

1 BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION
2 COMMISSION

3	WASHINGTON UTILITIES AND)	
	TRANSPORTATION COMMISSION,)	
4)	
	Complainant,)	Hearing No. UT-911488
5)	
	vs.)	UT-911490
6)	
	US WEST COMMUNICATIONS,)	UT-920252
7)	VOLUME XI
	Respondent.)	PAGES 1026 - 1131
8	-----)	

9 A hearing in the above matter was held on
10 February 9, 1993 at 9:00 a.m., at 1300 South Evergreen
11 Park Drive Southwest, Olympia, Washington, before
12 Chairman SHARON L. NELSON, Commissioners RICHARD D.
13 CASAD and A.J. "Bud" PARDINI and Administrative Law
14 Judge HEATHER BALLASH.

15 The parties were present as follows:

16 WASHINGTON UTILITIES AND TRANSPORTATION
17 COMMISSION, SALLY G. BROWN, Assistant Attorney
18 General, 1400 South Evergreen Park Drive Southwest,
Olympia, Washington 98504.

19 US WEST COMMUNICATIONS by EDWARD T. SHAW,
20 Attorney at Law, 1600 Bell Plaza, Room 3206,
Seattle, Washington 98191.

21 THE PUBLIC, by WILLIAM GARLING,
22 Assistant Attorney General, 900 Fourth Avenue,
Suite 2000, Seattle, Washington 98164.

23 METRONET SERVICES CORPORATION
24 by BROOKS E. HARLOW, Attorney at Law, 4400 Two Union
Square, Seattle, Washington 98101.

25 Cheryl Macdonald, RPR, CSR

1 TRACER AND TCA, STEPHEN J. KENNEDY,
Attorney at Law, 1201 Third Avenue, Suite 2850,
2 Seattle, Washington 98101.

3 DEPARTMENT OF INFORMATION SERVICES, by
GEOFFREY G. JONES, Assistant Attorney General, 7th
4 Floor Highways-Licenses Building, Box 40100, Olympia,
Washington 98504.

5 ENHANCED TELEMANAGEMENT INC., by GREGORY A.
6 LUDVIGSEN, Attorney at Law, 706 Second Avenue South,
Suite 500, Minneapolis, Minnesota 55402.

7 DIGITAL DIRECT, by GREGORY J. KOPTA,
8 Attorney at Law, 2600 Century Square, 1501 Fourth
Avenue, Seattle, Washington 98101.

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	I N D E X		
	WITNESS	DIRECT	CROSS
1			
2	CORNELL	1030	1032, 1058, 1061, 1063
	BRYANT	1072	1075, 1099
3	ZEPP	1104	1106, 1112, 1116, 1124, 1126
4	EXHIBITS	MARKED	ADMITTED
	T-91	1032	1032
5	92	1032	1032
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6	T-94	1032	1032
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7	96	1071	1072
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9	T-100	1105	1106
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10	102	1105	1106
	C-103	1105	1106

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

2 JUDGE BALLASH: Let's be on the record.
3 The hearing will please come to order. This is a
4 continuation of the consolidated docket UT-011488,
5 UT-911490 and UT-920252. Today's date is February 9,
6 1993. I will note for the record that the appearances
7 of the parties remain the same, and it is my
8 understanding that the company has concluded its
9 rebuttal; is that correct, Mr. Shaw?

10 MR. SHAW: Yes, your Honor, with the minor
11 exception that it may be necessary to recall Mr. Mason
12 to restore the struck testimony that we took out but
13 that does not look likely at this point.

14 JUDGE BALLASH: Commission staff.

15 MS. BROWN: Staff calls Dr. Nina Cornell.

16 JUDGE BALLASH: I will remind you, Dr.
17 Cornell, that you are still under oath.

18

19 Whereupon,

20 NINA CORNELL,
21 having been previously duly sworn, was recalled
22 as a witness herein and was examined and testified
23 as follows:

24

25

DIRECT EXAMINATION

(CORNELL - DIRECT BY BROWN)

1030

1 BY MS. BROWN:

2 Q. State your full name for the record
3 spelling your last.

4 A. My name is Nina W. Cornell, C O R N E L L.

5 Q. What is your business address?

6 A. 1290 Wood River Road, that's three words
7 Meeteetse so, M E E T E E T S E, Wyoming, 82433.

8 Q. What is your occupation?

9 A. I'm an economist.

10 Q. In preparation for your testimony here
11 today, did you prefile rebuttal testimony and
12 exhibits?

13 A. Yes, I did.

14 Q. And was that testimony prepared by you or
15 at your direction or under your control?

16 A. Yes.

17 Q. Do you have your testimony and exhibits
18 before you?

19 A. I believe so.

20 Q. Are there any changes or corrections that
21 you would like to make to your testimony or exhibits?

22 A. There are two minor corrections that I
23 would like to make. In the testimony proper on page

24 11, line 8 at the end of the line I would like to
25 remove the word "it." It's grammatically improper, I

(CORNELL - DIRECT BY BROWN)

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1 think, to have it there. And in Exhibit NWC-20, on
2 page 2, in the line just above the quote -- and I
3 apologize that there are no line numbers on the
4 exhibit -- the word "above" should be replaced by the
5 phrase "in my rebuttal testimony (page 13, line 24
6 through page 14, line 2)."

7 Q. Are there any other changes?

8 A. No.

9 Q. If I were to ask you the same questions
10 that are set forth in that prefiled rebuttal
11 testimony, would your answers be the same today as
12 then?

13 A. Yes.

14 MS. BROWN: Your Honor, I would like
15 numbers for NWC rebuttal 18, 19, 20 and confidential
16 exhibit NWC 21, please.

17 JUDGE BALLASH: Dr. Cornell's rebuttal
18 testimony will be marked as Exhibit No. T-91 for
19 identification NWC-18 will be marked as Exhibit 92 for
20 identification. NWC-19 will be marked as Exhibit 93
21 for identification. NWC-20, which is also in the form
22 of testimony, will be marked as Exhibit No. T-94 for
23 identification. And confidential Exhibit NWC-21 will

24 be marked as Exhibit No. 95 for identification.

25 (Marked Exhibits Nos. 91 through 95.)

(CORNELL - DIRECT BY BROWN)

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1 MS. BROWN: I move the admission.

2 COMMISSIONER PARDINI: NWC-21 is

3 confidential?

4 JUDGE BALLASH: Correct. Any objection?

5 Exhibits T-91, 92, 93, T-94 and C-95 will
6 be admitted into the record.

7 (Admitted Exhibit Nos. T-91, 92, 93, T-94
8 and C-95.)

9 MS. BROWN: Witness is available for
10 cross-examination.

11 JUDGE BALLASH: Mr. Shaw.

12 MR. SHAW: Thank you, your Honor.

13

14 CROSS-EXAMINATION

15 BY MR. SHAW:

16 Q. Dr. Cornell, in order to get started this
17 morning, I would like to just briefly review your
18 recommendations in this case. And as I understand
19 your recommendations, which are summarized in your
20 direct testimony, starting at page 7 and going over on
21 to page 9, you have four separate and interrelated
22 recommendations, and the first recommendation is to
23 reclassify all of US West Centrex-type products except

24 for Centron I and CentraFlex II; is that correct?

25 A. To reclassify all of those that have

(CORNELL - CROSS BY SHAW)

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1 bundled monopoly and potentially competitive elements
2 as monopoly until the bundling is broken.

3 Q. And then the second recommendation is to
4 require the company to file a separate unified tariff
5 available to all business users; is that correct?

6 A. I think, once again, you haven't stated it
7 precisely. It was to file a unified line tariff
8 available to all business customers.

9 MS. BROWN: Excuse me, your Honor, for the
10 record I am going to object. I believe that Dr.
11 Cornell has already stood cross on her prefiled direct
12 testimony and she's here today to stand cross on her
13 rebuttal testimony. She's already been required in
14 the first round of hearings to discuss her
15 recommendations.

16 JUDGE BALLASH: Mr. Shaw.

17 MR. SHAW: Well, your Honor, I think the
18 rebuttal is in defense of her recommendations and just
19 simply to make the discussion more intelligible I
20 think it's meaningful and helpful to briefly set the
21 stage by refreshing everybody's memory on what the
22 recommendations are. I am not going to cross-examine
23 direct testimony.

24 JUDGE BALLASH: Objection overruled.

25 Q. The thrust of that recommendation, is it

(CORNELL - CROSS BY SHAW)

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1 not, Dr. Cornell, that the company would unbundle its
2 business line tariffs into access connections, usage
3 and features and make those separate stand alone
4 tariffs available to all business users?

5 A. That's correct. It would also enable the
6 Commission and the Commission staff to verify that you
7 did what you claimed you were doing in this filing,
8 which was to charge like customers the same price for
9 lines.

10 Q. When you use the phrase "available to all
11 business customers," by that you mean all end user and
12 carrier customers of the company, do you not?

13 A. Without being certain, given the way US
14 West tends to pigeonhole customers, those are all
15 business customers. There may be additional ones as
16 well in the pigeonholing of your tariffs.

17 Q. And as you previously testified before this
18 Commission, you see only two classifications of
19 customers, residential and business customers,
20 correct?

21 A. I think in the long run those are the two
22 correct distinctions to make, if you're going to make
23 distinctions at all.

24 Q. And you would not make any distinction
25 between carrier customers like MCI and end user

(CORNELL - CROSS BY SHAW)

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1 customers like Boeing?

2 A. In the long run I would not, no.

3 Q. And your recommendation, then, is that this
4 unbundled tariff in your second recommendation be
5 available to all business users?

6 A. In my second recommendation I was using
7 business user for the time being the way US West used
8 business user which is to say those who are eligible
9 to subscribe to 1FB, those who are eligible to
10 subscribe to complex business lines, and those who are
11 eligible to subscribe to the Centrex family of
12 services.

13 Q. By requiring US West to offer usage access
14 and features in separate tariffs, is that the first
15 step towards creating building blocks as you've used
16 that term?

17 A. First of all, I do not recall. I do not
18 have my direct testimony in front of me, and if there
19 were going to be more questions about it, I would like
20 to ask permission to get a copy, which is sitting
21 right over there. I do not recall that I used the
22 phrase "in separate tariffs." I asked for them to be
23 separated out and that schedules, if you will. I may

24 have used the phrase separate tariff. To me, the
25 recommendation flowed not directly from the building

(CORNELL - CROSS BY SHAW)

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1 block approach, although as I said in the
2 cross-examination on my direct I believe in the
3 building block approach and if in the proper docket
4 would be advocating it, the recommendation flowed out
5 of what US West claimed it was doing in this filing
6 and yet I did not verify that claim, and believe that
7 indeed US West is not doing what it said and that the
8 recommendation to separate them out and have separate
9 tariffs that had lines, usage and features or separate
10 schedules within a tariff -- and I am not a legal
11 expert on how you design a tariff -- having separate
12 schedules would enable the staff to be certain that US
13 West was doing what it said it was doing.

14 Q. All business customers, including Centrex-
15 type customers, would then order however many lines
16 they wanted out of the access tariff.

17 MS. BROWN: Excuse me, your Honor, I am
18 going to renew my objection to this and if necessary I
19 will have to give a copy of Dr. Cornell's direct
20 testimony to her to enable her to respond to
21 Mr. Shaw's questions this morning. She should be
22 crossed on her rebuttal testimony.

23 JUDGE BALLASH: Mr. Shaw.

24 MR. SHAW: Well, again, your Honor, it's
25 just simply getting in place what her recommendations

(CORNELL - CROSS BY SHAW)

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1 are. Her rebuttal goes on through many exhibits and
2 specifically C-95 to advance her argument, which I
3 presume hasn't changed in her rebuttal testimony, that
4 the company's services should be substantially
5 repriced in the context of this docket. I think I'm
6 entitled to pursue that.

7 JUDGE BALLASH: The objection is overruled.
8 If you wish to provide that direct testimony, you may
9 do so.

10 MS. BROWN: Would you like to take some
11 time to review some prefiled direct? We can go off
12 the record.

13 MR. SHAW: I'm not particularly referring
14 my questions to her prefiled direct.

15 MS. BROWN: I have it before me, Mr. Shaw.
16 I know what you're looking at.

17 JUDGE BALLASH: Mr. Shaw, if you could
18 reference your questions to where you are asking in
19 the rebuttal testimony, it would be helpful.

20 Q. Do you recall the last question, Dr.
21 Cornell?

22 A. I'm afraid I don't. I'm sorry.

23 Q. Your concept is that a Centrex customer of

24 the company would order however many lines it felt it
25 needed out of an access schedule or tariff, order how

(CORNELL - CROSS BY SHAW)

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1 much usage it felt it wanted out of a usage schedule
2 or tariff and then individual features that it wanted
3 out of a feature schedule; is that correct?

4 A. That's partially correct. It would order
5 the lines that it felt it needed -- you call it an
6 access, so as not to confuse that with carrier access
7 I am going to call it a network access connection
8 tariff -- it would order local exchange usage out of a
9 local exchange usage tariff or schedule -- my use of
10 the word tariff, again I do not want to be taken as a
11 legal use of that term -- and it would order features
12 either from a tariff scheduled from monopoly features
13 under contract or by choosing whatever package of
14 features of the competitive features US West chose to
15 put together and offer.

16 Q. Then, it's correct, is it not, that there
17 would be no Centrex-type tariff as we have today.
18 There would be these separate tariff schedules for
19 those items and then in addition to that there would
20 be some other offering of the company perhaps for
21 features that the Commission agreed were competitive
22 features; is that correct?

23 A. Well, it is true you would not have a

24 bundled service as you have today that bundles
25 monopoly and nonmonopoly components in a way that is

(CORNELL - CROSS BY SHAW)

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1 not transparent to what is being charged for the
2 monopoly and what is being charged for the
3 competitive. I do not know that that would result in
4 there being no -- I'm going to call it a piece of
5 paper that lays out what Centrex is and what you need
6 to acquire in order to have Centrex or Centrex Plus or
7 Centron or whatever brand name you wish to give it.
8 That would seem to me to be a question for the
9 marketeers to decide as to whether that was the best
10 way to entice customers to that set of offerings.

11 Q. The follow-on recommendation is that the
12 Commission institute a separate docket for generic
13 cost and pricing, correct?

14 A. In my direct testimony that was my fourth
15 recommendation, yes. There were several follow-on
16 recommendations to the recommendation that the
17 Commission reclassify as noncompetitive the bundled
18 Centrex offerings. The second major recommendation of
19 my testimony is that there should be a costing and
20 pricing docket because of all of the problems and
21 inconsistencies that were found in the cost studies of
22 US West when I examined them. Some have different
23 cost of capital or cost of money. Some used average

24 fill, some used objective fill, some included main
25 termination on the main distributing frames, some

(CORNELL - CROSS BY SHAW)

1040

1 didn't. And these are not -- but those numbers were
2 yet held up as being comparable when of course those
3 differences make them not comparable and you ought to
4 be receiving as a Commission cost studies that are
5 comparable so that you can make judgments about
6 relative costs of product A versus product B and those
7 cost studies did not allow that comparison.

8 Q. Your recommendation is for a generic cost
9 and pricing docket?

10 A. That is correct. The second issue is once
11 you are going to look at costs and set it up so that
12 you can compare the results of one cost study to the
13 results of a second cost study, the Commission should
14 at least look at, whether it makes a final decision or
15 not, what relationship it thinks pricing should have
16 to those cost studies. That may or may not be a
17 uniform relationship. That does not mean they cannot
18 make distinctions about residential versus business
19 service that differ for reasons of universal service,
20 but I believe it's always better to make decisions
21 with knowledge than to make them, if you will pardon
22 the expression, flying blind.

23 Q. So that concept is to identify building

24 blocks beyond the building blocks of access, features
25 and usage and establish a costing methodology and

(CORNELL - CROSS BY SHAW)

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1 establish the cost for those individual building
2 blocks. That's the thrust of the process, isn't it?

3 A. Not necessarily. I did not advocate
4 building blocks in this proceeding. I will repeat it
5 as many times as it takes for you to understand that,
6 Mr. Shaw. I advocated that there be a docket in which
7 I would expect that if MCI participated, MCI would
8 advocate building blocks because they have done so
9 around the country. This Commission by initiating
10 a costing and pricing docket would be under no
11 obligation whatsoever to go forward with a building
12 block approach. I think it has merit, would be happy
13 to talk about the merits but that is not the issue in
14 this docket and deciding in favor of my recommendations
15 in this docket does not commit this commission one iota
16 to building blocks.

17 Q. You are in the employ of MCI and on behalf
18 of MCI you advocate building block approaches in
19 generic cost and pricing dockets, do you not?

20 A. I would dispute your term of "in the employ
21 of." I am not an employee of MCI. I am an outside
22 independent consultant. MCI has asked me over a
23 number of years to look at the building block issues.

24 I have advocated it, if you will, and will continue to
25 espouse it in testimony because I believe in it, but

(CORNELL - CROSS BY SHAW)

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1 that does not make me either in the employ of MCI, and
2 I have not denied that I believe that it is an
3 appropriate approach for a Commission to take. That
4 does not mean I advocated it here in this proceeding.

5 Q. Based upon your belief as an economist, who
6 is an independent contractor with MCI, you believe,
7 together with MCI, that all business customers,
8 including carriers, should be able to buy the building
9 blocks that they choose that represent network
10 functionality at the same price as any other business
11 customer; isn't that correct?

12 MS. BROWN: I am going to object, your
13 Honor. This is asked and answered. Dr. Cornell has
14 repeatedly stated her position that she does not
15 advocate the building block concept in the context of
16 this proceeding join the proceeding.

17 MS. WEISKE: MCI joins the objection and
18 asks Mr. Shaw to point to some place in Dr. Cornell's
19 testimony that makes this question and this line of
20 questioning relevant.

21 MR. SHAW: Your Honor, Dr. Cornell is an
22 economist hired by the staff to advocate that this
23 Commission in the context of a Centrex proceeding

24 totally restructure the company's business rates and
25 not just Centrex rates and then follow on with a cost

(CORNELL - CROSS BY SHAW)

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1 and pricing docket which will further develop the step
2 being advocated here of restructuring the company's
3 business rates and breaking them down into schedules
4 of access and usage and features which currently does
5 not exist. I think it's self-evident that that in and
6 of itself is a building block approach where a
7 customer would simply come to the company's schedules
8 and pick and choose piece parts of network functionality
9 rather than finished services, and in effect build their
10 own service.

11 The advocacy of Dr. Cornell on behalf of
12 MCI for this approach is totally relevant in testing
13 the bias, the beliefs, and where this Commission is
14 going if it accepts her recommendations in this
15 proceeding. There is no purpose, as far as the
16 company is concerned, to start breaking the company's
17 finished business services down into piece parts
18 unless you're going to finish that process in some
19 respect.

20 I think before this Commission accepts this
21 witness' recommendations and launches on a total
22 restructure of the company's business services,
23 including potentially the company's carrier services,

24 that we ought to know what road we're going down.

25 This is the staff's recommendation; this is

(CORNELL - CROSS BY SHAW)

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1 not the company's recommendation. The staff raises it
2 and the company is entitled to explore all the
3 ramifications and implications of that recommendation.

4 JUDGE BALLASH: The objection is overruled.

5 Please proceed.

6 BY MR. SHAW:

7 Q. Do you have the question in mind?

8 A. No, I am afraid I am remembering your
9 mischaracterization of my testimony instead. Could
10 you repeat the question.

11 Q. Let me frame a new question. The approach
12 which you would advocate on behalf of MCI in a
13 building block generic cost and pricing docket would
14 be that all of the monopoly functionality of the
15 public switch network offered by US West be broken
16 down and costed separately; is that correct?

17 A. If I were in a pricing and costing docket
18 and testifying on those issues generically, yes. This
19 is not that docket and this is not the first step
20 towards that docket.

21 Q. Is MCI an intervenor in this proceeding?

22 A. Yes.

23 Q. Does MCI offer Centrex services in the

24 state of Washington?

25 A. MCI, to the best of my knowledge, does not,

(CORNELL - CROSS BY SHAW)

1045

1 although there was something in Mr. Mason's testimony

2 that suggested they were starting to offer

3 Centrex-like services somewhere. I know nothing about

4 it.

5 Q. Does MCI retail CPE, specifically PBXs,

6 associated equipment to end user customers?

7 A. I have no idea.

8 Q. Your proposal in this Centrex proceeding,

9 and I take it as well in any follow-on cost and

10 pricing docket, would be that the price to all

11 business customers, including ideally all carrier

12 customers, for monopoly building blocks would be the

13 cost plus some contribution; is that correct?

14 A. I think, again, I mean, in a sense that is

15 meaningless, the answer is yes. All of the prices of

16 US West are going to be cost plus a contribution.

17 Q. What kind of contribution do you recommend

18 in terms of a percentage level over total service long

19 run incremental cost of monopoly building blocks?

20 A. I do not have a percentage that I

21 recommend. I have an approach that in a costing and

22 pricing docket, which this is not, I would lay out

23 about how to recover the revenue requirement starting

24 from total service long run incremental costs. That
25 proposal is not before the Commission in this docket.

(CORNELL - CROSS BY SHAW)

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1 Q. And that revenue requirement would be all
2 of the revenues that the company currently receives
3 from all carrier customers and end user business
4 customers?

5 A. It would be the revenue requirement of a
6 firm as traditionally determined in a rate case.

7 Q. By that last answer, would you advocate,
8 then, that the building block approach also encompass
9 the revenue requirement of the company related to
10 residential services?

11 MS. BROWN: Your Honor, I want to renew my
12 objection. Yesterday in denying my motion to strike
13 those portions of Dr. Emmerson's testimony in which
14 he discussed the building block approach you indicated
15 you would allow only limited inquiry. I believe that
16 so far we have exceeded what could be termed a limited
17 inquiry to the building block approach.

18 JUDGE BALLASH: Mr. Shaw, how much farther
19 are we going to go with this?

20 MR. SHAW: Not that much further, your
21 Honor. I do think that the record requires an
22 understanding of what the result is of the four
23 integrated staff recommendations.

24 JUDGE BALLASH: With the caution that you
25 wrap this up quickly I will allow the question.

(CORNELL - CROSS BY SHAW)

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1 Q. Do you recall the question, Dr. Cornell?

2 A. I'm sorry, no, I do not. I am glad that
3 you recognize that I am not Dr. Emmerson.

4 Q. I was looking at your rebuttal testimony
5 and read Dr. Emmerson out of it.

6 MR. SHAW: Madam Reporter, could you read
7 the last full question?

8 (Record read as requested.)

9 A. The answer is yes and I would like to
10 explain. The building block approach is a complete
11 integrated approach to looking at the entirety of the
12 company's service offerings and its sources of
13 revenues and looking it away to move it more in the
14 direction that the promise, original promise, of open
15 network architecture seemed to be driving the whole
16 industry. It is not before the Commission in this
17 proceeding, as I've said before. It is not a natural
18 consequence of the staff recommendations. The staff
19 recommendations could all be implemented and this
20 commission could never adopt building blocks.
21 Building blocks does, however, look at everything,
22 residential, business, carrier and every other
23 pigeonhole that US West uses today to make differences

24 between and among customers in terms of what they have
25 to pay.

(CORNELL - CROSS BY SHAW)

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1 Q. And your recommendation is to accomplish
2 this for Centrex services all of the company's
3 business, local exchange services need to be
4 unbundled; is that correct?

5 A. I object to your characterization of it as
6 quote, to accomplish this for Centrex services. This
7 proceeding arose because US West filed a series of
8 tariffs for complex business lines and private line
9 network access connections, and put out a new price
10 list for a new Centrex-type service. In the filings
11 before this commission US West claimed it had set
12 equal terms, conditions, including price, for the line
13 and usage components of the three services that I just
14 mentioned, although I recognize private line does not
15 have a local exchange usage component. I set out to
16 test that claim. I found it false.

17 In the process I determined and discussed
18 with the staff and they agreed with me that it should
19 be recommended to the Commission that those tariffs,
20 those charges for those monopoly components -- which I
21 would remind you, Mr. Shaw, I believe it was in 1986
22 in an earlier Centrex proceeding I had recommended be
23 unbundled before building blocks was ever discussed

24 with MCI or publicly. This is merely a continuation
25 of that same recommendation. I make it again because

(CORNELL - CROSS BY SHAW)

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1 it was so difficult to test the claims of US West that
2 they were charging the same price in similarly
3 situated circumstances. That is the genesis of this
4 recommendation. The genesis is not building blocks.

5 Q. The company filed a business line tariff
6 offering discounts for volume and longevity of
7 contract, correct, that's subject to this proceeding?

8 A. It filed three different versions of them.
9 One, if you took your competitive features from US
10 West and two others that applied if you did not.

11 Q. Going back to my question. Did the company
12 file changes to its complex business line tariff to
13 offer reduced rates for volume and longevity of
14 contract?

15 A. That was one of those three filings I just
16 described.

17 Q. And the company made a like filing for
18 private line services, correct?

19 A. The company made what it claimed was a like
20 filing for private line services.

21 Q. Do you dispute the company's evidence that
22 any similarly situated customer in terms of line size
23 and length of contract that it wishes to file get the

24 same price for network usage regardless of whether
25 that customer uses a PBX or a Centrex?

(CORNELL - CROSS BY SHAW)

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1 A. The answer is that depends, and the reason
2 it depends is because it depends upon how you take
3 apart the bundled rate. If you take out of the
4 bundled rate an identical price for usage then it is
5 absolutely clear that the claim of equal price for the
6 loop is wrong. If, on the other hand, you constrain
7 the equation, if you will, to take out an equal price
8 for the loop, then the claim that the usage price is
9 the same is not always accurate.

10 Q. The discounts on the price for usage
11 available to Centrex customers are precisely the
12 discounts available to the customers of complex
13 business lines or PBX trunks, are they not?

14 A. I don't know what you were talking about
15 when you talk about a discount for usage. A NAR or
16 NAF, I believe is what you call it in Washington, rate
17 network access facility, is set by subtracting certain
18 things from a complex business line rate. And the
19 process by which this was done was in a confidential
20 exhibit so I wish to leave it that vague. If you
21 accept that, and I did for the purposes of my
22 calculations, then the price of usage is the same.
23 There is no discount schedule. The discount schedules

24 were established for the loop part of these services
25 or the line portion, not for the usage portion.

(CORNELL - CROSS BY SHAW)

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1 Q. So it is correct, then, that a PBX customer
2 that requires PBX trunks or complex business lines
3 will pay exactly the same thing for network usage as a
4 Centrex customer that is similarly situated?

5 A. The answer is no, not necessarily. That
6 is, it depends whether the Centrex customer takes the
7 100 percent option or the blocked option. In the
8 blocked option the price for a network access facility
9 has been set in the fashion that I described. The
10 answers to data requests and the testimony filed have
11 still left me unable to tell this commission how the
12 price for usage on a nonblocked Centrex system was
13 determined.

14 Q. Have you reviewed Dr. Zepp's rebuttal
15 testimony giving his opinion on behalf of his clients,
16 the state of Washington and the major corporations in
17 the state, they would have no use for the unblocked
18 option that's been presented by the company because of
19 its high price?

20 A. I read that.

21 Q. And that reflects the fact that no Centrex
22 customer of any size wants unblocked access on each
23 and every station line; is that correct?

24 A. I did not read that. It reflects, as I
25 recall exactly what you said, that there is a price

(CORNELL - CROSS BY SHAW)

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1 that US West has set and those customers think it is
2 too high.

3 Q. Directing your attention to the unblocked
4 -- excuse me -- the blocked option. Do you agree that
5 a similarly situated PBX customer pays the same thing
6 for usage as a blocked Centrex customer that's
7 similarly situated?

8 A. I said before that may be the case. If you
9 start by subtracting from the PBX rate or the complex
10 business line, as it's called here in Washington, the
11 network access facility charge, you then have by
12 virtue of doing the comparison that way, you have
13 assumed they are paying the same thing for access, but
14 you then demonstrate they are not paying the same
15 thing for lines.

16 Q. Let's turn to the line piece, and by that I
17 take it we are both talking about the same thing,
18 what's been identified as the NAC in this filing,
19 which is the drop in the loop in the main frame
20 termination. Are we in agreement on that?

21 A. Yes.

22 Q. A customer that's making a choice between
23 PBX service or Centrex service has a fundamental

24 decision, does he not, on whether he wants to buy the
25 additional lines or NAC's necessary to make a Centrex

(CORNELL - CROSS BY SHAW)

1053

1 work?

2 A. As compared to what?

3 Q. As compared to its PBX option of just
4 buying so many trunks.

5 A. I think you have not completely specified
6 what the choice is. The choice is between buying
7 a piece of terminal equipment and using a certain
8 number of complex business lines or not having to buy
9 the piece of terminal equipment in question, namely
10 the PBX, and instead having many more lines that it
11 subscribes to the central office.

12 Q. When a customer is making the selection for
13 a PBX, he needs to buy or lease or obtain in some
14 fashion a PBX. He also needs to buy or lease or
15 obtain in some fashion a quantity of inside wire, does
16 he not?

17 A. Yes. Although I'm not as certain about
18 precisely how the inside wire is provided, you need
19 inside wire both for Centrex and for a PBX. You also
20 need pieces of terminal equipment or stations every
21 place you wish to have the ability either to receive
22 or place a call. Those are the same whether it's a
23 PBX or a Centrex-type option.

24 Q. So the three variables between the service
25 are whether you buy your own switch or not, whether

(CORNELL - CROSS BY SHAW)

1054

1 you provide additional inside wire or not, if you go
2 with a PBX option, and then lastly how many NACs
3 you're going to have to buy from the phone company,
4 correct?

5 A. I would only characterize the second of
6 those as how you are going to provide the inside wire
7 because you're going to need it in either case.

8 Q. You agree that in terms of functionality
9 the Centrex lines or NACs with no usage to the
10 customer perform the function of allowing one station
11 set to talk to the other in his system, correct?

12 A. That's an incomplete description of what
13 those lines allow. That is one of the things they
14 allow but that is not all that they allow.

15 Q. What else do they allow?

16 A. They also allow the ability to communicate
17 to non-- to customers or to persons who are not part
18 of that particular Centrex system. They allow access
19 to toll networks, international networks.

20 Q. And to gain those latter functionalities
21 the customer has to buy another thing, does he not?
22 It has to buy however many numbers of network access
23 connections or NAFs that he desires, correct?

24 A. Unless he subscribes to the unblocked
25 option, yes.

(CORNELL - CROSS BY SHAW)

1055

1 Q. Your objection to the company's proposal in
2 this case for Centrex service focuses then on the fact
3 that a Centrex customer in buying the additional NACs
4 that he necessarily needs to make a service work as
5 opposed to a PBX receives volume discounts on those
6 NACs, is that correct, and longevity of contract
7 discounts?

8 A. No. My objection is that he receives or
9 she receives volume discount and longevity discounts,
10 A, not justified fully by cost distinctions; and B,
11 not available to a subscriber of complex business
12 lines who takes the same number of lines. In other
13 words, if 100 lines are used from central office A to
14 point B it cost the company the same amount regardless
15 of whether those 100 lines are part of a Centrex
16 system or are 100 complex business lines. And
17 therefore, the same discounts and longevity based on
18 cost should be available to both customers. There
19 should not be discrimination just because the Centrex
20 customer has chosen to take competitive or potentially
21 competitive functionality from the telephone company
22 instead of from somebody else.

23 Q. Is it your testimony that any customer of

24 US West that desires, say, 100 lines from the same
25 premises to the same central office pays a different

(CORNELL - CROSS BY SHAW)

1056

1 rate for the NAC portion of the line, depending on
2 whether that customer is a PBX user, a Centrex user or
3 just a multiple business line local exchange customer
4 of the company?

5 A. Is that my contention, is that your
6 question?

7 Q. Yes.

8 A. Yes, it is, and I point you to C-39 as
9 amended by C-95 for my demonstration of exactly that.

10 Q. And C-39 is your exhibit on direct which
11 was initially NWC-2; is that correct?

12 A. I believe that's correct. I don't have it
13 in front of me but I believe that was the one that
14 gave the table with four scenarios, 25 lines, no rate
15 stability; 25 lines, rate stability; 75 lines, six
16 quarter miles from the central office; and -- without
17 rate stability, excuse me -- and 75 lines with rate
18 stability, six quarter miles from the central office.

19 Q. And you have amended that exhibit slightly
20 in C-95; is that the same exhibit as C-39?

21 A. It is almost the same exhibit. Mr. Jensen
22 in his rebuttal testimony made clear to me that I had
23 not correctly interpreted the price list for Centrex

24 Plus 100 percent option. Neither had US West in its
25 answers to our data requests. Based on his rebuttal

(CORNELL - CROSS BY SHAW)

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1 testimony and how he was interpreting that price list
2 in that rebuttal testimony, I amended the Centrex Plus
3 100 percent option lines in each of those four
4 scenarios. The exhibit is otherwise unchanged.

5 Q. And this is the sole evidence that you
6 present that NACs are not available at the same price
7 for similarly situated customers of US West; is that
8 correct?

9 A. I am left a little dumbfounded by your use
10 of the word sole. As one took apart the tariff,
11 subtracted from it the relevant costs of other piece
12 parts or prices, as the case -- as was relevant -- it
13 is far from minor as evidence. US West was asked to
14 produce a document that looked like this and claimed
15 it would not. We had to do it ourselves in an attempt
16 to test the claims by US West that the price was the
17 same. This has never -- despite having said
18 erroneously that I made errors in my original
19 calculation, US West has not supplied a correct, in
20 its view, version of this table. It simply asserts
21 that it has set them equally. This is the only
22 numerical analysis that is in this record that
23 attempts to verify and prove or disprove, and I did

24 not know what I was going to find when I set out to do
25 it.

(CORNELL - CROSS BY SHAW)

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1 Q. Thank you.

2 MR. SHAW: That's all I have.

3 JUDGE BALLASH: Mr. Jones.

4

5 CROSS-EXAMINATION

6 BY MR. JONES:

7 Q. Just a couple of questions, Dr. Cornell. I
8 believe in your testimony you indicated that you had
9 reviewed the testimony of Dr. Zepp?

10 A. Yes.

11 Q. Looking at your rebuttal testimony on page
12 19, at lines 18 through 21 you indicate that US West
13 in its response to data request WUTC 48 only used a 3
14 to 1 station line to NAF ratio. That choice was
15 supported by looking at the data not just from
16 Washington but from all of US West states combined.
17 Could you tell me a little bit about what data you're
18 talking about there?

19 A. Yes. And I apologize. I do not have the
20 exhibit number, but in the exhibits to my direct
21 testimony I included as an exhibit the response to a
22 data request which was confidential in which US West
23 gave the station line to NAF ratios for each of its

24 states and for US West as a whole, divided out by, I
25 think it was, 1 to 20, 21 to 50. I'm not guessing,

(CORNELL - CROSS BY JONES)

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1 I'm trying to recall, and I'm not sure I've got it
2 accurately, but they had I believe five different
3 categorizations, one of which was 51 and above, sort
4 of 51 to infinity, if you will, but the others were
5 more constrained. One of them, I know, pretty sure
6 went up to 400 and it is to that data which I am
7 referring.

8 Q. So you didn't look at any other data in
9 making your calculations in Exhibit C-39, now amended
10 by C-95, in concluding at this point in your testimony
11 that a 3 to 1 ratio is the appropriate ratio to use in
12 all scenarios, 25 lines or 75 lines?

13 A. Once again, I think you have failed to
14 understand what the data was that I looked at, and I
15 merely used the 3 to 1 ratio as an approximation, and
16 so there are two parts of your question that in a
17 sense that I disagree with or the answer is no and I
18 would like to explain why. The data was actual data
19 on US West's Centrex-type systems, I assume, showing
20 how many station lines and how many NAFs were
21 subscribed to in each state for the time period that
22 the data was collected, and I just do not remember
23 sitting here without it in front of me what period

24 that it was. So it was presumably the population of
25 its Centrex systems all across its regions broken out

(CORNELL - CROSS BY JONES)

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1 state by state. So it was quite a large pool of data.
2 It said how many customers, how many systems they were
3 talking about, how many NAFS, how many station lines,
4 how many station lines per system and then handwritten
5 were the calculations of what it made the ratio in
6 terms of NAFS to station lines. So it was a fairly
7 large pool of data from which to take it.

8 What it showed was, and this is the second
9 part of your question, is that that number varies
10 all over the map and there is no consistency even in a
11 narrow sense -- and I did not run regressions on these
12 numbers, but the ratios varied widely state by state
13 within a line size. So the ratio -- there is no
14 constancy to a ratio. There is no close adherence
15 even for a formula from which you could derive for a
16 particular customer or a particular state even an
17 accurate forecast of what the next customer of line
18 size X would subscribe to in the way of NAFS.

19 MS. BROWN: For the record, your Honor, I
20 believe Dr. Cornell is referring to Exhibit C-47.

21 JUDGE BALLASH: Thank you.

22 THE WITNESS: Thank you. I apologize. I
23 just didn't remember.

24 MR. JONES: Thank you, Counsel. I don't
25 have any further questions.

(CORNELL - CROSS BY KENNEDY)

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1 JUDGE BALLASH: Mr. Kopta.

2 MR. KOPTA: I have no questions.

3 MR. HARLOW: I have no questions either.

4 MS. WEISKE: No questions.

5 JUDGE BALLASH: Mr. Kennedy.

6

7 CROSS-EXAMINATION

8 BY MR. KENNEDY:

9 Q. Good morning, Dr. Cornell.

10 A. Good morning.

11 Q. My name is Steve Kennedy. As you recall I
12 represent TRACER and TCA. I have a few questions
13 relating to your views about circumstances that might
14 require imputed prices. Back in September I asked
15 you a couple of hypothetical questions about monopoly
16 and competitive functions provided by a railroad. For
17 the record I'm referring to pages 587 and 88 of the
18 transcript. I believe you told me then that in
19 certain cases the transportation of coal by rail could
20 be a monopoly function, while the transportation of
21 other types of cargo could be a competitive function,
22 that is, with respect to the transportation of those
23 other cars, the railroad may compete with other modes

24 of transport such as trucks. Do you recall that
25 testimony?

(CORNELL - CROSS BY KENNEDY)

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1 A. I do not recall that testimony, and I would
2 appreciate being able to see what I said before I --

3 Q. I'm sorry, I don't have copies for everyone
4 but it is in the transcript at page 587. Would you
5 like to take a minute to look at that?

6 A. Yes, I would, if you don't mind.

7 Okay, yes.

8 Q. I believe you agreed that in the case of
9 the railroad, and you specifically limited it to the
10 railroad, the situation I described is a situation
11 where the same facilities, the railroad track, the
12 engines, so forth, are used to provide both a monopoly
13 and a competitive function; is that correct?

14 A. I believe I said that, yes.

15 Q. Now I would like to ask you about price
16 imputation in such a situation. Following your
17 principles of imputation, do you believe that the ICC
18 should require that the price charged for the
19 railroad's monopoly service should be imputed into
20 the prices charged for the competitive services
21 offered by the railroad?

22 A. I do not think the situations are comparable
23 because the transport of coal is not a monopoly input

24 into the transport of other commodities.

25 Q. So you don't think that it should be

(CORNELL - CROSS BY KENNEDY)

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1 imputed?

2 A. I do not think it should be imputed. I
3 have not sat down to study railroad regulation in that
4 incredibly arrogant phrase, if I ruled the world how
5 would I do it. I have studied what I would do with
6 telephones.

7 Q. Thank you.

8 MR. KENNEDY: No further questions.

9 JUDGE BALLASH: Mr. Ludvigsen.

10 MR. LUDVIGSEN: Very short set of
11 questions.

12

13 CROSS-EXAMINATION

14 BY MR. LUDVIGSEN:

15 Q. Good morning, Ms. Cornell. I'm Greg
16 Ludvigsen on behalf of ETI.

17 A. Good morning.

18 Q. One question or a series of questions, I
19 should say. You went through with Mr. Shaw the types
20 of elements that are necessary in order to compare the
21 ability -- the equipment that's necessary to make a
22 call over PBX system and Centrex system. Starting
23 with the station lines and inside wire, PBX, your NAC

24 and then the central office, main frame. And on the
25 Centrex side I believe there would be the station, the

(CORNELL - CROSS BY LUDVIGSEN)

1064

1 inside wire, again the NAC, your main distribution
2 frame and a NAR. It would appear that, would you
3 agree, that the NAC for a Centrex customer at times
4 will serve to be a functional equivalent to the inside
5 wire behind a PBX and at other times as used by the
6 customer in a manner which is functionally equivalent
7 to PBX trunk?

8 A. The answer is in one sense yes and in one
9 sense no. I have a hard time really pigeonholing the
10 NAC of a Centrex system as being inside wire, because
11 inside wire is a component of it. Inside wire is the
12 wire inside the building, and it then goes on to have
13 other things. It permits a conversation to start at
14 one station and end at another when that is part of a
15 Centrex system, that is correct. But it is bigger
16 than inside wire.

17 Q. But NAC is serving in a manner that's
18 functionally equivalent to the inside wire?

19 A. It permits the same conversation to take
20 place. It could be done just with inside wire, if you
21 had a PBX.

22 Q. How do you recommend that the Commission
23 price something that could be used in both what would

24 be a monopoly bottleneck function and in a sense its
25 competitive function, which is the inside wire?

(CORNELL - CROSS BY LUDVIGSEN)

1065

1 A. I recommend, and again, in this proceeding
2 I have said, I think, lines should be priced so that
3 anyone who takes a given number of them for a given
4 length of time and is a given distance away from the
5 central office pays the same price regardless of
6 where they take their competitive features. If I were
7 doing a complete overhaul of the company's pricing,
8 I would expand on that in a way to say you need to
9 make sure that it covers its cost and is
10 nondiscriminatory in a broader sense than the narrow
11 sense that both US West walked in with and that I
12 responded to.

13 What you get to eventually is the hard
14 question of where does US West get its contribution to
15 cover its overhead costs and whatever else is in its
16 revenue requirement besides incremental costs and
17 economically efficient overhead costs, and there you
18 have to look at a whole collection of questions about
19 the relative competition for various elements of US
20 West's network.

21 The answer to your question, in other
22 words, is not a simple one. And it is not served by
23 simply presenting that the NAC is not a bottleneck

24 monopoly functionality the present time. And that
25 discrimination, therefore, does not matter. It does

(CORNELL - CROSS BY LUDVIGSEN)

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1 affect the efficiency of the whole network in its
2 use in all of its ramifications across the economy. I
3 say that because in the case where it is truly a
4 bottleneck monopoly function, even though it can be
5 used to substitute for something that's competitive,
6 you still have to take into account its bottleneck
7 monopoly nature. I don't know whether I've really
8 answered your question, because I said it's not
9 simple.

10 MR. LUDVIGSEN: I have no further
11 questions.

12 JUDGE BALLASH: Questions from the
13 Commission?

14

15 E X A M I N A T I O N

16 BY COMMISSIONER PARDINI:

17 Q. Dr. Cornell, do you advocate a separate
18 docket after this proceeding similar to the Oregon
19 docket for establishing the building blocks?

20 A. I think you're a jump ahead of where I'm
21 advocating you go. I advocate you have a proceeding
22 to hear all the arguments about costing and pricing in
23 terms of what kind of rules should apply to the

24 monopoly portion of US West network and what kind of
25 safeguards for monopoly customers need to be in place

(CORNELL - EXAMINATION BY COMMISSIONER PARDINI) 1067

1 vis-a-vis pricing of competitive portions of that
2 network or competitive offerings of US West. I would
3 be happy, personally, if out of that you decided to
4 explore the building block approach, but to accept the
5 recommendation for a costing and pricing docket is not
6 to accept that that means you are going to adopt
7 building blocks.

8 Second of all, even if you adopt building
9 blocks it does not mean you are into what Oregon got
10 into. We've learned a lot in Oregon and all the
11 parties who have been a party to Oregon would be
12 coming to talk to you based on what we've learned in
13 Oregon rather than asking you to re-invent the wheel.
14 That proceeding started from perhaps a correct or
15 erroneous, depending on your point of view, assumption
16 that we almost knew nothing and must start from
17 scratch. That is not the posture you need to be in
18 nor devote that kind of resources to it, even if you
19 adopted building blocks, which would be the outcome --
20 not the outcome -- let me very clearly strike that and
21 say that could be an outcome of a costing and pricing
22 docket.

23 Q. I'm failing to comprehend what would be the

24 difference between a cost and pricing docket, which I
25 think you say is your suggestion, and the building

(CORNELL - EXAMINATION BY COMMISSIONER PARDINI) 1068

1 block docket?

2 A. There are several things that happened in
3 the course of this docket that led me to talk to the
4 staff about this and they said, yes, they had seen
5 them elsewhere as well, which is that the cost studies
6 that were brought in to support various tariffed rates
7 were not comparable so you could not look at the cost
8 study for one service offering and say, well, this one
9 costs, you know -- I'm going to invent numbers for
10 obvious reasons -- \$6.50 but this over here costs
11 \$8.25, because when you went behind the numbers on the
12 summary page they would use different costs of money;
13 in some cases they included a cost for a main
14 distribution frame and in some cases they left it out.
15 They used different lengths of loop, for example, in
16 the loop cost studies and yet said they could take the
17 number from this study and use it over here, which is
18 not correct. Those are three that come immediately to
19 mind. I have more examples in one of the confidential
20 exhibits to my direct testimony.

21 The reason I am calling for a costing and
22 pricing docket, and I might add, let me step back a
23 step. I forgot to tell you that in some circumstances

24 you do not want incremental costs, you want fully
25 distributed costs which means they're even less

(CORNELL - EXAMINATION BY COMMISSIONER PARDINI) 1069

1 comparable to the numbers that were brought forward in
2 this docket. You need to have a set of cost numbers
3 presented to your staff that are consistent, that are
4 comparable so that the staff can come and make, based
5 on whatever social goals, whatever economic goals,
6 whatever policy goals you have, you at least can say
7 things about service A compared to service B. You do
8 not have that now and your staff does not have that
9 now, and the reason for calling for a costing -- the
10 costing part of the costing docket was literally to
11 say, whatever else you want to do your staff deserves
12 that. They deserve the ability to comes before you
13 and say, based on a consistent set of inputs and
14 assumptions, assumptions about growth, if you will,
15 about traffic patterns, this compares to that in the
16 following way. They cannot now make that with
17 confidence.

18 Q. Let me try again. What is the difference
19 between your pricing and costing docket and your
20 building block docket?

21 A. Building blocks is an approach to looking
22 at the network and an approach to doing costing that is
23 different from costing at the service level. It is a

24 forward looking approach in that it is looking ahead
25 to what are going to be the services of telephone

(CORNELL - EXAMINATION BY COMMISSIONER PARDINI) 1070

1 companies but in many cases may not be now their
2 services. Remember, a service is anything offered
3 under a separate tariff or a separate tariff schedule.
4 That's the definition of a service in telecommunications
5 but services are bundles of functionalities. In the
6 future there is already building pressure, and I really
7 do believe in the future smart telephone companies will
8 respond to it, to break open and make available those
9 functions individually so that users can put together
10 services they want and be able to be more efficient in
11 the economy as a whole. And, by the way, in the process
12 make more use of the network.

13 The building block approach looks forward
14 to that outcome but to adopt a costing and pricing
15 docket you can come out of that saying here is a
16 unified set of costing rules and we decline to adopt
17 the building block approach. There is no automatic
18 link between the two whatsoever. Costing dockets have
19 taken place in commissions around this country, in my
20 survey, for example, in the late 70's in which they
21 put out a set of rules that should apply to cost
22 studies whenever a telephone company came in. Had
23 nothing to do with building blocks. They are

24 different. That does not deny that I personally
25 believe it would be wise to look to building blocks

(CORNELL - EXAMINATION BY COMMISSIONER PARDINI) 1071

1 but you do not have to, and this is not what's before
2 you in this proceeding and accepting the
3 recommendation for a costing and pricing docket does
4 not in any way commit you to building blocks.

5 COMMISSIONER PARDINI: Thank you.

6 JUDGE BALLASH: Redirect for this witness.

7 MS. BROWN: Is this a good time for a
8 morning break?

9 JUDGE BALLASH: Certainly.

10 (Recess.)

11 JUDGE BALLASH: Let's be back on the record
12 after our morning break. While we were off the record
13 Mr. Harlow distributed some documents pursuant to a
14 request for judicial notice that he made yesterday.
15 There are three separate documents here that I would
16 like to treat as one exhibit, the first being a letter
17 dated September 19, 1986 to the Commission, the second
18 being a Commission decision in docket No. U-871506-P
19 and the third being MetroNet Services Corporation
20 Rebilling and Services Price List dated February 12,
21 1991, being the first page. These three documents
22 will be marked as Exhibit 896 for identification.

23 (Marked Exhibit No. 96.)

24 COMMISSIONER PARDINI: In total?
25 MR. GARLING: All three of them together?
(CORNELL - EXAMINATION BY COMMISSIONER PARDINI) 1072
1 JUDGE BALLASH: Yes. Did you wish to move
2 their admission at this time?
3 MR. HARLOW: Yes, I do.
4 JUDGE BALLASH: Any objection to the
5 admission of Exhibit 96?
6 MR. SHAW: None.
7 JUDGE BALLASH: Exhibit 96 will be
8 admitted.
9 (Admitted Exhibit No. 96.)
10 JUDGE BALLASH: Ms. Brown.
11 MS. BROWN: I have no questions for Dr.
12 Cornell.
13 JUDGE BALLASH: Any other questions for
14 this witness? Thank you for your testimony. You may
15 step down. It's my understanding that MCI wishes
16 to present its witness at this time. Ms. Weiske.
17 Whereupon,
18 MARK BRYANT,
19 having been first duly sworn, was called as a
20 witness herein and was examined and testified as follows:
21
22 DIRECT EXAMINATION
23 BY MS. WEISKE:

24 Q. Dr. Bryant, would you state your name and
25 business address for the record, please?

(BRYANT - DIRECT BY WEISKE)

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1 A. My name is Mark Bryant. My business
2 address is 701 Brazos Street, B R A Z O S in Austin,
3 Texas.

4 Q. What is your position with MCI?

5 A. I'm employed by MCI as executive staff
6 member regulatory and economic analysis.

7 Q. Dr. Bryant, did you have filed rebuttal
8 testimony in this case?

9 A. Yes, I did.

10 Q. And do you have any changes or corrections
11 to either the testimony or the attachment to that
12 testimony that you filed?

13 A. No, I don't.

14 MS. WEISKE: Your Honor, the attachment
15 which is Dr. Bryant's resume' was inadvertently left
16 off of the original filing. I've handed you copies of
17 that attachment for the Commissioners. It's on the
18 four copies I gave you and all parties were given a
19 copy of that attachment yesterday.

20 JUDGE BALLASH: That would be marked as a
21 separate exhibit?

22 MS. WEISKE: Whichever your preference. I
23 need an exhibit number for the exhibit.

24 JUDGE BALLASH: Rebuttal testimony of Dr.
25 Bryant will be marked as Exhibit T-97 for

(BRYANT - DIRECT BY WEISKE)

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1 identification. And attachment A to Dr. Bryant's
2 testimony will be marked as Exhibit No. 98 for
3 identification.

4 (Marked Exhibits Nos. T-97 and 98.)

5 MS. WEISKE: MCI would request admission of
6 the two exhibits at this time.

7 JUDGE BALLASH: Any objection?

8 MR. SHAW: None.

9 JUDGE BALLASH: Exhibits T-97 and 98 will
10 be admitted into the record.

11 (Admitted Exhibits Nos. T-97 and 98.)

12 Q. Dr. Bryant, would you very briefly
13 summarize why MCI filed rebuttal testimony in this
14 case?

15 A. Yes. After reviewing the testimony filed
16 by a witness on behalf of US West, Mr. Sanderson, in
17 this proceeding, MCI was concerned that there were
18 mischaracterizations of the nature of the agreement
19 that had been reached by the parties in the Oregon
20 workshop proceeding. Purpose of my testimony was to
21 show that in fact Mr. Sanderson had mischaracterized
22 the nature of the agreements and that there has been
23 no consensus reached in Oregon that would support

24 Mr. Sanderson's position on costing and pricing of
25 telecommunications services.

(BRYANT - CROSS BY SHAW)

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1 MS. WEISKE: Dr. Bryant is available for
2 cross-examination.

3 JUDGE BALLASH: Mr. Shaw.
4

5 CROSS-EXAMINATION

6 BY MR. SHAW:

7 Q. Dr. Bryant, I notice in your Exhibit 98
8 your statement of qualifications and prior experience
9 in regulatory matters. You do not list the Oregon
10 building blocks docket. Are you a participant in
11 that?

12 A. Yes, I am. Should point out that there
13 have not as yet been hearings in that proceeding. The
14 case was assigned a docket number to permit the entry
15 of a protective order and the exchange of information.
16 I believe that before the proceedings concluded there
17 will be a hearing but there has not yet been.

18 Q. And you together with Dr. Cornell represent
19 the interests of MCI in that docket?

20 A. Yes, that's correct.

21 Q. And how long has that process been going on
22 in Oregon?

23 A. I believe the very first workshop was

24 convened in October of 1990 and has been going on ever
25 since.

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1 Q. I would like to hand you a partial copy of
2 a document. Dr. Bryant, I will tell you that this is
3 the front page and an internal page from a brochure
4 that I received in the mail that is advertising a
5 local exchange competition seminar by the Institute of
6 International Research to take place this coming March
7 in San Diego, California. And on the second page MCI
8 is a panelist in this seminar, and I direct your
9 attention to the second page up in the top left-hand
10 corner and the heading is Building Blocks, Redefining
11 The Local Exchange Carrier Network In The Face Of
12 Competition. Do you see that reference?

13 A. Yes, I see that.

14 Q. Give you a second to read that and then ask
15 you, was that statement prepared by MCI?

16 MS. WEISKE: Before we do, MCI would raise
17 an objection to this line of questioning. Dr. Bryant
18 is very clear on the first page of his rebuttal
19 testimony that he's here to testify as to a very
20 narrow issue regarding Mr. Sanderson's characterization
21 of an issue involving volume-sensitive cost. Dr. Bryant
22 did not testify as to building blocks generally in his
23 testimony, nor was it MCI's intention to do that here.

24 The statement that Mr. Shaw has handed me seems to go
25 into a general discussion of building blocks. So it

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1 would be helpful for Mr. Shaw to relate this particular
2 line of questioning to the rebuttal testimony of Dr.
3 Bryant. If he cannot then I renew my objection that
4 this is an inappropriate line of cross.

5 MR. SHAW: Your Honor, at page 2 of the
6 witness' testimony, starting line 16, he characterizes
7 what his rebuttal testimony is about and states
8 that "the purpose is to respond to certain
9 mischaracterizations of the Oregon building blocks
10 workshop." I think it's totally relevant in cross of
11 that statement to establish what that process is
12 before we can address whether or not Mr. Sanderson
13 indeed mischaracterized it.

14 JUDGE BALLASH: How does it relate to the
15 certain mischaracterizations that he further describes
16 on page 3 of his testimony concerning volume-sensitive
17 costs?

18 MR. SHAW: The witness states at page 10 in
19 quoting from a document that came out of that workshop
20 statement of pricing principle, prevention of subsidy,
21 et cetera. I think that the witness' rebuttal has
22 raised issues that go beyond just the narrow issue of
23 the treatment of spare capacity.

24 MS. WEISKE: May I respond, your Honor?

25 JUDGE BALLASH: Yes.

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1 MS. WEISKE: If you look at the top of page
2 10 beginning at line 1 of Dr. Bryant's testimony he
3 raises the pricing principle issue only to indicate
4 that Mr. Sanderson's statement was incomplete and thus
5 a mischaracterization. He does not go into an
6 extensive discussion of what has occurred in the
7 building block workshops as to pricing, and frankly,
8 this witness would be unable to testify as to that
9 issue since no consensus has been reached as to
10 pricing vis-a-vis those workshops. Thus I think this
11 is an appropriate line of cross-examination and well
12 outside the scope of Dr. Bryant's rebuttal.

13 JUDGE BALLASH: The objection is overruled.
14 Please proceed, Mr. Shaw.

15 Q. Dr. Bryant, did MCI prepare, if you know,
16 that statement that's contained in the document I've
17 handed you?

18 A. I don't know.

19 Q. Is Tim Gates your supervisor?

20 A. No, he's not.

21 Q. Are you his supervisor?

22 A. No, I'm not.

23 Q. You're not in the same organization at all?

24 A. We are in the same organization, yes.

25 Q. You're peers in that organization?

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1 A. Yes.

2 Q. Are you aware of Mr. Gates' presentation
3 that's coming up in March?

4 A. No, this is the first I've seen it.

5 Q. Have you had a chance to review that brief
6 statement that refers to what Mr. Gates is going to
7 talk about?

8 A. If you will give me just a moment. Okay,
9 I've read it.

10 Q. Is it an accurate statement of MCI's
11 position?

12 A. In very general terms, yes.

13 Q. Is it an accurate statement of MCI's
14 position in the Oregon proceeding?

15 A. Well, I'm having trouble because I don't
16 believe that this really states a position. It's a
17 description of the presentation that Mr. Gates is
18 apparently going to give.

19 Q. Does MCI advocate building blocks as the
20 best way to structure and price the offerings of local
21 exchange companies?

22 A. Yes, we do.

23 Q. You refer on page 10 to a September 21,

24 1992 document. I would like to hand you what I
25 believe to be a copy of that document and ask you

(BRYANT - CROSS BY SHAW)

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1 whether that is the document that you're referring to?

2 A. Yes, it is.

3 Q. And could you indicate for the Commission
4 where you took the quote on page 10 of your testimony?

5 A. Yes, that quote is found on page 16.

6 Q. And where is the quote that you are taking
7 exception to that Mr. Sanderson made? Is it on that
8 same page?

9 A. Yes, it is.

10 Q. Would you point out to the Commission
11 specifically the quote that Mr. Sanderson took from
12 the document?

13 A. Mr. Sanderson quoted from two portions of
14 the document and the first quote is found on page 10
15 in the fourth paragraph on the page. The other place
16 that Mr. Sanderson quoted from the document is found
17 on page 8. In the second paragraph below the heading
18 issue No. 6, choice of increment.

19 Q. Does this document purport to state the
20 consensus of the parties to date in the Oregon
21 proceeding?

22 A. Well, the entire document is a memorandum
23 from Dr. Mark Hellman of the Oregon staff to Mr. Mike

24 Kane of the consensus document that was agreed to by
25 the parties in the costing workshop.

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1 Q. So does this document purport to reflect
2 the consensus of the parties?

3 A. Yes. Aside from everything after the
4 heading Cost Principles, Telecommunications Building
5 Blocks, which is the fourth page in the document,
6 everything following that page is the consensus or
7 represents the consensus that was reached by the
8 workshop participants.

9 Q. And MCI has agreed as a party to that
10 proceeding to everything following the heading on page
11 4 that you just referred to?

12 A. Yes, we have agreed. I wouldn't want too
13 fine a point on that. It's not in the form of a
14 stipulation, but within the context of the workshop,
15 yes, we have agreed with the document.

16 Q. Turning to page 7 of your testimony, and
17 specifically lines 22 and 25, you make a statement
18 that Mr. Sanderson admitted a statement from this
19 document which, "explicitly states that
20 volume-sensitive costs may not be an appropriate basis
21 for the calculation of a price floor." Would you
22 point out to the Commission in the Oregon report
23 exactly where that statement is?

24 A. Well, it is in the same quote that we
25 discussed a moment ago which is on page 16 of the

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1 document and specifically the first paragraph on that
2 page.

3 MR. SHAW: Your Honor, I would like to have
4 a number assigned to this and move its admission. I
5 will supply additional copies to the parties that
6 don't have them. I apologize for not having enough
7 copies.

8 JUDGE BALLASH: I will mark Public Utility
9 Commission of Oregon Staff Report Public Meeting date
10 September 29, 1992 as Exhibit No. 99 for identification.

11 (Marked Exhibit No. 99.)

12 JUDGE BALLASH: Any objection to the
13 admission of Exhibit No. 99?

14 Exhibit 99 will be admitted into the
15 record.

16 (Admitted Exhibit No. 99.)

17 Q. In the Oregon workshop, your participation
18 with Dr. Cornell, did you ever assert that growth
19 spare could or should be treated as volume sensitive?

20 A. Did I ever assert that?

21 Q. Yes.

22 A. Not to my recollection, no.

23 Q. Did anybody else make that assertion?

24 A. Yes, US West has made that assertion or the
25 representatives of US West.

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1 Q. Anyone else?

2 A. A similar assertion was probably made by
3 the representative from GTE, but I can't recall
4 specifically the occasion and what was said. I know
5 that he agrees with US West's position.

6 Q. Does Exhibit 99 reject that assertion?

7 A. No, it doesn't. It reject the assertion
8 that growth spare should be treated as a volume
9 sensitive cost.

10 Q. It does do that?

11 A. It states that growth spare should be
12 treated as a volume-sensitive cost.

13 Q. In this specific docket have you reviewed
14 the testimony of all the witnesses in this case?

15 A. This proceeding that we're in today?

16 Q. Yes.

17 A. No, I have not.

18 Q. What interest does MCI have in this
19 proceeding?

20 A. Our interest is limited strictly to
21 insuring that the consensus reached in the Oregon
22 workshop is not misrepresented.

23 Q. And that's the only reason that MCI

24 intervened in this proceeding?

25 A. Oh, I don't know why we intervened. I was

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1 not involved in any discussions that led up to our
2 intervention in the case.

3 Q. As the MCI individual responsible for the
4 analysis of regulatory proceedings in the various
5 states, did you analyze the filings of US West in this
6 proceeding?

7 A. No, I did not.

8 Q. Were you ever consulted prior to MCI
9 intervening in this case?

10 A. No.

11 Q. Is that normally part of your
12 responsibilities to oversee and coordinate the
13 positions of MCI taken in state proceedings in which
14 it participates?

15 A. Ordinarily I am involved in the formulation
16 of regulatory policy, but I generally don't get
17 involved in a specific decision to intervene or not to
18 intervene in all of the cases that MCI looks at across
19 the country. Occasionally I would be consulted if
20 there's a question about a particular case as to
21 whether it presents a problem for us.

22 Q. Page 12 of your testimony you state that
23 you're not familiar with all of the issues which are

24 present in this proceeding. You state "appears to me,
25 however, from that testimony which I have reviewed

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1 that the establishment of appropriate price floors for
2 Centrex services is being hampered by the focus on
3 determining the cost of the finish retail services
4 rather than on determining the costs of network
5 building blocks." You have reviewed some testimony in
6 this proceeding I take it?

7 A. Yes, some testimony.

8 Q. Which testimony have you reviewed?

9 A. I received all of the rebuttal testimony
10 that was filed in the case. I read through very
11 quickly most of it. I couldn't tell you exactly who
12 and which witnesses. I focused primarily on the
13 testimony that was followed by Mr. Sanderson and Dr.
14 Emmerson.

15 COMMISSIONER PARDINI: Dr. Bryant, I'm
16 sorry, but you speak past these microphones. These
17 are not all directional microphones so you have to
18 turn and face it this way when you speak to Mr. Shaw
19 will you please?

20 THE WITNESS: Sure. I apologize.

21 Q. From that statement on page 12 of your
22 testimony, is it MCI's position that this Commission
23 cannot set the price floor for Centrex services until

24 it establishes the costs and pricing of network
25 building blocks as advocated by MCI?

(BRYANT - CROSS BY SHAW)

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1 A. I'm certain that the Commission has the
2 authority to set rates in any fashion that it chooses
3 to. Whether or not that is a correct price for it to
4 use or not is not a question.

5 Q. When you use the phrase is being hampered
6 by the focus, what specifically do you mean by that?

7 A. Well, I believe that the lack of the
8 ability to compare cost studies for various services
9 and to be sure that they're performed in a consistent
10 fashion certainly would hamper the Commission's
11 ability to set an appropriate price floor.

12 Q. Do you then advocate that the Commission
13 commence and complete a network building block process
14 before settling on the appropriate price floor for
15 Centrex services in the state of Washington?

16 A. Well, I have no opinion as to whether they
17 ought to do that before or after establishing a price
18 floor for Centrex. I believe that if the Commission
19 is to set appropriate price floors for all of US
20 West's services, that the building blocks approach is
21 certainly the best way to do that.

22 Q. Do you agree with Dr. Cornell's position
23 that MCI as a customer of US West for carrier access

24 should have available to it the same functions at the
25 same prices as the retail business and consumers of US

(BRYANT - CROSS BY SHAW)

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1 West services?

2 A. That's a little bit of a complicated
3 answer. For those functions that US West provides as
4 a monopoly, where those functions are a bottleneck
5 monopoly of US West, yes, those functions should be
6 available to all customers at the same price and under
7 the same terms and conditions. Where US West faces
8 competition in the provision of a function I don't or
9 would not require that a uniform price be set for
10 those functions.

11 Q. So out of a building block proceeding
12 such as you advocate you would expect to come to a
13 conclusion if the Commission follows your economic
14 principles that the costs for carrier access should be
15 made up of building blocks that are available to all
16 customers of the company. Is that a correct
17 understanding?

18 A. You used the word cost. The cost for
19 carrier access is what it is. And is comprised of the
20 cost of each of the functions that makes up that
21 bundled service.

22 JUDGE BALLASH: Please speak into the
23 microphone.

24 A. If you intended to ask whether the price
25 ought to be the same for all uses of particular

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1 building blocks, yes, I would agree with that.

2 Q. So you advocate that the fully distributed
3 cost methodology currently used to set carrier access
4 charges in the state of Washington be set aside and
5 substituted would be a building block approach such as
6 you're advocating in Oregon?

7 A. I am not familiar with the fully
8 distributed costing methodology that's in use now so
9 I really couldn't say one way or another whether I
10 would advocate that it be thrown out or not.

11 Q. You understand that carriers such as MCI in
12 the state of Washington and indeed in all
13 jurisdictions that I am aware of pay carrier access
14 charges based upon assigned costs including a
15 substantial assigned portion of nontraffic-sensitive
16 costs?

17 A. Well, there are a couple of states that
18 don't assign a portion of nontraffic-sensitive costs
19 to carrier access charges, but I think you would be
20 correct in saying that the majority of states do make
21 such an assignment.

22 Q. And in place of that MCI advocates the
23 building block approach that we've been discussing

24 this morning?

25 A. We advocate a building blocks approach.

(BRYANT - CROSS BY SHAW)

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1 That is not, however, to say that carrier access
2 charges might not pay some contribution toward
3 nontraffic-sensitive costs or any other costs that the
4 company asks.

5 Q. So you fully agree with and support this
6 Commission's ability to require different contributions
7 to be charged on different services depending upon the
8 identity of the end user?

9 A. No, I do not. I believe that contribution
10 should be assessed at the level of network functions
11 and that the contribution derived from the provision
12 of those functions should be the same for all uses and
13 all users of each of those functions.

14 Q. The ultimate hoped-for output of this
15 process would be an open network architecture concept
16 that divides the company's US West services into
17 building blocks which all customers, including MCI,
18 would pick and choose among as their needs required?

19 A. That is a possible outcome. I think we
20 need to be careful to distinguish between open network
21 architecture, which is really a tariff structure, a
22 means by which customers can purchase functions on an
23 unbundled basis, and the building blocks approach

24 which is an approach to determining the costs and the
25 prices of telecommunications functions. Building

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1 blocks does not necessarily imply O&A. That is, you
2 can perform building blocks cost studies and develop
3 prices according to building blocks principles without
4 significant unbundling network functions on a tariffed
5 basis. I think the converse, though, if you do intend
6 to pursue an O&A policy and require the unbundling of
7 network functions that building blocks is certainly a
8 necessary tool in doing that.

9 Q. Did I hear from that last answer that you
10 believe that building block identification and costing
11 is a predicate to O&A?

12 A. I certainly believe that it is the best
13 approach to determining the costs and to setting the
14 prices for unbundled network functions in an O&A
15 context.

16 Q. Now, the Oregon process contemplates a
17 phase two pricing workshop; is that correct?

18 A. That is correct.

19 Q. And MCI is advocating in that phase that
20 each building block identified in phase one be
21 required to be offered as a service and priced
22 relative to the cost; is that correct?

23 A. I think as a general principle we would

24 prefer to see as many network functions that
25 practically can be unbundled to in fact be unbundled

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1 under tariff. There may be practical limitations to
2 how many services actually can be unbundled at first.
3 It may require a transition period to get to that
4 point. It may be that because of engineering
5 considerations or because of lack of demand that it
6 simply doesn't make sense to unbundle certain
7 functions. And I don't know that we're prejudging
8 those sorts of situations that might arise.

9 Q. MCI does not sell to the consuming public
10 PBXs and other terminal equipment, does it?

11 MS. WEISKE: MCI would object again. Dr.
12 Bryant already indicated both this morning and in his
13 testimony he's here for a very limited issue. That's
14 the only reason MCI is in this docket and I think this
15 line of questioning is inappropriate.

16 MS. BROWN: I will concur in that
17 objection.

18 JUDGE BALLASH: Mr. Shaw.

19 MR. SHAW: Well, your Honor, MCI may assert
20 that but I think that the evidence is clear that MCI
21 is an intervenor in this case, is interested in the
22 Centrex product, have offered up a witness to testify
23 generally about the building block process and

24 specifically US West's characterization of it in its
25 rebuttal testimony. I think that well within the

(BRYANT - CROSS BY SHAW)

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1 scope of cross should be some exploration of MCI's
2 interest in Centrex and how it relates to the building
3 block process. This is not a building block docket or
4 a carrier access charge docket, and I think that the
5 company and the Commission is entitled to inquire into
6 exactly how Dr. Bryant's testimony relates to Centrex.

7 JUDGE BALLASH: I will allow the question
8 only if the witness can answer. We're getting awfully
9 far afield from the rebuttal testimony.

10 A. The question was do we provide PBX or other
11 CPE?

12 Q. Yes.

13 A. Not to my knowledge.

14 Q. Does MCI, however, provide a network-based
15 Centrex-type service?

16 A. Well, certainly we don't provide a service
17 called Centrex and I am not completely familiar with
18 the product as you offer it here in the state of
19 Washington so I couldn't say whether we offer anything
20 comparable.

21 Q. Does MCI offer a service wherein large
22 customers can connect directly with MCI switches in
23 the state of Washington?

24 A. Yes.

25 Q. And all the traffic of a large customer can

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1 be directed to MCI's switch, correct?

2 A. Well, I don't know about all the traffic.

3 Certainly all of the interexchange traffic. I am not

4 aware of we provide any services that involve carrying

5 local traffic.

6 Q. Is it your testimony that in Washington MCI

7 does not take locally destined traffic from its direct

8 connected customers and route it back into the network

9 for completion?

10 A. I don't know if we do that or not. If we

11 do I am not aware of it.

12 Q. I take it then from as far as you know MCI

13 has no interest as a competitor of US West for

14 Centrex-type services?

15 A. Not at this time.

16 Q. Do you anticipate you will?

17 A. I don't know what direction the company may

18 decide to move in. It may well be that in the future

19 we could be a competitor of US West in that service.

20 MS. WEISKE: MCI is going to renew its

21 objection if this line of questioning continues. This

22 is completely irrelevant to anything Dr. Bryant filed

23 in this case.

24 JUDGE BALLASH: Are you done with that
25 line, Mr. Shaw?

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1 MR. SHAW: Yes, I'm done.

2 JUDGE BALLASH: Also I would caution if the
3 witness says he doesn't know please move on to another
4 subject.

5 Q. In Oregon, from your participation in the
6 workshops, what is your understanding of how growth
7 spare would be treated for central office equipment
8 and outside plant for the Centrex product?

9 A. Well, I wouldn't say that an agreement has
10 completely been reached on that subject. I know that
11 US West is performing its cost studies in a way that
12 would treat growth spare capacity as a volume-
13 insensitive cost. We have not -- at the most recent
14 meeting we raised the issue of whether in fact that
15 was completely appropriate.

16 Q. For Centrex or generally?

17 A. Well, we were dealing with finished
18 services in Oregon. It would be for switching an
19 interoffice transport.

20 Q. Specifically for Centrex, do you have an
21 opinion on how growth spare should be treated for
22 central office equipment and outside plant?

23 A. I think that really depends on the issue

24 that I raised in my rebuttal testimony and that is
25 that I don't believe that US West cost studies

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1 distinguish between spare capacity that exists to
2 serve growth and spare capacity that is installed in
3 anticipation of offering another service at some point
4 in the future or in anticipation of prices that it
5 intends to set for certain services. I mean, to that
6 extent, then, while I agree that true growth spare
7 capacity should be treated as a volume-insensitive
8 cost, the issue that I have is that I don't know
9 that US West cost studies properly distinguish between
10 growth spare and other forms of spare capacity.

11 Q. Specifically for Centrex, do you have an
12 opinion on how growth spare should be treated?

13 A. Well, since Centrex, to my understanding,
14 uses the network building blocks of network access
15 channels and channel connections and central office
16 switching and switch features, certainly my opinion
17 with regard to the treatment of growth spare capacity
18 in US West cost studies would apply to Centrex as one
19 service that uses those network building blocks.

20 Q. In Oregon has the NAC, network access
21 connection, been identified as a building block?

22 A. Yes, it is.

23 Q. And will the NAC be a tariff service in

24 your expectations in the Oregon pricing phase two?

25 A. I certainly would support the provision of

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1 NACs under tariff. We have not reached any decisions
2 in the Oregon workshop as to whether or not it will be
3 offered in that way.

4 Q. In the Oregon proceedings have all the
5 costs for a NAC been determined to be volume
6 sensitive?

7 A. The only cost results that I have seen thus
8 far have been volume sensitive costs. I believe we
9 are anticipating that there will be some more results
10 released in the very near future that will show the
11 volume-insensitive costs of the NAC, but to answer
12 your question there are two categories of costs there.

13 Q. Do you expect the price floor for a NAC to
14 be the volume sensitive costs?

15 A. I certainly would not support such a price
16 floor.

17 Q. What price floor do you support for a NAC?

18 A. I believe that the price floor -- because
19 the NAC is a monopoly building block the price for a
20 NAC has to be set on a unitary basis, that is, one
21 price established for all customers who use that
22 building block with the possible exception of
23 residential local exchange service. Given that

24 principle, I believe there will need to be a uniform
25 per unit assignment of volume-insensitive costs to the

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1 network access connection.

2 Q. Directing your attention to page 5, line
3 15, you talk about lumping nature investments. By
4 that statement I take it you simply mean to indicate
5 that investments of a telephone company come on line
6 in chunks. You add a central office, you don't
7 necessarily need all of that central office. Is that
8 what you mean by lumping investment?

9 A. I mean that you cannot buy, for many items
10 of equipment, additional capacity in discrete units
11 that are related to the units of consumption. You
12 usually have to buy in a big chunk.

13 Q. My example of a central office would be a
14 good example of that. You cannot buy a piece of a
15 central office. You have to buy a central office
16 switch?

17 A. A switch?

18 Q. Yes.

19 A. Well, yes. There is an investment in
20 having the switch placed in the central office and
21 after that initial placement is made additional units
22 of capacity are purchased in fairly large chunks of
23 capacity.

24 Q. The company determines it needs another
25 switch, say, to create another central office, because

(BRYANT - CROSS BY SHAW)

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1 of population growth, the company will have to buy a
2 switch. It can't buy a piece of a switch even if the
3 smallest available switch is larger than it needs; is
4 that correct?

5 A. That is correct.

6 Q. And the same observation applies to outside
7 plant, outside plant which is in large cable cross-
8 sections that may not be needed all at once when it's
9 first placed even though some of it is needed when
10 it's first placed?

11 A. Yes, that's correct.

12 Q. You agree that the investment necessary to
13 provide Centrex Plus is in the nature of a lump
14 investment?

15 A. My understanding is that there are many
16 components of the Centrex service, including central
17 office switching and some software features. A lot
18 of things, and I am not familiar with all of the
19 ingredients that go into that particular service. So
20 I couldn't really characterize all of the investment
21 as being lumpy or not lumpy. Switching capacity is
22 lumpy but I couldn't really say about the other --

23 Q. And outside plant is lumpy, would you

24 agree?

25 A. Certain components of outside plant are.

(BRYANT - CROSS BY KOPTA)

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1 Q. Thank you.

2 MR. SHAW: I have nothing further.

3 JUDGE BALLASH: Mr. Garling.

4 MR. GARLING: Nothing.

5 JUDGE BALLASH: Mr. Jones.

6 MR. JONES: No questions.

7 JUDGE BALLASH: Mr. Kopta.

8 I'm sorry, Ms. Brown.

9 MS. BROWN: We have no questions.

10 JUDGE BALLASH: Thank you.

11

12 CROSS-EXAMINATION

13 BY MR. KOPTA:

14 Q. Morning, Dr. Bryant. My name is Greg Kopta
15 representing Digital Direct of Seattle, Inc.

16 A. Good morning.

17 Q. I just have a couple of questions about the
18 Oregon proceeding. You have been a participant in
19 that proceeding from its inception, have you not?

20 A. Not quite since its inception. I came on
21 line about five or six months after it got started.

22 Q. But with that exception you've been
23 involved up to the current time?

24 A. I've attended every meeting since the time
25 that I got involved.

(BRYANT - CROSS BY KOPTA)

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1 Q. Some of the objections that have been
2 raised to having a similar proceeding in Washington
3 are that it would be a very expensive proceeding.
4 Would you agree that a proceeding similar to the
5 Oregon proceeding would be expensive here in
6 Washington?

7 A. Not necessarily. I was here earlier when
8 Dr. Cornell testified and she stated that we had
9 learned a lot in Oregon. I certainly agree with that.
10 We have learned a lot in Oregon. I think that's both
11 the parties that are participating like MCI and AT&T,
12 and the others, as well as US West.

13 Q. So if a similar proceeding were instituted
14 here in Washington, then a lot of the groundwork would
15 have been laid if they want to adopt some of the
16 inquiries that have been going on in the Oregon
17 proceeding?

18 A. Yes. I am involved in a case in North
19 Dakota that the North Dakota Commission is also
20 issuing an order requiring a building blocks approach
21 to costing and pricing. And in fact the co-chair of
22 the committee is looking at building blocks in the
23 North Dakota workshop. We anticipate -- well, we

24 intend to file our initial report with the Commission
25 next month and that's after having gotten started last

(BRYANT - CROSS BY KOPTA)

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1 summer, June. So it was a relatively compressed
2 process there and certainly we have not devoted nearly
3 -- neither MCI nor US West have not devoted nearly the
4 resources to the North Dakota proceeding as we have
5 had involved. So the short answer is yes, I think it
6 could be done very much more quickly than it was done
7 in Oregon.

8 Q. And do you believe that the benefits of
9 such a proceeding would at least equal, if not
10 outweigh, the costs of such a proceeding?

11 A. Certainly. I think even if building blocks
12 appears to have a higher upfront investment, if you
13 will, I think one of the real benefits of the approach
14 is that it dramatically simplifies the process of
15 evaluating the cost support for various service prices
16 on an ongoing basis. So, I think that whatever
17 investment is made up front will be very rapidly
18 recovered and certainly there will be long lasting and
19 significant ongoing benefits.

20 Q. Shifting gears for just a moment. Would
21 you turn to your testimony on page 10, specifically
22 lines 16 through 17. At that point you're discussing
23 the segment of the memo that Mr. Sanderson discussed

24 in his testimony and you state that that particular
25 segment was intended only to constitute a test for

(BRYANT - CROSS BY KOPTA)

1102

1 cross-subsidy. Would you explain why that is a test
2 for cross-subsidy?

3 A. If a service is priced in such a way that
4 the unit price recovers the volume-sensitive costs and
5 if, furthermore, the total revenues derived from the
6 provision of that function or service are equal to or
7 greater than the volume-insensitive costs and
8 volume-sensitive costs combined, then that service is
9 not being subsidized by any other service, and in that
10 way the principle that's enunciated here in the
11 document is a test for the cross-subsidy of individual
12 services.

13 Q. Thank you.

14 MR. KOPTA: That's all I have.

15 MR. HARLOW: No questions.

16 JUDGE BALLASH: Mr. Kennedy.

17 MR. KENNEDY: No questions.

18 MR. LUDVIGSEN: No questions.

19 JUDGE BALLASH: Questions from the

20 Commission?

21 CHAIRMAN NELSON: One, Dr. Bryant. Exhibit
22 99 is styled as a progress report and dated September
23 21, 1992. Have there been any subsequent progress

24 reports in Oregon from the staff?

25 THE WITNESS: I believe that Dr. Hellman

(BRYANT - CROSS BY KOPTA)

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1 periodically appears before the Commission and updates
2 them on where we stand in workshops, and I am not
3 entirely certain how frequent he has done that since
4 September. We are due to present a report on the cost
5 results sometime within the next six weeks or so.

6 CHAIRMAN NELSON: Well, the report itself
7 indicates the workshop dates were held all fall and it
8 says roughly every 60 days a progress report will be
9 made to the Commission. Could I ask you as a bench
10 request if there are any subsequent progress reports
11 by the staff to file them in this proceeding?

12 THE WITNESS: Yes, ma'am.

13 JUDGE BALLASH: That will be bench request
14 No. 7.

15 Any other questions from the Commission?

16 COMMISSIONER PARDINI: No questions.

17 JUDGE BALLASH: Redirect.

18 MS. WEISKE: None.

19 JUDGE BALLASH: Thank you for your
20 testimony. You may step down.

21 Are you ready for Dr. Zepp?

22 MR. KENNEDY: Sure. Call Dr. Thomas M.
23 Zepp, please.

24 Whereupon,

25 THOMAS ZEPP,

(ZEPP - DIRECT BY KENNEDY)

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

3

4 DIRECT EXAMINATION

5 BY MR. KENNEDY:

6 Q. Dr. Zepp, would you state your full name
7 and business address for the record, please.

8 A. My name is Thomas M. Zepp, Z E P P. My
9 business address is Utility Resources Inc., 1500
10 Liberty Street Southeast, Salem, Oregon, 97302.

11 Q. Dr. Zepp, in preparation for your testimony
12 here this morning, have you prepared or caused to be
13 prepared the testimony of Dr. Thomas M. Zepp on behalf
14 of TRACER and the Washington State Department of
15 Information Services consisting of 29 pages and three
16 attachments, TZ-1, TZ-2 and confidential TZ-3?

17 A. I did, yes.

18 Q. Do you have any corrections to make at this
19 time?

20 A. Yes. I have one omission and one typo that
21 I've spotted. The omission occurs on page 14, line 6.
22 At line 6 it reads, "right now, yes, I have." Then I
23 say "my table." I would ask that you insert after "my

24 table" a comma and then write "Exhibit C-blank TS-3."

25 So that's the omission and I would refer -- indicate,

(ZEPP - DIRECT BY KENNEDY)

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1 I think it's self-explanatory but the exhibit TZ-3 is
2 what's referred to when I'm talking about my table
3 there on the rest of that page. So that is the
4 omission.

5 Let's see, the typo that I spotted is on
6 page 21, line 5. The third word from the end of the
7 sentence or I guess the second word from the end.
8 Anyway, the "to" should be deleted. There's an extra
9 "to" in there. It should read "entice customers to
10 select Centrex-type." There may be other typos that
11 I've made but other than that I believe it's okay.

12 Q. As corrected if I were to ask you the same
13 questions as contained in this testimony, would you
14 give me the same answers this morning?

15 A. I would.

16 MR. KENNEDY: Your Honor, may I have some
17 exhibit numbers?

18 JUDGE BALLASH: The testimony of Dr. Zepp
19 will be marked as Exhibit No. T-100 for identification.
20 Dr. Zepp's TZ-1 will be marked as Exhibit No. 101 for
21 identification. TZ-2 will be marked as Exhibit No. 102
22 for identification, and TZ-3 will be marked as
23 confidential Exhibit No. C-103 for identification.

24 (Marked Exhibit Nos. T-100, 101, 102,
25 C-103.)

(ZEPP - DIRECT BY KENNEDY)

1106

1 MR. KENNEDY: Your Honor, at this point I
2 would move the admission of Exhibits T-100, 101, 102
3 and Exhibit C-103.

4 JUDGE BALLASH: Any objection, Mr. Shaw?

5 MR. SHAW: None.

6 JUDGE BALLASH: Exhibits T-100, 101, 102
7 and C-103 will be admitted into the record.

8 (Admitted Exhibit Nos. T-100, 101, 102,
9 C-103.)

10 MR. KENNEDY: Dr. Zepp is now available for
11 cross.

12 JUDGE BALLASH: Mr. Shaw.

13

14 CROSS-EXAMINATION

15 BY MR. SHAW:

16 Q. Dr. Zepp, what is the fundamental
17 difference between your approach and the approach of
18 Dr. Cornell in analyzing the Centrex Plus service
19 offering of US West?

20 A. As I understand it, the fundamental
21 difference in our approach is I've looked at
22 contributions that US West would receive from selling
23 one service or another. Dr. Cornell in her similar

24 exhibit has attempted to look at contributions on a
25 per line basis. So as I would characterize, this is

(ZEPP - CROSS BY SHAW)

1107

1 with respect to my Exhibit 103, C-103, versus her
2 Exhibit 95 I believe was marked today, C-95.

3 Q. And directing your attention to your
4 Exhibit C-103, this appears to use the same format as
5 Dr. Cornell's equivalent exhibit, I think it was C-37,
6 if I'm not mistaken, in that you analyzed trunks,
7 Centrex Plus. When you say that you analyze services
8 as opposed to lines, do you mean that you're analyzing
9 the contribution gained by US West when it sells PBX
10 trunks as opposed to when it sells Centrex Plus
11 station lines?

12 A. Yes. That's what I meant.

13 Q. In terms of evaluating whether Centrex Plus
14 as offered by the company creates a competitive
15 disadvantage for those competitors competing for the
16 same business via PBX vehicles, what is the relevant
17 comparison, in your view?

18 A. The competitive disadvantage question?

19 Q. Yes.

20 A. I would believe the competitive
21 disadvantage question is probably best addressed the
22 way Mr. Jensen mentioned this morning, and that is in
23 the actual construction the same price is charged for

24 the line and the same price is charged for the trunk
25 and therefore it's on equal terms and conditions to

(ZEPP - CROSS BY SHAW)

1108

1 both. I went a little further than that and I was
2 trying to look at the question of whether or not
3 Centrex ultimately is beneficial for society and for
4 the ability of US West to continue to subsidize
5 universal service and it is my opinion that Centrex
6 does help in providing that subsidy.

7 Q. From that answer are there two relevant
8 questions here, what is fair to competitors of US West
9 and secondly what is fair for the ratepayers of US
10 West?

11 A. Yes.

12 Q. And that second issue is whether or not the
13 nonCentrex ratepayers of US West are cross-subsidizing
14 the offering of Centrex to business customers?

15 A. That is part of it, yes.

16 Q. Well, what else is relevant in deciding
17 what is fair to the other ratepayers of US West?

18 A. Well, I would think that we would like to
19 know if there is this positive contribution that I've
20 computed and this positive contribution is there so
21 the Commission would like to know that that is in fact
22 the case.

23 Q. From an economist standpoint if there is

24 positive contribution in the various configurations of
25 Centrex Plus then there is no cross-subsidy by the

(ZEPP - CROSS BY SHAW)

1109

1 other ratepayers to the Centrex Plus ratepayers; is
2 that correct?

3 A. Yes, by definition.

4 Q. Is there a sub-issue here of whether or not
5 the company is maximizing the contribution from its
6 business customers so as to maximize the benefit to
7 its other ratepayers?

8 A. That may be a sub-issue but I didn't look
9 at that.

10 Q. Centrex-type services of the company are
11 currently classified as effectively competitive?

12 A. Yes.

13 Q. And when was that classification done, if
14 you know?

15 A. My recollection it was 1986 or 1987. I
16 believe I say so in my testimony. I can't remember
17 when the order date was. I believe it was 1987 but
18 the docket number was in 1986 was when the proceeding
19 was initiated.

20 Q. Since 1987 to 1993, has there been any
21 change in the market for Centrex-type services that
22 you're aware of?

23 A. In discussing this with people both in DIS

24 and TRACER, generally the market has become more
25 competitive, not less competitive.

(ZEPP - CROSS BY SHAW)

1110

1 Q. From that statement do you have an opinion
2 on whether it's possible for US West to charge more
3 contribution for its Centrex services than it's
4 currently proposing?

5 A. Someone is going to have to do that
6 analysis and determine the tradeoff. If US West were
7 to try to obtain higher contribution for each station
8 line sold, for example, it would face pricing
9 elasticity, and to the extent that this market is
10 competitive they could lose sales if the price were to
11 go up too much and the customers would lose
12 alternatives but would then be stuck with PBXs as the
13 only way to provide that service. So there is a
14 tradeoff that has to be considered in the pricing of
15 these services, where they're going to look at what it
16 cost to provide the PBXs, versus how much contribution
17 they can get from selling the competitive loops and
18 the competitive features to make a determination as to
19 how much contribution can be sustained to benefit the
20 ratepayers.

21 Q. When a larger business customer buys a NAC
22 from US West and uses a Centrex station line in
23 conjunction with the Centrex service, does that

24 customer have competitive alternatives for that
25 function?

(ZEPP - CROSS BY SHAW)

1111

1 A. If you were to phrase that to be multiple
2 NACs -- I mean, we're not going to want one intercom
3 line. We're probably going to want at least two lines
4 to use for the intercom service. So if we're looking
5 at two or more lines, then, of course there is the
6 competitive alternative that there is a PBX that could
7 be used to provide an intercom function, or you could
8 use loops and really it's the PBX inside or the
9 equivalent of the PBX inside the central office switch
10 to provide that intercom function. So there are
11 competitive alternatives, yes.

12 Q. Are you familiar with Mr. Jensen's
13 testimony and Mr. Braden's testimony that US West
14 appeared to have 10 to 15 percent of the relative
15 market for Centrex/PBX-type services?

16 A. I can't recall the percentage. I remember
17 it was small.

18 Q. Do you have any reason to believe that that
19 number is incorrect, 10 to 15 percent?

20 A. I thought it was smaller than that but if
21 10 to 15 is what they represent I will accept that
22 subject to their checking their testimony.

23 Q. Would you please define as an economist the

24 relevant market for Centrex-type services and PBX
25 services?

(ZEPP - CROSS BY SHAW)

1112

1 A. Well, the primary market and one that I've
2 addressed is the market in which either a PBX would be
3 used, a Centrex would be used in place of that PBX.
4 Those are the primary markets that I looked at in my
5 analysis.

6 Q. And for this Commission to analyze whether
7 or not Centrex as a service is effectively competitive
8 what relevant market should they look at in analyzing
9 that question?

10 A. In my view they should look at the fact
11 that a PBX is there and because the PBX is there it
12 exerts price constraining forces on Centrex station
13 lines and therefore it doesn't need monopoly
14 regulation.

15 Q. Thank you.

16 MR. SHAW: I have nothing further.

17 JUDGE BALLASH: Ms. Brown.

18

19 CROSS-EXAMINATION

20 BY MS. BROWN:

21 Q. Dr. Zepp, when you said you were comparing
22 the contribution when US West sells PBX trunks versus
23 Centrex lines, did you mean on a per line basis or on

24 a per customer basis?

25 A. On a per service basis.

(ZEPP - CROSS BY BROWN)

1113

1 Q. What do you mean by that?

2 A. Well, you can't make the comparison as Dr.
3 Cornell has made the comparison. I mean, even a
4 simple consideration will show you why you can't do
5 what she's done. So the only way to do it is the way
6 I've done it. Dr. Cornell has looked at and made an
7 assumption of a 3 to 1 station line, three station
8 lines for one NAR and the equivalent of that. Well,
9 if we look at that then we get a certain contribution
10 number that falls out of her Exhibit C-95. All you
11 have to do is consider, well, what would have happened
12 if that customer had bought, say, six station lines
13 instead of three station lines for every NAF that's
14 being purchased, and that would have been the
15 equivalent, then, of a PBX trunk versus the NAF. On
16 that case, then, the way Dr. Cornell makes her
17 computation, a price per line would go down and so you
18 get less contribution out of Centrex when exactly the
19 opposite is happening, because as more Centrex lines are
20 being sold, since the price of the station line is above
21 its cost, you get an additional contribution. So, if
22 one is going to want to do a contribution analysis you
23 have got to look at what is going to be bought by the

24 customer to provide equivalent service. That's the
25 reason that I just simply don't think that the way Dr.

(ZEPP - CROSS BY BROWN)

1114

1 Cornell has constructed it really gives you the answer
2 that's appropriate.

3 Q. Is it correct that your disagreement with
4 Cornell stems from your belief that she should have
5 compared a customer with a given number of Centrex
6 lines with a PBX and one-fifth that number of PBX
7 trunks?

8 A. I'm sorry, I didn't understand that. Would
9 you repeat the question.

10 Q. Is it correct that your disagreement with
11 Dr. Cornell stems primarily from your belief that she
12 should have compared a customer with a given number of
13 Centrex lines to a PBX and one-fifth that number of
14 PBX trunks?

15 A. That could have been one comparison that
16 she made, yes. That would be equivalent to what I did
17 in my exhibit.

18 Q. Why did you not object to US West filing on
19 the basis that it does not incorporate a line to trunk
20 ratio to establish the point at which distance
21 sensitive pricing starts?

22 A. Why didn't I object to the filing?

23 Q. Yes.

24 MR. KENNEDY: Your Honor, I am going to
25 object to that question as beyond the scope of the

(ZEPP - CROSS BY BROWN)

1115

1 testimony. She's asking why he didn't include
2 something in his testimony.

3 MS. BROWN: He's challenging Dr. Cornell's
4 opinion.

5 JUDGE BALLASH: I will overrule the
6 objection.

7 A. Well, I didn't object to it primarily
8 because if US West -- if they want to provide
9 something that's competitive with the PBXs it's my
10 view they should be given the opportunity to provide
11 that alternative which is a substitute for the PBX,
12 but if they choose to provide it in such a way that
13 they don't sell it, well, then, the PBX market is
14 going to get more customers.

15 Now, I simply don't believe that if it's a
16 competitive operation and it's a competitive function
17 that's being provided that we should have that much
18 oversight. I mean, you can't really have it both
19 ways. The Commission should have some general
20 policies with respect to competitive services, make
21 certain those competitive services cover cost, for
22 example, but I don't believe in objecting to the
23 particular way that they have structured this tariff.

24 I can imagine a number of different ways that I would
25 have rather seen this tariff structured, but it's not

(ZEPP - CROSS BY BROWN)

1116

1 my position to recommend those.

2 Q. Isn't this proceeding also about complex
3 business lines and private line NACs which are in fact
4 regulated?

5 A. Yes, it is.

6 Q. Thank you.

7 JUDGE BALLASH: Does that conclude your
8 questions?

9 MS. BROWN: Yes.

10 JUDGE BALLASH: Mr. Garling?

11 MR. GARLING: No thank you.

12 JUDGE BALLASH: Mr. Jones, actually this is
13 your witness.

14 Mr. Kopta.

15

16 CROSS-EXAMINATION

17 BY MR. KOPTA:

18 Q. Morning, Dr. Zepp. Would you turn to page
19 17 of your testimony, please. Specifically lines 11
20 through 18, and would you explain to me the difference
21 between objective fill and average fill.

22 A. This is the discussion that Mr. Shaw just
23 had with Dr. Bryant a minute ago. Basically the

24 objective fill is a cost estimate that relates to
25 volume-sensitive costs. An average fill in its most

(ZEPP - CROSS BY KOPTA)

1117

1 general term would include both volume-insensitive and
2 volume-sensitive costs.

3 Q. So you have analyzed this according to
4 objective fill which would include volume-insensitive
5 costs; is that correct?

6 A. I saw no need to look at the cost estimates
7 in this docket. I didn't think it was important
8 because we've really looked at the highest of the cost
9 estimates and since we're looking at the highest of
10 the cost estimates and Centrex is still found to
11 provide more of a contribution overhead and profit
12 than PBX trunks are, we know that Centrex is going to
13 be good for ratepayers and good for society if the
14 correct cost estimates really are based on objective
15 fill, so it just simply was an unnecessary thing to do
16 in this proceeding.

17 Q. So you have not analyzed the costs as
18 provided through the executive summaries by US West?

19 A. I did look at those costs but it wasn't
20 necessary to incorporate that into my analysis. I
21 just simply used the ones that Dr. Cornell did which
22 were the higher of the two cost estimates.

23 Q. Did you examine the private line tariff?

24 A. I did not, no.

25 Q. Did you examine the complex business line
(ZEPP - CROSS BY KOPTA)

1118

1 tariff?

2 A. I'm sure I did look at that but I didn't
3 spend a great deal of time with it.

4 Q. So your analysis is pretty much focused on
5 the Centrex Plus filing?

6 A. It is, yes.

7 Q. On page 19 of your testimony, beginning at
8 line 20, carrying over to page 20, line 10, you're
9 distinguishing between the terms bottleneck monopoly
10 function and bottleneck monopoly facilities. Just so
11 that I have that clear, do you consider a loop, for
12 instance, a monopoly facility?

13 A. No.

14 Q. Why not?

15 A. In some instances a loop is monopoly
16 facility because it is providing a monopoly function.
17 Probably in most instances a loop is monopoly facility
18 providing that monopoly function because it's given
19 its cost relative to the next best alternative. US
20 West has a lot of market power in providing that loop.
21 But there are instances, as in the case of Centrex,
22 where the loop is used to provide a competitive
23 function. It is not, then, a monopoly facility

24 because it is providing a competitive function.

25 Q. Well, I'm not sure I understand, then, the

(ZEPP - CROSS BY KOPTA)

1119

1 difference between a bottleneck monopoly function and
2 a bottleneck monopoly facility. You seem to equate
3 the two. Are they equivalent?

4 A. Generally one should not be addressing
5 facilities. One should be addressing functions and if
6 as it turns out a particular facility performs or
7 can perform either a monopoly function or a competitive
8 function then you don't necessarily have to charge the
9 same markup.

10 Q. Well, I suppose my question is directed
11 toward if you have a facility that could be used for
12 both monopoly and competitive functions, how would you
13 classify that particular facility or would it depend
14 on the function that it's performing at the time?

15 A. I would classify it by the function it's
16 performing.

17 Q. On page 27 of your testimony, lines 7
18 through 21, you recommend that the Commission not
19 indicate or initiate a cost and pricing docket and you
20 give three reasons why you believe that that's not
21 necessary. The first reason on lines 13 through 14 is
22 that the results of these studies are already
23 available or will be available soon. Wouldn't the

24 availability of those studies merely facilitate a
25 docket if Washington studies those issues?

(ZEPP - CROSS BY KOPTA)

1120

1 A. Well, it may or it may not. It depends on
2 how the Washington staff responds to this. To a large
3 extent the Oregon cost workshop cost estimates that
4 are being produced have been driven by things that the
5 Oregon staff wanted to see done. So that meant in
6 many instances modification of US West costing
7 programs to meet the concepts that the staff would
8 have liked to have seen done. It's not totally clear
9 what Washington staff might want to do. They might
10 not want to agree with doing interoffice signaling
11 costs and ignore system 7, or cost workshop started
12 back such a long time ago that there weren't any
13 modeling of signaling system 7 and I would anticipate
14 if any docket comes before this Commission that the
15 Commission would like to see cost estimates based on
16 signaling system 7 that would in some way incorporate
17 that. So to some extent that cost information is
18 available. But I'm not necessarily certain how well
19 it would facilitate what would happen here.

20 Q. Did you participate in or are you
21 participating in the Oregon workshops?

22 A. Yes.

23 Q. In what capacity have you been

24 participating in those workshops?

25 A. I have represented different clients,

(ZEPP - CROSS BY KOPTA)

1121

1 primarily Oregon TRACER.

2 Q. And do you believe that that workshop, at
3 least in Oregon, is a beneficial proceeding?

4 A. Yes.

5 Q. Why is it not beneficial in Washington if
6 it's beneficial in Oregon?

7 A. I don't think it's worth the cost, and I
8 think it's beneficial in that it's been very
9 enlightening and a lot has been learned but I don't
10 think it's worth the cost, and I think ultimately
11 when we get to a proceeding what we're going to find
12 is cost estimates will have to be done for that
13 proceeding anyway.

14 Q. Isn't that also in the nature of tariff
15 proceedings that you have cost estimates?

16 A. You have to have cost estimates for
17 tariffs, yes.

18 Q. So if you were to analyze costs on a tariff
19 by tariff basis, isn't that the same objection that
20 you would have to tariff that five years down the
21 road those costs are going to be different?

22 A. Yes. Sure.

23 Q. So what is the objection to taking a

24 unilateral look at costing procedures at one point in
25 time as opposed to doing it service by service on a

(ZEPP - CROSS BY KOPTA)

1122

1 tariff by tariff basis?

2 A. Well, I think again primarily it's my
3 second objection which is the cost involved of doing
4 this. And the amount of time that it ultimately takes
5 to conceptualize and do this.

6 Q. If Washington were to borrow some of the
7 cost studies that have been done in Oregon, wouldn't
8 that reduce the cost and the time that it would take?

9 A. If Washington staff agrees with the
10 assumptions that Oregon staff wanted for those cost
11 estimates. But there are still issues that are out
12 there. Oregon TRACER, for example, has retained an
13 objection to the use of nominal carrying charges to
14 impute cost estimates when real carrying charges,
15 everybody agrees, are the correct carrying charges to
16 use. So there are always going to be differences, but
17 what it really boils down to is that the costs as
18 they're being determined will only be one input to the
19 consideration of pricing issues, which again, hasn't
20 yet really geared up. They're going to have a docket
21 on that yet.

22 Q. Are you familiar with US West costing
23 methodology across the services that they have tariffs

24 for on file in Washington?

25 A. Yes.

(ZEPP - CROSS BY KOPTA)

1123

1 Q. Is their costing methodology consistent
2 with all services that they provide?

3 A. I would say yes, given the goals that
4 they had in mind when they did the cost study. One
5 just simply has to know what they're doing to know
6 whether it's inconsistent or not. Generally they are.

7 Q. I am not sure I understand what you mean by
8 know what they're doing.

9 A. If, for example, they want to do a
10 statewide average cost study, they do a statewide
11 average cost study. If in fact they want to do a
12 geographic and location-specific cost study they will
13 do that. So they would probably do those in different
14 ways and get different results.

15 Q. Thank you.

16 MR. KOPTA: No further questions.

17 JUDGE BALLASH: Mr. Harlow?

18 MR. HARLOW: Would this be a good time for
19 our lunch break?

20 CHAIRMAN NELSON: How much more do you
21 have?

22 MR. HARLOW: It's pretty brief.

23 JUDGE BALLASH: This is our last witness of

24 the day unless we have a lot more.

25 COMMISSIONER PARDINI: If he's the last

(ZEPP - CROSS BY HARLOW)

1124

1 witness, let's do her, baby.

2

3

CROSS-EXAMINATION

4 BY MR. HARLOW:

5 Q. Good afternoon, Dr. Zepp. With regard to
6 page 3 of your testimony, lines 10 and 11?

7 A. I have it.

8 Q. Regarding your testimony that the
9 trunk-rated Centrex-type services are good for dynamic
10 efficiency, would you agree that resellers and
11 rebillers of such services can or do also contribute
12 to dynamic efficiency?

13 A. I do.

14 Q. And could you please briefly state why?

15 A. They expand the alternatives in the
16 marketplace would be one reason. They do provide a
17 contribution overhead and profit. I don't know how
18 many things you would like on a laundry list, but
19 generally I believe the resale function is beneficial
20 to society, yes.

21 Q. Do you feel it's in any way particularly
22 beneficial to small business customers?

23 A. It is. It offers options to them that they

24 would not otherwise have.

25 Q. Do you believe that resale and sharing of

(ZEPP - CROSS BY HARLOW)

1125

1 local exchange carrier services promotes the public
2 interest?

3 MR. KENNEDY: Your Honor, I am going to
4 object at this point. I think this is beyond the
5 scope of Dr. Zepp's testimony. He hasn't sponsored
6 any testimony about whether resale is in the public
7 interest.

8 JUDGE BALLASH: Mr. Harlow.

9 MR. HARLOW: We've got quite a fascinating
10 proceeding in terms of the number of different
11 positions that the parties are taking and to some
12 extent they overlap and to some extent they agree and
13 I am basically trying to test Dr. Zepp's testimony and
14 find out to what extent he would agree with the
15 position of MetroNet's witness. So I think it's
16 appropriate to determine exactly where he stands on
17 those issues.

18 JUDGE BALLASH: How is that in the scope of
19 his testimony?

20 MR. HARLOW: Well, that's basically what
21 I'm trying to figure out. It's only going to take
22 about two questions and we'll be done.

23 JUDGE BALLASH: If it's two more questions,

24 please go ahead.

25 BY MR. HARLOW:

(ZEPP - CROSS BY HARLOW)

1126

1 Q. Do you recall the question or should I
2 repeat it?

3 A. I don't recall the question.

4 Q. Do you believe that resale and sharing of
5 local exchange carrier services promote the public
6 interest?

7 A. I believe I said yes.

8 Q. Would you please briefly describe what are
9 the policy goals you believe are served by resale and
10 sharing arrangements?

11 A. One, I would say, offers additional
12 alternatives to the public. That's certainly in the
13 Washington statute. I just simply haven't thought of
14 other ones, Mr. Harlow.

15 MR. HARLOW: Thank you, Dr. Zepp. That's
16 all I have.

17 JUDGE BALLASH: Ms. Weiske.

18 MS. WEISKE: No questions.

19 JUDGE BALLASH: Mr. Ludvigsen.

20 MR. LUDVIGSEN: Just a couple of questions.

21

22 CROSS-EXAMINATION

23 BY MR. LUDVIGSEN:

24 Q. Page 15, line 17 through 11 of your
25 testimony you outline some factors that you did not
(ZEPP - CROSS BY LUDVIGSEN)

1127

1 include in your contribution analysis. If you're
2 making a full contribution analysis would one other
3 factor that would have to be considered with Centrex
4 is any stimulation factor that may come?

5 A. Yes.

6 Q. Are you aware of any information that
7 applies to Washington with regard to stimulation
8 factor for Centrex-type services?

9 A. In the last docket there was indications
10 that there was stimulation. I don't specifically
11 remember numbers now but there was stimulation when
12 Centrex-type services result.

13 Q. And to the extent there would be any
14 stimulation and the services were priced above cost,
15 that would increase the contribution to US West?

16 A. It would.

17 Q. Following up on Mr. Kopta's question about
18 costing mixed facilities. How would you recommend
19 that the Commission go about pricing a facility which
20 can be used for both monopoly and competitive
21 functions like a Centrex NAC?

22 A. I believe the Commission could take one of
23 two approaches. One approach would be to do as US

24 West has done and that's basically offer the same
25 services on equal terms and conditions to the

(ZEPP - CROSS BY LUDVIGSEN)

1128

1 different parties. If you offer it on equal terms and
2 conditions then implicitly you're imputing the same
3 price to the different customers. I think that's
4 unnecessary. I see no reason to have the same
5 contribution from a competitive service than one has
6 from a monopoly service and part of the reason that
7 we're able to maintain universal service is that we do
8 and are able to -- and US West has been able to price
9 loops, for example, as monopoly product and get that
10 contribution in there for subsidies other services.

11 So I would recommend that the Commission
12 recognize in its competitive service that they have to
13 cover cost but they don't have to impute a monopoly
14 price to that service. So there would be various
15 different tariff designs where it would be consistent
16 with that.

17 MR. LUDVIGSEN: No more questions.

18 JUDGE BALLASH: Questions from the
19 Commission?

20 CHAIRMAN NELSON: Issue of the cost benefit
21 ratio in the Oregon proceeding, could you give me a
22 ballpark figure on what TRACER might have spend
23 participating in that proceeding?

24 THE WITNESS: This proceeding has basically
25 exhausted the Oregon TRACER budget.

(ZEPP - CROSS BY LUDVIGSEN)

1129

1 CHAIRMAN NELSON: What's that?

2 THE WITNESS: I don't know what it is but
3 maybe I went too far with that. That's not fair.
4 It's extremely expensive. When these dockets
5 originally started it was one day a month. It then
6 became two days a month, then it went to two-and-a-half
7 days a month and unfortunately attorneys and consultants
8 bill by the hour. So you can get a rough ballpark. You
9 know what consultants and lawyers charge and you can
10 multiply that two-and-a-half days a month for a party
11 like this. It appears to me that companies like
12 United Telephone have come and now we've got some of the
13 other smaller independent companies coming, and to some
14 extent that's because they're concerned as to what the
15 docket is ultimately going to produce and they feel like
16 they have to be there as this is being developed, so it
17 is expensive. I do not want to downgrade the benefit
18 of this. There has been some really good work that has
19 been done by all of the parties involved in this. It's
20 just very expensive to do this this way.

21 COMMISSIONER PARDINI: May I follow up on
22 that. At this point in your judgment, has it reached
23 any conclusions?

24 THE WITNESS: It has not, sir.

25 COMMISSIONER PARDINI: So everything is

(ZEPP - CROSS BY LUDVIGSEN)

1130

1 still tentative and is still in the recommendation
2 stage or ongoing?

3 THE WITNESS: Well, Dr. Hellman has done
4 an excellent job, I believe, in summarizing positions
5 and there was a bench request for these memos that he
6 has been providing to the Commission. So I shouldn't
7 say they have not reached a conclusions. There have
8 been a lot of conclusions that have been reached as
9 far as methodology is concerned. So there have been
10 those benefits that have come out of this.

11 COMMISSIONER PARDINI: Thank you.

12 JUDGE BALLASH: Any other questions from
13 the Commission?

14 Redirect for this witness.

15 MR. JONES: Do we have an opportunity to
16 confer on redirect?

17 CHAIRMAN NELSON: Two minutes.

18 (Recess.)

19 JUDGE BALLASH: Let's be back on the
20 record. Is there any redirect for this witness?

21 MR. JONES: No redirect.

22 JUDGE BALLASH: Thank you for your
23 testimony, Dr. Zepp. You may step down.

24 We will reconvene tomorrow afternoon as
25 soon as argument on another case is concluded at 1:30.

(ZEPP - CROSS BY LUDVIGSEN)

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1 So I would ask the parties to be here at 1:30 ready to
2 go as soon as that argument is completed. Let's be
3 off the record.

4 (Hearing adjourned at 12:15 p.m.)

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