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1 BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION
2 COMMISSION

3 WASHINGTON UTILITIES AND)
TRANSPORTATION COMMISSION,) DOCKET NO. UT-950200
4)
Complainant,) VOLUME 25
5)
vs.) Pages 3063 - 3297
6)
U S WEST COMMUNICATIONS, INC.,)
7)
Respondent.)
8 -----)

9 A hearing in the above matter was held at
10 8:35 a.m. on January 19, 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 and
DOUGLAS OWENS and MOLLY HASTINGS, Attorneys at Law,
18 1600 Bell Plaza, Seattle, Washington 98191 and
SHERILYN PETERSON, Attorney at Law, 411 - 108th Avenue
19 Northeast, Bellevue, Washington 98004.

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

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

25 Cheryl Macdonald, Court Reporter

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APPEARANCES (CONT.)

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I N D E X

2	WITNESSES:	D	C	RD	RC	EXAM
	MURRAY	3067	3079	3124	3127	
3	WILCOX	3131	3134	3254	3264	3245
	LANKSBURY	3271				

4

5	EXHIBITS:	MARKED	ADMITTED
	525T, 526C-534C,	3067	3068
6	535TC, 536C-538C		
	67T, 68-73, 550T,	3131	3134
7	551-555, 556C, 557,		
	558C, 559C, 56T,		
8	561-566		
	567	3131	3172
9	568	3266	3266
	569	3267	3267
10	509T, 510,	3270	3272
	511C-514C, 515,		
11	516C		
	517C	3270	3273
12	518C	3271	3273
	519C	3271	3272
13	520C	3271	
	521C	3271	3272
14	522C	3271	
	523	3271	
15	524C	3271	
	539C		3272

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

2 JUDGE WALLIS: Let's be back on the record,
3 please, for our Friday, January 19, 1996 session in
4 docket UT-950200, U S WEST Communications. By way of
5 preliminary matters the company has distributed an
6 additional page for Exhibit 485C. The two pages are
7 identified as switch access price worksheet and they
8 are page 1 and page 2, and they are a part of Exhibit
9 485C.

10 MR. SHAW: Yes, Your Honor. They were
11 simply sheets from the backup that we had
12 inadvertently omitted.

13 JUDGE WALLIS: Is there anything else of a
14 preliminary nature? It appears that there is not.
15 The Northwest Payphone Association is calling to the
16 stand at this time, Ms. Terry L. Murray.
17 Whereupon,

18 TERRY MURRAY,
19 having been first duly sworn, was called as a witness
20 herein and was examined and testified as follows:

21 JUDGE WALLIS: In conjunction with Ms.
22 Murray's appearance, we have identified prefiled
23 materials as follows. Ms. Murray's direct testimony
24 is identified as Exhibit 525T for identification. Her
25 attachment TLM-1 is 524C, TLM-2 is 527C. TLM-3 is

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1 528C. TLM-4 is 529C. TLM-5 is 530C. TLM-6 is 531C.
2 TLM-7 is 532C. TLM-8 is 533C. TLM-9 is 544C. Her
3 supplemental testimony is 535T, and attachments to --

4 MR. HARLOW: Excuse me, Your Honor. That's
5 confidential as well. 535T.

6 JUDGE WALLIS: So that would be 535TC.
7 And are the attachments confidential as well?

8 MR. HARLOW: Yes, they all are.

9 JUDGE WALLIS: Her attachment TLMS-1 is
10 536C. TLMS-2 is 537C. TLMS-3 is 538C.

11 In addition, there's been distributed
12 the response to data request 2 designated NWP 01-002
13 marked as Exhibit 539. Is that confidential as well?

14 MS. PETERSON: Yes, Your Honor.

15 JUDGE WALLIS: 539C. And work papers from
16 Mr. Lanksbury are identified as 540C.

17 MR. HARLOW: Thank you, Your Honor.

18 (Marked Exhibits 525T, 526C - 534C, 535TC,
19 536C - 538C.)

20

21 DIRECT EXAMINATION

22 BY MR. HARLOW:

23 Q. Good morning, Ms. Murray. Do you have
24 before you what has been marked as Exhibit 525T,
25 Exhibits 526C through 534C, Exhibit 535TC and Exhibits

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1 536C through 538C?

2 A. Yes, I do.

3 Q. Do you have any corrections to prefiled
4 Exhibit 525T?

5 A. I have one correction.

6 Q. Please state that.

7 A. The correction is that the page numbered 21
8 of the testimony itself was actually just a checklist
9 that was inadvertently attached on the back of the
10 photocopy and should be removed from the exhibit.

11 Q. If I were to ask you the questions
12 contained in Exhibit 525T and 535TC, would your answers
13 be as indicated in those exhibits?

14 A. Yes, they would.

15 MR. HARLOW: Your Honor, we offer Exhibits
16 525T through 538C with the exception that we request
17 to withdraw page 21 of Exhibit 525T.

18 JUDGE WALLIS: Is there objection?

19 MS. PETERSON: No.

20 JUDGE WALLIS: There being no objection the
21 exhibits are received.

22 (Admitted Exhibits 525T, 526C - 534C, 535TC,
23 536C - 538C.)

24 MR. HARLOW: Your Honor, we wish to conduct
25 some additional direct of Ms. Murray, perhaps 5 to 10

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1 minutes depending on how many objections there might
2 be.

3 MS. PETERSON: Your Honor, we were not
4 advised of this.

5 MR. SHAW: That's not correct. Brooks told
6 me that they were going to do this.

7 MR. HARLOW: Briefly the subject matters
8 are to respond to the late prefiled Exhibit 517C of
9 Mr. Lanksbury and additionally to explain the
10 difference between the price squeeze analysis and a
11 cross subsidy analysis.

12 JUDGE WALLIS: Very well.

13 Q. Ms. Murray, have you had an opportunity to
14 review the excerpts of the transcripts consisting of
15 the live surrebuttal of Dr. Emmerson and Mr. Farrow?

16 A. Yes, I have.

17 Q. Is it consistent with the nine California
18 cost principles that Mr. Farrow referred to to exclude
19 the market value of unrefurbished pay phone sets?

20 A. No, it is not. When Dr. Emmerson and I
21 were involved in the negotiations in California to
22 establish those costing principles we both agreed, and
23 it is reflected in the nine costing principles, that
24 no cost should be presumed sunk, and there was a very
25 specific discussion of the meaning of that costing

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1 principle, that is, that no cost should be included in
2 a cost study at a dollar value of zero. If there is,
3 for example, a salvage value that should be reflected.
4 The market value of nonrefurbished pay phone sets is
5 something akin to a salvage value. It is not zero,
6 according to my understanding, and that is a cost to
7 U S WEST of using the nonrefurbished sets, refurbishing
8 them and placing them in service to provide public
9 telephone service. That cost is not currently
10 reflected in U S WEST cost studies, and it leads to an
11 erroneous under-statement of the true cost of using
12 refurbished telephone sets.

13 Q. Could you please briefly explain the
14 difference from an economic perspective between a
15 price squeeze analysis and a cross subsidy analysis?

16 A. Very briefly. Cross subsidy analysis
17 exists to determine whether or not a service is being
18 sold at or below the cost to the service provider of
19 providing that service. The usual standard one would
20 use for that is what I term total service long-run
21 incremental cost. A price squeeze, however, can exist
22 even if a service is not cross subsidized, that is,
23 even if the price of the service is not below the TS
24 LRIC, because a price squeeze analysis looks at
25 whether an equally efficient competitor that must

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1 purchase some central input from the local exchange
2 company in this case can, given the price that it is
3 being charged for that essential input or essential
4 inputs, sell its product at or below the cost --
5 price, rather -- that is being set in the retail
6 market by the competitor that controls the essential
7 input.

8 If there is a price for the essential input
9 above the TS LRIC there can be a price squeeze even if
10 there is no cross subsidy in the usual sense.

11 Q. Thank you. Have you had an opportunity to
12 review Exhibit 517C?

13 A. Yes, I have briefly. I was in travel mode
14 yesterday and saw this last evening for a little
15 while.

16 Q. Based on your review what's your
17 understanding of what this exhibit purports to show?

18 A. My understanding is that Mr. Lanksbury has
19 attempted to update his imputation analysis using what
20 purport to be equal call volumes for the 11 months of
21 1995 through November of last year.

22 Q. Have you also been provided with Mr.
23 Lanksbury's work papers to Exhibit 517C?

24 A. Yes, I have. That's the exhibit that's
25 been marked as 540C, as I understand it.

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1 Q. And did you also have a chance to review
2 Mr. Lanksbury's work papers to his last imputation
3 analysis, Exhibit 511C?

4 A. I don't have the exhibit in front of me, so
5 I assume that exhibit number is the correct number. I
6 did see his work papers for the previous imputation
7 analysis.

8 MR. HARLOW: Counsel, do you have a witness
9 copy of Exhibit 518C?

10 MR. TROTTER: Is that the letter?

11 MR. HARLOW: Yes.

12 Q. Do you now have a copy of Exhibit 518C in
13 front of you?

14 A. Yes, I do apparently.

15 Q. And directing your attention to the third
16 page of that exhibit, does that purport to show actual
17 call volume data?

18 A. The third page of 518?

19 Q. Yes.

20 A. Yes, it does.

21 Q. Have you been able to compare the call
22 volume data on the first page of Exhibit 540C with the
23 call volume data on the third page of 5180C?

24 A. Yes, I have.

25 Q. Do those call volume numbers make any sense

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1 to you?

2 A. Well, I have to admit they're a little
3 peculiar. The numbers on 518C, if you look under the
4 column card and coin near the bottom of the page,
5 there's a number that says it's the call volumes for
6 the last 12 months, and the previous two headings
7 above that are labeled last half '94 local calls,
8 first half '95, so it was my understanding at that
9 time that it was for the 12 months ending June 30,
10 1995.

11 That number to the decimal point is
12 identical to the number that appears in 540C as last
13 12 months local calls seems rather unlikely that there
14 would be that precise a number. It appears that in
15 fact the 12 months ending June 30 got carried over
16 somehow to this revised analysis, so I don't think the
17 12 months ending number corresponds to the November
18 30, 1995 period, the 12 months ending that.

19 Q. Did you compare the first half of 1995
20 local calls, the horizontal row there on the third
21 page of Exhibit 518C with the 1995 actuals through
22 November --

23 A. Yes, I did.

24 Q. -- on Exhibit 540C?

25 A. Yes, I did.

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1 Q. Is there anything that strikes you about
2 those different numbers?

3 A. Well, when I applied a little simple
4 algebra to these, assuming that the number was correct
5 on Exhibit 518C for the first half of '95, and
6 because these are confidential numbers I will try not
7 to state actual numbers, and figured out what that
8 meant about the call volumes for the five months from
9 July through November of 1995. It appears that U S
10 WEST has done a phenomenal job of increasing call
11 volumes in its card and coin phones. It's up two and
12 a half times over what it was in the first half of the
13 year, which is pretty impressive if true. I found
14 that not immediately plausible but I am willing to
15 reserve judgment at the moment because I haven't had a
16 chance to review this in great detail.

17 Q. And is that two and a half times with regard
18 to the card and coin also called millennium phones?

19 A. That is correct.

20 Q. Did you compare that with the apparent
21 trend with the first half of '95 and the first 11
22 months of '95 for the so-called public phones?

23 A. Yes, I did.

24 Q. Is there a similar two and a half times
25 trend for that type of phone?

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1 A. Not at all. It was something of a
2 dropoff, as is evident in the two exhibits.

3 Q. Did you conduct any other analysis of
4 Exhibit 517C last night and the backup work papers,
5 540C?

6 A. Very quick and dirty given the time, but
7 the one thing that concerned me immediately when I
8 looked is -- of course we've been through this process
9 of corrections several times, and each time we get one
10 number fixed it seems that there's always at least one
11 or two trailing behind. In this case the one or two
12 that appear to be trailing behind, we got updated call
13 volumes and accepting for the moment that the numbers
14 that come out of Exhibit 540C are indeed the
15 appropriate actual average monthly call volumes for the
16 11 months in 1995 ending November 30, those call
17 volumes should be applied to the number of stations
18 that are shown in Exhibit 540C because that's what they
19 were derived from. But I believe it's the second page
20 of Exhibit 540C in the third block from the bottom
21 there's a group called Washington universal, and I
22 verified that the call volumes seemed to match up to
23 this particular block, that is, the updated call
24 volumes used under the millennium category in Exhibit
25 517C, but the number of stations listed is less than

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1 half the number of millennium stations in Exhibit 517C,
2 whereas the number of public stations, if you go up to
3 the top of the page, is quite a bit higher than the
4 number of public stations in Exhibit 517C.

5 So we're back to the problem, obviously, of
6 having some mix and match. We've updated the call
7 volumes but we haven't changed the number of stations,
8 and then when I looked on Exhibit 517C at the
9 compensation levels and compared it to what had been in
10 Mr. Lanksbury previous analysis, I noticed that the
11 compensation had barely gone up at all even though the
12 call volumes had gone up substantially. That, again,
13 doesn't make sense because call volumes or revenues are
14 what drives compensation levels. I haven't been able
15 to do the correction on the compensation, but counsel
16 fortunately had Mr. Lanksbury's spreadsheet up on the
17 computer. I understand we had received the diskette
18 from U S WEST and we did enter in the apparently
19 correct number of stations based on Exhibit 540C for
20 the millennium and public phones. Having made just
21 that one rather obvious correction we were back below
22 water again. That is, the price floor was higher than
23 the current 25 cent local call rate.

24 MR. HARLOW: Let me interrupt just for a
25 second. In the last docket the company allowed us to

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1 put the weighted cost floor number on the public
2 record. Is that something we can still do as Ms.
3 Murray calculated last night?

4 MR. SHAW: That's fine.

5 Q. Can you tell me what number you arrived for
6 the weighted price floor making that one change?

7 A. Yes. With that one correction I arrived at
8 a weighted cost floor of 25.77 cents. That compares
9 with the 24.46 cents that Mr. Lanksbury had on Exhibit
10 517C. That of course in and of itself barely was
11 making it, but it just shows these numbers are moving
12 around constantly. I have no idea what the call
13 volumes and number of stations are. Every exhibit in
14 the cost study practically every page they're
15 different, so I'm not sure what to do here.

16 Q. Just one final question, and that is if
17 you're not confident in the numbers we've been
18 providing how can you conclude or would you still be
19 led to the conclusion that there's a price squeeze?

20 A. I would be strongly inclined to do so for a
21 couple of reasons. One is simple logic. If you have
22 a price squeeze when you have a smaller number of
23 millennium phones -- and remember the millennium phones
24 are the ones that are much more expensive in terms of
25 the equipment, almost three times, and you start

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1 rolling those millennium phones out to more and more
2 locations, I'm going to assume that U S WEST has been
3 fairly rational in its roll-out strategy, has gone
4 after the highest volume locations first and now as we
5 roll out more phones we're eating in further and
6 further to the lower and lower volume locations.

7 So I would expect that the average call
8 volumes drop as the number of millennium phones
9 increases. Given that, I have reason to believe that,
10 if anything, these numbers which are based on average
11 number of stations in place -- and by the way, the
12 number of stations, millennium stations, went up
13 dramatically in 1995. So if we're using something
14 that's an average for the first 11 months of 1995, the
15 average call volumes very well might be higher than the
16 current call volumes which suggests to me that the
17 revenues that were showing matching up with the
18 millennium phones are just too high. The costs don't
19 get any lower. So if you start replacing your existing
20 fleet of Chevetttes with Rolls Royces, the more Rolls
21 Royces you put in place the higher cost of your average
22 fleet. If you're selling the same thing -- limos are a
23 service run by either Rolls Royces or Chevetttes --
24 you've got to expect that the average of your costs
25 declines as you increase the number of high cost

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1 service vehicles that you have.

2 MR. HARLOW: Thank you, Ms. Murray. The
3 witness is tendered for cross.

4 JUDGE WALLIS: Ms. Peterson.

5

6 CROSS-EXAMINATION

7 BY MS. PETERSON:

8 Q. Good morning, Ms. Murray. My name is
9 Sherilyn Peterson. I want to ask you a question on
10 the analysis that you just gave where you said that if
11 you put in the correct number of stations the price
12 floor is more than 25 cents. Can you tell me exactly
13 what number of stations you used?

14 A. You don't object to my putting on the
15 record? It's in the confidential exhibit.

16 Q. Well, can you refer me to where in the
17 confidential exhibit precisely by page and line that
18 you are looking?

19 A. Well, what I was looking at was, I believe,
20 the third page of the confidential exhibit.

21 MR. HARLOW: 540C.

22 A. 540C, and you see that there are dotted
23 lines that create sort of blocks of numbers. The
24 first block is headed Washington public coin and it
25 has stations, colon, and a number that follows that,

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1 that's the number that I used for stations for the
2 public, and then down near the bottom of the page,
3 three blocks up from the bottom there's a block headed
4 Washington universal, and it has stations and a number
5 that follows that colon and that's the number I used
6 for the millennium.

7 Q. Ms. Murray, should the imputation study be
8 based on U S WEST historical data in your mind or
9 should it reflect anticipated changes?

10 A. Ideally an imputation analysis should be
11 forward looking but whatever one does it has to have
12 an apples to apples match. That is, you can't use an
13 average cost volume based on one level of penetration
14 of millennium phones, and simply apply that without
15 adjustment when you have a much higher volume of
16 millennium phones as I described by explaining how I
17 would expect the call volumes to change as penetration
18 increases.

19 Q. Would you agree, then, that you should base
20 your forward looking imputation study on what
21 technology is actually expected to be in place,
22 according to the company's plans?

23 A. I would not necessarily agree with what
24 technology is going to be in place if you mean in
25 place at one point in time. For example, it is very

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1 common and considered appropriate practice by both
2 myself and Dr. Emmerson, your cost study advisor, to
3 use an assumption of 100 percent digital switches in a
4 cost study even if there are only going to be 60, 70,
5 80 percent digital switches in the network in a given
6 year if that's the forward looking technology that one
7 would place as one were replacing items. So it is not
8 really what's going to be in place in a snapshot year,
9 that's an embedded approach. Might be a funny sort of
10 forward looking embedded approach but that's not long
11 run incremental costing. It's based on the
12 appropriate latest technology, as I believe the cost
13 study says, that one would place if one were placing
14 anew.

15 Q. So your study assumes that there will
16 ultimately at least in the foreseeable future be a
17 total change over to the new millennium phones?

18 A. My study, as you put it, I have
19 recalculated the imputation analysis using a number of
20 different assumptions. The corrected numbers about
21 which you were cross-examining me just a moment ago do
22 not constitute my study but rather for purposes of
23 discussion an acceptance of Mr. Lanksbury's approach
24 which is a weighted average.

25 My preferred methodology would have been to

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1 get a definitive answer from U S WEST about what its
2 technology plans were. When we asked on discovery
3 for an explanation of those plans we were given only
4 plans, documented plans, replacement of millennium
5 phones. We were never given anything but a bold
6 assertion by U S WEST that it was going to place
7 additional old style phones. That has not in any way
8 been documented, so that is the basis for my testimony
9 that it appears from U S WEST's own plans as provided
10 to us that it is moving toward the millennium phones
11 and in fact very rapid roll-out of the millennium
12 phone, their own projection tends to substantiate that,
13 but I have no definitive information based on the
14 inadequate discovery responses with which to make that
15 determination.

16 Q. Let's go back to your initial testimony and
17 just parse through this. Your Exhibits 533C and 534C,
18 and your statement in your direct testimony that
19 you believe 100 percent millennium imputation analysis
20 provides the most relevant information for the
21 Commission I take it are the starting points for your
22 testimony?

23 A. Would you point me to the page and line
24 number of the statement to which you're referring?

25 Q. In your testimony it's page 16 of your

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1 direct testimony.

2 A. Thank you. And the line number. I see it
3 at the bottom of the page. And your question was that
4 this is?

5 Q. Let me rephrase the question. In your
6 direct testimony you stated that the 100 percent
7 millennium imputation provides the most relevant
8 information for the Commission and you use 100 percent
9 imputation in Exhibits 533C and 534C; is that correct?

10 A. That is correct that I used it in both of
11 those exhibits and that I made that statement based on
12 the previous discussion in my testimony that said that
13 we had asked U S WEST about its plans and the only
14 documented plans with which we were provided were
15 plans for placement of additional millennium phones.

16 Q. Could you please look use at document
17 518C?

18 A. I have that.

19 Q. And please look at the last attachment to
20 that exhibit.

21 A. Yes.

22 Q. Did your counsel provide you with that
23 letter and those attachments including that last page?

24 A. I have seen this attachment before, yes.

25 Q. Did you see it prior to the preparation and

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1 submittal of your direct testimony in this case?

2 A. I don't recall off the top of my head the
3 exact date when I saw it, I'm sorry. I think that may
4 be true but it's been a while.

5 Q. Well, the date on the letter is August 16,
6 1995. That's the date on 518C, and I believe your
7 testimony, your initial testimony, is dated August 28,
8 1995; is that correct?

9 A. Yes, that's correct. Thank you for calling
10 my attention to that. I believe I did see this
11 shortly after the August 16 date. It may have been
12 the 17th or 18th.

13 Q. So you had this in hand when you submitted
14 your direct testimony in this case?

15 A. Yes, I did.

16 Q. And why did you ignore the last page which
17 shows the projected deployment of millennium phones?

18 A. Well, I didn't ignore the last page
19 whatsoever, but you will note that the last page only
20 provides data for certain metropolitan areas. You
21 will also note that summing the two numbers, or
22 actually looking at the total planned stations, we get
23 a number that is now much lower than the number that
24 Mr. Lanksbury has used in his own imputation analyses,
25 lower by several hundred phones, to try to keep this

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1 all in relative terms, and that although the line
2 items now seem to show a roll-out -- again, we have no
3 information about other areas in the state but even
4 for the Seattle area showed that the roll-out would be
5 done in the early fall. The information that we now
6 have from follow-up data responses is in fact that the
7 placement of millennium phones is continuing at least
8 through October and that they have been placed in
9 other parts of the state.

10 So the combination of this being a limited
11 document not a statewide plan and the lack of any firm
12 data given to me by U S WEST for placement of old
13 style phones made it rather difficult for me to draw
14 any assumptions but that U S WEST was moving forward
15 substantially. Although this might be the first phase
16 of the millennium roll-out it had nothing that
17 convinced me that U S WEST was going to be placing any
18 additional phones of any other type at any point in
19 the future.

20 Q. Has U S WEST exceeded the projections that
21 are contained in that last page of Exhibit 518C?

22 A. Apparently. And this is a little bit
23 tricky to track down, actually. The numbers that we
24 received through other data responses did not show
25 that they had yet exceeded in 1995 those numbers, but,

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1 again, the forecasts that U S WEST's own analysts
2 provided suggests that there is a movement forward for
3 additional phones, so I had reason to believe looking
4 at U S WEST's own data that it must anticipate future
5 placement of additional phones, and let me just add
6 also that the notion that one would use a 100 percent
7 millennium technology just as the notion that one
8 would use 100 percent digital switches does not depend
9 on showing the plan to actually change out phones or
10 switches in place. Rather it goes to what would one
11 do at the time that a phone needed to be replaced in
12 the future. That is, we don't necessarily assume you
13 go and yank out all the unplaced equipment right away.
14 A forward looking cost study is what is the network of
15 the future.

16 Q. Ms. Murray, you gave us an opinion a little
17 bit earlier where you had run the new call volumes in
18 this and come up with an opinion that it was -- that
19 did not meet the imputation test and when I asked you
20 what station numbers you used you referred me to
21 Exhibit 540C, page 2, and in particular you referred me
22 to the number of stations under Washington universal.
23 Do you see that?

24 A. I think that's page 3 actually.

25 Q. And that's the number that you used for

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1 your most recent analysis that you did either last
2 night or this morning?

3 A. That's the number that I plugged in because
4 it appeared to be the category that corresponded to
5 the place where the call volumes that Mr. Lanksbury
6 had used in updating the study came from. If you look
7 in the block right below the one that shows number of
8 stations for Washington universal you see local
9 rev, intra rev, et cetera, and going across you see
10 local SP which I assume is sent paid, local NSP, which
11 I assume is nonsent paid, and you trace across to the
12 messages per line per month. The two numbers there
13 seem to correspond to the number, so the best that we
14 could read this, and I will grant you that it is far
15 from clear, frankly, that these numbers correspond
16 to the other station numbers. I am certainly not
17 prepared to attest to that. As I said, we got this
18 last night and did the best we could with the backup
19 that your own analyst provided to figure out what he
20 had done. There are no other station numbers that
21 appear to correspond to those volume numbers.

22 Q. So you used the station number that you
23 referred to on page 3 of Exhibit 540C under Washington
24 universal, and tell me, does that number exceed the
25 projected millennium stations contained at the last

03088

1 page of Exhibit 518C?

2 A. No. And I wouldn't expect it to because if
3 you look on --

4 MS. PETERSON: It was just a yes or no
5 question and I would appreciate it if perhaps the
6 witness could confine her answers to yes or no
7 questions to yes or no.

8 JUDGE WALLIS: There are times when a
9 witness needs to explain an answer and our convention
10 has been that an explanation directed to the question
11 would be accepted.

12 A. I was planning to limit it. I was just
13 going to say that if you look across the column
14 headings, there's state, product, category, SP-NSP,
15 et cetera. The column heading that has the station
16 numbers is labeled average, LN, average lines, so it
17 was my assumption that this was the average number of
18 lines for the first 11 months and that wouldn't be --
19 if you were putting lines in place that wouldn't be
20 the end of period number of lines, so that wouldn't be
21 the number that I would use to check the two things,
22 and that was the reason why I wouldn't have expected
23 the number of stations here to correspond.

24 Q. You mentioned earlier that one of the bases
25 for your thinking -- strike that. You were talking

03089

1 earlier about putting in the millennium phones as being
2 Rolls Royces, and I guess you were referring to what
3 you would call the standards phones as being Chevettes.
4 Do you remember that analogy?

5 A. That was the analogy, yes.

6 Q. And I think you also said you assumed that
7 U S WEST strategy is a rational strategy for
8 placement?

9 A. Well, I assumed that for purposes of
10 explaining what I would expect the pattern of call
11 volumes to be as penetration increased. I haven't
12 done anything independently to corroborate the
13 rationality of your placement strategies.

14 Q. So you were assuming it's a rational
15 strategy?

16 A. For that limited purpose.

17 Q. Would it, in your mind, be rational to
18 place a Rolls Royce phone in a location that could
19 only support a Chevette phone?

20 A. It certainly would not, and if one looks at
21 the fact that you're falling below the floor, you
22 would think that that would be a problem, but recall,
23 we're doing an imputation analysis here and not an
24 analysis to see if the phones are compensatory, and if
25 it is the contribution built into the essential inputs

03090

1 that's causing U S WEST to fall below the price floor
2 here that's exactly what I meant by the difference
3 between a price squeeze and a cross subsidy analysis.
4 It could be perfectly rational to put in Rolls Royce
5 phones in the sense that you're still making money off
6 of those phones, but it would not be rational, given
7 the rate that you're charging it would not be
8 possible, for competitors to pay the prices you're
9 charging for essential inputs and also be profitable.

10 Q. You wouldn't put a Rolls Royce phone in a
11 location that had very low usage, would you,
12 typically?

13 A. Personally I wouldn't, but apparently your
14 company is continuing the roll-out into lower volume
15 locations. I don't know where you plan to stop.

16 Q. That's your assumption. What's that based
17 on?

18 A. Well, that's based on the assumption of
19 rationality before -- as the number of very high
20 volume locations is a very finite number and as one
21 adds phones necessarily if one first did the very high
22 volume locations one must be getting to ever lower
23 volume locations. Of course if you started at the low
24 volume locations it could be that you're adding higher
25 volume locations now.

03091

1 Q. But even though you agreed that it wouldn't
2 make sense to put a Rolls Royce phone in a Chevette
3 location you nonetheless advise the Commission that
4 the most relevant analysis would assume that you
5 should put it in 100 percent of the locations?

6 A. That's actually something that I would base
7 off the nine costing principles in California where
8 Dr. Emmerson and I had a little discussion about what
9 you should do in terms of technology assumptions. Dr.
10 Emmerson's position in that discussion, with which I
11 have to agree, I guess, at least for purposes of
12 imputation analysis, is that even if the company makes
13 a mistake what the company is doing technologically in
14 terms of its new placement is what should be reflected
15 in a study.

16 Moreover, I would add that even though it
17 might not seem economical from one perspective, it
18 might have an anticompetitive effect that actually
19 makes it very rational for U S WEST to force its
20 competitors to now have to play catch-up and have to
21 match what U S WEST will undoubtedly advertise as the
22 newest, latest most wonderful equipment, the
23 millennium phones. So there are other business
24 strategy elements that could well be entering in here
25 that will make it a rational strategy for U S WEST as

03092

1 a potential monopolist that would not make it
2 something that I would want to see from a ratepayer
3 standpoint happening.

4 Q. Ms. Murray, in your direct testimony, page
5 14, lines 23 to 25, you stated that you based your 100
6 percent --

7 MR. HARLOW: What page was that?

8 MS. PETERSON: 14, lines 23 to 25.

9 Q. Part of the basis for your assumption of
10 100 percent millennium pay phones was based on
11 response to U S WEST data request No. 51 which has
12 been marked as Exhibit 519 and data request No. 2
13 which has been marked Exhibit 539C. And I would ask
14 you to look first at Exhibit 519 and tell me what in
15 that exhibit let you to that conclusion?

16 A. Well, a couple of things in this exhibit,
17 and I have tried since being handed it this morning
18 to use Post-its to mark various things but it's a
19 rather thick exhibit so whether I can lay my fingers
20 on the numbers instantaneously you will have to bear
21 with me here. This exhibit contains -- this is the --
22 identify what we're talking about. This is the 1995
23 Washington public telephone services cost study.
24 There are studies for different dates here, September
25 '94, July '95. In this study there are a variety of

03093

1 points where there are numbers for millennium versus
2 old style or traditional pay phone sets. Those
3 numbers are based on historical cutoffs at various
4 points, and it is fairly clear to say the least that
5 in some cases the numbers based on I believe 1994
6 figures were down in what we call very low numbers.

7 Q. I'm sorry, the numbers for what?

8 A. For millennium stations are very, very low
9 numbers. Every time there was an updated response --
10 oh, in the projected numbers for 1995 were far less --
11 more than two times lower than the number provided in
12 the data response 518 on the back for the roll-out, so
13 it was fairly clear that U S WEST plans were rapidly
14 changing. That what had originally been thought of as
15 a much more limited roll-out of the millennium phones
16 and a much lower number of stations on which all of
17 the expense projections, et cetera, in the cost study
18 were based became a much higher number as of August 16,
19 1995 when we received Exhibit 518, and that the numbers
20 in Mr. Lanksbury's imputation analysis were still
21 higher, substantially higher, almost I would say 30, 40
22 percent higher than the numbers for actuals in the
23 Seattle area in Exhibit 518.

24 Whenever I see a company going from ground
25 zero practically in 1994 to exceeding its projections

03094

1 wildly for 1995, still placing things and putting into
2 its own imputation study an expectation of another 30,
3 40 percent and not simultaneously providing me with
4 any response showing a plan to place new old style
5 phones, I'm left with the very strong impression that
6 this is a component whose business strategy is rapidly
7 migrating to the new technology, the millennium phone.
8 I don't know what else to say.

9 Q. Well, Ms. Murray, I guess I would
10 appreciate it if you could point me specifically to
11 portions of data request No. 1 which you relied on in
12 your direct testimony for this statement.

13 A. One example, and I think this is page No.
14 6-6, it says on the bottom. It's about this far
15 through (indicating).

16 Q. For the record, that's Exhibit 519.

17 A. I'm sorry, of Exhibit 519. This is headed
18 Washington coin collection and continue expense, and if
19 you look at that exhibit you see public millennium and
20 there are columns headed A, B, C. Column C is access
21 lines.

22 MR. HARLOW: Excuse me. Counsel, since
23 this is historic and outdated data can she go ahead
24 and give this number on the record just so it's less
25 confusing.

03095

1 MS. PETERSON: Why don't we find the page
2 first so we know exactly what number we're talking
3 about.

4 MR. HARLOW: Well, if it's all right with
5 you, if you would indicate if she can read the number
6 I would appreciate it.

7 Q. Can you tell me the description on the top
8 of the page again?

9 A. Yes. It's Washington coin collection and
10 counting expense. It's in section 6, direct expenses,
11 and there are a series of pages following it,
12 advertising expense.

13 JUDGE WALLIS: Let's be off the record for
14 a moment.

15 (Discussion off the record.)

16 JUDGE WALLIS: Let's be back on record.
17 You've found the page and number; is that correct?

18 Q. Ms. Murray, I had asked you what
19 specifically in Exhibit 519 you had relied on.

20 A. And what I had responded was that the
21 numbers, the projected numbers for millennium stations
22 seemed to be changing rapidly from one iteration of
23 your analysis to another. The number here was 1,500.
24 That carries through in the various expense categories.
25 Without revealing any of the other numbers to get into

03096

1 things that you might want to retain as proprietary, I
2 would say that is substantially below the average
3 number of stations that we were just talking about for
4 the first 11 months of '95 in Exhibit 540C. It is
5 still lower than the numbers shown as of August 14, '95
6 on the final page of Exhibit 518, and it is lower yet
7 than the number of stations that Mr. Lanksbury used in
8 his imputation analysis. And I recall, although I
9 frankly don't think it would be worth spending a great
10 deal of time trying to flip through, that there is a
11 number of stations, a two digit number of millennium
12 stations somewhere in this cost study at one of the
13 points at which cost numbers were being developed,
14 which suggests that again it started low and builds and
15 builds and builds to a crescendo. That was part of
16 what suggested to me that U S WEST was in the process
17 of a very rapid deployment of millennium phones.

18 Q. For the record the 1500 you referred to
19 is on a page that is titled Washington coin collection
20 and counting expense under section C of Exhibit 519?

21 A. Yes, and it appears on the other expense
22 pages I believe that follow that as well.

23 Q. Is there anything else in Exhibit 519 that
24 you were relying on when you made the statement we
25 referred to earlier in your direct testimony?

03097

1 A. Only the variety of different numbers and
2 the vintaging of different numbers for stations of
3 millennium phones. I don't think we need to burden
4 the record with identifying all of those.

5 Q. Ms. Murray, would you please turn your
6 attention to Exhibit 539C, which is U S WEST response
7 to Northwest Payphone Association data request No. 2.

8 A. I'm not sure I have that one.

9 MR. HARLOW: For the record, that's not Ms.
10 Murray's exhibit. That's your exhibit.

11 MS. PETERSON: I'm not sure I stated that
12 it was. It is 539C and we indicated we would be
13 using it with this witness.

14 THE WITNESS: I'm sorry, I don't have a
15 copy.

16 Q. Again, Ms. Murray, I would refer you to
17 your direct testimony, page 14, lines 23 to 25 where
18 you were stating the basis for your assumption of the
19 100 percent millennium projections, and you referred
20 to data request No. 2, which has been marked Exhibit
21 539C. Can you please tell me what in this data request
22 led you to assume the 100 percent millennium theory.

23 MR. HARLOW: Objection. This assumes a
24 fact not in evidence. She hasn't testified that this
25 was part of the basis of her opinion.

03098

1 MS. PETERSON: I think if you look at the
2 direct testimony you will see that she relies on data
3 request No. 2.

4 A. I relied on data request No. 2 to get a
5 sense of the total number of public phones that were
6 in place which was actually a declining number, and
7 just compare that against the roll-out of the
8 millennium phones that I saw combining the other
9 information. The pattern of the two taken together,
10 the declining number of total public phones with the
11 rapid increase in the number of millennium phones,
12 suggested that indeed there was something going on
13 where the millennium growth was just part of explosive
14 market growth.

15 Q. Ms. Murray, are you aware of proceedings
16 that were initiated by Northwest Payphone Association
17 before this Commission in docket UT-920174 involving
18 allegations by your client against U S WEST about pay
19 phone pricing?

20 A. I believe that's the case that led to the
21 order that adopted the imputation analysis methodology
22 that I used in my testimony. Is that correct?

23 Q. That's what I'm referring to.

24 A. I am aware of that docket, yes.

25 Q. And that proceeding was initiated by the

03099

1 pay phone association in approximately February 1992;
2 is that correct?

3 A. I don't recall the exact date. That sounds
4 approximately correct according to my recollection.

5 Q. And the orders in that docket issued in
6 March and then on reconsideration in June of 1995; is
7 that correct?

8 A. Again, those dates sound approximately
9 correct by my recollection.

10 Q. Are you aware that during those proceedings
11 that spanned the years roughly 1992 to '95 that U S
12 WEST data presented to the Commission showed that even
13 then no new standard pay phones were being placed?

14 A. I don't recall precisely that information.

15 Q. Do you have any reason to doubt that?

16 A. I have no reason to doubt that information.

17 Q. But that's not something you looked at in
18 coming to your analysis for these proceedings?

19 A. That's not something that I cited as
20 support for my analysis here. I was obviously
21 primarily concerned with a forward looking analysis of
22 what the plans were now as best we could get the
23 information.

24 Q. And part of your reasoning, as I understand
25 it, in your current analysis for going to 100 percent

03100

1 millennium is that the company has not shown plans to
2 put in new standard pay phones, correct?

3 A. Combined, yes. Combined with the fact that
4 the company is rapidly installing millennium phones.
5 So it's not just the lack of installation of old style
6 phones. We could be in a period where the market is
7 not growing where we're not putting in any instruments
8 at a given point in time, but given a stagnant market
9 and rapid roll-out of a new technology I did conclude
10 that U S WEST was involved in heavy placement of
11 millennium phones, and it was doing this even at a time
12 when it wasn't placing any other technology.

13 Q. Now, the time period involved in the
14 Commission docket that I referenced, during that time,
15 except for the 1995 portion of it, there were no
16 millennium phones being placed, were there?

17 A. I don't recall your having been placing
18 millennium phones except for perhaps a very few in
19 '94. I would have to go back and double-check those
20 numbers.

21 Q. As far as you know, U S WEST was not
22 placing new standard pay phones -- as we have the
23 records back to 1992 -- even prior to the deployment
24 of millennium phones when the standard pay phones were
25 the only technology in use?

03101

1 A. As I said, I don't have direct recollection
2 of that information. It wouldn't surprise me. It's
3 not inconsistent with my understanding of the snapshot
4 of those years, but I don't have any direct
5 information to corroborate or deny what you're saying.

6 Q. If U S WEST was not replacing its standard
7 telephones with new standard telephones, or it was not
8 placing standard telephones how was, to your knowledge,
9 U S WEST placing standard phones when it was placing
10 standard phones?

11 A. Well, my understanding was that U S WEST
12 was not particularly involved in placing a lot of
13 phones at new locations during that period, but to the
14 extent that I know that there were some refurbished
15 phones being used at some locations, that's about as
16 much as I know about that period. I've been focusing
17 on the forward looking period.

18 Q. So to the extent that U S WEST was placing
19 standard telephones during that period it would have
20 been placing refurbished phones not new phones,
21 correct?

22 A. To the extent that it was. I don't have
23 any reason to believe that U S WEST was placing any
24 substantial number of new stations during that period,
25 so we're sort of talking about a hypothetical here

03102

1 from the basis of my knowledge of placement of new
2 phones. I didn't perform a backward looking analysis
3 of the '92-93 period.

4 Q. So are you saying you really don't have any
5 information for that period or are you saying that --
6 I guess you were telling me that you're making some
7 assumptions, I guess, about that period, and I'm
8 wondering if that's based on your knowledge or if it's
9 based on the fact that you in fact have not looked at
10 that period at all.

11 MR. HARLOW: Asked and answered.

12 JUDGE WALLIS: I believe I heard her
13 respond to that question, and give you the answer.

14 Q. Placing standard pay phones with
15 refurbished but not with new standard pay phones is
16 consistent with U S WEST's current policy of placing
17 standard pay phones when it replaces standard pay
18 phones, correct?

19 A. So far as the language in your cost study
20 is it concerned that is correct. I don't have any
21 independent knowledge of U S WEST's policy of placing
22 pay phones at this time.

23 Q. Ms. Murray, in your August 1995 testimony,
24 as we have been discussing, you urged the Commission
25 to accept a 100 percent millennium analysis but after

03103

1 reviewing Mr. Lanksbury's October 1995 testimony you
2 said in your December 1995 testimony that U S WEST had
3 -- and this is at page 6 -- finally addressed some of
4 the concerns about whether millennium is really its
5 long run technology of choice. Do you recall that
6 testimony?

7 A. I recall that the testimony on page 6 at
8 lines 7 on that said, having finally addressed some
9 of the concerns about whether millennium is really its
10 long run technology of choice in rebuttal testimony,
11 U S WEST's methods for costing continued to be plagued
12 by questionable assumptions or omissions.

13 Q. Please tell me what concerns of yours that
14 U S WEST had addressed about whether millennium was
15 the long run technology of choice based on Mr.
16 Lanksbury's October 1995 testimony.

17 A. Some of the concerns that were addressed
18 included an attempt to deal with the call volume issue
19 as to millennium versus traditional sets, and at least
20 to provide the bold assertion without any
21 corroboration in terms of business plans that U S WEST
22 intends, at some point, to place standard old style
23 pay phones sets. That's a fairly limited way of
24 addressing the issue. We have no idea what the
25 ultimate proportion were if U S WEST were to go out

03104

1 and wipe out its network and place today what it would
2 place optimally, would the proportions in Mr.
3 Lanksbury's imputation analysis be the proportions
4 that it would place, we have no way of knowing. All
5 we have is now an assertion from U S WEST that it does
6 indeed intend to place at least one more standard pay
7 phone somewhere sometime in the future.

8 Q. Are there any other concerns that were
9 addressed by Mr. Lanksbury's testimony as you referred
10 to that in the December 15, 1995 supplemental
11 testimony that you submitted?

12 A. Well, the phrase that you referred to me is
13 addressing concerns about whether millennium is really
14 the long run technology of choice, and what I have
15 described to you was precisely the response to that,
16 that we have the assertion now that there will at
17 least be one more standard pay phone placed.

18 Q. After you had a chance to review Mr.
19 Lanksbury's October 1995 testimony with your December
20 1995 testimony, you submitted what's been marked
21 Exhibit 538C which in fact accepts the distribution
22 posited by U S WEST between standard and millennium pay
23 phones, does it not?

24 A. It accepts for purposes of calculation.
25 That is, the purpose of Exhibit 538C is not to endorse

03105

1 every number that Mr. Lanksbury has there but rather
2 to correct some of the more obvious errors that were
3 in his rebuttal exhibit to which I am responding here.

4 Q. On page 6, line 5 of your December
5 testimony you state that an essential element of any
6 valued long-run incremental cost methodology is that
7 costs be based on long run technology of choice not
8 embedded technology. Is that the statement you made?

9 A. Yes.

10 Q. Isn't it true that if there is no plan to
11 discontinue a use of an old technology including the
12 continued placement of the embedded technology then it
13 should be reflected in the long run cost studies until
14 such time that it will no longer be placed in the
15 field?

16 A. It is true that whatever technologies are
17 going to be placed in the future, without reference to
18 whether or not they are embedded technologies now,
19 should be reflected in the cost study in the
20 proportions to which U S WEST intends to place those
21 technologies in the future. We have had no evidence
22 or even assertion from Mr. Lanksbury or any other U S
23 WEST witness of who I am aware as to what the
24 proportion of placement of millennium versus old style
25 phones will be on a forward looking basis. At most we

03106

1 now have an assertion that there will be some
2 proportion of old style phones placed.

3 Q. Ms. Murray, in your supplemental testimony
4 at page 7, line 7, you state that in a recent data
5 request response U S WEST acknowledges that the
6 average time it is able to retain a pay phone customer
7 is only three and a half years, is that your statement?

8 A. That is a statement that appears on that
9 line. That refers to the average contract life.

10 Q. And you referenced in that testimony, data
11 request No. 73, to support that?

12 A. I believe that's the number.

13 Q. And I would like to turn your attention to
14 data request 73 which has been marked Exhibit 521. Do
15 you have a copy of that?

16 A. I don't have a copy up here.

17 Q. Have you had a chance to review it?

18 A. I have that in front of me and I have
19 reviewed it, yes.

20 Q. Can you tell me where in that data request
21 it states that U S WEST is only able to retain a pay
22 phone customer for three and a half years?

23 A. "The U S WEST estimates that the average
24 contract life is approximately 3.5 years." That is
25 the statement to which I was referring. Contracts of

03107

1 course are not automatically renewable and in my
2 experience we tend to set price floors based on
3 contract lives so that all of the costs will be
4 recovered over the contract life.

5 Q. Isn't it possible that a vendor who is
6 providing quality services to the site provider will
7 in fact retain that customer throughout a contract
8 extension or enter a new contract period without a
9 break in service?

10 A. That is certainly possible. If market is
11 very competitive, however, I don't think any provider
12 would want to count on that and I doubt that the
13 Commission would want ratepayers to count on that as a
14 way of recovering costs that are not otherwise
15 recovering over the contract life.

16 Q. Isn't the goal of most pay phone providers
17 to provide the quality of service that makes the site
18 provider want to retain the service for more than one
19 of the one contract term?

20 A. I would assume that that is always the goal
21 of anyone providing services under contract, albeit
22 the experience of my high quality consulting services
23 is that that is never a guarantee.

24 Q. In terms of your clients, the pay phone
25 association members, when their contracts are

03108

1 extended, do they incur the cost of refurbishing
2 equipment in preparing the pay phone site for
3 installation or paying network installation fees on
4 the renewal of the contract?

5 A. I have no knowledge on which to base an
6 answer to your question.

7 Q. Would it make any sense that they would?

8 A. I don't really want to speculate on what
9 the client's practices are. I have no such knowledge.

10 Q. Did the Northwest Payphone Association ask
11 U S WEST in discovery what its station life as opposed
12 to its contract life?

13 A. I don't recall any discovery question that
14 was worded in exactly that way.

15 Q. Ms. Murray, do you know what the pay phone
16 association members pay site providers in terms of
17 commissions?

18 A. No, I don't.

19 Q. You have no idea?

20 A. I have no information regarding that.

21 Q. You have not been provided that by counsel
22 or from any other source?

23 A. No, I have not.

24 Q. So you would have no idea whether the
25 commissions would be in excess of 15 percent of the

03109

1 volume per month on average or any other measure?

2 A. Since I have no information, I have no
3 information. I have no idea.

4 Q. Likewise I assume you would give the same
5 answer to the question whether the commissions paid by
6 pay phone association members have increased over the
7 last year?

8 A. That is correct.

9 JUDGE WALLIS: Ms. Peterson.

10 Q. In your direct testimony you stated that
11 U S WEST had increased commissions to site providers to
12 between one and a half and two times the Commission
13 level stated in the pay phone docket, and in response,
14 I believe Mr. Lanksbury submitted testimony stating
15 that Commission costs for U S WEST increased because
16 competitive providers continue to raise commissions,
17 but that U S WEST's present level of compensation is
18 still below the level most competitors are offering
19 site providers on competitive bids. And my question to
20 you is whether you have any basis to disagree with Mr.
21 Lanksbury's statement that Commission payments by U S
22 WEST are still below the level of most of its
23 competitors?

24 A. I have no basis for denying that. In fact
25 it may well be true, although it's not -- the latter

03110

1 part of the statement is not evidence of the former
2 part of the statement that it's the commissions paid
3 by the competitive providers that caused U S WEST to
4 increase its own commissions. The causality could be
5 in exactly the opposite direction, and I would in fact
6 anticipate that providers who don't have the name
7 recognition of U S WEST would have to do something
8 more than U S WEST does to be competitive in the
9 market, so the pattern you describe is not one that is
10 totally surprising to me by any means.

11 Q. Are you knowledgeable about the pay phone
12 industry generally?

13 A. I have a general understanding of the
14 industry. I am not an active participant in the
15 industry, and I have never been employed directly by a
16 pay phone provider.

17 Q. Ms. Murray, in your direct testimony you
18 objected to U S WEST including the cost of technology
19 embedded in the millennium pay phone that allows the
20 use of credit card reader and data based technology
21 for routing and reading for one plus access
22 functionality. I said cost, it should be revenue. I
23 will restate the question.

24 In your direct testimony you objected to
25 U S WEST's inclusion of revenue from technology

03111

1 embedded in the millennium pay phone that allows for a
2 credit card reader and data based technology as part
3 of the cost of the equipment. Do you recall that?

4 A. If you could point me to the specific line
5 and page. I recall a general line of discussion on
6 that.

7 Q. I believe it was page 9, line 26 through
8 page 10, line 19?

9 A. The section of the testimony that you're
10 referring me to is actually a lengthy quotation from
11 the Commission's order establishing the imputation
12 test for local pay phone revenues and then a
13 discussion of how I had applied the test as the
14 Commission had adopted it whereas U S WEST had taken a
15 somewhat different tack including the proportion that
16 you just described in including the toll revenues.

17 Q. Well, am I correct that in your imputation
18 analysis you do not include the revenue for the
19 functionality in the millennium pay phone that allows
20 the functions I described?

21 A. I wouldn't call it necessarily the revenue
22 for the functionality. I haven't included the toll
23 revenue per the Commission's adopted imputation test.
24 The purpose of my testimony was to determine whether,
25 given the new proposed rates and the new costs, the

03112

1 imputation test established by the Commission was
2 still met.

3 Q. Are you saying that you haven't included
4 revenue for toll calls?

5 A. I have not included the revenue for the
6 types of toll calls described here, the commercial
7 credit card calling, the interexchange carrier toll
8 calling, and that's I believe page 10, lines 7 and 6,
9 through 8 or 9 rather, that that is what I did and
10 consistent with my understanding of the Commission's
11 test.

12 Q. I take it you're assuming that any use of
13 the credit card would be a toll call not a local call?

14 A. I am assuming that it is a nonlocal revenue
15 but I have not specifically assumed that it would be a
16 toll call per se.

17 Q. Well, isn't it possible that people might
18 use a pay phone with a credit card for a local call
19 when they don't have a quarter?

20 A. It is conceivable that they would do so.
21 That would be captured in my corrections to Mr.
22 Lanksbury's most recent attempt at an imputation
23 analysis in Exhibit 517C where the volumes include
24 local nonsent paid volumes and calls and even then
25 accepting those volumes and making the corrections for

03113

1 the average number of stations, the test was below
2 water. That is, we got the 25.77 sent. So whichever
3 way you want to do it, even if there are some local
4 nonsent paid calls and we put those in the imputation
5 analysis they appear to be fairly small based on
6 Exhibit 540C and they do not appear to be enough to
7 make the whole thing pass imputation.

8 Q. Did you include revenues on the nonsent
9 paid calls?

10 A. I did not include -- based on the format of
11 the breakout that we had at the time of August 28 I
12 did not explicitly include any. As I said, this most
13 recent information that I provided in my additional
14 direct today does include local nonsent paid. If we
15 look at Exhibit 540C on the third page you will see
16 that local nonsent paid in that third block down is a
17 fairly small category relative to everything else.
18 Nonetheless I did include it in the most recent rate
19 computation.

20 Q. Now, in terms of the amounts that you are
21 excluding as revenues connected to the credit card
22 reader and database technology, you are not simply
23 excluding revenue for toll calls actually made but you
24 are excluding revenue that U S WEST receives from the
25 site providers for actually providing that

03114

1 functionality in the pay phone set, correct?

2 A. I am excluding revenue that can be provided
3 using that functionality -- can be obtained using that
4 functionality. It can be obtained in other ways
5 perhaps as well but that's one method for obtaining
6 that revenue.

7 Q. The cost of putting the functionality into
8 the phone and the payment by the site providers to U S
9 WEST for its cost in putting the functionality in the
10 phone, that is what you're excluding, correct?

11 A. We don't have any breakdown whatsoever of
12 the cost of putting that functionality into the phone.
13 I do not know whether the incremental cost of putting
14 that functionality in the phone to provide local
15 nonsent paid calls as opposed to providing all the
16 other forms of calls that can be provided in that way
17 would be a positive number. I expect it would be
18 zero, so I don't see that that is -- that there is a
19 separately identifiable cost for putting technology or
20 functionality into the phone in order to provide local
21 nonsent paid calls.

22 Q. When you eliminated the revenue you did not
23 deduct from that any amount for the cost of putting
24 the technology into the phone, did you?

25 A. I certainly did not. As I just explained,

03115

1 there is no separately identified cost for that and on
2 an incremental basis it's not obvious to me that there
3 would be an additional cost for having that
4 functionality available to send local calls as opposed
5 to all the other types of calls that would be sent
6 using the same functionality.

7 Q. In your direct testimony at page 11, line
8 13 you criticized U S WEST for not including any costs
9 for bill number screening in its public pay phone
10 imputation analysis, and you attached an exhibit which
11 you said -- suggested that the tariff rate for bill
12 number screening is \$2 per month. Do you recall that
13 testimony?

14 A. I recall that testimony.

15 Q. And in response Mr. Lanksbury submitted
16 testimony explaining that bill number screening is
17 provided on every line as part of the basic service
18 and that the \$2 charge you were referring to as
19 apparently a separate service called custom net
20 outgoing screening that was not the same as BNS. Do
21 you recall that testimony?

22 A. I recall that.

23 Q. And I noticed in your December 1995 exhibit
24 you did not include any charge for BNS and I take it
25 that you now agree that it would not be appropriate to

03116

1 include a charge in the imputation analysis for bill
2 number screening?

3 A. I also omitted the \$2 monthly charge from
4 my imputation analysis in the August 28 filing, so I
5 never put it into my imputation analysis. Based on
6 Mr. Lanksbury's representation that there is no
7 separate charge for billed number screening it
8 appears that there is no need for including that
9 separately. We were unable to determine, given the
10 short time before the August 28 filing, precisely what
11 the charge on the client's bill referred to since it
12 wasn't identified in the way that one might expect by
13 the tariffed name of the element.

14 Q. Ms. Murray, going back for a minute to the
15 line of questioning about the credit card reader in
16 the pay phones, is it your opinion that the cost of
17 that is a shared cost?

18 A. I have no opinion because U S WEST has not
19 provided me with any data that breaks down the cost of
20 the set.

21 Q. You stated in your supplemental testimony
22 at page 6 that "if standard pay phones remain as part
23 of a long run mix of technology that U S WEST should
24 be capturing the long run costs of these older sets,"
25 which you say include a value on the open market.

03117

1 A. I'm sorry, you went a little quickly for
2 me. This is the supplemental, the page?

3 Q. Page 6?

4 A. And the line.

5 Q. I believe it starts around line 20. It
6 goes up to -- line 16, I'm sorry.

7 A. I have that in front of me.

8 Q. So line 16 to 25 is the testimony I'm
9 referring to.

10 A. Okay.

11 Q. Can you explain what exactly you think U S
12 WEST should include in its imputation analysis for
13 this?

14 A. In the imputation analysis, to the extent
15 that it's possible indefinitely to use refurbished
16 phones to meet new placement needs, all of the costs
17 that are currently included, plus the equipment cost,
18 the market value of the set without refurbishment,
19 should be included in the cost study. As I said in my
20 direct testimony, however, it is very difficult to
21 imagine a world in which one can in perpetuity place
22 refurbished sets without ever, ever having to place a
23 new set. So it would be my sincere expectation that
24 there should be in the cost study at least some
25 proportion of old style sets being the total cost of

03118

1 purchasing such a set if it is indeed true that U S
2 WEST plans to continue placing those sets into the
3 indefinite future. Of course U S WEST's assumption is
4 absolutely consistent with the world in which it is not
5 planning to place additional old style phone sets and
6 is simply just recycling the ones it has at existing
7 locations until it gets around to putting the money in
8 phones there, so if that's the case then of course we
9 won't need to put the cost of the new old style sets
10 in.

11 Q. Are you saying that some numbers should be
12 put in the imputation analysis in for all the old
13 style sets that are sitting around the state of
14 Washington, for example, before they're refurbished
15 and used or are you saying that that value should go
16 in when a set is taken, refurbished and placed?

17 A. Part of the per set cost of a refurbished
18 phone right now, the study has a labor cost per set, a
19 materials cost of the new parts that have to be put
20 in. What it doesn't have is the cost representing the
21 market value or salvage value of the thing that is
22 being refurbished, whatever is there that is being
23 recycled, if you will, from previous use.

24 Q. Do you know how the refurbishing costs
25 relate to what has actually been received by U S WEST

03119

1 on the market for pay phones?

2 A. I'm not sure I understand your question.
3 My understanding was that the market value is a
4 separate issue from these costs that you're now
5 describing, so I'm a little bit confused by your
6 question.

7 Q. I'm just asking you whether when U S WEST
8 refurbishes a phone to place for itself, do you know
9 how the costs of that refurbishment relate to what U S
10 WEST could have obtained on the open market had it sold
11 that phone on the open market rather than refurbished
12 and placed it?

13 A. I don't know. I think we're perhaps talking
14 across each other. When I talk about the market value
15 what I'm talking about is the salvage value of the
16 nonrefurbished phone.

17 Q. A little while ago I asked you if you were
18 talking about value of phones just sitting around in a
19 warehouse or as opposed to value for phones that are
20 actually taken and refurbished and maybe that's the
21 problem. I'm not sure I actually got an answer to
22 that question?

23 A. I think you did. I am not suggesting that
24 you include some value of a stock of phones in
25 inventory but for the actual number of phones being

03120

1 assumed in the study. Let's say a number. If there
2 were 5,000 sets you would include the nonrefurbished
3 value of 5,000 sets. If you have 50,000 of them
4 sitting in the warehouse I'm not proposing that you
5 include the nonrefurbished salvage value of the other
6 45,000.

7 Q. You're just talking about sets that are
8 actually placed?

9 A. I'm talking about the number of sets that
10 are being assumed to be provided as equipment in the
11 cost studies or the imputation analysis, so whatever
12 number that is for each one of those sets, the
13 equipment value or cost should equal the sum of the
14 salvage value of that set in a nonrefurbished mode
15 plus the cost of the materials necessary to refurbish
16 set, plus the cost of the labor to put those materials
17 in and refurbish the set.

18 Q. And are you talking now for those phones
19 which U S WEST is refurbishing and placing into
20 service or all standard phones that U S WEST has in
21 service?

22 A. I'm talking about whatever number of phones
23 we are using in the imputation analysis of old style
24 phones. You've got an equipment cost in the study.
25 The equipment cost for the refurbished phones does not

03121

1 include the salvage value of the nonrefurbished
2 phones. It assumes that is zero, so for each one of
3 those phones we need to add back that value.

4 Q. Have you done that in any of your analyses?

5 A. I have not. I did not have the necessary
6 data to do that.

7 Q. Ms. Murray, in your direct testimony on
8 page 18 you propose that the Commission reduce the PAL
9 rate to equal the TS LRIC at the ASIC level. Is that
10 true?

11 A. I believe that's correct.

12 Q. And you appear to base that, at least in
13 part, on the fact that the federal \$5.91 sent user
14 common line charge provides an additional contribution
15 above cost; is that correct?

16 A. No, that's not correct. All that I am
17 doing, I am saying that an essential input, such as
18 the PAL, is most appropriately provided to an
19 interconnecting competitor at a total cost equal to
20 the TS LRIC. The significance of the federal SLC is
21 that that will be levied against the pay phone
22 provider, so since part of the TS LRIC cost is being
23 recovered in that way, in order to arrive at an
24 intrastate rate so that the total amount paid by the
25 pay phone provider to U S WEST exactly equals the TS

03122

1 LRIC, one would take the TS LRIC and subtract out the
2 federal SLC. The SLC has nothing to do with the
3 rationale for pricing at TS LRIC. It's simply a
4 computational device, input, to make sure that the
5 total amount paid by the pay phone provider equals TS
6 LRIC.

7 Q. Does the Northwest Payphone Association and
8 many of its members belong to a national association
9 for independent pay phone providers called the
10 American Public Communications Council?

11 A. That may or may not be true. I have no
12 idea of the membership of those two organizations.

13 Q. Are you aware of -- are you aware of that
14 organization, the APPC?

15 A. I think I have seen its name on service
16 lists for FCC proceedings. Other than that I have had
17 no contact with the organization.

18 Q. Are you aware that the APPC filed an FCC
19 docket numbered RM 8723 on October 25, 1995 that
20 sought to eliminate the end user common line charge
21 for independent pay phone providers?

22 A. No, I am not aware of that. I would just
23 answer if that gets eliminated it would be a simple
24 matter. It's the same calculational plug. Whatever
25 the SLC is, if it's zero, zero gets subtracted. If

03123

1 it's 591, 591 gets subtracted. The Commission should
2 base off whatever the actual SLC is.

3 Q. But whatever happens is not in control of
4 this Commission, is it?

5 A. No, but the total amount of revenues
6 available to U S WEST at any point in time would be
7 the same because I'm proposing that it be held
8 constant.

9 Q. If that happens, if the charge is taken off
10 that would require tariffs to be refiled and further
11 ratemaking to be here, would it not?

12 A. It is certainly true that to hold the total
13 compensation to U S WEST from intra and interstate
14 payments for the PAL line constant, whether that's at
15 TS LRIC or any other level it would be necessary to
16 adjust the intrastate tariff whenever the interstate
17 recovery changes. That's not unique to this
18 situation.

19 Q. Ms. Murray, has ELI offered PAL lines to
20 the Northwest Payphone Association members at a zero
21 price?

22 A. I have no knowledge of whether ELI has
23 offered lines to the members of the pay phone
24 association much less of the price at which it has done
25 so if it has.

03124

1 MS. PETERSON: Nothing further at this
2 time.

3 JUDGE WALLIS: Other questions from
4 counsel.
5 Commissioners.

6 CHAIRMAN NELSON: No.

7 COMMISSIONER HEMSTAD: I have none.

8 JUDGE WALLIS: Mr. Harlow.

9 MR. HARLOW: Thank you, Your Honor.

10

11 REDIRECT EXAMINATION

12 BY MR. HARLOW:

13 Q. Ms. Murray, on cross you mentioned that an
14 imputation analysis should be forward looking and an
15 apples to apples comparison. Do you recall that?

16 A. Yes, I do.

17 Q. In your opinion were the various imputation
18 analyses that Mr. Lanksbury has provided us first in
19 August then again in October and then again yesterday
20 forward looking analysis?

21 A. No, they are not.

22 Q. Are yours forward looking as best you're
23 able to make them?

24 A. Well, they are where I was able to make
25 corrections to the information he has. There are a

03125

1 lot of numbers in my analyses where I had to take
2 numbers from Mr. Lanksbury's imputation. They were
3 the U S WEST cost data that are clearly not, as I
4 explained in my supplemental testimony, true forward
5 looking numbers, so I wouldn't say that my numbers are
6 perfect. They were the best that we could do with the
7 data provided by U S WEST.

8 Q. There was a substantial amount of cross
9 regarding whether or not the millennium phone was the
10 forward looking technology. Does the name millennium
11 itself suggest anything to you?

12 A. Well, we're always trying to get to the
13 millennium, aren't we? It does have that future risk
14 ring to it and I assume that was a deliberate
15 marketing choice by U S WEST. Other than that I have
16 no inferences to draw.

17 Q. Turning to the cross regarding the billed
18 number screening which you included in your original
19 imputation analysis at \$2 a month and the distinction
20 between that and custom net outgoing screening, I
21 believe on cross you agreed that the billed number
22 screening at \$2 should not be included in your
23 imputation analysis?

24 A. And let me just correct. I think you said
25 in your question that I had initially included it. I

03126

1 had in fact excluded the \$2 charge from my initial
2 imputation studies, and I agreed that that charge for
3 what has been called billed number screening should
4 not be included if it is now bundled with the PAL
5 line.

6 Q. What about the \$2 charge for custom net
7 outgoing screening, should that be included or should
8 that not be included?

9 A. Based on my understanding of the custom net
10 screening as the type of feature that pay phone
11 providers would need to avoid fraud, it appears that
12 it would probably be appropriate to include that
13 charge. I have not attempted to do so in any of these
14 analyses, but that's something that I think should be
15 looked at on a going forward basis, if the Commission
16 is going to modify the imputation analysis in any way.

17 Q. If you were to include that \$2 what would
18 be the effect on the bottom line, if you will, to your
19 price squeeze analysis?

20 A. Obviously that brings the bottom line down
21 and makes us in an even worse position. Let's see if
22 I can find the very last one. I would have to
23 multiply it out by the number of calls but it would
24 obviously worsen the price squeeze.

25 Q. Thank you, Ms. Murray.

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1 MR. HARLOW: That's all I have.

2 JUDGE WALLIS: Any follow-up?

3 MS. PETERSON: I have just a few questions.

4

5 RE-CROSS-EXAMINATION

6 BY MS. PETERSON:

7 Q. In terms of forward looking studies or
8 analyses you gave us earlier some discussion of the
9 numbers you re-ran last night, and you used from
10 Exhibit 540C, third page, station lives which are not
11 forward looking, are they?

12 A. None of the data in 540C is forward
13 looking. All that I tried to do was to discern the
14 effect on Mr. Lanksbury's newest analysis of matching
15 the average number of stations with the average number
16 of calls per station so that at least we didn't have a
17 mismatch between those two items. It would certainly
18 be my preference to do an analysis that had the
19 forward looking number of stations with the call
20 volumes expected per station when that number of
21 millennium phones were placed. Unfortunately, the
22 data in 540C don't permit that sort of calculation.

23 Q. But the costs used are forward looking, are
24 they not?

25 A. The costs used where?

03128

1 Q. In the imputation analysis.

2 A. Which of the many imputation analyses are
3 you referring to?

4 Q. The one you re-ran last night.

5 A. The one that I re-ran last night was merely
6 a recalculation of Mr. Lanksbury's Exhibit 517C and
7 there are innumerable costs in that exhibit that are
8 indeed not at all forward looking is that I explained
9 in my supplemental testimony. For example,
10 advertising costs which are based on a historical
11 year's budget, allocated to products, divided back
12 through the number of lines in place in that year,
13 several of the other expense items are done that way.
14 Those are really, to be honest, embedded costs.
15 They're not anything remotely approaching forward
16 looking costs but I didn't have any forward looking
17 cost projections from the information that your client
18 provided to me, so I wasn't able to fix those
19 problems.

20 Q. Ms. Murray, please tell me your
21 understanding of the functionality of the custom net
22 service.

23 A. My understanding is very limited. It is an
24 understanding that it is a screening function that is
25 used to prevent fraudulent calls from -- to prevent

03129

1 calls from being fraudulently billed to pay phones. I
2 don't purport to be an expert in that particular
3 function so I don't want to mislead anyone and that's
4 why I haven't included it in my analysis because I
5 have not definitively determined the nature of that
6 function or its essential nature except that I would
7 observe that those functions that are used to prevent
8 fraud are generally essential to the pay phone
9 industry.

10 Q. And do you know what the customer demand is
11 for custom net calling service?

12 A. No, I do not.

13 Q. Can you please compare what your
14 understanding of the functionality of custom net is to
15 your understanding of the functionality of billed
16 number screening?

17 A. I cannot give you a precise comparison at
18 this time. They are both ways of preventing
19 inappropriate calls from being charged but they work
20 in different ways and I'm not an expert in those two
21 tariffed items of U S WEST so I'm not drawing any firm
22 conclusion about that at this time.

23 MS. PETERSON: Thank you. Nothing further.

24 JUDGE WALLIS: Thank you, very much, Ms.

25 Murray, for being with us today. You're excused from

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1 the stand. Let's take a 15 minute recess.

2 (Recess.)

3 JUDGE WALLIS: Let's be on the record,
4 please, following our morning recess. The company at
5 this time is calling its witness Barbara M. Wilcox to
6 the stand.

7 Whereupon,

8 BARBARA WILCOX, PhD,
9 having been first duly sworn, was called as a witness
10 herein and was examined and testified as follows:

11 JUDGE WALLIS: A number of documents have
12 been distributed regarding the testimony of this
13 witness. Her direct testimony is marked as Exhibit
14 67T for identification. Her attachments are marked as
15 follows. BMW-1 is Exhibit 68. BMW-2 is 69. BMW-3
16 is Exhibit 70 for identification. BMW-4 is 71 for
17 identification. BMW-5 is 72 for identification and
18 BMW-6 is 73 for identification.

19 Her rebuttal testimony is marked as Exhibit
20 550T. Her attachment BMW-7, proposed switched access
21 rates, is 551. BMW-8, revised tariff pages, is 552.
22 BMW-9, updated work papers, is 553. BMW-10, least
23 cost model, is 554. BMW-11, cable TV add is 555 for
24 identification. BMW-12 is 556C for identification.
25 BMW-13 is 557 for identification. BMW-14 is 558C for

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1 identification. And BMW-15 is 559C for identification
2 her supplemental testimony is 560T. Attachments BMW-16
3 is 561. BMW-17 is 562, BMW-18 is 563. BMW-19 is 564,
4 BMW-20 is 565 and BMW-21 is 566.

5 In addition public counsel has distributed
6 a response to data request PC 01-469, and that is
7 marked as Exhibit 567 for identification.

8 (Marked Exhibits 67T, 68-73, 550T, 551-555,
9 556C, 557, 558C, 559C, 560T, 561-566 and 567.)

10 (Recess.)

11

12 DIRECT EXAMINATION

13 BY MR. OWENS:

14 Q. Good morning, Dr. Wilcox.

15 A. Good morning.

16 Q. Would you please state your name and
17 address for the record.

18 A. Yes. My name is Barbara M. Wilcox. My
19 business address is 1801 California Street, Denver,
20 Colorado.

21 Q. Are you the same Dr. Barbara M. Wilcox who
22 has caused to be filed documents consisting of your
23 direct testimony that's been marked as Exhibit 67T,
24 your rebuttal testimony which has been marked as
25 Exhibit 550T, your supplemental testimony which has

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1 been marked as Exhibit 560T, and associated exhibits 68
2 through 73, 551 through 555, 556C, 557, 558C, 559C and
3 561 through 566?

4 A. Yes.

5 Q. With regard to your testimonial exhibits,
6 are there any additions, corrections or changes that
7 you would like to make to those exhibit at this time?

8 A. No, I wouldn't but I would like to just
9 take a moment to make sure that it's clear to everyone
10 that the supplemental testimony that I filed really is
11 in effect an update of the previous testimony, and the
12 specific prices and worksheets that are attached to
13 that supplemental testimony would then be updates and
14 therefore replacements of the similar price sheets and
15 worksheets in the previous testimony.

16 Q. Why is it that you've needed to do that
17 update?

18 A. The update really represents two events
19 that have happened since the rebuttal testimony was
20 filed, and one is the order that was issued by this
21 Commission in docket UT-941464 which essentially
22 postponed a decision on our switched access restructure
23 proposals from that docket to this docket. And the
24 second event was that U S WEST has been able to redo
25 our restructure demand data for the transport

03133

1 restructure in the newer methodology which was
2 suggested by both AT&T and staff in their questioning
3 of our originally filed demand data, and it is a
4 methodology that we agree gives a more appropriate up
5 to date portrayal of what the demand quantities will be
6 that will result from the restructure.

7 Q. Thank you. If I were to ask you the
8 questions that were printed in Exhibits 67T, 550T
9 and 560T, would your answers be as printed therein?

10 A. Yes.

11 Q. And are the associated exhibits 68 through
12 73, 55 through -- excuse me -- 551 through 555, 556C,
13 557, 558C, 559C and 561 through 566, documents that
14 were either prepared by you or under your direct and
15 supervision or were provided to you, at least in the
16 case of 555 and on which you rely?

17 A. Yes, they are.

18 Q. Were the exhibits true and correct to the
19 best of your knowledge?

20 A. Yes, they are. Again, with the
21 understanding that the later exhibits replace the
22 earlier exhibits.

23 Q. And the later exhibits would be 561 through
24 566?

25 A. That's correct.

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1 Q. Thank you.

2 MR. OWENS: U S WEST offers the exhibits
3 that have been previously identified through this
4 witness's testimony and Dr. Wilcox is available for
5 cross-examination and examination by the Commission.

6 JUDGE WALLIS: Is there any objection to
7 the exhibits? Let the record show that there is no
8 objection and the exhibits are received.

9 (Admitted Exhibits 67T, 68-73, 556T,
10 551-555, 556C, 557, 558C, 559C, 560T and 561-566.)

11

12 CROSS-EXAMINATION

13 BY MR. TRAUTMAN:

14 Q. Good morning, Ms. Wilcox.

15 A. Good morning.

16 Q. In your supplemental testimony you state
17 that the purpose is to update the data supporting U S
18 WEST's proposal for its switched access charges and to
19 incorporate into this docket evidence related to the
20 Commission's fourth supplemental order in docket UT-
21 941464 and the associated dockets, right?

22 A. That's right.

23 Q. What was the date of the fourth
24 supplemental order?

25 A. I believe it was October 31 of 1995.

03135

1 Q. And what is the date of your supplemental
2 testimony?

3 A. It bears the date of January 15, 1996.

4 Q. Why did the company wait two and a half
5 months to respond to directives contained in the
6 fourth supplemental order?

7 A. There are a number of reasons for that,
8 including the fact that negotiations were going on for
9 a possible settlement of this case, the postponement
10 of the hearing date being related to that. Also the
11 fact that the company was actively engaged in an
12 analysis of the data to see if we could provide for
13 this filing, the updated transport demand data as has
14 been suggested by staff and by AT&T would be
15 appropriate. All of those factors came into play and
16 required some time.

17 Q. So is it your testimony first it that the
18 information pertaining to the fourth supplemental
19 order could not have been provided any earlier?

20 A. Some of the information probably could have
21 been provided earlier and in fact some was provided
22 earlier in response to a data request.

23 Q. And as for the material which updates the
24 data supporting U S WEST proposal for a switched
25 access charges, is it also your testimony that that

03136

1 material could not have been provided earlier?

2 A. I'm sorry. Which material specifically are
3 you referring to?

4 Q. You state that your supplemental testimony
5 does two things. It updates the data supporting U S
6 WEST proposal for a switched access charges and it
7 incorporates into the docket evidence that was related
8 to the fourth supplemental order, so now I'm asking as
9 to the first piece, could that material not have been
10 provided earlier?

11 A. I believe most of that material was
12 provided earlier in response to a data request. We
13 did provide I believe it was AT&T No. 103, we did
14 provide the new demand data that is incorporated into
15 the work papers that are attached to my supplemental
16 testimony.

17 Q. Was it provided in the form we have today?

18 A. It's very close. There are very, very few
19 differences in the format.

20 Q. You have, I believe, among the new exhibits,
21 in particular Exhibit 561, which was BMW-16, and 565
22 which was BMW-20, both of which have tables of
23 proposed switched access rates. Do you see those?

24 A. I have BMW-20, and what was the other one?

25 Q. 16. The exhibit numbers are 561 and 565?

03137

1 A. Yes, I have those.

2 Q. Which of these is the company's proposal?

3 A. The company's proposal is contained in
4 BMW-16 which is Exhibit 561.

5 Q. And BMW-20, 565, states that it has
6 illustrative switched access rates. Illustrative of
7 what?

8 A. As I explained in my supplemental
9 testimony, I prepared these illustrative rates to show
10 how the rates could look if they were revised
11 according to the guidelines that the Commission
12 included in their fourth supplemental order.

13 Q. So the illustrative rates, which the
14 company is not proposing, incorporate the guidelines
15 and the directives of the fourth supplemental order;
16 is that correct?

17 A. That's correct.

18 Q. Then what does the company's proposal do on
19 that score?

20 A. The company has not changed its proposal.
21 We are still -- we are putting forth the same proposal
22 in essence that we originally put forth in docket
23 941464, and with the additional changes that were
24 proposed in this docket we are now rolling them all
25 together as one proposal for switched access services,

03138

1 and in my mind that's the appropriate thing to do just
2 because the Commission indicated in their order in
3 docket UT-941464 that they were not making a decision
4 at that point on the switched access prices, and so we
5 have not changed our proposal. The purpose of the
6 illustrative prices was to show how the prices might
7 look if they were changed.

8 Q. So is it your position that the guidelines
9 as you state at the fourth supplemental order have no
10 effective meaning at all?

11 A. I would say they certainly have meaning,
12 but it was a little difficult for me to know exactly
13 how the company should respond to that since there was
14 no actual order on the switched access price proposal.

15 Q. But there were directives as to the
16 structure of the proposal, the various parts of the
17 proposal if not the actual prices; is that correct?

18 A. Well, the way I read it was as guidelines.
19 In the order there are also words that indicated that
20 the company would be free to, for example, on the
21 local switching price to continue to propose the
22 increase in local switching price that we had
23 originally proposed, some words to that effect. And
24 so based on those kinds of words the company is not
25 changing its proposal at this time.

03139

1 Q. Now, neither proposal has tables of rates
2 without zone pricing; is that correct?

3 A. And by neither proposal you're referring to
4 which?

5 Q. Your two -- the proposal that you have at
6 Exhibit 561 and the proposal that you call
7 illustrative, 565. To put it another way, both of
8 them have zoned access.

9 MR. OWENS: I guess I would object to the
10 form of the question. I think Dr. Wilcox's testimony
11 is that Exhibit 565 doesn't constitute a proposal as
12 such by the company.

13 Q. I will rephrase it. The illustrative
14 offering in 565 has zone pricing as does 561, correct?

15 A. That's correct.

16 Q. And in the fourth supplemental order the
17 Commission did not address the zone pricing or did
18 they?

19 A. No, they did not. The zone pricing
20 proposal was not contained in that docket. It was
21 introduced in this docket.

22 Q. Now, I believe you indicated that in the
23 561, the company's proposal, the local switching
24 charge is the same as it was in the interconnection
25 docket?

03140

1 A. It is the same proposal basically that we
2 put forth in the interconnection docket with the
3 addition of the zone pricing which was originally put
4 forth in this docket, and I know it's confusing with
5 the two dockets and they didn't have the same
6 proposals in them to begin with, and so that is one of
7 the big reasons why I went ahead and put together the
8 supplemental testimony which melds it all together.
9 Shows you what the proposal looks like when you take
10 the effects of both dockets and make it into one big
11 proposal instead of these two separate sets of
12 proposals.

13 Q. Now, the switching price proposed in 561,
14 therefore, is in zone one nine-tenths of a cent, and in
15 zone two one cent, correct?

16 A. Yes, that's the proposal.

17 Q. And the Commission rejected that increase
18 in the local interconnection docket, correct?

19 A. Yes. The Commission rejected the increase
20 and also indicated that -- I don't recall the exact
21 wording but indicated that the company could put forth
22 the proposal again in this docket if it chose.

23 Q. Now, the interconnection docket proposal
24 had a residual interconnection charge or a RIC,
25 correct?

03141

1 A. Yes, it does.

2 Q. And was the purpose of the RIC in that case
3 to insure a revenue neutral result?

4 A. Yes.

5 Q. And the company I believe asserted that
6 that was necessary because we had not yet had a full
7 rate case at that time; is that correct?

8 A. Yes. The company's position was that in
9 the interconnection docket any price changes for
10 switched access that would take place in that docket
11 should be revenue neutral.

12 Q. Now, the residual interconnection charge
13 does not correspond to any actual costs unlike, for
14 example, the transported or the switching charge,
15 correct?

16 A. It does not relate to any direct cost of
17 switched access service, that's correct.

18 Q. And the residual interconnection charge, as
19 you just stated, was put in the -- was proposed in
20 interconnection docket to make it revenue neutral in
21 light of the fact there was not a rate case. Given
22 that, why is there a proposal for a RIC in this case?

23 A. As I explained, actually in my direct
24 testimony for this case, we are proposing to use the
25 interconnection charge in the same manner that it was

03142

1 used by the FCC as a residual pricing element to bring
2 the total switched access revenues to whatever the
3 desired level would be, and so it is the -- it has
4 been residually priced by U S WEST in our proposals
5 and it does reflect the amount of the decrease in
6 switched access charges that we are proposing in this
7 rate case.

8 Q. But the necessity for achieving a revenue
9 neutral result, which the company asserted in the
10 interconnection docket, would not apply in this case,
11 would it?

12 A. No. In this case we are not saying we need
13 a revenue neutral result for switched access. We are
14 saying we need a reduction in switched access. The
15 difference, though, is that the size of the reduction
16 that the company has put forth is not the same as the
17 size of the reduction that would occur if there were
18 no interconnection charge.

19 Q. What is the amount of the RIC in both
20 Exhibits 561 and 565 compared to the company's
21 proposed RIC in the interconnection docket? Do you
22 know?

23 A. I would have to check the exhibits from the
24 interconnection docket.

25 Q. Do you know approximately? Has the RIC

03143

1 increased in either 561, 565 or both?

2 A. From where it was in the interconnection
3 docket?

4 Q. Yes.

5 A. I don't believe so, but I would have to
6 check to verify that.

7 Q. So it is increased in neither? In either
8 of your new exhibits is the RIC higher than it was in
9 the interconnection docket?

10 A. I can take the time to check to verify that
11 now if you like.

12 Q. But you don't know? You don't even have an
13 estimate? You don't know?

14 A. I don't believe it has increased. I
15 believe that it has not but I would have to verify
16 that.

17 MR. OWENS: If you want to ask the witness
18 subject to check we can do that over the noon hour.

19 MR. TRAUTMAN: No. I'm a little surprised
20 that the witness doesn't know the amount of the change
21 given the importance of the RIC in the company's
22 proposal, but that's fine.

23 MR. OWENS: Well, I appreciate counsel's
24 editorial comment. We were just trying to accommodate
25 the desire to get the fact on the record.

03144

1 MR. TRAUTMAN: I was responding to your
2 comment, Counsel.

3 Q. On page 7 of your supplemental testimony
4 you state that the Commission in the fourth
5 supplemental docket states, "the TS LRIC ratio should
6 be the threshold below which relative prices between
7 DS3 and DS1 transport components should not fall."
8 And I believe you indicate that your Exhibit 565, which
9 is BMW-20, addresses this concern of the Commission.
10 Correct?

11 A. Yes.

12 Q. Does your Exhibit 561, BMW-16, address this
13 concern?

14 A. 561 makes no change from our original
15 proposal in the DS1 and the DS3 prices and therefore it
16 does not conform to this particular guideline.

17 Q. In your direct testimony on page 10 I
18 believe you cite four classes of competitors for
19 access services that have emerged?

20 A. Yes.

21 Q. Can you identify any cable TV companies
22 that are currently providing substitutes to U S WEST's
23 switched access service in Washington?

24 A. I don't know of any that are currently
25 providing. I do know that there have been

03145

1 announcements in the trade press about intentions for
2 beginning to provide service during 1996 by companies
3 that do operate in Washington.

4 Q. None are currently providing such service,
5 correct?

6 A. That is correct.

7 Q. Can you identify any specific wireless
8 companies which are furnishing substitutes to U S
9 WEST's switched access services in Washington?

10 A. I would say that any cellular company now
11 operating furnishes a switched access service in that
12 they connect their end user customers with long
13 distance carriers.

14 Q. On page 12 to 13 of your direct testimony
15 and starting at line 23 and continuing on to page 13,
16 in referring to that testimony, you are not claiming
17 that there are interexchange carriers in Washington
18 that are currently providing bundled, local and long
19 distance service directly to end users with no use of
20 U S WEST's switched access and local distribution
21 network; is that correct?

22 A. No, that would not be correct.

23 Q. You are claiming that they currently are
24 providing that?

25 A. It's my understanding that two of the

03146

1 alternative local exchange carriers are actively
2 operating in Washington today and that they would be
3 providing complete services.

4 Q. I referred to interexchange carriers.

5 A. I'm sorry. What's the reference again,
6 please?

7 Q. The reference was at page 12 to 13. So
8 your testimony would pertain to noninterexchange
9 carriers; is that correct?

10 A. I am not following your question, I'm
11 sorry. Could you restate it, please.

12 Q. Turning to page 16 of your direct testimony
13 you refer to the strategic policy research study.
14 Does that provide any Washington specific evidence
15 regarding the competitiveness of the switched access
16 market?

17 A. I don't know specifically, and I think Mr.
18 Scott was in a better position to answer questions on
19 that particular study than I am.

20 Q. I believe in your supplemental testimony
21 you state that you updated your demand quantities and
22 in so doing you have addressed concerns that were
23 raised about your least cost model which is Exhibit
24 554, BMW-10?

25 A. Yes.

03147

1 Q. Are you still relying on the least cost
2 model?

3 A. The updated demand numbers do not rely on
4 the least cost model. It's a different process used
5 to show the restructured transport quantities and
6 instead it relies upon the interstate quantities for
7 the state of Washington that have been generated since
8 the transport restructure took place in the interstate
9 jurisdiction.

10 Q. Are there any other of your previously
11 submitted exhibits other than 554 that, in light of
12 your supplemental testimony, that you are no longer
13 relying on and that we should not rely on?

14 A. As I stated earlier, the price sheet that
15 is BMW-16 or Exhibit 561 should replace the previous
16 price sheets.

17 Q. Could you identify the exhibits by number
18 that are no longer in use?

19 A. Right. This would replace both BMW-7,
20 which is Exhibit 551, and also -- I wanted to make
21 sure I get the right one because these are the
22 exhibits connected with my direct testimony where we
23 had some confusion with numbers -- would also replace
24 BMW-6 which was Exhibit 73. And then similarly, the
25 work papers, which I have attached to my supplemental

03148

1 testimony as BMW-18 I believe -- let me just verify
2 that; yes -- would replace the work papers that I
3 submitted as BMW-9 which was Exhibit 553, and then
4 finally the revised tariff pages that I have submitted
5 as BMW-17 or Exhibit 562 would replace the revised
6 tariff pages that I originally submitted as BMW-8,
7 which was Exhibit 552.

8 Q. So in total then Exhibits 73, 551, 552, 553
9 and 554 are no longer being relied upon by the company?

10 A. Yes.

11 JUDGE WALLIS: Does the replacement include
12 page 1 of 5 of Exhibit 551, BMW-7?

13 THE WITNESS: Let me just check. Yes. I
14 would say so. Page 1 of that exhibit was simply an
15 information page to show what the rates were that were
16 proposed in the other docket, and since, with my
17 updated work papers and rate sheets I am incorporating
18 all of the changes from both dockets, then I would say
19 yes, that that gets replaced as well. I am attempting
20 to make it simpler.

21 JUDGE WALLIS: Thank you.

22 Q. Is it your position that U S WEST would
23 lose the interexchange company's switched access
24 business if U S WEST's local transport rates are set
25 too high?

03149

1 A. It certainly increases the risk of losing
2 the switched access business as a whole and also
3 increases -- in particular it increases the risk of
4 losing the transport portion of the switched access
5 service.

6 Q. And likewise if staff alternative rate were
7 adopted that the higher local transport rates would
8 cause the interexchange companies to seek
9 alternatives?

10 A. Yes. It certainly would increase that risk
11 because as I look at the rates that were proposed by
12 staff, particularly for the DS3 service, there are
13 definitely considerably higher than the market rates
14 for DS3's.

15 Q. On page 10 of your rebuttal testimony, on
16 lines 8 through 15 don't you there assert that the
17 intrastate rates don't have much influence on the
18 interexchange carrier's switched access purchasing
19 decisions?

20 A. I would say that it's a combination of the
21 two, that there are really kind of at least two steps
22 in the interstate carrier's purchasing decisions
23 regarding their transport. With expanded
24 interconnection they are able to make the decision to
25 buy all of their transport from an alternative carrier

03150

1 and the total, the number total of both the interstate
2 and the intrastate rates would be relevant to that
3 decision. And then the second decision once they
4 decide to continue buying the transport from U S WEST
5 then there are specific decisions to be made about the
6 configuration, direct trunking versus tandem switched
7 transport to given end offices, and that's the point
8 that the cited portion of my testimony is referring
9 to, that because for the majority of our carriers they
10 have a much higher proportion of interstate traffic
11 than intrastate traffic then their decisions on the
12 configuration, direct trunking versus tandem switched
13 transport, would be more heavily driven by the
14 interstate prices than the intrastate prices.

15 Q. On page 14 of your rebuttal testimony you
16 state at lines 6 to 8 that the company's zone
17 deaveraging proposal for switched access is not based
18 on switched access costs, correct?

19 A. That's correct.

20 Q. And you state on page 17, lines 2 to 4 that
21 U S WEST's current geographically averaged switched
22 access rates have a large amount of contribution
23 which, quote, creates a situation in which uneconomic
24 competition can develop; is that correct?

25 A. Yes, I did say that.

03151

1 Q. Can you define uneconomic competition?

2 A. What I have in mind here is the kind of
3 situation in which a very, very large contribution
4 margin in U S WEST's prices leaves a very large window
5 in which a competitor might be able to enter the
6 market and offer a lower price than U S WEST's price
7 even though their costs might be considerably higher
8 than U S WEST's costs to provide service, and in which
9 case they would be relying on the extremely high
10 contribution margin in order to enter the market and
11 this I would consider to be an uneconomic kind of
12 competition as I described here.

13 Q. Now, isn't that precisely what you then
14 describe at lines 17 to 19?

15 A. Yes, it is.

16 Q. By that definition wouldn't uneconomic
17 competition be encouraged whenever the market price is
18 more than TS LRIC?

19 A. No, I don't believe so. I think we're
20 talking about relative amounts of contribution here.
21 It obviously is U S WEST's position that pricing at TS
22 LRIC leaves substantial costs of the firm still
23 uncovered and that it is necessary to price our
24 products above TS LRIC to generate contribution, and
25 so what we're really talking about here is how much

03152

1 contribution.

2 Q. Referring again to lines 17 to 19 you state
3 that even with U S WEST proposed zone prices that this
4 will not prevent uneconomic competition, correct?

5 A. I don't see it as a total prevention of it.
6 I see it as a definite move in the right direction
7 that it would help to remedy that situation.

8 Q. Now, you propose, I believe, a 10 percent
9 approximately rate differential between zones one and
10 two?

11 A. Yes.

12 Q. If this does not prevent uneconomic
13 competition, would you recommend a 20 percent
14 differential or 30 percent?

15 A. I honestly don't know at this time. I
16 think it would depend upon how the market conditions
17 develop. I would note that in the state of Nebraska
18 where we have had zone pricing in effect for about two
19 and a half years now, the differential is much greater
20 than this. It approaches 45 percent on average, I
21 believe, difference between the prices in the urban
22 versus the rural zone.

23 Q. And is that what the company is seeking to
24 move toward here?

25 A. Not at this time, no. Our feeling is that

03153

1 it would be a sufficient differential and we're all
2 trying to predict the future and it's a very difficult
3 thing to do, and which is not to say we would not
4 propose a different differential at some later time
5 but I just cannot say at this time that we would.

6 Q. A higher differential?

7 A. Higher or lower. I don't know.

8 Q. Why lower?

9 A. Right now it's hard for me to imagine why
10 lower, but I think the point I'm trying to make is
11 that the flexibility would be the important thing in
12 recognition of the fact that you have different
13 competitive conditions in different parts of the
14 state similar to the kind of recognition that the
15 Commission gave in their order when they talked about
16 the DS1 and DS3 markets being different in the
17 competitiveness for switched versus private line
18 services as being a basis for a different pricing
19 approach.

20 Q. On page 25 of your rebuttal testimony you
21 state that staff's switched access pricing proposals,
22 as presented by Mr. Lundquist, would create, quote,
23 total inconsistency between switched access and
24 private line prices, correct?

25 A. That's right.

03154

1 Q. And is it also correct that the Commission
2 determined in the fourth supplemental order that no
3 consistency among those two elements are required
4 since they serve distinct markets?

5 A. That was the conclusion that was stated in
6 the fourth supplemental order. That is not the
7 position that U S WEST takes with respect to those
8 particular transport services. We have differing
9 opinions there.

10 Q. Assuming a hypothetical situation, assuming
11 that you were in charge of pricing switched access in
12 Washington for a firm that is not U S WEST and it has
13 a market share of 1 percent, and up to now you priced
14 the service to be consistent with a market price.
15 Now, assume that the dominant firm in the market
16 having a 95 percent market share has just double its
17 switched access prices. In that situation would you
18 increase your prices?

19 A. I don't know.

20 Q. And why not?

21 A. Probably, if I'm a switched access provider
22 I'm providing many services in addition to switched
23 access. It's unlikely that a firm would offer
24 switched access and no other telecommunications
25 services as well, so it probably would depend upon the

03155

1 particular mix of service that I'm offering, how much
2 I depend upon the revenue flows from one service
3 versus another, what precise contribution margin I
4 would choose to set on any given service.

5 Q. Would you not be foregoing profits if you
6 didn't raise your prices?

7 A. Possibly so.

8 Q. On your rebuttal testimony at page 18, on
9 lines 19 to 21 you refer to inward calling services.
10 Actually it's about lines 16 to 21. And you state
11 that U S WEST will continue to collect -- U S WEST
12 will continue to collect CCL carrier common line
13 contribution on the open end of these calls under my
14 proposal.

15 A. I would just note that the word inward
16 calling services is not my term. That's a quote from
17 Mr. Lundquist's testimony but, yes, I see where you're
18 referencing.

19 Q. And what is the company's proposed rates
20 for originating and terminating CCL?

21 A. Well, they are contained in Exhibit 561.
22 They do differ by zone.

23 Q. And the company's proposal is to apply the
24 lower originating CCL charge to inward calling
25 services; is that correct?

03156

1 A. Well, the company's proposal is to charge
2 the lower originating CCL to all originating traffic
3 regardless of whether it's an inward -- associated
4 with an inward calling service or an outward calling
5 service.

6 Q. Is that a change from the status quo?

7 A. It is a change from the status quo.

8 Q. Does your testimony or exhibits show the
9 aggregate reduction in revenue that the company would
10 incur as a result of this change?

11 A. On the work papers would you like me to
12 point you to the place to look for that?

13 Q. Yes.

14 A. If you're looking at BMW-18 which is
15 Exhibit 563, the relevant piece of the work papers is
16 unfortunately split between two pages here, but at the
17 bottom of page 3 or part way down toward the bottom of
18 page 3 begins the section on carrier common line, and
19 there's a heading in the left-hand column current
20 carrier common line. And coming down to the line
21 labeled total current CCL gives the current revenues.
22 Then the proposed revenues are over on the next page,
23 the total proposed. And so the difference between
24 those two numbers represents actually two changes that
25 we are proposing. It represents both the effect of

03157

1 this restructure that we've just been talking about
2 where the terminating -- I'm sorry -- where the
3 originating rate would be charged on all originating
4 minutes of use, and it also includes the amount of
5 reduction that would be produced by the zone pricing
6 proposal.

7 Q. And which carrier customers asked U S WEST
8 to make this change?

9 A. We've had the requests for more than one
10 carrier so I'm not sure that I can list them all, but
11 I'm confident in saying that the three carriers that
12 are represented here in this hearing have all expressed
13 a desire for this.

14 JUDGE WALLIS: Excuse me, Mr. Trautman.
15 May I interrupt and ask --

16 MR. TRAUTMAN: Two more questions.

17 Q. On your rebuttal testimony on page 20, I
18 believe you suggest an alternative mechanism to
19 replace the intrastate carrier common line charge,
20 which is a flat -- you propose a flat-rated charge
21 based on the interexchange carrier's market share?

22 A. Yes.

23 Q. Has the company petitioned the FCC to adopt
24 a parallel plan for recovery of jurisdictionally
25 interstate nontraffic sensitive costs?

03158

1 A. Not at this time.

2 MR. TRAUTMAN: That's all I have.

3 JUDGE WALLIS: Let's take our noon recess
4 at this time and return at 1:15, please.

5 (Lunch recess taken at 12:05 p.m.)

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03159

1 AFTERNOON SESSION

2 1:25 p.m

3 JUDGE WALLIS: Let's be back on the record,
4 please. I understand that Commission staff actually
5 has one or two more questions.

6 MR. TRAUTMAN: Five minutes.

7 JUDGE WALLIS: Please proceed.

8 BY MR. TRAUTMAN:

9 Q. I have a few additional questions on your
10 supplemental testimony that was filed on Monday.

11 A. Okay.

12 Q. What cost results did you use? Did you use
13 ADSRC or TS LRIC or, I should say, did you use ADSRC or
14 ASIC in your rates?

15 A. My proposals have been consistent
16 throughout, and from the beginning I have used ADSRC
17 as the price floor when setting these rates.

18 Q. And what depreciation rates were assumed in
19 the costs?

20 A. I am not familiar with the details of those
21 cost studies, and I believe that Mr. Farrow has
22 testified to that.

23 Q. I don't know if he testified to what's in
24 the exhibit that you've just provided.

25 A. Which exhibit is that?

03160

1 Q. The exhibit that you provided on Monday, I
2 don't know whether he testified to that or not.

3 A. I'm not sure which exhibit you're referring
4 to.

5 Q. I don't know if Mr. Farrow has testified
6 regarding the supplemental testimony that you provided
7 on Monday.

8 A. My supplemental testimony --

9 Q. Yes.

10 A. -- does not contain any cost data.

11 Q. If you could turn to your illustrative
12 rates that you have on Exhibit 565. That's Exhibit
13 BMW-20.

14 A. Okay.

15 Q. And comparing these rates using as an
16 example for DS1, the zero to 8 mile band, is it
17 correct that your original proposal, which was in
18 Exhibit 561, was for \$150 charge and that the new
19 charge would be only \$70.87?

20 A. Yes, that's correct for the zero to 8 mile
21 band.

22 Q. And is it true that the illustrative DS1
23 transport fixed rates would be even further cut back
24 relative to your original rates?

25 A. I am not following the question. I thought

03161

1 we were just discussing the fixed rate.

2 Q. We had the fixed rate for zero to 8 miles
3 as an illustration. That one has been cut back by
4 over half from \$150 to \$70; is that right?

5 A. Yes, that's right.

6 Q. Looking at the other fixed rates for the
7 other mileage bands for DS1, is it correct that they
8 would be cut back proportionately even further?

9 A. Yes. I believe that is a fair statement.

10 Q. And is it correct the change for the DS1
11 mileage charges in the illustrative exhibit would be
12 even greater?

13 A. The charges would be greater?

14 Q. No. That the reduction would be even
15 greater. For example, look to the mileage for zero to
16 8 miles is \$11 in the original exhibit in Exhibit
17 561, and in Exhibit 565 it goes from \$11 to \$1.94?

18 A. Yes. I agree that those reductions would
19 be even greater. The illustrative rates do represent
20 some pretty drastic reductions in the DS1 prices.

21 Q. Now, if you had retained the same demand
22 quantities as were used in your last updated price-outs
23 in Exhibit 553, BMW-9, what would be the revenue loss
24 associated with the change to these illustrative rates?

25 A. Oh, okay. That would also show on the work

03162

1 papers. Let me add at this point, too, because I
2 believe before lunch when you were asking me about the
3 size of the interconnection charge I didn't have at
4 the top of my mind what the impact of this change in
5 the transport rate would have on the interconnection
6 charge, but it does indeed cause the interconnection
7 charge to go up from where --

8 Q. To go up from what to what?

9 A. From what it would have been otherwise.
10 And you can see that change in the interconnection
11 charge by comparing that price level on 561, compare
12 that interconnection charge to the interconnection
13 charge on 565. That difference in the interconnection
14 charge is due to the differences in the DSL prices and
15 the local switching prices.

16 Q. So the interconnection charge in 561 is the
17 same as was in the interconnection docket?

18 A. It's roughly equivalent. I cannot say it's
19 identical because in the interconnection docket we did
20 not have any zone pricing and we do show zone pricing
21 here, but roughly these two interconnection charges
22 that are shown in Exhibit 561 for zones one and two, a
23 weighted average of those would be roughly equivalent
24 to the interconnection charge that was shown in the
25 interconnection docket.

03163

1 Q. Now, returning to the question that I just
2 got away from was, if you had retained the same demand
3 quantities as was used in your last updated price-outs
4 in Exhibit 553, what would be the revenue loss
5 associated with the change to the illustrative rates?

6 A. We could find that revenue change by
7 referring to the work papers, and this is Exhibit 564,
8 I believe. No, I'm sorry, 566, which is BMW-21. On
9 page 2, roughly 10 lines down, there are figures for
10 total DS1 direct trunked. The total line there shows
11 annual revenue of \$331,647. You would compare that
12 number to the same number on the other set of
13 worksheets which is BMW-18 or Exhibit 563. In the same
14 spot total DS1 direct trunked is 1,493,716, so it does
15 represent a very substantial reduction in the prices.

16 Q. Now, assuming that you were to rerun the
17 illustrative price-out with the earlier demand
18 quantity and you made no adjustment to demand for
19 stimulation effects, would the new rates mean that the
20 transport revenues would be much less than half of the
21 previous estimate? And I guess you're indicating the
22 answer is yes.

23 MR. OWENS: Seems like he's asking the
24 witness to assume the existence of one rate and that
25 somehow that produces a different rate. Maybe I

03164

1 misunderstood the question.

2 Q. Let me read the question and see if you can
3 answer it. If you were to rerun the illustrative
4 price-out with the earlier demand quantities and made
5 no adjustment to demand for stimulation effects, would
6 the new rates mean that the transport revenues would
7 be much less than half of your previous estimate?

8 A. And by previous estimate?

9 Q. I would assume that would be the estimate
10 in -- the estimate that was associated with Exhibit
11 553, BMW-9.

12 A. Okay. If I understand your question you
13 would like to compare the company's proposed DS1 rates
14 with the illustrative rates using the previous demand
15 set instead of the updated demand set.

16 Q. Yes.

17 A. I don't have that particular number on any
18 of these work papers but it would show the same
19 proportionate size of reduction. It's just that the
20 absolute number of DS1 circuits might be different but
21 since the price decrease would be the same then the
22 overall reduction in revenues should show
23 proportionately approximately the same.

24 Q. Now, is it correct that Exhibit BMW-21 --
25 Exhibit 566 which is BMW-21, that these are the work

03165

1 papers which provide support for the demand quantities
2 in the illustrative price-out?

3 A. Yes. It uses the same demand quantities as
4 BMW-18. It simply shows the difference in revenues
5 that's produced by the illustrative rates versus the
6 company's proposed rates.

7 Q. And have you provided any work papers or
8 other support for the empirical LTR model that you now
9 rely on for the demand figures in the illustrative
10 price-out?

11 A. The work papers we have provided with
12 attached to my supplemental testimony.

13 Q. And they support the empirical LTR model?

14 A. I'm not sure I'm understanding what you
15 mean by support. Are you looking for an explanation
16 of what the model is and how it works?

17 Q. Does it do that? Do you have work papers
18 that would do that?

19 A. I can supply a description of the model. I
20 have not done that but I can do that. I would be
21 happy to give you a verbal description now if you
22 would like.

23 Q. Why don't you do that.

24 A. What our new empirical LTR model does is it
25 uses as input, as its basic input, quantities from the

03166

1 interstate jurisdiction, and here we can take
2 advantage of the fact that the LTR restructure took
3 effect interstate in January of 1994, so for at least
4 part of the test period for this case we do have
5 actual quantities that are billed to the carriers in
6 the state of Washington under the new structure for
7 transport. And as you probably are aware these
8 switched access circuits carry both interstate and
9 intrastate traffic which means that the billing is
10 split on a percent interstate usage basis between the
11 interstate and the intrastate tariff.

12 So, for example, we can look for a
13 particular carrier, for a particular route, how many
14 DS1 direct trunked circuits they may have billed
15 interstate, and from that derive the total quantities
16 and then do a reverse percent interstate usage
17 calculation to come up with the equivalent intrastate
18 quantities that would be billed if there were an
19 intrastate tariff to bill it from. And that is the
20 basic process that is used in the new empirical model.

21 MR. TRAUTMAN: That's all I have.

22

23 CROSS-EXAMINATION

24 BY MR. TROTTER:

25 Q. Could you please turn to your Exhibit 561,

03167

1 page 1.

2 A. Okay.

3 Q. And you show at the bottom half of this
4 exhibit zone one and zone two rates for tandem
5 switching, interconnection charge and carrier common
6 line as well as local switching. Do you see that?

7 A. Yes.

8 Q. What rate for those items would be implied
9 if there were no zones?

10 A. I see it two choices as to how to answer
11 that question. One would be simply to revert to the
12 original rates before we applied the zoning, which
13 would be the zone two rate, apply that statewide in
14 which case there would be a revenue impact that I
15 would suggest should be adjusted for in the
16 interconnection charge. The other option would be to
17 take an average between the two rates which would
18 represent somewhat of a decrease from the originally
19 proposed rate.

20 Q. On the second formula, for want of a better
21 word, you would just take a simple average of the two
22 figures or would they be weighted by unit?

23 A. Well, one could do either.

24 Q. Is your answer the same for Exhibit 565,
25 the illustrative switched access rates?

03168

1 A. Yes, it would be.

2 Q. Have you done a calculation under your
3 first formulation of how to do it for the items that
4 are zoned on these two exhibits? I think you
5 mentioned you used the zone two rate but then you would
6 have to adjust the RIC?

7 A. No, I have not done that precise
8 calculation. It is a doable calculation.

9 Q. Do you have before you Exhibit 567 which
10 was your response to our data request 469?

11 A. Yes, I do.

12 Q. And I believe you address in both of your
13 direct and your rebuttal testimony that you are
14 proposing reductions in switched access revenues of
15 approximately 22 percent?

16 A. That's correct.

17 Q. And according to this calculation and your
18 testimony that you've made no demand impact
19 adjustment, demand response adjustment for those
20 reductions; is that right?

21 A. That's correct.

22 Q. We asked you to explain that in part C and
23 your answer is shown there, correct?

24 A. Yes, it is.

25 Q. And it's your position that U S WEST has no

03169

1 basis on which to calculate a demand response?

2 A. Yes. That's true, because any demand
3 response that would occur would depend upon the rate
4 that the end user customer pays because that's the
5 customer who makes the purchase decision, the consumer
6 who is placing the long distance phone call. And
7 while the interexchange carriers who are parties to
8 this case have made statements that reductions in
9 switched access charges would result in reductions in
10 long distance prices, we have no quantification of
11 that. We have no way of doing an actual calculation
12 of how much of a price reduction the consumers in
13 Washington and the business people in Washington would
14 experience, and therefore we have no way to calculate
15 any stimulation of access demand.

16 Q. Now, the company has reduced access charges
17 in the past, has it not?

18 A. Yes, it has.

19 Q. And it's your testimony that that -- well,
20 let me ask you this. In the past when the company has
21 reduced access charges has there been no demand
22 response?

23 A. I don't know.

24 Q. You just testified that the interexchange
25 carriers have stated that they would reduce their

03170

1 retail prices for toll; is that right?

2 A. Yes.

3 Q. But your concern is they haven't quantified
4 it?

5 A. That's correct, and we know nothing about
6 the timing, the form that any price changes make,
7 whether they would be across the board or targeted to
8 certain segments of the market. We just have no
9 information on that.

10 Q. Now, if in fact there is stimulation in
11 demand as a result of your proposed decreased switched
12 access prices then your claimed negative revenue
13 impact would be overstated. Would that be true?

14 A. It's possible hypothetically that that
15 would be true. The difficulty is I don't know how we
16 would ever measure it and find out if that had indeed
17 happened because it is such a dynamic market and the
18 demand quantities for switched access are definitely
19 growing. They grow at different rates, at different
20 times and it is -- it's virtually impossible to try to
21 sort out all of the different market factors that are
22 influencing those changes in growth.

23 Q. Have you made any adjustments to your
24 access minutes for growth, for future growth?

25 A. No. This case was filed on an historical

03171

1 test period.

2 Q. So it's your testimony that the demand, or,
3 excuse me, that the quantities of access are growing
4 on an ongoing basis but you have not reflected that
5 growth prospectively; is that correct?

6 A. That's correct, and the reason we have not
7 done that is my understanding that the basis for this
8 rate case filing was strictly historical.

9 Q. I would just like to read one of our data
10 requests and your response into the record. I will
11 just hand you a copy of it. We asked you in response
12 -- asked the company in response to request 470 what
13 was the average number of switched access lines in
14 service during 1994 or a representative period within
15 the 1994 test period, and the company's response was,
16 "All basic exchange access lines to end users provide
17 a carrier with switched access to the customers. The
18 number in service would be the total of all basic
19 exchange access lines shown in the rate case work
20 papers." Did I correctly quote the company's
21 response?

22 A. Yes, you did. It occurs to me there's more
23 than one way to interpret this particular question.
24 The response gives one interpretation to the question.

25 Q. You referenced in your question earlier

03172

1 this morning that you have a zone pricing mechanism in
2 Nebraska; is that correct?

3 A. That's correct.

4 Q. And is it correct that that's the only U S
5 WEST state that has such a rate design?

6 A. At present, yes.

7 Q. And your answer includes the federal
8 jurisdiction; is that correct? You do not have zone
9 rates in effect in the interstate jurisdiction; is
10 that correct?

11 A. Not for switched access. I'm frankly not
12 quite sure whether we have zone rates in effect yet
13 for special access interstate or not. I do know that
14 there was some work under way toward that end.

15 MR. TROTTER: Those are all my questions.
16 I would move for admission of Exhibit 567.

17 JUDGE WALLIS: Is there objection?

18 MR. OWENS: No, Your Honor.

19 JUDGE WALLIS: The exhibit is received.

20 (Admitted Exhibit 567.)

21

22 CROSS-EXAMINATION

23 BY MS. PROCTOR:

24 Q. Good afternoon, Dr. Wilcox.

25 A. Good afternoon.

03173

1 Q. Just following up on that last question.
2 In the federal jurisdiction U S WEST would only be
3 permitted to establish zone pricing for the transport
4 elements, wouldn't it?

5 A. That's correct.

6 Q. But in this case you are proposing zone
7 pricing for the switching and contribution elements of
8 the residual interconnection and the CCL. Isn't that
9 true?

10 A. That's true.

11 Q. Isn't it also true that the Commission in
12 Utah recently rejected your proposal for zone pricing
13 in that state?

14 A. Yes, they did.

15 Q. And the same with the Arizona Commission?

16 A. Yes.

17 Q. And isn't it the case in Nebraska that U S
18 WEST is basically deregulated in that state?

19 A. Yes.

20 Q. Did I understand you to say that over a
21 two-year period there was now a 45 percent
22 differential between basically the urban and rural
23 zones?

24 A. I was speaking of the price differential.

25 Q. Between the access price in the urban area

03174

1 and the access price for the rural area?

2 A. That's right. In Nebraska we have quite a
3 deep discount for the urban zones in the prices.

4 Q. And do you know whether AT&T has been able
5 to deaverage its toll rates in response to that
6 dramatic differential?

7 A. I don't know. I do know that most of the
8 long distance carriers have chosen not to deaverage
9 their rates due to the price differential between U S
10 WEST access prices and the often considerably higher
11 access prices charged by different phone companies in
12 the same state so I don't know whether you or any other
13 long distance carrier would choose to try to adjust
14 your prices to represent similar types of deaveraging
15 on the part of U S WEST.

16 Q. Would it be consistent with principles of
17 cost causation that if a company like AT&T were
18 experiencing higher access charges in one area that
19 they would seek to deaverage their retail or toll
20 prices for that service to reflect that cost?

21 MR. OWENS: I'm going to object. That asks
22 the witness to speculate on AT&T's market strategies,
23 mental states and many other things that she's not
24 testifying about.

25 MS. PROCTOR: I don't think I was asking

03175

1 for any comment on AT&T's strategy. I thought my
2 question was in terms of would it be consistent with
3 principles of cost causation, which as a pricing
4 manager I would assume that Dr. Wilcox is familiar
5 with.

6 JUDGE WALLIS: The witness may respond.

7 Q. Do you have the question in mind?

8 A. It would be helpful if you could repeat it.

9 Q. Would it be consistent with principles of
10 cost causation that a company like AT&T experiencing
11 such a significant differential in the purchase of the
12 wholesale input, which I believe everyone agrees is
13 around 50 percent of an interexchange carrier's cost,
14 would then seek to reflect that cost in its pricing by
15 deaveraging its retail price?

16 MR. OWENS: Now counsel is testifying in
17 the question with regard to the proportion that access
18 is of an interexchange carrier's cost. It's a
19 different objection.

20 MS. PROCTOR: I believe that that's in Dr.
21 Wilcox's testimony.

22 Q. Let me back up. Dr. Wilcox, I'm unable to
23 point exactly in your testimony, but would it be
24 consistent with your understanding that switched
25 access charges comprise about 40 to 60 percent of an

03176

1 interexchange carrier's costs?

2 A. The range that I have read in public
3 documents is 40 to 50 percent.

4 Q. Well, using your range, could you answer my
5 question?

6 A. I don't think principles of cost causation
7 really are the same as pricing and so my answer would
8 be no, that AT&T or any other carrier may choose to
9 reflect a cost differential in their rates or it may
10 choose not to. Those are the kind of pricing
11 decisions that are made by businesses every day. The
12 question of cost causation is a different question.

13 Q. Let's just assume that AT&T did make that
14 decision to deaverage its toll prices. Wouldn't U S
15 WEST then as a competitive response want to consider
16 deaveraging its toll prices?

17 MR. OWENS: Well, Your Honor, this witness
18 isn't being offered as the witness on U S WEST's toll
19 pricing policy. I think that's outside the scope of
20 her testimony.

21 MS. PROCTOR: Again, I think, Your Honor,
22 that Dr. Wilcox is the pricing manager for access
23 service. There is an obvious relationship between
24 access service and the price of toll services.

25 MR. OWENS: That's something she could ask

03177

1 of Mr. Purkey perhaps or another witness but it's
2 simply outside the scope of her testimony.

3 JUDGE WALLIS: I believe that the question
4 calls for an answer that's outside the scope of the
5 area that this witness is presented for.

6 Q. Dr. Wilcox, if you could turn to Exhibit
7 553. Mr. Trautman was asking you concerning the
8 interconnection charge, and I believe that was BMW-9
9 to your rebuttal testimony.

10 A. Yes, I have it.

11 Q. And if you would turn to page 3 of that
12 exhibit. On the interconnection charge, is it correct
13 that the entry of \$15 million under annual revenue
14 using 11-14-94 rates would reflect the proposed level
15 of interconnection charge in the interconnection case?

16 A. It reflects the rate levels proposed in the
17 interconnection case, but the revenues are generated
18 from demand quantities for the test period for the
19 rate case, so the revenue amount will not be the same
20 as the revenue amount reflected in the interconnection
21 case. They were two different test periods, and
22 again, I am sorry for the complexity of this. The
23 fact of the proposals having been filed in two
24 separate dockets originally is confusing.

25 Q. So as I understand it, then, there was a

03178

1 different demand for the interconnection case than is
2 reflected on this exhibit 553?

3 A. It was a different test period, a different
4 time frame. The interconnection docket was a calendar
5 year 1993 demand period, and then the test period that
6 we use for the switched access pricing in this rate
7 case was October of '93 through September of '94.

8 Q. I think my question is, was the demand
9 different?

10 A. The answer is yes and I've given you the
11 reason why it's different.

12 Q. Thank you. In responding to Mr. Trotter
13 you also indicated that you couldn't begin to
14 determine what the interchange carriers would do in
15 response to an access reduction. The interexchange
16 carriers would also have to know what the switched
17 access proposal was in order to act, wouldn't they?

18 A. I would think that would be prudent, yes.

19 Q. And in fact in this case, U S WEST has
20 provided AT&T to date between these two cases something
21 like 10 price-outs indicating the rates and the revenue
22 impacts for AT&T of the LTR proposal? Would that be
23 consistent with your count?

24 A. I haven't actually counted them. I would
25 agree that we have provided AT&T with many analyses at

03179

1 their specific request with slight variations in them.
2 So there have been a lot of different specific
3 analyses produced, but they were all based on the same
4 basic proposal which has not changed. We are still
5 proposing the \$13 million reduction to the
6 interexchange carrier industry that we've been
7 proposing all along.

8 Q. Dr. Wilcox, just to get an idea of the size
9 of the switched access service, the total operating
10 revenues for U S WEST for the test period are just
11 over \$900 million for Washington; isn't that correct?

12 MR. OWENS: If you know.

13 A. I am not aware of that total number.

14 Q. You would be willing to accept that subject
15 to check?

16 A. Certainly.

17 Q. And you are aware of the number for
18 switched access; is that correct?

19 A. Yes.

20 Q. And that number is about \$60 million for
21 the interexchange carriers?

22 A. That's the right order of magnitude.

23 Q. I'm just looking for an order of magnitude.

24 A. Yes. That's the right order of magnitude.

25 Q. So we're talking about a service that's

03180

1 about 7 percent of the total operating revenues?

2 A. That would be about right.

3 Q. In response to public counsel's data
4 request 485, U S WEST provided the local switching
5 minutes for intrastate switched access service, and in
6 1989 the minutes were 872 million and in 1994 the
7 minutes were 1.492 million.

8 MR. TROTTER: Million?

9 MS. PROCTOR: Million.

10 MR. TROTTER: Not billion?

11 MS. PROCTOR: You know I don't know how to
12 do numbers. I always lose track with the commas and
13 the zeros.

14 Q. It's 1 billion 492 million. Would you be
15 willing to accept that subject to your check? It's
16 data request PC 01-485.

17 A. Yes. I would be willing to accept that
18 subject to check.

19 Q. And that represents about a 10 percent
20 average annual growth for switched access service?

21 A. I'm sorry. Could you tell me what the
22 numbers were again?

23 Q. Certainly. In 1989 it was 872 million and
24 in 1994 it was 1 billion 492 million.

25 A. And your question was?

03181

1 Q. Would you agree that that represents an
2 average annual growth rate of about 10 percent for
3 intrastate switched access minutes in the state of
4 Washington?

5 A. I would have to accept it subject to check.
6 I'm not quick enough to do the calculations on the
7 fly.

8 Q. Fine. Now, in your testimony you talked
9 about competition, and on page 10 of your direct at
10 lines 7 you're discussing the competitors for carrier
11 access and you mention that it's the same four types
12 of service providers as Mr. Brigham, now Mr. Scott,
13 identified as competitors for local. Do you have that
14 in mind?

15 A. Yes, I do.

16 Q. And those are facilities-based providers;
17 isn't that correct?

18 A. Yes.

19 Q. So would it be fair to say, then, that
20 resale of local service would not present a
21 competitive threat to U S WEST in the provision of
22 switched access service?

23 A. Not necessarily, because I believe from the
24 discussions I've heard in these proceedings, as well
25 as what I've been reading in the industry, that we can

03182

1 expect to see a single provider doing a combination of
2 resale and facilities-based competitive services, and
3 so to the extent that there is any competitor in the
4 market, regardless of the extent to which they're
5 using their own facilities or resale of somebody
6 else's facilities, the competitive threat is there.

7 Q. But if we look just at the resale of local
8 service as Mr. Jenson and I were discussing yesterday,
9 and I believe you were in the room for that
10 discussion?

11 A. I was in the room, yes.

12 Q. And we're talking about resale of bundled
13 service, basic local exchange service. Were you
14 present for that discussion or do you have that
15 concept in mind?

16 A. I have the concept in mind.

17 Q. And in that case none of the physical
18 facilities or interconnections would have changed in
19 any way from a time where U S WEST were serving a
20 customer to AT&T as serving the customer by reselling
21 U S WEST service, would they?

22 A. I really don't know the details of the
23 interconnection. I would have to take your word for
24 that.

25 Q. So would you know whether U S WEST in that

03183

1 situation would continue to receive access revenues?

2 A. I can only speculate on how that would work
3 about which company would receive which revenues.

4 Q. Now, with respect to the offering of
5 switched access services by competitive access
6 providers, would you agree that U S WEST has no means
7 of calculating the percentage of switched access
8 service offered by competitive access providers as
9 compared to by U S WEST?

10 A. We really don't have, just because there is
11 not publicly available information about the business
12 of the other providers.

13 Q. So your answer is yes, you would agree with
14 that statement?

15 A. I agree with it.

16 Q. Isn't it true, however, that Mr. Purkey is
17 able to evaluate the results of competitive activity
18 in the intraLATA marketplace by reading the recording
19 tapes of the long distance providers?

20 A. He is able to evaluate one piece of it, but
21 similarly there are many pieces of the intraLATA long
22 distance market that U S WEST does not have access to
23 as well.

24 Q. Do you have a piece similar to that which
25 is available to Mr. Purkey available to you?

03184

1 A. I really don't know.

2 Q. A switched access bill doesn't break down
3 the service into intraLATA and interLATA minutes, does
4 it?

5 A. No, the bill does not. We charge the same
6 access rate to the carrier regardless.

7 Q. Nor does it provide any identification as
8 to the customer location for the end user customer who
9 is placing the call requiring use of access, does it?

10 A. That information is not retained for the
11 carrier's bill.

12 Q. Now, with respect to the private line and
13 special access market I believe you indicated that U S
14 WEST had conducted some market research in Seattle.
15 Do you recall that?

16 A. Yes. I provided the results of some market
17 research to show pricing of our competitors in
18 Seattle.

19 Q. I'm referring to a response to a Sprint
20 data request 1-011. It was some research performed in
21 Seattle by the CCIA group of U S WEST. Do you have
22 that in mind?

23 A. Not specifically. I'm not remembering that
24 specific data request. If you could provide me a copy
25 it would be helpful.

03185

1 Q. Perhaps we can try this another way. If
2 there were such a study for Seattle by that group,
3 would that be similar to the research that was
4 performed for Portland by that same group, the study
5 you testified about in UM 351?

6 MR. OWENS: I don't believe the witness has
7 testified that she's aware of the specific study that
8 counsel is talking about.

9 MS. PROCTOR: I'm sorry. I thought perhaps
10 I could refresh her recollection.

11 A. It would be helpful if I could get a copy
12 of the data request that you're speaking of.

13 Yes. I am aware of the data that you're
14 speaking of now. Thank you.

15 Q. Is that study for Seattle similar to the
16 one that you testified to in UM 351 for Portland?

17 A. Well, what we have here are some market
18 share data for Seattle and we also had market share
19 data for Portland, so in that respect, yes.

20 Q. And I believe that the data response
21 indicates that that was done by customer service. The
22 data response states, "This data is based on interviews
23 with business customers located in areas where
24 competitors' facilities are in place and customers have
25 a choice of supplier." Would that be consistent with

03186

1 your understanding of how the research and the study
2 were conducted?

3 A. Yes, that is consistent with my
4 understanding. I just don't see that particular
5 statement attached to these numbers and I'm just
6 trying to make sure we're getting the right pieces
7 together here.

8 Q. I apologize. Possibly I didn't hand you
9 the actual response but simply the backup for it. I
10 will be happy to share my piece of paper with you if
11 you want to verify that.

12 A. I find it here.

13 Q. And that's consistent with your
14 understanding with how the survey is done?

15 A. Yes, it is.

16 Q. If we could turn to your direct testimony
17 because I think it summarizes the phases of your
18 proposal, and I believe you've indicated that the
19 proposal itself has not really changed; is that
20 correct?

21 A. That's correct.

22 Q. Although a number of the pieces of the
23 proposal have changed. Would that be fair?

24 A. Actually, the proposal itself has not
25 changed in overall structure and intent. Specific

03187

1 price levels on a couple of specific transport elements
2 have changed but not since May of last year, and the
3 only other change has been in the demand base which
4 flows through to the interconnection charge because
5 that's residually priced.

6 Q. Well, if you could turn to page 25 of your
7 direct testimony which is Exhibit 67T?

8 A. Yes, I have it.

9 Q. And for phase 1 -- let me back up. You've
10 mentioned that it's a \$13 million impact for the
11 interexchange carriers. That's your basic proposal?

12 A. Yes.

13 Q. And that would be accomplished over two
14 years?

15 A. That's right.

16 Q. And basically it's about six and a half
17 million each year?

18 A. Roughly. I would have to do some digging
19 to find the exact number but that's roughly true.

20 Q. Dr. Wilcox, you know I don't do numbers so
21 roughly is just fine with me. In phase 1 your first
22 point is that you're introducing zone pricing; is that
23 correct?

24 A. That's correct.

25 Q. And I believe you've indicated that that

03188

1 zone pricing does not reflect any cost differentials
2 between zone one and zone two as you've defined them.
3 Is that fair?

4 A. That's correct.

5 Q. And indeed in response to data requests I
6 believe you've responded that U S WEST has conducted
7 no cost studies between the differential of the two
8 zones for access?

9 A. To my knowledge that's correct.

10 Q. And in the second point you're proposing to
11 charge the originating carrier common line charge for
12 800 service; is that correct?

13 A. Yes, for 800 service and the other similar
14 services that now have the terminating charge applied
15 to originating traffic.

16 Q. Now, I believe this morning when you were
17 responding to questions from Mr. Trautman that you
18 were not able to identify the portion of the decrease
19 in the carrier common line charge that was
20 attributable solely to that change. Did I understand
21 your testimony correctly?

22 A. Yes. I pointed to the spot in the work
23 papers where the answer would be found but I had not
24 done the calculation.

25 Q. Did you indicate the amount that resulted

03189

1 from both changes? I'm sorry, I think I have it here.

2 A. Yes.

3 Q. It basically goes from 25 to 21 million?

4 A. Yes, that's right. That change in revenue
5 would reflect both the change in the application of
6 the CCL to this originating traffic that we're talking
7 about as well as the zone pricing.

8 Q. Would you be willing to accept subject to
9 your check, and in this case I would offer you Ms.
10 Parker's worksheet here, that approximately 40 percent
11 of that amount, or roughly two and a half million,
12 results from the proposal to charge the originating
13 CCL for 800 service?

14 A. Yes. I believe that's about the right
15 order of magnitude, and I would be happy to accept
16 that subject to check.

17 Q. Now, you mention at point 3 you've made
18 some changes in the voice grade transport and four
19 other miscellaneous changes. You don't mention that
20 you're proposing to increase the local switching
21 charge, but that is still part of your proposal, isn't
22 it?

23 A. Yes, it is, and the reason it's not
24 mentioned in this particular piece of testimony that
25 you're looking at is because at the time this

03190

1 testimony was prepared that proposal was in the other
2 docket.

3 Q. That's perfectly fair. And another part of
4 your proposal is the introduction of a new
5 contribution element in the form of the residually
6 priced interconnection charge; is that correct?

7 A. Yes.

8 Q. And then in phase 2 you would eliminate
9 half of this new element known as the RIC; is that
10 correct?

11 A. I would say approximately half. The
12 statement that was written when this testimony was
13 prepared approximately a year ago said more than 50
14 percent. I don't know if that more than 50 percent
15 would still be accurate because, as we observed a
16 minute ago, the size of the RIC has changed as the
17 demand underlying the revenue calculations has changed,
18 but I would be happy to do the calculation and find out
19 what the reduction is. What we have kept constant is
20 the dollar amount of the reduction, the 13 million.

21 Q. In fact the 13 million stays constant even
22 though in your new filing you've added \$2 million in
23 revenues; isn't that correct?

24 A. What we have is an indication that because
25 the local transport restructure did not take place

03191

1 previously that our transport revenues have actually
2 grown to the extent that the representation of current
3 revenues with current rates with the rate case test
4 period is actually about \$2 million higher than we
5 estimated it would have been if the local transport
6 restructure had taken previously to the test period.

7 Now I know that's --

8 Q. Way beyond my headlights.

9 A. -- a little complicated, but the effect of
10 recognizing the reality that the local transport
11 restructure has not taken place yet gives us our
12 current numbers on the current revenues, and the total
13 is \$2 million higher than it was before.

14 Q. Now, when you use the word current, what
15 time period are you referring to?

16 A. I'm referring to the test period reflected
17 in my work papers with the current rates.

18 Q. Current meaning existing today?

19 A. Existing in today's tariff, yes.

20 Q. But when you were just talking about
21 current demand, again, you were referring to the test
22 period which is a year and a half old by now?

23 A. By now it is, but, yes, I am referring to
24 the test period.

25 Q. I'm looking at the transport portion of

03192

1 your proposal, and basically the proposal, would it be
2 fair to say, is in two big pieces? One piece is the
3 transport piece, and you're proposing to restructure
4 the transport portion by unbundling that portion of
5 the switched access charges; is that correct?

6 A. Yes. I think that's a fair
7 characterization.

8 Q. And then the other piece would be the
9 switching piece along with the carrier common line
10 charge and the residual interconnection charge. Is
11 that fair?

12 A. And the zone pricing.

13 Q. Well, the zone pricing is part of
14 switching, isn't it?

15 A. Well, it actually impacts local switching
16 and tandem switching and carrier common line, and
17 that's why I mention it.

18 Q. Now, when you developed the original rates
19 you used the least cost model to determine the demand
20 for transport; is that correct?

21 A. That's correct.

22 Q. And that was in your direct testimony; is
23 that correct?

24 A. Yes. And also in my rebuttal testimony.

25 Q. In your rebuttal testimony on page 9, at

03193

1 line 15 you state that you had preliminary results
2 from the new model using the actual demand for
3 Washington. Do you have that in mind?

4 A. Yes, I have that reference.

5 Q. And you also stated that you compared those
6 results to the results produced by the least cost
7 model and found that the overall results in terms of
8 revenue impact are similar.

9 A. Yes.

10 Q. And you concluded therefore that your
11 proposal was reasonable; is that correct?

12 A. Yes.

13 Q. Now, I believe in response to public
14 counsel data request 1-484 you provided a supplemental
15 response June 29 of last year saying that you had such
16 a new model and it would take about two weeks to run
17 it. Do you recall that response?

18 A. Not specifically. There has been so many
19 data requests in this docket that I have trouble
20 sorting them out.

21 Q. Would you be willing to accept that subject
22 to check? It's public counsel request 484 and I can
23 certainly show that to you. I just wanted to
24 establish that time period as sort of a foundational
25 question.

03194

1 A. Okay.

2 Q. And earlier you testified that you had
3 provided the results of this model in a data request,
4 and again, if you would accept subject to check that
5 that was in response to AT&T data request 1-103?

6 A. Yes, I believe I recall that one.

7 Q. And in that response to AT&T, you provided
8 a set of your worksheets, which I think you indicated
9 were the basis for Exhibit 561; is that correct?

10 A. Yes. The worksheets that we submitted in
11 response to AT&T request 103 were a preliminary
12 version of what now appears in my supplemental
13 testimony as the worksheets -- the price proposal and
14 supporting worksheets.

15 Q. And I believe you also indicated that there
16 were only very insignificant changes between your
17 response to the AT&T data request and Exhibit 561?

18 A. I believe so. There may be some small
19 differences but I believe that they're very close to
20 being the same.

21 Q. Now, the response to the AT&T data request
22 is dated September 20, 1995. I don't know if you
23 happen to have that in front of you but would you be
24 willing to accept that subject to your check?

25 A. That surprise me. I see the date printed

03195

1 there and frankly I would question whether it's
2 accurate or not. I would have to check into that.

3 MR. OWENS: May I approach the witness with
4 a copy of the complete data response, Your Honor, if
5 she's going to be questioned about this date?

6 JUDGE WALLIS: Yes.

7 Q. Do you have the data request in front of
8 you?

9 A. Yes, I do.

10 Q. And it's probably important that this not
11 be the amended response that was provided the other
12 day but the original.

13 A. By amended response --

14 Q. We were provided an amended response a few
15 days ago that didn't have as complete a package. It
16 basically was intended to just replace a missing page.

17 A. Okay. I know what you're referring to now.

18 Q. But the document you have in front of you
19 shows as a line revised with ELTR demand 9-20-95 on
20 page 3.

21 A. It does, and that's what's puzzling me, and
22 that does not match the note that's on page 1, and so I
23 am frankly wondering if, once again, we would have one
24 of those problems where the pages have gotten
25 scrambled, and I will have to check into that.

03196

1 Q. And when you say the note on page 1, what
2 note are you referring to? The fact that there is no
3 date on page 1?

4 A. Exactly. The same line where it says
5 revised with ELTR demand there is no date after that
6 notation on page 1.

7 Q. And on page 3, again, where it shows
8 September 20, 1995, there's a second date, September
9 22, 1995?

10 A. Yes, there is.

11 Q. And in fact those dates precede the filing
12 of your rebuttal testimony, don't they?

13 A. They do indeed and that's why I'm
14 questioning this.

15 Q. Now, in making the comparison between the
16 original filing with the least cost model demand and
17 what is now Exhibit 561, would it be fair to say that
18 the least cost model produces a greater demand for
19 voice grade than the empirical or historical or actual
20 demand produces?

21 A. I haven't done that specific comparison,
22 but there may be differences as you describe.

23 Q. And we could identify those simply by
24 comparing the similar columns that identify the
25 amount, and like most customers I just went to the

03197

1 bottom line. I looked at the amount of revenues that
2 were being generated, and the voice grade revenues
3 produced by the actual were about \$400,000 less than
4 the revenues produced by the least cost model which
5 would be shown in your work papers BMW-9 which is
6 Exhibit 553. Would that be how we could reach that
7 comparison?

8 A. Yes, it would. And you will find many
9 differences between the two models and the results
10 when you look at the kind of detail level that you're
11 looking at right now. And I think that we have all
12 agreed that the new model is preferable, that it does
13 reflect what is actually taking place now in the
14 network. We just simply did not have that means
15 previously because we did not have access to post
16 restructure data to use when we originally filed this
17 case. The timing was too short and we had to rely on
18 a model that would estimate or project what the
19 restructured quantities would be, and now we don't
20 have to rely on that kind of projection process any
21 more. We can use the actuals from the interstate.
22 And so there will be differences, but I do believe we
23 have agreed that what we have to work with now should
24 give us a better basis.

25 Q. In looking at those differences if we

03198

1 compare those to exhibits we can see that the revenues
2 from the DS1s has actually tripled from about half a
3 million to one and a half million between the least
4 cost model and the actual usage by the carriers?

5 A. I'm not sure which DS quantity you're
6 referring to, but that was the result that jumped out
7 at me was the difference in the DS1 quantities.

8 Q. And I was just looking, again, at the total
9 for DS1 both fixed and variable and that occurs on
10 page 2 of your worksheets.

11 A. And you're speaking of direct trunked
12 transport?

13 Q. Right. And that's what you were looking
14 at, too? You would notice that jump?

15 A. Yes.

16 Q. And also that the model, the least cost
17 model, had projected greater usage of DS3s than the
18 carriers actually experienced?

19 A. I believe that's true also.

20 Q. And finally, the other result produced by
21 the use of the actual or empirical model is that the
22 transport revenues increased from four and a half
23 million to five and a half million?

24 A. That increase that you just spoke of, which
25 I believe is you're speaking of the proposed transport

03199

1 revenues after restructure, am I correct?

2 Q. That's correct.

3 A. That change is reflective of several
4 things. It's reflective not only of the use of the
5 different model, but also the fact that the
6 restructure itself was performed on a different test
7 period. There's more than one difference there behind
8 the difference in those two numbers.

9 Q. I'm sorry. Now you said you used a
10 different test year for one of those models?

11 A. Yes. In the original filing the
12 restructure was in the interconnection docket which
13 used an earlier test period than the rate case, and
14 then we used the assumption that that restructure had
15 already been performed in putting together the rate
16 case numbers, so there's more than one reason for that
17 difference in the revenues. Also the fact that now
18 that we are using the actual revenues from current
19 prices as the basis for the price changes in this rate
20 case, we find that the starting point revenues are
21 also higher before the restructure.

22 Q. Did you note any of those changes in your
23 rebuttal testimony filed in this docket?

24 A. No, because we did not introduce data from
25 the empirical model in the rebuttal testimony.

03200

1 Q. And if we could turn to page 4 of Exhibit
2 561. Again, that summarizes the bottom line here,
3 doesn't it, of what we're seeing? We're talking about
4 \$61 million in revenues rather than 59 as noted in
5 your original direct testimony?

6 A. And you're reading current revenues?

7 Q. That's correct.

8 MR. TROTTER: Which exhibit?

9 MS. PROCTOR: I'm sorry, 561. BMW-18.

10 A. Yes, that does show \$61 million as the
11 current revenues for the interexchange carriers.

12 Q. And it also reflects that the current rate
13 or the average rate for switching minutes of use is
14 rounded off to 4.3 cents a minute; is that correct?

15 A. Yes, and that number is calculated by
16 taking the current revenues and dividing by the local
17 switching minutes the total revenues.

18 MR. TROTTER: Your Honor, I just note that
19 they appear to be reading off Exhibit 563 not 561.

20 THE WITNESS: Yes. It's Exhibit 563.

21 MS. PROCTOR: Told you I didn't do numbers.
22 Sorry.

23 Q. And since the revenue is increased but the
24 demand stayed the same, the rate increased, didn't it?

25 A. No. It's simply done on a different basis.

03201

1 The transport rates that we used to show the \$61
2 million in current revenues are the actual current
3 tariff transport rates that are in effect today and
4 were in effect during the test period. The previous
5 work papers were based on an assumption of something
6 that didn't happen. It was an assumption that the
7 transport restructure would have taken place before the
8 test period. And that's why I'm saying that I do feel,
9 and I know that Ms. Parker agreed with me, that this
10 new model gives us a better basis for showing the
11 revenue impact of the price changes.

12 Q. I appreciate that, Dr. Wilcox, and we would
13 be willing to stipulate that this is a better model so
14 if we could just turn to the issue at hand, however.
15 In your direct testimony you indicated that the average
16 rate per minute was 4.1 cents; isn't that correct?

17 A. That's correct.

18 Q. And now this exhibit shows us that the rate
19 is actually going to be 4.3 cents and even though I
20 don't do numbers I see that as indicating an increased
21 rate over your original proposal?

22 A. First of all, neither of those numbers that
23 you just quoted is a proposed rate. They're both
24 calculations that are designed to show what the
25 current rate averages out to be on a per minute basis,

03202

1 so both calculations are based upon current. The
2 difference is the changing in the demand for the test
3 periods and not only is the rate case on a different
4 time period than the interconnection docket was on, we
5 also have had an adjustment for sold exchanges in the
6 test period for the rate case. That adjustment was
7 not there in the interconnection docket. This is what
8 I was trying to say a few minutes ago. There are a
9 number of differences, and so it's hard to pin it down
10 to exactly what caused which dollar difference.

11 Q. But again going to the bottom line, you
12 would agree that 4.3 is larger than 4.1, wouldn't you?

13 A. Yes, it is, and what it reflects is that in
14 the rate case test period we show a higher proportion
15 of meet point transport than we did in the original
16 test period for the interconnection docket, and I do
17 believe that that's a result of the sale of exchanges
18 being reflected.

19 Q. And also if we compare the proposed rate,
20 would you agree that that would reflect the price that
21 U S WEST proposes that the interexchange carriers
22 would pay on the average?

23 A. Yes. Again, it is an average overall of the
24 transport revenues including the meet point transport,
25 divided through by local switching minutes of use.

03203

1 Q. Well, now, you said this is for transport.
2 This is actually for all rate elements, isn't it?

3 A. Yes. All rate elements including transport,
4 and I think perhaps the important thing for you is to
5 understand that it also includes the meet point
6 transport revenues because they don't have associated
7 local switching minutes.

8 Q. I understand it includes the meet point.
9 What I'm looking at again is just the bottom line, the
10 sort of average price that we can talk about that the
11 interexchange carriers are going to pay, and is it
12 correct that the 3.8 cents is what you're talking
13 about in your proposal as shown on --

14 A. Where is that?

15 Q. That's page 4 of Exhibit 563.

16 A. Yes. That's my calculation of what the
17 average rate per local switching minute would result
18 to be.

19 Q. And your original proposal was for 3.68
20 cents per minute on average?

21 A. I'm sorry. Where are you reading that
22 number from?

23 Q. This would be BMW-9 which is Exhibit 553.
24 And that's page 4.

25 A. Yes. The comparable number in the previous

03204

1 demand set was 3.6869 cents per minute, and I might
2 note that both of these average rates that we're
3 talking about is for phase one. Phase two would be a
4 lower rate. Both averages represent essentially the
5 same proposal. They do calculate out differently
6 because of the different mix of demand data.

7 Q. Now, in your proposal have you quantified
8 the differential that would exist between zone one and
9 zone two prices for access, and I mean again on
10 average?

11 A. I have not attempted to do it on average.

12 Q. Have you done it some other way?

13 A. Well, just to remind you that for the
14 individual elements that we are applying zone pricing
15 to the discount is a 10 percent discount.

16 Q. But of course because two and a half
17 million of the six and a half million dollar reduction
18 is for 800 service that reduces the differential
19 slightly, doesn't it?

20 MR. OWENS: What differential is the
21 witness being asked about? That doesn't appear clear
22 from this question.

23 Q. Let me ask this a different way. Would you
24 be willing to accept subject to check, and again I can
25 show you Ms. Parker's worksheet, that the differential

03205

1 between urban and rural in this proposal would be
2 about 7 percent in phase one?

3 A. I would be willing to accept that subject
4 to check.

5 Q. Now, looking at your illustrative tariff,
6 which is Exhibit 565, I think you've already indicated
7 that the revenues from DS1, direct trunked transport,
8 were reduced dramatically I think was your word?

9 A. Yes.

10 Q. And in this proposal the local switching
11 rate for zone one would remain at the current level;
12 is that correct?

13 A. Yes, it is.

14 Q. And you would propose to increase the rate
15 for zone two; is that correct?

16 A. Yes. Again, this was an illustrative that
17 I believe would be in the spirit of the guidelines
18 that the Commission gave in the fourth supplemental
19 order. They did not preclude an increase in local
20 switching.

21 Q. Again, I think you've already indicated
22 there's no change in costs which that proposed
23 increase is reflecting; is that correct?

24 A. That's correct.

25 Q. If we turn to page 3 of Exhibit 565, we see

03206

1 that the result of the changes that you have made
2 produces --

3 MR. OWENS: It's only a two-page exhibit.
4 Are you sure you're referring to Exhibit 565?

5 MS. PROCTOR: No, I'm not. I'm looking at
6 BMW-21.

7 MR. OWENS: That's 566.

8 MS. PROCTOR: Thank you.

9 Q. Do you have that exhibit?

10 A. Yes, I do.

11 Q. And we see that the result of these changes
12 that the residual interconnection charge is now about
13 \$19 and a half million; is that correct?

14 A. Yes, it is.

15 Q. Which means that the residual
16 interconnection charge on a per minute basis is about
17 at the same level as the carrier common line charge.
18 Would you agree with that characterization?

19 A. Yes. That happens to be the case.

20 Q. So we're looking at almost \$20 million for
21 the residual interconnection charge and \$25 million
22 for the -- no, I'm sorry, \$20 million for the CCL so
23 that about \$40 million of the switched access revenues
24 are offered in those two elements. Is that correct?

25 A. That would be the case under these

03207

1 illustrative rates, yes.

2 Q. Now, you also indicated in response to Ms.
3 Parker's testimony requesting that the equal access
4 recovery charge be eliminated that you had no
5 opposition to that as long as you were able to recover
6 that \$86,000 in the residual interconnection charge;
7 is that correct?

8 A. That's right.

9 Q. Dr. Wilcox, do you have available to you --
10 and I am not quite sure what version of this we're
11 using now but it's Exhibit 485C.

12 A. I believe I have a copy here.

13 Q. Do you have that?

14 A. Yes, I do.

15 Q. And are you working from the version that
16 was filed after Mr. Farrow was on the stand?

17 A. Yes. I believe I have the update.

18 Q. And I see that we now have adopted Mr.
19 Smith's invention of pages 1 through 4 for those first
20 four pages. Does your copy reflect that? Typed in the
21 lower right-hand column?

22 A. Yes.

23 Q. And I believe Mr. Farrow had indicated, and
24 you provided the revenues for switched access; is that
25 correct?

03208

1 A. That's correct.

2 Q. Now, the TSIC -- and I do understand that
3 this is confidential so I'm not going to be referring
4 to any numbers -- did you provide that or did somebody
5 else provide that?

6 A. I provided the calculation that turned the
7 TSIC into the ASIC, but the ASIC came from Mr. Farrow.

8 Q. And the ASIC provided by Mr. Farrow, do you
9 know if that was the same number as that reflected on
10 I think what we agreed was a new cost study in the
11 original Exhibit 485?

12 A. I'm sorry, I don't know what cost study
13 you're referring to.

14 Q. Well, in the original Exhibit 485, the
15 supporting documentation for switched access included
16 a one sheet cost study dated 11-13-95 for switched
17 access service. Have you seen that page?

18 A. I believe I have but I don't have a
19 copy right here. Maybe I can get one.

20 Q. I wasn't going to ask you any numbers off
21 of it. I was just trying to verify that that's where
22 the ASIC had come from?

23 A. If we can find a copy of that sheet we'll be
24 able to do that.

25 Q. I actually have one right here. Having

03209

1 shown you that page, Dr. Wilcox, is it your
2 recollection that that was the page that you were
3 referring to where the ASIC came from?

4 A. Yes. It would be the ASIC for what is
5 shown on page 2 of this exhibit for the switched
6 access TSIC. There are different costs shown on page
7 4 of the switched access.

8 Q. That's ago ADSRC?

9 A. Yes. And that same cost study would have
10 been the source of the numbers for what is called
11 staff ADSRC on page 4.

12 Q. Sort of an oxymoron, staff ADSRC. This
13 study uses the Commission prescribed lives and 10.53
14 percent cost of money; is that correct?

15 A. I believe that was the note at the top of
16 the study, but I'm not familiar with the details of
17 how that study was performed.

18 Q. That's fine. Would you accept subject to
19 check that comparing the revenues generated by access
20 to the TSIC represent a markup of about 1800 percent?

21 A. I would have to say subject to check. I'm
22 not used to calculating markups.

23 Q. We can certainly show you that if you would
24 be willing to just accept that subject to check?

25 A. I am willing to accept that it is a large

03210

1 markup.

2 Q. You're not willing to accept that it's in
3 the neighbor of 1800 percent?

4 A. Subject to check, yes.

5 Q. And again would you also be willing to
6 accept subject to check that the markup for toll over
7 the TSIC is about 120 percent?

8 A. I have not studied the toll numbers. I
9 wouldn't know.

10 Q. Now, I was wondering what happened, and
11 maybe you're not the one to know but since you handed
12 me this exhibit a couple of days ago I thought maybe
13 you might. The revenues for access by \$2 million, the
14 TSIC increases by only \$70,000 but if we go down to the
15 totals, while the total of revenues increases \$3
16 million so does the total for TSIC, and I just wondered
17 by what magic that had happened.

18 MR. OWENS: I'm going to object to the
19 question. First of all, it's not clear what the
20 witness is being asked to compare, that is, the
21 increase from what to what and I think the use of the
22 term magic is fairly argumentative and pejorative.

23 JUDGE WALLIS: Could the question be
24 rephrased?

25 MS. PROCTOR: Certainly.

03211

1 Q. What I was asking the witness to compare
2 was the original Exhibit 485 --

3 MR. OWENS: Perhaps the original exhibit
4 could be put in front of the witness.

5 MS. PROCTOR: Since I only have one copy
6 perhaps you would be good enough to share yours with
7 her. It is after all your exhibit.

8 JUDGE WALLIS: Let's be off the record,
9 please.

10 (Recess.)

11 Q. Dr. Wilcox, you mentioned in your testimony
12 several times the subsidy for basic local exchange
13 service that existed. Have you reviewed this document
14 in order to determine whether there is actually a
15 subsidy for basic local exchange service based on the
16 numbers presented here in Exhibit 485 C?

17 A. I believe this document is consistent with
18 the statements that I have in my testimony.

19 Q. And why do you say that?

20 A. I based my statement about subsidy for
21 residence basic exchange service on the fact that its
22 current price does not cover its long-run incremental
23 costs.

24 Q. And when you were looking at -- so your
25 statement was based solely on a comparison of the

03212

1 price for basic local exchange service compared to its
2 long-run incremental cost not upon the revenues
3 recovered and attributable to supporting that service?

4 A. Well, actually it amounts to the same
5 thing. One can make that comparison either by looking
6 at the price for an individual piece of service versus
7 its cost or one can make the comparison as this
8 Exhibit 485 C does it by calculating total revenues
9 and comparing it to an equivalent calculation of total
10 costs. Either method can be used but I reach the same
11 conclusion.

12 Q. But in the case of basic residential
13 service you would also have to consider the revenues
14 produced by the residence subscriber line charge as
15 well as the business subscriber line charge, wouldn't
16 you?

17 A. No.

18 Q. Is it your understanding, Dr. Wilcox, that
19 the interstate subscriber line charge for residence
20 and business has no relationship to the support of
21 basic residential service?

22 A. I wouldn't say it has no relationship. I
23 do suggest that Ms. Owen is probably a better witness
24 to discuss the topic with you.

25 Q. Should I also talk with Ms. Owen about the

03213

1 relationship of the interstate carrier common line
2 charge to the recovery of the costs of providing basic
3 local exchange service?

4 A. If you have questions about that I would be
5 willing to attempt to answer to the extent that I can.
6 That is an overlapping area between switched access
7 and basic exchange service.

8 Q. In response to public counsel data request
9 1542, Ms. Jones, who I believe works for you --
10 Is that correct?

11 A. Yes.

12 Q. -- provided information that the 1994
13 interstate carrier common line billed revenues totaled
14 approximately \$39 million. Would that be consistent
15 with your understanding or would you be willing to
16 accept that subject to check?

17 A. Subject to check, yes.

18 Q. And aren't those revenues also supposed to
19 be used in support of basic residential local exchange
20 service?

21 MR. OWENS: I am going to object to the
22 form of the question. Supposed to be used is
23 extremely vague. It presupposes some external
24 compulsion that isn't identified in the question. I
25 would ask the question be made more particular.

03214

1 MS. PROCTOR: Certainly. I can rephrase
2 the question.

3 Q. Dr. Wilcox, the interstate carrier common
4 line is intended to recover nontraffic sensitive costs
5 of the local loop, is it not?

6 A. The origin of the interstate carrier common
7 line charge was to recover nontraffic sensitive
8 embedded costs which, I believe, is largely loop costs
9 plus nontraffic sensitive central office equipment
10 costs. Now, we begin to get into murky waters here
11 because the carrier common line charge was first
12 established based on embedded fully distributed costs
13 which is a very different kind of thing than the TS
14 LRIC costs that we have been discussing in this
15 docket.

16 Q. Well, I appreciate that distinction, but we
17 were talking about revenues, weren't we, rather than
18 costs?

19 A. Well, I thought your question had both
20 words in it but perhaps I forgot.

21 Q. That probably makes two of us. Let me just
22 ask very quickly, the proposal for the flat-rated
23 carrier common line charge for the intrastate arena
24 was introduced in your rebuttal testimony for the
25 first time; isn't that correct?

03215

1 A. Yes. I offered it up as an alternative
2 suggestion.

3 Q. And I'm sorry to go back and forth here.
4 At the interstate level U S WEST has also proposed to
5 or more correctly has asked for a waiver in order to
6 be able to charge a flat-rated CCL to alternate
7 exchange carriers purchasing unbundled loops; isn't
8 that correct?

9 A. That's correct.

10 Q. And has that waiver been granted?

11 A. I don't know the status.

12 MS. PROCTOR: Thank you. That's all I
13 have.

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

16 (Recess.)

17 JUDGE WALLIS: Let's be back on the record,
18 please, following our afternoon recess. Further
19 questions from intervenors. Ms. Lehtonen.

20 MS. LEHTONEN: Yes. I have just a few
21 questions, I promise, for the sake of us all.

22

23 CROSS-EXAMINATION

24 BY MS. LEHTONEN:

25 Q. Let me just get this straight in my own

03216

1 mind. Exhibit 561 is U S WEST's access proposal in
2 the rate case, that the correct?

3 A. That's correct.

4 Q. And that's basically the same thing that
5 you propose -- that's your proposal that -- what you
6 propose in LTR was granted and there's just a
7 different test year, is that the only difference for
8 the numbers that might have been in LTR or are the
9 numbers exactly the same? How does it differ? Does it
10 differ in any respect from what you proposed in LTR?
11 It assumes you've got LTR and then you lower switching
12 --

13 A. Perhaps it would help if I just tried to
14 say what this exhibit does represent.

15 Q. Okay, yeah.

16 A. Okay. What I've attempted to do here is to
17 show U S WEST's proposal for switched access rates
18 that is now before the Commission, and therefore it
19 shows proposed rates for local transport restructure
20 as well as all of the proposals that were originally
21 contained in the rate case. Have I addressed your
22 question?

23 Q. Yes. There's an exhibit which I believe is
24 565 which is an illustrative tariff?

25 A. Yes.

03217

1 Q. And that's not an alternative proposal, is
2 it?

3 A. This is not a proposal by U S WEST. This
4 is an attempt to show how the rates might look if the
5 guidelines issued by the Commission were followed.

6 Q. So if the Commission rejected your proposal
7 as shown in Exhibit 561, you're not asking them to
8 look at the proposal in Exhibit 565 as an alternate?

9 A. It might be considered as an alternate.
10 There are probably other alternates that would be
11 reasonable as well.

12 Q. To U S WEST?

13 A. Well, U S WEST's position is that the
14 proposal in 561 is what we consider to be the best,
15 but if --

16 Q. I guess I'm trying to decide what the
17 relevance is of the illustrative tariff in this
18 proceeding.

19 MR. OWENS: Is that a question, Your Honor?

20 MS. LEHTONEN: Yes, that's the question.

21 Q. What is the relevancy of the tariff in this
22 proceeding?

23 A. I wanted to show what I thought might be a
24 result of following the Commission's guidelines and
25 therefore I have have done so in a way that seemed to

03218

1 me might be a result we would end up with.

2 Q. In the illustrative tariff there are say,
3 DS3, DS1 ratios that are closer to like nine to one or
4 something like that, but it's probably a fair
5 argument, wouldn't you say, that could or could not be
6 something that accurately reflects the Commission's
7 order in the interconnection proceeding?

8 A. In developing the illustrative rates, I
9 attempted to be faithful to the guidelines that were
10 in the fourth supplemental order in the
11 interconnection proceeding, so I do believe that they
12 reflect those guidelines accurately.

13 Q. And you believe that the Commission
14 guideline in the interconnection order would impose a
15 local switching increase?

16 A. Not impose but perhaps allow a local
17 switching increase.

18 Q. It could also perhaps allow a local
19 switching decrease, couldn't it?

20 A. I don't believe that order even addressed
21 the possibility of a local switching decrease, if I
22 remember correctly.

23 Q. Do you remember that that order did note
24 that the costs of local switching were decreasing and
25 that the Commission did have some -- rejected the

03219

1 increase of the local switching rate on a number of
2 reasons but for one that the costs were declining and
3 it wasn't cost based?

4 A. Yes, I do remember those arguments being
5 cited.

6 Q. Just to pick up a little bit on your
7 rebuttal testimony on page 11 when you mentioned that
8 you didn't include any stimulation effects resulting
9 from the rate decreases. Now, I realize that public
10 counsel and staff have asked you a couple of questions
11 on this so I just have a couple of minor follow-up
12 questions. A stimulation effect is one thing and
13 demand forecast is quite another one. You say you
14 didn't include any stimulation effect because you
15 don't know what stimulation would be if the
16 interexchange carriers would or wouldn't or how they
17 would lower their access rates, but did you include
18 any factor for growth in access?

19 MR. OWENS: Your Honor, I am going to
20 object. There was a speech in there that preceded the
21 question, and I don't believe the witness has been
22 asked whether she agrees with that speech as a
23 predicate to the question.

24 MS. LEHTONEN: I will ask the witness if
25 she agrees to the speech.

03220

1 Q. Do you agree to the speech?

2 A. I am afraid I don't remember all the
3 elements of the speech.

4 Q. You don't remember my speech? That was the
5 most important part of the question. The question
6 part of the speech was, as I recall, or is it correct
7 that you did not include any stimulation in demand as
8 a result of a suggestion that IXCs may lower their
9 toll rates if access rates are lowered?

10 A. Yes, that's true.

11 Q. Did you include any demand and growth in
12 access not based on stimulation but just based on many
13 other factors such as historical demand growth?

14 A. No. The demand numbers that I have
15 presented represent actual demand during the test
16 period.

17 Q. But you would agree that there's been
18 growth in access in the last -- over probably a lot of
19 years but it's particularly in the last five years?

20 A. Yes, I would agree.

21 Q. Do you have any idea what that growth is?

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

23 Q. Would you concede that it's probably over
24 10 percent a year?

25 A. I believe it's been over 10 percent in some

03221

1 years. I don't know if that's been sustained over
2 many years.

3 Q. But there's probably a lot of reasons,
4 wouldn't you say, just to believe that access will
5 continue to grow and will grow even faster?

6 A. I believe there are a lot of reasons that
7 it will continue to grow. I hesitate to predict
8 whether it will be faster or slower.

9 Q. Would you agree that there's been new area
10 code splits and that there may be another area code
11 split in the state of Washington coming up soon?

12 A. I am aware there's been a recent area code
13 split. I don't know about future ones.

14 Q. Has U S WEST considered a future area code
15 split at any time in the future, to your knowledge?

16 A. I don't know.

17 Q. Would you agree that the increasing use of
18 fax machines result in more access minutes?

19 A. I don't know that for a fact. I think it's
20 one possible element in the growth we've seen.

21 Q. Would you concede that U S WEST's revenue
22 from access minutes as a result of the use of
23 computers that are attached to modems through the
24 telephone line?

25 A. U S WEST may in some instances see growth

03222

1 in access minutes but, frankly, I believe that most of
2 the data links such as you have described would not be
3 placed as a switched long distance call. It probably
4 would be a direct connection of some sort or a local
5 connection, but I would concede that increased use of
6 modems and dial-up computer arrangements may contribute
7 to the increase in switched access minutes.

8 Q. Like if I come to Olympia, and I have my
9 hand-held laptop computer I use in the Westwater Hotel,
10 that would probably create access minutes if I'm
11 dialing?

12 A. If you're dialing Kansas City, yes. If
13 you're dialing Olympia, no.

14 Q. Or my own home in San Francisco?

15 A. Yeah.

16 Q. On page 20 of your rebuttal testimony, you
17 talk about the CCLC recovery charge. And I would just
18 like to explore your proposal a bit. Is it fair to
19 say that you're proposing to switch from a per minute
20 of use CCL factor to a flat rate proposal?

21 A. Yes. That's what this proposal describes
22 on this page, and just to put this in context, this is
23 an alternative that we are offering up. For some some
24 reason the Commission doesn't see fit to accept our
25 original proposals for CCL and the change in the

03223

1 charging to the originating 800 traffic.

2 Q. You say on page 21, line 3, the total
3 amount of CCL revenue to be recovered would be
4 calculated by taking the newly reduced CCL revenues
5 for the test year. That's part of the sentence but
6 can you please tell me what test year you would take?
7 What would constitute the test year?

8 A. That would be the same test year for this
9 rate case that we've been discussing.

10 Q. Which was '93 or something?

11 A. Which is October of '93 through September
12 of '94 for switched access.

13 Q. "And adding it to the amount of CCL charge
14 imputed to U S WEST's long distance services under the
15 imputation process described by Mr. Purkey in his
16 testimony." Then you go on to say, "this total would
17 be divided by the number of residence lines."

18 Now, when you first take the CCL revenues,
19 are you taking all CCL revenues from both residence and
20 business that you receive CCL revenues from or are you
21 only figuring in residential CCL?

22 A. Well, residence and business customers do
23 not pay CCL. Carriers pay CCL.

24 Q. Okay, I'm sorry, but the revenues from
25 those lines.

03224

1 A. This calculation would be based on total
2 CCL revenues.

3 Q. And then divided only by the number of
4 residence lines?

5 A. Yes.

6 Q. And then you come up with a carrier common
7 line recovery factor?

8 A. Yes.

9 Q. Can you explain to me what you use this
10 factor for?

11 A. This factor is the number that would appear
12 in the tariff as the constant, if you will. It sets
13 the level at which we would take CCL recovery under
14 this proposed structure, and so just to give you an
15 order of magnitude, if it were on the order of 350 per
16 line per month, something like that, then what we
17 would do is multiply the factor times the number of
18 residence lines quarterly so that the CCL recovery
19 would then be pegged to growth in residence lines
20 rather than to growth in access minutes.

21 Under the present system as the access
22 minutes grow -- and we were talking about growth rates
23 in the order of 10 percent annually a moment ago --
24 then the CCL revenue pot grows by that same amount.
25 This method would instead peg the growth to the growth

03225

1 in residence access lines, and typically that has been
2 a lower growth rate, and the reason that I would
3 propose this is I believe it more accurately reflects
4 the traditional role of the CCL as a means of
5 recovering nontraffic sensitive cost.

6 Q. But when you only use -- divide this number
7 that you come up with total CCL revenues by residence
8 lines, doesn't that mean that if U S WEST loses a
9 business share of the market that the CCL's, the
10 amount recovered by the CCL will be unaffected by U S
11 WEST or U S WEST will be unaffected?

12 A. Yes, and I believe that would be
13 appropriate because the business services are
14 compensatory. They do cover their costs directly with
15 the payments made by those business customers who
16 subscribe to those services, and so if we view the CCL
17 revenues as a source of subsidy then it would be the
18 residence lines that are being subsidized not business
19 lines.

20 Q. But the amount of CCL revenue that U S WEST
21 will receive -- that it receives now under a business
22 and residence will remain the same even when you are
23 no longer -- when you no longer use the business lines
24 dividing into total revenue. Aren't you just instead
25 switching that CCL onto residential lines?

03226

1 A. Well, it's not a shift in the burden, if
2 you will. It's still the interexchange carriers who
3 are paying the CCL either way.

4 Q. Right.

5 A. So there's not a shift in that sense.

6 Q. If U S WEST loses market share in the
7 residential line will the interexchange carriers'
8 burden in percentage paid to U S WEST increase since
9 you are imputing the amount that U S WEST pays?

10 A. No. If the number of residential lines
11 served by U S WEST goes down then because we're
12 multiplying by constant recovery factor then the total
13 size of the pot would also go down. The total revenues
14 to be collected would also go down.

15 Q. If your residential share goes down
16 theoretically somebody else's share goes up, the total
17 of the market remains 100 percent?

18 A. I could buy that.

19 Q. So I guess I don't understand why the
20 revenues would go down.

21 MR. OWENS: Was that a question?

22 Q. Perhaps you could explain to me better why
23 the revenues would go down in that respect?

24 A. Because we are pegging the CCL revenues
25 under this proposal to the number of residence lines

03227

1 served by U S WEST, not to the entire market of all
2 residence local exchange lines.

3 Q. Isn't it true that you first start out with
4 the CCL revenues for a test year and add to it an
5 amount imputed to U S WEST's long distance services so
6 that it includes CCL revenues? There's like a
7 constant revenue factor there, isn't there?

8 MR. OWENS: There's two questions there.

9 MS. LEHTONEN: I will just withdraw it.

10 Q. Can you explain to me how the interexchange
11 carrier's monthly bill for CCL recovery would be
12 calculated?

13 A. Yes. And I have attempted to describe this
14 process on page 21 of my rebuttal testimony. Once the
15 CCL recovery factor is established, and that's the
16 number I was speaking of a minute ago that would be in
17 the tariff, then each month the total amount -- I'm
18 sorry -- each quarter the total amount of money to be
19 recovered would be calculated by multiplying that
20 recovery factor times the number of -- the average
21 number of residence lines that U S WEST serves and that
22 would give us the total pot of money.

23 And of course at the beginning, as we
24 implement this, based upon the data here, that would be
25 on the order of \$20 million from switched access plus

03228

1 whatever the imputed amount from U S WEST toll would
2 be. So let's just say for the sake of illustration
3 that it's another \$20 million for U S WEST toll. Then
4 we would be talking about a \$40 million pot. Then each
5 carrier's share including U S WEST as a long distance
6 carrier, each carrier's share would be calculated based
7 on minutes of use, and if a given carrier had a 25
8 percent market share then they would be billed 25
9 percent of the total on a monthly basis.

10 Q. If you're using U S WEST in this, does U S
11 WEST have a market share in this?

12 A. Yes, yes, it does.

13 Q. And it's imputing actually the CCL as a
14 part of its --

15 A. Yes, it is.

16 Q. So if its market share declines its
17 percentage goes down?

18 A. That's correct.

19 Q. And if somebody else's market share grows
20 their percentage goes up?

21 A. That's right.

22 MS. LEHTONEN: That's all my questions.

23 Thank you.

24 JUDGE WALLIS: Mr. Nichols, do you have
25 any?

1

2

CROSS-EXAMINATION

3 BY MR. NICHOLS:

4 Q. Good afternoon, Dr. Wilcox.

5 A. Good afternoon.

6 Q. I have some questions. Most of them do not
7 relate to a single statistical number but to the
8 background and rationale for your proposal and some
9 clarifying questions about the effect of the proposal
10 on the interexchange carriers. I'm curious about your
11 last thought, your last proposal that you were just
12 discussing with counsel for Sprint, and perhaps
13 although it's out of my order I will start with that.
14 You proposed in your rebuttal for the first time this
15 flat charge as a mechanism for recovering the CCL; is
16 that correct?

17 A. That's right.

18 Q. And part of your rationale that you explain
19 today was that you thought, I gather, that the
20 interexchange carriers might like that better because
21 somehow this charge might not escalate on the basis of
22 minutes of use. Is that a fair summary of what you
23 said?

24 A. Yes, I think that would be an advantage for
25 the carriers.

03230

1 Q. Did you describe to any of the
2 interexchange carriers your intention to offer this
3 supposed benefit to the carriers prior to filing your
4 rebuttal testimony?

5 A. I know that U S WEST held some meetings
6 with carriers describing this proposal in general
7 sometime before I filed this rebuttal, and -- because
8 we actually filed a tariff for this proposal in the
9 state of Iowa I believe in the month of September and
10 the carriers were given a preview of what that would
11 look like before that filing was made.

12 Q. I'm referring to Washington if you could
13 limit your response to that.

14 A. What I don't know is at that same meeting
15 if Washington was mentioned as a state in which we
16 would be offering up this proposal, because, frankly,
17 this is not a tariff filing that we have made in
18 Washington. It is an offering up of an alternative.

19 Q. So you're not representing today that MCI,
20 for example, endorses this proposal?

21 A. I make no claims as to whether MCI or any
22 other carrier endorses or does not endorse this
23 proposal.

24 Q. Isn't it a fact that the last time U S
25 WEST, then Pacific Northwest Bell, offered to adopt a

03231

1 flat-rated mechanism of recovering carrier common line
2 charges the Commission rejected it as being subject to
3 any competitive aspects? I'm referring to the 18th
4 supplemental order in U-85-23.

5 A. I am aware that a flat-rated CCL was
6 proposed and rejected in the state of Washington. I do
7 not know if it was structured the same way that this
8 proposal is structured and I am not intimately
9 familiar with the arguments that were used.

10 Q. Have you looked at the structure in that
11 original proposal and compared it to the one that you
12 have here?

13 A. No, I haven't in any detail.

14 Q. So you really don't know whether it's close
15 to or different than this proposal, do you?

16 MR. OWENS: Asked and answered.

17 JUDGE WALLIS: I believe that's a different
18 question. The witness may respond.

19 A. I believe that it's somewhat different but
20 I don't know precisely in what ways.

21 Q. Let's talk about some of the background with
22 regard to reasoning for change with regard to access
23 price charging from the past. I believe that you
24 stated that access charges were originally created on
25 an intrastate level in the 1984 time frame immediately

03232

1 following the divestiture of AT&T from the Bell
2 operating companies. Is that correct?

3 A. Yes.

4 Q. And that in fact that's the time frame in
5 which this Commission first established intrastate
6 access charges in the case I just referred to, U-85-23;
7 is that correct?

8 A. Yes, I believe it is.

9 Q. And you testified, I believe, that the
10 method for determining the structure and the level of
11 access charges in that case 85-23 was based in
12 substantial part upon allocation systems borrowed or
13 actually following the FCC separations process; is
14 that correct?

15 A. Yes.

16 Q. And the FCC separations process involving
17 part 36 and 39 -- 69 -- involves as you described it
18 kind of a multiple set of cost allocations between
19 services. Is that not correct?

20 A. Yes. I'm truly not an expert on the
21 separations process, but that would match my
22 understanding of it, but it is based upon embedded
23 costs or accounting costs on the company's books, and
24 there is an elaborate involved set of allocations both
25 to allocate between interstate and intrastate

03233

1 jurisdictions and then between various product
2 categories, and the rules that are in place in
3 Washington today are based on those FCC rules but are
4 an intrastate application of rules that were designed
5 to be used in the interstate jurisdiction.

6 Q. I was actually following up on a question
7 that I think you answered along that line in your
8 deposition. I didn't mean to say that you testified
9 to that effect but you know at least that much about
10 the separations process to describe it as you just
11 did?

12 A. Yes.

13 Q. That's about all I know, too. Now, a lot
14 has changed, and I think you did testify to some of
15 that in your direct testimony on pages 9, 10 and
16 following in the environment that now U S WEST faces
17 and in fact the industry faces compared to the time
18 frame '84, '85 and '86. Is that not correct?

19 A. Yes, I believe that's very true.

20 Q. Let's just explore briefly what some of
21 those changes are. First of all, there wasn't any
22 competition at that point almost by definition in the
23 intrastate toll market; is that correct?

24 A. I'm not sure if that is correct for a state
25 like Washington or not because Washington does have

03234

1 multiple LATAs.

2 Q. I was referring actually to intraLATA toll?

3 A. For intraLATA I would agree that any
4 competition that was there at that time was relatively
5 small.

6 Q. The number of competitors that offer
7 competing services to any of U S WEST's services is a
8 multiple several times higher than it was in 1985 and
9 1986. Is that not right?

10 A. Well, I would hate to agree to a blanket
11 statement that that was true for each and every
12 service individually, but I would agree in general
13 that the level of competition certainly has increased
14 over the past ten years.

15 Q. In fact a portion of your testimony talks
16 about the reasons you want to make changes in access
17 charge structure is that U S WEST now faces
18 competition to an extent and to a degree that it
19 hasn't in the past; isn't that correct?

20 A. That is correct, and I think that's an
21 important point for this proceeding.

22 Q. Is it fair to say, for example, that the
23 capital structure of U S WEST is vastly different than
24 it was in 1985 and '86, in general terms?

25 A. I really am not familiar with the capital

03235

1 structure of the company.

2 Q. You've I think already answered questions
3 with regard to the level of access minutes, that it
4 has risen over a 10 or 11 year period at about a
5 approximate rate of about 10 percent per year; is that
6 correct?

7 MR. OWENS: Your Honor. I don't believe
8 that was the witness's testimony. She was asked about
9 the time period 1989 to 1994 and asked to check
10 subject to check that that constituted approximately a
11 10 percent annual growth rate and I don't believe
12 that's a 10 year span.

13 Q. I stand corrected on the length of time but
14 you did state subject to check you would agree that
15 during the time period that was offered to you, '89
16 through '94, that during that time frame you would
17 agree subject to check that access minutes have risen
18 at approximately 10 percent per year?

19 A. Yes, that's right.

20 Q. But there's some similarities between those
21 days and these days, too, is that correct, those days
22 between 1985 and 1986 and today in terms of the
23 industry environment?

24 MR. OWENS: Your Honor, I'm going to object
25 to that question as being vague. If the witness is

03236

1 asked about specific areas of similarity I think she
2 can answer.

3 Q. Well, I am actually referring to her
4 testimony and I will just do that. Turn to page 10.
5 You were asked a question in your direct, "Are there
6 any similarities between the environment at
7 divestiture and today's environment?" I'm just asking
8 that question. Do you have your response there in
9 mind?

10 A. Yes, I do.

11 Q. Is one of the similarities that U S WEST,
12 then PNB, has dominated the local service and access
13 market?

14 A. Yes. That's the analogy that I am drawing
15 at this point in my testimony, that just as the long
16 distance market has developed as a competitive market
17 now we are seeing the basic exchange or local service
18 market developing as a competitive market.

19 Q. So that by and large today just like in
20 1985 and 1986 interexchange carriers must turn to U S
21 WEST for access; is that correct?

22 A. To a large extent, that is true and that is
23 what I see as rapidly changing.

24 Q. But as you point out that change you see
25 largely in the future not currently existing in

03237

1 competition?

2 A. In Seattle I see it changing as we speak.

3 Q. Well, I do find that sometimes there are
4 changes in emphasis, at least, in what you've said
5 today and what you testified in your direct. Let's ask
6 you to turn to page 10 again of your direct testimony.
7 Don't you say on lines 7, 8 and 9 that "these markets"
8 -- referring to local service and access -- "are just
9 beginning to be penetrated by alternative providers."

10 That's what you state, correct?

11 A. Yes. And I wrote those words about a year
12 ago, and I guess that's the point that I would like to
13 make that that has been a very active year in the
14 state of Washington.

15 Q. So things change very rapidly in this
16 industry, do they not?

17 A. They can.

18 Q. And they have in the past ten years, have
19 they not?

20 A. I would say that they have changed quite
21 dramatically over the past ten years.

22 Q. Now, I have a specific question about what
23 was asked earlier about the impact over or the nature
24 of your proposal here. I believe you responded in
25 agreement to a question by Ms. Proctor that

03238

1 approximately 40 percent of the access charge
2 reduction that you are proposing in this docket
3 relates to 800 service?

4 A. No, that's not accurate.

5 Q. Could you explain that to me?

6 A. The 40 percent that I was discussing with
7 Ms. Proctor was 40 percent of the CCL reduction not 40
8 percent of the total access reduction.

9 Q. What's the approximate amount of the CCL
10 reduction in U S WEST's proposal?

11 A. We are proposing about more than a \$6
12 million reduction in CCL.

13 Q. Over a two year period?

14 A. Actually, that reduction would take place
15 in phase 1 and continue into phase 2.

16 Q. Could you tell me where you're looking to
17 get that number?

18 A. Yes. Oh, I'm going to have to amend it.
19 My arithmetic is faulty at this time of the afternoon,
20 my mental arithmetic. What I'm looking at is my --
21 what I should be looking at is my Exhibit BMW-18 which
22 is Exhibit 563. On page 3 total current CCL revenues
23 appear toward the bottom of the page under the annual
24 revenue current rate column as \$25,231,812, and then
25 the comparison then needs to be made to the number on

03239

1 the next page, page 4, where we have total proposed CCL
2 revenues of \$20,961,322 and here's where my mental
3 arithmetic failed me. If we subtract those two numbers
4 we're somewhere in the order of a \$4 million reduction
5 in CCL.

6 Q. So that's really summarized on page 4 of 14
7 of your Exhibit BMW-18 which is 563; is that correct,
8 it's on the two right-hand columns there. There's a
9 quote by total CCL?

10 A. Yes. If you look at the total CCL, yes,
11 the two numbers do appear side by side. Thank you.
12 That makes it easier.

13 Q. So approximately 40 percent of a \$4 million
14 reduction is related to the reduction associated with
15 the use of 800 service; is that correct?

16 A. It would be 800 -- that would be the bulk
17 of it. The benefits would also accrue to 900 service,
18 feature group AFX service. It applies to all of the
19 services that now have the terminating CCL applied to
20 originating traffic. The bulk of it is 800 service.

21 Q. Let's try to make it clear in a simple way
22 how it is that an interexchange carrier would see that
23 reduction. Correct me if I'm wrong, that with regard
24 to the 800 service reduction in CCL in the manner that
25 you just described, that is going to occur, that's only

03240

1 going to happen for an IXC when one of our end users
2 calls an 800 number. Is that not correct?

3 A. That is what triggers the billing, yes.

4 Q. And then another part of your reduction I
5 think you said was 976 numbers, was that correct?

6 A. No, 900 numbers.

7 Q. And the same answer applies to that. In
8 other words, that an interexchange carrier is going to
9 see a reduction only when one of its customers dials a
10 900 number; is that correct?

11 A. Yes, that's correct, and that is also true
12 for any of the rate reductions that I am proposing on
13 a usage sensitive charge, that the carrier won't
14 realize the reduction unless somebody makes a call.

15 Q. But my point is that the reduction is only
16 going to be seen for a particular subgroup of
17 interexchange carriers' customers and that is those
18 customers that are making calls on 800 lines or 800
19 numbers, 900 numbers and the others, the feature group
20 A that you talked about?

21 A. Yes, that's true. That applies
22 specifically to those services.

23 Q. Do you have any understanding general or
24 otherwise about the percentage of total interexchange
25 carrier traffic that can be classified as toll and 800

03241

1 that those specific areas that this reduction applies
2 to, apply to?

3 A. I don't have that at the top of my head but
4 it is a number that is buried in these same work
5 papers and could be drawn out.

6 Q. Do you want to indicate to me where I might
7 start digging?

8 A. I would be happy to. Even though we said
9 we weren't going to do numbers.

10 Q. I just want to know where.

11 A. Again, on pages 3 and 4 of BMW-18, which is
12 Exhibit 563, if you look first at the area on page 3
13 that's labeled current carrier common line and you
14 have quantities of minutes, and let's focus on the
15 premium because the transitional minutes are so small
16 that they really are not a factor here.

17 Q. Which page are we on?

18 A. Page 3.

19 Q. Of Exhibit 563?

20 A. That's correct. If you look at what's
21 labeled current carrier common line you have numbers
22 for originating and terminating minutes. The
23 originating minutes are on the order of 527 million.
24 Terminating minutes are on the order of 875 million.
25 Then going down the same page, at the bottom of the

03242

1 page you see proposed carrier common line, and again,
2 you have two numbers for the minutes of use,
3 originating and terminating but they're different
4 numbers. The difference between those two numbers
5 would reflect the amount of traffic that we're talking
6 about.

7 Q. That's fine. Now I would like to ask you a
8 few questions to try to summarize in my mind your
9 proposal with regard to reducing the contribution that
10 U S WEST obtains from access charge elements in
11 general. See if I've gotten this right. There are
12 several access charge rate elements; is that correct?

13 A. That's correct.

14 Q. One of them is the CCL, the carrier common
15 line charge; is that correct?

16 A. Yes.

17 Q. And that you have described as consisting
18 of essentially pure contribution; is that correct?

19 A. Yes.

20 Q. Meaning what?

21 A. Meaning that there is no direct cost of
22 switched access that is attributable to that particular
23 rate element or that that rate element is designed to
24 correspond to.

25 Q. And I believe you agreed with Ms. Proctor

03243

1 that that amount in your revised form, based on the
2 illustrative tariff, was about \$20 million roughly; is
3 that correct?

4 A. Yes.

5 Q. Then there's the RIC, right?

6 A. Right.

7 Q. And that also you've described as pure
8 contribution. Is that not correct?

9 A. Yes.

10 Q. In the same sense that we just spoke about
11 the CCL?

12 A. Yes. I would remind you that the RIC does
13 not exist yet in Washington but --

14 Q. In your head or in your proposal it does?

15 A. Yes.

16 Q. And in talking with Ms. Proctor you agreed
17 that that number is about \$20 million in your proposal
18 as reflected in the illustrative tariff?

19 A. I believe we were looking at the
20 illustrative tariff and I cannot recall now whether it
21 was phase one or phase two, but I do know that we noted
22 a \$20 million figure.

23 Q. Then there are other elements. There's
24 switching and there's transport; is that correct?

25 A. Yes.

03244

1 Q. I would like you to turn to page 31 of your
2 direct testimony. Do you see beginning on lines 9
3 through 11 there's this sentence, "contribution is
4 already contained in the other rate elements, as well
5 as in the carrier common line charge which is also
6 pure." Do you see that?

7 A. Yes, I do.

8 Q. Now, when you were talking about in the
9 other rate elements, were you referring to the
10 switching and transport rate elements?

11 A. Yes, I was.

12 Q. So are you testifying then that there is
13 contribution, that is, contribution above a measure of
14 costs, contained not only in the CCL and the risk but
15 also in the switching element and in the transport
16 element; is that correct?

17 A. Yes, that's correct.

18 Q. And by contribution over what level of
19 costs are you using? ADSRC?

20 A. ADSRC as presented by U S WEST in its cost
21 studies in this case is the cost figure that I used as
22 the basis of making that statement.

23 Q. So are you meaning that the level of the
24 switching and transport exceeds the ADSRC level in both
25 cases?

03245

1 A. Yes, they do.

2 Q. And the ADSRC level already contains
3 contribution above ASIC or incremental cost, as
4 they've been talked about throughout this proceeding.
5 Is that not correct?

6 A. Well, I don't know if I would characterize
7 that as contribution, but they do -- the ADSRC costs
8 are higher than the ASIC costs, yes.

9 Q. At least couldn't we agree that the ADSRC
10 includes allocation of recovery for shared and common
11 costs of the company above those direct costs of the
12 company for that element?

13 A. It's my understanding that they represent
14 shared costs but not common costs.

15 MR. NICHOLS: I have no further questions.

16 JUDGE WALLIS: Any other questions from
17 counsel? Commissioners.

18

19 EXAMINATION

20 BY COMMISSIONER GILLIS:

21 Q. I will try to be brief, but on page 20 of
22 your direct about halfway down or two thirds down it
23 appears you're testifying that the costs of serving
24 customers in urban areas on average are lower and the
25 contribution margin is higher and I assume relative to

03246

1 less urban areas. Is that correct?

2 A. Yes, and I am speaking of the general costs
3 to serve for basic telephone service here.

4 Q. For basic telephone service?

5 A. Yes.

6 Q. I think you answered this indirectly a
7 number of times already but I want to ask you
8 directly. Is that statement based on a study of costs
9 in contribution or is it professional judgment based
10 on your understanding of the industry?

11 A. Both. I'm also basing that upon the cost
12 information that has been presented in this case
13 showing loop costs by rate group and by zone which
14 backs up the general conclusion that it's more
15 expensive to serve in less dense areas.

16 Q. So that's Mr. Farrow's testimony, the loop
17 cost model?

18 A. Yes, and I think some of that appears in
19 Ms. Owen's testimony as well.

20 Q. I was asking him about this as well, and he
21 testified that those costs of a loop varied depending
22 on the length of the loop, the density of the area and
23 the size of the wire center were the things that he
24 cited as the major facilities anyway that influence
25 cost. Is that your understanding as well?

03247

1 A. That is consistent with my recollection.

2 Q. As I recall anyway I think that's what it
3 was. I'm not positive. Would you agree that for an
4 individual in, say, zone two, which is your less urban
5 zone, their cost of serving that individual customer
6 for switched access could be in fact less than the
7 average cost of serving a customer in zone one, your
8 more urban area?

9 A. Yes. I think you can always find
10 individual customers who, because of their particular
11 situation --

12 Q. It's an average?

13 A. Yeah.

14 Q. Let me offer you a hypothetical. An
15 insurance claim company located near Olympia in zone
16 two employing 800 people compared to a similar
17 insurance claim company located in rural King County
18 also employing 800 people. Is there any particular
19 reason to think the costs would differ of serving that
20 insurance claim company in the Olympia area compared to
21 rural King County?

22 A. I think you're getting out of my league.
23 I'm not a cost expert.

24 Q. May or may not be a difference?

25 A. I just don't know.

03248

1 Q. What I'm wondering, assuming that the costs
2 are fairly similar, as they may or may not be, but as a
3 pricing expert if the costs of serving those two
4 companies are similar in the two zones, as I
5 understand your zone proposal that the company in zone
6 two, the less urban zone, would end up paying a higher
7 cost for the same amount of usage as the company in
8 zone one; is that right?

9 A. Yes. That would be a result of the
10 proposal.

11 Q. So my question for you is how do we justify
12 that to the customer in zone two? To the extent that
13 their costs are similar of serving that particular
14 company, the same kind of company, and in fact maybe
15 they're competitors, as a matter of fact, how do we
16 justify to them that they're charging them higher cost
17 for the same amount of usage?

18 A. The zone pricing proposal is really kind of
19 built in two pieces which fit with each other. First
20 you have the basic exchange zone pricing proposal and
21 that's really where the cost differential is reflected,
22 and there what I would say is that the total costs to
23 serve the zone two customers on average are higher
24 than the total costs to serve zone one customers.
25 Now, you present a dilemma with your hypothetical

03249

1 company if indeed the cost to serve those two
2 companies are identical. I don't know that we would
3 really know that, too, because we don't try to do cost
4 analysis on an individual customer basis. We do them
5 for averages for certain geographical areas or
6 whatever.

7 Q. I realize that you may not know the cost of
8 serving an individual customer, which creates even
9 more of a dilemma, but your zone pricing does suggest
10 that customers that are in the higher cost zone -- it
11 appears anyway that the customers in the higher cost
12 zone but yet are low cost customers are going to end
13 up, to the extent there is a subsidy, taking on a
14 greater burden of that subsidy to the extent that it
15 exists compared to the customers in the lower cost
16 zone?

17 A. Yes. And I don't think that's inconsistent
18 with the way pricing works in the world. That you do
19 have different levels of contribution in different
20 circumstances, even for the same product, just
21 depending upon the market conditions, and perhaps it's
22 complicated a little bit by the fact that we're
23 talking about subsidies where in other industries we
24 would not be talking subsidy. We would just be talking
25 contribution.

03250

1 Q. The next page, page 21 of your direct
2 testimony, there's a statement again halfway down that
3 there are the customers with high call volumes -- on
4 line 18 -- who are least costly to serve. I assume
5 that is -- are you referring to the business customers
6 in urban areas? Is that what you're referring to?

7 A. Yes. I'm speaking -- trying to talk about
8 the type of customer that would be most attractive to
9 a competitor.

10 Q. You just said you don't have data on the
11 individual customer types, so is that again based on
12 your -- is that based on your professional judgment or
13 is it based on study or knowledge of costs of serving
14 those customers?

15 A. It would be based more on professional
16 judgment and general knowledge of the industry than on
17 any specific data, yes.

18 Q. Pursuing that a bit, and just recognizing
19 that it's not based on study but just on your
20 understanding of the industry, would you understand
21 those customers in general to be customers that are --
22 would tend to make calls during peak times of the day?

23 A. In my mind the time of the calling might
24 not be a very critical factor because the way that the
25 telecommunications industry is developing we're

03251

1 finding that there are peaks all over the place.
2 Traditionally we think of the peak calling on the
3 network taking place during business hours, during the
4 daytime, Monday through Friday. When you start
5 looking at some of the more detailed data on calling
6 for individual central offices or individual pieces of
7 the network you find it's really quite a bit of
8 variability, that some offices will even have their
9 peak on a Saturday, for example, or others that have a
10 peak in the evening hours, and I think it's reflective
11 of several things. One is that we have a lot of
12 calling from residential customers these days and the
13 other is I think that businesses are more diverse in
14 their use of the network at various times. It's no
15 longer just me sitting at my desk, picking up the phone
16 and placing a call to somebody I need to interact with
17 in the course of doing business, which I am likely to
18 do during business hours Monday through Friday, but now
19 it's more likely data transfers which may take place at
20 night, telemarketing which tends to take place in the
21 evening and on weekends. Just the variety of uses of
22 the network really kind of erases our old ideas of what
23 peak/off peak calling looks like.

24 Q. Well, what I'm after, and I would like your
25 opinion as a pricing expert, is it appropriate in

03252

1 considering the level to price a service to also
2 consider the impact on capacity needs for the network
3 as a whole to serve those customers? In other words, a
4 customer who may be a high revenue customer, very much
5 so, and may even be a very profitable customer but they
6 may require construction of facilities, maintenance of
7 facilities and associated costs that would be high
8 capacity would require a greater capacity from the
9 network as a whole that everybody shares. Is that
10 something that you think should be considered in
11 pricing it, the service to those customers who I guess
12 are the causers of those costs?

13 A. Yes. As a general principle, you want to
14 consider cost causation in designing prices as one of
15 the inputs, and I guess I am assuming that the kinds
16 of costs factors that you're talking about, hopefully,
17 would be captured in our cost studies.

18 Q. It may be. I didn't follow that from Mr.
19 Farrow's testimony, but it may be. That's something
20 maybe to find out. Do you know? Is it reflected in
21 the cost studies?

22 A. I don't know and perhaps that's something
23 we need to follow up on.

24 COMMISSIONER GILLIS: That's all.

25 COMMISSIONER HEMSTAD: I have a question.

03253

1

2

EXAMINATION

3 BY COMMISSIONER HEMSTAD:

4 Q. Commissioner Gillis's question triggered
5 further question on my part. Obviously in the
6 hypothetical insurance company example that he was
7 posing, the location of that enterprise would be of
8 interest to the local economic development council and
9 the competition between rural King County and rural or
10 suburban Thurston County, there would be a measurable
11 difference in cost with a cost factor of some
12 significance for that type of an operation. Has the
13 company considered as it looks at pricing structures
14 the use of banded rates for pricing at all?

15 A. I am not sure I know what you mean by
16 banded.

17 Q. Well, the ability to have some flexibility
18 within a range to price under the Washington statutes?

19 A. Are you speaking of like contracts for
20 special circumstances?

21 Q. Well, Washington law permits filing of rate
22 arrangements within which the company could set a
23 priority within an upper and lower range. Pursuing the
24 example or the hypothetical that Commissioner Gillis
25 was posing, if the cost causation of that significant

03254

1 revenue generated were approximately the same in the
2 two counties in the different zones, why wouldn't the
3 company have some motivation to neutralize the
4 locational decision by trying to equalize the prize?

5 A. Perhaps we should pass that question on to
6 Ms. Owen who does the pricing for the basic telephone
7 service. I'm speaking to switched access service
8 specifically, and of course we do have some MFJ
9 constraints there.

10 Q. That's right.

11 COMMISSIONER HEMSTAD: That's all I have.

12 JUDGE WALLIS: Mr. Owens.

13

14 REDIRECT EXAMINATION

15 BY MR. OWENS:

16 Q. Just following up on that last point a
17 little bit. Dr. Wilcox, in the hypothetical that both
18 of the commissioners were talking about the access
19 charges in the respective zones, would they be paid by
20 the interexchange carrier or the end user?

21 A. The access charges are paid by the
22 interexchange carrier, and that's kind of the second
23 piece of the whole zone pricing proposal, that
24 recognizing the fact that this new competitive picture
25 that we're in both become relevant because competitive

03255

1 providers are not only going to offer a price to the
2 end user to sign up with them, they will also offer a
3 price to the interexchange carriers and so it becomes
4 kind of a double layer consideration there.

5 Q. And then as to the price that the
6 hypothetical insurance company would pay for its long
7 distance service purchased from the interexchange
8 carrier, whether those were somehow differentiated by
9 zones would be a decision by whom?

10 A. In that case the long distance carrier
11 would make the decision as to whether to price
12 differential or not.

13 Q. I think also on that point you had talked
14 about Mr. Farrow's testimony as being a source of
15 information on the relative costs. To your knowledge,
16 did U S WEST introduce any other testimony on that
17 point through another witness?

18 A. I am not thinking of another witness at the
19 moment.

20 Q. Do you happen to know whether Mr. Copeland
21 addressed any of those point?

22 A. Oh. Yes. Mr. Copeland also spoke to costs.
23 They're just a different set of costs.

24 Q. You also were talking with the
25 commissioners about the calling patterns of customers

03256

1 with regard to whether a particular group like those
2 you discuss at page 21 of your direct testimony would
3 be more or less likely to call at peak times, and you
4 discuss a number of reasons why peaks change, and I
5 was wondering, does the impact of private networks and
6 any migration of business traffic to such networks
7 affect the timing and size of peaks that U S WEST
8 network experiences?

9 A. I don't know the specific reasons why, but
10 that certainly could be one more factor.

11 Q. You were asked a question by counsel for
12 the Commission staff about why did the company wait
13 two and a half months after the decision of the
14 Commission in the LTR docket to produce the proposal
15 that you have produced in Exhibit 561, and you gave
16 some reasons. Are there any reasons in addition to
17 those that you've thought of since that answer?

18 A. Yes. I think that an additional reason is
19 that the fourth supplemental order itself was under, I
20 believe, appeal or petition for reconsideration at the
21 time. There were a lot of uncertainty there.

22 Q. You were asked some questions again by
23 staff counsel about competitors. Referring to your
24 testimony at page 10 about the types of competitors.
25 And you mentioned that any cellular company would fit

03257

1 into the wireless carrier category, and as far as you
2 know, are there cellular carriers that operate within
3 U S WEST's wire line service territory that are not
4 affiliates of U S WEST?

5 A. Yes, there are.

6 Q. In Washington that is?

7 A. Yes.

8 Q. You were also asked a question about your
9 testimony about long distance carriers, whether they
10 -- I think this was referring to page 13 of your
11 direct testimony -- can offer price breaks to the end
12 users, and I think you were asked whether any long
13 distance carriers provide service directly to end
14 users. Do you know whether any long distance carriers
15 directly connect to large end users customers such as
16 the Boeing Company that have their own private
17 networks?

18 A. Yes. That's a very common arrangement for
19 large business customers to have direct connections
20 with long distance carriers and those direct
21 connections are utilized not only to originate long
22 distance calls but also to terminate long distance
23 calls in many cases.

24 Q. And when those arrangement exist does U S
25 WEST Communications have any involvement that would

03258

1 generate any access revenues?

2 A. It certainly is not switched access
3 revenues. In some instances we might provide the
4 private line link to connect the business to the long
5 distance carrier but that is a competitive market and
6 we may or may not be the supplier of that private
7 line.

8 Q. You were asked some questions about what
9 your expectation would be if the Commission approved
10 the staff's proposed rates for access as to whether or
11 not you expected that interexchange carriers would
12 choose alternative service providers, and I think you
13 indicated that was a possibility. Are there any other
14 possibilities that would have an effect on U S WEST's
15 revenues?

16 A. If a carrier chose another provider?

17 Q. Or if a carrier did something other than
18 choosing another, for example, alternative exchange
19 provider in order to accomplish the function of, let's
20 say, transport. Are there any other options open to
21 those carriers?

22 A. If you're speaking of the transport
23 function specifically?

24 Q. Yes.

25 A. Under the expanded interconnection what I

03259

1 am expecting is that the alternate carriers already
2 provide transport options and that in many cases a
3 long distance carrier could elect to use their
4 transport facilities instead of U S WEST.

5 Q. You discuss the situation in Nebraska where
6 where the company already has the zone pricing, albeit
7 at a larger discount than the company is proposing in
8 the state of Washington. Do you have any knowledge
9 about the effect that that arrangement has had in
10 Nebraska on the ability of carriers to do business in
11 that market?

12 A. I have had an opportunity to take a look at
13 some of the data concerning the switched access market
14 in Nebraska, and the zone pricing took effect in that
15 state in July of 1993, and so I looked at the growth in
16 the access market in that state, comparing 1992, which
17 was entirely before the zone pricing went in, to 1994,
18 which was up to a year and a half after the zone
19 pricing went in, and what I found was that in the urban
20 zones, which happens to be zone one and two in that
21 particular structure, the growth over that two year
22 period was about 24 percent in switched access traffic
23 which is healthy and perhaps not surprising, but in
24 zone three, which is the rest of the state, the rural
25 areas in Nebraska, the growth was much greater. It was

03260

1 40 percent over the two year period. And so I have to
2 conclude that the zone pricing has not dampened the
3 market for switched access in that area.

4 Q. You were asked a hypothetical question by
5 staff counsel in which there was a firm of 1 percent
6 of the access market that priced to the market and
7 there was a dominant firm with 95 percent of the
8 market which then increased its access price by 100
9 percent. Do you recall that hypothetical?

10 A. Yes, I do.

11 Q. And you were asked whether if the 1 percent
12 firm did not match or largely match the increase of
13 the dominant firm it would be foregoing profits and
14 you said possibly. Are there any circumstances under
15 which you can think it would not be foregoing profits?

16 A. Well, I am thinking that if there's one
17 small firm with a small share of the market there's
18 probably more than one and what we often see as these
19 markets become competitive is that you will have
20 several niche players in the initial stages here and
21 probably that small firm would have to consider the
22 prices of the other small firm as well as those of the
23 dominant firm before making a decision, and if the
24 other small firm did not raise their prices then they
25 would indeed be foregoing profits if they did raise

03261

1 their prices because they would probably lose
2 customers.

3 Q. You were asked some questions by counsel
4 for AT&T based on what I've just handed you, the
5 response to public counsel request 485, which was the
6 yearly switched access minutes of use from 1989
7 through 1994. Do you recall those questions?

8 A. Yes, I do.

9 Q. And you were asked whether you could accept
10 subject to check that the average annual growth rate
11 of that number was in the area of 10 percent. Do you
12 recall that?

13 A. Yes, I do.

14 Q. Looking at the specific yearly changes, can
15 you state whether they follow a uniform pattern of
16 growth?

17 A. While the minutes of use do grow
18 consistently from one year to another it is not a
19 uniform growth rate. It jumps in spurts and I think
20 that's especially apparent in the monthly data that's
21 shown for the year of 1994.

22 Q. So are some years yearly changes greater
23 than 10 percent and some less?

24 A. Yes, certainly.

25 Q. Now, directing your attention to questions

03262

1 asked you by public counsel to the effect that even
2 though there has been past growth in access minutes of
3 use you have not reflected those in your revenue
4 calculations. Was it your intent that any adjustment
5 that you propose meet the criteria of a known and
6 measurable adjustment that is not offset by other
7 factors?

8 A. Yes. It's my understanding that that is
9 the guideline for the rate case.

10 Q. And based on your review of the growth
11 information that the company has experienced at least
12 since 1990, are you able to say whether future growth
13 in access minutes meets that test?

14 A. I certainly would not say that it's known
15 and measurable.

16 Q. And in fact if you were to attempt to
17 estimate future growth, is there anything in the
18 future of competitive losses that you would have to
19 consider in making that judgment?

20 A. Yes. I have had some experience in
21 attempting to forecast access minutes of use and it is
22 a very iffy proposition. There are so many factors
23 such as possible competitive loss, activities by
24 competitors themselves that may stimulate or not the
25 traffic that are unknown to U S WEST that we have

03263

1 found it to be not a very precise exercise.

2 Q. I think you were asked a question by
3 counsel for AT&T about information Mr. Purkey
4 evaluated in the nature of providers' tapes. To the
5 extent the record indicates that you were asked that,
6 did you understand that and do you know that Mr.
7 Purkey does review that kind of information?

8 A. I'm only aware of what I see in Mr.
9 Purkey's testimony where he had some data on 10 XXX
10 dialing, I believe.

11 Q. I believe you were asked a question by
12 counsel for Sprint, and just so the record is clear,
13 when you used test year data, which test year did you
14 have in mind?

15 A. All of the data that I have presented in
16 this docket have been for the test year of October of
17 '93 through September of '94.

18 MR. OWENS: Thank you. That's all I have
19 on the redirect.

20 CHAIRMAN NELSON: One more. Sorry to do
21 this to you. Do you sponsor access charge comment at
22 the federal level for U S WEST?

23 THE WITNESS: I am not personally involved
24 myself with the federal jurisdiction, but I have some
25 familiarity with it.

03264

1 CHAIRMAN NELSON: Are you aware of any
2 incipient changes the FCC may be proposing to access
3 charge structure at the federal level, briefly?

4 THE WITNESS: I am generally aware that it
5 seems to be constantly under consideration at the
6 federal level, and even their consideration of the
7 local transport restructure I am not sure that that is
8 totally a closed matter at this point, so whether
9 there are some changes coming down the line from the
10 FCC I can't say specifically but I would not be
11 surprised.

12 CHAIRMAN NELSON: I guess we've all been
13 reading Chairman Hunt's speeches, and we'll have to see
14 what they do.

15 MR. TROTTER: Just one follow-up. Is it
16 your testimony that known and measurable standards
17 should apply to the analysis that you provide in your
18 testimony and exhibits?

19 THE WITNESS: Yes.

20

21 RE CROSS-EXAMINATION

22 BY MS. PROCTOR:

23 Q. Dr. Wilcox, in Nebraska, are you aware that
24 AT&T is prohibited from deaveraging its toll rates in
25 that state?

03265

1 A. I don't know the specific rules in
2 Nebraska.

3 Q. Let's assume that AT&T has not deaveraged
4 its rates. Then in that case, since I think you've
5 already testified that the action of the interexchange
6 carrier would determine the effect on the market, in
7 this case AT&T's pricing would determine the growth in
8 access minutes in that state in the time period you
9 looked at, wouldn't it?

10 A. It would be one factor in the growth
11 certainly.

12 Q. You referred to Mr. Purkey's testimony
13 considering 10 XXX dial. Are you aware that Mr.
14 Purkey indicated that he had obtained that information
15 from automatic messaging -- I'm sorry. It's the
16 recording tapes provided to the interexchange
17 carriers?

18 A. It's not my understanding that AMA tapes
19 are provided to interexchange carriers. It is my
20 understanding that AMA tapes are recording devices
21 used by U S WEST to record call detail.

22 Q. And are you aware that U S WEST performs
23 that same service for, at least in this case, AT&T and
24 provides those recording tapes to AT&T in order for
25 AT&T to do its billing for its toll services?

03266

1 A. I don't know. I am not familiar with that
2 process.

3 MS. PROCTOR: In order to assist the record,
4 Your Honor, I've made copies of public counsel data
5 request 485, and I wonder if I could hand that to the
6 witness. Just have her identified it and we could mark
7 it and include it in the record.

8 JUDGE WALLIS: Very well. We can mark it.
9 I'm marking as Exhibit 568 for identification a two
10 page document the first page of which is designated
11 request No. PC 01-485.

12 (Marked Exhibit 568.)

13 Q. Dr. Wilcox, do you have what has been
14 marked for identification --

15 MR. OWENS: We'll stipulate to the entry of
16 this exhibit if that will save time.

17 MS. PROCTOR: Thank you.

18 JUDGE WALLIS: 568 is received.

19 (Admitted Exhibit 568.)

20 MS. PROCTOR: Your Honor, I would also like
21 to ask that you incorporate into the record the
22 cross-examination of Dr. Wilcox in the interconnection
23 case. In her supplemental testimony Exhibit 560T Dr.
24 Wilcox seeks to incorporate her direct and rebuttal
25 in --

03267

1 MR. OWENS: We have no objection.

2 JUDGE WALLIS: Can counsel supply a copy of
3 that for the record, please, and we'll designate it as
4 the next number in order which is 569 and receive it
5 in evidence.

6 (Marked and Admitted Exhibit 569.)

7 MS. PROCTOR: Thank you.

8 JUDGE WALLIS: Are there further questions?

9 MS. PROCTOR: No.

10

11 RECROSS-EXAMINATION

12 BY MR. NICHOLS:

13 Q. Just a couple. Dr. Wilcox, you testified
14 in response to a question from your counsel with
15 regard to your decision not to include estimates of
16 changes in demand in access that you did it in part
17 because it was not known and measurable; is that
18 correct?

19 A. I was responding specifically to the
20 question of including growth rates, I believe, yes.

21 Q. In access demand?

22 A. Yes.

23 Q. And both you and other witnesses in this U
24 S WEST proceeding have submitted significant evidence
25 about the likely impact of competition upon U S WEST

03268

1 in the future. Is that correct?

2 A. Yes.

3 Q. So you want the Commission to consider the
4 potential impact of competition on U S WEST in the
5 future but you do not want to supply the demand
6 estimates for access charges; is that correct?

7 MR. OWENS: I'm going to object to that
8 question as being argumentative and certainly not
9 consistent with her testimony.

10 JUDGE WALLIS: Can the question be
11 rephrased, please.

12 MR. NICHOLS: Yes.

13 Q. Is it your position you want the Commission
14 to consider the effects of future competition on the
15 revenues and business operations of U S WEST in this
16 proceeding when they consider your rates?

17 A. Yes.

18 MR. NICHOLS: I have no further questions.

19 JUDGE WALLIS: Is there anything further of
20 the witness?

21 MR. OWENS: Just so the record is clear, as
22 far as you know company hasn't proposed a proforma
23 adjustment on account of future competitive losses,
24 has it?

25 THE WITNESS: No.

03269

1 JUDGE WALLIS: Anything further? It
2 appears that there is not. Dr. Wilcox, thank you very
3 much for appearing with us today. You're excused from
4 the stand at this time. Let's be off the record while
5 the next witness comes forward.

6 (Recess.)

7 Whereupon,

8 L.D. LANKSBURY,
9 having been first duly sworn, was called as a witness
10 herein and was examined and testified as follows:

11 JUDGE WALLIS: Let's be back on the record,
12 please. The company has called at this time L. D.
13 Lanksbury as its witness. In conjunction with Mr.
14 Lanksbury's appearance documents have been distributed
15 and/or identified as exhibit as follows. Mr.
16 Lanksbury's rebuttal testimony is marked as Exhibit
17 509T for identification. His resume, LDL-1 is 510 for
18 identification. His attachments C LDL-2, pay phone
19 price floor, is 511C for identification. Document
20 designated C LDL-3, compensation redistribution, is
21 512C for identification. C LDL-4 comparison of
22 computation is 513C. C LDL-5 percentage pay phone
23 compensation is 514C for identification. LDL-6 is 515
24 for identification. C LDL-7, APS deployment is 516C
25 for identification. A document designated Washington

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1 pay phone price floor analysis is 517C for
2 identification.

3 (Marked Exhibits 509T, 510, 511C, 512C,
4 513C, 514C, 515, 516C and 517C.)

5 MR. HARLOW: I'm sorry. I remember which
6 one that is. Thank you.

7 JUDGE WALLIS: A document consisting of
8 what purports to be an August 16 letter to Brooks
9 Harlow with attachments is designated 518C for
10 identification. The attachments are confidential.
11 The cover letter is not. The company is preparing for
12 distribution a document consisting of the response to
13 data request No. 1 and attachment A to that document.
14 That document is being prepared for distribution, and
15 it is designated as 519 for identification. I presume
16 that's confidential.

17 MS. PETERSON: The attachment is
18 confidential. The question is not.

19 JUDGE WALLIS: We will call that 519C.
20 Document designated input worksheet Washington revised
21 September 1, 1994 is 520C for identification.
22 Response No. NWP 01-073 is 521 for identification.
23 Response No. NWP 01-065 is 522C for identification.
24 One sheet document entitled public telephones by U S
25 WEST Communications is 523 for identification. And

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1 response numbered NWP 01-009 is 524C for
2 identification.

3 (Marked Exhibits 518C, 519C, 520C, 521,
4 522C, 523 and 524C.)

5

6 DIRECT EXAMINATION

7 BY MS. PETERSON:

8 Q. Mr. Lanksbury, would you state and spell
9 your name for the record, please?

10 A. My name is Leslie D. Lanksbury, L A N K S B
11 U R Y.

12 Q. Do you have in front of you a document
13 marked 509T?

14 A. Yes, I do.

15 Q. Do you recognize that as your prefiled
16 rebuttal testimony in this case?

17 A. Yes, I do.

18 Q. Do you have any additions or corrections to
19 make to that exhibit at this time?

20 A. No, I do not.

21 Q. Do you have in front of you exhibits marked
22 510, 511C, 512C, 513C, 514C and 515 and 516C?

23 A. Yes, I do.

24 Q. Do you recognize those as exhibits to your
25 prefiled rebuttal testimony?

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1 A. Yes, they are.

2 Q. Were these prepared under your direction
3 and supervision?

4 A. Yes, they are.

5 Q. Do you have any additions or corrections
6 to make to them at this time?

7 A. No, I do not.

8 Q. Are these exhibits true and correct to the
9 best of your knowledge?

10 A. Yes, they are.

11 MS. PETERSON: Move the admission
12 of Exhibits 509T and 510 through 516C.

13 JUDGE WALLIS: Is there objection?

14 MR. HARLOW: No objection.

15 (Admitted Exhibits 509T, 510, 511C, 512C,
16 513C, 514C, 515 and 516C.)

17 MS. PETERSON: Move the admission of 519,
18 539C and 521. Those are the three data requests which
19 were discussed during Ms. Murray's examination.

20 MR. HARLOW: No objection.

21 JUDGE WALLIS: The documents are received
22 in evidence, 519C to be a late-filed exhibit.

23 (Admitted Exhibits 519C, 521 and 539C.)

24 MS. PETERSON: Thank you, Your Honor.

25 MR. HARLOW: Excuse me. What about 517 and

1 518?

2 MS. PETERSON: I was going to get to those
3 in the testimony with Mr. Lanksbury, but if I can move
4 to admit them now if there's no objection why don't we
5 just do that.

6 MR. HARLOW: We'll stipulate to 518C. We
7 stated our objection last night to 517C and understand
8 that's been overruled.

9 MS. PETERSON: Then I move the admission of
10 517C and 518C at this time.

11 JUDGE WALLIS: Documents are received.

12 (Admitted Exhibits 517C and 518C.)

13 Q. Mr. Lanksbury, Exhibit 519, is that the
14 cost study that has been referred to variously by
15 yourself and by Ms. Murray in your testimony?

16 A. Yes, that is the cost study.

17 Q. At page 13, lines 8 through 12 of Ms.
18 Murray's December 1995 testimony she said that she
19 believes the appropriate imputation analysis is her
20 100 percent millennium analysis, and on the stand she
21 elaborated further that the Exhibit 519, that cost
22 study showed much lower millennium numbers than in
23 your imputation analysis. Do you recall that
24 testimony?

25 A. Yes, I do.

03274

1 Q. Why is it that there were lower numbers in
2 the cost study than used in your imputation analysis?

3 A. The cost study was done in 1994 to reflect
4 1995 on a forward looking basis. At that time we had
5 no plans to install the millenniums that we now have
6 in our deployment schedules that were subsequently
7 provided to Ms. Murray, so at that time we were in a
8 trial basis and we really had no idea where the
9 millennium product was going to go in the marketplace.

10 Q. How do those plans change from that time in
11 1994 when the cost study was prepared to the time that
12 you performed the imputation analysis in 1995?

13 A. Well, we had a very successful trial. The
14 results were positive, and we found that it would be
15 appropriate to place more millenniums and so they put
16 together a schedule to place them in the five major
17 markets for U S WEST and to place a certain number at
18 the high end stations rather than place everywhere.
19 We had a deployment schedule. We knew exactly what we
20 were going to replace and that's what we reflected in
21 our exhibits.

22 Q. Does U S WEST have any plans to place the
23 millennium equipment at all pay phones locations
24 throughout the state?

25 A. No, we do not. We are only placing them at

03275

1 the high volume locations as we've shown in the data
2 requests that we've provided.

3 Q. I would like to turn your attention for a
4 moment to Exhibit 518C, the August 16, 1995 letter and
5 ask you whether attachment -- the last page attached
6 to that letter entitled APS deployment is the same
7 exhibit which was later included in your rebuttal
8 testimony as an exhibit which has been marked Exhibit
9 516C?

10 A. Yes, it is. I provided this to Mr. Shaw so
11 that it could be forwarded to Mr. Harlow and to show
12 what our plans were with millennium in the Seattle
13 area.

14 Q. Do you know what other information was
15 given to the Northwest Payphone Association pertaining
16 to plans to implement the millennium phones or plans
17 to keep the standard pay phones?

18 A. Well, we had a data request 54, but that
19 was after the initial testimony of Ms. Murray, that
20 also reflected the plans to place approximately the
21 same number of stations, and it was used in my
22 testimony to prepare my testimony and respond to Ms.
23 Murray's.

24 Q. Has U S WEST placed more millennium pay
25 phones than it has projected in its plan?

03276

1 A. No. We're still significantly below what
2 we have reflected in the imputation analysis, and
3 still below what we were planning to place based on
4 these other documents that we provided the Northwest
5 Payphone Association.

6 Q. Ms. Murray's testimony this morning
7 suggested that she thought that U S WEST was now
8 putting millennium pay phones in low volume locations
9 and therefore she projects lower revenues in the
10 future for millennium phones. Do you agree with this?

11 A. No, I don't agree. We did not go in and
12 place them just at the high volume locations. For
13 efficiency reasons we went into geographic areas and
14 placed them in the high volume locations in those
15 areas. Just looking at -- I went back to check the
16 numbers and just looking at the potential pay phones
17 out there where we could place millennium and still
18 exceed the numbers in the imputation analysis, there
19 were more than twice the amount of locations where we
20 could do that than we actually have plans to place the
21 phones.

22 So we are placing them at the high volume
23 locations. I don't expect the call volumes to drop at
24 all. They could actually go up because, as she
25 supposed in her testimony here on the witness stand

03277

1 that somehow we were going to be lowering the level,
2 that's not how we did it. That's not efficient to go
3 out and place them at the high locations first. You
4 go into an area and you place them at every location
5 so you're going to have probably the same mix in most
6 locations because we've selected it site by site.

7 Q. And that's what you mean when you say you
8 are placing them by geographical location?

9 A. Correct. We're going to a part of town to
10 place them. We're not going to the high ones and
11 lower ones next and the lowest next. That's not an
12 efficient way to do it with the manpower necessary.

13 Q. Turning to the subject of call volumes. In
14 her December 1995 testimony she criticizes the call
15 volumes assumed in your October 1995 analysis, and
16 said that when you adjusted the compensation level in
17 your imputation study to the compensation received by
18 site providers, you should have made an adjustment
19 lowering call volumes which would reduce revenues. Is
20 that correct?

21 A. Well, no, it's not correct, and it's very
22 interesting because all we've done is redistribute
23 cost and redistribute call volumes. We have not added
24 calls. We have not taken calls away. All the costs
25 are in the imputation analysis whether it was the

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1 analysis attached to my rebuttal testimony or it was
2 the analysis that we produced, which is Exhibit 517C,
3 and it's very simple.

4 If we were to take 517C exhibit and look at
5 it, you will see that on the far right hand side on
6 line 26 that there is a weighted calls per month.
7 That amount is the same amount that was in the cost
8 study, which is Exhibit 519C. If you go in and look
9 at millennium and public you will find that exact same
10 number in there. If you compare it to the imputation
11 analysis in my exhibit it's a less than 1 percent
12 difference. So that weighted number, we've never
13 changed the total calls, we've just redistributed
14 them.

15 We likewise have never changed the
16 compensation, we've just redistributed them. This is
17 a very simple calculation. If you take line 45 on the
18 far right, which is a weighted cost, and you divided
19 it by line 26, which is the weighted calls per month,
20 you will get on the far right side line 47 which is
21 the price floor. We have not added numbers. We have
22 not taken numbers away. We have merely redistributed
23 them. All the costs are there. All the calls are
24 there. So, the dispute -- we really need to put the
25 dispute to rest that somehow these numbers have

1 changed because they have not. There was one change
2 which could have been rounding or something else which
3 changed it by less than 1 percent. These numbers have
4 been consistent all the way through this process.

5 Q. Mr. Lanksbury, what was the purpose of your
6 proposing Exhibit 517C?

7 A. I thought for the record we ought to
8 attempt to use real numbers. If we want to look
9 whether it makes sense to put the millennium in, we
10 ought to look at the real numbers rather than some
11 calculation of redistribution. So to try and get the
12 record right and see if we're making a wise decision
13 on millennium, we recalculated it based on the 11
14 months that we had. I was hoping, and the reason I
15 waited until the 15th was I was hoping to have a full
16 year's worth of data for 1995 but it was not available
17 when I had to prepare this for this proceeding.

18 Q. So 517C essentially contains actual call
19 volume data for the first 11 months of 1995 which your
20 imputation study previously submitted did not contain?

21 A. Yes, that is correct. My imputation study
22 previously submitted was six months, the last six
23 months of 1994 and the first six months of 1995. It
24 was also actual call data. That is Exhibit 511C that
25 was attached to my testimony.

03280

1 Q. But that actual call data went only through
2 what time period?

3 A. June of 1995 and --

4 Q. And back to June of 1994?

5 A. July of 1994 so 12 months.

6 Q. Is the change -- strike that. Other than
7 putting in those 11 months actual call volumes in
8 Exhibit 517C, are there any other changes from your
9 Exhibit 511C?

10 A. Well, in an effort to reflect the traffic
11 sensitive type costs I also, in the redistribution, I
12 redistributed the coin collection piece of the LRIC.
13 We added no cost. Subtracted no cost. We just
14 redistributed it. I also did that with local usage
15 but of course when you do imputation local usage
16 really doesn't go to the price floor.

17 Q. Mr. Lanksbury, has the actual call volumes
18 for the millennium phones been greater than was
19 originally calculated?

20 A. Actually, yes. We've seen part of the
21 trial, and the reason we moved forward with this is we
22 saw through our trial that when we put the millennium
23 in place we added new payment options for end users.
24 They now had the ability to use our telecard. They
25 also had the ability to use a commercial credit card

03281

1 and because of that we saw about a 9 percent increase
2 in call volumes.

3 Q. You mentioned earlier that the difference
4 between Exhibit 517C and Exhibit 511 in terms of the
5 call volumes and its impact -- or the call volumes is
6 approximately 1 percent; is that correct?

7 A. That's correct.

8 Q. And that has what impact on the bottom line
9 of the imputation analysis?

10 A. Well, it changes it slightly. It reduces
11 it by about .0025 cents, so it is not significant, and
12 it's very important that we do this -- that we look at
13 this as a price floor here.

14 Q. In her testimony this morning Ms. Murray
15 said that the compensation levels are volume driven so
16 she would have expected to see the compensation levels
17 go up when call volumes went up, and I'm wondering if
18 you would agree with that.

19 A. Well, if call volumes had gone up I would
20 agree with that. If you have higher call volumes you
21 have higher compensation, but in total we never had
22 higher call volumes. So all the compensation is in
23 there. We did not redistribute the compensation in
24 the same way but it is from our long-run incremental
25 cost study, which is Exhibit 519C. All the

03282

1 compensation cost is represented in Exhibit 517C.

2 Q. How were the compensation figures initially
3 calculated for the projections?

4 A. Well, the initial calculation is we took
5 the cost that was in 519C. At the Commission's order
6 from the UT case that they addressed imputation, we
7 took the 30 percent that they had directed us to take
8 out of the compensation and distributed it across the
9 products.

10 Q. And have you seen any figures as to actual
11 compensation for 1995 since you made those
12 projections?

13 A. Yes. Our compensation levels right now
14 would be overstated based on what we looked at when we
15 submitted our budget for compensation, and what we do
16 is we submit a compensation figure to the cost analyst
17 that looks into the next year and anticipates the way
18 we see the marketplace, whether we're going to have
19 higher compensation because of competition or whether
20 we're going to have compensation change because we'll
21 have new accounts or we'll lose accounts. And we make
22 that forward looking, and we gave that projection to
23 the analyst, but when I saw the end of the year
24 results they were 7 percent lower so it would have
25 really reduced the costs, so these are somewhat

1 overstated.

2 Q. If you recalculated your imputation
3 analysis based on the information that the actual
4 compensation was actually 7 percent less than
5 projected, what would the impact be on your Exhibit
6 517C bottom line?

7 A. Well, it would reduce.

8 MR. HARLOW: Your Honor, I think we're
9 getting beyond the scope of Ms. Murray's surrebuttal
10 at this point.

11 MS. PETERSON: I don't think we are. She
12 was talking specifically about how she assumed that
13 commissions would go up with call volumes that we
14 have, and I think this is flatly rebutting that.

15 MR. HARLOW: Well, he's bringing in last
16 minute actual data which wasn't the basis of Mr.
17 Lanksbury's initial imputation analysis. It wasn't
18 the basis of Ms. Murray's filing in December, and it's
19 not reflected in Exhibit 517C either.

20 MS. PETERSON: I believe she opened the
21 door to it and he can comment.

22 JUDGE WALLIS: I think under the
23 circumstances that it would be better not to bring it
24 in here inasmuch as it hasn't been brought up in the
25 same way by any of the other means, and I think we

03284

1 might result in mixing those infamous apples and
2 oranges by doing so.

3 MS. PETERSON: Can I make an offer of proof
4 on the question and answer?

5 JUDGE WALLIS: Yes.

6 Q. If asked what the impact on the bottom line
7 would be of the 7 percent reduction that has actually
8 been experienced by U S WEST, what would your answer
9 be? And I'm referring to Exhibit 517C.

10 A. My answer would be it would be about one
11 quarter of one cent.

12 Q. In her testimony this morning, Ms. Murray
13 was commenting on your Exhibit 517C, and she was
14 looking at the backup papers which you provided which
15 I believe has been designated as Exhibit 540C, and she
16 turned to page 3 and commented that she was a little
17 critical of the numbers because the -- I said page 3,
18 I meant the third page which is page 2. She said she
19 was critical of the numbers because the second to last
20 line identified the last 12 month figure was the same
21 as that contained in Exhibit 518C. Do you recall that
22 testimony?

23 A. Yes, I do.

24 Q. And why are those figures identical?

25 A. Because these were my work papers and it

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1 was more or less a note to myself, and it was under
2 the call volumes that the call volume in my exhibit or
3 in Exhibit 511C was the last 12 months dash local
4 calls and that now the 1995 actuals I placed right
5 under them to look at the comparison, so one reflected
6 the numbers I have in my Exhibit LDL-2 which is 511C
7 and the other reflected the numbers that are in
8 Exhibit 517C, so it was just a comparison for me
9 because these were my work papers.

10 Q. They were not -- you had not proposed your
11 work papers to be an exhibit originally?

12 A. No, I had not.

13 Q. Ms. Murray testified a bit this morning
14 about calculations she had run on counsel's computer,
15 and I believe the main difference between what she
16 felt was appropriate and what you felt was appropriate
17 was that she changed the number of stations. Do you
18 recall that testimony?

19 A. Yes, I do.

20 Q. And can you explain your understanding of
21 how hers -- how she achieved her number and how that's
22 different from how you achieved your number?

23 A. My understanding of what Ms. Murray did
24 based on her testimony was she took the numbers from
25 the Exhibit 540C that are on -- and I don't know that

03286

1 I have the same order that you do but on page 3, these
2 are historical numbers through November. They are the
3 average number of stations in service through
4 November.

5 Q. For the record, Mr. Lanksbury, I believe
6 that is on what is identified as page 2 which is the
7 third page of the exhibit.

8 A. Right.

9 Q. And are you looking at stations under
10 Washington public coin and under Washington universal?

11 A. Yes, that's correct. This would be the
12 station numbers under those two categories. She used
13 those. She replaced the numbers we had which were
14 forward looking numbers that we had been using in both
15 my imputation analyses, but she took those numbers and
16 substituted them for the numbers that I had in those
17 two documents. What that does is it leaves all the
18 forward looking cost in the document but then it uses
19 strictly historical data to bounce up against it for
20 the number of stations and redistribute those costs.

21 As much time as she spent talking about the
22 need to have cost studies and imputation analyses
23 being forward looking, I found that to be a very
24 strange way to calculate a price floor because the
25 price floor is supposed to reflect what the next

03287

1 unit is going to cost to put in and unit for us,
2 because we're not in the business of selling pay
3 phones, we're in the business of selling calls, the
4 unit price floor that we need to look at is the call
5 price floor.

6 Q. But substituting those station numbers, how
7 did that affect the station numbers that were
8 contained in your Exhibit 517C?

9 A. Well, of course she would have removed the
10 numbers and would have had somewhat lower number for
11 the millennium type set because it doesn't reflect
12 where we're going in the marketplace. It reflects
13 where we've been.

14 Q. Mr. Lanksbury, Ms. Murray stated in her
15 December 1995 testimony at page 7, lines 3 through 18
16 and also in her imputation analysis that she submitted
17 with that testimony that U S WEST should not be
18 allowed to use a 10 year station life. Do you agree
19 with her contention?

20 A. No, I disagree with her contention that we
21 should not use a 10 year.

22 Q. Why?

23 A. I disagree with it because our station life
24 studies show that we exceed the 10 year station life
25 and those studies tell us how long we leave a phone

03288

1 in. We give contracts sometimes two, three, four and
2 five times, so it wouldn't be appropriate to use
3 someone else's station life. We should be using what
4 applies to our economics and not someone else's.

5 Q. She refers to data request 73 which is
6 Exhibit 521. Why do you believe that does not support
7 her contention?

8 A. Well, it doesn't support her contention
9 because the request that we have here is for contracts
10 with site providers and what the average length is.
11 It does not address location life or the station life
12 at any given location. Had that question been asked
13 we would have answered it very differently, and as I
14 said before, the quality of service we provide allows
15 us to keep the phone in for a period of time in excess
16 of 10 years and so we should be able to use that
17 because we do not incur those costs repeatedly during
18 that period.

19 Q. So the average contract life simply is not
20 representative of the average station life?

21 A. That is correct.

22 Q. Not for U S WEST?

23 A. Not for U S WEST.

24 Q. Is it possible that if your competitors are
25 using station lives of between three and a half and

03289

1 five years, which Ms. Murray posits would be
2 appropriate, could that nonetheless be appropriate for
3 them if in fact that's what they're using but not for
4 U S WEST?

5 A. It could be very appropriate for them. I
6 have no idea how site providers renew contracts with
7 them, how often they renew them, but it would be very
8 appropriate. The service provided and the history can
9 make a big difference in the site life.

10 Q. And what has the historical -- if you know
11 what has been the history for some of the competitor
12 pay phones' service lives as compared to U S WEST?

13 MR. HARLOW: Objection. This is beyond the
14 scope of Ms. Murray's supplemental testimony which
15 addressed solely U S WEST cost.

16 MS. PETERSON: Well, I think it's relevant
17 to explore how those compare to what she contends is
18 appropriate in the industry.

19 JUDGE WALLIS: I think the question is
20 permissible.

21 A. Well, based on the only analysis I've done
22 on that, which was in the case UT-920174, the
23 complaints that had been filed with the Commission are
24 significantly higher which would impact the way site
25 providers would look at their service. If I were to

03290

1 equal out the two service quality measurements being
2 based on Commission complaints that I calculated in
3 that docket, for every 18 complaints U S WEST had on
4 their station base if the station base of the PAL line
5 was the same there would be over 3700 complaints, so
6 that drives decisions as far as am I going to renew
7 the contract.

8 MR. HARLOW: Your Honor, I renew my
9 objection and ask to strike that answer. I think it
10 was an obvious ploy to take a swipe at the competitive
11 pay phone providers.

12 MS. PETERSON: I disagree, Your Honor. It
13 was his understanding of a very important reason for a
14 possible explanation between what Ms. Murray posits as
15 the appropriate lives which may or may not be true for
16 the competitor pay phone providers and what U S WEST
17 lives are.

18 MR. HARLOW: Ms. Murray based that
19 testimony initially on the Commission prescription in
20 the fourth supplemental order in the UT 920174 order
21 and then she bolstered that with the U S WEST response
22 to data request about the average contract life and
23 Ms. Peterson is simply speculating when she talks
24 about competitors' issues.

25 JUDGE WALLIS: Again, I think that the

03291

1 question is within the permissible range and I will
2 allow the answer to stand.

3 Q. Mr. Lanksbury, in her December 1995
4 testimony Ms. Murray submitted an exhibit which has
5 been marked as Exhibit 538C, and I would like you to
6 compare that exhibit to your Exhibit 517C. Both, I
7 take it, are imputation analyses. My specific
8 question is if you could identify those major areas
9 where you are in disagreement with Ms. Murray.

10 MR. HARLOW: Which Murray exhibit are you
11 referring to?

12 MS. PETERSON: 538C.

13 A. Well, going line item by line item, the
14 first one I disagree with really was ordered by the
15 Commission and I disagreed that the ASLS rate should
16 be charged as an imputed rate element, and I disagree
17 on the basis that it is not an essential service and
18 I --

19 MR. HARLOW: Excuse me, Your Honor. May I
20 interrupt? If we're going to go through line item by
21 line item I think that's completely inappropriate.
22 The differences between 538C and the prior imputation
23 analysis of both Ms. Murray and Mr. Lanksbury are very
24 limited. The only difference were an adjustment by
25 Mr. Lanksbury of the compensation level and then a

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1 subsequent proposed adjustment by Ms. Murray on the
2 local call volume, and that is supposedly what the
3 purpose of this direct surrebuttal is to address those
4 changes, and to go through on a line by line basis is
5 just simply another round of rebuttal by U S WEST that
6 should have been included in Mr. Lanksbury's testimony
7 filed in October because those numbers and those
8 assumptions haven't changed since August.

9 MS. PETERSON: Your Honor, we got an
10 entirely new exhibit in connection with Ms. Murray's
11 rebuttal testimony in December of 1995. I don't think
12 we proposed to take it every line by every line. I
13 simply asked Mr. Lanksbury for the major areas where
14 the two disagree and I think that's appropriate.

15 MR. HARLOW: ASLS has been a dollar since
16 the Commission ordered it lowered and U S WEST finally
17 complied with that in September of that year and that
18 hasn't changed. The only line items that are
19 appropriate to address are call volumes and
20 compensation and he has discussed those for nearly
21 half an hour.

22 JUDGE WALLIS: Again, I do think this
23 inquiry is within the appropriate range, and I will
24 deny the objection. I would like to go off the record
25 for a moment for scheduling.

03293

1 (Discussion off the record.)

2 Q. Were you finished with describing why you
3 felt ASLS was not appropriate to be included?

4 A. No. I will just complete that. The reason
5 I feel ASLS is not completed is there's only two
6 subscribers out of thousands of PAL lines, so we do
7 impute it but I disagree with that, because you've
8 asked me what I disagree with.

9 Q. Only two have asked for that service?

10 A. We've only provided it to PAL lines that
11 have requested it for the entire state of Washington.

12 Q. But you have in fact included it in the
13 imputation analysis under Commission order?

14 A. Under Commission order. There are only a
15 couple of more areas that I disagree with. One is the
16 line 7 and line 8. They are both amortized over the
17 five year period rather than the 10 year period.

18 Q. Line 7 and line 8 of Ms. Murray's exhibit?

19 A. Yes, that's correct. I disagree with the
20 coin collect because, as I explained before, I have
21 redistributed it and when she changed the call volume
22 she did not redistribute it back so it is inaccurate.
23 I disagree with her redistribution of call volumes. I
24 think that they are, again, inaccurate. She did
25 correct -- commissions were slightly different but

03294

1 it's not a significant enough difference that I would
2 make an issue of it. So those are the areas that I do
3 disagree with.

4 Q. Mr. Lanksbury, do you recall Ms. Murray's
5 testimony this morning about why she thought it was
6 appropriate to disallow revenues related to the
7 functionality provided in the millennium phones for
8 credit card use and processing cost calls?

9 A. She believed that they fell under the
10 Commission order in UT 920174 as toll revenues that
11 should not be included in our imputation analysis. I
12 disagree with that. That is absent from here. I
13 believe that they are set functionality. They're
14 totally embedded in the set. They have nothing to do
15 with the network. They are payment made by carriers
16 to us for functionality that is beyond the toll-rated
17 service that the end user pays.

18 Q. And you have followed the Commission's
19 directive to disallow the 30 percent toll revenues in
20 your imputation analysis, correct?

21 A. Yes, I have.

22 Q. Ms. Murray testified this morning a bit
23 about market value in refurbishing of standard pay
24 phones. Do you recall that testimony?

25 A. Could I add one thing to my last answer?

03295

1 Q. Certainly.

2 A. And it's strictly that I also disagree that
3 there's no price floor here. Her analysis categorizes
4 this in three separate stand alone services. We don't
5 sell pay phone service. We sell a local call. The
6 local call is what should be looked at as the price
7 floor and that analysis is not done here. She's
8 looked at millennium as stand alone service. She's
9 looked at the old style as a stand alone service.
10 She's looked at semipublic for the same. To the end
11 user on the street they look alike. The semipublic
12 and the old style look exactly alike and what we're
13 selling is a call. That's the price floor that we
14 compete for. We compete for calls. Locations allow
15 us to put our pay phone there but the revenues are
16 driven from the calls that are generated over that pay
17 phone and that's what the price floor should be.

18 Q. Turning your attention to Ms. Murray's
19 testimony this morning about market value and
20 refurbishing of standard pay phones. Do you agree
21 with her that any cost should be attributed to the
22 market value of a standard pay phone in the imputation
23 analysis?

24 A. No, I don't agree with her. I'm not a cost
25 witness but I personally don't agree with that.

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1 Q. Even if you did for sake of argument impute
2 something for that factor, what would the impact be on
3 your bottom line imputation analysis?

4 A. It would be a quarter of one cent, so
5 .0025.

6 Q. And you have run the calculations?

7 A. Yeah. Based on the one sale we had what we
8 received for those if we were to impute that amount to
9 every pay phone it would be a quarter of one cent.

10 Q. How solid is the market for used pay
11 phones?

12 A. Well, when we put them on the market we
13 didn't have very many bidders because there is
14 investment. They have to make the phone work because
15 it is a dumb set and that's a set that relies on
16 switching to make it work, so that dumb set doesn't
17 have a lot of value on the market from our experience.

18 Q. Would it be fair to say that that market
19 could even diminish in the future?

20 A. It very well could.

21 Q. Ms. Murray said that you cannot refurbish
22 phones indefinitely. Do you agree with her?

23 A. Well, I don't know. They're just mini
24 vaults. There's not a lot of damage we can do them.
25 We built them because they hold money. They're in the

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1 public. They're not often in a secure place and you
2 can replace the components for a long time. Those
3 shells were made like a safe and that was on purpose.
4 There may be some point in 20, 30 some of these phones
5 have been in the field 20 and 30 years. I know that
6 because when I first started at the company I helped
7 put them in so they've been there a long time and
8 we've been refurbishing it.

9 Q. Do you agree with the assumption in Ms.
10 Murray's testimony that the PAL line rate can or
11 should be different from the business line rate?

12 A. No, I do not agree with that testimony. In
13 the pay phone order in UT 920174 the Commission deemed
14 them as business type customers, gave them the
15 business rate. It was determined they weren't
16 telecommunications company. I don't think they should
17 have a rate any different.

18 MS. PETERSON: Mr. Lanksbury is available
19 for cross-examination.

20 JUDGE WALLIS: Very well. Pursuant to our
21 earlier scheduling indications I think that it's time
22 that we recess and we'll take up on Monday morning at
23 8:00 for administrative matters, and then Mr. King at
24 8:30 followed by Mr. Lanksbury.

25 (Hearing adjourned at 5:40 p.m.)

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