

1 BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION
2 COMMISSION

3	WASHINGTON UTILITIES AND)	
	TRANSPORTATION COMMISSION,)	DOCKET NO. UT-950200
4)	
	Complainant,)	VOLUME 14
5)	
	vs.)	Pages 876 - 1108
6)	
	U S WEST COMMUNICATIONS, INC.,)	
7)	
	Respondent.)	
8	-----)	

9 A hearing in the above matter was held at
10 9:00 a.m. on January 8, 1996, at 1300 South Evergreen
11 Park Drive Southwest, Olympia, Washington before
12 Chairman SHARON L. NELSON, Commissioners RICHARD
13 HEMSTAD, WILLIAM R. GILLIS and Administrative Law
14 Judge C. ROBERT WALLIS.

15
16 The parties were present as follows:

17 U S WEST COMMUNICATIONS, by EDWARD SHAW,
18 Attorney at Law, 1600 Bell Plaza, Seattle, Washington
19 98191.

20 WASHINGTON UTILITIES AND TRANSPORTATION
21 COMMISSION STAFF, by STEVEN W. SMITH and GREGORY
22 TRAUTMAN, Assistant Attorneys General, 1400 South
23 Evergreen Park Drive Southwest, Olympia, Washington
24 98504.

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

Cheryl Macdonald, CSR

Court Reporter

1 APPEARANCES (CONT.)

2 AT&T, by DANIEL WAGGONER, Attorney at Law,
3 1501 Fourth Avenue, Suite 2600, Seattle, Washington
4 98101 and SUSAN PROCTOR, Attorney at Law, 1875
5 Lawrence Street, Denver, Colorado 80202.

6 WITA, by RICHARD A. FINNIGAN, Attorney at
7 Law, 1201 Pacific Avenue, Suite 1900, Tacoma,
8 Washington 98402.

9 TRACER, by ARTHUR A. BUTLER, Attorney at
10 Law, 601 Union Street, Suite 5450, Seattle, Washington
11 98101-2327.

12 ENHANCED TELEMAGEMENT, INC., by SARA
13 SIEGLER MILLER, Attorney at Law, 2000 Ne 42nd Street,
14 Suite 154, Portland, Oregon 97213.

15 MCI, by CLYDE MACIVER, Attorney at Law,
16 4400 Two Union Square, 601 Union Street, Seattle,
17 Washington and ROBERT NICHOLS, Attorney at law, 2060
18 Broadway, Suite 200, Boulder, Colorado 80302.

19 SPRINT, by LESLA LEHTONEN, Attorney at Law,
20 1850 Gateway Drive, 7th Floor, San Mateo, California
21 94404-2467.

22 DEPARTMENT OF INFORMATION SERVICES, by
23 ROSELYN MARCUS, Assistant Attorney General, 1125
24 Washington Street Southeast, PO Box 40100, Olympia,
25 Washington 98504.

AMERICAN ASSOCIATION OF RETIRED PERSONS, by
RONALD L. ROSEMAN, Attorney at Law, 401 Second Avenue
South, Suite 401, Seattle, Washington 98104.

INTEL CORPORATION, by DHRUV KHANNA, Senior
Attorney, HF3-03, 5200 NE Elam Young Parkway,
Hillsboro, Oregon 97124.

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1 I N D E X

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3 WITNESSES: D C RD RC EXAM
4 STAFF PANEL 883 888 973 975
(Beaton, Spinks,
Dutton)

5 COMPANY PANEL 978 1003 1066 1029
(Olson, Wade,
6 Plummer, Okamoto)

7 D. Okamoto 1070 1071 1102 1089

8

9 EXHIBITS: MARKED ADMITTED

10 114-T, 885
115-124

11 125-T 886

12 102-T, 888
13 103-113

14 140-143 978 1002

15 150 1015 1026

16 151 1069 1078

17 152 1069 1081

18 T-1 1071

19 BENCH REQUEST PAGE
13 1046

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

2 JUDGE WALLIS: Let's be on the record,
3 please. The hearing will come to order. The
4 Washington Utilities and Transportation Commission has
5 set for hearing at this time and place its inquiry
6 into docket No. UT-950200 consisting of a complaint by
7 the WUTC against U S WEST Communications Inc.

8 The hearing is being held in Olympia
9 Washington on January 8, 1996 before the commissioners.
10 My name is Bob Wallis serving as administrative law
11 judge. And we are in session to review a filing of the
12 company that would change and increase its rates and
13 charges for performing service within the state I would
14 like to ask for appearances at this time and I would
15 like counsel to state their name and business address
16 and the name of the client that they represent
17 beginning with Mr. Shaw.

18 MR. SHAW: Thank you. Ed Shaw for U S WEST
19 Communications, 1600 Bell Plaza, Room 3206, Seattle,
20 98181.

21 JUDGE WALLIS: Commission staff.

22 MR. SMITH: Steven W. Smith and Gregory J.
23 Trautman, assistant attorneys general. Our business
24 address is South 1400 Evergreen Park Drive Southwest,
25 Olympia, Washington 98504.

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1 JUDGE WALLIS: Public counsel.

2 MR. TROTTER: For the public counsel
3 section of the attorney general's office, my name is
4 Donald T. Trotter, assistant attorney general. Address
5 is 900 Fourth Avenue, Suite 2000, Seattle 98164.

6 JUDGE WALLIS: Others beginning with Mr.
7 Roseman.

8 MR. ROSEMAN: Ronald L. Roseman
9 representing the American Association of Retired
10 Persons, 2011 14th Avenue East, Seattle, Washington.

11 MR. FINNIGAN: Rick Finnigan of the law
12 firm of Vandenberg Johnson and Gandara, 1201 Suite
13 1900, Tacoma, Washington 98401, representing the
14 Washington Independent Telephone Association.

15 MS. MARCUS: Roselyn Marcus, assistant
16 attorney general representing Department of
17 Information Services. Address is 1125 Washington
18 Street Southeast. That's Olympia, 98504.

19 MR. BUTLER: Arthur A. Butler appearing on
20 behalf of TRACER. My office address is 601 Union
21 Street, Suite 5450, Seattle, Washington 98101-2327.

22 MR. WAGGONER: Daniel Waggoner of the law
23 firm Davis Wright Tremaine appearing on behalf of AT&T
24 Communications. The address is 1501 Fourth Avenue
25 Seattle Washington 98101.

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1 Also appearing on behalf of AT&T is Susan
2 Proctor and I will let her give her own address since I
3 don't know it off the top of my head.

4 MR. PROCTOR: It's suite 1575, 1875
5 Lawrence Street, Denver, 80202.

6 JUDGE WALLIS: Thank you.

7 MR. MACIVER: Clyde M. MacIver, MCI
8 Telecommunications Corporation. My address is 601
9 Union Street, Seattle, Washington 98101. Also
10 appearing on behalf of MCI is Robert Nichols, whose
11 address is 2060 Broadway, Suite 200, Boulder, Colorado
12 80302.

13 MS. LEHTONEN: Lesla Lehtonen on behalf of
14 Sprint Communications LP. My address is 1850 Gateway
15 Drive, Seventh Floor, San Mateo, California 94404.

16 MR. KHANNA: I'm Dhruv Khanna, D H R U V
17 K H A N N A. I'm senior attorney with Intel
18 Corporation. Address is mail stop HF3-03. Street
19 address, 5200 Northeast Elam Young Parkway, Hillboro,
20 Oregon 97124. We have on file motions pending for
21 intervention and for a deferral of the ISDN issues.
22 The hearings I understand are going to proceed this
23 morning and will include customer service issues. We
24 would simply like to state that we would like to
25 preserve our request to examine the U S WEST

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1 representatives on the ISDN customer service issues at
2 a time that the Commission finds suitable.

3 JUDGE WALLIS: Yes, Mr. Khanna. Are there
4 any other appearances to be made this morning?

5 MS. MILLER: Sara Siegler Miller for
6 Enhanced Telemanagement, Inc, 2000 Northeast 42nd,
7 Suite 154, Portland, Oregon 97213.

8 JUDGE WALLIS: Ms. Miller, if you desire a
9 chair at counsel table, we'll ask folks to make room
10 for you. Please let us know.

11 MR. SMITH: Steve Smith for Commission
12 staff. There will only be one of us at a time at the
13 table so there is an available seat here.

14 JUDGE WALLIS: Thank you. Is there
15 anything of a preliminary nature before we proceed?

16 MR. SHAW: Your Honor, when we were going
17 to do this panel earlier and ran out of time we had
18 discussed which parts of the testimony would be
19 crossed at this time, and I presume that the
20 understanding is the same, particularly as to Mr.
21 Spinks. He treats several subjects and this is still
22 my understanding that we would not cross the subjects
23 not related specifically to service quality today.

24 JUDGE WALLIS: Yes. The purpose of this
25 morning's session is to deal only with matters

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1 relating to service quality, only those portions of
2 the witness's exhibit that were identified at the
3 earlier session. Very well, the staff witnesses have
4 come forward. I'm going to ask them to stand and I
5 will swear them in at this time.

6 Whereupon,

7 REBECCA BEATON, PATSY DUTTON, THOMAS SPINKS,
8 having been first duly sworn, were called as witnesses
9 herein and were examined and testified as follows:

10 JUDGE WALLIS: Mr. Smith.

11

12 DIRECT EXAMINATION

13 BY MR. SMITH:

14 Q. Ms. Beaton, would you please state your
15 name and business address for the record.

16 A. My name is Rebecca J. Beaton. My
17 business address is 1300 South Evergreen Park Drive
18 Southwest, P.O. Box 47250, Olympia, Washington 98504.

19 Q. And do you have before you what has been
20 premarked for identification as Exhibit 114-T?

21 A. Yes, I do.

22 Q. Is that your prefiled testimony in this
23 proceeding?

24 A. Yes, it is.

25 Q. Do you have any corrections or additions to

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1 make at this time?

2 A. No, I don't.

3 Q. If I were to ask you today the questions
4 contained in Exhibit 114-T would your answers be the
5 same?

6 A. Yes, they would.

7 Q. You also have before you what has been
8 premarked for identification as Exhibits 115 through
9 124?

10 A. Yes.

11 Q. And were those prepared by you or in your
12 your direction and control?

13 A. Yes, they were.

14 Q. And are those the exhibits you refer to in
15 your testimony?

16 A. Yes.

17 Q. And are they true and correct to the best
18 of your knowledge and belief?

19 A. Yes.

20 MR. SMITH: Your Honor, I would move for
21 admission of Exhibit 114-T and Exhibits 115 through
22 124.

23 JUDGE WALLIS: Is there any objection? Let
24 the record show that there is no response and Exhibits
25 114-T through 124 are received.

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1 (Admitted Exhibits 114-T and 115-124.)

2 Q. Mr. Spinks, would you please state your
3 name and business address for the Commission?

4 A. My name is Thomas L. Spinks. My business
5 address is 1300 South Evergreen Park Drive Southwest,
6 P.O. Box 47250, Olympia, Washington 98504.

7 Q. Do you have before you what has been
8 premarked for identification as Exhibit 125-T?

9 A. Yes, I do.

10 Q. And do you recognize that as your rebuttal
11 testimony in this proceeding?

12 A. Yes.

13 Q. And do you have any corrections or
14 additions to make at this time?

15 A. Yes, I do.

16 Q. Please tell us what those are?

17 A. Thank you. On page 16 at line 15 change
18 the word disallowance to deferral. On page 18 at line
19 22 change the word disallow to defer and at page 19
20 there are several changes on line 4 change the word
21 disallowed to deferred. At line 7, strike the words of
22 the 7.6 million of proposed salary increases."
23 Capitalize the T in the word "there" and at line 8
24 change the 6.1 million to 8.1 million, and at line 9
25 insert the word expense between the words "awards" and

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1 "that." That's all my changes.

2 Q. With those changes, if I were to ask you
3 today the questions contained in Exhibit 125-T, would
4 your answers be the same?

5 A. Yes.

6 MR. SMITH: Your Honor, move for admission
7 of Exhibit 125-T.

8 JUDGE WALLIS: Is there any objection?

9 MR. SHAW: No objection subject to a
10 reservation on the parties that we will not be
11 treating this morning.

12 JUDGE WALLIS: Certainly. Let the record
13 show that there is no objection and Exhibit 125-T is
14 received in evidence.

15 (Admitted Exhibit 125-T.)

16 Q. Ms. Dutton, would you please state your name
17 and business address for the record?

18 A. My name is Patsy J. Dutton. My business
19 address is 1300 South Evergreen Park Drive Southwest,
20 Olympia, Washington 98504.

21 Q. Do you have before you what has been
22 premarked for identification as Exhibit 102-T?

23 A. Yes.

24 Q. And is that your prefiled testimony in this
25 proceeding?

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1 A. Yes, it is.

2 Q. Do you have any corrections or additions to
3 make at this time?

4 A. I do.

5 Q. Would you please tell us what those are?

6 A. On page 6 at line 10 the words "1993
7 and" should be crossed out. And on page 10, line 8,
8 the number 14.8 should be crossed out and replaced
9 with 15.5, and on line 9 of the same page 4.5 percent
10 should be crossed out and replaced with 4.1 percent.

11 Q. With those changes if I were to ask you
12 today the questions contained in Exhibit 102-T would
13 your answers be the same?

14 A. Yes.

15 Q. You also have before you what has been pre
16 marked for identification as Exhibits 103 through 113?

17 A. I do.

18 Q. And were they prepared by you or under your
19 direction and control?

20 A. Yes.

21 Q. And are those the exhibits to which you
22 refer in your testimony?

23 A. They are.

24 Q. Are they true and correct to the best of
25 your knowledge and belief?

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1 A. Yes.

2 MR. SMITH: Your Honor, move for admission
3 of Exhibits 102-T and 103 through 113.

4 JUDGE WALLIS: Is there an objection? Let
5 the record show there is no objection and the exhibits
6 are received in evidence.

7 (Admitted Exhibits 102-T and 103-113.)

8 MR. SMITH: With that the staff panel is
9 available for cross-examination.

10 JUDGE WALLIS: Mr. Shaw.

11

12 CROSS-EXAMINATION

13 BY MR. SHAW:

14 Q. Ms. Dutton, let's start with you because
15 that's the order your testimony is in my book.

16 A. Okay.

17 Q. Do you want to correct the footer on your
18 testimony because it says Patsy Dutton?

19 A. Yes. Actually I should have corrected
20 that. I forget about it.

21 Q. Have you analyzed the letters sent in by
22 customers of U S WEST in response to the Commission's
23 public notice in this rate case, company so far has
24 copies from public counsel of about 3,643 letters?

25 A. No, I have not.

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1 Q. Are you familiar with those letters at all?

2 A. No, I am not.

3 Q. Have you looked at them at all to see
4 whether there is any complaint of service quality?

5 A. Actually, the way the process works, if
6 there are complaint of service quality within the
7 letters that are received from the public as
8 interested parties they are referred down to the
9 consumer affairs section and they would be
10 investigated as whatever the complaint that was
11 contained in the letter was, but I haven't analyzed
12 them as a group.

13 Q. Would the Commission staff accept subject
14 to its check that out of the 3,643 letters plus
15 duplicates and nonletters that there was only 57 direct
16 mentions of a need to improve service by the company?
17 And that the overwhelming bulk of the comments from
18 those letters from the members of the public had to do
19 with the proposed rate increases of the company,
20 particularly residential rate increases?

21 A. Yes.

22 MR. SMITH: Can I ask whether the witness
23 is accepting that subject to check or --

24 THE WITNESS: Yes.

25 MR. SMITH: Your Honor, I would like to

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1 reserve the right to check, to recheck that. Given the
2 volume of letters I'm not comfortable with it or I
3 would like the opportunity to check that.

4 JUDGE WALLIS: Certainly. The witness
5 taking the answer subject to check leaves the
6 opportunity to perform that check and to respond if a
7 check indicates other than the witness's answer.

8 MR. SHAW: Your Honor, we have read and
9 categorized the letters that we have received to date
10 that were sent to the Commission. I have a
11 compilation, and I will make a copy available to Mr.
12 Smith to expedite his checking.

13 JUDGE WALLIS: Thank you.

14 Q. Ms. Dutton, directing your attention to
15 page 5 of your testimony you talk about access line
16 growth in your first exhibit attached to your
17 testimony. Did you investigate at all sub areas of
18 growth in territories served by U S WEST as to, for
19 instance, what the level of growth in southwestern
20 Washington in the greater Vancouver area was?

21 A. No, we did not.

22 Q. Do you understand that the level of growth
23 in, for example, southwestern Washington is
24 considerably higher than the company's average growth
25 across all of its exchanges?

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1 A. Yes.

2 Q. You agree that that's the case?

3 A. Well, I would agree I guess subject to
4 check. I think that a large percentage of the
5 complaints that we've received have been out of the
6 Vancouver area.

7 Q. Mr. Okamoto's testimony he talked about
8 where the bulk of the company's held order problems
9 were. Do you recall that testimony?

10 A. No.

11 Q. Do you recall that he mentioned Spokane,
12 Seattle, Tacoma, Vancouver?

13 A. Yes, and maybe Spokane.

14 Q. I believe I mentioned Spokane.

15 A. Yeah.

16 Q. Does that coincide with your records that
17 that's where complaints that you receive tend to be
18 from?

19 JUDGE WALLIS: Ms. Dutton, I'm going to
20 interrupt here and ask if you would move the microphone
21 closer to you and to the extent you can try to speak
22 into the microphone so that we can all hear you?

23 A. Would you restate the question.

24 Q. Certainly. Do your records of where
25 complaints come from regarding held orders in

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1 particular coincide with Mr. Okamoto's testimony that
2 the company's facility shortages are in Vancouver,
3 Spokane, Seattle, Tacoma?

4 A. I didn't actually do an analysis that would
5 allow me to answer the question. I think, generally
6 speaking, you know, I am aware that complaints out of
7 Spokane have been higher than in other areas, but the
8 analysis that we did was on a statewide basis.

9 Q. Do you think it would be important data for
10 the Commission to know in understanding how the company
11 is coping with growth to identify the specific locales
12 of the state that are experiencing growth?

13 A. I actually don't know whether it would be
14 meaningful or not to break it down into specific
15 areas. I suppose it could be useful.

16 Q. Do you think the Commission would be
17 interested in knowing whether or not there is any
18 general problem in the rural areas served by U S WEST?

19 A. They could.

20 Q. But you don't have any data indicating
21 whether the complaints are from rural areas or urban
22 areas?

23 A. We actually have the data. We just didn't
24 analyze it in that manner. It could be analyzed in
25 that manner by city, for example.

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1 Q. Now, you compare the average growth in non-
2 U S WEST territory with the average growth in U S WEST
3 territory, do you not?

4 A. Yes.

5 Q. Did you break that down by the individual
6 independent local exchange company?

7 A. No.

8 Q. To the same effect, it would be telling,
9 wouldn't it, to identify what company experienced the
10 growth, for instance if GTE had high growth and the
11 small independents had low growth that would tend to
12 suggest that more urban areas have the growth in this
13 state?

14 A. I suppose it's possible.

15 Q. Do you expect that U S WEST should be able
16 to accurately forecast growth in sub areas of the
17 state such as Vancouver?

18 A. Yes, I do.

19 Q. Do many entities have to forecast growth in
20 order to plan long-term for where they might place
21 investments such as the state deciding where
22 investment might have to be placed in highways?

23 A. I really don't know. You know, I can
24 assume that but I don't know.

25 Q. But in any event the staff expects U S WEST

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1 and presumably all other utilities to be able to
2 project that growth accurately?

3 A. I think reasonably.

4 Q. What do you mean by reasonably?

5 A. I believe that the Commission sets down
6 certain policies as a part of its rules and that it
7 would expect U S WEST and any other company that it
8 regulates to meet those requirements or those minimum
9 requirements that are set out.

10 Q. So that means that U S WEST for example is
11 expected to project growth in every exchange that it
12 serves and have facilities available in anticipation
13 of that growth?

14 A. Again, I believe that reasonably U S WEST
15 is expected to do that to a minimum, at least to comply
16 with the Commission's rules it sets out what it needs
17 to do as far as providing service to customers.

18 Q. Let me give you a hypothetical. Say that
19 there is a large new residential subdivision that is
20 planned, and it has 10,000 living units planned by the
21 developer and in fact only, say, a fourth of that is
22 actually developed in the first period following the
23 opening of the subdivision. Would you expect U S WEST
24 to have in place in advance of the opening of that
25 subdivision facilities sufficient to serve all 10,000

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1 projected housing units?

2 A. As I understand the way U S WEST tariffs
3 work as it relates to housing developments, the
4 developer themselves would have to bring the
5 facilities out to the housing development.

6 Q. If there's 10,000 living units and the
7 company designs 1.8 access lines per housing unit that
8 affects the amount of feeder plant that would have to
9 be extended out to that subdivision, would it not?

10 A. Yes.

11 Q. So your discussion about the developer
12 being responsible for placing cable has only to do
13 with the drop wires and providing trenches for the
14 cables in the subdivision itself?

15 A. That's true.

16 Q. And putting cable and drops in subdivision
17 itself doesn't do any good if there's not enough
18 feeder back to the central office, does it?

19 A. That's correct.

20 Q. So, again to my question, would you expect
21 U S WEST to provide enough feeder capability as well
22 as cable for all building lots in a development that
23 opens?

24 A. I would expect U S WEST to meet the minimum
25 requirements of the Commission's rules and so I am not

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1 sure how to answer that question other than that way.

2 Q. Okay. Backing off a little bit what we
3 touched on earlier, apparently you also expect U S
4 WEST to anticipate the economic growth and expansion
5 in a high growth area like greater Vancouver,
6 southwest Washington and have facilities in place
7 before that growth happens so that there are no held
8 orders in that area?

9 A. I don't believe that I said that. I
10 believe that what I said is that I believe U S WEST
11 has a reasonable responsibility to provide service at
12 certain levels as outlined by the Commission's
13 policies as to what it expects the company to do.

14 Q. Is it your interpretation of the
15 Commission's rules that all local exchange companies
16 must invest and provide their own plant in
17 anticipation of growth anywhere they hold themselves
18 out for service?

19 A. Yes.

20 Q. And so that would apply equally to an ELI
21 or a a TCG or a Metronet who hold themselves out to
22 provide service statewide. Are they expected to invest
23 in facilities sufficient to meet the projected growth
24 statewide?

25 A. I'm not familiar with what rules have or

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1 haven't been waived as it relates to companies such as
2 ELI, but I am assuming that if there's not rule
3 waivers they would have the same requirements as U S
4 WEST.

5 Q. Are you assuming that for ELI and TCG and
6 Metronet and so forth that they have received a formal
7 waiver of the rule to make investment in anticipation
8 of growth in the state of Washington?

9 A. I actually don't know what waivers they
10 have or haven't received.

11 Q. If they haven't received waivers, it's your
12 position that they are expected to invest and provision
13 plant sufficient to meet growth statewide in the state
14 of Washington?

15 MR. SMITH: Your Honor, I'm going to object
16 to that question to the extent it calls for a legal
17 conclusion. Secondly, it's beyond the scope of Ms.
18 Dutton's direct examination which is simply to provide
19 statistical information on U S WEST and in comparison
20 with itself and with other incumbent LECs.

21 JUDGE WALLIS: Mr. Shaw.

22 MR. SHAW: Your Honor, the witness is
23 testifying that the company has not provided
24 sufficient investment to meet growth in its area, and
25 so I'm just trying to find out what basis she defines

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1 that duty to do so. I think that's well within the
2 scope of cross-examination.

3 JUDGE WALLIS: I'm going to sustain the
4 objection.

5 Q. Directing your attention to page 6 of your
6 testimony you talk about growth in the first full Q
7 and A. Would you agree that growth rates in the 1989
8 and 1990 on average for U S WEST were abnormally high
9 compared to historic levels?

10 A. I actually couldn't agree to that because I
11 don't know, and all I've got is the information.

12 Q. Did you look at historic growth rates for
13 the company in '86, '87 and '88?

14 A. No, I didn't.

15 Q. You state that growth remained a little over
16 4 percent for the years 1989 and 1990. Is it your
17 testimony that the company's access lines grew at over
18 4 percent in the previous years back into history?

19 A. No.

20 Q. Is it your testimony you simply don't know?

21 A. I don't know.

22 Q. Assume with me that 1988 the growth rate on
23 average for U S WEST was 1.7 in digital access lines
24 and then shot up to 4.4 in 1989. In your experience
25 would that big of a change in one year be an

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1 abnormally high increase in growth rate?

2 A. Yes.

3 Q. Then the growth rate in 1994 of 3.5 percent
4 is in the range of the growth rate that you identified
5 for 1989, is it not, within 50 basis points?

6 A. Yes.

7 Q. Do you consider the growth rate for 1989 to
8 date to be higher than historically experienced in the
9 state of Washington for U S WEST?

10 A. I don't actually know.

11 Q. So you do not know that U S WEST
12 Communications has actually experienced a decline in
13 growth from previous years during the period studied?

14 A. Would you say that again.

15 Q. So you do not know whether or not U S WEST
16 Communications has actually experienced a decline in
17 growth from previous years during the period studied?

18 A. No. All I have is the period that was
19 studied.

20 Q. Page 7 you compare U S WEST to other local
21 exchange companies and you developed some graphs based
22 upon per hundred thousand access lines. Would you
23 agree with the often stated piece of data that U S
24 WEST serves 80 percent of the access lines in the
25 state of Washington?

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1 A. I could agree to that.

2 Q. And that of the remaining 20 percent GTE
3 serves 80 percent of those?

4 A. I could agree to that.

5 Q. So the size and complexity of the local
6 exchange companies in the state of Washington
7 diminishes rapidly after you get below GTE; isn't that
8 correct?

9 A. Yes.

10 JUDGE WALLIS: Ms. Dutton, again I'm having
11 quite a bit of trouble hearing you. Maybe if you move
12 the microphone to the other side, and I also note that
13 the witness and counsel are close to each other and I
14 want to ask you to speak not only to the other person
15 but to the persons in the back of the room as well.
16 Mr. Shaw, some of your questions I'm having trouble
17 hearing as well.

18 MR. SHAW: Very well, I will speak up.

19 Q. In fact, most of the telephone companies in
20 the state of Washington other than GTE and U S WEST
21 are relatively small, are they not, less than a
22 hundred thousand lines per?

23 A. Yes.

24 JUDGE WALLIS: Ms. Dutton?

25 A. Yes.

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1 Q. Many of the independent telephone companies
2 are single exchange companies located in one town in
3 the surrounding environs?

4 A. Yes.

5 Q. Would you expect that it's a vastly more
6 simple matter to operate a one exchange telephone
7 company serving a few thousand lines than it is to
8 operate a company that serves 80 percent of the state?

9 A. I'm not sure I would concede that. I think
10 that the difference in the size of the companies is
11 considerable, but I think the number of people that
12 manage and operate those companies differs greatly
13 too.

14 Q. Have you analyzed any data on the ratio of
15 employees to access lines served?

16 A. No, I haven't.

17 Q. So you don't have any knowledge of whether
18 U S WEST has higher employees per access line or lower
19 employees per access line than other companies that
20 serve the state?

21 A. No, I don't. I was just trying to answer
22 your question.

23 Q. Did you analyze any data on whether any of
24 the companies other than U S WEST are experiencing any
25 competitive inroads into their switched service?

00902

1 A. No, I did not.

2 Q. Do you understand that generally the new
3 entrants offering switched service in competition with
4 existing local exchange companies have not entered any
5 territory other than U S WEST and to some extent
6 General's?

7 A. I can accept that.

8 Q. Does that sound right to you?

9 A. Yes.

10 Q. Your graphs indicate that historically
11 prior to the advent of competition that U S WEST's
12 service quality, at least as measured by complaint to
13 the Commission staff, was better than the independents
14 on average. Is that a fair characterization of your
15 testimony?

16 A. It is.

17 Q. And when do you feel that that situation
18 reversed itself?

19 A. As it relates to service complaint or
20 overall complaints, I don't know that it makes much
21 difference. As it relates to service complaints I
22 think that based on the exhibit that I have prepared,
23 specifically Exhibit 104, U S WEST complaints in 1989
24 were at about 9.9 complaints per 100,000 access lines,
25 and over a period of between 1989 and 1994 they have

00903

1 gone up to 33.5.

2 Q. Looking at your Exhibit 104, would you
3 agree for all practical purposes that the levels were
4 about the same in 1992 and that's when they started to
5 diverge?

6 A. Yes, '91, '92.

7 Q. Has there been a great deal of publicity
8 about U S WEST service quality problems in the
9 national press and the local press?

10 A. In the last year, yes.

11 Q. Would you expect that the media attention
12 to service quality problems can help spawn further
13 complaints?

14 A. Yes.

15 Q. Do you find it reasonable that U S WEST has
16 to make a tremendous amount of changes in the way it
17 does business in order to prepare itself for the new
18 competitive environment that has been evolving since
19 1992?

20 A. Do I find it what?

21 Q. Reasonable.

22 MR. SMITH: Your Honor, I'm going to object
23 to that question as assuming facts not in evidence.

24 MR. SHAW: I don't know what facts not in
25 evidence he has reference to.

00904

1 MR. SMITH: I am referring to the
2 tremendous amount of changes U S WEST has purported to
3 have undertaken. May or may not be within Ms.
4 Dutton's knowledge.

5 JUDGE WALLIS: The objection is overruled.
6 The witness can indicate when she doesn't have
7 sufficient knowledge to respond to a question.

8 A. I don't have sufficient knowledge to
9 respond to that question.

10 Q. Do you agree that there has been massive
11 changes in the structure of the way telecommunications
12 is provided in the state and country over the last
13 several years?

14 A. Yes.

15 Q. Divestiture of the bell system and many
16 additional toll carriers. Would you agree that that's
17 a big change?

18 A. Yes.

19 Q. The exit of a company like U S WEST from
20 consumer premise equipment --

21 A. Yes.

22 Q. -- competitive provision of that equipment.
23 The provision of private line service in
24 competition with the existing telephone companies, is
25 that a big change?

00905

1 A. Yes.

2 Q. Very much more lately the additional
3 voluntary divestiture of AT&T?

4 A. I'm not familiar with that.

5 Q. Are you familiar with that?

6 A. No.

7 Q. Would you find it reasonable that U S WEST
8 in the light of these changes would not operate as it
9 did in the environment when it was presumed it had a
10 legal monopoly?

11 A. I don't know.

12 Q. Would you agree that the services that a
13 company like U S WEST offers are much more complex in
14 the '90s than they were in the period prior to that?

15 A. Probably so.

16 Q. For instance, class services, ISDN services
17 are new?

18 A. Yes.

19 Q. T1 services in suburban and residential
20 neighborhoods, that's new, would you agree?

21 A. Yes.

22 Q. Sonet services and frame relay service,
23 that's new?

24 A. That I don't know.

25 Q. Would you expect with the additional

00906

1 services and the complexity of those services that the
2 challenge of providing service quality to all areas of
3 the state for all services are higher?

4 A. I can assume that.

5 Q. Seem like a reasonable assumption to you?

6 A. I don't really have enough information to
7 know.

8 Q. I see that you've been dealing with
9 consumer complaints for the Commission for a number of
10 years, 15 years; is that correct?

11 A. That's correct.

12 Q. Have you seen any changes in the level of
13 complaints and other aspects of the industries that
14 the Commission regulates as competition has been
15 introduced such as buses or trucking or airlines?

16 A. No, I haven't, but I haven't looked at that
17 information either.

18 Q. In your experience are you aware whether or
19 not complaint about service can increase when an
20 industry is in transition from a monopoly environment
21 to a competitive environment?

22 A. I don't have that information.

23 Q. Is it your position, directing your
24 attention to page 14 of your testimony where you
25 reference the Commission's rules, that a company like

00907

1 U S WEST has to take an order for service?

2 A. If it's a service that the company offers
3 under its tariff, yes.

4 Q. So that if a customer or a potential
5 customer comes to U S WEST and orders plain old voice
6 service to their home and that home is not served by
7 existing facilities of the company the company has to
8 take that order and install those facilities. Is that
9 your interpretation of the rule?

10 A. Assuming all the tariff requirements are
11 met, yes.

12 Q. Are you familiar with the company's
13 tariffs?

14 A. Generally.

15 Q. Are you familiar with the company's tariffs
16 under the statement of its obligation to furnish
17 service in WNU-31 exchange in network services?

18 A. No, I don't have the tariffs memorized.

19 Q. That provision is not familiar to you at
20 all?

21 A. No.

22 Q. And you haven't interpreted that provision
23 entitled obligation to furnish service at all in
24 forming your opinion in this testimony?

25 A. No. I did not review the tariffs. We

00908

1 looked at the Commission's rules.

2 Q. So the obligation to serve is defined by the
3 Commission's rules in your view and not the tariffs or
4 price lists that might be filed by the company?

5 A. I don't recall any place in the
6 Commission's rules where it actually talks about
7 obligation to serve. It sets up minimum standards for
8 service.

9 Q. If a new residential customer comes to the
10 company and orders T1 service to their home out in a
11 residential area, does the company have the obligation
12 in your view to provide that service?

13 A. Yes. Assuming all the tariff requirements
14 are met.

15 Q. So the obligation to serve by service can
16 be and is limited by the tariff language?

17 A. Yes. I mean, there may be fees that a
18 customer would have to pay in order to get the
19 facilities out there.

20 Q. Do you consider a tariff limitation on the
21 obligation to serve subject to the facilities
22 available to be a valid tariff limitation on the
23 obligation to serve?

24 A. Yes.

25 Q. On all services offered by the company?

00909

1 A. Yes.

2 Q. So where a company is faced with a shortage
3 of facilities for whatever reason it can simply not
4 take an order for service until such time as it had
5 facilities in place?

6 A. No. I'm not agreeing with that.

7 Q. Would that be considered a held order in
8 your view regardless of the company's refusal to take
9 the order of service because it didn't have any
10 facilities?

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

12 Q. Okay. Let me ask it again. If a company
13 received a request for service, any service, from a
14 customer and the company's tariff said that the
15 company will serve where it has facilities available,
16 and the company told the customer we can't take your
17 order, we won't take your order because we simply have
18 no facilities in your neighborhood to fulfill that
19 order, would you consider that to be a held order?

20 A. I would consider that to be a held order at
21 the time that the customer took care of all of the
22 tariff requirements and once a commitment -- I'm not
23 sure I'm following the question.

24 Q. I will ask it again.

25 A. All right.

00910

1 Q. If a customer, a potential customer,
2 requested the company for a service and the company
3 simply had no facilities available to provide that
4 service to that customer in that location and the
5 tariff so indicated that the offer of services was
6 subject to the availability of facilities, so
7 therefore the company declined to take the customer's
8 order and in effect told the customer, we'll get ahold
9 of you when and if we have facilities available to
10 provide the service, do you consider that a held
11 order?

12 A. I think so.

13 Q. So, in other words, the company declined to
14 take the order because of no facilities available
15 still obligates the company to build those facilities
16 out and offer that service to the customer?

17 A. I believe so.

18 Q. And the competitive environment as opposed
19 to the old monopoly environment makes no change in
20 that analysis in your mind?

21 A. No.

22 Q. Now, with other utilities, are you familiar
23 with the service obligations of, say, gas companies
24 and electric companies?

25 A. Generally.

00911

1 Q. Does this Commission expect gas companies,
2 for example, to take an order where they have no
3 facilities available to distribute gas to that
4 location?

5 A. Yes, assuming tariff requirements are met.

6 Q. And again is it your position a gas company
7 tariff saying we hold ourselves out for service
8 subject to the availability of facilities does not
9 allow that gas utility to refuse to build those
10 facilities out to that home?

11 A. I don't believe we would look at a gas
12 utility any different than a telecommunications
13 utility in that regard but I'm not -- I don't have
14 their tariffs in front of me or their rules either.

15 Q. But it would be the same, the company
16 cannot limit by tariff its obligation to serve by
17 building facilities to all customers in its service
18 area?

19 A. I don't believe they do.

20 Q. Would you agree that the company currently
21 complies with the Commission's order on held orders?

22 A. I don't know.

23 Q. You don't have any data to present to the
24 Commission whether or not the company's in compliance
25 or not in compliance with the Commission's rules on

00912

1 held orders?

2 A. As it relates to -- there's a couple of
3 different rules associated with held orders. The rules
4 that I speak to in my testimony have to do with
5 notifying customers when you can't meet a commitment
6 date but I'm not sure if that's the rule you're asking
7 me about.

8 Q. You believe that the Commission has a held
9 order rule?

10 A. Well, not a held order rule as such but it
11 has rules where held orders are discussed.

12 Q. You're not representing, then, that the
13 company is in violation of any Commission rule dealing
14 with orders taken but not -- but service not
15 installed?

16 A. I'm not.

17 Q. So you're only addressing the situation
18 where the company takes an order, says that it will
19 install the service next Wednesday and then doesn't
20 install the service next Wednesday?

21 A. And doesn't notify the customer that they
22 can't install the service.

23 Q. So in terms of the rule violation as you
24 use it it's that latter situation that engenders a
25 rule violation, the failure to notify the customer

00913

1 that the service is not going to be installed as
2 initially indicated?

3 A. That's the rule violations that I speak to
4 in my testimony, that in addition to repairing the
5 service within two working days.

6 Q. You're not talking at all about any level
7 of held orders being unacceptable in your testimony?

8 A. That's correct.

9 Q. You do have some testimony at page 26 about
10 what you think the word primary means. Do you recall
11 that?

12 A. I do.

13 Q. And am I reading this testimony correctly
14 that it's your opinion on behalf of staff that primary
15 service is five lines to a residential subscriber?

16 A. Up to and including five lines.

17 Q. Would you agree that the plain English
18 meaning of the word primary would be the residential
19 subscriber's first service to the network?

20 A. I could agree to that.

21 Q. Isn't that just an obvious dictionary
22 meaning of the word primary?

23 A. Yes.

24 Q. Is it a public policy of the Commission as
25 you understand it that the company should be prepared

00914

1 at all times to install up to five lines to one
2 housing unit?

3 A. I believe that the Commission's rules make
4 reference to in 480.120.051 to the company installing
5 90 percent of all applications for service for up to
6 five residence or business primary exchanges lines
7 within five days.

8 Q. But you're not presenting any data here
9 that the company has failed to do that?

10 A. No, I am not.

11 Q. Does anybody among the three of you, as far
12 as you know, present any such data?

13 A. I just know that I don't.

14 Q. Do you have any complaints from consumers
15 about service outages as a result of our last 100 year
16 storm?

17 A. Probably.

18 Q. Did you study any of that data or look at
19 it?

20 A. I did not.

21 Q. What's your opinion on the company's
22 performance during those high winds and floods we had
23 a couple of weeks ago?

24 A. I actually didn't form an opinion.

25 Q. There was a recent article in the

00915

1 newspapers about U S WEST complaints multiplying was
2 the headline. Did you read that in the Daily Olympian
3 and Bellingham Herald on December 30?

4 A. I did not.

5 Q. Are you familiar with the quote at all by
6 Ms. Mien of the Commission staff that Washington has
7 the least problems of any state in the 14 state
8 territory in regard to service quality?

9 A. I am not familiar with the articles.

10 Q. Assume with me that that's an accurate
11 quote and that Ms. Mien stated that. Do you agree
12 with that or do you have any basis on which to agree
13 or not agree?

14 A. I really don't have a basis to agree or not
15 agree. I am not familiar with the article.

16 MR. SHAW: Thank you very much. Move on to
17 Ms. Beaton.

18 Q. I would like to address my attention first
19 to your restating adjustment No. 13. As I understand
20 from the fourth page of your testimony you're
21 sponsoring the adjustment of team and merit awards for
22 the customer service measurements?

23 A. Yes, I am.

24 Q. Now, somewhere in your testimony I believe
25 that you based that adjustment on responses to certain

00916

1 data requests. Do you recall that testimony?

2 A. Yes, I do.

3 Q. What data request did you have in mind that
4 you based that adjustment on?

5 A. I believe it was WUTC 432.

6 Q. Do you agree --

7 A. Oh, excuse me, let me correct that. That
8 was data request 359.

9 Q. Do you agree that in 1994 there was no
10 payout for customer service measurement by the
11 company's team award program?

12 A. My focus was the test year in '93, and I
13 believe that the -- there were payouts in '93 and '94
14 is my understanding.

15 Q. For CSM or customer service measurements
16 referenced on page 4 of your testimony, is it your
17 testimony that there was any payout in 1994 for CSM?

18 A. According to Mrs. Wright's testimony and
19 Ms. Erdahl's on the numbers there were payouts in
20 those two years, yes.

21 Q. What's the test period that you're
22 referencing?

23 A. I believe it was October '93 through the
24 1994 year.

25 Q. The bulk of the period of the test period

00917

1 is 1994, calendar year 1994; is that correct?

2 A. Correct.

3 Q. Do you have company's response to staff
4 data request 359 in front of you?

5 A. I believe I do. One moment. No, I do not.

6 MR. SHAW: May I approach the witness?

7 JUDGE WALLIS: Yes.

8 Q. Would you agree that that's a copy of
9 attachment B supplied by the company?

10 A. Yes, this is.

11 Q. And directing your attention to the second
12 line where it says actually paid out for USWC, CSM
13 the figure is zero?

14 A. This is the breakdown for the 1994 team
15 award component results paid out in 1995.

16 Q. You're sure about that?

17 A. It is my understanding that further
18 investigation broke down the piece of customer service
19 and quality indicators as well as the business units
20 and those were paid out.

21 Q. Do you agree, subject to your check, based
22 on what I just showed you as the copy of the company
23 response to 359 that the 1994 team award that was
24 based upon customer service measurements actually paid
25 out a zero?

00918

1 A. No, I do not. I have before me a restating
2 actual adjustment No. 13 which is Exhibit C of Ms.
3 Erdahl, BAE-8. I am uncertain how that was marked.
4 And I show that customer service quality measurements
5 and quantity business units results were paid out.

6 Q. Again, direct your attention to the
7 component that the company titled CSM customer service
8 measurements and do you understand what that customer
9 service measurements are?

10 A. Yes, I do.

11 Q. And is it correct that it's generally the
12 company's goal is that 75 percent of its customers
13 will give it an A or a B in customer surveys?

14 A. I am not aware of the survey component for
15 that piece.

16 Q. That doesn't sound familiar at all?

17 A. I am generally aware of what the companies
18 are, not to the detail level that you're requiring.

19 Q. Again directing your attention just to the
20 customer survey measurement, do you understand that at
21 least that it's based upon the customer -- or the
22 company asking its customers on how it did and to give
23 it a letter grade?

24 A. No, what my understanding is that U S WEST
25 also looks at held orders and other pieces for

00919

1 customer service measures.

2 Q. We're not communicating, I guess. Just
3 directing you to the customer service measurement, not
4 the U S WEST C quality indicators, but the customer
5 service measurement. Do you understand what that is
6 and how it differs from the U S WEST quality
7 indicators?

8 A. Generally.

9 Q. Would you agree that the customer service
10 measurement is a survey the company does of its
11 customers and asked the customers to give it a letter
12 grade on service quality?

13 A. I will accept that subject to check,
14 Mr. Shaw.

15 Q. Would you agree based on the document I
16 just showed you the payout 1994 team award, based on
17 the customer service measurement, was zero?

18 A. I will agree subject to check again.

19 Q. Now, talking about the quality indicators,
20 would you accept subject to your check that in that
21 same response to data requests that I just showed you
22 that improved access to the business office the payout
23 was 2.5 percent?

24 A. I have a dollar figure before me. I don't
25 have the percent.

00920

1 Q. You do have the response to data request
2 No. 359, do you not, readily available to you if not
3 in front of you right now?

4 A. Yes.

5 Q. Would you accept subject to your check,
6 just reading off of that the payout was 2.5 percent
7 for improved access to the business office?

8 A. I will accept that subject to check.

9 Q. And that the provision of high capacity,
10 high density services, the payout was 5.9 percent?

11 A. Again, I will accept that subject to check.

12 Q. And the quality indicator based upon the
13 mass market missed pairs was zero, zero payout because
14 of the failure to meet the goal for minimizing missed
15 repairs?

16 A. Yes, subject to check.

17 Q. For design services, private line services
18 the payout was 3 percent based upon missed repair?

19 A. Yes, subject to check. I assume that
20 you're reading through that data request.

21 Q. Yes. And subject to your check, finally,
22 that the payout on missed installation dates as a
23 quality indicator was 3.8 percent?

24 A. Subject to check, yes.

25 Q. And that the design services missed install

00921

1 payout was zero?

2 A. Yes, subject to check.

3 Q. So if I understand your proposed adjustment
4 based upon what the company produced to you in data
5 request 359 was that any of the payouts that I just
6 ran through, improved access, high cap density, mass
7 market missed repair, which was zero, design services
8 which was zero, mass market missed install should not
9 be recognized in rates in this rate case. Is that a
10 correct understanding of your adjustment?

11 A. Mr. Shaw, my testimony on page 6 lines 11
12 through 14 state that I make the adjustment which is
13 the recommendation to eliminate U S WEST team and
14 merit awards for customer service measures net income
15 and business units as defined in Exhibit BAR-8.

16 Q. I understand that that's what your
17 testimony says. I'm trying to find out what you made
18 that 1.1 million up of based upon the response to data
19 request 359. Is it your testimony that in arriving at
20 that number that you have disallowed recommended it to
21 be disallowed any payout in regard to U S WEST C
22 quality indicators?

23 A. Yes.

24 Q. And have you further made any
25 recommendation as to U S WEST's business unit results?

00922

1 A. That those be disallowed as well.

2 Q. What part of the business unit results,
3 based upon what data?

4 A. Looking at confidential Exhibit C-BAE-8 on
5 11 I'm looking at business unit results, the piece that
6 are related to quality indicators and customer service
7 measurements there is a portion and that was testified
8 to by Ms. -- U S WEST staff witness Ms. Wright, and I
9 believe that was actually in her deposition on page
10 100.

11 Q. Now, you make this adjustment on the basis
12 that the company has violated the Washington
13 Commission's expectations on service quality
14 availability, directing your attention to page 7,
15 lines 6 and 7. Do you see that?

16 A. Yes.

17 Q. Do you have any testimony that the company
18 has failed to meet the requirement of any Commission
19 rules on held orders?

20 A. Staff is uncertain as to whether U S WEST
21 has been in compliance because of the reporting
22 methods and the measurements.

23 Q. The company has reported the data to the
24 Commission that the rule requires, has it not?

25 A. Yes, it has, but U S WEST reports held

00923

1 orders as a primary and that could be up to five, so
2 there is a cushion in my adjustment.

3 Q. What do you mean by a cushion in your
4 adjustment?

5 A. My adjustment only addresses those reporting
6 numbers given to me by U S WEST and that could -- only
7 includes the single primary. It does not include any
8 additional lines.

9 Q. Under the reporting that U S WEST has made
10 as to held orders for primary service you would agree
11 that the company is not in violation of any Commission
12 rule on held orders, would you not?

13 A. No, I do not agree. I am uncertain as to
14 whether they are or are not.

15 Q. So you don't have any evidence that the
16 company is in violation of the Commission's rules on
17 held orders, do you?

18 A. I do not have evidence. I do have
19 information that was provided by Mr. Okamoto in his
20 testimony on cross last month, and from some media
21 announcements by U S WEST that U S WEST is within 96
22 to 98 percent, not the 99 percent.

23 Q. Give me a specific reference to any media
24 announcement where U S WEST state of Washington has
25 given a percentage of held orders?

00924

1 A. I have a Communicating On Line Legislative
2 Report. Question/answer interview with Dennis Okamoto
3 1995 Communicating. I don't have the date on this,
4 and it states that Mr. Okamoto says, "I would say,
5 quote, that 98 percent of our customers feel they are
6 receiving excellent service from U S WEST." And then
7 I have the Olympian Saturday, December 30, 1995,
8 "U S WEST may be forced to improve service." And Cathy
9 Willis, a U S WEST spokeswoman says 96 percent of --
10 "we meet what the customer wants but that should be 99
11 or 100 percent."

12 Q. Let's break that down. Are you testifying
13 that the Commission rule requires 99 percent of U S
14 WEST customers to be satisfied?

15 A. No, I am not.

16 Q. Are you testifying that the Commission's
17 rules requires 99 percent of the company's orders to
18 be filled within 90 days?

19 A. In WAC 480-120-051 section 2 states "99
20 percent of all applications for installation of
21 primary exchange access lines and any exchange shall
22 be completed within 90 days".

23 Q. So the quotes you just read out of two
24 newspaper articles is your evidence that the company
25 has admitted that it has failed to provide service to

00925

1 99 percent of the customers who request service within
2 90 days?

3 A. No. That is not evidence. I am uncertain
4 as to whether U S WEST is in compliance or not.

5 Q. So you have no evidence that the company is
6 not in compliance with the Commission's rules on held
7 orders, do you?

8 A. Correct. I don't have the information to
9 make that determination.

10 Q. Is it your testimony that the company is
11 expected to have zero held orders?

12 A. I state that on page 14 and 24, lines 7
13 through 12 and on page 21, line 21.

14 Q. Thank you. That is your statement that the
15 staff expects U S WEST to have zero held orders in the
16 state of Washington?

17 A. No. I address it in those portions of my
18 testimony that U S WEST has exhibited excellent
19 service in the past and we would expect the same
20 during this test period and U S WEST did not exhibit
21 that, and as I stated earlier the adjustment I made
22 were based on the information on the numbers that U S
23 WEST provided in the test period, which could have been
24 more than one or less than five.

25 Q. More than one held order but less than five

00926

1 held orders, I don't understand?

2 A. Between one and five held orders for every
3 one counted.

4 Q. I will ask you the question again. Is it
5 the staff's position that U S WEST should have zero
6 held orders?

7 A. No, it is not.

8 Q. Is it then the staff's position that the
9 company should fill all orders for service for 99
10 percent of its requests within 90 days of the date of
11 the order for service?

12 A. Yes.

13 Q. And you have no data to offer the
14 Commission with the unequivocal testimony of Mr.
15 Okamoto that the company does in fact fill orders for
16 service within 90 days for 99 percent of its orders to
17 be incorrect, do you?

18 A. As I stated earlier, I do not have the data
19 or the details to make that determination. I made an
20 accounting adjustment based on the information U S
21 WEST provided me.

22 Q. You have proposed an adjustment in this
23 case to impute revenue to U S WEST as if it had no
24 held orders, correct?

25 A. Again, there was a cushion, but yes.

00927

1 Q. The adjustment that you're proposing is to
2 assume that U S WEST had no held orders and received
3 the revenue from all the customers for which it did
4 have held orders, correct?

5 A. Yes.

6 Q. So there's no cushion whatsoever. You're
7 assuming zero held orders when you make that
8 adjustment, are you not?

9 A. I made the adjustment on the number of held
10 orders provided by the company during that test period
11 which were just under 1,000.

12 Q. The assumption of your adjustment is that
13 the company should have no held orders and should have
14 imputed to it revenues related to all of the held
15 orders that it reported, correct?

16 A. Yes.

17 Q. In that adjustment did you include any
18 offsetting expenses of service?

19 A. No, I did not under the assumption that if
20 U S WEST had planned for normal growth plant it would
21 have been in place when required and there would have
22 been no costs associated incurred therefore.

23 Q. So US West can provide incremental service
24 in the state of Washington for zero expense. Is that
25 your testimony?

00928

1 A. No, Mr. Shaw. I would say there should be
2 no imputation unless the commissioners find a level of
3 held orders unreasonable in its interpretation of the
4 requirements.

5 Q. Okay. So if the Commission finds that the
6 company has not violated or that there is no evidence
7 presented on this record that the company has violated
8 any Commission order on held orders, there should be
9 no imputation of revenues for held orders?

10 A. I could agree with that.

11 Q. You agree that if there were to be such an
12 imputation to be at all appropriate you would have to
13 be net of expenses and in capital investment required
14 to provide those services?

15 A. Mr. Shaw, I don't believe my testimony goes
16 into that detail.

17 Q. In fact, you've assumed average usage of
18 toll for all the held orders in your calculation of
19 this adjustment, have you not?

20 A. Yes.

21 Q. And you considered average rate business
22 and residential?

23 A. Yes.

24 Q. And you've made no assumptions at all about
25 an average expense to serve or cost to serve?

00929

1 A. The details of those numbers were testified
2 to by Mr. Spinks.

3 Q. I understand that, but in your calculation
4 you've made no assumptions at all in making your
5 calculation, correct?

6 A. Would you please restate the question.

7 Q. Yes. In making your calculation you have
8 made no assumptions at all about the cost of service,
9 have you? You took no numbers from Mr. Spinks and put
10 them into your calculations?

11 A. No, I did not.

12 Q. Has the company made any investment for
13 broad band or video services in the state of
14 Washington?

15 MR. SMITH: I'm going to object. It's
16 beyond the scope of the direct examination.

17 MR. SHAW: Your Honor, direct your
18 attention to the answer starting on the bottom of page
19 21 going on to page 22 where she references such
20 investment.

21 MR. SMITH: You're correct, Mr. Shaw. I
22 will withdraw the objection.

23 A. I am aware that U S WEST has made plans to
24 invest. I am not certain as to what has been done in
25 this time period.

00930

1 Q. I take it that as an answer you do not know
2 whether the company has made any investment in the
3 state of Washington for video or broad band services?

4 A. As I state on page 22, lines 1 through 5
5 that I saw an announcement that U S WEST intends to
6 invest.

7 Q. Have you seen any subsequent announcements
8 by U S WEST that it has scaled back its investment
9 plans based on the trial in Omaha, Nebraska?

10 A. Since I wrote this testimony I have been
11 generally familiar with that piece of information,
12 yes.

13 Q. And in fact the company has no investment
14 anywhere in its service territory except in Omaha,
15 Nebraska in the context of a trial; isn't that
16 correct?

17 A. I do not know the particulars, Mr. Shaw.

18 Q. Directing your attention to page 19, line
19 23 you talk about 1995 network expenditures forecast
20 for \$142 million. Do you see that reference?

21 A. Yes, I do.

22 Q. In fact that number is only a number
23 projected for outside plant investment and is less
24 than half of the total network capital investment of
25 the company in the state in 1995, is it not?

00931

1 A. This number was provided to me by U S WEST.

2 Q. Would you accept subject to your check that
3 that's a number that only deals with outside plant
4 investment and not the total capital -- network
5 capital investment of the company?

6 A. Mr. Shaw, I can't testify to that piece. I
7 believe the specifics were contained in Mr. Spinks's
8 testimony.

9 Q. Are you familiar with Dr. Selwyn's
10 testimony about the level of capital investment of
11 this company in this state in that time frame?

12 A. I have read Mr. Selwyn's testimony. I do
13 not have it before me.

14 Q. Is that subject to your check that he
15 testified to a number more than twice as big than the
16 number you testified to?

17 A. I believe that in his testimony you dealt
18 with something different. We're talking apples and
19 oranges in my understanding.

20 Q. What does the \$142 million that you
21 testified to represent? Is it just outside plant
22 investment or are you representing that that's the
23 total network capital investment of the company in
24 1995 in Washington?

25 A. Mr. Shaw, this number was provided to me by

00932

1 U S WEST. In my Exhibit 120 total Washington network
2 capital was stated to be 141.6 million and that was
3 provided by U S WEST to me as total Washington network
4 capital.

5 Q. Do you have any reference to a specific
6 data request that you derived that number from?

7 A. WUTC No. 432.

8 JUDGE WALLIS: Mr. Shaw, how much more do
9 you have for Ms. Beaton?

10 MR. SHAW: 10 or 15 minutes, I would guess.

11 JUDGE WALLIS: Would this be a good time to
12 break?

13 MR. SHAW: Fine.

14 JUDGE WALLIS: Let's take a 10 minute
15 recess.

16 (Recess.)

17 JUDGE WALLIS: Let's be back on the record
18 following a morning recess. Mr. Shaw, you were
19 questioning Ms. Beaton.

20 MR. SHAW: Thank you.

21 Q. Ms. Beaton, directing your attention to
22 page 14 of your testimony where you state that you
23 believe that the company is narrowly focusing on
24 overcoming perceived threats?

25 A. Yes.

00933

1 Q. Would you agree that there has been a
2 substantial change in the environment in which
3 telephone service is provided in the state of
4 Washington and specifically that that environment has
5 become competitive whereas for many years it was a
6 monopoly environment?

7 A. The environment has been changing
8 dramatically since divestiture in the early '80s, I
9 would agree to that, yes.

10 Q. Would you find it to be completely
11 reasonable that the company would attempt to cut
12 costs, become more efficient and provide quality
13 service in those areas where new entrants are
14 competing with it?

15 A. I believe overall since the early '80s U S
16 WEST has tried to become more efficient and
17 cost-effective. I cannot address specifically what
18 target areas the company has made internal decisions
19 about.

20 Q. Would you agree that the company's toll
21 services have been targeted by competitors for some
22 period of time?

23 A. My testimony does not address that.

24 Q. I'm asking you, would you agree that of the
25 company's various services, toll services in

00934

1 particular have been targeted by competitors for some
2 period of time?

3 A. I don't have specific knowledge to that
4 effect, Mr. Shaw.

5 Q. Would you agree that the company's private
6 line and switched local exchange service competitors
7 are targeting urban areas and not rural areas?

8 A. Again, Mr. Shaw, I don't testify that to
9 specifics.

10 Q. I will ask you again. Do you find it
11 reasonable that the company would devote resources to
12 meeting competition in those services and geographic
13 areas where its competitors are targeting their
14 efforts?

15 A. It would be a reasonable decision by U S
16 WEST to assure that all market areas are covered and
17 consumers receive service.

18 Q. You were here when Ms. Dutton testified
19 earlier?

20 A. Yes.

21 Q. I will ask you do you have any data that
22 indicates that the company has neglected its service
23 obligations in rural areas of the state of Washington?

24 A. In rural areas specifically I don't testify
25 to regions of service.

00935

1 Q. So you don't have any data to support any
2 assertion that the company has concentrated its
3 resources in urban areas and neglected its obligations
4 in rural areas, do you?

5 A. RCW 80.36.090 states that service is to be
6 furnished on demand. I do not talk about specific
7 areas of neglect in the U S WEST region.

8 Q. Page 16 of your testimony you make the
9 statement that industry analysts believed these
10 options, referring to competitive options to the
11 company's customers presumably, will come slowly. Do
12 you see that reference?

13 A. Yes, I do.

14 Q. What specific industry analysts do you have
15 in mind when you make that statement?

16 A. I took that from industry information and
17 from media information about the general atmosphere of
18 telecommunications in the state and in the nation.

19 Q. Do you have any specific names?

20 A. No, I do not.

21 Q. Did you read any media reports or direct
22 quotes from Mr. Hunt, chairman of the FCC?

23 A. I believe this information came out of
24 Communications Network magazine, Wall Street Journal
25 and local newspapers. I did not specifically refer to

00936

1 Reed Hunt of the FCC.

2 Q. Would you agree that many industry analysts
3 including Mr. Hunt chairman of the FCC argue that
4 the competitive changes will come quickly?

5 A. Can you refer me to a specific article? I
6 would like to take that into context.

7 Q. I'm just asking you a general question from
8 your review of the press, would you agree that it is
9 an accurate statement that many industry analysts
10 argue that the changes will come quickly in the
11 telecommunications industry as a result of competition
12 and technology changes?

13 A. Mr. Shaw, the information I've seen says
14 that this will be a slow and methodical process.

15 Q. When you say slow, do you have a time frame
16 in mind?

17 A. No, I do not.

18 Q. Are you aware of the recent announcement of
19 AT&T to divest itself of its nontelecommunications
20 operations?

21 A. I don't believe that's divestiture. I
22 believe it is a reforming of the company into three
23 separate units.

24 Q. Well, I don't want to quibble with you over
25 words, but would you agree that AT&T has announced

00937

1 that it's going to spin off, divest itself, of its
2 equipment manufacturing operations?

3 A. I am aware the company is breaking into
4 three pieces and each piece will have a specific goal.
5 One is communications and I believe another one is
6 their equipment unit or the old Western Electric
7 manufacturing unit and the third will be their
8 computer.

9 Q. In other words, AT&T's telecommunications
10 operations will be divested of its ownership and
11 operation of equipment and computer operations,
12 correct?

13 A. I believe we're talking semantics here
14 because the company is breaking into three pieces.
15 It's still under the umbrella of AT&T so it has not
16 divorced itself of its equipment unit.

17 Q. It's your understanding that the announced
18 breakup will remain under the corporate ownership of
19 AT&T, that it will simply be AT&T and two separate
20 subsidiaries?

21 A. Mr. Shaw, we're getting into specifics that
22 I can't address of the corporate breakout of the
23 company.

24 Q. Well, will you at least agree that there
25 are rapid and fundamental changes happening in the

00938

1 telecommunications industry including the breakup of
2 AT&T?

3 A. Mr. Shaw, the dynamics of the
4 telecommunications industry have been changing for the
5 last 15 years, I will agree to that.

6 Q. At an ever accelerating rate, would you
7 agree to that?

8 A. I've seen incredible changes in the last 15
9 years. I've been in the industry 16 years and I've
10 seen tremendous changes each year. I can't say one
11 year is more rapid than the other.

12 Q. You do not think changes in the last year
13 involving Congress, Supreme Court ruling that there is
14 no monopoly, recently announced breakup of AT&T, the
15 five new entrants in Seattle to provide local exchange
16 service, that these are not major and rapid changes
17 just within the last year or two?

18 A. Mr. Shaw, I believe we're getting out of
19 the scope of my direct testimony on this issue.

20 Q. Well, I will ask you to answer the
21 question. Do you agree that the changes over the last
22 year or two have been very rapid and significant?

23 A. The industry is dynamic and changing. I
24 will agree to that.

25 Q. Page 17 of your testimony you talk about

00939

1 rate of work force reductions, what specific data in
2 Washington do you rely on for the apparent assertion
3 that U S WEST has reduced its work force reductions in
4 Washington?

5 A. That's industry information from U S WEST
6 about their re-engineering, and that was information
7 provided to me through the regional oversight
8 committee meetings.

9 Q. Do you have any data that U S WEST has
10 reduced its technicians in the field in the state of
11 Washington?

12 A. If I am accurate I believe U S WEST has
13 reduced its work force from something like 16,000 in
14 the mid '80s to less than 9,000 now and that was
15 information provided by U S WEST to me.

16 Q. Specifically addressing technicians in the
17 field installing and fixing service, do you have any
18 data to support an assertion that U S WEST has reduced
19 its field force in the state of Washington?

20 A. I was told by U S WEST as part of that
21 discussion as far as work force reductions that
22 technical field personnel have been reduced in this
23 state. Mr. Okamoto did testify in November that there
24 will be increases. I don't know what level, and if it
25 will put it up to the previous level prior to

00940

1 re-engineering.

2 Q. You're basing any assertion that you're
3 making that the company has reduced its technicians in
4 the field in the state of Washington on some
5 conversation with U S WEST?

6 A. I'm basing my information on conversations
7 and information provided by U S WEST within the
8 oversight of the regional oversight committee, and
9 that was provided to me last April and this past
10 October.

11 Q. Including specific Washington data. Is
12 that your testimony?

13 A. Washington was discussed. I don't have a
14 specific DR to that effect.

15 Q. Has it been represented to you by anybody
16 in U S WEST that the technical field force in the
17 state of Washington has been reduced?

18 A. Yes.

19 Q. Who made that representation and what date
20 and what circumstance?

21 A. Mr. Scott McClellan of U S WEST in 1993's
22 meeting in Salt Lake City and 1994's meeting in --
23 excuse me, 1995's meeting in Portland.

24 Mr. Shaw, now that we're discussing this I've
25 had conversations with Ms. Theresa Jenson in 1994 and

00941

1 '95 about staffing in various cities on service levels.

2 Q. Is it your testimony that technician field
3 forces have been reduced in specific cities as opposed
4 to across the state generally?

5 A. I am recalling conversations. That was my
6 recollection of the conversation with Ms. Theresa
7 Jenson.

8 Q. Are you positive of that conversation?

9 A. Yes. That was in the staff discussion with
10 several other members of staff on service levels and
11 held orders. I cannot recall the specific date. We
12 had numerous conversations.

13 Q. Directing your attention to page 31 where
14 you talk about universal service and you reference
15 Rutgers University report released in February of
16 1995. Do you see the reference?

17 A. Yes. That's line 14 through 18.

18 Q. It was the conclusion of that report that --

19 MR. SMITH: Excuse me for interrupting,
20 Your Honor, but I think we're beyond the quality of
21 service, unless I mistake Mr. Shaw's line we're beyond
22 the quality of service scope of Ms. Beaton's
23 testimony.

24 MR. SHAW: I had interpreted Ms. Beaton's
25 testimony as to all relating to quality of service.

00942

1 If the staff is intending to recall Ms. Beaton I will
2 defer those questions until then.

3 MR. SMITH: That was my understanding, and
4 I guess -- I haven't had a chance to talk with Ms.
5 Beaton about this so I'm a little bit at a
6 disadvantage here.

7 JUDGE WALLIS: Let's go off the record.

8 (Discussion off the record.)

9 JUDGE WALLIS: Back on the record.

10 MR. SMITH: With the understanding that
11 this will complete the cross-examination of Ms. Beaton
12 we're prepared to do it all today.

13 MR. SHAW: I just have a couple of
14 questions in this area anyway.

15 JUDGE WALLIS: Very well.

16 Q. I will start over. In the Rutgers report
17 that you reference, was not its conclusion that the
18 primary cause of individuals dropping off the network,
19 terminating their telephone service, was excessive
20 toll bills and not the price of local exchange
21 service?

22 A. Actually, my recollection was on the whole
23 report that the initial installation costs were
24 excessive and there was a concern over the monthly
25 charges.

00943

1 Q. For local service?

2 A. Yes.

3 Q. You have no recollection of the discussion
4 in that report of the impact on universal service of
5 toll bills?

6 A. Yes. I do recall that toll was an issue in
7 this report and that there were factors on various
8 companies cutting toll use or availability to low
9 income customers, so only local service and
10 installation charges would be incurred.

11 Q. You do not agree that this report that you
12 have reference to cited pursuant to their study that a
13 primary reason for particularly poor people dropping
14 telephone service was unaffordable toll bills?

15 A. That was one of the reasons, yes, of
16 several.

17 Q. Is it your testimony that that report cited
18 as a reason that people dropped telephone service was
19 the price of toll service itself?

20 A. That was not the reason. That was one of
21 the concerns.

22 Q. In fact the report indicated that the
23 typical levels of local service rates in the United
24 States had little or no impact on people's decisions
25 to take or not take telephone service, didn't it?

00944

1 A. If I recall the whole body of that document
2 there were five or six issues that related to the
3 report and one of those issues was toll. One was the
4 local service cost, one was installation. It also
5 broke out rural and metropolitan residents and the
6 issues around those.

7 Q. At page 33 you talk about universal service
8 issues being addressed in a separate proceeding. When
9 does the staff contemplate that that separate
10 proceeding is ever going to start?

11 A. It has started. There is a basic service
12 universal docket investigation and staff is
13 contemplating rolling all the pieces of universal
14 service into that.

15 Q. And what are the pieces of universal service
16 that you're going to roll into that?

17 A. I'm uncertain as of this time. I'm not
18 part of that docket.

19 MR. SHAW: Thank you. That's all I have of
20 Ms. Beaton.

21 Q. Mr. Spinks, directing your attention to page
22 9 and lines 12 through 14 where you make the statement
23 U S WEST made numerous tariffs filings to raise rates
24 for various service and introduced many new services as
25 well over the last 13 years." Do you have any

00945

1 quantification of the additional revenue raised by the
2 tariff filings and new services that you had in mind
3 when you made that statement?

4 A. Let me clarify something first. I thought
5 in the marking of the exhibits that my rebuttal
6 testimony from page 14 on was subject to cost
7 examination this morning.

8 MR. SHAW: Your Honor, I don't remember
9 specifically our discussions back in the November
10 discussions, but I am referencing page 8 where the
11 question is what testimony are you providing in
12 response to the Commission's supplemental notice of
13 September 8 which was the notice about quality of
14 service, so I had assumed and prepared for today that
15 the company was required to cross-examine Mr. Spinks's
16 testimony from the middle of page 8 I think on to the
17 end of it, as I recall.

18 JUDGE WALLIS: My notes do indicate page
19 14, but it is obvious that this question and answer
20 relate to the supplemental notice.

21 Mr. Smith.

22 MR. SMITH: I am in agreement.

23 BY MR. SHAW:

24 Q. Do you have the question in mind, Mr.
25 Spinks?

00946

1 A. No. Could you repeat it, please.

2 Q. Do you have any quantification in
3 additional revenues get gained by the company from the
4 tariff filings and new services introduced over the
5 last 13 years?

6 A. No.

7 Q. In reference to your statement at lines 15
8 through 19, do you agree that employment costs for the
9 company have increased?

10 A. I don't have any information to that effect.
11 With its downsizing I know that it has affected some
12 early retirement programs which caused it some unusual
13 expense in those years to buy out those employees.

14 Q. You don't have any knowledge, then, of the
15 quantification of the company's employment cost trends
16 net of work force reductions?

17 A. I don't but others in the case may of the
18 accounting witnesses.

19 Q. Would you agree that over the last 13 years
20 that there has been inflation?

21 A. Certainly.

22 Q. Have you made any quantification of the
23 effect of inflation upon the operations of the
24 company?

25 A. Not per se. I think that we see the

00947

1 effects of inflation as well as productivity and the
2 other facts I'm discussing here in the results of
3 operations of the company and through this time period
4 through the time period of the AFOR there was
5 increasing net income throughout that period.

6 Q. Whether or not there's increasing net
7 income over the last five years doesn't have anything
8 to do with what the inflation rate was of the last 13
9 years, does it?

10 A. Well, in the prior eight years the company
11 could have filed rate cases had it felt its earnings
12 were not sufficient. It was only precluded from doing
13 that under the AFOR but inflation generally in the
14 Seattle area, yes, I must say. We see monthly
15 reports, it ranges 2 to 3 percent a year out here.

16 Q. Do you have any data what the rate of
17 inflation was over the last 13 years?

18 A. No. That's the CPI. There are different
19 measures also I note.

20 Q. Would you agree that U S WEST is
21 predominantly a local exchange company?

22 A. U S WEST Communications is, yes.

23 Q. U S WEST Communications in the state of
24 Washington. And the core business of a local exchange
25 company is providing typically copper loop plant to

00948

1 businesses and residences in its service area as well
2 as the switches necessary to switch those local
3 exchange communications?

4 A. Its core business is providing telephone
5 service.

6 Q. Local exchange telephone service, I thought
7 we had agreed that U S WEST Communications in the
8 state of Washington is predominantly a local exchange
9 company?

10 A. That's right, that's correct.

11 Q. And its predominant line of business is
12 local exchange telephone service?

13 A. If you look at the revenue breakdowns, it's
14 either split up between -- I think probably 50 percent
15 of its income is derived from local exchange service
16 and the other from access and toll services.

17 Q. Would you agree that its core business is a
18 local network which it provides access to, from other
19 carriers and local exchange service directly to its
20 customers as well as offers toll service to those
21 customers in competition with many other carriers?

22 A. That's correct.

23 Q. And in order to be in that business a local
24 exchange company has to construct typically copper
25 wire plant to the homes and businesses of its

00949

1 customers, correct?

2 A. Well, to be in those businesses requires
3 the company to construct many facilities, and I
4 certainly wouldn't limit it to that. It needs
5 interexchange facilities, buildings to house people
6 and materials. It needs all of the -- it needs to
7 undertake all of the functions that are necessary to
8 provide the service.

9 Q. You would agree that the predominant
10 investment of U S WEST in the state of Washington is
11 in outside loop plant and associated switches to
12 provide local exchange service, do you not?

13 A. If you include the switches, switches and
14 outside plant together would certainly form the
15 majority of the investment in the state.

16 Q. And there have been no particular declining
17 costs for digging ditches and erecting telephone poles
18 and stringing copper wire and installing drop lines
19 and so forth, the main line of business of the local
20 exchange company. Would you agree with that
21 statement?

22 A. I don't have any information to that
23 effect. I would expect the cost of efficiencies to be
24 reflected in, for instance, the carrier facilities
25 which reduces the amount of cable the company would

00950

1 have to place and in switch technologies. I
2 understand there's a declining -- that's a declining
3 cost -- cost equipment, switching equipment.

4 Q. Would you agree that declining costs to
5 provide service are much less apparent in the
6 provision of local exchange service than they are in
7 toll and other telecommunications services?

8 A. No. I don't have any information to that
9 effect.

10 Q. You don't have any information contrary to
11 that statement either I take it?

12 A. That's correct. I think that the bottom
13 line is where it shows is in the net income.
14 Essentially quantifies or -- not quantifies but is the
15 outcome of all of those factors that we're discussing
16 this morning.

17 Q. At the top of page 10 you talk about the
18 decline -- the quarterly decline in U S WEST
19 investment in the state of Washington. Do you have
20 any numbers for 1995?

21 A. No, I don't. The form M report for 1995 I
22 don't think comes out until March or April of the year
23 possibly even May.

24 Q. What was the 1993 form M report of
25 investment in Washington?

00951

1 A. I don't know. I had '92 -- I'm trying to
2 recall. I had some prior information from some
3 testimony in a previous docket and I went down to the
4 record center and got the '94 report and simply
5 updated that.

6 Q. I take it you don't have the investment
7 levels for '93, you don't have them either for 1991 or
8 1990?

9 A. Do you mean in this testimony? In this
10 testimony I'm only showing those two numbers.

11 Q. And you do not know the numbers for the
12 intervening or immediately preceding years, I take it?

13 A. No, I don't have that readily available.

14 Q. That would be simply a matter of looking up
15 the form M in the record center for those years?

16 A. Yes.

17 Q. Do you have any basis to disagree with the
18 company testimony that its level of investment in the
19 state of Washington for 1995, the year just completed,
20 is \$331 million?

21 A. Nope, I wouldn't disagree with that. I
22 don't know.

23 Q. When was the last three-way represcription
24 of depreciation rates and lives in the state of
25 Washington?

00952

1 A. I believe it was in the summer of 1993.

2 Q. Approximately three years ago?

3 A. Two and a half.

4 Q. Is there another one scheduled for two
5 months from now?

6 A. That's correct.

7 Q. Has the FCC proposed a range of lives for
8 the regional Bell operating companies that it will
9 agree to?

10 A. Well, I'm not sure what you mean by your
11 question. I can tell you what I know.

12 Q. Well, let me ask it this way to try to get
13 it focused. Has the FCC recently announced that
14 when prescribing a life for a local exchange company
15 that it will agree to a range of lives that anything
16 within that range is acceptable to it for its
17 purposes?

18 A. No, that's not my understanding.

19 Q. What is your understanding?

20 A. That the FCC has moved to quantify -- let's
21 go back. There's two things that happened. One is
22 the FCC undertook depreciation simplification for all
23 but six of the plant accounts several years ago and
24 moved to ranges in those accounts and permits the
25 companies -- my understanding is -- to select the

00953

1 lives and salvage values within those ranges that are
2 supposed to be reflective of its operations and those
3 are then used to develop the depreciation rates with.

4 Last year the FCC authorized ranges for the
5 six remaining plant accounts, which are the largest
6 plant accounts of the company, and form the majority
7 of the investment. However, it does not permit the
8 company to select a life, its life in salvage values
9 within those ranges. Rather those would be the
10 subject of the three way meetings coming up.

11 Q. Would you agree that buried cable copper is
12 a very large account and very large investment of the
13 company in Washington pursuant to our earlier
14 discussion about where the predominant investment is
15 of a local exchange company?

16 A. Yes.

17 Q. Would you agree subject to check that the
18 current prescribed Washington intrastate life for
19 buried copper is 28 years?

20 A. I will accept that subject to check.

21 Q. And that the -- would you accept subject to
22 your check that the bottom of the FCC range for that
23 account is 20 years?

24 A. Yeah. I think the range is 20 through 26
25 years.

00954

1 Q. And the company's recent proposals in the
2 immediate past depreciation petition docket was 20
3 years?

4 A. That's correct.

5 Q. Would you expect shortened lives for
6 depreciation for intrastate Washington to result
7 from the next meeting?

8 MR. TROTTER: Object to the question. The
9 Commission has already ruled on the depreciation issue
10 for this proceeding, Mr. Shaw, if this appears to be
11 relevant to that issue and that issue has been resolved
12 so I will object to the question.

13 MR. SHAW: Your Honor, I'm not rearguing
14 the company's assertion about revenue requirement.
15 I'm directing my attention to page 10 of the witness's
16 testimony where he talks about depreciation recovery
17 in the state of Washington being adequate, and I am
18 simply asking him what his expectation of the
19 three-way meeting in March, what the outcome is going
20 to be.

21 JUDGE WALLIS: The question is allowed.
22 The witness may respond.

23 A. I don't know the answer to that. We
24 received the study several weeks ago. I haven't had a
25 chance to begin any analysis of the data contained in

00955

1 it yet.

2 Q. Would you expect given the rate of
3 technological change, which you previously testified
4 to, and the new competitive environment that the lives
5 to be prescribed out of the next three way meeting
6 will be shorter than the lives that are prescribed
7 three years ago?

8 MR. SMITH: Your Honor, I am going to object
9 on the same grounds as Mr. Trotter. Mr. Spinks
10 testimony to the extent it discusses depreciation rates
11 in response to Mr. Okamoto's newspaper article which
12 was the subject of this quality of service portion of
13 the proceeding, Mr. Spinks's testimony simply goes to
14 responding to Mr. Okamoto's claims that the
15 depreciation rates are being kept artificially low.
16 This has nothing to do with what the new lives will be
17 in the next round of represcription.

18 MR. SHAW: I think it's completely related.
19 I'm not planning on extensive cross on depreciation
20 but I think what this witness expects to happen, if
21 he knows, if he has an opinion, two months from now,
22 is certainly relevant to his assertion that Mr.
23 Okamoto is wrong when he asserts that depreciation
24 recovery is sliding reality in the state of
25 Washington.

00956

1 JUDGE WALLIS: The question approaches a
2 very limited area and I think the witness may respond
3 if the witness knows the answer.

4 A. I guess the question again.

5 Q. Do you expect, Mr. Spinks, that the lives
6 that will come out of the next three-way meeting
7 scheduled two months from now will be shorter than the
8 lives prescribed three years ago given the changes in
9 the environment that you have testified to in your
10 testimony?

11 A. No. I can't guess on that expectation. I
12 know that my recommendations in every three-way going
13 in was that some lives are shorter and others will be
14 longer, and that's a function of studying the data
15 supplied in the study.

16 Q. In the past has the FCC, the company and
17 the staff always managed to agree to a compromise
18 approach on what the lives should be?

19 A. Well, we've always reached three-way
20 agreement -- no, we haven't either. There have been
21 times when for individual accounts the FCC I believe
22 did not agree with some of the amortizations that the
23 state agreed with the company to undertake, but by
24 and large we do attempt and do achieve three-way
25 resolution.

00957

1 Q. There's a possibility, is there not, that
2 there will not be agreement in the next three-way
3 meeting and that the Commission will have to rule on
4 the staff's position vis-a-vis the company's position?

5 A. There's always that possibility, yes.

6 Q. And that possibility is increasing given
7 the disagreement between the staff and the company
8 over the last year about the appropriate level of
9 depreciation recovery in the state?

10 A. I don't know, that sounds like a warning to
11 me for the next three way.

12 Q. Not a warning. Simply a statement of fact
13 that there is widening disagreement between the staff
14 and the company about the appropriate level of
15 depreciation recovery, is there not?

16 A. Well, I hope the company would let its
17 experts discuss with the state and federal experts the
18 life indications and the expectations for each account
19 that we discuss and see if we can't reach some
20 agreement. If the company goes in with a bottom line
21 that says this is going to be the lives, take it or
22 leave it then we may have a problem.

23 Q. And vice versa if the staff comes in with a
24 position of take it or leave it there would be a
25 problem?

00958

1 A. That's right and it's never happened.

2 Q. If it is necessary to invoke the
3 Commission's review of an act of the staff and the
4 company and perhaps the FCC and the company to agree
5 with the staff's position, that will interject more
6 delay in the process before those lives are ultimately
7 prescribed by this Commission, will it not?

8 MR. SMITH: Your Honor, I'm going to
9 object. This is beyond the scope of your earlier
10 ruling on depreciation.

11 MR. SHAW: It's really my last question in
12 this regard. The point is obviously to try to get on
13 this record some idea of when the next three-way might
14 be concluded, given the possibility that there will be
15 litigation. I'm just asking the witness to agree that
16 that will inject additional delay.

17 JUDGE WALLIS: I'm going to sustain the
18 objection. I think that the issue has gone beyond the
19 earlier indications and that the question itself
20 appears to call for speculation.

21 Q. Page 11 of your testimony, Mr. Spinks, you
22 talk about Illinois at line 15, 16. Do you have the
23 reference?

24 A. Yes, I do.

25 Q. Has the state of Illinois approved the

00959

1 average rates, that is, higher rates for rural areas
2 and lower rates for urban areas, in recognition of
3 differing cost of service and a different competitive
4 environment?

5 A. Well, the basis for the statement about
6 Illinois was some tariff sheets which the -- some of
7 the staff brought back with them from a meeting. We
8 had a meeting in Portland, I believe, and they show
9 three zones, A, B and C similar to the three rate
10 groups we use today and the pricing varies by the
11 zone.

12 Q. It's not rate groups. It's actual
13 deaveraging of rates based upon geography in the state
14 of Illinois, correct?

15 A. Well, I don't know how they got there, but
16 there are lower rates in A and the highest rates in C
17 and my understanding was that they were -- each was
18 related to density with A being the most dense.

19 Q. Exactly the reverse of --

20 A. One would assume.

21 Q. Exactly the reverse of the rate group
22 pricing that we've historically used in Washington
23 where the lowest density gets the lowest rate. In
24 Illinois the lowest density gets the highest rate and
25 the highest density gets the lowest rate?

00960

1 A. Yes.

2 Q. You endorse that rate design?

3 A. I endorse the rate design. I recommend it
4 in my testimony.

5 Q. Illinois has measured local exchange rates,
6 does it not?

7 A. I don't know.

8 Q. Do you know what the relationship of toll
9 rates charged by Ameritech in Illinois is for its
10 residential rates?

11 A. No, I don't.

12 Q. Assuming for the purposes of this question
13 that Illinois has measured rates, you cannot compare
14 the rate recommendations you've made in this case with
15 Illinois, can you?

16 A. I'm sorry, would you repeat that question.

17 Q. Yes. Did I understand you to say you do
18 not know whether Illinois has measured local exchange
19 rates?

20 A. I do recall seeing on that tariff sheet I
21 believe there was a measured category.

22 Q. There is no mandatory flat rate in
23 Illinois, is there?

24 A. I don't know.

25 Q. Have you ever analyzed the orders of the

00961

1 Illinois Commission, the recent orders of the Illinois
2 Commission rebalancing rates in Ameritech -- in
3 Illinois for Ameritech?

4 A. No, I didn't.

5 Q. You've really not clear on what the
6 regulatory policy of the Illinois Commerce Commission
7 is towards residential and toll rate rebalancing and
8 design, are you?

9 A. Well, the Illinois Commission has been
10 discussed as a pro competitive, a state that's going
11 through the process of transitioning its monopoly
12 industry to a more competitive one and I have read a
13 couple of Illinois orders in that process. I think one
14 was on interconnection. The context, for however they
15 are going through that process, the context for the
16 discussion of that in my testimony is simply that
17 here's a jurisdiction that's going through that and
18 here's a rate sheet for residential local exchange
19 rates that are essentially in the same range as mine
20 and that was presented as and countered to the
21 criticism of the company to the staff's case when we
22 filed it.

23 Q. I want to be certain of what you're
24 testifying to here. Is it your testimony that in
25 Illinois that Ameritech has a statewide average

00962

1 mandatory flat 1FR rate of \$10 a month?

2 A. The structure of the tariff sheet is to
3 offer the loop and the usage separately. The
4 residential loop rates vary from \$4.80 to \$12.35 per
5 month and residential usage varies from \$1.10 per
6 month to nothing in groups B and C.

7 Q. Are you sure you're talking about retail
8 rates to end user consumers or link and port rates?

9 A. No. I'm talking about the link and port
10 rates, that's right.

11 Q. So you're not talking about residential
12 rates at all, are you?

13 A. Yes.

14 Q. Is it your testimony that Ameritech charges
15 in Illinois \$10 or less on a flat rate basis for 1FR on
16 a statewide average rate?

17 A. No.

18 Q. Your testimony is, rather, that the
19 Illinois Commission has set some sort of a link and
20 port rate for interconnecting carriers?

21 A. I believe these rates would apply to
22 companies that want to compete for the provision of
23 local exchange service in Illinois, and they would be
24 comparable to the loop rates which form the majority
25 of the residential exchange costs in Washington that

00963

1 are shown in my Exhibit 2. They wouldn't include --
2 if what you're getting at is do they include the
3 billing and collection, all the components of local
4 service that are included in the estimate of the
5 retail rate that we proposed in Washington, no, but
6 the link and port rates form the foundation on which
7 the rest of the rate for the service is billed. And as
8 you know from reviewing the cost studies that the loop
9 -- the loop and the usage are the primary -- when you
10 add those two together you have encompassed almost all
11 of the costs of the local exchange service except for
12 the billing and collection and directory.

13 Q. It's not accurate to state as you stated
14 that the Illinois Commission has found the residential
15 service rates to be in the same range as you are
16 proposing in your case in Washington which is \$10 a
17 month flat rate average across the state?

18 A. If I stated it that way that was a
19 misstatement. Wasn't intended to be misleading.

20 MR. SHAW: Your Honor, in the interests of
21 time I'm going to have substantial testimony of this
22 witness on costs of service and he has some testimony
23 here about cost study methodology and I think it's
24 just going to work much better to defer those
25 questions until later. They're really in more detail

00964

1 in his other testimony.

2 Q. So, Mr. Spinks, I would like to skip ahead
3 to page 14 and talk about your opinion that the
4 Commission can consider quality of service in a rate
5 case proceeding such as this. Do you have my
6 reference?

7 A. I don't have a particular line but on that
8 page.

9 Q. Just the general questions?

10 A. Yes.

11 Q. My question to you is, can you cite me to
12 any reported decisions of this Commission where it has
13 reduced the allowed rate of return or disallowed any
14 expenses from results of operation for a
15 telecommunications or telephone company in the state
16 of Washington?

17 A. When the research was done to determine
18 whether or not there was precedent in this state it
19 was my understanding that cases were identified.
20 However, I don't know the identification of them.

21 Q. Would you agree subject to your check that
22 in the reported decisions of this Commission it has
23 considered but always rejected such sanctions as
24 you're suggesting in your testimony with a
25 telecommunications company?

00965

1 MR. SMITH: Your Honor, I will object to
2 that question to the extent it calls for legal
3 research on the part of Mr. Spinks. He responded to a
4 data request and had two cases from this Commission
5 involving water companies but we reserve the right to
6 find other precedent, but at that time the only two we
7 cited were water company and we'll stipulate to that.

8 Q. Well, let me ask this in light of the
9 statement of counsel. Lines 10 through 12 on page 14
10 when you make the statement "in previous rate cases
11 this Commission itself has considered quality of
12 service in setting rates of return," you are only
13 referring to some water company cases?

14 A. That's correct.

15 Q. Do you know, Mr. Spinks, whether the
16 Commission has ever considered and rejected
17 disallowances of expense or rejections in authorized
18 rate of return for telecommunications companies?

19 A. Was your question this Commission?

20 Q. Yes, this Commission?

21 A. No.

22 Q. Do you have any data that suggests that the
23 managers of the company in the state of Washington are
24 overpaid related to market levels for managers in the
25 telecommunications business?

00966

1 A. I do not but other staff may. I don't know
2 if there is a salary survey done in conjunction with
3 this case or not.

4 Q. So when you suggest that the Commission
5 should defer recognizing management salary increases
6 that are in this case you have no idea whether or not
7 that would result in recognition of expense that is
8 below market levels for salaries for managers in the
9 telecommunications business?

10 A. Well, I hope the company isn't going to
11 withhold the salaries from them. What my
12 recommendation is that the ratepayers should not be
13 required to pay those increases at a time when service
14 quality is as it is.

15 Q. Would that result, if you know, in the
16 company being compensated through the rates it charges
17 for a management salary expense that is less than
18 market levels?

19 A. I'm sorry, is there a question pending?

20 Q. Yes. Did you not understand it?

21 A. Apparently. Could you repeat it.

22 Q. If the Commission accepts your
23 recommendation and disallows management salary
24 increases as presented by the company in this case, do
25 you have any data that shows that that will not result

00967

1 in company recovering through rates salary expense
2 less than market levels?

3 A. Do I have any data that would show the
4 company recovering expense at less than market levels?
5 I'm sorry, I don't understand what that means when you
6 ask that.

7 Q. You suggested that managers will continue
8 to be paid by the company. That's your reasonable
9 assumption if the Commission accepts your
10 recommendation, correct?

11 A. Well, if the Commission accepts my
12 recommendation the salary increases would be deferred
13 from recovery by ratepayers until service quality
14 improves. That's my recommendation.

15 Q. And therefore the company would not have
16 the opportunity to earn revenues sufficient enough to
17 cover the management salary expense that it actually
18 had paid, correct?

19 A. Presumably the shareholder would bear that
20 expense.

21 Q. Which is the same thing as the company
22 would not have the opportunity to recover through
23 rates at that expense, correct?

24 A. Yes.

25 Q. Do you have any evidence that the level

00968

1 management salaries you're recommending be recognized
2 in this case are at or above market levels?

3 A. I think I answered that question already.

4 Q. Directing your attention to page 17 where
5 you talk about cellular service going to the customers
6 in the company. Why does the staff care whether U S
7 WEST if it were to offer a customer cellular that it
8 could not provide service to because of shortage of
9 facilities is from a subsidiary or a nonaffiliated
10 company?

11 A. Well, my thinking in making that statement
12 was that the company shouldn't be allowed to enrich
13 itself at the expense of the customers that the
14 regulated company fails to serve.

15 Q. Would the customers pay for this cellular
16 service?

17 A. Everything over the \$150 they would have to
18 pay under this recommendation. If they had the
19 average level of usage of a residential customer their
20 bills would be \$450 a month or thereabouts at 45 cents
21 a minute if that's what air time costs, so there could
22 well be substantial payments. I see it more as a
23 lifeline. At least give them some opportunity to
24 communicate with.

25 Q. Your recommendation is based upon some

00969

1 concept that the company should provide a cellular
2 substitute to its customers pending installation of
3 facilities.

4 A. Yes.

5 Q. And how the company chooses to do that
6 whether through an affiliate or not is of no concern
7 to the consumer, is it?

8 A. Well, I think my proposal was give them a
9 choice and find out. It could well be that they have
10 a preference for one over another. I'm not a cellular
11 customer so I don't know about various service options
12 in companies that have that service.

13 Q. The customer is a customer that has ordered
14 wire line service from the company, has it not?

15 A. That's correct.

16 Q. And the concept is that the company should
17 provide wireless service until such time as it can
18 provide wire line services. Isn't that the concept?

19 A. Yes, because there is no other alternative
20 to that that at least we're aware of.

21 Q. And the reason that customer cannot
22 immediately become a wire line customer is because
23 there's no facilities available, correct?

24 A. I don't know that.

25 Q. Isn't that the problem you're trying to

00970

1 address here is held orders due to a lack of
2 facilities?

3 A. I would say held orders in general. If you
4 want me to agree with you that there are cases where
5 held orders and perhaps even a lot of them are held
6 due to a lack of facilities I can accept that subject
7 to check.

8 Q. Looking at the first sentence of your
9 answer if customers have to wait more than 30 days for
10 phone service using company facilities"?

11 A. Well, certainly if there was a way to
12 provide it over a wire line facility other than U S
13 WEST that could be recommended too but I don't think
14 there is.

15 Q. If this customer calling up U S WEST
16 finding out that it has no facilities, say in the city
17 of Seattle, then calls one of the other companies
18 holding themselves out to provide local exchange
19 service, is that still a held order of U S WEST?

20 A. Well, I think the question raises some
21 issues that are going to have to be addressed in just
22 that regard. If the Commission institutes some
23 incentives for the company to improve service and the
24 company agrees that cellular is an appropriate
25 alternative pending the facilities then I don't know

00971

1 that at least for purposes of penalizing the company
2 or further on in my testimony where I discuss some
3 specific level of held orders being counted with
4 regard to the end of the deferral period that those
5 would be included in that.

6 JUDGE WALLIS: Let me interject just one
7 minute here and ask that we go off the record for a
8 scheduling discussion.

9 (Discussion off the record.)

10 JUDGE WALLIS: Let's be back on the record,
11 please, following a brief scheduling discussion.

12 Mr. Shaw has indicated that he's concluded the
13 examination of this panel. Is that correct, Mr. Shaw?

14 MR. SHAW: Yes.

15 JUDGE WALLIS: And Mr. Trotter has one or
16 two areas he wants to inquire into briefly.

17 MR. TROTTER: Yes. Your Honor, both
18 Mr. Shaw and Ms. Dutton referred to the facilities
19 provision tariff in the context of a subdivision going
20 in and I don't believe that section of the tariff is
21 under suspension in this docket so I would ask the
22 Commission to take official notice of WNU-31, section
23 4, first if the company would confirm if that's the
24 section, one of the sections that he was referring to.

25 MR. SHAW: I don't believe I did

00972

1 specifically refer to that, just in the gave and take
2 of cross Ms. Dutton brought it up and there were a
3 couple of questions on it. I don't have any problem
4 with official notice of a tariff. I think tariffs are
5 filed documents and tariffs are considered legally
6 binding, that I've always felt that any party could
7 brief and cite tariffs just like they can the
8 Commission orders so I don't believe official notice
9 is needed. I have no objection to Mr. Trotter
10 referring to language in the company's tariff if it's
11 relevant.

12 MR. TROTTER: That's fine. Then the other
13 question I had of Ms. Dutton was with respect to the
14 letters from ratepayers.

15

16 CROSS-EXAMINATION

17 BY MR. TROTTER:

18 Q. Ms. Dutton, did you review the bill stuffer
19 that the company sent out to notify the public of this
20 proceeding.

21 JUDGE WALLIS: Could you get the
22 microphone, please?

23 A. No, I did not.

24 Q. Would you accept subject to your check that
25 that notice referred to rates but not service quality?

00973

1 A. Yes, I would.

2 Q. Is that something you can check?

3 A. Yes.

4 MR. TROTTER: That's all I have. Thank
5 you.

6 JUDGE WALLIS: Mr. Smith.

7

8 REDIRECT EXAMINATION

9 BY MR. SMITH:

10 Q. Ms. Dutton, while you've got the microphone
11 there, did you look into any causal connection between
12 registration of competitive -- registration of local
13 service providers, new local service providers and
14 increase in service complaints?

15 A. No, I did not.

16 Q. Did you have any knowledge of that causal
17 connection if any?

18 A. No, I do not.

19 Q. From your study and your exhibits, your
20 chart, does it appear that there is necessarily a
21 relationship between growth in lines and growth in
22 complaints?

23 A. Not necessarily.

24 Q. If we just set aside any dispute as to the
25 cause, is there any question in your mind that the

00974

1 quality of service of U S WEST has been declining in
2 recent years?

3 A. As it relates to the number of complaint
4 this Commission is receiving, yes, I believe there has
5 been a decline.

6 MR. SMITH: Thank you. I have two
7 questions for Mr. Spinks and that will conclude my
8 redirect.

9 Q. Mr. Spinks, Mr. Shaw asked you some
10 questions about the triannual reprscription process.
11 Do you recall that?

12 A. Yes, I do.

13 Q. And if lives are changed in a
14 reprscription process does that mean that the prior
15 lives were kept artificially low, in your opinion?

16 A. No, of course not.

17 Q. One last question on adjusting the rate of
18 return in connection with the quality of service
19 issues. Do you know whether the Commission has ever
20 been presented with a declining quality of service
21 problem for telecommunications company that might give
22 rise to an adjustment of rate of return issue?

23 A. Not aware of any of the telephone industry
24 that I've worked with this Commission since '84.

25 MR. SMITH: Those are all my questions.

00975

1 Thank you.

2 JUDGE WALLIS: Commissioners.

3 CHAIRMAN NELSON: No questions.

4 COMMISSIONER HEMSTAD: I have a couple.

5

6 EXAMINATION

7 BY COMMISSIONER HEMSTAD:

8 Q. For Ms. Dutton, since your testimony was
9 prepared what has been the trend or the pattern of
10 complaints for held orders to date?

11 A. I do have some of that information. My
12 testimony was through August of 1995, and I need to
13 explain a little bit here before I give these numbers,
14 that they move around and they move around because
15 complaints that are still open will not be included in
16 it, so I can tell you that going forward for the month
17 of September, for example, of 1995 U S WEST had 186
18 held order complaints. In October 157, in November
19 116 and in December 129, bringing the total for 1995 to
20 1,243.

21 Q. And complaints?

22 A. Overall complaints filed with the
23 Commission against U S WEST since August was a total
24 of 295 in September, 253 in October, 232 in November
25 and 277 in December bringing the overall total of

00976

1 complaints filed against U S WEST for 1995 to 2,383
2 complaints.

3 Q. Thank you. Question for Ms. Beaton. To
4 understand your testimony, for the test period the
5 average new held order levels were approximately 1,000
6 per month?

7 A. Yes, 1,000 per month.

8 Q. And that translates into one out of every
9 four new service requests was not met?

10 A. That was my calculation, and that was only
11 for new service requests.

12 Q. How does that square with Mr. Okamoto's
13 testimony where, I believe -- I don't have the page
14 reference but where he states that the number of
15 orders held through August of 1995 is less than one
16 percent of the 1995 total of new connect or transfer
17 of service orders?

18 A. He includes transfer of service orders. I
19 believe you're referring to my testimony on page
20 on page 18 line 1 and 2 where I discuss the service
21 in new locations not being met, that is, only 75
22 percent of requests for new service are being met and
23 that was a breakout of just new services that needed
24 installation, not what we would consider churn.

25 Q. And his reference to less than one percent

00977

1 encompasses what?

2 A. He encompasses all orders.

3 COMMISSIONER HEMSTAD: Thank you.

4 COMMISSIONER GILLIS: No questions.

5 JUDGE WALLIS: Mr. Shaw, do you have any
6 follow-up?

7 MR. SHAW: No.

8 JUDGE WALLIS: Mr. Smith.

9 MR. SMITH: No questions.

10 JUDGE WALLIS: Very well. Thank you for
11 your testimony today. You're excused from the stand
12 at this time. And we will be in recess. Let's resume
13 at 1:30 in this room, please.

14 (Lunch recess taken at 12:15 p.m.)

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1

AFTERNOON SESSION

2

1:30 P.M.

3

JUDGE WALLIS: Let's be back on the record

4

following our noon recess. At this time the company

5

has called its witness panel to the stand. Mr.

6

Okamoto, you've already been sworn in this proceeding,

7

and you can just relax for a moment.

8

Whereupon,

9

MARY OLSON, HARVEY PLUMMER, WINSTON WADE, DENNIS

10

OKAMOTO,

11

having been first duly sworn, were called as witnesses

12

herein and were examined and testified as follows:

13

JUDGE WALLIS: The other witnesses, if you

14

would stand and raise your right hand, please. I will

15

ask the reporter to insert at this point the

16

identifications of Exhibits for identification 140,

17

141, 142 and 143. Mr. Shaw.

18

(Marked Exhibits 140 - 143.)

19

MR. SHAW: Thank you, Your Honor.

20

21

DIRECT EXAMINATION

22

BY MR. SHAW:

23

Q. If I could first start with you, Ms. Olson.

24

Could you state your name for the record and your

25

title?

00979

1 A. Mary Olson, vice-president service
2 assurance.

3 Q. Is that for U S WEST Communications?

4 A. Yes, for U S WEST Communications.

5 Q. Have you previously held jobs with
6 responsibility specifically for Washington network
7 provisioning issues?

8 A. Yes. When we had territorial
9 vice-presidents I was the vice-president in charge of
10 Washington, Oregon, Utah, Montana and Idaho.

11 Q. And when was that?

12 A. That was in 1993.

13 Q. Now, could you describe briefly for the
14 Commission what your responsibility is and how that
15 relates to the responsibilities of Mr. Plummer and Mr.
16 Wade and how you all worked together and where you
17 report in the company hierarchy?

18 A. Sure. I as the vice-president of service
19 assurance have responsibility for the repair processes
20 in U S WEST. That encompasses all the customer direct
21 repair reports that come in to U S WEST as well as the
22 proactive and rehabilitative efforts that we take to
23 reduce repair reports across the company.

24 In addition to that I also have
25 responsibility for monitoring the network and

00980

1 maintaining and monitoring the network, and we built
2 two centers, one in Denver and one in Minnesota in our
3 reengineering efforts where we monitor the entire
4 network out of -- and all our alarms and all our
5 switches and our network intelligent elements.

6 How I relate to Mr. Plummer and Mr. Wade is
7 Mr. Plummer has responsibility for our capacity
8 provisioning organization. That's the organization
9 where we build the network and we monitor the
10 facilities in our network in terms of where we need to
11 reinforce the network for facility builds, and his work
12 relates very closely to my work because he builds it,
13 I maintain it. And Mr. Wade has our entire network
14 operations, field operations, organization and so my
15 organization along with Mr. Plummer's organization uses
16 the people in Win Wade's organization to build the
17 network as well as to repair the network and install
18 services and such.

19 We all report to Tom Bystrzycki as the head
20 of the network organization, our executive
21 vice-president.

22 Q. I would like to ask you a few questions
23 about your specific responsibilities and it's been of
24 interest in this proceeding how the company has
25 changed the way it approaches repair both preventive

00981

1 maintenance and actual repair of trouble in the field.
2 From your experience in Washington as the regional
3 vice-president, could you describe how the company
4 approached repair issues prior to its re-engineering
5 endeavors?

6 A. Yes. Let me just tell you that I've been
7 kind of on the tour of the U S WEST plan so I can
8 probably describe that not only from my Washington
9 experience but I was also in Oregon, Arizona and
10 Minnesota in previous jobs and have been associated
11 with the repair process for most of my 21 year career.
12 And I think the major changes that have taken place is
13 better utilization of shared resources across the
14 company. In the past we were fairly territorial in
15 terms of how we approached the repair process, and so
16 from our repair answering locations to where we tested
17 the trouble to the dispatch locations it was fairly
18 geography-based, and some of the changes that have
19 taken place in the last couple of years has been in our
20 center consolidation efforts we have been able to take
21 our repair process and share the load more, for
22 example, on our repair answering functions across the
23 region. So we have more common systems now than we had
24 in the past. As you know, we came from three operating
25 companies, Pacific Northwest Bell, Mountain

00982

1 Bell and Northwest Bell, and we had a little bit
2 different operating systems in the past than we have
3 today.

4 Q. I would like to refer you to what's been
5 marked for identification as Exhibit 142 and could you
6 identify that and relate it to your testimony that
7 you've just given?

8 A. Sure. That's one of our two service
9 assurance centers. A picture of service assurance
10 center at our Mineral location in Littleton, Colorado.
11 When we consolidated our monitoring the network
12 functions we put them into two locations as I
13 previously stated. We put one in Minnesota, in
14 Plymouth, Minnesota and the other one in Littleton,
15 Colorado, and that is our Littleton location. In
16 there you can see some screens in the background which
17 visually show us what is being monitored on the
18 screens on people's desks, and we have people located
19 in what we call pods. There are six people in a pod
20 that monitor a specific geography. One of the things
21 that we were doing as we created the Littleton center
22 and the Plymouth center was to take and have pods of
23 people monitor networks as opposed to just switches.
24 I think that was one of the bigger changes in terms of
25 instead of dividing up the work by technologies we are

00983

1 now dividing it up by geography so you can see what is
2 affecting a customer in a given territory.

3 Q. Is that one of the operations that reports
4 to you then?

5 A. Yes, it is.

6 Q. And why is that an improvement over how the
7 three individual companies did it in the historic
8 past?

9 A. I don't believe that customers ever cared
10 where the trouble was being caused, and I think that
11 one of the areas that we're working very hard on is to
12 look at networks today versus just elements of
13 networks, and so in the past we would have a network
14 monitoring center that would say the trouble is not
15 here, it must be someplace else. In this center we're
16 attempting to take a look at the entire network.

17 Q. Showing you what's been marked for
18 identification as Exhibit 143, would you identify that
19 and describe how it relates to the previous
20 photograph.

21 A. Now, it's just a closeup of the screens that
22 we have available to us and to our technicians in our
23 network monitoring centers, and so we have a variety of
24 screens. That's where our alarms come in that we
25 monitor in terms of whether or not one of our network

00984

1 elements is in a failure mode. We also can reroute
2 traffic utilizing some technologies and so that one of
3 the pictures there you see is a state of Washington,
4 for example. It will show our toll routes and what
5 traffic is moving over them.

6 Q. Now, do you acknowledge that the company is
7 having some problems in repairing customer service
8 that is broken for whatever reason?

9 A. I think that repair is always a challenge
10 and it continues -- it has been a challenge in the
11 past and it continues to be a challenge for us. I
12 also think that during the past year and a half or so
13 as we were consolidating our efforts into our new
14 centers that we had a lot of -- we had some
15 difficulties in terms of our people and their training
16 skills and levels, but overall I think generally
17 speaking we've maintained about the same level of
18 service as we've previously provided on the repair
19 site.

20 Q. What is your goal for trouble repair?

21 A. Well, I think our goal matches the
22 Commission goal, generally speaking, in terms of 100
23 percent fixed in 48 hours or less on repair. In fact
24 I think that's a worthy goal. I think there are some
25 things that affect the ability to do that such as when

00985

1 we had the recent storms in Washington. We cannot get
2 into an area to restore telephone service until after
3 power is restored and so there are some reasons why
4 you cannot restore service in a 48 hour period of time,
5 but in terms of an overall goal, that is our overall
6 goal.

7 Other things that enter into that is we do
8 have about 34 percent of our repair reports currently
9 are on inside wire or customer provided report. Since
10 divestiture that has been a growing concern in terms of
11 customer trouble as we do not put in all the jacks and
12 all the inside wire any more, that's really up to a lot
13 of various people put that in and we are experiencing
14 quite a bit of trouble in that area, and as a result we
15 also find at times that we have no access to the
16 customer's house at the time that we're out there so
17 that that also causes sometimes the repair to take a
18 little longer.

19 Q. Could you describe for the Commission what
20 a typical repair problem is, what causes a customer's
21 service to either go out or substantially degrade.

22 A. There's a variety of things that could
23 cause it. When we take a look at our trouble report
24 and take a look at what's causing trouble, as I was
25 saying in the state of Washington about 34 percent

00986

1 is caused by inside wire or customer-provided equipment
2 is our cause code but the number one cause of trouble
3 is our outside plant. I think that's because it's the
4 largest piece of network that we have, and so from the
5 central office to the customer's premise becomes our
6 number one majority of our cases of trouble fall into
7 the outside plant arena, and then that's followed by
8 the drop, which is from the pedestal into the house is
9 their next cause of trouble.

10 We have some trouble with our central
11 offices but it's very small in comparison.

12 Q. In your opinion, is the outside plant in
13 Washington adequate to provide a reasonable level of
14 repair service to the company's customers?

15 A. In my opinion the outside plant in
16 Washington is adequate to provide a reasonable level
17 of service to our customers. Somebody who owns the
18 repair process is always interested in having more
19 plant, but I do think that it provides a reasonable
20 level of service and I think that some evidence of that
21 would be just in the recent storms that we saw in
22 Washington. Our plant held up quite well. We had for
23 -- in the western side of Washington we have a little
24 under 2 million customers and about 5,000 were affected
25 with that level of activity that we had in terms of

00987

1 rain.

2 Q. You mentioned that one of your
3 responsibilities is not only to fix it if it breaks but
4 to anticipate where it might break and engage in
5 rehabilitation. How do you identify plant that needs
6 rehabilitation?

7 A. That's probably one of the more exciting
8 areas that we've undergone in reengineering
9 that having been in the plant world for about my 21
10 years almost I can remember sorting through tickets
11 and trying to make information out of a lot of data,
12 but we have now mechanized that process so we have the
13 ability to have the computer aid us in taking a look
14 at trouble history on our particular cables as well as
15 the tests that we can run in the central offices in
16 the evening to test out our cables, and we put together
17 service assurance packages that we send out to the
18 field that identify particular areas that need looking
19 at. That was a new development in 1995, and some of
20 the discipline that we want to add to it in 1996 is
21 some discipline around clearing time for those
22 packages so that we start clearing those in a shorter
23 period of time once we identify the problem so that we
24 can actually prevent trouble before the customer has
25 to call in.

00988

1 Q. If I understand your testimony when you
2 identify a cross section of plant that needs
3 rehabilitation you hand that off to Mr. Plummer for
4 the actual work or how does that work?

5 A. Actually I hand that off directly to Mr.
6 Wade's group. If it's a larger piece of network that
7 needs replacement that we identify I actually have a
8 rehabilitation capital program so that I can replace a
9 plant that needs replacement without going through a
10 lot of bureaucracy. No offense in terms of getting it
11 replaced early. That was what me and Harvey agreed on
12 right away that instead of me asking Harvey for
13 permission to replace a network that we already knew
14 needed replacement that we had the background that
15 should be able to do that as well.

16 JUDGE WALLIS: Ms. Olson, I am going to ask
17 you -- I know you're excited about your work and about
18 the opportunity to appear here but it's very
19 difficult for our reporter to take more than about 250
20 words a minute.

21 THE WITNESS: It's a high speed digital
22 voice.

23 Q. The staff in its testimony this morning
24 expressed that one of its primary concerns is where a
25 repair appointment will be made with a customer and

00989

1 then that repair appointment is not kept. Is the
2 company concerned about that and what's the situation
3 and what are the fixes that you have in place for that
4 situation?

5 A. Yeah. The company is very concerned about
6 it, and I am very concerned about it and it's an area
7 of improvement that we've -- we're really stressing in
8 1996. One of the things is that in -- we believe
9 we have not done an adequate job of this in the past
10 but any customer where we missed their customer they
11 had to go to the head of the line and so we're changing
12 our systems such that they will fall into the next
13 dispatch. As an example of something that we're
14 changing.

15 In addition, that kind of information we
16 are trying to make more readily available to the up
17 front repair call handlers so they have a more readily
18 available information on the customer and what their
19 history has been, so that is an area of concern. I
20 don't know that we'll ever be perfect at that but I do
21 think we have to get better.

22 Q. Are the dispatchers and schedulers of
23 visits located in Washington?

24 A. The dispatchers and schedulers are local to
25 Washington, the ones that actually dispatch the

00990

1 technicians to the field.

2 Q. With that I think I will move on to Mr.
3 Plummer and ask him to identify himself for the record
4 and state his title.

5 A. My name is Harvey Plummer, P L U M M E R.
6 My address is 700 West Mineral, Littleton, Colorado.
7 My title is vice-president capacity provision for U S
8 WEST Communications.

9 Q. And do you agree with how Ms. Olson
10 characterized your responsibility in this three-way
11 operation that you have?

12 A. Yes, I do.

13 Q. Do you three office together?

14 A. We have offices in the same area at Mineral
15 which is the facility where we're located.

16 Q. The previous exhibit of the panorama of the
17 services assurance room, is that located at Mineral
18 where you office?

19 A. That's located in the same building. It's
20 on the far east end of the building.

21 Q. Mr. Plummer, in terms of capacity
22 provisioning, if you are not responsible for
23 identifying where plant needs to be rehabilitated,
24 precisely what's your primary responsibility in
25 managing the network?

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1 A. My responsibilities are primarily in the
2 area of planning for the network, designing,
3 engineering and manage the construction of new
4 facilities. In addition to that I do several
5 administrative functions regarding capacity management
6 and provisioning including records updating, records
7 management and also assigning orders when the systems
8 can do them on an automated basis.

9 Q. Are the old paper inventory records, plant
10 inventory records of the company accurate?

11 A. The records are in various states. There's
12 some locations where the records are very accurate.
13 Unfortunately, there are a number of areas where the
14 records had not been updated or posted with recent
15 construction information.

16 Q. In the process of re-engineering and
17 consolidating and automating capacity provisioning,
18 has it been necessary to in part reinventory the plant
19 as installed?

20 A. Part of our activities in centralizing
21 engineering work also involves centralizing
22 engineering work records, and when we opened the center
23 we brought in approximately 200,000 pages of paper
24 records that hadn't been posted distributed across the
25 region. Since we've moved into the center we have

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1 scanned many of the records into an automated
2 computer-aided engineering system and are currently in
3 the process of updating the paper records to be
4 current.

5 Q. Showing you what's been marked for
6 identification as Exhibit 141 would you tell the
7 commissioners what this employee is doing and how it
8 relates to the paper versus the automated records?

9 A. The employee in the picture is an employee
10 that moved from Washington to the center in Mineral.
11 Her name is Sherry Maxwell. On her screen is a
12 computer generated document. It's what's called a
13 raster image which has the records for the outside
14 plant on the screen. The piece of paper that she's
15 holding is a marked up version where she's entering
16 information into the system.

17 Q. Is that plant part of the Fort Lewis plant
18 that serves Fort Lewis, if you know?

19 A. I believe that that's what she was working
20 on when we took the picture, yes. I can't see from
21 here but I have seen the picture before.

22 Q. How does this process improve the company's
23 ability to provision new capacity?

24 A. Really two major benefits. One is
25 standardization. It allows us to use standard

00993

1 engineering and designs and also standard solutions.
2 The two benefits out of that are faster cycle time on
3 producing documents and the second is the lower cost
4 in terms of negotiating with vendors for standard
5 equipment solutions.

6 Q. Do you consider that U S WEST is using
7 state-of-the-art technology for its capacity
8 provisioning with its re-engineering efforts?

9 A. I believe that the systems that we're using
10 are state-of-the-art in the telecommunications
11 industry. The particular system that we're using now,
12 this image system is a transition to an advanced
13 computer aided engineering and design tool. We're
14 currently working on a version that's referred to as
15 outside plant facility module, and that is an advanced
16 capability that only one or two other RBOCs have made
17 the kind of progress that we have in implementation.

18 Q. Have other regional Bell operating
19 companies visited your operations to see how U S WEST
20 is doing it and to study how they can replace their
21 paper records?

22 A. We've had two specific companies come visit
23 and look at the way we're automating records and
24 shared information with us and we shared information
25 with them in terms of what the records look like and

00994

1 what ultimate capabilities of the system would be.

2 Q. Showing you what's been marked for
3 identification as Exhibit 40, could we now talk about
4 specifically how you design new network editions for
5 the state of Washington and could you discuss this
6 exhibit.

7 A. This particular picture is a picture of
8 Jerry Davidson, another Washington employee who has
9 moved to Denver who is working on an automated system
10 for designing central office equipment. That
11 particular tool is the advanced system that is similar
12 to what we're trying to do with outside plant records,
13 and with this system they can design a central office
14 in a matter of weeks and from what used to take as much
15 of a year's worth of engineering time to complete.

16 Q. Now, could you just talk briefly about
17 Washington specifically. First what's your opinion of
18 the state of the Washington plant?

19 A. I think that the state of the plant is one
20 of dated designs. We have a variety of networked
21 topologies that have been eliminated in other areas
22 across the U S WEST territory, and I believe most of
23 the United States. The structure is one of multiple
24 cross connect points within a network that add
25 considerable flexibility but at the expense of being

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1 able to provide service and also at the expense to a
2 certain degree in reliability.

3 The facilities are certainly adequate to
4 provide service, but at the same time for new
5 generation technologies for driving loops, even single
6 channel digital carrier systems we have to go out and
7 condition the plant and spend more rearrangement time
8 than we do in other locations.

9 Q. If money were no object or if you were
10 starting over and building anew, what would be your
11 preference as a network design engineer?

12 A. Well, as we install new equipment elements,
13 we move away from the current design which is referred
14 to either as multiple plant or this control point
15 access point kind of structure into a carrier serving
16 area concept and we're actually doing that as we
17 install new plant.

18 In many other states where we have high
19 growth we have an opportunity to go through and
20 rebuild or modernize the network as we put in
21 additional capacity, but in Washington the number of
22 areas where we have to add capacity is not as
23 significant, only about 15 percent of the areas need to
24 have physical capacity added, so we can't do it on a
25 growth basis. If money were unlimited we would

00996

1 upgrade that CPA piece structure with new generation
2 architectures and topologies.

3 Q. Does the council manage its area network on
4 a distribution basis?

5 A. We manage our area -- our facilities in
6 groupings of about 400 lines. That's the average size
7 of the area that we manage and those areas are called
8 distribution areas.

9 Q. How many distribution areas are there in
10 the state of Washington?

11 A. About 12,000.

12 Q. Now, there's been some numbers bandied about
13 in this record in terms of what the fill is of the
14 company's plant. Could you describe main frame fill?

15 A. Main frame fill would be the appearance in
16 the central office where the copper or fiber or other
17 facilities leave the building.

18 Q. And what is that typically in Washington?

19 A. I believe the numbers are in the 50 percent
20 range but I would have to actually check on that
21 because that number is not one that we use
22 significantly because it's not meaningful from a
23 customer standpoint.

24 Q. As I understand it, then there is feeder
25 plant from the main frame on the switch out to a

00997

1 distribution point in a distribution area. What's the
2 fill on that feeder or could you describe how that
3 works?

4 A. Well, the actual ability to provide
5 services to customers is the fill out to these
6 distribution areas, and in Washington the fill at the
7 start of the year was about 76 percent and the fill in
8 September, which was the last look that we actually
9 did on the distribution areas, it had increased about
10 four one hundredths of a percent. So it's just a
11 little over 76 percent.

12 Q. That's on average. How many distribution
13 areas do you have that are approaching 90 percent or
14 more fill?

15 A. Greater than 90 percent, about 44 percent of
16 the distribution areas have fill levels above 95
17 percent or above.

18 Q. Is that approaching the maximum point at
19 which you can operate the network without adding a lot
20 more additional capacity?

21 A. I think it varies by area and mature
22 neighborhoods with low activity operating at the 90
23 percent level is not a problem. In fact roughly a
24 thousand distribution areas were above 90 percent but
25 didn't have sufficient activity or growth projected

00998

1 and didn't require any activity to be taken in those
2 areas.

3 Q. How do you decide which distribution area
4 to reinforce?

5 A. The basis for adding or removing pairs --
6 we actually in some cases take pairs out of areas --
7 is based on market forecast provided by the various
8 business units and rolled up as an integrated forecast
9 to us.

10 Q. What is the latest number of held orders
11 for primary service over 30 days in the state of
12 Washington?

13 A. We ended the year in December at 150
14 primary lines over 30 days.

15 Q. You're defining primary lines. It's not
16 five lines but the first line into a residence?

17 A. Single lines into a residence or business.

18 Q. And what ratio do you engineer service out
19 to neighborhoods or what presumption of lines per
20 residence do you use?

21 A. It varies by area but typically about 1.6
22 to 1.8 lines per living unit.

23 Q. Finally, commissioner Hemstad was asking
24 Ms. Beaton about a conclusion that one out of four of
25 new customers in the state of Washington cannot get

00999

1 service. Is that a correct conclusion to draw?

2 A. I'm not sure what the data was she actually
3 used. I don't believe it's a correct conclusion, no.

4 Q. How many new orders is U S WEST taking in
5 Washington currently?

6 A. In 1995 the total number of opportunities
7 for a held order would have been the number of inward
8 line activities and there were approximately 592,000
9 service orders with inward line activity on those.

10 Q. Is it correct to assume that only the net
11 gain of the moves and changes and new customers
12 constitutes the demand for new facilities?

13 A. No. In fact, virtually every order is an
14 opportunity for a held order, an opportunity for an
15 order filled. We use churn as a means to buffer growth
16 meaning that in areas where there's a lot of activity,
17 apartment buildings and dense urban areas, we don't
18 build 100 percent of the capacity because the churn
19 levels will permit you to rearrange facilities without
20 the additional capital and hold down investment levels.

21 Q. Finally, there's been testimony in this
22 case that U S WEST is having trouble fulfilling orders
23 for designed circuits, private line, ISDN, higher
24 capacity circuits such as T1 for Internet service
25 providers and so forth. What is the situation with

01000

1 the company's ability to design new circuits and
2 install them?

3 A. Well, I will reiterate a point I made
4 earlier about the topology of the Washington network.
5 It is a particular problem on design services orders,
6 and the problem is that with a multiple appearances of
7 a facility we have to go out and eliminate those when
8 we designed any type of service that transmits on
9 digital transmission techniques, but notwithstanding
10 that the company in general, we did have a backlog of
11 orders on the design services side and are still
12 working that log down. On the capacity provisioning
13 center where we have to design orders for facilities
14 that aren't available we have approximately three days
15 worth of work in the center meaning that our backlog
16 is one to two days, which is kind of our target for
17 design services.

18 Q. Mr. Wade, could you state your name and
19 title for the record?

20 A. My name is Winston Wade and my title is
21 vice-president local network operations. I'm also
22 located at U S WEST Communications. I'm located at
23 the same address that Mr. Plummer and Ms. Olson are.

24 Q. Previous witnesses have described you as
25 responsible for running the crews that go out and fix

01001

1 -- incidents of trouble reported by customers. Is
2 that an accurate description of what you do?

3 A. That is one part of what I am responsible
4 for.

5 Q. What else are you responsible for?

6 A. Basically all the field people that work
7 both inside the central offices and the outside in
8 installing and maintaining telephone facilities are in
9 my organization.

10 Q. So is there a network manager in
11 Washington?

12 A. Yes. I have a general manager that is
13 responsible for the state of Washington located in the
14 Seattle Metro area.

15 Q. And does the general manager that's
16 responsible for Oregon and southwest Washington also
17 report to you?

18 A. Yes.

19 Q. Has there been any reduction in technical
20 field personnel in the state of Washington in '94- '95?

21 A. I just might comment on that, Mr. Shaw,
22 because of prior testimony in that the piece of the
23 operation -- in other words, the field technicians
24 that I'm responsible for were not part of the general
25 part of re-engineering that has been described

01002

1 earlier. So there is always ups and downs of field
2 technicians relative to attrition and other company
3 activities. There was no thrust to ever reduce field
4 technicians due to re-engineering. In fact we have
5 more field technicians now than we had at the
6 beginning of the year, and we plan on adding
7 technicians also in 1966 to match the load that we
8 forecast will appear.

9 Q. Thank you very much. I have one more
10 question of Mr. Plummer which I forgot to ask. Mr.
11 Plummer, do you have the total number of 1995 held
12 orders in Washington?

13 A. Yes. The total number was just over
14 17,000.

15 Q. What in Washington for the same time period
16 was the total inward line movement?

17 A. 592,387.

18 Q. That would complete our oral direct, Your
19 Honor.

20 JUDGE WALLIS: Is there objection to
21 receiving Exhibits 140 through 143? Let the record
22 show there is no objection and those exhibits are
23 received in evidence.

24 (Admitted Exhibit 140-143.)

25 JUDGE WALLIS: Because of the examination

01003

1 let's see what cross the parties may have beginning
2 with Mr. Smith.

3 MR. SMITH: Thank you, Your Honor.

4 CROSS-EXAMINATION

5 BY MR. SMITH:

6 Q. Ms. Olson, let me begin with you. How long
7 have you held your current title?

8 A. Since September 1.

9 Q. So approximately four or five months?

10 A. Correct.

11 Q. You discuss two monitoring centers, one in
12 Littleton and one in Plymouth, Minnesota, and you said
13 they were divided by geography. Can you tell us
14 exactly what you meant by that. Are parts of your
15 service territory served by Plymouth and other parts
16 by Littleton?

17 A. That's correct. We built the two centers
18 and divided the states so we would have backup. They
19 are each capable of monitoring what the other is
20 monitoring but their primary responsibilities are
21 defined by geography.

22 Q. Which center has Washington state?

23 A. Plymouth.

24 Q. Has there ever been cause for Littleton to
25 serve as backup?

01004

1 A. Not to date. And I hope there never is.

2 Q. Now, was this movement, two monitoring
3 centers, was that phased in?

4 A. It was phased in. We started last
5 February, moving into the two centers and we completed
6 around last September.

7 Q. I didn't understand what you meant by that.
8 You completed around last September?

9 A. Correct.

10 Q. And were there problems in the movement to
11 two monitoring centers in the course of that
12 transition?

13 A. In terms of the two monitoring centers we
14 had very few problems. We did have a lot of training
15 that we needed to do in terms of updating people's
16 skills, but the levels of services for those two
17 monitoring centers remained very stable during that
18 whole time.

19 Q. And did you anticipate as part of this
20 movement to training centers -- to monitoring centers
21 that training would be required?

22 A. Yes, we did and we've had ongoing training
23 and continue that training effort.

24 Q. And at the outset did you have some
25 training budget?

01005

1 A. Yes, we did.

2 Q. How much training time did you anticipate
3 in the course that would be required to move to
4 monitoring centers?

5 A. I don't know. I don't have that
6 information directly at hand. I know that information
7 is available.

8 Q. You indicated that you thought the plant in
9 Washington was adequate. Was that correct?

10 A. That is correct.

11 Q. How are you measuring that level of
12 adequacy?

13 A. I think if you take a look at the report
14 rate that we have an actual troubles that are caused
15 in our own network and compare that to other states
16 and even other regions we find it very comparable.

17 Q. And if you compare it to past held order
18 levels from Washington, would you also consider it
19 adequate by that measure?

20 A. I don't know if I'm following your question
21 on the held order side of it. In terms of numbers of
22 historical held orders?

23 Q. Yes. Are you familiar of the historical
24 level of held orders in Washington state?

25 A. I have been in the past. I think Mr.

01006

1 Plummer is more familiar with that at this present
2 time.

3 Q. I'm not sure who this question should be
4 directed to but let me toss it out. Did the company
5 anticipate that a large number of employees would be
6 let go as a result of the re-engineering efforts?

7 A. I think that -- why don't I address it for
8 the repair processes. We did have in terms of our
9 center consolidations designs on utilizing a lesser
10 number of employees in the end than we had as they
11 were spread out over the 14 states, and we have
12 achieved those goals in terms of in the service
13 assurance process for example, so that in the
14 monitoring centers we are actually doing it with less
15 employees today than we had in the past.

16 In the other side of the repair process
17 from either demand repair process, we still have some
18 satellite offices that are running that we have not
19 yet been able to eliminate that we hope to do in 1996
20 to achieve our people targets in terms of our centers,
21 but our mechanization has not been fully deployed yet
22 and so until that's fully deployed we've left those
23 satellite operations in place.

24 Q. Because of problems associated with the
25 re-engineering efforts, have some people who have been

01007

1 let go had to have been rehired?

2 A. On the repair side of it in our centers we
3 haven't rehired people so much as we've extended their
4 dates in terms of when we've -- when we're going to
5 let them go so we've had some extended dates. I don't
6 know if anybody else --.

7 MR. PLUMMER: On the capacity provisioning
8 side, particularly in engineering, the expectation was
9 that we would reduce our engineering cost by 30
10 percent, with most of that cost being labor, and then
11 94 we reduced our engineering cost by 11 percent here
12 in Washington and in '95 we reduced it another 20
13 percent. And those were anticipated results. We do
14 have a number of areas where the automation has not
15 been completed on schedule and we've extended
16 employees as well and we also found that the old
17 process, the one re-engineered process, if you will,
18 that the records were in worse condition in many
19 states than we had anticipated and so we've had to
20 extend people to do records update and verification
21 that we hadn't fully anticipated.

22 Q. Mr. Plummer, sticking with you, any other
23 problems encountered with reinventorying your records?

24 A. I think other areas where we've made
25 progress -- and I don't know that I would necessarily

01008

1 consider them problems in re-engineering. They were
2 problems that we have encountered and corrected and
3 those have been database errors, and what we've been
4 able to do by having all of the records updated is
5 identify equipment elements that weren't accurately
6 inventoried, update those and making the capacity
7 available for assignment.

8 Q. What areas in Washington state in
9 particular were not up to date in showing current
10 facilities?

11 A. I don't know specifically. I think as a
12 general rule I was told that Washington's records were
13 poorer than average.

14 Q. Is there any particular time line for
15 rectifying that records problem?

16 A. We have plans in place to do that through
17 the middle of next year. I continue to push to have
18 it done by the end of this year but it's a fairly
19 significant manual task to update the paper
20 engineering records and take from one set of records
21 and post changes manually to another.

22 Q. Have any records been lost in that process?

23 A. I'm sure that some have. I am not aware of
24 any major losses at this point.

25 Q. Mr. Plummer, as I understood your direct

01009

1 testimony, you indicated that places where there's
2 high growth that leads to a modernization in plant.

3 Did I hear that correctly?

4 A. We have an opportunity to modernize in
5 places where we have high growth.

6 Q. As I understood you because in Washington
7 there aren't very many places with high growth you
8 haven't had that kind of opportunity or much of that
9 opportunity in Washington state?

10 A. I will just give you '96 estimated numbers.
11 We estimate of the roughly 12,000 distribution areas
12 that only 2,000 will require capacity to be added using
13 capital solution.

14 Q. And Mr. Shaw also asked you about held
15 orders. You indicated there were 150 primary held
16 orders -- primary orders held over 30 days in
17 December. Was that correct?

18 A. Yes.

19 Q. Is that a monthly figure?

20 A. That's at the end of the month.

21 Q. So that was a snapshot taken on the last
22 day of December?

23 A. Yes.

24 Q. So that 150 would not include orders that
25 had been held more than 30 days sometime in December

01010

1 but had been cleared up by the end of the month, if
2 you follow my question?

3 A. These are actually orders that are past due
4 30 days. There could be orders that were held that
5 aren't due that would be included in our numbers prior
6 to 30 days.

7 Q. If an order had been held for 35 days but
8 had been filled on December 15, would it appear in
9 that 150 number?

10 A. No.

11 Q. And do you have any information about how
12 many held orders or how many orders were held for more
13 than five days in the summer?

14 A. I believe I have that information with me.

15 Q. And before you get it, would that be held
16 for five days on December 31?

17 A. No. This would be held for five days
18 during the month. What I don't have is if they were
19 held past the due date. So they could have been held
20 for five days. Someone called in on December 1st,
21 ordered service on December 15th it could have entered
22 the system as a held order on December 2 and cleared
23 on December 14, it will show in those counts so it
24 doesn't necessarily mean that we missed a customer due
25 date.

01011

1 Q. But just before I make you dig for it, you
2 would have statistics that show the number of orders
3 that were held for five days or more in the month of
4 December?

5 A. Yes.

6 Q. Including those that were held beyond five
7 days and cleared in the month of December?

8 A. Yes.

9 Q. If you have that handy, could you give it
10 to us?

11 A. It's roughly 2200.

12 Q. And I take it from the fact that you had
13 that information, that is something the company can
14 measure?

15 A. As I said we measure it with the
16 limitations that we don't necessarily know if it's
17 past due or not. So if you have a customer apply for
18 service early and it goes over 30 days, they show up in
19 those numbers as well or past five days.

20 Q. I just have a couple of questions for Mr.
21 Wade. Mr. Wade, you indicated your level of
22 technicians today is greater than it was at the
23 beginning of the year, and I guess probably you meant
24 beginning of 1995, I suppose?

25 A. Correct.

01012

1 Q. How does your level now compare with prior
2 years such as '93, '92 and '91, do you have those
3 figures?

4 A. I have '93. I don't have any data back
5 further than '93 because we've had several resources
6 as most companies do and it's count at different
7 places but '94 was roughly equivalent to '93.

8 Q. But you're I guess unable to provide us
9 with comparison for years prior to '93?

10 A. I don't have that data. We might have it.
11 I don't have that data with me.

12 Q. Then, Mr. Okamoto, I just have a couple of
13 questions for you. Back in November you referred to
14 an additional \$30 million capital budget investment.
15 And we understand that that money will be used for
16 large commercial and corporate service problems. Is
17 that a correct understanding or can you tell us how
18 that money is intending to be used?

19 A. Well, I think you're referring to the \$30
20 million that was added to the capital budget in 1995?
21 Is that the question?

22 Q. If that's the 30 million you were
23 testifying to in November that's what I'm talking
24 about.

25 A. Yes. That was \$30 million that was

01013

1 allocated in order to respond to demand and growth
2 here in the state of Washington, so wherever that
3 demand was is where that capital got expended.

4 Q. And you can't tell us today where that was?

5 A. Well, in terms of incremental over what it
6 would have been not exactly. I mean, because the
7 growth was larger than what we had originally
8 anticipated we had a need to spend the additional
9 dollars and so we did and so it went wherever that
10 additional growth was. We had larger than anticipated
11 growth in southwestern Washington and in Spokane, and
12 those areas certainly received some allocation of
13 those incremental capital dollars.

14 Q. Back in November you also talked about
15 hiring new field technicians, as I recall?

16 A. Yes.

17 Q. But you really lacked some specifics on
18 where you were in the process and I wonder if that's
19 moved along any further since November 9?

20 A. Yes. We have issued requisitions and those
21 additional technicians are coming on force now, and
22 will continue going into 1996.

23 Q. Have any been hired to date?

24 A. I would maybe ask Mr. Wade to help me with
25 the specifics on that.

01014

1 A. (By Mr. Wade) Some have, yes. I don't know
2 the specific numbers but the aggregate number, the 75
3 plus the additional load we feel we're going to have
4 to do in 1996 that number is now 187.

5 Q. I'm sorry, 187 would be additional field
6 technicians?

7 A. That's including management. We're adding
8 180 additional technicians which 75 is included in
9 that, and that has started, as Mr. Okamoto referred to
10 earlier. I don't specifically know. The 75
11 requisitions were issued several months ago and as
12 those people become available they're put on the
13 payroll and trained, et cetera, and then including the
14 75 there will be the remainder added for a total of
15 180 technicians and seven management added in the
16 state of Washington.

17 Q. Is there any steps to expedite that process
18 or is it the normal hiring?

19 A. There is. We have, because we're adding
20 people in several other states due to the rapid growth
21 we have in other states we have our HR people, human
22 resources people, at a very high level, focusing almost
23 entirely on bringing these technicians on line.

24 MR. SMITH: That's all I have.

25 JUDGE WALLIS: Mr. Trotter. Mr. Trotter

01015

1 provided a document for identification as Exhibit 150
2 for identification consisting of an advertisement
3 purporting to be from the Seattle Times of November
4 16, 1995.

5 (Marked Exhibit 150.)

6

7 CROSS-EXAMINATION

8 BY MR. TROTTER:

9 Q. I'll start with the exhibit and I'm not
10 sure who on the panel is able to respond, and so I will
11 just ask the question and you can decide which one.
12 Actually, maybe I will focus on Mr. Plummer. First of
13 all, I will refer you to the exhibit and do you
14 recognize this as typical advertising of U S WEST for
15 its customers to add additional lines?

16 A. I actually haven't seen these but I would
17 characterize it as a typical promotion.

18 Q. Would you accept subject to your check that
19 the dates and page numbers of the Seattle Times are
20 correctly stated?

21 A. Yes.

22 Q. Now, you indicated that in some of your
23 distribution areas if you had a fill greater than 90
24 percent that was not a problem if there was not
25 sufficient activity to warrant a problem occurring.

01016

1 Do you recall that testimony?

2 A. Yes, I do.

3 Q. Would it be correct that advertising such
4 as that in Exhibit 150 is intended to stimulate
5 activity in areas that are covered by that advertising
6 to encourage customers to use additional facilities of
7 the company?

8 A. Yes. I believe they're fairly typical
9 promotional activities to sell additional lines.

10 Q. And so if you have areas that are greater
11 than 90 percent this type of advertising can push
12 those areas into a level where they would need
13 reinforcing; is that correct?

14 A. They could either use reinforcing or areas
15 that have a few pairs required. We can use two line
16 carrier units and other means to provide it without
17 requiring a capital solution. But in general it could
18 cause us to use some type of technology to augment the
19 capacity of those distribution areas.

20 Q. So in some contexts this type of promotion
21 can make your facilities problems, to the extent they
22 exist, worse; is that correct?

23 A. They could make provisioning more complex.
24 I think that the strategies around second line
25 promotions are really a matter for our business units

01017

1 and not a matter that I am an expert on.

2 Q. You indicated in your testimony that the
3 company is designing its plant to provide 1.6 to 1.8
4 pair per living unit design. Did I take that
5 correctly?

6 A. That's a typical design level. There are
7 areas where specific developers tell us that they have
8 requirements for as high as five lines.

9 Q. But this is your average?

10 A. That's an average across Washington and
11 across the company.

12 Q. Are any of you aware of a service guarantee
13 policy that the company has instituted in the state of
14 Wyoming?

15 A. I am aware but I don't know the details.

16 Q. Was it my understanding that the company is
17 agreeing to provide a credit to residential customers
18 when it misses an installation date. Can you confirm
19 that or give us your understanding of what the service
20 guarantee is?

21 A. (by Olson) I can't confirm it. I don't
22 know that service guarantees have been put formally
23 into place in Wyoming. I know that we've been talking
24 about it. But I don't know that there's anything
25 normal in place yet.

01018

1 Q. Mr. Okamoto, is this outside your region?

2 A. It is outside my region. I do not have any
3 specific knowledge of that.

4 Q. I also obtained a copy of an article from
5 the Denver Post dated December 15, and it referred to
6 a quote from Mr. Bystrzycki who you referred to
7 earlier, and this is a question about the second line,
8 and he said there were -- this is a reference to
9 secondary line held orders. And he stated, and I will
10 just quote what the newspaper said and ask you if you
11 agree with it. "I would liken it to a catalog
12 company. When the catalog company tells me that I
13 can't get it right away, I make a decision. Do I put
14 the order in anyway or do I withdraw? That's a
15 customer's decision." I would ask you if you agree
16 with that characterization of the company's thoughts on
17 secondary line on held orders?

18 A. (By Plummer) He is my boss so obviously I
19 agree. I think the difficulty that we have is we tend
20 to put things in the context of our former position,
21 and I think as we begin to think of our company and our
22 business as a competitive business many companies
23 advertise promotions and provide rain checks when they
24 don't have product available, and I think in a
25 competitive environment we and others will not be able

01019

1 to provide 100 percent of inventory on demand, so I
2 think it's fair to say that we and others will manage
3 our inventory at the levels that the market dictates.

4 Q. Do you know what percentage of your
5 customers in Washington today can order a primary or a
6 -- could order two lines from a company other than U S
7 WEST and get dial tone?

8 A. No, I don't.

9 Q. There was also a U S WEST memo that was
10 quoted in this article and I would just like to read,
11 takes a quote, what appears to be a quote from that
12 memo of U S WEST. Quote, we do not want to give them
13 -- and I believe the word refers to regulators -- we
14 do want to give them the impression that they should
15 be measuring our service quality. Instead the
16 approach should be that we do our own internal
17 measurements to meet our customer needs and to
18 efficiently run the business, unquote. Have you seen
19 that memo that I just quoted from?

20 A. (By Mr. Okamoto) Mr. Trotter, I have seen
21 that memo, yes.

22 Q. To the best of your knowledge did I quote
23 it correctly?

24 A. Yes, as I understand it.

25 Q. This Commission has had service quality

01020

1 measurements in its rules for quite some time; is that
2 correct?

3 A. That's correct.

4 Q. And does the company oppose those types of
5 rules?

6 A. No.

7 MR. SHAW: Your Honor, I think I'm going to
8 object to this. The rules of the Commission are in
9 force and presumed valid until somebody challenges them
10 or they're changed.

11 MR. TROTTER: I can rephrase the question.

12 Q. Is it the company's preference that the
13 Commission have no service quality measurement rules?

14 A. No, I don't think so. I think what we're
15 going through is an environment where we need to
16 examine those rules, and as the environment changes
17 the rules may need to change just like regulation
18 itself may need to change as we go into the new
19 environment and so it's only in that spirit that we
20 suggest that that kind of endeavor be a joint
21 endeavor.

22 Q. Now, with respect to our three other
23 panelists, did any of you review the transcript of the
24 ratepayer hearings in this docket to get a sense of
25 the types of complaints that customers were

01021

1 registering?

2 A. (by Olson) I was given some information but
3 I'm not sure if it's the same information you're
4 referring to.

5 Q. So you may have been briefed on some things
6 but you didn't sit down and actually read a
7 transcript?

8 A. I read Mr. Okamoto's transcript.

9 A. (by Plummer) I didn't review any of the
10 transcript either.

11 A. (By Wade) I have just seen the basic data
12 and number of complaints. I have not read the
13 transcript.

14 Q. Like to focus on a couple of types of
15 complaints that came in. One customer complained that
16 a service -- I think this was an installation, a
17 service installation, did not take place on a promised
18 date, but the company had made an appointment to come
19 out and they did not appear, and this occurred not
20 just once but I believe two or three times. That was
21 one type of problem. I believe it was a new install
22 not a repair.

23 The second was -- this was an Internet
24 provider in the Vancouver, Washington area whose
25 service person did come out to hook up facilities but

01022

1 the facilities did not exist and both -- well, the
2 customer alleged that the repair man was as nonplussed
3 as the customer in that context. Can you just give me
4 a sense is of how those problems occur under your
5 system. Are these the ones that simply fall through
6 the cracks or is there something that you can do to try
7 to see that those problems don't exist but the first
8 part of my question is how do those types of problems
9 come up? What causes them?

10 A. (by Plummer) I will address the facilities
11 one first because I think I may have been involved
12 with that one. The kind of things that can happen in
13 a situation like Internet provider using digital
14 facilities is that the facilities in the records can
15 show that they have been conditioned for digital
16 signals and when the technician gets to the field,
17 puts a test set on, finds that there are devices or
18 impairments in the circuit that prevent it from
19 working as a digital span line. And I think in the
20 case of, if this is the one I'm thinking of required
21 repeated span line which required additional equipment
22 to be added either because the length of the facility
23 was longer than the records indicated or there was a
24 difference in cable gauge in the records. Those are
25 examples of how you can have a design that appears on

01023

1 paper to be accurate but when you get in the field the
2 physical or electrical characteristics are different.

3 Q. So it's just a mismatch between what
4 appears in your records and what is in the field?

5 A. That's correct, and part of the effort that
6 we're going through right now to correct the records
7 is to correct those anomalies on a proactive basis.
8 When you're out there we attempt to find conditioned
9 pairs that we can assign for future orders or if we
10 can't we build channels so they will be available for
11 future use as part of our process. Those are not
12 re-engineering associated. Those records problems have
13 been with us for as long as we've had digital signals.

14 A. (By Mr. Wade) On the first ones the
15 installation that didn't occur a couple of times we
16 would have to look at the individual case. Generally
17 when we look at disposition codes of why orders get
18 delayed, the primary reason, not in this case
19 evidently, is generally due to a customer change of a
20 due date or a no access or other things. Secondary
21 cause is generally shortage of facilities, so I'm
22 speculating that there was a facility issue on this one
23 and we by human error or something else that shouldn't
24 have happened that did the customer didn't get
25 notified, but I would have to look at the individual

01024

1 case of why that customer didn't get notified. But
2 presumably we had some facility issue, shortage of
3 facility, or had to make a change in facility to get a
4 pair to that premise, and the notification should have
5 happened but evidently it didn't happen.

6 Q. So you weren't asked by the company to go
7 through the examples of the public witnesses who
8 testified to see what their particular problem was
9 either problem with the customer or problem with
10 company's system?

11 A. No, but we could take any one of those and
12 go back and ascertain the cause.

13 A. (By Mr. Plummer) I understand that each of
14 the witness' complaints was reviewed by the local
15 public policy and network folks. I do know that was
16 told in the briefing. Might also just add that in
17 December we started a new group to improve our
18 notification on customers that are going to be delayed
19 for facility reasons and to provide a better process
20 for managing the resolution of their problems.

21 In addition to that we did a development of
22 a new systems interface in March of last year.
23 Started in March of last year. The system is called
24 facility check and it allows the sales and service rep
25 on the front end when the customer calls in to look

01025

1 into the inventory records to tell if pairs are
2 available at the time the order is placed so that the
3 customer knows at the time the order is placed if
4 there's a facility problem and we immediately get them
5 into the center for delayed orders, which is what we
6 call this delayed recovery group, and that group has a
7 responsibility to work with the customer to provide
8 feedback and notification so we've done a couple of
9 things that we started in December. The group is
10 roughly 20 people that do customer contact work and 11
11 people that are facility assignment trained that
12 actually work to resolve the problem as well as
13 communicate with the customer.

14 Q. Finally I have a question to direct to Mr.
15 Okamoto, final question. Mr. Okamoto, is it your view
16 that the service quality issues that have come up in
17 this case and throughout the past year or so would
18 have been resolved more expeditiously without
19 regulatory involvement?

20 A. No. I think that the company has been
21 doing everything within its power to resolve those
22 problems. As I've testified before, the problems that
23 we saw are temporary. Some things fell through the
24 cracks. Some things were the result of our
25 re-engineering processes where not all of the systems

01026

1 were done exactly on time and when we needed them.
2 Nonetheless, the absolute necessity to go forward with
3 that re-engineering has now resulted in the processes
4 that Mr. Plummer just mentioned being on line now and
5 so the improvements we will start to see now and I
6 think that that's a process that's ongoing and we will
7 continue to work with our regulators and the
8 Commission and the Commission staff to make the fixes
9 as quickly and efficiently as we possibly can.

10 MR. TROTTER: Those are all my questions.

11 I move the admission of Exhibit 150.

12 JUDGE WALLIS: Is there an objection? Let
13 the record show that there is no objection and 150 is
14 received.

15 (Admitted Exhibit 150.)

16 JUDGE WALLIS: Are there other questions
17 for the panel? Mr. Waggoner.

18 CROSS-EXAMINATION

19 BY MR. WAGGONER:

20 Q. Mr. Wade, I believe you used the term rapid
21 growth in other states. Are you anticipating rapid
22 growth in Washington state in 1996?

23 A. I would have to defer to Mr. Plummer as to
24 the forecast of what the growth is expected if that's
25 all right.

01027

1 Q. Sure, that would be fine.

2 A. (by Plummer) we expect fairly significant
3 growth here. Being a competitive state I don't know
4 that I want to give the --

5 Q. That's fine. I'm not asking for a specific
6 number. You, Mr. Plummer, talked about only needing
7 to provide capital investments in 2,000 out of 12,000
8 of your distribution areas in the state, did I get that
9 correct?

10 A. It's roughly 2,000, slightly less than
11 that.

12 Q. And that was a 1996 number?

13 A. Yes.

14 Q. Does that mean that in the other 10,000
15 you're not going to be doing major rebuilds? I'm
16 trying to understand the distinction between the 2,000
17 and the 10,000.

18 A. The remaining areas would predominantly be
19 handled the growth through rearrangements and recovery
20 of facilities.

21 Q. You also talked about a 592,000 figure for
22 total opportunities for held orders; is that correct?

23 A. Those were mass market opportunities only.
24 If we include design services and carrier orders it
25 would be greater than that.

01028

1 Q. On that 592,000 figure what is included in
2 that number? Is that if I call to change my phone
3 number? What sorts of things are included?

4 A. If we take all activity the number is
5 closer to 2 million activities, service-related
6 activities. Those are orders where an inward facility
7 is actually required on the order, so it's where a new
8 loop, if you will, is required.

9 Q. If you could just hand the mike back to Mr.
10 Wade. In terms of these 187 new field and technical
11 operatives or operational people, is that a net number
12 or is there going to be some attrition?

13 A. That's an increase number. There will
14 always be attrition. For example, in the state of
15 Washington in 1995 we actually had a turnover of 73
16 people, 73 technicians and we did replace all of those
17 73. This is an additional 180 or the 75 plus the 105
18 that we have added since.

19 Q. And what percentage growth does that
20 represent in number of people perform willing these
21 jobs?

22 A. Total occupational at the end of 1995 is
23 1,704 in the state of Washington.

24 Q. So a little over 10 percent addition for
25 the year?

01029

1 A. In that range.

2 MR. WAGGONER: No more questions. Thank
3 you.

4 JUDGE WALLIS: Mr. MacIver. Ms. Lehtonen.

5 MS. LEHTONEN: No questions.

6 MS. MARCUS: No questions.

7 JUDGE WALLIS: Commissioners.

8

9

EXAMINATION

10 BY CHAIRMAN NELSON:

11 Q. Good afternoon. Just a couple of
12 clarifying questions. Mr. Plummer, you were
13 discussing the automation of the paper records, and I
14 believe I heard you say the systems which we have now
15 are state-of-the-art but they are also systems
16 intended to be a transition to some future more
17 sophisticated system. Did I understand you right?

18 A. That's correct.

19 Q. When is the transition scheduled to be
20 completed?

21 A. We and several other companies are in the
22 process of developing -- it's an automated engineering
23 tool that not only contains a picture of the facility
24 elements but actually can do manipulations on them
25 based on input so you don't have to go through and

01030

1 distribute facilities within the area you're serving.
2 That's one of the things the tool is doing. We still
3 have the system in progress. The actual schedule is
4 supposed to be provided back to me later this month.
5 The system had greater complexity than we expected. We
6 expected to have that system on line at the end of the
7 third quarter but at this point they're giving me an
8 adjusted schedule so I can't tell you exactly when
9 that's going to be.

10 Q. Sometime you expect then in '97?

11 A. We believe that it will be at least '97
12 before that system is fully up and operational. We do
13 have a number of wire centers that are on a prototype
14 tool where it performs some of the functions so we do
15 have a small number of wire centers using the tool,
16 and the problems that we have at this point are
17 scalability, meaning expanding the system to a scale
18 to handle the entire operation of the company because
19 the real power of the tool in the building is having a
20 person who normally works on South Dakota also help in
21 Washington which we did many times this year, so being
22 able to have all the engineers work on one state is
23 desirable, may not be absolutely essential but those
24 are some of the difficulty we're having.

25 Q. Are any of the wire centers that the

01031

1 prototype is installed in Washington?

2 A. I don't believe there are any that are
3 converted in Washington. I should say we do have some
4 of the images but none of them are up and operational.

5 Q. I guess from a customer point of view and
6 we discussed this or asked the question at the
7 regional oversight committee, we're hearing all about
8 benchmarking these days. I guess I would like to hear
9 from each of you if you have an estimate of when we
10 might see the complaint levels in Washington back to
11 the 1989 complaint levels in Washington. Anybody
12 hazard a guess about when we might?

13 A. (By Ms. Olson) I don't know if I can hazard
14 a guess on that, Commissioner Nelson. I think that one
15 of the things that we are seeing is I think customer
16 expectations are ever rising and we see that, so when
17 we talk about benchmarking I think one of our biggest
18 challenges as leaders in this industry is to do better
19 and so you can't compare service levels back to 1989, I
20 don't believe, and I don't know if I can hazard a guess
21 on the repair process. I will tell you that I
22 personally take a look at every repair complaint that
23 comes through our leadership group, anyway that I get
24 them all any time they write our president, I get the
25 complaint directly and I've talked to many many

01032

1 customers directly. So I think there's some things we
2 can do in the repair process to help in that and I
3 think an example was a year ago we were getting a lot
4 of complaints on access to our repair centers and those
5 have dropped off. We are seeing very few complaints
6 and part of that reason is we've improved our access
7 dramatically in 1995, so in terms of cycle time is the
8 next level of complaints that I'm taking a look at and
9 I believe as we continue to work on getting cycle time
10 for repair, for example, down we will start seeing
11 repair complaints drop off, but I
12 will not hazard an estimate because I do think it
13 matters in terms of activities in the newspaper, and
14 publicity that any company is getting and just the
15 complexity of the telecommunications business today is
16 just generating some confusion for customers and some
17 additional complaints.

18 Q. Let me ask the question this way. Ms.
19 Dutton had a chart where she compared rule violations
20 '89 to '94 as between U S WEST and all the other LECs.
21 Could you give me an estimate about when you think the
22 curves will parallel each other, U S WEST with the
23 other LECs in Washington rather than U S WEST being on
24 an upward trajectory and all the other ones being
25 relatively more flat?

01033

1 A. (By Mr. Plummer) Let me respond a couple of
2 ways. First of all we expect to have the held order
3 numbers into the 1990 range this year in '96, and in
4 fact when you look at primary held orders in
5 Washington we're very close to 1990 levels in '95.
6 In fact, I expect to do better than that this year.

7 The other thing that I think is a larger
8 problem that the center for delayed orders and other
9 things were doing will help is I think we need to do a
10 better job handling customer problems. Customers are
11 becoming more sophisticated including me. When I have
12 a problem I circulate immediately and it still takes
13 14 days to get certain services taken care of when you
14 move into a new house even with highest level of
15 circulation, so I think we need to be better at doing
16 and handling our own complaints and that's something
17 that we're about.

18 I think that if you look at the combination
19 of customers circulating and being more responsive to
20 those circulations, I think that's the solution to the
21 problem because I believe you can see held order
22 numbers in total go down, and unless we handle the
23 remaining customers we continue to have the
24 complaints. So I think that part of the answer is
25 there's a disproportionate level of complaints

01034

1 relative to the actual number of held orders in my
2 case, and I think that part of the solution is better
3 complaint handling, better statusing and actually
4 doing a better job. I think the expectations of
5 consumers are higher now and we need to step up to
6 those.

7 A. (By Mr. Wade) I can make one comment and I
8 don't have a time frame and my job is to get the work
9 done promptly and correctly that is given to me by Mr.
10 Plummer and Ms. Olson in the business offices and that
11 means having the force available and trained and I
12 addressed the techs we're adding. We also have
13 several contractors that help us significantly in this
14 state. And the other program that we're doing with
15 the -- starting it in the state of Washington in
16 partnership with the Communications Workers of
17 America, the CWA, our union here, is called an
18 apprenticeship program, and that is working with the
19 technical schools and training individuals that are
20 soon to graduate or have graduated to be our future
21 force group so that when we do have attrition or we do
22 grow we have a source pool of trained technicians to
23 pull from, and the eventuality will be that the CWA
24 has a hiring hall. We already have 10 apprentices on
25 line right now. We plan on adding 30 more so we will

01035

1 have a backdrop of 40 trained technicians that we can
2 pull for any storm-related activity or any peak.

3 We're also in partnership with the state of
4 Washington instituting a school to work program with
5 ANEW and other organizations in the state where we
6 can enlist people in high school and get them
7 interested in our technologies and working for U S
8 WEST or, for that matter, for anybody in our industry,
9 and we're doing that in partnership with the
10 Communications Workers of America in Washington as our
11 trial, as our pilot. Having a little trouble right now
12 because the federal government, who is involved also,
13 isn't quite active these last few weeks to help us in
14 that regard, but we have solicited funds for the school
15 to work project and it's in the process working with
16 the state of Washington, so my part of it is to have a
17 force group, ourselves and a future force group and
18 contractors available to handle customer service needs.

19 CHAIRMAN NELSON: Go ahead.

20

21 EXAMINATION

22 BY COMMISSIONER HEMSTAD:

23 Q. This is addressed to Mr. Plummer. You
24 indicated that there were a total of 17,000 held
25 orders in the state of Washington for 1995; is that

01036

1 correct?

2 A. That was the total number of facilities
3 that entered the system as held whether it had passed
4 the due date or not. I don't have a breakdown of how
5 many of these actually passed the due date.

6 Q. At the end of December there are
7 approximately 150 primary?

8 A. Greater than 30 days.

9 Q. Greater than 30 days. So that's a
10 different figure from -- or a different measurement
11 from the 17,000?

12 A. 150 is a snapshot at the end of the month
13 of those orders that went over 30 days.

14 Q. And that is the 17,000 that same snapshot?

15 A. No, that 17,000 is the number that entered
16 the process as a delayed order through the entire
17 year, residence and business lines.

18 Q. Well, I still may not entirely understand.
19 Taking an average that would be something
20 approximately 1500 per month, at least as an average
21 per year, is that the pattern and is that pattern
22 continuing?

23 A. There's actually a decline in the second
24 half of the year. I believe there was more -- I'm
25 sorry -- during the lower activity period we actually

01037

1 had more are held orders. During the last half of the
2 year I think we had a smaller number as I recall.

3 Q. Does the number rise significantly during
4 any month and then fall at the end of the month or
5 does it simply continue in some kind of either up
6 trend or downtrend line rather constantly?

7 A. Historically and I only had data for five
8 years back, the second and third quarters tend to have
9 a much higher level of held orders due to pressure on
10 work force to restore service, and also the period at
11 the end of school when people move tends to generate a
12 lot more activity and also pressure from the housing
13 industry completing developments during that period.
14 We tend to have peaks in second and third quarter and
15 that's where we're putting a lot of emphasis this
16 year.

17 Q. This can be addressed to any of you. When
18 was the re-engineering effort first begun to be
19 implemented?

20 A. (By Plummer) I think that the time frame
21 was actually September of 1993.

22 A. (By Ms. Olson) That it was announced.

23 A. (By Mr. Plummer) I think from my
24 perspective and prior to this job I was in the field.
25 As people knew that their lives were going to be

01038

1 impacted and their jobs were going to change, as soon
2 as we made the announcement the transition started
3 because people started making decisions about whether
4 they were going to continue working for the company,
5 whether they were going to move and those kinds of
6 things. So I think in reality as soon as it was
7 announced the transition started.

8 Q. And how long was it intended to take from
9 beginning? Was there a completion date at the time
10 that it was commenced?

11 A. (By Ms. Olson) I think it was intended to
12 take through 1995, but I think there's a little bit of
13 a misnomer and a little bit of naivete both on the
14 company and in the world maybe on when it begins and
15 when it ends. I don't know that it ever ends in terms
16 of what it is that we need to look at. I can give you
17 an example on the repair process. I have spent since
18 -- I had prior to September the service assurance end
19 of the repair process but I didn't have the demand
20 repair and hadn't for about a year, at least, been
21 affiliated with the demand repair side, and I, for
22 example, visited some other companies to see what they
23 were doing, and we were looking at technologies that
24 will help us. For example, when I went out to Pactel
25 they had technology in place that allowed the person

01039

1 who was taking the repair call to already have the test
2 results available to them. They told the customer up
3 front to type in their telephone number, punch in their
4 telephone number and then they began the test process
5 while the customer was on hold waiting for the repair
6 attendant and so we are looking at that kind of
7 technology.

8 So I think in terms of when does it end I
9 believe that we are not going to be going through the
10 center consolidations like we did in 1995 and in 1994
11 in terms of moving people into new centers, but I do
12 believe that we are going to have to continue to look
13 at more innovative ways of providing better service to
14 our customers to help us be more competitive, so I
15 don't see a real end to, quote, re-engineering. I
16 think we're through, however, our mass of
17 consolidations and so we don't have any designs on
18 moving large masses of people around U S WEST in the
19 forthcoming future.

20 Q. In response to a question from Chairman
21 Nelson as to a target date to get complaint levels
22 back to some kind of historical norm, apparently you're
23 all reluctant to give a date or a time frame for that.
24 Is it your position that with a greater complexity of
25 telecommunications services today that complaint levels

01040

1 will inherently be higher than they have been
2 historically?

3 A. (By Ms. Olson) I probably started that so
4 let me see if I can address it this way. I would hope
5 not. I would think there are better things that we
6 can do to respond to our customers and we're about
7 doing those things, but I do think that not everything
8 is -- I can predict everything in terms of what is
9 going to cause customer complaints, and so I'm
10 hesitant to say we'll be back to our own historical
11 levels because I do think that customers in any kind
12 of a change in an industry often don't know what or
13 who to complain about, and not everything that
14 customers complain about necessarily might relate to
15 what U S WEST provides, but I do think there are
16 things we can do and are doing to help improve our
17 current level of customer complaints and I expect to
18 see the trend go down.

19 Q. Can any of you make an estimate or
20 approximation of what proportion of the significant
21 increases in held orders and complaints are
22 attributable to the re-engineering and -- in other
23 words to the transition within the re-engineering
24 period.

25 A. (By Mr. Plummer) Well, I think part of the

01041

1 problem is that there hasn't been a significant
2 increase in held orders which is part of the reason
3 it's difficult for me to answer when the relationship
4 between held orders and complaints is going to shift
5 back to historical levels. You know, I think that we
6 are putting new processes in place that have the
7 opportunity to reduce the complaint that you get and
8 it will be a while before we actually know the outcome
9 of that. Again, the only thing that I know of that we
10 can do to control complaints is to do a better job
11 providing service, a better job statusing and
12 communicating with customers, but the external
13 influences in terms of complaints I don't know how to
14 affect those.

15 Q. Well, Mr. Trotter alluded to this. One of
16 the themes that we heard in the public hearings we
17 held around the state was the disconnect, if you will,
18 between the promises made as to when the service would
19 be able to be delivered and when in fact it was able
20 to be delivered. It seems to me that's not a
21 particularly difficult problem to solve. Will you
22 relate that problem to the transition to a new system
23 or is that something that can be anticipated is going
24 to continue?

25 A. Specifically related to held orders we put

01042

1 a number of systems and processes in place when a
2 customer is not going to have their service needs met
3 because facilities aren't available that we have both
4 systems and processes in place to notify the customer
5 to provide them with that advanced notice so that
6 they're not waiting on the day that service is
7 supposed to be installed. So in those cases I think we
8 have that problem in hand and it's an issue of
9 refinement, training and enforcement of our policies
10 with our our employees around that notification
11 responsibility, and I think that we're there on the
12 held order side.

13 On the general provisioning side I don't
14 know exactly what they're doing at this point. That
15 is not within my responsibility but I can tell you for
16 held orders where it is in my responsibility that we
17 plan to do the notification and avoid those problems.

18 Q. A second complaint that we heard time and
19 time again is what I would describe as the run around
20 problem where when a person would inquire as to the
21 status he or she would never end up with a person at
22 the other end of the line with whom they could
23 identify or the response would bounce all over the
24 US, anywhere from two to half a dozen different
25 locations and the frustration level is obviously very

01043

1 high. What is your response to that and how is that
2 going to be dealt with?

3 A. That's another responsibility that this new
4 center for delayed orders has placed on it and that is
5 responsibility to do all the communication with
6 customers. Part of the difficulty, however, is that
7 as customers are dissatisfied with the response they
8 get from any single group they do form shopping as
9 well and so we're trying to be responsive on that
10 first contact so that they don't look for other
11 answers beyond the person that they're dealing with.

12 Q. U S WEST has had significant increases in
13 complaint problems in all of the states in which it
14 operates. Is that a fair statement?

15 A. (By Ms. Olson) I know in the repair process
16 I would say the majority of the states we have had an
17 increase in the complaints. I can't speak for all the
18 other processes but when I took a look -- and I do
19 take a look at customer complaints and track them --
20 they have risen.

21 Q. Does the ratio of complaint have any
22 relationship to the degree of capital investment
23 coming out in any particular state?

24 A. (By Mr. Plummer) I don't believe so. In
25 fact some states with the highest investment levels

01044

1 have the highest complaint levels so there may be a
2 direct relationship to investment levels instead of an
3 inverse level but I don't believe that that's the
4 case.

5 Q. If there is any then the faster the growth
6 rate perhaps the higher the complaint level?

7 A. I think just one of the areas that we have
8 identified as having a gap that we're focusing on
9 relate to new developments and it was alluded to
10 earlier and has been an area of focus for us in the
11 fourth quarter of this year or of last year and on
12 into '96 and I think that gets to the quality of the
13 held order as well as the quantity, because I think
14 there are certain situations where you expect things
15 to be and other situations where you're less certain
16 about whether you should expect it or not, and I think
17 when you move into a new house you should expect to
18 have services available and that particular area is
19 one that we've got to focus on in terms of matching
20 feeder with distribution and working better with the
21 developers to forecast their needs and have them
22 available when the first homeowner moves in. And I
23 think that is an area on the held order side where
24 we've recognized the problem, have made changes in our
25 process, and need to follow through to affect the

01045

1 quality of the service situation that might end up in
2 a complaint.

3 A. (By Ms. Olson) just one other area on that
4 in terms of closely working with each other. The
5 number one issue in outside plant in terms of cause of
6 trouble is fingers in the plant, that if no one is
7 touching it our plant responds -- our network responds
8 very well and so if you can keep people out -- from
9 touching it is the name of a game from a repair
10 perspective. To that degree one of the things we have
11 worked very hard at and are going to continue to work
12 hard at is something that actually was born out of our
13 Bellingham lab up here, soft dial tone, and this past
14 year we did make huge improvements in terms of our soft
15 dial tone levels. That's where a customer when they
16 move in or where we have churn they actually have what
17 we call soft dial tone so they can call us and hook up
18 their service without any dispatches, and so that's
19 another area that should help in terms of getting at
20 reasons for customer complaints both on installation
21 and repair by aggressively pursuing that technology
22 which Harvey and Win have done quite well for me in
23 1995 and have expectations to improve that even further
24 in 1996.

25 Q. Various of the state commissions in other

01046

1 states where U S WEST operates are now addressing this
2 issue and have imposed for apparently the company --
3 or the company has offered, I'm not sure which --
4 various remedies. The staff here is offering or
5 suggesting certain remedies be applied and in asking
6 this question I'm not making any inference as to the
7 merits of the issue itself, but could you describe the
8 remedies that have been put in place in -- well, first
9 in Colorado?

10 A. (By Mr. Plummer) I think we're drawing a
11 blank here in terms of knowing the specifics of each
12 state Commission. I'm not sure.

13 Q. Well, maybe I can short-circuit this and
14 turn it into a bench request and ask that your company
15 provide us with information as to the remedies dealing
16 with service quality that have been put into place in
17 the various states where us west operates, and I would
18 also like to know if they have been ordered by
19 Commission or if they have been offered by the
20 company.

21 JUDGE WALLIS: For our record purposes that
22 would be bench request No. 13.

23 (Bench Request 13.)

24 MR. SHAW: Point of clarification,
25 commissioner. You used the word remedies. There are

01047

1 rule making proceedings, there are rate case
2 proceedings. There are negotiated AFOR proceedings,
3 and when you say remedy I wonder if you're just
4 restricting yourself to something that's been put in
5 place to fix a perceived problem or just rulemakings
6 and that sort of thing.

7 COMMISSIONER HEMSTAD: Focus of my inquiry
8 is as to the delays in providing the services for
9 customers who are asking for that service.

10 MR. SHAW: Well, we can certainly provide
11 you copies of Commission orders if you don't already
12 have those.

13 COMMISSIONER HEMSTAD: Well I'm not sure
14 that would be particularly useful.

15 MR. SHAW: What I'm understanding you to
16 request is encompassed in Commission orders, but then I
17 assume you're asking for anything that's been
18 informally agreed to that may not have been reflected
19 in a Commission order.

20 COMMISSIONER HEMSTAD: Well, what I'm
21 hoping for is just to have in the record here --

22 MR. SHAW: Let's take a cut at it. We have
23 negotiated AFOR type rate case in Wyoming that has
24 some service implications. We have completed recent
25 hearings in Utah in which the Commission hasn't issued

01048

1 an order yet.

2 COMMISSIONER HEMSTAD: Well, all right.

3 Can you give us a summary of any orders, rules or
4 settlements in cases dealing with the service quality
5 issue?

6 MR. SHAW: Sure. I just want to make sure
7 that we're responsive.

8 COMMISSIONER HEMSTAD: That's all I have.

9 EXAMINATION

10 BY COMMISSIONER GILLIS:

11 Q. Ms. Olson, I would like to start with a
12 question with you. I'm interested in your definition
13 of appropriate service response and I want to frame
14 that with maybe a somewhat comparative analogy in
15 microeconomics. There's a notion in microeconomics of
16 full employment which is a level that's less than 100
17 percent employment, about 96, 97 percent. I really
18 don't know the number but it's less than 100 percent
19 and there's a number of individuals object to that on
20 the grounds that with any unemployment there's still
21 human suffering and as a matter of public policies
22 calling it full employment is not really appropriate.
23 The counter to that is the dynamic world reaching 100
24 percent employment is not realistic and if it is it
25 would be very expensive with national resources. I see

01049

1 that somewhat analogous to where we're at in the
2 discussions on service quality, and I'm interested in
3 your philosophy on that. Do you view as a matter of
4 philosophy as the vice-president in charge of service
5 assurance that any level of
6 service responsiveness that is less than 100 percent
7 responsive to consumer needs as measured by lack of
8 complaints as an appropriate basis for public policy
9 or should public policy be looking at something less
10 than that?

11 A. Well, I think in terms of my personal
12 philosophy on this I think that there has to be a
13 balance. There are probably some customers out there
14 that you couldn't meet their level of expectations and
15 possibly make a living at doing it, and so I think
16 that there has to be a balance between what we do
17 economically and what we do to service the customer.
18 So I probably would fall into that full employment is
19 not 100 percent of everyone employed at every given
20 moment from an overall philosophy standpoint, but I do
21 think that you can get at the -- in utilizing your
22 analogy in U S WEST we have great employment right now
23 levels, and across most of our region and so I think
24 that I should also adopt that philosophy in terms of
25 our service. I think there's things we can do to get

01050

1 closer to full employment in terms of our overall
2 repair process but I am not of the mindset that 100
3 percent of every customer's expectation would be our
4 goal because I don't think it's economically feasible.

5 Q. How do we get at that goal? Do you think
6 that the standards set in rules by the Commission at
7 this point are the appropriate benchmark?

8 A. I think your benchmark for repair in terms
9 of cycle time is an appropriate benchmark. And
10 concentrating on cycle time, for example, at one point
11 we concentrated a lot on missed commitments, and I
12 believed that you had to make a commitment and meet
13 it, so I don't want this to be misinterpreted but in
14 terms of repair short commitments are the name of the
15 game, shorter commitments. And so cycle time is a
16 primary measurement for me, and I think the Commission
17 is focused on that and I agree with that.

18 Q. But would you agree that at least
19 performance over the last year is not there at this
20 point?

21 A. I have improvements in performance that I
22 am going for which would correspond with where the
23 Commission wants to take us in terms of repair as
24 well.

25 Q. I'm a little confused. You talked about

01051

1 two service assurance centers -- I think that's the
2 term you used for it -- within the territory and I'm
3 confused with the other number. I've heard of
4 consolidation re-engineering to 26 service centers.
5 What's the difference?

6 A. We went to a total of -- I think it's 26,
7 might be 27, but centers in terms of our re-engineered
8 process two of which of those 26 are the service
9 assurance or monitoring centers. In addition to that
10 I have repair answer locations, and I have testing
11 locations where we actually -- there's one in the
12 state of Washington here where we actually -- once the
13 customer trouble report is taken and it then goes to
14 either -- it is either automatically tested through
15 our automatic testing machines or it drops out to be
16 manually tested. If it drops out to be manually
17 tested it's tested here in Washington and so there are
18 ten of those centers across U S WEST and so when you
19 add up all the centers that we have we went from
20 around 540 different centers in U S WEST to 26 in 10
21 different cities.

22 Q. You spent a fair amount of time discussing
23 what you viewed as a positive of that consolidation.
24 What are some of the downsides in your view of
25 consolidated service centers versus the older model of

01052

1 the dispersed service centers?

2 A. I would say that the downside might be in
3 doing it. I don't know if there's a real downside once
4 it's done, but the human disruption that we went
5 through to get to the locations where we're at was
6 massive on both the people that moved and the managers
7 who supervised that activity. I also see that having
8 moved 13 times myself I can identify with the human
9 toll of moving, and dislocating your family and friends
10 and such, but now that those moves are behind us I see
11 a whole different -- people are adjusting to where
12 they're now at much like I've adjusted and moved and
13 found new friends and gotten involved in the community.

14 So I think the big downside was in the
15 activity of doing it all but I really has very big
16 upsides for U S WEST in the future.

17 Q. What about for Washington customers what
18 are the downsides?

19 A. I don't know if I would characterize the
20 downsides. I think there are more ups and downs. I
21 don't know. It might be that somebody calls --

22 Q. You talked about the upsides.

23 A. Somebody calls Puyallup but that might have
24 happened in Washington as well. I don't know if I
25 particularly see downsides from Washington customers.

01053

1 Q. Well, we heard in the hearings that we
2 conducted around the state with the public was a great
3 deal of customers -- from customers that they're being
4 bounced around in different locations throughout your
5 service centers and they on the one hand felt that the
6 people they were talking to weren't knowledgeable of
7 their local situation and secondly they just simply
8 didn't like it. They wanted to have somebody that was
9 more local to respond to their questions and as a
10 matter of customer satisfaction it didn't appear that
11 they were happy?

12 A. I think that any time you go through a
13 consolidation you have some of that. That happens in
14 terms of customers. I don't believe that, for
15 example, repair attendants in Des Moines are different
16 than repair attendants in Washington in the end. I'm
17 not sure that everyone -- I call it the little bit of
18 the rose colored glasses syndrome like everyone in
19 Washington knew every phase of Washington. We actually
20 never did and we've been going through various
21 consolidation efforts my entire 21 year career I have
22 lived in such places as Windom, Minnesota and Otana
23 and Duluth and have gone through various
24 consolidations where we've seen that same thing happen
25 during the consolidation. But I believe in the end the

01054

1 benefits, for example, we have been able to take
2 repair access from 50 percent answered in 80 seconds
3 in '94 up to 80 percent answered in 90 second -- 20
4 seconds, excuse me, in '95 and I think that those
5 benefits far outweigh the downside.

6 Q. I have a few questions for Mr. Plummer. I
7 guess first of all I don't envy you your job. Sounds
8 like a massive undertaking. But I would like to get a
9 little better understanding of the complexity of what
10 you are undertaking. First question I have is what is
11 the nature of the database that was displayed on the
12 screen? Is it GIS system with interactive data layers
13 or straight engineering CAD system? What are you doing
14 here?

15 A. This particular system has a raster image
16 that you draw on top of and it's a fairly simple
17 layered CAD system. The next layer actually has
18 digital images that can be manipulated by the system.
19 There are two other companies working on similar
20 systems with Arthur Anderson and EDS driving their
21 activities. They are large enough that they require
22 large scale integration by a third party.

23 Q. So you're not at this point undertaking
24 major linkages between data layers that might involve
25 the customer to the facility?

01055

1 A. Not at this point.

2 Q. Are you planning to get your whole network
3 of facilities within this digitized system within the
4 next two years I believe you said? You indicated you
5 hoped to get it done by the end of the year?

6 A. We're starting on outside plant facility
7 module and that particular tool is scheduled to begin
8 to come on line at the end of this year and we
9 complete our high activity wire centers. We wouldn't
10 necessarily go back and do those wire centers without
11 growth or other activity to undergo the conversion
12 cost. To me the main cost is in conversion to convert
13 raster images to data.

14 Q. Do I understand you to say then you're just
15 taking your higher volume wire centers at the moment?

16 A. Yes.

17 Q. Not 100 percent?

18 A. No.

19 Q. And how will the remaining ones be handled?

20 A. We'll continue to use the existing raster
21 images.

22 Q. That's all for you. Mr. Wade, I believe I
23 understood you to say that the number of technical
24 field people in Washington you estimate to be about
25 the same or maybe a few more than pre 1993 levels?

01056

1 A. Yes. Between '93 and '94 it was roughly
2 the same. In '94 we added 61 occupational people and
3 we plan on adding 170 occupational people starting
4 first of December on through next year, this year,
5 excuse me '96.

6 Q. Have you undertaken any geographic resource
7 of those people within the state as far as their base
8 location?

9 A. Not basically. We have the additions
10 scattered throughout the state. But there's always
11 shifts depending on the volume of work and we earlier
12 in '95 we had significant storm problems in Spokane.
13 We moved people from Seattle to Spokane temporarily,
14 but the additions of people are scattered throughout
15 the state so there's no -- within the state no
16 specific geographical disruption of any magnitude
17 tall. Might be one season, two seasons.

18 Q. So you left it basically the same?

19 A. Correct.

20 Q. The other question I have for you, one of
21 the lessons from deregulation in the transportation
22 industry -- airlines, railroads and trucking -- is
23 that the movement of competition has certainly put a
24 lot of pressure on wages of the workers and working
25 conditions and benefits, et cetera, resulting in more

01057

1 turnover and morale problems. That's been both a
2 concern for safety and service in those industries. Do
3 you see the same thing within the people you deal with?

4 A. Even though as I said earlier, the field
5 operation people were not in essence affected in
6 downsizing like some of the other areas of the country
7 that we discussed. However their friends were and
8 relationships changed in various locations, so, yes,
9 there was, in my view that was disruptive to people in
10 their minds and morale, et cetera. So the issue now is
11 to restore that and to work with the individuals on
12 their particular needs and to make sure that we have
13 the right systems, the right interfaces for everybody
14 to get their job done but, as you go through a major,
15 as you say major change in transition, and I've been
16 here 33 years in this company and at AT&T for a while.
17 I have gone through many of those changes. This is a
18 big change for a lot of people, so as Ms. Olson and
19 Mr. Plummer said we have to get through it and we have
20 to make the necessary improvements to make sure people
21 now rally behind where we are and where we need to go.
22 So, yes, it is constant objective of mine is improving
23 that and working conditions of the people.

24 Q. And how do you do that, I guess, for your
25 workers here in the state of Washington?

01058

1 A. And I have people in all 14 states, 14,000
2 people. I have a general manager here. It's to
3 provide the necessary training for the management
4 forces and the occupational forces to be advisable to
5 communicate openly and honestly with individuals and
6 do that quite frequently. As I mentioned, we have a
7 very good partnership with CWA, Communication Workers
8 of America, and to treat that organization as partners
9 with us in this endeavor and so in my management style
10 as communications and support coaching, teaching with
11 high expectations.

12 COMMISSIONER GILLIS: Thank you. That's
13 all I have.

14

15 EXAMINATION

16 BY CHAIRMAN NELSON:

17 Q. I had two follow-ups on a previous bench
18 request which I forget to ask before. Mr. Okamoto,
19 and I guess to follow up Mr. Trotter's question to you
20 about the \$30 million incremental capital investment.
21 As I understood your answer most of that capital went
22 to southwest Washington and Spokane. Is that correct?

23 A. No. I meant that as illustrative, Chairman
24 Nelson. That is, that the incremental capital was
25 spent wherever the growth requirements required it to

01059

1 be spent that growth which had not previously been
2 anticipated in the lower figure we were targeting for.

3 Q. Well, I'm just trying to be a little more
4 concrete I guess. What kind of facilities would that
5 mean? Do you have a notion of where it actually got
6 plowed into the ground in Washington, that money?

7 A. I don't know specifically. I could go back
8 and look at the engineering and construction work,
9 primarily the construction work that was done in
10 October, November and December, and that would tell us
11 where that incremental capital got spent, but it would
12 be the work that we did in the latter part of the year
13 when that additional capital became available, and it
14 would be work that otherwise would not have gotten
15 done and would have resulted perhaps in higher levels
16 of held orders. So the fact, for example, that our
17 held order volume came all the way down to 150 is a
18 result in part from the availability of that
19 additional capital.

20 Q. So, to identify discretely those facilities
21 might be more trouble than it's worth?

22 A. I'm not sure what additional information
23 that would give you.

24 Q. Second follow-up was I think this is a
25 question for you, Mr. Plummer, bench request No. 3

01060

1 asked about ISDN availability in Washington. And I
2 just want to ask as an example, I notice Walla Walla
3 doesn't have ISDN availability, single line service
4 availability for any of its tariffs, and I think in a
5 previous question to one of the counsel you said that
6 the business units really sort of informed you about
7 what services might be in demand in what particular
8 areas. Walla Walla, as you may know, has a college
9 and a prison, and as I know anecdotally a very tough
10 public librarian who badgered me a couple of years ago
11 for ISDN availability. I'm just wondering how does
12 the business unit hand off, especially for towns like
13 Walla Walla the kind of information to you where you
14 might say, okay, this particular rural town is not
15 near any major metropolitan area might deserve to have
16 an upgrade here so that librarian can have ISDN
17 service?

18 A. (By Mr. Plummer) Well, I just happened to
19 meet with the ISDN product manager the week before
20 last and we went through the process because I was at
21 the ROC meeting as you were and heard the presentation
22 and asked to see the rollout plans for this year and
23 what they provided me was a map eye state where they
24 had identified existing customer needs where they
25 believed that the demand would warrant the investment

01061

1 levels. I went through several states that I was
2 specifically familiar with and asked for additional
3 review based on my specific knowledge of those
4 locations. I think the problem at this point is that
5 if there isn't an ISDN capable switch the cost of
6 software makes that prohibitive. We've been
7 negotiating with the switch manufacturers to reduce
8 those costs and have made some progress there and I
9 think that that will help us with implementation, but
10 specifically I think the best way for those public
11 interest issues to be worked through Dennis and his
12 team with the community affairs manager, our public
13 policy group. We all participate in a group called the
14 owner/agent group which Dennis and his team --

15 Q. Could you repeat that?

16 A. It's called the owner/agent group, and the
17 owners of the business, the business units direct our
18 activities through that process and the public policy
19 representatives provide input from the state in terms
20 of projects that they believe need to be done from the
21 public interest standpoint and provide other earnings
22 related input.

23 Q. So it sounds like quite a meeting.

24 A. Yeah, an interesting meeting. More for
25 less kinds of meeting.

01062

1 Q. That gives me a flavor anyway. Thank you.

2 JUDGE WALLIS: I would like to follow up
3 very briefly on Commissioner Gillis's question
4 regarding disconnection.

5

6 EXAMINATION

7 BY JUDGE WALLIS:

8 Q. I live just across the freeway and up the
9 hills a way and if I experience a problem on my
10 telephone line and came down to a convenience store or
11 the office and called your repair service, with whom
12 -- with what location would I be talking?

13 A. (By Ms. Olson) I should know that but I
14 think it's Salt Lake for the most part currently, but
15 it could go anywhere because we do call sharing. One
16 of the things that we did was we put -- in the past we
17 didn't have the same kind of ACD equipment and so we
18 couldn't share calls very readily across the region,
19 and we are now able to share calls across the region,
20 so, for example, even during the height of the storm
21 here the worst access we had on the worst day was 73
22 percent in 20 seconds because we were able to share
23 the load but for the most part you go to Salt Lake, I
24 believe.

25 Q. Does that person that I talk with to report

01063

1 my difficulty have any idea what resources are
2 available to resolve my problem?

3 A. We do have a load and resource management
4 center that is located here in the state of Washington
5 that updates the repair centers in terms of what
6 resources are available. I will tell you it's one
7 area that I don't think we're doing as well as we need
8 to. I want a direct connection. I envision that
9 someday that they will know that the tech is around
10 the corner type of capabilities but we do not
11 currently have those but we do have a load and
12 resource center that continually updates the location
13 to let them know.

14 Q. Could you describe the resources that the
15 person I'm talking with has? Could that person look
16 at a board or computer screen and find out that
17 there's a lot of repair activity or the crews are all
18 busy and it would take two or three days to get to me
19 or just what resources do they have?

20 A. They would have on their computer screen
21 what the current interval for repair is in the
22 particular area based on what the local resource
23 management team had determined, so, for example, if
24 the librarian from Walla Walla called in, Walla Walla
25 would have its own in terms of what we're offering

01064

1 based on the current repair load.

2 Q. Let's say that they make a commitment based
3 upon the information that they have available for
4 service and no one comes, and my phone, whether or not
5 it requires a visit, my phone still isn't working and
6 I call up and say, what's going on, what resources do
7 you have in place to find me an answer?

8 A. On the screen they have where that case of
9 trouble is currently located in U S WEST so if it's in
10 a technician hands they will know that it's in a
11 technician hands, or if it's pending dispatch waiting
12 for a technician they will know that and so that's the
13 kind of information we currently have with our repair.

14 Q. Will that allow them to give an accurate
15 re-estimate of when my problem will be resolved?

16 A. I think given the trouble complaint that
17 both of us have probably seen that it's not adequate
18 at this time. One of the areas that we are looking at
19 with Bellcor and other suppliers of software is how do
20 we best better get at that whole load resource
21 management issue, but they do have adequate -- they do
22 have adequate information. I don't know that we always
23 utilize it the best, and my goal is to have the
24 customer contacted and not have them contact us. It
25 happens too often that they contact us.

01065

1 Q. And you have no way to contact me and tell
2 me that you're going to be a little bit late?

3 A. We actually try to be a can be reached
4 number but it doesn't always work and we do
5 have difficulty, especially an out of service, getting
6 ahold of customers.

7 Q. Let me shift very quickly to new service.
8 If I saw your ad in the November 16 Times and wanted a
9 new line for my computer and I called up with whom
10 would I be speaking?

11 A. You would be speaking to -- the sales and
12 service consultant in Washington.

13 Q. In Washington state?

14 A. Right. We have a business office here for
15 both residence and small business as well as large
16 business. One of our two large business centers is
17 located here in the state of Washington.

18 Q. And did I hear Mr. Plummer saying that if
19 there were a facility problem in providing that line
20 that that information would be available at the time
21 of the call?

22 A. (By Plummer) Yes. That information should
23 be available in a system called facility check.

24 Q. What other problems might prevent service
25 from being installed by the committed date?

01066

1 A. One example could be that the facility that
2 appeared to be available had a defect in it from the
3 time it was installed when the technician goes to the
4 field it wouldn't be a good facility.

5 Q. Is staffing sometimes a problem?

6 A. Staffing is sometimes a problem, although
7 we do have a better system on the installation side,
8 appointment scheduler. It's a system that matches
9 work to technician work force fairly reliable system.

10 Q. So in addition to the lack of facilities if
11 the work force is unable to provide my service when I
12 am promised it then you would know that and you would
13 get in touch with me?

14 A. The folks that manage that center would
15 potentially know that. I don't know what the
16 practices are at the present time.

17 JUDGE WALLIS: Mr. Shaw.

18

19 REDIRECT EXAMINATION

20 BY MR. SHAW:

21 Q. Follow-up question to Judge Wallis's
22 questions about the customer out of service and walks
23 down to the AM/PM and calls, would that center know
24 whether or not there was a cable cut that had blocked
25 out that service as well as other service?

01067

1 A. (By Ms. Olson) Yeah. We do have a system
2 called ACORN, and I don't know what ACORN stands for.
3 I would tell you if I did but what it does is it
4 matches up for example in a particular cable count we
5 have had three or more cases of trouble it will
6 put those troubles together and notify us that we have
7 a major outage, so it's looking for major outages.
8 Then we load a master ticket into the repair process so
9 the people up front know that we've had a major failure
10 in the area and that could pertain to both a cable
11 cutoff or a system failure.

12 Q. Is cable cuts, dig-ups by contractors
13 working on other utility matters or whatever, a
14 growing problem for the telecommunications industry?

15 A. I think with everything that's going in the
16 ground these days that it's a growing problem for the
17 telecommunications industry, and I sit on the National
18 Network of Liability Council Commission by the FCC,
19 and it's the number one problem in the nation in terms
20 of for major failures, and U S WEST is no exception.

21 Q. Some questions to clarify what may be some
22 confusion about held orders, Mr. Plummer. You talked
23 about a total of 592,000 held orders for last year or
24 opportunities for held order, excuse me. What's the
25 company's definition of a held order?

01068

1 A. Held order is any time a service request
2 can be fulfilled for facility reasons and those
3 include outside plant, central office, telephone
4 numbers, any time a network resource isn't available.

5 Q. Do you include in that count where the
6 customer has requested the order be held?

7 A. We would include in those numbers
8 situations where -- I believe in the numbers that I
9 provided they include situations where the customers
10 are ready with entrance conduit, electric power, those
11 kinds of situations.

12 Q. Do you have any data that that tells you
13 how many orders at the end of December have been held
14 over 90 days?

15 A. No. The maximum in the numbers that I have
16 are over 60 days.

17 Q. Do you have those numbers handy that you
18 could supply to the record?

19 A. There are approximately 3200. I can
20 provide you the exact number if you would like.

21 MR. SHAW: Thank you very much.

22 JUDGE WALLIS: Are those all the questions?
23 Commissioners? Thank you all very much for appearing.
24 We appreciate having you with us today. Hope you have
25 a delightful flight back. Let's be off the record for

01069

1 a moment for scheduling.

2 (Recess.)

3 JUDGE WALLIS: Let's be back on the record,
4 please, following a brief recess. The commissioners
5 have authorized me to announce that they do not desire
6 oral argument tomorrow on the ISDN issue, and they
7 have also authorized me to inform the parties that the
8 Commission will not consider the increase in ISDN
9 rates that's proposed in the testimony of one of the
10 witnesses in this proceeding. The Commission will
11 enter a brief order indicating its reasons, but in
12 light of the procedural status and the interest of the
13 parties we thought it would be best to announce that
14 decision and follow it with an order within the next
15 day or two.

16 So, I will note, Mr. Okamoto, that you are
17 the next witness beginning the area into the general
18 rate case issues. I'm going to ask the court reporter
19 to insert into the transcript at this point the
20 identification of Exhibit Nos. T-151 and 152. Mr.
21 Okamoto, I will merely remind you at this point that
22 you've previously been sworn in this matter and you
23 may resume the stand at this time and turn matters
24 over to you, Mr. Shaw.

25 (Marked Exhibits T-151 and 152.)

01070

1 MR. SHAW: Thank you.

2 Whereupon,

3 DENNIS OKAMOTO,

4 having been previously duly sworn, was called as a

5 witness herein and was examined and testified

6 further as follows:

7

8 DIRECT EXAMINATION

9 BY MR. SHAW:

10 Q. Mr. Okamoto, you're the same Mr. Okamoto

11 that has previously testified in this proceeding?

12 A. Yes, I am.

13 Q. And you have in front of you exhibit marked

14 T-1, your direct testimony prefiled?

15 A. Yes, I do.

16 Q. Was this prepared by you or under your

17 direction?

18 A. Yes, it was.

19 Q. Do you have any changes or additions that

20 you need to make to the exhibit at this point?

21 A. No, not at this time.

22 MR. SHAW: Your Honor, with that I would

23 move the admission of Exhibit T-1 and tender the

24 witness for cross-examination.

25 JUDGE WALLIS: Is there objection to

01071

1 Exhibit T-1 for identification? Let the record show
2 that there is no response and the exhibit is received
3 in evidence.

4 (Admitted Exhibit T-1.)

5 JUDGE WALLIS: For cross-examination, Mr.
6 Smith.

7

8 CROSS-EXAMINATION

9 BY MR. SMITH:

10 Q. Good afternoon, Mr. Okamoto.

11 A. Good afternoon.

12 Q. On page 2 of your direct testimony of you
13 state there are several reasons the company has
14 decided to file a general rate case at this time. And
15 at line 22 you state that one of those reasons is that
16 a rate case is a necessary precondition to a new
17 alternative form of regulation and on page 14 you
18 discuss the company's November 23rd AFOR petition. Is
19 that correct?

20 A. Yes, that's correct.

21 Q. And following this proceeding does the
22 company still intend to pursue that AFOR petition?

23 A. Following this proceeding and the orders
24 resulting from it the company will assess its situation
25 given those orders and then make a determination as to

01072

1 how to proceed.

2 Q. If the company, based on those
3 considerations, determines not to pursue its AFOR
4 petition, does the company intend to file another rate
5 case subsequent to this rate case?

6 A. I believe all of our options will be open.
7 Again, rate case or entering into an AFOR are both
8 possibilities following the outcome of this case. I
9 can't tell you now which direction the company will
10 take only that it will need to assess both options.

11 Q. Can you tell us now whether the company
12 thinks it is preferable to continue or to return to
13 rate base rate of return regulation or to have some
14 type of price cap regulation as you propose in your
15 AFOR petition?

16 A. I think clearly the environment calls for a
17 new kind of regulation in the future. As the
18 environment changes, as competition increases in the
19 event we get federal legislation, all of those things
20 will require constant re-examination of the way in
21 which we are regulated. Rate of return regulation is
22 one of those options. I think the reason this rate
23 case is being prosecuted now is to look at the
24 conditions under which the company is currently
25 operating and the way it needs to operate in terms of

01073

1 its products and its prices and its level of earnings
2 so that it can entertain other forms of regulation
3 going forward. So again we will have to assess where
4 we end up after this proceeding and the order that we
5 receive to determine whether the next step ought to be
6 another rate case, entrance into an AFOR or some yet
7 to be determined regulatory paradigm that might be
8 dictated by federal legislation.

9 Q. Now, in your direct testimony you summarize
10 why you believe the company has a \$326 million revenue
11 deficiency and then you refer to the testimony of other
12 witnesses for the details; is that correct?

13 A. Yes, that's correct.

14 Q. For example, you refer to Mr. Cummings on
15 cost of money and Dr. Wilcox on access reductions and
16 Mary Owen for directory assistance. Those are
17 examples?

18 A. That's correct.

19 Q. In the case of Yellow Pages imputations you
20 do not refer to any other witness for the details; is
21 that correct?

22 A. Is there a page and line reference that
23 would help me there, Mr. Smith?

24 Q. Page 6, beginning on line 19 beginning over
25 on to page 7, line 14?

01074

1 A. Yes. I make no reference in that portion
2 of my testimony to others who will testify to that.
3 However that's not say that there may be reference to
4 the Yellow Page imputation by others. I simply don't
5 mention it here in my testimony.

6 Q. Can you show me any place or refer to any
7 portion of the company's direct case other than the Q
8 and A I've mentioned on pages 6 and 7 where the
9 company supports its position, its request to change
10 the Yellow Pages imputation?

11 A. I can't from the material I have here in
12 front of me. But that's not to say that that is not
13 support by another witness elsewhere in the testimony
14 that we have filed.

15 Q. In the direct case?

16 A. Yes.

17 Q. Isn't it correct, Mr. Okamoto, that the
18 justification for elimination -- your request to
19 eliminate the Yellow Pages imputation appears in the
20 company's rebuttal case other than this one question
21 and answer in your direct testimony?

22 A. I believe that's true, yes.

23 Q. Do you consider Yellow Pages imputation to
24 be an important issue in this case?

25 A. Yes. I think it's a hugely important

01075

1 issue, particularly as we enter a new paradigm and
2 environment here in the state of Washington and
3 nationally. The Yellow Page imputation I think is
4 historical imputation that has long outlived its
5 function, and when we have an environment where we are
6 no longer a regulated monopoly we need to look to the
7 competition and the marketplace driving prices and the
8 imputation of Yellow Page revenues as we have it here
9 in the state of Washington is, in my view, inconsistent
10 with the way in which competition ought to develop and
11 in fact is developing where other companies competing
12 with U S WEST are not required to impute revenues are
13 other lines of business for the corporations that are
14 involved in providing competitive telecommunications
15 services here in the state of Washington.

16 Q. On page 7 of your testimony, beginning at
17 lines 2, you say U S WEST has never agreed that the
18 imputation of directory revenues is appropriate. Now,
19 whether the company has ever agreed it is appropriate,
20 would you agree with me that the company has agreed to
21 imputation in prior cases?

22 A. I could agree that our rates as presently
23 included in our tariffs include the effects of that
24 imputation and we have been ordered in Commission
25 orders to include the imputation.

01076

1 JUDGE WALLIS: I'm going to ask Mr. Shaw if
2 Mr. Okamoto has Exhibits 151 and 152.

3 MR. SHAW: No, he doesn't.

4 JUDGE WALLIS: I'm handing those documents
5 to the witness.

6 Q. Mr. Okamoto, are you generally familiar
7 with the settlement agreement that resulted in the
8 company's original AFOR?

9 A. I am generally familiar with that, yes.

10 Q. I will represent to you the exhibit 151
11 consists of the first page of the fourth supplemental
12 order docket No. U-89-2698 and U-89-3245 that this is
13 not a complete copy of the order, although one could be
14 provided, but appendix A to that order is the
15 supplement agreement signed by counsel for company,
16 staff and public counsel, and I would direct your
17 attention to paragraph 18 on page 10 of the settlement
18 agreement which talks about certain calculations to be
19 made in measuring the achieved rate of return under the
20 AFOR. And one of those calculations appears on page 14
21 paragraph H of the settlement agreement, and that
22 provides for U S WEST Direct's directory advertising
23 revenues to be imputed into regulated revenue; isn't
24 that correct?

25 A. Yes, I see that.

01077

1 MR. SMITH: I want to move for admission of
2 Exhibit 151.

3 MR. SHAW: Your Honor, I would oppose the
4 admission of this as an exhibit on a couple of
5 grounds. First of all, it's just a partial excerpt
6 from a Commission order which is in the books. It
7 does not need to be an exhibit any more than a supreme
8 court decision needs to be an exhibit in this case.
9 Secondly, the thrust of the cross-examination seems to
10 be an inference that positions taken by the company in
11 the spirit of settlement and compromise are somehow an
12 admission against the company, and it's been a long
13 standing practice for this Commission any settlement
14 between the parties that's presented to the Commission
15 for approval is not considered precedential, is not
16 considered to be an admission against interests. The
17 Commission through its own rules and its own practices
18 encourages compromise as the center of the regulatory
19 process and for the staff now to suggest that because
20 the company compromised an issue and entered into a
21 settlement with the Commission staff in a previous
22 ratemaking proceeding is some sort of an admission that
23 the company believes that revenues from a
24 nontelecommunications line of business should be
25 imputed into its telecommunications line of business is

01078

1 improper, so I would object to the exhibit.

2 JUDGE WALLIS: I'm going to run a couple of
3 risks here, and overrule the objection largely for
4 administrative purposes. I have found it very helpful
5 to have documents in the record even though they need
6 not be made exhibits because they are available. As
7 you indicate, Mr. Shaw, this document is in its
8 entirety as a reference document by law, and certainly
9 if you wish for other portions of the document to be
10 -- to accompany it then we cannot accommodate that
11 request. The fact that it is received I don't wish to
12 indicate as a predetermination of the -- of any
13 conclusion as to any legal arguments that you or Mr.
14 Smith may wish to make regarding the document. So for
15 administrative convenience the document is received as
16 Exhibit 151.

17 (Admitted Exhibit 151.)

18 Q. Mr. Okamoto, are you aware that in
19 connection with the approval of the merger in this
20 state of Pacific Northwest Bell, Northwest Bell and
21 Mountain States Telephone and Telegraph Company the
22 company agreed to a continuation of the imputation of
23 directory revenues as provided in the paragraph 18 H
24 we just discussed in Exhibit 151 --

25 MR. SHAW: Again, I will object to this

01079

1 line of --

2 MR. SMITH: I haven't finished my question.

3 Q. -- unless otherwise ordered by the
4 Commission.

5 MR. SHAW: Again, I will object to this
6 line of questioning as an attempt to suggest that
7 compromise settlement of litigation is some sort of an
8 admission against interests. The company's position
9 is that the Yellow Page imputation issue is a matter
10 of Commission jurisdiction that cannot be waived. It
11 is a fundamental legal position that the company has
12 never agreed that the Commission had that
13 jurisdiction, but in settlement that the company has
14 not asserted that legal position which it is entitled
15 to assert. In addition, the merger order in no way
16 suggests that the company agreed that the Commission
17 had jurisdiction.

18 Additionally in this case the company is
19 presenting evidence and argument that whether or not
20 it was appropriate back in November of 1990
21 approximately when the merger order was issued by the
22 Commission six years later conditions suggest that it
23 should be re-examined. So this line of questioning,
24 again, it's offensive that anyone would be allowed to
25 essentially bring up settlement negotiations and use

01080

1 them against a party when the company in the term loop
2 proceeding suggested that the staff had agreed to a
3 certain cost level in regard to private line and now
4 was trying to relitigate that position, was summarily
5 rejected by the Commission and found that the private
6 line settlement order of the Commission had absolutely
7 no precedent because it was a result of a compromise in
8 settlement. So if the Commission is going to be
9 even-handed in its application of looking at
10 settlements in compromise in the past it should reject
11 this line of questioning.

12 MR. SMITH: First of all, there's nothing
13 in either exhibit that involves settlement
14 negotiations. Exhibit 151 is a Commission order; it's
15 a public record. Exhibit 152 again has nothing to do
16 with any settlement negotiations. It is something --
17 a petition filed by U S WEST, again a public record.
18 It is not anything privileged. Everyone is aware of
19 the company's position. Mr. Shaw is free to argue it
20 on brief. This line of questioning is directed to any
21 inference that might be drawn from Mr. Okamoto's
22 statement that the company has never agreed to the
23 imputation of directory revenues is appropriate.
24 Secondly because company is raising the jurisdictional
25 issue I think it's important that these be in the

01081

1 record on that issue.

2 MR. SHAW: Just briefly, I don't understand
3 the characterization that these previous proceedings
4 had nothing to do with settlement. The title of
5 Exhibit 151 is Fourth Supplemental Order Accepting
6 Settlement with Modifications. In the merger
7 proceeding the Commission can certainly draw on its
8 own knowledge that the Commission approved a
9 settlement between the staff primarily and the company
10 over certain auditing requirements that would be
11 agreed to by the company in exchange for the approval
12 of the merger of the three U S WEST operating
13 companies into one U S WEST Communications today so
14 they are very much the product of settlement.

15 JUDGE WALLIS: I'm going to overrule the
16 objection, again stating that this does not prejudge
17 the Commission's ultimate ruling on the underlying
18 issues. I will note, as Mr. Smith suggested that there
19 is a distinction between the negotiation process and
20 settlement and the documents in which they are
21 expressed and those documents I think it's important to
22 have them available to us for consideration so that
23 they're available for reference and interpretation. So
24 Exhibit 152 is received.

25 (Admitted Exhibit 152.)

01082

1 MR. SMITH: I have nothing further.

2

3 CROSS-EXAMINATION

4 BY MR. TROTTER:

5 Q. Mr. Okamoto, on the last page of your
6 rebuttal testimony, Exhibit 101, you refer to the lack
7 of significant response from the public in opposition
8 to your rate increase. Do you see that testimony or
9 do you recall it?

10 A. I'm sorry, do you have a page and line
11 reference?

12 Q. Page 18, lines 6 to 7.

13 A. Yes.

14 Q. Were you here earlier when your counsel was
15 cross-examining Ms. Dutton of the staff?

16 A. Yes, I was.

17 Q. And he referred to 3,643 letters that had
18 been filed and he characterized that the overwhelming
19 bulk of those was in opposition to the rate increases.
20 Do you remember that?

21 A. Yes, I do, but in my testimony what I was
22 referring to was the public hearings held around the
23 state where we had hearings in Port Angeles, Tacoma,
24 Vancouver, Seattle, city of Seattle for example had 13
25 people show up. Tacoma six people, Spokane 15 and

01083

1 these were publicized hearings and that's what I was
2 responding to that that was a lack of significant
3 turnout of the public.

4 Q. Great. Let me ask it to you this way. Do
5 you agree then that 3,000 --

6 MR. TROTTER: Just for the record, Your
7 Honor, I've placed the notebooks of the customer
8 letters on the shelf before you and will ask for their
9 admission later.

10 Q. But do you agree that nearly 4,000 letters
11 most of which oppose the rate increase, do you
12 consider that to be a significant response from the
13 public in opposition to your rate proposal?

14 A. Well, there are 3,000 letters, and I
15 wouldn't dispute that. Whether that's significant or
16 not I don't know.

17 Q. Well, what would constitute a significant
18 response in terms of your testimony here on page 18.

19 MR. SHAW: Your Honor, I think I'm going to
20 object to any further cross on the rebuttal portion.
21 We've already had the hearings on that. I don't
22 really mind -- I don't think 3,000 letters out of
23 almost 2 million customers is significant in any kind
24 of a mathematical sense but if we're going to continue
25 to cross on the rebuttal testimony, I think that's

01084

1 objectionable.

2 MR. TROTTER: We reserve nonservice
3 quality related testimony for this time and that's why
4 I'm asking and that should be enough.

5 JUDGE WALLIS: That is my recollection,
6 Mr. Shaw.

7 Q. Let me ask this it this way. Did you
8 compare -- well, do you consider over 3600 letters in
9 opposition to your rate increase a significant
10 response?

11 A. Well, I think that's a matter of semantics.
12 You know, I could agree that that could be
13 significant. It would depend upon what kind of
14 volumes have been generated in the past. You know, we
15 haven't done this for 13 years so it's hard to get a
16 frame of reference for what's significant. 3,000 is
17 3,000. I certainly will give you that.

18 Q. Did you recall how many letters were in the
19 ratepayer exhibit in your last rate case?

20 A. No. I have no recollection of that.

21 Q. Did you do any comparison of public
22 reaction to your proposal compared to reactions from
23 other companies in more recent rate cases such as
24 Washington Natural Gas or Puget Power?

25 A. No, I have not.

01085

1 MR. TROTTER: That's all I have. Thank
2 you.

3 JUDGE WALLIS: Are there other questions
4 for Mr. Okamoto? Mr. Roseman.

5

6 CROSS-EXAMINATION

7 BY MR. ROSEMAN:

8 Q. Good afternoon, sir.

9 A. Good afternoon.

10 JUDGE WALLIS: Could you pull the
11 microphone over and use that.

12 Q. I want to refer you to page 18 of your
13 testimony on line 4 where you say, "clearly, we need
14 to address the WATAP program to respond to changes in
15 residence rates." Can you tell me what you had in
16 mind?

17 A. Well, as I understand the WATAP program,
18 the funding is provided by 13 cent excise tax to
19 subsidize low income households, and to the degree that
20 we are able to achieve some price increases so that we
21 start to cover costs I believe that program needs to be
22 re-examined to see what the funding level incremental
23 needs might be.

24 Q. Well, would you accept subject to check
25 that if you received a \$26 residential rate basically

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1 the WATAP program would not provide any protection to
2 recipients of that program due to a rate increase at
3 that level?

4 A. Well, I could accept that subject to check
5 but let me mention that in that portion of my
6 testimony what I am suggesting there that we need to
7 look at WATAP. We need to look at universal service
8 funding. We need to look at the entire mechanism of
9 continuing universal service in the state of
10 Washington, and that was the thrust of that portion of
11 the testimony.

12 Q. And I appreciate that. I'm just trying to
13 determine what look at means. We have a program that
14 would be basically bankrupt at a \$26 rate, and I'm
15 asking you what suggestions do you have, are you
16 offering forth, to address that problem.

17 MR. SHAW: I will object to the form of the
18 question. Counsel's testimony. There's no evidence
19 in the record that WATAP would be bankrupt, whatever
20 that means.

21 JUDGE WALLIS: Could the question be
22 rephrased.

23 Q. Would you explain to me what actions U S
24 WEST Communications would take to address, as you say
25 in your testimony, "clearly we need to address the

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1 WATAP program to respond to changes in residential
2 rates." How are you going to address the WATAP
3 program specifically?

4 A. I don't have any specifics in mind. All
5 I'm recognizing is exactly what you're pointing out,
6 that as prices change the WATAP program was set up to
7 be of assistance to those who couldn't afford the
8 prices as they were set, so as price changes occur we
9 need to relook at the program to see if a different
10 funding mechanism might be necessary, whether that
11 cents needs to be changed or whether a new universal
12 service funding mechanism needs to be put in place in
13 the state. I think all of those mechanisms need to be
14 reviewed in light of changes in the industry.

15 Q. But you don't have any specific
16 recommendation about how those should be changed to
17 address this population?

18 A. No. I'm not presenting any of those ideas
19 in this testimony.

20 Q. I have a similar question -- of course I
21 think WATAP is for low income individuals -- regarding
22 the universal service fund. Do you have any specific
23 recommendations about how that should be improved to
24 address the problems of rural customers?

25 A. The universal service program itself?

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1 Q. Yes.

2 A. Well, I think the Commission has undertaken
3 a proceeding to entertain those kinds of discussions.
4 I am not prepared here to list the various options
5 that might be undertaken, but I think both at the
6 federal level and at the state level this is an issue
7 that absolutely needs to be addressed, is being
8 addressed. It has to do with the new competitive
9 entrants into the industry. It has to do with a level
10 playing field so that all participants in the industry
11 contribute. It had to do with funding mechanisms
12 again both at the federal level and at the state level
13 and so all I'm suggesting here is we understand that
14 need, want to participate in that reformatting of the
15 funding mechanisms and that we are of the belief that
16 that does need to be undertaken.

17 Q. But you again have no specific
18 recommendations about how that should be accomplished.

19 MR. SHAW: Objection. Asked and answered
20 three times.

21 JUDGE WALLIS: I agree, Mr. Roseman.

22 Q. I have another question for you, and I was
23 interested in what you mean or what one means about --
24 excuse me. What does affordable universal
25 telecommunications service mean to you?

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1 A. Well, I think affordable is in the eyes of
2 the beholder, and it would be a price with support
3 mechanisms such that universal service as we know it
4 today is maintained.

5 MR. ROSEMAN: Thank you.

6 JUDGE WALLIS: Commissioners.

7 CHAIRMAN NELSON: Nothing.

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

10

11 EXAMINATION

12 BY COMMISSIONER GILLIS:

13 Q. Maybe I will just ask one. Somewhat of a
14 curiosity. I was reading some of these year end
15 newspaper stories about all the things that have
16 happened in the last 10 years. They were talking
17 about how the cell phone 10 years ago cost \$3,000 and
18 weighed like a brick or something, they described it
19 and now they're almost giving cell phones away for
20 free just for the service, and I think of what my
21 first computer 10 years ago cost and what it costs
22 now, and I read about some of these data compression
23 technology and how it can better utilize the copper
24 wire that's out there and the possibility of cable
25 modems that will help utilize the existing plant

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1 that's out there. And there's an article in the Rural
2 Telecommunications magazine just a few months ago
3 where they were talking about wireless loops where
4 they potentially could be half the cost of land-based
5 loops, and then also then given that we're seeing a lot
6 of indication for expansion of demand for
7 telecommunications service as usage based on this --
8 last year I believe we had more on an aggregate basis,
9 I don't know about U S WEST territory, we had more
10 requests for second line than any times in history and
11 the massive growth in Internet and all of those facts
12 taken together would suggest that the cost per unit of
13 delivering telecommunications technology should
14 actually be decreasing, but here we are talking about a
15 potential doubling of the rates. How do we rectify
16 that?

17 A. Well, I think, first of all, we have to
18 recognize that on a cost per unit basis this company
19 has a large depreciation reserve deficiency so that
20 there's amount of costs that have not yet been
21 recognized in our revenue streams. That was a large
22 part of what the revenue requirement was all about,
23 and as a matter of fact as the industry -- the change
24 in the industry accelerates so, too, does the risk of
25 our ability to recover that reserve deficiency in a

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1 timely manner. The fact that wireless loops could be
2 tomorrow's technology means that the reserve
3 deficiency associated with today's wired loops are at
4 risk, and yet those costs have been, continue to be,
5 are today and are for the foreseeable future costs that
6 have to be first of all incurred by us as a business,
7 incurred at risk levels that are much higher than they
8 were before because who knows when that wireless
9 technology will come about, risks because we place a
10 plant -- I heard some suggestions today that maybe we
11 ought to place enough capacity so that every home in a
12 new development could order up five lines and we would
13 be able to instantly provision it. Huge risk for the
14 business.

15 And so those are costs that the company
16 needs to really examine much more rigorously today
17 than we ever have and I think invest much more
18 cautiously than we have in the past because of that
19 forecast of huge changes in technology. The rate case
20 that we've filed recognizes in large part the
21 obligations I think and the partnership that we've had
22 coming out of an old 100-year monopoly where we were
23 required to serve in exchange for a franchise, and so
24 we built a network based on that, and that network has
25 assets in it that are not yet fully depreciated and

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1 costs that have not yet been recovered. So that's
2 point number one.

3 Point number two is as we enter this
4 uncertain environment going forward, clearly, where we
5 have our most risk is in the business segment of our
6 customer base and in all of those products and
7 services that have a high margin because that's
8 exactly where the competitors will see opportunity.
9 So our response clearly has to be to be able to reduce
10 prices first of all then to try to compensate for that
11 reduction in revenue on those competitive products by
12 reducing expenses, and then to recover the real cost
13 of providing residential service which, as our
14 testimony will demonstrate, we believe is priced below
15 cost.

16 So that's why in this transition we will
17 first see a rise in some prices, a decrease in other
18 prices as we enter the competitive environment. One
19 illustration I like to point out to some people, and
20 I've talked to some groups who don't understand why a
21 competitive environment should mean higher prices for
22 residential ratepayers, and they don't understand
23 subsidies or monopolies or franchises or obligations
24 to serve or carrier of last resort. All of that.
25 What they do understand, though, is there are other

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1 industries where competition has been fierce, and let
2 me mention the auto industry, and the introduction of
3 Japanese cars into the U S market has resulted, first
4 of all, in more choice; secondly, in much higher
5 quality; and thirdly, if you've looked at the price of
6 a Lexus recently not decreasing prices.

7 So I think you can find analogies where
8 prices go up when quality goes up and when choice
9 expands, and I think we're entering an era where
10 customers are going to be hard pressed to understand
11 that, particularly our residential customers, but our
12 need to rebalance our rates and recover more fully the
13 cost of our residential service is absolutely the
14 issue here. But, of course, in the case there are
15 other reductions in toll and access rates that we
16 propose.

17 Q. First of all, with regard to a particular
18 service, let's take residential service, setting aside
19 for the moment your discussion of the need to
20 rebalance rates in providing that residential service.
21 Is the provision of a particular service to a given
22 set of residents by a telephone company a declining
23 cost industry in the future?

24 A. It could be. It would depend. If you
25 look, for example, at some of the new technology.

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1 Wireless for example, the new personal communications
2 services, perhaps in that industry costs aren't
3 declining because they haven't been determined yet.
4 That industry is going to have to make an investment
5 before it gets revenue dollar number one. It's much
6 like our biotechnology firms today that do a lot of
7 research and research and research and finally get a
8 product. So a lot of up front investment will have to
9 be made. So that would not be a cost decline. Once
10 put in place, however, I think the projection is that
11 those wireless services driven by this new PCS will be
12 less than cellular service and will approach wire line
13 service.

14 Q. I don't think any of us know where
15 technology is going, and I'm not asking you to project
16 where technology is going but assume with me for the
17 moment that in general telecommunications is a
18 declining cost kind of an industry?

19 A. Yes.

20 Q. That means that there's going to be
21 consumers at some point that are going to benefit from
22 that?

23 A. Yes.

24 Q. And would it be fair to say in the
25 discussion that -- that the discussion we're going to

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1 hear from witnesses over the next couple of weeks is
2 going to I guess appropriately focus on who pays and
3 who is going to benefit from that?

4 A. Yes.

5 Q. And I guess, for example, in case of
6 depreciation are we talking about customers today
7 paying for the opportunity for customers in the future
8 to benefit from lower rates, lower cost services?

9 A. No, Commissioner Gillis. I think in terms
10 of depreciation we're talking about an investment that
11 has already been made and the costs of which need to
12 be recovered from the customers today that are
13 benefitting from those past investments. Now, in a
14 perfect world, if we had had the ability to price
15 perfectly and to anticipate market conditions as they
16 are today -- and just assume, for instance, that our
17 cost studies prevail and that residential prices
18 across the state average \$26. Then I think going
19 forward the cost curve on a cost declining assumption
20 would absolutely result in reductions in residential
21 telephone rates, and we would love to be there today,
22 and that's where we need to get as quickly as possible
23 because getting there will finally get us to a point
24 where we will start to recover the costs that we're
25 entitled to recover. And for those customers to

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1 understand the full cost of the service that they are
2 using and then going forward will begin to benefit
3 from choice because we'll have new entrants into the
4 residential marketplace that can't afford to enter now
5 with prices at \$10.75, and the quality of service will
6 go up because choice will go up because there will be
7 competition there. I think that's the world that we
8 envision.

9 Q. What I'm trying to get at right now and
10 what you're getting at in this case, is it your
11 position in this case that the U S WEST customers today
12 should be responsible for paying for the necessary
13 technology to provide the technology and
14 infrastructure, the bundle, to provide for better and
15 lower cost services as you describe it in the future
16 for customers or is it the position of the company that
17 should be a shared responsibility of the company and
18 the customer? What is the position in your case?

19 A. I think the position of the company is that
20 the customers should pay for the service and the
21 benefit of the service that they are receiving and it
22 is the position of the company that today certain
23 groups of customers are benefiting more because the
24 price they pay is less than the cost of providing the
25 service and other customers, on the other hand, are

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1 benefiting less because the price they are paying far
2 exceeds the cost of providing the service, so that's
3 the genesis of the need to rebalance the rates.

4 On a going forward basis I think customers
5 need to and will pay for the value of the service that
6 they perceive on a going forward basis and we will
7 necessarily in a competitive environment need to price
8 that service at a level that recovers our costs.

9 Q. But the customers that receive the benefits
10 from those investment are not necessarily the same
11 customers that are your customers today, correct?
12 They may be new customers in the future?

13 A. They may be new customers. Some of them
14 will be the same customers.

15 Q. Some of them may be the same customers,
16 some of them may not be, but there isn't exactly that
17 direct correlation between those that are paying the
18 investment and those that are receiving the investment
19 as you're suggesting?

20 A. Right. The way I'm looking at it if we
21 could take a snapshot and say, okay, let's start over.
22 Let's start all over so that we can go to this new
23 competitive environment with a clean bill of health
24 and a level playing field and fire the gun and you
25 watch the competitors start. That in order to do that

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1 we need to look back and balance the books, get the
2 books square, who owes what to who, and we think if you
3 do that we will present a case that says there is a
4 deficiency. US West has not recovered all of the
5 costs of the assets in which it has invested to
6 provide the services that it has provide to date.

7 Q. Will the company benefit from this better
8 technology leading to the future that you described?

9 A. Yes.

10 Q. And where does the company contribute to
11 that? What I'm asking you is how do you see the
12 division of responsibility between today's ratepayer,
13 who is going to be contributor under your proposal to
14 depreciation rates and the other allocations, number
15 of reallocations you propose in your accounting, and
16 where is the company's contribution since the company
17 is going to also benefit from that?

18 A. Well, again, I'm looking backwards a little
19 bit, Commissioner Gillis. I think the company has
20 contributed. I think it's our position that our
21 earnings level in this state have under-performed
22 comparative earning levels in many, many other states,
23 certainly in the states in which U S WEST serves that
24 it has not recovered adequately its capital. That the
25 depreciation reserve deficiency is very large and has

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1 not been addressed. That it's being deferred and that
2 we need to expedite that recovery, so it has in fact
3 been sharing with current customers, current customers,
4 residential customers in particular, paying \$10.75 on
5 average a month for the past 13 years have received a
6 benefit and I think that's partly I could characterize
7 as a sharing that the company has done. In fact in our
8 sharing agreements we have returned revenues to
9 customers and they have been treated I think in an
10 exemplary manner, particularly the residential
11 customers. I think it's an awful good deal that
12 they've had for 13 years.

13 Q. So I don't hear you objecting to the
14 concept of the company sharing in the responsibility
15 of investment?

16 A. Well I'm having a hard time Commissioner
17 Gillis trying to understand the --

18 Q. Let me put it another term, going back to
19 your idea of starting fresh is an example of when I
20 started my business I certainly didn't earn the return
21 on my human capital that I would have in another
22 occupation. In fact, because of this position I
23 didn't maintain the business long enough to actually
24 get a return and that's true of most small businesses.
25 You expect a negative return in your first few years

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1 of investment but you're investing in the future
2 because you hope to get the returns later on. And in
3 that sense and as a private business person obviously
4 I didn't have some group of ratepayers to help finance
5 that in any particular way, and as there's a concept I
6 guess of sharing there that you as a company U S WEST
7 is going to be here for a long time we would hope as
8 an aggressive company providing better and better
9 service in the future. I guess I'm asking you to
10 react to the concept that does the company have
11 responsibility given, at least in proportion to the
12 benefits that you're likely to receive in the future,
13 to share in the costs or should that just be a
14 ratepayer responsibility?

15 A. Well, the only way the company can share in
16 the cost is by agreeing to lower rates of return, but
17 I think the sharing is going to be done in several
18 ways, and I don't think lowering a rate of return is
19 the appropriate way to do that. I don't think a
20 single shareholder that I have would vote that that
21 was a very good position for me to take and so I would
22 take issue with that. We are a profit making company.
23 There's no question about that but the sharing we are
24 doing for example, the development of new systems, the
25 deployment of those systems in an environment where we

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1 haven't had a rate case, where we are reducing costs
2 and trying to pass those benefits along to our
3 customers, is in fact a sharing. Where we have agreed
4 in this state not to oppose competition, where we have
5 invited competition in. Where we have tried
6 proactively to interconnect with our competitors. We
7 have tried very hard to demonstrate our willingness to
8 move to this new competitive environment that I
9 believe the Commission desires and that to me is a
10 sharing of a sort.

11 Now, I think on the other hand I would like
12 the Commission to recognize that that kind of sharing
13 increases our risk as a business. It increases the
14 risks that the investments that we make today may be in
15 the wrong place at the wrong time to the wrong customer
16 because a competitor is able to out compete us. We've
17 never had that situation before, and so that again is
18 another opportunity for us to earn less money than we
19 otherwise would have in a comfortable monopoly. Is
20 that responsive.

21 Q. I understand your response and thank you for
22 responding to the question.

23 A. Let me just add one other thing. Clearly,
24 in this discussion I was having with this gentleman
25 here -- I'm sorry I don't remember his name but about

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1 universal service. That's another aspect in which the
2 company is willing to participate in figuring out how
3 we're going to do those fingers going forward and
4 we're a willing proactive participant in those kinds
5 of discussions.

6 COMMISSIONER GILLIS: Thank you.

7 JUDGE WALLIS: Mr. Shaw.

8

9 REDIRECT EXAMINATION

10 BY MR. SHAW:

11 Q. In regard to your discussion with
12 Commissioner Gillis about investment and expectations
13 of return on that investment, putting aside for a
14 moment that U S WEST is a regulated public service
15 company under the laws of the state of Washington, is
16 it your understanding that any business before it
17 makes an investment makes that investment gauging
18 whether it might have an opportunity to recover that
19 investment in products or services that it would sell
20 as a result of that investment?

21 A. Yes. Any business that intends to stay in
22 business for any length of time.

23 Q. Is it your understanding that the
24 unregulated competitors of U S WEST use much shorter
25 depreciation lives and higher depreciation rates and

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1 therefore reflect in their own results of operations
2 higher depreciation expense than U S WEST does?

3 A. Yes, that is the case.

4 Q. Is it the case that regulation in a
5 monopoly environment has enjoyed the luxury of being
6 able to stretch out recovery of investment as
7 reflected in rates?

8 MR. TROTTER: I will object to the question
9 as leading.

10 MR. SHAW: I will rephrase it.

11 Q. What is your understanding of the practice
12 of the regulatory treatment of depreciation expense
13 for many years in this state and in the nation for
14 that matter?

15 A. Well, it clearly has been the practice of
16 regulatory agencies to be very, very conservative in
17 allowing depreciation rates that would lengthen the
18 time that an asset could be used and useful and that
19 was in a monopoly environment reasonable to do because
20 the rate at which technology was introduced into the
21 network was relatively slow, and secondly there was an
22 assurance and a virtual guarantee that over whatever
23 length of time was prescribed that the capital would be
24 recovered and that a fair opportunity to earn a return
25 on that investment could be made.

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1 Q. Is all that U S WEST is asking as a
2 regulated telecommunications company is the
3 opportunity like any other business to earn a return
4 on its investment?

5 A. Yes. That's precisely what we're asking
6 for in this case.

7 Q. And U S WEST is not asking, and the law
8 does not give it the right or guarantee of a return on
9 its investment?

10 A. We have never had that guarantee.

11 Q. Does U S WEST understand that this
12 Commission in regulation expects it to continue to
13 make investment to serve new and additional demand
14 without regard to whether or not it has an opportunity
15 to earn a return on that investment?

16 A. Mr. Shaw, I heard some testimony today that
17 suggests that the staff is suggesting precisely that.
18 It causes me great concern and I think I've testified
19 before about my concern about the requirement to
20 invest and the whole issue of held orders and the
21 carrier of last resort, that whole debate I think is
22 mature now or it is reaching maturation, and we need to
23 have open debate and start to resolve those issues.

24 Q. If regulation requires the company to
25 invest in additional plant in order to provide new or

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1 additional services, and depreciation expense is not
2 realistic, in your opinion, will the company have an
3 opportunity to earn the return of that investment.

4 MR. SMITH: Your Honor, I am going to
5 object to this line of questioning on depreciation.
6 I've allowed some leeway because of the discussion Mr.
7 Okamoto had with Commissioner Gillis, but the issue of
8 depreciation has been dismissed from this proceeding
9 and Mr. Shaw is simply under the guise of redirect is
10 attempting to raise that issue.

11 MR. SHAW: Not at all. I think the bench
12 and Mr. Okamoto had a very interesting philosophic
13 discussion about in the new competitive environment
14 shouldn't U S WEST be willing to share their risk with
15 its consumers, that it may not recover its investment,
16 and the purpose of the redirect is just simply to see
17 if Mr. Okamoto has a concern that there could be a
18 circumstance where we're not only sharing the risk but
19 we're bearing the entire risk.

20 JUDGE WALLIS: I think the question follows
21 up appropriately the earlier discussions, and I do
22 understand that there are some areas of depreciation
23 that may yet be a portion of the case so the question
24 will be allowed.

25 Q. Do you have the question in mind?

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1 A. Would you repeat it.

2 Q. Certainly. If we have a situation where
3 the state uses its authority to require a company like
4 U S WEST to invest and at the same time the state uses
5 its authority to not allow rates that afford the
6 company an opportunity to recover that investment,
7 does the company bear the entire risk of that
8 investment in that situation?

9 A. Yes. Mr. Shaw, I believe the company would
10 bear the entire risk. I think a perfect example was
11 set up in my discussion with Commissioner Gillis and
12 may be talking about new technology that would come
13 along in a period that was shorter than was allowed in
14 the depreciation lives, and a wireless loop comes
15 along and is significantly cheaper than copper or
16 fiber and customers would move to that, the very same
17 customers that we would have provisioned under some
18 agreement with the Commission to provide that, and yet
19 a customer would -- may opt to disconnect the wired
20 service and go for the wireless because the price was
21 less. Under that circumstance, unless we were able to
22 cost shift and include that in the revenue
23 requirement, if we were to have rate of return
24 regulation at some future date then U S WEST would be
25 left with the entire risk of having made that

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1 investment and no way to recover the cost of it.

2 Q. This important issue is not unique to
3 telecommunications. Does it exist in the electric and
4 gas industries also?

5 A. Yes. As I understand it in the new
6 competitive environment in those industries the same
7 risks are very analogous.

8 Q. Public policy issue then is can there be
9 recovery in rates from sunk investment that is
10 rendered no longer used and useful because of of a
11 competitive environment?

12 A. Yes.

13 MR. SHAW: Thank you. I have nothing
14 further.

15 JUDGE WALLIS: Mr. Smith.

16 MR. SMITH: No questions.

17 JUDGE WALLIS: Mr. Trotter? Others? Mr.
18 Okamoto, thank you for your testimony today and you're
19 excused from the stand at this time. Let's be off the
20 record for a scheduling discussion.

21 (Discussion off the record.)

22 JUDGE WALLIS: Let's be back on the record,
23 please. Following some scheduling discussions it's
24 been determined that we will take up at 8:30 tomorrow
25 morning in a pre-hearing conference session for the

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1 purpose of identifying exhibits for the record and
2 we'll begin the hearing proper at 9:00 or soon
3 thereafter as we may begin. Anything else that anyone
4 would like to place on the record? Let the record
5 show that there is no response and we will take up
6 tomorrow at indicated.

7 (Hearing adjourned at 5:25 p.m.)

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