BEFORE THE
ILLINOIS COMMERCE COMMISSION

IN THE MATTER OF:	)
	)
ILLINOIS BELL TELEPHONE COMPANY	)
	) 98-0252
Application for review of alternative	)
regulation plan.	)
	)
ILLINOIS BELL TELEPHONE COMPANY	)
	) 98-0335
Petition to rebalance Illinois Bell	)
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 16, 2001

Met, pursuant to notice.

BEFORE:

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

APPEARANCES:

MS. LOUISE A. SUNDERLAND
MR. KARL B. ANDERSON
225 West Randolph Street, Suite 25D
Chicago, IL 60601
for Ameritech;

MS. CHERYL L. HAMILL
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MANSHIO & WALLACE
MR. CALVIN MANSHIO
4753 N. Broadway Avenue, Suite 732
for Cable Television and Communications Association of Illinois;

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

MS. SUSAN L. SATTER
100 West Randolph Street
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for the People of the State of Illinois;

APPEARANCES: (Continued)

MR. MATTHEW L. HARVEY
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for the Staff of the Illinois Commerce Commission;

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349 S. Kensington Avenue
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for Citizens Utility Board;

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for Department of Defense & Federal Executive Agencies;

MR. ALLAN GOLDENBERG
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69 West Washington, Suite 700
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SULLIVAN REPORTING COMPANY, by
MICHAEL R. URBANSKI, C.S.R.
CARLA LALA CAMILIERE, C.S.R.

I N D E X

Witnesses:	Direct	Cross	Re-direct	Re-cross	By Examiner
MR DOMINAK					
		1115			
					1158
			1159		
				1173	
				1178	
			1180		
				1180	
JEFFREY H. HOAGG					
	1182				
		1185			
		1202			
JAMES ZOLNIEREK					
	1236				
GENIO STARANCZAK					
	1241				
		1244			
		1268			
		1270			
		1281			
		1286			

E X H I B I T S

APPLICANT'S	For Identification	In Evidence
CITY CROSS		
#16	1112	1116
STAFF		
#1.0,15.0	1181	
STAFF		
#1.0		1184
STAFF		
#15.0		1185
STAFF		
#3.0,3.1,3.2	1235	
STAFF		
#3.0		1237
STAFF		
#3.0P		1239
STAFF		
#2.0,16	1240	
STAFF		
#2.0		1243

(Whereupon, City Cross Exhibit No. 16 was marked for identification.)

JUDGE MORAN: Pursuant to the direction of the Illinois Commerce Commission, I call Docket No. 98-0252, this is Illinois Bell Telephone Company application for review of alternative regulation plan. Also Docket 98-0335, Illinois Bell Telephone Company petition to rebalance Illinois Bell Telephone Company's carrier access and network access line rates, and also Docket 00-0764, this is a petition for reduction in rates and other relief filed by the Citizens Utility Board and the People of the State of Illinois versus Illinois Bell Telephone Company doing business as Ameritech Illinois.

These matters are consolidated.

May we have the appearances for the record, please.

MR. HARVEY: Appearing for the staff of the Illinois Commerce Commission, Matthew L. Harvey, David L. Nixon, and Sean R. Brady, 160 North

LaSalle Street, Suite C800, Chicago, Illinois, 60601-3104.

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

MR. ANDERSON: On behalf of Illinois Bell Telephone Company, Louise A. Sunderland, Karl Anderson and Mark Kerber, 225 West Randolph Street, Chicago, Illinois, 60606.

MS. HAMILL: Appearing on behalf of AT&T Communications of Illinois, Inc., Cheryl Hamill, 222 West Adams, Suite 1500, Chicago, Illinois, 60606.

MR. GOLDENBERG: Appearing on behalf of the Cook County State's Attorney's Office, Allan Goldenberg, Ann Bloss, assistant state's attorneys, 69 West Washington, Suite 700, Chicago, Illinois, 60602.

MS. LUSSON: On behalf of the Citizens Utility Board, Karen Lusson, 349 South Kensington, LaGrange, Illinois, 60525.

MR. NYCE: Appearing on behalf of the Department of Defense and the Federal Executive Agencies,

Peter Q. Nyce, spelled N-y-c-e, Jr., Regulatory Law Office, U.S. Army Litigation Center, 901 North Stuart Street, spelled S-t-u-a-r-t, Suite 713, Arlington, Virginia, 22203-1837.

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

MR. MANSHIO: Appearing on behalf of the Cable Television and Communications Association of Illinois, Calvin Manshio, Manshio & Wallace, 4753 North Broadway, Suite 732, Chicago, Illinois, 60640.

JUDGE MORAN: Let the record reflect that there are no other appearances.

JUDGE CASEY: This matter is continued today for cross-examination of Mr. Dominak. I believe the City of Chicago had cross.

MR. PACE: Yes, your Honor. Good morning.

JUDGE CASEY: Before we go -- before we begin, through the remainder of the hearing, if the parties have cross-examination or want to refer a witness to a specific part in the testimony,

instead of having that testimony read in the record again, simply ask if that's the testimony or that was the question and that's the answer as opposed to rereading the prior testimony.

It might help to speed things up a little bit. Okay.

Mr. Dominak, I do remind you that you are still under oath.

THE WITNESS: Yes.

JUDGE CASEY: Mr. Pace, please begin

CROSS-EXAMINATION

BY

MR. PACE:

Q. Good morning Mr. Dominak.

A. Good morning.

Q. My name is Jack Pace. I'm an attorney for the City of Chicago in this proceeding.

I want to just direct your attention to your additional surrebuttal testimony, Exhibit 7.3.

Is it true that this piece of testimony was filed, I believe, Tuesday of this week?

A. I believe that's true.

Q. And after the testimony was filed, you produced two pages of work papers to the city?

A. Yes.

Q. And I have handed to you earlier a two-page document that I have titled City Dominak Cross Exhibit 16.

Do you recognize those two pages?

A. Yes, I do.

Q. And are those, in fact, the work papers that you turned over to the city earlier this week?

A. Yes, they are.

MR. PACE: At this time I'd like to move the admission of City Dominak Cross Exhibit 16.

MR. ANDERSON: No objection.

JUDGE CASEY: City Dominak Cross Exhibit No. 16 will be admitted.

(Whereupon, City Cross Exhibit No. 16 was admitted into evidence.)

BY MR. PACE:

Q. Mr. Dominak, among other things, your testimony in this proceeding provides financial

results for Ameritech Illinois during the period 1995 through 1999?

A. Yes, it does.

Q. And in or around 1995 on Ameritech Illinois' financial books, Ameritech Illinois, I believe the terminology is, wrote down a little over a billion dollars; is that correct?

A. When you say wrote down a little more than a million dollars, could you be more specific?

Q. Well, there was a major write down in or around 1995 on the Ameritech Illinois financial books; is that correct?

MR. ANDERSON: Are you referring to a FAS-71 related write-down, Mr. Pace?

BY MR. PACE:

Q. Does that help you answer the question, Mr. Dominak?

A. It might, but. . .

Q. Related to that.

A. Are you referring to our external books of account?

Q. Would that also be called financial books

as opposed to regulatory books?

A. Yes.

Q. And how much was that write-down in 1995?

A. I don't recall, but I mean -- I don't recall.

Is your question how much was the amount -- how much -- I'm not sure what your question is at this point again.

Would you restate it?

Q. You recall, I believe, your counsel mentioned FAS-71.

Now, in or around 1995, after the alt reg order was issued, did the company perform a write-down on their financial books of a number over a billion dollars?

A. I'm not sure the magnitude of the order, but yes, on the external books of account, when the company went off FAS-71, there was a write-down of certain assets, if you would.

How that's accomplished is by increasing the reserve.

Q. And that amount was, would you agree, a

1 little over a billion dollars?
2 A. It was a sizable amount, yes.
3 Q. Was it over a billion dollars?
4 A. I don't recall going back to '95.
5 Q. You don't recall?
6 A. Well, I mean, I don't recal l the dollar
7 amount specifically.
8 Q. You don't recall whether it was over a
9 billion dollars?
10 I just want to understand your
11 testimony.
12 A. It was a sizable amount. It could have
13 been about a billion dollars. Does not sound
14 unreasonable to me.
15 Q. Okay. You said that you added this amount
16 to the reserve on your financial books, right?
17 A. That's correct.
18 Q. Now, by doing that, you did not have any
19 annual expense amortization on your financial books
20 related to that billion dollar write-down, correct?
21 A. That's correct.
22 Q. Now, that's different from what Ameritech

Illinois did on the regulatory books, correct?

A. That's correct.

Q. Now, what the company did on their regulatory books is amortized that amount creating an annaul expense, correct?

MR. ANDERSON: I'm going to object at this point in time as being beyond the scope of Mr. Dominak's testimony.

The issue of the company's policy with regard to FAS-71 is decisions with regard to how that should be treated on the external books and also on the regulatory books and how it should be treated for purposes of this proceeding were the topics of Mr. Gebhardt's testimony.

Mr. Dominak and his testimony refers to Mr. Gebhardt's testimony with respect to the appropriate treatment of FAS-71.

So I would submit that this is -- these would have been proper questions perhaps for Mr. Gebhardt but are beyond the scope of Mr. Dominak's testimony.

MR. PACE: I am perplexed.

I simply asked the accountant, the major accountant witness for Ameritech whether, in fact, they amortized that and made an expense item from 1995 to 1995 (sic). He said he's provided financial results for those years.

I didn't ask about policy. I just said what did the company do.

JUDGE CASEY: The objection will be overruled.

Do you know the answer, Mr. Dominak?

THE WITNESS: Could you repeat the question?

MR. PACE: Sure.

BY MR. PACE:

Q. Now, on your regulatory books, you treated that billion dollars different than you did on your financial books, correct?

A. That's correct.

Q. And, in fact, on the regulatory books, you amortized that amount and created an annaul expense per year, correct?

A. Well, when you say the regulatory books, are you referring to the books we're keeping for the FCC or the items for the State of Illinois?

Q. Well, what financial results did you provide in testimony in this case?

A. Well, for this case we provided testimony for the State of Illinois.

Q. And you presented the financial records for the State of Illinois?

A. That's correct.

Q. And did you create that expense on those books?

A. The expense -- which expense are we talking about?

Q. The one we have been talking about the last five minutes.

A. Amortization of depreciation going off FAS-71?

Q. Uh-huh.

A. Yes.

Q. Okay. Just while we're here, did you treat it the same way for the FCC, since you brought it up?

A. No, we did not.

Q. For the FCC did you treat it in a manner

different than you treat it for the ICC and on your external books?

A. Yes, because for the ICC we had depreciation freedom to actually set how we were going to depreciate those items.

For the FCC, we did not have that particular freedom so we were under a different set of rules.

Q. And this expense item that we have been talking about was expensed in each year 1995 through 1999, correct?

A. That's correct.

Q. And all other things being equal, the effect of this expense item each year lowered Ameritech Illinois's earnings for each of those years, correct?

A. That would be correct.

Q. Now, based on all the information you have now today, does Ameritech Illinois intend to restate any earning numbers for the years 1995 through 1999?

A. We can do that.

Q. Do you intend to do it?

A. Yes. We can -- we can do that if that's what is required.

Q. I'm not asking whether you can.

Knowing what you know now, do you intend to do it?

A. I don't know if there is -- I mean, I don't know if there's actively any reason to restate those.

Q. You certainly are not thinking about doing it yourself, recommending that to the company?

A. No, not at this time.

Q. Mr. Dominak, your file says that you're a CPA, correct?

A. That's correct.

Q. And as a CPA, you wouldn't knowingly depreciate an account that has been fully depreciated, correct?

A. I would say that we would not knowingly overly depreciate an account, that would be correct.

MR. PACE: I'm sorry, could you repeat the

answer, the court reporter.

(Whereupon, the record was read as requested.)

BY MR. PACE:

Q. And you personally, too, is that correct? I mean, your answer applies to you personally as a CPA?

A. Yes.

Q. And why wouldn't you do that?

A. Well, if an amount was overdepreciated, we'd want to know why the rate for amortization wouldn't be shut off and why we wouldn't bring it back into -- back into let's say 100 percent reserve status, so to speak.

Q. I'm sorry, maybe I didn't ask the question quite clearly enough.

I guess I'm talking more theoretically as opposed to this specific case.

But if you saw an account that was fully depreciated, why wouldn't you continue to depreciate that?

What is the --

A. Well --

Q. -- technical reason why you wouldn't do that?

A. It would imply to me that we fully recovered the amount on it and therefore should stop depreciating it essentially.

Q. So you fully recovered the asset so you can't recover more than the full recovery, correct?

A. That's correct.

Q. And, in other words, that would be irrational to do that, wouldn't it?

A. Well, on an individual account, yes.

Taken on the whole there could be other adjustments made, you know, in arriving at a total.

Q. Now, under the depreciation freedom that Ameritech Illinois has described in its testimony that it received under alt reg, is it Ameritech Illinois' position that the -- excuse me -- that the depreciation practice of Ameritech Illinois is governed by GAAP, GAAP?

A. Yes, I would say that GAAP would apply in this instance to the depreciation.

Q. And that's governing the regulatory books and the financial books?

A. Yes.

Q. Are there any other rules, laws, guidelines that you're aware of that would govern Ameritech Illinois' depreciation practice from 1995 through 1999?

A. Well, the other items I think that would guide it would be any items that came out of the Illinois Commission specifying what we were able to do or not able to do; in other words, setting any limits or giving us any freedoms, yes.

Q. So when you talk about any items coming from the ICC, is that what you said?

A. Yes.

Q. Anything else, any other rules, laws, guidelines that would have governed your depreciation practice from 1995 to 1999?

A. None that I can think of.

Q. Would that exhaust your memory right now?

A. Yes.

Q. Okay. Now in terms of from the ICC, other

than the guidelines, instructions that came out of the alt reg order, were there any other ones that came out of the ICC from 1995 to 1999?

A. Not that I'm aware of.

Q. Based on your position at Ameritech, wouldn't you be the person that would know about that, if it had?

A. Not necessarily.

The depreciation changes that would have occurred at that time would have been given to the regulatory department at Illinois who's actually responsible at that time for the depreciation.

Q. And that person would report to the person that's in your position now, correct?

A. No.

Q. Not at all?

A. No.

Q. Not directly report but within your organization, correct?

A. No. It would be -- there would be an association because we provide centralized services on behalf of all the five Ameritech regulated

companies so we are in contact with all of them about a number of things.

Q. So you're in contact with the people in the Illinois organization, correct?

A. That's correct.

Q. Separate item. I'm note sure if this was cleared up yesterday or not.

One of the amortization items is called other freedom; is that correct?

A. Yes.

Q. Now, I believe that GCI asked in discovery how Ameritech Illinois performed those calculations.

Do you recall that?

JUDGE MORAN: Do you have a specific data request that you are referring to?

MR. PACE: I don't offhand.

My point is I don't think we ever received any responses to that data request but I'm not sure if that's been produced or not.

BY MR. PACE:

Q. Are you aware of whether that's been

produced?

MR. ANDERSON: Do you have any idea of when it was submitted, what number it is?

I'm not sure what you're referring to.

BY MR. PACE:

Q. Mr. Dominak, do you know what I'm referring to?

A. No, I don't.

Q. You don't -- you're not aware of any request for information regarding details on how you have computed depreciation freedom?

A. Well, I mean, to be honest, we have hundreds and hundreds of data requests.

Q. I understand. I understand.

So your answer is you're not aware of that status?

A. No.

Q. Okay. I want to refer your attention now to Ameritech Illinois Exhibit 7.3, your additional surrebuttal, Page 4.

In the middle of the page, the Q & A that starts Mr. Dunkel proposes an intrastate

adjustment of 1.7 million.

A. Okay.

Q. Do you have that question and answer?

A. Yes, I do.

Q. Now, that question and answer -- in that question and answer, you admit now that Mr. Dunkel was correct with respect to his assertion that the company, quote/unquote, double recovered related to the small item category?

A. Yes. That item -- I'm sorry.

MR. ANDERSON: Go ahead.

THE WITNESS: That item was reflected twice in the schedule and I think the answer says that.

BY MR. PACE:

Q. Reflected twice, okay. So we're talking about the small item category, correct?

A. Right.

Q. Now, Mr. Dunkel brought that issue up -- raised that issue in his rebuttal testimony, didn't he?

A. I believe he did.

Q. And you did not respond -- you did not

admit that Mr. Dunkel was correct in your surrebuttal testimony, did you?

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

Q. In fact, maybe I'm forgetful on this, but did you in your surrebuttal testimony address it at all with respect to Mr. Dunkel?

A. Well, I'm not sure. I'd have to go back and look.

Q. That's all right.

But the point is, you did not accept his correction in your surrebuttal testimony?

A. Well, we did not prove it in, so therefore we couldn't accept it at that time.

Q. I'm sorry?

A. We did not prove it in so, in other words, the underlying information we had wasn't showing it at that time so we couldn't respond to it.

Q. That's interesting.

Isn't it true that Mr. Dunkel's analysis which concluded that the double recovery occurred was based on documents that Ameritech provided to him?

MR. ANDERSON: I'm going to object.

First of all, it's argumentative.

Second of all, counsel is asking Mr. Dominak what Mr. Dunkel -- what his own witness Mr. Dunkel --

JUDGE CASEY: The objection is sustained.

MR. PACE: I didn't even hear the objection fully. What was it based on?

JUDGE CASEY: You asked the witness whether or not Mr. Dunkel -- what his assumptions were in his formula, in his calculation.

How is Mr. Dominak to know what the assumptions are?

BY MR. PACE:

Q. Mr. Dominak, is it your testimony that you did not provide -- your company did not provide Mr. Dunkel information related to the small item category?

A. I'm not sure I understand your question or didn't hear it right.

Q. Is it your testimony that Mr. Dunkel did not request information regarding the small item

1 category that we're talking about?

2 MR. ANDERSON: I object. That mischaracterizes

3 his testimony.

4 MR. PACE: I'm asking what his testimony is.

5 JUDGE MORAN: His testimony -- are you talking

6 about now?

7 MR. PACE: Mr. Dominak.

8 JUDGE MORAN: Okay. Are you talking about his

9 testimony in written form or are you asking him a

10 question right now?

11 MR. PACE: I thought I was asking him a question

12 right now.

13 JUDGE MORAN: Okay.

14 MR. ANDERSON: Why don't you ask him do you know

15 rather than was that your testimony because that

16 wasn't his testimony.

17 MR. PACE: I see. So it's an objection to form?

18 MR. ANDERSON: Okay.

19 MR. PACE: Now I understand.

20 BY MR. PACE:

21 Q. Earlier, you said that you didn't file any

22 rebuttal to Mr. Dunkel's assertion about the double

recovery in your surrebuttal because you didn't have the documentation or the analysis?

Is that correct?

A. I was referring to our own analysis internally.

Q. Correct.

So you're saying that after Mr. Dunkel filed his rebuttal, you required all the time to your additional surrebuttal to finally finish that analysis; is that correct?

A. I think I'm saying that there were a number of issues raised by both Mr. Green and Mr. Dunkel that we were researching, and at the time when we filed that surrebuttal, we were not complete.

And in order to get a complete and accurate description of what was going on and to have that on the record and make sure we set the record straight, I think we left the door open a little bit in the surrebuttal that we did not finish that analysis, and we subsequently did finish it in this additional surrebuttal and we do

agree with what was being proposed.

JUDGE MORAN: It appears, Mr. Pace, that the witness is agreeing with your own witness.

MR. PACE: I understand.

JUDGE MORAN: I'm trying to figure out why we have --

MR. PACE: That's my last question on that.

JUDGE MORAN: All right.

BY MR. PACE:

Q. Mr. Dominak, isn't it correct that neither Mr. Dunkel or any other party, prior to filing this additional surrebuttal testimony, had testified that this double recovery that we have been talking about had occurred in the years 1995 through 1998?

A. I'm not sure if they specifically pointed out double recovery going all the way back.

However, since that's a part of the depreciation reserve in relation and the information we present is as of 12/31/99, that's reflective of balance sheet information also which is point in time for all time.

You cannot simply ignore that in a fair,

complete presentation of this information.

Q. I believe that didn't quite answer the question. I think that was a justification for you providing it now.

But tell me if I'm correct, I think your testimony was that you don't recall whether Mr. Dunkel or any other party specifically disputed double recovery in 1995 through 1998; is that correct?

A. If they disputed the issue of double recovery, it would have potential implications that go back because of its relationship to the balance sheet.

Q. So you're saying that assuming they just challenged the double recovery in 1999, you felt you needed to go back through 1995; is that correct?

Is that basically your testimony? If that's the case, I'll accept that.

A. Yes. If he challenged '99, which he did, then that has implications in the balance sheet that makes you have to go back.

Otherwise, again, as I said, it's point in time for all time.

Q. Now, just to be clear, in Mr. Dunkel's testimony or any other party's testimony when they challenged the double recovery in 1999, they did not raise any implications for the prior years, did they?

MR. ANDERSON: I'm going to object asked and answered.

I think we're getting into the point of argumentative.

Mr. Dominak has expressed his understanding of the testimony and why he made an adjustment.

Mr. Dunkel and Mr. Green and the other witness' testimony speaks for itself.

So I believe my objection is that its argumentative and asked and answered.

MR. PACE: Well, it's certainly not asked and answered, and I think I'm entitled to clarify for the record that Mr. Dunkel or any of the other parties specifically raised implications for '95 to

1998.

MR. ANDERSON: Well, that's --

MR. PACE: That's all I'm asking.

JUDGE MORAN: Mr. Pace, I will allow you to answer that question again, and I will allow that short answer, but that is not going to give you the full understanding.

I believe the full understanding has been put on the record.

If you want that short answer for whatever purpose, I will allow it.

MR. PACE: Do you want me to repeat the question?

THE WITNESS: Yes.

BY MR. PACE:

Q. Now I understand your testimony that you believed that challenging 1999 --

JUDGE MORAN: We don't need all that preface. Just get to the question.

I'm going to allow you the question and the short answer.

MR. PACE: I just want to make sure that the

1 witness understands the question, your Honor.
2 BY MR. PACE:
3 Q. Isn't it true that in Mr. Dunkel's
4 testimony, or any other party in this case, besides
5 Ameritech, when they challenged the 1999 double
6 recovery of small items, they did not specifically
7 and explicitly raise implications of that for the
8 prior period '95 through '98; isn't that correct?
9 A. No. I would say that implicitly by raising
10 the item in 1999, that has balance sheet
11 implications and you can't ignore that from a
12 financial statement presentation.
13 MR. PACE: Your Honor, I would move to strike
14 that answer and have you direct the witness to
15 answer the very simple question.
16 JUDGE MORAN: You want to know if, in fact, they
17 articulated anything beyond '99?
18 MR. PACE: Correct.
19 JUDGE CASEY: Well, the appropriate question
20 then is, are you aware whether or not they
21 articulated an implication from '95 through '98.
22 MR. ANDERSON: Explicitly, is that the question,

whether there was an explicit address?

MR. PACE: Yes.

THE WITNESS: If you're -- okay. I want to make sure I understand the meaning here now.

If your question is saying, did they say, and this double recovery goes to perhaps 1988, 1987, no, I'm not aware that they included those years.

MR. PACE: Okay. I think you misspoke and said '87 and '88.

THE WITNESS: '97, '98.

MR. ANDERSON: Hopefully.

THE WITNESS: Yes, that is what I meant.

MR. PACE: Thank you.

BY MR. PACE:

Q. Now, referring to Schedule 6 of Exhibit 7.3 and looking also at City Dominak Cross Exhibit 16 which are your work papers, the second page.

A. Okay.

Q. Okay. Now, first Schedule 6, attached to that Exhibit 7.3 there's a description of a line item called double account for small value items

1995 through 1998, the number is 12.556 million, correct?

A. That's correct.

Q. And on the second page of City Dominak Cross Exhibit 16, there are some other numbers showing, I believe, your calculations for that double recovery for each of those years, '95 through '99, correct?

A. That's correct.

Q. So, in fact, the number that appears on Schedule 6, 12.556 million, after looking at your City Dominak Cross Exhibit 16, Page 2, is clearly that number represents aggregate number of those years, correct, '95 through '99?

A. That's correct. It represents the total that was restored to the reserve for those items to reflect the balance sheet correctly for that period for the end of 12/31, 1999.

Q. Now, Mr. Dominak, isn't it true that the cause of this, quote/unquote, double recovery was the result of a change in FCC rule with respect to how that cost should be treated?

A. Well, the result -- is your question what is the origin of the amortization to begin with?

Q. I'm sorry?

A. Is your question -- what is related to -- what's the origin of the amortization for small value items?

Q. Not quite.

A. Okay. Then I misunderstood.

Q. I'm asking what the cause -- let me strike that.

Isn't it true that the double recovery that Ameritech Illinois admits that they performed was caused by a mistake, an inadvertent mistake that the company performed as a result of the change in rules by the FCC?

JUDGE MORAN: Can you be a little more specific, Mr. Pace, what FCC rule and what time of --

MR. PACE: Well, if Mr. Dominak can answer that question, I can certainly refer him to the FCC rule.

THE WITNESS: I would answer no mistake wasn't caused by anything with an FCC rule.

BY MR. PACE:

Q. Okay. Well, isn't it true that you are familiar with the decision in FCC Docket 95-60 which dealt with this issue?

A. Could you give me a little more?

Q. Let me show you -- let me show you a response to data -- City of Chicago Data Request 61.

A. Okay. I'm familiar with the issue.

Q. Okay. Now, the effective date of this order with respect to the treatment of the small item request, isn't that found on the second page that I gave you which I have underlined?

A. Yes.

Q. And can you just read into the record that one sentence.

A. The sentence reads we will allow the carriers to implement these changes effective January 1, 1998.

Q. January 1, 1998, was the date that you could put those changes in, correct, for the small item category?

A. Yes.

Q. Now, that change in treatment, didn't that increase the level of -- the amount level for small items from $500 to 2,000 in terms of what could be expensed or capitalized?

A. Yes, that's correct for FCC purposes which is per that order, that's what it read.

Q. And that change, didn't that in effect be -- wasn't that the kind of cause of how the company double recovered the small item situation?

A. No. The -- first of all, I'm not sure I'd characterize it as double recovery, but there was an error, mathematical error in the computations on the schedule --

Q. Okay.

A. -- relating to small value items.

Q. Excuse me for not being quite as accurate as I need to be.

Isn't it a fact that prior to 1/1/98 the level for small items was $500 and that if it was under $500 it could be expensed; if it was over $500 it could be capitalized?

MR. ANDERSON: For clarification, are you talking about for FCC purposes for interstate purposes?

MR. PACE: I'm talking about the FCC rule.

JUDGE MORAN: Which governs?

MR. PACE: I'm not sure what it governs. I'm not asking the witness to give me a legal conclusion. I'm only asking what the FCC rule is at this point.

THE WITNESS: I'm sorry, could you repeat the question?

BY MR. PACE:

Q. Sure. Prior to 1/1/98, wasn't the FCC with respect to small item request -- small item items is that if the cost of the item was under $500, you could expense it; if it was over $500, you could capitalize it?

A. Well, that's generally true.

Q. Generally true. And then after 1/1/98, that $500 level went up to 2,000?

A. Yes.

Q. Okay. And when that happened, when that

rule change happened, isn't it true that the company had previously capitalized small items that had been between the $500 and $2,000 level, correct?

A. That's correct.

Q. And when the rule changed, the company had to make a decision on what to do or wanted to make a decision on what to do with the items that they had previously capitalized between 500 and $2,000, correct?

A. That's correct.

Q. And, in fact, isn't the decision that they made with respect to those costs between the 500 and 2,000 and the fact that they didn't adjust other accounts the cause of what we'll just call double recovery at this point?

A. No. I don't see the correlation.

Q. You don't see the correlation?

A. No. I don't.

Q. So it's your testimony that prior to 1/1/98, the double recovery that occurred from 1995, 96 and '97, is based on the same

circumstances that caused it in 1998 and 1999?

A. I would have to check our record, but there have been previous expensing change when we had some amortization of small values that were going on. I don't know if those items were completely amortized at that -- during those years that you have cited.

So not knowing that, I can't completely answer.

Q. Well, Mr. Dominak, you know, referring you to City Dominak Cross Exhibit 16, second page, didn't you produce this work paper?

A. Yes.

Q. And you calculated the, again, quote/unquote, double recovery for each of those years, correct?

A. We calculated the amounts that were originally presented in the statements as the depreciation reserve, and that's what we were trying, at this point, attempting to correct and back out, okay.

Q. It's your position that you have corrected

them, right?

A. That's correct.

Q. There was a procedure to correct them?

A. Right.

Q. Was it the same procedure for each year?

A. We simply took back the items that we previously reported. I mean, it was as simple as that.

Q. And so it was the same procedure each year?

A. When you say the same procedure each year?

Q. You followed the same procedure to correct this error each year from 1995 to 1999?

A. Yes, we presented each year the same way, yes.

MR. PACE: If I could have one moment.

BY MR. PACE:

Q. I believe it's your surrebuttal testimony. I'm going to have to check for a second. I'm shifting gears here.

I believe it's Pages 6 and 7 of your surrebuttal testimony. You claim Mr. Greens's calculation was incorrect and you believe, quote,

Code of Federal Regulations Part 36.321.

You see that in your testimony? I guess it's at the top of Page 6?

JUDGE MORAN: Are you on the additional surrebuttal?

MR. PACE: No, surrebuttal.

JUDGE MORAN: Sorry.

MR. PACE: Sorry, Exhibit 7.2.

MR. ANDERSON: Bottom of Page 5, top of Page 6, is that what you're referring to?

MR. PACE: Yes.

THE WITNESS: Okay. I see it.

BY MR. PACE:

Q. Now, is it a correct statement that Mr. Green's schedule that you were referring to was an adjustment to the depreciation and amortization expense which was in account 6560?

A. Yes.

Q. Now, isn't it true that -- and maybe this is something you have corrected already, forgive me if you have -- that it's not part of CFR Part 36.321 that applies to that; but really it's

36.361?

MR. ANDERSON: Are you referring to a number in Mr. Dominak's testimony?

I see a reference to 36.361. I didn't see a reference to 36.321.

MR. PACE: Maybe this is --

MR. ANDERSON: What page?

MR. PACE: Let me just show it to you.

MR. ANDERSON: Okay. I'm sorry, I wasn't seeing where you were -- what page is that reference on? That's what I'm missing.

MR. PACE: On this Page 7.

MR. ANDERSON: Page 7, okay. Thank you.

I'm sorry, could we have the question read back.

(Whereupon, the record was read as requested.)

MR. ANDERSON: I guess -- if the witness knows what that's referring to in the question. Was that set up in the prior question?

You said it's this section that applies to that. What is that?

BY MR. PACE:

Q. Mr. Dominak, do you understand the question?

A. No, I don't.

Q. Okay. Okay. You have the reference?

JUDGE CASEY: Hold on one second.

On Page 7 in your testimony there is a reference to Code of Federal Regulations. Is that code reference there an error?

THE WITNESS: No, it is not.

JUDGE CASEY: No.

BY MR. PACE:

Q. That's not an error; it should be 321?

A. Yes.

Q. Isn't it true that CFR regulation 36.361 applies to depreciation and amortization expenses for account 6560?

And if you don't have that in mind, I have a copy of the --

JUDGE MORAN: May be you want to show --

MR. PACE: -- the regulation. This should be the last question on this.

THE WITNESS: Yes, well, the 36.361 discusses the separation of depreciation and amortization expense account 6560.

BY MR. PACE:

Q. Thank you. Couple questions on a new subject.

On Page 8 of your surrebuttal starting in the middle of the page, you have a question and answer with respect to $11.2 million amortization of analog circuit equipment.

A. Yes.

Q. Now, you say that the company's response to City of Chicago Data Request 126 includes an exhibit which shows the authorized amortization of 11.2 million.

Is it correct that you might have been referring to City of Chicago Data Request 129? Is that possible?

A. It's possible.

Q. I just want to clear that up. I have got here the data request for 126 and answer, if you'd just confirm that that is probably just an

inadvertent error?

A. Right.

JUDGE MORAN: Do you also have 129 to show him?

THE WITNESS: This would be not the -- 126 is not the right one.

JUDGE MORAN: So that should be 129?

MR. PACE: Let me show you 129.

THE WITNESS: Okay, this appears to be the correct one.

BY MR. PACE:

Q. Okay. If you don't mind, if I could just stand here for a second, because I didn't make a copy of this.

Do you have a copy of this one?

A. No. Can we get one?

JUDGE CASEY: Copy of what?

MR. PACE: I'm sorry, a copy of City of Chicago Data Request and response to 129. I'm just -- I'm not going to be entering this as an exhibit at this point.

BY MR. PACE:

Q. Now, as part of this response, I believe

you submitted a copy of a staff exhibit in 92-0448, correct?

A. Yes, that's correct.

Q. Okay. And is it correct that the 11.2 million amortization figure appearing on the staff exhibit in Column G that exists there?

A. Yes.

Q. Along with numbers for a total of 11 accounts?

A. I need to count them?

Q. There's a total, correct, of accounts?

A. There's a total, right.

Q. And this exhibit that you provided in response to Data Request 129 was a proposal by staff, correct, in 92-0448?

A. Yes.

Q. Now, I want to give you Page 148 of the Commission order in 92-0448 at the top of the page.

Can you read that into the record, please?

A. Which part?

Q. Right here.

A. Okay. The Commission rejects the proposal of IBT and staff that the accumulated depreciation reserve deficiency be amortized over a five-year period.

Q. Can you continue reading.

A. The Commission finds that the remaining life depreciation methodology which allows for the recovery of any reserve imbalance over the life of the account is appropriate.

In Docket 86-0458, the Commission determined that the amortization of the reserve deficiency was an extraordinary remedy.

With the exception of the analog switching reserve deficiency, the Commission believes that there has been an inadequate demonstration as to why there is a need to invoke the extraordinary remedy of amortizing the reserve deficiency.

Q. Thank you.

Now, looking at the staff exhibit -- excuse me, the one of the responses -- part of the response to the City of Chicago Data Request 129,

now, in Column G there are several different amounts, correct?

A. Yes, although it says here there's several pages. Do you have the other page?

Q. Well, we're referring to this page --

A. Okay.

Q. -- right now.

A. Column G there.

Q. Column G.

Now, is it correct that for account 2211, analog electric switch, there is an amount of 51.8 million shown?

A. That's correct.

Q. And on Line 16 there's also analog circuit which is an -- in a different account and that's an account 2232?

A. That's correct.

Q. And these are two different accounts, right?

A. Yes, they are.

Q. And in the latter account has the number 11.2 million, correct?

A. That's correct.

MR. PACE: If I can just have a moment, I think I might be done.

I have no further questions.

Thank you very much, Mr. Dominak.

JUDGE MORAN: Okay. Is there any other cross? Okay. Redirect?

EXAMINATION

BY

JUDGE CASEY:

Q. Mr. Dominak, I just want to be certain.

On your surrebuttal, Page 8, there was a question pertaining to Mr. Dunkel proposes an adjustment of 11.2. The answer is referencing Data Request 129. Is that the correct --

A. It should be 129, correct.

Q. Thank you. On Page 7 of your surrebuttal, the first full question, first full answer, talks about depreciation expense of 66 -- 666.108 million and then it repeats that number again.

A. Right. That should be 666.554 and the second number should be 606.108.

MR. ANDERSON: I believe we made that correction earlier.

JUDGE MORAN: We didn't catch it.

JUDGE CASEY: Redirect?

MR. ANDERSON: Yes. May we have some time?

JUDGE CASEY: Yeah. We'll take five minutes

(Whereupon, a brief recess was taken.)

JUDGE CASEY: Is there any redirect?

MR. ANDERSON: Yes, we have some redirect.

JUDGE CASEY: Please proceed.

REDIRECT EXAMINATION

BY

MR. ANDERSON:

Q. Mr. Dominak, yesterday, Miss Lusson asked you some questions regarding an attachment to the company's response to Data Request BLV 056 which is identified as CUB Cross of Dominak Exhibit 8.

And in particular, I believe she asked you some questions about the amount of 66.670 million shown on that exhibit for account 5230 which is described as, quote, directory revenue,

unquote, for the period of January through December of 2000.

Do you recall these questions?

A. Yes, I do.

Q. Would you please clarify for the record what the amount of 66.670 million represents?

A. Yes. They're primarily attributable to two main items. 37.7 million is related to contract termination charges which the company received from Ameritech Publishing, Inc.

The second amount is 28 million which is related to nonpublished listings that appear on customers bills and that's where these items are billed.

Q. The 28 million is revenues for nonpublished and nonlisting services provided by Ameritech Illinois?

A. That's correct.

Q. You were asked a question regarding the PICS, P-I-C-S, all caps, accrual of $26 million shown on Schedule 4 of Ameritech Illinois Exhibit 7.2.

I believe that you were asked some questions regarding this amount and whether it represents vendor supply capital.

Do you recall those questions?

A. Yes, I do.

Q. What is the proper accounting for the $26 million PICS accrual in December of 1999?

A. Since these items were purchased and invested in telephone plant equipment and actually put into service during that month, the proper classification should be in telephone plant in service.

These are items that were purchased and would be paid for probably within the next 15 to 20 days.

Q. Do the -- does the $26 million represent an investment in plant by Ameritech Illinois?

A. Yes, it does.

Q. You were asked some questions about the pension expense or negative pension expense amount of $37 million which was reflected in the income statement in the test year in Docket 92-0448.

And I believe you testified there was no adjustment in that case made or proposed by the company with respect to that amount.

Do you recall that question and answer?

A. Yes, I do.

Q. What does the amount of $37 million, negative, pension expense in 92-0448 represent?

A. It represents a recording of a credit or, if you would, negative expense at that point reflected in that year.

Q. And what are the reasons that there would be a negative pension expense?

A. Well, it could be -- there's a number of reasons including favorable return on plant assets, different interest rate assumptions and other actuarial assumptions that go into those models.

Q. And why was an adjustment not made with respect to that negative pension expense in 92-0448?

A. That part would be an ordinary part of conducting business and part of ordinary business operations and therefore it should be reflective of

that year.

Q. Is there a distinction you can draw between that amount and the pension settlement gain of $66 million on an intrastate basis for which you have made an adjustment in this proceeding?

A. Yes. I think there's a very basic one.

The pension settlement gains, and a good example would be those large gains that occurred in 1999 of the 98 million are reflective of really an abnormal item and one that reflects prior periods and not part of what I would consider ongoing operations.

These amounts are reflective of people who received their lump sum distributions and as a result triggered pension settlement gains.

Those gains are largely reflective of bringing forward favorable conditions, primarily favorable market conditions, that occurred in prior years.

And as I had previously mentioned, for external purposes, financial analysts would not regard this as part of your normal operations

because it would -- it would really distort what's going on currently in the company and not be reflective of the proper financial condition of the company in that year and companies would typically just close this and footnote this so as to not mislead the readers of the financial statements.

Q. Okay. For the year 1999 and, in particular, the income statement which the company has presented for 1999, does that income statement reflect negative pension expense separate and apart from the pension settlement gain?

A. Yes, it does.

Q. And has the company made any adjustment with respect to that negative pension expense?

A. No, the company has made no such adjustment for that negative pension expense.

It is part of the ongoing operations and therefore it's been reflected in the 1999 statement as a negative pension expense.

Q. In your view, therefore, is the treatment by the company a pension expense in this proceeding consistent with the treatment of pension expense

which the company proposed in 92-0448?

A. Yes, it is. We have treated pension expense in the same manner in both cases.

Q. You were asked whether -- or a hypothetical question, if all of the employees who retired in 1999 had received their lump sum pension payments in 1999, whether the full gain would have been recorded in 1999.

Do you recall that question?

A. Yes, I do.

Q. Is that a realistic assumption?

A. No, it isn't.

Typically, people leave more so in the last quarter probably than any other; and people leave also in the first part of the year.

So it's probably not realistic that everyone would leave all at once in one given year.

Q. Is it appropriate to make an adjustment to the 1999 income statement to reflect a settlement gain recorded in the year 2000?

A. No, it is not.

Q. Would you explain why.

A. Yes.

Again, the 2000 items are related to people who receive lump sum distributions, and as I mentioned, it is the lump sum distribution that triggers the settlement accounting.

And these people left in the year 2000 and, appropriately, that's when these items would have been reflected.

Q. Because the payments were made in 2000?

A. Yes. Because the payments are made in 2000.

Q. Did the employees to whom this relates leave in 1999 or 2000?

A. Some of the employees may have left in 1999.

However, if they left very late in '99, then they would have received their payments during some point in 2000.

Q. Okay.

A. And, again, it's the payment that triggered it.

Q. Thank you.

You were asked a question regarding a two-page work paper provided to GCI earlier this week. I believe it's been marked for identification as an exhibit in this case.

Do you have that work paper, City Dominak Cross Exhibit 16?

A. Yes.

Q. Would you please describe what this work paper supports?

A. This work paper supports Schedule 6 in detail which is an adjustment of the intrastate depreciation reserve to reflect the items we put in the supplemental surrebuttal of my testimony.

Q. And to your knowledge, was that work paper produced in response to a specific question or request to provide support for the numbers on Schedule 6?

A. Yes, it was. That's why we produced it.

Q. Thank you.

You were asked a question regarding Page 7 of your surrebuttal testimony. If you could refer to that portion, please.

In particular, at the top of the page, there's a reference to CFR Part 36.321.

Do you see that?

A. Yes, I do.

Q. And you were asked some questions regarding the relationship of that section of the rules and another section which is 36.361.

Do you recall those questions?

A. Yes, I do.

Q. Would you explain -- and I believe you indicated that the cite on Page 7 is correct, that the correct cite at that portion of your testimony is 36.321.

Would you please explain why that is cited there and why it is a correct cite?

A. Okay, why it is a correct cite is because the prior cite which I have responded to Mr. Pace's questions for depreciation expense stated that it would be separated by primary plant account or related costs.

Well, you need other references to clarify really what that means.

Those references are then found as, example, if you go to cite 36.321 and there, you'll find, for example, central office equipment which states that central office equipment which would be summarized as follows: Account 6210, 6220, 6230.

The expenses in those accounts are apportioned among the operations on the basis of the separation of the investment in central office equipment, accounts 2210, 2220 and 2230 combined.

And that is the reference that is made to show that the separation basis is really by these types of summarized plant categories.

Q. You were asked a question regarding the amortization of -- I want to make sure I have a correct reference here -- amortization of analog equipment, circuit equipment in the amount of $11.2 million.

Do you recall those questions?

A. Yes, I do.

Q. And I believe there was a reference to a company response to City of Chicago Data Request 129, and you were asked to read a portion of the

response to that request.

Now, would you please read the request and, in particular, Part A of the request.

A. Yes. The data request for City of Chicago 129 reads: In response to the City of Chicago Request 47-A, the company provided work papers showing a column entitled allowed reserve deficiency.

In that column figures are shown for analog electronic switching and also separately for analog circuit.

Q. Okay. Mr. Dominak, what I would like you to do is read Part A.

A. Part A: Please provide the citation to the Commission order and the page in that Commission order on which the Commission adopted an amortization for analog circuit equipment.

Q. Okay. Would you please read the full response to that Part A.

A. Yes. Our full response read:

Attached please find two work sheets in support of the company's amortization assumptions.

First is Schedule 6, Page 1 of Staff Exhibit 7.01 referred to Lines 10 and 16 of that document.

The second attachment is Appendix B Schedule 3, Page 1 of the Commission's order showing the depreciation disallowance, Column G. That disallowance is higher than the staff exhibit because the other amortization amounts were eliminated.

Q. Now, in that response to the data request, the other amortization amounts being eliminated, did that refer to the amortization amount for analog circuit equipment?

A. No, it did not. The Commission's total adjustment was 98 million.

When you look at the reserve deficiency of the staff item, that was 92 million. It was a 6 million difference and that was in reference to other items, not the analog.

Q. Now, Page 1 of the work sheet that Mr. Pace asked you about was a page from a staff exhibit, correct?

A. That is correct.

Q. And he asked you if that was simply a proposal of staff; is that correct?

A. That's correct.

Q. And if I understand your testimony correctly, is it your testimony that that portion of the proposal regarding to the amortization of analog circuit equipment was, in fact, accepted and reflected in the number for depreciation expense approved by the Commission?

A. Yes. And my response would have indicated that in Docket 92-0448 the Commission allowed the --

Q. That's disallowance?

A. I'm sorry.

Q. I'm sorry, go on. The disallowance was 98 million -- are you referring to the second page of --

A. Referring to the second page here.

And the difference between the 98 and 92 from staff was the 6 million which was related to other items in Column G.

Q. Just to clarify, the reference to 98

million 591 was a reference to the adjustment adopted by the Commission to reduce depreciation expense, correct?

A. Correct.

Q. And the reference to staff's proposal of 92 million 984 was staff's proposed adjustment to depreciation expense, correct?

A. That is correct.

MR. ANDERSON: I have no further redirect.

JUDGE CASEY: Recross, Mr. Pace -- Miss Lusson. Make sure that microphone is working, please.

MS. LUSSON: Hello. Hello.

JUDGE CASEY: It's working.

RECROSS-EXAMINATION

BY

MS. LUSSON:

Q. Mr. Dominak, you discussed in your redirect the company's treatment of pension settlement gains in the last rate case, Docket 92-0448. Isn't it correct that the -- in the last rate case the company did not make a proposal to

remove from the test year pension settlement gains?

MR. ANDERSON: I'm going to object. That's beyond the scope of the redirect.

Mr. Dominak did not -- was not asked a question or did not testify regarding the treatment of pension settlement gains.

The questions were directed to the negative pension expense amount of 37 million, and Mr. Dominak explained what that amount includes.

MS. LUSSON: I disagree vehemently.

Mr. Dominak discussed in his redirect what was consistent in this case with respect to pension settlement gain treatment and what was -- with respect to what happened in the last rate case regarding pension settlement gain and the treatment of that accounting subject matter, so I think it's appropriate to ask him whether or not whatever the Commission did in that last rate case depended in part upon the company's treatment of pension settlement expense.

MR. ANDERSON: I just believe that Miss Lusson misunderstood the redirect testimony.

Mr. Dominak testified regarding what the amount of 37 million represents and indicated that the treatment of that is not necessarily the same as the treatment of the pension settlement gain.

MS. LUSSON: Mr. Dominak stated in his redirect, no matter what the question Mr. Anderson stated, that the treatment that the company is proposing in this docket is consistent with what happened or what the Commission approved in the last docket, so I should be permitted to explore exactly what the company proposed in the last docket.

I might add that my question is simple in nature and is only one question in terms of the company's proposal.

JUDGE MORAN: We'll allow the question.

MS. LUSSON: Mr. Dominak.

MR. ANDERSON: Could we have the question read back?

MS. LUSSON: I can repeat it.

MR. ANDERSON: Sorry.

BY MS. LUSSON:

Q. Mr. Dominak, isn't it correct that in the

last rate case, the alt reg rate case, 92-0448, that the company did not make a proposal to remove lump sum pension settlement gains from the test year?

A. Yes, it's my understanding that there was no adjustment to remove the pension settlement gains.

Those amounts were, I believe as I stated in my testimony, relatively small. They were about 4 million.

Q. Mr. Dominak, in response to one of Mr. Anderson's question on redirect, you indicated that it's not realistic to expect that people will leave all at once in a given year.

It's true, isn't it, that for purposes of lump sum payout that is at issue here, the payouts had occurred in 1999 and in 2000 that that -- those payouts related back to employees leaving during 1999; isn't that correct?

I think it's a yes or no answer.

A. Yes. Yes. They would be related to the people that left.

Q. Then, very briefly, with respect to your testimony about the PICS accrual, let me just make sure I understand what you've stated.

And that is, isn't it true that if you look at your Exhibit 7.2, Schedule 4, that the company debits 286.8 million (sic) to account 2003, telephone plant under construction, and credits 286.8 million (sic) to an account payable or accrued liability, is that right?

A. Yes, that would be correct.

Q. So to the extent that the company had a 286 -- $26.8 million (sic) debit balance in telephone plant under construction and a $26.8 million credit to account payable or an accrued liability account, isn't it correct that -- strike that.

Mr. Dominak, is it correct that when a dollar amount is listed as a credit to account payable that the company has not yet paid out cash for the item and to that extent has the use of vendors' money before payment is required?

Would you agree with that?

A. Yes, I would.

MS. LUSSON: That's all the questions, I have.

JUDGE CASEY: Mr. Pace.

MR. PACE: I just have a couple questions. .

RECROSS-EXAMINATION

BY

MR. PACE:

Q. Just wanted to make sure this is clear on the record.

You were asked a question by Mr. Anderson regarding the work papers that you produced.

Do you recall that question?

A. Yes. Yes.

Q. He asked you that you produced those work papers in response to a request by GCI?

A. Yes.

Q. Just to make it clear, GCI didn't ask for only two work papers; is that correct?

A. It was my understanding that they asked for the breakdown of that reserve which we supplied in that schedule.

Q. That's right.

But GCI didn't ask that you limit your response to only two pages necessarily, did we?

A. I don't believe there was a limitation on the number of pages.

Q. Correct. I just wanted to make sure that --

A. Okay.

Q. -- that was the case.

You were also asked a question, I think, maybe one of the first questions with respect to questions that Miss Lusson asked the other day on account 5203, I think, on 66 million on the directory contract.

Do you recall that?

A. Yes.

Q. And you broke that down into two numbers?

A. Yes.

Q. One of the numbers was 37.7 million dollars?

A. Right.

Q. And that number was a payment from API,

Ameritech Publishing, to Ameritech Illinois?

A. That's correct.

Q. For the termination of the directory contract?

A. That's correct.

MR. PACE: Thank you.

JUDGE MORAN: Any more recross? Any redirect?

MR. ANDERSON: Yeah, just one question on recross.

FURTHER REDIRECT EXAMINATION

BY

MR. ANDERSON:

Q. Mr. Dominak, did the people who left the company or retired in 1999 all leave at the same time?

A. No, they did not.

MR. ANDERSON: Thank you.

FURTHER RECROSS-EXAMINATION

BY

MS. LUSSON:

Q. But, Mr. Dominak, they all did leave during 1999, didn't they?

A. Yes. Yes, they did.

MR. ANDERSON: I have nothing further.

MR. HARVEY: That was sur-recross.

JUDGE MORAN: Please, next time, wait before jumping in with the question.

MS. LUSSON: Sorry.

JUDGE CASEY: Mr. Dominak, you're excused. Thank you.

(Whereupon, a brief recess was taken.)

(Whereupon, Staff Exhibits 1.0 and 15.0 were marked for identification.)

MR. HARVEY: Back on the record?

JUDGE MORAN: Yes.

MR. HARVEY: The staff will call at this time Jeffrey H. Hoagg.

JUDGE MORAN: Mr. Hoagg, I'm going to swear you in.

(Witness sworn.)

JEFFREY H. HOAGG,

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

DIRECT EXAMINATION

BY

MR. HARVEY:

Q. Mr. Hoagg, would you please state your name and spell it for the benefit of the court reporter.

A. Jeffrey H. Hoagg, H-o-a-g-g.

Q. Would you please give your business address.

A. 527 East Capitol Avenue, Springfield, Illinois, 62701.

Q. Now that we're off to a roaring start.

Mr. Hoagg, is there a document before you labeled for identification Staff Exhibit No. 1.0, the direcdt testimony of Jeffrey H. Hoagg?

A. Yes, I have it.

Q. Does that document consist of 33 pages of text in question and answer form?

A. Yes.

Q. Was that document prepared by you or at your direction?

A. Yes.

Q. Does that comprise your direct testimony in this proceeding?

A. That's correct.

Q. If I were to ask you the questions contained in Staff Exhibit No. 1.0 today, would your answers be the same as they are as set forth in Staff Exhibit No. 1.0?

A. Yes.

Q. Do you have any corrections or revisions to make to the document?

A. No.

MR. HARVEY: With that, I will move Staff Exhibit No. 1.0 into evidence.

JUDGE MORAN: Isn't there more testimony?

MR. HARVEY: He's got his rebuttal. I just do things -- I'm a stupid guy. I forget what I'm doing. So if I could move that into evidence, now we'll go to his rebuttal.

JUDGE MORAN: Are there any objections to the admission of Staff Exhibit 1.0?

Hearing no objections, it will be admitted subject to cross.

(Whereupon, Staff Exhibit 1.0 was admitted into evidence subject to cross-examination.)

BY MR. HARVEY:

Q. Now, Mr. Hoagg, you also have a document before you labeled Staff Exhibit No. 15 and labeled the rebuttal testimony of Jeffrey H. Hoagg?

A. Correct.

Q. Does that consist of eight pages of text in question and answer form?

A. Yes.

Q. Is that your rebuttal testimony in this proceeding?

A. Yes.

Q. If I were to ask you the questions contained in that document today, would your answers be the same as they are as set forth

therein?

A. Yes, it would.

Q. Do you have any corrections, revisions to make to the document?

A. No.

MR. HARVEY: I would move at this time for the admission into evidence of Staff Exhibit No. 15.0 and tender the witness for cross-examination.

JUDGE MORAN: Are there any objections to the admission of Staff Exhibit 15.0?

Hearing none, it will be admitted.

(Whereupon, Staff Exhibit No. 15.0 was admitted into evidence.)

JUDGE MORAN: And who wishes to open cross?

Miss Lusson, proceed.

CROSS-EXAMINATION

BY

MS. LUSSON:

Q. Good morning, Mr. Hoagg.

A. Good morning.

Q. At Page 7 of your testimony, your direct

testimony, you note that you believe the Illinois Bell alt reg plan has resulted in consumers realizing some benefits and the company realizing significant benefits; is that correct?

A. Correct.

Q. To the extent that staff's accountants have determined that if rates are reinitialized by the Commission, a rate reduction of more than I believe 800 million is in order, would you list the company's profit level or rate of return on equity under alt reg to be one of those significant benefits?

A. Yes, I would.

Q. Turning to Page 18 of your direct testimony. I just want to clarify your position with respect to service quality penalties.

Would I be correct to assume that you are not opposed per se to the notion of giving credits to specific customers who are specifically affected by Illinois Bell Telephone Company's failure to say, for example, restore service, repair lines within a certain time period or show

up for an appointment as scheduled similar to what Ms. Jackson discusses in her testimony?

A. Just can I ask a question to clarify? I just want to make sure I understand the question.

As I understood it, you're asking am I -- in my testimony do I indicate I'm opposed to refunds or some type of compensation to customers who have been directly affected by lapses in service quality?

Q. That's correct.

A. I'm not opposed to that.

Q. Page 9 of your testimony --

MR. HARVEY: Is this still the direct?

MS. LUSSON: I'm sorry, 19.

JUDGE MORAN: Page 19.

BY MS. LUSSON:

Q. At the bottom of Page 18 and at the top of Page 19, you relate your concern regarding the effect of a going forward revenue reduction on the company extending beyond the time service quality is restored to acceptable levels.

Just to clarify, Mr. Hoagg, staff's

recommended revenue requirement -- reduction is not based on or tied to any kind of service quality analysis, is it?

MR. HARVEY: I object. I'm not sure that staff has recommended a revenue reduction at all in this case.

BY MS. LUSSON:

Q. Well, to the extent that Mr. Voss, Ms. Everson and Ms. Hatthorn have presented testimony about possible revenue reductions should the Commission reinitialize rates or return to rate of return regulation, my question is, is staff's -- that staff proposed revenue reduction tied to any kind of service quality analysis?

MR. HARVEY: The same objection. Staff has not proposed a revenue reduction. It has presented some accounting testimony, a substantial amount of accounting testimony relating to what the company's rate of return would be in the event that it had been under rate of return for the period of the plan.

Staff does not recommend, and it's very

clear from the testimony, that revenues be reduced or that rates be reinitialized.

MS. LUSSON: Well, Mr. Voss testified -- Mr. Voss' testimony does state that he's presenting the staff proposed -- staff recommendations regarding revenue reductions for the company should the Commission determine a rate reinitialization or return to rate of return regulation is in order.

So my question is -- is quite simple.

JUDGE MORAN: Then maybe that would have been a question put to Mr. Voss.

MS. LUSSON: That's not the question I'm asking, though.

JUDGE MORAN: Okay.

MS. LUSSON: I'm just responding to Mr. Harvey.

BY MS. LUSSON:

Q. I understand that that is not -- that staff's proposal is not to reinitialize rates under -- unless certain conditions happen.

But to the extent that staff has proposed revenue reductions --

MR. HARVEY: Which we have not.

JUDGE MORAN: Yeah. That's the problem.

MS. LUSSON: Mr. Hoagg --

JUDGE CASEY: Why don't you ask him if staff is proposing any revenue reductions first.

BY MS. LUSSON:

Q. Mr. Hoagg, have Staff Witnesses Voss, Hatthorn and Everson presented testimony about possible reductions to the company's revenues should the Commission determine that rate reinitialization is appropriate?

A. My understanding of the testimony of those witnesses is they have provided the Commission with the requisite information in the event the Commission decides, A, to rescind alt reg and return the company to rate of return; or B, the Commission decides to reinitialize rates to whatever degree the analysis provided by those witnesses in either of those events would provide the required information.

Q. Okay. And understanding that, that those proposals or recommendations or testimony that

those accounting witnesses presented, however you want to phrase it --

MR. HARVEY: Let's not phrase it proposals, okay, or recommendations. Let's just call it --

MS. LUSSON: I'll never say it again.

BY MS. LUSSON:

Q. The testimony of those accounting witnesses and their conclusions about possible revenue reductions are not tied to any specific or any kind of service quality analysis, are they?

A. Well, because that is their analysis, I can't speak with 100 percent certainty; but I will say it is certainly my understanding that the analysis presented by those witnesses is a, let me use the word, an earnings based analysis; and in fact, there are no components of that that are specifically tied to service quality or any potential adjustments for any lapses in service quality.

Q. Thank you.

At Page 22 of your direct testimony, Mr. Hoagg, you indicate that staff does not

recommend an overall revenue adjustment or rate reinitialization occur at this time.

Is that correct?

A. Correct.

Q. Can I ask you, is that your decision or were the accountants consulted before making that decision?

MR. HARVEY: Go ahead.

THE WITNESS: I think the best characterization of that statement there, that question and answer in my testimony is that that represents a collective position of staff with respect to this issue in this proceeding.

As I mentioned earlier, the possibility that the Commission may not accept this particular recommendation of staff exists. We recognize it exists, we recognize that it is possible the Commission may again either return this company to rate of return regulation or may reinitialize rates for whatever set of reasons or reason.

To do so, we felt -- because that possibility exists, staff felt it was incumbent

upon us to provide the analysis that the Commission might need. Basically we tried to cover any eventuality we could think of. And that is why that testimony exists.

The -- I think the statement again that I have made in this -- my testimony is intended to be a summary of our accounting testimony. I think this testimony reflects, with this question and answer, reflects staff's position with respect to this issue.

BY MS. LUSSON:

Q. And when you say that this was the -- this is the -- I think you used the phrase collective position of staff, my question is is it the collection -- collective position of staff because you are the policy witness and you are the director of policy for the telecommunications division or is it because you and the accounting witnesses sat down and made this determination?

MR. HARVEY: I have to object to that.

I think that how staff came to the formulate its position is not something that

Mr. Hoagg testified about.

I think that we have certainly not asked nor are we likely to ask any of GCI's witnesses what they sat down and discussed together before they formulated their position. I think that's really bordering on privilege.

I think that the notion that our internal deliberations can be probed just because we presented a lot of witnesses is just -- I -- doesn't make sense and that's my objection.

MS. LUSSON: Your Honors, I -- to a certain extent I agree that the question borders on privilege. It's close, I think.

But my specific question is going to whether or not the accounting witnesses were given a specific directive about looking at earnings or whether or not they also are offering a position about rate reinitialization as Mr. Hoagg understands it.

MR. HARVEY: And that would have been a great question to ask the accounting witnesses, not Mr. Hoagg.

JUDGE MORAN: Exactly, so the objection is sustained.

BY MS. LUSSON:

Q. Okay. Mr. Hoagg, prior to making this statement, this conclusion as listed at Line 483 on Page 22, did you consult with Mr. Voss, Ms. Hatthorn and Ms. Everson?

MR. HARVEY: I think I'll renew the objection here for form's sake.

JUDGE MORAN: I think you can go to a different line of questioning because I think these are bordering on privilege and the witness has already told you there was collective judgment.

BY MS. LUSSON:

Q. Mr. Hoagg, you would agree, wouldn't you, that earnings -- first let me ask you:

Do you agree with Mr. Zolnierek's recommendation for the company to continue to provide earnings information to the Commission should a continuation of alternative regulation be approved for the company?

A. Absolutely.

Q. Okay. So you would agree, wouldn't you, that an examination of earnings is a valid component of this Commission's review of how well the alt reg plan performed?

A. Yes. I would -- I think somewhere in my testimony, I think I indicated or say something to that effect.

Q. Okay. Getting back to the rate reinitialization issue.

On Page 23 of your testimony, you specifically state the Commission also may wish to compare the results of alternative regulation with an approximation of what would have been resulted if Ameritech had remained under rate of return regulation to help assess how ratepayers have fared under the current plan.

That's your testimony?

A. Correct.

Q. You would agree, wouldn't you, that a calculation of revenue requirements is also integral should the Commission determine that rates should be reinitialized?

MR. HARVEY: Integral, I'm going to ask does she mean that this is something that would have to happen if the Commission were to reinitialize rates?

JUDGE MORAN: You want to clarify your use of the word.

BY MS. LUSSON:

Q. An important component.

A. Certainly I would agree that it's -- it would be an important exercise that one would think someone should do to provide to the Commission for any deliberations concerning a potential reinitialization of rates.

Q. Okay. Turning to Page 24 of your direct testimony you indicate that rate reinitialization would not violate an implicit contract that may underlie the alt -- Illinois Bell alt reg plan and thus exist between the Commission and the company; is that your testimony?

A. Correct.

Q. So then, I take it, that then that is a part of the regulatory bargain or compact that

exists between the Commission and the company under alt reg; it is, in your opinion, within the Commission's discretion to reinitialize rates?

A. Yes. I certainly do believe that. I think what this question and answer -- what I tried to convey with this question and answer is that that to the extent that alternative regulation is a, quote/unquote, bargain or compact between, in this instance, the Commission and the company, this particular company, to that extent, the terms of that contract or bargain is something -- those terms are something that are open probably to a fair amount of discussion and debate or at least potentially.

And I suspect that when the initial plan was approved by the Commission that the terms of that contract, compact, whatever you want to call it, probably were -- I suspect were understood somewhat differently by the company than by the Commission.

I would be very surprised to find that they had -- that there was 100 percent congruence

to that effect.

All I'm saying here is those potentially interesting questions, I don't even think those are reached in this case. They're not reached simply because whatever the terms of those contracts -- of that contract, we know one of them dealt with service quality. At a minimum those were not met by the company. Therefore, at least arguably, the terms of the contract were violated.

Even if it weren't in the Commission's discretion which I -- which I'm not arguing that, but even if it weren't within the Commission's discretion, I think given what has happened with respect to service quality, at least the Commission would be altogether entitled and appropriate in reinitializing rates if it so chose.

Q. From a policy perspective, do you think it was a good idea that the Commission chose to reinitialize rates back in 1994 when it started this plan?

MR. HARVEY: Objection, I don't think the Commission reinitialized rates at all. I think it

set a going in rate based on a Part 285 rate of return filing.

That's a different thing from the reinitialization of rates.

MS. LUSSON: I'll change the wording of my question.

BY MS. LUSSON:

Q. From a policy perspective, do you think it was a good thing that the Commission made the decision to do an earnings analysis and order a rate reduction prior to the beginning of the alt reg plan?

A. Yes, I do. I think it was a good thing and I have to think about a little. It could even have been a necessary thing. I might even come to that conclusion.

Q. Turning to Page 25 of your direct testimony.

There you discuss the incentives for efficiencies that exist for the company.

With reference to the 20-year amount you mentioned there at Line 551, is it correct that you

didn't perform a specific economic analysis relative to this 20-year period, did you?

A. I sure didn't.

Q. Okay. So is it also correct to assume then that you didn't perform a specific economic analysis of the effect on efficiency incentives for Illinois Bell on any particular time interval or specific year between rate initialization and earnings review?

A. No, I'm quite confident that the point -- that the question and answer here and the point that I tried to make does not require any supporting analytics. It actually rests on a conceptual foundation.

Q. Okay. So just to clarify then, you're not specifically recommending that if rates are reinitialized that the Commission should wait 20 years before it re-examines the company's earnings?

A. No, I'm not recommending that at all.

MS. LUSSON: Thank you, Mr. Hoagg. That's all the questions I have.

JUDGE MORAN: Thank you. Mr. Goldenberg.

CROSS-EXAMINATION

BY

MR. GOLDENBERG:

Q. Good morning, Mr. Hoagg. I'm Allan Goldenberg. I'm from the Cook County State's Attorney's Office.

I'll try and weed out some of the questions that we have already covered, but you basically pointed out that your testimony today is sort of the, in some aspects, the collective position of staff; is that correct?

A. It largely is summary and summary testimony, if I'm -- maybe that's not a very precise word.

It's intended to some extent to weave together and place in a larger context the testimony provided by various other staff witnesses.

Q. But you also throughout your testimony make observations and you do bring to the table a considerable amount of expertise yourself, don't you?

A. Can I plead the Fifth on that?

I hope so.

Q. And you're currently the director of policy in the telecommunications division?

A. Actually, no, there's been a title change. I believe -- I'm not quite sure what the precise title it but it's something like a manager of policy, telecommunications division.

Q. Okay. Hopefully that was a good change, and congratulations.

MR. HARVEY: Did I know about this?

THE WITNESS: There's no more money involved, so. . .

MR. GOLDENBERG: I thought that was an easy question.

MR. HARVEY: He's under oath, what can I say?

BY MR. GOLDENBERG:

Q. You point out at approximately Page 10 or 11 in your testimony that there are basically two options for the Commission to consider: Extending alt reg or rescinding alternative regulation and returning to rate of return; is that correct?

A. Correct.

Q. Then you point out on Page 10 again of Exhibit 1.0 that if the Commission elects to extend alternative regulation, then staff proposes modifying several critical aspects of the current plan; is that correct?

A. Right.

Q. Now, is the reason that staff is making these recommendations is to ensure that the modified plan complies with Commission rules and the Public Utilities Act?

A. That is the, as I somewhere in my testimony as I state, that is our underlying position, that changes -- those types of modifications at this point in time would be appropriate and would bring -- would ensure that any extension of the plan would need statutory requirements and Commission regulatory goals.

Q. Now, on Page 11 of your testimony you point out that staff's not recommending returning Ameritech to rate of return; is that correct?

A. Correct.

Q. Yet would you agree that if the Commission doesn't find that the record here demonstrates that the modified plan complies with the law under alternative regular that the Commission's required to return them to rate of return?

MR. HARVEY: I have to object to that. I think we're starting to call for legal conclusions regarding the application of 13/506.1 and Commission authority under it, and I don't think this -- this witness has said he's not a lawyer in his testimony and, frankly, even lawyers can't testify about that.

MR. GOLDENBERG: Again, I'm not asking for a legal conclusion but the witness sort of points to a fork in the road and sort of made choices and laid out different options that were for the Commission, and I'm just trying to go at what his understanding was when he made those.

JUDGE MORAN: That seems to be like an ultimate question here and I think you have set up enough of the basis on subsidiary questions to make that ultimate argument in your brief.

MR. GOLDENBERG: Okay. I'll move on.

BY MR. GOLDENBERG:

Q. On Page 12 of Staff Exhibit 1.0 you point out that in contrast, alternative regulation -- in contrast, alternative regulation is a mechanism well suited to facilitate, indeed it's designed to accommodate the transition from monopoly to competition.

Are you familiar with the levels of competition that exist for Ameritech Illinois here?

MR. HARVEY: Go ahead, I'm sorry.

THE WITNESS: Well, staff, of course, has through various proceedings and at various efforts outside of, you know, docketed proceedings before the Commission has been engaged in and will continue to be engaged in efforts to understand the extent of that competition, the nature of the competition, where it arises and what services, where geographically, so I have some familiarity with it.

BY MR. GOLDENBERG:

Q. And in terms of looking at this transition

you speak about, with respect to alt reg, is staff satisfied with the progress with respect to competition and any protections that are necessary under a new plan?

MR. HARVEY: That's outside the scope.

JUDGE MORAN: It seems to be, yes.

MR. GOLDENBERG: Well, again, he points out that that's, you know, what it's here to do and then he sort of doesn't comment on, you know, whether it's doing it. So I think he opened the door.

MR. HARVEY: Precisely. He doesn't comment on what it's doing. The whole issue is he's said that there's a -- this is a transitional form of regulation which I think we all accept and this state of competition as it is in Illinois today is completely outside of the scope of his testimony.

MR. GOLDENBERG: Again, he points out a fork in the road, he points out a staff recommendation, he points outs that this is what it's here to do, and I think one of the purposes of cross-examination is to determine what his basis of knowledge is and what led into that recommendation, and I'm pointing

out that he recognized that this was important and I'm asking does he feel based on his expertise, you know, whether it's being adequately, you know, satisfied or what his opinion is.

MR. HARVEY: Maybe --

JUDGE MORAN: The thing is you can ask him the underlying basis of his proposition and you can delve into that, but I don't think you can ask that ultimate question.

BY MR. GOLDENBERG:

Q. Was competition a factor in your recommendation to the Commission?

MR. HARVEY: I'll have to ask that -- I mean, was competition a factor --

BY MR. GOLDENBERG:

Q. Was competition with respect to basic residential phone service in Illinois a factor in your recommendation in your testimony of Exhibit 1.0 and Exhibit 15?

JUDGE MORAN: Competition of what?

MR. HARVEY: Yes.

JUDGE MORAN: See, that's just it. It's not --

we're not getting --

MR. GOLDENBERG: The level of competition.

JUDGE MORAN: Local competition?

MR. GOLDENBERG: For basic residential phone service in the Ameritech Illinois service territory.

THE WITNESS: I'm willing to answer that.

JUDGE MORAN: Then I'd say it's a good question.

MR. HARVEY: Hold it now, what is the question?

THE WITNESS: Then I must answer that --

MR. HARVEY: We have now had sort of three of us come up with this sort of group question.

I'm just wondering what the question is.

MR. GOLDENBERG: I'm willing to trust Mr. Hoagg's answer at this point.

MR. HARVEY: I just want to hear the question first. I'm not sure.

JUDGE CASEY: Mr. Hoagg, do you know what the question is?

THE WITNESS: I believe I do.

JUDGE CASEY: You may go ahead and answer.

THE WITNESS: The state of competition in

1 particularly the state with respect to residential
2 service, residence access lines, certainly is
3 something that was a factor in -- certainly in my
4 thinking, you know, my thinking and deliberations
5 as we -- as we compose staff's position in this
6 case.
7 BY MR. GOLDENBERG:
8 Q. Were you concerned with the level of
9 competition?
10 A. I'm always concerned with the level of
11 competition in local service in this state.
12 Q. Now, were there particular elements of the
13 alternative regulation plan that you felt addressed
14 those concerns in a way that alleviated them?
15 A. Not in my testimony, but in the testimony
16 of other witnesses which I allude to in my
17 testimony, there are very specific recommendations
18 that are designed, at least some of them designed
19 at least in part and perhaps some of them in their
20 entirety to improve the working of the plan with
21 respect to facilitating not impeding competitive
22 entry.

Q. I think he did a better question with the answer than I did with the question, so I'll move on.

With respect to rates on Page 22 of your Exhibit 1.0, you talk about you're not recommending an overall revenue adjustment at this time, and then you point out that staff considers its proposed modifications in conjunction with an open overall resolution of service quality issues are sufficient to address the shortcomings of the current plan. Is that correct?

MR. HARVEY: If I could just have a moment. Allan, we're talking Line 484?

MR. GOLDENBERG: Page 22 of Exhibit 1.0, it starts out with while some amount of aggregate revenue.

MR. HARVEY: Okay. Thank you.

THE WITNESS: Correct. That's my testimony.

BY MR. GOLDENBERG:

Q. Now, can you explain the nexus here to service qualities and why you feel an aggregate revenue reduction is justifiable and how you see

the resolution here.

A. Subject to the limitation that I'm of course not at all -- I'm not at all an expert on service quality issues and I didn't -- my testimony is quite clear I'm not testifying as an expert on service quality issues, I essentially refer to the staff experts, and, again, in a sense summarize what their findings are.

The thinking behind this is that as they have testified, you know, quite directly, the issue of service quality is one that staff believes where there has been a distinct failure in the working of alternative regulation and that that is an issue that must be resolved -- or it's so important and we believe the failure was significant enough that our thinking, we have essentially taken that issue and set it aside in one spot and said that thing has to be dealt with, service quality has to be -- issues have to be resolved regardless of whatever else happens in this case.

So this statement is -- it reflects that, that there must be an overall resolution of

service quality issues.

Given that, given such a resolution, then that in conjunction with the other specific modifications that staff proposes in its case, we believe, will insure that if the Commission elects to extend alt reg going forward, it will meet the statutory requirements in the Commission's various regulatory policy goals.

BY MR. GOLDENBERG:

Q. Now, you would agree that under alternative regulation in Illinois rates have to be just and reasonable?

A. I certainly would agree and it seems quite clear to me -- of course I'm not a lawyer -- it seems quite clear to me that at a minimum, it requires that noncompetitive rates be just rates for -- noncompetitive services be determined to be just and reasonable under an alternative regulation plan.

I'm certainly aware that the GCI and the company differ on the issue -- differ quite sharply on the issue of whether or not rates for services

that are classified as competitive must be determined to be just and reasonable under the alternative regulation plan.

Q. Now, from a policy perspective, are you familiar with the various methods of review of rates to determine whether they are just and reasonable?

A. Generally familiar, yes.

Q. And would you agree that at some point under alternative regulation, that rates could be viewed as unjust and unreasonable?

MR. HARVEY: This a hypothetical state that he's referring to? I mean, is he saying -- at some point in the future is it possible that these -- the rates set in this plan could be unjust or unreasonable or that under --

MR. GOLDENBERG: It's a general proposition.

THE WITNESS: Could you repeat the question.

BY MR. GOLDENBERG:

Q. As a general proposition, do you agree that at some point under alternative regulation that rates can be viewed as unjust and unreasonable?

A. As a hypothetical, I certainly do agree with that. That is, one can construct -- one can construct many scenarios under which rates for again at a minimum noncompetitive services could be determined to be unjust and unreasonable.

And in fact, if I'm not mistaken, Mr. Gebhardt's testimony, in effect, acknowledges that with respect to the following scenario.

I'm quite sure that even Mr. Gebhardt concedes that if it were shown that very high rates of return were being earned by the company in the area of noncompetitive services specifically, that that might indeed constitute a reason for the Commission to make, you know, at least implicitly such a finding and to reduce rates or take some remedial action.

MR. GOLDENBERG: I'm going to object to the part of the answer that went into Mr. Gebhardt's testimony and move to strike it as nonresponsive.

I was just asking is there some point where they would be unjust and unreasonable. I think he answered that at the beginning.

I'm not quite sure if he was present for Mr. Gebhardt's testimony and I'm not sure that some of his cross didn't differ with that.

MS. SUNDERLAND: I think I support this because I'm not sure that I agree that that's exactly how Mr. Gebhardt's testimony reads.

MR. HARVEY: I don't think we'll object to it being stricken.

JUDGE MORAN: It will be stricken.

MR. GOLDENBERG: I'm sorry, Mr. Hoagg.

THE WITNESS: Would you tell Mr. Gebhardt I apologize?

JUDGE CASEY: So that part of the answer beyond whether or not it's possible will be stricken, the answer that it was possible.

BY MR. GOLDENBERG:

Q. Now, getting back to your opinion, is there any level of profit that the company could earn under alternative regulation that in your mind would be considered excessive enough to justify a re-examination of rates or is it your opinion that the company should be permitted to earn unlimited,

sky's-the-limit returns?

A. My opinion is the former not the latter.

In fact, it's actually why I alluded to the testimony of the gentleman in my last answer because it's my own personal opinion that, in fact, if the rates of return that the company has earned during the -- during the life of this plan thus far, if it were clear that those rates of return were being earned for noncompetitive services, and for noncompetitive -- let me use a hypothetical -- that, in fact, the company was providing nothing other than noncompetitive services, just to illustrate, if that were the case and the company were earning such -- were earning rate of return that it currently appears to be earning, my recommendation would be to reinitialize rates.

However, that is a hypothetical.

Q. I understand.

On Page 22 of your testimony in Staff Exhibit 1.0 you make reference to ICC Docket 98-0860. Are you familiar with that part of your testimony?

A. Correct, yes.

Q. And you point out that then you have, I guess, parenthetically the words at minimum, you talk about potential revenue reduction of approximately 74 million; is that correct?

A. Correct.

Q. Now, was this a factor in staff not recommending an overall revenue reduction in this proceeding?

A. Not the $74 million figure specifically.

If I can just back up, I think that the part --

MR. GOLDENBERG: I'd object. He answered my question.

JUDGE CASEY: The objection is sustained.

BY MR. GOLDENBERG:

Q. Now, if the Commission were to choose a service quality penalty that's different than the one that staff is proposing, can you be sure that rates would be just and reasonable?

A. Would you repeat the question, please?

Q. If the Commission chooses a service quality

penalty that is different than what staff is proposing, can you be sure that rates will be just and reasonable?

A. I don't see a direct link between those two things in that -- in the sense you appear to be posing them.

If the -- if the Commission, as I stated earlier, the staff's position is that service quality issues must be resolved in a fashion that allows the Commission to conclude that service quality will be maintained going forward if the plant is extended that stands on its own, the -- I linked that to other proposed modifications in the plan.

I don't think anywhere in my testimony do I link specifically service quality with rate issues per se.

Q. Well, if you turn to Page 22 of your testimony, Staff Exhibit 1.0, and focusing on the first question and answer, part of your answer state while some amounts of aggregate revenue reduction is justifiable for several reasons.

Now, are you saying that service quality is not one of them?

A. I'm sorry, you know, the famous words, I probably misspoke at the end of my last answer.

If the Commission chooses -- elsewhere I think my testimony makes this clear.

That staff would consider it reasonable under certain circumstances if the Commission chose to effect an aggregate revenue reduction going forward to reflect its judgment about service quality deficiencies, that is one scenario that we recognize, you know, the Commission could pursue. But on a going-forward basis.

Q. Don't you go on to say in that same answer that, again, and I quote, in staff's judgment these modifications would help ensure just and reasonable rates if alternative regulation is extended for Ameritech Illinois?

A. Yes, and that statement, specifically the word these modifications, refers back to the previous sentence, staff considers that its proposed modifications.

Those were modifications proposed by specific witnesses in the case and those are not -- that is not intended to be a reference to service quality issues. It's intended to refer to other staff proposals in this case.

Q. Back to one of your earlier answers, just if we can try and clarify it. Is it your position that the company should be permitted to earn unlimited profits if it can't be discerned that the profits are tied to noncompetitive telecommunications services?

A. No, that's not my position.

MR. GOLDENBERG: I have no other questions.

JUDGE CASEY: We're going to break right now. We'll resume at 1:15.

MS. SUNDERLAND: I have a couple questions.

JUDGE CASEY: We will then -- he might have redirect, Mr. Pace might have additional cross, so 1:15.

(Whereupon, further proceedingsin the above-entitled matter were continued to February 16,2001,at 1:15 p.m.)

JUDGE CASEY: Where did we leave off.

MS. SUNDERLAND: I just have a couple questions.

JUDGE CASEY: On cross?

MS. SUNDERLAND: Yes.

BY MS. SUNDERLAND:

Q. Mr. Goldenberg asked you a number of questions about just and reasonable as a standard to assess rates.

And I believe you testified that if noncompetitive service earnings were high that would cause you concern.

Is that a fair characterization of your testimony?

A. Yes. If, it were clear that rates of return that could be attributed directly to noncompetitive services were, I'll use the word inordinately, whatever that would mean in that context, that certainly would be a cause for concern.

Q. Okay. To subrogate, you may have answered my question. But let me ask just one or two more.

You would agree that in principle the

fact that earnings on noncompetitive services under an Alt-reg plan turned out to be higher than what would have resulted arguably under rate of return regulation is one of the possible outcomes that's anticipated under Alt-reg; is that correct?

A. That's correct.

I never testified, and I don't think anything I've said today, you know, I indicated otherwise. It very well could be that that would be the case.

Q. So that if, in fact, earnings on noncompetitive services were high, however you wanted to define high inordinately or whatever, would you agree that the first step in the analysis would be to examine those earnings, so to speak, and make some judgments as to whether that outcome was consistent with what might have been expected under Alt-reg or not?

MR. HARVEY: I'm sorry. I'm not sure that I --

MS. SUNDERLAND: Do you want me to try that again.

MR. HARVEY: It would really help me a lot. I don't know about the witness.

BY MS. SUNDERLAND:

Q. Let's assume, hypothetically, that at some point in time it turned out that Ameritech Illinois' earnings on noncompetitive services were quote high, however one defines that, would you agree that before one could make any judgment about whether those rates were just and reasonable that one would need to conduct some kind of analysis to determine whether that outcome was consistent with what could have been expected under Alt-reg or could possibly have resulted from missspecifications of the index or some other problem with the plan?

A. I believe my answer to your question is, yes, there would need -- if there were consistently higher earnings, and when I said that it could be a cause for concern, it would have to be in my view you would be talking about earnings over some time period.

If those were over whatever time period

appeared to be inordinately high, one would, of course, need to do an examination to determine what the causes for such a level of earnings could be or would, in fact, be.

Q. So it would be your testimony that even in that scenario there's no automatic correspondence between just and reasonable and any particular rate of return level.

That to make a judgment you'd have to conduct some kind of analysis?

A. That's certainly correct in my view.

Q. Okay. In response to some questions from Ms. Lusson I think you testified about the regulatory compact or bargain which Ameritech Illinois and the Commission entered into in 1994.

Do you recall that discussion?

A. I do recall that.

Q. And I think you indicated -- acknowledge there that there was a difference in view between Staff and the Company about what that bargain consisted of?

A. Certainly based of my reading of the

Company's testimony and our Staff's view there are significant differences.

Q. Now, in terms of your assessment that, I think the word you used was failure, that there was a failure under the plan that casts in your mind some question of whether the bargain was upheld.

I believe the issue you referenced was service quality; is that correct?

A. That is in my -- there are statements to that effect in my direct testimony.

Q. Right.

With respect to service quality, I think you also testified this morning that Staff has some very specific proposals that have been developed to address that issue, correct?

A. Correct.

Although, if I can point out in my testimony I indicated that with respect to service quality perhaps the best the most desirable path towards resolution of outstanding issues with respect to that could be, might be for the Company to, in its rounds of testimony to in a sense

proactively or affirmatively put forward proposals of its own.

Q. And, in fact, that kind of proactive dialogue has, in fact, been taking place between the Company and the Staff?

Whether you agree with the Company's proposals or not, in fact, there has been a dialogue over what the nature of those remedies should be?

MR. HARVEY: If I might, if the question here is has the Company made a proposal in its testimony that purports to respond to Staff's direct testimony regarding the service quality remedies, I think we'll agree that that is true.

MS. SUNDERLAND: That's fine.

I'm not going to cross-examine you on the Company's proposal, trust me.

BY MS. SUNDERLAND:

Q. So that when the Commission reviews your testimony on this issue of the regulatory bargain, would you agree that that needs to be looked at in the context of Staff's entire proposal in this

docket including the service quality remedies that it's proposed?

MR. HARVEY: If I could -- could you recast that question please.

BY MS. SUNDERLAND:

Q. To the extent that the Commission is assessing your statement that in your language there had been a failure, that opened a question of regulatory bargain, is it your testimony that in considering what the consequences of that failure should be, the Commission should look to the entirety of Staff's testimony including its service quality proposals?

A. Well, I could certainly agree. The answer is yes to the question as I understood it.

I could certainly agree that the Commission would want to look at Staff's testimony and proposals analysis in its totality, if for no other reason than what has been said in my testimony about service quality is nothing more than an overview, I have no expertise in the area. And one would hope, of course, the testimony of Mr.

McClaren and Ms. Jackson and perhaps others would be looked at very carefully in this regard.

Q. I think you also suggested that it was at least conceivable or at least a possibility that the Commission could look at re-initialization in the context of this regulatory bargain.

Do I recall your testimony correctly even though you made no such proposal?

MR. HARVEY: I don't think that quite correctly characterizes as Mr. Hoag's testimony. I think that Mr. Hoag did indicate that the Company could -- that the Commission would be within its authority to consider rate re-initialization.

I'm not sure that was in the context of any sort of discussion for the regulatory party. I could be wrong about that.

But I do not remember that to be -- that those two discussions, if you will, were in just position.

JUDGE MORAN: I think it's all evident on that one page, was it Page 22?

MR. HARVEY: I believe 24 might be the correct

citation. 24, lines 526 to 533.

JUDGE MORAN: Am I right, Mr. Hoag, in directing attention to that? And is that also what you are looking at.

MS. SUNDERLAND: Unfortunately, I was reacting to what he said this morning rather than what was on his testimony. Let me see if I can ask this a different way.

BY MS. SUNDERLAND:

Q. To the extent that the Commission in its deliberations concludes that there is a relationship between the service quality problems and this question of re-initialization of rates, let's take it as a hypothetical, would you agree that there needs -- that in that analysis there should be some element of proportionality?

And by proportionality, I would mean that the Commission needs to take into consideration the nature of the problem, how long it lasted, how significant it was in terms of all of the objectives of alternative regulation, and so forth?

A. I would agree with that statement. I would also point out, though, that in my direct testimony I do state that there are several potential reasons or rationales for rate re-initialization by the Commission.

And I do not single out service quality as the only potential reason.

MS. SUNDERLAND: I have no further questions.

THE COURT: Does anyone else have cross-examination?

(No response.)

JUDGE CASEY: Mr. Hoag, Ms. Sunderland, if I recall what occurred this morning, there was some discussion as to this bargain between the Commission and the Company in that because one, let's say, one feature of the bargaining wasn't upheld. In this case I think the hypothetical was the service quality.

Wasn't it your testimony that since there was a breach, if you will, then because of that the Commission would be within its rights to take a look at re-initialization again?

THE WITNESS: That is squarely in my direct testimony on Page 24.

And that is a -- that is I think a very narrow point if I can just expand on that.

JUDGE CASEY: Okay.

THE WITNESS: The question, the larger question is: You know, is rate re-initialization, is it appropriate within the context of the alternative regulation plan.

The -- and I think that's -- that probably has several facets to that question.

And all my testimony was here was that if we go to the question of is there an implicit contract under Alt-reg that rates wouldn't be re-initialized, if there is this overall contract, that assuming that's the case, that that contract has previously been breached by the Company; therefore, I don't think that the Company could really justifiably say, You, Commission would breach that bargain by doing action X, Y or Z. That's a very -- I intended that to be a very narrow point.

That, in fact, my opinion is that rate re-initialization is within the bounds of the alternative regulation plan as approved by the Commission in '92, '93, '94, whatever it was.

I see nothing in that plan that would preclude the Commission from re-initializing rates at this review.

Clearly the Company disagrees with that viewpoint. That is my own personal viewpoint.

JUDGE MORAN: But it isn't your testimony that just because there are some service quality problems requires re-initialization?

THE WITNESS: No, your Honor, that's not my testimony.

JUDGE MORAN: Okay.

THE WITNESS: That's a good discretion of the Commission. The Commission could conclude that in my view. They could conclude that but that not --

JUDGE MORAN: It doesn't necessarily follow one.

THE WITNESS: I did not testify to that and. I don't believe I did.

JUDGE MORAN: Okay. I want to make sure.

JUDGE CASEY: Any other cross?

(No response.)

JUDGE CASEY: Redirect?

MR. HARVEY: I think we need one minute.

JUDGE CASEY: Off the record.

(Whereupon, there was an off-the-record discussion.)

MR. HARVEY: As an aside, we have no redirect for Mr. Hoag.

JUDGE MORAN: Thank you, Mr. Hoag. You are excused.

JUDGE CASEY: The Staff will call at this time James Zolnierek.

(Whereupon, Staff Exhibit Nos. 3.0, 3.1, 3.2 were marked for identification as of this date.)

(Witness sworn.)

JAMES ZOLNIEREK,

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

EXAMINATION

BY

MR. BRADY:

Q. Dr. Zolnierek, will you please state your name and spell it for the record please.

A. James Zolnierek, Z-o-l-n-i-e-r-e-k.

Q. And your business address please.

A. 527 East Capitol Avenue, Springfield, Illinois 62701.

Q. Dr. Zolnierek, I'm going to turn your attention to a document labeled for identification as Staff Exhibit No. 3.0 described as the direct testimony of James Zolnierek, public version.

Does this document consist of 26 pages of text in question and answer form?

A. Yes, it does.

Q. Was it prepared by you or at your direction?

A. Yes, it was.

Q. Does this constitute your direct testimony in this proceeding?

A. Yes, it does.

Q. If I were to ask you the questions contained in Staff Exhibit No. 3.0, would your answers be the same as those that are set forth in the exhibit?

A. Yes, they would.

Q. Do you have any direct additions or corrections to make to the document?

A. No, I do not.

MR. BRADY: I would move into evidence at this point Staff Exhibit No. 3.0.

JUDGE MORAN: Are there any objections?

(No response.)

JUDGE MORAN: It will be admitted, 3.0.

(Whereupon Staff Exhibit No. 3.0 was admitted into evidence.)

BY MR. BRADY:

Q. Turning your attention next to a document labeled Zolnierek, proprietary version, does this consist of 26 pages of text question and answer format?

A. Yes, it does.

Q. How, if at all, is this different from Staff Exhibit 3.0?

A. There are few numbers submitted under proprietary cover from Ameritech which were redacted from this version.

Q. Or were they redacted from the public version?

A. The public version.

Q. So this would contain the proprietary information?

A. Right.

Q. And other than that, there are no differences from this exhibit and Staff 3.0?

A. That's correct.

Q. Do you have any additions or corrections to make?

A. No, I do not.

MR. BRADY: I would move for admission 3.0 P that being the proprietary direct testimony of James Zolnierek.

JUDGE MORAN: Are there any objections to the

admission of 3.0 P?

(No response.)

JUDGE MORAN: Hearing none, it is admitted.

(Whereupon Staff Exhibit No. 3.0 P was admitted into evidence.)

BY MR. BRADY:

Q. Now, Dr. Zolnierek, we will turn you finally as to what is labeled Staff Exhibit 17.0, that being the rebuttal testimony of James Zolnierek.

Does that consist of 19 pages of text in question and answer form?

A. Yes, it does.

Q. And was it prepared by you or at your direction?

A. Yes, it was.

Q. And if I were to ask you today the questions set forth in Staff Exhibit 17.0, would your answers be the same as those that are set forth in the document?

A. Yes, they would.

Q. Do you have any additions or corrections or revisions to make to the document?

A. No, I do not.

MR. BRADY: I would ask at this point that Staff Exhibit No. 17.0 that being rebuttal testimony of James Zolnierek be admitted into the record in this proceeding.

JUDGE MORAN: Are there any objections?

(No response.)

JUDGE MORAN: Hearing none, it is admitted.

As we understand it, there is no cross-examination for Mr. Zolnierek?

(No response.)

JUDGE MORAN: Hearing nothing different, thank you, Mr. Zolnierek. Sorry you had to make the trip. Thank you. The witness is excused.

MR. HARVEY: Staff will next call Genio Staranczak.

(Whereupon, Staff Exhibit Nos. 2.0 and 16 were marked for identification as of this date.)

(Witness sworn.)

GENIO STARANCZAK,

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

EXAMINATION

BY

MR. BRADY:

Q. Dr. Staranczak, would you please state your name and spell it for the record.

A. Genio Staranczak; G-e-n-i-o. Last name, S-t-a-r-a-n-c-z-a-k.

Q. Dr. Staranczak, what is your business address please?

A. My business address is 527 East Capitol Avenue, Springfield, Illinois 62701.

Q. Thank you, Dr. Staranczak.

I put before you a document entitled Staff Exhibit No. 2.0 for identification. And further labeled as the direct testimony of Genio Staranczak.

Is that -- do you recognize that?

A. Yes, I do.

Q. Does it consist of 18 pages of text in question and answer format?

A. Yes, it does.

Q. Was this exhibit prepared by you or at your direction?

A. Yes, it was.

Q. If I were to ask you the questions set forth in this document today, would your answers be the same as they were as set forth in the document?

A. Yes, they would be.

Q. Do you have any additions, corrections, or revisions to make to the document?

A. No, I don't.

MR. BRADY: With that I would move for admission into evidence of Staff Exhibit No. 2.0, that being the direct testimony of Genio Staranczak.

JUDGE MORAN: Are there any objections?

(No response.)

JUDGE MORAN: Hearing none, it is admitted.

(Whereupon Staff Exhibit No. 2.0 was admitted into evidence.)

BY MR. BRADY:

Q. Moving onto the rebuttal testimony.

Do you have before you Dr. Staranczak a document entitled ICC Staff Exhibit No. 16?

A. Yes, I do.

Q. Do you recognize that?

A. Yes, I do.

Q. Is it your rebuttal testimony in this proceeding?

A. Yes, it is.

Q. Does it consist of 19 pages of text in question and answer format?

A. Yes, it does.

Q. Was it prepared by you or at your direction?

A. Yes, it was.

Q. If I were to ask you the questions set forth in the Staff Exhibit 16.0, would your answers be the same as those set forth in the document?

A. Yes, they would be.

Q. Do you have any additions, corrections, or revisions to make to the document?

A. No, I don't.

MR. BRADY: At this point I would move for the admission of Staff Exhibit No. 16 into evidence and proffer the witness for cross-examination.

JUDGE MORAN: Are there any objections to exhibit -- Staff Exhibit 16?

(No response.)

JUDGE MORAN: Hearing none, it is admitted. And we will begin with cross-examination.

Ms. Satter?

MS. SATTER: Thank you.

CROSS-EXAMINATION

BY

MS. SATTER:

Q. Good afternoon, Mr. Staranczak.

A. Good afternoon.

Q. I'd like to start with your direct testimony. You say that you began a 20-year career with Bell Canada in 1977; is that correct?

A. That's correct.

Q. And in 1995 you were the director of Price Cap Regulation?

A. Yes, I was the director of price cap regulation, that's correct.

Q. And that was at Bell Canada?

A. That is correct.

Q. And you also said you advised on other Alt-reg issues?

A. That is correct.

Q. Was that also at Bell Canada?

A. Yes, it was.

Q. Did you advise only the Company?

A. Yes, that's correct.

Q. Now, you left Bell Canada in 1977; is that correct?

A. That's correct.

Q. And then -- can you tell me why?

A. I took the voluntary separation package. I wanted to move to the United States. I always desired to live and work in the United States. An opportunity came along. And I took advantage of

it.

Q. And then you went to Wefa, W-e-f-a, Group; is that correct?

A. That's correct.

Q. And you were there for how long?

A. A little over three years.

Q. Three years, so you left there in 2000?

A. August of 2000 is correct.

Q. Did you work for individual clients while you were there?

A. We had a few consulting contracts, that is correct.

Q. Can you tell me whether those were -- who the clients were or what industry the clients were in?

A. We had a contract with AT&T that I worked on measuring the elasticities and demand. There were also some banking clients, general economic clients.

Q. Would it be correct to say that your clients tended to be businesses of some sort?

A. Actually, I visited a lot of state

1 governments and made presentations to state
2 governments on their budget forecasts.
3 I would say the bulk of my personal
4 clients were state governments, utilities, and the
5 others that I mentioned.
6 Q. And the state governments had to do with
7 budget issues?
8 A. That's correct.
9 Q. And when did you start at the Illinois
10 Commerce Commission?
11 A. I started in September of year 2000.
12 Q. Is this your first opportunity testifying
13 on behalf of the Illinois Commerce Commission?
14 A. Yes, it is.
15 Q. Now, in your testimony you say that you see
16 two problems with Ameritech Illinois' Alt-reg plan,
17 those are service quality and competitive
18 re-classification; is that correct?
19 A. That's correct.
20 Q. And are competitive re-classifications a
21 problem because you believe they are premature?
22 A. I believe that the price performance of the

services that are declared competitive is not consistent with a competitive market.

Q. So in other words, if prices are increased upon being declared competitive, you believe that's not consistent with a competitive market?

A. With the competitive telecommunications market, yes.

Q. And you agree that once the service is classified as competitive, it removed from the price cap index?

A. That is my understanding, yes.

Q. Okay. Later in your testimony you say that quote: If Ameritech does indeed earn higher returns under Alt-reg, this should not be interpreted as a failure of the plan but recognized as one of the possible outcome that was anticipated?

MR. HARVEY: Could we have a citation?

MS. SATTER: Page 4, line 21 to 22.

MR. HARVEY: Okay.

BY MS. SATTER:

Q. Do you believe that earnings higher than

the cost of capital indicate anything about the appropriateness of the plan?

A. Not necessarily, no.

Q. Do you think they indicate anything about the state of competition in the telecommunications industry?

A. As I understand it, the plan only applies to noncompetitive services. So by definition, these services are not competitive.

Q. So for the overall return for Ameritech Illinois is higher than the indicated cost of capital, would that signal anything about the state of competition in the telecommunications industry?

A. Possibly.

Q. Do you agree that there should be no limit on the earnings a company should be able to attain under alternative regulation?

A. I don't think the Commission should be looking at earnings. They should be looking at the price performance of the products that are regulated.

And if the price performance is

satisfactory, then I don't think the Commission should look at the earnings.

Q. So then you would agree that the Commission should impose or consider -- strike that. Let me rephrase that.

You agree that the size of the Company's earnings should not be a factor in the analysis of the Alt-reg plan, the success of the Alt-reg plan?

MR. HARVEY: I think he just answered that.

BY MS. SATTER:

Q. Do you believe there is any limit on earnings?

MR. HARVEY: He just answered that.

MS. SATTER: No, he didn't answer it. Actually, he gave me around.

BY MS. SATTER:

Q. What I want to know is: Do you believe there is any limit on earnings, that there should be any limit on earnings? Is there an upper limit?

MR. HARVEY: He just said that there was no relationship really between -- the Commission's analysis should be based on the price performance

and not the earnings.

That's an answer to the question.

JUDGE CASEY: Not necessarily.

The objection of asked and answered is overruled.

Go ahead. Ask your question.

MS. SATTER: Do you want me to restate?

THE WITNESS: Yes, please.

BY MS. SATTER:

Q. Do you believe there should be an upper limit on earnings to the point that it becomes unjust and unreasonable -- or unreasonable?

A. I don't know what unjust and unreasonable earnings are.

Q. Let me rephrase that then.

Do you believe there should be no limit on the earnings a company should be able to attain under alternative regulation?

A. I don't believe that there should be any predetermined level of earnings that are deemed unacceptable.

If the earnings are high, we look at the

parameters of the price cap formula.

Q. If the earnings are high, you would look at the parameters of the price cap formula?

A. No. What I said was there is no predetermined level of earnings that would necessarily trigger in view, in my opinion, of the price cap formula.

Q. Would you agree that the sky is the limit?

MR. HARVEY: Object.

MS. SATTER: This is cross-examination, Mr. Harvey.

JUDGE CASEY: What is the basis of the objection.

MR. HARVEY: What is the sky is the limit?

She said, do you agree that the sky is the limit. That's extremely vague.

JUDGE MORAN: Maybe a better term would be appropriate.

MS. SATTER: I have been trying.

BY MS. SATTER:

Q. You said that you didn't believe that there should be a predetermined level of earnings.

Do you believe that the Commission should conclude that there is no limit on earnings under Alt-reg?

A. I think the Commission can conclude whatever it wants to conclude. I'm here to provide opinions.

Q. But your opinion is there should be no limit on earnings under Alt-reg?

A. I think the Commission should focus on price performance.

If the price performance is satisfactory, then I don't think the Commission should look at earnings.

If the Commission deems the price performance to be unsatisfactory, they can look at whatever it wants to.

Q. So if price performance is not satisfactory, then earnings would be relevant?

A. Could be.

Q. So you say on Page 5, lines 8 to 10 that the Commission should focus on price performance.

Now, would you agree that prices are

dictated by the price cap index and 2 percent price flexibility of Alt-reg plan?

A. Yes.

Q. And the X factor that was -- the X factor in the price cap index, was set by the Commission in 1994 order and has not been changed during the plan; is that correct?

A. That's correct.

Q. And the inflation measure is independent of the Company, correct?

A. That's correct.

Q. And the service quality factor was also set at the outset of the plan and hasn't been changed?

A. That's correct, it hasn't been change the during the course of the plan.

Q. And the exogenous factor, Z, has also not been changed since the outset of the plan?

A. That's correct.

Q. So would you agree that the extent of the rate changes is determined by the formula determined by the Commission in 1994 in the 1994 order?

A. Yes.

Q. So would you agree with me then that price performance is constrained by the price index itself?

A. The prices that Ameritech Illinois can charge are constrained by the price cap formula, that's correct.

Q. So the price cap index determines what the prices will be within certain parameters?

A. That's correct.

Q. Okay. Now, you said on Page 11, line 11 that the Company has shown that it could perform well financially under an X factor that includes a 1 percent consumer dividend?

A. That's correct.

Q. Are you relying on Staff's cost of capital and revenue requirement analysis to support your conclusion that the Company has performed well financially --

A. In part. I was also looking at stock market performance.

Q. Did you look at both of those things, the

Staff analysis and stock performance?

A. Yes. And the fact that the Company did not go back for rate increase, which would suggest to me that it was performing well financially.

Q. So you would understand that if they were having a problem, they would have sought additional revenues?

A. Yes.

Q. Now, in your rebuttal testimony you discuss exogenous factor treatment. Specifically on Page 12 I believe you start to discuss it.

Do you agree that exogenous factor treatment should be reserved for changes outside the Company's control?

A. And not reflected in the general inflation factor, that's correct.

Q. Do you agree that on occasion Commission ordered rate changes occur as a result of an Ameritech filing or request?

A. I am unaware of that.

Q. So you don't know whether Ameritech has or has the authority to ask for rate changes?

A. I don't know if it has asked for rate changes.

Q. Do you know if it could?

A. You mean exogenous treatment, ask for rate increases because they feel some exogenous factor has moved in a direct that's unfavorable to them?

Q. No. No. More basically, just a rate change?

MR. HARVEY: If I could ask, are we referring to regulated rates subject to the plan here or other rates?

MS. SATTER: Rates that would trigger the exogenous factor treatment that you discuss in your testimony.

THE WITNESS: It was my understanding that rates wouldn't trigger it unless the Commission imposed the rate reduction, that would be the only reason you would trigger the Zed (phonetic) factor.

BY MS. SATTER:

Q. If the Company wanted to reduce a rate for competitive reasons and requested that or filed for that, would that trigger the exogenous factor

treatment that you support?

A. Let me understand the services is classified as competitive?

Q. Okay. Yes. We will have that assumption.

A. No, then it would be under the plan, there should be no Zed factor treatment.

Q. What if it was a service that is under the plan, that is currently classified as noncompetitive possibly a new service, something like that?

A. As I understand, new services aren't under the plan so I don't understand how they could file for Zed factor treatment.

Q. If there's -- if the Company asks for a change, any change, does that affect whether it would be subject to the Z factor that you support?

MR. HARVEY: Could I ask for some clarification on this question.

Are we talking about a change in regulated subject of the plan rates here, right?

MS. SATTER: Right.

MR. HARVEY: That the Company is asking for

exogenous treatment under price cap filing?

Is that the question?

MS. SATTER: I think we need to step back.

MS. SUNDERLAND: And you are assuming that we are initiating a change?

MS. SATTER: Right. But let me step back. BY MS. SATTER:

Q. The Z factor rate changes, those that would trigger an automatic adjustment?

A. I understand the adjustments are not automatic. They are at the discretion of the Commission.

Q. So your Z factor proposal would not require the Commission to --

A. Are we talking about mine or are we talking about yours? I want to clarify it.

Q. I'm talking your position only.

A. My position that -- my position is if the Commission ordered a rate decrease outside of the plan, then the Company should be allowed to file for higher rates to compensate for the revenues that it lost because of the Commission order.

Q. Would the Commission have discretion to do that or would the Commission be required to do that?

A. There should be compelling circumstances for the Commission to deny.

Q. Now, these rate decreases that you are talking about outside the plan, what types of services are you referring to? Are these competitive noncompetitive? Where do they fall relative to the plan?

A. They'd have to be within the plan.

Q. Now, is the purpose of this to maintain revenue neutrality?

A. Yes.

Q. So if there were changes to competitive services --

A. Competitive services are not under the plan.

Q. Then you would not be concerned with competitive neutral -- excuse me -- revenue neutrality?

A. That's correct.

Q. What about a Commission order -- strike that.

What about a Commission order that results from a Commission assessment that the Company should not have raised rates upon a competitive classification? That they should not have re-classified them as competitive. And then the rates are reduced?

How would that be treated?

MR. HARVEY: Is this a hypothetical?

MS. SATTER: Yes.

THE WITNESS: Let me understand the question, there is a service that was declared competitive. It's now deemed to be noncompetitive. The Commission orders a rate reduction for this service?

MS. SATTER: And returns it to the noncompetitive classification.

THE WITNESS: And the question is: Should the Company be allowed to raise some other rates via the Z factor. The answer is no.

BY MS. SATTER:

Q. So the Commission would be entitled to look at the circumstances to determine whether or not it adopt the exogenous treatment?

A. In the specific example, it would look at the circumstances.

But, again, if we are talking about my proposal the Commission cut or reduced the rate of a service that was in the plan, then I think the Company has a strong case for getting a rate increase approved, otherwise, in order to remain revenue neutral so that the revenue loss through the Commission or rate cut is recouped somewhere else.

BY MS. SATTER:

Q. On Page 5 of I believe it's your rebuttal. If you like, I could double check.

You suggest that the Commission could incorporate appropriate demand elasticities and account cost impacts in determining exogenous factor treatment?

A. That is correct.

Q. What do you mean by account cost impacts?

A. Suppose there is Commission order of rate reduction and because of the rate reduction there is some stimulation in demand. And that stimulation in demand causes costs for the Company to increase, the Commission should take that into account.

Q. Would the Commission also take into account rate -- cost decreases that might have also occurred over the time period?

A. You mean if the Commission ordered a rate cut and that stimulated demand and there was reduction in costs in the Company?

Q. Let's say there was a reduction of costs independent of that order. There was an overall reduction of costs that's happening.

A. I'm not sure I understand.

It has to be in the context of the rate cost order by the Commission. If costs of the Company because of productivity gains fall, then that's covered by the X factor not the Z factor.

Q. So I would imagine that you would offset whatever increased in costs that existed with

increase in revenues, correct?

So in other words, if there was and increase in revenues as a result of increased demand, that would be offset of the increase of costs?

A. If you are asking me whether we should look at the net number?

Q. Yes.

A. The answer is yes.

Q. And then it would be the net number that would be subject to the Z factor treatment?

A. That's correct.

Q. Do you know whether demand elasticities and account costs impacts are reviewed when new services are added to the price cap index?

A. No, I'm not aware of that.

Q. Do you have any idea whether the Staff reviews this type of data, that is demand elasticities and account cost impacts when the Company makes tariff filings?

A. I don't know whether they -- my impression is they do, but that's just an impression.

Q. So you don't know what is involved for them to review that information, do you?

A. Do I know whether they review the information, no.

Do I understand the process, yes, I do.

Q. But you haven't done it for this particular Commission?

A. No, but I have done it in the past.

Q. You have done it for Bell of Canada?

A. Yes, that is correct.

Q. Let me just ask you again: Your concern with the Z factor is to make sure that the Company is revenue neutral in relation to these rate changes, correct?

A. In relation to Commission ordered rate reductions that are outside the scope of the plan, that is correct.

Q. So you are concerned about earnings. You are concerned about revenues in that connection?

A. I'm concerned about fairness.

Q. Are you concerned about revenues as well?

A. Well, in a sense that it should be revenue

neutral, yes. But my ultimate concern is fairness.

Q. So you see it as a fairness issue?

A. Yes, I do.

Q. Would you believe this fairness would arises if the Company was earning, let's say, 100 percent return on equity?

A. Again, let me repeat: I don't think the Commission should be focusing on earnings. It should be focusing on price performance.

What the consumer is interested in is the prices that they pay. If the prices they pay seems reasonable, then I don't think the Commission should look at the Company's earnings. And I stated that before.

Q. So that means if the Company is earning 100 percent return on equity, that's okay. That's not part of your analysis?

MR. HARVEY: He already answered that.

JUDGE MORAN: I think we have been through that.

BY MS. SATTER:

Q. So the answer is yes?

MR. HARVEY: He answered that question.

JUDGE MORAN: There was an objection. And certainly my objection is in there this time.

There has to be other questions.

MS. SATTER: If I could have one second.

BY MS. SATTER:

Q. When you talk about fairness, have you also considered fairness to consumers?

A. I certainly have. That's why I emphasize price performance.

Q. So when you say price performance, you are referring to the willingness of consumers to pay for the service at that level; is that correct?

A. Not really.

Q. You are just then referring to price performance under the plan?

A. Yes.

Q. As dictated by the plan?

A. Yes, I am.

Q. So the value of the service to the consumer is not a concern of yours?

A. The value, I have no way of estimating a value of a particular service to the consumer.

MS. SATTER: I have no further questions.

MR. HARVEY: I hate to be difficult --

MS. SUNDERLAND: I got provoked again.

FURTHER CROSS-EXAMINATION

BY

MS. SUNDERLAND:

Q. In response to a question by Ms. Satter you suggested that if Ameritech Illinois' financial performance under the plan had been poorer than it was, you thought that the Company might well have come in for rate increases. I believe that was your testimony?

A. They might have invoked some cause that suggested they should have higher rates. Yes, that would be my opinion.

Q. Would it be fair to characterize that as speculation on your part?

A. Yes, it is speculation on my part. But -- I have been in the industry a long time.

Q. Would you agree that there's nothing in the plan that would contemplate such action by the Company?

A. Well, I'm not aware, but I thought there was language to the effect that if the Company wasn't earning properly that they could come and ask for higher rates, but that was just my impression.

Q. If I were to ask you to point to where in the plan that option is being afforded to the Company --

A. I would have no idea.

Q. All right. So your testimony was based on an assumption that there was such a provision in the plan?

A. It was based on my experience 20 years in the industry; that's what it was based on.

Q. If, in fact, the plan contains no such provision, would that be something you would want to take into consideration?

A. No, I think the Company would still be back.

Q. Would you agree that the if the Company did come back, we would be in a proceeding much like this one?

A. Yes, you would be.

MR. PACE: Sorry, I just had a question.

JUDGE MORAN: Okay.

CROSS-EXAMINATION

BY

MR. PACE:

Q. Doctor, you talked about the adjustment of the Z factor based on Commission order rate changes?

A. That's correct.

Q. Is your proposal that if the rate change was foreseeable by the Company that --

A. I have no idea what you mean by foreseeable.

Q. Okay. Let's take, hypothetically, access charges.

Access charges have been increasing in this industry for some time now, correct?

A. Access charges to consumers or?

Q. I'm sorry. Access charges to long distance carriers.

A. Yes -- wait a minute. I don't know that.

For the premises for this question I will assume that to be correct.

Q. Doctor, I thought you just said you have been in the industry for 20 years.

A. Yes, I have been in the Canadian industry for 20 years, that's correct.

Q. So you are not familiar with whether access charges to long distance carriers in the United States have been decreasing over time?

A. Well, my impression is they have been decreases over time. I haven't looked at the data recently.

Q. So you don't know specifically how far they have gone down, but you know generally they have gone down?

JUDGE CASEY: I'm going to stop you at this point because this started with a hypothetical.

So if you have a hypothetical.

MR. PACE: Point well taken.

BY MR. PACE:

Q. So a hypothetical, if access charges have been going down so in that case the Company could

anticipate or there would be a reasonable expectation they would be going down in the future?

A. I don't --

Q. That's part of my hypothetical.

A. Your hypothetical is prices have gone down, and who expects them to go down in the future?

Q. In this case Ameritech Illinois?

MR. HARVEY: Hypothetically, Ameritech Illinois.

BY MR. PACE:

Q. And a Commission order ordered further reductions of those types of charges, is it your position that the Company still would be able to apply for Z factor treatment for revenues lost from those rate reductions?

A. Let me understand, these access charges are in the plan under your hypothetical?

Q. Yes.

A. And the Commission order is a rate reduction for these access charges that are outside the parameters of the price cap plan; is that correct.

Q. Outside the parameters, yes. They are a

separate proceeding.

A. And in the separate proceeding, it orders a rate reduction in access charges.

Q. Yes. This is within the hypothetical of these access changes had been going down over time?

A. And this brings down the API below the PCI.

Q. That I'm not sure.

A. Then I can't answer that question.

Q. Well, let's take that assumption.

A. Yes, in that case yes.

Q. That they can come in?

A. Yes.

Q. If the API -- what was your assumption?

A. I didn't have an assumption. I was just clarifying yours.

Q. Well, the API and PCI, what was your assumption?

A. For the purposes of this hypothetical, I was asking whether the API because of this Commission mandated rate cut of the PCI.

Q. I'm sorry. I thought you asked me a question about a rate reduction?

MR. HARVEY: He couldn't answer the question. So he went ahead and assumed himself what the circumstances were.

MR. PACE: Right. I'm trying to understand what those circumstances were.

THE WITNESS: It's your question. Ask the question. I will answer your question.

BY MR. PACE:

Q. All right, Doctor. Let's start again.

The hypothetical is: That access rate reductions have been taking place in the industry for some time. That these access charges are to interexchange carriers by local exchange carriers. That there was a separate proceeding by the Commission looking into further access charge reductions. And, in fact, access charge reductions were made that were outside of the price index. Would the local exchange company be able to come in and ask for exogenous treatment based on that order?

A. And, again, I have to ask whether the API falls below the PCI because of the action.

Do I assume that?

Q. Assume if the API falls below the PCI?

A. Yes.

Q. Let's say yes.

A. Then yes.

Q. Then they can come in?

A. Yes.

Q. And if the API did not fall below the PCI, could they come in under that hypothetical?

A. I would have to think about that.

Q. You have to think about it?

A. Yes, I would.

Q. Okay.

MR. HARVEY: I think he is assuming you are thinking about this.

THE WITNESS: You are expecting an answer now?

MR. PACE: Yes.

THE WITNESS: I don't think I will be able to give you an answer now.

BY MR. PACE:

Q. So it's possible they could come in or it's possible they couldn't come in?

A. I have to think about it further.

Q. Anything come to mind about what factors you would think about to decide that?

A. I just have to think it through.

Q. Okay. What if -- a different hypothetical. What if the Commission reduced the access charges because they were so high and unjust and unreasonable?

A. I'm not -- so the Commission --

Q. Okay. Slightly different hypothetical.

A. Yes.

Q. Access charges have been reduced for some time in the industry, access charges charged on interexchange carriers. There is a Commission proceeding. The Commission reduced access charges because they were so high to be unjust and unreasonable. Then could local exchange carriers come in and seek exogenous treatment, and would you propose that they get that?

A. Yes, I would. And let me explain why.

Q. All right.

A. Currently the Company gets revenue from all

services. So if you reduce the price of this service even though the price is deemed unjust and unreasonable it reduces the Company's revenues. And unless the Company is able to recoup those revenues from increasing prices somewhere else, then you effectively increase the X factor from 4.3 to whatever it is to a much higher number. That shouldn't be allowed under the plan.

So even though these rates are, as you say currently unjust and unreasonable and they are providing the Company revenue, if adjust those rates to just and reasonable levels, then some other rate has to go up to balance it.

Q. Are you familiar with the 92-0448 Alt-reg order with respect to exogenous cost treatment?

A. I read it with respect to exhaustive.

Q. Is it your understanding that as one of the conditions for exogenous treatment that the cost increase would have to be nonforeseeable or not expected?

A. What cost increase?

Q. The cost increase that comes outside the

1 plan?

2 MR. HARVEY: I don't think that's a fair

3 characterization.

4 MS. SUNDERLAND: I don't thins so either.

5 JUDGE MORAN: Do we have --

6 MR. PACE: That's not a fair representation?

7 JUDGE CASEY: What is the basis of your

8 objection?

9 MR. HARVEY: I don't think he is correctly

10 characterizing the 92-0448 order.

11 JUDGE MORAN: That's what I'm saying.

12 Does anyone have a copy?

13 MR. PACE: One moment.

14 JUDGE MORAN: Maybe Mr. Pace can look at it and

15 find it and show it to the witness. That's just a

16 fairer way of going about it.

17 MR. PACE: Sorry?

18 JUDGE MORAN: Find what you are trying to ask

19 your question on in that order. Then show it to

20 the witness.

21 MR. PACE: Okay. I'm going to refer the doctor

22 to the Alt-reg order, October 11, 1994.

JUDGE MORAN: You can approach the witness.

MR. PACE: Thank you.

BY MR. PACE:

Q. Page 62.

Let me just ask you, Doctor, is it your understanding that the Alt-reg order in 92-0448 had in terms of conditions for exogenous treatment, any condition related to the foreseeability of a cost decrease or revenue decrease to the Company as a result --

MR. HARVEY: I'm going to object.

MR. PACE: I haven't asked the question.

MR. HARVEY: You already characterized the order including foreseeability.

And I assure you it is not asking if he understands that to be the case --

JUDGE CASEY: Mr. Pace, finish the question.

MR. PACE: I'm asking of his awareness, his understanding that the order in 92-0448.

JUDGE MORAN: You want to say if he agrees with your understanding of that order.

MR. PACE: No, I'm just asking him for his

understanding at this point.

MR. HARVEY: He is asking if it's his understanding that the order says something that it doesn't say.

JUDGE MORAN: If you want to ask that question ask that question.

BY MR. PACE:

Q. You have an understanding of what the 92-0448 Alt-reg order contained with respect to exogenous cost treatment?

A. Yes, I do.

Q. Okay. And what were the conditions that the Commission specified that would qualify, potentially qualify, as exogenous cost for that kind of treatment?

A. Outside the Company's control and not reflect understand the general inflation factor.

Q. That was your understanding?

A. That's my understanding.

MR. PACE: Thank you.

MS. LUSSON: I have a couple questions .

CROSS-EXAMINATION

BY

MS. LUSSON:

Q. Mr. Staranczak, is it your testimony that the when the Commission approved alternative regulation for Ameritech five years ago that the Commission at that time was recognizing that never again should it look at earnings as a performance measure?

A. No, it can certainly look at earnings. I don't -- as I said, I think it should focus on prices.

Q. So you don't disagree with the Staff witness that says earnings should be monitored going forward?

A. You can look at earnings certainly. You can look at a whole bunch of indicators.

Q. But, in your opinion, earnings are not a measure of performance of the plan?

A. What consumers are interested in are the prices they pay.

Q. I'm sorry, Mr. Staranczak. My question is

--

MS. LUSSON: Can you read the question back.

(Whereupon, the record was read as requested.)

THE WITNESS: I'm not sure what you are trying to get at.

BY MS. LUSSON:

Q. Are earnings a basis for the Commission to determine whether or not this plan has worked and has met the goals outlined in the price cap order?

A. The Commission can look at earnings, yes. I said that.

Q. Okay. Is it your testimony that the Company should be permitted to earn unlimited profits if it can't be discerned that the profits are tied to noncompetitive services?

MR. HARVEY: This has been asked and answered over and over.

MS. LUSSON: I don't think it has, not this specific question.

JUDGE CASEY: The objection is overruled.

I think there is a distinction about

whether or not there is some ability to separate.

MS. LUSSON: That's right.

JUDGE CASEY: Whether or not the earnings were from competitive versus noncompetitive.

MS. LUSSON: Total company versus noncompetitive --

MR. HARVEY: I think he answered that question.

JUDGE CASEY: Reask the question please.

MS. LUSSON: Sure.

BY MS. LUSSON:

Q. Is it your testimony that the Company should be permitted to earn unlimited profits if it can't be discerned that the profits are tied to noncompetitive services?

A. First of all, I don't think you can divide the Company to noncompetitive and competitive on a earnings basis. You have to allocate the fixed and common costs, which you can't do on a satisfactory basis. That's why they are fixed and common.

There is no economically and justifiable way of allocating those costs.

Q. Is it your testimony then that when the

Commission looks at earnings, it should look at both competitive and noncompetitive services revenues?

A. As I said before, I think the Commission should look at earnings.

Q. But I think you just indicated in a previous question that that is one area that the Commission can look at as a performance measure, didn't you?

A. Yes, it can look at earnings. And if it is looking at earnings, then yes on a total Company basis.

Q. And do you think it's appropriate to look at competitive and noncompetitive when looking at those earnings?

A. I think if the Commission wants to look at earnings, it can look at earnings whatever way it chooses to look at them.

Q. Do you have an opinion?

A. As I said, I don't think the Commission should look at earnings.

Q. Is it your testimony that when the

Commission approved Alt-reg five years ago, that the Commission in doing so recognized or acknowledged that the Company could earn and it would be okay if it earned unlimited profits?

MR. HARVEY: I think that this has been gone over about as many times as it possibly could be. His views on this are a matter of record at least on several different occasions.

MS. LUSSON: Your Honor's, I asked within the context of what he thought the Commission assumed when it approved this price cap order. I think that's a distinction that hasn't been made.

THE WITNESS: I have no idea what the Commission assumed.

BY MS. LUSSON:

Q. And in preparing your testimony, did you read the price cap order in its entirety?

A. I read the price cap order. I'm not sure I read it in its entirety. I think I probably skipped over some of the accounting sections.

(Laughter.)

MS. LUSSON: No further questions.

MR. HARVEY: Did you have anything else, Karen?

MS. LUSSON: No.

CROSS-EXAMINATION

BY

MR. MANSHIO:

Q. Good afternoon, Mr. Staranczak.

A. Good afternoon.

Q. I guess I got confused sitting out there listening to one of yours answers. Let me try to see whether my understanding is correct.

You say that in order for the Commission to review alternative regulation structure that your overall goal is fairness to the Company, fairness to the consumers?

A. Fairness, yeah, yes.

Q. And in considering how they determine whether it's fair or not, your primary emphasis is to look at the price of the service?

A. Yes, that's correct.

Q. And your rationale for that is basically because consumers are only concerned about the price?

A. Yes, more or less, yes.

Q. Do you think in evaluating any alternative regulation there are other things -- there are things other than price that the Commission would look at that consumers would be concerned about?

A. It could look at quality service, that's correct.

Q. Would reliability be another issue?

A. Yes, quality -- reliability would be under my general umbrella of quality service, that's correct.

Q. And in looking at quality service and reliability, would the Company's earnings become relevant?

A. I think if there was a reliability of quality of service problem, the Commission should fix that problem directly.

Q. But in order for the Commission to correct the remedy wouldn't they have know that the Company had the ability to address that and wouldn't earnings in that situation be a relevant issue?

A. I think they should set penalties, as we

outlined and that Staff witnesses have outlined. I'm not sure whether those penalties should be tied to any level of Company's earnings. In fact, I would say no they should not be tied to any level of earnings.

Q. Are you limiting addressing quality service only through penalties?

MR. HARVEY: I don't think this witness' testimony speaks specifically to quality service penalties. This is kind of getting beyond the scope of his direct examination.

MR. MANSHIO: I believe in his direct, though, he did mention quality of service.

MR. HARVEY: He mentioned quality of service, I concede that's true. But I think the issue of how to address the problem of service quality is dealt with by other Staff witnesses who are yet to be heard. And I think that perhaps this question is not within the scope of Dr. Staranczak's testimony but more properly Ms. Jackson's or --

JUDGE MORAN: I think he may be right. I think unless you can tie that question into something

that --

MR. MANSHIO: Let me rephrase the question then.

BY MR. MANSHIO:

Q. In looking at quality of service, is it appropriate or may the Commission look at the earnings of the Company?

A. I'm not sure the two are related. If the Commission wants to look at earnings, it should look at earnings. It should always look at quality of service.

MR. MANSHIO: That's all. Thank you very much.

JUDGE MORAN: Thank you.

MR. HARVEY: Can we have a minute to see if we have redirect or are we finished with cross?

JUDGE MORAN: We are finished with cross, yes.

JUDGE CASEY: Off the record.

(Whereupon, the record was read as requested.)

MR. HARVEY: My witnesses has advised me if I don't do any redirect, they can get on the train at 3:30.

JUDGE MORAN: There is no redirect?

MR. HARVEY: No redirect.

JUDGE CASEY: No redirect.

JUDGE MORAN: Well, thank you, Dr. Staranczak. You are excused.

JUDGE CASEY: We will resume Tuesday at 9:30. Say goodbye to Mr. Nyce. He is not going to be good next week.

(Whereupon the foregoing proceedings were continued to February 20, 2001, at 9:30.)