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1 BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION

2 COMMISSION

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

4 )  
Complainant, ) VOLUME 9

5 )  
vs. ) Pages 1572 - 1883

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 8:30 a.m. on June 27, 1995, at 1300 South Evergreen  
17 Park Drive Southwest, Olympia, Washington before  
18 Chairman SHARON L. NELSON, Commissioners RICHARD  
19 HEMSTAD, WILLIAM R. GILLIS and Administrative Law  
20 Judge LISA ANDERL.

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24 Cheryl Macdonald, CSR

25 Court Reorter

01574

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 P R O C E E D I N G S

2 JUDGE ANDERL: Let's be on record. Today  
3 is June 27, 1995. We're reconvened in docket  
4 UT-941464, et al. Mr. Shaw, we'll go back to you to  
5 complete your cross of Dr. Selwyn.

6 MR. SHAW: Thank you.

7

8 CROSS-EXAMINATION

9 BY MR. SHAW:

10 Q. Good morning, Dr. Selwyn.

11 JUDGE ANDERL: Grab that mike.

12 A. Good morning.

13 Q. Let's return to my hypothetical of a phone  
14 company in the state of Washington that provides intra-  
15 exchange and interexchange services on a monopoly  
16 basis. Would that phone company be prudent in  
17 replacing its analog switches with digital switches to  
18 provide monopoly services?

19 A. Once again, the answer to that would depend  
20 upon the economic studies that were -- evaluations  
21 that were made of such replacements, and I don't know  
22 that there's a specific general answer that can be  
23 given. At some point, obviously such replacements  
24 may be appropriate. Whether they are appropriate at  
25 precisely the pace at which they might otherwise occur

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1 is something that would have to be determined by  
2 appropriate economic studies.

3 Q. Do you agree that ratepayers for monopoly  
4 services as you define that term have demand for  
5 digital services?

6 A. Some do. Most don't. At the moment a very  
7 small fraction of the residential population, for  
8 example, has demand for digital services. It's my  
9 understanding that something under a thousand  
10 subscribers in the entire state currently take ISDN  
11 service at their residence, so I think that the answer  
12 to that is that a small fraction do, and whether or  
13 not the efficient service strategy for dealing with  
14 those customers is to deploy digital switches  
15 ubiquitously throughout the state versus, for example,  
16 using a foreign central office type of providing plant  
17 for those customers is, again, something that would  
18 have to be determined in an economic study.

19 Q. My same hypothetical phone company, would  
20 the management of that phone company then be prudent  
21 in investing capital to provide ISDN services to its  
22 monopoly ratepayers?

23 A. I think that the management of a monopoly  
24 local telephone company would be prudent in investing  
25 some capital to provide ISDN services. No question

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1 about that. The question has to be answered is how  
2 much capital and where should it be spent. For  
3 example, in this particular situation the company has  
4 been deploying digital technology, digital switching  
5 technology, and digital transport technology long  
6 before it introduced ISDN availability. So it isn't  
7 clear that ISDN demand or potential ISDN demand was  
8 necessarily driving those investments.

9 Q. If a regulatory agency adopted policies  
10 that incented a regulated telephone company to invest  
11 capital to bring digital and ISDN services statewide,  
12 would that regulatory policy be in error?

13 A. You asked me a question along those lines  
14 yesterday, and the answer, once again, is if the  
15 regulatory agency establishes a service standard in  
16 its capacity as acting as a surrogate for the market  
17 making a collective assumption decision for the  
18 market, based upon its best judgment and information  
19 about the needs of the community and the willingness  
20 of the community at large to pay for a particular  
21 service standard, then the regulatory agency would  
22 certainly be within its -- I believe acting within its  
23 authority to promulgate such rules, and if it did so  
24 then the utility under its jurisdiction would be  
25 expected to comply in the most efficient manner.



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1                   Now, that having been said, I think that  
2 it's important to recognize that there has to be some  
3 consonance between the establishment of a service  
4 standard and the availability of services. For  
5 example, in Israel, as digital switches were introduced  
6 into the local telephone network, all customers were  
7 provided with a collection of custom calling features  
8 at no additional charge such as call waiting and the  
9 like. There the company and/or its regulator -- and  
10 I'm not sure precisely how this happened -- made a  
11 judgment as to the service standard and then as it  
12 implemented the technology to support that service  
13 standard it made the new capabilities available  
14 ubiquitously.

15                   Here we have a practice in the U.S. of  
16 upgrading the network without necessarily making any of  
17 the new capabilities available except at additional  
18 charge, so you end up imposing costs upon customers who  
19 don't use the new services and then imposing costs  
20 again upon that very small fraction of customers who  
21 have demand for the new services.

22           Q.     Your last answer was in respect to the  
23 United States. You have not done any specific study  
24 of how this Commission has incented and implemented  
25 technology upgrades in Washington, have you?

1           A.     I am not aware of any order of this  
2 Commission, for example, that would require that  
3 digital capabilities be provided, that new switching  
4 and signaling system 7 type features such as call  
5 return or caller ID or the like would be provided  
6 ubiquitously upon implementation of new technologies.  
7 No, I don't believe that the Commission has made such  
8 a decision. Therefore, I don't believe that the  
9 Commission has established a service standard that  
10 would require the delivery ubiquitously as part of  
11 basic service of upgraded features that would be  
12 available through a digital platform.

13          Q.     I take it from that answer that you're not  
14 aware of any such order but you don't know that such  
15 an order exists?

16          A.     I don't know that it does and I don't know  
17 that it doesn't. I somehow believe that if it did I  
18 would have heard about it.

19                 As far as the best of my knowledge the  
20 company does not provide ISDN, call waiting, touch  
21 tone, caller ID or any of these other features as  
22 integral parts of basic services and that separate  
23 charges apply on an option basis for all of the  
24 services I mentioned.

25          Q.     So your testimony is that such optional

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1 services should always be bundled with the price of  
2 basic exchange service?

3 A. No, that's not my testimony. My testimony  
4 in response to your question about the Commission  
5 establishing a service standard, if the Commission  
6 establishes a service standard that contemplates the  
7 deployment of digital technology, then in my view the  
8 Commission needs to either insure that customers who  
9 do not avail themselves of any of these new features  
10 are not in any way required to pay for the costs of  
11 the network upgrades, and that payment would include,  
12 for example, any depreciation rate increases on the  
13 embedded plant that would be associated with early  
14 replacement.

15 Or, in the alternative, the Commission can  
16 make a judgment that in defining a service standard it  
17 wants to make available certain features as part of  
18 the basic service package in which case it can make a  
19 collective consumption decision on behalf of the  
20 overall ratepayer community that in exchange for  
21 supporting a network upgrade program the community as  
22 a whole will be provided with certain additional  
23 service.

24 Q. And along that line you have no quarrel  
25 with the Commission ordering telecommunications

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1 companies to upgrade their plant so as it can provide  
2 single party service as opposed to multi-party service  
3 throughout the state even if that would not be an  
4 economic investment by the company if it were free  
5 to make its own decision on that investment?

6 A. That would be an example of a service  
7 standard that the company -- that the Commission  
8 wishes to achieve and that it specifically supports as  
9 the basic platform that would be offered to all  
10 subscribers. I think it's fairly clear that there is  
11 substantial demand for single party service where it's  
12 available. Typically customers will order it where  
13 it's available and therefore the Commission in  
14 establishing that as a service standard is doing just  
15 what I suggested. It is requiring that the network be  
16 upgraded so as to offer and support a defined service  
17 standard. But that's not the same as, for example, an  
18 upgrade that would then make certain optional features  
19 available, the demand for which is limited to an  
20 extremely small fraction of the population.

21 Q. Finally, I take it that there is nothing in  
22 your testimony that you intend to urge this Commission  
23 to ignore its responsibility to assure that fair,  
24 just, reasonable and sufficient rates are charged for  
25 the company's services?

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1           A.     I think the Commission has a responsibility  
2 to assure all of those things, although there may be  
3 some disagreement as to what each of those attributes  
4 is and how one measures, for example, sufficiency. At  
5 the same time, in assuring sufficient, fair, just and  
6 reasonable rates, that does not provide an unlimited  
7 license to invest in resources, particularly where the  
8 investment is driven by corporate objectives that may  
9 lie outside of the scope of the service standard that  
10 the Commission is currently supporting.

11          Q.     And again, you have no evidence of any  
12 investment by U S WEST in the state of Washington that  
13 falls into that category, do you?

14          A.     I believe you asked me that question  
15 yesterday and I referred you to, as one example, the  
16 continuing deployment of outside plant during the  
17 1980s despite the drop-off in demand for Centrex.  
18 That would be one example. To the extent that analog  
19 switches have been prematurely retired and replaced  
20 with digital switches but where digital services are  
21 not generally either offered or demanded by the vast  
22 majority of the ratepayer community that might be a  
23 second example.

24          Q.     As we sit here today in 1995, do you have  
25 any evidence that U S WEST outside plant investment in

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1 the state of Washington is excessive?

2 A. I have not been asked to and have not  
3 updated the study that was undertaken for the  
4 Commission in approximately 1989, so I don't have any  
5 information as to the state of affairs that has  
6 existed since that date.

7 Q. And as you testified, that study was  
8 undertaken for the Commission's advocacy staff and not  
9 the Commission, correct?

10 A. I would have to look back at the contract.  
11 I believe the contract was with the Commission.  
12 Whether or not the part of the Commission that was --  
13 that engaged us was limited to the advocacy staff or  
14 was concurred in by the Commission I just don't know  
15 or don't remember.

16 Q. Finally, your appendix 2, the paper that  
17 you said was submitted to the U.S. Senate committee on  
18 commerce on March 2, who did you present that paper on  
19 behalf of? Who paid for it?

20 A. Well, that paper was adapted from a paper  
21 that I prepared for Unitel, U N I T E L, which is an  
22 interexchange carrier in Canada in CRTC, Canadian Radio  
23 Television Communication commission, docket 94-19,  
24 which is the so-called split rate base proceeding  
25 ongoing before that agency. I was invited by the

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1 commerce committee to appear there that day and was not  
2 sponsored by any specific party.

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

4 JUDGE ANDERL: Mr. Potter.

5

6 CROSS-EXAMINATION

7 BY MR. POTTER:

8 Q. Good morning, Dr. Selwyn. Richard Potter  
9 for GTE. Few questions on your testimony that begins  
10 on page 50 of your direct on your network unbundling  
11 principles. You, I think discussed yesterday your  
12 proposal for a bona fide request procedure. And I have  
13 a couple of questions on your elements of that which  
14 are on page 51. Your second element of that is for the  
15 requesting company to specify when and where the  
16 service or component will be needed. By that do you  
17 mean that U S WEST or GTE would not be required to make  
18 these unbundled network companies available everywhere?

19 A. Yes. Unless the bona fide request so  
20 requested it.

21 Q. And your third item requires the requesting  
22 company to state whether the service or component is  
23 necessary -- for the provider, the requesting company  
24 -- to provide the telecommunications service it seeks  
25 to provide. Could you explain what you mean a little

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1 bit by necessary in that context?

2 A. Well, I mean -- when I say necessary I mean  
3 that it represents access to the incumbent's  
4 ubiquitous network constructed at minimal shareholder  
5 risk and with substantial ratepayer underwriting over  
6 nearly a century of history that access to that  
7 ubiquitous network is a practical necessity in order  
8 to support competitive entry. It doesn't mean that it  
9 is a physical or financial impossibility for the  
10 network resources to be replicated. It means that as a  
11 reasonable matter of economic practicality it is in the  
12 public interest both to support the development of  
13 competition and to minimize the duplication of  
14 resources for those network assets to be made available  
15 to competitors.

16 Q. So, in other words, in a given case, if a  
17 new competitive provider would be able to construct  
18 its own network and make a profit, you might still  
19 recommend that the Commission require the existing  
20 utility to make its network available; is that right?

21 A. I would have to look at it on a  
22 case-by-case basis. For example, let's take the  
23 situation with respect to attachment, pole attachments  
24 and conduit space. It may well be possible for a new  
25 entrant to construct poles or lay conduit, but in so



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1 doing that might create certain impact upon the  
2 community as a whole, such as tearing up streets or  
3 adding an additional string of poles, and not to  
4 mention the fact that it would probably constitute a  
5 waste of economic resources to have duplication in  
6 that area. So to the extent that such duplication can  
7 be efficiently avoided through some arrangement for  
8 providing access to those resources, then that is in  
9 the public interest and should be supported, and the  
10 only reason why the incumbent would seek to deny such  
11 access would be to in effect maintain some competitive  
12 advantage over the competitor, either by preventing  
13 the competitor from entering the market or by  
14 increasing the competitor's cost of entry, neither of  
15 which are consistent with the Commission's goals of  
16 supporting the development of competition.

17 Q. At the top of page 50 you have your header  
18 for this section, and in there you have the phrase  
19 "unbundled essential network components." Briefly  
20 what do you have in mind by essential network  
21 components?

22 A. I would use the word essential and the word  
23 necessary pretty much synonymously and I would use  
24 them in the context of my answer to your second  
25 previous question.

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1           Q.     In your opinion, should a new entrant  
2 coming into Washington and desiring to be a local  
3 exchange service provider be required to self-  
4 provision anything?

5           A.     Not necessarily. I can envision a  
6 situation, for example, where a new entrant would  
7 compete with the incumbent at the retail level of the  
8 market but not necessarily compete at the wholesale  
9 end of the market. We see this, for example, in the  
10 cellular industry where, due to spectrum limitations,  
11 there are only two facilities-based cellular carriers  
12 in any market and yet there is substantial competition  
13 at the retail level from agents and resellers in  
14 addition to direct retail activity of the  
15 facilities-based carrier, and there is certainly every  
16 reason to imagine the development of this type of  
17 market condition.

18                     The retail -- the function of retail in  
19 telecommunications services is not inherently  
20 monopolistic. And in a sense you can think of the  
21 existing integrated local exchange carrier, local  
22 exchange monopoly, as in effect a monopoly in the  
23 provision of the underlying service which is then  
24 leveraging that monopoly so as to also monopolize the  
25 adjacent retail market. I don't see any particular

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1 reason why the retail market needs to be monopolized,  
2 and I think that an unbundling of the wholesale and  
3 retail functions of the local carrier would stimulate  
4 competition at the retail end even without the new  
5 entrant necessarily acquiring physical assets, physical  
6 network assets.

7           Now, that does not suggest that there is  
8 not a place for facilities-based competition. There  
9 is. But in a strict answer to your question I think  
10 that the objectives of competition would be well  
11 served even without facilities-based network  
12 competition.

13       Q.     So to summarize, then, that would mean that  
14 you would recommend that the Commission register any  
15 company that would walk in the door wanting to be a  
16 local exchange provider and then the Commission would  
17 not require that new company to provide any network  
18 component but instead would issue orders and  
19 promulgate rules that required the existing telephone  
20 companies to make all these network components  
21 available to the new entrant; is that right?

22       A.     Think of it is simply an analogy to the  
23 case where CPE competition was introduced 25 years ago  
24 where the incumbent had provided the end to end  
25 service up to and including the handset in the

01592

1 customer's residence or business and when it was  
2 determined that that particular segment of the market,  
3 that the CPE market was not inherently monopolistic and  
4 could be split off from the network services component  
5 the Commission did -- the Commission, the FCC and the  
6 state commissions around the country did precisely what  
7 you have just suggested. That is, they allowed anybody  
8 to come into the CPE business and subject to  
9 maintaining certain technical standards to sell CPE and  
10 to interconnect it with the facilities-based network.

11           And by extension if the Commission  
12 determines, as I think it could well determine, that  
13 there is inherent competition in the retailing of  
14 telecommunications services and the bundling and  
15 repackaging of those underlying functions with other  
16 value-added components, and it wished to stimulate  
17 competition at that level, even in the absence of  
18 facilities-based competition, or perhaps as a means  
19 for ultimately getting to facilities-based competition  
20 by permitting a retail segment to develop, then the  
21 Commission certainly should and could pursue such a  
22 policy. It is consistent with things that have been  
23 done in the past. The world didn't come to an end  
24 when those things were done in the past and the world  
25 won't come to an end if this is done now.

01593

1 Q. When the commissions deregulated CPE they  
2 did not require the local exchange companies to become  
3 wholesale suppliers to the new CPE retailers, did they?

4 A. What they did --

5 Q. Just a yes or no will be satisfactory. You  
6 will have an opportunity on redirect.

7 JUDGE ANDERL: Thank you, Dr. Selwyn.

8 A. The answer is in the context of my previous  
9 answer in a sense, yes, they did. They required the  
10 underlying carriers, the facility-based network  
11 carriers to sell their service stripped of the CPE  
12 function and you want to call that in a sense a form  
13 of wholesaling because it was separated out, it's not  
14 -- there was no separate retail activity at that time,  
15 so in a strict sense there was no request that the  
16 retailing functions of the network services be split  
17 off, but the analogy that I've suggested here is  
18 absolutely identical and applicable.

19 Q. One final question. Let's assume that we  
20 do get some new entrant that builds their own networks  
21 and buys their own switches. If subsequent to that  
22 time another firm comes and registers with the  
23 Commission and does not want to make investments in  
24 those facilities, should that new entrant be entitled  
25 under the Commission's rules and orders to seek

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1 unbundled essential network components from not only  
2 the traditional local exchange company but also from  
3 the other facilities-based competitors already in the  
4 market?

5       A.     Not necessarily, although in a sense the  
6 answer to that question would have to be determined on  
7 the basis of how well the facilities-based competition  
8 is actually functioning.  If we can look at the  
9 cellular market as an example where we have two  
10 facilities-based competitors we still have an absolute  
11 FCC requirement that the facility-based firms make  
12 their services available for resale and do not  
13 restrict resale.  And whether or not that resale would  
14 occur or the competitive retail end of the cellular  
15 market would occur absent that FCC requirement is  
16 something that we at the moment don't know.  There is  
17 strong evidence that, at least in many areas, that the  
18 cellular carriers operate as a de facto oligopoly that  
19 effectively exercises joint monopoly control over the  
20 market so perhaps without a resale requirement they  
21 would not function -- there would be no competition at  
22 the retail end.

23               If, on the other hand, to answer your  
24 specific question, we were to observe effective and  
25 substantial competition at the facilities end of the

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1 market for underlying services, if we had two  
2 full-blown or more than two local network providers  
3 such that end users and resellers could in effect  
4 compete or play one off against the other in obtaining  
5 the services and packages that they wanted, then it  
6 may well be that unbundling requirements aren't  
7 necessary. But the unbundling requirement that I'm  
8 speaking of is focused specifically on the incumbent  
9 because the incumbent is the one with market power and  
10 the one who has been afforded the opportunity to  
11 acquire these assets with basically at the ratepayer  
12 risk rather than at the shareholder risk and that's  
13 not the case of new entrants who are entering the  
14 market at their own risk.

15 Q. Well, let's focus on downtown Seattle  
16 because you stated earlier that the new provider could  
17 specify where they wanted the unbundled components, and  
18 assume with me, if you would, that the market in  
19 downtown Seattle is attractive enough that some new  
20 entrant builds their own facility and we in effect  
21 have two or three full networks in downtown Seattle at  
22 some point in time. Do you have that in mind?

23 A. Yes.

24 Q. With that situation in place, if a brand-new  
25 firm enters the state and registers with the Commission

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1 and decides it does not want to build yet another  
2 network in downtown Seattle, should it be entitled  
3 under the Commission's rules and orders to make  
4 unbundled network component requests of each of the  
5 existing facilities-based companies serving downtown  
6 Seattle or would you limit it only to U S WEST?

7 A. Well, let me -- that's a two-part question,  
8 so let's -- let me try to answer it this way. The  
9 unbundle and interconnection requirements, among other  
10 things, make a geographically -- provide a  
11 geographically limited network access to the ubiquity  
12 of the LEC, so in the example you've just tried where  
13 we have U S WEST operating ubiquitously throughout the  
14 state or throughout the Seattle LATA and a new entrant  
15 coming into a very selective geographic area in the  
16 business district of Seattle, then certainly there  
17 needs to be a continuing obligation on U S WEST's part  
18 to provide interconnection to its full network simply  
19 because it would then -- if you eliminated that  
20 obligation in downtown Seattle it would be in a  
21 position to leverage its ubiquity as a monopoly asset  
22 that a competitor would have no ability to replicate.  
23 So, there certainly is asymmetry in that immediate  
24 situation.

25 Now, with respect to a third party



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1 provider entering the market and seeking to serve  
2 customers on a nonfacilities-based business strategy  
3 in that same downtown Seattle area, if the market is  
4 operating in an effectively competitive way, then  
5 presumably that reseller ought to be in a position to  
6 acquire the underlying network assets in the downtown  
7 area competitively from one of the two -- one or the  
8 other of those two firms, whether it be U S WEST or the  
9 newer facilities-based entrant.

10           If that competition does exist and there are  
11 in effect bulk pricing arrangements available and  
12 resale is required as a matter of policy, or is  
13 accomplished through the operation of the competitive  
14 market, then the Commission would not have to impose a  
15 resale requirement, but that's something we would have  
16 to wait and see how the market develops. I don't think  
17 we can answer that question in the abstract without  
18 actually seeing the market in operation.

19       Q.     So in that scenario the Commission would  
20 not need an unbundling requirement either for U S WEST  
21 or for this second facilities-based company. Is that  
22 what you mean?

23       A.     If the market is capable of assuring that  
24 the unbundling takes place, then there would not  
25 be an unbundled requirement, but whether or not the

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1 market is going to be successful in assuring that the  
2 unbundling takes place is something we will have to  
3 wait and see.

4 Q. Let's assume it's not. Let's assume that  
5 neither U S WEST nor the second facilities-based  
6 company will voluntarily make unbundled local loops  
7 available in downtown Seattle. In that scenario if  
8 the Commission has unbundling rules and requirements  
9 should it apply to both companies?

10 A. We're speaking here where both companies  
11 have extensive market positions in this market and  
12 it's not a matter of one having 98 percent of the  
13 market and the other having 2 percent?

14 Q. In terms of their physical network for the  
15 downtown Seattle area they're identical. They serve  
16 all the same buildings on all the same streets.

17 A. That's an interesting question. Since the  
18 market should, if it's functioning properly -- well,  
19 let me begin, there should be no resale restrictions,  
20 and resale restrictions should not be applied to  
21 anybody. In other words, anybody in this market  
22 should be able to buy anything from anybody and  
23 repackage it and resell it any way they want. So that  
24 may well -- the elimination of the right to impose a  
25 resale restriction may well accomplish exactly what

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1 you're suggesting. With respect to a requirement for  
2 actual unbundling, once again, I think we have to wait  
3 and see how the competitive market functions.

4           Clearly if the market is functioning  
5 competitively and there is -- and each of these  
6 carriers in order to induce others to do business with  
7 them will offer unbundled services as a means of  
8 encouraging business and taking market share from their  
9 rival, then the market should be capable of assuring  
10 that outcome without Commission intervention. If it  
11 does not then in effect what we're really saying is the  
12 market is operating as a cartel in which case some sort  
13 of Commission intervention may be required, but we  
14 can't know that right now until we see how the market  
15 functions.

16       Q.     Well, I asked you to assume it. I asked  
17 you to assume that neither of the facilities-based  
18 companies would voluntarily make unbundled loops  
19 available. So would I be correct in assuming that  
20 your reference to a cartel would mean that under my  
21 hypothetical you would recommend that the Commission  
22 apply its unbundling requirements to both companies?

23       A.     If the market is operating as a cartel and  
24 under the conditions that you described where the two  
25 incumbents then have substantial presence in the market

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1 and that presence, that rivalry, is not sufficient to  
2 force them to engage in unbundling then in effect the  
3 competitive outcome, which is the goal of regulation  
4 and of telecommunications policy generally is not being  
5 achieved and the Commission should take whatever  
6 measures necessary to achieve it.

7 MR. POTTER: Those are all my questions.

8 JUDGE ANDERL: Thank you, Mr. Potter.

9 Anyone from MCI, Ms. Weiske? Mr. MacIver.

10

11 CROSS-EXAMINATION

12 BY MR. MACIVER:

13 Q. Dr. Selwyn, my name is Clyde MacIver. I  
14 just just a few questions from MCI. On the unbundling  
15 issue, to be sure I understand, assume a new entrant  
16 needs an unbundled loop. Is it your recommendation  
17 that the market determine whether the loop is unbundled  
18 for that entrant?

19 A. Are we back on Mr. Potter's last question  
20 or are we back in the situation where we have a  
21 dominant incumbent and a new entrant with a miniscule  
22 market share?

23 Q. The latter.

24 A. And your question was is it my  
25 recommendation that the market should dictate the

01601

1 terms of that unbundling and the answer is no. I  
2 mean, in that situation the requirement for unbundling  
3 should be imposed by the Commission and the manner in  
4 which the unbundling takes place including the pricing  
5 of the elements should be determined by the Commission  
6 either generically where we're dealing with a sort of  
7 widely requested unbundled element like a loop or on a  
8 case-by-case basis which is the bona fide request  
9 approach that I discussed in my testimony.

10 Q. Thank you. I also have a couple of  
11 questions on the residual interconnection charge which  
12 is referred to as the RIC in this proceeding. Now,  
13 the RIC, whether on a long-term or short-term basis,  
14 interim basis, is not a cost-based rate, correct?

15 A. True.

16 Q. At page 33 of your testimony, you state  
17 that the RIC as proposed by U S WEST, "amounts to  
18 nothing short of a make whole protectionist policy."  
19 That would be true of the RIC, would it not, on an  
20 interim basis as well as a long-term basis?

21 A. Now, are you speaking of the U S WEST  
22 approach to the RIC or the approach that I'm  
23 recommending?

24 Q. Well, let's start with the U S WEST  
25 approach.

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1           A.     Well, U S WEST approach, it is a make whole  
2 -- it amounts to a make whole policy and even if it's  
3 kept in place only until the completion of the general  
4 rate case then that would exist. I don't think that  
5 the approach that I'm recommending has quite the same  
6 characteristic, however.

7           Q.     Well, the approach that you're  
8 recommending, Dr. Selwyn, at page 38, line 7 of your  
9 testimony, you do state is that on a short-term basis,  
10 on an initial basis, the result would be the same, did  
11 you not?

12          A.     Well, what line?

13          Q.     Line 7, page 38. In other words, on the  
14 short-term until actual competition arrives in the  
15 marketplace under either approach, your approach or  
16 U S WEST approach, the impact of that interim rate  
17 would be the same?

18          A.     Well, that's what it says, but maybe I need  
19 to clarify because it's certainly not what the intent  
20 was. The approach that I'm recommending would allow  
21 U S WEST to apply the RIC only where the access  
22 customer purchased transport from U S WEST, and where  
23 the customer chose to purchase transport from another  
24 provider the RIC would not apply. Moreover, if there  
25 were erosion in the revenues that were available to U S

01603

1 WEST under the -- through the RIC as a result of  
2 customers moving to other national carriers and thereby  
3 avoiding the payment of the RIC, then there would be no  
4 make whole opportunity for U S WEST. So in that sense,  
5 the result is not the same and it was not intended to  
6 be the same.

7 Q. Yes, but your interim proposal also is not  
8 cost-based in that sense, is it?

9 A. That is correct, it is not cost-based but  
10 it is less make whole in a sense. It represents -- my  
11 interim proposal sort of represents a revenue neutral  
12 repricing assuming the status quo of demand, but if  
13 demand is attrition as a result of entry of competition  
14 into the market, and as a result of the success of  
15 competition in taking service away from U S WEST then  
16 there would be a net decrease in  
17 U S WEST's revenue for which the company would not be  
18 made whole.

19 Q. But in a sense on the revenue neutrality  
20 your proposal is also a make whole, correct?

21 A. Well, you could call it that but I don't  
22 think that was the purpose. I view the term make  
23 whole as make whole with respect to competitive  
24 losses. And in that sense my proposal does not do  
25 that. It does not make the company whole and protect

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1 it financially from competitive losses, whereas its  
2 proposal as I understand it, does.

3 Q. Absent a goal of revenue neutrality, if  
4 revenue neutrality -- if the Commission were to  
5 determine that revenue neutrality in this case were  
6 not necessary in light of the approaching rate case  
7 where revenue requirement and rate of return will be  
8 determined, if revenue neutrality is not a goal in  
9 this case you would not recommend the rate, would you  
10 on an interim basis?

11 A. I am not going to offer an opinion on any  
12 legal requirement for revenue neutrality. If the  
13 Commission determines that revenue neutrality is not  
14 an issue and it simply wants to get to cost-basis  
15 prices for access services then RIC would be an  
16 inappropriate not cost-based additive, and the  
17 presumption is that in the rate case when other  
18 adjustments are possible up to and including an  
19 adjustment in the revenue level itself that the RIC in  
20 its present form or in the form that I am recommending  
21 would go away.

22 Q. Thank you.

23 MR. MACIVER: I have no further questions.

24 JUDGE ANDERL: Thank you. Ms. Proctor.

25



01605

1 CROSS-EXAMINATION

2 BY MS. PROCTOR:

3 Q. Good morning, Dr. Selwyn, I'm Susan Proctor  
4 from AT&T.

5 A. Good morning.

6 Q. In your supplemental what has been marked  
7 as Exhibit T-116, I'm not going to ask you to refer to  
8 anything in particular here, but I do note that you  
9 refer to cost studies that have been produced by U S  
10 WEST in response to a data request from the staff  
11 1012.

12 MS. PROCTOR: And Your Honor, I would like  
13 to make a request that those be included in the  
14 record.

15 JUDGE ANDERL: I'm afraid I don't  
16 understand.

17 MS. PROCTOR: I would like to make a record  
18 request that the cost studies that he has referred to  
19 in his testimony in the supplemental testimony be  
20 included in the record.

21 JUDGE ANDERL: Okay. Well, a record  
22 requisition would mean that they would be provided to  
23 you. The only way they would become a part of the  
24 record in this proceeding is if they were offered as an  
25 exhibit.

01606

1 MS. PROCTOR: Okay.

2 JUDGE ANDERL: I guess I'm not sure which  
3 you want.

4 MS. PROCTOR: Well, he's referred to them  
5 in his testimony and he refers to them as producing  
6 different numbers than the company's numbers, so I  
7 guess I would like to get copies of them and then  
8 offer them as an exhibit through Dr. Selwyn.

9 MR. SHAW: Your Honor, I'm obviously going  
10 to object to that. This is remarkable, to say the  
11 least. I don't even know what she's talking about, if  
12 she's talking about the new DS1 and new DS3 studies,  
13 those have been furnished to everybody as a data  
14 response and now she is trying through another witness  
15 to put those into the record on the basis that he  
16 mentioned them. I think that's just totally, totally  
17 inappropriate.

18 JUDGE ANDERL: These are U S WEST cost  
19 studies that have been provided by U S WEST prior to  
20 the hearing to the parties in response to discovery.

21 MS. PROCTOR: They were provided to the  
22 staff.

23 JUDGE ANDERL: To the staff.

24 MS. PROCTOR: They were not provided to the  
25 other parties.

01607

1                   MR. SHAW: I just don't think that's true.  
2 First week counsel was carrying around copies of the  
3 cost studies and we were discussing them off the  
4 record with them.

5                   MS. WEISKE: Can we go off the record for a  
6 minute.

7                   JUDGE ANDERL: I think maybe we should.

8                   (Discussion off the record.)

9                   JUDGE ANDERL: Let's be back on the record.  
10 While we were off the record we had procedural  
11 discussion about responses to data requests. Ms.  
12 Proctor, go ahead.

13                  Q.     Dr. Selwyn, you're aware that there are a  
14 number of interexchange carriers participating in this  
15 proceeding?

16                  A.     Yes.

17                  Q.     And that that includes AT&T, MCI, Sprint  
18 and the Interexchange Access Coalition?

19                  A.     Yes.

20                  Q.     And you're familiar with the Interexchange  
21 Access Coalition, are you?

22                  A.     Generally.

23                  Q.     Are you also aware that the interexchange  
24 carriers have entered into a stipulation which they  
25 have submitted into the record in this case?

01608

1 A. Yes.

2 Q. And are you familiar with the terms of that  
3 stipulation?

4 A. I've read them, yes.

5 Q. Would you agree that their proposal to  
6 defer rates into the rate case is a logical outcome of  
7 your observation contained on page 33 of your  
8 testimony that the dominance of the residual element  
9 over any of the LRMC-based charges largely erases any  
10 importance of the structure of the LRMC-based charges  
11 themselves?

12 A. As proposed by U S WEST, that is  
13 essentially correct. The staff proposal that would  
14 limit the application of the RIC only to those  
15 customers or services that are -- where the transport  
16 service is provided by U S WEST at least is a movement  
17 in the right direction. I mean, the fact is that the  
18 switched access rates included in the transport  
19 element have been priced well in excess of economic  
20 cost for an extended period of time, a point that our  
21 firm has certainly made over the years, and the cost  
22 studies here and the proposed rate restructuring here  
23 simply go to confirm that, but with the RIC as  
24 described by U S WEST applying pretty much to  
25 everybody irrespective of the selection of dedicated

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1 versus common transport, certainly the economic  
2 improvement of this rate structure is fairly minimal.

3 Q. And indeed it would be even worsened if the  
4 recommendation that you make as well as that of the  
5 other parties that local switching should not be  
6 increased were improved and U S WEST also maintained  
7 this as a revenue neutral filing?

8 MR. SHAW: Your Honor, I'm going to object  
9 at this point. Trying to give Ms. Proctor plenty of  
10 leeway but this is pretty much softball questions and  
11 friendly cross at this point.

12 JUDGE ANDERL: I will sustain the  
13 objection.

14 MS. PROCTOR: No further questions. Thank  
15 you.

16 JUDGE ANDERL: Mr. Trotter, did you have  
17 questions for this witness?

18 MR. TROTTER: No.

19 JUDGE ANDERL: Commissioners?

20 CHAIRMAN NELSON: No.

21 COMMISSIONER HEMSTAD: I don't have any.

22 JUDGE ANDERL: Commissioner Gillis.

23 COMMISSIONER GILLIS: I have a couple.

24

25

EXAMINATION

01610

1 BY COMMISSIONER GILLIS:

2 Q. You state explicitly in your testimony  
3 early on in the summary that cost studies are critical  
4 public policy tools for insuring that essential  
5 bottleneck capabilities are not overpriced and to  
6 insure the incumbent's competitive services are not  
7 under-priced and then you reinforce that a number of  
8 times in your testimony. My question for you is, do  
9 you see cost studies as a short run tool for the  
10 Commission, reliance on cost studies, during the time  
11 of transition to a more competitive industry or are  
12 cost studies something that, in your view, we need to  
13 rely on -- we're going to need to rely on for some  
14 time?

15 A. The answer to that question will depend  
16 heavily upon how much of the industry becomes  
17 competitive. The problem that exists today is that the  
18 incumbent LECs are both providers of essential  
19 facilities to competitors as well as participants  
20 themselves in the market in which those same  
21 competitors operate, and some means for reconciling the  
22 conflicting incentives that exist, along with the  
23 various services that are offered by the incumbent  
24 needs to be maintained. Now, over time we would expect  
25 to see the scope of the monopoly narrow. Perhaps

01611

1 someday it might go away entirely. If that were to  
2 happen and the marketplace were fully capable of  
3 assuring efficient pricing of services by all  
4 incumbents, all of the then competing incumbents, then  
5 we would not need to worry about prices and price  
6 structures, but as long as we have this core of  
7 monopoly services and a common infrastructure that is  
8 utilized to provide both monopoly and competitive  
9 services by the dominant LECs it seems to me that the  
10 regulator will need to stay involved and to assure that  
11 the pricing policies are fair. Both on the competitive  
12 side and on the monopoly side.

13 Q. I would like to ask that in just a slightly  
14 different way and you may have already answered that  
15 and if you feel you have, that's fine. Dr. Selwyn, do  
16 you have any suggestions of regulatory strategies that  
17 would, if the Commission wanted to reduce our reliance  
18 on cost studies, even in the short run, that would  
19 have the effect of preventing overpricing monopoly  
20 services and underpricing competitive services, or do  
21 you suggest that the Commission just simply accept that  
22 cost studies are I guess our best option at this point  
23 and accept that as the best way to accomplish that  
24 protection of the public interest?

25 A. Well, we can answer that at several levels.

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1 Certainly all we are dealing with is a somewhat  
2 volatile technology. Cost studies do not require  
3 replication all that frequently. If the Commission  
4 were to undertake in one proceeding, for example, to  
5 examine the costs of monopoly components and to  
6 establish prices for those based on costs and on  
7 efficient recovery of those costs, it could establish a  
8 regulatory system in which the prices of those services  
9 are not subject to significant revision except by an  
10 adjustment reflecting overall price level changes.  
11 Some form of price cap regulation if properly developed  
12 might accomplish this, but rate of return regulation  
13 can also achieve this outcome provided that there are  
14 strict limits on pricing flexibility for services that  
15 are designated as monopoly.

16           The problem arises is that, as I said  
17 yesterday, the boundary between competitive and  
18 monopoly is not cast in stone and it does change.  
19 What may be monopolistic today could become  
20 competitive in a year or two in some segments of the  
21 market, either geographical or service-based, and were  
22 that to happen the Commission may find itself required  
23 to make further refinements in its pricing policies.  
24 Probably the most important thing that the Commission  
25 can do is to promulgate costing rules that can be



01613

1 consistently applied both to competitive and to  
2 monopoly services and to assure that over time there  
3 are not systematic biases introduced into the costing  
4 process that tend to load up costs on the monopoly  
5 side, which I believe that the present costing process  
6 tends to do.

7 Q. On a different topic also early on in your  
8 testimony you made a list that's a restatement of your  
9 understanding as the parameters of U S WEST's cost  
10 study methodology. And one of the statements there is  
11 a definition of volume-sensitive costs. For example,  
12 the company considers the capital and operating costs  
13 of switching to be volume-sensitive. I would like to  
14 ask you a couple of questions about that. Just so I  
15 understand, when we talk about the capital costs of  
16 switching, are we talking about, I guess in rough  
17 terms the equipment and associated hardware of the  
18 switch -- maybe not precisely but that's approximately  
19 what we're talking about?

20 A. I believe so, yes.

21 Q. Did you agree with characterizing those  
22 costs, the capital costs of switching, as  
23 volume-sensitive?

24 A. Well, the costs of a -- to sort of simplify  
25 it, the costs of a central office switch can probably

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1 be placed into three primary categories in terms of  
2 their sensitivity. There is a component of the switch  
3 that is essentially fixed over the full capacity range  
4 of the switch, which is essentially the central  
5 processor. Then there are certain cost components that  
6 are sensitive to the number of ports, that is, the  
7 number of lines or trunks that are to terminate on the  
8 switch. And then there are costs that are sensitive  
9 to the amount of traffic, just the physical volume of  
10 traffic that will be processed by the switch. The  
11 port-sensitive costs and the traffic-sensitive costs  
12 are clearly volume-sensitive with respect to those two  
13 attributes.

14           The problem arises with respect to the  
15 processor because, although the processor is fixed,  
16 there are certainly several options available to the  
17 company with respect to different base capacities that  
18 could be selected, and at the outset once selected  
19 there's no opportunity for expansion for all intents  
20 and purposes within the same switching vehicle. But  
21 in addition to that I have a particular concern with  
22 assignments of cost whether they be strictly  
23 volume-sensitive, as I've described them here, or even  
24 some sort of method of assigning the  
25 nonvolume-sensitive, the fixed costs in some

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1 proportion of usage where you simply look at some  
2 fairly linear relationship between the relative  
3 volumes or usage levels of individual services and the  
4 manner in which the total costs of the asset are  
5 assigned, and the reason that this problem arises is  
6 because the economic rationale for the acquisition of  
7 any particular asset may not be equivalent with  
8 respect to all of the services it supports.

9           For example, you can have an analog switch  
10 that is perfectly capable of providing basic  
11 residential service. It can support touch tone. It  
12 can support all of the sort of first generation custom  
13 calling features like call waiting and three-way  
14 calling and that sort of thing. But it can't support  
15 digital features. Now, if the company makes a  
16 decision to replace that switch with a digital switch  
17 so that that switch is capable of supporting  
18 additional features, then technically the differential  
19 in cost between simply keeping the analog switch in  
20 place and replacing it with the digital switch should  
21 be assigned exclusively to the new features -- to  
22 those features that are incrementally available in the  
23 new switch. In point of fact that is not how it is  
24 done. What is done is that once the digital switch is  
25 in place resources are then allocated in a sense on a

01616

1 static basis just by taking a look at whatever the  
2 volume happens to be.

3                 So if an analog switch, for example, is  
4 replaced so that the company can offer -- can be  
5 competitive in the Centrex market but then 80 percent  
6 of the lines served by that switch are simply  
7 transferred from the analog switch back to the digital  
8 switch and represent ordinary basic residential or  
9 small business exchanges service lines, what the  
10 company will do -- and I'm sort of oversimplifying,  
11 but as a general matter what it will do is allocate 80  
12 percent of the costs of that new switch to those basic  
13 services even though there may be no incremental gain  
14 to those basic services by virtue of having been  
15 transferred from the analog switch to the digital  
16 switch.

17                 So, I think that what is needed here is to  
18 associate the technology with the I think --  
19 incrementally with the incremental services that each  
20 technology platform supports and make an allocation on  
21 that basis. That is not the method that the company  
22 uses and as a result the company effectively -- this  
23 is an example of where the company's cost methodology  
24 imposes a bias -- is biased toward assigning costs  
25 towards basic monopolistic services.

01617

1           Q.     I think for me to understand it I would  
2 have to simplify it even more. Let me try an example,  
3 and if it's too simple then we'll just drop it.  
4 There's a local area network that connects the  
5 computers in this building and the central server that  
6 is the core for that network was designed with a  
7 certain processor speed, a certain amount of memory, a  
8 certain amount of storage depending on the needs of  
9 the different users within this building. And to me  
10 is a lot like a switch because from my computer I can  
11 sent a message to Commissioner Hemstad or Chairman  
12 Nelson and they can respond through this LAN network,  
13 or indeed through our contract at Internet can send you  
14 a message in Boston into the broader telephone network  
15 out there. Seems like to me that we incurred a cost in  
16 acquiring -- this central server that I'm trying to  
17 suggest is now akin to a switching function in this  
18 particular use, that the amount that I use that switch  
19 or Commissioner Hemstad, Chairman Nelson or others in  
20 the building might vary considerably but it doesn't  
21 change the overall cost of that switch. It's not the  
22 usage of that -- I mean of the server, the server usage  
23 cost is going to be the same, isn't it?

24           A.     Well, yes and no. For example, the server  
25 has storage, the amount of this capacity which can be

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1 added to incrementally. As I'm assuming you maintain  
2 files centrally, or maybe you don't, but if you did  
3 you might have some users that are -- place more  
4 demand on the storage capacity of the server than  
5 others, and in which case one could see a  
6 volume-sensitive cost associated with storage capacity  
7 because you can add to that incrementally.

8           With respect to the overall processor  
9 capacity of the server, if the demand were to increase  
10 to a point where the server could no longer support  
11 demand then either a faster processor would have to be  
12 acquired to replace the existing one and/or the  
13 network would have to be split and served by two  
14 separate servers so as to provide sufficient capacity.  
15 So, in that example, although the changes don't -- the  
16 cost changes don't occur continuously, but certainly  
17 there are clearly volume-sensitive costs associated  
18 with that type of architecture. Now, if the server  
19 has been sized so that it will -- it is many multiples  
20 of the needs of the capacity needs of the Commission  
21 and is not expected to reach exhaust based on the  
22 anticipated change in capacity needs for, let's say,  
23 three or four years when whatever processor you have  
24 will become technologically obsolete because that  
25 seems to be the life cycles of these things, then for

01619

1 all practical purposes you could view that as a fixed  
2 resource. So I think that the answer to the question  
3 has to be to look at the circumstances.

4 Q. I understand what you're saying, and I  
5 understand the volume. Seems like it's  
6 capacity-sensitive but not necessarily usage-sensitive  
7 depending on how we measure volume that we designed  
8 that server to serve a certain capacity, and you're  
9 suggesting that if circumstances arose we would have  
10 to increase the capacity by adding additional boards or  
11 another CPU or whatever that we would have to invest,  
12 but as far as the usage of that if we could sit silent  
13 in the building it's going to cost the same than if  
14 everybody in the building were working on that unit up  
15 to its capacity.

16 A. That's correct. And when I spoke of  
17 usage-sensitive or traffic-sensitive on the part of  
18 the central office switch I was referring also to  
19 capacity not simply to cumulative usage.

20 Q. So continuing that example -- seems like a  
21 good one -- suppose that Congress passes a law that  
22 privatizes our telecommunications regulation. It is  
23 not as outlandish as it might have once seemed, and  
24 we're going to continue our other functions here at  
25 the UTC but your company would do the consulting --

01620

1 the contract for the privatized telecommunications  
2 regulation?

3 A. I'm looking at Mr. Shaw to see his  
4 reaction.

5 Q. I don't like it either. That's Congress  
6 for you.

7 A. I am not sure I would either.

8 Q. In that situation you might choose to, say,  
9 hire our staff to continue the operation as a private  
10 vendor and you want to purchase our communication  
11 facility as a part of it, so I guess I'm thinking of  
12 you as kind of equivalent to a new entrant in our  
13 system. And we have to figure out how to price that  
14 portion of our communication system. We have the  
15 various drops in the distribution system that are going  
16 from our server to each of the desks that are  
17 associated with our staff folks. We could potentially  
18 treat that as just like we would a desk. You could  
19 rent the desk or buy your own or you could potentially  
20 get your own drop center or rent the drop center into  
21 the building, go into those people. Then the question  
22 becomes what do we do with the capacity on this server  
23 that is assigned to you because you're a different unit  
24 now that you're the unit that is taking care of the  
25 telecommunications regulation. I can't see -- I guess



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1 an economic rationale for pricing of that time on the  
2 server on a -- I guess a usage basis. It seems like we  
3 would need to find some other basis to assign you the  
4 time that you're using that portion of our  
5 server.

6 A. What we would probably do in that situation  
7 -- let me make sure I understand. We're assuming that  
8 this network will then be shared by the privatized  
9 telecom regulator and the remainder -- what remains of  
10 the agency. Is that correct?

11 Q. Right.

12 A. So what we would probably do in that  
13 situation is at the outset we would, the private  
14 operator -- I'm going to stay out of trouble and speak  
15 in the third person here and assume it isn't me. The  
16 private operator would come in and assess, do an  
17 assessment of the various resources and assets that  
18 are available, like people, like desks, like  
19 computers, like networks, and would, among other  
20 things, examine what it would cost to replace that  
21 facility with its own new equipment or personnel, as  
22 the case may be, or to keep it. And what would  
23 probably happen in that situation is that there would  
24 be a negotiation and the new entrant would probably  
25 agree to pay a price that was something less than what

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1 it would cost to -- for it to make a full replacement  
2 of the network, and once that negotiation was reached  
3 then presumably there would then be no metering,  
4 although I suppose it would be possible that the  
5 negotiation might include some ongoing usage  
6 measurement to sort of readjust the price if there  
7 were a change in capacity requirements over time, but  
8 these are the kind of things that would be handled in a  
9 negotiation.

10                 Remember the big difference here is that  
11 new entrant coming in who is to acquire a portion of  
12 the network capacity does have an option. He can go  
13 over down the street to any of several competing  
14 retail computer dealers or wholesale computer dealers  
15 or network providers and acquire an alternate resource  
16 and do so relatively quickly and at a price level that  
17 is going to be probably comparable to what his share  
18 of the joint network would be. And faced with that  
19 competitive option that will affect the way that this  
20 transition takes place. That is very different than  
21 where the incumbent telephone company has a resource  
22 that is not easily and quickly replicated or  
23 efficiently replicated and where -- or where the size  
24 of the resource is so large and the amount -- the  
25 share of its capacity that is required is so small

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1 that it would be inefficient for a competing provider  
2 to attempt to replicate that relatively small portion  
3 of the total capacity that's needed.

4           And that's the situation we're confronting  
5 here. So the analogy that you proposed is valid but  
6 only up to a point. It ends when we recognize the  
7 fact that there are fundamental differences in the  
8 competitive nature of those two markets.

9           Q. I understand that the alternative is for  
10 the private vendor to self-provision their  
11 communications as opposed to acquiring it from the UTC  
12 server system, but what I'm looking for is the  
13 economic rationale of why -- the economics of why the  
14 UTC would want to or should price to the vendor -- to  
15 this private vendor, the outside consultant that's  
16 doing this new service in this case -- why they should  
17 price that on a usage basis. What would be the  
18 economic rationale for doing that as opposed to just  
19 renting some capacity on the system?

20           A. Well, there wouldn't be -- well, whether  
21 it's -- I guess the issue of whether to price on the  
22 basis of usage or on the basis of capacity is really a  
23 question of convenience and rate design more than  
24 anything else. One could establish a usage-based  
25 pricing scheme that is where the metric is a unit of

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1 capacity, for example, the flat rate port charge  
2 proposal that several witnesses have suggested in this  
3 case for interconnection between alternative LECs and  
4 the dominant LEC would be an example of a  
5 capacity-based usage-sensitive charge as opposed to  
6 the traditional method of providing switched access  
7 service which is strictly usage-based. Dedicated  
8 transport, the proposal before the Commission, the U S  
9 WEST proposal for restructuring of its transport  
10 components of its switched access service is a  
11 capacity-based usage-sensitive pricing scheme as  
12 distinct from the current pricing of transport which  
13 is simply cumulative usage-based.

14           There are economic -- where we're dealing  
15 with resources whose costs vary with capacity there is  
16 an economic argument that can be made, fairly strong  
17 economic argument that can made, for pricing on a  
18 capacities basis as opposed to a usage basis. It sends  
19 better economic signals to the purchaser of the  
20 service, for example. In the case of an interexchange  
21 carrier dedicated transport means that it is free to be  
22 creative in the way it markets its services so as to  
23 achieve better network utilization over the course of  
24 the day. If, under an access pricing scheme that is  
25 strictly based on usage where the payment for usage is

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1 exactly the same at 10:00 in the morning and at 10:00  
2 at night then the carrier does not have the same set of  
3 incentives in terms of opportunities -- and opportunity  
4 in terms of its market demand. But you can also  
5 accomplish something similar by establishing a usage  
6 charge that has a time of day component that reflects  
7 relative capacity.

8           So there are various ways. Some are easier  
9 to administer than others. The port charge is fairly  
10 easy to administer at a certain level because all you  
11 have to do is count up the number of ports. It has  
12 certain complexities too because you have to actually  
13 measure usage. In order to figure out if you assume  
14 that traffic is not in balance you still have to do  
15 some usage measurement but the concept is there.

16           Capacity-based -- flat-rate pricing of local  
17 service, for example, is a form of capacity-based  
18 pricing that avoids the need to measure usage  
19 individually and may be more efficient. In a study  
20 that my firm did for this Commission about 10 years ago  
21 we recommended retention of flat-rate pricing among  
22 other reasons because of the inefficiencies of usage  
23 measurement.

24       Q.    I guess we beat that one enough but the  
25 discussion was helpful to me. I have one other

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1 question before I let you go a little bit related. My  
2 understanding is that when a switch, a local switch,  
3 is constructed it's used for both terminating and  
4 originating calls, is that essentially an inseparable  
5 joint product in that switch?

6 A. Yes.

7 Q. So as an inseparable joint product, is  
8 there any economic rationale for assigning those costs  
9 to termination versus origination? Is it equally  
10 valid to put 100 percent on termination, 100 percent  
11 on origination or some combination thereof?

12 A. Well, what we, I think, have tended to do  
13 with respect to pricing is to sort of focus on  
14 charging the cost causer. If I call you I am required  
15 to pay for the call because you didn't necessarily ask  
16 me to call you or even want me to call you, and it  
17 would be sort of a double hit if you got this call  
18 from me that you didn't want and then found out you  
19 also had to pay for it. So the equities have tended  
20 to favor originating responsibility.

21 The exception to that is 800 service where  
22 the individual who sets up an 800 number and  
23 advertises it is actually saying, yes, please call me  
24 and I will pay for the call in which case we assign  
25 the responsibility for payment on the terminating

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1 side. So the -- probably the correct way to do it is  
2 on the basis of the economic decision. At the same  
3 time we also have to focus on the means of achieving  
4 an efficient utilization and efficient network  
5 pricing. For example, the staff is supporting with  
6 respect to mutual compensation between interconnecting  
7 LECs a bill and keep arrangement. Bill and keep  
8 effectively amounts to in kind payment for terminating  
9 access for terminating local traffic so that each  
10 carrier simply hands off its terminating traffic to the  
11 other and the other completes it without a monetary  
12 exchange, and the in kind payment is that if the  
13 traffic is coming in the other direction then the  
14 traffic is also completed without any explicit charge.

15           There are numerous efficiencies associated  
16 with that not the least of which is that it doesn't  
17 undermine the basic flat-rate pricing of local service  
18 that this Commission has maintained or as any  
19 measurement-oriented type of interconnection charge  
20 could have the effect of undermining flat-rate pricing  
21 of local service.

22           Q.    So there isn't necessarily an economic  
23 rationale for assigning the cost of one function or  
24 another but there are some rate design and price  
25 issues?

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1           A.     There are rate design issues and also  
2 issues in incentives. For example, if you make each  
3 carrier pay the other for terminating traffic, let's  
4 say on a usage-sensitive basis one of the things that  
5 a new entrant could do to avoid having to -- both  
6 avoid having to pay the incumbent for terminating  
7 traffic and maybe even to generate some revenue from  
8 the incumbent is to deliberately go out and seek  
9 customers who are high volume recipients of inward  
10 calls of calls directed to it. For example, pizza  
11 places or taxi companies or radio stations that say  
12 that give two free tickets to a baseball game for the  
13 12th caller who calls in which seems to generate three  
14 or four hundred calls when you do something like that  
15 friends of the radio business tell me.

16                 In other words, there are things you can do  
17 that a new LEC can do to affect its traffic balances  
18 if it is given perverse incentives to do that. Bill  
19 and keep eliminates those perverse incentives whereas  
20 a terminating use charge of some sort creates them.  
21 So that's the kind of issue that the Commission needs  
22 to be considering when it makes these kinds of  
23 decisions.

24                 COMMISSIONER GILLIS: Thank you.

25                 JUDGE ANDERL: Mr. Smith, do you have



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1 redirect for this witness?

2 MR. SMITH: No redirect.

3 JUDGE ANDERL: Any further questions based  
4 on the cross that were asked?

5 MR. SHAW: Yes, Your Honor.

6

7 CROSS-EXAMINATION

8 BY MR. SHAW:

9 Q. Dr. Selwyn, Mr. Potter asked you a series  
10 of questions where on a couple of occasions you stated  
11 that the network is a public resource because the  
12 ratepayers have borne the risk. By that testimony are  
13 you asserting that ratepayers when they pay for  
14 services gain ownership of a utility's assets?

15 A. No, but I don't think that alters -- that  
16 fact, the legal status of ownership alters the  
17 fundamental accuracy of my statement.

18 Q. You have presented no evidence on this  
19 record, have you, whether U S WEST or any other  
20 regulated utility in the state of Washington has  
21 net over earned or net under earned under rate of  
22 return regulation over the last 50 years, have you?

23 A. Inasmuch as U S WEST's stock is trading  
24 above book value I think that the investors are saying  
25 that they're satisfied with the company's earnings and

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1 prospects.

2 Q. See if you can answer the question. You  
3 have presented no evidence --

4 A. I just did.

5 Q. -- whether U S WEST is a net under earner  
6 or a net over earner in the state of Washington in the  
7 last 50 years, have you?

8 A. In the state of Washington I have presented  
9 no evidence. My answer to Mr. Potter was in the  
10 context of the principle of rate of return regulation  
11 as I understand it to have been practiced by this  
12 Commission in the past.

13 Q. In response to Mr. Potter's questions you  
14 also talked about access to poles and conduit by other  
15 carriers to incumbent carriers' poles and conduits.  
16 You have presented no evidence in this case, have you,  
17 that U S WEST or any other LEC for that matter has  
18 denied or unreasonably restricted access to its poles  
19 or conduit by new carriers, have you?

20 A. I have presented no evidence one way or the  
21 other on that subject. Nor did I make such an  
22 assertion in my response to Mr. Potter.

23 Q. Do you understand in your discussion with  
24 Mr. Potter about your CPE analogy that CPE vendors  
25 under the law of state of Washington are not

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1 telecommunications companies?

2 A. I don't know that as a fact but it doesn't  
3 surprise me.

4 Q. Now, in a series of questions and answers  
5 directed at you by MCI and AT&T, you discussed your  
6 recommendation that the RIC charge not apply to  
7 transport purchased from a company other than U S  
8 WEST. Have you presented any evidence in this case  
9 that if the Commission were to accept your  
10 recommendation that that would result in sufficient  
11 rates for U S WEST?

12 A. Well, I am not presenting evidence in this  
13 case on the sufficiency of U S WEST's rates in general  
14 if U S WEST's rates are excessive, for example, and  
15 then even if there is a loss of revenue its rates could  
16 still be sufficient. I'm simply not addressing  
17 aggregate sufficiency of U S WEST rates in this case.

18 Q. And that's pure speculation on your part  
19 that the cumulative effect of U S WEST's current rates  
20 are in excess of its revenue requirement, isn't it?

21 A. That was not a speculation. It was a  
22 hypothetical.

23 Q. In discussion with Commissioner Gillis  
24 around the hypothetical of a private Commission  
25 sharing some regulatory responsibility with a remnant

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1 of the public Commission, did you understand in that  
2 hypothetical that there will be any regulatory  
3 restraint on the private Commission's prices?

4 A. Prices to whom? To the state for  
5 supporting the function?

6 Q. To the state or to the regulated utilities.

7 A. Well, I believe that Commissioner Gillis's  
8 hypothetical contemplated a competitive bidding  
9 process in which one contractor would in fact win the  
10 contract to take over the function, and the presumption  
11 I understood from his hypothetical is that this bidding  
12 process would be competitive. Therefore, whoever  
13 won the bid would be subject to the terms and  
14 conditions of the proposal that was submitted to the  
15 state and that was accepted by the state, so we would  
16 have not regulation of the charges imposed by the  
17 contractor, in the traditional sense, but they would be  
18 regulated pursuant to the contract with the state, so  
19 the answer to your question is yes, they would be  
20 regulated and they would be competitively determined.

21 Q. Along the same lines, do you understand or  
22 assume in that discussion of that hypothetical that  
23 the new private regulatory entity would be competing  
24 for the regulatory business with the remnant of the  
25 public agency?

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1           A.     I don't know how far to citizen this  
2 hypothetical. I recall reading a piece in the Wall  
3 Street Journal or the New York Times within the past  
4 week or two about privatized prisons and how companies  
5 were running them and certainly were competing with  
6 each other for contracts with various states to take  
7 over these functions. Presumably one could envision a  
8 situation where if this contractor did a real good job  
9 the state might decide to privatize the rest of the  
10 agency. If this contractor did a real bad job the  
11 state might decide to get rid of the contractor or to  
12 go back to the previous structure.

13          Q.     Would you agree, then, the hypothetical has  
14 a limited parallel with the situation of an incumbent  
15 regulated utility providing services to new  
16 competitive entrants?

17          A.     Well, I understood the purpose of the  
18 hypothetical to be limited solely to the treatment of  
19 the shared cost of local area network and I responded  
20 to it in that context, and I also indicated in my  
21 response to Commissioner Gillis the extent to which I  
22 felt the parallel with a situation involving the use  
23 of an incumbent monopoly local telephone company's  
24 resources would apply. So I think I've answered that  
25 question.

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1 Q. You discussed cost studies generally with  
2 Commissioner Gillis. When you refer to cost studies,  
3 do you support the use of long-run incremental cost  
4 studies as the tools that you and Commissioner Gillis  
5 were discussing or do you prefer the use of fully  
6 distributed cost studies?

7 A. I support the use of incremental cost  
8 studies but not in the form that the company has  
9 defined those terms.

10 Q. So when you gave your example that's in  
11 your testimony in several places of a company, a  
12 regulated company, purchasing a new digital switch and  
13 replacing an analog switch and 80 percent of that  
14 capacity of that switch continuing to be used for  
15 basic exchange services and 20 percent being used for  
16 new digital features enabled by that switch, I  
17 understood you to say that in costing those new  
18 services the Commission should require the company to  
19 do a cost study that distributes the cost of that new  
20 switch predominantly to the new services. Is that a  
21 fair understanding of your testimony?

22 A. Well, what I'm saying is -- and to put it  
23 in the context of your question and your previous  
24 question is that if you simply apportion the cost of a  
25 resource based upon occupancy of that resource at any

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1 point in time, that in fact is not an incremental cost  
2 study at all. It is indeed a fully distributed cost  
3 study, precisely what I believe the company seeks to  
4 disown. An incremental cost study would associate the  
5 incremental capabilities of the decision to replace a  
6 switch with the incremental cost of achieving that  
7 replacement. And that is the context in which I  
8 responded to Commissioner Gillis's question. That  
9 would be an incremental study.

10 Q. Do long-run incremental studies properly  
11 use forward looking technology?

12 A. Let me in answer --

13 Q. Can you just answer the question yes or no?  
14 That's a very simple question, isn't it?

15 A. No, it's not because I don't know which  
16 long run studies you're referring to.

17 Q. I asked you a generic question. Do  
18 long-run incremental studies properly use forward  
19 looking technology?

20 A. And the answer is I don't know because I  
21 don't know what you mean by a long run study. If you  
22 said should long run studies properly use forward  
23 looking technology the answer to that would be yes.  
24 Do, I can't say.

25 Q. Does a properly constructed long-run

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1 incremental cost study use forward looking technology?

2 A. In the way I have characterized a long-run  
3 incremental cost study and substituting the word  
4 should for does in your question the answer is yes.  
5 And I would refer you to a response --

6 JUDGE ANDERL: Actually, Dr. Selwyn, I  
7 think you answered the question. So, thank you.

8 Q. Is it your opinion that analog switches are  
9 forward looking technology to provide switched local  
10 exchange service in the state of Washington?

11 A. An in place analog switch that is already  
12 there that is physically capable of continuing its  
13 service for some extended period of time in the  
14 context of my use of the term long run, which you had  
15 resisted letting me identify for you that was in  
16 response to an information request, is the forward  
17 looking technology for those services if that is the  
18 limit and extent to which those resources are  
19 required, yes. Would it be acquired today if there  
20 were no switch in place, no. But if the switch is in  
21 place then that is the correct technology. Would I  
22 build this building exactly the same way today if I  
23 were building it from scratch, certainly not. But --  
24 or probably not. Would I rip it down and rebuild it,  
25 you know, every year because there's some



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1 architectural change that would suggest that it might  
2 be done differently? The answer, obviously, no.  
3 And similarly, you don't rip out a perfectly  
4 serviceable asset merely because something else has  
5 come along that might have some additional capability.

6           So the long run, as I see it, is the  
7 efficient way of serving a particular demand scenario  
8 and if we are looking solely at basic residential and  
9 basic business service without any requirement for  
10 business features then an analog switch -- an in place  
11 analog switch is the efficient technology.

12       Q.     On that logic an electromechanical step by  
13 step should not be replaced to provide basic local  
14 exchange service since they are fully capable of  
15 providing basic local exchange service?

16       A.     No. I would not agree with that and the  
17 reason I wouldn't agree with it is because the service  
18 standard as it is presently constituted generally  
19 requires, at a minimum, an analog electronic switch.  
20 In terms of the expectation that for interconnection  
21 with interexchange carriers the availability of touch  
22 tone and other generally available features that are  
23 taken by substantial -- and used by substantial  
24 portions of the community, that the service standard  
25 at this point is satisfied by an analog switch, and

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1 once again, I'm speaking here of a switch that's in  
2 place. I'm not suggesting, and it would not make sense  
3 to acquire a new analog switch today, but if you have  
4 one there it also doesn't necessarily make sense to  
5 throw it out.

6 Q. If the standard of service in the state of  
7 Washington were to be determined that ISDN capability  
8 should be widely available then your discussion would  
9 not apply and it would make sense to replace analog  
10 switches with digital switches on a reasonable  
11 construction projection, wouldn't it?

12 A. Not necessarily. If the Commission were to  
13 determine that every line, every access line in the  
14 state, should be converted to ISDN over, let's say,  
15 some finite period of time like five to ten years,  
16 then the scenario that you've just described would  
17 apply. If the Commission instead determined that ISDN  
18 should be available throughout the state in a -- but  
19 on an option basis and based on demand projections  
20 would probably only be requested by perhaps five  
21 percent of the customers in the state, then it may  
22 well be that there is a more efficient serving plant  
23 then full replacement of every switch such as  
24 deploying certain switches that would be ISDN capable  
25 and using available capacity in the interoffice fiber

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1 that the company has been installing to extend the  
2 capabilities of those ISDN switches to those customers  
3 that request the service.

4 So, even in the scenario that you have  
5 described it doesn't necessarily follow that full  
6 replacement of analog switches with digital would be  
7 the efficient alternative.

8 Q. Thank you.

9 JUDGE ANDERL: Mr. Potter.

10 MR. POTTER: No questions.

11 JUDGE ANDERL: Mr. MacIver.

12 MR. MACIVER: No.

13 JUDGE ANDERL: Ms. Proctor.

14 MS. PROCTOR: No.

15

16 EXAMINATION

17 BY CHAIRMAN NELSON:

18 Q. At the risk of opening up another round I  
19 did have a question that came to mind. Dr. Selwyn,  
20 the staff's final recommendation in this case,  
21 whatever day we are in this hearing --

22 A. Fewer days than the O. J. trial.

23 Q. -- is to, once again, try to get the  
24 incentives right, to get U S WEST to file cost studies  
25 that are acceptable to the other parties, and in your

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1 answer to Commissioner Gillis you said what we need to  
2 do now is promulgate costing rules, and I guess my  
3 question is one of practicality. This agency is  
4 downsized from 240 FTE to 140 at the end of this  
5 year. New entrants are taking some of our best staff  
6 and hiring them away from us. What makes you think  
7 that we by October hearings can have costing rules  
8 promulgated and cost studies performed that would be  
9 acceptable to all the parties in the room? We just  
10 heard this morning that MCI and AT&T haven't seen the  
11 cost studies that have been produced for the staff.

12 A. I'm not sure that I testified, Chairman  
13 Nelson, that that would be possible. I think that  
14 probably what might make some sense is to convene a  
15 series of workshops where the company and the  
16 interested parties can meet to try to address some of  
17 their respective concerns and see if in fact they  
18 can't reach closure in certain areas. That is a  
19 technique that has been used by other commissions with  
20 varying degrees of success. It is probably more  
21 efficient than the hearing process and certainly would  
22 reduce the number of days that you all have to sit up  
23 there and listen to all of this.

24 Q. Well, my concern is that even that  
25 recommendation, seems to me -- and I try not to

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1 comment on evidence -- but it seems to represent the  
2 triumph of hope over experience. And it seems to me  
3 that what the public wants or only what our  
4 legislators want is a simpler easier to administer  
5 regulatory system, and everyone agrees that cost-based  
6 prices should be a angle of regulation but, well,  
7 maybe I will ask the question. Has any state in your  
8 mind come close to goal of finding cost-based prices?

9 A. Probably not. Not for want of trying. I  
10 think the approach that I sort of envision is one of  
11 creating a set of incentives on the part of the company  
12 to the the right thing and probably the best way to do  
13 that is to assure that whatever rules are established  
14 they can be applied consistently as between monopoly  
15 and competitive services. One of the most common  
16 things that we have seen in looking at cost studies  
17 over the years is there is cherry picking of costing  
18 methodology based upon the service being studied.

19 We see, for example, that in the case of  
20 monopoly services a sort of total replacement scenario  
21 is assumed. The Keynesian long run, in the long run  
22 when we're all dead, and yet sometimes for competitive  
23 services we see situations where, well, the capacity is  
24 there anyway, we might as well be allowed to go ahead  
25 and sell the service because we would be wasting

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1 capacity otherwise. So a very short run approach. If  
2 the company can be enforced to develop a set of costing  
3 rules that it would be required to apply consistently  
4 so that the various definitions and the various means  
5 of determining how to assign capacities and how to  
6 assign incremental capabilities are properly  
7 established, then I think that the process could be  
8 self-enforcing.

9 I would like to see, I think we're getting  
10 to the point now where there are enough competitive  
11 services out there that move into this direction as  
12 possible. At least this to me is an approach that has  
13 the greatest promise. And part of the dispute that  
14 many of us have with traditional cost studies stems  
15 from failure to apply the rules consistently.

16 Q. Very well. One other question brought to  
17 mind by Mr. Potter's questioning of you. In this  
18 state electric utilities regulated by, really, no one  
19 are poised to enter the telecommunications market or  
20 at least are indicating their willingness to, and  
21 Congress seems poised to allow them such entry. This  
22 Commission doesn't have jurisdiction over them. But  
23 there you have networks that really come fully made  
24 with some upgrades perhaps and of course the switching  
25 problem. Should we, consistent with Mr. Potter's

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1 question of you, anticipate trying to assert  
2 jurisdiction over those electric utilities -- and I  
3 mean the public utility district of the state of  
4 Washington, the municipally-owned utilities -- with a  
5 view to getting reciprocal interconnection rules  
6 imposed on them? They will not be in a position that  
7 we normally think of as this new entrant with less  
8 than a percent of market share.

9       A.     I'm not sure I can answer that question.  
10 Where electric utilities have sought to enter the  
11 telecommunications industry in some situations they  
12 have attempted to do so by including certain portions  
13 of the cost of their telecommunications assets in  
14 their electric utility rate base, and where the same  
15 Commission has regulatory jurisdiction over electric  
16 and telephone, this is a matter that can obviously be  
17 addressed and dealt with in an appropriate way. In  
18 the case that you describe it would seem to me that  
19 probably the electric utilities -- if, as I understand  
20 it, you don't have jurisdiction and basic electric  
21 utilities can pretty much do what they want I guess  
22 that they're really in no different position than any  
23 other new entrant, and if a -- if whoever does  
24 regulate them allows them to construct these  
25 facilities and even to perhaps recover part of the

1 cost through the electric utility side of their  
2 business that would be something that one of the other  
3 telecommunications incumbents might want to address.

4 I'm aware, for example, of a case in  
5 Louisiana that where Bell South intervened in an  
6 electric utility case to challenge inclusion of the  
7 telecommunications assets in the utility's rate base  
8 in its capacity as a customer of that utility. So,  
9 presumably that type of thing could happen, but I'm  
10 not familiar enough with the situation with respect to  
11 electric regulation to really be able to answer your  
12 question.

13 Q. That's a helpful suggestion, though, the  
14 response. Thank you.

15 CHAIRMAN NELSON: That's all I have.

16 JUDGE ANDERL: Did this last round of  
17 questions bring up anything else for this witness?

18 Hearing nothing, then, Dr. Selwyn, thank  
19 you for your testimony. You may step down. It's been  
20 agreed amongst the parties that Mr. Traylor for MCI  
21 will be the next witness and let's be off the record  
22 while he takes the stand. We'll go ahead and take our  
23 break this morning.

24 (Recess.)



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1 Whereupon,

2 ROBERT W. TRAYLOR,

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

4 herein and was examined and testified as follows:

5 JUDGE ANDERL: Let's be back on record

6 after our morning recess. While we were off the

7 record Mr. Traylor took the witness stand. We

8 premarked his testimony as Exhibit T-117, his Exhibit

9 RWT-1 through RWT-7 are marked as Exhibits 118 through

10 and ending with 124 and his prefiled rebuttal

11 testimony is identified as Exhibit T-125 for the

12 record.

13 (Marked Exhibits T-117, 118 - 124 and

14 T-125.)

15 JUDGE ANDERL: Go ahead, Mr. MacIver.

16

17 DIRECT EXAMINATION

18 BY MR. MACIVER:

19 Q. Mr. Traylor, would you please state your

20 name, spell your last name and give your business

21 address?

22 A. My name is Robert W. Traylor, Jr., T R A Y

23 L O R. My business address is 2400 Glenville Drive,

24 Richardson, Texas, and my title is executive staff

25 member.

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1 Q. Of? What's your organization?

2 A. MCI Metro.

3 Q. Have you caused to be filed in this  
4 proceeding, Mr. Traylor, on behalf of MCI Metro and  
5 MCI telecommunications the direct testimony premarked  
6 as Exhibit 117, the exhibits attached to that, 118  
7 through 124, and the rebuttal testimony premarked as  
8 T-125?

9 A. Yes, I have.

10 Q. And were those exhibits and testimonies  
11 prepared under your direction and supervision?

12 A. Yes, they were.

13 Q. If I were to ask you the questions posed to  
14 you in Exhibits T-117 and T-125 today, would your  
15 answers be as stated therein?

16 A. Yes, they would.

17 MR. MACIVER: Your Honor, move for  
18 admission of Exhibits 117 through 125.

19 JUDGE ANDERL: Any objection from any  
20 party?

21 I hear none. Those exhibits will be  
22 admitted as identified.

23 (Admitted Exhibits T-117, 118 - 124 and  
24 T-125.)

25 MR. MACIVER: Tender Mr. Traylor for cross.

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2

CROSS-EXAMINATION

3 BY MS. HASTINGS:

4 Q. You discuss a number of local portability  
5 trials in your testimony at page 37. Do you recall  
6 that?

7 JUDGE ANDERL: That's his direct?

8 MS. HASTINGS: Yes.

9 Q. That's your direct testimony.

10 A. Yes, I do.

11 Q. And if I am understanding this correctly  
12 MCI is involved in the study that you describe that's  
13 occurring in New York city or in New York, actually?

14 A. That's correct.

15 Q. And if I understand it correctly MFI has  
16 responded to the Commission's requests there and has  
17 provided an RFP response to the Commission in New  
18 York?

19 A. MCI? You said MFI.

20 Q. No. I'm sorry. MCI?

21 A. Yes, that's correct.

22 Q. And were you involved in the preparation of  
23 that RFP proposal?

24 A. I was involved in the task force effort  
25 that actually initiated the activity. The RFP itself

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1 was compiled by the members of the multi-vendor team,  
2 and I did not review that before it went out.

3 Q. So you are not aware of the contents of the  
4 RFP proposal?

5 A. Oh, yes, I am. I am aware. I was not one  
6 of the contributors to the development of the RFP  
7 response.

8 Q. Thank you, but you are aware of its  
9 contents and what the MCI response was there?

10 A. Oh, yes.

11 Q. Thank you. If I read your testimony  
12 correctly you believe that the technology for number  
13 portability is available today; is that correct?

14 A. Yes, I do.

15 Q. And even though, according to your  
16 testimony, it is available today, I understand your  
17 testimony to suggest that this Commission should look  
18 at the various alternatives that you've discussed on  
19 page 37 of your direct. Do I understand that  
20 correctly also?

21 A. That is correct.

22 Q. And if I remember correctly looking at your  
23 testimony you've indicated that the trial in New York  
24 is not intended to start until February of 1996?

25 A. That is correct.

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1 Q. And is it to then terminate it in about  
2 August of 1996?

3 A. Yes. The New York task force established  
4 the start and stop dates. The task force included the  
5 parties to the competition case there and so their RFP  
6 request that went out stipulated those dates and all  
7 of the vendors that were ultimately reviewed did agree  
8 to operate within those dates.

9 Q. So at least in the case of the New York  
10 trial date you reference it's not expected there would  
11 be result until August of '96?

12 A. In terms of the trial that is correct.

13 Q. Do you know the status or the time lines of  
14 the trials in the other states, Maryland and Illinois?

15 A. Maryland, to my understanding has not been  
16 an order that has come out of that jurisdiction yet.  
17 The staff recommended that a trial be initiated that  
18 could begin as as soon as the fourth quarter of this  
19 year, is my understanding. And the other state was  
20 Illinois. The activity that's going on there is an  
21 analysis of the various call models and approaches  
22 that could be used to provide portability and the  
23 potential exists for a trial or a full implementation  
24 to begin in the end of the fourth quarter or certainly  
25 by first quarter of '96.

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1 Q. Thank you. Do you know or have an opinion  
2 when the result of either of those two trials will be  
3 completed?

4 A. I would believe that the Illinois  
5 implementation -- understand the Illinois activity is  
6 a little bit different from Maryland and New York. In  
7 New York there will be a trial with the conclusion of  
8 the trial it being taken down. In Illinois it is  
9 potential and really the desire of the Commission, as  
10 I understand it, that an appropriate solution be  
11 selected, that a trial be initiated and assuming that  
12 everything that was anticipated would work within that  
13 trial, then the trial or the platform would be left up  
14 for full implementation. So it is possible, I would  
15 suppose, that in Illinois the results may be known by  
16 the end of the first quarter, possibly later, but I  
17 think end of first quarter is certainly doable.

18 Q. Is that the end of the first quarter of  
19 1996?

20 A. Yes, it is.

21 Q. And that's in Illinois?

22 A. Yes.

23 Q. And then I'm not sure I got an answer from  
24 you with respect to Maryland. Do you know when the  
25 results of the trial in Maryland might be available?

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1           A.     No.  Without a final order from that  
2 Commission, no, we don't know when it will start, when  
3 it will end.  But roughly the same time frame as New  
4 York is my understanding.  Something like the end of  
5 second quarter, sometime in third quarter '94.

6           Q.     But the trial hasn't yet started; is that  
7 correct?

8           A.     That's correct.

9           Q.     So we aren't certain of a date either?

10          A.     That's correct.

11          Q.     Are you aware in any of these trials of  
12 any plans or any studies that the companies may be  
13 involved in -- and by the companies I mean all of the  
14 participants -- to evaluate whether the various  
15 approaches, the for lack of a better name, the ELI  
16 approach here in Washington or MCI approach in New York  
17 or any of the other approaches so that we can determine  
18 if these various approaches would be compatible between  
19 and among themselves?

20          A.     In the New York RFP that is certainly one  
21 of the requirements of the respondents, those who are  
22 selected to perform the trial there, to participate in  
23 the development of a report that would come out of  
24 that effort.

25          Q.     But to date, to your knowledge, there is no

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1 indication or no evidence that any of the various  
2 solutions would be compatible with one another?

3 A. Well, to the extent that any of the  
4 evaluators, for instance, in New York, would have  
5 brought a mindset to their evaluation process that  
6 they would not want to select a trial of a solution  
7 that would clearly be inconsistent with things that  
8 even that may be going on in Washington, for instance,  
9 or with any of the other solutions, then that probably  
10 factored into their analysis. But I have no -- there  
11 is no clear evidence that that's the mindset that they  
12 brought. I can tell you that that was the mindset that  
13 MCI brought to the New York activity in doing its  
14 evaluation of the various proposals that were placed on  
15 the table.

16 Q. But there is no evidence right now that the  
17 systems are compatible, the various trial activities  
18 are compatible with one another?

19 A. No.

20 Q. Or will develop compatible systems?

21 A. That's correct.

22 Q. Thank you. Do you believe that a long-term  
23 local number portability solution will require any  
24 standard changes?

25 A. A long-term solution in the sense of five,



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1 six, seven years down the road, may certainly benefit  
2 by some standards being developed, but there are  
3 solutions on the table in the various areas that do  
4 not require a standard solution or correction or  
5 modification at this time in order for it to be  
6 implemented.

7 Q. Is the MCI solution that you're proposing  
8 in New York -- let's focus on that specifically -- do  
9 you believe that that particular proposal requires any  
10 standards changes?

11 A. No. We specifically asked our switch  
12 vendors that participated in our task force to make a  
13 conscious effort not to develop in a manner that would  
14 require a standards changes. That's not to say that  
15 you couldn't enhance the solution or evolve it in some  
16 fashion that might entail some standards changes over  
17 the next three, four, five years, but for it to be  
18 implemented today, there was no standards changes  
19 necessary.

20 Q. So if I'm understanding you correctly, back  
21 to your earlier testimony that you believe that the  
22 technology is available today, you're saying that  
23 something can be implemented today without any  
24 standards changes?

25 A. Yes, that is my testimony.

1           Q.     Mr. Traylor, there is a portion of the MCI  
2 response in the New York RFP which indicates that  
3 early testing has confirmed that standard  
4 modifications are required to support two particular  
5 features. One is automatic recall and automatic  
6 callback. Is it your testimony that those two  
7 standards changes are not necessary to implement a  
8 solution in Washington immediately?

9           A.     Yes. That is my testimony. If I can  
10 elaborate, those two features are both broken when the  
11 triggering mechanism in the originating office or the  
12 intermediate network that launches a database query,  
13 when that is done using AIN, advanced intelligent  
14 work, zero dot one capabilities. We recognize that in  
15 our development process. The AIN zero dot one was  
16 really suggested in the New York RFP as a standard  
17 approach to triggering database queries.

18                     When we ran into the difficulty that the  
19 two features that Ms. Hastings described were broken  
20 using an AIN zero dot one trigger, we were not  
21 satisfied with that result, and so we looked to an  
22 alternative and that alternative was an intelligent  
23 network trigger similar to the 800 database type  
24 triggering mechanism and we have proven that those  
25 services do indeed work when the networks involved

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1 adopt an intelligent network type triggering mechanism  
2 rather than rely on the standardized advanced  
3 intelligent network type mechanism.

4           So this is one of the enhancements that I  
5 was referring to. If we were to deploy the MCI  
6 approach and networks ultimately wished to use an AIN  
7 zero dot one mechanism to trigger database queries,  
8 then it would require some changes to the AIN  
9 standard, and let me just explain briefly. What  
10 happens is the triggering mechanism in AIN zero dot  
11 one is referred to as a three, six ten digit public  
12 office dial plan triggering mechanism and what happens  
13 is when you do a dip based on this three, six, ten  
14 trigger it makes you unable to do a subsequent  
15 database dip.

16           JUDGE ANDERL: Do a dip?

17           THE WITNESS: Database query, database dip.

18       A. Database query for other features like the  
19 automatic callback, automatic recall features. So  
20 you would have to change the AIN standard to either  
21 replace that three, six, ten limitation or insert a  
22 new triggering mechanism that was strictly for local  
23 number portability. So you do have two choices in  
24 terms of how to fix this in terms of standards, but in  
25 terms of making it work today, we have proven in lab

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1 demonstrations, et cetera, that an intelligent network  
2 triggering mechanism does avoid breaking those two  
3 services.

4           So, in sum, the answer is yes. You could  
5 in networks that were using this intelligent network  
6 approach support those services and indeed all of the  
7 other class type features, calling line ID, et cetera.

8       Q.     Now, I'm not an engineer so I'm not sure of  
9 everything you told me, but I guess my question, it  
10 was sort of a simple one. You're advocating that the  
11 technology is available today to implement local  
12 number portability and I understand that there may be  
13 some things that need to be fixed in either the short  
14 or the long-term to do that, so I'm trying to  
15 understand, is the technology available and there's  
16 just a couple of little extra problems that need to be  
17 fixed or is it truly not available?

18       A.     It is available, and let me talk about what  
19 would need to be done today with the intelligent  
20 network triggering mechanism. We worked on this  
21 development process with our multi vendor task force,  
22 which included Northern Telecom, DSC Communications,  
23 Tandem Computers and Siemens, Stromberg-Carlson. What  
24 we did with those partners, Siemens, Stromberg-Carlson  
25 developed the intelligent network triggering

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1 mechanism. It took them approximately four to six  
2 weeks of effort to make the relatively minor  
3 modifications so that the database query could be  
4 triggered off of this intelligent network approach.

5           Northern Telecom, we used the advanced  
6 intelligent network zero dot one platform that they  
7 already had developed to perform database queries, and  
8 obviously we knew that automatic callback/recall  
9 would not work with an AIN zero dot one, and we  
10 verified that in our testing that they didn't work but  
11 all the other class features did.

12           Northern Telecom is investigating and has  
13 already given us an indication that the fix that they  
14 would have to do to their intelligent network platform  
15 is very similar to what Siemens did, so they have not  
16 done it yet because no one has asked them to except  
17 that we have asked them to kind of take the next step.  
18 But they have not actually performed the fix but they  
19 have assured us that it appears to be a relatively  
20 simple task.

21           We have also had numerous discussions  
22 directly and indirectly with AT&T switch systems. We  
23 do not have a statement back from them as to the  
24 relative complexity of developing the intelligent  
25 network triggering mechanism on their switch.

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1 However, they have not come back to us to indicate  
2 that there is a problem. So it's our belief that  
3 they have not identified a problem yet but again they  
4 have not developed what would be required.

5           But assuming that all of these switches are  
6 built to industry standards and to the LSSGR, the LATA  
7 switching system generic requirements Bellcorp  
8 document, it's an assumption, I believe an assumption,  
9 but an assumption nonetheless that all of those  
10 switches ought to be able to be fixed without requiring  
11 massive generic updates to their switch logic, and that  
12 is the basis from which we're proceeding, and as a  
13 result of that we believe that the intelligent network  
14 solution as a triggering mechanism which does not break  
15 automatic callback, automatic recall, does not require  
16 standards changes and would be available in the very  
17 near term.

18       Q.     Have you, Mr. Traylor, verified that all of  
19 the switch types in Washington for all of the various  
20 carriers, the IXCs, the cellular companies, the AECs,  
21 the LECs have the necessary modifications you've just  
22 described in their switches today?

23       A.     No, I have not. And that is precisely why  
24 I suggested in the testimony you referenced earlier --  
25 I think it was on -- maybe it wasn't 37 but your

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1 earlier reference -- why the participant, the parties  
2 here in Washington, would need to take a look at all  
3 of the possibilities that are on the table, evaluate  
4 those possibilities, determine which fixes, which  
5 capabilities are actually resident in their network  
6 switches already to determine which solution does fit  
7 their needs the best.

8 Q. So if I'm understanding sort of a short  
9 answer is no, you have not verified all of the switch  
10 types in Washington to know if they'll work with this  
11 solution?

12 A. That is correct.

13 Q. Thank you.

14 A. I would add briefly though that we are  
15 currently testing with Erickson who is the switch  
16 provider for MFS and we are also testing through Time  
17 Warner with their 5E switch in their Denver  
18 laboratory, so we are making efforts to try to get at  
19 as many switches as possible but obviously we don't  
20 buy switches from everyone so we don't have ready  
21 access to all the necessary information.

22 Q. Do the AECs and the LECs in Washington,  
23 will they need to buy hardware and software to modify  
24 their systems to work with the solution that you're  
25 proposing?

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1           A.     There may be a need to purchase some  
2 software updates.  They would not -- our experience to  
3 this point doesn't indicate that it's as large a  
4 purchase as a generic update, what we found so far  
5 that's done with what are referred to as patches on the  
6 current software.  So it's very minor sort of  
7 capability that has to be built into the switches.  So  
8 we believe that that would be the case.  We don't see a  
9 hardware impact.

10                    There certainly may be a network that has,  
11 for instance, a signal transfer point in their SS7  
12 network that is at or near capacity, and when they  
13 implemented local number portability the signaling  
14 messages that would be necessary to support it may push  
15 that signal transfer point over the edge and therefore  
16 it may have to be supplemented, but all that is, from  
17 our perspective, is advancing an inevitable situation  
18 since the STP was at or near capacity anyhow.

19           Q.     Do you know for a fact that there are no  
20 requirements for hardware?

21           A.     The MCI solution does not -- I can think of  
22 no hardware requirement that we've identified to date.  
23 You are talking about end office switch hardware  
24 type?

25           Q.     Yes.  So you know for a fact that there



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1 will be no changes to any hardware for any of the  
2 AECs, for the LECs, for the interexchange companies,  
3 for the cellular companies?

4 A. I have not done a detailed analysis, but  
5 it's our belief that there is no requirement for  
6 additional hardware and we have run into none from the  
7 parties in the New York trial that selected MCI as the  
8 platform provider for the Manhattan part of that  
9 trial.

10 Q. Can you tell this Commission today what the  
11 costs for the MCI solution are including the costs to  
12 the LEC to modify their networks?

13 A. We have not done a detailed analysis of  
14 costs and there's several reasons behind that. One of  
15 those is that the implementation approach that's  
16 selected would drive what costs would be required.  
17 For instance -- and this is very much blue sky. It's  
18 not a recommendation. But for instance this  
19 Commission could order that the parties get together  
20 and pick the top 250 NXXs that would be placed into  
21 this portability environment, and such an approach on  
22 an implementation basis would have a much smaller  
23 effect than if this Commission were to order that the  
24 entire state of Washington had to be portable on day  
25 one. So the costs can range based on that

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1 implementation approach. We have concentrated thus  
2 far on attempting to develop a solution that minimizes  
3 network impacts, that doesn't cause a lot of software  
4 requirement, that doesn't cause a lot of hardware  
5 requirement.

6           So I can't tell you that our solution is a  
7 \$2 million solution or a \$20 million solution. What I  
8 can tell you is that of the solutions that are out  
9 there we strongly believe that because we have not  
10 broken standards, we aren't making major impacts on  
11 hardware and software to the extent of having generic  
12 updates, and all of those sort of things, we don't  
13 believe that cost impacts of our approach would be as  
14 great as the cost impaction of some other approaches  
15 that have been offered. And so, no, I don't have a  
16 precise dollar figure because I don't have an  
17 implementation plan, but I do believe that our approach  
18 would be the most economical of what we have seen thus  
19 far.

20       Q.     So if I'm understanding correctly you do  
21 not know and cannot provide the Commission with  
22 specific costs today for your proposal?

23       A.     That is correct.

24       Q.     That's fine. Thank you. Have you done a  
25 cost study of the proposal in Maryland or the proposal

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1 in Illinois or have you done any type of a cost  
2 analysis of the U S WEST Intelco proposal here in  
3 Washington?

4 A. No, we have not.

5 Q. Thank you, thank you.

6 A. None of those places I believe have taken  
7 that under -- have attempted to do it yet. The  
8 Illinois --

9 JUDGE ANDERL: Mr. Traylor, thanks.

10 Q. Thank you. But it is your testimony that  
11 even though you have not done a cost analysis of any  
12 of these you are comfortable that your cost analysis  
13 will produce better results than any of the others?

14 A. We believe that our approach will be more  
15 economical because it does not cause hardware  
16 requirement or software changes of any massive nature.

17 Q. But you have no facts and data to rely on?

18 A. Well, we have the analysis in terms of when  
19 we reviewed the RFP responses in New York we certainly  
20 took into account what impacts there would be on the  
21 MCI long distance network and the MCI Metro network in  
22 order to inter-operate with those other solutions as  
23 well as the one that was offered by MCI Metro.

24 Q. Did you look at the costs of dealing with  
25 the cellular carrier in New York?

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1 A. No, we did not. It was not essential --

2 Q. Thank you, thank you.

3 A. -- not essential to cellular to be included  
4 as participant there.

5 Q. Do you know how many switches there are in  
6 the state of Washington that are managed or operated  
7 by AECs, LECs, cellular companies and interexchange  
8 carriers?

9 A. No, I do not have that number.

10 Q. Thank you. Do you know how many of those  
11 that there are may need to be upgraded or changed in  
12 one way or fashion as a result of your solution?

13 A. All of the network switches that would  
14 participate in terms of interconnecting causing  
15 database queries and reacting to those queries would  
16 experience some degree of modification to how they  
17 operate today.

18 Q. Thank you. Are you recommending that this  
19 Commission order permanent local number portability  
20 before any cost benefits analysis is done?

21 A. No. That was the purpose of my testimony  
22 earlier, that the parties should get together and  
23 evaluate all the alternatives which would include an  
24 economic analysis.

25 Q. Let me refer you to page 5 of your

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1 testimony, and then also to page 11. You indicate on  
2 page 5 at about line 3 that after the New York trial  
3 is done and perhaps after the other trials are done  
4 and we don't know when that will occur, that the  
5 Commission should order implementation of true number  
6 portability based on an assessment of all the affected  
7 parties. What did you have in mind when you talked  
8 about all of the affected parties in Washington there?

9 A. That would be all of the networks that  
10 would be forced or would be required or would want to  
11 perform database queries and react to the responses  
12 from those database queries to enable portability.

13 Q. And would that then include all of the  
14 cellular companies and the IXCs and the AECs and those  
15 types, to your knowledge?

16 A. It would include cellulars to the extent  
17 that they wanted to participate in portability. I can  
18 tell you that cellulars in Illinois have expressed  
19 some concern about the impacts to them of being  
20 involved in a local portability situation, and so they  
21 may not even be impacted in terms of a Washington  
22 solution if that were their wish here and the  
23 Commission agreed. AECs certainly, if they wanted to  
24 participate in portability would also -- you would  
25 expect them to have opinions and you would expect the

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1 Commission to take those opinions into account.

2 Q. You indicate on line -- on page 17 that  
3 there's no technical reason that the Commission should  
4 wait at this point. That's on line 1. But on page  
5 11, on line 16 through 21 you've identified a whole  
6 host of other issues that were not able to be  
7 addressed by the INC workshops and apparently still  
8 need to be addressed. Is it your testimony that these  
9 issues that are listed there are the appropriate items  
10 that should be discussed by the parties and by the  
11 Commission when you make the statement that you do on  
12 page 5 of your testimony?

13 A. Well, you've stitched several pages  
14 together and on page 17 I've said that this Commission  
15 needn't wait for INC to come to resolution on all of  
16 the various issues that surround true portability.  
17 And then on page 11 prior to that, I listed several  
18 items that would require some form of resolution, not  
19 necessarily by INC, but would require resolution, and  
20 then on page 5 the reference to page 5 -- which line  
21 were you at?

22 Q. I'm looking at lines 3 to about line 6.  
23 You're talking about once the trials are done there  
24 should be this assessment of the various trials and  
25 I'm asking you are you intending that when that is

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1 done that the parties would consider the various  
2 issues that you've outline on page 11 at the bottom of  
3 the page?

4 A. There is no reason for the trial to occur  
5 before these issues start to be addressed. These  
6 issues may very well be addressed by this Commission  
7 in this order, so the industry in Washington could  
8 begin to assess the answers to these questions even  
9 while a trial is being planned and implemented.

10 Q. Must these issues be resolved in order for  
11 there to be an order for local number portability in  
12 Washington?

13 A. I don't think there needs -- that the order  
14 needs to wait. I think that the order can take place  
15 with due acknowledgement of these issues as being  
16 important, some of which the Commission itself, as I  
17 said, could provide some kind of ruling on in the  
18 order, or they certainly could direct this group that  
19 I suggested in the other reference to address these as  
20 parts of their work effort.

21 Q. So I'm understanding, is it your testimony  
22 that the Commission can order permanent number --  
23 permanent local number portability in Washington  
24 before they resolve the issue of who owns, operates  
25 and administers the database who, before they

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1 determine whether the same entity should perform all  
2 of those functions, how many databases there should  
3 be, and how many providers there should be, what the  
4 cost and the benefits associated with those are. Is  
5 that what you're testifying to?

6 A. My testimony today is that certainly they  
7 could address those in the order, which orders a  
8 permanent number portability solution to be  
9 implemented based on some appropriate schedule.

10 Q. Is it your position that no interim number  
11 portability approach should be utilized until a  
12 permanent database solution is available?

13 A. No, it's not.

14 Q. Thank you. You also indicate that the FCC  
15 on page 7 of your direct testimony -- that the FCC  
16 deferred consideration until more information on  
17 technical feasibility and implementation issues could  
18 be considered. Are you recommending in your testimony  
19 that the Commission ignore the data available to the  
20 FCC and proceed to implement permanent solution  
21 without considering it?

22 A. The information that's available -- is your  
23 question should this Commission ignore the information  
24 that's available to the FCC today?

25 Q. No. I'm asking you, is it your



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1 recommendation that they should do that?

2 A. I think--

3 JUDGE ANDERL: I'm sorry, Ms. Hastings, who  
4 should do what?

5 Q. Is it your recommendation that this  
6 Commission should ignore the data available to the  
7 FCC?

8 MR. MACIVER: Could the question be a  
9 little more specific as to what data you have in mind?

10 MS. HASTINGS: Sure.

11 Q. On page 7 of your testimony, Mr. Traylor,  
12 at lines 20 and 21 you indicate that the FCC has  
13 deferred consideration on a number of issues here  
14 until more information on technical feasibility and  
15 implementation issues was available. And what I'm  
16 asking you is, is it your recommendation to the  
17 Commission that they should ignore the fact that the  
18 FCC has deferred this because they don't believe that  
19 they have enough information and that they should  
20 nevertheless go ahead and implement a solution here  
21 with less information than the FCC has available to  
22 it?

23 A. You make the assumption that there is less  
24 -- that there's the same amount of information  
25 available to this Commission today that was available

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1 to the FCC a year and a half ago when they made this  
2 original notice or proposed rulemaking. At that time  
3 the INC workshop had just begun, there had been no New  
4 York activity for the RFP, there had been no Illinois  
5 activity, there had been no US Intelco trial in  
6 Washington, so there's a good deal more information  
7 available today than at the time they made this  
8 ruling. And the FCC did not direct anyone whether it  
9 was INC or the Illinois Commission or the Washington  
10 Commission or anyone else to develop this information.  
11 They just said there wasn't much information  
12 available, and they would not attempt to define the  
13 parameters of what local portability ought to look  
14 like at that time.

15 Q. If the FCC were to release a further notice  
16 of number portability rulemaking sometime this summer,  
17 which I understand is expected, would you still  
18 recommend that the Washington Commission ignore those  
19 findings and recommendations and nevertheless proceed  
20 ahead?

21 A. I don't know that they would have to ignore  
22 the findings and proceed. They aren't mutually  
23 inclusive. This Commission can take into account  
24 whatever the FCC may be doing and also make on its own  
25 motion an appropriate ruling or finding.

01671

1 MS. HASTINGS: Just a minute.

2 Q. Mr. Traylor, I wanted to go back for a  
3 minute on the earlier discussions we were having about  
4 the switches and the various carriers and whether or  
5 not they're compatible with the solution that you  
6 propose. Do you know, if a cellular customer wanted  
7 to call a land line ported customer, how could calls  
8 complete unless the cellular carrier participates?

9 A. The cellular carrier could, just as we  
10 devised in the New York trial, deliver the call to the  
11 LERG, local exchange routing guide, NXX assignee who  
12 would then recognize based on the fact that it was an  
13 incoming call from the cellular carrier who was not  
14 participating and not making database dips would  
15 recognize that a dip had not yet been performed yet  
16 and would have to do this database query and therefore  
17 hand the call off to the appropriate place where that  
18 digit number now resides.

19 Q. But if the cellular carrier wanted their  
20 number ported directly to the AEC, wouldn't they have  
21 to do a database dip to have that occur?

22 A. I'm sorry, I didn't understand the  
23 question. If a cellular carrier?

24 Q. If the cellular carrier wanted to route its  
25 call to the AEC, wouldn't it have to have a database

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1 dip to allow that to occur?

2 A. Yes. He would have to make that business  
3 decision to perform the database dip and that may  
4 occasion him to install, for instance, T CAP, SS7  
5 capability in his network, transaction capability  
6 application part, that's the piece of the SS7  
7 technology that performs database queries, and so if  
8 the cellular chose that he wanted to direct and route  
9 traffic to the AEC where numbers had been ported, he  
10 would make the business decision that he had to deploy  
11 that capability within his network.

12 Q. Are you aware of any other LEC in the  
13 entire country that is presently engaged in a database  
14 trial except the US Intelco trial here in the state of  
15 Washington?

16 A. Well, if you mean engaged where calls are  
17 actually taking place, I'm not aware of any other, but  
18 if you mean are there other LECs that are actively  
19 pursuing either a trial or an implementation then that  
20 answer is yes. The New York parties, which is --  
21 there are at least ten companies many of which are  
22 local exchange carriers, are pursuing that route, as  
23 is Ameritech in the Illinois activity.

24 Q. I understand that there are a number of  
25 people looking at a number of different approaches,

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1 but my question is more specific and maybe I could  
2 have made it more specific. Are you aware of any  
3 other LEC in the country where they're actually  
4 running calls through the system, the trial and  
5 accomplishing some actual testing on line?

6 A. I am not aware of any others.

7 Q. And directing your attention to page 13 of  
8 your testimony. Your direct testimony at the top of  
9 the page on line 2 sort of actually starts at the  
10 bottom of the previous page. You indicate that the  
11 INC will not recommend a single portability approach.  
12 Isn't it a fact that the INC members have not decided  
13 against a single approach?

14 A. Well, I will answer your exact question.  
15 Yes, the INC has not decided against any single  
16 approach. They still embrace all of them.

17 Q. Thank you. Mr. Traylor, do you know how  
18 many customers change their physical address in the  
19 state of Washington annually?

20 A. No, I do not.

21 Q. Do you know what percent of the customers  
22 that change their physical address each year change  
23 their telephone number at the same time?

24 A. I would imagine that it's most of the  
25 customers that move out of the existing wire center

1 boundaries, maybe not all but most.

2 Q. But you don't have an idea?

3 A. I don't know the exact number, no.

4 Q. And you also indicate just sort of finally  
5 on page 17 of your testimony we talked about this  
6 briefly a little bit earlier, that there's no  
7 technical reason why the Commission should wait. Is  
8 cost a reason for this Commission to wait?

9 A. I would imagine that there is some cost at  
10 which local number portability may be excessive. I  
11 don't know what that cost is, but certainly \$10  
12 billion may be excessive or maybe it isn't, but I  
13 don't know what the cost would be.

14 Q. Is reliable data on what the customers  
15 really want a reason to wait?

16 A. I guess -- I'm sorry. Customer needs are  
17 certainly an important factor and that is why we have  
18 identified that provider portability ought to move  
19 forward as quickly as possible.

20 Q. So is it your testimony then or by that  
21 answer are you saying that you have sufficient and  
22 reliable customer data to move ahead?

23 A. Yes, we believe so.

24 Q. Is a national solution for local number  
25 portability a reason for this Commission to wait?

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1 A. I think not.

2 Q. If we were to deploy the US Intelco trial  
3 here in the state of Washington that U S WEST and ELI  
4 have been working on and later it was determined that  
5 the FCC -- that the MCI solution that's being proffered  
6 in New York is the national solution, who will bear  
7 the costs associated with the wrong initial  
8 deployment?

9 A. Well, you make the assumption, first of  
10 all, that there would be two different solutions, and  
11 I don't necessarily believe that that's an inevitable  
12 outcome.

13 Q. Well, assume with me for a moment --

14 A. If I were to assume that there were two  
15 solutions that were incompatible, I guess I have not  
16 thought about the cost of that, in essence, erroneous  
17 solution being deployed, but I think that maybe Dr.  
18 Cornell or Mr. Wood may be the best people to ask that  
19 because they did deal with cost recovery issues, et  
20 cetera.

21 Q. But you did tell me, earlier, didn't you,  
22 Mr. Traylor, that there hasn't been any testing to  
23 determine whether the various solutions are compatible  
24 between and among themselves; isn't that correct?

25 A. I don't know that I said that, but if --

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1 Q. Well, let me ask you, has there been any  
2 testing to determine whether they're compatible  
3 between and among themselves?

4 A. Not that I am aware of, and it appears to  
5 me that they don't necessarily have to interact with  
6 each other if you have -- if you use the right  
7 architecture in terms of where the database queries  
8 occur from. Your question makes the assumption that a  
9 portability solution in Washington state must  
10 communicate with and interact with a solution that is  
11 in New York and that's not a given. What has to happen  
12 is that a national network like an MCI or an AT&T must  
13 be able to deliver calls and interact with databases  
14 that are operating in New York as well as interact with  
15 and deliver calls that are operating in Washington.

16 Q. Do you know for a fact that the various  
17 number portability databases throughout the nation --  
18 a variety of different databases -- do not have to  
19 interact with one another? You indicated that they may  
20 not. Do you know for a fact?

21 A. I know that the MCI Metro database would  
22 not have to interact with other databases in order to  
23 achieve its objectives. I believe, based on my  
24 technical analysis that there are -- the only one I  
25 can think of is the GTE virtual number solution



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1 proposal that's explained in Dr. Beauvais's testimony,  
2 and that would require a greater degree of interaction  
3 among databases, I believe, but that's the only one  
4 I can think of based on my review of the different  
5 solutions.

6 Q. Mr. Traylor, do you have an opinion whether  
7 or not the state of Washington's economy can support  
8 five facilities-based carriers five years from now?

9 A. I did not --

10 MR. MACIVER: Excuse me. I don't  
11 understand the form of that question. What type of  
12 facilities-based carriers?

13 MS. HASTINGS: Facilities-based local  
14 exchange carriers, thank you.

15 MR. MACIVER: I still don't understand how  
16 whether or not five years from now the economy  
17 supports facilities-based carriers relates to number  
18 portability.

19 MS. HASTINGS: Your Honor, I would hate to  
20 have this Commission order a solution that was very  
21 costly to find out that there weren't enough parties  
22 to support that solution five years down the road.

23 MR. MACIVER: That's not the question that  
24 was referred to him.

25 JUDGE ANDERL: I'm not sure there's

01678

1 foundation for this question with this witness.

2 Q. That's fine. For local calls between two  
3 U S WEST C customers, Mr. Traylor, if the database is  
4 owned and operated by some third party, would U S WEST  
5 have to depend upon the accuracy of the third party's  
6 work for the routing of this call?

7 A. Yes.

8 MS. HASTINGS: That's all I have.

9 JUDGE ANDERL: Thank you, Ms. Hastings.

10 Mr. Potter.

11 MR. POTTER: I have no questions.

12 JUDGE ANDERL: Mr. Trautman.

13

14 CROSS-EXAMINATION

15 BY MR. TRAUTMAN:

16 Q. Could you briefly turn to page 8 of your  
17 rebuttal testimony. And referring to the sentence at  
18 the very bottom, you state, "First, true local number  
19 portability does not depend upon the ability of an end  
20 user to change physical addresses or services without  
21 changing telephone numbers." Carrying over on to page  
22 9 you state, "A solution which only provides the  
23 ability to change service providers is adequate to  
24 meet the generally agreed-to industry definition of  
25 local number portability." Do you see that?

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1 A. Yes.

2 Q. Do you recall meeting with staff on  
3 February 15 of this year to discuss MCI's view of the  
4 technical differences and difficulties in the various  
5 forms of number portability proposed by the various  
6 RBOCs around the country?

7 A. Yes, I remember the meeting.

8 Q. And at that time did you state to staff  
9 that residential customers don't want geographic  
10 number portability?

11 A. I don't remember that specific statement.  
12 I know that I have not seen a study that indicates  
13 that, I don't have any information that necessarily  
14 supports what residence users do or do not want, so I  
15 can't say that I didn't say it but I don't recollect  
16 saying it.

17 Q. So it's not your position that residential  
18 customers don't want geographic number portability?

19 A. No. That is not my -- that's not my  
20 testimony. My testimony is is that provider  
21 portability is much easier to accomplish in the near  
22 term than a geographical location portability, which I  
23 think is implied by your question. I think that that  
24 adds a layer of complexity in terms of rating calls  
25 and even routing calls that may make it -- that may

01680

1 make an actual solution be a little bit farther out.  
2 I mean, obviously US Intelco's approach does provide  
3 or could provide a degree of location portability, but  
4 there is a cost associated with doing that in terms of  
5 services that may or may not be available on that  
6 platform so there is a problem in my judgment in terms  
7 of providing geographic portability.

8 Q. Were you here yesterday for the testimony of  
9 Ms. van Midde?

10 A. I was in and out of the room but I was here  
11 for a good portion of it.

12 Q. Do you recall her stating that studies  
13 showed that residential customers believe geographic  
14 number portability to be desirable if it were  
15 available?

16 A. I think I heard that, yes.

17 Q. That's all I have.

18 JUDGE ANDERL: Thank you, Mr. Trautman. Do  
19 any of the other parties have cross for this witness?  
20 Questions from the commissioners?

21 CHAIRMAN NELSON: No.

22 COMMISSIONER HEMSTAD: No.

23 COMMISSIONER GILLIS: No.

24 JUDGE ANDERL: Mr. Traylor, let me just  
25 ask you, assuming for a moment that as we go into the

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1 future it becomes clear that everyone wants both  
2 geographic and service portability in addition to the  
3 service provider portability that you're proposing, do  
4 you have any opinion on whether MCI's proposal or any  
5 of the other proposals are headed in the right  
6 direction to allow that to be taken -- is it a step in  
7 the right direction or would we have to go back to  
8 zero?

9 THE WITNESS: Yeah. I think that the --  
10 I'm biased but the MCI solution I think is the right  
11 first step, and I think it is indeed evolvable to  
12 provide additional type of portability, but if we were  
13 to wait for that perfect solution that provided  
14 everything on day one while ignoring the solution that  
15 provides an acceptable or a good solution on day one,  
16 then I'm not sure that that's the right move to take,  
17 and I think that that would inhibit competition, but  
18 directly the answer is yes, I think that there are  
19 probably several solutions that have been offered that  
20 may be a good first step, and I think the MCI Metro is  
21 the best first step.

22 JUDGE ANDERL: Thank you. Redirect?

23

24 REDIRECT EXAMINATION

25 BY MR. MACIVER:

1 Q. Mr. Traylor, are you familiar with the  
2 Gallup survey results as to number portability?

3 A. Yes, I am.

4 Q. Are you familiar with generally whether  
5 customers want to keep their number if they move?

6 A. If they want to keep their number when they  
7 move? I think that that -- I'm not sure that the  
8 Gallup survey made a reference to that. I only know  
9 what's in the executive summary. I have not seen the  
10 detailed study below that, but it would not surprise  
11 me if customers did wish to retain their number when  
12 they moved.

13 Q. Are you remembering -- are you recalling  
14 the results of the survey or are you recalling the  
15 executive summary?

16 MS. HASTINGS: Your Honor, I would like to  
17 object on the basis that that's hearsay. He's relying  
18 on the data. I don't know if he's prepared it or it  
19 was prepared under his direction.

20 JUDGE ANDERL: Well, I think we've had some  
21 discussion yesterday with Ms. van Midde about that  
22 particular survey, and --

23 MR. POTTER: We might have a best evidence  
24 objection to that if we're going to guess.

25 JUDGE ANDERL: Let me see what Mr.

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1 MacIver's question is. How far do you want to go  
2 into this with him? It doesn't sound like he  
3 remembers it very well.

4 MR. MACIVER: Just very limited.

5 Q. Let me ask you --

6 A. Can I ask for clarification? When you said  
7 move, change service providers or did you mean  
8 geographic?

9 Q. Change service providers.

10 A. Oh, I'm sorry. I misinterpreted your  
11 question because of playing off the geographic  
12 (indicating). No. That study clearly showed, I think  
13 the percentage was 83 percent of those that were  
14 questioned or surveyed indicated that retaining their  
15 number was somewhat or very important to them. And  
16 that is from the executive summary of that study. I'm  
17 sorry for the confusion.

18 Q. Is the interaction between various number  
19 portability solutions only a problem if there is  
20 geographic number portability?

21 A. If there were geographic portability and an  
22 end user took their number from Washington to Phoenix  
23 from the state of Washington to Phoenix, for instance,  
24 they change their residence and moved there, then,  
25 yes. That kind of geographic portability would

01684

1 require potentially some interaction between  
2 databases, but I haven't really seen the solution that  
3 addresses that, but I could envision that that would  
4 add a layer of complexity and interaction requirement.

5 Q. You were asked about your permanent --  
6 about MCI's recommendation on number portability. Do  
7 you have an interim solution that you are recommending  
8 to this Commission on number portability?

9 A. First of all the solution that we provided  
10 in the New York trial we believe is a long-term  
11 solution which could ultimately evolve and be improved  
12 upon, but in terms of an interim approach prior to a  
13 true portability solution, it's my belief that the  
14 incumbent should provide various alternatives to the  
15 competitive carriers taking into account in terms of  
16 how they're priced and so forth, the relative  
17 deficiencies of those solutions, and then the various  
18 competitive carriers ought to be free to choose among  
19 those various solutions that are offered.

20 Q. You were asked about INC, the industry  
21 numbering committee. To your knowledge, has INC  
22 recommended any particular solution to number  
23 portability?

24 A. No, they have not.

25 Q. And is INC a consensus -- operates on



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1 consensus only?

2       A.     Yes, it is, and let me describe for you  
3 what that means. Consensus, it's hard to understand  
4 and sometimes we say you know it when you see it.  
5 There was a proposal made for a local number  
6 portability solution and none of the CAPs, competitive  
7 access providers, or competing local exchange service  
8 providers supported further discussion of that  
9 approach because we deemed it as very deficient and we  
10 jointly said we don't want to waste any more time  
11 discussing this proposal. And the outcome of that was  
12 that we spent three additional meetings, excess of an  
13 hour each discussing that proposal and indeed that  
14 proposal is going to be included in the output report  
15 from that workshop.

16               Now, local number portability -- I mean,  
17 obviously lots of players have roles to play in that,  
18 but I don't think anyone has a greater stake in that  
19 than the competitive access providers, and yet despite  
20 their desire not to discuss a solution which they saw  
21 as inadequate to meet their needs, the group overrode  
22 all of that objection and continued to entertain  
23 discussion and will continue to put that in the output  
24 document. Won't make a recommendation in terms of that  
25 proposal being appropriate or inappropriate, but we

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1 spent a lot of time discussing a solution that did not  
2 fit the need of the parties that were asking for help.

3 Q. Does INC have the authority to mandate any  
4 particular solution?

5 A. No, it does not. It's a totally voluntary  
6 organization. You participate on a voluntary basis.  
7 Any result or recommendation that comes from INC is  
8 voluntary. Indeed we've spent, in the past we've  
9 spent two to three years discussing and resolving  
10 issues in the industry forum process ultimately never  
11 to have them implemented by the local exchange  
12 carriers, and so it's very much a voluntary situation  
13 with no guarantee that what comes out of it even if you  
14 have resolution and consensus that it will be  
15 implemented in the network.

16 Q. Is that why you are urging regulators to be  
17 proactive in addressing number portability issues?

18 A. Yes, it is.

19 Q. Thank you. I have no further questions.

20 JUDGE ANDERL: Any additional cross?

21 MS. HASTINGS: I have one question.

22

23 RE-CROSS-EXAMINATION

24 BY MS. HASTINGS:

25 Q. Mr. Traylor, the 83 percent figure that you

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1 referred to in the Gallup Poll, was that based on a  
2 study of Washington customers?

3 A. That was a nationwide study and I know that  
4 we did some studies in specific states but I don't  
5 recall whether Washington was one.

6 Q. So is your answer no?

7 A. My answer would be no.

8 MS. HASTINGS: Thank you. That's all I  
9 have.

10 JUDGE ANDERL: From any other party? Thank  
11 you, Mr. Traylor, for your testimony. You may step  
12 down.

13 Again, as agreed previously, the next  
14 witness would be the witness for MFS Intelenet, Mr.  
15 Schulz. Mr. Schulz, let's get you up on the stand and  
16 mark your testimony. Let's go off the record while we  
17 do that.

18 (Recess.)

19 JUDGE ANDERL: Let's be back on the record.  
20 While we were off the record Mr. Schulz took the stand  
21 and we premarked his prefiled testimony as Exhibit  
22 T-126.

23 (Marked Exhibit T-126.)

24

25

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1 Whereupon,

2 PETER SCHULZ,

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

4 herein and was examined and testified as follows:

5 JUDGE ANDERL: Go ahead, Mr. Rindler.

6

7 DIRECT EXAMINATION

8 BY MR. RINDLER:

9 Q. Morning, Mr. Schulz.

10 A. Good morning.

11 Q. Are you the same Peter Schulz who caused  
12 126, Exhibit now marked as 126, Reply Testimony for  
13 Peter Schulz, to be prepared?

14 A. Yes, I am.

15 Q. Could you give your name for the record and  
16 business address.

17 A. Sure. My name is Peter Schulz, S C H U L

18 Z. My business address is Six Century Drive in  
19 Parsippany, New Jersey.

20 Q. If I were to -- do you have any changes,  
21 corrections or additions to that testimony?

22 A. Yes, I do.

23 On page 1 of my testimony, line 5 and the  
24 subsequent answer, last week in the course of a  
25 reorganization I now report to MFSCC. However, my

1 responsibilities now remain -- remain the same.

2 Q. Could you tell us what MFSCC stands for?

3 A. Sure. Communications Company.

4 Q. Do you have any other changes?

5 A. Yes, I do. On page 11, line 16 of my  
6 testimony, the question should be restated to read,  
7 "do you have any idea how many circuits can be turned  
8 up in a single day in a central office."

9 Q. Do you have any other changes?

10 A. Yes. On page 15.

11 JUDGE ANDERL: Slow down a second. "Can be  
12 turned up"?

13 THE WITNESS: "Can be turned up in a single  
14 day in a central office."

15 JUDGE ANDERL: Thank you.

16 THE WITNESS: You're welcome.

17 A. On page 15, line 25, the reference to "owns  
18 nine" and "owns 13" should be struck.

19 On page 18 of my testimony, line 2, I would  
20 like to add after "Maryland," "Pennsylvania."

21 And then again on page 22, line 22, I would  
22 like to add after "portability," "and in the recent  
23 decision in Pennsylvania the New York approach was  
24 adopted."

25 Q. Are those the only changes you want to

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1 make, Mr. Schulz?

2 A. Yes, they are.

3 Q. If I were to ask you these questions today  
4 with these changes, would the answers be as set forth  
5 in Exhibit 126?

6 A. Yes, they would.

7 Q. Thank you.

8 MR. RINDLER: Witness is available for  
9 cross.

10 JUDGE ANDERL: Is there any objection to  
11 Exhibit T-126 being made part of the record?

12 MR. OWENS: Yes, Your Honor. I guess it's  
13 interesting that having filed this testimony on May 31  
14 we're now getting yet some updates when the testimony  
15 was supposedly responsive to our original February  
16 filing, but I will pass that objection to the  
17 reference on page 23 beginning at line 5 through line  
18 8 and to Exhibit A or attachment A -- it's Exhibit A,  
19 I'm sorry. The basis of the objection is that these  
20 materials are thoroughly hearsay and as the Commission  
21 has excluded U S WEST's hearsay, we believe the same  
22 rule ought to be applied. And further, under the same  
23 ruling as to the irrelevance of U S WEST's evidence  
24 concerning activities in the state of Oregon, we would  
25 assert that these activities clearly pertain to a

1 state other than Washington, namely, New York, and  
2 they would be irrelevant under that ruling, and  
3 further that since the studies appear to be surveys  
4 that there is no foundation as to the reliability of  
5 the study techniques, and I would point out that at  
6 the -- I guess it's the fourth from the last page,  
7 it's an unnumbered page, it's indicated that the  
8 customers interviewed were selected from a list  
9 provided by MFS Intelenet.

10           It certainly seems that this is at minimum a  
11 very self-selected type of study protocol, and the  
12 other study, which is again unnumbered but it's the  
13 first two pages after the Exhibit A page indicates that  
14 there were interviews of 25 people in the entire city  
15 of New York and there's no indication as to the  
16 representativeness of those particular individuals and  
17 it seems to me that this type of information simply  
18 burdens the record. It will generate significant  
19 cross-examination, and I don't think it's probative of  
20 anything and I would therefore object to it.

21           JUDGE ANDERL: Mr. Rindler, a response.

22           MR. RINDLER: Mr. Owens has made several  
23 objections, as I noted them. With respect to the fact  
24 of testimony with respect to other states, I'm not  
25 sure what really Mr. Owens is referring to, but I

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1 think in the last week we've been hearing testimony  
2 with respect to other state's activities on a regular  
3 basis, including from U S WEST's witnesses.

4           With respect to the hearsay question, Mr.  
5 Owens has not questioned this witness at all with  
6 respect to the foundation as to his involvement or  
7 knowledge about these surveys, and with respect to the  
8 methodology question that again is a question not of  
9 relevance here, relevance until in fact it's been  
10 examined.

11           JUDGE ANDERL: Well -- brief response, Mr.  
12 Owens.

13           MR. OWENS: First of all, I'm referring to  
14 the ruling that was made on the first day of hearing  
15 which you held proffered testimony about activities in  
16 the state of Oregon was irrelevant in addition to  
17 being hearsay. The fact that there may have been  
18 questions or answers that were unobjected to by U S  
19 WEST witnesses about activities in other states, it  
20 seems to me means nothing. An objection is waived if  
21 it's not raised. And it doesn't appear to me -- the  
22 witness has identified himself as Peter Schulz.  
23 I am assuming that he's not Edward F. something or  
24 other which is the name that appears on the second  
25 page of the first study.



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1                   JUDGE ANDERL: All right. Well, I think my  
2 ruling on the first day of hearing was specifically  
3 that Oregon staff's position or prefiled testimony was  
4 largely irrelevant to what was going on here. That's  
5 not to say that what goes on in another state is  
6 always irrelevant to what goes on here. My  
7 preliminary ruling on this matter is that I overrule  
8 the objection and would admit this Exhibit A. I think  
9 it is relevant. I think it appears at least on the  
10 surface to be something -- the type of hearsay that  
11 might be admissible under the more relaxed evidentiary  
12 rules of this Commission for an administrative  
13 proceeding as information upon which a reasonable  
14 person might ordinarily rely in the course of their  
15 business. I will think about it more during the lunch  
16 hour and let you know if I have changed my mind when  
17 we come back on the record at 1:15.

18                   (Lunch recess taken at 12:00 noon.)

19  
20  
21  
22  
23  
24  
25

01694

1

AFTERNOON SESSION

2

(1:15 p.m.)

3

JUDGE ANDERL: We're back on the record

4

after our lunch recess. Mr. Owens, go ahead and start

5

with your cross of Mr. Schulz. In case I wasn't clear

6

before we broke, I did admit Exhibit T-126, and I have

7

not -- I thought about that ruling and have decided

8

not to change it.

9

(Admitted Exhibit T-126.)

10

MR. OWENS: Thank you, Your Honor.

11

12

CROSS-EXAMINATION

13

BY MR. OWENS:

14

Q. Good afternoon, Mr. Schulz.

15

A. Good afternoon.

16

Q. Mr. Schulz, I would like to you ask you a

17

few questions about MFS Intelenet of Washington. You

18

indicated in your direct that you have recently

19

yourself changed employers. Now you are an employee of

20

MFS Communications Corp; is that right?

21

A. Yes.

22

Q. And what's the relationship of MFS

23

Communications Corp to MFS Intelenet of Washington?

24

A. MFS Communications Corp is the parent

25

company of MFS Intelenet of Washington.

01695

1 Q. And does MFS Communications Corp have any  
2 other subsidiaries?

3 A. Yes, it does. It has the subsidiary MFS  
4 Telecom, which is the CAP provider; MFS Datanet which  
5 provides data services to end users, and MFS  
6 International which is the international arm of the  
7 company, in addition to MFS Intelenet and all of its  
8 operating subsidiaries.

9 Q. And in turn is MFS Communications Corp  
10 owned by another company?

11 A. Yes. MFS Communications Corp is owned by  
12 Peter Kiewit Sons.

13 Q. Now, does MFS Intelenet of Washington own a  
14 switching facility?

15 A. Yes, they do.

16 Q. Where is that?

17 A. That switch is located in Kirkland,  
18 Washington.

19 Q. And does MFS Intelenet of Washington also  
20 own network facilities?

21 A. The network facilities are owned by MFS  
22 Telecom but MFS Communications Company does have fiber  
23 facilities in the city of Seattle.

24 Q. And those are owned by MFS Intelenet of  
25 Washington?

01696

1 A. They are owned by MFS Telecom.

2 Q. So MFS Intelenet of Washington occupies  
3 those facilities under lease from MFS Telecom?

4 A. Yes, under lease agreements.

5 Q. And is MFS Telecom the only company that  
6 provides facilities that are used by MFS Intelenet of  
7 Washington in the city of Seattle?

8 A. I'm sorry. Could you repeat that.

9 Q. Is MFS Telecom the only company that  
10 provides facilities that are used by MFS Intelenet of  
11 Washington in the city of Seattle and I'm talking  
12 about fiber.

13 A. Fiber?

14 Q. Yes.

15 A. To my knowledge I believe that Telecom is  
16 the only company at this time.

17 Q. What services are the ones that MFS  
18 Intelenet of Washington desires to provide to  
19 customers in Washington?

20 A. MFS Intelenet and its operating  
21 subsidiaries are -- is the switched company, if you  
22 will, of MFS Communications. So it plans to provide  
23 all services typically associated with switched type  
24 services, dial tone, numbers, a variety of vertical  
25 services, directory assistance, 911, and access to

01697

1 long distance carriers.

2 Q. Does MFS Intelenet of Washington currently  
3 have the capability of providing operator services to  
4 its customers either itself or through contract with  
5 anyone else?

6 A. Not at this time, no.

7 Q. So MFS Intelenet of Washington does not  
8 obtain such services from Matune Company in Illinois?

9 A. There are operating companies of MFS  
10 Intelenet that do use operator services from CCI, which  
11 is the company located in Matune, Illinois, yes. Once  
12 we start selling to customers and putting them on our  
13 network, then we will continue to use CCI to provide  
14 them with operator services.

15 Q. In Washington, that is?

16 A. Yes, in Washington via CCI.

17 Q. Now, your testimony speaks at some length  
18 beginning at page 7 and continuing on for a number of  
19 pages of potential problems that an entering local  
20 exchange carrier can experience in becoming an  
21 operating telephone company in a local exchange, and I  
22 guess it would be helpful for me to know which of  
23 these is it your testimony that you actually have  
24 experienced in the state of Washington, and  
25 specifically with regard to U S WEST Communications?

01698

1           A.     The purpose of my testimony first of all is  
2 to provide the Commission with some understanding with  
3 respect to the concepts based on MFS Intelenet's  
4 experience with implementing co-carrier in the states  
5 where we are currently providing service. To answer  
6 your question, we are not currently providing service  
7 in the state of Washington or any other state where  
8 U S WEST currently provides service.

9           Q.     Well, just so that I'm clear, you're not  
10 saying that that fact, that is, that you're not  
11 providing service in a state in which U S WEST  
12 operates, is because of any action or inaction of U S  
13 WEST as described in your testimony of potential  
14 problems?

15          A.     No, I'm not specifically singling out U S  
16 WEST. The purpose of my testimony was simply to  
17 explain the complexity of implementing co-carrier  
18 arrangements and to define and based on our experience  
19 in other states with similar issues that we will be  
20 encountering here the complexity and the time it takes  
21 to implement co-carrier arrangements.

22          Q.     I'm not sure you answered my question. Let  
23 me perhaps rephrase it. Are you intending for this  
24 Commission to understand that U S WEST has done  
25 anything that you perceive to be against MFS

01699

1 Intelenet's wishes or conversely has failed to do  
2 something MFS Intelenet requested as described in this  
3 list of problems in your testimony in Washington?

4 A. No.

5 Q. And in fact U S WEST met with you at your  
6 request on February 21 of this year to discuss  
7 potential interconnection arrangements. Isn't that  
8 true?

9 A. I have met with U S WEST as part of a  
10 Commission workshop in the state of Oregon. I was not  
11 present in a meeting on February 21st.

12 Q. Do you know whether or not other  
13 representatives of your company attended such a meeting  
14 with U S WEST?

15 A. I am not aware.

16 Q. So you wouldn't be aware of whether or not  
17 those representatives told U S WEST that at that time  
18 MFS was not ready to begin the ordering process?

19 A. That wouldn't surprise me if that was the  
20 case.

21 Q. Now, you use a phrase several times in your  
22 testimony -- not a phrase but actually a word, a  
23 hyphenated word co-carrier. Would you tell the  
24 Commission what you intend them to understand by that  
25 word?

01700

1           A.     Sure.  By co-carrier I'm referring to the  
2 fact that there will be new entrants operating in the  
3 same market area where the incumbent LEC currently  
4 provides service.  We'll be offering similar type  
5 services that the incumbent currently provides  
6 service, so in effect we are another carrier in the  
7 same market area where the incumbent LEC provides  
8 service or we are a co-carrier.

9           Q.     So that's what you mean as another carrier  
10 in the same market area?

11          A.     Correct.

12          Q.     Don't you mean something even further than  
13 that with regard to the responsibility to interchange  
14 traffic so that customers of each company can  
15 communicate with one another?

16          A.     Yes.  That's part of it as well.

17          Q.     But you're not proposing to divide revenues  
18 from that jointly provided traffic with U S WEST, I  
19 take it?

20          A.     Are you referring to something specific in  
21 my testimony?

22          Q.     Well, you advocate bill and keep?

23          A.     Correct.

24          Q.     But you're not advocating with regard to  
25 this co-carrier status that the two companies are



01701

1 operating in such a way that they should divide the  
2 revenues for the jointly provided service to each  
3 company's customers?

4 A. The proposal to use bill and keep as a  
5 reciprocal compensation arrangement is for the  
6 exchange of local and, in this case, EAS traffic  
7 between the new entrant and U S WEST or GTE in this  
8 case.

9 Q. So can you answer the question I asked?  
10 You're not proposing to divide revenues for that  
11 traffic?

12 A. Not necessarily.

13 Q. Under what conditions would you propose to  
14 divide such revenues?

15 A. For specifically for local and EAS traffic?

16 Q. Let's take that as a start, yes.

17 A. And your question again was?

18 Q. You qualified your answer not necessarily  
19 when I asked you if you were proposing to divide  
20 revenues, so under what conditions would you propose to  
21 divide revenues for that traffic?

22 A. Well, given the complexity of implementing  
23 co-carrier arrangements, again, we feel that bill and  
24 keep is easy enough to administer, so we would record --  
25 both companies would be responsible for recording

01702

1 traffic. There would be appropriate auditing  
2 procedures in place to verify the balance of traffic,  
3 but under an in kind agreement or bill and keep  
4 agreement there would be no, I guess, money exchanged  
5 between the companies for that kind of traffic.

6 Q. So is the answer to my question you can't  
7 think of any circumstances under which you would be  
8 recommending to divide the revenues?

9 A. For local and EAS traffic that is correct.

10 Q. Now, in that answer that you gave a second  
11 ago, you said that both companies would record traffic  
12 and there would be audit procedures, and so you're  
13 proposing that on some kind of a regular basis there  
14 would be determination of whether the traffic was in  
15 balance on a particular route between the two  
16 companies; is that right?

17 A. Yes.

18 Q. And recording would be on a per minute of  
19 use basis. Is that what you intend?

20 A. It could be, uh-huh.

21 Q. Anything else that you had in mind?

22 A. No.

23 Q. Did you happen to be in the hearing room  
24 when I asked some questions of ELI's witness, Mr.  
25 Montgomery, about ELI's proposal for bill and keep?

01703

1 A. No, I was not in the room.

2 Q. Before I go on with that, under your  
3 proposal what happens if the regular true-up or  
4 measurement process discloses that the traffic is not  
5 in balance? What happens then?

6 A. That would be a point of negotiation  
7 between the -- between MFS and the incumbent LEC.  
8 Currently Rochester has a plan whereby if traffic is  
9 not in balance they charge -- or if traffic is not in  
10 balance the carrier who I guess is -- who has received  
11 more traffic would charge an additional rate element.

12 Q. And is that part of MFS Intelenet's  
13 proposal for Washington?

14 A. Not specifically, no.

15 Q. Well, can you answer me without a  
16 qualification? Is it or isn't it MFS Intelenet's  
17 proposal for Washington that there would be some kind  
18 of compensation in cash if at the end of a particular  
19 true-up period for a particular route it turns out  
20 that the traffic is not in balance?

21 A. Yes, I would agree.

22 Q. And what rate should be applied to that  
23 compensation?

24 A. Nothing comes to mind at this point without  
25 thinking further about it.

1 Q. I had asked Mr. Montgomery for ELI a few  
2 questions about whether or not under a bill and keep  
3 environment where the same type of traffic -- excuse  
4 me -- the same trunks were used to carry both local  
5 and access traffic it would be possible for, for  
6 example, an interexchange carrier to purchase PBX  
7 trunks from the AEC in this situation, metropolitan  
8 fiber, and forward what would otherwise be switched  
9 access traffic over a bill and keep type facility to  
10 determine -- to be terminated in U S WEST exchange. I  
11 asked him whether that would be possible. Do you have  
12 any view on whether that would be possible?

13 A. No. I mean, without thinking about it in  
14 further detail I don't want to comment.

15 Q. At page 4 of your testimony, Mr. Schulz,  
16 you take issue with TCG's tandem interconnection  
17 charge proposal. Is it MFS Intelenet's plan to  
18 generally interconnect with U S WEST at the tandem?

19 A. Generally, unless there are some  
20 justifications to interconnect at an end office, say.

21 Q. Does MFS Intelenet itself intend to provide  
22 tandem switching service?

23 A. Yes.

24 Q. In Washington?

25 A. In Washington.

01705

1 Q. And so do you disagree with Mr. Roe's  
2 testimony to the effect that there are costs that U S  
3 WEST incurs in providing the tandem switching and  
4 tandem transport functions.

5 MR. RINDLER: Do you want him to assume  
6 that that's the testimony?

7 Q. I will ask a foundation question. Are you  
8 aware of whether or not Mr. Roe testified that there  
9 are costs that U S WEST incurs at the tandem to  
10 provide interconnect services to alternative exchange  
11 carriers?

12 A. No. I'm not aware of his testimony.

13 Q. So when you say that you support in almost  
14 all respects the co-carrier arrangement sought by ELI  
15 and TCG, but you don't support the tandem  
16 interconnection charge proposed by TCG, did you even  
17 read Mr. Roe's testimony about that proposal?

18 A. I did read Mr. Roe's testimony; I can't  
19 recall it specifically. However, I have general  
20 knowledge of TCG's proposal for a tandem  
21 interconnection charge.

22 Q. So, you've indicated you don't know whether  
23 Mr. Roe testified that there were costs -- let me ask  
24 you that just to make sure the record is clear. Do  
25 you know whether Mr. Roe testified that there were

01706

1 costs that U S WEST incurred at the tandem to provide  
2 interconnect service to local exchange carriers?

3 A. Not specifically.

4 Q. Do you know whether that's a fact or not,  
5 that is --

6 A. Whether he testified?

7 Q. No, that U S WEST does incur such costs?

8 A. I don't know whether that's a fact.

9 Q. And I take it that it doesn't make any  
10 difference to your proposal, to your recommendation  
11 that there not be a tandem interconnection charge such  
12 as TCG proposes, whether or not U S WEST incurs costs  
13 for that service?

14 A. Correct.

15 Q. The proposal for bill and keep is based on  
16 the notion, I take it, that the compensation that U S  
17 WEST would receive for the service it performs for MFS  
18 is approximately equal to the compensation MFS would  
19 provide in the event that a U S WEST customer desired  
20 to call an MFS customer; is that right?

21 A. Correct.

22 Q. Is there any other theory or reason behind  
23 it other than what I've stated in general terms?

24 A. No.

25 Q. If it turned out that there were, let's

01707

1 say, two entrants that achieved a sufficient  
2 penetration that they had approximately 30 percent  
3 apiece of the market in Seattle leaving U S WEST with  
4 40 percent. Have you got that hypothetical in mind?

5 A. Uh-huh.

6 Q. Would it necessarily be the case that there  
7 would be a one for one correspondence with the calls  
8 that those carriers would send to U S WEST for  
9 termination and the calls that they would terminate on  
10 U S WEST's behalf?

11 A. I'm not sure I understand your question.

12 Q. Well, you would agree with me, would you  
13 not, that to the extent the same end users continue to  
14 call each other after they become customers of the new  
15 entrants respectively as they did before, some of  
16 those calls will go just between the two assumed  
17 alternative exchange carriers, will they not?

18 A. Yes.

19 Q. And so I'm asking you, under that  
20 assumption is it necessarily the case that there would  
21 be a one for one correspondence between the calls that  
22 U S WEST terminates from these two alternative  
23 exchange carriers and the calls that they terminate  
24 from U S WEST customers calling their end user  
25 customers?

1           A.     Hypothetically speaking the calling  
2 patterns may vary.  I mean, it may remain a one for  
3 one arrangement.  It may not.

4           Q.     But it wouldn't necessarily be a one for  
5 one arrangement?

6           A.     It may not, no.

7           Q.     Now, at page -- bottom of page 4 and the  
8 top of page 5 you criticize Professor Harris for  
9 providing an answer that you say is not specific with  
10 respect to the circumstances in Washington, and you go  
11 on to characterize what you call U S WEST's monopoly  
12 share as for all intents and purposes a 100 percent  
13 share.  Are you aware of whether or not professor  
14 Harris testified that U S WEST has considerably less  
15 than half of the market for its Centrex services in  
16 Washington?

17          A.     I can't recall that exact reference in his  
18 testimony.

19          Q.     If it turned out that he did testify to  
20 that effect, would you agree that that is not for all  
21 intents and purposes a 100 percent share?

22          A.     For Centrex services?

23          Q.     Yes.

24          A.     Yes.

25          Q.     Now, continuing on in that paragraph you



01709

1 say that until -- I'm paraphrasing -- actual viable  
2 competition exists proposals to deregulate or  
3 rebalance LEC revenues are simply efforts by  
4 monopolists to further entrench their monopoly  
5 positions. Is it your understanding that anyone in  
6 this case, specifically U S WEST, is proposing to  
7 deregulate anything?

8 A. Is it my understanding that U S WEST plans  
9 to deregulate anything?

10 Q. That U S WEST is proposing -- in this case  
11 you used the word proposal to deregulate anything in  
12 this case?

13 A. No.

14 Q. With regard to proposals to rebalance LEC  
15 revenues, is it your understanding that U S WEST is  
16 proposing in this case to rebalance its revenues?

17 A. No.

18 Q. Other than in a limited sense of LTR  
19 restructure. You understand that is somewhat of a  
20 rebalancing of a service?

21 A. Yes.

22 Q. Now, at page 6 you state your understanding  
23 of Mr. Jeff Owens proposal for U S WEST -- this is  
24 beginning at line 8 -- as being premised on a view  
25 that it is necessary to maintain the subsidy that

01710

1 flows to the AEC so that the LEC is able to maintain a  
2 subsidy for residential customers. Now, have you  
3 produced any evidence in this case that U S WEST's  
4 existing rate structure does not involve a subsidy to  
5 residential customers from other customers?

6 A. From other customers?

7 Q. Yes.

8 A. You mean like the contribution charge that  
9 U S WEST charges long distance carriers?

10 Q. That's one example.

11 A. Yes.

12 Q. And the existing flat monthly charges to  
13 business customers?

14 A. Right.

15 Q. You don't have any evidence that those did  
16 not represent subsidies to residential customers, do  
17 you?

18 A. No, I don't.

19 Q. At page 13 of your testimony, Mr. Schulz,  
20 and I realize you've already indicated that this list  
21 of problems isn't intended to apply to U S WEST, but I  
22 just was curious. At line 7, you indicate that one of  
23 the problems you have encountered is relevance -- and  
24 I take it this is by the LEC -- to provide the same  
25 pole attachment rights that the LEC provides to other

01711

1 similarly situated parties. Now, is it true that MFS  
2 Intelenet of Washington is already occupying some U S  
3 WEST poles in Seattle?

4 A. That may be true. However, again, this  
5 statement wasn't necessarily made in reference to U S  
6 WEST.

7 Q. I understand. Do you know whether or not  
8 that occupancy was done without even any notice to U S  
9 WEST of the intent to occupy those poles by MFS?

10 A. I am not aware of the -- that was -- that  
11 was a negotiation that I assume was done between MFS  
12 Telecom and U S WEST.

13 Q. But you don't know that there ever was any  
14 such negotiation. Is that a true statement?

15 A. Correct.

16 Q. At page 14 you start out with your  
17 recommendation based on the prior recitation of  
18 potential problems with -- as to what the Commission  
19 should do about simultaneously considering universal  
20 service funding with these other issues, and you start  
21 out with the recommendation the Commission should  
22 recognize that LEC pressure to delay co-carrier  
23 authorization and implementation until the universal  
24 service issues are resolved are totally unwarranted.  
25 Now, were you here when Mr. Shaw examined Mr. Roe for

01712

1 TCG?

2 A. No.

3 Q. Are you aware of the history in this state  
4 of the authorization of competitive local exchange  
5 carriers and U S WEST's litigation posture with  
6 respect to that authorization?

7 A. In the state of Washington?

8 Q. Yes.

9 A. Generally speaking or --

10 Q. As general or as particular as you can make  
11 it.

12 A. I am generally aware that U S WEST has  
13 petitioned the Commission to implement a universal  
14 service docket prior to granting any co-carrier  
15 arrangements.

16 Q. What about authorization? You say  
17 authorization and implementation. Do you know what  
18 position U S WEST took with regard to authorization of  
19 local exchange competition in this state?

20 A. No.

21 Q. So you're not aware that U S WEST  
22 affirmatively supported the registration of applicants  
23 Electric Lightwave and TCG against the position of  
24 other parties?

25 A. Not specifically.

01713

1 Q. You're not aware that U S WEST supported  
2 that position all the way up to the supreme court?

3 A. No.

4 Q. And is it your understanding that U S  
5 WEST's position in this docket is that it will not  
6 interconnect or provide services to any alternative  
7 exchange carrier who requests such services after  
8 being registered until resolution of universal service  
9 issues?

10 A. That is my understanding.

11 Q. So you're not aware of whether or not U S  
12 WEST is currently interconnected with and providing  
13 service today to both Electric Lightwave and TCG in  
14 Seattle?

15 A. Well, I am generally aware of the fact that  
16 you are providing interconnection to both those  
17 companies, yes.

18 Q. You advocate that the Commission should  
19 consider universal service issues in some other  
20 proceeding. What kind of a proceeding would that be  
21 and what specifically is MFS's recommendation for  
22 how universal service issues should be resolved?

23 A. I have no specific recommendations. My  
24 only point in my testimony was to simply state that  
25 the Commission should not delay the implementation of

01714

1 co-carrier arrangements simply to address a universal  
2 service docket, so I have no specific recommendations  
3 at this point.

4 Q. Do you have any idea when it is that MFS  
5 Intelenet of Washington will be prepared to receive  
6 connections that you testify you need?

7 A. It is my understanding is that MFS  
8 Intelenet of Washington may be in a position to start  
9 negotiation process with U S WEST by end of third to  
10 fourth quarter of this year.

11 Q. So it's possible, I take it, that the  
12 Commission might resolve the whole thing before you're  
13 ready to receive any service?

14 A. It's possible.

15 Q. I take it that your proposal at page 15  
16 that the universal service contribution be paid to a  
17 neutral third party that would serve as the  
18 administrator of the fund is not based on any analysis  
19 of this Commission's statutory authority. Is that a  
20 fair understanding on my part?

21 A. It's not specifically based on -- correct.

22 Q. Are you aware of any legal decisions that  
23 would indicate the Commission doesn't have that  
24 authority and might not have that authority?

25 A. I can't comment to a legal position.

01715

1 Q. At page 16 you state that "in the only  
2 jurisdiction with any history relating to switched  
3 traffic exchange between a LEC and a CLEC, New York  
4 city, MFS Intelenet's traffic exchanged with NYNEX has  
5 been in balance." Are there any other authorized  
6 local exchange providers in New York City besides New  
7 York Tel and MFS Intelenet?

8 A. Yes. I believe TCG is also certified in  
9 LATA 132, which is New York City and the boroughs.

10 Q. So when you use New York city, what  
11 specific environs are you taking into account with  
12 that phrase?

13 A. Manhattan.

14 Q. Just Manhattan?

15 A. Yes, sir, just Manhattan.

16 Q. Would you characterize Manhattan as being  
17 similar in its demographics and relative penetration  
18 of business as opposed to residential subscribers as,  
19 let's say, the city of Seattle?

20 A. Well, MFS target market is the small to  
21 medium sized business customers. Is the makeup the  
22 same in Seattle as it is in Manhattan?

23 Q. Yes.

24 A. I'm not sure at this point. Conceivably it  
25 could be.

01716

1 Q. Is it possible that the relative  
2 demographics of the customer populations served by  
3 competing local exchange companies could affect  
4 whether the traffic exchanged by them is in balance?

5 A. Not necessarily.

6 Q. But you're not saying that it's impossible  
7 that that difference or a difference in those  
8 demographics could affect whether the traffic was in  
9 balance?

10 A. Anything is possible.

11 Q. I take it you haven't analyzed your traffic  
12 data to see whether or not that relative population  
13 demographics had any effect on this phenomenon?

14 A. I don't quite understand your question.

15 Q. You've indicated you target small to medium  
16 size businesses?

17 A. That's correct.

18 Q. And so I'm just asking, whatever the  
19 relative proportion of small, medium and large  
20 businesses and residence customers is on the island of  
21 Manhattan, have you analyzed your traffic data to see  
22 whether the phenomenon that you described in your  
23 testimony, namely, that sometimes it's in balance and  
24 sometimes you terminate more of the NYNEX's traffic  
25 than NYNEX terminates for you, would have anything to



01717

1 do with those factors?

2 A. Well, I don't think it's a phenomenon.

3 It's the reality. It's a matter of reality. NYNEX  
4 and MFS are currently exchanging traffic between one  
5 another and based on data that we've received we have  
6 found the traffic to be generally in balance.

7 Q. You've indicated that in some months MFS  
8 terminates more than NYNEX terminates for it. In some  
9 months does MFS terminate less?

10 A. Yes, but generally speaking, again, the  
11 traffic has been in balance.

12 Q. Over what period of time is your statement  
13 intended to apply with regard to the traffic balance?

14 A. My data is based on the first three months  
15 of this year, January through March.

16 Q. At the bottom of page 16 you describe what  
17 you characterize as LEC policies that limit the CLEC's  
18 ability to provide service to off net customers and  
19 you state "to the extent LECs refuse to offer unbundled  
20 loops at reasonable rates," that's one of your  
21 statements. Are you referring specifically to U S  
22 WEST's current tariff rates?

23 A. No. That's a general statement.

24 Q. Well, you say to the extent and so I'm  
25 wondering is that a statement that you intend to apply

01718

1 to U S WEST here in the state of Washington that U S  
2 WEST's current rates are unreasonable?

3 A. I have not read U S WEST's tariffs for  
4 unbundled loops so I cannot comment.

5 Q. Are you aware of whether U S WEST offers  
6 any facility that could be used as an unbundled loop?

7 A. It's my understanding that, yes, we do.

8 Q. At page 17 of your testimony beginning at  
9 line 21 you indicate that NYNEX tariffed unbundled  
10 loops in early 1994. Can you tell me what state that  
11 occurred in?

12 A. New York.

13 Q. Do you know what the 1FR rate is in the  
14 state of New York for NYNEX?

15 A. Not off the top of my head, no.

16 Q. Do you know whether it's higher than the  
17 current U S WEST rate?

18 A. I don't know.

19 Q. Do you know whether there's mandatory  
20 measured local service in the state of New York?

21 A. I get my states confused sometimes. I  
22 can't remember.

23 Q. You just live across the river?

24 A. I live across the river but I'm responsible  
25 for negotiating across the country.

01719

1 Q. Do you know what the 1FB rate in Manhattan  
2 is for NYNEX?

3 A. No. I have not committed to memory on  
4 NYNEX's tariffed rates.

5 Q. Do you know whether the New York Public  
6 Service Commission has imposed full access charges on  
7 a company called CC, a local exchange company  
8 interexchanging traffic with NYNEX?

9 A. I am not aware of that.

10 Q. At the top of page 18 you state in answer  
11 to a question "have any other states ordered link  
12 unbundling," and you inserted Pennsylvania after  
13 Maryland. Is it your testimony as you're sitting here  
14 that that was an order of the Pennsylvania Public  
15 Utility Commission ordering link unbundling?

16 A. It was an order from the ALJ which I  
17 believe was decided last week or it was decided  
18 recently.

19 Q. And are you aware of whether or not further  
20 action by the Pennsylvania Public Utility Commission  
21 would be required before that decision would become  
22 the law of the state of Pennsylvania?

23 A. It's my understanding of the decision that  
24 the Public Utility Commission and the ALJ specifically  
25 ordered Bell Atlantic to provide unbundled loops.

01720

1 Q. Wait a minute. You said in answer to my  
2 prior question that it was a decision of the  
3 administrative law judge. Is that a different person  
4 from the Pennsylvania Public Utility Commission, the  
5 commissioners such as we have sitting here?

6 A. Yes, yes, it is.

7 Q. And so my question to you, sir, is it your  
8 understanding that any further action by the  
9 commissioners would be required before that decision  
10 would become law?

11 MR. RINDLER: I object. He's asking him a  
12 legal question as to what the rules and practices are  
13 in Pennsylvania.

14 JUDGE ANDERL: Well, Mr. Rindler, maybe you  
15 and Mr. Owens can stipulate as to what that decision  
16 actually encompassed. Mr. Schulz put it in his  
17 testimony and to that extent I certainly think Mr.  
18 Owens would be allowed to inquire but maybe we can do  
19 it more quickly.

20 MR. RINDLER: I would be happy to discuss  
21 it with Mr. Owens.

22 MR. OWENS: I'm simply asking the witness  
23 for his understanding but I will move on.

24 Q. Now, you make a statement at the bottom of  
25 page 19 and again on page 23 about the result of MFS

01721

1 Intelenet's surveys, and are there any other surveys  
2 that you're referring to besides those that are  
3 included in Exhibit A?

4 A. No.

5 Q. Now, looking at the first document in  
6 Exhibit A, letter of October 10, 1994, the criteria  
7 for selection of these entities are listed on the  
8 first page; is that right?

9 A. Yes, correct.

10 Q. And one of those criteria is that the  
11 business had to be located in one of the 141 buildings  
12 in Manhattan which was already wired to Metropolitan  
13 Fiber; is that right?

14 A. Yes.

15 Q. How many buildings are there in Manhattan?

16 A. In Manhattan?

17 Q. Would you say thousands?

18 A. Potentially thousands.

19 Q. And there were 25 businesses that were  
20 selected for this analysis. Do you know how many  
21 businesses there are in Manhattan?

22 A. Thousands.

23 Q. Maybe more like tens of thousands?

24 A. Potentially, yes.

25 Q. Are you a statistician?

01722

1 A. No, I'm not.

2 Q. So you're not able to advise this  
3 Commission as to whether or not this sample was a  
4 representative sample in a statistical sense?

5 A. No, I can't.

6 Q. Looking at the second document, the one --  
7 I guess it's fourth page from the back entitled MFS  
8 Intelenet research local number portable describes the  
9 methodology as being that a total of 1332 MFS  
10 Intelenet customers were interviewed by a telephone,  
11 and they were selected from a list provided by MFS  
12 Intelenet. Am I reading correctly from that document?

13 A. Yes, you are.

14 Q. So would I be correct that all of the other  
15 customers of all of the other exchange companies in  
16 Manhattan weren't part of the universe that were  
17 sampled with this study?

18 A. The study clearly states that it was only  
19 MFS Intelenet customers.

20 Q. And again, as in the case of the first  
21 document you're not able to testify that this is a  
22 representative sample for the purpose of drawing  
23 conclusions about the population and characteristics  
24 of that population of the New York Manhattan Island  
25 generally?

01723

1           A.     Well, I can't testify whether it is or  
2 whether it isn't.

3           Q.     Nothing further. Thank you, Your Honor.

4                    JUDGE ANDERL: Thank you. Mr. Potter, do  
5 you have questions for this witness?

6                    MR. POTTER: I have a few.

7

8                                CROSS-EXAMINATION

9 BY MR. POTTER:

10          Q.     Afternoon.

11          A.     Good afternoon.

12          Q.     Picking up on the survey here with a couple  
13 of questions. Direct your attention to page 20 of  
14 your testimony about line 18. Do you see there you  
15 say many businesses invest heavily in a given telephone  
16 number in the form of advertising, stationery, and so  
17 on. Do you see that?

18          A.     Yes.

19          Q.     So, it would be your company's position  
20 then that business customers would be reluctant to  
21 change that given phone number; is that right?

22          A.     Absolutely.

23          Q.     Businesses probably usually have more than  
24 one line and more than one telephone number; is that  
25 correct?

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1 A. Yes.

2 Q. Did these two surveys ask customers their  
3 feeling about going with MFS if it involved changing a  
4 number other than this given advertised number?

5 A. Well, the surveys are the surveys, and  
6 second survey clearly states what the questions asked  
7 were. And same with the first survey.

8 Q. Well, I found it a little ambiguous and I  
9 was hoping you could help me out. Let me ask it this  
10 way. Is it your understanding, and of course the  
11 first survey was face-to-face discussion groups, focus  
12 groups?

13 A. Yes.

14 Q. And so we don't know exactly what they were  
15 asked unless you can tell us, right?

16 A. No, I don't know exactly what they were  
17 asked.

18 Q. Now, on your second survey these were MFS  
19 Intelenet customers that were being surveyed?

20 A. That is correct.

21 Q. So you had already been successful signing  
22 them up somehow?

23 A. Yes.

24 Q. Am I correct that you do not have any  
25 particular proposal in your testimony as to who should



01725

1 bear the cost for number portable solutions?

2 A. That is correct. It's not my testimony.

3 Q. So does that mean that MFS does not have a  
4 position on that yet?

5 A. No, that does not mean that. It means I  
6 can't testify to what our position is on that.

7 Q. So since you're the only witness then am I  
8 going to assume that MFS's position on that will not  
9 be presented to the Commission in this case?

10 A. Correct.

11 Q. Now, as you mentioned your central office  
12 in Washington is located in Kirkland; is that right?

13 A. Yes.

14 Q. And that's in GTE Northwest territories,  
15 correct?

16 A. Uh-huh.

17 Q. And even though you're not quite yet  
18 providing service you already have a sales staff on  
19 the job; is that right?

20 A. It's my understanding that there is a  
21 staff.

22 Q. And they are as a matter of fact out  
23 contacting potential customers and trying to sell your  
24 service in advance, so to speak; is that right?

25 A. Well, MFS Intelenet currently also provides

01726

1 Centrex resale service in addition to shared tenant  
2 services, so there is a sales staff associated with  
3 selling those two products in addition to PIC service.

4 Q. What is PIC service?

5 A. PIC service is MFS Intelenet's long  
6 distance service.

7 JUDGE ANDERL: Is it P I C?

8 THE WITNESS: Yeah.

9 Q. Preferred interexchange carrier?

10 A. Thank you.

11 Q. You must have ESP because you anticipated  
12 my next question if you were going to provide Centrex  
13 and long distance. Thank you for answering.

14 Now, you stated that MFS Intelenet provides  
15 switched services. Does that mean that MFS Intelenet  
16 does not provide any private line or dedicated  
17 services?

18 A. MFS Intelenet does not.

19 Q. So that would be MFS Telecom that's doing  
20 that?

21 A. Yes.

22 Q. And is MFS Telecom providing those services  
23 in the Seattle area now?

24 A. I believe they are.

25 Q. Is there a joint sales force between the

01727

1 two companies or separate?

2 A. No. The sales forces are separate. They  
3 are two separate subsidiaries of MFS Communications  
4 Company.

5 MR. POTTER: Those are all my questions.

6 JUDGE ANDERL: Staff.

7

8 CROSS-EXAMINATION

9 BY MR. SMITH:

10 Q. Mr. Schulz, Mr. Owens asked you a question  
11 regarding your awareness of U S WEST's litigation  
12 posture regarding entry of new entrants into the local  
13 service market. Do you recall that?

14 A. Yes, I do.

15 Q. Do you have any awareness of U S WEST's  
16 litigation posture regarding the competitive  
17 classification of those same new entrants?

18 A. No.

19 Q. So you would not know whether U S WEST has  
20 supported or challenged the competitive classification  
21 of AECs in this state?

22 A. No, not in any dockets or documents that I  
23 have read, no.

24 Q. Thank you.

25 JUDGE ANDERL: Does MCI have questions for

01728

1 this witness?

2 MS. WEISKE: I have one, I think or two.

3

4 CROSS-EXAMINATION

5 BY MS. WEISKE:

6 Q. I thought you said earlier in response to a  
7 question from Mr. Owens that in New York sometimes the  
8 traffic was in balance and sometimes it was not?

9 A. No.

10 Q. Did I misunderstand what you said?

11 A. No. My understanding of Mr. Owens's  
12 questions was sometimes NYNEX terminates more traffic  
13 to us than we do them and vice versa.

14 Q. Do you have any specific numbers on what  
15 the traffic has looked like in New York for the last  
16 three to six months?

17 A. Yes. Percentages.

18 Q. What are those -- are those percentages  
19 confidential?

20 A. I believe I can reveal the percentages  
21 based on the first three months.

22 Q. I'm not seeing a reaction from your  
23 counsel, so please go ahead.

24 A. The percentages for the traffic exchanged  
25 between NYNEX and MFS Intelenet between the months of

01729

1 January to March resulted in NYNEX terminating 52  
2 percent more traffic than MFS Intelenet terminated to  
3 NYNEX. So it was 52/48 NYNEX.

4 Q. So 52 percent of the calls were  
5 terminated --

6 A. Were terminated to MFS Intelenet from  
7 NYNEX.

8 Q. Over what time frame?

9 A. Between January and March.

10 Q. Do you have any other figures in terms of  
11 traffic being in balance for New York or are those the  
12 only figures you have?

13 A. Those are the only figures I have at this  
14 time.

15 Q. Do you believe that those figures confirm  
16 your position on behalf of MFS as to advocating bill  
17 and keep?

18 MR. OWENS: I'm going to object to this  
19 friendly cross. This doesn't add anything into the  
20 record.

21 JUDGE ANDERL: I was interested in the  
22 percentages but I think I will sustain the objection  
23 as to the last question.

24 MS. WEISKE: Fine. That's all I had.

25 JUDGE ANDERL: AT&T?

01730

1 Mr. Trotter.

2 Any other party have cross? Mr. Finnigan.

3 MR. FINNIGAN: Thank you.

4

5 CROSS-EXAMINATION

6 BY MR. FINNIGAN:

7 Q. Mr. Schulz, in a bill and keep environment  
8 if an end user has a PBX and a number of access lines,  
9 say 100 access lines, isn't it true that they would  
10 have an incentive to become a carrier and bill and  
11 keep the traffic?

12 A. Potentially, yeah.

13 Q. Thank you.

14 JUDGE ANDERL: Commissioners?

15

16 EXAMINATION

17 BY CHAIRMAN NELSON:

18 Q. One sort of mischievous question, Mr.  
19 Schulz. Why did MFS pick Parsippany to make its  
20 headquarters?

21 A. Real estate, I suppose. We were originally  
22 in the Jersey city office where our switch is located  
23 and just outgrew the facilities and moved out to the  
24 suburbs.

25 Q. Oh, is that right?

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1 A. Uh-huh.

2 Q. Thank you.

3 COMMISSIONER HEMSTAD: I can't top that  
4 question so I have none.

5 COMMISSIONER GILLIS: I have no questions.

6

7 EXAMINATION

8 BY JUDGE ANDERL:

9 Q. I just have one question, Mr. Schulz, and  
10 maybe you've answered this, and I just didn't hear it  
11 or don't know. How is traffic exchanged between NYNEX  
12 and MFS being measured right now?

13 A. It's being measured by both companies,  
14 actual minutes recorded from the switch.

15 Q. Originating?

16 A. Yes, originating and terminating.

17 Q. And then you just exchange the information?

18 A. Yes, exchange records.

19 JUDGE ANDERL: Redirect?

20 MR. RINDLER: Yes.

21

22 REDIRECT EXAMINATION

23 BY MR. RINDLER:

24 Q. This is more to just clean up the record.  
25 I believe, Mr. Schulz, in response to Mr. Owens you

01732

1 said that MFS Intelenet of Washington was the direct  
2 subsidiary of MFS Communications Company, Inc. In  
3 your related testimony I thought you said MFS  
4 Intelenet, Inc. was the parent of MFS Intelenet of  
5 Washington, Inc. Is that correct?

6 A. Yes, that's correct.

7 Q. You also said that in turn MFS  
8 Communications Company, Inc. was owned by Peter Kiewit  
9 Sons. Do you recall that testimony?

10 A. Yes.

11 Q. Isn't it correct that in fact it's publicly  
12 held?

13 A. Yeah. Excuse me. I did mean to correct  
14 myself during that part of the testimony. MFS  
15 Intelenet is a publicly held company. The majority of  
16 the shares are Peter by Peter Kiewit.

17 JUDGE ANDERL: Let's get a spelling.

18 THE WITNESS: K I E W I T.

19 Q. Mr. Owens also discussed with you the  
20 questions of -- I believe it was in the context of the  
21 Rochester plan, the issue relates to balance of  
22 traffic, and I believe his question was are you saying  
23 that the traffic would be in balance on a particular  
24 route. Is that MFS's bill and keep proposal that the  
25 traffic be measured on particular routes?



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1           A.     No.  It was total traffic exchanged between  
2 the two companies.

3           Q.     In response to another question by Mr.  
4 Owens with respect to bill and keep.  You stated that  
5 the reason for -- or the question and you answered it  
6 affirmatively -- that the reason for bill and keep was  
7 as an in kind exchange of traffic, and I believe the  
8 question was, is that the only reason that MFS  
9 supports bill and keep.  Do you recall that?

10          A.     Yes.

11          Q.     In the statement don't you also indicate  
12 that the simplicity of bill and keep was one of the  
13 reasons that you --

14                 MR. OWENS:  Your Honor, this is not only  
15 leading, it's impeaching.

16                 JUDGE ANDERL:  I will sustain the objection  
17 as to leading, the nature of it, Mr. Rindler.  Restate  
18 the question.

19          Q.     Mr. Schulz, when you were talking about the  
20 fact that U S WEST has close to 100 percent of the  
21 market, were you talking about the market for  
22 particular services or their overall?

23          A.     No.  I was talking about their overall  
24 market.

25                 MR. RINDLER:  I have no further questions.

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1 JUDGE ANDERL: Any recross?

2 MR. OWENS: None, Your Honor.

3 JUDGE ANDERL: Hearing nothing, Mr. Schulz,  
4 you're excused and you may step down. It was  
5 previously agreed that AT&T's witness Mr. Buorgo would  
6 take the stand next. Let's be off the record while he  
7 does that.

8 (Recess.)

9 (Marked Exhibit T-127.)

10 JUDGE ANDERL: Let's be back on the record.  
11 While we were off the recrd Mr. Buorgo took the stand  
12 and we identified his prefiled testimony as Exhibit  
13 T-127. Mr. Buorgo, if you would raise your right hand  
14 to be sworn.

15 Whereupon,

16 DONALD BUORGO,  
17 having been first duly sworn, was called as a witness  
18 herein and was examined and testified as follows:

19

20 DIRECT EXAMINATION

21 BY MS. PROCTOR:

22 Q. Will you please state your name and address  
23 for the record?

24 A. My name is Don Buorgo, B U O R G O. My  
25 address is 131 Morristown Road, Basking Ridge, New

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1 Jersey.

2 Q. Not far from Parsippany.

3 A. Not far. Never met that guy, though.

4 Q. Could you just make sure that you're  
5 speaking into the microphone. Are you the same Donald  
6 Buorgo that caused to be filed exhibits that have been  
7 marked as T-127 and filed in this docket?

8 A. I am.

9 Q. Was that prepared under your supervision  
10 and direction?

11 A. Yes, it was.

12 Q. Is it true and correct to the best of your  
13 knowledge?

14 A. To the best of my knowledge.

15 Q. And if I asked you these same questions  
16 today, would your answers be the same?

17 A. Yes.

18 MS. PROCTOR: Move the admission of Exhibit  
19 T-127.

20 JUDGE ANDERL: Is there any objection from  
21 any party? Hearing none that exhibit will be admitted  
22 as identified.

23 (Admitted Exhibit T-127.)

24 MS. PROCTOR: Mr. Buorgo is available for  
25 cross-examination.

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1 JUDGE ANDERL: Mr. O'Jile.

2

3 CROSS-EXAMINATION

4 BY MR. O'JILE:

5 Q. Good afternoon, Mr. Buorgo. My name is  
6 Bill O'Jile. I'm one of the U S WEST attorneys on  
7 this case. I've got a couple of questions for you  
8 this afternoon. Let's turn first to your testimony at  
9 page 3. You state there that ultimately the price of  
10 a service will converge toward a point where that  
11 price equals total service long-run incremental cost  
12 or TS LRIC as you used that term in your testimony?

13 A. Could you point to the specific where it  
14 says equals at?

15 Q. Lines 17 through 23.

16 A. Yes. In a competitive market what will  
17 happen is --

18 JUDGE ANDERL: Did you have a question  
19 pending?

20 A. I'm sorry. Go ahead.

21 Q. So the question that I had was when you're  
22 talking about -- I just wanted to ask probably what you  
23 were going to discuss and that is the distinction  
24 between converging toward TS LRIC and pricing at a  
25 price that equals TS LRIC, and we know what the

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1 economic textbooks say in theory but where practically  
2 is a company in a competitive market going to price  
3 its services?

4 A. Where marginal cost equals marginal  
5 revenue, in other words, where the long-run  
6 incremental cost equals the long-run marginal revenue  
7 is where you would expect that the market would  
8 ultimately get to, meaning price equals total service  
9 long-run incremental cost. You may never get to that  
10 point exactly. Sometimes it might be a little below  
11 it. Sometimes it might be a little above it but  
12 ultimately firms enter and depart and the price will  
13 converge to that number.

14 Q. And by converging it may be a downward  
15 trend but the price in the long run may never equal  
16 the TS LRIC cost, correct?

17 A. I hope I made it clear the price not ever  
18 equals exactly total service long-run incremental cost.  
19 It will, however, move toward it. And if you could  
20 ever have stability, I mean, i.e., the exact right  
21 number of companies and the exact tradition of the  
22 markets you would get that exactly.

23 Q. Just so we were clear on this, a multi-  
24 product firm could not price all of its services at its  
25 total service long-run incremental cost and expect to

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1 stay in business in the long run, could it?

2 A. The multi-product firm is kind of a special  
3 case of a single product firm, specifically that you  
4 have a service or a multi services that one might  
5 consider to be a product family, product group. For  
6 example, the set of services offered under access  
7 might be considered a product family, for example,  
8 transport switching, DA services, DA -- all those  
9 myriads of things.

10 The correct cost of the access service not  
11 related -- would be step one. I need to identify that  
12 cost. Step 2, I need to identify what the product  
13 group costs of the access service are. In other  
14 words, the distinction that needs to be made is what  
15 is the incremental costs associated with providing the  
16 access service.

17 Q. All right.

18 A. Let me try to clarify that a little bit.  
19 That means that that product group incremental costs  
20 is common to all of the access services, meaning the  
21 local switching, the transport, the network access  
22 channel if it's a private line, et cetera, et cetera.

23 Q. Well, let's take that example then and go  
24 back to the question I asked you previously and that  
25 is, let's assume that a firm was a multi-product firm,

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1 in the family of products to use your term, was  
2 switched access. If all of the switched access  
3 elements were priced at total service long-run  
4 incremental costs, in the long run that firm would  
5 lose money, wouldn't it?

6 A. I may not have explained that very well.  
7 Total service long-run incremental cost has a direct  
8 cost portion of it as well as an incremental amount  
9 associated -- meaning an amount that varies with the  
10 provision of the service that is product group related.  
11 It is not related to the entire common costs of the  
12 firm, only the provision of access services. To put it  
13 in context, what would the product management cost be  
14 of offering local switching if -- what would be the  
15 total service long-run incremental cost if I did not  
16 have any access that used the local switch.

17 So now the next question is, well, gee, you  
18 can measure the direct costs of that or at least we  
19 believe we can. We should also be able to measure  
20 what the incremental cost of the product management of  
21 the local switch sold to access customers is, but what  
22 I'm trying to say is the incremental cost of the  
23 product management is also incremental, but it's only  
24 the product management cost associated with the access  
25 itself that is incremental to the local switching sold

01740

1 as access.

2 Q. And then -- but wouldn't you agree, sir,  
3 that beyond those joint costs that are related to the  
4 family of products, wouldn't you agree that there's  
5 additional cost beyond that which would be the common  
6 costs of the firm as a whole, that unless the firm had  
7 the opportunity to price its services above total  
8 service long-run incremental cost that ultimately the  
9 firm would be unprofitable and have to exit the  
10 market?

11 A. No, I would not in this particular case.

12 Q. Well, let's talk in general about a company  
13 that makes four products and each of the four products  
14 is priced at four groupings of products A, B, C, D and  
15 E. Each grouping of products has prices for the  
16 various products in those families at total service  
17 long-run incremental cost. Wouldn't you agree that in  
18 that example there is no additional revenues that  
19 would be covering the firm's common costs?

20 A. The revenues would recover an increment to  
21 the firm's capital. The incremental -- direct  
22 incremental costs associated with production of the  
23 individual unique services, as well as all of the  
24 incremental costs that one could identify associated  
25 -- that could directly be assigned to that particular



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1 service. If -- in the event that that firm tried to  
2 recover some other common costs and another firm could  
3 come in and produce that service alone, i.e., just  
4 access services, you cannot price above that level.

5 Q. So that firm would not be -- so the firm  
6 that we're talking about would not be able to recover  
7 its common costs if --

8 A. From that particular service, certainly.

9 Q. Let's try to put a little more clarity  
10 around this concept. Turn to page 4 of your  
11 testimony. You use the term there supra normal  
12 profits and you say "supra normal profits occur where  
13 the market price exceeds TS LRIC." I was interested  
14 in the term "supra normal."

15 A. Well, I think --

16 Q. Is that meant to be a modifier of what  
17 would be normal profit or just plain profit?

18 A. The term is -- I just chose that term. You  
19 could also use the term economic rent. You could use  
20 some other -- you could also call it monopoly profit.  
21 I just chose the term --

22 Q. Could you just call it profit?

23 A. You could. Not really, though because it's  
24 not really, what this proves service to do, what the  
25 excess rent, what the supra normal profit serves to do

01742

1 is to induce entry, and I think we kind of see that  
2 here.

3 Q. Let's take a simple example. If the TS  
4 LRIC for a product is a dollar and the market price is  
5 a dollar and a quarter, is that 25 cents considered  
6 supra normal profits?

7 A. Could you repeat that again? I'm not sure.

8 Q. Sure. The TS LRIC for a product is a  
9 dollar and the price for that product in the market is  
10 a dollar and a quarter. Is the 25 cents considered  
11 supra normal profits?

12 A. Not if the firm is itself more efficient  
13 than another firm, meaning what I'm trying to get to is  
14 if U S WEST were in fact more efficient or if TCG is  
15 more efficient, can sell something for \$10 -- let me  
16 use your example. If one firm's costs were a dollar,  
17 total service long-run incremental cost were a dollar  
18 and another firm's total service long-run incremental  
19 cost were a dollar and a quarter then the firm that  
20 had the TS LRIC at a dollar would earn some rent.  
21 However, that's not necessarily bad because it means  
22 that the other firm would have to adapt or would try  
23 to adapt to get to the dollar as a TS LRIC.

24 JUDGE ANDERL: Mr. Buorgo, could I ask you  
25 to speak a little more slowly and a little more

01743

1 distinctly.

2 THE WITNESS: Okay.

3 MS. PROCTOR: Because everyone knows that  
4 the court reporter is the one who really counts.  
5 If she doesn't get it, it doesn't get in the record.

6 Q. You interjected into my hypothetical  
7 another company and the concept of efficiency. I  
8 would like to put that -- your embellishment on my  
9 hypothetical aside and have you just answer the  
10 hypothetical, and that is, looking at one company in  
11 isolation, that company has a TS LRIC of a dollar and  
12 a market price for \$1.25. Is that 25 cents, because  
13 it is over and above TS LRIC cost, considered supra  
14 normal profits?

15 A. I would have to answer in that specific  
16 instance that the answer -- my answer would be yes and  
17 whether or not it were -- whether or not I would -- I  
18 would also have to understand whether you were  
19 including the product related incremental cost  
20 associated with the specific set of services in those  
21 -- in that dollar and a quarter somewhere.

22 Q. Let's just get this issue out of the way  
23 right up front because I don't want there to be any  
24 confusion. By your statement at page 404, the last  
25 statement on lines 2 to 4, you're not in any way

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1 implying that any price above TS LRIC is per se  
2 unreasonable, are you?

3 A. I think one would have to look at what --  
4 how the unique study was done meaning whether or not  
5 TS LRIC has truly been identified, at least the way I  
6 believe it should be done and whether the incremental  
7 product costs have been identified appropriately.  
8 Yes, at some point, the service, the services within a  
9 product line must recover the incremental cost of the  
10 product, products lines' incremental cost. So we have  
11 really a direct cost. Then we have some sort of  
12 common product related cost and then there's common  
13 costs on top of that of course. Maybe.

14 Q. So what I hear you saying is that prices  
15 that are above costs -- TS LRIC costs, can be  
16 reasonable and in determining the reasonableness of  
17 the cost you may need to look at factors outside the  
18 four corners of the cost studies such as the relative  
19 efficiency of the firm versus other providers in the  
20 market and other factors besides just a plain price  
21 versus cost comparison?

22 A. I don't think in this case we're dealing  
23 with a competitive market.

24 Q. Well, I wasn't speaking with respect to any  
25 particular market, Mr. Buorgo. I'm trying to just

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1 understand your concepts before we talk about them  
2 specific to the issues in this case, so I will restate  
3 my question. As I understand your testimony in  
4 general, general theory of TS LRIC prices that prices  
5 above TS LRIC can be reasonable and that determining  
6 the reasonableness of a price relative to its cost can  
7 require the trier of fact or the person analyzing the  
8 study to look at factors outside the particular firm  
9 such as efficiencies and other issues that you've  
10 mentioned. Is that a correct summary of what we've  
11 talked about thus far?

12 A. I believe what we discussed thus far is  
13 that in a competitive market the price will tend  
14 toward total service long-run incremental cost. It  
15 may never exactly be at total service long-run  
16 incremental cost. The price of any particular service  
17 in a multi-product firm could be or must recover the  
18 incremental marketing costs and sales expenses, and so  
19 on that are directly associated with the product  
20 group.

21 Q. Yes or no question. A price above TS LRIC  
22 can be reasonable. Yes or no.

23 MS. PROCTOR: Excuse me, Mr. O'Jile. I'm  
24 going to object to the question. I don't know what  
25 standard we're supposed to be using for reasonable if

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1 it's the ultimate conclusion of the finder of fact  
2 here as far as just and reasonable, obviously Mr.  
3 Buorgo is not qualified to take a position on that.

4 MR. O'JILE: I'm not asking him to take  
5 that position at all. I guess from an economic  
6 standpoint I would qualify my question.

7 Q. It's not economically unreasonable, is it,  
8 sir, for a price to be above TS LRIC?

9 A. In a competitive market one would expect  
10 sometimes it would be above it sometimes it would be  
11 below it.

12 Q. So it's not unreasonable to expect -- it's  
13 not reasonable from an economics standpoint to have a  
14 price above TS LRIC, correct?

15 A. For some period of time that is true that  
16 it's not reasonable that it could happen.

17 Q. That's a yes, right.

18 A. That's a yes.

19 Q. Let's turn back to page 3 of your  
20 testimony. The concepts that you're explaining on  
21 lines 3 through 15 appear to support a conclusion that  
22 the TS LRIC of a particular product, be it a widgit or  
23 any other product that you can think about, is  
24 something that can be determined for that particular  
25 product without regard to specific firms that produce

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1 that product. Is that a correct statement?

2 A. Could you rephrase that? I might be able  
3 to rephrase it but I'm not sure I understood.

4 Q. Let's take an example. Companies A, B and C  
5 produce widgets. Would you expect that you could  
6 determine the TS LRIC of a widget independent of the TS  
7 LRIC for company A, company B and company C to produce  
8 their version of the widget?

9 A. Could I ask, are you asking does it depend  
10 on the production method used?

11 Q. The question is, is there a way to  
12 determine the cost for the output independent of the  
13 company that's producing the output, specific company  
14 so that you could say the reasonable TS LRIC costs for  
15 a widget is a dollar and then you would look at A, B  
16 and C's costs to see if they meet that?

17 A. I believe my testimony states that total  
18 service long-run incremental cost would utilize some  
19 forward looking technology. It would include some  
20 component for the time value of money and certainly  
21 capital depreciation and all the rest of that, so I  
22 don't quite understand what the question is.

23 Q. Well, let me see if I can be more specific  
24 and maybe with an example that you can relate better  
25 to. If we were looking at a minute of use of long

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1 distance, would you expect that MCI, AT&T and Sprint  
2 would have the same TS LRIC costs for that minute of  
3 use of long distance?

4 A. No, I would not expect them to be  
5 identical. I would expect them to be reasonably close  
6 to the same. Maybe not identical.

7 Q. If they weren't identical then, how do you  
8 determine what the true costs should be so that you  
9 could say that one firm what the true market price  
10 should be?

11 A. I think in the instance of MCI and Sprint  
12 and so on the fact that there are multi competitors  
13 drives us all to attempting to achieve and improve our  
14 efficiencies as rapidly and as dramatically as  
15 possible -- and I don't -- and in that case I don't  
16 quite understand how I can relate. I can look at  
17 AT&T's total service long-run incremental cost.  
18 That's the only thing I can control.

19 Q. Does AT&T do TS LRIC cost studies for each  
20 of its services?

21 A. That is my understanding.

22 Q. And do you know if -- has it done these  
23 studies since its inception, AT&T's inception as we  
24 know it today and at divestiture?

25 A. Meaning 1984?



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1 Q. Right.

2 A. I can't speak to history of these. I can  
3 say yes, variance of incremental cost studies have been  
4 done since divestiture, and at this time I personally  
5 have some very limited knowledge of the way we do the  
6 problems, but I'm not an authority on our internal  
7 incremental cost studies. I think the same thing I  
8 should add is that most of our incremental cost is not  
9 internal or directly related to the production of our  
10 own services. About 45 percent of our expenses are  
11 paid directly to local companies, and that is a good  
12 proportion of our incremental cost to provide our  
13 services.

14 MR. O'JILE: Your Honor, at this time, Mr.  
15 Owens is going to pass out two documents. I think one  
16 of which only requires marking as a confidential  
17 exhibit. The first exhibit is the supplemental  
18 response of AT&T to U S WEST data request No. 2 which  
19 asked for AT&T's costs on -- for private line  
20 services.

21 The second document which you will have to  
22 tell me if you want to mark as an exhibit is an AT&T  
23 price list for private line services which I understand  
24 is filed with this Commission or on file with this  
25 Commission.

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1                   MS. PROCTOR: Your Honor, I'm going to  
2 object to the introduction of these exhibits.  
3 Obviously the tariff is a matter of public record --  
4 price list rather. The costs, there's been no  
5 foundation laid and it's my understanding they will  
6 not be able to lay a foundation. This witness is not  
7 responsible for pricing of our retail services. He is  
8 responsible for access services which are services  
9 that we purchase from the local exchange companies.  
10 And he has no expertise in Washington intrastate  
11 pricing or costs. This information was provided  
12 pursuant to the order and direction of the Commission.  
13 This witness has no information about it.

14                   MR. O'JILE: Your Honor, may I respond?

15                   JUDGE ANDERL: Go ahead, Mr. O'Jile.

16                   MR. O'JILE: Your Honor, this witness is  
17 being sponsored by AT&T as a person who is laying out  
18 many statements as far as how he believes U S WEST  
19 should price its services in specific and how  
20 competitive providers price their services in general.  
21 He has a lot of basic economic theories in his  
22 testimony. These documents provide impeachment based  
23 on AT&T's own pricing and costing practices as how  
24 they -- for this particular service anyway -- how they  
25 subscribe to the theories that their own witness is

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1 giving to this Commission and we would offer it as  
2 impeachment of this witness, of this witness based on  
3 the pricing practices of his company.

4 JUDGE ANDERL: Let me go ahead and mark  
5 these documents as exhibits. The first one,  
6 which is entitled Private Line Services Price List  
7 schedule 9 is two pages long and we'll mark that for  
8 identification as Exhibit 128 and then the next  
9 document is entitled supplemental response No. 2 and  
10 it includes a three-page attachment -- four-page  
11 attachment rather which is confidential. I will mark  
12 that document as Exhibit C-129.

13 (Marked Exhibits 128 and C-129.)

14 JUDGE ANDERL: To the extent that it's  
15 offered to impeach this witness contrasting AT&T's  
16 practices with the recommendations made by the  
17 witness, I think it's properly offered, and I am going  
18 to overrule the objection to it. I will of course  
19 give AT&T a chance to look at it and tell me if it's  
20 not what it purports to be. But otherwise I will  
21 admit the document.

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

23 (Admitted Exhibits 128 and C-129.)

24 MS. PROCTOR: Your Honor, the document is,  
25 as I understand it, anyway, what it purports to be. It

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1 does put us in a difficult position that there's now  
2 information in the record that our witness can testify  
3 to and there is no attempt by U S WEST to portray this  
4 in any fair manner. There's no ability to provide any  
5 explanation of what costs we're talking about here or  
6 any relationship between costs and price because my  
7 witnesses are done and none of my witnesses are able  
8 to address this issue which is why we said it was  
9 irrelevant to begin with, but be that as it may I  
10 suppose it's just a question of my objecting to your  
11 ruling and having it noted for the record.

12 JUDGE ANDERL: I think so, and I think Mr.  
13 O'Jile is not done asking questions about this yet.  
14 Apparently hasn't begun. I don't know, you may want  
15 to take some of these points up on redirect with this  
16 witness and you will certainly be allowed to do that.

17 MS. PROCTOR: Your Honor, this witness  
18 doesn't know anything about this information or about  
19 costing and pricing of service.

20 JUDGE ANDERL: My point simply being he  
21 will have a chance to look at it now.

22 MR. O'JILE: Well, based on his answers  
23 previously, Your Honor, it was my intention not to ask  
24 him any further questions so I would not put him into  
25 the difficult situation that Ms. Proctor has just

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1 related. We equally find ourselves in a difficult  
2 position because had AT&T responded to this request  
3 when propounded our witnesses would have addressed it  
4 in their testimony giving AT&T the opportunity to  
5 respond, obviously through a witness that they could  
6 have offered, so it's a situation where I think that  
7 the best evidence of AT&T's pricing practices are their  
8 own prices versus their costs. We would put that in  
9 the record for that limited purpose and move on.

10 JUDGE ANDERL: Well, I guess for this to  
11 work what we at least need is an explanation of how to  
12 read these two exhibits total and perhaps counsel can  
13 provide that information after the break. I just -- I  
14 don't know. Am I supposed to be looking at the prices  
15 on Exhibit 128 and the costs on Exhibit C-129 and  
16 correlating? I guess I'm just not familiar with how  
17 to read these documents.

18 MS. PROCTOR: The other point is, Your  
19 Honor, as shown in the supplemental response these are  
20 the costs for AT&T's facilities between its point of  
21 presence. These costs do not include the local  
22 channels from the customer's premise to AT&T's point  
23 of presence, so this is not the entire cost. Cost of  
24 a local channel is the tariff price of the local  
25 exchange company serving that customer. It can also

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1 be found in our tariff or the customer may provide  
2 those facilities itself.

3 JUDGE ANDERL: Well, I guess not having  
4 seen either of these documents before it's hard for me  
5 to say what value they're going to be at this point.  
6 Let's just kind of hold this in abeyance and let's  
7 move on, Mr. O'Jile. I will think about this and see  
8 if he can't work out some way to clarify what we're  
9 going to do with these documents.

10 JUDGE ANDERL: Thank you.

11 Q. It's my understanding based on your  
12 testimony -- excuse me, based on the testimony of your  
13 colleague, Mr. Sumpster, that AT&T is advocating local  
14 interconnection rates set at total service long-run  
15 incremental cost. Is that correct?

16 A. Yes.

17 Q. And then when I look at your testimony  
18 where you talk about the fact that a minute of local  
19 switching is a minute of local switching. Would it be  
20 correct to conclude from that that ultimately AT&T  
21 would like to see all switched access services bought  
22 by interexchange carriers as well as alternative  
23 exchange carriers provided at total service long-run  
24 incremental cost?

25 A. I believe it would be correct to assume

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1 from that that AT&T and, near as I can tell, U S WEST  
2 agree that the traffic has the same cost  
3 characteristics then it should have the same price  
4 characteristics.

5 Q. And it's AT&T's position that the price  
6 where those services ultimately should be set is at TS  
7 LRIC. Is that a correct statement of AT&T's position?

8 A. AT&T position that ultimately it would be  
9 driven toward and perhaps to TS LRIC, yes.

10 Q. If switched access rates reduced to a level  
11 close to or at TS LRIC, would that produce a  
12 significant financial benefit to AT&T?

13 Let me see if I can put this in context. If  
14 local switching rates that AT&T or other interexchange  
15 carriers might purchase out of an access tariff were to  
16 decline, would that produce a benefit to AT&T?

17 A. The answer is AT&T would certainly have to  
18 decrease its price in response to our fellow  
19 interexchange carriers decreasing their prices as well  
20 as it's true we probably all would benefit because the  
21 total market would expand rather dramatically and I  
22 think we've got some examples of that from what the  
23 CC has done, and examples from other states where the  
24 price of access services has gone down, the market has  
25 expanded dramatically which helps us -- yes, we would

1 benefit from that. What I'm trying to say is in the  
2 near term doesn't mean we're going to get rich. It  
3 means we're going to have to drop the prices.

4 Q. On the assumption that, for instance, if  
5 prices were reduced by 25 cents that that entire 25  
6 cent reduction was passed through in the form of  
7 reduced customer rates?

8 A. That some if not all of it would be passed  
9 through, yes.

10 Q. Do you know what AT&T's return on  
11 investment was -- or return on equity was during 1994?

12 MS. PROCTOR: Objection, no foundation.

13 JUDGE ANDERL: Overruled.

14 A. Off the top of my head, I don't know.

15 Q. Do you expect that competitive firms will  
16 earn a return on their equity?

17 A. Yes, I do.

18 Q. And is there any point at which the return  
19 earned by a competitive firm would rise to the point  
20 where it would be considered unreasonable?

21 A. I am not the right person. You need to ask  
22 somebody who is more familiar with stock market  
23 theories and so on. I understand something about it  
24 but I'm not even remotely an authority.

25 Q. On page 4 of your testimony, you talk about



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1 the U S WEST cost study, and you then go on to discuss  
2 average direct and shared residual costs presented by  
3 U S WEST. Are you aware that U S WEST provided  
4 another cost study entitled an average shared  
5 incremental cost or ASIC cost study?

6 A. I am aware that there were several columns  
7 on the studies provided by U S WEST.

8 Q. But you did not specifically focus on the  
9 ASIC cost study and whether that would -- that cost  
10 study would equate to what you referred to as TS LRIC  
11 in your testimony?

12 MS. PROCTOR: Excuse me, Mr. O'Jile. Are  
13 you referring to a separate cost study or some aspect  
14 of one cost study?

15 MR. O'JILE: Well, as I understand how Mr.  
16 Farrow presented his cost studies it's correct as I  
17 think that the witness has stated that there were  
18 columns. There was an average shared incremental cost  
19 column and factors that were added to arrive at an  
20 average direct and shared residual cost column on the  
21 same study and the witness has focused on the ADSRC  
22 cost and I'm just asking him if he in fact had looked  
23 at the ASIC or average shared incremental cost column  
24 to determine whether that study comported with how he  
25 viewed a cost study should be conducted.

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1 MS. PROCTOR: Thank you. I just wanted to  
2 make sure that we weren't talking about other cost  
3 studies.

4 A. Yes. I am aware that the cost study was  
5 broken into piece parts. I cannot say that I focused  
6 on average service incremental -- average service  
7 incremental cost portion of the studies.

8 Q. So you have undertaken no analysis and have  
9 no opinion as to whether the ASIC portion of Mr.  
10 Farrow's cost presentation would equate to the type of  
11 TS LRIC cost presentation you advocate?

12 A. Without further review I do not have  
13 directly an opinion. I do have an opinion but I  
14 wouldn't be willing to state one way or the other. My  
15 opinion is that in fact some of the items included in  
16 the average service incremental cost study are truly  
17 not service-specific costs. They may be joint  
18 product-related costs, and a couple of examples of  
19 that I think are the billing-related items in the  
20 switching section, specifically, that capture the  
21 data regardless of whether it's billed as access or as  
22 local service or as message toll service and that  
23 appears to be what the U S WEST documentation summary  
24 seems to say. I may have misinterpreted but that  
25 appears to be what it says.

01759

1 Q. So these are the items that you mention on  
2 page 5 and 6 of your testimony?

3 A. Correct. What I'm trying to say is to the  
4 extent that the factors would not necessarily be  
5 directly related to the incremental cost of providing  
6 the service then I would not agree that they are the  
7 incorporated incremental costs of the service.

8 Q. Page 6 of your testimony when you say AT&T  
9 has long supported the establishment of rate structure  
10 or rate levels that reflect the underlying economic  
11 costs of providing the service. That's at line 25  
12 through 27?

13 A. Correct.

14 Q. Would you agree that the underlying  
15 economic cost for a service regardless of how that  
16 service is priced ultimately the consumer could be --  
17 there could be situations where the economic costs  
18 need to be measured on a per unit basis versus a flat  
19 rate basis?

20 A. I think I agree with what you said. If the  
21 costs are incurred on a flat rate basis one would  
22 expect a flat rate mechanism for recovering those  
23 costs. If costs are incurred on a usage basis one  
24 could expect a price that that price would reflect a  
25 usage basis. Is that what I think I heard?

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1 Q. Yes. You said it better than I did,  
2 though.

3 Let me ask you one last area of  
4 questioning. Ask you to again go back to your  
5 specific theories about pricing in a competitive  
6 market and help me with the situation of I've read a  
7 recent FCC report in which it indicated that while  
8 access costs have reduced for interexchange carriers  
9 that the standard tariffed long distance services have  
10 in fact shown some increase over this last year. What  
11 accounts for that given your definition of what should  
12 be happening to prices in a competitive market?

13 MS. PROCTOR: Mr. O'Jile, a clarification  
14 here. When you say standard, was the CC report  
15 referring to particular rates for particular services?  
16 I think a little clarification might be useful.

17 MR. O'JILE: I'm not certain what --

18 THE WITNESS: That's the NERA study?

19 MR. O'JILE: No. This was titled the  
20 Federal Communications Commission Common Carrier  
21 Bureau Common Carrier Competition Report dated spring  
22 of 1995.

23 Q. And I will show this to you and your  
24 counsel. The statement here is, "While many customers  
25 have experienced substantial savings from discounts

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1 and optional calling plans, customers who remain on  
2 the basic rate schedule have seen their rates  
3 increase."

4 MS. PROCTOR: Could I see a copy of that?

5 MR. O'JILE: Sure.

6 Q. So my question, again, sir, is if the cost  
7 of access has reduced over time -- and I think you  
8 would agree that there have been reductions year  
9 after year for the last several years -- what would  
10 account in a competitive market for increases in basic  
11 rate schedule rate?

12 A. Well, I can only speak for what I  
13 understand about AT&T's underlying cost structure.  
14 Specifically we have some level -- and I can't say  
15 that I know exactly what that level is -- at which the  
16 customer has to make X number of calls before we make  
17 one dime. So there has been a tendency I think for  
18 AT&T to -- and I believe our fellows to try to have  
19 some sort of a -- to have a standard rate at least  
20 fixed and then the users who are more inclined to move  
21 around get the discounts. And I believe that there  
22 have been studies, one of which I am aware of, that  
23 indicate it doesn't mean if the total access hasn't  
24 been flowed through. It means that there are subsets  
25 of customers who are getting the majority of

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1 flow-through.

2 Q. For instance, have you seen those same  
3 studies that have indicated that approximately 30  
4 percent of the users of long distance subscribe to  
5 various optional calling plans that may be the  
6 recipient of substantial amount of the access charge  
7 reductions?

8 A. I am aware that the USTA -- I'm sorry, I  
9 can't remember if U S WEST C filed that stuff in the  
10 price cap docket and I can't vouch whether it's right  
11 or wrong.

12 Q. And again following up on your testimony  
13 here about there's a point at which it's -- you have  
14 to provide -- let me start over. There's a point at  
15 which a customer becomes profitable, i.e., a certain  
16 number of minutes of use that that customer may  
17 purchase. Is this the reason why AT&T has implemented  
18 a plan to impose a \$5 minimum charge on its business  
19 customers for long distance?

20 MS. PROCTOR:. Objection, there's no  
21 foundation. This witness deals with access services  
22 that we purchase from the local exchange company. He  
23 does not deal with our retail services, our pricing of  
24 those services.

25 JUDGE ANDERL: Sustained.

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1 Q. Do you know, sir, whether as part of AT&T's  
2 access charge savings have been flowed through to  
3 customers in the form of cash incentives to customers  
4 to switch to AT&T services?

5 A. I have no idea.

6 MR. O'JILE: I have no further questions.

7 JUDGE ANDERL: Thank you. Mr. Potter.

8 MR. POTTER: Yes.

9

10 CROSS-EXAMINATION

11 BY MR. POTTER:

12 Q. Good afternoon.

13 A. Afternoon.

14 Q. The principle that you discussed with Mr.  
15 O'Jile about competitive market causing prices to  
16 converge at TS LRIC, does that apply to both wholesale  
17 and retail prices?

18 A. I believe that the total -- the answer is  
19 yes, I believe that's true. However, I believe that  
20 if we're going to discuss the difference between -- if  
21 we're trying to discuss wholesale and retail then we  
22 need to start talking about, again, some different  
23 kind of product common costs or how it might be  
24 arranged differently to provide that. In other words,  
25 wholesalers don't do business the same way retailers

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1 do is all I'm trying to suggest.

2 Q. I was trying to focus on the general  
3 concept.

4 A. Generally I believe that would be a true  
5 statement.

6 Q. Does AT&T provide both wholesale and retail  
7 services?

8 A. It does. Does AT&T sell its services to  
9 customers who provide resale services, is that what --

10 Q. That would be wholesale service, correct.

11 A. Is that what the question was?

12 Q. If that's what you understand wholesale to  
13 mean that's part of the question.

14 A. I understand that AT&T does not -- does in  
15 fact sell services, although I don't know at what  
16 prices and I don't know under what conditions and I  
17 have no idea but I do understand that we sell -- we'll  
18 sell our service to anybody.

19 Q. So the answer is, yes, AT&T sells both  
20 wholesale and retail services?

21 A. Yes. And again, with the clarification I  
22 have no idea what the terms and conditions are or any  
23 of that.

24 Q. In your discussion with Mr. O'Jile you  
25 talked about competitive markets. Does AT&T consider



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1 that it is in a competitive market for these wholesale  
2 services?

3 A. Does AT&T believe it's a competitive market  
4 for the wholesale services?

5 Q. Yes.

6 A. I would have to answer yes. Anybody --  
7 lots of companies provide interexchange services.

8 Q. Does AT&T believe it is in a competitive  
9 market for its retail services?

10 A. Yes.

11 Q. Mr. O'Jile used the term multi-product firm  
12 and you had some comments on that. Does AT&T consider  
13 itself a multi-product firm in that sense?

14 A. Just speaking for -- using a similar  
15 example to like access? Like 800 has multiple -- and  
16 again I don't know all of the variants of what we  
17 sell, but I understand that we have lots of different  
18 kinds of 800 service, multiple routing schemes and all  
19 of that kind of thing. Yes, we consider those. As I  
20 understand the way the cost studies or the incremental  
21 cost studies are done we consider those unique things  
22 as separate services and then a product common cost is  
23 or product specific -- what I'm trying to get to is  
24 incremental costs that are common across those 800  
25 services are considered common to that service family

01766

1 or that product family in the -- in this context.

2 Does that answer your question?

3 Q. Yes. I meant to ask you not just about  
4 AT&T but about the markets that AT&T is in. Do you  
5 have any knowledge about how close the TS LRIC the  
6 market prices are for the services that AT&T sells?

7 MS. PROCTOR: Objection. There's no  
8 foundation.

9 MR. POTTER: Just asking him if he knows.

10 JUDGE ANDERL: Overruled.

11 A. I honestly don't know.

12 Q. So would I be correct in assuming then that  
13 you do not know whether your proposal for how close  
14 U S WEST should price its interconnection and access  
15 services to TS LRIC would result in less margin for  
16 U S WEST than long distance carriers in general have?

17 A. I guess I would have to say no because I'm  
18 not sure.

19 Q. That's fine.

20 MR. POTTER: Those are all my questions.

21 JUDGE ANDERL: Did anyone else have cross  
22 for this witness?

23 Is there redirect, Ms. Proctor?

24 MS. PROCTOR: No.

25 JUDGE ANDERL: Commissioners? Second time

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1 this hearing.

2 CHAIRMAN NELSON: It's all right. I don't,  
3 though.

4 COMMISSIONER HEMSTAD: No.

5 COMMISSIONER GILLIS: I have just one or  
6 two. There's pretty fine points but I'm just curious  
7 more than anything, although I don't think they're  
8 unimportant either.

9

10 EXAMINATION

11 BY COMMISSIONER GILLIS:

12 Q. On page 6 of your testimony you have some  
13 discussion on line 12 that U S WEST will need to  
14 perform studies that allow for the identification of  
15 the incremental cost of providing each of the  
16 unbundled network elements. I continue to be  
17 struggling with the practicalities of these cost  
18 studies, and I'm wondering about your reaction to a  
19 point that -- this gets down to pretty fine tuning in  
20 cost studies. To some extent average prices cover up  
21 as far as you want to accomplish price signals, and  
22 when you get to an unbundled price it gets down to  
23 pretty fine tuning. A mistake in the price might not  
24 accomplish what we want in terms of price signals. In  
25 terms of the TS LRIC price for a particular unbundled

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1 service, let's say a switch, do we have to get down to  
2 an individual switch in an individual location for an  
3 individual company?

4 A. As an economist, ultimately, yes. As a  
5 practical human being perhaps not. At least in my  
6 view the market ultimately will decide how discrete  
7 the elements will have to be; i.e., the more  
8 competition you have in some area you might expect the  
9 prices to be different than they would be in some  
10 other switch.

11 Q. I'm looking at from a practical standpoint,  
12 too, though that if you took the alternative of coming  
13 up with some average total service long-run incremental  
14 cost for a particular item like switch then isn't there  
15 an incentive for a new entrant to shop around for those  
16 particular locations where they can essentially  
17 purchase a bargain based on that average price?

18 A. Yes. I don't think that TS LRIC is going  
19 to be so high a number that it's going to be so easy  
20 for them to -- I guess what I'm trying to say is they  
21 might well be indifferent if they can provide -- if  
22 their TS LRIC is roughly the same as TS LRIC they  
23 might be indifferent as to whether they provide it  
24 themselves or -- you're right, any time you average  
25 you have that problem. AT&T has that problem.

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1           Q.     And in general would you agree that the  
2 more unbundled we get with respect to elements the  
3 larger that problem is likely to be as opposed to  
4 pricing the network?  It's more bundled together, just  
5 to the extent that more -- a larger grouping puts more  
6 averaging.  Just seems like it increases the problem.  
7 I'm struggling with how we make this practical.  
8 Anyway you've answered that.  I appreciate that.

9                     The other question again is a fine point,  
10 but I'm just curious how you handle it, is in an  
11 unbundled situation like that you're suggesting you  
12 want a TS LRIC price for each of those unbundled  
13 pieces of the network, and isn't it possible that if a  
14 customer, an alternative new entrant in this case,  
15 purchases any of those pieces -- let's say  
16 smorgasboard -- picked three of these pieces, TS  
17 LRIC prices, the TS LRIC for those three together  
18 aren't necessarily going to equal the TS LRIC of the  
19 three individual pieces to the extent there's any  
20 jointness between them?

21           A.     That's true.

22           Q.     And so what are you asking for?  Are you  
23 saying that the company should produce a whole matrix  
24 of all of those different bundled services or you want  
25 individual bundled services to reach each one?

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1           A.     I understand you have a background in  
2 economics, so I guess all economists have the same  
3 solution. Some notion -- I mean, generally the  
4 solution is in a case like that you need to have some  
5 notion of your elasticity of demand for that  
6 particular service and you need to know some notion of  
7 your incremental cost and you set the margin relative  
8 to -- across -- if you have joint costs to be  
9 recovered, as you suggested, which is true, you have  
10 some markup related to the elasticity of demand or  
11 markup over the cost based on the elasticity of  
12 demand.

13          Q.     This sounds all complicated. I'm just  
14 looking for an idea how to make this practical.  
15 That's the main thing.

16          A.     I agree. The only practical way to  
17 approach it would be somehow to use some sort of an  
18 average elasticity. There certainly have been many  
19 studies about local service usage and toll and all of  
20 those kinds of things so you might get some -- I have  
21 not done that.

22                   COMMISSIONER GILLIS: Thank you.

23                   JUDGE ANDERL: Mr. O'Jile.

24                   MR. O'JILE: Couple of follow-ups on the  
25 questions suggested by Commissioner Gillis.

1

2

CROSS-EXAMINATION

3 BY MR. O'JILE:

4 Q. First of all, just as a practical matter,  
5 would the cost of implementing unbundling, meaning the  
6 process of devising unbundled services and preparing  
7 cost studies and preparing tariffs and whatnot, would  
8 those costs be properly included in the TS LRIC of the  
9 service being studied?

10 A. I would say yes. I also would suggest that  
11 here although this is what AT&T suggests, we are  
12 indeed experimenting here, and so to the extent things  
13 are economically feasible and we can do them -- in  
14 other words, I don't think anybody is suggesting that  
15 we spend a billion dollars doing cost studies. At  
16 least I'm not.

17 Q. Thank you. The final question I have,  
18 again, relates to Commissioner Gillis's examination of  
19 you on the issue of elasticities of demand. You  
20 indicated that you believe that there are studies  
21 available that have looked at various piece parts of  
22 the telephone business to determine elasticities for  
23 various services. But you would agree, wouldn't you,  
24 that in terms of unbundled services that have yet to be  
25 unbundle there are not elasticity studies that have

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1 done for those various services?

2 A. I would agree. All I was trying to suggest  
3 -- and in fact I used to work for U S WEST doing the  
4 econometrics so I have some idea there's a lot of  
5 stuff out there. I haven't reviewed it in eight or  
6 nine years but you would have to make some assumptions  
7 about how the elasticity of that specific related to  
8 some other study, and it might be just some, well, gee,  
9 elasticity of demand for local usage is .1 -- I don't  
10 know, I just made that up.

11 Q. And again the elasticity would be used in  
12 evaluating the reasonableness of the price set for the  
13 service?

14 A. Well, no. It will be used to determine --  
15 I believe the question related to, I have a total  
16 service long-run incremental cost, the total service  
17 long-run incremental cost does not include the  
18 incremental cost associated with the product group. In  
19 other words, if I set at TS LRIC without incorporating  
20 this other incremental cost the company can't make any  
21 money. Obviously if I buy only testing and testing  
22 doesn't have enough contribution in it nobody makes any  
23 money at that. I mean, somebody does, but U S WEST  
24 won't make any money, so there needs to be some way to  
25 be sure that all elements have some reasonable, or if



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1 you purchased them separately you would keep the firm  
2 whole or at least if you don't keep them whole at least  
3 you don't disadvantage them to the point where they  
4 lose. Do you understand?

5 Q. Yes, I do.

6 JUDGE ANDERL: Anyone else have any  
7 questions for this witness?

8 Thank you, Mr. Buorgo, for your testimony.  
9 You may step down. We'll take our afternoon recess.  
10 When we come back Dr. Beauvais will be on the stand.

11 (Recess.)

12 (Marked Exhibits T-130, 131, 132 and  
13 T-133.)

14 JUDGE ANDERL: Let's be back on the record  
15 after our afternoon recess. While we were off the  
16 record Dr. Beauvais took the stand. We marked his  
17 testimony as Exhibit T-130, his ECB-1 is Exhibit  
18 131. His Exhibit ECB-2 is Exhibit 132 and his  
19 rebuttal testimony is Exhibit T-133.

20 Whereupon,

21 EDWARD BEAUVAIS,  
22 having been first duly sworn, was called as a witness  
23 herein and was examined and testified as follows:

24 JUDGE ANDERL: Go ahead, Mr. Potter.

25

1 DIRECT EXAMINATION

2 BY MR. POTTER:

3 Q. Dr. Beauvais, would you state your name for  
4 the record, please.

5 A. My name Edward C. Beauvais. That's B E  
6 A U V A I S.

7 Q. And are you the Edward C. Beauvais who is  
8 sponsoring the prefiled testimony and exhibits that  
9 have been marked as T-130, 131, 132 and T-133?

10 A. Yes, I am.

11 Q. Do you have any corrections to any of those  
12 exhibits?

13 A. Yes, I have two corrections.

14 Q. Would you tell us what those are, please.

15 A. Certainly. In my direct testimony on page  
16 20, line No. 4. No should be changed to "not." In the  
17 rebuttal on page 24, line 7, the word "and" should be  
18 changed to "any."

19 MS. WEISKE: What line?

20 THE WITNESS: In the rebuttal page 24, line  
21 7, "and" to "any."

22 Q. Back to your correction on your direct at  
23 page 20, line 4. Should we also drop the comma so it  
24 would read "not immediately"?

25 A. That's right.

1 Q. With those corrections, are the answers and  
2 other information contain in your four exhibit true  
3 and the correct to the best of your knowledge?

4 A. Yes, they are.

5 MR. POTTER: GTE Northwest moves the  
6 receipt of Dr. Beauvais's four exhibits.

7 JUDGE ANDERL: Is there any objection from  
8 any party?

9 Hearing none those four exhibits will be  
10 admitted as identified.

11 (Admitted Exhibits T-130, 131, 132 and  
12 T-133.)

13 MR. POTTER: I have no preliminary  
14 questions so he would be available for  
15 cross-examination.

16 JUDGE ANDERL: Before we go into the cross  
17 of this witness, I did want to talk to the parties and  
18 I guess -- is Ms. Proctor here?

19 MS. WEISKE: Yes.

20 JUDGE ANDERL: I just would like to deal  
21 with these two exhibits 128 and C-129 or I am afraid  
22 we'll forget to do so.

23 I have reconsidered the ruling that I made  
24 with regard to Exhibits 128 and C-129 and I am going to  
25 reject those exhibits on the basis that I can't read

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1 them and understand them in any -- they're not  
2 meaningful to me. They don't provide any meaningful  
3 information.

4 I understand what U S WEST is trying to do  
5 with those, but to extent that they don't convey the  
6 information, I think they do need additional foundation  
7 and I just don't think it would serve the record by  
8 having them in. If you want to offer them through  
9 another witness, I don't know if you can do that or  
10 not, but I just feel in fairness, I shouldn't clutter  
11 the record with something that is not going to help  
12 towards a decision in this matter. And so I am going  
13 to reverse my ruling on those two documents. I want to  
14 give you some time about how you want to proceed on  
15 those.

16 MR. SHAW: Well, Your Honor, this very much  
17 surprises us because it's been a long practice in this  
18 Commission that data requests that have been answered  
19 by a company can be put in through that company  
20 witness. There's certainly no issue here as to the  
21 accuracy of these exhibits. In the future we would  
22 certainly have a lot of objection to parties putting  
23 complex exhibits consisting of U S WEST's data  
24 responses in through U S WEST witnesses. I think the  
25 documents are no more complex than anything else on

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1 the record and are easily read. We obviously can  
2 explain them on brief also. This is just a real  
3 surprise to us, something we never contemplated and if  
4 you're going to stick by your reversal you at least  
5 have to give us the right to put one of our witnesses  
6 on to say what these documents mean to us. Otherwise  
7 you've deprived us of our ability to present evidence  
8 in this case.

9 JUDGE ANDERL: I will consider that. Why  
10 don't you bring it up again.

11 MR. SHAW: Okay. And I would want to very  
12 much point out that because of tactical delay in  
13 responding to discovery we got these a couple of days  
14 ago.

15 JUDGE ANDERL: I understand your position  
16 on that matter. I'm telling you that at this point  
17 they don't provide any useful information, and I felt  
18 that they should not be admitted without the proper  
19 foundation. And so that's my ruling. As I said, I  
20 will give you a chance to offer them through one of  
21 your witnesses if you feel it's important to do so. I  
22 just want the record to be clear that they're not in  
23 right now.

24 (Withdrawn Exhibits 128 and C-129.)

25 MS. PROCTOR: Your Honor, I would like the

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1 record to be clear. Also, I would object to  
2 Mr. Shaw's characterization of a tactical delay on  
3 AT&T's part on responding to that request. There  
4 certainly was no tactical delay.

5 JUDGE ANDERL: Your objection is noted.

6 MR. SHAW: I just have to state that if U S  
7 WEST objected to disclosing its cost and price data to  
8 a data request by the staff or any other party in this  
9 case we would be censured at great length, and we would  
10 never make such an objection. There seems to be two  
11 standards of discovery in this case.

12 JUDGE ANDERL: Well, Mr. Shaw, I'm not  
13 going to get into a long discussion on the record  
14 about why U S WEST is, I feel, perhaps in a little  
15 bit different position, as someone who has filed a  
16 tariff, than perhaps AT&T is. We'll leave it where it  
17 stands now and go to the cross of Dr. Beauvais. Have  
18 the parties talked amongst themselves about who wanted  
19 to lead that off?

20 MS. WEISKE: After staff, you mean? I think  
21 I am going next.

22 JUDGE ANDERL: Mr. Smith.

23 MR. SMITH: I would be happy to go first  
24 but I guess I assumed the complainants would. I  
25 have just five minutes worth.

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1 MS. WEISKE: I am happy to start.

2 JUDGE ANDERL: Well, you're not one of the  
3 complainants, though, are you? ELI or TCG?

4 MR. BUTLER: I can go. That's all right.

5 JUDGE ANDERL: Somebody go, please.

6 THE WITNESS: I suggest we take a consensus  
7 and nobody wants to ask me anything.

8

9 CROSS-EXAMINATION

10 BY MR. BUTLER:

11 Q. Dr. Beauvais, I would like to direct your  
12 attention to page 8 of your direct testimony beginning  
13 at line 21 and extending through page 9, line 8?

14 A. Through page 9, line 8?

15 Q. Yes. At that point you suggest that mutual  
16 compensation for interconnection must be in your words  
17 between or among registered carriers which are  
18 offering a substantial range of services to the  
19 general public over a significant geographical area.  
20 I would like to talk with you a little bit about what  
21 you meant by that statement. First of all, does that  
22 statement mean that it is your opinion that this  
23 Commission should not require incumbent local exchange  
24 carriers and the competitive local exchange carriers  
25 such as Electric Lightwave, TCG, MFS and the MCI Metro

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1 to interconnect with telecommunications providers who  
2 are not subject to the Commission's jurisdiction such  
3 as PUD's?

4 A. Such as PUD being public utility districts?

5 Q. Right.

6 A. Let me tell you -- you asked kind of a  
7 negative question. Let me tell you what I had in mind  
8 and then we can see if we can sort it out. I think the  
9 answer is no to your question. I didn't mean that.  
10 What I had in mind here is that there are a number of  
11 entities out there that look very much like local  
12 exchange carriers or ALEC. What comes to mind  
13 immediately is a shared tenant service provider type  
14 of operation who provides service mainly simply in one  
15 building, for example. Anybody with a PBX can easily  
16 fall into that category, and if in dealing with a  
17 mutual compensation or even a bill and keep world, I  
18 was trying to make a distinction between what  
19 constitutes an end user and what constitutes a  
20 certified local exchange company. We would certainly  
21 have an obligation as would anybody else to  
22 interconnect with any other party in this network of  
23 networks.

24 Q. So your use of the word register does not  
25 imply any opinion about whether the Commission should



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1 require registered carriers to interconnect with those  
2 who are not registered such as PUD's?

3 A. If a PUD is viewed as an end user then  
4 obviously there's an obligation to serve currently  
5 imposed upon certified local carriers. If it is a  
6 private network or if PUD is viewed as a private  
7 network that simply wants to interconnect again as an  
8 end user type arrangement, the same obligation  
9 applies. If this party desires to be a carrier  
10 offering a service to unaffiliated users much like a  
11 LEC over large geographic areas that would seem like  
12 the type of operation or organizational structure that  
13 ought to be subject to Commission standards and  
14 regulation.

15 Q. If, as a matter of Washington state law,  
16 there were entities such as a public utility district  
17 which were not subject to the Commission's regulatory  
18 oversight, would it be your position that the  
19 Commission should not require those carriers which are  
20 subject to its jurisdiction to interconnect with a  
21 compensate those unregulated carriers for exchange of  
22 traffic?

23 A. Well, without making any legal opinion one  
24 way or the other, since I'm not a lawyer, I would not  
25 at this point be willing to compensate anybody who

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1 simply came forward and asked for compensation. I  
2 want the certification from somebody to prevent  
3 anybody and everybody coming forward and asking for  
4 compensation.

5 Q. Would it make any difference to your  
6 opinion if those unregulated carriers were to agree to  
7 conform their operations to the Commission's  
8 requirements?

9 A. I think we need a little more detail. If  
10 they would in fact behave like certified common  
11 carriers in the sense of obligations to serve and  
12 making the service available on a nondiscriminatory  
13 basis all the obligations or characteristics we  
14 usually think of in terms of common carriers, well, I  
15 guess if they look like a duck and quack like a duck  
16 and sound like a duck, they are a duck. In fact,  
17 while that's still like the certification, which is  
18 not to say regulation, but there's certification by  
19 either this body or the FCC or somebody that they are  
20 in fact carriers in which case we would interconnect  
21 with them and be willing to have mutual compensation.

22 Q. Let me ask you about some of the other  
23 things in this statement. Specifically I'm interested  
24 about the standard that you suggest for qualifying for  
25 mutual compensation. You use the language carriers

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1 offering a substantial range of services to the  
2 general public over a significant geographical area.  
3 Could you tell me what services you think would have  
4 to be offered before a carrier could qualify for  
5 mutual compensation?

6 A. The range is sort of again -- what I had in  
7 mind is to keep somebody devious, like me for example,  
8 who might simply have an R1 or B1 type of service  
9 arrangement and say, hey, this sounds like a pretty  
10 good deal. I will have myself declared as a  
11 telecommunications carrier then anybody that calls me  
12 I will ask for mutual compensation or compensation  
13 from the phone company.

14 Q. So am I correct --

15 A. I'm sorry. The substantial range means,  
16 clearly a voice grade service provider just providing  
17 POTS can offer a wide range of services.

18 Q. Let me ask you this. Is it your position  
19 that the competitive local exchange carriers that are  
20 involved in this proceeding, specifically Electric  
21 Lightwave, TCG, MFS, MCI Metro would meet your  
22 criteria as registered carriers offering a substantial  
23 range of services to the general public over a  
24 significant geographical area?

25 A. Yes, sir, they would.

1 Q. And so they would be entitled to a mutual  
2 compensation, in your opinion?

3 A. Correct.

4 Q. If I could next direct your attention to  
5 page 10 of your direct testimony, lines 9 through 15.  
6 The way I read that portion of your testimony you  
7 suggest that new entrants can be expected to cheat in  
8 identifying the nature of traffic as toll or local.  
9 Would you agree that a carrier would have an incentive  
10 to avoid any action that might result in the  
11 revocation of its registration or authority to provide  
12 service?

13 A. Certainly, and I again -- cheat is probably  
14 too strong a word as I started that line out. I am  
15 speaking without any pejorative intent. I am not  
16 implying that anybody has although we do have a  
17 witness involved from a different company not in this  
18 state not involved in this hearing who has said  
19 traffic has been misrepresented and we can probably  
20 talk off the record who that was.

21 Again I'm not trying to say cheats. When  
22 one goes to the incentives here and says if you're  
23 charging six cents a minute in one case or three cents  
24 a minute for one type of traffic and zero cents a  
25 minute or some lower price for essentially the same

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1 traffic, clearly the incentive is there that if you  
2 don't know what jurisdiction this traffic came from or  
3 belongs in, the incentive is clearly to report the  
4 cheapest form of interconnection.

5 Q. Your answer to my question was that you  
6 would -- you do agree that carrier would have an  
7 incentive to avoid an action that might lead to the  
8 revocation of its registration or authority to provide  
9 service?

10 A. I would certainly assume that was the case  
11 since those are valuable things to have.

12 Q. Would you agree that incumbent providers  
13 would have the same incentives that you described in  
14 the lines that I've referenced?

15 A. I would agree and have stated so in the  
16 past.

17 Q. If I could next direct your attention to  
18 page 12, lines 2 through 4. There you state that "it  
19 is desirable that the end user see a rate structure  
20 reflecting those cost characteristics," and I take it  
21 there you're referring to usage-sensitive prices,  
22 correct?

23 A. Well, statement goes beyond to line 7.

24 Q. Let's just focus on that reference.

25 A. It doesn't say -- the references would

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1 suggest that there would be increased reliance on  
2 usage-sensitive prices. Among other things.

3 Q. Is it GTE's goal to impose mandatory local  
4 measured service for end users in the state of  
5 Washington?

6 A. It is not. As you can see in the following  
7 line the statement is that nothing prevents billing on  
8 a flat rate basis. GTE does so and has no plans to  
9 impose or push for a mandatory local measured service  
10 on its customers in the state of Washington.

11 Q. Are you aware of whether there is a  
12 statutory prohibition in this state on the imposition  
13 of mandatory local measured service?

14 A. I believe, as I recall, that there's a  
15 two-year -- prohibition that has two years left to run  
16 before it comes up for renewal.

17 Q. If I could next direct your attention to  
18 page 12 of your direct, lines 17 through 13. Page 12.  
19 There you state that switched access charges as they  
20 are currently established in most states did not  
21 contemplate application to interconnection of local  
22 exchange traffic. Would you agree that switched  
23 access rates are not developed using any measure of  
24 local as opposed to toll revenue requirement or local  
25 demand --

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1           A.     Switched access as we know them today were  
2 in fact not developed using either of those.

3           Q.     On that same page at line 17 through 19 you  
4 state, "as a general statement, however, I believe the  
5 current level of switched access charges is too high  
6 to accommodate local exchange competition  
7 efficiently." Am I correct that it is GTE's proposal  
8 in this case to apply those access charges that you've  
9 characterized as too high?

10          A.     No, sir. That would not be an accurate  
11 statement.

12          Q.     Could you explain exactly what the proposal  
13 is.

14          A.     GTE's proposal as I have laid out in here,  
15 is to -- as a starting point for negotiations an order  
16 that mandates that ELI could be hooked up with our  
17 exchanges in particularly Everett initially -- was to  
18 take the current switched access charges that exist  
19 but not apply carrier common line charge and not apply  
20 the information surcharge as we would start with the  
21 TS proposal, just because it's a tariffed rate that's  
22 available to go right away. Later on in my testimony  
23 I state that even that, however, is probably too high  
24 in the sense it induces inefficiency and that GTE  
25 would suggest a price that looks very much like a

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1 local measured service type of rate level, somewhere  
2 between a penny, penny and a half, two cent range,  
3 rather than a two and a half cent range.

4 Q. If, in your opinion, even those rates are  
5 too high, would you agree that that imposition of  
6 those rates even during a transition period would  
7 create a barrier for new entrants?

8 A. I don't know that I would agree that it  
9 creates a barrier in the sense that ELI signed on in  
10 order to get into business. Would they clearly prefer  
11 a lower price, yes, but clearly entry has taken place  
12 even at that price.

13 Q. Are you aware of whether the interim  
14 connection agreement between Electric Lightwave and  
15 General Telephone of the Northwest included a  
16 provision for a true-up to reflect the Commission's  
17 ultimate decision about what the compensation scheme  
18 should be?

19 . Certainly. That's why it's not a barrier to  
20 entry or at least I wouldn't consider it one but it was  
21 merely a way to allow ELI to get started in business as  
22 soon as practical.

23 Q. So in fact Electric Lightwave didn't  
24 necessarily sign up for your proposal as you've made  
25 it in your testimony, correct?



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1           A.     Well, I'm sorry, got to be more specific.  
2 They clearly did sign up. We have an agreement. We  
3 are exchanging traffic and we are exchanging revenues  
4 with ELI today.

5           Q.     Subject to a retroactive true-up to reflect  
6 the Commission's ultimate decision, correct?

7           A.     That was part of our agreement.

8           Q.     You do suggest that there should be a  
9 transition to some other level of compensation,  
10 correct?

11          A.     I do indeed.

12          Q.     Could you be more specific as to exactly  
13 what that transition proposal is?

14          A.     As I have suggested, what GTE believes is  
15 that the appropriate or efficient price for  
16 interconnection of traffic among -- local traffic  
17 among certified carriers is a price that looks very  
18 much like the price to be paid for a local measured  
19 service type of arrangements. That would put a price  
20 between a penny and a penny and a half a minute in our  
21 service territories in Washington for local traffic.

22          Q.     How long, in your opinion, would this  
23 transition period last?

24          A.     In one sense we could transition to that  
25 level immediately. A more full blown approach to

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1 involve more substantial rate rebalancing and  
2 introduction of different options to consumers and to  
3 carriers, that one could move relatively quickly to  
4 new rate levels.

5 Q. Do you have any particular time frame in  
6 mind?

7 A. Again, I suppose in one sense one could do  
8 it overnight. I would propose over the next six  
9 months or a year that we would move to those rate  
10 levels as soon as agreement could be reached among the  
11 carriers because we do not plan to discriminate across  
12 carriers, we intend to offer them on same price to all  
13 carriers.

14 Q. That would include all of the incumbent  
15 independent local exchange companies as well?

16 A. Within a given area, yes.

17 Q. What do you mean by within a given area?

18 A. Well, I'm not suggesting that the price in  
19 Eastern Washington will be necessarily the same price  
20 as in the metropolitan Seattle area. There may in fact  
21 be different prices in different areas but in any given  
22 area the price will be the same to all carriers.

23 Q. Why wouldn't price be the same throughout  
24 the state?

25 A. Because there may very well be different

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1 demand and cost characteristics throughout the state  
2 and which would need to reflect the supply and demand  
3 characteristics.

4 Q. At page 5 lines 2 through 5 of your direct,  
5 you recommend that new entrant local interconnection  
6 rates should be assessed across all carriers on a  
7 nondiscriminatory basis. From your previous answer,  
8 do I take it that it is your position that the rates  
9 charged by a new entrant might differ in different  
10 parts of the state or different exchange areas as long  
11 as they applied equally to all carriers within any  
12 specific exchange area?

13 A. I would assume new entrance prices,  
14 currently LEC prices would differ geographically  
15 across the state.

16 Q. Would the same apply to switched access  
17 rates?

18 A. I think an efficient pricing for switched  
19 access would also call for differentiation based on  
20 geographic area or densities zones much as the FCC has  
21 recently authorized.

22 Q. I would like to talk briefly about your  
23 position with regard to bill and keep. At page 2 of  
24 your direct testimony, lines 5 through 8, you state  
25 that in your opinion bill and keep arrangements assume

01792

1 a zero cost and zero price for terminating access. In  
2 your opinion, does GTE incur any cost to terminate EAS  
3 traffic from other incumbent independent local exchange  
4 carriers?

5 A. Well, certainly there is an incremental  
6 cost to terminate traffic. At some point ports fill  
7 up, capacity fills up. The costs per minute may be  
8 very low for marginal, but yes, there is a cost in  
9 terms of foregone resources.

10 Q. And would the reverse be true that the  
11 other independent local exchange carriers would also  
12 incur costs to terminate EAS traffic originated from  
13 GTE?

14 A. Sure.

15 Q. And that EAS traffic generally is dealt  
16 with on a bill and keep basis today, correct?

17 A. They're generally contractual arrangements  
18 between carriers, yes.

19 Q. You state at page 3, lines 12 through 14 of  
20 your direct testimony that interconnection -- that is  
21 the mutual termination of calls between an incumbent  
22 and a new local exchange company -- is in function  
23 like the terminating switched access service local  
24 exchange companies currently provide to interexchange  
25 carriers. In your opinion, is such mutual

01793

1 interconnection not also like in function to EAS  
2 termination currently provided among local  
3 interexchange carriers?

4 A. Clearly in terms of terminating a call it  
5 is very similar between EAS terminating another local  
6 call, terminating a call from an IXC, terminating a  
7 call from a cellular carrier. They all look and  
8 behave very much alike. Only difference tends to be  
9 that the price is different depending on the identity  
10 of the carrier that we're receiving the call from.

11 Q. Let me ask you a few questions about the  
12 subject of unbundling. If I could refer you to your  
13 rebuttal testimony at page 23, lines 21, continuing to  
14 page 24, line 2. There you state that "we have  
15 already seen local exchange competition in Washington  
16 without unbundling of traditional LEC services." And  
17 I understand that on that basis you therefore conclude  
18 that unbundling is not necessary to achieve a  
19 competitive local exchange marketplace. Do you know  
20 what the level of entry is by new local exchange  
21 carriers in the state of Washington today?

22 A. Do I know? I know the numbers. I don't  
23 know what you mean by -- how many customers?

24 Q. How many access lines that are being  
25 served?

01794

1 A. No, I don't.

2 Q. Would you be surprised if I were to tell  
3 you that that number is relatively small?

4 A. No. Given the time frame since entry has  
5 first occurred it wouldn't surprise me at all.

6 Q. You've stated at page 27 of that rebuttal  
7 testimony, line 16 through 17 that "a new entrant can  
8 extend loops to individual customers anywhere it  
9 elects to do so." Would you agree that a new entrant  
10 would not be able to extend a loop to a customer in a  
11 multi tenant high rise building where there is either  
12 no available riser space or the building holder refuses  
13 to allow new riser cable to be installed by the  
14 provider?

15 A. Not only would I agree that the new entrant  
16 run into that problem, GTE has also run into that  
17 problem so it doesn't apply just to new entrant. It  
18 can apply to the incumbent firm as well.

19 Q. Given your understanding of the economics  
20 of constructing outside plant, would you expect that  
21 the number and geographic extent of customers who can  
22 be served by alternative providers would grow more  
23 slowly if the Commission were not to require the  
24 unbundled loops of the incumbent providers be made  
25 available to new entrants?

01795

1           A.     Let me try to answer you in two parts.  I  
2 believe -- maybe it's being a bit picky but unbundling  
3 to me is clearly not necessary.  We have seen  
4 competition without unbundling.  I fully believe that  
5 probably unbundling is desirable by new entrants to  
6 obtain those facilities.  That's one answer.  Of  
7 course they are.  If you can buy facilities on an  
8 unbundled basis perhaps cheaper than the bundled  
9 facilities then the demand for those facilities by new  
10 entrants or other parties will be greater than it ever  
11 was over the case.  There's no dispute about that.

12                     On the other hand there are also new  
13 entrants, cable TV providers come to mind, who can  
14 adopt wireless technologies to put on their tails of  
15 -- what amounts to wireless tails on a cable TV system  
16 where no unbundling of existing LEC facilities would  
17 be required at all which could also extend the rocket  
18 relatively rapidly.

19           Q.     I take it then you would agree that  
20 alternative choices to end user customers would in  
21 fact become available more rapidly if unbundling were  
22 required?

23           A.     I certainly believe that, yes.

24           Q.     Next let me ask you some questions about  
25 the general subject of number portability.  If I can

1 refer you to your direct testimony at page 22, lines  
2 21 through 22. You state that "GTE does not have the  
3 technical means or systems in place to provide number  
4 portability." To your knowledge, does GTE provide  
5 call forwarding services?

6 A. Obviously the statement was to database  
7 type of number portability or I think is what Dr.  
8 Cornell has referred to as true number portability.  
9 The technology, while it may exist in piece parts, has  
10 not been integrated to provide a technical -- or  
11 service available to make that the case. Obviously we  
12 can do call forwarding today.

13 Q. Are you familiar with the U S WEST offer to  
14 provide a route indexing service as an interim number  
15 portability solution?

16 A. I have heard of route indexing first in  
17 Iowa, and I must admit that I'm not familiar with all  
18 the details but I do believe -- I can't speak for U S  
19 WEST but they have agreed to provide it and GTE, as I  
20 hope I made clear in my testimony, is not opposed to  
21 number portability. We are willing to make it  
22 available.

23 Q. Just to clarify, if I understand your  
24 testimony correctly, GTE is willing to offer a route  
25 indexing service as U S WEST has proposed as an



01797

1 interim number portability solution; is that correct?

2 A. Once again, I am not familiar with route  
3 indexing other than having heard the term. I have to  
4 go back to my engineer and say are you willing to do  
5 route indexing or whatever that is, but GTE, assuming  
6 that we could find customers to pay for the costs of  
7 service or the costs of providing these services, are  
8 willing to make whatever services are technically and  
9 efficiently available to new entrants or any other  
10 customers that desire number portability.

11 Q. As you sit here today, are you aware of any  
12 reason why GTE would not be technically capable of  
13 providing the route indexing solution?

14 A. Again, I will go back to my response. Not  
15 knowing the details of route indexing I don't know  
16 that the switches that we employ are capable of doing  
17 it. If they are at that time mutually agreed upon  
18 price I would assume we would do so.

19 Q. At page 24 of your direct testimony, line  
20 16 through 19, you cite some internal cost estimates  
21 to implement number portability for GTE. What kind of  
22 number portability approach was assumed in these cost  
23 estimates?

24 A. The \$20 million per LATA were based  
25 on samples, I believe, of two LATAs in Illinois which

1 were judged to be fairly representative of a typical  
2 GTE LATA. The number portability to put in place was  
3 I believe full service provider portability as well as  
4 geographic portability of service to come up with a  
5 \$20 million number.

6 Q. Page 24, line 21, extending through page  
7 25, line 21 you state, "Certainly the costs of  
8 converting the system for local number portability  
9 should not be assessed on customers with no demand for  
10 such an attribute." Do you agree that the costs of  
11 implementing equal access in the long distance market  
12 were spread across all toll minutes including minutes  
13 originated by customers who have never chosen to  
14 change their interchange provider?

15 A. They were certainly paid for by the  
16 interexchange carriers who evidenced the demand for  
17 equal access services.

18 Q. Do you believe that the imposition by the  
19 FCC of equal access requirements was reasonable public  
20 policy decision in the context of the development of  
21 interexchange competition?

22 A. Certainly did.

23 Q. In directing your attention to page 25 of  
24 your direct testimony, at lines 4 through 19, there  
25 you discuss virtual number approach to dealing with

01799

1 the number portability concerns. Am I correct that  
2 under your proposal a customer who wishes to have a  
3 portable number would first have to change to a new  
4 nongeographic virtual number?

5 A. Under the approach that we laid out here  
6 indeed it would require a one time number change much  
7 like the 500 data type services that I believe GTE  
8 recently filed in Washington state. Yes, it would  
9 require a one time number change to go to that  
10 solution.

11 Q. So that in effect then would not meet the  
12 concern of a customer that didn't want to change its  
13 number in the first place?

14 A. Well, it depends on who that customer was.  
15 If it's a new customer moving in it may not be a big  
16 deal whatsoever. I also understand that AT&T is  
17 advertising such a service available, so clearly they  
18 believe there is demand for that type of portability  
19 service.

20 Q. But again a customer that didn't want to  
21 change its number would have to change its number  
22 under your proposal?

23 A. Indeed. The number proposal that I have  
24 put forth here is one of a range of options to number  
25 portability which would start with a basic of call

01800

1 forwarding, include the virtual number approach, which  
2 is already available in a 500 type tariff. That would  
3 include a movement toward a more or less database  
4 solution. I think it would include a limited database  
5 exclusion much like the one MCI has proposed where you  
6 pick selective NXXs to make portable onto a complete  
7 database service with geographic number portability as  
8 well as service provider portability. It's simply one  
9 option in a range of options the customers may in fact  
10 find desirable in the future.

11 Q. Finally, have you read the MFS Intelenet  
12 survey or the MCI survey submitted to INC regarding  
13 unwillingness of customers to change telephone  
14 numbers?

15 A. I have indeed. I am indeed familiar with  
16 those results, as I think I responded in one of my  
17 data requests, I believe, to MCI, yes.

18 Q. So you do agree that there are substantial  
19 number of business customers that for a variety of  
20 reasons are reluctant to change their telephone  
21 numbers, correct?

22 A. I believe -- I think the number is  
23 80 something percent for business customers, and if I  
24 recall the MCI numbers it was like 40 percent, as I  
25 recall, for residence customers who said they would

01801

1 be reluctant to change carriers if they had to change  
2 numbers. That is not quite the same statement  
3 as saying they would be willing to pay the cost of  
4 having number portability available in order to be  
5 willing to change carriers. Those are two separate  
6 statements.

7 Q. Thank you.

8 MR. BUTLER: I have no further questions.  
9 Benefit of making me go first, I guess.

10 JUDGE ANDERL: Thank you, Mr. Butler.  
11 Mr. Kopta for TCG.

12 MR. KOPTA: Thank you, Your Honor.

13

14 CROSS-EXAMINATION

15 BY MR. KOPTA:

16 Q. Afternoon, Dr. Beauvais.

17 A. Afternoon, sir.

18 Q. I would like to clarify GTE's proposal.  
19 Would you turn to page 4 of your direct testimony,  
20 please. Specifically lines 17 through 21. And I  
21 believe you state at that point that "at this time GTE  
22 Northwest proposes that compensation be based on the  
23 applicable charges on the company's switched and  
24 special access tariffs with the exception of the  
25 information surcharge in the carrier common line

01802

1 charge."

2                   Now, in your conversation with Mr. Butler,  
3 did I understand you to say that that was simply what  
4 GTE was offering to ELI or TCG or some other alternate  
5 exchange carrier prior to this proceeding as an interim  
6 form of interconnection?

7           A.     It was a way to take our current tariff  
8 prices and make them available so that we could hook  
9 up to ELI or TCG as soon as possible.

10          Q.     And are you advocating this as the ultimate  
11 outcome of this proceeding?

12          A.     No, sir. I hope I've made clear I believe  
13 those prices should be reduced.

14          Q.     So as the outcome of this proceeding you're  
15 advocating to the Commission that they impose or  
16 direct GTE to impose rates in the one to 1.5 cent  
17 range for interconnection?

18          A.     That would be my recommendation, yes. As  
19 an efficient price to charge.

20          Q.     And would that be regardless of whatever  
21 the Commission may decide to do in the future as far  
22 as rate rebalancing or uniform rates for all  
23 interexchange and other carriers to interconnect?

24          A.     No. I would always be reluctant to say  
25 it's regardless of what the Commission orders.

01803

1 Q. Keeping in mind that assuming for me, if  
2 you will, that those issues are not present in the  
3 current proceeding. You would advocate that the  
4 Commission impose the one to one and a half cent charge  
5 for interconnection with alternative local exchange  
6 carriers at this time?

7 A. That would be my recommendation, yes.

8 Q. On page 8 of your direct testimony and  
9 carrying over to page 9 this same section that  
10 Mr. Butler referred you to as far as who GTE believes  
11 is appropriate to have mutual compensation  
12 arrangements with. And again specifically on page  
13 9, lines 2 through 4 you state "not only that" --  
14 referring to the definition that you've given -- "but  
15 the Commission must be rather stringent in the  
16 criteria to be used in granting such registrations."

17 Is it GTE's position that the current  
18 registration requirement for telecommunications  
19 companies are not sufficiently stringent?

20 A. Again, this is not a comment directed to  
21 any of the parties in this proceeding. Again, what  
22 I'm concerned about in one sense the experiences we  
23 went through with the alternate operator service  
24 providers and still to some degree hit on occasion in  
25 different areas, it's going to sound pejorative, but

01804

1 in an industry as important as this one we kind of want  
2 to keep the riff-raff out. This is not a funny  
3 business we're fooling with. When somebody calls a 911  
4 we want that service to work, and that local exchange  
5 carrier, that connection is reliable. That's the kind  
6 of concern I have.

7           So in one sense I don't think it's simply  
8 sufficient to show, yeah, I got enough money and I  
9 know how to run it or I can hire somebody. You really  
10 want somebody who's going to take its obligations as a  
11 telephone provider seriously.

12       Q.     So I would take it it's not GTE's position  
13 that neither TCG or ELI are riff-raff?

14       A.     Well, not this week anyway. By the way I  
15 don't think that applies to MCI Metro either.

16       Q.     Is it GTE's position that a minute of use  
17 pricing is appropriate for all services that GTE  
18 offers?

19       A.     Well, clearly not for all services GTE  
20 offers. With respect to our switched services  
21 provided over the network, I think it's important that  
22 customers have the choice to choose either the full  
23 blown capacity of the port kind of charge or flat-rate  
24 charge, if you prefer, or there are clearly customers  
25 out there that will just as soon pay on a minute-of-



1 use basis for only what they consume rather than  
2 capacity of the port.

3           In that sense, which is what I was trying  
4 to illustrate with one of my exhibits, showed the  
5 declining block and stating that one of those marginal  
6 prices could in fact be zero which would then become  
7 essentially a flat rate, or for those customers that  
8 prefer for smaller volumes, whatever the reason, they  
9 have a measured option available to them or a number  
10 of measured options available.

11       Q.    Is it GTE's position that it is  
12 inappropriate to impute the rate that GTE charges for  
13 interconnection to its network to its own operation?

14       A.    I do not find that an appropriate concept.  
15 I would say the imputation of tariff prices is only a  
16 special case of the more general case of imputation,  
17 but as an overall rule for purposes here that GTE does  
18 not object to correctly stated imputation standard.

19       Q.    In your discussion of bill and keep, which  
20 I believe begins on page 12 of your direct testimony,  
21 would you agree that under a bill and keep arrangement  
22 each carrier is required to pay the costs of the use  
23 of its own network by itself and interconnecting  
24 carriers?

25       A.    That's how bill and keep works, yes.

1 Q. So then what bill and keep effectively is  
2 is an in kind payment for services rendered?

3 A. Well, it's a forced barter arrangement and  
4 it's kind of in kind, yes.

5 Q. Using TCG and GTE as examples, if GTE is  
6 paying for the costs of its own use of its network and  
7 TCG's use of its network, and in exchange for that TCG  
8 is paying for the use of its network and GTE's use of  
9 TCG's network, wouldn't TCG have an incentive to  
10 reduce its operating cost to lower the cost that it  
11 must pay for use of its network and GTE's use of its  
12 network?

13 A. Any carrier subject to competitive  
14 pressures of the market always has an incentive to try  
15 to reduce its operated cost whether we're in bill and  
16 keep, mutual compensation, flat rate port charge. The  
17 incentives are always there to cut your costs, make  
18 yourself more efficient.

19 Q. In your direct testimony, beginning on page  
20 5, you discuss data distribution center. Would you  
21 explain to me how that operates?

22 A. Well, I will explain to you as well as I  
23 know about it. It's an arrangement that I understand  
24 is carriers submit their originating records to the  
25 data distribution center which in turn produces

01807

1 terminating access arrangements to be billed through  
2 CABS billing systems.

3 Q. And is that a system that is currently  
4 available?

5 A. That is currently available, as I  
6 understand it, yes.

7 Q. And is GTE making use of that system?

8 A. I believe we are, yes.

9 Q. Do you know what GTE's average monthly  
10 costs are for using that system?

11 A. I believe there are plans to make it  
12 available. And what we are talking -- I do not know  
13 that we are actually using. I think right now we're  
14 billing right off the terminating portion switch for  
15 ELI.

16 Q. So GTE is not currently using the data  
17 distribution center?

18 A. I believe that's correct. I would have to  
19 check. I'm sorry. I don't have the details just at  
20 the moment but I'm sorry, you asked something about  
21 the projected costs?

22 Q. I did, whether actual or projected if you  
23 have a figure for the average monthly cost of using  
24 that service?

25 A. I don't have the average monthly cost.

01808

1 What I do have is a recollection that the price per  
2 message is something on the order of .0005 per  
3 message.

4 Q. That's in dollars?

5 A. That's in dollars.

6 Q. On page 22 of your direct testimony,  
7 specifically lines 6 through 7.

8 A. Can I interrupt you just a second? I think  
9 that was at a projection of about 20 million minutes a  
10 month. If you exceed 20, 25 million the price goes  
11 down but I don't know what the lower price is.

12 Q. Thank you. Again, on page 22 lines 6  
13 through 7, you state that "the company," -- GTE -- "is  
14 open to negotiating a provision of directory listings  
15 in assistance to ELI, TCG and other ALECs." Is GTE  
16 willing to provide those services to ELI, TCG and  
17 other ALECs under the same terms and conditions that  
18 GTE provides those services to itself?

19 A. That is my understanding from our business  
20 people, yes.

21 Q. On the issue of number portability, is it  
22 your understanding that that would allow current GTE  
23 customers to use the telephone numbers that have been  
24 assigned to them by GTE to take service from another  
25 carrier?

01809

1           A.     That if they signed -- if a current GTE  
2 customer signs up with another carrier, then assuming  
3 number portability is available then that customer  
4 could in fact take his number to a different carrier,  
5 yes.

6           Q.     GTE is assigned NXX blocks from U S WEST as  
7 code administrator, is it not?

8           A.     Yes, it is.

9           Q.     And within each NXX block are potential  
10 10,000 individual telephone numbers that GTE then has  
11 available to assign to its customers; is that correct?

12          A.     Correct.

13          Q.     Does GTE pay any fees to U S WEST as code  
14 administrator for the use of the numbers to which it's  
15 been assigned?

16          A.     I do not believe it does.

17          Q.     Does GTE own or have a proprietary interest  
18 in the numbers to which it's been assigned?

19                 MR. POTTER: I will object to the extent it  
20 calls for a legal conclusion.

21          Q.     I'm not asking for your legal opinion.  
22 I'm simply asking, is it GTE's position that it owns  
23 the numbers it's been assigned by U S WEST as the code  
24 administrator?

25                 JUDGE ANDERL: Go ahead and answer if you

01810

1 know.

2 A. I don't have a legal opinion on it. What I  
3 would suggest is that GTE has a responsibility for the  
4 administration of those numbers that have been  
5 assigned to it. Today. The FCC has made a statement  
6 that the numbers belong to the customers, although  
7 it's not quite -- what happens when a customer leaves  
8 an exchange. He doesn't take his number with him  
9 today, but GTE does not believe necessarily that the  
10 number belongs to it, although I have seen statements  
11 to that effect in various publications, both within  
12 GTE and otherwise. It's not my position, however.

13 Q. Are the NXXs that GTE is assigned then used  
14 to provide services to GTE's customers?

15 A. I'm sorry, would you repeat the question.  
16 Do we use the telephone numbers to provide services?

17 Q. Yes.

18 A. We use telephone numbers basically as an  
19 address to identify that customer, so we know where to  
20 route traffic from and to.

21 Q. Well, let me be a little more specific and  
22 ask the question a little better. When GTE is  
23 assigned an NXX code from U S WEST as code  
24 administrator, that NXX is assigned by GTE to a  
25 particular central office; is that correct?

01811

1 A. That's correct.

2 Q. And those telephone numbers are then  
3 assigned to customers within the serving area of that  
4 central office as a means of facilitating the  
5 provision of telecommunications services? In other  
6 words, you can't have telephone service without a  
7 telephone number at least as far as the local exchange  
8 switched services?

9 A. In terms of generally available local  
10 switched services you must have a telephone number.

11 Q. And the fact that the NXX code is assigned  
12 to a certain central office is a function and manner in  
13 which GTE and other local exchange carriers have  
14 structured their networks; is that correct?

15 A. Well, geographically, yes. Historically it  
16 was an agreed upon practice by the entire industry as  
17 to how telephone numbers would be assigned and  
18 administered geographically.

19 Q. On page 28 of your direct testimony you  
20 discuss GTE Northwest's complaint -- I assume here you  
21 mean their cross claim against U S WEST; is that  
22 correct?

23 A. Yes, among others.

24 Q. Among others.

25 MR. POTTER: I believe it involves TCG and

01812

1 U S WEST.

2 MR. KOPTA: With that clarification.

3 Q. On lines 15 through 17, you state that "GTE  
4 Northwest has proposed to TCG and implemented with ELI  
5 a direct trunking arrangement which allows  
6 identification measurement and proper billing of this  
7 terminating traffic." Are you involved in the  
8 negotiations between GTE and either TCG or ELI for  
9 provisional interconnection?

10 A. No, sir, I wasn't.

11 Q. Are you aware that TCG proposed to GTE  
12 Northwest the same provisional interconnection  
13 arrangement it has with U S WEST?

14 A. I wasn't involved, but I'm not sure what  
15 you have with U S WEST so my answer would have to be  
16 no.

17 Q. Are you aware that GTE recently blocked  
18 calls from its customers to TCG customers because  
19 there was no provisional agreement for interconnection  
20 in place?

21 A. I am aware that we have not been -- up  
22 until now we have not been passing traffic to each  
23 other. I understand that those would be turned up  
24 supposedly in the next week. But it's also one of the  
25 reasons to go back to one of your earlier questions



01813

1 why we executed an agreement with an existing price to  
2 ELI early on.

3 MR. KOPTA: That's all the questions I  
4 have. Thank you.

5 THE WITNESS: Thank you, sir.

6 JUDGE ANDERL: Ms. Weiske, you can go now.

7

8 CROSS-EXAMINATION

9 BY MS. WEISKE:

10 Q. Good afternoon, Dr. Beauvais. I'm Sue  
11 Weiske and I'm here representing both MCI Metro and  
12 MCI Telecommunications Corporation.

13 A. Afternoon.

14 Q. I will try not to repeat some of the  
15 questions you've already been asked, but I do want to  
16 ask you some more questions about your position on  
17 number portability. I thought you said earlier in  
18 answer to Mr. Butler's question that you were familiar  
19 with some customer surveys on number portability, and  
20 you indicated some results. Have you done any surveys  
21 or has GTE done any surveys on number portability?

22 A. GTE is in the process of doing a survey on  
23 number portability and the willingness of customers to  
24 pay for that service by customers. The results I  
25 think are projected to be available by August or

01814

1 September. Up until this point we have not done a  
2 survey similar to the one that MCI or Gallup did for  
3 MCI.

4 Q. Is the survey that you just referenced  
5 going to survey both business and residential  
6 customers?

7 A. That is our plan, yes.

8 Q. Is it a national survey or state-specific  
9 survey?

10 A. I believe it was a national survey.

11 Q. Do you have any idea what the questions are  
12 going to look like for that survey?

13 A. I assume they would be correctly specified.  
14 No, ma'am, I don't have the questions.

15 Q. Well, you said in response to the data  
16 request that MCI Metro asked you, and you said earlier  
17 in response to Mr. Butler, that you were interested in  
18 what customers would pay for an in effect type of  
19 number portability. Is this GTE survey you just  
20 referenced going to put a specific price to a specific  
21 type of number portability?

22 A. I would assume it would put multiple prices  
23 to different types of number portability to gauge  
24 customer reaction to it, not just a single price.

25 Q. Do you know if that survey is going to

01815

1 examine both geographic number portability as well as  
2 service provider number portability?

3 A. Believe it is, yes.

4 Q. Do you know what basis that is going to be  
5 used for the various price points?

6 A. I would assume something along the lines  
7 that were put into the survey but again I don't have  
8 the data or I don't have the specific questions.

9 Q. You assumed some price points and you  
10 referenced what survey?

11 A. I would -- the study that was done by Mr.  
12 Epstein on behalf of GTE network operations that was  
13 included in one of the responses to MCI. I would  
14 assume the prices would start from zero and go up to a  
15 dollar, two dollars, three dollars per month.

16 Q. Dr. Beauvais, I don't recall that that  
17 Epstein study you referred to had any particular  
18 retail or wholesale price for a specific type of  
19 number portability.

20 A. No, ma'am, but it had an estimate, the \$20  
21 million per LATA, and we know a representative number  
22 of customer lines per LATA.

23 Q. You're certainly not going to ask a  
24 customer if they're willing to pay \$20 for number  
25 portability, are you?

01816

1           A.     I can convert a \$20 million cost to a  
2 monthly recurring charge to annual charge factors. So  
3 it may come out to a dollar per month, two dollars a  
4 month, 30 cents a month depending on the number of  
5 customers in the LATA.

6           Q.     But the costs, or the prices, excuse me,  
7 that you're going to ask about do relate to the study  
8 you just referred to?

9           A.     I would assume they would relate to the  
10 different types of number portability.

11          Q.     Let's talk about that study. You did  
12 reference your numbers in your testimony of 20 million  
13 per LATA or \$1.6 billion. I was curious when I looked  
14 at the implementation cost estimates how the two LATAs  
15 you chose as to the number of subscribers compared to  
16 the LATAs in Washington state.

17          A.     Again, I think as I stated earlier, those  
18 were for Illinois which we believe to be more or less  
19 representative of GTE. For Washington per se one  
20 would need to go back and calculate what the number  
21 would be or the cost would be for Washington. For  
22 example, state of Washington may have far more system  
23 signaling 7 already in place and one would not have to  
24 incur some of those costs within Washington that one  
25 might have to incur in Illinois. I don't know the

01817

1 answer as to what the number would come out for  
2 Washington.

3 Q. Well, you anticipate some of my questions,  
4 Dr. Beauvais.

5 MS. WEISKE: I don't think, Mr. Potter,  
6 these numbers are proprietary, they're not marked so.

7 MR. POTTER: I don't believe so.

8 Q. For example, you list on the study you rely  
9 on lists for one LATA 115,484 subscribers and for the  
10 second LATA 35,265 subscribers. Is it your testimony  
11 you don't know how those numbers compare to  
12 subscribers for the LATAs in Washington?

13 A. I have not looked at Washington-specific in  
14 terms of number portability studies.

15 Q. Would the same answer apply to what you're  
16 using for your number of switches?

17 A. Yes, ma'am.

18 Q. And I think you also just said earlier you  
19 couldn't tell me what portion or what proportion of  
20 these switches may already be SS7 capable for  
21 Washington?

22 A. No, ma'am, sitting up here I could not tell  
23 you that. Obviously it could be found out.

24 Q. But you're still comfortable relying on  
25 this number as a potential cost for implementation of

01818

1 number portability?

2 A. No, ma'am. What I have said is that in  
3 general while competition has benefits it also has  
4 costs as well. One of the costs is if one finds  
5 number portability desirable element to have in a  
6 competitive environment is that there are costs to  
7 implement number portability. The estimate that GTE  
8 prepared, based on the Illinois study that's contained  
9 in there, was \$20 million per LATA. As I've also  
10 stated that number would have to be estimated  
11 specifically for Washington state.

12 Q. And certainly, sir, it's conceivable that  
13 number could be very different for Washington state,  
14 isn't that true?

15 A. Indeed it could.

16 Q. Do the costs that we've been discussing  
17 assume implementation nationally for all of GTE  
18 territory, the \$20 million that you referred to and the  
19 1.6 billion?

20 A. The national could be \$1.6 billion. If you  
21 multiply \$20 million times the number of LATAs you get  
22 something bigger than \$1.6 billion. It's like you're  
23 going to do this -- once you hit a certain point you  
24 just go ahead and do it for the country.

25 Q. So that number assumes I think you said in

01819

1 earlier response to a question from Mr. Butler both  
2 service provider number portability and geographic  
3 number portability implemented all at once across the  
4 country?

5 A. Yes. Whether it's all at once or not it  
6 certainly envisions doing both. It's one of the  
7 discussions we've had internally that if you're going  
8 to go out and build this entire database system to do  
9 it, to do number portability, it's probably better to  
10 go ahead and at least plan on doing both rather than  
11 just one so we make sure the system is capable of  
12 doing both aspects.

13 Q. I was curious also about one of your  
14 earlier responses. I thought you said in response to  
15 Mr. Butler that if a customer wanted to keep the  
16 number they had now -- let's say I'm a GTE customer  
17 and I'm interested in going to MCI Metro, and I want  
18 to keep the number I have now with GTE. With your  
19 virtual number solution wouldn't I have to change my  
20 number to move to MCI Metro?

21 A. Yes, ma'am. As I explained, the virtual  
22 number solution, the database, the 500 number  
23 solution, if you're an existing customer, you would  
24 have to change your number to 500 to do it. It's at  
25 least a one time change.

01820

1 Q. But I thought you also said in response to  
2 an earlier question that that from your perspective  
3 was a first step to the MCI Metro database solution?

4 A. It is a step to a database solution. Even  
5 the 500 number solution requires a database to look up  
6 just like an 800 number database. You have to go  
7 translate the number to a real POTS number to actually  
8 do the routing of the call. What I said was one of  
9 the other four ranges of number portability options  
10 listed was the limited database solution. As I  
11 understand it right now MCI, your plan does not make  
12 every NXX portable but only selected NXXs portable so  
13 in that sense it's limited, both plans.

14 Q. I think what you just said to me is under  
15 the MCI Metro database approach the database would have  
16 to be limited to some NXX codes or some NPA codes?

17 A. I believe that is how the MCI plan as I  
18 understand it currently works based on conversations  
19 with Mr. Traylor.

20 Q. Under virtual numbers once the 500 NXX set  
21 of numbers is exhausted a new approach would then be  
22 needed, right?

23 A. Well, just the same as -- yes, just like  
24 800 numbers are about to exhaust, yes.

25 Q. I apologize. I'm not sure if this is a



01821

1 question that's been asked already. I know it was  
2 begun to get discussed earlier, but if you're talking  
3 about the interconnection between two local exchange  
4 companies carrying traffic that you call EAS-like  
5 traffic, I want to ask you a question about the  
6 physical interconnection for that traffic. It's my  
7 understanding that that traffic would not be carried  
8 through a virtual colocation scheme. Is that true?

9 A. Typically for most -- for EAS schemes that  
10 I am familiar with, there is a meet point at the  
11 boundary, the geographic boundary of the two companies  
12 involved, since under EAS today there are no  
13 overlapping companies.

14 Q. And that meet point is, I believe, very  
15 similar to the meet point that the applicants have  
16 been or the entrants have been asking for here, isn't  
17 that true?

18 A. Similar in one sense, dissimilar in  
19 another. With the current local exchange carriers you  
20 have franchise boundaries. With the new applicant  
21 they kind of float over, through and around existing  
22 carriers so the boundaries don't necessarily exist.

23 Q. If you had a boundary adjacent between an  
24 MCI Metro and a GTE and you wanted to have a similar  
25 physical interconnection point that a GTE and a U S

01822

1 WEST might have, is it fair to say that could also be  
2 a meet point?

3 A. What I would suggest is that GTE would be  
4 willing to have meet points at mutually agreeable  
5 locations.

6 Q. But it would be a meet point?

7 A. It could very well be a meet point.

8 Q. Wouldn't need to be a virtual colocation  
9 scheme?

10 A. Again if both parties agree I see no reason  
11 why you couldn't have mutually agreeable meet points.

12 Q. And today for those meet points, isn't the  
13 compensation for that handled on a mutual traffic  
14 exchange or bill and keep?

15 A. Today they're handled, our EAS contracts  
16 typically where one party takes 50 percent and the  
17 other party takes 50 percent of the costs are -- at  
18 least in the state of Washington. They're not handled  
19 like that all over the country.

20 Q. I was asking as to Washington.

21 A. As I understand it they are handled on an  
22 EAS contract in Washington, no exchange of  
23 compensation takes place currently.

24 Q. Dr. Beauvais, what is comprehensive  
25 originating responsibility plan?

01823

1           A.     Originating responsibility plan is very  
2 similar to what carriers, interexchange carriers, use  
3 today in that the carrier providing the customer who  
4 originates the call for service is responsible for  
5 seeing that that call is completed on down the line to  
6 whatever number the party called, and it would also be  
7 responsible for making sure that compensation is paid  
8 on down the line to all parties involved.

9           Q.     And does the carrier that serves the  
10 customer who makes the call, are they also responsible  
11 for charging that customer for the calls?

12          A.     They would be responsible for making sure  
13 the call is billed, yes.

14          Q.     The revenues generated by that bill are  
15 retained by that company that the customers originated  
16 the call from?

17          A.     They would -- some of the revenues would be  
18 retained and, for example, if they're a GTE customer  
19 calling an MCI customer I would be responsible for  
20 making sure the call was handed off to you and you  
21 would complete it. I would bill my customer, I would  
22 pay you your access charges but I would bill my end  
23 user, so the originating party is responsible for the  
24 charges in paying the compensation needed to terminate  
25 the traffic.

01824

1 Q. You talked about earlier concerns about  
2 -- if I can use the Beauvais Telephone Company versus  
3 the MCI Metro or TCG company?

4 A. One of the sleazeball companies.

5 Q. I didn't want to be pejorative. We can use  
6 Sue Weiske Telephone Company if you like that better.  
7 I'm curious. Are you familiar today with reports that  
8 interexchange carriers file to indicate traffic  
9 between interstate and intrastate?

10 A. PIU?

11 Q. Yes.

12 A. Yes.

13 Q. Are you familiar with what's been called a  
14 PLU or percent local usage?

15 A. Yes, ma'am. In other jurisdictions I have  
16 supported that PLUs can work just as well as separate  
17 trunk groups or at least there's no apparent reason  
18 why you can't do those.

19 Q. And in fact I think you're also familiar  
20 with the fact that PIUs are intermittently audited by  
21 various LECs. Isn't that true?

22 A. They have the capability of being audited.  
23 I am not sure that any of them ever have been by a LEC.

24 Q. Do you know if GTE has ever felt they  
25 needed to audit an MCI PIU?

1 A. Have felt the need or done so?

2 Q. Either.

3 A. Not MCI.

4 Q. If you can define felt the need to.

5 A. I felt the need to audit a lot of people a  
6 lot of times, but as far as I know -- and I'm sure  
7 people felt the same way about us, but I am not aware  
8 that we have ever done so. We trust you.

9 Q. Well, I thought you did, but again, when I  
10 read the testimony out of context it appears that you  
11 don't trust some potential parties at least to the --

12 A. I think you're probably -- as a matter of  
13 business practice, it's probably a safe assumption to  
14 assume what economists generally assume, that people  
15 will behave in their own self interest, and that if  
16 you don't know where a call is coming from you're very  
17 likely to report whatever rate is cheapest, and as the  
18 technologies merge and geographic number portability  
19 happens, you very well may not know where that call is  
20 coming from. That's not saying we don't trust you. To  
21 me it makes an argument of why these prices should be  
22 integrated in a price, not based on the identity of the  
23 carrier passing the call to you.

24 Q. Dr. Beauvais, in most interstate versus  
25 intrastate jurisdictions there is a difference in

01826

1 price for switched access; isn't that true?

2 A. Yes, there is.

3 Q. Under sort of your theory of -- I don't  
4 know if I would call it economic incentives but some  
5 sort of incentive in terms of behavior it would be  
6 conceivable then under your argument that some sort of  
7 arbitrage would occur with that type of traffic; isn't  
8 that true?

9 A. Yes, it would.

10 Q. Isn't that one of the reasons for PIU and  
11 the ability for a LEC to have the audit choice of  
12 those PIUs?

13 A. Presumably that is the reason that the  
14 audit was put into those tariffs and agreements by the  
15 CC and the carriers as well.

16 Q. I want to go back to for a minute if I  
17 could to this issue of demand. You did talk to me  
18 earlier in terms of customer interest in number  
19 portability and indicated that GTE was planning to do  
20 a survey. Let's assume a sophisticated  
21 telecommunications customer, whether it's residence or  
22 business, wanted to retain their telephone number.  
23 How would they know in GTE territory for example that,  
24 one, they had an alternative to GTE, and two in  
25 choosing that alternative could go with that number to

01827

1 the other carrier. Why would they even ask for it in  
2 terms of gauging demand?

3 A. There's at least two questions there. One  
4 I assume MCI Metro, MFS, TCG and everybody else would  
5 be more than willing to tell customers that there's an  
6 alternative available to them. Advertising does seem  
7 to work rather well, especially for large sophisticated  
8 customers as you pointed out. Two, it doesn't surprise  
9 me that there's not much, or there might not be much  
10 demand by a lot of end users today simply because they  
11 don't know about it. As I ask my product managers in  
12 Washington and all over the country, have you had any  
13 requests for number portability for end users and the  
14 answer came back no, we haven't had any. Do I find  
15 that surprising? Certainly not at this stage of the  
16 market. Do I think number portability may be a  
17 valuable service on down the road and in fact may reach  
18 a point someday that everybody wants it? Yes. Is that  
19 occurring today? I think the answer clearly is it is  
20 not.

21 Q. Well, again, how many alternatives does a  
22 sophisticated customer -- we'll stay with that example  
23 -- either residential or business have today in  
24 GTE's territory in Washington?

25 A. Depends on which territory you're in.

01828

1 Everett, clearly ELI is terminating traffic and we are  
2 sending them traffic today. Is it a widespread  
3 alternative today, no, it's not.

4 Q. In that choice to ELI, can they retain the  
5 number that they have with GTE if they make that  
6 choice to move?

7 A. Via call forwarding they can as long as I  
8 think -- as long as the geographic area and boundaries  
9 are maintained.

10 Q. You referred earlier to call forwarding and  
11 I didn't know if you referred to a specific rate  
12 tariffed rate that you had in mind for call  
13 forwarding?

14 A. No, ma'am, I didn't refer to it.

15 Q. Is there a specific rate?

16 A. There is a tariffed rate which is probably  
17 too high again to -- there's an end user customer  
18 tariff rate there. I believe that that rate is too  
19 high in order to really economically efficiently make  
20 call forwarding available, yes, I do. Do I have a  
21 price in mind? I think U S WEST set a price at three  
22 to four dollars per month for theirs, but again, I have  
23 not talked to my product managers and pricing people so  
24 I don't have a price in mind.

25 Q. You understand the term total service long-



01829

1 run incremental cost?

2 A. Yes, I do.

3 Q. Do you know the relationship of the tariff  
4 rate you referred to?

5 A. Our rate?

6 Q. You referred to a U S WEST three or four  
7 dollar rate and you also referred to I thought a GTE  
8 tariffed rate?

9 A. The GTE tariffed rate I'm sure is in excess  
10 of total service long-run incremental cost.

11 Q. Would you have any idea of what percentage  
12 it's in excess of TS LRIC?

13 A. I wouldn't even care to speculate.

14 Q. I assume GTE would not be willing to  
15 provide that service at the total service long-run  
16 incremental cost?

17 A. Without knowing what that number is I would  
18 also -- well, even if I didn't know what the number  
19 is, which I don't, we would -- I would say the minimum  
20 price -- the minimum price would be total service  
21 long-run incremental cost plus contribution.

22 Q. And how would you define the contribution  
23 piece, the markup piece at that point?

24 A. How would I calculate it?

25 Q. How are you defining it? What are you

01830

1 including in contribution markup?

2 A. Price in excess of total service long-run  
3 incremental cost.

4 Q. All costs?

5 A. That's what contribution is equal to.

6 Q. Are you defining it as shared --

7 JUDGE ANDERL: One at a time.

8 Q. Are you defining it as shared and common  
9 costs?

10 A. It would have a portion of the shared and  
11 common costs in the contribution, yes.

12 Q. Could you turn to page -- well, for  
13 reference, pages 27 and 28 of your rebuttal testimony.  
14 You talk there about natural monopolies.

15 A. Yeah, I did use the term, okay.

16 Q. Yes, you did.

17 A. I must have lost control.

18 Q. Maybe I don't need to ask the question.

19 A. No, that's okay.

20 Q. Would you suppose with me that the provision  
21 of switching is not a natural monopoly but the  
22 provision of the loop is?

23 A. Let me ask you -- let me first define what  
24 I meant by natural monopoly in this context.

25 Q. Why don't you let me give you the premise

01831

1 of my question and if you feel you still need to  
2 explain that, that's fine, but let me ask it my way  
3 first. Suppose with me that the provision of switching  
4 is not a natural monopoly but the provision of the loop  
5 is, the unbundled loop?

6 A. Okay.

7 Q. How would the Commission determine that  
8 switching is not a natural monopoly if you don't have  
9 an unbundled loop? How do you make that  
10 determination?

11 A. Well, one could do it by simple examination  
12 of the cost functions. The definition of a natural  
13 monopoly, at least based on the principles of  
14 economics text, would say the average unit cost  
15 declines over the entire relevant range of output.  
16 And that's an industry structure we call natural  
17 monopoly. One could in principle do that analysis for  
18 switching separable from loops. If the cost functions  
19 above the -- exhibit the in kind cost characteristics,  
20 then one could in fact say that looks like, quote, a  
21 natural monopoly, unquote.

22 Q. There was one other portion of your  
23 testimony that I was interested in, and a little  
24 perplexed by. At page 11 of your rebuttal you say  
25 at lines 15 through 20 that ALECs would have trivial

01832

1 incentives to build their own plant, obtain services  
2 from other suppliers, such as cable companies or  
3 electric utilities, to bypass LECs if the cost of use  
4 of such facilities is zero. Are you trying to provide  
5 incentives there to build -- for ALECs to build their  
6 own plant?

7 A. No, ma'am.

8 Q. Then why are you -- then I'm still confused  
9 about why you're commenting that there would be  
10 little incentive to do that.

11 A. Because I think there is relatively little  
12 incentive at a zero plant to build your own facilities  
13 to compete with existing LEC facilities. It's not a  
14 pejorative comment one way or the other whether it's  
15 good or bad. The incentive, if I can use MCI Metro,  
16 at a zero plant and I have relatively -- virtually,  
17 well I have virtually no incentive to build my own  
18 plant.

19 Q. But you're not saying whether you're trying  
20 to promote the ALEC building their own plant or not?

21 A. No. Personally I would like you to use my  
22 plant as much as possible. Preferably pay me for it  
23 and I make money.

24 Q. And clearly if you don't unbundle that loop  
25 there might be an interest in doing that?

01833

1           A.     GTE, as I stated, is not opposed to  
2 unbundling per se. I believe that unbundling should  
3 be properly viewed as really the creation of a  
4 brand-new product line, a more extensive product line  
5 offered by an incumbent LEC or in this case GTE  
6 Northwest. Consistent with creating a new product  
7 line one needs to look at the price relationships  
8 across and within that product line. When one does  
9 that GTE may in fact be offering more unbundled  
10 products than anybody can shake a stick at. I don't  
11 know that that's going to be the case. However we are  
12 looking at it right now.

13          Q.     But, for example, if MCI Metro wanted to  
14 purchase an unbundled loop from GTE today we could  
15 only do it subject to this Commission's order; is that  
16 correct?

17          A.     There are clearly regulations that apply to  
18 the provision of services by GTE Northwest.

19          Q.     We are not voluntarily offering to sell  
20 MCI Metro an unbundled loop today, are you?

21          A.     Be happy to sell you a special access  
22 circuit.

23          Q.     That's not quite what I asked, Dr.  
24 Beauvais.

25          A.     Seriously, we are looking at it. I don't

01834

1 think Washington was the first on the list but it's  
2 far from the last on the list of creating unbundled  
3 product lines. Part of the problem in doing so,  
4 especially with respect to loop plant, is that loop  
5 plant is very geographic-specific, and while we have  
6 lots of requests for unbundled facilities, people have  
7 been -- new carriers have been rather reluctant to  
8 tell us how many of those facilities they would really  
9 be interested in purchasing and where -- because  
10 there's some places where you may have a shortage of  
11 facilities other places you may have an excess. So  
12 the geographic distribution of where those facilities  
13 are makes a difference.

14           Likewise, ordering one loop on an unbundled  
15 basis is a very different proposition than ordering  
16 10,000 loops on an unbundled basis, just in terms of  
17 cost characteristics and administration of the  
18 database systems, the service ordering systems, the  
19 need to be taken into account in setting those prices.

20       Q.     Don't you think it's fair, Dr. Beauvais,  
21 that generally the competitive providers in this  
22 docket have all consistently asked for unbundled  
23 loops?

24       A.     But, once again, how many and where?

25       Q.     I appreciate that, but is the answer to my

01835

1 question yes?

2 A. The answer to your question is there's a  
3 demand for those expressed by the entrants, yes.

4 Q. Thank you.

5 MS. WEISKE: That's all I have.

6 JUDGE ANDERL: Mr. Rindler.

7

8 CROSS-EXAMINATION

9 BY MR. RINDLER:

10 Q. Afternoon, Dr. Beauvais, how are you?

11 A. We're getting close to good evening I  
12 guess. By the way, MFS is not in the sleazeball  
13 category either.

14 Q. I appreciate your correction to the record.  
15 That was one of my questions. Dr. Beauvais, would you  
16 take a look at page 12 of your direct testimony, lines  
17 13 through 17. Are you testifying that this  
18 Commission must rebalance rates prior to the time it  
19 sets compensation for termination between LECs and  
20 ALECs?

21 A. I believe the testimony I'm talking about  
22 is the Commission needs to consider the impacts of the  
23 various costs and market opportunities with respect to  
24 the entire impacted price structure of the LECs at the  
25 time it adopts interconnection prices. Indeed one of

01836

1 the ways I would suggest is how one determines what  
2 that optimal interconnection price is to consider what  
3 that long run sustainable rate structure may in fact  
4 look like and that's the level or structure of rates  
5 you should set or be moving towards.

6 Q. Do I understand your answer to be that,  
7 yes, this Commission must consider rebalancing LECs'  
8 prices before they set interconnection charges?

9 A. Before or coincide with.

10 Q. Has GTE Northwest made a request for that  
11 rebalancing in this proceeding?

12 A. No, sir, not in this proceeding other than  
13 to lay out conceptually what I've done here and  
14 suggested what the price level for that ought to be.

15 Q. Do you know whether GTE has advanced a  
16 request in any other proceeding?

17 A. Probably over time we have.

18 Q. In connection with --

19 A. Certainly not recently.

20 Q. Do you have any idea what level of  
21 complexity that would add to this proceeding?

22 A. Sure. Makes it really messy, which is one  
23 of the reasons why we've tried to simplify here and  
24 why I've suggested the rate structure that I did  
25 suggest because I think it does suggest what that



01837

1 appropriate price level ought to be for  
2 interconnection without going to the full rate  
3 rebalancing, but I would ask the Commission to consider  
4 how one gets there and what the implications of that  
5 are.

6 Q. So you're not saying that the Commission  
7 needs to rebalance the rates in this proceeding?

8 A. Commission needs to address and consider  
9 the issues of it. One does not have to do it all in  
10 one step.

11 Q. You discussed with Mr. Butler the fact that  
12 GTE has made an estimate of provider and geographic  
13 number portability. Do you recall that discussion?

14 A. Certainly.

15 Q. This is at page 24 of your direct  
16 testimony. This \$20 million per LATA or \$1.6 billion  
17 for all of GTE Telephone operations; is that correct?

18 A. That was the estimate, yes, sir.

19 Q. And I understand that was for a nationwide  
20 roll-out of both geographic and provider number  
21 portability?

22 A. The \$1.6 billion would be for GTE's  
23 telephone operations systems nationwide.

24 Q. Has GTE made any estimate of the cost of  
25 provider-only number portability?

01838

1           A.     I'm not sure it would be all that  
2 different, but the only estimates that I'm aware of  
3 are what the network people have provided me which  
4 would be that number.

5           Q.     Why do you think it wouldn't be that  
6 different?

7           A.     Well, it seems to me there's a number of  
8 costs involved, the costs of holding calls, the cost  
9 of setting up the databases, the costs of  
10 administering the databases. Once one has got the SS7  
11 in place and the database is established -- just  
12 trying to think how geographic might work in addition  
13 to service provider. It seems to me that it's  
14 basically just one more entry in the database.  
15 817-224-7777 really means, and then you look up the  
16 real number or where that new number -- where that  
17 number is currently assigned as opposed to, oh, it's  
18 only assigned to MFS. It's assigned to MFS and MFS  
19 has it up and running in Kirkland as opposed to  
20 Seattle.

21          Q.     Do I understand you to say that the only  
22 estimate you have are those that your network analysts  
23 gave you?

24          A.     Yes, sir, that's correct.

25          Q.     And that that did not include an instrument

01839

1 for provider number portability only?

2 A. Whatever is there is all I have.

3 Q. And that you don't actually know what the  
4 difference would be between provider-only number  
5 portability and geographic number portability?

6 A. No, sir, I do not know the deltas.

7 Q. In a couple of places in your testimony you  
8 talk about local-like and EAS-like traffic. What do  
9 you mean when you say that? Isn't a call terminated  
10 between a competitive local exchange carrier and the  
11 local exchange carrier in the same area a local call?

12 A. Well, it certainly looks like a local call  
13 to us. What it was intended to suggest was that a  
14 local means something in local exchange companies  
15 tariffs today. As long as MFS adopts the same  
16 boundaries and geographical areas as the incumbent LEC  
17 does then local means local. However, one of the ways  
18 that competition may very well play out in future  
19 markets is that not only will price and advertising  
20 make a difference but the scope of what amounts to  
21 calling areas may change. Therefore, what's local to  
22 MFS may not be local to GTE. That's why "local-like"  
23 got added.

24 Q. But if you have the same exchanges?

25 A. If you have the same exchanges then local

01840

1 looks like local.

2 Q. Looks like it or it is?

3 A. Looks like local to us.

4 Q. What about EAS-like?

5 A. Well, EAS-like has a geographic dimension  
6 today. That is, when U S WEST and GTE Northwest  
7 exchange traffic on an EAS basis, it's typically  
8 viewed as more or less a toll substitute from a point  
9 A to point B outside the local exchange area. Again,  
10 EAS can be that way or it may not be, again, depending  
11 on how the carriers define their territories, so once  
12 again we used EAS-like as opposed to just EAS.

13 Q. On page 13 of your rebuttal testimony, you  
14 state, on lines 11 through 14, you discuss the  
15 question of the compensation that ought to be paid.  
16 Do you see that?

17 A. Yes.

18 Q. You state on line 14 or 15, "except for  
19 such elements as the CCL." What are the other  
20 elements?

21 A. Well, the other charge we said in reaching  
22 the initial agreement with ELI was we wouldn't also  
23 apply the information surcharge. We don't have a  
24 residual interconnection charge.

25 Q. So for such elements as the only other

01841

1 element you're talking about is this information  
2 surcharge?

3 A. Correct.

4 Q. On page 15 of your rebuttal testimony, you  
5 propose the use of separate trunk groups for local and  
6 toll traffic. Do you see that?

7 A. Yes, sir.

8 Q. Is this approach economically efficient?

9 A. Well, in one sense it is if you believe in  
10 incremental costs of additional trunk is relatively  
11 low, as some people seem to believe, then it can be  
12 very efficient. It is also the way that carriers deal  
13 with each other. We have separate trunk groups for  
14 toll and EAS in which case that means we would be  
15 treating you just like we treat each other, so in that  
16 sense it's efficient that we don't discriminate among  
17 the parties.

18 Q. Is it required that you have separate trunk  
19 groups?

20 A. Well, it certainly facilitates the  
21 segregation of traffic.

22 Q. Is the arrangement between LECs a  
23 requirement there be separate trunk groups?

24 A. The way the billing is set up today with  
25 the access charges applied to -- separately to toll

01842

1 and EAS, since one is bill and keep and the other is  
2 not today, then the way the billing system works I do  
3 believe it is required the way the current method  
4 is set up. Clearly one could go back and do a PLU  
5 approach, but the current arrangement seems to work  
6 real well and that's what the systems are set up to  
7 work with.

8 Q. Wouldn't PLU be more efficient?

9 A. I don't know that it would be any more or  
10 any less efficient and, as you and I have spoken  
11 before, it is a way that could work.

12 Q. On page 23 of your rebuttal testimony you  
13 state that Washington has already seen local exchange  
14 competition without unbundling. What competition are  
15 you referring to?

16 A. Well, there's a lot of people in business  
17 only three of which are at least sitting in this room  
18 already in business. You've also got the shared  
19 tenant service providers out there, as I understand  
20 it, some rather large shared tenant service providers  
21 out there competing with local exchange companies.  
22 You've got cellular carriers out there all of which is  
23 done without unbundling.

24 Q. In connection with a question asked by  
25 Mr. Butler, I believe you stated that GTE had also run

01843

1 into the problem of gaining entry into a building or  
2 riser; is that correct?

3 A. Yes, sir, that is correct.

4 Q. In that case what do the tenants in that  
5 building do for telephone service?

6 A. Well, I'm not aware that it's happened in  
7 Washington. I am aware it's happening in Florida, to  
8 be specific, is where I'm aware of it. What it  
9 amounts to is there was a shared tenant service  
10 provider in the building and a customer on one of the  
11 upper floors said I really want GTE Florida to serve  
12 us, obviously an enlightened customer, and so we tried  
13 to provide him service and the building owner  
14 essentially demanded a steep price for use of his  
15 risers. While we sympathize with the problem we do  
16 respect the property rights of the building owner and  
17 so he's got the service from the shared tenant service  
18 provider.

19 Q. So I understand your testimony you are not  
20 aware of any such situations in the state of  
21 Washington?

22 A. I am not personally aware of it, no, sir.

23 Q. I know in some states -- I believe Texas is  
24 one -- where shared tenant service providers are  
25 required to permit access to the local exchange

01844

1 carriers. Are you aware of such rules?

2 A. In Washington, I am not aware of the  
3 specific rules adopted by this Commission in that  
4 regard.

5 Q. With respect to a question by Mr. Kopta you  
6 said that GTE Northwest, as I understood it, would not  
7 object to a correctly set imputation standard. Was  
8 that your testimony?

9 A. Yeah, that's correct.

10 Q. What did you mean by correctly set?

11 A. That imputation standard that is  
12 efficiently dynamically correct would specify the  
13 incremental cost plus foregone contribution as the  
14 imputation standard to be adopted. In many cases, in  
15 fact in most cases, that may reduce to a tariff  
16 imputation standard but it won't in all cases. So  
17 we would specify that we use a general correct case and  
18 where that happens to be a tariff standard. Where it's  
19 not then we adopt the economically correct standard.

20 Q. One last question. On page 32 of your  
21 rebuttal testimony, I just may not understand this.  
22 On lines 1 through 6, you talk about a new entrant  
23 charging LECs differently. Do you see that?

24 A. Yes.

25 Q. And you said that that might raise an



01845

1 immediate issue of discrimination?

2 A. Yes, sir.

3 Q. And you then say that GTE's position is  
4 that ALECs, as we call them, competitive local  
5 exchange carriers, the interconnection charges should  
6 be nondiscriminatory across the LECs; is that right?

7 A. Yes, sir.

8 Q. Can you explain how that applies to the  
9 charges between a LEC and an EAS provider?

10 A. Yes, sir. As both I testified and I  
11 believe U S WEST proposes that we would in fact begin  
12 to change the EAS agreements to the same  
13 interconnection basis as I am proposing for MFS,  
14 MCI Metro, TCG, ELI.

15 Q. Has that occurred?

16 A. Again, no, sir, it has not. We would  
17 specify transition to begin doing so.

18 Q. Can you specify such a transition?

19 A. Have I?

20 Q. Can you?

21 A. Have I suggested one?

22 Q. No. Can you, GTE Northwest, specify a  
23 transition period?

24 MR. POTTER: Clarification. Do you mean  
25 does he have some -- or the company have some sort of

01846

1 regulatory authority? What are you asking?

2 MR. RINDLER: I'm asking whether it's a  
3 matter of contract, of consensus, whether it's a matter  
4 of regulatory policy. Any one of those.

5 A. I believe it is a matter of all of the  
6 above. It's a matter of regulatory policy. It is a  
7 matter of agreement between the companies.

8 Q. So in fact it could not be implemented by  
9 GTE Northwest on its own?

10 A. It cannot be done on a unilateral basis.  
11 It is contractual agreements among companies.

12 Q. And as long as that exists there would be  
13 discrimination between the way CLECs and EAS providers  
14 are treated; is that right?

15 A. Certainly there would be transitional  
16 arrangements, as I have testified before, and there  
17 are costs going to competitive markets just as there  
18 are benefits. That's one of the costs.

19 Q. Cost is discrimination?

20 A. The discrimination is only transitional  
21 since that's what exists today, and I would argue that  
22 transition ought to be as rapid as possible.

23 Q. So it's transitional if the Commission were  
24 to adopt such transition?

25 A. Of course we believe in obeying the lawful

01847

1 orders of the Commission.

2 MR. RINDLER: Thank you very much.

3 JUDGE ANDERL: Thank you. Mr. Smith.

4

5 CROSS-EXAMINATION

6 BY MR. SMITH:

7 Q. I'll follow up on that last question of Mr.  
8 Rindler's. If U S WEST began offering Microsoft in  
9 Redmond service out of its Bellevue office, would GTE  
10 recognize that call as an EAS call if it was passed  
11 off to GTE?

12 A. It would depend upon the NXX agreements  
13 between the companies and I don't know the geography  
14 well enough to tell you because EASs are generally  
15 recognized by the NXXs at the originating and  
16 terminating location and the trunks they come in on.  
17 If it came on over an EAS trunk it's going to look  
18 like an EAS call.

19 Q. Which would be under a bill and keep  
20 arrangement today?

21 A. Today it would be no compensation between  
22 the two carriers.

23 Q. You had a discussion earlier with  
24 Mr. Butler about your testimony, direct testimony at  
25 page 9, where you discuss the stringent criteria that

01848

1 the Commission should use in granting registration to  
2 new entrant. Do you recall that testimony?

3 A. Yes.

4 Q. And from your discussion with Mr. Butler, I  
5 take it you were talking about or your concern was  
6 about the quality of service to be provided by the new  
7 entrant?

8 A. Yes, sir.

9 Q. And in the beginning of competition in the  
10 interexchange market didn't new entrants try to  
11 distinguish themselves by the superiority of their  
12 service?

13 A. Or the alleged superiority of the service.

14 Q. And aren't new local service entrants  
15 likely to compete on the basis of the alleged or  
16 purported superiority of their service as well?

17 A. Well, in one sense yes, in another sense  
18 no. There may in fact be customers out there who  
19 would really like a very cheap service and aren't  
20 really concerned about all that quality. They don't  
21 care about voice data and clear transmission sounds,  
22 and if the price were sufficiently low there may be --  
23 I don't know that there is or isn't -- a market out  
24 there for low quality service in addition to high  
25 quality service. If you could knock 30 percent off

01849

1 your bill if you had to wait five seconds for dial  
2 tone there may be customers out there willing to do  
3 that. Will that be the basis of competition out in  
4 the future? I believe it will. There are  
5 also customers out there that want higher quality and  
6 are willing to pay for it.

7 Q. Have you seen new entrants around the  
8 country or in this state marketing their services on  
9 the basis that they're inferior to the incumbent?

10 A. They certainly wouldn't phrase it that way.  
11 They may say cheaper, less expensive. That's not  
12 suggesting that anybody that says less expensive is  
13 saying, "and it's crummy." I'm not suggesting that,  
14 but it's clearly -- in a monopolistic competitive  
15 world you are going to see differentiated services not  
16 just competing on the basis of price.

17 Q. On page 2 of your testimony at line 6 you  
18 indicate that bill and keep is not practical. Do you  
19 rely on any specific documents, studies or data to  
20 make that assertion?

21 A. Practical in the economic sense that  
22 higher prices always tend to bother me.

23 Q. But you do not rely on any studies or  
24 documents that support that statement?

25 A. No, sir.

01850

1 Q. Is it your contention that the proposal to  
2 measure and bill for local-like and EAS-like services  
3 as you described it will not increase the minimum cost  
4 for interconnectors?

5 A. Clearly one would need an interconnector if  
6 one were to measure a bill -- unless they were willing  
7 to trust our measure -- would need to provision or  
8 provide a mechanism to measure and bill traffic. To  
9 that extent, just like grocery stores have to put in  
10 cash registers. Does that increase the cost of doing  
11 so, well, certainly it does in the short run upfront.

12 Q. Might it also increase the cost if audits  
13 were necessary to audit the traffic between  
14 measurement of the traffic?

15 A. Again, accountants audit things all the  
16 time. So to the extent that you find it in your best  
17 interests to audit the books, clearly you could be  
18 paying costs you might not otherwise pay.

19 MR. SMITH: Thank you.

20 JUDGE ANDERL: We still have a couple of  
21 estimates for additional cross. Let's go ahead and  
22 take five minutes just to stretch and come back with  
23 AT&T, TRACER and U S WEST.

24 (Recess.)

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

01851

1 And we're going to go to Ms. Proctor for cross of Dr.  
2 Beauvais.

3

4 CROSS-EXAMINATION

5 BY MS. PROCTOR:

6 Q. Dr. Beauvais, could you please turn to page  
7 2 of your rebuttal testimony. Do you have that?

8 A. Yes, ma'am.

9 Q. And you have two columns there sort of  
10 identifying parties in their positions as you're  
11 characterizing them. Is that true?

12 A. Yes, ma'am, there's two columns on page 2.

13 Q. And do they purport to be a  
14 characterization on your part of the proposals of the  
15 parties on interconnection compensation?

16 A. It is my reading of the parties' positions  
17 at the time I prepared the testimony.

18 Q. Would you agree that AT&T has proposed the  
19 use of bill and keep on an interim basis?

20 A. Until mutual can be ordered or arranged  
21 for.

22 Q. So the answer to my question is yes?

23 A. That was the position that I understood  
24 that you took on the stand yesterday.

25 Q. When you say "you" you're referring to

01852

1 AT&T?

2 A. AT&T, yes, ma'am.

3 Q. Since I've just been served with another  
4 subpoena I do want to be specific.

5 If you could please turn to page 3 of your  
6 testimony, and at line 11, continuing on until line  
7 15, you attempt to characterize AT&T's position and  
8 you state that "AT&T supports mutual measured  
9 compensation on the basis of switched access rates."  
10 Where is that statement in Mr. Sumpter's testimony?

11 A. Ma'am, I think you can keep going. But it  
12 says -- continuing -- "but both note correctly that  
13 LEC's access rates need to be reduced through rate  
14 rebalancing." I don't have Mr. Sumpter's testimony  
15 with me, but I believe that would have been an  
16 accurate characterization of it.

17 Q. Mr. Sumpter is not recommending use of the  
18 actual current switched access rates for local  
19 interconnection, is he?

20 A. No, ma'am. That's what I'm suggesting.

21 Q. And where in Mr. Sumpter's testimony does  
22 he state that a LEC such as GTE needs to have rate  
23 rebalancing?

24 A. Again, I don't have his testimony with me  
25 so I can't tell you for a specific reference.



01853

1 Q. So it would be fair to state that you can't  
2 identify anyplace in Mr. Sumpter's testimony where he  
3 recommends LEC right rebalancing?

4 A. It will be fair to state up here today I  
5 don't have Mr. Sumpter's testimony with me.

6 Q. When you wrote this testimony and prefiled  
7 it, I take it you had Mr. Sumpter's testimony before  
8 you in order to make this characterization?

9 A. I've had his testimony and I've had  
10 conversations with representatives of AT&T in making  
11 this testimony.

12 MS. PROCTOR: Mr. Potter, could you please  
13 provide your witness a copy of Mr. Sumpter's testimony  
14 because I would like to have him show me where Mr.  
15 Sumpter recommended that the LECs such as GTE be able  
16 to have rate rebalancing.

17 MR. POTTER: I don't know that I have a  
18 copy with me, and frankly, if he's mischaracterized  
19 your witness's testimony I think our time would be  
20 better spent if we address that in a brief. There  
21 was no intention to mischaracterize.

22 Q. So you would agree that if this does not  
23 properly characterize Mr. Sumpter's testimony we can  
24 look at Mr. Sumpter's testimony?

25 A. Yes, ma'am. If I mischaracterized Mr.

01854

1 Sumpter's testimony I would apologize because that was  
2 not my intent.

3 Q. You also stated now, I believe, that you  
4 would recommend use of the switched access rate  
5 structure. It wasn't clear to me from your testimony  
6 which structure you were talking about. Are you  
7 talking about the existing structure which is  
8 basically traffic-sensitive, nontraffic-sensitive and  
9 CCL?

10 A. No, ma'am. I think, as I stated clearly,  
11 at the very least GTE would recommend the carrier  
12 common line and the information surcharge not be  
13 applied. Moreover, we would suggest that the price is  
14 too high at current levels and we would propose a  
15 price level and rate structure similar to that which  
16 would apply to a local measured service.

17 Q. Are you recommending use of the same local  
18 transport restructure that U S WEST has proposed in  
19 this case?

20 A. It would certainly not be a bad idea to  
21 give customers a choice between providing their own  
22 transport or providing dedicated transport to the  
23 first point of switching as opposed to just the tandem  
24 or just to the end office, and then paying for usage  
25 thereafter. But that has not been filed as a proposal

01855

1 by GTE in this case.

2 Q. Nor has it been filed by GTE at all in this  
3 state; is that correct?

4 A. Not in this state.

5 Q. You also recommended a rate for local  
6 interconnection of somewhere about one, one and a half  
7 cents per minute; is that right?

8 A. Yes, ma'am.

9 Q. Would you also recommend that as an  
10 ultimately appropriate level for switched access as  
11 well?

12 A. That would be my recommendation for the  
13 time being. Obviously the Commission could, depending  
14 on what the Commission did with other rebalancing  
15 proposals down the road, that price may change slightly  
16 up or down, but that would be the approximate level.

17 Q. On page 28 of your testimony, you discuss  
18 resale of services.

19 A. Direct or rebuttal?

20 Q. I am sorry. Rebuttal.

21 A. Yes, ma'am.

22 Q. And you state that entry into and expansion  
23 of both local and long distance competition can be  
24 created through resale; is that correct?

25 A. Certainly retail can play a valuable role

01856

1 in competitive marketplaces.

2 Q. Resale?

3 A. Resale has that potential, yes.

4 Q. I'm sorry, I heard you say retail.

5 A. I'm sorry, resale.

6 Q. But you're also stating that you don't  
7 support resale of services at this time. It should be  
8 deferred until GTE gets around to filing a rate case;  
9 is that correct?

10 A. Gets around may be a little wrong way of  
11 putting it, but certainly as long as switched access  
12 prices and other prices are put on a measured basis  
13 and we have business, especially large business users,  
14 and even B1 and R1 on a flat rate basis, then I get a  
15 little concerned about resale of services.

16 Q. And you also think that resale should wait  
17 until the issue of GTE Northwest's entry into  
18 interLATA services is resolved?

19 A. That's largely an issue of fairness, I  
20 believe. Obviously IXCs can come in with resale, do  
21 things we would be prohibited to create barrier to  
22 entry, although with the legislation pending in  
23 Congress this may not be an issue much longer.

24 Q. And indeed currently under the terms of the  
25 consent decree that GTE has with the Department of

01857

1 Justice, GTE could currently provide interLATA service  
2 through separate subsidiary as it once did through  
3 Sprint?

4 A. GTE Corporation can do so, yes.

5 MS. PROCTOR: No further questions.

6 JUDGE ANDERL: Mr. Kennedy.

7

8 CROSS-EXAMINATION

9 BY MR. KENNEDY:

10 Q. Good evening, Dr. Beauvais.

11 A. Evening.

12 Q. My name is Steve Kennedy. I'm going to ask  
13 you a few questions on behalf of TRACER. I will skip  
14 the ones that have already been asked and answered.  
15 At several places in your direct and rebuttal you  
16 state that a flaw in the bill and keep compensation  
17 system is between carriers or co-carriers in the same  
18 geographic area is that each carrier faces what you  
19 call a zero price per minute for terminating traffic  
20 on the other carrier; is that correct?

21 A. Yes.

22 Q. And the economic principle that leads you  
23 to being concerned about what you call a zero price is  
24 that it leads to over consumption of whatever is being  
25 sold. Is that the idea?

01858

1 A. In a static sense, yes.

2 Q. Now, do you agree that the terminating  
3 minutes of interconnection that would have what you  
4 refer to as a zero price under the bill and keep  
5 system are minutes that are demanded by a customer of  
6 one LEC who calls a customer of another LEC?

7 A. Let's try this one again.

8 Q. Would you agree that the terminating  
9 minutes of interconnection that have what you call a  
10 zero price under bill and keep are minutes that are  
11 demanded by a customer of one LEC who calls a customer  
12 of another LEC?

13 A. They are originated by such a customer,  
14 yes, sir.

15 Q. Now, you acknowledge in response to  
16 questioning by Mr. Butler that there is currently a  
17 statutory prohibition on mandatory local measured  
18 service. Do you recall that?

19 A. That's correct.

20 Q. Could you tell me how a new LEC or an  
21 incumbent LEC could ever reveal the charges per  
22 terminating minute that you would like to have imposed  
23 when there's a ban on charging customers for the  
24 minutes being called?

25 A. Well, certainly one could put those calls

01859

1 on a flat rate basis. As I have suggested in mine, I  
2 would propose a tapered rate structure overall  
3 tapering down to -- very similar to what is done in  
4 Illinois today -- a marginal price of zero at a  
5 sufficiently high rate level. That's what exists  
6 today, yet the compensation, for example, between  
7 Ameritech and GTE North in Illinois is in fact on a  
8 measured basis today. So one can -- flat rates can  
9 coexist with measured compensation.

10 Q. My question, though, is with respect to the  
11 ultimate end user consumer. Let's say my next door  
12 neighbor, who is a school teacher, how is there going  
13 to be a price signal sent to her that would lead her  
14 to over consume terminating minutes under bill and  
15 keep system, just as a practical matter. How is a  
16 price signal sent to my next door neighbor?

17 A. The price signal sent to her or end users,  
18 prices are not necessarily the interconnection prices.  
19 Today's prices in Washington will be predominantly the  
20 flat rate local exchange price for the school teacher  
21 next door. However, at least for GTE, and U S WEST,  
22 too, there are measured rate options out there, and  
23 one needs to look at the combination of both the  
24 measured and the flat rate to appreciate the overall  
25 structure of what those prices are. It is the set of

01860

1 options that are offered to the customer that sends  
2 her the signal.

3 Q. Thank you.

4 MR. KENNEDY: No further questions.

5 JUDGE ANDERL: Thank you. Mr. Shaw, do you  
6 have cross for this witness?

7 MR. SHAW: Yes, briefly.

8

9 CROSS-EXAMINATION

10 BY MR. SHAW:

11 Q. Dr. Beauvais, as an employee of GTE, do you  
12 know whether GTE has ruled out competing with other  
13 LECs in states that allow full local exchange  
14 competition?

15 A. As an employee -- well, I'm employee of GTE  
16 Telephone Operations. And the answer I think is,  
17 clearly, no, we have not ruled that out.

18 Q. If you know, in fact, is another LEC  
19 competing with GTE for local exchange service in  
20 Washington?

21 A. I believe Whidbey Island Telephone is  
22 trying to do so.

23 Q. When you say Whidbey Island Telephone  
24 is trying to do so, has Whidbey Island Telephone filed  
25 a tariff with this Commission to compete against GTE



01861

1 in territory that heretofore had been exclusively  
2 served by GTE?

3 A. I believe in fact they have done so, and  
4 requests of waivers of line extension charges and  
5 things like that in order to facilitate such  
6 competition.

7 Q. So you do not find it farfetched or  
8 improbable that the historic LECs in states that allow  
9 local exchange competition will enter each other's  
10 territory and compete with each other?

11 MS. PROCTOR: Objection, Your Honor. This  
12 is clearly friendly cross.

13 MS. WEISKE: Join that objection.

14 JUDGE ANDERL: To the last question I will  
15 sustain it.

16 MR. SHAW: It is.

17 JUDGE ANDERL: Sustained.

18 A. Go ahead, Mr. Shaw.

19 Q. Has GTE brought a complaint against U S  
20 WEST in this case, a third party complaint?

21 A. Yes, sir, it has.

22 Q. Directing your attention to page 28 of the  
23 direct, is this the only place that you discuss this  
24 complaint in the testimony you prefiled in this case?

25 A. Yes, sir, it is.

01862

1 Q. What would GTE have had U S WEST do to  
2 avoid GTE bringing this third party complaint? Block  
3 all the traffic from TCG destined for numbers in GTE  
4 territory?

5 A. No, sir. I mean, I'm not trying to cast  
6 aspersions upon U S WEST whatsoever. We understand  
7 your perception of the legal obligation that you had  
8 to terminate the traffic. What we would have  
9 requested and still would request would have been the  
10 direct termination and at least identification of that  
11 traffic from TCG through you to us.

12 Q. Is GTE asking this Commission in resolving  
13 this third party complaint to order U S WEST to pay  
14 any money to GTE?

15 A. Well, it's either U S WEST can pay us or  
16 TCG can pay us. On a pass-through basis the traffic,  
17 my understanding, has been originated by TCG not U S  
18 WEST. U S WEST would have been a transiting carrier.

19 Q. And as such U S WEST has no records of what  
20 traffic went over its facilities in the middle of TCG  
21 and GTE?

22 A. Indeed the records is a problem.

23 Q. Are you familiar with GTE's operations in  
24 other states than Washington?

25 A. Yes, sir.

01863

1 Q. Are you familiar with GTE's operations in  
2 Oregon?

3 A. Vaguely, yes.

4 Q. If you know, has GTE recently sold  
5 exchanges to Citizens Utilities in Oregon?

6 A. Recently. A year ago or so? I don't know.

7 Q. Whatever you know. You don't know?

8 A. Depends on what -- we sold a bunch of  
9 exchanges all over the country to Citizens. So were  
10 some of those in Oregon, I believe some of them were.  
11 When did that take place? As I recall a year or two  
12 ago we may have sold some recently. I am not aware of  
13 that, though.

14 MR. SHAW: Thanks. That's all I have.

15 JUDGE ANDERL: Thank you, Mr. Shaw. Mr.  
16 Trotter.

17 MR. TROTTER: One line of questions.

18

19 CROSS-EXAMINATION

20 BY MR. TROTTER:

21 Q. With respect to your complaint against TCG  
22 and U S WEST you were talking in response to some  
23 questions by TCG's counsel that you were turning up  
24 some circuits for them in a week?

25 A. I believe we're having some direct-

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1 connected circuits turned up. Previously, as I  
2 understand it, we've been passing traffic from our  
3 customers to TCG, again, goes back through U S WEST.  
4 That's the only connections we've got.

5 Q. But will the turning up of those new  
6 circuits in a week or so solve GTE Northwest's  
7 complaint prospectively?

8 A. Subject that we have an agreement between  
9 the two parties as to compensation mechanism.

10 Q. Are you turning up the circuits without  
11 such an agreement?

12 A. I don't know the details. I suspect  
13 they're just being turned up right now, but I don't  
14 know the detail. I'm sorry.

15 Q. Well, are you asking the Commission to  
16 order something prospectively that will already be  
17 in existence?

18 A. We will either have to have an agreement for  
19 use of the data distribution center type arrangement  
20 or establish extra direct trunks between the company  
21 so that information on the types of traffic can be  
22 passed and segregated on an ongoing basis so that  
23 compensation can in fact take place.

24 Q. And as of today's date you have no such  
25 agreement?

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1 A. I don't believe we have.

2 Q. So as of today's date even assuming these  
3 -- let me rephrase. Are you going to turn up the  
4 circuits without an agreement on compensation?

5 A. Again, I would have to defer back to the  
6 local people. I'm not familiar. I believe that is  
7 the plan but that is totally subject to check.

8 Q. Well, what is it subject to check, that you  
9 will have an agreement or you won't?

10 A. That we will have an agreement and what the  
11 exact details are, I would have to talk to the  
12 Washington people about.

13 Q. If you do have an agreement that would  
14 resolve this complaint prospectively?

15 A. That would certainly resolve it  
16 prospectively.

17 Q. And then what would be left would be the  
18 compensation that you were owed prior to that  
19 agreement?

20 A. Not only that we were owed but that we may  
21 owe you as well. It's mutual.

22 Q. You don't owe me anything.

23 MR. TROTTER: That's all I have.

24 A. TCG. I'm sorry.

25 JUDGE ANDERL: Thank you, Mr. Trotter.

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1 From the commissioners, any questions?

2 COMMISSIONER HEMSTAD: No.

3 COMMISSIONER GILLIS: No.

4 JUDGE ANDERL: Dr. Beauvais, I have a  
5 couple of questions.

6

7 EXAMINATION

8 BY JUDGE ANDERL:

9 Q. Just along the lines of what you were  
10 talking to Mr. Trotter about, and also Mr. Shaw, GTE,  
11 as I understand it, doesn't have records to determine  
12 how many minutes of traffic from TCG were terminated  
13 on its system; is that right?

14 A. That's correct. All we see is the  
15 appearance coming through U S WEST.

16 Q. And you agreed that U S WEST doesn't have  
17 those records either?

18 A. U S WEST doesn't have those records, that's  
19 correct.

20 Q. Is it your belief that that information is  
21 possessed by TCG?

22 A. TCG certainly would have the ability to do  
23 so if they established either separate trunk groups or  
24 used the data distribution center or were in any way  
25 counting the minutes on a going-forward basis.

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1 Q. What about from now backwards to the  
2 beginning?

3 A. I think they would probably have  
4 estimates of how many minutes for each were involved.

5 Q. Estimates?

6 A. Yes, ma'am.

7 Q. Changing subjects. About number  
8 portability, did I understand you to say that in  
9 discussing the subject with your project managers you  
10 had not -- you believed that there was not a big  
11 demand for it?

12 A. I believe -- what I said is I talked to the  
13 product managers. I asked them -- in the lack of  
14 having done the surveys around the country I went to  
15 the people who would be contacted by customers for  
16 different stuff, and saying, hey, are we getting  
17 any demand for number portability from end users. The  
18 answer to that question was no, we are not. We  
19 haven't received any requests that they are aware of.  
20 There are clearly requests being received from new  
21 entrants, however.

22 Q. And that's what I was just going to ask you  
23 is -- and if I can just give an example from a  
24 personal experience. I recently changed cellular  
25 carriers -- I won't say from whom or to whom, but I

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1 didn't ask my incumbent provider if I could take my  
2 number with me. I asked the competitive or new  
3 provider if I could keep my old number if I switched  
4 to their service, and just on the basis of that  
5 experience, from my perspective would you expect that  
6 it would be typical that a customer would come to GTE  
7 and say, I'm going to fire you as my phone service  
8 provider but, hey, can I take my number with me, or  
9 would you expect that the request would more likely be  
10 directed to the new competitive provider in the sense  
11 of if I change to you can I bring my old number?

12 A. Well, clearly it could happen both ways. I  
13 would expect the first question would be the new  
14 provider; before they elected to cut the wire to us to  
15 go to somebody else they would have already asked the  
16 new provider. Again, I'm not surprised at all at the  
17 results which would suggest the demand for that  
18 attribute called number portability may build up over  
19 time rather than developed all at once. My only point  
20 was that those people that have the demand and  
21 willingness to pay for that attribute are the ones that  
22 should pay for those costs rather than placing it on  
23 all customers immediately.

24 Q. Is GTE anyplace in its market in a position  
25 of a new entrant/competitor as opposed to an incumbent



01869

1 right now?

2 A. We have clearly entered new markets.

3 However, not as a local exchange carrier today.

4 Q. That was my question. Thank you. The  
5 other question has to do with what Mr. Shaw was asking  
6 you about on the impending or actual competition  
7 between GTE and Whidbey Telephone Company. Do you  
8 know anything about whether or not GTE and Whidbey  
9 have any agreements about physical interconnection  
10 arrangements and/or compensation arrangements?

11 A. I am not aware of as of this time. There  
12 may be -- they haven't been talking to me. They may  
13 have been talking to Mr. Luce here, but I haven't been  
14 a party to those discussions, but since they were also  
15 requesting, as I understand it, some waivers of line  
16 extension rules that they may in fact be trying to  
17 build out facilities as well.

18 JUDGE ANDERL: Mr. Potter, can you  
19 represent whether or not any agreements have been  
20 reached between the two companies?

21 MR. POTTER: You're talking about a local  
22 interconnection type agreement?

23 JUDGE ANDERL: Yes.

24 MR. POTTER: No, they have not asked us for  
25 anything of that type.

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1                   JUDGE ANDERL: Thank you. Those were all  
2 the questions that I had. Mr. Potter, you had asked  
3 for five minutes before redirect or are you ready to  
4 go?

5                   MR. POTTER: Actually, I think the reason I  
6 wanted him to clarify to me he already answered to  
7 somebody else's question so I'm ready to go.

8                   JUDGE ANDERL: Let's go straight to  
9 redirect then.

10

11                                   REDIRECT EXAMINATION

12 BY MR. POTTER:

13           Q.     Dr. Beauvais, in response to some questions  
14 by Mr. Kopta you were explaining your vision for  
15 eventually rebalancing of the company's rates so that  
16 charges for both local and long distance  
17 interconnection would come together at some point. Do  
18 you recall that?

19           A.     Yes, sir.

20           Q.     And you have also mentioned the penny to  
21 penny and a half price for a local interconnection for  
22 an initial basis, correct?

23           A.     Yes, sir.

24           Q.     After this ultimate proceeding should the  
25 Commission agree with the company that the local and

01871

1 the long distance interconnection rates come together,  
2 would you expect that price to still be exactly a  
3 penny or a penny and a half?

4 A. Once again, what that price will be will  
5 depend on the relative weighting of toll and access and  
6 local exchange traffic as well as what the Commission  
7 may decide to do with regular balancing within other  
8 elements. Clearly, the switched access charges would  
9 be going down, and, depending on how much of the  
10 rebalancing could be done in the face of competitive  
11 pressures, the price may stay at a penny, may go down  
12 slightly, may go up slightly.

13 Q. In response to some questions, I think it  
14 was also by Mr. Kopta, he asked you about whether GTE  
15 would offer directory listing and directory assistance  
16 through TCG for example on the same terms and  
17 conditions as it provided those services to itself.  
18 Do you remember that question?

19 A. Yes, sir.

20 Q. Let me break that down. With regard to  
21 directory listings, what was your understanding of --  
22 when you answered the question of how GTE provides  
23 directory listings to itself?

24 A. I think the proposal that GTE would make is  
25 we would make a listing and we would clearly like to

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1 have their listing in our phone books as well for their  
2 customers so it's more valuable to our customers that  
3 way, too. We would print their listings in our phone  
4 books under a contractual arrangement with MCI Metro or  
5 whoever it may be.

6 In turn we could -- depending on what the  
7 contract said we would arrange for distribution of  
8 those phone books to all customers, but again that  
9 would depend on the contractual arrangements between  
10 the two companies. They could take care of that  
11 themselves. We could take care of it for them, which  
12 is how we would do it today. If they prefer to buy  
13 the phone books for their own customers and do some  
14 custom art work on the front that's fine too.

15 Q. Second part of the question about directory  
16 assistance service, what did you have in mind as to  
17 how GTE provides that to itself today and how that  
18 would relate to how it provided to TCG?

19 A. Once again, I would think it would be a  
20 mutually negotiated contractual arrangement between  
21 the two companies so that they would have access to  
22 our databases. In order to provide directory  
23 assistance to their customers they could sign an  
24 agreement with us to do it on their behalf or they  
25 could purchase the records and do it on their own

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1 behalf.

2 Q. Turning now to some questions by Ms. Weiske  
3 about the number portability cost estimate. Was that  
4 Illinois that that was done for?

5 A. I believe the estimates were done on  
6 Illinois LATAs, yes.

7 Q. You were asked some questions about the  
8 differences between GTE in Illinois and GTE in  
9 Washington, including the number of central offices,  
10 for example. Do you recall those?

11 A. I recall some questions along those lines.

12 Q. Does the Illinois cost estimate depend upon  
13 the number of central offices in Illinois?

14 A. The estimates for the number portability  
15 is a function in part of the number of central offices  
16 per LATA. The \$20 million is kind of an approximation  
17 of the average number of offices per LATA.

18 Q. So if that average number used in that  
19 study was lower than the actual number of central  
20 offices in Washington, would that make a difference --

21 A. Likewise, if the number of offices were  
22 higher the cost may well go higher in Washington or  
23 lowered depending upon the number of offices involved.

24 MR. POTTER: That's all my redirect. Thank  
25 you.

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1                   JUDGE ANDERL: Did that redirect bring to  
2 mind any other cross?

3                   MR. BUTLER: Yes, just a few.

4

5                   REXCROSS-EXAMINATION

6 BY MR. BUTLER:

7           Q.     Dr. Beauvais, are you aware of whether the  
8 application in Oregon for approval of sale of selected  
9 GTE exchanges to Citizens Telephone Company of Oregon  
10 was withdrawn?

11          A.     As I think I answered U S WEST, I am not  
12 aware about the sale of exchanges in Oregon. I know  
13 there was sales to Citizens of a number of our  
14 properties a few years ago. I don't know what's  
15 happening in Oregon today.

16          Q.     In response to Ms. Weiske, you discuss the  
17 fact that in your discussions with various GTE  
18 personnel you had been told that GTE had not received  
19 any requests for number portability. Do you know  
20 whether in fact there are any GTE customers who move  
21 within a single serving wire center that ask to retain  
22 their existing telephone number when they move?

23          A.     Oh, I'm sure there are and stay in the same  
24 wire center.

25          Q.     How about GTE customers who move to areas

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1 served by different serving wire centers. Do they  
2 ever ask if they can keep their telephone number or  
3 sign up for call forwarding or purchase foreign  
4 exchange services?

5 A. Well, since we offer call forwarding  
6 options I'm sure that somebody buys those. As to the  
7 reason why they do so I can't say.

8 Q. In response to Mr. Rindler regarding GTE's  
9 cost estimates for implementing number portability,  
10 you indicated that once the SS7 system is established  
11 you can use it for various types of number  
12 portability. Have you included in your cost estimates  
13 costs of upgrading or expanding signaling system 7?

14 A. I believe there were costs included in the  
15 estimates provided or done by GTE to include STP since  
16 that would have been required to do this database and  
17 number portability for every office.

18 Q. Are signaling system 7 STPs required for  
19 any other purpose, any other reason?

20 A. Sure. There's other services that would  
21 use those facilities as well.

22 Q. Are you aware, as Mr. Ackley for Electric  
23 Lightwave testified earlier in this proceeding,  
24 regarding the US Intelco number portability option,  
25 that any switch that can launch an intelligent network

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1 inquiry will not require an upgrade as long as at  
2 least one switch is AIN capable -- one switch in the  
3 local number portability area is AIN capable?

4 A. I wasn't here for Mr. Ackley's testimony.  
5 I would accept subject to check that he's stating his  
6 belief.

7 Q. Thank you.

8 MR. BUTLER: I have no further questions.

9 JUDGE ANDERL: Mr. Kopta.

10

11 RECROSS-EXAMINATION

12 BY MR. KOPTA:

13 Q. Just a couple of follow-ups to Mr. Potter's  
14 redirect. Are you familiar with how GTE provisions  
15 directory listings for its customers?

16 A. In Washington?

17 Q. Yes, sir.

18 A. In the White Pages?

19 Q. Yes, sir.

20 A. We type them up. Print them.

21 Q. Does GTE itself print, type up the numbers  
22 and print the directory?

23 A. GTE Directories does.

24 Q. Is that a separate subsidiary?

25 A. It's a separate subsidiary of GTE, yes.



01877

1 Q. And is GTE paid any compensation by this  
2 separate subsidiary?

3 A. There is an arrangement between directories  
4 and the phone companies but I really don't know all  
5 the details of it.

6 Q. And would GTE be willing to provide that  
7 same arrangement with TCG or any other alternative  
8 carrier?

9 A. To do what?

10 Q. For directory listings under the same  
11 conditions that GTE can get directory listings.

12 A. GTE would be willing to enter into  
13 negotiations with TCG to publish TCG's customers' name  
14 and address and phone number in GTE's phone book.

15 Q. But as you sit here today you're not  
16 willing to say that TCG would get the same deal that  
17 GTE gets?

18 A. What other deal are you looking for? No,  
19 I'm not prepared to sit up here and negotiate a  
20 contract with you on the stand because I'm not the  
21 person to do that. As I understand, TCG and other  
22 parties were looking for White Page directories, to  
23 have their listings in GTE directories so the customers  
24 of GTE and others could call them. GTE is willing to  
25 do that.

01878

1 Q. But it would need to be negotiated on what  
2 terms and conditions?

3 A. Given that it's not only a TCG but it's MCI  
4 and a number of other parties -- you may want special  
5 deals in the information sections about your calling  
6 plans or stuff like that that would be customized for  
7 you. So certainly I think it should be a contractual  
8 arrangement among the carriers.

9 Q. But on a per number basis just simply  
10 listing of customer -- listing of customer names,  
11 addresses and telephone numbers, you're saying that  
12 TCG may get a different arrangement than GTE gets for  
13 publishing that information?

14 A. We would treat your customer just like we  
15 treat our customer. He's entitled to a listing in the  
16 White Page book with the standard type. If your  
17 customer wants a listing in the GTE book with bold  
18 type, a second listing, those are optional at extra  
19 cost.

20 Q. Would TCG get the same arrangement with  
21 your subsidiary that you have with your subsidiary as  
22 far as publishing --

23 A. I can't negotiate an arrangement with our  
24 subsidiary. Again, I've told you what GTE is prepared  
25 to do. I don't know what else you're looking for.

01879

1 Q. How does GTE provision directory  
2 assistance?

3 A. As I understand it, depending on where we  
4 are, we have operators that when a customer calls up  
5 they look in the database and those databases are  
6 updated daily for customer name, address and phone  
7 number.

8 Q. And is GTE willing to provide that same  
9 service to TCG at TS LRIC cost?

10 A. At a negotiated price. I doubt that it's  
11 TS LRIC. It's probably TS LRIC plus contribution.  
12 We're in the business to make money.

13 Q. Thank you.

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

15 JUDGE ANDERL: Anyone else who has recross  
16 for this witness? Mr. Rindler.

17 MR. RINDLER: Couple of questions.

18

19 RECCROSS-EXAMINATION

20 BY MR. RINDLER:

21 Q. Not being from the state of Washington I'm  
22 not quite sure, what size is Whidbey Telephone?

23 A. It's on an island up that way. I'm not  
24 from the state of Washington either. I don't know the  
25 size. I know it has to be under 200,000 lines because

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1 they are eligible for high cost funding and they're  
2 eligible for REA money so it's under 200,000 lines  
3 and I would guess substantially under 200,000 lines.

4 Q. Is there anything today that prevents U S  
5 WEST from serving -- as the example that's been used a  
6 number of times in this proceeding -- Microsoft in  
7 Redmond?

8 A. Only that they really shouldn't do that.  
9 As I understand it, there's nothing that prevents U S  
10 WEST from doing so.

11 Q. Is there anything to prevent GTE from  
12 serving a major customer in Seattle?

13 A. No, sir. Under the orders of this  
14 Commission policy there's nothing that prevents us  
15 from doing so.

16 Q. Are you aware of any situation anywhere in  
17 the country where either GTE or an RBOC, Bell Operating  
18 Company, is providing service in the service area of  
19 the another carrier?

20 A. Yes.

21 Q. Where is that?

22 A. I want to say Hudson, Ohio there was a case  
23 where an electric company had a plant -- and I want to  
24 say Hudson but I don't think that's right -- that was  
25 being served under a Centrex arrangement. The plant

01881

1 was located in GTE territory and it was being served  
2 by, I believe, Cincinnati Bell. It was one of those  
3 Ohio Bell companies out of -- in Cincinnati or one of  
4 the RBOC cities, but the Centrex arrangement was there  
5 and the loops were extended into GTE territory.

6           There was also a case of ARCO in Texas  
7 where they had a facility located in Plano, Texas and  
8 ARCO also had facilities in downtown Dallas. They ran  
9 a private line between the PBX in Dallas to the ARCO  
10 facility in Plano, which is GTE, connected it up and  
11 essentially was getting dial tone out of Dallas  
12 exchange into the GTE exchange in Plano. One can call  
13 that local competition. Although the FCC subsequently  
14 ruled that nobody did anything wrong but, by a series  
15 of legal steps, wound up with local exchange  
16 competition between the RBOC and GTE.

17       Q.     Those are the only instances you are aware?

18       A.     I'm sure there's plenty others  
19 running around but --

20       Q.     Of the same nature with a single  
21 service to each customer?

22       A.     They tend to be customer-specific.

23       Q.     Is there any reason that you know of why  
24 GTE or the Bell Operating Companies do not provide  
25 service in each other's territory?

01882

1           A.     Well, in a lot of states up until recently  
2 it was not legal to do so and we're nice guys and we  
3 obey the law.

4           Q.     In those states where it is legal to do so  
5 do you know any reason why they don't?

6           A.     Why they don't? Well, they are starting to  
7 do so now. They probably have not done so in the  
8 past. Geez, how do I put this? The Club LEC  
9 influence has been large. Club LEC. It's kind of  
10 like Club Med. Is that a legitimate -- it's probably,  
11 yeah. Historical practices die hard, and that's  
12 probably why -- one of the reasons we haven't seen as  
13 much competition between LECs up until now than we  
14 have, and by and large still in most states it's only  
15 now becoming legal to do so.

16                   MR. RINDLER: I have no further questions.

17                   JUDGE ANDERL: Anyone else have recross for  
18 this witness?

19                   Thank you, Dr. Beauvais, for your  
20 testimony. You may step down.

21                   THE WITNESS: Thank you, ma'am.

22                   JUDGE ANDERL: Is there anything else we  
23 need to do on the record?

24                   MS. PROCTOR: Your Honor, I just want to  
25 clarify that we are not expected to produce a witness

01883

1 tomorrow evening continuing until Thursday pursuant to  
2 the subpoena served by U S WEST moments ago.

3 JUDGE ANDERL: Right. Our informal  
4 discussion off the record which I will formalize now,  
5 the subpoena that was served on AT&T by U S WEST, at  
6 this point I would suggest that AT&T not be required  
7 to comply with it unless and until U S WEST is  
8 unsuccessful in having its exhibit admitted through  
9 its own witness, and we'll talk more about that on  
10 down the road here.

11 Anything else we need to do on the record?  
12 We'll talk scheduling off the record. Let's stand  
13 adjourned. Thank you.

14 (Hearing adjourned at 6:26 p.m.)

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