

1 BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION

2 COMMISSION

3 WASHINGTON UTILITIES AND )  
TRANSPORTATION COMMISSION, ) DOCKET NO. UT-941464

4 )  
Complainant, ) VOLUME 10

5 )  
vs. ) Pages 1884 - 2110

6 )  
U S WEST COMMUNICATIONS, INC., )

7 )  
Respondent. )

8 -----)  
TCG SEATTLE and DIGITAL DIRECT )

9 OF SEATTLE, INC., )

10 Complainant, )DOCKET NO. UT-941465

11 vs. )

12 U S WEST COMMUNICATIONS, INC., )

13 Respondent. )  
-----)

14

15 A hearing in the above matter was held

16 at 10:35 a.m. on June 28, 1995, at 1300 South

17 Evergreen Park Drive Southwest, Olympia, Washington

18 before Chairman SHARON L. NELSON, Commissioners

19 RICHARD HEMSTAD, WILLIAM R. GILLIS and Administrative

20 Law Judge LISA ANDERL.

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22

23

24 Cheryl Macdonald, CSR

25 Court Reorter

01885

1 BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION

2 COMMISSION

3 TCG SEATTLE, )

4 Complainant, ) )

5 vs. ) )

6 GTE NORTHWEST INCORPORATED, ) )

7 Respondent. ) )

-----) ) DOCKET NO. UT-950146

8 GTE NORTHWEST INCORPORATED, ) )

9 Third Party Complainant , ) )

10 vs. )

11 U S WEST COMMUNICATIONS, INC., )

12 Third Party Respondent. )

-----)

13 ELECTRIC LIGHTWAVE, INC., )

14 Complainant, ) DOCKET NO. UT-950265

15 vs. )

16 GTE NORTHWEST INCORPORATED. )

17 Respondent. )

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1           The parties were present as follows:  
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2 MOLLY HASTINGS, WILLIAM O'JILE, DOUGLAS OWENS  
Attorneys at Law, 1600 7th Avenue, #3206, Seattle,  
3 Washington 98191

4           WASHINGTON UTILITIES AND TRANSPORTATION  
COMMISSION STAFF, by STEVEN W. SMITH and GREGORY  
5 TRAUTMAN, Assistant Attorneys General, 1400 South  
Evergreen Park Drive Southwest, Olympia, Washington  
6 98504.

7           FOR THE PUBLIC, DONALD TROTTER, Assistant  
Attorney General, 900 Fourth Avenue, Suite 2000,  
8 Seattle, Washington 98164.

9           AT&T, by SUSAN D. PROCTOR, Attorney at  
Law, 1875 Lawrence Street, Denver, Colorado 80202.

10           TCG SEATTLE and DIGITAL DIRECT OF SEATTLE  
11 INC., by DANIEL WAGGONER and GREGORY KOPTA, Attorneys  
at Law, 1501 Fourth Avenue, Suite 2600, Seattle,  
12 Washington 98109.

13           ELECTRIC LIGHTWAVE, INC., by ARTHUR A.  
BUTLER, Attorney at Law, 601 Union Street, Suite  
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18 METRO, by SUE E. WEISKE, Senior Attorney, 707 17th  
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20           GTE NORTHWEST, Inc., by RICHARD POTTER,  
21 Attorney at Law, 1800 41st Street, Everett,  
Washington.

22           MFS INTELENET OF WASHINGTON, INC., by  
23 RICHARD M. RINDLER, Attorney at Law, 3000 K Street  
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APPEARANCES (CONT.)

WITA, by RICHARD A. FINNIGAN, Attorney at  
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1 P R O C E E D I N G S

2 JUDGE ANDERL: Let's be on the record. We  
3 are reconvened in Docket UT-941464 et al. Today is  
4 June 28, 1995. Before we went on the record this  
5 morning, the witness for public counsel, Terry Murray,  
6 took the witness stand. We premarked her testimony as  
7 Exhibits T-134 and her prefiled rebuttal testimony as  
8 Exhibit T-135.

9 (Marked Exhibits T-134 and T-135.)

10 Whereupon,

11 TERRY MURRAY,  
12 having been first duly sworn, was called as a witness  
13 herein and was examined and testified as follows:

14 JUDGE ANDERL: Go ahead, Mr. Trotter.

15 MR. TROTTER: Thank you.

16

17 DIRECT EXAMINATION

18 BY MR. TROTTER:

19 Q. Ms. Murray, would you please state your  
20 name and give us your business address?

21 A. My name is Terry L. Murray. My business  
22 address is 227 Palm Drive, Piedmont, California 94610.

23 Q. And you are the founder and principal of  
24 the consulting firm Murray and Associates?

25 A. Yes, I am.

01890

1 Q. And in the course of that endeavor, did you  
2 have cause to prepare testimony and exhibits on behalf  
3 of the public counsel section of the attorney  
4 general's office in this proceeding?

5 A. Yes, I did.

6 Q. Exhibit T-134 has been marked as your  
7 direct testimony and Exhibit T-135 has been marked as  
8 your rebuttal testimony. If I ask you the questions  
9 that appear in those exhibits, you would give the  
10 answers that appear there?

11 A. Yes, I would.

12 MR. TROTTER: I would move the admission of  
13 Exhibit T-134 and T-135.

14 JUDGE ANDERL: Is there any objection from  
15 any party? Hearing none those two exhibits will be  
16 admitted as identified.

17 (Admitted Exhibits T-134 and T-135.)

18 MR. TROTTER: Thank you. The witness is  
19 available for cross.

20 JUDGE ANDERL: Mr. Shaw.

21 MR. SHAW: Thank you, Your Honor.

22

23 CROSS-EXAMINATION

24 BY MR. SHAW:

25 Q. Good morning, Ms. Murray.

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1 A. Good morning, Mr. Shaw.

2 Q. Ms. Murray, at page 3 of your direct  
3 testimony, and I think elsewhere in your rebuttal you  
4 talk generally about that you want a guarantee of the  
5 benefits of competition to constituency of the public  
6 counsel, residential and small business customers. Do  
7 you have that in mind?

8 A. Well, precisely to all customers including  
9 residential and small business customers, I would like  
10 to see that competition provides all those customers  
11 with benefits.

12 Q. You understand that the four carriers that  
13 have entered to compete with U S WEST and local  
14 exchange have targeted just the city of Seattle and  
15 most specifically downtown Seattle?

16 A. It is my understanding that their initial  
17 facilities-based entry is focused on those areas.

18 Q. And they're not proposing to even serve  
19 residential customers in those areas. Do you  
20 understand that?

21 A. I understand that they have not yet  
22 proposed to do so.

23 Q. And at the same time you talk about  
24 guaranteeing the benefits of competition to all  
25 customers you also talk about that no customer group



01892

1 should be the guarantors of U S WEST's revenue  
2 requirement. Do you recall that testimony?

3 A. Yes, I do.

4 Q. When you say the guarantors, that no  
5 customer group should be the guarantors, I'm sure you  
6 understand that utility regulation contemplates that  
7 regulated utilities are to have the opportunity to  
8 earn a fair, just and reasonable return on their  
9 investment?

10 A. Yes, I understand that regulated utilities  
11 should have an opportunity to earn their cost of  
12 capital.

13 Q. And there has never been a guarantee in the  
14 monopoly era, much less in the competitive era, that a  
15 regulated utility will earn its authorized rate of  
16 return, is there?

17 A. There is certainly no legal guarantee. I  
18 have seen utilities from time to time seek to have  
19 policies adopted that would have the effect of  
20 guaranteeing their revenues.

21 Q. Well, let's talk about that specifically.  
22 Isn't it also a fundamental concept of regulated  
23 utility law that both the customers and the utility  
24 are entitled to have rates set at fair, just,  
25 reasonable and sufficient levels?

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1           A.     Well, I'm not a lawyer so I can't render a  
2 legal opinion on that question. I must say I don't  
3 recall the specific use of the word sufficient in any  
4 statute that I've read.

5           Q.     Have you read the Washington statutes that  
6 govern the regulation of U S WEST by this Commission?

7           A.     I have read part but not all of those  
8 statutes.

9           Q.     Would you accept subject to your check that  
10 the Commission is required or directed to regulate so  
11 that fair, just, reasonable and sufficient rates are  
12 charged for utility services?

13          A.     I would accept that wording subject to  
14 check if you could point me to the specific statute.

15          Q.     I'm sure Mr. Trotter can point it out to  
16 you very readily.

17                   MR. TROTTER: We'll accept it.

18          Q.     Also, on page 3 you talk about the need for  
19 a regulatory policy that provides rapid deployment of  
20 technological advances at line 12. Do you recall that  
21 testimony?

22          A.     I recall my testimony that the benefits of  
23 competition including the rapid deployment of  
24 technological advances should flow to all customers.

25          Q.     And I take it on behalf of public counsel

01894

1 you're urging this Commission to adopt regulatory  
2 policies that incent the deployment of modern  
3 technological advances in out-state regions such as  
4 digital switching, signaling system 7, ISDN and so  
5 forth?

6 A. I am more specifically saying that the  
7 policies of the Commission should be to encourage  
8 competition to bring those benefits to customers in  
9 all those areas, that certainly the more rapid  
10 deployment of technological advances is a benefit  
11 traditionally associated with competition.

12 Q. Now, if carriers that are entering in  
13 competition with the historic LECs are confining their  
14 service territories to dense urban areas, you would  
15 not expect the competitors to bring technological  
16 advances through infrastructure investment to  
17 out-state Washington, would you?

18 A. Well, by definition, as you've posed your  
19 question, if the carriers for all time confined their  
20 service territories as you've so described then those  
21 competitors would not be bringing new technology to  
22 other areas.

23 Q. So it's important in terms of a regulatory  
24 policy in a competitive environment to incent new  
25 entrants to provide facilities-based services and

01895

1 investment beyond just the core urban areas, isn't it?

2 A. I wouldn't go so far to say as you have to  
3 assign specific incentives. I would be more concerned  
4 that the Commission's adopted policies were consistent  
5 with those carriers entering in the rural areas in the  
6 less densely populated areas wherever facilities-based  
7 competition would be economic. I would be concerned  
8 if the Commission were to require such  
9 facilities-based entry when it might not be economic,  
10 so that's really a matter of leaving the normal  
11 economic incentives of the marketplace to operate and  
12 not to have artificial policies discouraging or  
13 encouraging facilities-based entry except where it is  
14 appropriate.

15 Q. You understand one of the public policies  
16 of the state of Washington is to encourage diversity of  
17 supply?

18 A. I understand that to be a general policy  
19 goal of the state.

20 Q. Do you argue that merely providing for  
21 resale of existing services promotes the public policy  
22 of encouraging diversity of supply?

23 A. Resale is one means of promoting a certain  
24 type of diversity of supply. It is certainly not the  
25 only means.

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1 Q. Pure resale of existing services has only  
2 the benefit of potentially bringing a lower rate to end  
3 user consumers, doesn't it?

4 A. That really depends on what you mean by  
5 so-called pure resale. If, for example, the incumbent  
6 local exchange carrier were to unbundle its network in  
7 such a way that allowed resellers to repackage the  
8 components of the network to provide innovative new  
9 services, then I would argue that there would be  
10 benefits other than merely price reductions from such  
11 resale and that customers could certainly benefit  
12 beyond the price effects of the resale, and of course  
13 in a so-called pure resale situation by which I take it  
14 you mean that the reseller offers only the existing  
15 bundled services of the local exchange carrier that is  
16 the facilities-based carrier. There can still be  
17 benefits in terms of customer service, marketing and so  
18 on beyond the price benefits.

19 Q. Let's talk about unbundling it. You  
20 understand that a dedicated special access line has  
21 been available to other carriers for resale in  
22 Washington for a good period of time, don't you?

23 A. I understand that certain types of special  
24 access or private lines are available for resale.

25 Q. And so the issue presented by the unbundled

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1 loop question is simply whether that function should be  
2 repriced for local exchange competitors to resell in  
3 conjunction with their own switch. Isn't that  
4 correct?

5 A. That is certainly one part of an issue  
6 involving unbundled loops. Unbundling of course can go  
7 far beyond the unbundling of loops and would have to  
8 deal with point of interconnection and other technical  
9 characteristics of the line provided, but that would be  
10 one of the issues.

11 Q. Let's just focus on unbundled loops for the  
12 present. I think that we're in agreement that a  
13 dedicated loop is not a new concept and so the issue  
14 is at what price it should be made available.  
15 Wouldn't you agree?

16 A. Again, that is part of the issue, although  
17 I haven't sufficiently carefully reviewed your private  
18 line tariffs to determine whether there might be  
19 aspects included in a private line or special access  
20 circuit such as conditioning that are different from  
21 the characteristics of an unbundled loop that would be  
22 requiring the new entrants to pay for a capability  
23 they may not want or need.

24 Q. So the additional concept is that the  
25 incumbent should provide simply a raw copper loop with

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1 no conditioning and no testing at a price different  
2 than a private line; is that correct?

3 A. That would be one possibility. I'm not  
4 here testifying on behalf of the new entrants and I'm  
5 not specifically aware of what their needs or desires  
6 are in that respect, but that is certainly one  
7 possibility.

8 Q. Now, if such a raw loop was offered should  
9 it be subject to purchase by an end user customer?

10 A. I think that goes beyond the scope of my  
11 testimony. I haven't really thought through that  
12 question, although I would say that I have no  
13 objection at this point to an end user customer  
14 purchasing such a raw loop if that customer could make  
15 beneficial use of it, but there might be specific  
16 circumstances that would change that answer that could  
17 bring my attention to the question. I haven't done a  
18 study of that question.

19 Q. If that loop was further unbundled into  
20 feeder and distribution and drop the end user customer  
21 should be entitled to provide their own drop, self-  
22 provide their own distribution and interconnect at  
23 pedestals with the company and not at the network  
24 interface at their premise?

25 A. Again, there may be other concerns,

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1 technical concerns, about provisioning and  
2 interconnection that should apply there, but at least  
3 in principle I have no objection to competition by  
4 self-provisioning as opposed to competition from some  
5 other carrier if that can be done in a way that is  
6 consistent with maintaining the technical integrity  
7 of the network.

8 Q. Regulated utilities provide services to the  
9 public. That's the core concept of a common carrier,  
10 is it not, to provide a service?

11 A. Well, as for that being the core concept  
12 I'm not sure, but that is certainly a concept that  
13 exists that there are services provided by regulated  
14 utilities.

15 Q. And regulated utilities have not been  
16 conceived of simply providing facilities to end users.  
17 For instance, a gas company doesn't rent an end user a  
18 gas meter, rent them a section of pipe. They provide  
19 a transport service, end-to-end transport service to  
20 the customer so the customer can take delivery of gas  
21 in this example; isn't that right?

22 A. Well, actually, there is quite a bit of  
23 talk in the gas industry about unbundling certain  
24 facilities and functions for customer use as well,  
25 including gas storage facilities, but I think this



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1 distinction between a facility and a service is  
2 somewhat in the mind of the beholder. It is providing  
3 a service to the customer to give that customer access  
4 to a facility that has benefit to the customer and so  
5 I'm not sure that I'm following the distinction that  
6 you're attempting to make.

7 Q. Let's approach it this way. Would you  
8 agree that when carriers interconnect with each other  
9 that they're providing an interconnection service to  
10 each other?

11 A. That is a term that has been used to  
12 describe interconnection. When carriers interconnect  
13 they also tend, one or both, to provide interconnection  
14 facilities for one another's use and it is a provision  
15 of the facility that constitutes the provision of the  
16 service.

17 Q. And access service between local exchange  
18 companies and interexchange companies has, since  
19 divestiture, been a tariffed service in the state of  
20 Washington?

21 A. I'm not familiar with the entire history of  
22 the tariffing of access services in the state of  
23 Washington, but I would accept that subject to check.

24 Q. In your universal service funding mechanism  
25 that you discuss at page 8 of your direct and page 2

01901

1 of your rebuttal. As I understand your proposal,  
2 you're saying that residential customers as a class  
3 should no longer be subsidized but that individual  
4 subsets of residential customers should be identified  
5 that need subsidization if it's determined that  
6 affordable rates are rates that are lower than the  
7 cost of providing service to those subsets of  
8 customers. Is that a fair characterization?

9 A. Actually, I think you've gone beyond my  
10 testimony. My testimony on page 8 of my direct  
11 testimony says that it is impossible to know which  
12 customers require some type of subsidy and then  
13 discusses having a separate universal service docket  
14 after the cost of service is reviewed in the general  
15 rate case to address what type of mechanism should be  
16 employed to deal with those customers who may require  
17 a subsidy. I do not have an opinion. I have not  
18 reviewed the necessary cost studies to determine  
19 whether or not residential customers as a group or any  
20 subset of that customer group requires a subsidy, so I  
21 am not here offering an opinion as to which customers,  
22 if any, should be the targets of a universal service  
23 support program.

24 Q. Well, you make the flat statement at lines  
25 6 and 7 of your direct testimony that, "first, the

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1 Commission should insure that its universal service  
2 policy is targeted only at customers who truly need  
3 such support." Do you recall that testimony?

4 A. Yes, I do.

5 Q. Now, does Bill Gates in his new complex on  
6 Lake Washington, his new residential complex, need  
7 subsidization?

8 A. I would be surprised if Mr. Gates needed  
9 subsidization, but I have no idea what the cost of  
10 service to his complex is.

11 Q. Assume with me that Mr. Gates also has a  
12 residential complex on Hood Canal in a service  
13 territory served by a small independent telephone  
14 company. Does Mr. Gates need subsidized residential  
15 service for his summer home complex on Hood Canal?

16 A. My answer would be the same. I would be  
17 surprised if he personally needed a subsidy, but I  
18 don't know the cost of service.

19 Q. Whether or not Bill Gates needs a subsidy  
20 depends more on whether he can afford the service than  
21 what the cost of the service is, don't you believe?

22 A. Well, in general whether any customer needs  
23 a subsidy depends on the relationship between their  
24 ability to pay and the cost to provide. Now, in Mr.  
25 Gates's case I think we could probably all agree that

01903

1 the ability to pay is off the scale of what we usually  
2 consider for customers, so cost may become nearly  
3 immaterial in his personal case. I'm not sure that we  
4 want to get down to the business of identifying  
5 individual customers in quite that level, though.

6 Q. I agree. So when you say targeted only at  
7 customers who truly need such support you have an  
8 affordability income-type test in mind, I take it?

9 A. I'm not sure that I would propose it as a  
10 specific income test, but rather a general concept of  
11 affordability. It's for the universal service docket  
12 to explore exactly what the concept of affordability  
13 should mean in relationship to costs for any customer  
14 class, and I am not here proposing any particular  
15 definition or approach to certification of that need.

16 Q. Do all rural customers truly need such  
17 support, in your opinion?

18 A. I have not formed an opinion as to whether  
19 all of any group of customers need such support. It  
20 really depends on the cost of service and how that  
21 would relate to affordability, I don't know.

22 Q. Now, you've recommended that the Commission  
23 should in essence put a band-aid on this case and  
24 require bill and keep until this universal service  
25 support concept is fleshed out in some further

01904

1 proceeding. Is that a fair characterization of your  
2 testimony?

3 A. No. I don't view bill and keep as a  
4 band-aid and I have not linked the timing of bill and  
5 keep or its duration to the timing of a universal  
6 service docket or support mechanism. I think bill and  
7 keep stands on its own as a reasonable proposal for  
8 compensation in interconnection terms, but I do  
9 believe that the Commission should review any adopted  
10 arrangement after experience is gained. That's  
11 independent of the universal service support  
12 mechanism.

13 Q. You do state in your rebuttal testimony at  
14 page 7 and lines 14 through 16 that bill and keep  
15 should be adopted in this proceeding for a one-year  
16 trial because U S WEST can absorb any losses and there  
17 will be no impact on universal service. Isn't that a  
18 necessary aspect of your recommendation?

19 MR. TROTTER: I will object to the  
20 question. The testimony also refers to losses that  
21 either incumbent carriers or new entrants may suffer  
22 so the testimony has been mischaracterized.

23 Q. With that correction do you agree with my  
24 conclusion that universal -- that you conclude that  
25 universal service will not suffer in this one-year

01905

1 period?

2       A.     I have not specifically referred here to  
3 universal service. I don't think that either the  
4 incumbent carriers or the new carriers would likely be  
5 subject to any such financial loss over one year or  
6 that longer trial of bill and keep due to possible  
7 inequality of calling volumes would put either of the  
8 -- any of the providers in financial jeopardy.  
9 Whether universal service is the specific concern or  
10 merely the financial integrity of all the carriers  
11 involved is not really something that I address there,  
12 but in any event I don't think that the losses due to  
13 inequality of traffic volumes would be particularly  
14 troublesome over a one-year or somewhat longer trial.

15       Q.     Is this universal service docket going to  
16 be completed in this one-year period, in your view?

17       A.     I have no idea what the schedule is that  
18 the Commission would adopt.

19       Q.     Do you have any idea whether the Commission  
20 has the authority to order a third party administered  
21 fund that would fund customers instead of carriers?

22       A.     I am not a legal expert on the Commission's  
23 authority. I would, however, believe that an  
24 individual or separate universal service docket that  
25 explored all of the issues would give the Commission

01906

1 time to work in concert with the legislature if any  
2 additional legislation were necessary, and would  
3 certainly hope that U S WEST and other parties would  
4 cooperate in that effort if there were any legislation  
5 modifications needed.

6 Q. That's all very good, but getting down to  
7 the realities, it is not likely, is it, that there is  
8 going to be any recommendations that come out of any  
9 proceeding, have legislation passed, to establish a  
10 whole new funding mechanism for telephone service in  
11 the state of Washington in a period of one year?

12 A. I'm not an expert on your processes, but  
13 that is quite possible that it could take more than  
14 one year, but I don't, as I said, link universal  
15 service support mechanisms to this issue of bill and  
16 keep or other interconnection terms, so I don't see  
17 that the two would be a problem.

18 Q. Would it be appropriate for the Commission  
19 to require the company to accept in kind payment from  
20 its end user customers, chickens from a rural  
21 residential subscriber?

22 A. I don't know that that would be within the  
23 Commission's authority, and I am not sure that the  
24 company would have a clear use for chickens. The  
25 company has an obvious use for interconnection to

01907

1 allow its own calls to terminate in another carrier's  
2 territory.

3 Q. Now, I think we have agreed that carriers  
4 offer each other interconnection services. Whether  
5 those consist of services and facilities or not, is  
6 the company entitled to be paid for services that it  
7 offers to residential customers but not entitled to be  
8 paid for services that it offers to carrier customers?  
9 Is that your testimony?

10 A. It is not my testimony. It is my testimony  
11 that the company is entitled to be compensated for the  
12 services and facilities that it offers and that, as has  
13 been done in many states, including in my  
14 understanding here in Washington, there is  
15 compensation provided for interconnection services  
16 between adjoining carriers or carriers who complete  
17 one another's calls by providing those services in  
18 kind. That is not in any sense free or without  
19 compensation.

20 Q. In this interim period, would the  
21 Commission, in your view, change the funding mechanism  
22 that currently flows funds to independent telephone  
23 companies from interexchange carriers, reform the  
24 subsidies inherent in carrier access charges for all  
25 companies in the state of Washington?



01908

1           A.     I have not made a study of the ways in  
2 which subsidies may or may not flow to the independent  
3 carriers and I don't have a recommendation to make  
4 about that process.

5           Q.     Would you agree that in Washington, like  
6 the rest of the country, individual local exchange  
7 companies are funded in the interests of universal  
8 service by high carrier access charges charged to  
9 interexchange carriers including U S WEST?

10          A.     I have no knowledge of whether or not the  
11 carrier access charges charged by U S WEST are used to  
12 subsidize any other carrier.

13          Q.     Likewise, I take it you don't have any  
14 knowledge particularly in the state of Washington  
15 whether high business rates subsidize residential  
16 rates?

17          A.     That is correct. I have not reviewed the  
18 cost studies or the revenue flows to determine whether  
19 such a subsidy exists.

20          Q.     And you have absolutely no data to support  
21 your apparent assumption that U S WEST is currently  
22 earning at a sufficient rate that it can absorb  
23 competitive losses and still have an opportunity to  
24 earn a fair, just and reasonable rate of return, do  
25 you?

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1           A.     I don't think that you are characterizing  
2 my testimony accurately. My testimony was that any  
3 losses incurred due to unequal traffic volumes under a  
4 bill and keep arrangement would not be sufficient to  
5 impair the financial integrity of U S WEST. I don't  
6 think that I need to have studied any of the items  
7 that you describe in your question to reach that  
8 conclusion, and I stand by that conclusion.

9           Q.     Direct your attention to page 3 of your  
10 testimony where you say beginning at lines 5 that "At  
11 the moment, however, competition is so new and the  
12 financial impact of competition on incumbent local  
13 exchange carrier revenues is likely to be so small  
14 that the Commission need not rush to address universal  
15 service issues in this docket." Do you see that?

16          A.     I assume this is in my rebuttal?

17          Q.     Yes.

18          A.     Just a moment. I see the line that you  
19 refer to.

20          Q.     Now, what that says to me, Ms. Murray, is  
21 that you are predicting that the competitive losses  
22 that U S WEST will suffer from four significant  
23 competitors in downtown Seattle over the indefinite  
24 future is so small that U S WEST will not suffer any  
25 financial impact and as a result universal service

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1 will not suffer. Is that a fair reading of that  
2 statement?

3 A. My statement is intended to say during the  
4 time that it would take to convene and address  
5 universal service issues in a separate docket, I do  
6 believe that the roll-out of competition, the  
7 penetration rates achieved even by four quite  
8 competent new entrants in Washington state would  
9 likely be small enough that U S WEST, a competitor  
10 vastly larger than any of those four entrants, at  
11 least in their Washington territories, could deal with  
12 the level of competitive losses that it might incur  
13 and without the protection of a specific universal  
14 service policy being in place and still be able to  
15 provide adequate service to all customers within its  
16 service territory, yes.

17 Q. Let's break it down. You do not know, as  
18 we sit here today, whether U S WEST is currently  
19 underearning in the state of Washington, do you?

20 A. I do not have that in mind. You do have a  
21 general rate case available to address that question.

22 Q. The existence of that general rate case at  
23 least in your mind suggests that the company, at  
24 least, believes that it is not earning its authorized  
25 rate of return?

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1           A.     Well, it suggests to me that the company  
2 would like to earn more.  Whether it's not earning its  
3 authorized rate of return is a different question.

4           Q.     Again, you don't have any data that you can  
5 offer to this Commission whether the company is  
6 underearning or overearning, do you?

7           A.     No.  I believe that's the appropriate forum  
8 for the general rate case.

9           Q.     If the company is in fact underearning and  
10 if there are any competitive losses that underearning  
11 will be exacerbated over the next period of time, will  
12 it not?

13          A.     Well, there is a general rate case that has  
14 an opportunity to address that.

15          Q.     When a general rate case is prosecuted,  
16 does the Commission set prospective rates from the  
17 date of its order?

18          A.     That is my typical understanding.

19          Q.     And when is the order in the general rate  
20 case due?

21          A.     I don't recall the exact date.

22          Q.     Do you have any data that you rely on to  
23 suggest -- strike that.  Let me approach it this way.  
24 Do you have any data on the concentration of U S  
25 WEST's business customers in the city of Seattle

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1 compared to the rest of its service territory?

2 A. I think I've seen some summary data but I  
3 don't have them with me and don't recall them off the  
4 top of my head.

5 Q. You have no data on which to base a  
6 judgment that the capture of business customers in  
7 downtown Seattle will not divert significant revenue  
8 from U S WEST, do you?

9 A. I have no data to suggest to me that the  
10 penetration rate for new entrants in however  
11 concentrated a business market there might be in  
12 Seattle would be sufficient to harm U S WEST to the  
13 degree that it would be unable to continue providing  
14 service to its customers.

15 Q. Again, we agreed at the beginning that U S  
16 WEST has a legal right for an opportunity to earn a  
17 fair rate of return, right?

18 A. U S WEST has a legal right for an  
19 opportunity to earn a fair return and U S WEST has  
20 exercised its right by filing for new rates in a  
21 general rate case.

22 Q. And you would agree that in the interim you  
23 have no data on which to base a conclusion that U S  
24 WEST will not suffer financial harm to the extent that  
25 it will be put in a situation where it has no

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1 opportunity to earn its fair rate of return, do you?

2 MR. TROTTER: I am going to object to the  
3 question. It's been asked and answered. It's about  
4 the third time this subject has been specifically  
5 raised.

6 MR. SHAW: The witness keeps changing her  
7 answer, as far as I'm concerned, so I'm entitled to  
8 find out what she's saying specifically.

9 MR. TROTTER: The questions have been  
10 consistent, the answers have been essentially same.

11 JUDGE ANDERL: I have heard Ms. Murray to  
12 be restating the scenario in her answer and so I think  
13 I will let Mr. Shaw get a direct answer to her  
14 question.

15 MR. TROTTER: Your Honor, I think the  
16 answers have been direct.

17 JUDGE ANDERL: Well, I disagree.

18 A. I have no data on which to base an opinion  
19 about U S WEST's underearnings or overearnings. My  
20 sole data, if you will, on which to answer your  
21 question about the incremental effect is my observation  
22 of what has happened in other markets when competition  
23 has been introduced, whether in the local area or other  
24 areas, which would suggest to me that over a time of a  
25 year or so the penetration rate for new entrants would

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1 not likely be so high as to jeopardize U S WEST in its  
2 ability to provide service to its customers.

3 Q. That is the only relevant test whether the  
4 company is reduced so far financially that it can  
5 provide service to its remaining customers?

6 A. I am not saying that that's the only  
7 relevant issue. In terms of the general rate case U S  
8 WEST has the general rate case to use to debate the  
9 general issue of overearnings or underearnings, but in  
10 terms of this proceeding the question that's before us,  
11 that I understood to be before us, at least in the  
12 context of my recommendation of an independent or  
13 separate universal service docket, is whether the  
14 incremental effect of not adopting U S WEST's proposal  
15 for an interim universal service surcharge would be so  
16 severe as to deny the company a reasonable opportunity  
17 to earn a fair rate of return.

18 Everything else being assumed to be equal, I  
19 don't think this case is about making up to U S WEST  
20 anything that might be going on in other parts of its  
21 business but merely addressing whether there is time  
22 to deal separately with universal service or whether  
23 the incremental effect of the competitive losses would  
24 be so great as to jeopardize universal service.

25 Q. Page 9 of your direct testimony you state

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1 at line 6 that all competitors should be on an equal  
2 footing from day one. In a situation where four large  
3 new competitors are allowed to target just downtown  
4 Seattle and U S WEST is left to serve the customers  
5 that they're not prepared to or do not want to serve  
6 in its service area, are all competitors put on an  
7 equal footing from day one?

8 A. I believe you're reading that statement  
9 somewhat out of context. It is a clause that modifies  
10 the subject of competitively neutral universal service  
11 support policy, and I believe that by definition a  
12 competitively neutral universal service support policy  
13 does place all competitors on an equal footing insofar  
14 as they are all equally eligible to receive the level  
15 of support deemed necessary to bridge the gap between  
16 affordability and cost for those customers that the  
17 Commission determines should be part of a universal  
18 service support program.

19 The issue that you raise of service  
20 territories is in some sense immaterial to that because  
21 if all the customers requiring universal service  
22 support fall outside the service territories that you  
23 describe, then U S WEST would be the only competitor  
24 eligible to receive the universal service support. It  
25 would only be those new entrants who choose to serve



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1 the customer eligible for universal service support who  
2 would receive the subsidy. I see nothing unequal about  
3 that.

4 Q. U S WEST today receives no support in  
5 Washington from universal service funds, does it?

6 A. That's a tricky question. From the special  
7 funds that are designated for high cost companies for  
8 universal service support it is my understanding that  
9 U S WEST receives no support.

10 Q. U S WEST is expected to obtain any  
11 universal service support that it requires to maintain  
12 primarily residential rates from its access charges to  
13 connecting carriers and from the rates it charges  
14 business customers; isn't that correct?

15 A. I don't know that to be a fact. I know  
16 that U S WEST is expected to be able to receive from  
17 the revenues it gets from all the services that it  
18 provides sufficient revenues to cover its costs of  
19 doing business. What there's subsidy for, if any is  
20 expected to be within that revenue collection process  
21 is not something that I am specifically aware of.

22 Q. You don't have any data one way or the  
23 other or any opinion one way or the other whether U S  
24 WEST obtains revenues from carriers and business  
25 customers that it uses to support residential service,

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1 I take it?

2 A. No, I have not studied the cost studies and  
3 I have not determined whether or not there is any such  
4 subsidy flow.

5 Q. But we can agree that U S WEST receives no  
6 universal service funds?

7 A. From the designated funds for high cost  
8 companies, U S WEST apparently doesn't qualify for  
9 that designation.

10 Q. And it will receive no such funds until  
11 this process that you've outlined of a new targeted  
12 competitively neutral support to customers instead of  
13 companies is crafted and instituted?

14 A. U S WEST would not receive any funds from a  
15 special universal service support program until such  
16 time as the docket had terminated and the Commission  
17 had adopted a program.

18 Q. So if its rates are to be held at cost or  
19 below cost for residential customers, it will be  
20 required to make up any revenue requirement as a result  
21 of serving residential customers from its charges to  
22 interconnecting carriers or to its business customers,  
23 won't it?

24 A. Well, the scenario you describe I assume  
25 refers to the cost of service for residential basic

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1 exchange service being higher than the revenues  
2 allowed. First, of course, I can't concede that  
3 because I have no information that suggests to me that  
4 is true, but second, there are other services that  
5 residential customers purchase, including custom  
6 calling services and so on that are quite often  
7 priced -- at least in other states that I am aware of --  
8 well above their actual cost of service, so I don't  
9 even know for a fact that if there were a subsidy to  
10 residential basic exchange service that that would mean  
11 that there was a subsidy coming from other customer  
12 classes as opposed to all residential services  
13 including intraLATA toll services and so on providing  
14 sufficient contribution to U S WEST to cover all of the  
15 costs of providing that group of services to  
16 residential customers.

17 Q. Although you recommend this proceeding you  
18 have no data and no opinion on whether there is even a  
19 universal service funding need for any company in the  
20 state of Washington?

21 A. I have no such data right now, and that's  
22 all the more reason that we need a separate universal  
23 service docket. I think it would be premature to  
24 adopt a funding mechanism without -- such as the U S  
25 WEST proposal without determining that there was a

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1 need for a funding mechanism.

2 Q. Do you understand that U S WEST is held to  
3 a quality of service standard by this Commission where  
4 it is to not exceed a minimum number of held orders  
5 for service?

6 A. I am generally aware of the quality of  
7 service standards.

8 Q. If U S WEST is not allowed to exceed a  
9 minimum number of held orders for service, does that  
10 necessarily imply that U S WEST has an obligation to  
11 project, construct and maintain spare capacity so that  
12 it can fill new orders for service within a relatively  
13 short period of time when received?

14 A. I think that it means that U S WEST is  
15 obliged to plan for including the capability of making  
16 those service orders. Whether that requires spare  
17 capacity or some other approach is best known to U S  
18 WEST and it's part of the company's own business  
19 obligations.

20 Q. You're not asserting that U S WEST can  
21 build distribution plant pair by pair as new orders  
22 are received, are you?

23 A. No, I am not.

24 Q. Are you familiar with large private  
25 networks, Ms. Murray, like the Boeing network or the

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1 federal government network?

2 A. I am aware that there are large private  
3 networks. I am not specifically aware of their  
4 configuration or the details about them.

5 Q. For these large private networks, would you  
6 agree that if U S WEST wants its customers to be able  
7 to call the customers on these private networks that  
8 they need to interconnect with these private networks?

9 A. There needs to be some form of  
10 interconnection between U S WEST and the private  
11 network.

12 Q. Is it appropriate in your view that these  
13 private networks be allowed to interconnect with U S  
14 WEST's network for nothing because of the reciprocal  
15 need of the two networks to interconnect with each  
16 other?

17 A. I have not made any determination of what  
18 the appropriate interconnection terms would be between  
19 private networks and U S WEST's networks. My  
20 recommendations here focus on interconnections between  
21 certified common carriers, and there could well be a  
22 distinction between the policies that were  
23 appropriate, but certainly that is a subject for a  
24 separate investigation if there were to be such terms  
25 adopted for interconnection with private networks.

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1 Q. Do you know what a CIC code is?

2 A. I'm not sure that I do.

3 JUDGE ANDERL: Is that C I C?

4 MR. SHAW: Yes.

5 Q. On page 8 of your rebuttal testimony, you  
6 talk about EAS and the new carriers mimicking existing  
7 EAS. Do you see that discussion?

8 A. Yes, I do.

9 Q. You recommend, I take it, that new carriers  
10 like cellular carriers should not be restricted from  
11 offering and defining their own local calling areas;  
12 is that correct?

13 A. I recommend that the Commission accept the  
14 proposals for mirror EAS routes subject to review  
15 later as the Commission gains more experience, and  
16 that one of the things to be reviewed would be whether  
17 it would be beneficial for new carriers to propose  
18 perhaps larger toll free calling areas, larger EAS  
19 areas as one form of competition.

20 Q. Do you know of any restriction at all on  
21 the new carriers from defining their local calling  
22 areas any way they want today?

23 A. I am not aware of any specific restriction.

24 Q. Should only the existing carriers be  
25 restricted from designing their local calling areas to

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1 the petition and compliance mechanism of the existing  
2 EAS rules of the Commission?

3 A. Perhaps you could clarify for me. I have  
4 looked at the EAS rules, and I am not sure exactly  
5 what you have in mind in terms of the petition and  
6 compliance. Are you speaking about getting some sort  
7 of compensation for expanding EAS? The terminology is  
8 one that didn't resonate with me.

9 Q. Let me try this. You've read the  
10 Commission's EAS rules?

11 A. I scanned through those rules, yes.

12 Q. Did you understand that the general  
13 approach of those rules are that for any study area  
14 where it's determined that the company's customers --  
15 let me start over -- where it's determined that 80  
16 percent of the calls made in any study area are not  
17 local or flat-rated, that the company must do an  
18 engineering study to add EAS routes so that all  
19 customers in that area have the ability to make 80  
20 percent of their calls on a local calling basis?

21 A. That is my general understanding of the  
22 rule.

23 Q. And is it your testimony that the existing  
24 LECs should be restricted to that methodology in order  
25 to redefine their local calling areas in competition

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1 with new LECs?

2 A. Not at all. As I read the rules, and  
3 perhaps I misunderstood them, I thought that the  
4 incumbent local exchange carriers had the right to  
5 propose other EAS routes beyond those that were  
6 required by the 80 percent rule, but that that was  
7 more to be a minimum requirement than a maximum.

8 MR. SHAW: That's all I have. Thank you.

9 JUDGE ANDERL: Thank you, Mr. Shaw. Mr.  
10 Potter, do you have cross for this witness?

11 MR. POTTER: Yes, I do.

12

13 CROSS-EXAMINATION

14 BY MR. POTTER:

15 Q. Good morning still. I'm Richard Potter  
16 with GTE Northwest.

17 A. Good morning, Mr. Potter.

18 Q. Mr. Shaw covered a number of my topics but  
19 I think there's a few questions left I can ask you.

20 A. Okay.

21 Q. Let's pick up on the EAS since it's fresh  
22 in our mind. From a definitional point of view, what  
23 would you say is the difference between EAS and toll?

24 A. Well, as I understand it, the basic  
25 difference is that once a route has been designated as



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1 an EAS route, the pricing of calls on that route is  
2 the same as the pricing for calls that are within the  
3 local exchange.

4 Q. So in other words, whether a given service  
5 is EAS depends on how the end users are charged for  
6 the calls along that route; is that right?

7 A. That is my basic understanding.

8 Q. You mention you reviewed the Washington EAS  
9 rules. Have you also had the opportunity to become  
10 familiar with the current EAS routes which have been  
11 established under those rules?

12 A. No, I have not.

13 Q. Are you familiar with the difference  
14 between two way EAS and one-way EAS?

15 A. Not specifically, although I think I could  
16 probably almost guess from the wording of the  
17 descriptions.

18 Q. Well, for sake of our discussion, would you  
19 accept that in a two-way EAS situation customers at  
20 both ends can call each other as a local call whereas  
21 in a one-way EAS only customers of one end could make  
22 the call as local, the customers from the other end  
23 would be paying toll charges. Does that sound  
24 reasonable?

25 A. Yes, that does sound reasonable.

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1 Q. So an effect at least under the current  
2 situation in Washington of creating EAS routes by  
3 changing end user billing is that the compensation  
4 between companies changes also. Is that not right?

5 A. I believe that is correct, and I have not  
6 verified all the EAS compensation rules, but that was  
7 my understanding.

8 Q. Well, it is your understanding that EAS in  
9 Washington is currently bill and keep because you're  
10 recommending that that apply to the new carriers,  
11 correct?

12 A. That was my understanding of the current  
13 arrangement.

14 Q. Whereas on a given route that is now EAS  
15 before it was EAS if there were different carriers  
16 involved at either end they would pay each other  
17 access charges, would they not?

18 A. That was my understanding.

19 Q. So as we're going forward into this new era  
20 of competitive local exchange service providers whose  
21 territories overlap, if we are to specify the  
22 intercompany compensation between all these carriers  
23 to be something different for toll calls on the one  
24 hand and EAS calls on the other hand then you would  
25 agree it becomes important that we be able to

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1 distinguish the two types of calls?

2       A.     If there are to be separate compensation  
3 schemes, yes, we need to have a definition of which  
4 calls fall under each scheme.

5       Q.     Now, you are proposing that we have a  
6 different compensation scheme to the two types of  
7 calls, are you not?

8       A.     I am proposing that as a primary  
9 recommendation that we use bill and keep, which is  
10 currently used for EAS for the local-like, I think is  
11 the term your witness used, interconnections, and of  
12 course that would also apply to the EAS-like  
13 interconnections. If there were toll interconnections  
14 then they would be billed under the applicable access  
15 tariffs for toll.

16       Q.     So is your recommendation for this  
17 different basis of intercompany compensation indefinite  
18 in nature or do you have some sunset or review point in  
19 time that you would recommend to the Commission to  
20 re-examine this?

21       A.     My recommendation was that the Commission  
22 adopt this approach for at least one year subject to  
23 review after that. I haven't proposed a specific time  
24 longer than one year, but certainly at least one year  
25 to get some experience before any review were

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1 attempted.

2 Q. Now, as I understood your recommendation as  
3 to the one year you would have the Commission simply  
4 ascertain whether traffic was in balance during that  
5 period; is that right?

6 A. That is certainly one of the primary  
7 considerations. I don't recommend that parties be  
8 limited from bringing forth any considerations that  
9 might be relevant other than the traffic balance if  
10 there had been some other type of problem or  
11 consideration.

12 Q. Now, since the type of intercompany  
13 compensation that's paid would depend on whether  
14 traffic was considered toll or EAS -- and let's assume  
15 the local within the term EAS if you would -- would you  
16 agree that local service providers should not be able  
17 to unilaterally change their customers' EAS calling  
18 scopes?

19 A. They should certainly have to get -- file  
20 EAS tariffs and get them approved through the normal  
21 process.

22 Q. That would prevent a competitor from  
23 unilaterally avoiding toll charges by simply declaring  
24 a larger EAS area for its end users, right?

25 A. That would be one effect of that approval

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1 process.

2 Q. That would be an appropriate effect, would  
3 it not?

4 A. I don't have a problem with that. I think  
5 the Commission has a process in place for approving  
6 EAS routes and I don't recommend that that process be  
7 different for new entrants.

8 Q. I think it was page 8 of your rebuttal  
9 where you're talking about the one-year reassessment  
10 period -- let see. Page 8 of your rebuttal, lines 8  
11 through 10. Talking about EAS routes, and you say,  
12 "subject to review after the Commission gains more  
13 experience with local competition."

14 So am I correct that that particular review  
15 is not tied to this one-year period?

16 A. That is correct. What we're talking about  
17 right now is accepting the current proposals, which  
18 are for mirror EAS routes which would not have any  
19 strange effects, if you will, on the current division  
20 between toll and access, so I am just recommending that  
21 this is coming that the Commission keep in mind that  
22 might be a subject for further review. Local  
23 competition is still a relatively new thing for us all.  
24 I think experience is a good teacher.

25 Q. Well, did you have any possible local

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1 competition experiences which might occur in mind when  
2 you suggest that the Commission perhaps revisit this  
3 issue later?

4 A. Just really open ended, that I think there  
5 can be benefit from competition in how EAS is defined  
6 and provided. That's one legitimate form of  
7 competition, if you will, of local competition, but as  
8 you point out there are a number of considerations that  
9 go with having different EAS routes among carriers, so  
10 I'm not really trying to limit the scope of any  
11 investigation that the Commission would undertake.

12 Q. A given local service provider that also  
13 provides toll service could create the effect of EAS  
14 for its end users by introducing flat-rated toll  
15 calling plans, could they not?

16 A. They could do that as part of the toll  
17 package. Of course there would be the difference that  
18 that would only apply to customers who use their toll  
19 service as opposed to customers that were subscribers  
20 to their local service.

21 Q. I think that's all my EAS questions. Let's  
22 go back to the topic of unbundling, and I think I need  
23 to direct your attention to your direct testimony --  
24 well, your general discussion starts pages 5 and 6.  
25 Page 6, about line 9?

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1 A. Yes.

2 Q. Actually the sentence starts up on line 7?

3 A. I see that.

4 Q. So you're addressing here your concern that

5 the Commission should adopt policies which would

6 encourage new entrants to serve residential and small

7 business customers and rural areas; is that right?

8 A. I am.

9 Q. So then on starting at line 7 you have the

10 sentence that starts "given access to cost-based loops

11 from the incumbent carrier competitors may be able to

12 serve these other customers."

13 What did you have in mind as cost-based?

14 A. Well, my own first preference would be to

15 set this wholesale rate, if you will, for the

16 unbundled loop equal to the total service long-run

17 incremental cost of providing that loop.

18 Q. In assessing -- first of all, would you

19 agree that the total service long-run incremental cost

20 of providing loops can vary significantly from rural

21 to urban areas?

22 A. That it can.

23 Q. So do you envision cost-based unbundled

24 loops being deaveraged, so to speak, to reflect these

25 cost differences?

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1           A.     I think the best way to handle that would  
2 be to have the same level of averaging or deaveraging  
3 as there is in the retail rate. That gives you the  
4 appropriate competitive signal, if you will, because  
5 the cost obviously to the incumbent is the averaged  
6 cost within the band of averaging that exists in the  
7 retail rate, and so I would like to see the retail  
8 competition proceeding from an appropriate wholesale  
9 cost base. But whatever level of deaveraging there is  
10 on the retail rates would be appropriate for the  
11 unbundled loops.

12          Q.     So would you agree then that to send the  
13 appropriate signals the retail rates also need to be  
14 cost-based, that is, set at or above cost?

15          A.     It doesn't matter quite so much as you  
16 might think whether the retail rates are set at or  
17 above cost if you have this same universal service  
18 mechanism, a competitively neutral mechanism, so that  
19 all carriers providing service to a given customer are  
20 equal for the same level of universal service support  
21 if there is deemed to be some reason to provide that  
22 service below cost.

23          Q.     Well, let's construct a hypothetical here.  
24 Let's assume a rural area. Let's assume that the cost  
25 -- and it can be TS LRIC -- of a loop in that area



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1 would be -- translate to \$20 a month and let's assume  
2 that the price, the tariffed price at the moment for  
3 R1 services is \$10 a month. Do you have that in  
4 mind?

5 A. Yes, I do.

6 Q. So if the Commission were to direct the  
7 local exchange carrier to, in accordance with your  
8 recommendation, to make unbundled local loops  
9 available to competitors, how much would -- what would  
10 the price be for the loop?

11 A. Well, now, when you said the cost I assume  
12 you're talking about the cost of the bundled retail  
13 service including all the components. So the costs  
14 for the loop portion would be just whatever portion of  
15 that \$20 was associated with the loop itself.

16 Q. Well, that's why I confined my  
17 question meaning cost of loop all by itself.

18 A. I understand now. Then there would be a  
19 \$20 charge to the competitor.

20 Q. If a competitor had to pay \$20 to obtain  
21 U S WEST's loop but U S WEST's retail rate was only  
22 \$10 would the competitor have any incentive to make  
23 that transaction?

24 A. Yes, because I would assume -- this is  
25 again after a universal service policy is adopted --

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1 that the mechanism that allows U S WEST to charge a  
2 \$10 retail rate is some type of credit equal to \$10 to  
3 cover the difference between the cost and the retail  
4 rate and the competitor would be eligible for that  
5 same credit if a competitor chose to serve that  
6 customer. So if the competitor were charged \$20 but  
7 received a \$10 credit then there would be no reason  
8 for the competitor to be unwilling to serve at a rate  
9 in competition with U S WEST.

10 Q. So then you would agree that if this  
11 hypothetical exists anyplace in Washington, that is,  
12 where the cost is higher than the price, then there  
13 would be no point in unbundling the local loop until  
14 after the new universal service mechanism would be in  
15 place?

16 A. I wouldn't go that far. I don't see any  
17 disadvantage to unbundling the loop earlier if the  
18 competitor for whatever business reasons is willing to  
19 extend service and incur the loss that you describe,  
20 surely that's a question that the competitor in his or  
21 her own business planning should be addressing and the  
22 Commission shouldn't be presuming on that company's  
23 behalf, so I would not delay the unbundling process.  
24 I wouldn't expect, perhaps, as many takers as there  
25 would be after the universal support policy were in

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1 place, but that's not a reason not to have unbundling  
2 available.

3 Q. Let's modify the hypothetical slightly.  
4 Keep the loop cost at \$20 and let's just say the cost  
5 for the bundle, as you said, residence service is \$25  
6 a month. And the price is still \$10 a month and let's  
7 assume that the Commission were to decide that if the  
8 price were \$25 a month that would be affordable?

9 A. Okay.

10 Q. So, in other words, our hypothetical  
11 situation is one in which no external universal  
12 service support is needed. Do you have that in mind?

13 A. Yes, I have that in mind.

14 Q. In that situation you would agree, would  
15 you not, that the Commission could encourage  
16 competitors to come to that area by increasing the  
17 price from \$10 to \$25?

18 A. That would certainly have the effect of  
19 encouraging competition.

20 Q. As a matter of fact, if that price change  
21 were not made then the effect would be to discourage  
22 competition, would it not?

23 A. Without the price change -- given the  
24 entire set of circumstances you described -- that  
25 would be the effect.

1 Q. Still on page 6 you complete that sentence  
2 that we mentioned by saying on line 8 "competitors may  
3 be able to serve residential and small business  
4 customers at lower total cost than the incumbent  
5 provider if they can provide switching, trunking and  
6 administrative services at lower costs than the  
7 incumbent."

8 By that last statement do you mean to  
9 recommend that access to unbundled loops should be  
10 restricted to competitors that self-provision  
11 switching, trunking and administrative services?

12 A. No. I was simply giving this as an example  
13 of how making unbundled loops available could  
14 encourage competitors to enter for lower volume  
15 customers. I think ideally that there might be a  
16 higher degree of unbundling than that and then  
17 competitors will make appropriate choices based on  
18 their own costs and competitive advantages as to which  
19 portions of the network to purchase or lease from the  
20 incumbent and which portions to self-provision, and  
21 that would give the right result in terms of economic  
22 efficiency that we will have facilities-based  
23 competition where it is economic and bundle that  
24 together with the resold portions of the incumbent  
25 network to provide service at the lowest total cost.

01936

1 Q. Is it your recommendation that these  
2 unbundling requirements only apply to the incumbent  
3 local exchange carriers such as U S WEST and not to  
4 the new carriers?

5 A. That would be my recommendation. At this  
6 time those are the only carriers that have bottleneck  
7 services available at some point in the future. If the  
8 Commission determined that some other carrier had  
9 bottleneck facilities then it would be appropriate to  
10 consider an unbundling requirement for that carrier,  
11 but certainly at present that's I think very unlikely  
12 to be the case.

13 Q. Well, let's take a hypothetical. Let's say  
14 there's a new subdivision being built and it just  
15 happens to be in the far corner of an existing U S WEST  
16 exchange, but the developer strikes a deal with  
17 Electric Lightwave -- we've been picking on them for  
18 example so we'll keep on -- to wire that entire  
19 subdivision and U S WEST doesn't go in there and  
20 install any plant. Under that scenario, would you  
21 recommend that U S WEST have access to unbundled  
22 Electric Lightwave loops?

23 A. I think that might be appropriate because  
24 you would be describing a situation where ELI would  
25 have the bottleneck facility for that specific

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1 circumstance, but I would make that determination on a  
2 case-by-case basis with new entrants as to whether or  
3 not they had bottleneck facilities, whereas I think we  
4 can make a presumption on a generic basis that the  
5 incumbents at this time do have such facilities.

6 Q. So maybe some case-by-case bona fide request  
7 process would be appropriate for that?

8 A. I would be open to that.

9 Q. Let's modify the hypothetical. Let's  
10 assume that out in this area U S WEST has the last  
11 step-by-step switch in Washington, beautifully  
12 maintained, working perfectly but it's exhausted.  
13 Somebody orders the last line today. And in order to  
14 provide any more service anyplace in that exchange,  
15 especially in order to provide any service to this new  
16 subdivision, U S WEST will need to replace that switch.  
17 Do you have that in mind?

18 A. Yes, I have that in mind.

19 Q. Would you accept that U S WEST would want  
20 to replace that switch with a digital central office  
21 switch?

22 A. Yes.

23 Q. So let's assume that Electric Lightwave,  
24 since they're going to serve this big subdivision, has  
25 installed a brand-new AT&T 5 ESS digital switch out

01938

1 there with plenty of extra capacity. Do you have that  
2 in mind?

3 A. Yes, I have that in mind.

4 Q. Should U S WEST have access to unbundled  
5 switching from Electric Lightwave in that situation?

6 A. I find that less compelling for two  
7 reasons. One is that I can see good business reasons  
8 why ELI might voluntarily make capacity available.  
9 After all, if it has excess capacity it could be in  
10 its economic interest to do so. Second, if U S WEST  
11 has gotten itself in a position where even to provide  
12 an additional line to its existing customers it would  
13 need more switching capacity, it's not obvious to me  
14 why U S WEST wouldn't be replacing this gorgeously  
15 maintained step-by-step switch anyway.

16 Q. I didn't mean to paint U S WEST in such a  
17 corner in my hypothetical, so let's assume that there's  
18 no issue of prudence on their part. Does that change  
19 your answer?

20 A. Well, I think we're getting to the point  
21 where to answer the question meaningfully we would  
22 have to get so specific that it would be best answered  
23 in a case-by-case process such as you hypothesized in  
24 your previous answer. I'm not sure that I can  
25 properly envision here where they would be just close

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1 enough to exhaust to make it meaningful to require  
2 unbundling of ELI's switching capacity but where it  
3 wouldn't otherwise be appropriate for U S WEST to be  
4 replacing its own switch. So, rather than try to  
5 define that line here, I think it would be best left  
6 to the case-by-case process.

7 Q. So we have a kind of lopsided situation, do  
8 we not? On the one hand you seem to be recommending a  
9 generic requirement that U S WEST unbundle everything  
10 regardless of the equities of a specific situation,  
11 where on the other hand the most you're willing to  
12 concede that U S WEST might be able to request on a  
13 case-by-case basis unbundled access to other provider's  
14 services, is that a fair statement?

15 A. We have a lopsided situation because we  
16 have a lopsided set of facts. The incumbent has a  
17 lopsided advantage due to its existing bottleneck  
18 facilities and the new entrants have a lopsided  
19 disadvantage because of their lack of facilities which  
20 makes regulatory asymmetry appropriate in addressing  
21 the differences in market power.

22 Q. So you argue at any rate?

23 MR. TROTTER: I will object. That's not a  
24 question and it's argumentative.

25 JUDGE ANDERL: I will grant -- sustain the



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1 objection.

2 Q. Are you familiar with line extension  
3 tariffs?

4 A. Only in the most general sense. I  
5 understand that each company is required to have a  
6 line extension policy but I haven't reviewed the  
7 individual company policies.

8 Q. Is it your understanding that both the  
9 incumbent local exchange companies and the new local  
10 exchange carriers are both under equal requirements in  
11 that regard in Washington?

12 A. I am not specifically familiar with how the  
13 requirements of the existing rule apply to the new  
14 entrants. I don't have any reason to believe that  
15 there is a different requirement. I just don't know.

16 Q. I'm going to ask you a couple of questions  
17 about how line extension tariffs might relate to loop  
18 unbundling. Would you accept -- and subject to check  
19 if you feel you need to -- that the incumbent local  
20 exchange carriers have line extension tariffs under  
21 which they're obligated to construct new outside plant  
22 facilities in some cases with no charge to applicant  
23 customers?

24 A. I would accept that subject to check.

25 Q. Does your recommendation with regard to

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1 unbundled loops include a scenario where a competitive  
2 local exchange carrier could come to U S WEST and  
3 under its line extension tariff require U S WEST to  
4 construct new local loops that it would then in turn  
5 have to provide on an unbundled basis?

6       A.     I think that I would certainly hold open  
7 the possibility of different treatment there where if  
8 any such facility were constructed it would be at the  
9 cost of the individual facility and not a previously  
10 averaged cost. My -- the focus of my unbundling  
11 policy is to look at existing bottleneck facilities.  
12 If a facility does not yet exist it's not likely to be  
13 a bottleneck. So I don't know that I would require  
14 U S WEST or any incumbent LEC to build facilities for  
15 any other provider unless there were some unique  
16 situation having to do with right of way or access to  
17 conduit and so on that might make that appropriate, but  
18 I would certainly not suggest that line extension be  
19 required and provided to another carrier at zero cost.

20       Q.     You've used this term bottleneck several  
21 times. Maybe we better define it. Could you do so,  
22 please.

23       A.     To me a bottleneck facility is something  
24 that the possessor owns or has control over that is  
25 uniquely needed to provide service. Now, this may not

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1 be a situation in which there is literally no other way  
2 to provide service but certainly no other way to  
3 provide service at an economic level of cost.

4 Q. What do you mean by economic level of cost?

5 A. Well, for example, if -- let's pick GTE  
6 just to pick on somebody new. If GTE had the only  
7 access to the only conduit into a building but it  
8 might be possible to arrange to dig up streets and go  
9 on and do whatever is necessary to get into the  
10 building not using the existing conduit, but that would  
11 be very costly and difficult to arrange and perhaps  
12 involve significant delays for a new entrant, then I  
13 would say that GTE's access to that conduit would be  
14 access to a bottleneck facility because it would not  
15 be possible for a new entrant to compete and to  
16 provide service that covers its costs anywhere near  
17 the cost at which GTE could provide service using that  
18 conduit.

19 Q. So I detect in your answer that your  
20 standard is whether or not the new competitor could  
21 construct or obtain its own facilities and then  
22 provide service at a revenue level sufficient to cover  
23 its costs. Is that accurate?

24 A. It's accurate if you include being able to  
25 provide service you have a competitive level of what

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1 the market will bear as the rate incorporated into  
2 that. That is that you clearly cannot charge more  
3 than the market rate to provide service of equivalent  
4 quality. Therefore, if it requires the new entrant to  
5 do something that would push that new entrant's cost  
6 well beyond the market rate then it would be -- the  
7 facility in question would be a bottleneck facility.

8 JUDGE ANDERL: Mr. Potter, do you have much  
9 more?

10 MR. POTTER: Probably another 15 minutes.

11 JUDGE ANDERL: Let's break here.

12 (Luncheon recess at 12:00 noon.)

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AFTERNOON SESSION

2

1:30 p.m.

3

JUDGE ANDERL: Let's be back on the record  
4 after our lunch recess. Mr. Potter, go ahead with  
5 your questions.

6

MR. POTTER: Thank you.

7

BY MR. POTTER:

8

Q. Good afternoon.

9

A. Good afternoon.

10

Q. As I recall when we left we were just  
11 wrapping up an explanation of your definition of  
12 bottleneck. Let me see if I can restate that. I  
13 understand your definition is a service provided by  
14 company A would be a bottleneck if company B needed  
15 that service as a part of a service it wanted to  
16 provide and could not obtain it or self-provision it  
17 at a cost that was less than the market rate for the  
18 ultimate service to the extent that company B could  
19 make money on the service. Is that essentially it?

20

A. That's essentially it. I could probably do  
21 a little better job if I spent more time thinking  
22 about it, but that captures the essence.

23

Q. Okay. That's all I'm concerned with is  
24 essence. So if we had a situation, let's say, where a  
25 new entrant were targeting a large customer with a lot

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1 of revenue potential and if it were the fact that the  
2 new entrant could construct its own facilities out to  
3 that large customer at a cost that was far enough  
4 below the market rate for the services to be provided  
5 that it could make money, would your recommended  
6 unbundling requirement still apply to the incumbent  
7 local exchange carrier?

8 A. For simplicity sake, among other things, I  
9 really do not recommend that the Commission attempt a  
10 case by case investigation of the cost and revenue  
11 potential by customers. I think apart from anything  
12 that would require a level of delving into the new  
13 entrant's business plans and its own costs that would  
14 be difficult and inappropriate for the Commission to  
15 undertake. So I think it would be best if that were  
16 left to the generic determination, at least at this  
17 beginning time, that there are certain facilities of  
18 the incumbent LECs that are likely to be bottlenecks,  
19 and that can be discussed in the context of an  
20 unbundling discussion as to which services or  
21 facilities on an overall basis are likely to be  
22 bottlenecks. I don't think the exceptions are  
23 sufficiently great to justify that kind of detailed  
24 analysis on a customer by customer basis.

25 Q. But then it would be your recommendation to

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1 the Commission in making a generic decision on what is  
2 a bottleneck and what is not that it look at the  
3 underlying economics of the situation facing the new  
4 companies who would request these unbundled services;  
5 is that right?

6 A. I think in a general sense that's an  
7 appropriate consideration. You can't know if  
8 something is a bottleneck simply by knowing that it's a  
9 service or facility of the incumbent local exchange  
10 carrier. Obviously there has to be some thought given  
11 to which parts of the network are monopoly building  
12 blocks or bottleneck services and which ones are not.

13 Q. So then you would agree just because a  
14 company B would like to use part of company A's  
15 network is not sufficient justification for the  
16 Commission to order company A to make that available?

17 A. The mere desire to do so might not be  
18 although I think from a standpoint of utilizing the  
19 incumbent carrier's networks to the fullest economic  
20 advantage there might well be a process that would be  
21 beyond the scope of my testimony here, a legitimate  
22 request process where if sufficient economic  
23 compensation were provided it would be to everyone's  
24 advantage to allow that to go forward, but that's not  
25 what I am talking about in the scope of this testimony.

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1 Q. If I recall from this morning, am I  
2 correct, were you suggesting that unbundled local loops  
3 be made available at a price set at TS LRIC or at  
4 something above TS LRIC?

5 A. I recommended a price set at TS LRIC for  
6 the unbundled local loop.

7 Q. And a TS LRIC for an unbundled local loop  
8 represents, does it not, the capital costs of  
9 constructing the loop, the depreciation for the  
10 expense for the recovery of those capital costs,  
11 actually, and what you might call the operational  
12 expenses of maintaining it, maintenance repair, that  
13 type of thing. Is that correct?

14 A. In a general sense those are the cost  
15 components that you would be looking at.

16 Q. And is it your understanding that TS LRIC,  
17 as that term is generally understood, contemplates  
18 forward looking technology?

19 A. Yes.

20 Q. Do you have any reason to believe that the  
21 TS LRIC for U S WEST's local loop would be materially  
22 different than the TS LRIC for an Electric Lightwave  
23 local loop in the same vicinity?

24 A. I have no reason to believe that at this  
25 time. I guess the one caveat I would put on that is



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1 that if U S WEST has access to rights of way, conduit  
2 and so on that would not be available to ELI or that  
3 comparable access would not be available at similar  
4 prices that there could be a difference in the TS LRIC  
5 for the two companies.

6 Q. Couple of issues on your rebuttal testimony  
7 to wrap up on. On page 6 of your rebuttal you talk  
8 about a uniform access charge structure possibly  
9 creating pressure for mandatory measured local rates.  
10 Do you have that in mind?

11 A. Yes, I have that in mind.

12 Q. And the cost characteristics of providing  
13 local service include some costs that vary by the  
14 amount of usage, correct?

15 A. Yes. That's true.

16 Q. So would you agree that when the Commission  
17 or a company is developing a flat rate for local  
18 service it needs to set the rate high enough to cover  
19 those usage-sensitive costs at some assumed level?

20 A. At some assumed, if you will, averaged  
21 level across the group. That's the normal way for  
22 setting the local rates for flat-rated service.

23 Q. So the mere fact that some of the cost  
24 inputs for local service might be usage-sensitive does  
25 not mean that a flat rate cannot be set for local

01949

1 service, does it?

2 A. No, it does not mean that. When you're  
3 talking about an isolated carrier and that carrier  
4 having some fixed costs and some usage-sensitive costs  
5 or some volume insensitive costs and some volume  
6 sensitive costs for that carrier, you can set a flat  
7 rate. The problems that you might have would come in  
8 a competitive situation with the access charge  
9 structure.

10 Q. And that would be addressed by the  
11 Commission using some sort of imputation analysis,  
12 correct?

13 A. That is one approach, but that could put  
14 upward pressure, of course, on the rates to use an  
15 access charge compensation structure and then  
16 imputation.

17 Q. When you say upward pressure you mean  
18 relative to current rate levels?

19 A. Yes, I mean relative to current rate  
20 levels.

21 Q. Do you have an opinion based on any  
22 evidence whether current flat rate local service  
23 prices in Washington are at appropriate levels?

24 A. No. I haven't examined those studies. All  
25 that I am saying is that the addition of another cost

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1 element would necessarily create more pressure for an  
2 increase in the rate.

3 Q. Now, you talk also about in kind  
4 compensation, correct?

5 A. Yes.

6 Q. And in the context of competing or even  
7 adjacent companies exchanging EAS and local traffic,  
8 by in kind you mean that company A must incur costs --  
9 well, strike that. You mean that company A covers all  
10 the costs from its own end users for building plant  
11 sufficient not only to originate calls to company B  
12 but to terminate calls from company B. Am I correct?

13 A. That is correct.

14 Q. So the price for local exchange service  
15 needs to cover the cost for originating calls to  
16 company B and terminating calls from company B,  
17 correct?

18 A. That is correct. That is to the extent  
19 that we determined local exchange rates should be set  
20 at or above cost.

21 Q. Do you have an opinion as to whether in  
22 general it's a good policy to have rates set at or  
23 above cost?

24 MR. TROTTER: Your Honor, I'm going to  
25 object. I think in particular as it relates to basic

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1 exchange rates for any services it's way beyond the  
2 scope of this proceeding.

3 MR. POTTER: I was just following up on her  
4 answer.

5 MR. TROTTER: I know. I still object.

6 MR. POTTER: Then I move to strike the  
7 answer.

8 JUDGE ANDERL: Overrule the objection. I  
9 will allow her to answer.

10 A. I have a general opinion that for services  
11 for which the Commission does not make a policy  
12 determination that there is a justification for  
13 pricing below cost that all other services should be  
14 priced at or above their relevant costs.

15 Q. Thank you. One question about the traffic  
16 in a bill and keep arrangement: You talk about it  
17 being in balance or at page 7 of your rebuttal line 4  
18 you use the phrase "roughly equal." Can you tell me in  
19 terms of traffic terms what would constitute in balance  
20 or roughly equal for you?

21 A. I haven't picked any magic number  
22 percentage, you know. I think that's something that  
23 could be discussed at a point where any actual  
24 imbalances that occur under bill and keep are  
25 discussed as to whether the arrangement should be

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1 maintained. I don't think there's a magic number plus  
2 or minus five percent, plus or minus ten percent where  
3 it suddenly becomes in balance or out of balance.

4 Q. As we've talked before, you recommend that  
5 the Commission gain some experience and take a look at  
6 the traffic balances after a year, right?

7 A. After a year or more.

8 Q. So that presumes, does it not, that both  
9 the incumbent local exchange companies and the new  
10 carriers have the ability to measure traffic volumes?

11 A. Well, it assumes that they either have that  
12 ability, if they deem that it would be worthwhile to  
13 make such measurements, or that they make their own  
14 individual decisions that the consequence of imbalance  
15 is not likely to be enough to justify their  
16 determining what the volumes have been.

17 Q. I'm sorry, maybe I misunderstood. I  
18 thought that your recommendation for a one-year trial  
19 requires that the balances be monitored during that  
20 period?

21 A. My recommendation is that this approach be  
22 adopted and maintained unless there is some evidence  
23 brought forward that there is a problem relating to  
24 imbalances or something that we have not yet  
25 anticipated. I think it would be incumbent upon those

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1 parties who are concerned about the issue of balance  
2 to make their decision as to whether they want to  
3 incur the costs to monitor and bring that material  
4 forward. I'm not necessarily saying that the  
5 Commission should order measurement to see whether  
6 there is traffic balance or not.

7 Q. And then lastly, couple of questions about  
8 your recommendation on the unified White Pages. By  
9 that I gather you mean a single White Pages directory  
10 for a given area that is served not only by GTE, for  
11 example, but also by Electric Lightwave, TCG,  
12 whomever; is that right?

13 A. That is correct.

14 Q. Now, you're not saying that the Commission  
15 should establish a designated monopoly White Pages,  
16 are you?

17 A. No, I'm not saying that. I'm simply saying  
18 that the incumbent LEC should be directed to make such  
19 a unified White Pages available to anyone -- any  
20 carrier that is interested in providing that.

21 Q. But one of the new entrants would be free  
22 to publish or acquire its own directory, would it not?

23 A. Yes.

24 Q. And if it did so, do you believe the  
25 Commission should require it to include listings of

01954

1 GTE's customers?

2 A. I think there is a public policy interest  
3 in having all the customers listed so I think that if  
4 the incumbent is ordered to provide a unified White  
5 Pages I would not have a problem with competing  
6 carriers being ordered to meet or match that  
7 requirement if they chose to go their own way in  
8 providing directories.

9 MR. POTTER: Thank you.

10 JUDGE ANDERL: Thank you, Mr. Potter. Does  
11 any other party have cross for this witness? do the  
12 commissioners have any questions?

13 CHAIRMAN NELSON: Yes.

14

15 EXAMINATION

16 BY CHAIRMAN NELSON:

17 Q. Good afternoon, Ms. Murray.

18 A. Good afternoon.

19 Q. Will you be an expert for public counsel in  
20 the general rate case?

21 A. I am not appearing for public counsel in  
22 the general rate case, no.

23 Q. At page 6 of your direct testimony, line 13  
24 through 17, you talk about cable companies may need to  
25 purchase the feeder portion of the loop from incumbent

01955

1 LEC. I recognize neither one of us are technologists  
2 but could you explain why that might come to be?

3 A. Well, the cable companies right now have  
4 somewhat different network configuration from other  
5 possible new entrants in that they have facilities  
6 built out to all the homes, but it might be best to  
7 use their distribution facilities and connect them up  
8 within a feeder portion of the loop that would come to  
9 a central office that might provide a more efficient  
10 means of interconnection than to bring all the loops  
11 back to wherever the cable company's hub is.

12 Q. Thank you. That helps. At page 7 of  
13 your direct you make reference to the Michigan order  
14 with respect to City Signal. Do you have any updates  
15 on what City Signal -- what kind of penetration ratios  
16 it might have achieved with respect to residential  
17 customers in that geographic territory?

18 A. I think it's pretty minimal. They only  
19 turned their service up -- trying to remember. It's  
20 just a matter of a couple of months or so and they  
21 have now filed a supplemental complaint with the  
22 Michigan Commission about problems that they've had  
23 with the interconnection arrangements not being  
24 followed through in quite the way that they had  
25 anticipated as a result of the order, so I suspect



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1 that the penetration levels are not terribly high  
2 given that supplemental complaint.

3 Q. Thank you. That's all I have now.

4

5 EXAMINATION

6 BY COMMISSIONER HEMSTAD:

7 Q. Good afternoon. I'm also looking at page 7  
8 in your discussion about universal service and  
9 universal service fund. And your testimony is to the  
10 effect that there would be a targeting on customer  
11 groups rather than the companies; is that correct?

12 A. Yes.

13 Q. And would those be within the group  
14 individualized? This goes to Mr. Shaw's discussion  
15 with you about Bill Gates. Would it be individualized  
16 or would it be everyone within the group as  
17 identified?

18 A. I think that is a matter of defining the  
19 group, and that is what I would see as being part of  
20 the universal service docket, but once a group is  
21 identified, then everyone within that group should be  
22 eligible. Now, the Commission could decide, for  
23 example, that a group would be identified subject to a  
24 means test such as is sometimes used for lifeline.  
25 That's an option. I have no recommendation at this

01957

1 time, but once the group is picked, however it is  
2 defined, whether there is a means test or simply a  
3 customer class, such as residential in a certain  
4 geographic area, once the group is set, then I don't  
5 think we should get down to looking at individuals  
6 within the group.

7 Q. Well, there's quite a difference between  
8 identifying a geographical area such as rural areas of  
9 the state as would be defined, and then within that  
10 having some kind of a means test. Means test would  
11 require quite an elaborate family-based determination  
12 of income, wouldn't it?

13 A. Well, it might be, and I -- understand that  
14 I'm not necessarily recommending a means test. I know  
15 in California our lifeline program has a means test of  
16 a sort associated with it that either involves being  
17 -- receiving public assistance from some defined group  
18 or if you are not receiving public assistance you have  
19 the option of demonstrating that you would be so  
20 eligible, but understand that I'm not here making a  
21 recommendation for a means test. I'm simply saying  
22 that it is possible if you wish to add that kind of  
23 layer and still have it be administratively feasible  
24 in that way.

25 Q. Secondly, your discussion about White

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1 Pages, which I believe is in your rebuttal. It's your  
2 position that the incumbent company would incorporate  
3 the new entrant's customers without any charge, but  
4 then, as I understand it then the new entrant would  
5 purchase back the White Page publication at TS LRIC; is  
6 that right?

7 A. That's essentially correct. They would  
8 purchase however many directories they needed. The  
9 new entrants would purchase however many directories  
10 they needed to distribute to their customers.

11 Q. Would that be intended to make the  
12 incumbent LEC whole or are they -- would it be  
13 expected to be making simply a contribution for the  
14 benefit of the new entrant?

15 A. I guess that depends on what you mean by  
16 making whole. I would see that the purchase price  
17 would recover all of the relevant costs of printing  
18 those additional directories. I think the customers  
19 of the incumbent LEC benefit just as with the  
20 customers of the new entrant from having all the  
21 listings be in the White Pages, so I don't see a need  
22 for some additional compensation simply for the cost  
23 of the listing per se. I think it's more the cost of  
24 printing the additional directories.

25 Q. Take a hypothetical. Say at some point in

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1 a given market there's a 50/50 split between a new  
2 entrant and the former incumbent. The purchase back  
3 of that publication in your opinion would cover the  
4 costs to the incumbent?

5 A. I think that it could. I think when we get  
6 to the point where penetration is much greater than  
7 what would be initially envisioned, there may be other  
8 mechanisms even some kind of common database for White  
9 Pages directories to which all providers submit their  
10 entries and then each provider can buy back the  
11 database and publish its own directory. We're not  
12 anywhere near that point obviously in penetration, so  
13 I think in the short run it's simplest to have the  
14 incumbent LEC be the one responsible.

15 COMMISSIONER HEMSTAD: That's all I have.

16 JUDGE ANDERL: Any questions?

17 COMMISSIONER GILLIS: I have no questions.

18 JUDGE ANDERL: Mr. Trotter, redirect?

19 MR. RINDLER: Excuse me. I didn't get my  
20 hand up quickly enough. I have some questions. May  
21 I?

22 MR. SHAW: I think, Your Honor, we've  
23 already closed.

24 JUDGE ANDERL: I asked if any party had  
25 additional cross for this witness. Did you raise you

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1 hand then? I didn't see you.

2 MR. RINDLER: No. I didn't get it up  
3 quickly enough and you went to the commissioners. I  
4 have three questions.

5 JUDGE ANDERL: Go ahead.

6

7 CROSS-EXAMINATION

8 BY MR. RINDLER:

9 Q. Ms. Murray, I'm Richard Rindler  
10 representing MFS Intelenet. You were discussing  
11 with Mr. Shaw, I think, Mr. Potter both EAS routes.  
12 Do you recall that?

13 A. Yes, I do.

14 Q. There was one point that I didn't  
15 understand. Would you require that the new entrant  
16 have to go through any proceeding in order to adopt  
17 the existing EAS routes for rate purposes?

18 A. No. I was talking about the proceeding if  
19 there were different expanded routes being proposed.

20 Q. So then if they're adopting the existing  
21 ones you would not require that they go through the  
22 proceeding?

23 A. That's correct. I was recommending that  
24 the Commission accept the mirror EAS routes.

25 Q. You are not recommending, are you, any

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1 ratio of residential to business customers for the new  
2 LECs for any purpose?

3 A. No.

4 Q. Thank you.

5 MR. RINDLER: That's all.

6 JUDGE ANDERL: Thanks. Mr. Trotter.

7 MR. TROTTER: Few questions, thank you.

8

9 REDIRECT EXAMINATION

10 BY MR. TROTTER:

11 Q. Ms. Murray, regarding your White Pages  
12 recommendation, if penetration levels reached a 50/50  
13 split between an incumbent and new competing LECs,  
14 could your recommendation be revisited?

15 A. Absolutely. As I was explaining to the  
16 commissioner I think then we're talking about a very  
17 different situation.

18 Q. You were asked many questions regarding  
19 your testimony on universal service funding. Was it  
20 the point of your testimony to establish detailed  
21 requirements in that regard or was it to suggest that  
22 those detailed requirements be considered and dealt  
23 with in a separate docket?

24 A. The latter. The only requirement that I'm  
25 really suggesting here is that the policy be

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1 competitively neutral and focused on therefore  
2 customers rather than companies.

3 Q. You were asked a number of questions  
4 regarding the cost of local service. Have there been  
5 any residential or business exchange cost of service  
6 studies produced in this case?

7 A. Other than a small summary amount of  
8 information in I believe it was U S WEST's rebuttal  
9 testimony, no.

10 Q. You indicated that the access charge  
11 environment for interconnection could put upward  
12 pressure on rates. Could you explain why that might  
13 occur?

14 A. Yes. Right now, there is, if you will,  
15 essentially an in kind termination that's being  
16 provided without a permanent charge. If we were to  
17 add a permanent charge that would be paid by the new  
18 entrants to the incumbent LECs for terminating calls  
19 and then vice versa by the incumbent LECs presumably  
20 to the new entrants for terminating calls, that would  
21 be a new permanent cost that, as Mr. Potter suggested,  
22 would have to be addressed through an imputation  
23 process and so on to make sure that the rates were  
24 high enough for local exchange service to cover all  
25 the relevant costs including that tariffed rate

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1 charge. Since that's a new charge obviously imputing  
2 that charge into the rates would simply suggest that  
3 the cost was even higher than it is today.

4 Q. Finally in response to a question regarding  
5 dedicated access, you used the term conditioning. In  
6 your mind is that similar to the concept of channel  
7 performance?

8 A. As I understand that concept, yes.

9 MR. TROTTER: Those are all my questions.  
10 Thank you.

11 JUDGE ANDERL: Is there any recross?

12 MR. SHAW: A couple suggested by the  
13 redirect.

14

15 RECCROSS-EXAMINATION

16 BY MR. SHAW:

17 Q. On the directory issue that you've asked --  
18 that you responded to both the bench and Mr. Potter,  
19 you understand that in many cases directories are  
20 cobound with Yellow Page advertising?

21 A. I have seen such directories. I'm not sure  
22 exactly how often that's the case.

23 Q. In your view as to Yellow Pages would the  
24 incumbent be required to accept any Yellow Page  
25 advertising sold by the competing LEC and publish it



1 at TS LRIC?

2 A. I would not foresee any requirements as to  
3 the Yellow Pages.

4 Q. Would you see any requirement that new LECs  
5 subsidize their telecommunications services with any  
6 publishing revenues that they would derive from any  
7 kind of a Yellow Page or advertising business?

8 MR. TROTTER: I will object to the  
9 question. It's beyond the scope.

10 MR. SHAW: Well, I don't think so. It's a  
11 directory question.

12 MR. TROTTER: The directory testimony deals  
13 with --

14 JUDGE ANDERL: I think the directory  
15 testimony was limited and this is beyond the scope. I  
16 will sustain the objection.

17 Q. Why do you pick a 50/50 split of a relevant  
18 market before a competing LEC is relieved of the  
19 obligation of publishing a directory for its own  
20 customers?

21 MR. TROTTER: I will object to the  
22 question. That's not what the witness testified to.

23 MR. SHAW: That's what I understood her to  
24 testify to. If that's not right she can correct it, I  
25 guess.

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1                   JUDGE ANDERL:  It's not what I understood  
2 either but I will allow you to inquire if that's what  
3 the testimony was.

4           A.     That was not my testimony.  I believe the  
5 question was put to me as to whether a 50/50 split  
6 would be a different situation and I agreed that that  
7 might be a different situation.  I did not propose any  
8 particular division as to what would or would not be a  
9 justification for reconsidering that policy.

10          Q.     So an 80/20 split could also be a  
11 justification for reconsidering that policy?

12          A.     Conceivably.  I think that we're not going  
13 to be even at an 80/20 split for a while, but  
14 certainly I agree that a 50/50 probably was at that  
15 point.  I don't have a specific number in mind.

16          Q.     Well, you volunteered that we're not going  
17 to be at an 80/20 split for a while.  What facts and  
18 data do you base that on in the city of Seattle?

19          A.     I wasn't limiting that.  I didn't  
20 understand your question to be limited to the city of  
21 Seattle but rather the overall situation in the state  
22 of Washington, so I wasn't saying anything about the  
23 city of Seattle particularly.

24          Q.     Then a new carrier would not be required to  
25 attend to their own directory needs until they had

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1 some significant portion of the statewide market?

2 A. I haven't proposed a specific criterion,  
3 Mr. Shaw. I think that I'm willing to say that I'm  
4 quite comfortable that in the next couple of years  
5 we're not likely to get to a point that -- where I  
6 would feel much discomfort with having the incumbent  
7 take this responsibility on. What the magic number is  
8 certainly the incumbent is free to come to the  
9 Commission and say I think we're at the point now  
10 where I think this should be reconsidered and put  
11 forward whatever information justifies that  
12 reconsideration.

13 JUDGE ANDERL: Any other recross?

14 I hear nothing else for this witness.  
15 Thank you, Ms. Murray, for your testimony. You may  
16 step down.

17 MR. TROTTER: Is the witness excused, Your  
18 Honor?

19 JUDGE ANDERL: Yes. It was previously  
20 agreed that Mr. Wood from MCI would be the next  
21 witness. Let's be off the record while he takes the  
22 stand.

23 (Recess.)

24 (Marked Exhibits T-126, 137 and T-138.)

25 JUDGE ANDERL: Let's be back on the record.

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1 While we were off the record Mr. Wood took the stand.  
2 We marked his direct testimony as Exhibit T-136, his  
3 DJW-1 is Exhibit 137 and his rebuttal testimony is  
4 Exhibit T-138.

5 Whereupon,

6 DONALD WOOD,  
7 having been first duly sworn, was called as a witness  
8 herein and was examined and testified as follows:

9

10 DIRECT EXAMINATION

11 BY MS. WEISKE:

12 Q. Mr. Wood, would you state your name and  
13 address for the record, please.

14 A. Yes. My name is Don J. Wood. My address  
15 is 4985 Agate, A G A T E, Drive, Alpharetta, A L P H A  
16 R E T T A, Georgia 30202.

17 Q. For whom are you testifying in this  
18 proceeding?

19 A. I'm here on behalf of MCI Metro and MCI  
20 Telecommunications.

21 Q. Are you the same Don J. Wood that prefiled  
22 both direct and rebuttal testimony in this case?

23 A. Yes, I am.

24 Q. And if you were asked the questions and  
25 answers in that testimony today would your answers be

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1 the same?

2 A. Yes, they would.

3 MS. WEISKE: At this time, Your Honor, I  
4 would ask to admit what's been premarked as Exhibits  
5 T-136, 137 and 138.

6 JUDGE ANDERL: Any objection from any  
7 party?

8 I hear none. I will admit those three  
9 exhibits.

10 (Admitted Exhibits T-136, 137 and T-138.)

11 Q. Mr. Wood, have you had an opportunity,  
12 albeit briefly, to view the updated DS1/DS3 cost  
13 study?

14 A. I have had a relatively brief opportunity.  
15 Of course it is a fairly substantial document. I have  
16 had the chance to look at at least in some cursory  
17 fashion, yes.

18 Q. Given what you have prefiled, do you have  
19 any comments on that cost study?

20 A. No, I don't. I had attempted to ascertain,  
21 and I will require further review in order to  
22 ascertain, the type of cost methodology used by the  
23 company, in other words whether it's what the company  
24 calls an average service incremental or an average  
25 direct service -- sorry, ADSRC shared residual cost

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1 methodology. There are of course some labels in the  
2 study but I would like to look at that more carefully.

3 I have also, as I stated in my testimony, I  
4 do believe based on my experience in other  
5 jurisdictions that the cost per channel for DS1 and  
6 DS3 does not vary directly by a 28 to one ratio.  
7 There is some additional equipment required for DS3  
8 but I haven't had an opportunity to determine if the  
9 equipment included for both DS1 and DS3 is in fact  
10 what should be appropriately included to create the  
11 cost ratio that would be correct.

12 Q. Have you had an opportunity to review Dr.  
13 Selwyn's surrebuttal testimony in this case dealing  
14 with the cost study?

15 A. Yes, I have.

16 Q. Do you have a position as to whether you  
17 agree or disagree with his conclusions on that study?

18 A. Well, I can agree with his conclusions. I  
19 think he stated that his earlier recommendations in  
20 his direct testimony went to the rate structure or  
21 rate relationship between DS1 and DS3 and I supported  
22 his testimony in that regard. He had looked at the  
23 new studies in more detail than I have had an  
24 opportunity to do and had found one rate element,  
25 apparently one entrance facility rate element in which

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1 he found the rate structure to be acceptable.  
2 Otherwise I understand his additional testimony to  
3 state that his recommendation -- initial  
4 recommendation should remain the same. And I think he  
5 clarifies a point that was apparently a source of some  
6 confusion for Ms. Wilcox in her rebuttal that his  
7 recommendation to change the DS3 rate or to increase  
8 the DS3 rate was not because he thought the rate was  
9 too low but because he wanted to address the rate  
10 relationship between DS1 and DS3 and he goes on to  
11 state in the rebuttal to state that the proper rate  
12 levels for both DS1 and DS3 should be addressed in the  
13 rate case.

14 Q. Have you had an opportunity to review the  
15 revised local transport restructure tariff attached to  
16 Mr. Owens's testimony?

17 A. Again, I've had a very brief opportunity to  
18 do so. I tried to do it based on I guess essentially  
19 the following criteria, that is, that this type of  
20 tariff for expanded interconnection colocation  
21 shouldn't create additional costs for interconnectors  
22 that are unnecessary, shouldn't create a requirement  
23 that interconnectors assist the company in recovering  
24 costs over which the interconnector has no control,  
25 and that there shouldn't be terms and conditions that

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1 create a decided advantage for the incumbent carrier  
2 solely as a result of its monopoly status, and I have  
3 been able to mark at least some concerns that I have  
4 based on that fairly general criteria in which the  
5 language in the tariff is either -- appears to be  
6 certainly a problem or at least requires some  
7 clarification from the company.

8 Q. Would you briefly go through those  
9 concerns.

10 A. Yes. Section 2.1.3 H4.

11 JUDGE ANDERL: Can we have a reference to  
12 an exhibit number, please.

13 MS. WEISKE: I've got it marked as Exhibit  
14 37 which was originally Exhibit JDO-6 attached to Mr.  
15 Owens's rebuttal testimony.

16 JUDGE ANDERL: Thank you.

17 A. I won't necessarily read all of the  
18 problematic language. I will just refer to it and  
19 then of course I can provide more detail if you like.  
20 This provision states in part that the company should  
21 have no liability whatsoever to an interconnector  
22 or customer of the interconnector.

23 MR. SHAW: Could I interrupt and ask for  
24 the citation again?

25 THE WITNESS: 2.1.3 H4 and this is I



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1 believe the fourth sentence in that section. That  
2 states -- that section states in part that "the  
3 company shall have no liability whatsoever to an  
4 interconnector or customer of the interconnector for  
5 lost revenues or profits occasioned by any  
6 interruption of the interconnector's service for  
7 interference with the operation of the  
8 interconnector-provided facilities or equipment in the  
9 company location." And that appears to me to be a  
10 very broad -- a very overbroad removal of liability  
11 from the company. There are certainly scenarios in  
12 which interruption of an interconnector service could  
13 occur for which it would certainly be reasonable to  
14 argue that the company would have some responsibility,  
15 so I have at least problems with this language as it  
16 appears to be overbroad.

17           Section 2.3 E, which is entitled ownership  
18 of facilities. And this apparently -- let me just  
19 read the section. "Facilities utilized by the company  
20 to provide service under the provisions of this tariff  
21 shall remain the property of the company." And of  
22 course under virtual collocation that's reasonable.  
23 "Such facilities shall be released to the company by  
24 the customer whenever requested within a reasonable  
25 period following the request in as good condition as

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1 reasonable wear will permit." I just have some  
2 concern with a phrase such as reasonable time period  
3 and reasonable wear when these phrases aren't  
4 identified or further defined anywhere else in the  
5 study. Certainly that's language that could be  
6 further clarified.

7           Section 7.1, it's labeled general. The  
8 section states in part "this interconnection is  
9 accomplished through virtual interconnection  
10 arrangements. The company is solely responsible for  
11 the determination of whether virtual interconnection  
12 arrangements are available from its wire center." I  
13 would certainly like to amend this language to provide  
14 at least the option for the resolution of a dispute,  
15 if a dispute occurs. If an interconnector requests  
16 virtual colocation and the company says that it's not  
17 available in that office there should at least be some  
18 form of dispute resolution rather than a unilateral  
19 declaration by the company.

20           Q.     And Mr. Wood, would you have any objection  
21 if that resolution were determined by the staff?

22           A.     That is in fact what I have recommended in  
23 at least one of the other U S WEST states so that  
24 seems perfectly reasonable to me.

25           Section 7.3.1 2 -- I'm sorry, A2 and B.

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1 There are a number of references to requirements of  
2 insurance for interconnectors. There is no provision  
3 here for self-insurance by an interconnector in those  
4 cases where that might be possible and prudent for  
5 that interconnector to self-insure. I know a number of  
6 the companies do in fact self-insure their general  
7 operations so there appears to be a provision at least  
8 missing here that would permit that.

9           Section 7.3.2 I, the section states, "The  
10 company is not required to purchase plant or  
11 equipment, relinquish forecasted space or facilities  
12 or undertake the construction of new quarters or  
13 construction additions to existing quarters in order  
14 to satisfy an interconnector's request." Certainly  
15 seems reasonable that if a space is generally not  
16 available currently in a central office that virtual  
17 colocation might in fact appropriately not be provided  
18 out of that office. My problem with the language here  
19 is that it provides a very open-ended opportunity for  
20 the company to declare all available space to be  
21 within the confines of forecasted use with, again, no  
22 opportunity for resolution of that. So this provision  
23 as stated would allow the company to refuse to offer  
24 virtual colocation based on its assertion at least  
25 that it has a forecasted use of the space with no

1 further requirement than that.

2                   Section 7.3.3 B, "the interconnector will  
3 construct its fiberoptic cable to the  
4 company-designated point of interconnection serving  
5 the wire center."

6                   MR. O'JILE: Your Honor, can I interpose an  
7 objection or a question at this point -- I'm not sure  
8 which one it is. The 7.3.3 B was unchanged from the  
9 original tariff filed and included with Mr. Owens's  
10 direct testimony. So Mr. Wood would have had an  
11 opportunity to address this in his -- one of his  
12 earlier rounds of testimony. I'm questioning why  
13 we're going into these issues now.

14                   JUDGE ANDERL: Ms. Weiske.

15                   MS. WEISKE: I didn't realize that that was  
16 in -- I mean, given the volume of this tariff I didn't  
17 lay it side by side with the original filing so I'm  
18 happy to have Mr. Wood to go on to the next point --

19                   JUDGE ANDERL: Thank you.

20                   MS. WEISKE: -- but before he does that, Mr.  
21 Wood, do you have a recommendation back on 7.3.2 I in  
22 terms of your concern about space limitations being  
23 used to exclude potential entrant for virtual  
24 colocation in terms of the forecasted space or  
25 facilities? You raised a concern but not a

1 recommendation.

2       A.     Yes. I certainly intended to suggest that  
3 there be some form of dispute resolution in that  
4 regard as well and in this case perhaps if there is a  
5 disagreement among the parties and they cannot come to  
6 terms on their own then perhaps that could also be an  
7 issue that can be raised to staff.

8               Section 7.3.3 H, which I understand to be  
9 a new section, states that "the interconnector will be  
10 responsible for the payment of training to U S WEST  
11 employees." Certainly if the interconnector is  
12 requesting virtual colocation equipment that is not in  
13 use by the company or with which the company and its  
14 employees have no familiarity it's reasonable to  
15 require some training of company employees. This  
16 provision as stated, however, creates essentially an  
17 open ended cost obligation for an interconnector. I  
18 would suggest that instead of the provision as stated  
19 I would suggest that it state that the interconnector  
20 will be responsible for the training and then let the  
21 interconnector in a sense control the magnitude of  
22 this cost, whether it provide the training itself or  
23 more likely scenario contract directly with a vendor  
24 to provide the training rather than having the company  
25 incur those costs and then pass them on directly to

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1 the interconnector.

2           There is also an additional reference to  
3 training, which I believe is also new in this tariff  
4 and it's 7.5.2 B6, and again, the recommendation is  
5 the same. The company is entitled to some training of  
6 its employees for which it has no familiarity. But  
7 again I think the interconnector should have at least  
8 some option of providing quality training in a way  
9 that would allow it to control the magnitude of this  
10 cost.

11       Q.     Section 7.3.5 I, which I also understand to  
12 be an added section states, at least in part, that  
13 "any changes, modifications or additional engineering  
14 requested by the interconnector to the type and  
15 quantity of a VEIC equipment prior to finalization of  
16 the quotation will result in cancellation of the VEIC  
17 request." If I understand the language correctly what  
18 the company is saying is that if the interconnector  
19 makes any change to its request the process is  
20 terminating -- terminated -- the interconnector has  
21 paid those costs for that quotation fee and the  
22 process is begun anew. Certainly it would be a more  
23 efficient option in some circumstances to look at the  
24 company -- the money that had already been paid by the  
25 interconnector to the company for the preparation of

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1 this fee. Certainly the company would be entitled to  
2 any additional costs directly incurred by the change  
3 requested by the interconnector but it's not at all  
4 clear whether the process would need to be terminated  
5 and restarted because of the request for a change.

6           And my final section on this tariff is  
7 7.3.6 GD.

8       Q.     Actually, I think Mr. Wood, it's G1 D.

9       A.     You're correct. G.1 D. "The  
10 interconnector shall have seven calendar days from the  
11 agreed to date to remove the VEIC equipment from the  
12 company's premise. Absent circumstances beyond the  
13 interconnector's reasonable control, if the  
14 interconnector fails to remove the VEIC equipment from  
15 the company's premises by the seventh day from the  
16 agreed-to date, the company may dispose of the VEIC  
17 equipment in any manner that it sees fit and may  
18 retain any proceeds from such disposal." I completely  
19 disagree with the final provision that absent removal  
20 in seven days the company can essentially sell the  
21 interconnector's equipment and pocket the proceeds.  
22 My understanding from a number of potential  
23 interconnectors or companies that might require  
24 virtual colocation is that they will be using vendor  
25 representatives, technicians, to remove this equipment

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1 and the current scheduling is from 30 to 45 days in  
2 order to get these people, so it would be certainly  
3 reason to allow -- the time that's currently being  
4 required to schedule those folks, that time should  
5 certainly lapse before the company is allowed to sell  
6 the interconnector's equipment or dispose of it in any  
7 other manner that it sees fit which could presumably  
8 be thrown into the dumpster. I disagree with this  
9 provision.

10 Q. Would your recommendation be to delete that  
11 provision, Mr. Wood?

12 A. I would either delete this provision or  
13 change it to a 30 to 45-day time period, which I  
14 understand fairly directly mirrors the length of time  
15 that it currently requires to schedule vendor  
16 representatives to conduct this type of work.

17 I'm sorry, I misspoke. No, I didn't. That  
18 is my final section.

19 Q. Mr. Wood, did you also have a brief  
20 opportunity to look at the new rate elements as part  
21 of this tariff?

22 A. I did. Again, a very brief opportunity to  
23 do that. I'm still -- I guess the right way to  
24 characterize it is that my review and analysis is  
25 still ongoing regarding whether specific rate elements



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1 are based on TS LRIC and whether there's a reasonable  
2 level of loading above TS LRIC that's been applied to  
3 the rates.

4 Q. Would it be your recommendation that any  
5 rates that resulted from this tariff both are at TS  
6 LRIC plus some reasonable loading? What are you  
7 recommending in terms of the rates?

8 A. Yes, I'm sorry. Both of those should be  
9 true. The reason that I am continuing to review both  
10 of those issues is because both of those issues  
11 constitute my recommendation that properly calculated  
12 TS LRIC be the price -- I'm sorry, the cost basis for  
13 prices and that if an overhead loading is applied it  
14 should certainly be a reasonable level.

15 Q. Does that complete your surrebuttal?

16 A. Yes, I believe it does.

17 MS. WEISKE: This witness is available for  
18 cross, Your Honor.

19 JUDGE ANDERL: Okay. Could you just ask  
20 him one or two more questions about the stipulation?

21 MS. WEISKE: Sorry.

22 Q. Have you had an opportunity to look at the  
23 stipulation that's been filed in this case?

24 A. Yes, I have.

25 Q. Do you have any comments as to that

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1 stipulation?

2 A. I have reviewed the language. Of course in  
3 its development I had some recommendations. As it's  
4 written I fully support the language.

5 MS. WEISKE: Thank you.

6 JUDGE ANDERL: Mr. O'Jile, cross?

7 MR. O'JILE: Thank you, Your Honor.

8

9 CROSS-EXAMINATION

10 BY MR. O'JILE:

11 Q. Mr. Wood, good afternoon. My name is Bill  
12 O'Jile and I'm one of the lawyers for U S WEST on this  
13 case?

14 A. Good afternoon, sir.

15 Q. Let's just talk about your surrebuttal  
16 briefly while we have that in mind. In two cases the  
17 dispute resolution section and with respect to the use  
18 of space and the exhaustion of space in the central  
19 office. I understand your recommendation is that  
20 there there should be some dispute resolution language  
21 in the tariff that would allow disputes over  
22 colocation to be resolved by some independent party.  
23 Is that a fair characterization of your testimony?

24 A. I think that's a fair characterization.  
25 The way we've addressed it in other states, at least in

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1 other states that stipulations had been reached is to  
2 say that staff would be the mediator if the affected  
3 companies could not reach a resolution on their own.

4 Q. If that would be outside the role of the  
5 staff of this Commission, would you agree that  
6 mediation or arbitration or other -- some other form  
7 of independent dispute resolution, either through this  
8 Commission or outside this Commission, would be a fair  
9 way to resolve those matters?

10 A. Well, I guess it could be a fair way. I  
11 hesitate to endorse that because it would likely be  
12 the more expensive way at least in my experience of  
13 using those professionals who specialize in that area.  
14 I would hope that if the Commission orders that this  
15 type of colocation be made available any disputes  
16 regarding space in a central office would certainly  
17 fall under the Commission's authority to review. It  
18 would certainly be within the scope of the Commission  
19 to decide disputes.

20 Q. For instance, you wouldn't object to the  
21 Commission saying that an ALJ would decide those kind  
22 of disputes?

23 A. That seems reasonable.

24 Q. Now, you listed a number of what I would  
25 call wordsmithing concerns with the tariff. Were you

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1 in the room when Mr. Owens was cross-examined on the  
2 willingness of U S WEST to negotiate with parties on  
3 the concerns like you have raised?

4 A. Well, I was not in the room. I have read  
5 the transcript, and I guess whether or not a  
6 particular change is wordsmithing depends on whether  
7 you happen to be a party that's going to be  
8 significantly affected by whether or not that language  
9 changes, but if I understand the transcript correctly  
10 and Mr. Owens's response the company would be willing  
11 to discuss some language changes. What I've done here  
12 is raise certainly those areas that I think should be  
13 on the table for discussion. Obviously if it would be  
14 resolved between the companies all the better.

15 Q. Thank you. In your testimony you refer to  
16 your participation in a proceeding in the state of  
17 Delaware.

18 MS. WEISKE: Do you have a page reference,  
19 Mr. O'Jile?

20 MR. O'JILE: Yes. I'm trying to find it  
21 here. Well, I'm looking at pages 25 and 26.

22 MS. WEISKE: Direct or rebuttal?

23 MR. O'JILE: Direct.

24 Q. Now, you had an earlier reference to the  
25 fact that you had been retained by the staff of the

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1 Delaware Commission to participate in this docket. I  
2 don't have that citation --

3 A. I believe the earlier reference is at page  
4 7 and 8 but yes, I also see the reference at page 25  
5 to the testimony of Dr. Emerson.

6 Q. Now, on pages -- page 25 of your direct,  
7 lines 12 and 13 as the preface to the quote from Dr.  
8 Emerson's testimony you said that Dr. Emerson referred  
9 to a prepared chart?

10 A. Yes, he did.

11 Q. Now, in response to a U S WEST data  
12 request, did you produce that prepared chart by Dr.  
13 Emerson from the Delaware proceeding?

14 A. Yes.

15 JUDGE ANDERL: I've been handed a single  
16 page document which I will mark for identification as  
17 Exhibit 139.

18 (Marked Exhibit 139.)

19 MR. TROTTER: We need one more.

20 MR. TRAUTMAN: We need one more.

21 JUDGE ANDERL: That's Exhibit 139.

22 Q. Mr. Wood, do you recognize what's been  
23 marked as Exhibit 139 as the chart used by Dr. Emerson  
24 and referred to in your testimony?

25 A. It's the first page of that chart. Of

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1 course as you will see from the data request response  
2 there were multiple page as he went through an example  
3 of why an allocation of the shared costs to a service  
4 would result in poor economic decision making but this  
5 is the first pages as I recall.

6 Q. Now, in the Delaware proceeding, is it  
7 correct that you advocated the use of some shared cost  
8 elements in an incremental cost study?

9 A. Not that I am aware, no. No shared costs.  
10 Well, what I was discussing in Delaware was a total  
11 service long-run incremental cost study, and by  
12 definition if you choose the service as your increment  
13 there would be no shared cost.

14 Q. What about shared investments?

15 A. There was a discussion in Delaware in which  
16 we discussed the idea that there may be investments  
17 that are shared or used by -- I hesitate to use the  
18 word shared because it's easy to confuse shared  
19 investment with shared cost and there are two very  
20 different concepts. There may very well be investment  
21 of a particular type and characteristics used by more  
22 than one service that is directly attributable to one  
23 of those services, and therefore it would not be a  
24 shared cost, but would properly be included in a total  
25 service long-run incremental cost study.

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1 Q. And that is the type of investment that  
2 would be used by multiple products within a family  
3 group of products?

4 A. Well, let me give you the example I gave in  
5 Delaware. Maybe I can clear that up. For equipment  
6 that has -- let me back up one step further. When  
7 we're conducting a long-run incremental study one of  
8 the things you're looking at is the cost of replacing  
9 the capacity and the existing network using the  
10 forward looking technology. The replacing the  
11 capacity that is displaced by the service that you're  
12 studying, that helps you answer the question what  
13 costs can be avoided if the company chooses not to  
14 offer this service.

15 Now, there are some investments that have a  
16 finite capacity, and in a scenario in which the demand  
17 for the company services is growing, what you're  
18 identifying is the cost of replacing specific units of  
19 capacity which may be displaced by service A, service B  
20 or perhaps even service C. If service A displaces a  
21 unit it's no longer available for service B and  
22 therefore would be a direct incremental cost of  
23 offering service A. In other words, if you didn't  
24 offer service A, service B could use that capacity.  
25 You wouldn't need to replace that capacity as quickly

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1 and you would have a cost that would be avoidable. And  
2 avoidable is the primary concept here, the cost  
3 causation concept. So there would certainly be  
4 instances where you would have a piece of equipment  
5 that might be used by more than one service but that  
6 would not be a shared cost, the investment associated  
7 with that equipment would not be shared cost. It would  
8 be part of a service cost. I  
9 apologize if that tends to be a fairly dry topic. I  
10 can't make it very interesting. I certainly did not  
11 advocate using shared costs in a TS LRIC study.

12 Q. Do you have an opinion as to what  
13 percentage of a LEC's revenue requirement the  
14 combination of the total service long-run incremental  
15 cost of all of its service would amount to?

16 A. Well, I have some information to give me at  
17 least the foundation for an opinion. I have seen the  
18 U S WEST numbers in an Oregon proceeding but they are  
19 proprietary so I will try to stay away from those. I  
20 have seen numbers from a number of the other RBOCs in  
21 an FCC proceeding and they argued that total TS LRIC  
22 ranged from, depending on the company, between 40 and  
23 perhaps between 60 and 70 percent of revenue  
24 requirement.

25 Q. So, in other words, if U S WEST priced all



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1 of its services at TS LRIC there can be a 30 to 60  
2 percent shortfall of its revenue requirement?

3 A. That's right. Certainly I would give the  
4 caveat that what the companies were arguing there was  
5 revenue requirement as they saw it. It would not  
6 necessarily be economic costs incurred by the company  
7 in excess of total TS LRIC which would be a much  
8 smaller number, but certainly those costs might exist,  
9 yes.

10 Q. Now, you made in your testimony basically,  
11 direct testimony, starting on page -- I think it's  
12 going to be 14 you talk about the U S WEST cost  
13 studies that have been presented in this docket. And  
14 you spend a good share of your time talking about your  
15 concerns regarding the average direct and shared  
16 residual cost numbers presented by Mr. Farrow; is that  
17 correct?

18 A. Well, specifically what I referred to  
19 starting at page 14 is Mr. Farrow's direct testimony  
20 in which he describes the methodology used by the  
21 company. I certainly was responding to that more so  
22 than the cost documentation itself.

23 Q. And in your rebuttal testimony at page 3  
24 you cite Sue McCanless from Sprint and her belief that  
25 the ASIC costs presented by U S WEST would be

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1 appropriate -- the appropriate cost to use in  
2 establishing rate for services.

3 A. Well, as I understand the company's use of  
4 the term ASIC, it is at least conceptually consistent  
5 with my use of TS LRIC. The company's use of ADSRC  
6 is, quite frankly, entirely new to me. I had never  
7 seen it before Mr. Farrow's testimony in this  
8 proceeding. It certainly has no basis in the economic  
9 literature. It doesn't show up in the cost studies of  
10 any other RBOCs so it's a very new concept to me.

11 Q. And the objection that you are stating, if  
12 I understand it, beyond the labeling of the cost  
13 studies with terminology that you're not familiar with  
14 is the fact that U S WEST and Mr. Farrow specifically  
15 have said that the ADSRC could be a target price floor  
16 for a particular product or service and that is, in his  
17 opinion, justified by the joint costs that may be  
18 associated with a particular product or group of  
19 products?

20 A. There's a lot of parts to that question.  
21 Let me see if I can recall them. My disagreement with  
22 Mr. Farrow's theory of ADSRC is that it is -- and I  
23 think I state this in my direct testimony. It is not  
24 a question of labeling the cost studies. It is in  
25 fact the inclusion in the cost study that's purported

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1 to be TS LRIC choosing the service as the increment  
2 or, as I stated before, costs that are avoidable if a  
3 service is not offered, the inclusion in that study of  
4 costs Mr. Farrow readily recognizes are not avoidable  
5 if that service is not offered by the company, so that  
6 clearly the inclusion of those costs would be -- in my  
7 view would be a mistake in the cost study.

8 Q. Would you agree, though, that in the cost  
9 documentation that Mr. Farrow has provided he has  
10 clearly laid out that increment so that if a party was  
11 concerned about what was, for instance, the ASIC cost  
12 floor for a particular product they could readily  
13 determine that information from the documentation  
14 supplied by Mr. Farrow?

15 A. Well, they could certainly readily  
16 determine what the company reports the costs to be.  
17 The inclusion of that number actually leads to the  
18 second major concern that I have that I articulated in  
19 my testimony and that is that while the company has --  
20 or Mr. Farrow has at least at times said ADSRC is the  
21 target price floor he has at times said ASIC is the  
22 target price floor. He has said that ADSRC is not  
23 economic, Mr. Owens has said that is the economic  
24 cost. The way Mr. Farrow has defined ADSRC are its  
25 costs associated with a group of services but looking

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1 at his prefiled testimony, his responses to  
2 cross-examination, and the transcripts of his  
3 deposition in the rate case, he stated that he's  
4 either unwilling, unable or both to provide a list of  
5 the services within each group, so an analogy I guess  
6 escapes me.

7           Trying to get your hands on the company's  
8 definition of joint cost and ADSRC is like trying to  
9 get a handful of warm jello. It keeps slipping out  
10 through your fingers and the harder you squeeze the  
11 more costs slip out, and what Mr. Farrow said is it's  
12 entirely up to the company how hard you squeeze.  
13 There's no definition of which costs are included and  
14 which are not, so this gives the company very broad  
15 flexibility in determining which costs are going to be  
16 included on a service by service basis. Then with that  
17 very slippery, if you will, definition of cost,  
18 certainly difficult to get a handle on, he goes on to  
19 say that, well, it's not really the cost floor if our  
20 product manager feels that it can't be the price floor.  
21 So he set a target very clearly for monopoly services  
22 where competitive pressures don't exist of a cost  
23 threshold that's up here somewhere although it can be  
24 anywhere through a broad range, but he's also said that  
25 for the company's own services that face

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1 some form of effective competition the real price  
2 floor is somewhere much lower, and that's an entirely  
3 different standard and there's absolutely no basis in  
4 economics and no basis in good public policy to create  
5 two different standards one of which is essentially a  
6 sliding scale.

7 Q. Isn't it a fact, though, sir, that in  
8 economics and in antitrust law there is a -- there is  
9 a basis for saying that there is no cross subsidy if  
10 you are pricing at or above your total service  
11 long-run incremental cost for a particular product?

12 A. Well, I would certainly agree to economic  
13 theory. My reading of course of antitrust law is not  
14 as an attorney. I've seen that test used. I've also  
15 seen some other tests used. I think Mr. Farrow at  
16 least at one point agreed that TS LRIC was the proper  
17 test for cross subsidy. Unfortunately he then goes on  
18 and states that ADSRC is needed to determine if a  
19 service is being cross subsidized and that is just --  
20 well, that's just fundamentally incorrect in my view.

21 Q. Let's turn to your direct testimony at page  
22 30. There you start a discussion of the access charge  
23 issue?

24 A. Yes, I see it.

25 Q. Would you agree as a general matter that

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1 access costs have been a declining cost for  
2 interexchange carriers over the last couple of years?

3 A. In absolute terms or in terms of their  
4 total cost structure? I'm sorry, I'm not -- I don't  
5 have quite enough information to say yes or no to  
6 that.

7 Q. Well, let's start as a percentage of  
8 revenues. Have access charges been declining over --

9 MS. WEISKE: As a percentage of whose  
10 revenues, Counsel?

11 MR. O'JILE: Interexchange carriers  
12 generally.

13 MS. WEISKE: As an entire group?

14 MR. O'JILE: Well, I think I'm just -- I  
15 said interexchange carriers generally either  
16 individually or as a group.

17 Q. Have access charges been declining over the  
18 past several years?

19 A. The self-reported numbers from  
20 interexchange carriers -- and that's, frankly, all I  
21 have to go on -- have indicated a percentage of total  
22 cost. If I gave you a total revenue response before  
23 maybe that led to the confusion. The percentage of  
24 access as a percentage of total cost of the company of  
25 doing business I've seen numbers approximately 50

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1 percent, sometimes slightly below but I haven't  
2 noticed any particularly dramatic trend in that  
3 number, in that percentage over time. They still  
4 appear to be reporting a number that's approximately  
5 50 percent.

6 Q. Let's talk specifically about MCI, MCI  
7 Telecommunications Company, your client in this case.  
8 Are you aware of whether access charges as a  
9 percentage of revenue for MCI have been declining over  
10 the past several years?

11 A. I would expect that for MCI as its volumes  
12 have grown, its ability to make more efficient use of  
13 some high volume facilities would have been increased  
14 slightly so I would expect over the last few years  
15 you're probably going to see a slight downward trend  
16 for MCI as a percentage of the total, but that's --  
17 again, that's only based on my understanding of their  
18 traffic volumes and some general ideas on costs of  
19 relative facilities.

20 MR. O'JILE: May I approach the witness?

21 JUDGE ANDERL: Yes.

22 MS. WEISKE: May I have a minute to read  
23 this, please. Thank you.

24 Q. Mr. Wood, I'm going to show you a document  
25 which is the 1994 annual report for MCI communications

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1 corporation. Have you seen this document before?

2 A. I haven't. I don't get these any more.

3 Q. Referring you to --

4 MS. WEISKE: You don't get them any more.

5 Is that what you just said?

6 THE WITNESS: I wouldn't want to create a

7 conflict of interest so I don't get these any more.

8 Q. Referring you to page 9 of this document, I  
9 was wondering if you could read the sentence starting  
10 "telecommunications expense."

11 A. Telecommunications expense as a percentage  
12 of revenue decreases to 51.9 percent in 1994, from  
13 53.5 percent in 1993 and 53.8 percent in 1992.

14 Q. And can you on the preceding page just  
15 state what the telecommunications expense for MCI in  
16 1994 was?

17 A. Oh, I see. This is in millions?

18 MS. WEISKE: Your Honor, I'm not quite sure  
19 where we're going with this. Mr. Wood already said he  
20 doesn't receive these annual reports. These reports  
21 certainly are not done with his supervision, okay, et  
22 cetera. If we want to establish Mr. Wood can read  
23 sentences into the record I will stipulate that he can  
24 read these into the record but I'm not sure what we're  
25 doing with this line of questioning.



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1 JUDGE ANDERL: Mr. O'Jile.

2 MR. O'JILE: I asked the witness a question  
3 about whether there is a declining trend in access  
4 charges in the industry, and he indicated that there  
5 was a slight decline, and the MCI report that he read  
6 would surely show that, but I have two more questions  
7 in this area and I want to demonstrate what a  
8 percentage and a half decrease in access revenue, what  
9 that means in real dollars, and then I will move on.

10 JUDGE ANDERL: I will allow it.

11 A. The line 1994 telecommunications operating  
12 expense is \$6.916 billion looks like.

13 Q. Now, in the telecommunications expense for  
14 MCI in 1993 was 53.5 percent of revenue and it declined  
15 to 51.9 percent of revenue in 1994, so it was a 1.6  
16 percent decline?

17 A. Doing the math in my head I think that's  
18 right.

19 Q. And would you agree subject to check that a  
20 1.6 percent decline in a \$6.9 billion expense amounts  
21 to \$110,656,000?

22 A. That's math that I won't try to do in my  
23 head but I will accept it subject to check.

24 Q. Would you agree that competition in certain  
25 segments of the access market have increased over the

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1 last several years.

2 A. I am sorry, I'm going to need a little more  
3 help with that question.

4 Q. Specifically, competition in the  
5 competitive transport market, end to end services, has  
6 increased over the last several years with the  
7 introduction of services by competitive access  
8 providers such as MFS.

9 A. Well, there certainly appear to be more  
10 providers of these types of services. I haven't seen  
11 their growth rates. I assume that they're growing  
12 somewhat. The degree of competition may vary  
13 significantly between carriers, interexchange carriers,  
14 purchasing the service and it also may vary  
15 significantly geographically.

16 What you made is a very general statement  
17 that I would obviously have to have a little more  
18 detail before I could give you a yes or no.

19 Q. And specifically one of the results of the  
20 local transport restructure adopted at the FCC was  
21 that the tandem switching segment of switched access  
22 was made available to competition. Would you agree  
23 with that?

24 A. Was made available to competition?

25 Q. By the unbundling of tandem switching from

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1 switched access, that that service can now be provided  
2 by providers other than the local exchange carrier?

3 A. Well, the LTR restructure certainly divided  
4 tandem switched transport from nontandem switched  
5 transport, if you will, and made the facilities  
6 associated with that type of transport available on I  
7 guess what you could call an unbundled basis, perhaps  
8 not fully unbundled but at least a step in the right  
9 direction. It would make it possible for a carrier to  
10 purchase tandem switching from another provider and  
11 the transport functions from a local exchange carrier.  
12 I'm not aware that that's happening.

13 Q. Are you aware that there was testimony  
14 previously in this proceeding that ELI and MFS both  
15 have tandems that are in existence in the state of  
16 Washington?

17 MR. RINDLER: I don't believe that was  
18 MFS's testimony.

19 MS. WEISKE: And I don't recall that that  
20 was the testimony in prior days of this record.

21 JUDGE ANDERL: Mr. O'Jile, restate it and  
22 I will see if I recall.

23 MR. O'JILE: Okay.

24 Q. Do you have any knowledge, sir, regarding  
25 whether parties to this proceeding intend to offer

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1 competitive tandem services in the state of  
2 Washington?

3 A. I have looked at the transcript. I don't  
4 recall specific language regarding their intent. I  
5 seem to recall a response by at least a witness of one  
6 of those companies that that service is not currently  
7 being provided or, in other words, regardless of  
8 intent I'm pretty sure there's no takers, but you  
9 would have to point me to the section of the  
10 transcript. That's really the limitation of my  
11 recollection.

12 Q. And are you a witness in the U S WEST rate  
13 case?

14 A. At least as of today I've been asked to  
15 appear in that case.

16 Q. And are you familiar with the proposals  
17 being made in that case regarding switched access?

18 MS. WEISKE: Again, I would ask you to  
19 establish foundation as to whether Mr. Wood has  
20 reviewed any of the filings in that case case.

21 MR. O'JILE: I thought that's what I asked  
22 him.

23 MS. WEISKE: I think you asked him if he had  
24 been engaged to appear in that case.

25 JUDGE ANDERL: And then the question --

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1           MR. O'JILE: Are you familiar with U S  
2 WEST's proposals in that proceeding.

3           JUDGE ANDERL: I think inherent in a yes  
4 would be that he reviewed them but, yes, I will allow  
5 the question. Are you familiar --

6           A. Let me be very clear. I have been put on  
7 notice by counsel that I will be asked to review them.  
8 And then I darn well better do a good job of it. But  
9 no, I am familiar with references by Ms. Wilcox in  
10 this proceeding in a very general way to those  
11 recommendations but I have not seen the company's  
12 filing in the rate case.

13          Q. So you have not -- you cannot comment one  
14 way or the other on the -- whether the impact of U S  
15 WEST's proposals in the rate case, what level of price  
16 reduction and switched access U S WEST is seeking?

17          A. No, I couldn't.

18          Q. Now, on page 32, lines 19 through 20 of  
19 your direct testimony you state that "the successful  
20 introduction of competition into the state switched  
21 access market will reduce the rates that consumers  
22 must pay."

23          A. That's right. A reduction in the rates for  
24 consumers would in fact be my definition of successful  
25 introduction of competition.

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1 Q. And consumers in this case would be the  
2 interexchange carriers?

3 A. No. In this case if you look at the  
4 proceedings, it's the end users of long distance  
5 services who ultimately pay these prices, so in this  
6 case end users would mean literally that, the end  
7 users of a long distance service.

8 Q. But as a precursor to reductions in end  
9 user rates, U S WEST customers with switched access  
10 services, namely, the interexchange carriers, would  
11 also benefit from those reductions, correct?

12 A. Well, they would certainly, if they got a  
13 price reduction -- well, let me state it the other  
14 way. In order to make a price reduction to end users  
15 for long distance services based on an access  
16 reduction there would need to be an access reduction,  
17 and unfortunately, the company's proposal in this case  
18 as described by Ms. Wilcox -- and this is what I  
19 describe at this part of my testimony -- shifts some  
20 contribution around from various rate elements to  
21 others but it doesn't reduce the amount that  
22 interexchange carriers must pay and therefore there's  
23 no opportunity for interexchange carriers to reduce  
24 the amount that end users must pay so this would not  
25 be -- the company's existing proposal would simply not

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1 meet my definition of successful introduction of  
2 competition into the access market.

3 Q. But, again, you're not familiar with the  
4 proposals in the general rate case that the company --

5 A. Ms. Wilcox has suggested that a reduction be  
6 as an order. Beyond that very general statement I  
7 can't tell you anything about the company's proposal.

8 Q. Let's talk about successful introduction of  
9 competition and what that means. I would take it that  
10 you would -- MCI and other interexchange carriers  
11 would welcome the availability of competitive tandem  
12 switching options?

13 A. Well, I think it's a general matter they  
14 would welcome the availability of any of the options  
15 for any of the rate elements for switched access.

16 Q. And that would include transport and local  
17 switching as well?

18 A. That's right.

19 Q. Is it your expectation, Mr. Wood, that  
20 alternative exchange carriers are going to develop  
21 their own specific costs and rates for switched access  
22 services?

23 A. They would certainly have rates. I assume  
24 that there would at least be some internal analysis of  
25 their costs, but I don't envision the creation of cost

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1 studies in the way that U S WEST would create cost  
2 studies.

3 Q. Wouldn't you find it likely that an  
4 alternative exchange carrier would merely mirror the  
5 switched access rates of U S WEST?

6 A. Well, I'm not sure why they would be likely  
7 to do that. They would certainly price at the most  
8 competitive level possible. When I say that level  
9 possible, that goes directly to this section of my  
10 testimony. An equally sufficient provider will offer  
11 a rate that fully recovers its cost, but of course  
12 if it can offer a rate below U S WEST it would  
13 certainly have the incentive to do so, especially since  
14 U S WEST has essentially 100 percent of the market at  
15 least certainly for local switching and it appears for  
16 tandem switching and the carriers seeking to enter the  
17 market have effectively zero percent. The numbers  
18 would be slightly different for transport but clearly  
19 100 and zero for local and tandem switching.

20 Q. Let's talk about local switching in the  
21 context of your example here. Would you agree that  
22 when a customer, end user customer, decides to take  
23 service from an alternative exchange carrier that that  
24 alternative exchange carrier's local switching  
25 function for switched access service is a bottleneck



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1 to the same extent that the local exchange carrier's  
2 local switching service might be a bottleneck, might  
3 be considered a bottleneck?

4 A. No.

5 Q. Help me with this. The end user customer  
6 who is a customer of ELI, for instance, will -- is  
7 contracting with ELI for its local service. That  
8 customer wants to make a long distance call, originate  
9 or terminate long distance calls. In order for MCI to  
10 gain access to that customer's long distance business  
11 it's going to have to go through ELI and purchase  
12 local switching, won't it?

13 A. I think that's correct. I'm not sure if  
14 I'm understanding the foundation of your question, but  
15 if I don't it will become apparent in a minute.

16 Q. Well, the end user customer is not going to  
17 be able to say, well, ELI and U S WEST have different  
18 rates for local switching so I'm going to pick ELI  
19 because it has the lower local switching rate as the  
20 company I want to provide me access to MCI and other  
21 long distance carriers. I mean, there's going to be  
22 one pipe from the end user to and from the end user,  
23 right?

24 A. Well, I'm not sure. Actually I think  
25 that's a different question as to whether there's

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1 going to be one pipe to the end user. If I understand  
2 your question the end user would not be the entity  
3 dictating the source of local switching for -- that an  
4 interexchange carrier would purchase. I think that  
5 much I can agree on.

6 MR. O'JILE: Your Honor, this would be a  
7 convenient place to take a break. I think I will go  
8 over my notes. I think I don't have but maybe ten  
9 minutes more.

10 JUDGE ANDERL: And you think it would be  
11 closer to ten minutes if we take a break than if we  
12 didn't?

13 MR. O'JILE: Yes.

14 JUDGE ANDERL: Let's do it then. 20 after  
15 three.

16 (Recess.)

17 JUDGE ANDERL: Let's be back on the record  
18 after our afternoon recess. Mr. O'Jile.

19 MR. O'JILE: Your Honor, during the break  
20 Ms. Weiske graciously reminded me that I had not moved  
21 my exhibit, and that was Exhibit 139. We then had a  
22 discussion of the fact that Exhibit 139 was part of a  
23 multi-page response provided by the witness through a  
24 U S WEST information request and it related to some  
25 testimony given by Dr. Rick Emerson in Delaware.

02006

1 There is a complete explanation in Dr. Emerson's oral  
2 direct testimony of not only the chart that I  
3 introduced or had marked and that the witness has  
4 referred to in his testimony, but then all of the  
5 other charts that were responded to in the data  
6 request. So, Ms. Weiske and I have agreed that in  
7 order to avoid objection and probably give this the  
8 fairest treatment possible that we would not object to  
9 the entire request being admitted, and she will not  
10 object to the pages, explanatory pages, of the  
11 Delaware transcript being admitted along with it so  
12 that we have the complete package. And if that's okay  
13 with Your Honor, that's how we'll handle this.

14 MS. WEISKE: Your Honor --

15 JUDGE ANDERL: I guess I don't have any  
16 problem. Obviously when the parties agree I'm very  
17 happy, but do we need it --

18 MS. WEISKE: Well, that was my other  
19 suggestion was I will oppose its admission altogether.  
20 I mean, I will oppose the one page or we can put it in  
21 as a complete because it's misleading from our  
22 perspective with just the one page.

23 JUDGE ANDERL: Is it important to U S WEST  
24 to have it in at all?

25 MR. O'JILE: Well, I think it helps --

02007

1                   JUDGE ANDERL:  Either withdraw it or I'm  
2 going to admit the whole thing because I think in  
3 fairness to MCI they're entitled to have the whole  
4 document come in.

5                   MR. O'JILE:  The witness referred to just  
6 the two paragraphs that describe the exhibit that we  
7 put in and if MCI wants the whole document in, that's  
8 fine but then we want also the explanatory paragraph.

9                   MS. WEISKE:  We don't, Your Honor.  We  
10 would prefer it not come in at all.  I was trying to  
11 work it out with U S WEST because I thought they  
12 wanted something in.  Our preference is we don't think  
13 it adds to the record.  We don't think it needs to be  
14 in at all.

15                  MR. O'JILE:  Well, I think we're clearly  
16 entitled to have it in because the witness refers to  
17 the fact that Dr. Emerson produced a chart and then  
18 goes on to say, here's his explanation of that chart.  
19 We're merely producing the chart that he was referring  
20 to, I mean, it's clearly admissible.

21                  MS. WEISKE:  And then as I said our  
22 response in total needs to be in because that's only  
23 one page of a five page chart response -- three pages  
24 -- however many it is.  If they want it in let's put  
25 it in completely.

02008

1 JUDGE ANDERL: Well, the quoted portion of  
2 Dr. Emerson's pages on pages 25 and 26, is he just  
3 referring to this one page?

4 MR. O'JILE: Yes.

5 MS. WEISKE: No. That's the factual  
6 dispute, Your Honor. The exhibit can speak for itself  
7 if it's presented in total.

8 JUDGE ANDERL: Okay. Can MCI have the --  
9 who has got the whole exhibit? Who is going to  
10 provide it?

11 MR. O'JILE: I provided a copy to Ms.  
12 Weiske.

13 MS. WEISKE: It's U S WEST's exhibit. If  
14 they want to admit it, they can admit it.

15 MR. O'JILE: We don't have copies of the  
16 whole thing.

17 JUDGE ANDERL: Let's be off the record.

18 (Discussion off the record.)

19 JUDGE ANDERL: We'll be back on the record.  
20 While we were off the record it was determined that  
21 U S WEST will provide the balance of the response  
22 that's referred to in Mr. Wood's testimony on pages 25  
23 and 26 and that whole document along with the  
24 explanatory transcript pages from the other proceeding  
25 will be marked and admitted as Exhibit 139. Mr.

02009

1 O'Jile, do you also have additional cross?

2 MR. O'JILE: Yes, just a few more

3 questions, Your Honor.

4 (Admitted Exhibit 139.)

5 Q. Mr. Wood, page 39 of your testimony you  
6 state that in -- you state there on lines 1 through 9  
7 that if the market for -- now referring specifically  
8 to line 6 -- if the market for transport and tandem  
9 switching components of switched access service are  
10 currently effective competitive or likely to become so  
11 in the near future U S WEST's proposed rates are not  
12 sustainable. Do you have that testimony in mind?

13 A. What you just read sounds very familiar to  
14 me but I don't see it. I'm obviously looking at the  
15 wrong page.

16 Q. Page 39, line 6.

17 A. Yes.

18 Q. Question for you deals with effective  
19 competition. Is it your understanding that  
20 immediately upon the availability of equal access in  
21 the interLATA toll market that AT&T and all the other  
22 interexchange carriers immediately lowered all of  
23 their rates to their TS LRIC costs?

24 A. The answer I believe is no, but I didn't  
25 hear the very beginning of your question. If you can

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1 restate just the first part.

2 Q. That would be the -- upon the availability  
3 of equal access in the interLATA toll market?

4 A. The answer is no for the following reason.  
5 The availability of equal access, while it was  
6 certainly a necessary condition for effective  
7 competition to develop, effective competition did not  
8 happen on the day that equal access was made  
9 available. It obviously took time for that to take  
10 place and at least for some interLATA services I think  
11 it's arguable whether effective competition currently  
12 exists, but it certainly appears to for some. So you  
13 wouldn't expect -- and I don't recall the exact  
14 language of the last part of your question. The  
15 scenario you outlined you wouldn't expect to happen on  
16 the day that equal access was implemented but I don't  
17 remember your exact words.

18 Q. The situation of effective competition in  
19 certain segments of the long distance market, would  
20 you expect that in the segments of the long distance  
21 market where there is effective competition that the  
22 interexchange carriers are pricing their services  
23 close to TS LRIC?

24 A. Well, I think -- let me make one  
25 clarification before I answer that. I don't look -- I

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1 look at several different and distinct long  
2 distance markets more so than I would look at segments  
3 of a single long distance market. I don't think all  
4 long distance services are substitutable and therefore  
5 they won't constitute a single market, but with that  
6 caveat I think if you look at the sentence that  
7 immediately precedes the one that you directed my  
8 attention to that in an effectively competitive  
9 marketplace, however, the market rate for these rate  
10 elements is likely to be only slightly above U S  
11 WEST's TS LRIC to recover economic overhead, and I  
12 think that's exactly what you would expect to see.  
13 You would expect to see prices that you recover TS  
14 LRIC and the economic overhead associated with the  
15 company offering the service.

16 Q. Another word for economic overhead may be  
17 contribution?

18 A. Economic overhead is a form of contribution  
19 but contribution as the term is normally used can  
20 include things that are beyond economic overhead.

21 Q. And when you talk about the segments --  
22 your explanation of how you view the long distance  
23 market for competitive purposes, can you give an  
24 example of a segment of the market or how you would  
25 split up the market for analysis purposes?



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1           A.     Well, for analysis purposes what I said was  
2 that I don't see a single market with segments. In  
3 some cases I see more than one market. The way you  
4 would determine that is to look at a company -- I'm  
5 sorry -- an end user's customer's willingness or  
6 ability to substitute one service or another. If the  
7 services are fully substitutable you could define them  
8 as constituting a single market. If they're not you  
9 couldn't. For example, a residential end user is not  
10 likely to find AT&T's high volume T 1-based service to  
11 be a substitute for his dial one service. So those  
12 services would clearly constitute or at least be  
13 offered in different markets.

14          Q.     Would you look at the long distance market  
15 as having, you know, like the -- would calling plans  
16 be a market in and of themselves? Discount plans?

17          A.     I think discount plans are pricing plans  
18 that are associated with a service. They may or may  
19 not constitute different markets. I guess I can't  
20 call to mind an example where I would say that calling  
21 plans would create services that would exist exist in  
22 different markets in and of themselves.

23          Q.     MFS would be a market, WATS would be a  
24 market, operator services. Is that how you would look  
25 at the markets?

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1           A.     That's the approach you would take.  
2 Obviously I can't sit here and say in the recent term  
3 I have looked at all of the various services offered  
4 by IXCs, customers' willingness to define and  
5 substitute those markets, but in the way you just  
6 described that sounds right.

7           Q.     Finally, putting aside your -- any  
8 substantive disputes that you might have with the cost  
9 results presented by U S WEST, if we can just put  
10 those aside for a moment and look at issues of  
11 methodology. Is the bottom line issue for MCI in this  
12 case that when looking to price towards a cost floor  
13 -- that is, the reduction of access price towards  
14 their cost -- it's MCI's position and concern that  
15 they want the access rates priced to the lowest  
16 possible measure of economic costs?

17          A.     I think the answer to the question as you  
18 phrased it is no. I can go through phrase by phrase  
19 or I can tell you what I think the issue -- I can  
20 restate in the way that I think is correct if that  
21 would be correct.

22          Q.     Go ahead.

23          A.     I think the essential issue for MCI and the  
24 one that's before this Commission for the access  
25 question is how to create an environment in which

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1 competition, effective competition, can develop for  
2 the component of access service. That equally  
3 efficient interconnectors or equally efficient  
4 providers can offer a service in competition with  
5 U S WEST. In order to accomplish that I think you  
6 need to look at the pricing of access components in  
7 the following way. It is certainly the price should  
8 be fully compensatory to U S WEST. In other words,  
9 the price paid by the interexchange carriers should  
10 fully compensate U S WEST for the service that it  
11 offers. That would be a rate that exceeds TS LRIC.  
12 If you build into the price additional contribution  
13 what you are effectively doing is building into the  
14 rate that IXCs must pay and ultimately that end users  
15 must pay this additional level of overhead, and that  
16 is the scenario that I describe in my testimony, that  
17 if permitted would prevent in the ultimate end users  
18 in this process from benefiting from competition if  
19 competition does take place, because if one of the  
20 benefits of competition, the reduction of prices toward  
21 TS LRIC would in fact hit an artificial floor of the TS  
22 LRIC plus the additional contribution built into the  
23 rates.

24 Q. Let me ask you one final question as a  
25 hypothetical. Assume that this Commission approved U S

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1 WEST setting their rates with respect to ADSRC costs.

2 Do you have that in mind?

3 A. Yes.

4 Q. And then assume also that an alternative  
5 exchange carrier offered switched access service at a  
6 rate lower than U S WEST rate, based on another  
7 measure of its cost. Do you have that in mind?

8 A. I do. I think we're going to need more  
9 information in this hypothetical but, yes, I have  
10 those in mind.

11 Q. Basically we've got U S WEST charging a  
12 rate based on ADSRC. We have the AEC charging a lower  
13 rate?

14 A. That's right.

15 Q. Do you believe it would be possible that  
16 interexchange carriers may market directly to end user  
17 customers and let them know that they could receive  
18 greater discounts off of their current long distance  
19 rates if they took local service from the alternative  
20 exchange carrier that was providing lower access  
21 rates? Do you think that's a possible outcome of the  
22 competitive market?

23 A. Well, that's two different questions. Is  
24 that a possible outcome of the competitive market?  
25 No, I don't because I don't agree with your

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1 hypothetical, the foundation of your hypothetical. Do  
2 I agree if, accepting your hypothetical, could that  
3 happen, I suppose it could but that's a separate  
4 question from whether it would be realistic to expect  
5 that to happen.

6 Q. You don't think it's realistic that an  
7 alternative interexchange carrier would have lower  
8 switched access rates than U S WEST?

9 A. Well, I didn't say that. I suppose that it  
10 possibly could. I think built into your assumption is  
11 that those alternative carriers are going to duplicate  
12 U S WEST's network because if they don't then they're  
13 buying component of access and interconnection from  
14 U S WEST, and if those are priced at ADSRC or above,  
15 they're including a level of contribution. And the  
16 alternative carrier paying those rates plus that  
17 contribution would then be put in a position where it  
18 couldn't offer that lower rate to an end user.

19 Q. If in fact --

20 A. I'm sorry, to an interexchange carrier.

21 Q. If in fact interexchange carriers began to  
22 market to their customers the fact that if they  
23 switched local exchange providers they would get lower  
24 access rate -- lower long distance rates -- would you  
25 expect that that would have an impact on the pricing

02017

1 of U S WEST access services?

2 A. On the pricing?

3 Q. Would that incent U S WEST to reduce the  
4 price of its access service?

5 A. I would think that it would. Again, in  
6 order to get to that point in a hypothetical we've got  
7 to assume that the alternative carrier has essentially  
8 built its own facilities in a ubiquitous manner. I  
9 think that's the factor that would cause U S WEST to  
10 suddenly rethink its pricing policy or hopefully not  
11 suddenly. Hopefully it would be aware of this process  
12 as it took place. But I think that's the impact -- I  
13 think that's the factor that would influence U S WEST  
14 to make a price change.

15 MR. O'JILE: Thank you. That's all I have.

16 JUDGE ANDERL: Thank you. Mr. Potter, did  
17 you have cross for this witness?

18 MR. POTTER: No, I don't.

19 JUDGE ANDERL: Any other party who has  
20 cross for this witness? Do the commissioners have  
21 questions?

22 CHAIRMAN NELSON: No.

23 COMMISSIONER HEMSTAD: I don't.

24 JUDGE ANDERL: Commissioner Gillis.

25 COMMISSIONER GILLIS: Just one real brief

02018

1 one.

2

3

EXAMINATION

4 BY COMMISSIONER GILLIS:

5 Q. I'm wondering on your perspective if you  
6 believe there's any interconnection services broadly  
7 defined as we've been talking about them that you  
8 believe have the potential in the near term to be  
9 provided on competitive terms if they're available on  
10 an unbundled basis?

11 A. The interconnection component themselves or  
12 the --

13 Q. Any one of the interconnections. Broadly  
14 defined. We've been talking about transport and  
15 switching and local loops and the various components  
16 thereof?

17 A. Well, if we're looking at different  
18 components of access certainly transport would be the  
19 one that is -- that there are more options available  
20 to the purchasers of transport than there are for the  
21 other elements. In fact it's not clear if there are  
22 any options for local switching or tandem switching.

23 I think if you accept the company's  
24 recommendation, their package for switched access in  
25 total, which takes the contribution from those tandem

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1 -- from the transport -- I'm sorry, from the transport  
2 rate elements and built it into a RIC then you've  
3 created a scenario in which even if you do have  
4 competition interexchange carriers and ultimately end  
5 users aren't going to be any better off because their  
6 costs can't decrease. In other words, you've taken  
7 one of the primary benefits of competition, a decrease  
8 in costs, and you've eliminated the possibility  
9 because you've essentially created this floor  
10 artificially by implementing a RIC that the company  
11 proposes to do that takes the current contribution and  
12 in fact shifts them over to a rate element that could  
13 be avoided. So you've really got a scenario in which  
14 you're either going to discourage competitors from  
15 entering at all or you're going to create a situation  
16 where end users can be better off even if competition  
17 does develop. I would view that as a very undesirable  
18 scenario.

19 Q. I'm not sure if you said that there are  
20 some unbundled services that -- I think you said  
21 distribution maybe is the closest I guess of a  
22 particular service that has the potential of not  
23 already being available in competitive terms, at least  
24 as more than several providers or at least several  
25 providers of distribution in some locations?



02020

1 A. For transport, yes, sir.

2 Q. Transport, I'm sorry. It's been a long  
3 couple of weeks.

4 A. I understand. It's a long transcript. It  
5 certainly was a long hearing.

6 Q. To the extent that a service is  
7 competitive, an unbundled service is competitive, in  
8 the sense that there's several providers and some of  
9 the other -- needs to be a few other conditions in  
10 order to be considered competitive, but do we need to  
11 worry about what price U S WEST charges for that  
12 service?

13 A. Well, you would still want to have a price  
14 floor of TS LRIC.

15 Q. So it's not cross subsidized?

16 A. That's right, exactly.

17 Q. So we only need to worry about the price  
18 floor to the extent --

19 A. That's right. If you had effective  
20 competition you would be in a position to only worry  
21 about the price floor of TS LRIC of the service to  
22 avoid cross subsidies. The marketplace would  
23 presumably take care of the higher rates.

24 Q. Do you feel comfortable just forecasting  
25 how far down the road it will be until more of those

02021

1 individual components of the interconnection network  
2 would be competitive in the state of Washington and  
3 how soon can we expect them to occur?

4       A.     I hate being put on the spot for forecasts.  
5 Actually the only Washington-specific information that  
6 I have, and unfortunately this is not a particularly  
7 responsive response to your question. The only  
8 Washington-specific information I have is the  
9 company's proposal on pricing and the level of  
10 contribution they're proposing for these elements  
11 indicates to me that they don't consider competitive  
12 options to be present at least in the foreseeable  
13 future. They don't see this happening in the next few  
14 years. This is their filing to, in their words, to  
15 prepare for competition. You would expect for the  
16 rate elements where they do foresee competition, this  
17 is their opportunity to take those rates toward costs  
18 and what you've seen is rate levels being proposed  
19 that are dramatically in excess of TS LRIC,  
20 dramatically in excess of even the company's ADSRC, so  
21 it calls into question in my mind whether they truly  
22 expect competition to occur in the next few years.  
23 That's the best information I have that the company at  
24 least doesn't expect competition to develop.

25                   COMMISSIONER GILLIS: Thank you.

02022

1 JUDGE ANDERL: Is there redirect?

2 MS. WEISKE: No. I would like the witness  
3 excused.

4 JUDGE ANDERL: Anything else for this  
5 witness? Thank you, Mr. Wood, for your testimony. You  
6 may step down.

7 THE WITNESS: Thank you, Your Honor.

8 JUDGE ANDERL: Next witness is Dr. Cornell.  
9 Let's be off the record while he takes the stand.

10 (Recess.)

11 (Marked Exhibits T-140, 141, C-142, C-143,  
12 C-144, 145, 146, 147, T-148, 149 and 150.)

13 JUDGE ANDERL: Let's be back on the record.

14 While we were off the record Dr. Cornell took the  
15 stand. We premarked her direct testimony as Exhibit  
16 T-140, her Exhibit NCW 1 through 7 are identified  
17 as follows, NCW-1 is Exhibit 141. NCW-2, 3 and 4  
18 are confidential. They are C-142, 143 and 144.  
19 NCW-5, 6 and 7 are Exhibits 145, 146 and 147.

20 Her rebuttal testimony is marked T-148. I may have  
21 transposed the initials just a minute ago. In any  
22 event, NWC-8 is Exhibit 149, and a handwritten two-page  
23 document which was just submitted, which has a drawing  
24 on the first half of the first page, we'll mark for  
25 identification as Exhibit 150.

02023

1 Whereupon,

2 NINA CORNELL,

3 having been first duly sworn, was called as a witness

4 herein and was examined and testified as follows:

5

6 DIRECT EXAMINATION

7 BY MS. WEISKE:

8 Q. I don't know if I should say good afternoon  
9 or good evening. Dr. Cornell, would you please state  
10 your name and current address for the record.

11 A. My name is Nina W. Cornell. My address is  
12 1290 Wood River Road, Meeteetse, M E E T E E T S E,  
13 Wyoming, 82433.

14 Q. On whose behalf are you appearing here  
15 today?

16 A. I'm appearing on behalf of MCI Metro and  
17 MCI Telecommunications.

18 Q. Are you the same Dr. Cornell that prefiled  
19 both direct attached exhibits, rebuttal and attached  
20 exhibits in this case?

21 A. Yes.

22 Q. And if you were asked the questions, would  
23 your answers be the same to both of those testimonies?

24 A. Yes, with one exception. I have found one  
25 error on page 66 of the direct. Line 5. The next to

02024

1 the last word in that line, which currently reads,  
2 "incumbents" should read "entrants." And I apologize  
3 for the error.

4 Q. Is that the only change you have to either  
5 your direct or your rebuttal?

6 A. I believe so.

7 MS. WEISKE: With that I would ask that  
8 Exhibits T-140 through 149 be admitted.

9 JUDGE ANDERL: Is there any objection?

10 MR. O'JILE: No.

11 JUDGE ANDERL: I hear none. Those exhibits  
12 will be admitted as identified.

13 (Admitted Exhibits T-140, 141, C-142, C-143,  
14 C-144, 145, 146, 147, T-148 and 149.)

15 Q. Dr. Cornell, were you present when Mr.  
16 Purkey testified in this case or have you had an  
17 opportunity to review the transcript from that  
18 appearance?

19 A. The part I was not present for I've read  
20 the transcript.

21 Q. And is it fair to say that Mr. Purkey was  
22 unwilling to accept a hypothetical of higher use per  
23 month for a business user saying that the level of  
24 usage could only be a PBX?

25 A. That's correct.

02025

1 Q. Do you agree with that?

2 A. No. There are a number of uses of what  
3 amount to be lFBs, for example, in the most obvious  
4 one I guess that has been addressed before this  
5 Commission is coin lines or public access lines that  
6 are in essence lFs that have much higher usage than  
7 what Mr. Purkey was claiming in his testimony.

8 Q. Dr. Cornell, it's true that Mr. Purkey only  
9 filed rebuttal testimony in this case?

10 A. That is correct.

11 Q. And was discovery on behalf of MCI  
12 Telecommunications Corporation and MCI Metro issued to  
13 Mr. Purkey as a result of that testimony?

14 A. I honestly do not know whether it was on  
15 behalf of MCI or whether it had already been issued by  
16 ELI or somebody else, but the explanation to his  
17 revised exhibit, it was revised after the testimony  
18 was filed, was served on the opening day of the  
19 hearing.

20 Q. And in fact weren't there work papers  
21 provided in response to the data request you're  
22 thinking of then provided during the first week of  
23 hearing?

24 A. Yes.

25 Q. And therefore wasn't that your first

1 opportunity to review the work papers associated with  
2 the revised exhibit?

3 A. Yes.

4 Q. And do you have concerns and comments as to  
5 that revised exhibit?

6 A. Well, I have a lot of concerns. It's not  
7 the right way to do an imputation test, and I discuss  
8 that in my direct testimony. It is a mixture of a  
9 bunch of services put together in order to try to show  
10 an imputation has passed. It was done long after the  
11 rates were put forward which is not the way -- it  
12 indicates that imputation was not a very serious  
13 concern of the company, but, as I say the most  
14 important is A, that it misses services, and B, one I  
15 haven't yet said, which is that it inappropriately  
16 omits applying the IUSC, the interim -- so-called  
17 interim universal service charge for a whole set of the  
18 traffic to which it should have been applied, namely  
19 the so-called intraoffice traffic because that traffic  
20 is traffic that entrants will enter to compete for,  
21 although in that process it will not stay as  
22 intraoffice traffic. And that was the purpose of  
23 trying to draw and write out the topics that are put  
24 forward on the exhibit that's been marked Exhibit 150  
25 is to demonstrate how Mr. Purkey's assertion that there

02027

1 is no competition for intraoffice traffic, which is why  
2 he refused to accept -- a line in both C-78 and C-79 if  
3 I've got the right exhibit numbers, and I apologize,  
4 one of mine isn't marked -- that he refused to accept  
5 it because he said there would be no competition for  
6 intraoffice traffic and in fact that assertion is  
7 wrong. And the point of the exhibit 150 is to  
8 demonstrate how what was previously U S WEST  
9 intraoffice traffic will become interoffice traffic  
10 under competition, but that competition cannot turn  
11 interoffice into intraoffice traffic and so it is not  
12 appropriate to claim that some part of local calling is  
13 thereby shielded from the application of this charge.

14 Q. Dr. Cornell, which specific lines on C-78  
15 would be impacted by your summary of the assumption  
16 you put forth on T-150, and C-78 is the shorter of the  
17 two exhibits you have in front of you?

18 A. I think it's just Exhibit 150. It's not  
19 testimony. It would be line 2 terminating intraoffice  
20 traffic pays imputed IUSC, and then I multiplied the  
21 number of calls times the 2.28 cent rate to add that  
22 to the grand total imputed price floor, to use the  
23 phrase that Mr. Purkey used on his exhibit.

24 Q. And what does the conclusion of that  
25 exhibit or what does line 5 of that exhibit



1 demonstrate?

2       A.     Line 5 of that exhibit demonstrates that  
3 even Mr. Purkey's merging of services demonstrates  
4 that when the proper elements are added the proposal  
5 does not pass an imputation test, even doing all the  
6 merging that Mr. Purkey did that I believe is  
7 inappropriate.

8       Q.     And then could you please explain the  
9 conclusion contained on Exhibit C-79.

10       A.     C-79 was an attempt to show that if as  
11 alleged by U S WEST entrants are targeting higher  
12 volume users, the whole effect of going after higher  
13 volume users is to make the flunking of the imputation  
14 test worse. The higher the volume the more by which  
15 U S WEST influences the imputation test that Mr. Purkey  
16 put forward. Again, it's not the correct one but even  
17 that shows how anticompetitive the proposal U S WEST  
18 has made really is.

19       Q.     And finally did you have at least a brief  
20 opportunity to review the work papers of Mr. Purkey to  
21 determine when the usages for intra and interoffice  
22 traffic and traffic to the independents were  
23 calculated?

24       A.     I believe so. I believe that on the 19th  
25 page of his work papers, which were not numbered but I

02029

1 counted them and hope I got it right, there is a page  
2 that says Washington July 1994 usage study and it's  
3 got in it a number of calls, a hold time number and  
4 then a percent of traffic that was intraoffice U S  
5 WEST, interoffice and independent separately for 1FB  
6 simple, 1FB complex lines and PBX, and I am assuming,  
7 because I do not have the total number of lines, that  
8 his numbers that show on lines 2, 3 and 4 of what I  
9 believe is C-76. I apologize.

10 Q. It is C-76.

11 A. That that is where those percentages came  
12 from as a weighted average of those shown from page  
13 19. I have frankly not gone back to check the math.

14 Q. And do you have any concerns with when  
15 those usages were calculated?

16 A. Yes. They were calculated before entry.

17 Q. So Exhibits T-150, C-78 and C-79 from your  
18 perspective go through what should be included in an  
19 appropriate imputation test?

20 A. No. They go through what -- if you were  
21 going to do the imputation tests the way Mr. Purkey  
22 did, they show what should have been included, C-78  
23 does, and C-79 merely replicates his methodology for a  
24 higher level of usage which is, after all, what U S  
25 WEST claims the entrants are going after.

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1 MS. WEISKE: With that, Your Honor, I would  
2 ask to admit Exhibit 150, C-78 and C-79.

3 JUDGE ANDERL: Any objection to those  
4 exhibits from any party?

5 I hear none. They will be admitted as  
6 identified.

7 (Admitted Exhibits 150, C-78 and C-79.)

8 MS. WEISKE: With that Dr. Cornell is  
9 available for cross-examination.

10

11 CROSS-EXAMINATION

12 BY MR. O'JILE:

13 Q. Good afternoon, Dr. Cornell.

14 A. Good afternoon.

15 Q. Let's just ask a couple of questions on 150  
16 before moving on just so we're clear here looking in  
17 the upper left-hand corner of that exhibit call from A1  
18 to B1 would be intraoffice?

19 A. That's correct.

20 Q. And a call from A2 to A1 would be  
21 interoffice?

22 A. That's correct.

23 Q. Let's turn to the second page, the first  
24 full paragraph, the one that starts "entry cannot  
25 convert any calls for U S WEST that are now

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1 interoffice into intraoffice until and unless U S WEST  
2 ceases to use one or more of its central offices." I  
3 guess I don't understand that.

4       A.     Well, you have a situation -- and I confess  
5 that and I apologize that this is all handwritten. I  
6 don't have a printer let alone an artist program so I  
7 had to do this by hand, but I was trying to represent  
8 that there are a large number of customers who are  
9 attached -- we'll stick for a moment if we may to  
10 CO1 as central office and I tried to represent it by  
11 A, B, C, dot dot dot Z. If an entrant comes in and  
12 takes -- let's assume and I think I said someplace  
13 here all of the A, B, C and D customers from all four  
14 of these switches, under that scenario E through Z  
15 with whatever number that really is, would remain on  
16 U S WEST's switches, all four of them, but U S WEST  
17 unless it closes down one of these central offices is  
18 not going to rearrange and rehome those loops on to,  
19 for example, central office No. 3 in this diagram.

20               So the result is that a number of customers  
21 move, they take their calling with them to the  
22 entrant's central office, but they continue to call the  
23 same parties they would have called before. The fact  
24 of changing your service provider doesn't change who  
25 you call and so that converts calls from intraoffice to

1 interoffice, but there is nothing that goes the other  
2 way for U S WEST unless it chooses to rehome the rest  
3 of the loops that were attached to one of these four  
4 central offices on to a different one.

5 Q. You say that entry can't convert any calls  
6 for U S WEST into -- that are now interoffice into  
7 intraoffice. To the extent that an alternative  
8 carrier serves this area with one switch, if that  
9 alternative carrier after subsequently entices Z4 and  
10 Z1 to its network, that would be an example of  
11 converting what was an interoffice traffic into now  
12 intraoffice traffic, wouldn't it?

13 A. That's correct, but it's not a U S WEST  
14 intraoffice call, and the question was, as I  
15 understood Mr. Purkey to phrase it, what does U S WEST  
16 supply that the competitor is going to compete for.

17 Q. So your exhibit is based on what your  
18 understanding of Mr. Purkey's testimony was?

19 A. My exhibit is an attempt to correct what I  
20 believe were errors in what he did based on what I  
21 understood -- somewhat on what I understood him to be  
22 saying and somewhat on what I understood an imputation  
23 test is supposed to do. This doesn't meet it at all.

24 Q. Let's go back to your diagram. The diagram  
25 was intended to create an illustration that would

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1 demonstrate what you perceived as flaws in Mr.  
2 Purkey's discussion regarding the treatment of  
3 intraoffice calls?

4 A. That's right. He said it was completely  
5 rolled off from competition and therefore should not  
6 be included.

7 Q. Dr. Cornell, I'm going to ask you to help  
8 me with some economic terms for our discussion today.  
9 What is an oligopoly?

10 A. An oligopoly is a market with a small  
11 number of firms and in which there is not complete  
12 independence of pricing.

13 Q. Meaning there might be price leaders and  
14 price followers?

15 A. Yes. That firm A, if I can put it this  
16 way, doesn't make a move without trying to take into  
17 account what firms B, C, and D might do in response.

18 Q. Can an oligopoly market be effectively  
19 competitive?

20 A. That's a tough one because -- and the  
21 reason that I am hesitating is that not everybody uses  
22 oligopoly in quite the same way. Markets with small  
23 number of firms can be effectively competitive. Once  
24 you start getting into this -- you know, the  
25 additional attribute that they sort of watch what each

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1 other does it can be -- it's less likely to be but  
2 it's not impossible to be.

3 Q. So using the oligopoly market as an  
4 example, there can be very -- there can be competitive  
5 alternatives available to customers but that the level  
6 of competition may not rise to the level of what would  
7 be effective competition?

8 A. It may not. As I said, it is possible. If  
9 it's truly an oligopoly, that is, that the firms are  
10 busy watching what each other is doing and worrying  
11 about if I do this what will they do in response, it's  
12 probably less likely than a market that may have the  
13 same number of firms but everybody is busy merrily  
14 trying, if I can put it that way, to maximize their  
15 market share and their output.

16 Q. Now, the term effective competition, you  
17 used that a number of times in your testimony. Is  
18 that the same as perfect competition?

19 A. No. Perfect competition has a meaning that  
20 requires a large number of sellers, in fact so many  
21 sellers that a firm doesn't even think about what it's  
22 competitors might or might not do. It is in fact a  
23 price taker, not a price setter, and it has no choice  
24 but to take the market price, be able to produce at a  
25 cost either less than or equal to -- and I want to be

02035

1 clear that by cost in the long run I'm including the  
2 normal return to capital in that definition of cost --  
3 or go out of business.

4 Q. Would you agree that there are -- before we  
5 go to that point then. That's the definition of  
6 perfect competition. Effective competition, as you use  
7 that term, means the ability to not price very far in  
8 excess of TS LRIC cost.

9 A. Not exactly. That depends upon the  
10 relationship of TS LRIC to the total costs of the  
11 firm. To me when I talk about effective competition  
12 I'm really talking about a market in which price is  
13 essentially not much more than sufficient to allow all  
14 efficient firms to recover all of their costs but with  
15 not much more.

16 Q. And so between monopoly where there's no  
17 competition and effective competition, would you agree  
18 that there are various stages or levels of  
19 competition?

20 A. There are many different kinds of markets  
21 that can exist between the two streams of absolute  
22 monopoly on the one side and perfect competition on  
23 the other.

24 Q. And if you had to do that schematically,  
25 where would effective competition fall in the range



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1 between perfect competition and monopoly?

2 A. I guess my problem is I would not do it  
3 schematically. It isn't -- it's not like the natural  
4 progression of a child growing up. You don't start  
5 with a newborn infant and move sort of through some --  
6 for those of us who have been parents, it's probably  
7 not a smooth progression. Even lurching progression  
8 from one to the other. Effective competition can come  
9 with no transition through oligopoly. It can come  
10 with a small number of firms but those firms behave in  
11 a way that is not oligopolistic type behavior, but is  
12 in effect effectively competitive type behavior.

13 Q. Do you believe that the local  
14 telecommunications market is going to develop in an  
15 oligopolistic fashion?

16 A. Never thought about that. And I don't know  
17 that I know the answer or even would make a  
18 prediction. I do think how it develops in terms of  
19 market structure is going to be very helpful dependent  
20 on the kind of rules that get adopted for things like  
21 interconnection and unbundling and a variety of the  
22 things that I talk about essentially in my testimony.  
23 How universal service ultimately gets insured and if  
24 necessary supported.

25 Q. If the local market in Seattle or in

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1 Washington, numerous cities in Washington developed  
2 into an oligopoly, would that necessarily be bad?

3 A. I personally do not believe that an  
4 oligopoly is as bad as a closed entry monopoly market.

5 Q. Do you consider the interLATA long distance  
6 market to show -- exhibit the signs of effective  
7 competition?

8 A. I'm sorry, I blank. Did you say inter or  
9 intra?

10 Q. Inter.

11 A. Thank you. I think interLATA markets are  
12 showing quite dynamic signs of effective competition,  
13 and I do not think the whole process has by any means  
14 played itself out in that market but it is definitely  
15 -- you are seeing real vigorous price rivalry. You  
16 have to take into account that the price for interLATA  
17 toll is mostly particularly for the more visible prices  
18 on a permanent basis and some costs are per minute and  
19 some are per customer, so you don't see as much sort of  
20 all customers facing the same price kind of pricing  
21 that you would see in a market where all costs were on  
22 a per minute basis.

23 Q. Are you familiar with the FCC common carrier  
24 report I discussed yesterday with Mr. Buorgo?

25 A. I was not here for your discussion with Mr.

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1 Buorgo so I do not even know what you're talking  
2 about.

3 Q. Are you aware of the recent report by the  
4 FCC Common Carrier Bureau in which they discussed the  
5 pricing practices in the long distance market?

6 A. No, I am not.

7 Q. If that report contained a statement that  
8 the basic tariffed rates of the interexchange carriers  
9 have shown increases over the last year, would that  
10 necessarily indicate the presence of effective  
11 competition in the long distance market?

12 MS. PROCTOR: Excuse me, I was here for the  
13 testimony and that is not the complete sentence. I  
14 think in fairness you should share the complete  
15 sentence with the witness.

16 MR. O'JILE: Be happy to do that.

17 JUDGE ANDERL: Are you showing the witness  
18 the section that's highlighted then?

19 MR. O'JILE: Yes.

20 A. I have now read the complete sentence.  
21 Could I ask that the question be repeated? I'm sorry.  
22 I just don't remember it.

23 Q. Sure. The statement by the FCC indicates  
24 that while a number of customers have experienced  
25 increases -- excuse me -- decreases in their rate

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1 through the use of discount plans offered by the long  
2 distance companies that over the same period of time  
3 the basic tariffed rates have increased. And my  
4 question to you, Dr. Cornell was, is the increasing of  
5 basic rates consistent with effective competition?

6 A. It could be, and again, I refer you to the  
7 cost structure that I noted existed in the interLATA  
8 market where some costs of per customer costs and some  
9 costs are per call costs and I would not expect in an  
10 effectively competitive market to see the basic sort  
11 of very low volume pricing, which is what the basic  
12 tariffs are, for very low volume users, to stay the  
13 same or fall if in fact either of two conditions were  
14 present. One, in the previous more regulated world  
15 that rate had been artificially reduced relative to  
16 costs or, two, the per customer costs were rising,  
17 that an effectively competitive market would see the  
18 very small volume user prices staying the same or  
19 increasing while larger volume customers would be  
20 experiencing or could be experiencing price declines  
21 and that would still be fully consistent with  
22 effective competition.

23 Q. On page 13 of your direct testimony you  
24 state that firms facing effective competitive pressure  
25 do not raise prices that are already above cost. And

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1 that you would agree, wouldn't you, that if a firm was  
2 facing effective competition and it raised rates it  
3 may lose customers to another firm providing that same  
4 service?

5 A. That's correct.

6 Q. Would that be the case if after firm A  
7 raised its rates that its competitors. Firm B, C and D  
8 raised their rate also in lock step?

9 A. Well, again, if you were raising the kind  
10 of cost conditions that I just discussed earlier about  
11 the interLATA market, and there had been a cost  
12 increase then you could see all firms raising their  
13 prices and it would still be consistent with their  
14 being effective competition. You would have to look  
15 beyond that to see whether something else was going  
16 on.

17 Q. Dr. Cornell, why do you believe companies  
18 like your client are investing hundreds of millions of  
19 dollars into entry into the local telecommunications  
20 market at this time?

21 A. Why do I believe they're doing it? I  
22 believe they're doing it for some number of reasons  
23 and I've never been good at counseling in advance.  
24 One, because they believe they can enter that market  
25 and ultimately make a profit. Two, I suspect that

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1 they are entering because they see one of two things  
2 which are in a sense the opposite side of the same  
3 coin. They see that at some point the day is going to  
4 come when the interLATA restriction is removed and if  
5 they're not in the local market they face a strong  
6 chance of being squeezed out, and so they better be in  
7 the local market, excuse me, to preserve being in the  
8 interLATA market. And they also may see an opportunity  
9 to finally reduce the switched access charges they are  
10 paying which are extremely high relative to cost, and  
11 are contrary to the way any other market would work,  
12 namely having the highest contribution coming from the  
13 highest volume users.

14 Q. And you would agree, wouldn't you, that in  
15 a number of cases, including Washington, that  
16 alternative companies are making large investment of  
17 capital prior to or at the same time the potential  
18 rules of the game are being debated in forums like  
19 this?

20 A. Some companies are making the investments  
21 or have made investments prior to the end of the  
22 debate. Some companies are involved in the debate  
23 quite heavily but are holding back on major investment.  
24 My guess is until they see the terms that come out of  
25 the debate.

1 Q. But you would agree at least with respect  
2 to Washington that there are at least two firms that  
3 have committed resources to building networks prior to  
4 the resolution of the local interconnection issues?

5 A. I believe -- I certainly know of one, and I  
6 guess TCG is a second.

7 Q. Yes.

8 A. So I guess the answer is yes. I apologize.

9 Q. Turning now specifically to  
10 interconnection. You agree, don't you, that the  
11 process of terminating a call on to a network imposes  
12 a cost on the provider of that network?

13 A. Based on U S WEST's numbers, there appears  
14 to be a cost but a very small one.

15 Q. And would you also agree that transport of  
16 telecommunications traffic imposes a cost on the  
17 provider of the transport facility?

18 A. Again, I would give the same answer, yes,  
19 but based on U S WEST's numbers a very small cost.

20 Q. On page 18 of your testimony, lines 9  
21 through 10, direct testimony, excuse me. You state --  
22 make the claim that "mutual traffic exchange is  
23 obviously reciprocal." And I would like for a minute  
24 for you to assume with me a hypothetical. Assume that  
25 an alternative exchange carrier has a network in

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1 downtown Seattle linking a number of major office  
2 buildings over a six-square block area, and assume  
3 further that the alternative exchange carrier has its  
4 switch located within that switch-block area and has  
5 arranged for U S WEST to interconnect with it at its  
6 switch location?

7 A. Excuse me. It is the entrant or U S WEST  
8 in that -- there was one too many use of "it." Whose  
9 switch?

10 Q. Entrant switch.

11 A. The interconnection is at the entrant's  
12 switch.

13 Q. Right, at the request of the entrant?

14 A. Okay.

15 Q. Now, when U S WEST wants to deliver a call  
16 to the entrant, and the entrant is going to terminate  
17 that call somewhere in the six-square block area its  
18 network, its network covers, would you agree with  
19 that?

20 A. Yes.

21 Q. But that if U S WEST serves the entire  
22 metropolitan area of the city, would you agree also  
23 that when the entrant delivers a call to U S WEST to  
24 terminate for the entrant that there's a very real  
25 potential that the amount of transport that U S WEST



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1 will have to make on its network will be significantly  
2 more than six square blocks?

3 A. Yes.

4 Q. On page 30 of your testimony, direct  
5 testimony -- all my references are to your direct  
6 unless I tell you otherwise.

7 MS. WEISKE: I'm sorry, Mr. O'Jile, what was  
8 that page?

9 MR. O'JILE: Page 30.

10 MS. WEISKE: Thank you.

11 Q. You talk about Mr. Owens's analysis with  
12 respect to his opposition to your proposal for mutual  
13 traffic exchange, and starting on line 14, you posit  
14 that if the network design of U S WEST is inefficient,  
15 for example there are too many switches, Mr. Owens's  
16 argument is an argument for allowing U S WEST to  
17 impose costs on the entrant. Do you see that?

18 A. Yes, I do.

19 Q. If the alternative carrier decides as a  
20 matter of business practice that it's going to  
21 interconnect with U S WEST at the tandem as opposed to  
22 going to each of the U S WEST central offices in a  
23 calling area, is your concern there about inefficiency  
24 regarding the number of switches in the calling area a  
25 moot point?

1           A.     Not if you adopt bill and keep, but it is  
2 if what you pose as the choice to the entrant is, one,  
3 it must direct-trunk to this larger than efficient  
4 number of central offices, or it must pay more in  
5 order to avoid that inefficiency but avoiding it by  
6 using the tandem. You sort of impose a choice of what  
7 is the lesser of two evils, but that is based on the  
8 underlying inefficiency of too many switches in this  
9 discussion that I laid out.

10          Q.     I guess I don't understand your answer  
11 because the interconnection at the tandem will allow  
12 the entrant to have access to each of the central  
13 offices from a centralized point, correct?

14          A.     Yes, but you were going to charge more for  
15 interconnection at the tandem, so you were going to  
16 make -- the entrant has this choice of -- let me try  
17 to explain it differently. Let me back up if I may.

18                 Suppose there are twice as many switches as  
19 there should be. This is just a hypothetical. And  
20 let's suppose there are, what shall I say, ten where  
21 there should be five? Whatever number you want to plug  
22 in there. If U S WEST's network were efficiently  
23 configured there would be five central offices in that  
24 hypothetical, and the entrant would have to build -- if  
25 I had my way would have to build halfway to five of

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1 them with a meet point and U S WEST builds the other  
2 halfway. But instead the entrant's faced, even if I  
3 get my way on meet points, with having to build halfway  
4 to ten of them or building halfway to the tandem but  
5 then paying for all of this tandem switched transport  
6 as a substitute for building those ten half trunks.  
7 And that's what I mean by it imposes an inefficiency on  
8 the entrant. Now, if it's bill and keep the entrant  
9 builds halfway to the tandem, U S WEST builds the other  
10 halfway, they splice those two pieces of fiber together  
11 and the fact that's what behind the splice is efficient  
12 or inefficient is irrelevant to the entrant. It has  
13 achieved what it needed to achieve and it's up to U S  
14 WEST then to optimize its network with no contribution  
15 from the entrant helping to protect the inefficiency  
16 behind the splice.

17 Q. Your other point starting on line 19 is  
18 that you complain that U S WEST is attempting to  
19 pigeonhole the alternative carrier into charging the  
20 same types of charges U S WEST charges, like local  
21 switching, transport, et cetera. Is that a fair  
22 characterization of your testimony?

23 A. That's certainly how I read Mr. Owens's  
24 direct. By the time all the testimony came in it's  
25 not clear to me at all what U S WEST's proposal is for

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1 the entrant, but certainly his direct read that way.  
2 He talked about U S WEST would be willing to pay the  
3 cost-based local switching charge of the entrant and  
4 the cost-based -- this one I loved -- the cost-based  
5 so-called interconnection charge of the entrant;  
6 cost-based transport; cost-based tandem. So if they  
7 didn't have them presumably they couldn't produce a  
8 cost-based rate for any of those things therefore they  
9 couldn't charge them.

10 Q. Well, the entrant is going to have a  
11 switch, right?

12 A. Entrant will have a switch, definitely.

13 Q. And the entrant presumably will have some  
14 sort of network behind that switch on which it will  
15 provide transport to customers for a price?

16 A. Well, but now we're back to would you agree  
17 that if they have one switch -- and just for ease I'm  
18 going to be looking at Exhibit 150 so that I keep  
19 clear -- they have one switch off of which all of  
20 their lines come and their transport is between their  
21 switch in Seattle and their switch in -- we've talked  
22 about Spokane before. I will say Spokane. The  
23 network that is going to be used for local  
24 interconnection is a switch in what U S WEST would  
25 call loops. You don't call that transport. There is

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1 not a loop cost-based price in the switched access  
2 charges. We've already been told by Mr. Owens that  
3 the interim universal service charge which is built  
4 off the carrier common line charge which in itself was  
5 once upon a time built on loop costs in some peculiar  
6 fashion -- probably not worth looking at too closely  
7 -- is not going to be allowed to be charged by the  
8 entrants, so they've been told they can't charge loop  
9 costs so there is no transport by U S WEST's  
10 definition in the architecture I just laid out.

11 Q. But is it U S WEST's definition that  
12 matters or if an entrant decides it wants to make a  
13 specific charge that it can justify based on its costs  
14 or its methods of operation what would prevent the  
15 entrant from imposing that charge?

16 A. Well, in the end of course it depends upon  
17 what the Commission rules will be the rules of the  
18 game for the entrant. I would urge the Commission  
19 very strongly to avoid all of what we've been talking  
20 about for the entrant, to tell the entrant if it  
21 insists upon interconnection paid for in cash instead  
22 of mutual traffic exchange that the entrant can charge  
23 up to but no more than per minute the sum of all the  
24 rate elements that U S WEST charges it and that it  
25 does not come in with cost studies and justifications

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1 and layouts that by controlling the price of the  
2 dominant supplier it's controlled the market price and  
3 that's all it needs to do.

4 Q. So in other words what you're saying is  
5 that if U S WEST charges an entrant -- let's call them  
6 services A, B and C, but the entrant doesn't want to  
7 configure its network to characterize its service A, B  
8 and C and decides it just wants to have one charge on a  
9 per minute basis that it calls the interconnection  
10 charge that will cover all of its costs for  
11 interconnection, would that be something that you  
12 would agree to?

13 A. Well, I would agree that it is a very  
14 inferior second best but definitely second and not  
15 fifth to the mutual traffic exchange approach of  
16 pricing interconnection. That it should be able to  
17 charge up to the sum of the rate elements it is  
18 charged.

19 Q. And it can call that whatever it wants and  
20 it can apply it in whatever manner it wants to on the  
21 usage that's generated over its network?

22 A. That's right. You remind me of my ancient  
23 origins in this business when it was finally agreed  
24 not to call it subsidy but call it Ralph and get on  
25 with it in the ENFIA negotiations.

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1 JUDGE ANDERL: Stands for?

2 THE WITNESS: Exchange network facilities  
3 for interstate access. It was the start of toll  
4 competition.

5 Q. A good segue. Toll competition. Page 18,  
6 lines 19 through 20. Here you state that --

7 JUDGE ANDERL: Sorry, the page again.

8 MR. O'JILE: That's not the right page.

9 Q. Try it this way. Somewhere in your  
10 testimony, which I can't find right now, you state  
11 that the alternative exchange carrier situation is  
12 different from the situation of interexchange carriers  
13 who you characterize as customers of the local  
14 exchange company rather than competitors. Do you  
15 recall that testimony generally?

16 A. Yes.

17 Q. Thank you. Now I don't have to find it.  
18 There is one area of competition between U S WEST and  
19 interexchange carriers and that is in the area of  
20 intraLATA toll, correct?

21 A. That's correct. I want to be clear that  
22 when I was making the comparison that it is only in  
23 the sense of as a purchaser of switched access they  
24 are not a competitor of U S WEST. Obviously an  
25 intraLATA toll there is competition, although it is

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1 badly hindered by the lack of one plus.

2 Q. The point that you make on page 15 of your  
3 testimony at lines 10 and 11 is that the prices --  
4 whenever prices are charged become an irreducible part  
5 of the underlying cost of the service and in this case  
6 you talk about local exchange service?

7 A. That's correct.

8 Q. Now, if you want to put that in context, if  
9 you look at access charges that U S WEST charges to  
10 interexchange carriers for intraLATA calling and then  
11 the imputation of those same access charges into U S  
12 WEST price floors for intraLATA toll, would that be an  
13 example of how you would look at how an access charge  
14 would work into price floor of a service?

15 A. In a simplified sense, yes, that's correct.

16 Q. Now, as access charges have been reduced  
17 over the last several years, both on the intrastate  
18 level, the price floor for the service intraLATA toll  
19 service has reduced accordingly as those access  
20 charges have gone down, correct?

21 A. Presumably, yes.

22 Q. On page 50 of your direct, you talk about  
23 at the top there, lines 1 through 6, SS7. Now, as I  
24 understand from your testimony U S WEST has a tariff  
25 under which it authors SS7 interconnection to



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1 interexchange carriers?

2 A. That is correct.

3 Q. And the SS7 interconnection that would be  
4 required by alternative exchange carriers, is that the  
5 same type of interconnection that is being used by the  
6 interexchange carriers today?

7 A. Well, there are some differences in what's  
8 going to be required with SS7 than have been -- I  
9 think I've gotten myself grammatically in trouble.  
10 There are some differences in what has been provided  
11 in the way of an SS7 interconnection to interexchange  
12 carriers than what will be needed in both directions  
13 for full local exchange competition. And this has to  
14 do with the signaling messages that pass between the  
15 carriers. At the present time the full ISDN user part  
16 -- which gets abbreviated for reasons I cannot tell  
17 you to ISUP -- is the part of the signaling message  
18 that basically controls routing and has a bunch of  
19 identifiers about the call and even the caller. The  
20 amount of that message that is passed to interexchange  
21 carriers at the present time is not what is used  
22 within a local exchange carrier network, and that this  
23 will have to change and more if not all of that  
24 message, at least more of it will have to remain intact  
25 as it crosses between networks. If caller ID or

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1 caller ID blocking is to take place accurately. If  
2 call trace is to work accurately. If last -- there's  
3 a service, and I don't remember what the name of it is  
4 anywhere -- you have to understand I have none of  
5 these in Meeteetse, but there is a service that allows  
6 you to return the last call that came to your house  
7 when you weren't home that's another CLASS service.  
8 None of these services will work if the full ISDN user  
9 part is not passed.

10           Mr. Traylor was describing, was it just  
11 yesterday, that there is a need to allow others than  
12 the local exchange carrier to populate what's known as  
13 the transactions capability application part of the  
14 signal message if true number portability is to work,  
15 or at least some of the solutions to true number  
16 portability are to work, because that is the piece of  
17 the signaling message that tells the switch you either  
18 go for a database dip to learn how to handle this call  
19 or you don't. And of course if that is a vacant  
20 field, the switch assumes it can just send it on and  
21 if it's supposed to dip it, it better not be blank.  
22 So that these are both areas in which change is needed  
23 for local exchange competition. It has been asked for  
24 for a long time for other forms of competition because  
25 it would enable carriers to do more things if they had

02054

1 it for all purposes, but it will require change for  
2 local exchange competition.

3 Q. I'm not even going to try to summarize it  
4 but let me see if I can shorten it up a bit and say, I  
5 think you're agreeing that the process of  
6 interconnection is the same but that the information  
7 that is going to be -- the information that is  
8 currently used or the signals currently sent by the  
9 interexchange carriers that interconnect and the  
10 signals that will need to transfer back and forth  
11 between the networks under an environment of either  
12 local exchange competition or giving interexchange  
13 carriers access to greater functionality of the SS7  
14 network will probably have to take place.

15 A. I think I would like to make two small  
16 amendments to your summary. Let me try. One is that  
17 interexchange service as we know it today can work  
18 without the exchanges in the messages that pass the --  
19 the signaling messages and the ability to populate the  
20 signaling messages. Local exchange competition in its  
21 fullest form cannot, and second is is that local  
22 exchange competition is going to require mutual  
23 interconnection to SS7 networks, and as far as I can  
24 tell, but this is where my engineering ability sort of  
25 slides off, that same mutuality is not present for

02055

1 interexchange service.

2 Q. Thank you for those clarifications. And  
3 just so we're clear for the record, too, there are  
4 multiple providers of SS7 access, aren't there?

5 A. No. I mean, if I'm trying to reach a U S  
6 WEST end user customer I've got to somehow connect  
7 into U S WEST's network and that includes its SS7  
8 network.

9 Q. Let me rephrase that. If an alternative  
10 carrier want SS7 capabilities for its own network it  
11 has alternatives to U S WEST's SS7 network, correct?

12 A. For its part of the network but not for  
13 when it has to hand off the call and interact with U S  
14 WEST, it has no choice but to interact with  
15 U S WEST's signaling system whether it's SS7 or old-  
16 fashioned MF.

17 Q. So for instance if an alternative carrier  
18 gets its SS7 signaling capability through MCI, if U S  
19 WEST wants to access the SS7 network of the  
20 alternative carrier it's going to have to connect to  
21 the MCI network, and the alternative carrier wants  
22 access to U S WEST's SS7 network it's going to have to  
23 connect to the U S WEST network?

24 A. Accepting for a moment that that's a way  
25 the alternative carrier could do it the answer would

1 be yes, but be aware that what you are still describing  
2 is interconnection for purposes of local exchange.

3 Q. On page 54, you talk about on line 19 a  
4 genuine effect on the revenues of incumbent local  
5 exchange carriers. What would you characterize as a  
6 genuine effect on LEC revenues?

7 A. I guess I would say a change significant  
8 enough that its real profits have changed the effect  
9 -- is not described in either direction -- by at least  
10 five percent holding everything else constant. That  
11 is, it is truly attributable to the change.

12 MS. WEISKE: Excuse me, Your Honor. I  
13 apologize for interrupting, but we've been going about  
14 an hour and I just want to know if Dr. Cornell needed  
15 a break or if Mr. O'Jile had quite a bit more or both.

16 JUDGE ANDERL: We can ask that at this  
17 time. I was going to give him a little bit longer, but  
18 Mr. O'Jile, do you want to give us an update?

19 MR. O'JILE: Five more areas of inquiry  
20 most of which are short so I would say 25 minutes  
21 maybe.

22 MS. WEISKE: Can we make a short break then,  
23 Your Honor, like five minutes or less.

24 JUDGE ANDERL: I will give you a  
25 five-minute break.

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1 (Recess.)

2 JUDGE ANDERL: Let's be back on the record  
3 after a brief recess. Go ahead, Mr. O'Jile.

4 MR. O'JILE: Thank, Your Honor.

5 Q. Dr. Cornell, at page 46 of your testimony  
6 you talk about point of interconnection and that the  
7 alternative carrier should have to write, dictate the  
8 location of point of interconnection because they have  
9 the incentive to minimize costs?

10 A. That's correct.

11 Q. And is it your contention that this should  
12 be an ability to unilaterally choose by the  
13 alternative carrier?

14 A. If there is no ability to reach agreement  
15 it either should be the choice of the entrant or some  
16 kind of an arbitration or -- when I say arbitration in  
17 a very loosely termed --

18 Q. Dispute resolution?

19 A. Dispute resolution mechanism but it must be  
20 one that is informed by the difference in incentives  
21 of the two carriers.

22 Q. And is the -- is it your testimony that the  
23 AECs cost minimizing point of interconnection should  
24 be allowed even though it may increase or maximize  
25 costs on the incumbent LEC?

02058

1           A.     I'm having a hard time with this as a  
2 hypothetical.  Can you explain to me how that could  
3 be.

4           Q.     Assume, for instance, that an alternative  
5 carrier decided that it wanted to establish meet  
6 points on a customer by customer basis and establish  
7 -- it was serving five large customers and its desire  
8 was to establish a meet point at the property line of  
9 each of those five customers and to have traffic  
10 exchanged with U S WEST at that point.

11          A.     So, U S WEST -- I guess I'm not quite sure  
12 I see how that -- U S WEST presumably has some kind of  
13 facility now that goes near those large customers.  At  
14 least I would be very shocked if you don't.  And they  
15 ask to connect up with that already existing facility  
16 someplace you said at the property line, I will accept  
17 that -- of the large customer.  How is that maximizing  
18 U S WEST's costs?

19          Q.     Wouldn't you agree that in a situation  
20 where an alternative exchange carrier does not have to  
21 pay for transport services that they may -- the  
22 alternative carrier could choose to place a  
23 disproportionate burden of transport on U S WEST by  
24 where it chooses to locate its meet points?

25          A.     Maybe I'm not very clear.  I am assuming

02059

1 that the carriers will share the cost of the pipe that  
2 connects them.

3 Q. Okay.

4 A. So if in your earlier example -- maybe  
5 that's why I was having trouble understanding your  
6 attempt to give me more clarity -- that if the carrier  
7 asks for five separate pipes interconnecting it with U  
8 S WEST it's paying half of each of five pipes. It can  
9 reduce its cost presumably if it pulls those together  
10 and tries to make it only one pipe that it shares the  
11 cost of.

12 Q. Do you believe that properly accomplished  
13 that unbundling will require -- unbundling and  
14 imputation will require an increase in any local  
15 exchange rates that are currently below cost?

16 A. Accepting only as a hypothetical, because I  
17 do not know that any rates are currently below cost,  
18 if there is a universal service fund done properly, as  
19 I discuss -- or done in the way I recommend maybe would  
20 be a better way to put it in my testimony -- I am not  
21 persuaded that there necessarily would have to be an  
22 increase in rates.

23 Q. Now, I am confused by that answer because  
24 it seems that if you assume that a rate is currently  
25 offered below cost and that there's unbundling and the



02060

1 need for the retail service to include all of the  
2 unbundled elements, wouldn't it follow that upon  
3 implementation of unbundling that the retail rate  
4 would have to rise at least to the level of cost?

5 A. Well, again, the answer may be yes, but  
6 what I suggested was if there is a universal service  
7 fund composed in the manner that I've described, you  
8 would have a situation in which -- and it can be  
9 either of two ways. Either the service that is, quote,  
10 below cost, unquote, is unbundled in a fashion that the  
11 prices pass an imputation test for the bundled service  
12 and U S WEST collects the universal service  
13 contribution towards the unbundled loop component,  
14 which brings it back up to TS LRIC, or the unbundling  
15 is pricing that loop at TS LRIC and the purchaser of  
16 the loop collects the universal service funds  
17 attributable to the loop. I do not see that  
18 necessarily either of those outcomes means there has to  
19 be an increase in the current rate.

20 Q. But there could be, depending on the  
21 relationship of the unbundled rate -- the rates for the  
22 unbundled elements?

23 A. Well, I would urge this Commission to  
24 insist that in an unbundling process, the rates -- and  
25 let's for a moment put residential aside. Let's deal

02061

1 first with business. That the business rate  
2 unbundling passed an imputation test today. There's  
3 no excuse to do otherwise. In the case of  
4 residential, which is where the issue seems to always  
5 arise, it could well be that in the case of somebody  
6 wanting unbundled loops to provide second and third  
7 residential lines you might have, should it be found  
8 that residential service really is provided below  
9 cost, that you could have that price increase that  
10 you're talking about, but for the first residential  
11 service if the support is unbundled and deaveraged so  
12 that it's explicit and laid out, there is no need for  
13 an increase in price unless this Commission concludes  
14 that it believes that the amount from a universal  
15 service fund should be less and the rate should now go  
16 up to make up the difference.

17 Q. Will competition develop in a market if the  
18 incumbent is pricing its services below the economic  
19 cost of that service?

20 A. Will competition occur? The way you  
21 phrased the question the answer is no, not unless  
22 there is a competitively neutral universal service  
23 fund. There is a remote chance of competition  
24 developing if you are pricing below your forward  
25 looking economic cost but that is not truly the

1 forward looking economic cost of new technologies  
2 coming into the market, but I would not urge the  
3 Commission to bank on that.

4 Q. On page 75 of your testimony you refer to  
5 AT&T's resale of services to interexchange carriers.

6 A. Yes.

7 Q. Did AT&T provide those service at its total  
8 service long-run incremental cost?

9 A. Oh, I doubt it very much. Back then  
10 everybody was busy talking about marginal cost.

11 Q. Did the entrant pay AT&T's tariffed rates  
12 for those services that they paid?

13 A. They paid their tariff rates but the rates  
14 -- the services they were buying were already wholesale  
15 services being provided to large users not full retail  
16 rates provided to small users.

17 Q. So they bought as any other large user  
18 under tariff?

19 A. That's right.

20 Q. So AT&T didn't have to develop a special  
21 tariff for interexchange carriers purchasing its  
22 services for resale?

23 A. It had to do some tariff changes because it  
24 had to remove the resale restriction and also the  
25 so-called piece-out restriction.

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1 Q. But as far as rates go?

2 A. As far as rates they did not have to, once  
3 the resale restriction was ordered removed they did  
4 change their rates.

5 Q. Up or down?

6 A. I think they increased the prices of the  
7 so-called WATS, which is wide area transport service  
8 or wide area toll service -- relative to MTS, and sort  
9 of flattened the discount structure.

10 Q. In your view of unbundling, Dr. Cornell,  
11 will all of the unbundled elements be charged on a  
12 flat-rated basis?

13 A. I am not sure I know what you mean. Can  
14 you be more specific.

15 Q. Will some of the unbundled services that you  
16 recommend that this Commission require U S WEST  
17 provide to alternative carriers or interexchange  
18 carriers, would some of those services be provided on  
19 a minute of use basis?

20 A. I would think that some of them might. I'm  
21 looking at, using Exhibit 146. I'm looking at for  
22 example some of the operator service connections, for  
23 example. I drew a blank at your earlier question  
24 because I'm not quite sure how you charge for a basic  
25 level network access distribution channel on a minute

02064

1 of use basis, but.

2 Q. Well, some will be flat-rated some will be  
3 on a minute of use basis?

4 A. That's correct.

5 Q. And conceivably to implement unbundling  
6 would you imagine that U S WEST is going to have to  
7 modify in some way its billing system to allow rating  
8 and charging of unbundled elements?

9 A. I would assume that the same kind of  
10 addition of what are known as USOCs and a price that  
11 would occur with any new offering of U S WEST would  
12 have to occur.

13 Q. And you also have recommended that  
14 alternative exchange carriers be required to provide  
15 unbundled services as well?

16 A. That's correct.

17 Q. And would you assume that they would have  
18 to make similar modifications to their billing systems  
19 and recording systems in order to accommodate the  
20 rating and charging and billing of those unbundled  
21 elements?

22 A. There you're making an assumption I don't  
23 share. You're assuming they don't offer them already.

24 Q. Assuming they don't offer them already?

25 A. If they don't offer them already, yes, they

02065

1 would, but my belief is that in a really competitive  
2 market or a really competitive carrier is going to  
3 offer these things anyway.

4 Q. Page 68, carrier of last resort issues.  
5 You answer the question that you posed on page 68,  
6 line 17 over on page 69 starting at line 6. You  
7 answered that assuming the Commission adapts your  
8 universal service proposal, okay? And you agree with  
9 that, don't you? You answered that question under the  
10 assumption that they adopt your universal service  
11 proposal?

12 A. In the long run, yes.

13 Q. With that in mind, assuming we have the  
14 situation today where your universal service proposals  
15 are not in effect, would you agree that the carrier of  
16 last resort obligation to provide service could impose  
17 burdens on a local exchange carrier that experiences  
18 targeted competitive entry if some of the services it  
19 provides are currently provided below cost?

20 A. I'm going to say no, and I would like to  
21 explain why, and it's not just a quibble. It's not a  
22 carrier of last resort obligation. It's a universal  
23 service problem.

24 Q. If I would rephrase it to say -- to avoid  
25 the use of the word carrier of last resort, which you

02066

1 appear to disagree with, would you agree with the rest  
2 of my statement?

3 A. No, yes. And I have to explain what I mean  
4 by giving you both. No, not in some reasonable period  
5 of time, and that goes back to my belief that entry  
6 just is not going to gallop like wild fire through this  
7 entry. That is, you may have many firms entering, they  
8 may take customers or some part of customers, but it is  
9 not going to be a galloping huge market share in a very  
10 short period of time. The answer is, yes, if a long  
11 period of time is allowed to elapse and nobody stops  
12 and reforms universal service support, starting by  
13 checking whether and if so how much support really is  
14 needed. So that it is pinned down, it is known, it can  
15 be targeted and then collected competitively neutrally  
16 and dispersed competitively neutrally.

17 Q. Finally turn back to page 21 of your  
18 testimony. You make the statement on line 17 and 18  
19 that traffic between networks tends to be "in balance  
20 over time." Do you see that?

21 A. Yes.

22 Q. Have you provided any facts or empirical  
23 data to this record that demonstrates your statement?

24 A. I have not because I have not until  
25 recently had any from competing networks.

02067

1 Q. Let just turn, then, to page 29, lines 2 to  
2 10 you talk about U S WEST and its relationship with  
3 independent carriers. Do you have -- have you  
4 provided to this record any traffic study information  
5 showing that U S WEST and independent companies in  
6 Washington have balanced traffic exchange?

7 A. Again, I would not be the one who would  
8 even have the ability to provide that to the record.  
9 I have looked at the data that Mr. Wilson has  
10 provided, and I have looked at the evidence I gave  
11 here on page 29.

12 Q. Thank you.

13 MR. O'JILE: That's all I have.

14 JUDGE ANDERL: Thank you. Mr. Potter, do  
15 you have cross?

16 MR. POTTER: Yes.

17

18 CROSS-EXAMINATION

19 BY MR. POTTER:

20 Q. Should I say good evening?

21 A. Whichever. Good whatever it is, Mr.  
22 Potter.

23 Q. Let me just check to see. I had a couple  
24 of questions prompted by Mr. O'Jile. Answer to one of  
25 his questions I think it was prompted by that FCC



02068

1 Common Carrier Bureau report you were talking about  
2 costs being per customer and per call. Do you recall  
3 that?

4 A. Yes.

5 Q. I'm not sure I caught if you described what  
6 you meant by per customer and per call. Could you  
7 describe that?

8 A. Sure. Some costs are incurred not on  
9 a per call basis, that is, the costs, for example, to  
10 set up a billing record for a customer on a per  
11 customer call. There also are, although I am  
12 sometimes lost in the arcana of it, some of the federal  
13 support mechanisms work on a per presubscribed line  
14 basis, so there are a collection of things like that  
15 that really are a per customer cost not a per call  
16 cost. Then there are other costs network costs mostly  
17 that are per call and then there are other costs,  
18 advertising, that in a sense are per customer in a way.  
19 I mean, they almost vary with revenues, and I don't  
20 know which way to describe that.

21 Q. I understand. Thank you. It was not too  
22 long after that line of questioning you were making a  
23 statement about current level of switched access  
24 charges above their TS LRIC and if I jotted it down  
25 correctly you said that the current situation is

02069

1 contrary to how competitive markets work because it  
2 has the highest level of contribution from customers  
3 with the highest volume of usage. Did I get that  
4 right?

5 A. That's right.

6 Q. So that would mean conversely then that in  
7 a competitive market a company would get its highest  
8 level of contribution from customers with a lowest  
9 volume of usage?

10 A. On a per unit basis, yes.

11 Q. So are volume discounts and pricing  
12 consistent then with that phenomena?

13 A. Volume discount -- and the answer is yes  
14 because people who buy in volume save companies costs.  
15 Remember, step back a moment. My favorite example is  
16 always the shoe store because I give the highest  
17 contribution to shoe stores. I never sit there all  
18 day and try on shoes. If I get past pair three I'm  
19 throwing them at somebody, but the person who sits  
20 there all day and buys the same one pair that I do has  
21 imposed a lot more costs on the store than I have.  
22 There are always in an establishment costs that are  
23 incurred on a per X basis different from the way the  
24 pricing works. Always. The family that goes to  
25 McDonald's and they put ketchup all over the table and

02070

1 the chairs is imposing a lot more costs per hamburger  
2 than I am. And I mean no pejorative. Kids are like  
3 that.

4 Q. In Wyoming?

5 A. I see it more in DC.

6 Q. Not out here. Well, speaking of examples,  
7 you had the bakery example and I wanted to ask you a  
8 couple of questions on page 75. Started in your  
9 direct testimony starts on the bottom of 74 goes to  
10 the top of page 75.

11 A. Yes.

12 Q. And there you're talking about unbundling  
13 and removing resale restrictions. At the top of page  
14 75 you have the sentence if a new bakery had not only  
15 to bake bread but also to establish retail stores  
16 before it could sell any bread it would be a  
17 significant barrier to entry. Correct?

18 A. Yes.

19 Q. So far as you know is bread baking and  
20 bread retailing a regulated or unregulated business in  
21 this country?

22 A. Well, by the way you're using the term it's  
23 unregulated, to listen to some bakers talk they think  
24 they're heavily regulated but it's environmental and  
25 NOSHA.

02071

1 Q. However -- this is not meant to be a trick  
2 question -- in a sense the antitrust laws regulate  
3 that situation, correct?

4 A. I'm sorry. You're too vague about which  
5 situation.

6 Q. This situation described in your sentence  
7 there about bread bakers needing retail stores. Let  
8 me give you a hypothetical. If a bread baker also ran  
9 retail stores and it refused to sell the bread from  
10 your bakery, the antitrust laws may come into play,  
11 correct?

12 A. It might, depending on the circumstances.

13 Q. I'm not going to ask you to give me legal  
14 opinions, but are you generally familiar with what  
15 sometimes is called the essential facilities doctrine  
16 in the antitrust law?

17 A. Yes.

18 Q. And is it correct to say that your criteria  
19 for what LEC services should be unbundled includes a  
20 concept of essential, essentiality?

21 A. I would say yes, it does, but not in the way  
22 I have heard or read generally like what witnesses  
23 refer to that. I have a broader definition of  
24 essentiality than they do.

25 Q. Could you briefly state your definition,

1 please.

2       A.     Well, mine is not so much -- when I say  
3 definition maybe it's application. That is, essential  
4 is something that is necessary for another firm to be  
5 able to provide a service at the same, you know, same  
6 or lower price than the incumbent is providing the  
7 service. Trying to tailor the definition somewhat to  
8 telephony where you have incumbent and entrants.  
9 And that without it the firm cannot provide the  
10 service. I tend to look at that as something that  
11 should be applied at least for the next few years in a  
12 relatively short to medium run sense. That is, not to  
13 look -- and I will be very explicit -- not to look at  
14 loop unbundling as not necessary because 25 years from  
15 now the entrant might be able to have facilities built  
16 to everybody in a local calling area. That's too long  
17 to wait. That someday loops may or may not and the  
18 market will tell us this answer, be an essential  
19 facility but today they are.

20       Q.     Do you have any opinion as to whether your  
21 concept of essentiality is broader or more narrow than  
22 the essential facilities doctrine in the antitrust  
23 law?

24       A.     Being very careful here not to render a  
25 legal opinion, having looked at some of these cases

02073

1 finding that joint ski lift ticket for ski resorts in  
2 Colorado comprise an essential facility, I am not sure  
3 I am more expansive than that's been used in the law.  
4 I would argue that while I think the antitrust law  
5 concepts are important and instructive and a very  
6 important thing for this Commission to take into  
7 account, I think broader than that they should be  
8 looking at the sort of public interest in having a well  
9 functioning competitive market, and if that says I  
10 don't have to wear the same -- if you will pardon my  
11 putting it this way -- Chicago school blinders that  
12 have been on some court decisions, that's fine.

13 Q. To your point about the long-range view of  
14 unbundled loops, would it be correct that one of the  
15 uses you see of unbundled loops by alternative  
16 carriers is as a, shall we say, short to medium term  
17 stop gap while they do build out their own networks?

18 A. It may be that and it may be that it is a  
19 permanent, in which case I guess you can't say stop  
20 gap, process. I talk in my testimony, and I genuinely  
21 don't know the answer to this as to whether -- I have  
22 no crystal ball -- as to whether it will turn out that  
23 beyond center cities in what -- in the Hatfield study  
24 turns out to be the least costly areas to serve, the  
25 loops of the incumbent may turn out to be a natural

02074

1 monopoly. Now, I believe in the very rural areas if  
2 we do it right -- that is we as a society do entry  
3 right -- that we're going to see some technological  
4 change that brings down these costs. Personally I  
5 hope so. And I think in the center cities we've  
6 already seen that one of the factors that's driving  
7 some of the entry or that drove some of the entry is  
8 that fiber is a less costly way to serve very large  
9 aggregations of customers than copper, and in that  
10 sense this was not a mature industry. It was starting  
11 over. And we had a lot of entry.

12           The middle part of that scale could turn  
13 out to have copper loops or the mix that now exists of  
14 copper and fiber in some cases, as a natural monopoly,  
15 and that entrant will never build their own or won't  
16 until we have yet another revolution in technology for  
17 that part of or that type of service area. I honestly  
18 don't know. But if you don't unbundle loops you will  
19 never find out.

20       Q.     Let's assume an urban area where you would  
21 not expect loops to be a natural monopoly and let's  
22 assume that an alternative carrier does intend to use  
23 the incumbent's loops for a stop gap. Do you believe  
24 it would be appropriate to have any minimum service  
25 period in the unbundled loop tariff, for example, you

02075

1 have to keep the service for two years or anything  
2 like that?

3 A. I think if it were genuinely the case that  
4 you had to build new facilities -- and when I talk  
5 about build new facilities I mean dig up the streets  
6 or retrench to provide it -- that there's a role for  
7 that. If it's plant you already have in place and  
8 it's not being used and it's not called for in terms  
9 of projected use within the time period then no. It's  
10 just sitting there idle, why not get some revenue out  
11 of it rather than getting none.

12 Q. I'm sorry. I lost the thread. Why would  
13 it be sitting there idle?

14 A. I gave you two different scenarios, one is  
15 where you had to build physical loop plan to provide  
16 the unbundled loops because you did not have idle  
17 plant. The other was where you had idle plant, spare  
18 capacity, unused loops. There's a lot of that going  
19 around.

20 Q. Oh, no. Well, I'm sorry. I thought the  
21 more typical situation might be where a new entrant  
22 convinces a customer of U S WEST to change over and  
23 wants to continue to use the U S WEST local loop to  
24 serve that customer. Is that the -- one of the types  
25 of scenarios you envision for use of unbundled loops?



1           A.     That's one scenario.  If it were the case  
2 that to continue to use that loop did not require U S  
3 WEST genuinely to build more loop capacity down that  
4 same street, I see no reason why -- in fact it's  
5 contrary to what would happen in a genuinely  
6 competitive market.  The owner of the loops if it were  
7 a genuinely competitive market would still get 60  
8 percent of the revenue or whatever it is from selling  
9 the unbundled loop other than getting zero percent of  
10 the revenue from selling nothing.

11          Q.     In a genuinely competitive market the new  
12 entrant would be building out its own facilities and  
13 may not reach that customer for another couple of  
14 years, correct?

15          A.     No.  Let me tell you about how delivery  
16 services work in my neck of the woods.

17          Q.     Well, just the no will suffice on that.

18          A.     That's an example of why the no is no.

19          Q.     Turn to page 90 of your direct testimony.

20          A.     Page what?

21          Q.     Nine zero.  Here you're talking about --  
22 well, the question is what regulation should the  
23 Commission apply to all local exchange carriers  
24 including entrants and your item No. 1 there on line  
25 12 states that the new entrants and the incumbent LECs

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1 should provide service to any customer passed by the  
2 carrier's facilities who requests service and so on.  
3 Can you explain to me in a little more detail what you  
4 had in mind by the word passed?

5 A. I'm not sure that I'm going to nail down  
6 all four corners of the definition but let me try. If  
7 you're on Main Street and you're between 12th and 13th  
8 and the facilities run from first to 20th Street on  
9 Main you are passed. If you are in a location like I  
10 live, incredibly rural, and the facilities go down the  
11 street and your home is a mile off the street you are  
12 passed but you may have to deal with who pays for the  
13 drop.

14 Q. Would that fall into the situation that's  
15 covered by line extension tariffs?

16 A. Yes.

17 Q. So is your recommendation that the new  
18 entrants have the same obligations to build the drop,  
19 shall we say, in terms of distance that the LECs have?

20 A. That's right. There's a common carrier  
21 obligation.

22 Q. That clarifies. In your rebuttal testimony  
23 -- I don't know if I have a specific page and line,  
24 but you critique Dr. Beauvais's description of his  
25 ultimate ideal declining block structure. It starts

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1 on page 3. Do you remember that part of your rebuttal  
2 testimony?

3 A. Yes.

4 Q. Did you understand that by using a  
5 declining block structure Dr. Beauvais intended to  
6 facilitate the provision of volume discounts?

7 A. I was not sure what Dr. Beauvais intended.  
8 I reacted both to what was on the page and how it's  
9 been explained to me in Oregon proceedings at length  
10 by other witnesses or other employees, let me just put  
11 it that way, of GTE, and I do know that in those  
12 discussions the final block would not pass an  
13 imputation test.

14 Q. Is that because there were specific prices  
15 proposed for the blocks in that discussion?

16 A. No. Actually the discussion was about  
17 whether the final block would pass an imputation test  
18 or not and the answer was no, absolutely not.

19 Q. So you didn't remember Dr. Beauvais's  
20 comment on page 19 of his testimony where he said, "in  
21 this sense the nonlinear multipart structure is  
22 equivalent to providing volume discounts"?

23 A. Well, I know that he said that but there  
24 are many different ways that you can provide volume  
25 discounts some of which are pro competitive and some of

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1 which are anticompetitive.

2 Q. I see. So you attribute anti-competitive  
3 intent to Dr. Beauvais, do you?

4 A. I would have to say I'm not sure I  
5 attribute them to Dr. Beauvais. I am concerned based  
6 on the discussion that GTE put into the Oregon  
7 proceedings, UM-351, that there would be anti-  
8 competitive outcomes from some of their pricing  
9 proposals, and they included the same or what appear  
10 to be the same declining block tariff structure.

11 Q. Page 6 of your rebuttal. The question is  
12 starting at line 10, should cellular carriers be  
13 allowed to terminate local exchange calls over the  
14 incumbent local exchange carriers under mutual traffic  
15 exchange.

16 A. Should be a "network" there. I apologize.

17 Q. Local exchange carriers' network?

18 A. Yes. Another error.

19 Q. But that's the attorney asking questions so  
20 it's not your fault.

21 MS. WEISKE: Excuse me?

22 Q. And the answer was a yes, correct?

23 A. Yes.

24 Q. Do you believe it is possible to determine  
25 when a call originated by a cellular carrier is a

02080

1 local exchange call?

2 A. I believe it's possible for the local  
3 exchange carrier to determine -- excuse me, for the  
4 cellular carrier to determine that.

5 Q. How would that work?

6 A. Well, the cellular carrier presumably has  
7 the ability to determine where the call is coming from  
8 because it comes to a particular cell site and whether  
9 that cell site is inside or outside the local exchange  
10 calling area of the terminating telephone number.

11 Q. So it will be determined by the physical  
12 location of the cell that the person was driving  
13 around in when they made the call rather than the NXX  
14 connected with the phone number assign to that  
15 cellular service; is that right?

16 A. Yes.

17 MR. POTTER: That's all my questions.

18 JUDGE ANDERL: Thank you, Mr. Potter. Does  
19 any other party have cross for this witness?

20 Other questions from the commissioners?

21 CHAIRMAN NELSON: Yes.

22

23 EXAMINATION

24 BY CHAIRMAN NELSON:

25 Q. Evening, Dr. Cornell.

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1 A. Good evening.

2 Q. I will ask you the same question I asked  
3 Dr. Selwyn. Do you think it's -- several parties have  
4 proposed that within 30 days U S WEST could produce  
5 appropriate cost studies if ordered. Do you think  
6 that's practical and expectable?

7 A. I don't know about 30 days, but given that  
8 they at least once had the methodology correctly in  
9 Oregon, they ought to be able to produce correct cost  
10 studies here for Washington relatively promptly. I  
11 would give them 90 but --

12 Q. Thank you. In a question just now you  
13 referred to the Hatfield study. I assume that's  
14 Dale Hatfield who does work for MCI and sometimes the  
15 Anteburg school?

16 A. That's correct, and a number of other  
17 people as well.

18 Q. Is that in our record, that study?

19 A. I don't believe -- well, I don't know  
20 whether it is. It is a study that has been put out  
21 widely attempting to estimate in what is known as a  
22 green field or scorched earth approach to the economic  
23 costs of providing universal service.

24 Q. Is it in the public domain or do you have a  
25 citation for it or should I ask for it? I know we've

1 been sensitive to hearsay objections in this  
2 proceeding, but I would be interested in seeing it.

3 A. It is definitely in the public domain in  
4 the sense that it has been widely circulated. I  
5 certainly can provide a copy or, more accurately, the  
6 lawyer who has asked me to appear here today can  
7 provide a copy.

8 JUDGE ANDERL: Why don't we just make it a  
9 bench request No. 1 then.

10 MS. WEISKE: Chairman, did you want both  
11 the Hatfield study and the universal service paper?  
12 They are separate.

13 CHAIRMAN NELSON: I know I have seen the  
14 universal service papers have been distributed at NARUC  
15 but I don't know if I have seen the Hatfield study.

16 JUDGE ANDERL: So I would guess just the --

17 CHAIRMAN NELSON: Hatfield study.

18 (Bench Request 1.)

19 Q. And then your Exhibit 6 with your direct  
20 testimony had 34 pieces to be unbundled?

21 A. That is correct.

22 Q. AT&T had I think nine or eleven, I can't  
23 remember. Again, looking for practical solutions  
24 which are administratively simple to oversee and  
25 enforce. In view of Ms. Murray's testimony today that

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1 the City Signal interconnector in Detroit has already  
2 run into a glitch, can you just -- given both those  
3 differences in, I guess they call it, granularity of  
4 unbundling that you both recommended, how can we  
5 avoid -- how can we set something up that would avoid  
6 the glitches that City Signal already seems to have run  
7 into?

8       A.     This is not a one sentence answer. Please  
9 forgive me. First of all, I am going to tell you,  
10 you're not going to be able to set up anything that  
11 doesn't have some glitches because you are dealing  
12 with a very massive set of conflicting desires in  
13 front of you. You have on the one hand the desire to  
14 enter and on the other a very clear desire to prevent  
15 entry, and it's that blunt. So anything you put  
16 forward is going to be interpreted by both sides --  
17 and you will have to come back and say whose is right  
18 or where you cut the baby, but do be careful that you  
19 don't cut a genuine baby in doing it. It will be  
20 probably appealed if there's any grounds for that kind  
21 of thing. But I would urge you to go ahead anyway.

22             And the thing I would do is to start to go  
23 and deal with the requests that are here in terms of a  
24 phasing, and I would say deal with those things that  
25 are clear to you are needed for the next step in local



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1 competition. That's clearly line side unbundling.  
2 That's clearly the -- despite its being esoteric it's  
3 clearly ISUP and TCAP access. Despite the fact that  
4 those sound very technical I've tried to give you a  
5 clear, as best I know how, English why those are very  
6 important to local competition. It's clearly access  
7 to some operator service functions because you want  
8 busy line verification and interrupt services to work  
9 across networks and that requires some interaction  
10 between operator service provision. Obviously 911  
11 nobody has to tell you how important that is.

12 I would argue that all the stuff about  
13 White Pages and directory assistance may not seem real  
14 to you. One of the most powerful cries that came out  
15 of the Wyoming sale of exchanges was a word one cannot  
16 use in public -- darn it is the closest -- we want a  
17 unified White Pages. Give it to us. Do not let the  
18 splintering of ownership splinter the White Pages  
19 within a community of interest. One of the few things  
20 the citizens won in the sale of exchanges. Very  
21 important to the public, and also very clearly a  
22 potential barrier to entry. If nobody knows how to  
23 reach you no business is going to sign up with an  
24 entrant if they're then out of the directory. And  
25 I've talked about it in my testimony and I'm not going

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1 to belabor the point.

2           The transport unbundling in the physical  
3 way that it is called for in the LTR proposal is a  
4 good idea. It's the pricing that is wrong. Then you  
5 can go back and start to deal with the second layer as  
6 a later phase, and Illinois did that in its order  
7 where it said you will do a link and port now and you  
8 will have workshops on the loop subelement unbundling,  
9 because we do not believe you, Illinois Bell, that  
10 it's not technically feasible. And that deals with,  
11 that takes me through items 1 through 12 right there  
12 in my exhibit NWC-6. Exhibit 146. The first 12 are  
13 all loop subelement unbundling items.

14       Q.     Well, that gives me is -- the oral  
15 rendition gives me an idea of what your priorities are.  
16 Thank you very much.

17       A.     You're very welcome.

18           CHAIRMAN NELSON: That's all I have.

19           COMMISSIONER HEMSTAD: I don't have any  
20 questions.

21           COMMISSIONER GILLIS: I have a couple.

22

23                               EXAMINATION

24 BY COMMISSIONER GILLIS:

25       Q.     As I understand your testimony, you suggest

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1 bill and keep is superior to mutual compensation as a  
2 means to stimulate technical innovation and choice of  
3 efficient architecture. Is that characterizing you  
4 correctly?

5 A. Yes you said bill and keep or mutual  
6 traffic exchange?

7 Q. Yes. Bill and keep versus mutual -- no  
8 mutual compensation?

9 A. I believe compensation in kind is superior  
10 to compensation in cash, yes. Vastly.

11 Q. Was that something inherent in -- from the  
12 standpoint of stimulating technical innovation and  
13 choice of efficient network architecture, is that  
14 something inherent in mutual compensation versus bill  
15 and keep or is it the particular mutual compensation  
16 approach that is proposed by U S WEST?

17 A. It is partly inherent and partly the very  
18 poor model chosen by U S WEST.

19 Q. Explain to me the inherent part.

20 A. Well, the inherent part I think it is  
21 superior because, frankly, mutual compensation allows  
22 you not to worry about cost studies ever again for  
23 that particular service. And -- excuse me, mutual  
24 traffic exchange allows you to put aside cost studies.  
25 You know that interconnection is going to be at cost,

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1 no more, and that that is not going to be pushed in  
2 terms of whatever technology or architecture that  
3 either the entrant or the incumbent want to use going  
4 forward. The discussion I had with Mr. O'Jile about  
5 would an entrant be allowed to call a loop transport  
6 under the structure of access charges goes away.  
7 There's also no ability to say, no, we won't do meet  
8 point which is technically the most efficient and the  
9 least cost, we'll make you pay for colocation or an  
10 entrance facility. Oh, we'll pay you for colocation at  
11 your switch but now you just keep ratcheting up the  
12 price floor, the cost floor of local exchange.

13           And I believe that new technologies come in  
14 best where you don't keep putting these artificial  
15 cost floor levels in place. The lower the price the  
16 more likely it is that new technology will be able to  
17 take hold in part because the more the price comes  
18 down the more consumers will figure out ways to use  
19 it. I disagree with U S WEST's claim that because  
20 they don't charge for usage, increased usage doesn't  
21 gain them anything. Cut the line of a business, cut  
22 the price of a business line in half, and the people  
23 who should worry aren't U S WEST about increased usage  
24 but the postal service about vastly increased faxing.

25           Q.     Different topic. I imagine that you're at

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1 least generally familiar with the interconnection  
2 arrangement in the Rochester area maybe in some  
3 detail.

4 A. At one point I knew it rather intimately.  
5 I'm rather fuzzy now.

6 Q. Am I right in my perception that Rochester  
7 Telephone strategically decided to offer as a  
8 for-profit line of business interconnection services  
9 as a business strategy?

10 A. I think I would not agree with that  
11 characterization. I don't remember the details of  
12 the proposal that was adopted, but there is a no charge  
13 kind of regime or a partial no charge regime that kicks  
14 in if traffic is within five percent of balance, and  
15 then it depends on whether you interconnect at the end  
16 office or the tandem, but the effect is the charges are  
17 too high, but not like what's being proposed here is my  
18 memory of it. It's not the model I would like but it's  
19 better than what's being offered here. Rochester  
20 really made a decision that it wanted to have at least  
21 some of the conditions necessary for local exchange  
22 competition in order to get the Commission to allow it  
23 to go to a holding company structure, and that was by  
24 far the biggest issue in that case. Much more than it  
25 decided to go into a for-profit business of

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1 interconnection. There was -- the quid pro quo was we  
2 want to be a holding company. Here's what we'll give  
3 you in exchange.

4 Q. I'm less interested in the details of  
5 Rochester than in the general concept of whether you  
6 think it's realistic to expect an incumbent company  
7 with an established network -- is there a profit  
8 motive for the company to go into, say, the business  
9 of interconnection?

10 A. I said earlier you need to be very aware of  
11 what's in front of you. The profit motive for all of  
12 the incumbents is to keep all of that end of the table  
13 out completely and totally (indicating). And that is  
14 their first and foremost desire. They owe it to their  
15 stockholders to try. That's the profit motive. You  
16 have to move away from saying what's the profit motive  
17 to saying what's good for the consumers in Washington,  
18 and if you want a competitive market, and if you want  
19 it to bring the maximum benefits of competition to  
20 consumers, you want interconnection at cost. Make them  
21 compete in the market for who has got the lowest common  
22 and shared costs. Don't let them start recovering them  
23 from each other. That insulates them from market  
24 competition. Make them compete by having the end user  
25 prices recover those and see whose is lower.

1                   You will never have the full benefits of  
2 competition if you try to make interconnection a  
3 profitable service offering.

4           Q.     I just want to pursue that one more way and  
5 look at it from a textbook point of view and I don't  
6 mind if you tell me it's a textbook point of view and  
7 it doesn't make any sense. I suppose the textbook  
8 point of view would be that if a company -- if they  
9 expect to make as much money by offering -- get into  
10 the wholesale business -- interconnection business,  
11 additional revenues from that to offset their loss  
12 that they would expect in their own evaluation in the  
13 long run from new retail entrants on the retail side  
14 they would find it in their self interests to do it?

15          A.     Problem is, in a sense I would agree with  
16 you. The problem is that is not a calculation that  
17 ever allows competition to win, because the way they  
18 look at it, and the way I would look at it probably if  
19 I were sitting in their shoes -- I'm not saying  
20 otherwise -- is that I always stand to lose more if I  
21 lose the retail business and become a wholesaler than  
22 I can gain as a wholesaler.

23                   I remember a long time ago somebody who had  
24 been out in the real world much longer than me, and I  
25 was probably a student when this was said to me, said

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1 every businessman he's ever met believes he faces  
2 inelastic demand, so you are always better off if you  
3 raise the price. That's why you see so many price  
4 increase trial balloons in markets where companies are  
5 not pure price takers. Because they all believe they  
6 face inelastic demand, and the market has to keep  
7 telling them no, they don't. It takes a real reversal  
8 of that belief to go into the wholesale business and  
9 believe you can make it up in volume what you're giving  
10 up in the margin per unit. That is, you're cutting the  
11 price and taking less per unit but selling a whole lot  
12 more of them at wholesale. If you look at the history  
13 of the telephone industry and the history of the AT&T  
14 case -- I should say cases -- they all demonstrate the  
15 same desire to prevent losing the retail business.

16 Q. Your bottom line then in your  
17 recommendation to us is that we, it would be -- I  
18 don't want to say futile, but may not as productive to  
19 be searching for market incentives to encourage  
20 incumbent LECs to offer interconnection services. Is  
21 that actually right?

22 A. If you're looking for them in the way you  
23 describe before, how do I make it profitable so they  
24 want to do that, yes. That does not mean that you  
25 cannot do things that will structure this market so it



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1 will do what you want it to do. And I am assuming from  
2 the fact that Washington state law does not have  
3 exclusive franchises, and at least that's what my  
4 lawyers tell me the Supreme Court case means, and that  
5 you have been a Commission that has tried to push for  
6 competitive entry, that you want competition. You can  
7 do things to structure that. You can even do things  
8 that minimize but do not get rid of your need to look  
9 at cost studies, but you are going to have to do things  
10 that basically establish rules and requirements and  
11 then you have to insist they get adhered to in order to  
12 get there. You are not going to be able to do it by  
13 saying we'll let you establish a profitable price for  
14 interconnection. That's not going to get you where you  
15 want to go.

16 COMMISSIONER GILLIS: Thank you.

17 THE WITNESS: You're welcome.

18 JUDGE ANDERL: Is there redirect?  
19

20 REDIRECT EXAMINATION

21 BY MS. WEISKE:

22 Q. Dr. Cornell, in response to Chairman Nelson  
23 you used the term line side connection. What did you  
24 mean by that?

25 A. The separation of the loop from the switch

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1 where the loop comes in to connect at the switch  
2 there's literally a frame where the loops terminate  
3 before they go into the switch and that's where line  
4 side connection takes place. It's sometimes called  
5 links and ports in other states.

6 Q. You also said in response to Chairman  
7 Nelson that you would give the LECs 90 days to do your  
8 definition of TS LRIC cost studies. Are you generally  
9 aware of an upcoming U S WEST rate case in the state  
10 of Washington?

11 A. Yes.

12 Q. Are you aware of the fact that testimony is  
13 due the end of July with hearings the end of October?

14 A. Yes.

15 Q. Does that change your recommendation of 90  
16 days?

17 A. Well, to the extent that U S WEST has not  
18 done proper cost studies now, there is just literally  
19 a production problem in trying to do them in 30.

20 MS. WEISKE: That's all I have. Thank you.

21 JUDGE ANDERL: Any recross.

22 MR. O'JILE: I have got a couple of  
23 questions.

24

25 RE CROSS-EXAMINATION

1 BY MR. O'JILE:

2 Q. Your response to Commissioner Gillis's  
3 question where you stated you're never going to have  
4 the full benefits of competition if interconnection is  
5 a profitable service. Do you remember that response?

6 A. Yes.

7 Q. And when you were speaking of full benefits  
8 of competition you were speaking of effective  
9 competition, correct?

10 A. No. I was speaking of -- you can have  
11 effective competition with a price floor that is -- or  
12 a cost floor that is inflated, witness interLATA toll  
13 with all of that excess contribution from switched  
14 access. I was talking about getting prices as low as  
15 they can go socially to consumers. That's what I mean  
16 by the full benefits of competition.

17 Q. You had a discussion with Mr. Potter about  
18 your testimony on page 90 where your recommendation is  
19 that if an alternative carrier's network passes a  
20 customer that it has to offer service to that customer  
21 if the customer requests it?

22 A. With the caveat that it's also on page 90  
23 that the carrier can gain nondiscriminatory access to  
24 the customer's premise, yes.

25 Q. Now, assume for a moment that your -- that

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1 under your scenario of facilities running down main  
2 street from 1st to 20th Street and assume that there is  
3 a building on 13th and Main that has a loft on the  
4 second floor in which a family is living. And that  
5 family requests residential service from the  
6 alternative carrier. Under that scenario would you  
7 expect that the Commission should -- let me back up.  
8 Would you expect that the alternative carrier should  
9 have a residential tariff on file and available to that  
10 customer?

11 A. No.

12 Q. So, in other words, the alternative carrier  
13 would only have to serve that customer if the customer  
14 was willing to pay the alternative carrier's business  
15 rate or whatever rate it had for business customers?

16 A. Whatever rate it had on file as its tariff.

17 Q. And if that rate is substantially higher  
18 than the incumbent LEC's residential rate, is that too  
19 bad for the customer, the residential customer that  
20 wants service from that alternative carrier?

21 A. I mean, if the rate is higher than U S  
22 WEST's rate and the customer does not want to pay the  
23 entrant carrier's tariffed rate, then the customer  
24 isn't going to look at the entrant. On the other  
25 hand, if the entrant decides that whatever made it

02096

1 want to look at the entrant in the first place,  
2 unhappiness with service quality and other things, it  
3 may well decide it's still worth it to pay the price  
4 asked for the entrant for the improved service  
5 quality.

6 Q. And why shouldn't the alternative carrier  
7 have to have a separate residential tariff?

8 A. Because there is no reason why this  
9 Commission should start ordering at this stage the  
10 production of artificially different tariffs by a  
11 competitive firm. Far more important just to fix  
12 universal service and let the market sort that out  
13 than to start ordering all of these distinctions on  
14 the entrants.

15 Q. But won't -- competition is never going to  
16 develop in the residential market if new entrants are  
17 charging residential -- intend to charge residential  
18 customers who ask them for service business rates?

19 A. I can't answer that yes or no because I  
20 don't agree with any part of the underlying  
21 hypothetical that sits there. I believe competition  
22 will develop in the residential market. I believe it  
23 will develop in a variety of ways. It will develop  
24 faster if universal service is fixed correctly, but I  
25 do believe it will come and it will come when carriers

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1 get their networks to a point that now they can have  
2 sufficient critical mass of usage and customers and  
3 employees to be able to handle the very different ways  
4 that residential users tend to interact with telephone  
5 companies. No, I can't give you details. Yes, I've  
6 heard about it. That the kind of customer service  
7 demands are different, that the billing is different.  
8 You advertise differently. You're dealing with the  
9 wrong person with this question. I sat through not in  
10 but through the ENFIA negotiations and the claim that  
11 toll competition would be for business only. It's not  
12 to me at all surprising that MCI's most popular  
13 offering was Friends And Family, a very distinctly  
14 residential service.

15 Q. Let me ask you a question about that. You  
16 and Mr. Potter talked about the issue we had discussed  
17 and that was costs can be incurred by interexchange  
18 carriers on a minute of use basis and on a per service  
19 basis or per customer basis. For a service like  
20 Friends And Family that has its own distinct  
21 advertising campaign, are the costs of advertising  
22 properly included in toll service long-run incremental  
23 cost of that service?

24 A. Of a particular service, yes.

25 Q. And would those fixed and per customer

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1 costs also be properly included in a TS LRIC study?

2 A. Again, if a cost is uniquely caused by a  
3 service, whether it is a fixed cost, a per customer  
4 cost, a per minute cost, it is all part of the total  
5 service long-run incremental costs of that service,  
6 yes.

7 Q. And my final question is you stated that  
8 compensation in kind is superior to compensation in  
9 cash?

10 A. In this instance where I'm talking about  
11 local interconnection, yes.

12 Q. Well, I was going to ask you if you took  
13 your compensation in free long distance usage?

14 MS. WEISKE: Doesn't that assume, Mr.  
15 O'Jile, that her interexchange carrier is MCI?

16 MR. O'JILE: It does.

17 A. I am not able to take it in long distance  
18 service.

19 JUDGE ANDERL: That's okay. I don't think  
20 it was a real question.

21 MR. O'JILE: That's all I have.

22 JUDGE ANDERL: Any other cross?

23 Thank you very much for your testimony.

24 You may step down. Let's be off the record for a  
25 minute.

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1 (Recess.)

2 JUDGE ANDERL: Let's be back on the record.

3 While we were off the record we discussed how we're  
4 going to be proceeding and as a result Mr. Buorgo is  
5 back on the stand. Mr. Buorgo, I would remind you  
6 that you are still under oath from having previously  
7 testified in this matter and we would be referring to  
8 Exhibit 128 for identification and C-129. Ms.  
9 Proctor, go ahead.

10 Whereupon,

11 DONALD BUORGO,

12 having been previously duly sworn, was called as a  
13 witness herein and was examined and testified  
14 further as follows:

15 MS. PROCTOR: First I just wanted to state  
16 for the record our objections concerning the demand of  
17 U S WEST. First, as we stated in our objections to  
18 the initial data responses we do not believe this  
19 information is at all relevant. The issue before the  
20 Commission is the pricing for monopoly bottleneck  
21 functions offered by U S WEST for interconnection,  
22 both for local and switched access services. AT&T  
23 does not provide any monopoly bottleneck facilities  
24 and therefore our pricing to our end customers is not  
25 at all relevant to this proceeding.



02100

1                   Secondly, U S WEST has raised this issue  
2 apparently in an effort to establish some  
3 inconsistencies with Mr. Buorgo's testimony, I think  
4 it's very clear that Mr. Buorgo's testimony in this  
5 matter start from the very fundamental economic  
6 principle that in a competitive market that prices of  
7 the various participants will move towards and converge  
8 at the TS LRIC cost for that marketplace. Certainly  
9 the pricing of AT&T to its end user customers we  
10 believe will certainly show that that is indeed  
11 happening, but very important pieces of information  
12 are missing. For example, we don't know what the  
13 other entrants in the marketplace are pricing at. We  
14 do not what their TS LRIC is. If there is shown to be  
15 a difference between AT&T's TS LRIC and its cost and  
16 its prices, we don't know whether AT&T is simply  
17 pricing inappropriately in the market or whether AT&T  
18 is enjoying the benefits of being the most efficient  
19 provider of services.

20                   And finally, and perhaps actually most  
21 importantly, I am a little puzzled by the whole effort  
22 by U S WEST in this issue. AT&T is certainly not  
23 alone in asserting in this case that the monopoly  
24 bottleneck facilities ought to be priced at TS LRIC;  
25 indeed we've just enjoyed a wonderful discussion by

02101

1 Dr. Cornell of those principles. AT&T, however, is  
2 the only party who, after responding very similarly to  
3 this data request as others have done, was made the  
4 subject of a motion to compel who was having to bring  
5 its pricing in its retail markets into the case, and  
6 my principal concern is perhaps less here than it is  
7 for the rate case where I can see if we have to  
8 present evidence in this case on private lines that in  
9 the rate case I can imagine we will have to entertain  
10 everyone with our entire line of services and  
11 hopefully we'll just be dealing with our regulated  
12 service. I think that that's a very bad precedent to  
13 set. I think it sends a very unfortunate message to  
14 companies like AT&T who are, despite Mr. Shaw's  
15 characterization at the outset, customers of U S WEST  
16 and very large customers. And yet we're subject to  
17 what I think of as almost harassment and efforts at  
18 intimidation.

19 JUDGE ANDERL: Ms. Proctor, your comment  
20 and objections are noted for the record.

21 MS. PROCTOR: Thank you.

22

23 DIRECT EXAMINATION

24 BY MS. PROCTOR:

25 Q. Mr. Buorgo, do you have in front of you

02102

1 what was marked yesterday as Exhibit 128? It is the  
2 private line services price list schedule 9, section  
3 16, and it consists of two pages?

4 A. Yes, I do.

5 Q. And does that represent the portion of the  
6 price list that applies to one of AT&T's services  
7 Accunet Spectrum of Digital Services?

8 A. Yes, it does.

9 Q. And do we mostly refer to that as ASDS?

10 A. Yes, we do.

11 Q. And do you also have in front of you what  
12 has been marked as Exhibit 129?

13 JUDGE ANDERL: C-129.

14 A. Yes.

15 Q. And I would caution you that this because  
16 this has been marked as confidential and because --  
17 especially because it is our own information, I would  
18 hope you would be very careful with it, and not that  
19 you would be any less careful with U S WEST's -- and  
20 not mention any of these numbers because this is a  
21 public record.

22 A. Yes, thank you.

23 Q. For ease of reference, the exhibit is not  
24 exactly paginated. The first page is entitled  
25 supplemental response No. 2. Then there are three

02103

1 pages of spreadsheets which we have labeled A1, A2  
2 and A3, and then there is a form attachment A we've  
3 labeled it which is contracts Washington. I just say  
4 that so that perhaps we can all be working off the  
5 same references.

6 Q. Mr. Buorgo, if you would please turn to the  
7 spreadsheet A1, which is labeled cost study and it's  
8 dated 16 December '92, and it is for the service ASDS  
9 56/64 KBPS. Do you have that in front of you?

10 A. Yes, I do.

11 Q. Do you know why only the costs for the  
12 56/64 KBPS were shown on the cost sheet?

13 A. Because it's the only or at least the  
14 virtual 100 percent of what we sell here in the state  
15 of Washington.

16 Q. And on Exhibit 129, on this page A1, what  
17 costs are shown?

18 A. The direct cost of the service. In other  
19 words, it's AT&T's analysis of our TS LRIC costs.

20 Q. Does it include any joint product costs?

21 A. No, it does not.

22 Q. And could you just give one example of a  
23 joint product cost?

24 A. Well, an example might be the printing of  
25 sales literature for the line ASDS services.

02104

1 Q. Could you now turn to attachment A. That's  
2 the sheet the contracts. And what is shown in the  
3 column labeled revenues?

4 A. The total monthly revenue we receive from  
5 the customer for that particular contract.

6 Q. And do we -- this is broken down into three  
7 separate services?

8 A. Yes. We show on here ASDS. We show  
9 Accunet T1.5 and we show Accunet T45.

10 Q. What is shown in the costs column?

11 A. The direct costs of providing the service  
12 as well as the prices that we pay U S WEST for the  
13 provision of its access service to us.

14 Q. Now, ASDS is shown in the price list. It's  
15 also shown on the contract sheet indicating that it is  
16 also offered under contract. Do you know why it  
17 appears on the contract sheet as well?

18 A. Yes, I do. It's because in competitive  
19 situations or in a competitive market we must provide  
20 contracts to our customers in order to compete.

21 Q. And have you made any brief analysis of the  
22 relationship between the costs and the revenues for  
23 this particular set of contracts for ASDS?

24 A. I think it wouldn't take a genius to figure  
25 out the margins here over the direct costs. They're

02105

1 not particularly great. And indeed that's exactly  
2 what I believe we discussed yesterday.

3 Q. Finally, could you very briefly and just in  
4 a general way describe how AT&T prices its services.

5 A. I can tell you how we try to price our  
6 services, yes. We begin with the direct cost of the  
7 service. We identify the joint product group cost,  
8 and then we try to stick a little more on. That's  
9 something that U S WEST might call contribution or  
10 margin. Unfortunately, the market won't allow us to  
11 do that all the time, and this is a perfect example of  
12 that, and indeed I think it shows the Commission that  
13 it probably didn't make a wrong decision here when it  
14 allowed us to do our private line competitive  
15 classification.

16 MCI's 30 percent below our tariff price.  
17 Sprint is 50 percent below our tariff price.  
18 Northwest Microwave is 65 percent below our tariff  
19 price. Bottom line is the customers won't buy it.  
20 And indeed I did ask for a couple of those statistics  
21 and they do support that we have been losing customers  
22 in surrogates and revenue like absolute crazy. The  
23 Commission gave us the right to shoot ourselves in the  
24 foot and we have used it.

25 Q. Thank you.

02106

1 MS. PROCTOR: I have nothing further.

2 A. Thank you.

3 JUDGE ANDERL: Not so fast, Mr. Buorgo.

4 Mr. Owens?

5

6 CROSS-EXAMINATION

7 BY MR. OWENS:

8 Q. Just a couple of brief questions. Mr.

9 Buorgo, directing your attention back to attachment A  
10 to Exhibit C-129 there are some numbers in parentheses  
11 on sort of the center to right-hand side of the page  
12 opposite each of the lines. Can you indicate what the  
13 significance of those is?

14 A. I believe they are the number of -- I don't  
15 even know why you were asking that question, but I  
16 believe that they are the number of contracts or the  
17 number of lines.

18 Q. And just so we're clear, is it your  
19 testimony that you have zero units that are being  
20 provided under your price list and in both schedules 9  
21 and 11?

22 A. No. It was my testimony that that data  
23 showed that we are not selling -- we are losing  
24 services like crazy and our revenue has just  
25 absolutely gone down to where -- hopefully some

02107

1 knuckle nose is going to get it through its head that  
2 we can't sell at that price. But I guess that's our  
3 prerogative if we want to keep that.

4 Q. And comparing -- and I am not going to ask  
5 you for any specific numbers on Exhibit C-129, but  
6 just for the benefit of the Commission to know what  
7 comparison might be appropriate, if I were to look at  
8 the second page, which is I guess denominated page A1  
9 of Exhibit C-129 and the lines that are marked on the  
10 left side, lines 2, 3 and 4?

11 A. Would you repeat that? I'm sorry I'm  
12 trying to figure out what you're trying to --

13 Q. Certainly. Exhibit C-12, page A1 which is  
14 the first spreadsheet page?

15 A. Okay.

16 Q. Lines that are marked on the left 2, 3 and  
17 4 under IOC fixed for the three different mileage  
18 band characteristics there?

19 A. Yes.

20 Q. Would it be correct to say that those  
21 described the cost for the same facility that is  
22 priced in the price list on the first page of Exhibit  
23 128, the second item under monthly charges per channel  
24 per 56/64 KBPS channel for the three mileage bands?

25 A. I believe you could make that comparison.



02108

1 However I believe it's completely and totally  
2 irrelevant. The fact is that I'm not U S WEST and  
3 can't get whatever the market margin is that's been  
4 proposed here, I can't sell the things.

5 MR. OWENS: Thank you. Nothing further.

6 JUDGE ANDERL: Mr. Owens, was your  
7 reference to the first page of Exhibit 128 or the  
8 second page?

9 MR. OWENS: Yes, Your Honor. I'm sorry. I  
10 think you're right. As it was originally marked what  
11 I've been looking at is the second page.

12 JUDGE ANDERL: And that's the one with the  
13 mileage bands on it?

14 MR. OWENS: Yes, Your Honor. Thank you for  
15 correcting that. I guess with that testimony we would  
16 reoffer 128 and C-129.

17

18 EXAMINATION

19 BY CHAIRMAN NELSON:

20 Q. 129, last page, Mr. Buorgo. What do the  
21 numbers in the parentheses stand for?

22 A. I cannot remember. Either -- I didn't  
23 write it down. Either lines or contracts and I cannot  
24 remember which.

25 MS. PROCTOR: It's the number of circuits

02109

1 for that contract.

2 THE WITNESS: Thank you.

3 MS. PROCTOR: So for the first contract has  
4 parenthetical No. 3 after it so that's the number of  
5 circuits.

6 THE WITNESS: Bottom line is there aren't  
7 very many, if you notice we aren't selling a whole lot  
8 of these at the prices we are attempting and the  
9 consumer is getting a little irritated at us for that.

10 Q. Well, then take a look at the first No. 2  
11 at the top of the page not in the parentheses. Is it  
12 safe to say that that customer drove a very good  
13 bargain for itself?

14 A. Well, it's safe to say that in practice  
15 that -- remember -- and I think several witnesses have  
16 described the movement of technology as we have done  
17 these kind of problems, and we have gotten certainly  
18 more efficient and have. In fact a good many of these  
19 IBRs didn't even exist. I'm sorry, I'm referring to  
20 these price lists. They didn't even exist, gee, maybe  
21 four or five years ago. They didn't even exist.  
22 Couldn't buy them, period, not that you could buy them  
23 at our prices, but the upshot is that what I'm trying  
24 to suggest is that as the TS LRIC, as we believe our  
25 forward looking costs change, we have the numbers in

02110

1 here that reflect those changes as well, so how we  
2 ended up at a point the customer demanded -- basically  
3 the customer demanded that we sell them that service.  
4 I assume somewhere along the line we believed that we  
5 could make a buck at it. It wasn't intentional I'm  
6 sure, that we sell what we --

7 JUDGE ANDERL: Thank you. Commissioner  
8 Hemstad or Gillis, do you have questions?

9 Thank you, Mr. Buorgo, for your testimony.  
10 You can step down. I do have an offer of Exhibit 128  
11 and C-129. Ms. Proctor, do your objections to this  
12 line of questioning also go to these exhibits?

13 MS. PROCTOR: Absolutely.

14 JUDGE ANDERL: I will overrule the  
15 objection and admit 128 and C-129 and I believe on that  
16 we will adjourn for the day.

17 (Admitted Exhibits 128 and C-129.)

18 (Hearing adjourned at 6:30 p.m.)

19  
20  
21  
22  
23  
24  
25