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BEFORE THE WASHINGTON UTILITIES AND

2

TRANSPORTATION COMMISSION

3

4 In the Matter of the Pricing) Docket No. UT-960369
5 Proceeding for Interconnection,) Phase III
6 Unbundled Elements, Transport) Volume X
7 and Termination, and Resale) Pages 2182-2394

6

8 In the Matter of the Pricing) Docket No. UT-960370
9 Proceeding for Interconnection,)
10 Unbundled Elements, Transport)
11 and Termination, and Resale)
12 for US WEST COMMUNICATIONS,)
13 INC.)

14 In the Matter of the Pricing) Docket No. UT-960371
15 Proceeding for Interconnection,)
16 Unbundled Elements, Transport)
17 and Termination, and Resale)
18 for GTE NORTHWEST,)
19 INCORPORATED.)

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15 A hearing in the above matter was
16 held on February 28, 2000, at 10:15 a.m., at 1300
17 Evergreen Park Drive Southwest, Olympia, Washington,
18 before Administrative Law Judge C. ROBERT WALLIS,
19 Chairwoman MARILYN SHOWALTER, Commissioner RICHARD
20 HEMSTAD, and Commissioner WILLIAM R. GILLIS.

21

22 The parties were present as
23 follows:

24

25 US WEST COMMUNICATIONS, INC., by
Lisa A. Anderl, Attorney at Law, 1600 Seventh Avenue,
Room 3206, Seattle, Washington 98191.

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1 THE COMMISSION, by Sally G.
Johnston, Assistant Attorney General, 1400 S.
2 Evergreen Park Drive, S.W., P.O. Box 40128, Olympia,
Washington 98504-0128.

3
4 NEXTLINK WASHINGTON, ELECTRIC
LIGHTWAVE, INC., ADVANCED TELCOM, INC., NEW EDGE
NETWORKS, INC. and GST TELECOM, by Gregory J. Kopta,
5 Attorney at Law, 2600 Century Square, 1501 Fourth
Avenue, Seattle, Washington 98101-1688.

6
7 GTE, by W. Jeffery Edwards and
Jennifer McClellan, Attorneys at Law, Hunton &
Williams, 951 E. Byrd Street, Richmond, Virginia,
8 23219.

9 TRACER and RHYTHMS LINKS, INC., by
Stephen J. Kennedy, Attorney at Law, Ater Wynne, Two
10 Union Square, Suite 5450, 601 Union Street, Seattle,
Washington 98101.

11
12 WASHINGTON INDEPENDENT TELEPHONE
ASSOCIATION, by Richard A. Finnigan, Attorney at Law,
2405 S. Evergreen Park Drive, S.W., Suite B-3,
13 Olympia, Washington 98502.

14 MCI WORLDCOM, by Ann Hopfenbeck,
Attorney at Law, 707 17th Street, Suite 3600, Denver,
15 Colorado, 80202.

16 AT&T, by Susan Proctor, Attorney
at Law, 1875 Lawrence Street, Suite 1575, Denver,
17 Colorado, 80202.

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24 Barbara L. Spurbeck, CSR
25 Court Reporter

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1 JUDGE WALLIS: The hearing will please come
2 to order. This is a hearing in Commission Docket
3 Number UT-960369 before the Washington Utilities and
4 Transportation Commission. It's being held at
5 Olympia, Washington, on February 28, the year 2000,
6 before the Commissioners. And my name is Robert
7 Wallis. I'm the presiding Administrative Law Judge.

8 As our first order of business today, let's
9 take appearances from the parties and just go around
10 the table. I'm going to ask each of the parties to
11 identify yourself and the client that you represent,
12 state your business address, and whether you have any
13 co-counsel appearing with you during the proceeding.

14 MR. EDWARDS: Thank you, sir, good morning.
15 My name is W. Jeffery Edwards. I'm with the law firm
16 of Hunton and Williams. Business address is
17 Riverfront Plaza East, 951 East Byrd Street,
18 Richmond, Virginia, 23219. I represent GTE of the
19 Northwest. Appearing with me this week is my
20 colleague, Jennifer McClellan.

21 MS. ANDERL: Thank you, Your Honor. Lisa
22 Anderl, representing US West Communications, Inc. My
23 business address is 1600 Seventh Avenue, Seattle,
24 Washington, 98290 -- I'm sorry, 98191, and the room
25 number is 3206.

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1 JUDGE WALLIS: I will acknowledge that the
2 empty chair belongs to Mr. Finnigan. Today he has
3 excused himself momentarily, but will be rejoining
4 us.

5 MR. KENNEDY: Good morning. I'm Steve
6 Kennedy, with the law firm of Ater Wynne, here today
7 representing Tracer and Rhythms Links, Inc. My
8 business address is 601 Union Street, Suite 5450,
9 Seattle, Washington, 98101. My co-counsel, Art
10 Butler, may or may not be able to join us this week.

11 JUDGE WALLIS: Thank you, Mr. Kennedy.

12 MS. HOPFENBECK: Good morning. My name is
13 Ann Hopfenbeck. I'm representing MCI WorldCom, Inc.
14 My business address is 707 17th Street, Denver,
15 Colorado, 80202, Suite 3600.

16 MS. PROCTOR: Now that I no longer need
17 those telephone books to sit on, I'm Susan Proctor,
18 appearing on behalf of AT&T. My address is 1875
19 Lawrence, L-a-w-r-e-n-c-e, Street, Suite 1575,
20 Denver, Colorado, 80202.

21 MR. KOPTA: Gregory J. Kopta, of the law
22 firm Davis, Wright, Tremaine, L.L.P., on behalf of
23 Nextlink Washington, Inc., Electric Lightwave, Inc.,
24 Advanced TelCom Group, Inc., New Edge Networks, Inc.,
25 GST Telecom Washington, Inc. My business address is

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1 2600 Century Square, 1501 Fourth Avenue, Seattle,
2 Washington, 98101-1688.

3 MS. JOHNSTON: Sally G. Johnston, Assistant
4 Attorney General. My address is 1400 South Evergreen
5 Park Drive S.W., Olympia, Washington, 98504. I'm
6 filling in for Ann E. Rendahl, Assistant Attorney
7 General, on behalf of Commission Staff.

8 JUDGE WALLIS: Thank you, Ms. Johnston.
9 Are there any other appearances to be made this
10 morning? Let the record show that there is no
11 response. We've offered the parties the opportunity
12 to make brief opening statements, and I'd like to ask
13 if the parties desire to do so at this time?

14 MR. EDWARDS: I'm prepared to do so.

15 JUDGE WALLIS: Very well. Mr. Edwards.

16 MR. EDWARDS: Good morning. Again, my name
17 is Jeff Edwards, representing GTE. My colleague,
18 Jennifer McClellan, and I appreciate the opportunity
19 to appear in front of the Commission, Judge Wallis,
20 and Dr. Gabel.

21 GTE accepts and recognizes the fact that
22 wholesale UNE rates need to be deaveraged. GTE's
23 position, though, as stated in its testimony, is that
24 that deaveraging must take place in the context of
25 other steps, which would include retail rate

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1 rebalancing and the maintenance of a portable USF
2 fund mechanism. All subsidies that are now implicit
3 should be made explicit. That can only happen as
4 wholesale and retail rates go to cost and there is
5 the implementation of a USF fund.

6 We encourage in our testimony the
7 Commission to seek a waiver of the FCC's UNE
8 deaveraging rule. In the absence of such a waiver,
9 however, we have submitted proposals to the
10 Commission. Frankly, I'm confused by the number of
11 proposals that are now on the table filed by not only
12 GTE, but by all of the other parties.

13 So I conclude this opening statement by
14 putting in the Commission's mind where I hope we can
15 end up. Much of the Staff's proposal has ended up
16 relying on record evidence that has now been struck
17 or evidence that has now been struck from the record.

18 GTE has changed from its original proposal
19 in its direct testimony to an alternative proposal
20 that's contained in its responsive testimony. AT&T's
21 proposals have changed with respect to the three sets
22 of testimony that have been filed. AT&T's
23 alternative proposal, filed with Mr. Denney's
24 rebuttal testimony, relies on GTE's wire center cost.
25 In fact, relies on GTE's methodology except for, I

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1 believe the evidence will show, except for a
2 difference with respect to how the zone should be
3 defined.

4 Frankly, GTE is in a position and will,
5 through its cross-examination and the testimony that
6 it offers, move to that position that AT&T has
7 offered in its alternative proposal with a
8 modification for zone definitions and perhaps an
9 additional modification with respect to constraining
10 wire centers. That proposal will be expounded upon
11 as the witnesses testify. Thank you.

12 JUDGE WALLIS: Ms. Anderl.

13 MS. ANDERL: Thank you, Your Honor. Good
14 morning, Commissioners, Judge, Dr. Gabel. US West
15 comes before you this week asking you to adopt its
16 geographic deaveraging proposal for the unbundled
17 loops that US West sells. US West's proposal
18 consists of three geographically deaveraged zones.
19 Zone One includes Seattle, Tacoma, Vancouver, and
20 Spokane, the most dense urban areas, and US West
21 proposes a deaveraged loop price of \$16.66. The Zone
22 Two, the next -- kind of the middle zone, includes
23 Bremerton, Bellingham, Yakima, and Olympia. And the
24 final, Zone Three, includes all of the other areas
25 that US West serves with a \$27.98 loop rate. These

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1 are based on the average loop price of \$18.16.

2 US West's proposal is a geographic
3 deaveraging proposal. It also does, however,
4 consider a community of interest for deaveraging. It
5 proposes three zones that are clearly identifiable
6 from a geographic standpoint, which makes sense from
7 a consumer and local calling area standpoint, and it
8 proposes a scheme which is relatively easy to
9 administer.

10 US West's proposal is also one which can be
11 rationally translated into a retail deaveraging
12 proposal and one which US West believes will promote
13 UNE competition in all three zones. US West believes
14 that its evidence will show that the other proposals,
15 which are more extreme, should not be adopted; that
16 those proposals would, among other things, allow the
17 UNE purchaser to save maybe a dollar or two on loops
18 in the most urban areas while raising the loop price
19 in rural areas to a level which would foreclose
20 competition and which would have potentially dramatic
21 effects on retail prices in rural areas.

22 US West believes that the evidence will
23 also show that some of the other proposals, which
24 would include loop distance as a factor for
25 deaveraging, are poorly developed on this record, and

02193

1 what we have been able to learn from those is that
2 they would be cumbersome, expensive, and impractical
3 to administer. Thank you.

4 JUDGE WALLIS: Thank you. Mr. Kennedy.

5 MR. KENNEDY: We'll waive openings.

6 JUDGE WALLIS: Ms. Hopfenbeck.

7 MS. HOPFENBECK: MCI WorldCom is
8 recommending that the Commission deaverage UNE loop
9 rates to the greatest practical level of detail after
10 consideration of administrative costs and recognizing
11 that it probably is wise at this point in the
12 development of competition in the state of Washington
13 to have deaveraging proceed in increments, with this
14 being the first step.

15 MCI, in particular, is supporting the
16 position advocated by AT&T, that geographical
17 deaveraging be based -- that the zones be determined
18 looking to wire center costs.

19 Essentially, in selecting among the various
20 proposals that have been put forth, MCI suggests that
21 the Commission carefully balance and weigh the
22 benefits and burdens associated with each proposal,
23 keeping in mind that the benefit that we should be
24 striving to achieve is to send the appropriate
25 signals to competitive local exchange carriers as to

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1 whether to build or buy.

2 We think that the proposal made by AT&T
3 satisfies that criteria because their proposal
4 establishes zones with cost being the principal
5 criteria, as opposed to the criteria of community of
6 interest, such as US West has advocated, or other
7 criteria that are really proxies for actual costs.
8 That would conclude my remarks.

9 MS. PROCTOR: Thank you. AT&T believes
10 that the choice of the appropriate deaveraging
11 proposal among the many that have been submitted
12 before this Commission will be determined by the
13 regulatory goals of this Commission. If it is the
14 Commission's goal to promote efficient competition in
15 the state of Washington, then the Commission should
16 look to the proposals of Staff, AT&T, MCI, or the
17 other CLECs amongst which to make its decision.

18 If it is the Commission's goal to help
19 protect the incumbent monopolies from the threat of
20 competition, then the proposals of GTE and US West
21 are the proposals that the Commission will wish to
22 consider.

23 In the testimony of Mr. Denney, AT&T's
24 position has been outlined. First, of the many
25 unbundled network elements, it is only the loop upon

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1 which the Commission need focus at this time. It is
2 the most significant cost that CLECs face, and it has
3 the greatest variability in cost on a geographic
4 basis.

5 At this point in time, AT&T is recommending
6 that the Commission start by deaveraging in three
7 cost-based zones in order to satisfy the FCC's
8 requirements. Each zone should be determined by
9 grouping together wire centers with similar costs.
10 The Commission should also be mindful of the
11 practicality of the method it chooses to deaverage,
12 since complications in the deaveraging methodology
13 impose significant costs on both CLECs and ILECs and
14 may pose a threat to the development of competition
15 in the state. Thank you.

16 MR. KOPTA: Good morning, Commissioners,
17 Judge Wallis, and Dr. Gabel. We've come a long way
18 in this docket, and as earlier discussions off the
19 record have demonstrated, we still have miles to go
20 before we sleep. So essentially what the Commission
21 is looking at in this proceeding is setting what
22 amounts to a different interim rate or rates, in the
23 case of geographically deaveraged rate for unbundled
24 loops.

25 In the four years since the

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1 Telecommunications Act was passed, US West has
2 provided or is providing a total of something in the
3 neighborhood of 6,500 unbundled loops in the state of
4 Washington, which is one-tenth of one percent of the
5 access lines that US West has in the state. Four
6 years to get 6,500 unbundled loops, and that's at
7 rates that are no higher than the FCC default proxy
8 of \$13.37. Clearly, there are reasons other than
9 price that unbundled loops are not more popular.

10 The Commission, however, has established in
11 an earlier phase of this proceeding a statewide
12 average for US West at \$18.16, nearly \$5 higher, as
13 well as a substantial increase in nonrecurring
14 charges. If the Commission does not effectively
15 geographically deaverage unbundled loop rates, the
16 effect is going to be an even lower amount of
17 unbundled loops provided in the state of Washington.
18 And the evidence that we have presented will
19 demonstrate that it's simply not financially viable
20 for competitors to use unbundled loops at the prices
21 that GTE and US West have proposed.

22 The problem, however, we come back to is
23 the statewide average. The Commission, therefore,
24 has a difficult choice in geographically deaveraging,
25 which is to determine whether it wants to encourage

02197

1 the use of unbundled loops in the provisioning of
2 local exchange service at all.

3 We have presented a proposal that would
4 allow the greatest amount of competition in the
5 largest area in Washington, at least on the basis of
6 price. It's our position that the Commission, which
7 has consistently taken steps to foster the
8 development of effective local exchange competition
9 to the ultimate benefit of all Washington residents,
10 should review the evidence and adopt geographically
11 deaveraged rates that will allow and further foster
12 the development of such local exchange competition.
13 Thank you.

14 MS. JOHNSTON: In this phase of the
15 proceeding, Staff identifies two elements for
16 deaveraging: Loops and switching. Staff uses
17 existing Hatfield cost model density zone ranges to
18 provide deaveraged loop cost estimates for US West,
19 four zones, and GTE, fives zones, and proposes a
20 distance-sensitive rate structure which is within
21 each of those zones. Staff also offers a proposal to
22 deaverage switching rates into three zones for US
23 West and four zones for GTE Northwest.

24 In addition, Staff recommends that the
25 Commission reject the use of company proprietary cost

02198

1 models for establishing deaveraged rates, the use of
2 zones which were not based on geographic cost
3 differences, and the use of a single statewide rate
4 applicable to both US West and GTE Northwest.

5 Staff offers distance-sensitive deaveraged
6 loop proposals containing nine rate elements for GTE
7 Northwest and 12 rate elements for US West using
8 Hatfield Model cost estimates. Commission Staff
9 urges you to adopt its proposal. Thank you.

10 JUDGE WALLIS: Mr. Finnigan has returned.
11 Mr. Finnigan, would you state your appearance for the
12 record and indicate whether you wish to make a brief
13 opening statement.

14 MR. FINNIGAN: Richard A. Finnigan,
15 appearing on behalf of the Washington Independent
16 Telephone Association. And yes, very briefly, WITA
17 does support the concept of deaveraging loop UNEs.
18 WITA's members also have a concern that with that
19 deaveraging, there should be a deaveraging of the
20 retail rate for those same areas.

21 JUDGE WALLIS: Very well. Thank you very
22 much. Let's proceed to the examination of witnesses.
23 AT&T is calling to the stand at this time its
24 witness, Douglas Denney. I would like to identify
25 the documents associated with this witness'

02200

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

3 JUDGE WALLIS: Ms. Proctor.

4 MS. PROCTOR: Thank you.

5 D I R E C T E X A M I N A T I O N

6 BY MS. PROCTOR:

7 Q. Could you please state your name and
8 address for the record?

9 A. My name is Douglas Denney. My address is
10 1875 Lawrence Street, Denver, Colorado, 80202.

11 Q. And you're employed by and appear on behalf
12 of AT&T?

13 A. That's correct.

14 Q. Did you cause to be prefiled in this docket
15 exhibits which have been marked as 1-T through 5-C?

16 A. Yes, I did.

17 Q. And is that testimony true and correct, to
18 the best of your knowledge?

19 A. Yes, it is.

20 Q. And if I asked you those same questions
21 today, would your answers be the same?

22 A. Yes.

23 Q. And other than the usual minor
24 typographical errors that do not affect substance, do
25 you have any corrections or changes to your

02201

1 testimony?

2 A. No.

3 MS. PROCTOR: Your Honor, I would move the
4 admission of Exhibits 1-T through 5-C.

5 JUDGE WALLIS: Is there any objection? Let
6 the record show that there's no response, and those
7 documents are received.

8 MS. PROCTOR: Mr. Denney is available for
9 cross-examination.

10 C R O S S - E X A M I N A T I O N

11 BY MR. EDWARDS:

12 Q. Good morning, Mr. Denney. My name's Jeff
13 Edwards, representing GTE. Let me suggest that you
14 open your surrebuttal testimony, your third piece of
15 testimony, page 12, before I begin.

16 JUDGE WALLIS: That's Exhibit 4-T.

17 MR. EDWARDS: Yes, sir, Exhibit 4-T.

18 JUDGE WALLIS: As Counsel asks questions of
19 this sort, could you please identify the document by
20 the number that we've assigned to it, as well as the
21 name? That would help us track the questions and
22 will help as we go back to the record in maintaining
23 that.

24 MR. EDWARDS: Yes, sir.

25 Q. Mr. Denney, with respect to your original

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1 proposal contained in Exhibit Number 1-T, would you
2 agree with me that, for GTE, there were certain
3 errors in that proposal with respect to wire centers
4 that were included and several wire centers that
5 should have been omitted?

6 A. According to GTE's testimony, there were
7 wire centers that I included that had been sold and
8 there were a few wire centers that did not appear in
9 the cost estimates of Hatfield 3.1; that's correct.

10 Q. And you'd agree with me, Mr. Denney,
11 wouldn't you, that you made those corrections with
12 respect to the AT&T alternative that appears on page
13 12 of Exhibit Number 4-T, as well as --

14 A. Page 16.

15 Q. -- page 16 of Exhibit 4-T?

16 A. Yes, I made those corrections, as was
17 suggested by GTE.

18 Q. All right. And you did not make those
19 corrections, did you, with respect to what's labeled
20 AT&T Original on page 12, and what's labeled AT&T
21 Original on page 16?

22 A. That's correct.

23 Q. So those two, a row on page 12 and column
24 on page 16, continue to contain those errors?

25 A. That's correct.

02203

1 Q. And with respect to page 12 on your table
2 there, on number 4-T, where you have GTE (AT&T
3 corrected), that is really your AT&T original
4 reflecting GTE's corrections; isn't that correct?

5 A. That's correct, yes.

6 Q. And that corresponds to the second column
7 on page 16; correct?

8 A. Yes, it does.

9 Q. You'd agree with me, also, Mr. Denney,
10 wouldn't you, that your original proposal produced
11 one rate for three zones for both GTE and US West?

12 A. In my direct testimony, that was what I
13 proposed. And then, recognizing that that would not
14 -- I mean, those costs would not be reflective of
15 GTE's and US West's costs, then I proposed to split
16 those into two zones.

17 Q. The original cost didn't tie back to the
18 statewide average; correct?

19 A. That's correct.

20 Q. With respect to your original proposal, you
21 did not explain or state in your direct testimony,
22 Exhibit 1-T, your rationale for dividing the zones,
23 did you?

24 A. I believe in the original testimony I
25 talked about the appropriateness of lining wire

02204

1 centers up according to their cost and grouping wire
2 centers with similar costs together, and that was the
3 rationale that I used for selecting zones.

4 Q. But in that testimony, you didn't say what
5 costs should go in Zone One or what costs should go
6 in Zone Two, did you?

7 A. I believe that was identified -- the wire
8 centers with each zone were identified in that direct
9 testimony.

10 Q. But in terms of the underlying rationale
11 for where to draw the line between Zone One and Zone
12 Two, you did not explain that, did you, any more than
13 you've already explained on the stand today?

14 A. No, I think what I said here encompasses
15 how that determination was made.

16 Q. Did you answer a data request from GTE with
17 respect to that rationale for the dividing between
18 Zone One, Zone Two, and Zone Three?

19 A. I recall a request about that.

20 Q. Do you recall a response where you said --
21 I believe it was you -- you chose all wire centers
22 with a cost less than \$16, and group those as Zone
23 One, and wire centers with costs from 16 to 32 into
24 Zone Two, and greater than \$32 into Zone Three.

25 MS. PROCTOR: Could we see a copy of that

02205

1 data response, please?

2 MR. EDWARDS: GTE Data Request Number 8.

3 Do you want to see it, Ms. Proctor, or do you want me
4 to show it to the witness? I only have one copy. I
5 apologize.

6 Q. Do you see the response there, Mr. Denney?

7 A. Yes, I prepared this response.

8 Q. And have I accurately characterized your
9 response?

10 A. Yes, that's accurate.

11 Q. Why did you choose \$16 as the line of
12 demarcation between Zone One and Zone Two?

13 A. Well, what I did was I lined the wire
14 centers up by cost and then looked through the list
15 of wire centers. I looked at the dollar change in
16 cost between each wire center as you got to
17 higher-cost wire centers. I also looked at the
18 percentage change in cost between these wire centers
19 as you move from lower-cost to higher-cost wire
20 centers, and this is included in Attachment A, which
21 is Exhibit 2 of my testimony, and determined that it
22 looked like, you know, right around the \$16 range. I
23 believe there was about a three percent jump in cost
24 from the two wire centers, and thought that was a
25 good cutoff.

02206

1 And the choice of -- I mean, I think the
2 methodology, in order to determine the geographic
3 zones is, you know, is as I described it. The choice
4 of exactly where to cut that off is somewhat of an
5 art form. Do you cut it off at \$16, do you cut it
6 off at \$15, or \$17. And those are choices that the
7 Commission could make. If they want an equal number
8 of customers in each zone, then you would choose
9 different cutoffs than if you wanted to look at a
10 break in costs between the zones. If you wanted to
11 assign a large number of customers in the low-cost
12 zone, that would determine a different cutoff.

13 And I chose \$16, because there was a break
14 in cost around that range between the first zone
15 group of wire centers and the second zone.

16 Q. Let's look for a minute at the Exhibit
17 Number 2, which is your Attachment A to your direct
18 testimony. Are you there, sir?

19 A. Yes.

20 Q. Really, you've given an explanation, but
21 you'd agree with me you really can't support that
22 explanation from this attachment, can you, because
23 you didn't supply separate costs for GTE and US West?

24 A. No. Well, I have costs -- I have costs
25 listed on this exhibit for GTE and US West.

02207

1 Q. Right, but when you say, for example, \$16
2 is your cutoff point, where do you see that?

3 A. There's -- about four-fifths of the way
4 down the page.

5 Q. Okay. And that's the line between the two
6 US West wire centers; correct?

7 A. That's correct.

8 Q. Right. And I believe you said there was a
9 three percent jump there?

10 A. I was recalling it. It looks like it's a
11 1.1 percent jump here.

12 Q. And frankly, if you go up that line a
13 little further, or up that same column there, there's
14 a 2.2 percent jump somewhere along the way; right?

15 A. Right, and you could have chosen that point
16 as a cutoff point.

17 Q. Then there's a 1.8 percent and a 1.1
18 percent; correct?

19 A. That's correct.

20 Q. But you chose the line of demarcation so
21 that \$16 would be the rate in Zone One; correct?

22 A. That's correct.

23 Q. With respect to your original proposal, do
24 you know how many or what percentage of GTE's lines
25 would have fallen in Zone One?

02208

1 A. I don't believe I made that calculation. I
2 do -- I mean, I do think I had that data, it's not
3 presented here on the exhibit. I don't recall what
4 the cutoff was. I mean, I did look at that when I
5 was determining the zones.

6 Q. Will you accept, subject to check, that it
7 was 31.29 percent?

8 A. That appears reasonable.

9 Q. Do you know today, for example, the
10 percentage of total lines for both GTE and US West
11 that were in your original proposal for Zone One and
12 Zone Two?

13 A. The percent? No, I don't.

14 Q. Would you accept, subject to check, that it
15 included 94 percent of all those lines?

16 MS. PROCTOR: May I interpose a question
17 here? How are we supposed to check this?

18 MR. EDWARDS: I believe Mr. Denney can
19 check it.

20 JUDGE WALLIS: Let's ask the witness. Do
21 you have the ability to check this?

22 THE WITNESS: I could go back to the office
23 and check that. I mean, are you saying that in Zone
24 One, 94 percent of the lines -- no, I don't believe
25 that was right.

02209

1 Q. No, that's not what I'm saying. The first
2 question was 31 percent of GTE's lines in Zone One,
3 under your original proposal.

4 A. And that seems reasonable.

5 Q. The second question was Zone One and Zone
6 Two, for both GTE and US West, represented 94 percent
7 of all the lines.

8 MS. PROCTOR: I'm going to interpose an
9 objection. Mr. Denney does not have the current
10 ability to check that number, so we're not willing to
11 accept it subject to check.

12 JUDGE WALLIS: By current ability, you mean
13 on the stand or momentarily or how?

14 MS. PROCTOR: Within the next two days or
15 three days.

16 JUDGE WALLIS: And why does that constitute
17 a barrier to accepting it?

18 MS. PROCTOR: My understanding was that if
19 Counsel is asking a party to accept something subject
20 to check, it should be readily verifiable, or else
21 Counsel would present to the witness the material
22 upon which he could verify his accepting something
23 subject to check.

24 MR. EDWARDS: My assumption would have been
25 that Mr. Denney had his work papers with him.

02210

1 MS. PROCTOR: Mr. Denney does not carry the
2 huge computer around with him.

3 JUDGE WALLIS: In prior proceedings, we
4 have adopted the convention that subject to check
5 responses may be made within 10 days following the
6 appearance on the stand, and I'm going to suggest
7 that that's appropriate in this instance, as well,
8 with the proviso that if in fact the check proves
9 that the response is wrong, that an explanation will
10 be afforded, and in addition, that the opportunity
11 for such further processes may be required by the
12 state of the record.

13 By setting a 10-day limitation, we would
14 encourage parties to make response as soon as
15 possible, but if it takes 10 days, then that would be
16 acceptable.

17 MR. EDWARDS: Thank you, sir.

18 THE WITNESS: I mean, to respond to that
19 question, then, I mean, since most of the people in
20 the state live in more suburban or urban areas, you
21 would expect in those zones that a large percentage
22 of those customers would be in the low and
23 medium-cost zones when you do a deaveraging proposal.
24 That would be a reasonable outcome.

25 Q. Would you agree with me that GTE's serving

02211

1 territory in Washington tends to be more rural and
2 less urban?

3 A. It appears that to me, yes.

4 Q. Would you agree with me that the smaller
5 the variation of cost within each zone, the better
6 the zone represents wire centers with similar costs?

7 A. Yes, I'd agree with that statement.

8 Q. For several of your proposals, you use the
9 Hatfield Model 3.1; correct?

10 A. That's correct.

11 Q. To determine the cost; correct?

12 A. That's right.

13 Q. Would you agree with me that the Hatfield
14 Model 3.1 defines exchange boundaries on the basis of
15 census block groups?

16 A. The way the model functions is it does look
17 at census -- assigned census block groups to the
18 exchange in which they predominantly reside. So a
19 census block group could be in more than one
20 exchange. If it's more in one exchange than another,
21 then the whole census block group is assigned to that
22 exchange in Hatfield 3.1.

23 Q. So the answer's yes?

24 A. I didn't quite understand your question,
25 but I think my answer clarified that. I wouldn't say

02212

1 that exchange boundaries are defined by census block
2 groups. I would disagree with that characterization.
3 Census block groups are assigned to exchanges.

4 Q. Exchanges. Would you agree with me that
5 census block groups are larger and less densely
6 populated as they move away from urban areas?

7 A. Rural census block groups tend to be larger
8 than urban census block groups, that's correct.

9 Q. Would you agree with me that there's more
10 variability in loop costs determined by Hatfield
11 Model 3.1 at wire center levels -- at the wire center
12 level in smaller wire centers or for smaller wire
13 centers?

14 A. Yes, I agree that Hatfield 3.1 has a higher
15 variability of cost in rural wire centers, and I
16 would fully expect a model to produce results like
17 that.

18 Q. Would you agree with me that there's more
19 variability in loop costs exhibited by Hatfield 3.1
20 at the wire center level in wire centers with
21 relatively few lines per square mile?

22 A. I would agree that there's a higher
23 variability there, and that doesn't surprise me. I
24 would expect a model to produce that higher
25 variability.

02213

1 Q. Would you agree with me that loop costs are
2 affected by wire center size?

3 A. That is one factor that affects loop cost.
4 I would not -- but that was not the only factor.
5 There's about a thousand different things that affect
6 wire center cost.

7 Q. You'd agree with me, though, that wire
8 center size is a cost driver with respect to loop
9 cost?

10 A. I mean, I think it's sometimes used as a
11 predictor. I wouldn't say wire center size alone
12 drives loop cost. What really drives loop cost is
13 the amount of plant that you need to reach customers.
14 And if the customers are very closely located
15 together, then a small wire center could very well
16 produce a lower cost than a larger wire center that's
17 serving customers that are much more spread out.

18 So I wouldn't say wire center size is a
19 definite determinant of loop cost alone. I think the
20 characteristics of customers within wire centers is
21 what determines loop cost.

22 Q. All other things being equal, if a serving
23 area size is smaller, the loop costs are less than if
24 the serving area size is bigger; correct?

25 A. No, that's not necessarily the case. It

02214

1 depends how customers are located within a wire
2 center is really what determines. The serving area
3 size could be identical and customers could be
4 located very differently, and these two results would
5 produce very different cost estimates. So it's
6 really how customers are located within a wire center
7 that's determining the cost.

8 Q. So the dispersion of the customers could
9 affect loop length; correct?

10 A. That's right, it could, and it would, yes.

11 Q. If the proportion of loops is greater than
12 12,000 feet or 18,000 feet, however you want to
13 define it, then, as that proportion goes up, the
14 costs go up; correct?

15 A. In general, but, again, I wouldn't make
16 that blanket statement to say every time you see
17 longer loop length, you're going to see longer cost.
18 You could have a long loop length that goes out to
19 reach a set of densely-populated customers that are
20 sitting on the outskirts of a town and those costs
21 could be a lot less than some people that are closer,
22 perhaps the wire center had shorter loop lengths that
23 are spread out to a much greater degree. So I
24 wouldn't want to bank on loop length alone as a
25 predictor a cost.

02215

1 Q. That wasn't the question. Not alone, but
2 it's a factor; correct?

3 A. More a factor than loop length is really
4 the amount of structure that you need to build to
5 reach customers, which is different than the loop
6 length.

7 Q. Would you agree with me that if a pair gain
8 device has to be used, the costs go up?

9 A. No, not necessarily. What you see often in
10 the use of pair gain devices that, as customers are
11 further away from the office, copper cable is more
12 expensive than fiber cable. And after a certain
13 amount of distance, actually, it becomes more
14 cost-effective to use pair gain equipment than it
15 does to use copper cable, because the savings between
16 the differences in cable costs, between copper and
17 fiber cable, pays for the electronics that you would
18 put on the end of fiber, so I wouldn't agree with
19 that statement.

20 Q. Do you know what GTE's engineering
21 principles in Washington are for such construction?

22 A. No.

23 Q. US West?

24 A. No.

25 Q. Have you looked at those?

02216

1 A. Their engineering principles?

2 Q. Design principles for constructing outside
3 plant?

4 A. I haven't seen anything like that filed in
5 this proceeding.

6 Q. So you haven't looked at it?

7 A. No.

8 Q. Go, if you would, to Exhibit 4-T, Mr.
9 Denney, what I asked you to look at at the beginning.

10 MS. PROCTOR: I'm sorry, Mr. Edwards, where
11 are we starting again?

12 MR. EDWARDS: Back where we began, at
13 Exhibit 4-T, which is Mr. Denney's surrebuttal
14 testimony. Let's go to page 12.

15 Q. I guess I need a clarification from you on
16 the record, and let me ask it this way. I understand
17 your most recent and current proposal for GTE to be
18 what is in the second row of the table on page 12,
19 which is the AT&T alternative; is that correct?

20 A. I believe I offered up three alternatives
21 that I thought were reasonable to the -- you know, to
22 the Commission, and that was one of the -- on page
23 16, those three are contained, and that was one of
24 the three.

25 Q. All right. Well, let's look at page 16.

02217

1 You've told me now that the AT&T Original column is
2 the one that has the errors in it?

3 A. It has some wire centers that should be
4 excluded and it has -- there's a couple wire centers
5 that are not there.

6 Q. So it had some errors in it; correct?

7 A. That's correct.

8 Q. All right. And the second column is your
9 original correcting for those errors that GTE pointed
10 out in its responsive direct testimony; correct?

11 A. That's correct.

12 Q. And then the third row is, if I understand
13 this correctly, and let me characterize it and
14 correct me if I'm wrong, is your AT&T alternative
15 based on GTE wire center cost; is that correct?

16 A. Well, I mean, it's not exactly correct, but
17 GTE did propose some wire center costs that were not
18 -- their cost model couldn't produce these costs, but
19 they had somehow estimated these costs from their
20 model. And what I did was line those costs up from
21 low cost to high cost, looked for some breaks in cost
22 to try to assign some wire centers to zone, and that
23 is using GTE's cost estimates and using them more --
24 what I think is a more appropriate breakdown of the
25 zones than what GTE had proposed. That's what that

02218

1 represents.

2 I'm a little hesitant to strongly endorse
3 those numbers because GTE's cost model did not
4 produce those numbers. GTE made an estimation to
5 derive those numbers. But I put this here as -- I
6 mean, this is an alternative, it looked like it
7 produced a reasonable breakdown within the zones, so
8 I put this forward to the Commission as an
9 alternative.

10 Q. And is one of the factors you used for this
11 breakdown of zones an objective of keeping Zone One
12 \$16 or below?

13 A. No, that had nothing to do with it.

14 Q. But you did, in this alternative, propose
15 four zones, and not three zones; correct?

16 A. That's correct.

17 Q. In your original proposal, you proposed
18 three zones; correct?

19 A. That's correct.

20 Q. In fact, in your original proposal, which
21 is in your testimony labeled 1-T, your direct
22 testimony, on page four you offered a question and
23 answer regarding why three zones is appropriate;
24 correct?

25 A. Now, where was that?

02219

1 Q. Exhibit 1-T, page four. That would be your
2 direct testimony.

3 A. Yeah, I believe what I said there was that,
4 at this time, three zones should be sufficient, that
5 this is a good place to start. I'm hesitant to stand
6 up and say you shouldn't go beyond three zones,
7 because obviously the more you break down costs to
8 get to actual areas, I mean, the more representative
9 these costs are going to be. I mean, the more you
10 break down the -- the more zones you have, the more
11 representative they are going to be of cost.

12 But in terms of a place to start and a
13 place to move forward, I thought, you know, the FCC
14 demanded at least three zones. This would be a good
15 place to start for the Commission to look and see
16 what happens in the market with the three zones and
17 then determine what's the appropriate next step to
18 take. And that's why I proposed that, and I believe
19 -- I don't know if it was here or somewhere else, but
20 I said that AT&T's not opposed to the creation of
21 more than three zones, but this is a reasonable place
22 to start.

23 Q. What happened? Did anything happen between
24 January 18 and February 7 to change your testimony
25 that's in your January 18 testimony that three zones

02220

1 is sufficient?

2 A. No, three zones is a sufficient place to
3 start.

4 Q. In fact, you propose in your rebuttal
5 testimony three zones for US West; is that correct?

6 A. Yes, I believe three zones is an efficient
7 place to start in the deaveraging process.

8 Q. All right. With respect to your four-zone
9 proposal, your AT&T alternative that's contained in
10 your surrebuttal testimony, which is Exhibit Number
11 4-T, do you know how many lines, GTE lines, fall into
12 what you have labeled as Zone One?

13 A. No, I don't.

14 Q. I'm sorry to give you more homework here,
15 but would you accept, subject to check, that it's 20
16 percent of GTE's lines?

17 A. Subject to check.

18 Q. Do you know how many -- what percentage of
19 GTE's lines fall into what you have labeled as Zone
20 Two?

21 MS. PROCTOR: Your Honor, I'm going to
22 object. There was a procedure in place in this case
23 for the use of cross-examination exhibits. Parties
24 marked data responses and requests. If these were
25 data responses and requests or if GTE had numbers, it

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1 would have been a lot more efficient and a lot easier
2 for us, rather than have Counsel read off a bunch of
3 numbers that we then have to go back and check and
4 find and follow-up and dispute, if necessary. That
5 doesn't seem to me to lend itself to a very clear
6 record.

7 MR. EDWARDS: I think the objection's been
8 made and ruled upon.

9 JUDGE WALLIS: Yes. I'm going to overrule
10 the objection.

11 Q. I think I got my question out. Zone Two,
12 would you accept, subject to check, has 18 percent of
13 GTE's lines?

14 A. Subject to check. And I'd just point out
15 that, I mean, the percent of lines within each wire
16 center for this case are on Exhibit 5-C. They're not
17 summed for each zone, but it has -- they could be
18 summed up to look at --

19 Q. And if my 20 percent and my 18 percent are
20 right, then if we were to combine your proposed Zone
21 One and Two, that would represent 38 percent of GTE's
22 lines?

23 A. Okay.

24 Q. And in your original proposal, I think,
25 subject to check, your Zone One contained 31 percent

02222

1 of GTE's lines?

2 A. Right. This somewhat illustrates a concern
3 I have over GTE's cost models. They just -- I mean,
4 their cost estimates just did not produce very much
5 variability in cost, as you would expect a model to
6 do.

7 Q. Have you done the calculation that if you
8 combined your proposed Zone One and Zone Two to
9 represent 38 percent of GTE's lines, what the
10 deaveraged rate would be?

11 A. Can you repeat that?

12 Q. Yes, sir. Have you performed a calculation
13 that if you combine your proposed Zone One and Zone
14 Two for GTE on your AT&T alternative, what the
15 deaverage rate would be?

16 A. No, I didn't.

17 Q. I think this is my last one. Would you
18 accept, subject to check, that it would be \$17.46?

19 A. Subject to check.

20 Q. All right. Did you analyze at all, Mr.
21 Denney, the possibility of constraining wire centers
22 on any of your analyses so that -- I want to say this
23 correctly -- all wire centers within the same
24 exchange for the same zone would have the same rate?

25 A. No, I didn't perform that. I believe Staff

02223

1 offered that proposal, but I did not.

2 Q. Do you have an opinion on performing such a
3 constraint?

4 A. I don't think it makes a huge difference,
5 but I believe, again, that what you're attempting to
6 capture are cost differences that exist in areas in
7 the state, and that by making this constraint to put
8 wire centers in an exchange all in the same zone, you
9 may force the combination of high and low-cost wire
10 centers together, and that is why I did not do that.
11 Looking at the analysis that Staff performed compared
12 to some of the other proposals, I didn't see that it
13 made a huge difference.

14 MR. EDWARDS: That's all I have, Mr.
15 Denney. Thank you.

16 JUDGE WALLIS: Ms. Anderl.

17 MS. ANDERL: Thank you, Your Honor.

18 C R O S S - E X A M I N A T I O N

19 BY MS. ANDERL:

20 Q. Good morning, Mr. Denney.

21 A. Good morning.

22 Q. I'm Lisa Anderl, representing US West. In
23 preparing your testimony for this proceeding, have
24 you undertaken to investigate whether US West's loops
25 had been deaveraged in any of US West's other 13

02224

1 states?

2 A. Well, in fact, I was probably involved in
3 some of those proceedings.

4 Q. Are you familiar with what happened in the
5 New Mexico proceeding?

6 A. New Mexico, I was not involved in. And I
7 would just point out, to be clear, every other state
8 thus far that has deaveraged loops was done before
9 the FCC mandate to deaverage loops by May 1st. So
10 some of AT&T's positions in those cases, we weren't
11 -- we were happy to get any type of deaveraging at
12 all, because we've been asking for deaveraging for
13 three or four years, and we didn't push as hard on
14 the correct methodology in order to deaverage as we
15 have now that we have some support behind deaveraging
16 rates.

17 Q. I'm not sure that was responsive to my
18 question, but I'll leave that aside for the moment.
19 Were you involved in the Wyoming proceeding?

20 A. In parts of the Wyoming proceeding, I was.
21 I was not involved in the deaveraging process in
22 Wyoming.

23 Q. Are you aware of what the loop price for
24 AT&T is in its interconnection agreement with US
25 West?

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1 MS. PROCTOR: In which state?

2 Q. In Washington?

3 A. In Washington, I believe -- I believe it
4 was somewhere around 11, \$11, if I recall correctly.

5 Q. Would you accept, subject to your check,
6 that it was \$11.33, which is what AT&T proposed in
7 that arbitration?

8 A. I mean, that matches with around what I
9 recall, yes.

10 Q. And is it also correct that recently AT&T
11 has had the ability to purchase loops from US West in
12 Washington under the TCG agreement?

13 A. That's correct.

14 Q. And would you accept, subject to your
15 check, that the loop price in the TCG agreement is
16 \$13.37, which is the FCC proxy rate?

17 A. That matches my recollection, yes.

18 Q. Do you know if AT&T has purchased any loops
19 from US West in Washington?

20 MS. PROCTOR: Objection. It's well beyond
21 the scope of this witness's testimony and certainly
22 beyond the scope of this proceeding.

23 MS. ANDERL: It goes to AT&T's interest in
24 what we're doing here, which is establishing
25 appropriate prices for the loops. It seems to me

02226

1 AT&T's level of consumption of that good is something
2 that's relevant to inquire into.

3 MS. PROCTOR: It's beyond the scope of this
4 witness' knowledge. It's also highly proprietary.

5 MS. ANDERL: I asked him if he knew.

6 JUDGE WALLIS: The question at this point
7 is whether he knows. The witness may respond as to
8 whether he does know.

9 THE WITNESS: I don't know any details of
10 the loop purchases. I know there are a few states
11 where AT&T mostly -- I think, I believe through TCG,
12 have purchased unbundled loops. Washington very well
13 could be one of them, but I don't know for a fact
14 that that's the case.

15 Q. So you don't know whether AT&T has
16 purchased any loops from US West in Washington?

17 A. I mean, I would expect --

18 JUDGE WALLIS: I think the witness has
19 already responded.

20 MS. ANDERL: Okay. I was just clarifying
21 that -- his answer was more general about some
22 states, and Your Honor, I was just trying to hone in
23 on whether he had particular knowledge about the
24 state of Washington.

25 JUDGE WALLIS: My recollection is that he

02227

1 did respond to say that he does not have that
2 knowledge.

3 Q. Under your proposal, Mr. Denney, AT&T's
4 deaveraging proposal would result in approximately a
5 \$50 loop price for US West in Zone Three, is that
6 right, \$50.03?

7 MS. PROCTOR: Can we have a reference,
8 please?

9 MS. ANDERL: 4-T, page eight.

10 MS. PROCTOR: Thank you.

11 THE WITNESS: Yes, that's correct.

12 Q. Does AT&T have any plans to purchase \$50
13 loops from US West in AT&T's proposed Zone Three?

14 MS. PROCTOR: Objection. That's beyond the
15 scope of this witness' testimony.

16 MS. ANDERL: Same response as before. It's
17 certainly relevant, I believe, in terms of AT&T's
18 interest in the proposal that it was making in this
19 docket.

20 JUDGE WALLIS: As to this area, I think Ms.
21 Proctor is correct in that this inquiry is quite a
22 bit beyond the purpose of the witness' testimony.

23 MS. ANDERL: Well, Your Honor, I guess I
24 would like an offer of proof on that, that I believe
25 it's highly relevant to whether -- AT&T's motivation

02228

1 for the proposal that it's making. And I believe if
2 I were allowed to inquire, the answer would be that
3 AT&T does not intend to make any of those purchases,
4 which I believe makes a big difference in what level
5 of weight the Commission ought to give to the
6 relative deaveraging proposals.

7 JUDGE WALLIS: Let's go back and unring
8 that bell for just a moment. I think the question
9 you're asking was whether the witness knows about
10 AT&T's plans for future purchases in that potential
11 zone. Let's ask the witness. Do you know what
12 AT&T's plans are?

13 THE WITNESS: I know, I mean, AT&T
14 continually looks at a variety of options for
15 entering the local market. I know of no specific
16 plans that we have with regard to, you know, with
17 regard to what's going to be going ahead in
18 Washington. I believe we have some cable facilities
19 here. We also have -- I believe TCG, now ALS, has
20 some facilities. But I don't -- I'm not involved in
21 the process of making those plans. I'm involved in
22 the process of getting cost-based rates so that
23 effective determinations can be made on how to best
24 enter the market.

25 JUDGE WALLIS: The answer is that you do

02229

1 not know?

2 THE WITNESS: That's correct.

3 MS. ANDERL: Very well, Your Honor. Thank
4 you.

5 Q. Are the loop costs for each of the wire
6 centers within your proposed Zone One the same?

7 A. No.

8 Q. What about Zone Two?

9 A. Are the loop costs the same for every wire
10 center within Zone Two?

11 Q. Right.

12 A. No, then we wouldn't need to do this
13 averaging; we could just price by wire center.

14 Q. So your proposal does rely on averaging;
15 isn't that right?

16 A. That's correct.

17 Q. And by selecting the \$16 break point for
18 Zone One, doesn't that ensure that the price will be
19 below \$16?

20 A. Generally, if you do an average and the
21 largest number in that average is \$16, then the
22 average will be \$16 or less. That's just -- that's
23 math, right.

24 Q. Thank you, Mr. Denney.

25 CHAIRWOMAN SHOWALTER: It's old math, not

02230

1 new math.

2 Q. It's always nice to get something you can
3 agree on with the witness. Is it your understanding
4 that the intent of this docket is to produce
5 geographically deaveraged loop rates?

6 A. Yes, I believe that's correct.

7 Q. Can you describe for me the geographic area
8 encompassed within your Zone One?

9 A. It would include the area that's associated
10 with the wire centers that I have designated to be
11 within Zone One. That would be the geographic area.

12 Q. Can you describe for me, in Seattle, where
13 Zone One is? Is it the city limits, is it --

14 A. That's not something I did for this
15 process, but that's something you could clearly do,
16 is make a map of the wire centers and have clear
17 boundaries on where Zone One and -- you know, where
18 wire centers within Zone One exist. That's something
19 that could easily be looked at. I haven't done that
20 at this point.

21 Q. But can you describe for me in a narrative
22 fashion what the geographic areas are that are
23 encompassed in each of your zones?

24 A. I thought that I did. The geographic areas
25 are those areas associated with the wire centers that

02231

1 fall within each of those zones. There's a list of
2 those wire centers, which is Exhibit 2, Attachment A
3 to my direct testimony, that shows which wire centers
4 fall within each zone. The area associated with
5 those wire centers would be associated with those
6 zones, as well.

7 Q. Is it correct that within the Seattle local
8 calling area, your proposal includes both Zone One
9 and Zone Two wire centers in the Seattle local
10 calling area?

11 A. I mean, that's very likely. My process is
12 I attempt to capture significant cost differences,
13 and where cost differences exist, I would hope that I
14 had put those into two separate zones.

15 Q. Is it also correct that in Spokane and
16 Tacoma, that local calling areas includes all three
17 geographic -- or I'm sorry, all three pricing zones?

18 A. That's quite likely. I could glance
19 through here and check, but that's -- I mean, that's
20 quite likely. If there's significant cost
21 differences, I believe they should be in different
22 zones. It distorts prices to mix high-cost wire
23 centers and stick them into the low-cost zone. That
24 just pushes up prices of low-cost zone. I think
25 that's inappropriate.

02232

1 Q. So you wouldn't have any reason to doubt,
2 then, that your proposal would include Zone One, Zone
3 Two and Zone Three pricing areas within Spokane or
4 Tacoma where those wire centers are contiguous to one
5 another?

6 A. That's quite possible.

7 Q. On page nine of your Exhibit T-1, or 1-T, I
8 don't think you need to look at it, but you state
9 that RLCAP cannot produce loop cost by wire center.

10 A. That's accurate, yes.

11 Q. Is there any requirement that you're aware
12 of in this docket or under any other requirements of
13 the Commission that deaveraging occur on a wire
14 center basis?

15 A. No, but all of the parties proposed that
16 that's where you start, including US West. My
17 proposal was wire center basis, and that's why I made
18 that comment about RLCAP.

19 Q. You state on page five of your direct
20 testimony, 1-T, that the purpose of deaveraging is to
21 facilitate competition by allowing prices of UNEs to
22 more closely represent their underlying cost. Is
23 that a fair statement of your testimony?

24 A. I don't -- I don't see where you're
25 reading, but that sounds like something I would say.

02233

1 Q. All right, then. Would you also say that
2 in addition to facilitating competition, that
3 deaveraging, in essence, reflects what would happen
4 in a competitive market if there were a competitive
5 market for UNEs?

6 A. Can you repeat that, please?

7 Q. Would you also say that, in addition to
8 facilitating competition, which you say on line 12 --

9 MS. PROCTOR: I'm sorry, which page?

10 Q. Page five. Is it true that, in addition to
11 facilitating competition, that deaveraging, in
12 essence, reflects what would happen in a competitive
13 market if there were a competitive market for UNEs?

14 A. I mean, you have to be a little -- I have
15 to disqualify the answer, because you have to be
16 careful about, you know, economies of scale and other
17 things that would affect the actual underlying cost
18 of competition and keep that in mind. But if there
19 was competition for UNEs, I would expect that
20 competitors would seek to compete by offering, you
21 know, offering you these prices close to their cost.
22 That would be the market outcome.

23 So I would -- in terms of deaveraging, I
24 don't think we've quite gone there. We've said let's
25 start -- you know, we don't have competition for UNEs

02234

1 in the market, we don't see that at any time in the
2 near future. What we have is a monopoly provider
3 that largely dominates the facilities that exist
4 within the state, and let's just start by breaking
5 those into three zones.

6 I believe if there were competitive UNEs,
7 there would be probably much more than three zones.
8 There would probably be deaveraging below, you know,
9 wire center level. And that might be someplace where
10 we would eventually go. I'm just proposing a place
11 to start.

12 Q. If UNEs are deaveraged and AT&T purchases
13 deaveraged UNEs, will AT&T reflect the cost
14 differential in its retail prices?

15 MS. PROCTOR: Objection. That's well
16 beyond the scope of this witness' testimony. He's
17 talking about the deaveraged prices here, not what
18 AT&T may or may not do in response to market
19 conditions.

20 MS. ANDERL: Well, this is AT&T's only
21 witness. He is their economist. It seems to me to
22 be a reasonable line of inquiry, again, given his
23 testimony on what happens in a competitive market and
24 the rationale for doing a deaveraging as he proposes.

25 MS. PROCTOR: I think we need to back up to

02235

1 Mr. Denney's job responsibilities. Mr. Denney's job
2 responsibilities do not include pricing.

3 JUDGE WALLIS: Mr. Denney, do you know the
4 answer to that question?

5 THE WITNESS: I personally have absolutely
6 nothing to do with pricing, except in as far as
7 offering cost information to pricing people.

8 JUDGE WALLIS: I think the question is
9 beyond the witness' expertise.

10 Q. Aside from the FCC requirement to deaverage
11 UNEs or the loop, why does AT&T support that
12 deaveraging?

13 A. Cost-based rates help AT&T make the correct
14 economic decisions on how and where to enter the
15 markets, whether we should build facilities, whether
16 we should first purchase unbundled elements. So I
17 think -- and cost-based rates help us make those
18 decisions correctly. If rates were not reflective of
19 costs, if UNEs were priced extremely high, AT&T, for
20 example, may go out and build facilities where it's
21 actually not efficient to do so, because in
22 cost-based, there are lower-cost facilities that
23 actually exist. That would not be good for the
24 consumers of Washington and it wouldn't be good for
25 AT&T either.

02236

1 Q. On page five of Exhibit 1-T, you state that
2 the decision on how to group customers into zones
3 should be made based on cost differences between
4 customers. Do you see that?

5 A. Yes, I do.

6 Q. How does your Zone One proposal identify
7 cost differences between customers?

8 A. What I've done is I've used estimates of
9 cost by wire center.

10 Q. Do those wire center costs reflect specific
11 customer costs within the wire center?

12 A. They are the average cost to serve
13 customers in that wire center, that's correct.

14 Q. Does it reflect the cost for any particular
15 customer?

16 A. All of them.

17 Q. Any particular one?

18 A. I mean, I'm sure there are customers that
19 exist in that wire center that have the exact cost as
20 the average cost in that wire center, sure.

21 Q. But did you identify any specific
22 customers? I guess I'm curious here. Let me just
23 have you look at that testimony. You talk about
24 grouping customers into zones, and that that decision
25 should be made on cost differences between customers.

02237

1 Did you do that by identifying specific customers you
2 wanted to put into zones based on cost differences
3 between those customers, or is it more accurate to
4 say that you looked at cost of wire centers?

5 A. I think looking at cost of wire centers is
6 looking at cost of customers. Those are the average
7 cost of customers within the wire center. I believe
8 it was in my direct testimony where I discussed other
9 methods by which you could group customers by cost,
10 but significant cost differences exist below the wire
11 center. And I think the other CLECs have a proposal
12 that would propose to deaverage to that level. And
13 you know, I have some questions about going to that
14 level of detail at this time, but I believe the wire
15 center costs are reflective of the customer's cost in
16 that wire center. That's exactly what I did, was
17 attempt to group customers by their wire centers with
18 similar costs together.

19 Q. Look at your Exhibit 5, Mr. Denney. You
20 identified a break point between Zone One and Zone
21 Two as \$16, and you indicate there that the percent
22 difference was 1.1 percent difference in cost at that
23 break point?

24 A. Excuse me, where are we? Exhibit 2?

25 Q. Sorry, Exhibit 2? I thought it was Exhibit

02238

1 5. Oh, no, I'm sorry, you're right. That is Exhibit
2 2.

3 A. Okay.

4 Q. Directing your attention to the break point
5 between Zone One and Zone Two at the \$16 level, you,
6 I believe, testified earlier that there was a 1.1
7 percent jump or cost break at that point?

8 A. That's correct.

9 Q. Was that part of the basis for your
10 decision to select the \$16 as the cutoff?

11 A. Yeah, I looked at -- I mean, I looked at
12 the dollar difference, I looked at the percent
13 differences, you know, I looked at the number of
14 lines within each zone, so yes.

15 Q. Is it also correct that at the break point
16 between \$16 and \$17, at the bottom of the page there,
17 the first page, there's also a 1.1 percent
18 difference?

19 A. That's correct.

20 Q. And is it correct that the next page, the
21 break point between \$17 and \$18, there's a 1.3
22 percent difference?

23 A. Yes, that's exactly right off the chart.

24 Q. Mr. Denney, would it have been possible to
25 determine that \$17 was the appropriate cutoff, as

02239

1 opposed to \$16, and calculate your Zone One price in
2 that manner?

3 A. Would that have been possible? Yes, of
4 course that would be possible. As I discussed
5 earlier, the choice of where to make those cutoffs is
6 somewhat of a policy decision. You want to try to
7 make, you know, a reasonable choice. You know, if
8 you're going to throw 100 percent of the customers in
9 the least-cost zone, to me, that's not deaveraging.
10 So you don't want to put all of the lines in the
11 state there; you want to have some breakdown, and
12 that should play into where you make those cutoffs.
13 There's nothing magical about 1.1 percent or 1.3
14 percent.

15 And I believe Dr. Cabe also discussed this
16 in his final round of testimony very eloquently,
17 about how this process would take place.

18 Q. In your current Zone One proposal for US
19 West, the price is \$14.26; is that correct?

20 A. Yes, that's correct.

21 Q. Is it also correct that within Zone One,
22 this price will be above cost for some loops and
23 below cost for others?

24 A. That's correct. That's what averaging
25 does.

02240

1 Q. You've proposed a \$50 loop price for Zone
2 Three. I think we discussed that earlier. Let me
3 just ask you this question on that issue. All other
4 things being equal, do you think that UNE-based
5 competitors are more likely to compete in rural
6 Washington with a \$50 loop rate or a \$28 loop rate?

7 A. You're asking me if prices are lower -- I
8 mean, can you repeat that again, please?

9 Q. All other things being equal, do you think
10 that UNE-based competitors are more likely to compete
11 in rural Washington with a \$50 loop rate or a \$28
12 loop rate?

13 A. I'm not sure that competition in rural
14 Washington is necessarily going to take place through
15 the use of UNEs. There's other avenues by which
16 competition can take place. What you want to compare
17 is revenues to cost. If the revenue's the same and
18 one cost is lower than another, you have a greater
19 profit for that customer. That would influence your
20 decision to some degree. So I mean, qualified -- a
21 qualified yes answer to your question.

22 Q. That they're more likely to compete when
23 the loops cost \$50?

24 A. No, sorry, I heard you backwards. When
25 costs are cheaper, I mean, that increases the options

02241

1 of using UNEs as a way to compete. That makes sense.

2 Q. Is the AT&T proposal for loop deaveraging
3 one that AT&T would recommend to this Commission for
4 retail deaveraging, as well?

5 MS. PROCTOR: Objection. The witness has
6 already testified that he doesn't have responsibility
7 for pricing.

8 MS. ANDERL: This is AT&T's policy witness.
9 AT&T is asserting that we don't need to do retail
10 deaveraging right now, but I think it's very fair to
11 explore whether AT&T would recommend this proposal,
12 some other proposal, or no proposal for retail
13 deaveraging. That's all I'm trying to get at with
14 this witness.

15 JUDGE WALLIS: I'm not sure that retail
16 deaveraging is part of this proceeding, Ms. Anderl.

17 MS. ANDERL: Well, but, Your Honor, in US
18 West's and GTE's view, and I believe clearly stated
19 in our testimony, we believe that the policy
20 implications of wholesale deaveraging as they impact
21 retail deaveraging, the two things need to be
22 considered together. The Commission itself has said
23 that they wanted to consider wholesale and retail
24 deaveraging in concert, as well as universal service
25 issues together. I don't think that we can escape

02242

1 that.

2 Additionally, I'm being assisted here. To
3 some extent in the January 18th testimony of Mr.
4 Denney, which is 3-T, on page 16, he discusses retail
5 deaveraging, stating AT&T is not opposed to
6 realignment of retail rates so that they more closely
7 reflect costs. So I therefore think it's not only
8 relevant to the considerations in this docket, but
9 wholly within the scope of his testimony.

10 JUDGE WALLIS: The witness may respond.

11 MS. PROCTOR: Focusing on that portion of
12 his testimony?

13 THE WITNESS: What was the question?

14 MS. PROCTOR: Could I ask, are we directing
15 the witness' testimony to a portion of his testimony
16 or are we turning Mr. Denney into the kind of witness
17 that Ms. Anderl has already submitted in this docket
18 to address issues that AT&T does not believe are the
19 subject of this docket?

20 JUDGE WALLIS: Ms. Anderl has posed a
21 question, and I've indicated that it's proper for the
22 witness to respond.

23 MS. ANDERL: And I can repeat the question
24 if the witness needs me to do that.

25 THE WITNESS: Thank you. Please.

02243

1 Q. Is the AT&T proposal for loop deaveraging
2 one that AT&T would recommend to this Commission for
3 retail deaveraging, as well?

4 A. As I understand the process, AT&T wouldn't
5 come before the Commission and make a proposal for
6 how US West should deaverage retail rates; that
7 that's an option that US West could come before the
8 Commission. And AT&T -- I mean, AT&T's interest in
9 that is to be sure that the retail rates aren't
10 priced in a way that went below cost that would keep
11 AT&T out of a market.

12 I mean, also keep in mind, when we talk
13 about the revenues that exist in a state, it's more
14 than just the basic rate. AT&T, as an IXC, pays
15 enormous amounts of access to reach customers in
16 rural areas. By having one of those customers
17 through UNEs, we would avoid some of those access
18 charges. So that you really need to look at total
19 revenues, not just the basic revenue rates.

20 But to answer the question directly, we
21 don't have a proposal on how US West should deaverage
22 retail rates. We would be interested in that
23 proceeding.

24 MS. ANDERL: Your Honor, I guess I don't
25 believe that I've received an answer to my question.

02244

1 The witness, I guess, said that they don't have a
2 proposal on the table for retail deaveraging, and
3 that's true. I agree with that. There's nothing in
4 AT&T's testimony that concludes that. My question
5 was whether or not they would recommend what was in
6 here for UNEs on the retail side. And I think it's a
7 fair question. I don't believe I've gotten an answer
8 to it.

9 THE WITNESS: What I attempted to answer is
10 that when you look at retail rate deaveraging, what
11 you want to look at is the total revenues available
12 in different areas of the state. And with regard to
13 UNEs, you want to look at the total cost of a
14 competitor to compete. So when the Commission --
15 when and if the Commission undertakes retail rate
16 deaveraging, those are the issues the Commission
17 should look at.

18 I have not seen the numbers on US West's
19 retail rates in urban or rural areas, I don't know
20 what they are, but that would direct some of our
21 proposal as to how to best deaverage retail rates.
22 Currently, I believe revenues in retail areas are
23 likely, on a per-line basis, higher than they are in
24 urban areas due to the amount of -- increased amounts
25 of intrastate toll calling that looks like it takes

02245

1 place in rural areas, the amount of access that's
2 paid to reach those customers. Access is often a
3 distance-sensitive charge.

4 So I believe there are a lot of revenues in
5 the retail areas that should be considered along with
6 the cost when you make a deaveraging -- a retail rate
7 deaveraging proposal, and I have not done that
8 analysis as part of this proceeding.

9 Q. Have you done any study to determine
10 whether or not the revenues vary, as you had
11 testified, in proportion to the way that costs vary?

12 A. In some states, I've tried to ask for this
13 data, and I've been shot down everywhere I've gone.
14 So I mean, I had attempted to look at that, but US
15 West has refused to provide me with the data that
16 would allow me to do that.

17 Q. You've not conducted any study in
18 Washington; is that right?

19 A. No, I haven't.

20 Q. In your February 7th testimony, which is
21 4-T, at page seven, I believe you state, at lines 16
22 and 17, that US West's concern about potential retail
23 customer confusion about disparate rates is misplaced
24 and irrelevant; is that correct?

25 A. That's -- those are exactly my words, yes.

02246

1 Q. So let me just ask you hypothetically, if
2 there were two customers who live across the street
3 from one another, one of which pays in retail rates
4 twice what the other pays because of wholesale
5 deaveraging, that that is not a relevant
6 consideration for the Commission to take into
7 account?

8 A. I mean, if I were that customer, I'd ask
9 why didn't US West serve me off that other switch.
10 If I'm right across the street, I can easily be
11 reached through that other office, why didn't they
12 make an efficient cost choice in the first place.

13 Q. No, the question is that one's paying twice
14 what the other pays because of wholesale deaveraging.

15 A. Wholesale deaveraging does not go to retail
16 customer rates. This is for CLEC -- I mean, for
17 competitors. So the customers that you should be
18 referring to in terms of wholesale deaveraging are
19 the CLECs, not the retail customers.

20 Q. So let's make it more real and say that one
21 customer is paying US West's 26 or \$29 business rate,
22 because they're a US West customer, and the customer
23 across the street is paying, say, 15 or \$20, because
24 they're served off of a deaveraged UNE loop. The
25 competitor does not choose to serve the US West

02247

1 customer. And are you saying that the disparate
2 rates or discrepancy in those rates is not something
3 the Commission should concern itself with?

4 A. I think if the Commission starts to see
5 rates falling in the state of Washington, then that's
6 a good sign that the goals of the Telecom Act are
7 starting to be achieved. If the rates of that
8 customer across the street start to get down, then we
9 should all stand up and start applauding, because
10 we're starting to get somewhere. That means lower
11 rates, better services for customers, more choices.
12 That's why we started this whole process. So I would
13 say that's a good thing and the Commission should be
14 pleased.

15 Q. Okay. And retail customer confusion should
16 not be a concern?

17 A. I mean, as I said in the testimony, it's a
18 concern that -- potential retail rate, you know,
19 retail customer confusion in these potential
20 situations, it's just an extreme hypothetical that I
21 wouldn't bother worrying myself about right now. And
22 you know, if customers start sending in complaints, I
23 think the Commission probably, as most commissions
24 do, would take those complaints seriously and look
25 into what's driving that. But I think that's just a

02248

1 far hypothetical that's irrelevant and misplaced, I
2 think are the words that I used.

3 JUDGE WALLIS: Ms. Anderl, I want to
4 interject just to indicate that I'm looking to begin
5 our noon recess at about a quarter to 12:00, and when
6 you reach an appropriate break point about that time,
7 we can begin our recess.

8 MS. ANDERL: Thank you, Your Honor.

9 Q. Turning to another topic just briefly, Mr.
10 Denney, would you agree that in a rural wire center,
11 a large number of customers are typically clustered
12 nearby to the wire center?

13 A. I think that depends on the wire center,
14 but typically wire centers -- the location of the
15 switch is chosen by, you know, some type of town
16 within rural areas, so I would expect that to be the
17 case. I haven't specifically looked.

18 Q. Isn't it also correct that that is how
19 Hatfield models rural wire centers, with a large
20 number of customers close by to the wire center?

21 A. I'm not sure that that's the case. I
22 believe what the model does is look at the amount of
23 customers in the census block groups that are
24 assigned to that wire center, there are estimates of
25 the amount of empty space within those census block

02249

1 groups, and then customers are allocated into
2 quadrants of those census block groups. I believe
3 that's the process that 3.1 undertakes.

4 I don't think the model specifically
5 attempts to locate those customers right next to the
6 office. I don't think that's the case.

7 Q. I didn't say right next to; I said nearby.

8 A. I think the location of the customers is
9 determined by the census block groups; not by the
10 location of the switch.

11 Q. In a hypothetical rural wire center with a
12 small town being the location of the switch and some
13 fairly large number of customers clustered nearby,
14 would you agree that under a Zone Three pricing
15 proposal with a \$50 loop rate for that zone, that a
16 number of the loops in that wire center would be in
17 fact priced well above cost?

18 A. Yes, that's true. I mean, I believe that's
19 why the CLECs have proposed a sub-wire center, the
20 other CLECs, a sub-wire center loop distance
21 deaveraging proposal to capture some of that. But
22 that is a consequence of using wire centers for
23 deaveraging. I still believe the wire centers at
24 this time is the appropriate level to deaverage to,
25 but those discrepancies will exist. That's correct.

02250

1 Q. Mr. Denney, in the preparation of your
2 Exhibit 2, did you need to use line counts?

3 A. Yes.

4 Q. What was your data source for the line
5 counts that you used for US West's wire centers?

6 A. I believe I used, in this case, line count
7 estimates as were done by HM 3.1, if I recall. I
8 think I supplied that line count information in a
9 data response so US West could verify that.

10 MS. ANDERL: Actually, Your Honor, I don't
11 think I have any more questions, but if I might just
12 have a moment, I can verify that I'm through.

13 JUDGE WALLIS: Yes.

14 MS. ANDERL: That concludes my cross.
15 Thank you, Your Honor.

16 JUDGE WALLIS: Very well. Let's take our
17 noon recess at this point and plan on reconvening
18 about a quarter after 1:00. I do have a couple of
19 administrative matters for Counsel before everyone
20 leaves.

21 (Lunch recess taken from 11:45 to 1:15.)

22 JUDGE WALLIS: Let's be back on the record,
23 please, following our noon recess. A couple of
24 procedural matters. One is that, during the recess,
25 we discussed the subject to check issue and

02251

1 discovered that it is a simple matter once the data
2 are available to the witness, and it also appears
3 that one of the other witnesses has the data
4 available, so that when the witness leaves the stand,
5 it would be possible to accomplish that check. And
6 the information can be provided to the Commission
7 presumably today or, in any event, no later than
8 tomorrow.

9 As to the other matter, it appears that Ms.
10 Anderl has an additional question or two, and let's
11 return at this time to Ms. Anderl.

12 MS. ANDERL: Thank you, Your Honor.

13 Q. Mr. Denney, if I could just direct your
14 attention to what's been marked as Cross-examination
15 Exhibit A, which is Hearing Exhibit 6. Do you have a
16 copy of that before you?

17 A. I believe so.

18 Q. It is AT&T's responses to US West's second
19 set of data requests, and includes responses and
20 Requests 2, 3, 4 and 5?

21 A. Yes, I have that.

22 Q. Do you recognize that as a true and correct
23 copy of the AT&T responses to those data requests in
24 this docket?

25 A. Yes.

02252

1 MS. ANDERL: Your Honor, I would move the
2 admission of Exhibit Number 6, and I do not have any
3 questions on it.

4 MS. PROCTOR: We're going to object.

5 JUDGE WALLIS: What's the basis for the
6 objection, Ms. Proctor?

7 MS. PROCTOR: US West and GTE moved to
8 strike all references to HAI in this docket. This is
9 a request from US West that states for the HAI data
10 used in -- and cites the numbers in this case. There
11 was no HAI data used in this case, so the premise of
12 the question is false.

13 And I find it sort of bizarre, at least,
14 that US West, having succeeded in its motion to have
15 all references to HAI excluded from the docket, would
16 now seek to introduce some into it.

17 MS. ANDERL: If I may respond, Your Honor,
18 Ms. Proctor is correct in -- as far as it goes. The
19 responses, however, though, clearly encompass
20 Hatfield 3.1 and provide information relevant to the
21 model that was used in the docket in terms of
22 explaining what Hatfield Model Release 3.1 did and
23 didn't do, and it is for that purpose that we seek to
24 admit it. If we could have bifurcated those pieces
25 out, that would be fine, but the responses, standing

02253

1 alone without the questions, didn't seem to get us
2 much, so we sought to introduce the complete
3 documents.

4 MS. PROCTOR: May I respond?

5 JUDGE WALLIS: Yes.

6 MS. PROCTOR: I thought the Commission also
7 made it clear that this phase of the case was not
8 about a model fight. Obviously, the issue that Ms.
9 Anderl is addressing goes to the difference between
10 Hatfield 3.1 and HAI 5.0, all of which has been
11 litigated, I guess, in several dockets.

12 So I mean, just the fact that we have
13 responded to a data request, the premise of which is
14 incorrect, doesn't make it relevant, and our
15 submission is that it is not.

16 JUDGE WALLIS: Ms. Anderl, would you state
17 the relevance of the information on these data
18 responses?

19 MS. ANDERL: Your Honor, Hatfield Model
20 Release 3.1 is used in this phase of the proceeding
21 by several of the parties. The responses in these
22 five -- four questions go to what Hatfield Model
23 Release 3.1 did and didn't do, what information is
24 and isn't available from those, and we believe that
25 it is relevant to the question of deaveraging. I

02254

1 haven't decided how and where I'm going to argue this
2 in the brief, but we believe it's relevant to the
3 case.

4 JUDGE WALLIS: On that basis, it appears
5 that the response does clearly contain information
6 that exclusively relates to Release 3.1, and the
7 objection is overruled.

8 MS. ANDERL: That was all that I had for
9 this witness.

10 JUDGE WALLIS: Mr. Kennedy, do you have any
11 questions?

12 MR. KENNEDY: I have no questions, Your
13 Honor.

14 MS. HOPFENBECK: No questions.

15 JUDGE WALLIS: Mr. Kopta.

16 MR. KOPTA: No questions. Thank you.

17 JUDGE WALLIS: Commission Staff.

18 MS. JOHNSTON: No.

19 JUDGE WALLIS: Commission Staff, questions
20 of the witness?

21 MS. JOHNSTON: I said no, Your Honor. I'm
22 sorry.

23 JUDGE WALLIS: Dr. Gabel.

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

25 BY DR. GABEL:

02255

1 Q. Good afternoon, Mr. Denney. I just have a
2 few questions for you. First, on the line count data
3 that you used in preparing your cost estimates, were
4 those line count estimates that are provided by the
5 national run of the Hatfield model or is it based on
6 the line counts that were provided by the two ILECs
7 in Phase I?

8 A. I believe the original estimates were based
9 on the national line count estimates. But on page 16
10 of my surrebuttal testimony, that's Exhibit 4-T,
11 where I made some changes based on GTE's input, there
12 the averages were calculated using GTE's specific
13 wire center line counts, if I recall correctly.

14 Q. And for US West?

15 A. US West, the numbers, I believe you'd still
16 have the national line count numbers in them. So the
17 averages could be recalculated using US West-specific
18 line counts.

19 Q. As a request from the bench --

20 A. Yes.

21 Q. -- could you please do that?

22 A. Yes.

23 JUDGE WALLIS: Let's call that Bench
24 Request Number Six. I know that there aren't five so
25 far, but this will let us start off with a new number

02256

1 for the hearing phase.

2 MS. PROCTOR: Could I just clarify? Do we
3 know where those line counts are?

4 THE WITNESS: I have this faxed document
5 that I can't read with US West specific line counts
6 on it, is the reason I didn't use them. So it has
7 been responded to in a data request at some point in
8 this case, but I can't read those numbers by wire
9 center.

10 MS. PROCTOR: Do you think, by some
11 miracle, you're going to be able to read them now?

12 THE WITNESS: I figured if it was a bench
13 request, then I would be able to get these numbers.

14 MS. PROCTOR: Assuming facts not in
15 evidence.

16 MS. ANDERL: If we provided the data
17 request response, Your Honor, I'm sure that we'd be
18 happy to provide a legible copy, as well.

19 JUDGE WALLIS: Thank you, Ms. Anderl.

20 MS. ANDERL: Or an electronic copy.

21 DR. GABEL: And in fact, Ms. Anderl, I
22 don't know if you'd be willing to do this, but I do
23 recall during the technical conference, AT&T
24 expressed that it was having trouble replicating the
25 Hatfield results, which the Commission had published

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1 in the Eighth Supplemental Order, and you volunteered
2 that US West was able to replicate the published
3 results. And perhaps it would save Mr. Denney some
4 work and some time if you could actually provide what
5 I recall you said you were able to replicate. Do you
6 recall that?

7 MS. ANDERL: Kind of. I think that there
8 was someone more technically capable than I with me
9 at the table at the time. I don't remember if it was
10 Gary Fleming or one of our other cost analysts, but
11 certainly we can undertake an inquiry via phone today
12 and confirm back to you by today or tomorrow.

13 DR. GABEL: Because what I think the bench
14 would be interested in seeing is the results using
15 the Hatfield model from the run of the model
16 associated with the results that are published in the
17 Eighth Supplemental Order.

18 Q. So if you just had the line counts, would
19 you then be matching that with your cost estimates
20 from the national run or would you be --

21 A. Well, when I made the run, I wasn't able to
22 perfectly replicate what had been done previously in
23 this case, but I did use as many of those inputs as I
24 could. So it's not just with the national run, but
25 it's with as many of the inputs and understanding

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1 that I had to comply with what had been done earlier
2 in this case. But I wasn't able to perfectly
3 replicate the numbers.

4 So if I had those actual numbers, then I
5 could redo the averages fairly quickly. Without
6 them, I would apply the new line counts to my current
7 cost estimates that are in the Attachment A to my
8 direct testimony.

9 DR. GABEL: All right, thank you. So I'm
10 hoping that you two will cooperate here on this
11 matter.

12 MS. ANDERL: Certainly. We'll, at a
13 minimum, get him the line counts, but also undertake
14 an inquiry about whether we can run the 3.1 producing
15 the Commission-ordered cost with our line counts. Is
16 that right?

17 DR. GABEL: Yes, thank you.

18 Q. Mr. Denney, am I correct that the Hatfield
19 Model, Version 3.1, estimates loop costs by density
20 zones?

21 A. Actually, it estimates loop costs really
22 for CVGs that are specific to the wire centers. Each
23 one of those CVGs has a density zone associated with
24 it. So the model can then report cost on a density
25 zone basis. So I wouldn't say it is exactly

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1 estimating cost by a density zone. Is that clear?

2 Q. Yeah, that is clear. Am I correct that one
3 of the output folders from the Hatfield model,
4 Version 3.1, is loop costs by density zone?

5 A. Yes, that is correct.

6 Q. And why did you elect not to use that type
7 of data for your rate proposal?

8 A. Well, early on, when AT&T was advocating
9 deaveraged rates, we produced density zones. I
10 believe it was nine or may have been fewer in
11 Hatfield 3.1, might have been seven. We had density
12 zones. But as we got closer to deaveraging becoming
13 a reality, some of us started raising the concern
14 with the implementing density zones, since they don't
15 have a clear boundary, it's very easy to identify a
16 customer with a wire center, but it's more difficult
17 to identify a customer in general with a specific
18 density zone, especially since wire centers could
19 have multiple density zones.

20 So we pushed and thought it was more
21 reasonable and a more implementable approach to use a
22 wire center deaveraging approach rather than the
23 density zones that we traditionally put on the record
24 in most cases.

25 Q. Along the same line of thought, could you

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1 elaborate on why you're supporting using costs at the
2 wire center level rather than in addition to the
3 exchange classification by density zone, and also the
4 distance between the customer and the wire center?

5 A. Well, part of the reasons are selfish
6 reasons, because I'm the person that gets called and
7 says, What zone is this customer in, when they want
8 to know what the cost that's been established. And I
9 don't know how to figure that out in states where
10 they haven't done clear wire center boundaries, such
11 as Colorado. I don't know how to figure out what
12 zone that customer is in without having to go to US
13 West's OSS systems. And presumably, we're going to
14 get charged every time we do a lookup on those
15 systems.

16 So generally, when I'm given an address, I
17 already know what wire center that customer's
18 associated with, but from a practical standpoint, and
19 this is just seeing reports in the news, AT&T expects
20 either early next year or sometime to have about a
21 million customers in New York City. And I just can't
22 imagine having to go through and calculate a loop
23 length estimate for a million customers, especially
24 if you have a certain amount of churn and you're
25 going to have to be making these updates on a

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1 periodic basis. That's going to take more -- you
2 know, a couple bodies that are going to be able to
3 have to pay attention to, you know, getting that loop
4 count, updating it, if there's any conflicts with the
5 RBOC or the ILEC in order to do that. That's going
6 to add more cost to that. But it's very simple.
7 Everybody knows what wire center that customer's
8 associated with.

9 So I think that's just a -- at this time,
10 given what our systems are and our ability to
11 identify this, I think that's the most practical way
12 to start the deaveraging process.

13 DR. GABEL: Thank you. I have no further
14 questions.

15 JUDGE WALLIS: Other questions from the
16 bench?

17 CHAIRWOMAN SHOWALTER: I do.

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

19 BY CHAIRWOMAN SHOWALTER:

20 Q. Mr. Denney, you introduced yourself in the
21 first part of your testimony by saying you're the
22 economist for AT&T who was in the Phase II portion of
23 this case. I wasn't here for Phase II, so I'm
24 wondering if you could tell me your credentials, your
25 academic credentials, and a brief recitation of your

02262

1 experience?

2 A. The only part of Phase II I was involved
3 with was the shared transport part of Phase II, right
4 toward the end of that proceeding, but I've been
5 going -- I was in school at Oregon State University,
6 working on my Ph.D. in economics when AT&T approached
7 me. I was doing cost modeling from a more
8 econometric cost modeling and trying to do measures
9 of market power and looking at the effects that
10 competition and information had on markets, and I was
11 hired by AT&T. Basically, they asked me, Do you want
12 to come fight for competition, and I couldn't turn
13 that down.

14 So I took the job and I started -- pretty
15 early on, I started looking at cost models that have
16 been filed. I was very interested in the way the
17 models worked and their calculations. So I started
18 looking at some of US West's cost models. I spent
19 some time with -- Hatfield 3.1 was really the first
20 Hatfield model that I spent time with.

21 I've testified all over the Western Region
22 on the HAI model and -- yeah, HAI model for universal
23 service, for unbundled network element proceedings.
24 I've also testified on GTE's cost model, their newer
25 cost model, not the one that's currently being used,

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1 and all of US West's cost models as they relate,
2 really, to local cost in unbundled network elements,
3 universal service.

4 Q. And how long have you been fighting for
5 competition? That is, when did you leave Oregon?

6 A. It was the end of '96. So this is three
7 years. Is that --

8 Q. And where is your undergraduate degree from
9 and what was it in?

10 A. My undergraduate degree was in business
11 management, and I got that degree from Phillips
12 University. It's a small school in Enid, Oklahoma.

13 Q. Okay, thanks. I'm interested in your
14 testimony on three zones versus more zones, where you
15 said three is sufficient, but then you first provided
16 three and then provided four. Subject to
17 administrative costs or issues of practicality, do
18 you have any objection to five, six, or seven zones?

19 A. No, I don't. I think the more zones that
20 are there, the more accurately the unbundled network
21 elements will reflect their underlying cost, but
22 that's absent any type of administrative cost.

23 Q. Right. And then, on page four of Exhibit
24 1, you say, in line 11, It would be burdensome to the
25 Commission, ILECs, and CLECs, to track the prices in

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1 20 zones if UNE purchases are only occurring in two
2 zones.

3 Is it burdensome to track prices in 20
4 zones? In this day of computers, I'm wondering what
5 is the problem with having more zones? Let's say
6 we're at your proposal for wire centers only. So
7 what if we had -- I'll say 10 zones instead of three?

8 A. Right.

9 Q. Is that more difficult?

10 A. Well, it is more difficult in that, I mean,
11 one, I have a database that I keep back at the office
12 that has all of the unbundled network element prices
13 for all of Western Region, which is US West's
14 territory and also where GTE is, that I'm supposed to
15 maintain, keep updated, and send this data to groups
16 who are looking at entry plans and that type of
17 information. And occasionally, they'll ask me,
18 they'll say, We've got a list of, you know, 15 or 20
19 locations, or maybe even more. And they'll ask me,
20 What's the average price, like they want to put out a
21 bid for a business that they're trying to get local
22 service that's spread throughout the whole state.

23 So you really do have to keep track of the
24 prices in all of those zones and make sure they're
25 accurate and that you know where those are.

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1 Q. Is this a matter of inputting data for 10,
2 as opposed to three? If you're going to do certain
3 averages, don't you essentially write a formula, push
4 a button, and out comes either the averages that
5 would develop on three zones versus the average under
6 10 zones?

7 A. And it's exactly that simple, but that's
8 not that simple when it comes to, you know, practical
9 implications of this. I mean, you're exactly right,
10 that is what you would do, but making sure that this
11 information is right, making sure that the customers
12 are aligned with their appropriate wire center, with
13 their appropriate zone before those averages are
14 done, making sure that you're giving the correct
15 information that's necessary, depending on the
16 product that's going to be offered, isn't as simple
17 as it would sound.

18 Q. Okay. Then, in Exhibit 4-T, that's your
19 surrebuttal testimony, on page nine, line 21, you're
20 talking about the pros and cons of the different
21 models, and you say the advantages of the Staff's
22 approach is that it is easy to administer and easy to
23 identify customers within their zone. I thought I
24 had understood you to say something of the opposite,
25 that it's more difficult to identify customers at a

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1 sub-wire center level?

2 A. Right. And this response is really -- was
3 to the Staff's -- what the Staff had kind of proposed
4 in their rebuttal testimony, which kind of went away
5 from the sub-loop -- I mean, the sub-wire center.
6 You know, they had customers assigned to exchanges
7 and had proposed exchange-based zones. So then, in
8 the surrebuttal testimony, they came back more
9 supporting the, you know, calculating costs by a
10 distance-sensitive basis. So this is really
11 referring to what they put forward in their rebuttal
12 testimony, which was just aligning customers with
13 exchanges.

14 Q. Okay, thanks. I wanted to clarify a couple
15 of things. You were asked some questions about -- I
16 think you were -- you were asked questions about the
17 larger the area of the wire center, the greater the
18 variation in cost, or something to that effect, but
19 the word larger was not defined. I assume you were
20 taking that to mean geographically, physically,
21 area-wise larger. Am I right on that?

22 A. And I don't recall the exact questions
23 there, because we talked about the wire center size,
24 which would be the number of lines associated with
25 the wire center, but also we talked about the

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1 geographic area that a wire center would encompass,
2 and so I'm not sure which one that -- which larger
3 that referred to.

4 Q. Well, that's what I wasn't sure, either,
5 and I would have jumped right in there at the time
6 and probably should have, and maybe on redirect these
7 questions could be asked, because there were a couple
8 of references to larger, and I wasn't sure what
9 larger meant.

10 MR. EDWARDS: That's a fair criticism of my
11 cross.

12 Q. I'll let that be clarified later. Well,
13 maybe you -- the question that arose at that time is
14 I'm not sure what goes into defining or establishing
15 a wire center. Probably a fairly basic question.
16 But in other words, is there discretion involved in
17 how many lines, how big an area a wire center covers?

18 A. Well, I mean, wire centers, as I
19 understand, there are some historical boundaries that
20 are associated with -- you know, that are associated,
21 that are called a wire center. And there are set
22 geographic boundaries that distinguish between one
23 wire center and another. And customers in a
24 particular wire center would be served off of a
25 particular switch or a set of switches associated

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1 with that, with that wire center.

2 Where the questions came about is, now, how
3 do models take that information, which is these very
4 -- just these lines that are drawn around, you know,
5 around an area. How do you associate customers
6 specifically with wire centers. That's a more
7 difficult task than you might think, because the
8 models, they're working in Excel, and so they have to
9 make some assumptions about how customers are
10 located.

11 Hatfield 3.1 used census block groups in
12 order to locate customers. And these census block
13 groups can be large areas, sometimes they're rather
14 small areas, but they associated these with wire
15 centers. A wire center boundary can actually cut
16 through the middle of a census block group, and newer
17 models have moved beyond and used census blocks,
18 perhaps, which is a smaller -- they're a subset of
19 census block groups.

20 One of the reasons census blocks weren't
21 used in the early models is just Excel couldn't
22 handle more than a certain amount of information in
23 the spreadsheet. So even though you had more
24 information, you couldn't put that into Excel at that
25 time.

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1 So wire centers, I believe, are fairly
2 clearly-defined boundaries as they exist on maps and
3 probably in Commission files, you know, in the
4 tariffs. But associating customers correctly with
5 that is a little more of an art form, to be able to
6 do it appropriately.

7 Q. Okay, thanks. I want to make sure I
8 understand the relationship of Exhibit 2, which was
9 your first set of wire centers that includes both US
10 West and GTE, and then Exhibit 5-C, which is a set of
11 GTE lines. Am I right that 5-C is an amendment or
12 correction by you using GTE's cost estimates?

13 A. Let me clarify that whole thing and keep
14 that exhibit out, but if you turn to -- I think it's
15 page 16 of my surrebuttal testimony that's Exhibit
16 4-T. And I have three columns of numbers there at
17 the end of the page. And that first column of
18 numbers comes from calculations that were in that
19 first Exhibit 2, that you mentioned.

20 Q. Right.

21 A. And then, what GTE recognized, and this is
22 why it's good to have ILECs in these proceedings, is
23 you've got some wire centers that we sold that you
24 didn't recognize, and we've also got a couple wire
25 centers that aren't in your list, and we proposed

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1 that you handle them this way.

2 And what I did in that second column was I
3 still used the same information that's based in that
4 Exhibit 2, but I used what GTE had said and I thought
5 were reasonable ways to correct that information.
6 The methodology is the same, the application of the
7 methodology's the same.

8 Then column three is based on Exhibit 5-C.
9 And GTE -- I'd asked a data request early on to have
10 GTE cost by wire center using their cost model, and
11 they said that their cost model didn't produce cost
12 by wire center. And that's correct, that it doesn't.
13 But later on, as things developed, GTE estimated cost
14 by wire center using their cost model. And that's
15 what these numbers represent. They were provided to
16 me by GTE in a data response saying, Here's how we
17 kind of backed into cost estimates by wire center.

18 And so these are GTE's estimates of cost.
19 They're not their model's estimates, and that's what
20 this final column there is based on.

21 Q. Okay. Then if I -- supposing I were set on
22 using wire center only as a basis for deaveraging.
23 What list of wire center costs should I be using?
24 First, with respect to US West, and then with respect
25 to GTE, and if it isn't in here, maybe you could

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1 provide it, but where would you direct me if I just
2 wanted to look at wire centers?

3 A. That's a good question. In the ideal
4 world, you would want to take the costs that are for
5 -- you'd want to estimate cost by wire center using
6 the four models that the Commission used in an
7 earlier part of this proceeding and apply a similar
8 process that the Commission used to determine
9 statewide average cost.

10 And the reason that I didn't do that is
11 because not all of the models estimate cost by wire
12 center. Only BCPM and the Hatfield model estimate
13 cost by wire center. So those would be the two
14 sources of information that you could go to, those
15 models' cost estimates.

16 Now, I didn't just take those models out of
17 a vacuum; I scaled up the costs used from Hatfield so
18 that the statewide average would be maintained. But
19 those cost estimates by wire center are contained in
20 Exhibit 2. Those are the Hatfield Model cost
21 estimates.

22 Q. So let's take US West first. If I just
23 were interested in deaveraging US West based only on
24 wire center, you would say, Look at Exhibit 2, and
25 that's where you'll get it from?

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1 A. Right, and these could be broken out.
2 There I combined both US West and GTE, and it's more
3 appropriate to break them out. And that could be
4 done fairly easily. Now, I was having a conversation
5 with Dr. Gabel earlier where he said, you know, it
6 would be nice to use the compliance run of Hatfield
7 3.1, you know, that the Commission used and that US
8 West had indicated in a conversation earlier that
9 they were able -- that they had this. And if we had
10 those numbers by wire center, that would be
11 appropriate, you know, appropriate to use those at
12 the starting point, multiplied by a factor to
13 maintain the statewide average, but they'd be very
14 similar to what's on here.

15 Q. Okay. But then, if I wanted to look at
16 wire centers, just a whole list of wire centers --
17 not a grouping of them, but a whole list of wire
18 centers, but only for GTE, what do you say -- what
19 list should I be looking at, Exhibit 2, as adjusted,
20 or Exhibit 5?

21 A. It would be Exhibit 2, but there's some
22 corrections that GTE offered.

23 Q. Right.

24 A. That I actually didn't add in that as an
25 exhibit. I believe GTE did those, has that list in

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1 one of their data responses, and I could look up --
2 you know, look up to see where that is. But it's
3 almost identical to this list here, except there's a
4 couple corrections where I had two distinct wire
5 centers and they were in the exact same location. So
6 you wouldn't want to treat them as separate areas;
7 you would want to treat them as one.

8 CHAIRWOMAN SHOWALTER: Well, is this
9 appropriate, Judge, to ask AT&T to provide a
10 corrected Exhibit 2 split out by US West and GTE?
11 Not a corrected Exhibit 2, but another exhibit?

12 JUDGE WALLIS: Is the information available
13 from GTE, Mr. Edwards?

14 MR. EDWARDS: Did we do that?

15 JUDGE WALLIS: Let's be off the record for
16 a moment.

17 (Discussion off the record.)

18 JUDGE WALLIS: Let's be back on the record.
19 The GTE witness, Mr. Tucek, does have information
20 pertaining to that and can provide that information
21 when he comes to the stand.

22 Q. Okay. Then I'm going to be looking right
23 now at Exhibit 2, recognizing that there might be
24 some adjustments to it. But, again, if you're
25 sticking with the proposition that you want to use

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1 the wire center information only, no bigger, no
2 smaller, and you're looking at Exhibit 2, you first
3 broke this list into three, and then, for US West and
4 GTE, variably, three and four groups. Am I right on
5 that?

6 A. Right. Well, the four-zone proposal that's
7 on page 16 of --

8 Q. That was the other list, the 5-C?

9 A. Yeah, that was right.

10 Q. Okay.

11 A. But you could do four, you could do five.

12 Q. You could do six or seven or eight?

13 A. You could do one or two; right.

14 Q. Well, when you're looking for natural
15 breaking points, when you look at this list, you
16 know, the biggest differences I see are right at the
17 very top. That is, I'm trying to keep US West
18 columns separate from GTE in my mind, but there's a
19 bigger jump from \$8.12 or 9.96 to 12.43 than anywhere
20 else.

21 And I'm just wondering from you, if you
22 hadn't begun thinking you had to have three, might
23 you have created, you know, just for example, eight
24 zones, and maybe the first two or three would be
25 among the first three or four, five, six wire

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1 centers, because that's where the biggest difference
2 is?

3 A. Right. That's exactly right, and that's
4 what I considered when I first looked at these
5 numbers. And you know, you've read some of the
6 testimony and heard some of the cross about having,
7 you know, low prices in the low-cost zones. This
8 would have -- I mean, this would have set US West and
9 GTE on fire if I proposed putting just those two
10 low-cost wire centers in that low-cost zone, which is
11 part of why I didn't do that. I was trying to come
12 up with a reasonable first step that would be a
13 middle ground that the Commission could take. That's
14 why I didn't put those into separate low-cost zones,
15 but that's a perfectly legitimate thing to do. And
16 there are significant cost differences there.

17 Q. I'm going to go up to the other end. I
18 think you were asked a question by Ms. Anderl that,
19 all things being equal, wouldn't a CLEC rather pay
20 \$28 than \$50 for a loop, or wouldn't it be more
21 likely to want to pay that, and my question is on the
22 all other things being equal. If the \$28 price were
23 the result of averaging, then wouldn't it be the case
24 that where that \$28 was more than the actual cost of
25 the lower cost portion of the averaged group, there

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1 would be a disincentive to pay that \$28, whereas to
2 the extent that the \$28 was below the higher end of
3 the average group, it would be quite an incentive to
4 buy the loop. Am I right on that?

5 A. I mean, in part, you're right, that when
6 there's averaging, there are costs -- when you
7 average, there's going to be some things that are
8 below the average and some things that are above.
9 And you would think -- I mean, at first glance, you
10 might think if you priced above the average, then a
11 competitor will just run in with facilities, instead
12 of using the UNEs.

13 But there's economies of scale in this
14 network, and these are -- these costs are calculated
15 assuming that you have the whole wire center, you
16 know, that's the total demand, the total service out
17 of TSLRIC, total service long-run incremental cost.
18 And a CLEC first entering the market just can't
19 achieve those economies, you know, right away, so
20 even though you have a price of \$28 and you may say
21 if I built out this whole wire center, I can serve
22 them at 14, that doesn't mean that you're going to
23 build out the whole wire center right away, because
24 just because you build it out doesn't mean you're
25 going to be able to capture all the customers in that

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1 wire center.

2 And this is a reason that I believe that
3 the FCC and Congress envisioned this use of unbundled
4 network elements, because it allows competitors to
5 achieve some of those economies that the incumbents
6 already have. And this allows them to get into the
7 market and start to compete on a similar and fair
8 basis with incumbents before they decide whether to
9 go ahead and build out their own facilities.

10 But you are -- I mean, your underlying
11 reading of that is correct, that there's going to be
12 some areas that are higher than that cost and some
13 areas that are lower. And that's why I've also
14 proposed that this be the first time the Commission
15 look at this, not the last time, and that you should
16 monitor what's happening in the market as competition
17 develops to determine what needs to be done with
18 deaveraging in the future.

19 Q. But isn't that why -- isn't that why more
20 zones are better than fewer, is that there is less of
21 that kind of averaging going on, so there's less
22 distortion of true cost at the high end or the low
23 end, subject, again, to all of the difficulties of
24 more zones?

25 A. That's exactly right. But I mean, there

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1 are -- these difficulties impose real costs, as well,
2 so you have to be careful with those difficulties,
3 but you're right.

4 CHAIRWOMAN SHOWALTER: I think that's all
5 the questions I have. Thanks.

6 COMMISSIONER HEMSTAD: I don't have any
7 questions.

8 COMMISSIONER GILLIS: I don't have any
9 questions.

10 JUDGE WALLIS: Redirect.

11 MS. PROCTOR: The Chairwoman took care of
12 it. I'm afraid I can't follow up on the larger
13 issue, because I can't distinguish those questions.

14 JUDGE WALLIS: Are there any further
15 questions of the witness?

16 MR. EDWARDS: I have just a couple.

17 JUDGE WALLIS: Mr. Edwards.

18 MR. EDWARDS: Thank you, sir.

19 R E C R O S S - E X A M I N A T I O N

20 BY MR. EDWARDS:

21 Q. Let me see if I can clarify the earlier
22 cross that was referred to. Let's define wire center
23 size by number of lines. And I think what I was
24 asking at that time is whether you would agree with
25 me that loop costs are affected by wire center size

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1 if defined as number of lines?

2 A. Are you waiting for me to answer that one
3 again?

4 CHAIRWOMAN SHOWALTER: Yes, because
5 actually I didn't understand the question that way,
6 so I wasn't sure.

7 THE WITNESS: Well, I think what I said is
8 that that has an impact, because, I mean, the more
9 customers you serve, you're going to get more
10 economies on your network. But that's not a
11 necessary and safe predictor. Actually, over the
12 weekend, I drew a picture kind of of this that I
13 meant to try to show earlier, and I just forgot I had
14 it here.

15 What this picture kind of shows is that
16 these are two-wire centers of identical size,
17 identical number of lines, they have identical loop
18 lengths of customers from the central office, but the
19 cost to serve customers in each of these two
20 instances is going to be vastly different. And so
21 that the variable that GTE had proposed to look at
22 don't capture all of the importance of the cost
23 differences. Because here you just serve a feeder
24 route going right up here and all these people are
25 going to share a lot of the facilities it's going to

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1 take to reach them, but here you're going to have to
2 serve out an individual route to each group of
3 customers.

4 And that's why these things do tend to be
5 predictors of cost, but I'd be very careful of using
6 that and not looking at all of the thousands of
7 variables that the cost models try to take into
8 account in determining cost for specific variables.

9 Q. When you say these things tend to be
10 factors for cost, these things being?

11 A. Predictors.

12 Q. I'm trying to define your pronoun here.
13 The wire center size, based on number of lines, they
14 tend to be a factor?

15 A. Right.

16 Q. Yes or no, and then you can explain it.

17 A. Okay. Yes, it tends to be a predictor.

18 And the way to think about that is just look at one
19 of these pictures.

20 JUDGE WALLIS: I'm going to ask the
21 witness, number one, to let us identify that as
22 Exhibit Number 8 for identification, so that we'll
23 have it in the record. And when you refer to it, it
24 does have two circles on it, one to the right and one
25 to the left. If you'd identify which of the circles,

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1 the right or the left, you're talking about, so that
2 someone who picks up the transcript to read it can
3 follow what you're saying.

4 CHAIRWOMAN SHOWALTER: Maybe label them A
5 and B.

6 JUDGE WALLIS: Or label them A and B.

7 MS. PROCTOR: And tell us what you labeled
8 as A.

9 THE WITNESS: Okay. A I labeled the
10 picture that has areas spread out in different places
11 throughout the wire center, and B I labeled where all
12 the locations are in a straight line from the office.
13 And in response to the last question asked, if you
14 just look at B alone and not A, and in this
15 situation, when line counts go up, costs should go
16 down. This is where you're getting some economies.
17 This situation just alone.

18 But looking at pictures both A and B, you
19 could imagine that A could have a lot more lines than
20 B, and B still be a lot cheaper in order to serve
21 customers because of the way they're located within
22 the wire center. So that's why I'm just reluctant to
23 say line size is this, you know, here's the answer,
24 all you have to do is look at line size, and I don't
25 think GTE was suggesting that. But holding

02282

1 everything else constant, line size will affect cost,
2 carrier line size cost will go down. But things
3 across wire centers are never constant.

4 JUDGE WALLIS: By line size, you mean
5 number of lines?

6 THE WITNESS: In the wire center, correct.

7 Q. And the same, Mr. Denney, is true for the
8 size of the serving area, if you held to all other
9 things constant. The greater the size, that can have
10 an impact on cost?

11 A. Right, by the size of the serving area --

12 Q. That would be cheaper?

13 A. -- referring to the size of the circle.
14 And that would also -- I mean, holding everything
15 else constant, if customers were spread out over
16 larger areas, then that would tend to increase cost.
17 But when comparing across wire centers, you don't
18 find these wire centers where everything else is
19 constant. The economist's dream doesn't come true.
20 All other things are not equal. And that's why you
21 have to be careful when applying this.

22 MS. PROCTOR: And he's an economist, so he
23 can say it.

24 Q. With respect to the Exhibit 8 that you've
25 just used and showed the Commission, and there are

02283

1 two circles, I understand -- I've not seen that
2 before; correct?

3 A. That's correct. I thought it might be
4 useful.

5 Q. With respect to how you have located
6 customers in both of your circles, A and B, the
7 Hatfield Model 3.1 doesn't locate customers like you
8 have in either A or B, does it?

9 A. No, I mean, I think --

10 Q. If you could answer the question and
11 explain.

12 A. Yeah, you're wrong. And the reason --

13 JUDGE WALLIS: The answer is yes or no?

14 THE WITNESS: The answer is no. I'm not
15 sure how he phrased the question, so you're wrong is
16 the same.

17 Q. This is an important point, so let me ask
18 the question again. How you have depicted customer
19 dispersion in your Circle A and in your Circle B on
20 your Exhibit 8, that's not how Hatfield Model 3.1
21 does it, is it?

22 A. I would disagree, and this is why. If you
23 thought of each one of these blocks in these pictures
24 as a census block group, we know the location of
25 census block groups relative to the wire center, and

02284

1 the Hatfield Model is placing those census block
2 groups where they really are. So I would disagree
3 that they're not taking into account actual locations
4 of customers.

5 Now, the newer models have done more
6 refined ways of locating customers that are more
7 precise, but I would disagree that Hatfield 3.1 is
8 not attempting to locate customers where they really
9 are and that this picture is not representative.

10 Q. That's not the question. That was not the
11 question. The question is how you have located
12 within that circle, which is supposedly a wire
13 center, I believe, how you have located your little
14 black squares is not how they would be located by
15 Hatfield Model, is it?

16 A. No, I disagree. Because if each one of
17 these black squares were a census block group, this
18 is exactly how Hatfield 3.1 would locate them. It
19 would locate them in the exact location where they
20 are in relation with the switch.

21 Q. Well, which way would it do it? Would it
22 do it vertically, would it do it horizontally, which
23 one? Is it A or is it B?

24 A. There's not one census block group
25 associated with each wire center.

02285

1 Q. Now, Mr. Denney, listen. Within your wire
2 centers, if you understand that each one of those
3 black squares is a census block group, Hatfield Model
4 3.1 locates census block groups by exchange area; is
5 that correct?

6 A. It associates census block groups with
7 exchange areas, that's correct.

8 Q. Right. And then, within census block
9 groups, it takes customers and disperses them along
10 the boundaries of a census block group; is that
11 correct?

12 A. No, that's not correct. You're getting
13 confused with HAI Model. Hatfield 3.1 does not do
14 that, no.

15 Q. Because it does not have customer location
16 data within its algorithms; correct?

17 A. Well, it has the location -- it has the
18 number of customers associated with each census block
19 group, and it knows the locations of those census
20 block groups. It does not use geocoded data, as the
21 newer version of the model that -- whose name I'm not
22 supposed to mention.

23 Q. And then, will the Hatfield Model locate
24 census block groups horizontally or vertically?

25 A. In the Hatfield Model, Version 3.1 will

02286

1 locate census block groups wherever they actually
2 are, which could be horizontal and it could be
3 vertical, depending on that specific wire center. So
4 each one of these pictures could be perfectly
5 representative of how Hatfield 3.1 actually locates
6 its customers.

7 Q. But within each one of your ovals there,
8 you're not telling the Commission that you have
9 located all the census block groups that could exist
10 within each one of those ovals, are you?

11 A. It's a possibility that these are all of
12 them. This is -- I just made this for illustrative
13 purposes. It doesn't represent a specific exchange.
14 I haven't tried to match it up to see if there's one
15 that actually looks like this. It was purely for
16 illustration.

17 Q. Totally hypothetical?

18 A. Illustration, hypothetical, yeah.

19 Q. All right. Now, you were asked questions
20 with respect to your table on page 16. With respect
21 to the AT&T alternative column, based on GTE cost
22 estimates, where you have four proposed zones now?

23 A. Yes.

24 Q. This is page 16 in your surrebuttal
25 testimony, which is Exhibit 4-T. You testified that

02287

1 GTE's cost model that was originally -- that's on the
2 record in this proceeding, you asked, and it does not
3 produce cost at the wire center level; is that
4 correct?

5 A. That's correct.

6 Q. But then, in GTE's responsive testimony,
7 costs at the wire center level were calculated and
8 provided; correct? Or provided in response to a data
9 response -- to a data request from the Staff;
10 correct?

11 A. GTE made an estimate of cost by wire
12 center, that's correct, and that's what Exhibit 5-C
13 contains.

14 Q. And those estimates are based on GTE's
15 estimated cost; correct?

16 A. I believe those estimates were based on
17 some results that came out of their CostMod, GTE's
18 model, and then some weightings were applied in order
19 to tried to represent wire center specifics. But I'm
20 not exactly sure how GTE developed all of those
21 costs.

22 Q. Did you review Mr. Tucek's work papers with
23 respect to those calculations?

24 A. I glanced at them. I didn't try to go
25 through. I can't even get the CostMod to run, so I

02288

1 didn't try to reproduce any of that.

2 Q. No, my question is did you look at his work
3 papers for the calculations?

4 A. I looked at his work papers that contained
5 the cost estimates. I didn't really review to see
6 how the calculations took output out of CostMod and
7 mapped them to these costs.

8 Q. You didn't review that?

9 A. No.

10 Q. You had an opportunity to review it and did
11 not file any testimony with respect to the validity
12 or the invalidity of that work; correct?

13 A. That's correct.

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

15 JUDGE WALLIS: Other questions, follow up?

16 CHAIRWOMAN SHOWALTER: I just have one
17 follow-up, now that I understand the size issue.

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

19 BY CHAIRWOMAN SHOWALTER:

20 Q. On your Exhibit 8, you have two-wire
21 centers, A and B, with a different distribution of
22 lines.

23 A. Right.

24 Q. Is that correct?

25 A. That's correct.

02289

1 Q. Are you more likely to get variation in
2 distribution in rural areas than urban areas? That
3 is, in densely-populated areas, is it more likely
4 that a wire center will be filled in rather evenly,
5 and in rural areas, a wire center might have a
6 cluster, might have spots all around it?

7 A. I think you hit it right on the head.
8 That's exactly -- that's exactly right. It will tend
9 to -- the dispersion will tend to just average itself
10 out in the more urban, densely-populated wire
11 centers. But in rural wire centers, you would expect
12 to see much more variation in the way customers are
13 located.

14 Q. I'm trying to figure out what implication
15 it has. Does that mean that the more
16 densely-populated an area is, the more wire centers
17 probably are an accurate -- the two similar wire
18 centers with the same average cost are actually
19 probably the same in terms of the cost that it would
20 be to deliver the service. I might not have said
21 that very well, you can clarify it for me, but versus
22 a rural area, where the wire center average cost per
23 se might not tell you as much?

24 A. Well, I think in each of these
25 circumstances, since the models are taking this into

02290

1 account, the wire center averaged cost is telling you
2 something. The reason, kind of, for this exhibit is
3 you would just expect cost in rural areas to vary to
4 a lot greater degree, looking at things that you
5 would think are similar characteristics, than you
6 would in urban areas.

7 And that was really just why I had
8 originally put it together, because GTE had written
9 some testimony that I thought they might cross me on
10 as to about the variability in Hatfield Model 3.1
11 costs that I didn't really agree with. That's why I
12 put that together, to show that they really could
13 vary and you'd expect them to vary in rural areas.

14 Q. So are you saying, even though they do
15 vary, the Hatfield Model has taken that into account
16 somewhat by tracking census blocks and knowing where
17 they are?

18 A. Right. They've tried to take it in -- and
19 it's not perfect, because there have been advances in
20 models since then, but it has tried to take that into
21 account, yes.

22 CHAIRWOMAN SHOWALTER: Thank you.

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

24 BY DR. GABEL:

25 Q. I'd just like to follow up on this with two

02291

1 types of questions. First, you were just asked by
2 the Chairwoman about variability in wire centers that
3 are rural, as opposed to more urban wire centers.
4 You also said, I think in response to her first
5 question, you had training in econometrics?

6 A. Yes, that's correct.

7 Q. Are you familiar with a term of consistent
8 estimator?

9 A. I'm familiar with the term, but you'll
10 probably have to refresh my memory on --

11 Q. Is a consistent estimator, are you familiar
12 with the notion in statistics that, as a sample size
13 increases, that the probability distribution becomes
14 more concentrated around the population mean?

15 A. Okay.

16 Q. If you're not familiar with that, I don't
17 want to pursue it.

18 A. I know there's a theorem that shows that,
19 and I remember going through it in my statistics
20 classes, but yes, I mean, that tends to be the case.
21 That's correct.

22 Q. And so, for example, are you -- well, let
23 me ask you this. Do you know the formula for the
24 standard deviation of a sample mean? Do you recall
25 that from econometrics?

02292

1 A. I believe it's the sum of the mean minus
2 the individual character -- individual --

3 Q. I'm going to move on to the second area,
4 then. All right. The second area --

5 A. I didn't know this was going to be an oral
6 exam. I would have prepared better.

7 CHAIRWOMAN SHOWALTER: We give out Ph.D.s
8 here.

9 MS. PROCTOR: He's just short a little bit.

10 Q. Second is your discussion of the map. Are
11 you familiar with the measurement of cost as a
12 function of number of customers per route mile?

13 A. I mean, I can see why that would be
14 something you'd want -- you know, you would look at.
15 That would be better than using loop length. I
16 haven't seen any estimates that have been provided
17 using it.

18 Q. So you don't know if it's possible to do
19 that with the Hatfield 3.1?

20 A. I would think that is possible to do with
21 Hatfield 3.1. I'm not sure it would be easy to do.

22 DR. GABEL: Thank you. I have no further
23 questions.

24 JUDGE WALLIS: Is there anything further?

25 MS. PROCTOR: I'm not sure. Did we move

02293

1 the admission of Exhibit 8, which was used for
2 illustrative purposes?

3 JUDGE WALLIS: I'm going to ask if there is
4 any objection to receiving Exhibit 8 into evidence.
5 That is the illustrative exhibit that the witness
6 used to illustrate his testimony. Hearing no
7 objection, Exhibit 8 is received.

8 I'm going to ask you to hand that to Dr.
9 Gabel, so that we can make copies of it and see that
10 they're distributed. Is there anything further of
11 the witness? It appears that there's not. Mr.
12 Denney, thank you for appearing today. You're
13 excused from the stand.

14 THE WITNESS: Thank you.

15 JUDGE WALLIS: Let's be off the record.

16 (Discussion off the record.)

17 JUDGE WALLIS: Let's be back on the record.

18 At this point, MCI is calling to the stand Dr.
19 Richard Cabe. And in conjunction with his testimony,
20 we have three exhibits. I'm marking as Exhibit 31-T
21 for identification the direct testimony of Richard
22 Cabe, Ph.D., marking as Exhibit 32 the curriculum
23 vitae of Richard Cabe, and as 33-T for
24 identification, the rebuttal testimony of Richard
25 Cabe. Dr. Cabe, would you raise your right hand,

02294

1 please?

2 DR. CABE: Yes.

3 Whereupon,

4 DR. RICHARD CABE,
5 having been first duly sworn, was called as a witness
6 herein and was examined and testified as follows:.

7 JUDGE WALLIS: Please be seated, make
8 yourself comfortable. And we'll turn this over to
9 Ms. Hopfenbeck for the direct examination.

10 D I R E C T E X A M I N A T I O N

11 BY MS. HOPFENBECK:

12 Q. Dr. Cabe, could you please state your name
13 and business address for the record?

14 A. My name is Richard Cabe. My address is 221
15 I Street, Salida, Colorado, 81201.

16 Q. In what capacity are you testifying here
17 today?

18 A. I'm an independent economist testifying on
19 MCI WorldCom's behalf.

20 JUDGE WALLIS: Excuse me for interrupting.
21 Dr. Cabe, I'm not sure that the reporter is able to
22 understand you well enough to get an accurate record.
23 So perhaps there is something else that you can do to
24 keep your voice up, to hold the microphone close to
25 your mouth, and speak slowly so that we have, again,

02295

1 the best chance to hear you.

2 THE WITNESS: Is this better?

3 CHAIRWOMAN SHOWALTER: Do you have a mute
4 button on your phone?

5 THE WITNESS: No, actually, it doesn't.

6 CHAIRWOMAN SHOWALTER: That sometimes
7 helps.

8 THE WITNESS: Is this not any better?

9 JUDGE WALLIS: It is better, yes.

10 Q. Dr. Cabe, did you cause to be filed in this
11 proceeding exhibits that have been marked for
12 identification as Exhibits 31-T, 32, and 33-T?

13 A. Yes, I did.

14 Q. Do you have any corrections to any of those
15 exhibits to make today, other than typographical
16 errors that may exist that don't change the substance
17 of the testimony?

18 A. I have no changes.

19 Q. If I were to ask you the questions that are
20 contained in your prefiled written testimony today,
21 would your answers be the same?

22 A. Yes, they would.

23 MS. HOPFENBECK: I'd now move for admission
24 of Exhibits 31-T, 32, and 33-T.

25 JUDGE WALLIS: Is there objection? Let the

02296

1 record show that there is no objection and those
2 exhibits are received in evidence.

3 MS. HOPFENBECK: Dr. Cabe is available for
4 cross-examination.

5 JUDGE WALLIS: Mr. Edwards.

6 MR. EDWARDS: No questions from GTE.

7 MS. ANDERL: No questions, Your Honor.

8 MR. FINNIGAN: No questions.

9 MR. KENNEDY: None.

10 MS. PROCTOR: Obviously, we'd like to ask
11 him a lot of questions, but that would probably be
12 objected to. Thank you.

13 MR. KOPTA: No questions.

14 JUDGE WALLIS: Commission Staff.

15 MS. JOHNSTON: No questions.

16 JUDGE WALLIS: Dr. Gabel.

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

18 BY DR. GABEL:

19 Q. Dr. Cabe, I just have one or two questions
20 for you. I'd like to ask that you turn to your
21 rebuttal testimony. This is Exhibit 33, page 10,
22 lines two and three.

23 A. I see that.

24 Q. You state that Staff relied on a route
25 length measure. Could you explain what you mean by a

02297

1 route length measure and contrast that with a loop
2 length measure?

3 A. I wasn't making the distinction that you
4 were making earlier in terms of route length, as
5 distinguished from loop length. I meant to
6 distinguish route length from distance as the crow
7 flies. So the route length is the length of a loop
8 along the route that it actually takes.

9 JUDGE WALLIS: Dr. Cabe, we're getting lawn
10 mower interference, I think, here, and you're still
11 pretty weak on our speakers. So if you could
12 understand the handicaps under which we're operating
13 and give it a try to be just a little bit louder --

14 THE WITNESS: Sure.

15 JUDGE WALLIS: -- so that we can overcome
16 those challenges.

17 THE WITNESS: I'm awfully sorry about this,
18 Judge Wallis. I'm shouting, and I don't know what
19 the problem might be. I've never had trouble with
20 this telephone. I'm really shouting.

21 JUDGE WALLIS: Okay. We are, I think,
22 hearing you better now, so keep shouting.

23 THE WITNESS: Dr. Gabel, did I answer your
24 question?

25 DR. GABEL: Yes, you did.

02298

1 JUDGE WALLIS: Did the reporter get that?

2 THE REPORTER: Yes.

3 Q. Now, Dr. Cabe, staying on the same page and
4 moving to lines six to eight, here you're discussing
5 Mr. Montgomery's use of length to estimate loop
6 costs. Do you see his use and the way in which he
7 proposes to measure distance being at variance with
8 the way in which the Hatfield Model 3.1 estimates
9 distance?

10 A. Yes, I do. I believe -- let's see. The
11 mismatch was not to the way that the Hatfield Model
12 measures distance, but really to the distance
13 measurement and line count associated with that
14 measurement that Staff relied on, as was provided by
15 the ILECs. And the way that I understood Mr.
16 Montgomery's proposal was a distance as the crow
17 flies, although in his surrebuttal testimony, he
18 raised another measure of distance, distance as one
19 would drive from the wire center to a customer
20 location.

21 Q. And if that second measurement was used,
22 you would not have an objection to the use of driving
23 distance; is that a fair characterization?

24 A. Well, the driving distance is a new one on
25 me. And I don't -- I don't have any good sense of

02299

1 how that might be correlated with what I call route
2 distance, the distance that a loop from an individual
3 customer to the wire center follows, so I don't
4 really know how that distance measure would work. I
5 expect it would be closer to route distance than it
6 is to distance as the crow flies, but that's just my
7 guess.

8 DR. GABEL: Thank you, Dr. Cabe.

9 JUDGE WALLIS: Are there questions from the
10 bench?

11 CHAIRWOMAN SHOWALTER: I do.

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

13 BY CHAIRWOMAN SHOWALTER:

14 Q. I understand your testimony to be that, as
15 a theoretical matter, that the smaller the size of
16 the -- what are we calling these -- cost area or the
17 smaller the unit, the more accurate it is. And I
18 think somewhere you say we should get to the smallest
19 level of detail that is practical; is that right?

20 A. Yes, that's correct.

21 Q. Okay. And so I'm trying to get some sense
22 of what is or isn't practical on the assumption that
23 a smaller level of detail is better, subject to that
24 practicality test.

25 So let's take what we've just heard, the

02300

1 wire center proposition, that this ought to be by
2 wire center. Do you have any problem with taking a
3 list of wire centers and breaking them into six,
4 seven, or eight groupings if there are natural
5 breaks?

6 A. No, I don't have any problem with that at
7 all. Indeed, I don't believe that natural breaks
8 really mean anything. The reason, if there are
9 natural breaks, you would want to make the division
10 there, because if you composed a zone that crossed
11 the natural break, then what would happen is that
12 your zone would consist of two groups, those above
13 the break and those below the break. And therefore,
14 it would have greater disparity of cost within the
15 zone than could have been accomplished if you broke
16 it at -- if you drew your line at the break.

17 On the other hand, if there is no break,
18 that's no reason for not drawing a line in a
19 particular place.

20 Q. Okay. Then what about the issue of whether
21 it should be based on wire center, as AT&T suggests
22 -- it is AT&T, yes -- versus I guess something bigger
23 than a wire center, the exchange level or a community
24 of interest, as US West suggests, versus the distance
25 measurement? As a sort of theoretical matter, do you

02301

1 prefer one sort of measurement over another?

2 A. Well, okay. As a theoretical matter, your
3 cost is easily available today in costing models by
4 wire center. So any time you group wire centers
5 together by any criterion other than similarity of
6 cost, what you're doing is you're throwing away the
7 cost information that you have. You're ignoring that
8 information and lumping wire centers with disparate
9 costs together on some other criterion.

10 As a theoretical matter, taking into
11 consideration questions of practicality, I don't see
12 any reason to do that.

13 The distance-sensitivity proposal, although
14 I think that it may be very desirable at some point,
15 I don't believe that we have adequate information to
16 implement it properly yet. I think that, especially
17 in rural areas, we should expect -- we should expect
18 the length of loops to be more important than
19 density.

20 Your discussion earlier with Mr. Denney, as
21 he said, hit the nail right on the head. In wire
22 centers that are all built up, that are thoroughly
23 developed, they're going to be more or less
24 homogeneous in terms of the settlement patterns. And
25 the economies that come from sharing facilities are

02302

1 likely to be spread throughout the exchange -- or
2 throughout the wire center more or less evenly. In a
3 very sparsely-populated area, it will be the case
4 that first the opportunities for sharing facilities,
5 which I expect were pointed out on Mr. Denney's chart
6 with A and B, the opportunities for sharing those
7 facilities in very sparsely-populated, large
8 geographic area wire centers are going to be much,
9 much smaller.

10 What will be much more important in those
11 cases will be the length of the loop. And there is
12 also going to be very great variation in terms of the
13 length of loops. Some people will be located right
14 next to the wire center, as I am here in my
15 sparsely-populated rural area, and other people will
16 be located a very great distance from the wire
17 center. And so sub-loop -- or excuse me, sub-wire
18 center deaveraging I expect will become more
19 important in very, very rural, sparsely-populated
20 areas.

21 At the same time, distance sensitivity
22 raises larger practical concerns. And I would
23 recommend that the Commission take the opportunity to
24 initiate a proceeding or a series of workshops where
25 you direct the parties that you're concerned about

02303

1 the very gross level of averaging that occurs even at
2 a single wire center level in very remote rural
3 areas, and then I would expect you would see several
4 proposals.

5 Staff's distance-sensitivity proposal has
6 flushed out a bunch of the practicality issues, both
7 in terms of implementation, use of the ILECs' OSS,
8 appropriate estimation of the relationship between
9 loop length and cost, finding appropriate line counts
10 by sub-wire center area. All these are difficulties
11 in implementing such a proposal, but no one has been
12 conceptually opposed to it. There are just
13 implementation issues that lead me to conclude that
14 it's premature to try to adopt such a proposal.

15 Q. Okay. One last question. On page 12 of
16 Exhibit 33, that's your rebuttal testimony, you talk
17 -- this is on the issue of the irrevocable election
18 proposed by Mr. Montgomery. You said it
19 unnecessarily creates a, quote, barrier to mobility,
20 close quote, that cannot be regarded as serving the
21 public interest. Can you tell me what a barrier to
22 mobility is?

23 A. A barrier to mobility is very similar to a
24 barrier to entry, but what it amounts to is -- the
25 mobility referred there is when one firm changes its

02304

1 strategy. It's not a matter of a firm entering or
2 exiting the industry, but changing its strategy. And
3 an example in this case that would be pertinent would
4 be you might have one CLEC whose business plan, whose
5 strategy is to target very short loops, customers
6 served by very short loops, and you might have
7 another CLEC whose strategy is to serve customers
8 without regard to the length of their loops.

9 The company whose strategy is to serve
10 customers without regard to the length of their loops
11 might prefer the zone average pricing in order to
12 eliminate administrative costs associated with a more
13 complex distance-sensitive tariff.

14 The CLEC who's targeting and marketing
15 efforts to customers on short loops is likely to
16 prefer the distance-sensitive option. The barrier to
17 mobility created by an irrevocable election would be
18 that it would make it much more difficult for either
19 of these CLECs to change its strategy as the market
20 develops.

21 CHAIRWOMAN SHOWALTER: Thanks. That's all
22 the questions I had.

23 JUDGE WALLIS: Are there other questions?
24 It appears that there are not. Dr. Cabe, thank you
25 for being with us today. We appreciate your

02305

1 testimony. You are excused from the stand at this
2 time. Let's be off the record, please.

3 (Recess taken.)

4 JUDGE WALLIS: Let's be back on the record,
5 please, following a brief recess. One administrative
6 matter. I want to thank Mr. Denney and Mr. Tucek,
7 witnesses, for comparing notes, and Counsel for GTE
8 and AT&T. I understand, as a result of communication
9 among the witnesses and verification with records,
10 that all of the subjects to check have been checked
11 and there is no inaccuracy to report. Is that
12 correct, Ms. Proctor?

13 MS. PROCTOR: Yes.

14 JUDGE WALLIS: Very well. So we'll cross
15 that off our list of things to do in the future.
16 We'll move on to the next witness, who is Jerrold L.
17 Thompson, a witness on behalf of US West.

18 I'm going to identify for the record the
19 exhibits that have been distributed in conjunction
20 with this witness's appearance. We'll begin by
21 assigning Exhibit Number 61-T for identification to
22 the direct testimony of this witness, JLT-T. His
23 Summary of Washington Unbundled Loop, revised
24 February 25, 2000, is Exhibit 62-C for
25 identification. 63-T is the number assigned to his

02306

1 responsive direct testimony; 64-T to the rebuttal
2 testimony of Jerrold L. Thompson; and 65 to the
3 revised UNE loop deaveraging proposals, dated
4 February 25, 2000.

5 Also in conjunction with this witness'
6 appearance, several exhibits have been distributed
7 for possible use on cross-examination. These are
8 identified as follows. Exhibit 66 for
9 identification, submitted by AT&T, is US West
10 Responses to AT&T Data Request Numbers 2-002 and 003.
11 Exhibit 67-C is confidential attachment to US West
12 responses to AT&T data requests of the same number.
13 Sixty-eight is the US West response to NEA Data
14 Request Number 1-001. Sixty-nine is the US West
15 response to Data Request Number 4-009 of the
16 Commission Staff.

17 Then, in conjunction with Staff
18 cross-examination, Exhibit 70 for identification is
19 designated WNU-31, Advice Number 3041T, and advice
20 number 2943T. And Exhibit 71 for identification,
21 also in conjunction with Staff cross-examination, is
22 U.S. Department of Commerce County and City Data
23 Book, page C-74.

24 Finally, in conjunction with this witness's
25 appearance, US West has provided a response to Bench

02307

1 Requests Numbers One and Two, and the response
2 collectively is marked as Exhibit 72 for
3 identification.

4 MS. ANDERL: Your Honor, just one
5 correction. It's actually bench request -- our
6 numbering convention is we call it set one, so it's
7 01, and then number two. So it's not one and two.

8 JUDGE WALLIS: So it's Bench Request Number
9 Two?

10 MS. ANDERL: Yes.

11 JUDGE WALLIS: All right. As corrected,
12 the documents are marked for identification as noted.

13 Mr. Thompson, would you please stand and
14 raise your right hand.
15 Whereupon,

16 JERROLD L. THOMPSON,
17 having been first duly sworn, was called as a witness
18 herein and was examined and testified as follows:

19 JUDGE WALLIS: Please be seated. Ms.
20 Anderl, please proceed.

21 D I R E C T E X A M I N A T I O N

22 BY MS. ANDERL:

23 Q. Good afternoon, Mr. Thompson.

24 A. Good afternoon.

25 Q. Do you have before you your direct

02308

1 testimony and exhibits that have been marked and
2 identified by the Administrative Law Judge as Exhibit
3 Numbers 61-T through 65?

4 A. Yes.

5 Q. And is it correct that 62-C, the correct
6 version of that bears a notation on it, Revised
7 2-25-00? That's the five-page confidential document
8 on yellow paper.

9 A. Yes, it does.

10 Q. And is it also correct that the Exhibit 65,
11 the correct version of that is designated as Exhibit
12 JLT-2 and bears a notation on it that it was revised
13 2-25-00?

14 A. Yes.

15 Q. Mr. Thompson, do you have any changes or
16 corrections to make to your testimony, other than as
17 reflected by those corrected exhibits?

18 A. Yes. Let me just point out that a number
19 of places throughout the testimony, I refer to those
20 numbers in the exhibit, and those would change
21 accordingly to the exhibit.

22 MS. ANDERL: Okay. And Your Honor, we can
23 undertake to prepare corrected testimony, if you so
24 desire. The changes appear in a lot of places in his
25 testimony. All of the \$16.64 references would be

02309

1 changed to 16.66, in accordance with the revised
2 exhibits. We were going to ask you how you'd like us
3 to proceed, but I suppose we could take that up on
4 the break. I just wanted to make sure that we had
5 for the record the witness' identification of his
6 testimony at this point.

7 JUDGE WALLIS: Very well. I think that for
8 purposes of following his cross-examination, I am
9 going to ask the witness, if you are referred to one
10 of those numbers and if Counsel does not indicate the
11 correct number based on your revised exhibit, if you
12 would do that, that would help us follow in the
13 transcript what is happening here on the stand.

14 THE WITNESS: I'd be happy to.

15 JUDGE WALLIS: Very well. One other
16 question, a favor that I have to ask of you, and that
17 is to pull that microphone six or eight inches closer
18 to you. Six or eight inches closer to you than it is
19 now, so that -- a little bit closer yet.

20 THE WITNESS: Okay.

21 JUDGE WALLIS: Much better. Thank you very
22 much.

23 THE WITNESS: Lifting it up helps.

24 Q. Mr. Thompson, with the changes and
25 corrections that you've noted to your testimony and

02310

1 exhibits, are those documents true and correct, to
2 the best of your knowledge?

3 A. Yes.

4 MS. ANDERL: Your Honor, I would move the
5 admission of Exhibits 61-T through 65.

6 JUDGE WALLIS: Is there objection? Let the
7 record show that there is no objection, and those
8 documents are received in evidence.

9 MS. ANDERL: And your Honor, I suppose I
10 could handle Exhibit 72, the bench request response,
11 as well.

12 JUDGE WALLIS: Please proceed.

13 Q. Mr. Thompson, do you also have in front of
14 you what's been marked as Exhibit Number 72, and do
15 you recognize that as US West's response to Bench
16 Request Number Two, which was filed this morning?

17 A. Yes.

18 Q. And is that a true and correct copy, to the
19 best of your knowledge?

20 A. Yes.

21 MS. ANDERL: Your Honor, I'd move the
22 admission of that, as well.

23 JUDGE WALLIS: Is there objection? Let the
24 record show that there's no objection, and that is
25 received as well.

02311

1 MS. ANDERL: Your Honor, the witness is
2 available for cross.

3 JUDGE WALLIS: Very well. Ms. McClellan.

4 MS. McCLELLAN: No questions from GTE.

5 JUDGE WALLIS: Mr. Kennedy.

6 MR. KENNEDY: None, thanks.

7 JUDGE WALLIS: Ms. Hopfenbeck.

8 MS. HOPFENBECK: I have no questions.

9 JUDGE WALLIS: Ms. Proctor.

10 MS. PROCTOR: Let him go first.

11 JUDGE WALLIS: Mr. Kopta.

12 MR. KOPTA: Thank you.

13 C R O S S - E X A M I N A T I O N

14 BY MR. KOPTA:

15 Q. Good afternoon, Mr. Thompson. I'm Greg
16 Kopta, representing several CLECs. I won't bother to
17 name them each time. We'd be here all afternoon. My
18 questions are going to focus on your rebuttal
19 testimony filed February 7th, 2000. That is Exhibit
20 64-T. And my first question is specific to page four
21 of that exhibit.

22 A. Yes.

23 Q. And in your answer on the top of that page,
24 you are comparing the deaveraging proposals of US
25 West, AT&T, and Commission Staff in Zones One and

02312

1 Two. And you state, beginning on line six, that \$2
2 differences are not significant in these proposals.
3 Do you see where my reference is?

4 A. Yes, I do.

5 Q. As I understand US West's proposals in Zone
6 One, US West proposes a rate of \$16.66; is that
7 correct?

8 A. Yes.

9 Q. And the difference between that rate and
10 the statewide average is \$1.50; is that correct?

11 A. Yes.

12 Q. So you would agree with me, then, that
13 since that's less than \$2, that difference is not
14 significant?

15 A. Yes.

16 Q. Would you turn to page 10? Now, on page 10
17 you are discussing Mr. Knowles' testimony with
18 respect to the costs that a CLEC will incur to
19 provide -- or to obtain an unbundled loop from US
20 West. Is that an accurate characterization of your
21 testimony at this point?

22 A. Yes.

23 Q. And specifically on line seven, you note
24 that under US West's proposal, that excluding cost
25 for conditioning, the costs that a CLEC would incur,

02313

1 based on Mr. Knowles's calculations, would be \$24.77,
2 which I assume is now \$24.75 or 79 cents? I forgot
3 which way it goes.

4 A. I believe that Mr. Knowles used the average
5 loop in that calculation. Are you suggesting that
6 be, then, differently in the --

7 Q. I'm not suggesting that. I'm just trying
8 to locate in the testimony where you are using
9 numbers, and I just want to explore those numbers,
10 basically.

11 A. Okay.

12 Q. So now that figure of \$24.77 would now be
13 \$24.79 with the correction?

14 A. I haven't added up the numbers for this,
15 but subject to check.

16 Q. Okay.

17 A. We do a lot of that.

18 Q. Well, yeah. You need to check lawyers'
19 math, believe me.

20 CHAIRWOMAN SHOWALTER: So \$2 is not
21 significant, but two cents probably is.

22 MR. KOPTA: Well, that's kind of what I
23 would think, too, but you know, I want to be
24 accurate.

25 Q. And you come up with this figure by adding

02314

1 basically \$8 in nonrecurring costs to the US West
2 proposed rate of \$16.66; is that correct?

3 A. I don't have Mr. Knowles' calculation in
4 front of me, so I don't honestly recall.

5 Q. Would you accept, subject to check, that
6 \$24.77 minus \$16.64 is approximately \$8?

7 A. Okay. I don't know whether that's the
8 nonrecurring portions or not.

9 MS. ANDERL: Your Honor, if this witness is
10 going to be crossed about that, I'd be happy to
11 provide him with a copy of Mr. Knowles' testimony.
12 It might make things easier.

13 MR. KOPTA: That would be fine. I assumed
14 that since he did the calculations, he would know the
15 basis for it. But if Mr. Knowles' testimony makes it
16 easier, then so much the better.

17 JUDGE WALLIS: Let the record show that a
18 copy of the testimony has been provided to the
19 witness.

20 Q. So reviewing Mr. Knowles' testimony, would
21 you agree with me that the difference between the
22 \$24.77 in line seven on page 10 of Exhibit 64-T and
23 US West's proposed loop rate for Zone One is
24 approximately \$8, and that that is attributable to
25 nonrecurring costs that a CLEC pays to US West for an

02315

1 unbundled loop?

2 A. I would say yes, in general. Some of these
3 are on a per-order basis, but I'd think we'd call
4 them equivalent to nonrecurring, yes.

5 Q. Now, US West doesn't incur those
6 nonrecurring costs when it provides service using one
7 of its loops, does it?

8 A. No, I think they actually would in many of
9 these situations. We would have equivalence of the
10 cross-connects for an EICT, we would have disconnect
11 cost, occasionally have cable unloading costs and so
12 forth.

13 Q. Those are part of the nonrecurring costs
14 that US West charges to the retail customer; is that
15 correct?

16 A. We would have costs for that and there is
17 charges for these kinds of activities, yes.

18 Q. And do you know what the nonrecurring
19 charge for a business customer is in Washington?

20 A. For which?

21 Q. For a 1FB service?

22 A. For?

23 Q. Basic local exchange service for business?

24 A. Just a normal nonrecurring charge?

25 Q. Yes.

02316

1 A. No, I don't.

2 Q. You reference farther down on page 10,
3 beginning at line 17, or actually, at line 16, some
4 revenue figures. And your citation for that,
5 although you say that it's in the record, is to an
6 information request, which I don't know whether that
7 is a data request or what exactly that is. Could you
8 identify for me what that document is and where it's
9 located in the record?

10 A. The identification I have, I list it as
11 Docket UT-960369, 960370, and 371, Phase II, generic
12 pricing proceeding, Intervenor, Washington Utilities
13 and Transportation Commission, Request Number WUTC
14 03-008.

15 MR. KOPTA: Perhaps Counsel can assist me
16 on this. Is this a data request response or is this
17 an exhibit that was introduced in Phase II?

18 MS. ANDERL: It is a data request response.
19 I don't, frankly, recall whether it was admitted, and
20 I apologize for that.

21 THE WITNESS: It has an exhibit number on
22 it.

23 MS. ANDERL: Okay. All I have -- my
24 witness tells me it was Exhibit 542.

25 MR. KOPTA: Then it must be right.

02317

1 MS. ANDERL: There were a lot of exhibits
2 in Phase II.

3 MR. KOPTA: That's why I asked him, instead
4 of having to go through the record myself.

5 Q. Now, these are revenues that US West
6 realizes from providing retail services; is that
7 correct?

8 A. Yes, it's an analysis that was done
9 pursuant to that data request that lists some average
10 customer revenue at the retail level.

11 Q. And you --

12 A. Let me just qualify that. It has switched
13 access, which, in this context, I would say is -- we
14 can call it retail for this purpose.

15 Q. Fair enough. Since you're looking at the
16 document and I'm not, I'll take your word for it.
17 And you're comparing that with the unbundled loop
18 cost of \$24.77 in Zone One; is that correct?

19 A. Where specifically in -- in the line 16,
20 you were speaking of earlier?

21 Q. Well, it's on this particular page. Your
22 conclusion is at the bottom of the page, beginning on
23 line 22, and so my question is, are you comparing the
24 cost of \$24.77 that a CLEC incurs to obtain an
25 unbundled loop in Zone One with average retail

02318

1 revenues of over \$30 for residential customers and
2 over \$50 for a business customer?

3 A. What I was attempting to do is to point out
4 that Mr. Knowles was comparing just the basic rate to
5 the cost analysis that was in his testimony. What I
6 was saying was that there are information in the
7 docket that identify the wider variety of revenues
8 that has been talked about. In fact, Mr. Denney, I
9 think, has mentioned that, as well, that you need to
10 consider more than just the basic rate.

11 Q. So you are correcting Mr. Knowles in saying
12 there are revenues in addition to the 1FB or 1FR rate
13 that a CLEC would realize using an unbundled loop; is
14 that correct?

15 A. Yes.

16 Q. And you would also agree with me that a
17 CLEC will incur additional costs other than an
18 unbundled loop recurring and nonrecurring charge?

19 A. That's right.

20 Q. Such as collocation to access that loop?

21 A. Yes.

22 Q. And switching?

23 A. Yes.

24 Q. And the cost to provide whatever the
25 additional services are, such as switched access?

02319

1 A. Yes.

2 Q. And toll, if those revenues are also
3 included, you would have those costs?

4 A. You would have the cost for toll, just as
5 US West has for any of these things, as well.

6 Q. And networking costs, for example, the
7 equipment that a CLEC collocates, those would be
8 additional costs?

9 A. Yes.

10 Q. And retailing overhead-type costs would
11 also be incurred?

12 A. Yes.

13 Q. Now, you focused on Zone One. In Zone
14 Three of US West's proposal, that would be a
15 recurring rate of \$27.98; is that correct?

16 A. That's right.

17 Q. And if you add the \$8 in nonrecurring
18 charges, you end up with approximately \$36 for an
19 unbundled loop in Zone Three; is that correct?

20 A. Yes.

21 Q. And \$36 is well over \$30, wouldn't you
22 agree with me?

23 A. Thirty-six dollars is, under the other
24 proposals in the case, Zone Three prices would be
25 considerably higher than that.

02320

1 Q. Right. But I'm just comparing the average
2 residential retail revenues that US West receives of
3 over \$30 with an unbundled loop rate in Zone Three,
4 which is also over \$30?

5 A. Right. Again, we're comparing average
6 revenues to deaveraged UNE rates.

7 Q. Would you turn to page 13 of Exhibit 64-T,
8 your rebuttal testimony?

9 A. I'm sorry, the page number again?

10 Q. Thirteen.

11 A. Thank you. I'm there.

12 Q. Specifically on line 17, and actually, in
13 this paragraph, you're discussing the approximately
14 6,000 unbundled loops that US West currently provides
15 to CLECs in Washington?

16 A. Yes.

17 Q. And your conclusion is that, because there
18 has been growth over the year end '98 to year end
19 '99, that average -- the existing average rates by
20 themselves don't appear to be an impediment to
21 obtaining loops. Is that a fair characterization of
22 your testimony?

23 A. Yes.

24 Q. Do you happen to know the current recurring
25 charge for loops in Washington?

02321

1 A. I think I heard this morning it's \$11 and
2 30-some cents.

3 Q. And the AT&T agreement that was -- I
4 believe what was discussed earlier, and its other
5 agreements, the amount is \$13.37. Do you recall that
6 discussion?

7 A. I don't recall that.

8 Q. And the lowest price that US West proposes,
9 which would be in Zone One, is \$16.66, which is over
10 \$5 more than the amount -- the statewide average in
11 the AT&T agreement; is that correct?

12 A. That's right.

13 Q. Would you consider that difference
14 significant?

15 A. I think the majority of these CLECs, that
16 I'm aware of, are aware of the \$18.16 rate, and
17 realized that was the one that was the least
18 deaveraged rate before this proceeding on
19 deaveraging. I think that was probably the figure in
20 mind from a lot of the CLECs, at least since the
21 Commission's ordered that. And the 16.66, then, is a
22 reduction from that rate, as you pointed out earlier.

23 Q. Anybody paying the \$18.16 rate today?

24 A. I don't know.

25 Q. So let's assume, if you will, that CLECs

02322

1 are paying the rates that are currently in their
2 interconnection agreements with US West. Is it your
3 testimony that an increase of \$5 per loop will have
4 no impact on the growth in CLECs's interest in
5 unbundled loops from US West?

6 A. I wouldn't say it would have no impact.
7 It's hard to say how much impact. It has been
8 pointed out by a number of the witnesses that there
9 are many things that are taken into consideration by
10 the competitive local exchange carriers. The loop
11 rate certainly is one of those, but there are many
12 other factors.

13 Q. And with respect to nonrecurring charges
14 for loop, would you accept, subject to check, that in
15 the agreement between US West and TCG, which is also
16 the agreement between US West and Nextlink, that the
17 nonrecurring price for an unbundled loop is the
18 retail recurring charge -- nonrecurring charge,
19 excuse me, less 17 percent avoided cost discount?

20 A. I have no knowledge of that, so --

21 Q. Are you willing to accept that, subject to
22 check?

23 A. Sure.

24 Q. And would you also accept, subject to
25 check, that US West's retail nonrecurring charge for

02323

1 basic business exchange service is approximately \$50?

2 A. Is that residence rate or business rate?

3 Q. That's for business.

4 A. Business. That sounds reasonable. I don't
5 know specifically what the number is.

6 Q. And if you prorate that over 36 months, you
7 end up with -- well, less the 17 percent, you
8 probably end up somewhere a little over a dollar in
9 nonrecurring charges. Would you accept that, subject
10 to check?

11 A. Well, that would be the math. Thirty-six
12 months might be a little too short of a period for
13 the amortization.

14 Q. Well, that's the same amount that Mr.
15 Knowles had in his testimony, if you want to refer to
16 that.

17 A. I noticed that, too. I wish we could get
18 amortization periods that short.

19 Q. Well, you'll have to take that up with the
20 Commission in another docket. And comparing that
21 little bit more than a dollar with the \$8 that would
22 result once the Commission's order in this docket
23 becomes final, that \$7 increase, you would agree with
24 me, is significant and may have an impact on the
25 CLECs's decision to obtain unbundled loops?

02324

1 MS. ANDERL: Your Honor, I'm going to
2 interpose an objection to this line of cross, which
3 I've had lurking in the back of my mind for some
4 time. It seems to me that Mr. Kopta really here is
5 exploring or challenging, through cross of this
6 witness, the statewide average loop costs and prices
7 that the Commission has already established, and this
8 docket's clearly not for that. It's to explore the
9 relative merits or demerits of the parties'
10 particular deaveraging proposals. And these lines of
11 questions really seem to go toward criticism of
12 what's now been established as the new costing price
13 for the loop. And only here we talk about how we
14 deaverage it.

15 So I would object to these questions as
16 really being outside the scope of this docket and an
17 attack on the previous determinations of the
18 Commission.

19 MR. KOPTA: That is certainly not my
20 intent, to attack what this Commission has already
21 decided. I am merely comparing what US West has
22 proposed by way of geographic deaveraging based on
23 those -- the decision of the Commission as far as
24 what the level of the statewide average would be, and
25 exploring Mr. Thompson's testimony that, apparently,

02325

1 because of the growth in unbundled loops, that there
2 isn't any problem with using average rates, that they
3 don't impact CLECs's decisions to obtain unbundled
4 loops.

5 And I believe that I'm entitled to explore
6 with Mr. Thompson the basis of the circumstances
7 under which those loops were obtained, including
8 specifically price, which is at issue in this case,
9 and the impact of any price differences from the
10 circumstances that existed when these loops were
11 ordered and provisioned, and the circumstances that
12 will exist once the Commission's order becomes final
13 under US West's assuming that the Commission adopts
14 US West's deaveraging proposal.

15 JUDGE WALLIS: I think that the questioning
16 is clearly within the scope of the witness' direct
17 testimony, and is proper.

18 Q. I'm sure you lost the question in all of
19 that, Mr. Thompson, so I'll repeat it.

20 A. Thank you.

21 Q. Would you characterize the difference in
22 nonrecurring costs of \$1 versus \$8 significant on a
23 per-monthly basis?

24 A. It could be significant, but it depends on
25 which customer the CLEC is attempting to acquire, in

02326

1 that the revenue offset may be significant to make
2 the difference you're talking about not significant.
3 On the other hand, if the revenues are more modest,
4 that could be a significant number.

5 The amount, I'm saying, is probably
6 relative to the customer that the CLEC is attempting
7 to acquire.

8 MR. KOPTA: Thank you. That's all I have.

9 JUDGE WALLIS: Commission Staff.

10 MS. JOHNSTON: You forgot Ms. Proctor.

11 JUDGE WALLIS: Oh, Ms. Proctor.

12 MS. PROCTOR: Thank you.

13 C R O S S - E X A M I N A T I O N

14 BY MS. PROCTOR:

15 Q. Mr. Thompson, do you have in front of you
16 what have been marked as Exhibits 66, 67-C, 68 and
17 69?

18 A. I believe so. Just a moment. I have my
19 copies of them. I don't have the ones that are
20 actually marked.

21 Q. But do you have exhibit -- what has been
22 marked as Hearing Exhibit 66, which is US West's
23 response to AT&T's Data Request 2-002 and 2-003?

24 A. Again, I have my copies, yes.

25 Q. And you can identify that as AT&T -- I'm

02327

1 sorry, as US West's response to those two named data
2 requests; is that correct?

3 A. I think so, yes.

4 Q. And what has been marked as Hearing Exhibit
5 67-C is the confidential Attachment A, which is
6 referred to in each of those responses; is that
7 correct?

8 MS. ANDERL: Your Honor, may I approach the
9 witness? I don't know that his packet matches Ms.
10 Proctor's.

11 JUDGE WALLIS: Very well.

12 THE WITNESS: I have those.

13 Q. And is that confidential Attachment A,
14 which was identified in the response to the two
15 requests?

16 A. That would be 67-C?

17 Q. Yes.

18 A. Yes, I have that. Was that your question?

19 Q. No, my question was is that Attachment A
20 the confidential attachment which is referred to in
21 the US West response to the two AT&T requests
22 contained in Exhibit 66?

23 A. 67-C is, I believe, the response to Request
24 2-003, I believe.

25 Q. If you would look in the upper right-hand

02328

1 corner, where it says AT&T Request 02-002 and 003, is
2 that on your copy?

3 A. Yes, it's got both numbers in the upper
4 right-hand corner.

5 Q. So then the answer to my question would be
6 yes?

7 A. It is yes.

8 Q. Thank you. Exhibit 68, did you prepare
9 this response?

10 A. I reviewed this response and approved it.

11 Q. And it is the response of US West to
12 Nextlink's Data Request 01-001; is that correct?

13 A. Yes.

14 Q. And Exhibit 69 is US West's response to
15 Staff's Data Request 04-009; is that correct?

16 A. Yes, it is.

17 Q. Do you know whether the confidential
18 Attachment A, which is referred to in these last two
19 responses, is the same confidential Attachment A that
20 has been marked as Hearing Exhibit 67-C?

21 A. I'm not certain of that, but it appears to
22 be.

23 MS. PROCTOR: Your Honor, I move the
24 admission of Exhibits 66, 67-C, 68 and 69.

25 JUDGE WALLIS: Is there objection?

02329

1 MS. ANDERL: Yes, Your Honor. I don't
2 believe that -- I don't believe that there's a
3 sufficient foundation for 67-C. The one question
4 that Ms. Proctor did not ask is whether that is a
5 current and accurate reflection of US West's data
6 request responses to those two data requests. And I
7 would like Mr. Thompson to have an opportunity to
8 respond to that question before these are admitted.

9 MS. PROCTOR: Well, I would object. We had
10 to provide these copies on Thursday. US West
11 purported to update, in keeping with what appears to
12 be its new recent custom of updating its data
13 responses the day before hearing and the day after I
14 had to identify my cross-examination exhibits.

15 This is what US West provided to us, this
16 is what I had as of the cutoff date, and anything
17 that happened after that, which I did not receive on
18 Friday, as far as I'm concerned, doesn't exist.
19 That's the purpose of cutoffs.

20 MS. ANDERL: Well, Your Honor, I think the
21 purpose here is to ensure that the record is
22 accurate. If Ms. Proctor wants to ask Mr. Thompson
23 if that's what we have provided as of Thursday, the
24 24th, certainly we're not going to object to those
25 being admitted. I can address the other issues on

02330

1 redirect.

2 However, I will represent that we did
3 supplement those data request responses. This is the
4 underlying information that generates some of the
5 changes that we saw to the two exhibits of Mr.
6 Thompson's that were revised, and so it seems to me
7 at some point there will need to be an explanation so
8 everything hangs together. It's just a matter of
9 when and how we want to do it.

10 JUDGE WALLIS: Very well. It appears that
11 the question to the witness, then, is whether this is
12 information that was accurate, as far as other
13 parties were concerned, on Thursday?

14 THE WITNESS: And it would be the only
15 information they had at that point in time.

16 JUDGE WALLIS: Very well.

17 MS. PROCTOR: So do I need to remove the --

18 JUDGE WALLIS: That resolves your concern,
19 then; is that correct, Ms. Anderl?

20 MS. ANDERL: Yes, it does, Your Honor.

21 JUDGE WALLIS: Very well. These documents
22 are received.

23 MS. PROCTOR: That was all I had.

24 JUDGE WALLIS: Commission Staff.

25 C R O S S - E X A M I N A T I O N

02331

1 BY MS. JOHNSTON:

2 Q. Good afternoon, Mr. Thompson.

3 A. Good afternoon.

4 Q. In your direct testimony, which has been
5 marked as Exhibit 61-T, I'd like to direct your
6 attention to page 10, lines four through five. There
7 you state that, quote, loop costs vary geographically
8 due to the impact of distance from the serving
9 central office and density of the serving area, end
10 quote. Do you recall that testimony?

11 A. Yes.

12 Q. And you are aware that in this proceeding
13 Commission Staff has proposed a deaveraged rate
14 design that allows loop cost to vary based on
15 distance from the central office and density of the
16 serving area?

17 A. Yes.

18 Q. Is that correct?

19 A. Yes.

20 Q. In your responsive testimony, which has
21 been marked as Exhibit 63-T, at page five, lines two
22 through three --

23 A. Just a moment. That's responsive?

24 Q. That's correct.

25 A. And the page again?

02332

1 Q. Page five, lines two through three.

2 A. I am there now. Thank you.

3 Q. Okay. You describe the Staff's proposal as
4 being, quote, impractical and very costly, end quote.
5 Do you recall that testimony?

6 A. Yes.

7 Q. Is it your opinion that it would be
8 impractical for rates for a service to be designed to
9 reflect cost causation?

10 A. In general, no; given the circumstances of
11 this proposal, yes.

12 Q. And why is that?

13 A. I think it's a very impractical proposal,
14 as has been identified by a number of the parties
15 here. Essentially, what you're doing under the
16 proposal by Mr. Spinks is to have a manual process of
17 looking up distances of individual customers. And as
18 has been pointed out by a number of the parties,
19 that's impractical from an operational point of view.

20 Q. But it's true, isn't it correct, that US
21 West currently offers loop-based services, such as
22 Centrex, on a distance-sensitive basis; isn't that
23 right?

24 A. That is true. There are quarter-mile
25 increments in the Centrex Plus service, that the

02333

1 rates vary by those quarter-mile increments.
2 However, that is a service, as this Commission is
3 aware of, that US West proposed to withdraw. Among
4 the many reasons for that, one of them is the manual
5 nature of the rate structure. In all current
6 services that we are proposing for Centrex, you would
7 not see that manual type zero flow-through, you would
8 call it, of that type of lookup process. It's one
9 that's very expensive and very difficult to
10 administer.

11 Q. Mr. Thompson, can you cite me to the
12 reference in Mr. Spinks' testimony where he states
13 the company should be required to undertake manual
14 lookups?

15 A. He doesn't say that, but his description of
16 the process of doing this is one that appears to me
17 to be a very manual process. Since our systems, our
18 operating support systems, as we'll -- as has been
19 discussed by Ms. Brohl, don't have that information
20 today, you would either incur the very costly expense
21 of incorporating that information into our systems
22 or, as to the example with Centrex, have it be a very
23 manual process, very impractical, as well as being
24 costly.

25 Q. Mr. Thompson, do you have in your

02334

1 possession what's been marked as Exhibit 70? That
2 would be Commission Staff's Cross-examination Exhibit

3 A.

4 MS. ANDERL: Is that the tariff?

5 MS. JOHNSTON: Yes.

6 THE WITNESS: I have a fax copy.

7 Q. Okay.

8 A. These are tariff pages?

9 Q. Yes, that's correct. Tariff pages
10 identified by advice numbers 3041T and 2943T?

11 A. 3041T and 2943T?

12 Q. That's correct.

13 A. I have those.

14 Q. Thank you. Do you recognize these
15 documents as US West's tariff sheets for Centrex
16 service?

17 A. Yes.

18 Q. And the rate schedule in the tariff offers
19 network access channels based on quarter-mile
20 increments from the central office, doesn't it?

21 A. Yes, that's what we just talked about.

22 Q. Right. And does US West offer
23 distance-sensitive Centrex rates in all the states in
24 which it provides local service?

25 A. I can't say as to all of the states.

02335

1 Q. Does US West have to identify the distance
2 of each Centrex customer from the central office in
3 order to correctly charge that customer for the
4 service?

5 A. I can tell you that I inquired about this
6 particular one as it relates to Washington when I saw
7 the exhibit being identified, and I talked to some
8 people that are directly involved in the process.
9 They explained to me that the way that they go about
10 identifying a new customer in this is by getting the
11 customer's location, then a person goes over to a
12 map, identifies the location on the map, then counts
13 the number of bands, quarter-mile bands that that
14 customer's location is from the central office.

15 This process takes approximately 10 minutes
16 for each lookup, and currently they have -- they're
17 experiencing in Washington about 10 of those per day.
18 So first of all, it's a very low volume of activity
19 and one that is entirely labor-intensive and very
20 costly.

21 Q. Is there a centralized function or location
22 where customer milage is determined for different
23 states?

24 A. I'm not aware of one. Perhaps Ms. Brohl
25 might.

02336

1 Q. Do US West cost studies explicitly identify
2 the costs of identifying these customer locations?

3 A. For example, the Centrex study, the cost
4 study for Centrex Plus service? Is that what the
5 question is related to?

6 Q. For example?

7 A. It could be in the nonrecurring study, but
8 I would have to look at it to be sure.

9 MS. JOHNSTON: Your Honor, as a record
10 requisition, we'd like to request that Mr. Thompson
11 locate an answer to that question. The question
12 being whether or not US West cost studies explicitly
13 identify the cost of identifying these customer
14 locations, using Centrex Plus as an example or
15 Centrex Service as an example.

16 MS. ANDERL: And I object to that data
17 request as irrelevant and outside the scope of the
18 proceeding. I would further note that I believe US
19 West's Centrex cost studies have in the past been
20 filed with the Commission in support of various
21 tariff revisions. Certainly this was something that
22 could have been relevantly inquired into prior to the
23 hearing, it could have been done through discovery or
24 Staff could have undertaken its own research, but I
25 don't believe it's appropriate as a record

02337

1 requisition at this time.

2 MS. JOHNSTON: Well, Your Honor, I have two
3 responses. The first being that perhaps we should
4 inquire of the witness as to a level of difficulty
5 involved in locating an answer to Staff's question,
6 and the second point I have is that it's -- I find it
7 interesting that Counsel for US West would at this
8 point suggest that perhaps we should have followed up
9 on this through the discovery process, given that
10 within the past 24 hours, they've supplemented quite
11 a few data requests and exhibits in the case. So I
12 guess, with that, I would return to my first query.

13 JUDGE WALLIS: Let's inquire of the --
14 well, first, let's inquire of Counsel what you mean
15 when you say cost study?

16 MS. JOHNSTON: I'm sorry, Your Honor?

17 JUDGE WALLIS: What do you mean when you
18 say cost study in terms of the record requisition?

19 MS. JOHNSTON: Your Honor, simply the cost
20 studies which the company evidently files routinely
21 with the Commission.

22 JUDGE WALLIS: Now, let's ask the witness
23 what would be involved in finding that information?

24 THE WITNESS: I would need to contact the
25 cost analyst that prepares that kind of information

02338

1 and discuss with him the request. They would need to
2 research it based on the latest available cost study
3 for Washington, and then pull the information they
4 can and probably maybe fax it to me or something like
5 that.

6 JUDGE WALLIS: Well, it doesn't appear to
7 me to be unduly burdensome, and consequently, I will
8 record that as Record Requisition Number One.

9 MS. JOHNSTON: Thank you, Your Honor.

10 Q. If a CLEC were to request of US West
11 whether a customer's loop qualifies for high-speed
12 data service so that, in turn, the CLEC can provide
13 service, US West is able to quickly respond to that
14 CLEC as to whether or not the loop would qualify; is
15 that correct?

16 A. I have only limited information about that.
17 Again, that might be something Ms. Brohl could
18 answer.

19 Q. Okay. Hypothetically speaking, if customer
20 distance identification issues were resolved, would
21 US West still oppose a distance-sensitive rate
22 structure for unbundled loops?

23 A. I guess the problem I have is what does
24 resolve mean. It's hard for me to answer the
25 question unless I can get a picture in my mind of

02339

1 what exactly would be the resolution.

2 Q. I'm not asking you to think about the
3 resolution; I'm asking you to assume that the
4 customer distance identification issues no longer
5 exist.

6 A. Well, there's a cost that comes with that
7 resolution, and what I believe you're asking me is if
8 we would propose it, if there was a cost with a
9 resolution and US West did not get recovery of the
10 cost, then I suppose we would have a problem with it.
11 On the other hand, if we were allowed to recover the
12 cost of such a method in a timely and reasonable
13 fashion, we might not.

14 Q. In your direct testimony, Exhibit 61-T, at
15 page 11, you discuss the company's proposal to
16 establish three zones based on communities and state
17 that the groupings of communities roughly equates to
18 the metropolitan statistical areas used by the Bureau
19 of Census. Do you recall that testimony?

20 A. Yes.

21 Q. You also note US West's public policy staff
22 made some additional modifications to better match
23 perceptions of communities of interest in Washington
24 State; is that correct?

25 A. Yes, it is.

02340

1 Q. Whose perception of community of interest
2 does the US West public policy staff represent, in
3 your view?

4 A. The point of view we were taking, the point
5 of view that I discuss in the testimony, is for the
6 consumers that US West serves in its retail market.
7 We strongly believe that the wholesale prices are
8 linked to the retail prices, and maybe not in this
9 docket, but inevitably.

10 That's pretty much been reinforced even
11 today, through the testimony of Mr. Denney, for
12 example, when he said that the wholesale unbundled
13 loop prices form the floor for US West prices. So
14 that means that, to me, what he's talking about is
15 that our retail prices need to be over, set higher
16 than the unbundled loop prices. That means that
17 retail rates in the rural areas would be over \$50 in
18 AT&T's proposal. That is just the loop price.

19 So as the low-cost areas decrease, the
20 rural areas and very high-cost areas would increase.
21 That is the nature of the link between retail and
22 wholesale deaveraging. So whatever the Commission
23 decides in this case will inevitably be reflected in
24 the retail rates. So we are concerned about that as
25 a provider of service for consumers.

02341

1 Q. Isn't it true that the high-cost rural
2 rates that you're referring to are set by universal
3 service funds?

4 A. The rates, no.

5 Q. Offset?

6 A. Could you restate the question?

7 Q. Well, in your testimony, I understood you
8 to reference high-cost rural rates. Do you recall
9 that?

10 A. Yes.

11 Q. Okay. And I'm asking you whether or not
12 you would agree with me that those high-cost rural
13 rates are offset by universal service funds?

14 A. Well, at the current time, US West will
15 receive no universal service funds. The federal
16 decision did not allocate any to US West. So it's
17 faced at the moment with an increase in the price
18 floors for its retail services without the ability to
19 increase its prices. That will need to be done.

20 When those prices are increased, the next
21 problem is there is no intrastate universal service
22 fund to speak of that will be there to offset those
23 very high prices in the rural areas.

24 Q. I'd like to direct your attention now to
25 what's been marked as Exhibit 71, that consists of

02342

1 Commission Staff's cross exhibit. It's page C-74 of
2 the U.S. Department of Commerce County and City Data
3 Book. Do you have that before you?

4 A. Just a moment. I have it.

5 Q. Do you recognize this document as being a
6 Washington state map which shows the metropolitan
7 statistical areas of the state?

8 A. Yes.

9 Q. In your proposal to establish groupings of
10 communities, you include Seattle and Tacoma in Group
11 One, and include Olympia and Bremerton in your Group
12 Two; is that correct?

13 A. Yes.

14 Q. If you would take a look now at Exhibit 71,
15 do you see that all four communities are a part of
16 the same consolidated metropolitan statistical area?

17 A. Frankly, I'm not sure which is the actual
18 components of the CMSA.

19 Q. Well, if you'd --

20 MS. ANDERL: Your Honor, could I ask, on
21 this exhibit, was it originally in color and would it
22 be easier to read that way, because it does seem to
23 me that there are boundaries that are drawn on it
24 that ought to be distinguishable, one from another,
25 but aren't on the copy we have.

02343

1 MS. JOHNSTON: Well, I think they are
2 distinguishable. If you look at the legend. The
3 heavy bold black line indicates consolidated
4 metropolitan statistical areas, and then a lighter
5 shading line, which represents primary MSAs.

6 THE WITNESS: I could probably help with
7 this. I have a document that is -- I got this off
8 the Internet, and it shows, for the state of
9 Washington, all of the MSAs and identifies the CMSAs.
10 So if I could use it in conjunction with your map, I
11 might be able to help us through this, if you'd like.

12 JUDGE WALLIS: For purposes of dealing with
13 Exhibit 71 for identification, I will note, as Ms.
14 Johnston has stated, that the boundary for a CMSA is
15 a solid black bold line, and the primary MSAs are
16 identified by a gray line, and these do appear to be
17 distinguishable on the map.

18 MS. ANDERL: Your Honor, I apologize. I
19 cannot tell one from the other, so --

20 JUDGE WALLIS: Let's be off the record,
21 please.

22 (Discussion off the record.)

23 JUDGE WALLIS: Let's be back on the record,
24 please. After a discussion among Counsel and the
25 Bench, it appears that some of these documents are

02344

1 legible and some are not. The one that the bench had
2 is legible and has been handed to the witness.

3 THE WITNESS: Could you repeat your
4 question?

5 Q. I certainly will. In fact, I'll repeat two
6 of them. The first one is, in your proposal to
7 establish groupings of communities, you include
8 Seattle and Tacoma in your Group One and Olympia and
9 Bremerton in your Group Two; is that correct?

10 A. Yes.

11 Q. Now, if you would take a look at what's
12 been marked as Exhibit 71, would you agree that all
13 four of those communities are part of the same
14 consolidated metropolitan statistical area?

15 A. They are part of the same consolidated
16 metropolitan statistical area, but they are also
17 identified as separate MSAs by the Census Bureau.

18 Q. And does the exhibit also show that the
19 whole of western Washington is one consolidated MSA;
20 is that correct?

21 A. Not according to my records. The -- I
22 don't think the map does that either. The CMSAs,
23 there are -- is one of those in Washington. It's
24 identified as the Seattle-Tacoma-Bremerton CMSA.

25 Q. Could you explain why the company decided

02345

1 not to include exchanges within the same consolidated
2 MSA in the same zone?

3 A. That goes to the issue that's in my
4 testimony that talks about that we needed to reflect
5 the level of UNE deaveraging in our retail rates, and
6 the feeling was that, for those people that had been
7 dealing with those retail rates, it would make more
8 sense to have a level of averaging that would
9 correspond to past identification of local calling
10 areas.

11 Q. In US West's proposal, the Buckley and
12 Black Diamond wire centers are assigned to Zone
13 Three, while the Roy and Enumclaw wire centers are
14 assigned to Zone One; is that correct?

15 A. I'd have to look that up.

16 Q. I will wait.

17 A. Could you repeat the question?

18 Q. Sure. In your proposal, the Buckley and
19 Black Diamond wire centers are assigned to Zone
20 Three, while Roy and Enumclaw wire centers are
21 assigned to Zone One; is that right?

22 A. It was -- in Zone One was Roy and?

23 Q. Enumclaw.

24 A. Okay. Roy and Enumclaw are in Zone One.
25 And the two, again, in Zone Three?

02346

1 Q. Buckley and Black Diamond.

2 A. Excuse me. They're not alphabetical. I'm
3 having to find them here. Buckley and Black Diamond,
4 yes, are in Zone Three.

5 Q. Thank you. Is it correct, or will you
6 accept, subject to check, that all four of these wire
7 centers are contained within the boundaries of the
8 Seattle and Tacoma MSAs?

9 A. I'm aware of Roy and Enumclaw. The other
10 two, subject to check, could be.

11 Q. Okay. Can you explain to us why Enumclaw
12 and Roy are included in Zone One, while Buckley and
13 Black Diamond are included in Zone Three?

14 A. I can't tell you all of the reasons. I
15 know, for one thing, about Roy, it's part of the
16 local calling area for Tacoma and Olympia. It's
17 approximately 20 miles from here.

18 Q. Are there any other reasons that come to
19 mind as you sit here today?

20 A. I don't have any others.

21 MS. JOHNSTON: Your Honor, I move the
22 admission of Exhibits 70 and 71.

23 JUDGE WALLIS: Is there objection?

24 MS. ANDERL: No.

25 JUDGE WALLIS: There being no objection,

02347

1 the exhibits are received.

2 MS. JOHNSTON: Thank you. That's all I
3 have.

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

5 BY DR. GABEL:

6 Q. Good afternoon, Mr. Thompson. I'd like to
7 ask you two things regarding RLCAP. First, are you
8 familiar with RLCAP?

9 A. Yes.

10 Q. Yes. And are you familiar with Version 3.5
11 of RLCAP? Have you --

12 A. Yes.

13 Q. -- used it?

14 A. Yes.

15 Q. And does RLCAP have a folder in it called
16 air ratio?

17 A. I believe it does.

18 Q. And could you explain the function of -- or
19 subject to check, would you agree or do I have a
20 correct understanding that the function of the data
21 in this part of the program is to provide the route
22 to air mile ratio for loop plant?

23 A. I believe it does, but I'd, again, have to
24 look at it to see.

25 Q. And assuming that, in fact, that is what's

02348

1 contained in that folder, a route to air mile ratio,
2 and assuming that the Commission was interested in
3 developing rates at a sub-wire center level, would it
4 be inappropriate to use this type of data, or do you
5 want to just reflect upon that, since you haven't
6 looked at the data?

7 A. I would have to look at it to see whether
8 that would be representative.

9 Q. Okay. Do you know, when Version 3.5 was
10 run in this proceeding, was it using the data that's
11 contained in that folder of Version 3.5 air ratio?

12 A. I don't recall offhand.

13 Q. Well, all right. Then, as a bench request,
14 let me ask for two bench requests. First, to see if,
15 when 3.5 was run, was it using the data in the folder
16 air ratio, and if the answer is no, then why was the
17 data included in the model.

18 And the second question would be, as US
19 West has developed data on what's the ratio of route
20 miles to air line miles, could this data be used to
21 develop cost at the sub-exchange or sub-wire center
22 level, and if so, how?

23 JUDGE WALLIS: We will collectively call
24 those Bench Request Number 7.

25 THE WITNESS: You said sub-wire center.

02349

1 Q. Yeah, so a distance-sensitive rate
2 structure, similar to what either the CLECs or Staff
3 had proposed. You know, for example, concern has
4 been expressed about implementing something like a
5 distance-sensitive rate structure. Would this data,
6 which you have already collected and processed,
7 address some of the concerns that have been raised
8 about having a distance-sensitive rate structure?

9 A. Well, it's a cost model. It would not be
10 the operational tool. A lot of the concerns we have
11 about the distance-based structure is operational,
12 not in terms of identifying the cost for distances.

13 The RLCAP model, and again, I'd have to
14 look at it, but could be used perhaps to identify
15 distance-based cost, but you still have the operation
16 issues.

17 Q. All right. So my request still stands.
18 And as a second area of questioning, I'd like you to
19 turn to Exhibit 72, which is US West's response to
20 Bench Request Number Two.

21 A. Yes.

22 Q. I'd like to turn your attention to sub-part
23 C.

24 A. Okay.

25 Q. Now, would you agree with me, Mr. Thompson,

02350

1 that the rates developed using Version 3.5 are
2 different than the rates that would be developed
3 using Version Four of RLCAP?

4 A. Yes.

5 Q. Would you explain why there would be a
6 difference?

7 A. Well, probably the most significant
8 difference is that the bench request asked for what
9 was filed originally in this proceeding for a
10 proposal for deaveraging. And what was originally
11 proposed by US West was also a three-zone structure,
12 but Zone One was only the Seattle wire centers. All
13 other MSAs were in Zone Two, and then all of the
14 other wire centers that were not part of an MSA were
15 in Zone Three.

16 Q. And why did US West change its zone
17 classifications in between your initial filing in
18 Phase I in this proceeding and the filing in Phase
19 III?

20 A. Well, as I said in my testimony, we started
21 with this proposal, the MSA approach, and then we
22 looked at it in terms of reflecting it in the sense
23 of our own retail rates. We said, Well, if we were
24 going to reflect this in our retail rates, we would
25 want a modification of that to reflect what is more

02351

1 of the community of interest point of view from the
2 consumer. So modifications were made, as I discussed
3 in the testimony.

4 DR. GABEL: Thank you.

5 JUDGE WALLIS: Questions from the bench?

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

7 BY CHAIRWOMAN SHOWALTER:

8 Q. You may not have all the exhibits in front
9 of you, but were you here today when Mr. Denney was
10 testifying on his exhibits, in particular, Exhibit 2,
11 his lists of wire centers?

12 A. Yes.

13 Q. If you compared your proposal to the full
14 list of wire centers, not broken down into three
15 groups or any groups, but just flat out list of wire
16 centers, which would be more accurate in terms of
17 costs? That is, your three zones or all of the wire
18 centers listed out?

19 A. I'm not sure I'm following.

20 Q. What if the Commission were to adopt as --
21 I don't know how many wire centers there are, but --

22 A. Just a single rate per wire center?

23 Q. Right. How many wire centers are there in
24 US West's wire centers?

25 A. I didn't count them, but there's --

02352

1 Q. A hundred and 11, maybe?

2 A. Okay. I was going to guess 100.

3 Q. Supposing we had 111 zones, that is, one
4 zone per wire center, which would be more accurate
5 with respect to your cost, the 111 model or
6 three-zone, your three-zone model?

7 A. To the extent that the models do a
8 reasonable job of estimating the cost, the hundred
9 would be more representative of the cost for each
10 wire center.

11 Q. Okay.

12 A. However, there's other things you need to
13 consider.

14 Q. Yeah, I know there are other factors. I'm
15 just trying to get at cost or accuracy for a moment.
16 Now, supposing you took the wire center list and
17 broke it into three, three groupings of some sort.
18 Of course, it might depend where those were. Well,
19 maybe I'll just ask you about Mr. Denney's grouping,
20 those three. Is it three for you? I think it is.

21 A. Yes, it is.

22 Q. Okay. Comparing those three zones to your
23 three zones, which is more accurate as respect to
24 your costs?

25 A. I'd say they're probably about the same.

02353

1 He shows, by lowering the cost in the lower zone, he
2 gets a wider dispersion of the cost, a higher number
3 in Zone Three. That's the nature of the averaging
4 that we talked about. In terms of accuracy, I'd say
5 they're both accurate. Both contain a level of
6 averaging in the deaveraged proposal. And that gets
7 to the point that the FCC identified three zones.
8 And that was a conscious --

9 Q. I'm not interested -- I know what the FCC
10 ordered, at least three zones.

11 A. So you'd have to consider --

12 Q. Some question of accuracy at the moment.
13 Does this mean that if you took the wire centers and
14 grouped them into perhaps seven or eight zones, that
15 they, in fact, would be more accurate as -- just on
16 the question of accuracy, because it's further toward
17 the 111 than three zones, either Mr. Denney's three
18 zones or your three zones?

19 A. It's a more precise number. The word
20 accuracy kind of troubles me a little bit, because
21 when we're working with cost models, and we do it
22 every day, what we think about is in terms of
23 reasonable estimates. We --

24 Q. Let me rephrase.

25 A. -- tend to avoid the word accurate.

02354

1 Q. Would 10 zones based on wire centers only
2 capture costs more precisely --

3 A. They would.

4 Q. -- than either Mr. Denney's three zones or
5 in your three zones?

6 A. More zones would be more precise.

7 CHAIRWOMAN SHOWALTER: Thanks. That's all
8 I have.

9 JUDGE WALLIS: Okay.

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

11 BY COMMISSIONER HEMSTAD:

12 Q. Well, as I understand your testimony, in US
13 West's view of this, you would have us delay
14 deaveraging wholesale rates until you had filed and
15 apparently we had completed a proceeding on
16 deaveraging retail rates?

17 A. Yes, the logical way to do this, in my
18 opinion, is to coordinate the activity of deaveraging
19 the wholesale rates with the retail rates, and then
20 hopefully with a universal service fund that deals
21 with the increases in the rural areas. There's a
22 number of states that have taken that exact same
23 approach, and I believe this Commission was on that
24 road before the FCC gave them the directions to get
25 this decision done by May 1st.

02355

1 For example, in Wyoming, they did that
2 exact way. They had a comprehensive kind of
3 proceeding, deaveraged the wholesale rates,
4 deaveraged the retail rates, and created a universal
5 service fund to take care of the issues of the high
6 price increases in the rural areas.

7 Q. Well, one thing this Commission doesn't
8 have is a magic wand.

9 A. I understand.

10 Q. We now have a directive to deaverage by May
11 1st of this year.

12 A. I understand.

13 Q. And the legislature has not enacted a
14 universal service fund.

15 A. Yes.

16 Q. And it would not be possible for us to --
17 for you to file and we to complete a retail
18 deaveraging proceeding in approximately two months.

19 A. The FCC has identified a mechanism for the
20 commissions like this one to request a waiver of that
21 date. As a matter of fact, I know at least one state
22 in US West that's going to pursue that option.

23 Q. Who is that?

24 A. Idaho.

25 Q. You mentioned four states, Wyoming,

02356

1 Colorado, Utah, and New Mexico. Are they all in the
2 position of having universal fund mechanisms in place
3 or are any of them similar to Washington?

4 A. Of those four states, Wyoming has an active
5 universal service fund, so does Colorado. I'm not
6 sure of Utah, but I know New Mexico is in the current
7 -- in the process of currently developing one. They
8 were under a mandate, I believe, of having at least
9 most of the work done on that by the end of last
10 year. I haven't seen a decision on that yet.

11 Q. And are you confident, if the Commission
12 were to ask for the waiver, that we would receive it?

13 A. I'm never confident with requests for the
14 FCC. I don't know whether the FCC would approve it
15 or not.

16 Q. Your testimony would say that we are not
17 required by the FCC to have a cost-based system, but
18 only a cost-related system. Is that a fair
19 statement?

20 A. Well, the actual words in the FCC's rules
21 are cost-based. What I argue is that the proposal
22 that we've proposed to you is cost-based.

23 Q. I see. So the community of interest
24 approach, you're confident, would meet the
25 requirement of a cost-based system?

02357

1 A. It has been used by a number of states
2 already who believe they have deaveraged their rates.

3 Q. And can you give me some examples of those
4 states?

5 A. Both Utah and New Mexico.

6 Q. Well, pursuing the question of Chairwoman
7 Showalter, it seemed to me almost intuitive that you
8 will have a greater -- you'll have a greater
9 disparity of wire centers within the approach of a
10 community of interest than you will from ranking wire
11 centers from one to 100 and then splitting them at
12 some point into three zones?

13 A. That's true. What I would argue is that
14 that isn't the only consideration. A number of
15 parties recommended multiple zones to the FCC, and
16 the FCC considered that and decided upon three zones.
17 By doing that, in my opinion, what they said was then
18 you need to consider other factors other than cost,
19 because when you're at three zones, you're averaging.
20 And has been pointed out by everyone in this
21 proceeding, we're only talking about different levels
22 of averaging. US West has a proposal for averaging,
23 AT&T has one, Staff has one, and so does Dr.
24 Montgomery.

25 The issue, then, is what other things

02358

1 should the Commission consider and what are the pros
2 and cons of the averaging that is proposed under each
3 one of the scenarios. To me, what that says is you
4 need to consider other public policy issues. That's
5 what's been laid before you with the FCC, is that
6 three zones are sufficient. That was their exact
7 words in the order -- in the First Report and Order,
8 and they held to that in this decision.

9 Q. Well, assume, for the purposes of
10 discussion only here, if we were to say order now a
11 deaveraging based on the wire center approach, what
12 would then be US West's response as to how to then
13 propose to file with us a petition to deaverage
14 retail?

15 A. Certainly we're looking at what the
16 Commission is going to decide here to determine what
17 our response will need to be with our retail rates.
18 What we've got in Washington is a completely averaged
19 retail rate. What that creates, and as we've talked
20 about, it's more complex than this, but you can think
21 of it just in terms of the basic rate and the
22 wholesale levels.

23 We've got retail rates that are priced
24 below the level of the wholesale rates we're talking
25 about in the urban areas. In the rural areas, we

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1 have them highly priced below the cost. That has to
2 be -- would have to be fixed. If we're going to
3 deaverage the wholesale, we're going to have to
4 deaverage the retail.

5 Now, exactly how that's done, I can't tell
6 you. A lot depends on how the Commission decides to
7 deaverage the wholesale rates.

8 Q. Well, pursuing my hypothetical, would US
9 West's response then be to have differing retail
10 rates within, say, Seattle, differing Seattle wire
11 centers?

12 A. Under the hypothetical, I can't really tell
13 you what we'd propose in that. I've never heard of
14 anyone talking about -- for a proposal where there
15 were 100 different rates. There's a lot of things to
16 consider with that, if that were what the Commission
17 decided.

18 Q. Well, I'm thinking of a three-zone system.

19 A. Oh, under three zones?

20 Q. Yeah.

21 A. We have looked at that, and we would
22 probably propose a similar structure in the retail.

23 Q. Well, I'm trying to get to the point -- in
24 your testimony you talk about it can be very
25 confusing to have -- I thought the point of your

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1 testimony was that it would be very confusing to have
2 different retail rates with the persons across the
3 street from one another?

4 A. I'm sorry, I misunderstood you. I thought
5 you meant if you went to the three-zone rate as US
6 West proposed it.

7 Q. No.

8 A. Okay. As AT&T proposes it, for example?

9 Q. Yeah.

10 A. I think we'd have to look at that, as well.
11 The problem that you'd have to address is that we
12 could have very different rates within the local
13 calling area under AT&T's proposal. For example, the
14 Staff was just asking about one of the wire centers,
15 Roy, which I say, you know, air line miles, is only
16 about 20 miles from here. And Roy, it's identified
17 as a Zone Three, so it would have wholesale rates of
18 \$50 a month for the loops. Currently, Roy has local
19 calling availability for Tacoma and Olympia, I
20 believe. Certainly Spanaway, which is only four
21 miles from Roy.

22 We'd have to look at that and see what the
23 issues are. I mean, that causes other problems. You
24 could have rates for Roy that are significantly
25 higher than they are for Spanaway, which is only four

02361

1 miles down the road.

2 Q. Well, but even within Seattle itself, or
3 the Seattle area, anyway, with different wire
4 centers, say, in Zone One and Two, or One, Two and
5 Three, wouldn't you, for marketing purposes at the
6 retail level, want to average those prices into a
7 unified system?

8 A. I wouldn't say that we wouldn't do that.
9 What we would need to evaluate is what the
10 competitive response would be to that kind of
11 approach. Certainly, if we simply reflect the level
12 of the wholesale rates so that we can get some
13 advantage vis-a-vis the competitor for that, we would
14 need to consider the issues of having a hodgepodge of
15 rates within a local calling area like Seattle.

16 COMMISSIONER GILLIS: Thank you. That's
17 all I have.

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

19 BY COMMISSIONER GILLIS:

20 Q. I wanted to follow up on some of the same
21 issues. Just beginning with -- given that the cost
22 estimates we're talking about here are being
23 estimated by proxy cost models, you can pick your
24 favorite brand, but do you have an opinion about the
25 precision of average cost estimates for estimates at

02362

1 a small level, say a wire center or sub-wire center
2 level versus the precision of average cost estimates
3 for, say, a study that were obtained from a cost
4 model?

5 A. And I would say one of the things, if
6 you're just looking at precision, you're going to be
7 probably a lot closer on the statewide average,
8 getting close to the actual average, than you are if
9 you deaverage in terms of the ability of the model to
10 predict the actual cost in those areas.

11 Q. And the reason is why?

12 A. I think it's just the law of averages.
13 You're going to -- you could have some situations
14 where you've overestimated the cost, and some you've
15 underestimated. If you're averaging them up to the
16 state, the two may offset.

17 Q. Right. But what about, for example, in Mr.
18 Denney's picture, he didn't put any geographic
19 barriers, for example, in the picture, if there were
20 a major lake or something in one service area versus
21 another service area. At the fine level, that might
22 make a difference, is what you're saying, but that
23 averages out if you look at a larger area?

24 A. Yes, that's exactly right. That's one of
25 the issues with the discussion that was happening

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1 this morning about the filling in of the exchange.
2 There are a lot of physical barriers, such as lakes
3 and mountains or forests or military reservations or
4 Indian reservations, things like that, that is,
5 there's no way to fill in with customers. There are
6 no customers.

7 Q. Well, the reason I asked those questions,
8 you were having a conversation with Chairwoman
9 Showalter, and I think you were both using the term
10 precision differently. I can't speak for her, but
11 the way I heard her question, precision had to do
12 with a lower level disaggregation, at least, if we
13 could accurately estimate those costs at the lower
14 level, it might be more precise. But the goal is to
15 get prices close to cost. In the framework of what
16 we're talking about here, aren't we talking about the
17 ability to get precise estimates from a cost model
18 and what level we can do that as part of the issue?

19 A. Right.

20 Q. Next set of questions. As I understand
21 your testimony, is it that you believe there's a
22 necessary link between deaveraged wholesale prices
23 and deaveraged retail prices?

24 A. Yes.

25 Q. And why is that? Well, let me ask it this

02364

1 way. What is the potential harm or harm to US West
2 if we were to deaverage wholesale prices and not
3 deaverage retail prices?

4 A. The issue has to do with the average retail
5 structure that we have. What that means is where we
6 have low-cost areas, we are charging more than the
7 cost, and the use of that revenue is being used to
8 take care of the areas where the prices are lower
9 than the cost of providing service.

10 You could think of it as perhaps customers
11 that are in Seattle in relatively close proximity to
12 the wire centers, perhaps in dense areas, are paying
13 rates that exceed what it would cost to provide
14 service to them. That revenue, through traditional
15 rate-making, has been used to offset the cost in
16 rural areas, perhaps customers that are far from the
17 central office, perhaps in areas that are very
18 non-dense, sparsely populated areas, where they are
19 paying far less than their cost.

20 That's the issue that the Telecom Act was
21 attempting to address when it created the concept of
22 universal service and a fund for that purpose, and I
23 believe that it was the intent of Congress to have
24 all of these things happen collectively in a
25 coordinated fashion.

02365

1 Q. I guess, getting to the issue of harm,
2 though, it seems like, at least implicit in your
3 conclusion, is that there's actually a demand for
4 UNEs in each of the relevant zones, and let's take
5 specifically the high-cost low-density zone. If
6 there's no demand for UNEs, where is the harm to US
7 West?

8 A. Well, again, it gets to the averaging.
9 Even in a high-cost area, there are customers that
10 are close to the central office whose costs are, in
11 that wire center, less than the average. For
12 example, I mentioned Roy. Roy has about 200
13 customers in the city limits. It's a very small city
14 limit, but there are 2,100 customers that are served
15 by the wire center. That's 1,900 customers that are
16 outside of the city limits.

17 As pointed out by Mr. Denney, probably the
18 motivation for a competitor in that area would be to
19 provide a facility-based service to those 200
20 customers within the city limits and get as many of
21 those customers as possible and then allow US West to
22 continue to serve, on this averaged basis, the
23 customers outside of the city limits.

24 Again, there are various alternatives that
25 competitive local exchange carriers have pointed out

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1 that they have to enter the market. One of those is
2 the facility-based. Build facilities, capture as
3 much revenue as you can, if it offsets the cost of
4 the entry.

5 Another alternative they have is to buy the
6 retail service at a discount. And that could be used
7 as an entry point of view or a strategy where they
8 would be getting a discount over already subsidized
9 rates in those areas, so they're getting them far
10 below cost, potentially. And as pointed out by the
11 competitive carriers, there are restrictions with
12 that retail option and that strategy, but some
13 carriers are pursuing that.

14 Q. I've lost the link to we deaverage retail
15 pricing. What you just explained seems like it is --
16 the portrayal of the wholesale side of the market and
17 the decision by the competitor to build facilities or
18 purchase UNEs or do retail, that --

19 A. Your question is as to the harm?

20 Q. Well, specifically here, what difference
21 does the price of the wholesale UNE make in a
22 high-cost rural location if there's no customers or
23 no wholesale customers that are purchasing those
24 wholesale UNEs, why does it matter what we would do
25 with the retail rates for US West in conjunction with

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1 this? Because I understand you're asserting there's
2 a link between these two decisions, and I'm trying to
3 understand what that is.

4 A. If we are receiving far more revenue in the
5 low-cost areas than what the wholesale provider can
6 obtain that customer for through the wholesale rates,
7 then we will lose that revenue. That revenue is
8 today being used to offset the subsidy in the rural
9 areas. That's the implicit subsidy argument or issue
10 that has been identified both in the act and by the
11 FCC for trying to replace implicit subsidies with
12 explicit.

13 The position you're putting US West in, and
14 therefore, the harm, is if we are losing the revenue
15 in the low-cost areas and not able to raise the
16 revenue in the high-cost areas, but still being
17 required to serve those areas, then we've got a
18 problem.

19 Q. Well, I mean, that's mixing a whole bunch
20 of different policy decisions together.

21 A. Yes, it is.

22 Q. I understand your point, but as an on the
23 ground practical matter, if we were to deaverage
24 prices in whatever number of zones we have and part
25 of the net result is potentially lower UNE rates than

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1 in, I suppose, large urban areas that everybody is
2 after, but there's no impact -- or I guess it's a
3 reduced incentive to actually use UNE-based entry
4 into rural areas?

5 A. That's exactly right.

6 Q. But that's the implication of this. But
7 why are these two decisions linked together, because
8 -- I don't understand that. It seems to me that this
9 is one set of decisions and it has its implications,
10 but the revenue loss that you're asserting that will
11 occur as a result of this in the urban areas may or
12 may not develop. But if it does develop, is it your
13 recommendation to us that that revenue loss should be
14 made up completely by higher rates in the high-cost
15 zones such as the rural areas? In other words, there
16 should be sort of a reverse subsidy back from the
17 rural areas to subsidize competition to urban areas?

18 A. I'm not following.

19 Q. I think what I hear you saying is that you
20 feel the need to raise retail rates in the rural
21 areas, the high-cost areas, to potentially make up
22 for the loss of revenues that you would expect in the
23 urban areas due to deaveraging UNEs, and I guess
24 you're assuming there will be more competition as a
25 result of that?

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1 A. Basically, all I'm saying, the simple way
2 to think about it, is competition drives prices
3 towards cost. And if the cost is low, the price will
4 drop, and that's the focus of most of the testimony
5 of the competitive carriers. But alternatively, when
6 the price moves towards cost in the rural areas, that
7 means it goes up. And you could get a situation
8 where that increase in the rural areas could cause
9 customers to discontinue service. And that's the
10 issue of universal service.

11 COMMISSIONER GILLIS: Okay. I'll quit
12 there.

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

14 BY CHAIRWOMAN SHOWALTER:

15 Q. Just following up on Commissioner Gillis'
16 questions, isn't there a timing issue? That is, if
17 we deaverage soon, as we're required to do, the
18 wholesale rates, would you expect to see instantly
19 this loss of revenue or would you expect it to take
20 place over some time? That might be the same time in
21 which you requested deaveraged retail rates, it might
22 be the same time period in which the legislature sees
23 that it needs to bring about universal service. But
24 there's no instant effect of deaveraged wholesale
25 rates on either the level of competition or

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1 differentiation of retail rates.

2 A. Yes, I'd agree with that. There is not an
3 instantaneous thing. Most of the states that have
4 addressed this tend to recognize, though, that
5 there's this delay in the regulatory process. It's
6 one that takes longer than most of us would prefer,
7 but there isn't a delay in it. And given the fact
8 that in Washington, the Commission doesn't, as I
9 understand it, have the authority to create a
10 universal service fund, that's disconcerting, because
11 it may take even longer in that sense. But it isn't
12 a thing that happens overnight.

13 The states that have done this, that I'm
14 aware of, try to do it in a comprehensive fashion,
15 looking at all three issues, the wholesale, the
16 retail, and the universal service, and trying to get
17 those things so they make sense together.

18 Q. But we aren't operating in that world with
19 the authority to do all those three things, so we
20 have to look at the world as it exists in the state
21 of Washington --

22 A. I understand.

23 Q. -- and in terms of orders from the FCC, and
24 decide how best to proceed in accepting or at least
25 trying to take into account the various pressures

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1 that that may produce, but we don't have the luxury
2 of moving all three at once.

3 A. I understand that. What I would suggest
4 here is that it appears the Commission's on a course
5 for deaveraging the wholesale rates, and I think the
6 Commission, from what I can see, has already made
7 that decision. So you're on that path.

8 The next thing that you need to consider is
9 what will be the impact of that decision on a retail
10 scenario. The further the level of deaveraging, the
11 bigger the problem that we have, as a provider of
12 most of the retail services in the state. We believe
13 our proposal is one that we can reasonably work out
14 in a retail corresponding filing. But if the
15 Commission deaverages more extremely, then we're
16 going to to have a more difficult problem to deal
17 with on the retail. Once we have the retail filing
18 before you, then we can then look at the implications
19 to universal service.

20 CHAIRWOMAN SHOWALTER: I don't have any
21 further questions.

22 JUDGE WALLIS: Any other questions? Mr.
23 Kopta.

24 MR. KOPTA: I just had some follow-up on
25 the Commissioners' questions. I can either do it

02372

1 before or after Ms. Anderl does redirect.

2 JUDGE WALLIS: Why don't you do it now, and
3 then Ms. Anderl can mop things up.

4 C R O S S - E X A M I N A T I O N

5 BY MR. KOPTA:

6 Q. Mr. Thompson, you were discussing with the
7 Commissioners the link between wholesale and retail
8 deaveraging. I wanted to follow up on the
9 discussions you had with them. One of the states
10 that you referenced that has deaveraged loops is
11 Utah; is that correct?

12 A. Yes.

13 Q. And in Utah, the Commission deaveraged UNE
14 rates, but did not deaverage retail rates; is that
15 correct?

16 A. That's correct.

17 Q. And the Commission took that action in June
18 of last year; is that correct?

19 A. I think it was June.

20 Q. And since that time, has US West filed a
21 petition with the Utah Commission to deaverage retail
22 rates?

23 A. I don't believe under the current -- and
24 I'm not familiar with all the details, but it has to
25 do with some legislation in the state and so forth,

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1 but I don't know that US West is able to do that at
2 this point.

3 Q. And with reference to that, I believe
4 you're talking about a rate freeze in Utah on retail
5 rates; is that correct?

6 A. Yes, yes, but I'm not familiar with all the
7 particulars of it.

8 Q. So you don't know whether US West had an
9 opportunity to seek retail deaveraging prior to that
10 rate freeze?

11 A. I don't know.

12 Q. And are you aware that US West has
13 petitioned the Utah Commission for pricing
14 flexibility in those areas where it's facing
15 competition?

16 A. I'm not aware of it.

17 Q. So you wouldn't be aware that pricing
18 flexibility would allow US West to lower prices in
19 those areas where it is currently facing competition
20 in the state of Utah?

21 A. I'm not aware of any particular filing. I
22 wouldn't be surprised if we asked for flexibility.
23 The problem that presents, though, is, again, the
24 other issue, if you lower some, which ones get
25 raised, and do you have the opportunity to raise

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1 those.

2 Q. So if US West is petitioning for pricing
3 flexibility without also being able to seek to raise
4 rates in the rural areas, isn't that -- the concerns
5 that US West has and that you just expressed that you
6 need to make some kind of offset?

7 A. I'm sorry, I didn't follow the question.

8 Q. Well, if US West is seeking to be able to
9 reduce its rates in urban areas, but is not seeking
10 to increase rates in rural areas, and that's the
11 course that US West is currently taking, isn't that
12 inconsistent with your testimony today that you would
13 need to do both?

14 A. Well, I don't know that we are doing that.
15 Again, I told you I'm not familiar with the proposal.
16 I also am not familiar with the specifics of what we
17 are legally able to do there. So it's difficult for
18 me to answer the question.

19 Q. Well, let's take it as a hypothetical. If
20 US West were to seek to reduce its rates in
21 competitive areas, but not simultaneously increase
22 its rates in rural areas, is that a situation in
23 which US West would be exacerbating the very problems
24 that you have discussed today?

25 A. I'm not sure whether it would or not.

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1 MR. KOPTA: Thank you. That's all I have.

2 JUDGE WALLIS: Ms. Hopfenbeck.

3 MS. HOPFENBECK: I don't have an additional
4 question, but I did have a request with respect to
5 Dr. Gabel's Bench Request Number Seven. As I
6 understood that request of US West, the question was
7 whether route to air mile ratios could be used to
8 develop sub-wire center rates. And I wanted to make
9 a request that I'm not sure if Dr. Cabe would
10 identify any concerns about that kind of proposal,
11 but I wanted to ask whether we could have the
12 opportunity, if he thought it was appropriate, to
13 also respond to that request and identify any
14 concerns or problems we saw with that or not, whether
15 we thought it was fine.

16 JUDGE WALLIS: What I would like to do, I
17 think, is reserve a discussion of that until the
18 conclusion of the proceeding. It's customary that
19 once a bench request response is received, that other
20 parties do have the opportunity to respond to it, and
21 we talked a little bit earlier about setting up a
22 calendar. We'll consider the schedule in conjunction
23 with our calendar discussions on wrapping up the
24 proceeding. Would that satisfy your interests?

25 MS. HOPFENBECK: That does. Thank you very

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1 much.

2 JUDGE WALLIS: Very well. Ms. Proctor.

3 C R O S S - E X A M I N A T I O N

4 BY MS. PROCTOR:

5 Q. I'd like to ask Mr. Thompson just a couple
6 follow-up questions to the Commissioners'. Mr.
7 Thompson, are you familiar with the fact that, in
8 Oregon, US West has pricing flexibility in the
9 competitive zones?

10 A. No, I'm not familiar with the details.

11 Q. So you don't know whether US West has
12 exercised that pricing flexibility to adjust its
13 prices in response to competition?

14 A. No, I don't.

15 Q. You were talking in response to some of the
16 questions of -- I think it was Commissioner Gillis,
17 about means of entry in rural areas. Would you agree
18 that it's also possible for carriers to use other
19 forms of technology, such as fixed wireless, to enter
20 that market?

21 A. Yes, and cable TV.

22 Q. We hope. And wouldn't you agree that if
23 the cost of wire line is indeed \$50 and the price of
24 the loop is \$28 and the cost of fixed wireless is
25 \$35, that the rational economic signals might

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1 foreclose use of the technology which is actually
2 economically justified, such as fixed wireless?

3 A. That could happen.

4 MS. PROCTOR: That's all I had. Thank you.

5 JUDGE WALLIS: Another follow-up question,
6 Dr. Gabel.

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

8 BY DR. GABEL:

9 Q. You've heard questions on Oregon and Utah,
10 so I'm going to now ask you about New Mexico, since
11 you had mentioned there are three or four other US
12 West states that deaverage their UNE rates. Would
13 you agree, Mr. Thompson, that New Mexico deaveraged
14 UNE loop rates in the end of 1996, well before the
15 establishment of a universal service fund in New
16 Mexico, that they were done separate and apart from
17 one another?

18 A. The deaveraged rates in New Mexico, as I
19 recall it, came out in a decision at the end of 1998,
20 the final Commission decision on that, as I recall.

21 Q. Well, Ms. Anderl participated in a case
22 that completed in March 1996 -- 1997. Perhaps she
23 can correct me if I'm wrong, that no later than March
24 1997, when the Commission issued its AT&T arbitration
25 order, the Commission ordered deaveraging of

02378

1 unbundled loops.

2 MS. ANDERL: Dr. Gabel, I could certainly
3 check that. I thought I recalled a 22 or \$25 loop
4 rate or loop price for AT&T in the arbitration. I
5 don't honestly recall whether there was a deaveraged
6 loop price ordered or not. I apologize.

7 DR. GABEL: Well, we'll take this subject
8 to check, if you'd like, that it is no later than
9 March 1997, and actually earlier, in two orders
10 dealing with other CLECs, the Commission ordered the
11 deaveraging of unbundled loops. And am I correct
12 that just, at this point in time, December 31st,
13 1999, the legislature said the Commission had to put
14 in place a USF fund?

15 A. That's my understanding.

16 Q. So they were done not in tandem, but
17 separate from one another?

18 A. They were.

19 Q. And am I correct that in New Mexico,
20 despite US West being ordered to provide deaveraged
21 unbundled loops no later than March 1997, that US
22 West has never come to the Commission and said
23 there's a need to rebalance retail rates, or has
24 there been such a filing?

25 A. Actually, New Mexico is in the midst of a

02379

1 general rate case, and in that rate case, we have
2 provided testimony that says that the Commission
3 needs to address the issue of deaveraging.

4 Q. And has US West made a proposal in that
5 proceeding?

6 A. At this point, we have not, other than talk
7 about that the level of the deaveraging should be
8 consistent with the wholesale decision by the
9 Commission. The rate case has had a very long life
10 in New Mexico, and so we're still in the middle of
11 that.

12 DR. GABEL: Okay, thank you. I have no
13 further questions.

14 COMMISSIONER GILLIS: I have just one more,
15 kind of following up on that.

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

17 BY COMMISSIONER GILLIS:

18 Q. Somewhere in your testimony or do you know
19 about what percentage of US West's lines are
20 currently in your proposed Zone Three, or do you know
21 approximately?

22 A. I don't know off the top of my head. It's
23 a fairly easy calculation. This is in our proposal?

24 Q. Yeah.

25 A. I could do the math for you. I don't have

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1 it off the top of my head.

2 Q. I'm just looking for some approximate -- is
3 it a fairly small number, like 10 percent of lines,
4 or -- if you don't know --

5 A. I'm sorry.

6 JUDGE WALLIS: Could the witness perform
7 that calculation and Counsel provide it to the
8 record?

9 MS. ANDERL: Your Honor, I would just
10 direct the witness and the bench's attention to
11 Exhibit 62-C, which across the top identifies Zones
12 One, Two and Three, and then, as you read across, the
13 very last column shows a percentage of lines. I just
14 happened to be open to that page.

15 THE WITNESS: Yes, thank you. Counsel is
16 quicker.

17 COMMISSIONER GILLIS: Where is that at?

18 THE WITNESS: This is the exhibit of my
19 direct testimony, which is Exhibit 61-T.

20 MS. ANDERL: The testimony is Exhibit 61.

21 THE WITNESS: Exhibit 62-C; is that right?

22 COMMISSIONER GILLIS: Where do I find the
23 percentage on there?

24 THE WITNESS: It's the very right. Zone
25 One has a percentage.

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1 Q. So it would be 12 percent; right?

2 A. Yes.

3 Q. So 10 percent wasn't a bad guess. But the
4 -- oh, I'm sorry. That was confidential. Do we need
5 to do something about that?

6 MS. ANDERL: I don't know that the percent
7 is. I think the feeder distribution, that's when
8 numbers are confidential. I don't think percentage
9 of lines is confidential. So that's fine.

10 COMMISSIONER GILLIS: Okay. I'm sorry
11 about that.

12 Q. Anyway, the question was really more,
13 again, exploring the practical implications of
14 raising retail rates as a potential offset for
15 possible sort of revenue losses that would occur in
16 urban areas as a result of competition and deaverage
17 were all set aside.

18 Given the very small proportion of your
19 lines that are in this high-cost zone and how much
20 revenue could you possibly raise by even doubling
21 retail rates or tripling retail rates that would
22 actually be a realistic offset or contributed to a
23 solution to the problem that you assert you might
24 have?

25 A. Right.

02382

1 Q. So why would that be a solution?

2 A. Well, again, hopefully, I haven't
3 miscommunicated, but what I would say is that the
4 level of rural rates would need to be raised so that
5 the implicit subsidy has been eliminated. That, as
6 you point out, may not mean that US West remains
7 revenue-neutral through the advent of competition.
8 All it does is recognize that you're transferring an
9 implicit subsidy to the explicit one.

10 I don't think US West is proposing that it
11 receive subsidies from the rural areas to offset
12 competition in the urban areas. That wouldn't be
13 what we would propose. Simply proposing that the
14 prices reflect the cost of providing the service.

15 COMMISSIONER GILLIS: Thank you.

16 JUDGE WALLIS: Ms. Anderl.

17 MS. ANDERL: Thank you.

18 R E D I R E C T E X A M I N A T I O N

19 BY MS. ANDERL:

20 Q. Mr. Thompson, you described the manual
21 lookup process for the Centrex quarter-mile loop
22 rates. Do you recall that?

23 A. Yes.

24 Q. Do those quarter-mile bands actually
25 reflect loop length?

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1 A. No, they are air line miles.

2 Q. You responded to some questions about some
3 data request responses that US West provided,
4 specifically the Attachment A to Data Request
5 Responses 2 and 3 from AT&T. Those are Exhibits 66
6 and 67-C. Do you recall those questions from Ms.
7 Proctor?

8 A. Yes.

9 Q. Subsequent to receiving AT&T's proposed
10 cross-examination exhibits, did you undertake to
11 review those documents in anticipation of the
12 hearing?

13 A. Yes.

14 Q. And in review of that document,
15 specifically the one with the CLLI code and the
16 English name of the wire centers, did you find a need
17 to provide a supplemental corrected response to US
18 West's data request response to AT&T?

19 A. Right, I was in the process of my review
20 for this testimony last week. I received the
21 identification of the cross exhibit. I further
22 looked at the work paper and noticed there were
23 several errors in it. The nature of these errors is
24 in the section dealing with the customer location
25 code, English name of the wire centers, and the

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1 column that says WCG is US West's abbreviation for
2 wire center group. Those are four different groups,
3 very small is the VS, SM is the small, MD is medium,
4 and LG is large. That information was used in the
5 weightings for US West's proposal.

6 I noticed that there were several of these
7 wire centers that were incorrectly classified, and
8 therefore, needed to be corrected. Newman Lake,
9 Enumclaw, Auburn, Temple, Kent Ulrich, Black Diamond,
10 Seattle Duwamish, and Cle Elum. I'm sorry, some of
11 these are a little tough.

12 MR. KOPTA: You're doing pretty well.

13 THE WITNESS: They had a wrong designation
14 on them, so I corrected those, was able to get that
15 done within about a day, and rushed the process to
16 make sure the parties had that at least by Friday
17 afternoon. And that was the basis of the corrections
18 that I made in the revised exhibits that the
19 Commission saw this morning.

20 Q. Okay. Did you find that any of the wire
21 centers were improperly assigned to their zones?

22 A. No.

23 Q. Okay. So the only thing that you
24 determined was that a classification as, say, for
25 example, medium had been made when instead it should

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1 have been large, or vice versa?

2 A. That's correct.

3 Q. And did those corrections drive the changes
4 to the US West-proposed loop prices, say, for
5 example, in Zone One, from the 16.74 that you
6 originally filed to the 16.66 that was produced on
7 your corrected exhibit today?

8 A. Yes, it did.

9 MS. ANDERL: And did you -- okay. Your
10 Honor, I would like the supplemental data request
11 response that the witness referenced that he
12 undertook to provide to the parties by Friday to be
13 made a part of the record as the next exhibit in
14 line. I can provide him with it and have him
15 identify it, if that's the appropriate procedure.

16 JUDGE WALLIS: Exhibit 72 for
17 identification.

18 MS. ANDERL: Seventy-three, 73-C.

19 JUDGE WALLIS: Yeah, 73-C.

20 MS. PROCTOR: Could I ask for some
21 description of exactly what all is in the exhibit?
22 I'm afraid the paper has overcome me. And in the
23 original responses, a lot of this stuff wasn't there.
24 So I'd just like to know what all this stuff is so
25 that I could ask some questions about this stuff,

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1 since it's now become our practice that we introduce
2 these things on re-cross or redirect, I guess.

3 CHAIRWOMAN SHOWALTER: Can I just help out
4 on her question. Is this simply a corrected version
5 of Exhibit 67-C?

6 MS. ANDERL: Yes, it is.

7 CHAIRWOMAN SHOWALTER: So it's like 67-C,
8 except in the column WCG, instead of VS or SM or MD,
9 for medium, small, very small, there are some changes
10 in that column.

11 MS. ANDERL: Yes, I think Mr. Thompson
12 identified that there were seven that were
13 mislabeled.

14 MS. PROCTOR: If that were only so. And
15 that was what I wanted to ask the witness. There's
16 more material in this exhibit than there was in my
17 exhibit.

18 JUDGE WALLIS: Why don't we take this
19 step-by-step. Let's let Ms. Anderl let the witness
20 identify the document that she's suggesting we
21 consider. Then that document can be distributed, you
22 can take a look at it, and then you have the
23 opportunity to ask some voir dire on it before we ask
24 whether it should be admitted. Would that satisfy
25 your interests?

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1 MS. PROCTOR: That would be great.

2 JUDGE WALLIS: Okay. Let's proceed in that
3 manner. Ms. Anderl.

4 MS. ANDERL: Okay. Your Honor, I think the
5 paper's probably getting the better of me, as well.
6 Your Honor, as I noted, the parties did receive this.

7 (Recess taken.)

8 JUDGE WALLIS: Let's now be back on the
9 record, please. Now Ms. Anderl.

10 MS. ANDERL: Thank you, Your Honor. I have
11 given to my witness a copy of US West's response to
12 AT&T Data Request 02-003.

13 Q. And I would ask Mr. Thompson if he can
14 identify what that is for the record.

15 A. Well, response says, Please see corrected
16 information for RLCAP Version 4.0 and supplemental
17 confidential Attachment A, supplemental information
18 for RLCAP Version 3.5 in confidential Attachment B,
19 both provided pursuant to the protective order issued
20 in this docket attached to that response.

21 Q. Does Attachment A, then, reflect the
22 corrected version in terms of the wire center
23 designations of the exhibit that we previously
24 discussed as Exhibit 67-C?

25 A. Yes.

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1 MS. ANDERL: Your Honor, I would move the
2 admission of that document.

3 JUDGE WALLIS: Ms. Proctor.

4 MS. PROCTOR: Yes.

5 V O I R D I R E E X A M I N A T I O N

6 BY MS. PROCTOR:

7 Q. Mr. Thompson, the cover letter transmitting
8 this notes that it was sent by facsimile, is that
9 correct, on February 25th?

10 MS. ANDERL: That came from my office. We
11 would stipulate to that.

12 Q. Do you know what time?

13 A. I don't have that information in my
14 document.

15 Q. So in the original response there was a
16 confidential Attachment A, and now there are two
17 attachments; is that correct?

18 A. That's correct.

19 Q. And in the original response, there was no
20 reference to a difference between RLCAP versions, was
21 there?

22 A. There was not.

23 Q. In the original confidential Attachment A,
24 which the parties had been using up until this
25 morning, do you know what version of RLCAP was used

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1 to produce Exhibit 67?

2 A. Is that 67-C?

3 Q. Yes.

4 A. That would be the original response to this
5 data request; is that correct?

6 Q. Yes.

7 A. RLCAP 4.0.

8 Q. And the reason that this matter came to
9 your attention was because of the request from the
10 Bench, which is -- the response to which is contained
11 in Exhibit 72; is that right?

12 A. I saw the bench request at the same time as
13 all this was going on, and not sure exactly what
14 would be the outcome, I provided, in addition to the
15 response for RLCAP 4.0, a similar approach using the
16 3.5 model of RLCAP.

17 Q. So in the hearings in Phase II, according
18 to your response, RLCAP 3.5 was the version that was
19 being -- that was placed in the record; is that
20 right?

21 A. 3.5 was in the record in Phase I. 4.0 was
22 in the record in Phase II.

23 Q. But the response in Exhibit 72 states RLCAP
24 4.0 was used in Phase II to support the four-wire
25 costs as described above, which is something that

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1 happened after the hearings in Phase II, wasn't it?

2 A. That's not my understanding. My
3 understanding was it was in Phase II. In order for
4 the price of the four-wire loop to be determined, you
5 needed to have this information. So it followed that
6 it was part of Phase II. In fact, I think it was
7 quoted -- some information using 4.0 was quoted in
8 the Commission's order in Phase II, so it stands to
9 reason it was part of Phase II.

10 MS. PROCTOR: That was all I had. Thank
11 you.

12 JUDGE WALLIS: Is there objection to
13 receiving the document?

14 MS. PROCTOR: Yes, on principle. Well, it
15 just -- it places the parties in such a difficult
16 position. We had to identify our cross-examination
17 exhibits on Thursday, we've been operating with
18 certain information in this case, and Mr. Kopta just
19 showed me his copy of the fax, which was timed at 18
20 -- Friday at 16:18, which would have been after the
21 close of business at my office in Denver. I never
22 saw this until this morning. And unfortunately, it's
23 what seems to happen in these cases.

24 So it's just on principle that I'm
25 objecting that the parties operate under one set of

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1 facts and then walk into the hearing room, and
2 they're wrong.

3 And there was no explanation offered when
4 Mr. Thompson took the stand today, which is what I
5 would have expected to have seen happen. Not that we
6 go through a whole afternoon and then take up the
7 matter on redirect, which I just -- it would have
8 been a much easier matter to take it up when Mr.
9 Thompson first took the stand, so that everyone could
10 see and understand what was going on, rather -- at
11 which point, also, my witness was still here. That's
12 all.

13 JUDGE WALLIS: Any others wish to comment?
14 Ms. Anderl.

15 MS. ANDERL: Thank you, Your Honor. I
16 attempted to bring this up during cross-examination
17 of Mr. Thompson far sooner than now, and Ms. Proctor
18 objected to addressing it at that time, so I felt I
19 had no choice but to bring it up on redirect. I am
20 very sympathetic to her concerns.

21 You know, nobody likes being presented with
22 information at the last minute. On the other hand,
23 we have an obligation to present accurate information
24 to the Commission. When we learn that there are
25 things that are wrong, I'm not going to have my

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1 witness sit on the stand and swear that it's correct
2 when we know it's not. So we didn't think that,
3 given the choice of allowing parties to proceed on
4 information that we knew to be wrong, but would be,
5 you know, not disrupt the hearing or get the right
6 information out there, we didn't really see there was
7 much of a choice. We felt like we had to get the
8 right information out there.

9 And I do apologize for the timing on it.
10 But, however, that is when it happened. In our best
11 effort, that's when we discovered the mistake.

12 JUDGE WALLIS: If the Commission were to
13 sustain the objection, what would be the extent of
14 the problem that it causes either for the Commission
15 or for US West?

16 MS. ANDERL: Well, Your Honor, you know, if
17 there are real problems with the additional documents
18 coming in, Mr. Thompson can identify very quickly
19 what the seven wire centers are that were
20 misidentified and how the correction could be made on
21 the original document.

22 He does -- already admitted were the
23 documents as his direct and rebuttal exhibits, which
24 showed the changes flow as a result of making those
25 corrections. It's, in the overall scheme of things,

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1 I guess we have to agree not significant, because it
2 is less than 10 cents, I guess, on each of the loop
3 prices, but we think it's important that the record
4 contain the proper information. I don't think that
5 anyone is prejudiced. I don't know that any party
6 used or relied upon the wire center designations as
7 small, very small, medium or large in doing any of
8 their work; it's just our work that needed to be
9 corrected.

10 JUDGE WALLIS: Do you have other questions
11 on redirect for this witness?

12 MS. ANDERL: No.

13 JUDGE WALLIS: The concerns that Ms.
14 Proctor raises I think are very real concerns, and
15 they're concerns that trouble me, I believe trouble
16 the Commission, that it does seem to be a relatively
17 frequent occurrence that we receive last-minute
18 information. Even if it is not significant, it is
19 disruptive to the presentation of parties' cases.

20 The Commission is in a difficult situation
21 in that it is responsible to protect the public
22 interest and pursue the public interests and to
23 operate on accurate information, but it's also
24 responsible for having a forum that provides fairness
25 to the parties and an opportunity to present

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1 information that is not only accurate but fair to all
2 of the participants. And on that basis, what I would
3 like to do, I think, is take the objection under
4 advisement and make a later ruling upon it.

5 MS. ANDERL: Very well, Your Honor.

6 JUDGE WALLIS: Is there anything further
7 for this witness? Very well. Mr. Thompson is
8 excused from the stand. Let's be off the record,
9 please.

10 (Discussion off the record.)

11 JUDGE WALLIS: Let's be back on the record
12 to announce our scheduling determination. That is we
13 will take up in the morning about five minutes to
14 9:00 for bringing on the next witness, Mr. Carnall,
15 and then be prepared to proceed with examination at
16 9:00. Thank you.

17 (Proceedings adjourned at 5:12 p.m.)

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