

1 BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION
2 COMMISSION

3	WASHINGTON UTILITIES AND)	
	TRANSPORTATION COMMISSION,)	DOCKET NO. UT-950200
4)	
	Complainant,)	VOLUME 26
5)	
	vs.)	Pages 3298 - 3559
6)	
	U S WEST COMMUNICATIONS, INC.,)	
7)	
	Respondent.)	
8	-----)	

9 A hearing in the above matter was held at
10 8:30 a.m. on January 22, 1996, at 1300 South Evergreen
11 Park Drive Southwest, Olympia, Washington before
12 Chairman SHARON L. NELSON, Commissioner RICHARD
13 HEMSTAD, and Administrative Law Judge C. ROBERT
14 WALLIS.

15
16 The parties were present as follows:

17 U S WEST COMMUNICATIONS, by EDWARD SHAW and
18 MOLLY HASTINGS, Attorneys at Law, 1600 Bell Plaza,
19 Seattle, Washington 98191 and SHERILYN PETERSON,
Attorney at Law, 411 - 108th Avenue Northeast,
Bellevue, Washington 98004.

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

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

25 Cheryl Macdonald, CSR, Court Reporter

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APPEARANCES (CONT.)

AT&T, by SUSAN PROCTOR, Attorney at Law,
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TRACER, by ARTHUR A. BUTLER, Attorney at
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Attorney at Law, 601 Union Street, #4400, Seattle,
Washington 98101.

DEPARTMENT OF DEFENSE/FEDERAL EXECUTIVE
AGENCIES, by SHERYL BUTLER, Attorney at Law, 901 North
Stuart Street, #713, Arlington, Virginia 22203.
(By Teleconference Line)

03300

1

I N D E X

2

	WITNESSES:	D	C	RD	RC	EXAM
3	KING	3302	3303			
	LANKSBURY	3309	3311	3368	3374	
4	REES	3378	3380	3392		
	OWEN	3401	3403	3457		
5	STAHLY	3467	3469			
	SPINKS	3484	3488			

6

7

	EXHIBITS:	MARKED	ADMITTED
8	575T, 576, 577T	3302	3303
9	488 (WITHDRAWN)	3363	
	540C, 520C, 521		3364
10	522, 524C		
	523		3365
11	580T, 581, 583C	3378	3379
	582C	3378	3387
12	74T, 75, 76C,		3379
	77C, 78, 79C,		
13	80C, 81C		
	585T, 586, 587C	3401	3403
14	588, 589, 592		
	590	3401	3443
15	591	3401	3424
	41T, 42, 43,		3403
16	44C, 46-53		
	595T, 546, 597C,	3467	3469
17	598C, 599, 600C,		
	601C		
18	602T, 603, 604,	3484	3488
	605C, 606, 607C,		
19	608, 609T		

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03301

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

2 JUDGE WALLIS: Let's be on the record,
3 please, for our Monday, January 22 session in the
4 matter of docket UT-950200, U S WEST Communications.
5 Our session this morning begins with testimony from
6 a witness of the Department of Defense who is appearing
7 by teleconference line.

8 Just a couple of other housekeeping
9 matters. Mr. Purkey is unable to appear today and
10 instead the company will be offering the testimony of
11 Ms. Owen, and Mr. Purkey will be rescheduled to
12 Wednesday morning, and I understand that Mr. Stahley
13 will be available for cross-examination.

14 MS. LEHTONEN: That's correct.

15 JUDGE WALLIS: So we will as the day
16 unwinds take a look at the ultimate schedule. Let's
17 begin, now, with the examination of Charles W. King.
18 Whereupon,

19 CHARLES W. KING,
20 having been first duly sworn, was called as a witness
21 herein and was examined and testified as follows:

22 JUDGE WALLIS: In conjunction with the
23 appearance of Charles W. King the following documents
24 have been prefiled. First the direct testimony which
25 is marked as Exhibit 575T for identification.

03302

1 Attachment CWK-1 consisting of the witness's resume is
2 576 for identification, and the witness rebuttal
3 testimony is 577T for identification.

4 (Marked Exhibits 575T, 576, 577T.)

5 JUDGE WALLIS: Ms. Butler, you may proceed.

6 MS. BUTLER: I have one real quick
7 question. I should have asked this earlier. I don't
8 know whether you've been having the witnesses give
9 some direct oral testimony. It was kind of my
10 understanding that you didn't want to do that. You
11 just wanted to do cross-examination.

12 JUDGE WALLIS: We have not been doing that
13 and we have been going directly to cross.

14

15 DIRECT EXAMINATION

16 BY MS. BUTLER (via teleconference):

17 Q. Would you state your name and address for
18 the record?

19 A. My name is Charles W. King. My office
20 address is 1220 L Street Northwest, Suite 410,
21 Washington, D.C.

22 Q. Are you the same Charles King that
23 submitted direct testimony on the 11th of August and
24 rebuttal testimony on the 28th of September 1995?

25 A. Yes, I am.

03303

1 Q. Do you have any additions or corrections to
2 either of those documents?

3 A. No, I do not.

4 Q. And if you were preparing those answers
5 today would they be the same today as they were when
6 you prepared them?

7 A. Yes, they would.

8 MS. BUTLER: At this time I would tender Mr.
9 King for any cross-examination, Judge Wallis.

10 JUDGE WALLIS: Let me ask if there's any
11 objection to receiving the exhibits.

12 Let the record show there is no objection
13 and Exhibits 575T, 576 and 577T are received.

14 (Admitted Exhibits 575, 576 and 577.)

15 JUDGE WALLIS: I understand that the
16 company does have some examination for the witness; is
17 that correct?

18 MS. HASTINGS: Very limited questions.

19

20 CROSS-EXAMINATION

21 BY MS. HASTINGS:

22 Q. Hello, Mr. King, my name is Molly Hastings
23 and I represent U S WEST Communications.

24 A. Hello.

25 Q. I have a few number of questions for you

03304

1 this morning. First I wanted to ask you, you haven't
2 independently investigated the company's revenue
3 requirement, have you?

4 A. No, I have not. The testimony that I have
5 submitted relates principally to revenue distribution
6 and rate design.

7 Q. And so you don't have any personal
8 recommendation or recommendation on behalf of the
9 federal agencies regarding what the company's revenue
10 requirement is, do you?

11 A. I have observed in my testimony four
12 reasons for believing that the revenue requirement is
13 overstated, and I can give you a reference to that.

14 Q. I am aware of that. I'm just asking, you
15 haven't independently verified other than that,
16 though, have you?

17 A. Other than that I have not independently
18 verified the appropriate revenue requirement.

19 Q. Thank you. And then Mr. King, you indicate
20 on page 6 of your testimony that you believe that Mr.
21 Brigham and his testimony as adopted by Mr. Scott has
22 somewhat overstated the degree and imminence of
23 competition for local exchange service?

24 A. Yes.

25 Q. Have you done any independent studies of

03305

1 the degree and imminence of competition for local
2 exchange service in the state of Washington?

3 A. By independent studies if you mean without
4 reference to any of the studies submitted in this
5 proceeding and in the interconnection proceeding the
6 answer is no.

7 Q. Thank you. Just lastly, would it be fair
8 characterization of your testimony that without regard
9 to what the company's actual revenue requirement is
10 you believe that the Commission should proceed forward
11 with the company's recommendations to rebalance rates?

12 A. Yes, I do.

13 Q. Thank you.

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

15 JUDGE WALLIS: Mr. Smith.

16 MR. SMITH: No questions.

17 JUDGE WALLIS: Mr. Trotter.

18 MR. TROTTER: That inspired one question.

19 Do you have your response to public counsel data
20 request 2A?

21 THE WITNESS: I am afraid I don't.

22 MR. TROTTER: I will read it and make sure
23 I have your response. That question asked whether you
24 were testifying that residential service basic
25 exchange rates of U S WEST in Washington are currently

03306

1 below the appropriate long-run incremental cost, and I
2 believe your answer was no. Do you recall that?

3 THE WITNESS: What request was that?

4 MR. TROTTER: This is Donald Trotter for
5 public counsel, public counsel/AARP data request 2A?

6 THE WITNESS: I believe the answer was yes.
7 I don't seem to have a copy of it.

8 MR. TROTTER: Well, my question was whether
9 the answer to the question was no.

10 THE WITNESS: I'm sorry.

11 MR. TROTTER: And then the follow-up
12 question was, was that your answer and your answer to
13 that question was yes?

14 THE WITNESS: Let me restate the whole
15 thing from scratch. My rebuttal testimony, I can see
16 that I have no independent position as to whether
17 residential rates are compensatory. However, I
18 observed that there are no less than three witnesses
19 that testify that indeed residential rates do appear to
20 be compensatory and I concede to the high probability
21 that that is the case. I then proceed to argue that
22 that does not justify a reduction of residential rates
23 at this time.

24 MR. TROTTER: Fine. Thank you. That's all
25 I have.

03307

1 JUDGE WALLIS: Any further questions for
2 the witness? Ms. Butler, do you have any redirect?

3 MS. BUTLER: No, sir.

4 JUDGE WALLIS: Very well. It appears, Mr.
5 King, that your time on the stand has been brief, and
6 we appreciate your being with us today if only by
7 teleconference and you're excused from the stand at
8 this time.

9 Is there anything further regarding the
10 Department of Defense or this witness? Let the record
11 show that there is no response. Ms. Butler, I
12 understand that you will not be continuing with us; is
13 that correct?

14 MS. BUTLER: Yes, sir.

15 JUDGE WALLIS: We wish you well for the
16 remainder of the day then.

17 MS. BUTLER: Thank you. You too.

18 JUDGE WALLIS: At this time we are prepared
19 to return to the examination of Mr. Lanksbury; is that
20 correct? Mr. Lanksbury, would you step forward at this
21 time.

22 MR. HARLOW: Your Honor, I wondered if we
23 could take care of one procedural matter while Mr.
24 Lanksbury is getting set up. I would like to request
25 official notice of three items, I guess I will call

03308

1 them, rather than documents and I have predistributed
2 them.

3 (Discussion off the record.)

4 JUDGE WALLIS: Let's be back on the record,
5 please. Mr. Harlow, you were indicating that you were
6 distributing three documents this morning.

7 MR. HARLOW: Yes, Your Honor. Thank you
8 again. The first item, Metronet Services Corporation
9 requests official notice of two pages of the
10 transcript of docket No. UT-911488 et al. The two
11 pages are pages 271 and 982. I've handed these out.
12 They consist of a portion of the cross-examination of
13 Merlin Jenson.

14 JUDGE WALLIS: This doesn't have anything
15 to do with Mr. Lanksbury?

16 MR. HARLOW: No.

17 JUDGE WALLIS: Could we put it aside and
18 proceed with matters having to do with Mr. Lanksbury,
19 please?

20 MR. HARLOW: I was going to do it while he
21 was setting up but he's had plenty of time.

22 MS. PETERSON: Before we get started he
23 does have a correction to the testimony he gave on
24 Friday briefly.

25 JUDGE WALLIS: We'll proceed if there's

03309

1 anything further for Mr. Lanksbury. Any of these
2 documents relate to his testimony?

3 MR. HARLOW: No. We haven't distributed
4 anything this morning regarding Mr. Lanksbury.

5 JUDGE WALLIS: Mr. Lanksbury, I will remind
6 you that you've previously been sworn in this matter.

7 Whereupon,

8 L.D. LANKSBURY,
9 having been previously duly sworn, was recalled as a
10 witness herein and was examined and testified
11 further as follows:

12

13 DIRECT EXAMINATION

14 BY MS. PETERSON:

15 Q. Mr. Lanksbury, you indicated to me this
16 morning that you have a correction to your testimony
17 from Friday and if you could please state it now?

18 A. Yes. On Friday in my testimony I made a
19 comparison that was really an apples to oranges
20 comparison and I need to correct that so that the
21 record is right. I compared three documents. I
22 compared Exhibit 511C, which was the exhibit LDL-2
23 from my testimony. I compared that to 517C, and I
24 also compared it to the cost study which was 519C.
25 While the comparison to 511C and 517C was correct, I

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1 did have a correction to make on my comparison of 517
2 to 519C. That correction was the fact that I compared
3 the call volumes from 517C on the right-hand side, the
4 far right of line 26, to the call volumes for public
5 and millennium. The oversight I did in making that
6 comparison and not going quite far enough was that it
7 did not include semipublic when I did the calculation.
8 And I said that those two numbers were the same, which
9 is true. The problem is that without comparing
10 semipublic the number in 517C is higher than the sum
11 of the numbers, the weighted sum of the numbers, from
12 519C. It's about 8 percent higher.

13 So the call volumes from the original cost
14 study to the final Exhibit 517C did change by about 8
15 percent, and the reason is because in 517C we used
16 actual numbers for 11 months of 1995 where in the
17 document from the cost study we were using surrogates
18 from public to represent millennium, and that's always
19 a problem when you use surrogates and we were using
20 surrogates because we had no actual experience with
21 millennium in the usage. We were just beginning the
22 trial.

23 Q. Mr. Lanksbury, the correction is to your
24 comparison but there's no correction to 517C, is
25 there?

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1 A. There is no correction to any of the
2 documents. We believe the numbers in 517 are
3 appropriate. They are actual call volume data and we
4 stand that that is the appropriate calculation, and it
5 would have changed the price floor slightly.

6 MS. PETERSON: Thank you.

7 JUDGE WALLIS: I will note for the record
8 that the company this morning distributed its
9 late-filed exhibit 519C which has just been referenced
10 by the witness.

11 JUDGE WALLIS: Mr. Harlow.

12 MR. HARLOW: Thank you, Your Honor.

13

14 CROSS-EXAMINATION

15 BY MR. HARLOW:

16 Q. Mr. Lanksbury, we've been talking a lot
17 about millennium versus a standard set, but I don't
18 think we have anywhere on the record a description of
19 the difference between them. From an appearance
20 standpoint rather than a technical standpoint could
21 you please briefly describe the difference between a
22 standard or an old style set and a millennium set?

23 A. Well, describing the difference and doing
24 it on appearance rather than technology is kind of
25 difficult but I will see if I can show you -- some of

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1 it will relate to the technologies because part of the
2 difference is that the millennium set is a much higher
3 technical set, provides additional capabilities, which
4 are very obvious to someone viewing that set.

5 First, the standard pay phone is a black
6 and chrome station. It allows only for card and coin
7 -- well, noncash transactions through the dial and for
8 cash transactions, where the millennium when you walk
9 up to it it's very different in the fact that it has a
10 screen across the top. It has a card reader on the
11 left-hand side. It does have a coin slot, allows
12 cash. So it allows not only noncash through the
13 dialing process but it also allows the insertion of a
14 card either commercial credit card, a tel-card or a
15 calling card. It has a yellow hossle on the right-hand
16 side with a slot in it. Then it will give you a visual
17 display. So I hope that helps.

18 Q. When you talk about the visual display
19 you're talking about some kind of a digital electronic
20 readout?

21 A. Right. An LED type readout across the top.
22 It controls and will give messages across the top.

23 Q. As I understand it, the inside of the set
24 also has some technical differences. It's in the
25 nature of a smart set, if you will?

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1 A. Yes. It has smart set capability and that
2 is used in the processing of commercial calling card,
3 rate and routing, handling of toll, handling of
4 tel-card, it has intelligence in it. It also has
5 intelligence to see things through a switch pack
6 network.

7 Q. I understand that you prepared Exhibits
8 517C, at least the attachments to that -- excuse me,
9 518C, the attachments to that, 511C and 517C; is that
10 correct?

11 A. Yes, that's correct.

12 Q. And 511C and 517C constitute pay phone
13 imputation tests for U S WEST pay phones; is that
14 correct?

15 A. Yes. It's two versions of the imputation
16 test. The only change in them are the call volumes
17 because we used actuals at two different points in
18 time, yes, that's correct.

19 Q. The second page of Exhibit 518C is yet a
20 third version of the imputation test?

21 A. The second page of 518C was a version that
22 was sent to you in an informal data request and did
23 not include any actual call volumes, that's correct.
24 Excuse me. I think it did. I take that back. It did
25 include actual call volumes and it has been changed in

03314

1 more than the call volumes that are related to 517C.

2 Q. And as I understand it most of the cost
3 data for Exhibits 511C and 517C you took or derived
4 from Exhibit 519C?

5 A. That's correct.

6 Q. And 519C is a cost study for U S WEST pay
7 phones that was prepared by U S WEST economists; is
8 that correct?

9 A. Well, I'm not sure if the person that
10 prepared it was an economist but it was prepared by a
11 cost analyst.

12 Q. A costing expert, if you will?

13 A. Yes.

14 Q. Did you assist at all in preparing Exhibit
15 519C?

16 A. No, I did not.

17 Q. Did you have any substantial assistance in
18 preparing the three imputation analyses that we've
19 identified, 511C, 518 and 517C?

20 A. From primarily the cost data input is the
21 only assistance I had.

22 Q. So you looked at 519C, you didn't have
23 personal assistance?

24 A. No, no personal assistance.

25 Q. Were your three imputation analyses

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1 especially reviewed by the preparer of Exhibit 519C?

2 A. I do not believe so.

3 Q. Were they reviewed by any economist?

4 A. I believe Mr. Purkey has seen them.

5 They've been attached to my testimony so at least I

6 know he's seen 511C. The methodology has been

7 reviewed by Mr. Purkey.

8 Q. Did he review the numbers?

9 A. I do not know.

10 Q. Did he discuss your imputation analyses

11 with you?

12 A. This specific imputation analysis, no, it

13 was not discussed by Mr. Purkey and myself.

14 Q. I understand you're not an economist?

15 A. I am not an economist.

16 Q. And I understand from your prior testimony

17 you don't consider yourself to be a costing expert

18 either?

19 A. I am not a costing expert, that is correct.

20 Q. Do you believe you would be qualified to

21 prepare Exhibit 519C?

22 A. No, I would not be prepared -- would not be

23 qualified to prepare 519C.

24 Q. Do you have Exhibit 519C with you?

25 A. Yes, I do.

03316

1 Q. Would you please turn to page 3-9?

2 A. That's 3-9 handwritten in at the bottom?

3 Q. 3-9 handwritten.

4 A. I have that.

5 Q. Do you see under the heading study
6 methodology near the beginning of the second paragraph
7 that loop costs were determined using Lotus Symphony
8 based program that links several spreadsheets
9 together?

10 A. Yes.

11 Q. Do you understand that the purpose of this
12 linking was designed to insure that any changes in an
13 assumption underlying one cost element would make
14 -- the Symphony program would make the necessary
15 corresponding changes to other elements that rely on
16 those same assumptions?

17 A. I see where they speak of linkages to other
18 expenses here, yes, but I don't see where they say
19 exactly what you've stated.

20 Q. Well, I'm just trying to -- I understand
21 you work a lot with spreadsheet programs; is that
22 correct?

23 A. That's correct.

24 Q. And when you have a Symphony type
25 spreadsheet making a change in one spreadsheet will

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1 make corresponding changes in other spreadsheets; is
2 that correct?

3 A. Normally true, yes.

4 Q. So if you change an assumption as an input
5 to one cost element on one spreadsheet it might affect
6 the other spreadsheets; isn't that correct?

7 A. It might be, but I'm not sure how these are
8 linked.

9 Q. Did you work with the Symphony program
10 referred to on this page of Exhibit 519C in preparing
11 your imputation analyses?

12 A. No, I did not.

13 Q. I would like you to get in front of you,
14 please, Exhibit 517C as well as Exhibit 519C, and
15 let's start on page 0-8 of Exhibit 519C.

16 A. I have that.

17 Q. You're on 0-8 of 519C?

18 A. 519C, 517C is one sheet.

19 Q. Right, the cost study?

20 A. Yes.

21 Q. I want you to be on 0-8 of the cost study,
22 519C.

23 A. Correct.

24 Q. Now, as I understand it, 0-8 of 519C is
25 the projected cost or the analysis of the

03318

1 millennium phone?

2 A. That is correct.

3 Q. As I understand it, it would be the third
4 column on 0-8 headed average service incremental ASIC
5 that should correspond to the middle column of Exhibit
6 517C which is headed millennium?

7 A. That is correct. I need to note one thing
8 here. This cost study was prepared after the initial
9 -- the original inputs. If we go back to 511C, which
10 was the input, my 511C there may be some slight
11 differences because my 511C was prepared on 9-16-95 --
12 excuse me. Take that back. This is '94. Go ahead.

13 Q. I understand there's some differences and I
14 would like to go through them. Let's first of all
15 look at the line -- and I assume that I can give the
16 expense elements on the left in the cost study as well
17 as on the left side of your imputation analysis as
18 long as I don't give the numbers on the record?

19 A. As long as the numbers aren't on the
20 record, yes.

21 Q. Let's start with loop and drop maintenance
22 on the cost study. Should that correspond to your
23 line 3 titled drop?

24 A. Correct.

25 Q. And I see that evidently you made a change

03319

1 in the drop cost between cost study and your
2 imputation analysis?

3 A. I used the public, yes, which is oh-dot-
4 six.

5 Q. Let's go down to the row advertising. On
6 the cost study which is also called advertising, it's
7 on line 14 of your imputation analysis, I see you also
8 made a change to the advertising cost when you
9 prepared your imputation analysis; is that correct?

10 A. Yes. I increased that to the public also.
11 Both those were higher because we only had 53 stations
12 or we had very few number of stations in so I took the
13 higher costs since we were replacing the millennium
14 with public, so it raised the total costs, so I used
15 the higher of the two numbers, that is correct.

16 Q. And you also changed the line for coin
17 collection. You lowered that somewhat; isn't that
18 correct?

19 A. Yes. The line for coin collection was
20 lowered somewhat because I also used the public
21 because of the economies of scale, that is correct.

22 Q. And you've also changed the compensation
23 figure; isn't that correct?

24 A. Yes. I think that's been well documented
25 both in my testimony and the testimony of Ms. Murray

03320

1 because there is a 30 percent change as ordered by the
2 Commission.

3 Q. Can I give a ballpark on the record of the
4 difference between those numbers?

5 A. Certainly.

6 Q. You lowered the compensation cost from the
7 cost study to your imputation analysis by over \$20; is
8 that correct?

9 A. That's correct because there was a
10 redistribution of stations, and to continue this number
11 and triple the size of the station base would have
12 well overstated the compensation and I think that's
13 something that Ms. Murray and I have debated in our
14 testimony.

15 Q. I'm not asking for reasons right now. I'm
16 going through what the changes are and the approximate
17 magnitude. Take a look at the line for sales. You
18 changed that number as well, didn't you?

19 A. Yes. Again, I raised that number to the
20 public number because we're placing more -- we're
21 converting public stations to millennium stations, and
22 this was based on a very small millennium base.

23 Q. Let's take a look at the line for staff.
24 You changed that one substantially as well, did you
25 not?

03321

1 A. That is correct. I have to say something.
2 You need to go into the guts of this order or of this
3 cost study, and I can show you in this cost study in
4 each of these cases where it shows millennium and it
5 shows these numbers because card and coin included
6 universal stations in it.

7 Q. Again, Mr. Lanksbury, I'm simply going over
8 what you changed at this point in time.

9 MS. PETERSON: He has the right to explain
10 his answer.

11 Q. Mr. Lanksbury, take a look at the line for
12 staff. You lowered that by over \$10; isn't that
13 correct.

14 MS. PETERSON: Can you state the line
15 number, please.

16 MR. HARLOW: That would be line No. 13 on
17 the imputation analysis. There's no line number in
18 the cost study.

19 A. Let me show you where that is in the study
20 under millennium if that would be okay because you're
21 taking --

22 Q. Excuse me. Mr. Lanksbury, at this point
23 I'm simply trying to establish changes between the
24 numbers.

25 A. Yes, I changed that.

03322

1 Q. In making these changes -- strike that.
2 Looking at Exhibit 517C, the call volume line, line
3 26, I believe you testified last Friday that you felt
4 that was a forward looking estimate?

5 A. Line 26?

6 Q. Yes.

7 A. On 517C. No, I did not say that was
8 forward looking. I said that on line 26 total calls
9 was actual call volumes through November of 1995.

10 Q. So you don't contend that that's a forward
11 looking figure?

12 A. No. I think I stated over and over again
13 it's an actual call volume through November of '95.

14 Q. Did you rerun the cost study, Exhibit 519C,
15 using the call volumes shown on Exhibit 517C?

16 A. I did not prepare 519C so no, I did not.

17 Q. And the preparer of 519 also didn't rerun
18 the cost study; is that correct?

19 A. That's correct, because we would need
20 totally new cost data and that was not available and
21 will not be available until the end of this year.

22 Q. What is the main cost driver for the
23 compensation cost?

24 A. The revenues that are generated by the
25 telephone both local and toll and operator services.

03323

1 Q. And what is the main driver of revenues?

2 A. The rates and the volume of calls that are
3 placed and the types of calls that are placed. There
4 is no singular. You can't say there is one main
5 driver because there is three specific elements.

6 Q. Have any of the local call rates changed in
7 the last four or five years?

8 A. For Washington, no, they have not.

9 Q. Assuming that the rate is the same the main
10 cost driver for compensation would then be the
11 compensation percentage paid to the pay phone owner as
12 well as the volume of traffic, local traffic, at the
13 pay phones?

14 A. Not totally local traffic. That's been --
15 it's the result of local, toll, operator services, and
16 the call volumes associated with the three services,
17 not any singular service, and then the rates and the
18 distribution of those calls across those rates, so you
19 can't say it's just local.

20 Q. What has been the trend in the compensation
21 percentages paid to site owners over the last four
22 years?

23 A. The trends have been going up.

24 Q. Is that continuing?

25 A. It is my assumption that it is continuing.

03324

1 Q. All other things being equal, assuming,
2 say, over the last six months, that your percentages
3 paid to site owners have changed not at all or
4 minimally but you have a substantial increase in local
5 call volumes you would expect compensation costs to go
6 up, wouldn't you?

7 A. No, I don't expect it to go up because toll
8 is going down and there has been repricing in toll and
9 operator services through filing with this Commission
10 with Beth Steel and so the overall rates of
11 compensation are going down.

12 Q. Well, Beth Steel took effect when?

13 A. A little over a year ago.

14 Q. So it's been in effect since throughout
15 1995?

16 A. Since they threw out -- I'm sorry.

17 Q. From the beginning of 1995?

18 A. Since we began 1995. I didn't through it
19 out. It was there for me. Throughout, yes. Yes.
20 They have changed in the rates for toll and operator
21 services have been lower throughout 1995.

22 Q. So the rating then affecting compensation
23 has been essentially the same for the entire year
24 1995?

25 A. While the rating has been essentially the

03325

1 same this cost study and the costs related to
2 compensation were developed from 1994 historical data
3 before the Beth Steel was put in place and it did not
4 reflect any Beth Steel pricing change. In fact the
5 budget was using 1994 historical data and increased to
6 reflect what we anticipated would happen in the
7 marketplace, and that it increased it by by -- this is
8 subject to check -- about 10 percent, and that hasn't
9 proven to be the case because we've not only had the
10 pricing changes but we've lost stations in the field
11 and some major contracts.

12 Q. Mr. Lanksbury, let's take a look at Exhibit
13 517 compared to Exhibit 511 for a minute.

14 A. I have them.

15 Q. And do you see the total local calls shown
16 for millennium on both of those exhibits?

17 A. Yes, I do.

18 Q. Can we state on the record the approximate
19 difference between those call volumes?

20 A. Certainly.

21 Q. And what is that difference?

22 A. I haven't calculated but it appears to be
23 about 12 percent, 13 percent.

24 Q. And so -- actually I want it in terms of
25 numbers of calls not percentages.

03326

1 A. I'm sorry. 55 calls per month per station.

2 Q. And how much revenue did those local calls
3 generate, the 55 difference?

4 A. Well, while they would generate a quarter a
5 call, the local would also decrease by that quarter a
6 call, and that has gone down by 25 calls and it's over
7 twice the base.

8 Q. I'm sorry. I don't understand what would
9 go down when you increase those calls.

10 A. Well, I said they would be about a quarter
11 of a call but on a stand alone basis you can't say
12 that's all new revenues because it isn't all new
13 revenue. I mean, it's all not additional revenues
14 because remember we have the corresponding loss of
15 calls in the public category, it went down 25 calls
16 per month.

17 Q. Did you make any adjustment to compensation
18 for either category public or millennium for juggling
19 the numbers on the call volumes?

20 A. No, I did not.

21 Q. Let's go through the various versions of
22 Exhibit 517 I see that you prepared over the last six
23 months. As I understand it, you provided us with the
24 imputation analysis that's attached to 518C in about
25 August of 1995.

03327

1 A. Yes. That was the informal that I provided
2 to Mr. Shaw who sent it to you.

3 Q. At the time did you believe that it was
4 accurate?

5 A. At the time I did believe it was accurate.

6 Q. Did you review it with the preparer for the
7 cost study?

8 A. I do not believe it was reviewed with the
9 preparer of the cost study. I did review it with the
10 product manager who's in charge of cost studies.

11 Q. Then in October of 1995 Ms. Murray filed
12 testimony in which she stated that she found a number
13 of errors in 518C. Do you recall that?

14 A. I recall that.

15 Q. And you agreed with most of those errors
16 that she found; isn't that right?

17 A. I agreed with four of those errors. There
18 were two oversights and plus the FCC CALC had changed
19 about the time I prepared this, so those were the ones
20 I agreed with.

21 Q. In the sense of the dollar impact the most
22 significant error in your 518 was in the call volume
23 area; isn't that correct?

24 A. I believe she made a correction and then I
25 corrected her correction so, yes, there was a change.

03328

1 Q. If you simply made her corrections without
2 making an additional correction yourself, I take it
3 you would agree you came up with an imputation
4 analysis that showed your pay phones were not covering
5 your costs; isn't that correct?

6 A. I do not recall isolating that to just
7 making her corrections. The total corrections are
8 reflected in my 511C, and I do show cost recovery.

9 Q. When it was pointed out to you that you
10 made these errors by Ms. Murray, what is it that made
11 it, quote, become obvious, close quote, as you state
12 at page 5 of your prefiled testimony that there were
13 errors in the compensation costs?

14 A. Well, she stated three areas in the
15 testimony that I had to agree with, actually four.
16 The call volumes, the county 911 tax was omitted. A S
17 L S --

18 Q. Excuse me. Your testimony --

19 MS. PETERSON: Would you let the witness
20 finish his answer, please.

21 MR. HARLOW: The witness's answer is
22 nonresponsive. The question and the testimony I
23 referred to referred only to the compensation costs.

24 MS. PETERSON: Your Honor, I would
25 appreciate it if the witness could complete his answer.

03329

1 JUDGE WALLIS: I do in this case agree with
2 Mr. Harlow that the answer did not appear to be
3 responsive, and while we certainly invite the witnesses
4 to explain their answers, we do ask them to confine
5 the answers to questions that have been asked.

6 THE WITNESS: I apologize, Your Honor. I
7 did not hear him say compensation.

8 Q. Do you recall approximately where you said
9 it became obvious that there were errors in the
10 compensation costs?

11 A. And I'm sorry, I did not hear it as
12 compensation so I was explaining all four.

13 Q. My question is what made it become obvious
14 to you at this point in time rather than back in
15 August?

16 A. Well, one is that Ms. Murray added a half a
17 million dollars in compensation costs and I disagreed
18 with that.

19 Q. Are you referring to her millennium only
20 analysis?

21 A. Well, I don't remember exactly what
22 analysis I'm referring to. I just remember there was
23 a million dollars more in compensation. When you're
24 just merely changing out stations and you're not
25 changing the compensation rate I don't see that

03330

1 happening.

2 Q. Now, the difference between Exhibits 511 --
3 excuse me, the difference between 518C's imputation
4 analysis and 517C, there is no difference between the
5 number of stations; isn't that correct? The assumed
6 number of stations is the same for both of those
7 exhibits?

8 A. That is correct.

9 Q. And yet you reduced the compensation cost
10 for millennium phones by -- can I ballpark that number
11 without violating confidentiality?

12 A. That's fine.

13 Q. By approximately \$8 between those; isn't
14 that correct?

15 A. That is correct.

16 Q. If you didn't do that what would be the
17 effect on the bottom line? Would you accept subject
18 to check that if that figure western reduced by \$8 it
19 would show the existence of a price squeeze?

20 A. It is my belief it would inappropriately
21 give you the bottom line that the price floor was
22 uncovered.

23 Q. So the answer is a qualified yes, sir?

24 A. Is a qualified yes.

25 Q. And after receiving Ms. Murray's

03331

1 corrections you filed Exhibit 511C in October of 1995;
2 is that correct?

3 A. That is correct.

4 Q. And at the time you filed that did you
5 believe that exhibit was accurate?

6 A. I believe that exhibit was accurate, yes.

7 Q. Did you have 511C reviewed by the preparer
8 of the cost study prior to filing it?

9 A. No, I did not.

10 Q. And your revisions to the compensation cost
11 resulted in U S WEST pay phones passing the imputation
12 test; is that correct?

13 A. Yes. When we redistributed the call
14 volumes and redistributed the cost, yes, that's true.

15 Q. Looking at Ms. Murray's -- excuse me,
16 looking at your testimony on this page 4 you cite Ms.
17 Murray's, quote, quality assumptions, close quote?

18 A. Yes, I see that.

19 Q. And as I understand it that testimony in
20 reference to faulty assumptions refers to the fact
21 that she used compensation cost data contained in the
22 spreadsheet in Exhibit 518 that you provided her;
23 isn't that correct?

24 A. I think in general. I think there were
25 other assumptions such as the 100 percent millennium,

03332

1 the disallowance of technology, station-based
2 technologies and the revenues associated with it, so I
3 think there was more than --

4 Q. In terms of the dollar impact to the bottom
5 line, if you will, was that the most significant
6 faulty assumption you were referring to?

7 A. The two most significant faulty assumptions
8 in Ms. Murray's direct testimony was the fact that she
9 spoke to 100 percent millennium base, which was
10 an inaccurate reflection of what what we're doing in
11 the marketplace, and she had disallowed revenues
12 associated with technology-based functionality. To me
13 those were the two most significant.

14 Q. What would be the most significant in her
15 exhibits that were not based on 100 percent millennium
16 scenario?

17 A. Well, there was the third one which was the
18 assessment of a bill number screening charge that was
19 inappropriate, and that was subsequently removed, and
20 then I thought that her overstatement of compensation
21 by a half a million dollars was inappropriate.

22 Q. And that was based on her reliance on your
23 compensation figures as shown in Exhibit 518C; isn't
24 that correct?

25 A. I did not cross-relate those so I don't

03333

1 know.

2 Q. After you received Ms. Murray's
3 supplemental filed in December of 1995, you ran yet
4 another version of Exhibit 511C; isn't it correct?

5 A. I ran the version that is attached to my
6 testimony if that's what you're referring to.

7 Q. I'm referring to 517C which was provided to
8 us last week.

9 A. Yes. I did run that after her supplemental
10 testimony.

11 Q. And as I understand it you're using actual
12 call volumes reportedly for the first 11 months of
13 1995?

14 A. Correct. I was unable to get the full
15 year. December results were not in the year.

16 Q. You're still using forecasted costs for all
17 of the other costs contained in Exhibit 517C; isn't
18 that correct?

19 A. Well, the only thing we have broken down at
20 this level is forecasted costs so that is true, and
21 it's forward looking based on 1995.

22 Q. Did you have the preparer of the cost study
23 review the changes that you made in Exhibit 517C?

24 A. No, I did not.

25 Q. Have you rerun the cost study or has anyone

03334

1 in U S WEST rerun the cost study that's Exhibit 519C
2 based on the assumptions that you're now making that's
3 contained in Exhibit 517 for call volumes?

4 A. We are in the process of preparing a 1996
5 level cost study but that is not prepared at this
6 time.

7 Q. How do you define pay phone station life,
8 Mr. Lanksbury?

9 A. The definition of pay phone station life is
10 the length the station remains in place on the
11 existing accounts so it's the embedded base and the
12 average length of the duration that that station or
13 those stations are in place.

14 Q. And is that the same as economic life as
15 shown in the -- as that term is used in the cost
16 study, Exhibit 519?

17 A. I did not prepare the station life study
18 but I believe that is so.

19 Q. I would like to have you get in mind a
20 hypothetical. You see the weighted price floor at the
21 bottom right of Exhibit 517C?

22 A. Yes.

23 Q. Assume hypothetically that the weighted
24 price floor came out at .25001, in other words, the
25 price floor showed that your pay phone costs on an

03335

1 imputed basis were a thousandths of a cent more than
2 your price which is 25 cents per local call. Do you
3 have that hypothetical in mind?

4 A. I have that assumption in mind, yes.

5 Q. And what that means -- do you understand
6 that what that means is that an equally efficient
7 competitor to U S WEST, having to pay the same prices
8 for the bottleneck monopoly inputs to its business
9 that is provided by U S WEST, would lose a thousandths
10 of a cent per call; is that correct?

11 A. Well, if pay phone economics were based
12 solely on local calls that might be true, but
13 unfortunately or fortunately I guess that there are
14 many more calls that contribute to the cost recovery
15 in pay phone economics but on a local call basis that
16 would be true.

17 Q. Assume that the revenues for nonlocal calls
18 between U S WEST and the competitor were the same so
19 that would be true under that assumption; isn't that
20 correct?

21 A. Well, that's a leap of faith assumption
22 given the economic conditions where they're not the
23 same.

24 Q. It is a hypothetical?

25 A. In the hypothetical that would be true.

03336

1 Q. Now, take a look at the at line 8, subtotal
2 access line. Those are U S WEST costs for the
3 equivalent of the PAL line; isn't that correct?

4 A. Those are the network costs that are
5 removed when the PAL line is imputed so they would be
6 the equivalent, yes.

7 Q. Now, take a look at the imputed PAL
8 recurring rate.

9 A. I see that.

10 Q. There's a substantial difference between
11 those, the rate and the long-run incremental cost;
12 isn't that correct?

13 A. That is correct.

14 Q. So going back to our hypothetical where the
15 hypothetical competitor is losing a thousandths of a
16 cent per call and that same hypothetical based on the
17 difference between U S WEST long-run incremental cost
18 for the line and what it charges PAL customers, U S
19 WEST would actually be making money on those calls
20 under that scenario; isn't that correct?

21 A. Under that scenario that would be correct.

22 Q. On your live direct last Friday you were I
23 guess I will say criticizing -- maybe that's how you
24 want to term it but basically you were criticizing Ms.
25 Murray's imputation analysis for not showing a weighted

03337

1 price floor. Do you recall that?

2 A. Yes, I do recall that. I think I based it
3 on the fact that we compete for calls. We do compete
4 for types of stations.

5 Q. And the reason that you prefer the way you
6 depict the imputation analysis is that it shows you
7 what you need to charge for those calls; is that
8 correct?

9 A. Well, it shows us the relevant market and
10 where the competition is. We're not competing for
11 types of stations. How we designate the stations is
12 really up to us. What we are competing for is the
13 calls placed from that station both local and toll,
14 and since we can only show the local rate in our
15 imputation analysis that's what we're trying to
16 depict, and that's appropriate because that's what the
17 price floor is for the relevant competitive market.

18 Q. Isn't it pretty easy to extrapolate from Ms.
19 Murray's spreadsheets to your bottom line conclusions?

20 A. It can be pretty easy but when you're
21 making a record clear for the Commission it seems to
22 me that you would want to reflect that rather than
23 have three numbers there that they have to calculate
24 it. It seems that it would be more appropriate to
25 come to the final conclusion than get three quarters

03338

1 of the way there and stop.

2 Q. Let me ask this. Suppose you're looking at
3 what Ms. Murray was looking at at determining not the
4 price floor for your local calls but determining the
5 price ceiling for the public access line in order to
6 insure that that's not set so high that it causes a
7 price squeeze. Then wouldn't it be useful to know
8 what the difference is between the total imputed costs
9 and the total revenues as Ms. Murray has shown?

10 A. I didn't look at it that way so I would
11 have to sit down and look at it and make that
12 determination. I think it's more appropriate when
13 you're talking predatory pricing as Ms. Murray appears
14 to be talking in your testimony that you reflect the
15 relevant market and the price related to it. The
16 price in question here seems to be the local call
17 rate. We spent an awful lot of time on it.

18 Q. You're assuming that the Commission would
19 be correct in determining any price squeeze by
20 changing the price for a local call then; is that
21 correct?

22 A. Well, that's one of the options. There are
23 multiple options that the Commission has to correct
24 any perceived prize squeeze that they may see here.
25 One of them is to change the local call rate and the

03339

1 other is, as Ms. Murray states in her testimony, to
2 change the underlying elements such as the PAL rate.

3 Q. Let's assume hypothetically the Commission
4 does find that a price squeeze on a forward looking
5 basis exists again in the pay phone market. Assuming
6 that hypothetical, how does U S WEST believed that
7 that price squeeze should be corrected?

8 MS. PETERSON: I object to the question as
9 vague and not having enough specifics for the witness
10 to answer.

11 JUDGE WALLIS: Let's see if the witness
12 understands the question.

13 A. Well, I guess first off, if it's a
14 hypothetical I think I understand the question. I
15 have not -- if we're talking about the reality, we
16 don't believe there is a price squeeze but I believe
17 under the hypothetical I understand it.

18 Q. Please answer it as you understand it.

19 A. Well, the options that the Commission has
20 are, one, to reduce the PAL rate; two, to increase the
21 local rate; three, to disallow some expense but then
22 that is a false correction of the problem based on the
23 fact that it's not the reality in the marketplace, or
24 three, to allow the revenues that are appropriately
25 generated by the station to be used in the cost

03340

1 recovery so that we really do have a level playing
2 field that we get the same revenues that our
3 competitors get, so that's the options I see.

4 Q. Let me add one other item to the
5 hypothetical, and that is that the Commission decides
6 not to change its price squeeze test as set forth in
7 the fourth order in UT 920176, so given those now
8 three options, since the fourth one is assume that in
9 the hypothetical, how would U S WEST prefer that the
10 Commission deal with the problem if, hypothetically,
11 it finds a problem?

12 A. If hypothetically it finds the problem they
13 have the ability to reduce the PAL rate order or raise
14 the local call rate or to allow some third revenue
15 which will be a set use fee or something else that our
16 competitors have that would be a local revenue tied to
17 nonlocal calls, and our choice would be to do -- to
18 have some third source of revenue like a set use fee
19 that is not related to local calls and leave the PAL
20 rate at the business rate and we don't believe
21 lowering the PAL rate to long-run incremental costs
22 ASIC is the right solution.

23 Q. As I understand it from prior testimony U S
24 WEST has now placed handling of independent pay phone
25 providers in a division called interconnect services;

03341

1 isn't that correct?

2 A. The handling of new connect activities
3 associated with new connect and change activities are
4 where they have always been. Interconnect Services
5 was the vendor service center. It's a change of name.
6 It's not a change in the way they're handled.

7 Q. Let's make sure we get your weighting
8 formulas on the record here. Take a look at Exhibit
9 517C, and I assume that your formulas are the same in
10 517C as they are in 511 and 518; is that correct?

11 A. That is correct.

12 Q. If you look on line 24 on the far right you
13 show weighted cost per month?

14 A. That is correct.

15 Q. And I assume that you calculated that by
16 multiplying line 28, percentage of total stations for
17 public, times line 24, adjusted total cost, and you
18 added to that the percentage for millennium times
19 their cost and the percentage for semipublic times
20 their cost; is that correct?

21 A. That is correct, based on the distribution
22 of stations.

23 Q. And in order to come up with a weighted
24 calls shown on the far right-hand column of line 26,
25 you multiplied the total local calls on line 26 for

03342

1 public times the percentage for public shown on line
2 28, added that to the total calls for millennium times
3 their percentage and added to that the total calls for
4 semipublic times their percentage of stations; is that
5 correct?

6 A. That's correct.

7 Q. And I take it you did a similar calculation
8 for weighted cost down on line 45?

9 A. That's correct.

10 Q. Multiplying the line 45 cost totals times
11 the percentages in line 28 and then adding those up;
12 is that correct?

13 A. I'm sorry, I interrupted you. Yes, that's
14 correct.

15 Q. And in order to come up with the weighted
16 price floor I understand you made a similar
17 calculation preparing the adjusted local call price
18 floor from line 47 for the three categories of phones
19 tiles their percentages and summing those?

20 A. Well, I think basically I took the line 26
21 and divided it into the line 45 on the far right-hand
22 side. It essentially comes up with the same answer
23 but the spreadsheet is built that way rather than to
24 rerate the individual call price floors.

25 Q. So there might be a difference of a few

03343

1 thousandths of a penny due to rounding?

2 A. That's correct. That's possible. I did
3 not check it.

4 Q. As I understand the cost study, Exhibit
5 519C, it essentially reflects that U S WEST does not
6 market semipublic phone service?

7 A. We do not proactively market it. It is a
8 tariffed rate that is usually in response to a
9 customer request so there's no proactive marketing of
10 semipublic.

11 Q. If you would turn, please, to page 6-1 of
12 Exhibit 519C?

13 A. I hope I can find it. I've been shuffling
14 paper up here.

15 I have that.

16 Q. And at the bottom of the page related to
17 advertising expense the exhibit reflects that 5
18 percent of advertising costs were allocated to
19 millennium; is that correct?

20 A. I'm not seeing that. On page 6-1?

21 Q. The very bottom line.

22 A. You said 100 percent of -- could you state
23 the question then again?

24 Q. It allocated -- study allocated 5 percent
25 of advertising costs to millennium phones?

03344

1 A. 5 percent, that's correct.

2 Q. And at the time millennium was projected to
3 be 8 percent of the stations in the cost study,
4 approximately. I believe you can find that on page
5 6-6. Excuse me 6-7?

6 A. 6-7?

7 Q. Yes.

8 A. I see no 8 percent number.

9 Q. You see the number of access lines in
10 column B for public and for millennium?

11 A. That's correct.

12 Q. Would you accept subject to check that
13 that's approximately 8 percent?

14 A. Yes, that's about 8 percent.

15 Q. And do you know the effect it would have on
16 the advertising expense shown in the cost study if the
17 millenniums actually turn out to be 30 percent of the
18 stations rather than 5 percent -- rather than 8
19 percent, rather?

20 A. Yes. It would change it if you were to
21 eliminate it and have it as a stand alone category,
22 which we did not. Because we're changing public to
23 millennium those costs would still be reflected in the
24 public category.

25 Q. Returning to Exhibit 517C, I have some

03345

1 questions about lines 41 and 42 empty millennium cost.
2 These are described as commercial credit card and IXC
3 rate and route. Do you see those?

4 A. Yes, I do.

5 Q. You show these evidently as a negative cost
6 but in actuality they are revenues that you're
7 attributing to phone?

8 A. They're a credit against cost is what I
9 show here. So it's revenues that are credited against
10 the cost in the same way that the semipublic line
11 would be credited against the cost because we receive
12 it from the end users or the carriers.

13 Q. What are the commercial credit card
14 revenues?

15 A. That's an incremental charge for each
16 transaction that goes on using a Visa, Master Card,
17 Discover Card, American Express from a pay phone paid
18 by the carriers to U S WEST for the services provided
19 in verifying that card and handling it.

20 Q. And I understand that revenue is generated
21 in connection with local nonsent paid as well as intra
22 and interLATA nonsent paid?

23 A. Could be any type of call, any type of
24 rated call.

25 Q. It could be an interstate or an

03346

1 international call; isn't that correct?

2 A. That's correct. It's done by the
3 technology that's embedded in the set.

4 Q. I understand you don't have any breakdown
5 according to type of call for that figure shown?

6 A. I do not.

7 Q. Is this based on percentage of the total
8 revenue of the call or is this based on a per message
9 rate?

10 A. Because it is set-based technology it is
11 the total revenue on a per message basis.

12 Q. What about IXC rate and route? What is that
13 revenue for?

14 A. The millennium set has technology embedded
15 in the set which allows the processing of one plus
16 calls. It is not a network-based technology. There
17 is only one interexchange carrier that has chosen to
18 compete in the one plus cash toll market and this
19 circumvents the network and allows other interchange
20 carriers to get into that one plus toll market and
21 provide it from a millennium set.

22 Q. Again, how is the compensation paid? Is
23 that a percentage of the call price cysts?

24 A. It is a total -- it is the total
25 compensation received from the carrier for each

03347

1 individual call on a call per call basis.

2 Q. So it's an amount per call?

3 A. It's the total, yes, per call.

4 Q. Likewise, could these revenues be derived
5 from local as well as toll calls?

6 A. The revenues are derived from the
7 capability of the set, but they could be associated
8 with toll or local calls but they are derived from the
9 capability of the set that allows them to in fact
10 process those types of calls.

11 Q. Would you please turn to page 19 of your
12 prefiled testimony.

13 A. I have that.

14 Q. Do you see there where you addressed the
15 level, quote, level of compensation paid by U S WEST
16 competitors?

17 A. Do you have the line reference?

18 Q. I'm looking for it.

19 A. Me too. On page 19?

20 Q. Could be. I have a typo on my page.

21 Q. Do you recall the testimony referring to
22 the commissions paid by competitors of U S WEST?

23 A. I remember, yes, I do.

24 Q. And do you have any understanding or belief
25 as to a percentage of commissions paid by competitors?

03348

1 A. Yes. I have a belief.

2 Q. What's your belief?

3 A. My understanding is that the range they pay
4 is normally 20 to 30 percent or above, and it's an
5 account by account basis. It's the way anybody would
6 pay compensation. You pay compensation based on the
7 value of the station but generally their compensation
8 is about 20 percent.

9 Q. And that would be an average then?

10 A. Well, I don't know the average. I know
11 that generally it's above 20 percent. I couldn't come
12 to an average. I've heard as high as 50 percent.

13 Q. Do you have Exhibit 523?

14 A. Yes, I have that.

15 Q. Have you seen this document or something
16 like it before?

17 A. Only when you presented it as a prefiled
18 exhibit. I have never seen this document before that
19 time.

20 Q. Would you accept subject to check that this
21 is a marketing flyer used by U S WEST's pay phone
22 sales people?

23 A. I will subject to check say that it's used
24 by one pay phone salesperson, the person's name who is
25 on it. That's the only thing I can agree with.

03349

1 Q. And this is -- I can't read the names. Is
2 it Bushman?

3 A. Yes, that's correct.

4 Q. What's Mr. Bushman's first name?

5 A. It's Tom. He's an account executive out of
6 Portland, Oregon.

7 Q. Is he an employee of U S WEST
8 Communications?

9 A. Yes, he is.

10 Q. Do you agree with the statement on this
11 exhibit that a commission of 15 percent of gross
12 revenue paid by U S WEST is most often equal to or
13 higher in actual dollars paid than in a commission
14 offering of 25 to 30 percent by an independent vendor?

15 MS. PETERSON: Your Honor, I object to the
16 use of the document. There's been no foundation
17 established that the witness has any reason to know
18 the basis for the contents of the document. He didn't
19 prepare it and he hasn't seen it before it was filed
20 by opposing counsel.

21 MR. HARLOW: Your Honor, it's been
22 identified as a document prepared by U S WEST, a U S
23 WEST employee to make representations to pay phone
24 site owners as such and it's an admission of a party
25 and may be used against that party.

03350

1 MS. PETERSON: Your Honor, that's a
2 statement by counsel. There's been no foundation to
3 establish what this is used for.

4 JUDGE WALLIS: I believe the witness has
5 established -- has acknowledged this as a document
6 that's used by a U S WEST employee, and on that basis
7 I will allow the question.

8 Q. Do you agree with the statement from
9 Exhibit 523 that I read?

10 A. Well, since I don't know what you base that
11 statement on, but a general perception that very often
12 independent pay phone providers use net revenues
13 rather than gross revenues and that's what I assume he
14 is referring to, I could agree with it based on that
15 understanding of the document, but I don't have any
16 knowledge that that is in fact what he has done here.

17 Q. Mr. Lanksbury, do you have Exhibit 524C?

18 A. Yes, I do.

19 Q. You identified this as U S WEST's response
20 to the Northwest Payphone Association data request
21 No. 9?

22 A. Yes, it is.

23 Q. And this shows U S WEST Commission payment
24 plans and percentages paid to site owners for
25 placement of pay phones; is that correct?

03351

1 A. Yes. This is the regional plan. It covers
2 all states.

3 Q. Everywhere we see a number, one or two
4 digit number that has percent, the percent symbol next
5 to it, does that reflect a percentage of gross
6 revenues paid to a site owner for pay phone placement?

7 A. Yes. I would assume that's true based on
8 this, although, I think there are some that make
9 reference to specifics like sent paid and so you can't
10 in each case say that it is gross revenues because
11 those that aren't are identified here.

12 Q. Let's take a look at the last page of
13 Exhibit 524C next to CRC code 98?

14 A. I have that.

15 Q. That percentage in the line, is that a
16 gross Commission payment?

17 A. Yes. It could be to an individual
18 customer. You have to understand that each of these
19 codes stands for plans that may be offered to one or
20 more customers or site providers out there. It's not
21 across the board.

22 Q. Was that U S WEST's highest percentage
23 commission plan at the time this data request was
24 answered?

25 A. I'm not sure. I would have to go back

03352

1 through the entire data request. Let me look. I
2 believe there's one higher.

3 Q. There is now one higher?

4 A. I believe that's true.

5 Q. Can you state how much higher, what percent
6 higher?

7 A. Oh, .9 percent. It's on page -- it's up at
8 the top right-hand corner, page 12 of 17.

9 Q. Thank you.

10 A. Actually there's one higher than that.
11 There is one that is a couple of percents higher under
12 CRC 35.

13 Q. Approximately which page is that on?

14 A. Same page.

15 Q. Mr. Lanksbury, do you by any chance have
16 Exhibit 485C?

17 A. Yes, I have that.

18 Q. I don't have it in front of me right now.
19 Rather than fussing through my stack here, would you
20 just tell me which data request response is by U S
21 WEST to the pay phone association?

22 A. It was a data -- first set of data requests
23 of Northwest Payphone Association No. 8.

24 Q. What is that supposed to show?

25 A. Well, it's in response to your question

03353

1 and the question was, "Please provide the total amount
2 paid in commissions to premise owners including any
3 sign-up bonuses or premiums for the placement of U S
4 WEST owned pay phones in Washington by month 1990 to
5 present."

6 Q. And you provided us with an aggregate
7 number for 1994 as well as a year-to-date number for
8 1995?

9 A. That is correct.

10 Q. And what types of phones are included in
11 that?

12 A. All pay phones including inmate, as the
13 last exhibit included inmate also.

14 Q. Did you prepare that response?

15 A. Yes, I did.

16 Q. And at the time did you understand that the
17 imputation analysis for inmate phones was at issue in
18 this proceeding?

19 A. No, I did not, but I responded to the data
20 request.

21 Q. Did you respond to any other data requests
22 by including information for inmate phones?

23 A. No, because most other data requests were
24 very specific as to the categories that the pay phones
25 association wanted.

03354

1 Q. Do you have in front of you Exhibit 522C?

2 A. I have that.

3 Q. You identified this as U S WEST response to
4 Northwest Payphone Association data request No. 65?

5 A. Yes, that is correct.

6 Q. And it asks for documents describing the
7 function of custom net outgoing screening; is that
8 correct?

9 A. Yes, that is correct.

10 Q. And the attached documents describe how
11 custom net outgoing screening works, what it does?

12 A. It describes what it does not how it works,
13 yes.

14 Q. And it describes the publicly filed rates
15 for the service?

16 A. That is correct.

17 Q. It's been marked confidential. Is there
18 any reason for this to be maintained as a confidential
19 document?

20 A. No, I'm not sure why it's been marked
21 confidential. It's a restatement of tariffs.

22 Q. If you need to discuss this with counsel
23 it's fine, but I think in the interests of getting as
24 much as we can on the public record I think it would
25 be helpful if that could be redesignated as

03355

1 nonconfidential?

2 A. It can be redesignated.

3 Q. Thank you, Mr. Lanksbury. The purpose of
4 custom net outgoing screening is to, as I understand it
5 to prevent someone from walking up to competitively
6 provided pay phone, dialing zero or zero zero and
7 getting a U S WEST operator and requesting that they
8 place a call; isn't that correct?

9 A. Place a specific type of call.

10 Q. That would be a toll call?

11 A. Well, more than a toll call. A one plus
12 toll call through the operator.

13 Q. Right. So in other words, for the pay
14 phone provider to not subscribe to custom net outgoing
15 screening someone could walk up to their pay phone and
16 obtain access to a U S WEST operator and request that
17 a one plus call be made; is that correct?

18 A. That potential is there, yes.

19 Q. And because the operator is dialing the
20 call the competitively provided pay phone would have
21 no way to block the placement of that call, isn't that
22 correct, without custom net outgoing screening?

23 A. I do not know if they have a way. I know
24 there are PAL vendors that do not choose to subscribe
25 to it, so I don't know what their set capability is.

03356

1 Q. Well, custom net outgoing screening
2 provides information to the live operator to inform
3 the operator that the call is being made from a pay
4 phone; isn't that correct?

5 A. That is correct.

6 Q. And when we're talking about a one plus
7 call you're actually talking about a call where the
8 one plus is actually dialed by the operator in this
9 instance; isn't that correct?

10 A. In this instance that is correct.

11 Q. Are you aware of any technology that is
12 available that allows a pay phone to monitor what is
13 being said by the caller to the operator such as would
14 allow a call to be cut off if the person asked to have
15 a one plus call placed rather than the zero plus call?

16 A. As I stated, I am not aware of all the
17 technology that independent pay phone providers have
18 so I am not aware.

19 Q. Do most pay phone providers use custom net
20 outgoing screening?

21 A. A large portion of them do, yes. I don't
22 know the exact numbers.

23 Q. Is it your understanding that the charge
24 for that in Washington is \$2 per month?

25 A. That's my understanding.

03357

1 Q. And is it your understanding that Ms.
2 Murray did not impute that charge in her imputation
3 analyses?

4 A. In your final imputation analysis that is
5 my understanding, yes.

6 Q. And likewise you did not impute it?

7 A. Yes. It was not required, the imputation
8 and I did not impute it.

9 Q. Now, the group that deals with independent
10 pay phone providers has now been moved to Minnesota;
11 is that correct?

12 A. Yes. The functions associated with what
13 was in the vendor service center and is now called
14 interconnect services is in Minnesota; that is correct.

15 Q. Have you heard any complaints from the
16 independent pay phone providers about service since
17 that move has taken place?

18 A. I have only heard from one independent pay
19 phone provider and it was a specific issue that was in
20 question, and I don't know if it related to the issue
21 or the general services provided, so I don't have that
22 close of dealings with the independent pay phone
23 providers.

24 Q. You no longer attend the professional phone
25 providers association meetings?

03358

1 A. I do not. Have not for over three, four
2 years.

3 Q. Do you have Exhibit 540C in front of you,
4 Mr. Lanksbury?

5 A. I do have that.

6 Q. If you would, please, turn to the second
7 page of that exhibit, excuse me, third page of that
8 exhibit?

9 A. I have that.

10 Q. Do you see the columns, the right hand two
11 columns? One is headed increment, dollar sign, DAR
12 per line and then the far right column is labeled
13 combined, dollar sign, DAR per line?

14 A. I have that.

15 Q. DAR stands for daily average revenue; is
16 that correct?

17 A. That's correct.

18 Q. If you take a look at the top three blocks
19 that Ms. Murray was referring to them for Washington
20 public coin. It's actually the DAR shown in the top
21 block.

22 A. I believe we're on the same place.

23 Q. Okay. There's only one number for combined
24 DAR per line and then there are four numbers for the
25 incremental DAR per line. Do you see that?

03359

1 A. Yes, I have that.

2 Q. Top number is for local sent paid and then
3 the next number is for local nonsent paid; isn't that
4 correct?

5 A. That is correct.

6 Q. So those would be the revenues that you
7 would be attributing in your imputation analysis, the
8 local revenues?

9 A. I do not attribute revenues in my
10 imputation analysis. I come to a price floor. Which
11 is an imputed price floor using costs and rates. The
12 only revenues in there are associated with semipublic,
13 end user, common line for semipublic and then the
14 carrier revenues associated with functionality in the
15 millennium set.

16 Q. Well, in this usage report would I be
17 correct in assuming that those revenue figures track
18 from the message, number of messages figures, at least
19 with regard to local sent paid?

20 A. Well, they're related. You could use them
21 to figure out the rate or the revenue per call, so
22 they are related. I think they would track.

23 Q. The third and fourth line for incremental
24 DAR show for intraLATA sent paid and intraLATA nonsent
25 paid, do you see those?

03360

1 A. Yes, I do.

2 Q. Could you take the four categories of
3 incremental revenue and combine them into two
4 categories, one category being local, the other
5 category being toll and determine the daily average
6 revenue for categories local and toll?

7 A. Yes, I could do that.

8 Q. Could you also take and compare those two
9 categories to the combined daily average revenue for
10 those stations and come up with a percentage of local
11 versus toll?

12 A. Yes, I could probably do that.

13 Q. Can you give us a ballpark number for the
14 percentage of toll for Washington public as shown on
15 this usage report?

16 A. The percentage of toll, alleges over 20
17 percent or close to 20 percent.

18 Q. And let's do the same thing for universal
19 down at the bottom. What's the percentage of toll on
20 that one?

21 A. A little over 20 percent.

22 Q. And as I understand it, you did not use
23 these actual percentages in reducing the compensation
24 figure in your imputation analysis. Instead you
25 continue to use the 30 percent?

03361

1 A. I used what the Commission ordered, that is
2 true. Remember with that --

3 Q. I think the question has been answered.

4 MS. PETERSON: Please let the witness
5 finish his answer. I think he is entitled to explain
6 it.

7 JUDGE WALLIS: The witness, I believe, may
8 explain.

9 A. You have to remember, also you have the
10 nonsent paid local operator charges that had be part
11 of that commission that are also not allowed in the
12 Commission order so that would change it. It would go
13 up somewhat and I'm not sure how to figure that out on
14 the stand.

15 Q. I tried to do it. On direct last Friday
16 you testified that you didn't believe it was
17 appropriate to follow the Commission's order with
18 regard to imputation of answer supervision line side.
19 Do you recall that?

20 A. I have some concerns that it is not an
21 essential service input, that is correct.

22 Q. And your basis for that was based on the
23 historical order activity by the independent pay phone
24 providers for that service; isn't that correct?

25 A. Yes. I believe it was -- I wrote it down

03362

1 here so I could remember it. I have the number here
2 somewhere.

3 Q. Would it be your understanding that that
4 function is attempted to be mimicked by the smart pay
5 phone that the independent pay phone providers use; is
6 that correct?

7 A. Although that may be true our answer
8 supervision is embedded in our cost for public services
9 CO equipment and that has not been adjusted so in fact
10 we're paying for it twice.

11 Q. Have you done any studies to determine on a
12 forward looking basis if a competitive provider were
13 to go into business today and had a choice between
14 investing in a semismart set and subscribing to answer
15 supervision line side, between that choice and
16 investing in the more expensive fully smart sets and
17 not subscribing to answer supervision line side what
18 the new entrant -- which technology the new entrant
19 would choose?

20 A. Well, I think the actual actions of the
21 independent pay phone providers speak for themselves.
22 They've had the ability to get answer supervision line
23 side for three, four years and granted it was at a
24 different rate, somewhat higher rate, 3.95 a month,
25 and no one has chosen to do that. Now, it's priced at

03363

1 a dollar and at the last -- when I last checked we had
2 two subscribers in the entire state of Washington. I
3 mean, when you're talking eight, nine, 10,000 PAL
4 lines -- and I don't know the exact number without
5 checking -- that's a pretty small subscription, so I
6 would say they're staying with the technology they've
7 always used and that's station implemented answer
8 supervision.

9 Q. My question was have you done a study.
10 You've given me the explanation, is the answer to my
11 question no?

12 A. I have not done a study. I only know how
13 many subscribers there are and that's two.

14 Q. And that's based on historical look at
15 that; is that correct?

16 A. That's based on where we are in the
17 marketplace as of a month ago.

18 MR. HARLOW: Your Honor, I offer Exhibits
19 540C, 520C, 521, 522C, 523. I believe it was 524
20 is now not a C and we withdraw Exhibit 488.

21 (Withdrawn Exhibit 488.)

22 JUDGE WALLIS: Let's be off the record for
23 just a moment.

24 (Discussion off the record.)

25 JUDGE WALLIS: Let's be back on the record,

03364

1 please. Exhibit 522 is not confidential and the C
2 will be stricken. 524 remains confidential and will
3 be referred to as 524C. With that, is there any
4 objection to the documents that have been offered?

5 MS. PETERSON: No, Your Honor.

6 JUDGE WALLIS: No objection at all?

7 MS. PETERSON: With the exception of 523.

8 JUDGE WALLIS: As to the other documents
9 they are received in evidence. As to 523 what is your
10 objection?

11 (Admitted Exhibits 540C, 520C, 521, 522 and
12 524C.)

13 MS. PETERSON: The objection is that this
14 witness has not been able to sponsor the document.
15 There's no foundation laid as to how it was prepared,
16 what it means, and I think it would be inappropriate
17 to introduce it through this witness. I think he
18 would need to introduce it through a witness who can
19 actually testify as to what it is and the assumptions
20 contained therein.

21 MR. HARLOW: My response is basically as
22 before, when we requested about this document and that
23 is that it was identified as a marketing document used
24 by U S WEST Communications employee. Evidently
25 there's no objection as to relevance. Since it is a

03365

1 statement by a party to this proceeding, it's an
2 admission by the party and therefore it's admissible
3 under the evidence rules.

4 JUDGE WALLIS: I believe that it has been
5 authenticated and it is relevant and consequently I
6 will overrule the objection and receive the document.

7 (Admitted Exhibit 523.)

8 MR. HARLOW: No further questions.

9 JUDGE WALLIS: Are there questions from
10 other parties? Mr. Smith.

11

12 CROSS-EXAMINATION

13 BY MR. SMITH:

14 Q. Mr. Lanksbury, you've reviewed the
15 imputation test that was performed by Ms. Murray?

16 A. Yes, I have.

17 Q. Is there any dispute with the cost figures
18 she included in the test for the millennium pay phone?

19 A. I do not believe that's the only dispute.
20 No, I do not believe there's significant dispute on
21 the costs. The disputes may be more related to the
22 revenues she's disallowed. The only line that I did
23 have a change in would have been line 18. She did not
24 redistribute those costs that are directly related to
25 the number of local calls, but all the costs are in

03366

1 the three categories. They're just not appropriately
2 redistributed.

3 Q. Do you know whether the incremental cost
4 estimates for the millennium pay phones provided by
5 Ms. Murray for the company was suggested in any way or
6 did it represent the costs of the phone including all
7 the additional capabilities?

8 A. It reflected the cost of the phone
9 including all the additional capability. I need to
10 just say one thing between the card and coin study and
11 the millennium study. They are different. The costs
12 that we reflected in our imputation analysis are in
13 this cost study but they're not on the card and coin
14 sheet that Mr. Harlow had me go through.

15 Q. As I understand your testimony your
16 position is that pay phones are a competitive service?

17 A. Yes. They're very competitive. We're
18 continuing to lose market share. We lost another 3, 4
19 percent market share again this year.

20 Q. Do you know why the company has not filed
21 for competitive classification of that service?

22 A. We haven't filed for competitive
23 classification primarily we have some things under
24 appeal right now. Also, there is some action going on
25 at the federal level. The telecom legislation that is

03367

1 in Congress today would in fact deregulate pay phones,
2 and it is the language that is before Congress now is
3 a preemptive language that came out of the conference
4 committee and it doesn't make sense for us to do
5 another 11 times when we may be able to do it once.

6 Q. Are the pay phone compensation expenses
7 included in the company's test year revenue
8 requirement?

9 A. Yes, I believe they are.

10 Q. Are any expenses or revenues removed in a
11 part 64 separation?

12 A. We have no part 64 calculations based on
13 pay phone because it is a regulated service at the FCC
14 and state level today.

15 MR. SMITH: Thank you.

16 JUDGE WALLIS: Commissioners.

17 CHAIRMAN NELSON: Nothing.

18 COMMISSIONER HEMSTAD: No.

19 MS. PETERSON: Your Honor, could we have a
20 brief recess? We would like to consult with the
21 witness.

22 JUDGE WALLIS: Mr. Rees will be the next
23 witness. Could he be prepared to take the stand when
24 this witness is concluded and let's take a 10-minute
25 recess.

03368

1 MS. PETERSON: Thank you.

2 (Recess.)

3 JUDGE WALLIS: Let's be back on the record,
4 following a brief recess. Ms. Peterson.

5 MS. PETERSON: Thank you.

6

7 REDIRECT EXAMINATION

8 BY MS. PETERSON:

9 Q. Mr. Lanksbury, I would like to turn your
10 attention to Exhibit 519C.

11 A. Yes.

12 Q. And specifically pages 6-7 through 6-9, Mr.
13 Harlow was taking you through testimony comparing, I
14 believe, your imputation analysis to the costs in the
15 cost study for millennium and card and coin in these
16 pages, and I understand that you wanted to clarify
17 some of your testimony given in response to Mr.
18 Harlow's questions on that subject.

19 A. Yes, I do. Mr. Harlow took me through 2-5,
20 which was a summary of card and coin service. What I
21 would like to point out is that on page 6-7 the
22 millennium and card and coin are uniquely identified.
23 The costs in my imputation analysis are from the
24 millennium category not the card and coin.

25 As I discussed with Mr. Harlow, I mentioned

03369

1 that this was universal. We only have approximately
2 five universal sets out of nearly 13,000 pay phones,
3 so we're doing away with them. The technology was
4 expensive. The technology was outdated. We could not
5 continue to support it on the universal so we have
6 moved to the millennium. I think the millennium
7 costs, as reflected in the backup under advertising,
8 compensation, sales, staff, all those categories that
9 he took us through, I think we ought to be using the
10 millennium cost and not the card and coin summary.
11 The millennium was not summarized in those earlier
12 sheets in section 2. It's about 2-3 through 2-7 which
13 are summary sheets. They were not summarized because
14 at that point we did not know what we were going to do
15 with millennium. The future cost studies will have a
16 summary sheet on millennium.

17 So we're talking two different cost studies
18 here, and where we did not have millennium costs and
19 so on we used public costs, loop, because that's what
20 millennium is replacing and the loop length doesn't
21 change because you change the technology at the end of
22 it, and neither does the drop, so that's how we
23 developed this cost study. It was data directly from
24 the cost analyst and it is in the direct cost
25 categories and in the terminal equipment specific to

03370

1 millennium not specific to card and coin and I needed
2 to clarify that.

3 Q. Mr. Lanksbury, do you know whether quotes
4 for service in Seattle have been given by the
5 Northwest Payphone Association members -- I'm sorry --
6 to the Northwest Payphone Association members by other
7 competing local exchange carriers such as ELI?

8 A. Yes. I understand based on conversations
9 with at least one vendor that some of the members of
10 the association have been approached by a competing
11 local service provider to talk to them about public
12 access line or whatever they call their service, their
13 version of the local access service or the basic
14 exchange line. It's my understanding they have been
15 quoted some prices and we've been asked to compare
16 those prices so that is true.

17 Q. Would it be an incorrect assumption that
18 the Northwest Payphone Association members can only
19 obtain PAL lines from U S WEST at least in Seattle?

20 A. Well, based on the fact that somebody is
21 out there actively marketing their services I would
22 say that they do have choices, and otherwise I don't
23 know why somebody would market to them.

24 Q. Do you know the approximate percentage of
25 PAL lines that U S WEST has in Seattle?

03371

1 A. Well, I think right now we have most of the
2 PAL lines but I don't know -- I have no knowledge as
3 to what other pay phone -- other local access
4 providers are marketing or have marketed. We have no
5 market share information as far as it relates to PAL.
6 It's just not available to us.

7 Q. With respect to U S WEST PAL lines,
8 approximately how many U S WEST PAL lines out of all
9 the PAL lines in the state are in the Seattle area, if
10 you know?

11 A. Well, if we talk about the ability to
12 market and what they might have, you know, about 40
13 percent of all the stations for PAL are in Seattle, so
14 and that's an approximation. I would have to do a
15 specific study but I know based on our U S WEST pay
16 phones that it's a similar distribution and they have
17 somewhat higher because they concentrate on geographic
18 areas with high density and a lot of traffic, and
19 they're not likely to place phones in remote parts of
20 the state as we do. So my estimate would be it would
21 be somewhere between 30 and 40 percent.

22 Q. Mr. Lanksbury, the pay phone cost study,
23 Exhibit 519C, do you know whether that used U S WEST
24 proposed economic lives and forward looking cost of
25 money or did it use some other economic lives and cost

03372

1 of money?

2 A. My understanding --

3 MR. HARLOW: Objection. This is beyond the
4 scope of direct.

5 MS. PETERSON: I believe there's been a lot
6 of questioning on the cost study and the assumptions
7 and numbers obtained in the cost study and how it
8 affects the imputation analysis. I think it's a fair
9 question.

10 JUDGE WALLIS: I think the witness may
11 respond.

12 A. It's my understanding that it is U S WEST's
13 figure.

14 Q. Which would be proposed economic lives?

15 A. Yes, that's correct.

16 Q. And forward looking cost of money?

17 A. That's correct.

18 Q. Is any portion of the loop cost of a 1FB
19 PAL line allocated to access toll or any other service
20 in the U S WEST cost study for pay phones, 519C?

21 A. No. We have no allocation that I am aware
22 of at all.

23 Q. You were asked earlier by staff counsel why
24 U S WEST has not sought classification as a
25 competitive service provider, and you gave some

03373

1 reasons. Are there any other reasons that you're
2 aware of?

3 A. Well, one of the reasons has been the
4 position of the Commission that pay phones were a
5 location monopoly and in the operator service
6 proceedings when some of the independent pay phone
7 providers sought relief or sought to be competitively
8 classified, it was felt that because the pay phone is
9 a location monopoly it should not be given competitive
10 classification. We're not sure we would like to go
11 through that based on the other reasons that I gave for
12 seeking deregulation or a competitive classification in
13 the state.

14 Q. To make sure the record is clear, when you
15 say it was felt that, do you mean that that was what
16 you understand the Commission had ordered?

17 A. Yes. That's my understanding, and I was
18 not directly involved in that case but that's my
19 understanding.

20 Q. Did the company have any reason to believe
21 that the Commission would be receptive to a petition
22 by U S WEST?

23 MR. HARLOW: Objection, calls for
24 speculation.

25 Q. If you know.

03374

1 A. I do not know but I believe we would be
2 treated the same way.

3 MS. PETERSON: That's all. Thank you.

4 JUDGE WALLIS: Mr. Harlow.

5 MR. HARLOW: Thank you, Your Honor.

6

7 RECROSS-EXAMINATION

8 BY MR. HARLOW:

9 Q. In cross by Mr. Smith you referred to
10 pending draft federal legislation. Do you recall
11 that?

12 A. Yes, I do.

13 Q. Do you have any way of knowing whether that
14 legislation will ever pass and be signed by the
15 president in its present form?

16 A. If I knew that I would be a very valuable
17 resource in this country. No, I have no way of
18 knowing. I know that the APCC and U S WEST --

19 Q. I don't need a lot of detail about it. I
20 just wondered if you know.

21 MS. PETERSON: I think he should be able to
22 finish his answer.

23 JUDGE WALLIS: I think that we have the
24 extent of his knowledge on the record.

25 Q. On redirect by Ms. Peterson you testified

03375

1 that the millennium costs were in the backup materials
2 in the cost study. Do you recall that?

3 A. Yes, I do.

4 Q. At the time that cost study was done U S
5 WEST had fewer than 100 millennium sets in service; is
6 that correct?

7 A. Yes. I believe that's correct.

8 Q. And basically what you did in your
9 imputation analysis you updated call volumes to as
10 recent as November of 1995; is that correct?

11 A. Yes, that's correct.

12 Q. But the backup cost data still comes from
13 a cost study that is based on 1993 data and the cost
14 study was prepared and the forecasts made in 1994; is
15 that correct?

16 A. Well, I think most of the dates that were
17 shown in the cost study were mid '94 dates. I don't
18 know what the vintage of the data was but it was
19 '93/94 data would be my assumption and it is directly
20 related to millennium rather than some other service.

21 Q. You talked on redirect about potential
22 competitors of U S WEST providing PAL service to
23 Northwest Payphone members. Do you recall that?

24 A. Yes, I do.

25 Q. Do you know what percent of U S WEST public

03376

1 access lines terminate at a pay phone location where a
2 U S WEST local exchange competitor has facilities in
3 place today?

4 A. As I mentioned, I would have no knowledge
5 of any competitors' placement of PAL lines or any
6 other service. I just don't have that data.

7 Q. So I take it you don't know whether PAL
8 service is an effectively competitive service?

9 A. No. I only know that they are marketing to
10 independent pay phone providers. That's the only
11 thing I am aware of based on those conversations.

12 Q. So it could be one line or it could be
13 5,000 lines? You really have no idea at all?

14 A. No. I only have the idea that they're
15 marketing to them.

16 Q. And PAL service has not been competitively
17 classified; is that correct?

18 A. That is my understanding; that is correct.

19 MR. HARLOW: Thank you, Mr. Lanksbury.

20 JUDGE WALLIS: Any other questions.

21 MS. PETERSON: I have one further question,
22 Your Honor. You just testified in response to Mr.
23 Harlow's questions about the cost study, Exhibit 519C,
24 and that costs that are in the study being prepared in
25 approximately 1994?

03377

1 THE WITNESS: Yes, that's correct.

2 MS. PETERSON: Those costs were forward
3 looking costs and projected costs, were they not?

4 THE WITNESS: Yes. Those costs would have
5 been forward looking and projected the same way they
6 were for every other service. I mean, if they're good
7 for one service they're good for another service. You
8 know, we're starting to pick millennium out and say
9 somehow these numbers are wrong, but yet they seem to
10 be okay for the other services, which I don't
11 understand.

12 MS. PETERSON: Thank you.

13 JUDGE WALLIS: Anything further for the
14 witness? It appears that there's not. Mr. Lanksbury,
15 thank you for appearing. Company's next witness is
16 Gary Rees.
17 Whereupon,

18 GARY REES,
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 Mr.
22 Rees's appearance the following documents have
23 previously been identified. His direct testimony is
24 74T. His attachments as follows: GAR-1 as Exhibit
25 75 for identification; GAR-2, 76C; GAR-3 as 77C,

03378

1 GAR-4 as 78, GAR-5 as 79C, GAR-6 as 80C and GAR-7 as
2 81C.

3 In addition Mr. Rees has filed rebuttal
4 testimony which is marked as 580T for identification
5 and an attachment GAR-8 private line transport service
6 as Exhibit 581 for identification.

7 The following documents are also presented.
8 An errata sheet including attachments as 583C and the
9 response to data request No. TRA 01-048 as 582C for
10 identification.

11 (Marked Exhibits 580T, 581, 582C and 583C.)

12

13 DIRECT EXAMINATION

14 BY MS. HASTINGS:

15 Q. Good morning, Mr. Rees. Would you please
16 state your name and spell it for the record and give
17 your business address?

18 A. Yes. My name is Gary Rees, R E E S. I'm
19 employed by U S WEST Communications, and my business
20 address is 1600 Seventh Avenue, Seattle, Washington
21 98191.

22 Q. And did you prepare or cause to have
23 prepared under your direction your direct testimony
24 and seven attached exhibits previously marked as 74T
25 and 75, 76C, 77C, 78, 79C, 80C and 81C?

03379

1 A. Yes, I did.

2 Q. And did you also prepare or cause to have
3 prepared under your direction rebuttal testimony and
4 exhibit GAR-8 references 580T and 581?

5 A. Yes, I did.

6 Q. And did you also prepare or cause to have
7 prepared under your direction an errata to your direct
8 testimony which has been marked as 583C?

9 A. That's correct.

10 Q. To your knowledge, are the direct testimony
11 and exhibits, rebuttal testimony, and errata true and
12 correct to the best of your knowledge?

13 A. Yes, they are.

14 Q. If I were to ask you the questions that are
15 set forth in the testimony, your direct and rebuttal
16 today, would your answers be the same as they are
17 contained therein?

18 A. Yes, they would.

19 MS. HASTINGS: Your Honor, I would move for
20 the admission of his direct testimony and associated
21 exhibits, his rebuttal testimony and errata.

22 JUDGE WALLIS: Is there objection? Let the
23 record show there is no objection and the exhibits are
24 received.

25 (Admitted Exhibits 74T, 75, 76C, 77C, 78,

03380

1 79C, 80C, 81C, 580T, 581 and 583C.)

2 MS. HASTINGS: Mr. Rees is available for
3 cross exam.

4

5 CROSS-EXAMINATION

6 BY MR. TRAUTMAN:

7 Q. Good morning, Mr. Rees.

8 A. Good morning, Mr. Trautman.

9 Q. If you could turn to your rebuttal
10 testimony on page 5, and at lines 20 to 24 you state,
11 quote, contrary to Mr. Spinks's statements U S WEST
12 has developed least cost approaches for provisioning
13 the customer's private line needs and has therefore
14 met the requirement set out in the Commission's term
15 loop order. Do you see that?

16 A. Yes, I do.

17 Q. Is it your testimony that the company
18 provided a demonstration that its cost studies
19 represent the least cost way of provisioning term loop
20 services?

21 A. Yes, sir, and I have particular reference
22 to Mr. Brian Farrow's rebuttal testimony where he
23 provides information regarding the least cost method
24 of providing channel performance, and I believe we
25 also includes an exhibit to that effect in his

03381

1 rebuttal testimony.

2 Q. So you did not perform any study yourself?

3 A. No, I did not.

4 Q. Turning to page 6, lines 17 to 19 you state
5 that, quote, U S WEST used the only data available to
6 estimate the terminal loop repression that can
7 reasonably be expected to occur in Washington. Do you
8 see that?

9 A. Yes, I do.

10 Q. Now, you are not an economist; is that
11 correct?

12 A. No, I'm not.

13 Q. Have you ever had occasion to calculate
14 price elasticities for services?

15 A. I have in the past performed some
16 calculations.

17 Q. Do you know whether the company intends the
18 term repression to mean the same thing as price
19 elasticity?

20 A. In this particular case we relied heavily on
21 empirical data that came from the state of Oregon, so
22 the repression that I am referring to here is what
23 actually happened with a similar situation in Oregon,
24 where there was significant repression or, in other
25 words, a number of customers gave up their service as

03382

1 rates were increased for terminal loops.

2 Q. So in that sense would the term repression
3 mean the same thing as price elasticity?

4 A. I would say that a price elasticity study
5 was not made and we did not come up with a factor that
6 would be classified as price elasticity factor. We
7 had only empirical data, came up with percentage
8 losses, so the answer is no.

9 Q. Turning to page 8, lines 2 to 4 of your
10 rebuttal testimony you state that, quote, U S WEST's
11 estimates of terminal loop repression are based on the
12 best facts available and therefore can be relied upon
13 by this Commission?

14 A. Yes, sir.

15 Q. Do you know whether the company made any
16 study of price elasticity for term loop services?

17 A. I am not aware of one.

18 Q. You testified in the term loop case in this
19 state, correct?

20 A. Yes, that's correct.

21 Q. Do you recall in that case that the company
22 had filed a price elasticity study for directory
23 assistance service in order to estimate repression?

24 A. I do recall that there was some price
25 elasticities mentioned there in that particular case.

03383

1 Q. Do you know how the company determines when
2 it will conduct studies of price elasticity for
3 services and when it will use other methods for
4 estimating revenue repression?

5 A. I would like to refer specifically to the
6 term loop case and use that as the example to explain
7 how we chose to use this. My understanding of price
8 elasticity is that it's a very good figure to use for
9 small increments of change. In this term loop case we
10 have some very significant changes, upwards of three
11 to 400 percent increase, in the prices for the term
12 loop service, so we thought that it was more
13 appropriate to use figure of a very similar event that
14 occurred, which was the Oregon term loop case, and
15 apply those reductions that we observed there rather
16 than calculate a price elasticity, so this is how we
17 came to the conclusion that price elasticity would
18 probably not be appropriate for such large incremental
19 changes.

20 Q. Turning to page 10 of your rebuttal
21 testimony, and on that page you indicate that specific
22 language regarding a shortage of metallic facilities
23 was being proposed in the telephone answering service
24 section of the tariff because, and you quote at the
25 bottom of the page, "customers are more likely to be

03384

1 alerted to a condition that has existed for several
2 years." Do you see that?

3 A. What lines?

4 Q. The specific quote about customers being
5 more likely to be alerted to the condition that has
6 existed several years goes from line 26 on page 10 and
7 carries over to line 2 on page 11?

8 A. Yes, I see that.

9 Q. Did you notify the telephone answering
10 service customers with a mailing regarding the
11 shortage of metallic facilities?

12 A. Not as a result of this particular filing.
13 In previous years I am confident that discussions have
14 been held with the telephone answering service people.
15 I can't give you specifics but this has been in our
16 tariff for quite some time for the availability of
17 metallic facilities.

18 Q. Did you notify them those customers of a
19 mailing regarding specifically what you're testifying
20 to on this page?

21 A. Yes. There was a mailing that did go out
22 regarding this filing. Whether it had something on
23 metallic facilities or not I can't say.

24 Q. That's what I'm asking about.

25 A. I just don't know. I would have to look at

03385

1 that mailing.

2 Q. What is the likelihood of a telephone
3 answering service customer reading the private line
4 tariff and finding that the company has declared a
5 shortage of metallic facilities?

6 A. I can't on comment on what the likelihood
7 is. I believe some of those folks probably do have
8 copies of our tariff, and I'm sure if they have them
9 they would read them.

10 Q. On page 10 at lines 8 to 10 you state,
11 "capacity may very well be in locations other than
12 where a metallic facility is being requested." Do you
13 see that?

14 A. Yes.

15 Q. Did you provide in your rebuttal testimony
16 any evidence that the company has in fact had any sort
17 of problem with a metallic facility shortage?

18 A. No, I did not.

19 Q. And I gave you a copy of the company's
20 response to excavate data request 195. Do you have
21 any reason to dispute the level of main frame fill
22 that was indicated in that response?

23 A. As I reviewed this earlier morning it
24 looked like it was something that was responded to by
25 the cost people. I have no knowledge of how they

03386

1 gather those numbers, but I would not dispute their
2 answers.

3 Q. Would the metallic facility shortage
4 problem also apply to alarm lines?

5 A. It would apply to all facilities within U S
6 WEST, and the reason I say that, Mr. Trautman, is that
7 we're dealing with a changing technology where there's
8 fewer copper pairs being used as copper pairs. More
9 and more, however, we're seeing digital services
10 placed on digital carrier services and we're also
11 seeing a lot of fiberoptic services, and with those
12 two events there's less and less copper being used to
13 provide service to our customers.

14 Q. So specifically, again, with respect to
15 alarm lines then that would be a yes?

16 A. Yes.

17 Q. And would the problem also encompass off
18 premise extensions with key switches?

19 A. Yes, sir.

20 Q. Now, under the proposed private line
21 tariff, would off premise extension customers purchase
22 out of the telephone answering service section of the
23 tariff?

24 A. No, sir.

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

03387

1 JUDGE WALLIS: Mr. Trotter.

2 Other parties? Mr. Butler.

3

4 CROSS-EXAMINATION

5 BY MR. BUTLER:

6 Q. Mr. Rees, do you have what's been
7 identified or marked for identification as Exhibit
8 582C?

9 A. Yes, I do, Mr. Butler.

10 Q. Can you identify that as U S WEST response
11 to TRACER data request 01-048?

12 A. Yes, it is.

13 Q. And is it true and correct to the best of
14 your knowledge?

15 A. Yes, it is.

16 MR. BUTLER: I move the admission of
17 Exhibit 582C.

18 JUDGE WALLIS: Is there objection?

19 MS. HASTINGS: No.

20 JUDGE WALLIS: 582C is received.

21 (Admitted Exhibit 582C.)

22 Q. Mr. Rees, I would like to direct your
23 attention to page 19 of your direct testimony, Exhibit
24 74T. Do you have that?

25 A. Yes, I do.

03388

1 Q. Beginning at line 15 you assert that there
2 will be a significant repression effect upon the
3 demand and revenue resulting from the changes required
4 for terminal loop services; is that correct?

5 A. That's correct.

6 Q. Turning back to Exhibit 582C, the last page
7 which is attachment B, do you have that?

8 A. Yes, I do.

9 Q. Is it correct that it is U S WEST's
10 estimate that the quantities of terminal loop service
11 would decline by the percentage figure listed on that
12 page in response to the price increases proposed in
13 this proceeding?

14 A. Yes. It indicates that there would be
15 significant repression and that figure is for the
16 entire period of the phase-in.

17 Q. Stated in other terms, is it the company's
18 expectation that if the prices proposed here are
19 approved by the Commission that a number of terminal
20 loop customers would drop service; is that correct?

21 A. That's correct. Could I expand on that
22 just somewhat?

23 Q. Sure.

24 A. Drop service as far as a terminal loop
25 going to a private line service. There may be a

03389

1 possibility that they could find another vendor or
2 something like that to replace that service also.

3 Q. So you would expect, then, that those
4 terminal loop customers that have dropped the terminal
5 loop service would still have a need to be able to
6 communicate between the locations served by the
7 terminal loops?

8 A. Well, there's probably four things that
9 could happen with a customer that has terminal
10 services today. They could reduce their service.
11 They could find another vendor perhaps. They might
12 find some other services within U S WEST's list of
13 services, or because this is phased in, I believe they
14 would also have the thought of budgeting and therefore
15 continue to keep the service, so a number of
16 alternatives exist there.

17 Q. So if I understand your answer, you do
18 expect that they would continue to have a need to
19 communicate between the locations and you are simply
20 positing for possible scenarios for how they might
21 accommodate that need to communicate; is that correct?

22 A. In some cases they may have a continuing
23 need for communications. In some cases I could
24 visualize where they might decide that they don't
25 need that particular term loop or something to replace

03390

1 it. I believe that is a scenario that could occur in
2 some cases.

3 Q. But you would expect in most cases that the
4 customers would continue to need to be able to
5 communicate between the two locations, correct?

6 A. Generally speaking I think that's correct.

7 Q. And one of the scenarios that you mentioned
8 was that you expected that some of those customers
9 might well seek to satisfy that need to communicate by
10 purchasing other U S WEST services. By other U S WEST
11 services I mean services other than terminal loop
12 services?

13 A. They might do that, yes.

14 Q. Directing your attention to your response
15 to subparagraph C of Exhibit 582C?

16 A. Yes.

17 Q. Is it a fair reading of your response there
18 that U S WEST has not included in its revenue impact
19 analyses of the effects of the proposed price
20 increases for terminal loop services any additional
21 revenues that the company might realize as the result
22 of customers seeking substitute services from U S
23 WEST?

24 A. That's correct. We just did not have the
25 wherewithal to do that type of a study. It would be

03391

1 very complicated and we have not performed that study.

2 MR. BUTLER: Thank you. I have no further
3 questions.

4 MS. MARCUS: I have no questions.

5 JUDGE WALLIS: Any further questions? It
6 appears not. Commissioners.

7 CHAIRMAN NELSON: No.

8 COMMISSIONER HEMSTAD: When you say one of
9 the effects of repression would be a possibility
10 of using a different vendor, would you elaborate on
11 that?

12 THE WITNESS: Yes, sir. In the private
13 line area there are a number of opportunities for
14 customers to use alternatives. In the past we have
15 recognized a number of customers for private line
16 services using private microwave. There are other
17 vendors that provide cabling that would be a
18 replacement for our services. We know in the
19 competitive arena now where the competitive access
20 providers exist they also are offering services that
21 could also be considered for replacement of some of
22 our facilities.

23 As an example, Commissioner, if a customer
24 had a number of terminal loops into a particular
25 building they might consider one of the CAPs to

03392

1 provide a DS1 or something of that nature for some of
2 their private line and perhaps other services also.

3 COMMISSIONER HEMSTAD: And presumably that
4 would be at a price or prices below the U S WEST
5 equivalent?

6 THE WITNESS: That's certainly possible for
7 some of their private line services. The increase in
8 terminal loops at this time would cause a customer to
9 relook their services to determine whether there were
10 other alternatives and so that's why I think they may
11 be able to find some if they looked hard enough that
12 would be less expensive.

13 COMMISSIONER HEMSTAD: That's all I have.
14

15 REDIRECT EXAMINATION

16 BY MS. HASTINGS:

17 Q. Just quickly following up, Mr. Rees. On a
18 question from Mr. Butler on your Exhibit 582C your
19 response to subpart C there, you indicate that it's
20 not unreasonable to assume that some customers would
21 likely take T1s or some other U S WEST service. Is it
22 true or has U S WEST studied whether terminal loop
23 customers might likely restructure their private
24 networks and use the T1 facility instead of directly
25 providing term loops?

03393

1 A. We haven't performed any study to that
2 effect.

3 Q. But does the company have reason to believe
4 that these customers would take advantage of the
5 higher speeds to have access to the Internet and that
6 type of thing?

7 A. Absolutely. In today's world we're finding
8 that the new technologies perform very well for
9 customers that have great number of services in their
10 own network and we're continuously seeing new
11 approaches to networks for businesses and agencies and
12 so forth.

13 MS. HASTINGS: Thank you.

14 JUDGE WALLIS: Further questions? Let the
15 record show that there is no response. Mr. Rees,
16 thank you for appearing today. You're excused from
17 the stand. Let's be off the record for a moment while
18 Ms. Owen steps forward. Perhaps we could mark Ms.
19 Owen's errata sheet that we had described.

20 (Discussion off the record.)

21 JUDGE WALLIS: Let's be on the record,
22 please. Mr. Harlow, you were starting to describe
23 some documents that you had distributed with a request
24 for official notice regarding the testimony of Mr.
25 Jenson; is that correct.

03394

1 MR. HARLOW: That's correct, Your Honor.

2 JUDGE WALLIS: Could you please proceed.

3 MR. HARLOW: Thank you, Your Honor. The
4 first item was two pages from the Centrex Plus
5 transcript Commission docket No. UT 911488 et al. The
6 transcript pages that we request official notice of are
7 271 and 982, and we have distributed those to the bench
8 and to all the parties who are present today.

9 The second item is U S WEST's joint user
10 service tariff from its WN U 31 tariff, and, for the
11 record, the sections offered for official notice is
12 5.6. That's two pages labeled original sheet 149 and
13 150. These are the current tariffs on file with the
14 Commission. The third item is out of U S WEST tariff
15 WN U 31, section 2.2.5, original sheet 29, original
16 sheet 30, second revised sheet 31 and first revised
17 sheet 31.1. That's what we're seeking official notice
18 of.

19 JUDGE WALLIS: What is the purpose for
20 which you're seeking official notice?

21 MR. HARLOW: As to the -- let me address
22 the tariff items first. Both of those two relate to
23 application of the joint user service fee, and as you
24 will recall we were unable to establish through the
25 witness I was examining about that, the witness didn't

03395

1 know how the fee was applied to resellers, and I
2 believe these tariff sections and pages establish
3 that.

4 As for the transcript excerpts I asked Mr.
5 Jenson on cross whether or not he had testified in the
6 Centrex Plus docket that the differentials, price
7 differentials for the NAC were a pricing decision. He
8 said he didn't recall that, and that's established at
9 page 271 of the transcript.

10 Additionally, I asked Mr. Jenson if he
11 recalled Mr. Mason testifying in the Centrex Plus
12 docket that the design of the rate differentials in
13 the Centrex Plus were intended to impact resale. He
14 said there was a discussion of arbitrage but he
15 couldn't recall specifically, and Mr. Mason's
16 testimony in regard to that is contained at page 982
17 of the transcript.

18 JUDGE WALLIS: Is there objection to taking
19 notice?

20 MR. SHAW: Your Honor, I have no objection
21 to the two tariffs as long as it's understood that
22 it's without prejudice for the company to cite on brief
23 any other provision of its tariffs that it might think
24 is relevant, and that by this official notice that
25 these aren't the only tariffs that can be referenced in

03396

1 this. This is based upon, I think is my correct
2 position, that tariffs of the company are legal
3 documents on file with the Commission and the
4 Commission does not have to take official notice of the
5 company's tariffs to entertain evidence or discussion
6 about them.

7 JUDGE WALLIS: As to those documents the
8 request for notice is granted. Mr. Shaw, I believe,
9 is correct in terms of citation but I do find it
10 helpful to have the documents identified and notice
11 taken so that -- and documents described so that
12 they're readily available and I appreciate that, Mr.
13 Harlow.

14 MR. SHAW: I do object to the two page
15 transcript excerpts. As the Commission will recall
16 the Centrex Plus tariff proceeding was a very long and
17 complex proceeding initiated by the company filing a
18 tariff to introduce a new service called Centrex Plus,
19 a totally different service than its historic Centrex
20 type services and consolidated with that was a
21 complaint by the Commission to reclassify Centrex as a
22 monopoly service from an effectively competitive
23 service. In that case Mr. Harlow's clients litigated
24 their position that the service should be designed as
25 a service for resellers to use instead of as an end

03397

1 user service of the company. That proceeding is on
2 appeal by Mr. Harlow's clients. The issues raised in
3 these two transcript pages don't have anything to do
4 with this case. In this case the company has proposed
5 no changes in the Centrex rates, and there is simply
6 an effort to relitigate here what's already on appeal
7 and it's already been decided by the Commission the
8 design of the service in terms of whether it should
9 favor resale by Mr. Harlow's clients or not.

10 The one issue that does seem to be in this
11 case is the aligning of prices and the company's
12 testimony is clear on what its position is in this
13 case, and these small excerpts are objectionable
14 unless they go to impeach somehow the company's
15 testimony in this case. I would further note that Mr.
16 Mason is not a witness in this case. The page 982
17 appears to give his personal opinion, and I think
18 taken out of context of that Centrex Plus proceeding
19 would be very misleading to this record so I do
20 object.

21 JUDGE WALLIS: Do you think that page 271
22 would be properly noticed if it were offered for the
23 purpose of impeachment only?

24 MR. SHAW: I don't recall that the witness
25 denied his testimony in the Centrex Plus proceeding.

03398

1 If Your Honor's recollection is that he did I presume
2 it could be used for impeachment purposes.

3 JUDGE WALLIS: Mr. Harlow.

4 MR. HARLOW: Your Honor, I don't wish to
5 have the notice limited to impeachment only, although
6 it does clearly relate to Mr. Jenson's testimony and I
7 now have available a transcript cite. It's at page
8 3031. The two issues for the bench to address are,
9 number one, relevance, and number two, competency of
10 the evidence. Most of what Mr. Shaw had to say
11 relates only tangentially. I guess as I understand
12 his objection as to relevance he's saying, well, this
13 issue was decided in Centrex Plus and is on appeal.
14 And that's true. However, the Commission noted in its
15 sixth supplemental order, quote, that is not to say
16 that the issue is resolved for all time, and further
17 down on page 2, quote, that does not mean that the
18 proposal is necessarily perfect, and then finally the
19 last paragraph which we've talked about previously,
20 quote, the Commission expects that the company filings
21 in the future will move further toward the ultimate
22 goals of the November 1993 order than do the current
23 filings. And I won't go through all the language
24 again, but it talks about the company and the
25 intervenors looking to see whether there's cost-based

03399

1 support for the pricing structure of Centrex and
2 examining the unbundling question again. The
3 Commission has already allowed additional testimony
4 arising out of that provision finding that in effect
5 the issues raised by Metronet are relevant to this
6 proceeding.

7 I think that takes care of relevance. The
8 Bench has already ruled on the relevance issue.
9 Secondly, as to competency, it's clearly competent
10 evidence. The Commission can officially notice its
11 documents, and in this case it's a transcript and the
12 information contained in the transcript that we seek
13 to have noticed is based on testimony under oath by
14 Mr. Jenson and Mr. Mason. So they're competent based
15 on being made under oath and in addition they are
16 statements by employees of U S WEST and are considered
17 admissions, so they are competent for that purpose
18 hearsay notwithstanding.

19 So the evidence meets both the applicable
20 tests here and should be officially noticed.

21 JUDGE WALLIS: I'm going to take this under
22 advisement as to the pages 271 and 292 from the
23 transcript.

24 MR. SHAW: I would just note that an
25 admission of this exhibit would seem to be

03400

1 inconsistent with the Commission's decisions on the
2 depreciation issue and on the pay phone price squeeze
3 condition issue.

4 JUDGE WALLIS: Thank you. The company
5 at this point is calling Mary S. Owen to the stand.
6 Whereupon,

7 MARY OWEN,
8 having been first duly sworn, was called as a witness
9 herein and was examined and testified as follows:

10 JUDGE WALLIS: In conjunction with the
11 appearance of this witness Ms. Owen has filed her
12 direct testimony as Exhibit 41T for identification and
13 attachments as follows: MSO-1 is 42 for
14 identification. MSO-2 is 43 for identification.
15 MSO-3 is 44C for identification. MSO-4 is 45C for
16 identification. MSO-5 is 46C for identification.
17 MSO-6 is 47. MSO-7 is 48. MSO-8 is 49. MSO-9 is 50.
18 MSO-10 is 51, MSO-11 is 52 and MSO-12 is 53.

19 In addition she has filed rebuttal
20 testimony which is marked as 585T for identification
21 and attachments to that document are the following:
22 MSO-1 ELI contracts is marked as 586 for
23 identification. MSO-2, residential rates costs, as
24 587C for identification. MSO-3, penetration history,
25 is 588 for identification. And MSO-4 is 589 for

03402

1 testimony, your rebuttal testimony, your attached
2 exhibits, and your errata sheet, true and correct to
3 the best of your knowledge?

4 A. Yes, they are. One comment. On my Exhibit
5 46C which I show as U S WEST and LEC rates in
6 Washington, there is no reason that needs to be
7 confidential. I didn't know that he labeled as such.

8 JUDGE WALLIS: Very well. The C is
9 stricken and that will be designated Exhibit 46 for
10 identification.

11 (Discussion off the record.)

12 Q. And Ms. Owen, if I were to ask you the
13 questions that are contained in your direct and
14 rebuttal testimony today, would your answers to those
15 questions be the same as those that are set forth
16 therein?

17 A. Yes, they would.

18 MS. HASTINGS: Your Honor, I would move for
19 the admission of Ms. Owen's direct testimony and
20 twelve exhibits, her rebuttal testimony and four
21 exhibits and her errata sheet and I would make Ms.
22 Owen available for cross-examination.

23 JUDGE WALLIS: Is there objection to the
24 exhibits? Let the record show that there is no
25 response and the exhibit are received.

03403

1 (Admitted Exhibits 41T, 42, 43, 44C, 45C,
2 46, 47, 48, 49, 50, 51, 52, 53, 585T, 586, 587C, 588,
3 589 and 592.)

4 JUDGE WALLIS: Mr. Smith.

5

6 CROSS-EXAMINATION

7 BY MR. SMITH:

8 Q. Morning, Ms. Owen.

9 A. Morning.

10 Q. In your direct testimony you say, "My first
11 recommendation is to bring this service" -- referring
12 to residential local exchange service -- "up to its
13 ADSRC price floor." Since the filing of your direct
14 testimony, you are aware that the Commission has
15 addressed some concerns it has with the company's
16 ADSRC cost methodology in the interconnection case?

17 A. Somewhat, yes.

18 Q. And are you also aware that the Commission
19 in that same order rejected the allocation of the
20 entire cost of the residential loop to residential
21 local exchange service?

22 A. I don't think I am aware that they rejected
23 that. They may not have been convinced of it, but I
24 guess I didn't see it as a total rejection and we
25 obviously disagree.

03404

1 Q. You're aware they addressed the question of
2 allocation of the loop in the interconnection case?

3 A. I thought only peripherally, but again, I
4 read the order once and I didn't study it.

5 Q. In your rebuttal testimony you say that to
6 the best of U S WEST's knowledge the SLC and the CCLC
7 are explicit subsidies for residential service.

8 Referring to the SLC, is that the subscriber line
9 charge of \$3.50 charge per line by the FCC?

10 A. Yes, it is.

11 Q. And end users pay that; is that correct?

12 A. That's correct.

13 Q. So are you saying that residential
14 customers are subsidizing themselves in the case of
15 the SLC?

16 A. Not really. I'm just saying it's a
17 separate charge separately identified over and above
18 their flat residential or measured residential line
19 rate.

20 Q. In your rebuttal testimony you indicate
21 that basic measured service is not reasonably needed.
22 How did you determine the service was not reasonably
23 needed?

24 A. On basic measured service, number one, it's
25 a grandfathered service today, and there are very few

03405

1 subscribers. I think you're only looking at -- I
2 think that's in my testimony. Let me look real
3 quickly but I think you're only looking at 20 some
4 thousand customers, and one of the things that U S WEST
5 has got to be able to do as we head into the new
6 competitive environment is to try to simplify our rates
7 and to try to not keep having a rate for those
8 customers for a very minority number of customers
9 because what it does is it increases our administrative
10 cost, administrative burdens that other entrants are
11 not required to do, and I think you will find on page
12 40 I highlight in my rebuttal testimony why we want to
13 eliminate the basic measured service rate.

14 Q. But when you said it was not reasonably
15 needed were you talking about the company's
16 perspective or the customer's perspective?

17 A. I'm talking about the customer's
18 perspective, because if you look at the services that
19 we have on budget on measured service we have actually
20 three different ones available, and our proposal is to
21 migrate those people on the basic measured service to
22 the other service that has usage included within it,
23 one of the usage packages and they're not minding a
24 decline in the quality of their service and we're still
25 offering a measured type of service to them. And when

03406

1 you only have 20 some thousand customers that are
2 requesting the service and the penetration in the
3 other ones is much greater it doesn't make a lot of
4 sense to continue a service for such a small number of
5 customers when there is a reasonable option available.

6 Q. Would I be correct from your answer that
7 you did not, I take it, conduct any customer survey to
8 determine whether basic measured was reasonably needed
9 by a customer?

10 A. Well, not specifically we haven't conducted
11 a survey but we certainly do look at the number of
12 subscribers for all of those various services and then
13 we also look at the need we have to simplify rates and
14 eliminate grandfathered services. We shouldn't be
15 required to keep a service for such a slight percent of
16 our customers if there is an option available and there
17 certainly is a reasonable one available.

18 Q. As a percentage of your total customers,
19 20,000 might be small but would you agree that on a
20 stand alone basis 20,000 is a number of customers?

21 A. Well, it's a number.

22 Q. Fairly large number of customers.
23 I don't want to quibble over characterizing it, but a
24 significant number of customers?

25 A. No, I wouldn't. When you're looking at one

03407

1 and a half million subscribers for residential
2 subscribers I think 20,000 -- I haven't done the
3 percent, it's very small, but I think the point I'm
4 trying to say is just because you eliminate that
5 doesn't mean that you're eliminating measured service.
6 We still have budget measured service and we are
7 recommending the continuation of usage packages and all
8 basic measured is is measured service with a usage
9 package, so we're not taking anything away from the
10 customers. We're still concerned about them.

11 Q. Is it correct that the company would
12 migrate these existing customers to higher private
13 alternative under your proposed rate increases?

14 A. Well, not necessarily. Let me go to my
15 exhibit. It really depends on what usage package they
16 may choose to take. Budget measured is where they can
17 have -- they pay on an individual per call basis for
18 all of their local calls, so if you have a customer
19 that's currently subscribing to basic measured service
20 that uses very little service that they could go to
21 budget measured. If they want a usage package they
22 can go to one of two different usage packages that we
23 have available.

24 Let me look at my exhibit here. If you
25 look at the current basic measured the rate ranges

03408

1 from \$6.50 to \$7.55 and the budget measure rates
2 ranges from 4.85 to to 5.55 so it really depends on a
3 customer's usage what they're going to end up paying.

4 Q. Those are current rates we're discussing?

5 A. Yes, those are current. I can go to the
6 ordinary ones.

7 Q. I guess that's my money. In year one
8 budget measured would be \$9.25, right?

9 A. That would be correct.

10 Q. And your hourly packages are both going to
11 increase in year one also; is that correct?

12 A. That's correct, very small amount, but yes,
13 they would increase.

14 Q. And a part of that package would involve
15 paying the budget measured as well; is that correct?

16 A. Yes.

17 Q. Now, I think you discuss in your testimony
18 and here today that there are administrative
19 complexities associated with grandfathering the
20 services?

21 A. Yes, there is.

22 Q. Now, is it correct that the billing system
23 today has a single USOC associated with basic measured
24 service?

25 A. Yes.

03409

1 Q. And under your proposal to migrate these
2 customers to the three hour usage package, wouldn't
3 the company need two separate USOCs, one for budget
4 measured service and one for the three hour usage
5 package in order to bill the customer?

6 A. No. We have those in existence today, so
7 in essence you have four USOCs in existence. You've
8 got basic, you've got budget and you've got two
9 separate usage packages so we're recommending the
10 elimination of one of the USOCs for the basic measured
11 so, no, that's not true.

12 Q. On page 43 of your rebuttal testimony --
13 lines 2 through 4 you say that in your direct
14 testimony you answered the questions and issues raised
15 in the term loops order regarding the company's
16 requests for directory assistance. Do you see that?

17 A. Yes, I do.

18 Q. And in that direct testimony to which you
19 refer you talk about the Commission's concern with the
20 DA cost studies that they do not incorporate all of the
21 possible savings that might be realized, and in that
22 direct testimony you indicate that Mr. Farrow discussed
23 those cost concerns and explains why the company feels
24 the current cost studies are appropriate. Is that the
25 testimony -- is that direct testimony testimony you are

03410

1 referring to in your rebuttal testimony as addressing
2 the incorporation of possible savings?

3 A. I am sorry. I was with you about halfway
4 and then I think I lost you.

5 Q. It's a complicated sentence. Is the direct
6 testimony you refer to on page 43 of your rebuttal
7 testimony the testimony starting on page 33, lines 34
8 and carrying on to page 34 of your direct testimony
9 where you indicate that Mr. Farrow discusses those
10 cost concerns?

11 A. Yes. You're asking if I'm saying that Mr.
12 Farrow has addressed why we didn't use some of the
13 technology in a forward looking study?

14 Q. Yes.

15 A. Yes, he did. In the interim, between the
16 time that this was -- before my testimony was written
17 we did do a study of some of that forward looking
18 technology recently in Colorado, for example, voice
19 response, and it's not ready to market yet. Customers
20 told us that as well as our studies, so it just further
21 reinforces that that forward looking technology is not
22 ready to be used.

23 Q. Turning to directory assistance I think I
24 only have a single question on that. Is it correct
25 that the DA cost study filed in this case is the same

03411

1 cost study for DA that was filed in the term loops
2 case?

3 A. I am not sure if it is. I believe it's an
4 updated study from what was filed in the term loop
5 case but I don't have that with me, but I believe it
6 is different.

7 Q. I believe that's correct, but the bottom
8 line is correct, is it not, as far as what the
9 proposed price that the company proposed in the term
10 loops case and that they're proposing here?

11 A. Yes. In both we were recommending 60 cents
12 with a one call allowance, that's correct.

13 Q. Change to the topic of the late payment
14 charge. On page 33 of your rebuttal testimony you
15 discuss the carrying costs associated with the late
16 payments. Did you actually calculate a carrying
17 charge involved?

18 A. No. We can't do that. That's simply not
19 known and measurable at this point in time.

20 Q. And as I recall your response to staff data
21 request you picked the 1.2 percent monthly rate
22 because you thought that's what customers would find
23 reasonable?

24 A. We have a rate ranging from 1 percent,
25 which is low in Montana, to 1.5 percent, which is what

03412

1 most states have, and so because this is the first
2 time we would have a late payment charge in Washington
3 we chose kind of as a midway, little on the low,
4 midway point for Washington. That's what we have in
5 Montana and that's the most recent one instituted. We
6 did not have customer complaints so it looked like a
7 reasonable point. I do need to say that it certainly
8 is lower than that that Commission has already
9 approved for ELI and Connect, Direct Connect or
10 something like that. They have already been approved
11 at a 1.5 percent rate with no minimum balance such as
12 we're proposing, \$45, so it looked like we're even on
13 the low side of what the Commission has approved for
14 others.

15 Q. And ELI and the other company you refer to,
16 are those competitive -- alternative local exchange
17 companies?

18 A. Yes.

19 Q. And do the customers of those companies
20 have the choice of local exchange carriers?

21 A. Well, certainly they do.

22 Q. And do the customers of U S WEST have --
23 all customers of U S WEST have a choice of local
24 exchange carriers?

25 A. Generally they do in that they have

03413

1 alternatives such as cellular who also assesses a late
2 payment charge. If you're talking wire line, not at
3 this point. However, we already know that Viacomm
4 television in Seattle has already done overbuild of
5 about 90 percent of its Seattle area and is planning
6 on entering the local market so this is just a matter
7 of time.

8 Q. Do you know how the rates for cellular
9 compared to wire line local service?

10 A. It certainly depends on your usage.
11 Usage-wise you can get a flat -- for \$30 you can get
12 30 minutes of usage a month.

13 Q. Do you have an opinion as to whether
14 customers were likely to be assessed a late payment
15 charge will be using cellular service?

16 A. No, I have no idea.

17 Q. In your rebuttal testimony you state that
18 customers should be given a price signal that there
19 are consequences for failing to pay their bills on
20 time. Does the timing of the proposed LPC coin with
21 your current disconnect notice practices?

22 A. No, because your late payment charge is not
23 assessed until your next month's bill is rendered and
24 your disconnect is sent out earlier than that. If I
25 may refer you to my exhibit in my direct testimony --

03414

1 find the number. Exhibit 52, which is also labeled
2 MSO-11 gives you the diagram of the billing, how
3 billing works and it shows that the late payment
4 charges, if my bill is rendered March 1 my late
5 payment charge is not actually going to be assessed
6 until the April 1 billing. So, no, your disconnect
7 notices would be somewhere between -- they would start
8 on the day after the due by date which showing here is
9 the 21st.

10 Q. In your direct testimony you stated that the
11 company would impose the LPC to only those customers
12 with a high unpaid bill of \$45; is that correct?

13 A. That's when it would start, that's correct.
14 And that's partially to acknowledge that that would
15 cover almost two months' delinquent of just the line
16 charge.

17 Q. And under your current collection
18 procedures no collection action is taken until the
19 regulated charges reach \$60 or another entity's
20 charges reach \$50; is that correct?

21 A. I think it's and/or, that's correct.

22 Q. So under your collection procedures a
23 customer could go \$59 for a local bill and, say, \$49
24 for an interexchange carrier's charges for a total of
25 \$108 prior to receiving any disconnect notice; is that

03415

1 correct?

2 A. Well, I think the and/or needs to be
3 considered, so if one or the other would occur. I
4 think that was in a data response we gave you as well.

5 Q. I'm not clear how the and/or changes it.
6 If it's and/or, if you have \$59 in local charges and
7 \$49 in IXC charges, you can still have \$108 in
8 outstanding bill before a disconnect bill would go out,
9 couldn't you?

10 A. You could but the way we responded to the
11 data request makes read it. Says "C and D accounts
12 have a disconnect notice mailed to them if more than
13 \$60 of U S WEST regulated charges remain unpaid five
14 days after the pay by date and/or if more than \$50 in
15 charges for any other entity remain unpaid." So I
16 could just owe \$50 from the other entity and I would
17 get a disconnect notice if I was a C or D account.

18 Q. But you would agree, if neither event
19 occurred, if the \$60 threshold were not exceeded nor
20 the \$50 threshold, you could have a bill of \$108 in
21 that case before you got a disconnect?

22 A. That's true, but I should say that the
23 disconnect notice is not the reason we're sending out
24 the -- I mean you're trying to equate two unequal
25 areas here. The purpose of the late payment charge is

03416

1 certainly to encourage payment but it's also to
2 recognize that we incur costs for the payment being
3 late. Treatment is one of those costs but just
4 carrying charge is the other.

5 Q. Well, I was just addressing your statement
6 about the price signal. Let me just summarize. In
7 the case of a late payment charge the price signal is
8 \$45. In the case of disconnect it could be over a
9 hundred dollars?

10 A. It could be.

11 Q. Page 35 of your rebuttal testimony at the
12 very top you state that the late payment charge is not
13 included in the dollar figure that determines if a
14 customer receives a disconnect notice. Is the late
15 payment charge included in the disconnect notice
16 amount?

17 A. No. But I need to qualify that, if I may,
18 because this is assuming that they will pay by their
19 next billing due by date. So, in other words, your
20 late payment charge is assessed, if I have a March 1
21 bill it's going to be assessed April 1 if you exceed
22 the \$45 threshold. And to that extent you would have
23 gotten notices of disconnect prior to that assuming
24 you're in a treatable amount, and that disconnect
25 notice would not reflect that amount. Now, if you

03417

1 carry it over into a second month's bill then the lump
2 sum is due and this lump sum of that second month's
3 bill is the late payment charge amount, just to
4 clarify the difference there.

5 Q. If one portion of the past due amount were
6 to charge for an information service provider would
7 the late payment charge be assessed on that portion of
8 the overdue amount?

9 A. It would be assessed on the total overdue
10 amount including that and any other charges that we
11 bill for.

12 Q. Is the LPC amount that is assessed on the
13 information provider service charges included in the
14 disconnect notice amount?

15 A. As far as I know it is. I don't know that
16 I've looked that specific question though.

17 Q. Turn to the subjected of zone pricing. On
18 page 10 of your direct testimony you discuss the makeup
19 of the two zones you're proposing for local exchange
20 service. Am I correct that your proposed zone one
21 includes all the current rate group three exchanges?

22 A. Generally, that's correct.

23 Q. However, there would also be some of the
24 current rate group two and rate group one exchanges in
25 zone one?

03418

1 A. That's correct. The zones are determined
2 by the local calling areas surrounding Seattle,
3 Tacoma, Spokane and Vancouver, so to the extent that
4 there are now exchanges that have extended area
5 calling into those areas, they now would be brought
6 into the zone one, that's correct.

7 Q. If I could direct your attention to Exhibit
8 42 in your rebuttal testimony, which is your MSO-1?

9 A. I have it.

10 MR. TROTTER: In rebuttal or direct?

11 MR. SMITH: Direct.

12 Q. This exhibit shows your urban exchanges
13 that you just described; is that correct?

14 A. Well, urban in that they have extended area
15 calling to the larger metropolitan area, yes.

16 Q. And if we look down to the Spokane local
17 area, I guess because of the EAS situation you're
18 proposing to move the Elk from its current rate group
19 one to your zone one; is that correct?

20 A. That's correct, and I know we talked about
21 that extensively. I don't know if that's one of the
22 pages that you've entered in evidence.

23 Q. I don't know either but I just have a few
24 questions. Would it be fair to characterize Elk as a
25 small exchange?

03419

1 A. Yes.

2 Q. Would you have any idea how many access
3 lines there are in the Elk exchange?

4 A. No. It was even asked in my deposition. I
5 still don't know. It's not many I'm sure.

6 Q. Would you accept what you accepted back
7 then that it's fewer than a thousand?

8 A. I would guess it is.

9 Q. Do you know how far Elk is from Spokane?

10 A. You know, I was involved in the EAS
11 proceedings when we talked about expanding Spokane, and
12 I know Elk wasn't the farthest away in the area, but I
13 don't know how far it was.

14 Q. And how about Loon Lake, do you recall how
15 far that is from Spokane?

16 A. No. Again, it wasn't the farthest out of
17 the EAS area. That's all I can remember from them.

18 Q. As I understood what you said a few minutes
19 ago, exchanges like Elk and Loon Lake are part of the
20 zone one exchange because their local calling
21 capability includes Spokane, an urban area?

22 A. That's correct. They have very extensive
23 calling available to them.

24 Q. And by contrast, I guess under your
25 proposal the city of Olympia would be in zone two; is

03420

1 that correct?

2 A. That's correct.

3 Q. Do the Elk and Loon Lake exchanges, just to
4 keep with the two I picked, have the characteristics
5 of an urban exchange or a rural exchange?

6 A. They probably have characteristics of both.
7 They probably could be what some people might term a
8 bedroom community for people working in the outskirts
9 of Spokane, and obviously they get the benefits of
10 having all of the retail service available to them on a
11 local basis, so from that perspective they would be
12 considered urban. However, they're -- well, actually
13 their school districts even could be in the Spokane
14 school district as well. I don't know. Some of these
15 exchanges they are, but from a size of the actual
16 exchange in which they're located they would be
17 considered more rural. So it's really both is the
18 answer.

19 Q. On a stand alone basis, without EAS, would
20 it be fair to say that Elk and Loon Lake and some of
21 these others would be in a zone two exchange?

22 A. That would be correct because then they
23 don't have those urban benefits.

24 Q. And, to your knowledge, is there
25 competition for local service in exchanges like Elk,

03421

1 Loon Lake or Roadway?

2 A. Certainly at this point in time, no, but as
3 I said as cable TV enters more in the market you're
4 going to find that it's going to become more and more
5 available, but I certainly think it's going to be down
6 the road a ways.

7 MR. SMITH: That's all my questions. Thank
8 you.

9 JUDGE WALLIS: Mr. Trotter.

10

11 CROSS-EXAMINATION

12 BY MR. TROTTER:

13 Q. Good morning, Ms. Owen.

14 A. Good morning.

15 Q. Did Mr. Farrow tell you he deferred a
16 question to you?

17 A. Well, actually I was listening to part of
18 it and I thought I heard more than one.

19 Q. Let me try one that he did defer
20 specifically. Do you know on a forward looking basis
21 what U S WEST assumes residential customers will be
22 ordering with respect to additional lFR services per
23 residence line? Will it be less than currently, more
24 than currently or the same as currently?

25 A. More than currently.

03422

1 Q. And can you give me a cents on average what
2 you're looking at on a forward looking basis for 1FR
3 for residence line?

4 A. It's real tough to do on an average basis.
5 I just read some data that, for example, Seattle has
6 more people that subscribe to Internet than any place
7 else in the nation including New York City. What this
8 tends to mean that over time people will subscribe to
9 more and more additional lines, and so -- but to
10 quantify how many that will be we do think the
11 majority, more than 50 percent, will be subscribing to
12 at least two if not more. But I can't give you
13 anything more definite than that.

14 Q. In your rebuttal testimony you referred to
15 a Rutgers University project which examined telephone
16 usage in the Camden area of New Jersey?

17 A. Right, I think that was one of three.

18 Q. And that was a study funded by Bell
19 Atlantic; is that right?

20 A. I think it was but it was done by Rutgers
21 which obviously is an independent organization, and
22 that's one of the reasons they use them is because
23 they wouldn't be accused of bias.

24 Q. So your answer is yes, it was funded by Bell
25 Atlantic?

03423

1 A. I believe it was. I didn't bring the study
2 but I believe that's correct.

3 Q. Is it correct that they surveyed 14
4 households in the study that did not have telephone
5 service?

6 A. I believe that's correct. As I say, I
7 didn't bring the studies but again you have to look at
8 all three studies. You can't just look at the
9 Rutgers. You have to look at field research and you
10 have to look at the one in Washington D. C. and all
11 three different geographic areas came up with the same
12 research result.

13 Q. You also have to look at the AARP study
14 that was done recently?

15 A. I have not seen the AARP study so I can't
16 verify it.

17 Q. Turn to Exhibit 591 which is your response
18 to our data request 438. And here we asked you to
19 provide the evidence supporting your rebuttal
20 statement that the CCLC was established to subsidize
21 local telephone companies after divestiture, and is
22 your response correct as of today?

23 A. Yes.

24 MR. TROTTER: I would move the admission of
25 Exhibit 591.

03424

1 MS. HASTINGS: No objection.

2 JUDGE WALLIS: 591 received.

3 (Admitted Exhibit 591.)

4 Q. Turn to page 8 of your rebuttal testimony.

5 And on line 24 you state, "Mr. Dunkel uses the
6 argument that residential based exchange service,
7 although priced below its ADSRC as defined by U S WEST,
8 is really priced correctly because there should be
9 some allocations of cost to other services which use
10 the local line." Do you see that?

11 A. Yes.

12 Q. The phrase "although priced below its
13 ADSRC as defined by U S WEST" is your position?

14 A. That's correct.

15 Q. You are not intending in this passage to be
16 quoting Mr. Dunkel on that?

17 A. No. That's why I tried to say as defined by
18 U S WEST and clarify that.

19 Q. So when you characterized Mr. Dunkel's
20 argument you are not referring to the phrase set off
21 in commas?

22 A. No.

23 Q. Thank you. Over on page 10 in response to
24 I believe it was a highway analogy you offer us a
25 better analogy, according to you at least, the

03425

1 individual homeowner's driveway; is that right?

2 A. That's correct.

3 Q. Now, would it be fair to say that
4 individual customers or owner's driveways generally go
5 from their house to their -- to the street or their
6 lot boundary; is that correct?

7 A. Certainly.

8 Q. And the local loop drop, at least the local
9 loop would extend from U S WEST's central office all
10 the way to the customer's premise if you include the
11 drop?

12 A. Well, that's true, but the analogy is what I
13 was disputing is that his analogy using a highway does
14 not equate to the public switched network provided by
15 U S WEST.

16 Q. We're going to get to that. With respect
17 to the local loop that could be a mile long or several
18 miles along, correct?

19 A. Yes.

20 Q. And as you state in your -- would it be
21 correct that individuals own their own driveway but U
22 S WEST owns the loop and drop; is that correct?

23 A. That would be correct.

24 Q. And if the homeowner did not have a
25 driveway or prohibit its use by others, such as

03426

1 service people, those services could still be provided
2 by a person simply leaving product at the curb or
3 bringing it to the house; is that right?

4 A. Well, if they were precluded the use of the
5 driveway I would assume the service would not be
6 available, period. My milkman wouldn't deliver out
7 in the middle of the road.

8 Q. So a pathway would not be available to him?

9 A. Based on what I understood your question to
10 be that would be correct.

11 Q. Turn to page 15 of your rebuttal. And on
12 line 7 you cite Mr. Dunkel's testimony where he cites,
13 quote, negative returns on products which he deems
14 competitive, unquote, and then you point out that only
15 one indicated a negative return and that was dealt
16 with by Mr. Rees and the other two did not have
17 negative returns but rather positive returns. Do you
18 see that?

19 A. Yes, I do.

20 Q. Isn't it correct that Mr. Dunkel stated
21 that these services are producing negative or below
22 average returns?

23 A. I don't have his testimony in front of me
24 so I don't know that that's what he said. I don't
25 doubt you but I don't know that.

03427

1 Q. So when you cite page 15, lines 21 through
2 23 that's the testimony of Mr. Dunkel that you're
3 intending to rebut here?

4 A. That's correct.

5 Q. Turn to page 20 of your testimony and I
6 guess corresponding Exhibit 588 you refer to the
7 Massachusetts penetration level example?

8 A. Yes.

9 Q. And you quote from apparently a
10 Massachusetts Commission order involving NYNEX, is
11 that correct, on lines 4 through 10?

12 A. I think it was NYNEX.

13 Q. That's your footnote.

14 A. Oh, then yes. I'm glad I footnoted that.

15 Q. And the text you quote there relates to no
16 statistically significant change in Massachusetts
17 telephone penetration rate in the years 89 through
18 '92; is that right?

19 A. Well, that's part of the quote because then
20 it goes on to say that the transition to cost-based
21 rates has not negatively impacted universal service and
22 that the current proposed increase is unlikely to have
23 an impact on universal service.

24 Q. I just want to deal with the first part of
25 the quote. Could you turn to your Exhibit 588 and

03428

1 these are the penetration rates from '89 to '94; is
2 that right?

3 A. That's correct.

4 Q. And so the reference from the quote was to
5 a 97.1 percent rate in 1989 and a 96.8 percent rate in
6 1992?

7 A. True, but you have to go on, and the reason
8 I included this exhibit is because they continued with
9 the rate increases in '93 and '94 from what you saw is
10 an increasing penetration level at the same time that
11 they had increasing rates which shows that the
12 increasing rate did not negatively impact the
13 penetration level. It just confirms what the studies
14 we talked about a little while ago said, so that's why
15 I included the extra two years.

16 Q. So your answer is yes with that
17 elaboration?

18 A. With that elaboration.

19 Q. And would you accept that based on your
20 response to our data request 958, which asked you for
21 -- excuse me, wrong one. -- 599 which asked you for US
22 national percent penetration rates that the national
23 penetration rate in 1989 was 93.1 percent and in 1992
24 it was 93.8 percent. Would you accept that subject to
25 your check?

03429

1 A. Yes.

2 Q. Turn to your Exhibit 586 which is your ELI
3 contract comparison. Do you see that?

4 A. Yes.

5 Q. I had some questions about the service type
6 column. Just take a look at contract 202. It says
7 ten incoming only LTS and seven flat business lines and
8 203 also has incoming business lines only, 208 flat
9 business line incoming only and 212 business lines
10 incoming only. Do you see that?

11 A. Yes.

12 Q. Does this mean that only incoming traffic
13 is charged at a flat rate and that outgoing traffic is
14 charged at a measured rate?

15 A. I can't address that. All we have is the
16 data that is publicly available. You have to go to
17 ELI to get all of the details of what these service
18 offerings are.

19 Q. So you didn't P analyze that particular
20 issue?

21 A. No, nor could we because we don't have all
22 of the data because it's proprietary and ELI obviously
23 wouldn't provide it to us.

24 Q. And you didn't ask them?

25 A. Well, we kind of asked them but they didn't

03430

1 respond.

2 Q. But anyway, you don't know whether the
3 incoming designation indicates that it's flat-rated
4 incoming but outgoing is measured?

5 A. That's correct, I don't know. I just don't
6 have that level of detail accessible to me.

7 Q. Do you have your response to our data
8 request 958?

9 A. Not with me.

10 Q. I can hand you a copy. We asked you for
11 this exhibit for accounts that have 40 or more lines
12 please provide U S WEST's rate if U S WEST provided
13 service to this customer at this location under Centrex
14 Plus service.

15 MS. HASTINGS: Excuse me, Don. With respect
16 to this exhibit you mean 586?

17 MR. TROTTER: Yes.

18 Q. Am I correct that your response was,
19 "Because of the lack of data available to U S WEST we
20 are unable to provide this comparison. Even if we
21 could such a request would require a special study
22 that has not been performed."

23 A. Let me just take a minute to look at it.

24 Q. It's part O?

25 A. Oh, thank you. I have it. That is

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1 correct.

2 Q. Turn to page 30 of your rebuttal. And
3 beginning on line 20 you refer to the policy statement
4 for usage-sensitive pricing that Mr. Dunkel included in
5 his exhibits?

6 A. Yes.

7 Q. And you indicate that you were gravely
8 concerned that he only included part of the
9 information?

10 A. Yes, I was quite upset.

11 Q. Quite upset. And you attach as your
12 Exhibit 589 a copy of the policy?

13 A. That's right. I included the entire data
14 response, our response, and the policy statement in
15 its entirety because I think it better reflects the
16 position.

17 Q. Fine. And the first page of the exhibit is
18 the data request, correct?

19 A. That's correct.

20 Q. And part of the response. And then the
21 second page is the policy statement?

22 A. That's correct.

23 Q. Is there a third page?

24 A. No.

25 Q. Did you review Mr. Dunkel's exhibit,

03432

1 rebuttal exhibit -- and I will get you the number?

2 A. I didn't bring his with me but I did review
3 it.

4 Q. Did you notice that he included a second
5 page to the policy statement which would have been a
6 third page to your exhibit?

7 A. I don't remember that.

8 Q. Let me just hand it to you. I would
9 represent that this is Exhibit 465.

10 A. I have it. It looks like it's my error. I
11 left out the page 2.

12 Q. So you're not disputing that Exhibit 465 is
13 a correct copy of the policy statement although it
14 does not include the front page of the data request
15 that you included in your Exhibit 589?

16 A. I would agree, but what I took issue with
17 Mr. Dunkel is the fact that he was very selective in
18 his citations in the body of his testimony and he
19 failed to even point out that we say that we don't
20 even use this policy statement any more, and then he
21 distorted it so even though this was attached I took
22 issue with what was in the body of his testimony.

23 Q. And you're selective in your selection of
24 Exhibit 589 by not including the last page?

25 A. Well, that was unintentional. The last

03433

1 page is still -- is part of the document. It was just
2 my oversight when I attached it so that's my error.
3 It wasn't done intentionally.

4 Q. And the last page does state that over
5 time U S WEST at that point of the policy at least
6 planned to have an emphasis on flat-rated service
7 becoming a premium offering?

8 A. No, I don't think it is that. It says we
9 won't seek mandatory measured service, will offer
10 packages of services. We want basic to cover their
11 costs with emphasis on flat rate service becoming a
12 premium offering.

13 Q. I guess it will speak for itself?

14 A. Because you have to look at it in its
15 entirety and the customers have told us the flat rate
16 is the premium offering not measured.

17 Q. And it's your testimony that this policy,
18 according to page 1 of the exhibit, it's no longer
19 referenced as official U S WEST policy although it has
20 not been formally replaced by any other statement. Is
21 that still a valid response or has that been updated?

22 A. Well, no. Because I think what was being
23 asked were something of a policy statement that
24 encompassed the issue of flat versus measured and such
25 a policy statement doesn't exist but within the

03434

1 company the common practice is to offer both flat and
2 measured and let the customers' needs dictate what is
3 for them, but there is no written statement like this
4 one is.

5 Q. Let me just ask that from the first page of
6 your Exhibit 589, the first sentence of item B in the
7 response, is that still an accurate statement as of
8 today?

9 MS. HASTINGS: It may be a point of
10 clarification. I don't know that this is Ms. Owen's
11 response. This is a response to a data request.

12 MR. TROTTER: I was referring to Exhibit
13 589.

14 MS. HASTINGS: Yes, I am, too.

15 MR. TROTTER: I will rephrase the question.

16 Q. Exhibit 589, page 1, response part B,
17 sentence one, first sentence. Is that today a correct
18 statement?

19 A. Well, it is a correct statement but with
20 the caveat that we have no reason to normally rewrite
21 this policy. I mean, we're not writing policy like
22 that was done in -- when was it -- '89 or '87. So the
23 state is correct but implied with it is that we
24 should be rewriting it, and I don't think that's
25 appropriate.

03435

1 MR. TROTTER: That is a good time to break.

2 JUDGE WALLIS: Let's take our noon recess

3 at this time. We'll be back at 1:15, please.

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

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1 receives compensation for those services, does it not?

2 A. Some compensation, yes.

3 Q. Do you have the percent of residential
4 customers in Washington U S WEST territory in which
5 the common lines were not used for any toll service in
6 a given month? And by toll service I mean any outgoing
7 toll, any incoming toll, any outgoing IXC carried toll
8 or any incoming IXC carried toll?

9 MS. HASTINGS: What do you mean by common
10 line, Don?

11 MR. TROTTER: The local loop.

12 A. The only data that U S WEST has access to
13 is our own information. You would have to ask for the
14 rest of that from AT&T and MCI and they would have to
15 do their own study.

16 Q. You don't have that information?

17 A. I would love to have it but I don't.

18 Q. Let's talk a little bit nonpub and nonlist
19 members, and turn to page 28 of your rebuttal, and you
20 testify beginning on line 14 on these issues; is that
21 correct?

22 A. That's correct.

23 Q. And I just discussed with you at the break
24 you show a number on line 26 for the Arizona rate as
25 \$1.50 for nonpub and what should that number be?

03438

1 A. That actually should be higher. It should
2 be \$1.80. Thank you for catching that.

3 MR. TROTTER: Your Honor, could the record
4 reflect that correction?

5 JUDGE WALLIS: Yes.

6 Q. And am I correct that the rate prior to the
7 recent Arizona rate case was \$1.50?

8 A. Yes, I believe that is correct.

9 Q. And the company was asking in that docket
10 for a \$2.50 rate, was it not?

11 A. It was but you have to understand we still
12 received \$1.30 increase and we did not get the revenue
13 requirement increase that we had originally gone into
14 that the \$2.50 rate supported.

15 Q. Is it also correct for nonlisted numbers
16 the previous rate in Arizona was \$1.20, the company
17 asked for \$2 and it was granted \$1.45?

18 A. Same thing. The revenue requirement was
19 significantly less than what we had requested.

20 Q. And likewise if the revenue requirement is
21 significantly less than what you requested in this
22 case, you would be proposing lower rates for these
23 services?

24 A. Not necessarily. The nonpub rate in
25 Washington is the lowest in the region, and we think

03439

1 it's way too low and it would depend on the magnitude
2 of the revenue requirement before I could say whether
3 I would ask for less or not, but it's certainly way
4 below where I believe it should be.

5 Q. You say that the Arizona Commission saw
6 through his -- referring to Mr. Dunkel's -- weak
7 arguments and granted U S WEST a rate increase. Do
8 you see that?

9 A. Yes, I do.

10 Q. Could you list the adjustments in the
11 Arizona docket in which the Arizona Commission saw
12 through the weak arguments of U S WEST?

13 A. The Arizona Commission believed that as
14 more and more people subscribed to nonpublished
15 service that it devalued the public switched network
16 and because of that that the people who subscribed to
17 nonpublished service should in fact pay a premium rate
18 for that exclusion and a devaluation.

19 MR. TROTTER: Your Honor, the question was
20 what adjustments the Arizona Commission adopted by
21 seeing through the weak arguments of U S WEST. That
22 answer was not responsive to that question.

23 JUDGE WALLIS: I would ask the witness to
24 listen carefully to the question and respond to the
25 question in the way that the question asks for a

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1 response. Then by convention it's all right to go
2 ahead and explain your answers although not to answer
3 a question that may not yet have been asked.

4 THE WITNESS: I apologize. I thought he
5 asked me what was the Commission's reason for making
6 the adjustment that they did, which is what I answered,
7 so I guess I didn't understand.

8 Q. Let me try it again. You haven't gone
9 through that Arizona order and made a listing or
10 analysis of the areas in which the Commission
11 disagreed with the company's areas of analysis?

12 MS. HASTINGS: Do you mean rate
13 adjustments?

14 MR. TROTTER: Any and all.

15 MS. HASTINGS: Accounting adjustment?

16 MR. TROTTER: Or Yellow Page adjustments,
17 et cetera.

18 A. I certainly read the order but I haven't
19 sat down and done a graph.

20 Q. Would you say that the Arizona Commission
21 saw through the company's argument on cost of equity
22 or Yellow Pages?

23 A. I have no idea.

24 Q. Let's talk about the late payment charge
25 that you're proposing for Washington, and you do have

03441

1 late payment charge in other jurisdictions; is that
2 correct?

3 A. Yes. 10 out of 14 assess a late payment
4 charge.

5 Q. And have those late payment charges been
6 successful in reducing U S WEST uncollectibles?

7 A. I don't know that I could say there's a
8 direct cause and effect there, no. We think that they
9 encourage people to pay their bill on time but I don't
10 think I can quantitatively prove that they have
11 reduced the uncollectible.

12 Q. Has the company attempted to measure that
13 effect?

14 A. I think we did in one state and I can't
15 remember what state it was. I'm thinking it was South
16 Dakota but that, again, we couldn't directly prove --
17 at the same time we've done other things with our
18 collection practices that probably have had a greater
19 impact in reducing uncollectibles and we couldn't
20 prove either qualitatively or quantitatively that it
21 necessarily did that.

22 Q. And with respect to the state of Montana,
23 have you done any analysis specific to that state?

24 A. On how it impacted uncollectibles?

25 Q. Yes.

03442

1 A. I don't believe so.

2 Q. I would like to turn your attention to
3 Exhibit 590 which I will now represent to you is a
4 copy of your deposition in the correct order of
5 pagination. Do you recognize the exhibit as such?

6 A. Yes, I do.

7 MR. TROTTER: Your Honor, I have evaluated
8 this exhibit to determine whether any parts could be
9 deleted, and I have confirmed that I wish to offer the
10 entire exhibit so I do so at this time.

11 MS. HASTINGS: We will object on the same
12 basis that Mr. Owens laid out in an earlier situation
13 involving Mr. McDonald and others.

14 JUDGE WALLIS: My concern regarding
15 depositions is twofold. One is that the content of
16 the deposition that's being offered be relevant to the
17 proceeding. We have seen some relatively lengthy
18 documents, Exhibit 345 for identification, for example
19 is very long, and my concern is that we don't want to
20 have to read through those documents unless there's
21 some significant reason for it being offered. The
22 other is the converse of that, economy and the size of
23 the record and limiting it to necessary information.
24 I have Mr. Owens's arguments in mind. I think I
25 responded to at least two of them. The third

03443

1 argument, the one that indicated a fear that an initial
2 order might be required in the absence of -- if such a
3 document is received, and I don't believe that that's a
4 realistic result, and consequently I will overrule the
5 objection.

6 MR. TROTTER: Your Honor, I would just note
7 for the record, we did notify the company that we
8 intended to offer the depositions of witness Wilcox
9 and Rees and we did reevaluate in light of proposed
10 exhibits that were going to be offered in cross and so
11 on and did not, as the record will reflect, did not
12 offer those so we've attempted to be responsible in
13 this regard. Those are all my questions of Ms. Owen.

14 JUDGE WALLIS: Other parties.

15 (Admitted Exhibit 590.)

16 JUDGE WALLIS: Mr. Harlow.

17

18 CROSS-EXAMINATION

19 BY MR. HARLOW:

20 Q. Good afternoon.

21 A. Good afternoon.

22 Q. Are you familiar with the joint user fee?

23 A. As it relates to listings, yes.

24 Q. Is the joint user service a listing
25 service?

03444

1 A. The one I am familiar with is, yes.

2 Q. And the current rate for that is \$2.50 a
3 month?

4 A. That's correct.

5 Q. Would the JUF be considered a main listing,
6 a premium listing or a privacy listing?

7 A. No. It's a little bit different than any
8 of those and it's not included as a premium couple
9 listing per se, but that's what it would come closest
10 to.

11 Q. Would the cost, the long-run incremental
12 cost, of a JUF be equivalent to a premium listing
13 cost?

14 A. Probably you should have asked Mr. Farrow
15 that. My guess is yes, but I certainly don't know.

16 Q. That's your belief?

17 A. That's my belief.

18 Q. Are you aware if Mr. Farrow or any of the
19 costing people at U S WEST prepared a separate cost
20 study for the JUF service?

21 A. I can't answer that.

22 Q. You're not aware of one?

23 A. Not aware of it one way or the other.

24 MR. HARLOW: Thank you. That's all the
25 questions I have.

03445

1 JUDGE WALLIS: Mr. Roseman.

2

3 CROSS-EXAMINATION

4 BY MR. ROSEMAN:

5 Q. Good afternoon, Ms. Owen.

6 A. Hi, Mr. Roseman.

7 Q. You know I represent AARP?

8 A. I do, thank you.

9 Q. I will be asking you a question on page --
10 that concerns page 9 of your rebuttal testimony where
11 you're answering -- your answer on pages 16 through
12 33.

13 A. I'm sorry. Are you on 9 or are you 16?

14 Q. I'm on page 9, line 16.

15 A. Oh, I thought you said page 16.

16 I got it.

17 Q. The question is, is there any type of --
18 this is the question in your Q and A. "Is there any
19 type of product that exists outside the
20 telecommunications industry that does what Mr. Dunkel
21 is proposing?" And then you go through a discussion
22 of comparing one who buys a television and buys a VCR
23 and you need them both to work together and they're
24 priced separately and by different manufacturers. I
25 know cellular phone is within the telecommunications

03446

1 industry but that would be a situation similar to what
2 Mr. Dunkel was inquiring about?

3 A. I don't believe so. Cellular phone
4 recovers all of its costs through the base rate as
5 well as through the usage charges, if that's what
6 you're asking me.

7 Q. I guess what I'm asking is, isn't the price
8 of the cellular phone below its cost?

9 A. Oh, I'm sorry, the telephone itself?

10 Q. Right.

11 A. I don't have any idea. Maybe one time
12 promotional offers I think I have seen them for free
13 but then I know that we certainly paid for ours, so I
14 think they're one time offers when they may be free
15 but I don't think they're always free.

16 Q. But certainly if it's free that phone would
17 be below itself cost?

18 A. For that one time offer it would be.

19 Q. And what would you believe the reason of
20 the cellular service would be to offer that phone at
21 free or at one cent?

22 A. Well, obviously in that case they probably
23 have, number one, a very low price that they have to
24 pay a supplier for that telephone, so their costs are
25 probably very low for the telephone, and probably

03447

1 because there is enough margin or markup in their
2 actual cellular line rate and any component usage
3 pieces of it that they feel that over a long term, and
4 I'm sure they've done studies to determine what that
5 length of time is, that they will more than recover
6 the cost of that cellular phone.

7 Q. Do you believe that there's effective
8 competition in the local residential exchange market
9 today, in Washington?

10 A. I think in Washington we will be one of the
11 first states that has it but whether we have it
12 effective today for a wire line service, no. For a
13 wireless service probably the answer is yes.

14 Q. A wireless service is the same as a
15 cellular service?

16 A. Cellular or there's a lot of PCS auctions
17 going on now so I would include that when it comes on
18 line.

19 Q. When one uses a cellular phone does one --
20 if one terminates that call at one's residence on a
21 line phone, does U S WEST receive compensation from
22 that cellular company for that call termination?

23 A. I am not a cellular witness. I don't think
24 so, but I can't testify one way or the other.

25 Q. I believe you testify generally that

03448

1 residents could afford the price increase requested by
2 U S WEST from I think we're at \$10 now to
3 approximately \$21 or \$26 depending on what zone you're
4 in?

5 A. My testimony is that the vast majority can
6 afford a rate in the \$20 plus range, and then in order
7 to support that I've cited three different studies
8 across the nation. I cited the Massachusetts
9 penetration study, but I certainly know that there's
10 some --

11 Q. You mentioned those earlier today. I'm
12 familiar with those. What I wonder is, have you seen
13 the evaluation of the letters that were sent to either
14 public counsel or the Commission as a result of U S
15 WEST's proposed rate increase from customers within
16 the state of Washington?

17 A. No, I haven't seen those.

18 Q. So you haven't seen the evaluation that
19 your company did of those letters?

20 A. No, I am not aware of them.

21 Q. Did you testify in the most recent Utah --
22 in the state of Utah in the most recent U S WEST
23 general rate case?

24 A. Yes, I did.

25 Q. And can you tell me the result of that, the

03449

1 decision in that case as it applies to residential
2 ratepayers?

3 A. Yes, I can. The revenue -- but you need to
4 understand the context in which the order was issued.
5 U S WEST had gone into that case asking for I believe
6 it was a \$30 million revenue increase and as part of
7 that we asked that the residential rates be increased
8 as part of that revenue requirement. The actual order
9 came back with a \$10 million negative decrease.
10 However, the Commission did not do anything to adjust
11 downward residential rates in that docket. But
12 obviously we didn't have a positive revenue increase,
13 it was real difficult for them to increase the rates
14 but they didn't decrease them even though they
15 certainly could have.

16 Q. I'm going to ask you a few questions about
17 the Washington telephone assistance program, which I
18 know you're familiar with?

19 A. Yes, I am.

20 Q. Can you tell me who is eligible for the
21 Washington telephone assistance program?

22 A. I think I reference that in my direct
23 testimony.

24 Q. Let me see if I can help you and see if you
25 will agree with me on this. I'm not trying to put

03450

1 words in your mouth but it's my understanding it's
2 those individuals who are eligible for a Department of
3 Social and Health Services administered program,
4 social service program or welfare program. Those are
5 the only individuals who are eligible under the
6 Washington telephone assistance program?

7 A. Well, I think it's a little broader than
8 that. In my direct testimony on page 17 I address
9 that on lines 22 through 26 and it says -- this
10 criteria is run by the Department of Social and Health
11 Services by the way, and the criteria for being a
12 recipient of telephone assistance program is getting
13 aid for dependent children, food stamps, supplemental
14 security income, refugee assistance, the community
15 options program and any other service administered by
16 the department for the financially needy.

17 Now, it must be understood that people need
18 to go to the department, show them what their income
19 is, and their income can be from any source but if
20 their incomes allows them to qualify for one of these
21 programs then they are eligible for telephone
22 assistance.

23 Q. So it's your testimony that if someone
24 receives funds from a source other than the Department
25 of Social and Health Services that they could be

03451

1 eligible under the Washington telephone assistance
2 program?

3 A. My understanding is their income can come
4 from any other source. For example, let's say I'm a
5 single parent and all I get is child support for some
6 reason because maybe I'm working, but my income level
7 is low enough with that child support and with my
8 income that I'm eligible for food stamps. I would
9 then go to the Department of Social and Health
10 Services, become eligible for the food stamp program
11 based on my income from other sources and thereby
12 qualify for the telephone assistance plan.

13 My mother, who is on Social Security, if
14 her Social Security was low enough and she could
15 therefore qualify for food stamps she would be eligible
16 for the telephone assistance program, so where your
17 money comes from is not the driver. It's how much
18 money you have and then do you qualify under any of
19 these programs.

20 Q. And have you checked this with the
21 department?

22 A. I've read the background from that and
23 that's my understanding.

24 Q. I'm going to show you a statute, and my
25 reading of it is different than your interpretation of

03452

1 it so I want to be sure of what your direct testimony
2 is, that it relates to the statute. It's RCW
3 80.36.470.

4 A. I might even have it but go ahead and let
5 me see yours because it might be faster. What is it
6 again?

7 Q. 80.36.470?

8 A. No, I don't have that cite with me. If I
9 could see a copy that would be great.

10 JUDGE WALLIS: Mr. Roseman, can you provide
11 that to the witness.

12 A. After reading this it still wouldn't change
13 my testimony because it says adult recipients of
14 department administered programs for the financially
15 needy --

16 Q. Go back. Read that first sentence very
17 slowly. It says adult --

18 A. "Adult recipients of department
19 administered programs" --

20 Q. Stop right there. Of department
21 administered programs.

22 A. Right. Food stamps is department
23 administered.

24 Q. But Social Security is not?

25 A. No, but I can be on Social Security and

03453

1 qualify for food stamps.

2 Q. Okay. I will go through this with another
3 witness who will follow later. I just have a few
4 more.

5 A. Can I finish reading the cite here to get it
6 on the record?

7 Q. Yes.

8 A. It says, "Adult recipients of department
9 administered programs for the financially needy which
10 provide continuing financial or medical assistance,
11 food stamps or supportive services to persons in their
12 own homes are eligible for participation in the
13 telephone assistance program." And I think that "or"
14 is real important to have on the record. Thank you.

15 Q. Regarding the late payment charge?

16 A. Yes.

17 Q. Your proposal is that if you are doing
18 billing and collection for an information provider and
19 the customer is late in their bill, as you've defined
20 it, then a late payment charge should issue; is that
21 correct?

22 A. My testimony is much broader than that.
23 Anything that we bill and collect for another company
24 that we should be entitled to bill and assess a late
25 payment charge. So it's not just information service

03454

1 providers. It could be interLATA toll. It could be
2 anything that we bill and collect for, that's correct.

3 Q. And if the information provider also had a
4 late payment charge could one have a situation where
5 they are assessing a late payment charge as well as
6 you?

7 A. No. You have to understand, we're
8 assessing it on the bills that we rendered to our
9 customers. If we are the billing agent for that
10 information service provider they don't also issue a
11 bill. One or the other of us issues it so a customer
12 getting a duplicate bill should not occur for the same
13 service.

14 Q. Let me just check my notes. That's all my
15 questions. Thank you.

16 JUDGE WALLIS: Other questions. Ms.
17 Miller.

18 MS. MILLER: No questions.

19 JUDGE WALLIS: Ms. Proctor.

20

21 CROSS-EXAMINATION

22 BY MS. PROCTOR:

23 Q. Good afternoon, Ms. Owen. I'm Susan
24 Proctor from AT&T. Just a couple of quick questions.
25 Your testimony states that you're a director of

03455

1 product and market issues. Could you just tell us
2 real briefly what that means you do?

3 A. I represent the company's position before
4 regulatory commissions as part of workshops such as in
5 the Colorado workshops this summer I participated in
6 those.

7 Q. You've got my condolences.

8 A. Thank you. They were kind of horrendous.

9 Q. Several of the other witnesses who appear
10 to hold similar titles have stated that they also
11 worked with and were members of product teams?

12 A. That's correct.

13 Q. So that means that you are also --

14 A. Yes, I am.

15 Q. And which product teams are you a member
16 of?

17 A. I'm the member of the directory assistance,
18 extended area service, basic exchange, which includes
19 both residence and if you will simple business
20 services. Listings and custom calling although I have
21 to admit I don't attend all the product team meetings
22 due to time constraints but I do get the minutes.

23 Q. Which I'm sure you read?

24 A. Oh, they're fascinating.

25 Q. And when you talk about the product team

03456

1 meetings, are these meetings where, for example, I
2 assume it's being run by a product manager?

3 A. That's correct. Generally that's true.

4 Q. And are you participating in those meetings
5 in determining strategy for marketing and marketing
6 plans for those products?

7 A. Only very peripherally. I am involved more
8 as an advisor to tell them what the regulatory climate
9 is, if you will, in a given state. What the process
10 is. Because the people that are product managers are
11 certainly not regulatory experts. They don't have the
12 day-to-day dealing with the Commissions, with
13 Commission staff, with intervenors such as AT&T, so
14 part of my role is to help advise them on what likely
15 reactions may be to various proposals, what customer
16 reactions are, if I can provide that. A lot of times
17 the strategists are people that have done more work --
18 different products have different organizations for
19 their marketing functions, and I tend to be more on
20 the implementation side. A long answer to a short
21 question.

22 Q. Would you have, for example, have
23 participated in discussions concerning the filing of
24 custom choice?

25 A. No. Custom solutions, yes. Custom choice,

03457

1 no.

2 Q. Have you seen the 10 XXX information that
3 Mr. Purkey provided in this case, the backup data?

4 A. No, I don't believe I have. Dan has told
5 me what it was but I have not looked at it, no.

6 Q. Do you know who else Dan has shared that
7 information with?

8 A. No. I know it's at a very high level.
9 It's nonspecific to carriers. It's an aggregated
10 number and no, I don't. I don't even know if it's
11 proprietary or not. You would have to ask him that.

12 MS. PROCTOR: Thank you very much.

13 JUDGE WALLIS: Are there any further
14 questions from counsel for this witness?

15 Commissioners.

16 CHAIRMAN NELSON: Nothing.

17 COMMISSIONER HEMSTAD: No.

18 JUDGE WALLIS: Redirect.

19 MS. HASTINGS: Thank you, briefly.

20

21 REDIRECT EXAMINATION

22 BY MS. HASTINGS:

23 Q. Ms. Owen, in response to a question that
24 Mr. Trotter asked you, is the company proposing a late
25 payment charge as a means to reduce its

03458

1 uncollectibles?

2 A. No, not specifically it is not.

3 Q. And then also, in response to a question I
4 think Mr. Roseman just asked you about the possibility
5 that the late payment charge could result in duplicate
6 late payment charges to end user customers where the
7 charge was being assessed on an information provider
8 bill. Do you remember that question?

9 A. Yes, I do.

10 Q. Is it possible that just the opposite
11 situation could occur where there would be -- well, is
12 it just possible that the opposite situation could
13 occur where there was not a duplicate charge?

14 A. Yes, there is. As a matter of fact, it's
15 one of my major concerns as it relates to late payment
16 charge. As I mentioned earlier with Mr. Smith, the
17 Commission has already approved late payment charges
18 for both ELI and Connect America, and in MFS's filing
19 before this Commission they provided some of its
20 traffic tariffs and in that tariff they talked about
21 reselling services, U S WEST services or GTE services
22 or whoever, to end user customers and assessing against
23 those customers a late payment charge. My concern is
24 the exact opposite of Mr. Roseman's scenario could in
25 fact occur where U S WEST is being required or not

03459

1 allowed to assess a late payment charge against our
2 customers such as an MFS and yet MFS is allowed to
3 assess one against them. So the real company that's
4 incurring the cost for the late charges is U S WEST and
5 what's happening is the competitors are receiving a
6 competitive advantage because they're being allowed to
7 assess a late payment charge, so I think I'm more
8 concerned about the exact opposite occurring than a
9 customer receiving a double charge.

10 Q. Thank you. And then Mr. Trotter also asked
11 you a few questions about Exhibit 589 which is
12 attached to your rebuttal testimony as MSO-4.

13 A. Yes.

14 Q. Just so the record is clear, could you
15 please describe what that exhibit is.

16 A. Yes. What you're seeing on 589 or MSO-4
17 was we received a data request two dockets ago in the
18 Utah rate case hearing, and they asked us if we had a
19 policy statement for usage sensitive pricing. It had
20 come up in a docket even earlier than this one. And
21 so we responded. We gave a copy of that usage
22 sensitive pricing and this would have been -- we
23 responded to this data request in 1992. The usage
24 sensitive policy that was referenced in this was done
25 in 1987 almost ten years ago, and as we said in this

03460

1 it's no longer used internally as a reference point
2 but it's also extremely dated, so to have it brought
3 into this docket is certainly not timely to say at the
4 minimum.

5 Q. In addition to it not being timely do you
6 have any other concerns about the way in which Mr.
7 Dunkel has characterized this particular data request
8 response?

9 A. Yes, I certainly did. And I did have a
10 brief discussion about that with Mr. Trotter. On my
11 rebuttal testimony.

12 MR. TROTTER: Your Honor, I will object to
13 the question as being asked and answered. She
14 addressed it in her rebuttal testimony as well as
15 orally.

16 MS. HASTINGS: I'm sorry, I didn't hear.

17 MR. TROTTER: Rebuttal testimony as well as
18 oral.

19 MS. HASTINGS: That's fine. As long as the
20 record is clear on that.

21 Q. Let me ask you another question, Ms. Owen,
22 about Mr. Smith asked you a question about the late
23 payments charge about the timing of the application of
24 the late payment charge, and sort of tied it to -- I
25 don't want to mischaracterize his question -- the

03461

1 levels of the outstanding amounts that are payable in
2 the bill and the level that the company has for the
3 treatment of uncollectibles and he asked you a
4 question something to the effect that would that
5 result in any inconsistencies in price signals. And I
6 think your response was that it did not, but I was
7 wondering if you could make or identify so that the
8 record is clear whether or not the company believes
9 that the late payment charge application does create
10 inconsistencies in price signals to customers?

11 A. No, definitely not. Late payment charge
12 has a very specific purpose. Your treatable
13 collection amount has a very specific purpose and they
14 may match sometimes but they certainly aren't intended
15 as the same thing. For example, your cutoff date or
16 the date you will be disconnected for telephone service
17 has no relevance necessarily to your late payment
18 charge. If I look at my Visa bill I may be assessed a
19 late payment charge on the day that it's overdue, but
20 they're not cutting off my service. Standard business
21 practice doesn't necessarily equate the assessment of a
22 late payment charge to when your service is going to be
23 cut off or treated. They're simply unlike issues.

24 Q. Lastly Mr. Smith asked you a question as to
25 how the company determined that the 1.2 percent on the

03462

1 late payment charge was reasonable and I think you
2 indicated that you had looked at a range of the
3 various states where the late payment charge in U S
4 WEST territory is in force and effect. Are there any
5 other criteria that you looked at?

6 A. Well, we also looked at what our
7 competitors are charging which is higher, the 1.5
8 percent, and then we also looked at the fact that
9 we're significantly lower than most other businesses.
10 For example, I'm a customer of TCI Cablevision, and my
11 monthly bill is \$21. My late payment charge is \$5.
12 Looks like a 20 percent assessment, but more
13 importantly the Commission granted Puget Power a late
14 payment charge, the 1.5 -- I can't remember, 1 percent
15 level, in 1990 and that's beginning immediately upon a
16 bill being overdue. Doesn't have any minimum threshold
17 like ours does of \$45, so I took all of those various
18 factors and weighed them and it did appear that 1.2
19 percent was reasonable. It was lower than most of the
20 competitors ask and because of its assessment looked
21 comparable to Puget Power's.

22 Q. And Mr. Smith also asked you whether or not
23 those customers of competitive telecommunications
24 companies such as ELI if they did not have
25 alternatives so they could choose the company that had

03463

1 the late payments charge. Do you know whether or not
2 business customers of U S WEST have alternative for
3 business service?

4 A. Well, certainly we're already seeing that
5 that they certainly do have alternatives for business
6 service.

7 Q. And residence customers of U S WEST, do
8 they have alternatives for service?

9 A. They have some alternatives today and will
10 have increasing alternatives tomorrow.

11 Q. Thank you.

12 JUDGE WALLIS: Any follow-up questions.

13 MR. SMITH: Just one question. Ms. Owen,
14 the question I asked you was whether all residential
15 customers of U S WEST have alternatives and let me ask
16 you, do all business customers of U S WEST have
17 alternatives for local service?

18 THE WITNESS: I guess it depends on how you
19 define alternatives. I believe that cellular is an
20 alternative for everyone so to that extent, yes.

21 MR. SMITH: How about land line?

22 THE WITNESS: Land line, as I mentioned
23 earlier, we already know that 97 percent of Seattle is
24 already overbuilt by Viacom, which is being bought by
25 TCI, and although it's not today it very well may be

03464

1 tomorrow that 100 percent have access. In some of your
2 outlying areas it's going to take longer if it's not
3 today.

4 JUDGE WALLIS: Any further questions?

5 MR. TROTTER: Just one. You indicated at
6 the beginning of redirect that late payment charge was
7 not necessarily a means to -- exclusively a means to
8 reduce uncollectibles?

9 THE WITNESS: That's correct.

10 MR. TROTTER: So that is one goal but not
11 the exclusive goal?

12 THE WITNESS: That's correct.

13 MR. TROTTER: Is another goal to get
14 revenues in the door quicker than you might otherwise?

15 THE WITNESS: No. And I think this was
16 covered in the deposition as well. You have the
17 reason of it's a common business practice obviously
18 seen by all the competitors who are filing for that
19 same kind of service today, but also there is a cost.
20 Any time we're carrying an unpaid balance forward it's
21 a cost that we're incurring, and we think that the
22 cost causers need to pay for that extra cost. That's
23 what the intent is.

24 MR. TROTTER: I thought you said earlier in
25 your testimony that it was an incentive to have

03465

1 customers pay their bills on a more timely basis?

2 THE WITNESS: I did but I said that wasn't
3 the only reason so I was giving you the other ones.

4 MR. TROTTER: So another one would be that
5 you would get your revenues more promptly than you
6 would otherwise?

7 THE WITNESS: The revenues for the bill
8 payers. In other words getting them to pay more
9 timely?

10 MR. TROTTER: Yes.

11 THE WITNESS: Yes. I didn't understand
12 that's what you were asking me.

13 MR. TROTTER: That's all I have.

14 MS. PROCTOR: Ms. Owen, I was curious on
15 your statement earlier that a company like MFS could
16 be late on its payment to U S WEST. What type of
17 service were you contemplating that MFS would be
18 purchasing from U S WEST in that scenario?

19 THE WITNESS: Really what I was referencing
20 was an MFS hypothetical tariff that they filed with
21 the Commission and in that tariff they said if we have
22 the opportunity -- this is as I recall and I don't
23 have it in front of me. If they have the opportunity
24 to resell package service that they would assess
25 against their customers a 1.5 percent late payment

03466

1 charge. My point was that if this Commission doesn't
2 grant U S WEST the same kind of option we would not be
3 able to assess a late payment charge against MFS, and
4 that what that does is create a competitive imbalance
5 for us or any other telephone company that's the
6 incumbent in the state.

7 MS. PROCTOR: U S WEST doesn't currently
8 permit resale of local service by MFS or anyone else
9 in the state of Washington, do they?

10 THE WITNESS: I am not an expert on that.
11 I can't answer that.

12 MS. PROCTOR: And are you aware of the fact
13 that the carrier access tariff currently includes a
14 late payment charge?

15 THE WITNESS: No.

16 MS. PROCTOR: So if MFS were reselling that
17 particular service of U S WEST they would be subject
18 to a late payment charge, wouldn't they?

19 THE WITNESS: They would be but that wasn't
20 the kind of service they were referencing in their
21 tariff the way I read it.

22 MS. PROCTOR: Okay. Thank you.

23 JUDGE WALLIS: Anything further? Let the
24 record show that there is no response, and the witness
25 is excused from the stand. Ms. Owen, thank you for

03467

1 appearing today. Let's be off the record, please.

2 (Recess.)

3 JUDGE WALLIS: Let's be back on record,
4 please. Sprint has called to the stand Mr. Stahly to
5 adopt the prefiled materials of Susan J. McCanless.
6 The McCanless direct testimony is marked as 595T for
7 identification. The attachments are marked as
8 follows: SJM-2 proposed stipulation is 596 for
9 identification. SJM-3, proposed access charge, is
10 597C for identification. SJM-4, transport prices, is
11 598C. An errata sheet distributed today is 599, and a
12 revised page to SJM-2 is 600C for identification.
13 That also bears the date 12 January 1996, and a
14 document designated Washington rate case revision
15 1-12-96 is 601C for identification.

16 (Marked Exhibits 595T, 596, 597C, 598C,
17 599, 600C and 601C.)

18 Whereupon,

19 DAVID STAHLY,
20 having been first duly sworn, was called as a witness
21 herein and was examined and testified as follows:

22

23 DIRECT EXAMINATION

24 BY MS. LEHTONEN:

25 Q. Good afternoon, Mr. Stahly.

03468

1 A. Good afternoon.

2 Q. Could you please state your name and
3 business address for the record.

4 A. Sure. My name is David Stahly. My
5 business address is 7171 West 95th, Overland Park,
6 Kansas 66212.

7 Q. Could you please identify your position in
8 the company and give a brief description of your
9 responsibilities?

10 A. Okay. I'm the manager of regulatory
11 access planning with Sprint Communications LP. In
12 that capacity I'm responsible for an LEC in dealing
13 with the regulatory proceedings in those states as it
14 relates to switched and special access issues.

15 Q. And are you familiar with the testimony
16 submitted in this proceeding on behalf of Sprint by
17 Susan McCanless?

18 A. I am.

19 Q. And along with the errata sheet submitted,
20 is it true and accurate to the best of your knowledge?

21 A. Yes.

22 Q. Do you adopt this testimony today as your
23 own?

24 A. Yes.

25 MS. LEHTONEN: Your Honor, I would like to

03469

1 have this testimony and Exhibits Nos. 595 through 601C
2 entered into the record.

3 JUDGE WALLIS: Is there objection?

4 MS. HASTINGS: No.

5 JUDGE WALLIS: The documents are received.

6 (Admitted Exhibits 595T, 596, 597C, 598C,
7 599, 600C and 601.)

8 MS. LEHTONEN: The witness is available for
9 cross-examination.

10 JUDGE WALLIS: Mr. Trautman, you have no
11 questions.

12 MR. TRAUTMAN: No.

13 JUDGE WALLIS: Mr. Trotter.

14 MR. TROTTER: I thought we went to the
15 company first.

16 MS. HASTINGS: Thank you.

17

18 CROSS-EXAMINATION

19 BY MS. HASTINGS:

20 Q. Mr. Stahly, I noticed that in adopting Ms.
21 McCanless's testimony you did provide your areas of
22 responsibility. Could you give me just a brief sense
23 of your professional educational experience also.

24 A. Okay. I have a bachelor's degree in
25 economics and a master's degree from the University of

03470

1 Chicago in public policy more focused I suppose on
2 economics and statistics. I have been with Sprint
3 Communications about five years. I worked in the
4 local division doing pricing and costing of
5 interoffice transport IXCs' business. I also did
6 competitive analysis for the company looking at CAP
7 entry into local territory. Again working for the
8 long distance side of the house approximately two
9 years ago and doing the same things that Ms. McCanless
10 does with representing Sprint in regulatory
11 proceedings.

12 Prior to the Sprint life I was a Commission
13 staffer. Worked for the Illinois Commission for about
14 four years for Commissioner Calvin Maccio.

15 Q. Thank you, that's very helpful. Could I
16 ask you to take a minute or two for the record and
17 perhaps identify the changes in your documents that
18 have been handed out here today, Exhibits 600C and
19 601C. As you're aware Dr. Wilcox has filed
20 supplemental testimony in this docket in response to
21 the Commission's order in docket UT 940641 and I
22 wanted to have a clear understanding of whether or not
23 any of these revised exhibits respond to that testimony
24 or if they respond to something else?

25 A. Right. Since we just got that last

03471

1 Wednesday we didn't have time to put those in. The
2 one difference is the RIC which is slightly different
3 from what Ms. Wilcox filed the other week.

4 Q. And are there any other significant
5 changes?

6 A. I believe the rest of the rates are
7 correct. I was thinking the local switching rate was
8 different but I think the proposed rates are still
9 nine-tenths of a cent and a penny, if I'm not mistaken.

10 Q. If I understand your testimony and Ms.
11 McCanless's testimony correctly a concern that Sprint
12 has is the relative price ratios between the DS1 and
13 the DS3 service; is that correct?

14 A. Yes.

15 Q. And have you had the opportunity to look at
16 the illustrative rates that Dr. Wilcox put forth in
17 her supplemental testimony?

18 A. Yes.

19 Q. Do you have an opinion having had a chance
20 -- I realize you haven't had lots of opportunity but
21 some opportunity to look at Dr. Wilcox's illustrative
22 rates that were set forth in that testimony -- whether
23 or not the cross-over between DS1 and DS3 services is
24 something that is acceptable to Sprint at this point if
25 those rates were to be adopted by the Commission?

03472

1 A. It comes closer but there's still a ways to
2 go. Part of the problem is it was based on cost
3 studies that were rejected by the Commission, so we
4 would to like to see new cost studies done and filed
5 in the appropriate way. We would like to see the
6 tandem switched transport rates and the voice grade
7 rates, we would like to see them adjusted with the
8 same type of pricing methodology as was done for the
9 DS1.

10 Clearly it's a step in the right direction,
11 and when you look at the cross-overs that she did with
12 the illustrative tariffs DS1 is definitely moving
13 the right way but there are a couple of changes that
14 need to be made.

15 Q. Do you know whether or not the cross-overs
16 that are provided in Dr. Wilcox's illustrative tariff
17 are higher or lower than the cross-over rates that
18 exist, say, in the interstate tariffs today, these same
19 services? Have you had a chance to look at that?

20 A. You know, I haven't. I believe they're
21 higher, just off the bat.

22 Q. If that's the case do you know whether they
23 are higher than the cross-over rates that were
24 established by U S WEST in Dr. Wilcox's original
25 testimony that was filed?

03473

1 A. Well, I know they're higher than the
2 proposed tariff, yes.

3 Q. Do you know, Mr. Stahly, does Sprint use
4 DS3 services?

5 A. We purchase DS3 entrance facility but as
6 far as interoffice transport we're almost -- well, we
7 are exclusively DS1 at this point.

8 Q. Can you quantify how much DS3 capacity
9 Sprint purchases or uses?

10 A. As far as entrance facilities, I can't, no.

11 Q. Do you know, does Sprint provision services
12 using, say, shared facilities, do you put special
13 access and private line on a single pipe to gain
14 economies of scale and efficiencies?

15 A. You know, we have a resale market where we
16 do combine services but I'm not familiar with the
17 specific quantities and such of what we do.

18 Q. But you do know that Sprint has some
19 practices in that regard?

20 A. Oh, yeah. We definitely have a resale
21 market.

22 Q. What would be the reason that Sprint would
23 combine their special access services with private
24 line on the same pipe?

25 A. Well, there's economies of scale,

03474

1 especially when at least such inefficient pricing.

2 There's a large arbitrage opportunity for Sprint.

3 Q. Do you know -- you indicated I think in
4 your earlier testimony that you represent Sprint in
5 several different states. Did I understand you
6 correctly?

7 A. Yes.

8 Q. And do you represent Sprint in any other
9 U S WEST states that you're aware of?

10 A. Not at this time. We tend to do it by LEC
11 and I was responsible for GTE at one time but I
12 switched over to some others.

13 Q. So you don't particularly have knowledge of
14 what U S WEST rate structures say in South Dakota or
15 Montana might be?

16 A. No. I would tend to focus on the larger
17 states.

18 Q. Would you agree with me that by definition
19 TS LRIC includes no common overheads?

20 A. Yes.

21 Q. And have you done any analysis -- well, let
22 me ask you a different question. Strike that. Do you
23 know whether or not the interstate rates that Sprint
24 pays for switched access are at TS LRIC?

25 A. I'm sorry, could you repeat that.

03475

1 Q. Yes. Do you know whether or not the
2 interstate rates that Sprint pays for switched access
3 are at TS LRIC?

4 A. I believe they're above them in U S WEST
5 territory.

6 Q. And do you know whether or not Sprint has
7 taken a position with respect to the price for access
8 services in the state of Iowa?

9 A. I'm aware there's a docket going on there
10 and that we have filed testimony. I haven't reviewed
11 that testimony to know exactly what our position is,
12 but I am aware of it.

13 Q. Would you be surprised to discover that the
14 advocacy of Sprint in Iowa was that access rates
15 should cover their long-run incremental costs with a
16 contribution to the joint and common costs of the
17 company?

18 A. We have stated that in a number of
19 different jurisdictions with the caveat of how those
20 common costs are allocated and also with the
21 understanding that competition will drive those common
22 costs out of switched access, but yes.

23 Q. But in this particular jurisdiction you're
24 advocating, as you did in the interconnection docket,
25 that the Commission adopt the stipulation that the

03476

1 interexchange carriers that those costs or those
2 services be provided at their TS LRIC; is that
3 correct?

4 A. Yes.

5 Q. Could you explain for me why Sprint would
6 advocate a different position in the state of
7 Washington than it is in another jurisdiction?

8 MS. LEHTONEN: Excuse me. I have a feeling
9 that this goes a little bit beyond the testimony that
10 Mr. Stahly has adopted and is representing in this.

11 MS. HASTINGS: Mr. Stahly has indicated
12 that the stipulation of the interexchange carriers in
13 the interconnection docket should be a guide for this
14 Commission on how to price U S WEST access services
15 and I'm just trying to explore with him whether or not
16 he still believes that given Sprint's advocacy in
17 other jurisdictions.

18 MS. LEHTONEN: Mr. Stahly did represent
19 that he is not involved in the Iowa docket and has not
20 read Sprint's testimony so I think that he's already
21 established that he's not -- has no knowledge of the
22 policy that has been submitted there.

23 MS. HASTINGS: I think just the opposite.
24 I think he said he would not be surprised with a
25 couple of caveats.

03477

1 JUDGE WALLIS: The witness may respond to
2 the extent of his knowledge. He is of course free
3 to say that he does not know the answer.

4 A. And I would probably say I don't know the
5 answer.

6 Q. I'm not sure I remember the question. Let
7 me ask you this question. I think you indicated, and
8 if I have mischaracterized your answer, please correct
9 me, but you indicated that with respect to Sprint's
10 advocacy perhaps in another jurisdiction you wouldn't
11 be surprised to discover that they advocate that
12 access rates cover their long-run incremental costs
13 with a contribution to joint costs, and I think you
14 said something about it would depend upon the
15 competitive environment. Did I understand you
16 correctly? And what other services the costs would be
17 recovered in; is that correct?

18 A. Our position has kind of evolved over time
19 in particular as we see what's happening on the
20 federal level, and one of our concerns is that as the
21 RBOCs are allowed into the interLATA long distance
22 business we see a real need for access, switched
23 access, special access to be priced at TS LRIC so that
24 all competitors in that market are purchasing access
25 at the same cost.

03478

1 The contribution that goes to that LRIC, to
2 the supplier, to the wholesaler's part of the LEC
3 would come from the retail sales of that service that
4 the LEC would enjoy in that business.

5 Q. Have you done any analysis that would
6 indicate whether or not U S WEST would be able to
7 recover its costs through its retail services?

8 A. They seem to be able to do so in the MTS
9 toll market so I'm assuming they could do so in the
10 interLATA market also.

11 Q. But you have not produced any evidence or
12 done any analysis that would demand that U S WEST
13 could recover its costs through its retail services;
14 is that correct?

15 A. My only analysis would be if you look at
16 your MTS rates that about 90 percent are above costs
17 and kind of ballparking that you could probably repeat
18 that performance in the interLATA market, but as to a
19 specific study, no.

20 Q. You've done no analysis, thank you. Is it
21 fair to say that it's your testimony that Sprint as an
22 interexchange carrier should make no contribution
23 toward the common costs required to provide the public
24 switched network?

25 A. It's my testimony that we should be paying

03479

1 for the incremental cost that we cause on that
2 network. How U S WEST chooses to recover those common
3 costs should be the same that Sprint and other
4 companies in the competitive market do. We have to
5 look at the market and what we can do and recover our
6 costs that way. I would assume that as U S WEST
7 becomes competitive that's what they need to do.

8 Q. Can you describe for me how Sprint
9 interconnects with ELI or TCG, both of whom are local
10 exchange companies here in the Seattle area now, to
11 complete a Sprint customer's call to a customer of ELI
12 or TCG?

13 A. You mean, I assume a special access
14 customer since I don't think they have any local
15 residential type customers.

16 Q. Business customers. If I was a Sprint
17 customer, say, in Denver, I wanted to call, say, an
18 associated law firm in downtown Seattle that was an
19 ELI customer, could you explain to me the arrangements
20 that Sprint has with ELI to complete a call to those
21 customers?

22 A. There's a couple of ways it can occur. It
23 depends if ELI or a CAP has a drop to that customer or
24 not. Many times the CAP does not. We would simply
25 contract with the CAP to provide transport services

03480

1 and they would take care of the whole package and for
2 about every dollar that we would pay them for access
3 about 90 cents of that would go back to the LEC for
4 the switching and the common line drop piece.

5 Q. Well, can you describe for me how Sprint is
6 actually working with ELI to terminate a Sprint call
7 for ELI in Seattle?

8 A. Do you mean the physical network
9 configuration?

10 Q. Yes, what arrangements Sprint has with ELI
11 to terminate a call on ELI's network in Seattle?

12 A. I'm not familiar specifically what we have
13 with ELI. I can tell you generically what a CAP would
14 do. Is that what you're looking for?

15 Q. I'm asking you if I was a long distance
16 customer of Sprint's in Denver and I wanted to call to
17 Seattle and the customer in Seattle that I wanted to
18 call was a customer of ELI, not a customer of U S WEST
19 but an ELI customer, I'm just asking you what
20 arrangements does Sprint have with ELI to terminate
21 that call on ELI's network?

22 A. I'm sorry, I'm just a little confused.

23 MS. LEHTONEN: I think the witness has
24 already answered the question. First he described the
25 economic arrangement and the drop arrangement and then

03481

1 later he said he didn't know the specifics of the
2 network of ELI, so I'm not sure that we're getting
3 anywhere with more questioning on this, the same
4 question again and again.

5 MS. HASTINGS: I'm not sure he answered my
6 question. If he knows I think my question was does
7 Sprint have arrangements with ELI, and I think he
8 generally described how Sprint might interconnect with
9 a CAP and my question was more specific.

10 Q. Does Sprint have arrangements with ELI in
11 Seattle to terminate that traffic?

12 A. I honestly don't know.

13 Q. You indicate, I think one of your
14 recommendations under your pricing policy is that
15 services be priced at TS LRIC for the access services.
16 Does Sprint price its services at TS LRIC?

17 A. As Mr. Sievers responded the other day to
18 that same question, we don't do TS LRIC studies to
19 look at that kind of comparisons and it could well be
20 that -- well, I know unfortunately some are priced
21 below TS LRIC because I look at some of our
22 promotions. In a competitive market it does -- what
23 happens, competitors price at above, all over the
24 marketplace.

25 Q. Does Sprint price at an equal contribution

03482

1 above costs on all of the various elements of its
2 services?

3 A. Again, Sprint is in a much different
4 marketplace than U S WEST. Sprint is in a competitive
5 market where a customer has all sorts of choices as
6 opposed to Sprint buying access from U S WEST. I
7 mean, 99 percent of the time U S WEST is the only show
8 in town and so as a monopoly access provider we feel
9 that they should provide on an equal contribution and
10 not discriminate. There's several choices available
11 to us maybe it becomes a different ballgame. If
12 there's truly competition then the market decides where
13 the contribution can go. But when it's a
14 noncompetitive marketplace we don't feel that the
15 monopoly providers should arbitrarily be able to
16 extract more overhead or contribution from customers.

17 Q. And so the answer to my question is?

18 A. No. Sprint does not price equally because
19 we're in a competitive marketplace where the end user
20 has numerous choices of suppliers.

21 MS. HASTINGS: That is all I have. Thank
22 you.

23 JUDGE WALLIS: Now, Mr. Trotter.

24 MR. TROTTER: No questions.

25 JUDGE WALLIS: Other parties?

03483

1 Commissioners.

2 CHAIRMAN NELSON: No.

3 JUDGE WALLIS: Redirect.

4 MS. LEHTONEN: No.

5 JUDGE WALLIS: Thank you for appearing
6 today. Let's be off the record, please.

7 (Recess.)

8 JUDGE WALLIS: Let's be back on the record,
9 please, following a brief recess. The Commission
10 staff has called Thomas L. Spinks to the stand at this
11 time.

12 Whereupon,

13 THOMAS L. SPINKS,
14 having been first duly sworn, was called as a witness
15 herein and was examined and testified as follows:

16 JUDGE WALLIS: In conjunction with the
17 appearance of this witness the witness has filed his
18 direct testimony, which is marked as 602T for
19 identification, an errata sheet which is marked as
20 603. TLS-1, the witness qualifications as Exhibit 604
21 for identification. TLS-2, residential service cost
22 marked as 605C for identification. TLS-3, residential
23 access line revenue marked as 606 for identification.
24 TLS-4, toll service rate comparison is 607 for
25 identification. TLS-5, some local exchange service

03484

1 revenue 608 for identification, and supplemental
2 testimony is 609T for identification.

3 The witness has also filed surrebuttal
4 testimony which I understand is withdrawn. Is that
5 correct, Mr. Smith?

6 (Marked Exhibits 602T, 603, 604, 605C, 606,
7 607C, 608 and 609T.)

8 MR. SMITH: That's correct, Your Honor.

9 (Discussion off the record.)

10 JUDGE WALLIS: Let's be back on the record,
11 please, and a clarification, the direct testimony
12 errata is a document consisting of one page. The
13 Commission staff has also distributed revised versions
14 dated January 18, 1996 for the earlier distributed
15 TLS-2, TLS-3 and TLS-5, and it is the revised document
16 which bear the exhibit numbers. Is that clear?

17 MR. TROTTER: Yes.

18 JUDGE WALLIS: Are we ready to proceed?
19 Mr. Smith.

20 MR. SMITH: Thank you, Your Honor.

21

22 DIRECT EXAMINATION

23 BY MR. SMITH:

24 Q. Will you please state your name and address
25 for the record?

03485

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

4 Q. By whom are you employed and in what
5 capacity?

6 A. I'm employed by the Utilities and
7 Transportation Commission as a regulatory consultant.

8 Q. And do you have before you what's been
9 marked for identification as Exhibit 602T?

10 A. Yes.

11 Q. Do you recognize that as your direct
12 testimony in this proceeding?

13 A. Yes, I do.

14 Q. And do you also have before you a copy of
15 what's been marked as Exhibit 603?

16 A. Yes, I do.

17 Q. And is that the errata sheet for your
18 direct testimony?

19 A. That's correct.

20 Q. With the changes noted on the errata sheet
21 insofar as they relate to your direct testimony, if I
22 were to ask you you the questions contained in your
23 direct testimony would your answers be the same?

24 A. Yes, they would.

25 Q. Do you also have before you what has been

03486

1 marked for identification as Exhibits 604, 605C, 606,
2 607C and 608?

3 A. Yes.

4 Q. And are those the exhibits to which you
5 refer in your direct testimony?

6 A. Yes, I do.

7 Q. Were they prepared by you or under your
8 direction and control?

9 A. Yes, they were.

10 Q. Do you also have before you what's been
11 marked for identification as Exhibit 609T?

12 A. Yes, I do.

13 Q. Do you recognize that as your supplemental
14 testimony filed in this proceeding?

15 A. That's correct.

16 Q. If I were to ask you today the questions
17 contained in Exhibit 609T would your answers be the
18 same?

19 A. Yes, they would.

20 Q. And finally, do you have before you what's
21 been marked -- I'm not sure whether this was entered
22 or not, Your Honor, but Exhibit 125T?

23 A. Yes, I have that.

24 Q. Do you recognize that as your rebuttal
25 testimony in this docket?

03487

1 A. Yes, I do.

2 Q. Does Exhibit 603 include the corrections
3 and revisions to Exhibit 125T, the errata sheet I'm
4 referring to?

5 A. Yes, it does.

6 Q. With those corrections noted on Exhibit 603,
7 if I were to ask you the questions contained in Exhibit
8 125T would your answers be the same?

9 A. Yes.

10 MR. SMITH: Your Honor, I would move for
11 admission of Exhibits 602T, 604, 605C, 606, 607C,
12 608, 609T, 125T to the extent it has not already
13 been admitted, and Exhibit 603.

14 JUDGE WALLIS: Is there objection?

15 MR. SMITH: Your Honor, in connection
16 with Exhibit 602, attached to that is Mr. Spinks's
17 depreciation testimony from docket 940641. We would
18 offer certain portions of that in the event that the
19 portions of Mr. Eastman's testimony from that same
20 docket, which are now under consideration by you, are
21 admitted. Otherwise if Mr. Easton's testimony from
22 that docket is not admitted we will withdraw Mr.
23 Spinks's testimony from 940641.

24 MR. SHAW: Mr. Smith, can you indicate at
25 this time what portions you will be offering?

03488

1 MR. SMITH: Yes. I will have to do it
2 backwards. I have deleted notes. From the attachment
3 1 to the direct testimony we would delete page 2,
4 lines 2 through 6 and lines 10 through 12; page 2,
5 line 14 through page 24, line 19; page 36, lines 16
6 through; page 39 line 19. And all of the exhibits to
7 the attachment except TLS-6 to the attachment.

8 JUDGE WALLIS: Very well. With that
9 understanding the documents are received.

10 (Admitted Exhibits 125T, 602T, 604, 605C,
11 607C, 608 and 609T.)

12 MR. SMITH: Mr. Spinks is available for
13 cross-examination.

14

15 CROSS-EXAMINATION

16 BY MR. SHAW:

17 Q. Good afternoon, Mr. Spinks.

18 A. Good afternoon.

19 Q. I would like to direct your attention to
20 your direct at page 11 where you reference the
21 Commission's docket -- orders in docket U-85-23?

22 A. I have that.

23 Q. Is it a fair summary of your testimony that
24 your recommendation to the Commission is that they
25 should hold the status quo as established in that

03489

1 docket in setting the company's rates in this rate
2 case?

3 A. I think I indicated in my rebuttal
4 testimony that no direct testimony had been offered by
5 the parties regarding the issue and that if we should
6 consider that issue that the Commission ought to
7 consider it in the context of the universal service
8 fund proceeding which there had been some discussion
9 of embarking upon later this year.

10 Q. Is it your testimony that the Commission
11 should reopen and reconsider U-85-23 or just let it die
12 of natural causes and focus on a universal service
13 docket?

14 A. Well, it's neither. I hadn't made a
15 recommendation.

16 Q. Is it a fair summary of your testimony,
17 though, that you have recommended to the Commission
18 that in setting rates for local exchange service it
19 should continue to allocate NTS cost at the levels
20 established in docket U-85-23?

21 A. Yes.

22 Q. And is it a necessary conclusion of your
23 testimony that the Commission should continue to do
24 that until it reopens and reconsiders or otherwise
25 changes its orders in U-85-23?

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1 A. Well, I think that there should be some
2 rationale by way of a case being presented for what
3 should be done with regard to the status quo if the
4 status quo is not satisfactory. I think we've heard
5 in this case from the company that it doesn't, and
6 perhaps the intervenors, that they're not satisfied
7 with the status quo, but I have not heard a case put
8 forward as to why that's not satisfactory. I guess at
9 least insofar as the direct testimony of the parties.

10 Q. The status quo was at least partially
11 changed in regard to U S WEST, was it not, during the
12 AFOR in that one of the negotiated yearly automatic
13 changes was that access charges would be lowered if a
14 computation according to the formulas in U-85-23
15 indicated that they should be lowered but they would
16 not be raised if the formula indicated that it should
17 be raised?

18 A. The original decision in U-85-23 I don't
19 think addressed the refiling of access charges. That
20 was something that was done under rule at a later date,
21 and in the AFOR what the agreement was that the company
22 would in fact recalculate its access charges every
23 year, which was something new, and which was not
24 required by U-85-23 but that it would recalculate it
25 each year in the AFOR in April and make a filing and if

03491

1 those -- the net effect of that was to increase access
2 charges there would be no increase, so in effect there
3 was a price cap there, but if the effect of the
4 recalculation was to show a decrease they would flow
5 that decrease through to the interexchange carriers.

6 Q. Do you recall that it was the expectation
7 of at least U S WEST that all of the LECs party to
8 U-85-23 would recalculate their access charges every
9 year but that in fact did not come to pass?

10 A. I don't know if that was an expectation of
11 U S WEST or not. I would assume it was.

12 Q. Let's talk about U-85-23 a little bit. That
13 was a docket on consolidated complaint by the LECs
14 against each other and the new interexchange carriers
15 against the LECs to establish an access charge regime
16 to replace the old separations and settlements regime.
17 Is that a fair summary?

18 A. You may have me there a bit on the history.
19 My recollection is that as it came before the
20 Commission there was an independent telephone plan,
21 perhaps, was the name of it that was filed by the
22 parties, and I thought that U S WEST was a part of
23 that which presented a plan that the companies wished
24 to go forward with to replace what was the then current
25 separations scheme.

03492

1 Q. In any event the point of the whole docket
2 was to replace separations and settlements with access
3 charges; is that correct?

4 A. Yes, that's correct.

5 Q. And that was required because there was no
6 longer a Bell system to administer and to pay the old
7 settlements to the independent local exchange
8 companies, was there?

9 A. I don't know that.

10 Q. Let's talk about the history of separations
11 and settlements briefly. Do you agree that along
12 about in the '30's and '40's regulators decided to
13 start allocating intrastate NTS investment to the
14 interstate jurisdiction?

15 A. Are you referring to the Smith versus
16 Illinois decision of '33?

17 Q. And the first plans that were adopted by
18 the regulators in consultation with the industry?

19 A. I would agree with that generally.

20 Q. And prior to that local rates were set to
21 cover local expenses including all of the NTS expense,
22 were they not?

23 A. I have no idea.

24 Q. Would it surprise you if that was the case?

25 A. No, I suppose not.

03493

1 Q. And the real reason that the regulatory
2 community and the industry undertook to start
3 assigning NTS expense to the interstate jurisdiction
4 was because there were no declining costs in the
5 provision of local service but there were rapidly
6 declining costs in the provision of toll service and
7 it was perceived that toll service could provide
8 contribution to support the intensive investment in NTS
9 plant at the state level?

10 A. Well, no. I probably wouldn't agree with
11 that. I think if you said that that's what AT&T
12 thought I might agree, but I think probably the
13 various players had different motivations and reasons.
14 I read several different accounts of that historical
15 era and they do vary somewhat as to what the reasons
16 were behind why the system came to be as it was prior
17 to the institution of access charges in the mid '80s.

18 Q. Would you agree that one reason in the
19 '40s for the institution of separations was to use
20 the rapidly declining cost structure of MTS to help
21 support the not so declining cost structure of NTS
22 investment at the local level?

23 A. I don't know that I would characterize it
24 as to help support it. I think that it was recognized
25 that there were economies in long distance calling,

03494

1 but it was also recognized that you couldn't complete
2 a long distance call without the local facilities,
3 too, and some of the players felt that it was
4 appropriate that the cost of a long distance call also
5 incorporate part of the cost of the facilities at the
6 local end that were also necessary to originate and
7 complete the call.

8 Q. It's very doubtful, isn't it, that
9 so-called TS LRIC studies were done with a portion of
10 the NTS costs alleged to be TS LRIC costs caused by
11 toll in the '40s, was there?

12 A. I'm sure there was no such concept as TS
13 LRIC back then.

14 Q. So that the concept really was a value
15 concept that the declining costs of toll, in light of
16 that toll could support an assignment of NTS costs and
17 toll rates could be set at an acceptable level higher
18 than they otherwise would be but at an acceptable
19 level and local rates wouldn't have to be raised.
20 Wasn't that the pragmatic and result-oriented
21 motivation for separations?

22 A. I think that's history according to AT&T.
23 As I said earlier, I think that other players had
24 other ideas in mind when they entered into the various
25 agreements as to how -- what was behind and what drove

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1 separations and settlement. I've read that account
2 that you are reciting now in several literatures of
3 several books and I've read other accounts. I wasn't
4 there at the time, so I can't offer my own opinion on
5 that.

6 Q. You infer that there's other accounts of
7 what the reasoning was. Could you cite me to one that
8 you have in mind?

9 A. I recall reading testimony in Kansas before
10 the Kansas Corporate Commission of a Mr. Warnick
11 and Melody that was done probably 15 years ago, and
12 they went into some detail of the recounting of their
13 understanding of the motivations behind why the system
14 of settlements and separations came about. The use of
15 the formula which assigned plant -- nontraffic
16 sensitive local plant to the cost of long distance
17 service. There were also some book accounts but I
18 don't recall what they were. It's been sometime since
19 I reviewed that history.

20 Q. Was the thrust of, for instance, Mr.
21 Melody's testimony in the docket you're recalling to
22 the effect that NTS costs are caused by long distance
23 or that long distance service benefits from NTS
24 investment?

25 A. I think Mr. Melody and Warnick made the case

03496

1 that if you were only going to provide a local loop
2 that was to serve truly a local area and not be
3 available for long distance service that you wouldn't
4 need as thick a gauge wire, for instance, or the
5 network redundancy perhaps or any of the interexchange
6 facilities that are associated with the local network
7 today or the intraLATA network, and so the notion was
8 by adding long distance as a service to the local
9 network you had to incur more costs in the local
10 network than you did if you were simply building that
11 network to provide only local calls.

12 Q. Let's look at just the loop. I understand
13 your point about interoffice facilities and
14 interexchange facilities and perhaps switching
15 investment that is usage-sensitive. But let's look at
16 the local loop. Would you agree that the local loop
17 is not usage-sensitive?

18 A. Well, I would agree it's been classified as
19 nontraffic sensitive plant.

20 Q. Are you testifying that a long distance
21 electron is different than a local electron and puts
22 additional stress on the local loop?

23 A. I was relating to you at your request the
24 thrust of the testimony that Mr. Warnick and Melody had
25 discussed in other's accounting as to why a different

03497

1 story than the one you portrayed of the AT&T story as
2 to how it came to be that some local, what I call
3 nontraffic sensitive costs, wound up in long distance
4 charges in costs.

5 Q. Well, to the extent that you understand Mr.
6 Melody to testify that long distance traffic imposes
7 different stress on the local network than local
8 traffic, you're not supporting that proposition, are
9 you?

10 A. I don't know. I'm not an engineer but I
11 know that 18 gauge wire is probably more expensive
12 than 22 gauge wire, that sort of a notion.

13 Q. When a person is on their phone they're
14 either on a local call or a long distance call,
15 generally if they're using voice traffic, are they
16 not?

17 A. I would agree to that as a general matter.

18 Q. Can't be on a long distance call and a
19 local call simultaneously, can you?

20 A. I don't know. Three-way calling maybe you
21 could.

22 Q. Is it your testimony that you believe that
23 the loop has to be reinforced if anybody makes a call
24 that is rated toll as opposed to rated local?

25 A. Well, that was the thrust of the Warnick

03498

1 and Melody testimony, which I'm not testifying to it as
2 its truth. You asked me to cite other sources. It
3 said what it said.

4 Q. I understand you're not an engineer but you
5 don't find that credible at all, do you, if that was
6 their testimony, that long distance calls put more
7 demands on the local loop than a local call?

8 A. Well, I know a little bit about physics and
9 the longer the length of wire goes to send the same
10 size -- the same signal through to keep the same
11 resistance you would have to increase the size of the
12 wire or increase the voltage of the circuit. So, yes,
13 there's some intuitive sense to the notion that the
14 farther you go either the longer the wire gets or you
15 have to start adding repeaters into the lines, which
16 is another thing they do.

17 Q. In any local loop, whether it's short or
18 long, to make a toll or a local call, the call, the
19 electrons, have to be carried from the customer
20 premise to the switch, do they not, and that's where
21 the loop ends?

22 A. The NTS plant consists of the loop drop and
23 NTS-COE begins at the side of the house and terminates
24 on the main frame.

25 Q. So the need for repeaters or additional

03499

1 electronics in a long distance call is limited
2 strictly to the interoffice facilities, is it not?

3 A. I don't know.

4 Q. Was one primary motivation of the
5 proceeding in 85-23 to make it revenue neutral to the
6 participating LECs for migrating from the old
7 settlements environment to the access charge
8 environment?

9 A. I don't know. I was relatively new when I
10 got here. I listened to some of the proceedings, read
11 some of the testimony, and I certainly am familiar
12 with the orders, but those nuances or positions of the
13 parties or what the positions were that you would
14 characterize them to be I wouldn't know.

15 Q. Are settlements on a usage basis, that is,
16 where there are any NTS costs recovered by the
17 independent LECs from the Bell system based upon a
18 usage rate element?

19 A. Let me see if I have the question in mind.
20 Were there any NTS costs collected by the independents
21 from the Bells, from U S WEST or what was then PNB,
22 for nontraffic sensitive costs?

23 Q. From the Bell system in the separations
24 pre-divestiture world.

25 A. I don't know.

03500

1 Q. It was strictly a revenue requirement type
2 calculation, was it not? There was assignments of NTS
3 costs to so-called toll plant and the independent was
4 allowed to earn the Bell system rate of return on that
5 plant and settlements were paid on that basis?

6 A. I don't know how the old system of
7 separations and settlements worked.

8 Q. The replacement for access charges, you do
9 know how that works, that there was a bundled
10 switching and transport usage sensitive charge and a
11 usage sensitive carrier common line charge together
12 with an end user charge for an interstate portion of
13 the NTS cost, correct?

14 A. I'm not sure if I heard you right when
15 you said bundled, switched and transport. There were
16 local switch, there was an intercept element. There
17 was a transport rate element.

18 Q. For an interexchange carrier to purchase
19 switched access they had to take it all, correct?

20 A. Well, under the modified final judgment
21 there were a number of -- I think there were ten
22 elements of access that were laid out in feature group
23 D that local exchange carriers were required to
24 provide and that's what the purpose of establishing
25 the access charges were.

03501

1 Q. My question was a little different. The
2 interexchange carriers rather than just the one
3 interexchange carrier, the Bell system,
4 post settlements in the post divestiture world, the
5 several interchange carriers, including PNB at the time
6 and AT&T, were required to pay in lieu of settlements
7 a bundled switched access rate that consisted of
8 switching and transport rate element and a carrier
9 common line rate element on a usage sensitive basis and
10 then the end user paid a portion of the assigned
11 interstate NTS costs?

12 A. Yes. There was also a universal service
13 charge in there, and I would agree with the term
14 bundled only insofar as referring to they would buy
15 feature group D or C or B or A access.

16 Q. Yes.

17 A. Yes.

18 Q. So from this discussion we can agree that
19 in the transition from settlements to access charges a
20 revenue requirement was converted into a usage
21 sensitive charge, particularly as to carrier common
22 line and the switching and transport elements?

23 A. I don't recall agreeing that there was a
24 revenue requirement. I think I said that I didn't
25 know how the prior settlement and separations system

03502

1 worked or that it was intended to be that the access
2 charge system was intended to be revenue neutral. I
3 didn't know that.

4 Q. At the time of U-85-23 there were no TS LRIC
5 studies done where the Commission concluded that under
6 TS LRIC incremental methodology, long distance service
7 caused NTS costs, was there?

8 A. I don't believe there was. I believe that
9 the access charges were calculated in accordance with
10 the FCC's part 67/69.

11 Q. It's an embedded allocated revenue
12 requirement methodology, isn't it, whether access
13 charges or whether you call it settlements?

14 A. Well, it was then and it still is today,
15 and again, I don't know about settlements. I was
16 referring to access charges only.

17 Q. So the staff's position really today in
18 this rate case is that a portion of U S WEST's revenue
19 requirement should be assigned to switched access
20 charges and recovered through switched access charge
21 rate?

22 A. I don't understand your question.

23 Q. I will state it again. It really is the
24 staff's position in this rate case today, is it not,
25 that a portion of U S WEST's revenue requirement on an

03503

1 embedded basis be assigned to its switched access
2 services and recovered through switched access
3 charges?

4 A. Our testimony in this case is that the
5 decisions made in U-85-23, and to the extent they would
6 entail a continuation of an assignment of some of NTS
7 costs to carriers is included, yes. Also that if the
8 Commission wishes to embark upon to consider some
9 different assignment of those costs as we've heard
10 through prior testimony, what we're talking about is a
11 pricing decision, not a costing decision. If loop
12 costs are going to be charged to the end user the
13 Commission ought to consider that in the context of a
14 universal service fund proceeding.

15 Q. A perfectly acceptable way for the
16 Commission to approach the appropriate pricing and
17 costing of service would be to consider the cost of
18 the local loop 100 percent caused by local service,
19 arrive at a TS LRIC cost for local service, and then
20 in pricing that service make public policy judgments
21 about where the contribution over and above the TS
22 LRIC cost of local service should be derived whether
23 from toll access or any other number of services.
24 Wouldn't that be a perfectly rational way for the
25 Commission to approach the primary issue in this case,

03504

1 the cost of local residential service?

2 A. Well, I would agree they could decide that,
3 but I wouldn't recommend it. I believe that the loop
4 is a joint cost of production and as a joint cost it
5 doesn't belong in the incremental cost of either local
6 or toll service, but the cost does need to be
7 recovered from both. That's the nature of joint
8 costs. Given that it doesn't follow then that, as
9 your question indicated, that it would be rational to
10 charge as part of a TS LRIC cost the entire cost of
11 the local loop in the local service charge and then
12 price as a matter of a pricing decision decide not to
13 charge that price. That's not rational. We've
14 embarked upon policies of charging the price at at
15 least the cost for the service. It wouldn't make any
16 sense to say the service costs X but we're not going
17 to charge that amount, we're going to charge something
18 less. That wouldn't be rational.

19 Q. Let's assume that the Commission agrees
20 with you about shared residual costs and depreciation
21 and cost of money and calculates a residential cost of
22 service on TS LRIC principles with 100 percent of the
23 loop in that calculation of cost. Is it your
24 testimony that if the Commission were to set the
25 residential rate at that cost and not have the

03505

1 residential service cover any joint or common costs
2 but have the company look to other services to recover
3 all of the joint and common costs of the company that
4 that would produce a rate that would be at or above
5 costs the way I've defined it. Would that produce an
6 affordable rate in your view?

7 A. I don't know. There were two parts to the
8 question. You talked about charging all of the loop
9 cost on the one hand and not charging any of the joint
10 or common costs on the other. To the extent that's
11 what your question was that wouldn't make any sense to
12 me.

13 Q. Let me try it again. Assume that the
14 Commission concluded the proper TS LRIC methodology
15 required the loop to be 100 percent covered by local
16 exchange service. Let's say that it further concluded
17 that in the interests of universal service joint and
18 common costs of the firm would not be recovered by
19 residential service but the company would have to look
20 to other services to recover all of the joint and
21 common costs of the firm. Do you have that
22 hypothetical in mind?

23 A. Yes.

24 Q. Is it your testimony that from what you
25 know of this case that such a rate would produce an

03506

1 unaffordable charge for residential local service?

2 A. I don't know if it would be unaffordable
3 but it wouldn't be my recommendation to not charge any
4 of the joint costs of the service to the service, to
5 the extent they're attributable to it.

6 Q. Let's assume the Commission identifies an
7 appropriate share of the shared and common costs of
8 the firm that local service should bear including 100
9 percent of the loop under the previous hypothetical.
10 Is it your testimony that assigning any part of the
11 joint or common costs of the firm to local service
12 would make an affordable rate unaffordable?

13 A. No. It's my testimony that those issues
14 should be studied in a universal service fun
15 proceeding where it probably be more appropriately
16 considered.

17 Q. So your testimony is that the Commission
18 should hold the status quo in this rate case and
19 presumably any other telecommunications company rate
20 case that it might entertain until it has completed
21 some sort of an access charge proceeding where it
22 would there consider whether a proper TS LRIC study
23 should include 100 percent of the loop and if a proper
24 residential rate should include some assignment of
25 joint and common costs. Is that your testimony?

03507

1 A. Can I get that question read back to me,
2 please.

3 Q. It might be quicker for me to restate it.
4 Is it your testimony that the Commission should just
5 preserve the status quo in this case. Assume a zero
6 revenue requirement just to make it simple. If the
7 Commission found a zero revenue requirement in this
8 case they should leave access charges -- or excuse me,
9 residential rates unchanged, and then in some future
10 universal service docket make its decisions on whether
11 a proper TS LRIC cost study includes 100 percent of
12 the access line and whether residential service should
13 include a portion of the joint and common costs of the
14 serving firm?

15 A. Essentially, yes, because there was no
16 direct testimony or certainly not any extensive
17 testimony provided that addresses why it is necessary
18 to leave U-85-23 and to embark upon some new method
19 first. Second, having decided that that is
20 appropriate, what the new method should be, and third,
21 having examined new methods what the effects of those
22 methods would be on the various constituent groups, if
23 you will, that would be affected by the changes. And
24 I've recommended -- and that's why I've recommended
25 what I've recommended but they should be examined and

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1 it would take another proceeding to do that because it
2 wasn't examined in this proceeding.

3 Q. Let's explore that a little further. Would
4 you agree that local access lines or local loops are
5 not a shared medium, that they are dedicated
6 facilities to individual customers? That is, if you
7 or I order telephone service from the company and
8 there's no access line there the company installs an
9 access line from its central office to my house or
10 your house and it's dedicated to my use or your use.
11 Would you agree with that simple statement?

12 A. Are you talking about a loop that has
13 access to the public switched network.

14 Q. I'm talking about the local access line,
15 the drop, the distribution feeder and the NTS-COE at
16 the switch?

17 A. Does it have dial tone on it?

18 Q. Assume that it does or doesn't makes no
19 difference to the question. Would you agree that that
20 physical line is a dedicated facility to an individual
21 customer?

22 A. Well, no. I think it's part of the public
23 switched network and the particular pair -- I guess
24 the answer is yes and no. You can see it as a
25 dedicated facility if you assume that the pair that

03509

1 was picked is your pair rather than just an available
2 pair that was there to be used for the next customer
3 in line.

4 Q. Well, once an access line with an associated
5 telephone number is assigned to you or your neighbor,
6 that facility is dedicated to that customer, correct?

7 A. Well, it's only dedicated as long as you're
8 on that particular pair. They can switch you over to
9 another pair the next day. You still have a line and
10 the same phone number but now you have a different
11 facility if you're referring to facility in a spec
12 way.

13 Q. That answer assumes that there's more than
14 one pair that runs all the way to the network
15 interface on the side of your house, correct?

16 A. Well, that would be the drop. Actually, I
17 was thinking more just the network generally, the
18 feeder distribution and drop combined. I wasn't
19 looking at a particular piece.

20 Q. Any pair in a multi pair facility that's
21 assigned to you and the company doesn't switch it for
22 its own administrative purposes and you don't
23 disconnect and reconnect to a different pair, that
24 facility, that pair is dedicated to your service, is
25 it not?

03510

1 A. The problem I'm having with your question,
2 Mr. Shaw, is that when we talk about dedicated
3 facilities in telecommunications, I normally think of
4 that as a private line facility. That is the context
5 in which I'm familiar with the use of the word
6 dedicated.

7 Q. Well, just the plain English word
8 dedicated. If the company assigns you a pair and
9 assigns you a phone number associated with that pair,
10 that's dedicated to your use. Nobody else can use it,
11 can they, unless you give them permission?

12 A. Right.

13 Q. If that access line is in service to you,
14 it cannot be used to serve another. There's no way to
15 jointly assign one pair in the 1FR environment, is
16 there, putting party lines aside?

17 A. Well, carrier facilities. You can take two
18 pair and create 24 channels and they do that -- fairly
19 extensively I think in the feeder distribution.

20 Q. In the pair assigned you, the pair of wires
21 that runs from your phone all the way back to the
22 central office, there can be only one customer assigned
23 at a time, isn't that correct, putting party service
24 aside?

25 A. Yes, again to the extent that you

03511

1 understand that there are -- a pair doesn't really
2 mean a pair. There's one circuit or channel.

3 Q. Fine, with that understanding?

4 A. Sure.

5 Q. One path is dedicated to your use. If you
6 go on vacation for a year or if you don't make any
7 calls for a day or a month that service is dedicated
8 to your use and cannot be used by anybody else,
9 correct?

10 A. As long as you pay your monthly phone bill
11 I assume so.

12 Q. Consider this hypothetical, Mr. Spinks.
13 You have a neighbor, we'll call them Jones. Each
14 family, the Spinks and the Jones, makes and receives
15 on average exactly the same volume of calls per month,
16 number, duration, distance and time of day. Do you
17 have that hypothetical in mind?

18 A. Same number of local calls, time, distance
19 and duration.

20 Q. Same number of calls, period, whether
21 they're rated toll or local?

22 A. I have that in mind.

23 Q. Assume that you have three access lines and
24 your neighbors the Jones have only one. Do you have
25 that in mind?

03512

1 A. I do.

2 Q. Assume further that a member of the Jones
3 household has to wait for someone to get off their
4 phone before he or she can make a call and that
5 likewise people calling the Jones house more often
6 than you get a busy signal because their single number
7 is more often in use. And that on such occasions
8 members of your family cannot use -- excuse me --
9 members of your neighbor cannot use one of your access
10 lines to place or receive a call. Would you agree in
11 that hypothetical that each of your three access lines
12 is dedicated to your use and the one access line is
13 dedicated to your neighbor's use?

14 A. Sure, I will agree to that hypothetical.

15 Q. And each access line imposes costs on the
16 network, will you agree with that, and each additional
17 access line produces additional value to customers?
18 Your three access lines produces additional value to
19 you as opposed to the single access line of your
20 neighbors?

21 A. Yes.

22 Q. We can agree, then, that access lines are
23 not a shared facility, can we not, from the perspective
24 of the end user?

25 A. Well, I don't think that the end user

03513

1 perceives their facility, I guess, as being dedicated
2 in any sense. If they have single party telephone
3 service they expect to get dial tone when they pick
4 the phone up and that availability is what they pay
5 for in their monthly rate.

6 Q. And you would agree that each individual
7 subscriber, universal service considerations aside,
8 should pay in rates sufficient to cover its own
9 incremental cost, would you not?

10 A. Well, it needs to cover more than its
11 incremental costs. It also has to cover the joint
12 costs, share the joint cost of the loop, and other
13 joint costs that are part of the provisioning of the
14 service.

15 Q. As a beginning point each individual access
16 line dedicated to an individual customer should,
17 public policy considerations aside, cover the
18 incremental cost of the access line and the
19 incremental cost of the usage that the customer
20 additionally imposes on the network, should it not?

21 A. I think I answered that question just
22 previously and I would restate that, that each line or
23 each -- the service that is purchased should have a
24 price that covers its costs, the appropriate costs to
25 be assigned to that service.

03514

1 Q. Would you agree that markups over
2 incremental cost for the access line and usage across
3 services should be according to differences in
4 customer's demand and the competitive conditions of the
5 service?

6 A. No.

7 Q. Is it your testimony that all markups for
8 all services offered by the company to cover joint and
9 common costs should be equal?

10 A. No.

11 Q. You would agree that markups can vary
12 across the services depending on customer demand the
13 and competitive conditions of the service?

14 A. Well, neither of the prior questions was my
15 testimony. I don't believe I provided any testimony
16 as specifically as to how markups should or should not
17 be assessed or placed on services.

18 Q. Well, you would agree, whatever you had in
19 your direct testimony, that markups should vary across
20 the many services provided by the company according to
21 the differences in the customer's demand and the
22 competitive conditions of the service, wouldn't you?

23 A. Is there a place in my testimony that --

24 Q. Well, I think you do state in your
25 testimony, if I read it correctly, that it's -- if all

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1 services were priced at TS LRIC no joint or common
2 costs would be covered and the costs of the firm
3 wouldn't be covered nor would the revenue requirement.
4 Is that a fair summary of your testimony?

5 A. Yes. But I did not go on to address how or
6 to what extent --

7 Q. So markups have to be charged. Do we have
8 agreement on that?

9 A. As long as the company can file -- it files
10 a rate case inasmuch as there is a revenue requirement
11 that has to be recovered, yes, and to the extent that
12 TS LRIC times quantities don't recover that revenue
13 requirement.

14 Q. Well, can you conceive of a situation where
15 a multi-product firm like U S WEST that its revenue
16 requirement would ever equal or be less than the sum
17 of its TS LRICs? By definition there is joint and
18 common costs that aren't covered in the TS LRICs so it
19 would be impossible for the revenue requirement to be
20 less than the sum of the TS LRICs?

21 A. If marginal cost is greater than an average
22 cost it would recover or greater to the revenue
23 requirement, but that does not appear to be the case
24 from the data that's been presented.

25 Q. Thank you. To cut through it, in this case

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1 you would certainly agree that the revenue
2 requirement, no matter where it's found to be in the
3 range of the evidence of this case is far higher than
4 the sum of the TS LRICs of the services of the
5 company. Wouldn't you agree with that?

6 A. Well, I can't tell conclusively because we
7 don't have all of the services and direct costs before
8 us, but for what is there on that sheet it appeared
9 that while the direct costs was less than the revenue
10 and the amount was greater than the amount of the
11 revenue reduction that the staff was recommending, then
12 on that basis I would conclude that at least to some
13 degree pricing at TS LRIC would not recover the
14 revenue requirement.

15 Q. So in this case there is going to have to
16 be markups above TS LRIC for the major services of the
17 company?

18 A. Oh, yes.

19 Q. And in making those markups you would agree
20 that the markups should vary across services according
21 to differences in customer demand and competitive
22 conditions?

23 MR. SMITH: Your Honor, objection. Asked
24 and answered.

25 MR. SHAW: I don't think he has. I think

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1 he has refused to answer it but I don't think I've
2 gotten an answer.

3 JUDGE WALLIS: I don't believe he has
4 answered that question.

5 A. I need the question again. I'm sorry.

6 Q. Yes. Now that we've established that there
7 will need to be markups, wouldn't you agree that
8 markups should vary across this company's services
9 according to differences in the customer's demand and
10 competitive conditions?

11 A. I would agree that they can vary. To the
12 extent your question asks should the markups be placed
13 on services in relation to the demand elasticity for
14 the service, I don't know. I haven't really studied
15 that issue. We have heard testimony that that is the
16 economically -- and I well know that is the
17 economically efficient outcome -- recommendation for
18 how pricing should be done, but I think that the
19 Commission also has equity considerations which it
20 would -- which would influence those decisions.
21 Certainly for competitive services and competitive
22 markets that would be true, though.

23 Q. Citing what the respective markups of the
24 services should be to add up to the revenue
25 requirement, it's completely reasonable, is it not,

03518

1 for the company and the Commission to take account of
2 how much benefit customers or users of that network
3 derive from the network. Wouldn't you agree with that?

4 A. Well, it's interesting that you're asking
5 me whether I agree with I guess what you would call
6 value of service pricing. It was the company's
7 testimony that I guess by at least some witnesses that
8 we had to price at cost. I guess others said that we
9 should consider the value.

10 Q. The company has never testified that
11 services should be priced at cost, has it?

12 A. Well, I believe Ms. Owen's testimony was
13 that the residential service would need to be priced
14 at what the company's estimated cost was.

15 Q. And we're talking about the services'
16 incremental cost, and I recognize that you have a
17 different view of what that incremental cost is, but
18 we can agree on a principle, can we not, that
19 residential service should be priced at least at its
20 incremental cost consideration of universal service
21 aside?

22 A. I think all services should be priced
23 at at least their incremental cost.

24 Q. And then once the Commission has decided to
25 go ahead and price residential service at least at its

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1 incremental cost, in making a separate decision on how
2 much of the joint and common costs the firm to cover
3 with residential rates, i.e., how much to mark up
4 residential service, it would be reasonable, as for
5 any other service, to take account of how much benefit
6 the customers derive from using the network, wouldn't
7 it?

8 A. Well, you could certainly take that into
9 account as well as a number of other factors. I think
10 that one of the things we would be interested in
11 knowing is how much on average to begin with services
12 would be required to be marked up just on average to
13 produce the revenue requirement, because I think that
14 gives you kind of a baseline from which you can judge
15 various pricing proposals.

16 Q. Let's talk about switched access again.
17 It's your testimony that switched access should
18 continue to pay at the same contribution levels that it
19 has since U-85-23, correct?

20 A. No. I believe we've recommended some
21 reduction in the RIC in this case.

22 Q. So you do not propose adhering to U-85-23's
23 formulas to set the contribution level of access
24 charges in this case?

25 A. Would you repeat that question.

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1 Q. Yes. So you do not recommend to this
2 Commission that it adhere to the formulas as set in
3 docket U-85-23 to set the contribution levels of access
4 services in this case?

5 A. I don't think that's quite correct
6 characterization insofar as we at staff assumed in
7 making its recommendations in direct testimony that
8 our recommendations in the interconnection case would
9 be implemented, and so what we did was to take the
10 next step, then, on the assumption that those were
11 implemented. However, that's not what happened.

12 Q. You would agree that U-85-23 has a formula
13 in it; if you run any LEC numbers through it, it
14 determines at what level the access charges should be.
15 Do you agree with that?

16 A. Well, the Commission adopted the FCC's part
17 what's now 36/69 separations in access charge
18 calculation rules in U-85-23 and that's how companies
19 are required to calculate access charges.

20 Q. And it's your testimony that U S WEST
21 should continue to be required to calculate the level
22 of its access charges by applying formulas in U-85-23?

23 A. No. I did not address access charges in my
24 testimony and, again, I think staff's recommendations
25 with regard to access charges were made in the

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1 interconnection case.

2 Q. I'm just trying to sort out what principles
3 you're using here. Would it be appropriate in your
4 view for the Commission to determine the TS LRIC costs
5 of access and then in assigning the markup to access
6 charges to take into account how much benefit the
7 carrier customers derive from the use of the network?

8 A. Well, I think that what we did in the
9 interconnection case --

10 Q. Well, why don't you answer my question
11 first. Would it be appropriate for the Commission in
12 this case, in your view, as a matter of principle, to
13 identify the TS LRIC costs of access charges and then
14 apply a markup based upon a judgment of how much
15 benefit the carrier customers derive from their use of
16 U S WEST's network including its nontraffic sensitive
17 investment?

18 A. No. I think that the way markup ought to
19 be determined is that once we know what the direct
20 costs of the company are for the majority of its
21 services that we would assign the common costs to each
22 of its lines of business, those being its local
23 exchange service, toll services and access services
24 first as a first cut. That the common costs being
25 defined as the difference between the direct costs and

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1 the revenue requirement so that each line of business
2 would bear a proportionate responsibility for the
3 common cost of the company. Within each line of
4 business, then, you would have to look at what that
5 meant in terms of a markup for the different services
6 and unfortunately we didn't have the information and so
7 couldn't develop any information or scenarios about it,
8 but it would have been nice to look at what that meant
9 for the pricing of services.

10 Q. Are you familiar with the Oregon cost and
11 pricing workshops?

12 A. Well, not lately. I did attend some of the
13 early meetings on the developmental stages of the TS
14 LRIC model down there. I have not participated in any
15 of the meetings or discussions they've had recently.

16 Q. How many years has the Oregon Commission
17 been at identifying uniform markups over TS LRIC costs
18 for the company's services?

19 A. I don't have any idea but they've spent I
20 think a year or so in the development of the building
21 block concept, and I think it was -- I know last year
22 they moved on to the pricing concepts, and my
23 understanding was that was getting bogged down, but
24 that is I guess the latest I've heard is it's moving
25 forward again.

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1 Q. Would you accept subject to your check that
2 the Oregon Commission has been at this for six years?

3 A. The docket has been open but that's not
4 what your question was. Your question had to do with
5 overhead markups and I don't know that they've been
6 marking on that any particular length of time. But
7 you're certainly right. The entire building block
8 docket has been around a long time.

9 Q. Are you familiar with the tentative
10 conclusions of the Oregon staff on how large the
11 uniform markup would have to be in order to recover
12 the company's revenue requirement?

13 A. No, I'm not.

14 Q. Are you aware that because of the size of
15 that uniform markup the Oregon staff is playing with
16 concepts around a unified business/res local exchange
17 rate that covers the full cost of the local loop?

18 A. No, I'm not.

19 JUDGE WALLIS: Mr. Shaw, is this a good
20 place for a break?

21 MR. SHAW: Sure.

22 JUDGE WALLIS: Take about a 10-minute
23 recess.

24 (Recess.)

25 JUDGE WALLIS: Let's be back on the record,

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1 please. Mr. Shaw.

2 MR. SHAW: Thank you.

3 Q. Mr. Spinks, when we broke we were talking
4 about some assumed rate levels, and in order to
5 discuss the universal service docket I would like you
6 to make some assumptions with me. Assume that the
7 Commission decides that the proper TS LRIC of
8 residential service includes 100 percent of the loop,
9 and the revenue requirement of the company requires
10 that switched access services be set at the levels
11 more or less proposed by the company and the same with
12 toll. And that the TS LRIC with 100 percent of the
13 loop is \$20, just to pick a number. And assume
14 further that the Commission decides that it is going
15 to phase in that \$20 rate. It's going to set the
16 residential service at TS LRIC and it's going to phase
17 that in because it is a 100 percent increase over
18 today's rate. If the Commission came up with an order
19 that looked like that what in your view would be the
20 issues for a universal service docket?

21 A. I think the primary issue that would be
22 addressed in the universal service docket and then I'm
23 probably not the best one to be asking about this, but
24 it would probably be the effect of local rate
25 increases on penetration rates.

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1 Q. Is it the staff's view that in order to
2 help those who would perhaps drop off the network if
3 rates were set at incremental cost that it's necessary
4 to subsidize or to support every residential
5 subscriber's rates?

6 A. Well, I don't think that staff has a view
7 at this time. I think we're looking forward to
8 participating in that proceeding and developing a
9 record and information that would allow us to
10 formulate some rational views about those issues and
11 matters that would be before the Commission.

12 Q. Would you agree that to the extent that
13 residential service is subsidized or supported that
14 it's done by supporting all subscribers' rates?

15 A. No, I don't agree it subsidizes.

16 Q. I understand you don't agree to that. But
17 to the extent that it is and assuming that it is
18 subsidized or supported today at levels of TS LRIC,
19 would you agree that the support or subsidy takes the
20 form of subsidizing all subscribers' rates?

21 A. No. I can't agree to that. I performed a
22 test. I concluded that it's not subsidized. If you
23 want me to assume that I guess I could. To the extent
24 it is supported I would say that the Yellow Pages
25 revenue supports it. And other rates do not.

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1 Q. Well, I don't want to quibble with you over
2 what you might consider to be a loaded word.
3 Supported or subsidized. Just assuming that
4 residential rates are currently below their long-run
5 incremental cost, would you agree that the revenue
6 support to maintain those costs flow to all residential
7 subscribers and not just to those who might drop off if
8 they had to pay the incremental cost of service?

9 A. Well, if you want me to agree to something
10 that I think the record has clearly shown not to be the
11 case I will agree to it for purposes of your question.

12 Q. If the facts are shown to be that all
13 residential rates on average are supported with
14 revenues from other services than rates paid for
15 residential service, would the staff support
16 mechanisms that target any necessary support just to
17 those who are likely to drop off the network if they
18 have to pay rates at incremental cost or above?

19 A. I think that that's a subject properly
20 examined in the universal service fund proceeding. I
21 don't think it's fair to be asking me to try to know
22 what is going to be developed -- what information will
23 be developed on that record as to all the various
24 factors that need to be examined before one could come
25 to conclusions about the extent, what the different

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1 options are and what the effects of implementing any of
2 those different options are.

3 Q. Staff has no opinion on whether in a
4 competitive market if subsidies are needed that only
5 those specific consumers that actually need a subsidy
6 should be subsidized versus subsidizing all consumers.
7 You don't have any position at all?

8 A. I didn't understand that question at all.
9 You used the word competitive market. What did that
10 refer to?

11 Q. Would you agree that the rates that U S
12 WEST is now charging, its rate relationships, were
13 developed during many years of an assumed monopoly
14 environment with no competitors in fact?

15 A. Yes.

16 Q. And would you agree that the assumption
17 that local exchange service is a monopoly is not a
18 correct assumption and that competitors are entering
19 the local exchange markets?

20 A. Well, that oversimplifies it. I would
21 agree with you that it's been shown that there's no
22 legal monopoly. There's still a de facto monopoly, I
23 believe, and probably almost all except perhaps pay
24 phones, perhaps some toll is becoming more competitive
25 and needs to be re-examined, but that's the extent to

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1 which I would agree, disagree with your question.

2 Q. Listen to the question. Do you agree that
3 new entrants are entering with the intent to provide
4 local exchange service in competition with U S WEST?

5 A. Yes, in what I would term niche markets.

6 Q. Like downtown Seattle --

7 A. Yes.

8 Q. -- is a niche market?

9 A. Yes.

10 Q. Is the downtown Seattle a market?

11 A. Well, perhaps -- but yes, they are locating
12 some of them I'm understanding in downtown Seattle.

13 Q. Is downtown Spokane a market?

14 A. For what service?

15 Q. For local exchange service?

16 A. No. I don't think it's a relevant economic
17 one in and of itself.

18 Q. What subcategory of geography do you
19 consider to be a market, if any?

20 A. I don't. I haven't studied it.

21 Q. Would you agree that the city of Seattle
22 could be a market?

23 A. For what service?

24 Q. Local exchange service.

25 A. Well, again, I have not studied what might

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1 constitute relevant economic markets in this state.

2 It's not an issue that's been directed to look at.

3 Q. Assume that competitors have entered the

4 Seattle geographic market to provide business and

5 residential service in competition with U S WEST.

6 Would you agree that the rates could be set relevant

7 to the conditions of that market, the competitive

8 conditions of that market?

9 A. I don't know. I know there's a process

10 under which the company can obtain pricing

11 flexibility --

12 Q. Let me ask it this way.

13 A. -- for where competition exists.

14 Q. If the company filed a competitive

15 classification petition for business local exchange

16 service in Seattle, would the staff support such a

17 petition for a geographic market as I described?

18 A. I have no idea. We would have to study it.

19 I don't think you can make decisions like that without

20 first studying what the relevant economic market would

21 be.

22 Q. Is your general conclusion that the entire

23 state of Washington is the relevant economic market

24 for competitive classification petitions?

25 A. Well, certainly any competitive

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1 classification petition would affect no farther than
2 the boundaries of the state of Washington. It's not
3 my testimony that that somehow -- all of the relevant
4 economic markets I guess that would be considered
5 would encompass at least part of the state, perhaps
6 all of the state, and certainly as far as the
7 jurisdiction of the Commission goes. While they may
8 encompass areas beyond that there wouldn't be
9 jurisdiction to regulate prices in areas beyond that.

10 Q. Is it your position on behalf of the staff
11 that the company should not be allowed to deaverage
12 its rate in the state of Washington unless it shows
13 and obtains competitive classification for the
14 geographic area in which it wishes to deaverage?

15 A. No. I don't think that there's been really
16 a position defined.

17 Q. You're aware that the company has proposed
18 two zones in the state for pricing local exchange
19 service and carrier access service?

20 A. Yes.

21 Q. And you oppose those zones, do you not?

22 A. Dr. Selwyn, I believe, and Mr. Lundquist
23 have opposed the zone concept as it relates to access
24 charge. I have recommended statewide average rates
25 for the reasons I've stated in my testimony regarding

03531

1 local exchange services.

2 Q. No. You've recommended statewide average
3 rates and so my question again to you is are you
4 opposed to all deaveraging of rates by U S WEST in the
5 state of Washington unless it is able to obtain
6 competitive classification for some geographic
7 submarket?

8 A. My answer remains the same. No.

9 Q. So you're not opposed to deaveraging of
10 rates, just the proposal of the company; is that
11 correct?

12 A. No. Is there somewhere in my testimony
13 that you're referring to?

14 Q. Well, as you've just --

15 A. I thought my testimony was quite clear on
16 what our proposals were.

17 Q. You just stated you are advocating
18 statewide average rates, one rate, correct?

19 A. Yes.

20 Q. And the company has proposed to deaverage
21 its exchange rates, correct?

22 A. It's proposed two zones, one in which
23 prices would be higher than the other.

24 Q. And you would agree that in less dense
25 longer loop areas of the state costs are higher than

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1 in more dense short loop areas of the state, would you
2 not?

3 A. Is that hypothetically?

4 Q. No, I'm asking you if you agree with that
5 as a matter of fact?

6 A. I don't think I can agree to that as a
7 matter of fact.

8 Q. Is it your testimony that on a per loop
9 basis that the company can provide for the same cost a
10 loop in rural Eastern Washington as it provides in
11 downtown Seattle?

12 A. Well, not if -- if you're asking me is cost
13 of a 2,000 foot loop more than the cost of a 200 foot
14 loop, the answer is yes.

15 Q. And in rural, less dense exchanges the
16 loops are on average considerably longer than the
17 loops in dense urban exchanges, are they not?

18 A. Yes, and as long as you decide that you
19 want to distinguish costs on the basis of the length
20 of the loop that will always be true regardless of the
21 service or the location.

22 Q. So would you support deaveraging of U S
23 WEST rates based upon the underlying costs of the plan
24 necessary to serve geographic subdivisions of the
25 state?

03533

1 A. Could you repeat the question?

2 Q. Yes. Would you support deaveraging of U S
3 WEST rates based upon deaveraging the costs to
4 correspond with geographic subdivisions of the state?

5 A. Nope.

6 Q. Is then the result you oppose all
7 deaveraging of rates by U S WEST?

8 A. No, I don't believe that my testimony
9 has --

10 Q. What deaveraging of rates would you
11 support?

12 A. Well, I believe that the staff supported,
13 for instance, the GTE PTC filing which had the effect
14 of deaveraging toll rates.

15 Q. That service is provided by two different
16 companies, is it not?

17 A. That's correct.

18 Q. In U S WEST rates intra company what
19 deaveraging of rates would the staff support?

20 A. Well, I'm not sure. I think, to begin
21 with, you have to have good cost studies to show what
22 the costs are for various services, and if you want to
23 distinguish in terms of length of loop in the cost
24 studies that's fine but you have to remember the loop
25 is a joint cost. It's not a direct part of the total

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1 service long-run incremental cost estimate, so there's
2 a lot of things that would need to be sorted through
3 to see whether there was any -- first of all whether
4 there really was a material cost, second whether it
5 was appropriate to distinguish costs on the basis the
6 company would be proposing to deaverage them along.

7 Q. Would you agree that new entrant are going
8 to enter first where they can provide the lowest cost
9 loops?

10 A. I don't know.

11 Q. Let's look at the actual practice. Do you
12 know of any carrier holding itself out to provide
13 residential service today in Washington other than the
14 incumbent LECs?

15 A. No, I don't, but that's not as if I had
16 done any examination or would have that knowledge. I
17 have not --

18 Q. But you do know that four facilities-based
19 carriers are holding themselves out to provide
20 business loops in downtown Seattle, do you not?

21 A. Yes.

22 Q. Now, isn't the evidence pretty overwhelming
23 that the entry is where the loops are short and dense?

24 A. I would have no reason to believe that it's
25 loops per se that have drawn alternative carriers to

03535

1 that area. Density, its population density, I think
2 it drives an early development of the competitive
3 markets.

4 Q. So would you support --

5 A. There's a correlation between loop length
6 and population density, but to go to the point to say
7 one causes -- that loop length causes the competitors
8 to go there, I wouldn't agree with that.

9 Q. All thing being equal, would you expect a
10 new entrant to enter first where the loops are short
11 and dense for either residential or business services?

12 A. Again, it's population densities, I think,
13 that are probably the primary driver of that.

14 Q. And population density directly drive the
15 phenomenon of short and dense loops, do they not?

16 A. Well, they're correlated. Certainly the
17 denser, the more dense the population is the shorter
18 the loop length would tend to be because there would
19 be less distance to travel on a per capita basis to
20 serve customers.

21 Q. So I will ask you again would you support a
22 company proposal to deaverage its rates based upon the
23 density of the geographic sub markets?

24 A. And I think my answer would remain the
25 same. You would need to study the -- first of all get

03536

1 good cost estimates as to what those cost
2 differentials -- whether there were substantial cost
3 differences and whether it was appropriate to
4 distinguish with costs on the basis of the length of
5 the loop.

6 Q. Let's return to the universal service
7 situation again. In this proceeding that you
8 contemplate, do you agree that the courts of this
9 state have held that the Commission has no power to
10 tax the consumers of one company for the benefit of
11 the consumers of another company?

12 A. I don't know.

13 Q. You're not familiar with that case law at
14 all?

15 A. Was that the community calling fund
16 proposal?

17 Q. Yes.

18 A. To that extent I understand there was a
19 proposal but I am not aware of the specific nature of
20 it, so I don't know whether I would agree with your
21 characterization of what it does, but the court did
22 reject some plan that had been proposed.

23 Q. The plan was to have U S WEST customers pay
24 more for their local exchange service so that the
25 customers of other carriers could pay less. Isn't

03537

1 that the case?

2 A. I don't know.

3 Q. Assume for the purpose of the question that
4 that's what the court held. Would you agree that
5 based upon that assumption that the Commission has no
6 power or ability to create universal service funds or
7 pooling of monies between carriers that would be
8 disbursed out to carriers that qualified for universal
9 service support?

10 A. No. I think I would only agree that if the
11 court rejected a particular plan that the Commission
12 couldn't implement that that kind of a plan if the
13 court rejected it.

14 Q. If you assume that the court has held that
15 the Commission cannot create a universal service fund
16 as I've generally described, would you agree that the
17 only tool left for the Commission is the tool that it
18 has now to charge some customers of U S WEST more
19 contribution than other customers in order that the
20 rates of favored customers such as residential
21 customers can be held as low as possible considering
22 the revenue requirement of the company?

23 A. I don't know. I think those would be good
24 questions maybe to put on an NOI that we would send
25 out to parties to respond to, among other things,

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1 assess what the options would be, what options will be
2 available.

3 Q. So the recommendation to the Commission is
4 to make no changes in the status quo in terms of rate
5 design in this case and complete a universal service
6 docket whereupon the company would then be able to come
7 back and ask for its rates to be brought into alignment
8 with the conclusions of that universal service docket.
9 Is that the thrust of your recommendation?

10 A. Not at all. I think we've made some very
11 extensive rate design recommendations in this case and
12 it would be my testimony that the Commission should
13 carry those out to the extent the revenue requirement
14 permits.

15 Q. You've essentially recommended that there
16 be no change in the level of residential rates other
17 than to combine the existing three rate groups into
18 one, correct?

19 A. I've recommended a state-wide average rate
20 that has a number of component to it, rate group one
21 and two and three are all affected. Every customer
22 would be affected by the changes.

23 Q. The thrust is an overall reduction in
24 revenues received for residential services by the
25 company in the state of Washington, isn't it?

03539

1 A. The \$10 average rate would result in an \$8.4
2 million decrease in revenue shown in Exhibit 5.

3 Q. If the Commission adopted your proposal
4 would the staff position be that there's nothing to be
5 decided in a universal service docket for U S WEST and
6 that's the end of it for U S WEST?

7 A. No. I would assume that the issues would
8 be identified in that proceeding and certainly
9 wouldn't be my testimony that there wouldn't be -- I
10 guess I don't understand what you mean by there would
11 be nothing for U S WEST.

12 Q. Well, do you assert that a \$10 statewide
13 rate for U S WEST is unaffordable for anybody in the
14 state of Washington?

15 A. No, and neither do I believe or agree that
16 the \$10 rate would be set for all time.

17 Q. Do you assert that the \$10 rate will cause
18 any individual in the state of Washington to drop off
19 the network that's currently on the network?

20 A. It's possible. It would depend. There are
21 going to be rate increases of between a dollar, two
22 dollars, again, I don't have any studies and I think
23 that it would be one of the major thrusts of all the
24 proceeding to determine what levels of rate change
25 would be associated with the loss of customers. It

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1 doesn't seem to me in the context of my
2 recommendations, because we are also recommending that
3 the company's toll plans essentially be implemented,
4 the net effect for rural customers that would see
5 those rate increases in their basic exchange rate,
6 they also have the highest toll bills in the state and
7 with that offset they would actually be held largely,
8 roughly in the same range of their total bill today.

9 Q. You're aware of the Commission's EAS rules
10 that have a target of 80 percent of an average user's
11 calls be locally rated?

12 A. I'm aware that there's a rule in place
13 under which traffic studies are done to define
14 -- determine communities of interest for purposes of
15 establishing extended area service areas.

16 Q. With the largely expanded EAS that we have
17 in the state of Washington and a \$10 rate, do you
18 realistically think that there's any kind of a
19 universal service problem suggested by those rate
20 levels?

21 A. Well, there probably wouldn't be but, you
22 know, again, it's been my recommendation that
23 apparently some of the parties in this case would like
24 to see an end user -- that the loop not be recognized
25 as a joint cost or even if it is recognized as a joint

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1 cost that that cost be assessed entirely to the end
2 user. The Commission may after studying the various
3 facts and circumstances involved with doing that
4 conclude that that's an appropriate course to embark
5 upon, and if they do would seem to me that you would
6 proceed from there to then determine the extent to
7 which universal service would be affected and what
8 remedies for funding would be appropriate.

9 Q. Well, it is either directly caused or a
10 joint cost under well known economic principles that
11 have been exhaustively argued and debated in this
12 docket, are they not? There's no way for the loop to
13 magically change from a joint cost to a direct cost of
14 residential service with any further study, is there?

15 A. No, but again, it was also well established
16 on this record it's a pricing exercise as to where the
17 loop costs are recovered, but I think we have an
18 uncertainty, and at least a wide divergence and
19 positions as to first of all what the loop costs, and
20 then second a question is once you've established what
21 it costs how those costs should be recovered.

22 Q. Are you familiar with residential rates in
23 other states? I believe you've already alluded to
24 Illinois in your testimony. Let me direct your
25 attention to New York city. Are you familiar with the

03542

1 rate structure of NYNEX in New York City?

2 A. No, I'm not.

3 Q. Do you know that it's measured?

4 A. Well, if I'm not familiar with the rate
5 structure I wouldn't know that either.

6 Q. So you know nothing about it?

7 A. No.

8 Q. You have cited Illinois and I believe
9 earlier a couple of weeks ago you testified that you
10 knew that residential rates are deaveraged in that
11 state on a usage basis or are priced on a usage basis?

12 A. Well, I think I referred you to the tariff
13 sheets which I had received which showed rates for the
14 loop and usage for resellers apparently, these tariff
15 sheets and they were by zones A, B and C.

16 Q. But you know nothing about the retail rates
17 in Illinois?

18 A. That's right. My mention, and I thought we
19 had clarified that in my earlier testimony, was that I
20 was referring to the tariff sheets and the rates that
21 I had read into the record earlier.

22 Q. Do you agree that the distribution plant,
23 the loop plant for residential service, is typically
24 constructed in residential neighborhoods and it's not
25 useful for any other service other than providing

03543

1 residential local exchange service?

2 A. Well, I would agree it's constructed in
3 residential neighborhoods, residential loops are, but
4 as to the extent of their uses, there's -- businesses
5 are typically located, home businesses as well as
6 corner stores in residential neighborhoods. The loops
7 would be used for long distance calling and for
8 private lines perhaps, term loops perhaps. You can
9 imagine that there would be all sorts of uses for the
10 loops.

11 Q. You agree that this company has
12 approximately one and a half million residential
13 subscribers in the state?

14 A. Yes.

15 Q. And less than half a million business
16 subscribers in the state?

17 A. I am not sure how many subscribers but I
18 think there's over half a million business access
19 lines.

20 Q. Well, if you would refer to page 26 of your
21 direct it would indicate that there's less than a half
22 a million, 480,000?

23 A. I'm sorry, what page?

24 Q. Page 26 of your direct.

25 A. Yes. Those don't include the NACs and I

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1 think when the NACs are included there's slightly over
2 half a million, but, yes, this is essentially a
3 representative of business loops in the state. There's
4 a little more than this when you include the NACs.

5 Q. By an overwhelming margin, three to one,
6 this company is in the business of providing
7 residential local exchange service with its loop plant
8 and not business service?

9 A. Well, if you measure, if you want to
10 measure how the company is in business by the number
11 of loops, I don't know that that makes any sense but
12 there's three times more residential subscribers than
13 business subscribers and there's substantially more
14 loops from the information I've seen than either.

15 Q. In terms of ratepayers, the company has
16 three times as many residential subscribers as
17 business subscribers for local exchange service?

18 A. Yes.

19 Q. And would you expect that residential loops
20 are longer and less dense than business loops?

21 A. I've seen cost studies which have measured
22 loop lengths and it's my recollection that what the
23 company had described as business loops in the study
24 had shorter loop length than residence.

25 Q. And that's very intuitive, isn't it, Mr.

03545

1 Spinks, that the business lines are in the core part
2 of the community and the residential lines tend to be
3 in the bedroom portions of the communities and suburbs
4 and on out?

5 A. I am not comfortable with relying on
6 intuition in this business.

7 Q. So as far as you know residential loops are
8 shorter and more dense than business loops, is that
9 what you believe?

10 MR. TROTTER: Your Honor, I'm going to
11 object to the question. I think his earlier statement
12 was that he saw their studies and understood the
13 question. I think this is getting toward badgering at
14 this point. I will object.

15 JUDGE WALLIS: Could the question be
16 rephrased.

17 Q. Do you believe the company's studies and do
18 they agree with your observations of the business that
19 business loops are shorter and denser and less
20 expensive than residential loops?

21 A. I have never gone out and measured them.
22 The only observations I have are the information the
23 company has provided me, provided the staff, and
24 that's what I was referring to in my answer.

25 Q. From what you know about the volume of

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1 residential loops or density and size compared to the
2 business loops, would you also agree that the company
3 has to provide significantly more spare capacity to
4 serve, to adequately serve the residential segments?

5 A. I don't know if volume and density are the
6 basis under which the company would determine how much
7 spare capacity it needs to provide. Seems to me, for
8 instance, if business lines were growing at a faster
9 rate than residential lines you would need to provide
10 enough capacity, including spare capacity, to insure
11 that there were adequate facilities over the
12 engineering period, planning period, so that you
13 didn't have to come back and reinforce too soon
14 because you underestimated growth. What that means in
15 terms of spare capacity that may well be more of a
16 driver of spare capacity than volume and density.

17 Q. The company extends distribution facilities
18 out to a new residential neighborhood, would you agree
19 that if it's going to serve without reinforcing that
20 route as that residential neighborhood grows that it
21 is going to have to include enough spare capacity for
22 all of the potential residences spread over a less
23 dense area than it would if it was constructing a
24 distribution facility for business service?

25 A. Well, sure. If you assumed you were going

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1 to lay in plant and never go back and reinforce it, but
2 I don't think that would be a very realistic
3 assumption to make.

4 Q. Do you know anything, Mr. Spinks, about the
5 status of the company's plant in Washington, the
6 quality of it, the adequacy of it for residential
7 service?

8 A. Yes.

9 Q. Is it your opinion that the company's plant
10 installed to provide residential service is adequate?

11 A. Did you say the quality --

12 Q. Yes.

13 A. -- of the plant?

14 Q. Yes.

15 A. I'm not sure how you would define quality.

16 Q. You said you had opinions on the adequacy
17 of the company's plant?

18 A. Yes.

19 Q. Is it your opinion that the plant of the
20 company provision for residential service is adequate?

21 A. Well, first of all, when I agreed with your
22 prior question it was more than adequacy. It referred
23 to what I specifically had in mind was my review of,
24 for instance, trouble reports per hundred and other
25 service quality indicators which the company had filed

03548

1 over the term of the AFOR as well as some of the more
2 recent data that I had seen here. That's what I had
3 in mind when I answered that question. I don't think
4 that any of that data really spoke to the adequacy of
5 the plant per se other than the held other reports
6 would tend to suggest that there was inadequate
7 distribution plant where it was necessary.

8 Q. That there was adequate distribution plant,
9 did I understand?

10 A. That there was not distribution plant where
11 it was needed. That's what held orders for facilities
12 are about, if I understand the way the company
13 categorizes its held orders. And then I think the
14 trouble reports which we reviewed in the sale of
15 exchange in some detail, tended to indicate that the
16 quality of the plant in rural areas was degrading
17 relative to urban areas.

18 Q. Do you consider the lead shielded aerial
19 cable that the company has installed and providing
20 service in Washington adequate?

21 A. I wasn't aware that they had any. We gave
22 them depreciation rates to recover that investment
23 many years ago. That should all be, if the company
24 had followed its retirement schedule, replaced by now
25 I would think. There may be small amounts of it left.

03549

1 Q. Is it your testimony that all aerial plant
2 that is lead shielded is depreciated off the company's
3 books?

4 A. My recollection of a three-way meeting
5 some eight, nine years ago was that we -- the company
6 was asked to identify separately the investment in
7 lead shielded cable or at least it did provide that,
8 and that we weighted that in with a very short
9 remaining life into the calculation of a longer life
10 for the current vintages of cable which had longer life
11 expectations in order to insure that there was full
12 recovery of this problem plant in a timely manner, so
13 that the company would retire it and replace it with
14 the thought being that if it had its full recovery it
15 would go ahead and not continue to keep that plant in
16 service if it was problem plant simply because it
17 hadn't recovered, felt it recovered its investment.

18 Q. Do you know of any other company providing
19 service in the state of Washington other than the
20 independent LECs who use depreciation lives today
21 anywhere near as long as the depreciation lives
22 prescribed by this Commission in the last three-way
23 represcription almost three years ago?

24 A. Certainly the electric utilities have
25 longer lives on poles and lines than --

03550

1 Q. Talking about telecommunications companies.

2 A. Well, the telecommunications telephone pole
3 is no different than a power pole.

4 Q. I asked you --

5 A. I'm sorry. I thought you said utilities
6 and I apologize.

7 Q. Well, I apologize to you if I didn't
8 specify telecommunications companies but I believe I
9 did. Telecommunications companies other than the
10 independent LECs providing services in Washington
11 today that use lives anywhere near as long as this
12 Commission prescribed three years ago?

13 A. No, because there aren't any.

14 Q. They elect their own lives and set their
15 rates to recover their own economic lives, correct?

16 A. I don't know what you're talking about.
17 Are you referring to alternative local exchange
18 carriers?

19 Q. And AT&T and Sprint and MCI.

20 A. Well, I believe that AT&T's rates,
21 depreciation rates, have still been regulated by the
22 FCC. We elected to --

23 Q. For intrastate service?

24 A. Inter. We elected back at their
25 competitive classification as a company to not review

03551

1 depreciation studies for them any more although the
2 FCC did continue doing that.

3 Q. Do you know of any company that is free to
4 set its own depreciation lives to provide service in
5 Washington that adopts anywhere near as long a lives
6 as this Commission prescribes for U S WEST?

7 MR. SMITH: Your Honor, I'm going to object
8 to the question. Issue of depreciation has been
9 decided by the Commission's earlier ruling. I
10 understand Mr. Spinks referred to depreciation in
11 responding to one of the questions of Mr. Shaw, but
12 we've gone quite a ways here with this, and I think
13 we're into areas that have already been ruled on.

14 MR. SHAW: The purpose of the question is
15 only for the appropriate lives to be used in forward
16 looking cost studies.

17 MR. SMITH: I didn't understand that was
18 part of the question at all. If that's the question I
19 didn't hear that.

20 A. Could you restate the question.

21 Q. Yes. If AT&T were to do a TS LRIC would
22 you expect them to use the forward looking cost --
23 strike that. Would you expect them to use the
24 location lives with their plant that they believe will
25 be the lives that the plant will actually be in

03552

1 service?

2 A. Well, since AT&T is subject to effective
3 competition I would expect them to use what they
4 consider to be the appropriate lives for that plant,
5 and I don't know what they are.

6 Q. You do not have any idea what lives AT&T
7 uses --

8 A. No.

9 Q. -- to depreciate its plant?

10 A. We have not reviewed AT&T since I have a
11 study in there from 1985, and at least at that time my
12 recollection is that the lives are comparable or
13 longer than U S WEST for the outside plant, but
14 they're not really comparable now because you have
15 local distribution plant and they have the long lines.
16 So it's really apples and oranges to try and compare.

17 Q. If the new entrants to provide local
18 exchange service in the state of Washington were to do
19 a TS LRIC cost study, would you expect them to use the
20 lives that they have elected to depreciate their plant
21 as effectively competitive companies?

22 A. I wouldn't know one way or the other.

23 Q. Are you aware of the testimony in the
24 interconnect case that they used lives comparable to
25 the economic lives as asserted by U S WEST?

03553

1 A. No. My expectation, I think, would be that
2 when Sprint and MCI first entered long distance market
3 they were price followers and AT&T was the price
4 leader. I would expect that similar behavior on the
5 parts of new entrants in this state may well be the
6 case that they would be price followers and pretty
7 much costs were a secondary concern. You don't go
8 into business and expect to start making money the
9 first year. You have to depreciate your plant and you
10 don't have the revenue to cover all that.

11 Q. I don't think that was my question. You
12 said that you weren't aware of the testimony in the
13 interconnect case. Assume for the purposes of this
14 question that the testimony is that ELI uses service
15 lives comparable to the economic service lives as
16 asserted by U S WEST in this case for the use in its
17 cost studies. Do you have that in mind?

18 A. Sure.

19 Q. Would you expect if ELI were to do a TS
20 LRIC cost study for their service that they would use
21 anything but the lives that they expect to be the
22 economic service lives for their plant?

23 A. I would have a problem because I don't know
24 how you're defining economic lives. I would agree
25 that they would use what they considered to be the

03554

1 forward looking lives for the client because that's
2 very firm with effective competition, certainly
3 appropriate behavior.

4 Q. And you agree that this Commission
5 prescribed U S WEST's lives three years ago and is
6 scheduled to look at them again in March of this year?

7 A. That's correct.

8 Q. Would you expect that the lives for U S
9 WEST are going to be shorter, longer or the same as
10 the lives prescribed three years ago?

11 MR. SMITH: I'm going to object, Your
12 Honor. This is drifting into depreciation again.

13 MR. SHAW: It has to do with the forward
14 looking lives that should be used in the forward
15 looking cost study.

16 MR. TROTTER: Join the objection and also
17 it's my recollection that this was covered in Mr.
18 Spinks's testimony regarding service quality.

19 JUDGE WALLIS: The question as directed, as
20 indicated by Mr. Shaw, I think is appropriate and the
21 witness may respond.

22 A. Could you restate the question, please.

23 Q. Yes. Would you expect the lives to be
24 prescribed by this Commission for U S WEST this coming
25 March to be longer, shorter or the same as the lives

03555

1 it prescribed three years ago?

2 A. Well, it will depend on the -- I can't
3 speak for what the Commission may do. If you change
4 that question to what recommendations would staff
5 likely bring to the Commission after a three-way, I
6 can probably then respond something to the effect that
7 it would depend on the analysis of the data that the
8 company provides as far as what's happening to the
9 plant.

10 Again, I had described in my depreciation
11 testimony the steps of the analysis that I use in
12 evaluating depreciation studies, and I would follow
13 those. I would put those, pull those, and those take
14 into account things like the plans of the company and
15 the like.

16 Q. Would you take into consideration at all,
17 since three years ago when the Commission last
18 prescribed lives that the Supreme Court has declared
19 Washington to be an open entry state and that in fact
20 ELI's subsidiary, Assistance Utilities, MCI Metro, a
21 subsidiary of MCI, TCG, a company held by TCI, Sprint,
22 several other large entities, and now AT&T with its
23 major restructure designed to enter local exchange
24 service, would you take any of those subsequent events
25 into consideration in considering what the economic

03556

1 lives or the depreciation lives of U S WEST
2 should be going forward?

3 A. Absolutely. We have in the past always
4 considered the -- all the factors including economic
5 obsolescence, technological change and the like.
6 Those are appropriate factors to consider in setting
7 the lives, and I thought that my Exhibit 6 and my
8 depreciation testimony went especially to that and
9 that the historic life indications are 40 and 50 years
10 on this plant, we're already down in the mid 20s, and
11 in my opinion the lives that are in place today fairly
12 represent economic lives for that plant.

13 What this argument is about is they're not
14 the lives U S WEST wants to use and it says it has a
15 different set of lives and that those are the economic
16 lives, but in fact you cannot hold the staff -- the
17 lives that we agreed to at the three way meeting to be
18 anything like historical lives. They're not anywhere
19 close to it. So what do they represent?

20 Q. My question I think was simple. Would you
21 consider the changed competitive environment since
22 three years ago in your recommendations this coming
23 March, and I believe you answered yes; is that
24 correct?

25 A. I answered that, yes, we would and we have

03557

1 in the past.

2 Q. Prior to three years ago -- three years ago
3 at the last represcription, what change in the
4 competitive status did you consider?

5 A. I don't recall. I would have to go back
6 and look at the various data and information that was
7 presented in that one.

8 Q. Three years ago there were no competitive
9 local exchange companies in Washington, were there?

10 A. Competition has slowly and inexorably been
11 approaching Washington for many years. It doesn't
12 start with ELI. There are many issues that had to be
13 worked out that are being worked out on the federal
14 level also. So those larger issues of cross ownership
15 and cable TV participation, et cetera, are all part of
16 what gets considered in the question of the
17 development of competition. It isn't -- that is what
18 the FCC brings to these meetings is that view. What
19 we bring to the meetings is the understanding for them
20 of what's going on at the local level with regard to
21 all the life characteristics, not just the ones
22 relating to competition but the technological change,
23 the requirements of the Commission, et cetera.

24 Q. Three years ago it was the position of this
25 staff, was it not, that local competition was illegal

03558

1 and nobody should be allowed to compete with U S WEST
2 in the provision of local exchange facilities and
3 service in its service territory, correct?

4 A. Not that I am aware of. Three years ago
5 the ELI decision had not been made, so that small step
6 towards competition hadn't yet been taken, but again,
7 I've agreed with you, yes, that will be considered
8 along with all the other data.

9 Q. Three years ago it was your position on
10 behalf of the staff that there could be no competition
11 for local exchange service in the state of Washington,
12 wasn't it?

13 A. No. It would have been my position that
14 there was no competitors for U S WEST at that time and
15 that there was no -- since ELI had not been decided I
16 could hardly say that local exchange franchises were
17 in fact not legal.

18 Q. Was it the testimony of the staff to this
19 Commission in the context of ELI's application that it
20 was illegal to allow local exchange competition in the
21 state of Washington?

22 A. I don't know. I didn't participate in that
23 proceeding. I'm sorry, I don't know that.

24 MR. SHAW: That's all I have.

25 JUDGE WALLIS: I'm going to suggest that we

03559

1 break now and resume with further cross-examination of
2 Mr. Spinks at the hour of 10 on Wednesday morning or
3 immediately following the Commission meeting. If the
4 Commission runs beyond 10 a.m. I would ask that --
5 let's be off the record.

6 (Discussion off the record.)

7 JUDGE WALLIS: Let's be back on the record.
8 We will not begin an administrative session at an
9 early hour and the parties have agreed to fax in a
10 response to the proposed issue outline no later than
11 the close of business tomorrow. So we are in recess.

12 (Hearing adjourned at 5:20 p.m.)

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