 6.

6 A. This is Request No. 5?

7 Q. Yes.

8 A. I have Request No. 5.

9 Q. And doesn't the response -- doesn't the
10 city -- excuse me, doesn't GCI respond to that
11 request including, in part, referencing its response
12 to Request No. 1 of that set?

13 A. Says without waiving objection, see response
14 to Request 1 of this set.

15 Q. As well as responding in other manners,
16 right?

17 A. Yes.

18 Q. And isn't it true for Requests 6, 7 and 8
19 that GCI responded to the requests including
20 referring the reader to response to Request No. 1?

21 A. For No. 6, that is true.

22 For No. 7, that is true.

1 No. 8, that is true.

2 MR. PACE: Changing the focus now -- no, let me
3 take a shot.

4 I'd like to move for admission based on
5 those questions and answers to Request 2, 4, 5, 6, 7
6 and 8 to Ameritech's fifth set of data requests.

7 MS. SUNDERLAND: I guess I'll renew my objection.

8 Apparently Mr. Pace's only point is that
9 it did include a reference to Data Request No. 1
10 which we have already covered by admitting Data
11 Request 3 and 1, and so he's got on the record what
12 he wants.

13 I see no reason why the data requests
14 themselves need to be admitted.

15 JUDGE CASEY: With respect to the additional
16 questioning after my previous ruling, you had asked
17 regarding data request -- Data Request 2, 5, 6, 7,
18 and 8, and I don't recall asking the questions
19 regarding Question No. 4, although you did move now
20 for its admission.

21 You want to take a moment to look at
22 that?

1 MR. PACE: Sure, Mr. Hearing Examiner.

2 BY MR. PACE:

3 Q. In response to Question No. 4, Mr. Gebhardt,
4 didn't the -- didn't GCI respond to that question
5 and did not object to that question?

6 A. There is no objection on that response.

7 MR. PACE: Based on that answer, I'd also move
8 for the admission of the request -- excuse me, the
9 response to Request No. 4 of Ameritech's fifth set
10 of data requests, City Gebhardt Cross Exhibit 6.

11 JUDGE CASEY: Okay. The city's exercise is now
12 complete. Those questions and responses to Nos. 2,
13 4, 5, 6, 7 and 8 are admitted.

14 (Whereupon, City Cross
15 Exhibit No. 6 was admitted
16 into evidence.)

17 MR. PACE: Mr. Gebhardt, I only have a couple
18 other questions.

19 BY MR. PACE:

20 Q. I believe in your testimony, I believe it's
21 106 of your rebuttal, you state that -- you state
22 there that Mr. Dunkel repeatedly asked for the FCC

1 parameters.

2 Do you see that?

3 A. Yes, sir.

4 Q. Isn't it true that Mr. -- excuse me,
5 Mr. Dunkel requested for not only -- excuse me,
6 strike that.

7 Isn't it true that Mr. Dunkel asked you
8 to provide your parameters generally, not just FCC
9 parameters?

10 A. I think he probably asked for both.

11 Q. And isn't it true that -- isn't it also your
12 testimony that you said that you have used -- the
13 company used GAPP guidelines, rules, in terms of
14 your depreciation calculation?

15 A. Yes, sir, in accordance with the
16 Commission's order in 92-0448.

17 Q. Okay. And when you use GAPP rules,
18 guidelines, you have to use some parameters,
19 correct?

20 A. You have to have some rationale behind the
21 depreciation rates that you use.

22 Q. And would that include parameters?

1 A. Could.

2 Q. Well, did it, in fact, use parameters?

3 A. It did.

4 Q. The company did?

5 A. Yes.

6 Q. Did you ever provide them to Mr. Dunkel?

7 A. I think so. But I can't remember all the
8 data requests.

9 Q. Just going to review my notes for a moment
10 and I think I might be done.

11 I do have another question.

12 In your testimony, you use the example, I
13 think, of a box of candy to prove a point in terms
14 of how much candy is in a box and pricing.

15 Do you recall that generally?

16 A. I didn't use a box of candy. I used demand
17 for candy bars.

18 Q. I'm sorry?

19 A. I used demand for candy bars.

20 Q. What kind of candy bar?

21 A. Kind. Kind. Demand for candy bars.

22 Q. Demand for candy bars.

1 JUDGE CASEY: What kind of candy?

2 BY MR. PACE:

3 Q. Now, I wanted to use a similar example for
4 this hypothetical.

5 If a box of candy is priced -- is a
6 dollar and it stays a dollar, but the number of
7 candies in the box decreases from 10 to 8, didn't
8 the price of each piece of candy effectively
9 increase from 10 cents to 12 and a half cents?

10 A. Yes.

11 Q. And doesn't the customer experience a
12 similar price increase effect when the selling of a
13 service includes a deterioration of service quality
14 to the point that is unacceptable to the customer?

15 A. If it was unacceptable to the customer, I
16 presume they wouldn't buy the service.

17 MR. PACE: I move to strike that. I don't think
18 that was the question I asked.

19 JUDGE CASEY: Motion to strike is granted.

20 Are you trying to get a yes or no answer?

21 MR. PACE: Preferably.

22 JUDGE CASEY: Can you answer it yes or no?

1 THE WITNESS: Can I have the question back?

2 MR. PACE: Sure.

3 BY MR. PACE:

4 Q. You just talked about the example of the box
5 of candy.

6 You recall that?

7 A. Yes.

8 Q. Where the number pieces of candy are less,
9 correct, and you agreed that the price increased for
10 that -- each piece of candy, correct?

11 A. Correct.

12 Q. Doesn't the customer experience a similar
13 price increase effect when the service quality of
14 the service deteriorates to a point that it's
15 unacceptable to the customer?

16 A. I don't know that I can answer that yes or
17 no.

18 Q. What would you need to know to answer that?

19 A. Well, what's the service, what's the
20 quality, how is it being measured, you know, what
21 was the actual effect on demand would be helpful.

22 Q. Okay. I'm talking about at this point one

1 customer so we're not talking about a group of
2 customers.

3 A. Okay. You got one customer.

4 Q. This customer receives a service and he pays
5 for that service, and somewhere down the road that
6 service quality deteriorates to the point which is
7 unacceptable to the customer and he's paying the
8 same price for that service.

9 Wouldn't you agree that that customer has
10 effectively experienced a price increase for that
11 service?

12 A. No. Because he's not paying more.

13 MR. PACE: That's all I have.

14 JUDGE CASEY: Any other cross?

15 MS. HAMILL: I have a few questions for
16 Mr. Gebhardt, if I might.

17 CROSS-EXAMINATION

18 BY

19 MS. HAMILL:

20 Q. Good afternoon, Mr. Gebhardt. I figure
21 since it's your last appearance as a witness, I
22 couldn't resist.

1 A. I can never guarantee it will be the last,
2 but...

3 Q. All of my questions, Mr. Gebhardt, which are
4 just a handful, will be directed to Schedule 8 of
5 Ameritech Illinois Exhibit 1.1.

6 If you'd turn to that schedule, please.

7 A. I'm there.

8 Q. Okay. I see this is a schedule labeled
9 benchmark in economic depreciation rates, correct?

10 A. Correct.

11 Q. And in the right-hand column, you have
12 composite depreciation rates for various companies;
13 is that correct?

14 A. That's correct.

15 Q. Can you tell me or translate for me,
16 Mr. Gebhardt, how the depreciation percentages in
17 the right-hand column translate to the economic
18 lives that are used by those companies?

19 A. Only in a general sense.

20 Q. Well, let me ask it this way:

21 For example, MCI/WorldCom, you have a
22 percentage of 14.4 percent and SBC/Ameritech

1 Illinois, the percentage is 6.9 percent, correct?

2 A. Correct.

3 Q. Can you tell me whether the economic lives
4 used by SBC/Ameritech are longer than or shorter
5 than those used by MCI/WorldCom?

6 A. Longer.

7 Q. Okay. You indicate in your testimony that
8 these composite ranges that you have included in
9 Schedule 8 are based on publicly available
10 information; is that correct?

11 A. Correct.

12 Q. Is it fair to say, Mr. Gebhardt, that you
13 did not confirm these rates with the carriers listed
14 on Schedule 8 other than SBC/Ameritech?

15 A. I did not.

16 Q. Okay. Can you tell me, Mr. Gebhardt,
17 whether the composite depreciation rates listed on
18 Schedule 8 are based on Illinois specific data; and
19 if so, for which companies?

20 A. For the companies, these would not be
21 Illinois specific data.

22 Q. That includes SBC/Ameritech Illinois?

1 A. That would be specific Illinois data.

2 Q. But as to Williams, WinStar, Teligent, AT&T,
3 MCI/WorldCom and LCI, it does not include Illinois
4 specific data?

5 A. That is correct.

6 Q. Do you know the geographic scope of the data
7 for the companies -- those six companies I just
8 listed?

9 A. My recollection is it's their totality of
10 their operations.

11 Q. Okay. Do you know the geographic scope of
12 the service provided by -- by Williams, for example?

13 A. It would be -- I don't know the specific
14 geography that they serve, but whatever was on their
15 public information, which would have been their
16 total company data --

17 Q. Okay.

18 A. -- that would have been it.

19 Q. Okay. What public information are you
20 referring to?

21 A. I believe it was 10Ks and 10Qs and annual
22 reports.

1 Q. Thank you, Mr. Gebhardt.

2 Isn't it true, Mr. Gebhardt, that WinStar
3 in Illinois provides local service using fixed
4 wireless technology?

5 A. That is correct.

6 Q. And isn't that also true for Teligent?

7 A. I believe that's true.

8 Q. Okay. Isn't it true, Mr. Gebhardt, that
9 SBC/Ameritech has an ownership interest in Williams
10 Telecommunications?

11 A. The question was?

12 Q. Is it true that SBC has an ownership
13 interest in Williams Telecommunications?

14 A. I'm not positive about that.

15 Q. You're just not sure?

16 A. Right.

17 MS. HAMILL: Okay. That's all I have.

18 Thank you, Mr. Gebhardt.

19 THE WITNESS: Yes, ma'am.

20 JUDGE CASEY: Mr. Manshio.

21

22

1 CROSS -EXAMINATION

2 BY

3 MR. MANSPIO:

4 Q. Mr. Gebhardt, my questions will be directed
5 toward your Schedule 3 in Exhibit 1.1. That
6 schedule reflects your understanding of the
7 infrastructure dollars spent by Ameritech during the
8 five years of the alternative regulation plan?

9 A. Yes, sir.

10 Q. And were you provided those numbers or did
11 you request those numbers?

12 A. Actually, these numbers were developed while
13 I was vice president of regulatory affairs and
14 submitted in connection with the price cap filings
15 on an annual basis.

16 Q. As far as --

17 A. The only exception would have been 1999
18 where I had already left and so I basically used the
19 same data.

20 Q. So you're responsible for organizing dollar
21 amounts into what you have termed at satisfiers?

22 A. This is the format that was agreed upon with

1 the staff as to how we were to report our
2 infrastructure expenditures. It was agreed to early
3 on in the process because we had to provide an
4 annual report to the Commission.

5 And as far as me -- excuse me, you know,
6 my role was basically to ensure that my folks who
7 put these reports together got the information that
8 was needed to populate the report.

9 Q. As far as the provision of service, whether
10 it's competitive or noncompetitive, that doesn't
11 play into any aspect of these infrastructure
12 dollars?

13 A. It does not.

14 Q. Under the satisfier customer specific, does
15 that relate to specific customer requests for
16 infrastructure?

17 A. No, those would be specific customer
18 requests where Customer A came to us and asked us to
19 do something that required an infrastructure
20 expenditure that had to be budgeted and ultimately
21 approved and then done.

22 Q. So the premise for any customer specific

1 work done to infrastructure would be the fact the
2 customer coming to you as opposed to you going to
3 the customer?

4 A. We could be going to the customer selling
5 something.

6 Q. Under the first item, Pronto, does that
7 relate to Project Pronto?

8 A. It does.

9 Q. Have you had customers come to you as far as
10 Project Pronto infrastructure development?

11 A. Well, in the case of one of our subsidiaries
12 who's engaged in DSL activities, that probably is
13 why that ended up in that category.

14 I don't know for sure, but I'm guessing.

15 Q. I mean, would you have the option to include
16 that Pronto amount under all other Ameritech family
17 members or under customer specific?

18 A. No, because this was expenditures by
19 Ameritech Illinois.

20 Our other family of customers or family
21 of companies would be like AADS or not -- our long
22 distance companies, our Security Link and all those

1 other companies that we have would fall in that
2 bottom line.

3 Q. Just so I understand, you have seven
4 satisfiers, but are you counting first satisfier
5 legal and regulatory as two separate satisfiers?

6 A. We lump them together.

7 Q. Under the category others, can you give me
8 some examples of what you would include under there?

9 A. I'm sorry, your reference is?

10 Q. Your last satisfier says other?

11 A. Things that don't fall in the above, and I
12 can't think of an example off the top of my head.

13 Q. They would have to do with infrastructure
14 development?

15 A. Yes.

16 Just give me a second. Let me just
17 glance down this and see if I can maybe come up with
18 an easy example.

19 Perhaps it's something in the area of
20 computer enhancements that doesn't -- that wouldn't
21 be allocated to one of these others. Something like
22 I don't know, a new program to bill CLECs maybe.

1 Q. Under the satisfier service continuity, you
2 have got OSP rehab and OSP pole replacements.

3 Does the OSP stand for outside plant?

4 A. It does.

5 Q. So this Schedule 3 reflects the \$3 billion
6 commitment over five years made by Ameritech?

7 A. It represents the 3.7 billion in
8 expenditures that Ameritech made in this period of
9 time.

10 Q. Do those expenditures include all amounts
11 spent by Ameritech on infrastructure during that
12 period of time?

13 A. The 3.7 includes -- because we did not
14 include -- we include them separate, does not
15 include certain of the Ameritech family of companies
16 that also made expenditures.

17 It doesn't include the 778 million, for
18 example.

19 Q. As far as Ameritech expenditure on
20 infrastructure, this amount, the 3.7, includes the
21 entire amount?

22 Nothing else was spent by Ameritech

1 during that period?

2 A. It's my best judgment that this is it on
3 infrastructure.

4 MR. MANSHIO: On infrastructure.

5 Thank you. No further questions.

6 JUDGE CASEY: Any other cross?

7 MS. LUSSON: I just have a couple questions.

8 CROSS-EXAMINATION

9 BY

10 MS. LUSSON:

11 Q. Good afternoon, Mr. Gebhardt.

12 A. Good afternoon.

13 Q. If you could turn to your Schedule --
14 Exhibit 1.1, Schedule 5.

15 A. Okay.

16 Q. There you list comparison of Ameritech
17 Illinois rates with the rates -- monthly residential
18 rates of three other phone companies; is that
19 correct?

20 A. That's correct.

21 Q. And my question is, in putting together this
22 exhibit, did you examine the costs underlying the

1 prices listed in this exhibit for these three
2 companies?

3 A. No.

4 Q. And looking at Exhibit 1.1, Schedule 6,
5 there you compare Ameritech Illinois's monthly
6 residential rates with AT&T, MCI Metro, McLeod and
7 U.S. Exchange; is that correct?

8 A. Yes, ma'am.

9 Q. And here again, my question is in putting
10 together this exhibit, did you examine the
11 underlying costs associated with the price listed
12 for monthly residential service of these four
13 companies?

14 A. No, I did not, and I don't think these
15 companies or any of the others would give me their
16 costs anyway.

17 MS. LUSSON: Thank you. That's all the questions
18 I have.

19 JUDGE CASEY: Thank you.

20 JUDGE MORAN: Any redirect?

21 MS. SUNDERLAND: Can we break for a couple
22 minutes and come back?

1 JUDGE MORAN: Sure. We'll --

2 MS. SUNDERLAND: 4:00 o'clock?

3 JUDGE CASEY: Before we break, Mr. Gebhardt, I
4 have a couple questions.

5 THE WITNESS: I'm sorry.

6 EXAMINATION

7 BY

8 JUDGE CASEY:

9 Q. In your Exhibit 1.2, Page 16, generally that
10 area, you're talking about pricing.

11 A. Okay.

12 Q. Towards the middle of the page there's a
13 question and answer, and it's about -- the question
14 is whether or not t's the company's position that
15 all services should generate the same level of
16 contribution.

17 A. Yes, sir.

18 Q. And your answer is absolutely not.

19 I just want to make sure that I'm not
20 confusing concepts here.

21 If there are some services that generate
22 above-average levels, some that generate

1 below-average levels, are those above-average levels
2 generating services, is that a cross subsidy?

3 A. I wouldn't consider it a cross subsidy, but
4 it -- clearly, the services -- one service is
5 supporting, potentially supporting, the other.

6 Q. So then what's the difference between
7 supporting and cross subsidy?

8 A. Cross subsidy would be where a service is
9 priced above cost supporting a service that is
10 priced below cost. In other words, negative
11 contribution.

12 Q. And isn't that Ameritech's position with
13 respect to access lines?

14 A. Under certain of the network access lines,
15 with the prices -- the costs that have been
16 developed by Mr. Palmer are indeed below cost.

17 Q. Okay.

18 A. So, yes, that would be the situation there
19 where there is an actual cross subsidy of services.

20 Q. I refer you to Page 70 of Exhibit 1.4.

21 A. I'm there.

22 Q. Okay. Generally that area we're talking

1 about what should be included within the price
2 index. The first --

3 A. Wait. Wait. Wait. Maybe I'm not there.
4 70, did you say?

5 Q. Page 70. First full question begins with
6 "finally."

7 A. I don't have that on my 1.4.

8 Q. Our pagination might be off.

9 A. What was the category that we're looking
10 for?

11 Q. What was included within a price index.
12 Wholesale, UNE customers.

13 A. I'm having trouble finding this.

14 MS. SUNDERLAND: I see discussion of UNES but I
15 don't see "finally." What's the question?

16 JUDGE CASEY: The question is finally, let's see,
17 claims -- Miss TerKeurst claims that inclusion of
18 wholesale and UNE customers is necessary for them to
19 receive compensation for poor service quality, do
20 you agree?

21 MS. SUNDERLAND: It's on Page 74.

22 THE WITNESS: I'm there finally.

1 JUDGE CASEY: That question and that answer.

2 THE WITNESS: Yes, sir.

3 BY JUDGE CASEY:

4 Q. The answer is no, that remedy plans for UNE
5 and resale services are being considered in other
6 proceedings?

7 A. Yes, sir.

8 Q. Do you know what those other proceedings
9 are?

10 A. I don't know the docket numbers.

11 Q. They are docketed items?

12 A. That is a flow out of the corroboratives
13 where people have pretty much agreed on the measures
14 and they need to know about the remedies.

15 Q. When we are talking about the remedies, do
16 the parties in those transactions have contractual
17 remedies as well, if there's poor service quality?

18 A. I'm sorry, I missed the question.

19 Q. We're talking about UNE customers or
20 wholesale customers.

21 Do not those parties have contractual
22 remedies --

1 A. Yes.

2 Q. -- if their service -- if there's poor
3 service quality?

4 A. Yes.

5 JUDGE CASEY: I have nothing further. We'll take
6 a six-and-a-half-minute break.

7 (Whereupon, a brief recess
8 was taken.)

9 JUDGE CASEY: Back on record.

10 REDIRECT EXAMINATION

11 BY

12 MS. SUNDERLAND:

13 Q. In Mr. Harvey's cross-examination, he asked
14 you a number of questions about the amortization
15 proposal the company presented in Docket 92-0448,
16 noted that it was a five-year amortization proposal
17 and then contrasted that with the eight-year
18 amortization which the company used for the FAS-71
19 write-down.

20 Could you explain why the company
21 proposed -- is using a longer amortization period
22 for the FAS-71 write-down?

1 A. Well, I think for the most part it has to do
2 with the fact that the amount in question was larger
3 and therefore the company believed that we should --
4 I believed I should spread it over a longer period
5 of time.

6 Q. Mr. Harvey also asked you some questions
7 about how you had developed your embedded cost per
8 loop, and you indicated that you obtained the cost
9 from the interstate common line reporting category.

10 Was that number adjusted to reflect total
11 company cost for access lines?

12 A. Yes, it was. It was grossed up to reflect a
13 total company view of network access line costs so
14 it was not jurisdictionalized.

15 Q. Mr. Heaton described a number of
16 technologies that are used for broadband
17 applications and suggested -- and this included
18 ISDN, DSL, cable and so forth, and suggested that
19 these were typically business applications.

20 Is, in fact, there residential demand for
21 high-speed Internet access today that would be
22 served by these kind of technologies?

1 A. Yes.

2 Q. Mr. Heaton also suggested that Project
3 Pronto does not support POTS service.

4 Is that, in fact, true?

5 A. No. There is -- Pronto does support POTS
6 service.

7 I'll just leave it at that. It does.
8 With the outside plant placement of fiber cables.

9 MS. SUNDERLAND: That completes the redirect.

10 JUDGE CASEY: Is there any recross based on the
11 redirect?

12 MR. HARVEY: One question with respect to the
13 fascinating issue of amortization.

14 RECROSS - EXAMINATION

15 BY

16 MR. HARVEY:

17 Q. Mr. Gebhardt, the eight-year distinction
18 that -- or the eight-year write-down period that you
19 pointed us to in your redirect, that was done at
20 your election, correct?

21 A. Correct.

22 Q. Okay. That was your personal decision to do

1 it?

2 A. It was a decision that was made by me
3 considering all the factors involved.

4 Q. Fair enough. Thanks.

5 A. Obviously, my management could have
6 overruled me, I guess, but they didn't.

7 MR. HARVEY: Well, if I might be granted just a
8 bit of latitude, I'd like to ask one more question
9 that relates to some cross that took place after
10 mine, just to --

11 MS. SUNDERLAND: Round robin cross is usually not
12 favored in these proceedings.

13 JUDGE CASEY: Do you have any re cross based on
14 the redirect?

15 MR. HARVEY: The cross that I have based on the
16 redirect, I have completed.

17 JUDGE CASEY: Okay. Then you're done.

18 MR. HARVEY: Fair enough.

19 JUDGE CASEY: Any re-redirect?

20 MS. SUNDERLAND: None.

21 JUDGE CASEY: Okay. Mr. Gebhardt, you're excused
22 except for possible recall for Thursday.

1 THE WITNESS: Okay.

2 JUDGE CASEY: Maybe we'll see you again; maybe we
3 won't. The next witness is staff witness --

4 MR. HARVEY: Yes, Mr. Koch. Do we want to --

5 MS. SUNDERLAND: Should we go off the record and
6 talk about what the rest of today looks like?

7 JUDGE MORAN: We can go off the record.

8 (Whereupon, a discussion was
9 had off the record.)

10 (Whereupon, Staff
11 Exhibits 13.0, 13.0-P 27.0,
12 27.0-P and 33 were marked
13 for identification.)

14 JUDGE CASEY: Mr. Koch, you want to raise your
15 right hand to be sworn

16 (Witness sworn.)

17 JUDGE CASEY: Mr. Harvey.

18 ROBERT KOCH,
19 having been called as a witness herein, after having
20 been first duly sworn, was examined and testified as
21 follows:

22

1 DIRECT EXAMINATION

2 BY

3 MR. HARVEY:

4 Q. Mr. Koch, would you please state your name
5 for the record and spell it?

6 A. My name is Robert Koch, K-o-c-h.

7 Q. Could you give us your business address?

8 A. 527 East Capitol, Springfield, Illinois.

9 Q. Now, let's start with Staff Exhibit
10 No. 13.0.

11 Do you have a document consisting of 43
12 pages of questions or text in question and answer
13 form marked for identification as Staff Exhibit
14 No. 13?

15 A. Yes, I do.

16 Q. Was that prepared by you or at your
17 direction?

18 A. Yes, it was.

19 Q. Is that your direct testimony public version
20 in this proceeding?

21 A. Yes, it is.

22 Q. If I were to ask you the questions contained

1 in Staff Exhibit No. 13.0, would your answers be the
2 same as they were when you prepared the document?

3 A. Yes, they would.

4 Q. Okay. Staff Exhibit No. 13.0 -P, is that the
5 same -- do you have that before you?

6 A. Yes, I do.

7 Q. That's a document also of 43 pages of text
8 in question and answer form?

9 A. Yes.

10 Q. That is a proprietary version of Staff
11 Exhibit No. 13, correct?

12 A. Yes.

13 Q. Prepared by and at your direction?

14 A. Yes.

15 Q. I'm going to move on to the rebuttal
16 testimony, Staff Exhibit No. 27.0.

17 You have that before you?

18 A. Yes, I do.

19 Q. Is that a document consisting of 28 pages of
20 text in question and answer form?

21 A. Yes, it is.

22 Q. Was that prepared by you or at your

1 direction?

2 A. Yes, it was.

3 Q. If I were to ask you the questions contained
4 in that exhibit, would your answers be the same as
5 they were when you prepared them?

6 A. Yes, they would.

7 Q. Do you have before you Staff Exhibit
8 No. 27.0-P?

9 A. Yes, I do.

10 Q. Is that your proprietary version of your
11 rebuttal testimony in this proceeding?

12 A. Yes, it is.

13 Q. And if I were to ask you the question --
14 that merely consists of a version of the public
15 testimony with proprietary figures in it, correct?

16 A. Correct.

17 Q. And if I were to ask you those questions,
18 would your answers be the same as they were when you
19 prepared them?

20 A. Yes, they would.

21 Q. Finally, Mr. Koch, Staff Exhibit No. 33, a
22 document consisting of four pages of text in

1 question and answer form.

2 A. Yes.

3 Q. Do you have that before you?

4 Was that prepared by you and at your
5 direction or at your direction?

6 A. Yes, it was.

7 Q. If I were to ask you questions contained
8 therein, would your answers be the same?

9 A. Yes, they would.

10 Q. Do you have any corrections or revisions to
11 make to any of these exhibits, namely Staff Exhibits
12 No. 13 and 13-P, 27 and 27-P and 33?

13 A. No, I do not.

14 MR. HARVEY: I would move at this point for the
15 admission into evidence of Staff Exhibit No. 13,
16 Staff Exhibit No. 13-P, Staff Exhibit No. 27, Staff
17 Exhibit No. 27-P and Staff Exhibit No. 33, and I
18 would tender the witness for cross.

19 JUDGE MORAN: Are there any objections to any of
20 the evidence as recited by Mr. Harvey?

21 MS. SUNDERLAND: No

22

1 JUDGE MORAN: It will be admitted subject to
2 cross.

3 (Whereupon, Staff
4 Exhibits 13.0, 13.0 -P, 27.0,
5 27.0 -P and 33 were admitted
6 into evidence subject to
7 cross-examination.)

8 JUDGE MORAN: And who wishes to start
9 cross-examination?

10 MS. SUNDERLAND: I guess I'll start.

11 JUDGE MORAN: Please proceed.

12 CROSS -EXAMINATION

13 BY

14 MS. SUNDERLAND:

15 Q. Good afternoon.

16 A. Good afternoon.

17 Q. I'd like to start off with access charges.

18 To be honest, I'm a little confused about where we
19 ended up on access charges at the end of the day in
20 your testimony.

21 Now, to start with, in your direct, you
22 had expressed some concern about the fact that the

1 API is so low for access charges that the plan
2 hasn't required rate reductions; is that correct?

3 A. Yes, it is.

4 MR. HARVEY: Could we get a citation, please, on
5 that?

6 MS. SUNDERLAND: Page 21, sort of towards the
7 bottom of the page. Are we okay?

8 MR. HARVEY: Okay.

9 BY MS. SUNDERLAND:

10 Q. Just for the record, what that means is that
11 access charges have been reduced as a result of
12 other things other than the index, such that the
13 index itself didn't have any additional impact on
14 price changes; and by other things I mean FCC access
15 reform orders, Commission's order in 0601, 0602 and
16 so forth.

17 A. The API that currently exists for Ameritech
18 includes both changes that it brought about itself
19 as well as within the plan, as well as changes that
20 are outside the plan as you characterized.

21 Q. Right.

22 So, in other words, the company reduced r

1 the company's carrier access charges have been
2 reduced more than the plan would otherwise have
3 required, right?

4 A. That is my understanding.

5 Q. Yes. And from your perspective, that's a
6 good thing, right?

7 A. In terms of there being access charges that
8 are brought closer to cost or to a more appropriate
9 rate level, that answer would be yes.

10 Q. Okay. Now, when we got to your surrebuttal,
11 if I can find it, you said that you're no longer
12 concerned about the fact that carrier access charges
13 were below the API; is that correct?

14 MR. HARVEY: Could I ask where we're referring
15 to?

16 MS. SUNDERLAND: Let me see if I can find it.

17 BY MS. SUNDERLAND:

18 Q. On Page 2 of Staff Exhibit 33, you state, I
19 am no longer concerned about the API level or
20 whether access charges could be reduced in the price
21 cap mechanism. Lines 40 through 42.

22 A. Yes, that is my testimony.

1 Q. All right. Does that mean that it bothered
2 you before that the AP -- that the price index
3 hasn't caused reductions and now it doesn't bother
4 you anymore, or are you making some other point
5 here?

6 A. I recommend in my rebuttal testimony that
7 access charges remain in the plan.

8 I also recommend that the API/PCI are
9 reset to 100.

10 So I'm not concerned -- at least if my
11 recommendation were accepted, my concern about the
12 API as illustrated in direct, I would no longer have
13 that concern.

14 Q. You would no longer have that concern
15 because you would bring the API and the PCI together
16 so that, in fact, Ameritech Illinois would have to
17 decrease carrier access -- excuse me, access rates
18 under the plan?

19 Is that why you're not concerned?

20 In other words, are you not concerned
21 because you have removed all the headroom?

22 A. I --

1 MR. HARVEY: What are we talking about in terms
2 of headroom here? Is this Mr. Gebhardt's term or --

3 MS. SUNDERLAND: Yes.

4 MR. HARVEY: Okay, could we have the definition
5 for the witness of what that is in these terms.

6 BY MS. SUNDERLAND:

7 Q. It's the difference between the API and the
8 PCI.

9 Are you proposing to eliminate that
10 difference for carrier access charges?

11 A. Yes, I am.

12 Q. So by removing the headroom, it's -- under
13 staff's proposal, the company would be required to
14 reduce carrier access charges even though they have
15 already been reduced substantially more under the
16 plan than the plan would have required to date?

17 Is that staff's position?

18 A. No, it is not.

19 Q. Okay. Could you explain what your position
20 is.

21 A. In future annual filings as if and when --
22 if and when reductions are ordered for carrier

1 services, there are other services besides access
2 charges in the basket.

3 Access charges themselves would not
4 necessarily have to decrease.

5 (Change of reporters.)

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1 (Change of reporters.)

2 Q. What else is in there?

3 A. Wholesale services, mainly wholesale
4 services.

5 Q. So that it's your testimony that by
6 eliminating the head room, the basket would have to
7 reduce its rates, you are saying we wouldn't have --
8 the company wouldn't have to do it on access
9 charges, necessarily, but then we would have to do
10 it on UNE's or wholesale rates, or resale rates, or
11 their equivalent?

12 A. Mainly wholesale rates, and that would be
13 only in the case in the future that reductions would
14 be required of the company in the carrier basket.

15 Q. When you say wholesale, you mean resale?

16 A. Correct.

17 Q. Now, the resale rates would be going down
18 anyway in line with any residence decreases,
19 correct, to maintain the voided cost differential?

20 A. They -- where there are reductions in
21 business or residential services, wholesale services
22 would also be decreasing.

1 Q. So it's your proposal that wholesale
2 services would have to be decreased more than that
3 because the basket includes carrier access in UNE's
4 which normally can't go down; is that staff's
5 proposal?

6 A. Actually it's not my proposal, I did not
7 recommend that UNE's be placed in the carrier
8 basket.

9 Q. So UNE's are out. So wholesale services
10 would take the brunt of both the reductions that are
11 sort of -- that flow from any residence rate
12 reductions, and reductions that are required because
13 carrier access is there in the basket, and it's part
14 of the calculation of the total revenues in the
15 basket?

16 MR. HARVEY: Could I ask to have that rephrased,
17 because I didn't get it and I'm not sure if the
18 witness did.

19 BY MS. SUNDERLAND:

20 Q. Isn't there a relationship between the
21 amount of revenues in the basket and the size of the
22 total rate reduction which has to be implemented?

1 A. Yes, there is.

2 Q. So that if you have carrier access in the
3 basket, the carrier basket would have to have total
4 rate reductions that are larger than if carrier
5 access were not in the basket?

6 A. That is correct.

7 Q. So if the company doesn't reduce carrier
8 access charges, it would have to reduce resale rates
9 by an amount that is larger than would otherwise be
10 the case by virtue of carrier access being there?

11 A. The way you pose the question, if the
12 company chooses not to reduce access charges within
13 the carrier basket, then, yes, resale services would
14 necessarily have to decrease by more than they would
15 otherwise.

16 Q. And those decreases would be larger than
17 what's required by the Commission's order
18 implementing the avoided cost methodology, correct?

19 A. All else equal, it would cause the rates to
20 be lower than the levels capped in Docket 97-0601,
21 0602.

22 Q. Now, I'm talking about resale rates here, if

1 the company didn't change carrier access rates,
2 wouldn't it have to reduce wholesale resale rates
3 below the level prescribed by the Commission in its
4 avoidable cost methodology order for resale?

5 A. The resale rates are capped by formula. So
6 whenever they are decreased below that rate level
7 they are reduced.

8 Q. Now, between your direct and your rebuttal
9 testimony, you changed your views about whether
10 carrier access rates would be decreased -- could be
11 the subject of mandatory decreases consistent with
12 the Commission's order in 060160020601, 0602; is
13 that correct?

14 A. That's correct, yes.

15 Q. And as I understood it, your change in
16 position was based on a rereading of certain pages
17 of that order?

18 A. Yes.

19 Q. Do you have a copy of the order with you?

20 A. Unfortunately, I planned to pack it, and no,
21 I do not.

22 Q. All right, let me share mine. Just for the

1 record, can you point to me what it was in those
2 pages that led you to conclude that mandatory
3 decreases were appropriate for carrier access or
4 could be appropriate?

5 A. If you could just give me a moment.

6 Q. Do you want me to find where it is in your
7 testimony that you say this? I believe it's your
8 rebuttal testimony, Page 5, at the top.

9 A. I have it highlighted, and book marked in
10 mine.

11 JUDGE CASEY: Ms. Sunderland, do you have any
12 idea where you think he might be looking?

13 MS. SUNDERLAND: That's why I'm asking.

14 THE WITNESS: And I did not quote the page,
15 specifically in my testimony, that's why I'm having
16 difficulty.

17 JUDGE CASEY: That's fine.

18 BY MS. SUNDERLAND:

19 Q. If you don't recall, you don't recall.

20 JUDGE CASEY: Why don't you go on to another
21 question and perhaps we can pick this up at the end.

22 BY MS. SUNDERLAND:

1 Q. All right. I presume you would agree that
2 the order at least stands for the proposition that
3 the company must recover its incremental costs
4 associated with carrier access, correct?

5 A. Pardon me, could you rephrase that?

6 Q. I presume you would agree with me that this
7 order stands for the proposition that Ameritech
8 Illinois is at least entitled to recover its long
9 run service incremental cost associated with carrier
10 access?

11 A. Yes, it is.

12 Q. And Ameritech Illinois is also entitled to
13 recover reasonable apportionment of common costs,
14 shared and common costs, correct?

15 A. That is correct.

16 Q. And in this order the Commission prescribed
17 a 28.86 percent common cost allocation, correct?

18 A. That was the maximum amount.

19 Q. Yes. And that was based on analyses that
20 were presented in the record, correct?

21 A. That is correct.

22 Q. Is it your opinion that the Commission could

1 change the company's LRSIC floor without having in
2 front of them an updated LRSIC study?

3 A. The way I understand your question is could
4 they change their LRSIC costs without a LRSIC study?

5 Q. Um-hmm, yes, that's my question.

6 A. I don't believe so.

7 Q. Is it your opinion that the Commission could
8 adopt a different allocation of common overheads
9 without a revised common overhead study of some
10 kind?

11 A. I don't necessarily believe that it would
12 require a study. Sometimes shared and common costs
13 can be allocated on an arbitrary basis, so that
14 didn't necessarily have to have a study attached to
15 it.

16 Q. Well, when the Commission allocates sharing
17 common costs it is always arbitrary, with quotes
18 around it, from an economic perspective, right?

19 A. Yes.

20 Q. However, when the Commission has done so in
21 other contexts, for example in the aggregate revenue
22 test, in the TELRIC docket, in those kinds of

1 contexts, isn't it true that the Commission has
2 always used a methodology?

3 A. I would agree with that.

4 Q. All right. So wouldn't you agree that to
5 change the 28.86 percent allocation to carrier
6 access, which was based on analyses in that record,
7 that the Commission would need a revised common cost
8 allocation methodology to do so?

9 A. The order, and I did find our citation of
10 the previous question, in Dockets 97-0601, 0602,
11 allows the company a maximum shared and common cost
12 contribution of 28.86 cents. So anything lower than
13 that, while being above the LRSIC level, would be
14 allowed, according to my reading.

15 Q. But in order to change that number, wouldn't
16 it be necessary to have some basis for that change,
17 because that number was adopted based on a record,
18 was it not?

19 A. Yes, it was.

20 Q. And to change it, wouldn't there necessarily
21 need to be new information that would allow you to
22 provide a different allocation?

1 A. So to change the maximum?

2 Q. No, to change the allocation.

3 A. I guess what I'm saying is with the
4 Commission's analysis in this proceeding, they allow
5 for a variance below 28.86 percent, without the need
6 for a proceeding, or any further rationale, as I
7 understand the order.

8 Q. Where in this order does the Commission
9 provide that the 28.86 percent can be reduced
10 without any proceeding, without any rationale, that
11 it can just be reduced?

12 A. On Page 51.

13 Q. And could you read for the record the
14 sentence what you are relying on for that
15 proposition, that it can be reduced without my
16 further proceeding and without any further
17 rationale?

18 A. Accordingly, we adopt the shared and common
19 cost percentages for switched access rate elements
20 contained in AT&T Gebhardt Cross Exhibit 1A, Page 3,
21 and conclude that the maximum shared and common cost
22 contribution shall be 28.86 percent for both

1 Ameritech's and GTE's cost based switch access rate
2 elements.

3 Q. Is it your position that the use of the word
4 maximum somehow gives the Commission the ability to
5 change it unilaterally?

6 A. My understanding of the usage of the word
7 maximum in the sentence gives the company the
8 authority to reduce the rate below LRSIC plus 28.86
9 percent.

10 Q. Let's assume that the company does not wish
11 to reduce it below 28.86 percent, that certainly is
12 within the company's prerogative based on this
13 order, correct?

14 A. Yes, it is.

15 Q. Is it your testimony that the company should
16 be forced so reduce that allocation through the
17 functioning of the price index?

18 A. I don't believe that would be an exact
19 characterization, but I do allow for it, and I feel
20 that it could occur within the price cap plan.

21 Q. Well, let's assume the following scenario.
22 The Commission adopts your proposal, the head room

1 is removed from the carrier basket, there is a
2 revenue reduction that is required, according to the
3 index, Ameritech has already taken the resale
4 reductions necessary to maintain the avoidable cost
5 differential, but it's not enough to satisfy what
6 the index says needs to be done.

7 And Ameritech comes in to the Commission
8 and says, we don't intend to decrease rates any
9 further below this level, we are entitled to a 28.86
10 percent common overhead allocation from this 0601,
11 0602 order. We are entitled to maintain our
12 wholesale rates at the avoidable cost discount, we
13 don't have to reduce them lower than that. Would
14 staff accept that as a compliance filing?

15 A. That would be in the annual filing, and with
16 that scenario you are saying that you would provide
17 a carrier basket, whose API exceeded the PCI?

18 Q. I think in your scenario -- yes, the API
19 would exceed the PCI, only because you have
20 eliminated the head room, and are requiring
21 application of the index to these services, which
22 are subject to these other orders.

1 A. Okay. Well, my response would be that
2 Ameritech inappropriately is recommending that the
3 API stay above PCI. And I am assuming that staff
4 would adopt that opinion and file comments
5 requesting that the company lower rates for
6 services, whether they be resale or access to a
7 point where the API did become less than the PCI.

8 Q. So the bottom line here is that staff will
9 suggest that the company's not entitled to the rate
10 levels prescribed in 97-0601, 0602, and as wholesale
11 resale rates consistent with the Commission's resale
12 pricing methodology order?

13 A. I can't speak for staff, as a whole, I can
14 only speak as this witness. And what I would
15 recommend that staff would do, and that would be to
16 require reductions for those services in light
17 that -- in light of the viewing of this order, as
18 well as the wholesale order, that these are caps on
19 those rates set either by the -- as you call it, the
20 avoidable cost formula or LRSIC plus 28.86 percent
21 for access charges.

22 And therefore there would be room for the

1 company to lower, and in compliance with alternative
2 regulation plan, yes, they would have to find some
3 way to lower the API, whether it meant lowering
4 those services or not.

5 Q. In your surrebuttal testimony, you state, I
6 believe on Page 3, that there is no direct
7 relationship between the change in the PCI and the
8 change in the LRSIC; is that true?

9 A. Yes, it is.

10 Q. Would you also agree that there is no direct
11 relationship between the change in the PCI and the
12 change in common costs?

13 A. I believe there is somewhat of an indirect
14 relationship, in that the PCI reflects overall
15 cost -- declining costs, at least when it's being
16 reduced, it reflects productivity gains, and
17 therefore as it's being reduced, over the course of
18 that annual filing, I would also expect shared and
19 common costs of the company to decrease.

20 Q. Have you performed any analysis that would
21 relate changes in the PCI to changes in common
22 costs?

1 A. No, I have not.

2 Q. Do you know what drives total factor
3 productivity?

4 A. The productivity factor has been fixed
5 inside the alternative regulation plan, so there
6 really is no driver for that, it was set in the
7 original alt reg order.

8 Q. Do you have an understanding of what causes
9 total factor productivity to increase?

10 A. I'm not sure if I'm following your question.

11 Q. Let me ask it a different way. Do you have
12 -- have you conducted any kind of analysis which
13 would suggest that the total factor productivity
14 increases that underlie -- X factor which underlie
15 the change in the PCI, is in fact the result of
16 changes in common cost?

17 A. I have not performed such a study, I would
18 just suspect that productivity gains of the company
19 would occur for shared and common or joint and
20 common costs over time as, you know, -- let me
21 rephrase my answer.

22 Although I have not performed an

1 analysis, it is my belief that as the company's
2 productivity increases, the amount of shared and
3 common costs would decrease or become a lesser
4 proportion per rate element.

5 Q. Would you agree, for example, that total
6 factor productivity increases if demand for the
7 company's product increase more than its -- the
8 costs incurred to produce those products increases?

9 A. I'm not entirely certain of that.

10 Q. So you are not too sure what drives total
11 factor productivity increase?

12 A. I can't testify to being an expert.

13 Q. Isn't it true that if the Ameritech
14 Illinois' common cost did increase, that that would
15 be picked up in a common cost allocation
16 methodology?

17 A. Yes, I believe it should.

18 Q. And in fact, in the merger order isn't the
19 company required to capture the impact of the merger
20 savings in its, among other things, its common
21 costs?

22 A. I am not an expert on the merger order.

1 Q. Do you know whether in fact Ameritech
2 Illinois has updated carrier access studies on file
3 with the Commission?

4 A. Yes, I am aware that they have.

5 Q. And do you know whether they include an
6 updated common cost allocation reflecting merger
7 savings?

8 A. I have -- I would suspect that they do, I
9 have not looked at them in depth, yet.

10 Q. Won't that be a good context in which to
11 decide whether in fact common costs have decreased
12 based on the actual study?

13 A. I believe that an actual study would yield
14 information that would be useful to the Commission,
15 to the company, in determining what a proper shared
16 common cost factor would be in the future.

17 Q. And isn't it true if you are simply relying
18 on the PCI, that you are guessing as to whether
19 common costs have declined or not?

20 A. I don't believe they are directly tied, and
21 so I don't -- and it's not my testimony, either,
22 that they would be directly tied. Therefore, I

1 believe a study would produce a more accurate
2 rendering of what proper shared and common cost
3 factor would be for a company.

4 Q. Would you agree that carrier access rates
5 over the term of the plan have come down more
6 proportionately than any other class of customer
7 services? That wasn't artfully asked, but do you
8 understand what I'm saying?

9 A. Could I, I guess rephrase it myself, and say
10 is what you are asking that the API for the carrier
11 basket has decreased more than any of the other
12 service basket API's?

13 Q. Yes.

14 A. That is my understanding, yes.

15 Q. So carriers have benefited more than any of
16 the other baskets, shall we say, from rate decreases
17 over the last five years?

18 A. Of the services remaining in the price cap
19 mechanism, carrier service rates have reduced, I
20 would say more than any of the others.

21 Q. Is it your position that as a matter of
22 policy the Commission should go out of its way to

1 try to require even further rate decreases for this
2 one customer group?

3 A. I don't believe that is my testimony.

4 Q. Is that the effect of your proposal?

5 A. Not as it was stated to me, I don't believe
6 so.

7 Q. On Page 4 of your surrebuttal testimony you
8 talk about UNE pricing. Now, as I understand your
9 position there, UNE's would not be part of the
10 carrier basket; is that correct?

11 A. You are referring to Page 4 of my
12 surrebuttal?

13 Q. Yes. Well, let me ask it a different way.
14 On Page 46 your testimony, you say that there is
15 nothing to prohibit reductions in UNE prices as long
16 as the TELRIC's associated with UNE's in fact go
17 down; is that correct?

18 A. Okay, that would be starting on Page 3.

19 Q. Okay, I'm looking at Page 4, but starting on
20 the bottom of Page 3 going up to Page 4.

21 A. Okay. And your question, again, was?

22 Q. Am I correct that UNE prices would only come

1 down in the event that TELRIC studies demonstrate
2 that in fact costs have come down?

3 A. Yes, that is my testimony.

4 Q. And they would not be subject to the index?

5 A. When you say subject to the index, they --
6 my belief is that those rates are set to be at
7 TELRIC plus shared and common costs, and not capped
8 at that level. So the price cap index -- it would
9 be inappropriate to lower those rates without a
10 study supporting it.

11 Q. Thank you.

12 MS. SUNDERLAND: I'm sorry, I'm going to go over,
13 this is taking longer than I anticipated.

14 BY MS. SUNDERLAND:

15 Q. I want to talk briefly about calling plans.

16 A. Okay.

17 Q. And I understand that you believe that
18 calling plans like simplified and call packs should
19 be put in the residence basket, rather than the
20 other basket?

21 A. That is correct.

22 Q. Now, the other basket is subject to the

1 index also, correct?

2 A. Yes, it is.

3 Q. And the other services in the other basket
4 are residence services, correct?

5 A. I believe they are primarily residential
6 services, but I believe there are some other
7 services in there.

8 Q. But primarily residence, correct?

9 A. I would say yes.

10 Q. Why is it that, from your perspective, it
11 matters if both baskets are subject to the
12 increase -- I'm sorry, to the PCI and the index, why
13 does it matter whether the calling plans are in the
14 residence basket or the other basket? I mean, they
15 are subject to the index.

16 A. True. The main reason, well, without
17 looking at my testimony, that I feel that they are
18 inappropriately in the other services basket is
19 because they constitute basic local services for
20 residence customers.

21 Q. If we leave aside that issue, can you tell
22 me as a practical matter, what difference does it

1 make to you which basket they are in? They are
2 both -- they are subject to the index, whichever
3 basket they are in, correct?

4 A. They are subject to the index, however, it's
5 the relevant services whose rates would be reduced
6 that are the difference, or potentially could be the
7 difference. As these call plans have been in the
8 other services basket, and these are my opinions,
9 basic local usage services, their rates have not
10 decreased. If they were in the residential basket,
11 although their particular rates would not
12 necessarily have to decrease, I believe that
13 other -- some form of residence local usage would
14 have to go down within the plan.

15 Q. So -- I mean, when they are in the other
16 basket, residence rates go down too, correct?

17 A. The impact of considering them in the other
18 services basket, is that services such as vertical
19 features are taken to drop, and not basic local
20 usage for residential customers.

21 Q. So basically what you are saying is you
22 would rather see the services in the residence

1 basket go down, rather than the services in the
2 other basket, is that the gist of what this is all
3 about?

4 A. I am saying that to preserve the
5 intention -- let me make sure I choose my words
6 carefully. To preserve the integrity of the
7 residence basket, it would be necessary to have all
8 of the local usage for those customers within the
9 residence basket so that those customers, the
10 residential customers, would receive full benefit.

11 Q. Well, aren't residence customers receiving
12 the full benefit when they are in the other basket,
13 if other residence rates are going down?

14 A. Not necessarily. And I think I can follow
15 up by saying that it would be the essential services
16 for the residential customers that would be lowered
17 if these call plans were in the residential basket.

18 Q. Is the bottom line here that staff disagrees
19 with the company's choices about which residence
20 rates it's been decreasing?

21 A. In the case of the impact of these call
22 plans, I believe that instead of Ameritech's captive

1 customers receiving the benefit in their basic
2 services, in the plan, that instead other services,
3 discretion area services, vertical services,
4 customer's of those services, are receiving the
5 benefit, and as a matter of opinion, I believe that
6 that is inappropriate.

7 Q. So the answer to my question is yes,
8 fundamentally staff disagrees with the choices the
9 company's been making?

10 A. I believe that the company is allowed to
11 make choices within the plan, and cheerfully grant
12 them -- well, I believe that the Commission
13 cheerfully granted them some flexibility. However,
14 I disagree with the placing of local usage, and
15 actually transitioning local usage from the
16 residence basket to the other services basket.

17 Q. If we were going to rank order the following
18 services, with the services producing the lowest
19 contribution on percentage basis first, and the
20 services producing the highest contribution on a
21 percentage basis last, won't you agree that it would
22 go in the following order, residence network access

1 lines, residence band A usage, residence band B
2 usage and vertical features?

3 A. I would say if you stratified their services
4 to those three categories.

5 Q. Four.

6 A. Excuse me, band A and then band B.

7 Q. Residence network access lines, band A
8 usage, band B usage, and vertical services.

9 A. If you stratified it that way, I would agree
10 with you, yes.

11 Q. And the amount of contribution generated by
12 vertical features are, by orders of magnitude,
13 greater than any of these other services, correct?

14 A. I think for most all vertical services
15 that's a fair characterization, yes.

16 Q. From an economic perspective, doesn't it
17 make sense to bring vertical features down closer to
18 cost as a first priority?

19 A. I don't necessarily agree with that, no.

20 Q. On Page 28 of your direct testimony you show
21 access line and usage revenue from competitive
22 exchanges. I presume when you talk about

1 competitive exchanges you are talking about the
2 handful of exchanges that have been classified as
3 competitive for residence customers?

4 A. Yes.

5 Q. And just to make sure the record is clear,
6 isn't it true that those have recently been
7 reclassified as noncompetitive by the company?

8 A. I have heard talk of it, I'm not -- inn
9 preparing for this case, I have not reviewed the
10 tariff filings. I understand that the company has
11 filed, though.

12 Q. Would you turn to Page 40 of your direct
13 testimony. And I understand you have an issue about
14 the amount of information received relative to the
15 API filings; is that correct?

16 A. Yes.

17 Q. And your proposal is that if the company
18 doesn't provide adequate support, then staff gets to
19 set the API unilaterally; is that correct?

20 A. It is my testimony that unless the company
21 provides adequate support for its API, then
22 Commission staff should have the latitude to

1 determine what that API should properly be.

2 Q. All right, let's assume that staff doesn't
3 get the information it felt it needed to verify the
4 company's API, hypothetically. If staff doesn't
5 have enough information to verify the company's API,
6 can you tell me how staff would have enough
7 information to set the API itself?

8 A. Within the current alternative regulation
9 mechanism, the API from the previous year carries
10 over to the current year. And whenever there are
11 reductions to rates, that has an effect on the API.
12 Now, generally, those reductions only occur in July,
13 and they are usually fairly consistent with the
14 previous years calculation, approved calculation in
15 the annual rate filing.

16 Therefore, if it were me handling it in
17 the future, I would generally recommend that the
18 previous year's API be used. And unless there are
19 other changes that I'm aware of, that I could
20 incorporate to allow for an alteration of the API, I
21 have no knowledge of those changes, I would not be
22 able to incorporate them. So I guess it would be a

1 good faith or honest effort to incorporate all rate
2 changes that I could into the calculation of the
3 API.

4 Q. But under your proposal you only get to do
5 that if you can't verify the company's API, right?

6 A. That is correct.

7 Q. And that means you feel you don't have
8 enough information to determine whether it's the
9 right number, correct?

10 A. The crux of the problem is that the company
11 doesn't provide support currently, and I'm left
12 guessing. And if I'm left guessing on a
13 short -- these cases are on a short time frame, I
14 can do my best to put together what I feel is an
15 appropriate API, whether it would be exactly what
16 the company would want or not.

17 Q. Well, to use your own phrase, you would be
18 guessing, wouldn't you?

19 A. I would be using the best information
20 available to me.

21 Q. But you would be guessing, wouldn't you?

22 A. I wouldn't characterize it as a guess, I

1 would characterize it as a good faith effort to
2 appropriately track the API.

3 Q. Let's turn to Page 19 of your rebuttal
4 testimony, and I'm looking at the first paragraph on
5 that page. And this has to do with pricing
6 flexibility. You state first, the state of
7 competition is not a factor of services contained in
8 the plan because they are noncompetitive services.
9 Under the current terms to the plan as soon as some
10 form of competition for a service exists, Ameritech
11 reclassifies the service as competitive, and gains
12 automatic pricing flexibility.

13 Is it your testimony staff agrees that as
14 soon as some form of competition exists for a
15 service, that it can be classified as competitive?

16 A. Is my position that that's the practice
17 Ameritech is taking since the inception of this
18 plan.

19 Q. Is that the position staff is taking in
20 Docket 98-0860, the business competitive
21 classification docket?

22 A. In Docket 98-0860, I believe staff's

1 position is that the reclassifications were
2 inappropriate.

3 Q. Yes, but is it staff's position in that
4 docket that there is no form of competition for
5 business services? Or is it that it's just not
6 sufficient, from staff's perspective, to justify a
7 competitive classification?

8 A. I believe the latter would be more
9 appropriate to my testimony in that case.

10 Q. So if staff prevails in Docket 98-0860,
11 won't there be services which are classified as
12 noncompetitive, which in fact face competition?

13 A. They would in fact, I guess for those
14 services that have a weak form of competition, that
15 answer would be yes.

16 Q. On Page 20 you talk about the pricing
17 flexibility limits that Ameritech has proposed. Is
18 your position that noncompetitive service prices
19 should not be increased within the context of this
20 plan, due to the fact that staff and the company
21 don't see eye to eye yet on whether the company's
22 service cost studies produce valid results?

1 A. I didn't follow that completely.

2 Q. All right. Let's assume that staff and the
3 company were in agreement that its cost studies
4 produce valid results and that in fact residence
5 network access lines are below cost, okay, accept
6 that as a hypothetical?

7 A. As a hypothetical.

8 Q. As a hypothetical. In that circumstance,
9 would you continue to be opposed to pricing
10 flexibility that would allow the company to increase
11 residence network access line pricing gradually over
12 the term of the plan to recover costs?

13 A. I don't object to upward pricing
14 flexibility.

15 Q. Okay. So you are not opposed to a pricing
16 flexibility component to this plan that would give
17 the company the ability to increase prices?

18 A. I believe there is one that exists
19 currently, and I recommend that it continue to be in
20 effect.

21 Q. And what is that one?

22 A. 2 percent plus the percentage change in the

1 PCI.

2 Q. And what has that produced over the last 5,
3 6 years?

4 A. Over the last 5 or 6 years, no upward
5 pricing flexibility.

6 Q. Yes, so are you supporting or opposed to
7 modification to the plan that would allow the
8 company some ability to increase prices in an upward
9 direction?

10 MR. HARVEY: Is this still the hypothetical? BY

11 MS. SUNDERLAND:

12 Q. Well, I mean, I'm trying to find out whether
13 his opposition to pricing flexibility is absolute or
14 whether its result in part from the fact that staff
15 and the company haven't reached agreement on whether
16 the cost studies produced the?

17 JUDGE CASEY: Let me take a knife to this. Mr.
18 Koch, currently you are in favor of the 2 percent
19 upward flexibility; is that correct?

20 THE WITNESS: Yeah, with the PCI.

21 JUDGE CASEY: Are you in favor or would you
22 recommend additional upward pricing flexibility?

1 THE WITNESS: No, I would not.

2 BY MS. SUNDERLAND:

3 Q. Would you favor additional pricing
4 flexibility if in fact Ameritech's Illinois resident
5 network access line prices today were below cost?

6 A. I don't think that would sway my decision on
7 this issue.

8 Q. Okay. And that is because you view any
9 increase in network access line prices as being
10 harmful to customers?

11 A. No, I do not.

12 Q. Then why would you oppose it?

13 A. I don't agree with Ameritech's pricing
14 flexibility plan, I agree with the one that is in
15 place now, that doesn't necessarily prohibit the
16 company from raising access line rates in the
17 future.

18 Q. Would you agree that if network access line
19 prices are in fact below LRSIC, somewhere, somehow,
20 those prices need to get adjusted?

21 MR. HARVEY: Again, are we speaking
22 hypothetically?

1 BY MS. SUNDERLAND:

2 Q. Hypothetically.

3 A. Hypothetically, if the access line rate,
4 plus any other recovery mechanism does not cover
5 cost, then I feel the company would be well within
6 its means to petition the Commission and ask for an
7 increase in the rate. And I think under the plan
8 currently I believe it is allowed.

9 Q. So staff would contemplate in the event that
10 Ameritech Illinois' rate rebalancing proposal is not
11 adopted to this proceeding, and we don't come to
12 closure, for example, on the cost studies, staff is
13 not opposed to the company filing, down the road, a
14 new rate rebalancing proceeding that would adjust
15 prices upwards, subject to having a full docketed
16 proceeding?

17 MR. HARVEY: I think that this has departed a
18 little from the hypothetical. I mean, if the
19 question is assuming, for the sake of argument, that
20 all this were true.

21 MS. SUNDERLAND: Yes, I am sorry.

22 MR. HARVEY: Then maybe he can answer that, but I

1 think --

2 JUDGE MORAN: So you are not objecting to the
3 question with your addition?

4 MR. HARVEY: If this is treated as purely
5 hypothetical.

6 MS. SUNDERLAND: Obviously it is hypothetical
7 what comes out of this docket.

8 MR. HARVEY: And giving his opinion.

9 THE WITNESS: My opinion is that if, how do I
10 state this, I believe the company is well within its
11 right to petition the Commission to have its rates
12 increased, based on information it receives from
13 cost studies and put it forward as proof in the
14 docket.

15 In fact, it is my understanding that they
16 currently do have the ability to make such a
17 petition now. And I don't see that changing in the
18 future. I wouldn't -- I do not know of that
19 changing, I guess when this plan is revised.

20 BY MS. SUNDERLAND:

21 Q. So to state it another way, staff is not
22 supporting continuation of a rate cap on basic

1 residential services?

2 MR. HARVEY: I don't think that is a fair
3 characterization of his testimony. We are now
4 moving from what he would hypothetically recommend
5 under certain circumstances that nobody agrees have
6 taken place, to what staff will absolutely recommend
7 going forward. I'm not sure that I understand why
8 he's -- he can answer that question.

9 BY MS. SUNDERLAND:

10 Q. Let me rephrase the question. If under the
11 circumstances we talked about previously, staff
12 feels that it is within the company's right to
13 petition for a change in its network access line
14 prices, is it the necessary corollary of that that
15 the plan would not include a rate cap on basic
16 residential services?

17 MR. HARVEY: I'm not sure that I follow that
18 logic. I mean the company is within its right to
19 petition for Puerto Rican statehood if it wants to,
20 but I'm not sure if it follows that because Mr. Koch
21 concedes that the company has a right to petition
22 for something, that it would logically follow from

1 that that the company ought to have greater pricing
2 flexibility. I don't follow that.

3 MS. SUNDERLAND: I'm not talking about greater
4 pricing flexibility. I'm talking about whether
5 there would be a rate cap imposed on basic
6 residential services as a function of a continued
7 plan.

8 MR. HARVEY: I still -- I would like that
9 question put any other way than it was put.

10 BY MS. SUNDERLAND:

11 Q. Let me ask straight out, is staff proposing
12 that there be a rate cap on basic residential
13 services?

14 A. That is not my testimony.

15 Q. Thank you.

16 JUDGE CASEY: Did you ever go back to the part
17 where he was looking in the order for something?

18 MS. SUNDERLAND: Yes, he read it into the record.

19 MR. HARVEY: I think we decided that was on 51 of
20 the 97-0601, 0602 order.

21 JUDGE CASEY: Thank you.

22 MR. HARVEY: Could I have just a second to

1 determine whether I have redirect?

2 JUDGE CASEY: After I find out if there is
3 anybody else who has cross. Is there anybody else
4 who has cross? Okay, we will take a couple minutes.

5 (Whereupon, there was
6 a short break taken.)

7 JUDGE CASEY: Mr. Harvey, do you have any
8 redirect?

9 MR. HARVEY: I have some, yes.

10 REDIRECT EXAMINATION

11 BY

12 MR. HARVEY:

13 Q. Mr. Koch, Ms. Sunderland asked you a number
14 of questions regarding staff's -- what
15 hypothetically staff's approach would be if it were
16 determined conclusively that Ameritech was compelled
17 by some circumstance to price a service below its
18 LRSIC cost, do you remember that?

19 A. Yes, I do.

20 Q. Do you -- assuming that all those facts were
21 hypothetically true, do you know what staff would do
22 under those circumstances?

1 A. Staff would recommend that they do increase
2 their access line rates.

3 Q. Based on a showing?

4 A. Yes.

5 Q. Now, Ms. Sunderland also asked you a few
6 questions with regard to what basket calling plans
7 properly were in. Do you remember that?

8 A. Yes, I do.

9 Q. Now, she further said that she -- she
10 further asked you a question regarding your views
11 about the purely economic reasons for pricing
12 access. And she asked you to state your opinion
13 from a purely economic perspective whether
14 residential service should make a greater
15 contribution to costs generally, do you remember
16 that?

17 A. I believe what Ms. Sunderland asked me was
18 based on her categorization, wouldn't it be more --
19 from an economic theory point of view, would it not
20 be more appropriate to reduce the rate for services
21 that have high contributory levels. And she is
22 shaking her head.

1 MS. SUNDERLAND: That's a better characterization
2 of my question.

3 BY MR. HARVEY:

4 Q. In any case, that being the case, are there
5 -- your answer was couched in economic terms. Are
6 there any policy reasons that would inform a
7 different answer?

8 A. My belief would be it would be more from a
9 policy perspective that you would focus on the basic
10 service revenue.

11 Q. And why is that?

12 A. They're essential services, whereas the
13 vertical services are more of a luxury item, and I
14 believe I even characterized are a discretionary
15 service.

16 Q. Fair enough. Now would you kind of -- maybe
17 we can better understand what kind of vertical
18 services we are talking about, could you give us?

19 A. Like call waiting, that type of -- three way
20 calling -- type of services.

21 Q. Are you familiar, for example, with that
22 Ameritech's incremental cost would be to provide one

1 of those services to an additional customer?

2 A. Generally that's proprietary type
3 information, but they are very small.

4 Q. Okay. And that's based on studies that
5 they've filed here at the Commission?

6 A. Yes, and based on my experience.

7 Q. So naturally those services will have a
8 relatively -- well, I'm leading like crazy, I'm
9 sorry, Louise. What would be the markup on those
10 services?

11 A. Well, based on the fact that the costs are
12 as low as they are, they have considerable amount of
13 markup. I couldn't give you an exact percentage,
14 but I would attribute the amount of markup more
15 towards the fact that their cost is so low in
16 relation to basic residential services.

17 Q. And based on that, what kind of a
18 contribution should common costs of those services
19 make relatively?

20 A. I would say that from a policy perspective,
21 it would be appropriate contribution levels -- I
22 guess, are you asking me like a percentage is that

1 what you are --

2 Q. No, I just -- I'll withdraw the question,
3 maybe that's the easiest way to do this.

4 MR. HARVEY: You know as a matter of fact -- that
5 will be all.

6 JUDGE CASEY: Recross?

7 MS. SUNDERLAND: I don't have any.

8 JUDGE CASEY: Mr. Koch, you are excused.

9 (Witness excused.)

10 (Change of reporters.)

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1 (Change of reporters.)
2 (Whereupon, Ameritech
3 Exhibit Nos. 3.0, 3.1, 3.2, 3.3
4 and 3.4 were marked for
5 identification as of this date.)

6 JUDGE CASEY: Okay. We'll go back on the
7 record.

8 Mr. O'Brien, you want to raise your right
9 hand.

10 (Witness sworn.)

11 THOMAS O'BRIEN,
12 called as a witness herein, having been first duly
13 sworn, was examined and testified as follows:

14 DIRECT EXAMINATION

15 BY

16 MS. SUNDERLAND:

17 Q. Would you please state your name and
18 business address for the record?

19 A. J. Thomas O'Brien, Ameritech Illinois, 225
20 West Randolph Street, Chicago, Illinois.

21 Q. The court reporter has marked Ameritech
22 Illinois Exhibits 3.0, 3.1, 3.2, 3.3 and 3.4. Do

1 these pieces of testimony represent your direct,
2 rebuttal and surrebuttal testimony in this docket?

3 A. Yes, it does.

4 Q. Do the record copies reflect any changes or
5 corrections from what was originally distributed to
6 the parties?

7 A. Yes, I have just about three or four here.

8 The first one is on my rebuttal
9 testimony, which is Exhibit 3.1. On Page 21, the
10 answer on the bottom of the page, the second line at
11 that answer, change the word duplicitous to
12 duplicative.

13 My next change is on my surrebuttal
14 testimony, Page 5, the last sentence in the first
15 answer, that is now an incomplete sentence and the
16 words "is not warranted" should be added to that
17 last line.

18 The next change is on my supplemental
19 surrebuttal testimony, Exhibit 3.4. On Page 10, the
20 first full paragraph in the second line, the word
21 "service" should be added before quality. So it
22 should be "service quality rule-making" now.

1 And the last change is also on
2 Exhibit 3.4, Page 17. The first answer of that
3 page, the third line from the bottom of that answer,
4 the word "however" should be stricken.

5 Q. With those changes and corrections, if I
6 were to ask you the questions in these exhibits
7 orally here today, would your answers be the same?

8 A. Yes, they would.

9 MS. SUNDERLAND: I would move for the admission
10 of Ameritech Illinois Exhibits 3.0 through 3.4 and
11 make Mr. O'Brien available for cross-examination.

12 JUDGE CASEY: Any objection?

13 JUDGE MORAN: Are any of those exhibits
14 proprietary?

15 THE WITNESS: No.

16 JUDGE CASEY: Those exhibits will be admitted.

17 (Whereupon, Ameritech Illinois
18 Exhibit Nos. 3.0, 3.1, 3.2, 3.3
19 and 3.4 were admitted into
20 evidence as of this date.)

21 JUDGE CASEY: Cross-examination?

22 Mr. Manshio, why don't you go first.

1 MR. MANSHIO: Thank you, Mr. Examiner.

2 CROSS-EXAMINATION

3 BY

4 MR. MANSHIO:

5 Q. Good evening, Mr. O'Brien.

6 A. Good evening, Mr. Manshio.

7 Q. You're aware of the Commission's extension
8 of the infrastructure commitment on Ameritech as
9 part of the merger order?

10 A. Yes, I am.

11 Q. Does the company plan to change that
12 commitment in this docket?

13 A. No, it doesn't.

14 Q. Is the scope of the docket still to remain
15 the same as it has in the past; in other words, are
16 they categories to be kept the same or is the
17 company proposing any changes to that?

18 A. No, no changes.

19 MS. SUNDERLAND: When you say "categories," what
20 are you referring to?

21 MR. MANSHIO: The way it's reported now
22 annually.

1 MS. SUNDERLAND: You're talking about how the
2 infrastructure reports are actually put together?

3 MR. MANSHIO: That's correct.

4 THE WITNESS: Oh, oh, I see. Okay. Yes.

5 I do understand that there are some
6 changes required by the merger order in reporting,
7 and we would propose that that same reporting be
8 brought over as well into the alternative regulation
9 docket.

10 BY MR. MANSHIO:

11 Q. Do you know if Project Pronto will be
12 continued to be reported in the same manner that
13 it's been reported in the past as far as
14 infrastructure cost?

15 A. To my knowledge, it will be.

16 Q. Do you know in the past whether those
17 Project Pronto costs relate to Ameritech's
18 infrastructure or the delivery of service?

19 A. Would you clarify what you mean by that
20 question?

21 I guess I'm not sure.

22 Q. Well, let me ask you, first of all, is there

1 a distinction between the delivery of service
2 anticipated by Project Pronto and the development of
3 infrastructure to provide that service?

4 A. I'm not -- I can't say. I'm not -- I'm not
5 certain on that.

6 MS. SUNDERLAND: Could you just -- perhaps you
7 could clarify what you mean by the delivery of
8 service in the context of an infrastructure report.

9 BY MR. MANSHIO:

10 Q. If the Project Pronto services are intended
11 to provide DSL services, the provisioning of those
12 services I would separate from the building of the
13 fiber to provide those services; would that be a
14 fair characterization or a distinction?

15 A. What would your -- repeat that again.

16 Q. I'm trying to determine whether or not, in
17 reporting Project Pronto costs, those costs are
18 basically strictly for infrastructure-related costs
19 or whether they're related to the provisioning of
20 DSL services.

21 A. Well, first of all, let me say that Project
22 Pronto does provide for both provision of DSL

1 services, but also part of that provisioning of that
2 service; for example, the fiber, et cetera, being
3 taken to the field will be used for POTS services as
4 well.

5 Now, I, however, am not the one that has
6 ever done this reporting or compiled the reports.
7 So I'm not sure how those costs as such will be
8 separated on that report.

9 Q. Just a final question.

10 Do you anticipate that the DSL service
11 once it's provided will be provisioned by Ameritech
12 or provisioned by an Ameritech family company?

13 A. Ameritech per the merger order is not
14 allowed to provide DSL itself, Ameritech Illinois,
15 nor has it ever provided DSL itself.

16 This will -- any DSL services will be
17 provided by either an Ameritech affiliate or another
18 CLEC or whoever else provide -- buys the underlying
19 service from Ameritech in order to provide it to the
20 end user.

21 MR. MANSPIO: Thank you.

22 No further questions.

1 JUDGE CASEY: Mr. Harvey?

2 MR. HARVEY: It'll be Mr. Nixon. I'll go shake
3 him out.

4 (Discussion off the record.)

5 JUDGE CASEY: Mr. Nixon, you ready?

6 MR. NIXON: I'm as ready as I'm going to get.

7 Thank you.

8 CROSS-EXAMINATION

9 BY

10 MR. NIXON:

11 Q. Good evening, Mr. O'Brien. I'm David Nixon,
12 counsel for the Commerce Commission Staff.

13 A. Good evening.

14 Q. All right. If we could refer to Schedule 2
15 of your rebuttal testimony, which is Exhibit 3.1, I
16 believe.

17 And in that schedule, you calculate a
18 combined API of 85.76; is that correct?

19 A. That's correct.

20 Q. And this calculation was performed with the
21 assumption that access charges are removed from the
22 plan?

1 A. Yes, that's correct.

2 Q. Okay. Now, if I could ask you to assume
3 under either of your proposals in your surrebuttal,
4 I believe, under the combined baskets of pricing
5 flexibility, either the five percent plus the rate
6 rebalancing with 10 percent; under either scenario,
7 if you assume either one of those scenarios and also
8 assume that the Commission were to decide that
9 access charges should be remain in the plan?

10 A. That access should remain in the plan.

11 Q. Should remain in the plan, would your
12 combined API calculation be changed to reflect the
13 rating of access charge revenue?

14 A. Are you asking, would it be appropriate to
15 change it?

16 Q. Yes.

17 A. If it were ordered that access charges were
18 to remain as part of the plan, then I think I would
19 agree, yes, that this exhibit -- or this calculation
20 would need to change.

21 The exhibit I presented is the scenario
22 that Ameritech Illinois is proposing in this

1 proceeding.

2 Q. And would you agree under the scenario that
3 I suggested that the combined API would decrease?

4 A. Without doing the calculations, intuitively,
5 I'd say it would, but that would have to be subject
6 to actually looking at the calculation again.

7 Q. Okay. Now, if I ask you to assume that
8 under that same scenario, the combined API would
9 decrease by as much as four points, would that cause
10 a significant annual impact in revenues?

11 A. Are you saying hypothetically, would a
12 four-percent reduction in the API --

13 Q. Yes.

14 A. -- cause a significant increase in rev- --
15 or in --

16 Q. Would allow for it?

17 MS. SUNDERLAND: I think maybe the question
18 should get read back.

19 (Record read as requested.)

20 BY MR. NIXON:

21 Q. Would the company be allowed to increase
22 revenues significantly?

1 A. And again, hypothetically, if it were a
2 four-percent reduction in the API, that would allow
3 the company the flexibility for some additional
4 revenue increases.

5 Q. And could you state whether or not that
6 flexibility could allow for as much as \$90 million
7 and change?

8 A. Sitting here today, I -- I wouldn't venture
9 a guess. I'd hate to venture a guess.

10 Q. Now, are you aware -- well, in Dockets
11 97-0601 and 0602, the Commission determined that
12 there should be a reduction in access charges; is
13 that correct?

14 A. It ordered a reduction -- it ordered a
15 refiling of Ameritech Illinois' access rates based
16 on LRSIC plus and markup of 28.86 percent.

17 As part of the docket, they then ordered
18 Ameritech Illinois to file rates based on the
19 existing LRSICs which resulted in an approximate, I
20 believe, \$33 million reduction.

21 JUDGE CASEY: I'm sorry. A \$33 million what?

22 THE WITNESS: Reduction.

1 JUDGE CASEY: Okay.

2 Can you please move the microphone
3 closer?

4 Thank you.

5 BY MR. NIXON:

6 Q. Is it correct that the API was reduced as a
7 result of complying with that order?

8 A. That the API? Not that I'm aware of.

9 Q. As a result of the rate reductions in
10 compliance with the order, did that reduce the API?

11 A. I don't believe it should reduce the API,
12 no, this was something that was done completely
13 outside of the alternative regulatory plan.

14 And to my knowledge, the Commission made
15 no determination whatsoever in that order about API.

16 Q. When the company filed to reduce its rates,
17 did the API decrease?

18 MS. SUNDERLAND: This is kind of a fact
19 question. Why don't we check overnight and we'll
20 provide you an answer in the morning.

21 MR. NIXON: Okay. Given that, I need to
22 rephrase my next question or wait until morning.

1 MS. SUNDERLAND: Why don't you ask it
2 hypothetically.

3 MR. NIXON: That's what I'm looking at.

4 BY MR. NIXON:

5 Q. Well, maybe I don't. We'll try it and see.

6 Okay. And, again, with the pricing
7 flexibility that you have proposed in your
8 testimony, would Ameritech be able to recover --
9 with the further assumption, again, that access
10 charges are in the plan, would Ameritech be able to
11 recover access charge revenue reductions through
12 increases to other rates?

13 A. That's exactly what we're proposing in this
14 docket as part of our rate rebalancing.

15 Q. Now, would resetting the API and the PCI to
16 100 affect Ameritech's ability to recoup the
17 previously ordered access charge reductions?

18 A. Well, again, I -- our proposal on the table
19 is that this is part of the rate rebalancing that
20 ought to be done as part of this case.

21 We have made no proposal at this point in
22 time to recover it as part of any annual filing as

1 part of the price caps.

2 Q. I'm not sure that's responsive to the
3 question.

4 Simply would you agree that if the API
5 and PCI are reset to 100, that would affect
6 Ameritech's ability to recoup the previously ordered
7 access charge reductions?

8 A. Let me say that, first of all, it's -- it
9 could be treated then as an exogenous change, and
10 this was something that I think the 0601/0602 left
11 the door open for as well.

12 At this point in time rather treating it
13 as an exogenous change, we have filed for it as part
14 of the offset for our rate rebalancing.

15 What would happen if it -- the API and
16 PCI were set at a hundred and then we looked at
17 whatever impact it was on the next annual filing
18 after that, that would be speculative, I guess, at
19 this point in time how that would affect our ability
20 to recoup those specific reductions.

21 I would say then this case won't even be
22 over -- we'll be making our next annual filing on

1 April 1st of this year, long before there's a
2 decision in this case relative to resetting the API
3 and PCI or anything else.

4 JUDGE CASEY: So, Mr. O'Brien, are you saying
5 that, effectively, the Ameritech would have to wait
6 a year to make that Z Factor a reality?

7 THE WITNESS: Well, I hate to speculate, but I
8 assume that Ameritech is going to have to make a
9 decision about April of this year of perhaps what
10 happens -- what we intend to do.

11 I haven't -- I haven't thought about it
12 real clearly until we started going through this
13 line of questioning.

14 JUDGE CASEY: Well, given the situation that the
15 Commission order -- in this docket won't be
16 completed by the time you're required to make your
17 annual filing, then is it -- am I correct to assume
18 then that Ameritech wouldn't be able to make that Z
19 Factor -- an updated Z Factor filing until next
20 year?

21 THE WITNESS: That's certainly one logical
22 assumption, yeah.

1 BY MR. NIXON:

2 Q. I'm going to come back to that. Let me go
3 to something else for now.

4 Is your understanding either through the
5 testimony or through Mr. Koch's answers today that
6 Staff's approach -- recommendation in this case is
7 to maintain what it sees as the current pricing
8 flexibility?

9 A. That's what I understand Mr. Koch to say is
10 that Staff's recommendation is simply status quo
11 relative to the current pricing flexibility.

12 Q. And it is correct that in the last few years
13 -- and I don't know exactly how many years -- that
14 the formula has worked out so that there is actually
15 -- has been no price increase?

16 A. There's been no pricing flexibility since
17 the inception of the alt reg plan.

18 Q. All right. And that has been a factor
19 because of the percentage change in PCI; is that
20 correct?

21 A. I think more of a factor of the very low
22 GDPPI.

1 Q. The PCI did not change -- if the PCI had
2 changed or remained -- let's say it remained at zero
3 instead of -- it's been approximately negative two
4 percent; is that correct?

5 A. I think that's been the range, yes, around
6 that.

7 Q. All right. If it was zero instead of
8 negative two, would there have been pricing
9 flexibility?

10 A. Then we would have been allowed two percent
11 pricing flexibility had it been at zero.

12 Q. And last year, if you know, there was a
13 reduction to the PCI based on the service quality
14 component of the plan; is that correct?

15 A. In 1999, we met all the service qualities.
16 I believe the filing in 2000 had no reduction.

17 Q. But in some years, the PCI has reflected the
18 failure of the company to meet service quality
19 benchmarks?

20 A. In other years, there's been a .25 reduction
21 in the PCI.

22 Q. And without those reductions, would there

1 have been some pricing flexibility?

2 A. I don't know exactly if there's been any
3 year where that has -- like we just agreed it was
4 around two percent a year.

5 I don't know exactly had the PCI been
6 just a little different, but it certainly wouldn't
7 have been more than a tenth or two tenths of a
8 percent worth of pricing flexibility at the most.

9 Q. Can you predict whether the PCI will
10 decrease by two -- two percent or more for the next
11 filing?

12 A. I haven't heard what Allen Greenspan said
13 today. So...

14 Q. So the answer is no?

15 A. No, I cannot predict.

16 Q. And you can't predict it for the filing
17 after that either?

18 A. No, we have no way, of course, of
19 predicting.

20 I will say going into this plan, nobody
21 expected the -- based on historical trends for the
22 GDPPI to stay that low, but I don't know that

1 anybody is expecting that it's necessarily going to
2 rise at this point in time either.

3 Q. Okay. But whenever the PCI decreases by
4 less than two percent, the company would have some
5 upward pricing flexibility; is that correct?

6 A. Again, if it's -- could be one tenth, two
7 tenth, three tenths. It could be some very, very
8 small, with the maximum being two percent, which is
9 still, I think as Mr. Gebhardt testified earlier
10 today, much lower than he had even proposed for the
11 initial plan.

12 Q. If I can distill that answer, the answer is
13 even though you think it's a small amount, the
14 answer is yes?

15 A. It could, by a very small amount.

16 Q. So Mr. Koch's recommendation concerning
17 pricing flexibility does allow for rate increases in
18 years that the percentage decrease in PCI is less
19 than two percent?

20 A. It would allow for some, but not nearly what
21 the company feels it needs to be able to begin to
22 realign its rates as they should be.

1 Q. And in years that percentage change in the
2 PCI is positive, would you agree that the company
3 would have greater upward pricing flexibility?

4 A. Obviously, the more positive the PCI
5 becomes, it would allow for some greater
6 flexibility, yes.

7 That, of course, is meaning that
8 inflation is growing at a much higher rate. So what
9 our real price increase is under those circumstances
10 would still not be significant.

11 Q. Okay. I'll go back to the one question I
12 skipped over before and try it again.

13 Let's assume that the API is reduced as a
14 result of reduction of access charges.

15 A. All right.

16 Q. Given that assumption, wouldn't resetting
17 the API and PCI to 100 remove Ameritech's ability to
18 recoup previously ordered access charge reductions
19 with rate increases to other services?

20 A. Yes, that would be the effect of that.

21 Q. Thank you. That's just one line.

22 Remaining questions are on service

1 quality issues. And I will have some page
2 references. And I apologize if mine are off.
3 Whenever I print, I come up with an extra blank page
4 or two or extra skips in the middle. And when I
5 even -- turn over to people, I've got different
6 paginations than anybody else.

7 So for starters, if we could refer to --
8 I mean, in your Exhibit 3.4, and I think it's at
9 Pages 4 to 5, you discuss a cell phone remedy.

10 That may not be right.

11 A. Yes, that's on Page 4 of mine.

12 Q. And this -- the remedy as proposed -- or the
13 program that's proposed would be extended to
14 customers that are expected to be out of service
15 greater than three days, correct?

16 A. That's correct.

17 Q. Okay. First of all, if you know, how would
18 the company make a determination that a person was
19 going to be out of service for more than three days?

20 A. It would likely be in a situation where
21 there's perhaps a major cable cut or something of
22 that sort which the company was able to predict that

1 it was going to take some time to restore service to
2 a certain area.

3 It would be very unusual in normal
4 circumstances that a customer would be out of
5 service for that length of time.

6 Q. And you refer to a plan in Ohio; is that --
7 as far as the cell phone plan. Is that one already
8 in effect in Ohio?

9 A. I understand -- and you may want to check
10 with you talk with Mr. Hudzik later who has that,
11 but I understand that that is a program that's in
12 effect for all carriers in Ohio; not just Ameritech
13 Ohio, but all local exchange carriers.

14 Q. Can you confirm with me -- maybe these
15 questions can go to Mr. Hudzik then, but let me try
16 with you -- that the three main, if not sole
17 elements, of the plan are, first of all, that
18 there's free delivery and pick-up of the loaned
19 phone to the customer?

20 A. I believe that is correct, but, again,
21 Mr. Hudzik is more knowledgeable on the exact
22 workings of the plan.

1 Q. Okay. As long as you're having some success
2 for now -- line of questions here. We'll see.

3 One of the other aspects of the plan is
4 that local calling and call forwarding are without
5 charge?

6 A. Again, I would defer I think the specifics
7 of the plan to Mr. Hudzik.

8 Q. Okay.

9 A. He did the evaluation of cellular loaner
10 program and came up with a recommendation that we
11 institute something similar to Ohio. So he has done
12 that research on exactly how that plan works.

13 Q. All right. Let me just try a couple of
14 these questions, and if they all appear to be for
15 Mr. Hudzik, I'll just kind of detour to another
16 area.

17 How does Ameritech propose to make
18 customers aware of these services, do you know?

19 A. Aware of the loaner program?

20 Q. Yes.

21 A. I believe we would make them aware when we
22 notified them that their service may be out for more

1 than three days, and then they would be given the
2 choice of the cellular program or the \$20.

3 The exact specifics of how, again, this
4 notification works Mr. Hudzik can detail.

5 Q. Okay. I think a lot of these questions
6 maybe I should save, but I think I can still do a
7 few.

8 Your proposal as you stated in your
9 testimony is only for customers experience out of
10 service greater than three days. Does Ameritech
11 intend to extend this option to new customers who
12 have to wait for installation?

13 A. No, they don't. No, we don't.

14 Q. And why not?

15 A. Again, Mr. Hudzik, as I indicated, evaluated
16 various cellular programs. Part of that evaluation
17 just found that the administration, the cost of
18 providing the program, and the other problems just
19 wasn't a workable type of program.

20 And we felt that the other remedies that
21 we are proposing for customers who are out of
22 service -- or I'm sorry, who we aren't able to

1 install within the five days gives them adequate
2 compensation.

3 Q. Okay. I thank you for your answers, but I
4 think as you keep deferring me to Mr. Hudzik, I will
5 save the rest of the questions for him on that line.

6 Now -- I'm having trouble with this
7 because I'm looking at a marked up copy.

8 On Page 11 of your Exhibit 3.4, you
9 comment on Staff's proposed remedy for failure to
10 install within five days. And I believe you
11 characterize the remedy as a windfall and state -- I
12 think it's the end of the second full paragraph on
13 that page?

14 A. Yes.

15 Q. -- that they would -- the customer
16 experiencing a 30-day installation delay would be
17 able to sign up for cellular service for the month
18 and put several hundred dollars in his pocket; is
19 that correct?

20 A. That's correct.

21 Q. Now, do you have Ms. Jackson's testimony,
22 Exhibit 9.0?

1 A. No, I'm sorry. I thought I did, but I guess
2 I don't.

3 JUDGE CASEY: What's the exhibit number?

4 MR. NIXON: 9.0.

5 BY MR. NIXON:

6 Q. In particular, if you could look at Lines
7 614 through 620, is that the portion of
8 Ms. Jackson's testimony you commented on?

9 A. Yes, it is.

10 Q. Okay. But, in fact, does not her testimony
11 reflect that the portion of her remedy -- the option
12 of the cell phone does have a cap of credit for a
13 free installation and does not continue as you
14 suggest without cap?

15 A. As I read that, that is the second
16 alternative.

17 The first alternative is simply to
18 continue to collect \$25 a day. And what I said in
19 my testimony is the customer would choose the \$25 a
20 day; go out and subscribe to cellular phone on their
21 own; pay the \$25 or \$30 monthly fee and still have a
22 couple hundred bucks left for themselves.

1 Q. That's -- so when you say subscribe to the
2 cellular phone, you're not suggesting that her
3 second option there allows for both the provision of
4 the free phone plus an uncapped remedy?

5 A. No, I understand her option to be an
6 either/or.

7 Q. And since you're the one that raised the
8 example in your testimony, is it a common occurrence
9 for Ameritech Illinois to have delays or 30 days or
10 more for service installation?

11 A. No, it is not. It's very uncommon.

12 But, again, that doesn't mean that a -- I
13 believe under Ms. Jackson's plan, if I were the
14 customer and knew I was going to be out 30 days,
15 I'll certainly take the \$25 a day.

16 MR. NIXON: I would move to strike the last half
17 of that answer as nonresponsive.

18 JUDGE CASEY: What was the question?

19 (Record read as requested.)

20 JUDGE CASEY: The latter half of the answer will
21 be stricken.

22 BY MR. NIXON:

1 Q. Thank you.

2 Now, referring -- actually, I don't know
3 if I need to refer to your testimony or not, but if
4 I do, let me know.

5 Both you and Mr. Hudzik use the terms
6 commitment and appointments in connection with
7 installation or repair, correct?

8 A. Yes, I believe so.

9 Q. Okay. Could you please explain to me, first
10 of all, do the two terms mean different things or
11 are they interchangeable?

12 A. I discuss this on Page 21 of my Exhibit 3.4
13 where I tried to clear that up.

14 As I mentioned, I think in the industry,
15 often, those two terms become used interchangeably.
16 And we tried, therefore, to clear up that. And, in
17 fact, Ms. Terkeurst was questioning the use in her
18 testimony of these two terms.

19 So in addressing her testimony, we said
20 the term commitment usually means -- or in the way
21 we were using it there for is that that is something
22 that is referring to all types of installation or

1 repair. That would be whether or not a field visit
2 is required or not and whether -- and it would also
3 include things like vertical services.

4 On the other hand, appointment is
5 normally where you have actually called the customer
6 to make an appointment and the field technician does
7 have to make a visit itself.

8 Q. I believe this is on Page 16 -- it shows 17
9 on mine, but it's Page 16 of Exhibit 3.4 under
10 missed installation commitment. Then I think it's
11 in the more general portion of your testimony as
12 well.

13 But, in particular, the reference that
14 this benchmark should mirror the proposed benchmark
15 currently under review in the Administrative Code
16 730 workshops; you see that?

17 A. Yes.

18 Q. And the benchmark you propose here is 90
19 percent, correct?

20 A. If -- again, I want this to be clear.

21 What we are proposing is 2.08, which
22 would include all repair including field and

1 nonfield visits and vertical services is one
2 alternative.

3 The second alternative, if the benchmark
4 were going to focus on Staff's proposal, we believe,
5 which is simply field visits, then we would propose
6 using the 90 percent that's being discussed in the
7 -- has been proposed by Staff as part of the 730
8 workshops.

9 There are no benchmarks in any rules
10 today, as I understand it, and Ameritech does not
11 have enough historical information to be able to
12 appropriately set a benchmark at this time.

13 Q. If the Commission ultimately in Admin Code
14 Part 730 adopted a different standard, would you
15 agree that that different standard would apply here
16 if that standard is higher than --

17 A. It's my testimony that the 730 -- any
18 changes in 730 versus what the Commission orders
19 here ought to be imported into the alt reg plan, and
20 that would be whether the new benchmarks are higher
21 or lower than ordered here.

22 So, yes, I would agree with your

1 statement.

2 Q. Page 8 of your Exhibit 3.4.

3 The proposal is -- and I'll read it.

4 "If Ameritech Illinois missed its OSS greater than
5 24 hours or installation within five business days
6 benchmarks for a calendar year, it would compensate
7 all customers who experienced installation delays of
8 over five days or were out of service for over 24
9 hours for the following year."

10 Did I read that correctly, first of all?

11 A. First of all, I guess the missed the
12 reference. Could you --

13 Q. Well, I believe it's Page 8 and it's the --
14 towards the bottom of the page. The question starts
15 --

16 A. I was way off. Never mind.

17 Q. -- Ms. Jackson --

18 A. I heard you wrong on the page number.

19 Q. Oh, sorry.

20 A. Yes, you read that correctly.

21 Q. And referring to the out of service greater
22 than 24 hours installation within five business days

1 remedy.

2 A. Yes, you read that correctly.

3 Q. Now, when you say, if the benchmarks are
4 missed for a calendar year, you're talking about an
5 average of the 12 months for the year?

6 A. Yes.

7 Q. I'm not quite sure how this works, so...

8 When you say, "Compensate all customers
9 who experienced installation delays of over five
10 days or were out of service for over 24 hours for
11 the following year," are you saying that customers
12 in the year that the benchmarks were missed will be
13 compensated in the following year or are you saying
14 that once the benchmarks are missed, customers who
15 have those problems in the next year will be
16 compensated?

17 A. The latter, the problem that -- the
18 customers that have the problems in the next year.

19 Q. Even though the company may actually meet
20 the benchmarks in that year overall?

21 A. Yes. And that's kind of the carrot and the
22 stick, because if we did meet it that year, then we

1 wouldn't have to compensate customers the year
2 following.

3 Q. And if a customer who had been one of those
4 that was affected in the year that triggered
5 compensation, but who did not receive compensation
6 asked you why they didn't get it, what would you
7 tell them?

8 A. That under the terms of the plan, that there
9 were no mechanism for compensating the customer
10 during that year.

11 Q. What -- what is Ameritech's proposal for
12 compensation for failure to meet benchmarks for
13 operator answer time? Let me take them separately
14 so it's not a compound question. Start with that.

15 What is Ameritech's current proposal for
16 compensation for failure to meet benchmarks for
17 operator answer time?

18 A. Well, I think I should step back and say on
19 all of these answers, I was kind of commenting on
20 how the compensation would be as Ameritech proposes
21 if this compensation is done out of the alternative
22 regulation formula.

1 As I said in my surrebuttal testimony,
2 after evaluating Ms. Jackson's -- would be her
3 rebuttal testimony -- I think I was trying to think
4 of which round she was in -- when she again
5 changed -- made no changes to her proposal relative
6 to what penalties would apply if the service
7 remained out of the plan, Ameritech made the
8 decision that these penalties should remain as part
9 of the alternative regulation proposal just as we
10 had proposed in our original direct testimony.

11 So under that provision, that would be
12 one of the quarter of a percent changes to the API,
13 negative impacts on the API for the year in which
14 the benchmark was missed.

15 Q. So just to be clear that there isn't an
16 alternative proposal, either this or this;
17 Ameritech's position now is it should state in the
18 formula?

19 A. I think what I said -- and I want to be
20 clear about this as well -- is the reason that we
21 said that we felt we had to go back to advocating
22 that it be part of the alternative regulation plan

1 is when we did the analysis of the size of the
2 penalties that were being recommended by Staff and
3 by GCI, if it were out of the plan, that those were
4 simply draconian types of penalties to the company.

5 So we had no choice but to look at
6 Staff's two alternatives, and their second
7 alternative was to leave it as part of the plan and
8 have much more reasonable types of penalty
9 provisions.

10 I did say that an alternative would be
11 that we would still support it being out of the plan
12 as long as the penalties dollar-wise were much more
13 reasonable and much more in line with what Staff is
14 proposing the penalties ought to be if it remains as
15 part of the plan.

16 Q. And in your testimony, did you present any
17 of those studies?

18 A. As far as what we would compensate the
19 customers if it remained out of the plan?

20 Q. No, to establish what you call draconian
21 remedies.

22 A. Yes, I -- in -- Mr. Hudzik did an analysis

1 of if we made all of our benchmarks, I believe, is
2 what -- or if we just missed one benchmark or
3 something -- I don't remember exactly how the
4 analysis went, but we're talking about easily
5 running up penalties under Staff's plan of \$351
6 million over the life of the plan. Or, I believe,
7 by the fifth year, that was an annual penalty, in
8 fact, which -- and that was to provide service as it
9 was in 1999 when we met all of our benchmarks. And,
10 yet, under the staff proposal, we would have been
11 penalized \$351 million for giving excellent service.

12 Now, I did -- going back to your original
13 question, we also did make proposals as far as what
14 we would compensate customers, our recommendation,
15 if it were out of the plan, had we missed one of the
16 service alternative for the year.

17 Q. Hm-hmm.

18 A. And I believe that was in my rebuttal
19 testimony where we had agreed to the -- a \$4 million
20 penalty is about what it was as part of the original
21 plan, except that we would credit that directly to
22 customers by dividing the number of access -- \$4

1 million by the number of access lines, which I
2 believe comes to you about 65 cents per access line.

3 JUDGE MORAN: How much longer does Staff have?

4 MR. NIXON: I've got two additional short lines
5 of cross. One's very short.

6 JUDGE CASEY: While you're developing your
7 theory, Mr. Nixon, I have a question.

8 EXAMINATION

9 BY

10 JUDGE CASEY:

11 Q. Returning back to that Page 8 and the OSS
12 over 24 hours for installation, within five days
13 talked about compensating those persons that
14 experience that service problem the following year?

15 A. Yes.

16 Q. But not the persons that actually sustain
17 that poor service during the year where the
18 benchmark was missed?

19 A. That's correct.

20 Q. Is there a technical reason, a theoretical
21 reason why we wouldn't compensate the parties that
22 received that poor service during the year where the

1 benchmark was missed?

2 A. When we developed this, we were trying to
3 respond to Staff's original proposal which said that
4 they wanted to measure this on a month-by-month
5 basis.

6 And any month that a customer -- that we
7 missed a commitment, the way we understood their
8 proposal was that during the next month, we would
9 then compensate customers who we missed that month.

10 So it was still the problem of the actual
11 customers harmed during the month we missed wouldn't
12 be compensated, but it would be customers during the
13 next month. And we said this month to month would
14 be a very difficult thing to administer --

15 Q. Okay. So let's say that month to month
16 thing is not a good idea?

17 A. So we said that as a compromise position, if
18 we're making it, we shouldn't have to compensate
19 anyone. We've made the benchmarks.

20 Today, customers don't get compensated as
21 long as we make the benchmark, nor is there any
22 penalty under the current plain.

1 Q. Mr. O'Brien, let's say that you don't make
2 the benchmark.

3 A. Okay.

4 Q. Is there a technical or theoretical reason
5 why those customers who sustain the poor service
6 don't actually get compensated?

7 A. Oh, I'm sorry. I didn't understand your
8 question.

9 I -- sitting here today, it would be
10 difficult, I know, that we would have to keep track
11 the end of the year of all customers who we would
12 have missed. And then at the end of the year, if we
13 missed the benchmark, we'd have to go back and pay
14 those customers.

15 I'm not saying it'd be impossible, but it
16 seems to me it'd be quite a record-keeping thing to
17 keep track of everyone to assure that then at the
18 end of the year, if we found that we had missed the
19 benchmark, we'd go back and compensate those
20 customers.

21 Q. Wouldn't have you to do that the following
22 year?

1 A. Well, what I said the following year, it
2 would be automatic then for any customers --

3 Q. Because you know what you're looking for?

4 A. -- during that year, because we would
5 already know that we are subject to paying the
6 penalties the following year.

7 JUDGE CASEY: I'm sorry, Mr. Nixon.

8 Go ahead.

9 MR. NIXON: Now, that triggered a few thoughts.

10 BY MR. NIXON:

11 Q. First of all, I -- just to clarify, if I
12 heard Mr. O'Brien correctly, I don't believe he
13 characterized staff's proposal correctly, but I
14 believe Staff's proposal is that a customer who is
15 affected in a particular month, that same customer
16 gets compensated in the next month; not other
17 customers who are affected in the next month get
18 compensated.

19 And my question was going to be what kind
20 of -- would it be possible to have a tracking
21 system, but I think you've already answered that,
22 but let me test.

1 In that same vein that the customer who
2 is affected would get compensated, would it be
3 possible to track those customers to the year end in
4 order to compensate those customers instead of
5 compensating other customers who weren't affected in
6 that year?

7 A. I would defer that to Mr. Hudzik, because he
8 is the one that would have to administer this
9 program. So I don't want to speak for him.

10 I gave my opinion that it would be
11 difficult, I think, but I think Mr. Hudzik would be
12 able to discuss that.

13 Q. In your supplemental surrebuttal,
14 Exhibit 3.4, you -- one at Page 11, one at Page 12,
15 you give two comparisons to remedies offered in the
16 private industry, one, a restaurant; another,
17 Federal Express, as a way, I believe, of further
18 showing essentially that remedies are capped; would
19 that be correct?

20 A. I gave those two as well as the ComEd
21 example.

22 Q. Right. As far as the restaurant and the Fed

1 Ex, do customers who experience poor service with
2 them have options to go to other restaurants or
3 other mail carriers?

4 A. On their next visit, they could or their
5 next mailing.

6 Q. And for both Fed Ex and for a restaurant,
7 would it be your testimony that -- or your belief
8 that a customer has to rely on either one of those
9 entities 24 hours a day?

10 A. No.

11 Q. And if I go back to the same restaurant the
12 next day and they give inexcusable service again,
13 might I be availed of the same remedy again?

14 A. You may.

15 Q. And the same with Fed Ex, Federal Express:

16 If the next time I use them, your example
17 was that if they failed to deliver the service
18 promised, that the charge would be refunded, I
19 believe; is that correct?

20 If that happened the second time, would I
21 be likely to get a refund the second time as well?

22 A. I would assume you would.

1 JUDGE CASEY: Mr. Nixon, about ten more minutes.

2 MR. NIXON: That would be about right.

3 BY MR. NIXON:

4 Q. I may need to show you Mr. McClarren's
5 testimony, but let's see if we can do this without.

6 Would you -- as far as rate reductions
7 for missing out of service over 24 hours, I can show
8 you this if we need to. Okay. But that the rate
9 reduction for 1996 was approximately \$4.06 million;
10 would you agree?

11 A. Would you restate that question? I'm sorry.
12 I missed --

13 Q. Rate reduction 1996 for missing the standard
14 for the out of service greater than 24 hours was
15 approximately \$4.064 million?

16 MR. KERBER: Could you clarify, do you mean the
17 impact in that year or the cumulative impact --

18 MR. NIXON: Application of the q component
19 affected that reduction.

20 THE WITNESS: That would have been the first
21 year of the plan? Yes.

22 BY MR. NIXON:

1 Q. Yes. And the second year of the plan, it
2 was 4.225 million?

3 A. I'll accept that.

4 Of course, the other 4.0, whatever the
5 number was, 4-plus million, would have also carried
6 over into the second year for missing the first
7 year.

8 Q. In 1998, it was 2.325 million and in 1999,
9 2.613 million, which I can show you
10 Mr. McClerren's testimony, if you need --

11 A. I'll accept that that's his testimony and I
12 have no reason to not believe that those were not
13 the figures for those years.

14 Q. If you know, what was the actual amount
15 customer bills were reduced due to these increases?

16 A. I know that the -- like I said, the \$4
17 million equated to around 65 cents, approximately,
18 when I was looking in my rebuttal testimony and
19 trying to just calculate what the about (sic) effect
20 would be.

21 So in any given year, 4 million was about
22 65 cents. If it was less, of course, it would be a

1 little less, and then those carry on from year to
2 year, of course.

3 Q. And would those amounts be the same among
4 business and residential bills or would there be a
5 difference?

6 A. Well, under -- that's an average of all
7 lines, all right?

8 Q. Okay.

9 A. So, again, to the extent that a customer has
10 more lines, they would -- because it's actually part
11 of the overall changes, and it depends on what
12 services are being affected that year by the change
13 in the API.

14 Q. We can turn to your -- again, I guess we
15 will be exploring an area which may no longer be the
16 company's main proposal, but if we could, please,
17 turn to Exhibit 3.2.

18 A. Yes, I have it here.

19 Q. And I think my pagination is correct, so
20 Page 9.

21 You discuss remedies?

22 A. Yes.

1 Q. Right under the remedy for out of service
2 over 24 hours -- the remedy proposed for out of
3 service for over 24 hours, then you use the term
4 monthly -- customers' monthly regulated service.

5 Can you explain what that includes?

6 A. I believe, again, I address that in my
7 supplemental surrebuttal and I say that is monthly
8 service for regulated services, and we would exclude
9 such things as unregulated services such as voice
10 mail, et cetera; in other words, those that are not
11 regulated by the Commission.

12 And also it would exclude toll and usage
13 services essentially defined as the monthly
14 regulated services.

15 Q. And is that Page 2 of your Exhibit 3.4?

16 A. Yes, it is.

17 Q. Since we're already there, can you give some
18 examples of what is included in unregulated service?
19 Is that the totality or is there more that goes in
20 that list?

21 A. Voice mail is there. Inside wire
22 maintenance, I believe.

1 Off the top of my head, there's very few
2 that would apply. Voice mail would be the major
3 one.

4 Q. Can you tell us what is not encompassed by
5 the unregulated service?

6 A. What is not encompassed by what?

7 Q. Unregulated service .

8 You've told us some of what is included
9 in the regulated service. Now, if you could explain
10 what isn't?

11 A. Are you asking what are the services then
12 that would make up this average, what are the
13 services we would include?

14 Q. Yes, actually.

15 A. Well, that would be like your basic monthly
16 local service line, any vertical features, any
17 central office features.

18 Many of the features that basically are
19 offered that are still regulated by the Commission,
20 whether those are competitive or noncompetitive
21 services and are monthly rated services; not
22 variable services such as usage.

1 Q. Turn back briefly to the remedies in
2 Exhibit 3.2, the supplemental rebuttal.

3 For out of service reports lasting from
4 24 to 48 hours, the remedy would be a pro rata share
5 of the customer's monthly regulated service.

6 Could you explain what that means?

7 A. Out of service for two days, we would give
8 them two days' worth of service.

9 Q. I see. And is there a representative dollar
10 amount that you could tell us it would amount to?

11 A. It would be approximately one 15th of what
12 their monthly regulated service bill was.

13 Q. And that -- do you have a figure of --

14 A. I might -- my average number I provided, if
15 that's what you're looking for, is \$24.22.

16 Q. Right. So, for reference, you're saying it
17 would be the pro rata share of that amount?

18 A. Yes.

19 Q. Okay. And when you say for the next portion
20 for out of service reports lasting from 48 to 72
21 hours, credit equal to one third. So it'd be one
22 third of the dollar figure?

1 A. That's correct .

2 Q. Okay. And for the -- on the next page, you
3 have proposed remedy for installation within five
4 days?

5 A. Yes.

6 Q. And here, it's a two-tiered remedy.

7 Installations completed within six to
8 nine business days, the remedy -- proposed remedy is
9 one half of the nonrecurring installation charges.

10 I guess -- first of all, I guess
11 installation charges depend on the nature of the
12 service being installed; is that correct? It's a
13 varying amount?

14 A. It usually is a service order and a line
15 connection charge, which I think are slightly more
16 than \$50 a month -- or \$50 for the combined of the
17 two of them.

18 Q. So that portion of the remedy for
19 installations completed within six to nine days
20 would be approximately \$25?

21 A. Yes.

22 Q. I can't remember where -- it may have been

1 Mr. Hudzik's testimony actually, but I believe that
2 there was part of the proposal was that there would
3 be no penalty where the company provided 24 hours
4 notice that they would not be able to make
5 installations; is that correct?

6 A. I believe that's for missed appointments.

7 Q. For operator answer time, is there a way to
8 track which customers are affected by the company's
9 failure to meet the standard?

10 A. I'm not aware of any, but you might ask
11 Mr. Hudzik.

12 MR. NIXON: All right. I will.

13 Thank you.

14 FURTHER EXAMINATION

15 BY

16 JUDGE CASEY:

17 Q. Mr. O'Brien?

18 A. Yes.

19 Q. On Page 9 of 3.2, you refer to remedies.
20 It's OOS greater than 24 on Page 8 of 3.4, you're
21 talking about OSS greater than 24. It's OOS, right?

22 A. It is OOS, yes. I'm sorry.

1 Q. Was that something we did in modifications
2 and corrections?

3 A. No, we did not do that.

4 Q. Okay. Because I do note that on Page 8 and
5 9, we are talking about OSS greater than 24. I
6 think that's a little bit different subject matter.

7 MS. SUNDERLAND: It's not OSS.

8 THE WITNESS: It's not OSS.

9 JUDGE CASEY: Because he was asking, but he said
10 OSS and, afterwards, I'm thinking -- all right.

11 It's 7:05 and we're going to pick this up
12 tomorrow morning at 9:30. Mr. O'Brien's lead-off
13 man.

14 (Whereupon, said hearing was
15 continued to February 14,
16 2001 at 9:30 a.m.)

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