1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. My name is Glenn Blackmon, Ph.D. My business address is 1300 S Evergreen Park
3 Drive SW, Olympia, Washington, 98504. My e-mail address is
4 ***blackmon@wutc.wa.gov.***
5

6 Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

7 A. I am employed by the Washington Utilities and Transportation Commission
8 ("WUTC" or "Commission") as Assistant Director-Telecommunications.
9

10 Q. PLEASE STATE YOUR QUALIFICATIONS TO PROVIDE TESTIMONY IN THIS
11 PROCEEDING.

12 A. I hold Ph.D. and master’s degrees in public policy from Harvard University and a
13 bachelor’s degree in economics from Louisiana State University. I have been
14 employed at the Commission since August 1995 and assumed my current position in
15 April 1996. I previously served as the Commission’s economics advisor in the
16 interconnection case, Docket UT-941464, and the major U S WEST general rate case,
17 Docket UT-950200.
18

19 In my current position, I have testified before the Commission in various proceedings,
20 including U S WEST's most recent general rate case (Docket UT-970766), the

1 GTE/Bell Atlantic merger case (Docket UT-981367), and the generic cost and price
2 case (Docket UT-960369).
3
4 Prior to working at the Commission, I was a consultant in private practice, where my
5 clients included both regulated companies and consumer advocates, and I was an
6 analyst for the Washington State Senate Energy and Utilities Committee. I have
7 presented testimony as an expert witness before this Commission, as well as the
8 Illinois and Idaho commissions. I am the author of a book, *Incentive Regulation and*
9 *the Regulation of Incentives* (Boston: Kluwer Academic Publishers, 1994). I have
10 authored or co-authored articles on utility regulation and economic theory published
11 in *American Economic Review*, *Journal of Regulatory Economics*, *Yale Journal on*
12 *Regulation*, *Journal of Risk and Uncertainty*, and *Public Utilities Fortnightly*.
13
14 Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES AS ASSISTANT DIRECTOR-
15 TELECOMMUNICATIONS AS THEY RELATE TO THE COMMISSION'S
16 OVERSIGHT OF U S WEST.
17 A. I head the Commission's telecommunications staff, which provides the day-to-day
18 oversight of U S WEST. We regularly monitor the company's service performance,
19 its customer relations, its treatment of competitive local exchange companies seeking
20 to enter Washington markets, its accounting practices, its network performance, its
21 infrastructure investments, its implementation of new services, and its pricing

1 strategies. Since U S WEST is the largest telephone company in the state, I am
2 closely involved in every aspect of the Commission's dealings with U S WEST.
3
4 Q. WHAT IS THE SCOPE AND PURPOSE OF YOUR TESTIMONY?
5 A. I am testifying to potential harm that this merger could have on competition and the
6 conditions that Staff recommends be attached to the merger in two areas: (1)
7 preventing anti-competitive behavior by the merged company, and (2) protecting
8 captive customers of the merged company.
9
10 **Conditions to Prevent Anti-Competitive Behavior**
11 Q. AS A GENERAL MATTER, WHY ARE CONDITIONS TO PREVENT ANTI-
12 COMPETITIVE BEHAVIOR NECESSARY FOR THE COMMISSION TO
13 APPROVE THE MERGER APPLICATION?
14 A. Qwest is, with this merger, acquiring a captive customer base. While some customers
15 of U S WEST have a choice of providers for some services, most customers continue
16 to be captive to this incumbent company. While it may be appropriate for Qwest to
17 acquire a customer base rather than compete for one, the merger creates a substantial
18 risk of short-circuiting the advancement of competition. It is crucial that Qwest's
19 takeover not impede competition, and the conditions recommended by Staff are
20 designed to guard against such a result. These conditions will reduce the likelihood

1 that customers would be deprived of the choice of telecommunications providers that
2 they could otherwise expect without the merger.
3
4 Q. PLEASE EXPLAIN THE COMPETITIVE CONDITIONS THAT STAFF
5 RECOMMENDS BE PLACED ON ANY APPROVAL OF THE PROPOSED
6 MERGER.
7 A. Staff recommends that the Commission condition any approval of the merger on the
8 competition-related requirements set out below. The first set of conditions relate
9 specifically to competition for and deployment of advanced services; the second set
10 relate more generally to ensuring open access to the incumbent's network by
11 competing providers. The recommended conditions are:
12 A. **Advanced services conditions.** The merged company should be required to
13 implement measures to ensure equitable and efficient deployment of advanced
14 services. These measures should include:
15 1. Create, prior to closing the merger, one or more separate affiliates to
16 provide all advanced services and Internet access services on a phased-
17 in basis. The advanced services affiliate would be required to operate
18 separately from the operating company (U S WEST Communications,
19 Inc.).
20 2. Establish by tariff prior to closing the merger a surrogate line sharing
21 discount. The merged company would be required to offer at a

1 substantial discount an unbundled loop to its advanced services
2 competitors until it provides the same line-sharing capabilities that its
3 own advanced services enjoy.
4 3. Develop and deploy common electronic operations support system
5 (OSS) interfaces to be used by any provider of advanced services,
6 including the merged firm's advanced services affiliates, for
7 pre-ordering and ordering facilities used to provide advanced services.
8 Until the merged company has developed the required interfaces, it
9 should be required to offer a 25 percent discount from the recurring
10 and non-recurring charges for unbundled loops used to provide
11 advanced services.
12 4. Target deployment of the merged company's own advanced service
13 offerings to include low-income groups in rural and urban areas.
14 B. **Interconnection and open access conditions.** The merged company should
15 be required to take all steps necessary to obtain FCC approval of an
16 application for in-region interLATA entry by March 31, 2001. If the company
17 fails to win approval by that date, it should be required to file a separation plan
18 with the Commission. This separation plan would establish a plan for
19 separating the operating company (USWC or its successor) into two separate
20 companies, one providing wholesale functions and one providing retail
21 functions.

1

2 **Advanced services affiliate**

3 Q. WHY IS THE ADVANCED SERVICES AFFILIATE NECESSARY FOR
4 APPROVAL OF THE MERGER?
5 A. U S WEST currently provides advanced services within the same corporate entity that
6 provides the basic network services used to provide those advanced services. The
7 result is a situation in which the many alternative providers of advanced services
8 operate at a disadvantage relative to U S WEST. The Commission has attempted to
9 police such behavior by U S WEST, but that effort is inherently limited when the
10 same personnel, computer systems, and data bases are being used to provide advanced
11 services and the basic services necessary to provide those advanced services.
12
13 Q. IS THIS PROBLEM LIKELY TO CONTINUE IF QWEST OWNS USWC?
14 A. Yes. Indeed, all other things being equal, it is likely to increase because Qwest will
15 be under even more pressure from the market to deliver revenue and earnings growth.
16 Advanced services are commonly viewed as the best way to produce that growth.
17
18 Q. WHAT IS THE HARM TO THE PUBLIC INTEREST IF QWEST LEVERAGES
19 U S WEST'S POWER IN THE MARKET FOR BASIC TELEPHONE SERVICES
20 INTO THE MARKET FOR ADVANCED SERVICES?

1 A. If the combined company is permitted to monopolize the advanced services market,
2 consumers will miss out on the benefits that come from competition and choice. In
3 addition, customers of monopoly services could end up bearing the risks of the
4 company's ventures into advanced services. The potential exists for advanced
5 services to be competitive and therefore lightly regulated. Consumers could choose
6 from multiple providers who would compete on the basis of price, service, features,
7 and other factors. The result is likely to be far superior to what would obtain if a
8 single company dominates the market, even if that single provider is closely
9 regulated.
10 If U S WEST is permitted to stifle advanced services competition, the result will be
11 fewer advanced services being offered to Washington consumers. The would-be
12 competitors will offer fewer advanced services because they will be unable to get
13 access to the core network upon which advanced services build. U S WEST itself
14 will offer fewer advanced services because it can maximize profits by restricting the
15 supply of those services.
16
17 Q. WHAT SERVICES DOES STAFF RECOMMEND INCLUDING IN THE
18 ADVANCED SERVICES SUBSIDIARY?
19 A. Staff recommends that the Commission initially require the use of the advanced
20 services subsidiary for frame relay service, all xDSL services, and all Internet access

1 services. The Commission should reserve the right to designate additional services at
2 any time, upon reasonable notice to the company.
3
4 Q. SHOULD THE TELEPHONE OPERATING COMPANY, USWC, BE PERMITTED
5 TO PROVIDE ADVANCED SERVICES OR INTERNET ACCESS SERVICE?
6 A. No. The operating company, USWC, should be prohibited from providing these
7 services, including advanced services that are jurisdictionally interstate. If U S WEST
8 wants to offer such services, it must do so through the separate affiliate.
9
10 Q. WHAT LIMITATIONS SHOULD BE PLACED ON THE INTERACTIONS
11 BETWEEN THE ADVANCED SERVICES COMPANY AND USWC?
12 A. Staff recommends that the advanced services subsidiary operate under the same set of
13 conditions and within the same structure as the Federal Communications Commission
14 approved in the merger of SBC and Ameritech. These requirements are based on the
15 structural separation concept that Congress provided for long-distance subsidiaries of
16 Bell operating companies under Sec. 272 of the 1996 Telecom Act, but they address
17 in considerable detail various issues regarding transition and joint marketing. The
18 SBC/Ameritech conditions are included as Exhibit ____ (GB-1) to my testimony.
19
20 Q. ARE THE ADVANCED SERVICES CONDITIONS BEING USED IN OTHER
21 INSTANCES WHERE THERE IS CONCERN ABOUT INCUMBENT LOCAL

1 EXCHANGE COMPANIES LEVERAGING THEIR MARKET POWER INTO
2 ADVANCED SERVICES MARKETS?

3 A. Yes. Indeed, the SBC/Ameritech conditions that Staff is recommending have become
4 something of a national model for advanced services deployment. The same
5 requirements have been used again by the FCC in its recent approval of Bell Atlantic's
6 application to provide interLATA long-distance service in New York state. More
7 recently, Bell Atlantic has agreed to adopt this structure for all states -- including the
8 GTE territory in Washington state -- as part of its merger with GTE.
9

10 Q. IF THE FCC IS ROUTINELY REQUIRING THESE CONDITIONS, WHY
11 SHOULD THE WUTC IMPOSE IT IN THIS PROCEEDING?

12 A. The FCC may well impose these conditions on Qwest and U S WEST. However,
13 there is some chance that the FCC would view this merger differently, because it does
14 not involve the merger of two incumbent local exchange companies. FCC Chairman
15 Kennard said in November that he intends to put this merger "on the fast track."
16 Therefore, it is important that Washington state regulators not assume that the FCC
17 will take care of competitive issues in Washington state. These conditions should be
18 imposed here even if the FCC ultimately decides not to make such a requirement as a
19 condition of its approval.
20

1 Q. WOULD ANOTHER OPTION BE FOR THE WUTC TO WITHHOLD ITS
2 DECISION ON COMPETITION ISSUES UNTIL THE FCC HAS ACTED?
3 A. Yes, that would be a reasonable approach. The WUTC could delay a final decision
4 on the merger application until the FCC had made its decision. If the competitive
5 conditions adopted by the FCC are sufficient to protect the interests of Washington
6 state, the WUTC could approve the merger with no further conditions in this area. If
7 the FCC did not adequately address these issues, the WUTC could at that time take up
8 the competition recommendations made by Staff and intervenors.
9
10 Q. DOES GTE'S COMMITMENT TO USE AN ADVANCED SERVICES AFFILIATE
11 FOR ITS OFFERINGS PROVIDE A FURTHER REASON TO REQUIRE THIS
12 SAME STRUCTURE FOR U S WEST?
13 A. Yes. U S WEST and GTE will be competing head-to-head for advanced services
14 customers, particularly in the Puget Sound area. Today, U S WEST has a competitive
15 advantage over unaffiliated companies such as Covad and Rhythms, but it still faces
16 competition from an integrated provider in GTE. With its acquisition by Bell
17 Atlantic, GTE will be giving up the advantages it would otherwise enjoy of using its
18 monopoly network and customer information to promote its advanced services. U S
19 WEST would therefore remain as the only competitor in the market that retains an
20 unfair and unreasonable advantage if it is not prohibited from offering advanced
21 services from within its operating company.

1 Q. HOW SHOULD THE ADVANCED SERVICES AFFILIATE BE REGULATED?
2 A. The advanced services affiliate would be required to register as a telecommunications
3 company, assuming it offers intrastate telecommunications services. It is likely that
4 the affiliate would qualify for competitive classification, but that should be
5 determined by the Commission at the appropriate time.
6
7 Q. WOULD CREATION OF THE ADVANCED SERVICES AFFILIATE REQUIRE
8 FURTHER APPROVALS BY THE WUTC?
9 A. Yes, in all likelihood. It is probable that U S WEST would transfer employees and
10 property to the affiliate, along with its base of existing customers. Transfer of
11 property would require approval by the WUTC.
12
13 Q. HOW DO YOU RESPOND TO THE ARGUMENT THAT A SEPARATE
14 AFFILIATE SHOULD NOT BE REQUIRED BECAUSE DOING SO WOULD
15 REDUCE THE EXPENSE SAVINGS THAT THE COMPANIES HOPE TO
16 REALIZE BY MERGING?
17 A. There is no reason to expect it to be more costly for U S WEST to provide advanced
18 services through a separate affiliate than it is for competitors such as Covad or
19 Rhythms to provide those same services. Moreover, there is no reason to believe that
20 any of the expense savings identified by the applicants would come from integrating
21 advanced services into the operating company, since that is how U S WEST is

1 providing advanced services today. It may well be the case that the applicants could
2 realize greater profits if it did not have to provide advanced services through an
3 affiliate. However, the loss of such profit opportunities should not be considered a
4 reason to perpetuate the current corporate structure. Even if all those additional
5 profits were going to be returned to captive customers – which they are not – that is
6 not a good reason to permit U S WEST to leverage its market power into the
7 advanced services market.
8
9 Q. COULD U S WEST ESCAPE ITS OBLIGATIONS UNDER 47 USC 251(C) AS AN
10 INCUMBENT LOCAL EXCHANGE COMPANY BY OPERATING THROUGH
11 THIS SEPARATE AFFILIATE?
12 A. No. Those obligations apply to U S WEST as a regional Bell operating company and
13 would not be affected. Moreover, the Commission would have ongoing oversight of
14 both USWC and the affiliate and could guard against any attempt to evade U S
15 WEST's obligations under the law.
16
17 Q. DOES STAFF RECOMMEND THAT THIS BE A PERMANENT CONDITION ON
18 THE MERGED COMPANIES?
19 A. Not necessarily. The ongoing need for this condition will depend on whether USWC
20 continues to have the power to provide itself preferential access to the basic
21 telecommunications network. Staff recommends that the Commission allow the

1 merged company to petition for removal of this condition starting three years after it
2 obtains Sec. 271 approval or three years after it effects a retail-wholesale separation.
3
4 **Wholesale-retail separation**
5 Q. PLEASE EXPLAIN STAFF'S RECOMMENDED CONDITION REQUIRING
6 EITHER SEC. 271 APPROVAL OR A SEPARATION OF THE OPERATING
7 COMPANY.
8 A. Staff recommends that the merged company file a separation plan unless it obtains
9 Sec. 271 approval. Staff intends this condition to create an incentive for the merged
10 company to pursue prompt entry into the long-distance telecommunications market.
11 This entry is in the public interest because it can occur only after U S WEST has
12 opened its local markets to competition. Moreover, should the company fail to take
13 the steps necessary to reach that outcome, this condition would provide the
14 Commission with the opportunity to consider whether division of the operating
15 company would be in the public interest as a means to capture some of the market-
16 opening effects that would otherwise obtain through Sec. 271 approval.
17
18 Q. IS STAFF RECOMMENDING THAT THE COMMISSION IMPLEMENT
19 WHATEVER SEPARATION PLAN MIGHT BE FILED?
20 A. No. Once the company has filed a plan, the Commission should make a decision
21 about whether to move ahead with a separation. There are many factors that should

1 be considered in such a decision, including the level of local competition and the
2 costs of such a split. It is not a decision that the Commission should attempt to make
3 now, with very little information before it. However, should the company fail to
4 pursue market-opening efforts with sufficient vigor, it is an option that should be
5 given serious consideration by the Commission
6
7 Q. IS THE PROSPECT OF A RETAIL-WHOLESALE SPLIT INTENDED TO BE A
8 PENALTY FOR FAILURE TO SECURE 271 APPROVAL?
9 A. No. Rather, it is intended to be a substitute approach to realizing the benefits that
10 flow to Washington state from the market-opening actions required to obtain 271
11 approval. Sec. 271 approval will bring tangible benefits to Washington consumers,
12 because it will be obtained only after U S WEST has opened its local markets to
13 competition. If those benefits cannot be obtained via the process envisioned by
14 Congress, the Commission should explore alternatives, such as the retail-wholesale
15 split, to reach the same objectives.
16
17 Q. DO YOU UNDERSTAND QWEST TO HAVE THE POSITION THAT IT IS VERY
18 COMMITTED TO OBTAINING 271 APPROVAL?
19 A. Yes, and I believe that, all other things being equal, Qwest will pursue 271 approval
20 with more vigor than has the current management of U S WEST, because Qwest is
21 better positioned to realize the benefits of entry into the interLATA long-distance

1 market. However, Qwest may ultimately conclude that it can make more money
2 preserving a local monopoly than it can by competing in the long-distance business.
3
4 Q. SHOULDN'T QWEST BE FREE TO MAKE A BUSINESS DECISION NOT TO
5 ENTER THE LONG-DISTANCE MARKET?
6 A. Yes, but that business decision would not relieve the merged company of its
7 obligations under Sec. 251 and state law to provide interconnection and network
8 access to its competitors. The Commission could impose merger conditions that
9 directly address those Sec. 251 requirements, such as requiring that the merged
10 company establish wholesale performance measures and remedies. However, given
11 Qwest's professed desire to obtain 271 approval, Staff believes the need for
12 interconnection and open access safeguards can be fully addressed by requiring that
13 the company either obtain 271 approval or proceed with a structural separation plan.
14
15 **Conditions to Protect Captive Customers**
16 Q. WHY ARE SAFEGUARDS ON THE MERGED COMPANY NECESSARY IN
17 ORDER TO PROTECT CAPTIVE CUSTOMERS?
18 A. Safeguards are needed to ensure that Qwest takes over U S WEST for the right
19 reasons, to bring new services and better service to customers and not simply to
20 leverage the cash flow generated by U S WEST's customers to finance Qwest's next
21 corporate deal. With this merger, we are likely to see major changes in U S WEST's

1 management approach, operations, strategies, and business plan. We also are likely
2 to see further macro-level organizational changes, such mergers with other
3 telecommunications companies. While those changes may eventually inure to the
4 benefit of customers, they should not be permitted to harm customers in the short run.
5 Just as customers should not bear the explicit costs of the merger transaction, they
6 also should be insulated from the transition costs resulting from the merger and
7 whatever corporate changes that may follow it.

8 Q. WHAT CONDITIONS DOES STAFF RECOMMEND TO PROTECT
9 CONSUMERS OF NON-COMPETITIVE SERVICES?

10 A. Staff recommends a single condition in this area:

11 A. The merged company should not be permitted to eliminate or restrict any
12 tariffed service or to increase the rates or charges for any tariffed service for
13 seven years after the merger closes.

14 This condition will ensure that customers are not harmed by any effects of the merger
15 on the operations of the company. Conversely, it will provide Qwest with an
16 opportunity to capture the full benefits of any efficiencies or additional revenues it is
17 able to produce once it runs the company.

18

19 Q. HOW DOES THIS PROPOSED TREATMENT OF EXPENSES AND REVENUES
20 DURING THE MERGER IMPLEMENTATION PERIOD COMPARE TO THE

1 COMMISSION'S REGULATORY TREATMENT OF U S WEST'S
2 "RESTRUCTURING" DURING THE EARLY 1990S?
3 A. Staff is proposing a similar treatment. In Docket UT-950200, U S WEST proposed to
4 include substantial additional costs related to U S WEST's restructuring of its
5 operations. Those restructuring activities were held out by the company as ones that
6 would eventually produce lower costs and better service for customers. The
7 Commission decided in that case to exclude both the costs and the projected benefits
8 of the restructuring in determining U S WEST's rates. This had the effect of
9 insulating customers from the expenses of the restructuring, and it allowed U S
10 WEST an opportunity to realize the full value of the purported efficiencies flowing
11 from that management decision.
12
13 Q. SHOULD THE COMMISSION PROVIDE FOR ANY EXCEPTIONS TO THIS
14 RATE INCREASE MORATORIUM?
15 A. Yes, the Commission should provide for three exceptions to the moratorium:
16 (1) The Commission should permit the merged company to petition for an
17 exception to this condition in circumstances where a service has been
18 superceded or where it is priced below cost;
19 (2) The Commission should provide for an exception to implement the results of
20 its decision in the directory publishing case (Docket UT-980948); and

1 (3) The Commission should provide for an exception to implement any new
2 universal service fund that might be established.
3
4 Q. PLEASE EXPLAIN THE FIRST EXCEPTION.
5 A. At some point during the moratorium period, some service may become obsolete or
6 no longer be priced above cost. In such a circumstance, the Commission should
7 provide an opportunity to eliminate the obsolete service or, in the case of the below-
8 cost service, increase its price. The cost standard in such a case should be total
9 service long-run incremental cost, which the Commission already uses in evaluating
10 individual prices.
11
12 Q. PLEASE EXPLAIN THE SECOND EXCEPTION.
13 A. Docket UT-980948 is U S WEST's petition for an accounting order relating to its
14 directory publishing or yellow pages operation. U S WEST has asked the
15 Commission to declare that it is no longer required to impute yellow pages revenues
16 and expenses to its regulated results of operations. Staff and Public Counsel have
17 recommended that customers continue to receive the economic benefits of the
18 directory publishing operation, either through a continuation of imputation or by
19 recognizing a gain on the regulated books based on the current value of the business.
20 A decision by the Commission is pending.
21

1 Staff recommends that, whatever the results of that proceeding may be, they be
2 allowed to take effect despite the moratorium on rate increases. If U S WEST
3 ultimately is allowed, by either the Commission or the courts, to end imputation, it
4 should be allowed to increase rates to reflect an end to imputation. If Staff or Public
5 Counsel prevail and either the Commission or a court orders U S WEST to
6 compensate customers for the current value of the yellow pages asset, the company
7 should be required to file a rate decrease to that effect.
8
9 Q. WHAT IS THE BASIS FOR THIS RECOMMENDATION TO IMPLEMENT THE
10 YELLOW PAGES DECISION DESPITE ANY MERGER CONDITIONS?
11 A. U S WEST filed the accounting petition more than a year before it made the merger
12 deal with Qwest. The outcome of that case is unrelated to the merger and need not be
13 tied to the merger.
14 Q. PLEASE EXPLAIN THE THIRD EXCEPTION, FOR A NEW UNIVERSAL
15 SERVICE PROGRAM.
16 A. At some point during the moratorium period, the state may establish a new
17 mechanism for explicit support of universal service in high-cost locations.
18 Implementing a program could require some combination of additional charges to
19 fund the program and price reductions to offset U S WEST's receipts from the fund.
20 The Commission should provide an exception to allow for such changes required for
21 implementation of a universal service program.

1 Q. WHY DOES STAFF RECOMMEND A MORATORIUM PERIOD OF SEVEN
2 YEARS?
3 A. Staff believes that this provides a long-term benefit and protection to customers, and
4 it ensures that customers share in the benefits that the companies have stated will flow
5 from this merger. However, it should be noted that the moratorium is likely to expire
6 on a service-by-service basis well before seven years have passed. Staff is proposing
7 the moratorium only on tariffed services; as services are classified as competitive, the
8 company will have complete pricing flexibility. In the past year alone, the
9 Commission has classified as competitive U S WEST's toll service, directory
10 assistance service, and urban high-capacity private line service. With the market-
11 opening competitive conditions recommended above, effective competition is likely
12 to develop in many additional parts of U S WEST's business. Indeed, by the time the
13 moratorium expires U S WEST may well not be offering any tariffed services.
14
15 Q. IS STAFF CONCERNED THAT, IF THE COMPANY IS NOT ALLOWED TO
16 INCREASE RATES FOR SEVEN YEARS, IT COULD FACE COST INCREASES
17 THAT SHOULD BE RECOVERED THROUGH RATE INCREASES?
18 A. No. Staff believes that the moratorium leaves the company with a reasonable
19 opportunity to recover its costs and earn a fair profit. It is worth nothing that Staff has
20 identified only the expense savings arising from the merger, and the applicants have
21 stated that capital savings and revenue increases will also result. In addition,

1 technological change itself is likely to push costs downward during the seven-year
2 period. Moreover, should a large cost increase actually materialize, the first exception
3 noted earlier would permit the company to seek a rate increase. This exception would
4 not apply if the cost increase were due to executive salaries or overhead expenses,
5 since it is based on the long-run incremental cost of each service.
6
7 **Conclusion**
8 Q. DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?
9 A. Yes.